Vostok Nafta Investment Ltd

Nine Months Report

2008

– **Net result for the period was USD –296.16 mln (January 1, 2007–September 30, 2007: 103.89). Earnings per share was USD –6.44 (2.26). Net result for the quarter was USD –453.64 mln (64.37). Earnings per share for the quarter was USD –9.86 (1.40).**

– **The net asset value of the company was USD 507.29 mln (Dec 31, 2007: 803.95) on September 30, 2008, corresponding to USD 11.02 (17.61) per share. Given a SEK/USD exchange rate of 6.9660 the corresponding values were SEK 3,533.79 mln and SEK 76.79, respectively. As per the end of the period, 25.9 % of the portfolio were private investments valued at acquisition costs.**

– **The group's net asset value (NAV) per share in USD decreased by 37.43% over the period January 1, 2008–September 30, 2008. During the same period the RTS index decreased by 47.09% in USD terms. Over the period July 1, 2008–September 30, 2008, the Group's NAV per share decreased by 47.37% (RTS-index –47.39%).**

– **The number of outstanding shares at the end of the period was 46,020,901.**

– **The net asset value per share of Vostok Nafta as of October 31, 2008, was USD 6.68 (SEK 51.83). This is an updated and corrected NAV compared to the one issued on November 10th. Net debt as of October 31 amounted to USD 57.20 mln.**

Background
Vostok Nafta Investment Ltd was incorporated in Bermuda on April 5, 2007 with corporate identity number 39861.
As at September 30, 2008 the Group consists of one Bermudian parent company, one wholly owned Bermudian subsidiary, one wholly owned Cypriot subsidiary, two wholly owned Russian subsidiaries and one wholly owned Swedish subsidiary. The Swedish Depository Receipts of Vostok Nafta (SDB) are listed on the OMX Nordic Exchange Stockholm (previously the Stockholm Stock Exchange), Mid Cap segment, with the ticker VNIL SDB.
The financial year is January 1–December 31.

Group – results for the period and net asset value
During the period, the result from financial assets at fair value through profit or loss amounted to USD –157.45 (39.56) mln. Result from investments in associated companies was USD –137.52 (60.50) mln. Dividend income was USD 4.67 (9.54) mln. Interest income from loan receivables was USD 4.95 (–) mln.
Operating costs were USD –6.19 (–3.32) mln.
Net financial items were USD – 6.23 (–1.66) mln.
Net result for the period was USD –296.16 (103.89) mln.
Total shareholders' equity amounted to USD 507.29 (624.97) mln on September 30, 2008.
As per the end of the period 25.9% of the portfolio was made up of private equity investments characterized by the absence of a market price. These are carried in the portfolio at acquisition costs which the management believes reflect a fair value of these assets. However this valuation does not come with the same certainty as listed investments and the management carries out continuous valuation assessments and impairment tests at year end in order to mitigate this uncertainty.

Group – results for the quarter
During the quarter, the result from financial assets at fair value through profit or loss amounted to USD –311.91 (37.94) mln. Result from investments in associated companies was USD –138.27 (26.88) mln. Dividend income was USD 0.00 (1.47) mln. Interest income from loan receivables was USD 2.07 (–) mln.
Operating costs were USD –2.45 (–1.73) mln.
Net financial items were USD –5.10 (0.10) mln.
Net result for the quarter was USD –453.64 (64.37) mln.

Subsequent events
During the month of October the company issued debt at the Bermudan company level to the order of USD 13.25 mln. The debt is junior to the debt at the Cypriot level and has a tenure of 12 months. E. Öhman J:or Fondkommisson has acted as agent for this issue.

Parent company
The parent company finances the Cypriot subsidiary's operations on market terms. The net result for the period was USD 7.87 mln.

Liquid assets
The liquid assets of the group, defined as cash and bank deposits adjusted for concluded but not yet settled share transactions, amounted to USD 89.38 (18.04) mln on September 30, 2008.

Vostok Nafta net debt as at October 31, 2008	
Gross Debt	166,812,203
Cash	109,610,380
Net debt	**57,201,823**

The table above has not been audited by the company's accountants.

Nine Months Report Covering the Period January 1, 2008 –September 30, 2008

Russia in a global crisis

Global financial markets quickly marched from pricing in the risk of a failure of the global financial system to pricing in a severe cyclical downturn for the global economy. The coordinated effort of several governments to provide liquidity through a series of different measures has helped to separate this credit crisis from the 1930's and perhaps also Japan (in the case of USA) in the early 1990's. As a result banks should start to function as banks again. This will not stop borrowers from deleveraging but it will at least provide some life to loan growth rates (although most likely very humble growth rates), reinstating the ever so important multiplier effect that banks provide to an economy. A more or less intact financial system allows us to escape a vicious circle of falling demand and severe deflation, but it still leaves us with a pretty bad cyclical downturn lasting certainly throughout 2009 and perhaps 2010 as well. The combination of fear (although decreasing) of a financial system breakdown and the cyclical downturn has led to a severe dose of risk aversion being instated in investors' minds, which has taken its toll on anything that has had the slightest resemblance of risk for the past ten years.

The brutal onslaught on Russia's financial markets has not escaped anyone. The perception of Russia is as usual clogged up with all kinds of negative noise, but two factors stand out as real when explaining its vulnerability to the external liquidity shock that it has been (is being) subjected to:

– Underdeveloped capital markets
– The oil price

Underdeveloped capital markets

Russia's capital markets has developed immensely over the past ten years but still lack the deep, liquid and trusted institutional framework that characterizes a fully developed market. This topic can (and probably will) be expanded into numerous financial market thesis, but the centre of it is the lack of long term domestic savings in the form of for example pension and life insurance players. In the middle of the summer the stock market stood at roughly 100% of GDP while the existing domestic savings in the banking sector and pension funds stood at about 30–40% of GDP. This mismatch put Russia at the more vulnerable end of the spectrum to a dramatic change in expectations. Specifically the ownership structure of the stock market was roughly equally owned in 3 parts by the state (not a buyer), foreigners (who turned in flight into big sellers) and oligarchs. Importantly, a lot of that oligarch / local ownership was, effectively, owned on leverage (who became forced sellers). On the debt side of capital markets the tilt towards international funding was more severe with nearly 100% of long term debt held by international creditors. Back to the equity market – and to when foreigners started hitting the exit during the summer after the initial Russia bearish cocktail of Mechel, TNK-BP etc (all noise) was topped off with the conflict in Georgia (admittedly not noise but with bullish long term repercussions…). These sell orders took the market south enough to start affecting the leverage that supported the "third" owners of the market, thus turning these into forced sellers. Under normal circumstances this Russia specific increase in risk premium would lead to a ten to maybe twenty percent fall in the equity market. Coupled with the rest of the world in a free fall the Russian market fell by nearly 80 % from the high in mid May to the low at the end of October.

Oil

The second real factor explaining this vulnerability is the oil price. The short term driver of the oil price over the past three months (and probably also over the next 6 months) is the cyclical downturn's effect on oil demand. The medium to long term driver is the shortage of supply of oil.

The developed world's demand for oil has fallen by some 6% as a result of initially the high oil prices (peaking at just under USD 150 per barrel in midsummer) and then also the global cyclical downturn. The fall in demand is closer to 10% in the US, compared to Europe at around 5%. This is a result of the US economy being closer to the heart of the global credit crisis but also its absence of the same high tax on gasoline products as European oil consumers are subject to.

As we all know it has not been the developed markets demand for oil that has led to the last couple of years' demand growth. This has come from emerging economies, with China and India at the forefront. Again, the rough patch that we are going through is a global one which does not leave anyone untouched, including China and India. However in these places it is more a question of how much demand growth slows and not how much actual demand decreases (as it is in the "developed" world). China's GDP growth will slow from double digit to 5–7% in 2009, which still leads to a growth in its demand for oil.

Also another risk to the growth in demand for oil that has been brought up recently is the non-Chinese demand and how it is affected not only by the global economy, but also by general risk aversion (interrelated factors obviously).

The argument made is that risk aversion will lead to a fall in emerging market currencies which shrinks their USD GDP, in turn shrinking their USD expenditure on oil. The counter argument is the decoupling theme which says that these countries have spent the decade since the Asian crisis building up war chests to protect their currencies from falling into the same kind of tailspin as then and that they are structurally and institutionally better off now to cope with external shocks.

All in all it is the uncertainty of demand contraction that has taken the price of oil down by 60% since midsummer to the

current level of below USD 60 per barrel. Uncertainty is the capital markets biggest foe, especially during times of fear. However even severely bearish calculations on demand contraction would not alter the currently much more important issue – which is supply. According to the IEA the production from oil fields that are passed their peak is in a state of natural decline to the order of 9% today. This increases to over 10% on average for all oil fields by 2030.
This means that on an annual basis substantial investments are needed just to stay flat in terms of oil production. The marginal producer of oil today can produce at around USD 70 per barrel. In order just to stand still in terms of global oil production the oil market will need to price in a higher oil price than this. And although the world economy can certainly stand still and even fall it is (even according to a perma-bear) only likely to do so for a year or so.
So certainty over when and where the world economy bottoms out will lead to a sharply higher oil price. In our view the huge amount of uncertainty and fear that the market has now priced into the oil price probably means that we are very close to the bottom.

Russian policy response

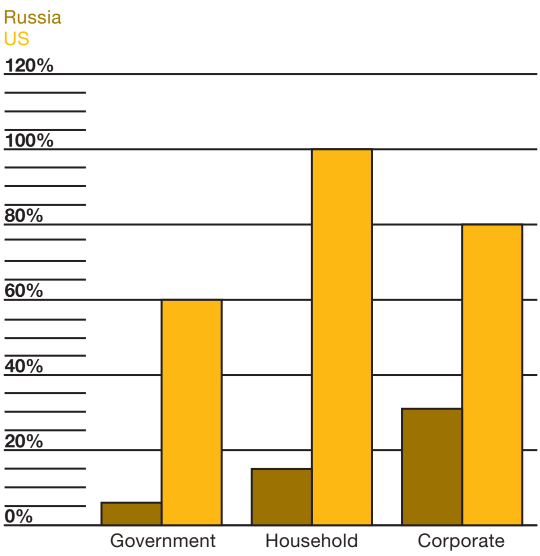
Russia is subject to a global crisis which is affecting its liquidity. In contrast to parts of the developed world leverage in Russia is at low levels (total foreign debt at 20% of GDP and foreign public debt of GDP some 3%). As described above – of the two factors explaining its vulnerability to the external liquidity shock one is something that they cannot do much about (the oil price) and the second (underdeveloped capital markets) is something that they are doing something about, but time is needed for them to develop. However there has been a massive response to reduce the effects of the external shock on the liquidity of Russia's financial system. Never before have the bureaucrats of the Russian administration shown such a unified resolve and swiftness. A total of USD 285 bln has been pledged to increase the liquidity of local capital markets and to help Russian corporations deal with the absence of international refinancing of their balance sheets. A common misperception is that this amount will be deducted from the country's currency reserves, whereas in reality it is only a part of it which actually leaves for foreign currencies and thus has an effect on international reserves. The pledged funds will also be invested into the country's stock market as well as stimulating the economy through acceleration of the infrastructure upgrade that has been planned for some time.
As seen all over the world today it takes time for even large pools of liquidity to make its way into the real economy, and Russia is obviously no exception. Although the liquidity of the roughly 100 banks that matter (Russia has over 1000 banks but the bulk of them are either going out of business or not open for business to the public) is now restored after the closure of international capital markets to any kind of business, lending is still very slow to get off the ground as long as it is more profitable for them to buy their own debt than to lend it to their customers. Even the debt of state controlled banks is trading at around 20% yield to maturity. These high yields is an effect of the extremely tight liquidity situation globally which also means that as soon as there is some sort of a thaw there (as we are starting to witness at the time of writing), yields on Russian debt will come down again and lending through the banking system will start again.
The Russian economy going into the summer showed classic signs of overheating. The global crisis is providing the Russian Administration with a very timely help to cool the economy. The resolve it has shown in stemming the drain of external liquidity from cooling the economy too much can extend into fixing important policies going forward.
Perhaps the most important one would be to get inflation down to a level of positive real interest rates (as opposed to the negative ones we have witness over the past year) and to a more effective monetary policy going forward.
In the average economy it is very difficult to quickly bring inflation down to the level of wage growth, which has been high in especially Moscow over the past year. The Russian economy is unique in its structure with a proportionally large number of large employers with a lot of power to dictate wages compared to other economies.
Naturally today's situation will also allow the Government to consolidate the banking sector and to accelerate the process of creating deep domestic financial markets.

External and fiscal accounts and the rouble

Coming into the crisis, Russia boasted huge budget and current account surpluses, resulting in considerable appreciation pressure on the rouble. However, the scale of the shocks to the current account (through the oil and other commodity price collapses) and the capital account (the closure of capital markets) have led to a sharp reversal and now big pressure on the rouble to devalue. The long-term equilibrium value of the rouble is crucially dependent on the long-term oil price – our belief in high long-term oil prices thus suggests in the medium term the current value of the rouble is reasonable and potentially undervalued. In the shorter-term, however, all the pressures point to devaluation as the authorities battle with heavy outflows and a frozen domestic rouble market. Though engineering an orderly fall will be tough, the gains – in terms of a freeing up of domestic capital markets, increased competitiveness for both exporters and those businesses competing with importers and a stemming of the reserve losses – seem worth the pain. The authorities' recent moves suggest they think similarly, and a further devaluation seems on the cards.

Debt as % of GDP in Russia and the US

Source: Federal Reserve, Thomson Datastream, TD estimates



Valuation

Turning to our focus, Russian asset prices, a few macro pieces need to be sorted out for them to head higher. First out would be more stable global financial markets. Again Russia is part of the world, and while the world is in trouble Russia's assets can at best outperform on a relative scale. So the global financial markets need to stabilize before Russian assets can start moving upwards on an absolute basis. Second, as pointed out many times above, the oil price matters. The short term hinges on global growth, the medium to long term is up.

With those two macroeconomic factors out of the way the focus then goes to valuations. And prices are cheap. Valuations are low. The most blatant example is the pricing of credit default swaps on the Russian sovereign debt, which discount that there is a 50% risk that the Russian state defaults by 2012. This would require the Russian State not only to spend the USD 500 bln in reserves but also to be able to increase debt levels enough to default on, all during the course of three years. This arguably low valuation is extended all throughout the universe of Russian assets and is a result of global risk aversion and liquidity draught.

On a more company specific level one can buy the whole Russian oil sector including one of the largest infrastructure networks in the world (Transneft) and a world class sized gas company (Novatek) for the price of Petrobras. Whilst the Russian oil sector produces some 8.4 mln barrels a day Petrobras produces 2.3 mln barrels per day. The Russian sector will generate some USD 50 bln in bottom line earnings compared to Petrobras at USD 19 bln in 2008.

Similarly, Lukoil and the Chinese company CNOOC trade at the same market cap, even though Lukoil has ten times the reserves of CNOOC. Surgutneftegas trades at below its reported cash level. On a relative measure it is hard to argue against that there is value in the Russian market today.

These relative valuation comparisons are assuming that we are comparing apples with apples. In reality Russia has stronger growth potentials than many of its comparatives. Its GDP per capita has grown from USD 1,200 in 1999 to USD 13,000 today, but still compares to Portugal at around USD 30,000. Russia has the will and the means to complete this catch up. The growth potential can also be applied to many sectors (see graph).

This structural growth should command a premium valuation. However during the pause in high growth that the global crisis leads to one has to be picky about which assets to be invested in for the moment.

The fundamentals of our portfolio remain intact. The two components that are directly affected by today's situation are cement and oil. Cement demand is contracting because of the real estate sector's short term debt level and the refinancing trouble in connection with this. This decrease is however mitigated by the State's commitment to accelerate its infrastructure stimulus program. The oil sector (essentially only TNK-BP) is obviously affected by the oil price but I won't repeat what we think about that again.

The conclusion to make is that we realize what immense opportunity that these markets are providing us with and that we will now execute them. We see opportunities both within the listed segment and the unlisted segment of capital markets that provide a better risk-reward situation than pretty much anywhere in the world. These will last as long as the uncertainty about the oil price persists. It is our job to realize the absolute best ones within this time frame. This is something I am absolutely convinced we are fully equipped to deliver.

Ukraine

When the global financial crisis started to unfold in the middle of September 2008, Ukraine was approaching a new inflection point of its political history. By early September, the tensions between President Victor Yuschenko and Prime Minister Yulia Tymoshenko started to be irreconcilable and the ruling coalition in the parliament, formed by their parties, fell apart. With no chance to form another coalition, the Rada was steadily moving towards dissolution – and to the new pre-term parliamentary elections.

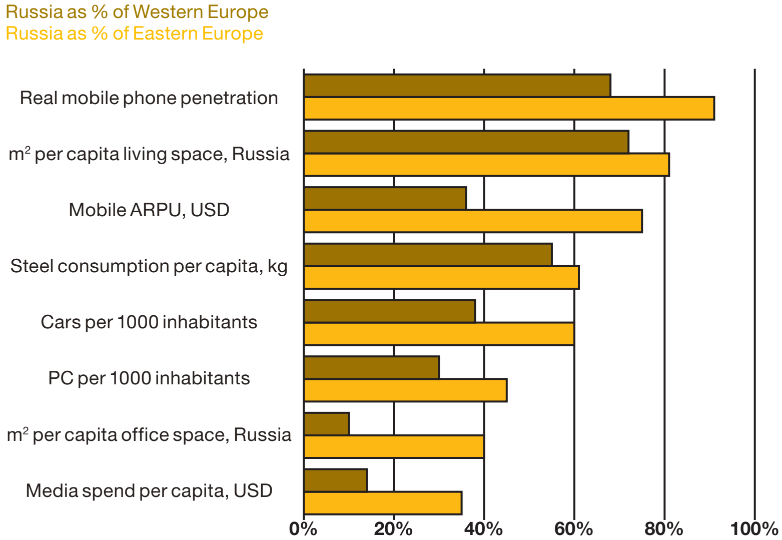
The timing of the new political crisis in Ukraine was unfortunate, as the economic situation inside the country already started to deteriorate. Following several months of MoM decline, in August the Ukrainian industrial production fell for the first time in two years on a YoY basis by 0.5%. Major metal producers and miners, in the recent years the driving force of the Ukrainian economic growth, started to feel the slowing global demand and scaled down operations. The unfolding global credit crisis started to cause a liquidity crunch in the Ukrainian financial system too.

So, by the time president Yuschenko finally announced the dissolution of the Rada and new parliamentary elections, Ukraine was already in a crisis. According to recent statistics, the Ukrainian industrial production in October fell sharply by 6.7% MoM and almost 20% YoY. Continuing plunge in metal's output (–20.5% MoM, –35.6% YoY) caused a fall in all three related sub-sectors: mining (–6.7% MoM, –10% YoY), manufacturing (–7.7% MoM, –21.1% YoY) and utilities (–6.6% MoM, –14.4% YoY). The economy reduced production also on the lack of credit in the economy, as banking sector started to deteriorate and several banks collapsed. Run on banks created additional pressures on the local currency hryvnia.

Quite miraculously, the pro-western stance of Victor Yuschenko of the recent years started to pay back and in the most dramatic moment, when the Ukrainian economy was close to collapse, the IMF stepped in and offered a two-year stand-by arrangement (SBA) of about USD 16.4bn in case Ukraine meets a set of financial and economic conditions.

Sector comparison

Source: Troika Dialog



In political area, it was assumed that Ukraine scraps plans for the early parliament elections to get SBA approved by the IMF. In a surprising drive, the Rada had approved by overwhelming majority the whole set of laws intending to meet the IMF conditions. The first USD 4.5bln tranche has already been disbursed and will be used to increase liquidity in the banking system and to stabilize the hryvnia. The following tranches are likely to be used to support the agricultural sector and to maintain state spending on infrastructural projects.
However, the recent dismissal of the Rada's speaker Arseniy Yatseniuk signals the president's deep commitment at any cost to remove prime minister Tymoshenko and her followers from the major economic appointments in the government, after the idea of early parliamentary elections looks like have been shelved indefinitely. Following the appointment of a new speaker a non-confidence vote is expected to end Tymoshenko's tumultuous year in the government. Yet, the latest political maneuvering presents a risk that next year's budget and further anti-crisis legislation approval could be jeopardized as political players start positioning themselves for the next year's run-up to the presidential elections.

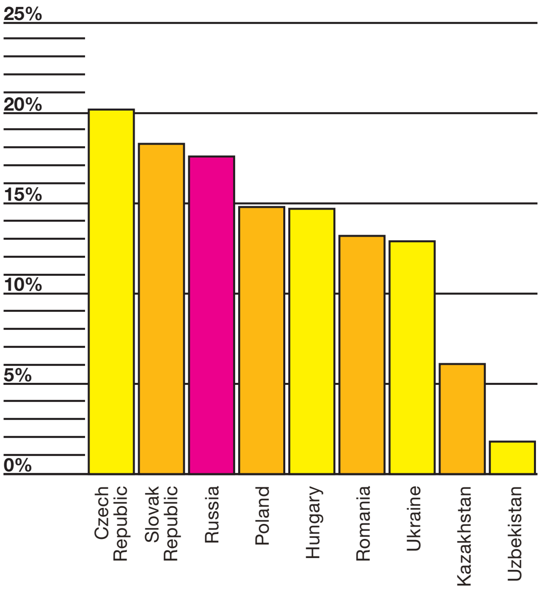
Vostok Nafta's portfolio development
Vostok Nafta's net asset value/share decreased by 37.43% during January 1, 2008 and September 30, 2008 compared to the RTS index decrease of 47.09% in USD terms.

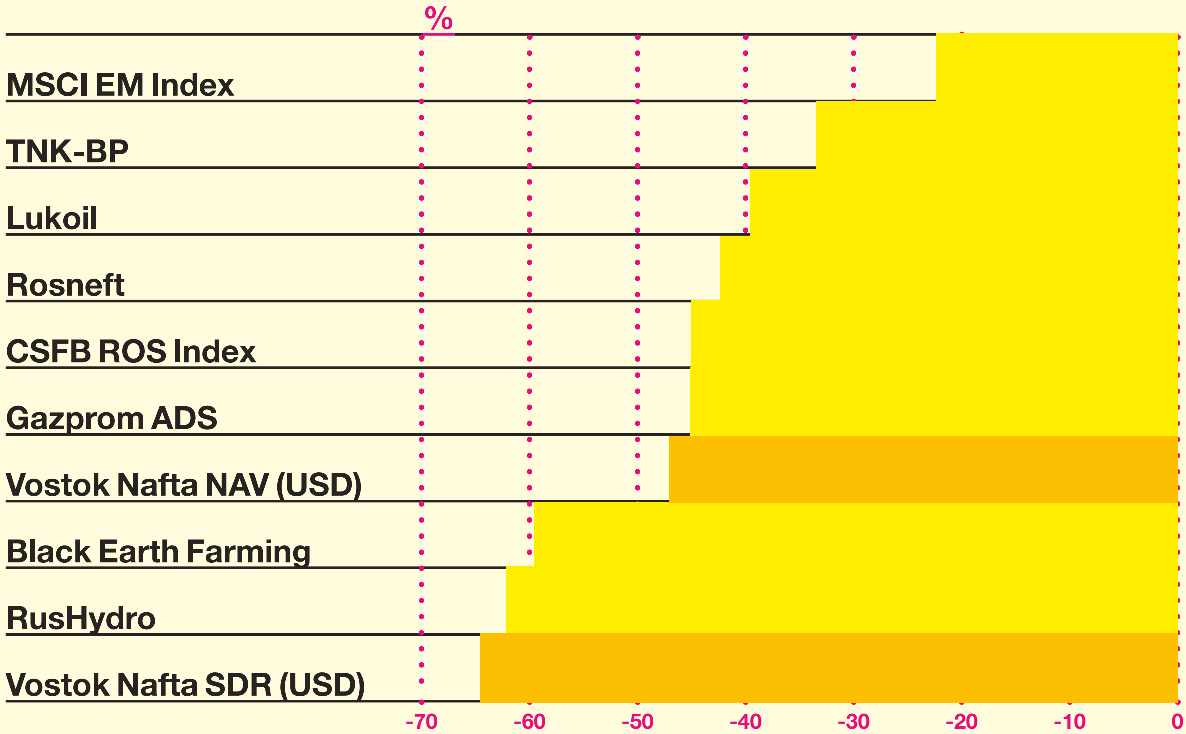
Black Earth Farming
Black Earth Farming (BEF) is Vostok Nafta's largest holding with 24.8% of the shares outstanding under control. BEF continues to develop and has now completed its third full harvest cycle with ever increasing productivity, this year having harvested around 460,000 tonnes of crops on 141,933 hectares.
The 2008 harvest has been a record one in Russia and most of the northern hemisphere, especially for grain crops. Russian official sources estimate that the harvest will bring in as much as 107 million tonnes of grain, compared to 82 million in 2007. The record output is thanks to more land having been planted for this season compared to 2007, as well as favourable weather conditions. Soft commodity prices have fallen as a consequence of the increased supply. Lately the financial crisis as well as evident lack of local storage capacity has pushed Russian prices even further down. The combination of low prices and the credit freeze is currently taking its toll on the Russian agricultural sector. It is estimated that the agricultural sector needs more than USD 34 billion from a government rescue package by the end of 2008 to refinance loans and ride out the global financial crisis, an amount they are not likely to get and companies are therefore already trying to sell off both inventory and assets to finance repayments of debt and working capital for the 2009 harvest. There is a high possibility that there will be a retraction of planted area for the 2009 harvest due to a lack of capital. This will naturally bring down the output in 2009; exactly what effect the financial crisis will have on demand in 2009 is unclear.
BEF is well capitalised following the IPO in late December 2007 when it raised USD 300 mln and has the potential to take advantage of the dire situation facing many Russian producers, potentially acquiring distressed assets at very favourable valuations.
BEF will be one of the few large Russian players that will significantly increase the production surface for 2009, currently planned at 180,490 hectares with expected gross output of around 700,000 tonnes. Roughly 95,000 hectares of winter crops have already been successfully seeded. This accentuates the BEF's position as an agent of development in the Russian agricultural sector and should further sediment the authorities' positive view on the company's activities.
The registration of controlled land into full ownership continues successfully and as of October 31, 2008 it controlled 332,980 hectares – of which 88,950 hectares are fully registered free holds.
BEF is continuing to build up its real estate portfolio, mainly consisting of grain storage and drying capacity, the Company has however somewhat revised its previous storage strategy now focusing on smaller, cheaper storage facilities which are faster to build - rather than full blown grain elevators. The company does not want to tie up too much capital in large and long construction projects right now, both because of the credit freeze and the wish to have as much storage capacity as possible ready for the 2009 harvest.
BEF made a net loss of USD 5 mln on turnover of USD 37 mln for the first nine months of 2008; however, only 8% of the 2008 harvest had been sold because of the low prices. The main bulk of the crop is instead being stored in the quest for an improved price situation going forward. BEF has a strong balance sheet with a net cash position of USD 209 mln. (To review the entire report please visit www.blackearthfarming.com)

TNK-BP
TNK-BP is one of the largest integrated oil producers in Russia, with significant downstream exposure, operating more than 2000 gas stations in the country. The downstream segment generates the highest returns for Russian oil companies, as the government inflicts heavy duties on exports in order to encourage domestic operations. As concerns rise regarding Russian oil production heading for its first annual decline since 1998, TNK-BP is among the best positioned companies to deliver long term growth as new fields, such as Verkhnechonskoye, come on-stream. The news flow regarding the company was highly positive during the past quarter.

Size of middle class

As % of population.
Source: Troika Dialog





Percent development, July 1–September 30, 2008

In September, the major shareholders British Petroleum (BP) and Alfa-Access-Renova (AAR) signed a memorandum of understanding (MOU), effectively putting an end to the high profile conflict between the two. The two sides agreed to reorganize TNK-BP's management and also to proceed with an initial public offering on the international markets of up to 20% of a new firm. The IPO, expected in 2010 at the earliest, entails consolidating most of the company's assets into a new subsidiary. A new board composition was also determined, where 4 members each from AAR and BP are complemented by 3 new independent directors.
The news of an IPO is positive as it would be a better and clearer measure of the company value than the small, existing 5% domestic free float. It will also aid any further deals and provide a potential exit route for either party. The scrutiny and added transparency provided by interaction with the capital markets will encourage both parties to improve relations, among themselves as well as with minority shareholders, and will emphasize the value of TNK-BP's assets.
The company also reported solid results for the first half of 2008. Revenues increased by 63 % y-o-y to USD 24.9 billion while EBITDA improved by 94% to USD 6.8 billion confirming a very strong first half of 2008. In 2009, TNK-BP plans to retain production at the 2008 level, which constitutes about 600 million barrels of oil which is a 2% increase compared to 2007.

Kontakt East Holding

Kontakt East (KEH) is a Swedish holding company which invests in high growth, primarily internet related, media companies in Russia and neighbouring markets. Vostok Nafta owns 50% of KEH through Vosvik AB. KEH, to date, has investments within the Yellow Pages and Consumer eCommerce business segments. The Group has approximately 800 employees. Following the delisting of the company, cost savings at the group head office in Stockholm have been realized and management can dispense all its time and effort towards operational issues.
During the third quarter, a new managing director has been appointed for Yellow Pages with a focus on developing key business processes such as sales and data collection. The global financial crisis is expected to have a negative impact on the Russian advertising market in general, but, so far this effect has not been visible on Yellow pages' sales. Activity at the Internet sites of Avito continues to grow rapidly and traffic has increased at a reduced cost of marketing.
There is a vast potential for media, internet and advertising related services in Russia. The advertising market is at an early stage, as the emergence of a middle class has yet to affect advertising spending on a per capita basis in a material way, compared to western countries. Internet usage among the Russian population is also in its early days, but is showing exceptionally high growth rates.
An overview of Kontakt East's listed peers reveals the potential that lies in the segment. As the Russian market develops and operations get traction, there are great prospects for a highly profitable business, if performance comes close to sector benchmarks.

Steppe Cement

Vostok Nafta holds 6.6% of Steppe Cement which is one of the largest cement producers in Kazakhstan, with a production volume of over 820 000 tonnes of cement during 2007. When production from its two refurbished dry-line facilities comes on stream, it will become the largest producer in the country. The capacity expansion has however suffered delays, as subcontractors hired to refurbish the mills have been forced out of business due to the credit crunch. One newly refurbished line was fired up in October and is expected to deliver 1 million tonnes in 2009. The additional planned capacity is not expected to come on line until 2010.
The company's first half results showed a production increase by 8% to 412 thousand tonnes, while sales grew by 35% to USD 52 million, fuelled by higher cement prices. The operating margin decreased somewhat to 42% due to rising costs for energy, transport and labor, which will be balanced when the more cost efficient dry production lines are brought into production. The financial performance was especially strong considering that the Kazakh cement market as a whole decreased by 15% during the period. Thus, Steppe cement gained market share, thanks to its competitive advantage as a low cost producer. The company operates extremely efficiently with an average operating cash cost of USD 48 per tonne which will decrease further with the dry lines running at USD 35 per tonne. Thus, the company stands strong in the current downturn and is favourably positioned to capture a bigger share of the market.
The Kazakh cement market is expected to fall by 25% in 2008, hit by a downturn in construction where financing difficulties has put a halt to building projects. Cement prices came down from around USD 200 per tonne during the second half of 2007 to an average of USD 120 in the first half of 2008 and is expected to fall below USD 100 in the beginning of next year. The outlook for the cement market in 2009 is plagued by poor visibility but is expected to be 5–6 million tonnes compared to 7.6 million and 5.9 million in 2007 and 2008, respectively. Government support is expected in the form of corporate tax cuts but also in terms of financial aid for construction projects.

Tinkoff Credit Systems

Bank Tinkoff Credit Systems (TCS) is a consumer lending institution, focused exclusively on credit card products. The company operates as a virtual "branchless" entity, recruiting customers by mailing personalized invitations through the Russian Postal Service. To date TCS has mailed over 24.5

Kontakt East market comparisons

	Population, millions	Internet Users, millions	Advertising spending, USD per capita
US	304	220	571
Germany	82	53	263
France	62	36	192
UK	61	42	305
Italy	58	35	117
Spain	41	26	154
Sweden	9	7	189
Russia	141	33	35

Source: World Advertising Research Center, InternetWorld Stats

	Geographic Market	Enterprise Value, EUR million	Sales, EUR million	EBITDA margin
Eniro	Nordics, Poland	1,296	670	31%
Yell	UK, US	5,519	2,859	33%
Pages Jaunes	Italy, Germany	3,653	1,479	41%
Seat Pagine Gialle	France, Spain	4,039	1,202	44%
Kontakt East	Russia	47	14	n/a

million invitations, activated 235 thousand cards, of which over 200 thousand are utilized.

Despite tighter credit conditions in 2008, the Russian credit card market continued to show substantial growth during the first 9 months, expanding faster than all other consumer lending categories. TCS's growth vastly exceeded that of the market (450% vs. 60%), resulting in an aggregated loan portfolio topping USD 150 million. The company's share of the Russian credit card market stands at around 2%.

Throughout the first 9 months of 2008, the quality of TCS's loan portfolio has continued to improve. The number of customers who were 30 days or more delinquent decreased to 6.3% in September from 14.9% at the start of the year.

The steadily improving quality of new customers obtained in 2008 is expected to bring annualized credit losses to a level of 8% by 2009. The Non-Performing Loans (NPL), i.e. loans with payment more than 90 days overdue, as a percentage of the overall portfolio has shown an encouraging trend.

With a gross portfolio margin of above 55% and average loan loss provisions between 15–17%, TCS has leeway in the event of deteriorating asset quality. Currently, the company's loan portfolio yields over 38% after provisions, which is more than sufficient to cover operating costs. By mid 2009, management projects that the company will be able to achieve a 22% return on its assets, and a 69% return on equity.

TCS's current loan portfolio is able to generate a sufficient amount of cash flow to comfortably service its debt (coupon on Eurobond and interest on credit facility) through June 2009. Under the current market conditions characterized by illiquidity and inability to raise additional funds the company intends to reduce its mailing activity, employ initial credit limits and cut call center expenses starting in November.

Thus, despite the challenging conditions, TCS is prepared to deal with the current market, thanks to its advanced credit underwriting policy, low costs and its flexible business model.

RusForest

RusForest is an unlisted group of companies, active within the forestry sector in Eastern Siberia where Vostok Nafta has a 50% stake. On a consolidated basis, RusForest has reached a considerable scale, controlling around 1,000,000 hectares of forest land with an annual allowable cut (AAC) of 1,600,000 m^3. The group's annual sawmilling capacity is also set to increase, by new investments, from around 140,000 to over 350,000 m^3 within a year.

As mentioned in previous reports, the Russian Government was set to adopt prohibitively high export duties on roundwood (80%, or a minimum of EUR 50 per m^3) in January 2009. Recent statements by Prime Minister Putin, ahead of the EU-Russia summit in Nice, point to that the introduction of the higher tariffs will be postponed by nine to twelve months. The postponement is generally seen to be a conciliatory measure from Russia leading up to the restart of negotiations for a potential EU-Russia cooperation agreement and the country's WTO accession.

Russia has the world's largest forest reserves, and these would effectively be "locked in" once the export duties are in place. In practise this should entail that domestic producers of higher value added forestry products, like RusForest, will have access to a vast supply of cheap raw material when it's no longer viable for harvesting companies to export their output. Simultaneously, the sawnwood supply on the global market could, theoretically, decrease by as much as 15 million m^3 due to input supply constraints.

For RusForest, postponed tariff-increases would give additional time to start, and optimise, production in the new Nebelsky and Bogouchanski sawmills before the duties take full effect on the global market. In September, 2008, RusForest's Bogouchanski sawmill was officially opened and initial sawnwood production commenced in October. The sawmilling line (HewSaw R250) is state-of-the-art and has a base capacity of 100,000 m^3 of kiln dried sawnwood per year. The sawlogs used for production will initially be obtained on the open market, but going forward around 45% of Bogouchanski's total sawlog requirements are planned to be met by supplies from TSLKK, which also forms part of the RusForest Group. The addition of the Bogouchanski sawmill gives RusForest the ability to combine the regions high quality log supply with efficient, and cost effective, sawmilling equipment.

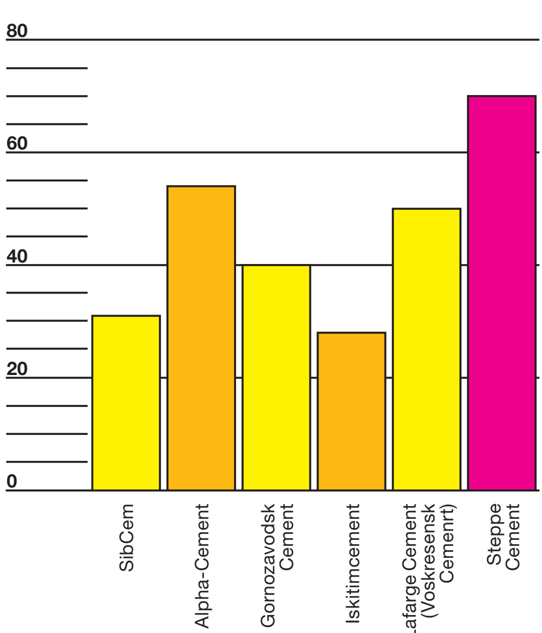
Another key project for RusForest is the construction of the Nebelsky LPH sawmill in Magistralny. The mills foundation and most of the onsite infrastructure is already complete, the sawmilling line is being delivered and production is expected to start in the second quarter of 2009. When completed, the mill will have a base capacity of 100,000 m^3 per year. However, thanks to the acquisition of ZAO Bamlesstroi in July 2008, it will be possible to increase production at the Nebelsky mill by around 70,000 m^3 annually. The newly acquired harvesting company will initially export its harvest, but subsequently supply sawlogs to Nebelsky – allowing the sawmill to potentially add an extra shift and increase production.

During the past year significant efforts have been put into making RusForest a fully functioning holding company. A new CFO joined in May, 2008, and the company is searching for candidates for the CEO position. The individual group companies are being consolidated into RusForest, and the transition to IFRS accounts will soon be complete.

On the operational side the first nine months of 2008 have entailed unbeneficial weather conditions for the Siberian forestry industry, due to the mild winter and wet summer. The summer months in Eastern Siberia were abnormally rainy, which rendered forest roads unusable for long periods of

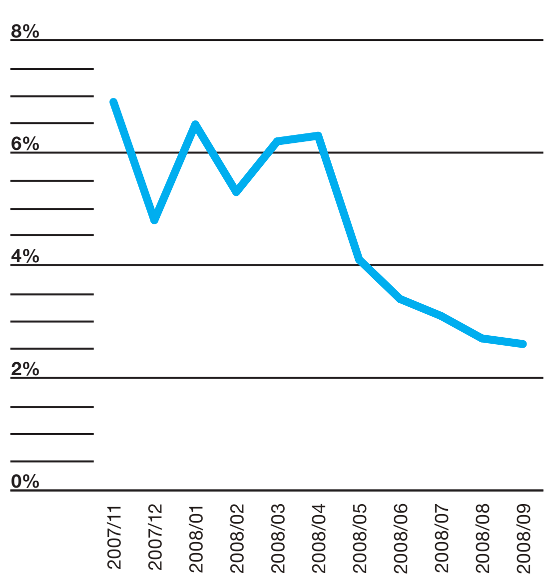
Steppe Cement: EBITDA/tonne output

Source: UBS



TCS: NPL, % of loan portfolio

Source: TCS internal reports



time. Summer harvesting was therefore significantly impeded, leading to shortages in the supply of sawlogs to RusForest's sawmills during the same period. Currently however, winter has returned and the forest roads have frozen which means that harvesting and transportation of sawlogs can resume once more at full capacity.

Kuzbass Fuel Company
Kuzbasskaja Toplivnaja Kompanija (KTK) is a regional thermal coal company and one of the largest producers in the Kuzbass region of western Siberia. The company is vertically integrated with a self-sufficient power supply, its own transport infrastructure and distribution network. The CEO Igor Prokudin is one of the most reputable professionals in the Russian coal industry with 37 years of experience and he also owns more than half of the company.
Thermal coal is mainly used in coal-fired power plants which constitutes the majority of demand. Thus the key driver of the Russian thermal coal market is the deficit in generating capacity along with the power sector's transition from gas to coal. Domestic demand for coal is expected to grow from 130 million tons in 2006 to 290 million tons by 2020[1]. The current Russian average of generating approximately 20% of the country's electricity from coal is expected to rise to 30% by 2020, still behind the world average of 40%.[2] Consequently Russia stands as the world's third largest exporter of coal with Russian producers among the most cost competitive, and KTK enjoying a cost advantage amidst its Russian peers. For inter-fuel parity to hold i.e. a fixed ratio of gas to coal would be required to generate an equal amount of electricity, then coal and gas prices should develop similarly. Hence the deregulation of the Russian electricity market and following gas price hikes will have a positive impact on thermal coal prices as well.
The company produced 4.1 million tons of coal in 2007 generating sales of USD 150 million which is expected to increase to USD 300 million at an operating margin of 26% for the full year of 2008. KTK plans to boost its annual output to 11 million tons by 2013 representing a CAGR of 18%. Meanwhile the company's reserves hold 293 million tons of coal; equivalent to 53 years of operations at the current production rate and with the potential to expand the reserves by almost 3 times, as deeper deposited coal beds are developed.[3]

Investments
During the period net investments in financial assets were USD 5.21 (168.52) mln.

Major changes of listed securities in the portfolio during the quarter were:

Purchases (shares)		
+	4,073,300	Black Earth Farming
+	39,030,000	Surgutneftegaz pref
+	25,000	Kuzbass Fuel Company
Sales (shares)		
–	253,397	Lebedyan Exp Can Reg
–	382,970	Kemerovo Azot

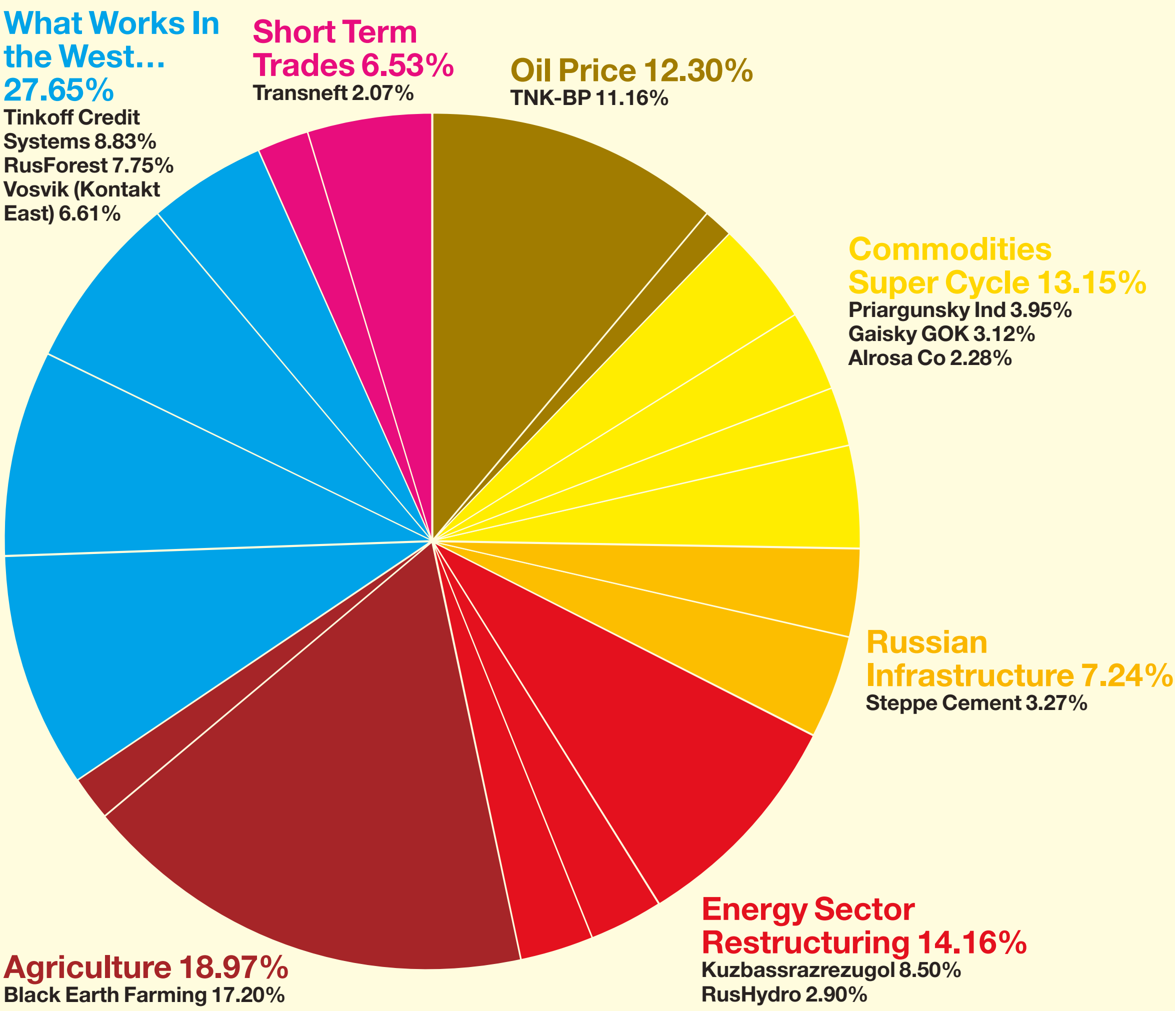
Portfolio structure
The investment portfolio stated at market value as at September 30, 2008 is shown below. Vostok Nafta's three biggest investments are Black Earth Farming (17.20%), TNK-BP Holding Pref (11.16%) and Kuzbassrazrezugol (8.50%).

1. RAO UES of Russia, General Scheme for allocating power capacity until 2020.
2. World Coal Institute
3. Company estimates.

Number of shares	Company	Market price, USD	Market value, USD	Percentage weight	
4,924,850	Caspian Services Inc	1.25	6,156,063	1.12%	
5,789,903	Kherson Oil Refinery	0.01	45,635	0.01%	
2,025	Orsk Refinery Ord	30.00	60,750	0.01%	
538	Orsk Refinery Pref	10.00	5,380	0.00%	
45,596,616	TNK-BP Holding Pref	1.35	61,555,432	11.16%	
100,000	Yakutkgazprom	0.05	5,000	0.00%	
	Oil price, Total		67,828,259	12.30%	
966	Alrosa Co Ltd	13,000	12,558,000	2.28%	
6,000,000	Fortress Mining Corp	0.47	2,821,200	0.51%	
31,274	Gaisky GOK	550.00	17,200,700	3.12%	
1,849,088	Poltava GOK	5.69	10,524,020	1.91%	
64,852	Priargunsky Ind Ord	320.00	20,752,640	3.76%	
11,709	Priargunsky Ind Pref	88.00	1,030,392	0.19%	
1,442,400	Shalkyia Zink GDR	0.30	432,720	0.08%	
1,444,045	Uchalinksy GOK	5.00	7,220,225	1.31%	
	Commodities Super Cycle, Total		72,539,897	13.15%	
3,000	Bekabadcement	650.00	1,950,000	0.35%	
39,000	Gornozavodsk Cement	200.00	7,800,000	1.41%	
1,600,000	Kamkabel	0.50	801,600	0.15%	
6,564	Podolsky Cement	107.44	705,255	0.13%	
40,000	Sibcement	50.00	2,000,000	0.36%	
7,523,047	Steppe Cement	2.40	18,030,152	3.27%	
1,200,000	Tuimazy Concrete	6.00	7,200,000	1.31%	
	Volga Nash Dom, debt		1,465,000	0.27%	2)
	Russian infrastructure, Total		39,952,007	7.24%	
25,000	Kuzbass Fuel Company	400.00	10,000,000	1.81%	
106,634,053	Kuzbassrazrezugol	0.44	46,918,983	8.50%	
2,618,241	Kyrgyzenergo	0.06	168,688	0.03%	
551,273,416	RusHydro	0.03	15,986,929	2.90%	
17,000	RSC Energia	200.00	3,400,000	0.62%	
7,139,701	Systemseparation	0.23	1,670,652	0.30%	1)
	Energy Sector Restructuring, Total		78,145,252	14.16%	
1,765,000	Agrowill Group	1.99	3,519,300	0.64%	
30,888,704	Black Earth Farming	3.07	94,892,477	17.20%	1)
272,106	Dakor	22,93	6,240,614	1.13%	
	Agriculture, Total		104,652,391	18.97%	
16,008,321	Eastern Bio Holding AB	0.14	2,298,075	0.42%	
11,004,813	RusForest		22,364,301	4.05%	1,3)
	RusForest, debt		20,426,755	3.70%	4)
	IVLPS-Nebelsky		2,920,125	0.53%	4)
	Tuba-Les, OOO		1,284,855	0.23%	4)
10,000,000	Tisko AB	0.09	861,330	0.16%	
885,934	Tinkoff Credit Systems		30,000,000	5.44%	3)
	Tinkoff Credit Systems, debt		18,675,002	3.39%	2)
	Egidaco bond		7,026,500	1.27%	
50,000	Vosvik (previously Kontakt East)		36,462,970	6.61%	1,3)
623,800	Waymore Holding Ltd	16.34	10,195,162	1.85%	
	What works in the West..., Total		152,515,075	27.65%	
1,320,000	Bashneft Pref	5.00	6,600,000	1.20%	
290,000	KazMunaiGas Ex GDR	15.50	4,495,000	0.81%	
85,000	Mobile Telesys SP AD	53.36	4,535,600	0.82%	
39,030,000	Surgutneftegaz Pref	0.23	8,976,900	1.63%	
18,730	Transneft Pref	610.00	11,425,300	2.07%	
	Short term trades, Total		36,032,800	6.53%	
	Grand Total		551,665,680	100.00%	

Vostok Nafta portfolio as at September 30, 2008

1.These investments are shown in the balance sheet as investments in associated companies.
2.These investments are shown in the balance sheet as Loan receivables.
3.This investment is recognized in the balance sheet at acquisition cost.
4.These investments are partially shown in the balance sheet as Receivables from related parties.



Investment Macro Themes

Vostok Nafta investment portfolio as at September 30, 2008

Income statements – Group

(Expressed in USD thousands)	Jan 1, 2008– Sep 30, 2008	Jan 1, 2007– Sep 30, 2007	Jul 1, 2008– Sep 30, 2008	Jul 1, 2007– Sep 30, 2007
Result from financial assets at fair value through profit or loss	–157,448	39,559	–311,910	37,944
Result from investments in associated companies	–137,524	60,500	–138,273	26,878
Dividend income	4,669	9,544	–	1,470
Interest income from loan receivables	4,946	–	2,074	–
Other operating income	76	268	44	–
Total operating income	–285,281	109,871	–448,065	66,292
Operating expenses	–6,188	–3,320	–2,450	–1,888
Russian dividend withholding tax expenses	–733	–1,425	–27	–514
Operating result	–292,202	105,126	–450,542	63,890
Financial income and expenses				
Interest income	1,705	809	380	705
Interest expense	–4,936	–2,754	–3,482	–996
Currency exchange gains/losses, net	–1,452	442	–2,014	451
Other financial expenses	–1,550	–153	12	–62
Net financial items	–6,233	–1,656	–5,104	97
Result before tax	–298,435	103,470	–455,646	63,987
Taxation	2,278	421	2,002	380
Net result for the financial period	–296,157	103,891	–453,644	64,367
Earnings per share (in USD)	–6.44	2.26	–9.86	1.40
Diluted earnings per share (in USD)	–6.44	2.26	–9.86	1.40

Income statements – Group

Balance sheets – Group

(Expressed in USD thousands)	Note	Sep 30, 2008	Dec 31, 2007
NON CURRENT ASSETS			
Tangible non current assets			
Office equipment		553	545
Total tangible non current assets		553	545
Financial non current assets			
Financial assets at fair value through profit or loss		351,539	565,043
Investment in associated companies		155,197	248,213
Loan receivables		20,425	9,138
Total financial non current assets		527,161	822,394
CURRENT ASSETS			
Cash and cash equivalents		89,488	27,528
Receivables from related parties	2	31,215	4,894
Unsettled trades		4,562	3,172
Tax receivables		259	98
Other current receivables		2,445	601
Defferred tax asset		1,958	–
Total current assets		129,927	36,293
TOTAL ASSETS		657,641	859,232
SHAREHOLDERS' EQUITY (including net result for the financial period)		507,291	803,954
NON CURRENT LIABILITIES			
Deferred tax liabilities		–	1,358
Total non current liabilities		–	1,358
CURRENT LIABILITIES			
Interest bearing current liabilities			
Borrowings		149,491	50,438
Non-interest bearing current liabilities			
Tax payable		111	106
Liabilities to related parties	2	259	586
Unsettled trades		–	1,677
Other current liabilities		234	141
Accrued expenses		255	972
Total current liabilities		150,350	53,920
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		657,641	859,232
PLEDGED ASSETS & CONTINGENT LIABILITIES			
Pledged assets		506,736	813,256
Contingent liabilities		–	–

Balance sheets – Group

Statement of Changes in Equity – Group

(Expressed in USD thousands)	Share Capital	Additional paid in capital	Retained earnings	Total
Balance at December 31, 2006	–	–	385,043	385,043
Profit for the period January 1, 2007 to December 31, 2007	–	–	282,765	282,765
Total recognized income for the period				
January 1, 2007 to December 31, 2007	–	–	282,765	282,765
Employees share option scheme:				
– value of employee services	–	125	–	125
Proceeds from issue of warrants	–	–	476	476
Non Gazprom related assets and liabilities				
provided through an issue in kind	–	–	–10,903	–10,903
Exercise of issued warrants	46,021	–	–46,021	–
Proceeds from new share issue, net of transaction costs	–	146,351	–	146,351
Currency differences	–	–	97	97
	46,021	146,476	–56,351	136,039
Balance at December 31, 2007	46,021	146,476	611,457	803,954
Profit for the period January 1, 2008 to September 30, 2008	–	–	–296,157	–296,157
Total recognized income for the period				
January 1, 2008 to September 30, 2008	–	–	–296,157	–296,157
Employees share option scheme:				
– value of employee services	–	329	–	329
Currency differences	–	–	–835	–835
Balance at September 30, 2008	46,021	146,805	314,537	507,291

Statement of Changes in Equity – Group

Cash flow statements – Group

(Expressed in USD thousands)	Jan 1, 2008–Sep 30, 2008	Jan 1, 2007–Sep 30, 2007	Jan 1, 2007–Dec 31, 2007
OPERATING ACTIVITES			
Result before tax	–298,435	103,470	283,154
Adjustment for:			
Taxes	–	–	–
Interest income	–2,871	–809	–1,225
Interest expenses	3,458	2,755	3,709
Currency exchange gains	1,452	–442	–538
Depreciation	107	54	78
Result from financial assets at fair value through profit or loss	157 448	–39,559	–158,407
Result from investments in associated companies	137 523	–60,500	–123,693
Other non-cash items	–755	105	1,127
Change in current receivables	–29,452	–1,884	–8,444
Change in current liabilities	3,119	2,818	–59
Cash used in operations	–28,407	6,008	–4,298
Investments in financial assets	–352,714	–251,122	–361,505
Sales of financial assets	341,461	91,717	219,482
Increase of loan receivables	–	–2,930	–9,126
Acquisition of group companies	–	–6,181	–6,181
Interest received	2,871	809	1,225
Interest paid	–4,112	–1,002	–606
Tax paid	3,315	–466	–1,975
Net cash flow used in operating activities	–37,586	–163,167	–162,984
INVESTING ACTIVITIES			
Investments in machinery and equipment	–89	–157	–303
Sales of machinery and equipment	–	–	3
Net cash flow used in investing activities	–89	–157	–300
FINANCING ACTIVITIES			
Proceeds from borrowings	149,635	49,800	49,750
Repayment of borrowings	–50,000	–	–
Proceeds from new share issue	–	146,350	146,350
Assets and liabilities provided through an owner’s contribution	–	–10,903	–10,903
Proceeds from sale of warrants	–	476	476
Net cash flow from financing activities	99,635	185,723	185,673
Change in cash and cash equivalents	61,960	22,399	22,389
Cash and cash equivalents at beginning of the period	27,528	5,124	5,124
Exchange gains/losses on cash and cash equivalents	–	442	15
Cash and cash equivalents at end of period	89,488	27,965	27,528

Cash flow statements – Group

Key financial ratios – Group

	Jan–Sep 2008	Jan–Sep 2007
Return on capital employed, % (01)	–38.54	20.50
Equity ratio, % (02)	77.14	92.30
Shareholders' equity/share, USD (03)	11.02	13.58
Earnings/share, USD (04)	–6.44	2.26
Diluted earnings/share, USD (05)	–6.44	2.26
Net asset value/share, USD (06)	11.02	13.58
Weighted average number of shares for the financial period	46,020,901	46,020,901
Weighted average number of shares for the financial period (fully diluted)	46,020,901	46,020,901
Number of shares at balance sheet date	46,020,901	46,020,901

01. Return on capital employed is defined as the Group's result plus interest expenses plus/less exchange differences on financial loans divided by the average capital employed (the average total assets less non-interest bearing liabilities over the period).
02. Equity ratio is defined as shareholders' equity in relation to total assets.
03. Shareholders' equity/share USD is defined as shareholders' equity divided by total number of shares.
04. Earnings/share USD is defined as result for the period divided by average weighted number of shares for the period.
05. Diluted earnings/share USD is defined as result for the period divided by average weighted number of shares for the period calculated on a fully diluted basis.
06. Net asset value/share USD is defined as shareholders' equity divided by total number of shares.

Key financial ratios – Group

Income statement – Parent Company

(Expressed in USD thousands)	Jan 1, 2008–Sep 30, 2008	Apr 5, 2007–Sep 30, 2007
Operating expenses	–2,613	–1,748
Operating result	–2,613	–1,748
Financial income and expenses		
Interest income	10,582	3,232
Currency exchange gains/losses, net	–101	13
Net financial items	10,481	3,245
Net result for the financial period	7,868	1,497

Income statement – Parent Company

Balance sheet – Parent Company

(Expressed in USD thousands)	Sep 30, 2008	Dec 31, 2007
NON CURRENT ASSETS		
Financial non current assets		
Shares in subsidiaries	377,695	377,695
Receivables from Group companies	158,303	150,795
Total financial non current assets	535,998	528,490
CURRENT ASSETS		
Cash and cash equivalents	13	113
Receivables from related parties	–	6
Other current receivables	256	261
Total current assets	269	379
TOTAL ASSETS	536,267	528,870
SHAREHOLDERS' EQUITY (including net result for the financial period)	535,873	527,674
CURRENT LIABILITIES		
Non-interest bearing current liabilities		
Liabilities to group companies	2	188
Other current liabilities	265	152
Accrued expenses	127	855
Total current liabilities	394	1,195
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	536,267	528,870
PLEDGED ASSETS & CONTINGENT LIABILITIES		
Pledged assets	–	–
Contingent liabilities	–	–

Balance sheet – Parent Company

Statement of Changes in Equity – Parent Company

(Expressed in USD thousands)	Share Capital	Additional paid in capital	Retained earnings	Total
Profit for the period	–	–	3,222	3,222
Total recognized income for the financial period				
April 5, 2007 to December 31, 2007	–	–	3,222	3,222
Employees share option scheme:				
– value of employee services	–	125	–	125
Proceeds from issue of options	–		476	476
New share issue	0	–	–	0
Exercise of issued warrants	46,021	–	331,479	377,500
Proceeds from new share issue, net of transaction costs	–	146,351	–	146,351
	46,021	146,476	331,955	524,452
Balance at December 31, 2007	46,021	146,476	335,177	527,674
Profit for the period	–	–	7,868	7,868
Total recognized income for the financial period				
January 1, 2008 to September 30, 2008	–	–	–	–
Employees share option scheme:				
– value of employee services	–	331	–	331
Balance at September 30, 2008	46,021	146,807	343,045	535,873

Statement of Changes in Equity – Parent Company

Note 1 Accounting principles

This consolidated interim account is prepared in accordance with IAS 34 Interim Financial Reporting. The same accounting principles and methods of calculations have been applied for the Group as for the preparations of the consolidated accounts for Vostok Nafta Investment Ltd 2007.

Investments in associated companies

Investments where the Company has the right to exercise significant influence, which is normally the case when the Company holds between 20 percent and 50 percent, are accounted for as investments in associated companies by applying fair value. At the application of fair value, the investments are designated on initial recognition as assets to be measured at fair value with fair value changes in profit or loss. Changes in the fair value are accounted for in the income statement as "Result from associated companies".

Note 2 Related party transactions

During the period Vostok Nafta has been involved in the following related party transactions:

- shared services expenses have been paid by Vostok Gas Sverige AB to Vostok Nafta Sverige AB in the amount of USD 0 thousand,
- Loans to associated companies (incl subsidiaries) increased by USD 27,729 thousand. Loans to other related parties decreased by USD 212 thousand. As at September 30, 2008, total receivables from related parties, which are either associated companies; companies controlled by employees of Vostok Nafta; or key personnel of the company or other related companies amounted to USD 32 682 thousand, 24 631 thousand of which is related to the company's investment into Rusforest and its subsidiaries.
- During the period, the total outstanding liability to Vostok Gas amounting to 118 thousand was paid in full.

Operating and sector-related risks

Country-specific risks

The risks associated with Russia and other CIS states are common to all investments in these countries and are not characteristic of any specific portfolio holding. An investment in Vostok Nafta will be subject to risks associated with ownership and management of investments and in particular to risks of ownership and management in Russia and other CIS states.

As these countries are still, from an economic point of view, in a phase of development, investments are affected by unusually large fluctuations in profit and loss and other factors outside the Company's control that may have an adverse impact on the value of Vostok Nafta's adjusted equity. Investors should therefore be aware that investment activity in Russia and other CIS states entails a high level of risk and requires special consideration of factors, including those mentioned here, which are usually not associated with investment in shares in better regulated countries.

Unstable state administration, both locally and federally, could have an adverse impact on investments. None of the CIS states has a fully developed legal system comparable to that in more developed countries. Existing laws and regulations are sometimes applied inconsistently and both the independence and efficiency of the court system constitute a significant risk. Statutory changes have taken place and will probably continue to take place at a rapid pace, and it remains difficult to predict the effect of legislative changes and legislative decisions for companies. Vostok Nafta will invest in or for market segments that the Company is active in or will be active in. It could be more difficult to obtain redress or exercise one's rights in CIS states than in some other states governed by law.

Foreign-exchange risk

The Company's investments are made in RUB or USD. The official exchange rate for RUB therefore directly or indirectly affects the value of investments, but it is impossible to quantify this effect as companies have differing foreign-exchange sensitivity. In addition, investors in the Company's Depository Receipts have differing base currencies. The Company's accounts are prepared up in USD as this is the functional currency. Taken together, this means that fluctuations in exchange rates may affect the net worth of the portfolio in various ways that do not necessarily reflect real economic changes in the underlying assets. Each investor is advised to make his or her own analysis of the foreign-exchange risk existing in the Company's portfolio.

Acquisition and disposal risk

Acquisitions and disposals are by definition a natural element in Vostok Nafta's activities. All acquisitions and disposals are subject to uncertainty. The Company's explicit exit strategy is to sell its holdings to strategic investors or via the market. There are no guarantees that the Company will succeed in selling its participations and portfolio investments at the price the shares are being traded at on the market at the time of the disposal. Vostok Nafta may therefore fail to sell its holdings in a portfolio company or be forced to do so at less than its maximum value or at a loss. If Vostok Nafta disposes of the whole or parts of an investment in a portfolio company, the Company may receive less than the potential value of the participations, and the Company may receive less than the sum invested.

Vostok Nafta operates in a market that may be subject to competition with regard to investment opportunities. Other investors may thus compete with Vostok Nafta in the future for the type of investments the Company intends to make. There is no guarantee that Vostok Nafta will not in the future be subject to competition which might have a detrimental impact on the Company's return from investments. The Company can partially counter this risk by being an active financial owner in the companies Vostok Nafta invests in and consequently supply added value in the form of expertise and networks.

Despite the Company considering that there will be opportunities for beneficial acquisitions for Vostok Nafta in the future, there is no guarantee that such opportunities for acquisition will ever arise or that the Company, in the event that such opportunities for acquisition arose, would have sufficient resources to complete such acquisitions.

Accounting practice and other information

Practice in accounting, financial reporting and auditing in Russia and other CIS states cannot be compared with the corresponding practices that exist in the Western World. This is principally due to the fact that accounting and reporting have only been a function of adaptation to tax legislation. The Soviet tradition of not publishing information unnecessarily is still evident. The formal requirements for Russian companies are to be restrictive in publishing information. In addition, access to external analysis, reliable statistics and historical data is inadequate. The effects of inflation can, moreover, be difficult for external observers to analyse. Although special expanded accounts are prepared and auditing is undertaken in accordance with international standard, no guarantees can be given with regard to the completeness or dependability of the information. Inadequate information and weak accounting standards may be imagined to adversely affect Vostok Nafta in future investment decisions.

Corporate governance risk

Misuse of corporate governance remains a problem in Russia. Minority shareholders may be badly treated in various ways, for instance in the sale of assets, transfer pricing, dilution, limited access to Annual General Meetings and restrictions on seats on boards of directors for external investors. In addition, sale of assets and transactions with related parties are common. Transfer pricing is generally applied by companies for transfer of value from subsidiaries and external investors to various types of holding companies. It happens that companies neglect to comply with the rules that govern share issues such as prior notification in sufficient time for the exercise of right of pre-emption. Prevention of registration of shares is also widespread. Despite the fact that independent authorised registrars have to keep most share registers, some are still in the hands of the company management, which may thus lead to register manipulation. A company management would be able to take extensive strategic measures without proper consent from the shareholders. The possibility of shareholders exercising their right to express views and take decisions is made considerably more difficult.

Inadequate accounting rules and standards have hindered the development of an effective system for uncovering fraud and increasing insight. Shareholders can conceal their ownership by acquiring shares through shell company structures based abroad which are not demonstrably connected to the beneficiary, which leads to self-serving transactions, insider deals and conflicts of interest. The role of the Russian financial inspectorate as the regulator of the equity market to guarantee effective insight and ensure that fraud is uncovered is complicated by the lack of judicial and administrative enforcement instruments. Deficiencies in legislation on corporate governance, judicial enforcement and corporate legislation may lead to hostile takeovers, where the rights of minority shareholders are disregarded or abused, which could affect Vostok Nafta in a detrimental manner.

Dependence on key individuals

Vostok Nafta is dependent on its senior executives. Its Managing Director, Per Brilioth, is of particular significance to the development of the Company. It cannot be ruled out that Vostok Nafta might be seriously affected if any of the senior executives left the Company.

Investments in growth markets

Investments in growth markets such as Russia entail a number of legal, economic and political risks. Many of these risks cannot be quantified or predicted, neither are they usually associated with investments in developed economies.

International capital flows

Economic unrest in a growth market tends also to have an adverse impact on the equity market in other growth countries or the share price of companies operating in such countries, as investors opt to re-allocate their investment flows to more stable and developed markets. The Company's share price may be adversely affected during such periods. Financial problems or an increase in perceived risk related to a growth market may inhibit foreign investments in these markets and have a negative impact on the country's economy. The Company's operations, turnover and profit development may also be adversely affected in the event of such an economic downturn.

Political instability

Russia has undergone deep political and social change in recent years. The value of Vostok Nafta's assets may be affected by uncertainties such as political and diplomatic developments, social or religious instability, changes in government policy, tax and interest rates, restrictions on the political and economic development of laws and regulations in Russia, major policy changes or lack of internal consensus between leaders, executive and decision-making bodies and strong economic groups. These risks entail in particular expropriation, nationalisation, confiscation of assets and legislative changes relating to the level of foreign ownership. In addition, political changes may be less predictable in a growth country such as Russia than in other more developed countries. Such instability may in some cases have an adverse impact on both the operations and share price of the Company. Since the collapse of the Soviet Union in 1991, the Russian economy has, from time to time, shown

- significant decline in GDP
- weak banking system with limited supply of liquidity to foreign companies
- growing black and grey economic markets
- high flight of capital
- high level of corruption and increased organised economic crime
- hyperinflation
- significant rise in unemployment

It is not certain that the prevailing positive macroeconomic climate in Russia, with rising GDP, relatively stable currency and relatively modest inflation will persist. In addition, the Russian economy is largely dependent on the production and export of oil and natural gas, which makes it vulnerable to fluctuations in the oil and gas market. A downturn in the oil and gas market may have a significant adverse impact on the Russian economy.

Upcoming Reporting Dates

Vostok Nafta's twelve months report for the period January 1, 2008–December 31, 2008 will be published on February 11, 2009.

November 19, 2008

Per Brilioth, *CEO*

Report on Review of Interim Financial Information

Introduction

We have reviewed the accompanying balance sheet of Vostok Nafta Investment Ltd as of September 30, 2008 and the related statements of income, changes in equity and cash flows for the nine-month period then ended. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects in accordance with IAS 34.

Gothenburg, November 19, 2008

PricewaterhouseCoopers AB

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Bo Hjalmarsson, *Authorised Public Accountant*

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