

# Black Earth Farming Ltd Interim Report

1 January – 30 June 2016



**BLACK  
EARTH  
FARMING LTD.**



## Strong start to harvest

Net winter wheat yields so far are averaging 4.9 t/ha with 36% harvested to date. 1H16 Net Profit of USD 5.2mn exceeds comparable 1H15 result (excluding the 2015 swap transaction) by USD 7.6mn driven by strong yield outlook, G&A savings and favourable FX revaluation. Barley is yielding less well but is of good quality. Favourable growing conditions mean promising sunflower and corn crops. Grain y prices are weaker internationally and domestically.

### 1H 2016 Highlights (vs. H1 2015)

- Total revenue and gains of USD 53.8mn (34.2)
- Sales volume of 228.2kt (140.4)
- Average sales price after distribution cost per ton of USD 140 (148)
- Gross profit after distribution costs of USD 10.8mn (9.0)
- G&A of USD 7.0mn (8.6)
- EBIT USD 4.3mn (-1.5, excluding swap effect)
- FX income of USD 3.7mn (1.6)
- Net profit of USD 5.2mn (-2.4 Net loss, excluding swap)
- Net debt position of USD 27.6 (35.9)
- Earnings per share USD 0.02 (-0.01 excluding swap)

### 2Q 2016 Highlights (vs. Q2 2015)

- Total revenue and gains of USD 34.0mn (20.7)
- Sales volume of 109.3kt (55.7)
- Average sales price after distribution cost per ton of USD 159 (169)
- Gross profit after distribution costs of USD 10.9mn (9.1)
- G&A of USD 3.8mn (4.3)
- EBIT of USD 7.9mn (2.4, excluding swap)
- FX Income of USD 3.2mn (-1.3)
- Net profit of USD 9.8mn (-0.4 Net loss, excluding swap)

### 2016 Harvest progress

- Wheat 36% harvested with an average yield of 4.9 t/ha. Barley 28% harvested with an average yield of 2.8 t/ha as at 10 August

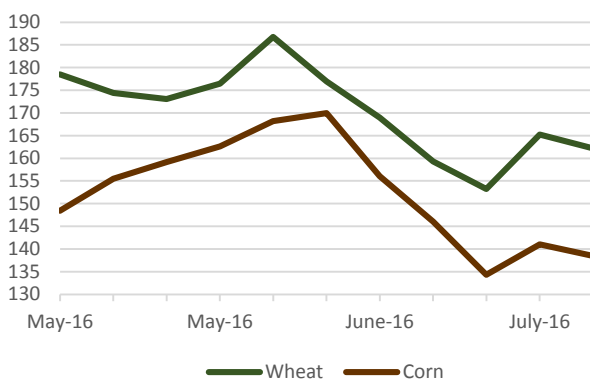
CEO Comment Highlights (p.2)	Financial Overview (p.5)						
	USD million	Q2 '16	Q2 '15	Q2 '15 Excl.* SWAP	6M '16	6M '15	6M '15 Excl.* SWAP
• Market Development							
• 2016 Harvest Progress							
• 2016 Crop Sales							
• 6M Results 2016							
• Risks							
• Potential land & asset sale							
• Summary							
	Crop Volumes Sold (ktons)	109.3	55.7	55.7	228.2	140.4	140.4
	Total Revenue & Gains	34.0	20.7	20.7	53.8	34.2	34.2
	Gross Profit after Distribution	10.9	9.1	9.1	10.8	9.0	9.0
	G&A	(3.8)	(4.3)	(4.3)	(7.0)	(8.6)	(8.6)
	EBITDA	10.4	13.0	3.8	8.0	10.6	1.4
	EBIT	7.9	11.5	2.4	4.3	7.6	(1.5)
	FX income	3.2	(1.3)	(1.3)	3.7	1.6	1.6
	<b>Net profit</b>	<b>9.8</b>	<b>6.7</b>	<b>(0.4)</b>	<b>5.2</b>	<b>4.7</b>	<b>(2.4)</b>

\* On 17 March 2015, the Company announced a swap of Lipetsk-Tambov land and storage capacity. The company recognized a USD 9.1 mn pre-tax profit and 7.1 after-tax profit.

## Market Development

Global crop production for 2017 is forecast at near record levels. International wheat and corn prices are at 10 and 6 year lows. Russia is forecasting a record grain crop of 108mnt. Domestic prices for wheat are 10% down y-o-y, while sunflower prices are up 22% in USD terms. Whilst sunflower plantings in Russia are according to official statistics up by 7% on last year the total production is likely to remain below the current crush capacity. Wheat quality so far looks worse than average with less class 3 and premiums for milling wheat and malting barley are relatively high.

### CBOT price volatility (USD per MT)



Source: CBOT

## 2016 Harvest Progress and Crops

Whilst we have a lower than planned area from the wet spring, in all other respects growing conditions in the central regions have been favorable with high rainfall levels, almost 80% higher than the average of the previous 5 years. A dry spell of 3 weeks in July was alleviated by recent rainfall across 80% of the company's hectares improving prospects for the sunflower and corn crops.

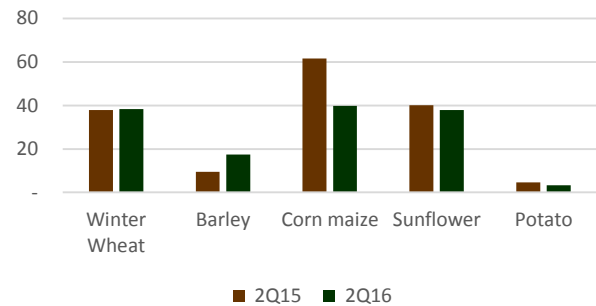
The winter wheat yield to date of 4.9t is a very promising start but harvest is somewhat delayed and additional resources are being used to catch up. Wheat Quality is lower than average with very little class 3 milling wheat. Spring barley is 28% harvested and yielding 2.8. Whilst the yield is disappointing so far it all looks to be of malting quality.

Corn and sunflower crops look very good. The simplification of the cropping implemented over the last two years is proving beneficial.

## 2016 Crop sales

12% of the corn and wheat crops are sold. Wheat and corn crop are hedged to 51 and 72% respectively through call options on the futures markets. In addition at the half year we booked a profit of USD 1.1mn on grain hedges in other income and expenses.

### Commercial Crop Area Development, k Ha



## 6M Results 2016

1H16 Total Revenue and Gains increased y-o-y both on Revenue and from Gains on Revaluation. Revenue of USD 40.7mn is by 67% higher than in 1H15 on increased sales volume.

Strong initial winter wheat yields of 4.9t compared with 3.6t in 2015 is a key contributor to Gains on biological assets revaluation.

Decreased market prices compared to year end valuation led to a loss on company's sales of USD 2mn in 1H16 (0.5).

1H16 Gross profit after distribution costs of USD 10.8mn improved y-o-y from on higher gain on revaluation of biological assets that offset the loss on H1 sales.

G&A declined by USD 1.6mn y-o-y supported by RUR devaluation and cost saving activities. Moscow office close project was the key cost saving effect accounting for USD 0.5mn savings in 1H16.

RUR appreciation from 72.88 RUR/USD at Dec 31 to 64.26 RUR/USD in June 30 led to FX income of USD 3.7mn (1.6) in 1H16.

Strong yields, G&A savings and positive effect from closing rate strengthening resulted in USD 5.2mn (4.7) Net profit in 1H16.

1H16 Net profit demonstrated USD 7,6mn like for like improvement vs. 1H15, as 1H15 benefited from USD 7.1mn Net positive effect from Tambov-Lipetsk land swap. 1H15 Net profit excluding Swap effect accounted for USD -2.4mn.

In 1H company generated USD 2.9mn FCF (cash from operations less investments). Company decreased its debt from USD 57.2mn at 30 June of 2015 to USD 51.2mn at 30 June 2016 through bond buyback and diversified its financial strategy partially replacing bond debt with subsidized credit.

The Company reached an agreement with VTB to extend its credit risk limit to RUR 2.4bn (USD 37.4mn) from RUR 800mn (USD 12.5mn at 31 Dec 2015) allowing it to balance its currency risk on borrowings. As of 30 June 2016, RUR 161mn (USD 2.5mn) credit was drawn from VTB. Net Debt position improved from USD 35.9mn at 30 June 2015 to USD 27.6mn in 2016.



## **Risks**

While the Company's business is not directly impacted by geopolitical tensions, the Group is exposed to indirect changes in its operating and financial environment. Sanctions on Russian companies and individuals could negatively impact the Russian economy, affecting demand and the Company's financial environment. The Russian government's increased focus on and support to the agricultural sector is generally positive for the Company.

## **Potential land and asset sale in Russia**

The company's overall focus is on shareholder value. In a press release on the 9th August the company in response to market speculation announced that as a result of approaches made to the company, that the company is in talks with the Russian company, ASB Group and other potential buyers regarding a substantial land and asset sale in Russia. However, no decisions have been made and it is uncertain whether the discussions will result in a transaction.

## **Summary**

Harvest has started well and potential productivity looks promising. The business continues to benefit from cost efficiencies and a weaker ruble. The crop price environment remains very weak with the exception of sunflowers. Our focus is on expediting harvest efficiently and executing autumn seeding well.

12 August 2016

Richard Warburton CEO and President

## Note on foreign exchange and FX income RUR/USD fluctuations 2014-2016



Due to the volatility of the RUR exchange rate, quarterly exchange rates were used to translate income and expenses of all subsidiaries with the Russian rouble as a functional currency for the period ended 30 June 2016. The average rates for the first quarter 2016 was 74.63 RUR/USD and for the second quarter was 65.89 RUR/USD. Opening (72.88) and closing RUR to USD rates (64.26) have been used to translate the balance sheet. USD to SEK rate was marginally changed by 2% from 8.35 SEK/USD at opening to 8.53 SEK/USD at closing balance date. The Company uses the official rate of the Central Bank of Russia as reference.

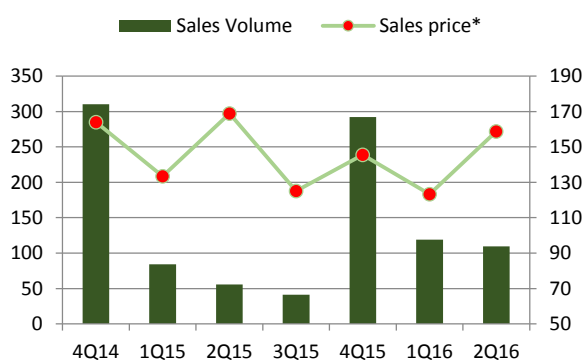
### Revenue

Revenue from goods sold in 1H16 increased by 66.8% y-o-y to USD 40.7mn (24.4) driven by 63.2% higher sales volumes (228.3kt vs 139.9kt).

Average price less distribution expenses decreased by 5.5% from 148 USD/tn in 1H15 to 140 USD /tn in 1H16 as low international commodity market continue to prevail.

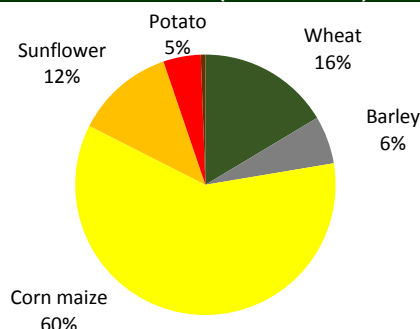
The 1H16 sales mix consisted of corn (60% of volumes), wheat (16%), sunflower (12%) and barley (6%). Please refer to page 7 for more detail on sales volumes and prices.

## Sales Volumes & Realised Price per Ton



\*Sales price adjusted on distribution costs

## 1H 2016 Sales Mix (% of volumes)



### Inventory & Gain/Loss of Revaluation

As at 30 June 2016, Company held finished good inventory of 11.5kt (11.4 kt corn and 0.1 kt barley) at fair market value of USD 1.9mn. Over 99% of the stock is contracted. Biological assets (crops in field to be harvested in 2H16) were revalued to the estimated fair value less incurred production costs and estimated costs to point of sale. The revaluation of the company's biological assets resulted in a gain of USD 12.8mn (9.4) in 1H16.

The key driver for revaluation uplift has been strong yield outlook for winter wheat. Current average running yield to date is 4.9 tn/ha which represents 1.3 tn/ha or 36% increase y-o-y. In 1H16 improved yield for winter wheat contributed USD 5mn to biological assetvalue uplift vs. 1H15.

As in 1H15, current harvest prices were used to value biological assets in 1H16. The Company applies historical or current harvested yields (for winter wheat and barley) to estimate volume. Please see page 8 or note 4 in the financial statements for more information on how biological assets are valued and recorded.

### Result

In 1H16 gross profit accounted for USD 19.0mn (12.0). Distribution cost has grown from USD 3.0mn to USD 8.3mn in line with export volume growth.

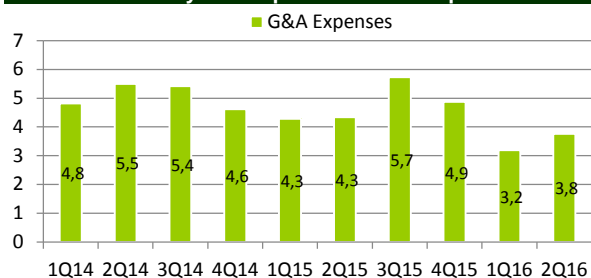
Net, gross profit less distribution increased by 20% from USD 9.0mn to USD 10.8mn as negative effect from 2015 crop sales of USD 2.0mn (0.5) was offset by uplift on biological asset revaluation to USD 12.8mn (9.5).

G&A costs declined by USD 1.6mn or by 19% y-o-y. Partially, it was a result of RUR depreciation, while USD 0.7mn turned to be the effect of cost saving activities. Full effect of Moscow office contributed to USD 0.5mn G&A improvement between 1H16 and 1H15.

In 1H16 company booked USD 1.1mn (-0.4) income on grain hedges in other income and expense.

FX income of USD 3.7mn (1.6) resulted from closing RUR/USD rate appreciation.

Quarterly Development of G&A Expenses



On comparable basis 1H16 demonstrates Net profit increase of USD 7.6mn.

1H15 results were boosted by 7.1 Net profit uplift from Lipetsk-Tambov swap transaction.

Excluding swap deal effect, 1H15 Net result was a loss of USD 2.4mn.

## Financial Position

The y-o-y movement in Company's financial position was affected by the movement in the RUR/USD from 55.52 on 30 June 2015 to 64.26 on 30 June 2016.

The Company's non-current assets of USD 91.4mn comprise of buildings (mainly storage facilities), land (229k Ha of owned and co-owned land as well as 25k Ha in long-term leases and 3k Ha in ownership registration process), as well as machinery and equipment used in crop production. As at 30 June 2016, the Company crop inventory in storage was in amount of USD 1.9mn. Raw materials of USD 13.4mn (9.9) include inputs to the 2017 crop. Biological assets of USD 52.2mn (53.4) mostly consists of crop in field, valued at current prices less cost to point of sales. Please see page 8 or note 4 in the financial statements for more information on how biological assets are valued and recorded. At the end of 1H16, the Company had USD 23.6mn (21.3) in cash and equivalents. Interest bearing debt stood at USD 51.2mn (57.3). The Company's bonds carry 9.4% annual coupon rate and mature in October 2017. As of 30 June 2016, the company's net debt position significantly improved and amounted to USD 27.6mn (35.9). The company started to diversify its debt structure: as of 30 June 5% of borrowings denominated in RUR. The Company reached an agreement with VTB to extend its credit risk limit to RUR 2.4bn (USD 37.4mn) from RUR 800mn (USD 12.5mn at 31 Dec 2015) allowing it to balance its currency risk on borrowings. As of 30 June 2016, RUR 161mn (USD 2.5mn) credit was drawn from VTB. Debt to equity stood at 41% (44%).

## Bond repurchase

As of 30 June 2016 bond debt balance was USD 48.5 mn (56.7 mn), as the company repurchased as the Company repurchased SEK 33mn (USD 3.9mn) in 2H15 and SEK 29mn (USD 3.4mn) in 1H16. Decreased

bond balance allows better management of interest expense and foreign exchange exposure.

## Cash Flow

In 1H16, the Company generated USD 5.7mn (-5.5) cash in operating activities. 1H16 net capital expenditures stood at USD -2.7mn (-4.7). Increased cash from operating activities and limited investments resulted in positive Free Cash Flow of USD 3mn (-10.2).

Strong Free Cash Flow allowed to repay USD 12.2 mn of debt.

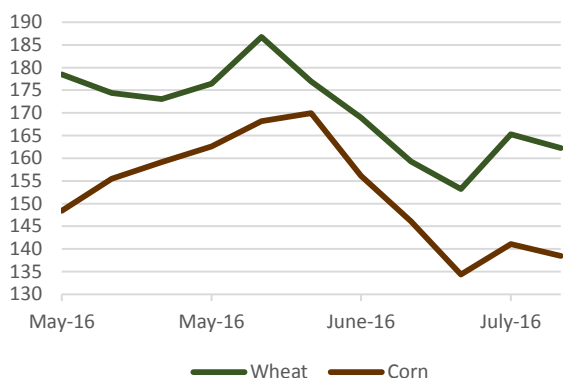
Due to debt repayment cash and equivalents decreased on USD 8.4mn for 1H16 from USD 32.0mn to USD 23.6mn. As per group strategy 96% of total cash balance is kept in hard currency (USD and EUR).

E-rate	RUR million		USD million	
	30-Jun-16	30-Jun-15	30-Jun-16	30-Jun-15
Land	2 153	2 127	33,5	38,3
Buildings	1 818	1 788	28,3	32,2
Equipment & other	1 671	1 805	26,0	32,5
Investment property	161	155	2,5	2,8
Other	71	155	1,1	2,8
<b>Total Non-current assets</b>	<b>5 874</b>	<b>6 030</b>	<b>91,4</b>	<b>108,6</b>
Cash	1 513	1 183	23,6	21,3
Finished goods	121	-	1,9	-
Raw materials and consumables	861	550	13,4	9,9
Bio assets & cultivation	3 528	3 115	54,9	56,1
Receivables	855	594	13,3	10,7
Assets held for sale	-	239	-	4,3
Other	6	-	0,1	-
<b>Total Current Assets</b>	<b>6 884</b>	<b>5 681</b>	<b>107,2</b>	<b>102,3</b>
<b>Total Assets</b>	<b>12 758</b>	<b>11 711</b>	<b>198,6</b>	<b>210,9</b>
Total Debt	(3 290)	(3 182)	(51,2)	(57,3)
Trade and other payables	(1 214)	(1 283)	(18,9)	(23,1)
Other Liabilities	(23)	(22)	(0,4)	(0,4)
Equity	(8 231)	(7 224)	(128,1)	(130,1)
<b>Total Equity &amp; Liabilities</b>	<b>(12 758)</b>	<b>(11 711)</b>	<b>(198,6)</b>	<b>(210,9)</b>

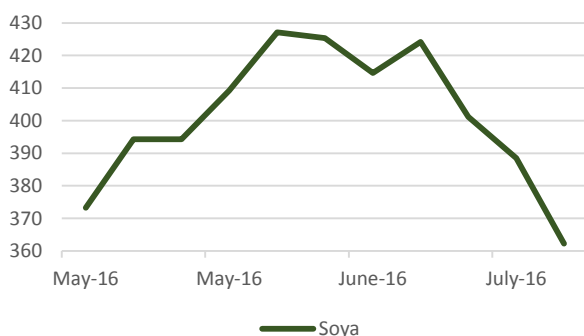
## International

2016-17 grain production estimates have been revised downward in certain key areas due to unfavourable harvest conditions. Despite this, the overall world grain forecast remains at near record highs, only 1MMT below the record level 2 years ago at 2,046bmt according to IGC, due to increased production in North America and Black Sea countries. Soya production has seen a continued reversal in previously expected record South American production resulting in a tightening of world availability.

CBOT price volatility (USD per MT)



CBOT price volatility (USD per MT)



Supply could be further negatively affected as the US soya crop enters the critical August growth stage. The South American harvest is nearing completion with sharp decreases. Brazil soya production is revised down to 95mmt (previously 100), corn to 67mmt (82) and in Argentina, soya production is now 57mmt (59) and corn, with only 61% of the harvest complete, 27mmt (34). The US export corn demand is the highest since 2007 as the only remaining major supply until the northern hemisphere harvests in September. World wheat production was expected to be slightly higher despite a lower US planted area resulting in an increased overall supply, however, early results from the start of the European harvest show that wheat & barley crops were damaged by near continuous rain since the spring in France and southern Germany. This has resulted in lower yields by as much as 30% and the EU wheat crop could now be 135mmt compared to 145mmt in previous forecasts and 151mmt last year. Favourable conditions in the Black Sea countries, where record wheat crops are expected, will partly offset the EU losses depending on the final crop

size. Grain and oilseed prices have now returned to earlier lower levels having jumped significantly during end May & June as reduced southern hemisphere crops became apparent as harvest progressed coupled with fears of extreme heat in the US curtailing corn and soya production. The price increase was most apparent in the US futures (CBOT-the global price benchmark) which were higher than current prices by 20% for grains and 15% for soya during this period. Currently corn and wheat prices are at six and ten-year lows. According to most market commentators, International grain prices are at, or near, seasonal lows and prices should improve once the harvest pressure has passed. Whilst quality has been severely affected for both wheat & barley in Europe, and the premiums for milling wheat and malting barley are increasing, feed grains are still in plentiful supply and may limit any future price rise.

## Russia

Crop 2015-16 exports ended at a record high level of 35mmt. Wheat at 25MMT, corn 4.7 and barley 4.2. This resulted in low end of season stocks and higher prices than during most of the season. Crop 2016-17 prospects are for larger wheat production, 66-68mmt, following an increased winter wheat planted area, very low winter kill and plentiful moisture, This combined with the a slightly higher corn area and a small reduction in barley, is expected to produce a record crop of 108mmt. Harvest results so far indicate a 10-12% rise in wheat yields but a drop in quality with a lower percentage making top Class 3 milling and slightly lower protein, gluten and Kg levels in the medium milling class 4. Exporters and domestic buyers are keen to purchase at current low levels but farmers are reluctant sellers due to a delayed harvest and low prices. Russian export wheat remains the cheapest quality wheat in the world, \$20 discount to EU / Baltic, and good volumes have already been contracted for export, Quality issues in the EU are pushing the milling wheat premiums higher and the wheat price has started to show signs of increasing. Sunflower plantings are reported at a 7% increase although a higher than normal area was probably sown after the optimum date that may limit the increased production compared to last year. Prices ended last season high at rubles 25,000 / \$385 as world oilseed prices rose after the smaller South American soya crops and record US exports. Sunflower seed price prospects for 2016-17 remain good with continuing sanctions restricting alternative imported oils & oilseed sources, reduced rape (Russian and the EU) and unchanged domestic soya production increases the reliance on sunflower seed. Domestic crush capacity has also increased by 10% with two new major crushing facilities opening this season. Russian prices this year are lower on wheat by 10% and higher on sunflowers by 22% compared on a harvest to harvest basis in USD terms.

# Sales Development & Crop Inventory



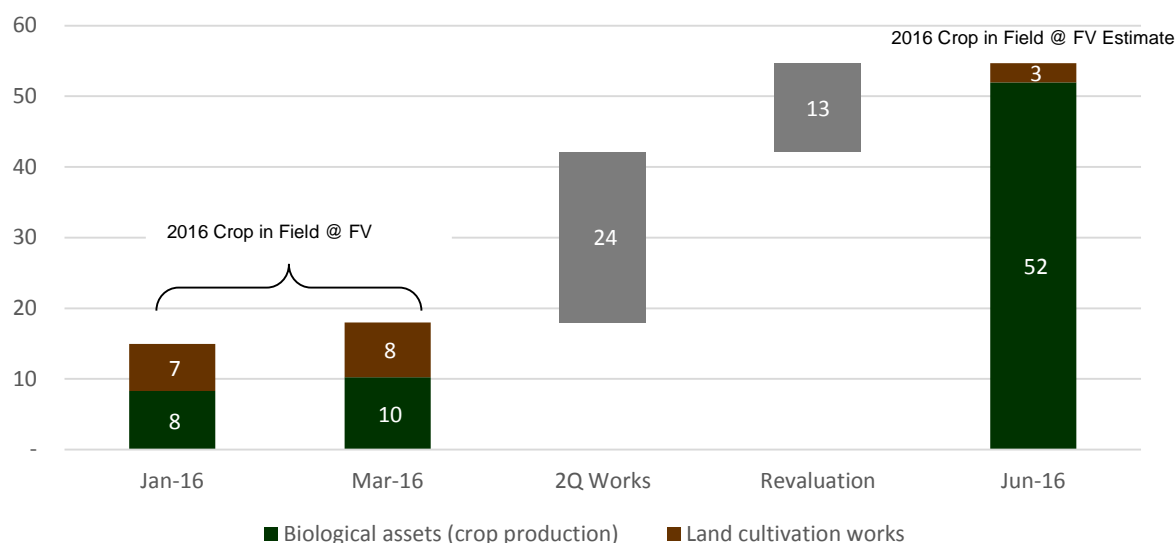
The Company values its inventory of finished goods at net realisable value to reflect the market value as at the end of the reporting period. Contract or market prices are used to estimate net realisable value. A change in net realisable value affects total revenue and gains in the statement of income. 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 30 June 2016 as well as the development of crop sales during 2016 and 2015. Note that prices exclude 10% VAT and estimated distribution expenses, prices after distribution costs are demonstrated separately.

As of 30 June 2016, the Company recorded inventories at a total value of USD 15.3mn in the balance sheet. It consisted of finished goods in amount of 1.9mn which will be sold after reporting date and raw materials and consumables in amount of USD 13.4mn to be used in production.

## 2016 Quarterly Sales Volume & Crop Inventory

	Quarterly Sales								Crop in Inventory	
	1H16	1H15	2Q '16	1Q '16	4Q '15	3Q '15	2Q '15	1Q '15	30 Jun '16	31 Dec '15
<b>Volume, k tons</b>										
<i>Wheat</i>	37.5	33.3	18.9	18.6	51.0	31.5	11.1	22.2	-	38.7
<i>Barley</i>	13.5	40.2	5.9	7.6	12.4	-	30.8	9.4	0.1	18.1
<i>Corn</i>	137.2	42.0	57.9	79.3	170.8	2.0	2.6	39.4	11.4	129.2
<i>Rape</i>	-	4.6	-	-	-	-	4.6	-	-	-
<i>Sunflower</i>	28.2	14.3	18.5	9.7	49.7	5.5	1.6	12.7	-	28.3
<i>Potato</i>	10.6	5.4	7.6	3.0	6.5	1.7	4.9	0.5	-	12.3
<i>Other</i>	1.3	-	0.5	0.8	1.4	0.3	-	-	-	0.9
<b>Total Tons</b>	<b>228.3</b>	<b>139.9</b>	<b>109.3</b>	<b>118.9</b>	<b>292.5</b>	<b>41.1</b>	<b>55.7</b>	<b>84.2</b>	<b>11.5</b>	<b>227.5</b>
<b>Price, USD/ton</b>										
<i>Wheat</i>	121	170	125	116	147	133	166	172	121	117
<i>Barley</i>	148	148	156	142	155	-	155	124	149	132
<i>Corn</i>	173	145	181	168	141	122	227	140	161	114
<i>Rape</i>	-	326	-	-	-	-	326	384	-	-
<i>Sunflower</i>	336	267	346	316	324	344	466	242	361	340
<i>Potato</i>	46	122	45	49	29	103	118	157	-	94
<i>Other</i>	51	-	53	49	159	92	-	71	-	88
<b>Average Price</b>	<b>177</b>	<b>170</b>	<b>188</b>	<b>166</b>	<b>171</b>	<b>160</b>	<b>181</b>	<b>162</b>	<b>162</b>	<b>143</b>
<b>Average Price less distribution</b>	<b>140</b>	<b>148</b>	<b>159</b>	<b>123</b>	<b>146</b>	<b>125</b>	<b>169</b>	<b>133</b>		

## 2016 Crop Value in Statement of Financial Position



Biological assets are recorded in the statement of financial position as an estimated value of crops standing in fields. A way to look at biological assets is as a work in process (WIP) inventory. Depending on what stage of the growth cycle the crop is in, the value is estimated either by incurred costs for field works (cultivations, seeding, fertilizer spreading, herbicide spraying etc.) or an estimate of revenue (harvest volume and price per crop) less 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 estimates of crop yields and market prices less point-of-sale costs to determine an estimate of fair value at the time of harvest. The initial revenue estimate is modified by a completion factor in the range of 50-80% as of 30 June, depending on crop, vegetation period and the incurred vs forecasted expenses, as significant risks to crop yield and price remains. After harvest, the crops are transferred to

finished goods inventory where they are recorded at net realisable value determined by market prices or, where available, contracted prices.

The Group estimates fair value on the most relevant and reliable market information available, applying 2016 harvest prices to estimate the value of its 1H16 biological assets. The Group applies historical and current yield estimates in its valuation of its biological assets. For the late harvest crops, where visibility is poorer, the Company use historical average yields. For the crops that are currently being harvested (winter wheat and barley), the Company use current average harvested yields, potentially moderated by the historical average if harvest completion is low and where greater uncertainty, therefore, remains. For details on prices and yields used in 1H16 and 1H15 biological asset valuations, please refer to the below table. 2H15 yields used for biological asset valuation can also be compared to currently harvested average yields on page 9.

Biological assets valuation 6m16 vs. biological assets valuation 6m15						
Crops	6m 2016			6m 2015		
	Yield	Price, net VAT, USD	Average completion	Yield	Price, net VAT, USD	Average completion
Wheat	4,9	130		3,6	149	
Barley	2,8	142		3,6	137	
Corn maize	4,6	118	72,5%	3,7	129	72,4%
Sunflower	2,0	328		1,7	297	
Potato	33,5	156		32,7	254	
<b>Total Biological assets and Land cultivation works (USD mn)</b>			<b>54,7</b>			<b>56,1</b>



# Production Overview



Crop Area Breakdown						
(thousand hectares)	2011	2012	2013	2014	2015	2016
Winter wheat	93.6	73.9	73.7	30.2	34.1	38.4
Spring wheat	13.1	4.4	3.4	6.1	3.8	n/a
Spring barley	26.5	22.7	21.9	16.1	9.5	17.5
Corn maize	6.1	26.0	36.8	55.3	61.1	39.7
<b>Total Grains</b>	<b>139.4</b>	<b>127.0</b>	<b>135.8</b>	<b>107.8</b>	<b>108.5</b>	<b>95.6</b>
Winter rape	n/a	n/a	n/a	0.1	n/a	n/a
Spring rape	33.5	36.6	31.4	18.1	n/a	n/a
Sunflower	46.5	33.2	29.0	37.5	40.0	37.9
Soya	7.9	18.2	18.7	16.9	0.2	n/a
<b>Total Oilseeds</b>	<b>87.9</b>	<b>88.0</b>	<b>79.1</b>	<b>72.6</b>	<b>40.1</b>	<b>37.9</b>
Sugar Beet	1.6	5.1	8.8	n/a	n/a	n/a
Potatoes	n/a	0.1	0.2	0.9	0.6	0.5
<b>Total Commercial Area</b>	<b>228.9</b>	<b>220.1</b>	<b>223.9</b>	<b>181.3</b>	<b>149.2</b>	<b>134.0</b>
<i>Other / Forage crops</i>	2.0	1.7	2.0	2.9	0.1	0
<b>Total harvest area</b>	<b>230.9</b>	<b>221.8</b>	<b>225.9</b>	<b>184.2</b>	<b>149.3</b>	<b>134.0</b>

Average Net Crop Yields						
(tons/hectare)	2011	2012	2013	2014	2015	2016 6m
Winter wheat	2.4	2.1	3.3	4.0	3.5	4,91 <sup>1</sup>
Spring wheat	1.6	2.6	1.9	3.6	2.3	2,77 <sup>2</sup>
Spring barley	1.9	2.4	2.6	3.6	3.2	
Corn maize	4.9	5.1	4.3	3.5	5.3	
Winter rape	n/a	n/a	n/a	0.7	n/a	
Spring rape	1.1	1.3	0.9	1.4	n/a	
Sunflower	2.0	1.9	2.0	1.9	2.2	
Soya	0.9	1.2	0.9	0.5	0.6	
Sugar beet	25.6	25.3	24.3	n/a	n/a	
Potatoes	n/a	33.2	33.9	31.0	35.9	

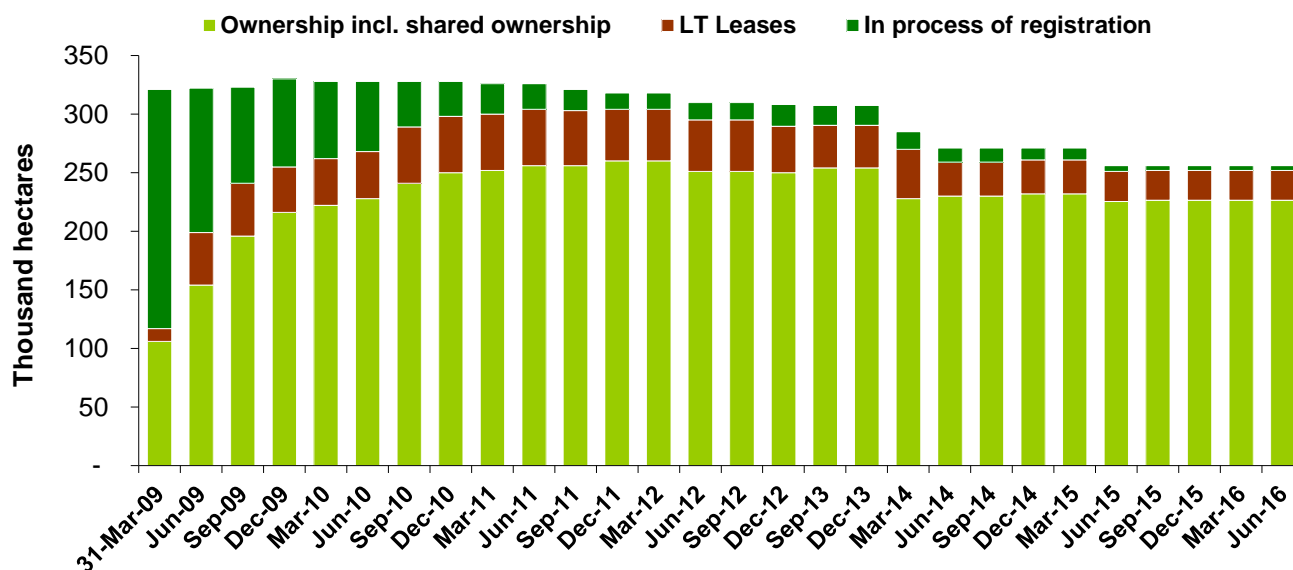
<sup>1</sup> 36% of area harvested,

<sup>2</sup> 28% of area harvested as of August 10 2016

Net Harvest Volumes						
(thousand tons)	2011	2012	2013	2014	2015	2016 6m
Winter wheat	220.6	157.6	243.2	121.2	119.1	
Spring wheat	21.2	11.5	6.6	22.4	8.6	
Spring barley	49.2	55.1	56.6	57.5	30.3	
Corn	30.0	132.8	159.0	195.7	321.9	
<b>Total Cereal Grains</b>	<b>321.0</b>	<b>357.0</b>	<b>465.4</b>	<b>396.8</b>	<b>479.9</b>	
Winter rape	n/a	n/a	n/a	0.1	n/a	
Spring rape	36.9	46.1	28.3	26.1	n/a	
Sunflower	92.8	62.8	58.0	70.9	83.2	
Soya	7.1	22.4	16.0	9.1	97.0	
<b>Total Oilseeds</b>	<b>136.8</b>	<b>131.2</b>	<b>102.3</b>	<b>106.2</b>	<b>83.3</b>	
Sugar beet	41.5	128.4	214.7	n/a	n/a	
Potatoes	n/a	1.0	6.6	27.4	21.3	
<b>Total Commercial Crops</b>	<b>499.3</b>	<b>617.6</b>	<b>789.0</b>	<b>530.4</b>	<b>584.4</b>	
<i>Other/Forage crops</i>	14.6	13.2	13.2	19.6	3.4	
<b>Total Output</b>	<b>513.9</b>	<b>630.8</b>	<b>802.3</b>	<b>549.9</b>	<b>587.8</b>	

As of 30 June 2016, Black Earth Farming held 229k Ha of owned and co-owned land, corresponding to 89% of the total controlled land bank of 257k Ha. 25k Ha were leased and 3k Ha were in the process of registration. 13k Ha in Samara, where operations have ceased, are leased to third parties and are classified as investment property in the balance sheet and held at a fair value of USD 2.5 mn (as of 30 June 2015 - 2.8mn). 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.

## 227 Thousand Hectares in Ownership (89% 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 197k Ha of land that is not leased at acquisition cost of USD 25.3mn (less Samara and certain Lipetsk and Tambov land after swap), as recorded in the statement of financial position as property, plant and equipment, which translates into a per hectare value of USD 128. 13k Ha in Samara are held at a fair value of USD 2.5mn, which translates into a per hectare fair value of USD 189. 22k Ha in Lipetsk and Tambov are held at fair value of USD 8.1mn, which translates into a per hectare value of USD 369.

The depreciation in the RUR has resulted in a decline, in hard currency terms, in the value of the Group's assets, which are carried at historical cost in RUR (the Group's functional currency) on its balance sheet. As the Group believes that this nominal devaluation of the balance sheet potentially understates the underlying value of its real assets, the Group continues to review its approach to treating its land assets on its balance sheet with a potential move to fair value treatment.

# The Black Earth Farming Share



## Risks and Uncertainties

Risks and uncertainties are described in the annual report for 2015. 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 2015 also exist on 30 June 2016.

## Outstanding shares

As of 30 June 2016 the amount of outstanding shares was 210,426,241.

The June 2015 2,756,796 new shares were issued as a result of the Company's management incentive program. The share-based incentive program remains open and outstanding as described in note 23 (c) in the 2015 Annual Report. The market capitalisation as of 30 June 2016 was approximately SEK 709 million or USD 83 million.

## Shareholders

The total number of shareholders, as of 30 June 2016, amounted to 12,562.

### 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

### Trading data for 1 Jan 2016 – 30 June 2016

Average Daily Turnover (SEK)	Average No of Traded Shares	Average No of daily trades
841,418	221,808	76

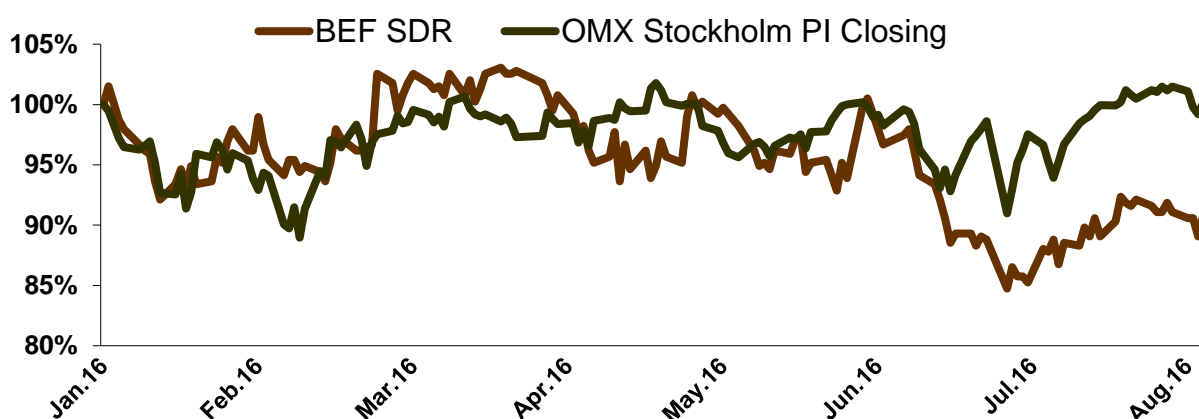
Source: NASDAQ OMX

### Top 5 shareholders as of 30 June 2016

Owner	% of votes & capital
INVESTMENT AB KINNEVIK	24.62%
GOMOBILE NU AB	12.33%
ALECTA PENSION FUNDS	9.68%
AVANZA PENSION	4.11%
DANSKE INVEST FUNDS	2.50%

Source: Euroclear Sweden share registry & shareholders' reference

### Share Performance vs. OMX Stockholm January-August 2016



**BLACK EARTH FARMING LIMITED AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED INTERIM STATEMENT OF INCOME**  
**FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2016**

*In thousands of US Dollars*

	Notes	Six months ended		Three months ended	
		30 Jun 16	30 Jun 15	30 Jun 16	30 Jun 15
Revenue	3	40,680	24,377	20,708	10,275
Gain on revaluation of biological assets	4	12,829	9,486	12,809	9,442
Change in net realisable value of agricultural produce after harvest		329	335	470	933
<b>Total revenue and gains</b>	5	<b>53,838</b>	<b>34,198</b>	<b>33,987</b>	<b>20,650</b>
Cost of sales	6	(19,489)	(11,947)	(13,052)	(5,124)
Effect of revaluations (revaluation of biological assets to agricultural produce and change in net realizable value of agricultural produce after harvest)		(15,289)	(10,205)	(6,752)	(5,737)
<b>Gross profit</b>		<b>19,060</b>	<b>12,046</b>	<b>14,183</b>	<b>9,789</b>
Distribution expenses	7	(8,262)	(3,079)	(3,187)	(673)
General and administrative expenses		(6,951)	(8,625)	(3,757)	(4,340)
Taxes other than income		(540)	(990)	(274)	(794)
Government grants		747	881	269	234
Crop insurance net of insurance grants		(327)	(744)	(236)	(611)
Other income and expenses, net	8	631	8,104	923	7,869
<b>Operating profit</b>		<b>4,358</b>	<b>7,593</b>	<b>7,921</b>	<b>11,474</b>
Financial income		231	117	201	36
Financial expenses		(2,718)	(2,526)	(1,275)	(1,238)
Gain/(loss) on foreign exchange differences		3,660	1,589	3,231	(1,253)
<b>Profit before income tax</b>		<b>5,531</b>	<b>6,773</b>	<b>10,078</b>	<b>9,019</b>
Income tax expense		(343)	(2,104)	(319)	(2,282)
<b>Profit for the period</b>		<b>5,188</b>	<b>4,669</b>	<b>9,759</b>	<b>6,737</b>
Earnings per share, basic and diluted, in USD	11	0.02	0.02	0.05	0.03

**BLACK EARTH FARMING LIMITED AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2016**

*In thousands of US Dollars*

	<b>Six months ended</b>		<b>Three months ended</b>	
	<b>30 Jun 16</b>	<b>30 Jun 15</b>	<b>30 Jun 16</b>	<b>30 Jun 15</b>
<b>Profit for the period</b>	<b>5,188</b>	<b>4,669</b>	<b>9,759</b>	<b>6,737</b>
<b>Other comprehensive income</b>				
<i>Items that may be reclassified subsequently to profit or loss:</i>				
Translation difference	14,318	920	6,336	5,581
<b>Other comprehensive income for the period</b>	<b>14,318</b>	<b>920</b>	<b>6,336</b>	<b>5,581</b>
<b>Total comprehensive income for the period attributable to owners of the parent</b>	<b>19,506</b>	<b>5,589</b>	<b>16,095</b>	<b>12,318</b>

**BLACK EARTH FARMING LIMITED AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2016**

<i>In thousands of US Dollars</i>	Notes	30 Jun 16	31 Dec 15
<b>ASSETS</b>			
<i>Non-current assets</i>			
Property, plant and equipment		87,833	78,146
Intangible assets		109	105
Biological assets (livestock)	4	428	327
Other non-current assets		457	115
Deferred tax assets		166	322
Investment property		2,454	2,164
<b>Total non-current assets</b>		<b>91,447</b>	<b>81,179</b>
<i>Current assets</i>			
Finished goods		1,894	32,765
Raw materials and consumables		13,420	9,562
Biological assets (crop production)	4	52,216	8,277
Land cultivation works		2,717	6,677
Trade and other receivables		13,317	10,737
Cash and cash equivalents		23,587	31,959
<b>Total current assets</b>		<b>107,151</b>	<b>99,977</b>
<b>Total assets</b>		<b>198,598</b>	<b>181,156</b>
<b>EQUITY AND LIABILITIES</b>			
<i>Equity attributable to owners of the parent</i>			
Share capital		2,105	2,105
Share premium		525,904	525,904
Share-based payments reserve		4,364	4,249
Accumulated deficit		(212,919)	(218,516)
Translation reserve		(191,344)	(205,662)
<b>Total equity</b>		<b>128,110</b>	<b>108,080</b>
<b>LIABILITIES</b>			
<i>Non-current liabilities</i>			
Long-term loans and borrowings	9	46,600	51,058
Non-current finance lease liabilities		-	111
Deferred income		123	-
Deferred tax liabilities		259	253
<b>Total non-current liabilities</b>		<b>46,982</b>	<b>51,422</b>
<i>Current liabilities</i>			
Short-term loans and borrowings	9	4,383	12,064
Trade and other payables		18,867	9,356
Current finance lease liabilities		256	234
<b>Total current liabilities</b>		<b>23,506</b>	<b>21,654</b>
<b>Total liabilities</b>		<b>70,488</b>	<b>73,076</b>
<b>Total equity and liabilities</b>		<b>198,598</b>	<b>181,156</b>

**BLACK EARTH FARMING LIMITED AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY**  
**FOR THE PERIOD ENDED 30 JUNE 2016**

<i>In thousands of US Dollars</i>	Share capital	Share premium	Share- based payments reserve	Accumul- ated deficit	Trans- lation reserve	Total equity attributable to owners of the parent
<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>
Profit for the period	-	-	-	4,669	-	4,669
<b>Other comprehensive income</b>						
Translation differences	-	-	107	-	920	1,027
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>107</b>	<b>4,669</b>	<b>920</b>	<b>5,696</b>
Recognition of share-based payments	-	-	395	-	-	395
Shares issued	28	1,133	(1,058)	-	-	103
<b>Balance as at 30 June 2015</b>	<b>2,105</b>	<b>525,904</b>	<b>4,312</b>	<b>(228,184)</b>	<b>(173,994)</b>	<b>130,143</b>
<b>Balance as at 1 January 2016</b>	<b>2,105</b>	<b>525,904</b>	<b>4,249</b>	<b>(218,516)</b>	<b>(205,662)</b>	<b>108,080</b>
Profit for the period	-	-	-	5,188	-	5,188
<b>Other comprehensive income</b>						
Translation differences	-	-	-	-	14,318	14,318
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,188</b>	<b>14,318</b>	<b>19,506</b>
Reclassification from Share-based payments reserve to Accumulated deficit	-	-	(409)	409	-	-
Translation differences	-	-	(230)	-	-	(230)
Recognition of share-based payments	-	-	754	-	-	754
<b>Balance as at 30 June 2016</b>	<b>2,105</b>	<b>525,904</b>	<b>4,364</b>	<b>(212,919)</b>	<b>(191,344)</b>	<b>128,110</b>

**BLACK EARTH FARMING LIMITED AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2016**

*In thousands of US Dollars*

	<b>Six months ended</b>	
	<b>30 Jun 16</b>	<b>30 Jun 15</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit for the period	5,188	4,669
<i>Adjustments for:</i>		
Income tax expense	343	2,104
Depreciation, amortisation and impairment	3,773	2,955
Change in allowance for doubtful debts	188	66
Gain on foreign exchange differences	(3,660)	(1,589)
Interest income	(61)	(117)
Interest expense	2,718	2,526
Income from repurchase of bonds	(170)	-
Gain on disposal of property, plant and equipment	(228)	(86)
Non-cash gain on the land swap deal	-	(9,080)
Long term employee benefits	754	500
Change in value of biological assets and agricultural produce	(13,158)	(9,821)
Effect of revaluations on cost of goods sold	15,289	10,205
	<b>10,976</b>	<b>2,332</b>
<b>Movements in working capital:</b>		
Decrease in inventories	15,764	21,778
Increase in biological assets	(24,289)	(39,166)
(Increase)/decrease in trade and other receivables	(1,506)	5,297
Increase in trade and other payables	7,722	7,914
<b>Cash generated from/(used in) operations</b>	<b>8,667</b>	<b>(1,845)</b>
Interest paid	(2,856)	(2,761)
Income tax paid	(106)	(858)
<b>Net cash generated from/(used in) operating activities</b>	<b>5,705</b>	<b>(5,464)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	231	117
Acquisition of land plots	(164)	(605)
Acquisition of property, plant and equipment	(3,070)	(4,184)
Proceeds from disposal of property, plant and equipment	317	122
Acquisition of intangible assets	(87)	(192)
Proceeds from disposal of intangible assets	-	(7)
<b>Net cash used in investing activities</b>	<b>(2,773)</b>	<b>(4,749)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payment of short-term borrowings	(11,789)	-
Proceeds from borrowings	3,050	-
Repurchase of bonds	(3,276)	-
Settlement of obligations under finance lease agreements	(178)	(46)
<b>Net cash used in financing activities</b>	<b>(12,193)</b>	<b>(46)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(9,261)</b>	<b>(10,259)</b>
Cash and cash equivalents at the beginning of the period	31,959	32,888
Currency translation differences on cash and cash equivalents	(2,782)	(1,837)
Effect of foreign currency exchange differences	3,671	527
<b>Cash and cash equivalents at the end of the period</b>	<b>23,587</b>	<b>21,319</b>



**BLACK EARTH FARMING LIMITED AND SUBSIDIARIES  
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2016**

**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 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.

**(b) Russian business environment**

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

**(c) Seasonality**

Agricultural sector exhibits obvious seasonal behaviour. During the period from December to March, the organic growth of the crops is minimal and no major inputs are made in the production. During the reporting period, the Group sold all of its previously harvested grain which led to significant decrease of finished goods in stock at 30 June 2016 as the current year crops have not been harvested yet. In the middle of the year, accounts payable are significantly higher in comparison with the beginning of the year because of significant purchases not yet paid for, primarily for agricultural inputs such as seeds, fertilizers, fuel and other.

**2. BASIS OF PREPARATION**

**(a) Statement of compliance and basis of preparation**

These condensed consolidated interim financial statements for the six months ended 30 June 2016 have been prepared in accordance with IAS 34, “Interim financial reporting”. The condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with IFRSs.

**BLACK EARTH FARMING LIMITED AND SUBSIDIARIES**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2016**

**2. BASIS OF PREPARATION (CONTINUED)**

**(b) Significant accounting policies**

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

The same accounting policies, presentation and methods of computation are followed in these condensed consolidated interim financial statements as were applied in the preparation of the Group's consolidated financial statements for the year ended 31 December 2015.

**(c) Functional and presentation currency**

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

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

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

Due to the volatility of the RUB exchange rate, quarterly exchange rates were used to translate income and expenses of all subsidiaries with the Russian rouble as a functional currency for the period ended 30 June 2016. The average rates for the first quarter 2016 was USD 1 = 74.6283 RUB and for the second quarter was USD 1 = RUB 65.8883.

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

	<u>2016</u>	<u>2015</u>
RUR/USD for the six months period ended 30 June	70.2583	57.7090
RUR/USD as at 30 June 2016 (31 December 2015)	64.2575	72.8827
RUR/SEK for the six months period ended 30 June	8.4300	6.8837
RUR/SEK as at 30 June 2016 (31 December 2015)	<u>7.5340</u>	<u>6.6748</u>

**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 and one in Kaliningrad region, however, for segment reporting purposes these entities were included in the Tambov and Lipetsk segments respectively, as the results of these entities are not material as separate operating segments.

**BLACK EARTH FARMING LIMITED AND SUBSIDIARIES**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2016**

**3. SEGMENT NOTE (CONTINUED)**

The Group also recognizes a separate segment related to elevator activity. The Elevator segment consists of two legal entities: Agroterminal (one working elevator with 55 thousand tons of capacity) and Nedvizhimost' (three elevators with 160 thousand tons of capacity). The elevators mainly work for internal needs, however, they provide services to third parties if there is spare capacity.

Land plots classified as investment property as of 30 June 2016 and 31 December 2015, are located in Samara region and attributed to Tambov segment.

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, which is the chief operating decision maker as defined by IFRS 8 "Operating segments".

**(a) Segment revenues and results**

	<b>Six months ended 30 June 2016</b>			
<i>In thousands of US Dollars</i>	<b>Revenue from external sales</b>	<b>Inter- segment revenue</b>	<b>Depreciation and amortization</b>	<b>Net result</b>
Agricultural companies				
– Voronezh region	8,665	75	394	
– Kursk region	9,702	198	1,064	
– Lipetsk region	10,014	1,993	888	
– Tambov region	12,207	93	813	
Elevators	92	1,249	542	
<b>Total</b>	<b>40,680</b>	<b>3,608</b>	<b>3,701</b>	<b>9,427</b>
Central administrative costs and director's salaries				(5,700)
Other income and expenses, net				631
Financial income, net				1,173
<b>Profit before income tax</b>				<b>5,531</b>

	<b>Six months ended 30 June 2015</b>			
<i>In thousands of US Dollars</i>	<b>Revenue from external sales</b>	<b>Inter- segment revenue</b>	<b>Depreciation and amortization</b>	<b>Net result</b>
Agricultural companies				
– Voronezh region	2,434	516	218	
– Kursk region	7,984	581	446	
– Lipetsk region	8,260	731	660	
– Tambov region	5,572	434	126	
Elevators	127	458	1,409	
<b>Total</b>	<b>24,377</b>	<b>2,720</b>	<b>2,859</b>	<b>6,198</b>
Central administrative costs, including director's salaries				(6,709)
Other income and expenses				8,104
Financial expenses, net				(820)
<b>Profit before income tax</b>				<b>6,773</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.

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**3. SEGMENT NOTE (CONTINUED)**

**(b) Segment assets**

<i>In thousands of US Dollars</i>	<b>30 Jun 2016</b>	<b>31 Dec 2015</b>
Agricultural companies		
– Voronezh region	16,547	15,401
– Kursk region	45,585	37,089
– Lipetsk region	43,150	43,758
– Tambov region	44,982	32,455
Elevators	17,163	16,986
<b>Total segment assets</b>	<b>167,427</b>	<b>145,689</b>
Corporate assets	31,171	35,467
<b>Consolidated total assets</b>	<b>198,598</b>	<b>181,156</b>

**(c) Revenues from major products**

<i>In thousands of US Dollars</i>	<b>Six months ended</b>	
	<b>30 Jun 2016</b>	<b>30 Jun 2015</b>
Corn	23,792	6,101
Sunflowers	9,434	3,840
Wheat	4,507	5,665
Barley	2,008	5,924
Potatoes	487	654
Spring rape seed	-	1,534
Soya	-	69
Milk and meat	283	333
Other goods and services	169	257
	<b>40,680</b>	<b>24,377</b>

**(d) Geographical information**

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. All non-current assets are located in Russia and all of the Group's operating activities are in Russia.

**4. BIOLOGICAL ASSETS**

In accordance with IAS 41 "Agriculture" biological assets related to agricultural activity are measured at fair value less estimated point-of-sale costs, with any changes in fair value recognized in profit or loss. The fair value is determined based on a methodology that applies quoted or other relevant prices to estimated yields for the respective grain and oilseeds production in the Company's crop portfolio. The following key estimates significantly impact the above balance as well as the gain/(loss) on revaluation of biological assets: 1) expected crop yield; 2) percentage of biological transformation of the crops; 3) future selling price based on the current market price plus expected movements; and 4) selling expenses to be incurred. These estimates are based on management's experience and other inputs, including expectations of future events that are believed to be reasonable under the circumstances.

**Biological assets – Crop production**

<i>In thousands of US Dollars</i>	<b>Six months ended</b>	
	<b>30 Jun 2016</b>	<b>30 Jun 2015</b>
At the beginning of the period	8,277	6,066
Increase due to cost inputs for current year harvest	29,447	36,737
Change in fair value less estimated point-of-sale costs	12,750	9,500
Harvested crops transferred to finished goods	(2,236)	-
Effect of foreign exchange differences	3,978	1,062
<b>At the end of the period</b>	<b>52,216</b>	<b>53,365</b>

**4. BIOLOGICAL ASSETS (CONTINUED)**

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***Biological assets – Livestock***

<i>In thousands of US Dollars</i>	<b>Six months ended</b>	
	<b>30 Jun 2016</b>	<b>30 Jun 2015</b>
At the beginning of the period	327	431
Increase due to cost inputs	289	69
Sales	(311)	(72)
Change in fair value less estimated point-of-sale costs	79	(14)
Effect of foreign exchange differences	44	6
<b>At the end of the period</b>	<b>428</b>	<b>420</b>

If selling prices or expected crop yield deviated by 10% from management's estimates, the gain on revaluation of biological assets in the statement of income for the period would deviate by USD 5,675 thousand.

**5. REVENUE AND GAINS**

*In thousands of US Dollars*

	<b>Six months ended</b>	
	<b>30 Jun 2016</b>	<b>30 Jun 2015</b>
Revenue from sales of crop production	40,294	23,792
Revenue from sales of milk and meat	283	333
Revenue from sales of other goods and services	103	252
Gain on revaluation of biological assets	12,829	9,486
Change in net realizable value of agricultural produce after harvest	329	335
	<b>53,838</b>	<b>34,198</b>

**6. COST OF SALES**

*In thousands of US Dollars*

	<b>Six months ended</b>	
	<b>30 Jun 2016</b>	<b>30 Jun 2015</b>
Materials	12,553	7,279
Depreciation and amortization charge	3,042	2,084
Salary and social taxes	2,109	1,319
Third party crop handling services	367	468
Crops not harvested due to damages on fields	330	291
Operating leasing	193	142
Taxes	168	166
Repair expenses	131	113
Other expenses	596	85
	<b>19,489</b>	<b>11,947</b>

**7. DISTRIBUTION EXPENSES**

*in thousands of US Dollars*

	<b>Year ended</b>	
	<b>30 Jun 2016</b>	<b>30 Jun 2015</b>
Transportation and delivery services	4,585	1,329
Storage and other elevator's services	2,237	696
Depreciation and amortization charge	606	610
Personnel expenses	471	280
Materials	166	52
Other services	197	112
	<b>8,262</b>	<b>3,079</b>

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**8. OTHER INCOME AND EXPENSES, NET**

*In thousands of US Dollars*

	<b>Six months ended</b>	
	<b>30 Jun 2016</b>	<b>30 Jun 2015</b>
Income/(loss) on grain hedge	1,148	(414)
Result on disposal of plant, property and equipment	228	100
Change in allowance for doubtful debts	(188)	(62)
Losses related to disposal of other assets	(10)	(110)
Gain related to land swap deal	-	9,080
Other income and expenses	(547)	(490)
	<b>631</b>	<b>8,104</b>

***Land swap deal***

On 17 March 2015, the Group announced that it had agreed to swap the land and related real estate assets from its Stanovoye (Lipetsk segment), Shatsk (Tambov segment) and Pervomaisky (Tambov segment) farms with three counterparties, in return for land and an elevator in proximity to Group's existing operations at Morshansk (Tambov segment). The deal was finalised in June 2015.

Assets received are measured 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.

*In thousands of US Dollars*

Fair value of property, plant and equipment and other assets received	12,771
Cash received	1,099
Carrying value of property, plant and equipment disposed	(4,790)
<b>Result before tax</b>	<b>9,080</b>

The income tax related to these transactions amounted to USD 1,690 thousand.

**9. BORROWINGS**

*In thousands of US Dollars*

	<b>30 Jun 2016</b>	<b>31 Dec 2015</b>
<b>SEK bonds</b>		
Non-current	46,600	51,058
Current	1,849	1,578
	<b>48,449</b>	<b>52,636</b>
<b>Other borrowings - current</b>		
Bank VTB	2,534	10,486
	<b>2,534</b>	<b>10,486</b>
<b>Total borrowings</b>	<b>50,983</b>	<b>63,122</b>

On October 2013 the Group issued a 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.

Up to 30 June 2016, the Group repurchased SEK 338 million (USD 39,987 thousand) of bonds in order to manage interest expense and foreign exchange exposure.

In May 2016, the Group signed a credit facility agreement with Bank VTB for up to RUB 300 million with an interest rate of 12.9%. The credit facility has to be used to finance working capital and is available for a period of up to twelve months. At 30 June 2016, USD 2,512 thousand (RUB 161,429 thousand) had been drawn under this credit facility. The Group has committed to pledge certain assets as collateral under the terms of the agreement.

As at 30 June 2016 the Group is in compliance with all covenants stipulated in the bond and loan agreements.

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**10. DIVIDENDS**

During the six months period ended 30 June 2016 the Board of Directors proposed no dividends to be paid or declared.

**11. EARNINGS PER SHARE**

*In US Dollars*

	<b>Six months ended</b>	
	<b>30 Jun 2016</b>	<b>30 Jun 2015</b>
Profit for the period	5,188,000	4,669,000
Weighted average number of ordinary shares	210,426,241	207,746,023
Basic and diluted earnings per share	<u>0.02</u>	<u>0.02</u>

**12. RELATED PARTY BALANCES AND TRANSACTIONS**

*In thousands of US Dollars*

	<b>Six months ended</b>	
	<b>30 Jun 2016</b>	<b>30 Jun 2015</b>
<b>Purchase of services from related parties</b>		
TerraVost Ltd (formerly KinnAgri Ltd)	440	545
KCM International Ltd	539	853
	<u>979</u>	<u>1,398</u>
<b>Less: subcontracted to third parties</b>		
TerraVost Ltd (formerly KinnAgri Ltd)	(71)	-
KCM International Ltd	(2)	-
	<u>(73)</u>	<u>-</u>
<b>Purchase of services from related parties, net of subcontractors</b>		
TerraVost Ltd (formerly KinnAgri Ltd)	369	545
KCM International Ltd	537	853
<b>Total</b>	<u>906</u>	<u>1,398</u>
	<u>30 Jun 2016</u>	<u>31 Dec 2015</u>
<b>Accounts payable to related parties</b>		
TerraVost Ltd (formerly KinnAgri Ltd)	208	404
KCM International Ltd	331	401
	<u>539</u>	<u>805</u>

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

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

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

**BLACK EARTH FARMING LIMITED AND SUBSIDIARIES**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
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**13. CONTINGENCIES AND COMMITMENTS**

**(a) Legal proceedings.**

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

**(b) Tax contingencies.**

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

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

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

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

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

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

As at 30 June 2016, management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions are appropriate and can be sustained.



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 256,000 hectares of what perhaps is the world's most fertile soil.



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, 12 August 2016

\_\_\_\_\_  
Per Åhlgren, Chairman

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

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Dmitry Zavgorodniy, Non-executive Director

\_\_\_\_\_  
Franco Danesi, Non-executive Director

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

#### **Future financial reports:**

3Q/9M 2016 report  
4Q/FY 2016 Year-end report

11 November 2016  
24 February 2017

#### **For further information, please contact:**

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## ***Report on Review of Interim Financial Statements***

To the Shareholders and Board of Directors of Black Earth Farming Limited:

### **Introduction**

We have reviewed the accompanying condensed consolidated interim statement of financial position of Black Earth Farming Limited and its subsidiaries (the “Group”) as of 30 June 2016 and the related condensed consolidated interim statements of income and of comprehensive income for the three-month and the six-month periods then ended, of changes in equity and of cash flows for the six-month period then ended. Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Accounting Standard 34, “Interim Financial Reporting”. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

### **Scope of Review**

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, “Interim Financial Reporting”.

AO PricewaterhouseCoopers Audit  
Alexei Ivanov

Moscow, Russian Federation  
12 August 2016

PricewaterhouseCoopers AB  
Bo Lagerström

Stockholm, Sweden  
12 August 2016