BLACK EARTH FARMING LIMITED
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2016

CONTENTS

Directors	Franco Danesi Per-Arne Ahlgren Camilla Oberg Poul Schroder Dmitry Zavgorodniy
Secretary	First Names (NTC) Secretaries Limited (formerly Nautilus Corporate Services Limited)
Registered Office	3rd Floor 37 Esplanade St. Helier Jersey JE2 3QA
Bankers	The Royal Bank of Scotland International Limited Skandinaviska Enskilda Banken Nordea Bank AB Pareto Ohman AB Saxo Bank Monex Europe Ltd
Auditors	AO PricewaterhouseCoopers Audit

The directors present their report together with the financial statements of Black Earth Farming Limited (the “Company”) for the year ended 31 December 2016.

ACTIVITIES

The principal activity of the Company, which is incorporated in Jersey, Channel Islands, is investment holding.

RESULTS AND MANAGEMENT COMMENTARY

The results for the year are set out in the Statement of Profit or Loss and Other Comprehensive Income.

Since inception principal activity of Black Earth Farming Limited has been investment in a Group of companies (“the Group”) involved in (a) acquiring and registering farm land into ownership, (b) a large fleet of western agricultural machinery and (c) supporting storage infrastructure for the Group’s operations in the Russian Federation.

Land is recorded in the consolidated financial statements of the Company’s main investment holdings at acquisition cost but the Company believes that Russian agricultural land remains undervalued, both in comparative terms and in relation to its inherent production potential. As of 31 December 2016, the Group of companies controlled by the Black Earth Farming Limited had a total of 246 thousand hectares under control, of which 89% were owned.

On 30 October 2013, the company refinanced its outstanding 2014 bond with a new four year SEK 750 million bond, extending maturity to 2017. As of 31 December 2016, the company held SEK 338 million of the bonds on its balance sheet.

On 13 February 2017 the Company’s direct wholly owned subsidiary, Planalto Enterprises Limited ("Planalto"), entered into a framework share purchase agreement (the "SPA") regarding the sale of its wholly owned subsidiaries LLC Managing Company Agro Invest ("AIMC") and LLC Managing Company Agro Invest Regions ("AIRMC"), that in turn hold shares in all other Russian subsidiaries of the Group, and an assignment agreement pursuant to which Planalto assigns its claims under the intergroup loans to AIMC, to LLC Volgo-DonSelkhozInvest, an unrelated entity (the "Transaction"). The total estimated purchase price is set at an initial consideration of USD 184 million which is higher than the carrying value of the respective disposal group. The purchase price is subject to adjustment depending on certain variables such as changes in net debt and working capital as estimated at signing compared to completion. In accordance with the SPA, on 16 February 2017 Volgo-DonSelkhozInvest paid USD 10 million as a deposit to the deal.

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

On 4 April 2017, 1,853,740 new shares (0.88% of shares then outstanding) were issued as a result of the 2013-2015 Company’s management incentive program. Following the issue, the total number of outstanding shares became 212,279,981. Full details of the Group's performance and commentary can be found in the consolidated financial statements.

DIVIDEND

No dividend was declared for 2016 (2015: nil).

DIRECTORS

The following have served as directors during the year or to date:

Camilla Oberg
Per-Arne Ahlgren
Poul Schroder
Franco Danesi
Dmitry Zavgorodniy

DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

Companies (Jersey) Law 1991 requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the Company for that period.

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

a) properly select and apply accounting policies;

b) present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

c) provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and

d) make an assessment of the company's ability to continue as a going concern.

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

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

SECRETARY

First Names (NTC) Secretaries Limited served for the whole of the year and to date.

AUDITORS

AO PricewaterhouseCoopers Audit were appointed as auditors at the AGM held on 20 May 2016

BY ORDER OF THE BOARD

7 April 2017

First Names (NTC) Secretaries Limited

Company Secretary

Independent Auditor's Report To the Members of Black Earth Farming Limited

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of Black Earth Farming Limited (the "Company") as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and have been properly prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

What we have audited:

The Company's financial statements comprise:

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

Basis for opinion

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

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

Independence

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

Emphasis of Matter

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

Our audit approach

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

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

Materiality

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

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

Overall materiality	1,755 thousand United States Dollars ("USD")
How we determined it	Based on 1% of the Company's total assets for the year ended 31 December 2016.
Rationale for the materiality benchmark applied	We have applied this benchmark based on our analysis of the information needs of the users of the financial statements. We used a benchmark of total assets due to the nature of entity, which is a holding company, and therefore a key indicator of the value of the Company, which is monitored by management and investors.

Key audit matters

We have determined that there are no Key Audit Matters to communicate in our report.

Responsibilities of the directors and those charged with governance for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, the requirements of Jersey Law and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and not using the going concern basis of accounting where the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

Auditor's Responsibilities for the audit of the financial statements

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

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

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

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

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

Report on other legal and regulatory requirements

Under the Companies (Jersey) Law 1991 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit;
- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

This report, including the opinion, has been prepared for and only for the members as a body in accordance with Article 113A of the Companies (Jersey) Law 1991 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Alexei Ivanov

For and on behalf of AO PricewaterhouseCoopers Audit

Chartered Accountant and Recognized Auditor

Moscow, Russian Federation

7 April 2017

The maintenance and integrity of the website of Black Earth Farming Limited is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

BLACK EARTH FARMING LIMITED
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

		Year ended	
In thousands of US Dollars	**Notes**	**31 Dec 2016**	**31 Dec 2015**
Consulting and audit expenses		(3,505)	(3,482)
Personnel expenses		(1,756)	(1,954)
Other expenses		(588)	(542)
Operating loss		**(5,849)**	**(5,978)**
Income on grain options	6	1,981	1,523
Gain on repurchase of bonds	8	173	499
Interest expense		(5,056)	(5,483)
Foreign exchange gain / (loss)		12,414	(8,987)
Profit / (loss) for the year		**3,663**	**(18,426)**
Other comprehensive income / (loss):			
Items that may be reclassified subsequently to profit or loss:			
Translation of financial information to presentation currency		20,189	(31,477)
Other comprehensive income / (loss) for the year		**20,189**	**(31,477)**
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR		**23,852**	**(49,903)**

The notes set out on pages 5 to 21 form an integral part of these financial statements.

BLACK EARTH FARMING LIMITED
STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2016

In thousands of US Dollars	Note	31 Dec 2016	31 Dec 2015
ASSETS			
Non-current assets			
Investments in subsidiaries	4	-	27,514
Loans receivable	5	-	118,853
Total non-current assets		**-**	**146,367**
Current assets			
Investments in subsidiaries	4	33,060	-
Loans receivable	5	137,367	-
Accounts receivable	6	207	1,304
Cash and cash equivalents	7	5,789	5,905
Total current assets		**176,423**	**7,209**
Total assets		**176,423**	**153,576**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	9	2,105	2,105
Share premium		525,904	525,904
Share-based payments reserve	10	4,858	4,249
Accumulated deficit		(206,036)	(210,192)
Translation reserve		(201,699)	(221,991)
Total equity		**125,132**	**100,075**
LIABILITIES			
Non-current liabilities			
Long-term loans and borrowings	8	**-**	51,058
Total non-current liabilities		**-**	**51,058**
Current liabilities			
Accounts payable		555	865
Short-term loans and borrowings	8	50,736	1,578
Total current liabilities		**51,291**	**2,443**
Total liabilities		**51,291**	**53,501**
Total equity and liabilities		**176,423**	**153,576**

These financial statements were approved by the Board on 7 April 2017.

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Director

In thousands of US Dollars

	Notes	Share capital	Share premium	Share-based payments reserve	Accumulated deficit	Translations reserve	Total equity
Balance as at 1 January 2015		2,077	524,771	4,868	(191,789)	(190,778)	149,149
Loss for the year		-	-	-	(18,426)	-	(18,426)
Other comprehensive loss							
Translation differences		-	-	(264)	-	(31,213)	(31,477)
Total comprehensive loss		**-**	**-**	**(264)**	**(18,426)**	**(31,213)**	**(49,903)**
Reclassification from Share-based payments reserve to Accumulated deficit		-	-	(23)	23	-	-
Recognition of share-based payments	10	-	-	726	-	-	726
Shares issued	9	28	1,133	(1,058)	-	-	103
Balance as at 31 December 2015		**2,105**	**525,904**	**4,249**	**(210,192)**	**(221,991)**	**100,075**
Balance as at 1 January 2016		**2,105**	**525,904**	**4,249**	**(210,192)**	**(221,991)**	**100,075**
Profit for the year		-	-	-	3,663	-	3,663
Other comprehensive income / (loss)							
Translation differences		-	-	(165)	-	20,354	20,189
Total comprehensive income / (loss)		**-**	**-**	**(165)**	**3,663**	**20,354**	**23,852**
Reclassification from Share-based payments reserve to Accumulated deficit		-	-	(431)	493	(62)	-
Recognition of share-based payments	10	-	-	1,205	-	-	1,205
Balance as at 31 December 2016		**2,105**	**525,904**	**4,858**	**(206,036)**	**(201,699)**	**125,132**

The notes set out on pages 5 to 21 form an integral part of these financial statements.

In thousands of US Dollars	Year ended 31 Dec 2016	31 Dec 2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit / (loss) for the year	3,663	(18,426)
Adjustments for:		
Foreign exchange (gain) / loss	(12,414)	8,987
Interest expense	5,056	5,483
Long-term employee benefits	1,205	726
Other non-cash operations	86	-
	(2,404)	**(3,230)**
Movements in working capital:		
(Decrease) / increase in accounts payable	(259)	516
Decrease / (increase) in accounts receivable	937	(646)
Cash used in operating activities	**(1,726)**	**(3,360)**
Interest paid	(4,580)	(6,113)
Net cash used in operating activities	**(6,306)**	**(9,473)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Loan repayments received	4,457	8,000
Loans granted to related parties	-	(4,406)
Net cash generated from investing activities	**4,457**	**3,594**
CASH FLOWS FROM FINANCING ACTIVITIES		
Repurchase of bonds	(3,275)	(3,487)
Proceeds from borrowings	5,502	-
Net cash generated from / (used in) financing activities	**2,227**	**(3,487)**
Net increase / (decrease) in cash and cash equivalents	**378**	**(9,366)**
Cash and cash equivalents at the beginning of the year	5,905	15,487
Effect of exchange rate fluctuations on cash and cash equivalents	(494)	(216)
Cash and cash equivalents at the end of the year	**5,789**	**5,905**

The notes set out on pages 5 to 21 form an integral part of these financial statements.

1 BACKGROUND

(a) Organization and operations

Black Earth Farming Limited (the “Company”) is a limited liability company incorporated in Jersey, Channel Islands, on 20 April 2005, re-registered on 30 October 2006 as a public company. The Company is the holding company for a number of legal entities established under the legislation of Cyprus, Guernsey (Channel Islands) and the Russian Federation. Hereinafter the Company and its subsidiaries are together referred to as the “Group”.

The Company’s registered office is 3rd Floor, 37 Esplanade, St. Helier JE2 3QA, Jersey.

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

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

As described in Note 13, in February 2017, the Group entered into a framework share purchase agreement to sell all its Russian operating subsidiaries to a third party buyer for a consideration exceeding the carrying value of the respective net assets. It is expected that, upon completion of the sale transaction, the Board of Directors is going to propose that an Extraordinary General Meeting resolves on a voluntary liquidation of the Company as soon as practically possible after the Company has repurchased its outstanding bonds and distributed excess proceeds to the shareholders. Accordingly, these separate financial statements are not prepared on a going concern basis.

(b) Operating environment

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. During 2016 the Russian economy was negatively impacted by low oil prices, ongoing political tension in the region and continuing international sanctions against certain Russian companies and individuals, all of which contributed to the country’s economic recession and a decline in gross domestic product. The financial markets continue to be volatile and are characterized by frequent significant price movements and increased trading spreads. Russia's credit rating was downgraded to below investment grade (as per S&P and Moody’s). This operating environment has a significant impact on the Group’s operations and financial position.

2 BASIS OF PREPARATION

(a) Basis of preparation

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

Nevertheless, these separate financial statements of the Company are still prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU), pursuant to the requirements of the Companies (Jersey) Law 1991.

These financial statements have been prepared under the historical cost convention as modified by the revaluation of financial assets at fair value through profit or loss.

The principal accounting policies applied in the preparation of these separate financial statements are set out below. These policies have been consistently applied to all the periods presented, except for classification of all assets and liabilities of the Company at 31 December 2016 as current, including those previously treated as non-current, due to the fact that these assets and liabilities are in the process of realisation, as described in Note 1, even if it was not certain that all these net assets will be realised within 12 months of the balance sheet date. No adjustments to the carrying values of assets and liabilities are necessary, as the sale price is higher than the net assets of the disposal group.

2 BASIS OF PREPARATION (CONTINUED)

The preparation of financial statements in conformity with IFRS as adopted by the EU requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

(b) Consolidated financial statements

The Company has also prepared consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU for the Group. A copy of the consolidated financial statements is available to the members, at the Company's website at www.blackearthfarming.com and at the Company's registered office.

Users of these separate financial statements of the parent company should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2016 in order to obtain a proper understanding of the financial position, the financial performance and the cash flows of the Company and the Group.

(c) Functional and presentation currency

The functional currency of the Company is considered to be the Russian Ruble ("RUB"), the currency of the primary economic environment that affects the Company`s operations.

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

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

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

	2016	2015
RUB/USD average for the year ended 31 December	67.0349	60.9579
RUB/USD as at 31 December	60.6569	72.8827
RUB/SEK average for the year ended 31 December	7.8555	7.2434
RUB/SEK as at 31 December	6.6674	8.726

3 SIGNIFICANT ACCOUNTING POLICIES

(a) Investments in Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Company has control. The Company controls an entity whom the Company is exposed to or has the rights to variable returns through its power over the entity. In its parent company financial statements, the Company carries the investments in subsidiaries at cost less any impairment.

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Financial Instruments

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

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

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

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. In the fair value hierarchy, fair value measurements are analysed by level as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

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

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

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument.

The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

(c) Impairment

Financial assets

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

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

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

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

(d) Share-based payment arrangements

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

(e) Borrowings

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

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

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

(f) Provisions

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

(g) Income tax

The Company is subject to Jersey income tax at the rate 0% (2015: 0%), therefore no current or deferred tax is recognized in the statement of comprehensive income.

(h) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Adoption of new and amended standards

The following new standards and interpretations became effective for the Company from 1 January 2016, but did not have any material impact on the Company.

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

(j) New accounting pronouncements

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Use of judgments and estimates

Investments in subsidiaries and loans receivable

The Company periodically evaluates the recoverability of investments in subsidiaries whenever indicators of impairment are present. Indicators of impairment include such items as declines in revenues, earnings or cash flows or material adverse changes in the economic or political stability of a particular country, which may indicate that the carrying amount of an asset is not recoverable. If facts and circumstances indicate that investment in subsidiaries may be impaired, the estimated future discounted cash flows associated with these subsidiaries would be compared to their carrying amounts to determine if a write-down to fair value is necessary.

The key judgment made by the management is with respect to the recoverability of the loans provided to the Russian operating companies via Planalto Enterprises Limited and the investments in Planalto Enterprises Limited. The recoverability of these financial assets is ensured by the terms of the sale transaction and the subsequent plan of voluntary liquidation of the Company (see Note 1). The transaction price is higher than the carrying amount of the underlying assets.

4 INVESTMENTS IN SUBSIDIARIES

In thousands of US Dollars	**31 Dec 2016**	**31 Dec 2015**
Planalto Enterprises Limited:		
1,000 shares of Cyprus Pounds 1 each	32,972	27,441
Other	88	73
	33,060	**27,514**

Planalto Enterprises Limited

The investment represents 100% of the issued share capital of Planalto Enterprises Limited, a company incorporated in Cyprus, whose principal activity is the registering and acquisition of Russian subsidiaries.

The net assets value of Planalto Enterprises Limited as at 31 December 2016 was positive USD 29,572 thousand (31 December 2015: USD 32,190 thousand).

As described in Note 2 (a), as at 31 December 2016, all investments in subsidiaries are classified as current assets.

5 LOANS RECEIVABLE

In thousands of US Dollars	**31 Dec 2016**	**31 Dec 2015**
Planalto Enterprises Limited:		
Loan, RUB denominated	136,301	117,203
Loan, EUR denominated	754	1,236
Loan, USD denominated	312	312
	137,367	118,751
Management Company Agro-Invest:		
Loan, EUR denominated	-	102
	137,367	**118,853**

The loans are unsecured, interest free and repayable on demand and are considered as part of the overall investment in subsidiaries.

The fair value of loans receivable equals their carrying amount, as the impact of discounting is not significant due to the fact that they are repayable on demand.

6 ACCOUNTS RECEIVABLE

In thousands of US Dollars	31 Dec 2016	31 Dec 2015
Receivables under option contracts	103	1,276
Other receivables and prepayments	104	28
	207	**1,304**

In 2016 and 2015 the Company entered into option contracts for certain products (usually corn and wheat) to hedge price volatility risks.

As at 31 December 2016 the amount of USD 103 thousand (31 December 2015: USD 1,276 thousand) was included in receivables under option contracts.

For the year ended 31 December 2016 changes in the fair value of options were included in profit or loss in the amount of USD 1,981 thousand (2015: USD 1,523 thousand).

7 CASH AND CASH EQUIVALENTS

In thousands of US Dollars	31 Dec 2016	31 Dec 2015
Bank balances, EUR denominated accounts	4,903	100
Bank balances, SEK denominated accounts	878	72
Bank balances, USD denominated accounts	4	5,627
Bank balances, GBP denominated accounts	4	-
Bank balances, RUB denominated accounts	-	6
Restricted cash	-	100
	5,789	**5,905**

8 BORROWINGS

In thousands of US Dollars	31 Dec 2016	31 Dec 2015
SEK bonds		
Current	45,600	1,578
Non-current	-	51,058
	45,600	**52,636**
Other borrowings		
Current (Note 12)	5,136	-
	5,136	**-**
Total borrowings	**50,736**	**52,638**

In October 2013, the Company issued SEK 750 million (USD 118,030 thousand translated at the exchange rate at that date) senior unsecured bonds, each of a nominal amount of SEK 1,000,000, which is also the minimum round lot. The bonds have a fixed annual coupon of 9.4% and mature after 4 years. Interest will be paid on 30 January, 30 April, 30 July and 30 October each year, with the first interest payment on 30 January 2014 and the last on 30 October 2017. The bonds are listed on the NASDAQ OMX Stockholm exchange.

Up to 31 December 2016, the Company repurchased SEK 338 million (USD 48,603 thousand translated at the exchange rate at the dates of repurchase) of bonds in order to manage interest expense and foreign exchange exposure. Gain on repurchase of bonds for the year ended 31 December 2016 was USD 173 thousand (2015: USD 499 thousand).

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

8 BORROWINGS (CONTINUED)

The major financial covenants for bonds are as follows:

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

As at 31 December 2016 and 2015, the Company was in compliance with the covenants stipulated in the bond agreement.

9 SHARE CAPITAL

In thousands of US Dollars	**31 Dec 2016**	**31 Dec 2015**
Authorised: 500,000,000 ordinary shares of US$0.01 each	5,000	5,000
Issued and fully paid	2,105	2,105

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

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

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

Dividends

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

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

10 SHARE-BASED PAYMENTS RESERVE

In thousands of US Dollars	**31 Dec 2016**	**31 Dec 2015**
Warrants	1,290	2,047
Executive share option plan	3,568	2,201
	4,858	**4,249**

10 SHARE-BASED PAYMENTS RESERVE (CONTINUED)

Warrants

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

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

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

	Year ended 31 Dec 2016		Year ended 31 Dec 2015	
	Weighted average exercise price	**Number of warrants, in thousands**	**Weighted average exercise price**	**Number of warrants, in thousands**
	SEK	7,500	USD 2.42	223
			SEK 13.29	4,906
At the beginning of the year		**7,500**		**5,129**
Forfeited during the year		-	USD 5.89	(223)
Forfeited during the year	SEK 6.10	(433)	SEK 3.87	(1,056)
Expired during the year	SEK10.17	(1,700)	SEK 11.03	(450)
Granted during the year		-	SEK 3.65	4,100
At the end of the year		**5,367**		**7,500**
Including:			SEK 6.55	7,500
Exercisable at the end of the year	SEK6.06	2,617	SEK 9.43	2,517
		2,617		**2,517**
Weighted average contractual and expected life (years)		3.42		3.44

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

The significant inputs into the valuation model:

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

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

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

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

10 SHARE-BASED PAYMENTS RESERVE (CONTINUED)

Executives share option plan (ESOP)

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

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

Every year, new rights are granted to the participants of the plan, the number of rights depending on the number of shares held but not more than the maximum stipulated by the terms of the plan.

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

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

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

As at 31 December 2016, the following rights were outstanding but not exercisable under the ESOPs:

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

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

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

10 SHARE-BASED PAYMENTS RESERVE (CONTINUED)

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

Personnel expenses for 2016 includes share-based payment expenses of USD 1,205 thousand (2015: 726 thousand).

11 FINANCIAL RISK MANAGEMENT

(a) Categories of financial instruments

	31 Dec 2016	31 Dec 2016
Financial assets		
- Loans receivable	137,367	118,853
- Cash and cash equivalents	5,789	5,905
- Accounts receivable	207	1,304
Total	**143,363**	**126,062**
Financial liabilities		
- Loans and borrowings	50,736	52,636
- Accounts payable	555	865
Total	**51,291**	**53,501**

(b) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

Loans receivable. The Company has loans receivable from related parties. The Company as a stand-alone entity is significantly exposed to credit risk in relation to these receivables and is dependent upon the performance of its wider Group's activities.

Cash and cash equivalents. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Investments. The Company limits its exposure to credit risk by placing surplus funds on deposit with a variety of established banks. Management does not expect any counterparty to fail to meet its obligations.

Exposure to credit risk

The carrying amount of financial assets as shown in the statement of financial position represents the maximum credit exposure.

11 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk

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

31 December 2016 *In thousands of US Dollars*	**Less than 1 year**	**From 1 to 2 years**	**From 2 to 5 years**	**Total**
SEK Bonds	50,730	-	-	50,730
Accounts payable	555	-	-	555
	51,285	**-**	**-**	**51,285**

31 December 2015 *In thousands of US Dollars*	**Less than 1 year**	**From 1 to 2 years**	**From 2 to 5 years**	**Total**
SEK Bonds	6,541	56,935	-	63,476
Accounts payable	865	-	-	865
	7,406	**56,935**	**-**	**64,341**

(d) Market risk

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

Currency risk

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

The Company does not hedge currency risk; however, the Company has sufficient hard currency-denominated cash in order to meet its interest payment obligation.

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

In thousands of US Dollars	**31 Dec 2016**	**31 Dec 2015**
EUR	625	2,605
USD	316	6,614
GBP	(308)	(836)
SEK	(44,754)	(52,567)

The following significant exchange rates applied during the year:

	Rate at 31 Dec 2016	**Average rate for 2016**	**Rate at 31 Dec 2015**	**Average rate for 2015**
RUB/USD	60.6569	67.0349	72.8827	60.9579
RUB/EUR	63.8111	74.2310	79.6972	67.7767
RUB/GBP	74.5595	91.2578	107.9830	93.2634
RUB/SEK	6.6674	7.8555	8.7260	7.2434

11 FINANCIAL RISK MANAGEMENT (CONTINUED)

Foreign currency sensitivity analysis

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

In thousands of US Dollars	**Equity**	**Profit or loss**
2016		
EUR	63	63
USD	32	32
GBP	(31)	(31)
SEK	(4,475)	(4,475)
2015		
USD	1,984	1,984
EUR	781	781
GBP	(251)	(251)
SEK	(15,770)	(15,770)

Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). The Company adopts a policy of limiting its exposure to changes in future cash flows by borrowing on a fixed rate basis.

Fair value sensitivity analysis for fixed rate instruments

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

(e) Fair values

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

Non-derivative financial instruments

Fair value for loans and borrowings (Note 8), which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date and approximates their carrying amount.

(f) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital. There were no changes in the Company's approach to capital management during the year.

The capital structure of the Company consists of debt, cash and cash equivalents and equity, comprising issued capital, reserves and retained earnings.

The company is subject to capital requirements stipulated in the bond agreement.

11 FINANCIAL RISK MANAGEMENT (CONTINUED)

(g) Hedging transactions

Since 2013 the Group has used a grain hedging program with trading in futures and options on international exchanges to hedge price volatility risks. As at 31 December 2016 the fair value of the derivative financial instruments of USD 103 thousand (31 December 2015: USD 1,275 thousand) was included in other receivables. In 2016 and 2015 Group had income on grain hedge of USD 1,981 thousand and USD 1,523 thousand, respectively. A sales and marketing committee, including board representatives, convenes regularly to discuss and decide on hedging strategies.

12 RELATED PARTY TRANSACTIONS

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

At 31 December 2016 and 2015, the outstanding balances with related parties that are members of the Group were as follows:

In thousands of US Dollars	**31 Dec 2016**	**31 Dec 2015**
Short-term loans and borrowings		
Black Earth Trading International	5,136	-

In April 2016, the Company entered into new credit agreements with Black Earth Trading International for a total of EUR 4,883 thousand (USD 5,502 thousand at the date of transaction). The borrowings are unsecured, interest free and repayable within one year. The fair value of these borrowings equals their carrying amount, as the impact of discounting is not significant.

In thousands of US Dollars	**31 Dec 2016**	**31 Dec 2015**
Loans receivable from Group Companies		
Planalto Enterprises Limited (Note 5)	137,367	118,853

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

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

12 RELATE PARTY TRANSACTIONS (CONTINUED)

	31 Dec 2016	31 Dec 2015
Accounts payable to related parties		
TerraVost Ltd (formerly KinnAgri Ltd)	159	404
KCM International Ltd	133	401
	292	**805**

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

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

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

Remuneration for Directors that comprises salaries and share-based payments for the year ended 31 December 2016 was USD 1,486 thousand (2015: USD 1,228 thousand).

13 EVENTS AFTER THE BALANCE SHEET DATE

On 13 February 2017 the Company’s direct wholly owned subsidiary, Planalto Enterprises Limited ("Planalto"), entered into a framework share purchase agreement (the "SPA") regarding the sale of its wholly owned subsidiaries LLC Managing Company Agro Invest ("AIMC") and LLC Managing Company Agro Invest Regions ("AIRMC"), that in turn hold shares in all other Russian subsidiaries of the Group, and an assignment agreement pursuant to which Planalto assigns its claims under the intergroup loans to AIMC, to LLC Volgo-DonSelkhozInvest, an unrelated entity (the "Transaction"). The total estimated purchase price is set at an initial consideration of USD 184 million which is higher than the carrying value of the respective disposal group. The purchase price is subject to adjustment depending on certain variables such as changes in net debt and working capital as estimated at signing compared to completion. In accordance with the SPA, on 16 February 2017 Volgo-DonSelkhozInvest paid USD 10 million as a deposit to the deal.

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

On 4 April 2017, 1,853,740 new shares (0.88% of shares then outstanding) were issued as a result of the 2013-2015 Company’s management incentive program. Following the issue, the total number of outstanding shares became 212,279,981.