

Black Earth Farming Ltd

Unaudited Interim Report

1 January – 30 June 2017



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Sale of Russian operations completed

On 12 April 2017 regulatory approval from FAS, the Russian anti-monopoly body, was received for the sale of the Company's Russian operations. On 22 May 2017 the Company completed the sale of its Russian operations and on 27 June 2017 the Company redeemed all its outstanding bonds.

Due to the sale transaction events and contemplated voluntary liquidation, these interim financial statements are not prepared on a going concern basis. The basis of preparation is according to International Financial Reporting Standard 5 'non-current assets held for sale and discontinued operations'. The net result of the discontinued operations realised over the period and on the disposal of the discontinued operations is disclosed by a single amount in the income statement. As such these statements are on a different basis to prior year accounts.

The 1H17 Net loss from ordinary activity amounted to USD 5.8 mn, driven mainly by a decline of crop prices.

The Company also recorded a loss of USD 50.6 mn from the sale of Russian operations, explained by the reclassification to Profit or Loss of the accumulated translation reserve arisen largely from the devaluation of RUB assets in USD terms attributable to the disposed of group. Without this technical reclassification the profit from the sale of Russian operations would have amounted to USD 72.5 mn. Net cash inflow from the sale transaction was USD 197.9 mn.

These results have no impact on the transaction process or guidance given by the company in relation to the transaction.

1H 2017 Highlights¹ (vs 1H 2016)

- Total revenue and gains of USD 31.3 mn (53.8)
- Sales volume of 240.2kt (228.3)
- Average sales price after distribution cost USD 136 per ton (177)
- Gross loss after distribution costs of USD 6.2 mn (gain 10.8)
- EBIT of USD -9.4mn (4.4)
- FX income of USD 7.0mn (3.7)
- Net profit (net of the technical reclassification of the accumulated translation reserve to the profit or loss) of USD 66.7mn (5.2)

Subsequent events

On 1 August, 9,826,375 new shares (4.63% of shares then outstanding) were issued as a result of the Company's Long term incentive program. Following the issue, the total number of outstanding shares became 222,106,356.

At the Annual General Meeting on 11 August 2017 it was resolved to approve the execution of a share split and to effect the mandatory redemption program, whereby each outstanding share of USD 0.01 each in the Company is divided into two (2) shares of USD 0.005 each, with one (1) of those shares being redeemable and the other non-redeemable. It was also resolved that the company should apply for delisting and the application was made on the same day to Nasdaq Stockholm for delisting of the Company's depository receipts.

1- Revenue and other measures presented in this report are on a consistent "continued operations" reporting basis, while presentation in IFRS condensed financial statements is amended according to IFRS 5 "Non-current assets held for sale and discontinued operation", please refer to Note 4 for the details.

Introduction

The events relating to the sale of the Russian operations dominate the second quarter. Operationally there has been limited activity in Q2 with some small areas of residual crops to harvest, sales of crop inventory, forex translations, currency hedging and any changes in G&A being the only factors that affect the financials.

1H17 Sales and Financial

In 1H 2017 crops from the 2016 harvest year have been sold. The sales of 2016 crop have been made at average prices lower than the 2016 year end valuations due to falling prices in all crops.

Revenue and Gains of USD 31.3mn (53.8) reflect higher sales volume in 1H17 of 240.2kt (228.3) while sales prices for key crops have further significantly declined (-23.1% y-o-y vs 2016 in USD terms). The decrease is also related to the absence in 1H2017 of any gain on revaluation of biological assets (due to the sale) while in 1H2016 this amounted to USD 12.8 mn.

The 1H remaining finished goods inventory was 19.6kt (11.4) valued at USD 2.8mn (1.9). These finished goods were sold to export customers over July and August 2017.

1H17 G&A was USD 10.9mn (7.0). The increase driven by additional expenses related to sale of Russian operations.

The operating loss (EBIT) increased to USD -9.4mn (4.4), largely driven by decreased sales prices and higher COS in 1H17 and increase in G&A expenses.

In 1H17, the company benefited from an FX revaluation, having booked FX income of USD 7.0mn (3.7) and gains from hedging operations of USD 7.8mn (1.1).

The result of disposal of Russian subsidiaries without any effect of the technical reclassification of translation reserve to profit or loss would have amounted to a profit of USD 72.5 mn, while the net profit on the same basis amounted to USD 66.7 mn (5.2).

On 27 June 2017, the Company repurchased all outstanding bonds and this is reflected in a cash outflow of USD 44.9mn. During the period the Company received proceeds from the sale of subsidiaries which net of cash amounted to USD 197.9mn. As a result amount of cash and cash equivalents as at 30 June 2017 amounted to USD 183.2 mn (23.6).

The transaction on sale of Russian operations

On the 13th February the company announced it had signed a frame agreement to sell its Russian operations. A deposit of USD 10mn was received on 16th of February 2017. On the 23rd March the EGM of Black Earth Farming shareholders approved the Transaction. On the 12th of April regulatory approval from FAS, the Russian anti-monopoly body was received. The sale transaction was completed on 22 May.

The final outcome of the deal was subject to changes in crop prices, exchange rates and certain completion adjustments laid out in the sale and purchase agreement. There was a negative impact from crop prices with sunflowers, corn and wheat prices softening in both USD and RUR terms. Hedging activities generated a positive effect. The SEK proved volatile over the period initially weakening and then strengthening significantly against the USD. The hedges partially mitigated the strengthening of the SEK.

The company also decided to redeem the outstanding warrants instead of the warrant holders exercising their rights. This reduced the total sum available for distribution but had no effect in SEK/share due to reduced dilution. During this period the company was involved in various processes that were necessary to elevate funds received in Cyprus to Jersey.

On the 4th August an information brochure for holders of Swedish Depositary Receipts with regards to the proposed shares redemption program by way of a split and mandatory redemption procedure was published on the company's website.

On the 10th August the company confirmed that SEK 1,501 mn would be available for redemption, equivalent to 6.76 SEK per share. On the 11th August the shareholders approved the share split and mandatory redemption process scheduled for the 6th September as well as approving a resolution to apply for the company to be delisted as soon as possible.

Certain funds were held in reserve for a US based litigation that the company is a plaintiff in and in which the company's legal advisers in the case believe is more likely than not to have a favourable outcome.

The company will provide further information and likely timetable on the contemplated voluntary liquidation following completion of the redemption distribution.

Overall the aim is to complete all necessary processes to manage the litigation process and ultimately the liquidation and distribution of proceeds as cost efficiently as possible.

Summary

An eventful quarter dominated by regulatory approval and completion of the sale of the Russian operations.

The basis of the preparation of the financial statements is different to prior year statements as they are not prepared on a going concern basis and have separate presentation of discontinued operations.

The transaction and ensuing processes have proceeded as per the plan albeit delayed due to slower than expected regulatory approval and some delays in elevating funds from the Cypriot subsidiary. The ultimate deal outcome was negatively affected by lower crop prices, positively affected by beneficial hedging and the total proceeds available for redemption were reduced by 4.9mn USD due to the decision to redeem the warrants. Whilst the redemption proceeds are within the guidance range given in February in USD terms they are lower in terms of

CEO Comment



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SEK per share due to lower crop prices and the significant strengthening of the SEK. The focus now is on the litigation process and cost efficiently managing the company to liquidation and distribution of proceeds.

On behalf of the Board - 31 August 2017
Richard Warburton, Executive Director and CEO

The sale transaction implications to the presentation

During the reporting period the transaction of sale of Russian subsidiaries was completed and Russian operations had been disposed of. In accordance with the International Financial Reporting Standard 5 “Non-current assets held for sale and discontinued operation” The net result of discontinued operations realized over the period and on the disposal of discontinued operations is disclosed by a single amount on the face of the condensed consolidated interim statement of income into the line named “Loss from discontinued operations”. While measures presented in the management report are on a consistent “continued operations” reporting basis.

Note on foreign exchange and FX income

Black Earth Farming uses USD as presentation currency. The 2Q17 average RUB/USD rate, used to translate the income statement, was 57.15 vs 65.89 in 2Q16 (13.2% appreciation y-o-y). Company’s operating results suffer from RUB strengthening as export is foreign currency denominated and domestic prices highly correlate with export prices, while most part of operating costs is ruble driven.

Applying ruble as functional currency, we translate FX denominated assets and liabilities to ruble at closing rate reflecting income and loss from this translation in income statement.

1H17 RUB closing rate strengthened 2.5% from 60.66 RUB/USD on 31 December 2016 to 59.09 RUB/USD on 30 June 2017, and weakened on 4.2% vs SEK. As a result, the Company booked FX loss on SEK denominated bond revaluation and FX income on SEK denominated cash. Since the USD cash inflow from the deal was in mid of May, the Company benefited from the USD strength of 3,3% from the mid of May to the end of June 2017. Net 2Q17 FX income accounted for USD 6.0mn (3.2).

Revenue

Revenue from goods sold during 1H17 decreased by 20.4% y-o-y to USD 9.6mn (20.7), as average sales price were down 23.1% from 177USD/t to 136USD/t and volumes sold were up 5.2% from 228.2kt in 1H16 to 240.2kt in 1H17.

Result

The result of disposal of Russian subsidiaries without effect of technical reclassification of translation reserve to profit or loss is amounted to USD 72.5 mn, while the net profit on the same basis amounted to USD 66.7 mn (5.2).

1H17 G&A expense of USD 10.9mn is USD 3.9mn higher than in 1Q16, due to extra expenses related to sale of Russian subsidiary.

Other Income and Expenses improved from USD 0.6mn in 1H16 to USD 8.0mn in 1Q17 benefiting from USD 7.1mn (1.1) gain on hedging activity.

In 1H17, the company benefited from FX revaluation, having booked FX income of USD 7.0mn, while FX revaluation positive effect was USD 3.7mn in 1H16.

1Q17 Net result decreased by USD 61.6mn y-o-y from USD 5.2mn to USD -56.4mn, mainly because of reclassification of translation reserve in amount of USD 123.1 mn attributable to the disposed subsidiaries.

Financial Position

At 30 June 2017, finished goods include crops harvested in 2016 and valued at a net realisable value of USD 2.8mn (1.9).

At 30 June 2017, the Company had USD 183.2mn (23.6) in cash and equivalents.

Cash Flow

Net cash generated from investment activity is USD 195.5mn (-2.8) due to proceeds from disposal of subsidiary in amount of USD 197.9 mn.

The Company repurchased all outstanding bonds in amount of USD 44.9mn. Net cash flow of USD 173.0 mn (-9.3) and foreign exchange difference on cash resulted in cash and cash equivalents of USD 183.2mn as of 30 June 2017 (23.6).

The Black Earth Farming Share



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Risks and Uncertainties

Risks and uncertainties are described in the annual report for 2016. The risks can be summarised as Risks relating to the Company, Risks relating to the Company's business and Risks relating to Russia. Risks and uncertainty factors that existed on 31 December 2016 also exist on 30 June 2017.

Outstanding shares

As of 30 June 2017 the amount of outstanding shares was 212,279,981. The market capitalisation as of 30 June 2017 was approximately SEK 1,475mn or USD 174mn.

Shareholders

The total number of shareholders, as of 30 June 2017, amounted to 10,754.

2017 Share issue

The total numbers of shares outstanding increased by 1,853,740 or 0.88% on 4 April 2017 and 9,826,375 shares, or 4.63% on 1 August 2017 as a result of the Company's management incentive program. Following the issue, the total number of outstanding shares (as represented by SDRs) and votes became 222,106,356.

Compiled SDR information

Official listing:	Nasdaq OMX Stockholm
Form of listing:	Swedish Depository Receipt ("SDR")
Round lot:	1
Sector:	Food & Beverage
Exchange ISIN code:	SE0010219774
Short name:	BEF SDB
Reuters:	BEFsdb.ST
Bloomberg:	BEFSDB SS

Trading data for 1 Jan 2017 – 30 June 2017

Average Daily Turnover (SEK)	Average No of Traded Shares	Average No of daily trades
4,636,811	680,222	111

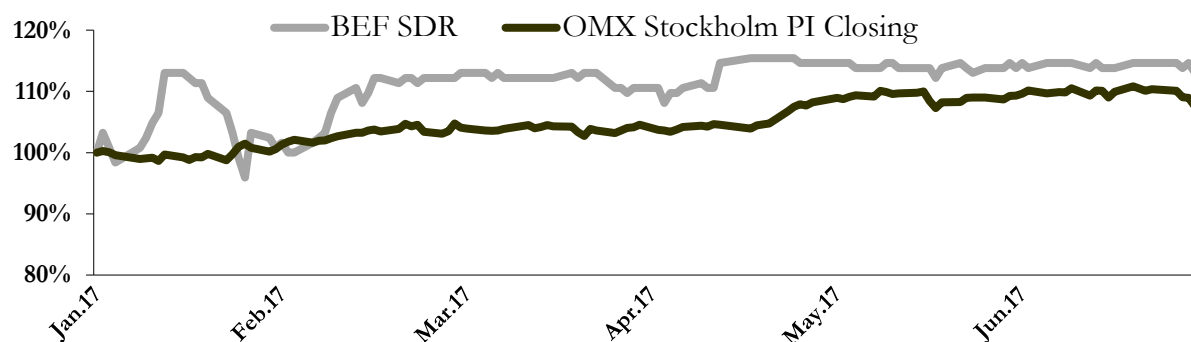
Source: NASDAQ OMX

Top 5 shareholders as of 30 June 2017

Owner	% of votes & capital
INVESTMENT AB KINNEVIK	24.41%
GOMOBILE NU AB	11.27%
ALECTA PENSION FUNDS	9.59%
AVANZA PENSION	7.29%
NORDNET PENSIONS FÖRSÄKRING AB	3.56%

Source: Euroclear Sweden share registry & shareholders' reference

Share Performance vs OMX Stockholm index



Black Earth Farming SDR

Price SEK/SDR 30 June 2017	Change 1 Month	Change 3 Months	52 Week High
6.95	-0.71%	2.21%	7.2
	Change 6 Months	Change 1 Year	52 Week Low
	17.80%	106.23%	3.44

BLACK EARTH FARMING LIMITED AND SUBSIDIARIES
CONDENSED CONSOLIDATED INTERIM STATEMENT OF INCOME
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2017

In thousands of US Dollars

	Notes	Six months ended			Three months ended		
		30 Jun 17	30 Jun 16*	30 Jun 16	30 Jun 17	30 Jun 16*	30 Jun 16
Revenue	3	13,711	17,844	40,680	5,492	8,998	20,708
Gain on revaluation of biological assets		-	-	12,829	-	-	12,809
Change in net realisable value of agricultural produce after harvest		(874)	-	329	(874)	-	470
Total revenue and gains	3	12,837	17,844	53,838	4,618	8,998	33,987
Cost of sales		(6,582)	(5,460)	(19,489)	(2,554)	(2,759)	(13,052)
Effect of revaluations (revaluation of biological assets to agricultural produce and change in net realizable value of agricultural produce after harvest)		353	(1,474)	(15,289)	16	(725)	(6,752)
Gross profit		6,608	10,910	19,060	2,080	5,514	14,183
Distribution expenses		(2,889)	(3,262)	(8,262)	(988)	(1,660)	(3,187)
General and administrative expenses		(6,007)	(2,025)	(6,951)	(4,337)	(1,017)	(3,757)
Taxes other than income		(5)	(12)	(540)	2	(6)	(274)
State grants and subsidies		-	-	747	-	-	269
Crop insurance net of insurance grants		-	-	(327)	-	-	(236)
Other income and expenses, net	5	7,769	1,148	631	7,381	1,253	923
Operating profit		5,476	6,759	4,358	4,138	4,084	7,921
Financial income		118	357	231	117	173	201
Financial expenses		(2,969)	(2,377)	(2,718)	(1,852)	(1,186)	(1,275)
Foreign exchange gain		7,382	5,678	3,660	5,701	2,789	3,231
Profit before income tax		10,007	10,417	5,531	8,104	5,860	10,078
Income tax expense		(13)	-	(343)	(13)	-	(319)
Profit for the period from continuing operations		9,994	10,417	5,188	8,091	5,860	9,759
Loss from discontinued operations	4	(66,385)	(5,229)	-	(55,044)	3,899	-
Total (loss)/profit for the period		(56,391)	5,188	5,188	(46,953)	9,759	9,579
(Loss)/earnings per share, basic and diluted, in USD							
From continuing and discontinued operations	8	(0.27)	0.02	0.02	(0.22)	0.05	0.05
From continuing operations	8	0.05	0.05	0.02	0.04	0.03	0.05
From discontinued operations	8	(0.31)	(0.03)	-	(0.26)	0.02	-

* The net loss of discontinued operations realized over the period is disclosed by a single amount on the face of the consolidated income statement into the line named "Loss for the period from discontinued operations". The income statement of comparative periods is re-presented in accordance with IFRS 5.

BLACK EARTH FARMING LIMITED AND SUBSIDIARIES
CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2017

In thousands of US Dollars

	Six months ended		Three months ended	
	30 Jun 17	30 Jun 16	30 Jun 17	30 Jun 16
(Loss)/profit for the period	(56,391)	5,188	(46,953)	9,759
Other comprehensive (loss)/income				
<i>Items that may be reclassified subsequently to profit or loss:</i>				
Translation difference	(4,565)	14,318	(13,271)	6,336
Other comprehensive (loss)/income for the period	(4,565)	14,318	(13,271)	6,336
Total comprehensive loss/(income) for the period attributable to owners of the parent	(60,956)	19,506	(60,224)	16,095

BLACK EARTH FARMING LIMITED AND SUBSIDIARIES
CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2017

In thousands of US Dollars

	<u>30 Jun 2017</u>	<u>31 Dec 2016</u>
ASSETS		
<i>Current assets</i>		
Property, plant and equipment	-	91,344
Finished goods	2,766	30,231
Raw materials and consumables	-	11,700
Biological assets (crop production)	-	11,308
Land cultivation works	-	7,928
Trade and other receivables	3,486	5,229
Biological assets (livestock)	-	492
Investment property	-	240
Other non-current assets	-	146
Deferred tax assets	-	176
Intangible assets	-	25
Cash and cash equivalents	183,229	26,832
Total assets	<u>189,481</u>	<u>185,651</u>
EQUITY AND LIABILITIES		
<i>Equity attributable to owners of the parent</i>		
Share capital	2,124	2,105
Share premium	527,790	525,904
Reserves	7,009	4,858
Accumulated deficit	(284,718)	(228,641)
Translation reserve	(66,267)	(184,640)
Total equity	<u>185,938</u>	<u>119,586</u>
LIABILITIES		
Current loans and borrowings	-	59,043
Trade and other payables	3,543	6,751
Deferred income	-	130
Current finance lease liabilities	-	120
Deferred tax liabilities	-	21
Total liabilities	<u>3,543</u>	<u>66,065</u>
Total equity and liabilities	<u>189,481</u>	<u>185,651</u>

BLACK EARTH FARMING LIMITED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2017

In thousands of US Dollars

	Share capital	Share premium	Share-based payments reserve	Accumulated deficit	Translation reserve	Total equity attributable to owners of the parent
Balance as at 1 January 2016	2,105	525,904	4,249	(218,516)	(205,662)	108,080
Profit for the period	-	-	-	5,188	-	5,188
Other comprehensive income						
Translation differences	-	-	-	-	14,318	14,318
Total comprehensive (loss)/income	-	-	-	5,188	14,318	19,506
Reclassification from Share-based payments reserve to Accumulated deficit	-	-	(409)	409	-	-
Translation difference	-	-	(230)	-	-	(230)
Recognition of Share-based payments	-	-	754	-	-	754
Balance as at 30 June 2016	2,105	525,904	4,364	(212,919)	(191,344)	128,110
Balance as at 1 January 2017	2,105	525,904	4,858	(228,641)	(184,640)	119,586
Loss for the period	-	-	-	(56,391)	-	56,391
Cumulative currency translation reserve on foreign operation attributable to the disposal group recycled from other comprehensive income to profit or loss reserve	-	-	-	-	123,124	123,124
Other comprehensive (loss)/income						
Translation differences	-	-	186	-	(4,751)	(4,565)
Total comprehensive (loss)/income	-	-	186	(56,391)	118,373	62,268
Reclassification from Share-based payments reserve to Accumulated deficit	-	-	(314)	314	-	-
Recognition of Share-based payments	-	-	4,184	-	-	4,184
Shares issued	19	1,886	(1,905)	-	-	-
Balance as at 30 June 2017	2,124	527,790	7,009	(284,718)	(66,267)	185,938

BLACK EARTH FARMING LIMITED AND SUBSIDIARIES
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2017

In thousands of US Dollars

	Notes	Six months ended	
		30 Jun 2017	30 Jun 2016
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/gain for the period		(56,391)	5,188
<i>Adjustments for:</i>			
Income tax expense		90	343
Depreciation and amortization		3,755	3,773
Change in allowance for doubtful debts		137	188
Change in provision for inventory		177	-
Gain on foreign exchange differences		(6,992)	(3,660)
Financial income		(164)	(231)
Financial expense		3,496	2,718
Loss from discontinued operations	4	66,385	-
Gain on disposal of property, plant and equipment		(100)	(228)
Long-term employee benefits		4,184	754
Gain related to disposal of other assets		(17)	-
Write-off accounts receivable or payable, net		(479)	-
Deferred income		(16)	-
Change in value of biological assets and agricultural produce		1,616	(13,158)
Effect of revaluations on cost of goods sold		6,195	15,289
		21,876	10,976
Movements in working capital:			
Decrease in inventories		23,092	15,764
Increase in biological assets		(24,706)	(24,289)
Decrease/ (increase) in trade and other receivables		(4,024)	(1,506)
Increase in trade payables and other short-term liabilities		2,111	7,722
Cash generated from operations		18,349	8,667
Interest paid		(5,042)	(2,856)
Income tax paid		(239)	(106)
Net cash generated from operating activities		13,068	5,705
<i>Of which operating cash flows provided by discontinued operations</i>		(7,331)	8,810
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		164	231
Government grants for assets received		654	-
Acquisition of land plots		(54)	(164)
Acquisition of property, plant and equipment		(99)	(3,070)
Proceeds from disposal of property, plant and equipment		55	317
Acquisition of intangible assets		(298)	(87)
Proceeds from sale of investment property		176	-
Proceeds from disposal of subsidiary net of cash disposed of		197,849	-
Net cash generated from/(used in) investing activities		198,447	(2,773)
<i>Of which investing cash flows provided/(used) by discontinued operations</i>		198,329	(3,130)
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal payment of short-term borrowings		(5,313)	(11,789)
Proceeds from borrowings		11,733	3,050
Repurchase of bonds		(44,930)	(3,276)
Settlement of obligations under finance lease agreements		(101)	(178)
Net cash generated from/(used in) financing activities		(38,611)	(12,193)
<i>Of which financing cash flows provided by discontinued operations</i>		6,319	(8,917)
Net increase in cash and cash equivalents		172,904	(9,261)
Cash and cash equivalents at the beginning of the period		26,832	31,959
Currency translation differences on cash and cash equivalents		4,794	(2,782)
Effect of foreign currency exchange differences		(21,301)	3,671
Cash and cash equivalents at the end of the period		183,229	23,587

BLACK EARTH FARMING LIMITED AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2017

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. Hereinafter the Company and its subsidiaries are together referred to as the “Group”.

The Company’s registered office is Black Earth Farming Limited, 3rd Floor, 37 Esplanade, St Helier JE2 3QA Jersey.

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

The Company’s shares are listed in the form of Swedish Depository Receipts (“SDR”) on the Small Cap segment on NASDAQ OMX Stockholm.

In February 2017, the Group entered into a framework share purchase agreement to sell all its Russian operating subsidiaries to a third party buyer for a consideration exceeding the carrying value of the respective net assets. In May 2017, the sale transaction had been completed. It is expected that the Board of Directors is going to propose that an Extraordinary General Meeting resolves on a voluntary liquidation of the Company as soon as practically possible after the Company has distributed excess proceeds to the shareholders. Accordingly, these condensed consolidated interim financial statements are not prepared on a going concern basis. Because at the reporting date Russian operations have been disposed of, in accordance with the International Financial Reporting Standard 5 “Non-current assets held for sale and discontinued operation” the net result of discontinued operations realized over the period and on the disposal of discontinued operations is disclosed by a single amount on the face of the condensed consolidated interim statement of income into the line named “Loss from discontinued operations”.

(b) Russian business environment

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. During the period Russian economy was negatively impacted by low oil prices, ongoing political tension in the region and continuing international sanctions against certain Russian companies and individuals, all of which contributed to the country’s economic recession and a decline in gross domestic product. The financial markets continue to be volatile and are characterized by frequent significant price movements and increased trading spreads. Russia’s credit rating was downgraded to below investment grade (as per S&P and Moody’s). This operating environment has a significant impact on the Group’s operations and financial position.

2. BASIS OF PREPARATION

(a) Statement of compliance

As stated in Note 1, these condensed consolidated interim financial statements are not prepared on a going concern basis.

Nevertheless, these condensed consolidated interim financial statements are still prepared in compliance with IAS 34, “Interim financial reporting” and should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2016, prepared in accordance with IFRS.

BLACK EARTH FARMING LIMITED AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2017

2. BASIS OF PREPARATION (CONTINUED)

(b) Significant accounting policies

The condensed consolidated interim 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 agricultural produce measured at net realizable value.

The same accounting policies, presentation and methods of computation are followed in these condensed consolidated interim financial statements as were applied in the preparation of the Group's consolidated financial statements for the year ended 31 December 2016.

All assets and liabilities of the Group at 30 June 2017 and 31 December 2016 are classified as current, including those previously treated as non-current, due to the fact that these assets and liabilities are in the process of realisation, as described in Note 1.

Discontinued operations. A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale and represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

When these criteria are met, the results and cash flows of discontinued operations are presented on a separate line in the consolidated income statement and statement of cash flows for each period. The Group assesses whether a discontinued operation represents a major line of business or geographical area of operations mainly on the basis of its relative contribution to the Group's consolidated financial statements.

In compliance with IFRS 5, the Group applies the following specific measurements which impact the condensed consolidated interim financial statements:

- discontinued operations (including non-current assets, current assets and the related liabilities classified as held for sale), as a whole, are measured at the lower of their carrying amount and fair value less costs to sell;
- the exception of IAS 12 consisting in not recognizing mechanical deferred taxes resulting from the difference between tax and consolidated values of the investments/subsidiaries being disposed is no more applicable since it becomes probable that the temporary difference will reverse in the foreseeable future with the sale of the subsidiaries. Thus, deferred tax liabilities are recognized with an income statement impact presented within the "Loss from discontinued operations";
- non-current assets classified as "assets held for sale" ceases at the date of IFRS 5 application;
- costs specifically incurred in the context of the Transaction are presented in the condensed interim statement of income within the "Loss from discontinued operations";
- all intercompany balance-sheet positions are eliminated.

(c) Functional and presentation currency

The functional currency of the Group entities is the Russian Ruble ("RUB"), the currency of the primary economic environment in which the Group operates.

The Group's presentation currency is the US Dollar ("USD") which the Group management considers most representative for the users of these condensed consolidated interim financial statements. All the financial information in these condensed consolidated interim financial statements, including comparative information, has been translated from RUB into USD using the exchange rates set by the Central Bank of the Russian Federation, as follows:

- Assets and liabilities for each balance sheet are translated at the closing rate at the date of that balance sheet;
- Share capital and other equity components are translated at historic rates;
- Income and expenses are translated at exchange rates at the dates of the transactions (or at average exchange rates that approximate the translation using the rate of the actual transaction dates);
- All resulting exchange differences are recognized in other comprehensive income and accumulated as a separate component of equity.

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2. BASIS OF PREPARATION (CONTINUED)

Due to the volatility of the RUB exchange rate, quarterly exchange rates were used to translate income and expenses of all subsidiaries with the Russian rouble as a functional currency for the period ended 30 June 2017. The average rates for each quarter of 2017 are indicated below:

	<u>2017</u>
RUB/USD for the first quarter	58.8366
RUB/USD for the second quarter	<u>57.9862</u>

The period-end exchange rates and the average exchange rates for the respective reporting periods are indicated below.

	<u>2017</u>	<u>2016</u>
RUR/USD for the six months period ended 30 June	57.1451	65.8883
RUR/USD as at 30 June (31 December in 2016)	59.0855	60.6569
RUR/SEK for the six months period ended 30 June	6.4829	8.0249
RUR/SEK as at 30 June (31 December in 2016)	<u>6.9499</u>	<u>6.6674</u>

3. REVENUE AND GAINS

<i>In thousands of US Dollars</i>	<u>Six months ended 30 Jun</u>	
	<u>2017</u>	<u>2016</u>
<i>Continuing operations</i>		
Revenues from sales of crop production		
Corn	13,711	17,844
Change in net realizable value of agricultural produce after harvest	(874)	-
Total revenue and gains from continuing operations	<u>12,837</u>	<u>17,844</u>
<i>Discontinued operations</i>		
Revenues from sales of crop production		
Sunflowers	10,657	9,434
Wheat	3,849	4,507
Corn	3,351	5,948
Potatoes	753	487
Barley	182	2,008
Other and Waste grains	83	66
Total revenues from sales of crop production	<u>18,875</u>	<u>22,450</u>
Revenue from sales of milk and meat	322	283
Revenues from sales of other goods and services	56	103
Gain on revaluation of biological assets	46	12,829
Change in net realizable value of agricultural produce after harvest	(788)	329
Total revenue and gains from discontinued operations	<u>18,511</u>	<u>35,994</u>

(b) Geographical information

The split of the Group's revenues from continued operations between countries was as follows:

<i>in thousands of US Dollars</i>	<u>Six months ended 30 Jun</u>	
	<u>2017</u>	<u>2016</u>
<i>Revenue from continuing operations</i>		
Denmark	5,334	7,144
Ireland	5,140	1,962
Germany	2,783	5,725
Norway	454	-
United Kingdom	-	2,627
Sweden	-	386
	<u>13,711</u>	<u>17,844</u>
<i>Revenue from discontinued operations</i>		
Russia	18,875	22,450
	<u>18,875</u>	<u>22,450</u>

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4. DISCONTINUED OPERATIONS

On 13 February 2017 the Company's direct wholly owned subsidiary, Planalto Enterprises Limited ("Planalto"), entered into a framework share purchase agreement (the "SPA") regarding the sale of its wholly owned subsidiaries LLC Managing Company Agro Invest ("AIMC") and LLC Managing Company Agro Invest Regions ("AIRMC"), that in turn hold shares in all other Russian subsidiaries of the Group, and an assignment agreement pursuant to which Planalto assigns its claims under the intergroup loans to AIMC, to LLC Volgo-DonSelkhozInvest, an unrelated entity (the "Transaction"). On 12 May 2017 the control over the Russian subsidiaries transferred to the new owner.

As mentioned in Note 1, conditions for the application of IFRS 5 are met with respect to Russian subsidiaries disposed. In accordance with IFRS 5:

- the net loss of discontinued operations realized over the year is disclosed by a single amount on the face of the condensed consolidated interim statement of income into the line named "Loss from discontinued operations". The statement of income of comparative period is re-presented in accordance with IFRS 5;
- the net loss as a result of disposal of the Russian subsidiaries is also disclosed in the line "Loss from discontinued operations" of the condensed consolidated interim statement of income;
- the net cash flows attributable to the operating, investing and financing activities of discontinued operation realized over period from January 2017 to the date of disposal are disclosed in the consolidated interim statement of cash flows.

(a) Financial statements of discontinued operations

The Group has recorded a net loss of discontinued operations realized over the period from January 2017 to the date of disposal in amount of USD 15,722 thousand and loss from disposal of the Russian subsidiaries of USD 50,586 thousand within "Loss from discontinued operations" line item of condensed consolidated statement of income.

In thousands of US Dollars

Consideration for disposal of the subsidiary	198,838
Carrying amount of disposed net assets	<u>(126,300)</u>
Profit from sale of subsidiaries before effect of recycle to profit or loss of accumulated translation reserve	<u>72,538</u>
Cumulative currency translation reserve on foreign operation recycled from other comprehensive income to profit or loss	<u>(123,124)</u>
Loss on disposal of the subsidiaries	<u><u>(50,586)</u></u>

In thousands of US Dollars

	<u>Jan – May 2017</u>	<u>Jan – Jun 2016</u>
Revenue and gains	18,511	35,994
Expenses	(34,233)	(42,254)
Loss on disposal of Russian subsidiaries (please see table above)	(50,586)	-
Loss before tax of discontinued operations	<u>(66,308)</u>	<u>(9,812)</u>
Income tax relating to profit before tax of discontinued operations	(77)	(343)
Loss for the year from discontinued operations	<u><u>(66,385)</u></u>	<u><u>(10,155)</u></u>

(b) Cash flow

In thousands of US Dollars

	<u>Jan – May 2017</u>	<u>Jan – Jun 2016</u>
Operating cash flows provided by discontinued operations	(7,331)	8,810
Investing cash flows provided/(used) by discontinued operations	198,329	(3,130)
Financing cash flows provided by discontinued operations	<u>6,319</u>	<u>(8,917)</u>

5. OTHER INCOME AND EXPENSE, NET

In thousands of US Dollars

	<u>Six months ended 30 Jun</u>	
	<u>2017</u>	<u>2016</u>
Income on grain and forex hedge	7,763	1,148
Other income and expenses	<u>6</u>	<u>-</u>
	<u><u>7,769</u></u>	<u><u>1,148</u></u>

6. DIVIDENDS

During the six months period ended 30 June 2017 the Board of Directors proposed no dividends to be paid or declared.

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7. (LOSS)/ EARNINGS PER SHARE

	Six months ended 30 Jun	
	2017	2016
<i>The amounts are indicated in US Dollars</i>		
(Loss)/profit for the period	(56,391,000)	5,188,000
Weighted average number of ordinary shares	212,279,981	210,426,241
Basic and diluted (loss)/earnings per share (USD/share)	(0.27)	0.02
Basic and diluted earnings per share (USD/share) from continuing operations	0.05	0.06
Basic and diluted loss per share (USD/share) from discontinued operations	(0.31)	(0.03)

8. RELATED PARTIES BALANCES AND TRANSACTIONS

TerraVost Ltd (formerly KinnAgri Ltd) provided consultancy services related to budgeting and forecasting process, production planning, harvest, storage and logistics. KCM International provided crop technical information and consultancy services. KCM International is a subsidiary of TerraVost Ltd.

In December 2014, KinnAgri Ltd completed a buyback of the shares of Investment AB Kinnevik in KinnAgri Ltd. Investment AB Kinnevik fully exited the shareholder structure of KinnAgri Ltd, which was subsequently renamed TerraVost Ltd. As a result of the transaction, Richard Warburton, the CEO of the Group, became the majority shareholder of TerraVost Ltd.

	Six months ended 30 Jun	
	2017	2016
<i>In thousands of US Dollars</i>		
Purchase of services from related parties		
TerraVost Ltd (formerly KinnAgri Ltd)	197	440
KCM International Ltd	262	539
	459	979
Less: subcontracted to third parties		
TerraVost Ltd (formerly KinnAgri Ltd)	-	(71)
KCM International Ltd	-	(2)
	-	(73)
Purchase of services from related parties, net of subcontractors		
TerraVost Ltd (formerly KinnAgri Ltd)	197	369
KCM International Ltd	262	537
Total	459	906
	30 Jun 2017	31 Dec 2016
Accounts payable to related parties		
TerraVost Ltd (formerly KinnAgri Ltd)	62	208
KCM International Ltd	51	331
	113	539

For contracts with the related parties a review of alternative options and arm's length pricing was conducted by three members of the Board of Directors, including Chairman of Audit Committee, in November 2015 and terms of the contracts found to be satisfactory. KCM and TerraVost contracts were reviewed, renewed and signed in 2Q16.

9. CONTINGENCIES AND COMMITMENTS

(a) Legal proceedings

From time to time and in the normal course of business, claims against the Group may arise. On the basis of its own estimates and external professional advice, management is of the opinion that no material losses will be incurred in respect of claims in excess of the provisions that have been made in these condensed consolidated interim financial statements.

9. CONTINGENCIES AND COMMITMENTS (CONTINUED)

(b) Tax contingencies

Russian tax and customs legislation, which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged by relevant authorities. Russian tax administration gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax non-compliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances, reviews may cover longer periods.

The Russian transfer pricing legislation is to a large extent aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). This legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length. Management has implemented internal controls to be in compliance with this transfer pricing legislation.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

Starting from 1 January 2015, the "de-offshorisation law" came into force introducing broader rules for determining the tax residency of legal entities, which may have an impact on the Group's operations. In particular, more specific and detailed rules were put in place for establishing when foreign entities can be viewed as managed from Russia and consequently can be deemed Russian tax residents. Russian tax residency means that such a legal entity's worldwide income will be taxed in Russia.

The Group includes companies incorporated outside of Russia. The tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profit tax, as they do not have a permanent establishment in Russia and were not Russian tax residents by way of application of the new tax residency rules. This interpretation of the relevant legislation in regards to the Group companies incorporated outside of Russia may be challenged but the impact of any such challenge cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the Group.

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk of an outflow of resources should such tax positions and interpretations be challenged by the tax authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

As at 30 June 2017, management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions are appropriate and can be sustained.

10. SUBSEQUENT EVENTS

On 1 August 2017, 9,826,375 new shares (4.63% of shares then outstanding) were issued as a result of the Company's management incentive program. Following the issue, the total number of outstanding shares became 222,106,356.

At the Annual General Meeting on 11 August 2017 it was resolved to approve the execution of a share split and to effect the mandatory redemption program, whereby each outstanding share of USD 0.01 each in the Company is divided into two (2) shares of USD 0.005 each, with one (1) of those shares being redeemable and the other non-redeemable. It was also resolved that the company should apply for delisting and the application was made on the same day to Nasdaq Stockholm for delisting of the Company's depository receipts.

Black Earth Farming Ltd. (Jersey) is a farming company that until recently operated in Russia. Its shares are listed as depository receipts on Nasdaq Stockholm. The Company has recently sold its agricultural land assets and the board has proposed to distribute the proceeds from the sale and remaining funds to its shareholders and thereafter to liquidate the company.

The Board of Directors and the CEO hereby confirm that the interim report gives a true and fair view of the group's operations, financial position and results of operations and describes significant risks and uncertainties the Company is exposed to.

Jersey, 31 August 2017

Per Åhlgren, Chairman

Franco Danesi, Non-executive Director

Richard Warburton, Executive Director and CEO

For further information, please contact:

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Group's website: www.blackearthfarming.com

Non-IFRS performance measure



In addition to IFRS performance measures, Black Earth Farming Ltd. presents a number of financial performance measures that are outside IFRS definitions (Alternative performance measures, according to ESMA's guidelines) with the aim of enabling effective evaluation of the company's financial position and performance for investors and for the company's management. This means that these measures are not always comparable with measures used by other companies and shall therefore be considered as a complement to measures defined according to IFRS. The Company applies these alternative performance measures consistently over time. Definitions are provided below of how the Company's key ratios are calculated.

Non-IFRS performance measure	Description
Gross profit after distribution cost	Gross profit minus distribution expenses
EBIT	Profit (loss) before financial income/expenses) and income taxes.
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.

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.

“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, and Turkmenistan (associated Member), Ukraine and Uzbekistan.

“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.

“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.

“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, corn maize and rice

“Grain elevator”

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

“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.

“Oblast”

An administrative region of Russia.

“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.

“Pai”

A share in jointly-owned land received by a farm worker (in the Company’s transactions often comprising approximately 2 to 17 Ha of undefined land).

“SDR”

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

“VPC”

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

“Öhman”

E. Öhman J:or Fondkommission AB, company registration number 556206-8956, Box 7415, SE-103 91, Stockholm, Sweden.