Vostok Nafta Investment Ltd

Annual Report

2008

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Monthly net asset value calculations

Vostok Nafta publishes a monthly estimated net asset value, issued no later than the 10th of each month. This information is published in the form of a news release as well as on the company's website www.vostoknafta.com.

Financial information for the year 2009

The company shall issue the following reports:

Interim report for the first three months:
May 20, 2009

Interim report for the first six months:
August 19, 2009

Interim report for the first nine months:
November 18, 2009

Financial accounts bulletin:
February 17, 2010

Annual report and account:
April 2010

General meeting of shareholders 2009:
May 14, 2009

General meeting of shareholders 2010:
May 2010

Managing Director's introduction

2008?
An eventful year. "Volatile" does not even start to paint the picture. The Russian market started off with a substantial outperformance inspired by, among other factors, a record oil price, only to turn dramatically downwards during mid-summer. The swiftness and magnitude of the fall of all asset prices during the Autumn I do not think anyone really expected.

Looking back it is always easy to trade well. In the midst of it is always a little more difficult. When the oil price, and also the Russian asset markets, peaked during the summer of 2008 credit markets had already been in dire straits for a year. What eventually triggered the collapse in the global economy and consequently also equity markets is already extensively analysed and will surely be the subject of many reports for many years to come.

We were bullish about the oil price because of supply issues (as we continue to be) and failed to see the extent of the collapse in the demand for oil led by falling global GDP. Add to this our belief that Russia is actually progressing in the right direction on reform issues such as the legal system, corporate governance, economic reforms and that in our view asset valuations had failed to fully reflect this, we did not see the grounds to exit the entire portfolio which when looking in the review mirror it is so clear that one should have done.

Having said that we were concerned of Russia overheating partly as a result of negative real interest rates. Because of this and because of valuations getting a little extended we raised some USD 140 mln by exiting parts of our thermal coal portfolio.

Part of these proceeds were invested in what we believe will prove to be excellent long term investments in the form of equity in Tinkoff Credit Systems. We together with our partners at Kinnevik took Kontakt East private. We also added to our positions in Black Earth Farming, Steppe Cement, Priargunsky and Caspian Services to name a few. These purchases grounded to a halt as the Autumn progressed with the full fledged global collapse.

A large pool of cash remained in the balance sheet which helped us manage the company's leverage. We extended this cash pile by issuing some debt junior to the existing bank debt. We have now altered the financial strategy of the company from the 15–20 percent leverage strategy of the past five years to one with 0 percent leverage going forward. This is not because we do not believe in the upside of the portfolio. Even double digit interest rates make economic sense for our shareholders as we expect much higher equity returns out of the investment portfolio. The essence of the change of financial strategy lies in the demands banks make on us through covenants when supplying the credit. They want us to be in liquid blue chips only whereas our business idea is to be in small-and-medium caps and private equity – areas where we have built up a capacity to add value in contrast to large and liquid equities which our average shareholder can analyse and own directly without our help. Leverage is simply not compatible with our business idea at this point of time.

2009?
Given the uncertainty over the extent of this global cyclical downturn it is necessary to be humble about the timing of a recovery in the Russian market. However that humbleness aside Russia is the place to be. The State is unlevered, the retail sector has low leverage, the corporate sector has normal leverage (in stark contrast to many other parts of Eastern Europe). The authorities have devalued the rouble to a fair value and is most likely prepared to act further should the oil price go south. They are also prepared to invest their cash reserves to help the economy. If the reserves are not used now – when should they? Foreign direct investment into the country is continuing: Carrefour is investing USD 100 mln investment into the hypermarkets in the Krasnodar region (Sochi) and is rumoured to be circling in on 75 percent of the listed supermarket chain Seventh Continent (MCAP of some USD 500 mln). Siemens has just struck a deal with RosAtom on nuclear energy.

And most important of all: *Assets are cheap.* Prices in comparison to earnings, to book values , to assets are low. Valuations both on a relative basis and an absolute one stand out as appealing. Earnings are improving with a falling cost base as both producer price index (PPI) and obviously the rouble have come down. However, as always it is necessary to relate these low valuations to the risks associated with the investments. When doing so, in many cases the risk-reward simply does not become that interesting anymore. This is where Vostok Nafta and our business idea come in. We believe that we have a capacity to reduce many of the common risks thus improving the risk-reward to an investable level.

We believe the oil price will stage a recovery (even if just to the modest USD 70 level) but most importantly prove to have bottomed. This is crucial for the rouble to hold ground which in turn will open up rouble credit markets. The liquidity squeeze which we witnessed in Russia in late 2008 and early 2009 was serious enough for some owners to give up on high standards of corporate governance which led to a higher risk premium being applied to the whole market. This will recede in 2009. A perceived higher political risk has also help augment the market risk premium. This will also be reversed in 2009 as Russian–US relations move into a thaw and as it becomes clear that Russia will not experience any social uprisings à la Ukraine or Georgia. Even

Russia–Ukrainian relations seems to be on the mend something that is likely to increase post the Ukrainian Presidential election in December this year.

All in all valuations will recover. Not to the levels of the USD 140 oil price summer of 2008 but enough to likely make Russia one of the best performing markets of the year. The credit asset class has already started to move higher at the time of writing. Blue chips will follow and finally the less liquid parts of the equity space. This last part to move is the one which moves with the most magnitude on the upside as it has been disproportionately been marked down due to forced selling, high spreads and general lower liquidity.

For markets in general to recover to, and beyond the highs of last year we will need not only visibility on how severe the current cyclical downturn is going to be but also some light in the end of the tunnel in terms of getting back to growth. For Russia and for us the commodity space is obviously important and is naturally interlinked with global growth. Please see what I think is a very interesting discussion between our Chairman Lukas Lundin and a group of economists further on in this report.

Our strategy will continue as before (although with a new finance strategy as per above). The companies in our portfolio are in good shape and in our view valued at close to distressed levels. We will be picky and opportunistic about new investments. These will be within the small-to-medium cap sphere and within the private equity asset class. We have reduced the headcount at our Moscow office in order to get costs in line with the smaller portfolio. This should not be seen as a diversion away from the private equity class. We will be able to draw down the necessary resources to analyse, execute and run time consuming investments in the future but these will be retained on a project basis rather than full time.

I believe Vostok Nafta's business idea and portfolio are strong. 2009 will provide many challenges but also opportunities. The upside is enormous. We are here to capture it.

Per Brilioth
Managing Director

“What happened to the global commodity super cycle?”

Only as recently as this past summer, people were still talking about a global commodity super cycle. Granted, metal prices had already taken quite a bad beating after having reached record levels during a run-up that lasted for more than five years. However, at the same time oil prices went through the roof and came close of shooting right through yet another magical level – that of USD 150/bbl while analysts and experts the world over competed in raising their price targets for the world’s most sought after energy source. Were we to see oil at USD 200, 300 or even 500 per barrel?

As we are all painfully aware of at the time of the completion of this report, the brutal effects of a global economic downturn and the current credit crisis have led to a dramatic fall in all commodity prices – metals as well as oil, but also agricultural products and nearly all other forms of hard assets.

In order to gain some insight into what happened to the super cycle in commodities such as oil, copper, zinc and nickel – and what the prospects are for the demand for these once so sought after commodities to stage a comeback – we decided to initiate a discussion with some of the people that have been making their living in the global commodity and/or financial industry during the past decades.

So, an early morning in late March of 2009 (less than a week before this annual report was published) Robert Eriksson, Head of Investor Relations at Vostok Nafta met with these three distinguished gentlemen in New York:

Lukas H. Lundin, Chairman of Vostok Nafta and several other companies within the Lundin Group of Companies – all active within the global oil and mining sectors. A petroleum engineer by training Mr. Lundin has close to 30 years experience within The Lundin Group of Companies and has been the driving force behind the successful development of major oil and mining projects across the globe as well as having been involved in numerous multi-billion dollar deals within these sectors. The Lundin Group of Companies today consists of some 15+ companies with a combined market capitalization of more than USD 5 billion.

Thomas A. Schmitt spent more than 15 years in the oil industry with Arco (now BP) before joining AllianceBernstein out of New York City in 1996, where he served as the Global Head of Energy and Natural Resources for the Growth Equities Division and as North American/Natural Resource Analyst and U.S. Research Director. Thomas Schmitt left AllianceBernstein in 2008 to start his own hedge fund – Taum Sauk Capital Management. Mr. Schmitt holds a B.S. in Chemical Engineering from the Missouri University of Science and Technology and an MBA from Harvard University.

Al Breach, worked in Russia for 11 years from mid 1996 as an economist and research director at investment banks Brunswick UBS/UBS and Goldman Sachs, and, initially, the government think-tank RECEP. He has authored numbers of papers on Russia’s economy and is widely cited. Al Breach the founder and managing partner of thebrowser.com, a global news, commentary and book recommendation site, part of the new-wave of digital media. He got an MSc in Economics from the London School of Economics and an MA in Maths with Philosophy from the University of Edinburgh.

The objective for our two hour long discussion was to learn more about the current extraordinary times in the commodities sectors and what they mean for the super cycle theory, as well as to try to get a better understanding of what forces will shape these sectors in the years to come.

I am turning to you first, Lukas Lundin. What happened to the global commodity super cycle?

“I am very much a believer in the super cycle theory. I was a believer six years ago, and I am still today. However, I have never before been as wrong as I have been during the past year. The demand destruction that occurred during the later part of 2008 and the beginning of 2009 caught us off guard, we just did not see it coming since we had been too focused on the supply problems that especially the oil industry is facing”, says Lukas Lundin and continues:

“We have this correction in the overall market right now, a global cyclical downturn that is amplified by the effects of the financial crisis but I think that this is just a temporary correction in an upward cycle that will eventually stage a strong comeback and then stick for many years.”

According to Lukas Lundin the current situation with extremely depressed commodity prices that in some cases have fallen more than 70 percent over the past 12 to 18 months will serve to lay the foundation for the next leg of this prolonged cycle of historically high prices.

“What we see right now, and this is true across all sectors in which we are active is a dramatic fall in investment. However painful this process is, it must occur for us to be able to bring supply in line with demand in the short term. At the same time it is important to understand what this does to the longer term outlook for the supply of oil and metals. The lack of investment and the difficulties of bringing the production that is now being shut down back on stream means that we will inevitably struggle to keep up with demand in the longer term”.

“Based on that I believe that even though the super cycle of the past years might have entered into a period of a temporary ‘force majeur’ and even though it is difficult to predict what will happen over the coming weeks and months, I am convinced that we will see higher prices across the board in a year’s time or so, as everyone will realize that the world won’t be coming to a complete standstill.”

Al Breach throws his support behind Lukas’ argument for higher prices and points at the role that the western world is still playing as price setters in the commodity markets

“There is no doubt that the global economic situation of today has whacked the western world’s demand for all commodities, and since the west is still the dominant consumer this has lead to the dramatic fall in prices that we are now witnessing. It is true that demand from China, India and other emerging markets is an increasingly important factor in the pricing of both metals and oil, but the fact is that the West will still for some time remain the most important player in these markets”, says Al Breach.

“The United States consumes close to 25 percent of the oil that is produced globally, and when we see how more than 5 percent of the demand from US consumers evaporates, there will clearly be some dramatic effects on the oil price short term.

We have heard both Lukas and Al make a strong argument for a continuation of the super cycle once the global economy picks up steam again. Are you Thomas as strong of a believer in this theory of a super cycle in commodities?

“It is difficult not be in the long term. There are clearly some headline numbers that one can use to prove that the super cycle will eventually come back in full swing. The world as an aggregate consumes 31 billion barrels of oil per year, which is a number that is greater than the total reserves of the United States. We need to replace one United States every year. Another way to look at it is that in the last 25 years, the largest oil field we have found is the Kashagan field in Kazakhstan – and that is still only 15 billion barrels of reserves”, says Thomas Schmitt.

“Looking at that kind of numbers it is very obvious that we do not have enough long term supply to meet any kind of growth in demand. The negative in the near term, and that could last for a while – possibly for a few years, is first and foremost the general economic development. We also have to take into account that the oil market is not a free market, i.e. a lot of the demand is very inelastic since in most countries people do not pay the actual price of oil. If the United States, or for that matter China, moves to more of a highly taxed environment – which is an idea that seems to have some political support here in the US – that is something that could potentially change the demand dynamics quite dramatically. The US demand for oil could actually fall as a result of this. I am not sure that this will indeed happen, but it is a threat in the near term. However, in the long term there is no doubt that the price of oil will be much higher than it is today”.

“Should we get a near-term spike in the oil price from today’s levels there could also be a possible policy switch here in the US – in order for us to use more natural gas a fuel source, especially for heavy equipment. We have an excellent infrastructure for gas and we could see such a switch occur over the coming decade if oil prices once again spike the way they did during 2007 and 2008.”

“The nice thing with oil from a price perspective is that you burn it – and once you burn it, it is gone. It can’t be recreated. The problem with copper, steel and other metals is that they last forever, and there is a substantial amount of recycle. For example, the global copper recycle rate is over 30%. In my mind the oil story is a better one on a fundamental level than the metal story. You can have quite a healthy oil market even in a weak economic environment, but I think you really need a global recovery in order for metal prices to come up significantly, especially since the metal markets are more Asia-driven than the oil market.”

It seems to me like the players in the mining sector have acted faster this time than what’s been the case during previous periods of cyclical downturns in the market. A lot of capacity within the base metal sector has been shut down, both from the global leaders in the industry and from smaller companies, like Lundin Mining who has announced the closing of two out of five operational mines during the past few months. When will we start to see a lasting impact from these actions on prices?

“Let’s look at the zinc industry to start with. There is basically no investment being made into zinc right now, and has not been for a while. In zinc there is no exploration, and no investment into developing new mines. It’s just a question of time – one day something is going to happen and there will be a very strong supply crunch”, says Lukas Lundin.

“The situation might be somewhat better when it comes to copper, but there is basically no investment being made into copper projects either. When it costs you more than a dollar on average to produce a pound of copper, and the copper price has been very close to those levels people are scared of making the necessary investments. We have seen these sharp up and down turns in the mining industry over the past 50 years, and we will continue to experience them for the foreseeable future. However, the extreme situation we have today – with a total lack of investments as a result of low metal prices in combination with a credit crunch that makes it almost

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impossible to find financing for new projects – will lead to a very interesting price situation once the world is back to a more normal situation."

The price of gold has historically done well in times of economic and political uncertainty, and it is no different this time around. The price of an ounce of gold is approaching USD 1000, and is thus one of the brightest shining metals at the time of writing. Will this continue, or have we seen the best of gold for this time?

"I think we will have inflation come roaring back quite soon, it has to as an effect of the massive amounts of stimulus money that are been poured over us on a global scale. So, I think gold will keep doing well. However, it is a tough business and the average cost of producing an ounce of gold is still between USD 500 and 600 per ounce, so it is not like gold companies are rolling in cash even at today's price", says Lukas Lundin.

"If there is inflation in the future all hard assets will do well. Gold may not be the hard asset that does the best, it may very well be the likes of copper and zinc or agricultural products and land, that has really lagged in this down cycle", says Thomas Schmitt.

Al Breach on the other hand does not see gold as the best thing to have in your portfolio in the next few years.

"Gold has done well because it is hard to find a good paper currency out there these days. The currency that everyone would like to buy, the Chinese Renminbin, is not freely exchangeable and therefore people can't buy into it. The big risk with gold is that at this price you have killed the one real demand for gold – since the demand for jewelry has just fallen off a cliff. What's holding the price up now is the fact that people are putting big chunks of their portfolios into gold", says Al Breach.

"When we see signs that demand is beginning to pick up again across the economy and things start returning to normal, people will be rushing into financial assets. Bonds, but particularly equities will do extremely well in such an environment. At that point gold or cash yields nothing at a time when all other things will return 20, 30 or 40 percent. Sure, we are in a bad recession, or even a depression, right now – but we will eventually come out of this and that's why I think that gold might already have seen its best days", says Al Breach who thinks that we are possibly looking at several years of no, or even negative inflation in the world, despite all the money that is now being printed.

"Just look at Japan. They have been printing money hand over fist for more than a decade. It is a country that has so much debt the government's solvency is questionable, yet there is no inflation, but rather deflation. The fact is that printing money doesn't necessarily have to deliver inflation. The idea that inflation is inevitable as a result of the money printing that goes on today is just plain wrong. The risk in the global economy is still deflation, and that's the reason why all this money is being printed. You have a huge amount of spare capacity, whether it is in labor or manufacturing, and that is clearly deflationary. We will have to get through a period of 'disinflation' before we can start to see inflation again – and I believe that this period will last for some years."

Will we be seeing further consolidation within the oil sector over the coming months and years, and does it make sense to consolidate the industry right now?

"The value for consolidation in the oil sector is more in the downstream than in the upstream. The only real reason for companies in the upstream industry to consolidate is in order for them to realize value through reducing exploration spending. But what I do see right now is that there are assets trading at one third of their long term replacement cost, and those will of course eventually attract quite some interest", says Thomas Schmitt.

"The Indians and the Chinese are still out there looking for assets, despite the current slowdown. They keep being much more aggressive than the private players in the oil industry. I sold a company called Tanganyika Oil, with assets in Syria to the Chinese (SINOPEC) for USD 2 billion and they never flinched, even though the oil price dropped from USD 140 to 50 per barrel. I think they believe the prices will eventually recover, and they therefore see this as an excellent opportunity to buy assets at a good price. It's not just oil they are looking for, but also all kinds of base metals and uranium etc", adds Lukas Lundin.

"The Chinese and the Indians will need more and more of both oil and metals the future, both near term and long term. These are countries that need to grow by 6 to 8 percent on a yearly basis to maintain social stability. I was in China this past fall, and it was clear to me that they were quite worried about would could potentially happen if they do not manage to keep the growth going, that's why we see the massive stimulus in the Chinese economy now. I think the Chinese leaders are genuinely worried about increased outbursts of civil unrest if the economy is not holding up".

How big of a threat to the long-term oil price trend is the introduction of alternative sources of energy, Thomas Schmitt? Are there any areas in particular that we should look at investing into within this broad sector?

"Alternative energy is a horrible business to be in

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when the oil prices collapses, so right now the companies within this sector are naturally feeling a lot of pain. I think wind power is a viable business and it will remain so. It is nearly cost competitive with traditional generation and with carbon costs, it is competitive. Thus, the wind farm owners and the manufactures of the turbines are viable companies. However, increased utilization of wind power won't lead to any major change in the present energy mix. When it comes to solar energy I think that it is a more questionable business than wind power, but there are some interesting progress being made when it comes to the new concentrating solar techniques. Ethanol is not the best business either, especially not in the US where we don't have the right policies in place for this market to work properly", says Thomas Schmitt.

"When it comes to alternative energy, policy plays an important role. Most countries want to have 20 to 25 percent of their energy coming from alternatives by 2020. This is clearly not feasible, but even if it is 10 percent it will be a quite a significant part of many countries energy mix – and it is clearly something we will have to watch closely in the years to come".

"As far as alternatives to oil goes, I think the one we will see growing the most is natural gas. The green house gas emissions of natural gas (carbon dioxide) is over 20% less than oil and there is much more natural gas than oil left in the world. This is good news for the US consumers , especially since there will be a lot of LNG coming our way in to coming years – and that will most likely keep prices low in comparison with oil.

When it comes to natural gas Gazprom is by far the largest player globally, and a player that will grow in importance over the coming years as a result of new investments into LNG capacity and thus less dependence on the traditional pipeline network. However, in the longer term there might turn out to be some threats to Gazprom's dominance in the European energy market.

"We have seen how natural gas prices in North America are becoming less and less correlated with the price of oil over the past years while in Europe that correlation is still high because of the prevalent structure of long term gas contracts. However, this could very well change in the medium term as the choice of suppliers increase when more and more LNG comes on to the market", says Thomas Schmitt.

"The Europeans want to diversify away from a situation where they see themselves as being too dependent on the Russians for their energy needs. The introduction of LNG from other suppliers is an obvious way to achieve this, but I think there will be other quite interesting methods of diversification too. With the new concentrated solar energy technique that is being developed one could envision a future where solar energy generated in the close proximity to Europe, in North Africa for example, could be used in order to achieve this diversification."

According to Al Breach, there is some uncertainty about what kind of mechanism will be used for pricing european gas in the longer term.

"There is no doubt that Europe will continue to need a lot of Russian gas in the future. But I think Tom is making a very interesting point here, as it becomes a question of how to price that gas. Why should it be tied to the price of oil? As Tom's example with solar energy imported from Africa shows, it might make more sense to tie the price of gas to that of electricity – since most of the gas is used to generate electricity anyway. That is the risk I see when it comes to Gazprom; that the price of gas in the long term will not be moving in tandem with the oil price the same way it is today".

Even if there might be reasons to take the implications of a long term pricing scenario as the one described above into account when analyzing Gazprom, Lukas Lundin is making the point that Gazprom still (and even more so after the share price has fallen some 70 percent over the past 9 months) looks like one of the better investments in Russia over the coming 2 to 3 years.

"It is an extremely powerful company that already controls close to 30 percent of the European gas market. Add to that the fact that we will see the company's profitability increase dramatically over the coming years as the deregulation of the Russian gas market moves into its final phase and I don't see too many clouds in Gazprom's sky right now", says Lukas Lundin.

"A lot of people like to look upon Gazprom as an enormous political machine, but I think that assumption is wrong. Looking at the long lasting conflict between Russia and Ukraine I think it is quite obvious that the Ukrainians should be paying for the gas they receive from Russia. Can you imagine what would happen if the US delivered gas to Mexico and then did not get paid for it?"

The Lundin Group of Companies have been active in Russia for well over a decade, what lessons have you learned during that time?

"The business climate has not changed that much during the years we have been active in Russia. We still have this massive layer of ex-Soviet bureaucratic infrastructure. Lundin Petroleum is drilling these off shore wells in the Caspian Sea off the coast of Kalmykia, and we had to obtain 25 different permits to be able to drill our first well. Had we not had

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Gazprom as a partner we would not have been there today. Making direct investments in Russia is still very, very difficult. It is definitely not for the faint of heart", says Lukas Lundin and continues;

"The result of our (The Lundin Group's) direct investments in Russia have been very mixed so far. On the oil and gas side we are moving forward, but on the mining side we have spent some USD 150 million without hardly any results. We have been far more successful in doing portfolio investments and playing the Russian equity market and I think that is what we should stick to in the future. The Russian market is highly undervalued after the beating it has taken and I am confident that Vostok Nafta can find extremely interesting situations for us to invest".

Al Breach – you have been following Russia very closely from the first half of the 1990's and you have seen crisis affect the country before. How do you think the Russian politicians have handled the current crisis?

"Russia came into this crisis with a ton of reserves and I think that they to a pretty decent degree have used these reserves wisely. They got a lot of bad press for spending USD 200 billion on the so called 'defence of the rouble', but to me it makes sense using the reserves to take the rouble down in a managed way and to avoid a collapse – which it otherwise would have been", says Al Breach.

"That, in combination with the fact that the Russian government is moving towards bailing out the banks and helping private sector companies refinance debts through the banking system, means they have engineered a move towards a more or less stable capital market. Thus the Russian politicians have proved that they are able to walk down what is a rather tricky road in an organized manner and I would have to give them pretty high marks for the way they have handled this extreme situation."

"The oil price remains the big risk to the downside in Russia, as it has always been. I believe that there might still be some downward pressure to the economy in the short run. The medium term risk is very low though, since we all agree on the fact that the oil price will eventually recover to levels significantly higher than today's."

"The last thing that remains to be seen is whether the Russian government will bail out more oligarchs, or if they will stay the line and not spend too much money on that. So far they have handled this very well, without wasting money left and right, and that is certainly good news for the Russian economy."

And now to the million dollar question: where should we put our money in order to see them grow over the coming years?

"I always do the same thing, I only invest in resources. Every time I try to do something else it ends with disaster. So, metals and energy – that's where I will put my money to work. I think this is a very good time to invest in these sectors if you have a long term view. What we see in the mining sector is that there are some pretty good assets that are only twenty percent complete, because people have run out of money. We are looking at a couple of companies in Africa right now and there is a lot of opportunity to acquire assets that junior companies have partially developed. In the oil and gas sector we are busy consolidating smaller assets in the North Sea. However, it is interesting to note that even though the times are as tough as they are right now we do not see a lot of good assets for sale at the right price. Price expectations from the sellers are still too high, and companies also tend to put their bad assets up for sale before the good ones", says Lukas Lundin.

"When we look at the big mining companies and try to do a do a DCF-valuation on a five year basis they do not look all that cheap based on today's commodity prices. If you buy a big mining company today, as an equity investor or a private investor, you have to believe two things: either that costs will come down or that the commodity prices will increase significantly. So far we have not seen costs coming down, but rather increase. So, I think we need to see higher commodity prices to be buyers of the large global mining companies. Otherwise I agree with Lukas – it is distressed/special situations that are most interesting when it comes to investments into the mining sector, and this holds true for the oil sector too by the way", says Thomas Schmitt.

Lukas Lundin is eager to get in on some of these deals now, in order not to miss the boat.

"You want to look at these assets today, while they are still distressed. You don't want to wait for prices to come down further, because then you might very well miss the opportunity to acquire some really good assets at rock bottom prices. Now is the time to do it, over the next twelve months – then these opportunities might be gone", says Lukas Lundin who says that the companies within The Lundin Group are working day and night to find these situations.

"My personal feeling is that we have scraped the bottom when it comes to the oil price. You are never going to buy at the bottom or sell at the top, and even though we might see oil at levels close to USD 30 per barrel again the price will eventually take off – and I am quite sure it will do so before the metals take off in any major way. "

"What happened to the global commodity super cycle?"

And a question for Al Breach: if we look into Russia specifically – where should one be invested over the years to come?

"In the shorter term I think that bonds will continue to look really interesting since they will continue to deliver chunky yields, even though we have had quite a run up in the bond market lately. I don't think that the stock market will do too much this year. In the medium term Russia has two big stories going on. The first one has to do with the country's location, just north of Asia. Because of this Russia is well positioned to export its commodities to countries like China and India, and the export growth here will continue for many years. The other story concerns the domestic demand that comes on the back of the first story. In the next few years you are not going to see much growth in domestic demand, because the banks that have been hit hard in the current crisis will be slow to lend. The companies that will do well during this period in time will be exporters and the import-substitution companies. I am confident that in such a scenario, Vostok Nafta's portfolio is very well positioned."

Finally, even though much has already been said about the global economic slowdown and the financial crisis over the past month, what is your take on the massive actions that are now initialized by politicians and central bankers across the world in order to get us out of the current crisis?

"It is a complicated situation, and there will inevitably be some mistakes made along the way. I think the politicians understand that they need to fix the banking system, and that they need to fix it quickly in order for the world economy to get back on the growth track. So, I think most of the actions taken are indeed the right ones. The biggest threat now is political, especially in the US. There is a significant risk that the bills that are now being introduced get stuck in Congress, and that could derail these efforts for some time", says Lukas Lundin.

Thomas Schmitt is more concerned about the way in which the US politicians put the massive stimulus packages to work.

"The US is currently in the process of converting from what I call a smaller government influence to a more government influenced country, where more of our systems are controlled by the government. This development will be fought at different levels. It won't be a violent struggle, but there will certainly be resistance coming from both within the political system and from the outside", says Thomas Schmitt.

"When it comes to throwing money at bad things it is something that has never worked before, at least not during my life time. Still, that is essentially what we are doing right now here in the US. We are throwing money at bad companies and hope that it sticks and that something will work. The devil is always in the details. Sure, you can sit in Washington and throw money at things, but it won't work since there are too many unknown factors out there. I believe that is why there will be resistance, especially from people in the middle part of this country as we keep throwing good money at people that do not deserve it."

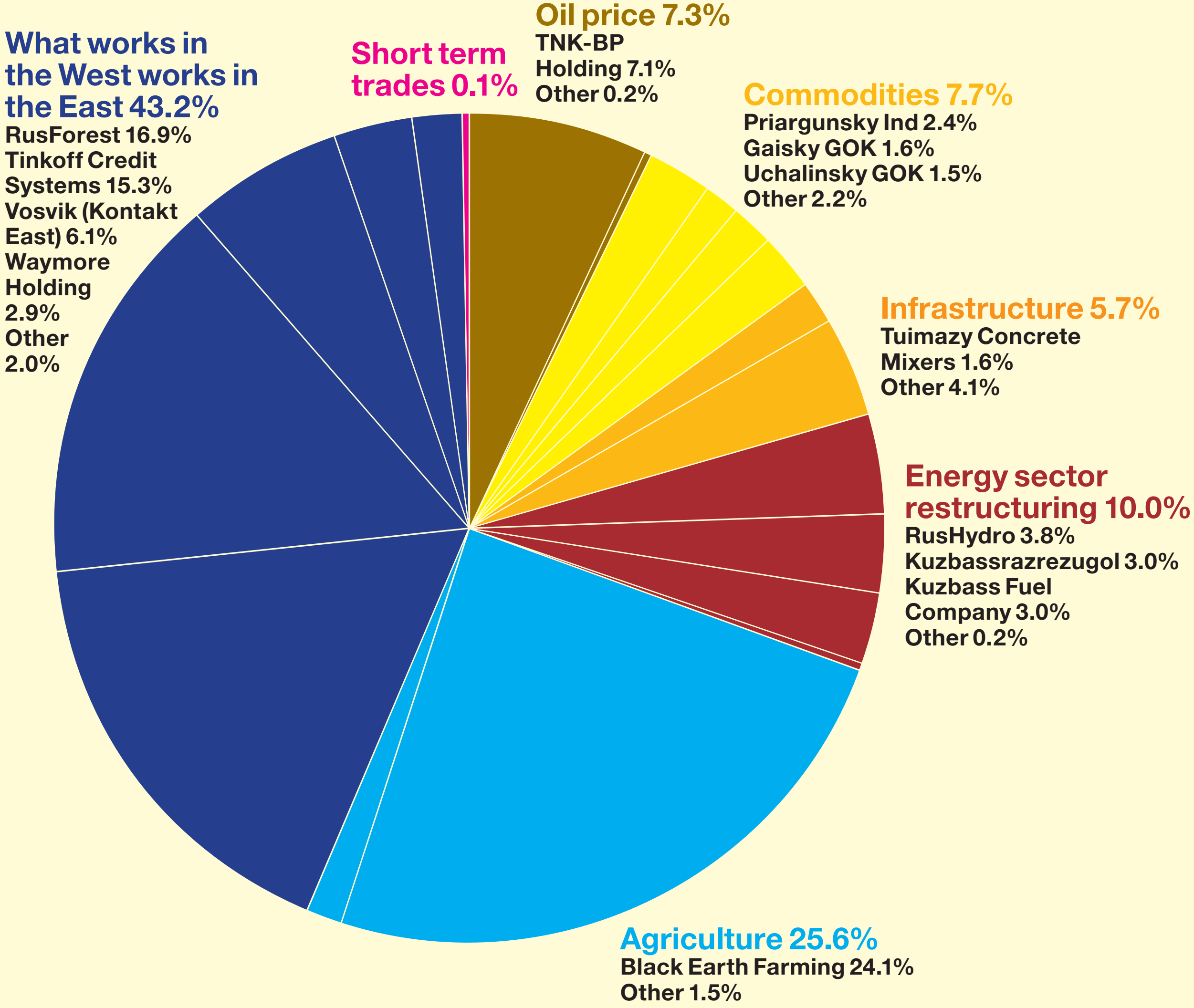
Ending on a positive note, Al Breach is seeing clear signs that the financial markets are already coming back to a more normal state of affairs.

"The Federal Reserve is doing the right things, as they understand that they have to fix the banking system and make money really, really cheap and abundant. Right now they are out there buying anything they can in order to get the bond market working and credit flowing again. I therefore think that it is possible that we get out of this quite fast, when it comes to the financial markets – even if we will surely have a few very dull years in front of us in the western economies. The Federal Reserve will print more money and buy more assets until this happens, because that's what they have said they will do", says Al Breach.

"I think that the key point here is that what the US is doing is definitely good for the rest of the world, even if one could argue about the domestic implications of the decisions made. The crisis may have started in the US, but if the US had not done what it has been doing over the past months the rest of the world would have been in a much worse situation than it is today, and then it is still pretty bad as it is!"

"What happened to the global commodity super cycle?"

Vostok Nafta investment portfolio
as per December 31, 2008



The Group's net asset value as at December 31, 2008, was USD 247.89 mln, corresponding to USD 5.39 per share. Given a SEK/USD exchange rate of 7.8644 the corresponding values were SEK 1,949.53 mln and SEK 42.36, respectively.

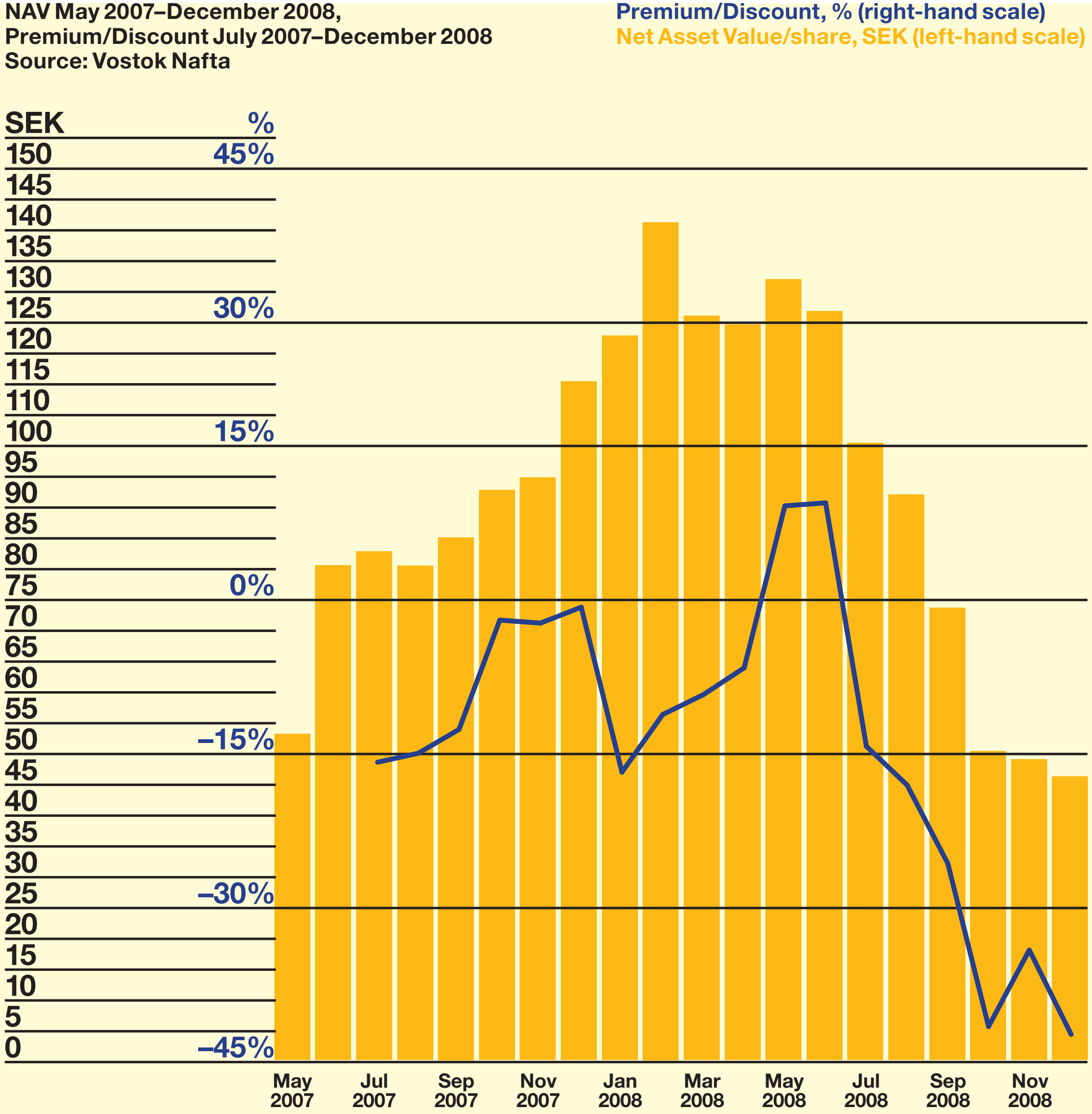
The group's net asset value per share in USD decreased by 69.39 percent over the period January 1, 2008–December 31, 2008. During the same period the RTS index decreased by 72.41 percent in USD terms.

During the period January 1, 2008–December 31, 2008, net investments in financial assets were USD –20.42 mln. Large investments of publicly traded shares have been made in Steppe Cement and Black Earth Farming. In the private segment, large investments were made in Vosvik/Kontakt East (equity), Tinkoff Credit Systems (both equity and loans), and RusForest (loans). Divestments of securities under the period were made in Belon, Gazprom Neft ADR, Kuzbassrazrezugol and Kemerovo Azot.

At the end of December, 2008 the three biggest investments were Black Earth Farming (24.1 percent), RusForest (16.9 percent) and Egidaco/Tinkoff Credit Systems (15.3 percent).

Investment Macro Themes

The Vostok Nafta share portfolio



Net Asset Value (NAV) and Premium/Discount, Vostok Nafta

The Vostok Nafta share portfolio

The Vostok Nafta share portfolio

Vostok Nafta's portfolio as at December 31, 2008

Number of shares	Company	Market price, USD	Market value, USD	Percentage weight	Percentage of outstanding shares	
4,924,850	Caspian Services	0.14	699,329	0.2%	9.6%	1
5,789,903	Kherson Oil Refinery	0.00	7,345	0.0%	4.4%	1
2,025	Orsk Refinery Ord	10.75	21,769	0.0%	0.1%	1
538	Orsk Refinery Pref	6.00	3,228	0.0%	0.1%	1
45,596,616	TNK-BP Holding Pref	0.46	20,837,654	7.1%	10.1%	1
100,000	Yakutgazprom	0.01	1,000	0.0%	0.0%	1
	Oil price, Total		21,570,325	7.3%		
966	Alrosa	3,000.00	2,898,000	1.0%	0.5%	1
6,000,000	Fortress Minerals	0.16	974,818	0.3%	0.5%	1
31,274	Gaisky GOK	150.00	4,691,100	1.6%	5.1%	1
1,849,088	Poltava GOK	1.48	2,728,464	0.9%	1.3%	1
66,674	Priargunsky Ind Ord	100.00	6,667,400	2.3%	3.8%	1
11,709	Priargunsky Ind Pref	16.00	187,344	0.1%	2.8%	1
1,442,400	Shalkiya Zinc GDR	0.05	72,120	0.0%	2.6%	1
1,444,045	Uchalinsky GOK	3.00	4,332,135	1.5%	3.8%	1
	Commodities, Total		22,551,381	7.7%		
3,000	Bekabadcement	100.00	300,000	0.1%	5.4%	1
187	TKS Concrete		1,506,750	0.5%	10.0%	1
39,000	Gornozavodsk Cement	20.00	780,000	0.3%	5.0%	1
1,600,000	Kamkabel	0.11	176,000	0.1%	4.1%	1
6,564	Podolsky Cement	6.34	41,637	0.0%	0.1%	1
40,000	Sibirski Cement	15.00	600,000	0.2%	0.1%	1
7,523,047	Steppe Cement Ltd	0.39	2,951,976	1.0%	6.6%	1
18,730	Transneft Pref	220.00	4,120,600	1.4%	1.2%	1
1,200,000	Tuimazy Concrete Mixers	4.00	4,800,000	1.6%	14.6%	1
	Volga Nash Dom, loan		1,465,000	0.5%		3
	Infrastructure, Total		16,741,963	5.7%		
25,000	Kuzbass Fuel Company	350.00	8,750,000	3.0%	1.5%	1
107,812,491	Kuzbassrazrezugol	0.08	8,894,531	3.0%	1.7%	1
2,618,241	Kyrgyzenergo	0.06	168,688	0.1%	0.3%	1
551,273,416	RusHydro	0.02	11,080,596	3.8%	0.2%	1
7,139,701	SystemSeparation	0.09	653,651	0.2%	23.8%	2
	Energy sector restructuring, Total		29,547,466	10.0%		

Number of shares	Company	Market price, USD	Market value, USD	Percentage weight	Percentage of outstanding shares	
1,765,000	Agrowill	0.52	925,071	0.3%	6.8%	1
30,888,704	Black Earth Farming Ltd	2.30	71,090,522	24.1%	24.8%	2
272,107	Dakor	12.83	3,492,399	1.2%	4.8%	1
	Agriculture, Total		75,507,992	25.6%		
	Egidaco bond		5,220,188	1.8%		1
885,934	Egidaco Investment Ltd		20,889,000	7.1%	15.0%	1
1,139	Eastern Bio Holding AB		2,389,108	0.8%	41.5%	2
	Eastern Bio Holding AB, loan		1,279,179	0.4%		4
35,498	Progress Capital	3.90	138,442	0.0%	0.2%	1
17,000	RSC Energia	35.00	595,000	0.2%	1.5%	1
23,035,197	RusForest Ltd		23,224,646	7.9%	50.0%	2
	RusForest Ltd Group, loans		26,432,230	9.0%		4
	Tinkoff Credit Systems, WTS		2,963,000	1.0%		1
	Tinkoff Credit Systems, loan		15,918,832	5.4%		3
200,000	Tisko AB		764,662	0.3%	13.8%	1
1,434,880	Varyag Rescources	1.40	2,006,974	0.7%	10.8%	1
623,800	Waymore Holding	13.92	8,683,608	2.9%	6.9%	1
50,000	Vosvik AB/Kontakt East		17,937,842	6.1%	50.0%	2
	What works in the West works in the East, Total		128,442,740	43.6%		
16,667	KazMunaiGas	12.60	210,004	0.1%	0.4%	1
	Short term trades, Total		210,004	0.1%		
	Other short term loan receivables		135,370	0.0%		4
	Grand Total		294,707,211	100.0%		

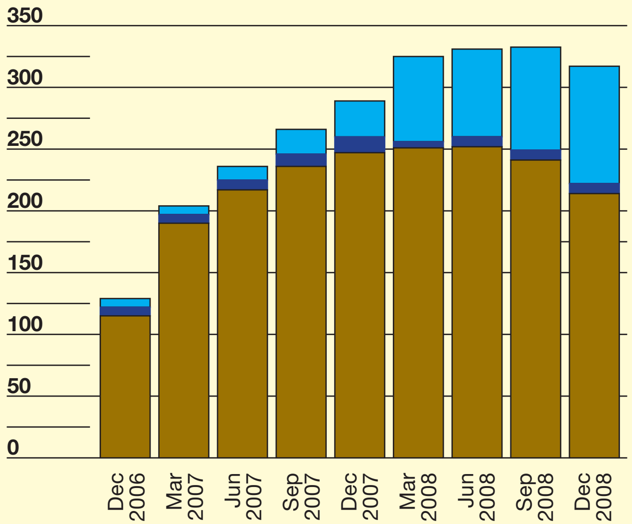
1. These investments are shown in the balance sheet as financial assets at fair falue through profit or loss.
2. These investments are shown in the balance sheet as investments in associated companies.
3. These investments are shown in the balance sheet as non current loan receivables.
4. These investments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

Black Earth Farming Ltd ("BEF") is a company whose business concept is to acquire, develop and farm agricultural land assets in the Black Earth Region in Russia. BEF was among the first foreign-financed companies to make substantial investments in Russian agricultural land assets to exploit its large untapped potential. Because of its early establishment, BEF has now gained a strong market position in several Russian regions, richly endowed with black earth soil. BEF's mission is based on acquiring land assets with significant potential for capital appreciation, and to generate a high rate of return through efficient agricultural operations on the acquired land assets.

Black Earth Farming: Land holdings

Thousand hectares. Source: Company data

Land in registered ownership
Long term leases
Land in ownership registration



During 2008 the Russian agricultural sector experienced significant economic swings. The first half of the year saw soft commodity prices at all time high levels and continuously increasing investments in Russian agriculture, with a fierce competition for land, western agricultural equipment and investors' capital as a consequence. The tide shifted swiftly however when the financial turmoil hit and it became clear that 2008 crop production would significantly overshoot consumption and finally the Russian rouble started to depreciate. Soft commodity prices tumbled and the competition for land in Russia all but disappeared and companies instead tried to free up cash by putting up for sale recently spoken for land assets.

BEF continues to focus on operational activities, as well as the registration of controlled land into ownership. As of December 31, 2008 the company owned 95,000 hectares out of a total of 317,000 hectares under control. The company is optimistic regarding the registration process and aims to have the majority of its land, which is not long term leased, under registered ownership by the end of 2009.

The 460,000 tonnes of commercial crops harvested in 2008 is forecast to grow by 50 percent in 2009, making BEF one of very few players in the region increasing production this year. Gross yields improved substantially in 2008 for the vast majority of crops compared to 2007 levels as a result of better and timelier ground staff work and favourable weather. The lower grain prices, along with extreme difficulty to obtain funding, will likely reduce overall industry production in 2009 as compared to 2008. A likely reduction in the use of expensive fertilisers will also add to these pressures. 95,000 hectares, mainly winter wheat, have so far been planted out of a planned total of 180,000 hectares for the 2008/2009 season.

Russia lacks modern agriculture infrastructure, i.e. storing and drying facilities, seed production facilities, as well as port export capacity. In 2009, BEF plans to invest the majority of a capital expenditure programme in storage and drying capacity. This will increase the company's internal storage capacity from 150,000 to around 340,000 tonnes resulting in about 50 percent self-sufficiency in storage. As a result, the flexibility of timing sales will increase and also ensure a secure and cost effective handling of the company's assets. A substantial sum will also be invested in machines and equipment to improve operating efficiency and productivity per hectare.

Currency movements also have an effect on BEF. All costs, except for machinery, are denominated in Russian Roubles while local output prices, although set in the domestic currency, have a high correlation to world market USD prices. Thus, the company has benefited from the recent depreciation of the Rouble.

Revenues increased 84 percent in 2008 from 2007. The gross margin on sold goods improved substantially during the year despite the current environment for soft commodity prices. The company is still loss making on an EBITDA and net income level, mainly explained by low recorded gains on biological assets in inventory, higher general and administrative expenses due to a larger organization. Higher commercial costs for storage and transportation affected by higher storage prices as well as a larger crop volumes produced and stored during 2008 also had an impact. The company remains well capitalised with a solid balance sheet and a net cash position position of USD 97 million as at the end of 2008 to cover future investment needs.

Black Earth Farming

RusForest is an unlisted group of companies located in Eastern Siberia with operations in the forestry sector. The geographic location puts RusForest in the proximity of growth markets in Central Asia and in relative closeness to China and Japan. 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 cubic metres. In 2008 the group harvested about 600,000 cubic metres which is set to increase to over 1,000,000 cubic metres by 2010. RusForest's annual sawmilling capacity is also set to increase following recent investments from around 140,000 to over 350,000 cubic metres. The company's strategic objective is to fully utilize its forest resources whilst earning a reasonable return for its shareholders. The company was started through the acquisitions of Tuba-Les and PIK-89 in the Ust Ilimsk region. Since then the company has invested in both new harvesting and sawmilling capacity.

2008 has been challenging for RusForest mainly due to falling sawnwood prices during the first half of the year, the completion of the major investment project at the Bogouchanski sawmill and unfavourable weather conditions impeding harvesting and sawnwood production. 2009 is also expected to be demanding, but the company is all the while relatively well positioned.

RusForest is a low cost producer and can consequently cope with a weaker price environment. The recent depreciation of the rouble gives additional support to the company as an exporter with all costs being rouble based. RusForest is also well positioned in light of that none of its companies have any bank debt. Instead, the portfolio companies' financial liabilities predominantly relate to various leasing obligations, which will be covered by the operating cash flows.

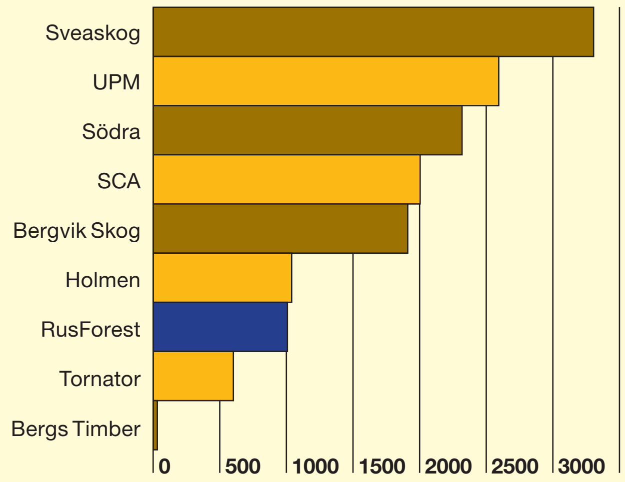
Conditions remain difficult in the forestry and sawnwood sector in general, and particularly on the markets in Europe, North Africa and the Middle East. Most developed markets for sawnwood have collapsed during the second half of 2008, and several producers have been facing capacity closures and/or curtailments in light of the financial crisis and subsequent softening demand. However, growth has remained relatively strong in Central Asia, which has become an increasingly important market for RusForest. Starting from negligible sales at the beginning of 2008, this region now accounts for large parts of RusForest's total sales. The proximate Chinese market is also developing positively, with sawn wood imports to China increasing 8.6 percent year on year for the period January–October 2008 with Russia as the largest single source of supply.

RusForest is turning into a fully functioning holding company. A full time CFO, who is supported by a full time financial controller, joined in May 2008. RusForest's finance function monitors cash balances at the various portfolio companies and carries out detailed monthly variance analyses. In addition, the group consolidates all portfolio company accounts and prepares IFRS financial statements. RusForest is also in the process of moving sales to a central function in order to transition from passive order taking to a more pro-active sales function.

Forest land owned or controlled

Thousand hectares. Source: Company data for 2007

RusForest: Forest land controlled

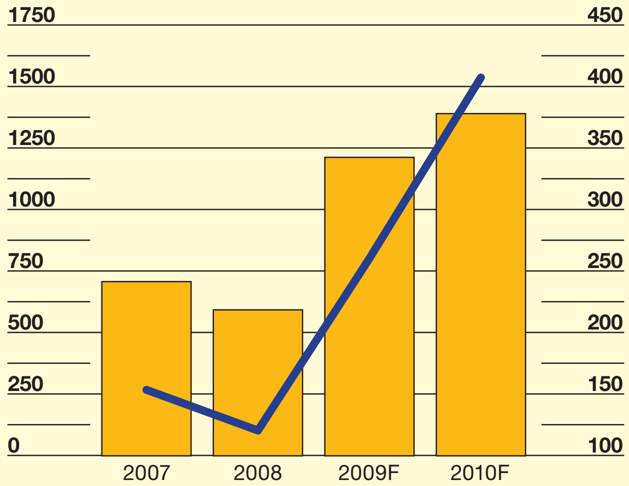


RusForest – harvesting and sawmilling targets

2007 to 2010. Source: Portfolio Company management

Harvesting volumes, thousand m3 (lhs)

Sawmilling volumes, thousand m3 (rhs)



RusForest

Tinkoff Credit Systems ("TCS") is Russia's first purpose-built monoline credit card issuer. Founded by Oleg Tinkov, a well-know Russian entrepreneur and consumer product specialist, TCS commenced its commercial operations in June 2007, with the ambition to grow into a leading issuer of credit cards for the Russian market. TCS's senior management consists of a team of experienced professionals formerly employed by Visa, McKinsey and several top Russian banks. The business model is branch-less with customer recruitment and distribution handled via direct mail. TCS is liquid and since October 2008 cash flow generating. It currently has over 320,000 credit cards issued, of which 264,000 have been activated. This gives TCS a portfolio with a gross-yield consistently over 65–70 percent. At year-end 2008 the portfolio amounted to over 4.8 billion Roubles corresponding to approximately 2.5 percent of the Russian credit card market.

TCS's business model has proved to be highly successful in attracting new customers and gaining market share. The Russian market for credit cards has, however, slowed during the fourth quarter of 2008, mainly affecting Russian Standard which is the market leader within consumer financing. Yet, the solid market fundamentals remain as the Russian consumer is highly underleveraged compared to other emerging markets. This is especially true in the regions outside Moscow and St. Petersburg, where TCS has its focus.

The quality of the loan portfolio has shown an encouraging trend through 2008, albeit with a small reversal in December. The company has an advanced underwriting process and proceeds with pre-emptive actions at the first sign of default risk. Management is, however, aware of a potential deterioration and has stress tested its financial projections. Even assuming a higher percentage of non-performing loans than ever before seen during previous consumer lending busts in various emerging markets and holding all other factors constant, the company will still be in a satisfactory position given its high gross yield.

Credit card business logic is based on refinancing, as credit cards by nature are a permanent revolving credit line. Given the state of the credit markets, TCS is not in a position where it can fund additional growth of the loan portfolio. The absence of financing has resulted in the company turning the loan portfolio cash flow positive, i.e. it currently generates more cash (customer repayments) than what is put in (customer transactions). Focus at the moment is on operational performance, risk management and cash collection. Customer acquisitions have been halted, resulting in substantial variable cost reductions. A cost-cutting programme is also being implemented, in order to reduce operational expenses and maintain profitability.

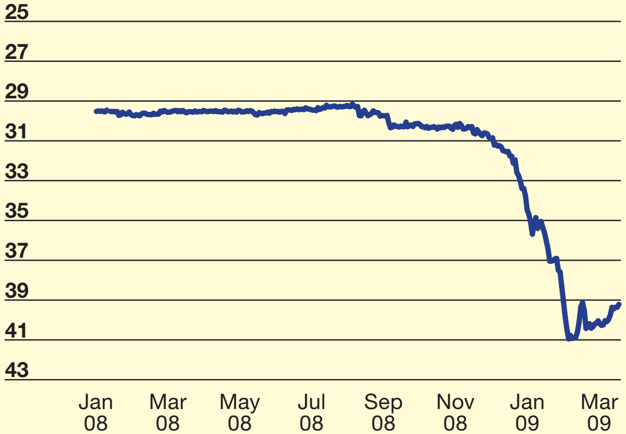
In the absence of financing possibilities, the strong business growth witnessed throughout the first 9 months of 2008 was replaced by steady-state mode in the fourth quarter of 2008. The credit card portfolio growth slowed significantly as the company halted new customer acquisition. As a result of the Rouble depreciation, interest income growth in USD terms has slowed. Total interest income from credit cards grew from USD 46.0 million at the end of September of 2008 to USD 73.9 million at year-end of 2008. The average monthly gross yield for 2008 was 71.1 percent.

As of December 31, 2008, the company had mailed 24.5 million offers to potential customers. Direct Mail is an iterative process and through constant testing, analysis of results and data optimisation techniques, TCS was able to gradually increase response rates. The Gross Response Rate for all campaigns for 2007 was 1.54 percent. For 2008, the gross Response Rate stood at 2.8 percent, with the most effective campaigns achieving over 4 percent. Even though the company is not going to grow its portfolio in 2009 at the same pace as in 2008, it has a stock of applications that will allow moderate card issuance in 2009 without significant customer acquisition spending.

In January, TCS announced that based on financial statements for the year that ended December 31, 2008, the company realised accounting losses of USD 35 million as a result of the depreciating Rouble. Consequently, the company found itself in breach of some of its undertakings to bondholders and other lenders. The problem has arisen by the fact that the covenant was fixed in USD. It is, however, worth emphasizing that TCS can withstand a significant fall in the Rouble and still honour its obligations to lenders on schedule by accumulating its high net portfolio yield. Following a first bondholder meeting in early March 2009 the company has after discussions and feedback, put forth a new proposal which it expects to obtain acceptance from the majority of bondholders. The full content can be accessed via the company's website (www.eginvestments.com). At group level, TCS finished the year with total capital adequacy ratio of 13.6 percent and available cash several times exceeding accrued financing costs. The company's operating income net of loan loss provisions was 3.5 times higher than its financing costs.

Rouble vs. Dollar/Euro basket

January 10, 2008–March 16, 2009. Source: CBR



Tinkoff Credit Systems

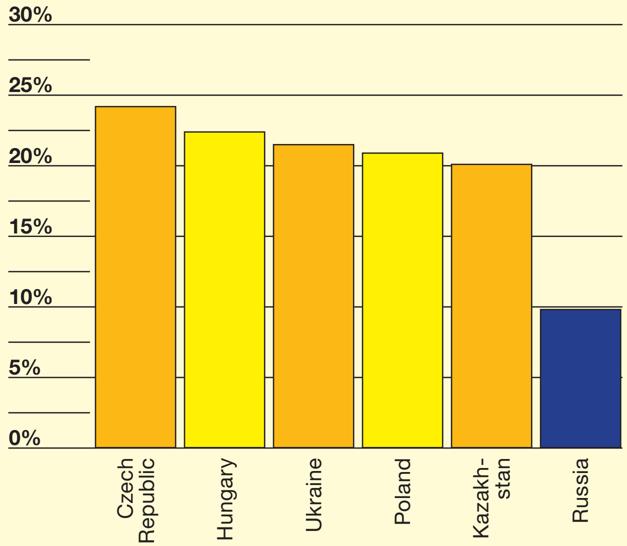
The long-term potential and fundamentals for banking in Russia remain favourable. The country is still to a large extent under-banked despite the steady growth of loans in recent years. This is especially true within the retail segment in the geographical regions outside of Moscow and St. Petersburg. Russian household debt is very moderate. At 9 percent of GDP it averages USD 850 per person, with less than 15 percent of that in foreign debt. This contrasts mightily with European household debt levels at over 50 percent of GDP. The Russian economy is still very much cash based with lending penetration still low in comparison to other emerging countries as well as neighbouring economies leaving ample room for growth.

Banks in Russia as well as many Eastern European banks derived their Return on Equity (ROE) in the past 5 years from an improved Return on Assets (ROA), not an increase in leverage. For instance, the ROE of the Russia's largest bank Sberbank increased to 20.3 percent in the first half of 2008 from 10.8 percent in 2003. During the same period the bank managed to more than double its ROA from 1.1 percent in 2003 to 2.5 percent in 1H of 2008 while reducing its asset to equity ratio from 10 to 8. Currently, the asset to equity ratios for developed European banks are still in the range of 25 to 30 times compared with 10 to 12 times for the emerging market universe. If developed market banks leverage were to normalize to the level of Emerging European banks, their sustainable ROE would fall into mid single digits – in many cases below their cost of equity. Limited leverage and relatively high profitability of assets remain one the key fundamental differentiating factors for Russian and emerging European banks. As such the long-term growth and profitability prospects of the Russian banking sector remain sound and will return firmly to the secular growth path it has embarked upon.

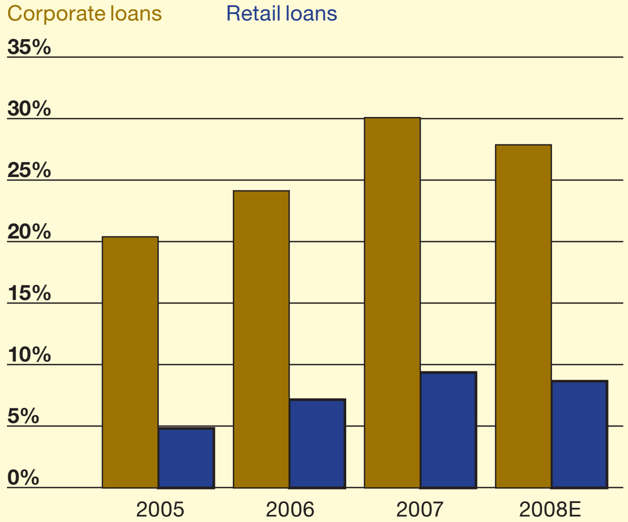
The unfolding global financial and economic downturn does however put a temporary halt to the development experienced in the past decade. The Russian banking system is relatively young by international standards and the country has never experienced a full credit cycle before. Thus there has not been a widespread credit boom like in many other economies yet concentrated pockets of excess borrowing have been exposed by the crisis. The main sources of leverage in Russia were loans to oligarchs and corporations who suffered badly when the underlying assets and markets went into free fall. To make matters worse, the majority of the debt was borrowed from abroad in foreign currency which brought additional negative effects when the rouble depreciation accelerated. The majority of the foreign debt however traces back to commodity exporters who have dollar denominated revenues to match their foreign liabilities.

The end of 2008 and early 2009 has marked a deterioration in the operating environment of Russian banks. By the end of January, the Central Bank essentially completed a fast rouble devaluation, which saw the Russian currency weaken by about 50 percent compared to the levels in the summer of 2008. As a result of foreign capital leaving Russia and external markets remaining pretty much closed to Russian borrowers, real interest rates moved rapidly into positive territory. Corporate profits have shrunk, and the population's real income growth is declining as a reflection of an overall macroeconomic slowdown in Russia. Statistics regarding real disposable income might however be understated as usually occurs in the periods when the population is intensively buying foreign currency. The Russian consumer has so far proved to be relatively resil-

Retail loans as a percentage of GDP, 2007
Source: UBS

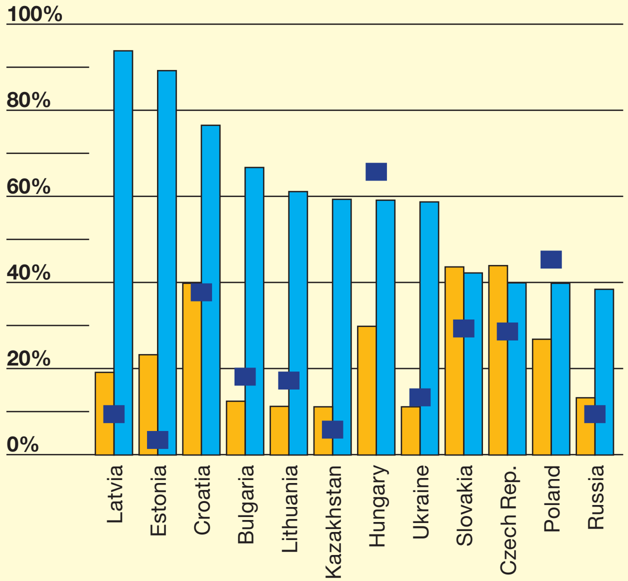


Russian debt as a percentage of GDP
Source: CBR



Case Study: Prospects for Russian Consumer Finance

Credit to private sector and government debt
As percentage of GDP. Source: EBRD, ING
Credit 2000 Credit 2007
Government debt 2007



ient, with real consumption up by 2 percent year on year in January, with retail sales continuing to rise. Unemployment will inevitably pick up as companies adjust their cost base to the challenging times. The net result of these trends is that Russian borrowers' debt servicing capacity has diminished and concerns about banks' asset quality are materialising.

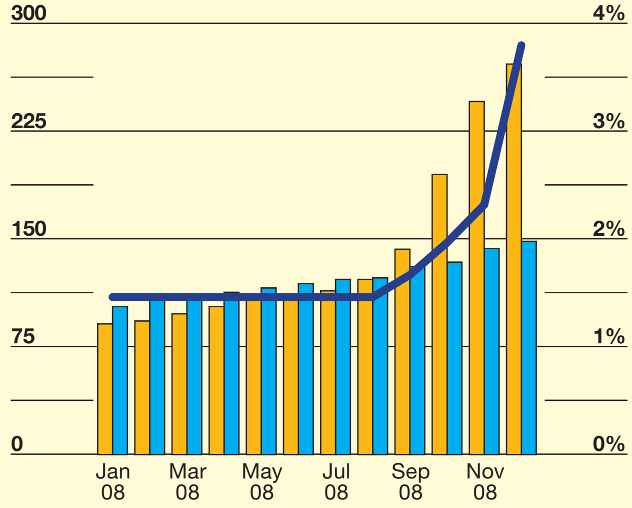
Banking sector asset quality and NPLs

Due to the macroeconomic slowdown there will be an increase of bad debts resulting in a deteriorating quality of bank assets. Non-performing loans (NPLs), i.e. a loan where payments of interest or amortization are past due by 90 days or more, are on the rise and will likely continue to grow. The ratio of NPLs to total loans reported by the Central Bank of Russia (CBR) tripled year-on-year in 2008 to 3.8 percent, driven by the economic downturn, the devaluation, and the move to positive real interest rates. The increase in 2008 was however mainly driven by the corporate segment with retail lagging behind.

There are differences in measurement and definitions of NPLs under Russian (RAS) and international (IFRS) accounting standards and also between Russian banks. The RAS numbers reported by the CBR are not the most reliable and prone to understatement. The picture may be substantially different under IFRS. VTB, Russia's second largest bank, guides that its NPLs under IFRS are significantly higher than those under RAS. According to VTB CEO, Andrei Kostin, NPLs totalled roughly 3.8 percent at the end of 2008 compared to 1.7 percent in overdue loans under RAS.

The guidance from management of Russian banks and CBR officials regarding asset quality is generally quite bearish. The CEO of Sberbank, Russia's largest bank, said at the World Economic Forum in Davos that the share of overdue loans may reach 10 percent by the end of 2010. Andrei Kostin, CEO at VTB, did not want to give a forecast for 2009 but said that in a worst case scenario the share of bad loans is up to 10 percent. Russian Standard Bank, the leading consumer finance bank in Russia, said that NPLs finished 2008 at just over 3 percent and would trend towards 5 percent on their estimates by the end of 2009. Finance Minister Alexei Kudrin has also guided overdue loans in 2009 at around 10 percent, close to what has been voiced from the major banks. Many of the Russian banks have also increased their provisions for losses on bad loans.

Industry wide NPLs (corporate and retail)
In USD million. Source: CBR, Renaissance Capital
NPLs corporate (lhs) NPLs retail (lhs) NPLs total, % (rhs)



Experience from previous banking crises in emerging markets

Since the Russian banking system is relatively young by international standards and the country has never experienced a proper credit cycle there is a high uncertainty regarding what level NPLs in Russia will eventually reach. The experience of previous banking crises in various emerging markets can provide some insight of what to be expected in terms of NPLs, even though differences in definition and measurement limit outright conclusions to be drawn. There have been numerous examples in the past which all have had different characteristics and show varying similarities with the situation today.

Using previous cycles to forecast peak NPLs can be misleading due to different definitions and write-off policies. A move from corporate to arguably less risky retail lending as well as improvements in risk management among both lenders and borrowers are examples of improvements which could mitigate NPLs this time around.

Previous banking crises

Country	Year	Peak NPLs, %
Mexico	1994	19
Turkey	2000	28
South Korea	1997	35
Czech Republic	1996	18
Croatia	1998	10.5
Norway	1991	16.4

Source: IMF, Haver

The table above lists a handful of countries that have previously gone through a banking crisis. Given vast differences in macroeconomic variables and conditions, a division among the countries is warranted. Mexico, Turkey and Asian countries such as Thailand, Indonesia and Korea all faced severe macroeconomic shocks which in turn led to full-blown financial and economic crises accompanied by large currency devaluations, contractions of GDP, runs on banks, etc. The Asian banking crisis is seen as a worst case scenario and the experience of these economies highlights that asset quality problems can be very severe. All the countries highlighted had NPLs well above 20 percent of gross loans, with some markets (such as Korea) recording an NPL ratio of above 30 percent at the peak of the crisis.

These experiences are however not representative of the situation in Russia today where a full blown banking crisis with runs on the banks have been avoided. The table below highlights key differences between the Asian crises with that of Russia today. The exemplified countries recorded a significant (over 5 percent) contraction of real GDP; currency devaluations of a much larger magnitude than that of the rouble thus far; substantial increases in unemployment; and they tended to have high levels of leverage in general coupled with much lower FX reserves. As such they do not give a good indication of where NPLs in Russia might reach. Thus concerns that Russia will experience anything similar to the Asian financial crises in the late 1990s are widely exaggerated.

Croatia, the Czech Republic and Norway, however, show more similarities with the Russian situation which is characterized by low leverage in general, low consumer debt, a strong government balance sheet, significant FX reserves and substantial involvement from the public sector. As a result of these criteria the vast majority of previous experiences of banking sector crises offer little guidance to Russia. The experience of Eastern European countries in the mid to late 1990s can however provide insight, as they had lending penetration rates similar to that currently seen in Russia, and the governments were not overburdened with debt. In addition, the experience of the Norwegian crisis in the early 1990s is relevant to highlight, as the economy had many similarities, including the dependence of the oil price, the strength of the public balance sheet, a credit upswing preceding the crisis, an interest rate shock as well as current-account and currency pres-

Comparison between Russia and Emerging European countries today and Asian countries in 1997

	Asian countries before 1997 crisis					Emerging European countries today						
	Thailand	Indonesia	South Korea	Malaysia	Philippines	Hungary	Bulgaria	Ukraine	Romania	Poland	Czech Republic	Russia
Export as % of GDP	38%	26%	27%	77%	31%	80%	71%	41%	26%	41%	76%	30%
External debt/GDP	75%	65%	27%	50%	59%	130%	104%	64%	50%	49%	40%	32%
– share of short-term external debt	34%	24%	39%	32%	23%	12%	37%	29%	19%	23%	32%	21%
– share of short-term external debt/GDP	26%	16%	10%	16%	14%	17%	39%	18%	9%	12%	13%	7%
FX reserves/GDP	18%	8%	4%	22%	10%	21%	34%	19%	19%	12%	17%	23%
FX reserves/short-term external debt	71%	53%	38%	140%	74%	130%	89%	106%	201%	100%	132%	343%
Peak in NPL ratio	33%	33%	35%	30%	20%							
Minimum GDP growth	–10.50%	–13%	–6.90%	–7.40%	–0.60%							

Source: OECD, IMF, Nomura research

sures. Peak NPLs in this group ranged from 11 to 18 percent.

While Russia is clearly experiencing a significant macroeconomic slowdown, its position is still far better than that of all countries examined during their previous experiences. Its reserves of USD 384 billion almost match its total corporate, banking, and sovereign debt. The currency has devalued by around 50 percent and there has been some increase in the unemployment rate, but not nearly as dramatic as in the exemplified countries. Given that Russia has a large public sector which will not cut jobs in the current environment, unemployment will likely rise but not to a dramatic extent. Another important differentiating factor is relatively low leverage on both corporate and retail levels. Total corporate loan penetration is 28 percent of GDP and total retail penetration is 9 percent of GDP. Total Debt/Equity and Debt/EBITDA for companies representing 80 percent of the economy are 0.18 and 0.85, respectively. The vast majority of large corporations has either limited debt or ample cash flows, which enable them to service and repay their debt obligations. Overleveraged Russian oligarchs are the key problem, but this issue alone is unlikely to challenge Russia's macroeconomic position. Thus if past experiences which have similar characteristics to Russia today are anything to judge by a NPL ratio of 10–18 percent might seem reasonable. Russia is highly unlikely to suffer a full blown banking crisis seen in other countries during the 1990s where NPLs have spiralled out of control exceeding 20 percent.

The risk management process at TCS

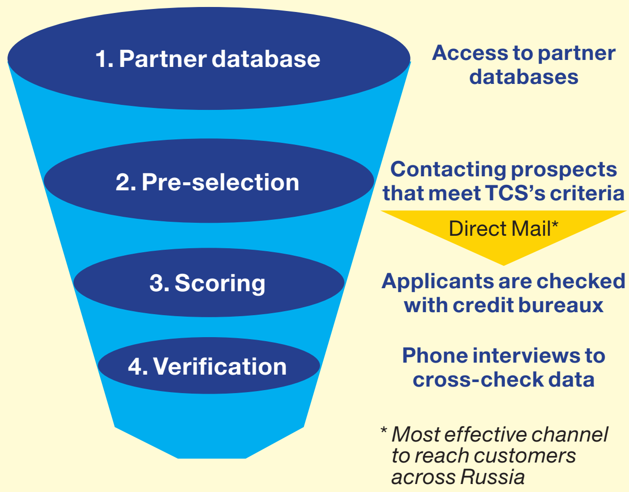
TCS business activity is retail banking in Russia focused on issuing and servicing credit cards. The business model has been built and tailored to its specific market. As such the client acquisition and underwriting process is highly advanced in order to reduce the risks entailed from credit card lending in Russia.

The company's main target group is educated urban residents aged 25–45 in all regions of Russia and with an income above USD 500 per month. This encompasses 54 million people and represents 35 percent of the Russian population. The client segment is located and targeted through databases provided by TCS's partners. Typical partners include insurance companies or cable companies who keep records of customers' regular bill payments. The customer pre-screening is based on criteria such as payment record, demographics and behavioural data. The potential customers who meet TCS's criteria are thereafter contacted by mail with an enclosed credit card application invitation. Applicants are then automatically checked with the three leading independent credit bureaux in Russia. In addition to this applicants are validated and verified by the company's call centre.

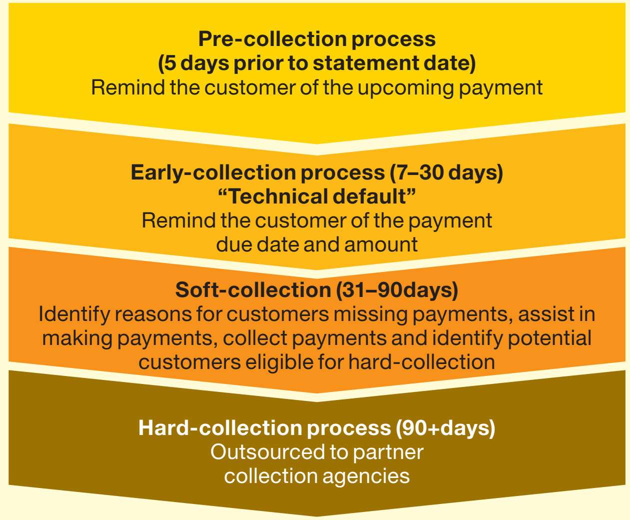
TCS collection process encompasses four stages; pre-collection (5 days prior to statement date), early-collection (7–30 days payments delay), soft-collection (31–90 days payment delay) and hard collection (90+ days payment delay). The pre-collection stage is designed as an extension of the TCS customer service function and reminds the customer of the payment due date and amount. The soft-collection stage is designed to identify reasons for customers missing payments, to assist those customers with difficulty making payments, collect payments, and to indentify those customers who are unlikely to pay in order to pass them to the hard collection stage. The fourth and last stage of the collection process is often outsourced to collection agencies such as Sequoia Credit Consolidation, Pristav and FASP.

The credit risks TCS is exposed to stems mainly

TCS customer acquisition process



TCS collection process

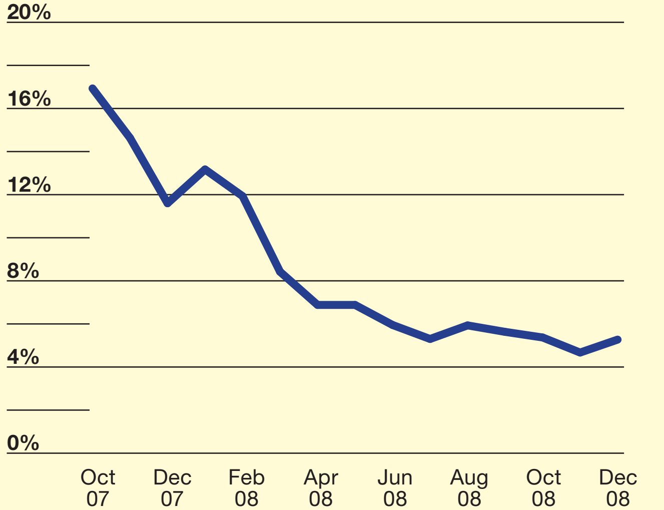


from two sources; fraud and economic. Fraud, i.e. when a borrower never has the intention of repaying a loan, represents a large part of the credit losses of traditional consumer lending banks in Russia. By pre-selecting prospects and matching personalized, indexed and bar-coded offers with incoming applications, TCS reduces the risk of being defrauded substantially. Economic credit losses are mitigated by continuously improving the scoring system and collection process. Monetary losses are also reduced by credit limit management. The company has established a credit committee responsible for approving credit limits for individual borrowers and also for approval of a credit card loan. The decision is based on information about the potential customer's social and property status, workplace information and income status as well as checks with the credit bureaux.

As a result of the advanced and improved practices the quality of loans approved have shown a steady development. TCS's first payment default levels have improved and stabilized as a result of the improving quality of new customers. Increased verification and higher credit bureaux hit-rates have also improved 90+ days past due vintage curves. In 2008 the company's underwriting policy improved month-on-month, thus resulting in better early risk indicators for new vintages. This is exemplified by the decrease in the number of customers who were delinquent 30 days or more on their third statement which fell from 13.9 percent on December 31, 2007 to 5.5 percent in December 31, 2008. This risk indicator is lower than that of leading peer credit card issuers in the market. TCS has further reduced initial limits for new customers to 12,000 RUB (approximately 300 USD) in December 2008 to manage risks going into the economic down-turn in Russia and to manage liquidity. However, given the unfavourable prospects for the global economy, the sharp deterioration of Russia's real sector performance during the fourth quarter 2008 and the beginning of 2009, as well as unemployment rate growth, the company anticipates a deterioration of portfolio quality in the first half of 2009. As a result, the average annualised charge-off rate in 2009 could exceed 15 percent and TCS is building up Loan Loss Provisions accordingly.

TCS First payment defaults

October 2007–December 2008. Source: Company data



TNK-BP Holding is Russia's third largest oil company in terms of production with a SPE reserve base of approximately 10 billion barrels of oil. Production amounts to roughly 1.4 million barrels per day. The company is a subsidiary holding company of TNK-BP, a joint venture between British Petroleum and Alfa Group/Access Renova (AAR). The company is fully integrated with a strong downstream presence owning 5 refineries, 4 in Russia and one in Ukraine, whereof 2 refineries has direct access to Moscow. TNK-BP's distribution network spans over central Russia and Ukraine encompassing about 1,600 gas stations.

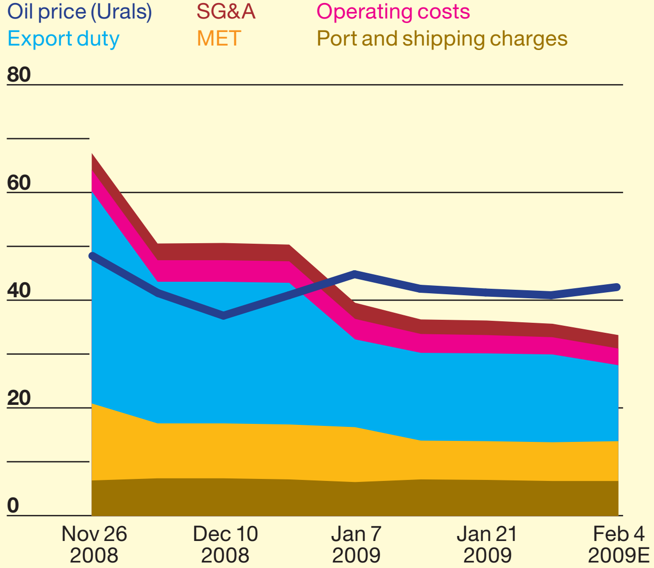
The weaker oil price crushed the upstream earnings of Russian oil producers during the fourth quarter 2008, despite the Russian government scrambling to readjust export duties. Every barrel of oil extracted for exports was loss-making even before companies' operating and overhead costs were deducted. Relatively robust pricing for domestic crude products, especially at the retail level compensated integrated companies like TNK-BP somewhat. This was confirmed by BP's fourth quarter report, which implied that TNK-BP was loss-making during the quarter, although accounting adjustments makes the exact amount unclear. The upstream segment will, however, see substantial improvement during the first quarter of 2009, allowing for further crude price weakness. The bulk of the improvement will stem from a USD 10 per barrel cut in the government export duty fully feeding through. Rouble depreciation will also benefit the company as many of the cost exhibits are denominated in the local currency.

Cost cutting measures by TNK-BP during 2009 will primarily concern drilling at traditional operational areas involving projects that are currently at an initial stage. Sales are estimated to decline by 42 percent to USD 24.1 billion in 2009 on the back of a lower realized oil price. Still with a projected EBITDA-margin above 20 percent, TNK-BP has ample means to keep its dividend at a high level after catering to its capital expenditure needs forecasted in the range of USD 3.0 to 3.3 billion.

TNK-BP's oil production declined one percent year-on-year in the fourth quarter of 2008 in line with the Russian oil industry average. The main production subsidiaries of the Russian-British joint venture have overall showed relatively stable output from 2007 through 2008. The company is aiming at keeping production roughly flat this year as well, by putting more emphasis on its greenfield Uvat and Verkhnechonskoye projects.

Urals price vs. Russian industry average costs per barrel

Nov 26, 2008–Feb 4, 2009E. USD/barrel. Source: Alfa Bank, FSUE



Company	FCF/barrel, 2009E USD/boe	EV/Production, 2009E USD/boe	EV/Reserves, 2009E USD/boe
Rosneft	2.7	64.9	4.7
LUKoil	2.6	43.3	2.4
TNK-BP	7.3	24.5	1.5
Surgutneftegaz	0.0	40.4	3.2
Gazprom Neft	2.6	55.5	3.1
Tatneft	–1.2	28.7	0.9

Source: Citigroup, UBS

TNK-BP Holding

Kontakt East Holding "Kontakt East" is a Swedish holding company which invests in high growth, primarily internet related, media companies in Russia and neighbouring markets. Vostok Nafta founded Kontakt East in 2006 in conjunction with the acquisition of Eniro's business within directory media in Russia (Eniro is the leading Nordic search company within Yellow Pages directories, internet and mobile services). During 2007 Kontakt East commenced the consolidation of the Russian directory media market and also started operations within internet commerce. In the middle of 2008, Vostok Nafta together with Kinnevik took the company private as the administrative costs of being listed outweighed the benefits. An increased ability to improve the reporting structure and corporate governance as well as a longer time horizon needed to position Kontakt East were additional reasons for the buyout.

Kontakt East currently has investments in the business segments Directory Services and Consumer eCommerce. Directory Services offers its customers both online and printed directories via Russian Yellow Pages which has a leading market position following three completed acquisitions. Directory Services publishes directories in Moscow, St. Petersburg and eight other Russian districts. Services are also provided online through the web site yellowpages.ru, as well as by phone. Consumer eCommerce offers consumer based online services including internet sites for classified ads and auctioning. Operations commenced during the spring of 2007, and the website avito.ru was launched in October 2007 and avitok.ru soon thereafter. The Group has approximately 800 employees in total.

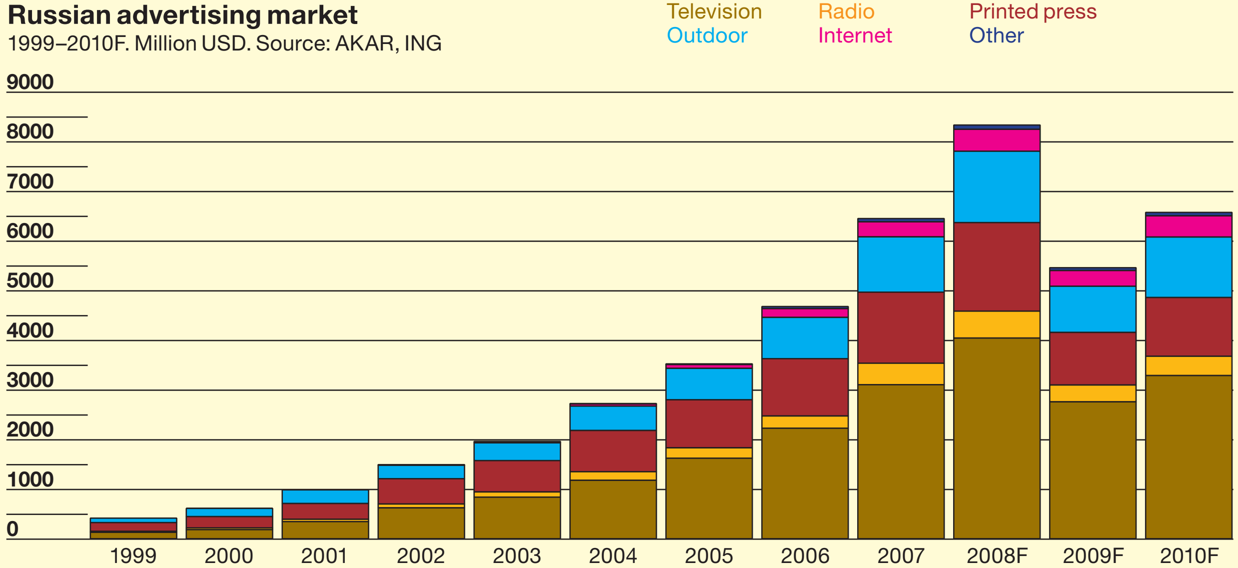
Like many other sectors, Russian advertising suffered a severe downturn in the fourth quarter of 2008 with bleak outlooks for 2009. The brunt of the reduction in advertising spending is expected to come from large multinational companies hitting Radio, Print and Outdoor the hardest. TV and Internet will likely be the least affected. Kontakt East has felt the slowdown but not experienced the same dramatic drop as the industry at large. Its customers are mainly small companies who employ Kontakt East as their one and only marketing channel.

The preliminary financial results for 2008 are disappointing as sales grew 12 percent with higher costs hampering profitability. A number of countering measures are being taken including reductions of back office costs within Yellow Pages. Administrative costs at the company's headquarters having been reduced by 50 percent since the de-listing and management will now reduce their fixed salaries in exchange for performance related remuneration.

With the necessary actions being taken Kontakt East will continue to grow its business with a focus on improving profitability going forward. The company aims to generate annual sales of SEK 200 million by 2011 with an EBITDA-margin of 10 percent. Longer term the online focus of the company offers great potential and will likely increase its share of total revenues. Taking a 5 year perspective total revenues for the group are set to reach an annual turnover of SEK 320 million with an improved operating margin in the 20 percent range. The key external drivers for the business such as increases in advertising spending, disposable income and internet penetration in Russia are structural growth stories for the economy and offers great upside in the long term.

Russian advertising market

1999–2010F. Million USD. Source: AKAR, ING



Kontakt East Holding

At Yellow Pages, a highly skilled management team is now in place. As of 2009, a new sales organisation will be established to boost sales efficiency by focusing on controlling costs. 25 percent of the back office staff has been laid off at Yellow Pages, as business processes are continuously reviewed. The leaner organisation will enable the division to break even in a worst case scenario, assuming a 30 percent year-on-year drop in sales during 2009. Yellow Pages could feasibly show some relative strength in the current environment as it is somewhat crudely seen as “the poor company’s marketing channel”. Traditionally Yellow Pages has been perceived as a business to business oriented marketing channel in Russia. Focus lies on shifting towards a clearer consumer orientation and increasing consumer awareness of the advantages and possibilities of the unique database of Russian companies on offer. Over time the online segment will also grow proportionally larger as the division leverages the online knowledge and experience it possesses.

Within Consumer eCommerce revenue growth has been strong albeit from a low base. The online site fundamentals show encouraging signs and marketing costs are being optimized further. 30 percent of the staff within the division has been cut, as the technical platform has been put in place and launched. Going into 2009, Consumer eCommerce will be one of the few with the ability to invest while some of the competition perishes from funding difficulties. Potential media partnerships are also a possibility which will be evaluated during the year. A critical mass of online users is in the midst of being obtained and longer term the segment has a vast potential for growth and profitability if experiences in more developed markets are anything to judge by.

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.

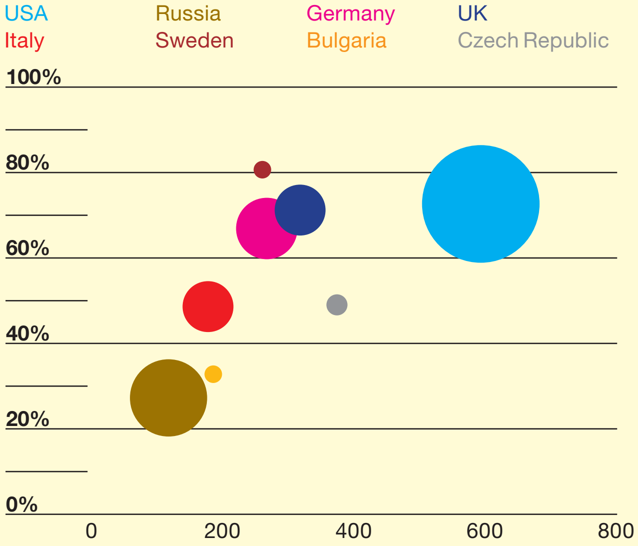
Kontakt East: Financial summary, 2008F

	2006	2007	2008
Sales	**80.1**	**134.4**	**150.7**
EBITDA	**1.9**	**–31.8**	**–49.3**
EBIT	**–7.8**	**–43.6**	**–63.8**

Source: Company data

Internet penetration, advertising spending per capita and population

Internet penetration, % (lhs)
Advertising spending per capita, USD (bottom scale)
Source: Internetworldstats.com, ING Bank
Circle size indicates population



RusHydro was formed during 2008 through the consolidation of 21 Russian hydro power plants and the concurrent listing of shares on RTS and MICEX. RusHydro is, with its capacity of 25,000 MW, the largest generating company in Russia and the second largest hydro company in the world after Quebec Hydro. A majority of the capacity (57 percent) is located in European Russian while the remainder is in Siberia (30 percent) and the Far East (13 percent). The company controls 11 percent of the total generating capacity in Russia and close to 30 percent in the Far Eastern regions.

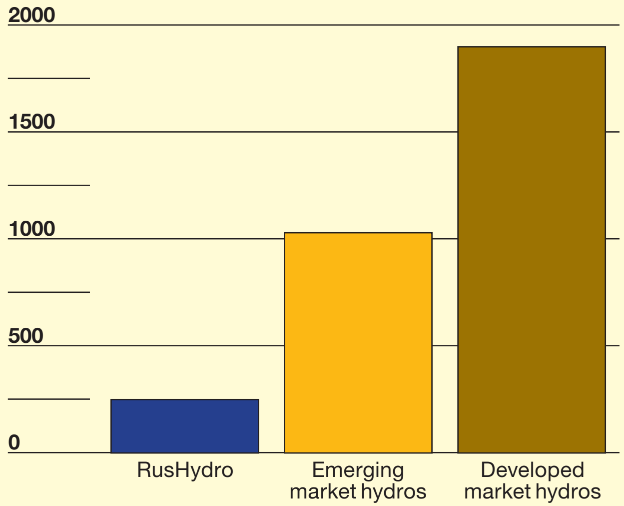
RusHydro released its preliminary results for 2008 in January and management also gave an updated outlook for 2009. The company expects EBITDA for 2008 to come in at USD 1.24 billion, representing a 72 percent increase from 2007. RusHydro also pointed out that cash collection from customers stood solid at around 98 percent in 2008. Risks are that cash collection could deteriorate in 2009, yet the company takes swift actions to non-payers by turning off power supply.

For 2009, RusHydro gave a more cautious outlook than the market expected on the back of more conservative assumptions for the unregulated electricity price. There is upside potential, however, as gas tariffs will likely be raised further later this year, thus pushing up the costs of price-setting gas-fired generators and, ultimately, the electricity price. The company expects sales of USD 2.6 billion and a 10 percentage point improvement of the EBITDA-margin from last year to 60 percent. Fuelled by confirmed regulated tariff hikes, the bulk of 2009's profits will be allocated to several capital expenditure projects estimated at USD 1.5 to 2 billion in total. The markets reacted positively to the news, as it shows proof of RusHydro's relative operating strength under difficult economic circumstances.

The long-term potential for RusHydro remains high, as an increasing portion of its output will be sold at unregulated prices. The difference between liberalised and regulated tariffs can be as much as ten-fold. In 2008, RusHydro sold approximately 10 percent of its electricity at the market price of about USD 30 per MWh and the rest at the regulated price under USD 5 per MWh. In 2009, RusHydro is expected to sell around 30 percent of its output at market prices and the rest at the regulated price.

EV/kW capacity

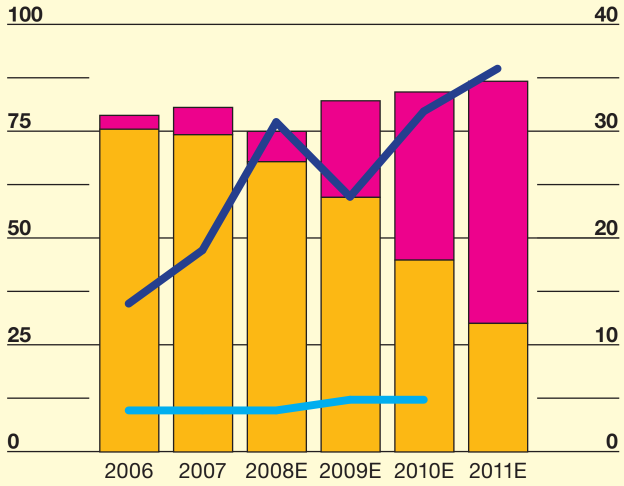
USD/kW. As of November 28, 2008. Source: Goldman Sachs



Electricity sales and prices, regulated and liberalised markets

Source: UBS, Credit Suisse

Electricity sales – liberalised market, thousand GWh (lhs)
Electricity sales – regulated market, thousand GWh (lhs)
Average liberalised electricity price, USD/MWh (rhs)
Average regulated electricity price, USD/MWh (rhs)



RusHydro

Global demand for coal remains weak – but should prove to be more resilient for thermal coal

With the global slowdown and the end of a long positive cycle, particularly for commodity companies, along with just a temporary pause of the super-cycle in others, the medium term consumption trends for thermal coal are currently influenced by a superposition of several conflicting developments. For 2009, the scope of the global slowdown, as well as a drop in worldwide ferrous metal output would be the two most important developments affecting both coking and thermal coal volumes and prices.

Of the several types of metallurgical coal used in steel production; hard coking coal, semi-soft coking coal and pulverised coal injection (PCI), the last two can also be used for power generation. Thus, a surplus of coking (metallurgical) coal in 2009 on the back of a forecasted 12 mmtn decline in global steel output is an additional factor most likely to keep thermal coal prices depressed short term. Thermal coal prices in Europe have already fallen from a high of around USD 200/tn last autumn to USD 77–80/tn in December. This is due to weak demand and an abundant supply. Current prices for semi-soft coking coal are down 50 percent – from around USD 250/tn at the peak in early 2008. The perception is that they might even drop below the price levels for thermal coal if sellers become desperate enough to try to physically move the coal.

Semi-soft and PCI producers all over the world are left with cancelled contracts and are thus facing the need to cut production or sell their production at huge uneconomic discounts. The situation is particularly grim for Russian mining companies, many of which (like Belon) produce both coking and thermal coal. Some of these companies have invested in washing plants to produce semi-soft coal concentrate from high-quality thermal material, but are now finding little or no demand for their output. The majority of Russian coking coal producers have already begun to cut output, which helps to solve the problem of overhang in coking coal, but shifts all production costs to the thermal coal, thus further squeezing export margins.

Global trade in thermal coal in 2009 is currently seen falling 2.6 percent year on year – to 699.7 mmtn, versus an earlier forecast of 3.2 percent growth to 746.9 mmtn, according to the recent figures from the Australian Bureau of Agricultural and Resource Economics (ABARE). Asian coal imports alone are now seen falling 3.2 percent year on year to 378.9 mmtn in 2009, versus an earlier estimated growth of 3.2 percent to 411.9 mmtn. Demand from Japan, the world's largest thermal coal importer, is expected to fall 7.4 percent year on year as alternative power generation capacity, including nuclear and gas-fired power plants, is either restarted or commissioned. China, currently the world's sixth-largest coal exporter, is now expected to become a net importer of coal only in 2011, compared with 2009 according to an earlier forecast. European thermal coal imports in 2009 are likely to fall 5 percent, as recession in several key economies, including Germany and Spain, puts downward pressure on the electricity demand. However, India, underpinned by the government's plan to double the coal-fired electricity generation capacity by 2017, is expected to continue boosting imports by about 17.5 percent in the upcoming years.

Medium term outlook gradually becomes less bearish, as evidenced by the single most important measure of the global trade activity, the Baltic Dry Index (see figure *Baltic Dry Index (BDI)* to the right). After collapsing from last year's record highs by nearly 95 percent, the index has more than tripled in the first two months of 2009, which is a good indica-

Global thermal coal trade, 2008–2010E

	2008	2009E	Y-o-Y	2010E	Y-o-Y
World trade	718.6	699.7	–2.6%	723.0	3.3%
Imports (mmtns)					
Asia	391.5	378.9	–3.2%	400.6	5.7%
China	34.0	33.0	–2.9%	40.0	21.2%
Taiwan	62.0	62.0	0.0%	64.5	4.0%
India	34.0	40.0	17.6%	47.0	17.5%
Japan	135.0	125.0	–7.4%	126.0	0.8%
S. Korea	73.5	69.0	–6.1%	71.0	2.9%
Europe	233.9	221.8	–5.2%	220.0	–0.8%
Other	93.2	99.0	6.2%	102.4	3.4%
Exports (mmtns)					
Indonesia	198.0	203.0	2.5%	212.0	4.4%
Australia	126.3	128.0	1.3%	133.0	3.9%
Russia	80.0	81.0	1.3%	81.5	0.6%
South Africa	66.0	67.0	1.5%	70.0	4.5%
Colombia	68.0	69.0	1.5%	74.0	7.2%
China	42.0	41.0	–2.4%	40.0	–2.4%
United States	33.0	26.0	–21.2%	23.8	–8.5%
Others	105.3	84.7	–19.6%	88.8	4.8%

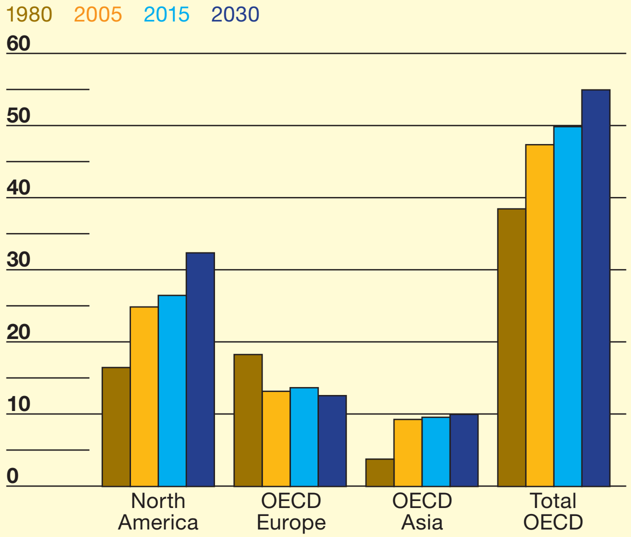
Source: Australian Bureau of Agricultural and Resource Economics, March 2009 quarterly bulletin

Baltic Dry Index (BDI)

January 2006–March 2009. Source: The Baltic Exchange

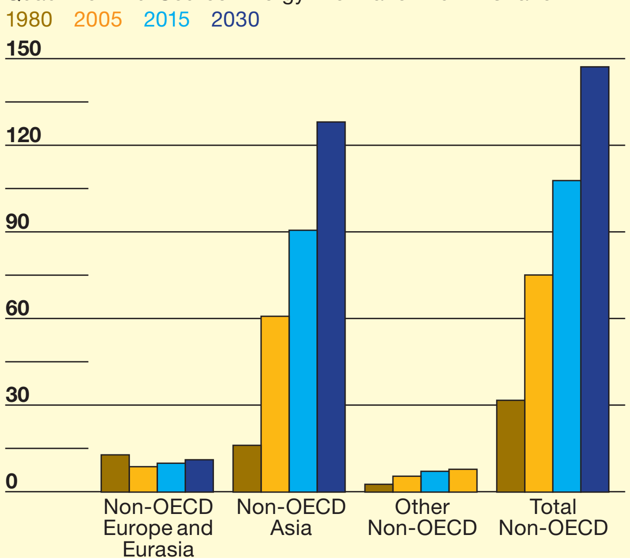
OECD Coal Consumption by Region

Quadrillion Btu. Source: Energy Information Administration



Non-OECD Coal Consumption by Region

Quadrillion Btu. Source: Energy Information Administration



tor of the recovering trade flows. This provides more grounds for expectations of resumed growth in various areas, including electricity generation and consumption of thermal coal, from 2010 and onwards.

In the long term, the bullish case for thermal coal is still intact, as its global consumption is expected to increase by 65 percent to 2030 (see figures to the left). Non-OECD countries' economic growth will be the major driver behind the surge in thermal coal consumption, with China and India leading the trend. In the OECD countries, increased demand for coal in North America is expected to more than offset marginal decline in Europe. Overall, thermal coal consumption growth will only slightly exceed the general energy trends, as by 2030 the weight of coal in the overall energy basket globally is expected to gain 2.6 percentage points – to reach 29.1 percent.

Kuzbassrazrezugol (KRU) to benefit from less exposure to coking coal

KRU is currently our most favored stock in the Russian coal universe, due to its high exposure to thermal coal and relatively low valuation – stemming from poor corporate governance and evidences of transfer pricing. KRU is controlled by Iskander Makhmudov's Urals Metals & Mining Company (UMMC), one of Russia's most opaque structures, whose core shareholders have never demonstrated much concern for minorities.

KRU is predominantly a thermal coal player (90% of volumes, 75–80 percent of revenues), therefore we expect the company to be more resilient in the current economic downturn. In addition to the sector wide considerations mentioned before, the Russian thermal coal market has an additional specific feature (the country's coal-fired electricity generators have been set up to use a certain type of coal from certain deposits, and it takes time and money

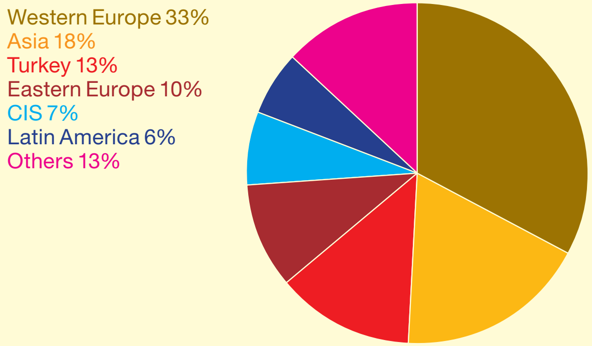
Top Russian Coal Exporters, 2007

Coking coal		Thermal coal	
Mechel	38%	SUEK	27%
Raspadskaya	14%	Kuzbassrazrezugol	24%
Sibuglemet	13%	SDS	13%
Vorkutaugol	9%	Mechel	7%
Sholokhovskaya	8%	Evraz	3%
Kuzbassrazrezugol	4%	Sibuglemet	3%
Others	14%	Others	23%

Source: Metal Expert

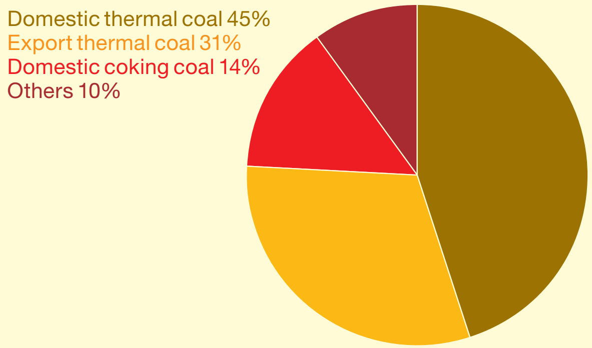
Russian Thermal Coal Exports, 2007

Source: Metal Expert



Kuzbassrazrezugol Revenue Breakdown, 2008E

Source: Uralsib estimates



to switch to coal from another supplier), which gives the coal miners some advantage in the price negotiations. KRU is Russia's second-largest thermal coal producer and has a diversified client base both domestically and abroad, which should help the company to avoid massive non-payments.

Although coking coal plays a secondary role in KRU's sales, the weakness in the segment could put pressure on the company. KRU is not affiliated with one of the ferrous metal producers and supplies coking coal to the open market. Now, as the mills are running at half capacity, the vertically-integrated steelmakers are likely to buy raw materials mostly from their own subsidiaries, thus passing the low demand on to independent producers, including KRU.

All this pressure on revenues means that cost saving is inevitably on the agenda of the company's management. In January 2009, KRU announced plans to invest only USD 121 million in its development during 2009, down 75 percent compared to 2008 investments. The company could get a relief in form of lower costs following the recent weakness in the rouble, as all of KRUs' production cash costs are ruble-denominated.

Corporate governance is also, although slowly, improving in the company. Last year, KRU eliminated a cross-shareholding inside the company by merging its two ex-owners CJSC Riostile and CJSC Kuzbasstrans into OJSC Kuzbassrazrezugol. However, KRU continued to use the standalone Swiss-based trader KRU Trade to service its export sales, which effectively meant that a hefty chunk of export cash flows was left outside the company. These practices inevitably attracted attention of the taxman and the indications are that they should cease from January 1, 2009, however the positive effects of this has not yet been seen in the reports.

A lack of transparency in the company's reporting makes estimating its financials quite a tough job and adds uncertainty about KRU's debt situation, this year's universal hot topic. As the company stopped IFRS reporting after 2006, the RAS accounts fail to provide all debt details. Based on the schedule of debt repayment presented in the last 2006 IFRS financial statements, KRU had to pay back 72 percent of its then reported debt in 2007–2008, plus an additional 21 percent in 2009. Moreover, USD 200 million of new debt was raised in 2007 in a bond issue. A possible debt scenario, which was presented in a recent report by a local broker, shows that KRU probably is reasonably leveraged in the current credit crunch times.

Multiple comparison

	EV/ Production, 2009E USD/tonne	EV/ Reserves, 2009E USD/tonne	EV/ EBITDA, 2009E
Kuzbassrazrezugol	43	0.5	4
Kuzbass Fuel Company	57	0.6	2.8
Russian average	91	0.6	7.6
International average	103	1.4	3.4

Source: UBS

KRU Debt Forecast, 2006–2012E

USD million	2006	2007E	2008E	2009E	2010E	2011E	2012E
Cash & cash equivalents	14	16	10	223	258	553	1,081
Short-term debt	325	137	137	223	23		
Long-term debt	319	683	346	23			
Total debt	644	819	483	246	23		
Net debt	630	803	472	23	(235)	(553)	(1,081)
EBITDA	123	167	1,340	635	828	1,077	1,205
Interest expense	34	52	71	41	19	2	
Net debt/EBITDA	5.13	4.79	0.35	0.04	(0.28)	(0.51)	(0.9)
Interest coverage	4	3	19	15	43	611	

Source: Uralsib estimates

Priargunsky Industrial Mining & Chemicals ("PGHO") originates from the town of Krasnokamensk, in the Chita region, and accounts for 93 percent of Russia's uranium production. The company produces around 3,000 tons of uranium per year, which gives PGHO a global market share of almost 8 percent (according to World Nuclear Association). PGHO also mines a significant amount of thermal coal (13 percent of production) partly used in its own coal fired power plants making the company fully self-sufficient when it comes to electricity. 80 percent of the company is owned by Atomredmetzoloto ("ARMZ"), which in turn is controlled by the state-owned nuclear company AtomEnergoProm. AtomEnergoProm is a holding company for all Russian civil nuclear industry covering the entire value chain. PGHO constitutes the key mining asset within the group and supplies uranium to enrichment facilities. AtomEnergoProm also controls companies within nuclear plant engineering, reactor commissioning, equipment servicing and waste disposal. The intention of the Russian government is to create a national uranium mining champion by combining the mining assets of TVEL, the Russian monopoly producer of nuclear fuel and TENEX, the state monopoly exporter of nuclear products and services, by consolidating them into ARMZ.

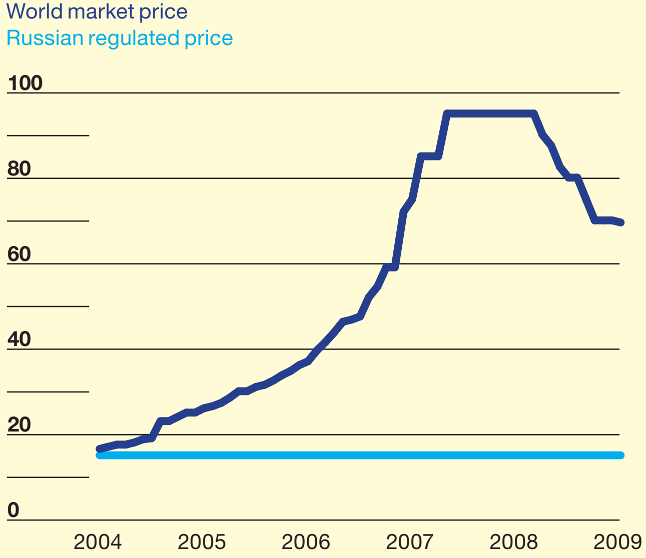
At present, extraction in underground mines takes place in five depots on the Streltovsky field. Since exploitation started in 1974, over 110,000 tonnes of uranium has been mined. Yet PGHO still has ample reserves stated at 133,000 tonnes in 2008. The company plans to modernise its existing facilities and open a new mine with its own enrichment capacity. PGHO expects the investment to increase the production to 5,000 tonnes of uranium by 2015.

Russia has 10 nuclear power stations, which operates 31 nuclear power reactors with a total capacity of 23.2 GW. By 2010, 3 new reactors will be built with a capacity of 1,000 MW each. 16 percent of the country's production of electricity comes from nuclear power compared with the US and Europe (20 percent), where France is the world leader with 80 percent. State-owned Rosatom has ambitious plans for Russian nuclear power production, with 40 new nuclear reactors to be built by 2030. This gives a favourable outlook for the long-term domestic demand which currently amounts to 10,000 tonnes per year. That compares with the domestic production, which amounts to 3,300 tonnes per year. The deficit (about 7,000 tonnes per annum in Russia) is compensated for by secondary sources which are in decline. These sources i.e. excess supplies, reprocessed fuels and military uranium currently cater to 40 percent of global demand. Russia supplies already enriched uranium via its Megatons to Megawatts programme, which converts decommissioned Russian warheads into commercial fuel, but will probably only do so until 2013.

National prices for uranium are at present regulated at around 15 to 20 USD per lb. which is significantly lower than global average prices for long term contracts. PGHO sells all of its production for further enrichment within the AtomEnergoProm group. Thus the company merely covers its costs for mining uranium due to transfer pricing. Alleviation is however on the agenda in order to finance PGHO's investments to increase its production. Russia's nuclear ambitions demand the development of uranium mining activities in order to cater to the national deficit of uranium as well as international demand. Hence pricing of PGHO's output will likely trend towards international market prices which will positively impact the company's cash flows. A stated openness towards minority holders will also improve going forward as a greater interaction with capital markets and investors is needed to fund future development.

Uranium price comparison

USD/lb. Jan 2004–Jan 2009. Source: Cameco, Troika Dialog



Priargunsky

The Ural Mining and Metallurgical Company (UMMC) is a diversified industrial group formed around the Uralelectromed Refinery. The group controls enterprises active within mining, metallurgy, refining complexes, machine-building, cable and conductor production as well as within the construction industry. The company has a market share of 40 percent and is the second largest vertically integrated producer of copper in Russia behind Norilsk Nickel. UMMC also produces a substantial amount of zinc and lead. Vostok Nafta currently has stakes in two companies controlled by UMMC; Gaisky GOK and Uchalinsky GOK. A trigger for these companies is a determined long term strategy of consolidating the group companies into UMMC Holding in order to create a blue chip mining company. This is in resemblance to many other Russian groups in the past. These types of consolidations have previously taken the form of asset swaps which have been highly value creative for minority shareholders.

The controlling shareholders behind UMMC Holding have unlike several others not pursued aggressive debt financing during the boom years. Thus margin calls have been avoided and UMMC stands as one of the few companies that have not asked the government for financial aid. While the Holding company has some debt on its balance sheet it is manageable and there is no risk of refinancing difficulties.

Gaisky GOK

Gaisky GOK is Russia's second largest company with respect to volume of mined copper ore with a domestic market share corresponding to 11 percent. The company is controlled by UMMC Holding (84.5 percent) and is a key supplier of copper ore to UMMC's copper producing subsidiaries. Gaisky controls more than three quarters of the ore reserves in the Orenburg region, and the company's total ore reserve is estimated to 300 million tonnes, with a remaining reserve life of more than 50 years based on the current rate of production. In 2007, Gaisky produced 75,469 tonnes of its main product, copper concentrate, 7,709 tonnes of zinc concentrate and 1.56 tonnes of gold concentrate. Given the weaker pricing Gaisky's focus is on operational efficiency and cost reduction. The company is well managed with a low cost base and remains profitable even though the majority of the production is sold within the group and subject to transfer pricing. The expansion plans initiated in 2005 to increase capacity by developing new open-pit and underground mines remain in place.

Uchalinsky GOK

Uchalinsky GOK is the largest producer of zinc concentrate and the third largest producer of mined copper ore in Russia. Uchalinsky is controlled by UMMC Holding (88.5 percent shareholding) and the company serves as a key supplier of zinc and copper concentrates to UMMC's smelting plants.

Furthermore, Uchalinsky sells large quantities of zinc to independent Russian smelters. As the majority of production is sold outside of the group transfer pricing is not an issue and profitability will be upheld in 2009 thanks to the low cost base. The company's total ore reserve is estimated to 150 million tonnes, which corresponds to another 30 years of production assuming the current rate of production. In addition, the company owns concentrators and can thus produce its own concentrate. During 2007, Uchalinsky produced 114,951 tonnes of zinc concentrate and 51,373 tonnes of copper concentrate.

Russian major non-ferrous producers

	Products	MCAP, USD mln*	Revenues 08E, USD mln	Net Profit 08E, USD mln
Norilsk Nickel	Nickel, copper, platinum, gold	9,313	13,831	2,991
VSMPO-Avisma	Metallic titanium, titanium parts, magnesium	221	1,263	353
Uralelectromed (UMMC)	Refined copper, zinc	148	469	38
Uchalinsky GOK (UMMC)	Copper and zinc concentrate	158	527	69
Gaisky GOK (UMMC)	Copper and zinc concentrate	73	244	18
Chelyabinsk Zinc	Zinc	54	542	–53

* As of March, 2009. Source: Troika Dialog

UMMC Divisions

Raw material providers	Gaisky GOK, Uchalinsky GOK, Safyanovskaya Med, Urupsky GOK, Bogoslovskoye RU, Berezovskoye RU
Smelters	Uralelectromed, SUMZ, Svyatogor, Mednogorsk Smelter, Electrozinc, Serov Metallurgical Plant
Semi and finished product producers	Katur-Invest, Sibkabel, Kirovsk Non-Ferrous Metal Plant

Source: UMMC, UBS

UMMC

Transnet is the world's largest crude oil pipeline operator with around 50,000 kilometres of long-distance pipelines, 386 oil refilling stations and 833 reservoirs with a storage capacity or approximately 15 million cubic meters. The former Soviet pipeline network, of which Transneft's network comprises the backbone, connects Russia with 17 CIS and Eastern European countries. The network also provides access to other destinations via ports on the Baltic and Black sea. 78 percent of the company is owned by the Russian government and it also regulates the transportation tariffs charged to the Russian oil companies. Transneft transports roughly 93 percent of Russia's total oil production, and piped a total of 460 million tonnes of oil during 2007.

Transneft is currently involved in the USD 20 billion project of building a new pipeline connecting new oil field developments in Eastern Siberia with the Pacific Ocean (ESPO). The project is designed to incentivise oil companies to bring the existing fields in the region into production while introducing new export markets in the Asia-Pacific region. The first phase of the ESPO, bringing the pipeline in proximity of the Chinese border, was initiated in 2006 and is expected to be commissioned at the end of 2009. The Second longer phase, encompassing the final leg to the Nakhodka by the Pacific, has been postponed 1 to 2 years with commissioning now expected in 2013. Given the weaker oil price environment, many of the oil fields in Eastern Siberia are not profitable to develop why there would not be enough oil for transport in the last leg of the pipeline.

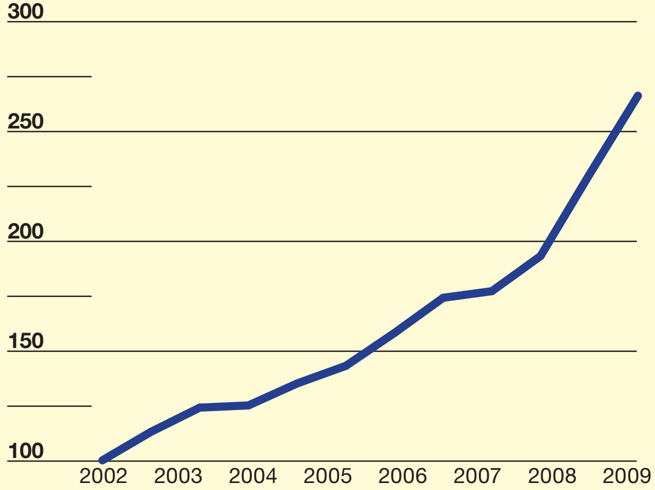
In February, 2009 Transneft signed an agreement with Chinese CNPC that envisages the construction of a 70 kilometre branch from the ESPO pipeline to the Chinese border in return for a 20 year USD 10 billion loan under favourable terms. The deal which is part of a 20 year contract on oil supplies to China whereby Rosneft will receive USD 15 billion, with exported volumes accounting for the loan's collateral. The move will help Transneft to finalize the construction of its ESPO pipeline without applying for government financing.

Transneft has been successful with its strategy to increase the transportion tariffs each year in order to finance its capital expenditure programmes and at the same time improving the company's profitability. After extensive lobbying from the major oil companies, the proposed oil transportation tariff set to increase by 16 percent in 2009. Following production declines due to low oil prices and higher cash costs, Prime Minister Putin advocated lower tariff increases for natural monopolies.

Transneft is, by many, seen as significantly undervalued both in comparison with the Russian oil majors, but in particular in terms of the replacement costs per kilometre of pipeline. Transneft is trading at around USD 30,000 per kilometre of pipeline – which is less than a twentieth of the cost of recent pipeline projects. Corporate governance has been the key issue as investors doubt that minority shareholders will receive their part of future free cash flows. Transneft has lagged other state controlled companies regarding improved governance, but earlier experiences yield comfort. Once the ongoing construction projects are completed Russia will have all the oil exporting capacity it will ever need. The substantial cash flows generated by transporting oil will then be shared with minority shareholders. Changes in governance will eventually take place and will be triggers for a improved investor sentiment. A starting point could be aligning management's interest with that of minority shareholders.

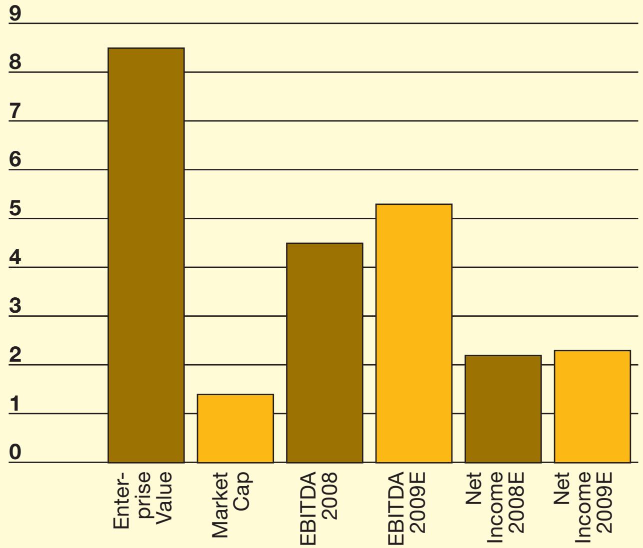
Transneft: Historical tariff growth

Jan 2002–Jan 2009. Jan 2002: index=100. Source: Troika Dialog



Transneft: Valuation comparison

As of March 16, 2009. Source: UBS



Transneft

Industry

The current near term outlook for building materials (including cement) in Russia is quite bleak however the long-term fundamentals remain unchanged. Russian economic activity has recently slowed, with the construction industry being particularly affected. The large capital outflows experienced towards the end of 2008 and the resulting liquidity strains on the financial system has had a large adverse effect on fixed investments. Lack of financing in terms of a downturn in both private and public sector lending leaves the construction sector particularly vulnerable in the near term with multiplier effects for building materials. While much of Russian cement capacity needs to be replaced, the current environment has postponed new as well as replacement projects.

The construction sector, be it the residential, commercial real estate or infrastructure segment, is a key driver for building materials like cement and concrete. During 2000 through 2007 construction boomed growing at an annual rate of 34 percent driven by both public and private sector projects. The lack of financing, due to the financial crisis, will likely freeze hundreds of projects across the country, putting near term pressure on housing prices and, as a consequence, on building materials. Infrastructure development, of which 60 percent is publically financed, will likely fare somewhat better than commercial projects, at least in the very near term. While private investments will be cut as companies in various sectors scale down their capital expenditure programmes, state spending will likely be more resilient. Although government expenditures also are being trimmed downwards to avoid a too large of a deficit in the state budget, investments in new power-generating capacity as well as backing residential development will be maintained. Commercial real estate will also likely be hit with no state programmes to support office development and strained retailers, only already financed projects are likely to be sustained in 2009.

Hence, a steep 35 to 40 percent decline in construction activity in 2009 is likely to have a negative effect on building materials, especially those used in residential housing and commercial property, like cement and concrete. Sales volumes within the cement market could decline by 30 percent with significantly lower capacity utilization rates. The drop-off in domestic production will likely be less severe due to decreased imports of cement from Turkey and China. As the graphs on the next page highlight, industry wide margins will come down from the elevated levels seen in recent years yet still to reasonable profit levels.

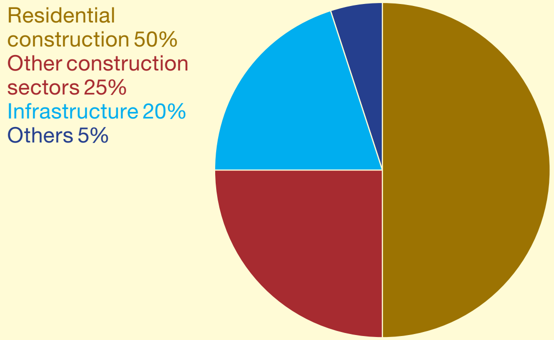
Longer term, cement prices will likely trend up, as Russia's cement capacity problem remains unresolved, with a lot of the ageing capacity needing to be replaced over the coming years. The capacity upgrades and additions announced in 2007 and 2008 have been cancelled or postponed due to the unfavourable cement price and credit environment. Cement demand will also pick up eventually due to deferred residential housing demand and accelerating infrastructure spend will push cement prices back up to the record-high levels seen recently. Capacity utilization rates will recover which will inevitably push up industry margins once again.

Sibirskiy Cement

SibCement is the second-largest cement producer in Russia after Eurocement and a vertically integrated holding, which consolidates four cement producers, raw materials suppliers, building materials producers, trading arms, marketing and logistics as well as a transportation company with a fleet of 1,300 cement cars. In 2008 the company's cement production was

Cement consumption demand drivers

Source: Rosstat, Deutsche Bank



Russian Building Materials

roughly 4.5 million tonnes, with a national market share of 8 percent. More importantly, SibCement dominates in its home region of Siberia, controlling about 60 percent of the regional market.

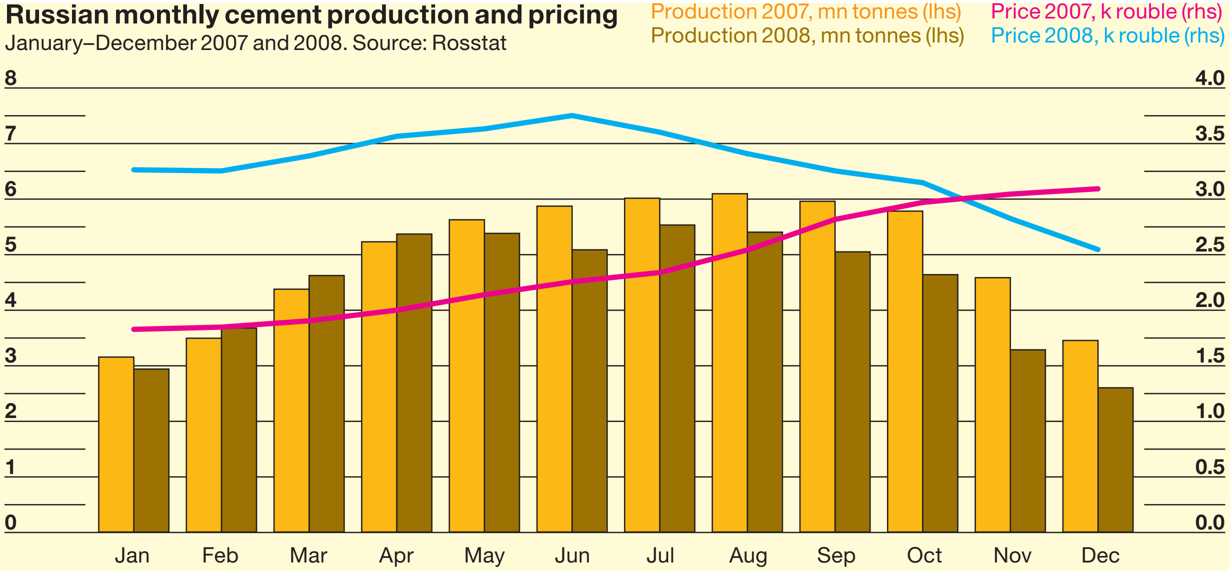
In light of the challenging environment the company has curtailed its capital expenditures. Several large scale projects announced earlier will not be realised in the near future, which limits the company's needs in terms of new borrowing. The market deterioration will also lead to the postponement of its capacity expansion plans for 2011–2014. This includes the acquisition of Set Group's cement assets in Turkey (controlled by Italcementi Group) announced in April 2008. The intention of SibCement was to buy four cement plants with 5 million tonnes of annual capacity for EUR 600 million and to export Turkish cement to the Russian market.

The company is also planning to freeze the construction of the largest cement plant in Russia (7.8 million tonnes capacity) entailing a USD 2 billion investment plan due to the slowdown in the construction sector. The launch of two other major projects, cement plants in Kazakhstan (with a capacity of 1.5 million tonnes and capital expenditures of USD 175 million) and the Kemerovo Region (with a capacity of 2.6 million tonnes and capital expenditures of USD 275 million) will also be postponed.

Overall, the near term situation on the cement market remains uncertain. Given that current cement price is well above the company's production costs estimated around RUB 1,400 to 1,700 per tonne, the company can withstand the poor pricing environment. In a worst case scenario Sibcement would still sell a minimum of 1.5 million tonnes of cement in 2009 compared to 4.5 million tonnes in 2008, representing a 20 percent capacity utilization rate. The company does, however, not expect cement prices to fall below RUB 2,000 per tonne. Based on

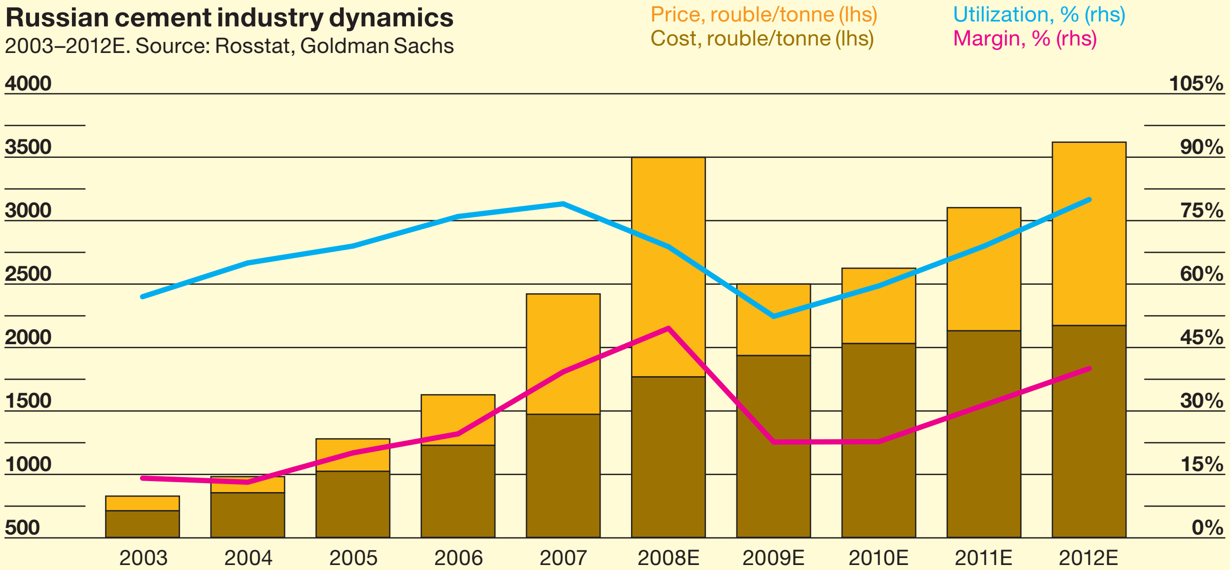
Russian monthly cement production and pricing

January–December 2007 and 2008. Source: Rosstat



Russian cement industry dynamics

2003–2012E. Source: Rosstat, Goldman Sachs

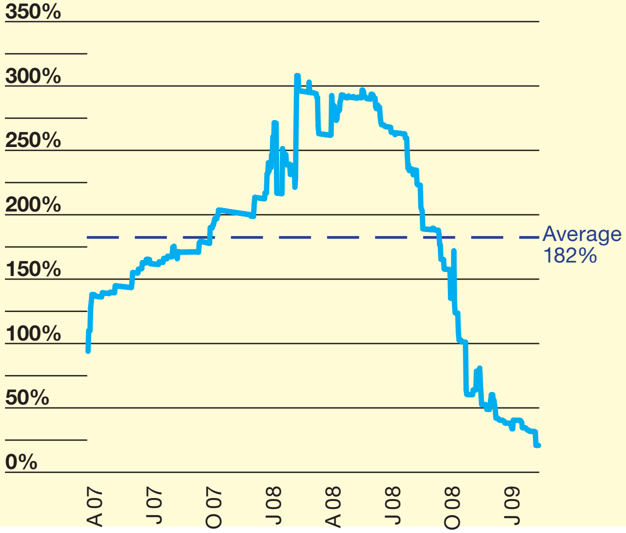


those assumptions SibCememt would still be profitable. That is the most bearish scenario assuming an outdrawn weak economy and that government measures are ineffective. Conservative estimates anticipate 2.2 to 2.5 million tonnes of production in 2009 at an average price of 2,500 per tonne and an operating margin well above 10 percent which is decent given the operating circumstances.

Due to healthy cash flow generation during 2007 and 2008 Sibcement enters the downturn with a solid balance sheet. Financing needs for 2009 and 2010 are close to zero which gives the company room to manoeuvre through the downturn, and benefit longer term from capacity investments and upgrades already completed. Total debt, which is rouble denominated, at the end of 2008 is estimated at RUB 4.2 billion of which 50 percent is long term. Net debt to EBITDA for 2008 is estimated at 0.4 which is by all means manageable.

Sibcement: EV/Replacement cost

March 15, 2007–February 9, 2009. Source: Goldman Sachs



Gornozavodsk Cement

Gornozavodsk Cement is one of the larger cement producers in Russia located in the Perm region of the Urals. Its key products are Portland Cement mainly used for construction and Oil Well Cement delivered to the Oil and Gas Industry. In 2007 the company produced an estimated 1.8 million tonnes of cement with a capacity utilization rate of 84 percent and the bulk of production going to the Perm region. The development of new projects within the Oil and Gas sector in Western Siberia, like Gazproms Yamal project as well as a number of oil fields, will most probably demand cement from the company. All of the company's output encompasses the wet production method with natural gas used as the main fuel.

Like its sector peers Gornozavodsk has accumulated significant cash flows during the good years and with no significant investment programmes the company now sits on a net cash position. Sales in 2009 are expected to drop substantially as a result of the end market deterioration yet the company will likely be able to maintain an operating margin around 20 percent. The long term picture still bodes well for Gornovadsk with numerous key oil and gas projects in the region set to be developed as well as regional construction projects to be completed.

Tuimazy Concrete Mixers

Tuimazy Concrete Mixers ("TUZA") is one of the largest machinery companies specialising in engineering and production of concrete delivery equipment. The equipment produced by TUZA is mostly installed on KAMAZ chassis to manufacture concrete mixer trucks and concrete pump trucks used in the construction industry. KAMAZ is the majority shareholder in TUZA and as such there is a large integration between the two companies. TUZA controls 38 percent of the Russian concrete mixer truck market, 15 percent in concrete pump trucks, and 18 percent in stationary concrete pumps.

There is a structural change in progress within the construction sector that requires a much higher use of concrete mixers and pumps. Russia is transforming from the old technology of building houses from concrete panels to the new "monolith" technology, where concrete is pumped into the walls on the construction site. This drives an increasing demand for concrete mixers and pumps.

TUZA has a solid management and good relative transparency, which places it to benefit from a recovery in construction and investment activity. The company has essentially no debt and is looking at ways to re-orient idle equipment to other areas, including the production of body frames for boosters to an electric company, which may bring in extra revenues.

Sudden twists of the Ukrainian political life are a clear indication that the major political forces have started preparations and positioning for the presidential elections that are to be held in the end of 2009. President Victor Yuschenko, who had practically lost his support in the electorate, is vesting his future only in closer ties with the West. Prime Minister Yulia Tymoshenko tries to keep the Ukrainian economy afloat in the waves of the global crisis and amidst the latent tensions with Gazprom. The governor of the National Bank of Ukraine (NBU) Volodymyr Stelmakh, traditionally a president's supporter, needs to defend the local currency, hryvnia, in the acute economic crisis, therefore aligns his actions with those of the Cabinet. The new speaker of the Rada Volodymyr Lytvyn positions himself somewhat at a distance to the power centers while nurturing his political ambitions. The oppositional forces lead by ex-prime minister and presidential contender Victor Yanukovich are waiting for the economic hardships to grow – in order to use them to get back into power.

The new acute phase of the conflict between the President and the Prime Minister unfolded in February as a continuation of the January gas conflict. The elimination of RosUkrEnergo as a middleman for supplies of Russian gas to Ukraine, involved a transfer of some 6.3 bcm of gas amassed by RosUkrEnergo to Naftogaz, which assumed responsibility for all payment arrears. However, as this move weakened the economic support base of the President, the power forces controlled by him immediately interfered. The State Security Service (SBU) opened a criminal case against Naftogaz, accusing its top officials of illegally transferring ownership of the gas, and later raided the offices of the Ukrainian gas company searching for the originals of the 10-year gas import and transit agreement signed in January.

The developments around Naftogaz were even more dramatic as they unfolded after the IMF informed the Ukrainian authorities of its decision to postpone the disbursement of the second USD 1.875 bn tranche of the Fund's USD 16.5 bn lending program on the grounds that the recent decisions of various branches of power failed to comply with the pre-agreed conditions. Facing a new wave of pressure on hryvnia, the Ukrainian leaders set their differences aside (at least temporarily) and signed a joint declaration compromising on IMF conditions: ensuring the independence of the NBU, making changes to the state's bank recapitalization program and canceling contentious articles in the state budget law for 2009.

However, the political maneuvering in Kiev did not go unnoticed and the political elite are steadily losing support of the electorate. The fresh Ternopil region council elections resulted in a victory for the two formerly fringe political forces: nationalist right-wing party Svoboda (34 percent) and United Center (14 percent), while Yulia Tymoshenko's Block got only 8 percent of the vote in the region it won by a landslide in the last two parliamentary elections. This result is a clear indication that the populace apportions blame for the continuing economic downturn on the current leadership.

The Ukrainian economy proves to be hit hard by the current economic crisis. Ukraine's industrial production dropped 3.1% in 2008, following the monthly decline of 26.6% month on month in December – the largest drop in Europe. In 2008, output in metallurgy fell 10.6 percent year on year, in chemicals 6.2 percent year on year, in mining 2.4 percent year on year. The end-of-year decline was even more dramatic, with metallurgy still being on average 50 percent down year on year after some revival in the early 2009. But the global downturn would have been more damaging to the country had it not been for the hryvnia depreciation.

After a roller coaster ride in December, the Ukrainian hryvnia became relatively stable in January, fluctuating from 8.75 UAH/USD and ending at 7.85 UAH/USD by month's end. The FX market calmed down somewhat, supported by tighter monetary and fiscal policies, lower gas imports and regular NBU interventions. In February, the attack on local currency briefly resumed, following the increased political instability. Currently, expectations of the second IMF tranche and thus lower risk of Ukraine's default are bringing equilibrium to the FOREX market and may result in some recovery of the hryvnia.

A weaker hryvnia has added to the inflation pressures, bringing end-2008 CPI to 22.3 percent year on year. As much of the exchange rate pass-through has already happened, the consumer inflation should slow to 14 percent year on year by end-2009.

Ukraine

Brief update on the companies in the Vostok Nafta portfolio

Poltava GOK was founded in 1970 as a State-owned company but is currently owned by Ferrexpo, the twelfth largest iron ore producer in the world, who has a controlling 86 percent stake. Poltava is one of the largest mining companies in Ukraine and the country's foremost exporter of iron ore pellets. During 2007 the company produced 9 million tonnes of pellets while it had 2.4 billion tonnes of reserves. 83 percent of the company's production is exported to eastern and central Europe as well as China.

The company announced that its 2008 output was down 0.6 percent year-on-year, quite a modest cut considering last year's generally deteriorating economic environment. The company's focus on Europe and China keeps its capacity load at 60 to 70 percent in 2009, even with a planned 10 to 20 percent percent production decline. The company's cash balance and operating cash flows make its debt repayment obligations this year look feasible. The stock was battered during 2008, and trades at a significant discount to its peers.

Poltava GOK: Financial summary

	2007	2008	2009E
Sales	558	861	637
EBITDA	141	327	226
Net income	69	157	119
EBITDA margin	25.3%	38.0%	35.5%
Net margin	12.4%	18.2%	18.7%

Source: Dragon Capital, Troika Dialog

Dakor is a sugar producer from Western Ukraine, which uniquely balances agriculture (sugar beet production) with sugar milling capacity. Currently, Dakor operates 4 sugar mills and has around 5 percent of the Ukrainian sugar market. The company plans to increase the 113 000 hectares of land leased by 33 percent and the sugar milling capacity by 43 percent in order to reach a share of over 10 percent of the sugar market by 2010. Nearly half of the production is directly supplied to industrial customers such as Konti, Ukraine's second largest confectionary. The company also plans to diversify its production as existing facilities to ethanol which can be made out of by-products.

The company announced that its production in 2008 amounted to 88,000 metric tonnes of sugar (down 12 percent year-on-year), making the company a top-5 sugar producer (from 6th place in 2007) on the Ukrainian market, with a 6 percent market share. Last season the company increased the share of its own sugar beets used in production to 89 percent from 76 percent in 2007. Dakor boosted its area sown with winter crops for harvest in 2009 by 10 percent year-on-year to 32,000 hectares (19,400 hectares of wheat, 9,800 hectares of rapeseed, 1,800 hectares of barley and 1,000 hectares of rye).

TKS Real Estate (Waymore Holding) is a real estate developer in western Ukraine with presence throughout the development phases, from the search for suitable land till leasing of property. The company's operations include real estate development and construction as well as concrete production. At the end of 2008, the company's property portfolio consisted of 17 projects with a total area of 248,000 square meters of which 65 percent consisted of commercial properties and 35 percent of residential properties.

The company announced that it will focus on completing projects that are nearest to completion and developing its concrete business in 2009. TKS stated that it expects to commission a 2,900 m^2 shopping centre in Boryslav in the second quarter of 2009, a residential project (Lisova Pisnya) in Truskavets in July and a 13,500 m^2 shopping centre in Drohobych during the third quarter. All of the projects are located in the Lviv region of Western Ukraine.

Steppe Cement
Steppe Cement is set to become the largest cement producer in Kazakhstan when its two refurbished dry-line facilities come on stream. The operations are located at a single site near Aktau village in central Kazakhstan. Steppe Cement owns limestone and clay quarries located adjacent to the production plant which gives the company ample supply. Other input supplies such as electricity, water, iron ore and coal are readily available from regional suppliers. In 2008, Steppe Cement produced 0.9 million tonnes of cement which is expected to increase to 3.2 million tonnes by 2010 giving it a market share of 30 percent. With an experienced management team present as a large shareholder and cost efficient operations the company is developing into one of the most cost efficient cement producers in Central Asia with a close proximity to several untapped markets.

The general economic conditions have impacted the cement industry in Kazakhstan causing substantial price reductions during the last quarter of 2008 and the beginning of 2009. During the start of the year local cement prices are expected to be in range of USD 70 per tonne with downside risks from headwinds in the real estate sector. Very few plants in Central Asia can sell below that price given their cost structure.

As a result of the fading demand Steppe Cement's subsidiary has sent 50 percent of its employees on temporary leave because of production cuts on the less efficient wet lines. The move will help Steppe Cement to manage operating costs more efficiently. Further production levels from the wet lines will depend on the market environment going forward. The company has the viable option to shut down the wet lines permanently and still retain a high share of the market. With a high capacity in the more efficient dry lines, and using coal as the main fuel, Steppe Cement still has the potential to become the most competitive cement producer in Central Asia.

In February the Kazakh National Bank abandoned support of the local currency, sending the exchange rate to a level of KZT/USD 150 implying a devaluation of close to 20 percent. The Tenge devaluation will have a negative effect on Steppe Cement. The company has USD 61 million in dollar-denominated debt thus increasing the principal due in 2009 by USD 2.3 million to USD 13.8 million. The bulk of interest and repayments comes due in August 2011 and second quarter of 2013. Refinancing risks, while present, remain limited and would be augmented only by sustained depressed cement prices (i.e. no economic recovery within 3 years) as Steppe Cement generates annual operating cash flows of around USD 30 million even in the current challenging environment. The company has also managed to obtain short-term funding, which is common practice during off-season, from Halyk Bank and HSBC.

Alrosa
Alrosa is the world's second largest rough diamond producer. The company, which is located in Yakutia, accounts for 97 percent of Russia's total diamond production, and approximately 25 percent of global rough diamond production. Alrosa operates alluvial, open pit and underground mines with an estimated explored reserve life of 25 years, and seven primary ore treatment production plants with an estimated throughput capacity of 30 million tonnes per year. In 2008 Alrosa produced diamonds for a total value of USD 2.3 billion, representing a 1.7 percent decline. Rough diamonds are primarily sold to the jewellery industry, but are also used for the production of industrial abrasives (non gem diamonds). The company itself cuts and polishes a small share of its production at the subsidiary Brillianty Alrosa. Beside its

Russian operations, Alrosa also has a large interest in a diamond production company in Angola.

Alrosa has stated a USD 2.5 billion capital expenditure plan for its mining operations in order to replace decreasing production from open pit mines with output from underground operations. Demand for the company's production has softened which in turn has led to a weaker pricing environment and the Russian government stepping in to buy some 10 percent of the company's production in 2008. The government has also amended the budget and quadrupled the State Reserve Fund's diamond purchases from Alrosa for 2009 to RUB 45 billion representing about 50 percent of the company´s average annual sales. The State Reserve Fund will fund these purchases through disposals of its gold reserves in the market. Alrosa's focus going forward is maintaining overall diamond production as well as profitability. Cost pressures for inputs have decreased and Alrosa has also benefitted by the depreciation of the rouble.

In December 2008 Alrosa received a 1.5 year loan of RUB 44 billion from VTB, that refinanced all of its then short-term debt and very timely replaced a chunk of foreign currency denominated debt with ruble-denominated obligations. The company's foreign debt totals USD 900 million of which 500 million is a Eurobond maturing in 2014 and 400 million is a syndicated loan that matures in 2012.

The short term trigger for the stock will likely be the restructuring of the company which has been somewhat delayed given the difficult environment. Alrosa currently has the form of a closed joint-stock company where shares can only be bought and sold with the approval of the other shareholders. The largest shareholders are the Russian state, who owns a controlling stake with 50 percent +1 share, and the Republic of Sakha (Yakutia). Currently 10 percent of the company is held by non-government owners which are expected to increase as the company's legal structure changes. A longer term revaluation trigger, apart from being a low valued global diamond producer, is Alrosa's possible role as a consolidator of parts of the Russian mining industry. Alrosa has a large potential to acquire attractive assets and licences in Russia via the backing of the government and local regions. Alrosa also has a substantial value in non-core assets within oil, gas, iron ore and other sectors. There are clear similarities to Gazprom's situation in 1996 with immense assets, government involvement and a lack of transparency which results in a low valued company. This will likely change with an increased interaction with capital markets and a change of legal structure during the years to come.

Caspian Services

Caspian Services Incorporated ("CSI") offers services to Oil and Gas companies active within the Caspian Sea region with the State of Kazakhstan as its largest client. The company is active within three service sectors: marine and geophysical services as well as infrastructure development for the extraction of oil and gas.

The activity in the Kazakhstani oil services sector by the Caspian Sea is growing steadily as the enormous Kashagan project, entailing capital expenditures of USD 136 billion and operational expenditures of USD 100 billion over 40 years, as well as 5 other offshore projects are to be developed. This activity will drive demand for seismic services, marine vessels as well as other supporting infrastructure services which CSI is well positioned to deliver on.

Major international oil companies present in the region are unlikely to scale down their activities and investments in the future under the threat from the government of losing licenses. As a result, exploration and production expenditures in the area are not too likely to be cut, leaving CSI well positioned to win a substantial part of future contracts given their focus on quality and ecology, as well as safety.

The company's revenues from renting out marine fleets have increased to match the levels of the geophysical services. Revenues for marine vessels increased by 54 percent in 2008 to USD 36 million, which represents 50 percent of total sales with an EBITDA-margin of 14 percent. The orders backlog for CSI's vessels reaches into 2011. At the same time the company has diversified its client base relieving dependence on one single customer. Geophysical revenues amount to 48 percent of total revenues and is expected to develop nicely going forward. CSI is also in the process of building a marine base in order to address the lack of marine infrastructure support in the region. Upon completion in 2010 this segment is also expected to grow into a significant revenue stream for the company.

CSI enjoys a good reputation among western and local clients thanks to its experienced management combining international expertise with local knowledge. During 2008 the company won a major offshore seismic contract from Shell and expects several more from other consortia in the future. 2009 is currently forecasted by management to be the best year ever for the company, with revenues reaching USD 104 million and EBITDA approaching USD 30 million. As of November 2008 the company has a new CEO who will be focusing more on efficiency, development and corporate matters.

RSC Energia

RSC Energia is Russia's equivalent of NASA as the company is the main supplier of space technology to the Russian Federal Space Agency (FSA). The company was established in 1946 and has been involved in all of Russia's milestones within space technology. From the world's first satellite to the Yury Gagarin space flight in 1961 and now with Russia's contribution to the International Space Station (ISS). An increased state budget for defence and space technology benefits Energia. The company is also involved in the rollout of GLONAS which is Russia's equivalent of the GPS satellite system with a budget of 2.5 billion USD.

Energia recently signed a contract worth USD 1 billion with NASA to deliver nine vehicles from 2009 to 2011. In the coming years the company also plans to double its number of launches to the ISS, as NASA is shutting down its own shuttle program and will cooperate with the FSA and Energia to deliver US personnel and cargo to the ISS using Russian space vehicles. The size of NASA's programme is substantial, and this cooperation will last until at least 2014. At present industry experts estimate that the consortium has an order book worth 2 billion dollars in total. The company also owns land areas in the Moscow region, which is valued higher than the company's market value.

Given its unique importance for the Russian space program, the state will provide all necessary financial support for the company. At present the FSA provides all financing under state programs and strictly controls the company's cash flows, not allowing it to reap excess returns from its unique position. This is likely to change over time as the company increases the share of commercial services.

A new management was recently appointed which is set to focus on creating value for its shareholders. Corporate governance has also improved as Andrei Muraviev is now an independent director representing minority shareholders on the board.

RSC Energia: Financial summary

USD million	2007	2008E	2009E	2010E
Revenues	489	552	525	645
EBITDA	66	70	73	84
Net income	8	11	12	13

Source: Troika Dialog

The Vostok Nafta share

Share information
All the shares carry one vote each. The shares are traded as depository receipts (SDR) in Stockholm, where E. Öhman J:or Fondkommission AB is the custodian bank. The shares are not subject to trading in Bermuda. A depository receipt carries the same dividend entitlement as the underlying share and the holder of a depository receipt has a corresponding voting right at shareholders meetings. The holder of a depository receipt must, however, follow certain instructions from the custodian bank in order to have the right to participate in shareholders meetings.

Dividend policy
The Board of Vostok Nafta considers it highly desirable and important to be able to issue dividends to the shareholders. Although no dividend has been proposed for the year, it is the company's intention in the long term to create a well balanced disposition of profits betweend dividends and reinvestments in the company.

Information about the net asset value
Vostok Nafta publishes a monthly estimated net asset value, no later than the 10th of the respective month. This value is issued to the market via press releases and is also distributed via e-mail. In addition it is available on Vostok Nafta's webpage: www.vostoknafta.com. A more exact net asset value is published in the quarterly reports.

Potential net asset discount
With a view to limiting a possible net asset discount, the Vostok Nafta articles of association provide that the Company may buy back its own shares. Such purchases may be made within the stipulated capital limits, provided that the bought back shares are immediately cancelled.

During the year, no shares were repurchased.

The market
The Vostok Nafta share (SDR) is traded on the NASDAQ OMX Nordic Exchange Stockholm (previously the Stockholm Stock Exchange), Mid Cap segment since July 4, 2007.

Share turnover
The average daily turnover during the period January 1, 2008 to December 31, 2008, was 130,000 shares. During the quarter October 1, 2008 to December 31, 2008, the average daily turnover was 278,000 shares. Trading has been conducted 100% of the time.

Codes Assigned to Vostok Nafta's Share
Recent and historic quotes for Vostok Nafta's share are easily accessible on a number of business portals as well as via professional financial and real-time market data providers. Below is a list of the symbols and codes under which the Vostok Nafta share can be found.

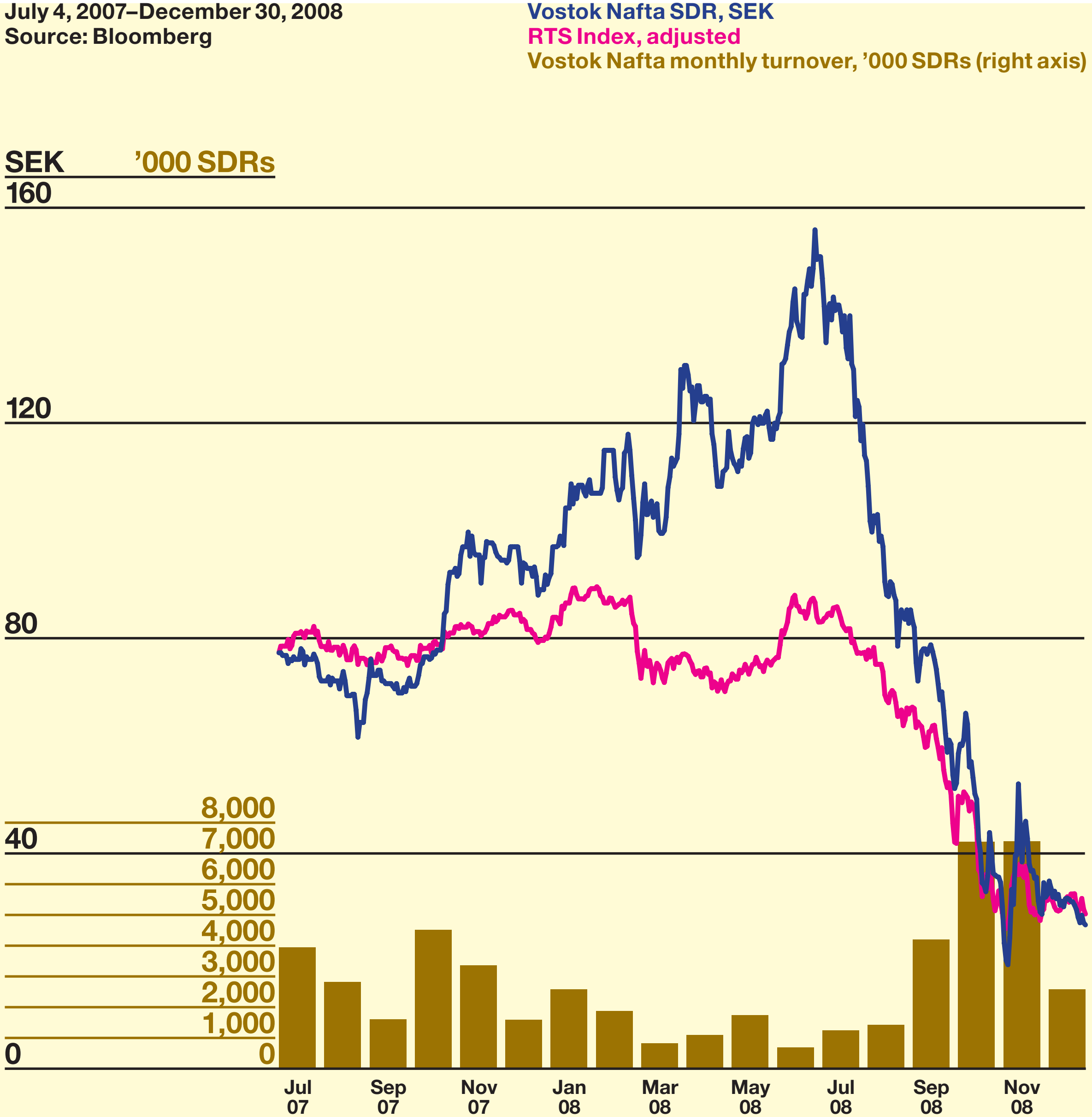
ISIN Code	SE0002056721
NASDAQ OMX Nordic Exchange short name (ticker)	VNIL SDB
Reuters	VNILsdb.ST
SAX/Ecovision	VNIL SDB
Bloomberg	VNIL:SS

Largest shareholders as per December 30, 2008
The shareholder list below as at December 30, 2008, shows the ten largest owners at that time. The number of shareholders in Vostok Nafta on December 30, 2008 amounted to around 15,800.

Owner	Holding, SDRs	Holding, percent
Lorito Holdings (Guernsey) Ltd*	14,000,000	30.42%
4th Swedish National Pension Fund	3,114,360	6.77%
AFA Insurance	1,821,540	3.96%
Nordea Funds	784,072	1.70%
SEB Funds	709,545	1.54%
Handelsbanken/SPP Funds	517,662	1.12%
Avanza Pension Insurance	508,729	1.11%
Pershing, LLC	507,081	1.10%
Skandia Liv	411,125	0.89%
Nordnet Pension Insurance	306,472	0.67%
10 largest owners	22,680,586	49.28%
Other foreign owners and nominees	13,900,750	30.21%
Other, approx. 15,800 Swedish owners and nominees	9,439,565	20.51%
Total	46,020,901	100.00%

Source: Euroclear Sweden AB and holdings known to Vostok Nafta.

* Lorito Holdings (Guernsey) Ltd is an investment company wholly owned by a trust whose settler is the Lundin family.



Vostok Nafta share price development

The Vostok Nafta share

Background
Vostok Nafta Investment Ltd ("Vostok Nafta", the "Company") was incorporated in Bermuda on April 5, 2007 with corporate identity number 39861. The Swedish Depository Receipts (SDR) representing the Vostok Nafta shares are listed on the NASDAQ OMX Nordic Exchange Stockholm, Mid Cap segment, ticker: VNIL SDB. There were approximately 15,800 shareholders as at the end of December 2008.

The Vostok Nafta Group was formed in connection with the restructuring of the Vostok Gas Group, which was carried out in 2007. The restructuring entailed a purchase of Vostok Komi (Cyprus) Limited and its subsidiary Vostok Nafta Sverige AB from Vostok Gas, and the subsequent transfer of non-Gazprom assets from the Vostok Gas Group to the Vostok Nafta Group.

Group structure
As of December 31, 2008, the Vostok Nafta Group consisted of the Bermudian parent company Vostok Nafta Investment Ltd; one wholly-owned Bermudian subsidiary, Vostok Holding Ltd; one wholly-owned Cypriot subsidiary, Vostok Komi (Cyprus) Limited; three wholly-owned Russian subsidiaries, ZAO Baikal Energy, OAO Resurs-Invest and OOO Resursniye Investitsii; and one wholly-owned Swedish subsidiary, Vostok Nafta Sverige AB.

Vostok Komi (Cyprus) Limited is responsible for the group's portfolio management.

Operating policy
Business concept
The Company's business concept is to use experience, expertise and an existing network to identify and invest in assets with considerable value growth potential, with the focus on Russia and the other CIS states.

Mission
The Company's overriding aim is to create value for its shareholders through good long-term returns on its investments and a strong growth in its net asset value.

Strategy
The Company shall create value through professional investing activities, building on a structured process for continuous analysis of both current and prospective acquisitions. As far as possible, the Company is to be an active owner and, as such, help to create further value by leveraging its experience, expertise, network and strong brand. The Company is to have a long-term investment horizon.

Investment strategy
The bulk of the portfolio holdings are to be shares in listed companies, but this does not rule out investments in unlisted companies. The Company will evaluate and invest primarily, but not exclusively, in countries from the former Soviet Union. The Company will concentrate primarily, but not exclusively, on the gas, oil and energy sectors. The principal geographical focus will be on Russia, which has the highest proportions of oil and gas reserves. The composition of the portfolio holdings is not to follow any particular index, nor will there be any precise sector weights or weight restrictions for individual holdings. Positions may depart from customary index weights. The portfolio must normally contain good distribution of risk. There will be no formal restrictions on the distribution between liquid and less liquid assets. Normally, however, the portfolio is to be fully invested, which generally entails transaction liquidity of 1–5 percent of the portfolio's value.

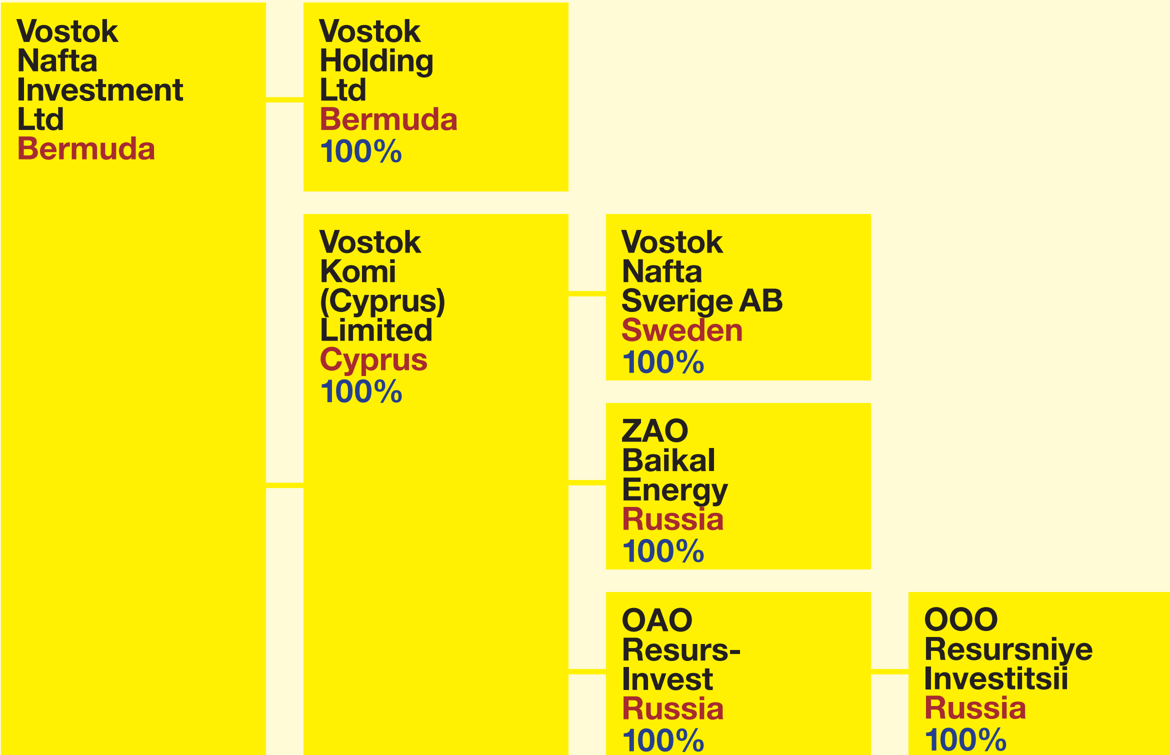
Organisation of activities
The Board of Directors meets in person at least twice a year and more frequently if needed. In addition to this, meetings are conducted by telephone conference when necessary. Between meetings, the Managing Director has regular contact with the Chairman of the Board and several other Board members. The Board of Directors adopts decisions on overall issues affecting the Vostok Nafta group.

The Managing Director manages the company's day-to-day activities and prepares investment recommendations in cooperation with the other members of the Investment Committee. The Chairman also holds an executive position and takes part in the work of the company on a daily basis.

Recommendations on investments are made by the Investment Committee, which operates from London, made up of three representatives from the Board of Directors. Two members of the Investment Committee (i.e., a majority) can together issue recommendations. The Board of Directors of Vostok Komi (Cyprus) Limited subsequently takes the investment decisions.

More information on the organisation of the Company's activities is provided in the Administration Report and the Corporate Governance Report below.

Company information



Vostok Nafta Group

Company information

The Vostok Nafta Group was formed during 2007 in connection with the restructuring of Vostok Gas Ltd Group. In addition to a sale of Vostok Komi (Cyprus) Limited and Vostok Nafta Sverige AB to Vostok Nafta Investment Ltd, the restructuring of the Vostok Gas Group also entailed a transfer of non-Gazprom related assets to the Vostok Nafta Group and a sale of the shares in RusForest Ltd and RusForest (Cyprus) Ltd to Vostok Komi and a third party.

The financial statements have been prepared as if the restructuring of Vostok Gas was carried out on September 30, 2003, and comprises the consolidated accounts of the companies that are (or would have been) included in the Vostok Nafta Group; i.e. Vostok Komi (Cyprus) Limited, Vostok Nafta Sverige AB, RusForest Ltd and RusForest (Cyprus) Ltd. The restructuring of the Group further implies that items of the income statement and the balance sheet that relate to non-Gazprom assets, which formerly have been recognized in the accounts of other companies of the Vostok Gas Group, are now included in the consolidated financial statements of Vostok Nafta.

The transactions by which Vostok Nafta acquired the companies mentioned above and the non Gazprom related assets, which have been recognized in other companies of the Vostok Gas Group, comprises transactions between companies under common control. These transactions are being recognized to the same values as they were in the selling company, in accordance with the predecessor accounting method. For further information, see note 1 in the notes to the Financial statements.

Income statement in brief

(Expressed in USD thousand)	Jan 2008–Dec 2008 (12 months)	Jan 2007–Dec 2007 (12 months)	Jan 2006–Dec 2006 (12 months)	Oct 2004–Dec 2005 (15 months)	Oct 2003–Sep 2004 (12 months)
Result from financial assets	–550,917	282,157	61,908	126,066	41,514
Other operating income	10,673	10,355	12 541	4 726	2 914
Total income	–540,244	292,512	74,449	130,792	44,428
Operating expenses	–8,716	–5,705	–3,441	–3,821	–3,520
Russian dividend withholding tax expenses	–1,381	–1,499	–1 897	–691	–437
Other operating expenses	–15	–	–	–	-
Operating result	–550,356	285,309	69,111	126,280	40,471
Net financial items	–6,988	–2,155	610	3 209	7 777
Result before tax	–557,344	283,154	69,721	129,488	48,248
Tax	956	–389	–88	–502	–60
Net profit for the period	–556,388	282,765	69,633	128,986	48,188

Balance sheet in brief

(Expressed in USD thousand)	Dec 31, 2008	Dec 31, 2007	Dec 31, 2006	Dec 31, 2005	Sep 30, 2004
Non current fixed assets	510	545	316	92	–
Non current financial assets	266,874	822,394	387,182	185,138	98,473
Current financial assets	27,847	4,197	–	995	995
Cash and cash equivalents	29,198	27,528	5,124	7,212	5,118
Other current receivables	2,727	4,568	969	16,631	49,966
Total assets	327,156	859,232	393,591	210,068	154,552
Equity	247,893	803,954	385,043	209,532	154,426
Deferred tax liability	19	1,358	11	–	–
Current tax liability	498	106	585	509	80
Other current liabilities	78,746	53,814	7,952	27	46
Total equity and liabilities	327,156	859,232	393,591	210,068	154,552

Cash flow in brief

(Expressed in USD thousand)	Jan 2008–Dec 2008 (12 months)	Jan 2007–Dec 2007 (12 months)	Jan 2006–Dec 2006 (12 months)	Oct 2004–Dec 2005 (15 months)	Oct 2003–Sep 2004 (12 months)
Cash flow from/used in operating activities	–22,607	–162,982	–108,225	76,079	–1,158
Cash flow used in investing activities	–146	–300	–264	–97	–
Cash flow from/used in financing activities	26,119	185,673	106,375	–73,880	1,643
Cash flow for the period	3,366	22,391	–2,114	2,102	485
Exchange rate differences in cash and cash equivalents	–1,696	13	26	–8	–207
Cash and cash equivalents at the beginning of the period	27,528	5,124	7,212	5,118	4,840
Cash and cash equivalents at the end of the period	29,198	27,528	5,124	7,212	5,118

Financial summary

Key ratios

(Expressed in USD thousand if not stated otherwise)	Jan 2008– Dec 2008 (12 months)	Jan 2007– Dec 2007 (12 months)	Jan 2006– Dec 2006 (12 months)	Oct 2004– Dec 2005 (15 months)	Oct 2003– Sep 2004 (12 months)
Growth					
Equity ratio, percent	75.77	93.57	97.83	99.74	99.92
Risk bearing capital					
Return on equity, percent	–105.79	47.56	20.88	70.88	37.94
Return on capital employed, percent	–97.23	46.04	20.88	70.88	37.94
Debt/equity ratio, multiple	31.42	6.21	–	–	–
Interest coverage ratio, multiple	–81	77	–	–	–
Share data					
Net asset value, MUSD	248	804	385	210	154
SEK/USD	7.8644	6.4683	6.85	7.94	7.27
Net asset value, MSEK	1,950	5,200	2,638	1,667	1,123
Net asset value development in USD, percent	–69	109	84	35	48
RTS Index	632	2,291	1,922	1,126	632
Development RTS Index, percent	–72	19	71	78	11
Dividends	–	–	–	–	–
Dividend/share	–	–	–	–	–
Yield, percent	–	–	–	–	–
Share data					
Net asset value per share, USD	5.39	17.47	8.34	4.55	3.36
Net asset value per share, SEK	42.36	113.00	57.31	36.15	24.39
Number of shares outstanding at year-end	46,020,901	46,020,901	46,020,901	46,020,901	46,020,901
Weighted average number of shares outstanding	46,020,901	46,020,901	46,020,901	46,020,901	46,020,901
– diluted	46,020,901	46,020,901	46,020,901	46,020,901	46,020,901
Employees					
Average number of employees during the period	16	9	10	9	8

Share data

The company was incorporated in 2007 and had until the utilization of the warrants in July 2007 only one share. The number of shares used for showing meaningful per share data for all periods has been the number of shares achieved after the utilization of the warrants.

Definitions of the key ratios

Equity ratio, percent Equity ratio is defined as Shareholders' equity in relation to total assets.

Return on equity, percent Return on equity is defined as result for the year divided by average equity.

Return on capital employed, percent Return on capital employed is defined as net 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 year).

Debt/equity ratio, multiple Debt/equity ratio, multiple is defined as interest-bearing liabilities in relation to Shareholders' equity.

Net asset value development in USD, percent Change in net asset value in USD per share compared with previous accounting year, in percent.

RTS Index A Russian stock market index consisting of Russia's 50 most liquid and capitalized shares. The RTS Index is denominated in USD.

Development of RTS index Change in index compared to previous accounting year.

Net asset value Net asset value is defined as shareholders' equity.

Net asset value per share, USD Shareholders' capital divided by the number of shares outstanding at year-end.

Board, management and auditors

Board of Directors

Lukas H. Lundin
Chairman

Swedish citizen, born 1958. Member of the board since 2007. Committee assignments in Vostok Nafta: compensation committee, investment committee. Professional and educational background: Senior Director of Lundin Oil AB and president of International Musto Exploration Limited for over 12 years. Mr. Lundin holds a degree in mining engineering from The New Mexico Institute of Mining and Technology. Mr. Lundin is Managing Director of Namdo Management Services Ltd. Other significant board assignments: Chairman of Lundin Mining Corporation, Denison Mines Corp., Red Back Mining Inc., Suramina Resources Inc., Canadian Gold Hunter Corp. and Atacama Minerals Corp. Member of the boards and/or the senior management of Lundin Petroleum AB, Bannockburn Resources Ltd., Fortress Minerals Corp., Lucara Diamond Corp. and Pearl Exploration and Production Ltd. Holdings in Vostok Nafta: 40,000 depository receipts. Salary and remuneration: USD 76 thousand. No agreement regarding severance pay or pension.

Al Breach
Board member

British citizen, born 1970.Member of the board since 2007. Professional and educational background: From the beginning of 2003 until October 2007 Al Breach held, among other positions, the position of Managing Director and Analysis Manager at the Brunswick UBS/UBS in Moscow's Research Department. Al Breach has been Russia and CIS economist at Goldman Sachs, and Fund Manager at Rothschild Asset Management in London. Al Breach holds a degree in economics from the London School of Economics and a degree in mathematics from the University of Edinburgh. From February 2008 until the present Al Breach holds the position of Managing Partner at The Browser, an Internet start-up which he is helping to set up, in New York/London. Holdings in Vostok Nafta: none. Salary and remuneration: USD 29 thousand. No agreement regarding severance pay or pension.

Per Brilioth
Managing Director and board member

Swedish citizen, born 1969. Member of the board and Managing Director since 2007. Committee assignments in Vostok Nafta: investment committee. Professional and educational background: Between 1994 and 2000, Per Brilioth was head of the Emerging Markets section at Hagströmer & Qviberg and he has worked close to the Russian stock market for a number of years. Per Brilioth is a graduate of Stockholm University and holds a Master of Finance from the London Business School. Other significant board assignments: Chairman of Black Earth Farming Ltd, member of the boards of Kontakt East Holding AB, X5 Group AB, Port Capital AB, Aktiebolag H Bukowskis Konsthandel, Bukowski Strandvägen Auktioner Aktiebolag, Bukowski Real Estate AB, Bukowski Auktioner Aktiebolag, Bukowski Holding AB, Port Capital Holding AB and Konsthandels Aktiebolaget Nybroviken. Holdings in Vostok Nafta: 160,000 depository receipts and 250,000 call options. Salary and remuneration: USD 431 thousand. Agreement regarding severance pay and pension: Brilioth has the right of twelve months full salary in the event of termination of appointment on the part of the company. Should he himself decide to resign, he must observe six months notice of termination. Brilioth also has a pension plan in accordance with the Swedish ITP standards.

Paul Leander-Engström
Board member

Swedish citizen, born 1966. Member of the board since 2007. Committee assignments in Vostok Nafta: compensation committee, investment committee. Professional and educational background: Co-founder and former Managing Director of Prosperity Capital Management (SE) AB and former partner/co-head of research at Brunswick Warburg Moscow. Paul Leander-Engström holds a degree in business administration from the Stockholm School of Economics and a law degree from Stockholm University. Other significant board assignments: member of the boards of Talking People AB, Ture Invest AB, Maskrosen Invest AB and Ture Promotion Capital AB. Holdings in Vostok Nafta: 37,000 depository receipts. Salary and remuneration: USD 41 thousand. No agreement regarding severance pay or pension.

Torun Litzén
Board member

Swedish citizen, born 1967. Member of the board since 2007. Committee assignments in Vostok Nafta: audit committee. Professional and educational background: Director of Investor Relations at Investment AB Kinnevik. Torun Litzén holds a degree in business administration from the Stockholm School of Economics. Other significant board assignments: Vosvik AB and Transcom Worldwide S.A. Holdings in Vostok Nafta: 400 depository receipts. Salary and remuneration: USD 43 thousand. No agreement regarding severance pay or pension.

Ian H. Lundin
Board member

Swedish citizen, born 1960. Member of the board since 2007. Committee assignments in Vostok Nafta:

audit committeee, nominating committee. Professional and educational background: Former Managing Director of Lundin Petroleum AB and Lundin Oil AB and Managing Director and CEO of International Petroleum Corporation. Ian H. Lundin holds a petroleum engineering degree from the University of Tulsa. Other significant board assignments: Chairman of Lundin Petroleum AB. Holdings in Vostok Nafta: 40,000 depository receipts. Salary and remuneration: USD 43 thousand. No agreement regarding severance pay or pension.

William A. Rand
Board member
Canadian citizen, born 1942. Member of the board since 2007. Committee assignments in Vostok Nafta: audit committee. Professional and educational background: President of Rand Edgar Investment Corp. and member of the boards of a number of public companies including Canadian Gold Hunter Corp., Denison Mines Corp., Dome Ventures Corporation, Lundin Mining Corp., Lundin Petroleum AB, New West Energy Services Inc., Pender Financial Group Corporation and Suramina Resources Inc. William A. Rand holds a degree in Commerce from McGill University, a law degree from Dalhousie University and a Masters in International Law from the London School of Economics. Holdings in Vostok Nafta: 85,000 depository receipts. Salary and remuneration: USD 50 thousand. No agreement regarding severance pay or pension.

Robert J. Sali
Board member
Canadian citizen, born 1962. Member of the board since 2007. Committee assignments in Vostok Nafta: compensation committee. Professional and educational background: Mr. Sali has been active in the financial world since 1987 at the brokerage firms of Lévesque Beaubien Inc. and BMO Nesbitt Burns. In 1999 Robert J. Sali established the operation of Dundee Securities Corporation in western Canada, where he directed operations in the Equity Sales and Trading departments. Mr. Sali is currently employed by Dundee Securities Corporation as senior investment adviser. Holdings in Vostok Nafta: 15,000 depository receipts. Salary and remuneration: USD 34 thousand. No agreement regarding severance pay or pension.

Group management

Per Brilioth: Managing Director. See also heading “Board of Directors” above.

Anders Sjöberg: Chief Financial Officer. Swedish Citizen, born 1970. Employed since 2007. Holdings in Vostok Nafta: 30,000 call options.

Sergei Glaser: Analyst. British citizen, born 1958. Employed since 2007. Holdings in Vostok Nafta: 47,100 depository receipts.

Anders F. Börjesson: Legal counsel. Swedish citizen, born 1971. Employed since 2008. Holdings in Vostok Nafta: 1,500 depository receipts.

Auditors

PricewaterhouseCoopers AB
Klas Brand, born 1956. Authorised public accountant, Lead Partner. Auditor in the Company since 2007. PricewaterhouseCoopers AB, Göteborg, Sweden.
Bo Hjalmarsson, born 1960. Authorised public accountant, Partner. Auditor in the Company since 2007. PricewaterhouseCoopers AB, Stockholm, Sweden.

The Board of Directors and the Managing Director of Vostok Nafta Investment Limited hereby present the annual report for the financial year January 1, 2008–December 31, 2008.

Group structure and operations

Vostok Nafta Investment Ltd ("Vostok Nafta", or "the Company") was incorporated in Bermuda on April 5, 2007 with corporate identity number 39861. A change of name from Vostok Nafta Holding Investment Ltd was made effective in June 2007.

The Vostok Nafta Investment Ltd Group was formed in connection with the restructuring of Vostok Gas Group, which was carried out in 2007.

As at December 31, 2008 the Group consists of one Bermudian parent company, one wholly owned Bermudian subsidiary, one wholly owned Cypriot subsidiary, three wholly owned Russian Subsidiaries and one wholly owned Swedish subsidiary. The group's portfolio management activities are performed through Vostok Komi (Cyprus) Limited.

Vostok Nafta Investment Ltd has a representative office in London, and Vostok Komi (Cyprus) Limited has a representative office in Moscow.

Group Result

During the period, the result from financial assets at fair value through profit or loss amounted to USD –363.26 (158.41) mln. Result from investments in associated companies was USD –180.56 (123.69) mln. Dividend income was USD 9.65 (10.09) mln. Result from loan receivables was USD –7.09 (0.06) mln, which is mainly a foreign exchange loss when revaluating the loan receivables denominated in Russian Roubles into US dollars.

Operating costs were USD –8.72 (–5.71) mln.

Net financial items were USD –6.99 (–2.16) mln.

Net result for the period was USD –556.39 (282.77) mln.

Vostok Nafta has calculated the fair value of the Company's unlisted investments as per December 31, 2008. The fair value has been appraised in order to assure that the investments are carried at no more than the recoverable amount. Vostok Nafta's assessment of the fair value of the equity held in Tinkoff Credit Systems and Vosvik/Kontakt East has resulted in impairments of USD 8.15 mln and USD 18.53 mln, respectively. Vostok Nafta's assessment of the fair value of RusForest has resulted in that the estimated recoverable amount does not fall below the carrying amount.

Vostok Nafta's assessment of its other unlisted investments is that the current carrying amount at acquisition cost represents fair value.

Portfolio performance

During the period January 1, 2008–December 31, 2008, Vostok Nafta's net asset value per share has decreased by 69.39%. During the same period the Russian RTS index decreased by 72.41% in USD terms.

During the period January 1, 2008–December 31, 2008, the net asset value (NAV) has decreased from USD 803.95 mln to USD 247.89 mln.

During the period January 1, 2008–December 31, 2008, net investments in financial assets were USD –20.42 (151.82) mln. As at December 31, 2008, Vostok Nafta's three biggest investments are Black Earth Farming (24.1%), RusForest (16.9%) and Egidaco/Tinkoff Credit Systems (15.3%).

Debt financing

In June 2008, the company extended and exercised its loan facility with Deutsche Bank from 50 USD mln to 150 mln, and the extended loan facility was exercised in full in the same month. The loan agreement stipulated a date of repayment in May 2009 and a floating interest rate of 200 basis points over LIBOR. On December 23, 2008, USD 100 million was repaid on the loan, and the final unwind of the loan took place after the balance sheet date, in February 2009.

During October and November 2008, the Company raised USD 15.25 million in debt. The debt, which carries an interest rate of 18%, is subordinated to the loans which the Company's subsidiary Vostok Komi (Cyprus) Limited has undertaken and have a time to maturity of 12 months. See further note 26.

Furthermore, on December 16, 2008 the Company raised a short-term bond loan of EUR 10.0 million. The bond loan, which carries an interest rate of 20%, matures on April 15, 2009. In conjunction with the raising of the bond loan, USD 2.0 million was repaid on the loans raised in October and November 2008.

After the end of the period, Vostok Nafta has completed a rights issue, whereby 46,020,901 shares were issued for a consideration of SEK 12 each. Gross of transaction costs, the Company was provided with SEK 552 million. The majority of the proceeds from the rights issue has been used for repayment of borrowings. The Company will continue to work with financial leverage only on a restrictive basis and only during shorter periods of time.

Share data

Vostok Nafta Investment Ltd was incorporated in Bermuda on April 5, 2007 as a limited liability company with a share capital of USD 1 on April 5, 2007. In July 2007, 46,020,900 new shares were issued in exchange for the same amount of warrants in Vostok Nafta and a cash consideration of SEK 22 per share.

Therefore, at the end of December 2007, the number of outstanding shares in the company was 46,020,901, with a par value of USD 1 per share.

Administration report

There were no changes in the share capital of the company during 2008. Therefore, at the end of December 2008, the number of outstanding shares in the company was 46,020,901, with a par value of USD 1 per share.

All shares carry one vote each. The Vostok Nafta share (depository receipt) is quoted on the NASDAQ OMX Nordic Exchange Stockholm; Mid Cap segment.

Board meetings

The board of directors of Vostok Nafta comprises eight members. During the financial year six board meetings have been held. The directors represent a number of nationalities. Board meetings are conducted in English. Three of the board members constitute the investment committee. Two of these three members may together make investment recommendations to the Board of Directors of Vostok Komi (Cyprus) Limited who then takes the formal investment decisions. The Company's Board of Directors has two sub-committees: Audit Committee and Compensation Committee. The work and the composition of the Board and its sub-committees are described in detail in the Corporate Governance Report.

In compliance with the Code, a nomination committee has been established to to make recommendations to the AGM 2009 regarding:

– Election of Chairman
– Election of board members
– Fees for the Chairman
– Fees for board members
– Fees for board committee work
– Election of auditors
– Auditors fees
– Election of the Chairman at the AGM
– Principles for appointment of the Nomination Committee for the AGM in 2010.

The Nomination Committee has been formed with the following members: Ian H. Lundin, appointed by Lorito Holdings Ltd and Member of the Board of Vostok Nafta Investment Ltd; Åsa Nisell, Swedbank Robur Fonder; and Lars Öhrstedt, AFA Insurance.

Remuneration principles for the senior management

The Board of Directors proposes that the management remuneration principles adopted at the Extra General Meeting held on May 18, 2007 shall continue to apply. At the Extra General Meeting, it was resolved to approve the following management remuneration principles etc. The remuneration to the managing director and other members of the senior management shall consist of fixed salary, variable remuneration, other benefits and pension benefits. Except for the managing directors, the senior management currently includes two individuals. The total remuneration shall correspond to the prevailing market conditions and be competitive. The fixed and variable remuneration shall correspond to the respective individual's responsibility and authority. The variable component should, in the first instance, be covered within the parameters of the company's option plan and shall, where payable in other instances, be subject to an upper limit in accordance with market terms and specific objectives for the company and/or the individual. The period of notice of termination of employment shall be three to six months in the event of termination by the member of the senior management. In the event of termination by the company, the total of the period of notice of termination and the period during which severance compensation is payable shall not exceed 12 months. Pension benefits shall be either benefit-based or contribution-based or a combination thereof, with individual retirement ages. Benefit-based pension benefits are conditional on the benefits being earned during a pre-determined period of employment. The Board of Directors shall be entitled to deviate from these guidelines in individual cases should special reasons exist.

Corporate governance report

A complete report on Vostok Nafta's application of the Swedish Code of Corporate Governance, together with a Report on the Internal control, is included in this Annual Report. The Corporate Governance Report and the Report on the Internal control have not been subject to review by the Company's auditors.

Personnel

At year-end, Vostok Nafta had one employee in London. Seven persons were employed by Vostok Nafta Sverige AB in Stockholm. A staff of 16 people worked at the Representative office of Vostok Komi (Cyprus) Limited in Moscow. After the year-end, the number of employees at the Representative office in Moscow has been reduced. For further information see Note 25 in the Notes to the Financial Statements.

Treatment of retained earnings

The group's total retained earnings amount to USD 54,988 thousand.

The board of directors and the managing director propose that the retained earnings of the parent company USD 55,341 thousand, which include the year's loss of USD 279,836 thousand, be brought forward, and that no dividends be paid for the year.

The Board of Directors and the Managing Director declare that the consolidated financial statements have been prepared in accordance with IFRS as adopted by the EU and give a true and fair view of the Group's financial position and results of operations. The financial statements of the Parent Company have been prepared in accordance with IFRS and give a true and fair view of the Parent Company's financial position and results of operations.

The statutory Administration Report and the other parts of the Annual Report of the Group and the Parent Company provides a fair review of the development of the Group's and the Parent Company's operations, financial position and results of operations and describes material risks and uncertainties facing the Parent Company and the companies included in the Group.

Stockholm, April 3, 2009

Lukas H. Lundin
Chairman

Al Breach
Director

Paul Leander-Engström
Director

Torun Litzén
Director

Ian H. Lundin
Director

William A. Rand
Director

Robert J. Sali
Director

Per Brilioth
Director and Managing Director

Income statements – Group

(Expressed in USD thousands)	Note	Jan 1, 2008– Dec 31, 2008	Jan 1, 2007– Dec 31, 2007
Result from financial assets at fair value			
through profit or loss	3	–363,261	158,407
Result from investments in associated companies	4	–180,563	123,693
Dividend income	5	9,646	10,087
Result from loan receivables	6, 26	–7,093	57
Other operating income	7, 26	1,027	268
Total operating income		–540,244	292,512
Operating expenses	8, 25, 26	–8,716	–5,705
Russian dividend withholding tax expenses	5	–1,381	–1,499
Other operating expenses		–15	–
Operating result		–550,356	285,309
Financial income and expenses			
Interest income		2,072	1,225
Interest expense		–6,823	–3,709
Currency exchange gains/losses, net		–1,511	538
Other financial expenses		–726	–210
Net financial items		–6,988	–2,155
Result before tax		–557,344	283,154
Taxation	9	956	–389
Result of the year		–556,388	282,765
Earnings per share (in USD)	10	–12.09	6.14
Diluted earnings per share (in USD)	10	–12.09	6.14

Balance sheets – Group

(Expressed in USD thousands)	Note	Dec 31, 2008	Dec 31, 2007
NON CURRENT ASSETS			
Tangible non current assets			
Office equipment	11	510	545
Total tangible non current assets		510	545
Financial non current assets			
Financial assets at fair value through profit or loss	12, 13	134,180	565,043
Investment in associated companies	12, 14	115,296	248,213
Loan receivables	12, 15	17,384	9,138
Deferred tax assets	9	14	–
Total financial non current assets		266,874	822,394
CURRENT ASSETS			
Cash and cash equivalents	18	29,198	27,528
Loan receivables	12, 16	27,847	4,197
Receivables from related parties	26	60	697
Unsettled trades		–	3,172
Tax receivables		129	98
Other current receivables	17	2,538	601
Total current assets		59,772	36,293
TOTAL ASSETS		327,156	859,232
SHAREHOLDERS' EQUITY			
(including result of the year)	19	247,893	803,954
NON CURRENT LIABILITIES			
Deferred tax liabilities	9	19	1,358
Total non current liabilities		19	1,358
CURRENT LIABILITIES			
Interest bearing current liabilities			
Borrowings	21	77,887	50,438
Non–interest bearing current liabilities			
Tax payables		498	106
Liabilities to related parties	26	–	586
Unsettled trades		–	1,677
Other current liabilities	22	171	141
Accrued expenses		688	972
Total current liabilities		79,244	53,920
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		327,156	859,232

Statement of Changes in Equity – Group

(Expressed in USD thousands)	Share Capital	Additional paid in capital	Retained earnings including net result for the period	Total
Balance at December 31, 2006	–	–	385,043	385,043
Profit for the year	–	–	282,765	282,765
Total recognized income for the				
financial year 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
Assets provided through an				
issue in kind (note 19)	–	–	–10,903	–10,903
Exercise of issued warrants	46,021	–	–46,021	–
Proceeds from new share issue,				
net of transaction costs (note 20)	–	146,351	–	146,351
Currency differences	–	–	97	97
	46,021	146,476	–56,351	136,146
Balance at December 31, 2007	46,021	146,476	611,467	803,954
Loss for the year	–	–	–556,388	–556,388
Total recognized income for the				
financial year January 1, 2008 to				
December 31, 2008	–	–	–556,388	–556,388
Employees share option scheme:				
– value of employee services	–	408	–	408
Currency differences	–	–	–81	–81
	–	408	–81	327
Balance at December 31, 2008	46,021	146,884	54,988	247,893

Cash flow statements – Group

(Expressed in USD thousands)	Jan 1, 2008– Dec 31, 2008	Jan 1, 2007– Dec 31, 2007
OPERATING ACTIVITES		
Result before tax	–557,344	283,154
Adjustment for:		
Interest income	–2,072	–1,225
Interest expenses	6,823	3,709
Currency exchange gains	1,511	–538
Depreciation	136	78
Result from financial assets at fair value		
through profit or loss	363,261	–158,407
Result from investments in associated companies	180,563	–123,693
Result from loan receivables	7,093	–
Dividend income	–9,646	–10,087
Other non-cash items	2,509	2,626
Change in current receivables	2,214	–8,428
Change in current liabilities	–2,493	–5,480
Net cash used in activities	–7,444	–18,291
Investments in financial assets	–350,516	–356,036
Sales of financial assets	370,471	219,482
Increase in loan receivables	–42,219	–9,126
Acquisition of group companies	–	–6,181
Dividend received	8,265	8,588
Interest received	4,942	1,225
Interest paid	–6,073	–1,975
Tax paid	–33	–668
Net cash flow used in operating activities	–22,607	–162,982
INVESTING ACTIVITIES		
Investments in machinery and equipment	–146	–303
Sales of machinery and equipment	–	3
Net cash flow used in investing activities	–146	–300
FINANCING ACTIVITIES		
Proceeds from borrowings	128,119	49,750
Repayments of borrowings	–102,000	–
Proceeds from new share issue	–	146,350
Assets and liabilities provided		
through an owner's contribution	–	–10,903
Proceeds from sale of warrants	–	476
Net cash flow from financing activities	26,119	185,673
Change in cash and cash equivalents	3,366	22,391
Cash and cash equivalents at beginning of the period	27,528	5,124
Exchange losses/gains on cash and cash equivalents	–1,696	13
Cash and cash equivalents at end of period	29,198	27,528

Key financial ratios – Group

	2008	2007
Return on capital employed, % (01)	–97.23	46.06
Equity ratio, % (02)	75.77	93.57
Shareholders' equity/share, USD (03)	5.39	17.47
Earnings/share, USD (04)	–12.09	6.14
Diluted earnings/share, USD (05)	–12.09	6.14
Net asset value/share, USD (06)	5.39	17.47
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

The company was incorporated in 2007 and had until the utilization of the warrants in July 2007 only one share. The average number of shares used for meaningful key financial ratios is the number of shares outstanding after the conversion of the Warrants to shares.

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 by the end of the period.

Income statement – Parent

(Expressed in USD thousands)	Note	Jan 1, 2008– Dec 31, 2008	Jan 1, 2007– Dec 31, 2007
Operating income		184	–
Operating expenses	8	–4,614	–3,464
Write down on shares in subsidiaries	24	–288,692	–
Operating result		–293,122	–3,464
Financial income and expenses			
Interest income	26	14,327	6,735
Interest expense		–655	0
Currency exchange gains/losses, net		–386	–48
Net financial items		13,286	6,687
Net result for the financial year		–279,836	3,222

Balance sheet – Parent

(Expressed in USD thousands)	Note	Dec 31, 2008	Dec 31, 2007
NON CURRENT ASSETS			
Financial non current assets			
Shares in subsidiaries	24	102,253	377,695
Receivables from Group companies	26	175,550	150,795
Total financial non current assets		277,803	528,490
CURRENT ASSETS			
Cash and cash equivalents		3	113
Receivables from related parties		49	6
Other current receivables	17	280	261
Total current assets		332	379
TOTAL ASSETS		278,135	528,870
SHAREHOLDERS' EQUITY			
(including net result for the financial year)	20	248,246	527,674
CURRENT LIABILITIES			
Interest bearing current liabilities			
Borrowings	21	27,790	
Non-interest bearing current liabilities			
Liabilities to group companies	26	1,480	188
Other liabilities	22	2	152
Accrued expenses		617	855
Total current liabilities		29,889	1,195
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		278,135	528,870

Statement of Changes in Equity – Parent

(Expressed in USD thousands)	Share Capital	Additional paid in capital	Retained earnings including net result for the period	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, note 20	–	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
Result for the year			–279,836	–279,836
Total recognized income for the financial period January 1, 2008 to December 31, 2008	–	–	–279,836	–279,836
Employees share option scheme:	–	–	–	–
– value of employee services	–	408	–	408
	–	408	–	408
Balance at December 31, 2008	46,021	146,884	55,341	248,246

Note 1
Introduction

Vostok Nafta Investment Ltd ("Vostok Nafta", or "the Company") was incorporated in Bermuda on April 5, 2007 with corporate identity number 39861.

The Vostok Nafta Group was formed in 2007, in connection with the restructuring of the Vostok Gas Group. Vostok Nafta's business concept is to use experience, expertise and its existing network to identify and invest in assets with considerable value growth potential, with a focus on Russia and the other CIS states.

These group consolidated financial statements were authorised for issue by the board of directors on April 3, 2009.

Effects in the accounting of Vostok Nafta from the restructuring of Vostok Gas

During 2007 a restructuring of Vostok Gas Ltd Group was carried out, whereby the shares in Vostok Komi (Cyprus) Limited and its subsidiary Vostok Nafta Sverige AB were sold to Vostok Nafta Investment Ltd. The restructuring of the Vostok Gas Group also entailed a transfer of non-Gazprom related assets to the Vostok Nafta Group and a sale of the shares in RusForest Ltd and RusForest (Cyprus) Ltd to Vostok Komi and third party.

The financial statements have been prepared as if the restructuring of Vostok Gas was carried out on September 30, 2003, and comprise the consolidated accounts of the companies that are (or would have been) included in the Vostok Nafta Group; i e Vostok Komi (Cyprus) Limited, Vostok Nafta Sverige AB, RusForest Ltd and RusForest (Cyprus) Ltd. The restructuring of the Group further implies that items of the income statement and the balance sheet that relate to non-Gazprom assets, which formerly have been recognized in the accounts of other companies of the Vostok Gas Group, are now included in the consolidated financial statements of Vostok Nafta.

The transactions by which Vostok Nafta acquired the companies mentioned above and the non Gazprom related assets, which have been recognized in other companies of the Vostok Gas Group, comprises transactions between companies under common control. These transactions have been recognized to the same values as they were in the selling company, in accordance with the predecessor accounting method.

The items of the income statement that have previously been recognized in other companies of the Vostok Gas Group than in the completely transferred subsidiaries and which are non-Gazprom related results from financial assets at fair value through profit or loss, results from investments in associated companies, dividend income (including withholding dividend taxes) as well as non-Gazprom related operating expenses.

The items of the balance sheet that have been recognized in other companies of the Vostok Gas Group than in the completely transferred subsidiaries and that are non-Gazprom related long term and short term financial assets at fair value through the profit or loss, investments in associated companies, unsettled share trades, and receivables from associated companies.

The transfer of these income statement items, transferred in the format of a total for recognised income and expenses, and assets has been made to shareholders' equity, i.e. as if the transfer of non-Gazprom related income statement items and assets to Vostok Nafta was carried out by way of an owners' contribution. For further information, see Note 19.

The principal accounting policies adopted in the preparation of these financial statements are set out below.

Significant accounting policies

Accounting basis

The consolidated and the parent company financial statements are prepared in accordance with International Financial Reporting Standards, IFRS, as at December 31, 2008. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit and loss.

(a) Interpretations effective in 2008

IFRIC 11, 'IFRS 2 – Group and treasury share transactions', provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the group's financial statements.

(b) Interpretations effective in 2008 but not relevant

The following interpretation to published standards is mandatory for accounting periods beginning on or after 1 January 2008 but is not relevant to the group's operations:

– IFRIC 12, 'Service concession arrangements'; and
– IFRIC 13, 'Customer loyalty programmes'.

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the group

The following standards and amendments to existing standards have been published and are mandatory for the group's accounting periods beginning on or after 1 January 2009 or later periods, but the group has not early adopted them:

IFRS 8, 'Operating segments', (effective from 1 January 2009). IFRS 8 replaces IAS 14, 'Segment reporting', and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The group will apply IFRS 8 retrospectively from January 1, 2009 but is currently not applicable to the group as the group has only one reportable segment.

IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The group will apply IAS 23 (Amendment) retrospectively from January 1, 2009 but is currently not applicable to the group as there are no qualifying assets.

IAS 1 (Revised), 'Presentation of financial statements' (effective from January 1, 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The group will apply IAS 1 (Revised) from January 1, 2009. It is likely that both the income statement and statement of comprehensive income will be presented as performance statements.

IFRS 2 (Amendment), 'Share-based payment' (effective from January 1, 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The group will apply IFRS 2 (Amendment) from January 1, 2009. It is not expected to have a material impact on the group's financial statements.

IAS 32 (Amendment), 'Financial instruments: Presentation', and *IAS 1 (Amendment),* 'Presentation of financial statements' – 'Puttable financial instruments and obligations arising on liquidation' (effective from January 1, 2009). The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. The group will apply the IAS 32 and IAS 1(Amendment) from January 1, 2009. It is not expected to have any impact on the group's financial statements.

IFRS 1 (Amendment) 'First time adoption of IFRS', and *IAS 27* 'Consolidated and separate financial statements'(effective from January 1, 2009). The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The amendment will not have any impact on the group's financial statements.

IAS 27 (Revised), 'Consolidated and separate financial statements', (effective from July 1, 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The group will apply IAS 27 (Revised) prospectively to transactions with non-controlling interests from January 1, 2010.

IFRS 3 (Revised), 'Business combinations' (effective from July 1, 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair vale or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The group will apply IFRS 3 (Revised) prospectively to all business combinations from January 1, 2010.

IFRS 5 (Amendment), 'Non-current assets held-for-sale and discontinued operations' (and consequential amendment to IFRS 1, 'First-time adoption') (effective from July 1, 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. Relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to IFRS 1 states that these amendments are applied prospectively from the date of transition to IFRSs. The group will apply the IFRS 5 (Amendment) prospectively to all partial disposals of subsidiaries from January 1, 2010.

IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in IAS 39 'Financial instruments: Recognition and measurement'. This eliminates the inconsistency of terms between IAS 39 and IAS 23. The group will apply the IAS 23 (Amendment) prospectively to the capitalisation of borrowing costs on qualifying assets from January 1, 2009.

IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation', and IFRS 7, 'Financial instruments: Disclosures') (effective from January 1, 2009). The amendment is part of the IASB's annual improvements project published in May 2008.

– An investment in associate is treated as a single asset for the purposes of impairment testing. Any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases.

– Where an investment in associate is accounted for in accordance with IAS 39 'Financial instruments: recognition and measurement', only certain rather than all disclosure requirements in IAS 28 need to be made in addition to disclosures required by IAS 32, 'Financial Instruments: Presentation' and IFRS 7 'Financial Instruments: Disclosures'.

The group will apply the IAS 28 (Amendment) from January 1, 2009.

IAS 36 (Amendment), 'Impairment of assets' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The group will apply the IAS 28 (Amendment) and provide the required disclosure where applicable for impairment tests from January 1, 2009.

IAS 38 (Amendment), 'Intangible assets'(effective from January 1, 2009). The amendment is part of the IASB's annual improvements project published in May 2008. A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The group will apply the IAS 38 (Amendment) from January 1, 2009.

IAS 19 (Amendment), 'Employee benefits' (effective from January 1, 2009). The amendment is part of the IASB's annual improvements project published in May 2008.

– The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.

– The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.

– The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.

– IAS 37, 'Provisions, contingent liabilities and contingent assets, requires contingent liabilities to be disclosed, not recognised. IAS 19 has been amended to be consistent.

The group will apply the *IAS 19 (Amendment)* from January 1, 2009.

IAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008.

– This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.

– The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profittaking is included in such a portfolio on initial recognition.

– The current guidance on designating and documenting hedges states that a hedging instrument needs to involve a party external to the reporting entity and cites a segment as an example of a reporting entity. This means that in order for hedge accounting to be applied at segment level, the requirements for hedge accounting are currently required to be met by the applicable segment. The amendment removes the example of a segment so that the guidance is consistent with IFRS 8, 'Operating segments', which requires disclosure for segments to be based on information reported to the chief operating decision-maker.

– When remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are used.

The group will apply the IAS 39 (Amendment) from January 1, 2009.

IAS 1 (Amendment), 'Presentation of financial statements' (effective from January 1, 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with IAS 39, 'Financial instruments: Recognition and measurement' are examples of current assets and liabilities respectively. The group will apply the IAS 39 (Amendment) from January 1, 2009. It is not expected to have an impact on the group's financial statements.

There are a number of minor amendments to IFRS 7, 'Financial instruments: Disclosures', IAS 8, 'Accounting policies, changes in accounting estimates and errors', IAS 10, 'Events after the reporting period', IAS 18, 'Revenue' and IAS 34, 'Interim financial reporting', which are part of the IASB's annual improvements project published in May 2008 (not addressed above). These amendments are unlikely to have an impact on the group's accounts and have therefore not been analysed in detail.

IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction', provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. Although having a defined benefit pension plan, according to Swedish ITP-standards, a lack of information to permit the reporting of the Group's proportional share of the defined benefit commitment and of the plan assets and costs associated with this plan, the plan is reported as if it were a defined contribution plan. As a consequence, this interpretation does not have any impact on the group's financial statements.

IFRIC 16, 'Hedges of a net investment in a foreign operation' (effective from October 1, 2008). IFRIC 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the group. The requirements of IAS 21, 'The effects of changes in foreign exchange rates', do apply to the hedged item. The group will apply IFRIC 16 from January 1, 2009. It is not expected to have a material impact on the group's financial statements.

(d) Interpretations and amendments to existing standards that are not yet effective and not relevant for the group's operations

The following interpretations and amendments to existing standards have been published and are mandatory for the group's accounting periods beginning on or after January 1, 2009 or later periods but are not relevant for the group's operations:

IFRIC 13, 'Customer loyalty programmes' (effective from July 1, 2008).

IAS 16 (Amendment), 'Property, plant and equipment' (and consequential amendment to IAS 7, 'Statement of cash flows') (effective from January 1, 2009).

IAS 27 (Amendment), 'Consolidated and separate financial statements' (effective from January 1, 2009).

IAS 29 (Amendment), 'Financial reporting in hyperinflationary economies' (effective from January 1, 2009).

IAS 31 (Amendment), 'Interests in joint ventures' (and consequential amendments to IAS 32 and IFRS 7) (effective from January 1, 2009).

IAS 38 (Amendment), 'Intangible assets' (effective from January 1, 2009).

IAS 40 (Amendment), 'Investment property' (and consequential amendments to IAS 16) (effective from January 1, 2009).

IAS 41 (Amendment), 'Agriculture' (effective from January 1, 2009).

IAS 20 (Amendment), 'Accounting for government grants and disclosure of government assistance' (effective from January 1, 2009).

The minor amendments to IAS 20 'Accounting for government grants and disclosure of government assistance', and IAS 29, 'Financial reporting in hyperinflationary economies', IAS 40, 'Investment property', and IAS 41, 'Agriculture', which are part of the IASB's annual improvements project published in May 2008 (not addressed above). These amendments will not have an impact on the group's operations as described above.

IFRIC 15, 'Agreements for construction of real estates' (effective from January 1, 2009).

Books and accounts

The books and accounts of the Parent are maintained in USD, which is also the functional currency of the Group.

Financial period

The financial year comprises the period January 1–December 31.

Principles of consolidation

Subsidiaries

The consolidated financial statements include the accounts of the parent company and each of those companies in which it owns (directly or indirectly) shares representing more than 50 per cent of the voting rights or has the sole right to exercise control over the operations.

The consolidated financial statements are prepared using the purchase method of accounting. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. No goodwill was recognized in the consolidated balance sheet as of December 31, 2008 and December 31, 2007, respectively.

All inter-company profits, transactions and balances are eliminated on consolidation.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. In the internal reporting of the company, there is only one operating segment.

Functional currency

The functional and presentational currency of the Parent Company and its Bermudan and Cypriot subsidiaries is USD, which is also considered to be the presentational currency of the Group. Transactions in currencies other than USD are therefore translated into USD at the rate of exchange that was in effect at the transaction date.

Monetary assets and liabilities denominated in foreign currencies are translated at rates of exchange prevailing at the balance sheet date. Realized and unrealized exchange gains/losses on portfolio investments, which include loan receivables, investments in associated companies, and financial assets at fair value through profit or loss are recognized in profit or loss as part of the result from each of the categories of financial assets, which are included in the investment portfolio. Realized and unrealized exchange gains/losses on other assets and liabilities are reported among financial items.

As at the reporting date, the assets and liabilities of subsidiaries that have note the same functional currency as the Parent Company are translated into the presentation currency of the Group at rates of exchange prevailing at the balance sheet date. Their income statements are translated at the average exchange rate for the year. The exchange differences arising on the translation are recognized as a separate component of equity.

Office equipment

Office equipment is stated at cost less accumulated depreciation. Depreciation is based on cost on a straight-line basis of estimated useful life of three and five years. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Financial Assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, and loans and receivables.

Financial assets at fair value through profit or loss

This category has two subcategories:

– Designated. The first includes any financial asset that is designated on initial recognition as one to be measured at fair value with fair value changes in profit or loss.

– Held for trading. The second category includes financial assets that are held for trading. All derivatives (except those designated as hedging instruments) and financial assets acquired or held for the purpose of selling in the short term or for which there is a recent pattern of short-term profit taking are held for trading.

The Group classifies all its financial assets at fair value through profit or loss in the subcategory designated.

Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the income statement. Thereafter they are subsequently 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. Dividend income from financial assets at fair value through profit of loss is recognized in the income statement as "Dividend income" when the Group's right to receive payments is established.

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 per cent and 50 per cent, 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".

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not traded in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise 'Non current loan receivables', 'Current loan receivables', 'Other short term receivables', 'Receivables from related parties' and 'Cash and cash equivalents' in the balance sheet.

Investments in loans and receivables are recognized at fair value plus transaction costs. Loans and receivables with maturities greater than 12 months are carried at amortized cost using the effective interest method. 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.

A financial asset or group of assets is impaired, and impairment losses are recognised, only if there is objective evidence as a result of one or more events that occurred after the initial recognition of the asset. An entity is required to assess at each balance sheet date whether there is any objective evidence of impairment. If any such evidence exists, the entity is required to do a detailed impairment calculation to determine whether an impairment loss should be recognised.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated cash flows discounted at the financial asset's original effective interest rate. Impairment losses on portfolio investments are presented in the income statement within 'Result from financial assets at fair value through profit or loss', 'Result from associated companies' or 'Result from loan receivables', depending on from what category of assets the impairment losses relate. Impairment losses on other financial assets are recognized in the income statement as 'Other financial expenses' among financial items.

Purchases and sales of financial assets are recognized on trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group have transferred substantially all risks and rewards of ownership.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Cash and cash equivalents

Cash and bank include cash, bank balances, and deposits held at call with banks.

Share capital

Share issue costs associated with the issuance of new equity are treated as a direct reduction of the proceeds. Buy back of own shares is, after cancellation of the shares, recorded as a reduction of the share capital with the nominal value of shares bought back, and as a reduction of the additional paid in capital or the retained earnings with the amount paid after reduction of transaction costs for the shares in excess of the nominal value.

Borrowings

Borrowings are recognized initially at fair value, net of transaction cost incurred. Borrowings are subsequently recognized at amortised cost: any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Employee benefits

Pension obligations

The Group has a defined benefit pension plan, according to Swedish ITP-standards. There is a lack of information to permit the reporting of the Group's proportional share of the defined benefit commitment and of the plan assets and costs associated with this plan. Consequently, the plan is reported as if it were a defined contribution plan, which means that the expenses incurred are reported as a cost.

Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and additional paid in capital when the options are exercised.

Revenue recognition

Revenue comprises the fair value of the consideration received in the ordinary course of the group's activities.

For investments held at both the start and end of year, the change in value consists of the difference in the market value between these dates. For investments acquired during the year, the change in value consists of the difference between cost and the market value at the end of the year. For investments sold during the year, the change in value consists of the difference between the sales price received and the value of investments at the start of the year. All changes in value are reported in the income statement within 'Result from financial assets at fair value through profit or loss', 'Result from associated companies' or 'Result from loan receivables', depending on from what category of assets the changes in value relate.

Dividend income is recognised when the right to receive payment is established. Furthermore, dividend income is accounted for inclusive of withholding taxes. These withholding taxes are shown either as an expense in the income statement, or as a current receivable, depending on whether or not the withholding tax is refundable.

Interest income on non-current loan receivables is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired non-current loan receivables is recognised using the original effective interest rate.

Interest income on current loan receivables and other receivables is recognised taking into account accrued interest on the balance sheet date.

Other consideration received in the ordinary course of the group's activities is reported as "other income" in the income statement.

Unless otherwise stated, the accounting principles are unchanged compared to previous year.

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risks (including currency risk and price risk), credit risk, liquidity risk and cash flow interest-rate risk.

Risk management is carried out by management under policies approved by the board of directors.

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, mainly with respect to the Swedish Krona (SEK), the Russian Rouble (RUB), and Euro (EUR).

At December 31, 2008, if the USD had strengthened by 22% against the SEK with all other variables held constant, post-tax profit for the year would have been USD 17,517 thousand lower (2007: –41,894), mainly as a result of foreign exchange losses on translation of SEK-denominated investments in associated companies. Profit is less sensitive to movement in SEK/USD exchange rates in 2008 than 2007 because of the decrease in value of SEK-denominated financial assets.

At December 31, 2008, if the USD had strenthened by 24% against the RUB with all other variables held constant, post-tax profit for the year would have been USD 8,506 thousand lower (2007: –2,109) , mainly as a result of foreign exchange losses on translation of RUB-denominated long term and short term receivables. Profit is more sensitive to movement in RUB/USD exchange rates in 2008 than 2007 because of the increased amount of RUB-denominated current loan receivables.

At December 31, 2008, if the USD had strethened by 5% against the EUR with all other variables held constant, post-tax profit for the year would have been USD 853 thousand lower (2007: –920), mainly as a result of foreign exchange losses on translation of EUR-denominated financial assets at fair value through profit or loss.

Price risk

The group is exposed to equity securities price risk because of investments held by the group and classified on the consolidated balance sheet as financial asset at fair value through profit or loss.

The majority of the shares in Group's share portfolio are publicly traded. Given the geographical focus on investments in Russia, the Company's portfolio performance is often compared to the development of the Russian RTS-index. During 2008 the RTS-index decreased by 72 per cent. The price risk associated with Vostok Nafta's portfolio may be illustrated by stating that a 72 per cent decrease in the price of the quoted shares in the Group's portfolio at December 31, 2008 would have affected post-tax profit by approximately USD 126.78 mln.

Credit risk

The Group is exposed to credit risk, which is the risk that a counterpary will be unable to pay amounts when they fall due.

Within the Group's portfolio investments operations, credit risk arises from non current and current loan receivables. See further note 15 and 16. For the investments in loan receivables, there are no formal restrictions with respect to the counterparty's credit rating.

The Group is also exposed to counterparty credit risk on cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted.

The majority of financial assets are kept with Deutsche Bank (S&P long term rating (Jan 09): A+).

Liquidity risk

For the Group, prudent liquidity risk management implies maintaining sufficient cash and marketable securities.

The table below analyses the group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

After the end of the period, Vostok Nafta has completed a rights issue, which provided the Group with an amount of appoximately USD 67 million. A large part of the proceeds from the rights issue is intended for repayment of the Group's borrowings. After the repayment of the loans, Vostok Nafta assesses that there is sufficient working capital to meet present capital needs.

At December 31, 2008	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	77,887	–	–	–

At December 31, 2007	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	51,551	–	–	–

Cash flow interest rate risk

The majority of the Group's financial assets are non-interest bearing, and the majority of outstanding interest-bearing liabilities carry a fixed interest. As a result, the Group is not subject to significant amount of risk due to fluctuations in the prevailing levels of market interest rates.

The group's interest rate risk arises from short-term floating rate borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk.

At December 31, 2008, if interest rates on currency-denominated floating rate borrowings had been 1% lower with all other variables held constant, the effect post-tax profit for the year would have been USD 1.00 mln higher, as a result of lower interest expense on floating rate borrowings (2007: +0.33).

Capital risk management

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. During 2007 and 2008, this has implied financial leverage to the portfolio. Given the current market conditions, the Company's view is that it is not in the shareholders best interest that the Group's investments are financed through debt. The Group will therefore continue to work with financial leverage only on a restrictive basis during shorter periods of time.

The capital gearing ratio, calculated as net debt (total borrowings less cash and cash equivalents) divided by total capital, at December 31, 2008 and December 31, 2007 was as follows:

	2008	2007
Total borrowings (note 21)	77,887	50,438
Less: cash and cash equivalents (note 18)	–29,198	–24,528
Net debt	48,689	25,910
Total equity	247,893	803,954
Total capital	327,156	829,864
Gearing ratio	15%	3%

Fair Value Calculations

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the group is the current bid price.

The fair value of financial investments that are not traded on an active market is determined by using various valuation techniques.

Value in use has predominantly been used to determine the fair value of unlisted investments and is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. It has been calculated as the Group's share of the present value of future estimated cash flows generated by the holding until either a presumed exit date including estimated proceeds of a final divestment, or assuming a continual growth deemed appropriate for the industry. Assessments of future cash flows are based on the most recent decided budget or forecasts covering a foreseeable forecasting period. The estimations are based on reasonable and verifiable assumptions that comprise Vostok Nafta's best appreciations of the economic conditions that are expected to prevail. Sales growth, discount rate and the profit multiple at exit or an assumption of growth rate are key variables for calculating value in use and have been estimated to the best of the Company's knowledge and deemed reasonable given the circumstances.

The discount factor reflects market assessments of monetary values over time and specific risks inherent of the specific asset. The discount factor does not reflect the same risks as those that are taken into account when future cash flows are estimated. Calculation of the discount rate is based on the portfolio company's weighted average cost of capital entailing the company's cost of equity, marginal borrowing rate and other market borrowing rates independent of the Group's capital structure. Alternatively a required rate of return on capital set at a hurdle rate deemed appropriate has been used. Given the difference in sustainable capital structures between different industries as well as diverse business risks associated with different companies the discount factor will vary.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values, since they are short term by nature.

Critical accounting estimates and assumptions

The management of Vostok Nafta Investment Ltd has to make estimates and judgements when preparing the Financial Statements of the Group. Uncertainties in the estimates and judgements could have an impact on the carrying amount of assets and liabilities and the Group's result. The most important estimates and judgements in relation thereto are:

a) Fair value of unlisted financial assets

The estimates and judgements when assessing the recoverable value of investments in associated companies and unlisted financial assets at fair value through profit or loss are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

An impairment charge of USD 8.15 mln arose in the holding of equity in Tinkoff Credit Systems (TCS) during the course of 2008, resulting in the carrying amount of TCS being written down to the recoverable amount. If the cost of capital used as the discount rate in the value-in-use calculations had been 1 percentage point higher (i.e. 51% instead of 50%), the Group would have recognised a further impairment of the carrying amount by USD 0.41 mln. If the estimated profit multiple had been 7 instead of 8, the Group would have recognised a further impairment of the carrying amount by USD 2.61 mln.

An impairment charge of USD 18.53 mln arose in the holding of Vosvik/Kontakt East Holding (KEH) during the course of 2008, resulting in the carrying amount of KEH being written down to the recoverable amount. If the weighted average cost of capital used as the discount rate in the value-in-use calculations had been 1 percentage point higher (i.e. 16% instead of 15%), the Group would have recognised a further impairment of the carrying amount by USD 1.75 mln. Likewise if the estimated long term growth rate were to be 1 percentage point lower (i.e. 6% instead of 7%), the Group would have recognised a further impairment of the carrying amount by USD 0.16 mln.

b) Loan receivable from Murrayföretagen AB

As at December 31, 2008, the Group has a loan outstanding to Murrayföretagen AB in the nominal amount of USD 2,930 thousand. Murrayföretagen AB went into bankruptcy in January 2008. After the balance sheet date, Vostok Nafta has negotiated a settlement with the bankruptcy estate, effectively converting Vostok Nafta's claim into equity and leaving Vostok Nafta as sole owner of the company's Russian assets. The deal is expected to be completed during Q2 2009. As at December 31, 2008, the recoverable amount of the receivable is estimated to USD 1,465 thousand.

Risk factors in Russia

The economy of the Russian Federation continues to display characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible outside of the country; a low level of liquidity in the public and private debt and equity markets; and relatively high inflation. Exchange restrictions and controls exist relating to converting Russian Roubles into other currencies.

These factors must be understood and taken into consideration by Vostok Nafta and Russian investors in general. Since Vostok Nafta has the bulk of its assets invested in Russia, the shareholders of Vostok Nafta also need to be aware of these risks.

Operations on the Russian securities market are affected by its underdeveloped infrastructure, particularly the stage of development of its registration and settlement systems and the current status of the developing regulatory and legal framework in Russia. The political stabilization beginning in 2000 and continuing into 2008 has been a positive contributing factor for the further development of the political and legal environment.

The prospects for future economic stability in the Russian Federation are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal, regulatory and political developments, which are beyond the Company's control.

Given the risks outlined above, any decision to invest in Vostok Nafta shares should be taken only after careful consideration.

Note 2
General

Incorporation and legal structure

Vostok Nafta Investment Ltd (the Company or the Parent Company) is an investment company with its focus on portfolio investments mainly in the CIS-country block. The Company was incorporated in Bermuda on April 5, 2007, as a tax exempted limited liability company. The Swedish Depository Receipts of Vostok Nafta (SDB) are listed on the NASDAQ OMX Nordic Exchange Stockholm, Mid Cap section. Ticker: VNIL SDB.

As at December 31, 2008 the Vostok Nafta group (the Group) consists of a Bermudan parent company, Vostok Nafta Investment Ltd, one wholly owned Bermudan subsidiary, Vostok Holding Limited, one wholly owned Cypriot subsidiary; Vostok Komi (Cyprus) Limited, one Swedish subsidiary; Vostok Nafta Sverige AB, and three wholly owned Russian subsidiaries, OAO Resurs-Invest, OOO Resursniye Investitsii, and ZAO Baikal Energy.

The registered office of the Company is in Hamilton, Bermuda (Codan Services Ltd, 2 Church Street, Hamilton, Bermuda). Vostok Nafta Sverige AB's registrered office is at Hovslagargatan 5, 111 48 Stockholm, Sweden.

Note 3
Result from financial assets at fair value through profit or loss

During 2007 and 2008, result from financial assets at fair value through profit or loss comprises the result from fair value changes of financial assets that have been designated on initial recognition as assets to be measured at fair value with fair value changes in profit or loss.

Note 4
Result from investments in associated companies

During 2007 and 2008 result from associated companies comprises the result from fair value changes of financial assets that have been designated on initial recognition as assets to be measured at fair value with fair value changes in profit or loss.

Note 5
Dividend income

	Group 2008	Group 2007
Dividend income recognized		
in the income statement	9,646	10,087
whereof unsettled at balance sheet date	–	–
Tax withheld on dividends	–1,381	–1,499
Net proceeds from dividends, net of tax,		
recognized in the income statement		
during the year	8,265	8,588

Note 6
Result from loan receivables

	Group 2008	Group 2007
Interests income	5,399	57
Impairments	–1,465	–
Foreign exchange rate losses	–11,027	–
Total	–7,093	57

Note 7
Other operating income

	Group 2008	Group 2007
Revenues from services provided		
(see also note 26)	887	268
Rental income (see also note 26)	132	–
Other	8	–
Total	1,027	268

Note 8
Operating expenses by nature

	Group Jan 1, 2008– Dec 31, 2008	Group Jan 1, 2007– Dec 31, 2007	Parent Company Jan 1, 2008– Dec 31, 2008	Parent Company Apr 5, 2007– Dec 31, 2007
Employee benefit expense (Note 25)	3,514	2,764	892	607
Depreciation and write down of office equipment	136	78	–	–
Operating lease expenses	748	227	383	101
Other expenses	4,318	2,635	3,339	2,756
Total operating expenses	8,716	5,704	4,614	3,464

Lease rentals amounting to USD 748 thousand (2007: 227) relating to rent of office space in Stockholm, Moscow and London are included in the income statement.

Note 9
Tax

Corporate income tax – general

The parent company, Vostok Nafta Investment Ltd, and its Bermudan subsidiary Vostok Holding Ltd, are exempted and therefore not liable for tax in Bermuda.

Vostok Komi (Cyprus) Limited, is subject to corporate tax on taxable profits at the rate of 10%. Under certain conditions interest may be subject to special defence contribution tax at the rate of 10%. In such cases 50% of the same interest will be exempt from corporation tax thus having an effective tax rate burden of approximately 15%. Any gains from disposal of qualified securities are not subject to corporate tax in Cyprus. In certain cases, however, dividends received from abroad may be subject to special defence contribution tax at a rate of 15%.

The Russian subsidiaries' profits during 2007 and 2008 are subject to Russian income tax at the rate of 24%.

The Swedish subsidiary's profits are subject to Swedish income tax at the rate of 28%.

Income tax expense

	Jan 1, 2008–Dec 31, 2008	Jan 1, 2007–Dec 31, 2007
Current tax	–63	–184
Deferred tax	1,372	–205
Special defence contribution tax	–353	–
Taxation	956	–389

The tax on the Group's result before tax differs from the theoretical amount that would arise using the tax rate of the countries where the Group operates as follows:

	Jan 1, 2008–Dec 31,2008	Jan 1, 2007–Dec 31,2007
Result before tax	–557,344	283,154
Tax parent company (0%)	–	–
Expected tax Cyprus (10%)	54,452	–27,959
Expected tax Russia (24%)	5,402	–114
Expected tax Sweden (28%)	–51	34
Expected tax, total	59,604	–28,039
Income not subject to income tax	15,905	29,103
Expenses not deductible	–68,999	–1,316
Tax losses for which no deferred income tax was recognized	–5,203	–
Prior year adjustments	1	–137
Special defence contribution tax	–353	–
Taxation	956	–389

Deferred tax

	Group Dec 31, 2008	Group Dec 31, 2007
Deferred tax assets relating to		
– tax losses	14	–
Deferred tax liabilities relating to		
– untaxed reserves	–19	–21
– unrealized gains on financial assets at fair value through profit or loss	–	–1,337
Total	–5	–1,358

The gross movement on the deferred income tax account is as follows

	Jan 1, 2008–Dec 31, 2008	Jan 1, 2007–Dec 31, 2007
Beginning of the year	–1,358	–11
Acquired deferred tax liability	–	–1,147
Charged to income statement	1,372	–205
Currency translation differences	–19	5
End of the year	–5	–1,358

Deferred income tax assets are recognized for tax loss carry forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The Group did not recognize deferred tax assets of USD 5.20 mln (2007: –) in respect of losses amounting to USD 23.97 mln (2007: –) that can be carried forward against future taxable income.

Note 10
Earnings per share

Basic earnings per share have been calculated by dividing the net result for the financial year by the weighted average number of shares in issue during the year.

Diluted earnings per share have been calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Share options are the only category of dilutive potential ordinary shares for the company. For the share options, a calculation is made in order to determine the number of shares that would have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the options.

	Dec 31, 2008	Dec 31, 2007
Profit attributable to the equity holders of the company	–556,388	282,765
Weighted average number of ordinary shares on issue	46,020,901	46,020,901
Earnings per share, basic	–12.09	6.14
Adjustment for dilution effect of incentive options	–	–
Weighted average number of ordinary shares for diluted	46,020,901	46,020,901
Earnings per share, diluted	–12.09	6.14

In July 2007, 46,020,900 shares were issued through the exercise of warrants, which were issued in connection with the Restructuring of Vostok Gas. Until the warrants in Vostok Nafta were exercised, the Company had only one share. In order to provide meaningful data per share for 2007, the average number of shares has been the number of shares achieved after the exercise of the warrants.

Note 11
Office equipment

	Group Dec 31, 2008	Group Dec 31, 2007
Opening cost	720	361
Additions	146	303
Disposals	–	–3
Exchange differences	7	59
Closing cost	873	720
Opening accumulated depreciation	–174	–45
Depreciation for the financial period	–184	–119
Exchange differences	–5	–10
Closing accumulated depreciation	–363	–174
Net book value as at year end	510	545

Depreciations amounting to net USD –136 thousand (–78) for the Vostok Nafta Group have recognized among operating expenses in the income statement (see also note 8).

Note 12
Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

December 31, 2008 – Group

Assets as per balance sheet	Loans and receivables	Assets at fair value through the profit and loss – designated	Total
Financial assets at fair value through profit or loss	–	134,181	134,181
Investments in associates	–	115,296	115,296
Loan receivables	45,231	–	45,231
Cash and cash equivalents	29,198	–	29,198
Total	74,429	249,477	323,906

Liabilities as per balance sheet	Other financial liabilities	Total
Borrowings	77,887	77,887
Total	77,887	77,887

December 31, 2007 – Group

Assets as per balance sheet	Loans and receivables	Assets at fair value through the profit and loss – designated	Total
Financial assets at fair value through profit or loss	–	565,043	565,043
Investments in associates	–	248,413	248,413
Loan receivables	9,138	–	9,138
Cash and cash equivalents	27,528	–	27,528
Total	36,666	813,256	849,922

Liabilities as per balance sheet	Other financial liabilities	Total
Borrowings	50,438	50,438
Total	50,438	50,438

Note 13
Non-current financial assets at fair value through profit or loss

	Group Dec 31, 2008	Group Dec 31, 2007
Beginning of the year	565,043	292,515
Additions	302,871	331,406
Disposals	–233,000	–217,285
Change in fair value	–500,734	158,407
End of the year	134,181	565,043

	Number of shares held Dec 31, 2008	Fair value (USD), Dec 31, 2008	Ownership share %	Number of shares held Dec 31, 2007	Fair value (USD), Dec 31, 2007	Ownership share %
Group						
Agrowill	1,765,000	925,071	6.75%	–	–	–
Alrosa	966	2,898,000	0.48%	966	27,048,000	0.48%
Armada	–	–	–	161,952	3,320,016	1.35%
Bashneft Pref	–	–	–	1,000,000	10,750,000	2.89%
Bekabadcement	3,000	300,000	5.36%	–	–	–
Belon	–	–	–	929,700	74,376,000	8.08%
Caspian Services	4,924,850	699,329	9.62%	233,250	758,063	0.46%
Dagestan Regional	–	–	–	72,500,000	13,775,000	1.38%
Dakor	272,107	3,492,399	4.76%	272,107	7,282,400	4.79%
TKS Concrete	187	1,506,750	10.00%	–	–	–
Egidaco bond	–	5,220,187	–	–	–	–
Egidaco Investment Ltd	885,934	20,889,000	15.00%	–	–	–
Fortress Minerals	6,000,000	974,818	0.48%	–	–	–
Gaisky GOK	31,274	4,691,100	5.06%	31,274	21,266,320	5.06%
Gazprom Neft ADR	–	–	–	488,000	10,248,000	0.05%
Gornozavodsk Cement	39,000	780,000	5.03%	39,000	23,400,000	5.03%
Kamkabel	1,600,000	176,000	4.12%	1,600,000	8,112,000	4.12%
KazMunaiGas	16,667	210,004	0.41%	–	–	–
Kemerovo Azot	–	–	–	375,000	13,968,750	5.51%
Kherson Oil Refinery	5,789,903	7,345	4.40%	5,789,903	283,705	4.40%
Kuzbass Fuel Company	25,000	8,750,000	1.48%	–	–	–
Kuzbassrazrezugol	107,812,491	8,894,531	1.74%	231,434,053	99,053,775	3.79%
Kyrgyzenergo	2,618,241	168,688	0.27%	2,618,241	168,688	0.27%
Orsk Refinery Ord	2,025	21,769	0.06%	2,025	70,875	0.06%
Orsk Refinery Pref	538	3,228	0.05%	538	15,979	0.05%
Podolsky Cement	6,564	41,637	0.10%	–	–	–
Poltava GOK	1,849,088	2,728,464	1.31%	1,516,055	22,831,788	1.08%
Priargunsky Ind Ord	66,674	6,667,400	3.81%	9,000	4,635,000	0.53%
Priargunsky Ind Pref	11,709	187,344	2.82%	1,200	384,000	0.29%
Progress Capital	35,498	138,442	0.17%	–	–	–
RSC Energia	17,000	595,000	1.51%	–	–	–
RusHydro	551,273,416	11,080,596	0.22%	–	–	–
Sayano Shushenskaya	–	–	–	300,000	540,000	0.02%
Shalkiya Zinc GDR	1,442,400	72,120	2.55%	275,000	1,100,000	0.49%
Sibirski Cement	40,000	600,000	0.13%	151,000	25,670,000	0.50%
Sistema	–	–	–	2,000,000	3,280,000	0.02%
Steppe Cement Ltd	7,523,047	2,951,976	6.60%	–	–	–
Tatneft ADR	–	–	–	27,800	3,336,000	0.03%
Tatneft Pref	–	–	–	1,200,000	4,320,000	0.81%
Tinkoff Credit Systems, WTS	–	2,963,000	2.00%	–	2,000,000	2.00%
Tisko AB	200,000	764,662	13.80%	–	–	–
TNK-BP Holding Pref	45,596,616	20,837,654	10.13%	45,468,616	85,026,312	10.10%
Transneft Pref	18,730	4,120,600	1.20%	9,378	18,568,440	0.60%
Tuimazy Concrete Mixers	1,200,000	4,800,000	14.60%	1,200,000	19,800,000	14.60%
Uchalinsky GOK	1,444,045	4,332,135	3.79%	1,124,045	21,356,855	2.95%
Varyag Rescources	1,434,880	2,006,974	10.79%	–	–	–
Waymore Holding	623,800	8,683,608	6.93%	523,800	11,720,549	5.82%
Volzhskaya GES	–	–	–	20,903,442	20,276,339	0.71%
Yakutgazprom	100,000	1,000	0.01%	100,000	15,000	0.01%
Zeiskaya GES Pref	–	–	–	12,570,000	6,285,000	5.54%
Total non current financial assets at fair value through profit or loss, Group		134,180,832			565,042,854	

Vostok Nafta has calculated the fair value of the Company's investment in Tinkoff Credit Systems (TCS) as per December 31, 2008. The fair value has been appraised in order to assure that the investment is carried at no more than the recoverable amount. Key assumptions for assessing the recoverable value of TCS include a cost of capital of 50 percent, sales growth according to management's conservative projections and an exit multiple of 8x earnings which is conservative given TCSs rapid growth rate and high returns on capital. Vostok Nafta's assessment of the fair value of the equity held in TCS has resulted in an impairment of USD 8.15 mln.

Note 14
Investment in associated companies

	Dec. 31, 2008	Dec. 31, 2007
Beginning of the year	248,213	94,667
Additions	47,646	32,051
Proceeds from disposals	–	–2,198
Change in fair value or share of income	–180,563	123,693
End of the year	115,296	248,213

The shares specified below are investments in associated companies. Black Earth Farming Ltd and SystemSeparation AB are listed companies and valued on the basis of the bid price as per the balance sheet date. RusForest Ltd, Vosvik AB/Kontakt East, and Eastern Bio Holding AB are unlisted companies. For information on the value assessment of these investments; see further below.

Name	Number of shares held	Interest held, per cent	Fair value	Revenues Jan 1, 2008–Dec 31, 2008	Profit/Loss Jan 1, 2008–Dec 31, 2008	Assets Dec 31, 2008	Liabilities Dec 31, 2008
2008							
Black Earth Farming Ltd	30,888,704	24.8	71,091	24,430	–24,969	426,923	84,703
Eastern Bio Holding AB	1,139	43.4	2,389	318	–2,525	7,045	5,586
Vosvik AB (Kontakt East)	50,000	50.0	17,938	21,423	–9,018	45,332	9,729
RusForest Ltd	23,035,197	50.0	23,225	38,371*	–7,740*	103,794*	61,397*
SystemSeparation AB	7,139,701	23.8	654	5,182	191	5,685	1,147

* According to the financial statements of RusForest Ltd for the financial year October 1,2007–September 30, 2008.

Name	Number of shares held	Interest held, per cent	Fair value	Revenues Jan 1, 2007–Dec 31, 2007	Profit/Loss Jan 1, 2007–Dec 31, 2007	Assets Dec 31, 2007	Liabilities Dec 31, 2007
2007							
Black Earth Farming Ltd	26,715,404	21.5	206,510	17,758	–13,191	409,572	92,328
Kontakt East Holding AB	4,410,000	31.8	18,659	19,918	–5,555	51,059	17,311
RusForest Ltd	11,004,813	50.0	21,521	37,414**	2,461**	63,437**	23,655**
SystemSeparation AB	6,167,161	20.5	1,523	3,036	–1,390	6,339	1,086

** According to the financial statements of RusForest Ltd for the financial year October 1,2006–September 30, 2007.

Fair Value Calculations

Vostok Nafta has calculated the the fair value of the Company's unlisted investments as per December 31, 2008. The fair value has been calculated in order to assure that the investments are carried at no more than the recoverable amount.

Value in use has predominantly been used to determine the recoverable amount which is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. It has been calculated as Vostok Nafta's share of the present value of future estimated cash flows generated by the holding until either a presumed exit date including estimated proceeds of a final divestment, or assuming a continual growth deemed appropriate for the industry. Assessments of future cash flows are based on the most recent decided budget or forecasts covering a foreseeable forecasting period. The estimations are based on reasonable and verifiable assumptions that comprise Vostok Nafta's best appreciations of the economic conditions that are expected to prevail. Sales growth, discount rate and the profit multiple at exit or an assumption of growth rate are key variables for calculating value in use and have been estimated to the best of the Company's knowledge and deemed reasonable given the circumstances.

The discount factor reflects market assessments of monetary values over time and specific risks inherent of the specific asset. The discount factor does not reflect the same risks as those that are taken into account when future cash flows are estimated. Calculation of the discount rate is based on the portfolio company's weighted average cost of capital entailing the company's cost of equity, marginal borrowing rate and other market borrowing rates independent of Vostok Nafta's capital structure. Alternatively a required rate of return on capital set at a hurdle rate deemed appropriate has been used. Given the difference in sustainable capital structures between different industries as well as diverse business risks associated with different companies the discount factor will vary.

Key assumptions for assessing the recoverable value of Vosvik/Kontakt East include a weighted average cost of capital of 15 percent, sales growth according to management's conservative projections and in line with the growing Russian industry after the forecast period. Given the relatively stable cash flows of Kontakt East's industry peers an optimal long-term sustainable capital structure includes debt financing which lowers the company's cost of capital.

Key assumptions for assessing the recoverable value of RusForest include a weighted average cost of capital of 18 percent, sales growth according to management's conservative projections and an exit multiple of 5x earnings considered appropriate.

Vostok Nafta's assessment of the fair value of the equity held in Vosvik/Kontakt East has resulted in an impairment of USD 18.53 mln. Vostok Nafta's assessment of the fair value of RusForest has resulted in that no reasonable changes in key assumptions will lead to the estimated recoverable amount being lower than the carrying amount.

Vostok Nafta's assessment of its other unlisted investments is that the current carrying amount at acquisition cost represents fair value.

Note 15
Non- current loan receivables

	Dec. 31, 2008	Dec. 31, 2007
Beginning of the year	9,138	–
Additions	12,462	9,126
Interest income	1,188	57
Impairments	–1,465	–
Exchange differences	–3,940	–45
End of the year	17,384	9,138

Counterparty	Credit rating Dec. 31, 2008	Nominal value Dec. 31, 2008	Nominal value Dec. 31, 2007	Carrying value Dec. 31, 2008	Carrying value Dec. 31, 2007	Terms of interest	Maturity
Tinkoff Credit Systems (TCS)	–	16,384	6,151	15,919	6,208	16.50%/18.50%/20.50%	Jun, 2011
Murrayföretagen AB*	K	2,930	2,930	1,465	2,930	10%	Dec, 2007

* Murrayföretagen AB went into bankruptcy in January 2008. After the balance sheet date, Vostok Nafta has negotiated a settlement with the bankruptcy estate, effectively converting Vostok Nafta's claim into equity and leaving Vostok Nafta as sole owner of the company's Russian assets. The deal is expected to be completed during Q2 2009. As at December 31, 2008, the recoverable amount of the receivable is estimated to USD 1,465 thousand.

In December 2007, Vostok Nafta entered into a syndicated term loan arrangement with Closed Joint Stock Company Tinkoff Credit Systems Bank (TCS), whereby Vostok Nafta commited to provide a total of RUB 500 mln, of which RUB 201 mln was transferred to the counterparty as at December 31, 2007. Through the agreement Vostok Nafta also and became entitled to warrants representing 2% of TCS's equity. The warrants were at inception recognized as financial assets through profit or loss with a fair value of USD 2,000 thousand, which reduced the carrying value of outstanding loans. The Loan carries an interest rate, which is fixed to 16.50% for the first year and 18.50% for the second year, and 20.50% for the time up to maturity. Interest income on the loan is being recognized in the income statement over the maturity of the loan, using the effective interest rate method. During 2008, interest income in relation to the loan, using the effective interest rate method, has been recognized in the amount of USD 1,188 thousand (57).

Note 16
Current loan receivables

	Dec. 31, 2008	Dec. 31, 2007
Beginning of the year	4,197	–
Additions	29,986	5,175
Repayments	–229	–1,041
Reclassifications	–360	–
Interest income	1,340	43
Exchange differences	–7,087	21
End of the year	27,847	4,197

Counterparty	Credit rating Dec. 31, 2008	Nominal value Dec. 31, 2008	Nominal value Dec. 31, 2007	Carrying value Dec. 31, 2008	Carrying value Dec. 31, 2007	Terms of interest	Maturity
Bogouchansky LPK	–	9,458	2,908	9,458	2,908	8%	Jun, 2010*
IVLPS-Nebelsky LPCH	–	4,751	–	4,751	–	8%	May, 2009*
OOO Lesprom	–	5,541	184	5,541	184	8%	Jun, 2009*
BAMlesstroy ZAO	–	221	–	221	–	8%	Apr, 2009*
PIK-89 OOO	–	1,466	–	1,466	–	8%	Dec, 2008*
Tuba Les ZAO	–	1,681	658	1,681	658	8%	Aug, 2009*
Transsibirskaya Lesnaya Kompania OOO	–	3,313	–	3,313	–	8%	Jun, 2010*
Eastern Bio Holding AB	–	1,279	–	1,279	–	18%	Feb, 2009
Other short term receivables		137	447	137	447		

* After the balance sheet date, a process of contributing the loans outstanding to the Russian forestry companies to Rusforest (Cyprus) Limited in exchange to new shares in RusForest Ltd has been initiated. The process is expected to be completed during Q1 2009.

Note 17
Other current receivables

	Group Dec 31, 2008	Group Dec 31, 2007	Parent Company Dec 31, 2008	Parent Company Dec 31, 2007
Prepayments and accrued income	950	125	8	16
Sundry debtors	1,588	476	271	245
Total	2,538	601	279	261

Note 18
Cash and cash equivalents

Cash, cash equivalents and bank overdrafts include the following for the purposes of the cash flow statement:

	Group Dec 31, 2008	Group Dec 31, 2007
Cash and cash equivalents	29,198	27,528
Total	29,198	27,528

Note 19
Shareholders' equity

The transactions by which Vostok Nafta during 2007 acquired non-Gazprom related assets, which have been recognized in companies of the Vostok Gas Group, comprise transactions between companies under common control. These transactions are being recognized at the same values as reported by the selling company, in accordance with the predecessor accounting method.

The items of the income statement that have previously been recognized in other companies of the Vostok Gas Group than in the by now completely transferred subsidiaries and which are non-Gazprom related realized and unrealized profits and losses from financial assets at fair value through profit of loss, results from investments in associated companies, dividend income (including withholding dividend taxes) as well as non-Gazprom related operating expenses.

The items of the balance sheet that have been recognized in other companies of the Vostok Gas Group than in the by now completely transferred subsidiaries and that are non-Gazprom related long term and short term financial assets at fair value through the profit or loss, investments in associated companies, unsettled share trades, receivables from associated companies and cash and cash equivalents.

The transfer of these income statement items, transferred in the format of a total for recognised income and expenses, and assets has been made to shareholders' equity, i.e. as if the transfer of non-Gazprom related income statement items and assets to Vostok Nafta was carried out by way of an owners' contribution.

In other words, the item "Assets and liabilities provided through owners' contribution" includes the net assets transferred to Vostok Nafta which had not been reported in Vostok Nafta's income statement and which is primarily comprised of net investments in financial assets, unpaid dividends (net after coupon tax), changes in unpaid share transactions and unpaid administration expenses.

	Total	2007	2006	2005	2004	2003
Income statement items						
Result from financial assets at fair value through profit or loss and from associated companies	222,973	–748	61,909	126,066	35,746	–
Dividend income, net of tax	22,128	5,057	10,644	4,035	2,392	–
Operating expenses	–10,944	–733	–3,434	–3,561	–3,216	–
Total income statement items	234,157	3,576	69,119	126,540	34,923	–
Assets and liabilities provided through owners' contribution						
Net investments in financial assets	157,964	–15,720	139,141	–39,401	3,863	70,081
Unpaid dividends (net after coupon tax)	–22,128	–5,057	–10,644	–4,035	–2,392	–
Changes in unpaid share transactions	–3,437	9,411	–12,933	3,278	–3,193	–
Unpaid administration expenses	10,863	733	3,435	3,479	3,216	–
Other	81	–270	–769	1,120	–	–
Total Assets and liabilities provided through owners' contribution	143,343	–10,903	118,230	–35,559	1,494	70,081
Total	377,500					

Note 20
Share capital and additional paid in capital

Group and Parent Company	Number of shares held	Share capital	Additional paid in capital
At incorporation of the company, April 5, 2007	1	0	–
Employees share option scheme:			
– value of employee services			125
Exercise of issued warrants	46,020,900	46,021	–
Proceeds from new share issue, net of transaction costs	–	–	146,351
At December 31, 2007	46,020,901	46,021	146,476
Employees share option scheme:			
– value of employee services	–	–	408
At December 31, 2008	46,020,901	46,021	146,884

The total authorized share capital is USD 100,000,000. As at December 31, 2008, 46,020,901 shares have been issued and fully paid. As at the same date, the number of outstanding shares was 46,020,901 at a par value of USD 1 each.

Transaction costs for shares issued during the period April 5, 2007–December 31, 2007, was USD 4,052 thousand, which has been deducted from shareholders' equity. Additional paid in capital is defined as the difference between the net proceeds from the issue of share capital and the par value of that share capital. Each ordinary share carries one vote.

There are currently 710,000 ordinary shares available under the employee share option scheme. Each option entitles the holder to one new share (SDR) in Vostok Nafta Investment Ltd. For more information on the options, please see Note 25.

After the balance sheet date, Vostok Nafta has completed a rights issue, whereby 46,020,901 shares were issued for a consideration of SEK 12 each.

Note 21
Borrowings

Current	Group Dec 31, 2008	Group Dec 31, 2007	Parent Company Dec 31, 2008	Parent Company Dec 31, 2007
Bank borrowings	50,097	50,438	–	–
Debentures and other loans	27,790	–	27,790	–
Total borrowings	77,887	50,438	27,790	–

a) bank borrowings

Specification of bank borrowings (USD thousand)	Credit facility as per	Utilized credit facility as per	Unutilized amount as per	Date of maturity	Terms of interest
Lender	Dec 31, 2008	Dec 31, 2008	Dec 31, 2008		
Deutsche Bank	150,000	50,000	100,000	May 2009	LIBOR + 200 bps
Total bank borrowings	150,000	50,000	100,000		
Lender	Dec 31, 2007	Dec 31, 2007	Dec 31, 2007		
Deutsche Bank	50,000	50,000	–	May 2008	LIBOR + 200 bps
Total bank borrowings	50,000	50,000	–		

During 2008, the Company increased its credit facility with Deutsche Bank to MUSD 150. The credit facility was utilized in full in June 2008. On December 23, 2008, USD 100 million was repaid on the loan.

The carrying amounts of short-term borrowings approximate their fair value. As at December 31, 2008, fair value of the borrowings amounted to USD 50,097 thousand (2007: 50,438). At the same date, accrued interest on the borrowings amounted to USD 97 thousand (2007: 507).

After the balace sheet date, the bank borrowings have been repaid in full. See also note 28.

Assets pledged for the bank borrowings; see note 23.

b) Debentures and other loans

During October and November 2008, the Company raised USD 15.25 million in debt. The debt, which carry an interest rate of 18%, is subordinated to the loans which the Company's subsidiary Vostok Komi (Cyprus) Limited has undertaken and have a time to maturity of 12 months. After the balance sheet date, the debt has been repaid in full. See further note 26.

Furthermore, on December 16, 2008 the Company raised a short-term bond loan of EUR 10.0 million. The bond loan, which carries an interest rate of 20%, matures on April 15, 2009. In conjunction with the raising of the bond loan, USD 2.0 million was repaid on the loans raised in October and November 2008.

Note 22
Other current liabilities

	Group Dec 31, 2008	Group Dec 31, 2007	Parent Company Dec 31, 2008	Parent Company Dec 31, 2007
Other current liabilities	171	141	2	152
Total	171	141	2	152

Note 23
Pledged assets

As per December 31, 2008, assets are pledged as collateral for the bank borrowings amounting to USD 50,000 thousand. The assets pledged are the shares in Vosvik, and all assets held at custody with Deutsche Bank and HQ Bank. The pledged assets represent a fair value as at December 31, 2008, of USD 225.36 mln. After the balance sheet date, the Group has repaid the outstanding bank borrowings, whereupon the pledged assets have been return to the Group.

Assets pledged as at December 31, 2007 comprised the listed shares of the investment portfolio. The pledged assets represented a fair value as at December 31, 2007, USD 762.69 mln.

Neither the Group nor the Company had any contingent liabilities as per December 31, 2008.

Neither the Group nor the Company had any contingent liabilities or assets pledged as per December 31, 2007.

Note 24
Shares in subsidiaries

Parent Company	Country	Share of capital and votes, %	Book value Dec 31, 2008, USD thousand	Book value Dec 31, 2007, USD thousand
Subsidiaries of the Parent Company				
Vostok Komi (Cyprus) Limited	Cyprus	100	102,243	377,685
Vostok Holding Ltd	Bermuda	100	10	10
Total			102,253	377,695
Other subsidiaries of the Group				
Vostok Nafta Sverige AB	Sweden	100		
ZAO Baikal Energy	Russia	100		
OAO Resurs-Invest	Russia	100		
OOO Resursniye Investitsii	Russia	100		

All the companies are included in the consolidated financial statements from the time of acquisition. The difference between the cost and the market value of the physical net assets acquired has been capitalized according to the accounting principles of the group.

During the period ending December 31, 2008, the Company has impaired the value of the shares in its subsidiary Vostok Komi (Cyprus) Limited. The write down amounts to USD 288.69 mln.

Note 25
Employee benefit expense

	Group Jan 1, 2008– Dec 31, 2008	Group Jan 1, 2007– Dec 31, 2007	Parent Company Jan 1, 2008– Dec 31, 2008	Parent Company Apr 5, 2007– Dec 31, 2007
Wages and salaries	2,563	2,093	434	436
Social security costs	366	446	44	44
Share based compensations	408	125	408	125
Pensions costs	135	60	–	–
Other employee benefit expenses	41	40	5	3
Total employee benefit expense	3,514	2,764	892	608

	Group Jan 1, 2008– Dec 31, 2008	Group Jan 1, 2007– Dec 31, 2007	Parent Company Jan 1, 2008– Dec 31, 2008	Parent Company Apr 5, 2007– Dec 31, 2007
Salaries and other remunerations to the management and the board of directors of the parent and its subsidiaries	1,376	1,519	607	424
Salaries to other employees	1,736	759	240	137
Total salaries	3,112	2,278	847	561

Decisions regarding remuneration to managers are made by the Company's compensation committee made up of three of the board members. The managing director has the right to 12 months salary in the event of the termination of appointment on part of the company. He must himself observe 6 months notice of termination. The rest of the management has a notice period of one month, which also applies to the company in the event of termination on part of the company. No notice period applies to the Board of Directors. The average number of persons employed by the Group, excluding members of the Board of Directors, during the year was 15 (9), of which 10 were men (6). The number of persons in the management was 4 (3).

Group, 2008	Base salaries/ board fee	Variable compensations	Other benefits	Pension expenses	Shares based compensations	Other remunerations	Total
Lukas H Lundin	76	–	–	–	–	–	76
Al Breach	29	–	–	–	–	–	29
Paul Leander-Engström	41	–	–	–	–	–	41
Torun Litzén	43	–	–	–	–	–	43
Ian H Lundin	43	–	–	–	–	–	43
Wiliam A Rand	50	–	–	–	–	–	50
Robert J Sali	34	–	–	–	–	–	34
Per Brilioth	361	–	–	70	–	–	431
Other management and board members of subsidiaries	427	–	6	25	171	–	629
	1,104	–	6	95	171	–	1,376

Group, 2007	Base salaries/ board fee	Variable compensations	Other benefits	Pension expenses	Shares based compensations	Other remunerations	Total
Lukas H Lundin	76	–	–	–	–	23	99
Al Breach	29	–	–	–	–	–	29
Paul Leander-Engström	41	–	–	–	–	–	41
Torun Litzén	43	–	–	–	–	–	43
Ian H Lundin	43	–	–	–	–	–	43
Wiliam A Rand	50	–	–	–	–	–	50
Robert J Sali	34	–	–	–	–	–	34
Per Brilioth	294	506	–	51	–	–	851
Other management and board members of subsidiaries	213	61	–	9	46	–	329
	823	567	–	60	46	–	1,519

Parent, 2008	Base salaries/ board fee	Variable compensations	Other benefits	Pension expenses	Shares based compensations	Other remunerations	Total
Lukas H Lundin	76	–	–	–	–	–	76
Al Breach	29	–	–	–	–	–	29
Paul Leander-Engström	41	–	–	–	–	–	41
Torun Litzén	43	–	–	–	–	–	43
Ian H Lundin	43	–	–	–	–	–	43
Wiliam A Rand	50	–	–	–	–	–	50
Robert J Sali	34	–	–	–	–	–	34
Other management and board members of subsidiaries	115	–	5	–	171	–	291
	431	–	5	–	171	–	607

Parent, 2007	Base salaries/ board fee	Variable compensations	Other benefits	Pension expenses	Shares based compensations	Other remunerations	Total
Lukas H Lundin	76	–	–	–	–	–	76
Al Breach	29	–	–	–	–	–	29
Paul Leander-Engström	41	–	–	–	–	–	41
Torun Litzén	43	–	–	–	–	–	43
Ian H Lundin	43	–	–	–	–	–	43
Wiliam A Rand	50	–	–	–	–	–	50
Robert J Sali	34	–	–	–	–	–	34
Other management and board members of subsidiaries	62	–	–	–	46	–	108
	378	–	–	–	46	–	424

1. No termination or post-employment benefits have been paid out during the year.
2. The managing director has a pension plan according to Swedish ITP standards. There is a lack of information to permit the reporting of the Group's proportional share of the defined benefit commitment and of the plan assets and costs associated with this plan. Consequently, the plan is reported as if it were a defined contribution plan, which means that the expenses incurred are reported as a cost. The pension is not tied to the managing director's employment and is based on the managing director's base salary.

Incentive programme

The Extra General Meeting held on August 29, 2007 decided in accordance with the proposal from the board of directors to adopt an incentive programme in Vostok Nafta Investment Ltd which entitles present and future employees to be allocated call options, which entitle the holder to acquire shares represented by Swedish Depositary Receipts in Vostok Nafta Investment Ltd.

The incentive programme shall be governed by the following terms and conditions:

– The exercise price for the options shall correspond to 120 percent of the market value of the Swedish Depositary Receipts at the time of the granting of the options.
– The options may be exercised not earlier than two years and not later than three years from the time of the granting.
– For employees resident outside of Sweden the following conditions shall apply. No premium shall be paid for the options and the options may only be exercised if the option holder at the time of exercise is still employed within the group. If an Optionholder ceases to be an employee of or, as the case may be, consultant to any Member of the Group for any of the reasons set out below, then his or her Options will not lapse but may be exercised to the extent notified to the Optionholder on the Date of Grant provided all applicable Performance Conditions being relevant at date of cessation are satisfied or waived. The reasons are; ill-health, injury, and disability; retirement; early retirement by written agreement with the Optionholder's employer; his or her employing company ceasing to be under the control of the Company, or, as a result of a transfer of the undertaking in which the Optionholder works, transfer to a company which is neither under the control of the Company nor a Member of the Group; any other reason specified by the Directors in their absolute discretion.
– For employees resident in Sweden the following conditions shall apply. The options are offered to 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. Among other things this entails that the options are not contingent upon employment and will not lapse should the employee leave his or her position within the group.
– Options may be issued by Vostok Nafta Investment Ltd or by other group companies.

Preparation and administration

The Board of Directors, or a designated committee appointed by the Board of Directors, shall be authorised to determine the detailed terms and conditions for the incentive scheme in accordance with the approved principal conditions and guidelines. The Board of Directors may in connection thereto make necessary adjustments to satisfy certain regulations or market conditions abroad. The Board of Directors shall also be authorised to resolve on other adjustments in conjunction with material changes affecting the group or its business environment, which would mean that the authorised conditions for the incentive scheme would no longer be appropriate.

Allocation

The incentive scheme is proposed to include granting of not more than 1 million options. Allocation of options to the Managing Director shall not exceed 500,000 options and allocation to each member of the executive management or to other key employees shall not exceed 200,000 options.

The allocation of options shall be decided by the Board of Directors, or by the Compensation Committee, whereby inter alia the performance of the employee and his or her importance to the group will be considered. In connection with allocation of options to employees resident outside of Sweden as well as resident in Sweden, the following criteria shall inter alia be considered: the employee's ability to manage and develop the existing portfolio, identify new investment opportunities and evaluate conditions of new investments, and also return on capital or estimated return on capital in various object of investments. The employees will not initially be offered the maximum allocation of options and a performance related allocation system will be maintained since allocation of additional options within the mandate given by the general meeting will require fulfilment of stipulated requirements and targets. The Compensation Committee shall be responsible for the evaluation of the performance of the employees. The outcome of stipulated targets shall, if possible, be reported on afterwards.

Directors who are not employed by the group shall not be able to participate in the scheme.

Possible future bonus for employees resident in Sweden

In order to stimulate the participation in the scheme, the company has the intention to arrange for a subsidy in the form of a bonus payment which after tax corresponds to the option premium. Half of the bonus is intended to be paid in connection with the purchase of the options and the remaining half in connection with the exercise of the options. The latter bonus payment is subject to the requirement that the holder is still an employee of the group at the time of exercise of the options. If the options are not exercised, the latter bonus payment will not be paid. For employees in Sweden, the participation in the scheme will thus include a risk-taking element.

Purpose

The purpose of the proposed incentive scheme is to create conditions to retain and recruit competent employees to the group as well as promote long-term interests of the company by offering its employees the opportunity to participate in any favourable developments in the value of the Company. The Board of Directors is of the opinion that the adoption of an incentive scheme is particularly justified as a consequence of employees of the Company not being subject to any variable bonus scheme.

On August 30, 2007 it was decided to issue 710,000 of the authorized 1,000,000 options under the company's incentive program to a group of employees.

Personnel options	Issued 2007*	Total Dec 31, 2008	Total Dec 31, 2007
Management			
Managing Director	250,000	250,000	250,000
Sergei Glaser	150,000	150,000	150,000
Anders Sjöberg	30,000	30,000	30,000
Other	280,000	280,000	280,000
Total	710,000	710,000	710,000
Strike price, SEK	84.66		
Market value per issue			
at the time of issue, SEK**	11.34		
Maturity	August 30, 2007–		
	August 30, 2010		

* The strike price for the options has been calculated as 120% of the average last paid of the ten trading days leading up to the day of issue in line with the rules of Vostok Nafta's Option plan.

** The market value of the options issued in 2007 has been calculated with the help of the Black & Scholes options valuation model. The significant inputs into the model were share price at the grant date; exercise price shown above; standard deviation of expected share price returns, based on an analysis of historical share prices; option life disclosed above; and Swedish market interest rate at the grant date.

Movements in the number of share options outstanding and their weighted average prices are as follows:

	Average exercise price in SEK/share	Options Dec 31, 2008	Options Dec 31, 2007
At opening balance day	84.66	710,000	–
Granted	–	–	710,000
Forfeited	–	–	–
Exercised	–	–	–
At closing balance day	84.66	710,000	710,000

Out of the 710,000 options (2007: 710,000) no options (2007: –) were exercisable.

Share options outstanding at the end of the year have the following expiry date and exercise prices:

	Exercise price, SEK	Share options 2008	Share options 2007
August 30, 2010	84.66	710,000	710,000
At the end of the financial year		710,000	710,000

Note 26
Related-party transactions

The Group is controlled by Lorito Holdings (Guernsey) Ltd which holds 30.4 per cent of the shares.

a) Loans to associated companies

During 2008, the Group has provided short-term loans to companies of the RusForest Group in the total amount of RUB 680.6 million (2007: 91.5). Interest income amounting to correspondingly USD 1,316 thousand (36) has been recogized in the Income Statement for the period ending December 31, 2008. As at December 31, 2008, total short term loan receceivables from companies of the RusForest Group amounted to correspondingly USD 27,710 thousand (3,750). During 2008, the Group has also provided a short term loan to Eastern Bio Holding AB, in which the Group holds a 42% stake. The loan, which amounts to nominally SEK 10,000 thousand, carries an interest rate of 18% and matures in February 2009. Interest income in the amount of USD 7 thousand (–) has been recognized in the income statement during the period ending December 31, 2008. As at December 31, 2008, the loan amounted to USD 1,279 thousand (–).

b) Borrowings

In October 2008, the Company raised MUSD 15.25 from a group of lenders including Simba Investments Ltd, Zebra Holdings Ltd. Paul Leander-Engström, and Ture Invest AB. Simba Investments Ltd. is majority-owned by Lorito Holdings (Guernsey) Ltd and Zebra Holdings Ltd. The latter two companies are owned by a trust, whose settler is the estate of Adolf H. Lundin, which includes Lukas H. Lundin, Chairman of the Board of Directors of the Company, and Ian H. Lundin, Board member. Paul Leander-Engström is a member of the Board of Directors of the Company and a shareholder and Chairman of the Board of Directors of Ture Invest AB.

During 2008, accrued interest expense on the loan has been recognized in the income statement with an amount of USD 503 thousand. USD 2 mln plus interest thereon was repaid in December 2008. As at December 31, 2008, the loan including interest amounted to USD 13.75 mln. The loan was repaid in full after the end of the period.

c) Transactions with Vostok Gas Ltd

In 2007 a restructuring of Vostok Gas (Old Vostok Nafta) took place, whereby assets for a total amount of USD 377.5 million were provided to Vostok Nafta. Payment for the provided assets was made by way of a promissory note to Austro (Cyprus) Limited (a subsisidary of Vostok Gas Ltd), amounting to USD 377.5 million. Interest income from the note, which carried an interest rate of 9 %, amounted to USD 1.2 million. Thereafter, Vostok Gas purchased 46,020,900 Warrants from Vostok Nafta for the corresponding amount. Payment for the acquired Warrants was made by way of a promissory note to Vostok Nafta, by which Vostok Nafta thus had a receivable from Vostok Gas in the amount of USD 377.5 million. This receivable was used for the subsequent settlement of the liability to Vostok Gas. In addition to the transferred assets, Vostok Gas sold Vostok Komi (Cyprus) Limited and its subsidiary Vostok Nafta Sverige AB to Vostok Nafta for a total consideration of USD 185 thousand. Subsequant to the restructring, Vostok Nafta Sverige AB and Vostok Gas Sverige AB (a subsidiary of Vostok Gas) has entered into agreement, according to which certain common expenses are to be split between the companies. During 2008 amount of USD 440 thousand (268) have been paid by Vostok Gas Sverige AB to Vostok Nafta Sverige AB. As at December 31, 2008, total receivables from Vostok Gas Ltd Group amounted to USD 60 thousand. As at December 31, 2007, outstanding liabilities to Vostok Gas amounted to USD 581 thousand.

d) Key management compensation

Key management includes members of the management of the Company and members ofh the Board of Directors of the Company. The compensation paid or payable to key management for employee services is shown in note 25.

e) Other significant transactions and balances with reated parties have been:

Income, USD thousand	2008	2007
Revenues from services provided to		
associated companies	549	–
Revenues from services provided to		
other Lundin companies	228	–
Office rental income, associated companies	62	90
Office rental income, other Lundin companies	13	–

Receivables and liabilities, USD thousand	2008	2007
Receivables from key personnel		
in associated companies	–	674

f) Transactions between Parent and Subsidiaries

The Parent company finances the Cypriot subsidiary's operations on market terms. Interest income recognized during 2008 was USD 14.32 mln (2007: 6.71). As at December 31, 2008, outstanding receivables from Vostok Komi (Cyprus) Limited amounted to USD 175.55 mln (2007:153.99).

Vostok Nafta Sverige AB provides administration services to the Parent on market terms. During 2008, USD 2,017 thousand (2007: 1,621) of administration fees were charged from Vostok Nafta Sverige AB to Vostok Nafta Investment Ltd, whereof USD 1,478 thousand (2007: 186) was unpaid as at December 31, 2008.

Note 27
Business combinations

In the beginning of 2008, Vostok Komi (Cyprus) Limited acquired 100% of the shares in ZAO Baikal Energy, for a total consideration of RUB 20,000. The acquired business has contributed with USD –74 thousand to the Group's net result for the period ending December 31, 2008.

The assets and liabilities as of January 1, 2008 arising from the acquisition are as follows (USD thousand):

	Fair value	Carrying value
Total assets	233	233
Total liabilities	–232	–232
Net assets	1	1
Purchase consideration settled in cash		1
Cash and cash equivalents in subsidiary acquired		0
Cash outflow on acquisition		1

Note 28
Events after the end of the period

After the end of the period, Vostok Nafta has completed a rights issue, whereby 46,020,901 shares were issued for a consideration of SEK 12 each. Gross of transaction costs, the Company was provided with SEK 552 million. The majority of the proceeds from the rights issue has been used for repayment of borrowings. As per the date of the issue of the annual report, USD 64.94 mln of borrowings, including accrued interest, have been repaid.

Note 29
Adoption of annual report

The annual report has been submitted by the Board of Directors on April 3, 2009, see page 50. The balance sheet and profit and loss accounts are to be adopted by the company's shareholders at the annual general meeting on May 14, 2009.

Independent Auditors' Report

To the shareholders of
Vostok Nafta Investment Ltd

We have audited the accompanying consolidated and parent company financial statements of Vostok Nafta Investment Ltd, appearing on pages 51–72, which comprise balance sheets as at December 31, 2008 and 2007, and income statements, statements of changes in equity and cash flow statements for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Vostok Nafta Investment Ltd as of December 31, 2008 and 2007, and of its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Stockholm, April 3, 2009

PricewaterhouseCoopers AB

Klas Brand
Authorised public accountant
Lead Partner

Bo Hjalmarsson
Authorised public accountant
Partner

A new Swedish Code of Corporate Governance ("the Code") came into force on July 1, 2008. The rules of the code are a supplement to the main provisions of the Swedish Companies Act (2005:551) regarding a company's organisation, but also to the relatively extensive self-regulation that exists for corporate governance. The Code is based on the principle of "comply or explain". According to this principle a company may choose whether it wants to follow a clause in the Code, or choose to explain why the company chose not to follow it.

Corporate Governance Code Application

The Company is a limited liability company registered in Bermuda. In the absence of a Bermudan Code of Corporate Governance, the Company applies the Code. The Company will apply the Code in full or, where applicable, explain deviations from it. The principles of corporate governance in the Company are described below.

Shareholders' meetings

The Annual General Meeting ("AGM") is the highest decision-making body of the Company, in which all shareholders are entitled to attend in person or by proxy. The AGM of the Company is held in Stockholm, Sweden, in the Swedish language, once per year, no later than six months after the end of the financial year. The task of the AGM is to report on the financial results and take decisions on corporate matters, including payment of dividend and amendments to the Articles of Association. The AGM also appoints members of the Board of Directors and auditors, and establishes the remuneration of the Board of Directors and the auditors.

Appointment and Remuneration of the Board of Directors and the Auditors

Shareholders in the Company have the right to nominate members of the Board of Directors, and auditors, to the AGM. The AGM elects members of the Board of Directors for a term of one year and auditors for a period of one year. The shareholders also propose remuneration for the Board of Directors and auditors, which is to be resolved by the AGM. In accordance with the Code, the Company has established a nomination committee which prepares proposals for the election and remuneration of members of the Board of Directors and auditors for the AGM. The nomination committee is to consist of three members, of whom one is appointed from the Board of Directors and two by the Company's major shareholders.

The Board of Directors

The 2008 Board of Directors

The Board of Directors consists of eight Directors, all of whom were re-elected at the AGM on May 14, 2008: namely Lukas H. Lundin, Paul Leander-Engström, Per Brilioth, Al Breach, Ian H. Lundin, William A. Rand, Robert J. Sali and Torun Litzén. Further, the AGM appointed Lukas H. Lundin as Chairman of the Board of Directors. For a detailed presentation of the current Board, see "Board of Directors, group management and auditors".

Board meetings

The Board of Directors is to meet at least twice a year, in person, and more frequently when necessary. In addition, meetings are to be conducted by telephone if considered necessary. The Managing Director has a regular contact with the Chairman of the Board of Directors and several other members of the Board of Directors.

Work and Responsibilities

The Board of Directors adopts decisions on overall issues affecting the Group. However, the Board of Directors' primary duties shall be the organisation of the Company and the management of the Company's operations including:

- Decisions regarding the focus of the business and adoption of Company policies;
- Supply of capital;
- Appointment and regular evaluation of the work of the Managing Director and Company management;
- Approval of the reporting instructions for the Company management;
- Ensuring that the Company's external communications are open, objective and appropriate for target audiences;
- Ensuring that there is an effective system for follow-up and control of the Company's operations and financial position vis-à-vis the established goals; and
- Follow-up and monitoring that the operations are carried out within established limits in compliance with laws, regulations, stock exchange rules, and customary practice on the securities market.

Sub-committees of the Board

The Board of Directors has established three sub-committees: the audit committee, the compensation committee and the investment committee.

Audit committee

The Audit Committee's task, on behalf of the Board, is to review the Company's quarterly reports and annual reports, make recommendations to the Board regarding the Company's quarterly reports and annual reports, review the audit fees, ensure that the Company's internal control system is maintained

Corporate Governance Report

and enforced, and keep in contact with the Group's external auditors in connection with the annual audit process.

Duties of the Audit Committee

The duties of the Audit Committee are to handle critical accounting issues and check the financial reports the Company publishes. Among other issues and reports to be addressed are:

- Issues concerning internal control and application of relevant accounting policies and laws;
- Discuss uncertainties in the reported figures, changes in estimates and valuations;
- Significant events after the reporting period;
- Treat determined anomalies;
- The Company's annual and interim financial reports, which are presented four times per year, shall be examined;
- Discuss any other issues other than the above, which can have effects on the Company's financial reporting;
- Periodically (at least once a year) meet with the company's auditors and provide information on the focus and extent of the audit. The Audit Committee and auditors will also discuss co-ordination between internal control and external audits and auditors' views on the potential risks in the quality of the company's reports;
- The Audit Committee shall provide guidelines for other services than auditing services that the Company may require from the auditors;
- The Audit Committee shall annually, in connection with the year-end, evaluate the auditors' work. They must notify the Nominating Committee of its results, which must be taken into account when nominating auditors for the AGM;
- Assisting the Nominating Committee in preparation of nomination of auditors and remuneration of the auditors;
- The Audit Committee shall examine the annual and interim financial reports and make recommendations to the Board with respect to these;

In 2008, the Audit Committee met four times. The Audit Committee consists of William A. Rand, Torun Litzén and Ian H. Lundin.

Compensation committee

The function of the Compensation Committee is to receive information on, and determine matters regarding, compensation and other employment matters to the Group Management.

Duties of the Compensation Committee

The Compensation Committee shall present to the AGM a proposal for the principles for remuneration and other terms of employment for the Company's Management, which will be subject to the approval of the AGM. Establishing principles for remuneration and other conditions of employment is therefore included as an item on the agenda of the AGM. The proposals are to be published on the Company's website in connection with the notice for the AGM. In assessing the details of the proposed principles, the Compensation Committee shall always ensure that the total compensation for Group Management represents current market conditions and is competitive. The proposed principles include the following considerations:

- The relationship between fixed and variable compensation, as well as the link between performance and compensation;
- The main conditions for bonus and stock option programmes;
- The main conditions for non-monetary benefits, as well as retirement, dismissal and redundancy payments; and
- Which individuals from Group Management are to be covered by the proposed principles for compensation.

Proposed principles that differ significantly from the original principles and the Board's procedure of preparation and resolution on the decision of remuneration for Group Management shall be reported to the AGM. The Compensation Committee will also review the annual remuneration of the Managing Director, Management Team and other key employees. In 2008, the Compensation Committee met twice. The Compensation Committee includes Lukas H. Lundin, Robert J. Sali and Paul Leander-Engström.

Investment committee

The function of the Investment Committee is to make suitable investment recommendations to the Cypriot subsidiary Vostok Komi (Cyprus) Limited. These recommendations must at all times be in line with the overall strategy of the Company as decided by the Board of Directors and communicated from time to time to the Investment Committee. A majority of the Investment Committee i.e. two directors can make recommendations to the Board of Vostok Komi (Cyprus) Limited, which will then resolve the matter. The Investment Committee consists of three of the board members, namely Lukas H. Lundin, Per Brilioth and Paul Leander-Engström.

The committee's representation at the Annual General Meeting

If one or more proposals to the AGM have been prepared by any of the sub-committees of the Board of Directors, the Chairman or other members should attend the AGM so as to present their justification for the proposal. If no member of the committee concerned is physically represented at the AGM, the committee shall appoint another member from the Board of Directors to represent the committee.

Nominating Committee

At the Company's AGM on May 14, 2008, it was resolved to establish a Nominating Committee, consisting of representatives of the three largest shareholders of the Company, as at the last banking day of August, 2008. The Nomination Committee for the 2009 Annual General Meeting consists of the following members: Ian H. Lundin, appointed by Lorito Holdings Ltd; Anders Algotsson, appointed by AFA Insurance; and Arne Lööw, appointed by Fjärde AP-fonden. At the Nomination Committee's first meeting Ian H. Lundin was elected Chairman of the Committee. The Nomination Committee's task is to prepare proposals for the following resolutions at the 2009 AGM: (i) election of the chairman of the meeting, (ii) the election of directors, (iii) the election of the Chairman of the Board, (iv) the remuneration to the directors of the Board, (v) election of auditors and remuneration of the Company's auditors, and (vi) proposals on how the nomination process for the AGM 2010 will be implemented.

Management

The Managing Director, who is a member of both the Board of Directors as well as of group management, manages the Company's day-to-day activities and prepares investment recommendations in co-operation with the other members of the Investment Committee. For a detailed presentation of the management, see the section "Board of Directors, group management and auditors".

Group Management in 2008

Per Brilioth: Managing Director.
Sergei Glaser: Analyst and member of group management.
Anders Sjöberg: Chief Financial Officer.
Anders Börjesson: Legal Counsel.

Investor Relations

The Investor Relations function of the Company is managed by Robert Eriksson, who is Head of Investor Relations of the Company. Robert Eriksson devotes a significant part of his time to the Company, while simultaneously being engaged in Investor Relations activities for a number of other companies within the Lundin group of companies.

Remuneration of the Board of Directors and group management

Guidelines for the remuneration of the Board of Directors and group management

At the Company's AGM held on May 14, 2008, resolved on the following guidelines for the remuneration of the Board of Directors and group management. Remuneration of the Managing Director and other members of the group management shall consist of fixed salary, possible variable remuneration, other benefits and pension. Except for the Managing Director, the group management currently includes three individuals. The total remuneration shall correspond to prevailing market conditions and be competitive. Fixed and variable remuneration shall correspond to the respective individual's responsibility and authority. The variable remuneration shall primarily be handled within the framework of the Company's stock option plan, and in those cases where other variable remuneration may be given, this shall be subject to a limit in accordance with market terms, and specified performance targets for the Company and/or the holder of the position. The manager shall have a notice period of three to six months. In the event of termination from the Company, the notice period and the time during which severance pay is paid out shall together constitute a maximum of 12 months. Pension benefits shall be either benefit-based or contribution-based or a combination thereof, with individual retirement ages. Benefit-based pension benefits are conditional on the benefit being earned during a predetermined period of employment. The Board of Directors shall be entitled to deviate from these guidelines in individual cases should special reasons exist.

Remuneration of the Company's Board of Directors

At the AGM on May 14, 2008, it was resolved that the remuneration of the Board of Directors (including work in the committees) be set at a total of USD 316,000, of which USD 57,000 is for the Chairman of the Board and USD 29,000 for each of the other members of the Board of Directors. For work on the Audit Committee, remuneration of USD 21,000 is paid to the Chairman and USD 14,000 to each member and for work on the Remuneration Committee, remuneration of USD 8,000 is paid to the Chairman and USD 5,000 to each member. In addition, remuneration for work on the Investment Committee, USD 11,000 is paid to the Chairman and USD 7,000 to each member. There is no remuneration to the Managing Director for work on the Board of Directors.

Remuneration to the Managing Director and other senior executives

The Managing Director received a fixed annual salary of approximately USD 285,000. The salary was equivalent to a service, estimated at around 80 percent. The Managing Director has a pension plan under the Swedish ITP standard, which is accounted for as a defined contribution plan in accordance with IAS 19.30. The pension is calculated on the basis of the Managing Director's base salary. No additional payments have been made to the Managing Director during 2008. The Managing Director is entitled to 12 months' of full salary in the event of termination by the Company. Should he choose to resign the notice period is six months. Other senior executives' fixed annual salary amounts to a total of approximately USD 316,000. No additional payments have been made to the other members of the group management during 2008. The other members of the group management have a notice period of three months and the same applies in case of termination by the Company.

Incentive programme

Incentive programme for the Company

It was decided at the Extra General Meeting held on August 29, 2007, in accordance with a proposal from the Board of Directors, to adopt an incentive programme in the Company which entitles present and future employees to be allocated call options, entitling the holder to acquire SDRs in the Company. The purpose of the proposed incentive scheme is to create conditions to retain and recruit competent employees to the Group as well as promote the long-term interests of the Company, by offering its employees the opportunity to participate in any favourable developments in the value of the Company. The Company's employees are not party to any variable bonus programme. The exercise price for the options shall correspond to 120 percent of the market value of the SDRs at the time of the granting of the options which amounted to approximately SEK 86. The options may be exercised no earlier than two years and not later than three years from the time of the grant. For employees and consultants resident outside of Sweden no premium shall be paid for the options and the options may only be exercised if the option holder, at the time of exercise, is still employed or is a consultant within the Group. For employees and consultants resident in Sweden 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 be considered as securities. Among other things this means that the options are not contingent upon employment and will not lapse should the employee leave his or her position within the Group. The Company may grant not more than 1 million options. Allocation of options to the Managing Director shall not exceed 500,000 options and allocation to each member of the senior management or to other key employees shall not exceed 200,000 options. The allocation of options shall be decided by the Board of Directors whereby among other things the performance of the employee and his or her position in and importance to the Group will be considered. Directors who are not employed by the Group shall not be able to participate in the scheme. In order to stimulate the participation in the scheme, the Company has the intention to arrange for a subsidy in the form of a bonus payment, which after tax, corresponds to the option premium. Half of the bonus is intended to be paid in connection with the purchase of the options and the remaining half in connection with the exercise of the options. The latter bonus payment is subject to the requirement that the holder is still an employee or consultant of the Group at the time of exercise of the options. If the options are not exercised the latter bonus payment will not be paid. For employees resident in Sweden the participation in the programme therefore contains a risk. On August 30, 2007, it was decided to grant 710,000 of the authorised 1,000,000 options under the Company's incentive programme to a group of employees. As a consequence of the Preferential Issue, the options will be recalculated in accordance with the recalculation provision of the option terms. A recalculation may result in increased dilution.

Incentive program for the Company's portfolio companies

At an Extra General Meeting held on August 29, 2007, an incentive scheme was adopted which entails that the Company may issue and transfer call options to members of the executive management and other employees related to investments in non-listed portfolio companies to create opportunities for employees to take part in any future increase in value. By enabling the Company's employees to subscribe for call options of shares in portfolio companies' opportunities are created for employees to take part in any future increase in value, in a similar mode as for individuals that are working within so called private equity companies. The options shall entitle the holder to acquire shares in the portfolio company from Group companies at a certain exercise price corresponding to 110–150 percent of the market value of the shares in the portfolio company at the time of the transfer of the options. The term of the options shall be no longer than five years. The Company shall be entitled to repurchase the options at market value if the holder ceases to be an employee of the Group. The number of options issued can correspond to no more than 10 percent of the underlying shares in a portfolio company owned by Vostok Nafta. The Directors of the Board who are not employed by the Company shall not be entitled to participate in the programme. As of yet no call options have been transferred to any employees within the Group. This is to a large extent due to the longer lead times associated with investments in non-listed portfolio companies.

Other matters related to remuneration

The Board of Directors may be dismissed without a notice period. There are no agreements on severance payment or pensions for the Board of Directors with the exception for the Managing Director in his capacity as Managing Director, see "Remuneration to the Managing Director and other senior executives" above. Except as otherwise stated there are no reserved or accrued amounts in the Company for pensions or other post-employment remunerations or post-assignment for members of the Board of Directors or the senior executives.

Auditors

At the annual general meeting of shareholders on May 14, 2008, the audit firm PricewaterhouseCoopers AB, Sweden, was elected auditor for the period up to the next AGM.

Klas Brand, born 1956. Authorised public accountant, Lead Partner. Auditor in the Company since 2007. PricewaterhouseCoopers AB, Göteborg, Sweden.

Bo Hjalmarsson, born 1960. Authorised public accountant, Partner. Auditor in the Company since 2007. PricewaterhouseCoopers AB, Stockholm, Sweden.

During the year the auditing firm has not had any other assignments from Vostok Nafta in addition to auditing work specified in the section "Independent Auditors' Report" on page 73.

Internal control

The Board of Directors has overall responsibility for setting up effective internal control systems. Responsibility for maintaining and carrying out effective control has been delegated to the Managing Director. Internal control is a process which should be applied to ensure that goals such as effective and profitable operation are attained, financial reporting is reliable and laws and ordinances are complied with. The Board of Directors has also, as described above, set up an audit committee which is responsible for continuously reviewing the Company's control in relation to financial reporting.

Composition of the Board of Directors, elected on May 14, 2008, including meeting attendance for 2008

Name	Elected to the board	Position	Connection to the company	Audit committee	Compensation committee	Investment committee	Attended board meetings	Board fee, USD thousand
Lukas H. Lundin	2007	Chairman	Main Owner		X	X	100%	76
Al Breach	2007	Member	Independent				100%	29
Per Brilioth	2007	Member	Management			X	100%	–
Paul Leander-Engström	2007	Member	Independent		X	X	100%	41
Torun Litzén	2007	Member	Independent	X			100%	43
Ian H. Lundin	2007	Member	Main owner	X			100%	43
William A. Rand	2007	Member	Independent	X			100%	50
Robert J. Sali	2007	Member	Independent		X		83%	34
Number of meetings				4	2		6	

Board of Directors' report on internal control

The board of directors is responsible for the Company's organisation and administration of the Company's activities, which includes internal control. Internal control in this context regards those measures taken by Vostok Nafta Investment Ltd ("Vostok Nafta" or the "Company") board of directors, management and other personnel, to ensure that bookkeeping, asset management and the Company's economic condition in general are controlled in a reliable fashion and in compliance with relevant legislation, applicable accounting standards and other requirements for publicly listed companies. Vostok Nafta has also appointed an Audit Committee, consisting of three members of the board, charged with the special responsibility to review and discuss internal and external audit matters. This report has been established in accordance with the Swedish Code of Corporate Governance, sections 3.7.2 and 3.7.3, which govern internal control over the financial reporting. In addition this report has been prepared in accordance with the guidance provided by FAR SRS, the institute for the accounting profession in Sweden, and the Confederation of Swedish Enterprise. This report does not constitute part of the formal Annual Report and has therefore not been reviewed by the Company's auditors. Vostok Nafta is an investment company and hence the Company's main activities is the management of financial transactions and the Company's internal control over financial reporting is focused primarily on ensuring an efficient and reliable process for managing and reporting on purchases and sales of securities and holdings of securities. The board of directors has decided not to implement any particular review function (internal audit) in addition to the internal control functions already in place. The system of internal control is normally described in terms of five different areas that are a part of the internationally recognised framework which was introduced in 1992 by The Committee of Sponsoring Organizations in the Treadway Commission (COSO). These areas, described below, are control environment, risk assessment, control activities, information and communication and monitoring. The management continuously monitors the Company's operations in accordance with the guidelines set out below. Monthly reports are produced for internal use, which later act as the basis for a quarterly review by the board of directors. During the year the board of directors and management have also examined possible additions to the internal control functions already in place within the organisation. Documents describing internal work procedures are in the process of being established in order to mitigate the dependence of one single person within the Company.

Control environment

The control environment, which forms the basis of internal control over financial reporting, to a larger extent exists of the core values which the board of directors communicate and themselves act upon. Vostok Nafta's ambition is that values such as, precision, professionalism and integrity should permeate the organization. Another important part of the control environment is to make sure that such matters as the organisational structure, chain of command and authority are well defined and clearly communicated. This is achieved through written instructions and formal routines for division of labour between the board of directors on the one hand, and management and other personnel on the other. The board of directors establishes the general guidelines for Vostok Nafta's core business, which are purchases and sales of securities and holdings of securities. To ensure a reliable and easily foreseeable procedure for purchases and sales of securities the Company has established a sequential process for its investment activities. A specific Investment Committee has been instituted whose members are appointed by the board of directors, and charged with the task of identifying and reviewing potential investments or divestments. After review, a committee majority is needed to issue a recommendation for sale or purchase, upon which investment decisions are formally made by the Board of Directors of Vostok Komi (Cyprus) Limited, and an execution order is issued. As for the investment process, as for all other company activities they are governed by internal guidelines and instructions. The organizational structure of Vostok Nafta is characterised by a close and flat organisation. The Company's limited number of staff members and close cooperation amongst them contribute to high transparency within the organisation, which complements fixed formal control routines. Vostok Nafta's Financial Controller is responsible for the control and reporting of the Company's consolidated economic situation to management and board of directors.

Risk assessment

The board of directors of Vostok Nafta is responsible for the identification and management of significant risks for errors in the financial reporting. The risk assessment specifically focuses on risks for irregularities, unlawful benefit of external part at Vostok Nafta's expense and risks of loss or embezzlement of assets. It is the ambition of Vostok Nafta to minimize the risk of errors in the financial reporting by continuously identifying the safest and most effective reporting routines. The Company's flat organizational structure and open internal communication facilitates the work to identify potential shortcomings in the financial reporting, and also simplifies implementation of new, safer routines. The board of directors puts most effort into ensuring the reliability of those processes, which are deemed to hold the greatest risk for error, alternatively whose potential errors would have the most significant negative effect. Among other things this includes establishing clearly stated requirements for the classification and description of income statement and balance sheet items according to generally accepted accounting principles, pertinent legislation. Another example is the routine of a sequential procedure for investment recommendations and approvals of the same.

Control activities

This risk assessment leads to a number of control activities in place to verify compliance with set requirements and established routines. The purpose of the control activities is hence to prevent, detect and rectify any weaknesses and deviations in the financial reporting. For Vostok Nafta's part such control activities include the establishment of verifiable written decisions at every instance in the investment procedure. Thereto, after every completed transaction, purchase or sale, the whole process is examined to verify the validity of the transaction, from recommendation to approval and execution. Bank and custody reconciliations are also performed and compared to reported financial statement items. Control activities also include permanent routines for the presentation and reporting of company accounts, for example monthly reconciliations of Vostok Nafta's assets and liabilities, as well as portfolio changes. Special focus is also put on making sure that the requirements and routines for the accounting procedure, including consolidation of accounts and creation of interim and full year reports comply with pertinent legislation as well as generally accepted accounting principles and other requirements for publicly listed companies. Controls have also been carried out to ensure that the IT-/computer systems involved in the reporting process have a sufficiently high dependability for its task.

Information and communication

Vostok Nafta has tried to ensure an efficient and accurate provision of information internally and externally. For this purpose the Company has established fixed routines and invested in reliable technical applications to guarantee a fast and reliable way of sharing information throughout the organisation. Internal policies and general guidelines for financial reporting are communicated between the board of directors, management and other personnel through regular meeting and e-mails. Vostok Nafta's flat organizational structure and limited number of staff members further contributes to the efficient sharing of accurate information internally. To ensure the quality of the external reporting, which is the extension of the internal, there is a written communication policy which governs what and how information shall be communicated.

Monitoring

The board of directors receives monthly NAV reports and detailed quarter reports on Vostok Nafta's financial position and changes in its holdings. The Company's financial situation and strategy are discussed at every board meeting, as well as any problems in the activities and financial reporting since the last board meeting. The Audit Committee has a particular responsibility to review and bring any problems with the internal control of financial reporting to the board of directors' attention. Potential reported shortcomings are followed up via management and the Audit Committee. The Company prepares interim reports four times annually which are reviewed by the board and Audit Committee. Meetings with the Company's auditors are also held in connection with every quarterly reporting. A review of the Company's accounts is also performed at least once a year in addition to the comprehensive audit in connection with the Annual Report.

Glossary of terms and acronyms used in the annual report

ADR American Depository Receipt
bbl Barrel
bcm Billon cubic metres
bcmpa Billion cubic metres per annum
bln Billion
boe Barrels of oil equivalents
boepd Barrels of oil equivalent per day
bopd Barrels of oil per day, i.e. the number of barrels of oil produced (or transported) per day
Capex Capital Expenditures: expenditures by a company to acquire or upgrade physical assets such as equipment, property and industrial buildings
CIS Commonwealth of Independent States (former Soviet Union)
cm Cubic meters
Downstream Refining of crude oil and the marketing and distribution of oil products that occur after refining, as opposed to upstream.
E Estimate
EBITDA Earnings Before Interest, Taxes, Depreciation and Amortization
EV Enterprise Value, i.e. stock exchange value + net liability
Extractable reserves An estimate of the volume of extractable oil reserves held by the relevant oil company
F Forecast
FSU Former Soviet Union
Holding company The parent company in the vertically integrated Russian oil groups
kbpd Thousand barrels per day
kWh Kilowatt-hour, equal to 1,000 watts of electricity used for one hour. A measure of electric power consumption.
KZT Kazakhstani Tenge
lb English pound – unit of weight (454 grammes)
LNG Liquified Natural Gas
mcm Thousand cubic metres
mln or mm Million
mmboepd Million barrels of oil equivalent per day
mmbopd Million barrels of oil per day
mmtnpa Million tonnes per annum
MW Megawatt
MWh Megawatt-hour, equal to 1,000,000 watts of electricity used for one hour. A measure of electric power consumption.
n/a Not available
Neft or Neftegas Russian for oil company
Netback A measure of oil and gas sales net of royalties, production and transportation expenses.
nm Not material
pa Per annum
P/BV Relationship between stock exchange value and entered equity capital
P/barrel reserves The stock exchange value divided by the number of barrel reserves (oil) in the ground
P/Cash flow Stock exchange value divided by cashflow, which in many cases relates to net profit after tax with the setting back of the depreciation
P/E Price/Earnings, i.e. the relationship between the stock exchange value and net profit
P/EBIT The relationship between the stock exchange value and the operating profit
P/prod Stock exchange value divided by number of barrels (oil) produced a year
P/S Price/Sales, i.e. the relationship between the stock exchange value and sales
RTS Russian Trading System, the leading trading place for Russian shares
RUB Rouble
SDR Swedish Depository Receipt
SEK Swedish kronor
Tcm Trillion cubic metres
Throughput The amount of crude oil processed by a refinery in a given period
T Thousand
tn Tonne
UAH Ukrainian hryvnia
Upstream Upstream covers the exploration, production and transport prior to refining
USD American dollar
Vertically Integrated When applied to oil and gas companies, it indicates that the firm operates in both the upstream and downstream sectors.
Y-o-Y Year-on-Year

Conversion factors

1 tonne oil = 7.33 barrels of oil
1 tonne condensate = 8.5 barrels of condensate

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