

# Black Earth Farming Ltd Unaudited Interim Report

1 January – 31 March 2014



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## Significant loss on Forex in Q1. Good progress in Spring Seeding Campaign

*97% y-o-y increase in tons sold in 1Q14 but average sales price declines 35% y-o-y to USD193 per ton  
Q1 gross profit of USD1.3mn as higher export prices realized in 1Q14 versus YE13 inventory value  
Forex loss of USD8.2mn depressed net income as the Russian ruble depreciated over the quarter  
Minimal winter kill so far with good general conditions for 2014 crop to date*

### Q1 2014 Highlights (vs. Q1 2013)

- With this report, the company moves to report with USD as presentation currency
- Sales volumes of 129 thousand tons (66) at average price per ton of USD193 (298)
- Sales revenue of USD25.4mn (19.9)
- Operating loss of USD-9.3mn (-10.6)
- Gain/loss on FOREX of USD-8.2mn (-1.0)
- Net loss of USD -19.6mn (-13.9)
- Net loss per share of USD-0.09 (-0.06)
- Operating cash flow of USD-3.5mn (2.8)

### Events after the Reporting Period

- **2014 Crop;** Spring seeding 93% complete as of 15 May. Total 2014 crop area expected at approximately 185 thousand hectares.
- On 4<sup>th</sup> April 2014, the Company announced plans to divest 27,754 hectares of land and related real estate in the Voronezh region for a total of USD21.1mn.
- In April, the Company bought back USD3.8mn of its bonds outstanding.

### CEO Comment Highlights (p.2)

- Market Development
- Q1 Sales & 2014 Financials
- Spring Seeding & 2014 Crop Area
- 2014 Revenue Risk Management
- Voronezh land sale

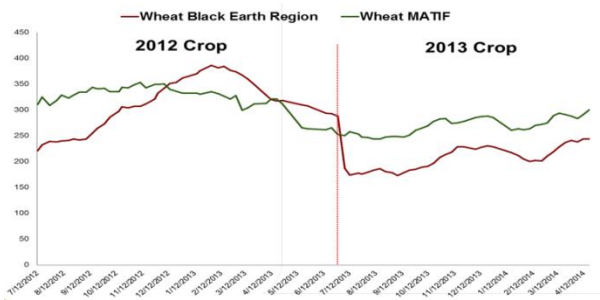
### Financial Overview (p.4)

	USD million	Q1 '14	Q1 '13
Crop Volumes Sold		129,439	65,605
Av. Sales Price		193	298
Total Revenue & Gains		26.2	18.3
Gross Result		1.3	(4.8)
EBITDA		(5.7)	(8.5)
EBIT		(9.3)	(10.6)
Loss on FX		(8.2)	(1.0)
<b>Net Income</b>		<b>(19.6)</b>	<b>(13.9)</b>

## Market Development

International and domestic crop market prices have strengthened circa 8% during the quarter. This is partly a reflection on the situation in Ukraine as well as continuing dry conditions in the US plains. The general picture for Russia is mixed depending on region but at present most estimates are for an increase on 2013 production levels and with a larger exportable surplus than in the previous year. Seeding seems to have progressed well so far across most regions. It will be apparent shortly how good the quality of spring establishment is and then we move into the rainfall dependant period of late May and June, which should determine the productivity of the wheat, barley and rape. Subsoils are however reported as being generally drier than the last two years across Russia.

**MATIF vs. Black Earth Region Wheat Price**



Source: IKAR, CBOT

## Q1 Sales & 2014 Financials

During Q1, 129 thousand tons were sold, equivalent to 68% of the carry-in inventory, with the majority of volumes consisting of corn, wheat, sunflower and barley. The weighted average price of USD193 per ton is down -35% year-on-year. The remaining 52 thousand tons of 2013 crop held in inventory is valued at USD10.3 million as of March 31<sup>st</sup>.

There is limited activity during the first quarter in terms of production, with sales of 2013 crop inventory being the main factor affecting our financials. Given the fact that we mark our crop inventory to market, realized sales prices and the development of market prices is a key factor affecting the first quarter result. As a result of improving prices vs the year end valuation, a positive gross result of USD1.3mn was recorded in 1Q14, compared to negative USD-4.8mn in 1Q13. Similarly, crops in inventory as of 31st March 2013 were marked down on lower market prices, resulting in a USD -1.6mn revaluation loss in 1Q13, while prices firmed in 1Q14, producing a USD 0.6mn gain.

Distribution expenses were up USD3.0mn from 1Q13 as a result of transportation and storage costs related to higher export sales. G&A costs were up USD0.6mn y-o-y on higher personnel and consultancy expenses. The first quarter operating loss of USD-9.3 mn compares to USD-10.6mn in 2013. EBITDA for Q1 2014 was USD-5.7mn compared to USD-8.5 mn in 2013. Operations generated negative cash flow of USD-3.5mn in 1Q14 vs. a USD2.8mn inflow in 1Q13. The main driver of the negative deviation in net income (USD-5.7mn) was a USD-8.2mn foreign exchange loss in 1Q14, as the ruble depreciated 9% against the SEK over the period. We have taken steps and continue to manage our Ruble risk as carefully as we can during this tense geopolitical period.

## Spring Seeding & 2014 Crop Area

A minimal area of the winter wheat hectareage was lost due to winter kill and the wheat came out of the winter in reasonable overall condition. Spring was earlier than the last two years but major seeding was only possible from late April. As of May 15<sup>th</sup> 143 thousand hectares have been seeded with spring crops, 93% of the planned area. We expect the total 2014 crop area to be approximately 185 thousand hectares. This is about 40 thousand hectares, or 18%, lower than in 2013, which reflects both the sale of some of our Voronezh land assets and a decision not to crop land with lower expected yield potential (see also graph on page 3). As a result of challenging winter crop planting conditions and a shift in crop mix, we are growing less winter wheat and more corn and sunflower. During the winter we have installed t GPS tracking on all vehicles, which takes our operational control to a new level and enhances significantly not only crop and operational management but also security and labor management. Intensive spring capacity planning has thus far meant that the substantial changes to the cropping mix have been managed in a timely manner. The ban on imported potato seed was lifted in later April allowing our seed stocks to be delivered just in time for planting. The 840 hectares planted with potatoes this year for delivery to Frito-Lay (PepsiCo) is more than four times larger than last year. Planting has progressed well and attention is now focused on commissioning irrigation systems and building and securing the necessary storage.

## 2014 Revenue Risk Management

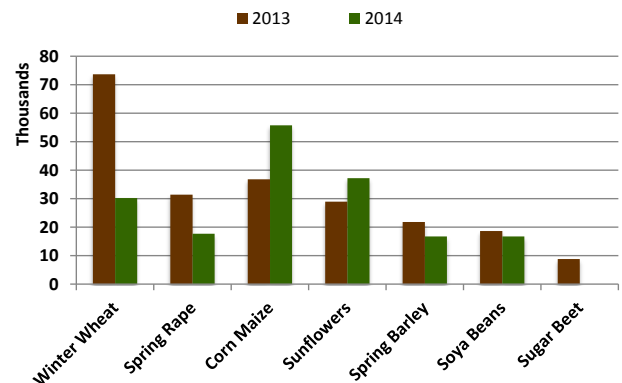
Circa 46% of expected revenue from the 2014 crop is now priced or hedged. This includes both forward sales of oilseed rape for export as well as domestic deliveries of sunflower and potatoes to Frito-Lay plus malting barley to international brewers. It has been difficult so far to contract forward physical sales of new wheat crop at decent values. International futures markets have been used to establish hedged positions against a potential drop in wheat prices.

## Voronezh Land Sale

In April, we announced the planned sale of 27,754 hectares in the Voronezh region for approximately USD21.1mn which implies an estimated gross profit of USD7mn and a net profit of around USD5mn on the transaction, depending on forex movements. The Podgornoe and Ostrogozhsk land assets sold included 5,115 hectares of grasslands, pastures and fallow and 1,899 hectares of leased and co-owned land. The transaction also included the Ostrogozhsk elevator, with 15,000 tonnes of capacity, as well as 14,000 tonnes of warehouse type storage facilities and yard premises. The sale is in line with our strategy of consolidating the land area to the regions with the best potential profitability. The sale will release cash for investment in other areas as well as into our root crop business.

Our focus remains on continued operational improvements to lower cost per tonne in our core business.

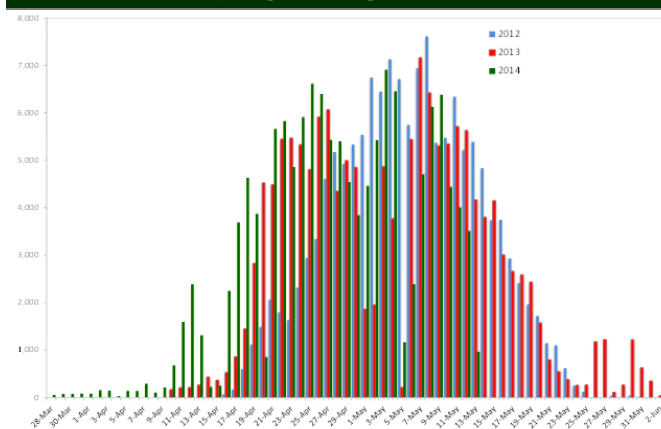
## Commercial Crop Area Development, k hectares



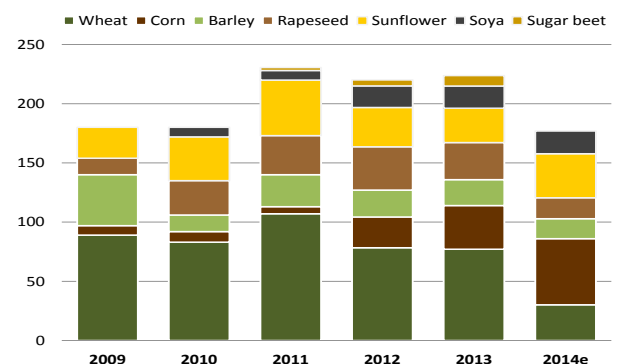
16 May 2014

Richard Warburton CEO and President

## 2014 Spring Seeding vs. 2013, 2012 Ha



## 2009-2014 Crop area Breakdown, K ha



# Q1 2014 Financial Review

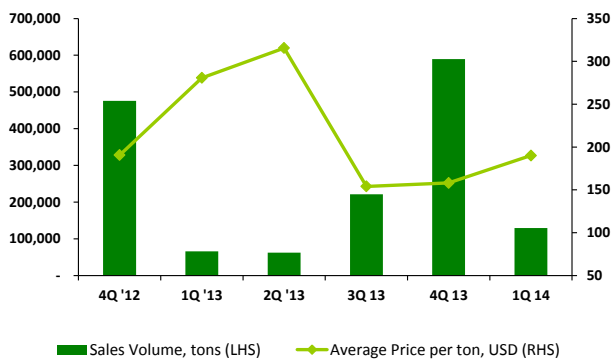


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## Revenue

Revenue from goods sold during Q1 increased by 28% y-o-y to USD25.4mn as carry-in crop volumes sold almost doubled to 129kt in 1Q14 vs. 66kt in 1Q13 but the weighted average USD price dropped -35% y-o-y. The 1Q14 sales mix consisted mainly of corn (58% of sales), wheat (13%), sunflower (11%) and barley (9%). Market prices firmed slightly over the reporting period. The quarterly realised price is also generally affected by the sales mix. 1Q14 had a higher share of lower priced corn and wheat in the sales mix, with more sunflower and soya in 1Q13, which impacted the 1Q14 average price negatively. Please see page 5 for more detail on inventory and sales volumes and prices.

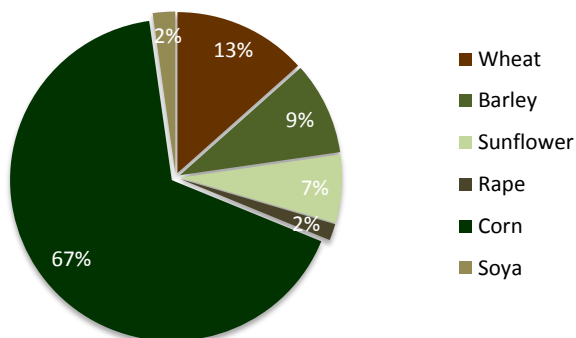
**Sales Volumes & Realised Price per Ton**



## Inventory & Gain/Loss of Revaluation

52kt of crops harvested in 2013 were held in inventory as of 31 March 2014, compared to 190kt at 31 December 2013. 20% of the end-of-period volumes consisted of sunflower, 28% barley, 46% corn and 5% wheat. Domestic market and contract prices (excluding 10% VAT), detailed on page 5, have been used to determine a net realizable value of USD10.3mn. The revaluation of finished goods inventory resulted in a USD0.6mn gain during 1Q14 (vs a USD-1.6mn loss in 1Q13) as a result of slightly

**Q1 2014 Sales Mix (% of volumes)**



firmer prices at the end of the first quarter. At the end of the reporting period, biological assets, which consisted mainly of costs incurred for seeding of winter crops to be harvested 2014, amounted to USD 23.5mn. The decrease vs 31 March 2013 (USD41.9mn) is mostly explained by the lower area of winter wheat planted for 2014.

## Result

As a result of improving prices, a positive gross profit result of USD1.3mn was recorded in 1Q14, compared to negative USD-4.8mn in 1Q13. Similarly, crops in inventory on 31 March 2013 were marked down on lower market prices, resulting in a USD -1.6mn revaluation loss in 1Q13, vs. a USD0.6mn gain in 1Q14, when crop prices firmed 10-20% over the reporting period. The 1Q14 operating loss of USD-9.3mn was up USD1.3mn from USD-10.6mn in 1Q13, driven by the higher gross profitability as well as by higher state grants and subsidies of USD1.2mn. The main factor affecting the negative development in net income from USD -13.9mn in 1Q13 to USD-19.6mn in 1Q14 was the USD-7.2mn difference in FX translation and transaction effects as a depreciating ruble (-9% vs SEK) caused a USD-8.2mn loss in 1Q14. The Company also recorded a USD-1.7mn loss on forex and grain hedges in 1Q14. A higher spend on distribution (USD-3.0mn y-o-y) was driven by increased sales and exports but was partly offset by higher prices. 1Q14 EBITDA was USD-5.7mn versus USD-8.5mn in 1Q13, with the reversal from net income mainly driven by the difference in FX translation.

## Financial Position

The 1Q14 vs 4Q13 change in balance sheet position partly reflects a 9% weakening of the ruble against the USD. 1Q14 non-current assets of USD157.8mn comprise of PP&E (incl. storage facilities, land held at acquisition cost, and machinery and equipment). USD13.7mn of PPE was reclassified to assets held for sale, on the announced intention to sell some land and real estate assets in Voronezh. Inventories of USD37.1mn include both crops harvested in 2013 (USD10.3mn) and input materials (USD26.8mn) to be used for 2014 crops. The Company had USD 54.1mn in cash and USD100.3mn of interest bearing debt outstanding. Net interest bearing debt amounted to USD46.2mn as at the end of the reporting period.

## Cash Flow

Cash flow from operations amounted to USD-3.5mn for 1Q14 as 2013 crop sales mostly covered investments in the 2014 harvest. Investments into PP&E of USD3.9mn consisted mainly of machinery and IT investments. A negative USD5.3mn foreign exchange translation effect, resulted in cash and equivalents of USD54.1mn as of 31 March 2014 vs. USD64.9mn at the start of the year.

The Company values its inventory of finished goods at net realisable value to reflect the market value as at the end of the reporting period. A change in net realisable value affects Total Revenue and Gains in the income statement. In addition Cost of Goods Sold represents the carrying value of inventory as at the previous reporting date. The table below provides a breakdown of inventories as of 31 March 2014 as well as the development of crop sales during 2014 and 2013. Note that all recorded prices exclude 10% VAT and estimated distribution expenses for contracted sales.

## Quarterly Sales Volume & Crop Inventory

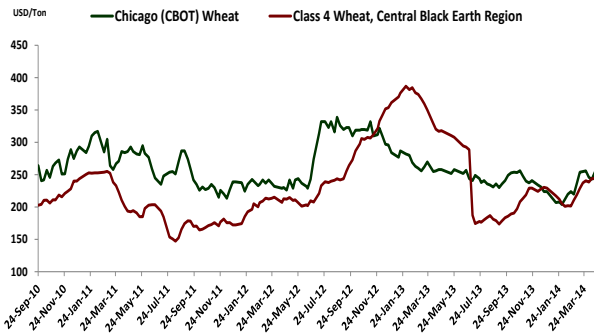
	<u>Quarterly Sales</u>				<u>Crop in Inventory</u>		
	1Q '14	4Q '13	3Q '13	2Q '13	Q1 '13	31 Mar '14	31 Dec '13
<b>Volume, k tons</b>							
<i>Wheat</i>	17.2	86.0	134.6	7.7	1.9	2.6	20.6
<i>Barley</i>	12.0	6.6	21.3	14.0	8.9	14.3	27.8
<i>Corn</i>	85.4	38.3	0.5	11.0	34.3	24.1	116.9
<i>Rape</i>	2.1	19.9	7.0	0.1	2.0	-	2.0
<i>Sunflower</i>	8.8	39.1	0.2	25.2	15.5	10.4	18.9
<i>Soya</i>	2.9	12.2	0.4	0.2	2.4	0.2	3.0
<i>Sugar beet</i>	-	161.9	52.8	-	-	-	0.0
<i>Other (seeds/forage)</i>	0.1	2.4	4.7	-	0,6	-	1.4
<b>Total Tons</b>	<b>129.4</b>	<b>370.0</b>	<b>221.4</b>	<b>58.0</b>	<b>65.6</b>	<b>52.0</b>	<b>190.3</b>
<b>Price, USD/ton</b>							
<i>Wheat</i>	182	199	183	253	303	200	220
<i>Barley</i>	193	158	156	217	219	180	221
<i>Corn</i>	168	163	216	200	228	149	176
<i>Rape</i>	377	396	342	478	511	383	470
<i>Sunflower</i>	299	318	423	436	420	333	373
<i>Soya</i>	411	467	482	444	476	420	558
<i>Sugar beet</i>	-	49	45	-	-	-	n/a
<i>Other</i>	66.3	74	-	-	156	-	302
<b>Average Price</b>	<b>193</b>	<b>160</b>	<b>154</b>	<b>312</b>	<b>292</b>	<b>199</b>	<b>186</b>

As of 31 March 2014 the Company recorded inventories at a total value of USD 37.1 million. Total inventories include finished goods, i.e. crops harvested in 2013 held for sale, as well as raw materials to be used in production. Total crop inventory of finished goods included 52 thousand tons of crops harvested during 2013 valued at an average price of USD 199 per ton resulting in a total fair value estimate of USD 10.3 million.

## International

International grain prices strengthened during the beginning of 2014 as stocks from last year's harvest reduced markedly, some to critically low levels (soya), following lower production and increased consumption world wide. Concerns in the US over this year's harvest prospects with continuing low moisture levels in the southern plains adversely effecting wheat production coupled with possible late corn plantings (lower yields)

### International vs. Russian Domestic Wheat Price



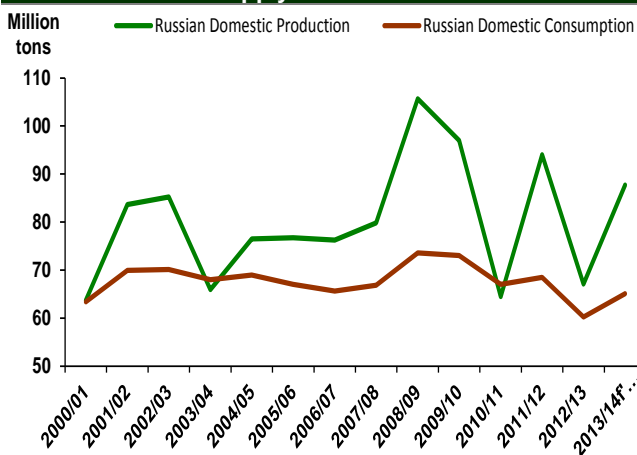
Source: IKAR, CBOT

due to wet & cold conditions have abated recently and the latest USDA Supply & Demand (9<sup>th</sup> May) shows increases in end of season world stocks next year for both wheat and corn. Oilseed production is expected also to increase worldwide, especially soya in North America, and for stocks to recover from the current extremely low levels even with continued increased world demand. The Ukrainian crisis has moved from centre stage for the moment and the improved crop prospects have seen international prices soften slightly but the growing conditions during the next 3-4 months remain critical to final crop production and eventual prices.

## Russia

Robust world demand for Black Sea grain is reflected in the expected export total of 23-24mln by the seasons end. Recent ruble weakness has helped maintain Russia's competitiveness on world markets and has resulted in significant reductions in end of season stocks for the second year in succession. Winter plantings (mainly wheat) in Russia were lower than normal due to the late autumn but crops have over wintered satisfactorily with below average winter kill losses. Good spring conditions have enabled winter sown crops to continue to develop well and spring crop plantings are ahead with few interruptions and the prospects remain positive for both final sown area (53,3mln hectares) and yields, subject to no adverse conditions between now and harvest. The total Russian grain crop for 2014/15 is expected to be at least equal to, and possibly exceed, the previous year at 92-95mln, which would suggest an exportable surplus of 23-25mln. Prices of late have eased in line with international prices, but sharply reduced carry in stocks should result in strong domestic and export demand at harvest onwards as Russian grain remains highly competitive compared to other origins.

### Russian Supply and Demand of Grains



### Grains Stocks-to-Use Ratio, Russia vs. World



Source: IGC, IKAR, USDA

# Historical Production Development



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## Crop Area Breakdown

(hectares)	2009	2010	2011	2012	2013	2014E
Winter wheat	84,698	72,677	93,627	73,912	73,702	30,207
Spring wheat	3,824	10,157	13,093	4,368	3,412	6,139
Spring barley	43,053	13,793	26,535	22,718	21,850	16,712
Corn maize	8,084	8,592	6,149	26,003	36,814	55,822
Winter triticale	2,740	302	n/a	n/a	n/a	n/a
<b>Total Grains</b>	<b>142,399</b>	<b>105,521</b>	<b>139,404</b>	<b>127,001</b>	<b>135,778</b>	<b>108,880</b>
Winter rape	7,045	536	n/a	n/a	n/a	180
Spring rape	7,132	29,051	33,494	36,597	31,436	17,717
Sunflower	26,466	36,761	46,518	33,218	28,997	37,233
Soya	n/a	7,899	7,863	18,187	18,682	16,755
<b>Total Oilseeds</b>	<b>40,643</b>	<b>74,247</b>	<b>87,875</b>	<b>88,002</b>	<b>79,115</b>	<b>71,885</b>
Sugar Beet	n/a	n/a	1621	5,085	8,822	n/a
Potatoes	n/a	n/a	n/a	31	196	840
<b>Total Commercial Area</b>	<b>183,042</b>	<b>179,768</b>	<b>228,900</b>	<b>220,119</b>	<b>223,911</b>	<b>181,605</b>
<i>Other / Forage crops</i>	<i>381</i>	<i>1,013</i>	<i>1,951</i>	<i>1,675</i>	<i>1,992</i>	<i>3,641</i>
<b>Total harvest area</b>	<b>183,423</b>	<b>180,781</b>	<b>230,851</b>	<b>221,794</b>	<b>225,903</b>	<b>185,246</b>

## Average Net Crop Yields

(tons/hectare)	2009	2010	2011	2012	2013	2014
Winter wheat	3.3	1.9	2.4	2.1	3.3	
Spring wheat	2.1	1.4	1.6	2.6	1.9	
Spring barley	2.8	1.4	1.9	2.4	2.6	
Corn maize	3.1	0.7	4.9	5.1	4.3	
Winter triticale	2.3	0.8	n/a	n/a	n/a	n/a
Winter rape	1.6	0.5	n/a	n/a	n/a	n/a
Spring rape	1.3	0.5	1.1	1.3	0.9	
Sunflower	1.7	0.8	2.0	1.9	2.0	
Soya	n/a	0.2	0.9	1.2	0.9	
Sugar beet	n/a	n/a	25.6	25.3	24.3	
Potatoes	n/a	n/a	n/a	33.2	33.9	

## Net Harvest Volumes

(tons)	2009	2010	2011	2012	2013	2014
Winter wheat	292,657	141,145	220,608	159,628	245,711	
Spring wheat	8,764	14,008	21,187	11,495	6,573	
Spring barley	127,793	19,937	49,166	54,233	55,429	
Corn	27,823	5,797	29,989	132,829	158,986	
Winter triticale	6,432	249	n/a	n/a	n/a	n/a
<b>Total Cereal Grains</b>	<b>463,469</b>	<b>181,136</b>	<b>320,950</b>	<b>356,969</b>	<b>466,699</b>	
Winter rape	11,527	293	n/a	n/a	n/a	n/a
Spring rape	9,708	16,822	36,887	46,052	28,113	
Sunflower	46,602	30,849	92,805	62,759	57,970	
Soya	n/a	2,306	7,114	22,364	16,006	
<b>Total Oilseeds</b>	<b>67,837</b>	<b>50,270</b>	<b>136,806</b>	<b>131,175</b>	<b>102,089</b>	
Sugar beet	n/a	n/a	41,531	128,405	214,720	
Potatoes	n/a	n/a	n/a	1,029	6,644	
<b>Total Commercial Crops</b>	<b>531,306</b>	<b>231,406</b>	<b>499,287</b>	<b>617,578</b>	<b>790,152</b>	
<i>Other/Forage crops</i>	<i>3,381</i>	<i>3,686</i>	<i>14,597</i>	<i>13,213</i>	<i>3,012</i>	
<b>Total Output</b>	<b>534,687</b>	<b>235,092</b>	<b>513,884</b>	<b>630,791</b>	<b>793,164</b>	

## Risks and Uncertainties

Risks and uncertainties are described in the annual report for 2013. The risks can be summarised as Risks relating to the Company, Risks relating to the Company's business and Risks relating to Russia. All significant risks and uncertainty factors that existed on 31 December 2013 also exist on 31 March 2014.

## Outstanding shares

As of 31 March 2014 the amount of outstanding shares was 207,669,445. The Company also has

outstanding share-based incentive programs described in note 26 (d) of the 2013 Annual Report. The market capitalisation as of 31 March 2014 was approximately SEK 1,277 million or USD 198 million.

## Shareholders

The total number of shareholders, as of 31 March 2014, amounted to about 12,880.

### Compiled SDR information

Official listing:	Nasdaq OMX Stockholm
Form of listing:	Swedish Depository Receipt ("SDR")
Round lot:	1
Sector:	Agricultural Products
Exchange ISIN code:	SE0001882291
Short name:	BEF SDB
Reuters:	BEFsdb.ST
Bloomberg:	BEFSDB SS

### Six month share data for the period until 16 May 2014

Average Daily Turnover (SEK)	Average No of Traded Shares	Average No of daily trades
<b>1,869,000</b>	<b>182,421</b>	<b>108</b>

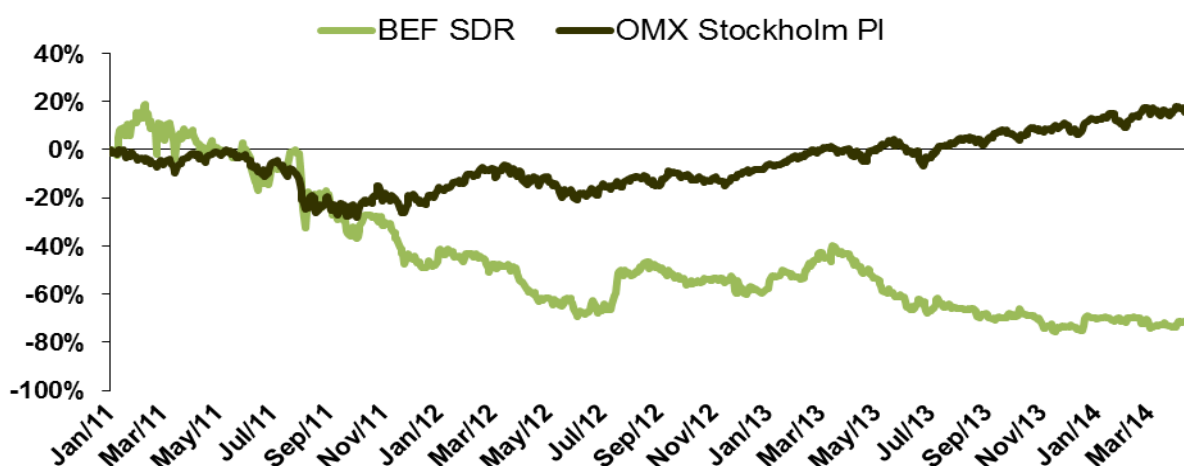
Source: NASDAQ OMX

### Top 5 shareholders as of 31 March 2014

Owner	% of votes & capital
<b>AB INVESTMENT KINNEVIK</b>	<b>25.0%</b>
<b>ALECTA PENSION FUNDS</b>	<b>10.0%*</b>
<b>GOMOBILE Nu AB</b>	<b>9.1%</b>
<b>DANSKE INVEST FUNDS</b>	<b>5.2%</b>
<b>LUXOR CAPITAL GROUP</b>	<b>5.0%</b>

Source: Euroclear Sweden share registry & shareholders' reference

### Share Performance vs. OMX Stockholm index



### Black Earth Farming SDR

<b>6.05</b>	Price SEK/SDR 16 May 2014	Change 1 Month	Change 3 Months	52 Week High
		-2.42%	-7.63%	9.45
		Change 6 Months	Change 1 Year	52 Week Low
		5.22%	-32.78%	5.05



**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME /  
(LOSS) FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2014**



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*In thousands of*

		USD	USD
	Notes	3 m. 2014	3 m. 2013
Revenue		25,449	19,923
Gain on revaluation of biological assets		199	8
Change in net realisable value of agricultural produce after harvest		594	(1,587)
<b>Total revenue and gains</b>	4	<b>26,242</b>	<b>18,344</b>
Cost of sales		(20,727)	(9,870)
Effect of revaluations (revaluation of biological assets to agricultural produce and change in net realizable value of agricultural produce after harvest)		(4,251)	(13,307)
<b>Gross profit/(loss)</b>		<b>1,264</b>	<b>(4,833)</b>
Distribution expenses		(4,696)	(1,686)
General and administrative expenses		(4,816)	(4,252)
Taxes other than income		(385)	(471)
State grants and subsidies		1,209	-
Other income and expenses	5	(1,875)	645
<b>Operating loss</b>		<b>(9,299)</b>	<b>(10,597)</b>
Financial income		434	452
Financial expenses		(2,396)	(2,820)
Loss on foreign exchange differences		(8,214)	(1,024)
<b>Loss before income tax</b>		<b>(19,475)</b>	<b>(13,989)</b>
Income tax (expense)/ benefit		(101)	84
<b>Total comprehensive loss for the period attributable to owners of the parent</b>		<b>(19,576)</b>	<b>(13,905)</b>
<i>Loss per share</i>		USD	USD
Loss per share, basic and diluted		(0.09)	(0.06)

The condensed consolidated statement of comprehensive income/ (loss) is to be read in conjunction with the notes to and forming part of the interim consolidated financial statements set out on pages 13 to 18.

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 MARCH 2014**



*In thousands of*

	Notes	USD 31-Mar-14	USD 31-Dec-13
<b>ASSETS</b>			
<i>Non-current assets</i>			
Property, plant and equipment		148,851	176,744
Intangible assets		239	309
Biological assets (livestock)		549	674
Other non-current assets		4,025	2,378
Deferred tax assets		185	195
Investment property		3,948	4,305
<b>Total non-current assets</b>		<b>157,797</b>	<b>184,605</b>
<i>Current assets</i>			
Inventories		37,130	56,096
Biological assets (crop production)		22,916	17,637
Trade and other receivables	6	18,892	22,259
Cash and cash equivalents		54,139	64,925
		133,077	160,917
Assets classified as held for sale	7	13,652	-
<b>Total current assets</b>		<b>146,729</b>	<b>160,917</b>
<b>Total assets</b>		<b>304,526</b>	<b>345,522</b>
<b>EQUITY AND LIABILITIES</b>			
<i>Equity attributable to owners of the parent</i>			
Share capital		2,077	2,077
Share premium		524,771	524,771
Reserves		6,497	6,103
Accumulated deficit		(235,538)	(215,962)
Translation reserve		(106,442)	(88,246)
<b>Total equity</b>		<b>191,365</b>	<b>228,743</b>
<b>LIABILITIES</b>			
<i>Non-current liabilities</i>			
Non-current loans and borrowings	8	98,135	97,359
Deferred tax liabilities		752	737
<b>Total non-current liabilities</b>		<b>98,887</b>	<b>98,096</b>
<i>Current liabilities</i>			
Current loans and borrowings	8	2,193	2,053
Trade and other payables		11,153	15,940
Other financial liabilities		928	690
<b>Total current liabilities</b>		<b>14,274</b>	<b>18,683</b>
<b>Total liabilities</b>		<b>113,161</b>	<b>116,779</b>
<b>Total equity and liabilities</b>		<b>304,526</b>	<b>345,522</b>

The condensed consolidated statement of financial position is to be read in conjunction with the notes to and forming part of the interim consolidated financial statements set out on pages 13 to 18.

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE PERIOD ENDED 31 MARCH 2014**



**BLACK  
EARTH  
FARMING LTD.**

<i>In thousands of</i>	USD	USD	USD	USD	USD	USD
	Share capital	Share premium	Reserves	Accumulated deficit	Translation reserve	Total equity attributable to owners of the parent
<b>Balance as at 1 January 2013</b>	<b>2,077</b>	<b>524,771</b>	<b>6,784</b>	<b>(177,067)</b>	<b>(77,012)</b>	<b>279,553</b>
Loss for the period	-	-	-	(13,905)	-	(13,905)
Recognition of share-based payments	-	-	(305)	-	-	(305)
Effect of foreign currency exchange differences	-	-	(149)	-	297	148
<b>Balance as at 31 March 2013</b>	<b>2,077</b>	<b>524,771</b>	<b>6,330</b>	<b>(190,972)</b>	<b>(76,715)</b>	<b>265,491</b>
<b>Balance as at 1 January 2014</b>	<b>2,077</b>	<b>524,771</b>	<b>6,103</b>	<b>(215,962)</b>	<b>(88,246)</b>	<b>228,743</b>
Loss for the period	-	-	-	(19,576)	-	(19,576)
Recognition of share-based payments	-	-	912	-	-	912
Effect of foreign currency exchange differences	-	-	(518)	-	(18,196)	(18,714)
<b>Balance as at 31 March 2014</b>	<b>2,077</b>	<b>524,771</b>	<b>6,497</b>	<b>(235,538)</b>	<b>(106,442)</b>	<b>191,365</b>

The condensed 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 13 to 18.

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2014**



**BLACK  
EARTH  
FARMING LTD.**

*In thousands of*

	Notes	USD 3 m. 2014	USD 3 m. 2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss for the period		(19,576)	(13,905)
<i>Adjustments for:</i>			
Income tax expense/ (benefit)		101	(84)
Depreciation and amortisation		3,569	2,084
Change in allowance for doubtful debts		2	(356)
Foreign exchange loss		8,214	1,024
Interest income		(434)	(452)
Interest expense		2,396	2,820
(Gain)/ loss on disposal of property, plant and equipment		1	(287)
Gain on revaluation of investment property		-	(701)
Warrant expense/ (income)		912	(305)
Change in value of biological assets and inventory	4	(793)	1,579
Effect of revaluations on COGS		4,251	13,307
		<b>(1,357)</b>	<b>4,724</b>
<b>Movements in working capital:</b>			
Decrease in inventories		11,995	8,498
Increase in biological assets		(9,139)	(8,860)
Decrease in trade and other receivables		1,036	4,627
Decrease in trade payables and other short-term liabilities		(3,608)	(6,203)
<b>Cash from operations</b>		<b>(1,073)</b>	<b>2,786</b>
Interest paid		(2,339)	-
Income tax paid		(123)	(9)
<b>Net cash (used in)/ generated from operating activities</b>		<b>(3,535)</b>	<b>2,777</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest received		434	452
Acquisition of land plots		(12)	(59)
Acquisition of property, plant and equipment		(3,895)	(3,879)
Proceeds from disposal of property, plant and equipment		18	461
Acquisition of intangible assets		(32)	(8)
<b>Net cash used in investing activities</b>		<b>(3,487)</b>	<b>(3,033)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(7,022)</b>	<b>(256)</b>
Cash and cash equivalents at beginning of year		64,925	86,885
Effect of exchange rate fluctuations on cash and cash equivalents		1,546	897
Effect of foreign currency exchange differences		(5,310)	(2,001)
<b>Cash and cash equivalents at end of the period</b>		<b>54,139</b>	<b>85,525</b>

The condensed 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 13 to 18.

## 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”.

The Company’s registered office is 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 exporting to other countries. 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 future operations and financial position of the Company is at this stage difficult to determine.

### (c) Seasonality

Agricultural sector exhibits obvious seasonal behavior. During the winter period, i.e. December to March, the organic growth of the crops is minimal. Due to this no major inputs are made in the production.

## 2 Basis of preparation

### (a) Statement of compliance

The condensed consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards (“IFRSs”) and in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting.

### (b) Significant accounting policies

The condensed 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.

The same accounting policies, presentation and methods of computation are followed in these condensed consolidated financial statements as were applied in the preparation of the Group’s consolidated financial statements for the year ended 31 December 2013.

### (c) Functional and presentation currency

The currency of the Russian Federation is the Russian Ruble (“RUR”) which is the functional currency of the Group’s entities. The Group’s main activities are RUR denominated.

Starting from 1 January 2014 the presentation currency was changed from Russian Ruble to US Dollars (“USD”). All financial information presented in USD has been rounded to the nearest thousand.

## 3 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 Elevator segment consists of two legal entities: LLC Agroterminal (with working elevator containing 60 thousand tons of capacity) and LLC Agro-Invest Nedvizhimost (with new working elevators containing 120 thousand tons of capacity). Elevators are mainly used for storing internally produced crops with small portion of external sales.

The management company is registered in Moscow and located in Moscow, with branch offices in Voronezh, Tambov, Lipetsk, Kursk. The management company manages the selling of crops harvested by the Group’s companies. It sets the general policies for all entities, collects the data and controls implementation of all management 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.

Land plots, classified as assets held for sale are located and attributed to Voronezh region. Land plots, classified as an investment property are located in Samara region and attributed to Tambov region.



(a) Segment revenues and results

*In thousands of*

	USD Revenue from external sales 3 m. 2014	USD Inter- segment revenue 3 m. 2014	USD Depreciation and amortization 3 m. 2014	USD Net result 3 m. 2014
Agricultural companies				
- Voronezh region	3,280	3,548	817	(828)
- Kursk region	11,298	1,882	833	(385)
- Lipetsk region	6,535	1,895	939	(315)
- Tambov region	4,284	604	690	(1,081)
Elevators	52	1,389	216	5
Management company (Moscow)	-	195	75	(1,062)
<b>Total</b>	<b>25,449</b>	<b>9,513</b>	<b>3,570</b>	<b>(3,666)</b>
Central administrative costs and director's salaries				(3,758)
Other income and expenses				(1,875)
Financial expenses, net				(10,176)
<b>Loss before income tax</b>				<b>(19,475)</b>

*In thousands of*

	USD Revenue from external sales 3 m. 2013	USD Inter- segment revenue 3 m. 2013	USD Depreciation and amortization 3 m. 2013	USD Net result 3 m. 2013
Agricultural companies				
- Voronezh region	2,268	264	419	(1,032)
- Kursk region	5,739	242	426	(1,699)
- Lipetsk region	8,316	587	475	(2,462)
- Tambov region	3,542	137	423	(348)
Elevators	58	2,051	302	(17)
Management company (Moscow)	-	171	39	(2,257)
<b>Total</b>	<b>19,923</b>	<b>3,452</b>	<b>2,084</b>	<b>(7,815)</b>
Central administrative costs, including directors' salaries				(3,088)
Other income and expenses				306
Financial expenses, net				(3,392)
<b>Loss before income tax</b>				<b>(13,989)</b>

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 allocation of central administrative costs and directors' salaries (Black Earth Farming Ltd.), other income and expenses and net financial expenses.

**(b) Segment assets**

*In thousands of*

	USD 31-Mar-14	USD 31-Dec-13
Agricultural companies		
- Voronezh region	43,413	52,146
- Kursk region	63,361	68,505
- Lipetsk region	61,754	71,697
- Tambov region	40,267	48,577
Elevators	42,841	47,065
Management company (Moscow)	23,907	37,914
<b>Total segment assets</b>	<b>275,543</b>	<b>325,904</b>
Corporate assets	28,983	19,618
<b>Consolidated total assets</b>	<b>304,526</b>	<b>345,522</b>

**(c) Revenues from major products**

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

*In thousands of*

	USD 3 m. 2014	USD 3 m. 2013
Corn	14,560	7,986
Wheat	3,159	494
Sunflowers	2,666	6,578
Barley	2,340	1,947
Soy	1,193	1,175
Rape	813	1,270
Milk and meat	313	218
Potatos	238	-
Other and Waste grains	5	128
Other goods and services	162	127
	<b>25,449</b>	<b>19,923</b>

**(d) Geographical information**

The Group's business operations are concluded in the Russian Federation. The Group has a head office in Jersey, Channel Islands; however the head office owns no non-current assets and generates only financial income and expenses, and incurs administration costs and director salaries expenses. All non-current assets are located in Russia and all of the Group's operating activities are performed in Russia.

**4 Revenue and gains**

*In thousands of*

	USD 3 m. 2014	USD 3 m. 2013
Revenue from sales of crop production	24,974	19,578
Revenue from sales of milk and meat	313	218
Revenue from sales of other goods and services	162	127
Gain on revaluation of biological assets	199	8
Change in net realizable value of agricultural produce after harvest	594	(1,587)
	<b>26,242</b>	<b>18,344</b>





## 5 Other income and expenses

At 31 March 2014 the Group has open positions on held for trading derivatives that are not designated in hedge accounting relationships: corn futures 10,000 tons and corn calls 111,916 tons. Unrealized loss on these positions amounts to 1,183 USD'000

Open positions under foreign exchange rate derivatives are as follows: sale of 4,606 EUR'000 and 4,690 USD'000. Unrealized loss on these positions amounted to 505 USD'000

## 6 Trade and other receivables

*In thousands of*

	USD 31-Mar-14	USD 31-Dec-13
Advances paid for goods and services	7,647	6,330
VAT receivables	6,710	6,966
Trade receivables	2,815	5,752
Income tax receivable	183	191
Other prepayments and receivables	2,366	3,954
Allowance for doubtful debts	(829)	(934)
	<b>18,892</b>	<b>22,259</b>

## 7 Assets classified as held for sale

On 4<sup>th</sup> April 2014, the Company announced plans to sell land and related real estate assets from its subsidiaries OOO Podgornoe Agro-Invest, OOO Ostrogozhsk Agro-Invest and OOO Nedvizhimost Agro-Invest in the Voronezh region. As part of the transaction, Black Earth Farming will sell 27.8 thousand hectares of land and an elevator in the Ostrogozhsk district with 15,000 ton capacity, as well as 14,000 ton of warehouse type storage and yard premises. The buyer is Avangard Agro. The Podgornoe and Ostrogozhsk land assets sold included 5,115 hectares of grasslands, pastures and fallow land and 1,899 hectares of leased and co-owned land.

## **8 Dividends**

During the three months period ended 31 March 2014 no dividends were paid or declared.

## **9 Loss per share**

*The amounts are indicated in*

	USD <b>3 m. 2014</b>	USD <b>3 m. 2013</b>
Loss for the period	(19,576,000)	(13,905,000)
Weighted average number of ordinary shares	207,669,445	207,669,445
Effect of dilutive share options	-	-
Weighted average number of shares for the purpose of diluted earnings per share	<u>207,669,445</u>	<u>207,669,445</u>
Basic and diluted loss per share (USD/share)	(0.09)	(0.07)

Additional shares under the existing warrant and executives share option plan are antidilutive in accordance with IAS 33 and are not included for purposes of the calculation of dilutive loss per share

## **10 Contingencies and commitments**

*The amounts are indicated in*

	USD <b>31-Mar-14</b>	USD <b>31-Dec-13</b>
Commitments for acquisition of materials	12,368	2,156
Commitments for acquisition of property, plants and equipment	3,116	-
Commitments for lease agreements	60	978
	<u><b>15,544</b></u>	<u><b>3,134</b></u>

## **11 Subsequent events**

On 4th April 2014, the Company announced plans to divest 27,754 hectares of land and related real estate in the Voronezh region for a total of USD 21.1mn.

In April, the Company bought back USD 3.8mn of its bonds outstanding



In 2014 Black Earth Farming plans to harvest approximately 185,000 hectares, effectively making it one of the world's largest public farming companies by cropped area. The Company's main products are wheat, barley, corn, sunflower, soya, rapeseeds and potatoes

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, 16 May 2014

\_\_\_\_\_  
Vigo Carlund, Chairman of the Board

\_\_\_\_\_  
Anders Kronborg, Non-executive Director

\_\_\_\_\_  
Camilla Öberg, Non-executive Director

\_\_\_\_\_  
Dmitry Zavgorodniy, Non-executive  
Director

\_\_\_\_\_  
Poul Schroeder, Non-executive Director

*This report has not been subject to review by the  
Group's auditors*

## Financial Calendar

Interim Report January – June 2014	15 August 2014
Interim Report January – September 2014	14 November 2014

For further information contact

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Group's website: [www.blackearthfarming.com](http://www.blackearthfarming.com)

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, 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.

#### **“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.

#### **“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.

#### **“OOO”**

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

#### **“Operating Margin”**

Operating income divided by net sales.

#### **“Pai”**

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

#### **“Russian Export taxes”**

There are currently no export taxes for wheat or barley. For Sunflowers and Oil seed rape there is an export tax.

#### **“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.