

# Board of Directors' report on internal control

The Board is responsible for the Company's organisation and the administration of the Company's activities, which includes internal control. Internal control in this context regards those measures taken by Black Earth Farming Limited's ("Black Earth Farming" or the "Company") Board of Directors, management and other personnel, to ensure that bookkeeping and the Company's economic condition in general are controlled and reported upon in a reliable fashion and in compliance with relevant legislation, applicable accounting standards and requirements related to the Company's market listing. Black Earth Farming has appointed an Audit Committee, consisting of two members of the Board, charged with the special responsibility to review and discuss internal and external audit and control matters.

This report has been established in accordance with the Swedish Code of Corporate Governance, which governs internal control over the financial reporting, and with the guidance provided by FAR, the institute for the accounting profession in Sweden, and the Confederation of Swedish Enterprise. This report does not constitute part of the formal Annual Report and has not been reviewed by the Company's auditors, nor does it include a statement by the Board as to how well the internal control has functioned during the year.

The system of internal control is normally described in terms of five different areas, which form part of the internationally recognised framework as introduced in 1992 by The Committee of Sponsoring Organizations in the Treadway Commission (COSO). These areas, described below, are control environment, risk assessment, control activities, information and communication and monitoring.

Management continuously monitors the Company's operations in accordance with the guidelines set out below. A thorough internal audit and review of the Company's operations was conducted with focus areas and implementation plans in 2012. The objective of the audit was to uncover weaknesses and enhance control and oversight of the Company's processes and protocols. The process has since continued on an annual basis with special focus on one or a few areas of particular importance.

## Control environment

The control environment forms the framework for internal controls that ultimately translates into financial reporting of the Company's financial position. This environment, to a meaningful extent rests on the core values that the Board and senior management communicates, acts upon and work embody in systems and processes. Black Earth Farming's ambition is that values such as precision, professionalism, trust, efficiency and integrity should permeate the organization. To project these principles and exert control, it is critical that organisational structure, chain

of command and authority are well defined and clearly communicated. Accountability should follow responsibility and structure should follow strategy in the Company. This is achieved through a combination of written instructions and formal routines on one hand and informal processes and a sound corporate culture on the other. The Board establishes the general guidelines for the Group's activities in internal policies and codes. Management should then implement such directions in financial and operational processes and instructions as well as by example.

## Risk assessment

The Board of Directors of Black Earth Farming is responsible for the identification and management of significant risks of errors in the financial reporting. The risk assessment specifically focuses on risks for irregularities, unlawful benefit of external part at the Company's expense, and risks of loss or embezzlement of assets.

It is the ambition of Black Earth Farming to minimize the risk of errors in the financial reporting by continuously identifying the safest and most effective reporting process. The Board puts effort into ensuring the reliability of those processes, which are deemed to hold the greatest risk for error, alternatively whose potential errors would have the most significant negative effect. Among other things, this includes establishing clearly stated requirements for the classification and description of statement of income and balance sheet items according to generally accepted accounting principles, given the relevant legislation. The Company is also taking steps to automatize the reporting process to contain the risk of manual errors or fraud.

The Company's Chief Financial Officer is responsible for the control and reporting of the Company's consolidated economic position to management and Board. In this capacity, the Chief Financial Officer also prepares a review of potential weaknesses in internal processes and controls to the Audit Committee and makes a recommendation to the committee on areas that could be the focus of internal audit work in the future. Based on this recommendation, as well as its own observations, the Audit Committee may choose to appoint an independent third party expert to conduct an audit of one or a few areas in the Company. In 2014, the focus of the Company's Internal Audit was on the Company's IT systems and infrastructure. A special report on this area was prepared in 2014. In 2015, an internal audit of the procurement function was launched. As procurement was moved from Moscow to Voronezh with the close of the Moscow office in the second half of 2015, it was however decided to roll the audit forward to allow the new team to settle before proceeding with the audit. Broader internal audit work continues outside such focus areas. The external auditor also reviews the control environment as part of its general audit procedures.

### Control activities

Risk assessment identifies risk areas. The Company thereafter establishes a number of control activities to verify the Company's compliance and integrity in such risk areas. The purpose of the control activities is to detect, prevent and rectify any weaknesses and deviations in the Company's processes and financial reporting. Control activities also include routines for the presentation and reporting of company accounts, for example monthly cash flow reports and budget follow ups. Special controls are in place to ensure that processes for the accounting function, including consolidation of accounts and creation of interim and full year reports, comply with pertinent legislation as well as with generally accepted accounting principles. Controls are carried out to ensure that the IT and computer systems involved in the reporting process have a sufficiently high dependability for its task. The tender and approval process in connection with large procurement transactions is another important control area.

### Information and communication

The Company has invested in advanced technical applications and designed robust processes to facilitate fast and reliable communication throughout the organisation. Internal policies and general guidelines for financial reporting are communicated between the Board of Directors, management and other personnel through regular meetings and e-mails.

The Company is committed to provide accurate, reliable and timely information, and to abide by the regulations applicable to a company listed on Nasdaq OMX Stockholm. To ensure high quality of the external reporting, the Company has adopted an information strategy that starts from the internal reporting and regulates the flow of data to the external information. The strategy applies to all parts of the organisation and includes principles for all means of communication, including website postings, press releases, interim and annual reports, prospectuses, public conference calls, interviews to specialised and general media and market analysts, as well as participation in public meetings. In order to ensure reliability and consistency of information provided, only corporate staff designated as spokespersons for Black Earth Farming are authorised to speak to the media on behalf of the Company.

All reports and press releases are published on the Company's website at [www.blackearthfarming.com](http://www.blackearthfarming.com) immediately after publication through the Company's main news distribution channel on NASDAQ OMX.

Black Earth Farming is fully committed to communicate in a transparent way. The Company will not restrict public disclosure of information unless the information is of a commercially sensitive or confidential nature.

### Monitoring

The Company's financial situation and strategy, and any weaknesses or significant changes in the operations and financial position are discussed at Board meetings. The Company prepares interim reports four times annually, which are reviewed by the Board. Management reports on operations and financials are however prepared and distributed to the Board more frequently. The Audit Committee has a particular responsibility to review and bring any weaknesses in internal control procedures to the Board's attention. Potential shortcomings are addressed by management and the Audit Committee. Thorough reviews of the Company's accounts are performed together with the external Auditor in connection with semi-annual review and the annual audit.

### The proposed transaction

All members of the board of directors, in particular Per Åhlgren, who owns GoMobile Nu, and Franco Danesi, who is employed by Kinnevik, have actively taken part in the board's dealings with the Transaction and participated in the board's resolution to enter into the SPA.