BLACK EARTH FARMING LTD.

ANNUAL REPORT 2014

General Shareholder Information

Annual General Meeting
Black Earth Farming Ltd ("Black Earth Farming") hereby invites shareholders to participate in the Annual General Meeting at 09.00 CET on 20 May 2015 at Näringslivets Hus, Storgatan 19 in Stockholm, Sweden.

Participation
Holders of Swedish Depository Receipts ("SDRs") wishing to attend the Annual General Meeting shall be recorded in the register of shareholders maintained by Euroclear (former VPC AB) on Wednesday 13 May 2015, and must notify the Company of their intention to attend the Meeting no later than 13.00 CET on 13 May 2015. The holder of the Swedish Depository Receipts shall state his name, personal or company identification number, address as well as telephone number.

Notice of participation
Holders of Swedish Depository Receipts can give their notice of participation:
– by mail at the address:
Annual General Meeting,
Black Earth Farming Ltd,
c/o Computershare,
Box 610,
182 16 Danderyd
Sweden
– by telephone +46 (0)771 24 64 00
– by fax +46 (0)8 588 04 201
– by e-mail to info@blackearthfarming.com

Nominee-registered shares
Holders of Swedish Depository Receipts which hold their receipts through nominees (Sw. *förvaltare*) must request a temporary registration of the voting rights in order to be able to participate in the General Meeting. Holders of Swedish Depository Receipts that want to obtain such registration must contact the nominee regarding this well in advance of 13 May. Voting forms (Sw. *röstkort*) will be distributed to the holders that have complied with the above requirements and the voting form must be brought to the Annual General Meeting.

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

Calendar of events in 2015
– *2015 Annual General Meeting:* 20 May
– *1Q Interim Report, 1 January–31 March:* 22 May
– *2Q Interim Report, 1 January–30 June:* 14 August
– *3Q Interim Report, 1 January–30 September:* 13 November

Investor Relations
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Internet website
www.blackearthfarming.com

SDR tickers
– *NASDAQ OMX Stockholm:* BEF SDB
– *Reuters:* BEFsdb.ST
– *Bloomberg:* BEFSDB SS

In 2014, the Company moved to using USD as its presentation currency. The conversion from ruble to USD is described in Note 2 (c) to the Consolidated Financial Statements. Prior to 2014, the Russian ruble had been both functional and presentation currency, while supplementary USD equivalent figures were provided solely for the convenience of users and did not form part of the audited consolidated financial statements.

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

Where no other source is specified for tables or figures, the source is Company data or estimates or generally publicly available information.

Black Earth Farming Ltd
Annual Report 2014

Black Earth Farming at a Glance

- **Business Concept**

– A major producer of cereals and oilseeds with 530 thousand tons production in 2014
– A focus on increasing productivity to become a best in class agro industrial Company in terms of cost and operating efficiency

- **As at 31 December 2014[1], 232,000 Hectares of World Class Farm Land in Ownership**

– Total land bank of 271,000 hectares with 86% in ownership and co-ownership
– Non depreciating asset recorded at acquisition cost of USD 29.2 million in statement of financial position as of 31 December 2014 (USD 48.6 million on 30 June 2014, prior to steep ruble depreciation)

- **Operating in Russia's Central "Black Earth" Region**

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

- **Major Producer of Grains and Oilseeds**

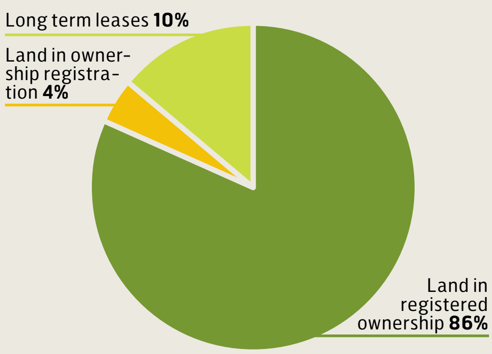
– 184,000 hectares of cropped land in 2014 (–18% year-on-year)

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

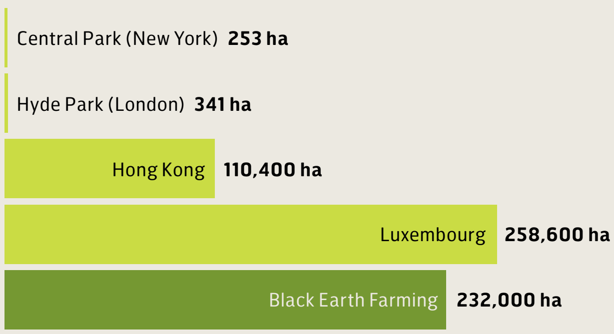
– Large state of the art machinery fleet
– Approximately 430,000 tons of total storage capacity[1]

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

D1: BEF 2014 Land holdings[1]



Comparison of Black Earth Farming's fully owned hectarage as of 31 December 2014 with Central Park (New York), Hyde Park (London), Hong Kong and Luxembourg[1]



1. On 17 March 2015, the Company announced plans to swap 36.6 thousand hectares of controlled land in Lipetsk and Tambov for 24.9 thousand hectares of controlled land in Tambov. The proposed swap also sees the Company swap 20 thousand tons of grain storage for a 30 thousand ton elevator facility in Tambov. Refer also to note 35 to the financial statements on Subsequent events.

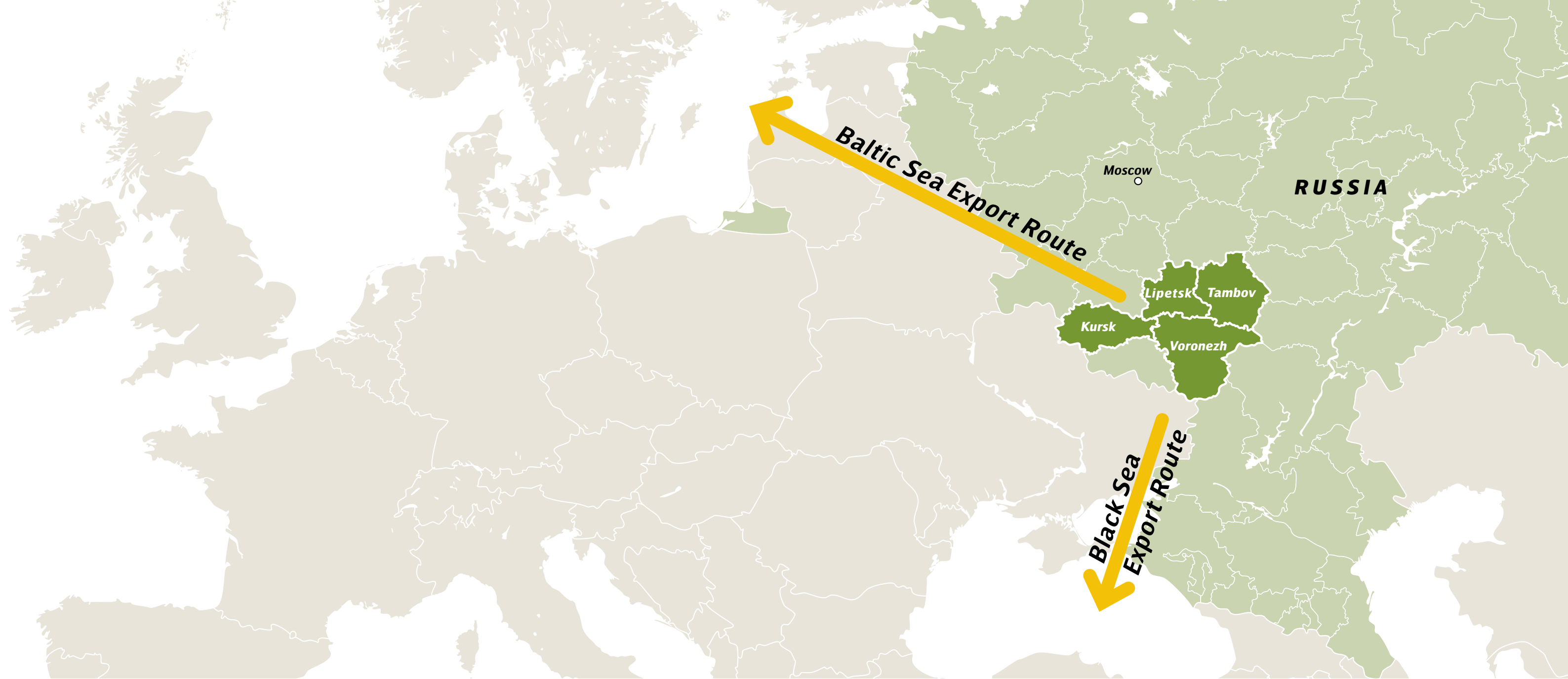
Kursk
Controlled land: 82,900 ha
Owned land: 75,900 ha
Land in production: 64,700 ha
Storage capacity: 149,300 tons

Lipetsk[1]
Controlled land: 75,900 ha
Owned land: 64,300 ha
Land in production: 57,200 ha
Storage capacity: 137,200 tons

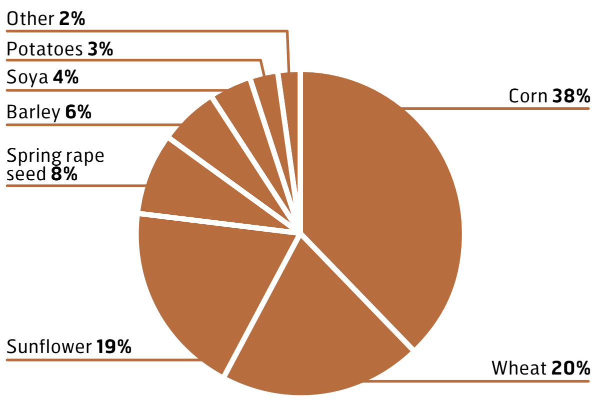
Voronezh
Controlled land: 24,000 ha
Owned land: 19,400 ha
Land in production: 21,800 ha
Storage capacity: 69,000 tons

Tambov[1,2]
Controlled land: 88,600 ha
Owned land: 72,600 ha
Land in production: 41,200 ha
Storage capacity: 75,900 tons

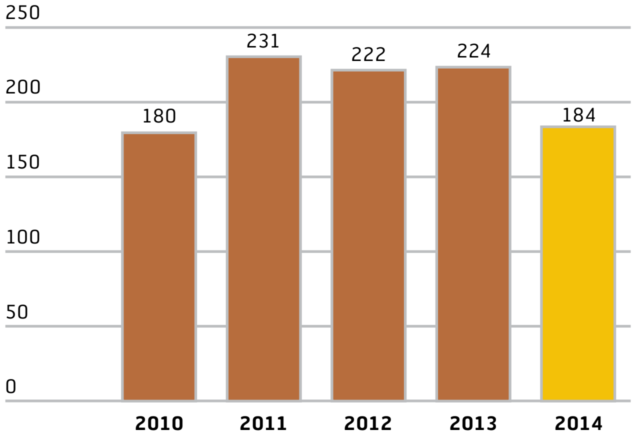
1. On 17 March 2015, the Company announced plans to swap 36.6 thousand hectares of controlled land in Lipetsk and Tambov for 24.9k hectares of controlled land in Tambov. The proposed swap also sees the Company swap 20k tons of grain storage for a 30k ton elevator facility in Tambov.
2. 12,800 ha in Samara is recorded as investment property held for sale as of 31 December 2014.



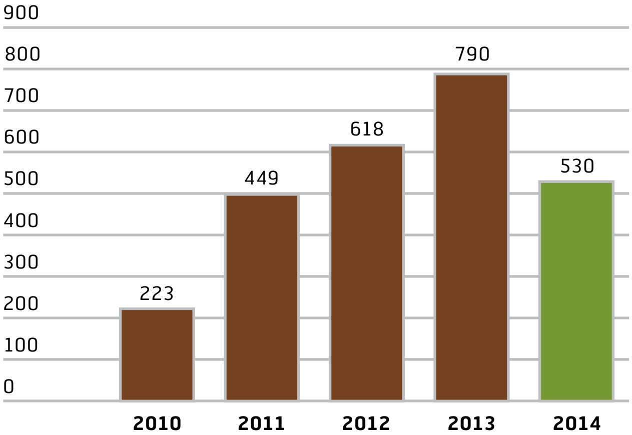
D2: 2014 Revenue by Crop



D3: Harvest Area, thousand hectares

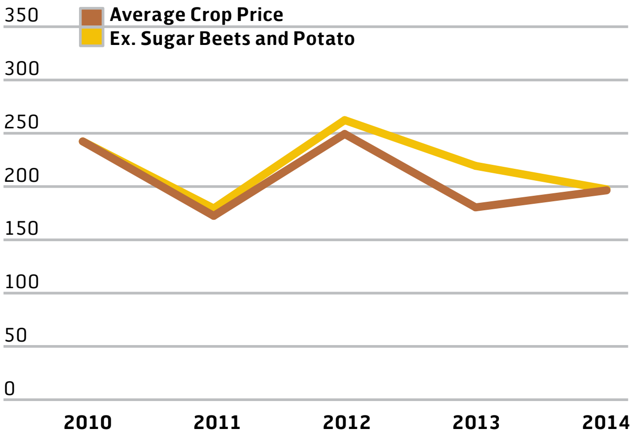


D4: Commercial Harvest, thousand tons



2014 in Brief

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

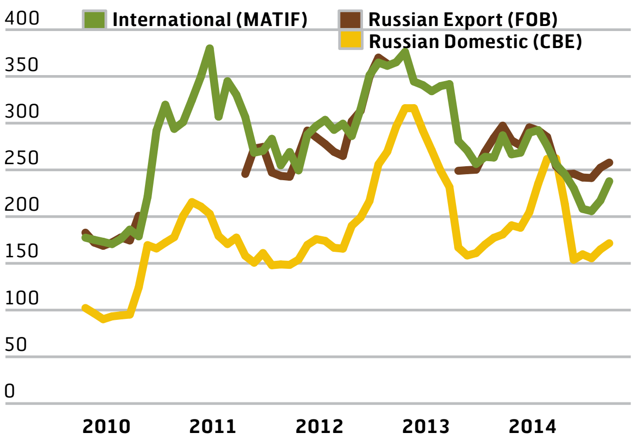


- **2014 agricultural commodity prices remain at low levels**

– Continued strength in global and Russian production pressure grain prices

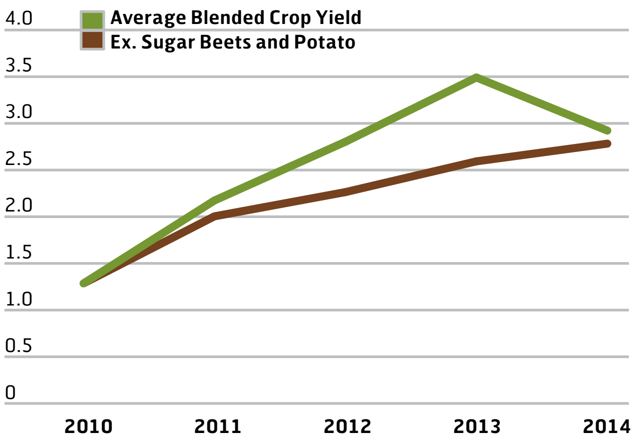
– Wheat and corn year-end inventory prices down –19% and –16% respectively year-on-year in USD terms

D2: Wheat Price Development, USD per ton



Source: HGCA, IKAR

D3: Crop Yield Development, tons per hectare



- **Improvements to crop yields, cost per ton and logistics**

– Blended average crop yield excluding sugar beets and potato increased 6% year-on-year and 38% over 3 years

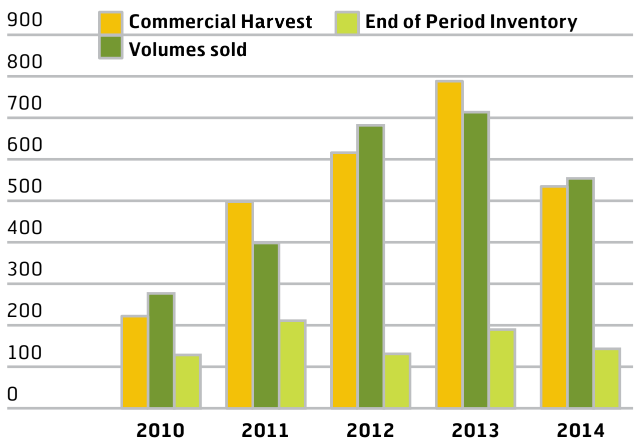
– Strong early spring yields partly offset by weaker late crop production due to dry conditions

– On balance, strong harvest and sales volumes of 530 and 555 thousand tons respectively

– Production costs contained on weaker ruble, dry harvesting conditions and cost control efforts

– Production costs per ton down –16% year-on-year in USD on management estimates

D4: Production, Sales and Inventory, thousand tons



- **Positive EBIT of USD 6.2 million but full year net loss of USD –17.4 million for 2014**
  - Total revenue and gains only –3% year-on-year to USD 144.4 million despite –16% cropped area and –33% production volumes
  - Operating result up USD 36.8 million year-on-year from USD –30.6 million to USD 6.2 million despite low prices
  - Stronger operating profit driven by gross profit as stronger yields and weaker ruble expands margin
  - USD 6.8 million pre-tax gain on asset sale and USD 4.4 million gain on grain hedging support EBIT
  - Net finance costs down USD 4.2 million year-on-year on bond repurchases and SEK weakening against USD
  - USD –16.5 million forex translation loss as the ruble drops 42% and 72% against SEK and USD respectively

T1: BEF Income Statement in Brief

USD million	2010	2011	2012	2013	2014
Total Revenue	63.5	85.0	224.1	148.3	144.4
Gross Result	9.3	2.9	54.1	6.1	37.8
EBITDA	(7.3)	(13.5)	34.7	(11.0)	20.8
Operating Result	(27.2)	(27.7)	19.5	(30.6)	6.2
Net Result	(38.5)	(45.7)	7.0	(45.9)	(17.4)

Ruble values for all periods converted at the average CBR RUR/USD foreign exchange rate for the relevant periods.

- **Cash flows and financial position**
  - Positive net cash from operations of USD 0.9 million
  - Capex up year-on-year to USD 19.0 million as Company continues investments into irrigated root crop project
  - Proceeds from land sales fund USD 26.7 million bond repurchases over the reporting period
  - Net debt of USD 27.3 million (60.2 gross) with USD 32.9 million cash position as of December 31
  - 94% of year-end cash position held in hard currency
  - Covenant ratio at 49% at end of year
  - Total loss on the potato storage and crop damaged in the fire estimated at USD –2.5 million

- **Proposal of No Dividend for 2014**

CEO Statement

2014 saw a significant improvement in operational performance coming from both yield increases and reduction in costs. Our key metric of blended yield (excl. beet and potatoes) was up 6% year-on-year and 27% vs the 5-year average. Costs per ton were estimated to be down by 16% year-on-year. Over 3 years, blended yield is estimated to have increased by some 38% with falling costs per ton as a result. Prices were generally lower than 2013 in hard currency terms. The 72% (end of period, year-on-year) devaluation of the Russian ruble however resulted in a USD –16.5 million FX translation losses, without which the company would have been close to breakeven on the net income level.

2014 Performance

Another huge global harvest meant that crop prices remained low through 2014. In Russia, the season started favourably with an early spring and good season rainfall. This helped produce some of the best early season crop yields the company has ever achieved with record yields in winter wheat, barley, spring wheat and spring rape. From late May onwards however, about 70% of our farms experienced a severe drought and across all our farms the total cumulative rainfall to the year-end ranges between 57% and 86% of the seven year averages. This reduced the yield of the late season crops, in particular corn. It also meant that a proportion of autumn sown wheat crops for the 2015 harvest either failed to germinate or went into the winter period stressed and thus more prone to winter kill. On the positive side and in stark contrast to 2013, the dry conditions allowed for an efficient harvest with lower logistics and processing costs. Even with corn constrained by drought, average blended yield (excl. beets and potatoes) was up 6% on the prior year and is now 38% up over the last three years.

Cost per ton has come down as a result of yield improvements and cost reductions arising from specific initiatives, dry harvesting conditions and the ruble devaluation, as a proportion of our costs is ruble denominated. On a cost per hectare basis, management figures indicate reductions in third party contracting, labour, spare parts and fuel. Several factors have contributed to this, including better machinery utilization (for example, a 24% increase in hectares per combine meant lower use of external contractors); a 55% reduction in transhipment (handling before final destination) tons and costs; and better control and management around fleet maintenance and engineering. A 16% reduction over 2013 in total production costs per ton is a significant progress and means we are getting closer to our objective of being a globally competitive cereal and oilseed producer on a cost per ton basis. The dry conditions were excellent for deep soil cultivations and in 2013 we did 47 thousand hectares more than in 2014. Consequently, we are in a very good shape with regard to spring and general soil conditions. Despite the drought and some irrigation commissioning issues, the scaled up potato enterprise yielded well again.

2014 Sales and Marketing

The two biggest harvests in global history have inevitably resulted in a depressed price environment and an overhang of replenished stocks internationally. In 2014, Russia also had a big grain and oilseed harvest of 116 million (vs 103 million in 2013) tons. With the exception of sunflowers, prices for all other commodities are between 10 and 20% lower than in 2013 in USD terms. Whilst wheat is 9% above its five year average, corn, sunflowers, oilseed rape and soya are some 25, 20, 22 and 8% lower respectively than their five year averages in the Central Black Earth region in USD terms. Our hedging activities in futures contracts improved the situation by USD 4.4 million. Ruble volatility reduced domestic forward sales as 'long' positions were possible only in hard currency. In this regard, our export capacity provided a valuable marketing option up until December, when the export levy on wheat and rumours of this extending to other crops made practical execution of export sales challenging due to uncertainty.

It was however encouraging to see the local domestic market keeping relatively close to the international markets in USD terms despite the sharp ruble devaluation in 4Q14. Historically, this has not always been the case and the Russian domestic market appears structurally stronger with increased competition between more large traders, fewer infrastructure problems despite record export tons and steadily increasing demand for feed grains in the Central regions from continually increasing pig and poultry numbers.

FY 2014 Results

Despite a challenging operating environment and continued low prices, the Company's operating profit increased from USD –30.6 million in 2013 to USD 6.2 million in 2014. EBITDA stood at USD 20.8 million in 2014 vs USD –11.48 million in 2013. The improvement in operating performance was driven from gross profit, up USD 31.78 million from USD 6.18 million in 2013 to USD 37.88 million in 2014. Total revenue and gains were only down –3% year-on-year to USD 144.4 8 million despite a –16% reduction in cropped area and sugar beet coming out of the crop mix. The margin expanded on higher ruble prices against accumulated costs, dry harvesting conditions and efforts to control costs. Distribution expenses were down –5% year-on-year to USD 20.3 million on flat export volumes (0% year-on-year) on a weaker ruble. General and administrative costs were up 5% year-on-year despite the weaker ruble. Cutting overheads in line with our lower cropped area is a key objective in 2015.

Other income and expenses include a USD 6.8 million gain on the sale of our land and real estate in Voronezh, and points to the hidden value in our land bank. In 2014, we again benefitted from our efforts to use market instruments to stabilize our revenues as we posted a USD 4.4 million gain on our hedging activities. The total provision on the potato storage and crop damaged in the fire in 4Q14 is estimated at USD 2.5 million, substantially lower than our initial estimates, as more of the facilities can be restored and more inventory could be sold. Below EBIT, financial expenses were down USD 4.1 million year-on-year as we used proceeds from our asset sale to repurchase USD 26.7 million of our bonds in 2014 and as the SEK depreciated against the USD. The 72% and 42% depreciation of the ruble against the USD and SEK however resulted in a USD 16.5 million FX translation loss, which drove the net loss for 2014 to USD 17.4 million. To manage forex risks and limit the impact of the depreciating ruble, the Company has converted ruble proceeds to hard currency, discontinued ruble forward crop sales and worked to match assets and liabilities.

Operating cash flow before working capital changes increased from USD 7.3 million in 2013 to USD 12.5 million in 2014 but was offset by greater investment in 2015 crop and other working capital. Lower interest payments however supported positive net cash from operating activities (USD 0.9 million in 2014 vs USD – 1.2 million in 2013). 2014 capex of USD 19.0 million exceeded the USD 12.8 million spent in 2013 as the Company continued its investment in the root crop project, with a fourfold increase in cropped area. The proceeds from our land sale were employed to repurchase bonds to strengthen our balance sheet, manage currency risk and reduce carry costs. With USD 32.9 million of cash on balance, USD 35.4 million of bonds on balance, and USD 27.3 million net debt at 31 December 2014, our balance sheet remains relatively strong as we enter 2015.

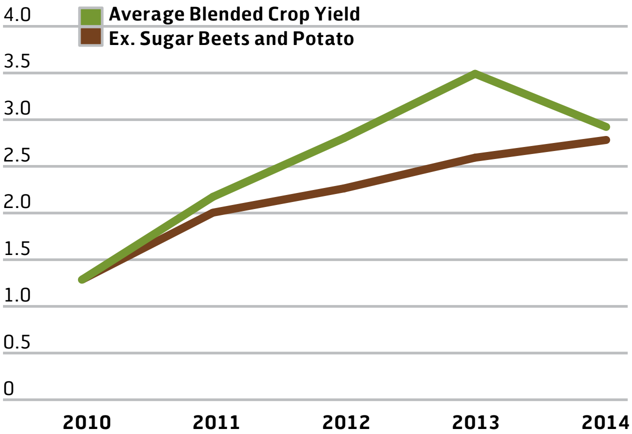
2015 Crop

42 thousand hectares of winter wheat were seeded by the 10th of September. Circa 30% either failed to germinate or germinated after late September rain and some 11% was written off (4.54 thousand Ha or USD 0.2 million). The remaining crop went into winter less advanced and drought stressed which could make it more prone to winterkill. Moreover, snow cover has not been constant until quite recently. It is hard to accurately judge the outcome of this but a higher percentage of winterkill is expected compared with prior years. Such areas will be seeded with spring crops.

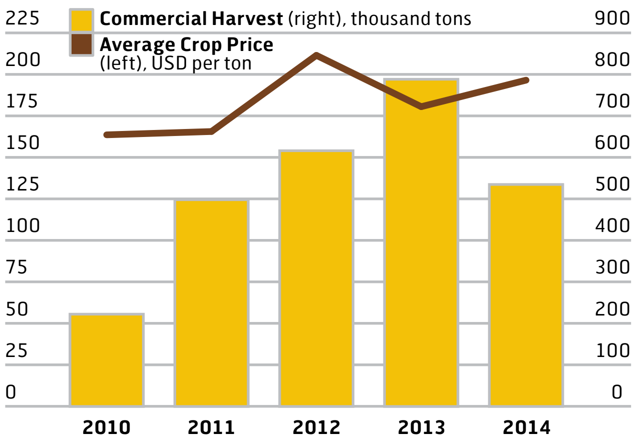
2015 Plans

We are working on the expectation of another challenging year with regard to soft commodity prices. As long as the Russian grain and oil seed prices stay aligned with international markets, the ruble devaluation offers some cost advantages from ruble denominated costs. In addition, it looks possible that some hard currency denominated input costs may be lower this year. We remain focused on

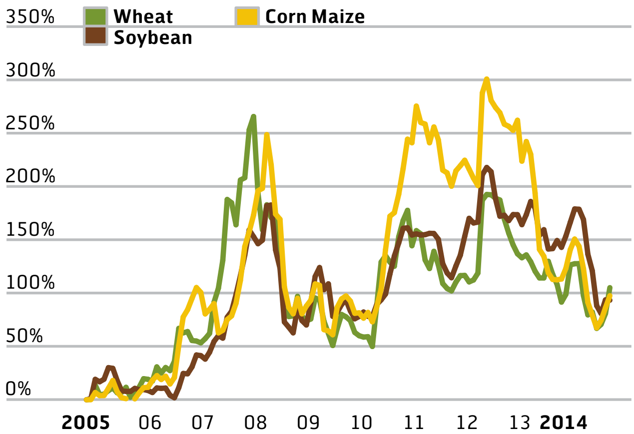
D1: Crop Yield Development, tons per hectare



D2: BEF Crop Volume and Price Development

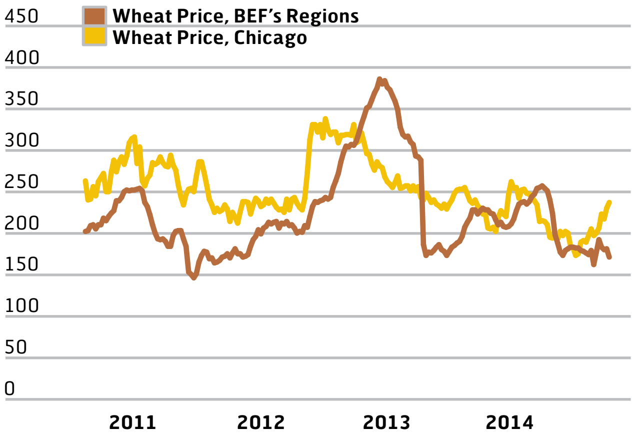


D3: 10 Year Crop Price Development, Chicago Futures Prices 2005–2014, % change



Source: HGCA

D4: Wheat Price Development, USD per ton



Source: HGCA, IKAR, Prozerno

T1: Net Crop Yield Development

Tons/hectare	2011	2012	2013	2014	*% of 2014 area harvested*
Winter wheat	2.4	2.2	3.3	4.0	*100%*
Spring wheat	1.6	2.6	1.9	3.6	*100%*
Spring barley	1.9	2.4	2.6	3.6	*100%*
Corn maize	4.9	5.1	4.3	3.5	*100%*
Spring rape	1.1	1.2	0.9	1.4	*100%*
Sunflower	2.0	1.9	2.0	1.9	*100%*
Soya	0.9	1.2	0.9	0.5	*100%*
Sugar beet	25.6	25.3	24.3	n/a	*100%*
Potato	n/a	33.2	33.9	31.0	100%

profitability with a smaller cropped area of more profitable crops, incorporating a higher percentage of rotational fallow. There is as usual a series of initiatives to continue the improvement of crop yields, improve controls and reduce costs and overheads. Despite progress, we believe that there remains considerable scope for improvements in this regard. As a result of low water levels in some irrigation lakes after the dry autumn, and the potato seed import ban not being lifted between Poland and Russia, the potato business may be scaled back by circa 20% in 2015. We view 2015 as a year to consolidate this enterprise, trial additional irrigated crops and put in place all necessary management systems, permissions, planning and subsidy applications in order to facilitate a more rapid expansion in the future.

On 17 March 2015, the Company announced plans to swap 36.6 thousand hectares of controlled land in Lipetsk and Tambov for 24.9 thousand hectares of controlled land in Tambov. The proposed swap also sees the Company swap 20 thousand tons of grain storage for a 30 thousand ton elevator facility in Tambov. We believe that the proposed land swap will further consolidate our operations and improve our operational productivity.

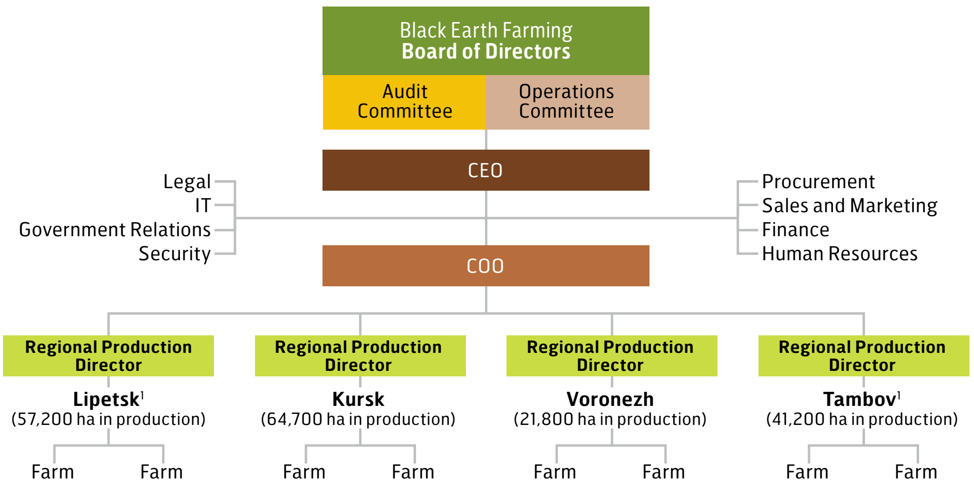
The sharp depreciation in the Russian ruble has resulted in a decline, in hard currency terms, in the value of our assets, which are carried at historical cost in rubles on our balance sheet. As we believe this meaningfully understates the value of our real assets, the Company intends to review its approach to treating such land assets in our accounts in 2015. A change in treatment of our land assets in our accounting could impact the Profit and loss effect of the announced swap transaction. Given the current uncertain geopolitical and investment environment in Russia, we will aim to preserve our cash position and maintain a strong balance sheet in 2015 as a priority.

Summary and Outlook

2014 was a somewhat eventful year with a drought, a fire at our potato storage, the introduction of an export levy and a 72% RUR/USD devaluation, all set against a background of low commodity prices and very challenging geopolitics. The Russian business environment could possibly remain challenging for some time to come. Despite all these factors, we have managed to deliver a substantial and durable improvement in the operational performance of the business through further improvements in productivity and have started delivering solidly on cost reduction. Looking forward, we hope to be able to capitalize on the improved commercial environment offered by the weaker ruble and continue the improvements on the core business while preparing for future expansion on our irrigated root crop project.

Richard Warburton
CEO and President
Black Earth Farming Ltd
10 April 2015

This is Black Earth Farming



Black Earth Farming ("BEF") was established in 2005 and was among the first foreign-financed companies that undertook considerable investments in the Russian agricultural sector. The Company holds ownership of an extensive land bank of first class soil in several Russian regions and is a major producer of grains and oilseeds. Black Earth Farming's focus is on increasing the productivity of its current asset base to become a best-in-class agro industrial company in terms of costs and operating efficiency. As of 31 December 2014 Black Earth Farming had 271,000 hectares under control of which 86% were fully owned[1]. In 2014, a total of 184,000 hectares were in production.

Land Ownership

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

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

Crop Production

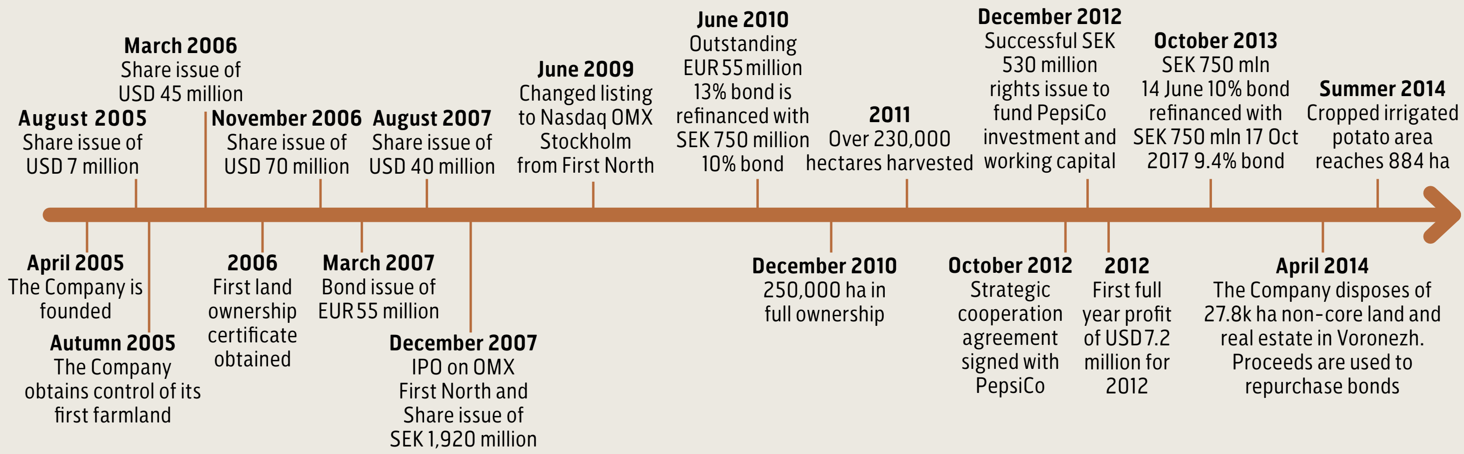
The farmland acquired had been laying fallow for many years and could not be put into production immediately. The Company first had to take extensive actions to restore and improve the condition of the land. The methodology, which is extensive and resource consuming, included several steps, such as disc tilling and field levelling. When the fallow had been broken and the fields restored to cropping condition, the focus shifted to raising crop yields and implementing operational improvements. Since inception, over 260 thousand hectares have been taken out of long-term fallow and into cultivation. The continental climate in the central Black Earth Region of Russia, where the company operates, has a crop growing season of approximately 120–170 days, which can be compared to 250–270 days in the UK, given its maritime climate and its proximity to the gulf-stream, and significantly impacts productivity. Black Earth Farming has one harvest each year, starting in July through November, depending on crop. Different seasonal classes of crops such as winter and spring crops are used to spread the planting and preparation periods, as well as harvesting work.

Corporate Structure and Organisation

Black Earth Farming Limited is a limited liability company incorporated in Jersey, in the Channel Islands, on 20 April 2005. Black Earth Farming Limited is the holding company

1. On 17 March 2015, the Company announced plans to swap 36.6 thousand hectares of controlled land in Lipetsk and Tambov for 24.9 thousand hectares of controlled land in Tambov. The proposed swap also sees the Company swap 20 thousand tons of grain storage for a 30 thousand ton elevator facility in Tambov. Refer also to note 35 to the financial statements on Subsequent events.

Black Earth Farming Mile Stones



for a number of legal entities established under the legislation of Cyprus, Guernsey and the Russian Federation. Those entities together are referred to as the Black Earth Farming Group. The structure of Russian subsidiaries goes by the name of Agro-Invest and is headquartered in Moscow, where the company also retains some central service functions. The main office, however, is in Voronezh and in close proximity to key operations. In the 2014 financial year, Black Earth Farming had an average of 1,781 employees, compared to an average of 2,009 in 2013.

History

Black Earth Farming was established in 2005 and was among the first foreign-financed companies that undertook considerable investments into the Russian agricultural sector. The Company has established a significant presence in the regions of Kursk, Tambov, Lipetsk and Voronezh in the central "Black Earth" area of Russia. During the first years the Company was focused on acquiring and obtaining full free hold ownership to agricultural land. In 2006, Black Earth Farming received its first fully registered land ownership certificates, which was a significant milestone as it confirmed that the land acquisition process was consistent with Russian legislation and worked in practice. The Company is now at the final stage in the process of registering land into ownership and focus has shifted towards consolidating and raising the productivity of the current asset base. As of 31 December 2014, Black Earth Farming controlled 271,000 hectares of land, corresponding to an area about the size of Luxembourg, with 232,000 hectares in ownership and co-ownership and 29,000 hectares in longer term leases[1].

The Company raised initial funding from the family backed Swedish investment companies Vostok Nafta and Investment AB Kinnevik. Investment AB Kinnevik still remains as a major shareholder to date. Following several private placements and a bond issue to fund the expansion of the Company's land bank, Black Earth Farming successfully completed an IPO on 28 December 2007. Shares were listed in the form of Swedish Depository Receipts on the OMX First North exchange in Stockholm and raised SEK 1,920 million, or approximately USD 295 million at the rate of the time. On 22 June 2009 the Company changed listing to NASDAQ OMX Stockholm, where the shares are currently listed under the ticker BEF SDB. Significant investments in a large modern machinery fleet and storage infrastructure have been undertaken since then to expand the area under production as well as to secure internal storage and grain handling capacity. In October 2012, the Company signed a 3 year strategic cooperation agreement with PepsiCo in Russia to supply potatoes and sunflowers for Lay's crisps as well as sugar for other various PepsiCo products. To fund the investments needed to expand potato and sugar beet production under the PepsiCo agreement, a SEK 530 million rights issue was successfully completed in December 2012. In October 2013, Black Earth Farming approached the market with an offer to refinance its July 2014 bond with a new October 2017 bond. Books were fully subscribed and the coupon was reduced from 10% to 9.40%. In 2014, the Company used the proceeds from asset sale in Voronezh to fund bond buybacks. As of December 31 2014, the Company held SEK 276 million, or USD 35.4 million, as treasury bonds on its balance sheet.

1. On 17 March 2015, the Company announced plans to swap 36.6 thousand hectares of controlled land in Lipetsk and Tambov for 24.9 thousand hectares of controlled land in Tambov. The proposed swap also sees the Company swap 20 thousand tons of grain storage for a 30 thousand ton elevator facility in Tambov. Refer also to note 35 to the financial statements on Subsequent events.

BUSINESS CONCEPT, VISION, STRATEGY

Business concept

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

Vision

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

Strategy

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

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

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

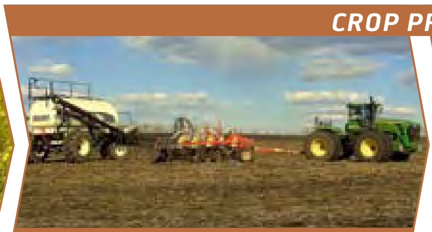
Optimal Cost Structure: As a commodity producer and price taker focus is on obtaining the lowest unit cost possible in order to be competitive on cost regardless of the current price environment. This involves setting the optimum direct cost per hectare in terms of input applications versus the expected return in output volumes to reduce the unit cost of production and maximize profitability per hectare. The Company applies world class agronomic expertise and runs proprietary crop trials to achieve the best marginal returns on each of its key inputs, considering current and forecasted input material and crop prices. The Company is also committed to contain and reduce overhead costs to run the consolidated business as efficiently as possible.

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

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

Business diversification and expansion of irrigated root cropping: In 2012, Black Earth Farming signed a 3-year cooperation agreement with PepsiCo to supply potatoes and high oleic sunflowers for PepsiCo's Frito Lay's Crisps as well as sugar for other PepsiCo products. The agreement marked the start of a strategic diversification of Black Earth Farming's business profile to include higher value irrigated root crops in the Company's business portfolio. Irrigated root crops tend to have more stable revenues and higher margins, albeit with significantly higher capex requirements. The Company believes that the root crop segment offers a valuable complement and a good fit with its core business and also sees long-term potential of possibly expanding the segment towards Russian retail.

Black Earth Farming's Business Model



Land Ownership[1]

A key part of the initial strategy has been to secure ownership rights to the critical asset; high quality farmland. As of 31 December 2014, Black Earth Farming held 232 thousand hectares of land in full ownership, which represented 86% of the total controlled land bank of 271 thousand hectares. As of 31 December 2014, Black Earth Farming held 242 thousand hectares of land, classified as property, plant and equipment and investment property, at an acquisition cost of USD 31.0 million (total cost of land in property, plant and equipment and investment property less prepayment for long-term lease), which translates into USD 128 per hectare. The land investment per hectare is low by international standards. Recent Russian farm land transactions suggest that there has been significant appreciation of land values in Black Earth Farming's regions. The current near term focus is however not on significant expansion of the land portfolio, but rather on improving crop production yields, increasing efficiencies as well as optimizing and consolidating the land bank.

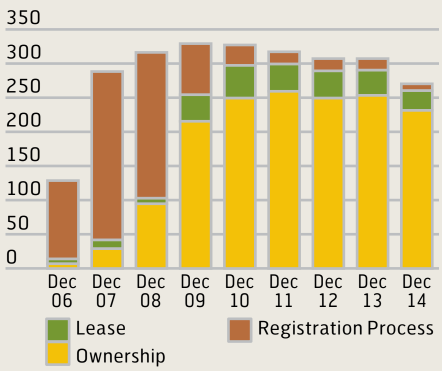
Input/Machinery Procurement

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

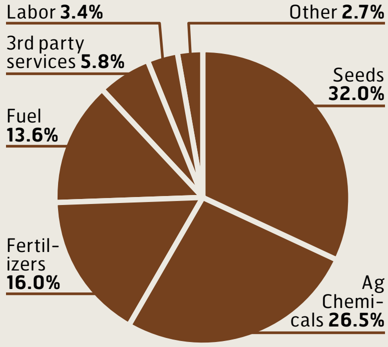
Field Works and Harvesting

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

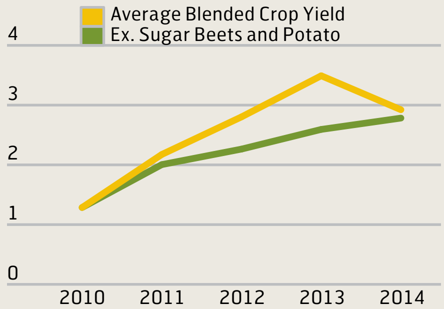
D1: Land Development[1], thousand hectares



D2: Production Cost Breakdown, 2014 production year



D3: Crop Yield Development, tons per hectare



	Input/Machinery Procurement	Field Works and Harvesting
Revenue drivers	- Right amount and quality of inputs are crucial factors affecting crop yields - Crop mix for planted area - Quality of inputs affecting crop quality and price per ton	- Harvest area - Crop yield (weather) - Crop yield (timely and optimal input application and decision making)
Cost drivers	- Fertilizer, seeds, herbicides and fuel are major direct cost components - Unit costs are inversely related to crop yields - Capital costs (depreciation) as the Company owns the entire machinery fleet and storage infrastructure	- Application rate of inputs - Capital costs (efficient machinery utilization) - Fuel

1. On 17 March 2015, the Company announced plans to swap 36.6 thousand hectares of controlled land in Lipetsk and Tambov for 24.9 thousand hectares of controlled land in Tambov. The proposed swap also sees the Company swap 20 thousand tons of grain storage for a 30 thousand ton elevator facility in Tambov. Refer also to note 35 to the financial statements on Subsequent events.

Crop Handling and Storage Logistics

After crops are harvested, they are transported to storage and drying facilities such as elevators or on-farm storage sites. The logistics involved in crop handling and storage is critical to minimize quality issues, reduce fuel and other costs as well as to prolong the harvest period. The Russian agricultural sector suffers from a deficit of agricultural infrastructure, including elevator storage capacity. Furthermore, crop prices are influenced by seasonality and Russian domestic prices tend to be at their lowest during the peak harvest period as farmers without access to storage facilities must sell their grain immediately, thereby substantially increasing supply and depressing prices. Black Earth Farming is broadly self-sufficient in storage capacity and can therefore delay sales through trough price periods.

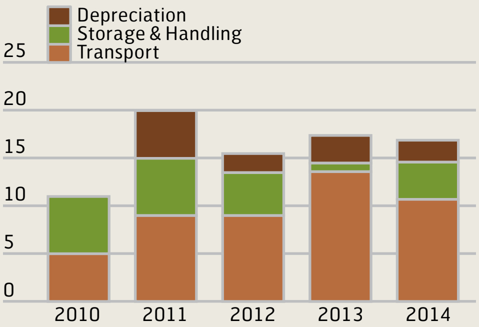
Sales and Marketing

Black Earth Farming sells its products both domestically in Russia and via exports to international customers. The list of customers varies from large international companies with local production in Russia, such as PepsiCo and large breweries, to oil crushers, flour mills, livestock producers and international grain traders. In the past, sales have almost exclusively been conducted on a spot ex-works basis, where the buyer collects at the Company's farm gate. With the ramp up of elevator capacity, all with direct rail access, the price per ton received has improved as the Company has diversified its sales channels to include long-term local contracts and forward export sales. Now, contracts terms can include loading, transportation and delivery to the buyer while leaving an additional margin to the Company. Exports are typically done on an FOB (free-on-board) basis, on which Black Earth Farming carries cost up to and including loading the crops on to a vessel. Export markets generally tend to command a net back price premium. The export channel is however not only important to be able to sell at higher prices but also to manage price risks via forward sales, given the lack of a liquid domestic futures market. A local futures market has among other reasons failed to develop due to low trust among counterparties. The export market also facilitates consolidation of larger volumes of crops with specific qualities and thus enabling participation in larger and better priced contracts. In the 2014 financial year, approximately 24% of sales volumes were exported. In December 2013, the Company established Black Earth Trading International Ltd. in Guernsey, a fully owned subsidiary, to facilitate export sales and support international customer relationships.

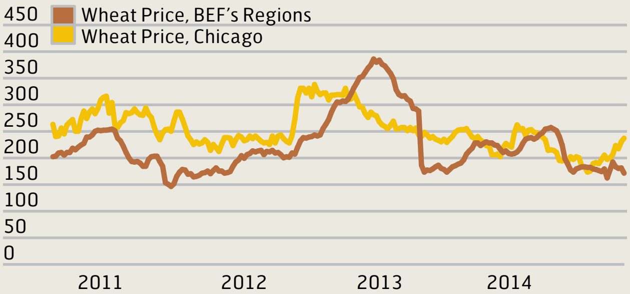
Processing (Oils, Flour etc.)

Livestock (Animal fodder)

D4: Distribution Expenses Breakdown, USD per ton sold

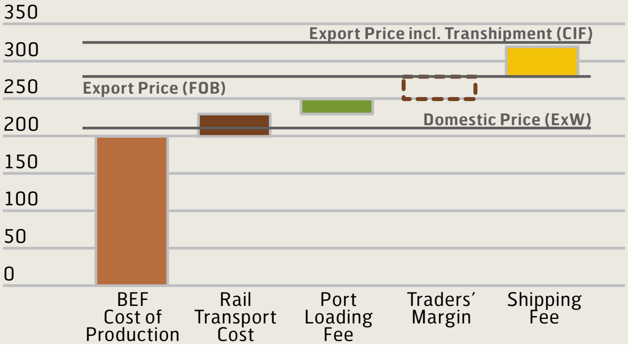


D5: Wheat Price Development, USD per ton



Source: HGCA, Prozerno

D6: BEF Crop Cost Value Chain, USD per ton



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

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

Revenue drivers

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

- Distribution expenses (transport)

Cost drivers

Market/Industry Overview

Russian macro-economic environment and outlook

2014 was a challenging year for the Russian economy as oil prices fell sharply (–42% year-on-year) and the country became subject to international sanctions. Real GDP growth for 2014 is forecast to come in at 0.6% and for 2015, the economy is forecast to contract by between 3% and 5% on consensus forecasts, and the recession could last into 2016.

The oil and gas industries remain crucial to the Russian economy, accounting for around two thirds of exports, one half of federal budget revenues and one fifth of GDP. With consensus short term oil price forecasts ranging from USD 50 to USD 65 per barrel in 2015 and 2016, government and export revenues could be reduced with continued pressure on the ruble and on government finances.

Another factor impacting Russia's macro-economic situation is the on-going geopolitical stand-off regarding Ukraine. As a result of the Crimean crisis, some governments and international organizations, led by the United States and European Union, imposed sanctions on Russian individuals and businesses from March 2014. As tensions expanded into other parts of southern and eastern Ukraine, and later escalated into confrontations in the Donbass region, the scope of the sanctions increased. In response, the Russian government imposed sanctions against some Canadian and American individuals and, in August 2014, a partial ban on food imports from the European Union, United States, Norway, Canada and Australia was introduced.

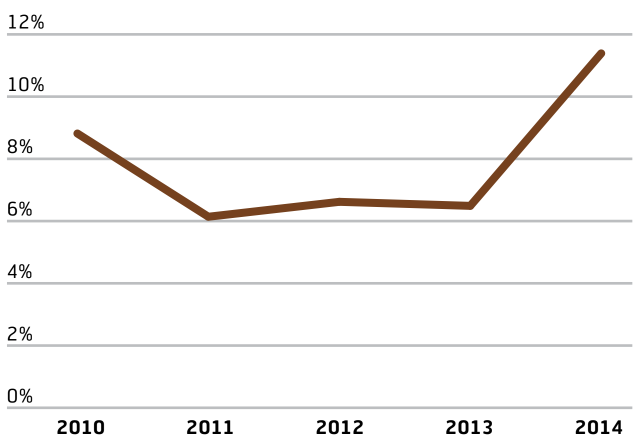
Inflation is now estimated into double-digit figures, with consensus forecasts predicting inflation of over 13% for the financial year 2015. Food price inflation is on some estimates expected to run at above 20%. Household consumption and investment activity are expected to contract and imports are expected to decrease on the back of the weaker ruble and lower domestic spending levels. Import substitution

T1: Russian Federation key macroeconomic data 2010–2014

		2010	2011	2012	2013	2014
Real gross domestic product	*(% change)*	4.5	4.3	3.4	1.3	0.6
Capital inflow (+)/ Outflow (–)	*(USD bln)*	(34)	(81)	(54)	(65)	(100)
Unemployment	*(% of work force)*	7.3	6.5	5.5	5.5	5.2
Consumer price index	*(%)*	8.8	6.1	6.6	6.5	11.4
Central Bank Currency reserves	*(USD bln)*	479	499	538	510	386
Foreign debt	*(USD bln)*	489	539	636	729	600
Real disposable household income	*(% change)*	5.9	0.5	4.6	4.0	(0.8)

Source: Ministry of Economic Development of the Russian Federation

D1: Inflation rate in Russia 2010–2014, %



Source: Ministry of Economic Development of the Russian Federation may provide some positive stimulus to the local economy. The risk of further or extended sanctions raises uncertainty and could further erode confidence, potentially negatively impacting access to international markets and exacerbating capital outflows, which were estimated to reach USD 100 billion in 2014, exerting further pressure on the ruble and on interest rates.

Agricultural market and outlook

According to the most recent FAO-OECD agricultural outlook for the 2014–2023 period, the international prices of major crops have dropped significantly from their historical highs, largely in response to bumper crops in 2013 and 2014. In contrast, meat and dairy product prices are at historically high levels, primarily because their supply fell short of expectations in 2013. World ethanol and biodiesel prices continued their declines from the historical peak levels they had reached in 2011 in a context of ample supply for both.

The growth in demand for agricultural products is expected to remain firm. A growing world population, coupled with dietary shift, continues to drive demand growth. Cereals are still at the core of human diet, but growing incomes, urbanisation and changes in eating habits contribute to the transition of diets that are higher in protein, fats and sugar.

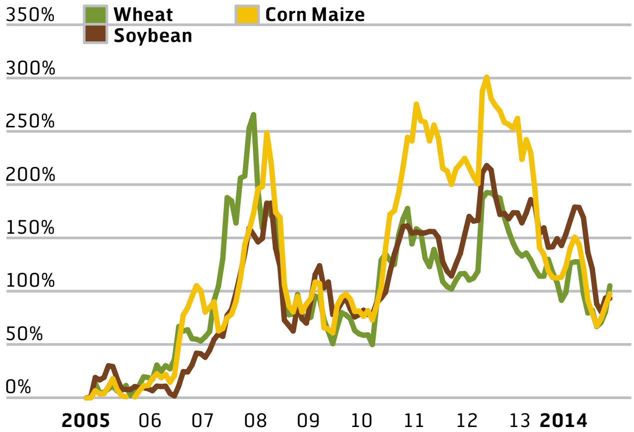
In the next decade, livestock and biofuel production are projected to grow at higher rates than crop production. This changing structure of global agricultural production prompts a relative shift toward coarse grains and oilseeds to meet demands for food, feed and biofuel, away from staple food crops like wheat and rice. The bulk of the additional production will originate in regions where determining factors, such as land and water availability, and policy regulations, are the least constrained. This presents a significant opportunity for countries such as Russia, which have large tracts of uncultivated and under-cultivated farmland.

Whilst global inventories are replenished, stocks to usage ratios are not particularly high in historic terms and crop prices are expected to remain volatile at levels above the pre-2008 period. Meat and dairy prices are expected to rise.

Biofuel fortunes linked to oil but still forecast to grow in importance

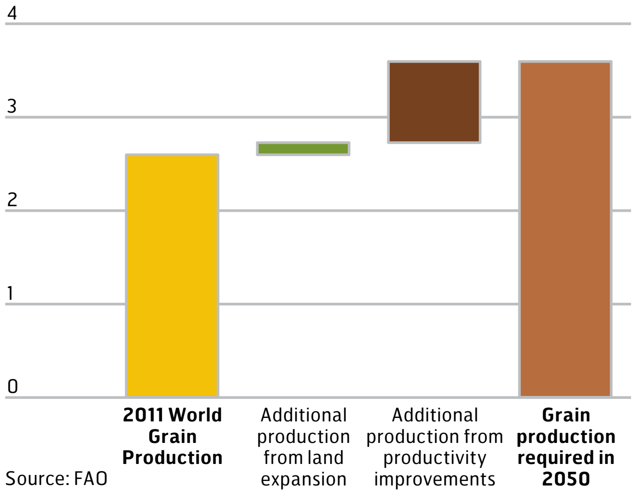
While only an emerging sector in 2008, biofuels have become an important part of the global agricultural balance sheet over recent years. According to the OECD, some 65% of EU vegetable oil, 50% of Brazilian sugarcane, and about 40% of US corn were used to produce biofuels in 2012. By 2023, the FAO-OECD estimates that 12% of global coarse grains, 28% of global sugar cane and 14% of global vegetable oils will be used to produce ethanol and biodiesel. The increase from current levels implies that the global agricultural area would have to increase by almost 20 million hectares, just to cover these growing needs.

D2: 10 Year Crop Price Development, Chicago Futures Prices 2005–2014, % change



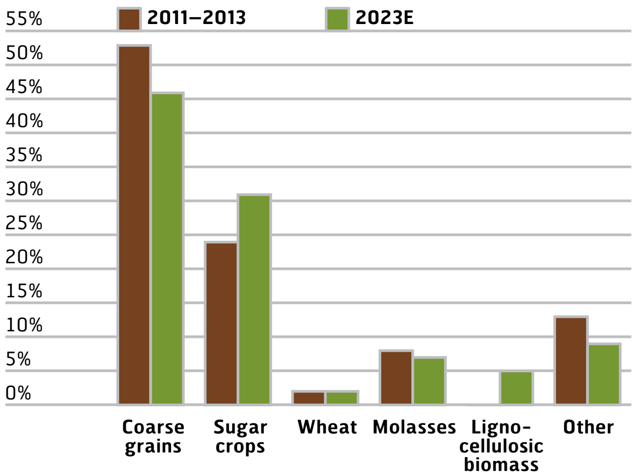
Source: HGCA

D3: FAO 2050 cereals production scenario, billion tonnes



Source: FAO

D4: Global feedstock used for biofuel production, %

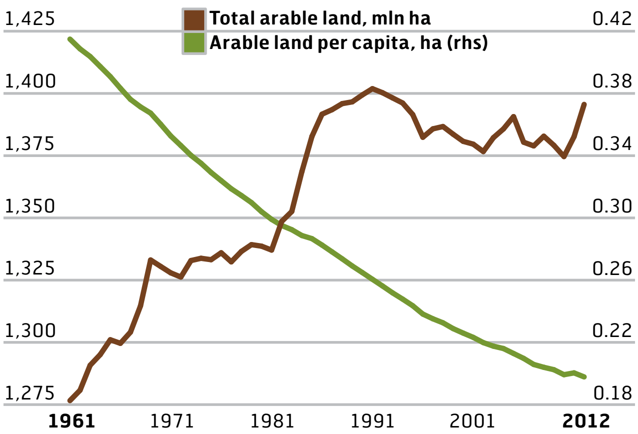


Source: OECD-FAO Agricultural Outlook 2014

Resource Constraints to Land and Water

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

D5: Global arable land per capita 1961–2012

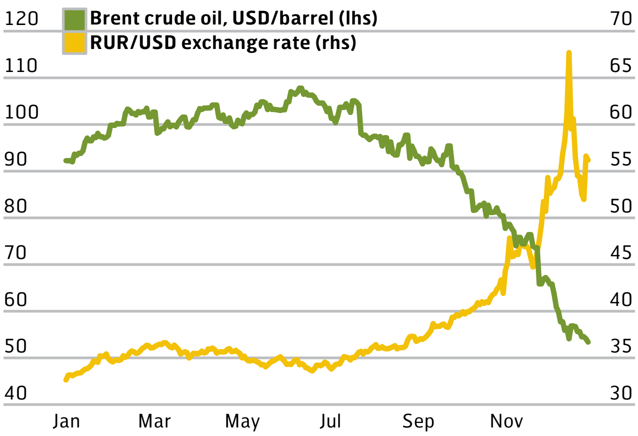


Source: FAO

Energy and input price inflation

Global agriculture is intrinsically linked to energy markets. Higher oil prices are a fundamental factor behind higher agricultural commodity prices, affecting not only oil-related input costs of production such as fuel, fertilizer and agricultural chemicals, but also increasing the demand for biofuels and the agricultural feed stocks used in their production. Energy accounts (directly and indirectly) for about 54% of costs of corn and wheat. The recent substantial declines in the price of crude oil have resulted in both reductions in fertilizer and ethanol prices and grain and oilseed prices, and have contributed to food price deflation in many parts of the world.

D6: Brent oil price and ruble exchange rate development 2014



Source: US Energy Information Administration, Central Bank of Russia

Emerging Economies to Drive Demand and Provide Incremental Supply

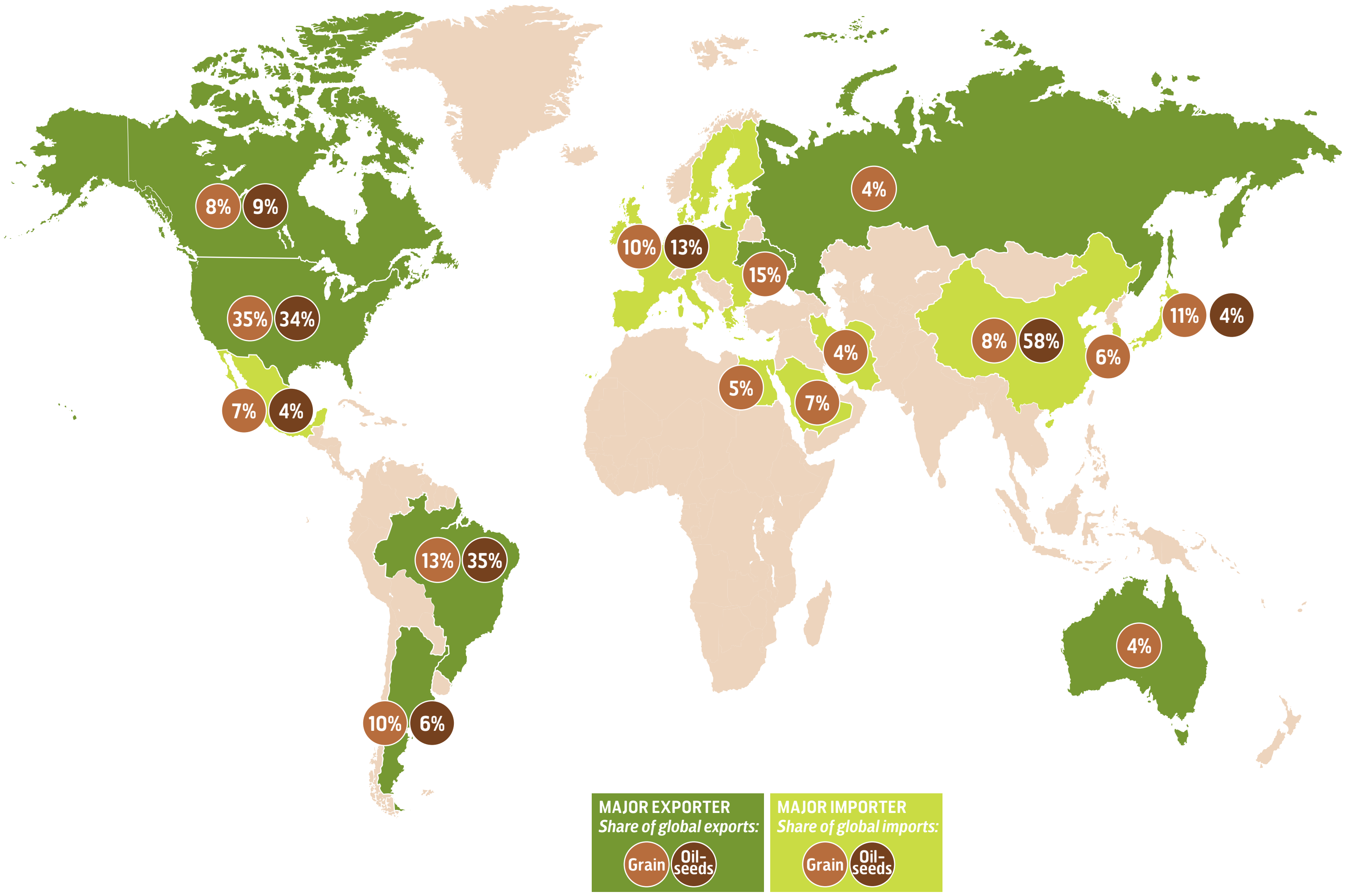
The major demand drivers for agricultural commodity products are concentrated to developments in emerging markets. Globally, the number of people with annual incomes in excess of USD 6,000 is set to more than double over the next 20 years, adding 2.7 billion people to the consumer middle classes. More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

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

Global Grain Production

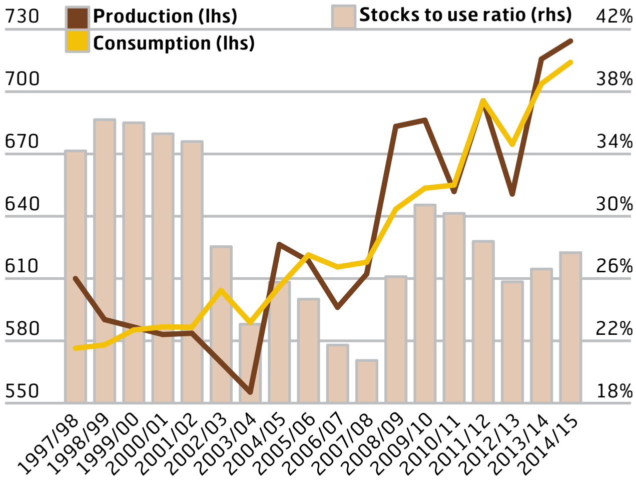
Grains include the staple crops wheat, rice and corn maize, which account for about half of the world's calorie intake. According to the International Grains Council, global grain production increased by 5 million tons to 2,006 million tons in the 2014/2015 crop year, which makes it the largest harvest on record. Global carryover stocks will also rise significantly in 2014/2015 to an estimated 431 million tons or 21% of the harvest year production. Ending grain stocks for the world's top exporting countries are at the highest levels since 2007/2008 and implies about a 7% year-on-year increase from the 2013/2014 crop year.

Overview of International Trade in Grains and Oilseeds 2013/14



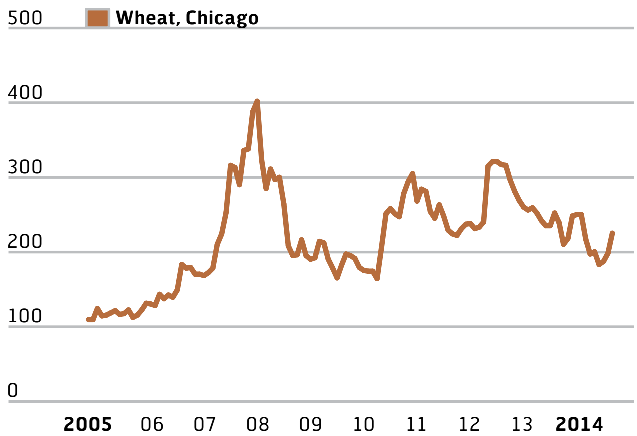
Source: USDA

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



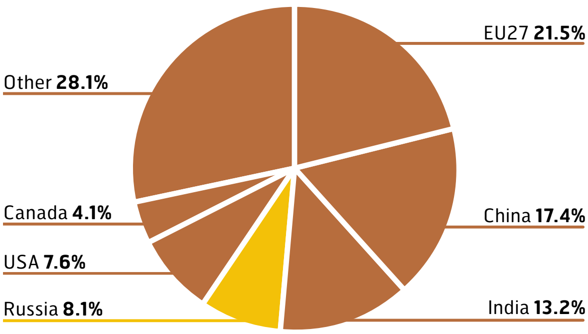
Source: USDA

D8: 10 Year Wheat Price Development, 2005–2014, USD/ton



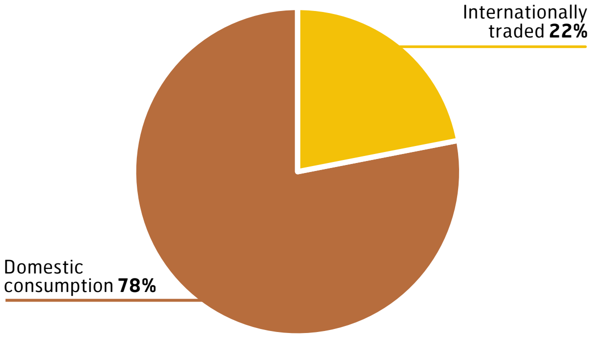
Source: HGCA

D9: Global Producers of Wheat 2014/15



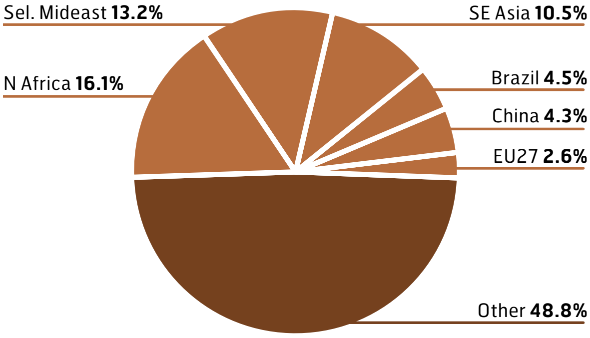
Source: USDA

D10: Share of World Wheat Production Traded Internationally 2014/15



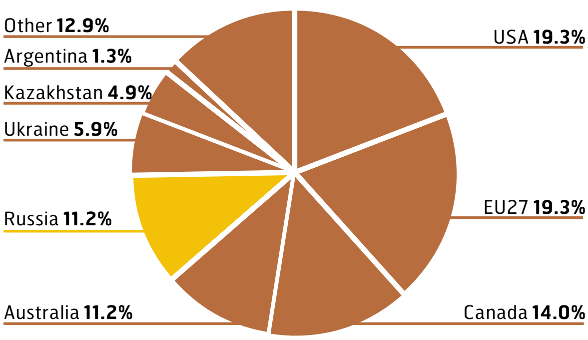
Source: USDA

D11: Wheat Imports by Country 2014/15



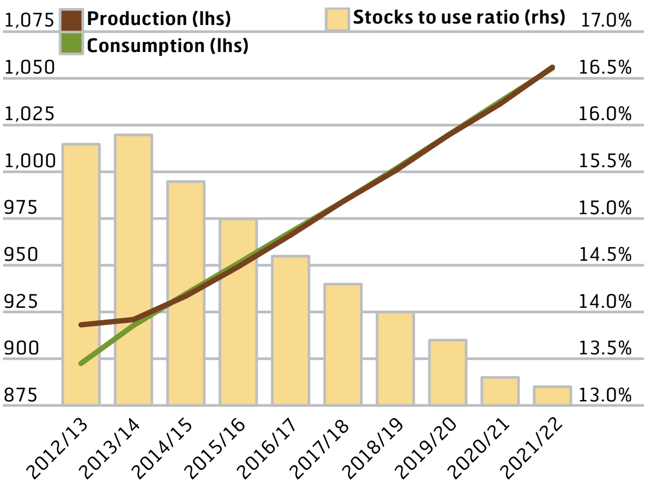
Source: USDA

D12: Wheat Exports by Country 2014/15



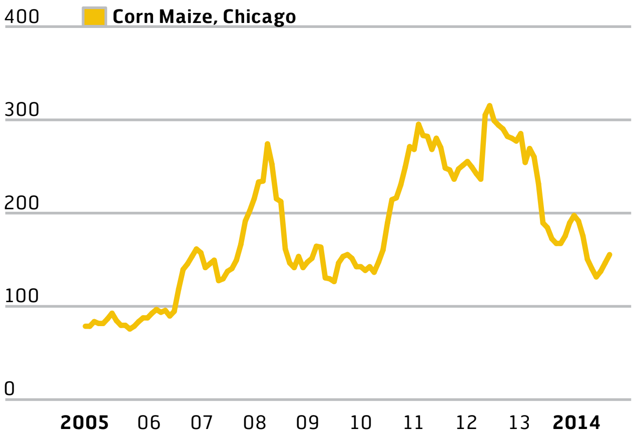
Source: USDA

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



Source: USDA

D14: 10 Year Corn Price Development, USD/ton



Source: HGCA

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

International Oilseed Markets

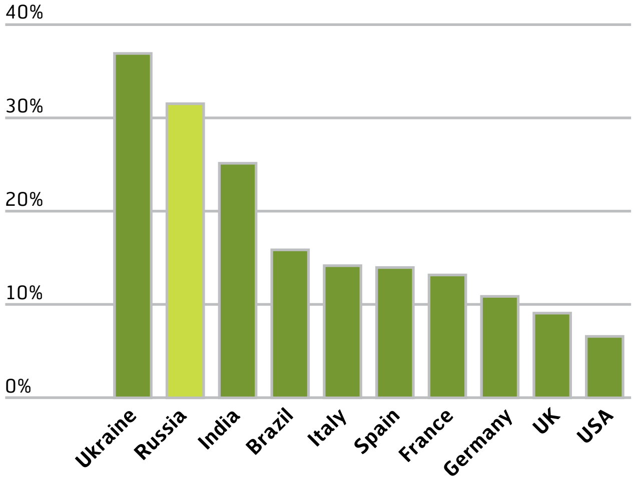
Oilseed crops are the second most important source of energy in food and feed after grains. They are also recognized as a significant source for production of biofuels. Sunflower and soy represent 9% and 14% in the total global production mix of oilseeds respectively, and are Black Earth Farming's main oilseed crops. Soybean remains the dominant crop globally representing 55% of total oilseed production. For soy, China is the major buyer, representing some 59% of total imports, while exports are dominated by the US, Brazil and Argentina. Russia, Ukraine and Argentina are the main producers of sunflower seed and sunflower by-products and these producer countries are also the key suppliers to international markets. Russia, Ukraine and Argentina produce over 50% of the world's sunflower seed, which is why they are often referred to as the "sunflower triangle". Canada dominates the export markets for rapeseed/canola with 64% of shipments, while the EU and China represent 50% of imports. Rising demand for biofuels and vegetable oils on the back of higher energy prices have given support to oilseed markets and price trends in general.

Russia

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

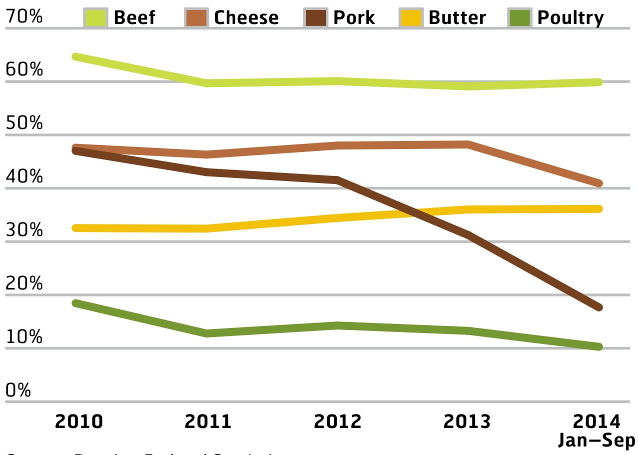
Russian harvest volumes for grains in 2014 were up 13% year-on-year to 103 million tons on increased planted area, very low winter losses, good growing conditions and dry harvesting conditions. The 2014/2015 harvest is only exceeded by 2008/2009 in the post-Soviet period. Among the main crops, wheat production stood at 59.4 million, barley at 19.6 million and corn at 10.2 million tons. Exports are forecasted at 29 million tons. An early and dry harvest allowed exports to start sooner than usual. As a result, exports exceeded previous record volumes for three consecutive months. Wheat notably benefited from strong demand from traditional Russian wheat buyers, such as Egypt and Turkey. The crisis in Ukraine, sanctions and the resulting steep ruble devaluation saw domestic prices increase 60% from harvest to December. But average USD prices fell 12% over the same period. Domestic feed grain demand continued to increase,

D15: Share of total expenditures spent on food 2012, %



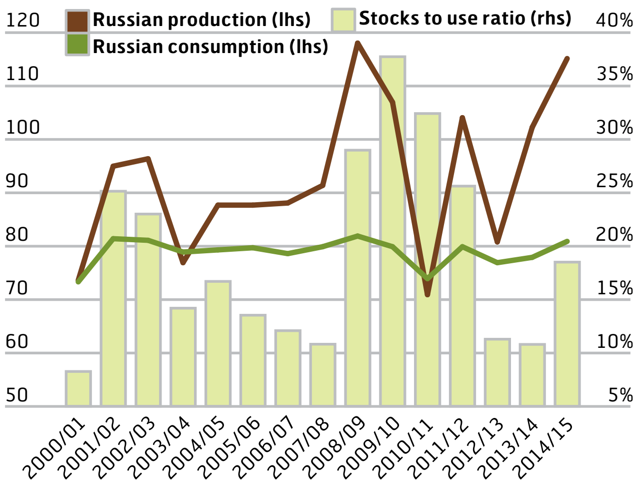
Source: American Enterprise Institute

D16: Share of imports in Russian consumption of selected agricultural products 2010–2014, %



Source: Russian Federal Statistics

D17: Russian Domestic Grain Production, Consumption and Stocks to Use Ratio, million tons

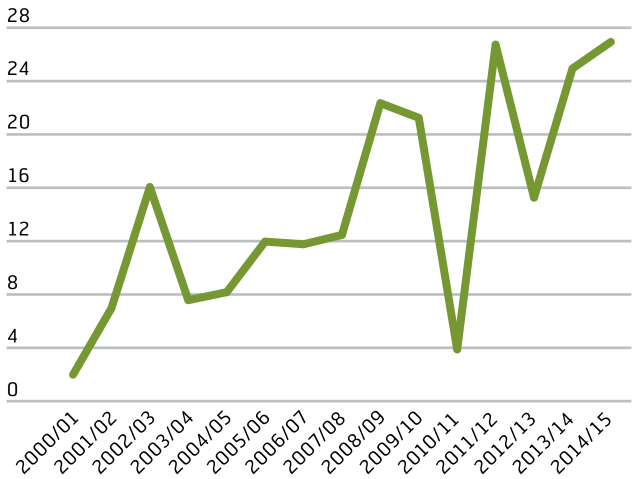


Source: Rosstat, SovEcon

as the drive for meat self-sufficiency accelerated in response to food import bans. With inflation growing towards 20%, possible indications of informal impediments to exports emerged in the autumn. Later, an official export levy on wheat, at a minimum USD 40 per ton, was introduced and was effective as of the 1 February 2015, with the objective to keep domestic grain prices low. Prices have since stabilized but not fallen. As continued ruble weakness supports domestic prices, it is possible that further export and domestic market controls could be introduced. Total 2015–16 exports are forecasted to be 28 million tons, down 13% from the pre export levy forecast of 32 million tons.

Production of the main oilseed crop in Russia, sunflowers, failed to reach the forecasted production level but still saw a record crop in excess of 10 million tons. Increased crushing capacity and oil demand, both domestic and international, supported local prices. Local ruble prices grew 60–70% since harvest but were largely unchanged in USD.

D18: Russian Grain Exports, million tons



Source: SovEcon

2015 Outlook

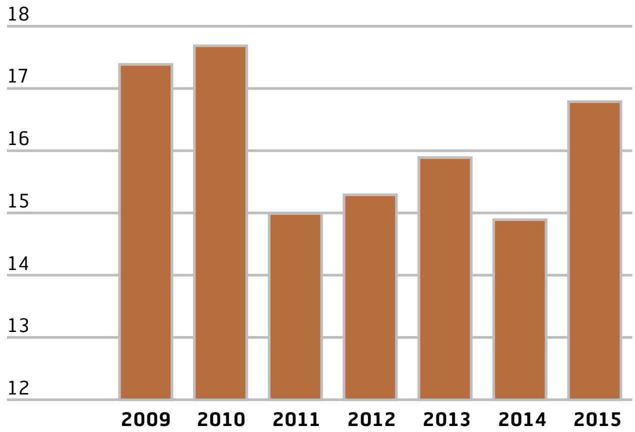
2014 was a year of record global planted areas and relatively benign weather, resulting in all-time high production levels globally. This resulted in significantly lower prices. The picture in Russia was one of a crop of 103 million tons, 14% higher than the previous year, and exports of approximately 29 million tons. With the exception of sunflowers, Central Black Earth prices, in the area of the Company's operations, were down 10–20% year-on-year and sunflowers, corn and oilseed rape prices were all circa 20–25% below their respective 5-year averages in USD terms.

Russia has planted about 13% more winter crop hectares than in the previous year, but they entered winter in significantly worse condition than in an average year owing to high moisture deficits in the soil. This was compounded by poor snow cover in many regions. The Russian Ministry of Agriculture continues to express concerns over the winter grains crop: officials have said that 2015 winter grain crop may decrease by 40% to 28 to 30 million tons from 48 million tons in 2014 (–38% to –42% year-on-year). Earlier, the Ministry noted that 21% of winter grains planted on 16.8 million hectares in autumn 2014 could be potentially killed. Some analysts believe that Ministry is exaggerating the issue hoping to receive additional support for agriculture from the federal budget. The Russian state meteorological service (Rushydromet) is more optimistic, estimating winter kill losses of 1.7 million to 2.0 million hectares (10–12% of the acreage).

It is difficult to give precise estimates at this stage about the likely 2015 spring plantings. It seems reasonable to expect some of the winterkill area to be reseeded with spring crops, but working capital restrictions will impact some of the less well capitalized businesses. In that context it is worth noting that interest rates have increased while subsidies have become more uncertain as regional co-financing is mandatory and rules are changing. Low soil moisture levels remain a concern, with an early and dry spring compounding the problem of less snowmelt soil moisture recharge. Unless there are early and substantial spring rains, the yield potential of many crops could be compromised. Initial indications suggest a substantial reduction in the total grain crop to somewhere between 85 and 92 million tons (–11% to –17% versus 103 million tons in 2014) of which 47 to 53 million tons would be wheat (–10% to –20% versus 59 million tons in 2014). Total grain exports are also likely to be substantially reduced, with a likely figure of 16–20 million tons versus 29 million tons in 2014.

The impact of the import ban from the EU has had a meaningful impact on Russian food markets in 2014 and is likely to continue to affect the local food market in 2015. According to EU estimates, the EU exported an estimated 15.5 billion USD worth of agricultural and food products to Russia in 2013 and almost half of these are now covered

D19: Russian autumn grain plantings (sown last autumn), million hectares



Source: SovEcon

by the import ban. This has contributed to proportionately larger rises in the prices of fruit and vegetables as well as meat and dairy product prices and lead to a shift away to imports from third countries, notably Egypt, Israel and the wider Middle East and Africa regions.

It is difficult to forecast the impact of the ruble devaluation on the industry. To date, crop prices in USD terms have broadly moved in line with international trends, and shown only a modest hard currency decline as a substantial increase in ruble pricing during Q4 2014 offset the devaluation in the Russian ruble. It is estimated that up to two-thirds of the operating costs of the business, and specifically seeds, fertilizers, sprays and machinery spare parts to a significant extent are denominated in hard currency and these costs have therefore increased in ruble terms. There may, however, be savings in local operating costs in USD terms, notably in labor costs, which could provide some competitive advantage.

Operational Review

Land

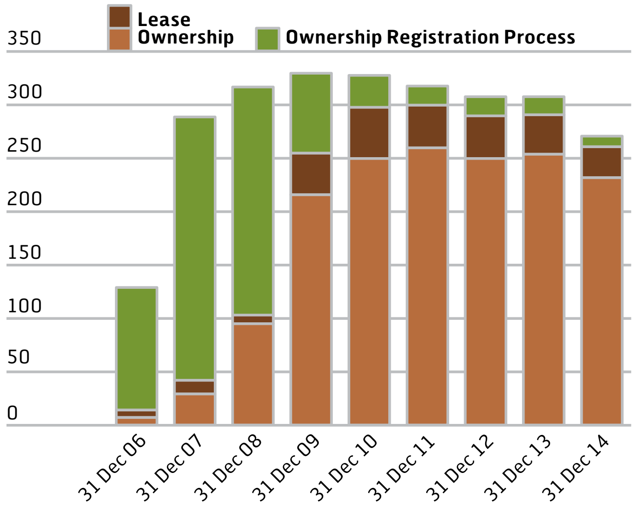
As of 31 December 2014, Black Earth Farming held 232 thousand hectares of land in full ownership, corresponding to 86% of the total controlled land bank of 271 thousand hectares[1]. 29 thousand hectares were held under long-term lease contracts running up to 49 years with the remainder 10 thousand hectares in the process of ownership registration. The process of obtaining the ownership rights to agricultural land in Russia is complicated and time consuming. The current focus for the Company is however not on expansion of the land portfolio, but on finalizing the registration process of controlled land into full ownership and raising crop production on the current foot print. The Company is active in the land market with an aim to consolidate and improve the productivity of its land.

Russian agricultural land is, in the Company's view, still undervalued, both in terms of comparison with land of similar quality in other countries and also in relation to its inherent production potential, especially in the fertile Black Earth Region. As of 31 December 2014, the Company held 242 thousand hectares, classified as property, plant and equipment and investment property, at an acquisition cost of USD 31.0 million (total cost of land in property, plant and equipment and investment property less prepayment for long-term lease), or USD 128 per hectare in the statement of financial position. The 72% depreciation of the Russian ruble over 2014 has had a significant adverse effect on the Company's balance sheet in USD terms. As the Company believes that this nominal devaluation of the balance sheet potentially understates the underlying value of its real assets, the Company intends to review its approach to accounting for its land assets in the balance sheet with a possible move to fair value in the 2015 accounting year.

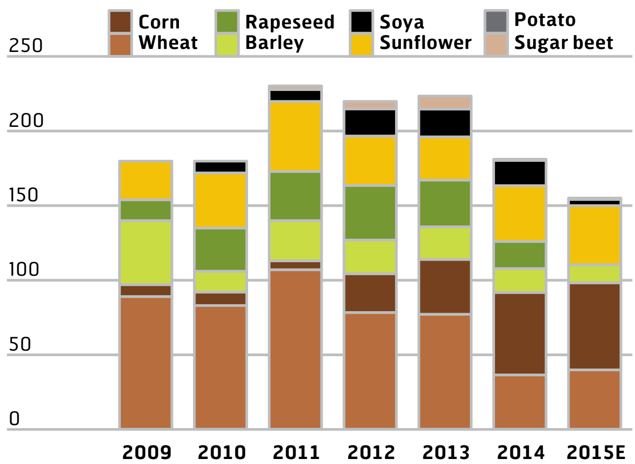
Production

Black Earth Farming has since its inception in 2005 broken long-term fallow on approximately 260 thousand hectares in total. The fields have been brought back into a productive state by extensive disk-tilling to eliminate long-time established weeds, coupled with field levelling. The croppable area has expanded rapidly from 6 thousand hectares in 2006 to approximately 215 thousand hectares for the 2014 harvest, and the focus has shifted from bringing land out of fallow towards raising its productivity and consolidating land areas. Improving crop yields is crucial and involves several initiatives related to technical agronomy and organisational structure to improve not only technical knowledge and decision making, but also operational exe-

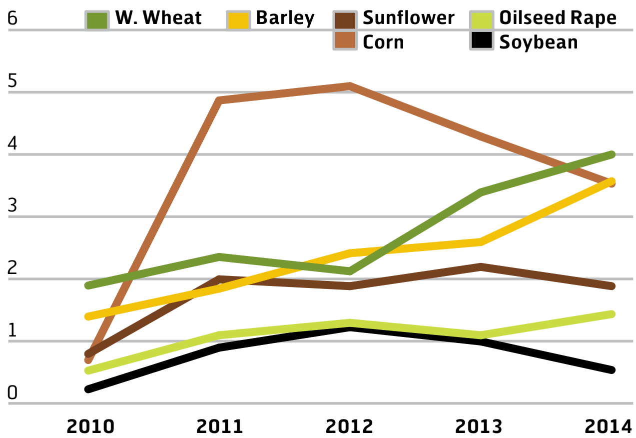
D1: 2006–2014 Land Development, thousand hectares



D2: 2009–2015E Crop Area Breakdown, thousand hectares



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



1. On 17 March 2015, the Company announced plans to swap 36.6 thousand hectares of controlled land in Lipetsk and Tambov for 24.9 thousand hectares of controlled land in Tambov. The proposed swap also sees the Company swap 20 thousand tons of grain storage for a 30 thousand ton elevator facility in Tambov. Refer also to note 35 to the financial statements on Subsequent events.

cution. The crop mix has changed in recent years as wheat's share of the total crop area has declined from approximately 50% to around 20% in 2014, while areas planted with corn and sunflowers have been increased and new crops, such as potatoes, have been introduced to diversify production. In 2015, the crop mix will change further, partly as a result of an effort to move towards crops with higher expected profitability, but also to further diversify the irrigated root crop business by introducing trial areas of other root vegetables

In 2011, a technical agronomy partner undertook an audit of historic decision making processes and made recommendations regarding strategy and crop management going forward. The review also identified what underlying data and analysis was missing for the operating regions in order to make scientific crop management decisions backed by statistically significant data. In 2012, Black Earth Farming started filling the information gaps through internal research and crop trials. This internal research and development could provide a meaningful competitive advantage for Black Earth Farming yielding key data to ensure that crop management is increasingly driven by statistically significant and well analysed trials information.

2014 Harvest

There were meaningful improvements to the 2014 crop compared with previous years. Winter wheat and early season spring crops benefited from good growing and harvesting conditions. Yields for winter wheat and barley crops are among the best ever achieved by the Company with wheat yields improving by more than 17% year-on-year on 2013, barley yields by more than 37% and spring oilseed rape yields by more than 31%. From late May onwards about 70% of our farms experienced a severe drought and across all our farms the total cumulative rainfall to the year-end ranged between 57% and 86% of the seven year averages. This reduced the yield of the late season crops, in particular corn to a disappointing 3.54 t/ha.

2014 saw improvements in operational performance coming from both yield increases and reduction in costs. The Company's key metric of blended yield (excl. beet and potatoes) was up 6% year-on-year and 27% vs the 5-year average. Over 3 years, blended yield is estimated to be increased by 38%.

Net potato yields at 31 tons per ha were slightly down from 2013; this is affected by a higher proportion of stored crops and consequently higher storage losses reducing the sold yield per hectare. The total provision on the potato storage and crop damaged in the fire in 4Q 2014 is estimated at USD 2.5 million, substantially lower than our initial estimates as it is expected that more of the facilities can be restored and as more inventory could be sold than was originally estimated.

2015 Crop Prospects

Current plans are to focus the business on its most profitable combinable crops; namely wheat, barley, corn and sunflowers. The soybeans area is to be scaled back due to problems with seed quality and also to allow for trials to improve crop performance. The root crop enterprise will be diversified to include table potatoes and small pilot trial areas of onions and carrots. The Company views 2015 as a year to consolidate this enterprise and put in place all necessary management systems, permissions, planning and subsidy applications in order to facilitate a more rapid expansion in the future. The area will be lower in 2015 due to lower levels in irrigation lakes after the dry autumn and winter and the ban on seed stocks from Poland entering Russia. This gradual shift towards more intensive crops is already changing the cost profile but is intended to pay off with compensatory revenues and earnings resulting in higher and more stable returns. 42 thousand hectares were planted with winter wheat, which is around 30% more than in 2013. However, circa 30% either failed to germinate or germinated after late September rain and some 11% (circa 4,500 ha) had already been written off by the end of the year. The remaining crop went into the winter less advanced and more drought stressed which could make it more prone to winter kill. The favourable autumn conditions allowed a substantial increase in the amount of cultivation works undertaken, meaning soils were generally in better condition going into winter and should allow for a prompt start to the spring 2015 seeding. That said, the autumn drought and low snowfall levels have meant subsoils in the Central regions are relatively dry for the time of year.

A simplification of the arable crop rotation was undertaken in 2014 with an increased proportion of rotational fallow.

5 Key Initiatives to Raise Crop Yields

In an extensive 2011 soil quality audit, the results showed several constraints to yield potential. During the autumn of 2011, the Company launched a range of initiatives to remove these crop yield constraints and lift the production potential of the soil. The five key priorities in this effort are outlined below. This is a multiyear process but significant progress was made prior to seeding and post-harvest in 2012, 2013 and 2014. The 2014 spring crops benefited to some extent from the initiatives but most of the benefits are expected to come through in future years. The process is expected to contribute to higher crop yields and productivity going forward as constraints are removed from a larger part of the Company's total cropping area. In 2014, 56,000 ha of soil testing was undertaken and the Company now has a rolling programme in place to test for soil texture (percentages of sand, silt and clay on a single composite sample of field), soil acidity (pH) and key soil nutrients (especially phosphate and potash but also trace elements including calcium, magnesium and boron).

Lime application to correct soil pH

Acidic soils reduce crop yield. Research demonstrates that pH levels below 5 can reduce wheat crop yields by up to 30%. To correct for low soil pH levels, lime is applied to the soil. In its cheapest form, lime is received as a by-product from sugar processing. The challenge and associated costs are less related to procurement and more with logistics, as high application rates of eight tons per hectare involve large tonnages of product to transport, load and spread in order to process larger crop areas. Since the autumn of 2011, lime has been applied on 47 thousand hectares of the Company's most acidic soils. 35 thousand hectares were applied during 2012. 1,600 ha were applied during 2013 and 2,200 ha were applied during 2014. The focus remains to raise average soil pH levels to 6.2, but the most problematic land has largely had its issues corrected as of 31 December 2014.

Deep cultivations to relieve soil compaction

Problems have also been identified with soil structure and compaction, which restricts crop root growth and results in lower yields and poor resilience to dry conditions. Only limited deep cultivations had been performed prior to 2011. In some places, Black Earth Farming's pre-2011 operations had exacerbated the problem. To improve soil structure, deep cultivations shatter the earth and remove plough pans at depths of 20 cm and below. 37 thousand hectares were subsoiled in 2011, followed by almost 100 thousand hectares in 2012. Subsoiling will be incorporated in the annual cultivation program over several years in order to rotationally relieve compaction and improve soil structure. 35,500 hectares of deep cultivation was completed in 2013 and thanks to very favourable autumn conditions, 106,000 ha of deep cultivations were undertaken in 2014.

Fertilizer, potash, phosphate and sulphur applications

Potash has historically only been applied on a replacement basis and application was not necessarily driven by proper soil test data. This led to under-application of potash on the Company's cropping area. Potash is very important for water relationships within plants. Low levels of potash in the soil have therefore compounded drought stress problems in the past. Approximately 70 thousand hectares with low potash and/or phosphate levels have been normalized since the corrective measures started in the autumn of 2011.

Weed management through glyphosate application

Prior to 2011, substantial areas of crops suffered from heavy weed populations. According to research, field bindweed can reduce wheat and barley yields by up to 30% and 65% respectively. Over 200 thousand hectares were sprayed with glyphosate before and after the 2011 harvest (about 5 times the average area in previous years). Another 110 thousand hectares were sprayed in 2012. In 2014, about 150 thousand hectares of pre and post-harvest glyphosate were applied.

Seed Management

Management of internally grown seed crops has improved significantly with appropriate site selection, better weed control, applications of additional fungicides and micronutrients, all targeted at increasing seed quality.

The effects of these measures to remove crop yield constraints will come through only gradually over a 2–3 year period and only once and after all the problems have been properly corrected. Getting the maximum yield potential from the soil before a crop goes in the ground is critical to lifting productivity. The progress made so far is expected to be supportive of 2015 yield potential and crop productivity.

Control, Monitoring and Logistics Department

In 2013 the Company made an investment in a new integrated Control, Monitoring and Logistics (CML) team at its head office in Voronezh. This includes a team of 17 people with a logistics manager, a transport manager plus analysts. 1,100 GPS trackers and 520 fuel sensors have been fitted to most of the Company's tractors, trucks, vehicles and other motorised agricultural equipment, including trucks provided by third party haulage providers. The Company's management estimates that numerous operational improvements have benefited from this system, including

- Grain transportation
- Labor productivity
- Reduction of third party harvesting services
- Security

Organisational Education and Training

Another part of lifting average crop yields and reducing the variance in crop yield between fields is minimizing management mistakes and improving operational decision making. Historic crop yield performance among Black Earth Farming's fields points to a very high level of variance. To address this, the initial focus was on ensuring that the right machinery and managerial capacity was in place to ensure that operations are performed well and on time. Management capacity has been strengthened substantially at the regional level to reduce the area that any single manager is responsible for and also to increase accountability. During 2012, Black Earth Farming completed the first full year of an in-house trials program. The trial data has been used to drive crop production decision.

Education and training programs have also been implemented to support operational planning and execution. The initial focus was on agronomic and crop production technical training including both class room based and field based sessions. Since 2012, the scope of the programs have expanded to include comprehensive operator and maintenance training for all of the current operators and front line equipment. From 2015 this will be supplemented with a more structured graduate and management training programme which aims to attract the highest quality graduates both from the Russian Federation and internationally, to build up the next generation of managers from within the business.

Spreading Lime to Correct Soil pH-levels

Deep Cultivation to Relieve Soil Compaction

Bindweed Infested Crop

Glyphosate Treated Field to Control for Weeds

Farm Cluster Management

During 2014, new regional organisational structures were designed to give unit managers increased responsibility for the operational and financial performance of their individual units. The Company started work and roll-out of new KPI's and remuneration packages for Russian middle-management. Initiatives were also launched to provide operational staff, including agronomists and engineers; more precise KPI's and higher levels of discretionary bonuses for meeting operational targets.

Crop Handling & Storage Logistics

Improvements in crop handling and logistics contributed towards making progress in operational performance in the 2014 season. New investments in drying and cleaning facilities at a number of sites improved the handling of the later season crops, especially corn. Centralized management of harvest, crop handling and storage logistics as well as real time information is important to maintain a proper level of control over some 20 harvesting teams and 40 storage sites across the Company's operations.

Sales & Marketing

Russia lacks an efficiently functioning domestic physical forward or futures market. A low level of trust among counterparties can disconnect supply from demand in forward markets. Historically, the majority of the Company's sales were therefore executed domestically on the spot market. The list of customers generally varies from world scale brewers and maltsters, oil crushers, large domestic consumers and international grain traders. Prior to 2012, the majority of sales were conducted on an ex-works basis (EXW) i.e. the buyer organises transport to collect crops at the Company's farm gate. This left the Company exposed to the high volatility of local spot market prices for agricultural commodities with limited possibility to manage price risk.

In order to mitigate these risks Black Earth Farming has focused on establishing long-term relationships with quality counterparties both internationally and domestically. Significant progress was made in this area in 2012 and 2013. The cooperation agreement signed with PepsiCo in October 2012 was a significant step in this direction and towards improving domestic price risk management as it offers opportunities to fix prices in advance for part of Black Earth Farming's output. The Company also hedges its production using CBOT (Chicago Board of Trade) and MATIF (Marché à Terme International de France) futures, locking in forward prices when physical sales are not possible. The internal elevator capacity with direct rail access enables export capability, which is crucial not only for realizing higher prices but also for managing price risk by locking in prices via forward sales to international counterparties. Contract terms including loading, transport and longer distance delivery via rail to the customer are covered by the price pick-up. The Company views the ability to internalise the trade margin from producer to end customer as a key competitive advantage, especially in Russia, where this margin is abnormally high by international standards.

Prior to 2014, Black Earth Farming executed most of its delivered-at-point (DAP), carriage-paid-to (CPT) and free-on-board (FOB) sales utilising a third party provider. In December 2013, the Company established Black Earth Trading International Ltd. ("BETI") in Guernsey, a fully owned subsidiary, to facilitate export sales and support international customer relationships. During 2014, BETI executed 135 thousand tons of the total 141 thousand tons of direct export sales.

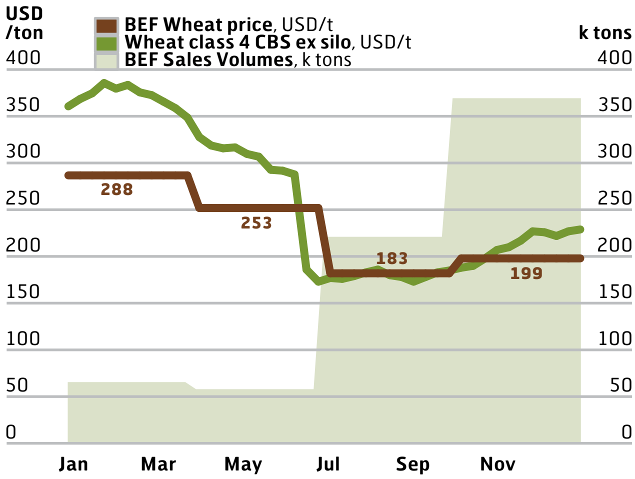
Sales including transhipment also enable consolidation of larger volumes of crops with specific qualities facilitating larger and better priced contracts. In 2014, Black Earth Farming executed 141 thousand tons of direct export sales to customers in Europe, Scandinavia, South Africa and elsewhere. Wheat represented approximately 36% of exports and corn 66%, with the remainder consisting of rapeseeds, peas and soybeans. The Company has long term export supply agreements for wheat (Spain), non GMO soya (Norway) and Oilseed Rape to European crushers (mostly Germany). For the crop year 2014/2015, the Company expects to export some 175,000 tons in total via the Baltic port of Liepaja, all loaded and shipped by rail from the Company's elevators on wagons contracted directly from a reliable rail operator. Black Earth Farming is currently registered for sustainability (ISCC) for both Oilseed rape and Corn, thus capturing a further premium for these commodities.

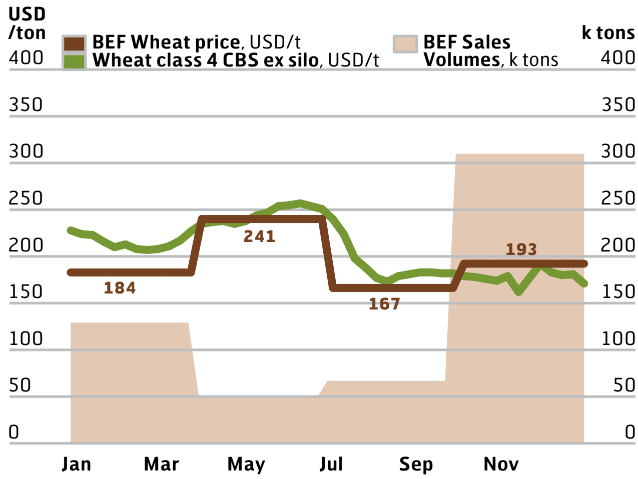
In 2014, the volatility of the Russian ruble on the one hand, and the decision to introduce a levy on wheat exports on the other, has highlighted additional risks of selling forward domestically or internationally and has forced the Company to reconsider the risks and benefits of longer-term contracts.

Terms of Delivery

Main Sellers				
Domestic producers	+	+	−	−
Domestic traders	+	+	−	−
International traders	−	−	+	+
Main Buyers				
Domestic consumers	+	−	−	−
International consumers	−	−	+	+
Domestic traders	+	+	−	−
International traders	+	+	+	+

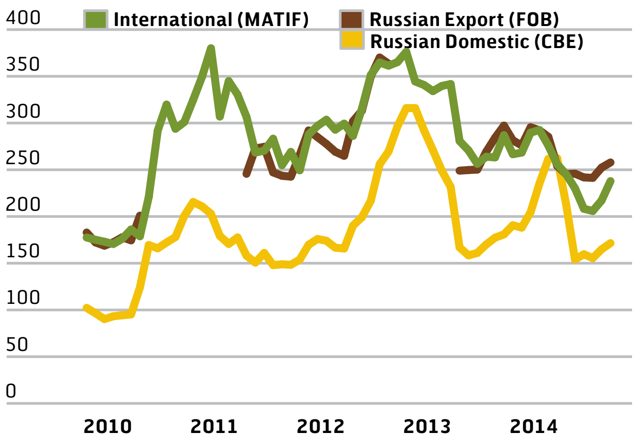
D4: BEF Quarterly Average Realised Wheat Price & Sales Volume vs. Market Development, 2013 (left) and 2014 (right)





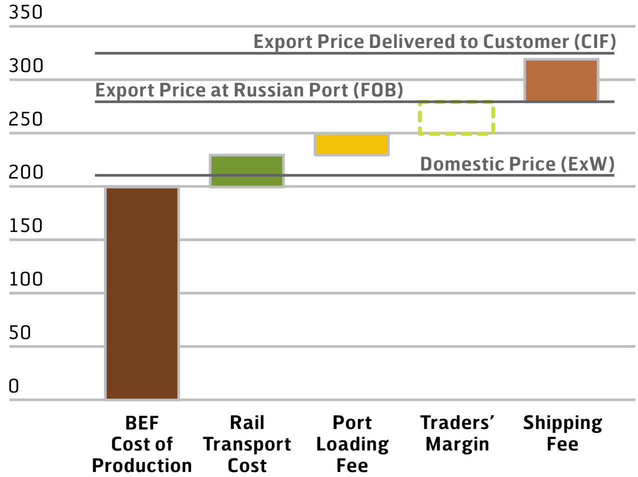
Source: HGCA, MATIF, IKAR, BEF estimates

D5: Wheat Price Development, USD per ton



Source: HGCA, IKAR

D6: BEF Crop Cost Value Chain, USD per ton



T1: Harvest Area Breakdown

(Hectares)	2007	2008	2009	2010	2011	2012	2013	2014	2015E
Winter wheat	16,805	48,636	84,698	72,677	93,627	73,912	73,702	30,235	39,778
Spring wheat	n/a	4,339	3,824	10,157	13,093	4,368	3,412	6,140	n/a
Spring barley	20,180	42,638	43,053	13,793	26,535	22,718	21,850	16,076	12,059
Corn maize	1,215	9,950	8,084	8,592	6,149	26,003	36,814	55,317	58,390
Winter triticale	n/a	n/a	2,740	302	n/a	n/a	n/a	n/a	n/a
Total Grains	**38,200**	**105,563**	**142,399**	**105,521**	**139,404**	**127,001**	**135,778**	**107,768**	**110,227**
Winter rape	5,005	875	7,045	536	n/a	n/a	n/a	111	n/a
Spring rape	7,035	13,149	7,132	29,051	33,494	36,597	31,436	18,083	n/a
Sunflower	2,541	19,378	26,466	36,761	46,518	33,218	28,997	37,479	39,810
Soya	n/a	n/a	n/a	7,899	7,863	18,187	18,682	16,932	4,057
Total Oilseeds	**14,581**	**33,402**	**40,643**	**74,247**	**87,875**	**88,002**	**79,115**	**72,605**	**43,867**
Sugar Beet	n/a	n/a	n/a	n/a	1,621	5,085	8,822	n/a	n/a
Potatoes	n/a	n/a	n/a	n/a	n/a	31	196	884	980
Total Commercial Area	**52,781**	**138,965**	**183,042**	**179,768**	**228,900**	**220,119**	**223,911**	**181,257**	**155,074**
Other/Forage crops	*670*	*2,968*	*381*	*1,013*	*1,951*	*1,675*	*1,721*	*2,934*	*494*
Total harvest area	**53,451**	**141,933**	**183,423**	**180,781**	**230,851**	**221,794**	**225,632**	**184,191**	**155,568**

T2: Average Net Crop Yields

(Tons per hectare)	2007	2008	2009	2010	2011	2012	2013	2014
Winter wheat	2.9	4.1	3.3	1.9	2.4	2.1	3.3	4.0
Spring wheat	n/a	2.9	2.1	1.4	1.6	2.6	1.9	3.6
Spring barley	1.9	3.3	2.8	1.4	1.9	2.4	2.6	3.6
Corn maize	2.8	2.3	3.1	0.6	4.9	5.1	4.3	3.5
Winter triticale	n/a	n/a	2.2	0.7	n/a	n/a	n/a	n/a
Winter rape	1.2	1.6	1.4	0.5	n/a	n/a	n/a	0.7
Spring rape	0.8	1.3	1.2	0.5	1.1	1.3	0.9	1.4
Sunflower	1.6	1.3	1.7	0.8	2.0	1.9	2.0	1.9
Soya	n/a	n/a	n/a	0.2	0.9	1.2	0.9	0.5
Sugar beet	n/a	n/a	n/a	n/a	25.6	25.3	24.3	n/a
Potatoes	n/a	n/a	n/a	n/a	n/a	33.2	33.9	31.0

T3: Net Harvest Volumes

(Tons)	2007	2008	2009	2010	2011	2012	2013	2014
Winter wheat	48,093	201,377	280,648	137,703	220,608	157,571	245,711	121,185
Spring wheat	n/a	12,472	7,863	13,791	21,187	11,495	6,573	22,379
Spring barley	38,466	138,752	122,375	19,595	49,166	55,074	55,429	57,492
Corn	1,335	22,651	25,251	5,152	29,989	132,829	158,986	195,747
Winter triticale	n/a	n/a	5,930	211	n/a	n/a	n/a	n/a
Total Cereal Grains	**87,894**	**375,252**	**442,067**	**176,452**	**320,950**	**356,969**	**466,699**	**396,803**
Winter rape	6,083	1,395	10,014	246	n/a	n/a	n/a	74.83986
Spring rape	5,647	16,657	8,470	15,497	36,887	46,052	28,113	26,064
Sunflower	4,126	25,285	45,580	28,904	92,805	62,759	57,970	70,927
Soya	n/a	n/a	n/a	1,818	7,114	22,364	16,006	9,098
Total Oilseeds	**15,856**	**43,337**	**64,064**	**46,465**	**136,806**	**131,175**	**102,089**	**106,164**
Sugar beet	n/a	n/a	n/a	n/a	41,531	128,405	214,720	n/a
Potatoes	n/a	n/a	n/a	n/a	n/a	1,029	6,644	27,404
Total Commercial Crops	**103,749**	**418,589**	**506,131**	**222,916**	**499,287**	**617,578**	**790,152**	**530,372**
Other/Forage crops	*2,659*	*22,928*	*3,381*	*3,686*	*14,597*	*13,213*	*3,012*	*19,575*
Total Output	**106,408**	**441,517**	**509,512**	**226,602**	**513,884**	**630,791**	**793,164**	**549,946**

BLACK EARTH FARMING'S CROPS

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

CEREALS (grains)

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

Wheat

20% of 2014 Crop Revenue

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

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

Barley

6% of 2014 Crop Revenue

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

Corn Maize

38% of 2014 Crop Revenue

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

OILSEED

Sunflower

19% of 2014 Crop Revenue

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

Oilseed Rape (OSR)

8% of 2014 Crop Revenue

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

Soybean

4% of 2014 Crop Revenue

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

ROOT CROPS

Potato

3% of 2014 Crop Revenue

Approximately two thirds of the global potato production is consumed directly by humans, either directly as fresh potatoes or for processing into French fries or potato chips or crisps. The rest are fed to animals or used for other industrial uses e.g. to produce starch. Only about 5% of the world's potato crop is traded internationally. To achieve acceptable quality levels for further processing, irrigation is usually employed in order to secure adequate water supply.

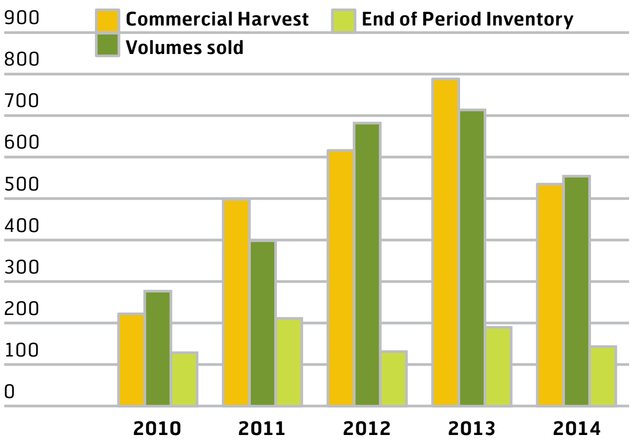
2014 Financial Review

Despite a challenging operating and macroeconomic environment, Black Earth Farming's operating profit increased USD 36.8 million year-on-year from USD –30.6 million in 2013 to USD 6.2 million in 2014. The improvement in operating performance was driven by gross profit, which grew USD 31.7 million from USD 6.1 million in 2013 to USD 37.8 million in 2014 as the gross margin expanded on higher ruble prices against accumulated input costs and as dry harvesting conditions contained logistical operations and efforts to control costs yielded results. In addition, the Company's sale of assets from its Voronezh operations resulted in a USD 6.8 million pre-tax gain, while the grain hedging program generated a USD 4.4 million gain. Below the USD 6.2 million EBIT, net financing costs were down USD 4.2 million year-on-year as a result of the Company's decision to repurchase bonds and due to the weakening of the Swedish krona (SEK) against the USD. The SEK however strengthened 42% against the Russian ruble, resulting in a USD –16.5 million translation loss, driving the bottom line to a negative USD –17.4 million. Net cash from operations were up year-on-year to a positive USD 0.9 million but total net cash flows were weaker as capex increased year-on-year and the Company employed the proceeds from its asset sale to buy back bonds. The change in the Company's balance sheet position was driven by the 72% year-on-year depreciation of the Russian ruble against the USD as well as, to a lesser extent, by the disposal of land and real estate against the repurchase of bonds.

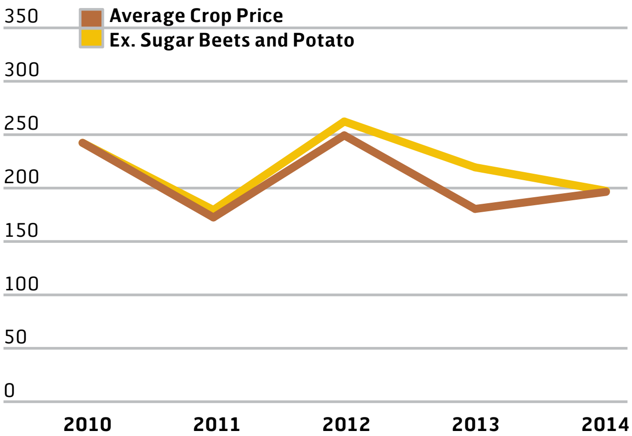
Change of and translation to presentation currency

In 2014, the Company announced that it had changed presentation currency from its functional currency in the Russian ruble to the USD. Prior to that, the Company had only provided an unaudited translation for the convenience of investors, based on the closing rate of the Central Bank of Russia (CBR) on 31 December. In the first 3 quarters of 2014, the Company applied open and closing CBR rates to translate its balance sheet, and the average rate to translate the statement of income. Due to the significant currency volatility in the last 3 months of 2014, the Company agreed with its auditor to apply different rates to convert its functional ruble currency results to the USD presentation currency in 4Q 2014. The year-end rate was applied to the valuation of inventory, a revenue weighted average to sales and cost of sales, a straight average to other costs and spot rates to significant transactions. While this should provide a more accurate reflection of the underlying results, it is recognized that it also makes translation less transparent and like-for-like year-on-year comparisons more complex.

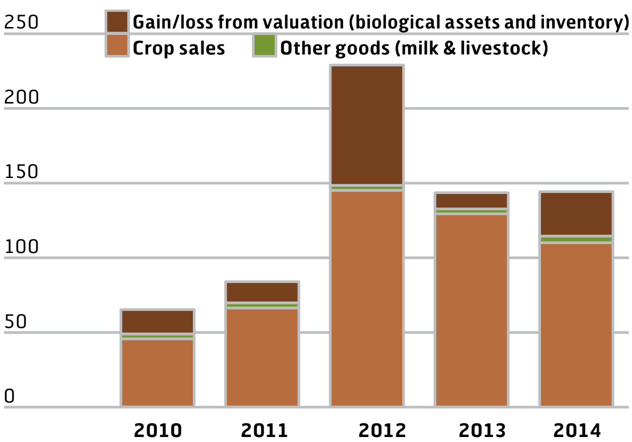
D1: Production, Sales and Inventory, thousand tons



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



D3: Total Revenue & Gains, USD million



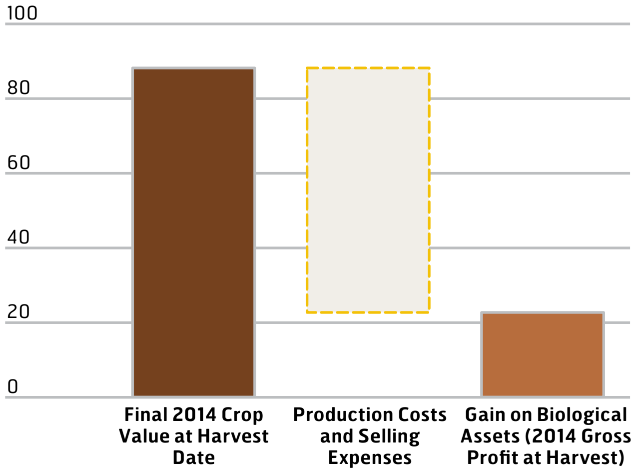
Revenue

Revenue captures actual sales during the financial year, both on 2013 crop carry-over inventory sold in 2014, and 2014 crop sold in 2014. 2014 crop in inventory at year-end is marked to market with such unrealized gains sitting in the change in net realisable value of agricultural produce after harvest (see also below). 2014 revenue was down –16% year-on-year to USD 113 million on lower volume (–22%) against a higher average price (+7%). The drop in volume was driven by a lower net harvest of 530 thousand tons (–33% year-on-year), which in turn was driven by a decreased cropped area (-18% year-on-year) and a change in crop mix, as high yielding sugar beet was taken out of the rotation in 2014. Lower production volumes were only partly offset by a greater crop inventory carry-over from 2013 (190 thousand tons) than carry-out to 2015 (144 thousand tons). The price effect was also partly driven by crop mix; wheat and corn represented 22% and 47% of volume sales respectively in 2014, while wheat and beet represented 32% and 30% respectively of volumes in 2013. Average USD prices by crop were all down in 2014, much driven by higher prices received on carry-in inventory in 1H 2013. For example, average realized USD prices for wheat, corn and sunflower were down –6%, –17% and –27% respectively. Price comparisons in USD are however complicated due to the application of different currency rates for translation.

Gain/Loss on Revaluation of Biological Assets and Inventory

The Company's biological assets, which mostly capture work in process and crop in field, and its crop inventory in storage, are estimated at fair and net realisable value respectively in the Company's financial position. Changes in valuation flows through the statement of income in Gain on revaluation of biological assets and Change in net realizable value of agricultural produce after harvest for biological assets and crop inventory in storage respectively. The gain on biological assets is derived by using final harvest volumes multiplied by market prices at the time the crop was harvested, which differs per crop, less incurred production costs and expected selling expenses. After harvest, when the crop is kept and processed in storage, the statement of income is affected via change in net realizable value driven by market price developments affecting the crop inventory value. As of year-end 2013, crop in inventory is valued on contract prices less selling costs, where contracted, and on regional market prices where inventory has not been contracted. 68% of the 144 thousand tons of year end 2014 inventory were valued on contract prices less selling costs. When crop is sold and revenue is recognized, the book value of crop in inventory or the fair value estimate of the biological asset, if recorded in biological assets as of the start of the reporting period, is recognized as cost of goods sold, with the gross result reflecting whether or not the crop was sold above or below its book value. In this sense, crop sales constitutes a mark to market on the Company's biological asset, whether in field or in inventory in the prior period.

D4: 2014 Gain on Biological Assets, USD million



In 2014, the prior year crop was sold close to the 31 December valuation point, with limited impact on net income. By contrast, in 2013 realized prices on 2012 carry-in inventory were down on average –19% from the 31 December 2014 book value, implying a USD 7 million loss. As a result of the sharply depreciating ruble against the backdrop of open export markets, domestic prices rose sharply in 4Q 2014. With year-end RUR/USD rate applied to the inventory valuation, average USD prices were –17% year-on-year. Contract prices were used to value 68% of the Company's 144 thousand tons of 2014 year-end crop. Costs were also lower in USD terms, allowing the Company to post USD 31.6 mil-

T1: Revenue and Result per Hectare (Harvest Year[1])

	2008	2009	2010	2011	2012	2013	2014
Average Net Crop Yield, tons (sold)/ha	2.9	2.7	1.1	2.1	2.7	3.5	2.93
Average Net Crop Yield (excl. SB and PT), tons (sold)/ha	n/a	n/a	n/a	2.0	2.2	2.6	2.79
Average Price, USD/ton	129	115	243	173	250	181	197
Average Price (excl. SB and PT), USD/ton	n/a	n/a	n/a	180	263	220	198
Revenue per Hectare, USD/ha	372	309	269	368	685	633	782
Revenue per Hectare (excl. SB and PT), USD/ha	n/a	n/a	n/a	364	671	619	768

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

2. SB and PT refer to Sugar Beet and Potato.

3. Realized sales and mark to market of crop inventory as of 31 December 2014.

T2: 2014 Quarterly Sales Volume & Crop Inventory

	Quarterly Sales				Crop in Inventory	
	4Q 2014	3Q 2014	2Q 2014	1Q 2014	31 Dec 2014	31 Dec 2013
Volume, *k tons*						
Wheat	60.2	41.1	0.8	17.2	33.7	20.6
Barley	13.4	0.0	12.8	12.0	43.1	27.8
Corn	149.6	0.6	24.9	85.4	40.3	116.9
Rape	6.2	15.3	0.0	2.1	4.8	2.0
Sunflower	56.6	0.5	10.0	8.8	13.8	18.9
Soya	9.7	0.0	0.0	2.8	0.1	3.0
Potatoes	12.2	6.1	0.0	1.0	8.2	0.0
Other (peas/seeds/forage)	2.5	3.3	0.1	0.1	0.0	1.4
Total Tons	310.4	66.9	48.6	129.4	144.0	190.3
Price, *USD/ton*						
Wheat	193.3	167.3	241.2	183.9	162.5	201.2
Barley	157.7	131.0	185.7	195.6	134.5	207.3
Corn	151.0	128.2	200.1	170.4	135.2	160.8
Rape	515.8	319.5	0.0	381.7	301.3	426.2
Sunflower	264.8	297.4	310.4	303.4	299.3	338.6
Soya	320.1	0.0	0.0	416.7	335.3	432.8
Potatoes	134.6	219.8	0.0	237.0	143.0	275.0
Other (peas/seeds/forage)	344.8	297.5	23.5	67.2	0.0	0.0
Average Price	193.7	213.9	219.3	192.9	163.3	197.5

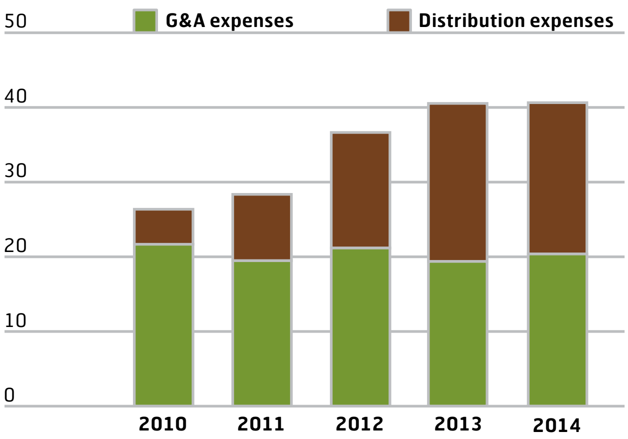
lion total gain on biological assets and inventory at net realizable value. That compares to USD 13.3 million in 2013 and was an important driver of the 2014 net result. 61% of year-end inventories were corn in 2013, which compares to a mix of wheat (23%), corn (28%) and barley (30%) in 2014. All 2014 crops had been harvested by 31 December 2014. As a result, total revenue and gains were only down –3% year-on-year to USD 144.4 million, despite a –33% reduction in volume and –16 drop in revenue, as non-cash gains on biological assets and crop in inventory increased USD 18.3 million year-on-year (+138%). As of the reporting date, biological assets consisted mainly of costs incurred for seeding of winter crops to be harvested 2015 amounting to USD 6.1 million.

Cost of production

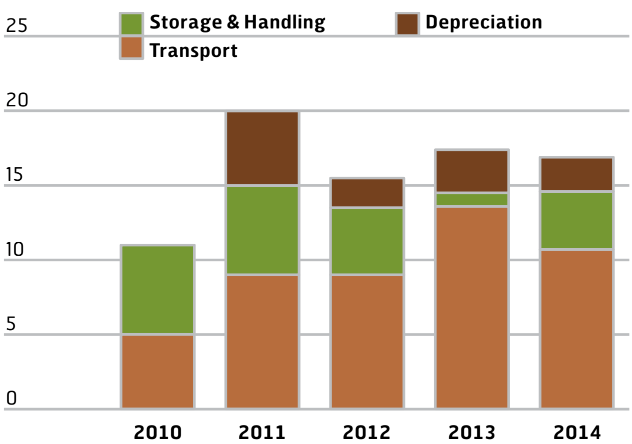
Black Earth Farming's production cycle commences with seeding of winter crops during the fall in the prior calendar year and includes several stages of field works until the harvest period commences in July through October depending on crop (please see diagram D10 on page 37). Historically, approximately 30–40% of costs have been incurred in the fall of the preceding calendar year as winter crops are seeded and fields are cultivated in the autumn, but this depends on the field works and the relative weight of the winter crops in the overall crop mix. The remaining 60–70% is incurred during the spring and summer in the same calendar year as part of the spring seeding, followed by field works and harvest. Thus, it is only for every new harvest (i.e. production cycle) that the Company can affect the actual costs of production. The cost of production is also affected by the crop mix, as different crops have different levels of cost intensity.

Total 2014 production costs decreased year-on-year as the total crop area dropped –18% on the back of the Com-

D5: G&A and Distribution Expenses, USD million



D6: Distribution Expenses Breakdown, USD per ton sold



pany's asset sales and as more cost intensive sugar beet was excluded from the crop mix. On a cost per ton basis, production costs were also down year-on-year, as the depreciating ruble offset input price inflation and devalued USD costs while dry harvesting conditions contained transportation and processing related expenses and cost control initiatives yielded some results. Costs per hectare were down in USD terms but were flattish in ruble terms largely as a result of the same factors. Among key input materials, 2014 saw an increased spend on seeds vs a lower spend on fertilizer and a significantly lower spend on third party services, as the Company kept machinery from its disposed Voronezh assets and utilized its existing fleet more efficiently.

Cost of Sales

The Company estimates the fair value of its biological assets, which mostly captures input materials and work in process on crop in field, by using relevant market prices and deducting expected sales cost. The Company also holds crop inventory in storage at net realizable value as estimated by observable market prices or at contracted sales prices as also described above. When crop is sold and revenue is recognized, the book value of crop in inventory or the fair value estimate of the biological asset, if recorded in biological assets as of the start of the reporting period, is recognized as cost of goods sold. The cost of sales for 2013 crop held in the 2014 opening inventory and sold in 2014 therefore constituted the estimated market value of this crop as of 31 December 2013. The 2014 costs of goods sold include both costs of 2013 crop sold in 2014 as well as 2014 crop sold in the calendar year. Unsold 2014 crop in inventory at year end affects the statement of income via a change in net realizable value but does not impact cost of goods sold until revenue is recognized. Before 2014, the cost of sales line in the statement of income included both actual input cost of sales and the valuation adjustment to these costs. As of 2014, the Company splits the actual input cost of sales, in terms of input materials and other direct costs and indirect costs attributed to a certain crop, from the market valuation adjustment to these capitalized input costs. The input costs are also detailed in Note 8 to the financial statements. The cost of sales of any period significantly depends on the crop mixed sold over the period as well as price fluctuations from the prior period closing. In 2014, the underlying costs of goods sold were –26%, partly driven by forex effects, but also by crop mix, with a higher share of corn (38% of revenue) sold in 2014 and wheat in 2013 (34% of revenue).

Other Cost and Expenses

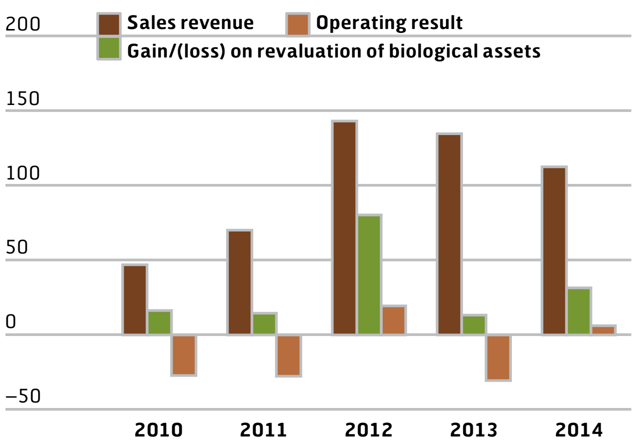
In 2014, distribution expenses were –5% year-on-year to USD 20.3 million on flat export volumes (0% year-on-year) as a weaker ruble reduced costs of the domestic leg of transportation. The Company estimates a positive net-back margin on its export sales, and benefited from the access to hard currency export revenues in 2014. General and administrative costs were up 5% year-on-year despite the weaker ruble as consulting and labour related expenses grew. Taxes other than on profit (including land and property taxes) and state grants and subsidies were relatively stable year-on-year, but fell in USD terms as a result of the weaker ruble. The cost of crop insurance was largely unchanged year-on-year in USD terms but subsidies are recognized only on receipt, causing year-on-year fluctuations in the net expensed amount.

In other income and expenses, the Company posted a USD 6.8 million pre-tax gain on the sale of land and real estate in Voronezh, and a USD 4.4 million on its grain hedging program. The total provision on the potato storage in the fire in 4Q 2014 is estimated at approximately USD 1.5 million. Potato crop damaged in the fire is estimated at another USD 1 million. The total expected damage is substantially lower than initially estimated by the Company as it is expected that more of the facilities can be restored and as more inventory could be sold. The net interest expense was down both as a result of the Company's decision to repurchase bonds, totalling USD 26.7 million in 2014, and due to the weakening of the SEK against the USD. Total costs per ton declined as a result of higher yields, the weaker ruble, dry harvest conditions as well as initiatives to control costs. The 72% and 42% depreciation of the Company's functional currency against the USD and SEK respectively, resulted in a USD 16.5 million FX translation loss.

Result

Despite a challenging operating and macroeconomic environment, Black Earth Farming's operating profit increased USD 36.8 million year-on-year from USD –30.6 million in 2013 to USD 6.2 million in 2014. The improvement in operating performance was driven by gross profit, which grew USD 31.7 million from USD 6.1 million in 2013 to USD 37.8 million in 2014 as the gross margin expanded on higher ruble prices against accumulated input costs and as dry harvesting conditions contained logistical operations and efforts to control costs yielded some results. Total revenue and gains were only down –3% year-on-year to USD 144.4 million, despite a –33% reduction in volume and –16 drop in revenue,

D7: Revenue & Operating Result, USD million



as non-cash gains on biological assets and crop in inventory increased USD 18.3 million year-on-year. Cost of goods sold were down –25% year-on-year as a result of a weaker ruble, crop mix and prior period prices, with 2012 crop sold in 2013 valued at higher prices than 2013 crop sold in 2014. The Company's sale of assets from its Voronezh operations resulted in a USD 6.8 million pre-tax gain, while the grain hedging program generated a USD 4.4 million gain. Below the USD 6.2 million EBIT, net financing costs were down USD 4.2 million year-on-year as a result of the Company's decision to repurchase bonds and due to the weakening of the Swedish krona (SEK) against the USD. The SEK however strengthened 42% against the Russian ruble, resulting in a USD –16.5 million translation loss, driving the bottom line to a negative USD –17.4 million.

T3: Summary Income Statements

USD million	2010	2011	2012	2013	2014
Total Revenue	63.5	85.0	224.1	148.3	144.4
Gross Result	9.3	2.9	54.1	6.1	37.8
EBITDA	(7.3)	(13.5)	34.7	(11.0)	20.8
Operating Result	(27.2)	(27.7)	19.5	(30.6)	6.2
Net Result	(38.5)	(45.7)	7.0	(45.9)	(17.4)

Ruble values for all periods converted at the average CBR RUR/USD foreign exchange rate for the relevant periods.

Assets

Since its inception, Black Earth Farming has invested in (a) acquiring and registering farm land into ownership, (b) a large fleet of high quality western agricultural machinery and (c) supporting storage infrastructure for the Company's operations. The majority of the investments required for the current land bank have been undertaken and future capital expenditures will mainly be driven by needs to maintain the machine park as well as to improve the throughput and efficiency of the storage sites. In addition, the Company expects to invest in expansion of its irrigated root crop business, which made up around half of the Company's 2014 USD 19 million capital expenditure. The 72% depreciation of the Russian ruble over 2014 has had a significant adverse effect on the Company's balance sheet in USD terms. While the land and real estate assets sold in Voronezh in 2Q14 made up around 4% of total assets, most of the 44% decline in total assets was driven by the decline in the value of the Company's functional currency. As the Company believes that this nominal devaluation of the balance sheet potentially understates the underlying value of its real assets, the Company intends to review its approach to treating its land assets with a possible move to fair value in our accounts in the 2015 accounting year.

Fixed Assets

Fixed assets of USD 99.5 million predominantly comprise of PP&E (property, plant and equipment). The key fixed asset categories are buildings (mainly storage facilities) at USD 33.6 million, land held at acquisition cost of USD 29.2 million, and machinery and equipment used in crop production carried at balance sheet value of USD 27.8 million. The reduction in fixed assets from USD 184.6 million at the end of 2013, to USD 99.5 million at the end of 2014, was mostly driven by the 72% depreciation of the Company's functional currency in the Russian ruble against the its presentation currency in the USD, and to a lesser extent by the Company's disposal of land and real estate assets from its operations in Voronezh.

Land

Land is recorded at acquisition cost but the Company believes that Russian agricultural land remains undervalued, both in comparative terms and in relation to its inherent production potential. 13 thousand hectares in Samara, where operations ceased in 2009, was reclassified in the statement of financial position as investment property during Q4 2013

T4: Summary Statement of Financial Position

	mRUR 31 Dec 2014	mRUR 31 Dec 2013	mUSD 31 Dec 2014	mUSD 31 Dec 2013
Land	1,640	1,634	29.2[1]	54.7
Buildings	1,891	1,839	33.6	66.0
Machinery, Equipment & other	1,821	1,744	32.4	56.0
Investment property	157	141	2.8	4.3
Other	87	685	1.5	3.6
Total Non-Current Assets	5,596	6,042	99.5	184.6
Cash	1,850	2,125	32.9	64.9
Inventories	1,876	1,836	33.4	56.1
Biological Assets and land cultivation works	729	577	13.0	17.6
Receivables	878	729	15.6	22.3
Total Current Assets	5,333	5,267	94.8	160.9
Total Assets	10,929	11,309	194.3	345.5
Total Debt	(3,387)	(3,254)	(60.2)	(99.4)
Total Liabilities	(570)	(568)	(10.1)	(17.4)
Equity	(6,973)	(7,487)	(124.0)	(228.7)
Total Equity & Liabilities	(10,929)	(11,309)	(194.3)	(345.5)

1. Includes USD 1.0 million of advance payment for long-term lease.

and valued at USD 2.8 million at the end of 2014. As of 31 December 2014, the Company had a total of 271 thousand hectares under control[1]. 242 thousand hectares, classified as property, plant and equipment and investment property, at an acquisition USD 31.0 million (total cost of land in property, plant and equipment and investment property less prepayment for long-term lease), or USD 128 per hectare. Unlike other fixed assets, land does not depreciate in value over time. In the Company's view, there is potential for a revaluation of Russian agricultural land going forward as the sector develops towards higher standards in terms of both production and profitability and a more transparent secondary market for farm land emerges. During the past two years several larger transactions of Russian farmland have taken place in regions of Russia proximate to the Company's main assets indicating valuations above the Company's book value of land. Black Earth Farming is focused on increasing production potential and generating cash flows from its assets to unlock land value. The Company is also actively looking at opportunities to optimize its land bank by selling less profitable areas and consolidating more productive regions.

Inventory

The Company values its inventory of finished goods at the end of the reporting period at net realisable value, as estimated by observable market prices or at contracted sales prices (excluding 10% VAT) to reflect the market value. A change in net realisable value affects total revenue and gains in the statement of comprehensive income. In addition, cost of goods sold reflects the carrying value of inventory as at the previous reporting date.

As of 31 December 2014, the Company held 144 thousand tons of crops harvested during 2014 and valued at an average price of USD 163 per ton resulting in total fair value estimate of USD 23.5 million. The 2014 year end crop inventory mostly consisted of corn (18%), barley (30%) and wheat (23%). By comparison, in 2013, total crop inventory of finished goods included 190 thousand tons of crops harvested during 2013 and valued at an average price of USD 198 per ton resulting in total fair value estimate of USD 35.6 million. Corn made of 61% of the 2013 year-end crop inventory. The change in balance sheet date exchange rate had a significant impact on the valuation of the Company's inventory. Total inventories also include raw materials to be used in production, including seeds, sprays and fertilizers. At the end of 2014, such input materials were carried USD 9.9 million, compared to USD 20.5 million in 2013.

Biological assets

A way to look at biological assets is as a work in process (WIP) inventory. Depending at what stage of the growth cycle the crop is in, the value is estimated either by incurred costs for field works (cultivations, seeding, fertilizer spreading, herbicide spraying etc.), if little biological transformation occurred, or an estimate of revenue (harvest volume and price per crop less production costs and selling expenses). The revaluation of biological assets is performed in accordance with the requirements of IAS 41 Agriculture, which states that a biological asset shall be measured on initial recognition and at each balance sheet date at its fair value less estimated point-of-sale costs. Black Earth Farming values crops in the fields at incurred costs up until 30 June each year. At that point, sufficient germination (biological transformation) has occurred to enable reasonable estimates of crop yields and market prices less point-of-sale costs are used to estimate a fair value at the time of harvest. The initial revenue estimate is adjusted with a completion factor, typically in the range of 50–80% as of June 30, depending on crop and incurred vs forecasted expenses, as significant risk to crop yield and price remains. Starting from 31 December 2014, the Company reclassified land cultivation works done for the 2015 harvest from biological assets to land cultivation works. The biological assets are now represented only by winter wheat crop in field.

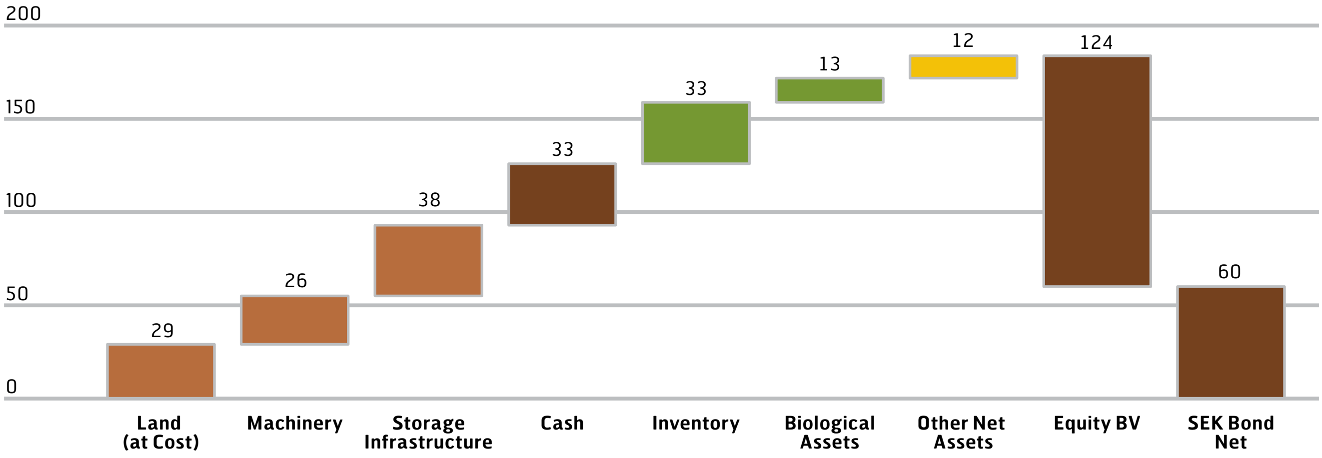
As at 31 December 2014, no 2014 crop was left in field and all harvested but unsold crop was valued at net realisable value in inventory. The biological asset recorded at 31 December 2014 thus consisted of winter wheat for the 2015 harvest. 42 thousand hectares of winter wheat were seeded by 10 of September 2014. Circa 30% either failed to germinate or germinated after late September rain and some 11% has been written off (4.54 thousand Ha or USD 0.2 million). As no reasonable estimate of the yield for such crop could be estimated, it was valued at incurred cost of USD 6.1 million, compared to USD 7.5 million in 2013. Land cultivation works for the 2015 harvest amounted to USD 6.9 million in 2014, compared to USD 10.2 million in 2013.

Financial Position

As of 31 December 2014, the Company had total debt outstanding of USD 60.2 million (or SEK 474 million, excluding bonds held on balance sheet). Its total debt to total equity covenant stood at 49%. The company refinanced its outstanding bond in October 2013, extending maturity to 2017. At 31 December 2014, the Company held USD 35.4 million (SEK 276 million) of its bonds on its own balance. It also had 144 thousand tons of crops at an estimated value of USD 23.5 million. With USD 32.9 million of cash on balance and USD 27.3 million net debt at 31 December 2014, the Company's balance sheet was relatively strong. The Company continues to consider opportunities to attract subsidized Russian bank funding in a credit facility for working capital purposes. Liquidity conditions in Russia however remain tight, as the ruble has devalued and the Central Bank of Russia has raised its key rate to control inflation and support the currency.

1. On 17 March 2015, the Company announced plans to swap 36.6 thousand hectares of controlled land in Lipetsk and Tambov for 24.9 thousand hectares of controlled land in Tambov. The proposed swap also sees the Company swap 20 thousand tons of grain storage for a 30 thousand ton elevator facility in Tambov. Refer also to note 35 to the financial statements on Subsequent events.

D8: Simplified Balance Sheet a/o 31 December 2014, USD million

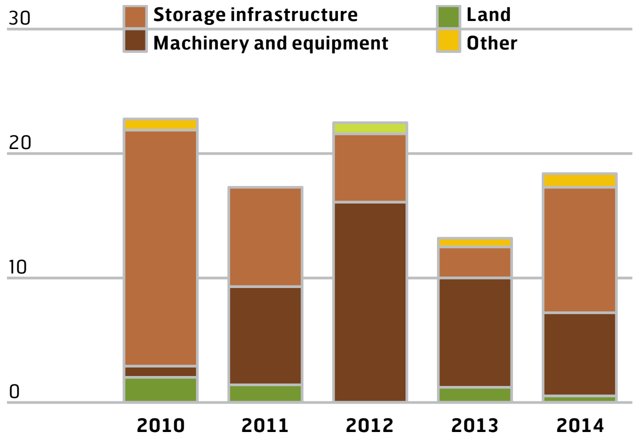


Cash Flow

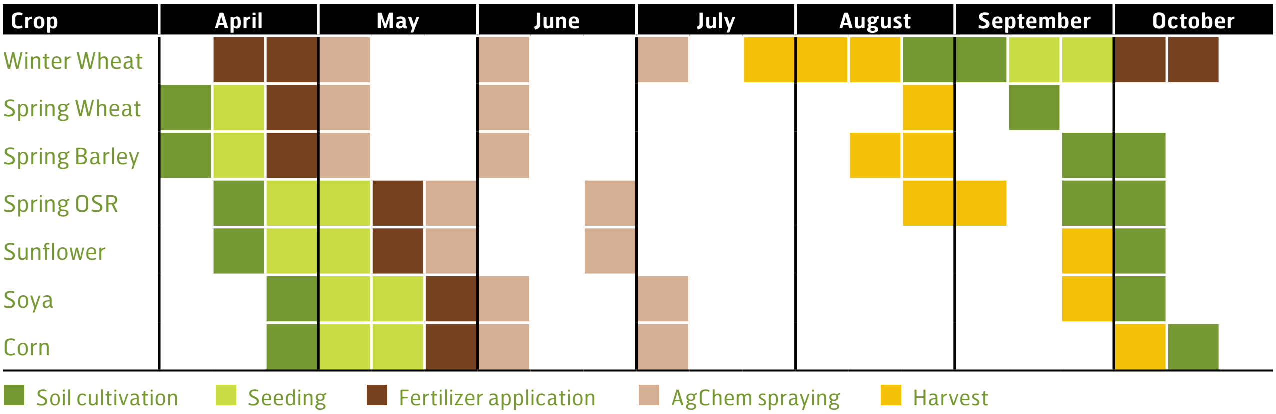
Cash flows from farming operations are highly seasonal and can vary greatly from quarter to quarter. The majority of cash outflows relating to direct operating costs and capital expenditures arise during the late spring and summer period, while revenue inflows commence post-harvest from July and carry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

Despite a stronger gross profit and EBITDA year-on-year, cash flow from operations decreased from USD 12.9 million in 2013 to USD 10.4 million (–20%) in 2014 as a greater share of the operating result was driven by non-cash gains on biological assets and inventory. Also, in 2013, the Company sold prior year inventory (126 thousand tons) at a loss versus the year-end 2012 valuation, but at relatively high prices. In 2014, prior year inventory (178 thousand tons) was sold in line with valuation at no loss, but at lower prices and with less USD cash proceeds than in 2013. The gain (USD 6.8 million) on the sale of the Company's Voronezh assets was not translated into cash as the proceeds were employed to repurchase bonds. Partly as a result of this, net interest payments were lower. Tax payments were however higher off the gain on the sale. As a result, net cash from operating activities was up year-on-year from USD –1.2 million in 2013 to USD 0.9 million in 2014. At USD 19.0 million, 2014 capital expenditures were higher than the USD 12.8 million spent in 2013, as the Company continued to invest in its irrigated root crop project. As mentioned above, the Company employed most of its proceeds from its asset sale to repurchase bonds. In 4Q 2014, the Company repurchased another USD 5.2 million of bonds, bringing the total 2014 repurchases to USD 26.7 million.

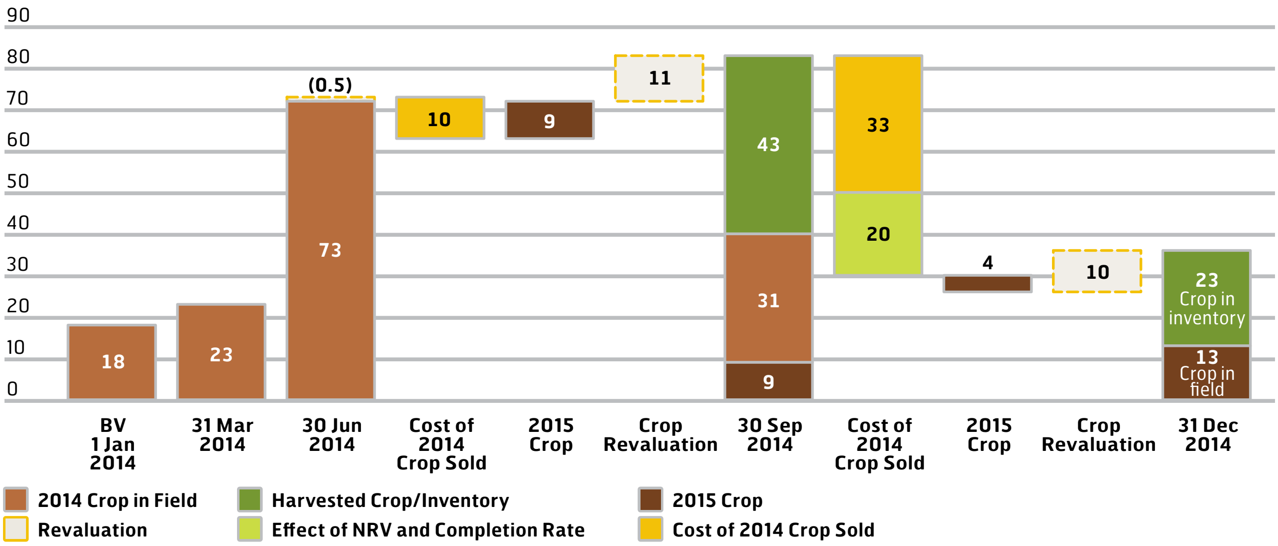
D9: Capital Expenditures, USD million



D10: Farming Schedule (one crop year)



D11: 2014 Crop Value in Statement of Financial Position, USD million



Risks and Sensitivity Analysis

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

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

Operational

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

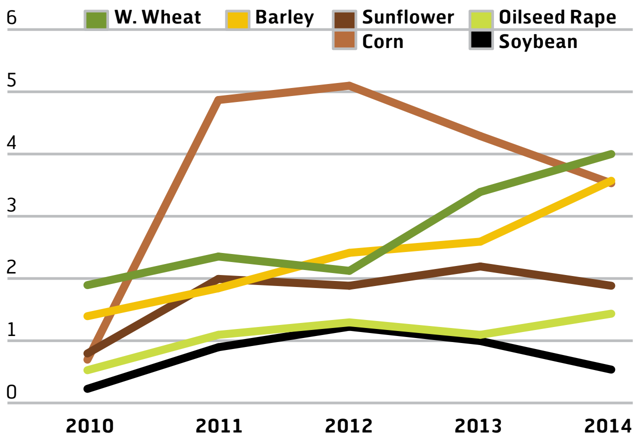
Crop Yields

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

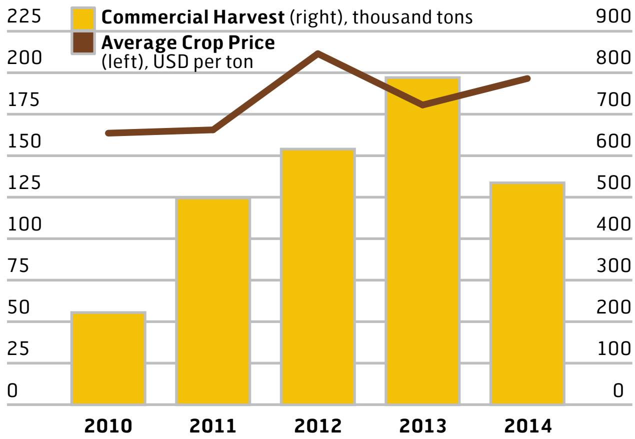
Infrastructure and Logistics

The ability to safely process (mostly drying and cleaning) and properly store its crop production after harvest is an important factor for the Company to manage risks to the quality and value of its crops. Storage and transport infrastructure in Russia is often outdated and inefficient. The Company has therefore invested in internal infrastructure, capable of covering the processing and storage needs for the majority of its expected harvest year crop volumes. Implementation of GPS monitoring is expected to further increase crop and harvest information flow to support decision making and crop handling logistics. Centralized management of harvest, crop handling and storage logistics as well as real time information is key to maintain a proper level of control over some 20 harvesting teams and 40 storage sites across the

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



D2: BEF Crop Volume and Price Development



Company's operations. As Black Earth Farming expands its export program, securing adequate rail transport and port handling capacity is crucial to be able to execute and deliver on contracts with international counterparties. To improve visibility on port capacity, cooperation has been established with an international partner at a deep water port on the Baltic Sea. To manage risks of not being able to access sufficient rail throughput capacity, the Company has diversified its supplier base by contracting from private suppliers alongside the leading State controlled operator.

Employees

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

Market Related

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

Weather

i. Seasonal patterns

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

ii. Climate change

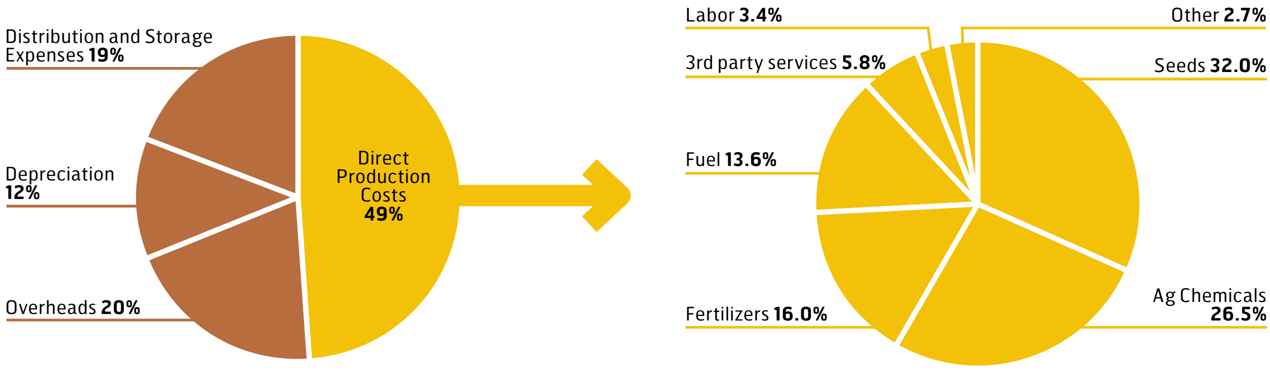
The Food and Agriculture Organization (FAO) of the United Nations expects global warming to have a regional but not a global effect on food production. Current research suggests that the potential for crop production will increase in temperate and northerly latitudes, while it may decline in parts of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

Commodity Prices

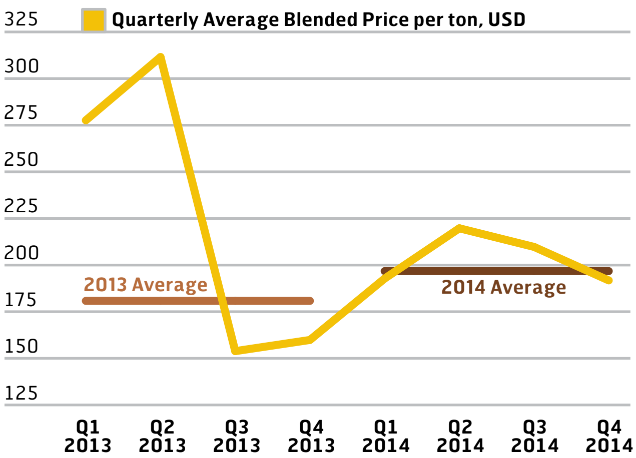
i. Crop Prices

Market prices of agricultural commodities are influenced by a variety of unpredictable factors, most of which are beyond the control of the Company. These include weather, global cropping plans, government agricultural policies and changes to global demand and supply of similar and substitute crops. The markets available to hedge price fluctuations via physical forward sales or using financial instruments remain underdeveloped in Russia, where a majority of sales transactions are still conducted on a spot basis. The Company's export program is a key initiative in this area.

D3: Breakdown of Operating Costs (left) and Direct Production Costs (right), Production Year 2014



D4: BEF Realized Price, USD/ton



The export program serves not only to diversify sales and target an export netback margin, but also to facilitate forward pricing and to develop customer partnerships based on long term contracts. The Company is also actively seeking to develop longer-term supply contracts with reliable domestic counterparties. In October 2012, Black Earth Farming signed a cooperation agreement with PepsiCo in Russia as part of its strategy to establish longer term relationships to manage price and volume risks. The Company intends to expand this type of arrangements and has long-term forward contracts with other counterparties as well.

Where forward sales are not possible, the Company may make use of hedging instruments. In 2013 and 2014, the Company took positions in futures and options on international exchanges in Paris (MATIF) and Chicago (CBOT). The Company's hedging activities primarily serves to lock in a margin over the Company's expected unit costs, reduce price volatility and provide an additional channel to price forward. In deciding whether or not put on price hedges, the Company considers the futures price levels in relation to budgeted costs as well as the broader sales portfolio and market outlook. A sales and marketing committee, including board representatives, convenes regularly to discuss and decide on hedging strategies.

In 2014, the volatility of the Russian ruble on the one hand, and the decision to introduce a levy on wheat exports on the other, has made execution of export sales and domestic forward sales more challenging.

ii. Input Prices

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

Political and Regulatory Risk

Although reform has come a long way in Russia, the agricultural sector both in Russia and globally remains prone to government regulations and policies limiting free trade or affecting market prices. In 2010, Russia enacted an export ban on grains and in 2011, the state reportedly engaged in direct market interventions to reduce crop price volatility. Russia's entry to the World Trade Organization could reduce the probability of trade distortions as was demonstrated in 2012 when no trade restrictions were imposed on grains despite a poor Russian harvest. Geopolitical developments and the position of the Russian Federation in the international community could impact mutual commitment to free trade principles. Following a dry autumn with a weaker outlook for Russia's 2015 wheat crop, and amidst efforts to contain domestic inflation pressure, Russia introduced a levy on wheat exports in the beginning of 2015. Russia has however emphasized the strategic importance of the agricultural sector to its economy and domestic government support for selected sub sectors of Russian agriculture is expected to remain in one form or another.

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

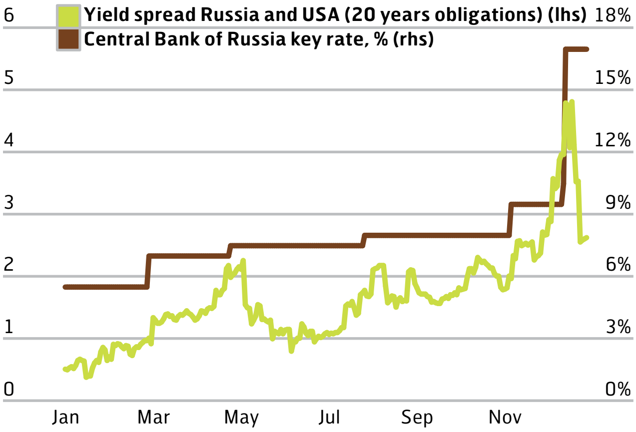
Financial

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

Financing risk

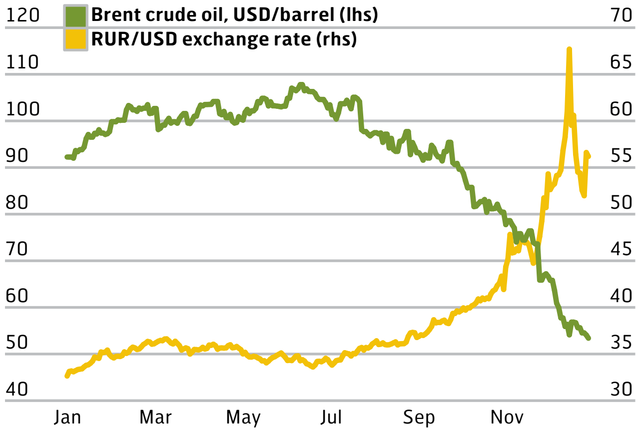
Financing risk refers to the risk of Black Earth Farming being unable to meet its need for new capital. The Company completed a SEK 530 million rights issue in December 2012 to finance investment and working capital needs related to the PepsiCo agreement announced in October. On 30 October 2013, the Company refinanced its outstanding 2014 bond with a new four year SEK 750 million bond, extending maturity to 2017. As of 31 December 2014, the Company held approximately SEK 276 million of the bonds on its balance sheet. Although the Company generated cash from operations before interest and taxes in 2012, 2013 and 2014, there has historically been a dependence of external financing. The Company is actively looking at opportunities to attract subsidized Russian bank funding in a credit facility for working capital purposes. On the back of the deterioration in Russia's macroeconomic environment in 2014, international and domestic funding became more restrictive for businesses operating in Russia. Through 2014, as

D5: Yield spread Russia and USA, Central Bank of Russia key rate 2014



Source: US Treasury, Central Bank of Russia

D6: Brent oil price and ruble exchange rate development 2014



Source: US EIA, Central Bank of Russia

the ruble depreciated sharply, the Russian Central Bank raised key rates from 5.5% to 17.0%, including an overnight increase from 10.5% to 17%. Increases in benchmark rates were carried forward to domestic businesses in Russia, making domestic credit conditions tighter and funding generally more expensive.

Liquidity risk

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

Credit risk

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

Interest rate risk

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

Currency risk

The Group is exposed to currency translation risk as its borrowings, mostly denominated Swedish Krona (SEK), fluctuate against its assets, which are predominantly denominated in the Group's functional currency in the Russian ruble (RUR). The Company is also exposed to transaction risks in its cash flows. These risks were pronounced in 2014, when the Russian ruble depreciated 72% against the USD and 42% against the SEK. With a meaningful part of costs in RUR, the Company has historically hedged part of the fluctuations in its EUR denominated export proceeds using forward contracts. This practice was however discontinued in 2013.

The Company's policy is to make maximum use of natural hedging by seeking asset-liability and cash inflow-outflow matching. To mitigate the translation risks on the Company's balance sheet, this means keeping cash, which is not required for immediate operational purposes, in the same currency as its liabilities (SEK) or in currencies that are highly correlated with the currency of its liabilities. It also means that the Company may gradually seek to reduce its SEK obligations and increase RUR denominated debt. As of 31 December 2014, 94% of the Company's cash was held in hard currency. To mitigate transaction risks in the Company's cash flows, the Company seeks, where possible, to match inflows and outflows. Key cash outflows in currency other than RUR include interest on bonds (SEK), seeds (partly linked to EUR or USD), agrochemicals (partly linked to EUR or USD) and certain capital expenditure items (partly linked to EUR or USD). Key cash inflows in currency other than RUR come from the Company's export revenues (EUR). The Company also recognizes that domestic sales and certain cost items indirectly may be linked to currencies other than the RUR.

The Black Earth Farming share

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

Market listing

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

Voting rights

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

Dividends and dividend policy

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

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

No dividends or other monies payable in respect of an SDR shall bear interest as against the Company unless otherwise provided by the rights attached to the SDRs. Any dividends which have remained unclaimed for a period of ten years from its due date of payment shall, if the Board so resolves, be forfeited and shall cease to remain as a debt for the Company and shall thereafter belong to the Company. The Company has never declared nor paid any cash dividends on its capital stock and currently intends to retain future earnings to fund the development and growth of its business.

Ownership structure

At year-end 2014, Black Earth Farming had about 14,500 shareholders, compared to 14,000 in 2013 and 8,000 in 2012. The 5 largest shareholders accounted for 54.1% of the number of shares and voting rights at the end of 2014, compared to 48.2% in 2013 and 71.2% in 2012. In June 2013, Vostok Nafta, an investment Company that had held 25% of the shares in the Company, distributed its shareholdings in the Company to its shareholders, which explains the increase in the number of shareholders and the lower concentration of ownership.

Trading

A total of 94.5 million SDRs were traded during the period from 1 January 2014 to 31 December 2014, corresponding to a value of SEK 481 million. On average 380 thousand SDRs were traded each business day, corresponding to an average value per day of SEK 1.9 million.

Market Capitalization

Black Earth Farming's market capitalization at 31 December 2014 was SEK 608 million (USD 78 million), compared to SEK 1,339 million (USD 205 million) at year-end 2013 (–55% year-on-year in SEK) and SEK 1,838 million (USD 283 million) at year-end 2012.

2012 Rights Issue

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

2013 Bond

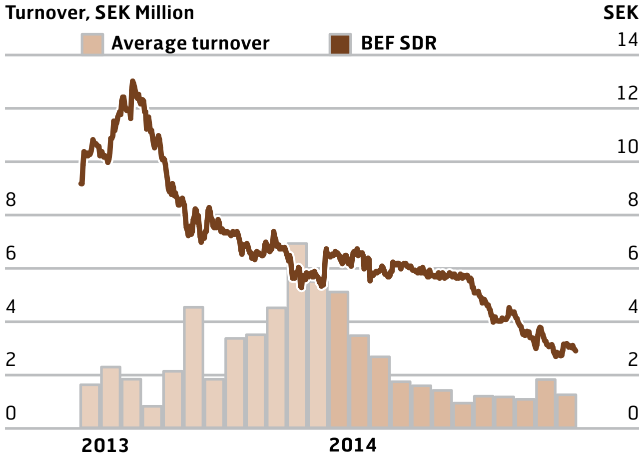
On 30 October 2013, the Company refinanced its outstanding 2014 bond with a new four year SEK 750 million bond, extending maturity to 2017. As of 31 December 2014, the Company held approximately SEK 276 million (USD 35.4 million) of the bonds on its balance sheet.

Analysts Covering Black Earth Farming

Pareto Securities

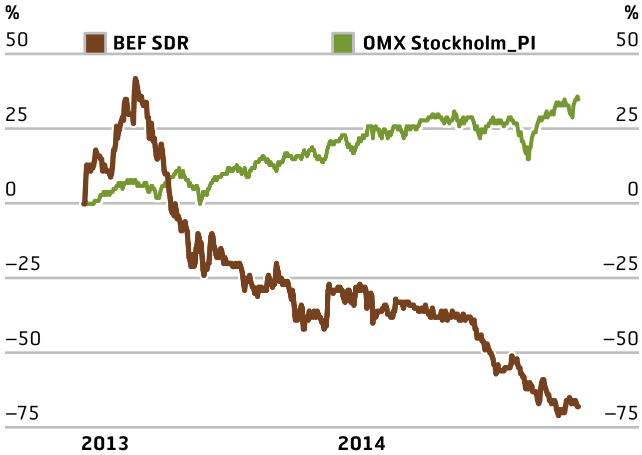
Sergej Kazatchenko , tel: +46-8-402 50 00

D1: BEF share price (in SEK)
and monthly average turnover (in SEK Million)



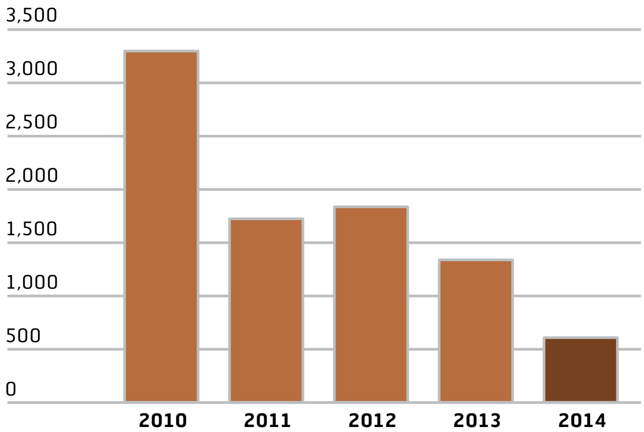
Source: NASDAQ OMX

D2: BEF share performance
vs Stockholm all share index (in %)



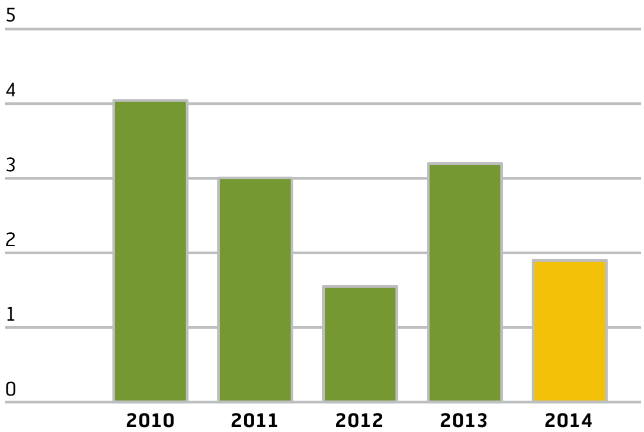
Source: NASDAQ OMX

D3: Market capitalization as per 31 December, MSEK



Source: NASDAQ OMX

D4: Average daily traded volume, MSEK



Source: NASDAQ OMX

T1: 5 largest shareholders as of 31 December 2013

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

Source: Euroclear Sweden share registry and shareholders' reference

T2: 5 largest shareholders as of 31 December 2014

Owner	Holding, Shares/SDRs	Holding, %
1 Investment AB Kinnevik	51,811,828	24.9%
2 GoMobile Nu AB	23,998,461	11.6%
3 Alecta Pension Funds	20,368,000	9.8%
4 Avanza Pension	8,787,072	4.2%
5 Danske Invest Funds	7,560,300	3.6%
5 largest owners	**112,525,661**	**54.1%**
Other, approx 14,500 shareholders	95,143,784	45.9%
Total outstanding	**207,669,445**	**100.0%**

Source: Euroclear Sweden share registry and shareholders' reference

Five Year Summary

Profit & Loss (Million)	2010 RUR	2011 RUR	2012 RUR	2013 RUR	2014 RUR	2010 USD	2011 USD	2012 USD	2013 USD	2014 USD
Sales Revenue	1,430	2,067	4,458	4,307	4,544	47.1	70.3	143.5	135.0	112.8
Change		*45%*	*116%*	*(3%)*	*6%*		*45%*	*116%*	*(6%)*	*(16%)*
Total revenue and gains	1,928	2,499	6,965	4,732	5,972	63.5	85.0	224.1	148.3	144.4
Change		*30%*	*179%*	*(32%)*	*26%*		*34%*	*164%*	*(34%)*	*(3%)*
Gross profit/(loss)	284	86	1,680	196	1,626	9.3	2.9	54.1	6.1	37.8
Margin		*3%*	*24%*	*Neg.*	*27%*		*3%*	*24%*	*Neg.*	*26%*
Operating profit/(loss)	(827)	(813)	605	(975)	338	(27.2)	(27.7)	19.5	(30.6)	6.2
Margin		*Neg.*	*9%*	*Neg.*	*6%*		*Neg.*	*9%*	*Neg.*	*4%*
Profit/(loss) before income tax	(1,232)	(1,303)	287	(1,429)	(584)	(40.6)	(44.3)	9.2	(44.8)	(16.4)
Margin		*Neg.*	*4%*	*Neg.*	*Neg.*		*Neg.*	*4%*	*Neg.*	*Neg.*
Net profit (loss)	(1,171)	(1,342)	218	(1,463)	(618)	(38.5)	(45.7)	7.0	(45.9)	(17.4)
Margin		*Neg.*	*3%*	*Neg.*	*Neg.*		*Neg.*	*3%*	*Neg.*	*Neg.*
Basic profit(loss) per share (RUR/USD)	(9)	(11)	2	(7)	(3)	(0.3)	(0.4)	0.1	(0.2)	(0.1)
Diluted profit(loss) per share (RUR/USD)	(9)	(11)	2	(7)	(3)	(0.3)	(0.4)	0.1	(0.2)	(0.1)

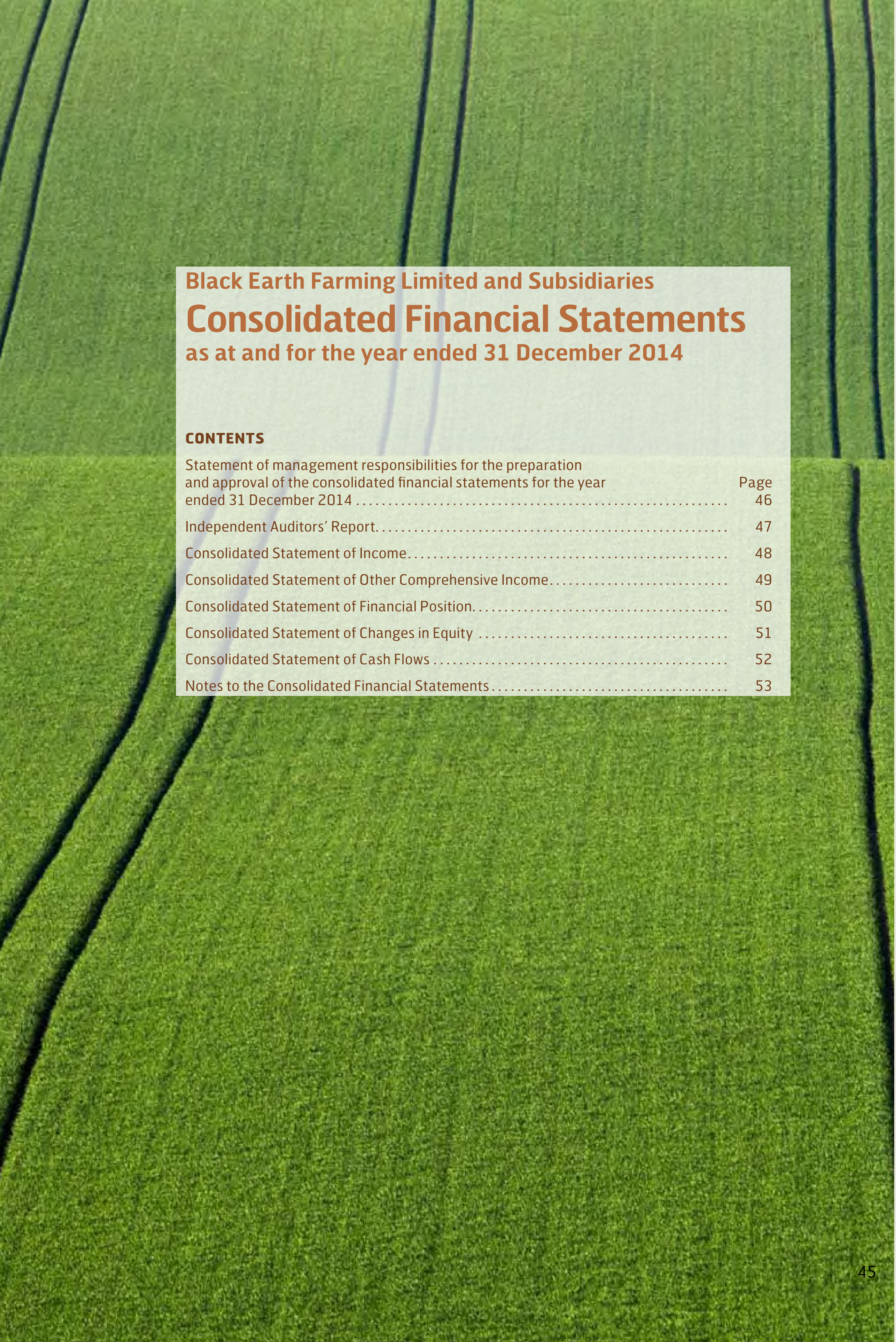
Cash Flows (Million)	2010 RUR	2011 RUR	2012 RUR	2013 RUR	2014 RUR	2010 USD	2011 USD	2012 USD	2013 USD	2014 USD
Cash flows utilised by operating activities	(773)	(1,224)	(92)	(39)	35	(25.5)	(41.6)	(3.0)	(1.2)	0.9
Cash flows utilised by investing activities	(741)	(547)	(554)	(333)	147	(24.4)	(18.6)	(17.8)	(10.4)	5.3
Cash flows from financing activities	1,291	(181)	2,247	(270)	(1,062)	42.5	(6.2)	72.3	(8.4)	(27.3)

Financial position and return (Million/%)	2010 RUR	2011 RUR	2012 RUR	2013 RUR	2014 RUR	2010 USD	2011 USD	2012 USD	2013 USD	2014 USD
Total assets	11,282	10,153	12,822	11,309	10,929	371.5	334.3	422.2	345.5	194.3
Property, plant and equipment	5,922	6,020	6,014	5,785	5,352	195.0	198.2	198.0	176.7	95.1
Cash and cash equivalents	2,983	985	2,639	2,125	1,850	98.2	32.4	86.9	64.9	32.9
Total equity	7,605	6,289	8,905	7,487	6,973	250.4	207.1	293.2	228.7	123.9
Equity per share (RUR/USD)	61.0	50.5	42.9	36.1	33.6	2.0	1.7	1.4	1.1	0.6
Operating cash flows per share (RUR/USD)	(6.2)	(9.8)	(0.4)	(0.2)	0.2	(0.2)	(0.3)	0.0	0.0	0.0
Debt/Equity	43%	52%	36%	43%	48%	43%	52%	36%	43%	48%
Equity/Assets	67%	62%	69%	66%	64%	67%	62%	69%	66%	64%
Non-current loans and borrowings	3,297	3,266	3,162	3,211	3,356	108.6	107.5	104.1	98.1	59.7
Gross margin	15%	3%	24%	4%	27%	15%	3%	24%	4%	27%
Operating profit margin	Neg.	Neg.	9%	Neg.	6%	Neg.	Neg.	9%	Neg.	4%
Net profit margin	Neg.	Neg.	3%	Neg.	Neg.	Neg.	Neg.	3%	Neg.	Neg.
Return on Equity	Neg.	Neg.	3%	Neg.	Neg.	Neg.	Neg.	3%	Neg.	Neg.

Production & Sales	2010	2011	2012	2013	2014
Commercial Harvest area (ha)	179,767	228,900	220,119	225,632	184,191
Year-on-year change		*27%*	*(4%)*	*3%*	*(18%)*
Commercial Harvest (tons)	222,916	499,287	617,578	790,152	549,946
Year-on-year change		*124%*	*24%*	*28%*	*(30%)*
Volumes Sold (tons)	277,694	399,473	683,610	715,415	555,424
Year-on-year change		*44%*	*71%*	*5%*	*(22%)*
End of Period Inventory (tons)	129,124	211,914	131,809	190,360	143,881
% of Commercial harvest	*58%*	*42%*	*21%*	*24%*	*26%*
Average Realised Price per Ton (USD)	164	166	212	186	198
Year-on-year change		*31%*	*28%*	*(13%)*	*7%*

Land Holding (thousand hectares)	2010	2011	2012	2013	2014
Land under Control	328	318	308	308	271
Year-on-Year change, %		*(3%)*	*(3%)*	*0%*	*(12%)*
Land in Full Ownership	250	260	250	254	232
Year-on-Year change, %		*4%*	*(4%)*	*2%*	*(9%)*
Land in Ownership Registration Process	30	18	19	17	10
Year-on-Year change, %		*(40%)*	*3%*	*(8%)*	*(41%)*
Land in Long Term Lease	48	40	40	37	29
Year-on-Year change, %		*(17%)*	*(1%)*	*(6%)*	*(22%)*

Ruble values for all periods converted at the average CBR RUR/USD foreign exchange rate for the relevant periods.



Black Earth Farming Limited and Subsidiaries

Consolidated Financial Statements

as at and for the year ended 31 December 2014

CONTENTS

Statement of management responsibilities

For the preparation and approval of the consolidated financial statements for the year ended 31 December 2014

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

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

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

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- Make an assessment of the Company's ability to continue as a going concern.

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

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

So far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and each Director has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The financial statements were approved by the Board of Directors and authorized for issue on 10 April 2015.

Vigo Carlund
Chairman of the Board

Camilla Öberg
Non-executive Director

Anders Kronborg
Non-executive Director

Poul Schroeder
Non-executive Director

Dmitry Zavgorodniy
Non-executive Director

Independent Auditor's Report

To the shareholders and Board of Directors of Black Earth Farming Limited

We have audited the accompanying consolidated financial statements of Black Earth Farming Limited and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014 and the consolidated statements of income, other comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

ZAO PricewaterhouseCoopers Audit
Alexei Ivanov

Moscow, Russian Federation
10 April 2015

PricewaterhouseCoopers AB
Bo Lagerström

Stockholm, Sweden
10 April 2015

Consolidated Statement of Income

For the year ended 31 December 2014

In thousands of US Dollars	Notes	12m. 2014	12m. 2013
Revenue		112,776	134,981
Gain on revaluation of biological assets to agricultural produce		22,624	13,126
Change in net realizable value of agricultural produce after harvest		9,017	182
Total revenue and gains	7	**144,417**	**148,289**
Cost of sales	8	(81,584)	(110,781)
Effect of revaluations (revaluation of biological assets to agricultural produce and change in net realizable value of agricultural produce after harvest)		(25,022)	(31,379)
Gross profit		**37,811**	**6,129**
Distribution expenses	9	(20,270)	(21,242)
General and administrative expenses	10	(20,353)	(19,350)
Taxes other than income	12	(1,339)	(1,752)
Government grants		2,376	3,591
Crop insurance net of insurance grants	13	(865)	(1,434)
Other income and expenses, net	14	8,853	3,506
Operating profit/(loss)		**6,213**	**(30,552)**
Financial income	15	1,662	1,617
Financial expenses	15	(7,792)	(11,921)
Loss on foreign exchange differences		(16,452)	(3,922)
Loss before income tax		**(16,369)**	**(44,778)**
Income tax expense	16	(1,068)	(1,084)
Loss for the year attributable to owners of the parent		**(17,437)**	**(45,862)**

Loss per share *(amounts are indicated in USD)*

Loss per share, basic and diluted	26	(0.08)	(0.22)

The consolidated statement of income is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 53 to 71.

Consolidated Statement of Other Comprehensive Income
For the year ended 31 December 2014

In thousands of US Dollars	12m. 2014	12m. 2013
Loss for the period	**(17,437)**	**(45,862)**
Other comprehensive loss		
Translation difference	(86,668)	(19,473)
Other comprehensive loss for the period	**(86,668)**	**(19,473)**
Total comprehensive loss for the period attributable to owners of the parent	**(104,105)**	**(65,335)**

The consolidated statement of other comprehensive income is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 53 to 71.

Consolidated Statement of Financial Position

As at 31 December 2014

In thousands of US Dollars	Notes	12m. 2014	12m. 2013	12m. 2012
ASSETS				
Non-current assets				
Property, plant and equipment	18	95,141	176,744	198,013
Intangible assets	19	24	309	80
Biological assets (livestock)	20	431	674	862
Other non-current assets	21	670	2,378	2,932
Deferred tax assets	17	415	195	1,058
Investment property	25	2,792	4,305	–
Total non-current assets		**99,473**	**184,605**	**202,945**
Current assets				
Inventories	22	33,354	56,096	73,057
Biological assets (crop production)	20	6,066	7,468	19,574
Land cultivation works		6,887	10,169	13,552
Trade and other receivables	23	15,604	22,259	22,629
Cash and cash equivalents	24	32,888	64,925	86,885
		94,799	**160,917**	**215,697**
Assets classified as held for sale		–	–	3,528
Total current assets		**94,799**	**160,917**	**219,225**
Total assets		**194,272**	**345,522**	**422,170**
EQUITY AND LIABILITIES				
Equity				
Share capital	26	2,077	2,077	2,077
Share premium	26	524,771	524,771	524,771
Reserves		4,868	6,103	6,784
Accumulated deficit		(232,853)	(215,962)	(171,705)
Translation reserve		(174,914)	(88,246)	(68,733)
Total equity attributable to owners of the parent		**123,949**	**228,743**	**293,194**
LIABILITIES				
Non-current liabilities				
Non-current loans and borrowings	27	58,819	97,359	104,099
Non-current finance lease liabilities	27, 29	461	–	–
Deferred tax liabilities	17	372	737	854
Total non-current liabilities		**59,652**	**98,096**	**104,953**
Current liabilities				
Current loans and borrowings	27	1,380	2,053	5,685
Trade and other payables	28	9,021	15,940	18,338
Current finance lease liabilities	27, 29	270	–	–
Other financial liabilities		–	690	–
Total current liabilities		10,671	18,683	24,023
Total liabilities		**70,323**	**116,779**	**128,976**
Total equity and liabilities		**194,272**	**345,522**	**422,170**

The consolidated statement of financial position is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 53 to 71.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014

	Share capital	Share premium	Equity-settled employee benefits reserve	Cash-flow hedging reserve	Accumulated deficit	Total equity attributable to owners of the parent
Balance as at 1 January 2013	**2,077**	**524,771**	**6,784**	**(171,705)**	**(68,773)**	**293,154**
Loss for the period	–	–	–	(45,862)	–	(45,862)
Other comprehensive loss						
Translation differences	–	–	(483)	–	(19,473)	(19,956)
Total comprehensive loss	–	–	(483)	(45,862)	(19,473)	(65,818)
Reclassification from reserves to accumulated deficit	–	–	(1,605)	1,605	–	–
Recognition of share-based payments	–	–	1,407	–	–	1,407
Balance as at 31 December 2013	**2,077**	**524,771**	**6,103**	**(215,962)**	**(88,246)**	**228,743**
Loss for the period	–	–	–	(17,437)	–	(17,437)
Other comprehensive loss						
Translation differences	–	–	(3,405)	–	(86,668)	(90,073)
Total comprehensive loss	–	–	(3,405)	(17,437)	(86,668)	(107,510)
Reclassification from reserves to accumulated deficit	–	–	(546)	546	–	–
Recognition of share-based payments	–	–	2,716	–	–	2,716
Balance as at 31 December 2014	**2,077**	**524,771**	**4,868**	**(232,853)**	**(174,914)**	**123,949**

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 53 to 71.

Consolidated Statement of Cash Flows

For the year ended 31 December 2014

In thousands of US Dollars	Notes	Year ended 31 Dec 2014	Year ended 31 Dec 2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the year		(17,437)	(45,862)
Adjustments for:			
Income tax expense		1,068	1,084
Depreciation and amortisation		14,553	18,779
Change in allowance for doubtful debts		1,460	50
Foreign exchange loss		16,452	3,922
Interest income		(871)	(1,617)
Interest expense		7,792	11,921
Gain on disposal of property, plant and equipment		(6,237)	(440)
Gain on revaluation of investment property		(498)	(55)
Share based payments		1,035	1,407
Loss on disposal of subsidiary		262	–
Loss on fire in the warehouse		1,537	–
Change in value of biological assets and agricultural produce	7	(31,641)	(13,308)
Effect of revaluations on cost of goods sold		25,022	31,379
		12,497	**7,260**
Movements in working capital:			
Decrease/(increase) in inventories		8,371	(5,697)
(Increase)/decrease in biological assets		(4,095)	13,543
Increase in trade and other receivables		(6,364)	(1,572)
Decrease in trade payables and other short-term liabilities		(33)	(585)
Cash generated from operations		10,376	12,949
Interest paid		(7,907)	(13,967)
Income tax paid		(1,600)	(213)
Net cash generated from/(used in) operating activities		**869**	**(1,231)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		912	1,617
Acquisition of land plots		(591)	(72)
Acquisition of property, plant and equipment		(18,402)	(12,390)
Proceeds from disposal of property, plant and equipment		20,683	710
Acquisition of intangible assets		(54)	(312)
Proceeds from disposal of subsidiary net of cash disposed of		2,763	–
Net cash generated from/(used in) investing activities		**5,311**	**(10,447)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from the issue of bonds		–	60,348
Repurchase of bonds		(26,656)	(68,797)
Settlement of obligations under finance lease agreements		(608)	–
Net cash used in financing activities		**(27,264)**	**(8,449)**
Net decrease in cash and cash equivalents		**(21,084)**	**(20,127)**
Cash and cash equivalents at the beginning of the period	24	64,925	86,885
Currency translation differences on cash and cash equivalents		12,734	4,019
Effect of foreign currency exchange differences		(23,687)	(5,852)
Cash and cash equivalents at the end of the period	24	**32,888**	**64,925**

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 53 to 71.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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 Nautilus House, La Cour des Casernes, St. Helier JE1 3NH, Channel Islands.

The Group's activities include farming, production of crops (corn, wheat, sunflower, rape and other) 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.

(b) Russian business environment

The Russian Federation's economy continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that in practice is not freely convertible in most countries outside the Russian Federation, and relatively high inflation. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretations.

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.

The future economic direction of the Russian Federation is partly dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

During 2014, the Russian economy was negatively impacted by a decline in oil prices and ongoing political tension in the region and international sanctions against certain Russian companies and individuals. As a result, during 2014:

- the Central Bank of the Russian Federation (CBRF) exchange rate fluctuated between RUR 32.6587 and RUR 67.7851 per USD;
- the CBRF key interest rate increased from 5.5% to 17.0% p.a. including an overnight increase from 10.5% to 17% p.a. on 16 December 2014;
- the RTS stock exchange index declined from 1,443 on 1 January 2014 to 791 on 31 December 2014;
- access to international financial markets to raise funding was limited for certain entities; and
- capital outflows increased compared to prior years.

The financial markets continue to be volatile and are characterized by frequent significant price movements and increased trading spreads. Subsequent to 31 December 2014:

- the CBRF exchange rate fluctuated between RUR 56.2376 per USD and RUR 69.6640 per USD;
- Russia's credit rating was downgraded by Fitch Ratings in January 2015 to BBB–, while Standard & Poor's downgraded it to BB+ and Moody's Investors Service downgraded it to Ba1, putting it below investment grade for the first time in a decade. Fitch Rating still has Russia as investment grade. However, all rating agencies indicated a negative outlook, meaning further downgrades are possible;
- the RTS stock exchange index increased from 791 to 950 on 6 April 2015;
- bank lending activity decreased as banks are reassessing the business models of their borrowers and their ability to withstand the increased interest and exchange rates;
- the CBRF key refinancing interest rate decreased from 17.0% p.a. to 14% p.a; and
- starting from 1 February 2015, a customs duty has been introduced on wheat export of 15% plus EUR 7.5 but no less than EUR 35 per ton.

These events may have a further significant impact on the Group's future operations and financial position, the effect of which is difficult to predict. The future economic and regulatory situation and its impact on the Group's operations may differ from management's current expectations. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business.

2. BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of preparation

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

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

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

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

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

(c) Functional and presentation currency

The functional currency of the Group entities is considered to be the Russian Rouble ("RUR"), the currency of the primary economic environment in which the Group operates.

Starting from 1 January 2014 the presentation currency was changed from Russian Rouble to US Dollar ("USD"), which the Board considers more representative for the users of these financial statements and that facilitates a translation that is consistent with the principles with the IFRS standards and is auditable. All the financial information in these condensed consolidated financial

statements, including comparative information, has been translated from RUR into USD using the exchange rates set by the Central Bank of the Russian Federation, as follows:
– Assets and liabilities for each balance sheet date are translated at the closing rate at the date of that balance sheet;
– Share capital and other equity components, except for reserves translated at the closing rate at the date of the balance sheet, 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 the other comprehensive income and accumulated as a separate component of equity

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

	2014	2013
RUR/USD average for the year ended 31 December	38.6025	31.9112
RUR/USD as at 31 December	56.2584	32.7292
RUR/SEK average for the year ended 31 December	5.5950	5.0145
RUR/SEK as at 31 December	7.2021	4.8979

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of consolidation

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

Subsidiaries

Subsidiaries are entities controlled by the Group. Control is achieved when the Company:
– Has power over the investee;
– Is exposed, or has rights, to variable returns from its involvement with the investee; and
– Has the ability to use its power to affect its returns.

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

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:
– The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
– Potential voting rights held by the Company, other vote holders or other parties;
– Rights arising from other contractual arrangements; and
– Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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

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

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

Transactions eliminated on consolidation

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

(b) Business combinations

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

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

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

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognized as of that date.

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

(c) Goodwill

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

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

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

(d) Foreign currency transactions

The functional currency of the Group entities is considered to be the Russian Rouble ("RUR"), the currency of the primary economic environment in which the Group operates.

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

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

(e) Financial instruments

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

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

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

Held-to-maturity investments

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

Loans and receivables

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

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

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

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

A financial instrument other than a financial instrument held for trading may be designated as at FVTPL upon initial recognition if:
– Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
– The financial instrument forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
– It forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract to be designated as at FVTPL.

Financial instrument at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial instrument and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in note 30.

Other

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

Effective interest method

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

(f) Property, plant and equipment

Owned assets

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

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

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

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

Repairs and maintenance

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

Depreciation

Depreciation is recognized in profit and loss on a straight-line basis over the estimated useful lives of each item of property, plant and equipment.

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

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

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

(g) Investment property

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

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

(h) Non-current assets held for sale

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

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

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

(i) Intangible assets

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

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

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

(j) Inventories and biological assets

Biological assets – Agricultural produce

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

At point of harvest, which for each crop is deemed to be the last date of gathering the crop, the fair value measurement of agricultural produce as described above is deemed to be the initial cost of the harvest for subsequent accounting. Subsequent to harvest, agricultural produce is measured at net realizable value according to IAS 2 (see also section on *Inventories* below).

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

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

Biological assets – Livestock

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

Other inventories

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

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

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

(k) Impairment

Financial assets

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

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

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

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

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

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

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

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

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

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

The warrant program allows the Group's employees to acquire shares of the Company.

The warrant expenses are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed (as employee expense) on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of the reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

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

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

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

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

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

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

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

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

(q) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred and are subsequently carried at amortised cost using the effective interest method.

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

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

(r) Government grants

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

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

(s) Leasing

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

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

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

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

(t) Earnings per share

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

(u) Adoption of new and amended Standards

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2014.

- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27);
- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32);
- Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36);
- Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39);
- IFRIC 21 Levies.

The changes had no material impact on the measurements of the Group's assets and liabilities or disclosures.

(v) New accounting pronouncements

A number of new Standards and amendments to Standards were not yet effective for the year ended 31 December 2014, and have not been applied in these consolidated financial statements.

Standards	Effective for annual periods beginning on or after
Defined Benefit Plans: Employee Contribution – Amendments to IAS 19	1 June 2014
Annual Improvements to IFRSs 2012 – 2013	1 July 2014
Annual Improvements to IFRSs 2014	1 January 2016
IFRS 14 Regulatory Deferral Accounts	1 January 2016
IFRS 11 Accounting for Acquisition of Interests in Joint Operations – amendment	1 January 2016
IAS 36 and IAS 16 Clarification of Acceptable Methods of Depreciation and Amortization – amendment	1 January 2016
IAS 16 and IAS 41 Agriculture: Bearer Plants – amendment	1 January 2016
IFRS 15 Revenue from Contracts with Customers – new standard	1 January 2017
Agriculture: Bearer plants – Amendments to IAS 16 and IAS 41	1 January 2016
IFRS 9 Financial Instruments – new standard	1 January 2018
Equity Method in Separate Financial Statements – Amendments to IAS 27	1 January 2016
IFRS 9 Financial Instruments – new standard	1 January 2018
Disclosure Initiative Amendments to IAS 1	1 January 2016

Management is currently assessing the impact of the adoption of the pronouncements listed above on the Group's consolidated financial statements in future periods.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

(a) Biological assets and agricultural produce

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

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

The next year crop, which was seeded in the autumn of the previous year has typically undergone limited biological transformation as of 31 December. The fair value of such biological assets is therefore estimated by actual incurred costs. The carrying value of the year 2015 crop amounted to USD 6,066 thousand as at 31 December 2014.

(b) Income tax

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

The Group's management assessed all current unused tax losses as non-recoverable. The Group maintains the legal right to use such tax losses in the future, up to the date allowed by the tax law. Management determined that deferred tax assets relating to such tax losses would be reconsidered for recognition as deferred tax assets once the Group reaches stable profitability during several years.

(c) Impairment of assets

Considering the negative financial results for 2014, the Group carried out a review of the recoverable amount of its property, plant and equipment used in agricultural activity. For the purpose of this review, recoverable amounts of the cash-generating units to which the assets belong were determined with an involvement of an independent appraiser, who hold a recognized and relevant professional qualification and who have experience in valuation of assets of similar location and category. The recoverable amounts were measured by reference to the quoted prices in an active market for identical assets. Reportable operating segments were considered to be cash-generating units (Note 6).

Based on the review, the Group concluded that no impairment loss is required. This conclusion primarily related to the fact that the Group's property, plant and equipment included land carried at historical cost of USD 29,160 thousand, whereas recoverable amount of this land amounted to USD 100,260 thousand, which exceeded total carrying value of property, plant and equipment as of 31 December 2014 of USD 95,141 thousand. This conclusion was relevant for each of the Group's cash-generating units.

(d) Investment property

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

(e) Going concern

Management prepared these consolidated financial statements on a going concern basis. In making this judgement, management considered the Group's financial position, current intentions, profitability of operations and access to financial resources, and analysed the impact of the situation in the financial markets on the operations of the Group.

5. PRIOR YEAR CHANGES

Reclassifications

During 2014 the Group reviewed the classification of biological assets at the date of 31 December, when seeding has only been completed for winter crops (notably winter wheat), and concluded that it would be more appropriate to classify expenses capitalized for other crops harvest as land cultivation works.

in thousands of US Dollars	**Before reclassification**	**Reclassification**	**After reclassification**
Impact as of 31 December 2013			
Biological assets (crop production)	17,637	(10,169)	7,468)
Land cultivation works	–	10,169	10,169
Impact as of 31 December 2012			
Biological assets (crop production)	33,126	(13,552)	19,574
Land cultivation works	–	13,552	13,552

6. SEGMENT INFORMATION

The operating segments definitions were developed by senior management in order to enable effective and efficient operating performance based on the geographic and sub-climatic 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 the Tambov segment, as the entity's result is not material as a single operating segment.

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

Land plots, classified as investment property as of 31 December 2014 are located in Samara region and attributed to Tambov segment (Note 25).

The current income tax expense related to the taxable gain on assets sale in Voronezh region and attributed to Voronezh segment (Note 14).

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 have been reflected as corporate assets.

The segments are consistent with the internal management reporting to the senior management team, as headed by the Chief Executive Officer of Black Earth Farming Limited.

(a) Segment revenues and results

in thousands of US Dollars	Revenue from external sales 12 m. 2014	Inter-segment revenue 12 m. 2014	Depreciation and amortization 12 m. 2014	Net result 12 m. 2014
Agricultural companies				
– Voronezh region	16,826	3,243	2,369	(472)
– Kursk region	35,126	1,872	3,516	9,161
– Lipetsk region	37,128	1,610	3,218	4,195
– Tambov region	23,338	837	2,673	802
Elevators	358	5,233	2,501	(1,185)
Total	**112,776**	**12,795**	**14,277**	**12,501**
General administrative costs including directors' salaries				(15,141)
Other income and expenses				8,853
Net financial expenses and loss on foreign exchange differences				(22,582)
Loss before income tax				**(16,369)**

in thousands of US Dollars	Revenue from external sales 12 m. 2013	Inter-segment revenue 12 m. 2013	Depreciation and amortization 12 m. 2013	Net result 12 m. 2013
Agricultural companies				
– Voronezh region	27,981	3,350	3,492	(5,988)
– Kursk region	43,292	1,265	3,945	(2,786)
– Lipetsk region	42,792	1,164	4,166	(2,279)
– Tambov region	20,850	2,119	3,416	(7,819)
Elevators	66	9,621	3,623	38
Total	**134,981**	**17,519**	**18,642**	**(18,834)**
General administrative costs including directors' salaries				(15,224)
Other income and expenses				3,506
Net financial expenses and loss on foreign exchange differences				(14,226)
Loss before income tax				**(44,778)**

Current tax expense of USD 1,872 thousand is attributable to Voronezh region.

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

(b) Segment assets

in thousands of US Dollars	31 Dec 2014	31 Dec 2013	31 Dec 2012
Agricultural companies			
– Voronezh region	19,380	52,146	64,212
– Kursk region	43,042	68,505	86,834
– Lipetsk region	45,238	71,697	74,194
– Tambov region	27,723	48,577	55,506
Elevators	22,857	47,065	52,357
Total segment assets	**158,240**	**287,990**	**333,103**
Corporate assets	36,032	57,532	89,067
Consolidated total assets	**194,272**	**345,522**	**422,170**

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

(c) Revenues from major products

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

in thousands of US Dollars	12 m. 2014	12 m. 2013
Corn	42,215	16,523
Wheat	21,871	45,006
Sunflowers	20,914	30,266
Spring rape seed	8,898	11,595
Barley	6,840	9,369
Soya	4,278	7,246
Potatoes	3,212	1,245
Peas	1,627	839
Milk and meat	974	1,466
Sugar-beet	–	10,529
Other goods and services	1,719	687
Other and waste grains	228	210
	112,776	**134,981**

(d) Geographical information

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

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

in thousands of US Dollars	12 m. 2014
Russian Federation	84,897
Turkey	6,783
Denmark	6,356
United Kingdom	4,349
Germany	3,518
Latvia	2,885
Spain	2,046
Norway	1,175
Sweden	428
Estonia	226
Finland	113
	112,776

7. REVENUE AND GAINS

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

in thousands of US Dollars	12 m. 2014	12 m. 2013
Revenue from sales of crop production	110,083	132,828
Revenue from sales of milk and meat	974	1,466
Revenue from sales of other goods and services	1,719	687
Gain on revaluation of biological assets to agricultural produce	22,624	13,126
Change in net realizable value of agricultural produce after harvest	9,017	182
	144,417	**148,289**

The gain on revaluation of biological assets to agricultural produce comprises:

in thousands of US Dollars	12 m. 2014	12 m. 2013
Fair value less point-of-sale costs at date of harvest	88,327	125,030
Actual production costs	(65,654)	(111,879)
Revaluation of biological assets to agricultural produce	**22,673**	**13,151**
Fair value of current year crop to be harvested less point-of-sale costs	–	627
Actual production costs	–	(689)
Revaluation of agricultural produce in the process of harvesting	**–**	**(62)**
Revaluation of dairy and meat livestock	(49)	37
Gain on revaluation of biological assets to agricultural produce	**22,624**	**13,126**

8. COST OF SALES

in thousands of US Dollars	12 m. 2014	12 m. 2013
Materials	54,442	72,057
Depreciation and amortization charge	11,836	15,584
Personnel expenses	7,903	10,460
Third party crop handling services	3,131	6,485
Taxes	999	1,221
Operating leases (Note 31)	845	1,168
Repair expenses	713	1,001
Crops not harvested due to damages on fields	317	1,455
Other expenses	1,398	1,350
	81,584	**110,781**

9. DISTRIBUTION EXPENSES

in thousands of US Dollars	12 m. 2014	12 m. 2013
Transportation and delivery services	10,689	13,610
Depreciation and amortization charge	2,282	2,924
Personnel expenses	1,232	1,446
Materials	1,017	1,084
Storage and other elevator's services	3,898	896
Other services	1,152	1,282
	20,270	**21,242**

10. GENERAL AND ADMINISTRATIVE EXPENSES

in thousands of US Dollars	12 m. 2014	12 m. 2013
Personnel expenses	11,369	11,471
Consulting and audit	3,993	3,888
Office and administration expenses	2,172	1,714
Travelling expenses	835	628
Rent expenses	742	800
Depreciation and amortization	435	271
Termination payments	233	34
Other services	574	544
	20,353	**19,350**

11. PERSONNEL EXPENSES

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

in thousands of US Dollars	12 m. 2014	12 m. 2013
General and administrative expenses:		
Salaries	9,971	10,142
Social taxes	1,632	1,363
Cost of sales and work in progress:		
Salaries	7,771	10,460
Social taxes	2,210	2,979
Selling expenses:		
Salaries	944	1,086
Social taxes	288	360
	22,816	**26,390**

Personnel expenses for 2014 and 2013 include share-based payment expenses (see Note 26 (d)) of USD 1,035 thousand and USD 1,384 thousand respectively.

Average number of employees	**12 m. 2014**	**Of whom men**	**12 m. 2013**	**of whom men**
Parent (Jersey)	11	100%	12	92%
Subsidiaries (Russia)	1,770	78%	1,997	79%
Group total	**1,781**	**78%**	**2,009**	**79%**

The total number of Group employees as at 31 December 2014 was 1,746 (2,043 at 31 December 2013).

Proportion of women in management	**2014**	**2013**
	Percentage of women	*Percentage of women*
Board of directors	20%	14%
Other senior executives	13%	10%

Retirement benefit plans

The statutory retirement age for employees is 55 years for women and 60 years for men, in accordance with the Russian Labor Code. The Group does not offer a private pension plan to its employees. In accordance with Russian tax legislation, the Group pays statutory social security tax (at a maximum rate of 30% of the taxable annual income lower than RUR 568 thousand and an additional 10% of the taxable annual income above RUR 568 thousand). This tax is regressive and comprises social insurance, contributions to the State Pension Fund and the State Medical Fund. The total expense recognized in statement of comprehensive income of USD 4,130 thousand and USD 4,702 thousand represent contributions payable to the State Pension Fund during 2014 and 2013, respectively. The Group has not reserved or accrued for pension, retirement or similar benefit obligations to Directors or senior executives. No Directors or senior executives have service contracts with the Group which offers them benefits upon termination of their respective appointments.

Termination of employment

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

12. TAXES OTHER THAN INCOME

in thousands of US Dollars	12 m. 2014	12 m. 2013
Property tax	1,247	1,504
Unrecoverable VAT	80	172
Other taxes	12	76
	1,339	**1,752**

13. CROP INSURANCE NET OF INSURANCE GRANTS

in thousands of US Dollars	12 m. 2014	12 m. 2013
Crop insurance expense	1,501	2,646
Crop insurance grants	(636)	(1,211)
	865	**1,434**

14. OTHER INCOME AND EXPENSES

in thousands of US Dollars	12 m. 2014	12 m. 2013
Gain on assets sale in Voronezh region	6,750	–
Income on grain hedge	4,363	4,242
Gain on revaluation of investment property	498	55
Fines and penalties received	491	10
Gains related to disposal of other assets	184	77
Write-off accounts receivable or payable	91	(494)
Result on disposal of property, plant and equipment	86	440
Donations	(67)	(72)
Loss on foreign exchange hedge	(120)	(925)
Change in bad debts provision	(1,460)	(50)
Loss on fire in potato storage	(1,537)	–
Other income and expenses	(426)	223
	8,853	**3,506**

Gain on assets sale in Voronezh region

In April 2014 the Group finalized the sale of land and related real estate assets in subsidiaries OOO Podgornoe Agro-Invest, OOO Ostrogozhsk Agro-Invest and OOO Nedvizhimost Agro-Invest in the Voronezh region. As a result of this transaction, Black Earth Farming sold land and real estate with a net book value of USD 13,148 thousand for a total cash consideration received of USD 20,165 thousand, realizing a gain of USD 7,017 thousand.

In June 2014 the Group finalized the sale of subsidiary OOO Kalach Agro-Invest in the Voronezh region. The details of the disposed assets and liabilities are as follows:

in thousands of US Dollars	17 Jun 2014
Property, plant and equipment	1,555
Other non-current assets	1,300
Biological assets (crop production)	847
Cash and cash equivalents	571
Other current assets	120
Trade and other payables	(767)
Net assets of subsidiary	**3,626**
Cash consideration received	3,359

These transactions were completed as a part of the Group's strategy for optimization of land bank and profitability.

The income tax related to these transactions amounted to USD 1,872 thousand.

Loss on fire in potato storage

A fire broke out at one of the potato storage sites on 27 October 2014. The loss related to damages to the plant, property and equipment damaged was estimated at USD 1,537 thousand. No personnel were injured in the incident.

15. FINANCIAL INCOME AND EXPENSES

in thousands of US Dollars	12 m. 2014	12 m. 2013
Financial income		
Interest income on deposits	871	1,617
Income on repurchase of bonds	791	–
	1,662	**1,617**
Financial expenses		
Interest on bonds	(7,778)	(11,546)
Loss on repurchase of bonds	–	(357)
Interest expense	(14)	(18)
	(7,792)	**(11,921)**
Net financial items	(6,130)	(10,304)

16. INCOME TAX

Black Earth Farming Limited (the holding Company in Jersey), Black Earth Trading International and Planalto Enterprises Limited (subsidiaries in Guernsey and Cyprus) are subject to the following tax rates: 0% in Jersey and Guernsey and 10% in Cyprus.

Companies domiciled in Russia that do not have the status of an agricultural producer are subject to a 20% corporate income tax. Companies domiciled in Russia that do have the status of an agricultural producer are exempt from corporate income tax on profits realized from the sale of agricultural produce.

In 2014 and 2013, seven (nine in 2013) of the Group's total thirty three local operating companies were granted the status of agricultural producers, making these companies exempt from corporate income tax in accordance with the Russian Tax Code.

in thousands of US Dollars	12 m. 2014	12 m. 2013
Current tax expense	1,872	370
Deferred tax (benefit)/expense	(804)	714
Income tax expense	**1,068**	**1,084**

The income tax reconciliation is presented below:

in thousands of US Dollars	12 m. 2014	12 m. 2013
Loss before income tax	(16,369)	(44,778)
Income tax at applicable tax rate of 20%	(3,274)	(8,956)
Effects of different tax rates in other countries	3,606	7,543
Effect of non-deductible expenses and other permanent differences	784	1,596
Effect of previously unrecognized and unused tax losses now recognized and used	(313)	(382)
Change in unrecognized deferred tax assets	265	1,283
Income tax expense	**1,068**	**1,084**

17. DEFERRED TAX ASSETS AND LIABILITIES

(a) Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

in thousands of US Dollars	Assets			Liabilities		
	31 Dec 2014	31 Dec 2013	31 Dec 2012	31 Dec 2014	31 Dec 2013	31 Dec 2012
Property, plant and equipment and Investment property	339	–	205	(253)	(735)	(709)
Trade and other payables	33	85	516	(85)	(2)	–
Trade and other receivables	28	4	120	–	–	(145)
Inventory	15	106	217	(34)	–	–
Net tax assets/(liabilities)	**415**	**195**	**1,058**	**(372)**	**(737)**	**(854)**

in thousands of US Dollars	Net		
	31 Dec 2014	31 Dec 2013	31 Dec 2012
Property, plant and equipment and Investment property	86	(735)	(504)
Trade and other payables	(52)	83	516
Trade and other receivables	28	4	(25)
Inventory	(19)	106	217
Net tax assets/(liabilities)	**43**	**(542)**	**204**

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

(b) Unrecognized deferred tax assets

in thousands of US Dollars	31 Dec 2014	31 Dec 2013	31 Dec 2012
Deductible temporary differences	76	–	–
Tax losses carried forward	3,980	6,690	5,861
	4,056	**6,690**	**5,861**

In the context of the Group's current structure, tax losses and current tax assets of different Group companies may not be offset against current tax liabilities and taxable profits of other Group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

18. PROPERTY, PLANT AND EQUIPMENT

in thousands of US Dollars	Land	Buildings	Machinery and equipment	Vehicles	Fixtures and fittings	Construction in progress	Total
Cost							
Balance as at 1 January 2013	59,451	89,092	108,999	12,328	1,382	4,474	275,725
Additions	1,239	1,552	9,037	627	104	1,009	13,568
Disposals	(301)	(107)	(623)	(57)	(88)	(252)	(1,428)
Transfers to investment property (Note 25)	(1,001)	–	–	–	–	–	(1,002)
Transfers between categories	(164)	1,051	23	32	25	(967)	–
Effect of foreign currency exchange differences	(4,275)	(6,478)	(8,059)	(902)	(100)	(319)	(20,133)
As at 31 December 2013	**54,947**	**85,110**	**109,377**	**12,028**	**1,323**	**3,945**	**266,730**
Additions	573	1,924	6,856	1,665	29	9,294	20,341
Disposals	(4,908)	(11,507)	(1,211)	(170)	(147)	(2,039)	(19,982)
Transfers between categories	18	2,636	214	78	7	(2,953)	–
Effect of foreign currency exchange differences	(21,349)	(32,543)	(48,005)	(5,628)	(523)	(3,680)	(111,728)
As at 31 December 2014	**29,281**	**45,620**	**67,231**	**7,973**	**689**	**4,567**	**155,361**
Accumulated depreciation and impairment							
Balance as at 1 January 2013	(224)	(15,683)	(52,208)	(8,651)	(947)	–	(77,713)
Depreciation charge	–	(4,714)	(12,802)	(1,391)	(146)	–	(19,053)
Adjustment to depreciation of disposed fixed assets	–	18	592	46	70	–	726
Effect of foreign currency exchange differences	16	1,247	4,064	657	70	–	6,054
As at 31 December 2013	**(208)**	**(19,132)**	**(60,354)**	**(9,339)**	**(953)**	**–**	**(89,986)**
Depreciation charge	–	(3,992)	(10,801)	(1,063)	(115)	–	(15,971)
Adjustment to depreciation of disposed fixed assets	–	2,715	1,286	95	131	–	4,227
Impairment	–	150	–	–	–	–	150
Effect of foreign currency exchange differences	87	8,253	28,406	4,219	394	–	41,359
As at 31 December 2014	**(121)**	**(12,006)**	**(41,463)**	**(6,088)**	**(543)**	**–**	**(60,220)**
Net book value							
As at 1 January 2013	59,227	73,409	56,791	3,677	435	4,474	198,013
As at 31 December 2013	54,739	65,978	49,023	2,689	370	3,945	176,744
As at 31 December 2014	**29,160**	**33,614**	**25,768**	**1,885**	**146**	**4,567**	**95,141**

Land

As at 31 December 2014, the Group has effective control over 271 thousand hectares of land (308 as at 31 December 2013). Approximately 10 thousand hectares were in the process of registration with the relevant authorities. Until the Group completes the registration process, it will not be able to fully exercise its rights of ownership.

As at 31 December 2014 the Group leased 29 thousand hectares under long-term cancellable lease contracts (44 as at 31 December 2013). The Group has 232 thousand hectares in fully registered ownership.

Thousand hectares of land	31 Dec 2014	31 Dec 2013	31 Dec 2012
Land in registered ownership	232	254	250
Land under long-term lease agreements	29	44	40
Land in the process of ownership registration with the relevant authorities	10	10	18
	271	**308**	**308**

19. INTANGIBLE ASSETS

in thousands of US Dollars	2014	2013
Cost		
Balance at the beginning of the year	945	717
Additions	41	312
Disposals	(45)	(1)
Effect of foreign currency exchange differences	(15)	(83)
Balance at the end of the year	**926**	**945**
Accumulated amortization and impairment		
Balance at the beginning of the year	(636)	(637)
Amortization expense	(287)	(72)
Disposals	45	1
Effect of foreign currency exchange differences	(24)	72
Balance at the end of the year	**(902)**	**(636)**
Net book value		
At the beginning of the year	309	80
Balance at the end of the year	**24**	**309**

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

20. BIOLOGICAL ASSETS

in thousands of US Dollars	Crop production (current)	Livestock (non-current)	Total
Balance as at 1 January 2013	19,574	862	20,436
Increase due to incurred expenses	101,624	424	102,048
Decrease due to sales	–	(590)	(590)
Change in fair value less estimated point-of-sale costs	13,090	36	13,126
Harvested crops transferred to inventories	(125,032)	–	(125,032)
Effect of foreign currency exchange differences	(1,788)	(58)	(1,846)
Balance as at 31 December 2013	**7,468**	**674**	**8,142**
Increase due to incurred expenses	67,778	241	68,019
Decrease due to sales	–	(144)	(144)
Change in fair value less estimated point-of-sale costs	22,673	(49)	22,624
Harvested crops transferred to inventories	(88,327)	–	(88,327)
Effect of foreign currency exchange differences	(3,526)	(291)	(3,817)
Balance as at 31 December 2014	**6,066**	**431**	**6,497**

Current biological assets comprise of the planned winter wheat crop of 2014. The 2014 crop was seeded during September–November 2013 and is currently undergoing biological transformation, which is a process that runs until the spring/summer of 2015. Due to the fact that little biological transformation of this winter crop has taken place as of 31 December, this "planned harvest" is currently valued on the basis of actual incurred costs. As a result of dry autumn seeding conditions, and partly due to poor winter snow cover, the Company provisioned for USD 155 thousand.

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

21. OTHER NON-CURRENT ASSETS

in thousands of US Dollars	31 Dec 2014	31 Dec 2013	31 Dec 2012
Prepayments for property, plant and equipment	849	1,306	1,444
Prepayments for long-term lease	–	1,180	1,837
Allowance for doubtful debts	(179)	(257)	(529)
Other non-current assets	–	149	180
	670	**2,378**	**2,932**

22. INVENTORIES

in thousands of US Dollars	31 Dec 2014	31 Dec 2013	31 Dec 2012
Finished goods	23,495	35,600	46,691
Raw materials and consumables	9,859	20,496	26,366
	33,354	**56,096**	**73,057**

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

Management used its best estimates based on publicly available market inputs and, where relevant, forward contract values and purchase offers from customers, to assess the future selling price of the agricultural produce. Management believes that the current assessments are the most relevant estimate of the value of the agricultural produce.

If prices would deviate by 10% from management's estimates, the revenue and gains in the statement of income for year ended 31 December 2014 would deviate by USD 1,340 thousand.

23. TRADE AND OTHER RECEIVABLES

in thousands of US Dollars	31 Dec 2014	31 Dec 2013	31 Dec 2012
VAT receivable	3,230	6,966	5,051
Advances paid for goods and services	5,170	6,330	4,274
Trade receivables	6,071	5,752	13,003
Income tax receivable	1,009	191	231
Other prepayments and receivables	1,400	3,954	1,448
Allowance for doubtful debts	(1,276)	(934)	(1,378)
	15,604	**22,259**	**22,629**

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

Before accepting a new customer, the Group uses a background check to assess the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed on a case-by-case basis.

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

	31 Dec 2014		31 Dec 2013		31 Dec 2012	
in thousands of US Dollars	Gross amount	Allowance	Gross amount	Allowance	Gross amount	Allowance
Current:	14,827	–	19,672	–	20,290	–
Past due:	2,053	(1,276)	3,521	(934)	3,717	(1,378)
less than six months	1,028	(251)	2,352	–	2,471	(144)
over six months	1,025	(1,025)	1,169	(934)	1,246	(1,234)
	16,880	**(1,276)**	**23,193**	**(934)**	**24,007**	**(1,378)**

During 2014, the Group created allowance for doubtful debts amounting to USD 1,276 thousand (USD 934 thousand in 2013). Trade receivables over 180 days are provided for based on an estimation of unrecoverable amounts from the sale of goods, as determined by reference to past default experience.

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

Movement in the allowance for doubtful debts

in thousands of US Dollars	2014	2013
Balance at the beginning of the year	934	1,378
Impairment losses recognized on receivables	1,334	251
Amounts written off during the year as uncollectible	(86)	(296)
Impairment losses reversed	(182)	(308)
Foreign exchange difference	(724)	(91)
Balance at the end of the year	**1,276**	**934**

24. CASH AND CASH EQUIVALENTS

in thousands of US Dollars	31 Dec 2014	31 Dec 2013	31 Dec 2012
Call deposits, overnight RUR denominated at 5.5%–5.9% per annum	1,600	29,026	24,693
Bank balances, RUR denominated accounts	448	13,483	4,273
Bank balances, SEK denominated accounts	252	12,985	55,539
Bank balances, EUR denominated accounts	9,691	7,746	1,197
Bank balances, USD denominated accounts	20,359	1,264	1,142
Bank balances, GBP denominated accounts	253	414	30
Restricted cash	282	–	–
Petty cash	3	7	11
	32,888	**64,925**	**86,885**

25. INVESTMENT PROPERTY

The Group owns 13 thousand hectares of land in the Samara region, which is not used for the Group's primary activity, which is farming. At 31 December 2012 these land plots were expected to be sold and a sales and purchase agreement with a third party was signed. As a result, the land plots were stated in the consolidated statement of financial position as assets held for sale at fair value. During 2013 the sale was not concluded and at 31 December 2013 the Group transferred the land to investment property and in accordance with IAS 40 has measured the land at fair value on the basis of a valuation carried out by an independent appraiser, who has appropriate qualifications and recent experience in the valuation of properties in the relevant location. The fair value was determined based on the market comparable approach that reflects recent transaction prices for similar properties. In estimating the fair value of the properties, the highest and best use of this land is sales. The level 2 approach was used to determine the fair value of the Group's investment property.

Fair value of investment property

in thousands of US Dollars	31 Dec 2014	31 Dec 2013
Balance at the beginning of the year	4,305	–
Reclassifications from property, plant and equipment	–	1,002
Reclassifications from assets held for sale	–	3,274
Revaluation gain (Note 14)	498	55
Effect of foreign currency exchange differences	(2,011)	(26)
Balance at the end of the year	**2,792**	**4,305**

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

in thousands of US Dollars	12 m. 2014	12 m. 2013
Rental income from investment property	218	215
Land tax expenses	(107)	(35)
	111	**180**

26. EQUITY

(a) Share capital

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

On 22 December 2007, the Company's shares were listed in the form of Swedish Depository Receipts ("SDR") on the First North market place in Stockholm. On 22 June 2009, trading in Black Earth Farming's SDRs was transferred from NASDAQ OMX First North to the Mid Cap segment on NASDAQ OMX Stockholm. From 2 January 2015 Black Earth Farming's SDRs are traded in the Small Cap segment on NASDAQ OMX Stockholm.

There are no unpaid shares and the total amount of share capital amounted to USD 2,077 thousand as at 31 December 2014 and 2013.

(b) Share premium

The total share premium amounted to USD 524,771 thousand as at 31 December 2014 and 2013.

(c) Dividends

In accordance with Jersey legislation, the Company's distributable reserves are limited to the balance of the Company's retained earnings.

(d) Share-based payments

Warrants

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

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

During 2014 no warrants were exercised. The Group granted 900,000 warrants to key management. Summary information on the warrants held by Directors is described in the Corporate Governance Report.

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

In thousands of warrants	Weighted average exercise price 12 m. 2014	Number of warrants, in thousands 12 m. 2014	Weighted average exercise price 12 m. 2013	Number of warrants, in thousands 12 m. 2013
	USD 7.64	1,137	USD 6.94	1,907
	SEK 15.15	4,066	SEK 22.25	2,226
Balance at				
the beginning of the year		5,203		4,133
Forfeited during the year	USD 2.57	(914)	USD 5.92	(770)
Forfeited during the year	SEK 4.09	(60)	SEK 28.66	(310)
Granted during the year	SEK 7.45	900	SEK 8.72	2,150
Balance at the end of the year		**5,129**		**5,203**
	USD 2.42	523	USD 7.64	1,137
	SEK 13.29	4,606	SEK 15.15	4,066
Exercisable as at 31 December	USD 10.60	119	USD 7.64	1,137
Exercisable as at 31 December	SEK 15.46	2,117	SEK 24.14	1,149
		2,236		**2,286**

The weighted average remaining contractual life for the warrants outstanding as at 31 December 2014 is 3.36 years (2.78 years at 31 December 2013).

The fair value of services received in return for warrants granted is based on the fair value of warrants granted, measured using the Black-Scholes model. Exercise prices of warrants are stipulated by the warrant certificates. Up to 2009, all exercise prices were denominated in USD and ranged from USD 2.50 to USD 12.00. Warrants issued in 2009-2014 are denominated in SEK with exercise prices ranging from SEK 7.12 to SEK 39.15.

Inputs into the model	**Granted in 2014**	**Granted in 2013**	**Granted in 2012**	**Granted in 2011**	**Granted in 2010**	**Granted in 2009**
Fair value at grant date	SEK 4.39	SEK 4.48	SEK 3.46	SEK 10.70	SEK 8.72	SEK 5.18
Share price	SEK 7.39	SEK 8.85	SEK 8.50	SEK 22.31	SEK 18.50	SEK 22.90
Average exercise price	SEK 7.45	SEK 8.72	SEK 11.24	SEK 27.37	SEK 26.64	SEK 33.00
Expected volatility (i)	122%	89%	80%	92%	93%	48%
Option life (expected weighted average life)	3.51	2.72	2.49	2.23	2.60	3.01
Expected dividends (ii)	0%	0%	0%	0%	0%	0%
Risk-free interest rate (based on government bonds)	1.95%	0.97%	0.94%	1.9%	1.5%	1.7%

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

(ii) Following the Rights Issue completed in December 2012, warrants issued prior were adjusted according to the Swedish standard so that warrant holders maintain their pro rata holding. According to the standard and prepared by a third party, warrants issued prior to the rights issue were adjusted giving the holder the right to acquire 1.195 SDRs and the strike price multiplied by 0.837.

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

Executives share option plan (ESOP)

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

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

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

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

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

As at 31 December 2014, the following arrangements existed under the ESOP:

Options series	Number purchased	Average purchase price	Expiry date	Number granted	Fair value at grant date
		SEK			SEK
(1) Granted in 2012	512,587	9.47	31/03/2015	1,537,761	9.47
(2) Granted in 2013	278,061	9.13	31/03/2016	556,122	8.94
(3) Granted in 2014	274,165	5.80	31/03/2017	520,914	5.71

(e) Earnings per share

in thousands of US Dollars	12 m. 2014	12 m. 2013
Loss for the period	(17,437,000)	(45,862,000)
Weighted average number of ordinary shares	207,669,445	207,669,445
Basic and diluted loss per share (USD/share)	(0.08)	(0.22)

Additional shares under the existing warrants and executives share option plan (described in Note 26 (d)) are antidilutive in accordance with IAS 33 and are not included for purposes of the calculation of dilutive loss per share. The Group incurred loss in 2014 and in accordance with IAS 33 the dilutive effect is not considered.

27. BORROWINGS

The total amount of loans and borrowings was USD 60,199 thousand as at 31 December 2014 (USD 99,412 thousand at 31 December 2013). This amount represents bonds payable and interest accrued (9.4% – fixed annual coupon rate, 10.47% – effective interest rate) and other borrowings. The bonds are due to be redeemed in 2017 and are unsecured.

in thousands of US Dollars	31 Dec 2014	31 Dec 2013	31 Dec 2012
Unsecured SEK bonds – at amortized cost			
Non-current	58,819	97,359	104,099
Current	1,380	2,053	5,685
	60,199	**99,412**	**109,784**
Finance lease liabilities			
Non-current	461	–	–
Current	270	–	–
Other unsecured borrowings	–	–	–
	731	**–**	**–**
Total borrowings	**60,930**	**99,412**	**109,784**

As of 30 October 2013 the Group issued a new SEK 750 million (USD 118,030 thousand translated at the exchange rate at that date) senior unsecured bonds, each of a nominal amount of SEK 1,000,000, which is also the minimum round lot. The bonds have a fixed annual coupon of 9.40% and mature after 4 years. Interest will be paid on 30 January, 30 April, 30 July and 30 October each year, with the first interest payment on 30 January 2014 and the last on 30 October 2017. The bonds are listed on the Nasdaq OMX Stockholm exchange.

During 2014 the Group repurchased additional SEK 176 million (USD 26,656 thousand) of bonds in order to manage interest expense and foreign exchange exposure.

As at 31 December 2014, the Group was in compliance with all covenants stipulated in the bond agreement. The major covenants are as follows:

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

28. TRADE AND OTHER PAYABLES

in thousands of US Dollars	31 Dec 2014	31 Dec 2013	31 Dec 2012
Trade payables	2,576	9,046	10,247
Taxes other than on income payable	1,134	2,050	1,466
Advances received	3,351	2,514	3,527
Payables to personnel	744	461	360
Income tax payable	17	126	10
Other payables	1,199	1,743	2,728
	9,021	**15,940**	**18,338**

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

29. FINANCE LEASE LIABILITIES

In 2014 the Group leased certain units in its fleet of machinery. The lease term is 3 years. The Group's obligations under finance leases are secured by the lessors' title to the leased assets. Interest rate underlying all obligations under finance leases is fixed at respective contract date at 12%. Minimum lease payments under finance leases and their present values are as follows:

in thousands of US Dollars	Due in 1 year	Due between 1 and 5 years	Due after 5 years	Total
Minimum lease payments at 31 December 2014	**354**	**502**	**–**	**856**
Less: future finance charges	(84)	(41)	–	(125)
Present value of minimum lease payments at 31 December 2014	**270**	**461**	**–**	**731**

30. FINANCIAL RISK MANAGEMENT

(a) Categories of financial instruments

in thousands of US Dollars	31 Dec 2014	31 Dec 2013	31 Dec 2012
Financial assets			
Financial assets, including:	40,095	73,952	100,785
- Cash and cash equivalents	32,888	64,925	86,885
- Trade and other receivables	7,207	9,026	13,900
Financial liabilities			
Amortized cost including:	64,550	110,902	120,399
- Loans and borrowings	60,198	99,412	109,784
- Financial lease liabilities	731	–	–
- Trade and other payables	3,621	10,800	10,615
- Financial instruments	–	690	–

(b) Credit risk

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

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

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

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

Risk concentration. The Group does not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Concentration of credit risk related to the largest customer did not exceed 10% of gross monetary assets at any time during the year.

Guarantees. There are no guarantees provided by the Group.

Exposure to credit risk

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

in thousands of US Dollars	31 Dec 2014	31 Dec 2013	31 Dec 2012
Cash and cash equivalents	32,888	64,925	86,885
Loans, receivables and financial assets	7,207	9,026	13,900
	40,095	**73,951**	**100,785**

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

	31 Dec 2014		31 Dec 2013		31 Dec 2012	
in thousands of US Dollars	Gross amount	Allowance	Gross amount	Allowance	Gross amount	Allowance
Current:	7,062	(221)	8,780	–	12,247	–
Past due:	284	(100)	421	(175)	1,868	(215)
less than six months	184	–	246	–	1,689	(36)
over six months	100	(100)	175	(175)	179	(179)
	7,346	**(321)**	**9,201**	**(175)**	**14,115**	**(215)**

(c) Liquidity risk

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

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

31 December 2014

	Interest rate					
in thousands of US Dollars	Contractual	Effective	Less than 1 year	From 1 to 2 years	From 2 to 5 years	Total
Fixed interest rate instruments						
Loans and borrowings	9.40%	10.47%	5,704	5,704	66,385	77,792
Non-interest bearing						
Trade and other payables			3,621	–	–	3,621
			9,325	**5,704**	**66,385**	**81,413**

31 December 2013

	Interest rate					
in thousands of US Dollars	Contractual	Effective	Less than 1 year	From 1 to 2 years	From 2 to 5 years	Total
Fixed interest rate instruments						
Loans and borrowings	9.40%	10.47%	9,361	9,361	118,310	137,033
Non-interest bearing						
Trade and other payables			10,800	–	–	10,800
			20,161	**9,361**	**118,310**	**147,833**

(d) Market risk

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

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

Currency risk

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

The Group does not hedge SEK currency risk. The Group however selectively uses outstanding cash balances to repurchas bonds in order to manage its interest payment obligations and currency exposure.

Exposure to currency risk

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

in thousands of US Dollars	2014	2013
USD/RUR	20,454	1,000
EUR/RUR	14,503	9,437
SEK/RUR	(59,942)	(87,186)

The following significant exchange rates applied during the year:

	Rate at 31 Dec 2014	Average rate for the year 2014	Rate at 31 Dec 2013	Average rate for the year 2013	Rate at 31 Dec 2012
RUR/USD	56.2584	38.6025	32.7292	31.9112	30.3727
RUR/EUR	68.3427	50.9928	44.9699	42.4049	40.2286
RUR/SEK	7.2021	5.5950	4.8979	5.0145	4.6688

Foreign currency sensitivity analysis

A 30% weakening of the RUR against the following currency at 31 December would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the basis of 10% for 2013 as currency rates fluctuation was significantly less.

in thousands of US Dollars	Equity	Profit or loss
2014		
USD	6,126	8,929
EUR	3,333	4,857
SEK	(18,265)	(26,619)
2013		
USD	100	103
EUR	944	968
SEK	(8,719)	(8,942)

Interest rate risk

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

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

Fair value sensitivity analysis for fixed rate instruments

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

(e) Capital management

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

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

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

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

(f) Fair values

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

Trade and other receivables

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

Non-derivative financial instruments

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

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

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

	2014	2013
Loans and borrowings	10.47%	10.47%

31. OPERATING LEASES

Non-cancellable operating lease commitments are as follows:

in thousands of US Dollars	12 m. 2014	12 m. 2013
Not later than one year	681	569
Later than 1 year and not later than 5 years	2,197	1,846
Later than 5 years	10,479	9,100
	13,357	**11,515**

The Group leases a number of land plots under operating leases. The lease term is typically for an initial period of forty-nine (49) years. During the current year, USD 845 thousand (USD 1,168 thousand in 2013) of rent expense was recognized in profit and loss in respect of operating leases.

32. CONTINGENCIES AND COMMITMENTS

(a) Taxation contingencies

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 profits tax, because they do not have a permanent establishment in Russia. This interpretation of relevant legislation 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.

Russian tax 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 tax authorities. Russian tax authorities are gradually increasing their activity, including a growing focus on reviews of tax transactions without a clear and obvious business purpose or with counterparties that are not compliant with all tax regulations. Fiscal periods remain open for review by the authorities for a period of three calendar years preceding the year when a decision about a review was made. Under certain circumstances, reviews may cover longer periods.

Russian transfer pricing legislation was introduced from 1999 and was amended with effect from 1 January 2012. The new transfer pricing rules appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organization for Economic Cooperation and Development (OECD). The new 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 believes that its pricing policy used currently and in the past is arm's length and it has implemented internal controls to be in compliance with the new transfer pricing legislation. Given the specifics of transfer pricing rules, the impact of any challenge of the Group's transfer prices cannot be reliably estimated. It could be significant to the financial conditions 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 in such uncertain areas. While management currently estimates that the tax positions and interpretations of the Group are consistent with current legislation and are sustainable, there is a possible risk of outflow of financial resources, should tax positions and interpretations be challenged by the tax authorities. While the impact of any such challenge cannot be reliably estimated, it could be significant to the financial position and/or the overall operations of the Group.

As at 31 December 2014, management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

(b) Risks relating to the Group

Agricultural market risk

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

Poor or unexpected weather conditions

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

(c) Commitments for expenditure

in thousands of US Dollars	31 Dec 2014	31 Dec 2013
Commitments for acquisition of materials	5,892	2,156
Commitments for acquisition of plant, property and equipment	195	–
	6,087	**2,156**

33. RELATED PARTY TRANSACTIONS

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

in thousands of US Dollars	12 m. 2014	12 m. 2013
Purchase of services from related parties		
KinnAgri Ltd	1,258	1,073
KCM international Ltd	1,330	1,210
	2,588	**2,282**

in thousands of US Dollars	31 Dec 2014	31 Dec 2013
Accounts payable owed to related parties		
KinnAgri Ltd	209	159
KCM international Ltd	186	156
	395	**315**

KinnAgri Ltd provided consultancy services related to budgeting and forecasting process, production planning, harvest, storage and logistics. KCM International Ltd provided crop technical information and consultancy services. KCM International Ltd is a subsidiary of KinnAgri Ltd. In 2014, the Company's major shareholder, Investment AB Kinnevik, and its CEO, Richard Warburton, shared an interest in KinnAgri Ltd and therefore indirectly in KCM International Ltd. All contracts with KinnAgri Ltd and KCM International Ltd have been scrutinized for arm's length and been approved by the members of the Board of Directors independent from Investment AB Kinnevik.

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 Black Earth Farming, reverted back to being the majority shareholder of TerraVost Ltd.

Salaries and other remuneration for Directors and other senior executives

in thousands of US Dollars	12 m. 2014	12 m. 2014	12 m. 2013	12 m. 2013
	Board of directors (5 positions)	**Senior executives** (8 positions)	**Board of directors** (7 positions)	**Senior executives** (10 positions)
Salaries, bonuses and non-monetary benefits (mobile, flat rent, medical insurance)	399	2,353	395	2,599
Share-based payments	–	1,484	–	417
Termination payments	–	–	–	33
Contribution to the State Pension Fund	–	377	–	176
Total	**399**	**4,214**	**395**	**3,225**

34. SIGNIFICANT SUBSIDIARIES

List of significant subsidiaries (total number of subsidiaries equals 35) is presented below.

	Country of incorporation and place of business	Ownership and voting interest 31 Dec 2014	Ownership and voting interest 31 Dec 2013	Principal activity
Planalto Enterprises Limited	Cyprus	100%	100%	Management
Black Earth Trading International	Guernsey	100%	–	Trading
OOO Management Company Agro-Invest	Russia	100%	100%	Management
OOO Nedvizhimost	Russia	100%	100%	Elevators
OOO Agroterminal	Russia	100%	100%	Elevators
ZAO Dmitriev Agro-Invest	Russia	100%	100%	Agriculture
OOO Sosnovka Agro-Invest	Russia	100%	100%	Agriculture
OOO Stanovoje Agro-Invest	Russia	100%	100%	Agriculture
ZAO Kastornoje Agro-Invest	Russia	100%	100%	Agriculture
OOO Agrolipetzk	Russia	100%	100%	Agriculture
OOO Novokhopersk Agro-Invest	Russia	100%	100%	Agriculture
OOO Morshansk Agro-Invest	Russia	100%	100%	Agriculture

35. SUBSEQUENT EVENTS

At 17 March 2015 the Group announced that it had agreed to swap the land and related real estate assets from its Stanovoye (Lipetsk oblast), Shatsk (Ryazan oblast) and Pervomaisky (Tambov oblast) farms with two counterparties, in return for land and an elevator in proximity to Black Earth Farming's existing operations at Morshansk in Tambov. A condition precedent with one counterparty, expected to be met shortly, remains.

The proposed swap would see the Company disposing of a total of 36.6 thousand hectares of controlled land, including 4.5 thousand hectares of grassland, 5.6 thousand hectares of forested fallow, 7.2 thousand hectares of leased land as well as of 20 thousand tons of grain storage. The assets received in the swap amounts to a total of 24.9 thousand hectares of controlled land, including 20.9 thousand hectares of crop land, 4.0 thousand hectares of grassland, 3.3 thousand hectares of leased land, and a 30 thousand tons elevator facility with rail access. The transaction includes the winter wheat crops sown in the autumn of 2014. The Company will undertake spring cropping on the land acquired in the swap.

Board, Management and Auditors

BOARD OF DIRECTORS

Vigo Carlund, *Chairman of the Board*
Swedish citizen, born in 1946
Mr. Carlund is a Swedish citizen born 1946. He has been Director of the Board of Investment AB Kinnevik since 2006 and is Chairman of the Board of Net Entertainment NE AB since 2011. He has been the Director of the Board of Academic Work Solutions since 2006 and iZettle AB since 2010. Mr. Carlund worked within the Investment AB Kinnevik Group 1968–2006 and was CEO of Korsnäs AB 1998–2000, and President and CEO of Transcom WorldWide S.A. 2000–2002 and Investment AB Kinnevik 1999–2006. He is on the board for iZettle since 2011.
Shareholdings: 1,006,335 SDRs*

Anders Kronborg, *Non-executive Director*
Danish citizen, born in 1964
Principal education: Graduate in Economics from the University of Copenhagen.
Work experience: Chief Operating Officer of Investment AB Kinnevik since 2012. CFO of Metro International S.A. since 2007. Anders Kronborg is also a Member of the Board at G3 Good Governance Group Ltd. Anders Kronborg has previously held positions as Member of the Board of Millicom International Cellular S.A. and Vireo Energy AB.
Shareholdings: 7,833 SDRs

Camilla Öberg, *Non-executive Director*
Swedish citizen, born in 1964
Principal education: Camilla Öberg holds a Degree in Economics and Business Administration from the Stockholm School of Economics.
Work experience: Camilla Öberg served as CFO of the IT-company Logica Sweden AB from 2007. Between 1998 and 2006, Camilla Öberg was employed at WM-data, where she worked as head of IR and Group Treasury. Before her time at WM-data, she worked as CFO of Integro AB, as CFO of Lexicon and in accounting and external reporting at SEB. Camilla Öberg is currently CFO for Cybercom Group AB as well as Board member of several subsidiaries in the Cybercom Group AB. She is also a Board member of RusForest AB.
Shareholdings: 1,500 SDRs

Poul Schroeder, *Non-executive Director and Chairman of Operations Committee*
Danish citizen, born in 1944
Principal education: Mr. Schroeder is a graduate in economics from the Aarhus Business School and has completed the International Senior Management Program at Columbia University.
Work experience: Mr. Schroeder is an independent consultant and has been active in the international agricultural industry since 1966, among others, within the Continental Grain Company and Bunge. Mr. Schroeder is Chairman of the Board of Dan Store.
Shareholdings: 350,000 SDRs

Dmitry Zavgordniy, *Non-executive Director*
Russian citizen, born in 1970
Principal education: Mr. Zavgorodniy is a graduate from the Pedagogical University, Omsk, and holds Master degrees from Sorbonne and University of Oriental Studies, Paris.
Work experience: Mr. Zavgorodniy has been General Manager for the food companies McCain LLC and EcoFrie LLC and CEO of United Meat Group LLC. Mr. Zavgorodniy is Managing Director of Tata Global Beverages Eastern Europe.

GROUP MANAGEMENT

Richard Warburton, *Chief Executive Officer*
British citizen, born in 1966
Principal education: Mr. Warburton holds a Bachelor of Science degree in Agriculture from the University of Newcastle as well as an MBA.
Work experience: Mr. Warburton is CEO and Majority Shareholder of TerraVost Limited and a Director of KCM International and Rolnyvik Sp. z.o.o.. Mr. Warburton was previously head of agriculture at Investment AB Kinnevik. He has also been Equity Partner and Head of Bidwells Agribusiness 1999–2010 and a Director of British Field Products 1994–1998.
Shareholdings: 530,000 SDRs
Warrants: 876,863

Fraser Scott, *Chief Operating Officer*
British citizen, born in 1961
Principal education: Mr. Scott holds a Bachelor of Science in Agriculture from Newcastle University.
Work experience: Mr. Scott has more than 20 year experience of large scale corporate farm management, most recently as head of arable and potato operations on 20 thousand hectares of arable farming and food operations at the Co-operative farms in the UK. He has also been involved in several large scale agribusinesses as farm and operations manager at Booker, Broad Oak and the Co-operative farms in the UK.
Shareholdings: 241,669 SDRs
Warrants: 438,941

* SDRs held via an insurance policy

Erik Danemar, *Chief Financial Officer*
Swedish citizen, born in 1976
Principal education: Mr. Danemar holds a BA in Economics and Management from the University of Oxford and an Executive MBA from the London Business School.
Work experience: Mr. Danemar has more than nine years of financial sector experience from various positions at Deutsche Bank and United Financial Group in London and Moscow, most recently as Director within equity research, focused on mining and basic resources. He has also been a Board Director at Ferronordic Machines AB. From 1998 to 2000, Mr. Danemar worked in the diplomatic service at the Swedish Embassy in Moscow.
Shareholdings: 25,000 SDRs
Warrants: 350,000

Richard Willows, *Director of Sales & Marketing*
British citizen, born in 1953
Mr. Willows has a background in trading of agricultural commodities, specializing in the marketing of quality assured grains and oilseeds for the food industry including direct exporting to key customers in the Baltic States and Europe. He has more than 15 years of experience working in Russia and prior to Black Earth Farming Richard held the position of General Director of OOO Heartland Farms in the Penza region of Russia. Established in 2002 it was one of the first foreign investors in Russian farming.
Shareholdings: 46,333 SDRs
Warrants: 319,469

Per Nisser, *Chief Procurement Officer*
Swedish citizen, born in 1979
Principal education: Mr. Nisser holds a Master of Science in Engineering Physics from Uppsala University.
Work experience: Mr. Nisser has an extensive procurement background from the mobile operator Tele2 AB where he held the positions of Procurement Director in Tele2 Russia and Procurement and Logistics Director in Tele2 Kazakhstan. Experience also covers post acquisition company integration and management consulting.
Shareholdings: 40,000 SDRs
Warrants: 150,000

Victoria Fletcher, *Business Development Director*
British citizen, born in 1981
Principal education: Ms. Fletcher holds a Master of Science in agricultural management from Reading University.
Work experience: Ms. Fletcher joined the Group in 2012 and has 8 years' experience in Supplying major British supermarkets with fresh food, most recently as Business Unit Director for a rapidly growing fresh produce business. Her function included procurement from Africa and across the world and management of production and logistics. She also has been involved in business development in Central Asia.
Shareholdings: 136,000 SDRs
Warrants: 250,000

AUDITORS

PriceWaterhouseCoopers
Principal auditors:

Bo Lagerström, *Group Audit Partner*
Mr. Lagerström is a Swedish citizen, born in 1966.
PriceWaterhouseCoopers are the appointed auditors since 2014. Bo currently serves listed clients Scandinavian Standard, Intellecta and Swedol. Bo as has served several midsized and large listed as well as large private owned client s including Niscayah, Rottneros, SCA, Celsius, Thomas Cook, Aurubis, and Pomonagruppen. Mr. Lagerström is an Authorized Public Accountant and member of the Institute for the Accounting Profession in Sweden (FAR). He has no engagements in entities related to the main owners of Black Earth Farming Ltd. or the CEO of Black Earth Farming Ltd.

Alexei Ivanov
Mr. Ivanov is a citizen of Russia, born in 1969.
Alexei has served a significant list of clients including Yug Rusi, Russkaya Zemlya, Agro-Belogorie, Sodruzhestvo, Ilim Group, SCA, Smurfit Kappa, Protek, Euroset, Ford, Philip Morris, and others. Alexei is a UK qualified Chartered Accountant (ACA, 1997), registered also as a recognised auditor in Jersey, and Russian Certified Auditor (1998). He has no engagements in entities related to the main owners of Black Earth Farming Ltd. or the CEO of Black Earth Farming Ltd.

Corporate Governance Report

Introduction

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

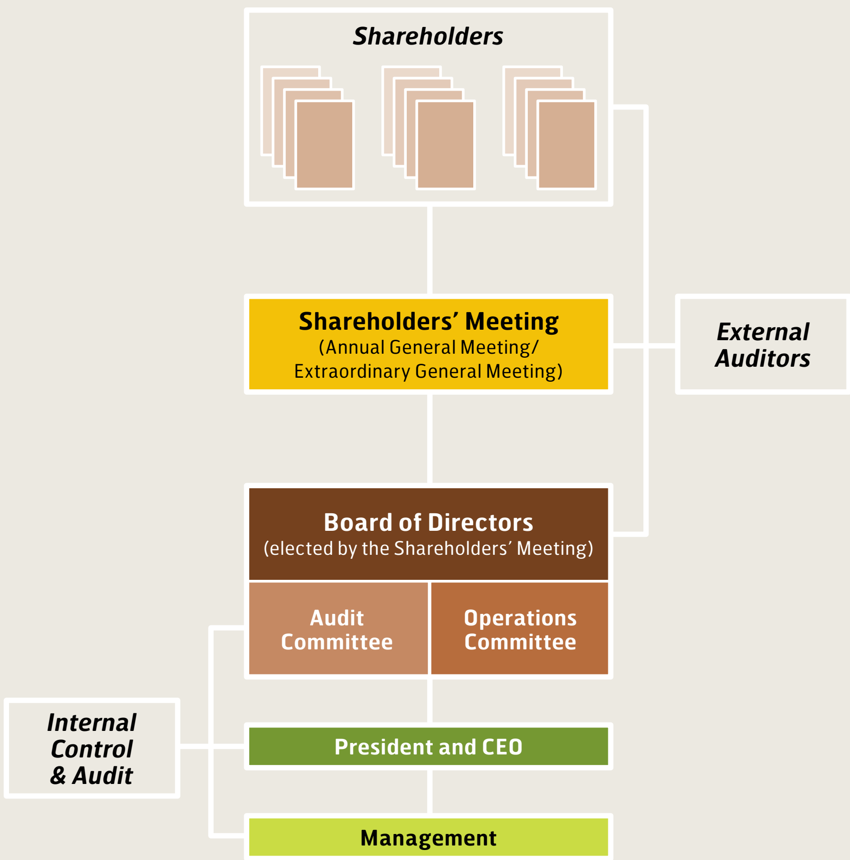
Black Earth Farming's articles of association as well as a reproduction of this report and additional Corporate Governance information, such as outtakes of important corporate policies are available on the Group's website www.blackearthfarming.com.

Shareholders meetings

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

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

In 2014, Black Earth Farming held the Annual General Meeting at 12.00 CET on 14 May 2014 at Grev Turegatan 30,



Stockholm, Sweden. As per the published agenda and minutes, the AGM adopted the consolidated profit and loss statement for the period 1 January to and including 31 December 2013, as well as balance sheet and the consolidated balance sheet as of 31 December 2013, it was resolved upon the election of Board of Directors and auditors, with Company after six years with Deloitte changing auditors to PriceWaterhouseCoopers. It was furthermore resolved not to pay any dividends for 2013.

Appointment and remuneration of the Board and Auditors

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

In accordance with the resolution of the 2014 Annual General Meeting, a Nomination Committee consisting of members representing the three largest shareholders in the Company per the last business day in August 2014 was appointed. The Nomination Committee for the 2015 AGM is comprised of Cristina Stenbeck, on behalf of Investment AB Kinnevik, Ramsay Brufer, on behalf of Alecta Pension, and Per Åhlgren, on behalf of Gomobile Nu AB. The Company considers it appropriate for the major shareholders to propose the board composition and items related to the Nomination Committee's mandate for the Annual General Meeting. Cristina Stenbeck, of Investment AB Kinnevik, is the current Chairman of the Nomination Committee. At the time of its formation, the Nomination Committee represented approximately 46% of the shares in Black Earth Farming.

The Board of Directors

The 2014 Board of Directors

The Articles of Association stipulate that there shall be no maximum number of Directors unless and until otherwise determined by the Company in a general meeting by ordinary resolution. However, the minimum number of Directors (other than any alternate Directors) shall be two. At the AGM 2014 it was resolved that the Board until next AGM shall consist of 5 members.

At the 2014 AGM, Vigo Carlund, Anders Kronborg, Poul Schroder and Camilla Öberg were re-elected to the Board. Richard Warburton, Per Brilioth and Magnus Unger stepped down from the board. Dmitry Zavgorodniy was elected as a new member of the board. For a detailed presentation of the current Board, until the AGM 2015, see section "Board, Management and Auditors" in the annual report. The Code states that it is possible for major shareholders of Swedish companies to appoint a majority of members with whom they have close ties. Black Earth Farming views positively active and responsible ownership, which is also expressed in the preparatory documents to the Swedish Companies Act. Given Black Earth Farming's line of business, stage of development and general environment, the elected Board represents a suitable composition with versatility and breadth in terms of the Directors' qualifications, experience and background. The table above contains summary information on the current Directors' name, position, year of election to the Board, year of birth, citizenship and respective holding of SDRs/shares and warrants in the Company.

Name	Title	Born	Nationality	Elected	Connection to the company	Audit committee	Board meeting attendance	SDR holdings	Warrant holdings	Board fee, TEUR
Vigo Carlund	Chairman of the board	1946	Swedish	2012	Independent		13	1,006,335*	0	60
Per Brilioth**	Non-executive Director	1969	Swedish	2006	Main owner		4	321,656*	0	40
Camilla Öberg	Non-executive Director	1964	Swedish	2013	Independent	Chair	9	1,500	0	60
Anders Kronborg	Non-executive Director	1964	Danish	2013	Main owner	member	10	7,833	0	50
Poul Schroder	Non-executive Director	1944	Danish	2010	Independent		12	350,000	0	60
Magnus Unger**	Non-executive Director	1942	Swedish	2010	Independent	member	5	350,000	0	40
Richard Warburton**	President and CEO	1966	British	2010	Management		13	530,000	876,863	0
Dmitry Zavgorodniy	Non-executive Director	1970	Russian	2014	Independent		7	–	–	40
Number of meetings in 2014						**6**	**13**			

* SDRs held via an insurance policy

** Per Brilioth, Magnus Unger and Richard Warburton stepped down from the Board in May 2014. Since 14 May 2014, the Board has five members. The total Board fee is accordingly lower in 2014.

Board meetings

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

During the financial year ended 31 December 2014, thirteen Board meetings were held, whereof 4 were held with personal attendance, the rest were held by means of telephone conferencing.

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

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

Work and Responsibilities

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

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

During 2014 the Board has continuously reviewed the strategic direction, the financial performance, and the methods to reach profitability as well as sustain growth longer term. No dissenting opinions in relation to decisions have been reported in the minutes during the year. However, the Board has at times tabled an issue until a later meeting when more supporting documentation or more in depth review of an issue should be produced. An annual evaluation of the board's work was performed in order to develop the board's working methods and efficiency.

Chairman of the Board of Directors

The Nomination committee suggests a chairman of the board to be elected by the AGM. The chairman shall not be employed by the Company. Vigo Carlund was elected chairman of the Board at the AGM held on 14 May 2014. The Chairman shall lead the otherwise open Board discussion at each Board meeting. In the case of an equality of votes the Chairman shall have a second or casting vote.

Sub Committees of the Board

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

Audit committee

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

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

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

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

Audit committee in 2014

The audit committee consists of two of the board members, namely Camilla Öberg, as Chairman, and Anders Kronborg. This is a deviation from the Swedish Code of Corporate Governance, which requires at least three Board members on the audit committee. The Board however decided that, given the close work between the audit committee and the overall Board, two members would be appropriate. Former board member Paul Wojciechowski is a fourth specially invited observer on the committee in his capacity of Company secretary. In 2014, six meetings, of which one in person, were held by the audit committee addressing the Company's financial reporting and progress. There were also several update conference calls between the committee Chairman and members of the Company's management. In 2014, the Committee supervised an internal audit, managed by an independent third party, with special focus on the Company's IT systems and infrastructure

Operations committee

The operations committee has been delegated by the Board of Directors to screen and evaluate key decisions regarding operational matters relating to the Company. Initially, the responsibilities of the Operational Committee were directed towards decisions regarding capital and operational expenditures and key operational activities. Currently, a significant share of the Committee's work is focused on strategic sales and marketing decisions, as well as the Company's hedging position.

Operations committee in 2014

The operations committee consists of three board members, namely Poul Schroder as Chairman, Anders Kronborg and Dmitry Zavgorodniy. In 2014, one formal meeting was held by the operations committee together with senior management, in addition to several telephone conference calls addressing the Company's operational progress.

Remuneration committee

The function of a specific remuneration committee, as per the Code's guidelines, is to prepare proposals on remuneration and other terms of employment for the executive management. The Board of Directors of Black Earth Farming has generally considered it more appropriate, that the entire Board performs the remuneration committee's tasks, albeit without the Board member(s) who are also part of the executive management, if any. The guiding philosophy of the Board in determining compensation for executives is the need to provide a compensation package that is competitive and motivating, will attract and retain qualified executives, and encourage and motivate performance.

Group management

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

Name	Born	Nationality	Employed	Function	SDR holdings	Warrant holdings	Average strike price
Richard Warburton	1966	British	2011	Chief Executive Officer	530,000	876,863	SEK 15.9
Fraser Scott	1961	British	2011	Chief Operating Officer	241,669	438,941	SEK 16.2
Erik Danemar	1976	Swedish	2013	Chief Financial Officer	25,000*	350,000	SEK 8.2
Richard Willows	1953	British	2011	Director of Sales & Marketing	46,333	319,469	SEK 13.7
Per Nisser	1979	Swedish	2013	Director of Procurement	40,000	150,000	SEK 8.5
Victoria Fletcher	1981	British	2012	Business Development Director	136,000	250,000	SEK 8.2

* SDRs held via an insurance policy

The Company has in place an instruction that outlines the key responsibilities and obligations of the CEO, details the reporting process of the CEO and defines the limits of the CEO's authority to represent the company.

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

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

Compensation to the Board and management

Principles

Each Director currently receives an annual Board fee of EUR 30,000, other than the Chairman of the board, the operations committee and the audit committee, who each receive EUR 60,000. EUR 10,000 is paid for work within the committees of the Board. Remuneration for the senior executives consists of fixed salaries plus other benefits. In addition, certain Directors, senior executives and other key personnel within the Group are holders of warrants as part of the established incentive program. The guiding philosophy of the Board in determining compensation for executives is the need to provide a compensation package that is competitive and motivating, will attract and retain qualified executives, and encourage and motivate performance. As stated in Note 33 to the Consolidated Financial Statements, in 2014 total fixed salaries and bonuses to senior executives amounted to USD 2,353 thousand (excluding pensions and termination payments), of which USD 747 thousand to the Company's CEO.

Incentive programme

As part of the Company's efforts to attract and retain qualified personnel, Black Earth Farming has created a warrant incentive program originally comprising of 2,059,000 warrants to subscribe for Shares. The number of warrants within the warrant instrument was thereafter increased from 2,059,000 to 10,000,000 warrants at the AGM of the Company held on 5 July 2007. Of these warrants, 5,128,670 have as of 31 December 2014 been issued for nil consideration to Directors and senior executives and other key personnel. Each warrant entitles the holder to exchange one warrant for one Share. The warrants are regulated by an agreement dated 11 August 2005, as amended. The Company has undertaken to keep Shares available in order to facilitate the future exercise of such warrants.

All warrant holders have been allotted warrants of which proportionate part is vested annually during a number of years set out in each warrant holders' warrant certificate. Warrants with a lower subscription price shall vest prior to warrants with a higher subscription price. Allocation of warrants is at the discretion of the Board. The subscription price will be affected by the time of allocation of the warrants. In the event that the warrant holders are no longer connected to the Company before the vesting date, warrants that are due to vest will be cancelled. The warrants are transferable to a maximum of 50 warrant holders. Following the Rights Issue completed in December 2012, warrants issued prior were adjusted according to the Swedish standard so that warrant holders maintain their pro rata holding. According to the standard and prepared by a third party, warrants issued prior to the rights issue were adjusted giving the holder the right to acquire 1.195 SDRs and the strike price multiplied by 0.837. At full exercise of all approved 10,000,000 warrants, the Company's share capital will be increased by USD 100,000.

Executives share option plan (ESOP)

At the AGM on 25 May 2012, a performance based incentive plan for senior executives was approved. In order to participate in the plan, the participants must purchase shares (in form of SDRs) in the Group. For each share held under the plan, the Group will grant rights to the participant based upon if performance criteria relating to the development of Black Earth Farming's return on capital, profitability, revenue growth and average crop yields during a three year period. For full details please refer to note 26 d) in the Consolidated Financials of the 2014 Annual Report. As at 31 December 2014, 4,432,930 rights had been granted which may result in an expected 1,946,420 shares being issued depending on fulfilment of the aforementioned criteria.

Termination of employment

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

Conflict of interests

The Group has employed services from KinnAgri Ltd, KCM, Audit Value International and non-profit Reach for Change in 2014, in which the Group's major shareholder Investment AB Kinnevik had interest and which therefore represent related parties that are not members of the Group. The Company's CEO, Richard Warburton, also had interest in KinnAgri Ltd and KCM. Such transactions are scrutinized for arm's length and have been approved by the members of the Board of Directors independent from Investment AB Kinnevik. In December 2014, KinnAgri Ltd completed a buy-back of the shares of Investment AB Kinnevik in KinnAgri Ltd. As Investment AB Kinnevik fully exited the shareholder structure of KinnAgri Ltd, the Company was subsequently renamed TerraVost Ltd. As a result of the transaction, Richard Warburton, the CEO of Black Earth Farming, reverted back to being the majority shareholder of TerraVost Ltd. The Group has continued to employ services of Terravost Ltd. Poul Schroeder is Chairman, but not a shareholder, of Dan Store, a Company involved in grain storage and a supplier to the Company. Outside these transactions, to the best of the Company's knowledge, none of the members of the Board of Directors or the Management of the Company has a private interest that may be in conflict with the interest of the Company.

Auditors

At the AGM on 14 May 2014, the Company changed Auditor from Deloitte to PriceWaterhouseCoopers, with Bo Lagerström as auditor in charge.

PriceWaterhouseCoopers

Principal auditors:

Bo Lagerström

Group Audit Partner

Mr. Lagerström is a Swedish citizen, born in 1966.
PriceWaterhouseCoopers are the appointed auditors since 2014. Bo currently audits listed clients Scandinavian Standard, Intellecta and Swedol. Bo as has audited several mid-sized and large listed as well as large privately owned clients including Niscayah, Rottneros, SCA, Celsius, Thomas Cook, Aurubis, and Pomonagruppen. Mr. Lagerström is an Authorized Public Accountant and member of the Institute for the Accounting Profession in Sweden (FAR). He has no engagements in entities related to the main owners of Black Earth Farming Ltd. or the CEO of Black Earth Farming Ltd.

Alexei Ivanov

Mr. Ivanov is a citizen of Russia, born in 1969.
Alexei has audited a significant list of clients including Yug Rusi, Russkaya Zemlya, Agro-Belogorie, Sodruzhestvo, Ilim Group, SCA, Smurfit Kappa, Protek, Euroset, Ford, Philip Morris, and others. Alexei is a UK qualified Chartered Accountant (ACA, 1997), registered also as a recognised auditor in Jersey, and Russian Certified Auditor (1998). He has no engagements in entities related to the main owners of Black Earth Farming Ltd. or the CEO of Black Earth Farming Ltd.

Board of Directors' report on internal control

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

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

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

The management continuously monitors the Company's operations in accordance with the guidelines set out below. A thorough internal audit and review of the Company's operations was conducted with targeted focus areas and implementation plans in 2012, with the objective to enhance control and oversight of how the Company's routines and protocols were working and being adhered to by all levels of staff. The process has since continued on an annual basis with special focus on one or a few areas of particular interest. In 2014, the internal audit effort was directed towards the Company's IT infrastructure and processes.

Control environment

The control environment, which forms the basis of internal control over financial reporting, to a large extent exists of the core values which the Board communicate and themselves act upon. Black Earth Farming's ambition is that values such as precision, professionalism and integrity should permeate the organization. Another important part of the control environment is to make sure that such matters as the organisational structure, chain of command and authority are well defined and clearly communicated. This is achieved through written instructions and formal routines for division of labour between the Board of Directors on the one hand, and management and other personnel on the other. The Board establishes the general guidelines for the Group's activities in internal policies, manuals and codes.

The Company's Chief Financial Officer is responsible for the control and reporting of the Company's consolidated economic situation to management and Board. In this capacity, the Chief Financial Officer also prepares a review of potential weaknesses in internal processes and controls to the audit committee and makes a recommendation to the committee on areas that could be the focus of internal audit work in the future. Based on this recommendation, as well as its own observations, the audit committee may choose to appoint an independent third party expert to conduct an audit of one or a few areas in the Company. In 2014, a focus of the Company's Internal Audit was on the Company's IT systems and infrastructure. A special report on this area was prepared in 2014, while broader internal audit work continued through the period and while the external auditor reviewed the control environment as part of the general audit procedures.

Risk assessment

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

It is the ambition of Black Earth Farming to minimize the risk of errors in the financial reporting by continuously identifying the safest and most effective reporting routines. The Board puts most effort into ensuring the reliability of those processes, which are deemed to hold the greatest risk for error, alternatively whose potential errors would have the most significant negative effect. Among other things this includes establishing clearly stated requirements for the classification and description of statement of income and balance sheet items according to generally accepted accounting principles, pertinent legislation. The Company's Internal Auditor has together with the firm Audit Value established a yearly Audit Plan which entails a close review of certain, by the Board, identified risk areas. The Internal Auditor, together with experienced forensic auditors from Audit Value, do a thorough analysis of the identified risk areas with the aim of exposing possible risks in more detail and suggest recommendations on how to deal with them.

In 2014, Audit Value was engaged and focused its efforts on auditing the Company's IT system and infrastructure. Internal control work also continued to address issues identified in the 2012 audit.

Control activities

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

Information and communication

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

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

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

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

Monitoring

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

Sustainability

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

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

Black Earth Farming's Social Responsibility

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

Social responsibility entails caring for external stakeholders as well as internal. Black Earth Farming strives to conduct business in a way that not only safeguards employees, customers and community neighbourhoods but also helps them develop. The focus on redevelopment of fallow land creates new job opportunities with stable and relatively high means of income. Employee safety is of high concern and training sessions and seminars are conducted regularly. The Company contributes to local communities both through its economic development which helps bring commerce and tax revenues to the local administrations, but also by financial support to many local activities and social projects. In 2014, the Company worked with the Russian branch of Reach for Change, a non-profit organization founded to improve the lives of children.

Black Earth Farming's Environmental Responsibility

Preserving the planet's limited resources is a vital concern, and is the responsibility of all people, but as a Company Black Earth Farming seeks to take extra responsibility to motivate and stimulate environmental thinking in respect to our activities.

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

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

Black Earth Farming's Economic Responsibility

Through its operations and business activities, Black Earth Farming support several stakeholders economically. The Company provides offtake to suppliers, salaries to employees, goods to customers, tax revenues to local districts and federal authorities, while striving to create value for its shareholders. To a large extent, the economic sustainability of the business is only possible through mutually beneficial relationships with stakeholders that grow and prosper together with the Company. Black Earth Farming aims to build long term relationships with counterparties and employees through a high level of professionalism, integrity and business ethics at all levels of the Company. Through high standards of corporate governance and transparent communication, the Company seeks to increase understanding and build trust from shareholders and the market.

Terms and Definitions

Units
1 hectare (ha) = 2.47105 acres
1 hectare (ha) = 10,000 square meters
1 metric ton = 2,204.622 pounds (lb)
1 metric ton = 10 centners
1 metric ton of wheat = 36.74 bushels of wheat
1 metric ton of corn = 39.37 bushels of corn

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

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

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

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

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

"CBOT"
Chicago Board of Trade

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

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

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

"Debt/Equity Ratio"
Total amount of long term borrowings divided by total shareholders' equity.

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

"Earnings per Share"
Net profit attributable to shareholders holding ordinary shares divided by the number of shares issued.

"Equity/Assets Ratio"
Total shareholders' equity divided by total assets.

"EU-27"
The following EU membership countries: Austria, Belgium, Czech Republic, Cyprus, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, the United Kingdom, Bulgaria and Romania.

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

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

"Fallow land"
Land which is not being cultivated.

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

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

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

"IGC"
International Grains Council

"IKAR"
The Russian Institute for Agricultural Market Studies.

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

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

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

"OOO"
"Closed joint stock company", the Russian equivalence to a limited liability company.

"Operating Margin"
Operating income divided by net sales.

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

"USDA"
United States Department of Agriculture

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