BLACK
EARTH
FARMING LTD.

ANNUAL REPORT 2016

General Shareholder Information

Annual General Meeting

Previous reported AGM date is not relevant.
For practical reasons the AGM will be combined with EGM for deciding upon distribution of funds. Notice will be given when funds for the transaction are received. Exact dates will be communicated in due course.

Calendar of events in 2017

– 2016 Annual Report Publication: 7 April 2017
– 1Q Interim Report, 1 January–31 March: 18 May 2017

Investor Relations

Richard Warburton
+7 985 208 24 01
Richard.warburton@BlackEarthFarming.com

Internet website

www.blackearthfarming.com

SDR tickers

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

Disclaimer

This report contains “forward-looking statements”. All statements other than statements of historical facts included in this report, including without limitation, those regarding the Company’s financial position, business strategy, the Company’s management’s, or as appropriate the Directors’, plans, objectives, goals, strategies and future operations and performance and the assumptions underlying these statements are forward-looking statements. Such forward-looking statements involve known and unknown risks and uncertainties and other factors which are or may be beyond the Company’s control and which may cause the actual results, performance or achievements of the Company or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Company’s present and future business strategies and the environment, in which the Company will operate in future.

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

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

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

Black Earth Farming Ltd
Annual Report 2016

Black Earth Farming at a Glance

Crop Production

Productivity

Efficiency

- **On Feb 13 2017 Black Earth Farming enters into agreement to sell its Russian operations and announces intention to propose distribution of proceeds to shareholders and initiate a voluntary liquidation of the company.**

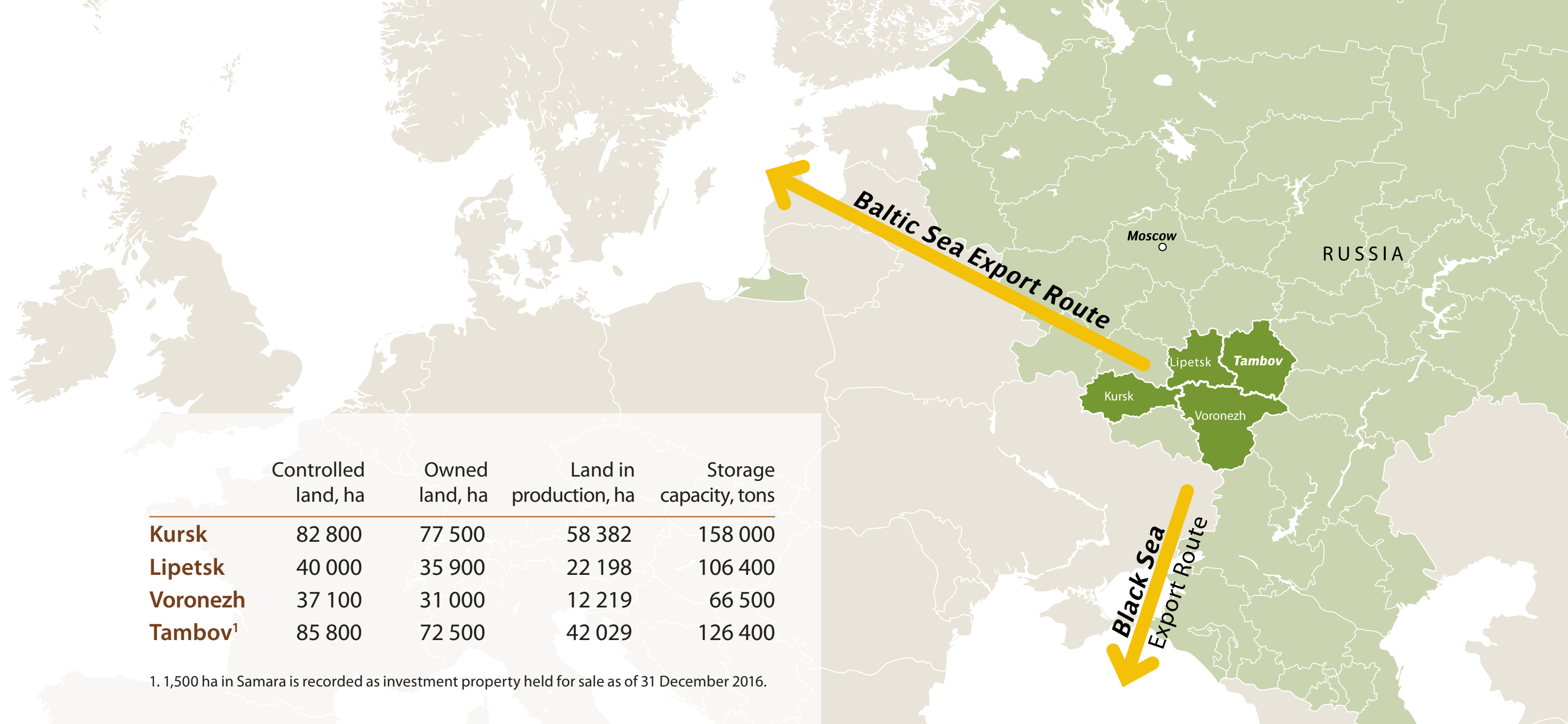
– Estimated price for the Russian subsidiaries is USD 184mn in cash
– Final outcome is subject to changes in liabilities and certain price adjustments following completion
– On March 23rd 2017 the agreement was approved by BEF's shareholders
– At the date of this report the transaction is waiting for regulatory approval
– Following deduction of the Wrap-up Costs and additional equity contributions from warrant holders, it is estimated that approximately between USD 185,000,000 - 193,000,000 will be available for distribution to the shareholders. At an exchange rate of RUB 60.5 per USD and SEK 8.9 per USD, this corresponds to approximately between SEK 7.2 - 7.5 per Swedish Depository Receipt ("SDR") after dilution by up to a further 18,330,000 SDR's resulting from exercise of the Company's outstanding warrants and long term incentive programs.
– This corresponds to a premium of between 96.5 - 104.7% compared to the volume weighted average trading price for the three months preceding BEF's announcement that it was in talks with potential acquires on 9th August 2016.
– The exact amount to be distributed will depend on several variable factors such as exchange rates, market prices for crops and certain other costs.
– The distribution to the shareholders of Black Earth Farming is expected to be made during the summer of 2017, by way of a redemption of depositary receipts, or as otherwise considered appropriate by the Board of Directors. The remaining proceeds and assets of the Company, if any, will be distributed to the shareholders as soon as possible by way of a formal liquidation procedure.

- **Business profile: Efficient producer of grain and oil seeds in Russia's Black Earth Region**

– A major land owner and producer of cereals and oilseeds in Russia's fertile Central Black Earth region
– 502 thousand tons production from 135 thousand cropped hectares in 2016
– Key crops include corn, wheat, sunflower, barley and potatoes
– Science driven approach to agronomy and farming to increase productivity and cut costs per ton
– In-house sales and trading with export capacity and futures hedging to control value chain and manage risks

- **Land: 246,000 Hectares controlled and 218,000 Hectares of owned high quality agricultural soil**

– Consolidated land bank in Russia's Black Earth region, endowed with some of the most fertile soils in the world
– Total controlled land bank of 246,000 hectares, with 89%, or 218,000 hectares in ownership
– 25,000 hectares leased and 3,000 hectares in process of registration as of 31 December 2016



	Controlled land, ha	Owned land, ha	Land in production, ha	Storage capacity, tons
Kursk	82 800	77 500	58 382	158 000
Lipetsk	40 000	35 900	22 198	106 400
Voronezh	37 100	31 000	12 219	66 500
Tambov[1]	85 800	72 500	42 029	126 400

1. 1,500 ha in Samara is recorded as investment property held for sale as of 31 December 2016.

- **Storage: 470,000 tons of storage capacity. 230,000 tons of storage capacity at railhead**

– 160,000 tons of bin storage and 70,000 of bed flat storage at railhead
– 40,000 tons of ventilated storage on farms
– Investment in drying capacity and storage to reduce transhipment and increase sales flexibility
– Mostly self-sufficient in storage and processing capacity
– 17,000 tons of root crop storage capacity

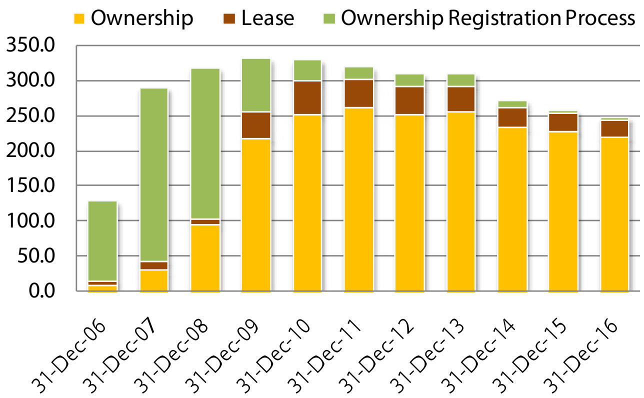
- **Machinery and equipment: around 500 units of mostly western agricultural equipment**

– Modern machinery fleet including John Deere, CLAAS and Caterpillar challenger equipment
– 70 combines, 47 trailed spreaders, 26 trailed and 37 self-propelled sprayers, 109 tractors
– Largely self-sufficient to manage seeding and harvesting campaigns with in-house fleet
– Fully equipped workshops and central spare part and maintenance operations

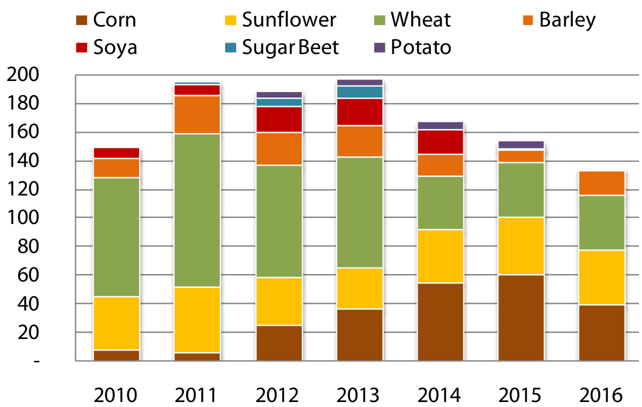
- **2016 results: USD -10.6mn net loss (USD 14.3mn net income) on declining prices and reduced seeding area**

– Average sales price decreased 17% y-o-y
– Crop area decreased 10% due to unfavorable weather conditions
– Blended yield (excluding root crops) down 9% y-o-y and up 23% on the 6 year average
– Average production cost per ton is USD 91, 27.2% above 5 year average

D1: 2006 - 2016 Land Development, thousand hectares



D2: 2006 - 2016 Land Development, thousand hectares

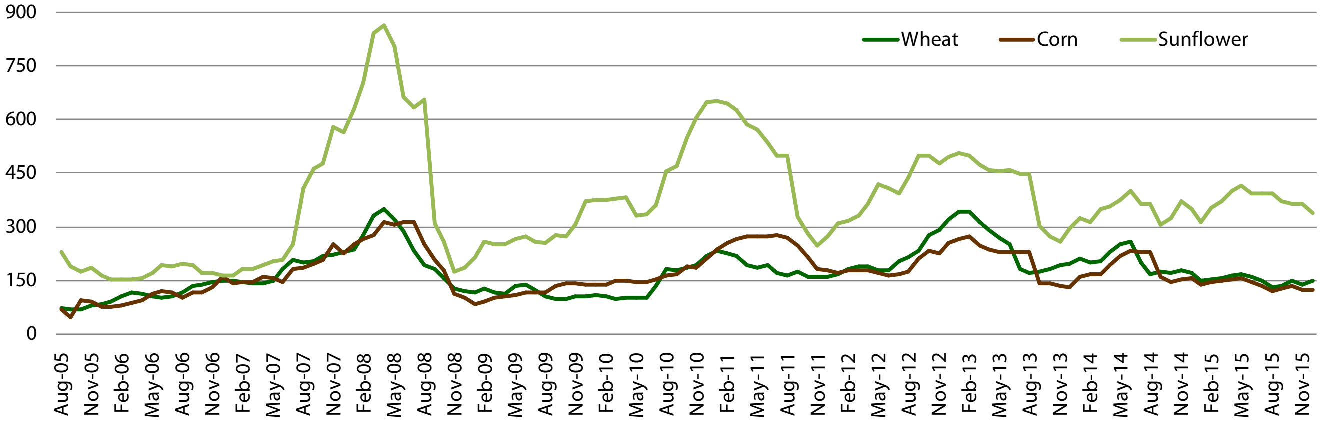


2016 Highlights

- **Prices: 2016 Agricultural commodity prices continue to decrease due to increasing production and growing stocks**

– The global grain crop was a record pushing stocks to an all-time high and prices to a 10 year low
– Domestic prices remained under pressure following the record 120mmt crop, disappointing export volume and the ruble appreciating by 21% against the dollar
– Corn prices were 6% higher and wheat and barley (76% of the total crop) 6% lower in USD y-o-y
– Sunflower prices fell 9% in USD after a record large crop despite international prices rising earlier in the year

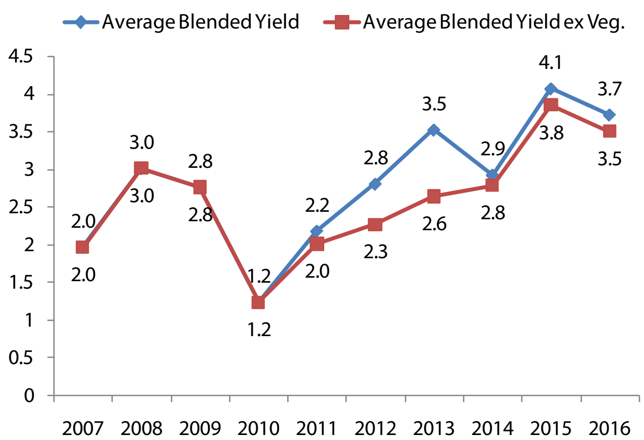
D1: Central Black Earth Region Prices on Key Crops, USD



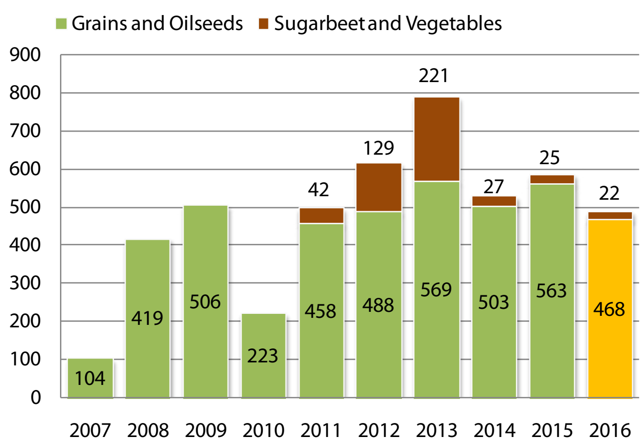
- **Yields: Average blended yield (excl root crops) down 9% y-o-y and up 23% on 5Y average**

– Blended average crop yield down 9% y-o-y to 3.5 t/Ha and up 74% on 2011 average of 2.0 t/Ha
– Winter wheat yield up 22% y-o-y to 4.3 t/Ha, the highest level in the Company's history
– Corn yield down 2% y-o-y to 5.2 t/Ha, the second highest level in the Company's history
– Sunflower yield down 29% y-o-y to 1.6 t/Ha
– Potato yield down 11% y-o-y to 32.0 t/Ha
– Total commercial production down 17% y-o-y to 490 thousand tons while a 9% reduction in cropped area

D2: Crop Yield Development, tons per hectare



D3: Commercial Harvest, thousand tons



- **Costs: Average production costs USD 91 per ton, 27% below 5Y average**

– Average harvest year production costs per ton increased by 7% y-o-y in 2016, staying 27% below 5Y average
– Lower unit production costs driven by higher yield, improved operating efficiency and a weaker RUB
– Procurement and RUB weakness led to lower spend on seeds, sprays and fertilizers
– Higher logistics capacity utilization and centralized management lowered costs on fuel, spare parts and external services

- **2016 results: EBIT down USD 26.7mn y-o-y from USD 21.4mn to USD -5.3mn driven by lower cropped area, prices and quality**

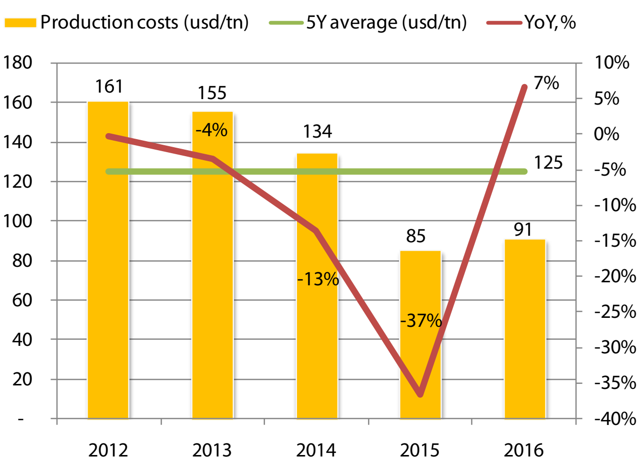
– Revenue and gains down by USD 33.3mn or by 25.5% largely on average price reduction of 17%
– Cost savings accounting for USD 6.0mn vs 2015 in Production and USD 3.5mn in G&A were not sufficient to cover revenue gap
– EBITDA down USD 26.9mn y-o-y from USD 29.2mn (including one-time positive effect of land swap of USD 9.2mn) to USD 2.3mn
– 2016 net loss of USD -10.6mn (14.3mn net income)

T1: BEF Income Statement in Brief

USD million	2011	2012	2013	2014	2015	2016
Total Revenue&Gains	85.0	224.1	148.3	144.4	130.4	97.1
Gross Result	2.9	54.1	6.1	37.8	50.9	20.2
EBITDA	-13.5	34.7	-11.4	20.9	37.2	2.3
Operating Result	-27.7	19.5	-30.6	6.2	29.4	-12.1
Net Result	-45.7	7.0	-45.9	-17.4	14.3	-10.6

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

D4: Average Production Cost Per Ton Development, USD per ton



- **Cash flows and financial position**

– Net cash used in operating activities USD -0.8mn (-0.6)
– Crop inventory of 192kt (227), valued at USD 30.2mn (32.8) at year-end 2016
– Capex down USD 5.3mn y-o-y to USD 4.5mn in 2016 from USD 9.8mn in 2015
– RUB 2,400mn working capital credit facility. At the end of the year 2016 RUB 807mn or USD 13.3mn had been drawn under this credit facility.
– During 2016 the Group repurchased an additional bond of SEK 29mn (USD 3.4mn) at par value
– Total debt of USD 59.2mn and net debt of USD 32.3mn with a USD 26.8mn cash position as of 31 December 2016
– Debt/Equity covenant ratio[1] at year end improved to 38% from 49% in 2015

1. Debt excludes Working Capital facility as per bond emission prospectus

CEO Statement

2016 net loss of USD -10.6mn (14.3mn net income), down USD 24.9mn y-o-y, driven by lower cropped area, prices and quality.

2016 Harvest Progress

Whilst 2016 was the second most productive year in the company's history at a blended yield of 3.5 tons per hectare (exc. beet and potatoes), prices were again lower and quality problems with wheat from a very wet August significantly reduced revenues. Feed Wheat and sunflower in particular were strongly down in hard currency terms in 2016. A reduced cropped area also pressured average production cost per ton, which increased 7%.

2016 Performance

During 2016 our farms experienced 63% higher rainfall than the five year average. Whilst this resulted in decent yields of wheat and corn crops at 4.3 and 5.2 t/ha respectively, it impacted negatively on wheat quality and harvest. Yields of Spring barley and sunflowers were disappointing.

Harvest conditions have been challenging with all the corn and sunflower crops harvested at much higher than average moisture levels and requiring drying. The costs of this wet and delayed harvest have however been controlled relatively well.

Four successive huge global harvests have inevitably resulted in a depressed price environment and a huge growth in stocks internationally. World grain production is up 4% y-o-y to a record high of 2,094mmt. In 2016, Russia also had a record grain harvest estimated at 118mn (vs. 104mn in 2015) tons. Corn and wheat prices are now at 10 and 6 year lows respectively and our actual received average price for wheat is down 43% y-o-y in hard currency terms. Sunflower prices have also proved weak since the year end. Potatoes and carrots yielded well with better quality but big domestic crops have again meant that prices have suffered in hard currency terms.

Our crop price hedging activities in futures contracts resulted in a USD 1.9mn (1.5) gain and mitigated some of the weakness in prices.

T1: Net Crop Yield Development

(tons/ha)	2011	2012	2013	2014	2015	2016	Av. 2011-2016	2016 to 2015, %	2016 to Av., %	2016 to 2011, %
Winter wheat	2.4	2.1	3.3	4.0	3.5	4.3	3.3	22%	31%	81%
Spring barley	1.9	2.4	2.6	3.6	3.2	2.3	2.7	-29%	-14%	23%
Corn maize	4.9	5.1	4.3	3.5	5.3	5.2	4.7	-2%	10%	6%
Sunflower	2.0	1.9	2.0	1.9	2.2	1.6	1.9	-29%	-18%	-21%
Potato	n/a	33.2	33.9	31.0	35.9	32.0	33.2	-11%	-4%	0,0%
Average Blended Yield ex Veg.	2.0	2.3	2.6	2.8	3.8	3.5	2.8	-9%	23%	74%
Average Blended Yield	2.2	2.8	3.5	2.9	4.0	3.7	3.2	-9%	16%	71%

2016 Results

Black Earth Farming experienced a tough year in 2016. Reasonable productivity and cost savings in harvest year production costs of USD 6mn and in G&A of USD 3.5mn not proving sufficient to mitigate difficult weather and very low prices. Revenue and gains of USD 97mn (130) was down by 25.4% due to a decline in prices and low quality of winter wheat.

Although the Company benefited from higher profit on grain hedges of USD 1.9mn (1.5), Other Income and Expense in 2016 has declined from 9.7mn in 2015 to 1.1mn in 2016, since 2015 value included a one-time benefit from the land SWAP transaction of USD 9.1mn. The Company benefited from positive FX on foreign denominated debt of USD 6.8mn.

At the end of 2016, the Company had a carry-over working capital position of finished goods of 192kt (227), valued at USD 30.2mn (32.7).

With USD 26.8mn (31.9) of cash at 31 December 2016, the Company had net debt of USD 32.3mn (31.5) and a Debt/Equity rate of 49% (59%). Being restricted for the most of the year, we were able to perform only moderate bond buyback in 2016 of USD 3.4mn par value.

Agreement to sell the Russian operations

During 2016, the Company received a number of expressions of interest substantially above the undisturbed share price level of SEK 3.55 per share prior to the announcement on 9th August 2016 confirming that the Company were in talks with potential buyers. All were from prospective Russian buyers underpinning the higher value put on the Company by potential domestic purchasers.

On 9th August 2016, the Board of Directors of Black Earth Farming communicated by press release that the Company was in talks with potential buyers regarding a substantial land and asset sale in Russia. On 13th February 2017, having evaluated an asset sale versus other alternatives, the Board of Directors of Black Earth Farming has concluded that a divestment of AIMC LLC and AIRMC LLC (the two holding companies, owning assets in Russia) to Volgo-DonSelkhozInvest is the best alternative for the Company and its shareholders. Additionally the Board of Directors believes that this alternative is a better alternative for Black Earth Farming's shareholders than continued long-term operations. It was not possible to solicit a public takeover offer for all depositary receipts in the Company on terms more favorable than the terms of the Transaction.

A deposit of USD 10mn was received on 16th of February 2017. On the 23rd of March 2017 the EGM of Black Earth Farming shareholders approved the deal. At the current date we are waiting for the regulatory approval from FAS, the Russian anti-monopoly body, who issued an extension to the approval on 22nd of March 2017. Assuming FAS approval is granted soon, we would expect to sign the Russian SPA in mid to late April and to complete and receive the cash proceeds in early to mid May. Upon receipt of proceeds we plan to give notice of a combined EGM for the distribution of funds and an AGM to take place in early June.

There would likely be a required period to trade redemption shares before the actual redemption in mid to late June. At this point the Company would apply to the Stock Exchange for de-listing and proceed with liquidation.

Risks

While the Company's business is not directly impacted by current geopolitical tensions, the Group is indirectly exposed to changes in its operating and financial environment. Sanctions on Russia could negatively impact the Russian economy and affect the Company's financial and operating environment. The ban on imports of certain foreign products is generally positive for the Company but the risks of a potential imposition of export levies increase uncertainty in the Company's operating environment.

Specifically the proposed transaction is several weeks from completion and is exposed to exchange rates, market prices for remaining crops and other costs. There is a low risk that FAS approval may be delayed or may not be granted.

Summary

2016 has been a frustrating year both operationally and financially. I am however pleased to report that we have reached a conclusion from our negotiations with bidders with an agreement that we expect will deliver to shareholders between SEK 7.2 - 7.5 per Swedish Depository receipt. This is a premium of between 96.5 and 104.7 per cent compared to the volume weighted average trading price for the three months preceding BEF's announcement of the negotiations.

Richard Warburton
CEO and President
Black Earth Farming Ltd
7 April 2017

Black Earth Farming – Background and profile

Black Earth Farming ("BEF") was established in 2005 and was among the first foreign-financed companies that undertook investments in the Russian agricultural sector. The Company holds ownership of an extensive land bank of first class soil in several Russian regions and is a major producer of grains, oilseeds and potatoes. Black Earth Farming's current focus is on increasing the productivity and profitability from its existing asset base and to become a best-in-class agro industrial company in terms of production costs per ton. As of 31 December 2016, Black Earth Farming had 246,000 hectares under control, of which 89% were owned. In 2016, a total of 134,000 hectares were cropped. The Company plans to increase cropped area up to 154,000 hectares in 2017.

2005-2009: Building the Asset Platform

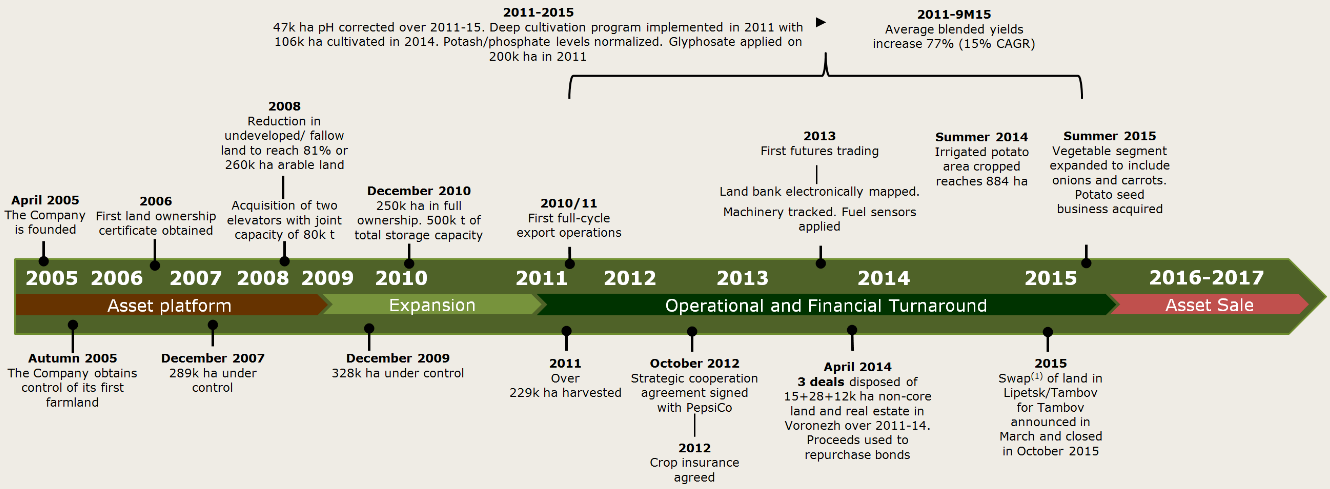
Black Earth Farming was established in 2005 and was among the first foreign-financed companies that invested into the Russian agricultural sector. The Company has established a significant presence in the regions of Kursk, Tambov, Lipetsk and Voronezh in the central "Black Earth" area of Russia. From the Company's inception in 2005 up until 2009, Black Earth Farming's focus was directed towards building an asset platform. Agricultural land in Russia is usually comprised of a number of farm lots and can be classified as state, municipal or private property. With the reorganization of the Russian Kolkhoz or collective farms, the employees of such organizations obtained a part of the agricultural land in common. Black Earth Farming's approach to build a land bank was mainly to acquire privatized collective farms owned by a group of natural persons. The Company holds freehold ownership of land plots and lease rights via Russian subsidiaries, all of which are controlled by Black Earth Farming. BEF obtained its first control of agricultural land in 2005, which was converted into the Company's first ownership title in 2006. At the end of 2006, the Company already had 115k Ha in process of registration. By the end of 2009, BEF had invested approximately USD 75mn in land assets to control 330k Ha, of which 216 was owned, 39k Ha leased and 75k Ha in different stages of ownership registration. While expanding its land bank, the Company also acquired storage capacity and production infrastructure and procured a fleet of agricultural machinery and equipment. At the end of 2008, two elevators with joint storage capacity of 80kt were acquired by the Company. By the end of 2009, about USD 70mn had been invested in drying and storage capacity, and more than USD 100mn in machinery and equipment. During the accumulation of the Company's asset platform, Black Earth Farming was run from a large office in Moscow with a focus on land registration and procurement of infrastructure and equipment.

The phase of intensive investment in the Company's asset base was accompanied by several funding rounds. Between 2005 and 2007, the Company funded its asset acquisitions through several private equity placement rounds. Initial funding was raised mainly from the family backed Swedish investment companies Vostok Nafta and Investment AB Kinnevik. While Vostok Nafta distributed its holding to its shareholders in April 2013, Investment AB Kinnevik remains as a major shareholder. In March 2007, the Company issued a EUR 55mn bond at 13%, followed by USD 40mn share issue in August. At the end of 2007, the Company completed an IPO on OMX First North in Stockholm, raising SEK 1,920mn (or USD 298mn at the rate at the time of the placement). In June 2009, the Company changed listing from First North to the main Nasdaq OMX list.

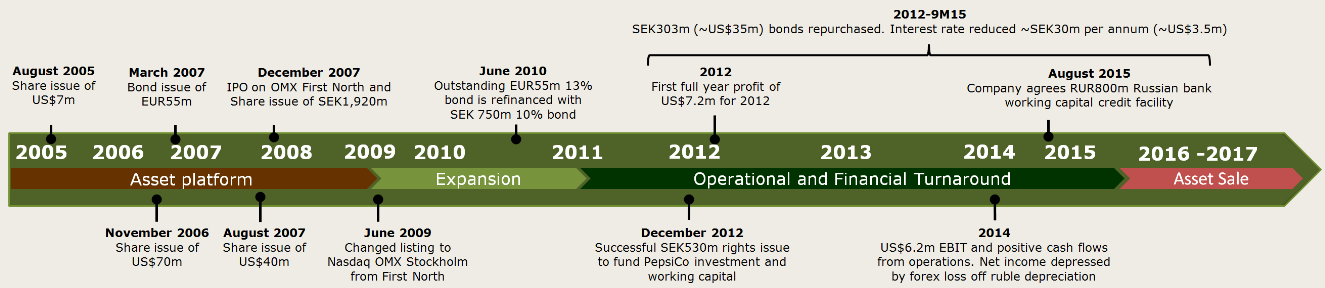
2009 – 2011: Expansion of Production

2009 to 2011 was a period where the focus of the company started to shift from laying down the asset platform to digesting and integrating the assets and ramping up the operations. . The farmland acquired had been laying fallow for many years and could not be put into production immediately. The Company first had to restore and improve the condition of the land. The methodology, which is extensive and resource consuming, included several steps, such as disc tilling and field levelling. Significant investment was made into converting undeveloped and fallow land into arable. By the end of 2008, the Company estimates that it had brought 81% of its total controlled land, or 260k Ha, out of fallow and into cultivation. In 2007, BEF cropped only 53k ha. By 2009, production had expanded to 183k Ha. 2010 cropped area was similar to 2009 as the Company faced a severe drought and poor productivity. By 2011, cropped area had grown to 231k Ha, with total harvest volumes of 514kt. As production grew, investment in logistics and infrastructure needed to grow to remove bottlenecks and meet increasing demand. By December 2010, Black Earth

Operational evolution



Financial evolution



Farming had total storage capacity of 500kt and a machine park of more than 500 units. Over this period, the Company funded investments mainly out of the IPO proceeds from December 2007. In June 2010, the outstanding EUR 55m 13% bond was refinanced with a SEK 750mn (USD 98mn at the rate of the time of the placement) 10% bond.

2011 – 2016: Operational turnaround and diversification

If 2005-2009 was mostly about putting productive capacity in place, and 2009-2011 was about integrating the assets and bring land into organized production, 2011-2015 was about stabilization, turnaround and optimization of the operational business. Once fallow had been broken and the fields restored to cropping condition, the focus shifted to raising crop yields and implementing operational improvements. Initially this work focused on removing constraints to crop yields. . A deep cultivation program was launched in 2011 to remove soil compaction. Acidity levels were corrected on 47k Ha over 2011-2015. Potash and phosphate levels were raised to optimum levels over the same period. New initiatives for seed selection and weed control were introduced. In parallel, Black Earth Farming's land bank strategy was reviewed with an objective to optimize the Company's footprint and achieve the best possible fit with its operational profile. The continental climate in the central Black Earth Region of Russia, where the Company operates, has a crop growing season of approximately 120–170 days from South and East to West and North , which can be compared to 270 - 300 days in the UK, given its maritime climate and proximity to the Gulf Stream. This impacts productivity between regions but also within BEF's land bank, with more Western and Northerly areas generally offering higher yield potential. Growing days, soil quality, altitude, access to infrastructure and potential for further consolidation were considered. By 2013, BEF had its complete land bank electronically mapped. Starting in 2011, the Company launched a program to improve its bank through divestment of underperforming non-core assets and SWAPs of land and infrastructure to build consolidated and compact production clusters. The 2013 and 2014 land transactions in Voronezh and 2015 SWAP in Lipetsk-Tambov are part of this strategy, which remains ongoing. As a result of the transactions to date, the Company has been able to reduce its number of operational areas from nine to five. In this context, the Company has also simplified and unified organization and incentive structures across the holding, with an appropriate balance of centralized and local decision-making. To support the new operational structure, BEF has introduced new command and control systems, employing world class IT resources and high level of automation to ensure real-time management information flow and operational responsiveness. In September 2015, the company announced the close of its Moscow office and the completion of the transition of its central functions to Voronezh.

The Company believes that investment into soil and operational processes, as well as the ongoing land optimization has delivered results, as average blended yields have continued to grow since 2011 (up 71% or at 9% CAGR between 2011 and 2016), while production costs per ton are down in USD terms (-37% y-o-y in 2015 and -47% since 2011). In 2011, the Company also transformed its sales and marketing operations, as it completed its first full-cycle export program, chartering rail, storage and shipping capacity to deliver crops to international buyers. In 2013, the Company launched a risk management program, trading grain futures on MATIF and Chicago. Another effort to manage revenue risk was to introduce crop insurance in 2012.

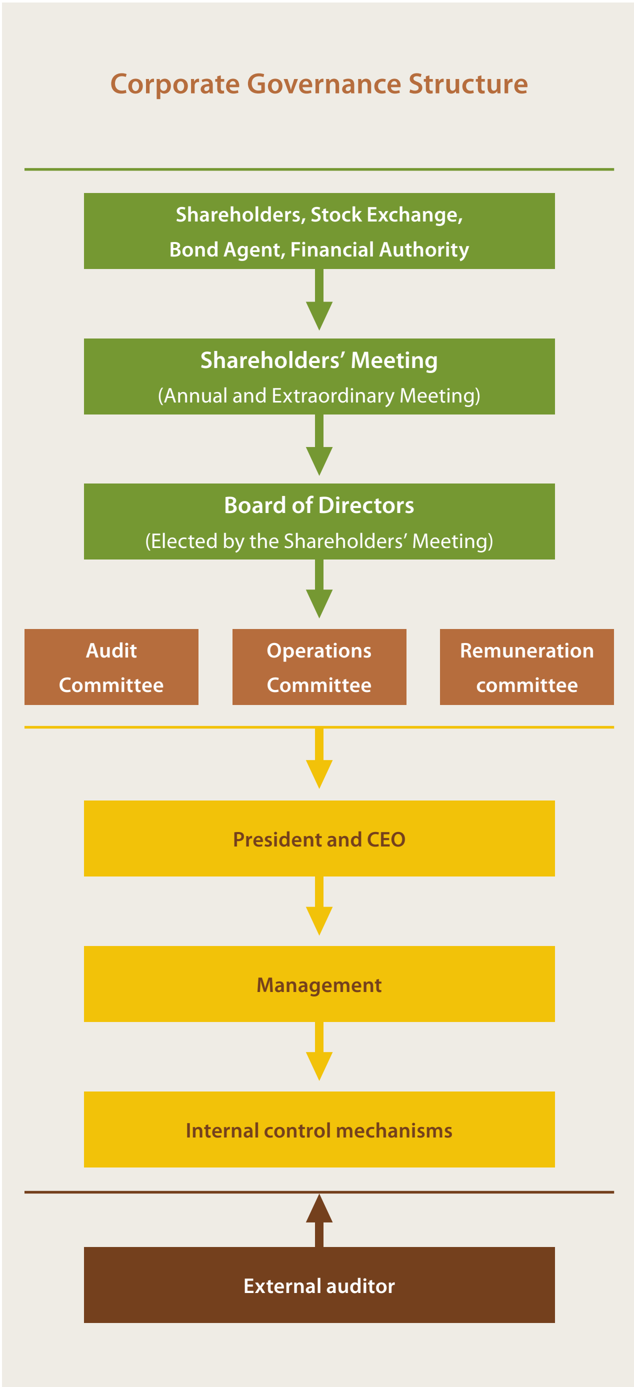
In 2012, BEF signed a strategic cooperation agreement with PepsiCo to deliver potatoes to its Frito Lays crisps production aiming to diversify business. Irrigated root crops reachaed area of 884 Ha in 2014. However, the economic downturn in Russia has hit prices for root crop vegetables and in 2015, the Company scaled back the potato area to 592 Ha, but also introduced onions (38 Ha) and carrots (25 Ha) to the crop mix. In 2016 the area was 521 hectares (+130 hectares of plant potato in Kaliningrad): 469 Ha - potato, 42 Ha - carrots, 10 Ha - onions.

In 2012, to support new investments in the core business but also the ramp of the irrigated root crop segment, the Company raised SEK 530mn (USD 78mn at the rate of the time of the placement). On the back of strong prices, the Company posted its first profit of USD 7.0mn in 2012. Over 2013 and 2014, operational performance started to improve with higher yields and lower costs per ton. Against the backdrop of sharply lower crop prices, and with a depreciation of the RUB driving translation losses on the Company's balance sheet, the Company's results however returned to negative territory. In 2015, the Company had significantly improved productivity. With a lower unit cost position, Black Earth Farming achieved a USD 14.3mn profit despite prices remaining at low levels (15% reduction since 2014 32% since 2012). The 2015 net profit of USD 14.3mn was the best result in the BEF's history.

In 2016 commodity prices further declined – average sales price dropped 17% since 2015. In addition, extreme weather conditions (750 mm of rainfall in 2016 vs. 468 mm 5 year average) primarily happened during seeding and harvest, mainly during seeding and harvesting, led to reduction in crop area and put pressure on wheat quality. Although the Company delivered cost savings both in production and G&A they were not sufficient to cover for Revenue loss. In 2016 Net loss accounted for 10.6 mn.

Corporate Structure and Organisation

Black Earth Farming Limited is a limited liability company incorporated in Jersey, in the Channel Islands, on 20 April 2005. Black Earth Farming Limited is the holding company for a number of legal entities established under the legislation of Cyprus, Guernsey and the Russian Federation. Those entities together are referred to as the Black Earth Farming Group. The structure of Russian subsidiaries goes by the name of Agro-Invest and is headquartered in Voronezh, where the company also holds its key central service functions. In the 2016 financial year, Black Earth Farming had an average of 1,771 employees, compared to an average of 1,804 in 2015.



Macroeconomic environment

Russian macro-economic environment and outlook

A sustained fall in real incomes kept domestic demand depressed, while the recession, which started in the third quarter of 2014, persisted in the first half of 2016. However, the pace of the recession has now declined substantially: real GDP shrank by just 0.9% year-on-year (y-o-y) in the first half of 2016 compared to -3.7% in 2015. Headline economic and financial trends and indicators are now picking up. Inflation in 2016 was 5.4% – less than half of the 12.9% in the same period in 2015[1]. The consolidated budget of regional governments registered a surplus in the first eight months of 2016. And in May, for the first time since 2013, the government successfully issued US$1.75 billion 10-year Eurobonds with an effective rate of 4.75%. The fiscal deficit worsened in 2016. Although expenditure cuts were undertaken since the beginning of 2016, the federal budget deficit widened[2].

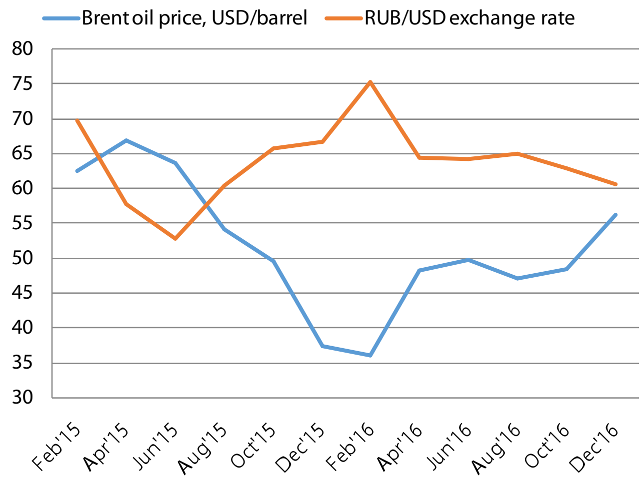
CBR key rate was down to 10.0% in September 2016 from 11% in the beginning of the year, and further decreased to 9.75% as of March 2017. High CBR significantly cuts supply of available credits to economy and, at the same time, attracts short term liquid capital inflow to Russian financial markets, giving additional impulse to RUB strengthening.

Oil prices declined from 54.15$/bbl in Sep'15 to 34.73$/bbl in Jan'16, than it had been recovered following to OPEC decision to cut production to 32.5 mln. barrels daily since Dec'16. Oil market stays volatile: thus Brent declined from 55.9$/bbl in Jan 17 to 50.1$/bbl in march 2017. Further perspectives for price increase remain unclear as increased drilling activity in USA tend to replace reduced supply from Russia and OPEC countries[3].

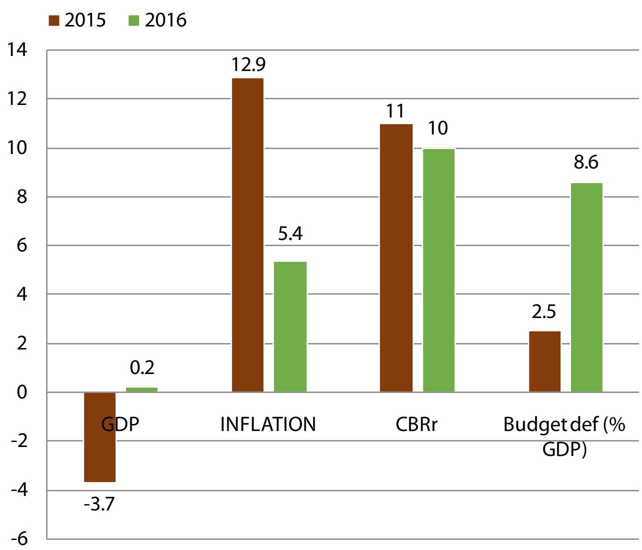
The RUB is making the headlines at the outset of the year after ending 2016 as the second-best performer among emerging-market currencies. Russian currency ended the year at 60.7 RUB per USD, strengthening 16.7% compared to the end of 2015[2]. Oil prices recovery and short term capital inflow driven by high interest rates are said to be key factors of RUB strengthening. There is a strong policy resistance against a stronger RUB and we anticipate that higher oil prices will at the end of the day be met with a net increase in overall FX reserves, thus stemming further nominal gains in the RUB.

Agriculture continues to show positive dynamics. In 2016 sector grew by 3.2% (but is expected to go down to 2.6% in 2017)[4]. The Government continues to support agriculture with various subsidies, however more support is dedicatedtothe lifestock industry and soften. Subsidy programs appear to be somewhat selective.

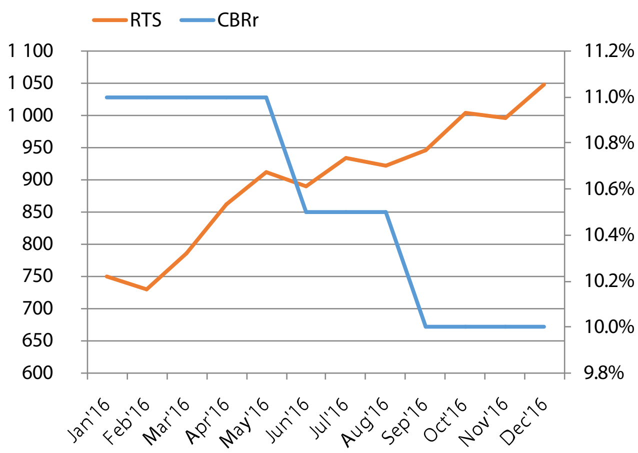
D1: Brent Oil Prices and Ruble Exchange rate dynamics



D2: Macroindicators; %



D3: Russian Stock Market And Central Bank Rate, points and %



1. Source: The Federal Institute of Statistic (http://www.gks.ru)
2. Source: The Central Bank of Russian Federation (cbr.ru): 11% by 13.06.2016; 10.50% by 18.09.2016 and 10% since 19.09.2016
3. Source: Bloomberg (bloomberg.com)
4. Source: Ministry for Economic Development (economy.gov.ru/)

Market Overview

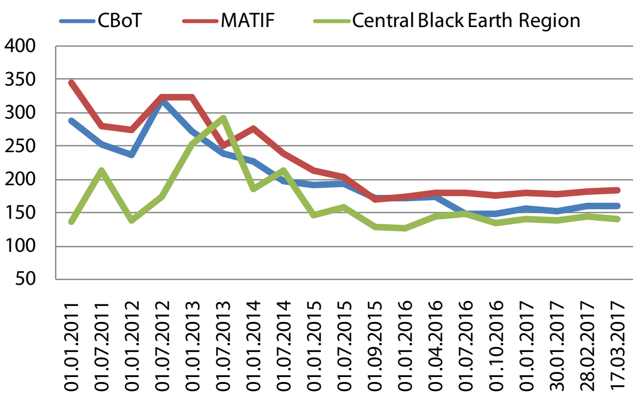
INTERNATIONAL

Record 2016-17 grain crops pushed production to an unprecedented 2,102mmt, stocks to all-time high of 508mmt and prices to a 10 year low. Oilseed production is expected to show a sharp recovery in South America, up 21mmt y-o-y, increasing global stocks to 86mmt (76mmt 2015-16) and resulting in lower prices. The final 2015-16 Global grain crop was 2,006mmt and whilst 42mmt lower y-o-y, the build-up of stocks since 2012-13 resulted in ending stocks increasing to a record 475mmt. World oilseed production was lower than the originally forecasted following disappointing South American soya crops. The big crops / high stocks / low price trend is expected to continue into crop 2017-18 as production estimates for both grains & oilseeds show continued high production, although at 2% lower y-o-y but offset by record high stocks, in the absence of any pre-harvest growing concerns.

Grains – Low grain prices are increasing demand, up 4% y-o-y, and exceeding 2billion tonnes for the first time. Increases are mainly in the feed and energy sectors with US ethanol production currently running at the highest ever levels resulting in increased domestic corn usage. In addition, a resurgence of US corn exports has taken place (+51%y-o-y) due to the competitive prices following the record harvest.

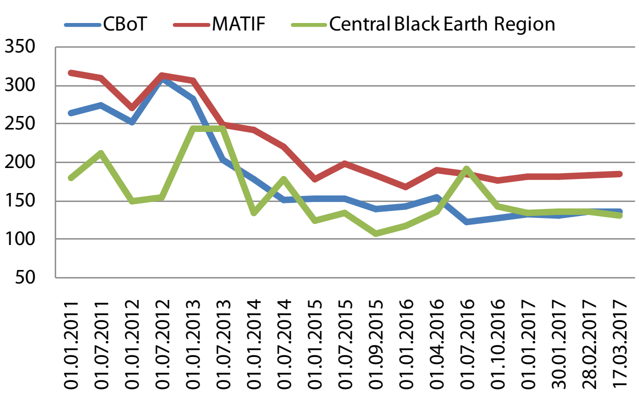
Lower overall EU wheat exports by 10mmt y-o-y has resulted in increases from other origins, particularly the US where exports are running at record levels (+24%y-o-y). As the marketing year ends, the already high world stocks are forecast to increase and prices fall to reflect not just the current high stock levels but also the expected negative price effect this with projected high production again in the coming season. Russian milling wheat for export remains one of the most competitive priced and the discount to other origins now looks to increase as stocks build and

D1: Average prices - Wheat, USD



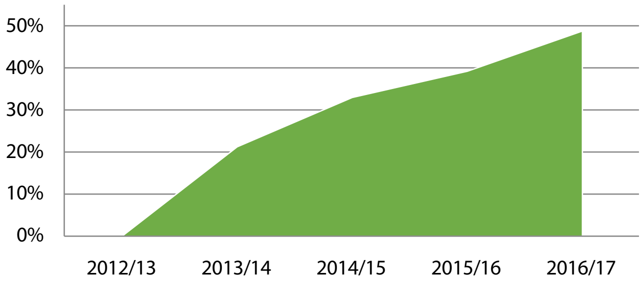
Source: Market Data Centre

D2: Average prices - Corn, USD



Source: Market Data Centre

D3: World Total Grains stock % increase since 2012/13



Source: International Grains Council

sellers chases fewer buyers. Winter wheat plantings for the 2017/18 crop are 10% down in the US, the lowest since 1909, but up 6% in the EU and 10% higher in Russia y-o-y.

Oilseeds – the South American soya harvest forecast, as harvest progresses, is now expected to be up 7% y-o-y, raising 2016-17 global soya production to 340mmt (312mmt last year) with ending stocks up from 76mmt to 83mmt this year. The US crop is projected at 117mmt, up 9% y-o-y, and global oilseed production rises to 558mmt, up 14% y-o-y. Imports to China, the world's biggest buyer, continue to increase to 86mmt in 2016-17 and to 89mmt next year forecast.

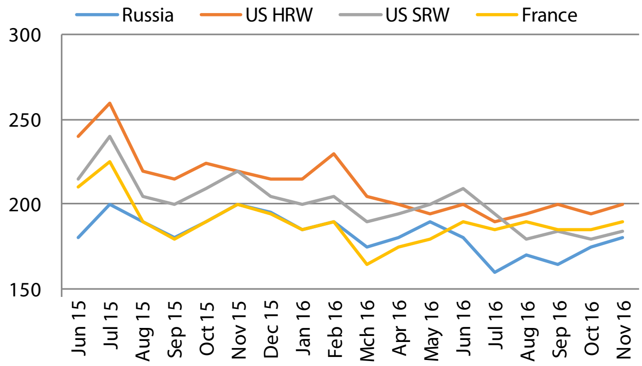
RUSSIA

Grains –The 2016/17 crop estimate projects a further production increase to 118mmt, +15% y-o-y and 16mmt above the previous record crop in according to IKAR.The 2015-16 crop produced 104mmt, 1mmt below the record the year previous, but the second ever highest. For crop 2016/17 wheat accounts for 74mmt (+17%), barley 18mmt (+3%) & corn 15mmt (+5%). Exports at end-February (8 months) are near the same as at this time last year (25mmt) despite record January & February volumes and a crop higher by 16mmt implies an increase in end of season stocks of 54% y-o-y to 20mmt from 13mmt last year. Domestic prices remain under pressure from the current disappointing pace of exports relative to increased supply & stocks, absence of end of season consumer buying and ruble appreciation of 21% against the dollar during 2016. Domestic feed grain prices in the Central Black Soil Region have fallen during the year according to Prozerno. Corn is 12% lower in ruble terms and 6% higher in USD's, feed wheat and barley is down 16% in rubles and 6% in USD's whilst milling wheat was just 1% lower in ruble terms and 11% higher in USD's due to the shortage of higher quality wheat this year.

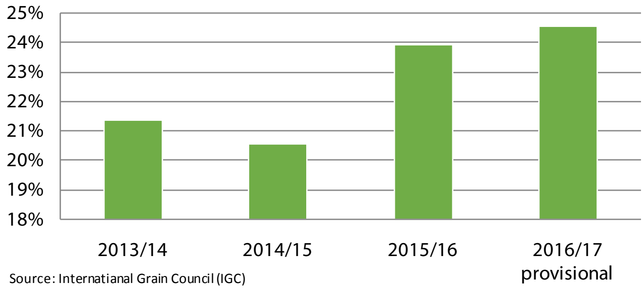
Oilseeds – The sunflower crop has been revised upwards to 11mmt giving a total oilseed production of 15mmt, an increase of 15% y-o-y. Record crushing levels pre the 2016 year-end and the resulting high stock levels of oil & meal is pushing sunflower seed prices lower in the 1st quarter 2017. This coupled with lower oilseed prices internationally is resulting in lack of buying interest from the Russian processors and continuing declining prices. Prices are lower y-o-y by 19% in ruble terms, 9% in USD is, according to ProZerno.

Vegetables – A bigger domestic potato supply again this year depressed prices at the beginning of the season, however, there was a small uplift in price from the New Year holiday, traditionally a period of higher prices but absent for the last 2 years. Price comparison y-o-y (+4% rub & +17% $) and price development from Harvest to March 2017 (+ 34% rub & +48% $).

D4: World Wheat FOB Prices, USD

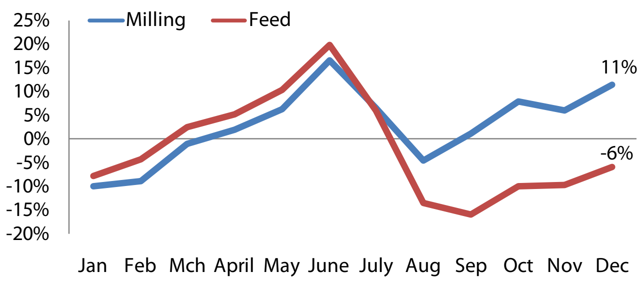


D5: Stock to use %, Total grains



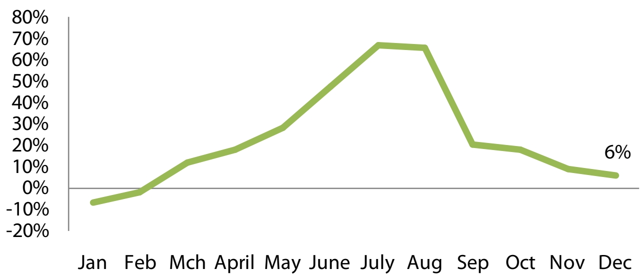
Source: Internatianal Grain Council (IGC)

D6: Domestic wheat Price Development (Dec 2015 vs Dec 2016) in USD, %



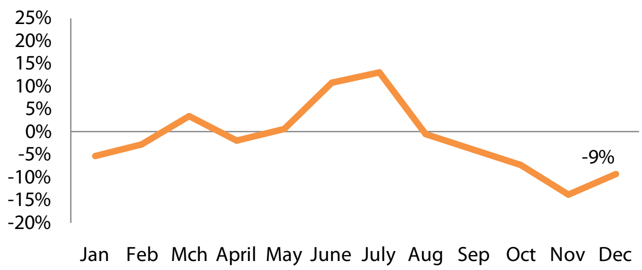
Source: ProZerno, Central Bank of Russia

D7: Domestic Corn Price Development (Dec 2015 vs Dec 2016) in USD, %



Source: ProZerno, Central Bank of Russia

D8: Domestic Sunflowers Price Development (Dec 2015 vs Dec 2016) in USD, %



Source: ProZerno, Central Bank of Russia

T1: Harvest Area Breakdown

(Hectares)	2008	2009	2010	2011	2012	2013	2014	2015	2016
Winter wheat	48,636	84,698	72,677	93,627	73,912	73,702	30,235	34,071	38,385
Spring wheat	4,339	3,824	10,157	13,093	4,368	3,412	6,140	3,812	n/a
Spring barley	42,638	43,053	13,793	26,535	22,718	21,850	16,076	9,499	17,552
Corn maize	9,950	8,084	8,592	6,149	26,003	36,814	55,317	61,110	39,749
Winter triticale	n/a	2,740	302	n/a	n/a	n/a	n/a	n/a	n/a
Total Grains	**105,563**	**142,399**	**105,521**	**139,404**	**127,001**	**135,778**	**107,768**	**108,492**	**95,686**
Winter rape	875	7,045	536	n/a	n/a	n/a	111	n/a	n/a
Spring rape	13,149	7,132	29,051	33,494	36,597	31,436	18,083	n/a	n/a
Sunflower	19,378	26,466	36,761	46,518	33,218	28,997	37,479	37,658	37,916
Soya	n/a	n/a	7,899	7,863	18,187	18,682	16,932	166	n/a
Total Oilseeds	**33,402**	**40,643**	**74,247**	**87,875**	**88,002**	**79,115**	**72,605**	**40,128**	**37,916**
Sugar Beet	n/a	n/a	n/a	1,621	5,085	8,822	n/a	n/a	n/a
Potatoes	n/a	n/a	n/a	n/a	0,031	0,196	0,884	0,592	0,469
Onion								0,030	0,010
Carrot								0,040	0,041
Total Commercial Area	**138,965**	**183,042**	**179,768**	**228,900**	**220,119**	**223,911**	**181,257**	**149,282**	**134,122**
Other	2,968	381	1,013	1,951	1,675	1,721	2,934	0,018	0,858
Total harvest area	**141,933**	**183,423**	**180,781**	**230,851**	**221,794**	**225,632**	**184,191**	**149,300**	**134,980**

T2: Average Net Crop Yields

(Tons per hectare)	2008	2009	2010	2011	2012	2013	2014	2015	2016
Winter wheat	4.1	3.3	1.9	2.4	2.1	3.3	4.0	3.5	4.3
Spring wheat	2.9	2.1	1.4	1.6	2.6	1.9	3.6	2.3	n/a
Spring barley	3.3	2.8	1.4	1.9	2.4	2.6	3.6	3.2	2.3
Corn maize	2.3	3.1	0.6	4.9	5.1	4.3	3.5	5.3	5.2
Winter triticale	n/a	2.2	0.7	n/a	n/a	n/a	n/a	n/a	n/a
Winter rape	1.6	1.4	0.5	n/a	n/a	n/a	0.7	n/a	n/a
Spring rape	1.3	1.2	0.5	1.1	1.3	0.9	1.4	n/a	n/a
Sunflower	1.3	1.7	0.8	2.0	1.9	2.0	1.9	2.2	1.6
Soya	n/a	n/a	0.2	0.9	1.2	0.9	0.5	0.6	n/a
Sugar beet	n/a	n/a	n/a	25.6	25.3	24.3	n/a	n/a	n/a
Potatoes	n/a	n/a	n/a	n/a	33.2	33.9	31.0	35.9	32.0
Onion	n/a	n/a	n/a	n/a	n/a	n/a	n/a	29.0	22.6
Carrot	n/a	n/a	n/a	n/a	n/a	n/a	n/a	65.0	48.1

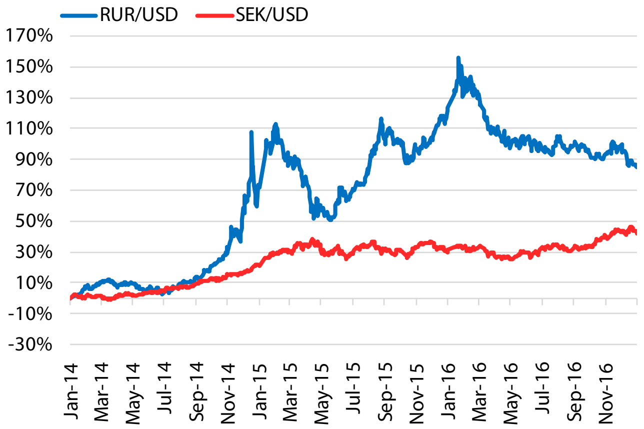
T3: Net Harvest Volumes

(Tons)	2008	2009	2010	2011	2012	2013	2014	2015	2016
Winter wheat	201,377	280,648	137,703	220,608	157,571	245,711	121,185	119,086	163,319
Spring wheat	12,472	7,863	13,791	21,187	11,495	6,573	22,379	8,587	n/a
Spring barley	138,752	122,375	19,595	49,166	55,074	55,429	57,492	30,282	39,864
Corn	22,651	25,251	5,152	29,989	132,829	158,986	195,747	321,896	205,428
Winter triticale	n/a	5,930	211	n/a	n/a	n/a	n/a	n/a	n/a
Total Cereal Grains	**375,252**	**442,067**	**176,452**	**320,950**	**356,969**	**466,699**	**396,803**	**479,851**	**408,611**
Winter rape	1,395	10,014	246	n/a	n/a	n/a	74.83986	n/a	n/a
Spring rape	16,657	8,470	15,497	36,887	46,052	28,113	26,064	n/a	n/a
Sunflower	25,285	45,580	28,904	92,805	62,759	57,970	70,927	83,161	59,811
Soya	n/a	n/a	1,818	7,114	22,364	16,006	9,098	97	n/a
Total Oilseeds	**43,337**	**64,064**	**46,465**	**136,806**	**131,175**	**102,089**	**106,164**	**83,258**	**59,811**
Sugar beet	n/a	n/a	n/a	41,531	128,405	214,720	n/a	n/a	n/a
Potatoes	n/a	n/a	n/a	n/a	1,029	6,644	27,404	21,265	19,855
Onion								0,725	0,226
Carrot								2,664	1,997
Total Commercial Crops	**418,589**	**506,131**	**222,916**	**499,287**	**617,578**	**790,152**	**530,372**	**587,763**	**490,500**
Other/Forage crops	22,928	3,381	3,686	14,597	13,213	13,243	19,575	13,942	12,211
Total Output	**441,517**	**509,512**	**226,602**	**513,884**	**630,791**	**802,395**	**549,946**	**601,705**	**502,709**

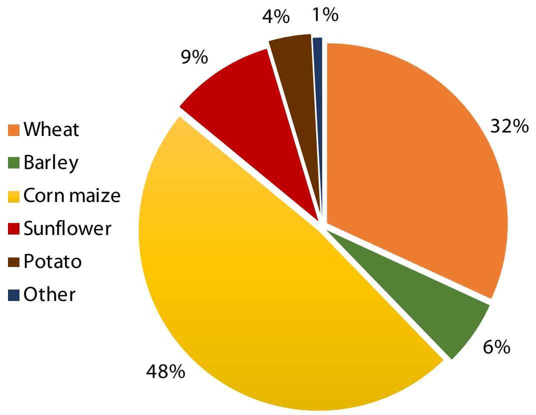
2016 Financial Review

Black Earth Farming's 2016 operating result decreased USD 41.5mn y-o-y from USD 29.4mn to USD -12.1mn, driven by lower cropped area, prices and quality. G&A costs improved to USD 15.5mn (19), 19% reduction y-o-y. The company benefited from positive forex of USD 6.8mn. The net loss was down to USD -10.6mn in 2016.

D1: Exchange rates, RUR/USD and SEK/USD



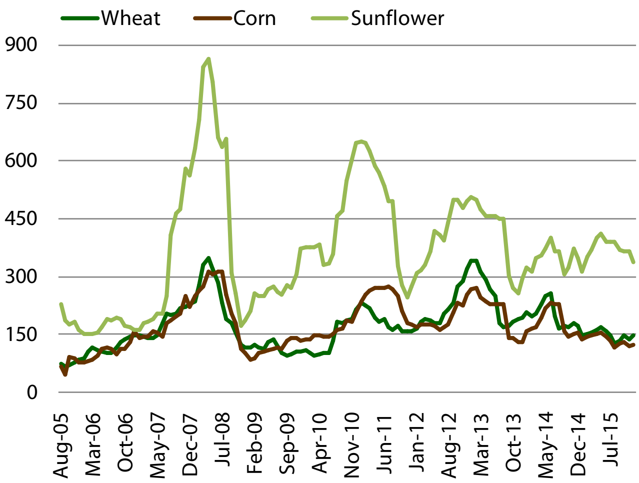
D2: Sales Mix Structure by Volume 2016



In February 2017, the Group entered into a framework share purchase agreement to sell all its Russian operating subsidiaries, following distribution of the proceeds the Company intends to propose voluntary liquidation. Thus, the Company's financial statements for 2016 were not prepared on a going concern basis. While all accounting policies have been consistently applied except for all asset and liabilities classification as current at 31 December 2016. The details are described in Note 1 and 2 to the consolidated financial statements.

In 2016 productivity remained at high level. Blended yield of 3.5 (excluding root crops), though decreased by 9% vs 2015, was **16**% above 5 year average and second best in company history. Extreme weather conditions in Black Earth Region 2016: abnormally high rainfall during seeding (750mm) and during wheat harvest has noticeably impacted economic results: the company reduced seeding area from 147 thousand hectares in 2015 to 134 thousand hectares in 2016, also quality of winter wheat harvested in 2016 detiriorated significantly, more than 53% of winter wheat in 2016 fell into "no class" category.

D3: Central Black Earth Region Prices on Key Crops, USD



Market conditions continued to decline both domestically and internationally. Record crop stock worldwide and continued strong production combined with all-time high harvest in Russia of 120 mn tn lead to 17% decline in average selling price for the Company.

Revenue and gains declined from USD 130.4mn to 97.1mn in 2016. Despite number of cost savings initiatives implemented, such as Moscow office close, direct material mix optimization and others, cost savings earned (6.0mn in Production and 3.5mn in G&A) were not sufficient to cover drop in Revenue and gains.

While other income and expenses decreased from USD 9.7mn in 2015 to USD 1.1 in 2016, in 2015 other income and expenses benefited from one time positive effect of land swap, the Company received USD 6.8mn (-7.9) positive FX gain from closing RUB rate appreciation.

In 2016 the company booked net loss of USD -10.6mn (7.2 net profit excluding swap effect). Negative income result was primarily caused by overall commodity price decrease, crop area decline related to spring weather and negative impact of lower quality of winter wheat on revenue.

Note on translation from functional (RUB) to presentation (USD) currency

Due to significant exchange rate volatility in 2015 and 2016, the Company has applied the respective quarterly average RUB/USD rates to convert the 1Q16: 74.63 (1Q15: 63.19), 2Q16: 65.89 (2Q15: 52.77), 3Q16: 64.62 (3Q15: 63.00) and 4Q16: 63.07 (4Q15: 65.94) results from its RUB functional currency to the USD presentation currency. Opening (72.88) and closing rates (60.66) have been used to translate the balance sheet in the 2016 reporting period. The Company uses the official rate of the Central Bank of Russia as reference. 2016 reveals favourable exchange rate dynamics, while average RUB/USD rate devalued by 10% contributing to cost benefit, December 31 closing rate appreciated by 16.7% which allowed us to gain from foreign currency denominated debt depreciation. Foreign exchange income accounted for USD 6.8mn in 2016.

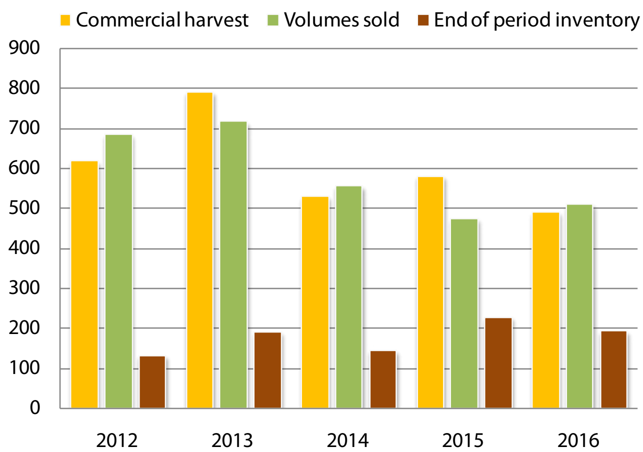
INCOME STATEMENT

Revenue & Gains

Revenue and gains of USD 97.1mn (130.4) were down in 2016. Revenue from goods sold in 2016 declined 7% y-o-y to USD 75.6mn (81.1) as sales volumes increased 8% to 510kt, whereas, the average sales price declined 17% y-o-y in USD terms to USD 146 per tn. The decline in price was driven by overall commodity price pressure as well as lower quality of winter wheat due to the bad weather conditions during the 2016 harvest period. Estimated negative impact of winter wheat quality is USD 3.1mn in 2016 vs 2015.

In addition to USD 5.6mn y-o-y decline in sales, gain on revaluation of biological assets and finished goods decreased from USD 44.9mn in 2015 to USD 22.0mn in 2016 driven by lower year end inventory of 192.2kt (227.5kt) as well as reduced valuation prices.

D4: Production, Sales and Inventory, thousand tons



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

	2009	2010	2011	2012	2013	2014	2015	2016
Average Net Crop Yield, tons (harvested)/ha	2.7	1.1	2.1	2.7	3.5	2.9	4.0	3.7
Average Net Crop Yield (excl. SB and PT[2]), tons (harvested)/ha	2.7	1.1	2.0	2.2	2.6	2.8	3.8	3.5
Average Price, USD/ton	115	243	173	250	181	197	169	146
Average Price (excl SB and PT2), USD/ton	115	243	180	263	220	198	172	149
Revenue per Hectare, USD/ha	309	269	368	685	633	782	675	543
Revenue per Hectare (excl. SB and PT[2]), USD/ha	309	269	364	671	619	768	653	523

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

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

T2: 2016 Quarterly Sales Volume & Crop Inventory

	Quarterly Sales					Crop in Inventory	
	4Q '16	3Q '16	2Q '16	1Q '16	4Q '15	31 Dec '16	31 Dec '15
Volume, k tons							
Wheat	54.1	71.0	18.9	18.6	51.0	31.2	38.7
Barley	11.6	5.0	5.9	7.6	12.4	21.8	18.1
Corn	96.8	12.1	57.9	79.3	170.8	91.2	129.2
Rape	-	-	-	-	-	-	-
Sunflower	19.6	0.2	18.5	9.7	49.7	38.8	28.3
Soya	-	-	-	-	-	-	-
Potato	8.1	0.7	7.6	3.0	6.5	8.2	12.3
Other	2.5	0.5	0.5	0.8	1.4	1.0	0.9
Total Tons	192.7	89.5	109.3	118.9	292.5	192.2	227.4
Price, USD/ton							
Wheat	72	78	125	116	147	126	117
Barley	124	131	156	142	155	143	132
Corn	122	175	181	168	141	118	114
Rape	-	-	-	-	-	-	-
Sunflower	293	345	346	316	324	311	340
Soya	-	-	-	-	-	-	-
Potato	65	117	45	49	29	94	94
Other	59	41	53	49	159	38	88
Average Price	122	95	188	166	171	160	143

Revenue

Revenue captures actual sales during the financial year, both of 2015 crop carry-over inventory sold in 2016, and 2016 crop sold in the 2016 calendar year. 2015 crop in inventory at year-end is marked-to-market with unrealized gains included in the change in net realisable value of agricultural produce after harvest (see also below). 2016 revenue was down 7% year-on-year to USD 75.6mn on greater volume sales (+8% y-o-y) and lower average price (-17% y-o-y). Volume sales were up 8% y-o-y as a result of a significant carry-over of grain inventory in 2015. (227.4kt in 2016 vs 143.9kt in 2015) and a lower carry-over to the next calendar year (192.2kt in 2016 vs 227.5kt in 2015). The decline in price was driven by overall commodity price pressure as well as lower quality of winter wheat.

Due to the bad weather conditions during the 2016 harvest period, the Company has got 53% of "no class" winter wheat with very high moisture percentage and lowest sales price. Estimated negative impact of winter wheat quality is USD 3.1mn in 2016 vs 2015.

Like in 2016 the Company's main crops are corn, wheat, sunflower and barley. In 2016, wheat, sunflower and corn represented 32%, 9% and 48% of volume sales respectively, vs 25%, 15%, and 45% in 2015.

Gain/Loss on Revaluation of Biological Assets and Inventory

The Company's biological assets, which mostly capture work in process and crop in field, and its crop inventory in storage, are estimated at fair value and net realisable value respectively in the Company's financial position. Changes in valuation flows through the statement of income in Gain on revaluation of biological assets and Change in net realizable value of agricultural produce after harvest for biological assets and crop inventory in storage respectively. The gain on biological assets is derived by using final harvest volumes, valued at regional market prices at the time the crop was harvested (which differs per crop), less incurred production costs and expected selling expenses. After harvest, when the crop is kept and processed in storage, the statement of income is affected via change in net realizable value, driven by market price developments affecting the value of crop inventory. Starting from year-end 2014, crop in inventory is valued at contract prices, if contracted for sales, and on regional market prices less selling costs where the inventory has not yet been contracted. In 2016, 31% of the 192.2 thousand tons year-end crop inventory was valued on contract prices, and the other 69% at regional market prices less selling costs. When crop is sold and revenue is recognized, the book value of crop in inventory or the fair value estimate of the biological asset (if recorded in biological assets as of the start of the reporting period) is recognized as cost of goods sold, with the gross result reflecting whether or not the crop was sold above or below its book value. In this sense, crop sales constitutes a mark-to-market on the Company's biological asset, whether in field or in inventory in the prior period.

In 2016, as a result of lower yields, higher production costs per ton and decreased RUB prices, the Company posted a USD 22.0mn (44.9) gain on its biological asset (its harvest).

At the end of 2016, the Company still had 3,606 Ha of unharvested corn and 2,504 Ha of unharvested sunflowers (as for the 20th of March there are still unharvested 362 Ha of corn and 1,023 Ha of sunflowers) in the field and 44,628 Ha of 2017 winter wheat, carried on balance at estimated market value of USD 0.6mn, 2.2mn and 8.5mn respectively.

On 31 December 2016, the Company had 192.2kt (vs 227.4kt at 31 December 2015) of finished goods inventory (crop in storage) at an estimated value of USD 30.2mn (USD 32.8mn). Change in net realizable value of this inventory resulted in a USD -0.5mn loss (USD 4.4mn gain). In 2016, 48% of year-end inventories were corn, 16% wheat and 20% sunflowers.. As a result of lower gains on biological assets and crop inventory in 2016 (down USD 27.8mn y-o-y to USD 21.5mn in 2016 vs USD 49.3mn in 2015),

Cost of production

Black Earth Farming's production cycle commences with seeding of winter crops during the fall of the prior calendar year. It continues with spring seeding and several stages of field works until the harvest period commences in July through November, depending on crop (please see diagram D2 on page 4). Historically, approximately 20–30% of costs have been incurred in the fall of the preceding calendar year as winter crops are seeded and fields are cultivated in the autumn. The percentage depends on the field works and the relative weight of the winter crops in the overall crop mix. The remaining 70-80% of costs is incurred during the spring and summer in the same calendar year as part of the spring seeding, followed by field works and harvest. Thus, it is only for every new harvest (i.e. production cycle) that the Company can affect the actual costs of production. The cost of production is significantly affected by the crop mix, as different crops have different levels of cost intensity.

In absolute value production costs demonstrated decrease from USD 50mn to USD 44mn (13%), production cost benefited from direct material optimization, strong control over labour costs and positive exchange rate effect.

However, smaller harvest area, decreased by 10% vs. 2015, and yield reduction of 7.5% led to rise of production cost per tn. Average production cost per ton is estimated at USD 91 (85), up 7% y-o-y. Production cost per tn[1] remains 27.2% below 5 year average of USD 125.

Cost of Sales

When crop is sold and revenue is recognized, the book value of crop in inventory or the fair value estimate of the biological asset (if recorded in biological assets as of the start of the reporting period) is recognized as cost of goods sold. Total cost of sales therefore reflects both the accumulated underlying production costs of the crop sold over the period and the prior period mark-to-market of crop in field (biological assets) and crop in storage or transit (inventory). In its reporting, the Company splits the underlying cost of goods sold from the effects of mark-to-market ("effects of revaluations"). Total cost of sales consequently depends on the volume and crop mix sold as well as crop prices at the previous closing date. The underlying input costs are also detailed in Note 7 to the financial statements.

The 2016 costs of goods sold include both costs of 2015 crop sold in 2016 as well as 2016 crop harvested and sold in the calendar year. Unsold 2016 crop held in inventory at year end affects the statement of income via a change in net realizable value but does not impact cost of goods sold until revenue is recognized. Cost of sales grew to USD 48.7mn (41.6) or 17% y-o-y related to growth in sales volume from 474kt in 2015 to 510kt in 2016.

Distribution, General and Administrative and Other Cost and Expenses

Total distribution expenses increase from USD 10.6 mn to USD 16.5 mn was driven by export sales growth from 118kt in 2015 to 158kt in 2016 (34%) and export sales tariff increase. Also there was a geographic mix: while most of export shipments in 2015 were to central Europe, in 2016 – to Ireland, which is more distanced from Liepaja, where the goods are stored.

General and administrative (G&A) costs, mostly capture labour and consultancy expenses. G&A were down 19% y-o-y to USD 15.5mn in 2015. Key factor of G&A decrease has been the personnel cost reduction of USD 3.0mn in 2016. The estimated savings related to Moscow office closure amounted to USD 0.7mn.

Other income and expenses in 2016 of USD 1.1mn (9.7) includes USD 1.9mn (1.5) income on grain hedges. Reduction vs 2015 is driven by one time effect: in 2015 the Company posted USD 9.1 pre-tax gain on swap of land and real estate in Lipetsk and Tambov regions.

December 2016 closing RUB rate appreciation vs USD and SEK resulted in FX income of USD 6.8mn (USD -7.9mn loss).

Net Result

The Company's operating profit decreased USD 41.5mn y-o-y from USD 29.4mn in 2015 to USD -12.1mn in 2016. EBITDA was down USD 26.9mn y-o-y from USD 29.2mn in 2015 to USD 2.3mn in 2016. Negative income result USD -10.6mn was primarily caused by overall commodity price decrease, crop area decline related to spring weather and negative impact of lower quality of winter wheat on revenue.

BALANCE SHEET

Assets

Since its inception, Black Earth Farming has invested in (a) acquiring and registering farm land into ownership, (b) a large fleet of high quality western agricultural machinery and equipment and (c) supporting storage infrastructure for the Company's operations. The majority of the investments required for the current land bank have been undertaken and future capital expenditures will mainly be driven by needs to maintain the machine park as well as to improve the throughput and efficiency of the storage sites. As the Company's records its assets in its functional currency, the y-o-y movement in the Company's financial position was

T3: Summary Income Statements

USD million	2010	2011	2012	2013	2014	2015	2016
Total Revenue&Gains	63.5	85.0	224.1	148.3	144.4	130.4	97.2
Gross Result	9.3	2.9	54.1	6.1	37.8	50.9	20.2
EBITDA	(7.3)	(13.5)	34.7	(11.4)	20.9	29.2	2.3
Operating Result	(27.2)	(27.7)	19.5	(30.6)	6.2	29.4	(12.1)
Net Result	(38.5)	(45.7)	7.0	(45.9)	(17.4)	14.3	(10.6)

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

1 Production cost per ton is a sum of direct and indirect costs incurred in current harvest year production divided by harvest volume

affected by the movement in the RUB/USD rate from 72.88 on 31 December 2015 to 60.66 on 31 December 2016.

Inventories include crops harvested in 2016 at USD 30.2mn (USD 32.8mn) and input materials to be used for the 2017 crop of USD 11.7mn (USD 9.6mn).

Fixed Assets

As of 31 December 2016, the Company carried total assets of USD 185.6mn (181.2mn). The Company's fixed assets of USD 91.3mn (78.1mn) comprise mainly buildings (storage facilities and infrastructure at USD 36.7mn), land (218k Ha of owned and co-owned land well as 4k Ha in ownership registration process at USD 35.8mn), and equipment used in crop production (at USD 17.3mn), construction in progress (at USD 1.6mn). The increase in fixed assets from USD 78.1mn at the end of 2015, to USD 91.3mn at the end of 2016, was mostly driven by the 20% strengthening of the Company's functional currency in the Russian RUB against the its presentation currency in the USD.

Land

As of 31 December 2016, Black Earth Farming held 218k Ha of owned and co-owned land, corresponding to 89% of the total controlled land bank of 246k Ha. 25k Ha were leased and 4k Ha were in the process of registration.11 k Ha of land plots in Samara have been sold at the end of the year. The rest 2k Ha in Samara are subject for further re-registration and transfer to the customer and are classified as investment property in the balance sheet and held at a fair value of USD 0.2mn (2.2). 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.

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 187k Ha of land that is not leased at acquisition cost of USD 26.0mn (less Samara and certain 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 131. 2k Ha in Samara are held at a fair value of USD 0.2mn, which translates into a per hectare fair value of USD 120. 22k Ha in Lipetsk and Tambov are held at fair value of USD 8.6mn, which translates into a per hectare value of USD 390.

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

Biological Assets

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 at what stage of the growth cycle the crop is in, the value is estimated either by incurred costs for field works (cultivations, seeding, fertilizer spreading, herbicide spraying etc.) if little biological transformation has occurred, or by an estimate of revenue (harvest volume and market price per crop less production costs and selling expenses). The revaluation of biological assets is performed in accordance with the requirements of IAS 41 Agriculture, which states that a biological asset shall be measured on initial recognition and at each balance sheet date at its fair value less estimated point-of-sale costs.

Black Earth Farming values crops in the fields at incurred costs up until 30 June each year. At that point, sufficient germination (biological transformation) has occurred to enable estimates of crop yields. Market prices less point-of-sale costs and yield are used to determine an estimate of fair value at the time of harvest. The initial revenue estimate is adjusted with a completion factor, typically in the range of 50-80% as of June 30, depending on crop and incurred vs forecasted expenses, as significant risk to crop yield and price remains. At 30 September, average completion typically moves towards

T4: Summary Statement of Financial Position

	mRUR	mRUR	mUSD	mUSD
Exchange rate			60,66	72,88
	31-Dec-16	31-Dec-15	31-Dec-16	31-Dec-15
Land	2,172	2,148	35.8	29.5
Buildings	2,223	1,861	36.7	25.5
Equipment & other	1,146	1,686	18.8	23.1
Investment property	15	158	0.2	2.2
Cash	1,628	2,329	26.8	32.0
Finished goods	1,834	2,388	30.2	32.8
Raw materials and consumables	710	697	11.7	9.6
Bio assets & cultivation	1,167	1,090	19.2	15.0
Receivables	317	783	5.2	10.7
Other	49	63	1.1	0.8
Total Assets	11,261	13,203	185.7	181.2
Total Debt	(3,589)	(4,626)	(59.2)	(63.5)
Trade and other payables	(409)	(682)	(6.8)	(9.4)
Other Liabilities	(9)	(18)	(0.1)	(0.2)
Equity	(7,254)	(7,877)	(119.6)	(108.1)
Total Equity & Liabilities	(11,261)	(13,203)	(185.7)	(181.2)

70-90%. 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.

As at 31 December 2016, the Company's biological assets included 2,504 Ha and 3,606 Ha of unharvested corn and sunflower in the field respectively, valued at an estimated USD 2.8mn on average harvested yields and market prices. The biological assets also included 44,628 Ha of winter wheat, carried at cost at USD 8.5mn.

Inventory

The Company values its inventory of finished goods at the end of the reporting period at net realisable value, as estimated by contracted sales prices or, if not available, at observable market prices (excluding 10% VAT). A change in net realisable value affects total revenue and gains in the statement of comprehensive income. Total cost of goods sold reflects the carrying value of inventory as at the previous reporting date.

As of 31 December 2016, the Company recorded inventories at a total value of USD 41.9 mn. Total inventories include finished goods, i.e. crops harvested in 2016 held for sale, as well as raw materials to be used in production. Total crop inventory of finished goods included 192kt of crops harvested during 2016 and valued at an average price of USD 160 per ton, resulting in total fair value estimate of USD 30.2mn.

Financial Position

At 31 December 2016, the Company held USD 26.8mn (31.9) in cash and equivalents on its accounts. The Company had total debt outstanding of USD 59.2mn (USD 63.5mn), of which USD 45.6mn were bonds (SEK 412mn derived as SEK 750mn total bond issue net of SEK 338mn held as treasury bonds at 31 December 2016) and USD 13.4mn (RUB 807mn) was a RUB working capital facility. Total debt to total equity stood at 38% excluding the working capital, and 49% including the RUB credit facility. With USD26.8mn of cash on balance at the end of 2016 (vs USD 32.0mn at the end of 2015), net debt stood at USD 32.3mn (vs USD 31.5mn).

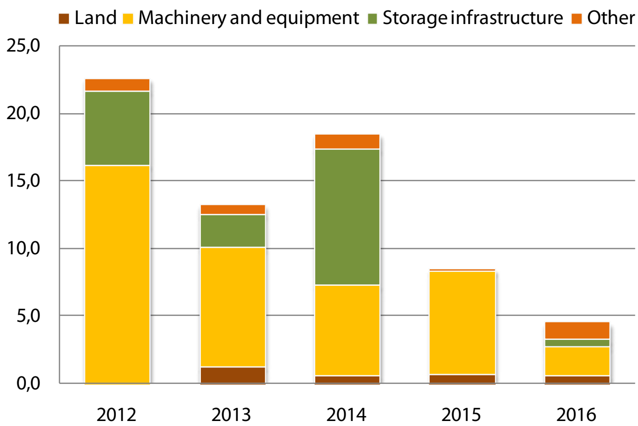
CASH FLOW

Cash Flow

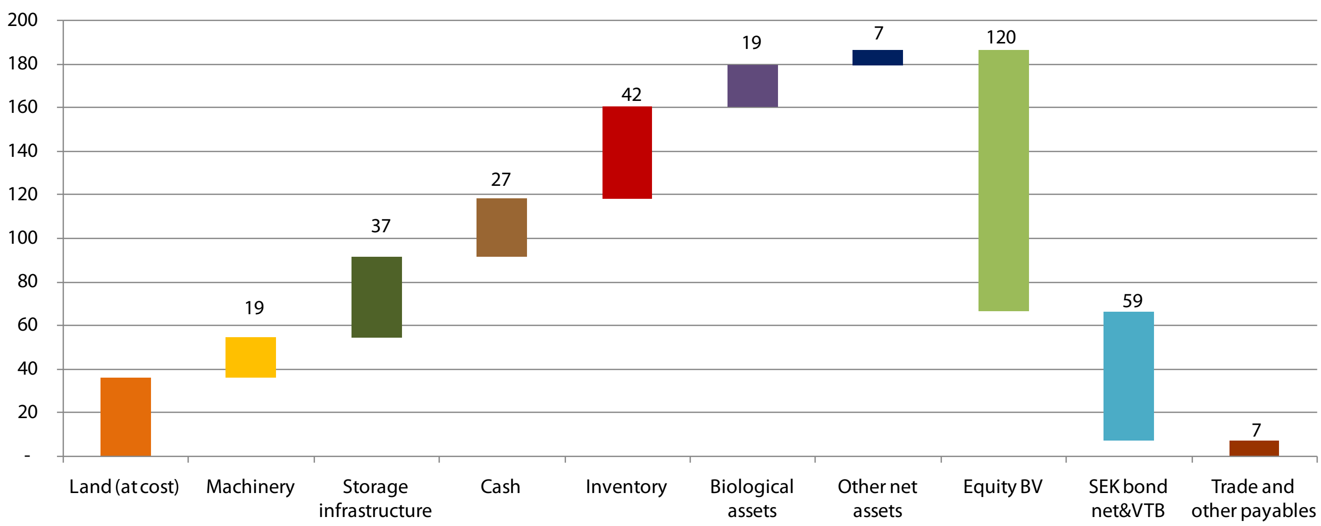
Cash flows from farming operations are highly seasonal and can vary greatly from quarter to quarter. The majority of operating cash outflows relating to direct operating costs arise during the second and third quarters, and are related to the spring seeding campaign, the summer and autumn harvesting, and the autumn winter wheat seeding and cultivation programs. Operating cash inflows from sales proceeds commence post-harvest from July and carry into May or June of the following calendar year as inventory is sold. Partly due to the accounting practice of revaluing biological assets and inventory and take gains or losses through the statement of income, there is significant discrepancy between the profit and loss and the cash flow statement.

During 2016, the Company generated USD -0.8mn (-0.6) net cash flow from operating activities. Cash used in investing activities reduced from USD -6.9mn in 2015 to USD -1.3mn in 2016, primarily due to decreased capital expenditures investment in Root Crop project and inflow generated by sale of Samara region land unused in operations.

D6: Capital Expenditures, USD million



D5: Simplified Balance Sheet as of 31 December 2016, USD million



Risks Analysis

Transaction Risks

On the 13th February 2017 Black Earth Farming entered into an agreement to sell its Russian operations and announced its intention to propose distribution of proceeds to shareholders and initiate a voluntary liquidation of the company. Closing of the transaction is subject to approval by BEF shareholders and relevant regulatory approvals. Shareholder approval was received on the 23rd March. At the time of this reports release the transaction is waiting upon regulatory approval from the Russian anti – monopoly body. There is a low chance that the transaction will not receive regulatory approval.

The final consideration price of the transaction will be subject to adjustments based upon the amount of liabilities at closing and completion accounts that will be prepared following completion by reference to 31st March 2017 subject to certain specific adjustments. There are several variable factors that can influence the exact amount to be distributed, such as exchange rates and in particular the USD to SEK exchange rate as well market prices for crops. The company is seeking to hedge exchange rates where possible.

Should the deal fail to complete the company will be able to continue with ongoing operations. All key employees , inputs and works are in place so that this could proceed smoothly.

Operational risks

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

Crop Yields

A range of factors affect the germination of crops in field, only some of which are within the Company's control. The Company strives to apply agronomic best practices and the appropriate field works to maximize yield and increase the resilience of its crops to adverse weather conditions, weeds, pests and fungal disease. Weather events can delay the seeding campaign and the application of fertilizer and agrochemicals. Droughts could inhibit crop growth while heavy rainfall could disrupt the harvesting schedule, affect crop quality and increase logistics and processing costs. The Company has undertaken several initiatives to remove constraints to crop yields, improve crop production potential and mitigate weather and other risks (see also operational review). Soil pH has been raised in certain areas to remove high acidity, phosphate and potash levels have been optimized, the seed selection process has been reviewed and weed control improved. Key material inputs and life science data, such as seeds customized for the specific climatic conditions and soil characteristics for certain regions, are not always available for some of Russia's key crops and operating areas. To mitigate such operating challenges, the company performs its own research on different seeds to identify best performing varieties internally. The Company has undertaken a comprehensive deep cultivation program to improve yield potential but also to reduce drought exposure, as well structured soils allow crop roots to exploit more soil and moisture. Black Earth Farming is committed to recruiting qualified managers and training its staff to ensure that the proper competences are in place for all field operations. Management is building an information infrastructure and reporting process to support timely and efficient decision making. Since 2013, the Company has used crop yield insurance to hedge against negative effects on crop yields from major regional weather events.

Infrastructure and Logistics

The ability to safely process (mostly drying and cleaning) and properly store its crop production after harvest is an important factor for the Company to manage risks to the quality and value of its crops. Storage and transport infrastructure in Russia is sometimes outdated and inefficient. The Company has therefore invested in internal infrastructure, capable of covering the processing and storage needs for the majority of its expected harvest year crop volumes. Implementation of GPS monitoring is expected to further increase crop and harvest information flow to support decision making and crop handling logistics. Centralized management of harvest, crop handling and storage logistics as well as real time information is key to maintain a proper level of control over some 15 harvesting teams and 30 storage sites across the Company's operations. Drying capacity has been expanded in key production locations to reduce costs of logistics and manage risks to crop quality. As Black Earth Farming developed its export program, securing access to rail transport and port handling capacity became critical to be able to deliver on contracts with international counterparties. To improve visibility on port capacity, the Company has entered into a long-term cooperation with an international partner at a deep water port on the Baltic Sea. To manage risks of rail throughput capacity, the Company has diversified its rail transport supplier base by contracting from private suppliers alongside the leading State controlled operator.

Market risks

Market risks are mostly external to the Company and related to fluctuations in the prices of the Company's crop output, key input materials and assets.

Crop Prices

Market prices of agricultural commodities are influenced by a variety of factors, most of which are beyond the control of the Company. These include weather, global cropping plans, government agricultural policies and changes to global demand and supply of similar and substitute crops. Three record global harvests in a row have depressed current grain prices, with corn and wheat at nine and five year lows respectively. The markets available to hedge price fluctuations via physical forward sales or using

Control Monitoring & Logistics room

financial instruments remain underdeveloped in Russia, where a majority of sales transactions are still conducted on a spot basis. The Company's export program was partly developed to manage risks in this area. The export program serves not only to diversify sales and target an export netback margin, but also to develop international customer partnerships based on long-term contracts and to enable forward pricing. Where forward sales are not possible, the Company makes use of international hedging instruments. In 2013, the Company launched a grain hedging program with trading in futures and options on international exchanges in Paris (MATIF) and Chicago (CBOT). The Company's hedging activities primarily serves to lock in a margin over the Company's expected unit costs, reduce price volatility and provide an additional channel to price forward. In deciding whether or not put on price hedges, the Company considers the futures price levels in relation to budgeted costs as well as the broader sales portfolio and market outlook. A sales and marketing committee, including board representatives, convenes regularly to discuss and decide on hedging strategies. In 2015, the volatility of the Russian ruble on the one hand, and uncertainty about the potential introduction of export restrictions on the other, made execution of domestic forward and export sales more challenging.

Input Prices

Fertilizers, seeds, herbicides and fuel are key inputs in the Company's production process and comprise a high share of its operating costs. The industries supplying these key input materials are characterized by a relatively high level of consolidation. A centralized procurement department consolidates major purchase items to obtain the best pricing and terms available. Timing is an important consideration for procurement of input materials, as the ability to fund pre-purchases and store materials restricts the ability of some agricultural producers to exploit the pricing cycle in input markets. Black Earth Farming has developed access to subsidized working capital channel and has capacity to store materials.

Employees

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

Weather

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

Longer term, global warming may become a factor impacting the Company's operating performance and the value of its assets. The Food and Agriculture Organization (FAO) of the United Nations expects global warming to have a regional, but less of a global effect on food production. Current research suggests that the potential for crop production will increase in temperate and northerly latitudes, while it may decline in parts of the tropics and subtropics. That would suggest a longer growing period and so yield potential for crops in the Company's operating regions.

Political and Regulatory Risk

The agricultural sector both in Russia and globally remains prone to government regulations and policies limiting free trade or affecting market prices. Ownership and lease of agricultural land is a politically sensitive and controversial issue in many parts of the world, including Russia. Equal access to subsidies remains uncertain in Russia. Geopolitical developments and the position of the Russian Federation in the international community could impact mutual commitment to free trade principles. Following a dry autumn with a weaker outlook for Russia's 2015 wheat crop, and amidst efforts to contain domestic inflation pressure, Russia introduced a levy on wheat exports in the beginning of 2015. Russia has however emphasized the strategic importance of the agricultural sector to its economy and domestic government support for selected sub sectors of Russian agriculture is expected to remain in one form or another.

In March 2014, sanctions were imposed by the U.S. and E.U. on certain Russian officials, businessmen and companies. These actions, particularly if further extended, may result in reduced access of the Russian businesses to international capital and export markets, capital flight, weakening of the ruble and other negative economic consequences. The impact of these developments on the future operations and financial position of the Company is difficult to determine. However, the impact of the sanctions on the company has been positive so far, as import replacement drives demand for company products. Current geopolitical tensions have resulted in increased state intervention in some situations and foreign ownership restrictions have been placed in some sectors such as Media.

Financial

The Group's financial risks are managed in accordance with the Treasury Policy that has been adopted by the Board of Directors. Additional details regarding accounting principles and risks are given in notes 1, 27 and 29.24.

Financing risk

Financing risk refers to the risk of Black Earth Farming being unable to meet its need for new capital. As of 31 December 2016, the Company held a nominal SEK 412 million (USD 45.3mn) of the bonds on its balance sheet.

In 2016 the the credit line of RUB 2.4 bn was agreed with VTB bank. Interest rate is floating and consist of Centrobank key rate+1.9%, 2016 avearage interest rate on working capital facility was 12.3%.The company is entitled to subsidies on interest rate up to 6.7%.

Should the company continue operations it will need to pay down its bond in October 2017. The company has considered several options to finance the paying down of the bonds including RUR and USD loans, utilising cash within and proceeds from the business and partial asset restructuring if necessary.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions. With key financial obligations in SEK and USD, the Company keeps most of its liquidity in USD and EUR (see also below on Currency risk).

Credit risk

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

Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing the fair value of fixed rate debt. The Group adopts a policy of limiting its long term exposure to changes in interest rates by borrowing on a fixed rate basis, where possible. At the time of raising new loans or borrowings, management and Board apply judgment to decide whether it believes that a fixed or variable rate would be more favorable to the Group over the expected period until maturity. On 30 October 2013, the Company refinanced its outstanding 2014 bond with a new four-year SEK 750 million bond, extending maturity to 2017. The new bond has a fixed 9.4% coupon, which is paid quarterly. The Company's working capital facility is in RUB at a floating rate with a flexible maturity of less than one year.

Currency risk

The Group is exposed to currency translation risk as its borrowings, mostly denominated Swedish Krona (SEK), fluctuate against its assets, which are predominantly denominated in the Group's functional currency in the Russian ruble (RUB). The Company is also exposed to transaction risks in its cash flows. These risks were pronounced in 2014 and 2015, when the RUB depreciated sharply against the USD and the SEK.

The Company's policy is to make maximum use of natural hedging by seeking asset-liability and cash inflow-outflow matching. To mitigate the translation risks on the Company's balance sheet, this means keeping cash, which is not required for immediate operational purposes, in the same currency as its liabilities (SEK) or in currencies that are highly correlated with the currency of its liabilities. It also means that the Company may gradually seek to reduce its SEK obligations and increase RUB denominated debt. As of 31 December 2016, 94% of the Company's cash was held in hard currency. To mitigate transaction risks in the Company's cash flows, the Company seeks, where possible, to match inflows and outflows. Key cash outflows in currency other than RUB include interest on bonds (SEK), seeds and agrochemicals (partly linked to EUR or USD) and certain capital expenditure items (partly linked to EUR or USD). Key cash inflows in currency other than RUB come from the Company's export revenues (EUR). The Company also recognizes that domestic crop sales and certain cost items are indirectly linked to currencies other than the RUB.

The Black Earth Farming share

Black Earth Farming share information (as of 31 December 2016)	
Exchange name:	Nasdaq OMX Stockholm
Listed form:	Swedish Depository Receipt (“SDR”)
CCY:	SEK
Trading lot:	1
Outstanding shares:	210,426,241
Exchange short name:	BEF SDB
Reuters ticker:	BEFsdb.ST
Bloomberg ticker:	BEFSDB:SS
ISIN code:	SE0001882291
Sector:	Food & Beverage

Market listing

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

Voting rights

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

Dividends and dividend policy

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

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

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

T1: 5 largest shareholders as of 31 December 2016

	Owner	Holding, Shares/ SDRs	Holding, %
1	Investment AB Kinnevik	51,811,828	24.6%
2	GoMobile Nu AB	25,942,162	12.3%
3	Alecta Pension Funds	20,368,000	9.7%
4	Evroclear Bank S.A.	11,025,383	5.2%
5	Avanza Pension	8,489,983	4.0%
	5 largest owners	**117,637,356**	**55.8%**
	Other, approx. 12,156 shareholders	92,788,885	44.2%
	TOTAL outstanding	**210,426,241**	**100.00%**

Source: Euroclear Sweden share registry and shareholders' reference

T2: 5 largest shareholders as of 31 December 2015

	Owner	Holding, Shares/ SDRs	Holding, %
1	Investment AB Kinnevik	51,811,828	24.6%
2	GoMobile Nu AB	25,532,924	12.1%
3	Alecta Pension Funds	20,368,000	9.7%
4	Avanza Pension	9,439,318	4.5%
5	Danske Invest Funds	6,960,000	3.3%
	5 largest owners	**114,112,070**	**54.2%**
	Other, approx 13,095 shareholders	96,314,171	45.8%
	TOTAL outstanding	**210,426,241**	**100.0%**

Source: Euroclear Sweden share registry and shareholders' reference

Ownership structure

At year-end 2016, Black Earth Farming had about 12,161 shareholders, compared to 13,100 in 2015 and 14,500 in 2014. The 5 largest shareholders accounted for 55.8% of the number of shares and voting rights at the end of 2016, compared to 54.2% in 2015 and 54.1% in 2014.

Trading

A total of 92.05 million SDRs were traded during the period from 1 January 2016 to 31 December 2016, corresponding to a value of SEK 390 million. On average 364 thousand SDRs were traded each business day, corresponding to an average value per day of SEK 1.5 million.

Market Capitalization

Black Earth Farming's market capitalization at 31 December 2016 was SEK 1,242 million (USD 136 million), compared to SEK 848 million (USD 102 million) at year-end 2015 (46% year-on-year in SEK)and SEK 608 million (USD 78 million) at year-end 2014.

2013 Bond

On 30 October 2013, the Company refinanced its outstanding 2014 bond with a new four year SEK 750 million bond, extending maturity to 2017. As of 31 December 2016, the Company has repurchased approximately SEK 338 million (USD 48.6 million) of the bonds on its balance sheet.

2015 Share Issue from Management Incentive Program

On 25 June 2015 2,756,796 new shares (1.33% of shares then outstanding) were issued as a result of the Company's management incentive program. This led to an increase of the share capital in the amount of USD 28 thousand and of the share premium in the amount of USD 1,133 thousand. Following the issue, the total number of outstanding shares (as represented by SDRs) and votes were 210.4 million.

On 4 April 2017, 1,853,740 new shares (0.88% of shares then outstanding) were issued as a result of the Company's management incentive program. Following the issue, the total number of outstanding shares (as respresented by SDRs) and votes became 212.3 million.

Analysts Covering Black Earth Farming

Gustaf Hansson, Pareto Securities AB, tel: +46-8-402 50 00

Five Year Summary

Profit & Loss (million)	2012 RUB	2013 RUB	2014 RUB	2015 RUB	2016 RUB	2012 USD*	2013 USD	2014 USD	2015 USD	2016 USD
Sales Revenue	4,458	4,307	4,544	5,153	5,069	143.5	135.0	112.8	81.1	75.6
Change	116%	-3%	6%	13%	-2%	116%	-6%	-16%	-28%	-7%
Total revenue and gains	6,965	4,732	5,972	8,227	6,466	224.1	148.3	144.4	130.4	97.1
Change	179%	-32%	26%	38%	-21%	164%	-34%	-3%	-10%	-26%
Gross profit/(loss)	1,680	196	1,626	3,170	1,368	54.1	6.1	37.8	50.9	20.2
Margin	24%	Neg.	27%	39%	21%	24%	4%	26%	39%	21%
Operating profit/(loss)	605	(975)	338	1,762	(795)	19.5	(30.6)	6.2	29.4	(12.1)
Margin	9%	Neg.	6%	21%	-12%	9%	-21%	4%	20%	-12%
Profit/(loss) before income tax	287	(1,429)	(584)	970	(692)	9.2	(44.8)	(16.4)	16.5	(10.4)
Margin	4%	Neg.	-10%	12%	-11%	4%	-30%	-11%	13%	-11%
Net profit (loss)	218	(1,463)	(618)	854	(704)	7.0	(45.9)	(17.4)	14.3	(10.6)
Margin	3%	Neg.	-10%	10%	-11%	3%	-31%	-12%	11%	-11%
Basic profit(loss) per share (RUB/USD*)	2	(7)	(3)	4	(3)	0.1	(0.2)	(0.1)	0.1	0.1
Diluted profit(loss) per share (RUB/USD*)	2	(7)	(3)	4	(3)	0.1	(0.2)	(0.1)	0.1	0.1

Cash Flows (million)	2012 RUB	2013 RUB	2014 RUB	2015 RUB	2016 RUB	2012 USD*	2013 USD	2014 USD	2015 USD	2016 USD
Cash flows generated from/ (used in) operating activities	(92)	(39)	35	69	11	(3.0)	(1.2)	0.9	(0.6)	(0.8)
Cash flows generated from/ (used in) investing activities	(554)	(333)	147	(414)	(99)	(17.8)	(10.4)	5.3	(6.9)	(1.2)
Cash flows generated from/ (used in) financing activities	2,247	(270)	(1,062)	505	(225)	72.3	(8.4)	(27.3)	7.9	(2.3)

Financial position and return (Million / %)	2012 RUB	2013 RUB	2014 RUB	2015 RUB	2016 RUB	2012 USD*	2013 USD	2014 USD	2015 USD	2016 USD
Total assets	12,822	11,309	10,929	13,203	11,261	422.2	345.5	194.3	181.2	185.7
Property, plant and equipment	6,014	5,785	5,352	5,695	5,541	198.0	176.7	95.1	78.1	91.3
Cash and cash equivalents	2,639	2,125	1,850	2,329	1,628	86.9	64.9	32.9	32.0	26.8
Total equity	8,905	7,487	6,973	7,877	7,254	293.2	228.7	123.9	108.1	119.6
Equity per share	42.9	36.1	33.6	37.4	34.5	1.4	1.1	0.6	0.5	0.5
Operating cash flows per share	-0.4	-0.2	0.2	0.3	0.1	0.0	0.0	0.0	0.0	0.0
Debt/Equity	37%	43%	49%	59%	49%	36%	43%	49%	59%	49%
Equity/Assets	69%	66%	64%	60%	64%	69%	66%	64%	60%	64%
Non-current loans and borrowings	3,162	3,186	3,356	3,721	0	96.6	97.4	59.7	51.1	0.0
Gross margin	24%	4%	27%	39%	21%	24%	4%	26%	39%	21%
Operating profit margin	9%	-21%	6%	21%	-12%	9%	-21%	4%	20%	-12%
Net profit margin	3%	-31%	-10%	10%	-11%	3%	-31%	-12%	11%	-11%
Return on Equity	3%	-18%	-9%	12%	-10%	3%	-18%	-10%	12%	-9%

Production & Sales	2012	2013	2014	2015	2016
Commercial Harvest area (ha)	220,119	223,911	181,257	146,974	134,253
Year-on-year change	-4%	2%	-19%	-19%	-9%
Commercial Harvest (tons)	617,578	790,152	530,372	587,763	490,500
Year-on-year change	24%	28%	-33%	11%	-17%
Volumes Sold (tons)	683,610	715,415	555,424	474,059	510.486
Year-on-year change	71%	5%	-22%	-15%	8%
End of Period Inventory (tons)	131,809	190,360	143,881	227,411	192,243
% of Commercial harvest	21%	24%	27%	39%	39%
Average Realised Price per Ton (USD*)	212	186	198	169	146
Year-on-year change	28%	-13%	7%	-15%	-14%

Land Holding (thousand hectares)	2012	2013	2014	2015	2016
Land under Control	308	308	271	256	246
Year-on-Year change, %	-3%	0%	-12%	-6%	-4%
Land in Full Ownership	250	254	232	227	217
Year-on-Year change, %	-4%	2%	-9%	-2%	-5%
Land in Ownership Registration Process	19	17	10	4	3
Year-on-Year change, %	3%	-8%	-41%	-58%	33%
Land in Long Term Lease	40	37	29	25	25
Year-on-Year change, %	-1%	-6%	-22%	-13%	0%

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

Black Earth Farming Limited and Subsidiaries Consolidated Financial Statements as at and for the year ended 31 December 2016

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BLACK EARTH FARMING LIMITED AND SUBSIDIARIES

STATEMENT OF MANAGEMENT RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

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

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

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

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

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

The consolidated financial statements were approved by the Board of Directors and authorized for issue on 7 April 2017.

Per Åhlgren
Chairman of the Board

Franco Danesi
Non-executive Director

Camilla Öberg
Non-executive Director

Dmitry Zavgorodniy
Non-executive Director

Poul Schroeder
Non-executive Director

Independent Auditor's Report

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

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Black Earth Farming Limited and its subsidiaries (together the "Group") as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

What we have audited:

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of income and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

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

Independence

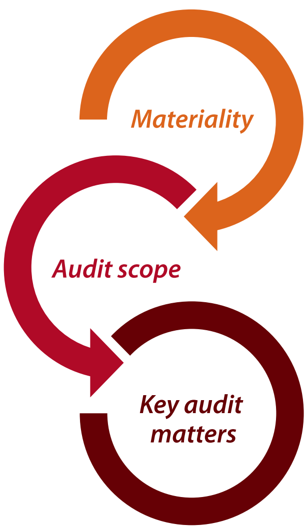
We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") together with the ethical requirements of the Auditor's Professional Ethics Code and Auditor's Independence Rules that are relevant to our audit of the consolidated financial statements in the Russian Federation. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Emphasis of Matter

We draw attention to Note 1 to these consolidated financial statements, which describes how the Group in February 2017 entered into a framework share purchase agreement to sell all its Russian operating subsidiaries to a third party buyer and how upon completion of the sale transaction, the Board of Directors intend to seek the voluntary liquidation of the Company. These consolidated financial statements therefore are not prepared on a going concern basis. Our opinion is not modified in respect of this matter.

Our audit approach

Overview



Materiality

Overall group materiality: United States Dollars ("USD") 755 thousand, which represents 1% of the total revenue.

Audit scope

- Our audit covered Black Earth Farming Limited and all its subsidiaries (together the "Group") that are included in the consolidated financial statements.
- Because of the centralised structure of the Group, the audit was performed entirely in Russia.
- Throughout the audit, the engagement teams in Sweden and in Russia maintained continuous communication.

Key Audit Matters

Valuation of finished goods
Valuation of biological assets

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.

Overall group materiality	USD 755 thousand
How we determined it	Based on 1% of the Group`s revenue for the year ended 31 December 2016.
Rationale for the materiality benchmark applied	We have applied this benchmark based on our analysis of the information needs of stakeholders and other users of the consolidated financial statements. In our view, revenue is a key driver of business value and is an important metric against which the performance of the Group is most commonly measured.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
Valuation of finished goods Refer to note 4 (c) in the consolidated financial statements for the related disclosures. The Group's accounting policy is to measure finished goods, i.e. agricultural produce after harvest, at net realisable value according to IAS 2 "Inventories". Management used its best estimates based both on internal analysis and on publicly available market inputs and, where relevant, forward contract prices, to assess the future selling price of the agricultural produce. As at 31 December 2016, the carrying value of finished goods subject to management's valuation was USD 30,231 thousand, representing 16% of total assets. We focused on this area because valuation model inputs are inherently subject to judgement applied by management and because of the significance of finished goods for the consolidated financial statements. We identified and assessed the following risks that could lead to inaccurate net realisable values: • the future market inputs used to support Management's judgement related to selling prices may be incorrect or incomplete; and • the calculation of expected selling expenses may be inaccurate.	We assessed and tested the design and operating effectiveness of the key controls related to financial reporting including key controls over the valuation model and model inputs. In addition, on a sample basis we: • agreed prices in the valuation model to the prices per forward contracts; • identified the market data input used by the Group and compared it with publicly available information; • in cases where the external information supporting a market data input was limited and the judgement of management was required, we examined the Group's internal price verification processes and checked whether these processes resulted in valuations that were comparable to post year-end actual selling prices; and • expected selling expenses were compared to the budget adjusted for the latest actual information. The differences identified from the above substantive procedures were within the acceptable thresholds defined above allowing us, in conjunction with our tests of controls, to conclude that the inputs used in the valuation model were appropriate and that the resulting net realisable values were within a reasonable range of the possible outcomes. We evaluated Management's assessment of the sensitivity of the valuation to reasonably possible changes in assumptions and concluded that the disclosures provided by the Group were appropriate.

Valuation of biological assets

Refer to note 19 in the consolidated financial statements for the related disclosures.

In accordance with IAS 41, "Agriculture", biological assets related to agricultural activity are measured at fair value less estimated costs to sell, with any changes in fair value recognised in profit or loss.

Management determines the fair value of biological assets based on a methodology using the following key estimates:

- expected crop yield;
- percentage of biological transformation of the crops;
- future selling price based on the current market price plus expected movements; and
- selling expenses to be incurred.

The resulting estimate is highly sensitive to the inputs and requires management to make a number of judgemental assumptions and assessments. As at 31 December 2016, the above methodology was applied to the unharvested 2016 crops of corn and sunflower with the carrying value of USD 2,765 thousand.

Due to the degree of judgement involved in the valuation of biological assets, this was an area of significant audit focus.

We identified and assessed the following risks that could lead to inaccurate fair values:

- the majority of the model inputs are unobservable and require complex and subjective judgement that could lead to valuation variances; and
- the calculation of expected selling expenses may be inaccurate.

Our audit procedures included obtaining the data inputs used by the Group and testing them against independent data on a sample basis. We targeted our sample by identifying the inputs to which the Group's positions are the most sensitive. In cases where the external information supporting the model input was limited and the judgement of Management was required, we examined the Group's verification processes and controls in respect of the key estimates and tested these judgements against other information, which, while not always directly comparable, may be indicative of the appropriate valuation.

We concluded that the inputs used in the valuation model were appropriate. In the context of the inherent uncertainties disclosed, the valuation, determined with reference to the assumptions applied, is considered to be within a reasonable range of the possible outcomes.

The disclosure in relation to the biological assets valuation is considered appropriate.

Other information

Management is responsible for the other information. The other information comprises all information included in the annual report but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the relevant financial reporting framework, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and not using the going concern basis of accounting where management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

PricewaterhouseCoopers AB
Bo Lagerström

Stockholm, Sweden
7 April 2017

AO PricewaterhouseCoopers Audit
Alexei Ivanov, certified auditor (licence no. 01-000531),

Moscow, Russian Federation
7 April 2017

Audited entity: Black Earth Farming Limited
Certificate of incorporation/re-registration issued on 20 April 2005 under registration № 89973
3rd Floor, 37 Esplanade, St. Helier JE2 3QA, Jersey

Independent auditor: AO PricewaterhouseCoopers Audit
State registration certificate № 008.890, issued by the Moscow Registration Chamber on 28 February 1992
Certificate of inclusion in the Unified State Register of Legal Entities issued on 22 August 2002 under registration № 1027700148431
Member of Self-regulated organization of auditors «Russian Union of auditors» (Association)
ORNZ 11603050547 in the register of auditors and audit organizations

This Independent Auditor's Report is not the statutory audit report for Black Earth Farming Limited but is issued for the purposes of compliance with the Nasdaq OMX listing rules. AO PricewaterhouseCoopers Audit is responsible for the statutory audit required under Part 16 of the Companies (Jersey) Law 1991. The statutory auditor's report on the Company's unconsolidated financial statements can be obtained from the Company's registered address above.

Consolidated Statement of Income

For the year ended 31 December 2016

In thousands of US Dollars	Notes	Year ended 31 Dec 2016	Year ended 31 Dec 2015
Revenue	5,6	75,551	81,102
Gain on revaluation of biological assets	6	22,043	44,918
Change in net realizable value of agricultural produce after harvest	6	(500)	4,375
Total revenue and gains	6	**97,094**	**130,395**
Cost of sales	7	(48,702)	(41,608)
Effect of revaluations (revaluation of biological assets to agricultural produce and change in net realizable value of agricultural produce after harvest)		(28,224)	(37,923)
Gross profit		**20,168**	**50,864**
Distribution expenses	8	(16,525)	(10,620)
General and administrative expenses	9	(15,499)	(19,139)
Taxes other than income	11	(1,242)	(1,336)
Government grants		858	1,232
Crop insurance net of insurance grants	12	(951)	(1,336)
Other income and expenses, net	13	1,078	9,687
Operating (loss) / profit		**(12,113)**	**29,352**
Financial income		339	273
Financial expenses	14	(5,429)	(5,168)
Foreign exchange gain / (loss)		6,819	(7,936)
(Loss) / profit before income tax		**(10,384)**	**16,521**
Income tax expense	15	(172)	(2,207)
(Loss) / profit for the year attributable to owners of the parent		**(10,556)**	**14,314**

(Loss) / earnings per share (amounts are indicated in USD)			
(Loss) / earnings per share, basic and diluted	23	(0.05)	0.07

The consolidated statement of income is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 38 to 53.

Consolidated Statement of Other Comprehensive Income

For the year ended 31 December 2016

In thousands of US Dollars	Notes	Year ended 31 Dec 2016	31 Dec 2015
(Loss) / profit for the year		**(10,556)**	**14,314**
Other comprehensive income/(loss):			
Items that may be reclassified subsequently to profit or loss:			
Translation of financial information to presentation currency		20,857	(31,012)
Other comprehensive income/(loss) for the year		**20,857**	**(31,012)**
Total comprehensive income/(loss) for the year attributable to owners of the parent		**10,301**	**(16,698)**

The consolidated statement of other comprehensive income is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 38 to 53.

Consolidated Statement of Financial Position

As at 31 December 2016

In thousands of US Dollars	Notes	31 Dec 2016	31 Dec 2015
ASSETS			
Non-current assets			
Property, plant and equipment	17	-	78,146
Intangible assets	18	-	105
Biological assets (livestock)	19	-	327
Other non-current assets		-	115
Deferred tax assets	16	-	322
Investment property	22	-	2,164
Total non-current assets		**-**	**81,179**
Current assets			
Property, plant and equipment	17	91,344	-
Finished goods		30,231	32,765
Raw materials and consumables		11,700	9,562
Biological assets (crop production)	19	11,308	8,277
Land cultivation works		7,928	6,677
Trade and other receivables	20	5,229	10,737
Biological assets (livestock)	19	492	-
Investment property	22	240	-
Deferred tax assets	16	176	-
Intangible assets	18	25	-
Other current assets		146	-
Cash and cash equivalents	21	26,832	31,959
Total current assets		**185,651**	**99,977**
Total assets		**185,651**	**181,156**
EQUITY AND LIABILITIES			
Equity			
Share capital	23	2,105	2,105
Share premium	23	525,904	525,904
Share-based payments reserve	23	4,858	4,249
Accumulated deficit		(228,641)	(218,516)
Translation reserve		(184,640)	(205,662)
Total equity attributable to owners of the parent		**119,586**	**108,080**
LIABILITIES			
Non-current liabilities			
Long-term loans and borrowings	24	-	51,058
Non-current finance lease liabilities	26	-	111
Deferred tax liabilities	16	-	253
Total non-current liabilities		**-**	**51,422**
Current liabilities			
Short-term loans and borrowings	24	59,043	12,064
Trade and other payables	25	6,751	9,356
Deferred income		130	-
Current finance lease liabilities	26	120	234
Deferred tax liabilities	16	21	-
Total current liabilities		**66,065**	**21,654**
Total liabilities		**66,065**	**73,076**
Total equity and liabilities		**185,651**	**181,156**

The consolidated statement of financial position is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 38 to 53.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

In thousands of US Dollars	Notes	Share capital	Share premium	Share-based payments reserve	Accumulated deficit	Translation reserve	Total equity attributable to owners of the parent
Balance as at 1 January 2015		**2,077**	**524,771**	**4,868**	**(232,853)**	**(174,914)**	**123,949**
Profit for the year		-	-	-	14,314	-	14,314
Other comprehensive loss							
Translation differences		-	-	(264)	-	(30,748)	(31,012)
Total comprehensive (loss) / income		**-**	**-**	**(264)**	**14,314**	**(30,748)**	**(16,698)**
Reclassification from Share-based payments reserve to Accumulated deficit		-	-	(23)	23	-	-
Recognition of share-based payments	10	-	-	726	-	-	726
Shares issued	23	28	1,133	(1,058)	-	-	103
Balance as at 31 December 2015		**2,105**	**525,904**	**4,249**	**(218,516)**	**(205,662)**	**108,080**
Balance as at 1 January 2016		**2,105**	**525,904**	**4,249**	**(218,516)**	**(205,662)**	**108,080**
Loss for the year		-	-	-	(10,556)	-	(10,556)
Other comprehensive income/(loss)							
Translation differences		-	-	(165)	-	21,022	20,857
Total comprehensive (loss) / income		**-**	**-**	**(165)**	**(10,556)**	**21,022**	**10,301**
Reclassification from Share-based payments reserve to Accumulated deficit		-	-	(431)	431	-	-
Recognition of share-based payments	10	-	-	1,205	-	-	1,205
Balance as at 31 December 2016		**2,105**	**525,904**	**4,858**	**(228,641)**	**(184,640)**	**119,586**

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 38 to 53.

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

In thousands of US Dollars	Notes	Year ended 31 Dec 2016	Year ended 31 Dec 2015
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit for the year		(10,556)	14,314
Adjustments for:			
Income tax expense	15	172	2,207
Depreciation, amortisation and impairment	7, 8, 9	7,664	7,700
Change in allowance for doubtful debts	13	175	(275)
Change in provision for inventory		48	667
(Gain)/loss on foreign exchange differences		(6,819)	7,936
Interest income		(339)	(273)
Interest expense	14	5,429	5,168
Gain on disposal of property, plant and equipment	13	(521)	(246)
Non-cash gain on the land swap deal	13	-	(9,080)
Loss/(gain) on revaluation of investment property	13,22	578	(12)
Long-term employee benefits	10	1,205	831
Loss on disposal of other assets	13	182	-
Write-off of accounts receivable or payable, net	13	(132)	-
Change in value of biological assets and agricultural produce		(21,543)	(49,293)
Effect of revaluations on cost of goods sold		28,224	37,923
		3,767	**17,567**
Movements in working capital:			
Increase in inventories		(1,016)	(10,813)
Decrease/ (increase) in biological assets		317	(3,603)
Decrease in trade and other receivables		6,590	972
(Decrease)/increase in trade and other payables		(4,746)	2,755
Cash generated from operations		**4,912**	**6,878**
Interest paid		(5,474)	(6,194)
Income tax paid		(261)	(1,304)
Net cash used in operating activities		**(823)**	**(620)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		158	272
Acquisition of land plots		(513)	(638)
Acquisition of property, plant and equipment		(3,396)	(7,363)
Proceeds from disposal of property, plant and equipment		797	1,298
Acquisition of intangible assets		(97)	(297)
Proceeds from sale of investment property		1,774	-
Acquisitions of subsidiaries, net of cash acquired		-	(173)
Net cash used in investing activities		**(1,277)**	**(6,901)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal payment of short-term borrowings		(11,789)	-
Proceeds from borrowings		13,119	11,662
Repurchase of bonds		(3,276)	(3,487)
Settlement of obligations under finance lease agreements		(373)	(255)
Net cash (used in)/from financing activities		**(2,319)**	**7,920**
Net (decrease)/increase in cash and cash equivalents		**(4,419)**	**399**
Cash and cash equivalents at the beginning of the year	21	31,959	32,888
Effect of exchange rate fluctuations on cash and cash equivalents		(4,879)	4,485
Effect of foreign currency exchange differences		4,171	(5,813)
Cash and cash equivalents at the end of the year	**21**	**26,832**	**31,959**

Non-cash transactions

During the year ended 31 December 2015, the Group entered into the land swap deal, resulting in a gain in the amount of USD 9,080 thousand (Note 13).

The consolidated statement of other comprehensive income is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 38 to 53.

Notes to the Consolidated Financial Statements

For the year ended 31 December 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 Black Earth Farming Limited, 3rd Floor, 37 Esplanade, St Helier JE2 3QA Jersey.

The Group's activities include farming, production of crops (corn, wheat, sunflower, rape and other) and dairy produce and the distribution of the related products in the Russian Federation and exporting to other countries. The Group commenced operations in 2005.

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

As described in Note 32, in February 2017, the Group entered into a framework share purchase agreement to sell all its Russian operating subsidiaries to a third party buyer for a consideration exceeding the carrying value of the respective net assets. It is expected that, upon completion of the sale transaction, the Board of Directors is going to propose that an Extraordinary General Meeting resolves on a voluntary liquidation of the Company as soon as practically possible after the Company has repurchased its outstanding bonds and distributed excess proceeds to the shareholders. Accordingly, these consolidated financial statements are not prepared on a going concern basis. Because, in management's judgement, at the reporting date, the sale transaction did not meet the International Financial Reporting Standard 5 "Non-current assets held for sale and discontinued operation" definition of being highly probable, the assets and liabilities being disposed of are not classified as held for sale. The statement of income represents operations that have been discontinued as a result of the transaction, subsequent to the reporting date.

(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 2016 the Russian economy was negatively impacted by low oil prices, ongoing political tension in the region and continuing international sanctions against certain Russian companies and individuals, all of which contributed to the country's economic recession and a decline in gross domestic product. The financial markets continue to be volatile and are characterized by frequent significant price movements and increased trading spreads. Russia's credit rating was downgraded to below investment grade (as per S&P and Moody's). This operating environment has a significant impact on the Group's operations and financial position.

2. BASIS OF PREPARATION

(a) Statement of compliance and basis of preparation

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

Nevertheless, these consolidated financial statements are still prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") under the historical cost convention, as modified by the revaluation of certain items as detailed in Note 3. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, except for classification of all assets and liabilities of the Group at 31 December 2016 as current, including those previously treated as non-current, due to the fact that these assets and liabilities are in the process of realisation, as described in Note 1, even if it was not certain that all these net assets will be realised within 12 months of the balance sheet date. No adjustments to the carrying values of assets and liabilities are necessary, as the sale price is higher than the net assets of the disposal group.

The preparation of financial statements in conformity with IFRS as adopted by the EU requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

(b) Functional and presentation currency

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

The Group's presentation currency is the US Dollar ("USD") which the Group management considers most representative for the users of these consolidated financial statements. All the financial information in these consolidated 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 year ended 31 December 2016. The average rates for each quarter of 2016 are indicated below:

	2016
RUB/USD for the first quarter	74.6283
RUB/USD for the second quarter	65.8883
RUB/USD for the third quarter	64.6245
RUB/USD for the fourth quarter	63.0685

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

	2016	2015
RUB/USD average for the year ended 31 December	67.0349	60.9579
RUB/USD as at 31 December	60.6569	72.8827
RUB/SEK average for the year ended 31 December	7.8555	7.2434
RUR/SEK as at 31 December	6.6674	8.7260

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

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

Subsidiaries

Subsidiaries are entities controlled by the Group. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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

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

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

Transactions eliminated on consolidation

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

(b) Business combinations

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

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date, except for:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements, which are recognized and measured in accordance with IAS 12 Income Taxes, and IAS 19 Employee Benefits, respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree, or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payments, at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, are measured in accordance with that Standard.

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

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

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

(c) Goodwill

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

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

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

(d) Foreign currency transactions

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

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

(e) Financial instruments

Financial instruments - key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. In the fair value hierarchy, fair value measurements are analysed by level as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities,

(ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to the maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of the related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Classification of financial assets

Financial assets have the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term. Loans and receivables comprise accounts receivable, cash and cash equivalents, restricted cash, bank deposits, unquoted promissory notes and loans issued. Loans and receivables are initially recognised at fair value plus transaction costs and subsequently carried at amortised cost using effective interest method.

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method.

Held-to-maturity assets include quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at the end of each reporting period.

Held-for-trading investments are financial assets which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading investments if it has an intention to sell them within a short period after purchase, i.e. within 1 to 3 months.

The Group may choose to reclassify a non-derivative trading financial asset out of the fair value through profit or loss category if the asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the fair value through profit or loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Financial assets that would meet the definition of loans and receivables may be reclassified if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Derivative financial instruments, including what are carried at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year. The Group uses future and option contracts for certain products (usually corn and wheat) to hedge price volatility risks.

Other financial assets at fair value through profit or loss are financial assets designated irrevocably, at initial recognition, into this category. Management designates financial assets into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Group's key management personnel. Recognition and measurement of this category of financial assets is consistent with the accounting policy for trading investments.

All other financial assets are included in the available-for-sale category, which includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Classification of financial liabilities

Financial liabilities have the following measurement categories: (a) held for trading which also includes financial derivatives and (b) other financial liabilities. Liabilities held for trading are carried at fair value with changes in value recognised in profit or loss for the year (as finance income or finance costs) in the period in which they arise. Other financial liabilities are carried at amortised cost. The Group's other financial liabilities comprise 'trade and other payables' and 'borrowings' in the statement of financial position.

Initial recognition of financial instruments.

Trading investments, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Group commits to deliver a financial asset. All other purchases are recognised when the Group becomes a party to the contractual provisions of the instrument.

Derecognition of financial instruments

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement whilst (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all the risks and rewards of ownership but not retaining control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

The Group removes a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished – i.e. when the obligation specified in the contract is discharged or cancelled or expires.

(f) Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

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

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

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

Repairs and maintenance

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

Depreciation is recognized in profit and loss on a straight-line basis over the estimated useful lives of each item of property, plant and equipment, except for land and construction in progress.
The estimated useful lives by category are as follows:

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

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

(g) Investment property

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

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

(h) Non-current assets held for sale

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

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

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

(i) Intangible assets

Acquired intangible assets which have finite useful lives, are measured at cost less accumulated amortization and impairment losses.

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

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

(j) Biological assets

Biological assets – Crop production

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

Biological assets – Livestock

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

(k) Inventories

Finished goods

Finished goods comprise agricultural produce after harvest. At point of harvest, which for each crop is deemed to be the last date of gathering the crop, the fair value measurement of crops as described in Note 3 (j) above is deemed to be the initial cost of the harvest for subsequent accounting. Subsequent to harvest, agricultural produce is measured at net realizable value accordance with IAS 2 "Inventories".

Where crop inventory has been contracted for sales at the time of the reporting, prices from contracts are used for calculation of the net realizable value in these results. For the remaining, non-contracted stock management used its best estimates based on internal data as well as publicly available market inputs to assess the future selling price of the agricultural produce in stock at the reporting date.

Changes in net realizable value are recognized in the consolidated statement of income in the period in which they arise. Harvested produce is measured at net realizable value on a quarterly basis. When agricultural produce is sold, the carrying amount of the inventory is recognized as cost of goods sold. The difference between revenue from the sale and costs of goods sold reflects changes in prices for the goods sold during period, while the "Change in net realizable value" line in the statement of comprehensive income shows the change in prices for the agricultural produce in stock at the end of the period.

Other inventories

Other inventories comprise raw materials and consumables which are measured at the lower of cost and net realizable value.

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

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

(l) Impairment

Financial assets

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

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

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

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

Tangible and intangible assets

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

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

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

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

(m) Defined contribution pension plans

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

(n) Share-based payment arrangements

The Group operates equity-settled share-based compensation plans, under which the Group receives goods or services from employees as consideration for equity instruments (shares) of the Company.

Employee services settled in equity instruments. The fair value of the employee services received in exchange for the grant of equity instruments is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options or shares determined at the grant date, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). The attainment of any service and non-market performance vesting conditions are included in assumptions about the number of instruments that are expected to become exercisable or the number of shares that the employee will ultimately receive. This estimate is revised at each balance sheet date and the difference is charged or credited to profit or loss, with a corresponding adjustment to equity. No changes to the charge are made when the expected or actual level of instruments vesting differs from the original estimate due to non-attainment of market performance conditions, e.g., the appropriate total shareholder return or share price. The proceeds received on exercise of the instruments net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

Cancelled instruments are deemed to have vested upon cancellation. Any unamortised expense associated with such instrument is charged to profit or loss immediately.

(o) Provisions

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

(p) Income tax

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

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

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

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

(q) Revenue recognition

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

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

(r) Borrowings

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

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

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

(s) Government grants

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

Governments grants related to crop insurance are recognized on the same basis as the related cost and netted of that cost.

Group recognizes grants related to assets as deferred income that is recognised in profit or loss on a systematic basis over the useful life of the asset.

(t) Leasing

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

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

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

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

(u) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, that may be issued under the equity-settled share based compensation plans.

(v) Adoption of new and amended Standards

The following amended standards became effective for the Group from 1 January 2016, but did not have any material impact on the Group.

- IFRS 14, Regulatory Deferral Accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016).
- Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Agriculture: Bearer plants - Amendments to IAS 16 and IAS 41 (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016).
- Equity Method in Separate Financial Statements - Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016).
- Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).
- Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016).
- Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016).

(w) New accounting pronouncements

A number of new Standards and amendments to Standards were not yet effective for the year ended 31 December 2016, and have not been applied in these consolidated financial statements.

- IFRS 9, Financial Instruments;
- IFRS 15, Revenue from Contracts with Customers and associated amendments to various otherstandards, Revenue from Contracts with Customers;
- Amendments to IFRS 10 and IAS 28 regarding the sale or contribution of assets betweenan investor and its associate or joint venture;
- IFRS 16, Leases;
- Amendments to IAS 12, Recognition of Deferred Tax Assets for Unrealised Losses;
- Amendments to IAS 7, Disclosure Initiative;
- Amendments to IFRS 2, Share-based Payment;
- Amendments to IFRS 4, Applying IFRS 9 Financial instruments with IFRS 4, Insurance contracts;
- Annual Improvements to IFRSs 2014-2016;
- IFRIC 22, Foreign Currency Transactions and Advance Consideration;
- Amendments to IAS 40, Transfers of Investment property.

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Management has made a number of judgments, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRS as adopted by the European Union. Actual results may differ from those estimates. Additional information relating to contingencies and commitments is disclosed in Note 29.

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

(a) Classification of assets and liabilities as held for sale

During 2016 and early 2017 the Group was in talks with numerous potential buyers regarding a substantial land and asset sale in Russia which led to entering in February 2017 into a framework share purchase agreement to sell all its Russian operating subsidiaries to a third party buyer (see Note 1). However, as at the reporting date the sale transaction did not meet the IFRS 5 "Non-current assets held for sale and discontinued operation" definition of being highly probable, given that there was no commitment to sell to a certain buyer and there were several alternative plans at that point, such as continuing to negotiate with potential buyers with regard to the sale of the whole Russian business, entering into a plan to sell certain assets and/or land plots, or continuing operational activity on the usual basis. The disposal group was not actively marketed for a sale and it was uncertain whether the transaction would happen at all.

(b) Biological assets – crops

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

As part of the process of valuation of biological assets, management makes the following estimates: expected crop yield; expected costs to harvest; expected wastage percentage; expected selling expenses to be incurred in future. These estimates were applied to the 2016 crop still in the fields as of 31 December 2016, which is carried at USD 2,765 thousand (2015 crop as at 31 December 2015: USD 2,156 thousand).

The next year crop, which was sown in the autumn of the previous year has typically undergone limited biological transformation as of 31 December. The fair value of such biological assets is therefore estimated by actual incurred costs. The carrying value of the 2017 crop amounted to USD 8,543 thousand as at 31 December 2016 (2016 crop at 31 December 2015: USD 6,121 thousand).

(c) Finished goods

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

If selling pricesfor non-contracted finished goods deviated by 10% from management's estimates, the revenue and gains in the statement of income for the year ended 31 December 2016 would deviate by USD 2,235 thousand (2015: USD 1,945 thousand).

(d) Income tax

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

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

5. 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.

The Group also recognizes a separate segment related to elevator activity. The Elevator segment consists of two legal entities: LLC Agroterminal (one working elevator with 55 thousand tons of capacity) and LLC 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 31 December 2015, are located in Samara region and attributed to Tambov segment. On 1 November 2016 most part of the investment property was sold (Note 13).

The Company and two subsidiaries, Planalto Enterprises Limited and LLC Management Company Agro-Invest, are not included in any of the operating segments, as they do not generate revenue; therefore, their assets as well as assets of the trading company Black Earth Trading International that cannot be attributed to the operating segments, 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

	Year ended 31 December 2016			
in thousands of US Dollars	**Revenue from external sales**	**Inter-segment revenue**	**Depreciation and amortization**	**Net result**
Agricultural companies				
-Voronezh region	11,583	268	794	
- Kursk region	23,226	233	2,194	
- Lipetsk region	18,003	3,122	2,050	
- Tambov region	22,612	202	1,431	
Elevators	127	4,479	1,059	
Total	**75,551**	**8,304**	**7,528**	**781**
General administrative costs including directors' salaries				(13,972)
Other income and expenses				1,078
Net financial expenses and loss on foreign exchange differences				1,729
Loss before income tax				**(10,384)**

	Year ended 31 December 2015			
in thousands of US Dollars	**Revenue from external sales**	**Inter-segment revenue**	**Depreciation and amortization**	**Net result**
Agricultural companies				
- Voronezh region	11,212	1,072	711	
- Kursk region	29,720	1,053	2,301	
- Lipetsk region	18,110	1,397	1,925	
- Tambov region	21,896	591	1,257	
Elevators	164	3,705	1,419	
Total	**81,102**	**7,818**	**7,613**	**35,819**
General administrative costs including directors' salaries				(16,154)
Other income and expenses				9,687
Net financial expenses and loss on foreign exchange differences				(12,831)
Profit before income tax				**16,521**

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.

(b) Segment assets

in thousands of US Dollars	Year ended 31 Dec 2016	Year ended 31 Dec 2015
Agricultural companies		
Lipetsk region	50,588	43,758
Kursk region	40,605	37,089
Tambov region	33,319	32,455
Voronezh region	15,195	15,401
Elevators	20,966	16,986
Total segment assets	**160,673**	**145,689**
Corporate assets	24,978	35,467
Consolidated total assets	**185,651**	**181,156**

(c) Revenues from major products

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

in thousands of US Dollars	Year ended 31 Dec 2016	Year ended 31 Dec 2015
Corn	38,872	30,735
Sunflowers	15,663	22,055
Wheat	14,339	17,079
Barley	4,210	7,480
Potatoes	1,124	966
Milk and meat	632	612
Spring rape seed	-	1,421
Soya	-	70
Other and Waste grains	237	252
Other goods and services	474	432
	75,551	**81,102**

(d) 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.

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

in thousands of US Dollars	Year ended 31 Dec 2016	Year ended 31 Dec 2015
Russian Federation	44,935	57,433
Denmark	9,953	4,854
Ireland	8,946	-
Germany	7,435	6,301
United Kingdom	3,127	2,112
Norway	693	1,208
Sweden	462	542
Switzerland	-	4,422
Spain	-	4,089
Finland	-	122
Estonia	-	19
	75,551	**81,102**

6. REVENUE AND GAINS

in thousands of US Dollars	Year ended 31 Dec 2016	Year ended 31 Dec 2015
Revenue from sales of crop production	74,445	80,055
Revenue from sales of milk and meat	632	612
Revenue from sales of other goods and services	474	435
Gain on revaluation of biological assets	22,043	44,918
Change in net realizable value of agricultural produce after harvest	(500)	4,375
	97,094	**130,395**

The gain on revaluation of biological assets comprises:

in thousands of US Dollars	Year ended 31 Dec 2016	Year ended 31 Dec 2015
Fair value less point-of-sale costs at date of harvest	71,431	92,572
Actual production costs	(50,403)	(48,754)
Revaluation of biological assets to agricultural produce	**21,028**	**43,818**
Fair value of current year crop to be harvested less point-of-sale costs	2,587	2,778
Actual production costs	(1,601)	(1,626)
Revaluation of crop to be harvested	**986**	**1,152**
Revaluation of dairy and meat livestock	29	(52)
Total gain on revaluation of biological assets	**22,043**	**44,918**

7. COST OF SALES

in thousands of US Dollars	Year ended 31 Dec 2016	Year ended 31 Dec 2015
Materials	32,588	27,564
Depreciation, amortisation and impairment	6,238	6,421
Personnel expenses	6,071	4,413
Third party crop handling services	1,414	918
Operating lease costs (Note 28)	615	417
Crops lost due to poor quality of seed material	378	500
Taxes	344	402
Repair expenses	315	300
Other expenses	739	673
	48,702	**41,608**

8. DISTRIBUTION EXPENSES

in thousands of US Dollars	Year ended 31 Dec 2016	Year ended 31 Dec 2015
Transportation and delivery services	9,153	5,538
Storage and other elevator's services	3,740	2,280
Depreciation and amortization charge	1,132	980
Personnel expenses	980	885
Materials	668	410
Other services	852	527
	16,525	**10,620**

9. GENERAL AND ADMINISTRATIVE EXPENSES

in thousands of US Dollars	Year ended 31 Dec 2016	Year ended 31 Dec 2015
Personnel expenses	8,709	11,320
Consulting and audit	4,499	4,160
Office and administration expenses	869	1,452
Travel expenses	356	379
Depreciation and amortization	294	402
Rent expenses	149	525
Termination payments	-	375
Other services	623	526
	15,499	**19,139**

10. PERSONNEL EXPENSES

Personnel expenses are included in general and administrative expenses, selling expenses, cost of sales, biological assets, land cultivation works and finished goods as follows:

in thousands of US Dollars	Year ended 31 Dec 2016	Year ended 31 Dec 2015
General and administrative expenses:		
Salaries	7,957	10,463
Social taxes	752	1,232
Cost of sales and work, biological assets, land cultivation works and finished goods:		
Salaries	5,277	5,281
Social taxes	1,541	1,700
Selling expenses:		
Salaries	751	679
Social taxes	229	206
	16,507	**19,561**

Personnel expenses for 2016 and 2015 include share-based payment expenses of USD 1,205 thousand and USD 726 thousand respectively (Note 23).

Average number of employees	2016	Of whom men	2015	of whom men
Parent (Jersey)	2	100%	4	100%
Subsidiaries (Russia)	1,769	78%	1,800	75%
Group total	**1,771**	**78%**	**1,804**	**75%**

The total number of Group employees as at 31 December 2016 was 1,943 (31 December 2015: 1,857 employees).

Proportion of women in management	2016	2015
	Percentage of women	Percentage of women
Board of directors	20%	20%
Other senior executives	14%	13%

Retirement benefit plans

The statutory retirement age for employees is 55 years for women and 60 years for men, in accordance with the Russian Labor Code. The Group does not offer a private pension plan to its employees. In accordance with Russian tax legislation, the Group pays statutory social security tax (at a maximum rate of 30% of the taxable annual income lower than RUB 796 thousand (USD 11.9 thousand) andRUB 711 thousand (USD 11.7 thousand) in 2016 and 2015 respectively and an additional 15,1% of the taxable annual income above that level). This tax is regressive and comprises social security, contributions to the State Pension Fund and the State Medical Fund. The total expense recognized in the statement of comprehensive income of USD 2,522 thousand and USD 3,232 thousand represent contributions payable to the State Pension Fund in 2016 and 2015, respectively. The Group has not reserved or accrued for pension, retirement or similar benefit obligations to Directors or senior executives. No Directors or senior executives have service contracts with the Group which offer them benefits upon termination of their respective appointments except for severance pay below.

Termination of employment

The executives are entitled to a severance pay of not more than 6 months if the Group terminates the employment. Severance pay for the executives is calculated only on the base salary and does not include any variable compensation. In 2016, no termination expenses were accrued (2015: USD 375 thousand).

11. TAXES OTHER THAN INCOME

	Year ended	
in thousands of US Dollars	31 Dec 2016	31 Dec 2015
Property tax	704	840
Unrecoverable VAT	48	39
Other taxes	490	457
	1,242	**1,336**

12. CROP INSURANCE NET OF INSURANCE GRANTS

	Year ended	
in thousands of US Dollars	31 Dec 2016	31 Dec 2015
Crop insurance expense	1,791	2,074
Crop insurance grants	(840)	(738)
	951	**1,336**

13. OTHER INCOME AND EXPENSES, NET

	Year ended	
in thousands of US Dollars	31 Dec 2016	31 Dec 2015
Income on grain hedge (Note 27)	1,981	1,523
Result on disposal of plant, property and equipment	521	246
Write-off of accounts receivable or payable, net	132	132
Gain related to land swap deal	-	9,080
(Loss)/gain on revaluation of investment property	(578)	12
(Loss)/gain on purchase/sale of foreign currency	(275)	7
Loss on disposal of other assets	(182)	(318)
Change in allowance for doubtful debts	(175)	275
Fines and penalties received	(107)	4
Other income and expenses, net	(239)	(1,274)
	1,078	**9,687**

Disposal of investment property

In November 2016, the Group entered into a sale and purchase agreement with regard to the investment property located in Samara region (Tambov segment), whereby it sold the major part of the investment property by the year-end with the residual part with the carrying value of USD 240 thousand to be transferred to the customer in the first half of 2017. As at 30 September 2016 the Group recognized a loss on revaluation of the investment property in amount of USD 578 thousand as a difference between the carrying value of USD 2,561 thousand and the agreement sale price of USD 1,983 thousand.

Land swap deal

In June 2015, the Group finalised a deal 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).

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 of	(4,790)
Result before tax	**9,080**

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

14. FINANCIAL EXPENSES

	Year ended	
in thousands of US Dollars	31 Dec 2016	31 Dec 2015
Interest on bonds	4,487	4,801
Interest expense on other borrowings	942	367
	5,429	**5,168**

15. INCOME TAX

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

Companies domiciled in Russia that do not have the status of an agricultural producer are subject to a 20% corporate income tax. Companies domiciled in Russia that do have the status of an agricultural producer are subject to a 0% corporate income tax on profits realized from the sale of agricultural produce.

In 2016, six (2015: eight) of the Group's total thirty local operating companies were granted the status of agricultural producers, making these companies subject to a 0% corporate income tax in accordance with the Russian Tax Code.

	Year ended	
in thousands of US Dollars	31 Dec 2016	31 Dec 2015
Current tax expense	234	2,258
Deferred tax benefit	(62)	(51)
Income tax expense	**172**	**2,207**

The income tax reconciliation is presented below:

in thousands of US Dollars	Year ended 31 Dec 2016	Year ended 31 Dec 2015
Profit /(loss) before tax		
- taxable at 20%	(5,107)	(4,777)
- taxable at 0%	268	21,518
- taxable at10%	(5,545)	(220)
	(10,384)	**16,521**

in thousands of US Dollars	Year ended 31 Dec 2016	Year ended 31 Dec 2015
Theoretical tax benefit calculated at the actual rates	**(1,576)**	**(977)**
Tax effect of items which are not deductible or not taxable	86	326
Unrecognised deferred tax assets written off	1,662	2,858
Income tax expense	**172**	**2,207**

16. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
in thousands of US Dollars	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Property, plant and equipment and investment property	176	147	(21)	(228)
Trade and other payables	-	127	-	-
Trade and other receivables	-	48	-	-
Inventory	-	-	-	(25)
Deferred tax assets/(liabilities)	**176**	**322**	**(21)**	**(253)**
Net deferred tax assets	**155**	**69**		

Management has determined that deferred tax assets relating to tax losses carried forward at taxed group companies should be considered for recognition once the Group reaches stable profitability for several consecutive years.

As described in Note 2 (a), as at 31 December 2016, deferred tax assets are classified as current assets.

Unrecognised deferred tax assets are presented below:

in thousands of US Dollars	Year ended 31 Dec 2016	Year ended 31 Dec 2015
Deductible temporary differences	294	431
Tax losses carried forward	7,852	4,752
	8,146	**5,183**

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

17. PROPERTY, PLANT AND EQUIPMENT

in thousands of US Dollars	Land	Buildings	Machinery and equipment	Vehicles	Fixtures and fittings	Construction in progress	Total
Cost							
As at 1 January 2015	29,281	45,620	67,231	7,973	689	4,567	155,361
Additions	9,940	2,090	1,623	300	17	5,066	19,036
Disposals	(1,779)	(3,283)	(646)	(128)	(56)	(131)	(6,023)
Transfers between categories	46	2,164	331	13	35	(2,589)	-
Effect of foreign exchange differences	(8,022)	(10,563)	(15,549)	(1,849)	(157)	(1,426)	(37,566)
As at 31 December 2015	**29,466**	**36,028**	**52,990**	**6,309**	**528**	**5,487**	**130,808**
Additions	425	1,508	1,609	65	32	1,347	4,986
Disposals	(4)	(132)	(2,276)	(381)	(124)	-	(2,917)
Transfers between categories	(56)	5,849	-	69	1	(5,863)	-
Effect of foreign exchange differences	5,976	8,019	10,613	1,254	128	627	26,617
As at 31 December 2016	**35,807**	**51,272**	**62,936**	**7,316**	**565**	**1,598**	**159,494**
Accumulated depreciation and impairment							
As at 1 January 2015	(121)	(12,006)	(41,463)	(6,088)	(543)	-	(60,220)
Depreciation charge	-	(2,491)	(6,292)	(482)	(55)	-	(9,320)
Adjustment to depreciation of disposed fixed assets	-	1,026	636	104	53	-	1,819
Reversal of impairment of land	112	-	-	-	-	-	112
Effect of foreign exchange differences	9	2,978	10,384	1,451	126	-	14,948
As at 31 December 2015	**-**	**(10,493)**	**(36,735)**	**(5,015)**	**(419)**	**-**	**(52,662)**
Depreciation charge	-	(1,858)	(4,820)	(203)	(38)	-	(6,919)
Adjustment to depreciation of disposed fixed assets	-	35	2,103	309	94	-	2,541
Effect of foreign exchange differences	-	(2,305)	(7,690)	(1,036)	(79)	-	(11,110)
As at 31 December 2016	**-**	**(14,621)**	**(47,142)**	**(5,945)**	**(442)**	**-**	**(68,150)**
Net book value							
As at 1 January 2015	29,160	33,614	25,768	1,885	146	4,567	95,141
As at 31 December 2015	29,466	25,535	16,255	1,294	109	5,487	78,146
As at 31 December 2016	**35,807**	**36,651**	**15,794**	**1,371**	**123**	**1,598**	**91,344**

Included in property, plant and equipment are assets held under finance leases with a carrying value of USD 166 thousand (31 December 2015: USD 471 thousand). Refer to Note 26.

The Group capitalised borrowing costs in the amount of USD 571 thousand (2015: USD 755 thousand) arising on financing directly attributable to the construction of buildings. In 2016, the capitalisation rate was 10.47% (2015: 10.47%).

Land

As at 31 December 2016, the Group had effective control over 246 thousand hectares of land (31 December 2015: 256 thousand hectares).

in thousands of US Dollars	Year ended 31 Dec 2016	Year ended 31 Dec 2015
Land in registered ownership	218	227
Land under long-term lease agreements	25	25
Land in the process of ownership registration with the relevant authorities	3	4
	246	**256**

As described in Note 2 (a), as at 31 December 2016, all property, plant and equipment are classified as current assets.

18. INTANGIBLE ASSETS

in thousands of US Dollars	Year ended 31 Dec 2016	Year ended 31 Dec 2015
Cost		
At the beginning of the year	1,221	926
Additions	85	303
Disposals	(709)	(1)
Effect of foreign currency exchange differences	(463)	(7)
Balance at the end of the year	**134**	**1,221**
Accumulated amortization and impairment		
At the beginning of the year	(1,116)	(902)
Amortization expense	(136)	(207)
Disposals	709	8
Effect of foreign currency exchange differences	434	(15)
Balance at the end of the year	**(109)**	**(1,116)**
Net book value		
At the beginning of the year	105	24
At the end of the year (classified as current assets as at 31 December 2016 – see Note 2 (a))	**25**	**105**

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

19. BIOLOGICAL ASSETS

Biological assets – Crop production

in thousands of US Dollars	Year ended 31 Dec 2016	Year ended 31 Dec 2015
At the beginning of the year	8,277	6,066
Increase due to cost inputs	49,021	52,920
Change in fair value less estimated point-of-sale costs	22,014	44,970
Harvested crops transferred to finished goods	(69,076)	(94,558)
Effect of foreign exchange differences	1,072	(1,121)
At the end of the year	**11,308**	**8,277**

Biological assets – Livestock

in thousands of US Dollars	Year ended 31 Dec 2016	Year ended 31 Dec 2015
At the beginning of the year	327	431
Increase due to cost inputs	757	177
Change in fair value less estimated point-of-sale costs	29	(52)
Sales	(695)	(129)
Effect of foreign exchange differences	74	(100)
At the end of the year (classified as current assets as at 31 December 2016 – see Note 2 (a))	**492**	**327**

Current biological assets comprise the winter wheat crop of 2017 in the amount of USD 8,543 thousand and unharvested corn and sunflower crop of 2016 in the amount of USD 2,765 thousand. The 2017 crop was seeded during September-November 2016 and is currently undergoing biological transformation, which is a process that runs until the spring/summer of 2017. Due to the fact that little biological transformation of this winter crop has taken place as of 31 December, this "planned harvest" is currently valued on the basis of actual incurred costs.

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

20. TRADE AND OTHER RECEIVABLES

in thousands of US Dollars	Year ended 31 Dec 2016	Year ended 31 Dec 2015
Trade receivables	712	3,844
Other financial receivables	233	2,886
Less impairment loss provision	(544)	(306)
Total financial assets within trade and other receivables	**401**	**6,424**
Advances paid for goods and services	2,079	2,678
VAT receivable	2,509	1,612
Income tax receivable	255	170
Other prepayments and receivables	238	137
Less impairment loss provision	(253)	(284)
Total trade and other receivables	**5,229**	**10,737**

The average credit period on sales of goods is 9 days (2015: 8 days). No interest is charged on trade receivables.

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

Trade receivables that are over 180 days past due date are provided for based on an estimation of unrecoverable amounts determined by reference to past default experience.

Movement in the allowance for doubtful debts:

in thousands of US Dollars	Year ended 31 Dec 2016	Year ended 31 Dec 2015
At the beginning of the year	590	1,276
Impairment losses recognized on receivables	309	363
Amounts written off during the year as uncollectible	(37)	(139)
Impairment losses reversed	(182)	(706)
Foreign exchange difference	117	(204)
At the end of the year	**797**	**590**

21. CASH AND CASH EQUIVALENTS

in thousands of US Dollars	Year ended 31 Dec 2016	Year ended 31 Dec 2015
Bank balances, EUR denominated accounts	14,334	12,287
Bank balances, USD denominated accounts	6,021	17,957
Bank balances, SEK denominated accounts	4,799	72
Bank balances, RUB denominated accounts	1,060	1,537
Call deposits, RUB denominated at 4% per annum	610	-
Bank balances, GBP denominated accounts	4	1
Petty cash	4	5
Restricted cash	-	100
	26,832	**31,959**

22. INVESTMENT PROPERTY

As at 31 December 2016 investment property comprises 2 thousand hectares of land in Samara region measured at fair value (31 December 2015: 13 thousand hectares).

in thousands of US Dollars	Year ended 31 Dec 2016	Year ended 31 Dec 2015
At the beginning of the year	2,164	2,792
Revaluation (loss)/gain (Note 13)	(578)	12
Sale of investment property	(1,701)	-
Effect of foreign exchange differences	355	(640)
At the end of the year (classified as current assets as at 31 December 2016 – see Note 2 (a))	**240**	**2,164**

Land tax expenses related to the investment property for 2016 amounted to USD 69 thousand (2015: USD 23 thousand).

23. EQUITY

(a) Share capital

The Group has only one class of share, namely ordinary shares. Each share is entitled to one vote at the annual general meeting and carries an equal right to the Group's assets and profits. The shares are denominated in USD and have a nominal value of USD 0.01 per share. As at 31 December 2016 and 2015 the total authorised number of ordinary shares is 500,000,000 shares. There are no unpaid shares.

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

In June 2015, 2,756,796 new shares were issued as a result of the Company's long-term management incentive program which led to an increase in the share capital of USD 28 thousand and in share premium of USD 1,133 thousand. As at 31 December 2016, the total number of ordinary shares issued was 210,426,241 (31 December 2015: 210,426,241).

(b) Dividends

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

For the years ended 31 December 2016 and 2015 the Board of Directors proposed no dividends to be paid or declared.

(c) Share-based payments reserve

in thousands of US Dollars	Year ended 31 Dec 2016	Year ended 31 Dec 2015
Warrants	1,290	2,048
Executive share option plan	3,568	2,201
	4,858	**4,249**

Warrants

The Group grants its key members of management warrants that may be converted into ordinary shares of the Company. All warrants have the following vesting schedule: 33% of the number of warrants granted vests in one year after the grant date, another 33% - in two years, and the remaining 34% - in three years after the grant date. The right to exercise the warrants expires between 3.3 and 4 years after the grant date, the exercise price being set separately for each warrant. The general vesting condition requires continued employment with the Group. In the event that the warrant holder is no longer connected to the Group before the vesting date, warrants that are due to vest are cancelled.

During 2016 and 2015 no warrants were exercised. The Group did not grant warrants during 2016 due to the restriction on issue of new financial instruments (2015: 4,100,000 warrants).

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

in thousands of US Dollars	Year ended 31 Dec 2016: Weighted average exercise price	Year ended 31 Dec 2016: Number of warrants, in thousands	Year ended 31 Dec 2015: Weighted average exercise price	Year ended 31 Dec 2015: Number of warrants, in thousands
			USD 2.42	223
	SEK 6.55	7,500	SEK 13.29	4,906
At the beginning of the year		**7,500**		**5,129**
Forfeited during the year		-	USD 5.89	(223)
Forfeited during the year	SEK 6.10	(433)	SEK 3.87	(1,056)
Expired during the year	SEK 10.17	(1,700)	SEK 11.03	(450)
Granted during the year		-	SEK 3.65	4,100
At the end of the year	**SEK4.94**	**5,367**	**SEK6.55**	**7,500**
Exercisable at the end of the year	SEK 6.06	2,617	SEK 9.43	2,517
		2,617		**2,517**
Weighted average contractual and expected life (years)		3.42		3.44

The fair value of services received in return for warrants granted is based on the fair value of warrants, measured at the grant date using the Black-Scholes model.

The significant inputs into the valuation model:

Inputs into the model	Granted in 2015	Granted in 2014	Granted in 2013
Fair value at grant date	SEK 1.28	SEK 4.39	SEK 4.48
Share price at grant date	SEK 2.97	SEK 7.39	SEK 8.85
Average exercise price	SEK 3.65	SEK 7.45	SEK 8.72
Expected volatility (i)	43%	122%	89%
Expected dividends (ii)	0%	0%	0%
Risk-free interest rate (based on government bonds)	0.68%	1.95%	0.97%

(i) Volatility is a measure of the tendency of investment returns to vary around a long-term average rate. The expected volatility used was based on the Company's historical share price volatility since the start of trading.

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

Upon completion of the sale transaction described in Note 1, all warrants become exercisable.

Executives share option plan (ESOP)

In 2012, the Group implemented an ESOP for its senior executives. In order to participate in the ESOP, the participants have to purchase shares in the Company (in the market, in the form of SDRs). For each share held under the plan, the Group grants the participant free of charge rights to receive additional shares (in the form of SDRs) free of charge upon vesting, which occurs after the release of the interim report for the period January – March in the third financial year following the grant of the rights. The general vesting condition requires the participants to maintain their personal investment and the employment by the Group during the vesting period.

For each share purchased and held under the plan, the Group grants up to five rights to the participant, one for each of one retention and four performance conditions that is met. The retention condition is that the participant must still be an employee of the Group at the vesting date. The performance conditions relate to three-year development of certain performance indicators of the Group, including return on capital, profitability, revenue per hectare and blended yields of crops.

Every year, with the exception for the reporting year due to the restriction on issue of new financial instruments, new rights are granted to the participants of the plan, the number of rights depending on the number of shares held but not more than the maximum stipulated by the terms of the plan.

The fair value of services received in return for rights granted under the ESOP is based on the fair value of the shares to be obtained by the participants upon vesting, measured at the grant date, with the number of such shares estimated with reference to the probability of meeting the vesting conditions.

During 2015, the Group made a modification to the plan in respect of the rights granted in 2012-2014 to adjust for the 2:3 December 2012 rights issue. As a result, for each of the conditions met, the participants will receive 1.67 shares (SDRs) in the Group, instead of one share.

At the 2015 AGM, following the completion of participation in the 2012-2014 program, a new three-year program was approved. The 2015-2017 program is structurally the same as the previous program, although the performance criteria have been revised to reflect the results achieved by the Group over the life of the previous program. The 2015-2017 plan comprises up to 2,100,000 shares held by the employees entitling them to an allotment of up to 10,500,000 rights.

As at 31 December 2016, the following rights were outstanding under the ESOPs:

Grant date	Vesting date	31 Dec 2016 Expected number of options to vest	31 Dec 2016 Average fair value at the grant/modification date, SEK	31 Dec 2015 Expected number of options to vest	31 Dec 2015 Average fair value at the grant date, SEK
2013	15/05/2016	1,853,740	7.12	1,622,023	7.12
2014	15/05/2017	1,170,825	5.07	1,365,963	5.07
2015	20/05/2018	3,675,000	4.03	3,675,000	4.03
		6,699,565		**6,662,986**	

The movements in the total expected number of options to vest were as follows:

	Year ended 31 Dec 2016	Year ended 31 Dec 2015
At the beginning of the year	6,662,986	2,169,542
Granted during the year	-	3,675,000
Cancelled during the year	-	(76,000)
Exercised during the year	-	(2,756,796)
Effect of the reassessment of the probability of meeting vesting conditions	36,579	1,724,067
Effect of the plan modification	-	1,927,173
At the end of the year	**6,699,565**	**6,662,986**

Upon completion of the sale transaction described in Note 1, all executive share option plan become exercisable with the assumption as if all vesting conditions are met for the 2015-2017 program.

(e) (Loss) / earnings per share

in US Dollars	Year ended 31 Dec 2016	Year ended 31 Dec 2015
(Loss)/profitfor the period	(10,556,000)	14,314,000
Weighted average number of ordinary shares	210,426,241	209,100,858
Basic and diluted earnings/(loss) per share (USD/share)	(0.05)	0.07

24. BORROWINGS

in thousands of US Dollars	Year ended 31 Dec 2016	Year ended 31 Dec 2015
SEK bonds		
Non-current	-	51,058
Current	45,600	1,578
	45,600	**52,636**
Other borrowings - current		
Bank VTB	13,443	10,486
	13,443	**10,486**
Total borrowings	**59,043**	**63,122**

In 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 31 December 2016, the Group repurchased SEK 338 million(USD 48,603 thousand translated at the exchange rate at the dates of repurchase) of bonds in order to manage interest expense and foreign exchange exposure.

As at 31 December 2016, the market value of SEK bonds is equal to SEK 338,845 thousand or USD 37,246 thousand translated at the exchange rate at the reporting date (31 December 2015: SEK 284,280 thousand or USD 34,036 thousand).

In April-August 2016 the Group signed credit facility agreements with Bank VTB which have to be used to finance working capital and are available for a period of up to twelve months. At 31 December 2016, USD 13,319 thousand (RUB 807,896 thousand) had been drawn under this credit facility. The Group has committed to pledge certain assets as collateral under the terms of the agreement.

The major covenants for bonds are as follows:

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

The major covenant for the Bank VTB agreement is that Debt to EBITDA ratio does not exceed 2.

As at 31 December 2016 and 2015 the Group is in compliance with all covenants stipulated in the bond and loan agreements.

25. TRADE AND OTHER PAYABLES

in thousands of US Dollars	Year ended 31 Dec 2016	Year ended 31 Dec 2015
Trade payables	2,068	3,910
Other accrued liabilities and other creditors	475	850
Total financial payables within trade and other payables	**2,543**	**4,760**
Taxes payable other than income tax	1,028	1,730
Payables to personnel	1,761	2,066
Advances received	434	421
Income tax payable	125	85
Other payables	860	294
	6,751	**9,356**

The average credit period on purchases of goods is 24 days (2015: 28 days). No interest is charged on trade payables. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

26. FINANCE LEASE LIABILITIES

The Group holds certain machinery under finance lease agreement. The lease term is 3 years. The interest rate underlying all obligations under finance leases is fixed at the respective contract dates at 12%. Minimum lease payments under finance leases and their present values are as follows:

in thousands of US Dollars	31 Dec 2016 Due in 1 year	31 Dec 2016 Due between 1 and 5 years	31 Dec 2016 Total
Minimum lease payments at 31 December 2016	124	-	124
Less: future finance charges	(4)	-	(4)
Present value of minimum lease payments at 31 December 2016	**120**	**-**	**120**

in thousands of US Dollars	31 Dec 2015 Due in 1 year	31 Dec 2015 Due between 1 and 5 years	31 Dec 2015 Total
Minimum lease payments at 31 December 2015	262	114	376
Less: future finance charges	(28)	(3)	(31)
Present value of minimum lease payments at 31 December 2015	**234**	**111**	**345**

27. FINANCIAL RISK MANAGEMENT

(a) Categories of financial instruments

in thousands of US Dollars	Year ended 31 Dec 2016	31 Dec 2015
Loans and other receivables, including		
- Cash and cash equivalents (Note 21)	26,832	31,959
- Trade and other monetary receivables (Note 20)	401	6,424
Total financial assets	**27,233**	**38,383**
Financial liabilities, measured at amortized cost, including		
- SEK bonds (Note 24)	45,600	52,636
- Other borrowings (Note 24)	13,443	10,486
- Financial lease liabilities (Note 26)	120	345
- Trade and other payables (Note 25)	2,543	4,760
Total financial liabilities	**61,706**	**68,226**

(b) Credit risk

The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's sales of products on credit terms and other transactions with counterparties giving rise to financial assets.

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

Cash and cash equivalents. The credit risk on liquid funds is considered limited as the Group diversifies its liquid assets among a number of high quality counterparties and as the counterparties are banks with credit-ratings assigned by international credit-rating agencies.

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

Exposure to credit risk. The carrying amount of financial assets represents the maximum credit exposure.

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

in thousands of US Dollars	31 Dec 2016 Gross amount	31 Dec 2016 Allowance	31 Dec 2015 Gross amount	31 Dec 2015 Allowance
Current:	264	-	6,233	-
Past due:				
less than six months	99	-	186	(2)
over six months	582	(544)	311	(304)
	945	**(544)**	**6,730**	**(306)**

(c) Liquidity risk

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

The following are the contractual maturities of financial liabilities, including estimated interest payments:

31 December 2016

in thousands of US Dollars	Less than 1 year	From 1 to 2 years	Total
Fixed interest rate instruments			
SEK bonds	50,730	-	50,730
Other borrowings	14,097	-	14,097
Financial lease liabilities	124	-	124
Non-interest bearing			
Trade and other payables	2,543	–	2,543
	67,494	**-**	**67,494**

31 December 2015

in thousands of US Dollars	Less than 1 year	From 1 to 2 years	Total
Fixed interest rate instruments			
SEK bonds	6,541	56,935	63,476
Other borrowings	11,021	-	11,021
Financial lease liabilities	262	114	376
Non-interest bearing			
Trade and other payables	4,760	-	4,760
	22,584	**57,049**	**79,633**

(d) Market risk

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

Currency risk

The Group is exposed to currency risk on borrowings and bank balances that are denominated in currencies other than the Russian Ruble (RUB), primarily on SEK bonds.

The Group does not hedge its currency risk. The Group however selectively uses available cash resources to repurchase bonds in order to manage its interest payment obligations and currency exposure.

The Group's exposure to currency risk, determined as the net monetary position in currencies other than RUB, was as follows:

in thousands of US Dollars	31 Dec 2016	31 Dec 2015
EUR	13,995	14,484
USD	5,709	18,041
GBP	(320)	(837)
SEK	(40,881)	(52,568)

The following significant exchange rates applied during the year:

	Rate at 31 Dec 2016	Average rate for 2016	Rate at 31 Dec 2015	Average rate for 2015
RUB/USD	60.6569	67.0349	72.8827	60.9579
RUB/EUR	63.8111	74.2310	79.6972	67.7767
RUB/GBP	74.559	91.2578	107.9830	93.2634
RUB/SEK	6.6674	7.8555	8.7260	7.2434

Foreign currency sensitivity analysis

A 10% weakening/strengthening of the RUB against the above currencies at 31 December 2016 would have increased/(decreased) equity and decreased/(increased) loss (31 December 2015: 30% weakening/strengthening of the RUB against the above currencies would have increased/(decreased) equity and profit) by the amounts shown below. This analysis assumes that all other variables remain constant.

in thousands of US Dollars	Equity	Profit or loss
2016		
EUR	1,376	1,376
USD	595	595
GBP	(32)	(32)
SEK	(4,088)	(4,088)
2015		
USD	5,412	5,412
EUR	4,345	4,345
GBP	(251)	(251)
SEK	(15,770)	(15,770)

Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). The Group adopts a policy of limiting its exposure to changes in future cash flows by borrowing on a fixed rate basis. The Group has only bonds on a fixed rate basis and borrowings at a rate which depends on the key rate of Central Bank of Russian Federation (CBRF).

If the key rate of CBRF during the year had been higher/lower by the1.0% with all other variables held constant, the loss for the year would have been USD 63 thousand lower/higher.

Fair value sensitivity analysis for fixed rate instruments

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

(e) Capital management

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

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

The capital structure of the Group consists of debt (Note 24), cash and cash equivalents (Note 21) and equity, comprising issued capital, reserves and retained earnings (Note 23).

The company and its subsidiaries are subject to capital requirements stipulated in the bond agreement (Note 24).

(f) Fair values

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

Trade and other receivables

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

Non-derivative financial instruments

Fair value for borrowings (Note 24), which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date and approximates their carrying amount. Fair value of bonds (Note 24) determined based on information from Stockholm Exchange.

(g) Hedge transactions

Since 2013 the Group has used a grain hedging program with trading in futures and options on international exchanges to hedge price volatility risks. As at 31 December 2016 the derivative financial instruments with a fair value of USD 98 thousand (31 December 2015: USD 1,275 thousand) were included in other receivables. In 2016 and 2015 the Group had income on grain hedge of USD 1,981 thousand and USD 1,523 thousand respectively(Note 13).A sales and marketing committee, including board representatives, convenes regularly to discuss and decide on hedging strategies.

28. OPERATING LEASES

Non-cancellable operating lease commitments are as follows:

	Year ended	
in thousands of US Dollars	**31 Dec 2016**	**31 Dec 2015**
Not later than one year	533	455
Later than 1 year and not later than 5 years	1,728	1,644
Later than 5 years	10,358	9,390
	12,619	**11,489**

The Group leases a number of land plots under operating leases. The lease term is typically for an initial period of 49 years. During the current year, USD 615 thousand (2015: USD 417 thousand) of rent expense was recognized in profit and loss in respect of operating leases.

29. 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 consolidated financial statements.

(b) Taxation 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 taxesfor three calendar years preceding the year of review. Under certain circumstances, reviews may cover longer periods.

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

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

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

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

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

As at 31 December 2016, management believes that its interpretation of the relevant legislation is appropriate and that the Group`s tax, currency and customs positions can be sustained.

(c) Risks relating to the Group

Agricultural market risk

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

Poor or unexpected weather conditions

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

(d) Commitments for expenditure

in thousands of US Dollars	Year ended 31 Dec 2016	31 Dec 2015
Commitments for acquisition of materials	-	1,434
	-	**1,434**

30. RELATED PARTY TRANSACTIONS

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

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

in thousands of US Dollars	Year ended 31 Dec 2016	31 Dec 2015
Purchase of services from related parties		
TerraVost Ltd (formerly KinnAgri Ltd)	826	1,269
KCM International Ltd	1,661	1,802
	2,487	**3,071**
Less: subcontracted to third parties		
TerraVost Ltd (formerly KinnAgri Ltd)	(105)	(188)
KCM International Ltd	(12)	(16)
	(117)	**(204)**
Purchase of services from related parties, net of sub-contractors		
TerraVost Ltd (formerly KinnAgri Ltd)	721	1,081
KCM International Ltd	1,649	1,786
Total	**2,370**	**2,867**

in thousands of US Dollars	Year ended 31 Dec 2016	31 Dec 2015
Accounts payable to related parties		
TerraVost Ltd (formerly KinnAgri Ltd)	159	404
KCM International Ltd	133	401
	292	**805**

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.

Salaries and other remuneration for Directors and other senior executives

in thousands of US Dollars	Year ended 31 Dec 2016 Board of directors (5 positions)	Senior executives (8 positions)	Year ended 31 Dec 2015 Board of directors (5 positions)	Senior executives (8 positions)
Salaries, bonuses and non-monetary benefits (mobile, flat rent, medical insurance)	279	2,380	467	2,625
Share-based payments (Note 23)	-	1,205	-	726
Contribution to the State Pension Fund	-	157	-	280
Total	**279**	**3,742**	**467**	**3,631**

31. SIGNIFICANT SUBSIDIARIES

The Company has 34 subsidiaries as at 31 December 2016 (31 December 2015: 34 subsidiaries). The list of significant subsidiaries is presented below.

	Country of incorpora-tion	Ownership and voting interest 31 Dec 2016	31 Dec 2015	Principal activity
Planalto Enterprises Limited	Cyprus	100%	100%	Management
Black Earth Trading International	Guernsey	100%	100%	Trading
LLC Management Company Agro-Invest	Russia	100%	100%	Management
LLC Nedvizhimost	Russia	100%	100%	Elevators
LLC Agroterminal	Russia	100%	100%	Elevators
CJSC Dmitriev Agro-Invest	Russia	100%	100%	Agriculture
LLC Sosnovka Agro-Invest	Russia	100%	100%	Agriculture
LLC Stanovoje Agro-Invest	Russia	100%	100%	Agriculture
CJSC Kastornoje Agro-Invest	Russia	100%	100%	Agriculture
LLC Agrolipetzk	Russia	100%	100%	Agriculture
LLC Novokhopersk Agro-Invest	Russia	100%	100%	Agriculture
LLC Morshansk Agro-Invest	Russia	100%	100%	Agriculture

32. SUBSEQUENT EVENTS

On 13 February 2017 the Company's direct wholly owned subsidiary, Planalto Enterprises Limited ("Planalto"), entered into a framework share purchase agreement (the "SPA") regarding the sale of its wholly owned subsidiaries LLC Managing Company Agro Invest ("AIMC") and LLC Managing Company Agro Invest Regions ("AIRMC"), that in turn hold shares in all other Russian subsidiaries of the Group, and an assignment agreement pursuant to which Planalto assigns its claims under the intergroup loans to AIMC, to LLC Volgo-DonSelkhozInvest, an unrelated entity (the "Transaction"). The total estimated purchase price is set at an initial consideration of USD 184 million which is higher than the carrying value of the respective disposal group. The purchase price is subject to adjustment depending on certain variables such as changes in net debt and working capital as estimated at signing compared to completion.

In accordance with the SPA, on 16 February 2017 Volgo-DonSelkhozInvest paid USD 10 million as a deposit to the deal.

On 23 March 2017, Extraordinary General Meeting approved the Transaction. Closing of the Transaction is still subject to relevant regulatory approvals and the satisfaction of certain customary closing conditions set out in the Transaction documents.

On 4 April 2017, 1,853,740 new shares (0,88% of shares then outstanding) were issued as a result of the 2013-2015 Company's management incentive program. Following the issue, the total number of outstanding shares became 212,279,981.

Board, Management and Auditors

BOARD OF DIRECTORS

Per Åhlgren,Chairman of the Board
Swedish citizen, born in 1960
Principal education: M.Sc. in Business and Economics from Stockholm School of Economics.
Work experience: Mr. Åhlgren is the co-founder and Chairman of Mangold Fondkommission, an independent broker specialized in small and medium-sized listed companies that provides services within corporate finance, equities, market making, securities issuance and asset management. Mr. Åhlgren's previous experience includes, among others, ten years in London working for Salomon Brothers, Bear Stearns and Deutsche Morgan Grenfell. Furthermore, he is currently Chairman of Runaware Holding AB and RW Capital AB.
Shareholdings: 25,942,162 SDRs*

Franco Danesi, Non-executive Director
Italian citizen, born in 1972
Principal education: Master's degree in Engineering from Politecnico di Milano and MBA with distinction from London Business School.
Work experience: Mr. Danesi is Investment Director at Investment AB Kinnevik and member of the Board of Metro International and G3 Good Governance Group. Mr. Danesi was Head of Investment Management at QInvest and Executive Director at Goldman Sachs International.

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

* SDRs held via an insurance policy

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

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

GROUP MANAGEMENT

Richard Warburton, Chief Executive Officer
British citizen, born in 1966
Principal education: Mr. Warburton holds a Bachelor of Science degree in Agriculture from the University of Newcastle as well as an MBA.
Work experience: Mr. Warburton was a board member of Black Earth Farming between 2010 and 2013. Mr. Warburton is CEO and Majority Shareholder of TerraVost Limited. He is a Director of KCM International and formerly at Rolnyvik Sp. z.o.o. Mr. Warburton was previously head of agriculture at Investment AB Kinnevik. He has also been Equity Partner and Head of Bidwells Agribusiness 1999–2010 and a Director of British Field Products 1994–1998.
Shareholdings: 3,390,333 SDRs
Warrants: 750,000

Fraser Scott, Chief Operating Officer
British citizen, born in 1961
Principal education: Mr. Scott holds a Bachelor of Science in Agriculture from Newcastle University.
Work experience: Mr. Scott has more than 20 year experience of large scale corporate farm management, most recently as head of arable and potato operations on 20 thousand hectares of arable farming and food operations at the Co-operative farms in the UK. He has also been involved in several large scale agribusinesses as farm and operations manager at Booker, Broad Oak and the Co-operative farms in the UK.
Shareholdings:960,780 SDRs
Warrants: 500,000

Rostislav Samotsvetov, Chief Financial Officer
Russian citizen, born in 1979
Principal education: Mr. Samotsvetov holds a BA in Economics and Accountancy from Voronezh state University and MA in Economics from Central European University
Work experience: Mr. Samotsvetov has over 14 years of experience in various financial and senior management roles with P&G, Danone, Walgreens, Avito.ru and others.
Warrants: 200,000

Richard Willows, Commercial Director
British citizen, born in 1953
Mr. Willows has a background in trading of agricultural commodities, specializing in the marketing of quality assured grains and oilseeds for the food industry including direct exporting to key customers in the Baltic States and Europe. He has more than 15 years of experience working in Russia and prior to Black Earth Farming Richard held the position of General Director of OOO Heartland Farms in the Penza region of Russia. Established in 2002 it was one of the first foreign investors in Russian farming.
Shareholdings:258,738 SDRs
Warrants: 500,000

Victoria Fletcher, Business Development Director
British citizen, born in 1981
Principal education: Ms. Fletcher holds a Master of Science in agricultural management from Reading University.
Work experience: Ms. Fletcher joined the Group in 2012 and has 8 years' experience in Supplying major British supermarkets with fresh food, most recently as Business Unit Director for a rapidly growing fresh produce business. Her function included procurement from Africa and across the world and management of production and logistics. She also has been involved in business development in Central Asia.
Shareholdings:351,000 SDRs
Warrants: 550,000

AUDITORS

PriceWaterhouseCoopers

Principal auditors:

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

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

Board of Directors' report on internal control

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

This report has been established in accordance with the Swedish Code of Corporate Governance, which governs internal control over the financial reporting, and with the guidance provided by FAR, the institute for the accounting profession in Sweden, and the Confederation of Swedish Enterprise. This report does not constitute part of the formal Annual Report and has not been reviewed by the Company's auditors, nor does it include a statement by the Board as to how well the internal control has functioned during the year.

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

Management continuously monitors the Company's operations in accordance with the guidelines set out below. A thorough internal audit and review of the Company's operations was conducted with focus areas and implementation plans in 2012. The objective of the audit was to uncover weaknesses and enhance control and oversight of the Company's processes and protocols. The process has since continued on an annual basis with special focus on one or a few areas of particular importance.

Control environment

The control environment forms the framework for internal controls that ultimately translates into financial reporting of the Company's financial position. This environment, to a meaningful extent rests on the core values that the Board and senior management communicates, acts upon and work embody in systems and processes. Black Earth Farming's ambition is that values such as precision, professionalism, trust, efficiency and integrity should permeate the organization. To project these principles and exert control, it is critical that organisational structure, chain of command and authority are well defined and clearly communicated. Accountability should follow responsibility and structure should follow strategy in the Company. This is achieved through a combination of written instructions and formal routines on one hand and informal processes and a sound corporate culture on the other. The Board establishes the general guidelines for the Group's activities in internal policies and codes. Management should then implement such directions in financial and operational processes and instructions as well as by example.

Risk assessment

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

It is the ambition of Black Earth Farming to minimize the risk of errors in the financial reporting by continuously identifying the safest and most effective reporting process. The Board puts effort into ensuring the reliability of those processes, which are deemed to hold the greatest risk for error, alternatively whose potential errors would have the most significant negative effect. Among other things, this includes establishing clearly stated requirements for the classification and description of statement of income and balance sheet items according to generally accepted accounting principles, given the relevant legislation. The Company is also taking steps to automize the reporting process to contain the risk of manual errors or fraud.

The Company's Chief Financial Officer is responsible for the control and reporting of the Company's consolidated economic position to management and Board. In this capacity, the Chief Financial Officer also prepares a review of potential weaknesses in internal processes and controls to the Audit Committee and makes a recommendation to the committee on areas that could be the focus of internal audit work in the future. Based on this recommendation, as well as its own observations, the Audit Committee may choose to appoint an independent third party expert to conduct an audit of one or a few areas in the Company. In 2014, the focus of the Company's Internal Audit was on the Company's IT systems and infrastructure. A special report on this area was prepared in 2014. In 2015, an internal audit of the procurement function was launched. As procurement was moved from Moscow to Voronezh with the close of the Moscow office in the second half of 2015, it was however decided to roll the audit forward to allow the new team to settle before proceeding with the audit. Broader internal audit work continues outside such focus areas. The external auditor also reviews the control environment as part of its general audit procedures.

Control activities

Risk assessment identifies risk areas. The Company thereafter establishes a number of control activities to verify the Company's compliance and integrity in such risk areas. The purpose of the control activities is to detect, prevent and rectify any weaknesses and deviations in the Company's processes and financial reporting. Control activities also include routines for the presentation and reporting of company accounts, for example monthly cash flow reports and budget follow ups. Special controls are in place to ensure that processes for the accounting function, including consolidation of accounts and creation of interim and full year reports, comply with pertinent legislation as well as with generally accepted accounting principles. Controls are carried out to ensure that the IT and computer systems involved in the reporting process have a sufficiently high dependability for its task. The tender and approval process in connection with large procurement transactions is another important control area.

Information and communication

The Company has invested in advanced technical applications and designed robust processes to facilitate fast and reliable communication throughout the organisation. Internal policies and general guidelines for financial reporting are communicated between the Board of Directors, management and other personnel through regular meetings and e-mails.

The Company is committed to provide accurate, reliable and timely information, and to abide by the regulations applicable to a company listed on Nasdaq OMX Stockholm. To ensure high quality of the external reporting, the Company has adopted an information strategy that starts from the internal reporting and regulates the flow of data to the external information. The strategy applies to all parts of the organisation and includes principles for all means of communication, including website postings, press releases, interim and annual reports, prospectuses, public conference calls, interviews to specialised and general media and market analysts, as well as participation in public meetings. In order to ensure reliability and consistency of information provided, only corporate staff designated as spokespersons for Black Earth Farming are authorised to speak to the media on behalf of the Company.

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

Black Earth Farming is fully committed to communicate in a transparent way. The Company will not restrict public disclosure of information unless the information is of a commercially sensitive or confidential nature.

Monitoring

The Company's financial situation and strategy, and any weaknesses or significant changes in the operations and financial position are discussed at Board meetings. The Company prepares interim reports four times annually, which are reviewed by the Board. Management reports on operations and financials are however prepared and distributed to the Board more frequently. The Audit Committee has a particular responsibility to review and bring any weaknesses in internal control procedures to the Board's attention. Potential shortcomings are addressed by management and the Audit Committee. Thorough reviews of the Company's accounts are performed together with the external Auditor in connection with semi-annual review and the annual audit.

The proposed transaction

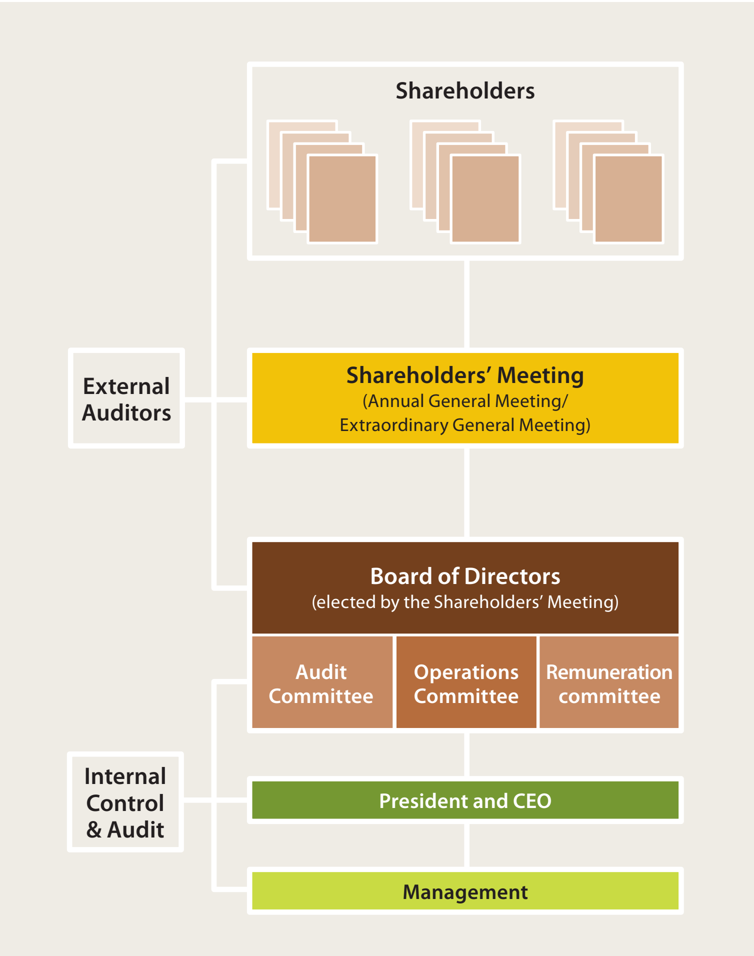
All members of the board of directors, in particular Per Åhlgren, who owns GoMobile Nu, and Franco Danesi, who is employed by Kinnevik, have actively taken part in the board's dealings with the Transaction and participated in the board's resolution to enter into the SPA.

Corporate Governance Report

Introduction

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

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



Shareholders meetings

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

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

In 2016, Black Earth Farming held the Annual General Meeting on Wednesday 20 May 2016 at 09.00 CET at Näringslivets Hus, Storgatan 19 in Stockholm, Sweden. As per the published agenda and minutes, the AGM adopted the consolidated profit and loss statement for the period 1 January to and including 31 December 2015, as well as balance sheet and the consolidated balance sheet as of 31 December 2015. The AGM resolved upon the election of the Board of Directors and Auditors. The AGM resolved upon principles for compensation to Board, Auditors, senior management. A new long-term incentive program for senior management was approved. It was resolved not to pay any dividends for 2015.

Appointment and remuneration of the Board and Auditors

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

In accordance with the resolution of the 2016 Annual General Meeting, a Nomination Committee consisting of members representing the three largest shareholders in the Company per the last business day in August 2016 was appointed. The Nomination Committee for the 2017 AGM is comprised of Joakim Andersson, on behalf of Investment AB Kinnevik, Per Åhlgren, on behalf of Gomobile Nu AB, and Ramsay Brufer, on behalf of Alecta Pension. The Company considers it appropriate for the major shareholders to propose the board composition and items related to the Nomination Committee's mandate for the Annual General Meeting. Joakim Andersson, of Investment AB Kinnevik, is the current Chairman of the Nomination Committee. At the time of its formation, the Nomination Committee represented approximately 47% of the shares in Black Earth Farming.

The Board of Directors

The 2016 Board of Directors

The Articles of Association stipulate that there shall be no maximum number of Directors unless and, until otherwise determined by the Company in a General Meeting by ordinary resolution. However, the minimum number of Directors (other than any alternate Directors) shall be two. At the AGM 2016 it was resolved that the Board, until next AGM, shall consist of 5 members.

At the 2016 AGM, it was resolved to re-elect of Camilla Öberg, Dmitry Zavgorodniy, Franco Danesi, Per Åhlgren, and Poul Schroeder as Directors of the Company. It was resolved to appoint Per Åhlgren as Chairman of the Board of Directors.

For a more detailed profile of the current Board, until the AGM 2017, see section "Board, Management and Auditors" of this annual report. The Code states that it is possible for major shareholders of Swedish companies to appoint a majority of members with whom they have close ties. Black Earth Farming views positively active and responsible ownership, which is also expressed in the preparatory documents to the Swedish Companies Act. Given Black Earth Farming's line of business, stage of development and general environment, the elected Board represents a suitable composition with versatility and breadth in terms of the Directors' qualifications, experience and background. Table on the next page contains summary information on the current Directors' name, position, year of election to the Board, year of birth, citizenship and respective holding of SDRs/shares and warrants in the Company.

Board meetings

The Board may meet for the despatch of business, adjourn and otherwise regulate its proceedings as it sees fit. The Board of Directors considers it suitable to meet at least twice a year in person and more frequently when appropriate. At least four more meetings are to be held by telephone. Additional meetings, in person or by telephone, can be called as and when needed. The CEO has regular contact with the Chairman and other members of the Board. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the Chairman of that meeting shall have a second or casting vote.

During the financial year that ended 31 December 2016, ten Board meetings were held, whereof four were held with personal attendance, the rest were held by means of telephone conferencing.

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

As and when deemed suitable by the Board, certain members of senior management, have been invited to attend meetings for in depth reviews and discussions of their respective business areas or current projects. In connection with the annual audit of the Company's accounts, the Auditors are always requested to attend a meeting to report their observations from the annual audit.

Work and Responsibilities

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

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

During 2016, the Board has continuously reviewed the strategic direction, the financial performance, and the initiatives to reach profitability as well as sustain growth longer term. No dissenting opinions in relation to decisions have been reported in the minutes during the year. However, the Board has at times tabled an issue until a later meeting, for which more supporting documentation or a more in-depth review of an issue should be produced. An annual evaluation of the Board's work was performed in order to develop the Board's working methods and efficiency.

Chairman of the Board of Directors

The Nomination committee proposes a Chairman of the Board to be elected by the AGM. The Chairman shall not be employed by the Company. Per Åhlgren was elected Chairman of the Board at the AGM held on 20 May 2016. The Chairman shall lead the Board discussion at each Board meeting. In the case of an equality of votes, the Chairman shall have a second or casting vote.

Sub Committees of the Board

Pursuant to the Articles of Association, the Board may delegate any of its powers, authorities and discretions to any committee consisting of one or more Directors. In pursuit of an efficient and reliable corporate governance structure, the Board in 2007 established two subcommittees in the Audit Committee and the Investment Committee. As the Company has evolved from being focused on putting an asset platform in place to efficiently exploiting and operating that platform, the Investment Committee was replaced by an Operations Committee in 2010. As the Company has continued to mature, the focus of the Operations Committee has moved from operational decisions and optimization to sales and marketing and the Company's grain hedging program. Each committee keep minutes of their meetings, which are made available to the full Board. Described below is also the Board's discharge of Remuneration Committee tasks.

Audit committee

The Audit Committee is charged with the responsibility of reviewing the system of internal controls, management and reporting of financial risks and the audit process. When relevant and appropriate, the Chief Financial Officer and the Company's Auditors are invited to attend the meetings, including a yearly meeting for planning before the audit and a meeting on reporting after the audit. Other Directors may also be invited to attend. At least once a year, the Audit Committee should meet the Company's external Auditors without any management being present.

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

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

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

Audit committee in 2016

The Audit Committee consists of two of the board members, namely Camilla Öberg, as Chairman, and Franco Danesi. This is a deviation from the Swedish Code of Corporate Governance, which requires at least three Board members on the Audit Committee. The Board however decided that, given the close work between the Audit Committee and the overall Board, two members would be appropriate. Auditor and Company Secretary Christopher Leck is a specially invited observer on the Committee. In 2016, six meetings, of which two in person, were held by the Audit Committee, addressing the Company's financial reporting and progress. There were also several update conference calls between the Committee Chairman and members of the Company's senior management.

Operations Committee

The Operations Committee has been tasked by the Board of Directors with screening and evaluating key decisions on the Company's operational matters. Initially, the responsibilities of the Operations Committee were directed towards decisions regarding capital allocation, operational expenditures and key operational activities. Currently, a significant share of the Committee's work is focused on strategic sales and marketing decisions, as well as the Company's grain hedging program.

Operations committee in 2016

The Operations Committee consists of three board members, namely Poul Schroeder as Chairman, Per Åhlgren and Dmitry Zavgorodniy. In 2016, monthly (or sometimes more frequent) telephone conference calls were held to discuss the Company's operational progress, its sales and marketing plan and, in that context, its grain hedging activities.

Remuneration committee

The function of a specific Remuneration Committee, as per the Code's guidelines, is to prepare proposals on remuneration and other terms of employment for the executive management. The Board of Directors of Black Earth Farming has generally considered it more appropriate that the entire Board performs the tasks of the Remuneration Committee, albeit without any Board member who is also part of the executive management. The Remuneration Committee consists of two Board Members, namely Per Ahkgren and Franco Danesi, who prepare proposals on remunerations for adoption by the whole board. The guiding philosophy of the Board in determining compensation for executives is the need to provide a compensation package that is competitive and motivating, that will attract and retain qualified executives, and that encourages and motivates performance.

Name	Title	Born	Nationality	Elected	Connection to the company	Audit com-mittee	Board meeting attend-ance	SDR holdings	Warrant holdings	Board fee, TEUR
Per Åhlgren	Chairman of the board	1960	Swedish	2015	Main owner		9	25,942,162*	–	60
Franco Danesi	Non-executive Director	1972	Italian	2015	Independent	Member	8	-	–	50
Poul Schroder	Non-executive Director	1944	Danish	2010	Independent		9	350,000	–	60
Dmitry Zavgorodniy	Non-executive Director	1970	Russian	2014	Independent		9	–	–	40
Camilla Öberg	Non-executive Director	1964	Swedish	2013	Independent	Chairman	9	1,500	–	60
Number of meetings in 2016						**5**	**9**			

* SDRs held via an insurance policy

Group management

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

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

The persons listed and presented below (as well as in the section "Board, Management and Auditors" of the annual report) constitute the Company's current senior Group management team. As individuals with important managerial roles and responsibility for certain key functions, they are identified for disclosure with certain details of their professional duties as recommended by the Code and for the benefits the Company's shareholders. For a detailed presentation of the senior management, see section "Board, Management and Auditors" in this annual report.

Compensation to the Board and management

Principles

The Chairman of the Board, the Operations Committee and the Audit Committee each receive EUR 60,000 per annum in compensation. Other Directors on the Board, who do not Chair any committee, receives an annual Board fee of EUR 30,000 per annum. An additional EUR 10,000 per annum is paid for work on the committees of the Board.

Remuneration for the senior executives consists of fixed salaries, certain other benefits and an annual bonus. The annual bonus depends on both Company and individual performance over the year. The bonus is individual but is capped at up to 50% of an employee's annual income. In addition, certain Company directors, senior executives and other key personnel within the Group are holders of warrants as part of the established incentive program. The guiding philosophy of the Board in determining compensation for executives is the need to provide a compensation package that is competitive and motivating, that will attract and retain qualified executives, and encourage and motivate performance. As stated in Note 30 to the Consolidated Financial Statements, in 2016 total fixed salaries and bonuses to senior executives amounted to USD 2,380 thousand (excluding pensions and termination payments), of which USD 1,001 thousand to the Company's CEO.

Incentive programme

As part of the Company's efforts to attract and retain qualified personnel, Black Earth Farming created a warrant incentive program. The warrant program was regulated by an agreement dated 11 August 2005, but was subsequently amended by addendums dated 15 November 2007 and 25 May 2012. The original program was open to up to 30 employees and comprised of 2,059,000 warrants to subscribe for shares. Each warrant entitles the holder to exchange one warrant for one share. The number of warrants within the program was thereafter increased from 2,059,000 to 10,000,000 warrants at the AGM held on 5 July 2007. 15 May 2013, the AGM approved to increase the maximum number of participants from 30 to 50. As of 31 December 2016, 5,366,667 of these warrants had been issued for nil consideration to Directors, senior executives and other key personnel.

All qualifying participants are allotted a certain number of warrants, of which a proportionate part is vested annually over the number of years set out in each participant's warrant certificate. Warrants with a lower subscription price shall vest prior to warrants with a higher subscription price. Decision on allocation of warrants is at the discretion of the Board. The subscription price will be affected by the time of allocation of the warrants. In the event where a warrant holder is no longer employed by the Company by the vesting date, warrants that are due to vest are cancelled. At full exercise of all approved 10,000,000 warrants, the Company's share capital will be increased by USD 100,000.

Executives share option plan (ESOP)

At the AGM on 25 May 2012, a three-year performance based incentive plan for senior executives was approved. In order to participate in the 2012-2014 plan, the participants should purchase shares (in the form of SDRs) in the Group. For each share purchased and held under the plan, the Group will grant up to five rights to the participant, one for each of five performance criteria to be met under the program. The criteria's relate to the three-year development of certain performance indicators for Black Earth Farming, and

Name	Born	Nationality	Employed	Function	SDR holdings	Warrant holdings	Average strike price
Richard Warburton	1966	British	2011	Chief Executive Officer	3,390,333	750,000	SEK 3.65
Fraser Scott	1961	British	2011	Chief Operating Officer	960,780	500,000	SEK 5.43
Rostislav Samotsvetov	1979	Russian	2015	Chief Financial Officer	-	200,000	SEK 3.65
Richard Willows	1953	British	2011	Commercial Director	258,738	500,000	SEK 5.43
Victoria Fletcher	1981	British	2012	Business Development Director	351,000	550,000	SEK 5.73

specifically its return on capital, profitability, revenue growth and average crop yields. The 2012 plan originally comprised of up to 1,050,000 shares (depending on employee share purchases and participation) held by the employees, entitling to allotment of up to 5,250,000 shares. The initial program was subsequently adjusted 2:3 to account for the rights issue in December 2012. In deciding on whether performance criteria were met and any program adjustments, the Board has discretion. At the end of May 2015, the first three year period of the program ended. As a result of the program, 2,756,796 shares, or 1.33% of the Company's total outstanding shares at the time, were granted to three 2012 participants in the program. Following the share issue, the Company's outstanding number of shares increased to 210,426,241, with one vote for each share. At the 2015 AGM, following the completion of participation in the 2012-2014 program, a new three-year program was approved. This 2015-2017 program is structurally the same as the previous program, although the performance criteria have been revised to reflect the results achieved by the Company over the period of the previous program. The 2015-2017 plan will comprise of up to 2,100,000 shares held by the employees, entitling to allotment of up to 10,500,000 rights. For further details on the Executives share option plan, please refer to note 23 c) in the Consolidated Financial Statements of the 2016 Annual Report. As at 31 December 2016, 1,562,226 shares have been purchased by participants within the two programs, which may result in an expected 9,518,551 shares being issued in case of fulfilment of the all the five aforementioned criteria. 1,050,000 shares remains to be taken up by participants in 2017. In case all remaining 1,050,000 rights of the 2015-2017 program will be taken up by eligible participants, it may result in an maximum additional 5,250,000 shares being issued in case of fulfilment of all the five criteria.

Termination of employment

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

Conflict of interests

The Group has in 2016 employed services from TerraVost Ltd and KCM. KCM is a 50:50 Joint Venture between TerraVost Ltd and a company called CMI Ltd. Black Earth Farming's CEO, Richard Warburton, has a majority interest in TerraVost and therefore, indirectly, an interest in KCM, both of which therefore constitute related parties. Transactions with related parties are scrutinized for arm's length and approved by members of the Board of Directors of the Company.

Up until December 2014, Investment AB Kinnevik was also a major shareholder of TerraVost Ltd, which at that point was called KinnAgri Ltd. In December 2014, KinnAgri Ltd completed a buyback of the shares held by Investment AB Kinnevik. As Investment AB Kinnevik fully exited the shareholder structure of KinnAgri Ltd, the Company was renamed TerraVost Ltd. As a result of the transaction, Richard Warburton, the CEO of Black Earth Farming, reverted back to being the majority shareholder of TerraVost Ltd.

Poul Schroeder is Chairman, but not a shareholder, of Dan Store, a Company involved in grain storage and a supplier to the Company.

Outside these transactions, to the best of the Company's knowledge, none of the members of the Board of Directors or the Management of the Company has a private interest that may be in conflict with the interest of the Company.

Auditors

At the AGM on 14 May 2014, the Company changed Auditor from Deloitte to PriceWaterhouseCoopers, with Bo Lagerström as Auditor in charge. At the AGM on 20 May 2016, PriceWaterhouseCoopers, with Bo Lagerström as auditor in charge, was reappointed as Auditors of the Company.

PriceWaterhouseCoopers

Principal auditors:

Bo Lagerström

Group Audit Partner

Mr. Lagerström is a Swedish citizen, born in 1966.

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

Alexei Ivanov

Mr. Ivanov is a citizen of Russia, born in 1969.

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

Sustainability

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

Black Earth Farming shares the view that current needs must be met without compromising the ability to meet the requirements of future generations. The Company's ability to generate long-term and sustainable shareholder returns is dependent on this balance. This includes the consideration of social responsibilities such as working conditions of employees and support to local rural communities as well as employee health and safety. It entails maintaining and enhancing land as a natural resource for the long term by optimal management of inputs, minimum tillage and employing a crop rotation system that minimizes erosion and conserves soil and water resources. All this requires good and efficient overall management with sound financial planning and efficient risk management practices.

Black Earth Farming's Social Responsibility

Since inception, Black Earth Farming has brought an estimated 260 thousand hectares of fallow land into production. The Company effectively taps unused resources for food production, which is a necessity to meet the demand from the world's increasing population. Social responsibility entails caring for external stakeholders as well as internal. Black Earth Farming strives to conduct business in a way that not only safeguards employees, customers and community neighbourhoods but that also helps them develop together with the Company. The focus on development of fallow land creates new job opportunities with stable and relatively high means of income. Employee safety is of high concern and training sessions are conducted regularly. The Company contributes to local communities both through its economic development, which helps bring commerce and tax revenues to the local administrations, but also by financial support to many local activities and social projects. In 2016, the Company raised its compensation to workers by 6,1% , made further improvements in health and safety and intensified training programs. Employee turnover continued to drop in the reporting period.

Black Earth Farming's Environmental Responsibility

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

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

Black Earth Farming is committed to cultivating its land in an environmentally responsible way that ensures the long term health of the soil and minimizes the impact on surrounding ecosystems. To a large extent this comes from application of fertilizer and other necessary chemicals at optimum rates and timings, for which continuous staff training and proper management is vital. Application of inputs at optimum rates also maximizes the economic benefit to the Company. A multi-year crop rotation mix is chosen for long term sustainability of the soil as well as for maximum productivity over time. The Company puts great emphasis and makes every effort to ensure the correct handling and storage of pesticides, fertilizer and other chemical compounds.

Black Earth Farming's Economic Responsibility

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

Non-IFRS performance measure

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

Non-IFRS performance measure	Description
Operating margin	Operating income divided by net sales (total revenue and gains)
Gross margin	Gross profit divided by total revenue and gains
Margin on profit before income tax	Profit before income tax divided by total revenue and gains
Net margin	Net profit divided by total revenue and gains
Earnings per Share	Net profit attributable to shareholders holding ordinary shares divided by the number of shares issued.
Equity per share	Total equity divided by the number of shares issued
Operating cash flow per share	Net cash generated from/(used in) operating activities divided by the mumber of shares issued
Average sales price after distribution cost per ton	Revenue by crops divided by tons sold during the period minus distribution expenses divided by total tons sold during the period
Gross profit after distribution cost	Gross profit minus distribution expenses
EBIT	Profit (loss) before financial income/(expenses) and income taxes.
EBITDA	EBITDA represents net income (loss) before interest expense, interest income, income tax expense (benefit), depreciation of property and equipment, amortization of intangible assets, and extraordinary or non-recurring income and expenses.
Cash from operations less investments (FCF)	Net cash generated from/ (used in) operating activities less cash flows from investing activities
Net debt position	Consists of the Group's interest-bearing liabilities including accrued interest and finance lease liabilities, less cash and cash equivalents
Debt/Equity Ratio	Total amount of borrowings divided by total shareholders' equity.
Equity/Assets Ratio	Equity expressed as a percentage of total assets
Return on equity	Net result for the period divided by average capital employed, which takes average capital for the period.
Numerous ratios excluding SWAP	These ratios represent measures defined in IFRS or APMs described above minus net result from swap deal (as this deal is non-recurring event). For instance EBIT excluding swap effect represents EBIT minus effect from swap deal which is presented in note 13 « Other income and expenses, net ».

Terms and Definitions

Units
1 hectare (ha) = 2.47105 acres
1 hectare (ha) = 10,000 square meters

1 metric ton = 2,204.622 pounds (lb)
1 metric ton = 10 centners
1 metric ton of wheat = 36.74 bushels of wheat
1 metric ton of corn = 39.37 bushels of corn

"AGRO-Invest Group"
The Company's subsidiary OOO Management Company AGRO-Invest (AIMC LLC) and its subsidiaries, including OOO Management Company AGRO-Invest-Regions (AIRMC LLC).

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

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

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

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

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

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

"Euroclear"
Euroclear Sweden AB (formerly VPC AB), the Swedish central securities depository and clearing house with address Klarabergsviadukten 63, Box 191, SE-101 23, Stockholm, Sweden.

"Fallow land"
Land which is not being cultivated.

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

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

"IKAR"
The Russian Institute for Agricultural Market Studies.

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

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

"Oblast"
An administrative region of Russia.

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

"OOO"
A Russian equivalence to a limited liability company (LLC).

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

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

"US HRW"
United States hard winter wheat

"US SRW"
United states soft winter wheat

"VPC"
VPC AB, the Swedish central securities depository and clearing house with address Klarabergsviadukten 63, Box 191, SE-10123, Stockholm, Sweden.

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

BLACK
EARTH
FARMING LTD.

Black Earth Farming Limited
3rd Floor
37 Esplanade
St Helier JE2 3QA
Jersey
Channel Islands
Reg No. 89973
www.blackearthfarming.com