Vostok Nafta Investment Ltd

Six Months Report

2010

- **Net result for the period was USD 1.00 mln (January 1, 2009–June 30, 2009: 28.44). Earnings per share was USD 0.01 (0.31). Net result for the quarter was USD -82.57 mln (67.16). Earnings per share for the quarter was USD -0.82 (0.73).**

- **The net asset value of the company was USD 488.68 mln (December 31, 2009: 487.62) on June 30, 2010, corresponding to USD 4.84 (4.83) per share. Given a SEK/USD exchange rate of 7.7891 the corresponding values were SEK 3,806.42 mln and SEK 37.69, respectively.**

- **The group's net asset value per share in USD increased by 0.21% over the period January 1, 2010–June 30, 2010. During the same period the RTS index decreased by 7.29% in USD terms. During the quarter April 1, 2010–June 30, 2010 the group's net asset value per share in USD decreased by 14.45% (RTS index: -14.83%).**

- **The number of outstanding shares at the end of the period was 100,990,975.**

- **The reported net asset value per share of Vostok Nafta as of July 31, 2010 was USD 5.01 (SEK 36.13).**

Background

Vostok Nafta Investment Ltd was incorporated in Bermuda on April 5, 2007 with corporate identity number 39861. Since July 4, 2007, the Swedish Depository Receipts of Vostok Nafta (SDB) are listed on the NASDAQ OMX Nordic Exchange Stockholm, Mid Cap segment, with the ticker VNIL SDB.

As at June 30, 2010 the Vostok Nafta Investment Ltd Group consists of one Bermudian parent company, one wholly owned Bermudian subsidiary, four wholly owned Cypriot subsidiaries, four wholly owned Russian subsidiaries and one wholly owned Swedish subsidiary.

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 14.39 (38.65) mln. Result from investments in associated companies was USD -21.38 (-10.31) mln. Result from loan receivables was USD 3.75 (2.21) mln. Dividend income, net of withholding tax expenses, was USD 6.40 (5.02) mln.

Net operating expenses (defined as other operating income less operating expenses) amounted to USD -2.10 (-2.46) mln.

Net financial items were USD 0.00 (-4.69) mln.

Net result for the period was USD 1.00 (28.44) mln.

Total shareholders' equity amounted to USD 488.68 mln on June 30, 2010 (December 31, 2009: 487.62).

Group – results for the quarter

During the quarter, the result from financial assets at fair value through profit or loss amounted to USD -46.41 (59.19) mln. Result from investments in associated companies was USD -42.96 (0.93) mln. Result from loan receivables was USD 1.91 (6.77) mln. Dividend income, net of withholding tax expenses, was USD 6.20 (1.64) mln.

Net operating expenses (defined as other operating income less operating expenses) amounted to USD -1.23 (-0.97) mln.

Net financial items were USD -0.05 (-0.39) mln.

Net result for the quarter was USD -82.57 (67.16) mln. Net loss for the quarter relates primarily to the unrealised loss coming from revaluation of financial assets at fair value through profit and loss amounted to USD -46.41 mln and from revaluation of investment in associated companies amounted to USD -42.96 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 9.59 mln on June 30, 2010 (Dec 31, 2009: 8.94).

Parent company

The parent company finances the Cypriot subsidiaries' operations on market terms. The net result for the period was USD 9.99 (5.55) mln.

Events after the balance sheet date

Issue of call options to a group of employees

On July 21, 2010 the Company authorized the issue of 695,000 of the authorized 2,000,000 options under the company's incentive Program (adopted at the AGM of Vostok Nafta on May 5, 2010) to a group of employees.

The call options may be exercised three years after the time of the granting, which in this case means during the period from August 1, 2013 to August 31, 2013.

The strike price is set as the average of the last price of the 10 trading days prior to the decision plus 20%, which for the options above results in a strike price of SEK 31.41.

The options are offered at a purchase price corresponding to the market value of the options at the time of the offer. The options shall be fully transferable and will hereby be considered as securities.

Management report

We are living in volatile times. There are reasons to expect continued volatility as the markets reacts to hopes and disappointments relating to global growth and how Governments and Central Banks perform in their attempts to balance future generations' debt burdens and a swift return to some sort of normality in the near term. Within this volatility, and the risk averseness it creates, there will be historic opportunities to invest in value. Looking back from 3-5 years from now, Russia in our view will have proven itself to be one of them.

Even though the Russian market is up some 20% since the lows of early July it has still failed to rerate in relation to other markets. According to Goldman Sachs Russia trades at a 12 month forward PE of 6.6 (9.5 if you strip out commodities which is some 70% of the market). This is clearly a low number in both absolute and relative terms. However, we have in front of us a set of triggers that will lead to a rerating of overall Russian valuations.

– Macro improvements continuing

Due to the extreme volatility of Russian macro economics during late 2008 and 2009, investors needed continuous macro improvements to close the largely underweight position that Russia has suffered from, mainly due to global risk averseness. These improvements are being delivered. The industrial production in June was up by 9.7% year-on-year, clearly supporting the recovery theme. Unemployment is down to 6.8%, which is the lowest level since October 2008. Loan growth was up 2% month-on-month in July and retail sales were up 7% year-on-year. Despite the higher prices for wheat, inflation over time still seems to be on its way down. It is difficult to tell exactly which macro statistics that ignites a return to full and possibly overweight Russia in Global equity portfolios but the continued recovery creates the necessary backdrop.

– Privatization

A new development over the summer is the Russian Government's decision to raise some USD 30 bln through privatizations. A list of companies in the State portfolio ranging from Rosneft to Transneft has been set up. Although positive from a reform point of view as well as a fiscal matter, it is the signal that the Government will now care about stock prices that could very well make this one the trigger we will look back on in a year from now as the trigger that started the rerating.

– International image

Russia's image in the West is improving. President Medvedev's trip to the US in July was reminiscent of Putin's trip to the US and President Bush in the wake of the 2001 terrorist attacks. There were of course multiple reasons for the Russian stock market rally in the years following 2001 but Russia's image of a friendly state for sure helped flow of funds to the country.

– Corporate market

The corporate market in Russia is unusually active. BP's search for cash has brought its two Russian holdings (50% of TNK-BP and a portfolio sized investment into Rosneft stock) into the spotlight. Uralkali (Russia's largest producer of potash) has seen its majority shareholder change while being active on the M&A market. Conoco has sold its stake in Lukoil, partly on the open market and partly to Lukoil itself. The two largest shareholders of Norilsk Nickel are fighting each other, but in a way that is way more sophisticated than the violent corporate struggles of the 90's and early 2000's. All in all the intense corporate activity and the absence of any corporate governance issues à la Telenor or Shell of recent years will comfort investors looking at Russia from a global perspective.

Vostok Nafta – historically high discount provides new opportunities

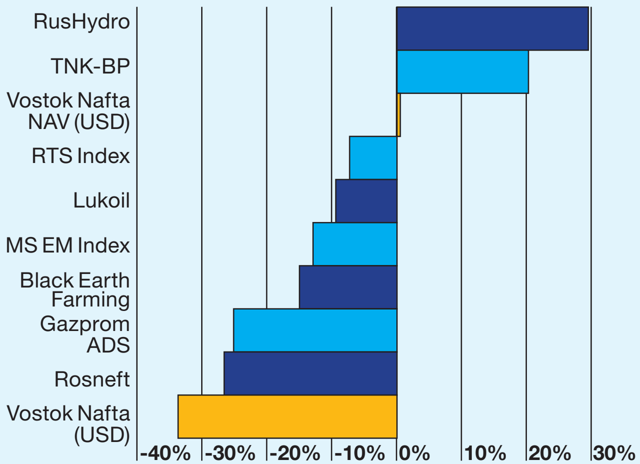
At Vostok Nafta the work with our portfolio companies continues unabated. As you will note from the corporate updates later on in this report there are significant developments in all our larger holdings which contributes to value being added.

We note that our discount to Net Asset Value is at historically high levels which we interpret as continued global risk aversion, especially in the light of similar discounts at other investment companies with Russian portfolios as well as failed IPO's of new similar entities.

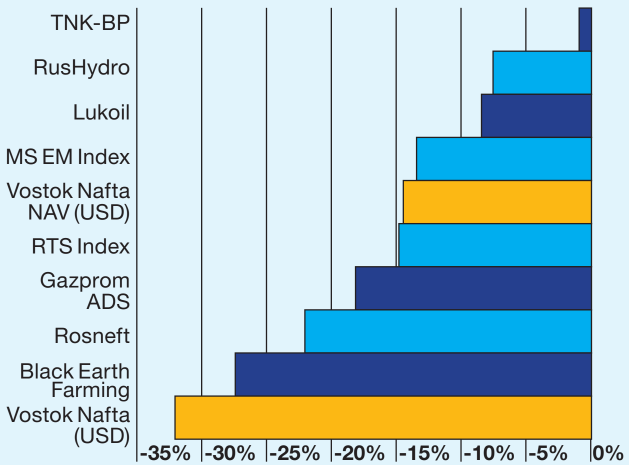
Vostok Nafta's portfolio development

The group's net asset value per share in USD increased by 0.21% over the period January 1, 2010–June 30, 2010. During the same period the RTS index decreased by 7.29% in USD terms. During the period April 1, 2010–June 30, 2010 the group's net asset value per share in USD decreased by 14.45% (RTS index: -14.83%).

Percent development January 1–June 30, 2010
(last price paid on relevant stock exchange)



Percent development April 1–June 30, 2010
(last price paid on relevant stock exchange)



Information on significant holdings

TNK-BP Holding

TNK-BP offers investors a superior production growth outlook and quality investments, along with high cash flows. Investors have recently started to acknowledge the improved fundamentals and the valuation gap between TNK-BP and its Russian peers has narrowed somewhat. TNK-BP is among the cheapest Russian oil companies based on multiple valuations, with an estimated 2011 P/E of 4.9x and EV/EBITDA of 3.3x, suggesting a 10–35 percent discount to Russian peers. A higher valuation is expected given the company's production growth and high quality investments.

There has been media talk about the possibility of BP exiting its 50 percent share in TNK-BP to fund its capital needs in the Gulf of Mexico. We believe such a scenario to be unlikely especially in the light of the contribution of the asset to BP's global portfolio: 28 percent of BP's oil production and 16 percent of its net income in 2009 was contributed from TNK-BP and TNK-BP dividends represented 35 percent of BP's operating cash flow net of capital expenditures in 2009. Regardless, BP exiting TNK-BP would have no impact on the listed stock since the shareholder changes would occur at the level of the non-listed parent company and not at the publicly traded TNK-BP Holding. However, BP exiting could impact TNK-BP Holding's operations if BP's shares are bought by a state-owned company. With BP as a 50 percent shareholder, TNK-BP is subject to limitations placed on foreign companies in strategic Russian industries.

TNK-BP Holding

Vostok Nafta's number of shares	
Ordinary	19,245,000
Preferred	28,186,616
Value Ordinary	39,548,475
Value Preferred	49,890,310
Total Value (USD)	**89,438,785**
Portfolio percentage weight	**18.8%**
Share of total shares outstanding	**0.3%**
Share development since March 31, 2010	
Ordinary	-0.2%
Preferred	1.7%

During the second quarter 2010 Vostok Nafta has purchased 1,000,000 ordinary shares and 1,090,000 preferred shares and sold 0 shares in TNK-BP Holding.

Black Earth Farming

During the summer, Russia has experienced the worst drought in more than three decades. High temperatures, reaching over 40 degrees Celsius in key Russian agricultural regions, have damaged large areas of Russia's land under cultivation and impacted yields dramatically. As the harvesting season is about half way through a lot of uncertainty remains over how large the negative weather effect will be on total Russian agricultural production. Estimates of total grain production have been reduced steadily with a wide dispersion between official and private estimates. The Russian Agriculture Ministry has downgraded its forecast for the country's grain harvest in 2010 to between 60 and 65 mln tons, compared to the initial estimates of over 90 mln tons. Black Earth Farming has also been severely affected by the weather conditions and had as of August 4 concluded harvesting of just over 50 percent of the total planted area of around 196,000 hectares. Even though it is too early to make estimates for the total harvest, yields so far are materially lower than last year's.

The Russian supply shock has led to international wheat prices soaring over 50 percent in July 2010. Russia, which accounted for 16 percent of globally traded wheat last year, introduced a ban on grain exports from August 15 which sent international prices to 2 year highs. The ban is an attempt to cool soaring Russian domestic grain prices as food items have a large effect on consumer prices. The Russian government also has a large stockpile of grain from the previous years' bumper harvests equivalent to 13 percent of annual domestic consumption, which it will start dispersing in October as the supply situation gets clarified. Black Earth Farming has currently no export contracts and is not directly impacted by the export ban, yet will be indirectly affected via the pricing of domestic grains.

In the beginning of June, Black Earth Farming completed the issuance of a SEK 750 mln bond at a fixed annual coupon rate of 10 percent maturing in 4 years time. The proceeds will be used to redeem the outstanding bond, complete ongoing investments and to maintain financial flexibility to act on potential acquisition opportunities.

Black Earth Farming

Vostok Nafta's number of shares	**30,888,704**
Total Value (USD)	**83,277,923**
Portfolio percentage weight	**17.5%**
Share of total shares outstanding	**24.9%**
Share development since March 31, 2010	**-27.1%**

During the second quarter 2010 Vostok Nafta has purchased 0 shares and sold 0 shares in Black Earth Farming.

Tinkoff Credit Systems

Tinkoff Credit Systems (TCS) demonstrated a strong performance during the first half of 2010, with considerable growth in its credit card portfolio. In order to attract additional funding a retail deposit program has been implemented while the company has also attained credit ratings from Fitch and Moody's. The successful deposit program has enabled TCS to accelerate customer acquisitions and fuel growth of credit card loans with 142,000 credit cards issued during the first half of 2010, an increase of 25 percent. Net income for the first 6 months of 2010 increased by 22 percent year-on-year to RUB 140.4 mln and the return on equity for the period was 20 percent. The company has a strong capital ratio of 22 percent, compared to the Russian sector average of 19 percent. Retail deposits have increased by RUB 2 bln and the successful deposit program has enabled TCS to raise capital at significantly lower interest rates than earlier. The company has moreover reduced the rate on deposits to approximately 9.5 to 12 percent.

For the purpose of continuing its expansion, TCS has successfully carried out a RUB 1.4 bln bond issue with a coupon rate of 20 percent per annum, maturing July 28, 2013. The aim is to double the credit card portfolio by year end and the proceeds will primarily be utilized to continue its growth in customer acquisitions. The company has also announced an early redemption of its Eurobond in accordance with the terms and conditions of the bond.

Vostok Nafta values its equity stake in TCS through discounted cash flows based on management's estimates of business operations up until a presumed exit date including proceeds from a final divestment. The probability of available new funding, discount rate and assumptions regarding an exit multiple are key variables affecting the value of TCS. The estimations are based on reasonable and verifiable assumptions that comprise Vostok Nafta's best assessment of the economic conditions that are expected to prevail. As of June 30, 2010, Vostok Nafta's equity stake (including warrants) in TCS (Egidaco) was valued at USD 20.82 mln which represents 16.1 percent of the total shares outstanding. The fair value estimate increased 3.0 percent during the period. The total investment in TCS including equity and debt constitutes 9.3 percent of Vostok Nafta's portfolio.

The new rouble bond and the early redemption of the company's Eurobond have given increased visibility on funding, which in our view is a clear prerequisite for a higher equity valuation. In the light of this news, Vostok Nafta will revalue its equity position, which will likely result in a material increase. This revaluation will be reflected in Vostok Nafta's Net Asset Value as of August 31, 2010 with the details presented in the Q3 report.

Tinkoff Credit Systems

Vostok Nafta's number of shares	**885,934**
Value shares	18,234,524
Value warrants	2,586,408
Value loan	23,247,596
Total Value (USD)	**44,068,528**
Portfolio percentage weight	**9.3%**
Share of total shares outstanding	**16.1%**
Value development since March 31, 2010	**3.0%**

During the second quarter 2010 Vostok Nafta has purchased 0 shares and sold 0 shares in Tinkoff Credit Systems.

RusForest

On May 24, 2010, RusForest signed a letter of intent with Nord Timber Group (NTG) with the aim of merging the two companies by way of a directed share issue in RusForest. NTG is a company with a large forestry and sawmilling business located in the Arkhangelsk region in the northwest of Russia. Arkhangelsk is the most developed forestry and pulp-producing region in Russia, allowing sales of all main products from harvesting operations at full market prices. It offers geographic proximity to European export routes via sea access as well as the major domestic end markets for forestry products. A number of issues remains to be resolved regarding the merger negotiations post the letter of intent.

Martin Hermansson was appointed as President and Chief Executive Officer of RusForest effective June 1, 2010, replacing Alex Williams. Martin Hermansson holds a Bachelor of Science from London School of Economics and has a solid forestry industry background in Russia and Sweden. He founded his own consultancy business within the forestry sector, where he was active as CEO between 2006 and 2008. In early 2008 he founded Nord Timber Group which he managed to turn into a highly successful forestry company with a significant presence in the Arkhangelsk region of North West Russia. As of today he remains a minority shareholder in NTG and a representative on the board but does not carry any executive or operational functions. His appointment as CEO of RusForest is not in any way conditional upon a successful merger with NTG. In our view he will bring the necessary industrial expertise to RusForest for both its completion of the Eastern Siberian operations as well as for its expansion into Arkhangelsk.

RusForest is currently evaluating the prerequisites for carrying out a rights issue during the autumn of 2010. The work surrounding the capital raise is related to the expansion of RusForest's existing business as well as the intended merger with NTG and the joint development plans. RusForest's new management has identified several key investments which need to be made before autumn in order to ensure a satisfactory speed of operational improvements during 2010 and stronger cash flows in the coming season. In order for RusForest to immediately start work on these key development projects and to cover working capital needs over the summer period, Vostok Nafta agreed to advance, in part, its share of the proposed rights issue. The financing was made by way of a short term unsecured loan in the principal amount of USD 6 mln with a maturity on September 30, 2010, and a fixed annual interest rate of 15 percent. More details about size, use of proceeds and operational targets for the intended rights issue will be released at a later stage.

RusForest

Vostok Nafta's number of shares	**10,888,403**
Value shares	25,978,226
Value loan	1,031,395
Total Value (USD)	**27,009,621**
Portfolio percentage weight	**5.7%**
Share of total shares outstanding	**49.9%**
Share development since March 31, 2010	**-26.7%**

During the second quarter 2010 Vostok Nafta has purchased 0 shares and sold 0 shares in RusForest.

Priargunsky

Priargunsky (PGHO) reported financial results for the first half of 2010 that showed revenues rising by 9 percent year-on-year to RUB 4.5 bln, which the company attributed to increased selling prices. As a result operating and net margins significantly improved by 3.9 and 4.3 percentage points respectively to 15 percent and 7 percent. The realized prices the company receives for its output has historically been regulated at a significant discount to market prices. The strong results indicate that government controlled ARMZ, PGHO's parent company which controls 82.2 percent of the shares, is gradually reducing the discount on domestic natural uranium prices versus the international price. ARMZ's CEO Vadim Zhivov has previously stated that starting from 2011, the holding company would sell its uranium to domestic consumers at international prices.

PGHO is operating at 100 percent capacity. The construction of new capacity is capital intensive and time consuming and the company is in apparent need of external funding. The company has historically used additional share issues as a way to fund capital expenditures. From 2006 to 2010, the company conducted several additional issues with ARMZ as the main buyer of the shares. The latest took place in August 2010 at USD 730 per ordinary share (only ordinary shares were issued), which compares to the current market price of USD 215. The realization of market prices will significantly improve PGHO's operational cash flows enabling the company to fund investments internally.

Priargunsky

Vostok Nafta's number of shares	
Ordinary	100,242
Preferred	11,709
Value Ordinary	21,050,820
Value Preferred	761,085
Total Value (USD)	**21,811,905**
Portfolio percentage weight	**4.6%**
Share of total shares outstanding	**5.0%**
Share development since March 31, 2010	
Ordinary	-3.7%
Preferred	-30.9%

During the second quarter 2010 Vostok Nafta has purchased 0 shares and sold 0 shares in Priargunsky.

Kuzbass Fuel Company

Kuzbass Fuel Company is one of the fastest growing thermal coal companies in Russia with an expected doubling of production over the next five years.. In addition ot this it is also a low cost producer mostly thanks to shallow depths at its mines.

Globally the thermal coal market's fundamentals are among the strongest in the commodity universe, supported by the continuing growth in demand from the world's two most populous economies, China and India. In Russia the market for thermal coal has further upside on the back of the deregulation of the local market for natural gas.

Kuzbass Fuel Company is valued at a discount to peers on 2010 multiples, which we do not believe is justified given the company's strong growth in thermal coal output.

Kuzbass Fuel Company

Vostok Nafta's number of shares	3,500,000
Total Value (USD)	20,650,000
Portfolio percentage weight	4.3%
Share of total shares outstanding	4.1%
Share development since March 31, 2010	-35.5%

During the second quarter 2010 Vostok Nafta has purchased 1,000,000 shares and sold 0 shares in Kuzbass Fuel Company.

Kontakt East Holding (Vosvik)

Kontakt East (Vosvik) is a holding company with two main investments: Avito which is Russia's largest online classified operator and Yellow Pages active within directory services.

Avito

Avito's number of monthly unique visitors continued to grow at a rapid pace during the first half of 2010. In June www.avito.ru had approximately 7 million unique visitors per month. The company has obtained a leading position in terms of visitors and number of ads, distancing itself from its competitors. Once market dominance is determined the business model has great potential in terms of profitability judging by the experience in other countries. An ongoing equity fundraising process is soon to be concluded where the proceeds will be used to further strengthen Avito's leading position and increase the market share. Vostok Nafta will not contribute new capital as the bidding saw great interest and developed into a competitive process that resulted in a price level where Vostok Nafta is comfortable with a more diluted ownership. Vostok Nafta remains highly committed to the company, which is in a very exciting phase with great future prospects. Following the transaction which is planned to close during September 2010, Vostok Nafta and Kinnevik will remain as the majority shareholders of Avito.

Yellow Pages

The revenue development at Yellow Pages Russia has stabilized in the first half of 2010, yet without significant improvements in growth. Focus at Yellow Pages remains on transferring customers online, i.e. emigrating from selling static advertisement to a service that provides value and a measurable return on investment for the customer.

Vostok Nafta values its equity stake in Kontakt East Holding (Vosvik) through a discounted cash flow model based on management's estimates of business operations during a foreseeable forecasting period. Sales growth, operating margin, discount rate and the terminal growth rate are key variables affecting the value of Kontakt East. The estimations are based on reasonable and verifiable assumptions that comprise Vostok Nafta's best assessment of the economic conditions that are expected to prevail. Vostok Nafta's equity stake in Kontakt East is valued at USD 17.71 mln which represents 50.0 percent of the total shares outstanding. The fair value estimate decreased 3.9 percent during the period as a result of currency movements.

Kontakt East Holding (Vosvik)

Vostok Nafta's number of shares	50,000
Total Value (USD)	17,708,549
Portfolio percentage weight	3.7%
Share of total shares outstanding	50.0%
Value development since March 31, 2010	-3.9%

During the second quarter 2010 Vostok Nafta has purchased 0 shares and sold 0 shares in Kontakt East Holding.

Transneft

Several media sources have reported that the Russian Finance Ministry has proposed raising USD 29 bln by selling minority stakes in 10 major companies, including Transneft. The proceeds from the sale would be used to cut Russia's budget deficit and would be a major step towards reducing the share of the state in the economy. The final privatization plan is expected to be approved in November 2010.

Expectations are that Transneft will be privatized sooner or later with uncertainty regarding the exact timing. The company's traditional funding options, debt and tariffs, are running out at the same time as the Russian government encourages Transneft to expand its investment program. Following regular hikes Transneft's tariffs are no longer low compared with international peers, and the company has stated that it will not increase its debt burden. This leaves the company with few options but equity financing. Consequently, the government is expected to implement a more market-friendly principle for Transneft in the future, such as the implementation of RAB-based regulation (where tariff regulation is based on economically feasible rates of return on invested capital) and an equity offering.

A possible part privatization Transneft would have several positive implications for existing minority shareholders, both in terms of the potential improved liquidity of the stock as well as the expected increase in valuation to levels where the Russian State would be expected to approve dilution. Transneft is currently trading at the consensus 2010e P/E multiple of 1.8x.

Transneft

Vostok Nafta's number of shares	**19,730**
Total Value (USD)	**16,770,500**
Portfolio percentage weight	**3.5%**
Share of total shares outstanding	**0.3%**
Share development since March 31, 2010	**-25.8%**

During the second quarter 2010 Vostok Nafta has purchased 0 shares and sold 0 shares in Transneft.

RusHydro

June brought some disappointing headline news for the utilities sector as the Ministry of Finance proposed to introduce caps for growth of the overall electricity tariffs the coming 3 years. This refers to the final electricity price for industrial consumers, which includes generation, distribution, transmission and supply companies. The move, which is motivated by near term political concerns over inflation, would be a dent to the progress of sector liberalization as industry profitability needs to rise in order to stimulate new investments. Uncertainty remains over exactly how the price caps would be accomplished but could include reducing tariff growth rates for transmission and distribution companies while controlling capacity prices for generating companies like RusHydro. Yet the liberalization of electricity prices progressed according to schedule reaching 80 percent of volumes to be sold at market prices as of July 2010.

The extreme weather in the European part of Russia, with temperatures of plus 40 degrees and severe drought, together with the general economic recovery has had a significant positive effect on power demand pushing market prices up close to 50 percent year-on-year. Although production volumes at RusHydro could be effected by lower water levels the company is highly geared towards price increases as a large part of its volumes are currently sold at deregulated market prices. Liberalized electricity prices were on average 53 percent higher than the regulated tariff as of July 2010.

RusHydro

Vostok Nafta's number of shares	
ADRs (1 ADR = 100 Local shares)	2,039,734
Local shares	34,821,499
Value ADRs	9,892,710
Value Local shares	1,601,789
Total Value (USD)	**11,494,499**
Portfolio percentage weight	**2.4%**
Share of total shares outstanding	**0.01%**
Share development since March 31, 2010	
ADRs	-7.8%
Local shares	-7.8%

During the second quarter 2010 Vostok Nafta has purchased 34,821,499 local shares and sold 260,000 ADRs in RusHydro.

Alrosa

Following a change of management Alrosa has articulated a new financial strategy which includes concentrating on its main operations, reducing leverage, improving the debt maturity profile and making a public equity offering. The company has shifted its strategic focus to its core Russian diamond business and is reviewing further sales of non-core assets. Optimization of Alrosa's operations at its Russian diamond mines has great potential value. Its attempts to diversify into other mining areas and energy increased leverage and resulted in large capital expenditure requirements, which did not improve its cash flow generation capacity.

Reducing debt and improving the maturity structure are considered as key elements of its financial policy. During 2010, the company seeks to replace its short-term debt with longer term ruble denominated bonds and Eurobonds. The company plans to refinance USD 2.2 bln with a RUB 26 bln bond placement and a USD 1 bln Eurobond issue. This would improve the company's debt maturity profile. The company management is also considering an IPO in 2012, with the Russian Federation together with the Republic of Sakha reducing their stakes yet maintaining majority control.

Following a recovery from the sharp downturn of diamond sales in 2009 the majority of Alrosa's rough diamond production is currently sold on the open market and no longer to the Russian government. Pricing trends are also positive so far this year, according to management who have provided a very positive guidance for 2010. Diamond production is expected to increase by 20 percent to 40 million carats and sales are expected to be 67 percent higher than in 2009. EBITDA guidance of RUB 51.6 bln would result in a Debt/EBITDA ratio of a more manageable 2.0x and an EV/EBITDA ratio of 3.0x.

Alrosa

Vostok Nafta's number of shares	**1,261**
Total Value (USD)	**10,718,500**
Portfolio percentage weight	**2.2%**
Share of total shares outstanding	**0.6%**
Share development since March 31, 2010	**6.3%**

During the second quarter 2010 Vostok Nafta has purchased 102 shares and sold 0 shares in Alrosa.

Clean Tech East Holding

Clean Tech East Holding (CTEH) is a holding company with two business areas: production of wooden pellets in Biomass Fuels and development and marketing of additives for the global power sector within Power Chemicals. The pellets business has grown to become the dominating one of the two against the backdrop of the expected huge changes in the European demand for renewable energy sources between now and 2020. By this time the European countries are required to have 20 percent of their electricity consumption produced from renewable sources, compared to a current level of some 8–9 percent (stripping out hydro-intensive countries like Sweden and Finland that average is even lower). Coal fired utilities are expected to utilise the ease at which such power stations can be partly switched from coal to wooden pellets to become large buyers of pellets, totally transforming the market for this product.

Clean Tech East is currently finalising the construction of one of the largest pellets plants in Sweden in the Southern town of Ystad. Vostok Nafta's view (and also the rationale for our increasing exposure to the company) is that Clean Tech East should expand its production to Russia – where a competitive advantage in terms of the availability and cost of raw material can be achieved. Clean Tech East is currently evaluating such an expansion strategy by looking at specific projects in Northwest Russia.

CTEH's rights issue of SEK 81 mln was completed in June 2010. Following the capital increase Vostok Nafta's stake in the company rose to 42.8 percent of the shares outstanding as a result of our participation in the guarantee consortium of the new issue and the failure of the full subscription of the rights. The proceeds of the issue have been used to finance the earlier communicated transaction with Fortum Värme, whereby CTEH acquired an additional 20 percent stake in Ystad Pellets to achieve full ownership. In addition, investments are being implemented in the production process to increase output and an assembly line to package pellets in bags for distribution to households is being installed. Sales to the consumer market are at significantly higher prices than sales in bulk to industrial customers. In addition to the equity issue Clean Tech East is in the process of concluding 12–18 month debt finance through the Swedish bond market. Vostok Nafta has agreed to act as a guarantor of such a bond against a market-based fee.

Clean Tech East has reported sales of SEK 27.96 mln for the first six months of 2010, this compared to SEK 16.23 mln for the first six months of 2009. The operating result for the same period amounted to SEK 44.76 mln compared to SEK -10.91 mln in 2009. As a result of the investments being undertaken together with ongoing cost rationalizations EBITDA is expected to be positive in 2011.

Management changes have been implemented as Lennart Ivarsson was appointed CEO of CTEH in April 2010. Lennart has a Master of Science degree in Engineering from the Royal Institute of Technology in Stockholm (KTH), with experience from Global Manufacturing at Flextronics as well as a successful set-up of a manufacturing joint-venture in China for Ericsson.

Clean Tech East Holding

Vostok Nafta's number of shares	**284,856,095**
Value shares	5,119,935
Value loan	3,024,941
Total Value (USD)	**8,144,876**
Portfolio percentage weight	**1.7%**
Share of total shares outstanding	**42.2%**
Share development since March 31, 2010	**-50.1%**

During the second quarter 2010 Vostok Nafta has purchased 242,601,800 shares and sold 0 shares in Clean Tech East.

Investments

During the second quarter gross investments in financial assets were USD 26.05 (10.90) mln and proceeds from sales were USD 21.33 (18.99) mln.

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

Purchases

+	1,000,000	Kuzbass Fuel Company
+	242,601,800	Clean Tech East Holding AB
+	1,000,000	TNK-BP Holding Ord
+	1,090,000	TNK-BP Holding Pref

Sales

–	322,767	Sibirskiy Cement
–	5,000,000	Egidaco 24% 2011

Portfolio structure

The investment portfolio stated at market value as at June 30, 2010 is shown on next page. Vostok Nafta's three biggest investments are TNK-BP Holding (18.77%), Black Earth Farming (17.48%) and Kuzbassrazrezugol (10.11%).

Number of shares	Company	Fair value, USD	Percentage weight	
5,364,850	Caspian Services	1,233,916	0.26%	1
5,789,903	Kherson Oil Refinery	7,324	0.00%	1
19,245,000	TNK-BP Holding Ord	39,548,475	8.30%	1
28,186,616	TNK-BP Holding Pref	49,890,310	10.47%	1
1,620,000	Novoil	1,377,000	0.29%	1
1,122,705	Novoil Pref	393,508	0.08%	1
10,300,000	Ufa Refinery	10,815,000	2.27%	1
1,715,000	Ufaneftekhim	7,288,750	1.53%	1
88,500	Varyeganneftgas Pref	1,349,625	0.28%	1
	Oil, Total	111,903,908	23.49%	
1,261	Alrosa	10,718,500	2.25%	1
6,000,000	Fortress Minerals	705,450	0.15%	1
31,274	Gaisky GOK	7,537,034	1.58%	1
3,154,498	Poltava GOK	16,974,985	3.56%	1
100,242	Priargunsky Ind Ord	21,050,820	4.42%	1
11,709	Priargunsky Ind Pref	761,085	0.16%	1
1,442,400	Shakiya Zinc GDR	144,240	0.03%	1
	Other commodities, Total	57,892,114	12.15%	
3,654	Bekabadcement	657,720	0.14%	1
187	TKS Concrete	1,506,750	0.32%	1
39,000	Gornozavodsk Cement	3,919,500	0.82%	1
1,600,000	Kamkabel	112,000	0.02%	1
85,332	Podolsky Cement	53,972	0.01%	1
10,156,113	Steppe Cement Ltd	7,892,194	1.66%	1
19,730	Transneft Pref	16,770,500	3.52%	1
1,215,000	Tuimazy Concrete Mixers	6,864,750	1.44%	1
	Infrastructure, Total	37,777,386	7.93%	
2,039,734	RusHydro ADR (1 ADR = 100 Local shares)	9,892,710	2.08%	1
34,821,499	RusHydro Local shares	1,601,789	0.34%	1
3,500,000	Kuzbass Fuel Company	20,650,000	4.33%	1
133,752,681	Kuzbassrazrezugol	48,150,965	10.11%	1
2,618,241	Kyrgyzenergo	168,688	0.04%	1
	Energy Sector Restructuring, Total	80,464,152	16.89%	

Number of shares	Company	Fair value, USD	Percentage weight	
1,765,000	Agrowill	0	0.00%	1
30,888,704	Black Earth Farming	83,277,923	17.48%	2
272,106	Dakor	2,662,285	0.56%	1
	Agriculture, Total	85,940,208	18.04%	
885,934	Egidaco Investment Limited (Tinkoff Credit Systems), equity	18,234,524	3.83%	1
	Egidaco Investment Limited (Tinkoff Credit Systems), warrants	2,586,408	0.54%	1
	Tinkoff Credit Systems Bank, loan	23,247,596	4.88%	3
50,000	Vosvik AB/Kontakt East	17,708,549	3.72%	2
10,888,403	RusForest AB	25,978,226	5.45%	2
	RusForest, loans	1,031,395	0.22%	3
284,856,095	Clean Tech East Holding AB	5,119,935	1.07%	2
	Clean Tech East Holding AB, loans	3,024,941	0.63%	4
623,800	TKS Real Estate	778,166	0.16%	1
3,095,952	Ruric AB	914,183	0.19%	1
683,750	Custos AB	2,633,477	0.55%	1
683,750	Custos AB Fully paid interim shares	877,826	0.18%	1
	What Works in the West, Total	102,135,224	21.44%	
8,000	Gazprom Calls	48,000	0.01%	1
	Short term trades, Total	48,000	0.01%	
	Other non current loan receivables	200,000	0.04%	3
	Other current loan receivables	27,596	0.01%	4
	Other loan receivables, Total	227,596	0.05%	
	Grand Total	476,388,588	100.00%	

1. These investments are shown in the balance sheet as financial assets at fair value through profit or loss.
2. These investments are shown in the balance sheet as investments in associated companies.
3. These investments are shown in the balance sheet as non current loan receivables.
4. These investments are shown in the balance sheet as current loan receivables.

Vostok Nafta's portfolio as at June 30, 2010

Income statements – Group

(Expressed in USD thousands)	Jan 1, 2010– Jun 30, 2010	Jan 1, 2009– Jun 30, 2009	Apr 1, 2010– Jun 30, 2010	Apr 1, 2009– Jun 30, 2009
Result from financial assets at fair value through profit or loss[1]	14,390	38,652	-46,408	59,187
Result from investments in associated companies	-21,380	-10,306	-42,958	936
Result from loan receivables[1]	3,752	2,213	1,905	6,767
Dividend income	7,512	5,903	7,289	1,925
Other operating income	332	312	41	54
Total operating income	4,606	36,774	-80,131	68,869
Operating expenses	-2,436	-2,773	-1,267	-1,027
Russian dividend withholding tax expenses	-1,122	-885	-1,089	-288
Operating result	1,049	33,116	-82,486	67,554
Financial income and expenses				
Interest income	2	92	1	9
Interest expense	-6	-1,866	-6	-126
Currency exchange gains/losses, net	-77	-2,918	-126	-298
Other financial income	83	22	83	22
Other financial expenses	–	-19	–	-1
Net financial items	2	-4,689	-48	-394
Result before tax	1,051	28,427	-82,534	67,160
Taxation	-54	11	-37	0
Net result for the financial period	998	28,438	-82,570	67,160
Earnings per share (in USD)	0.01	0.31	-0.82	0.73
Diluted earnings per share (in USD)	0.01	0.31	-0.82	0.73

1. Interest on loan receivables which are considered parts of the investment portfolio is presented in the income statement as 'Result from loan receivables' among operating income items. Interest on other loans and receivables is presented in the income statement as 'Interest income' among financial items. Realized and unrealized exchange gains/losses on loan receivables which are considered parts of the investment portfolio are presented in the income statement as 'Result from loan receivables'. Financial assets at fair value through profit or loss (including listed bonds) are carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'Result from financial assets at fair value through profit or loss' in the period in which they arise.

Statement of comprehensive income

(Expressed in USD thousands)	Jan 1, 2010– Jun 30, 2010	Jan 1, 2009– Jun 30, 2009	Apr 1, 2010– Jun 30, 2010	Jan 1, 2009– Jun 30, 2009
Net result for the financial period	998	28,438	-82,570	67,160
Other comprehensive income for the period				
Currency translation differences	61	382	75	353
Total other comprehensive income for the period	61	382	75	353
Total comprehensive income for the period	1,058	28,820	-82,495	67,513

Total comprehensive income for the periods above is entirely attributable to the equity holders of the parent company.

Balance sheets – Group

(Expressed in USD thousands)	Jun 30, 2010	Dec 31, 2009
NON CURRENT ASSETS		
Tangible non current assets		
Property, plant and equipment	1,888	1,948
Total tangible non current assets	1,888	1,948
Financial non current assets		
Financial assets at fair value through profit or loss	316,773	301,607
Investment in associated companies	132,085	148,084
Loan receivables	24,479	22,602
Deferred tax asset	53	109
Total financial non current assets	473,390	472,402
CURRENT ASSETS		
Cash and cash equivalents	9,591	8,935
Loan receivables	3,052	3,180
Receivables from related parties	53	375
Tax receivables	130	155
Other current receivables	1,931	2,050
Total current assets	14,757	14,695
TOTAL ASSETS	490,035	489,045
SHAREHOLDERS' EQUITY		
(including net result for the financial period)	488,684	487,624
CURRENT LIABILITIES		
Non-interest bearing current liabilities		
Liabilities to related parties	200	211
Tax payables	440	516
Other current liabilities	178	61
Accrued expenses	534	633
Total current liabilities	1,351	1,421
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	490,035	489,045

Statement of Changes in Equity – Group

(Expressed in USD thousands)	Share Capital	Additional paid in capital	Retained earnings	Total
Balance at January 1, 2009	46,021	146,884	54,988	247,893
Net result for the period				
January 1, 2009 to June 30, 2009	–	–	28,438	28,438
Other comprehensive income for the period:				
Currency translation differences	–	–	382	382
Total comprehensive income for the period				
January 1, 2009 to June 30, 2009	–	–	28,820	28,820
Transactions with owners:				
Proceeds from new share issue,				
net of transaction costs	54,970	44,604	–	99,574
Employees share option scheme:				
– value of employee services	–	155	–	155
	54,970	44,759	–	99,729
Balance at June 30, 2009	100,991	191,643	83,808	376,442
Balance at January 1, 2010	100,991	191,700	194,933	487,624
Net result for the period				
January 1, 2010 to June 30, 2010	–	–	998	998
Other comprehensive income for the period:				
Currency translation differences	–	–	61	61
Total comprehensive income for the period				
January 1, 2010 to June 30, 2010	–	–	1,059	1,059
Transactions with owners:				
Employees share option scheme:				
– value of employee services	–	1	–	1
	–	1	–	1
Balance at June 30, 2010	100,991	191,701	195,992	488,684

Cash flow statements – Group

(Expressed in USD thousands)	Jan 1, 2010– Jun 30, 2010	Jan 1, 2009– Jun 30, 2009	Jan 1, 2009– Dec 31, 2009
OPERATING ACTIVITES			
Result before tax	1,051	28,427	139,838
Adjustment for:			
Interest income	-2	-92	-109
Interest expenses	6	1,866	1,868
Currency exchange gains/-losses	77	2,919	2,745
Depreciations	58	72	174
Result from financial assets at fair value through profit or loss	-14,390	-38,652	-139,835
Result from investments in associated companies	21,380	10,306	5,296
Result from loan receivables	-3,752	-2,213	-7,043
Dividend income	-7,512	-5,903	-9,111
Other non-cash items	2	155	1,578
Change in current receivables	-630	-242	8
Change in current liabilities	1,016	-430	-76
Net cash used in operating activities	-2,695	-3,788	-4,667
Investments in financial assets	-75,235	-13,525	-90,665
Sales of financial assets	69,000	21,286	84,795
Increase in loan receivables	-	-2,221	-2,431
Investments in subsidiaries	-	-37	-51
Dividend reveived	7,512	5,903	7,744
Interest received	1,988	717	989
Interest paid	-6	-1,866	-1,868
Tax paid	-52	-1	-45
Net cash flow from/used in operating activities	512	6,468	-6,199
INVESTING ACTIVITIES			
Investments in office equipment	-38	-	-2
Sales of office equipment	-	58	38
Net cash flow from/used in investing activities	-38	58	36
FINANCING ACTIVITIES			
Proceeds from borrowings	-	-77,214	-77,214
Repayments of borrowings	-	66,201	66,201
Proceeds from new share issue	-	-	157
Net cash flow used in financing activities	-	-11,013	-10,856
Change in cash and cash equivalents	474	-4,487	-17,019
Cash and cash equivalents at beginning of the period	8,935	29,198	29,198
Exchange gains/losses on cash and cash equivalents	181	-3,154	-3,244
Cash and cash equivalents at end of period	9,591	21,557	8,935

Key financial ratios – Group

	2010	2009
Return on capital employed, % (01)	0.19	8.44
Equity ratio, % (02)	99.72	99.48
Shareholders' equity/share, USD (03)	4.84	3.73
Earnings/share, USD (04)	0.01	0.31
Diluted earnings/share, USD (05)	0.01	0.31
Net asset value/share, USD (06)	4.84	3.73
Weighted average number of shares for the financial period	100,990,975	90,772,260
Weighted average number of shares for the financial period (fully diluted)	100,990,975	90,772,260
Number of shares at balance sheet date	100,990,975	100,990,975

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 the adjusted average weighted number of shares for the period.
05. Diluted earnings/share USD is defined as result for the period divided by the adjusted 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.

Income statement – Parent

(Expressed in USD thousands)	Jan 1, 2010– Jun 30, 2010	Jan 1, 2009– Jun 30, 2009	Apr 1, 2010– Jun 30, 2010	Apr 1, 2009– Jun 30, 2009
Operating expenses	-2,090	-1,567	-1,103	-793
Operating result	-2,090	-1,567	-1,103	-793
Financial income and expenses				
Interest income	12,044	9,592	6,115	4,971
Interest expenses	–	-1,436	–	-117
Currency exchange gains/losses, net	31	-1,041	40	11
Other financial expenses	–	-2	–	-1
Net financial items	12,075	7,113	6,155	4,864
Net result for the financial period	9,985	5,546	5,052	4,071

Balance sheets – Parent

(Expressed in USD thousands)	Jun 30, 2010	Dec 31, 2009
NON CURRENT ASSETS		
Financial non current assets		
Shares in subsidiaries	226,865	226,865
Receivables from Group companies	272,143	261,044
Total financial non current assets	499,008	487,909
CURRENT ASSETS		
Cash and cash equivalents	9	29
Receivables from related parties	–	219
Other current receivables	186	382
Total current assets	195	630
TOTAL ASSETS	499,203	488,539
SHAREHOLDERS' EQUITY		
(including net result for the financial period)	497,390	487,404
CURRENT LIABILITIES		
Non-interest bearing current liabilities		
Liabilities to group companies	1,359	569
Other accured expenses	11	–
Accrued expenses	443	566
Total current liabilities	1,813	1,135
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	499,203	488,539

(Expressed in USD thousands)	Share Capital	Additional paid in capital	Retained earnings	Total
Balance at January 1, 2009	46,021	146,884	55,341	248,246
Net result for the period				
January 1, 2009 to June 30, 2009	–	–	5,546	5,546
Other comprehensive income for the period:				
Currency translation differences	–	–	–	–
Total comprehensive income for the period				
January 1, 2009 to June 30, 2009	–	–	5,546	5,546
Transactions with owners:				
Proceeds from new share issue,				
net of transaction costs	54,970	44,604	–	99,574
Employees share option scheme:				
– value of employee services	–	155	–	155
	54,970	45,759	–	99,729
Balance at June 30, 2009	100,991	191,643	60,887	353,521
Balance at January 1, 2010	100,991	191,700	194,713	487,404
Net result for the period				
January 1, 2010 to June 30, 2010	–	–	9,985	9,985
Other comprehensive income for the period:				
Currency translation differences	–	–	–	–
Total comprehensive income for the period				
January 1, 2010 to June 30, 2010	–	–	9,985	9,985
Employees share option scheme:				
– value of employee services	–	1	–	1
	–	1	–	1
Balance at June 30, 2010	100,991	191,701	204,698	497,390

Statement of Changes in Equity – Parent

Note 1 Accounting principles

This consolidated interim report 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 2009.

Note 2 Related party transactions

During the period Vostok Nafta has recognized the following related party transactions:

USD thousand	2010 Vostok Gas	2010 Associated companies	2010 Lundin family and group of companies	2010 Key management	2009 Vostok Gas	2009 Associated companies	2009 Lundin family and group of companies	2009 Key management
Items of the income statement								
Income from loan receivables	–	171	–	–	–	1,422	–	–
Other operating income	–	9	58	–	22	266	10	–
Operating expenses	–	–	–	-551	–	–	–	-501
Interest expenses	–	–	–	–	–	–	-419	-254
Balance sheet items								
Non current loan receivables	–	1,032	–	–	–	996	–	–
Current loan receivables	–	3,025	–	–	–	3,153	–	–
Other current receivables	–	103	24	–	23	335	17	–
Retained earnings	–	–	–	–	–	–	–	-157
Other current liabilities and accrued expenses	-200	–	-210	-39	-211	–	-268	-110

Note 3 Events after the balance sheet date:

Issue of call options to a group of employees

On July 21, 2010 the Company authorized the issue of 695,000 of the authorized 2,000,000 options under the company's incentive Program (adopted at the AGM of Vostok Nafta on May 5, 2010) to a group of employees.

The call options may be exercised three years after the time of the granting, which in this case means during the period from August 1, 2013 to August 31, 2013.

The strike price is set as the average of the last price of the 10 trading days prior to the decision plus 20%, which for the options above results in a strike price of SEK 31.41.

The options are offered at a purchase price corresponding to the market value of the options at the time of the offer. The options shall be fully transferable and will hereby be considered as securities.

Financial and Operating risks

The Company's risks and risk management are described in detail in note 3 of the Company's Annual report 2009.

Upcoming Reporting Dates

Vostok Nafta's nine month report for the period January 1, 2010–September 30, 2010 will be published on November 17, 2010.

August 18, 2010

Per Brilioth
Managing Director
Vostok Nafta Investment Ltd

This report has not been subject to review by the company's auditors.

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