

# Black Earth Farming Ltd Unaudited Interim Report

1 January – 31 March 2015



**BLACK  
EARTH  
FARMING LTD.**



## Spring seeding campaign completed. Forex reverses.

*1Q15 gross profit of USD 2.3mn (1.3) as weaker ruble y-o-y supported gross margin on sales of prior year inventory. Revenue down -45% y-o-y on lower volume sales (-35%) and lower average price (-16%) on softer market and FX. Forex gain of USD 2.8mn (-8.2) as the Russian ruble appreciated against the SEK on the close of the quarter. 4.5k Ha of winter kill estimated. Generally positive spring seeding conditions.*

### **Q1 2015 Highlights** (vs. Q1 2014)

- Total revenue and gains of USD 13.5mn (26.2)
- Sales volume of 85kt (129)
- Average sales price of USD 162 per ton (193)
- Sales revenue of USD 14.1mn (25.4)
- EBITDA of USD -2.4mn (-5.7)
- Operating loss of USD -3.9mn (-9.3)
- Net loss of USD -2.1mn (-19.6)
- Net loss per share of USD -0.01 (-0.09)
- Net operating cash flow of USD 5.4 (-3.5)

### **Significant and subsequent events**

- On 17 March 2015, the Company announced plans to swap 36.6k Ha of controlled land in Lipetsk and Tambov for 24.9k Ha of land in Tambov.
- The swap also sees the Company swap 20kt of grain storage for a 30kt elevator facility in Tambov.
- The Company expects to recognize result from this swap in 2Q15.
- 2015 crop: Spring seeding completed as at end of 21 May 2015. Total 2015 crop area expected at approximately 150k Ha.

### **CEO Comment Highlights** (p.2)

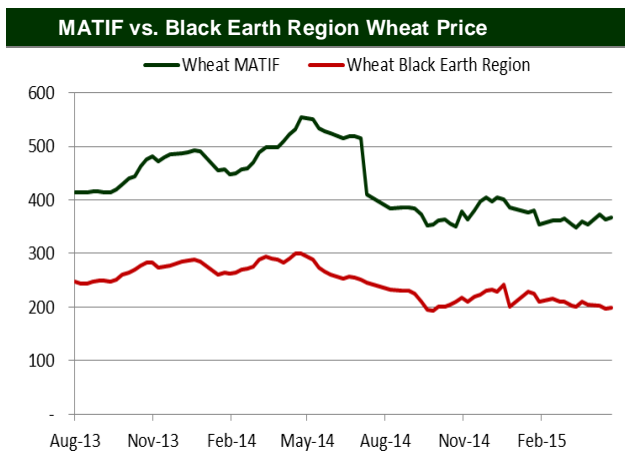
- Market Development
- Q1 Sales and 2015 Financials
- Transactions
- Spring Seeding and 2015 Crop Area
- 2015 Revenue Risk Management
- Summary

### **Financial Overview** (p.4)

<b>USD million</b>	<b>Q1 '15</b>	<b>Q1 '14</b>	
Crop Volumes Sold (k tons)	84.8	129.4	
Av. Sales Price	162	193	
Total Revenue & Gains	13,548	26,242	
Gross Profit	2,257	1,264	
EBITDA	(2,398)	(5,678)	
EBIT	(3,881)	(9,300)	
<b>Net loss</b>	<b>(2,068)</b>	<b>(19,576)</b>	

## Market Development

Even though the Russian harvest is predicted lower this year, international cereal prices fell circa 10% for cereals during the quarter as 2015 crop production prospects continue to develop favorably. On February 1, the expected export levy on wheat came into force. It has only recently been lifted and a floating levy is now being considered. Although the base at which the floating levy is expected to take effect is higher than the current market, it nevertheless makes practical execution of hard currency export contracts more challenging. Oilseed prices strengthened globally and domestically during the quarter, on harvest delays and logistical problems.



Source: IKAR, CBOT

## 1Q15 Sales and Financials

There is limited activity during the first quarter in terms of production, with sales of previous year crop inventory being the main factor affecting our financials. Given the fact that we mark our crop inventory to market, through sales or end of period inventory valuation, realized sales prices and the development of market prices over the reporting period is a key factor affecting the first quarter result. In 1Q15, the Company sold 85kt, which is -34% vs the 129kt sold in 1Q14. Average price was down -16% y-o-y in dollar terms to USD 162/t on a combination of weaker market, FX and crop mix. As a result of the weaker average currency over the period, ruble sales prices were generally higher vs the 31 December inventory valuation, contributing to a USD 2.3mn (1.3) gross profit on sales. Weaker prices at the end of the period however resulted in a USD -0.6mn (+0.6mn) mark down on the remaining 58.1kt (52.0) held in inventory at 31 March 2015. The 1Q15 volume sales mix consisted of corn (47% of sales), wheat (26%), sunflower (15%) and barley (11%).

Distribution costs were -49% lower y-o-y as exported volumes decreased in line with total sales. General

and administrative expenses were down in dollar terms y-o-y, while underlying ruble costs grew. 1Q15 other income and expenses included a small gain on hedge positions vs a losses in 1Q14. As a result, EBITDA was USD -2.4mn (-5.7mn) in 1Q15. Financial expenses were down as a result of bond repurchases and depreciation of the SEK against the USD. Due to a weakening of the SEK against the RUR, the Company posted a USD 2.8mn (-8.2) FX translation gain in 1Q15. This contributed to the USD 17.5mn y-o-y increase from a USD -19.6mn net loss in 1Q14 to a USD -2.1mn net loss in 1Q15.

Net cash flow from operations amounted to USD 5.4mn (-3.5) in 1Q15. Investments into PP&E of USD 2.5mn (3.9) consisted mainly of construction and machinery, split between the Company's core segment and its irrigated root crop business.

At 31 March 2015, the Company had USD 33.9mn (54.1) in cash and USD 54.8mn (100.3) of interest bearing debt outstanding (net of USD 32.1mn of repurchased bonds). Net debt (net of repurchased bonds and cash) amounted to USD 20.9mn (46.2) as at 31 March 2015.

## Transactions

On 17 March 2015, the Company announced plans to swap 36.6k Ha of controlled land in Lipetsk and Tambov for 24.9k Ha of land in Tambov. The proposed swap also sees the Company swap 20kt of grain storage for a 30kt elevator facility in Tambov (see also land section on page 9).

The company has agreed indicative terms to acquire a small potato seed business in Kaliningrad as part of its plans to reduce risk from imported seed bans and internalize its potato seed supply chain.

## Spring Seeding and 2015 Crop Area

Spring was later in 2015 than in 2014 and has to date been relatively cool and showery. Whilst planting has consequently been somewhat sporadic, it has progressed well and good establishment is expected. The rainfall has partially mitigated the very dry autumn and winter of 2014 but subsoils remain relatively dry. Spring seeding was complete as at the end of 21 of May. Winter kill of 4.5k Ha was in line with expectations on our own crops. The wheat that was received as part of the swap transaction had to be replanted with corn and sunflowers. Frustratingly, the irrigated root crop area is lower than planned. Moderation was required due to low water levels in an irrigation lake and as a result of the ban on Polish potato seed. The 2015 crop area is expected to be approximately 150k Ha, which is 32k (18%) lower than in 2014. This is due to an increase in rotational fallow, which allows for a simpler rotation concentrated on the most profitable crops, as well as

to a temporary drop in hectares from the swap transaction.

### Revenue Risk Management

As of 31 March 2015, approximately 78% of the 58kt crop held in stock from 2014 was contracted. 20% of the expected 2015 corn production has been hedged in Chicago through derivative positions. This is lower than in prior years due to difficulties in executing export sales with the uncertainty on the export duty/floating levy and reluctance on behalf of companies to enter into contract too far forward in rubles. For these reasons, no physical sales have currently been made on 2015 crop.

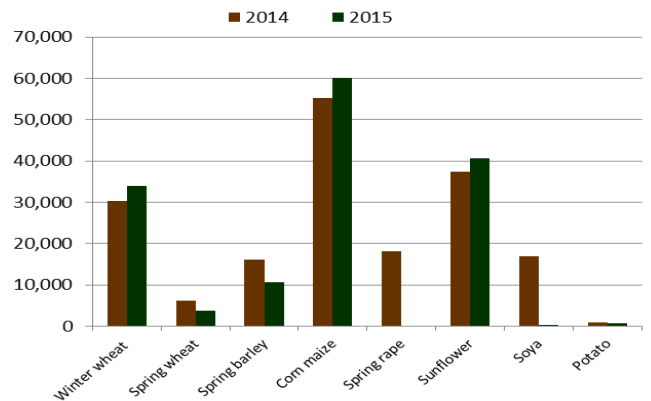
### Summary

Thus far a relatively good spring and start to the year. We continue our work with improving the core business performance and also preparing our irrigated root crop enterprise for more rapid expansion. We continue work on our plans to optimize our land portfolio.

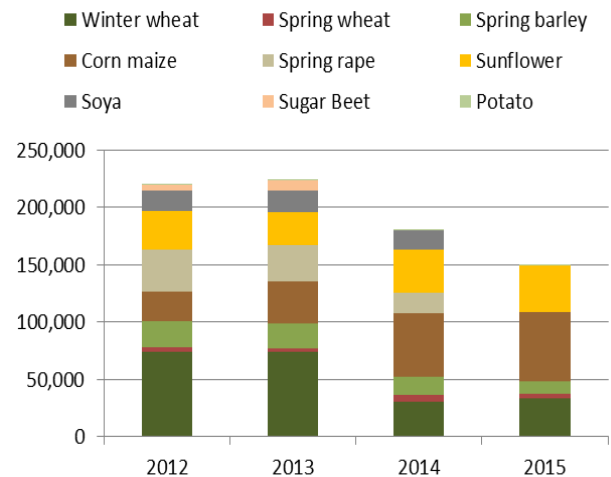
22 May 2015

Richard Warburton CEO and President

**Commercial Crop Area Development, k Ha**



**2012-2015 Crop area Breakdown, k Ha**



# Q1 2015 Financial Review



## Note on foreign exchange

### RUR/SEK and RUR/USD fluctuations 2014-2015



The 1Q15 results were impacted by the movement in the exchange rate. The 1Q15 average RUR/USD rate, used to translate the income statement, was 63.19, vs 35.21 in 1Q14 (+79% y-o-y). Over the period, the RUR depreciated only marginally against the USD, from 56.26 to 58.46 (3.9%), but strengthened against the SEK from 7.26 to 6.80 (+6.3%), with impact on the translation of the company's SEK liabilities.

## Revenue

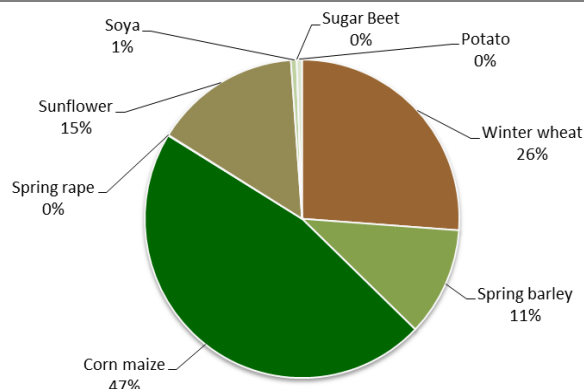
### Sales Volumes & Realised Price per Ton



Revenue from goods sold during 1Q15 decreased by 45% y-o-y to USD 14.1mn as volumes sold were down -34% from 129kt in 1Q14 to 85kt in 1Q15 and the weighted average USD price decreased -16% y-o-y on a combination of a weaker market, FX and crop mix. The 1Q15 volume sales mix consisted of corn (47%), wheat (26%), sunflower (15%) and barley (11%). In 1Q14, sales volumes consisted of corn (66%), wheat (13%), barley (9%) and sunflowers (7%). Compared to the inventory valuation on 31 December 2014, realized sales prices were generally higher in ruble terms but mixed in USD,

which contributed to a USD 2.3mn (1.3) gross profit in 1Q15.

### Q1 2015 Sales Mix (% of volumes)



## Inventory & Gain/Loss of Revaluation

58kt of crops harvested in 2014 were held in inventory as of 31 March 2015, vs 144kt as of 31 December 2014. 55% of the end-of-period volumes consisted of barley, 20% of wheat and 13% of potatoes. As prices on 31 March were generally lower than on 31 December, the revaluation of inventory resulted in a USD -0.6mn (0.6) loss in 1Q15. Domestic market and contract prices, as detailed on page 7, were used to determine a net realizable value of USD 9.1mn (10.3) on 31 March 2015. At the end of the reporting period, biological assets, which consisted mainly of winter wheat seeded in the autumn of 2014, amounted to USD 6.7mn (7.3). Land cultivation work (soil preparations for the 2015 crop) amounted to USD 10.3mn (15.7). The difference between the years is mostly explained by the bigger cropped area in 2014 but also by the weaker ruble.

## Result

Higher ruble prices over the cost of sold inventory, as valued on 31 December 2014, contributed to a positive gross profit of USD 2.3mn (1.3) before distribution costs. Crops in inventory were marked down USD -0.6mn (0.6) on lower end-of-period prices. At USD 2.4mn (4.7), distribution costs were -49% y-o-y as exported volumes dropped -40% from 32kt in 1Q14 to 19kt in 1Q15. General and administrative expenses were down -11% y-o-y to USD 4.3mn despite the ruble depreciation on the back of dollar based compensation and consultancy costs. 1Q15 other income and expenses included a USD 0.1mn (-1.2) gain on grain hedge positions. As a result, 1Q15 EBITDA was USD -2.4mn (-5.7) and 1Q15 EBIT was USD -3.9mn (-9.3).

# Q1 2015 Financial Review



Financial costs were down -46% y-o-y as a result of bond repurchases and depreciation of the SEK against the USD. Over the reporting period, the SEK also depreciated against the ruble. As a result, the Company posted a USD 2.8mn (-8.2) FX translation gain in 1Q15, mostly on its SEK-denominated bonds.

In summary, better sales vs the prior period inventory valuation, lower costs on a weaker ruble, gains on hedges, interest savings and a FX translation gain on a weaker SEK contributed to a USD 17.5mn y-o-y increase in net income from USD -19.6mn in 1Q14 to USD -2.1mn in 1Q15.

## Financial Position

The reduction in the Company's balance sheet position from 1Q15 to 1Q14 to a significant extent reflects the depreciation of the ruble against the USD from 35.7 to 58.5 (64%).

1Q15 non-current assets of USD 93mn (157.7) mainly comprise of PP&E, including storage facilities and buildings of USD 30.1mn (52.5), land held at acquisition cost of USD 27.2mn (45.8), and machinery, equipment and other of USD 30.2mn (50.5). USD 3.9mn (13.7) of PPE was reclassified to assets held for sale, on the announced intention to swap land and real estate assets in Lipetsk for land and real estate in Tambov. As at 31 March 2015, inventories included USD 9.1mn (10.3) of finished goods (mainly crops in inventory) and USD 18.0mn (26.8) of input materials (mainly seeds, sprays, fertilizers and fuel) to be used for the 2015 crop. Payables stood at USD 13.0mn (11.2) and receivables at USD 11.8mn (18.9) at 1Q15. The Company had USD 33.9mn (54.1) in cash and USD 54.8mn (100.3) of interest bearing debt outstanding (net of USD 32.1mn repurchased bonds). The reduction in interest bearing debt, from USD 100.3mn in 1Q14, was driven by bond repurchases in 2014 (a total of USD 26.7mn) and weakening of the SEK against the USD. Net debt (net of repurchased bonds and cash) amounted to USD 20.9mn (46.2) as at 31 March 2015. Total debt to total equity stood at 47% (52%) at the end of the reporting period.

The Company's assets are held at historical cost in its functional currency in the Russian ruble. Given the devaluation of its assets as a result of the depreciation of the ruble in 2014, the Company believes that especially its land assets are undervalued on its balance sheet. The Company intends to review its approach to accounting for its land assets in the balance sheet.

## Cash Flow

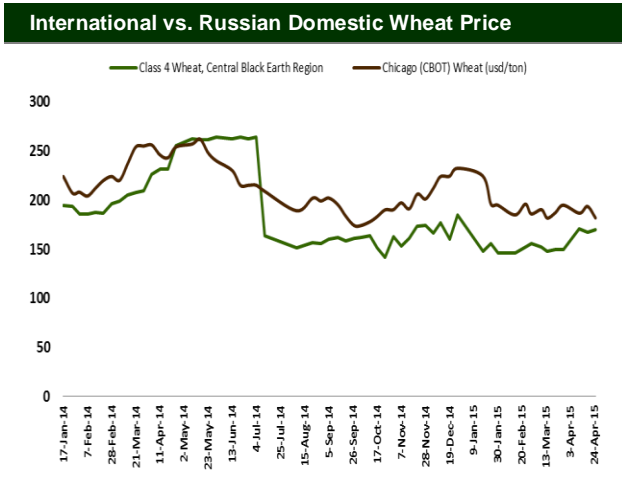
Net cash flow from operations amounted to USD 5.4mn (-3.5) in 1Q15 as sales of 2014 crop inventory and a reduction in receivables covered operational and capital expenditure into the 2015 harvest. Investments into PP&E of USD 2.5mn (3.9) consisted mainly of construction and machinery, split between the Company's core segment and its irrigated root crop business. Net cash flows of USD 1.8mn and foreign exchange differences resulted in cash and equivalents of USD 33.9mn as of 31 March 2015 vs. USD 32.9mn at the start of the year.

Statement of Financial Position				
	RUR million		USD million	
			Ex-rate 58.5	Ex-rate 35.7
	31-Mar-15	31-Mar-14	31-Mar-15	31-Mar-14
Land	1,590.7	1,635.4	27.2	45.8
Buildings	1,758.1	1,874.3	30.1	52.5
Equipment & other	1,768.1	1,802.3	30.2	50.5
Investment property	157.1	140.9	2.7	3.9
Other	167.5	178.4	2.9	5.0
<b>Total Non-current assets</b>	<b>5,441.5</b>	<b>5,631.3</b>	<b>93.1</b>	<b>157.7</b>
Cash	1,984.6	1,932.1	33.9	54.1
Finished goods	530.3	369.2	9.1	10.3
Raw materials and consumables	1,053.1	955.9	18.0	26.8
Bio assets & cultivation	992.3	817.8	17.0	22.9
Receivables	688.6	674.2	11.8	18.9
Assets held for sale	230.4	487.2	3.9	13.7
<b>Total Current Assets</b>	<b>5,479.3</b>	<b>5,236.4</b>	<b>93.7</b>	<b>146.7</b>
<b>Total Assets</b>	<b>10,920.8</b>	<b>10,867.7</b>	<b>186.8</b>	<b>304.4</b>
Total Debt	(3,202.6)	(3,580.4)	(54.8)	(100.3)
Other Liabilities	(821.5)	(458.0)	(14.0)	(12.8)
Equity	(6,896.7)	(6,829.3)	(118.0)	(191.3)
<b>Total Equity &amp; Liabilities</b>	<b>(10,920.8)</b>	<b>(10,867.7)</b>	<b>(186.8)</b>	<b>(304.4)</b>

## International

International grain prices continued to weaken during the first quarter of 2015 as stocks at the end of the season are expected to be high and the prospects for 2015-16 crop production worldwide remain good with only isolated areas of concern.

Demand, meanwhile, has increased only marginally and the resulting stock re-building from the low of the previous year has resulted in higher end stocks to use ratio for all commodities, with prices declining some 10% in the first three months of 2015 as a result. Chicago futures market traders have sold a record volume of contracts forward in the expectation of even lower prices, especially for wheat and corn. Concerns in the US over this year's harvest prospects, with low moisture levels in the southern plains adversely effecting winter soft wheat production, have abated. Spring planting, whilst marginally later than normal, is virtually completed for wheat and corn. The expected major swing from corn to soya area in the US is not as big as first envisaged and world soya and oilseed 2015-16 production is about unchanged. But higher carry-in stocks increases the overall supply, which is reflected in lower prices. Growing conditions during the next 3-4 months remain critical to final crop



Source: IKAR, CBOT

production and eventual prices. Winter kill was lower than initially feared in Russia, although the crop is estimated to be about 10% lower overall. The US dry regions have received rains but the wheat crop in India is expected to be down by 20% (to 80mn tons) due to late season damaging rain. The predicted El Nino event, if strong, could damage crops in Australia and Asia later in the season.

## Russia

The final 2014 crop production figure for Russia is 103mn tons, of which wheat is 61mn, barley is 20mn and corn is 11mn, small grains and rice 11mn. Exports were highly competitive on the world market and shipments broke previous monthly record levels from harvest to December. Whilst prices fell 10% in USD terms, the weakening ruble saw prices increase domestically by 30%. Towards the end of 2014, the Government introduced an export levy for wheat at the minimum level of EUR 35 in an attempt to cool inflation by lowering grain prices. The levy came into force on the first of February 2015. Domestic prices fell due to this and also as a result of the ruble stabilizing against major world currencies, especially the USD, from the lows of 65-68 and strengthening towards a RUR/USD range of 50-55. Total exports are expected to be 28-29mn, down from the pre-levy estimate of 31-32mn. The winter kill was less than expected at 8-10% and spring sowing is now almost complete, giving an expected harvest in 2015 of 90-92mn, down 10% due to an overall lower wheat area and using five year average yields. Last year's yields were above trend and are unlikely to be repeated. Due to economic pressure from high inflation and tighter funding conditions, farmers are also unlikely to be able to invest in the crops (seeds, fertilizer and crop protection) to the same extent as before. Whilst the Russian crop is expected to be lower, world stocks and production are increasing and prices, ruble exchange rate and pricing apart, are expected to continue to follow international prices downward. Whilst crop 2015 prices are already lower, much uncertainty remains. After cancelling the export levy with effect from 15th May, it is unclear if, when and on what basis the Government might enact draft proposals to introduce a floating levy for 2015 based on domestic maximum prices.

# Sales Development & Crop Inventory



The Company values its inventory of finished goods at net realisable value to reflect the market value as at the end of the reporting period. Contract or market prices are used to estimate net realisable value. A change in net realisable value affects total revenue and gains in the statement of comprehensive income. In addition, cost of goods sold represents the carrying value of inventory as at the previous reporting date. The table below provides a breakdown of inventories as of 31 March 2015 as well as the development of crop sales during 2015 and 2014. Note that all recorded prices exclude 10% VAT and estimated distribution expenses.

Quarterly Sales Volume & Crop Inventory							
	Quarterly Sales					Crop in Inventory	
	1Q '15	4Q '14	3Q '14	2Q '14	1Q '14	31 Mar '15	31 Dec '14
<b>Volume, k tons</b>							
<i>Wheat</i>	22.2	60.2	41.1	0.8	17.2	11.8	33.7
<i>Barley</i>	9.4	13.4	0	12.8	12	31.7	43.1
<i>Corn</i>	39.4	149.6	0.6	24.9	85.4	1.3	40.3
<i>Rape</i>	0	6.2	15.3	0	2.1	4.7	4.8
<i>Sunflower</i>	12.7	56.6	0.5	10	8.8	1.3	13.8
<i>Soya</i>	0.5	9.7	0	0	2.8	0	0.1
<i>Potato</i>	0.5	12.2	6.1	0	1	7.3	8.2
<i>Other</i>	0	2.5	3.3	0.1	0.1	0	0
<b>Total Tons</b>	<b>84.7</b>	<b>310.4</b>	<b>66.9</b>	<b>48.6</b>	<b>129.4</b>	<b>58.1</b>	<b>144.0</b>
<b>Price, USD/ton</b>							
<i>Wheat</i>	172	193	167	241	184	142	163
<i>Barley</i>	124	158	131	186	196	149	134
<i>Corn</i>	140	151	128	200	170	130	135
<i>Rape</i>	384	516	320	0	382	303	301
<i>Sunflower</i>	242	265	297	310	303	333	299
<i>Soya</i>	125	320	0	0	417	0	335
<i>Potato</i>	157	135	220	0	237	111	143
<i>Other</i>	71	345	298	23.5	67	0	0
<b>Average Price</b>	<b>162</b>	<b>194</b>	<b>214</b>	<b>219</b>	<b>193</b>	<b>159</b>	<b>163</b>

As of 31 March 2015, the Company recorded total inventories at a value of USD 27.1mn (37.1). Total inventories include finished goods, i.e. crops harvested in 2014 held for sale, of USD 9.1mn (10.3) as well as raw materials to be used in production of USD 18.0mn (26.8). Crop inventory of finished goods included 58.1 thousand tons of crops harvested during 2014 and valued at an average price of USD 159 per ton resulting in total fair value estimate of USD 9.1mn. On 31 March 2014, the Company held 52.0 thousand tons of crops harvested during 2013 valued at an average price of USD 199 per ton, resulting in a total fair value estimate of USD 10.3 million.

# Production Overview



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## Crop Area Breakdown

(hectares)	2010	2011	2012	2013	2014	2015E
Winter wheat	72,677	93,627	73,912	73,702	30,235	33,978
Spring wheat	10,157	13,093	4,368	3,412	6,140	3,831
Spring barley	13,793	26,535	22,718	21,850	16,076	10,642
Corn maize	8,592	6,149	26,003	36,814	55,317	60,140
Winter triticale	302	n/a	n/a	n/a	n/a	n/a
<b>Total Grains</b>	<b>105,521</b>	<b>139,404</b>	<b>127,001</b>	<b>135,778</b>	<b>107,768</b>	<b>108,591</b>
Winter rape	536	n/a	n/a	n/a	111	n/a
Spring rape	29,051	33,494	36,597	31,436	18,083	n/a
Sunflower	36,761	46,518	33,218	28,997	37,479	40,727
Soya	7,899	7,863	18,187	18,682	16,932	168
<b>Total Oilseeds</b>	<b>74,247</b>	<b>87,875</b>	<b>88,002</b>	<b>79,115</b>	<b>72,605</b>	<b>40,895</b>
Sugar Beet	n/a	1,621	5,085	8,822	n/a	n/a
Potatoes	n/a	n/a	31	196	884	621
<b>Total Commercial Area</b>	<b>179,768</b>	<b>228,900</b>	<b>220,119</b>	<b>223,911</b>	<b>181,257</b>	<b>150,106</b>
<i>Other / Forage crops</i>	<i>1,013</i>	<i>1,951</i>	<i>1,675</i>	<i>1,992</i>	<i>2,934</i>	<i>70</i>
<b>Total harvest area</b>	<b>180,781</b>	<b>230,851</b>	<b>221,794</b>	<b>225,903</b>	<b>184,191</b>	<b>150,176</b>

## Average Net Crop Yields

(tons/hectare)	2010	2011	2012	2013	2014	
Winter wheat	1.9	2.4	2.1	3.3	4.0	
Spring wheat	1.4	1.6	2.6	1.9	3.6	
Spring barley	1.4	1.9	2.4	2.6	3.6	
Corn maize	0.7	4.9	5.1	4.3	3.5	
Winter triticale	0.8	n/a	n/a	n/a	n/a	
Winter rape	0.5	n/a	n/a	n/a	0.7	
Spring rape	0.6	1.1	1.3	0.9	1.4	
Sunflower	0.8	2.0	1.9	2.0	1.9	
Soya	0.3	0.9	1.2	0.9	0.5	
Sugar beet	n/a	25.6	25.3	24.3	n/a	
Potatoes	n/a	n/a	33.2	33.9	31.0	

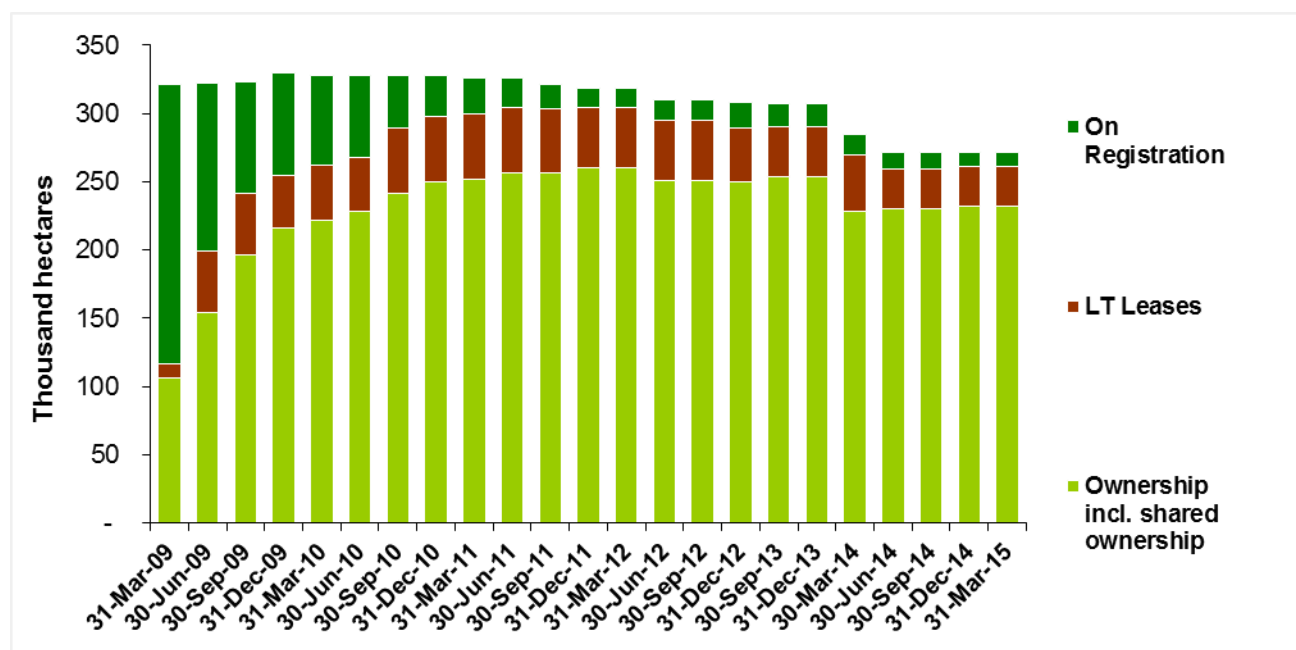
## Net Harvest Volumes

(tons)	2010	2011	2012	2013	2014	
Winter wheat	137,703	220,608	157,571	243,217	121,185	
Spring wheat	13,791	21,187	11,495	6,585	22,379	
Spring barley	19,595	49,166	55,074	56,592	57,492	
Corn	5,152	29,989	132,829	158,986	195,747	
Winter triticale	211	n/a	n/a	n/a	n/a	
<b>Total Cereal Grains</b>	<b>176,452</b>	<b>320,950</b>	<b>356,969</b>	<b>465,380</b>	<b>396,803</b>	
Winter rape	246	n/a	n/a	n/a	75	
Spring rape	15,497	36,887	46,052	28,292	26,064	
Sunflower	28,904	92,805	62,759	57,994	70,927	
Soya	1,818	7,114	22,364	16,006	9,098	
<b>Total Oilseeds</b>	<b>46,465</b>	<b>136,806</b>	<b>131,175</b>	<b>102,292</b>	<b>106,164</b>	
Sugar beet	n/a	41,531	128,405	214,720	n/a	
Potatoes	n/a	n/a	1,029	6,644	27,404	
<b>Total Commercial Crops</b>	<b>222,917</b>	<b>499,287</b>	<b>617,578</b>	<b>789,036</b>	<b>530,371</b>	
<i>Other/Forage crops</i>	<i>3,686</i>	<i>14,597</i>	<i>13,213</i>	<i>13,243</i>	<i>19,575</i>	
<b>Total Output</b>	<b>226,603</b>	<b>513,884</b>	<b>630,791</b>	<b>802,279</b>	<b>549,946</b>	



As of 31 March 2015, Black Earth Farming held 232k Ha of owned and co-owned land, corresponding to 86% of the total controlled land bank of 271k Ha. 29k Ha were leased and 10k Ha were in the process of full registration. 13 thousand Ha in Samara, where operations have ceased, are leased to third parties and held at a fair value of USD 2.7mn (3.9) classified as investment property in the balance sheet. Consolidation and further improvement of the operational efficiencies in and around the most efficient and profitable farm clusters remains a key objective to the Company in terms of its land holdings.

## 232 Thousand Hectares in Ownership (86% of total controlled land)



Russian agricultural land is in the Company's view still undervalued, both in comparison with land of similar quality in other countries and in relation to its inherent production potential, especially in the fertile Black Earth Region. Black Earth Farming holds the 229k Ha of land that is not leased at acquisition cost, as recorded in the statement of financial position as property, plant and equipment and assets classified as held for sale at a value of USD 28.7mn as of 31 March 2015, which translates into a per hectare value of USD 125. 13k Ha in Samara are held at a fair value of USD 2.7mn, which translates into a per hectare fair value of USD 208.

The depreciation in the Russian ruble has resulted in a decline, in hard currency terms, in the value of the Company's assets, which are carried at historical cost in rubles (the Company's functional currency) on its balance sheet. 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 on its balance sheet.

On 17 March 2015, the Company announced plans to swap land and storage in Lipetsk and Tambov for land and storage in Tambov.

The proposed swap would see the Group disposing of a total of 36.6k Ha of controlled land, including 4.5k Ha of grassland, 5.6k Ha of forested fallow, 7.2k Ha of leased land as well as of 20kt of grain storage. The assets received in the swap amounts to a total of 24.9k Ha of controlled land, including 20.9k Ha of crop land, 4.0k Ha of grassland, 3.3k Ha of leased land, and a 30kt 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.

# The Black Earth Farming Share



**BLACK  
EARTH  
FARMING LTD.**

## Risks and Uncertainties

Risks and uncertainties are described in the annual report for 2014. The risks can be summarised as Risks relating to the Company, Risks relating to the Company's business and Risks relating to Russia. Risks and uncertainty factors that existed on 31 December 2014 also exist on 31 March 2015.

## Outstanding shares

As of 31 March 2015 the amount of outstanding shares was 207,669,445. The Company also has outstanding share-based incentive programs described in note 26 (d) in the 2014 Annual Report. The market capitalisation as of 31 March 2015 was approximately SEK 878 million or USD 102 million.

## Shareholders

The total number of shareholders, as of 31 March 2015, amounted to approximately 14,000.

## Trade data for the period 2 Jan 2014 – 7 May 2015

Average Daily Turnover (SEK)	Average No of Traded Shares	Average No of daily trades
1,808,016	375,106	149

Source: NASDAQ OMX

## Top 5 shareholders as of 31 Mar 2015

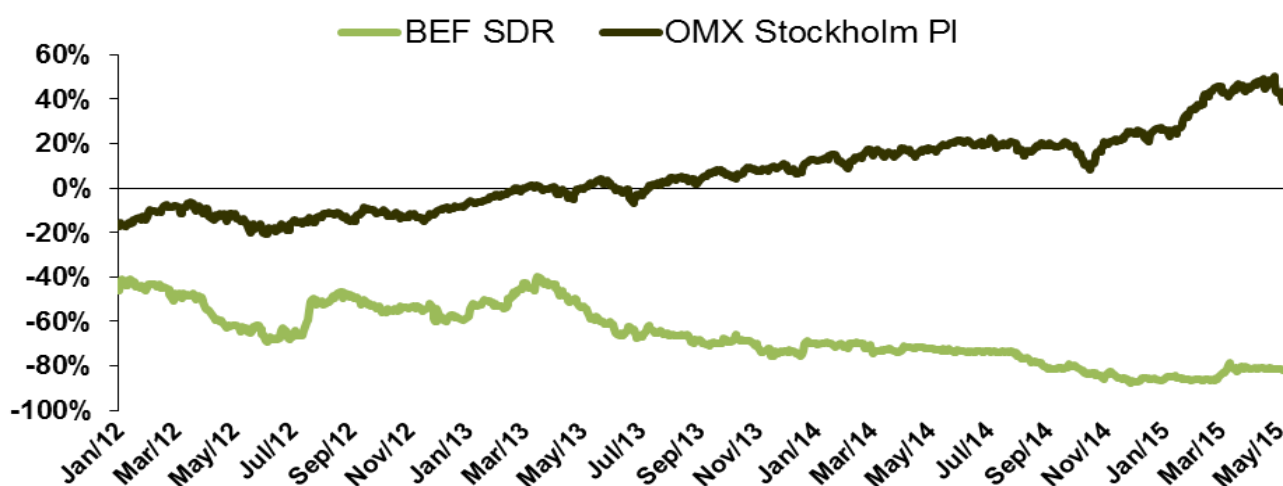
Owner	% of votes & capital
AB INVESTMENT KINNEVIK	24.95%
GOMOBILE NU AB	11.71%
ALECTA PENSION FUNDS	9.81%
DANSKE INVEST FUNDS	3.64%

Source: Euroclear Sweden share registry & shareholders' reference

## Compiled SDR information

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

## Share Performance vs. OMX Stockholm index



## Black Earth Farming SDR

Price SEK/SDR 31 Mar 2015	Change 1 Month	Change 3 Months	52 Week High
<b>4.23</b>	26.27%	44.86%	6.25
	Change 6 Months	Change 1 Year	52 Week Low
	-3.42%	-26.43%	2.77

**BLACK EARTH FARMING LIMITED AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENT OF INCOME  
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2015**

*in thousands of US Dollars*

	Notes	<u>3m. 2015</u>	<u>3m. 2014</u>
Revenue	3	14,102	25,449
Gain on revaluation of biological assets to agricultural produce		44	199
Change in net realizable value of agricultural produce after harvest		(598)	594
<b>Total revenue and gains</b>	4	<b>13,548</b>	<b>26,242</b>
Cost of sales	5	(6,823)	(20,727)
Effect of revaluations (revaluation of biological assets to agricultural produce and change in net realizable value of agricultural produce after harvest)		(4,468)	(4,251)
<b>Gross profit</b>		<b>2,257</b>	<b>1,264</b>
Distribution expenses		(2,406)	(4,696)
General and administrative expenses		(4,285)	(4,816)
Taxes other than income		(196)	(385)
Government grants		647	1,209
Crop insurance net of insurance grants		(133)	-
Other income and expenses, net	6	235	(1,875)
<b>Operating loss</b>		<b>(3,881)</b>	<b>(9,299)</b>
Financial income		81	434
Financial expenses		(1,288)	(2,396)
Gain/(Loss) on foreign exchange differences		2,842	(8,214)
<b>Loss before income tax</b>		<b>(2,246)</b>	<b>(19,475)</b>
Income tax expense		178	(101)
<b>Loss for the period attributable to owners of the parent</b>		<b><u>(2,068)</u></b>	<b><u>(19,576)</u></b>
<i>Loss per share (amounts are indicated in USD)</i>			
Loss per share, basic and diluted		<u>(0.01)</u>	<u>(0.09)</u>

**BLACK EARTH FARMING LIMITED AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2015**

*in thousands of US Dollars*

	<u>3m. 2015</u>	<u>3m. 2014</u>
<b>Loss for the period</b>	<u><b>(2,068)</b></u>	<u><b>(19,576)</b></u>
<b>Other comprehensive loss</b>		
Translation difference	<u>(4,661)</u>	<u>(18,196)</u>
<b>Other comprehensive loss for the period</b>	<u><b>(4,661)</b></u>	<u><b>(18,196)</b></u>
<b>Total comprehensive loss for the period attributable to owners of the parent</b>	<u><u><b>(6,729)</b></u></u>	<u><u><b>(37,772)</b></u></u>

**BLACK EARTH FARMING LIMITED AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2015**

*In thousands of US Dollars*

	Notes	<u>31-Mar-15</u>	<u>31-Dec-14</u>
<b>ASSETS</b>			
<i>Non-current assets</i>			
Property, plant and equipment		87,520	95,141
Intangible assets		167	24
Biological assets (livestock)		444	431
Other non-current assets		1,528	670
Deferred tax assets		727	415
Investment property		2,687	2,792
<b>Total non-current assets</b>		<u><b>93,073</b></u>	<u><b>99,473</b></u>
<i>Current assets</i>			
Finished goods		9,071	23,495
Raw materials and consumables		18,012	9,859
Biological assets (crop production)		6,695	6,066
Land cultivation works		10,278	6,887
Trade and other receivables	7	11,777	15,604
Cash and cash equivalents		33,945	32,888
		89,778	94,779
Assets classified as held for sale	8	3,940	-
<b>Total current assets</b>		<u><b>93,718</b></u>	<u><b>94,799</b></u>
<b>Total assets</b>		<u><b>186,791</b></u>	<u><b>194,272</b></u>
<b>EQUITY AND LIABILITIES</b>			
<i>Equity attributable to owners of the parent</i>			
Share capital		2,077	2,077
Share premium		524,771	524,771
Reserves		5,612	4,868
Accumulated deficit		(234,921)	(232,853)
Translation reserve		(179,575)	(174,914)
<b>Total equity</b>		<u><b>117,964</b></u>	<u><b>123,949</b></u>
<b>LIABILITIES</b>			
<i>Non-current liabilities</i>			
Non-current loans and borrowings	9	53,475	58,819
Non-current finance lease liabilities	9	370	461
Deferred tax liabilities		413	372
<b>Total non-current liabilities</b>		<u><b>54,258</b></u>	<u><b>59,652</b></u>
<i>Current liabilities</i>			
Current loans and borrowings	9	1,305	1,380
Trade and other payables		12,997	9,021
Current finance lease liabilities	9	267	270
<b>Total current liabilities</b>		<u><b>14,569</b></u>	<u><b>10,671</b></u>
<b>Total liabilities</b>		<u><b>68,827</b></u>	<u><b>70,323</b></u>
<b>Total equity and liabilities</b>		<u><b>186,791</b></u>	<u><b>194,272</b></u>

**BLACK EARTH FARMING LIMITED AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2015**

*In thousands of US Dollars*

	Share capital	Share premium	Reserves	Accumulated deficit	Trans- lation reserve	Total equity attributable to owners of the parent
<b>Balance as at 1 January 2014</b>	<b>2,077</b>	<b>524,771</b>	<b>6,103</b>	<b>(215,962)</b>	<b>(88,246)</b>	<b>228,743</b>
Loss for the period	-	-	-	(19,576)	-	(19,576)
<b>Other comprehensive loss</b>						
Translation differences	-	-	(518)	-	(18,196)	(18,714)
<b>Total comprehensive loss</b>	-	-	<b>(518)</b>	<b>(19,576)</b>	<b>(18,196)</b>	<b>(38,290)</b>
Recognition of share-based payments	-	-	912	-	-	912
<b>Balance as at 31 March 2014</b>	<b>2,077</b>	<b>524,771</b>	<b>6,497</b>	<b>(235,538)</b>	<b>(106,442)</b>	<b>191,365</b>
<b>Balance as at 1 January 2015</b>	<b>2,077</b>	<b>524,771</b>	<b>4,868</b>	<b>(232,853)</b>	<b>(174,914)</b>	<b>123,949</b>
Loss for the period	-	-	-	(2,068)	-	(2,068)
<b>Other comprehensive loss</b>						
Translation differences	-	-	(114)	-	(4,661)	(4,775)
<b>Total comprehensive loss</b>	-	-	<b>(114)</b>	<b>(2,068)</b>	<b>(4,661)</b>	<b>(6,843)</b>
Recognition of share-based payments	-	-	858	-	-	858
<b>Balance as at 31 March 2015</b>	<b>2,077</b>	<b>524,771</b>	<b>5,612</b>	<b>(234,921)</b>	<b>(179,575)</b>	<b>117,964</b>

**BLACK EARTH FARMING LIMITED AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2015**

*In thousands of US Dollars*

	<b>Period ended 31-Mar-15</b>	<b>Period ended 31-Mar-14</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the period	(2,068)	(19,576)
<i>Adjustments for:</i>		
Income tax expense	(178)	101
Depreciation and amortization	1,484	3,563
Change in allowance for doubtful debts	(17)	2
Foreign exchange (gain)/loss	(2,842)	8,214
Interest income	(81)	(434)
Interest expense	1,288	2,396
Gain on disposal of property, plant and equipment	(74)	1
Share based payments	858	912
Change in value of biological assets and agricultural produce	554	(793)
Effect of revaluations on cost of goods sold	4,468	4,251
	<b>3,392</b>	<b>(1,363)</b>
<b>Movements in working capital:</b>		
(Increase)/decrease in inventories	(384)	12,001
Increase in biological assets	(3,194)	(9,139)
Decrease in trade and other receivables	2,330	1,036
Increase/(decrease) in trade payables and other short-term liabilities	3,993	(3,608)
<b>Cash generated from/(used in) operations</b>	<b>6,137</b>	<b>(1,073)</b>
Interest paid	(1,464)	(2,339)
Income tax recovered/(paid)	707	(123)
<b>Net cash generated from/(used in) operating activities</b>	<b>5,380</b>	<b>(3,535)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	81	434
Acquisition of land plots	(15)	(12)
Acquisition of property, plant and equipment	(2,260)	(3,895)
Proceeds from disposal of property, plant and equipment	112	18
Acquisition of intangible assets	(188)	(32)
<b>Net cash used in investing activities</b>	<b>(2,270)</b>	<b>(3,487)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from the issue of bonds		
Repurchase of bonds		
Settlement of obligations under finance lease agreements	(1,329)	-
<b>Net cash used in financing activities</b>	<b>(1,329)</b>	<b>-</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>1,781</b>	<b>(7,022)</b>
Cash and cash equivalents at the beginning of the period	32,888	64,925
Currency translation differences on cash and cash equivalents	246	1,546
Effect of foreign currency exchange differences	(970)	(5,310)
<b>Cash and cash equivalents at the end of the period</b>	<b>33,945</b>	<b>54,139</b>

**BLACK EARTH FARMING LIMITED AND SUBSIDIARIES**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2015**

**1. Background**

**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 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 Mid Cap segment on NASDAQ OMX Stockholm.

**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 largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

These 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.

**Seasonality**

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

**2. Basis of preparation**

**Statement of compliance**

The condensed consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRSs") as endorsed by the European Union and following the principles of International Accounting Standard (IAS) 34 Interim Financial Reporting.



**BLACK EARTH FARMING LIMITED AND SUBSIDIARIES**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2015**

**Significant accounting policies**

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

The same accounting policies, presentation and methods of computation are followed in these condensed consolidated financial statements as were applied in the preparation of the Group's consolidated financial statements for the year ended 31 December 2014, except for the change in the presentation currency described below.

**Functional and presentation currency**

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.

The financial statements are presented in US Dollars ("USD") which is the Company's presentation currency. 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 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 actual transaction date rates);
- All resulting exchange differences are recognized as a separate component of equity.

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

	<u>2015</u>	<u>2014</u>
RUR/USD for the three months period ended 31 March	63.1919	35.2146
RUR/USD as at 31 March (31 December in 2014)	58.4643	56.2584
RUR/SEK for the three months period ended 31 March	7.5710	5.4417
RUR/SEK as at 31 March (31 December in 2014)	6.8045	7.2021

**3. Segment information**

The operating segments definitions were developed by senior management in order to enable effective and efficient operating performance based on the geographic and sub-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 Elevator segment consists of two legal entities: LLC Agroterminal (with a working elevator containing 60 thousand tons of capacity) and LLC Agro-Invest Nedvizhimost (with new working elevators containing 105 thousand tons of capacity). The elevators are mainly used for storing internally produced crops with small portion of external sales.

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

**BLACK EARTH FARMING LIMITED AND SUBSIDIARIES**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2015**

**Segment revenues and results**

*In thousands of US Dollars*

	<b>Three months ended 31 March 2015</b>			
	<b>Revenue from external sales</b>	<b>Inter- segment revenue</b>	<b>Depreciation and amortization</b>	<b>Net result</b>
Agricultural companies				
– Voronezh region	2,157	908	63	(9)
– Kursk region	5,425	260	34	122
– Lipetsk region	3,975	2,759	664	47
– Tambov region	2,459	2,569	88	16
Elevators	86	370	553	(7)
<b>Total</b>	<b>14,102</b>	<b>6,866</b>	<b>1,402</b>	<b>169</b>
Central administrative costs and director's salaries				(4,285)
Other income and expenses				235
Net financial expenses and foreign exchange difference				1,635
<b>Loss before income tax</b>				<b>(2,246)</b>

*In thousands of US Dollars*

	<b>Three months ended 31 March 2014</b>			
	<b>Revenue from external sales</b>	<b>Inter- segment revenue</b>	<b>Depreciation and amortization</b>	<b>Net result</b>
Agricultural companies				
– Voronezh region	3,280	3,548	817	(832)
– Kursk region	11,298	1,882	833	(385)
– Lipetsk region	6,535	1,895	939	(315)
– Tambov region	4,284	604	690	(1,081)
Elevators	52	1,389	216	5
<b>Total</b>	<b>25,449</b>	<b>9,318</b>	<b>3,495</b>	<b>(2,608)</b>
Central administrative costs, including directors' salaries				(4,816)
Other income and expenses				(1,875)
Net financial expenses and foreign exchange difference				(10,176)
<b>Loss before income tax</b>				<b>(19,475)</b>

The accounting policies of the reportable segments are the same as the Group's accounting policies according to IFRS. Segment result represents the profit earned by each segment without allocation of central administrative costs and directors' salaries (Black Earth Farming Ltd. and Management Company), other income and expenses and net financial expenses.

**Segment assets**

*In thousands of US Dollars*

	<b>31-Mar-15</b>	<b>31-Dec-14</b>
Agricultural companies		
– Voronezh region	19,948	30,337
– Kursk region	39,166	39,854
– Lipetsk region	41,732	41,711
– Tambov region	28,056	28,260
Elevators	22,176	27,381
<b>Total segment assets</b>	<b>151,078</b>	<b>167,543</b>
Corporate assets	35,713	26,729
<b>Consolidated total assets</b>	<b>186,791</b>	<b>194,272</b>

**BLACK EARTH FARMING LIMITED AND SUBSIDIARIES**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2015**

**3 Segment information (continued)**

**Revenues from major products**

*In thousands of US Dollars*

	<u>3m. 2015</u>	<u>3m. 2014</u>
Corn	5,392	14,560
Wheat	3,821	3,159
Sunflowers	3,080	2,666
Barley	1,159	2,340
Milk and meat	152	313
Spring rape seed	135	813
Potatoes	72	238
Soya	64	1,193
Other and Waste grains	5	5
Other goods and services	222	162
	<u><b>14,102</b></u>	<u><b>25,449</b></u>

**Geographical information**

All of the Group's non-current assets are located and all operating activities are performed in the Russian Federation. The Group has the head office in Jersey, Channel Islands; however, the head office does not own any non-current assets, generates only financial income and expenses and incurs administration costs and director salaries expenses.

**4. Revenue and gains**

*In thousands of US Dollars*

	<u>3m. 2015</u>	<u>3m. 2014</u>
Revenue from sales of crop production	13,729	24,974
Revenue from sales of milk and meat	152	313
Revenue from sales of other goods and services	221	162
Gain on revaluation of biological assets	44	199
Change in net realizable value of agricultural produce after harvest	(598)	594
	<u><b>13,548</b></u>	<u><b>26,242</b></u>

**5. Cost of sales**

*In thousands of US Dollars*

	<u>3m. 2015</u>	<u>3m. 2014</u>
Materials	4,754	13,519
Depreciation and amortization charge	1,063	2,791
Salary and social taxes	560	1,483
Third party crop handling services	165	1,111
Crops not harvested due to damages on fields	17	252
Operating leasing	123	260
Taxes	72	356
Repair expenses	42	182
Other expenses	27	773
	<u><b>6,823</b></u>	<u><b>20,727</b></u>

**BLACK EARTH FARMING LIMITED AND SUBSIDIARIES**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2015**

**6. Other income and expenses, net**

<i>In thousands of US Dollars</i>	<b>3m. 2015</b>	<b>3m. 2014</b>
Movement on grain hedge	(121)	1,183
Loss on foreign exchange hedge	-	505
Other income and expenses	(114)	187
	<b>(235)</b>	<b>1,875</b>

**7. Trade and other receivables**

<i>In thousands of US Dollars</i>	<b>31-Mar-15</b>	<b>31-Dec-14</b>
Advances paid for goods and services	6,805	5,170
VAT receivables	2,945	3,230
Trade receivables	1,283	6,071
Income tax receivable	152	1,009
Other prepayments and receivables	1,613	1,399
Allowance for doubtful debts	(1,021)	(1,275)
	<b>11,777</b>	<b>15,604</b>

**8. Assets classified as held for sale**

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.

**9. Refinancing of debt securities**

On 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.

<i>In thousands of US Dollars</i>	<b>31-Mar-15</b>	<b>31-Dec-14</b>
<b>Unsecured SEK bonds – at amortized cost</b>		
Non-current	53,475	58,819
Current	1,305	1,380
	<b>54,780</b>	<b>60,199</b>
<b>Finance lease liabilities</b>		
Non-current	370	461
Current	267	270
	<b>637</b>	<b>731</b>
<b>Total borrowings</b>	<b>55,417</b>	<b>60,930</b>

As at 31 March 2015 the Group is in compliance with all covenants stipulated in the bond agreement.

**10. Dividends**

During the three months period ended 31 March 2015 the Board of Directors proposed no dividends to be paid or declared.

**BLACK EARTH FARMING LIMITED AND SUBSIDIARIES**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2015**

**11. Loss per share**

*The amounts are indicated in US Dollars*

	<u>3m. 2015</u>	<u>3m. 2014</u>
Loss for the period	(2,068,000)	(19,576,000)
Weighted average number of ordinary shares	207,669,445	207,669,445
Basic and diluted loss per share (USD/share)	(0.01)	(0.09)

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

**12. Related party balances and transactions**

*In thousands of US Dollars*

	<u>3m. 2015</u>	<u>3m. 2014</u>
<b>Purchase of services from related parties</b>		
TerraVost Ltd (formerly KinnAgri Ltd)	193	258
KCM International Ltd	312	231
	<u>505</u>	<u>489</u>
	<u>31-Mar-15</u>	<u>31-Dec-14</u>
<b>Accounts payable owed to related parties</b>		
TerraVost Ltd (formerly KinnAgri Ltd)	199	209
KCM International Ltd	317	186
	<u>516</u>	<u>395</u>

In December 2014, KinnAgri Ltd completed a buyback 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 majority shareholder of TerraVost Ltd (formerly KinnAgri Ltd).

TerraVost Ltd (formerly KinnAgri Ltd) provided consultancy services related to the 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 TerraVost Ltd (formerly KinnAgri Ltd). All contracts have been scrutinized for arm's length and approved by the members of the Board of Directors.

**13. Contingencies and commitments**

*in thousands of US Dollars*

	<u>31-Mar-15</u>	<u>31-Dec-14</u>
Commitments for acquisition of materials	6,967	5,892
Commitments for acquisition of plant, property and equipment	3,025	195
	<u>9,992</u>	<u>6,087</u>

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

**Tax contingencies.** 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 administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax non-compliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decision about review was made. Under certain circumstances reviews may cover longer periods.

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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 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 March 2015, management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained.

Black Earth Farming Ltd. is a leading farming company, publicly listed on Nasdaq OMX Stockholm and operating in Russia. It acquires, develops and farms agricultural land assets primarily in the fertile Black Earth region in southwest Russia. The Company has gained a strong market position in the Kursk, Tambov, Lipetsk and Voronezh regions, controlling some 271,000 hectares of what perhaps is the world's most fertile soil.



In 2015 Black Earth Farming plans to harvest approximately 150,000 hectares, effectively making it one of the world's largest public farming companies by cropped area. The Company's main products are wheat, barley, sunflower, rapeseed and potatoes.

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

Jersey, 22 May 2015

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Per Ahlgren, Chairman

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Camilla Öberg, Non-executive Director

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Franco Danesi, Non-executive Director

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Dmitry Zavgorodniy, Non-executive Director

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Poul Schroeder, Non-executive Director

**Future financial reports:**

Q2 Report  
Q3 Report  
Year End Report

14 August 2015  
13 November 2015  
19 February 2016

**For further information, please contact:**

Erik Danemar  
CFO, Black Earth Farming  
+7 985 765 08 67  
erik.danemar@blackearthfarming.com  
Group's website: [www.blackearthfarming.com](http://www.blackearthfarming.com)