

# Black Earth Farming Ltd Interim Report

1 January – 30 June 2011



**BLACK  
EARTH  
FARMING LTD.**



## Dry Spell in Central Black Earth Region Results in Disappointing Initial Crop Yields

*Limited rainfall results in disappointing initial crop yields as 45% of 2011 area has been harvested. New operationally focused management team with key priorities outlined to lift future crop yield potential. New sales & marketing capability to enable higher prices and risk management via export cargos.*

### 2Q 2011 Highlights (vs. 2Q 2010)

- Sales volumes down 31% y-o-y to 42.7 thousand tons (62.2)
- Sales revenue of USD\* 8.1 million (6.5)
- Revaluation gain of USD\* 12.9 million on biological assets i.e. crops to be harvested 2H
- Operating profit of USD\* 1.7 million (3.9)
- Net profit of USD\* 0.5 million (1.5)
- Net profit per share of USD\* -0.00 (-0.01)

### Events after the Reporting Period

- 2011 harvest progress; Net crop yields for winter wheat and spring barley of 2.5 and 2.1 tons per hectare respectively with 89% and 66% of respective area harvested. The total 2011 harvest area is expected at approximately 230 thousand hectares.
- The Company has sold 15 thousand tons of milling wheat harvested 2010 for export at a net ex-works parity price of approximately USD\* 230 per ton following the lifted export ban.

### CEO Comment Highlights (p.2)

- New Operationally Focused Management Team
- New Dimension to Sales & Marketing Capability
- 2Q Results in Brief
- 2011 Harvest Progress
- Initiatives to Raise Future Crop Yield Potential

### Financial Overview (p.3)

USD* million	2Q '11	2Q '10	6M '11	6M '10
Crop Volumes Sold	42,730	62,246	59,418	197,892
Av. Sales Price	178	99	197	103
Total Revenue & Gains	19.4	17.9	20.6	31.8
Gross Result	9.1	10.8	5.1	10.7
EBITDA <sup>1</sup>	(5.4)	(4.7)	(10.7)	(8.2)
EBIT	1.7	3.9	(9.6)	(4.8)
<b>Net Income</b>	<b>0.5</b>	<b>1.5</b>	<b>(15.4)</b>	<b>(8.1)</b>

<sup>1</sup>EBITDA adjusted for net revaluation gain/loss

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## New Operationally Focused Management Team

Since mid 2010 the key near term strategy has been to consolidate and focus on raising our operational performance in order to improve our results. The asset base that the company has acquired and built up during the past years is of high quality in terms of land, machinery and storage facilities but the emphasis now needs to shift to operations and in particular raising our crop yields. It became clear that we needed to strengthen management at all levels of the business. Fraser Scott is now in place as COO and there will be more senior and mid management production personnel brought in to the business shortly.

## New Dimension to Sales & Marketing Capability

During May we recruited a Director of sales & marketing which significantly strengthens us within that area. This helped sell the remaining inventory but perhaps more importantly gives us valuable expertise and capabilities in handling export cargoes. This is important not just because we can achieve higher prices but also because it allows us to sell forward which helps manage price risk. At present this is still extremely difficult to do domestically due to the general lack of trust between counterparties. As the export ban on grains was lifted July 1<sup>st</sup> we are planning to sell a high share of this year's harvest for export. Longer term this will also enable us to leverage our elevator storage facilities by trading third party crops.

## 2Q Results in Brief

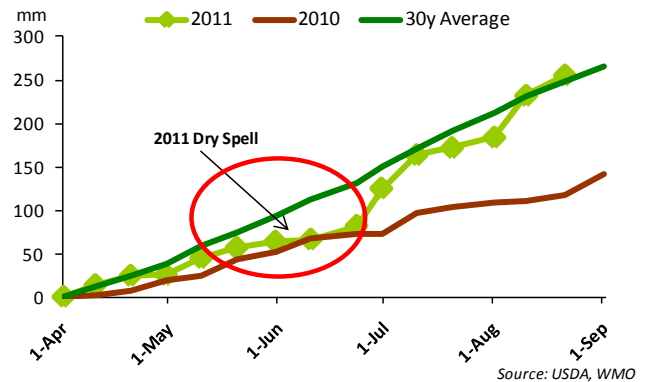
Touching briefly upon our 2Q results we sold 43 thousand tons at a lower price than inventory value as of 31 March 2011 as domestic market prices declined during the quarter. The remaining inventory of 65 thousand tons as of June 30 is sold and moving out during the start of 3Q. Despite the negative gross margin from sales, a USD\* 12.9 million revaluation gain of biological assets (crops to be harvested 2H 2011), resulted in a positive net result of USD\* 0.5 million for the quarter. G&A costs declined 4% y-o-y to USD\* 5.4 million for 2Q and indirect costs not affecting our crop yields will continue to be under review for further reductions.

## 2011 Harvest Progress

Coming to the harvest progress of the 2011 campaign our grain yields have suffered from a dry spell in the central Black Earth region during late spring/early summer when the majority of our crops had virtually no rain from mid May to late June and in some regions mid July. With 89% and 66% of the winter wheat and spring barley area harvested respectively, net average yields amount to 2.5 tons per hectare of wheat and 2.1 tons per hectare of barley so far. The results to date are of course

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## Average Cumulative Rainfall in BEF's Regions



disappointing and below targets. Regarding the crops to be harvested later during the season, it is still somewhat early to comment on yield, but the rainfall in late June and July, whilst too late for the winter crops is likely to have benefited the later maturing sunflower and corn crops.

## Initiatives to Raise Future Crop Yield Potential

Consistently raising crop yields is the single biggest challenge facing the business because it is very multi-faceted and trends have not been encouraging. We have engaged a new technical partner and completed a thorough audit of our historic crop production decision making processes. It has highlighted a number of constraints to yield potential and we now have a clear set of priorities to put into action. In brief the measures relate to correcting soil pH and compaction, weed control, what types of fertilizer we use and seed management techniques among others. Many of these measures will require increased direct costs per hectare, mainly relating to the 2012 harvest and onwards, but the expected yield improvements will of course lower the cost per ton which is the ultimate goal. We will also implement a science based approach to decision making that relies on, where possible, objective tests and validated data and facts. This will of course not leave us immune to the affects of weather but it should raise the crop yield potential to a higher level, so that we are not as negatively affected by unfavorable weather in the future. I believe there is significant potential to raise our performance but some of the constraints will take time to correct fully and to execute effectively requires training from senior management to operators and simplification of our organisational structures. There is great deal of value to be unlocked in the assets that Black Earth Farming currently has. I believe we now have the right plans and I strongly believe in the potential to do so in the years ahead.

On behalf of the Board - 24 August 2011  
Richard Warburton CEO and President

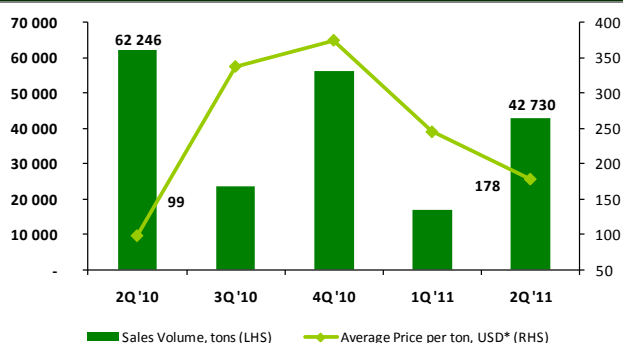
# 2Q 2011 Financial Review



## Revenue

Revenue from crops sold during the quarter increased by 26% y-o-y to USD\* 8.1 million driven by higher prices. Crop volumes sold during 2Q amounted to 42.7 thousand tons, down 31% y-o-y, at an average price of USD\* 178 per ton. Volumes sold per quarter in general vary depending on the company's discretionary sales decisions. Following the 2010 harvest the company decided to keep the majority of grain crops (wheat and barley) in storage to be sold in 2011. In hindsight prices correctly rose, yet during 1Q 2011 the domestic grain market was plagued by uncertainty with buyers on the sideline. Volumes picked up during 2Q but the movement of crops out of inventory has generally been somewhat slower than initially expected during 1H 2011.

### Sales Volumes & Price per Ton

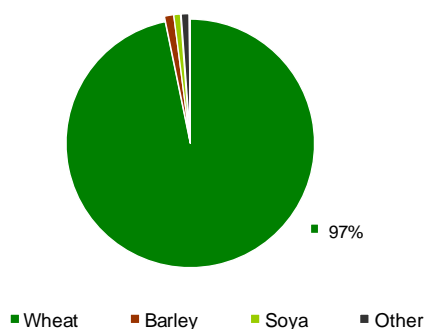


Wheat represented 97% of the sales volumes during 2Q, as wheat prices increased by 77% y-o-y to USD\* 176 per ton following last year's supply shock to the Russian harvest due to the unprecedented drought conditions. Domestic grain prices started to decline in January 2011, down 27% q-o-q, and continued to fall following the end of 2Q as the 2011 harvest commenced with new supply from farms without storage capacity having to sell for cash.

## Inventory & Gain/Loss of Revaluation

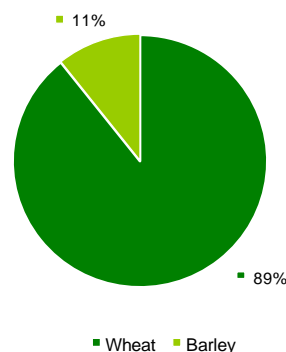
As of June 30, 2011 65 thousand tons of crops were held in inventory with 89% of the volumes consisting of wheat and 11% of barley. Market prices detailed

### 2Q 2011 Sales Mix



on p.9 have been used to determine the net realisable value of USD\* 12.6 million. As domestic grain prices declined during 2Q, a negative inventory revaluation charge of USD\* 1.6 million affected Total Revenue & Gains. The remaining 2010 inventory has

### Crop Inventory 30 June 2011; 65 thousand tons

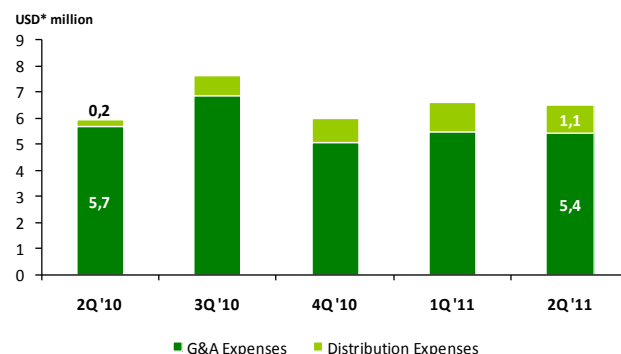


been sold during 3Q 2011. Biological assets (crops to be harvested 2H) were revalued to estimated fair value at time of harvest less incurred production costs and estimated distribution costs. The revaluation resulted in a gain of USD\* 12.9 million.

## Costs

As crop inventory is recorded at net realisable value at each reporting date, the cost of sales during the quarter represented the carrying value of crops recorded as of March 31, 2011. Despite significant reductions to the operating costs per hectare during 2010, the underlying cost of sales per ton for wheat and barley increased substantially due to the abnormally low crop yields affected by the past summer's drought. G&A expenses continued to trend down by 4% y-o-y to USD\* 5.4 million in 2Q, of which the largest item, personnel costs were reduced by 16% to USD\* 3.2 million. As all volumes were sold on an ex-works basis during the quarter and all the grains in inventory were stored using internal storage capacity, the USD\* 1.1 million of distribution expenses consist mainly of a depreciation charge of USD\* 935 thousand, as newly constructed elevators have been commissioned 2011.

### Quarterly Development of SG&A Expenses



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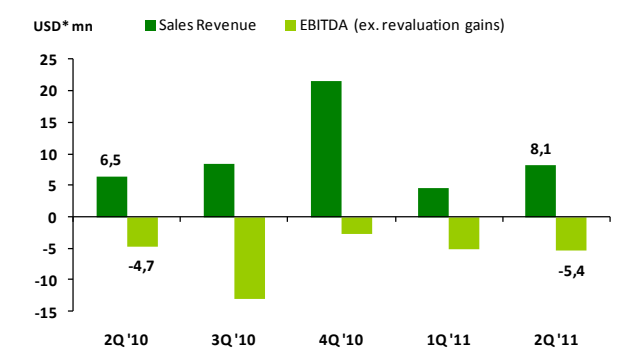
# 2Q 2011 Financial Review



## Result

As grain prices declined during 2Q, the carrying value of cost of sales was higher than realized prices which resulted in a negative gross margin on sales revenue. In addition revaluation of crop inventory had a negative effect on results as grain prices were lower at the end of the quarter. The revaluation gain on biological assets however resulted in a positive net result of USD\* 0.5 million. EBITDA adjusted for revaluation gains amounted to USD\* -5.4 million in 2Q 2011 versus USD\* -4.7 million in 2010. Operating loss (EBIT) of USD\* -9.6 million for 6M 2011 includes depreciation charges of USD\* 6.0 million in total. Net loss for 6M 2011 was USD\* 15.4 million.

## Quarterly Revenue & EBITDA<sup>1</sup> Development



## Financial Position

Fixed assets comprise of buildings (mainly storage facilities), 326 thousand hectares of land as well as machinery and equipment used in crop production. Inventories include 2010 crop production and raw materials to be used for 2011 field works. The Company had USD\* 63.5 million in cash as at the end of 2Q 2011 and interest bearing debt consisting of a SEK 750mn bond at a 10% annual coupon rate maturing in 2014. As of 30 June 2011 the net debt position of USD\* 57.3 million entails a net debt to equity ratio of 22%.

## Cash Flow

Cash flow from operations before changes in working capital amounted to USD\* -11.0 million for 6M 2011, due to the limited sales volumes and negative gross margin on sales. Increases in working capital of USD\* 10.3 million and investments into machinery and equipment of USD\* 12.5 as well as USD\* 6.2 million in bond repurchases resulted a total cash outflow of USD\* 40.0 million during 1H 2011. In addition, a negative USD\* 2.8 million foreign exchange translation effect, resulted in a total USD\* 42.7 million decrease in the cash position during 6M 2011 to USD\* 63.5 million as of 30 June 2011.

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## Income Statement

USD* million	2Q '11	2Q '10	6M '11	6M '10
Sales Revenue	8.1	6.5	12.7	21.2
Total Revenue & Gains	19.4	17.9	20.6	31.8
Cost of Sales	(10.3)	(7.0)	(15.4)	(21.0)
<b>Gross Result</b>	<b>9.1</b>	<b>10.8</b>	<b>5.1</b>	<b>10.7</b>
G&A Expenses	(5.4)	(5.7)	(10.9)	(11.5)
Distribution Exp.	(1.1)	(0.2)	(2.2)	(2.1)
Other Net Opex	(0.5)	(0.5)	(0.8)	(1.0)
<b>EBIT</b>	<b>1.7</b>	<b>3.9</b>	<b>(9.6)</b>	<b>(4.8)</b>
<b>EBITDA<sup>1</sup></b>	<b>(5.4)</b>	<b>(4.7)</b>	<b>(10.7)</b>	<b>(8.2)</b>
Net Financial Exp.	(1.0)	(0.3)	(5.8)	(1.8)
Taxes	(0.2)	(2.1)	-	(1.4)
<b>Net Income</b>	<b>0.5</b>	<b>(1.5)</b>	<b>(15.4)</b>	<b>(8.1)</b>

<sup>1</sup>EBITDA adjusted for net revaluation gain/loss

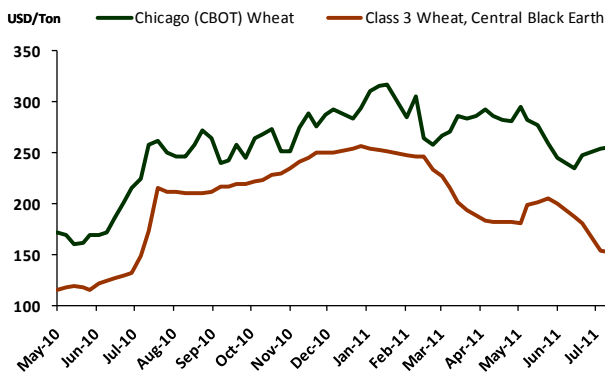
## Statement of Financial Position

USD* million	30 Jun 2011	31 Dec 2010
Land	67.2	67.0
Buildings	69.8	71.8
Machinery & Equipment	65.6	64.0
Total Fixed Assets	224.8	221.1
Cash	63.5	106.2
Inventories	21.2	45.1
Biological Assets	72.1	14.6
Total Current Assets	170.6	180.8
<b>Total Assets</b>	<b>395.4</b>	<b>401.8</b>
Interest Bearing Debt	120.8	123.4
Total Liabilities	140.0	131.0
Equity	255.4	270.9
<b>Total Equity &amp; Liabilities</b>	<b>395.4</b>	<b>401.8</b>

## International

International grain prices continued to be driven by revisions to regional harvest forecasts and stock levels with the prospects of an increased global production and the return of Russia and Ukraine as dominant forces in the export markets. After dropping by 3% in 2010/11 global grain production is expected to increase by 4% this production year as the CIS region recovers from last year's drought stricken harvests. Wheat exports from Russia and Ukraine combined are expected to be approximately 25 million tons 2011/12, 20% of global trade volumes, up from a shared total of 8 million tons the previous year. In its August WASDE report the USDA also increased its global grain supply estimates for 2011/12, driven by upward revisions to wheat production and exports in the CIS region. Harvest results from Western Europe indicated that yields were hurt less by prolonged spring dryness than early reports had suggested. Countering this were reports of unfavourable weather in parts of the US potentially lowering yields. Despite upward revisions to supply, a further downturn in world carryover stocks is estimated by the International Grains Council, as consumption of is forecast to remain higher than production.

### International vs. Domestic Wheat Price

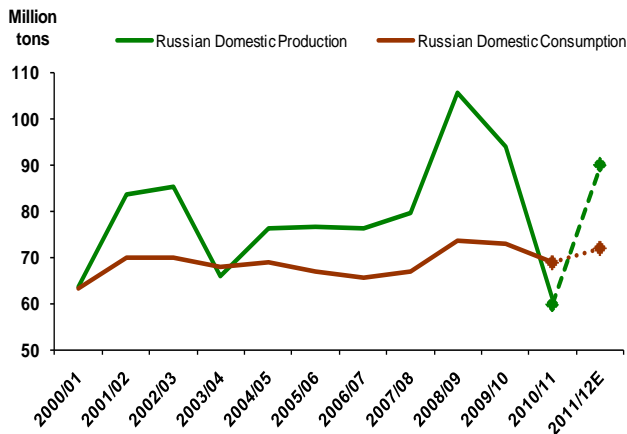


Source: IKAR, CBOT

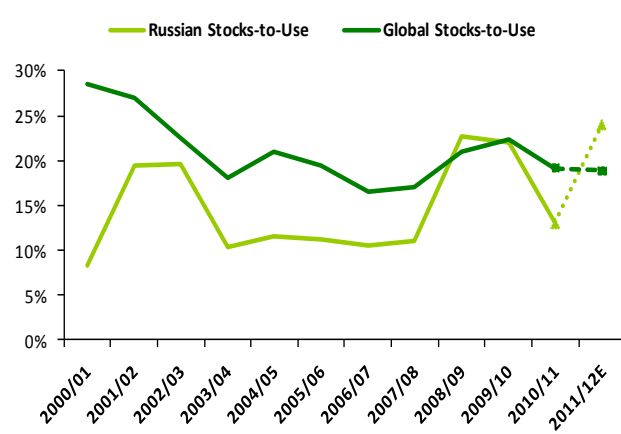
## Russia

Since the peak of February 2011 Russian domestic wheat prices are down in the order of 35% as large uncertainty has characterised the domestic market with very thin private trade volumes in some Russian regions. The Russian government distributed grains from its intervention stocks per discretion and below market prices which also distorted domestic trade. In late May it was announced that the export ban on grains would be lifted from July 1<sup>st</sup>. Given that the outlook for the general Russian harvest was favourable and a lower drawdown of carry-in stocks than expected, the government was confident of a sufficient domestic supply and demand balance for this year. Forecasts of the total Russian grain harvest span a range of 85-95 million tons, up from 61 million tons last year and above the 70-75 million consumed domestically. With 39% of the total grain area harvested Russia had collected 40.1 million tons of grain as of 16 August, or 2.8 tons per hectare on average, according to the Ministry of Agriculture. The average yield is however expected to come down as the harvesting moves north where lower yielding spring crops are more common and weather conditions have been less favourable.

### Russian Supply and Demand of Grains



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



Source: IGC, IKAR, USDA

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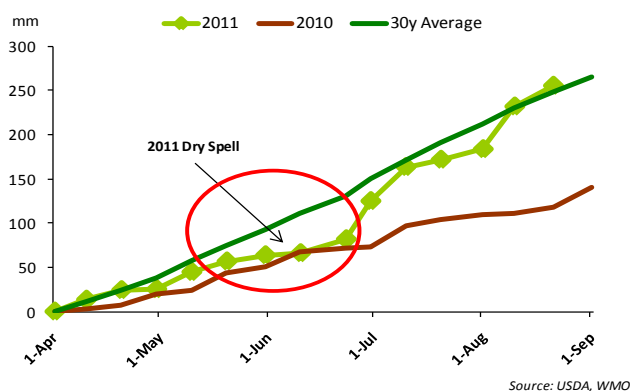
## 2011 Harvest Progress

The 2011 harvest campaign commenced on July 15<sup>th</sup> and as of August 22<sup>nd</sup> 45% of the total area had been harvested. As illustrated in the graph below, the crop yields suffered from a dry spell starting mid-May when the Company's regions had virtually no rainfall up until late June and in some places early July. Average cumulative rainfall was tracking the drought conditions seen last year up until the end of June. This had a negative effect on the wheat and barley yields in particular as they were at a more advanced and sensitive stage of the growth cycle. With 89% of the winter wheat area and 66% of the spring barley area harvested respectively, net average yields amount to 2.5 tons per hectare of wheat and 2.1 tons per hectare of barley so far. Harvesting of spring wheat and had just started in mid August and the crop yield has averaged 2.0 tons per hectare with about 17% of the fields harvested so far.

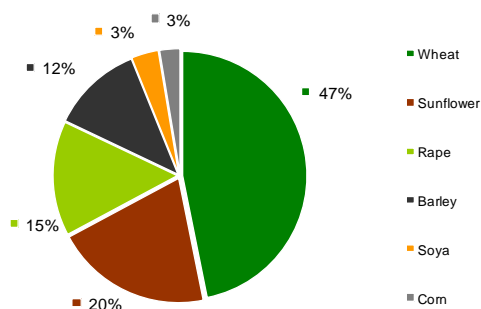
Rainfall in late June and July alleviated the situation somewhat for the sunflower and corn crops which are harvested later. The rain however proved to be too late for wheat and barley yields which are below expectations. As there was a late start to spring this year, seeding of spring crops started later than usual which reduced the spring area somewhat from the area initially planned. The total crop area to be harvested in 2011 is now expected to be approximately 230 thousand hectares. The breakdown of the crop mix is detailed in the graph below and production table on page 7.

A series of audits of the Company's soils and the crop decision making processes have been completed during the year. It has highlighted a number of factors that constrain the crop yield potential and there are a set of priorities being pursued in order to remove these constraints. In brief the measures relate to correcting soil pH and compaction, weed management, what types of fertilizer that are used and seed management techniques among others. Correcting for this will likely take a few years, since most of the work needs to be performed after harvest but before new crops are seeded. Many of these measures will also require increased direct costs per hectare, mainly relating to the 2012 harvest and onwards, but the expected gradual improvements to crop yields will of course lower the cost per ton which is the ultimate goal. A more science based approach to decision making will also implemented with training of all production personnel.

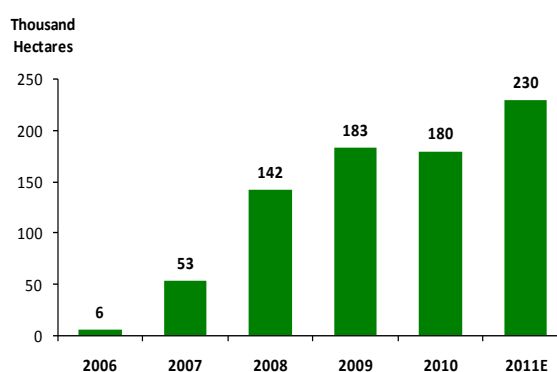
**Average Cumulative Rainfall in BEF's Regions**



**2011 Crop Area Breakdown by Crop**



**Commercial Crop Area Development**



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# Operations

## Historic Production Development



Harvest Area Breakdown					
(hectares)	2007	2008	2009	2010	2011 <sup>+</sup>
Winter wheat	16,805	48,636	84,698	72,677	94,000
Spring wheat	n/a	4,339	3,824	10,157	13,000
Spring barley	20,180	42,638	43,053	13,793	27,000
Corn maize	1,215	9,950	8,084	8,592	6,000
Winter triticale	n/a	n/a	2,740	302	n/a
<b>Total Grains</b>	<b>38,200</b>	<b>105,563</b>	<b>142,399</b>	<b>105,521</b>	<b>140,000</b>
Winter rape	5,005	875	7,045	536	n/a
Spring rape	7,035	13,149	7,132	29,051	34,000
Sunflower	2,541	19,378	26,466	36,761	46,500
Soya	n/a	n/a	n/a	7,899	8,000
<b>Total Oilseeds</b>	<b>14,581</b>	<b>33,402</b>	<b>40,643</b>	<b>74,247</b>	<b>88,500</b>
Sugar Beet	n/a	n/a	n/a	n/a	1,500
<b>Total Commercial Area</b>	<b>52,781</b>	<b>138,965</b>	<b>183,042</b>	<b>179,768</b>	<b>230,000</b>
<i>Other / Forage crops</i>	<i>670</i>	<i>2,968</i>	<i>381</i>	<i>1,013</i>	<i>2,000</i>
<b>Total harvested area</b>	<b>53,451</b>	<b>141,933</b>	<b>183,423</b>	<b>180,781</b>	<b>232,000</b>

<sup>+</sup>Expected Harvest Area

Average Crop Yields					
(tons/hectare)	2007	2008	2009	2010	2011
Winter wheat	3.3	4.3	3.5	1.9	2.5 <sup>1</sup>
Spring wheat	n/a	2.9	2.3	1.4	2.0 <sup>2</sup>
Spring barley	2	3.4	3.0	1.4	2.1 <sup>3</sup>
Corn maize	5.5	2.6	3.4	0.7	-
Winter triticale	n/a	n/a	2.3	0.8	n/a
Winter rape	1.3	1.8	1.6	0.5	n/a
Spring rape	0.9	1.4	1.4	0.6	-
Sunflower	2.4	1.4	1.8	0.8	-
Soya	n/a	n/a	n/a	0.3	-
Sugar beet	n/a	n/a	n/a	n/a	-

<sup>1</sup>89% of area harvested

<sup>2</sup>17% of area harvested

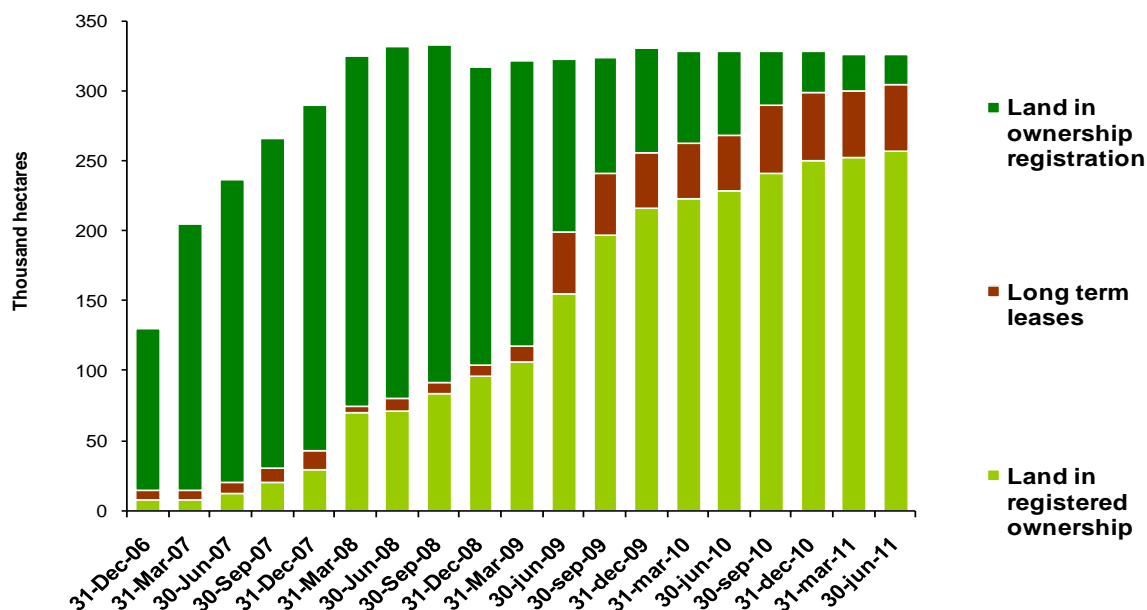
<sup>3</sup>66% of area harvested

Harvest Volumes					
(tons)	2007	2008	2009	2010	2011
Winter wheat	49,262	206,961	292,657	141,145	-
Spring wheat	n/a	12,779	8,764	14,008	-
Spring barley	42,477	143,259	127,793	19,937	-
Corn	1,311	26,088	27,823	5,797	-
Winter triticale	n/a	n/a	6,432	249	n/a
<b>Total Grains</b>	<b>93,050</b>	<b>389,087</b>	<b>463,469</b>	<b>181,136</b>	
Winter rape	n/a	1,536	11,527	293	n/a
Spring rape	12,859	18,761	9,708	16,822	-
Sunflower	3,815	27,742	46,602	30,849	-
Soya	n/a	n/a	n/a	2,306	-
<b>Total Oilseeds</b>	<b>16,674</b>	<b>48,039</b>	<b>67,837</b>	<b>50,270</b>	
Sugar beet	n/a	n/a	n/a	n/a	-
<b>Total Commercial Crops</b>	<b>109,724</b>	<b>437,126</b>	<b>531,306</b>	<b>231,406</b>	
<i>Other/Forage crops</i>	<i>2,659</i>	<i>22,928</i>	<i>3,381</i>	<i>3,686</i>	-
<b>Total Output</b>	<b>112,383</b>	<b>460,054</b>	<b>534,687</b>	<b>235,092</b>	

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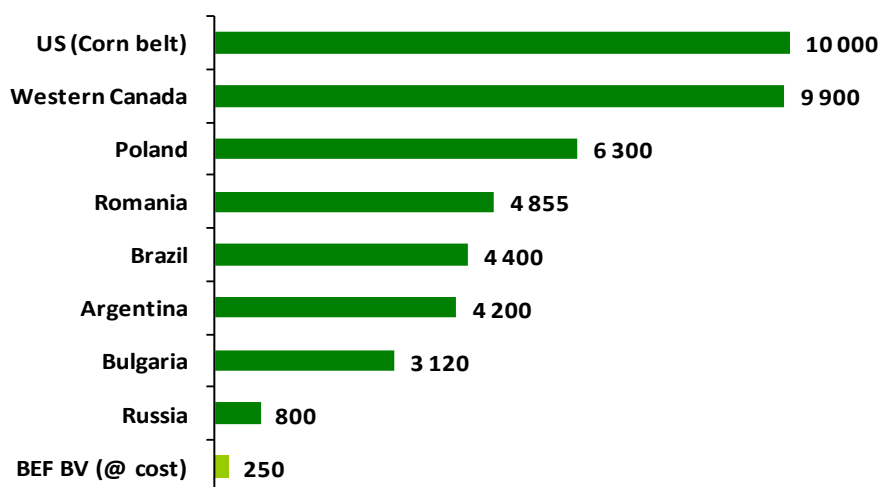
As of 30 June 2011 Black Earth Farming holds 256 thousand hectares of land in full ownership, corresponding to 79% of the total controlled land bank of 326 thousand hectares. Consolidation and further improvement of the operational efficiencies in and around the existing farm blocks remains the Company's key target. The current near term focus is not on significant expansion of the land portfolio, but on finalizing the registration process of controlled land into full ownership status. Additional land areas will be evaluated based on the operational fit from a logistical point of view in terms of synergies with the existing land bank.

## 256 Thousand Hectares in Full Ownership (79% of total controlled land)



Russian agricultural land is in the Company's view still undervalued, both in terms of comparison with land of similar quality in other countries and also in relation to its inherent production potential, especially in the fertile Black Earth Region. Black Earth Farming holds all 326 thousand hectares of land at acquisition cost, recorded in the statement of financial position at a value of USD\* 67.2 million as of 30 June 2011.

## Farm Land Prices, USD per Hectare



Source: Knight Frank, USDA, Statistics Canada, SLC Agricola, Cresud

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# Inventory & Biological Assets



As of 30 June 2011 the Company recorded inventories at a total value of USD\* 21.2 million. Total inventories include finished goods, i.e. crops harvested in 2010 held for sale, and raw materials to be used in production. In addition biological assets, consisting of 2011 crops, were recorded at estimated fair value at the time of harvest, valued at USD\* 72.1 million as of the reporting date. The value of finished goods inventory decreased during the quarter as crops were sold but also due to a decline in domestic market prices. Raw materials and biological assets increased as inputs were procured and operating costs relating to field works of 2011 crops were capitalised and the crops in the fields revalued.

## Crop Inventory

The Company values its inventory of finished goods at net realisable value to reflect the market value as at the end of the reporting period. A change in net realisable value affects Total Revenue and Gains in the income statement. The table and graph below gives a breakdown of inventories as of 30 June 2011.

Inventory Breakdown & Biological Assets				Crop Inventory Composition 30 June 2011	
USD* million	30 Jun '11	31 Mar '11	31 Dec '10		
<b>Finished Goods</b>	<b>12.6</b>	23.5	31.6	<p>11% 89% ■ Wheat ■ Barley</p>	
Wheat, k tons	58.2	98.5	110.5		
Barley, k tons	7.0	7.8	11.0		
Other, k tons	0.2	3.9	7.6		
<b>Raw Materials</b>	<b>8.6</b>	22.4	13.5		
<b>Total Inventories</b>	<b>21.2</b>	<b>44.9</b>	<b>44.5</b>		
<b>Biological Assets</b>	<b>72.1</b>	18.5	14.6		

The table below specifies the prices (including 10% VAT) used for valuing the inventory of the most important crops as of 30 June 2011. For reference the price development prior to and after 30 June 2011 has also been included.

Crop Prices	RUR/ton 31-Jul-2011	RUR/ton 30-Jun-2011	RUR/ton 31-Mar-2011	RUR/ton 31-Dec-2010	RUR/ton 30-Sep-2010	RUR/ton 30-Jun-2010
Wheat-3 class	4,600	<b>5,800</b>	6,350	7,305	6,394	3,675
Wheat-4 class	4,200	<b>5,600</b>	6,050	7,175	6,085	3,470
Wheat-5 class/feed	3,800	<b>5,300</b>	5,880	7,010	5,890	3,230
Corn	8,150	<b>8,700</b>	8,510	8,670	6,650	5,125
Barley-Malting	-	<b>9,000</b>	10,500	10,500	8,883	3,000
Barley-Feed	4,550	<b>5,100</b>	7,900	8,630	6,565	2,230
Rape seed	14,700	<b>15,700</b>	16,000	16,000	12,000	8,500
Sunflower seed	15,600	<b>16,300</b>	18,500	20,980	16,200	11,733

## Biological Assets

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 at harvest, less estimated point-of-sale costs. Thus Black Earth Farming values crops in the fields at incurred costs up until June 30<sup>th</sup> each year. At that point sufficient germination (biological transformation) has occurred, enabling estimates of crop yields and market prices less point-of-sale costs to determine an estimate of fair value at the time of harvest. After harvest the crops are transferred to finished goods inventory where they are recorded at net realisable value based on market prices.

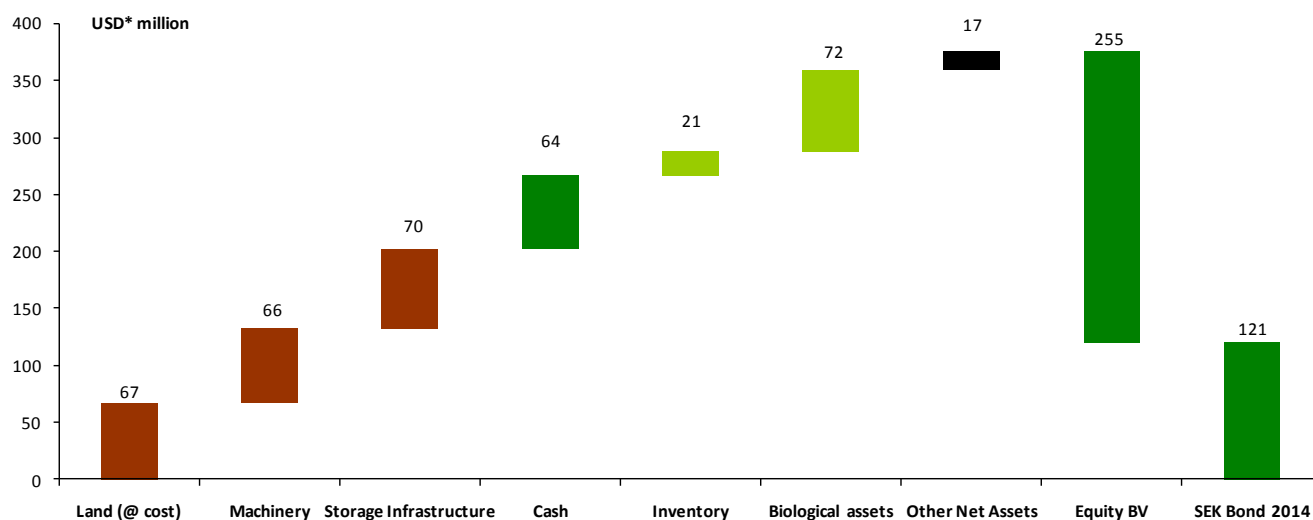
\* The USD equivalent figures are provided for information purposes only and do not form part of the interim consolidated financial statements – refer to note 2 (d).

# Financial Position



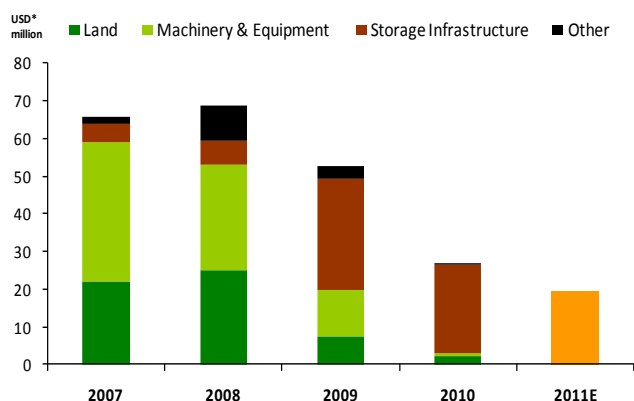
During the past years the Company has invested in acquiring and registering land into ownership, a large fleet of western agricultural machinery and supporting storage infrastructure for the company's operations. Total planned capital expenditures for 2011 amount to USD 19.2\* million, of which the majority will be allocated to machinery and equipment replacements and additional smaller scale storage facilities.

## Summarized Statement of Financial Position as of 30 June 2011

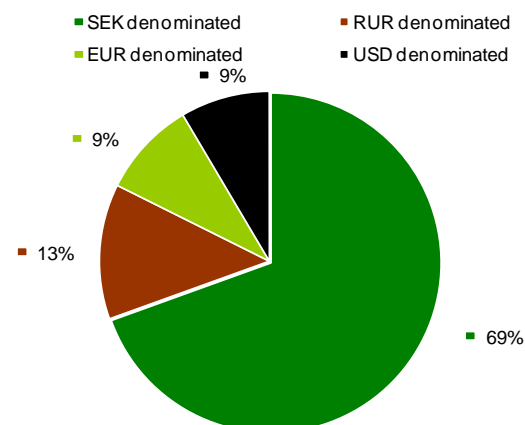


As of 30 June 2011 the company had USD\* 212.2 million in Property, Plant & Equipment recorded on the balance sheet split between land, machinery and storage infrastructure. In addition current assets comprise of crop inventory for sale and raw materials at a value of USD\* 21.2 million as well as biological assets, a fair value estimate of crops to be harvested, of USD\* 72.1 million.

## Capital Expenditures



## Cash and cash equivalents; USD\* 63.5 million



Black Earth Farming holds a cash position in the amount of USD\* 63.5 million as of 30 June 2011. During 2010 the Company refinanced its outstanding EUR 55 million bond due to mature in 2011, with a SEK 750 million 4 year bond lowering the coupon rate paid from 13% to 10%. Thus foreign exchange movements will have translation effects on the financials as the majority of assets are RUR denominated versus SEK denominated debt. The net debt position as of 30 June 2011 amounted to USD\* 57.4 million entailing a net debt to equity ratio of 15%.

\* The USD equivalent figures are provided for information purposes only and do not form part of the interim consolidated financial statements – refer to note 2 (d).

# The Black Earth Farming Share



## Outstanding shares

As of 30 June 2011 the amount of outstanding shares was 124,601,667. The Company's market capitalisation was approximately SEK 3,052.7 million or USD 484.6 million.

## Compiled SDR information

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

## Shareholders

The total number of shareholders, as of 30 June 2011, amounted to about 8,900.

## Trade data for the period 1 Jan 2009 - 6 May 2011

Average Daily Turnover (SEK)	Average No of Traded Shares	Average No of daily trades
<b>4,511,060</b>	<b>190,276</b>	<b>204</b>

Source: NASDAQ OMX

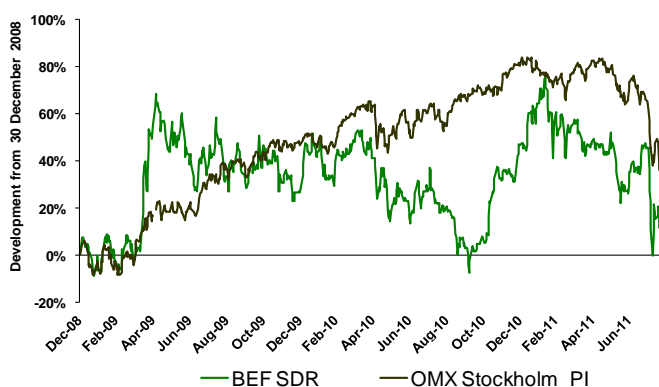
## Top 5 shareholders as of 30 June 2011

Owner	% of votes & capital
<b>AB INVESTMENT KINNEVIK</b>	<b>24.9%</b>
<b>VOSTOK NAFTA INVESTMENT LTD</b>	<b>24.8%</b>
<b>ALECTA PENSION FUND</b>	<b>9.3%</b>
<b>HOLBERG FUNDS</b>	<b>2.2%</b>
<b>VARMA MUTUAL PENSIONFUND</b>	<b>1.7%</b>

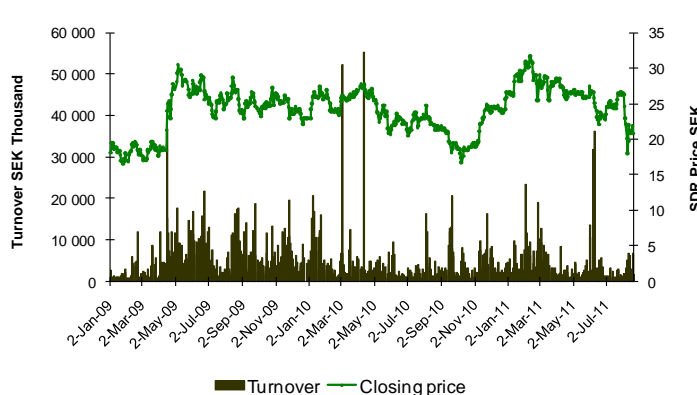
Source: Euroclear Sweden share registry & shareholders' reference

<sup>1</sup> In its capacity as nominee.

## Share Performance vs. OMX Stockholm index



## Share Price and Turnover



## Black Earth Farming SDR

Price SEK/SDR 19 Aug 2011	Change 1 Month	Change 3 Months	52 Week High
<b>20.20</b>	-16.9%	-22.0%	31.70
	Change 6 Months	Change 1 Year	52 Week Low
	-30.6%	-8.6%	16.70

More historic share data and information, including current list of analysts following Black Earth Farming, can be found on the Company's website – [www.blackearthfarming.com](http://www.blackearthfarming.com).

Risks and Uncertainties are described in the annual report for 2010. The risks can be summarised as Risks relating to the Company, Risks relating to the Company's business and Risks relating to Russia. All significant risks and uncertainty factors that existed on 31 December 2010 also exist on 30 June 2011.

\* The USD equivalent figures are provided for information purposes only and do not form part of the interim consolidated financial statements – refer to note 2 (d).

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME /  
(LOSS) FOR THE SIX AND THREE MONTHS PERIOD ENDED 30 JUNE 2011**



*In thousands of*

		RUR	RUR	RUR	RUR
		Six months ended		Three months ended	
	Notes	30 June	30 June	30 June	30 June
		2011	2010	2011	2010
Revenue		355,821	593,698	228,623	181,107
Gain on revaluation of biological assets		365,874	320,430	363,197	320,049
Change in net realisable value of agricultural produce after harvest		(144,579)	(22,252)	(46,138)	-
<b>Total revenue and gains</b>	5	<b>577,116</b>	<b>891,876</b>	<b>545,682</b>	<b>501,156</b>
Cost of sales		(433,006)	(590,439)	(288,944)	(197,455)
<b>Gross profit</b>		<b>144,110</b>	<b>301,437</b>	<b>256,738</b>	<b>303,701</b>
Distribution expenses		(61,741)	(60,183)	(29,607)	(6,628)
General and administrative expenses		(306,514)	(321,742)	(152,545)	(159,553)
Taxes other than on income		(24,202)	(27,001)	(11,443)	(15,152)
State grants and subsidies		10,935	6,740	8,373	3,380
Other income and expenses		(33,323)	(34,989)	(23,790)	(16,103)
<b>Operating profit/(loss)</b>		<b>(270,735)</b>	<b>(135,738)</b>	<b>47,726</b>	<b>109,645</b>
Financial income		28,501	65,472	19,316	45,452
Financial expenses		(190,289)	(117,029)	(46,213)	(53,667)
<b>Result before income tax</b>		<b>(432,523)</b>	<b>(187,295)</b>	<b>20,829</b>	<b>101,430</b>
Income tax expense		(312)	(40,503)	(5,545)	(58,803)
<b>Result for the period and total comprehensive result attributable to owners of the parent</b>		<b>(432,835)</b>	<b>(227,798)</b>	<b>15,284</b>	<b>42,627</b>

*Loss per share (amounts are indicated in)*

	8	RUR	RUR
Loss per share, basic		(3.47)	(1.83)
Loss per share, diluted		(3.47)	(1.83)

The condensed consolidated statement of comprehensive income is to be read in conjunction with the notes to and forming part of the interim consolidated financial statements set out on pages 17 to 23.

\* The USD equivalent figures are provided for information purposes only and do not form part of the interim consolidated financial statements – refer to note 2 (d).

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME /  
(LOSS) FOR THE SIX AND THREE MONTHS PERIOD ENDED 30 JUNE 2011**



<i>In thousands of</i>		USD*	USD*	USD*	USD*
	<b>Notes</b>	Six months ended <b>30 June</b>	30 June <b>2010</b>	Three months ended <b>30 June</b>	30 June <b>2010</b>
Revenue		12,674	21,146	8,143	6,451
Gain on revaluation of biological assets		13,032	11,413	12,936	11,399
Change in net realisable value of agricultural produce after harvest		(5,150)	(793)	(1,643)	-
<b>Total revenue and gains</b>	<b>5</b>	<b>20,556</b>	<b>31,766</b>	<b>19,436</b>	<b>17,850</b>
Cost of sales		(15,423)	(21,030)	(10,292)	(7,033)
<b>Gross profit</b>		<b>5,133</b>	<b>10,736</b>	<b>9,144</b>	<b>10,817</b>
Distribution expenses		(2,199)	(2,144)	(1,055)	(236)
General and administrative expenses		(10,917)	(11,460)	(5,433)	(5,683)
Taxes other than on income		(862)	(962)	(408)	(540)
State grants and subsidies		389	240	298	120
Other income and expenses		(1,187)	(1,246)	(847)	(574)
<b>Operating profit/(loss)</b>		<b>(9,643)</b>	<b>(4,836)</b>	<b>1,699</b>	<b>3,904</b>
Financial income		1,015	2,332	688	1,619
Financial expenses		(6,778)	(4,167)	(1,646)	(1,912)
<b>Result before income tax</b>		<b>(15,406)</b>	<b>(6,671)</b>	<b>741</b>	<b>3,611</b>
Income tax expense		(11)	(1,443)	(198)	(2,094)
<b>Result for the period and total comprehensive result attributable to owners of the parent</b>		<b>(15,417)</b>	<b>(8,114)</b>	<b>543</b>	<b>1,517</b>

*Loss per share (amounts are indicated in)*

	8	USD*	USD*
Loss per share, basic		(0.12)	(0.07)
Loss per share, diluted		(0.12)	(0.07)

The condensed consolidated statement of comprehensive income is to be read in conjunction with the notes to and forming part of the interim consolidated financial statements set out on pages 17 to 23.

\* The USD equivalent figures are provided for information purposes only and do not form part of the interim consolidated financial statements – refer to note 2 (d).

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2011**



<i>In thousands of</i>		RUR	RUR	USD*	USD*
	<b>Notes</b>	<b>30-Jun-11</b>	<b>31-Dec-10</b>	<b>30-Jun-11</b>	<b>31-Dec-10</b>
<b>ASSETS</b>					
<i>Non-current assets</i>					
Property, plant and equipment		5,957,169	5,922,255	212,184	210,937
Intangible assets		8,715	10,336	310	368
Loans issued		658	1,431	23	51
Biological assets (livestock)		23,091	19,740	822	703
Other non-current assets		203,383	125,094	7,244	4,456
Deferred tax assets		118,606	128,352	4,224	4,572
<b>Total non-current assets</b>		<b>6,311,622</b>	<b>6,207,208</b>	<b>224,807</b>	<b>221,087</b>
<i>Current assets</i>					
Inventories		594,389	1,265,484	21,171	45,074
Biological assets (crop production)		2,024,796	409,969	72,119	14,602
Trade and other receivables		389,040	416,609	13,857	14,839
Cash and cash equivalents		1,781,279	2,982,817	63,445	106,242
<b>Total current assets</b>		<b>4,789,504</b>	<b>5,074,879</b>	<b>170,592</b>	<b>180,757</b>
<b>Total assets</b>		<b>11,101,126</b>	<b>11,282,087</b>	<b>395,399</b>	<b>401,844</b>
<b>EQUITY AND LIABILITIES</b>					
<i>Equity</i>					
Share capital		32,921	32,921	1,173	1,173
Share premium		11,275,731	11,275,731	401,617	401,617
Reserves		148,044	152,556	5,274	5,434
Accumulated deficit		(4,285,158)	(3,855,813)	(152,629)	(137,336)
<b>Total equity attributable to owners of the parent</b>		<b>7,171,538</b>	<b>7,605,395</b>	<b>255,435</b>	<b>270,888</b>
<b>LIABILITIES</b>					
<i>Non-current liabilities</i>					
Non-current loans and borrowings	6	2,964,052	3,297,387	105,573	117,446
Deferred tax liabilities		10,041	19,618	358	699
<b>Total non-current liabilities</b>		<b>2,974,093</b>	<b>3,317,005</b>	<b>105,931</b>	<b>118,145</b>
<i>Current liabilities</i>					
Current loans and borrowings	6	427,369	167,422	15,222	5,963
Trade and other payables		528,126	192,265	18,811	6,848
<b>Total current liabilities</b>		<b>955,495</b>	<b>359,687</b>	<b>34,033</b>	<b>12,811</b>
<b>Total liabilities</b>		<b>3,929,588</b>	<b>3,676,692</b>	<b>139,964</b>	<b>130,956</b>
<b>Total equity and liabilities</b>		<b>11,101,126</b>	<b>11,282,087</b>	<b>395,399</b>	<b>401,844</b>

The condensed consolidated statement of financial position is to be read in conjunction with the notes to and forming part of the interim consolidated financial statements set out on pages 17 to 23.

\* The USD equivalent figures are provided for information purposes only and do not form part of the interim consolidated financial statements – refer to note 2 (d).

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE PERIOD ENDED 30 JUNE 2011**



<i>In thousands of</i>	RUR	RUR	RUR	RUR	RUR
	Share capital	Share premium	Equity-settled employee benefits reserve	Accumulated deficit	Total equity attributable to owners of the parent
<b>Balance as at 1 January 2010</b>	<b>32,921</b>	<b>11,275,731</b>	<b>126,930</b>	<b>(2,691,651)</b>	<b>8,743,931</b>
Loss for the period and total comprehensive loss attributable to owners of the parent	-	-	-	(227,798)	(227,798)
Recognition of share-based payments	-	-	19,887	-	19,887
<b>Balance as at 30 June 2010</b>	<b>32,921</b>	<b>11,275,731</b>	<b>146,817</b>	<b>(2,919,449)</b>	<b>8,536,020</b>
<b>Balance as at 1 January 2011</b>	<b>32,921</b>	<b>11,275,731</b>	<b>152,556</b>	<b>(3,855,813)</b>	<b>7,605,395</b>
Loss for the period and total comprehensive loss attributable to owners of the parent	-	-	-	(432,835)	(432,835)
Recognition of share-based payments	-	-	(1,022)	-	(1,022)
Cancellation of warrants	-	-	(3,490)	3,490	-
<b>Balance as at 30 June 2011</b>	<b>32,921</b>	<b>11,275,731</b>	<b>148,044</b>	<b>(4,285,158)</b>	<b>7,171,538</b>

<i>In thousands of</i>	USD*	USD*	USD*	USD*	USD*
	Share capital	Share premium	Equity-settled employee benefits reserve	Accumulated deficit	Total equity attributable to owners of the parent
<b>Balance as at 1 January 2010</b>	<b>1,173</b>	<b>401,617</b>	<b>4,521</b>	<b>(95,871)</b>	<b>311,440</b>
Loss for the period and total comprehensive loss attributable to owners of the parent	-	-	-	(8,114)	(8,114)
Recognition of share-based payments	-	-	708	-	708
<b>Balance as at 30 June 2010</b>	<b>1,173</b>	<b>401,617</b>	<b>5,229</b>	<b>(103,985)</b>	<b>304,034</b>
<b>Balance as at 1 January 2011</b>	<b>1,173</b>	<b>401,617</b>	<b>5,434</b>	<b>(137,336)</b>	<b>270,888</b>
Loss for the period and total comprehensive loss attributable to owners of the parent	-	-	-	(15,417)	(15,417)
Recognition of share-based payments	-	-	(36)	-	(36)
Cancellation of warrants	-	-	(124)	124	-
<b>Balance as at 30 June 2011</b>	<b>1,173</b>	<b>401,617</b>	<b>5,274</b>	<b>(152,629)</b>	<b>255,435</b>

The condensed consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 17 to 23.

\* The USD equivalent figures are provided for information purposes only and do not form part of the interim consolidated financial statements – refer to note 2 (d).

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011**



<i>In thousands of</i>		RUR	RUR	USD*	USD*
	Notes	6 m. 2011	6 m. 2010	6 m. 2011	6 m. 2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Loss for the period		(432,835)	(227,798)	(15,417)	(8,114)
<i>Adjustments for:</i>					
Income tax expenses		312	40,503	11	1,443
Depreciation and amortisation		169,824	157,528	6,049	5,612
Bad debt expense		17,852	1,831	636	65
Foreign exchange gain		(8,440)	(47,999)	(301)	(1,710)
Interest income		(20,061)	(17,473)	(714)	(622)
Interest expense		178,164	116,364	6,346	4,143
Loss on disposal of property, plant and equipment and intangible assets		9,095	19,794	324	705
Warrant expense		(1,022)	19,887	(36)	708
Change in value of biological assets and inventory		(221,295)	(320,430)	(7,882)	(11,413)
		<b>(308,406)</b>	<b>(257,793)</b>	<b>(10,984)</b>	<b>(9,183)</b>
<b>Movements in working capital:</b>					
Decrease in inventories		595,670	612,825	21,216	21,828
Increase in biological assets		(1,252,304)	(814,262)	(44,604)	(29,002)
Decrease in trade and other receivables		31,801	129,762	1,133	4,622
Increase in trade payables and other short-term liabilities		335,846	116,573	11,962	4,152
<b>Cash used in operations</b>		<b>(597,393)</b>	<b>(212,895)</b>	<b>(21,277)</b>	<b>(7,583)</b>
Interest paid	6	(14,288)	(222,643)	(509)	(7,930)
Income tax paid		(99)	(2,732)	(4)	(97)
<b>Net cash used in operating activities</b>		<b>(611,780)</b>	<b>(438,270)</b>	<b>(21,790)</b>	<b>(15,610)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest received		16,534	22,717	589	809
Acquisition of land plots		(32,140)	(17,570)	(1,145)	(626)
Acquisition of property, plant and equipment		(345,699)	(317,549)	(12,313)	(11,310)
Proceeds from disposal of property, plant and equipment		13,119	12,121	467	432
Acquisition of intangible assets		(2,054)	(3,723)	(73)	(133)
Purchase of investments		-	520	-	19
Proceeds from disposal of investments		630	-	22	-
Loans issued		-	(2,853)	-	(102)
<b>Net cash used in investing activities</b>		<b>(349,610)</b>	<b>(306,337)</b>	<b>(12,453)</b>	<b>(10,911)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Repurchase of bonds	6	(162,644)	(34,577)	(5,793)	(1,232)
<b>Net cash used in financing activities</b>		<b>(162,644)</b>	<b>(34,577)</b>	<b>(5,793)</b>	<b>(1,232)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(1,124,034)</b>	<b>(779,184)</b>	<b>(40,036)</b>	<b>(27,753)</b>
Cash and cash equivalents at beginning of period		2,982,817	3,211,219	106,242	114,377
Effect of exchange rate fluctuations on cash and cash equivalents		(77,504)	(182,543)	(2,761)	(6,502)
<b>Cash and cash equivalents at end of the period</b>		<b>1,781,279</b>	<b>2,249,492</b>	<b>63,445</b>	<b>80,122</b>

The condensed consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 17 to 23.

\* The USD equivalent figures are provided for information purposes only and do not form part of the interim consolidated financial statements – refer to note 2 (d).

## 1 Background

### (a) Organisation 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 and the Russian Federation. Those entities are together referred to as the “Group”.

The Company’s registered office is 8 Church Street, St. Helier, Jersey, JE4 OSG, Channel Islands.

The Group is involved in the acquisition and subsequent management of agricultural companies in Russia. The Group’s activities include farming, production of crops and dairy produce and the distribution of related products in the Russian Federation. The Group commenced operations in 2005. The majority of the subsidiaries was established in 2006 and had limited activities.

### (b) Russian business environment

Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in Russia and Russia’s economy in general.

Laws and regulations affecting businesses in Russia continue to change rapidly. Tax, currency and customs legislation within Russia is subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Russia. The future economic direction of Russia is largely dependent upon economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

The global financial turmoil that has significantly affected Russia’s financial and capital markets in 2008 and 2009 has receded and Russia’s economy returned to growth in 2010. However, significant economic uncertainties remain. Adverse changes arising from systemic risks in global financial systems, including any tightening of the credit environment, or from decline in the oil and gas prices, could slow or disrupt Russia’s economy, adversely affect the Group’s access to capital and cost of capital for the Group and, more generally, its business, results of operations, financial condition and prospects.

### (c) Seasonality

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

During the spring period, i.e. April to June, the crops undergo active germination phase. There is a lot of work related to tilling, seeding, and fertilizing. At the end of June crops production is big enough to define its fair value according IAS 41. Therefore the Group shows its planted crop at fair value less point-of-sales costs under “Biological assets” in the Balance Sheet. Gain on revaluation of biological assets and agricultural produce is calculated as difference between the crop’s fair value and accumulated costs for its production.

## 2 Basis of preparation

### (a) Statement of compliance

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

\* The USD equivalent figures are provided for information purposes only and do not form part of the interim consolidated financial statements – refer to note 2 (d).

**(b) Significant accounting policies**

The condensed consolidated financial statements have been prepared under historical cost convention, except for biological assets measured at fair value less estimated point-of-sale costs at date of harvest and except for agricultural produce measured at net realisable value at the end of each reporting period.

The same accounting policies, presentation and methods of computation are followed in these condensed consolidated financial statements as were applied in the preparation of the Group's consolidated financial statements for the year ended 31 December 2010, except for the measurement of agricultural produce inventory as of the reporting date (details are provided in note 3).

**(c) Functional and presentation currency**

The currency of the Russian Federation is the Russian Rouble ("RUR") which is the functional currency of the Group's Russian subsidiaries and is the currency in which these consolidated financial statements are presented. The Group's main activities are RUR denominated. All financial information presented in RUR has been rounded to the nearest thousand.

**(d) Convenience translation**

In addition to presenting the condensed consolidated financial statements in RUR, supplementary information in United States dollars ("USD") has been presented for the convenience of users of the condensed consolidated financial statements.

All amounts in the condensed consolidated financial statements, including comparatives, are translated from RUR to USD at the closing exchange rate at 30 June 2011 of RUR 28.0758 to USD 1. All financial information in USD has been rounded to the nearest thousand.

**3 Change in accounting policy**

The Group has assessed its accounting policy with regard to the valuation of agricultural produce. The Group previously valued biological assets at fair value less estimated point-of-sale costs at the point of harvest. Subsequent to harvest, agricultural produce was measured at the lower of cost and net realizable value in accordance with IAS 2 *Inventories*. As a consequence, the Group's consolidated statement of financial position did not reflect the current market value of its agriculture produce inventory, but fixed the measurement of agricultural produce at its minimal level – at market prices at the point of harvest.

According to IAS 2 *Inventories* paragraph 3 (a) the standard does not apply to the measurement of inventories held by producers of agricultural produce, agricultural produce after harvest to the extent that they are measured at net realisable value in accordance with well-established practices in the industry. IAS 2 paragraph 4 further states that such inventories are measured at net realisable value when an active market exists and there is a negligible risk of failure to sell. Previously, the Group has not measured agricultural produce after harvest at net realisable value as the Group's assessment was that it was not a well-established practice in the industry. However, in recent years the practice in the industry has developed as an increasing number of agricultural companies began to prepare and publish financial statements in accordance with IFRS. During 2011 the Group determined that it would change its accounting policy to recognise agriculture produce at net realisable value at the end of each reporting period. There is an active market in the produce and there is a negligible risk that the produce will not be sold.

The Group uses local market prices (ex farm) published by independent experts to determine net realisable value of agricultural produce at the end of the reporting period. Changes in net realisable value are recognised in the consolidated statement of comprehensive income in the period in which they arise. Management is confident that the change in accounting policy will allow the Group to provide more precise information for users of the consolidated financial statements.

\* The USD equivalent figures are provided for information purposes only and do not form part of the interim consolidated financial statements – refer to note 2 (d).

The impact of the change in accounting policy will be applied retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, resulting in the restatement of prior year consolidated financial statements. As a result of the accounting policy change, the following adjustments will be made to the consolidated financial statements:

As at 1 January 2010:

There are no adjustments; inventory was previously recorded at net realisable value as it was lower than cost at 31 December 2009.

As at and for the year ended 31 December 2010:

Increase in inventory: RUR 123,685 thousand (USD\* 4,058 thousand)

Increase in gain/(loss) on revaluation of biological assets: RUR 123,685 thousand (USD\* 4,058 thousand)

Net increase in profit after tax: RUR 123,685 thousand (USD\* 4,058 thousand)

As a consequence of the change in the accounting policy described above, the volatility of the gross profit in the consolidated statement of comprehensive income is expected to increase consistent with the volatility of market prices.

#### 4 Segment information

The operating segments definitions were developed by senior management in order to enable effective and efficient operating performance based on the geographic and sub-climactic split of the cropped areas in the four Black Earth regions: Voronezh, Kursk, Lipetsk and Tambov. The Group also has one operating entity in Samara region; however, for segment reporting purposes it was included in Tambov, as the entity's result is not material as a single operating segment. The management company is located in Moscow. The management company does not produce anything itself and its revenue is a result of selling crops harvested by Group's companies. It sets the general policies for all entities, collects the data and controls implementation of all decisions received therefore it bears the majority of general and administrative expenses.

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

In 2010, the Group added a new segment in operating report related to elevator's activity. The Elevator segment consists of two legal entities: Agro terminal (with working elevator containing 60 tons of capacity) and Nedvizhimost' (with three new elevators under construction). In 2010 the senior management emphasized "Elevator" as a standalone segment, as the Group had intended to use new elevators for 2010 harvest, therefore expenses and investments related to the elevators were taken under special control.

\* The USD equivalent figures are provided for information purposes only and do not form part of the interim consolidated financial statements – refer to note 2 (d).

(a) Segment revenues and results

*In thousands of*

	RUR Revenue from external sales <b>6 m. 2011</b>	RUR Inter- segment revenue <b>6 m. 2011</b>	RUR Depreciation and amortisation <b>6 m. 2011</b>	RUR Net result <b>6 m. 2011</b>
Agricultural companies				
- Voronezh region	16,858	41,973	26,041	114,189
- Kursk region	142,457	14,209	25,503	91,651
- Lipetsk region	106,770	30,603	26,621	88,607
- Tambov region	30,338	3,867	20,998	109,261
Elevators	7,834	21,370	65,412	(48,626)
Management company (Moscow)	51,564	19,724	5,249	(386,226)
<b>Total</b>	<b>355,821</b>	<b>131,746</b>	<b>169,824</b>	<b>(31,145)</b>
Change in net realisable value of agricultural produce after harvest				(144,579)
Central administrative costs and director's salaries				(72,919)
Other income and expenses				(22,092)
Financial result, net				(161,788)
<b>Loss before tax</b>				<b>(432,523)</b>

*In thousands of*

	RUR Revenue from external sales <b>6 m. 2010</b>	RUR Inter- segment revenue <b>6 m. 2010</b>	RUR Depreciation and amortisation <b>6 m. 2010</b>	RUR Net result <b>6 m. 2010</b>
Agricultural companies				
- Voronezh region	130,407	59,681	37,975	(41,647)
- Kursk region	129,277	99,966	34,356	(2,737)
- Lipetsk region	111,506	58,153	32,741	(30,870)
- Tambov region	71,353	32,455	33,922	(27,533)
Elevators	4,930	19,695	13,136	(8,186)
Management company (Moscow)	146,225	74,454	5,397	(259,589)
<b>Total</b>	<b>593,698</b>	<b>344,404</b>	<b>157,528</b>	<b>(370,562)</b>
Gain on revaluation of biological assets				320,430
Central administrative costs and director's salaries				(80,596)
Other income and expenses				(5,010)
Financial result, net				(51,557)
<b>Loss before tax</b>				<b>(187,295)</b>

\* The USD equivalent figures are provided for information purposes only and do not form part of the interim consolidated financial statements – refer to note 2 (d).

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE SIX MONTHS PERIOD ENDED 31 MARCH 2011**



<i>In thousands of</i>	USD* Revenue from external sales <b>6 m. 2011</b>	USD* Inter- segment revenue <b>6 m. 2011</b>	USD* Depreciation and amortisation <b>6 m. 2011</b>	USD* Net result <b>6 m. 2011</b>
Agricultural companies				
- Voronezh region	600	1,495	928	4,068
- Kursk region	5,074	506	908	3,264
- Lipetsk region	3,803	1,090	948	3,156
- Tambov region	1,081	138	748	3,892
Elevators	279	761	2,330	(1,732)
Management company (Moscow)	1,837	703	187	(13,757)
<b>Total</b>	<b>12,674</b>	<b>4,693</b>	<b>6,049</b>	<b>(1,109)</b>
Change in net realisable value of agricultural produce after harvest				(5,150)
Central administrative costs and director's salaries				(2,597)
Other income and expenses				(787)
Financial result, net				(5,763)
<b>Loss before tax</b>				<b>(15,406)</b>

<i>In thousands of</i>	USD* Revenue from external sales <b>6 m. 2010</b>	USD* Inter- segment revenue <b>6 m. 2010</b>	USD* Depreciation and amortisation <b>6 m. 2010</b>	USD* Net result <b>6 m. 2010</b>
Agricultural companies				
- Voronezh region	4,644	2,126	1,353	(1,484)
- Kursk region	4,605	3,561	1,224	(97)
- Lipetsk region	3,972	2,071	1,166	(1,100)
- Tambov region	2,541	1,156	1,208	(981)
Elevators	176	701	468	(292)
Management company (Moscow)	5,208	2,652	193	(9,246)
<b>Total</b>	<b>21,146</b>	<b>12,267</b>	<b>5,612</b>	<b>(13,200)</b>
Gain on revaluation of biological assets				11,413
Central administrative costs and director's salaries				(2,871)
Other income and expenses				(178)
Financial result, net				(1,835)
<b>Loss before tax</b>				<b>(6,671)</b>

The accounting policies of the reportable segments are the same as the Group's accounting policies according to IFRS. Segment profit represents the profit earned by each segment without allocation of revaluation of biological assets included in cost of goods sold, central administration costs and director salaries (Black Earth Farming Ltd.), other income and expenses and finance costs (net).

\* The USD equivalent figures are provided for information purposes only and do not form part of the interim consolidated financial statements – refer to note 2 (d).

**(b) Segment assets**

<i>In thousands of</i>	RUR 30-Jun-11	RUR 31-Dec-10	USD* 30-Jun-11	USD* 31-Dec-10
Agricultural companies				
- Voronezh region	1,828,659	1,491,000	65,133	53,106
- Kursk region	2,053,120	1,776,475	73,128	63,274
- Lipetsk region	2,239,492	1,921,530	79,766	68,441
- Tambov region	1,387,920	1,200,619	49,435	42,763
Elevators	1,646,805	1,709,453	58,656	60,887
Management company (Moscow)	218,145	244,698	7,770	8,716
<b>Total segment assets</b>	<b>9,374,140</b>	<b>8,343,776</b>	<b>333,888</b>	<b>297,187</b>
Corporate assets	1,726,986	2,938,311	61,511	104,657
<b>Consolidated total assets</b>	<b>11,101,126</b>	<b>11,282,087</b>	<b>395,399</b>	<b>401,844</b>

**(c) Revenues from major products**

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

<i>In thousands of</i>	RUR 6 m. 2011	RUR 6 m. 2010	USD* 6 m. 2011	USD* 6 m. 2010
Wheat	285,097	301,236	10,155	10,729
Spring barley	27,338	216,440	974	7,709
Milk and meat	16,760	11,278	597	402
Soya	12,578	-	448	-
Corn	3,570	48,623	127	1,732
Waste grains	389	4,896	14	174
Other goods and services	10,089	11,225	359	400
	<b>355,821</b>	<b>593,698</b>	<b>12,674</b>	<b>21,146</b>

**(d) Geographical information**

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

**5 Revenue and gains**

<i>In thousands of</i>	RUR 6 m. 2011	RUR 6 m. 2010	USD* 6 m. 2011	USD* 6 m. 2010
Revenue from sales of crop production	328,972	571,195	11,717	20,344
Revenue from sales of milk and meat	16,760	11,278	597	402
Revenue from sales of other goods and services	10,089	11,225	359	400
Gain/(loss) on revaluation of biological assets to agricultural produce	365,874	320,430	13,032	11,413
Change in net realisable value of agricultural produce after harvest	(144,579)	(22,252)	(5,149)	(793)
	<b>577,116</b>	<b>891,876</b>	<b>20,556</b>	<b>31,766</b>

\* The USD equivalent figures are provided for information purposes only and do not form part of the interim consolidated financial statements – refer to note 2 (d).

As described in note 3 above, the Group has changed its accounting policy and is accounting for agricultural produce (finished goods) on the basis of net realisable value. Market prices on grain have significantly dropped since the beginning of the year which resulted in negative revaluation of net realisable value.

## 6 Repurchase and repayment of debt securities

In 2010, the Group issued Bonds with a nominal amount of SEK 750,000,000. The Bonds bear an interest coupon of 10%, payable annually on the anniversary date (on 1 July). The Bonds are due to be redeemed in 2014 and are listed at Nasdaq OMX Stockholm. As at 30 June 2011, the Group is in compliance with all covenants stipulated in the bond agreement.

During first six months 2011, the Group has repurchased a total amount of SEK 58.7 million of its bonds at a weighted average of 102.6% of its nominal value. The Group has spent a total of RUR 176,932 thousand (USD\* 6,302 thousand) which represented a total nominal value of RUR 162,644 thousand (USD\* 5,793 thousand) and accrued interest of RUR 14,288 thousand (USD\* 509 thousand). As a result of these transactions, the Group has realized a net loss of RUR 12,125 thousand (USD\* 432 thousand).

## 7 Dividends

During the six months period ended 30 June 2011 no dividends were paid or declared.

## 8 Loss per share

<i>The amounts are indicated in</i>	RUR	RUR	USD*	USD*
	<b>6 m. 2011</b>	<b>6 m. 2010</b>	<b>6 m. 2011</b>	<b>6 m. 2010</b>
Loss for the period	(432,835,000)	(227,798,000)	(15,416,658)	(8,113,678)
Weighted average number of ordinary shares	124,601,667	124,601,667	124,601,667	124,601,667
Basic loss per share (RUR/share, USD*/share)	(3.47)	(1.83)	(0.12)	(0.07)

The effect of the Company's potentially dilutive securities is anti-dilutive for the six months period ended 30 June 2011. Accordingly, the diluted loss per share is the same as the basic loss per share for the period ended 30 June 2011.

## 9 Contingencies and commitments

The Group continues to register land and invest in production as well as in its real estate portfolio, the latter mainly consists of grain storage and drying capacity. Investment in land includes mainly registration towards ownership of already controlled land plots. Till the end of the 2011 year, the Group expects to spend approximately RUR 91,308 thousand (USD\* 3,252 thousand) on land-related expenditures. Investments into production predominantly consist of purchases of agricultural machinery and equipment and vehicles. According to the Group's 2011 capital expenditure program, it plans to invest RUR 338,106 thousand (USD\* 12,043 thousand) on production. Investment in infrastructure mainly includes grain storage facilities, internal drying capacity and other grain handling infrastructure. Till the end of the 2011 year the Group plans capital expenditures related to infrastructure in the amount of RUR 31,758 thousand (USD\* 1,131 thousand).

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Black Earth Farming Ltd. is a leading farming company, publicly listed on Nasdaq OMX Stockholm and operating in Russia. It acquires, develops and farms agricultural land assets primarily in the fertile Black Earth region in southwest Russia. The Company has gained a strong market position in the Kursk, Tambov, Lipetsk and Voronezh regions, controlling some 326,000 hectares of what perhaps is the world's most fertile soil.



In 2010 Black Earth Farming harvested over 180,000 hectares, effectively making it one of the world's largest farming companies by cropped area. The Company's main crops are wheat, barley, sunflower and rape seeds constituting over 90% of total production volumes.

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

Jersey, 24 August 2011

\_\_\_\_\_  
Per Brilioth

\_\_\_\_\_  
Sture Gustavsson

\_\_\_\_\_  
Alex Gersh

\_\_\_\_\_  
Henrik Persson

\_\_\_\_\_  
Poul Schroeder

\_\_\_\_\_  
Magnus Unger

\_\_\_\_\_  
Richard Warburton

This report has not been subject to a review by the Company's auditors.

#### **Financial Calendar 2011:**

Interim Report January – September 2011

25 November 2011

For further information contact

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## Units

1 hectare (ha) = 2.47105 acres

1 hectare (ha) = 10,000 square meters

1 metric ton = 2,204.622 pounds (lb)

1 metric ton = 10 centners

1 metric ton of wheat = 36.74 bushels of wheat

1 metric ton of corn = 39.37 bushels of corn

## “AGRO-Invest Group”

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

## “Black Earth”

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

## “Black Earth Farming” or the “Company”

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

## “Black Earth Region”

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

## “Cadastre”

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

## “CIS”

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

## “Crop year”

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

## “Debt/Equity Ratio”

Total amount of long term borrowings divided by total shareholders’ equity.

## “EBITDA”

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

## “Earnings per Share”

Net profit attributable to shareholders holding ordinary shares divided by the number of shares issued.

## “Equity/Assets Ratio”

Total shareholders’ equity divided by total assets.

## “EU-27”

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

## “Fallow land”

Land which is not being cultivated.

## “FOB”

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

## “Grains”

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

## “Grain elevator”

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

## “Land in ownership”

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

## “Land under control”

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

## “Oblast”

An administrative region of Russia.

## “Oilseeds”

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

## “OOO”

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

## “Operating Margin”

Operating income divided by net sales.

## “Pai”

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

## “Russian Export taxes”

There are currently no export taxes for wheat or barley. For Sunflowers and Oil seed rape there is a 20% export tax.

## “SDR”

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

## “VPC”

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

## “Öhman”

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

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