

# Black Earth Farming Ltd

## Interim Report

### 1 January – 30 June 2010



## Highlights for 2Q 2010

- **Sales volume** amounted to 62,246 tons compared to 197,547 tons in 2Q 2009 affected by lower crop inventory carry-over in 2010. The average price received from sold crops of RUR 2,771 (USD\* 89) per ton was down 22.1% Y-o-Y and 5.7% Q-o-Q. Grain prices have however increased dramatically since early July 2010.
- **Total revenue and gains** amounted to RUR 501,156 thousand (USD\* 16,065 thousand) of which RUR 320,049 thousand (USD\* 10,259 thousand) was a revaluation gain on biological assets.
- **Operating profit** amounted to RUR 109,645 thousand (USD\* 3,515 thousand) compared to a loss of RUR 168,984 thousand (USD\* 5,416 thousand) 2009. Including the revaluation gain EBITDA amounted to RUR 189,361 thousand (USD\* 6,070) vs. a loss of RUR 106,504 (USD\* 3,414 thousand) 2009. G&A expenses were reduced by 29.6% Y-o-Y and distribution expenses per ton sold by 24.6% Y-o-Y.
- **Profit for the period** was RUR 42,627 thousand (USD\* 1,367 thousand) compared to a loss of RUR 397,817 thousand (USD\* 12,752 thousand) in 2Q 2009.

## Highlights for 1H 2010

- **Sales volume** amounted to 197,892 tons compared to 311,455 tons in 1H 2009 affected by lower crop inventory carry-over in 2010. The average price received from sold crops of RUR 2,886 (USD\* 93) per ton was down 22.4% Y-o-Y. Grain prices have however increased dramatically since early July 2010.
- **Total revenue and gains** amounted to RUR 914,128 thousand (USD\* 29,304 thousand) compared with RUR 1,303,124 thousand (USD\* 41,773 thousand) 1H 2009. Gain on revaluation of biological assets and agricultural produce was RUR 320,430 thousand (USD\* 10,272 thousand) compared to RUR 116,656 thousand (USD\* 3,740 thousand) in the same period last year.
- **Operating loss reduced by 60.3%** to RUR 135,738 thousand (USD\* 4,352 thousand) compared to a loss of RUR 342,741 thousand (USD\* 10,987 thousand) 2009. EBITDA amounted to RUR 97,373 thousand (USD\* 3,121 thousand) including the revaluation gain. Cost of goods sold per ton decreased 16.9% Y-o-Y to RUR 2,938 (USD\* 94) per ton. G&A expenses decreased 23.3% to RUR 321,742 thousand (USD\* 10,314 thousand) compared to RUR 321,742 thousand (USD\* 13,452) in 2009.
- **Loss for the period reduced by 42.5%** to RUR 227,798 thousand (USD\* 7,302 thousand) compared to a loss of RUR 395,986 thousand (USD\* 12,694 thousand) last year. Loss per share was RUR 1.83 (USD\* 0.06) compared with a loss per share of RUR 3.18 (USD\* 0.10) same period last year.

## Significant events after the end of the reporting period

- During July the Company successfully completed a SEK 750 million placement of 10% coupon senior unsecured bonds as part of refinancing of its previous EUR 55 million 13% coupon Eurobonds.
- The Company started harvesting on 8 July 2010 and as of 24 August 128 thousand hectares had been harvested and following pre-cleaning approximately 194 thousand tons of commercial crops had been collected. Soya, sunflower and corn are still pre-harvest subject to germination and weather conditions.
- Due to the extreme Russian weather conditions and resulting country-wide grain harvest shortage, local prices have been showing dramatic increases since early July. Lower nation-wide grain production has resulted in Russian government export ban for wheat which came into effect on 15 August.

\* 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 (c).

# Reporting period in figures

Result	RUR			RUR		
	6 m. 2010	6 m. 2009	Year-on-year change	2Q 2010	2Q 2009	Year-on-year change
<i>In thousands of</i>						
Revenue	593,698	1,186,468	-50%	181,107	720,307	-75%
Total revenue and gains	914,128	1,303,124	-30%	501,156	834,758	-40%
Gross profit <sup>1</sup>	-18,993	70,006	-127%	-38,600	-45,957	16%
<i>Gross margin</i> <sup>2</sup>	Neg	5.9%	n/a	Neg	Neg	n/a
Operating result	-135,738	-342,741	60%	109,645	-168,984	165%
<i>Operating margin</i>	Neg	-28.9%	n/a	60.5%	Neg	n/a
Result for the period from continuing operations	-227,798	-338,490	33%	42,627	-399,447	n/a
Result for the period from discontinued operations	0	-57,496	n/a	0	1,630	n/a
Result for the period	-227,798	-395,986	42%	42,627	-397,817	111%
<i>Net margin in continuing operations</i>	Neg	-28.5%	n/a	23.5%	Neg	n/a
EBITDA <sup>3</sup>	97,373	-253,019	138%	189,361	-106,504	278%
<i>EBITDA Margin</i>	16.4%	Neg	n/a	104.6%	Neg	n/a

Result	USD*			USD*		
	6 m 2010	6 m 2009	Year-on-year change	2Q 2010	2Q 2009	Year-on-year change
<i>In thousands of</i>						
Revenue	19,032	38,033	-50%	5,806	23,090	-75%
Total revenue and gains	29,304	41,773	-30%	16,065	26,759	-40%
Gross profit <sup>1</sup>	-609	2,244	-127%	-1,237	-1,473	16%
<i>Gross margin</i> <sup>2</sup>	Neg	5.9%	n/a	-21.3%	-6.4%	n/a
Operating result	-4,351	-10,987	60%	3,515	-5,416	165%
<i>Operating margin</i>	Neg	Neg	n/a	60.5%	-23.5%	n/a
Result for the period from continuing operations	-7,302	-10,851	33%	1,367	-12,805	n/a
Result for the period from discontinued operations	0	-1,843	n/a	0	52	n/a
Result for the period	-7,302	-12,694	42%	1,367	-12,752	111%
<i>Net margin in continuing operations</i>	Neg	Neg	n/a	23.5%	-55.5%	n/a
EBITDA <sup>3</sup>	3,121	-8,111	138%	6,070	-3,414	278%
<i>EBITDA Margin</i>	16.4%	-21.3%	n/a	104.6%	-14.8%	n/a

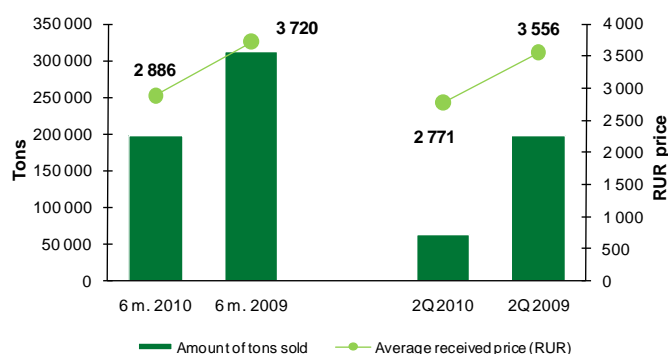
<sup>1</sup> Gross profit excluding gain/loss on revaluation of biological assets and agricultural produce

<sup>2</sup> Gross profit margin on sold goods and services excluding gain/loss on revaluation of biological assets and agricultural produce

<sup>3</sup> EBITDA includes gain/loss on revaluation of biological assets and agricultural produce

## Revenue versus gross profitability

## Sales volume versus average received price

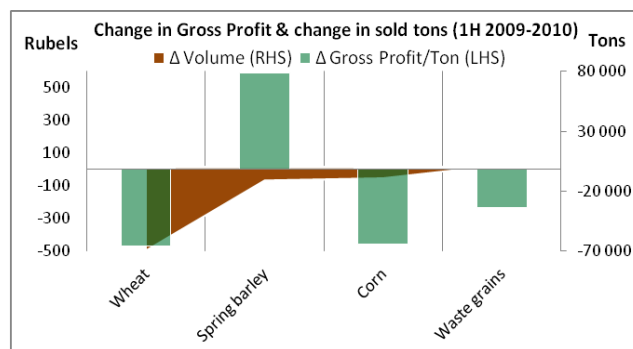
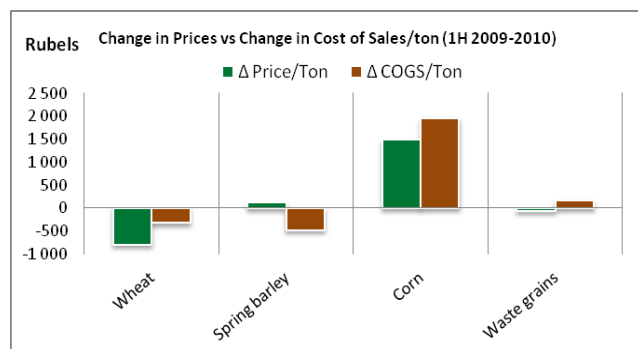


\*Gross margin excluding gain/loss on revaluation of biological assets and agricultural produce

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## Reporting period in figures

Sales volume and price	6m. 2010	6m. 2009	2009	2008	2007
Amount of tons sold	197,892	311,455	617,360	117,066	58,274
Year-on-year change	-36.5%	-	427.4%	100.9%	801.2%
Average received price per ton (RUR)	2,886	3,720	3,795	5,586	6,148
Year-on-year change	-22.4%	-	-32.1%	-9.1%	71.7%



Land holdings (thousand hectares)	30-Jun-10	31-Mar-10	31-Dec-09	31-Dec-08	31-Dec-07
Land in the process of ownership registration with the relevant authorities	60	66	75	214	247
Land in registered ownership	228	222	216	95	29
Land under long-term lease agreements	40	40	39	8	13
Total amount of controlled land	328	328	330	317	289

Personnel	6m. 2010	2009	2008	2007
Full-time employees at the end of the period	1,904	1,527	1,942	1,180
Average number of employees during the period	1,897	2,041	2,095	799

Operational Storage Capacity	30-Jun-10	31-Dec-09	31-Dec-08
Tons - On farm storage	204,000	204,000	82,000
Tons - Grain Elevator storage	100,000	100,000	80,000
Total capacity as % of gross commercial production	-	57%	37%

During 2010 the Company has continued to build out its own internal grain handling and storage infrastructure. Construction of the three new grain elevators has entered its final stage. The elevators, two in Voronezh region and one in Kursk region together add up to an additional 115 thousand tons of elevator capacity. This additional capacity coupled with the existing internal storage and handling capability, allows the Company to become entirely self-sufficient in terms of its harvested volume of grains.

## CEO'S COMMENT

2010 to date has seen large swings in the external environment for Black Earth Farming and the Russian grain producing sector in general. Starting the calendar year expectations of another good Russian grain harvest adding to already high stocks, both domestically and globally, continued to suppress prices overall for soft commodities in the first half of 2010. Starting end of June Russia has been subjected to extreme weather conditions resulting in severe drought thereby completely destroying close to 10 million hectares of the cropped area. Since early July grain prices have increased dramatically both domestically and internationally.

The financial second quarter marks the end of the marketing year for the 2009 harvest and the 2010/2011 agricultural year has brought significant changes to the balance of supply and demand. Our reported 6 month figures reflect the depressed pricing environment of the previous period. During 2Q we continued to sell the remainder of the 2009 harvest resulting in revenues of USD 19.0 million. Accounting for the initial fair value recognition of the 2010 harvest resulted in an additional USD 10.3 million revenue bringing the total revenue for 1H 2010 to USD 29.3 million. The revaluation gain enabled a positive Q2 operating profit of USD 3.5 million and a USD 1.4 million net profit. EBITDA for 1H 2010 was USD 3.1 million and for Q2 USD 6.1 million.

I'm pleased to report that our ongoing hard efforts to bring the cost structure down continue to show positive results. Costs of Goods Sold relating to the 2009 harvest but sold 1H 2010 decreased by 17% year-on-year to USD 94 per ton. Distribution expenses Q2 2010 were reduced by 25% on a per unit basis compared to 2009 which is attributed to the investments into internal storage capacity. We are now entirely self-sufficient in terms of grain handling and storage capability. General and Administrative expenses for 1H 2010 declined 23% year-on-year, and 30% for Q2, as costs relating to personnel, rent and consultants have been materially reduced. Completion of the Company's ongoing three elevator projects will mean new hiring of specialists and managers to run these facilities. The additional head count costs will be offset by elimination of external storage costs and enabling us to exercise greater control over quality and quantity of our harvested crops.

The weather conditions in Russia have been the key factor swinging market sentiment drastically as we entered the new agricultural year in July 2010 when the harvest and sales of 2010 crops has commenced. Latest estimates of total

Russian grain production stand at 60 to 63 million tons, a significant drop from the 97 million tons produced in 2009. This is also considerably lower than annual domestic consumption at 73 to 75 million tons. Pending the outcome of the winter crop seeding, Russia – the world's third-largest wheat exporter last year – for the first time in a decade might become a net importer of grains in 2010/11.

It is this domestic shortfall which prompted the export ban on wheat from Russia as of 15 August. While the ban imposes restrictions on large scale sales contracts at least until 31 December, it is not necessarily negative in terms of pricing. The prospect of Russia becoming a net importer will have a material impact on the domestic pricing of grains. A key consideration is how and when the high carryover stocks in the Government Intervention Fund will be distributed. Having said that the market is highly volatile and we are monitoring the situation very closely.

Given the extreme weather conditions, our harvested volumes for 2010 will be lower than last year. A colder and longer than normal winter has had a negative impact on the planted area for winter crops. Scorching summer temperatures with excessive heat and ensuing drought conditions has also negatively affected winter and spring crops during its final germination period. As of 24 August we have completed harvesting of wheat, barley and rape seed with 194 thousand tons of commercial crops, harvested off of 128 thousand hectares. We have yet to harvest sunflowers, corn and soya.

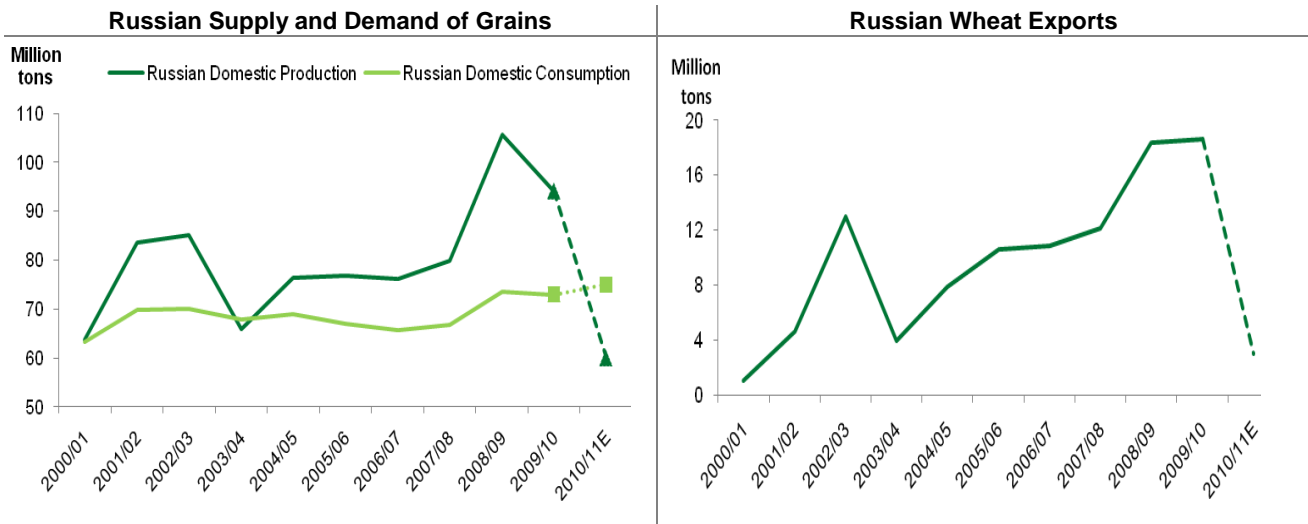
In July we successfully completed the issuance of a SEK 750 million bond at a rate of 10 percent maturing in 4 years time. The financing proceeds will be used to complete our ongoing capital investments while we maintain a financial flexibility enabling us to act on potential investment opportunities going forward.

Our core near term focus remains on efficient operations of the land we currently have in order to achieve profitability in our current operations. I feel we are firmly on track to improve our operational efficiency to the point where we can achieve this goal.

On behalf of the Board - 27 August 2010  
Sture Gustavsson  
CEO and President

# The Market

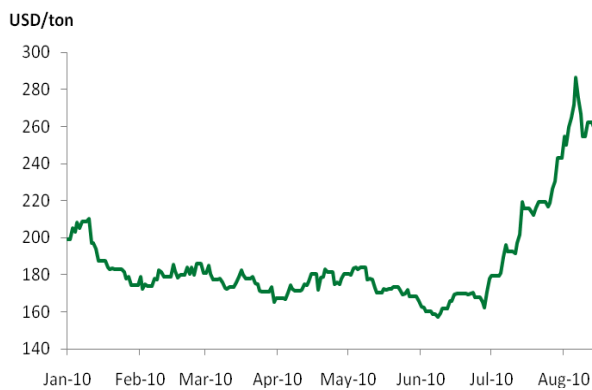
Going into 2010 there were expectations of another large Russian grain harvest as seen in the previous two years. The initial area planted with winter crops increased 5% from the previous year yet cold winter conditions and adverse conditions for spring sowing decreased the cultivated area. Despite the decrease, April forecasts of a gross harvest of grains ranged between 87 to 92 million tonnes, including 54 to 57 million tonnes of wheat. Carryover stocks were also high following the record 2008 harvest and the second highest on record in 2009. Thus ample supplies were keeping prices down with early prospects of another good harvest to increase the already elevated stock levels.



Source: IGC, SovEcon, USDA

The summer months changed the situation drastically. Russia is currently experiencing the most severe heat wave for over 30 years which is severely impacting the harvest, especially of grains. Rainfall has been non-existent in many key producing agricultural regions. The Central and Volga Federal Districts are the most severely drought affected, where the wheat harvest is expected to be 2 times lower than the harvest in 2009. 28 crop-producing regions declared a state of emergency as result of the weather conditions.

## Wheat price development year to date (Chicago)



Source: CBOT

Given that the harvesting season is not yet over there are wide ranging estimates which suggest that the grain harvest will be down over 35% to 60-63 million tons from 97 million in 2009. This would be short of Russian consumption estimated at 73-75 million tons with carryover stocks to fill the gap. The high stocks from previous bumper harvests of which the Government Intervention Fund has about 9.6 million tons, together with additions from the private sector, should be sufficient to cover this year's deficit. Yet this brings a reliance on the 2011 harvest which is already seeing risks as sowing of winter crops has been delayed due to the drought. Winter crops are higher yielding than spring crops wherefore a reduced area planted with winter crops will reduce the total 2011 crop volumes. With the looming domestic shortfall an export ban on wheat from Russia was introduced on 15 August until at least the end of 2010 in order to cool the domestic market. Prior to the ban about 3.5 million tons of grain, including 2.3 million tons of wheat were exported. Uncertainty over when and how the state Intervention Fund will start to distribute grains is adding to local market volatility.

As a consequence of the supply shortfall grain prices, both in Russia and internationally, have soared in July and early August. According to IKAR domestic wheat prices have moved from RUR 3,500 per ton in early 2010 to around RUR 6,000 per ton. Price estimates for the 2010 harvest are in the range of RUR 5,500 to 6,500 (USD\* 176 to 208) per ton.

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# Financial performance

## Revenue

For the six months ended 30 June 2010 revenue from sales of goods and services decreased in comparison with the same period 2009, and amounted to RUR 593,698 thousand (USD\* 19,032 thousand) down from RUR 1,158,457 thousand (USD\* 38,033 thousand) for six months in 2009. This is due to lower volumes of grains sold from last year's inventory carry-over as well as a lower average price received from crop sales. Sales of crops constituted 96.2% of revenue.

Revenue from realisation of goods and services from continuing operations	RUR thousand 6 m. 2010	RUR thousand 6 m. 2009	Year on year change	RUR thousand 2Q 2010	RUR thousand 2Q 2009	Year on year change
Revenues from sales of crop production	571,195	1,158,457	-50.7%	172,502	702,538	-75.4%
Revenue from sales of milk and meat	11,278	11,027	2.3%	6,156	6,319	-2.6%
Revenues from sales of other goods and services	11,225	16,984	-33.9%	2,449	11,450	-78.6%
<b>Total</b>	<b>593,698</b>	<b>1,186,468</b>	<b>-50.0%</b>	<b>181,107</b>	<b>720,307</b>	<b>-74.9%</b>

Revenue from realisation of goods and services	USD* thousand 6 m. 2010	USD* thousand 6 m. 2009	Year on year change	USD* thousand 2Q 2010	USD* thousand 2Q 2009	Year on year change
Revenues from sales of crop production	18,310	37,136	-50.7%	5,530	22,521	-75.4%
Revenue from sales of milk and meat	362	353	2.3%	197	203	-2.6%
Revenues from sales of other goods and services	360	544	-33.9%	79	367	-78.6%
<b>Total</b>	<b>19,032</b>	<b>38,033</b>	<b>-50.0%</b>	<b>5,806</b>	<b>23,090</b>	<b>-74.9%</b>

The Company sold 197,892 tons during the first six months of 2010, which is 36.5% less than the 311,455 tons sold during the same period 2009. Crops sold during the period were entirely from the 2009 harvest. Average local rouble prices received for crops sold in the second quarter 2010 were 22.1% lower than same period 2009 and down 5.7% quarter-on-quarter. The majority of crops sold in the second quarter were Wheat and Barley. For six months 2010 revenues from sales of crop production decreased 50.7% compared to 2009 on the back of lower sales volume and as well as an average received local rouble price that was 22.4% lower year-on-year. The difference in the composition of sales volumes, i.e. the share of grains and oilseeds in total volume between the different periods, had a negative effect on the average price for 1H 2010.

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# Financial performance

## Revenue

Sales of crops Jan-Jun 2010	2009 harvest		2010 harvest		Total		Average price 1H 2010	Average price 1H 2009
	RUR thousand	Tons	RUR thousand	Tons	RUR thousand	Tons	(RUR/ton)	(RUR/ton)
Wheat	301,236	103,443	-	-	301,236	103,443	2,912	3,707
Spring barley	216,440	81,391	-	-	216,440	81,391	2,659	2,544
Corn	48,623	10,014	-	-	48,623	10,014	4,856	3,359
Waste grains	4,896	3,044	-	-	4,896	3,044	1,608	1,672
Sunflowers	-	-	-	-	-	-	-	8,665
Spring rape seed	-	-	-	-	-	-	-	7,753
<b>Total</b>	<b>571,195</b>	<b>197,892</b>	-	-	<b>571,195</b>	<b>197,892</b>	<b>2,886</b>	<b>3,720</b>

Sales of crops Jan-Jun 2010	USD*		USD*		USD*		Average price	Average price
	thousand	Tons	thousand	Tons	thousand	Tons	(USD/ton)	(USD/ton)
Wheat	9,656	103,443	-	-	9,656	103,443	93	119
Spring barley	6,938	81,391	-	-	6,938	81,391	85	82
Corn	1,559	10,014	-	-	1,559	10,014	156	108
Waste grains	157	3,044	-	-	157	3,044	52	54
Sunflowers	-	-	-	-	-	-	-	278
Spring rape seed	-	-	-	-	-	-	-	249
<b>Total</b>	<b>18,310</b>	<b>197,892</b>	-	-	<b>18,310</b>	<b>197,892</b>	<b>93</b>	<b>119</b>

Sales of crops Q2 2010	2009 harvest		2010 harvest		Total		Average price Q2 2010	Average price Q2 2009
	RUR thousand	Tons	RUR thousand	Tons	RUR thousand	Tons	(RUR/ton)	(RUR/ton)
Wheat	149,786	53,664	-	-	149,786	53,664	2,791	3,770
Spring barley	9,968	4,778	-	-	9,968	4,778	2,086	2,633
Corn	10,287	2,174	-	-	10,287	2,174	4,732	3,208
Waste grains	2,461	1,630	-	-	2,461	1,630	1,510	1,447
Sunflowers	-	-	-	-	-	-	-	8,006
<b>Total</b>	<b>172,502</b>	<b>62,246</b>	-	-	<b>172,502</b>	<b>62,246</b>	<b>2,771</b>	<b>3,556</b>

Sales of crops Q2 2010	USD*		USD*		USD*		Average price	Average price
	thousand	Tons	thousand	Tons	thousand	Tons	(USD/ton)	(USD/ton)
Wheat	4,802	53,664	-	-	4,802	53,664	89	121
Spring barley	320	4,778	-	-	320	4,778	67	84
Corn	330	2,174	-	-	330	2,174	152	103
Waste grains	79	1,630	-	-	79	1,630	48	46
Sunflowers	-	-	-	-	-	-	-	-
<b>Total</b>	<b>5,530</b>	<b>62,246</b>	-	-	<b>5,530</b>	<b>62,246</b>	<b>89</b>	<b>114</b>

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# Financial performance

## Gain on revaluation (inventory)

As of 30 June 2010 the Company had about 2,963 tons of clean selling weight of harvested crops held in storage and recorded in inventory as finished product. The vast majority of finished goods held in inventory as of 31 March 2010, consisting mainly of wheat and barley from the 2009 harvest, were sold during 2Q.

Finished product/crops in inventory	30-Jun-10	31-Mar-10	31-Dec-09	31-Dec-08	31-Dec-07
Tons	2,963	66,129	203,401	335,600	42,459

For the period 31 December 2009 to 30 June 2010 the Company booked a gain on revaluation of biological assets and agricultural produce in the amount RUR 320,430 thousand (USD\* 10,272 thousand) compared with a gain of RUR 116,656 thousand (USD\* 3,740 thousand) for same period the previous year. The constitutes 35.1% of total revenue

The revaluation of the biological assets and agricultural produce is done in accordance with the requirements of IAS 41 which states that a biological asset shall be measured on initial recognition and at each balance sheet date at its fair value less estimated point-of-sale costs. In accordance with the standard, gain or loss arising on initial recognition of a biological asset at fair value less estimated point-of-sale costs shall be included in the profit or loss for the period in which it arises. When calculating fair value of crops in inventory and subsequently gain on revaluation of crop in inventory - market prices from the Chamber of Commerce and Industry as of the reporting date are used for the different crops and crop classes.

Balance value of crop production (Inventories) <i>In thousand of</i>	RUR	RUR	USD*	USD*
	30-Jun-10	31-Dec-09	30-Jun-10	31-Dec-09
Finished goods	25,508	594,008	818	19,042
Raw materials and consumables	231,638	254,915	7,425	8,172
Biological assets	1,559,212	425,884	49,982	13,652
<b>Total</b>	<b>1,816,358</b>	<b>1,274,807</b>	<b>58,225</b>	<b>40,865</b>

Below are the prices (including VAT) used for valuing the inventory of the most important crops as of 30 June 2010. For reference the price development prior and after 30 June has been also been included. Dramatic price improvements have taken place following the end of the reporting period.

Crop	RUR/ton	RUR/ton	RUR/ton	RUR/ton	RUR/ton
	20-Aug-2010	31-Jul-2010	30-Jun-2010	31-Mar-2010	31-Dec-2009
Wheat-3 class	6,250	5,900	<b>3,675</b>	3,700	3,700
Wheat-4 class	5,938	5,575	<b>3,470</b>	3,300	3,300
Wheat-5 class/feed	5,675	5,138	<b>3,230</b>	2,800	2,800
Corn	-	5,175	<b>5,125</b>	4,500	4,500
Barley-Malting	-	-	<b>3,000</b>	3,500	3,500
Barley-Feed	5,825	4,283	<b>2,230</b>	2,100	2,100
Rape seed	-	-	<b>8,500</b>	6,700	6,700
Sunflowers	-	12,000	<b>11,733</b>	9,900	9,900

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# Financial performance

## Costs

Significant cost reductions have been achieved for the period. Cost of sales for 1H 2010 were down 45.1% and amounted to RUR 612,691 thousand (USD\* 19,640 thousand) in contrast to RUR 1,116,462 thousand (USD\* 35,789 thousand) for the same period in 2009. The decrease is affected by the lower volumes sold during the period but are lower on a per unit basis as well. Below is a breakdown of accounting cost of sales indicators per crop and ton. The cost of sales per ton for crops sold in six months 2010 was 16.9% lower than same period last year. For wheat and barley, which accounted for 93% of volumes sold, cost of sales per ton was down 9.2% and 16.3% respectively. Improvements to the procurement procedures entailing a more consolidated buying process have been a key determinant of the reduction.

Cost of goods sold	RUR Thousand		USD Thousand*		Year on year change
	Jan-Jun 2010	Jan-Jun 2009	Jan-Jun 2010	Jan-Jun 2009	
Wheat	333,395	614,064	10,687	19,684	-45.7%
Spring barley	198,765	270,440	6,372	8,669	-26.5%
Corn	45,705	50,609	1,465	1,622	-9.7%
Waste grains	3,579	1,369	115	44	161.5%
Sunflowers	-	145,455	-	4,663	n/a
Spring rape seed	-	19,296	-	619	n/a
Other	31,247	15,230	1,002	488	105.2%
<b>Total</b>	<b>612,691</b>	<b>1,116,462</b>	<b>19,640</b>	<b>35,789</b>	<b>-45.1%</b>

Cost of goods sold per ton indicators per crop	RUR		USD*		Year on year change
	Jan-Jun 2010	Jan-Jun 2009	Jan-Jun 2010	Jan-Jun 2009	
Wheat	3,223	3,549	103	114	-9.2%
Spring barley	2,442	2,918	78	94	-16.3%
Corn	4,564	2,607	146	84	75.1%
Waste grains	1,176	1,006	38	32	16.9%
Sunflowers	-	6,609	-	212	n/a
Spring rape seed	-	6,458	-	207	n/a
<b>Average</b>	<b>2,938</b>	<b>3,536</b>	<b>94</b>	<b>113</b>	<b>-16.9%</b>

Ongoing cost saving initiatives continues to yield positive results. Distribution expenses decreased 29.9% for the six months ended 30 June 2010 compared to the same period 2009 in part due to lower sales volumes. Yet distribution costs per ton in the second quarter were 24.6% lower than corresponding period in 2009 which can be attributed to the Company's investments into own storage and handling capacity thus eliminating third party services. In addition general and administrative expenses for continuing operations for six months 2010 decreased 23.3% to RUR 321,742 thousand (USD\* 10,314 thousand), in contrast to RUR 419,652 thousand (USD\* 13,452 thousand) for the same period in 2009. For the second quarter the corresponding decline was 29.6% year-on-year to RUR 159,553 (USD\* 5,115).

\* 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 (c).

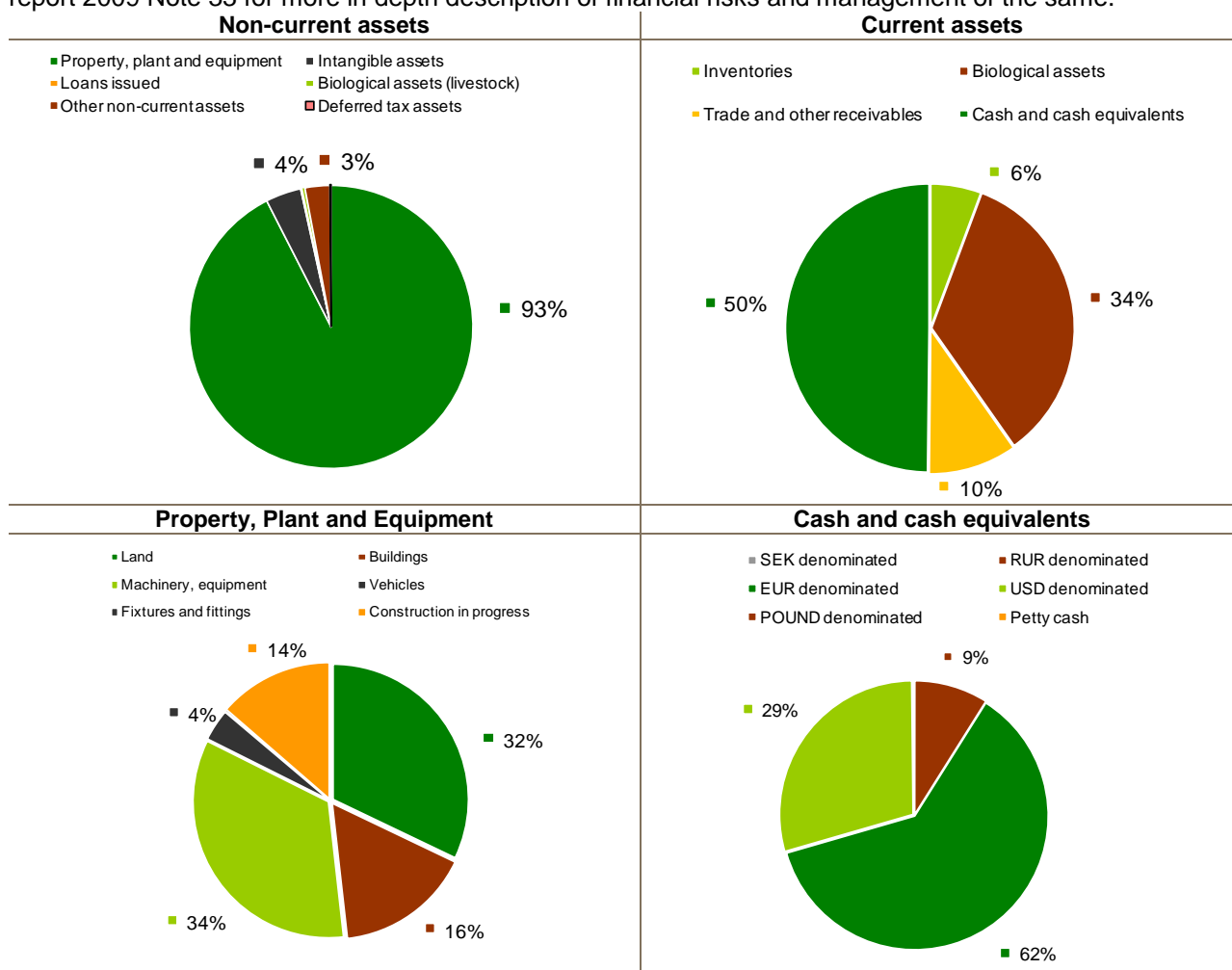
# Financial performance

## Assets

As of 30 June 2010 about 92.5% of the Company's non-current assets were made up of Property, Plant and equipment which in turn is dominated by Land, Agricultural Machinery and Equipment. Construction in progress relates to the Company's construction of three new elevators and buildings stems from the completed construction of on farm infrastructure such as grain hangars, dryers, cleaners etc.

Property, plant and equipment 30 June 2010	RUR Thousand	USD* Thousand
Land	1,799,004	57,669
Buildings	903,108	28,950
Machinery, equipment	1,914,591	61,374
Vehicles	211,925	6,793
Fixtures and fittings	11,778	378
Construction in progress	763,279	24,468
<b>Total</b>	<b>5,603,685</b>	<b>179,632</b>

The Company had as of 30 June 2010 Cash and Cash equivalents of RUR 2,249,492 thousand (USD\* 72,110 thousand) placed on deposit in different currencies with a variety of established banks. See annual report 2009 Note 33 for more in depth description of financial risks and management of the same.



## Equity

Ratios	30-Jun-10	31-Dec-09	30-Dec-08	31-Dec-07
Equity ratio, percent	81%	79%	80%	81%
Debt /Equity ratio, percent	23.9%	21.0%	19.3%	19.7%

Share data	RUR	RUR	USD*	USD*
	30-Jun-10	31-Dec-09	30-Jun-10	31-Dec-09
Net asset value (Equity) thousands	8,536,020	8,743,931	273,631	280,296
Net asset value per Share	68.51	70.18	2.20	2.25
Basic profit/(loss) per Share	(1.83)	(10.83)	(0.06)	(0.35)

\* 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 (c).

# Operational Performance

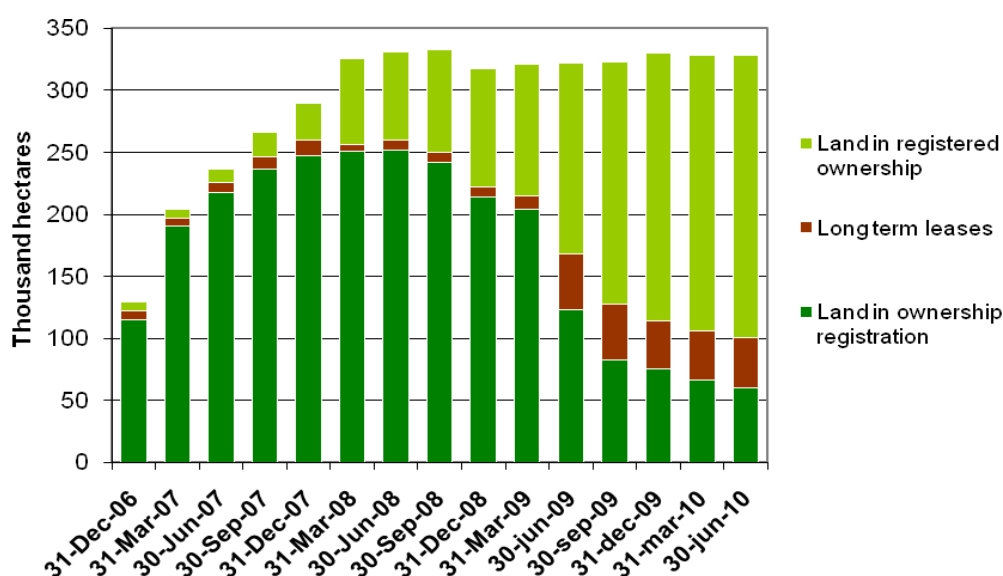
## Land

Total land under control is unchanged from the first quarter and amounted to 328 thousand hectares as of 30 June 2010. The amount of land in ownership increased 2.7% compared to 31 March 2010, to 228 thousand hectares or 70 percent of total land under control. Since 30 June 2009 74 thousand hectares have been registered into ownership.

The process of obtaining the ownership rights to agricultural land in Russia is as previously described, complicated as well as time consuming and associated with certain risks. See risk section in Annual Report 2009 for a more comprehensive description of risk related to land acquisition and registration.

Consolidation and further improvement of the operational efficiencies in and around the existing farm blocks remains the Company's key target. Divestment of some less beneficial land assets as well as potential swaps of land with other external parties is a possibility in the strife to improve the overall quality and value of the Company's asset base, which may result in inter-quarterly figures showing a reduction in the total figure for land.

### Land holdings



Land holdings (thousand hectares)	30-Jun-08	30-Sep-08	31-Dec-08	31-Mar-09	30-Jun-09	30-Sep-09	31-Dec-09	31-Mar-10	30-Jun-10
Land under control	331	333	317	321	322	323	330	328	328
Quarter-on-quarter change	1.8%	0.5%	-4.7%	1.2%	0.3%	0.3%	2.2%	-0.6%	0.0%
Land in long term lease	8.1	8.1	8.1	11	45	45	39	40	40
Quarter-on-quarter change	62.0%	0.0%	0.0%	35.8%	309.1%	0.0%	-13.3%	2.6%	0.0%
Land in registered ownership	71	83	95	106	154	196	216	222	228
Quarter-on-quarter change	2.9%	17.4%	14.0%	11.6%	45.3%	27.3%	10.2%	2.8%	2.7%

\* 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 (c).

# Operational Performance

## Production

The Company started harvesting on 8 July 2010 and as of 24 August 128 thousand hectares had been harvested and following pre-cleaning approximately 194 thousand tons of commercial crops had been collected. Yields have been negatively affected by abnormally high temperatures and very little rainfall. The average yield for winter wheat was 1.9 tons per hectare, spring wheat and spring barley 1.4 and spring rape 0.6. Remaining cultures, including soya, sunflower and corn, are still pre-harvest subject to germination and weather conditions.

### Production expansion table

Planted area breakdown			
(hectares)	2007	2008	2009
Winter wheat	16,805	48,636	84,698
Winter rape	5,005	875	7,045
Winter triticale	n/a	n/a	2,740
<b>Total winter crops</b>	<b>21,810</b>	<b>49,511</b>	<b>94,483</b>
Spring Barley	20,180	42,638	43,053
Spring wheat	n/a	4,339	3,824
Spring rape	7,035	13,149	7,132
Sunflower	2,541	19,378	26,466
Corn maize	1,215	9,950	8,084
<b>Total spring crops</b>	<b>30,971</b>	<b>89,454</b>	<b>88,559</b>
<b>Total commercial crops</b>	<b>52,781</b>	<b>138,965</b>	<b>183,042</b>
Forage crops	670	2,968	381
<b>Total planted area</b>	<b>53,451</b>	<b>141,933</b>	<b>183,423</b>

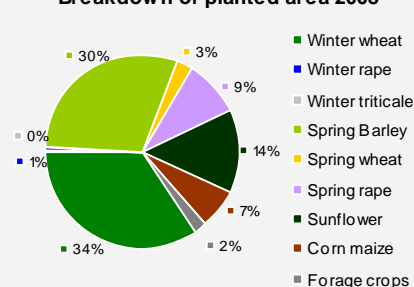
### Average Gross Crop Yield

(ton/hectare)	2007	2008	2009
Winter wheat	3.3	4.3	3.5
Winter rape	1.3	1.8	1.6
Winter triticale	n/a	n/a	2.3
Spring barley	2	3.4	3.0
Spring wheat	n/a	2.9	2.3
Spring rape	0.9	1.4	1.4
Sunflower	2.4	1.4	1.8
Corn maize	5.5	2.6	3.4

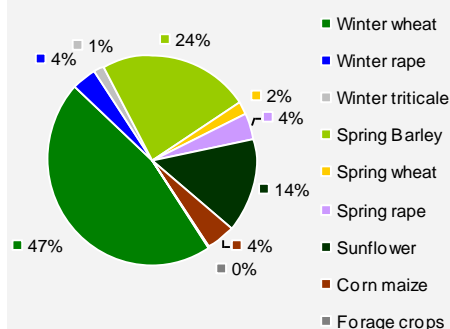
### Gross harvest

(ton)	2007	2008	2009
Winter wheat	49,262	206,961	292,657
Winter rape	0	1,536	11,527
Winter triticale	n/a	n/a	6,432
<b>Total winter crops</b>	<b>49,262</b>	<b>208,497</b>	<b>310,616</b>
Spring barley	42,477	143,259	127,793
Spring wheat	0	12,779	8,764
Spring rape	12,859	18,761	9,708
Sunflower	3,815	27,742	46,602
Corn	1,311	26,088	27,823
<b>Total spring crops</b>	<b>60,462</b>	<b>228,630</b>	<b>220,689</b>
<b>Total commercial crops</b>	<b>109,724</b>	<b>437,127</b>	<b>531,305</b>
Forage crops	2,659	22,928	3,381
<b>Total output</b>	<b>112,383</b>	<b>460,056</b>	<b>534,686</b>

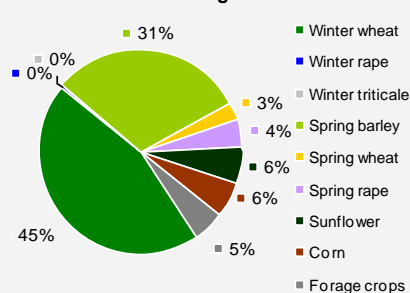
Breakdown of planted area 2008



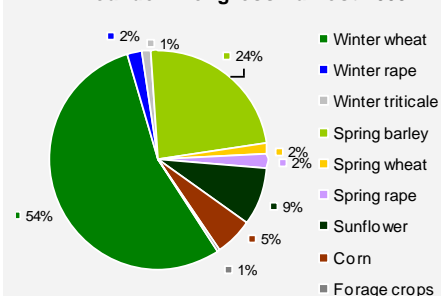
Breakdown of planted area 2009



Breakdown of gross harvest 2008



Breakdown of gross harvest 2009



\* 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 (c).

# The Share

## Outstanding shares

As of 30 June 2010 the amount of outstanding shares was 124,601,667.

### 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 2010, amounted to about 9,400.

### Trade data for the period 1 Jan 2010 - 16 August 2010

Average Daily Turnover (SEK)	Average No of Traded Shares	Average No of daily trades
<b>4,857,775</b>	<b>214,120</b>	<b>185</b>

Source: NASDAQ OMX

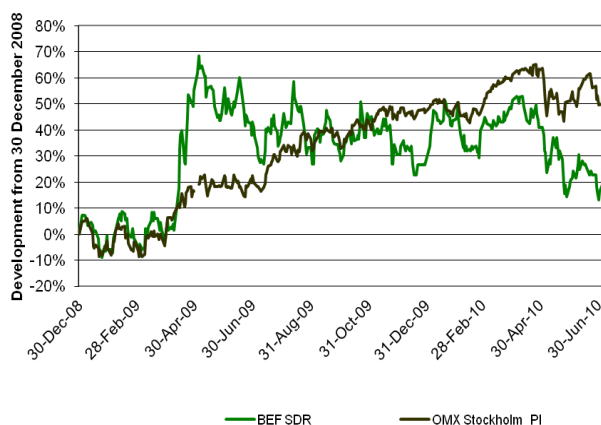
### Top 5 shareholders per 30 June 2010

Owner	% of votes & capital
<b>KINNEVIK NEW VENTURES AB</b>	<b>24.9%</b>
<b>VOSTOK NAFTA INVESTMENT LTD</b>	<b>24.8%</b>
<b>ALECTA PENSIONS FÖRSÄKRING</b>	<b>9.4%</b>
<b>DNB NOR BANK ASA<sup>1</sup></b>	<b>2.4%</b>
<b>LÄNSFÖRSÄKRINGAR</b>	<b>2.3%</b>

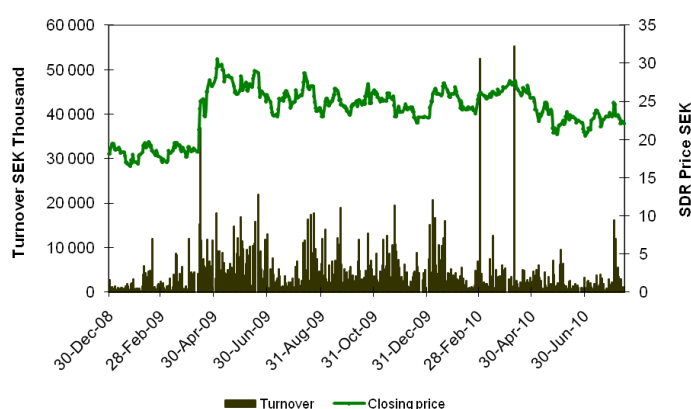
Source: Euroclear Sweden share registry & shareholders' reference

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

### Share Performance vs. Stockholm index



### Share Price and Turnover



## Black Earth Farming SDR

Price SEK/SDR 16 August 2010

**22.10**

Change 1 Month	Change 3 Months	52 Week High
1.8%	-8.3%	27.7
Change 6 Months	Change 1 Year	52 Week Low
-8.7%	-17.8%	20.5

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 2009. 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 2009 also exist on 30 June 2010.

\* 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 (c).

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2010**

*In thousands of*

	Notes	RUR Six months ended 30 June 2010	RUR 30 June 2009	RUR Three months ended 30 June 2010	RUR 30 June 2009
<b>Continuing operations</b>					
Revenue		593,698	1,186,468	181,107	720,307
Gain on revaluation of biological assets and agricultural produce		320,430	116,656	320,049	114,451
Total revenue and gains		914,128	1,303,124	501,156	834,758
Cost of sales		(612,691)	(1,116,462)	(219,707)	(766,264)
Gross profit		301,437	186,662	281,449	68,494
Distribution expenses		(60,183)	(85,792)	(6,628)	(19,161)
General and administrative expenses		(321,742)	(419,652)	(159,553)	(226,505)
Taxes other than on income		(27,001)	(9,238)	(15,152)	(4,095)
Other gains and losses		6,740	9,198	25,632	9,140
Other income and expenses		(34,989)	(23,919)	(16,103)	3,143
Operating loss		(135,738)	(342,741)	109,645	(168,984)
Financial income		65,472	188,245	45,452	(139,586)
Financial expenses		(117,029)	(165,858)	(53,667)	(75,678)
Loss before income tax		(187,295)	(320,354)	101,430	(384,248)
Income tax expense		(40,503)	(18,136)	(58,803)	(15,199)
<b>Loss for the period from continuing operations</b>		<b>(227,798)</b>	<b>(338,490)</b>	<b>42,627</b>	<b>(399,447)</b>
<b>Discontinued operations</b>					
Loss for the period from discontinued operations	4	-	(57,496)	-	1,630
<b>Loss for the period</b>		<b>(227,798)</b>	<b>(395,986)</b>	<b>42,627</b>	<b>(397,817)</b>
<b>Other comprehensive income</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>(227,798)</b>	<b>(395,986)</b>	<b>42,627</b>	<b>(397,817)</b>

*Earnings per share (amounts are indicated in)*

	Notes	RUR	RUR
From continuing and discontinued operations:	6		
Loss per share, basic		(1.83)	(3.18)
Loss per share, diluted		(1.83)	(3.18)
From continuing operations:	6		
Loss per share, basic		(1.83)	(2.72)
Loss per share, diluted		(1.83)	(2.72)

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 19 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 (c).

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2010

*In thousands of*

	Notes	USD* Six months ended 30 June 2010	USD* 30 June 2009	USD* Three months ended 30 June 2010	USD* 30 June 2009
<b>Continuing operations</b>					
Revenue		19,032	38,033	5,806	23,090
Gain on revaluation of biological assets and agricultural produce		10,272	3,740	10,259	3,669
Total revenue and gains		29,304	41,773	16,065	26,759
Cost of sales		(19,640)	(35,789)	(7,043)	(24,563)
Gross profit		9,664	5,984	9,022	2,196
Distribution expenses		(1,929)	(2,750)	(212)	(614)
General and administrative expenses		(10,314)	(13,452)	(5,115)	(7,261)
Taxes other than on income		(866)	(296)	(486)	(131)
Other gains and losses		215	295	822	293
Other income and expenses		(1,122)	(768)	(516)	101
Operating loss		(4,352)	(10,987)	3,515	(5,416)
Financial income		2,099	6,034	1,457	(4,475)
Financial expenses		(3,751)	(5,317)	(1,720)	(2,426)
Loss before income tax		(6,004)	(10,270)	3,252	(12,317)
Income tax expense		(1,298)	(581)	(1,885)	(487)
<b>Loss for the period from continuing operations</b>		<b>(7,302)</b>	<b>(10,851)</b>	<b>1,367</b>	<b>(12,804)</b>
<b>Discontinued operations</b>					
Loss for the period from discontinued operations	4	-	(1,843)	-	52
<b>Loss for the period</b>		<b>(7,302)</b>	<b>(12,694)</b>	<b>1,367</b>	<b>(12,752)</b>
<b>Other comprehensive income</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>(7,302)</b>	<b>(12,694)</b>	<b>1,367</b>	<b>(12,752)</b>

*Earnings per share (amounts are indicated in)*

	Notes	USD*	USD*
From continuing and discontinued operations:	6		
Loss per share, basic		(0.06)	(0.10)
Loss per share, diluted		(0.06)	(0.10)
From continuing operations:	6		
Loss per share, basic		(0.06)	(0.09)
Loss per share, diluted		(0.06)	(0.09)

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 19 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 (c).

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2010

*In thousands of*

	Notes	RUR 30-Jun-10	RUR 31-Dec-09	USD* 30-Jun-10	USD* 31-Dec-09
<b>ASSETS</b>					
<i>Non-current assets</i>					
Property, plant and equipment		5,603,685	5,588,241	179,632	179,137
Goodwill		234,321	234,321	7,511	7,511
Intangible assets		11,971	13,409	384	430
Loans issued		8,458	11,055	271	354
Biological assets (livestock)		21,653	20,289	694	650
Other non-current assets		172,345	100,497	5,525	3,222
Deferred tax assets		7,789	75,723	250	2,427
<b>Total non-current assets</b>		<b>6,060,222</b>	<b>6,043,535</b>	<b>194,267</b>	<b>193,731</b>
<i>Current assets</i>					
Inventories		257,146	848,923	8,243	27,213
Biological assets (crop production)		1,559,212	425,884	49,982	13,652
Trade and other receivables		448,569	520,125	14,379	16,673
Cash and cash equivalents		2,249,492	3,211,219	72,109	102,939
<b>Total current assets</b>		<b>4,514,419</b>	<b>5,006,151</b>	<b>144,713</b>	<b>160,477</b>
<b>Total assets</b>		<b>10,574,641</b>	<b>11,049,686</b>	<b>338,980</b>	<b>354,208</b>
<b>EQUITY AND LIABILITIES</b>					
<i>Equity</i>					
Share capital		32,921	32,921	1,055	1,055
Share premium		11,275,731	11,275,731	361,455	361,455
Reserves		146,817	126,930	4,706	4,069
Retained earnings		(2,919,449)	(2,691,651)	(93,586)	(86,284)
<b>Total equity</b>		<b>8,536,020</b>	<b>8,743,931</b>	<b>273,630</b>	<b>280,295</b>
<b>LIABILITIES</b>					
<i>Non-current liabilities</i>					
Non-current loans and borrowings	7	-	1,838,091	-	58,922
Deferred tax liabilities		3,784	26,795	121	859
<b>Total non-current liabilities</b>		<b>3,784</b>	<b>1,864,886</b>	<b>121</b>	<b>59,781</b>
<i>Current liabilities</i>					
Current loans and borrowings	7	1,654,699	188,006	53,043	6,027
Trade and other payables		380,138	252,863	12,186	8,105
<b>Total current liabilities</b>		<b>2,034,837</b>	<b>440,869</b>	<b>65,229</b>	<b>14,132</b>
<b>Total liabilities</b>		<b>2,038,621</b>	<b>2,305,755</b>	<b>65,350</b>	<b>73,913</b>
<b>Total equity and liabilities</b>		<b>10,574,641</b>	<b>11,049,686</b>	<b>338,980</b>	<b>354,208</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 19 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 (c).



**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE PERIOD ENDED 30 JUNE 2010**

<i>In thousands of</i>	RUR	RUR	RUR Equity-settled employee benefits reserve	RUR Retained earnings	RUR Total
	<b>Share capital</b>	<b>Share premium</b>			
Balance as at 1 January 2009	32,898	11,269,910	94,107	(1,342,358)	10,054,557
Issue of shares	-	-	-	-	-
Total comprehensive income for the period	-	-	-	(395,986)	(395,986)
Recognition of share-based payments	-	-	18,866	-	18,866
<b>Balance as at 30 June 2009</b>	<b>32,898</b>	<b>11,269,910</b>	<b>112,973</b>	<b>(1,738,344)</b>	<b>9,677,437</b>
Balance as at 1 January 2010	<b>32,921</b>	<b>11,275,731</b>	<b>126,930</b>	<b>(2,691,651)</b>	<b>8,743,931</b>
Issue of shares	-	-	-	-	-
Total comprehensive income for the period	-	-	-	(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>

<i>In thousand of</i>	USD*	USD*	USD* Equity-settled employee benefits reserve	USD* Retained earnings	USD* Total
	<b>Share capital</b>	<b>Share premium</b>			
Balance as at 1 January 2009	1,055	361,268	3,017	(43,031)	322,309
Issue of shares	-	-	-	-	-
Total comprehensive income for the period	-	-	-	(12,694)	(12,694)
Recognition of share-based payments	-	-	605	-	605
<b>Balance as at 30 June 2009</b>	<b>1,055</b>	<b>361,268</b>	<b>3,621</b>	<b>(55,724)</b>	<b>310,220</b>
Balance as at 1 January 2009	1,055	361,455	4,069	(86,284)	280,295
Issue of shares	-	-	-	-	-
Total comprehensive income for the period	-	-	-	(7,302)	(7,302)
Recognition of share-based payments	-	-	637	-	637
<b>Balance as at 30 June 2010</b>	<b>1,055</b>	<b>361,455</b>	<b>4,706</b>	<b>(93,586)</b>	<b>273,630</b>

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 19 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 (c).

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE PERIOD ENDED 30 JUNE 2010**

<i>In thousands of</i>	Notes	RUR 6 m. 2010	RUR 6 m. 2009	USD* 6 m. 2010	USD* 6 m. 2009
<b>OPERATING ACTIVITIES</b>					
Loss for the period		(227,798)	(395,986)	(7,302)	(12,694)
<i>Adjustments for:</i>					
Income tax expense		40,503	18,066	1,298	579
Depreciation and amortisation		157,528	132,497	5,050	4,247
Change in provision for doubtful receivables		1,831	-	59	-
Foreign exchange gain		(47,999)	(134,878)	(1,539)	(4,324)
Interest income		(17,473)	(53,367)	(560)	(1,711)
Interest expense		116,364	165,858	3,730	5,317
Loss/ (gain) on disposal of property, plant and equipment and intangible assets		19,794	(17,349)	635	(556)
Warrant expense		19,887	18,866	637	605
Loss on disposal of subsidiaries		-	31,238	-	1,001
Change in value of biological assets		(320,430)	(116,656)	(10,272)	(3,740)
<b>Operating loss before changes in working capital</b>		<b>(257,793)</b>	<b>(351,711)</b>	<b>(8,264)</b>	<b>(11,276)</b>
Decrease in inventories		612,825	298,938	19,645	9,583
Increase in biological assets		(814,262)	-	(26,102)	-
Decrease in trade and other receivables		129,762	150,630	4,160	4,829
Decrease in trade payables and other short-term liabilities		116,573	171,853	3,737	5,509
<b>Cash flows utilised in operating activities before income tax paid</b>		<b>(212,895)</b>	<b>269,710</b>	<b>(6,824)</b>	<b>8,645</b>
Interest paid		(222,643)	(299,206)	(7,137)	(9,591)
Income tax paid		(2,732)	528	(88)	17
<b>Net cash utilised in operating activities</b>		<b>(438,270)</b>	<b>(28,968)</b>	<b>(14,049)</b>	<b>(929)</b>
<b>INVESTING ACTIVITIES</b>					
Interest received		22,717	63,865	728	2,047
Acquisition of land plots		(17,570)	(139,055)	(564)	(4,458)
Acquisition of property, plant and equipment		(317,549)	(693,304)	(10,180)	(22,225)
Proceeds from disposal of property, plant and equipment		12,121	-	388	-
Acquisition of intangible assets		(3,723)	(5,445)	(119)	(175)
Proceeds from disposal of investments		520	92,602	17	2,968
Loans issued		(2,853)	-	(91)	-
Change in other non-current assets		-	(193,277)	-	(6,196)
<b>Cash flows utilised in investing activities</b>		<b>(306,337)</b>	<b>(874,614)</b>	<b>(9,821)</b>	<b>(28,039)</b>
<b>FINANCING ACTIVITIES</b>					
Repurchase of bonds	7	(34,577)	(78,484)	(1,108)	(2,516)
<b>Cash flows utilised in financing activities</b>		<b>(34,577)</b>	<b>(78,484)</b>	<b>(1,108)</b>	<b>(2,516)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(779,184)</b>	<b>(982,066)</b>	<b>(24,978)</b>	<b>(31,484)</b>
Cash and cash equivalents at beginning of year		3,211,219	4,604,591	102,939	147,605
Effect of exchange rate fluctuations on cash and cash equivalents		(182,543)	267,974	(5,852)	8,590
<b>Cash and cash equivalents at end of the period</b>		<b>2,249,492</b>	<b>3,890,499</b>	<b>72,109</b>	<b>124,711</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 (c).

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 30 JUNE 2010**

**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**

Although in recent years there has been a general improvement in economic conditions in Russia, Russia continues to display certain characteristics of an emerging market. These include, but are not limited to, currency controls and convertibility restrictions, relatively high level of inflation and continuing efforts by the government to implement structural reforms.

As a result, 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 the effectiveness of economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

**(c) Seasonality**

Agricultural sector exhibits obvious 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 are a lot of works 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.

During the first six months the Group sold the major part of its crop production harvested in 2009.

**2 Basis of preparation**

**(a) Statement of compliance**

The condensed 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.

**(b) Functional and presentation currency**

The currency of the Russian Federation is the Russian Rouble (“RUR”), which is the Group’s functional currency and 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.

*\* 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 (c).*

(c) **Convenience translation**

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

All amounts in the consolidated financial statements, including comparatives, are translated from RUR to USD at the closing exchange rate at 30 June 2010 of RUR 31.1954 to USD 1. All financial information in USD has been rounded to the nearest thousand.

**3 Significant accounting policies**

The condensed financial statements have been prepared under historical cost convention, except that financial investments classified as available-for-sale are stated at fair value and biological assets measured at fair value less estimated point-of-sale costs.

The same accounting policies, presentation and methods of computation are followed in these condensed financial statements as were applied in the preparation of the Group's financial statements for the year ended 31 December 2009.

**4 Segment information**

The operating segments definitions were developed by senior management in order to enable effective and efficient operating performance based of the geographic and sub-climactic split of the cropped areas in the four Black Earth regions; namely, Kursk, Lipetsk, Tambov and Voronezh. The Group also has one operating company in Samara region, however, for segment reporting purposes it was included in Tambov, as the company'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 any revenue, therefore its assets and expenses have been reflected in the Corporate segment of the assets and expenses.

(a) **Segment revenues and results**

<i>In thousands of</i>	RUR Revenue from external sales <b>6 m. 2010</b>	RUR Inter- segment revenue <b>6 m. 2010</b>	RUR Net result <b>6 m. 2010</b>	RUR Revenue from external sales <b>6 m. 2009</b>	RUR Net result <b>6 m. 2009</b>
Agricultural companies					
- Voronezh region	130,407	59,681	(41,648)	329,885	29,664
- Kursk region	129,277	99,966	(2,737)	230,610	(12,187)
- Lipetsk region	116,436	75,661	(36,903)	262,107	(12,910)
- Tambov region	71,353	32,455	(27,533)	50,403	(22,472)
Management company Moscow	146,225	76,641	(261,742)	296,478	(302,598)
<b>Total</b>	<b>593,698</b>	<b>344,404</b>	<b>(370,562)</b>	<b>1,169,483</b>	<b>(320,503)</b>
Gain on revaluation of biological assets and agricultural produce			320,430		116,656
Prior year revaluation of biological assets in cost of goods sold			-		(115,975)
Additional administrative costs and director's salaries			(80,596)		(94,467)
Bad debt provision			(1,831)		(7,597)
Other income and expenses			(3,179)		21,649
Finance income, net			(51,557)		22,387
<b>Loss before tax</b>			<b>(187,295)</b>		<b>(377,850)</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 (c).

<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* Net result <b>6 m. 2010</b>	USD* Revenue from external sales <b>6 m. 2009</b>	USD* Net result <b>6 m. 2009</b>
Agricultural companies					
- Voronezh region	4,180	1,913	(1,335)	10,575	951
- Kursk region	4,144	3,205	(88)	7,392	(391)
- Lipetsk region	3,732	2,425	(1,183)	8,402	(414)
- Tambov region	2,287	1,040	(883)	1,616	(720)
Management company Moscow	4,689	2,457	(8,389)	9,504	(9,700)
<b>Total</b>	<b>19,032</b>	<b>11,040</b>	<b>(11,878)</b>	<b>37,489</b>	<b>(10,274)</b>
Gain on revaluation of biological assets and agricultural produce			10,272		3,740
Prior year revaluation of biological assets in cost of goods sold			-		(3,718)
Additional administrative costs and director's salaries			(2,584)		(3,029)
Bad debt provision			(59)		(244)
Other income and expenses			(102)		694
Finance income, net			(1,653)		718
<b>Loss before tax</b>			<b>(6,004)</b>		<b>(12,113)</b>

The accounting principles of the reportable segments are not exactly the same as the Group's accounting policies according to IFRS. The profit before tax for the reportable segments was reconciled to the reported profit before tax as the accounting policies of the segments differ in the following areas:

- There is no current revaluation of biological assets and agricultural produce in segment reporting.
- Segment reporting does not include additional administrative and financial expenses related to Black Earth Farming Ltd (standalone).

**(b) Segment assets**

<i>In thousands of</i>	RUR <b>30-Jun-10</b>	RUR <b>31-Dec-09</b>	USD* <b>30-Jun-10</b>	USD* <b>31-Dec-09</b>
Agricultural companies				
- Voronezh region	1,740,963	1,750,960	55,808	56,129
- Kursk region	1,824,225	1,619,851	58,477	51,926
- Lipetsk region	2,382,169	2,283,356	76,363	73,195
- Tambov region	1,189,193	1,098,506	38,121	35,214
Management company				
- Moscow	1,395,657	1,755,844	44,739	56,284
<b>Total segment assets</b>	<b>8,532,207</b>	<b>8,508,517</b>	<b>273,508</b>	<b>272,748</b>
Corporate assets	2,042,434	2,541,169	65,472	81,460
<b>Consolidated total assets</b>	<b>10,574,641</b>	<b>11,049,686</b>	<b>338,980</b>	<b>354,208</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 (c).

### (c) Revenues from major products

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

<i>In thousands of</i>	RUR	RUR	USD*	USD*
	<b>6 m. 2010</b>	<b>6 m. 2009</b>	<b>6 m. 2010</b>	<b>6 m. 2009</b>
Spring barley	216,440	235,774	6,938	7,558
Wheat	301,236	641,321	9,656	20,558
Corn	48,623	65,207	1,559	2,090
Milk and meat	11,278	11,027	362	353
Waste grains	4,896	2,275	157	73
Sunflowers	-	190,714	-	6,114
Spring rape seed	-	23,166	-	743
Other goods and services	11,225	16,984	360	544
	<b>593,698</b>	<b>1,186,468</b>	<b>19,032</b>	<b>38,033</b>

### (d) Geographical information

The Group operates in the Russian Federation. The Group has a head office in Jersey; however the head office does not own any non-current assets and generates only financial income and expenses in addition to administration costs and directors' salaries. Therefore all non-current assets locate in Russia and all of the Group's operations are in Russia.

## 5 Dividends

The Company is not permitted to pay dividends until the bonds have been redeemed. Therefore, during the six months period no dividends were neither paid out nor declared.

## 6 Earnings per share

*The amounts are indicated in*

	RUR	RUR	USD*	USD*
	<b>6 m. 2010</b>	<b>6 m. 2009</b>	<b>6 m. 2010</b>	<b>6 m. 2009</b>
<b>(Loss)/profit for the purpose of basic and diluted earnings per share</b>				
(Loss)/profit for the period from continuing and discontinued operations	(227,798,000)	(395,986,000)	(7,302,295)	(12,693,730)
(Loss)/profit for the period from continuing operations	(227,798,000)	(338,490,000)	(7,302,295)	(10,850,638)
<b>Number of shares</b>				
Weighted average number of ordinary shares for the purpose of basic earnings per share	124,601,667	124,521,667	124,601,667	124,521,667
Effect of dilutive share options		1,266,666	-	1,266,666
Weighted average number of shares for the purpose of diluted earnings per share	124,601,667	125,788,333	124,601,667	125,788,333
<b>Earnings per share from continuing and discontinued operations:</b>				
Basic	(1.83)	(3.18)	(0.06)	(0.10)
Diluted	(1.83)	(3.18)	(0.06)	(0.10)
<b>Earnings per share from continuing operations:</b>				
Basic	(1.83)	(2.72)	(0.06)	(0.09)
Diluted	(1.83)	(2.72)	(0.06)	(0.09)

The effect of the Company's potentially dilutive securities is anti-dilutive for the first quarter 2010. Accordingly, the diluted loss per share is the same as the basic loss per share for the six months period ended 30 June 2010.

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## **7 Repurchase and repayment of debt and equity securities**

During first six months 2010, the Group has repurchased a total of 81 units of its bonds at a weighted average of 101% of its nominal value. The Group has spent a total of RUR 38,337 thousand (USD\* 1,229 thousand) which represented a total nominal value of RUR 34,577 thousand (USD\* 1,108 thousand) and accrued interest of RUR 3,760 thousand (USD\* 121 thousand). As a result of these transactions, the Group has realized a net loss of RUR 665 thousand (USD\* 21 thousand).

On 15 March 2010 the Interest Payment Date occurred and the Group paid annual interest payment at the amount of RUR 218,883 thousand (USD\* 7,016 thousand).

As of 30 June 2010 the Group has in total repurchased 1,318 out of 5,500 bonds issued in 2007.

On 7 June 2010, Black Earth Farming announced an exchange offer to the holders of the Company's EUR 55,000,000 13% Bonds 2007/2011 with security, Loan no.1, ISIN SE0001967316 (the "Existing Bonds") to exchange their Existing Bonds for the new bonds. Existing Bond holders have accepted the offer to exchange their Existing Bonds in a nominal amount of EUR 27,150,000. Black Earth Farming will act to terminate all Existing Bonds tendered in the exchange offer as well as those previously owned by the Company, amounting to a nominal amount of EUR 40,330,000 in total.

The early redemption has been set as of 26 July 2010 and the record date in respect of the early redemption has been set as of 19 July 2010. Pursuant to the terms and conditions for the Existing Bonds the amount payable on the early redemption date amounts to EUR 10,100 for each Existing Bond with a nominal amount of EUR 10,000. In addition, the Company will pay accrued interest for the period from, but excluding, 15 March 2010 up to and including 26 July 2010.

## **8 Contingencies and commitments**

The Group continues to register land and build up its production as well as real estate portfolio, the latter mainly consist of grain storage and drying capacity. Investment in land includes mainly registration towards ownership of already controlled land plots. Till the end of the 2010 year the Group intends to spend about RUR 159,330 thousand (USD\* 5,107 thousand) on land related expenditures. Investments into production predominantly consist of purchases of agricultural machinery and equipment and vehicles. According to 2010 capex program the Group plans to spend RUR 160,237 thousand (USD\* 5,137 thousand) on production investment. Investment in infrastructure mainly concerns grain storing facilities, internal drying capacity and other grain handling infrastructure. Till the end of the 2010 year the Group plans capital expenditures related to infrastructure in the amount of RUR 720,439 thousand (USD\* 23,094 thousand).

## **9 Subsequent events**

- During July the Company successfully completed a SEK 750 million placement of 10% coupon senior unsecured bonds as part of refinancing of its previous EUR 55 million 13% coupon Eurobonds.
- The Company started harvesting on 8 July 2010 and as of 24 August 128 thousand hectares had been harvested and following pre-cleaning approximately 194 thousand tons of commercial crops had been collected. Yields have been negatively affected by abnormally high temperatures and very little rainfall. The average yield for winter wheat was 1.9 tons per hectare, spring wheat and spring barley 1.4 and spring rape 0.6. Remaining cultures, including soya, sunflower and corn, are still pre-harvest subject to germination and weather conditions.
- Due to the extreme Russian weather conditions and resulting country-wide grain harvest shortage, local prices have been showing dramatic increases since early July. Lower nation-wide grain production has resulted in Russian government export ban for wheat which came into effect on 15 August.

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The Board of Directors and the managing director 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, August, 26, 2010

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Per Brilioth

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Sture Gustavsson

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Alex Gersh

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Henrik Persson

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Poul Schroder

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Magnus Unger

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Richard Warburton

Future financial reports:

Interim report January-September 2010  
Year-end report January-December 2010

26 November 2010  
25 February 2011

## **Black Earth Farming Limited**

For further information contact:

Erik Lystedt  
*Director of Investor Relations and Exchange Compliance Officer*  
+44 [0] 2071 178 100  
erik@blackearthfarming.com

Group's website: [www.blackearthfarming.com](http://www.blackearthfarming.com)

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# Terms and Definitions

## Units

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

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

## “AGRO-Invest Group”

The Company’s subsidiary OOO Management Company AGRO-Invest 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, 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.