

# 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 the Stock Exchange where the Company’s shares are traded. The Company will apply the Code in full or, where applicable, explain deviations from it. Establishment of this report is part of the Code’s requirements. The principles of corporate governance in Black Earth Farming are described below and governed by its Articles of Association, applicable laws, exchange requirements & praxis including the Swedish Code of Corporate Governance. This report has not been subject for review by the Company’s auditors.

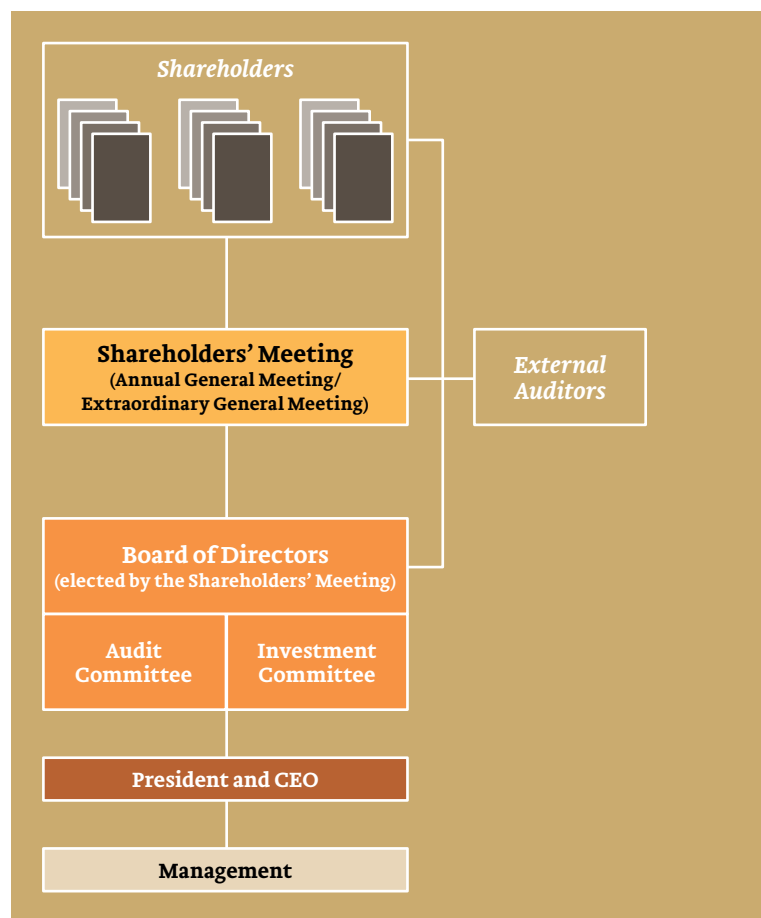
Black Earth Farming’s articles of association as well as a reproduction of this report and additional Corporate Governance information such as outtakes of important corporate policies are available on the Group’s website [www.blackearthfarming.com](http://www.blackearthfarming.com).

## **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 The Companies (Jersey) Law 1991 as amended (“Law”), an Annual General Meeting shall be held in Sweden or in such other place as may be determined by the Board and at such time and place as the Board may determine, in the Swedish and English language, once per year, no later than six months after the end of the financial year.

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

During 2009, Black Earth Farming held one general meeting on 15 May 2009 at Näringslivets hus in Stockholm, Sweden. As per the published agenda and minutes, the AGM held on 15 May 2009 adopted the consolidated profit and loss statement for the period 1<sup>st</sup> of January to and including 31 December 2008, as well as balance sheet and the consolidated balance sheet as of 31 December 2008, it was resolved upon the election of Board of Directors and auditors, with Deloitte as the Company’s continued auditors, it was fur-



thermore resolved not to pay any dividends for 2009. Shareholders representing 44.4% of capital and votes attended the AGM on 15 May 2009 in Stockholm

## **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 “Company”, in this context an expression for the Chairman of the Board and largest shareholders, had not seen the need to establish a specific nomination committee as per the code definition, to prepare formal proposals for the election of and remuneration of members of the Board and auditors to the Annual General Meeting. For the 2009 AGM the Chairman discussed Board nominations as well as choice of auditors, with the largest shareholders in the Company, at the time representing some 46.5% of all votes in the Company, which then jointly after evaluating exist-

ing and potential Board members agreed upon nominations for Board of Directors, Auditors and Auditor remuneration principles to the AGM 2009. At that time the Company considered such a procedure to be a working and fully acceptable process of determining Board member recommendations for the benefit of all shareholders. The procedure has also been discussed with the Swedish Shareholders' Association. Appropriate Board remuneration is determined through discussion with the Company's largest shareholders. At the 2009 AGM it was however resolved that for the 2010 AGM a nomination committee shall be formed and nominate the members of the Board of Directors, and Auditors, to the 2010 Annual General Meeting. In accordance with the resolution of the 2009 Annual General Meeting, the Chairman of the Board Per Brilioth convened a Nomination Committee consisting of members representing the three largest shareholders in the Company. The Nomination Committee for 2010 AGM is comprised of Per Brilioth, on behalf of Vostok Nafta Investment Ltd, Mia Brunell Livfors, on behalf of Kinnevik New Ventures AB (a subsidiary of Investment AB Kinnevik), and Leif Törnvall, on behalf of Alecta.

## The Board of Directors

### The 2009 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 2009 it was resolved that the Board until next AGM shall consist of 6 members. The directors elected at the 2009 AGM were: Per Brilioth, Vladimir Averchev, Henrik Persson, Alex Gersh, Sture Gustavsson and Paul Wojciechowski. For a detailed presentation of the current Board, until the AGM 2010, see section "Board, management and auditors" in the formal annual report.

The table below contains summary information on the current Directors' name, position, year of election to the Board, year of birth, citizenship and respective holding of SDRs/Shares and warrants in the Company.

Name	Title	Born	Nationality	Elected	Connection to the company	Audit committee	Board meeting attendance	Share holdings	Warrant holdings	Weighted average warrant strike price, USD	Board fee, TEUR
Per Brilioth	Chairman of the board	1969	Swedish	2006	Main owner		13	100,000	0		30
Sture Gustavsson	President and CEO	1959	Swedish	2006	Management		13	7,000	500,000	3.89	0
Alex Gersh	Non-executive Director	1964	American	2007	Independent	Chair	10	0	100,000	7.50	60
Vladimir Averchev	Non-executive Director	1946	Russian	2007	Independent		11	0	100,000	7.50	60
Henrik Persson	Non-executive Director	1974	Swedish	2006	Main owner	member	11	4,000	0		30
Paul Wojciechowski	Non-executive Director	1954	British	2005	Independent	member	12	0	0		0
<b>Number of meetings in 2009</b>							<b>4</b>				<b>13</b>

### Board meetings

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

During the financial year ended 31 December 2009, thirteen Board meetings were held, whereof five were held with personal attendance, the rest were held by means of phone conferencing.

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

At one time or other when deemed suitable by the Board, certain members of senior management, but not members of the Board, have been invited to attend meetings for in depth reviews and/or discussions of their respective busi-

ness areas and/or projects. In connection with the Annual Audit of the Company's accounts the Auditors are always invited as well as 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 management of the Company's operations including:

- Decisions regarding focus of the business and adoption of Company policies;
- Supply of capital;
- Appointment and regular evaluation of the work of the Managing Director and Company management;
- Approval of the reporting instructions for the Company management;
- Ensuring that the Company's external communications are open, objective and appropriate for target audiences;
- Ensuring that there is an effective system for follow-up and control of the Company's operations and financial position vis-à-vis the established goals;

- Follow-up and monitoring that the operations are carried out within established limits in compliance with laws, regulations, stock exchange rules, and customary practice on the securities market.
- Keeping of minutes for written Board resolutions
- Determination of the appropriate minimum number of Board meetings as well as when and where they are to be held
- Appointment of Audit- an Investment Committee Chair and members as well as identification of their major tasks
- Establishing issues that always require a Board decision or an application to the Board, such as quarterly reports, major investments, changes of the legal structure, certain management appointments and financial guarantees/pledges.

During 2009 the Board has continuously addressed the Strategic direction, the financial performance, and the methods to sustain growth and reach profitability. No dissenting opinions in relation to decisions have been reported in the minutes during the year. However, the Board has at times tabled an issue until a later meeting when more supporting documentation or more in depth review of an issue could be produced.

#### ***Chairman of the Board of Directors***

The Board suggests a chairman amongst themselves to be elected by the AGM. The chairman shall not be employed by the Company and shall not receive any salary nor be eligible for participation in the Company's incentive program. Per Brilioth was elected chairman of the Board at the AGM held on 15 May 2009.

The Chairman shall lead the otherwise open Board discussion at each Board meeting. In the case of an equality of votes the Chairman shall have a second or casting vote.

#### ***Sub Committees of the Board***

Pursuant to the Articles of Association, the Board may delegate any of its powers, authorities and discretions to any committee consisting of one or more Directors. In pursuit of an efficient and reliable corporate governance structure the Board in 2007 established two subcommittees, those being: the *audit committee* and the *investment committee*. Described below is also the Board's discharge of remuneration committee tasks.

#### ***Audit committee***

The audit committee is charged with the responsibility of reviewing the system of internal control, management and reporting of financial risks and the audit process. When relevant and appropriate, the Chief Financial Officer and the Company's auditors are invited to attend the meetings, including a yearly planning stage meeting before the audit and after the audit at the reporting stage. Other Directors may also be invited to attend, although at least once a year

the audit committee must meet the Company's external auditors without any management being present.

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

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

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

#### ***Audit committee in 2009***

The audit committee consists of three of the board members, namely Alex Gersh as Chairman, Henrik Persson and Paul Wojciechowski. In 2009, four meetings were held by the audit committee.

#### ***Investment committee***

The investment committee, when established in 2007, was to be responsible for (i) formulating corporate policies and strategies on environmental and social responsibility issues; (ii) ensuring that the policies and strategies are well established and respected throughout the Company; (iii) co-ordinating and following up relations and communication with certain important stakeholders such as governmental and non-governmental organisations; (iv) taking initiatives for the development of relevant management procedures; (v) analysing the legal and political environment in which the Company operates; and (vi) reviewing the Company's legal and financial risk profile within its environment.

#### ***Investment committee in 2009***

In 2009 the Board in full subsumed the functions of the investment committee, as defined above, whose business in 2009 was instead conducted within the framework of ordinary board meetings with all member of the board and not separately. Board discussions relating to Investment Committee issues were led by Vladimir Averchev as previous Investment Committee chairman.

#### ***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 felt it more appropriate, that the entire Board performs the remuneration committee's tasks, however with-

out the Board member(s) who are also part of the executive management. In some specific cases Per Brilioth, Henrik Persson and Alex Gersh have been given the type task of a remuneration committee, to prepare remuneration proposals. The guiding philosophy of the Board in determining compensation for executives is the need to provide a compensation package that is competitive and motivating, will attract and retain qualified executives, and encourage and motivate performance.

### **Group management**

The CEO of Black Earth Farming is elected by, and works on behalf of the Board of Directors and shall implement the decisions made by the Board and prepare for decisions to be considered by the Board. The CEO shall also oversee compliance with the objectives, policies and strategic plans for the Company that the Board has established and ensure that these objectives, policies and strategic plans are submitted to the Board for updating or revision when necessary. The CEO is responsible for the operative management of the Company including establishing a qualified senior management team, usually in discussion with the Board of Direc-

tors for the most senior positions. The CEO shall ensure that the Company fulfils the obligations regarding disclosure of information, etc., or other regulations with which the Company is required to comply. The CEO is responsible for ensuring that obligations, agreements or other acts in law that the Company enters into or effects are correctly documented and do not conflict with any applicable binding statutes.

The individuals identified and presented below (and in the section "Board, Management and Auditors" in the formal annual report), as forming current senior Group management are individuals having important managerial roles and/or responsibility for certain important functions to the extent that their disclosure is required and it benefits the Company's shareholders to know of them and their merits in some detail. Other senior executives not identified as belonging to this highest managerial category and not required to be disclosed, are not, for the benefit of shareholders since the competition in Russia for personnel with relevant expertise is intense.

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

<i>Name</i>	<i>Born</i>	<i>Nationality</i>	<i>Employed</i>	<i>Function</i>	<i>Share holdings</i>	<i>Warrant holdings</i>	<i>Weighted average warrant strike price, USD</i>
Sture Gustavsson	1959	Swedish	2006	Chief Executive Officer of Black Earth Farming Ltd	7,000	500,000	3.89
Alexei Bnatov	1959	Russian	Mar 2010	Chief Executive Officer of Agro-Invest	62,000	500,000	4.58
Michael Shneyderman	1960	American	2008	Chief Financial Officer	40,000	800,000	7.74
Alexander Formin	1972	Russian	2009	Director of Sales	0	0	n/a
Gustav Wetterling	1981	Swedish	2007	Director of Procurement and Head of Investor Relations	1,600	150,000	8.41

### **Compensation to the Board and management**

#### ***Principles***

Each Director currently receives an annual Board fee of EUR 30,000, other than the Chairman of the investment committee and the audit committee, who each receive EUR 60,000, and Paul Wojciechowski who receives no Board fee. Sture Gustavsson was paid salaries as management and received no additional board fees. No other fees are paid for work within the committees of the Board. Remuneration for the senior executives consists of fixed salaries plus other benefits. In addition, certain Directors, senior executives and other key personnel within the Group are holders of warrants as part of the established incentive program. The guiding philosophy of the Board in determining compensation for executives is the need to provide a compensation package that is competitive and motivating, will attract and retain qualified executives, and encourage and motivate performance.

As stated in Note 38 to the Consolidated Financial Statements, in 2009 total fixed salaries and bonuses to senior

executives, including CEO, amounted to RUR 103,708 thousand (USD\* 3,429 thousand).

#### ***Incentive programme***

As part of the Company's efforts to attract and retain qualified personnel, Black Earth Farming has created a warrant incentive program originally comprising of 2,059,000 warrants to subscribe for Shares. The number of warrants within the warrant instrument was thereafter increased from 2,059,000 to 10,000,000 warrants at the AGM of the Company held on 5 July 2007. Of these warrants, 4,216 thousand have as of 31 December 2009 been issued for nil consideration to Directors and senior executives and other key personnel as set out in detail in Note 28(d) to the Consolidated Financial Statements in the formal Annual Report. Each warrant entitles the holder to exchange one warrant for one Share. The warrants are regulated by an agreement dated 11 August 2005, as amended. The Company has undertaken to keep Shares available in order to facilitate the future exercise of such warrants.

All warrant holders have been allotted warrants of which proportionate part is vested annually during a number of years set out in each warrant holders' warrant certificate. Warrants with a lower subscription price shall vest prior to warrants with a higher subscription price. Allocation of warrants is at the discretion of the Board. The subscription price will be affected by the time of allocation of the warrants. The warrants not distributed to date are expected to be distributed among the Directors and senior executives of the Company.

The aggregate amount of all the warrants in the approved warrant program will constitute 7.43 percent of the total issued, fully diluted, share capital of the Company.

In the event that the warrant holders are no longer connected to the Company before the vesting date, warrants that are due to vest will be cancelled, see Note 28(d) to the Consolidated Financial Statements in the formal Annual Report for record of cancelled warrants in 2009.

The warrants are transferable to a maximum of 30 warrant holders. The warrants are diluted on further issues of new Shares. If there is an alteration in the capital structure of the Company, warrant holders have rights to participate in such alteration to maintain their pro rata holding of warrant shares.

At full exercise of all approved 10,000,000 warrants, the Company's share capital will be increased by USD 100,000.

### ***Termination of employment***

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

### **Auditors**

At the AGM on 15 May 2009 Deloitte were appointed as the Company's auditors up until the next AGM, with Svante Forsberg with Deloitte as auditor in charge.

### **Svante Forsberg**

*Group Audit Partner*

Mr. Forsberg is a Swedish citizen, born in 1952.

Among other entities Mr. Forsberg is the lead auditor of Anticimex, Connecta, Diligentia, Fabege, Skandia Liv and Swedbank. He has no engagements in entities related to the main owners of Black Earth Farming Ltd. or the CEO of Black Earth Farming Ltd.