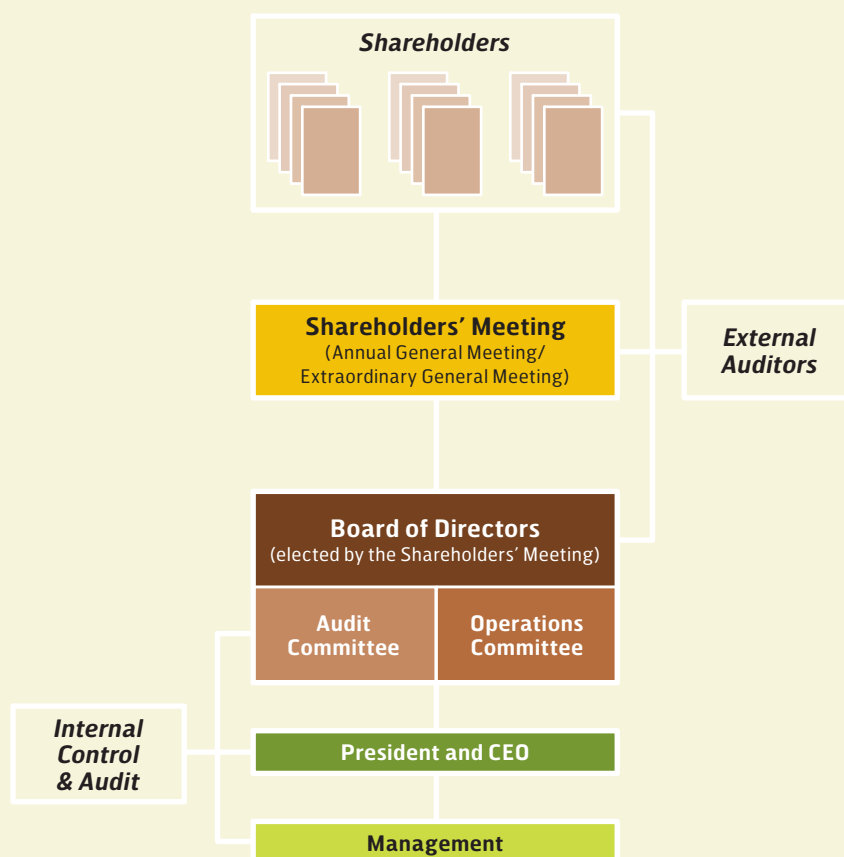


# Corporate Governance Report



## Introduction

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

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

## Shareholders meetings

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

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

In 2012, Black Earth Farming held the Annual General Meeting on 25 May 2012 at Storgatan 19 in Stockholm, Swe-

den. As per the published agenda and minutes, the AGM adopted the consolidated profit and loss statement for the period 1 January to and including 31 December 2011, as well as balance sheet and the consolidated balance sheet as of 31 December 2011, it was resolved upon the election of Board of Directors and auditors, with Deloitte as the Company's continued auditors. It was furthermore resolved not to pay any dividends for 2011.

### Appointment and remuneration of the Board and Auditors

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

In accordance with the resolution of the 2012 Annual General Meeting, a Nomination Committee consisting of members representing the three largest shareholders in the Company per the last business day in August 2012 was appointed. The Nomination Committee for the 2013 AGM is comprised of Per Brilioth, on behalf of Vostok Nafta Investment Ltd, Anders Kronborg, on behalf of Kinnevik New Ventures AB (a subsidiary of Investment AB Kinnevik), and Leif Törnvall, on behalf of Alecta. Per Brilioth is Chairman of the Nomination Committee which is a deviation from the Code as the Company sees it appropriate for the major shareholders to determine the board composition. At the time of its formation the Nomination Committee represented approximately 59 percent of the shares in Black Earth Farming.

### The Board of Directors

#### The 2012 Board of Directors

The Articles of Association stipulate that there shall be no maximum number of Directors unless and until otherwise determined by the Company in a general meeting by ordinary resolution. However, the minimum number of Direc-

tors (other than any alternate Directors) shall be two. At the AGM 2012 it was resolved that the Board until next AGM shall consist of 7 members.

At the 2012 AGM Per Brilioth, Henrik Persson, Alex Gersh, Poul Schroder, Richard Warburton and Magnus Unger were re-elected. Sture Gustavsson declined re-election and Vigo Carlund was elected as a new member of the board and appointed chairman. For a detailed presentation of the current Board, until the AGM 2013, see section "Board, management and auditors" in the formal annual report. The Code states that it is possible for major shareholders of Swedish companies to appoint a majority of members with whom they have close ties. Black Earth Farming shares the positive view of active and responsible ownership which is also expressed in the preparatory documents to the Swedish Companies Act. Given Black Earth Farming's line of business, stage of development and general environment, the elected Board represents a suitable composition with versatility and breadth in terms of the Directors' qualifications, experience and background. The table below contains summary information on the current Directors' name, position, year of election to the Board, year of birth, citizenship and respective holding of SDRs/shares and warrants in the Company.

#### Board meetings

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

During the financial year ended 31 December 2012, sixteen Board meetings were held, whereof seven were held with personal attendance, the rest were held by means of telephone conferencing.

Name	Title	Born	Nationality	Elected	Connection to the company	Audit committee	Board meeting attendance	SDR holdings	Warrant holdings	Board fee, TEUR
Vigo Carlund	Chairman of the board	1946	Swedish	2012	Independent		8	407,311*	0	60
Per Brilioth	Non-executive Director	1969	Swedish	2006	Main owner		16	176,666*	0	40
Alex Gersh	Non-executive Director	1964	American	2007	Independent	Chair	8	0	100,000	60
Henrik Persson	Non-executive Director	1974	Swedish	2006	Main owner	member	12	6,666	0	40
Poul Schroder	Non-executive Director	1944	Danish	2010	Independent		16	130,000	0	60
Magnus Unger	Non-executive Director	1942	Swedish	2010	Independent	member	16	250,000	0	40
Richard Warburton	President and CEO	1966	British	2010	Management		16	430,000	749,999	0
<b>Number of meetings in 2012</b>							<b>4</b>	<b>16</b>		

\* SDRs held via an insurance policy

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

At one time or another when deemed suitable by the Board, certain members of senior management, but not members of the Board, have been invited to attend meetings for in depth reviews and/or discussions of their respective business areas and/or projects. In connection with the Annual Audit of the Company's accounts the Auditors are always requested to attend a meeting to report their observations from the annual audit.

### **Work and Responsibilities**

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

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

During 2012 the Board has continuously addressed the strategic direction, the financial performance, and the methods to reach profitability and sustain growth longer term. No dissenting opinions in relation to decisions have been reported in the minutes during the year. However, the Board has at times tabled an issue until a later meeting when more supporting documentation or more in depth review of an issue could be produced. An annual evaluation of the board's work was performed in order to develop the board's working methods and efficiency.

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

The Nomination committee suggests a chairman of the board to be elected by the AGM. The chairman shall not be employed by the Company. Vigo Carlund was elected chairman of the Board at the AGM held on 25 May 2012. The Chairman shall lead the otherwise open Board discussion at each Board meeting. In the case of an equality of votes the Chairman shall have a second or casting vote.

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

Pursuant to the Articles of Association, the Board may delegate any of its powers, authorities and discretions to any committee consisting of one or more Directors. In pursuit of an efficient and reliable corporate governance structure the Board in 2007 established two subcommittees, those being: the audit committee and the investment committee. As the company has evolved into a more operationally focused stage of development the operations committee was established in 2010 replacing the investment committee. Each committee keep minutes of their meetings which are made available to the board. Described below is also the Board's discharge of remuneration committee tasks.

### **Audit committee**

The audit committee is charged with the responsibility of reviewing the system of internal control, management and reporting of financial risks and the audit process. When relevant and appropriate, the Chief Financial Officer and the Company's auditors are invited to attend the meetings, including a yearly planning stage meeting before the audit and after the audit at the reporting stage. Other Directors may also be invited to attend, although at least once a year the audit committee must meet the Company's external auditors without any management being present.

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

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

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

### **Audit committee in 2012**

The audit committee consists of three of the board members, namely Alex Gersh as Chairman, Henrik Persson and Magnus Unger. Former board member Paul Wojciechowski

is a fourth specially invited member. In 2012, 4 meetings were held by the audit committee addressing the Company's financial reporting and progress.

#### **Operations committee**

The operations committee has been delegated by the Board of Directors to screen and evaluate key decisions regarding operational matters relating to the company. In particular the responsibilities of the Operational Committee include preparing decisions regarding; capital and operational expenditures outside of the board approved budget as well as review and approval of other key operational activities and hiring of high level positions within the operating company.

#### **Operations committee in 2012**

The operations committee consists of two board members, namely Poul Schroder as chairman and Richard Warburton. In 2012, 3 formal meetings were held by the operations committee together with senior management in addition to numerous telephone conference calls addressing the Company's operational progress.

#### **Remuneration committee**

The function of a specific remuneration committee, as per the Code's guidelines, is to prepare proposals on remuneration and other terms of employment for the executive management. The Board of Directors of Black Earth Farming has generally felt it more appropriate, that the entire Board performs the remuneration committee's tasks, however without the Board member(s) who are also part of the executive management. In some specific cases Per Brilioth, Henrik Persson and Alex Gersh have been given the type task of a remuneration committee, to prepare remuneration proposals. The guiding philosophy of the Board in determining compensation for executives is the need to provide a compensation package that is competitive and motivating, will attract and retain qualified executives, and encourage and motivate performance.

#### **Group management**

The CEO of Black Earth Farming is elected by, and works on behalf of the Board of Directors and shall implement the decisions made by the Board and prepare for decisions to be considered by the Board. The CEO shall also oversee compli-

ance with the objectives, policies and strategic plans for the Company that the Board has established and ensure that these objectives, policies and strategic plans are submitted to the Board for updating or revision when necessary. The CEO is responsible for the operative management of the Company including establishing a qualified senior management team, usually in discussion with the Board of Directors for the most senior positions. The CEO shall ensure that the Company fulfils the obligations regarding disclosure of information, etc., or other regulations with which the Company is required to comply. The CEO is responsible for ensuring that obligations, agreements or other acts in law that the Company enters into or effects are correctly documented and do not conflict with any applicable binding statutes.

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

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

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

#### **Principles**

Each Director currently receives an annual Board fee of EUR 30,000, other than the Chairman of the board, the operations committee and the audit committee, who each receive EUR 60,000. Richard Warburton was paid salaries as management and received no additional board fees. EUR 10,000 is paid for work within the committees of the Board. Remuneration for the senior executives consists of fixed salaries plus other benefits. In addition, certain Directors, senior executives and other key personnel within the Group are holders of warrants as part of the established incentive program. The guiding philosophy of the Board in determining compensation for executives is the need to provide a com-

Name	Born	Nationality	Employed	Function	SDR holdings	Warrant holdings*	Average strike price*
Richard Warburton	1966	British	2011	Chief Executive Officer	430,000	749,999	SEK 18.6
Fraser Scott	1961	British	2011	Chief Operating Officer	96,215	199,998	SEK 27.5
Alexander Betsky	1969	Canadian	2011	Chief Financial Officer	66,666	200,000	SEK 18.9
Richard Willows	1953	British	2011	Director of Sales & Marketing	20,833	99,999	SEK 27.5
Gustav Wetterling	1981	Swedish	2007	Director of Procurement	0	149,999 100,000	SEK 29.8 USD 10.3
Erik Lystedt	1984	Swedish	2010	Director of Investor Relations	0	9,999	SEK 26.6

\* Prior to full adjustment to warrants following the SEK 530 million rights issue completed in December 2012



pensation package that is competitive and motivating, will attract and retain qualified executives, and encourage and motivate performance. As stated in Note 33 to the Consolidated Financial Statements, in 2012 total fixed salaries and bonuses to senior executives amounted to USD\* 2,809 thousand, of which USD\* 773 thousand to the company's CEO.

### **Incentive programme**

As part of the Company's efforts to attract and retain qualified personnel, Black Earth Farming has created a warrant incentive program originally comprising of 2,059,000 warrants to subscribe for Shares. The number of warrants within the warrant instrument was thereafter increased from 2,059,000 to 10,000,000 warrants at the AGM of the Company held on 5 July 2007. Of these warrants, 2,546,000 have as of 31 December 2012 been issued for nil consideration to Directors and senior executives and other key personnel. Each warrant entitles the holder to exchange one warrant for one Share. The warrants are regulated by an agreement dated 11 August 2005, as amended. The Company has undertaken to keep Shares available in order to facilitate the future exercise of such warrants.

All warrant holders have been allotted warrants of which proportionate part is vested annually during a number of years set out in each warrant holders' warrant certificate. Warrants with a lower subscription price shall vest prior to warrants with a higher subscription price. Allocation of warrants is at the discretion of the Board. The subscription price will be affected by the time of allocation of the warrants. In the event that the warrant holders are no longer connected to the Company before the vesting date, warrants that are due to vest will be cancelled. The warrants are transferable to a maximum of 30 warrant holders. Following the Rights Issue completed in December 2012 warrants issued prior were adjusted according to the Swedish standard so that warrant holders maintain their pro rata holding. According to the standard and prepared by a third party, warrants issued prior to the rights issue were adjusted giving the holder the right to acquire 1.195 SDRs and the strike price multiplied by 0.837. At full exercise of all approved 10,000,000 warrants, the Company's share capital will be increased by USD 100,000.

### **Executives share option plan (ESOP)**

At the AGM on 25 May 2012 a performance based incentive plan for senior executives was approved. In order to participate in the plan, the participants must purchase shares (in form of SDRs) in the Group. For each share held under the plan, the Group will grant rights to the participant based upon if performance criteria relating to the development of BEF's return on capital, profitability, revenue growth and average crop yields during a three year period until March 2015. For a full details please refer to note 26 d) in the Consolidated Financials of the 2012 Annual Report or the notice to the 2012 AGM. As at 31 December 2012 1,537,761 rights had been granted which may result in a maximum of 1,537,761 shares being issued in 2015 depending on fulfilment of the aforementioned criteria.

### **Termination of employment**

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

### **Auditors**

At the AGM on 25 May 2012 Deloitte were re-appointed as the Company's auditors up until the next AGM, with Svante Forsberg with Deloitte as auditor in charge.

Svante Forsberg

*Group Audit Partner*

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

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

Srbuhi Hakobyan

Mrs. Hakobyan is a citizen of the Republic of Armenia, born in 1966.

*Principal education:* Mrs. Hakobyan holds an MBA degree from American University of Armenia, ACCA member since 2002. Deloitte are the appointed auditors since 2008.

Among other entities Mrs. Hakobyan is the lead auditor of Russian Sea Group, Polyplastic Group, EPK Group. She has no engagements in entities related to the main owners of Black Earth Farming Ltd. or the CEO of Black Earth Farming Ltd.