



**BLACK
EARTH
FARMING LTD.**

**ANNUAL REPORT
2013**

General Shareholder Information

Annual General Meeting

Black Earth Farming Ltd (“Black Earth Farming”) hereby invites shareholders to participate in the Annual General Meeting at 12.00 CET on 14 May 2014 at Summit, Grev Turegatan 30, Stockholm 114 38, Sweden.

Participation

Holders of Swedish Depository Receipts (“SDRs”) wishing to attend the Annual General Meeting shall be recorded in the register of shareholders maintained by Euroclear (former VPC AB) on Thursday 8 May 2014, and must notify the Company of their intention to attend the Meeting no later than 13.00 CET on 8 May 2014. The holder of the Swedish Depository Receipts shall state his name, personal or company identification number, address as well as telephone number.

Notice of participation

Holders of Swedish Depository Receipts can give their notice of participation:

- by mail at the address:
Annual General Meeting,
Black Earth Farming Ltd,
c/o Computershare,
Box 610,
182 16 Danderyd
Sweden
- by telephone +46 (0)771 24 64 00
- by fax +46 (0)8 588 04 201
- by e-mail to agm@blackearthfarming.com

Nominee-registered shares

Holders of Swedish Depository Receipts which hold their receipts through nominees (Sw. förvaltare) must request a temporary registration of the voting rights in order to be able to participate at the General Meeting. Holders of Swedish Depository Receipts that want to obtain such registration must contact the nominee regarding this well in advance of 8 May. Voting forms (Sw. röstkort) will be distributed to the holders that have complied with the above requirements and the voting form must be brought to the Annual General Meeting.

Proxies, etc.

If a holder of Swedish Depository Receipts intends to be represented by proxy, the name of the proxy holder shall be stated. For holders of Swedish Depository Receipts who will be represented by a proxy at the Meeting, a proxy form is available at the Company’s website on www.blackearthfarming.com. The signed proxy form should be sent or mailed to the company at the above stated valid addresses.

Calendar of events in 2014

- 2014 Annual General Meeting: 14 May
- 1Q Interim Report, 1 January–31 March: 16 May
- 2Q Interim Report, 1 January–30 June: 15 August
- 3Q Interim Report, 1 January–30 September: 14 November

Investor Relations

Avto Makharoblishvili
+ 7 916 598 16 19
avto.makh@blackearthfarming.com

Internet website

www.blackearthfarming.com

SDR tickers

- NASDAQ OMX Stockholm: BEF SDB
- Reuters: BEFsdb.ST
- Bloomberg: BEFSDB SS

Disclaimer

This report contains “forward-looking statements”. All statements other than statements of historical facts included in this report, including without limitation, those regarding the Company’s financial position, business strategy, the Company’s management’s, or as appropriate the Directors’, plans, objectives, goals, strategies and future operations and performance and the assumptions underlying these statements are forward-looking statements. Such forward-looking statements involve known and unknown risks and uncertainties and other factors which are or may be beyond our control, which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Company’s present and future business strategies and the environment, in which the Company will operate in the future.

Supplementary USD* equivalent figures found in this report in relation to company financial information are provided solely for the convenience of users as described in Note 2 (d) to the Consolidated Financial Statements and do not form part of the audited consolidated financial statements.

Some numerical figures included in this Presentation have been subject to rounding adjustments. Accordingly, numerical figures shown as totals in certain graphs or tables may not be an exact arithmetic aggregation of the figures that preceded them.

Black Earth Farming at a Glance	2
2013 in Brief	4
CEO Statement	6
This is Black Earth Farming	9
Market/Industry Overview.....	14
Operational Review	20
2013 Financial Review	28
Risks and Sensitivity Analysis.....	35
Five Year Summary	39
The Black Earth Farming share.....	40
Consolidated Financial Statements	42
<i>Statement of management responsibilities</i>	43
<i>Independent Auditors' Reports</i>	44
<i>Consolidated Statement of Comprehensive Income/(Loss)</i>	46
<i>Consolidated Statement of Financial Position</i>	47
<i>Consolidated Statement of Changes in Equity</i>	48
<i>Consolidated Statement of Cash Flows</i>	49
<i>Notes to the Consolidated Financial Statements</i>	50
Board, Management and Auditors	74
Corporate Governance Report.....	76
Board of Directors' report on internal control	81
Sustainability.....	83
Terms and Definitions	84

Black Earth Farming at a Glance

• Business Concept



- A major producer of cereals and oilseeds with 789 thousand tons production in 2013
- A focus on increasing productivity to become a best in class agro industrial company in terms of cost and operating efficiency

• As at 31 December 2013¹, 254,000 Hectares of World Class Farm Land in Full Ownership

- Total land bank of 308,000 hectares with 82% in full ownership
- Non depreciating asset recorded at acquisition cost of USD* 54.7 million in statement of financial position as of 31 December 2013

• Operating in Russia's Central "Black Earth" Region

- Agricultural region endowed with some of the most fertile soils in the world

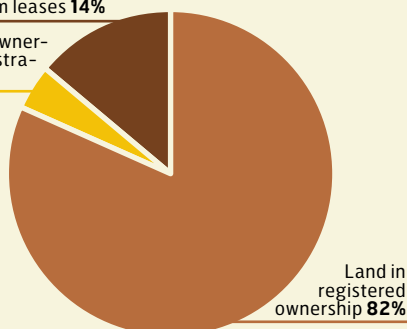
BEF: ONE OF THE LARGEST OWNERS OF PRIME RUSSIAN FARM LAND

D1: BEF 2013 Land holdings¹

Total land: 308,000 hectares

Long term leases 14%

Land in owner-
ship registra-
tion 4%



Comparison of Black Earth Farming's fully owned hectareage as of 31 December 2013 with Central Park (New York), Hyde Park (London), Hong Kong and Luxembourg¹

Central Park (New York) 253 ha

Hyde Park (London) 341 ha

Hong Kong 110,400 ha

Luxembourg 258,600 ha

Black Earth Farming 254,000 ha

1. On 4 April 2014, the Company announced plans to sell 27,754 hectares of controlled land and related real estate assets in the Voronezh region. Refer also to note 36 to the financial statements on Subsequent events

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

Kursk

Controlled land: 82,900 ha
 Owned land: 75,700 ha
 Land in production: 72,700 ha
 Storage capacity: 149,000 tons

Lipetsk

Controlled land: 64,100 ha
 Owned land: 53,500 ha
 Land in production: 64,000 ha
 Storage capacity: 139,200 tons

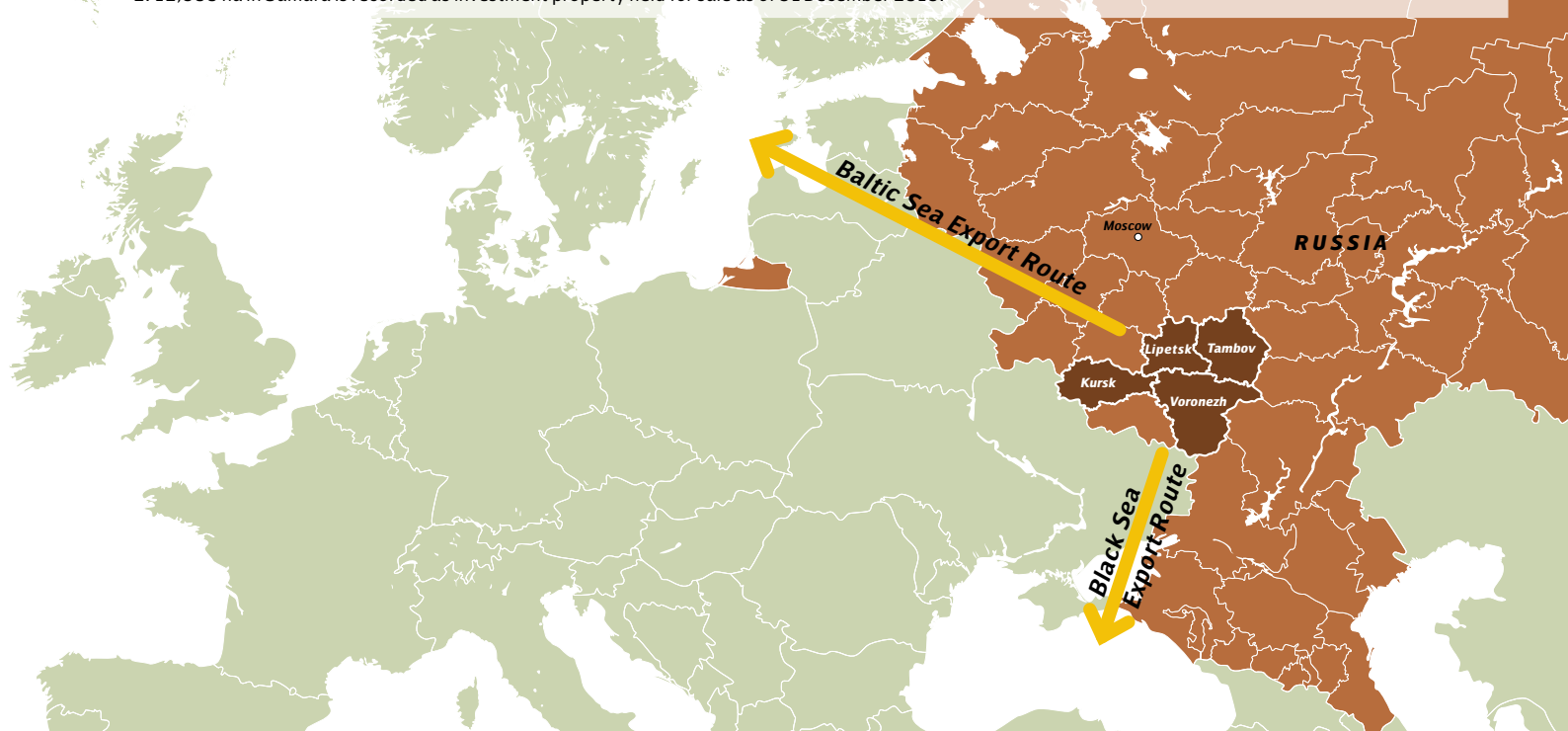
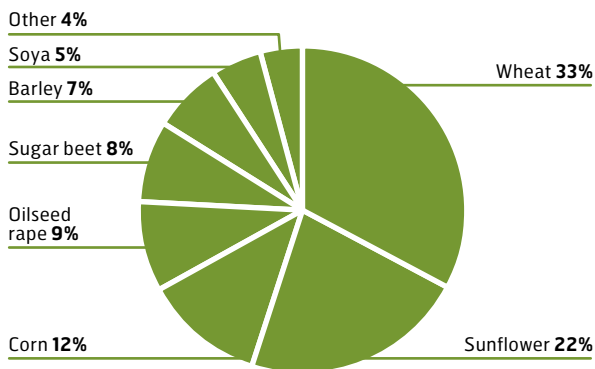
Voronezh¹

Controlled land: 73,300 ha
 Owned land: 56,800 ha
 Land in production: 52,000 ha
 Storage capacity: 122,100 tons

Tambov²

Controlled land: 71,600 ha
 Owned land: 55,200 ha
 Land in production: 42,200 ha
 Storage capacity: 83,600 tons

1. On 4 April 2014, the Company announced plans to sell 27,754 hectares of controlled land and related real estate assets in the Voronezh region.
 2. 12,800 ha in Samara is recorded as investment property held for sale as of 31 December 2013.

**D2: 2013 Revenue by Crop**

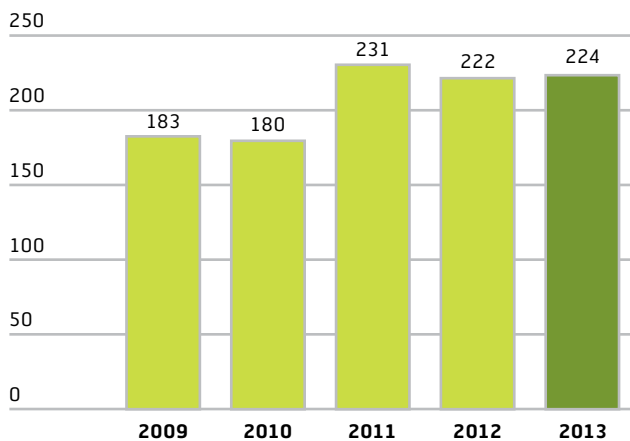
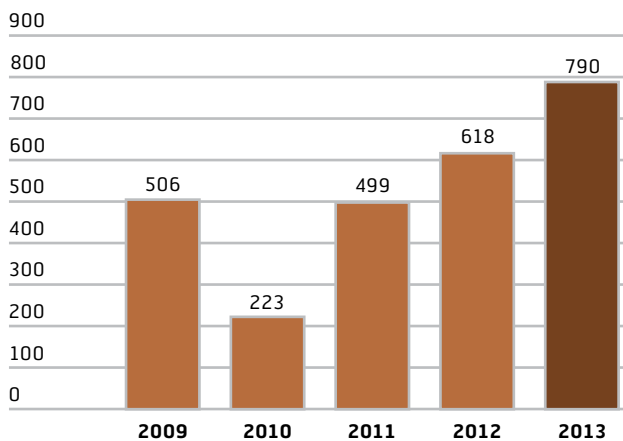
- **Major Producer of Grains and Oilseeds**

- 230,000 hectares in production

- **Significant Investments into Machinery Fleet and Storage Infrastructure Undertaken**

- Large state of the art machinery fleet

- 500,000 tons of total storage capacity¹

**D3: Harvest Area, thousand hectares****D4: Commercial Harvest, thousand tons**

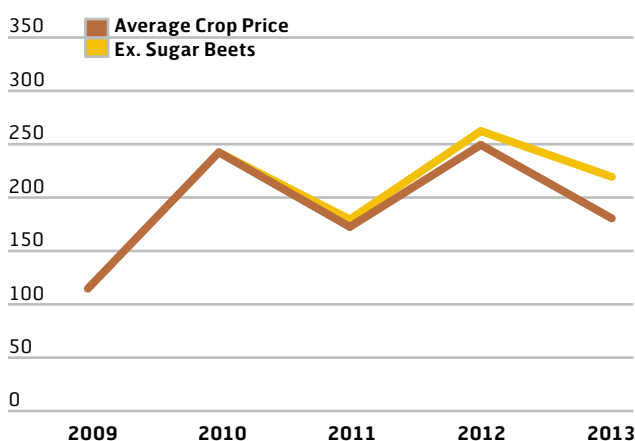
* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

2013 in Brief

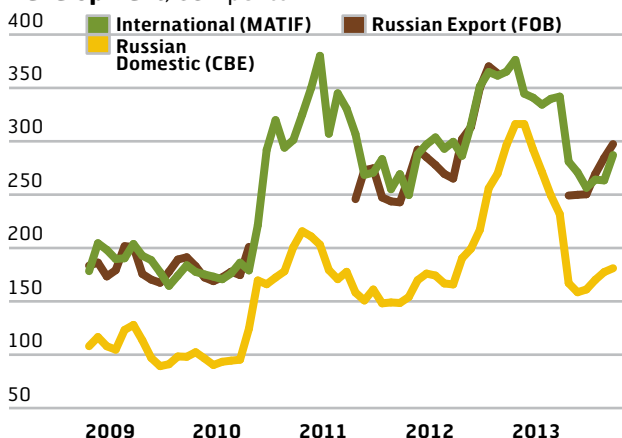
• **Agricultural Commodity Prices drop in 2013 from 2012 highs**

- Global and Russian production abundance depress grain prices
- BEF's average blended 2013 crop price decreased 23% y-o-y

D1: Average BEF Crop Price (Harvest Year), USD*/ton



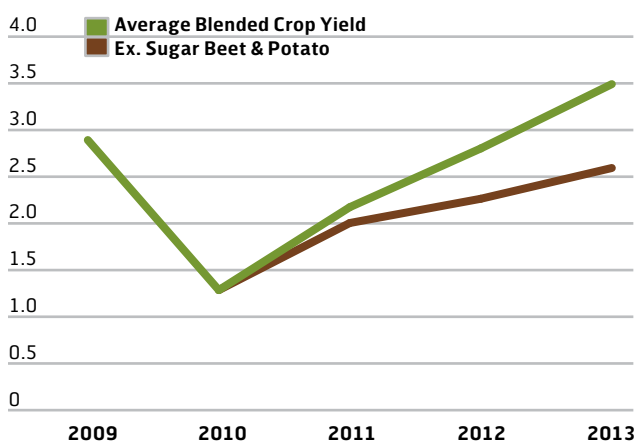
D2: January 2009–December 2013 Wheat Price Development, USD per ton



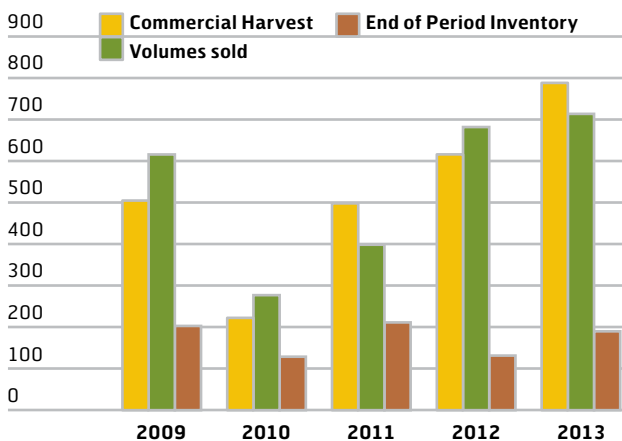
• **Improvements to Crop Yields, Logistics and Sales and Marketing**

- Blended average crop yield excluding sugar beets increased 14% year-on-year
- Record harvest and sales volumes of 789 and 715 thousand tons respectively
- Challenging harvesting conditions adversely impacted late crop yields and quality
- Total costs per ton down –11% y-o-y

D3: Historic Crop Yield Development, tons per hectare



D4: 2009–2013 Production, Sales and Inventory, thousand tons



* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

- **Full Year Net Loss of USD* –44.7 million for 2013**

- Operating loss of USD* –29.8 million vs. operating profit of USD* 18.5 million
- Weak result driven by lower prices and challenging harvest conditions
- USD* –7 million loss on sale of 2012 carry-over inventory and USD* –3.8 million foreign exchange loss
- Cash flows stronger y-o-y on working capital release and capex discipline
- Strong year-end 2013 balance sheet position with USD*35 million net debt

T1: BEF Income Statement in Brief

USD¹ million	2009	2010	2011	2012	2013
Total Revenue	75	63	82	208	145
Gross Result	(1)	9	3	51	6
EBITDA	(26)	(11)	(13)	37	(11)
Operating Result	(38)	(27)	(27)	18	(30)
Net Result	(44)	(38)	(44)	7	(45)

1. All the period ruble values converted at the end of the year RUR/USD FX rate for the respective periods.

- **In October 2013 BEF approached the market with an offer to refinance its outstanding Bond**

- SEK 750 million July 2014 bond refinanced with a new October 2017 bond
- Books fully subscribed and coupon reduced by 60 bps to 9.40%
- As of 31 December 2013, BEF held SEK 100 million of bond on balance sheet

- **Proposal of No Dividend for 2013**



* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

CEO Statement

It is very disappointing to be back again reporting heavy losses particularly so when the operational performance according to our key metrics of blended yield and cost per ton are an improvement on 2012, which was profitable. The improvements however fell short of our expectations after a very wet, late and costly harvest and well short of what would have been required to stay profitable at current prices as well as to cover losses on sale of 2012 crop inventories and negative FX translation effects. Overall prices were down some 23% y-o-y on 2013 crops. Whilst wheat prices in the central black earth (CBE) region are actually not far from the 5 year averages, sunflowers, corn and oilseed rape are all more than 20% below the 5 and 10 year average prices and all crops are significantly below the long term trend lines.

2013 Performance

Winter wheat and early season spring crops benefited from good growing conditions and reasonable harvesting conditions. Net yields for wheat and barley were 3.3 and 2.6 tons per hectare respectively with wheat yields improving by more than 50% on 2012. Spring oilseed rape however was affected by heavy pest pressure and poor establishment and did relatively badly at 0.9 tons per ha. Wet weather set in towards the end of July in our region and continued until the end of September. Rainfall in September was at record levels in some of our regions, on average about 90% above the 30 year average. This caused frustrating delays and had significant adverse effects on yield of soya and beet in particular. It also meant that most of our later season crops were harvested at very high moisture levels with higher than normal cost for transportation and drying. Sunflowers yielded reasonably but with wide variances between commercial and high oleic varieties. Soya, corn and beet however all came in well below expectations at 0.9, 4.3 and 24.3 respectively. Of these crops corn was most disappointing as it looked to have

high potential. Potatoes again performed well with good yields and quality despite a very difficult harvesting period when many growers failed to lift their crops.

The final result was that 6 out of 9 crops yielded above the 5 year average with the blended crop yield, excluding sugar beet and potatoes, improving 14% over 2012 and 24% over the last two years. Importantly, this translated into a reduction in total costs per ton of -11% y-o-y but in 2013 this efficiency enhancement was entirely subsumed by the fall in prices.

2013 Sales and Marketing

The graphs on page 4 and page 7 illustrate market prices for crops falling during 2013 in both the international and central black earth region. Russian 2013 grain output is up approximately 28% from 2012 with an exportable surplus of around 20 million tons versus 16 and 28 million tons in 2012 and 2011 respectively. Our efforts to sell crops forward and hedge using international futures have to an extent mitigated the financial impact of low prices. We estimate a positive effect of about USD* 4 million from these activities. These efforts thus dampen and reduce the price volatility but cannot remove it. As of 31 December, the Company had sold 91% of 2013 crop harvested, while 20% of sunflower, 30% of corn and 10% of barley was still unpriced.

Whilst there are concerns building over dryness in US and political turmoil in Ukraine, international markets remain relatively bearish. Global stocks are to some extent replenished but increasing demand means that stocks-to-usage figures remain relatively tight as demand keeps pace with higher production levels. Whilst it is unclear how 2014 prices will develop, the long term prospects remain favorable. Domestically, Russian winter cereal planting was down about 10% versus planned estimates due to heavy rainfall in September.

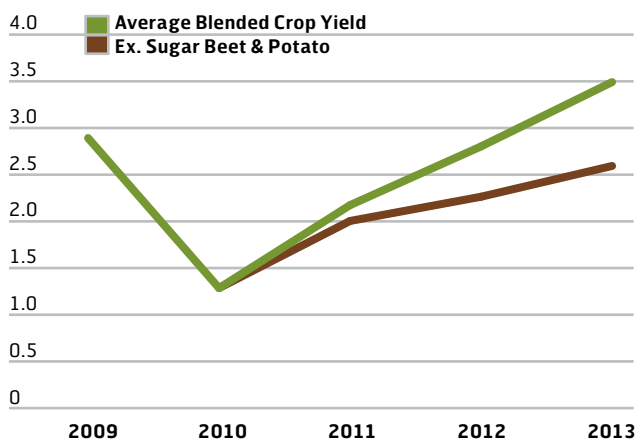


FY 2013 Results

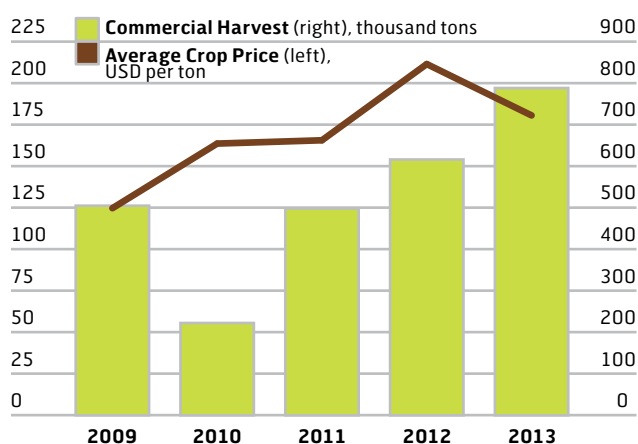
Much like 2012 was top line driven, so was 2013, only with the price trend in reverse. Although we have increased sales volumes by 5% in 2013 compared to 2012, market prices for realized sales and inventory valuation in 2013 were significantly lower than in 2012. Sales of 2012 crop during the 2013 calendar year were realized at prices below the year-end 2012 inventory value, which caused a 2013 gross profit loss

of USD* -7 million, versus a positive USD* 1 million effect from rising prices in 2012. Given the IFRS accounting standards of holding both crop in field (biological assets) and crop in inventory at fair and net realizable value respectively, our results are derived not only from sales revenue but are also highly impacted by market price developments between the ends of the reporting periods. Total revenue and gains of USD* 144.6 million are down -30% y-o-y from USD* 208.0

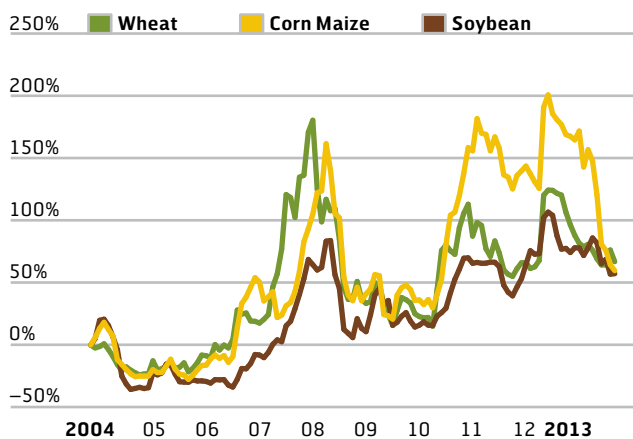
D1: Historic Crop Yield Development, tons per hectare



D2: 2009–2013 BEF Crop Volume and Price Development

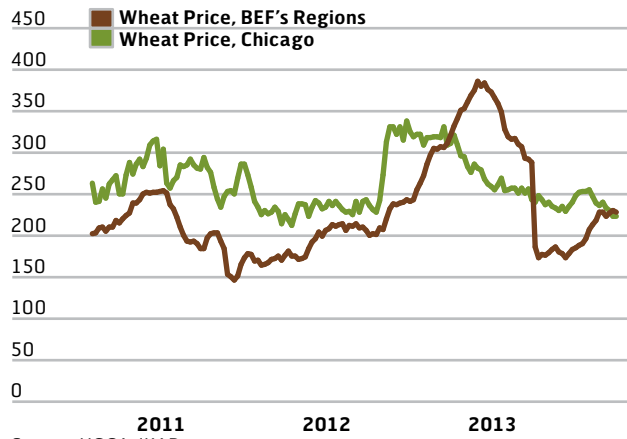


D3: 10 Year Crop Price Development, Chicago Futures Prices 2004–2013, % change



Source: HGCA

D4: Wheat Price Development Oct 2010–Dec 2013, USD per ton



Source: HGCA, IKAR

T1: Net Crop Yield Development

Tons/hectare	2010	2011	2012	2013	% of 2013 area harvested
Winter wheat	1.9	2.4	2.2	3.3	100%
Spring wheat	1.4	1.6	2.6	1.9	100%
Spring barley	1.4	1.9	2.4	2.6	100%
Corn maize	0.7	4.9	5.1	4.3	100% ¹
Spring rape	0.6	1.1	1.2	0.9	100%
Sunflower	0.8	2.0	1.9	2.0	100%
Soya	0.3	0.9	1.2	0.9	100%
Sugar beet	n/a	25.6	25.3	24.3	100%
Potato			33.2	33.9	100%

1. By the end of harvest, February 2014

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

million in 2012, mainly due to the drop in prices of 23% for 2013 crops. The average blended price, excluding beet and potatoes, was USD* 220 compared with USD* 263 in 2012, down -16% y-o-y. For 2013 harvested crops, we obtained a gain on revaluation per ton of USD* 15.7 vs USD* 113.0 in 2012, down 86% y-o-y. For 2013 crop the total operating costs per hectare were up circa 15% y-o-y. Approximately 40% of that increase was driven by our strategy of more intensive cropping with a higher share of sugar beet and potatoes in the crop mix. Other important cost drivers were seeds, increased liming to raise soil ph as well as transportation, due to challenging harvesting conditions. Distribution expenses were up 44% y-o-y on a 40% growth in export volumes, with related expenses to reach international counterparties and capture additional export margins.

12m 2013 operating cash flow before working capital decreased from USD* 19.0 million in 2012 to USD* 7.1 million, but improved from USD* 8.6 million to USD* 12.6 million after working capital changes, partly due to lower investment in 2014 winter crops. Total capital expenditure of USD* 12.1 million, including USD* 3.4 million of investment into the root crop business, is below historic levels. We successfully completed the issue of a new four year SEK 750 million bond, pushing out our debt maturity to 30 October 2017 from 1 July 2014. Our cash position at the end of the year was USD* 64.9 million (versus USD* 80 million in 2012), or USD* 80 million if the amount of our bond held by the Company is considered. Our cash position, therefore, remains strong.

2014 Crop

Early drilled winter wheat established well. The very wet September meant that seeding was possible up until mid-September and then again only after the first week in October. We took the decision not to resume drilling in October as this was considered unlikely to result in profitable crops and we re-planned for greater areas of spring crops instead. Although most central region crops were under good snow cover the weather was extremely cold in the last week of January. Unplanted winter wheat hectares are planned to be replaced with corn and sunflowers in 2014. Land after 2013 sugar beet will be mostly fallowed.

2014 Plans

Whilst I am of course sensitive to the impact of the 2013 result, I believe we need to stay committed to our plan of pushing hard at yield improvements and so at reductions in cost per ton. There are a host of improvements planned for 2014 to drive this forward. The core business will remain volatile and our strategy has to remain one of generating returns at low prices through production improvements and efficiencies. Our priorities over the last two years have been to remove yield constraints as well as market our produce and manage risk more effectively. For 2014 we have reassessed cropping plans to concentrate on what, historically, has been more profitable crops as well overhauled capacities and planning. These efforts continue but the notable changes planned for 2014 will likely be beneficial land transactions and judicious cost reductions. The recent divestment of land and real estate assets from our Ostrogozhsk and Podgornoye units in Voronezh is part of our plans to optimise our land bank and profitability. There will also be a large increase in our potato enterprise, which plans to quadruple in area.

Summary and Outlook

2013 was a disappointment and a stark lesson on where we are on the path of turning the business around. The yields were too low, the costs were too high and the diversification into irrigated potatoes not significant enough to come close to mitigating a low price year. Whilst I am mindful of the historical results of the business, the board and I remain committed to our three-pronged strategy of core business turnaround, business diversification into irrigated root crops and land portfolio optimization. Certainly, we need to be more ruthless with regard to overheads and land portfolio but the underlying trends are coming through and the diversification into irrigated root cropping performing well and gathering pace. We reiterate our opinion that there is significant scope to improve yields, albeit these improvements will take some time. We continue to strongly believe that root crop vegetables can offer the business great potential to scale up significantly and profitably.

2013 delivered a very disappointing set of financials and represents a setback, but we must focus on the underlying trends and be resolute and determined about accelerating the improvements.

Richard Warburton
 CEO and President
 Black Earth Farming Ltd
 11 April 2014

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

This is Black Earth Farming

Black Earth Farming ("BEF") was established in 2005 and was among the first foreign-financed companies that undertook considerable investments in the Russian agricultural sector. The Company holds ownership of an extensive land bank of first class soil in several Russian regions and is a major producer of grains and oilseeds. BEF's focus is on increasing the productivity of its current asset base to become the best-in-class agro industrial company in terms of costs and operating efficiency. As of 31 December 2013 BEF had 308,000 hectares under control of which 82% is fully owned with over 230,000 hectares in production¹.

Land Ownership

Agricultural land in Russia is usually comprised of a number of farm lots and can be classified as state, municipal or private property. With the reorganization of the Russian Kolkhozes or collective farms, the former employees obtained a part of the agricultural land in common. Black Earth Farming's approach has mainly been directed towards acquisition of privatized collective farms owned by a group of natural persons. Freehold ownership of land plots and lease rights are held via several different Russian subsidiaries, all of which are 100% controlled by Black Earth Farming.

The near term focus is not on significant expansion of the land portfolio, but on finalizing the ownership registration process and improving productivity of the current land bank. Russian agricultural land is in the Company's view still undervalued, both in terms of comparison with land of similar quality in other countries and also in relation to its inherent production potential, especially in the fertile Black Earth Region.

Crop Production

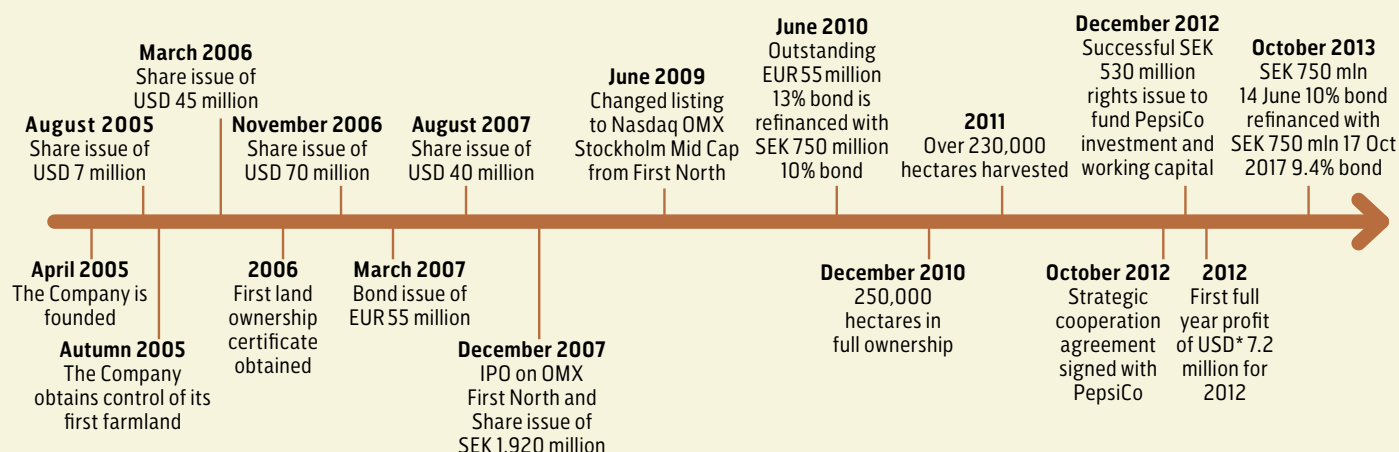
The farmland acquired had been laying fallow for many years and could not be put into production immediately. The Company first had to take extensive actions to restore and improve the condition of the land. The methodology, which is extensive and resource consuming, included several steps such as disc tilling and field levelling. When the fallow had been broken and the fields restored to cropping condition, the focus shifted to raising crop yields and implementing operational improvements. Since inception over 260 thousand hectares have been taken out of long term fallow and are in cultivation. The continental inland climate in the central Black Earth Region of Russia, where the company operates, has a crop growing season of approximately 120–170 days which can be compared to 250 days in the UK which has a maritime climate and is in proximity to the gulf stream. This allows for one harvest each year starting in July through October–November depending on crop. Different seasonal classes of crops such as winter and spring crops are used to spread the planting and preparation periods, as well as harvesting work.

Organisation

The Black Earth Farming Group consists of the parent Company Black Earth Farming Limited, a limited liability company incorporated in Jersey, Channel Islands, on 20 April 2005. Black Earth Farming Limited is the holding company for a number of legal entities established under the legislation of Cyprus and the Russian Federation. Those entities together are referred to as the Black Earth Farming "Group". The organization of Russian subsidiaries goes by the joint name of Agro-Invest headquartered in Moscow, where the

1. On 4 April 2014, the Company announced plans to sell 27,754 hectares of controlled land and related real estate assets in the Voronezh region. Refer also to note 36 to the financial statements on Subsequent events

Black Earth Farming Mile Stones

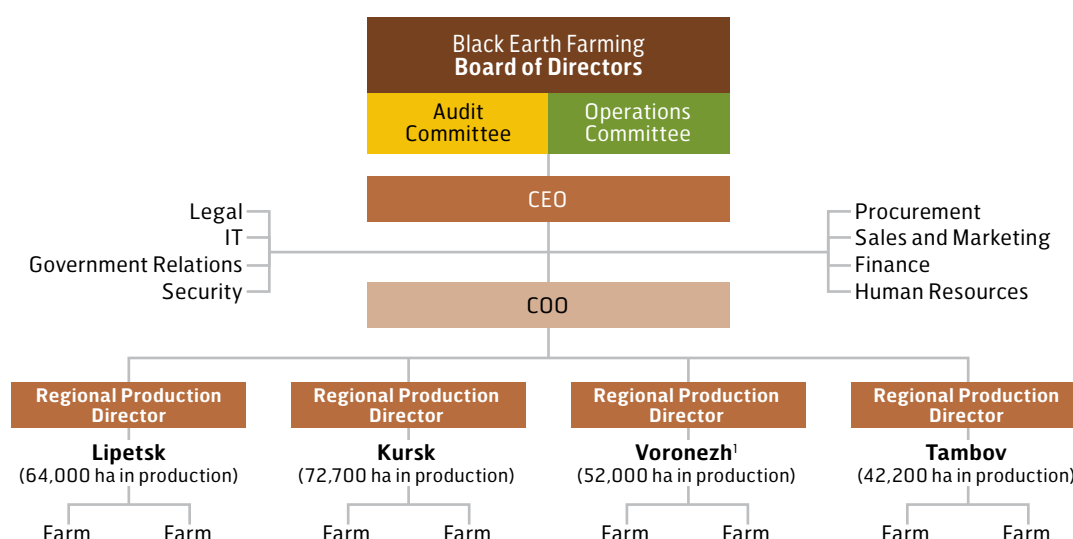


company retains some central service functions. The biggest office, however, is in Voronezh, close to key operations. Black Earth Farming had a total of 2,043 employees as at 31 December 2013 compared with 2,067 in 2012.

History

Black Earth Farming was established in 2005 and was among the first foreign-financed companies that undertook considerable investments into the Russian agricultural sector. The Company has established a significant presence in the regions of Kursk, Tambov, Lipetsk and Voronezh regions in the central “Black Earth” area of Russia. During the first years the Company was focused on acquiring and obtaining full free hold ownership to agricultural land. In 2006 Black Earth Farming received its first fully registered land ownership certificates which was a significant milestone as it confirmed that the land acquisition process was consistent with Russian legislation and worked in practice. The Company is now at the final stage in the process of registering land into ownership and is focused on raising the productivity of the current asset base. As of 31 December 2013, Black Earth Farming controlled 308,000 hectares of land, corresponding to an area about the size of Luxembourg, with 254,000 hectares in ownership and 44,547 hectares in longer term leases¹.

The Company raised initial funding from the family backed Swedish investment companies Vostok Nafta and Kinnevik. Kinnevik still remains as a major shareholder to date. Following several private placements and a bond issue to fund the expansion of the Company’s land bank, BEF successfully completed an IPO on 28 December 2007. Shares were listed in the form of Swedish Depositary Receipts, on the OMX First North exchange in Stockholm and raised SEK 1,920 million, approximately USD 250 million. On 22 June 2009 the Company changed listing to NASDAQ OMX Stockholm where the shares are currently listed under the ticker BEF SDB. Significant investments in a large modern machinery fleet and storage infrastructure have been undertaken since then to expand the area under production as well as to secure internal storage and grain handling capacity. In October 2012 the Company signed a 3 year strategic cooperation agreement with PepsiCo in Russia to supply potatoes and sunflowers for Lay’s crisps as well as sugar for other various PepsiCo products. To fund the investments needed to expand potato and sugar beet production under the PepsiCo agreement a SEK 530 million rights issue was successfully completed in December 2012. In October 2013, Black Earth Farming approached the market with an offer to refinance its July 2014 bond with a new October 2017 bond. Books were fully subscribed and the coupon was reduced from 10% to 9.40%. As of December 31, the Company held SEK 100 million as treasury bonds on its balance sheet.



1. On 4 April 2014, the Company announced plans to sell 27,754 hectares of controlled land and related real estate assets in the Voronezh region. Refer also to note 36 to the financial statements on Subsequent events



Land Ownership



Productivity Enhancement



Best Practice Farming Operations

BUSINESS CONCEPT, VISION, STRATEGY

Business concept

Black Earth Farming's business concept is to acquire ownership, raise productivity and farm agricultural assets in Russia, primarily in the Black Earth Region.

Vision

Black Earth Farming seeks to create shareholder value by developing its assets and operations to generate profitability and returns on capital, with the long term vision to develop into a leading and diversified agricultural company.

Strategy

BEF's initial strategy was to acquire ownership of a vast land area as well as invest in internal machinery and storage capacity for production of grains and oilseeds. With a strong asset base secured the focus has shifted towards lifting the operating performance and productivity as well as reducing revenue risk, improving logistics and optimizing costs. A larger share of higher value crops is targeted in order to improve returns on capital, grow revenues and reduce volatility. This includes:

Land Ownership: Free hold ownership rights to agricultural land has been secured at a relatively low cost per hectare by international comparisons and relative to the inherent production potential. The process of ownership registration in Russia has been complicated and lengthy but the near term focus is on finalizing the process and consolidating land blocks in areas with the highest production potential.

Best practice & technology: Black Earth Farming seeks to significantly increase productivity by introducing modern agricultural farming practices. The Company hires internationally experienced expertise and adopts efficient farming methods supported by robust underlying science. An exclusive partnership with a technical agronomic business is retained to utilize the best advice on all aspects of soil management, crop variety selection, crop nutrition and crop protection. This includes securing and examining data, either from internal trials or other sources, as well as the training and education of staff to ensure proper implementation.

Revenue Risk Management: The farming business has inherent weather induced volatility relating to crop volumes and prices which have a substantial effect on revenue and profitability. BEF aims to manage these risks to the furthest extent possible. Actions include improving crop management and diversifying production towards higher value crops grown on contract, as well insuring against extreme weather events. Physical forward sales and long term pricing via domestic and international customer relationships as well as financial instruments are used to manage price volatility.

Optimal Cost Structure: As a commodity producer and price taker focus is on obtaining the lowest unit cost possible in order to be price competitive. This involves setting the optimum direct cost per hectare in terms of input applications versus expected volumes to reduce the unit cost of production and maximize profitability per hectare.

Economies of scale: To create logistical efficiencies and other synergies the Company has formed and consolidated several production clusters within its controlled land bank, each being run by professional management with support and direction from the central organization. The cluster model optimizes the utilisation of resources as land areas are consolidated around local storage facilities and machinery hubs. The central organization coordinates investments, policies and procurement.

BEF's Business Model



Land Ownership

Input/Machinery Procurement

Field Works and Harvesting

Land Ownership¹

A key part of the initial strategy has been to secure ownership rights to the critical asset; high quality farmland. As of 31 December 2013, Black Earth Farming held 254 thousand hectares of land in full ownership, 82% of the total controlled land bank of 308 thousand hectares¹. Of the fully owned and registered land, 238 thousand hectares was held at an acquisition cost of USD* 52.6 million, with 16 thousand hectares held as investment property at fair value of USD* 4.3 million. The land investment per hectare is low by international standards. Recent Russian farm land transactions suggest that there has been significant appreciation of land values in BEF's regions. The current near term focus is however not on significant expansion of the land portfolio, but on improving crop production yields, increasing efficiencies as well as optimizing and consolidating the land bank.

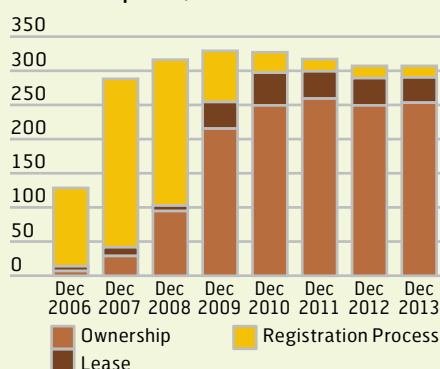
Input/Machinery Procurement

Each production cluster is supported by the central organization in terms of procurement of the major input items as well as expenditures on equipment and maintenance. The central organization coordinates investments and purchases to benefit from scale discounts and contract terms. The industries in each sub-category of major inputs are generally highly consolidated with a limited number of suppliers thus the company has limited power to influence purchasing prices for e.g. fertilizers and fuel.

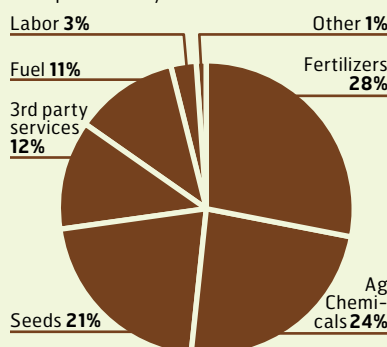
Field Works and Harvesting

Black Earth Farming's crop production is focused on applying scientific farming techniques and management with the aim of generating high yields of good quality at low costs given certain external conditions such as soil quality and climatic zone. The choice of which specific crops to grow is governed by expected profitability as well as operational factors, such as crop rotation needs, maximum utilization of machinery, weather and climatic conditions as well as harvest and seeding periods. Improving crop yield performance is a key focus area going forward which includes several key initiatives. Logistics is also very important with short seasonal timeframes for when cultivation, planting, input application and harvesting need to be executed over vast areas.

D1: December 2006–December 2013 Land Development¹, thousand hectares



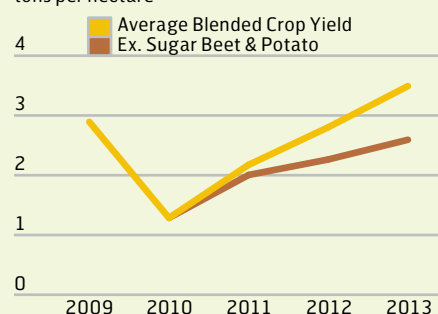
D2: Production Cost Breakdown, 2013 production year



D3: Crop Area, thousand hectares



D4: Historic Crop Yield Development, tons per hectare



Revenue drivers

- Right amount and quality of inputs are crucial factors affecting crop yields
- Crop mix for planted area
- Quality of inputs affecting crop quality and price per ton

Cost drivers

- Fertilizer, seeds, herbicides and fuel are major direct cost components
- Unit costs are inversely related to crop yields
- Capital costs (depreciation) as the Company owns the entire machinery fleet and storage infrastructure

- Harvest area
- Crop yield (weather)
- Crop yield (timely and optimal input application and decision making)

- Application rate of inputs
- Capital costs (efficient machinery utilization)
- Fuel

1. On 4 April 2014, the Company announced plans to sell 27,754 hectares of controlled land and related real estate assets in the Voronezh region. Refer also to note 36 to the financial statements on Subsequent events

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).



Crop Handling and Storage Logistics

Crop Handling and Storage Logistics

After crops are harvested, they are transported to storage and drying facilities such as elevators or on-farm storage sites. The logistics involved in crop handling and storage is critical to minimize quality issues as well as to prolong the harvest period. The Russian agricultural sector suffers from a deficit of agricultural infrastructure such as elevator storage capacity. Furthermore, crop prices are influenced by seasonality and Russian domestic prices tend to be at their lowest during the peak harvest period as farmers without access to storage facilities must sell their grain immediately, thereby substantially increasing supply.



Sales and Marketing

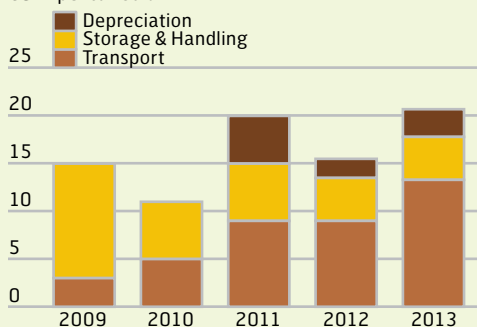
Sales and Marketing

Black Earth Farming sells its products both domestically in Russia and via exports to international customers. The list of customers varies from large international companies with local production in Russia e.g. PepsiCo and large breweries to oil crushers, flour mills, livestock producers as well as large international grain traders. In the past, sales have been conducted on an ex-works basis, i.e. the buyer collects at the Company's farm gate. With the ramp up of elevator capacity, all with direct rail access, the price per ton received has improved. Contract terms including loading, transport and delivery to buyer can be included in the price as well as providing access to export markets which generally command a net back price premium. This is crucial not only for selling at higher prices but also for managing price risk via forward sales, given the general lack of a domestic futures market due to the low trust among counterparties. It also facilitates consolidation of larger volumes of crops with specific qualities enabling participation in larger and better priced contracts. In the 2013 financial year, approximately 20% of sales volumes were exported. In December 2013, the Company established Black Earth Trading International Ltd. in Guernsey, a fully owned subsidiary, to facilitate export sales and support international customer relationships.

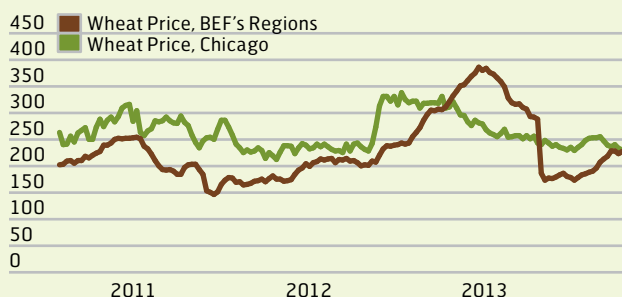
Processing
(Oils, Flour
etc.)

Livestock
(Animal
fodder)

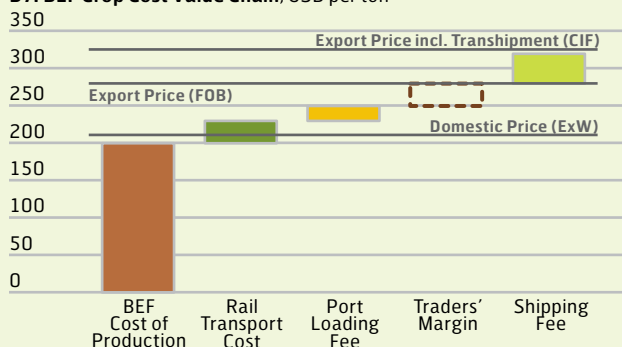
D5: Distribution Expenses Breakdown,
USD* per ton sold



D6: Wheat Price Development Oct 2010–Dec 2013, USD per ton



D7: BEF Crop Cost Value Chain, USD per ton



- Price (flexible timing of sales)
- Price (quality of crop inventory)

- Price (domestic and international supply/demand balances)
- Price (regional/international price premiums)

Revenue
drivers

- Distribution expenses (storage)
- Internal logistics and handling to secure crop quality
- Capital costs (depreciation) as the Company owns all storage facilities

- Distribution expenses (transport)

Cost
drivers

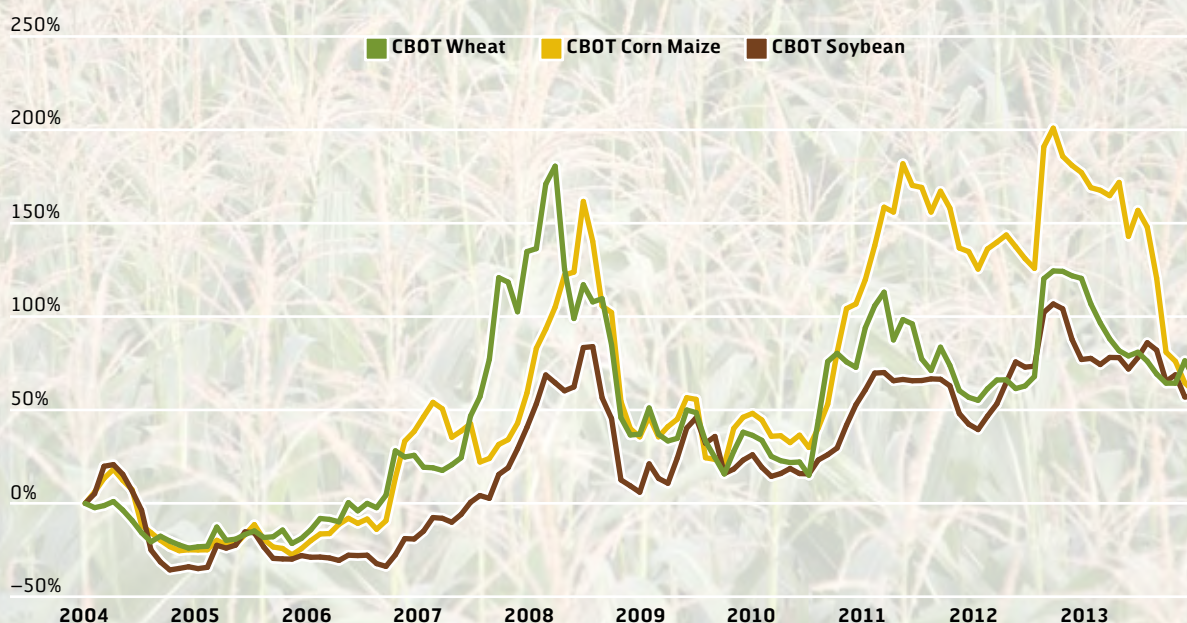
* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

Market/Industry Overview

LONG TERM DRIVERS OF AGRICULTURAL COMMODITY MARKETS

The Food and Agriculture Organization of the United Nations (FAO) expects prices of agricultural commodities to trend upwards over the next 10 years and to remain on a higher plateau underpinned by continuing strong demand, supply constraints and rising costs of inputs. A key issue facing global agriculture is how to increase productivity in a sustainable way to meet the rising demand for food, feed and fuel. Emerging economies are the main driver of demand growth but will also capture an increasing share of the expanding world trade in agriculture as these regions provide the main source of future global production growth.

D1: 10 Year Crop Price Development,
Chicago Futures Prices 2004–2013, %



Source: HGCA

Over the past decade, global food prices have demonstrated significant growth. Over 2003–13, the average consumer's food basket has more than doubled which is equivalent to an 8% average annual price increase. As the global population is growing and becoming wealthier, agricultural production assets, such as food and water, are becoming more challenging and expensive to access. Agricultural production needs to increase by more than 60% over the next 40 years to meet the rising demand for food according to the FAO. This translates into an additional 1 billion tons of cereals and 200 million tons of meat a year by 2050 compared with levels produced during 2005–2007. Additional production will also be necessary to supply expanding biofuel production. As a result global demand for agricultural commodities could significantly outstrip supply over the next several decades.

Increasing World Population and Disposable Incomes

The world's population is partway through a significant expansion. According to the UN, the total number of people on the planet has risen from 1.6 billion in 1900 to 6.9 billion currently, and is expected to reach 9.3 billion by 2050. An additional 680 million people are expected to inhabit the planet by 2021 with the fastest population growth rates expected in Africa and India. Although the growth rate is declining, rising incomes and increased urbanization have started to lead to changes in dietary habits, which shifts consumption towards more processed foods, fats and animal protein. This also drives the indirect demand for coarse grains and oilseeds used as livestock feed as only 10–15% of the energy contained in feed is transferred to humans via meat consumption. People who earn less than USD 6,000 per year, and whose participation in global consumption has

so far been quite limited, still represent the majority of the global population. This group is however expected to double over the next decade. At the same time the global urbanization trend reduces both agricultural land and the eligible work force as people move into expanding cities.

Expanding Biofuel sector Demanding a Larger Share of Crop Production

While only an emerging sector in 2008, biofuels have become an important part of the global agricultural balance sheet over recent years. According to the OECD, some 65% of EU vegetable oil, 50% of Brazilian sugarcane, and about 40% of US corn were used to produce biofuels in 2012. By 2021, the OECD estimates that 14% of global coarse grains, 34% of global sugar cane and 16% of global vegetable oils will be used to produce ethanol and biodiesel. The increase from current levels implies that global agricultural area would have to increase by 21 million hectares just for these needs.

Resource Constraints to Land and Water

Globally, the scope for area expansion is limited. Approximately 38% of the earth's total land surface is currently used for agriculture and only 11% is classified as arable land. Arable land per capita has consistently been decreasing and practically halved over the past 50 years on the back of population growth, climate change and urbanization. FAO expects total arable land to increase by only 69 million hectares (less than 5%) by 2050. Some 25% of all agricultural land is also highly degraded and water scarcity in agriculture is already a fact for many countries. In 2010, some 3.1 trillion cubic meters of water was used for agricultural purposes globally, or roughly 70% of total water extraction. Constrained water availability is becoming a major obstacle for further intensification of crop production. Global Water Intelligence forecasts that by 2030, fresh water demand from agriculture could reach 4.5 trillion cubic meters, which is higher than the total supplies currently available, including surface water and groundwater.

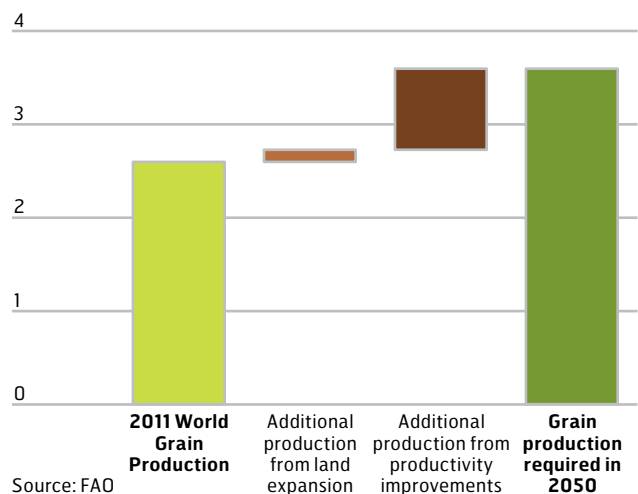
Energy and input price inflation

Global agriculture has also become increasingly linked to energy markets. Higher oil prices are a fundamental factor behind higher agricultural commodity prices, affecting not only oil-related costs of production such as fuel, fertilizer and agricultural chemicals, but also increasing the demand for biofuels and the agricultural feedstocks used in their production. FAO estimates that the effect of a 25% drop in the price of crude oil would lead to a 12–15% reduction in fertilizer and ethanol prices while grain and oilseed prices would fall by 3–5%.

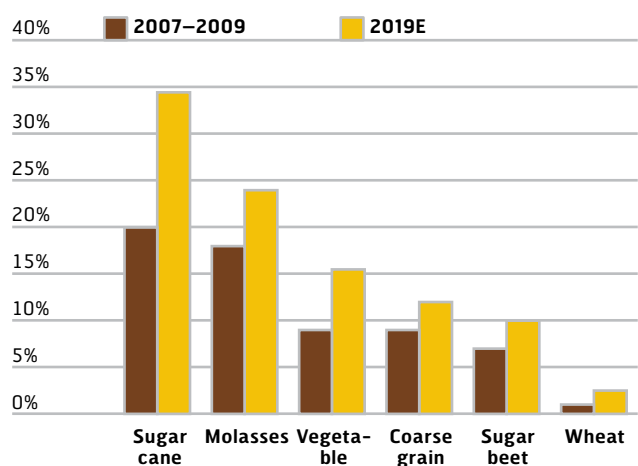
Emerging Economies to Drive Demand and Provide Incremental Supply

The major demand drivers for agricultural commodity products are concentrated to developments in emerging markets. Globally, the number of people with annual incomes

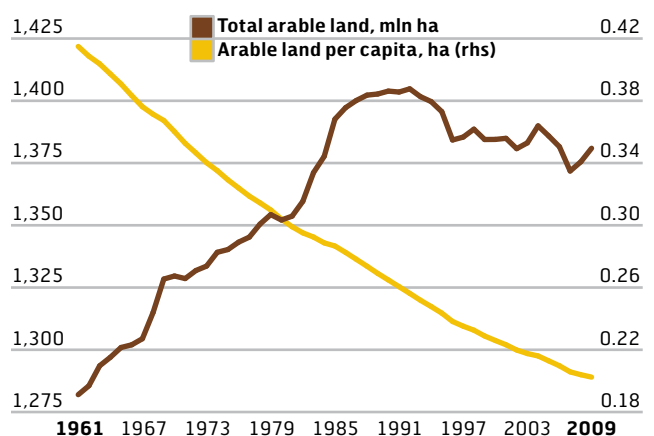
D2: FAO 2050 cereals production scenario,
billion tonnes



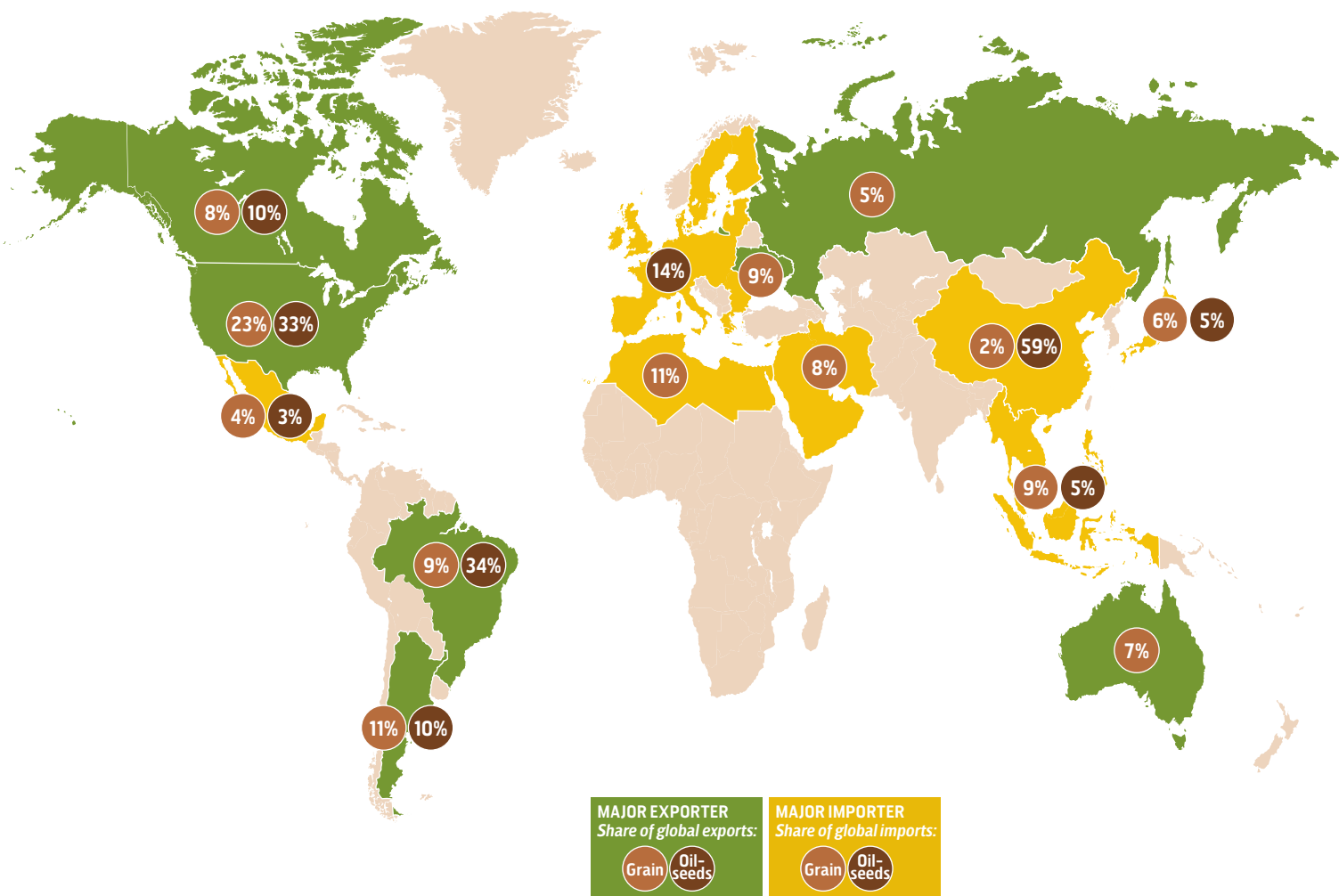
D3: Global feedstock used for biofuel production, %



D4: Global arable land per capita 1961–2009

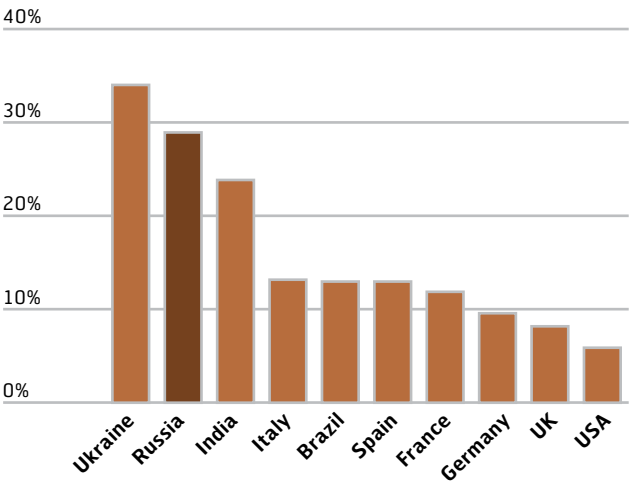


Overview of International Trade in Grains and Oilseeds



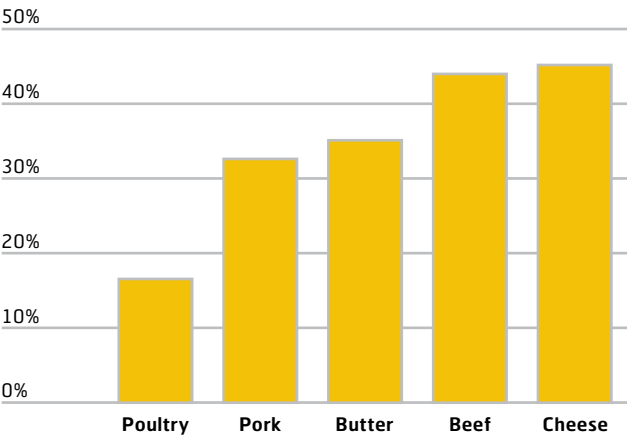
Source: USDA

D5: Share of total expenditures spent on food, %



Source: Euromonitor

D6: Share of imports in Russian consumption of selected agricultural products 2011, %



Source: USDA

in excess of USD 6,000 is set to more than double over the next 20 years, adding 2.7 billion people to the consumer middle classes. More than 90% of this increase – around 2.6 billion people – is expected to come from emerging markets, of which 1.8 billion in Brazil, China, India and Russia. China is already the dominant importer of oilseeds accounting for almost 60% of global imports. Likewise developing countries in Africa, Asia and Middle East are the major importers of grains. All of these regions driving incremental demand have limited land and water resources to supply their increasing populations.

Additional agricultural production will need to come from increased productivity in the same way as it has for the past 50 years. Productivity gains in the medium-term needs to come primarily from reducing the productivity gap in developing countries with sufficient resources. Based on their greater potential to increase land devoted to agriculture and to improve productivity, developing countries will provide the main source of global production growth to 2021. Annual production growth in developing countries is projected by FAO to average 1.9% per annum compared to 1.2% in developed countries in the coming years.

Global Grain Production

Grains include the staple crops wheat, rice and corn maize, which account for about half of the world's calorie intake. Global grain production increased by 9.7% y-o-y to 1,964 million tons in 2013/14, which makes it the largest harvest on record. Global carryover stocks will also rise significantly in 2013/14 to an estimated 387 million tons. Ending grain stocks for the world's top exporting countries is at the highest levels since 2007/08 and implies about 40% increase from last year.

Wheat is the most important crop among grains in terms of area planted and global trade. It is also one of Black Earth Farming's largest crops by volume and revenue. The fact that only 20% and 11% of global wheat and corn production respectively is traded internationally and that the 5 top exporters account for over 65% of total exports has great consequences for international prices when a supply shock affects one of the key producing countries.

International Oilseed Markets

Oilseed crops are the second most important source of energy in food and feed after grains. They are also recognized as a significant source for production of biofuels. Sunflower and soy represent 9% and 14% in the total global production mix of oilseeds respectively, and are Black Earth Farming's main oilseed crops. Soybean remains the dominant crop globally representing 55% of total oilseed production. For soy, China is the major buyer, representing some 59% of total imports, while exports are dominated by the US, Brazil and Argentina. Russia, Ukraine and Argentina are the main producers of sunflower seed and sunflower by-products and these producer countries are also the key suppliers to international markets. Russia, Ukraine and Argentina produce over 50%

of the world's sunflower seed, which is why they are often referred to as the "sunflower triangle". Canada dominates the export markets for rapeseed/canola with 64% of shipments, while the EU and China represent 50% of imports. Rising demand for biofuels and vegetable oils on the back of higher energy prices have given support to oilseed markets and price trends in general.

Russia

Wheat normally represents 60–70% of total Russian grain production yet the sources of use for wheat in Russia is different from international standards, as 40% is used for human food consumption compared to 70% globally. Feed use for animal fodder in addition to seed retention for the following year's planting represents a much larger share of wheat consumption in Russia compared to the global average.

Despite challenging weather conditions, Russian harvest volumes in 2013 were 91.3 million tons of grains, up 29% y-o-y from 2012. Russian exports of approximately 23 million tons of grains are expected for the 2013/14 marketing year, which ends in June, up 32% y-o-y from the export volumes in 2012/13. Russia is a key source of supply for the major importers in Northern Africa and the Middle East accounting for an approximate 15% of total wheat exports in a normal year. Russian domestic crop prices in central regions were significantly lower in 2013 as compared to 2012. Over December 2012/13, wheat prices in the Central Black Earth region were down on average 33% y-o-y on the back of strong high 2013/14 harvest production volumes.

WTO Accession

In late August 2012, after almost two decades of negotiations, Russia was formally admitted as a member to the World Trade Organization. The largest impact for the agricultural sector is likely to relate to reductions in current import restrictions and tariffs for meat, especially pork production, which will affect domestic producers negatively. Russia has also agreed to decrease its export tariffs on most oilseed crops. The duty on sunflower seeds should gradually be decreased from 20% to 6.5% over the course of four years, from 15.0% to 6.5% for rapeseed and from 20% to 0% for soybean. A first sign of reduced trade restrictions was evident in 2012/13 as no levies were introduced for international grain shipments despite the fact that Russia's total wheat production of 38 million tons in 2012 was 9% lower than the drought struck harvest of 2010 when an export ban was imposed. In March 2014, sanctions were imposed by the US and EU on certain Russian officials, businessmen and companies. It is unclear if these actions could affect Russia's commitment to further WTO integration.

2014 Outlook

2013 was a year of record planted areas and relatively benign weather, resulting in all-time high production levels globally. This resulted in significantly lower prices. The picture

in Russia was one of a crop of 91 million tons, 29% higher than the previous year, and exports of 23 million tons. Central Black Earth prices were down nearly 30% y-o-y and sunflowers, corn and oilseed rape prices were all circa 25% below their respective 5 year averages.

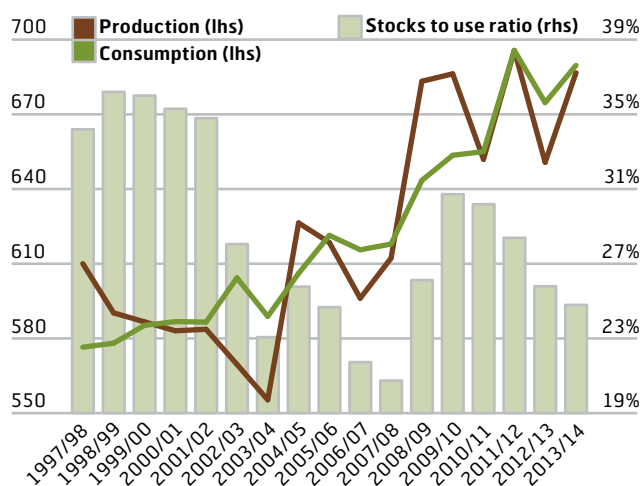
Prices have improved slightly going into 2014. Stock to use ratios tightened at the end of 2013, notably for oilseeds. Concerns for cold weather in North America followed by early drought in the US plains and parts of Europe have also supported this modest recovery in prices. Concerns surrounding the crisis in Ukraine and its effect on plantings and credit for inputs have also had some effect on prices.

Russia has planted about 10% less winter crop hectares than in the previous year. Record spring plantings and good conditions will be required to match the 2013 season. As a

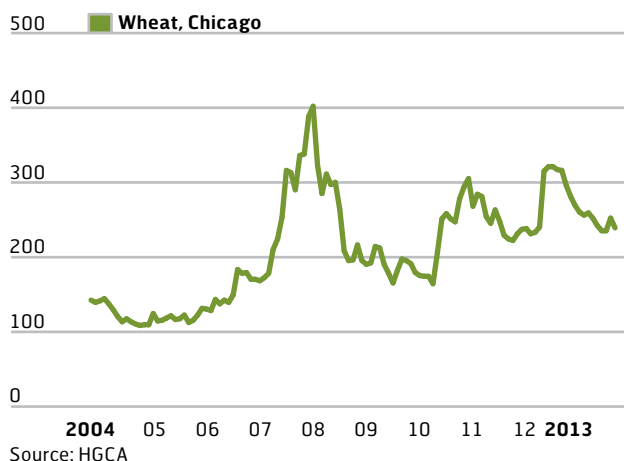
result, there is an expectation of less wheat but also for a production increase in corn and oilseeds. Whilst the long term fundamental factors supporting increasing soft commodity prices remain intact and there are some concerns relating to 2014, it is too early to make any predictions on 2014 prices.

In March 2014, sanctions were imposed by the US and EU on certain Russian officials, businessmen and companies. These actions, particularly if further extended, may result in reduced access of the Russian businesses to international capital and export markets, capital flight, weakening of the Ruble and other negative economic consequences. The impact of these developments on the future operations and financial position of the Company is at this stage difficult to determine.

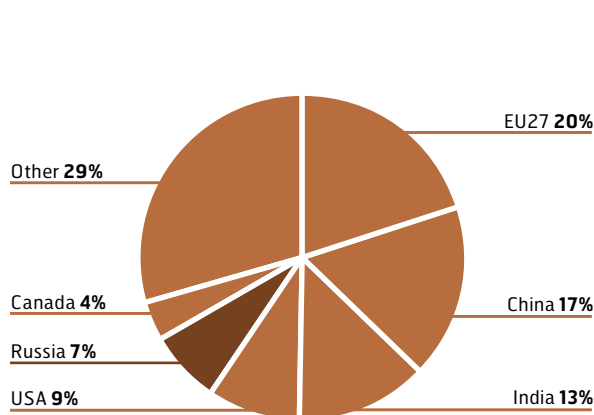
D7: Wheat: Global Production, Consumption and Stocks to Use Ratio, million tons



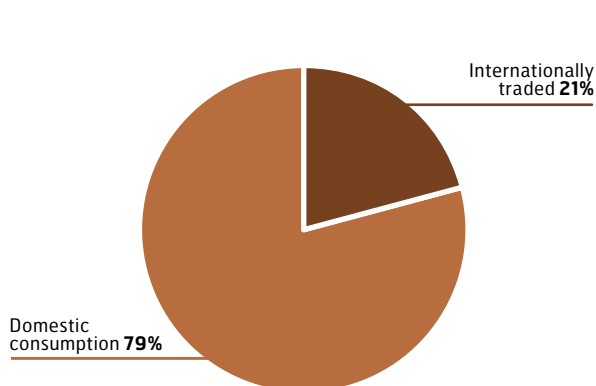
D8: 10 Year Wheat Price Development, 2004–2013, USD/ton



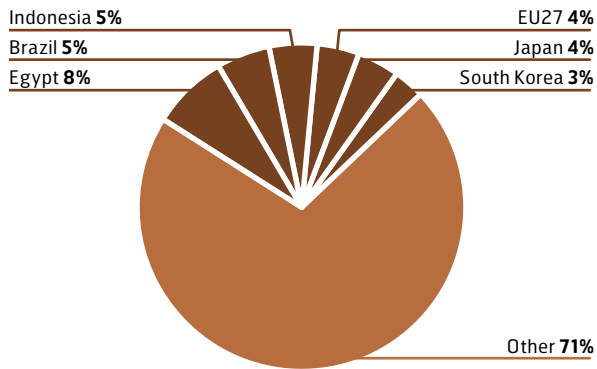
D9: Global Producers of Wheat 2013/14



D10: Share of World Wheat Production Traded Internationally 2013/14

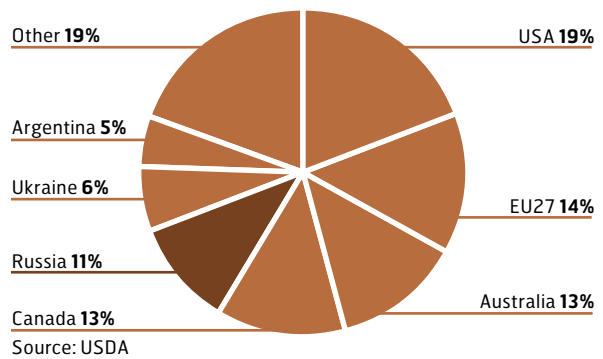


D11: 2013/14 Wheat Imports by Country



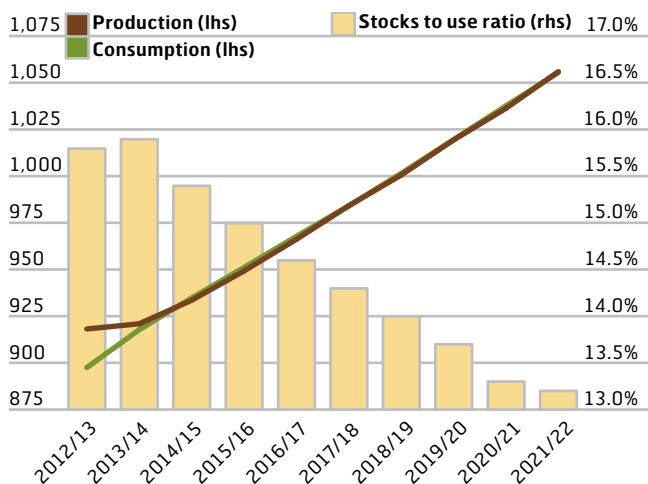
Source: USDA

D12: 2013/14 Wheat Exports by Country



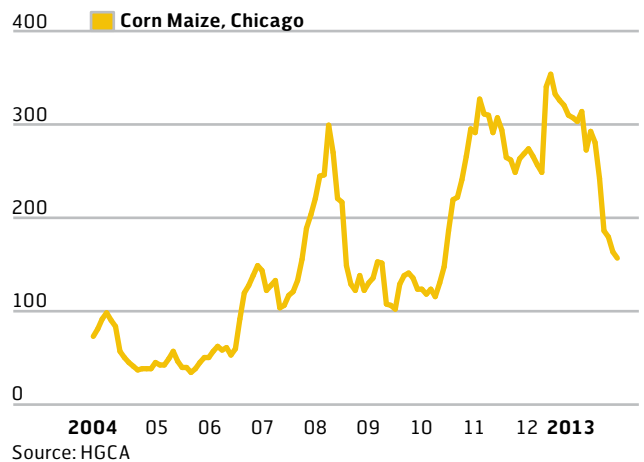
Source: USDA

D13: USDA 10 Year Corn Forecast: Global Production, Consumption and Stocks to Use Ratio, million tons



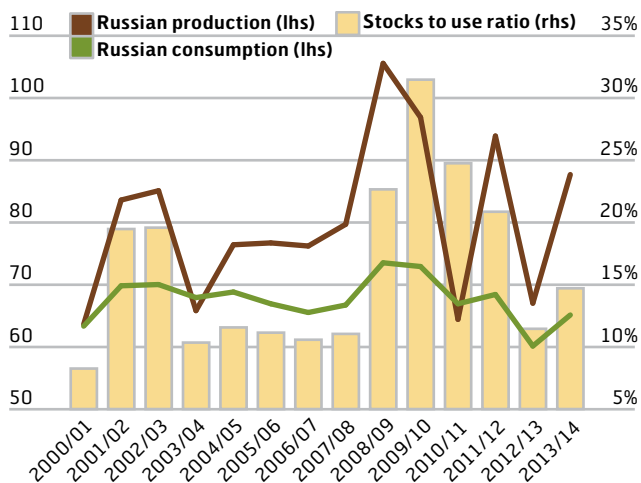
Source: USDA

D14: 10 Year Corn Price Development, 2004–2013, USD/ton



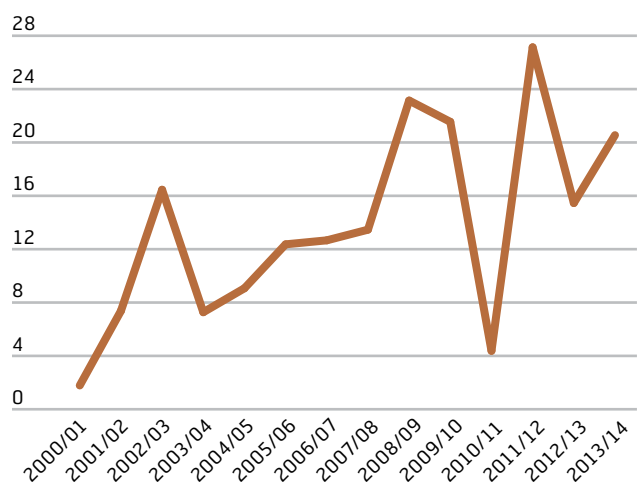
Source: HGCA

D15: Russian Domestic Grain Production, Consumption and Stocks to Use Ratio, million tons



Source: IKAR, IGC

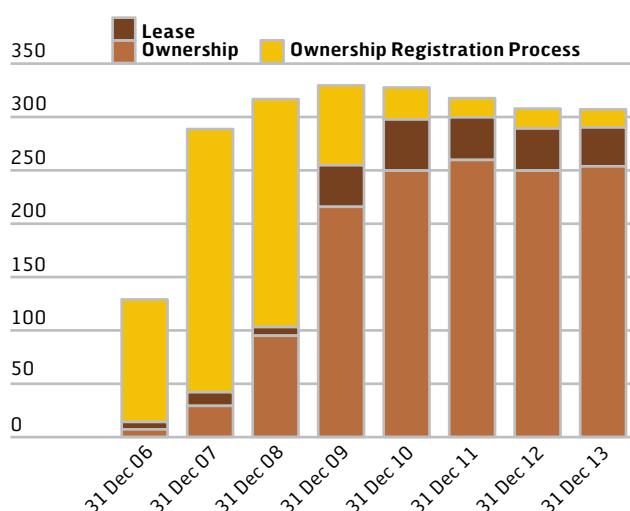
D16: Russian Grain Exports, million tons



Source: IKAR, IGC

Operational Review

D1: 2006–2013 Land Development,
thousand hectares



Land

As of 31 December 2013, Black Earth Farming held 254 thousand hectares of land in full ownership, corresponding to 82% of the total controlled land bank of 308 thousand hectares¹. 44 thousand hectares were held under long-term lease contracts running up to 49 years with the remainder in the process of ownership registration. The process of obtaining the ownership rights to agricultural land in Russia is complicated and time consuming.

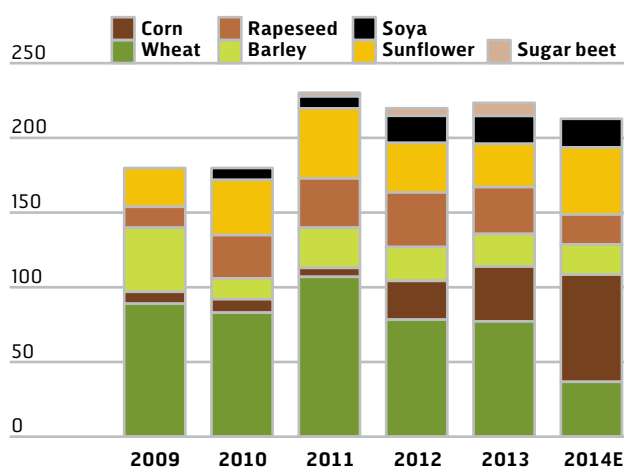
Consolidation and further improvement of the operational efficiencies in and around the existing farm blocks remains the Company's key target in terms of land. The current focus is not on significant expansion of the land portfolio, but on finalizing the registration process of controlled land into full ownership and rising crop production on the current foot print.

Russian agricultural land is, in the Company's view, still undervalued, both in terms of comparison with land of similar quality in other countries and also in relation to its inherent production potential, especially in the fertile Black Earth Region. As of 31 December 2013, the Company held 282 thousand hectares, not classified as prepayment or investment property, at an acquisition cost of USD* 54.7 million in the statement of financial position.

Production

Black Earth Farming has since its inception in 2005 broken long term fallow on approximately 260 thousand hectares in total. The fields have been brought back into a productive state by extensive disk-tilling, to eliminate long time estab-

D2: 2009–2014E Crop Area Breakdown,
thousand hectares



lished weeds, coupled with field levelling. The croppable area has expanded rapidly from 6 thousand hectares in 2006 to over 230 thousand hectares in 2013, and the focus has shifted towards raising productivity. Improving crop yields is crucial and involves several factors concerning technical agronomy and organisational changes to improve not only technical knowledge and decision making, but also operational execution. The crop mix has also changed in recent years as wheat's share of the total crop area has declined from approximately 50% to around 35% while areas planted with corn and soya have been increased and new crops, such as sugar beet and potatoes, have been introduced to diversify production. In 2014, the crop mix will change further, partly as a result of challenging weather conditions during winter crop planting, and partly as result of an effort to move towards crops with higher expected profitability.

In 2011, a technical agronomy partner undertook an audit of historic decision making processes and made recommendations regarding strategy and crop management going forward. The review also identified what underlying data and analysis was missing for the operating regions in order the make scientific crop management decisions backed by statistically significant data. In 2012 BEF has started filling the information gaps through internal research and crop trials and in 2013, the company observed improvements on some crops. Once the research is completed, it could provide a meaningful competitive advantage for BEF. This internal R&D is yielding key data to ensure crop management is increasingly driven by statistically significant and well analyzed trials information which will be expanded more upon in 2014.

1. On 4 April 2014, the Company announced plans to sell 27,754 hectares of controlled land and related real estate assets in the Voronezh region. Refer also to note 36 to the financial statements on Subsequent events

BEF'S CROPS

Black Earth Farming grows four classes of crops; cereal grain, oilseed, beets and potatoes. Crop based decision making should be based on sound underlying science fed by statistically significant data from well managed crop trials. Historic data is typically held in public hands or with life science companies. Historic Russian data is however often not based on economic optimums. Meanwhile, the specifics of the seed licensing process has not incentivized private companies to engage in large scale and in-depth trials adapted to the specific soils and climate in Black Earth Farming's regions. The Company is continuously working to build up this R&D capacity internally in co-operation with a world leading technical partner in order to have all the data needed to make well researched and optimal crop growing decisions.

Cereals (grains)

Cereal crops are members of the grass family where wheat, corn maize and rice are the most commonly farmed types worldwide and together account for approximately 85% of all grain production worldwide and 45% of all food calories.

Wheat

33% of 2013 Revenue

Most wheat is consumed in the form of baked goods, mainly bread. Wheat grains must therefore be milled to produce flour prior to consumption. Wheat is also used as an ingredient in compound feedstuffs, starch production and as a feed stock in ethanol production. The harvest quality of wheat can vary widely from high protein milling quality commanding a price premium versus low quality feed used as animal fodder.

Black Earth Farming uses a combination of different wheat varieties. Winter wheat is planted during the autumn with internally grown seeds and is like other winter crops higher yielding compared to the corresponding spring crop due to more growing days. Winter and spring wheat is harvested during the same period generally commencing in mid-July.

Barley

7% of 2013 Revenue

Barley is mainly used for animal fodder, as a component in various foods and as base malt for brewing beer and other distilled beverages such as whiskey. The crop can vary in terms of quality between malting and feed quality which has an effect on price. Black Earth Farming cooperates with local brewers and aspires to grow a high share of malting quality barley on a contract basis with harvest usually starting around early August.

Corn Maize

12% of 2013 Revenue

Corn is a major food and feed grain grown throughout the world in temperate and warm climates. It is the most widely grown crop in the Americas, where a major part of the production is used for corn ethanol. The Company cultivates this grain primarily in the southern regions where rainfall is more limited and the summer temperature is higher. Corn is a late harvest crop and is generally planted in May and cut in late September into October-November.

Oilseed

Sunflower

22% of 2013 Revenue

Sunflowers are primarily used in food products and oils as well as livestock feed. Due to the sunflower's drought resistant characteristics, it fills an important role in the overall crop mix. The crop is normally reaped a week or so after spring rape and just requires a simple addition to the combine header for harvesting, thus reducing additional capital expenditures.

Oilseed Rape (OSR)

9% of 2013 Revenue

Rapeseeds are primarily used for producing vegetable oil and biodiesel. Winter rape generates a higher yield than spring rape due more growing days, yet carries a higher risk as the winter conditions can kill large parts of the seeded area. Rape characteristics enable a crop rotation system which ensures that winter wheat can be sown the following production year. The spring variety has lower risk than the winter variety but is also lower yielding.

Soybean

5% of 2013 Revenue

Soybean is one of the most popular and widely grown oilseeds. The derived product Soybean meal is a primary, relatively low-cost, source of protein for animal feeds or rations. Soy vegetable oil is another valuable product of processing the soybean crop. Soybeans can produce at least twice as much protein per hectare than any other major vegetable or grain crop. Soybeans, like most legumes, also perform beneficial nitrogen fixation in the soil.

Root Crops

Sugar Beet

8% of 2013 Revenue

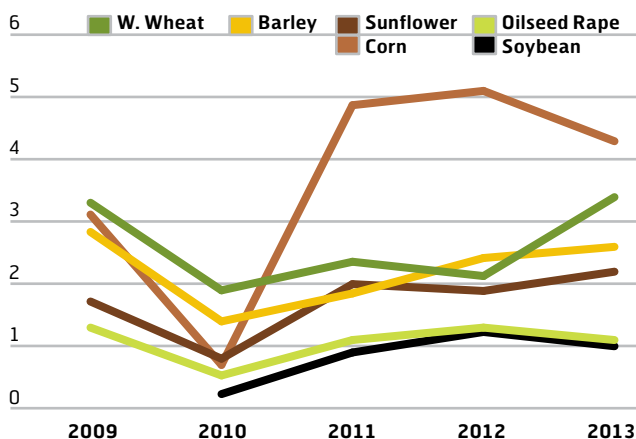
Sugar beet is a hardy plant that can be grown commercially in a wide variety of temperate climates that is normally planted in the spring and harvested in the autumn. Beet sugar accounts for 30–35% of the world's sugar production. BEF does not plan to grow sugar beet in 2014.

Potato

2013 Increased production vs 2012 trial (1% of 2013 revenue)

Approximately two thirds of the global potato production is consumed directly by humans with the rest being fed to animals or used to produce starch. Only about 5% of the world's potato crop is traded internationally. To achieve acceptable quality levels for further processing, irrigation is usually employed in order to secure adequate water supply.

D3: 5 Year Yield Development per Crop, tons per hectare



2013 Harvest

There were meaningful improvements to the 2013 crop compared with previous years. Winter wheat and early season spring crops benefited from good growing and reasonable harvesting conditions. Yields for winter wheat and barley crops are among the best ever achieved with wheat yields improving by more than 50% y-o-y on 2012. Spring oilseed rape however, was badly affected by heavy pest pressure and poor establishment which eventually led to relatively lower yields. This was followed by wet weather, which set on towards the end of July in black earth region and continued until the end of September. Rainfall in September was at record levels in some of our regions, with precipitation on average about 90% above the 30 year average. This caused frustrating delays to harvesting work and had significant adverse effects on yield of soya and beet in particular. It also meant that most of our later season crops were harvested at very high moisture levels. Sunflowers yielded reasonably but soya, corn and beet all came in well below expectations. Of these crops, corn was the most disappointing as it looked to have high potential.

Overall improved quality of operations benefited 2013 crop yields with final result of 6 out of 9 crops above historic averages with the blended crop yield excluding sugar beet and potatoes improving 14% over 2012. As highlighted



in table T2 crop yields for winter wheat, barley and sunflower crops are among the best ever achieved. The 2013 crop results have also to an extent benefitted from the crop initiatives and soil improvement to improve yield potential but probably even more so from the combination of better execution and management.

2014 Crop Prospects

Current plans are to raise the corn area further as well increasing the potato area almost fourfold. This gradual shift towards more intensive crops is already changing the cost profile but is intended to pay off with compensatory revenues and earnings resulting in higher and more stable returns. 31 thousand hectares have been planted with winter wheat, which is around 58% less than in 2012. The very wet September meant that seeding was possible up only until mid-September. After the first week in October, decision was made not to resume drilling as it was considered unlikely to result in adequate yields and profitable crops. Management consequently re-planned for additional spring crop areas instead. Sugar beet has also been dropped from the crop mix after 2013. Land used for sugar beet will mostly be fallowed. The Company plans to have substantial increase in planting corn and sunflower with 33% and 21% respectively of the entire cropped land. As of the end of March, some 25% of expected 2014 crops were sold forward to lock in current price levels, including 13% of expected corn volumes hedged using futures on international exchanges. Good progress is being made on adding forward sales for the 2014 crop.

5 Key Initiatives to Raise Crop Yields

In an extensive 2011 soil quality audit, the results showed several constraints to yield potential. During the autumn of 2011, the Company launched a range of initiatives to remove these crop yield constraints and lift the production potential of the soil. The five key priorities in this effort are outlined below. This is a multiyear process but significant progress was made prior to seeding and post-harvest in 2012 and 2013. The 2013 spring crops benefited to some extent from the initiatives but most of the benefits are expected to come through in future years. The process is expected to contribute to higher crop yields and productivity going forward as constraints are removed from a larger part of the Company's total cropping area.

Lime application to correct soil pH

Acidic soils reduce crop yield. Research demonstrates that pH levels below 5 can reduce wheat crop yields by up to 30%. To correct for low soil pH levels, lime is applied to the soil. In its cheapest form, lime is received as a by-product from sugar processing. The challenge and associated costs are less related to procurement and more with logistics, as high application rates of 8 tons per hectare involve large tonnages of product to transport, load and spread in order to process larger crop areas. Since the autumn of 2011, lime has been applied on 47 thousand hectares of the Company's most

acidic soils. 35 thousand hectares were applied during 2012. Further soil testing in 2013 indicated a reduced need for application of lime on remaining areas. As a result of challenging weather conditions in the autumn of 2013, lime was applied to only 1600 hectares.

Deep cultivations to relieve soil compaction

Problems have also been identified with soil structure and compaction, which restricts crop root growth and results in lower yields and poor resilience to dry conditions. Only limited deep cultivations had been performed prior to 2011. In some places, BEF's pre-2011 operations had exacerbated the problem, but the main issue is compaction and lack of cultivations back from Soviet times. To improve soil structure, deep cultivations shatter the earth and remove plough pans at depths of 20 cm and below. 37 thousand hectares were subsoiled in 2011, followed by almost 100 thousand hectares in 2012. Subsoiling will be incorporated in the annual cultivation program over several years in order to rotationally relieve compaction and improve soil structure. The wet weather during the summer and autumn of 2013 prevented undertaking the full planned subsoiling, but 35,500 hectares of deep cultivation was completed in the period.

Fertilizer, potash, phosphate and sulphur applications

Potash has historically only been applied on a replacement basis and application was not necessarily driven by proper soil test data. This led to under-application of potash on the Company's cropping area. Potash is very important for water relationships within plants. Low levels of potash in the soil have therefore compounded drought stress problems in the past. Approximately 70 thousand hectares with low potash

and/or phosphate levels have been normalized since the corrective measures started in the autumn of 2011. Additional sulphur is also applied to crops where soil and crop data show a significant yield response and an economic benefit. Fertiliser mix is applied to responsive crops, with the application rates based on results of soil tests from 2012 and 2013.

Weed management through glyphosate application

Prior to 2011, substantial areas of crops suffered from heavy bindweed populations, as illustrated by the photograph below. According to research, field bindweed can reduce wheat and barley yields by up to 30% and 65% respectively. Over 200 thousand hectares were sprayed with glyphosate before and after the 2011 harvest (about 5 times the average area in previous years). Another 110 thousand hectares were sprayed in 2012, which has corrected the immediate problem areas. Going forward, application levels will normalize at a lower level. In 2013, glyphosate was applied for general weed control, including bindweed, on a field-by-field basis.

Seed Management

Due to the lack of high quality varieties suitable to the specific climatic conditions in the areas of the Company's operations, BEF uses a high proportion of home grown crops for seeding. Management of internally grown seed crops has improved significantly with appropriate site selection, better weed control, applications of additional fungicides and micronutrients, all targeted at increasing seed quality.

The effects of these measures to remove crop yield constraints will come through only gradually over a 2-3 year period and once all the problems have been corrected. Getting the maximum yield potential from the soil before a



Spreading Lime to Correct Soil pH-levels



Deep Cultivation to Relieve Soil Compaction



Bindweed Infested Crop



Glyphosate Treated Field to Control for Weeds

crop goes in the ground is critical to lifting productivity. The progress made so far is expected to be supportive of 2014 yield potential and crop productivity.

Organisational Education/Training and Farm Cluster Management

Another part of lifting average crop yields and reducing the variance in crop yield between fields is minimizing management mistakes and improving operational decision making.

Historic crop yield performance among BEF's fields points to a very high level of variance. To address this, the initial focus was on ensuring that the right machinery and managerial capacity was in place to ensure that operations are performed well and on time. Management capacity has been strengthened substantially at the regional level to reduce the area that any single manager is responsible for and also to increase accountability. During 2012, BEF completed the first full year of an in-house trials program in partnership

T1: Harvest Area Breakdown

(Hectares)	2007	2008	2009	2010	2011	2012	2013	2014E
Winter wheat	16,805	48,636	84,698	72,677	93,627	73,912	73,702	30,747
Spring wheat.....	n/a	4,339	3,824	10,157	13,093	4,368	3,412	5,947
Spring barley.....	20,180	42,638	43,053	13,793	26,535	22,718	21,850	20,297
Corn maize.....	1,215	9,950	8,084	8,592	6,149	26,003	36,814	71,917
Winter triticale.....	n/a	n/a	2,740	302	n/a	n/a	n/a	n/a
Total Grains	38,200	105,563	142,399	105,521	139,404	127,001	135,778	128,908
Winter rape	5,005	875	7,045	536	n/a	n/a	n/a	211
Spring rape	7,035	13,149	7,132	29,051	33,494	36,597	31,436	19,843
Sunflower.....	2,541	19,378	26,466	36,761	46,518	33,218	28,997	44,994
Soya.....	n/a	n/a	n/a	7,899	7,863	18,187	18,682	19,196
Total Oilseeds	14,581	33,402	40,643	74,247	87,875	88,002	79,115	84,244
Sugar Beet.....	n/a	n/a	n/a	n/a	1,621	5,085	8,822	n/a
Potatoes.....	n/a	n/a	n/a	n/a	n/a	31	196	870
Total Commercial Area.....	52,781	138,965	183,042	179,768	228,900	220,119	223,911	214,022
<i>Other/Forage crops</i>	<i>670</i>	<i>2,968</i>	<i>381</i>	<i>1,013</i>	<i>1,951</i>	<i>1,675</i>	<i>1,721</i>	<i>3,434</i>
Total harvest area.....	53,451	141,933	183,423	180,781	230,851	221,794	225,632	217,456

T2: Average Net Crop Yields

(Tons/hectare)	2007	2008	2009	2010	2011	2012	2013
Winter wheat	2.9	4.1	3.3	1.9	2.4	2.1	3.3
Spring wheat.....	n/a	2.9	2.1	1.4	1.6	2.6	1.9
Spring barley.....	1.9	3.3	2.8	1.4	1.9	2.4	2.6
Corn maize.....	2.8	2.3	3.1	0.6	4.9	5.1	4.3 ¹
Winter triticale.....	n/a	n/a	2.2	0.7	n/a	n/a	n/a
Winter rape	1.2	1.6	1.4	0.5	n/a	n/a	n/a
Spring rape	0.8	1.3	1.2	0.5	1.1	1.3	0.9
Sunflower.....	1.6	1.3	1.7	0.8	2.0	1.9	2.0
Soya.....	n/a	n/a	n/a	0.2	0.9	1.2	0.9
Sugar beet.....	n/a	n/a	n/a	n/a	25.6	25.3	24.3
Potatoes.....	n/a	n/a	n/a	n/a	n/a	33.2	33.9

1. By the end of harvest, February 2014

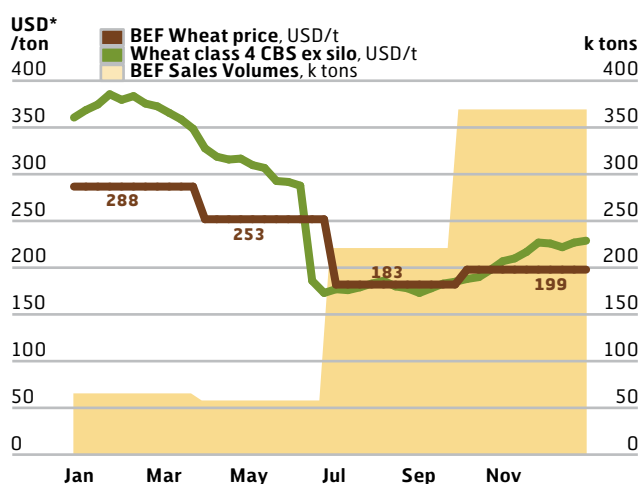
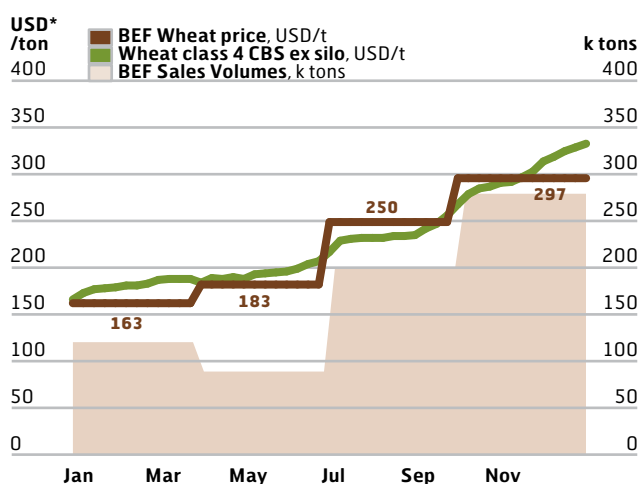
T3: Net Harvest Volumes

(Tons)	2007	2008	2009	2010	2011	2012	2013
Winter wheat	48,093	201,377	280,648	137,703	220,608	157,571	245,711
Spring wheat.....	n/a	12,472	7,863	13,791	21,187	11,495	6,573
Spring barley.....	38,466	138,752	122,375	19,595	49,166	55,074	55,429
Corn	1,335	22,651	25,251	5,152	29,989	132,829	158,986
Winter triticale.....	n/a	n/a	5,930	211	n/a	n/a	n/a
Total Cereal Grains.....	87,894	375,252	442,067	176,451	320,950	356,969	466,699
Winter rape	6,083	1,395	10,014	246	n/a	n/a	n/a
Spring rape	5,647	16,657	8,470	15,497	36,887	46,052	28,113
Sunflower	4,126	25,285	45,580	28,904	92,805	62,759	57,970
Soya.....	n/a	n/a	n/a	1,818	7,114	22,364	16,006
Total Oilseeds	15,856	43,337	64,064	46,465	136,806	131,175	102,089
Sugar beet.....	n/a	n/a	n/a	n/a	41,531	128,405	214,720
Potatoes.....	n/a	n/a	n/a	n/a	n/a	1,029	6,644
Total Commercial Crops....	103,749	418,589	506,131	222,916	499,287	617,578	790,152
<i>Other/Forage crops</i>	<i>2,659</i>	<i>22,928</i>	<i>3,381</i>	<i>3,686</i>	<i>14,597</i>	<i>13,213</i>	<i>3,012</i>
Total Output.....	106,408	441,517	509,512	226,602	513,884	630,791	793,164

with BASF. The trial data has been used to drive crop production decision. Education and training programs have also been implemented to support operational planning and execution. This effort has intensified at all levels of operations in 2013 to improve technical decision making and operator performance. Priorities for 2014 include GPS tracking and field mapping as well as the introduction of an improved crop monitoring and recording system. This will provide real time information on operational progress against plan.

An audit of the current spraying systems has highlighted areas of weakness and a range of corrective measures are underway to improve water logistics, spray water volumes and other problems identified in the audit. These initiatives to increase competence and improve management information are expected to improve decision making and operational efficiency.

D4: BEF Quarterly Average Realised Wheat Price & Sales Volume vs. Market Development, 2012 (left) and 2013 (right)



Terms of Delivery

Producers	EXW	CPT	FOB	International consumers
 + Cost + Producers' margin	 + Transportation + Traders' margin	 + Port charges + Custom duties + Traders' margin	 + Freight + Insurance + Traders' margin	
Main Sellers				
Domestic producers	+	+	-	-
Domestic traders	+	+	-	-
International traders	-	-	+	+
Main Buyers				
Domestic consumers	+	-	-	-
International consumers	-	-	+	+
Domestic traders	+	+	-	-
International traders	+	+	+	+

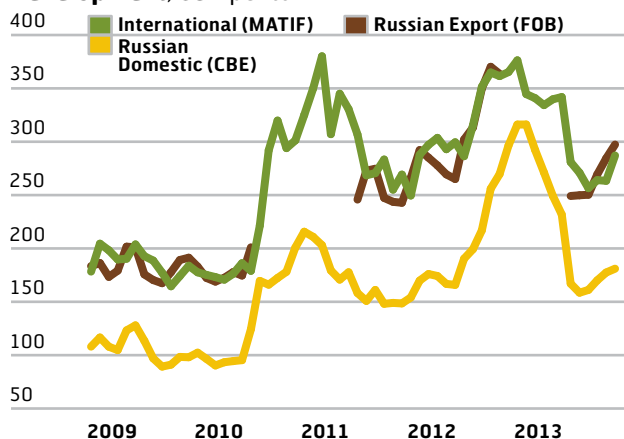
Crop Handling & Storage Logistics

Improvements in crop handling and logistics were critical towards making progress in operational performance in the 2013 season. Higher production volumes were accompanied by greater logistical challenges but also met by improved performance in harvest and post-harvest logistics. Implementation of GPS monitoring and Telemetry technologies are expected to further increase crop and harvest information flow to support decision making and crop handling logistics. Centralized management of harvest, crop handling and storage logistics as well as real time information is key to maintain a proper level of control over some 20 harvesting teams and 40 storage sites across the Company's operations. The 2013 focus on logistics, drying and storage meant that all dryers, at both farms and elevators, operated at a much higher level of efficiency which resulted in a significant improvement in handling capacity utilisation. This, in turn, ensured that sales prices were realized at market levels and that previous problem of price discounts due to poor quality were reduced in 2012 and 2013. Diagram D4 illustrates the sales prices and volumes for wheat during 2013 vs. market prices compared with 2012.

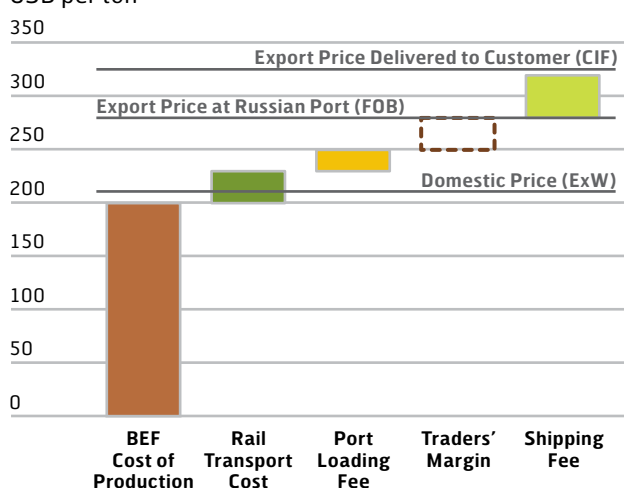
Sales & Marketing

Russia lacks a functioning domestic physical forward or futures market. The high levels of unreliable counterparties can result in substantial price discounts for most types of offered forward contracts. Historically the majority of sales were therefore executed domestically on the spot market. The list of customers generally varies from world scale brewers and maltsters, oil crushers, large domestic consumers and international grain traders. The majority of sales were conducted on an ex-works basis i.e. the buyer organises transport to collect crops at the Company's farm gate. This left the Company exposed to the high volatility of local spot market prices for agricultural commodities with limited possibility to manage price risk. In order to mitigate these risks BEF has focused on establishing long term relationships with quality counterparties both internationally and domestically to facilitate price risk management. Significant progress was made in this area in 2012 and 2013. The cooperation agreement signed with PepsiCo in October 2012 has been crucial to improve domestic price risk management as it offers opportunities to fix prices in advance for significant quantities of BEF's production. The company also hedges its production using CBOT (Chicago Board of Trade) and MATIF futures, locking in forward prices when physical sales are not possible. The internal elevator capacity with direct rail access enables export capability which is crucial not only for realizing higher prices but also for managing price risk by locking in prices via forward sales to international counterparties. Contract terms including loading, transport and longer distance delivery via rail to the customer are covered by the price pick-up. The Company views the ability to internalise the trade margin from producer to end customer as a key competitive advantage, especially in Russia, where

D5: January 2009–December 2013 Wheat Price Development, USD per ton



D6: BEF Crop Cost Value Chain, USD per ton



this margin is abnormally high by international standards. Sales including transshipment also enable consolidation of larger volumes of crops with specific qualities facilitating larger and better priced contracts. In 2013 BEF executed 135 thousand tons of direct export sales to customers in Europe, Scandinavia and elsewhere (South Africa). Wheat represented approximately 18% of exports and corn 61%, with the remainder consisting of rapeseeds, barley and soybeans. The company has long term export supply agreements for wheat (Spain), non GMO soya (Norway) and Oilseed Rape to European crushers (mostly Germany). For the crop year 2013/14, the company expects to export some 180,000 mt in total via the Baltic port of Liepaja, all loaded and shipped by rail from the company's elevators on wagons contracted directly from reliable rail operator. In December 2013, the Company established Black Earth Trading International Ltd. in Guernsey, a fully owned subsidiary, to facilitate export sales and support international customer relationships. Black Earth Farming is currently registered for sustainability (ISCC) for both Oilseed rape and Corn, thus capturing a further premium for these commodities.



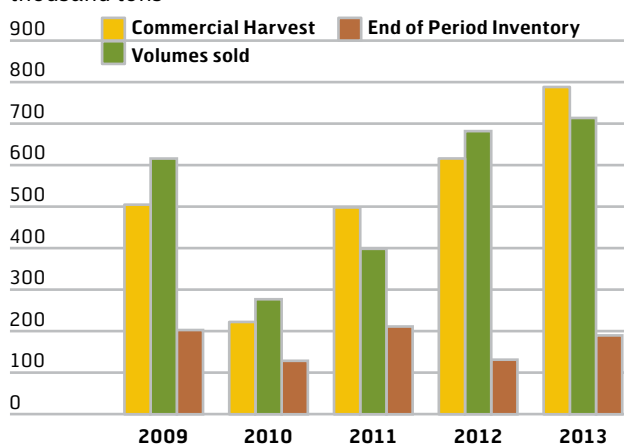
2013 Financial Review

Despite some operational improvements, 2013 was a disappointment for Black Earth Farming as the Company recorded full year net loss of USD* 44.7 million. Total revenue and gains decreased 30% y-o-y, despite of record high harvest and sales volumes, as agricultural commodity prices dropped throughout the year. Both external and internal factors contributed to an operating loss of USD* 29.8 million in 2013 versus an operating profit of USD* 18.5 million in 2012.

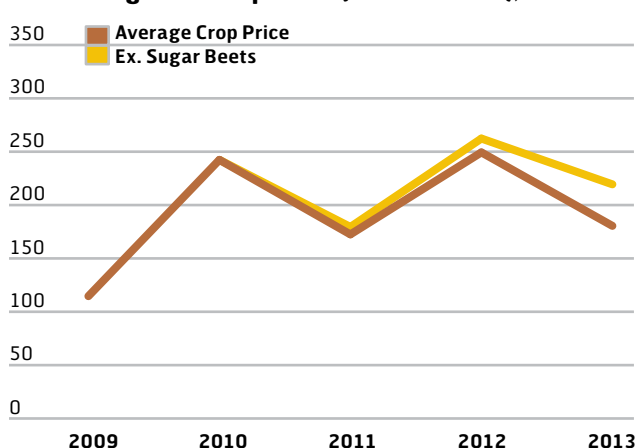
Revenue

2013 revenue was negatively affected by lower than expected spring crop yields and reduced crop prices. Late harvest crop quality was also negatively affected by challenging harvesting conditions. Revenue captures actual sales during the financial year, both on 2012 crop carry-over inventory sold in 2013, and 2013 crop sold in 2013. Revenue from goods sold in 2013 declined -3% y-o-y to USD*132 million as average sales prices dropped -8% while volumes sold grew 5% to 715 thousand tons. High prices on 2012 crop carry-over inventory sold in 1Q13 lifted the average 2013 sales price. Prices however dropped through the year, with an average -23% drop in blended prices on 2013 crop sold in 2013. While prices remained relatively high in 1Q13, realized prices on 2012 carry-in inventory sold in 2013 were down on average -19% from the December 31 book value, resulting in a USD* 7 million net loss in 1H13 (vs USD* 1 million uplift in 2012). Prices continued to fall through the first three quarters of 2013 on ample global grain production and prices stabilized only in 4Q13. 2013 harvest volumes were up 28% y-o-y on higher yields but also due to changes in the crop production mix, notably with a higher share of sugar beet. Greater inventory carry-in from 2011 for sales in 2012 and greater inventory carry-over from 2013 for sales 2014, held back the corresponding sales volume growth to 5%. 190 thousand tons, or 24% of the 2013 harvest, was held in inventory at year-end for sales in 2014, compared to 132 thousand tons, or 21% of the 2012 harvest, at year-end 2012. Wheat (34%) and corn (23%) had the biggest revenue shares in 2013 sales, but also saw big price drops in 2H13 (-20% and -18% y-o-y respectively). Higher priced oilseed crops, including sunflower, rape and soya constituted 37% of total sales. Sugar beets, which is a higher yielding but lower priced crop, represented 30% of harvest volumes but only 8% of 2013 revenue. The average blended annual and quarterly prices are significantly affected by the sales crop mix, with for example sunflower sales lifting an average unit price, but sugar beet lowering the average sales price.

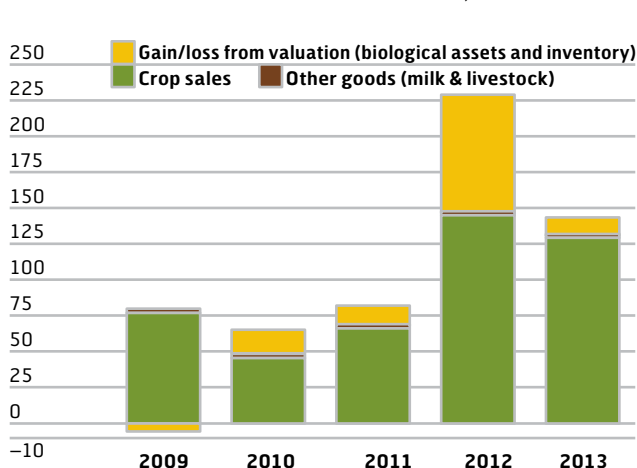
D1: 2009–2013 Production, Sales and Inventory, thousand tons



D2: Average BEF Crop Price (Harvest Year), USD*/ton



D3: Total Revenue & Gains 2009–2013, million USD*



* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

T1: Revenue and Result per Hectare (Harvest Year¹)

	2008	2009	2010	2011	2011 ex. SB ²	2012	2012 ex. SB ²	2013	2013 ex. SB ^{2,3}
Average Net Crop Yield, tons (sold)/ha	2.9	2.7	1.1	2.1	2.0	2.7	2.2	3.5	2.6
Average Price, USD*/ton	129	115	243	173	180	250	263	181	220
Revenue per Hectare, USD*/ha	372	309	269	368	364	685	671	633	619

1. Harvest year differs from calendar year as crops are seeded in autumn and spring and harvested the following summer and autumn with sales undertaken up until the next harvest.

2. SB refers to Sugar Beet.

3. Realized sales and mark to market of crop inventory a/o 31 December 2013.

Gain/Loss on Revaluation of Biological Assets and Inventory

The Company's biological assets, which mostly capture work in process and crop in field, and its crop inventory in storage, are estimated at fair and net realisable value respectively in the company's financial position. Changes in valuation flows through the income statement in Gain on revaluation of biological assets and Change in net realizable value of agricultural produce after harvest. The gain on biological assets is derived by using final harvest volumes multiplied by market prices at the time the crop was harvested, which differs per crop, less incurred production costs and expected selling expenses. After harvest, the income statement is affected via change in net realizable value driven by market price developments affecting the crop inventory value. When crop is sold and revenue is recognized, the book value of crop in inventory or the fair value estimate of the biological asset, if recorded in biological assets as of the start of the reporting period, is recognized as cost of goods sold, with the gross result reflecting whether or not the crop was sold above or below its book value.

Total revenue and gains of USD* 144.6 million in 2013 includes gains from revaluation of biological assets in the amount of USD* 12.8 million, representing 9% of total revenue. That compares with a USD* 69.0 million gain, or 33% of total revenue and gains, for the same period in 2012. Including changes in valuation of crop inventory, the total valuation uplift on 2013 crop was USD* 13.0 million, compared to USD* 71.8 million in 2012 (USD* -58.8 million y-o-y). Significantly lower crop prices in 2013 resulted in a lower 2013 crop value compared to 2012, which is the key driver of the reduced 2013 gross result versus 2012.

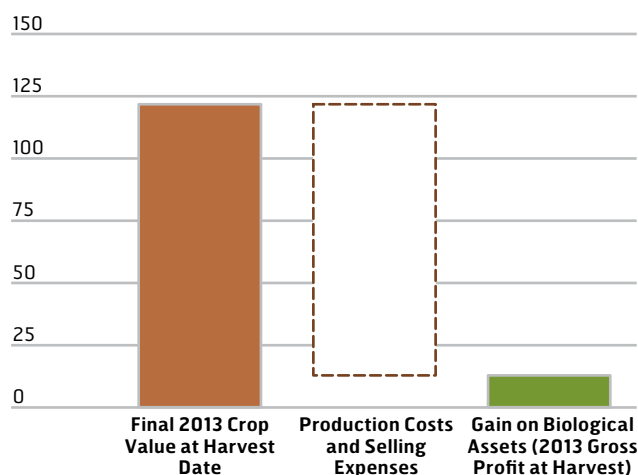
190 thousand tons of crops harvested in 2013 were held in inventory as of 31 December 2013, with 61% of the volumes consisting of corn, 10% sunflower 11% wheat and 15% barley. Market and sales contract prices (excluding 10% VAT) detailed in table T2 have been used to determine the net realizable value of USD* 35.6 million. The revaluation of finished goods inventory resulted in a USD* 0.2 million gain during 2013 compared to 2.8 million in 2012 as a result of less favourable market price developments for 2013 crops in inventory post-harvest. As of the reporting date, biological assets consisted mainly of costs incurred for seeding of winter crops to be harvested 2013 amounting to USD* 17.6 million.

T2: 2013 Quarterly Sales Volume & Crop Inventory

	4Q 2013	Quarterly Sales			Crop in Inventory	
		3Q 2013	2Q 2013	1Q 2013	31 Dec 2013	31 Dec 2012
Volume, k tons						
Wheat	86.0	134.6	7.7	1.9	20.6	10.7
Barley	6.6	21.3	14.0	8.9	27.8	23.9
Corn	38.3	0.5	11.0	34.3	116.9	50.0
Rape	19.9	7.0	0.1	2.0	2.0	2.4
Sunflower	39.1	0.2	25.2	15.5	18.9	40.9
Soya	12.2	0.4	0.2	2.4	3.0	3.2
Sugar beet	161.9	52.8	0.0	0.0	0.0	
Other (seeds/forage)	2.4	4.7	0.0	0.6	1.4	0.6
Total Tons	370.0	221.4	58.0	65.6	190.3	131.8
Price, USD*/ton						
Wheat	199	183	253	288	220	298
Barley	158	156	217	208	221	244
Corn	163	216	200	217	176	241
Rape	396	342	478	485	470	486
Sunflower	318	423	436	399	373	474
Soya	467	482	444	453	558	458
Sugar beet	49	45			n/a	
Other (potatoes, peas)	74	-	0	148	302	
Average Price	160	154	312	278	186	298

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

D4: 2013 Gain on Biological Assets, USD* million



Cost of Sales

The company estimates the fair value of its biological assets, which mostly captures work in process and crop in field, by using relevant market prices and deducting expected sales cost. The Company also holds crop inventory in storage at net realizable value as estimated by observable market prices or at contracted sales prices. When crop is sold and revenue is recognized, the book value of crop in inventory or the fair value estimate of the biological asset, if recorded in biological assets as of the start of the reporting period, is recognized as cost of goods sold. The cost of sales for 2012 crop held in the 2013 opening inventory and sold in 2013 therefore constituted the estimated market value of this crop as of 31 December 2012. The cost of sales line in the income statement therefore includes both actual cost of sales in terms of input materials and other direct and indirect costs attributed to a certain crop, as well as valuation adjustment to these costs. The difference is detailed in Note 8 to the financial statements.

Black Earth Farming's production cycle commences with seeding of winter crops during the fall in the prior calendar year and includes several stages of field works until the harvest period commences in July through October depending on crop (please see diagram D10 on page 34). Historically, approximately 30–40% of costs have been incurred in the fall of the preceding calendar year as winter crops are seeded and fields are cultivated in the autumn, but this depends on the field works and the relative weight of the winter crops in the overall crop mix. The remaining 60–70% is incurred during the spring and summer in the same calendar year as part of the spring seeding, followed by field works and harvest. Thus, it is only for every new harvest (i.e. production cycle) that the company can affect the actual costs of production. The cost of production is also affected by the crop mix, as different crops have different levels of cost intensity.

Total 2013 production costs increased as the crop area included a higher share of more intensive crops such as corn, potato and sugar beet, which cost more to produce on a per hectare basis. Like for like direct cost per hectare increased

from a combination of input price inflation, increased application rates and higher prices for certain key inputs such as fertilizer, seeds, sprays and fuel as well as from continued corrective measures to raise crop yield potential.

Other Cost and Expenses

Distribution expenses were up 44% y-o-y to USD*20.7 million on 40% higher export volumes, with higher related transportation costs. The company estimates a positive net-back margin on its export sales. G&A costs were down 2.1% y-o-y, mostly on lower third party services but also helped by a weaker ruble. Indirect costs that are unrelated to crop yield performance are being reviewed with a target to reduce overhead costs. State grants and subsidies more than doubled to USD* 3.5 million in 2013, partly as a result of a changing basis for state support. The Company's crop insurance is shown net of subsidy. Just over one third of the Company's crop insurance was subsidized by Russian Federal and regional authorities. In other expenses, the company posted a USD* 4.1 million gain on its grain hedging positions, partly offset by a USD* 0.9 million loss on foreign exchange forwards. Financial expenses were stable as transaction costs and expenses related to the refinancing of the Company's outstanding bonds were offset by the interest saved on the Company's Treasury bond position. The company carried a USD* –3.8 million loss on foreign exchange translation in 2013 (vs. a gain of USD* 1.3 million in 2012) as the Russian ruble weakened 7.4% against the Swedish krona, increasing the Company's SEK bond loan against its ruble functional currency. Adjusting for expenses related to the sales channel, foreign exchange loss and for extraordinary costs, the Company's total cost per ton basis were down –11% y-o-y.

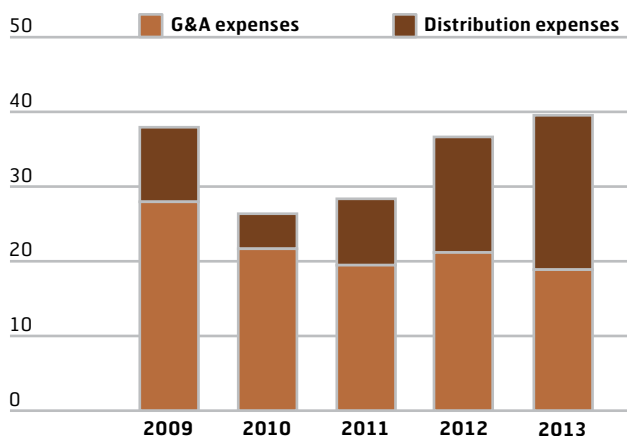
Result

Declining crop prices was the key driver behind the deterioration in financial performance in 2013, compared to 2012. A global record harvest during 2013 exerted pressure on international prices for grains and oilseeds, which, combined with a strong Russian harvest, also translated into weaker domestic prices. In addition, adverse weather conditions in 2H13 negatively impacted late crop yields and, although improved harvest logistics contained negative effects, challenging harvesting conditions also negatively impacted crop quality. The 2013 operating result worsened significantly compared to the previous year as highlighted in diagram D7, mainly due to the gross result, which is very sensitive to crop price movements through the year, which affect not only sales revenue but also the valuation of biological assets and inventory (both crop standing in fields and crops in storage) between reporting dates.

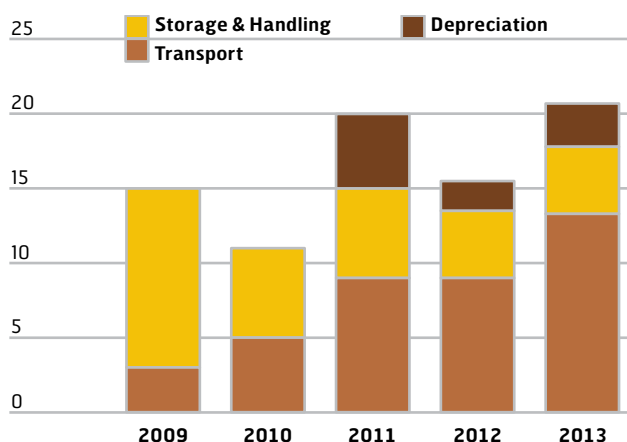
While prices remained relatively high in 1Q13, realized prices on 2012 carry-in inventory sold in 2013 were still down on average –19% from the December 31 book value, implying a USD* 7 million net loss in 1H13 (vs USD* 1 million profit in 2012). Prices continued to fall throughout the first three quarters of 2013 on ample global grain production and prices

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

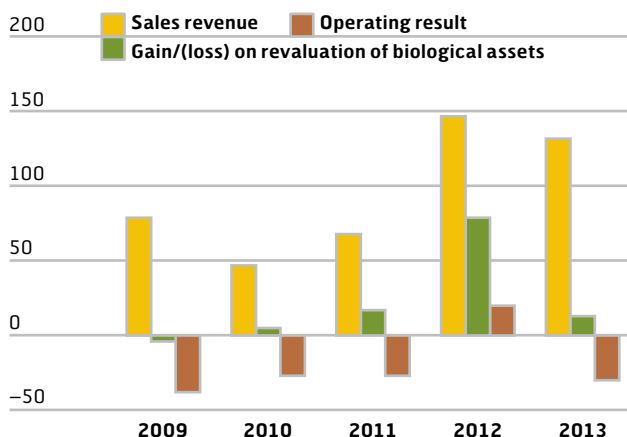
D5: G&A and Distribution Expenses, USD* million



D6: Distribution Expenses Breakdown, USD* per ton sold



D7: 2009–2013 Revenue & Operating Result, USD* million



stabilized only in 4Q13. 2013 crop volumes sold by the company in 2H13 were up 24% y-o-y but market prices dropped an average -23% in 2H13. While prices stabilized towards year-end, prices for inventory valuation were off more significantly y-o-y (-34% for corn, -33% for wheat and -18% for barley y-o-y). As a result, the total valuation uplift, including both revaluation of biological assets and inventory, of the 2013 crop was USD* 13.0 million, compared to USD* 71.8 million in 2012 (USD* -58.8 million y-o-y), with a USD* 45.3 million y-o-y difference in gross profit, from USD* 51.3 million in 2012 to USD* 6 million in 2013, after accounting for revaluation effects in costs of goods sold. This explains most of the USD* 51.4 million difference in net result y-o-y as volume improvements could not offset cost growth and lower prices. Higher distribution costs also pressured the result and the USD* 4.1 million gain on the company's forward positions did not provide sufficient cushion to the operating loss of USD* -29.8 million (vs USD* profit of 18.5 million in 2012). 2013 EBITDA stood at USD* -11.4 million compared to a positive EBITDA of USD* 36.7 million in 2012. The net result of USD* 44.7 million loss (vs USD* 6.6 million in 2012) for 2013 also includes a USD* 3.8 million foreign exchange translation loss (vs a USD* 1.3 million gain in 2012) on the Company's debt, denominated in Swedish krona.

T3: Summarized Income Statements 2009–2013

USD ¹ million	2009	2010	2011	2012	2013
Total Revenue	75.2	63.5	82.3	208.0	144.6
Gross Result	(1.1)	9.3	2.8	51.3	6.0
Operating Result	(38.2)	(27.2)	(26.8)	18.5	(29.8)
Net Result	(44.4)	(38.5)	(44.2)	6.6	(44.7)

1. All the period ruble values converted at the end of the year RUR/USD FX rate for the respective periods.



* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

Assets

Since inception Black Earth Farming has invested in (a) acquiring and registering farm land into ownership, (b) a large fleet of western agricultural machinery and (c) supporting storage infrastructure for the Company's operations. The majority of the investments required for the current land bank have been undertaken and future capital expenditures will mainly be driven by machinery replacement needs as well as improving the throughput and efficiency of the storage sites. In addition, the Company expects to invest in expansion of its irrigated root crop business.

Fixed Assets

Fixed assets of USD* 176.7 million predominantly comprise of PP&E (property, plant and equipment), namely buildings (mainly storage facilities), land held at acquisition cost as well as 100% owned machinery and equipment used in crop production. Costs for PP&E items have generally been incurred locally in Russian Roubles whereby the vast majority of the Company's fixed assets are denominated in the local currency.

Land

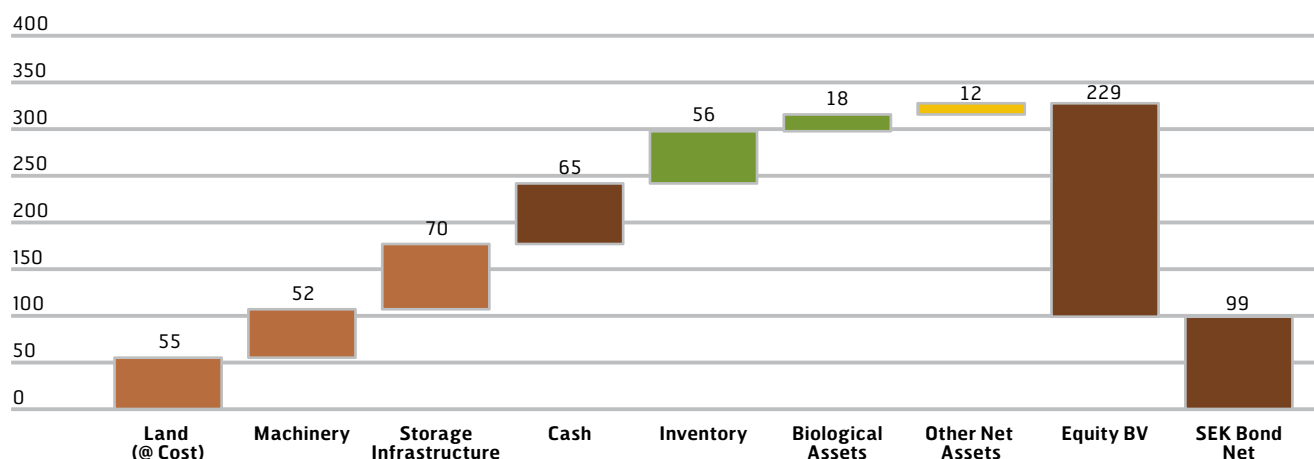
Land is recorded at acquisition cost but the Company believes that Russian agricultural land remains undervalued, both in comparative terms and in relation to its inherent production potential. 12.8 thousand hectares in Samara, where operations ceased in 2009, was reclassified in the statement of financial position as investment property during Q4 2013. As of 31 December 2013, the Company had a total of 308 thousand hectares under control. 282 thousand hectares, that was not classified as prepayment or investment property, is recorded at acquisition cost in the state-

ment of financial position at a value of USD* 54.7 million¹. Unlike other fixed assets, land does not depreciate in value over time. In the Company's view, there is potential for a revaluation of Russian agricultural land going forward as the sector develops towards higher standards in terms of both production and profitability and a more transparent secondary market for farm land emerges. During the past two years several larger transactions of Russian farmland have taken place in regions of Russia proximate to the Company's main assets indicating valuations of USD* 500 to 1000 per hectare. Black Earth Farming is focused on increasing production potential and generating cash flows from its assets to unlock land value. The Company is also actively looking at opportunities to optimize its land bank by selling less profitable areas and consolidating more productive regions.

Inventory and biological assets

190 thousand tons of crops harvested in 2013 were held in inventory as of 31 December 2013, with 61% of the volumes consisting of corn, 10% sunflower, 11% wheat and 15% barley. Market and contracted sales prices (excluding 10% VAT) detailed in table T2 were used to estimate a net realizable value of USD* 35.6 million of this inventory. In addition USD* 20.5 million of raw materials and consumables resulted in a total inventory value (excluding biological assets) of USD* 56.1 million. As of 31 December 2013, the company had biological assets of USD* 17.6 million, which mostly consisted of winter crops to be harvested in 2014. This is significantly lower than the USD*30.7 million in 2012. This is due to a significantly lower winter wheat crop area going into 2014, as well as a lower spend in the fall of 2013 on initiatives to increase yield potential.

D8: Simplified Balance Sheet
a/o 31 December 2013, USD* million



1. On 4 April 2014, the Company announced plans to sell 27,754 hectares of controlled land and related real estate assets in the Voronezh region. Refer also to note 36 to the financial statements on Subsequent events

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

Financial Position

The company had USD* 64.9 million in cash as of 31 December. On its opening balance, the company also had crop inventory valued at an estimated USD* 35.6 million, intended for sale in 1H14. On 30 October 2013, the company refinanced its outstanding 2014 bond with a new four year SEK 750 million bond, extending maturity to 2017. As of December 31 2013, the company held approximately SEK 100 million of the bonds on its balance sheet. The company's net debt position (Total interest bearing debt less cash) as of 31 December 2013 amounted to USD* 34.5 million. Total debt to equity ratio reached 43%. The Company is actively looking at opportunities to attract subsidized Russian bank funding in a credit facility for working capital purposes.

Cash Flow

Cash flows from farming operations are highly seasonal and can vary greatly from quarter to quarter. The majority of cash outflows relating to direct operating costs and capital expenditures arise during the first half of the calendar year while revenue inflows commence post-harvest from July and carry into the following calendar year. Due to the accounting practice to revalue biological assets and inventory and take gains or losses through the income statement, there is significant discrepancy between the profit and loss and the cash flow statement.

Despite a USD* 51.4 million drop in net profit y-o-y, operating cash flows after working capital changes were stronger in 2013 than in 2012 (USD* 12.6 million vs USD* 8.6 million). This is partly due to the decrease in investment in biological assets (preparatory field works and winter crops for harvest in next financial year). The gap between profitability and cash flows however also reflects the fact that, while

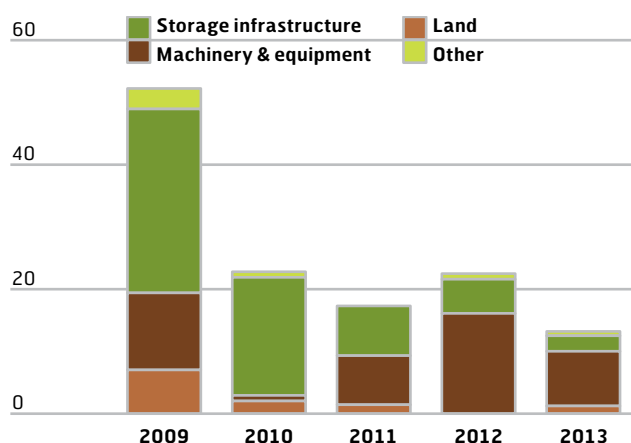
the carry-in 2012 crop inventory was sold at a USD* 7 million gross loss off the 31 December 2012 book value, it generated USD* 36.6 million of cash proceeds in 1H13. In light of the weak prices in 2013, the company paced its capital expenditure, with net investments into predominantly machinery of USD* -12.1 million in 2013 substantially lower than the corresponding USD* -19.9 million invested in 2012. As a result, the Company was cash flow positive before interest payments and financial activities. Net interest payments of USD* -13.6 million were higher than in 2012 due to the refinancing and early redemption on the company's outstanding bonds. In 2Q13, the company repurchased USD* 5.6 million of its own bonds. Total net cash outflows for 2013 were USD* -19.6 million.

Biological Assets

Biological assets are recorded in the statement of financial position as an estimated value of crops in fields. A way to look at biological assets is as a work in process (WIP) inventory. Depending at what stage of the growth cycle the crop is in, the value is estimated either by incurred costs for field works (cultivations, seeding, fertilizer spreading, herbicide spraying etc.) or an estimate of revenue (harvest volume and price per crop) less production and selling expenses. The revaluation of biological assets is performed in accordance with the requirements of IAS 41 Agriculture which states that a biological asset shall be measured on initial recognition and at each balance sheet date at its fair value less estimated point-of-sale costs.

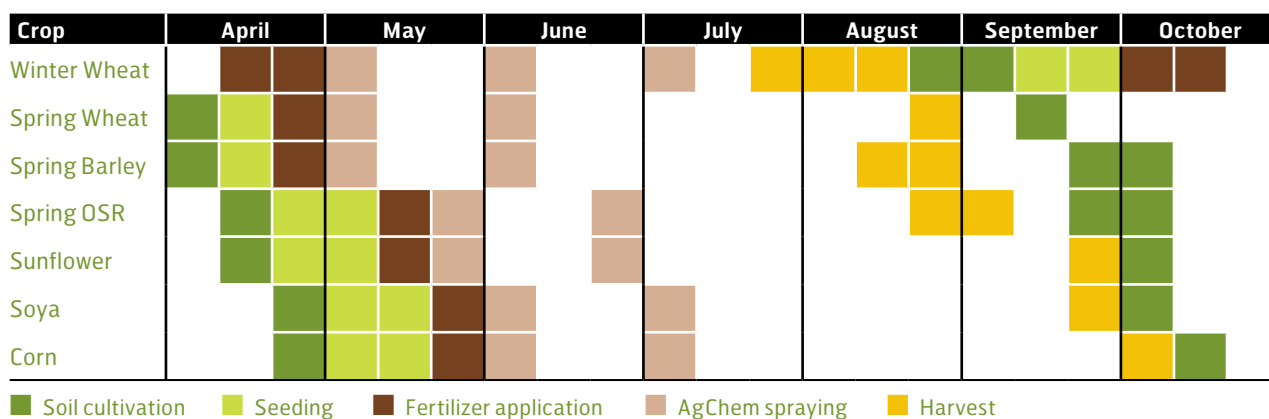
Black Earth Farming values crops in the fields at incurred costs up until 30 June each year. At that point sufficient germination (biological transformation) has occurred, enabling estimates of crop yields and market prices less point-of-sale costs to determine an estimate of fair value at the time of harvest. The initial revenue estimate is attached a readiness percentage in the range 50–70% a/o 30 June depending on crop and time to harvest as significant risk to crop yield and price remain at the time. After harvest the crops are transferred to finished goods inventory where they are recorded at net realisable value determined by market prices. As 31 December 2013 biological assets consisted mainly of costs incurred for winter crops to be harvested in 2014 amounting to USD* 17.6 million.

D9: Capital Expenditures 2009–2013, USD* million

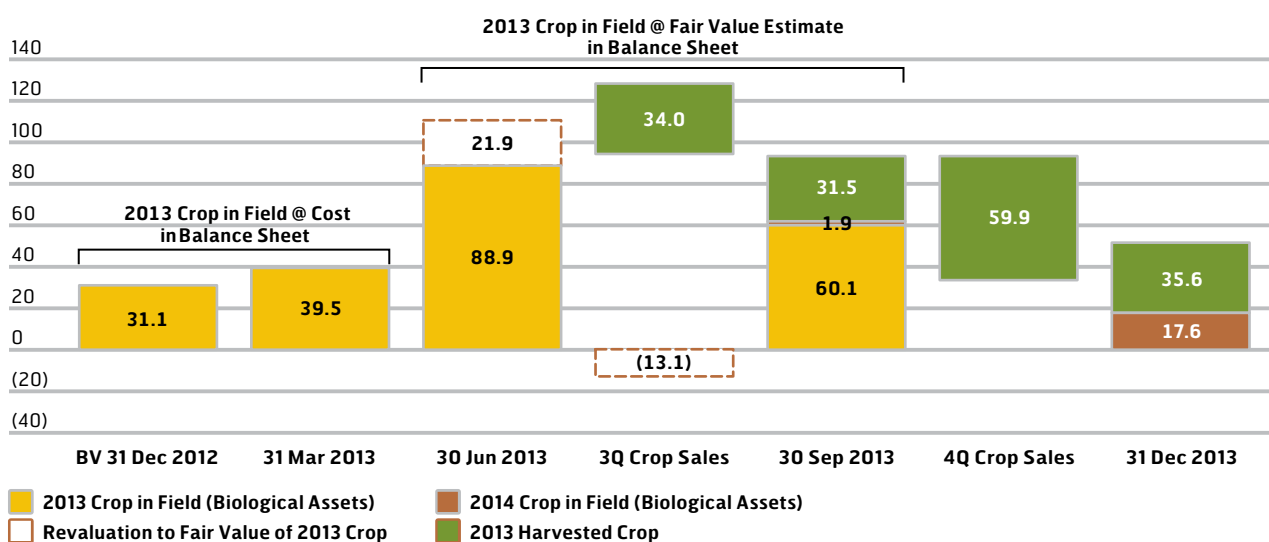


* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

D10: Farming Schedule (one crop year)



D11: 2013 Crop Value in Statement of Financial Position, USD* million



* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

Risks and Sensitivity Analysis

Black Earth Farming is exposed to a number of different risks as a land owner and crop producer. In addition, the company faces challenges specific to its geographical area and business model. These risks can be divided into three main categories: operational, market related and financial.

The recent years have highlighted the inherent volatility of the farming business due to the significant effects of crop volumes and prices on revenue and profitability. The Company's operating regions are also highly exposed to weather events, which can have negative effects on crop yields and operational costs. Crop prices both internationally and domestically are highly volatile, as short-term shifts in supply and demand balances can cause prices to drop and rise significantly from one year to the next. Crop yield and price volatility are the key two risks in the Company's operating environment and as a producer of agricultural commodities. Meanwhile, the current lack of price hedging mechanisms limits the Company's ability to manage price risks. In addition, lack of modern seed varieties and public or private scientific crop trial data in Russia, reduces the Company's ability to manage crop yield risks. The Company has implemented several strategies to mitigate these key risk factors.

– Operational

Operational risks refer to risks related to the management of the business that are within the Company's control.

– Crop Yields

A range of factors affect the germination of crops in fields, only some of which are within the Company's control. The Company strives to apply agronomical best practices and the appropriate field works to maximize yield and increase the resilience of its crops to adverse weather conditions, pests and fungi. The Company is also committed to recruiting qualified managers and training its staff to ensure that the proper competences are in place for all field operations. The Company is also building an information infrastructure and reporting process to support timely and efficient decision making. Key material inputs and life science data, such as seeds customized for the specific climatic conditions and soil characteristics for certain regions, are not always available for some of Russia's key crops and operating areas. To mitigate such operating challenges and cover information gaps, the Company performs constraint free field trials of different seeds to find and develop high performing varieties internally. Several other initiatives to remove constraints to crop yields, improve crop production potential and mitigate weather and other risks are also underway (see also operational review).

– Infrastructure and Logistics

The ability to safely process (mostly drying and cleaning) and properly store its crop production after harvest is an important factor for BEF to manage risks to the quality and value of its crops. Storage and transport infrastructure in Russia is often outdated and inefficient. The Company has therefore invested in internal infrastructure, capable of covering the processing and storage needs for the majority of its expected harvest year crop volumes. Implementation of GPS monitoring and Telemetry technologies are expected to further increase crop and harvest information flow to support decision making and crop handling logistics. Centralized management of harvest, crop handling and storage logistics as well as real time information is key to maintain a proper level of control over some 20 harvesting teams and 40 storage sites across the Company's operations. As BEF expands its export program, securing adequate rail transport and port handling capacity is crucial to be able to execute and deliver on contracts with international counterparties. To improve visibility on port capacity, cooperation has been established with an international partner at a deep water port on the Baltic Sea. To manage risks of not being able to access sufficient rail throughput capacity, the company has diversified its supplier base by contracting from private suppliers alongside the leading State controlled operator.

– Employees

The Group's management team consists of an increasing number of key individuals and operating specialists. The loss of any key person could have an adverse impact on the Group's performance. The success of the company depends on its ability to attract, retain and motivate appropriate managerial personnel with experience of the Russian agricultural market. Competition for personnel with relevant expertise and willingness to operate in rural areas in Russia is intense, due to the relatively small number of qualified individuals. The Company aims to attract and retain key personnel by providing a competitive and balanced combination of compensation and incentive structures.

– Market Related

Market related risks primarily refer to price and weather risks outside the management's control. These are risks that the board and management have a limited ability to influencing in the short term, but must manage and consider in the longer-term planning of the business.

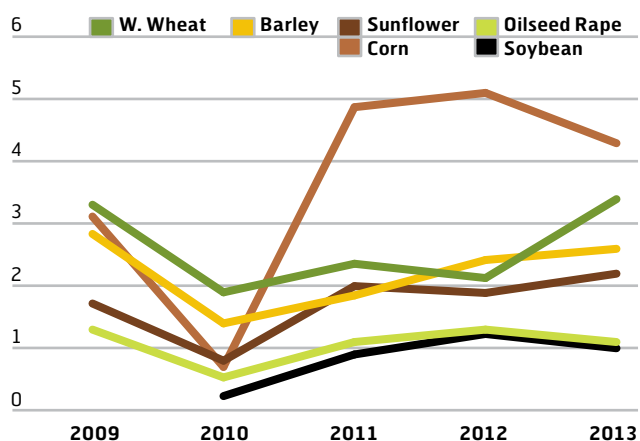
– Weather

i. Seasonal patterns

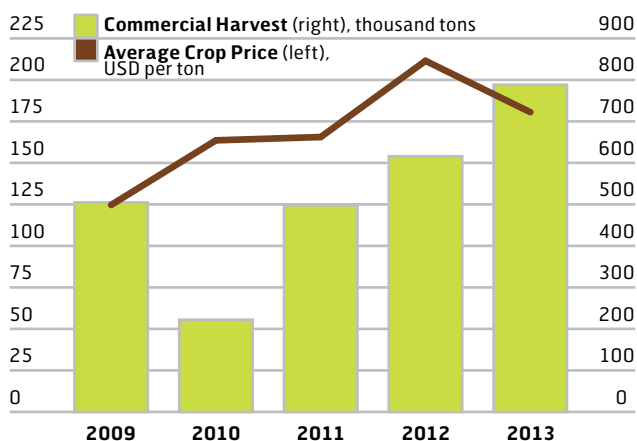
Weather conditions are a significant risk affecting BEF, as the majority of the Company's area is rain fed crop land.

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

D1: 5 Year Yield Development per Crop,
tons per hectare



D2: 2009–2013 BEF Crop Volume and Price Development



Poor seasonal weather conditions (whether too dry or too wet) and unpredictable climatic changes may adversely affect production and the Company's results. The company is continuously developing its agronomical practices and operational decision making to improve timely field works, which can partially mitigate the weather effects on crop yields and crop quality. The inherent volatility relating to weather factors will be still be present but by lifting crop yield potential and removing constraints to yields, the sensitivity of the Company's results to seasonal weather patterns should be reduced over time. Additional measures to reduce sensitivity to weather events include diversifying the crop mix, for example with the addition of as irrigated potato production, to the Company's core business of grains and oilseeds. As in 2013, the Company also intends to use crop insurance in 2014 to hedge against negative effects on crop yields from major regional weather events.

ii. Climate change

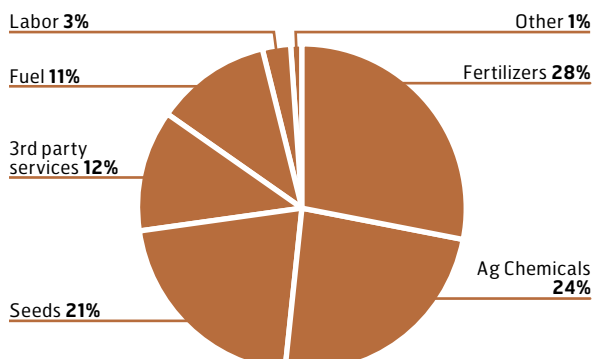
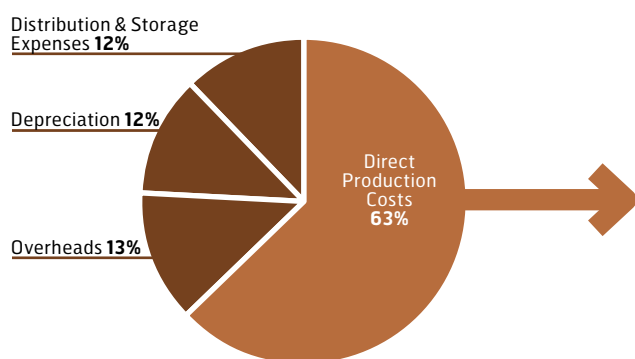
The Food and Agriculture Organization (FAO) of the United Nations expects global warming to have a regional but not a global effect on food production. Current research suggests that the potential for crop production will increase in temperate and northerly latitudes, while it may decline in parts of the tropics and subtropics. That would suggest a longer growing period for crops in the Company's operating regions.

– Commodity Prices

i. Crop Prices

Market prices of agricultural commodities are influenced by a variety of unpredictable factors, most of which are beyond the control of the company. These include, weather, global cropping plans, government agricultural policies and changes to global demand and supply of similar and

D3: Breakdown of Operating Costs (left) and Direct Production Costs (right), Production Year 2013



* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

competing crops. The markets available to hedge price fluctuations via physical forward sales or using financial instruments remain underdeveloped in Russia, where a majority of sales transactions are still conducted on a spot basis. The Company's export program is a key initiative in this area. The export program serves not only to diversify sales and target an export netback margin, but also to facilitate forward pricing and to develop customer partnerships based on long term contracts. The Company is also actively seeking to develop longer-term supply contracts with reliable domestic counterparties. In October 2012, BEF signed a cooperation agreement with PepsiCo in Russia as part of this strategy to establish longer term relationships to manage price and volume risks. The Company intends to expand this type of arrangements and has long-term forward contracts with other counterparties as well.

Where forward sales are not possible, the Company may make use of hedging instruments. In 2013, the Company's took positions in futures and options on international exchanges in Paris (MATIF) and Chicago (CBOT). The Company's hedging activities primarily serves to lock in a margin over the Company's expected unit costs, reduce price volatility and provide an additional channel to price forward. In deciding whether or not put on price hedges, the Company considers the futures price levels in relation to budgeted costs as well as the broader sales portfolio and market outlook. A sales and marketing committee, including a board representative, convenes regularly to discuss and decide on hedging strategies.

ii. Input Prices

Fertilizers, seeds, herbicides and fuel are key inputs in the Company's production process and comprise a high share of operating costs. The industries supplying these key input materials are all characterized by a relatively high level of consolidation, where the number of potential suppliers is limited and the company's purchasing power is low. A centralized procurement department consolidates major purchase items to obtain the best pricing and terms available.

– Political and Regulatory Risk

Although reform has come a long way in Russia, the agricultural sector both in Russia and globally remains prone to government regulations and policies limiting free trade or affecting market prices. In 2010 Russia enacted an export ban on grains and in 2011 the state reportedly engaged in direct market interventions to reduce crop price volatility. Russia's entry to the World Trade Organization could reduce the probability of trade distortions as was demonstrated in 2012 when no trade restrictions were imposed on grains despite a poor Russian harvest. Geopolitical developments and the position of the Russian Federation in the international community could impact mutual commitment to free trade principles. Domestic government support for selected sub sectors of Russian agriculture is expected to remain in one form or another.

In March 2014, sanctions were imposed by the U.S. and E.U. on certain Russian officials, businessmen and companies. These actions, particularly if further extended, may result in reduced access of the Russian businesses to international capital and export markets, capital flight, weakening of the Ruble and other negative economic consequences. The impact of these developments on the future operations and financial position of the Company is at this stage difficult to determine.

– Financial

The Group's financial risks are managed in accordance with the Treasury Policy that has been adopted by the Board of Directors. Additional details regarding accounting principles and risks are given in notes 1, 3, 30 and 32.

– Financing risk

Financing risk refers to the risk of Black Earth Farming being unable to meet its need for new capital. The company completed a SEK 530 million rights issue in December 2012 to finance investment and working capital needs related to the PepsiCo agreement announced in October. On 30 October 2013, the company refinanced its outstanding 2014 bond with a new four year SEK 750 million bond, extending maturity to 2017. The company currently holds approximately SEK 100 million of the bond on its balance sheet. The Company is actively looking at opportunities to attract subsidized Russian bank funding in a credit facility for working capital purposes. Although the Company generated cash from operations before interest and taxes in 2012 and 2013 there has historically been a dependence of external financing.

– Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions.

– Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a contract or a financial instrument fails to meet its contractual obligations. As the majority of domestic sales are made on a prepayment basis, the counterparty or credit risk related to receivables on domestic sales is limited. The Company seeks longer term relationships with highly credit worthy counterparties to reduce counterparty risks. In terms of its liquid cash holdings, the Group aims to diversify its credit exposure by placing surplus funds on deposit with a variety of established banks in Russia and abroad.

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

– Interest rate risk

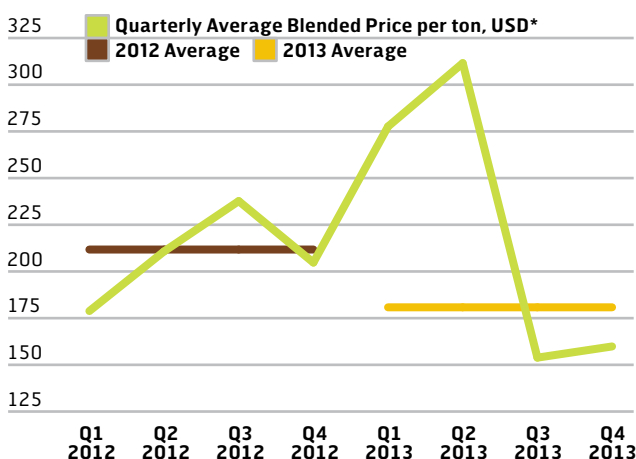
Changes in interest rates impact primarily loans and borrowings by changing the fair value of fixed rate debt. The Group adopts a policy of limiting its exposure to changes in interest rates by borrowing on a fixed rate basis. At the time of raising new loans or borrowings, management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity. On 30 October 2013, the company refinanced its outstanding 2014 bond with a new four year SEK 750 million bond, extending maturity to 2017. The new bond has a fixed 9.4% coupon, which is paid quarterly.

– Currency risk

The Group is exposed to currency translation risk as its borrowings, mostly denominated Swedish Krona (SEK), fluctuate against its assets, which are predominantly denominated in the Group's functional currency in the Russian ruble (RUR). The Company is also exposed to transaction risks in its cash flows. With a meaningful part of costs in RUR, the Company has historically hedged part of the fluctuations in its euro denominated export proceeds using forward contracts. See note 30 for more information.

The Company's policy is to make maximum use of natural hedging by seeking asset-liability and cash inflow-outflow matching. To mitigate the translation risks on the Company's balance sheet, this means keeping cash, which is not required for immediate operational purposes, in the same currency as its liabilities (SEK) or in currencies that are highly correlated with the currency of its liabilities. It also means that the Company may gradually seek to reduce its SEK obligations and increase RUR denominated debt. To mitigate transaction risks in the company's cash flows, the Company seeks, where possible, to match inflows and outflows. Key cash outflows in currency other than RUR include interest on bonds (SEK), seeds (partly linked to EUR or USD), agrochemicals (partly linked to EUR or USD) and certain capital expenditure items (partly linked to EUR or USD). Key cash inflows in currency other than RUR come from the Company's export revenues (EUR). The Company also recognizes that domestic sales and certain cost items indirectly may be linked to currencies other than RUR.

D4: BEF Realized Price 2012–2013, USD*/ton



* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

Five Year Summary

Profit & Loss (Million)	2009 RUR	2010 RUR	2011 RUR	2012 RUR	2013 RUR	2009 USD*	2010 USD*	2011 USD*	2012 USD*	2013 USD*
Sales Revenue	2,395	1,430	2,067	4,458	4,307	73.2	43.7	63.2	136.2	131.6
<i>Change</i>		<i>(40%)</i>	<i>45%</i>	<i>116%</i>	<i>(3%)</i>		<i>(40%)</i>	<i>45%</i>	<i>116%</i>	<i>(3%)</i>
Total revenue and gains	2,283	1,928	2,499	6,808	4,732	69.8	58.9	76.4	208.0	144.6
<i>Change</i>		<i>(16%)</i>	<i>30%</i>	<i>172%</i>	<i>(32%)</i>		<i>(16%)</i>	<i>30%</i>	<i>172%</i>	<i>(32%)</i>
Gross profit/(loss)	(33)	284	86	1,680	196	(1.0)	8.7	5.1	51.3	6.0
<i>Margin</i>		<i>15%</i>	<i>7%</i>	<i>25%</i>	<i>Neg.</i>		<i>15%</i>	<i>7%</i>	<i>25%</i>	<i>Neg.</i>
Operating profit/(loss)	(1,161)	(827)	(813)	605	(975)	(35)	(25)	(25)	18	(30)
<i>Margin</i>		<i>Neg.</i>	<i>Neg.</i>	<i>9%</i>	<i>Neg.</i>		<i>Neg.</i>	<i>Neg.</i>	<i>9%</i>	<i>Neg.</i>
Profit/(loss) before income tax	(1,306)	(1,232)	(1,303)	287	(1,429)	(40)	(38)	(40)	9	(44)
<i>Margin</i>		<i>Neg.</i>	<i>Neg.</i>	<i>4%</i>	<i>Neg.</i>		<i>Neg.</i>	<i>Neg.</i>	<i>4%</i>	<i>Neg.</i>
Net profit (loss)	(1,349)	(1,171)	(1,342)	218	(1,463)	(41)	(36)	(41)	7	(45)
<i>Margin</i>		<i>Neg.</i>	<i>Neg.</i>	<i>3%</i>	<i>Neg.</i>		<i>Neg.</i>	<i>Neg.</i>	<i>3%</i>	<i>Neg.</i>
Basic profit(loss) per share (RUR/USD*)	(10.83)	(9.39)	(10.77)	1.68	(7.05)	(0.33)	(0.29)	(0.33)	0.05	(0.22)
Diluted profit(loss) per share (RUR/USD*)	(10.83)	(9.39)	(10.77)	1.68	(7.05)	(0.33)	(0.29)	(0.33)	0.05	(0.22)
Cash Flows (Million)	RUR	RUR	RUR	RUR	RUR	USD*	USD*	USD*	USD*	USD*
Cash flows utilised by operating activities	5	(773)	(1,224)	(92)	(39)	0.1	(23.6)	(37.4)	(2.8)	(1.2)
Cash flows utilised by investing activities	(1,259)	(741)	(547)	(554)	(333)	(38.5)	(22.6)	(16.7)	(16.9)	(10.2)
Cash flows from financing activities	(352)	1,291	(181)	2,247	(270)	(10.8)	39.5	(5.5)	68.7	(8.2)
Financial position and return (Million/%)	RUR	RUR	RUR	RUR	RUR	USD*	USD*	USD*	USD*	USD*
Total assets	11,050	11,282	10,153	12,822	11,309	338	345	310	392	346
Property, plant and equipment	5,531	5,922	6,020	6,014	5,785	169	181	184	184	177
Cash and cash equivalents	3,211	2,983	985	2,639	2,125	98	91	30	81	65
Total equity	8,744	7,605	6,289	8,905	7,487	267	232	192	272	229
Equity per share (RUR/USD*)	70.2	61.0	50.5	42.9	36.1	2.1	1.9	1.5	1.3	1.1
Operating cash flows per share (RUR/USD*)	0.0	(6.2)	(9.8)	(0.4)	(0.2)	0.0	(0.2)	(0.3)	0.0	0.0
Debt/Equity	21%	43%	52%	36%	43%	21%	43%	52%	36%	43%
Equity/Assets	79%	67%	62%	69%	66%	79%	67%	62%	69%	66%
Non-current loans and borrowings	1,838	3,297	3,266	3,162	3,211	56	101	100	97	98
Gross margin ¹	Neg.	15%	7%	25%	4%	Neg.	15%	7%	25%	4%
Operating profit margin	Neg.	Neg.	Neg.	9%	Neg.	Neg.	Neg.	Neg.	9%	Neg.
Net profit margin	Neg.	Neg.	Neg.	3%	Neg.	Neg.	Neg.	Neg.	3%	Neg.
Return on Equity	Neg.	Neg.	Neg.	3%	Neg.	Neg.	Neg.	Neg.	3%	Neg.

1. Gross margin less gain on revaluation of biological assets

Production & Sales	2009	2010	2011	2012	2013
Commercial Harvested area (ha)	183,042	179,767	228,900	220,119	225,632
<i>Year-on-year change</i>		<i>(2%)</i>	<i>27%</i>	<i>(4%)</i>	<i>3%</i>
Commercial Gross Harvest (tons)	506,131	222,916	499,287	617,578	790,152
<i>Year-on-year change</i>		<i>(56%)</i>	<i>124%</i>	<i>24%</i>	<i>28%</i>
Volumes Sold (tons)	617,360	277,694	399,473	683,610	715,415
<i>Year-on-year change</i>		<i>(55%)</i>	<i>44%</i>	<i>71%</i>	<i>5%</i>
End of Period Inventory (tons)	203,401	129,124	211,914	131,809	190,360
<i>% of Commercial harvest</i>	<i>40%</i>	<i>58%</i>	<i>42%</i>	<i>21%</i>	<i>24%</i>
Average Realised Price per Ton (USD*)	125	164	166	212	181
<i>Year-on-year change</i>		<i>31%</i>	<i>31%</i>	<i>28%</i>	<i>(15%)</i>
Land Holding (thousand hectares)	2009	2010	2011	2012	2013
Land under Control	320	328	318	308	308
<i>Year-on-Year change, %</i>		<i>2%</i>	<i>(3%)</i>	<i>(3%)</i>	<i>0%</i>
Land in Full Ownership	216	250	260	250	254
<i>Year-on-Year change, %</i>		<i>16%</i>	<i>4%</i>	<i>(4%)</i>	<i>2%</i>
Land in Ownership Registration Process	75	30	18	19	17
<i>Year-on-Year change, %</i>		<i>(60%)</i>	<i>(40%)</i>	<i>3%</i>	<i>(8%)</i>
Land in Long Term Lease	39	48	40	40	37
<i>Year-on-Year change, %</i>		<i>23%</i>	<i>(17%)</i>	<i>(1%)</i>	<i>(6%)</i>

* Ruble values for all 5 years converted at 31 December 2013 RUR/USD rate (32.7292). The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

The Black Earth Farming share

Black Earth Farming share information

<i>Exchange name:</i>	Nasdaq OMX Stockholm
<i>Listed form:</i>	Swedish Depository Receipt ("SDR")
<i>CCY:</i>	SEK
<i>Trading lot:</i>	1
<i>Outstanding shares:</i>	207,669,445
<i>Exchange short name:</i>	BEF SDB
<i>Reuters ticker:</i>	BEFsdb.ST
<i>Bloomberg ticker:</i>	BEFSDB:SS
<i>ISIN code:</i>	SE0001882291
<i>Sector:</i>	Agricultural Products

Market listing

As of June 2009 trading in Black Earth Farming's shares takes place on Nasdaq OMX Stockholm and before that on the OMX First North in Stockholm since the IPO in December 2007. The Company's shares are listed in the form of Swedish Depository Receipts. Black Earth Farming Limited has a custodial arrangement with Pareto Öhman whereby Pareto Öhman, on behalf of shareholders, will hold common shares in the Company in a depository account and issue one Swedish Depository Receipt ("SDR") for each Share deposited. The SDRs are registered with Euroclear (former VPC AB). An SDR entails the same right to a dividend as the underlying Share, and an SDR holder has the same right to vote at General Meetings as a shareholder. In order to attend a General Meeting it is, however, required that the holder of SDRs follows the instructions from the custodian bank.

Voting rights

Each Share/SDR carries the right to cast one vote on all matters submitted to a vote of the shareholders.

Dividends and dividend policy

The profits of the Company available for dividends and resolved to be distributed shall be distributed pro-rata to the holders of SDRs in accordance with their respective share in the assets and profits of the Company. The Company's general meeting may declare dividends accordingly, but no dividends shall exceed the amount recommended by the Board. No dividends shall be payable otherwise than in accordance with the 1991 Law and the Articles of Association. There are no fixed dates on which entitlement to dividends arises.

Subject to the provisions of the 1991 Law and the Articles of Association, the Board may from time to time pay to holders of SDRs such interim dividends as deemed to be justified by the profits of the Company.

No dividends or other monies payable in respect of an SDR shall bear interest as against the Company unless otherwise

provided by the rights attached to the SDRs. Any dividends which have remained unclaimed for a period of ten years from its due date of payment shall, if the Board so resolves, be forfeited and shall cease to remain as a debt for the Company and shall thereafter belong to the Company. The Company has never declared nor paid any cash dividends on its capital stock and currently intends to retain future earnings to fund the development and growth of its business.

Ownership structure

At year end 2013 Black Earth Farming had about 14,000 shareholders, compared to 8,000 at year end 2012. The 5 largest shareholders accounted for 48.2% of the number of shares and voting rights compared to 71.2% in 2012. In June 2013, Vostok Nafta, an investment company that had held 25% of the shares in the Company, distributed its shareholdings in the Company to its shareholders.

Trading

A total of 112.0 million SDRs were traded during the period 1 January 2013–31 December 2013, corresponding to a value of SEK 797.4 million. On average 448 thousand SDRs were traded each business day, corresponding to an average value per day of SEK 3.8 million.

Market Capitalization

Black Earth Farming's market capitalization at 31 December 2013 was SEK 1,339 million compared to SEK 1,838 million at 31 December 2012 (-27% y-o-y).

2012 Rights Issue

On 13 November 2012 an Extraordinary General Meeting authorised the Board of Directors to carry out a SEK 530 million rights issue. The issue was successfully completed in December 2012 where 83.1 million new SDRs were issued for SEK 6.38 per SDR. Following the issue the total number of outstanding shares (represented by SDRs) and votes were 207.7 million.

2013 Bond

On 30 October 2013, the company refinanced its outstanding 2014 bond with a new four year SEK 750 million bond, extending maturity to 2017. As of December 31 2013, the company held approximately SEK 100 million of the bonds on its balance sheet.

Analysts Covering Black Earth Farming

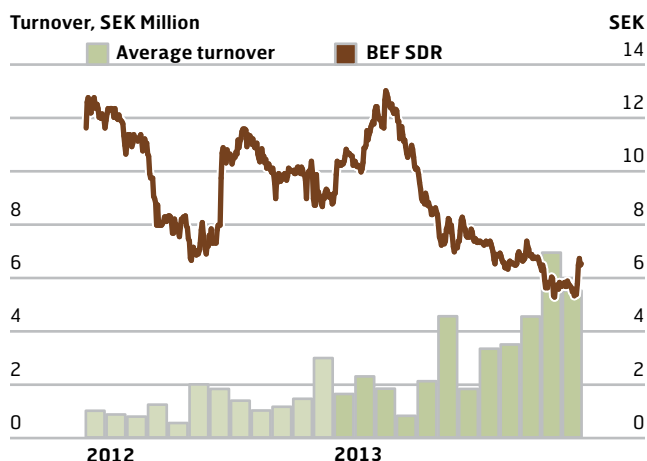
Pareto Securities

Sergej Kazatchenko, tel: +46-8-402 50 00

ABG Sundal Collier

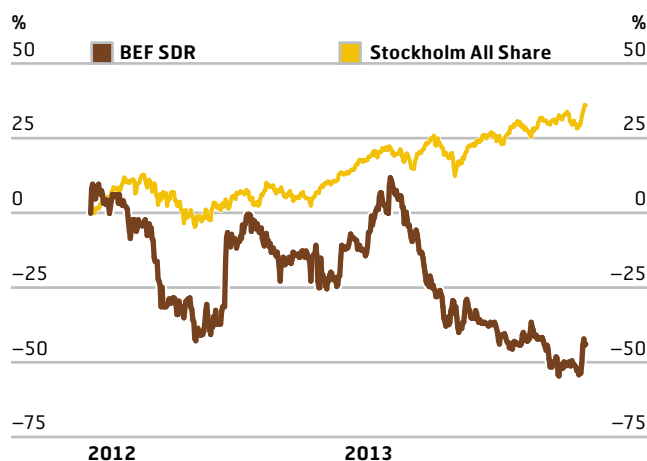
Johannes Grunselius, tel: +46-8-566 286 94

**D1: BEF 2012–2013 share price (in SEK)
and monthly average turnover (in SEK Million)**



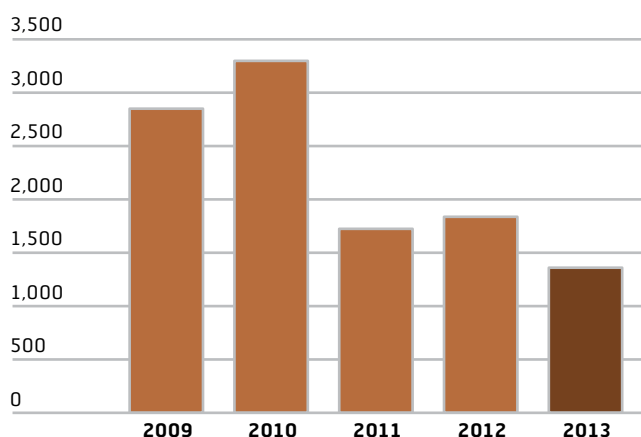
Source: NASDAQ OMX

**D2: BEF 2012–2013 share performance
vs index (in %)**



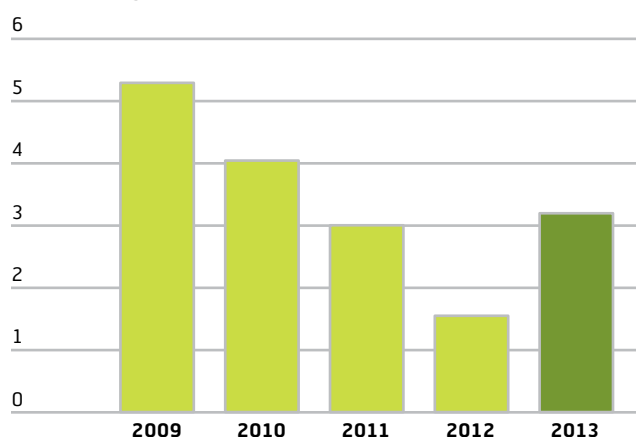
Source: NASDAQ OMX

D3: Market capitalization as per 31 December, MSEK



Source: NASDAQ OMX

D4: Average daily traded volume, MSEK



Source: NASDAQ OMX

T1: 5 largest shareholders as of 31 December 2012

Owner	Holding, Shares/SDRs	Holding, %
1 Investment AB Kinnevik	51,811,828	24.9%
2 Vostok Nafta Investment Ltd	51,481,173	24.8%
3 Alecta Pension Funds	18,569,333	8.9%
4 Länsförsäkringar Funds	17,588,072	8.5%
5 Danske Invest Funds	8,334,144	4.0%
5 largest owners	147,784,550	71.2%
Other, approx 8,000 shareholders	59,884,895	28.8%
Total outstanding	207,669,445	100.0%

Source: Euroclear Sweden share registry & shareholders' reference

T2: 5 largest shareholders as of 31 December 2013

Owner	Holding, Shares/SDRs	Holding, %
1 Investment AB Kinnevik	51,811,828	24.9%
2 Alecta Pension Funds	20,708,180	10.0%
3 Danske Invest Funds	10,791,101	5.2%
4 Luxor Capital Group	10,316,574	5.0%
5 GoMobile Nu AB	6,380,584	3.1%
5 largest owners	100,008,267	48.2%
Other, approx 14,000 shareholders	107,661,178	51.8%
Total outstanding	207,669,445	100.0%

Source: Euroclear Sweden share registry & shareholders' reference



Black Earth Farming Limited and Subsidiaries

Consolidated Financial Statements

as at and for the year ended 31 December 2013

Contents

Statement of management responsibilities for the preparation and approval of the consolidated financial statements for the year ended 31 December 2013	Page 43
Independent Auditors' Reports.....	44
Consolidated Statement of Comprehensive Income/(Loss)	46
Consolidated Statement of Financial Position	47
Consolidated Statement of Changes in Equity	48
Consolidated Statement of Cash Flows	49
Notes to the Consolidated Financial Statements	50

Statement of management responsibilities

For the preparation and approval of the consolidated financial statements for the year ended 31 December 2013

The Board of Directors is responsible for preparing the financial statements in accordance with applicable law and regulations.

Company law requires the Board of Directors to prepare financial statements for each financial year. Under that law the Board of Directors has elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. However, Board of Directors is also required to:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

- Provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- Make an assessment of the company's ability to continue as a going concern.

The Board of Directors is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board of Directors has established an Audit Committee. The Audit Committee reviews with Management and the external auditors any significant financial reporting issues, the financial statements, and any other matters of relevance to the parties. The Audit Committee shall meet as regularly as deemed necessary by the Board, but it should be at least four times a year, in connection with the release of the Company's interim and full year financial statements. The external auditors have unrestricted access to the Company.

The financial statements were approved by the Board of Directors and authorized for issue on 11 April 2014.

Vigo Carlund
Chairman of the Board

Camilla Öberg
Non-executive Director

Poul Schroeder
Non-executive Director

Richard Warburton
Executive Director and CEO

Per Brilioth
Non-executive Director

Anders Kronborg
Non-executive Director

Magnus Unger
Non-executive Director

Independent Auditor's Report

To the shareholders of Black Earth Farming Limited

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Black Earth Farming Limited and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. The consolidated financial statements are included in the printed version of this document on pages 46–73.

This report is made solely to the company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Board of Directors' Responsibility for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Board of Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the

risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Black Earth Farming Limited and its subsidiaries as at 31 December 2013, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and have been properly prepared in accordance with the Companies (Jersey) Law 1991.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

- Proper accounting records have not been kept by the parent company, or proper returns adequate for our audit have not been received from branches not visited by us; or
- The financial statements are not in agreement with the accounting records and returns; or
- We have not received all the information and explanations we require for our audit.

Emphasis of Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary United States dollar amounts, which are presented solely for the convenience of users as described in Note 2 (d), do not form part of the consolidated financial statements and are unaudited.

11 April 2014

Srbuhi Hakobyan
For and on behalf of ZAO "Deloitte and Touche CIS"
Chartered Accountant and Recognized Auditor
Moscow, Russia

Independent Auditor's Report

To the shareholders of Black Earth Farming Limited

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Black Earth Farming Limited and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. The consolidated financial statements are included in the printed version of this document on pages 46–73.

Board of Directors' Responsibility for the Consolidated Financial Statements

The Board of Directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Board of Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consoli-

dated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Black Earth Farming Limited and its subsidiaries as at 31 December 2013, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Emphasis of Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary United States dollar amounts, which are presented solely for the convenience of users as described in Note 2 (d), do not form part of the consolidated financial statements and are unaudited.

Stockholm, Sweden
11 April 2014

Deloitte AB

Svante Forsberg
Authorized Public Accountant

Consolidated Statement of Comprehensive Income/(Loss)

For the year ended 31 December 2013

In thousands of	Notes	RUR 12m. 2013	RUR 12m. 2012	USD* 12m. 2013	USD* 12m. 2012
Continuing operations					
Revenue		4,307,409	4,458,456	131,608	136,223
Gain on revaluation of biological assets to agricultural produce		418,875	2,257,108	12,798	68,963
Change in net realizable value of agricultural produce after harvest		5,804	92,483	177	2,826
Total revenue and gains 7		4,732,088	6,808,047	144,583	208,012
Cost of sales.....8		(4,536,498)	(5,128,482)	(138,607)	(156,694)
Gross profit		195,590	1,679,565	5,976	51,318
Distribution expenses.....9		(677,847)	(469,315)	(20,711)	(14,339)
General and administrative expenses.....10		(617,466)	(630,820)	(18,866)	(19,274)
Taxes other than income.....12		(55,900)	(75,912)	(1,708)	(2,319)
Government grants		114,582	52,625	3,501	1,608
Crop insurance net of insurance grants.....13		(45,775)	–	(1,399)	–
Other income and expenses, net.....14		111,885	49,258	3,419	1,502
Operating (loss)/profit		(974,931)	605,401	(29,788)	18,496
Financial income.....15		51,611	26,793	1,577	819
Financial expenses.....15		(380,406)	(387,724)	(11,623)	(11,846)
(Loss)/gain on foreign exchange differences		(125,161)	42,936	(3,824)	1,312
(Loss)/profit before income tax		(1,428,887)	287,406	(43,658)	8,781
Income tax expense.....16		(34,583)	(69,881)	(1,057)	(2,135)
Total comprehensive (loss)/income for the year attributable to owners of the parent		(1,463,470)	217,525	(44,715)	6,646
(Loss)/earnings per share (amounts are indicated in)					
		RUR	RUR	USD*	USD*
(Loss)/earnings per share, basic and diluted.....26		(7.05)	1.68	(0.22)	0.05

The consolidated statement of comprehensive income/(loss) is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 50 to 73.

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

Consolidated Statement of Financial Position

As at 31 December 2013

In thousands of	Notes	RUR 31-Dec-13	RUR 31-Dec-12	USD* 31-Dec-13	USD* 31-Dec-12
ASSETS					
Non-current assets					
Property, plant and equipment.....	18	5,784,693	6,014,175	176,744	183,756
Intangible assets.....	19	10,099	2,441	309	75
Biological assets (livestock).....	20	22,049	26,193	674	800
Other non-current assets.....	21	77,821	89,060	2,378	2,721
Deferred tax assets.....	17	6,368	32,147	193	982
Investment property.....	25	140,883	–	4,305	–
Total non-current assets.....		6,041,913	6,164,016	184,603	188,334
Current assets					
Inventories.....	22	1,835,992	2,218,935	56,096	67,797
Biological assets (crop production).....	20	577,253	1,006,128	17,637	30,741
Trade and other receivables.....	23	728,509	673,154	22,259	20,567
Other financial assets.....	29	–	14,148	–	432
Cash and cash equivalents.....	24	2,124,949	2,638,934	64,925	80,629
		5,266,703	6,551,299	160,917	200,166
Assets classified as held for sale.....	25	–	107,153	–	3,274
Total current assets.....		5,266,703	6,658,452	160,917	203,440
Total assets.....		11,308,616	12,822,468	345,520	391,774
EQUITY AND LIABILITIES					
Equity					
Share capital.....		58,349	58,349	1,783	1,783
Share premium.....		13,621,100	13,621,100	416,176	416,176
Reserves.....		199,743	206,060	6,103	6,296
Accumulated deficit.....		(6,392,663)	(4,980,396)	(195,321)	(152,170)
Total equity attributable to owners of the parent.....	26	7,486,529	8,905,113	228,741	272,085
LIABILITIES					
Non-current liabilities					
Non-current loans and borrowings.....	27	3,186,495	3,161,767	97,359	96,604
Deferred tax liabilities.....	17	24,110	25,945	737	793
Total non-current liabilities.....		3,210,605	3,187,712	98,096	97,397
Current liabilities					
Current loans and borrowings.....	27	67,187	172,665	2,053	5,276
Trade and other payables.....	28	521,712	556,978	15,940	17,016
Other financial liabilities.....	29	22,583	–	690	–
Total current liabilities.....		611,482	729,643	18,683	22,292
Total liabilities.....		3,822,087	3,917,355	116,779	119,689
Total equity and liabilities.....		11,308,616	12,822,468	345,520	391,774

The consolidated statement of financial position is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 50 to 73.

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

In thousands of	RUR	RUR	RUR	RUR	RUR	RUR
	Share capital	Share premium	Equity-settled employee benefits reserve	Cash-flow hedging reserve	Accumulated deficit	Total equity attributable to owners of the parent
Balance at 1 January 2012	32,921	11,275,731	178,189	–	(5,197,921)	6,288,920
Shares issued (Note 26 (a))	25,428	2,345,369	–	–	–	2,370,797
Profit for the year	–	–	–	–	217,525	217,525
Other comprehensive income	–	–	–	14,148	–	14,148
Recognition of share-based payments (Note 26 (d))	–	–	13,723	–	–	13,723
Balance as at 31 December 2012	58,349	13,621,100	191,912	14,148	(4,980,396)	8,905,113
Reclassification from reserves to accumulated deficit	–	–	(37,055)	(14,148)	51,203	–
Loss for the period	–	–	–	–	(1,463,470)	(1,463,470)
Total comprehensive loss for the year	–	–	(37,055)	(14,148)	(1,412,267)	(1,463,470)
Recognition of share-based payments (Note 26 (d))	–	–	44,886	–	–	44,886
Balance as at 31 December 2013	58,349	13,621,100	199,743	–	(6,392,663)	7,486,529

In thousands of	USD*	USD*	USD*	USD*	USD*	USD*
	Share capital	Share premium	Equity-settled employee benefits reserve	Cash-flow hedging reserve	Accumulated deficit	Total equity attributable to owners of the parent
Balance at 1 January 2012	1,006	344,516	5,444	–	(158,816)	192,150
Shares issued (Note 26 (a))	777	71,660	–	–	–	72,437
Profit for the year	–	–	–	–	6,646	6,646
Other comprehensive income	–	–	–	432	–	432
Recognition of share-based payments (Note 26 (d))	–	–	420	–	–	420
Balance as at 31 December 2012	1,783	416,176	5,864	432	(152,170)	272,085
Reclassification from reserves to accumulated deficit	–	–	(1,132)	(432)	1,564	–
Loss for the period	–	–	–	–	(44,715)	(44,715)
Total comprehensive loss for the year	–	–	(1,132)	(432)	(43,151)	(44,715)
Recognition of share-based payments (Note 26 (d))	–	–	1,371	–	–	1,371
Balance as at 31 December 2013	1,783	416,176	6,103	–	(195,321)	228,741

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 50 to 73.

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

In thousands of	Notes	RUR 12 m. 2013	RUR 12 m. 2012	USD* 12 m. 2013	USD* 12 m. 2012
CASH FLOWS FROM OPERATING ACTIVITIES					
(Loss)/profit for the period		(1,463,470)	217,525	(44,715)	6,646
Adjustments for:					
Income tax expense.....		34,583	69,881	1,057	2,135
Depreciation and amortization.....		599,247	574,685	18,309	17,559
Change in allowance for doubtful debts.....		1,599	41,837	49	1,278
Foreign exchange loss/(gain)		125,161	(42,936)	3,824	(1,312)
Interest income.....		(51,611)	(26,793)	(1,577)	(819)
Interest expense.....		380,406	374,870	11,623	11,453
Gain on disposal of property, plant and equipment.....		(14,044)	(37,077)	(430)	(1,133)
Gain on revaluation of investment property		(1,753)	(64,569)	(54)	(1,973)
Share-based payments.....		44,886	13,723	1,371	420
Impairments.....		—	1,496	—	46
Gain on revaluation of biological assets to agricultural produce and change in net realizable value of agricultural produce after harvest.....	7	(424,679)	(2,349,591)	(12,975)	(71,789)
Effect of revaluations on cost of sales.....	8	1,001,345	1,847,884	30,595	56,460
		231,670	620,935	7,077	18,971
Movements in working capital:					
(Increase)/decrease in inventories		(181,804)	211,996	(5,555)	6,477
Decrease/(increase) in biological assets.....		432,182	(462,420)	13,205	(14,129)
Increase in trade and other receivables		(50,151)	(253,799)	(1,532)	(7,755)
(Decrease)/increase in trade payables and other short-term liabilities		(18,658)	165,555	(570)	5,058
Cash generated from operations.....		413,239	282,267	12,625	8,622
Interest paid.....		(445,708)	(365,512)	(13,618)	(11,168)
Income tax paid		(6,799)	(8,880)	(208)	(271)
Net cash used in operating activities		(39,268)	(92,125)	(1,201)	(2,817)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received		51,611	27,317	1,577	835
Acquisition of land plots.....		(2,305)	(11,829)	(70)	(361)
Acquisition of property, plant and equipment		(395,390)	(651,395)	(12,081)	(19,903)
Proceeds from disposal of property, plant and equipment		22,671	84,513	693	2,582
Acquisition of intangible assets		(9,971)	(2,951)	(305)	(90)
Net cash used in investing activities.....		(333,384)	(554,345)	(10,186)	(16,937)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from the issue of shares.....		—	2,370,797	—	72,437
Proceeds from the issue/selling of bonds.....		1,925,779	183,099	58,840	5,594
Repurchase of bonds		(2,195,384)	(306,487)	(67,077)	(9,364)
Net cash (used in)/ generated from financing activities		(269,605)	2,247,409	(8,237)	68,667
Net (decrease)/ increase in cash and cash equivalents		(642,257)	1,600,939	(19,624)	48,913
Cash and cash equivalents at the beginning of year	24	2,638,934	985,452	80,629	30,109
Effect of exchange rate fluctuations on cash and cash equivalents		128,272	52,543	3,920	1,607
Cash and cash equivalents at the end of the year	24	2,124,949	2,638,934	64,925	80,629

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 50 to 73.

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

1. BACKGROUND

(a) Organization and operations

Black Earth Farming Limited (the “Company”) is a limited liability company incorporated in Jersey, Channel Islands, on 20 April 2005. The Company is the holding company for a number of legal entities established under the legislation of Cyprus, Guernsey (Channel Islands) and the Russian Federation. Those entities are together referred to as the “Group” (Note 35).

The Company changed its address in 2013 to Nautilus House, La Cour des Casernes, St. Helier JE1 3NH, Channel Islands. Registration 89973.

The Group’s activities include farming, production of crops and dairy produce and the distribution of related products in the Russian Federation and internationally. The Group commenced operations in 2005.

(b) Russian business environment

Emerging markets such as the Russian Federation are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in the Russian Federation continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of the Russian Federation is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because the Russian Federation produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

In March 2014, sanctions have been imposed by the U.S. and E.U. on certain Russian officials, businessmen and companies. These official actions, particularly if further extended, may result in reduced access of the Russian businesses to international capital and export markets, capital flight, weakening of the Ruble and other negative economic consequences. The impact of these developments on the future operations and financial position of the Company is at this stage difficult to determine.

2. BASIS OF PREPARATION

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union.

(b) Basis of preparation

The consolidated financial statements are prepared on the historical cost basis, except for biological assets measured at fair value less estimated point-of-sale costs, investment property and financial instruments measured at fair value, and finished goods measured at net realizable value.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

(c) Functional and presentation currency

The currency of the Russian Federation is the Russian Rouble (“RUR”) which is the functional currency of the Group’s Russian subsidiaries and is the currency in which these consolidated financial statements are presented. The Group’s main activities are RUR denominated. All financial information presented in RUR has been rounded to the nearest thousand.

Starting from 1 January 2014 the presentation currency will be changed to US Dollars (“USD”).

(d) Convenience translation

In addition to presenting the consolidated financial statements in RUR, supplementary information in United States dollars (“USD”) has been presented for the convenience of users of the consolidated financial statements.

All amounts in the consolidated financial statements, including comparatives, are translated from RUR to USD at the closing exchange rate at 31 December 2013 of RUR 32.7292 to USD 1. All financial information in USD has been rounded to the nearest thousand. The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been consistently applied in the preparation of these consolidated financial statements.

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries).

Subsidiaries

Subsidiaries are entities controlled by the Group. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company’s voting rights in an investee are sufficient to give it power, including:

- the size of the Company’s holding of voting rights relative to the size and dispersion of holdings of the other vote holders;

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

Transactions eliminated on consolidation

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

(b) Business combinations

Acquisition of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date, except for:

- Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit and loss as a bargain purchase gain.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets

or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognized as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year.

(c) Goodwill

Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit and loss in the consolidated statement of comprehensive income. An impairment loss recognized for goodwill is not reversed in a subsequent period.

(d) Foreign currency transactions

For the purpose of the consolidated financial statements, the results and financial position of each Group entity are expressed in RUR, which is the functional and presentation currency of the consolidated financial statements.

Transactions in foreign currencies are translated to the respective functional currencies of Group entities using exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency using the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency using the exchange rate at the date that the fair value was determined.

Foreign currency differences arising in translation are recognized in profit or loss.

(e) Financial instruments

Non-derivative financial instruments comprise investments in debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise cash balances and call deposits. Call deposits have a short maturity of less than three months and are subject to an insignificant risk of changes in value.

Held-to-maturity investments

If the Group has the positive intent and ability to hold debt securities with fixed or determinable payments and fixed maturity dates to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

Financial instruments at Fair Value through Profit and Loss (hereafter "FVTPL")

Financial instruments are classified as at FVTPL when the financial instrument is either held for trading or it is designated as at FVTPL.

A financial instrument is classified as held for trading if:

- it has been acquired/incurred principally for the purpose of selling/purchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial instrument other than a financial instrument held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial instrument forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract to be designated as at FVTPL.

Financial instruments at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial instrument and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in note 29.

Other

Other non-derivative financial instruments are measured at amortized cost using the effective interest method, less any impairment losses. Investments in equity securities that are not quoted on a stock exchange and where fair value cannot be estimated on a reasonable basis by other means are stated at cost less impairment losses.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

(f) Property, plant and equipment and land

Owned assets

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labor, and any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site in which they are located. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are recognized net in other income in profit and loss.

Repairs and maintenance

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Depreciation

Depreciation is recognized in profit and loss on a straight-line basis over the estimated useful lives of each item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The estimated useful lives for the current and comparative periods are as follows:

- | | |
|---------------------------|-----------------|
| – Buildings | 10 to 30 years; |
| – Machinery and equipment | 5 to 10 years; |
| – Vehicles | 3 to 7 years; |
| – Fixtures and fittings | 1 to 5 years. |

Depreciation methods, useful lives and residual values are reassessed at each reporting date, with the effect of any changes in accounting estimate recognized on a prospective basis.

(g) Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

(h) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

(i) Intangible assets

Intangible assets, that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortization and impairment losses.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and brands, are recognized in profit or loss as incurred.

Amortization is recognized in profit and loss on a straight-line basis over the estimated useful lives of intangible assets from the date the asset is available for use. The estimated useful lives for the current and comparative periods vary from 1 to 3 years.

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

(j) Inventories

Biological assets – Agricultural produce

Prior to harvest but after reaching a level of biological transformation that allows to make reasonable estimates, biological assets related to agricultural activity and agricultural produce are measured at fair value less estimated point-of-sale costs, with any changes in fair value recognized in profit or loss. Point-of-sale costs include all costs that would be necessary to sell the assets. Fair value is determined as the quoted price for the grain production on the Russian agricultural market. Where relevant quoted prices are not available, indicative sales prices and sales estimates may be used. When little biological transformation has taken place since the initial cost outlay, biological assets are valued on the basis of actual costs.

At point of harvest, which for each crop is deemed to be the last date of gathering the crop, the fair value measurement of agricultural produce is deemed to be the initial cost of the harvest for subsequent accounting. Subsequent to harvest, agricultural produce is measured at net realizable value according to IAS 2, Inventories paragraph 4.

Where crop inventory has been contracted for sales at the time of reporting, the price from contracts are used for calculation of the net realizable value in these results. For the remaining, non-contracted stock, local market prices published by independent experts are used to determine net realizable value of agricultural produce at the end of the reporting period. If no relevant such market prices are available, other sales estimates may be applied to determine the net realizable value of crop inventory.

Changes in net realizable value are recognized in the consolidated statement of comprehensive income in the period in which they arise. Harvested produce is measured at net realizable value on a quarterly basis. When agriculture produce is sold, the carrying amount of the inventory is recognized as cost of goods sold. The difference between revenue from the sale and costs of goods sold reflects changes in prices for the produce which were sold during period, while the "Change in net realizable value" line in the statement of comprehensive income shows the change in produce prices for the stock not sold at the end of the period.

Biological assets – Livestock

Biological assets related to livestock are measured at fair value less estimated point-of-sale costs, with any changes in fair value recognized in profit or loss. Point-of-sale costs include all costs that would be necessary to sell the assets. Fair value is determined using local market prices.

Other inventories

Inventories are measured at the lower of cost and net realizable value.

The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs included in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(k) Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in the statement of comprehensive income. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost and available-for-sale financial assets that are debt securities, the reversal is recognized in the statement of comprehensive income.

Tangible and intangible assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination acquisition, for the purposes of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of comprehensive income. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(l) Defined contribution pension plans

Obligations to defined contribution pension plans, including Russia's State pension fund, are recognized in profit and loss when they are due.

(m) Share-based payment arrangements

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The warrants program allows the Group's employees to acquire shares of the Company. The warrants expenses are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed (as employee expense) on a straight-line basis over the vesting period, based on the Group's

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of the reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

(n) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

(o) Income tax

Income tax for the year comprises current and deferred tax. Income tax is recognized in the statement of comprehensive income except to the extent that it relates to items recognized in other comprehensive income or directly to equity, in which case it is recognized in other comprehensive income or in equity.

Current tax expense is the expected tax payable on the taxable profit for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting or taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(p) Revenue recognition

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing involvement with the goods.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

(q) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognized in profit and loss in the period in which they are incurred.

(r) Government grants

An unconditional government grant relating to a biological asset is recognized in profit and loss when the grant has been received.

Governments grants, related to crop insurance are recognized on the same basis and are accounted on a net basis with crop insurance expense.

(s) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance lease are initially recognized as assets of the Group at an amount equal to the lower of its fair value and the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Finance lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of liability. Finance expenses are recognized immediately in profit and loss.

Operating lease payments are recognized in profit and loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(t) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise warrants granted to employees and executives share option plan.

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

(u) Adoption of new and amended Standards

A number of new and amended Standards were adopted for the year ended 31 December 2013, and have been applied in these consolidated financial statements.

Standards	Will be applied for financial years beginning:
IAS 1 (Amended) "Presentation of financial statements"	1 January 2013 or later
IAS 16 (Amended) "Property, Plant and Equipment"	1 January 2013 or later
IAS 27 (Amended) "Separate financial statements"	1 January 2013 or later
IAS 28 (Amended) "Investments in associates and joint ventures"	1 January 2013 or later
IAS 32 (Amended) "Financial instruments: presentation"	1 January 2013 or later
IAS 36 (Amended) "Impairment of assets"	1 January 2013 or later
IFRS 7 (Amended) "Financial instruments: disclosure"	1 January 2013 or later
IFRS 10 (Amended) "Consolidated financial statements"	1 January 2013 or later
IFRS 11 (Amended) "Joint arrangements"	1 January 2013 or later
IFRS 12 (Amended) "Disclosure of interests in other entities"	1 January 2013 or later
IFRS 13 "Fair value measurement"	1 January 2013 or later

(v) New accounting pronouncements

A number of new Standards and amendments to Standards were not yet effective for the year ended 31 December 2013, and have not been applied in these consolidated financial statements.

Standards	Will be applied for financial years beginning:
IAS 16 (Amended) "Property, Plant and Equipment"	1 July 2014 or later
IAS 19 (Amended) "Employee benefits"	1 July 2014 or later
IAS 24 (Amended) "Related Party Disclosures"	1 July 2014 or later
IAS 37 (Amended) "Provisions, Contingent Liabilities and Contingent Assets"	1 July 2014 or later
IAS 38 (Amended) "Intangible assets"	1 July 2014 or later
IAS 40 (Amended) "Investment Property"	1 July 2014 or later
IAS 27 (Amended) "Separate Financial Statements"	1 January 2014 or later
IAS 32 (Amended) "Financial Instruments: Presentation"	1 January 2014 or later
IAS 39 (Amended) "Financial Instruments: Recognition and Measurement"	1 January 2014 or later
IFRS 1 (Amended) "First-time Adoption of International Financial Reporting Standards"	1 July 2014 or later
IFRS 2 (Amended) "Share-based Payment"	1 July 2014 or later
IFRS 3 (Amended) "Business Combinations"	1 July 2014 or later
IFRS 7 (Amended) "Financial Instruments: Disclosure"	1 January 2015 or later
IFRS 8 (Amended) "Operating Segments"	1 July 2014 or later
IFRS 9 (Amended) "Financial Instruments"	1 July 2014 or later
IFRS 10 (Amended) "Consolidated Financial Statements"	1 January 2014 or later
IFRS 12 (Amended) "Disclosure of Interests in Other Entities"	1 January 2014 or later
IFRS 13 "Fair Value Measurement"	1 July 2014 or later
IFRS 14 "Regulatory Deferral Accounts"	1 January 2016 or later
IFRIC 21 "Levies"	1 January 2014 or later

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The Group has applied the amendments to IAS 1 Presentation of Items of Other Comprehensive Income for the first time in the current year. The amendments introduce new terminology, whose use is not mandatory, for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the 'statement of comprehensive income' is renamed as the 'statement of profit or loss and other comprehensive income' [and the 'income statement' is renamed as the 'statement of profit or loss']. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

Impact of the application of IFRS 12

IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of IFRS 12 has resulted in more extensive disclosures in the consolidated financial statements (please see notes 34 and 35 for details).

Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

The Group has applied the amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities for the first time in the current year. The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments have been applied retrospectively. As the Group does not have any offsetting arrangements in place, the application of the amendments has had no material impact on the disclosures or on the amounts recognised in the consolidated financial statements.

IFRS 13 Fair Value Measurement

IFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the Group has not made any new disclosures required by IFRS 13 for the 2012 comparative period (please see notes 20, 25 and 29 for the 2013 disclosures). Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

Other new and amended standards have not yet been applied. The Group expects no significant impact from the adoption of the amendments to its financial position or performance. The Group's management continuously considers the potential implications of new and amended standards.

4 Critical accounting judgments and key sources of estimation uncertainty

Management has made a number of judgments, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRS. Actual results may differ from those estimates. Additional information relating to contingencies and commitments is disclosed in Note 32.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

(a) Biological assets and agricultural produce

The particularity of agriculture is such that approximately 40 percent of expenditures are incurred in the fall of the preceding year, and the remaining 60 percent incurred during spring and summer in the same year as the harvest.

As part of the process of valuation of biological assets the management makes the following estimations: expected crop yield; expected costs to harvest; expected wastage percentage; expected selling expenses to be incurred in future.

As stated in accounting policy (note 3 (j)) the Group in its 2013 results applied a new calculation methodology for estimating net realizable value of agricultural produce. Specifically, the Group uses sales contracts where available to estimate net realizable value for crop inventory, and market prices as provided by experts where no contracts are available. In case the previous calculation approach had been used, the fair value of agricultural produce would have been RUR 78,548 thousand (USD* 2,400 thousand) less than in these results.

The next year's crop which has been seeded in the current year has undergone little biological transformation. The fair value of such biological assets is equal to actual incurred costs. The carrying value of the next year's crop as at 31 December 2013 amounted to RUR 577,253 thousand (USD* 17,637 thousand).

(b) Income tax

The Group is subject to income taxes in different jurisdictions. Significant judgment is required in determining the provision for income taxes due to the complexity of the legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provision in the period in which such determination is made.

Management judgmentally ceased to recognize deferred tax assets for all unused tax losses.

The Group maintains the legal right to use such tax losses in the future, up to the date allowed by the tax law. Management determined that deferred tax assets relating to such tax losses would be reconsidered for recognition once the Group reaches stable profitability during several years.

(c) Impairment of assets

During the year, as the result of the negative financial results, the Group carried out a review of the recoverable amount of its property, plant and equipment used in agricultural activity. For the purpose of a review recoverable amounts of the cash-generating units to which the assets belong was considered. Reportable operating segments were determined as cash-generating units (Note 6). Based on the review the Group concluded that no impairment loss is required. This conclusion was based on the following assumptions:

- 1) The Group's net assets mostly consist of land carried at historical cost whereas market value of this land is considerably higher;
- 2) Property, plant and equipment carrying value approximates its fair value;
- 3) Finished goods and biological assets are measured at fair value.

(d) Investment property

The Group's investment property (note 25) is measured at fair value for financial reporting purposes on the basis of a valuation carried out by the independent appraiser, who has appropriate qualifications and recent experience in the valuation of properties in the relevant location. Level 2 approach was used to determine fair value of the Group's investment property.

5. PRIOR YEAR CHANGES

Reclassifications

In 2012 the Group started to use currency non-deliverable forwards which it initially classified as hedges and reported unsettled balances as receivables. During 2013 the Group reviewed its classification and concluded that it would be more appropriate to classify these financial instruments as held-for-trading derivatives that are not designated in hedge accounting relationships. During the 2nd quarter 2013 the Group expanded its use of derivatives by entering into a variety of grain futures, call options and forex. Due to this fact comparative information related to presentation of foreign exchange forward contracts has been reclassified in order to achieve comparability with the current period presentation.

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

In thousands of RUR	Before reclassification	Reclassification	After reclassification
<i>Impact as of 31 December 2012</i>			
Trade and other receivables	687,302	(14,148)	673,154
Other financial assets	–	14,148	14,148

In thousands of USD*	Before reclassification	Reclassification	After reclassification
<i>Impact as of 31 December 2012</i>			
Trade and other receivables	20,999	(432)	20,567
Other financial assets	–	432	432

During 2013, the Group has conducted a detailed analysis and has revised its classification of actual costs related to goods in transit with a view to improve classification of such expenditures. As a result of such analysis it was concluded that actual costs related to goods in transit in the amount of RUR 156,476 thousand should be viewed as Gain on revaluation of biological assets. Therefore

certain comparative information, presented in the consolidated financial statements for the year ended 31 December 2012, has been reclassified to be consistent with the classification for the year ended 31 December 2013.

In thousands of RUR	Before reclassification	Reclassification	After reclassification
<i>Impact as of 31 December 2012</i>			
Gain on revaluation of biological assets	2,413,584	(156,476)	2,257,108
Cost of sales	(5,284,958)	156,476	(5,128,482)

In thousands of USD*	Before reclassification	Reclassification	After reclassification
<i>Impact as of 31 December 2012</i>			
Gain on revaluation of biological assets	73,744	(4,781)	68,963
Cost of sales	(161,475)	4,781	(156,694)

6. SEGMENT INFORMATION

The operating segments definitions were developed by senior management in order to enable effective and efficient operating performance based on the geographic and sub-climactic split of the cropped areas in the four Black Earth regions: Voronezh, Kursk, Lipetsk and Tambov. The Group also has one operating entity in Samara region, however, for segment reporting purposes it was included in Tambov, as the entity's result is not material as a single operating segment.

The Group also recognizes a separate segment related to elevator activity. The Elevator segment consists of two legal entities: Agrotterminal (one working elevator with 60 tons of capacity) and Nedvizhimost' (three elevators with 115 tons of capacity). The elevators mainly work for internal needs, however it provides services for third parties if there are spare capacities.

Land plots, classified as investment property as of 31 December 2013 (assets held for sale as of 31 December 2012) are located in Samara region and attributed to Tambov region (Note 25).

The management company is located in Moscow. It sets the general policies for all entities, collects the data and controls implementation of all decisions therefore it bears the majority of general and administrative expenses.

The parent company Black Earth Farming Ltd. is not included in any of the operating segments, as it does not generate revenue, therefore its assets and expenses have been reflected in the corporate segment of the assets and expenses.

The segments are based on the internal reporting to the chief operating decision maker – senior management headed by the CEO of Black Earth Farming Limited.

(a) Segment revenues and results

In thousands of	RUR Revenue from external sales 12 m. 2013	RUR Inter-segment revenue 12 m. 2013	RUR Depreciation and amortisation 12 m. 2013	RUR Net result 12 m. 2013
Agricultural companies				
– Voronezh region	892,905	106,908	111,422	(191,075)
– Kursk region	1,381,509	40,355	125,892	(88,907)
– Lipetsk region	1,365,536	37,157	132,958	(72,738)
– Tambov region	665,355	67,605	109,007	(249,527)
Elevators	2,104	307,027	115,607	1,216
Management company (Moscow)	–	20,910	4,361	(268,342)
Total	4,307,409	579,962	599,247	(869,373)
General administrative costs including directors' salaries				(217,443)
Other income and expenses				111,885
Net financial expenses and gain on foreign exchange differences				(453,956)
Loss before income tax				(1,428,887)

In thousands of	RUR Revenue from external sales 12 m. 2012	RUR Inter-segment revenue 12 m. 2012	RUR Depreciation and amortisation 12 m. 2012	RUR Net result 12 m. 2012
Agricultural companies				
– Voronezh region	1,061,364	61,747	131,842	206,501
– Kursk region	1,318,221	53,294	134,346	472,966
– Lipetsk region	1,346,746	23,018	151,442	290,257
– Tambov region	723,708	85,523	111,253	174,692
Elevators	8,417	254,039	34,846	(11,600)
Management company (Moscow)	–	47,611	12,019	(381,540)
Total	4,458,456	525,232	575,748	751,276
General administrative costs including directors' salaries				(222,864)
Other income and expenses				76,989
Net financial expenses and gain on foreign exchange differences				(317,995)
Profit before income tax				287,406

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

In thousands of	USD* Revenue from external sales 12 m. 2013	USD* Inter-segment revenue 12 m. 2013	USD* Depreciation and amortisation 12 m. 2013	USD* Net result 12 m. 2013
Agricultural companies				
– Voronezh region	27,282	3,266	3,404	(5,838)
– Kursk region	42,210	1,233	3,846	(2,716)
– Lipetsk region	41,722	1,135	4,062	(2,222)
– Tambov region	20,329	2,066	3,331	(7,625)
Elevators	65	9,381	3,532	37
Management company (Moscow)	–	639	133	(8,199)
Total	131,608	17,720	18,308	(26,563)
General administrative costs including directors' salaries				(6,644)
Other income and expenses				3,419
Net financial expenses and gain on foreign exchange differences				(13,870)
Loss before income tax				(43,658)

In thousands of	USD* Revenue from external sales 12 m. 2012	USD* Inter-segment revenue 12 m. 2012	USD* Depreciation and amortisation 12 m. 2012	USD* Net result 12 m. 2012
Agricultural companies				
– Voronezh region	32,429	1,887	4,028	6,306
– Kursk region	40,277	1,628	4,105	14,451
– Lipetsk region	41,148	703	4,627	8,868
– Tambov region	22,112	2,613	3,399	5,337
Elevators	257	7,762	1,065	(354)
Management company (Moscow)	–	1,455	367	(11,656)
Total	136,223	16,048	17,591	22,952
General administrative costs including directors' salaries				(6,809)
Other income and expenses				2,354
Net financial expenses and gain on foreign exchange differences				(9,716)
Profit before income tax				8,781

The accounting policies of the reportable segments are the same as the Group's accounting policies according to IFRS. Segment profit represents the profit earned by each segment without general administration costs including directors' salaries, other income and expenses and finance costs (net).

(b) Segment assets

In thousands of	RUR 31-Dec-13	RUR 31-Dec-12	USD* 31-Dec-13	USD* 31-Dec-12
Agricultural companies				
– Voronezh region	1,706,696	1,950,299	52,146	59,589
– Kursk region	2,242,130	2,637,392	68,505	80,582
– Lipetsk region	2,346,575	2,253,482	71,697	68,852
– Tambov region	1,589,881	1,685,859	48,577	51,509
Elevators	1,540,388	1,590,226	47,065	48,587
Management company (Moscow)	1,240,908	894,609	37,914	27,334
Total segment assets	10,666,577	11,011,867	325,904	336,453
Corporate assets	642,039	1,810,601	19,616	55,321
Consolidated total assets	11,308,616	12,822,468	345,520	391,774

Corporate assets include closing balances (mainly cash and cash equivalents) of Black Earth Farming Ltd. and the Group's net deferred tax position.

(c) Revenues from major products

The Group's revenues from its major products were as follows:

In thousands of	RUR 12 m. 2013	RUR 12 m. 2012	USD* 12 m. 2013	USD* 12 m. 2012
Wheat	1,436,189	1,734,480	43,881	52,995
Sunflowers	965,822	519,442	29,509	15,871
Corn	527,275	637,246	16,110	19,470
Spring rape seed	369,995	662,216	11,305	20,233
Sugar-beet	335,981	198,016	10,265	6,050
Barley	298,969	305,369	9,135	9,330
Soya	231,214	339,933	7,064	10,386
Milk and meat	46,782	33,616	1,429	1,027
Potatoes	39,739	–	1,214	–
Peas	26,766	–	818	–
Other goods and services	21,927	14,822	672	454
Other and waste grains	6,750	13,316	206	407
	4,307,409	4,458,456	131,608	136,223

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

(d) Geographical information

The Group operates in the Russian Federation. The parent company of the Group is located in Jersey; however the parent does not own any non-current assets and generates only financial income and expenses in addition to administration costs and directors' salaries. Therefore all non-current assets are located in Russia and all of the Group's operating activities are in Russia.

(e) Information about major customers

Revenue from the major customer during 2013 and 2012 was equal to RUR 1,248,054 thousand (USD* 38,134 thousand) and RUR 1,032,821 thousand (USD* 31,556 thousand) which represents approximately 29 and 23 percent of the total annual grain sales revenue, respectively.

Revenue from this customer during 2013 and 2012 was reported by segments as follows:

In thousands of	RUR 12 m. 2013	RUR 12 m. 2012	USD* 12 m. 2013	USD* 12 m. 2012
Voronezh region	223,383	305,862	6,825	9,345
Kursk region	317,602	280,691	9,704	8,576
Lipetsk region	503,973	254,433	15,398	7,774
Tambov region	203,094	191,835	6,205	5,861
	1,248,052	1,032,821	38,132	31,556

7 Revenue and gains

The following is an analysis of the Group's revenue for the year from continuing operations.

In thousands of	RUR 12 m. 2013	RUR 12 m. 2012	USD* 12 m. 2013	USD* 12 m. 2012
Revenue from sales of crop production	4,238,700	4,410,018	129,508	134,743
Revenue from sales of milk and meat	46,782	33,616	1,429	1,027
Revenue from sales of other goods and services	21,927	14,822	671	453
Gain on revaluation of biological assets to agricultural produce	418,875	2,257,108	12,798	68,963
Change in net realizable value of agricultural produce after harvest	5,804	92,483	177	2,826
	4,732,088	6,808,047	144,583	208,012

In thousands of	RUR 12 m. 2013	RUR 12 m. 2012	USD* 12 m. 2013	USD* 12 m. 2012
Fair value less point-of-sale costs at date of harvest	3,989,920	4,955,897	121,907	151,421
Actual production costs	(3,570,208)	(2,697,172)	(109,083)	(82,409)
Revaluation of biological assets to agricultural produce	419,712	2,258,725	12,824	69,012
Fair value of 2013 corn to be harvested less point-of-sale costs	19,995	–	611	–
Actual production costs	(21,984)	–	(672)	–
Revaluation of agricultural produce in the process of harvesting	(1,989)	–	(61)	–
Revaluation of dairy and meat livestock	1,152	(1,617)	35	(49)
Gain on revaluation of biological assets to agricultural produce	418,875	2,257,108	12,798	68,963

8 Cost of sales

In thousands of	RUR 12 m. 2013	RUR 12 m. 2012	USD* 12 m. 2013	USD* 12 m. 2012
Materials	2,299,412	2,107,077	70,256	64,379
Depreciation and amortization charge	497,297	499,080	15,194	15,249
Personnel expenses	333,801	302,901	10,199	9,255
Third party crop handling services	206,941	162,752	6,323	4,973
Crops not harvested due to damages on fields	46,425	39,037	1,418	1,193
Taxes	38,964	40,965	1,190	1,252
Operating leases (Note 31)	37,262	39,222	1,138	1,198
Repair expenses	31,958	27,518	976	841
Other expenses	43,093	62,046	1,318	1,894
Effect of revaluations (revaluation of biological assets to agricultural produce and change in net realizable value of agricultural produce after harvest)	1,001,345	1,847,884	30,595	56,460
	4,536,498	5,128,482	138,607	156,694

9 Distribution expenses

In thousands of	RUR 12 m. 2013	RUR 12 m. 2012	USD* 12 m. 2013	USD* 12 m. 2012
Transportation and delivery services	438,836	274,647	13,408	8,391
Depreciation and amortization charge	93,313	59,422	2,851	1,816
Personnel expenses	46,137	43,069	1,410	1,316
Materials	34,583	26,392	1,057	806
Storage and other elevator's services	28,602	21,822	874	667
Other services	36,376	43,963	1,111	1,343
	677,847	469,315	20,711	14,339

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

10 General and administrative expenses

In thousands of

	RUR 12 m. 2013	RUR 12 m. 2012	USD* 12 m. 2013	USD* 12 m. 2012
Personnel expenses	366,066	329,965	11,185	10,082
Consulting and audit	124,058	163,924	5,008	
Office and administration expenses	54,697	46,321	1,671	1,415
Rent expenses	25,516	22,909	780	700
Travelling expenses	20,026	37,468	612	1,145
Depreciation and amortization	8,637	13,038	264	398
Termination payments	1,087	3,284	33	100
Other services	17,379	13,911	531	426
	617,466	630,820	18,866	19,274

11 Personnel expenses

Personnel expenses are included in general and administrative expenses, selling expenses, cost of sales and work in progress as follows:

In thousands of

	RUR 12 m. 2013	RUR 12 m. 2012	USD* 12 m. 2013	USD* 12 m. 2012
<i>General and administrative expenses:</i>				
Salaries	323,657	291,974	9,889	8,921
Social taxes	43,496	41,275	1,329	1,261
<i>Cost of sales and work in progress:</i>				
Salaries	333,801	302,330	10,199	9,237
Salary related expenses	95,053	68,631	2,904	2,097
<i>Selling expenses:</i>				
Salaries	34,641	33,414	1,058	1,021
Salary related expenses	11,496	9,655	352	295
	842,144	747,279	25,731	22,832

Personnel expenses for 2013 and 2012 include share-based payment expense (see Note 26 (d)) granted to employees of RUR 44,886 thousand (USD* 1,371 thousand) and RUR 13,723 thousand (USD* 419 thousand) correspondingly.

Average and total number of employees	12 m. 2013	Of whom men	12 m. 2012	Of whom men
Parent (Jersey)	12	92%	18	94%
Subsidiaries (Russia)	1,997	79%	1,995	79%
Group total	2,009	79%	2,013	79%

The total number of Group employees as at 31 December 2013 was 2,043 (31 December 2012: 2,067).

Proportion of women in management

	2013 Percentage of women	2012 Percentage of women
<i>Parent</i>		
Board of directors	14%	0%
Other senior executives	10%	0%
<i>Group</i>		
Board of directors	14%	0%
Other senior executives	10%	0%

Retirement benefit plans

The statutory retirement age for employees is 55 years for women and 60 years for men, in accordance with the Russian Labor Code. The Group does not offer a private pension plan to its employees. In accordance with Russian tax legislation, the Group pays statutory social security tax (at maximum rate 30% at annual taxable income less than RUR 568 thousand and additional 10% at taxable income more than RUR 568 thousand). This tax is regressive and comprises social insurance, contributions to the State Pension Fund and the State Medical Fund. The total expense recognized in statement of comprehensive income of RUR 150,045 thousand (USD* 4,584 thousand) and RUR 116,277 thousand (USD* 3,553 thousand) represent contributions payable to the State Pension Fund during 2013 and 2012, respectively. The Company has not reserved or accrued for pension, retirement or similar benefit obligations to Directors or senior executives. No Directors or senior executives have service contracts with the Company which offers them benefits upon termination of their respective appointments.

Termination of employment

The executives are entitled to a severance pay of not more than 6 months if the Group terminates the employment. Severance pay for the executives is calculated only on the base salary and does not include any variable compensations.

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

12. Taxes other than income

In thousands of	RUR 12 m. 2013	RUR 12 m. 2012	USD* 12 m. 2013	USD* 12 m. 2012
Property tax	47,985	58,125	1,466	1,776
Unrecoverable VAT	5,493	4,295	168	131
Other taxes	2,422	13,492	74	412
	55,900	75,912	1,708	2,319

Starting from 1 January 2013 property tax rate for movable items of plant, property and equipment was reduced to 0% (2012: 2.2%) in accordance with the tax legislation of the Russian Federation.

13. Crop insurance net of insurance grants

In thousands of	RUR 12 m. 2013	RUR 12 m. 2012	USD* 12 m. 2013	USD* 12 m. 2012
Crop insurance expense	84,420	–	2,579	–
Crop insurance grants	(38,645)	–	(1,180)	–
	45,775	–	1,399	–

14. Other income and expenses

In thousands of	RUR 12 m. 2013	RUR 12 m. 2012	USD* 12 m. 2013	USD* 12 m. 2012
Gain on grain options and futures	135,379	–	4,136	–
Result on disposal of property, plant and equipment	14,044	37,077	430	1,133
Gains and losses related to disposal of other assets	2,473	(3,557)	76	(109)
Revaluation of land	1,753	64,569	54	1,973
Fines and penalties received	313	3,782	10	116
Allowance for doubtful debts	(1,599)	(17,969)	(49)	(549)
Donations	(2,299)	(17,905)	(70)	(547)
Write-off accounts receivable or payable	(15,759)	–	(481)	–
Loss on foreign currency forward contracts	(29,502)	–	(901)	–
Other income and expenses	7,082	(16,739)	214	(515)
	111,885	49,258	3,419	1,502

The following is the breakdown of net gain on held for trading derivatives that are not designated in hedge accounting relationships – grain futures and options (Note 29):

In thousands of	RUR 12 m. 2013	RUR 12 m. 2012	USD* 12 m. 2013	USD* 12 m. 2012
Corn futures	12,871	–	393	–
Wheat futures	54,846	–	1,675	–
Corn calls	28,728	–	878	–
Wheat calls	38,934	–	1,190	–
	135,379	–	4,136	–

15. Financial income and expenses

In thousands of	RUR 12 m. 2013	RUR 12 m. 2012	USD* 12 m. 2013	USD* 12 m. 2012
Financial income				
Interest income on deposits	51,611	26,793	1,577	819
	51,611	26,793	1,577	819
Financial expenses				
Interest on bonds	(368,447)	(374,334)	(11,257)	(11,437)
Loss from repurchase of bonds	(11,408)	(12,854)	(349)	(393)
Interest expense	(551)	(536)	(17)	(16)
	(380,406)	(387,724)	(11,623)	(11,846)
Net financial items	(328,795)	(360,931)	(10,046)	(11,027)

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

16. Income tax

Black Earth Farming Limited (the holding Company in Jersey) and Planalto Enterprises Limited (a subsidiary in Cyprus) are subject to the following tax rates: Jersey 0% and Cyprus 10%, respectively.

Companies domiciled in Russia that do not have the status of an agricultural producer are subject to a 20% corporate income tax. Companies domiciled in Russia that do have the status of an agri-

cultural producer are exempt from corporate income tax on profits realized from the sale of agricultural produce.

In 2012 and 2013, nine main of thirty nine Group's local operating companies were granted the status of agricultural producers thereby enabling them to be exempt from corporate income tax in accordance with the Russian Tax Code.

In thousands of	RUR 12 m. 2013	RUR 12 m. 2012	USD* 12 m. 2013	USD* 12 m. 2012
Current tax expense	11,822	6,464	362	197
Deferred tax expense	22,761	63,417	695	1,938
Income tax expense	34,583	69,881	1,057	2,135

The income tax reconciliation is presented below:

In thousands of	RUR 12 m. 2013	RUR 12 m. 2012	USD* 12 m. 2013	USD* 12 m. 2012
(Loss)/profit before income tax	(1,428,887)	287,406	(43,658)	8,782
Income tax at applicable tax rate of 20%	(285,777)	57,481	(8,732)	1,756
Effect of income / (loss) at 10% and 0% tax rate	227,636	(82,822)	6,955	(2,531)
Effect of non-deductible expenses and other permanent differences	63,977	66,050	1,955	2,018
Effect of previously unrecognized and unused tax losses now recognized and used	(12,205)	(6,318)	(372)	(192)
Change in unrecognized deferred tax assets	40,952	35,490	1,251	1,084
Income tax expense	34,583	69,881	1,057	2,135

17 Deferred tax assets and liabilities

(a) Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

In thousands of RUR	Assets		Liabilities		Net	
	31-Dec-2013	31-Dec-2012	31-Dec-2013	31-Dec-2012	31-Dec-2013	31-Dec-2012
Inventory	3,454	6,589	—	—	3,454	6,589
Trade and other payables	2,794	15,664	(54)	—	2,740	15,664
Trade and other receivables	120	3,630	(3)	(4,416)	117	(786)
Property, plant and equipment and Investment property (AHFS)	—	6,264	(24,053)	(21,529)	(24,053)	(15,265)
Net tax (liabilities)/assets	6,368	32,147	(24,110)	(25,945)	(17,742)	6,202

In thousands of USD*	Assets		Liabilities		Net	
	31-Dec-2013	31-Dec-2012	31-Dec-2013	31-Dec-2012	31-Dec-2013	31-Dec-2012
Inventory	104	201	—	—	104	201
Trade and other payables	85	479	(1)	—	84	479
Trade and other receivables	4	111	—	(135)	4	(24)
Property, plant and equipment and Investment property (AHFS)	—	191	(736)	(658)	(735)	(467)
Net tax (liabilities)/assets	193	982	(737)	(793)	(543)	189

Management determined that deferred tax assets relating to tax losses carried forward would be considered for recognition once the Group reaches stable profitability during several years.

(b) Unrecognized deferred tax assets

In thousands of	RUR 31-Dec-2013	RUR 31-Dec-2012	USD* 31-Dec-2013	USD* 31-Dec-2012
Tax losses carried forward	218,960	178,009	6,690	5,439
	218,960	178,009	6,690	5,439

The unrecognized tax credits amounted to RUR 142,491 thousand (USD* 4,354 thousand), RUR 35,514 thousand (USD* 1,085 thousand) and RUR 40,955 thousand (USD* 1,251 thousand) will expire in 2021, 2022 and 2023 accordingly.

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

18 Property, plant and equipment

In thousands of	RUR Land	RUR Buildings	RUR Machinery and equipment	RUR Vehicles	RUR Fixtures and fittings	RUR Construction in progress	RUR Total
<i>Cost</i>							
Balance as at 1 January 2012	1,880,762	2,564,307	2,825,208	358,560	36,955	132,465	7,798,257
Additions	11,829	99,248	471,199	18,649	7,444	73,912	682,281
Disposals	(49,590)	(2,874)	(1,261)	(2,765)	(2,524)	(4,422)	(63,436)
Transfers to investment property (Note 25)	(42,584)	–	–	–	–	–	(42,584)
Reclassification of fixed assets	5,246	45,274	15,459	–	96	(66,075)	–
As at 31 December 2012	1,805,663	2,705,955	3,310,605	374,444	41,971	135,880	8,374,518
Additions	39,528	49,514	288,371	20,015	3,321	32,186	432,935
Disposals	(9,593)	(3,421)	(19,869)	(1,824)	(2,811)	(8,097)	(45,615)
Transfers to investment property (Note 25)	(31,977)	–	–	–	–	–	(31,977)
Reclassification of fixed assets	(5,246)	33,542	721	1,025	811	(30,853)	–
As at 31 December 2013	1,798,375	2,785,590	3,579,828	393,660	43,292	129,116	8,729,861
<i>Accumulated depreciation and impairment</i>							
Balance as at 1 January 2012	(5,321)	(335,371)	(1,191,018)	(220,074)	(26,925)	–	(1,778,709)
Depreciation charge	–	(141,177)	(395,342)	(45,193)	(4,133)	–	(585,845)
Adjustment to depreciation of disposed fixed assets	–	209	669	2,523	2,306	–	5,707
Reversal of impairment of land	(1,496)	–	–	–	–	–	(1,496)
As at 31 December 2012	(6,817)	(476,339)	(1,585,691)	(262,744)	(28,752)	–	(2,360,343)
Depreciation charge	–	(150,422)	(408,538)	(44,386)	(4,670)	–	(608,016)
Adjustment to depreciation of disposed fixed assets	–	588	18,899	1,465	2,239	–	23,191
Impairment of PPE	–	(1)	(2)	2	1	–	–
As at 31 December 2013	(6,817)	(626,174)	(1,975,332)	(305,663)	(31,182)	–	(2,945,168)
<i>Net book value</i>							
As at 1 January 2012	1,875,441	2,228,936	1,634,190	138,486	10,030	132,465	6,019,548
As at 31 December 2012	1,798,846	2,229,616	1,724,914	111,700	13,219	135,880	6,014,175
As at 31 December 2013	1,791,558	2,159,416	1,604,496	87,997	12,110	129,116	5,784,693
In thousands of	USD*	USD*	USD*	USD*	USD*	USD*	USD*
	Land	Buildings	Machinery and equipment	Vehicles	Fixtures and fittings	Construction in progress	Total
<i>Cost</i>							
Balance as at 1 January 2012	57,464	78,349	86,321	10,955	1,129	4,047	238,265
Additions	361	3,032	14,397	570	227	2,258	20,845
Disposals	(1,515)	(88)	(39)	(84)	(77)	(133)	(1,936)
Transfers to investment property	(1,301)	–	–	–	–	–	(1,301)
Reclassification of fixed assets	160	1,383	472	–	3	(2,018)	–
As at 31 December 2012	55,169	82,676	101,151	11,441	1,282	4,154	255,873
Additions	1,208	1,514	8,811	612	101	983	13,229
Disposals	(294)	(105)	(606)	(55)	(85)	(250)	(1,395)
Transfers to investment property (Note 25)	(977)	–	–	–	–	–	(977)
Reclassification of fixed assets	(160)	1,025	22	30	25	(942)	–
As at 31 December 2013	54,946	85,110	109,378	12,028	1,323	3,945	266,730
<i>Accumulated depreciation and impairment</i>							
Balance as at 1 January 2012	(163)	(10,247)	(36,390)	(6,724)	(823)	–	(54,347)
Depreciation charge	–	(4,313)	(12,079)	(1,381)	(126)	–	(17,899)
Adjustment to depreciation of disposed fixed assets	–	6	20	77	70	–	173
Impairment of PPE	–	–	–	–	–	–	–
Reversal of impairment of land	(44)	–	–	–	–	–	(44)
As at 31 December 2012	(207)	(14,554)	(48,449)	(8,028)	(879)	–	(72,117)
Depreciation charge	–	(4,596)	(12,482)	(1,356)	(142)	–	(18,576)
Adjustment to depreciation of disposed fixed assets	–	18	576	45	68	–	707
Impairment of PPE	–	–	–	–	–	–	–
Impairment of land	–	–	–	–	–	–	–
As at 31 December 2013	(207)	(19,132)	(60,355)	(9,339)	(953)	–	(89,986)
<i>Net book value</i>							
As at 1 January 2012	57,301	68,102	49,931	4,231	306	4,047	183,918
As at 31 December 2012	54,962	68,122	52,702	3,413	403	4,154	183,756
As at 31 December 2013	54,739	65,978	49,023	2,689	370	3,945	176,744

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

Land

As at 31 December 2013 and 2012, the Group has effective control over 308 thousand hectares of land. Approximately 18 thousand hectares were in the process of registration with the relevant authorities. Until the Group completes the registration process, it will not be able to fully exercise its rights of ownership.

As at 31 December 2013 and 2012 the Group leased 40 thousand hectares under long-term cancellable lease contracts. The Group has 250 thousand hectares in fully registered ownership.

Thousand hectares of land	31-Dec-13	31-Dec-12
Land in registered ownership	254	250
Land under long-term lease agreements	44	40
Land in the process of ownership registration with the relevant authorities	10	18
	308	308

19 Intangible assets

In thousands of

	RUR 2013	RUR 2012	USD* 2013	USD* 2012
<i>Cost</i>				
Balance at the beginning of the year	23,275	20,391	711	623
Additions	9,971	2,951	305	90
Disposals	(20)	(67)	(2)	(2)
Balance at the end of the year	33,226	23,275	1,014	711
<i>Accumulated amortization and impairment</i>				
Balance at the beginning of the year	(20,834)	(13,546)	(636)	(414)
Amortization expense	(2,313)	(7,355)	(70)	(225)
Disposals	20	67	1	3
Balance at the end of the year	(23,127)	(20,834)	(705)	(636)
<i>Net book value</i>				
At the beginning of the year	2,441	6,845	75	209
Balance at the end of the year	10,099	2,441	309	75

Intangible assets mainly comprise computer software and construction licenses. The estimated useful lives used in the calculation of amortization vary from one to three years.

20 Biological assets

In thousands of RUR

	Crop production (current)	Livestock (non-current)	Total
Balance as at 1 January 2012	532,598	23,514	556,112
Increase due to acquisitions	—	—	—
Increase due to incurred expenses	3,063,085	12,880	3,075,965
Decrease due to sales	—	(8,759)	(8,759)
Net increase due to births/(deaths)	—	175	175
Change in fair value less estimated point-of-sale costs	2,258,725	(1,617)	2,257,108
Harvested crops transferred to inventories	(4,848,280)	—	(4,848,280)
Balance as at 31 December 2012	1,006,128	26,193	1,032,321
Increase due to incurred expenses	3,143,322	13,522	3,156,844
Decrease due to sales	—	(18,818)	(18,818)
Change in fair value less estimated point-of-sale costs	417,723	1,152	418,875
Harvested crops transferred to inventories	(3,989,920)	—	(3,989,920)
Balance as at 31 December 2013	577,253	22,049	599,302

In thousands of USD*

	Crop production (current)	Livestock (non-current)	Total
Balance as at 1 January 2012	16,273	718	16,991
Increase due to acquisitions	—	—	—
Increase due to incurred expenses	93,588	394	93,982
Decrease due to sales	—	(268)	(268)
Net increase due to births/(deaths)	—	5	5
Change in fair value less estimated point-of-sale costs	69,013	(49)	68,964
Harvested crops transferred to inventories	(148,133)	—	(148,133)
Balance as at 31 December 2012	30,741	800	31,541
Increase due to incurred expenses	96,040	413	96,453
Decrease due to sales	—	(574)	(574)
Change in fair value less estimated point-of-sale costs	12,763	35	12,798
Harvested crops transferred to inventories	(121,907)	—	(121,907)
Balance as at 31 December 2013	17,637	674	18,311

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

Current biological assets comprise the planned crop of 2014. The 2014 crop has been seeded during September-November 2013 and therefore, is currently undergoing its planned biological transformation which takes its due course until spring/summer of 2014; therefore, this "planned harvest" is currently valued on the basis of

actual incurred costs due to the fact that little biological transformation has taken place.

Level 3 approach was used to determine fair value of the Group's biological assets.

21 Other non-current assets

In thousands of

	RUR 31-Dec-2013	RUR 31-Dec-2012	USD* 31-Dec-2013	USD* 31-Dec-2012
Prepayments for property, plant and equipment	42,728	43,856	1,306	1,340
Prepayments for long-term lease	38,609	55,787	1,180	1,705
Allowance for doubtful debts	(8,417)	(16,052)	(257)	(490)
Other non-current assets	4,901	5,469	149	166
	77,821	89,060	2,378	2,721

22 Inventories

In thousands of

	RUR 31-Dec-2013	RUR 31-Dec-2012	USD* 31-Dec-2013	USD* 31-Dec-2012
Finished goods	1,165,164	1,418,118	35,600	43,329
Raw materials and consumables	670,828	800,817	20,496	24,468
	1,835,992	2,218,935	56,096	67,797

According to IAS 41, harvested crop is transferred to inventory at fair value less cost to sell at the date of harvest. Thereafter, finished goods are stated at net realizable value according to the accounting policy.

23 Trade and other receivables

In thousands of

	RUR 31-Dec-2013	RUR 31-Dec-2012	USD* 31-Dec-2013	USD* 31-Dec-2012
VAT receivable	227,988	153,403	6,966	4,687
Advances paid for goods and services	207,177	129,825	6,330	3,967
Trade receivables	188,243	394,944	5,752	12,067
Income tax receivable	6,262	7,021	191	215
Other prepayments and receivables	129,415	29,821	3,954	910
Allowance for doubtful debts	(30,576)	(41,860)	(934)	(1,279)
	728,509	673,154	22,259	20,567

The average credit period on sales of goods is 7 days. No interest is charged on trade receivables.

Before accepting a new customer, the Group uses an external credit scoring system to assess the potential customer's credit

quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed on a case-by-case basis.

The ageing analysis of trade and other receivables is presented in the table below:

In thousands of RUR

	31-Dec-2013		31-Dec-2012	
	Gross amount	Allowance	Gross amount	Allowance
Current	643,847	—	602,093	—
Past due	115,238	(30,576)	112,921	(41,860)
less than six months	76,978	—	75,064	(4,369)
over six months	38,260	(30,576)	37,857	(37,491)
	759,085	(30,576)	715,014	(41,860)

In thousands of USD*

	31-Dec-13		31-Dec-12	
	Gross amount	Allowance	Gross amount	Allowance
Current	19,672	—	18,395	—
Past due	3,521	(934)	3,450	(1,278)
less than six months	2,352	—	2,293	(133)
over six months	1,169	(934)	1,157	(1,145)
	23,193	(934)	21,845	(1,278)

During 2013, the Group created allowance for doubtful debts amounting to RUR 30,576 thousand (USD* 934 thousand) (2012: RUR 41,860 thousand, USD* 1,278 thousand). Trade receivables over 180 days are provided for based on an estimation of unrecoverable amounts from the sale of goods, as determined by reference to past default experience.

The total amount of taxes receivables is recognized as "current" regardless of the accepted term of 90 days as the Group has positive experience in obtaining tax receivables. In addition according to Russian tax legislation it usually takes more than 90 days to receive VAT refund.

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

Movement in the allowance for doubtful debts

In thousands of

	RUR 2013	RUR 2012	USD* 2013	USD* 2012
Balance at the beginning of the year	41,860	18,261	1,278	558
Impairment losses recognized on receivables	8,010	41,837	245	1,278
Amounts written off during the year as uncollectible	(9,461)	(18,238)	(289)	(558)
Impairment losses reversed	(9,833)	–	(300)	–
Balance at the end of the year	30,576	41,860	934	1,278

24 Cash and cash equivalents

In thousands of

	RUR 31-Dec-2013	RUR 31-Dec-2012	USD* 31-Dec-2013	USD* 31-Dec-2012
Call deposits, overnight RUR denominated at 5.5%–5.9% per annum	950,000	750,000	29,026	22,915
Bank balances, RUR denominated accounts	441,275	129,782	13,483	3,965
Bank balances, SEK denominated accounts	424,986	1,686,863	12,985	51,540
Bank balances, EUR denominated accounts	253,508	36,359	7,746	1,111
Bank balances, USD denominated accounts	41,364	34,686	1,264	1,060
Bank balances, GBP denominated accounts	13,565	911	414	28
Petty cash	251	333	7	10
	2,124,949	2,638,934	64,925	80,629

25 Assets classified as held for sale and investment property

The Group owns 13 thousand hectares in Samara region, which is not used by the Group in the Group's primary activity which is farming. At 31 December 2012 these land plots were subject to sales and a sales and purchase agreement with the third party was signed and the land plots were stated in the consolidated statement of financial position as assets held for sale at fair value. During 2013 the sale was not concluded and at 31 December 2013 the Group transferred the land to investment property and in accordance with IAS 40 has measured the land at fair value on the basis of a valuation

carried out by the independent appraiser, who has appropriate qualifications and recent experience in the valuation of properties in the relevant location. The fair value was determined based on the market comparable approach that reflects recent transaction prices for similar properties. In estimating the fair value of the properties, the highest and best use of this land is sales. Level 2 approach was used to determine fair value of the Group's investment property.

Balance cost of investment property

In thousands of

	RUR 31-Dec-2013	RUR 31-Dec-2012	USD* 31-Dec-2013	USD* 31-Dec-2012
Balance at the beginning of the year	–	–	–	–
Reclassifications from/(to) property, plant and equipment	31,977	42,584	977	1,301
Reclassifications from/(to) assets held for sale	107,153	(107,153)	3,274	(3,274)
Revaluation gain (Note 14)	1,753	64,569	54	1,973
Balance at the end of the year	140,883	–	4,305	–

The Group recognized the following amounts in profit and loss related to investment property:

In thousands of

	RUR 12 m. 2013	RUR 12 m. 2012	USD* 12 m. 2013	USD* 12 m. 2012
Rental income from investment property	6,859	983	210	30
Land tax expenses	(1,114)	(983)	(34)	(30)
	5,745	–	176	–

26 Equity

(a) Share capital

The Group has only one class of share – ordinary shares. Each share is entitled to one vote at the general meeting and carries an equal right to the Group's assets and profits. The shares are denominated in USD and have a nominal value of USD 0.01 per share.

On 22 December 2007, the Company's shares were listed in the form of Swedish Depository Receipts ("SDR") on the First North market place in Stockholm. On 22 June 2009, trading in Black Earth Farming's SDRs was transferred from NASDAQ OMX First North to the Mid Cap segment on NASDAQ OMX Stockholm.

During the 4th quarter of 2012, the Group completed a rights issue, which entailed an increase in the number of shares.

There are no unpaid shares and the total amount of share capital amounted to RUR 58,349 thousand (USD* 1,783 thousand) as at 31 December 2013.

(b) Share premium

The total share premium amounted to RUR 13,621,100 thousand (USD* 416,176 thousand) as at 31 December 2013.

(c) Dividends

In accordance with Jersey legislation, the Company's (i.e., Black Earth Farming Limited) distributable reserves are limited to the balance of the Company's retained earnings.

(d) Share-based payments

Warrants

The Group grants its key management warrants that may be converted into ordinary shares. All issued warrants have vesting periods ranging from 1 to 5 years (the common vesting condition requires continued employment with the Group). The expiry date of 31 December 2015 is common for all warrants granted to employees, except for issued in 2012 and 2013 with expiry dates in 2016 and 2017.

The warrants are granted to key management employees in accordance with a personal schedule of proportional yearly tranches. Each tranche of warrants can be vested a year after the grant date.

During 2013 no warrants were exercised. The Group granted 2,150,000 warrants to key management. Three employees left the Company, resulting in the forfeiture of 1,080,000 warrants. The summary information on the warrants held by Directors is described in the Corporate Governance Report.

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

The number and weighted average exercise prices of the warrants are as follows:

In thousands of warrants	Weighted average exercise price 12 m. 2013	Number of warrants, in thousands 12 m. 2013	Weighted average exercise price 12 m. 2012	Number of warrants, in thousands 12 m. 2012
	USD 6.94	1,907	USD 6.94	1,907
	SEK 22.25	2,226	SEK 28.53	1,736
Balance at the beginning of the year		4,133		3,643
Forfeited during the year	USD 5.92	(770)		–
Forfeited during the year	SEK 28.66	(310)	SEK 31.10	(210)
Granted during the year	SEK 8.72	2,150	SEK 11.24	700
Balance at the end of the year		5,203		4,133
	USD 7.64	1,137	USD 6.94	1,907
	SEK 15.15	4,066	SEK 22.25	2,226
Exercisable as at 31 December 2013	USD 7.64	1,137	USD 6.64	1,697
Exercisable as at 31 December 2013	SEK 24.14	1,149	SEK 26.99	850
		2,286		2,547

The weighted average remaining contractual life for the warrants outstanding as at 31 December 2013 is 2.78 years (31 December 2012: 3.34 years).

The fair value of services received in return for warrants granted is based on the fair value of warrants granted, measured using the

Black-Scholes model. Exercise prices of warrants are stipulated by the warrant certificates. Up to 2009, all exercise prices were denominated in USD and ranged from USD 2.50 to USD 12.00. Warrants issued in 2009–2013 are denominated in SEK with exercise prices ranging from SEK 7.12 to SEK 39.15.

Inputs into the model	Granted in 2013	Granted in 2012	Granted in 2011	Granted in 2010	Granted in 2009
Fair value at grant date	SEK 4.48	SEK 3.46	SEK 10.70	SEK 8.72	SEK 5.18
Share price	SEK 8.85	SEK 8.50	SEK 22.31	SEK 18.50	SEK 22.90
Average exercise price	SEK 8.72	SEK 11.24	SEK 27.37	SEK 26.64	SEK 33.00
Expected volatility (i)	89%	80%	92%	93%	48%
Option life (expected weighted average life)	2.72	2.49	2.23	2.60	3.01
Expected dividends (ii)	0%	0%	0%	0%	0%
Risk-free interest rate (based on government bonds)	0.97%	0.94%	1.9%	1.5%	1.7%

(i) Volatility is a measure of the tendency of investment returns to vary around a long-term average rate. For warrants granted before December 2008 there was not enough historical information on the Company's stock price, so historical peer group information was used to estimate the expected volatility used in the Black-Scholes model. Beginning in 2010, the expected volatility used was based on the Company's historical share price volatility since trading inception.

(ii) The Company has never declared nor paid any dividends on its shares and does not anticipate paying dividends in the foreseeable future. Consequently, the expected dividend assumption is set at zero.

Executives share option plan (ESOP)

In 2012, the Group implemented a share option scheme for executives and senior managers of the Group. In accordance with the terms of the plan, in order to participate in the plan, the participants must purchase shares (in form of SDRs) in the Group. For each share held under the plan, the Group will grant rights, free of charge, to the participant during a three year period.

The rights granted by the Group shall be governed by the following terms and conditions:

- Granted free of charge after the annual general meeting.
- May not be transferred or pledged.
- Vests after the release of the interim report for the period January–March in the third financial year following the grant of the rights.
- Any dividends paid on the underlying share will increase the number of shares that each retention right and performance right entitles to in order to align the shareholders and the participants' interests.
- Vests provided that the holder has maintained the personal investment during the vesting period ending at the release of the interim report for the period January – March in the third financial year following the grant of the rights and is still employed by the Group during this vesting period.

For each of the following satisfied conditions below (A–E), the participants will receive free of charge one share (SDR) in the Group:

- The participants must still be an employee of the Group at the release of the interim report for the period January–March in the third financial year following the grant of the rights.
- The Group's return on capital (measured as EBIT divided by total assets) averages no less than 10% over the three financial years beginning with the financial year when the rights are granted. In respect of rights granted after 2012, the Board of Directors shall have the right, in its sole discretion, to increase the average percentage for the return of capital referred to above.
- The Group is profitable (based on EBIT) during two of three financial years beginning with the financial year when the rights are granted.
- The Group's total revenues in the third financial year are 75% higher than the total revenues during the preceding financial year when the rights are granted.
- The blended yield of crops over the three financial years, beginning with the financial year when the rights are granted, is 20% higher than blended yield of crops in the preceding life of the Group excluding 2010 and corrected for beet and crop changes.

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

As at 31 December 2013, the following arrangements existed under the ESOP

Options series	Number purchased	Average purchase price, SEK	Expiry date	Number granted	Fair value at grant date, SEK
(1) Granted in 2012	512,587	9.47	31/03/2015	1,537,761	9.47
(2) Granted in 2013	278,061	9.13	31/03/2016	556,122	8.94

One employee left the Company, resulting in the forfeiture of options, related to 66,666 purchased shares.

The amount of share-based payment expense recognized in the consolidated statement of comprehensive income is presented in the following table:

In thousands of	RUR 12 m. 2013	RUR 12 m. 2012	USD* 12 m. 2013	USD* 12 m. 2012
Warrants expense	21,964	9,933	671	303
ESOP expense	22,922	3,790	700	117
	44,886	13,723	1,371	420

(e) Earnings per share

The amounts are indicated in

	RUR 12 m. 2013	RUR 12 m. 2012	USD* 12 m. 2013	USD* 12 m. 2012
(Loss)/profit for the period	(1,463,470,000)	217,525,000	(44,714,506)	6,646,206
Weighted average number of ordinary shares	207,669,445	129,140,890	207,669,445	129,140,890
Basic and diluted (loss)/earnings per share (RUR/share, USD*/share)	(7.05)	1.68	(0.22)	0.05

Additional shares under the existing warrants and executives share option plan (described in Note 26 (d)) are antidilutive in accordance with IAS 33 and are not included for purposes of the calculation of

dilutive earnings/ (loss) per share. The Group incurred loss in 2013 and in accordance with IAS 33 the dilutive effect is not considered.

27 Borrowings

The total amount of loans and borrowings was RUR 3,253,682 thousand (USD* 99,412 thousand) as at 31 December 2013 (RUR 3,334,432 thousand, USD 101,872 thousand at 31 December 2012). This amount represents bonds payable and interest accrued (9.4%

– fixed annual coupon rate, 10.22% – effective interest rate) and other borrowings. The bonds are due to be redeemed in 2017 and are unsecured.

In thousands of	RUR 31-Dec-2013	RUR 31-Dec-2012	USD* 31-Dec-2013	USD* 31-Dec-2012
Unsecured SEK bonds – at amortized cost	3,239,615	3,321,626	98,982	101,488
Non-current	3,186,495	3,161,767	97,359	96,604
Current	53,120	159,859	1,623	4,884
Unsecured borrowings – at amortized cost	14,067	12,806	430	392
Current	14,067	12,806	430	392
Total borrowings	3,253,682	3,334,432	99,412	101,880

On 30 October 2013 the Group issued a new SEK 750 million senior unsecured bonds, each of a nominal amount of SEK 1,000,000, which is also the minimum round lot. The Bonds have a fixed annual coupon of 9.40% and mature after 4 years. Interest will be paid on 30 January, 30 April, 30 July and 30 October each year, with the first interest payment on 30 January 2014 and the last on 30 October 2017. The Bonds are listed on the Nasdaq OMX Stockholm exchange.

The offer to exchange Existing Bonds has been accepted in a total nominal amount of SEK 371 million of which the Group has tendered SEK 100 million that is previously held on its own account.

As at 31 December 2013 the Group is in compliance with all covenants stipulated in the bond agreement. The major covenants are as follows:

- 1) Debt to Equity ratio does not exceed 75%;
- 2) No market Loan is incurred if such market loan has a final redemption date, early redemption dates or instalment dates which occur before the final maturity date of bonds;
- 3) Not to distribute any funds to shareholders in excess of 30% of the Group's consolidated net profit for the previous fiscal year.

28 Trade and other payables

In thousands of

	RUR 31-Dec-2013	RUR 31-Dec-2012	USD* 31-Dec-2013	USD* 31-Dec-2012
Trade payables	296,056	311,193	9,046	9,508
Advances received	82,268	107,131	2,514	3,273
Taxes other than on income payable	67,094	44,520	2,050	1,360
Payables to personnel	15,082	10,920	461	334
Income tax payable	4,135	295	126	8
Other payables	57,077	82,919	1,743	2,533
	521,712	556,978	15,940	17,016

The average credit period on purchases of goods is 25 days. No interest is charged on trade payables. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

29 Other financial assets and liabilities

Other financial liabilities as of 31 December 2013 amounted to RUR 22,583 thousand (USD* 690 thousand) (2012: financial assets of RUR 14,148 thousand (USD* 432 thousand) represented by foreign exchange rate derivatives). Grain futures are traded on MATIF (European futures market Paris) and grain call-options are traded on Chicago Board of Trade (CBOT). Foreign exchange rate derivatives are non-deliverable forward contracts between the Company and SEB and Monex banks.

Level 1 approach was used to determine fair value of the Group's held for trading derivatives. Open positions at 31 December 2013 and 2012 are presented below:

	Units	31-Dec 2013	31-Dec 2012
Foreign exchange rate derivatives	EUR '000	9,492	5,115
Foreign exchange rate derivatives	USD '000	4,690	–
Grain futures and options	Tons	–	–

30 Financial instruments

(a) Categories of financial instruments

In thousands of

	RUR 31-Dec-2013	RUR 31-Dec-2012	USD* 31-Dec-2013	USD* 31-Dec-2012
<i>Financial assets</i>				
Financial assets, including:	2,420,379	3,075,252	73,951	93,960
– Cash and cash equivalents	2,124,949	2,638,934	64,925	80,629
– Trade and other receivables	295,430	422,170	9,026	12,899
– Financial instruments	–	14,148	–	432
<i>Financial liabilities</i>				
Amortized cost including:	3,629,740	3,656,833	110,902	111,730
– Loans and borrowings	3,253,682	3,334,432	99,412	101,879
– Trade and other payables	353,475	322,401	10,800	9,851
– Financial instruments	22,583	–	690	–

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's investment securities.

Trade and other receivables. Most of the domestic sales are made on a prepayment or cash on delivery basis. The export sales in contrast are usually made on credit terms. The Group is not significantly exposed to credit risk in relation to receivables.

Cash and cash equivalents. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Investments. The Group limits its exposure to credit risk by placing surplus funds on deposit with a variety of established banks in Russia and abroad. Management does not expect any counterparty to fail to meet its obligations.

Risk concentration. Apart from the largest customer of the Group (refer to Note 6 (e)), the Group does not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Concentration of credit risk related to the largest customer did not exceed 10% of gross monetary assets at any time during the year.

Guarantees. There are no guarantees provided by the Group.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

In thousands of

	RUR 31-Dec-2013	RUR 31-Dec-2012	USD* 31-Dec-2013	USD* 31-Dec-2012
Cash and cash equivalents	2,124,949	2,638,934	64,925	80,629
Loans, receivables and financial assets	295,430	436,318	9,026	13,331
	2,420,379	3,075,252	73,951	93,960

The ageing analysis of trade and other receivables, loans issued is presented in the table below:

In thousands of RUR

	31-Dec-2013		31-Dec-2012	
	Gross amount	Impairment	Gross amount	Impairment
Not past due	287,374	–	371,975	–
Past due:	13,770	(5,714)	56,727	(6,532)
less than six months	8,056	–	51,299	(1,104)
over six month	5,714	(5,714)	5,428	(5,428)
	301,144	(5,714)	428,702	(6,532)

In thousands of USD*

	31-Dec-2013		31-Dec-2012	
	Gross amount	Impairment	Gross amount	Impairment
Not past due	8,780	–	11,366	–
Past due:	421	(175)	1,733	(200)
less than six months	246	–	1,567	(34)
over six month	175	(175)	166	(166)
	9,201	(175)	13,099	(200)

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

31 December 2013 In thousands of RUR	Contractual	Interest rate Effective	Less than 1 year	From 1 to 2 years	From 2 to 5 years	Total
<i>Fixed interest rate instruments</i>						
Loans and borrowings	9.4%	10.22%	306,387	306,387	3,872,205	4,484,979
<i>Non-interest bearing</i>						
Trade and other payables			353,475	–	–	353,475
Other financial liabilities			22,583			22,583
			682,445	306,387	3,872,205	4,861,037

31 December 2013 In thousands of USD*	Contractual	Interest rate Effective	Less than 1 year	From 1 to 2 years	From 2 to 5 years	Total
<i>Fixed interest rate instruments</i>						
Loans and borrowings	9.4%	10.22%	9,361	9,361	118,310	137,032
<i>Non-interest bearing</i>						
Trade and other payables			10,800	–	–	10,800
Other financial liabilities			690			690
			20,851	9,361	118,310	148,522

31 December 2012 In thousands of RUR	Contractual	Interest rate Effective	Less than 1 year	From 1 to 2 years	From 2 to 5 years	Total
<i>Fixed interest rate instruments</i>						
Loans and borrowings	10%	10.75%	159,858	3,529,691	–	3,689,549
<i>Non-interest bearing</i>						
Trade and other payables			322,401	–	–	322,401
			482,259	3,529,691	–	4,011,950

31 December 2012 In thousands of USD*	Contractual	Interest rate Effective	Less than 1 year	From 1 to 2 years	From 2 to 5 years	Total
<i>Fixed interest rate instruments</i>						
Loans and borrowings	10%	10.75%	4,884	107,845	–	112,730
<i>Non-interest bearing</i>						
Trade and other payables			9,851	–	–	9,851
			14,735	107,845	–	122,581

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The current market risk faced by the Group is further described in Note 32 (b).

Currency risk

The Group is exposed to currency risk on borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily the Russian Rouble (RUR). The currency in which such borrowings primarily are denominated is SEK.

The Group does not hedge SEK currency risk; however, the Group has sufficient SEK-denominated cash in order to meet its interest payment obligation.

Exposure to currency risk

The Group's exposure to foreign currency exchange rate risk determined as the net monetary position in respective currencies was as follows:

In thousands of	RUR 2013	RUR 2012	USD* 2013	USD* 2012
USD/RUR	32,713	(64,404)	1,000	(1,968)
EUR/RUR	308,855	94,332	9,437	2,882
SEK/RUR	(2,853,528)	(1,633,852)	(87,186)	(49,920)

The following significant exchange rates applied during the year:

	RUR Rate at 31 December 2013	RUR Average rate for the year 2013	RUR Rate at 31 December 2012	RUR Average rate for the year 2012
1 USD	32.7292	31.8853	30.3727	31.0615
1 EUR	44.9699	42.3656	40.2286	39.9010
1 SEK	5.0145	4.8936	4.6688	4.5873

Foreign currency sensitivity analysis

A 10% weakening of the RUR against the following currency at 31 December would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2012.

In thousands of	RUR Equity	RUR Profit or loss	USD* Equity	USD* Profit or loss
2013				
USD	3,271	3,271	100	100
EUR	30,886	30,886	944	944
SEK	(285,353)	(285,353)	(8,719)	(8,719)
2012				
USD	(6,440)	(6,440)	(197)	(197)
EURO	9,433	9,433	288	288
SEK	(163,385)	(163,385)	(4,992)	(4,992)

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

Interest rate risk

The Group adopts a policy of limiting its exposure to changes in interest rates by borrowing on a fixed rate basis.

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining which proportion of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favorable to the Group over the expected period until maturity.

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

(e) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital.

There were no changes in the Group's approach to capital management during the year.

The capital structure of the Group consists of debt (Note 27), cash and cash equivalents (Note 24) and equity, comprising issued capital, reserves and retained earnings (Note 26).

The company and its subsidiaries are subject to capital requirements stipulated in the bond agreement (Note 27).

31 Operating leases

Non-cancellable operating lease commitments are as follows:

In thousands of

	RUR 12 m. 2013	RUR 12 m. 2012	USD* 12 m. 2013	USD* 12 m. 2012
Not later than one year	32,002	35,803	978	1,094
Later than 1 year and not later than 5 years	103,881	112,597	3,174	3,440
Later than 5 years	511,975	590,254	15,643	18,034
	647,858	738,654	19,795	22,568

The Group leases a number of land plots under operating leases. The lease term is typically for an initial period of forty-nine (49) years. During the current year, RUR 37,262 thousand (USD* 1,138 thousand) of rent expense was recognized in profit and loss in respect of operating leases.

32 Contingencies and commitments

(a) Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

(f) Fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and for disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. The fair value of trade and other receivables approximate their carrying amounts due to their short maturity.

Non-derivative financial instruments

Fair value for loans and borrowings (Note 27), which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Management believes that the fair value of the Group's financial assets and liabilities approximates their carrying amounts.

The interest rates used to discount estimated cash flows, where applicable, were as follows:

	2013	2012
Loans and borrowings	10.22%	10.75%

Fair value for other financial assets and liabilities was determined using Level 1 of fair value hierarchy (Notes 14, 29).

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for all tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

(b) Risks relating to the Group*Agricultural market risk*

As a rule, grain prices exhibit rather high seasonal fluctuation. As a general trend, prices tend to be lower in autumn mainly due to the increasing in supply. Market prices of agricultural commodities are also influenced by a variety of unpredictable factors which are beyond the control of the Group, including weather, planting intentions, government (Russian and foreign) farm programs and policies, changes in global demand resulting from population growth and higher standards of living and global production of similar and competitive crops.

Poor or unexpected weather conditions

Weather conditions are a significant operating risk affecting the Group. Poor weather conditions (whether too dry or too wet) and unpredictable climate changes may adversely affect farm output which, in turn, may negatively affect the Group's business.

(c) Commitments for expenditure

In thousands of

	RUR 12 m. 2013	RUR 12 m. 2012	USD* 12 m. 2013	USD* 12 m. 2012
Commitments for acquisition of raw materials	70,562	178,302	2,156	5,448
Commitments for lease agreements	32,002	35,803	978	1,094
Total	102,564	214,105	3,134	6,542

33 Related party transactions

During the year, the Group entered into the following transactions with related parties that are not members of the Group.

In thousands of

	RUR 12 m. 2013	RUR 12 m. 2012	USD* 12 m. 2013	USD* 12 m. 2012
<i>Purchase of services from related parties</i>				
Kinnevik Agri Ltd (i)	33,974	36,508	1,038	1,115
KCM international (ii)	38,323	25,170	1,171	769
Audit Value International	–	4,707	–	144
Total	72,297	66,385	2,209	2,028
<i>Interest accrued and paid</i>				
Kinnevik AB Investment	–	11,311	–	346
Vostok Komi (Cyprus) Ltd	–	11,287	–	345
Total	–	22,598	–	691
<i>Accounts payable owed to related parties</i>				
KCM international (ii)	5,094	5,632	156	172
Kinnevik Agri Ltd (i)	5,202	4,838	159	148
Total	10,296	10,470	315	320

(i) Kinnevik Agri Ltd provided consultancy services and a review of BEF crop production performance. All contracts have been scrutinized for arms length and have been approved by the members of the Board of Directors independent from Kinnevik.

(ii) KCM international provided consultancy services related to budgeting and forecasting process, production planning, harvest, storage and logistics. All contracts have been scrutinized for arms length and have been approved by the members of the Board of Directors independent from Kinnevik.

The amounts outstanding are unsecured and will be settled in cash. No expense has been recognized in the current or prior periods for bad or doubtful debts in respect of the amounts owed by related parties.

Salaries and other remuneration for Directors and other senior executives

In thousands of RUR

	12 m. 2013 Board of directors (7 positions)	12 m. 2013 Senior executives (10 positions)	12 m. 2012 Board of directors (7 positions)	12 m. 2012 Senior executives (10 positions)
Salaries, bonuses and non-monetary benefits (mobile, flat rent, medical insurance)	12,943	85,062	10,497	74,479
Share-based payments	–	13,651	6,174	7,974
Termination payments	–	1,087	–	864
Contribution to the State Pension Fund	–	5,747	–	1,995
Total	12,943	105,547	16,671	85,312

In thousands of USD*

	12 m. 2013 Board of directors (7 positions)	12 m. 2013 Senior executives (10 positions)	12 m. 2012 Board of directors (7 positions)	12 m. 2012 Senior executives (10 positions)
Salaries, bonuses and non-monetary benefits (mobile, flat rent, medical insurance)	395	2,599	321	2,276
Share-based payments	–	417	189	244
Termination payments	–	33	–	26
Contribution to the State Pension Fund	–	176	–	61
Total	395	3,225	510	2,607

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

34 Statement of financial position for Black Earth Farming Limited (the Company)

The audited financial statements of the parent company will be published before 30 April 2014 and will be available at the Company's website at <http://www.blackearthfarming.com/>.

35 Significant subsidiaries

List of significant subsidiaries (total number of subsidiaries equals 39) is presented below.

	Country of incorporation	Ownership and voting interest		Principal activity
		31-Dec-2013	31-Dec-2012	
Planalto Enterprises Limited	Cyprus	100%	100%	Management
Black Earth Trading International*	Guernsey	100%	—	Trading
OOO Management Company Agro-Invest (Moscow)	Russia	100%	100%	Management
OOO Nedvizhimost	Russia	100%	100%	Elevators
OOO Agroterminal	Russia	100%	100%	Elevators
ZAO Dmitriev Agro-Invest	Russia	100%	100%	Agriculture
OOO Sosnovka Agro-Invest	Russia	100%	100%	Agriculture
OOO Stanovoje Agro-Invest	Russia	100%	100%	Agriculture
ZAO Kastornoje Agro-Invest	Russia	100%	100%	Agriculture
OOO Podgornoe Agro-Invest	Russia	100%	100%	Agriculture
OOO Agrolipetzk	Russia	100%	100%	Agriculture
OOO Novokhopersk Agro-Invest	Russia	100%	100%	Agriculture
OOO Kalach Agro-Invest	Russia	100%	100%	Agriculture
OOO Morshansk Agro-Invest	Russia	100%	100%	Agriculture

* Black Earth Trading International was incorporated at the end of 2013 for the purpose of export trading activities.

36 Subsequent events

The prices for finished goods were relatively stable in the 1st quarter of 2014, and the management does not believe that there is a risk of significant gains or losses as a result of changes in finished goods prices from 31 December 2013 to the date of this report.

During the 1st quarter 2014 and up to the date of publication of this report, the Group's functional currency, the RUR, has depreciated significantly against key currencies (about 8% vs USD, 9% vs EUR and 10% vs SEK respectively). A weaker RUR may have potential negative effects on the Group's results.

At the end of March 2014, the Group agreed the sale of land and related real estate assets from subsidiaries OOO Podgornoe Agro-Invest and OOO Ostrogozhsk Agro-Invest in Voronezh region. Sale and purchase agreements were signed with the planned sale expected to be finalized in the 2nd quarter of 2014. As part of the planned transaction, Black Earth Farming will sell 27.8 thousand hectares of land for a total of USD 21.1 million to Avangard Agro.

* The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements – refer to note 2 (d).

Board, Management and Auditors

BOARD OF DIRECTORS

Vigo Carlund, *Chairman of the Board*

Swedish citizen, born in 1946

Mr. Carlund is a Swedish citizen born 1946. He has been Director of the Board of Investment AB Kinnevik since 2006 and is Chairman of the Board of Net Entertainment NE AB since 2011. He also serves as Director of the Board of Academic Work Solutions since 2006 and iZettle AB since 2010. Mr. Carlund worked within the Kinnevik Group 1968–2006 and was CEO of Korsnäs AB 1998–2000, and President and CEO of Transcom WorldWide S.A. 2000–2002 and Kinnevik 1999–2006.

Shareholdings: 1,002,662 SDRs*

Per Brilioth, *Non-Executive Director*

Swedish citizen, born in 1969

Principal education: Mr. Brilioth holds a BA in Business Administration from the University of Stockholm, and a Master of Finance from the London Business School.

Work experience: Mr. Brilioth is managing director and member of the board of Vostok Nafta Investment Ltd. In addition Mr. Brilioth is currently a member of the Board of Directors of RusForest AB, Avito AB, X5 Group AB and Svenska Fotografiska museet AB.

Shareholdings: 321,656 SDRs*

Anders Kronborg, *Non-executive Director*

Danish citizen, born in 1964

Principal education: Graduate in Economics from the University of Copenhagen.

Work experience: Chief Operating Officer of Investment AB Kinnevik since 2012. CFO of Metro International S.A. since 2007. Member of the Board of Millicom International Cellular S.A., Vireo Energy AB and G3 Good Governance Group Ltd.

Shareholdings: 7,833 SDRs

Camilla Öberg, *Non-executive Director*

Swedish citizen, born in 1964

Principal education: Camilla Öberg holds a Degree in Economics and Business Administration from Stockholm School of Economics.

Work experience: From 2006 to 2011, Camilla Öberg was employed at the IT-company Logica, serving as CFO of Logica Sweden AB from 2007. Between 1998 and 2006, Camilla Öberg was employed at WM-data, where she, inter alia, worked as head of IR and Group Treasury. Camilla Öberg also worked as CFO of one of WM-data's subsidiaries and as business controller for one of four business areas. During her first two years at WM-data, Camilla Öberg worked as CFO

of Företagsservice. Before her time at WM-data, she worked as, inter alia, CFO of Integro AB, as CFO of Lexicon and in accounting and external reporting at SEB. Camilla Öberg is a Board member of RusForest AB. She is also CFO for Cybercom Group AB. Board member of subsidiaries of Cybercom Group AB.

Shareholdings: 1,500 SDRs

Poul Schroeder, *Non-executive Director and Chairman of Operations Committee*

Danish citizen, born in 1944

Principal education: Mr. Schroeder is a graduate in economics from the Aarhus Business School and has completed the International Senior Management Program at Columbia University.

Work experience: Mr. Schroeder is an independent consultant and has been active in the international agricultural industry since 1966, among others, within the Continental Grain Company and Bunge. Mr. Schroeder is Chairman of the Board of Dan Store.

Shareholdings: 250,000 SDRs

Magnus Unger, *Non-executive Director*

Swedish citizen, born in 1942

Principal education: Mr. Unger holds a Master of Science in Economics and Business from the Stockholm School of Economics.

Work experience: Mr. Unger is a businessman with many years of industrial experience, with among others SCA/Mölnlycke and Atlas Copco. Mr. Unger is a member of the Board of Directors of Lundin Petroleum AB and Otirol Art AB.

Shareholdings: 250,000 SDRs

Richard Warburton, *Executive Director and CEO*

British citizen, born in 1966

Principal education: Mr. Warburton holds a Bachelor of Science degree in Agriculture from the University of Newcastle as well as an MBA.

Work experience: Mr. Warburton is CEO of KinnAgri Limited and a Director of KCM International and Rolnyvik Sp. z.o.o., all of which are companies in the Investment AB Kinnevik group, as well as a member of the investment committee to funds run by Northbridge Capital Partners. Mr. Warburton was previously head of agriculture at Investment AB Kinnevik. He has also been Equity Partner and Head of Agribusiness Bidwells 1999–2010 and a Director of British Field Products 1994–1998.

Shareholdings: 430,000 SDRs

Warrants: 876,863

* SDRs held via an insurance policy

GROUP MANAGEMENT

Richard Warburton, *Chief Executive Officer*

See also “Board of Directors” above.

Fraser Scott, *Chief Operating Officer*

British citizen, born in 1961

Principal education: Mr. Scott holds a Bachelor of Science in Agriculture from Newcastle University.

Work experience: Mr. Scott has more than 20 year experience of large scale corporate farm management, most recently as head of arable and potato operations on 20 thousand hectares of arable farming and food operations at the Co-operative farms in the UK. He has also been involved in several large scale agribusinesses as farm and operations manager at Booker, Broad Oak and the Co-operative farms in the UK.

Shareholdings: 151,649 SDRs

Warrants: 338,941

Erik Danemar, *Chief Financial Officer*

Swedish citizen, born in 1976

Principal education: Mr. Danemar holds a BA in Economics and Management from the University of Oxford and an Executive MBA from the London Business School.

Work experience: Mr. Danemar has more than nine years of financial sector experience from various positions at Deutsche Bank and United Financial Group in London and Moscow, most recently as Director within equity research, focused on mining and basic resources. He has also been a Board Director at Ferronordic Machines AB. From 1998 to 2000, Mr. Danemar worked in the diplomatic service at the Swedish Embassy in Moscow.

Shareholdings: 25,000 SDRs

Warrants: 200,000

Richard Willows, *Director of Sales & Marketing*

British citizen, born in 1953

Mr. Willows has a background in trading of agricultural commodities, specializing in the marketing of quality assured grains and oilseeds for the food industry including direct exporting to key customers in the Baltic States and Europe. He has more than 15 years of experience working in Russia and prior to BEF Richard held the position of General Director of OOO Heartland Farms in the Penza region of Russia. Established in 2002 it was one of the first foreign investors in Russian farming.

Shareholdings: 46,333 SDRs

Warrants: 219,469

Per Nisser, *Director of Procurement*

Swedish citizen, born in 1979

Principal education: Mr. Nisser holds a Master of Science in Engineering Physics from Uppsala University.

Work experience: Mr. Nisser has an extensive procurement background from the mobile operator Tele2 AB where he held the positions of Procurement Director in Tele2 Russia and Procurement and Logistics Director in Tele2 Kaza-

khstan. Experience also covers post acquisition company integration and management consulting.

Shareholdings: 0 SDRs

Warrants: 150,000

Victoria Fletcher, *Business Development Director*

British citizen, born in 1981

Principal education: Ms. Fletcher holds a Master of Science in agricultural management from Reading University.

Work experience: Ms. Fletcher joined the Group in 2012 and has 8 years' experience in Supplying major British supermarkets with fresh food, most recently as Business Unit Director for a rapidly growing fresh produce business. Her function included procurement from Africa and across the world and management of production and logistics. She also has been involved in business development in Central Asia.

Shareholdings: 71,000 SDRs

Warrants: 150,000

Avto Makharoblishvili, *Director of Investor Relations*

Georgian citizen, born in 1990

Principal education: Mr. Makharoblishvili holds a Bachelor of Science degree in Accounting, business finance and management from the University of York.

Work experience: Mr. Makharoblishvili joined the Group in September 2013. Mr. Makharoblishvili has experience from the investor community having worked at Tetra Tech ENE., and in different investment research positions at Georgian banks KorStandard and Bank of Georgia.

Shareholdings: 0 SDRs

Warrants: 0

AUDITORS

Deloitte

Principal auditors:

Svante Forsberg, *Group Audit Partner*

Mr. Forsberg is a Swedish citizen, born in 1952.

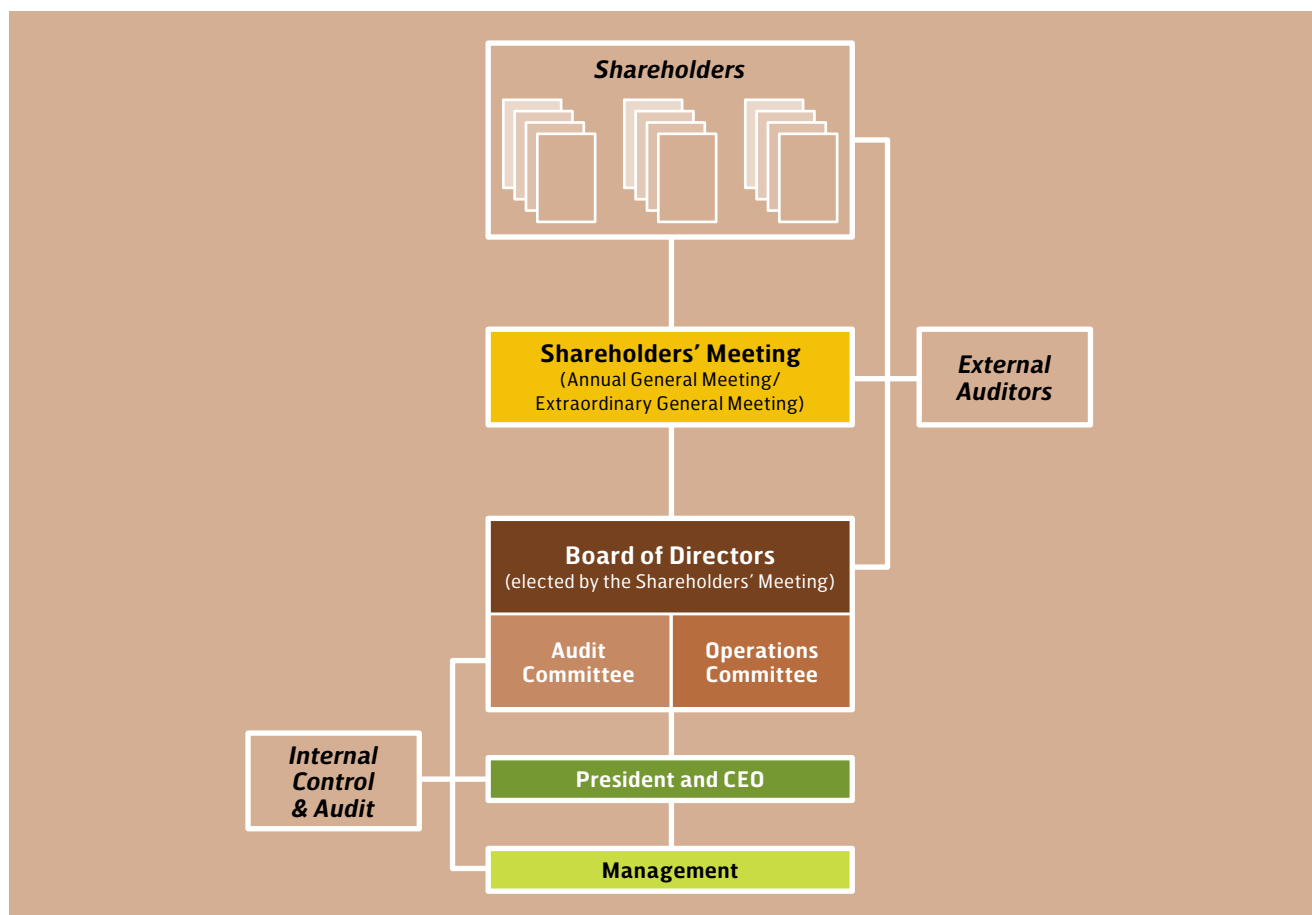
Deloitte are the appointed auditors since 2008. Among other entities Mr. Forsberg is the lead auditor of Anticimex, Dili-gentia, Diös, Skandia Liv and Swedbank. He has no engagements in entities related to the main owners of Black Earth Farming Ltd. or the CEO of Black Earth Farming Ltd.

Srbuhi Hakobyan

Mrs. Hakobyan is a citizen of the Republic of Armenia, born in 1966.

Principal education: Mrs. Hakobyan holds an MBA degree from American University of Armenia, ACCA member since 2002. Deloitte are the appointed auditors since 2008. Among other entities Mrs. Hakobyan is the lead auditor of Russian Sea Group, Polyplastic Group, EPK Group. She has no engagements in entities related to the main owners of Black Earth Farming Ltd. or the CEO of Black Earth Farming Ltd

Corporate Governance Report



Introduction

Black Earth Farming is a limited liability company registered in Jersey. The Board of Directors (the "Board") takes great emphasis on sound corporate governance. In the absence of a Jersey Code of Corporate Governance Black Earth Farming applies the Swedish Code of Corporate Governance ("the Code"), as is also required by Nasdaq OMX Stockholm, the regulated stock exchange where the Company's shares are traded. The Company will apply the Code in full or, where applicable, explain deviations from it. Establishment of this report is part of the Code's requirements. The principles of corporate governance in Black Earth Farming are described below and governed by its Articles of Association, applicable laws, exchange requirements and praxis including the Swedish Code of Corporate Governance. This report has not been subject for review by the Company's auditors.

Black Earth Farming's articles of association as well as a reproduction of this report and additional Corporate Governance information, such as outtakes of important corporate policies are available on the Group's website www.blackearthfarming.com.

Shareholders meetings

The Annual General Meeting ("AGM") is the highest decision-making body of Black Earth Farming, in which all shareholders are entitled to attend in person or by proxy to cast their votes on important company matters. Subject to the provisions of the Companies (Jersey) Law 1991 as amended ("Law"), an Annual General Meeting shall be held in Sweden or in such other place as may be determined by the Board and at such time and place as the Board may determine, in the Swedish and English language, once per year, no later than six months after the end of the financial year.

The regular business that is to be transacted at an Annual General Meeting is the receipt and consideration of the annual accounts and the reports of the Directors and the Auditors and any other document required to be annexed to the annual accounts, the declaration of dividends, the election or re-election of Directors and the re-appointment of the Auditors retiring and the fixing of the remuneration of the Auditors or the determination of the manner in which such remuneration is to be fixed.

In 2013, Black Earth Farming held the Annual General Meeting on 15 May 2013 at Storgatan 19 in Stockholm, Swe-

den. As per the published agenda and minutes, the AGM adopted the consolidated profit and loss statement for the period 1 January to and including 31 December 2012, as well as balance sheet and the consolidated balance sheet as of 31 December 2012, it was resolved upon the election of Board of Directors and auditors, with Deloitte as the Company's continued auditors. It was furthermore resolved not to pay any dividends for 2012.

Appointment and remuneration of the Board and Auditors

Shareholders in the Company have the right to nominate members of the Board of Directors, and auditors, to the Annual General Meeting. The AGM elects members of the Board of Directors for a term of one year and auditors for a period of one year. The shareholders also propose remuneration for the Board of Directors and auditors, which is to be resolved by the AGM. In accordance with the Code, the Company has a nomination committee which prepares proposals for the election and remuneration of members of the Board of Directors and auditors for the AGM.

In accordance with the resolution of the 2013 Annual General Meeting, a Nomination Committee consisting of members representing the three largest shareholders in the Company per the last business day in August 2013 was appointed. The Nomination Committee for the 2014 AGM is comprised of Anders Börjesson on behalf of Vostok Nafta Investment Ltd, Anders Kronborg, on behalf of Kinnevik New Ventures AB (a subsidiary of Investment AB Kinnevik), and Leif Törnvall, on behalf of Alecta. Anders Börjesson is Chairman of the Nomination Committee which is a deviation from the Code as the Company sees it appropriate for the major shareholders to propose the board composition. At the time of its formation the Nomination Committee represented approximately 35% of the shares in Black Earth Farming.

The Board of Directors

The 2013 Board of Directors

The Articles of Association stipulate that there shall be no maximum number of Directors unless and until otherwise determined by the Company in a general meeting by ordi-

nary resolution. However, the minimum number of Directors (other than any alternate Directors) shall be two. At the AGM 2013 it was resolved that the Board until next AGM shall consist of 7 members.

At the 2013 AGM Per Brilioth, Poul Schroder, Vigo Carlund, Richard Warburton and Magnus Unger were re-elected. Henrik Persson and Alex Gersh declined re-election and Camilla Öberg and Anders Kronborg were elected as a new member of the board. For a detailed presentation of the current Board, until the AGM 2014, see section "Board, Management and Auditors" in the annual report. The Code states that it is possible for major shareholders of Swedish companies to appoint a majority of members with whom they have close ties. Black Earth Farming shares the positive view of active and responsible ownership which is also expressed in the preparatory documents to the Swedish Companies Act. Given Black Earth Farming's line of business, stage of development and general environment, the elected Board represents a suitable composition with versatility and breadth in terms of the Directors' qualifications, experience and background. The table above contains summary information on the current Directors' name, position, year of election to the Board, year of birth, citizenship and respective holding of SDRs/shares and warrants in the Company.

Board meetings

The Board may meet for the despatch of business, adjourn and otherwise regulate its proceedings as it thinks fit. The Board of Directors however thinks it suitable to meet at least twice a year in person and more frequently when necessary. Thereto, additional meetings are to be conducted by telephone if considered necessary. The CEO has regular contact with the Chairman of the Board and several other members of the Board. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes the Chairman of that meeting shall have a second or casting vote.

During the financial year ended 31 December 2013, twelve Board meetings were held, whereof five were held with personal attendance, the rest were held by means of telephone conferencing.

Name	Title	Born	Nationality	Elected	Connection to the company	Audit committee	Board meeting attendance	SDR holdings	Warrant holdings	Board fee, TEUR
Vigo Carlund	Chairman of the board	1946	Swedish	2012	Independent		12	1,002,662*	0	60
Per Brilioth	Non-executive Director	1969	Swedish	2006	Main owner		10	321,656*	0	40
Camilla Öberg	Non-executive Director	1964	Swedish	2013	Independent	Chair	8	1,500	0	60
Anders Kronborg	Non-executive Director	1964	Danish	2013	Main owner	member	8	7,833	0	50
Poul Schroder	Non-executive Director	1944	Danish	2010	Independent		12	250,000	0	60
Magnus Unger	Non-executive Director	1942	Swedish	2010	Independent	member	12	250,000	0	40
Richard Warburton	President and CEO	1966	British	2010	Management		12	430,000	876,863	0
Number of meetings in 2013						4	12			

* SDRs held via an insurance policy

Each Board meeting was governed by an approved agenda, supporting documentation for the agenda items as well as protocol from last meeting for follow up discussions.

At one time or another when deemed suitable by the Board, certain members of senior management, but not members of the Board, have been invited to attend meetings for in depth reviews and/or discussions of their respective business areas and/or projects. In connection with the Annual Audit of the Company's accounts the Auditors are always requested to attend a meeting to report their observations from the annual audit.

Work and Responsibilities

The Board of Directors adopts decisions on overall issues affecting the Black Earth Farming Group. However, the Board of Directors' primary duties shall be the organization of the Company and the establishment of overall goals and strategy relating to the Company's operations including:

- Decisions regarding focus of the business and adoption of Company policies;
- Supply of capital;
- Appointment and regular evaluation of the work of the CEO and Company management;
- Approval of the reporting instructions for the Company management;
- Ensuring that the Company's external communications are open, objective and appropriate for target audiences;
- Ensuring that there is an effective system for follow-up and control of the Company's operations and financial position vis-à-vis the established goals;
- Follow-up and monitoring that the operations are carried out within established limits in compliance with laws, regulations, stock exchange rules, and customary practice on the securities market.
- Keeping of minutes for written Board resolutions
- Determination of the appropriate minimum number of Board meetings as well as when and where they are to be held
- Appointment of Audit- and Operations Committee Chair and members as well as identification of their major tasks
- Establishing issues that always require a Board decision or an application to the Board, such as quarterly reports, major investments, changes of the legal structure, certain management appointments and financial guarantees/pledges.

During 2013 the Board has continuously addressed the strategic direction, the financial performance, and the methods to reach profitability and sustain growth longer term. No dissenting opinions in relation to decisions have been reported in the minutes during the year. However, the Board has at times tabled an issue until a later meeting when more supporting documentation or more in depth review of an issue could be produced. An annual evaluation of the board's work was performed in order to develop the board's working methods and efficiency.

Chairman of the Board of Directors

The Nomination committee suggests a chairman of the board to be elected by the AGM. The chairman shall not be employed by the Company. Vigo Carlund was elected chairman of the Board at the AGM held on 15 May 2013. The Chairman shall lead the otherwise open Board discussion at each Board meeting. In the case of an equality of votes the Chairman shall have a second or casting vote.

Sub Committees of the Board

Pursuant to the Articles of Association, the Board may delegate any of its powers, authorities and discretions to any committee consisting of one or more Directors. In pursuit of an efficient and reliable corporate governance structure the Board in 2007 established two subcommittees, those being: the audit committee and the investment committee. As the company has evolved into a more operationally focused stage of development the operations committee was established in 2010 replacing the investment committee. Each committee keep minutes of their meetings which are made available to the board. Described below is also the Board's discharge of remuneration committee tasks.

Audit committee

The audit committee is charged with the responsibility of reviewing the system of internal control, management and reporting of financial risks and the audit process. When relevant and appropriate, the Chief Financial Officer and the Company's auditors are invited to attend the meetings, including a yearly planning stage meeting before the audit and after the audit at the reporting stage. Other Directors may also be invited to attend, although at least once a year the audit committee must meet the Company's external auditors without any management being present.

The tasks of the audit committee include consideration of matters relating to the appointment of external auditors for Black Earth Farming and its main subsidiaries, the independence of the Company's auditors as well as review of the audit fees. The audit committee shall also review the integrity of the Company's annual and interim reports, preliminary results' announcements and any other formal announcements relating to the Company's financial performance and situation.

The Chairman of the committee must have significant knowledge and experience in accounting in general, and the accounting principles applicable to the Company in particular.

The audit committee shall meet as regularly as deemed necessary by the Board, but it should be at least four times a year, in connection with the release of the Company's interim and full year financial statements.

Audit committee in 2013

The audit committee consists of three of the board members, namely Camilla Öberg as Chairman, Anders Kronborg and Magnus Unger. Former board member Paul Wojciechowski

is a fourth specially invited member. In 2013, four meetings were held by the audit committee addressing the Company's financial reporting and progress.

Operations committee

The operations committee has been delegated by the Board of Directors to screen and evaluate key decisions regarding operational matters relating to the company. In particular, the responsibilities of the Operational Committee include preparing decisions regarding; capital and operational expenditures outside of the board approved budget as well as review and approval of other key operational activities and hiring of high level positions within the operating company.

Operations committee in 2013

The operations committee consists of three board members, namely Poul Schroder as chairman, Richard Warburton and Anders Kronborg. In 2013, one formal meeting was held by the operations committee together with senior management, in addition to several telephone conference calls addressing the Company's operational progress.

Remuneration committee

The function of a specific remuneration committee, as per the Code's guidelines, is to prepare proposals on remuneration and other terms of employment for the executive management. The Board of Directors of Black Earth Farming has generally considered it more appropriate, that the entire Board performs the remuneration committee's tasks, however without the Board member(s) who are also part of the executive management. In some specific cases Per Brilioth, Anders Kronborg and Magnus Unger have been given the type task of a remuneration committee, to prepare remuneration proposals. The guiding philosophy of the Board in determining compensation for executives is the need to provide a compensation package that is competitive and motivating, will attract and retain qualified executives, and encourage and motivate performance.

Group management

The CEO of Black Earth Farming is elected by, and works on behalf of the Board of Directors and shall implement the decisions made by the Board and prepare for decisions to be

considered by the Board. The CEO shall also oversee compliance with the objectives, policies and strategic plans for the Company that the Board has established and ensure that these objectives, policies and strategic plans are submitted to the Board for updating or revision when necessary. The CEO is responsible for the operational management of the Company including establishing a qualified senior management team, usually in discussion with the Board of Directors for the most senior positions. The CEO shall ensure that the Company fulfils the obligations regarding disclosure of information, etc., or other regulations with which the Company is required to comply. The CEO is responsible for ensuring that obligations, agreements or other acts in law that the Company enters into or effects are correctly documented and do not conflict with any applicable binding statutes.

The individuals identified and presented below (and in the section "Board, Management and Auditors" in the formal annual report), as forming current senior Group management are individuals having important managerial roles and/or responsibility for certain important functions to the extent that their disclosure is required and it benefits the Company's shareholders to know of them and their merits in some detail.

For a detailed presentation of the senior management, see section "Board, Management and Auditors" in the formal annual report.

Compensation to the Board and management

Principles

Each Director currently receives an annual Board fee of EUR 30,000, other than the Chairman of the board, the operations committee and the audit committee, who each receive EUR 60,000. Richard Warburton was paid salaries as management and received no additional board fees. EUR 10,000 is paid for work within the committees of the Board. Remuneration for the senior executives consists of fixed salaries plus other benefits. In addition, certain Directors, senior executives and other key personnel within the Group are holders of warrants as part of the established incentive program. The guiding philosophy of the Board in determining compensation for executives is the need to provide a compensation package that is competitive and motivating, will attract and retain qualified executives, and encourage and

Name	Born	Nationality	Employed	Function	SDR holdings	Warrant holdings	Average strike price
Richard Warburton	1966	British	2011	Chief Executive Officer	430,000	876,863	SEK 15.9
Fraser Scott	1961	British	2011	Chief Operating Officer	151,649	338,941	SEK 18.8
Erik Danemar	1976	Swedish	2013	Chief Financial Officer	25,000*	200,000	SEK 8.8
Richard Willows	1953	British	2011	Director of Sales & Marketing	46,333	219,469	SEK 16.5
Per Nisser	1979	Swedish	2013	Director of Procurement	–	150,000	SEK 8.5
Victoria Fletcher	1981	British	2012	Business Development Director	71,000	150,000	SEK 8.8
Avto Makharoblishvili	1990	Georgian	2013	Director of Investor Relations	–	–	–

* SDRs held via an insurance policy

motivate performance. As stated in Note 33 to the Consolidated Financial Statements, in 2013 total fixed salaries and bonuses to senior executives amounted to USD* 2,599 thousand (excluding pensions and termination payments), of which USD* 811 thousand to the company's CEO.

Incentive programme

As part of the Company's efforts to attract and retain qualified personnel, Black Earth Farming has created a warrant incentive program originally comprising of 2,059,000 warrants to subscribe for Shares. The number of warrants within the warrant instrument was thereafter increased from 2,059,000 to 10,000,000 warrants at the AGM of the Company held on 5 July 2007. Of these warrants, 4,873,880 have as of 31 December 2013 been issued for nil consideration to Directors and senior executives and other key personnel. Each warrant entitles the holder to exchange one warrant for one Share. The warrants are regulated by an agreement dated 11 August 2005, as amended. The Company has undertaken to keep Shares available in order to facilitate the future exercise of such warrants.

All warrant holders have been allotted warrants of which proportionate part is vested annually during a number of years set out in each warrant holders' warrant certificate. Warrants with a lower subscription price shall vest prior to warrants with a higher subscription price. Allocation of warrants is at the discretion of the Board. The subscription price will be affected by the time of allocation of the warrants. In the event that the warrant holders are no longer connected to the Company before the vesting date, warrants that are due to vest will be cancelled. The warrants are transferable to a maximum of 30 warrant holders. Following the Rights Issue completed in December 2012 warrants issued prior were adjusted according to the Swedish standard so that warrant holders maintain their pro rata holding. According to the standard and prepared by a third party, warrants issued prior to the rights issue were adjusted giving the holder the right to acquire 1.195 SDRs and the strike price multiplied by 0.837. At full exercise of all approved 10,000,000 warrants, the Company's share capital will be increased by USD 100,000.

Executives share option plan (ESOP)

At the AGM on 25 May 2012 a performance based incentive plan for senior executives was approved. In order to participate in the plan, the participants must purchase shares (in form of SDRs) in the Group. For each share held under the plan, the Group will grant rights to the participant based upon if performance criteria relating to the development of BEF's return on capital, profitability, revenue growth and average crop yields during a three year period. For full details please refer to note 26 d) in the Consolidated Financials of the 2013 Annual Report. As at 31 December 2013 3,062,105 rights had been granted which may result in an expected 1,425,506 shares being issued depending on fulfilment of the aforementioned criteria.

Termination of employment

In general, there is a mutual six months' notice period between the senior executives and the Company during which period the senior executives shall remain in their position and thereafter the senior executives are entitled to receive monthly salary during two additional months. However, the Company can agree with a senior executive that he or she should immediately leave his or her position with a compensation corresponding to three months' salary. The Company has not set aside or accrued any amount to provide pension, retirement or similar benefits to any Directors or senior executives. Furthermore, in addition to the above, none of the Directors or senior executives has any service contracts with the Company providing for benefits upon termination of his or her respective appointment.

Conflict of interests

The Group has employed services from KinnAgri, KCM and Audit Value International, in which the Group's major shareholder Investment AB Kinnevik and CEO Richard Warburton have interest and which therefore represent related parties that are not members of the Group. Such transactions are scrutinized for arm's length and have been approved by the members of the Board of Directors independent from Kinnevik. Outside these transactions, to the best of the Company's knowledge, none of the members of the Board of Directors or the Management of the Company has a private interest that may be in conflict with the interest of the Company.

Auditors

At the AGM on 15 May 2013 Deloitte were re-appointed as the Company's auditors up until the next AGM, with Svante Forsberg with Deloitte as auditor in charge.

Svante Forsberg

Group Audit Partner

Mr. Forsberg is a Swedish citizen, born in 1952.

Among other entities Mr. Forsberg is the lead auditor of Anticimex, Diligentia, Diös, Skandia Liv and Swedbank. He has no engagements in entities related to the main owners of Black Earth Farming Ltd. or the CEO of Black Earth Farming Ltd.

Srbuhi Hakobyan

Mrs. Hakobyan is a citizen of the Republic of Armenia, born in 1966.

Principal education: Mrs. Hakobyan holds an MBA degree from American University of Armenia, ACCA member since 2002. Deloitte are the appointed auditors since 2008. ZAO Deloitte and Touche CIS is the registered auditor in Jersey.

Among other entities Mrs. Hakobyan is the lead auditor of Russian Sea Group, Polyplastic Group, EPK Group. She has no engagements in entities related to the main owners of Black Earth Farming Ltd. or the CEO of Black Earth Farming Ltd.

Board of Directors' report on internal control

The Board is responsible for the Company's organisation and administration of the Company's activities, which includes internal control. Internal control in this context regards those measures taken by Black Earth Farming Limited's ("Black Earth Farming" or the "Company") board of directors, management and other personnel, to ensure that book-keeping and the Company's economic condition in general are controlled and reported upon in a reliable fashion and in compliance with relevant legislation, applicable accounting standards and other requirements related to the Company's market listing. Black Earth Farming has also appointed an Audit Committee, consisting of three members of the Board, charged with the special responsibility to review and discuss internal and external audit matters.

This report has been established in accordance with the Swedish Code of Corporate Governance, which govern internal control over the financial reporting. In addition, this report has been prepared in accordance with the guidance provided by FAR, the institute for the accounting profession in Sweden, and the Confederation of Swedish Enterprise. This report does not constitute part of the formal Annual Report and has therefore not been reviewed by the Company's auditors. This report does not include a statement by the Board as to how well the internal control has functioned during the year.

The system of internal control is normally described in terms of five different areas that are a part of the internationally recognised framework which was introduced in 1992 by The Committee of Sponsoring Organizations in the Treadway Commission (COSO). These areas, described below, are control environment, risk assessment, control activities, information and communication and monitoring.

The management continuously monitors the Company's operations in accordance with the guidelines set out below. In order to enhance control and oversight of how the Company's routines and protocols were working and being adhered to by all levels of staff a thorough internal audit and review of the Company's operations was conducted during 2012 with targeted focus areas and implementation plans to address additional needs. The process has continued on an annual basis except as outlined below.

Control environment

The control environment, which forms the basis of internal control over financial reporting, to a large extent exists of the core values which the Board communicate and themselves act upon. Black Earth Farming's ambition is that values such as, precision, professionalism and integrity should permeate the organization. Another important part of the control environment is to make sure that such matters as the organisational structure, chain of command and authority

are well defined and clearly communicated. This is achieved through written instructions and formal routines for division of labour between the Board of Directors on the one hand, and management and other personnel on the other. The Board establishes the general guidelines for the Group's activities in internal policies, manuals and codes.

The Company's Chief Financial Officer is responsible for the control and reporting of the Company's consolidated economic situation to management and Board. The Company's Internal Auditor also prepares a report exclusively for the board, giving his/her view on the effectiveness of various policies and instructions. No separate such report was prepared during the year 2013, but internal audit work continued through the period and the external auditor reviewed the control environment as part of the general audit procedures.

Risk assessment

The Board of Directors of Black Earth Farming is responsible for the identification and management of significant risks of errors in the financial reporting. The risk assessment specifically focuses on risks for irregularities, unlawful benefit of external part at the Company's expense and risks of loss or embezzlement of assets.

It is the ambition of Black Earth Farming to minimize the risk of errors in the financial reporting by continuously identifying the safest and most effective reporting routines. The Board puts most effort into ensuring the reliability of those processes, which are deemed to hold the greatest risk for error, alternatively whose potential errors would have the most significant negative effect. Among other things this includes establishing clearly stated requirements for the classification and description of income statement and balance sheet items according to generally accepted accounting principles, pertinent legislation. The Company's Internal Auditor has together with the firm Audit Value established a yearly Audit Plan which entails a close review of certain, by the Board, identified risk areas. The Internal Auditor together with experienced forensic auditors from Audit Value do a thorough analysis of the identified risk areas with the aim of exposing possible risks in more detail and suggest recommendations on how to deal with them. In 2013, Audit Value was not engaged and the internal control work was focused on addressing issues identified in the 2012 audit.

Control activities

This risk assessment leads to a number of control activities in place to verify compliance with set requirements and established routines. The purpose of the control activities is hence to prevent, detect and rectify any weaknesses and deviations in the financial reporting. Control activities

also include permanent routines for the presentation and reporting of company accounts, for example monthly cash flow reports and budget follow ups. Special focus is also put on making sure that the requirements and routines for the accounting procedure, including consolidation of accounts and creation of interim and full year reports comply with pertinent legislation as well as generally accepted accounting principles and other requirements for publicly listed companies. Controls have also been carried out to ensure that the IT/computer systems involved in the reporting process have a sufficiently high dependability for its task. The Company's Internal Auditor is furthermore engaged in connection with very large procurement transactions, ensuring proper procedure in choice of supplier etc.

Information and communication

The Company has established fixed routines and invested in reliable technical applications to guarantee a fast and reliable way of sharing information throughout the organisation. Internal policies and general guidelines for financial reporting are communicated between the Board of Directors, management and other personnel through regular meeting and e-mails.

The Company is committed to provide accurate, reliable and timely information, and to abide to the regulations applicable to a company listed on Nasdaq OMX Stockholm. To ensure the quality of the external reporting, which is the extension of the internal; the Board of the Company has adopted an information policy, which regulates the Company's giving of internal and external information. The policy applies to all parts of the organisation, to all countries and at all times. Information shall be provided using direct as well as indirect means. The means communications can be website postings, press releases, interim and annual reports, prospectuses, public conference calls, interviews to specialised and general media and investor analysts, as well as participation in public meetings. In order to ensure reliability and consistency of information provided, only corporate staff designated as spokespersons for Black Earth Farming are authorised to speak to the media on behalf of the Company.

All reports and press releases are published on the Company's website www.blackearthfarming.com immediately after proper publication through news distributor, currently NASDAQ OMX.

Black Earth Farming is fully committed to communicate in a transparent way; it will not restrict public disclosure of information, except where the information is of a commercially sensitive or confidential nature.

Monitoring

The Company's financial situation and strategy are discussed at Board meetings, as well as any weaknesses in the activities and financial reporting since the last Board meeting. The Audit Committee has a particular responsibility to review and bring any weaknesses in internal control procedures for financial reporting to the Board of Directors' attention. Potential reported shortcomings are followed up via management and the Audit Committee. Management reports are prepared and distributed to the Board regularly with updates on operations and financials. The Company prepares interim reports four times annually which are reviewed by the Board. A more thorough review of the Company's accounts is also performed at least once a year in addition to the comprehensive audit in connection with the Annual Report.

Sustainability

There is a significant challenge to feed the world's increasing population in a sustainable way that does not deplete the earth of its resources for the future. Sustainable agriculture integrates three main goals; environmental conservation, social benefits for workers and local communities together with economic profitability.

Black Earth Farming shares the principles that current needs must be met without compromising the ability to meet the requirements of future generations. The company's ability to generate sufficient shareholder returns are dependent on them. This includes the consideration of social responsibilities such as working conditions of employees and local rural communities as well as consumer health and safety both at present and in the future. It also incorporates maintaining and enhancing land and natural resources for the long term by optimal management of inputs, minimum tillage and employing a long term crop rotation system to minimize erosion and conserve soil and water resources. In addition it also incorporates good and efficient overall management with sound financial planning and efficient risk management practices.

BEF's Social Responsibility

Black Earth Farming's has brought substantial areas of fallow arable land back into production. The company effectively taps unused resources for food production, which is a necessity to meet the demand from the world's increasing population.

Social responsibility entails caring for external stakeholders as well as internal. Black Earth Farming strives to conduct business in a way that not only safeguards employees, customers and community neighbourhoods but also helps them develop. The focus on redevelopment of fallow land creates new job opportunities with stable and relatively high means of income. Employee safety is of high concern and training sessions and seminars are conducted regularly. The company contributes to local communities both through its economic development which helps bring commerce and tax revenues to the local administrations, but also by financial support to many local activities and social projects.

BEF's Environmental Responsibility

Preserving the planet's limited resources is a vital concern, and is the responsibility of all people but we as a company have an extra responsibility and capacity to motivate and stimulate environmental thinking in respect to our activities.

The world's forests and other natural ecosystems must be conserved, but at the same time feed an increasing population. To achieve this, the productivity of current land resources needs to increase. This will reduce the pressure to clear forestland in other places to meet food demand, and so help preserve the planet's green lungs. Many different measures, such as judicious and greater use of mineral fertilizers and chemicals will help increase crop yields sustainably, and use existing agricultural land more efficiently. Without the addition of nutrients and minerals, the soil would with time also be depleted of its natural content of these substances.

Black Earth Farming is committed to cultivating its land in an environmentally responsible way that ensures long term health of the soil and minimizes the impact on surrounding ecosystems. To a large extent this comes from application of fertilizer and other necessary chemicals at optimum rates and timings, where continuous staff training and proper management is vital. Application of inputs at optimum rates also maximizes the economic benefit to the Company. A multi-year crop rotation mix is also chosen for long term sustainability of the soil, not short term profits. Furthermore, the Company puts great emphasis on correct handling and storage of pesticides, fertilizer and other chemical compounds.

BEF's Economic Responsibility

The longevity and success of Black Earth Farming will support several stakeholders economically. This includes several aspects such as employee salaries, commercial relationships with suppliers and customers, tax revenues for local districts, and creating value for shareholders. To a large extent the economic sustainability of the business is a product of mutually beneficial relationships with various stakeholders to grow and prosper together. Good and beneficial relationships are built by a high level of professionalism, integrity and business ethics in the way the company operates and interacts. Good corporate governance and communication is an important part of fostering a good relationship with our shareholders and building trust from the market in the Company and its management.

Terms and Definitions

Units

1 hectare (ha) = 2.47105 acres

1 hectare (ha) = 10,000 square meters

1 metric ton = 2,204.622 pounds (lb)

1 metric ton = 10 centners

1 metric ton of wheat = 36.74 bushels of wheat

1 metric ton of corn = 39.37 bushels of corn

“AGRO-Invest Group”

The Company’s subsidiary OOO Management Company AGRO-Invest and its subsidiaries, including OOO Management Company AGRO-Invest-Regions.

“Black Earth”

A soil type which contains a very high percentage of organic matter in the form of humus, rich in phosphorus.

“Black Earth Farming” or the “Company”

Black Earth Farming Limited, a company incorporated in Jersey, Channel Islands, under the 1991 Law with company registration number 89973, including its subsidiaries, unless otherwise is apparent by the surrounding context.

“Black Earth Region”

A territory located in parts of Russia, Ukraine and Kazakhstan endowed with Black Earth.

“Cadastre”

A Russian state register of real property including details of the area owned, the owners and the value of the land.

“CBOT”

Chicago Board of Trade

“CIS”

Commonwealth of Independent States which consists of the former republics of the Soviet Union, excluding the Baltic States. The following countries are included Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan (associated member), Ukraine and Uzbekistan.

CPT

Carriage Paid To – A trade term where the seller pays for carriage to the named place of destination. Risk transfers to the buyer upon handing goods over to the first carrier at place of shipment

“Crop year”

A crop year in Europe typically begins in late summer with the seeding of winter crops and ends approximately one and a half years later depending on when the crops is being harvested and sold.

“Debt/Equity Ratio”

Total amount of long term borrowings divided by total shareholders’ equity.

“EBITDA”

EBITDA represents net income (loss) before interest expense, interest income, income tax expense (benefit), depreciation of property and equipment, amortization of intangible assets, and extraordinary or non-recurring income and expenses.

“Earnings per Share”

Net profit attributable to shareholders holding ordinary shares divided by the number of shares issued.

“Equity/Assets Ratio”

Total shareholders’ equity divided by total assets.

“EU-27”

The following EU membership countries: Austria, Belgium, Czech Republic, Cyprus, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, the United Kingdom, Bulgaria and Romania.

“Euroclear”

Euroclear Sweden AB (formerly VPC AB), the Swedish central securities depository and clearing house with address Regeringsgatan 65, Box 7822, SE-103 97, Stockholm, Sweden.

EXW

Ex Works – A trade term requiring the seller to deliver goods at his or her own place of business. All other transportation costs and risks are assumed by the buyer.

“Fallow land”

Land which is not being cultivated.

“FOB”

Free On Board – an export pricing term where the seller covers all costs up to and including the loading of goods aboard a vessel, but not following freight/shipping costs.

“Grains”

Generic name for wheat, barley, oats, rye, rye-wheat, durra millet, maize and rice

“Grain elevator”

Building or complex of buildings for drying, cleaning, storage and shipment of grain.

“IGC”

International Grains Council

“IKAR”

The Russian Institute for Agricultural Market Studies.

“Land in Ownership”

Land where the Company has obtained the, in the central Cadastre, registered rights of ownership to the land.

“Land under control”

Refers to all land under the Company’s control, including fully registered ownership, long term leased land and acquired cropping rights (Pais) in the process of being registered as ownership rights.

“Oilseeds”

A wide variety of seeds which are grown as a source of oils, e.g. cottonseed, sesame, rape seed, sunflower and soybean. After extraction of the oil the residue is a valuable source of protein, especially for animal feedstuffs.

“OOO”

“Closed joint stock company”, the Russian equivalence to a limited liability company.

“Operating Margin”

Operating income divided by net sales.

“SDR”

The Swedish depository receipts issued representing the Shares according to the general terms and conditions for depository receipts in Black Earth Farming.

“USDA”

United States Department of Agriculture





**BLACK
EARTH
FARMING LTD.**

**Nautilus House
La Cour des Casernes
St. Helier
Jersey JE1 3NH
Channel Islands
Reg No. 89973
www.blackearthfarming.com**