Vostok Nafta Investment Ltd

Annual Report

2010

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Monthly net asset value calculations

Vostok Nafta publishes a monthly estimated net asset value (NAV), issued on the second working day 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 2011

The company shall issue the following reports:

Interim report for the first three months:
May 18, 2011
Interim report for the first six months:
August 17, 2011
Interim report for the first nine months:
November 16, 2011
Financial accounts bulletin:
February 15, 2012
Annual report and account:
March/April 2012
General meeting of shareholders 2010:
May 4, 2011
General meeting of shareholders 2011:
May 2012

Trying to sum up 2010 it feels like a year when we went nowhere, despite our NAV being up a better-than-index 28%. Clearly I expect much more from our portfolio and I firmly believe its potential remains very large. A common thread throughout our portfolio is companies with large cheap assets where the market lacks visibility into them producing a good financial yield. The obvious trigger for revaluation comes with increased insight and certainty into realizing those high cash returns. I believe 2011 will provide much more of this visibility across virtually all of our holdings, offering the prospect of a significant re-rating and so strong performance

We have spent a lot of time on the investments where we are a large shareholder (typically a result of us being instrumental in forming the corporate structure around the assets), which makes up about half of the portfolio, in order to continue to build the base for reaping this potential. Board work, management changes and financings have been going on at virtually all of these holdings during 2010.

In the other half of the portfolio, consisting of listed companies (where we have invested in already existing corporate structures), we are not as active around the running of the companies but have nevertheless seen positive developments across most of them during 2010 and the first part of 2011. We see these developments continuing again providing the right setting for continued revaluation.

All in all I am very optimistic about our portfolio, its risk reward and the mix between situations where we are a large and active shareholder and where we sit on a smaller percentage of the companies.

The Russian market

Clearly a portfolio like ours moves much more on specific micro triggers related to the companies in our portfolio than with the index at large. Equally obvious is of course the fact that positive movements at the index level and a fair valuation of the market at large provide a helpful backdrop to the revaluation of special situations portfolios like Vostok Nafta's.

2010 has been a year of continued recovery for Russia. Increased global risk aversion has put the market back for certain periods, most notably in May when the debt situation in Greece started off concerns over other indebted countries but also over the euro area as a whole. Risk appetite has however come back and with it an increasing appetite for Russia. Since the lows of 2010 the market has rallied some 40% but even so, because of a series of earning upgrades for 2011, it still trades on a P/E basis at a 40% discount to the global emerging markets average as well as a 20% discount to its own historical average. The main driver of the recent uptick is the strength in global commodities; oil as well as metals. In addition to this, the continuing low interest rate environment in developed markets results in investors venturing further out the risk curve again – leading to more interest for Russia.

On the local front, perceptions of Russia were certainly helped by the recent acquisition of Wimm-Bill-Dann by Pepsi for USD 5.4 bln. As we have discussed before, Russia usually does well in periods when commodities are strong or at least stable, when the Russian state seems to be getting serious about reforms, and where one can see large multinationals going long in the country through large acquisitions. At the moment we can put a check in all three boxes. We expect commodities to stay strong, although volatility should be expected. A high oil price could be double-edged for Russia though, if it were to be so strong as to break the back of a fragile global economic recovery - it would in the short-run benefit from a strong oil price but would is also dependent on a strong global economy for other commodity prices, demand for its exports and investment capital. Reforms in Russia are visible through the privatization round announced during the autumn. When these actually get started, Secondary Public Offerings in the listed companies are naturally good starting points, the market will continue to draw comfort. More painful reforms are unlikely to be dealt with until after the elections. Despite the downtick for both Putin and Medvedev, as well as for the large Kremlin-friendly party United Russia in the latest opinion polls, betting on anything other than a status quo in the elections – both Duma and Presidential – seems like a tall order.

In terms of macro economics, performance in Russia is steady. GDP growth in 2011 is decelerating slightly compared to 2010 as the stimulus from the Government is slowly withdrawn. Levels are notably lower compared to other BRIC countries in 2010 (China 10.3%, India 8.5%, Brazil 7.7%, and Russia 3.8%). Inflation has nudged up during the autumn due to the increase in grain prices and the Central Bank of Russia is expected to hike rates (although it did not do so at its last meeting). As this is a cost plus inflation rather than demand pull it seems to have people less worried than in the periods of overheating in the years leading up to the Autumn of 2008.

All in all a cheap market that should continue to do well in the sort of times we are living through now.

Black Earth Farming (BEF)

I have never felt better about BEF. It weathered the extreme year of 2010 very well. A plus or minus zero EBITDA (if netted of a goodwill write down) in a year when 60% of the crop was destroyed because of the worst drought in 130 years is a good accomplishment in my eyes. Going in to 2011 the company is

Managing Director's introduction

stronger than ever. The balance sheet is in good order, the preparations for the 2011 harvest is going well, the long period of registering the land we acquired in the early years is behind us and most importantly of all we have a management team in place which looks set to be able to deliver on the right balance of getting a maximized financial yield out of the company. This is of course a combination of getting a high crop yield, sold efficiently at high prices, at the lowest possible risk and lowest possible cost In short, 2011 looks to be the year when the market finally gets visibility on what kind of returns this asset can deliver. At today's grain prices we would expect the company to make in the order of USD 60 mln in EBIT this year, with a potential of doubling that when reaching full capacity of our existing land bank and getting the cost structure where it can be. And that is not taking into account the underlying value of the land.

The fact that the company now owns fully registered 250,000 hectares in freehold and 80,000 hectares in 49 year lease has been missed by the market in its total focus on the difficult macro situation for grain companies of the last three years (financial crisis, distressed grain prices and the worst drought for 130 years). I presented BEF at the Morgan Stanley Agri-conference in São Paulo in March 2011 and after my talk a UK hedge fund manager came up to me and criticized my presentation for its total lack of focus on NAV growth. He said that the sole focus of the other 20 or so companies that were presenting at the conference was how their NAV was developing. They all had lost money over the past few years but were still darlings of the investors. No-one had a larger land portfolio than BEF. And the cheapest of them all had a land value 10 times that of BEF.

At BEF's current price the simple average value per hectare in production (assuming 240 thousand hectare in 2011) is USD 2,000, but this is a combination of USD 1,000 in equipment, elevators and net cash, and so just USD 1,000 per hectare in implied actual land prices. As per above at today's grain prices I expect every hectare that will be in production to generate about USD 250 in EBIT. What is that worth? At a discount rate of 10% (reasonable given that this is a real asset and sovereign long duration rates are at 8%) we get a value of USD 2,500 per hectare. Add the remaining USD 1,000 per hectare in equipment etc. and have an implicit value of BEF of USD 840 mln or about SEK 45 per share. Taking this some two years down the road when we are at full capacity (280 thousand under the current land bank) and are where I think we can be on yields and costs, and assuming the same prices as today the company is generating a USD 150 mln EBIT. Across the productive land bank at full capacity of 280,000 hectares that is some USD 535 per hectare implying a value of the BEF share at just under SEK 95 per share. The upside risk to this comes from further improvement in costs and yields, us in time expanding the land portfolio and obviously from higher prices of grain required to feed 10 bln people…

RusForest

RusForest successfully carried out a rights issue in the latter part of 2010. The proceeds have been used to complete the ramp up of the existing assets to their full potential, including adding on forestry leases to balance the saw milling capacity that will thus come on stream over the next years.

In addition to this a company in Arkhangelsk was acquired (LDK 3) which included a saw mill, a large port facility in Arkhangelsk in which the saw mill is located and forestry leases. RusForest is thus present in the main forestry regions in Russia, Irkutsk, Krasnoyarsk and Arkhangelsk. In Arkhangelsk the company has been actively engaged in merger discussions with Nord Timber Group (NTG) over the course of 2010. NTG's asset base consists mainly of very large forestry leases (over 1 mln hectares of land) which fits very well into the existing Arkhangelsk asset in RusForest's portfolio, which is downstream focused through the saw mill in the port.

If one includes NTG, RusForest has an asset base that encompasses about 2 mln hectares of prime forestry land allowing for a capacity of up to 3 mln cubic metres (m^3) of annual allowable cut (harvesting rights) which will support the four saw mills in the portfolio up to a planned capacity of about 1 mln m^3. In terms of forestry land this compares to the global hygiene and paper company SCA, of Sweden, while the saw milling capacity is at the level of fellow forestry major Holmen.

Russia is the last forestry frontier in a world of increasing fibre deficits. The size of the assets of RusForest puts the company on a global scale. Over the coming two years the market will gain visibility into the fact that these assets will also provide a superior earnings profile to its global peers driven by a lower cost base. This increased certainty into earnings will propel the valuation of the company into a different league. Already in Q2 2011 the start up of the third saw mill in Eastern Siberia, Magistralny will provide a valuable insight into the management being able to deliver on its promises.

I strongly recommend you to read the forestry macro piece in this report, which has been put together by Carl Johan Krigström of Forestry Explorer.

Tinkoff Credit Systems (TCS)

Domestic demand in Russia is again booming. The currency is strong and if you walk around shopping malls in Moscow, they are packed. Credit is growing again and the market is scrambling around for banking assets to get exposure to. The ones available are state controlled institutions with large organizations.

Through TCS we have the exposure that people would die for. High growth with very efficient assets and high profitability setting the scene for a very high return on equity. Funding is key to deliver this shareholder growth. The company has tapped the rouble credit market very successfully during 2010 and the first part of 2011. Its ratings and accommodative markets bode well for a return to international markets during 2011, something that will further drive value and prove the valuation we have on it of USD 250 mln to be conservative.

Avito

BEF, RusForest and TCS all have large upsides to where they are today but “the real romance” in 2011 within the Vostok Nafta portfolio is Avito. Traffic has exploded since last summer establishing the company as the number one online classified operator in Russia. There is only room for one online classified operator per market. Once this position is achieved, barriers to entry are high as are returns, resulting in high valuations. Avito is set to take this place for the markets in Russia and Ukraine – a combined market with a total population of 200 mln. No market is similar, but recent transactions and listed comparables would put Avito at USD 1 bln with plenty of upside remaining…

Clean Tech East

Clean Tech East has had a tough couple of years with the launch of its wood pellets factory coming in behind schedule and over budget in addition to a low pricing environment for its products. With its factory finally in production as well as its launch of marketing to the retail sector in Northern Europe, the company will during the course of 2011 be able to deliver on visibility on an earnings profile that will ultimately reach some SEK 63 mln annually at the EBIDTA level, putting the company at an EV/EBIDTA multiple of 4.

In parallel to this the company is building the platform for producing wood pellets in North Western Russia. The first step will be the acquisition of BioEnergyNord (BEN) for shares and warrants. BEN has been engaged in the preparatory work of building a large factory for wood pellets in the Arkhangelsk area in Northwest Russia for the past years. Beyond the temporary oversupply from North American producers due to the Mountain Pine Beetle in Canada, wood pellets production in Arkhangelsk will likely come at the lowest cost in the world.

The reason why exposure to this market is desirable is that it is a renewable energy source at half the price of oil. The political demand in Europe of having 20% of its energy produced from renewable sources by 2020 will provide a new paradigm in terms of demand for this energy source. The coal fired utilities, which can substitute up to 10% of its coal for wood pellets without altering its assets in any significant way, will conservatively demand some 50 mln tonnes of wood pellets in Europe only, which compares to an annual global production today of about 10 mln tonnes.

Finally, the utterly tragic devastation of the nuclear reactors in Japan has already led to calls all over the worldfor a reduction in the expansion of nuclear capacity. It will be difficult to replace nuclear in terms of its emission efficiency, but the drive for alternatives will be serious. For Clean Tech East the European reluctance of nuclear expansion, most notably in Germany, could drive demand and pricing for its Russian pellets production in a much stronger fashion than we have previously anticipated.

TNK-BP

In my view, TNK-BP continues to be Russia’s best run oil company with perhaps the strongest production outlook in the sector. This coupled with the fact that management owns a significant stake, BP the other big stake and it pays a large dividend means TNK-BP is presently in a pole position to be valued at a premium to the sector at large. Its current discount is driven by the lack of blue chip type liquidity in the trading of its shares. This is currently improving as the shares have recently started trading on Russia’s two main stock exchanges, RTS and MICEX. For it to be further improved, its free float needs to be expanded. My view has been for a long time that this will happen when the Russian partners of BP sell down to fund their other investments. I believe their opposition to the present deal between BP and Rosneft is an attempt to get into a bargaining position to realize a sale at a fair valuation. If that is successful, this price will likely be markedly higher than the current market valuation, also providing good help in revaluing our holding in the company.

New Gazproms: Priargunsky, Alrosa, Transneft

We have a set of companies in the portfolio which very much fit the common monicker described above. Large and very cheap assets under corporations that stem back to Soviet times and which transited to their current forms and shareholdings in the privatizations of the early 1990’s. The lack of visibility into their full cash return profile is dimmed by the presence of the State as the major shareholder, a situation reminiscent of Gazprom (and Sberbank, Rosneft etc. for that matter) in the mid 90’s. Gazprom used to be considered a ministerial department (it was once the Soviet Ministry for Gas) by the market with a very low likelihood of ever producing returns and dividends. Over the years the State’s intentions with its shareholding became clearer and more aligned with minority shareholders and a large revaluation took place. The “New Gazproms” in our portfolio are companies that are similar to Gazprom in the 90’s and where we are convinced of a gradual improvement in the State’s management of the assets, its regulation of their markets and dividend policies. The current low valuation of their assets provides the potential for very large returns as these improvements take place.

Alrosa has just announced its intention to become an open joint stock company and properly listed through an IPO which will raise some USD 3 bln in new equity during the course of 2012.

In 2012 the Ministry of Finance will finally achieve its demand of having all companies where the State is a shareholder report under IFRS. According to DB this would have meant that Transneft would have paid dividends implying a 20% yield in 2009 rather than the 0.6% actually paid.

2011

What does 2011 hold in store for us? We are already well into the year and two enormous black swans have already flown in. If the Tsunami hitting Japan was unexpected the total devastation of the nuclear breakdowns came from nowhere. Equally unexpected, and perhaps with more profound effect on global growth, was the upheaval in the Middle East. Once the immediate fear and uncertainly diminishes, the global backdrop, even though tragic at many individual and local levels, is one which seems very positive for a market like Russia.

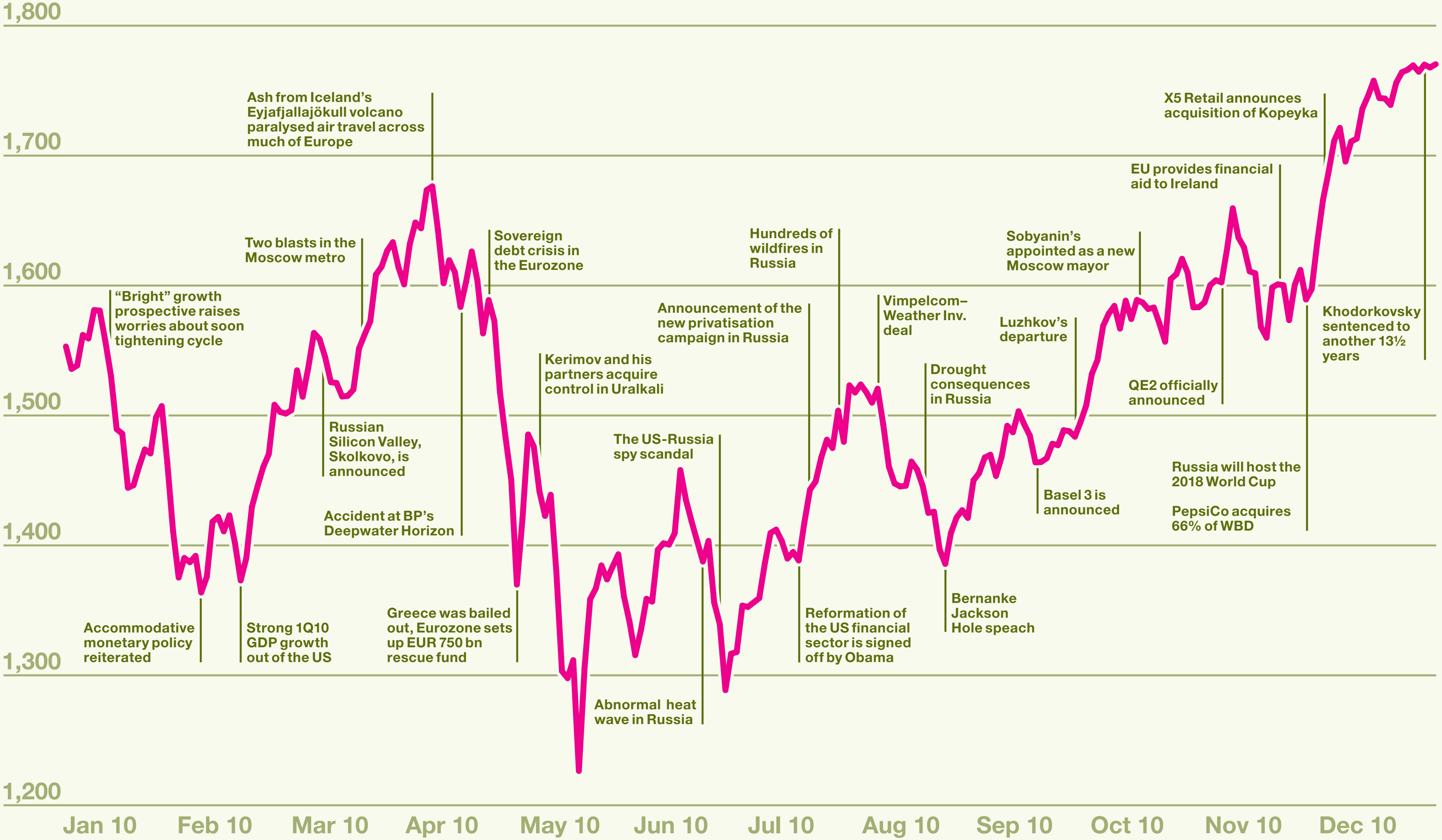
At Vostok Nafta, 2011 will provide substantially increased visibility into

- earnings for BEF, RusForest and CTEH,
- continued growth for TCS and Avito,
- increased certainty of the State’s intention with regards to Transneft, Alrosa and Priargunsky,
- the elimination of transfer pricing at Kuzbassrazrezugol.

My target is a doubling of our NAV over the next 12 months. This still leaves plenty of upside. I look forward to realizing it together.

Per Brilioth
Managing Director

RTS Index 2010 History



Managing Director's introduction

A conversation with the Chairman

Robert Eriksson, Vostok Nafta's Head of Investor Relations, sat down for a conversation with The Company's Chairman of The Board of Directors, Lukas Lundin, late March 2011 – a couple of days before this annual report was published. Last time they sat down for such a conversation, the world was in the midst of the financial crisis and we had just seen the price of oil slump from levels of around 140 USD/barrel to a low of less than 40 USD. Since then, we have seen a significant pick-up across the board – both in terms of global economic performance and stock price.

However, parts of the global economy are still experiencing significant problems, and the tragic events in Japan as well as the ongoing uprisings in the Middle East have once again put the resilience of the economic recovery into question.

Lukas Lundin recognizes the problems in front of us, but remains optimistic, particularly about the raw material sectors – where he and his family has been a player for the past 30 years through the different companies within The Lundin Group of Companies. Today the group is made up of some 12 companies with a combined market cap of about 14 billion USD.

"I am an optimist in the mid- to long term. It is hard not to be when you look at the continuing transformation of the global economy. China has become the world's second biggest economy and continues to grow at unprecedented levels. Coupled with the growth in countries like India and Brazil, we will continue to see a very solid global economic growth – even though the US and some of the smaller economies in Europe might struggle for yet some time", says Lukas Lundin who says he can't rule out the possibility of the price of oil hitting new all time highs and that this might pose the most serious threat to his vision of a healthy global economic recovery in the years to come.

"Sure, I can't say to you with any certainty that we won't see the price of oil hit 35 USD/barrel again. I did not think it would happen back in 2008, that we could fall that much in such a short period of time. So, there might be another crisis of some sort, it is hard to imagine what it would be sitting here though, that could cause such a dramatic fall. But I am much more worried about the price of oil getting to levels that are high enough to cause a global economic downturn. I think today's level of around 120 USD for a barrel of Brent crude won't cause any problems, and we will most likely be able to move quite a bit higher without things turning sour. However, I think that if the price moves well above 150 dollars, we have reasons to be worried. It could potentially be very painful with such a high oil price."

When it comes to mining Lukas Lundin sees a bright future – especially for base metals such as copper and zinc. The demand for these metals keeps growing, and there are very few major projects coming on stream in the next decade or so that can serve to meet the increase in demand, according to Mr. Lundin.

"I am a strong believer in the super cycle within the mining industry. Sure, I was surprised by the severe correction we saw in 2008/2009, but had probably not expected the market to rebound this much in such a short time either. It shows that the supply chain is still very tight. Since all major projects came to a standstill during the slump of 2008/2009 it will now take longer to increase the world's production. This is especially true for base metals – and it means that the super cycle we are in the beginning of will go on for even longer."

The price of gold has risen sharply over the past years, as a result of the economic and political turmoil that has shaken global investors. Some people say gold is set to continue to rise – while others are less convinced, since they believe that global economic growth will continue to be strong in the years to come. Lukas Lundin sold his number one gold vehicle, Red Back Mining, to Kinross Gold in a deal valued at close to 9 billion USD a little more than six months ago.

"Gold is a tool of fear. If people are worried about world events, or if governments are worried about the value of the currencies they hold – then gold will continue to become more expensive."

It is not too difficult to see how a tool of fear could continue to do well during a period when popular revolts and uprisings are spreading through the Middle East like a fast burning forest fire – and there seems to be no end in sight. Lukas Lundin admits that he is worried about the situation.

"Of course I am bit worried. It is dangerous to have too many fires in the world going on at the same time. However, I think that in the end something good will come out of all this. It could, and probably will, make these countries better and stronger. Short term it will of course create a lot of suffering, and add to global instability. It should play out for the better though. Hopefully the Libyans will get rid of that bloodthirsty guy who is in power there. In other parts of the Middle East, especially in the Arabic peninsula it is more complicated –with Sunni and Shia Muslims fighting for power."

The price of oil has been rising as the unrest has spread across the region, and everyone is now keeping a watchful eye on Saudi Arabia. The country is responsible for more than 10 percent of the world's oil production – and any major upheaval there is threatening to wreak havoc throughout the world economy.

"Right now the Saudis are trying to buy their population by giving them billions and billions of dollars for new housing etc. But the country will eventually have to reform and open up to the outside world. And they will have to create jobs for the young people. Otherwise something will happen to the regime – and if something happens to the regime there is no way of knowing where the oil price will end up. It would be a very dangerous situation."

Lukas Lundin is not afraid of investing in sectors which are currently out of favour amongst most of the global money managers. Currently, he is looking at uranium as being one of the sectors that will eventually stage a very strong comeback after the tragic events in Japan.

"I think there will be a lot of debate about nuclear energy as a result of what happened in Japan, but the truth is that we can't live without nuclear energy. We are entering a new energy crisis and we will need nuclear, coal and oil – we can't cut one out."

Vostok Nafta has exposure to the Russian uranium sector through its holding in Priargunsky. An investment that Lukas Lundin thinks has a lot of potential going forward.

"We are already investing into uranium, within the Lundin Group as well as within Vostok Nafta – with our investment in Priargunsky. I think it is a good time to invest in this sector now, after the correction we have seen lately. Priargunsky is in the process of opening up and becoming much more investor friendly – which will lead to the creation of significant value for us as a shareholder."

It is easy to understand that Lukas Lundin is quite excited about the prospects of the price for both oil and most of the metals The Lundin Group of Companies are investing into, having listened to his compelling arguments. But what about alternative sources of energy, won't they play an important part in the energy basket of the future?

"I think you will need a higher oil price in order to find alternative sources of energy. Right now oil is still too cheap for this to happen – there is not enough incentive to look for new sources. Even if you find something, it will be too costly in relation to oil. You basically want the oil price to go yet a bit higher, so that we can spend some time looking for new energy sources. But then again, not too high – since that would threaten the global economic growth. These new energy sources are needed, as I have a hard time seeing how world oil production will ever go above 90 million barrels per day – compared to today's levels of some 85 or 86 million."

"Renewable energy is still a very small part of the total energy basket; I think it makes up about two percent. And most of it still comes at a very high cost. We have invested into solar through Etrion, and into biomass through Vostok Nafta's investment in Clean Tech East. These sources will be a supplement to conventional energy sources in the future, although they will always make up a very small part of the energy portfolio – they will not on a stand alone basis solve our energy problems."

Lukas Lundin and the Lundin Group of Companies have been active in Russia for more than 15 years, especially through Vostok Nafta. So what lessons have Lukas Lundin learned form this experience?

"You have to adapt to Russia if you want to do successful business there. Russia will never adapt to you. That is a fact that won't change during my lifetime. However, I do not mind doing business in Russia – not at all. I see great opportunities there."

"I think Vostok Nafta has a very good portfolio. We have invested into farming and forestry and I see big potential in both Black Earth Farming and RusForest as we have put very strong management teams in place – teams that will be able to deliver substantial returns from the vast assets both companies have under management. In the rest of the portfolio we have a good mix of coal, diamonds, uranium, oil and gas and some exposure to the fast growing Russian consumer segment through Tinkoff and Avito."

Lukas Lundin has a rather clear plan for how Vostok Nafta will develop over the coming years, as substantial value is realized from the current portfolio.

"Vostok Nafta won't disappear any time soon, but as we sell parts of our portfolio we will most likely find that it makes sense to hand the proceeds from such exits over to our shareholders in a tax-efficient way. Vostok Nafta might become smaller as a result of this, but will continue to grow as a result of the great potential we see in our portfolio."

Forestry: The dawn of the green gold

The world's wood supply has historically come from natural forests and during most of the 20th century supply and demand has been in relative balance – lately supported by increased plantation areas in tropical countries. However, during the last ten years there has been increasing signs of future supply not keeping up with demand and with structural changes now taking place with more and more natural forests being set-aside for conservation purposes, while at the same time new demand from the energy sector starts to have an impact – we believe forest and timber will become a raw-material in tight supply. There are signs that we have already reached the tipping point.

Historically, the increase in global wood demand has primarily been satisfied by harvesting of natural forest in the Northern Hemisphere and massive deforestation of tropical forest in the Southern Hemisphere – to a large extent illegal logging. However, this is now becoming severely restricted in countries such as Brazil due to political initiatives. We also see the same trend in less developed countries in Asia and Africa, driven by a combination of stricter enforcement of regulations concerning the ban of illegal logging, but also due to many years of unsustainable harvesting levels which has severely depleted the forests. Despite all, the main usage of wood in the world and in similar countries is still fuel wood for heating.

One of the most important structural supply changes now taking place stems from the fact that the supply of wood from illegal logging have peaked, and will decrease rapidly in the future. This leaves only two main options for increased global wood supply in the future; namely from existing forest in Russia that has potential for increased harvesting, and finally from plantations in the Southern Hemisphere.

However, costs for plantation forestry are increasing rapidly with planting costs in Brazil having doubled in less than 10 years. Land availability is beginning to be a factor in most part of the world when it comes to forest plantations, and especially so in places where already in competition with agricultural land. The advantage with forestry from the investor's perspective when looking at the supply side and production, is that wood supply of quality wood, but also biomass, is highly inelastic in the short term.

If demand (and subsequently prices) for wheat or sugar beets increases over a certain season, all farms will have liquidated the deficit by increasing next year's seeding of the particular crop, whereas increased wood supply needs decades to be met.

Wood is therefore set to become more costly to source, both from natural as well as from plantation forests in the future and with the value of the tree depending on the logistical costs there is considerable potential in taking early control of forest assets with good logistical infrastructure. This is supported by the fact that log prices in China and also in Central Europe are higher today than they were at the boom of global construction in 2007.

When it comes to natural forests, Russia is the last forestland frontier and we believe it already experiences the same type of development as the North American and Scandinavian forest industries during the 19th Century, where the abundant supply of low cost wood led to world-leading corporations being built and the creation of vast fortunes. The key drivers in that process in Russia is consolidation driven by the strongest players, that in turn is followed by capital attracted to expand infrastructure as well as place the right management and routines in production. However, much of the forest potential in Russia is not economically accessible and the challenge is to take control of the forest assets that offers the best potential for efficient logistics to the major markets.

RusForest, which is one of the key players in the Russian forest industry, and one of Vostok Nafta's core holdings, is already today controlling one of the largest forest assets in the world at close to 1.6 million hectares of forest land or 2 million m^3 allowed annual cut (AAC) in harvesting. It is also one of the fastest growing forest companies and with the expected completion of the proposed merger with NTG, RusForest forest asset is set to increase by some 40% during to 2011 to reach 2.7 million hectares (2.8 million m^3 AAC).

The other major structural development now taking place is the fast growing demand for biomass (wood) for energy production (about 50% of all biomass for energy in Europe today is wood) and with the EU 20/20 commitment, demand for forest fibres for energy generation has the potential of more than double during the next ten years. With fibre supply already tight today in Europe, the biggest challenge for the European climate commitment will be the need for a massive scramble of biomass supply – and the only possible solution is to increase import of biomass in the form of wood pellets. Russia is the obvious supplier of biomass to Europe given its vast forest resources and proximity to Europe.

CleanTech East, which is another of Vostok Nafta's core holdings, aim to capitalize on the EU20/20 commitment to increase the share of renewable energy in the form of biomass and from a position with its first pellets plant in Ystad Sweden, and a second planned for Arkhangelsk Russia, the company is in an excellent position to benefit from Russia's natural position as being the primary biomass supplier to Europe.

Global Demand and Supply of wood

Historically, there has been a strong correlation between population growth and wood consumption, and much of the future growth for industrial wood will come from developing countries, such as China, India and Brazil. If global average per capita consumption of industrial wood remains at today's levels, the volume required will increase by 25% globally by 2028 based on population growth alone. This would require a new timber resource the size of the US, in order to balance world demand. However, as there is a strong correlation between the absolute level of GDP and wood consumption demand is set to increase substantially faster supported by economic growth in the developing world.

Although wood consumption per capita in China is still relatively low, the country is already having a major impact on the global market for wood due to the lack of domestic supply – and already in 2010, China was a net importer in excess of 100 million m³, corresponding roughly to Canada's total timber harvest.

In the developed world, the market has been in relative balance for quite some time, with Europe previously supported externally by imported timber from Russia. However, with the introduction in 2007 of export tariffs on unprocessed logs from Russia, Europe and especially Finland suffered some acute shortage and a number of pulp and paper mills were closed down for good. This has now brought the European market back to a relative supply and demand balance, as the pulp and paper industry reduced its demand for fibres.

However, demand growth in Europe is now set to accelerate again not on pulp but rather on demand from energy consumers, as the EU has committed, with an aim of combating global warming, to raise the proportion of power generated by renewable energies to 20% by 2020, a substantial increase from today's level of 7–8%.

Provided the proportion of wood remains the same as at present (50–60% of total renewable), it would imply an increase in demand of some 500 million m³ of wood in Europe by 2020. This is a significant amount given that present estimates for EU wood supply from forests, residues, co-products and recycled wood totals less than 800 million m³. In addition, EU has a biofuel target of 10% by 2020 and this can only be achieved by using wood as the raw material.

Replacing only one percent of the total primary energy consumption in EU27 (about 1,800 million tonnes of oil equivalent) with biomass would require over 90 million m³ of wood corresponding to about 1/8 of the Net Annual Increment (NAI) of Europe's forest, or about the same level as the annual harvest of Sweden.

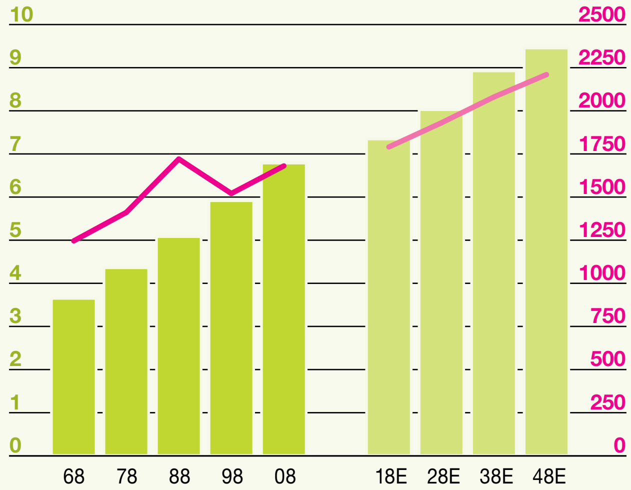
Many observers believe that the European wood deficit by 2020 due to increased demand for renewable energy and biofuels will be somewhere between 300 million m³ and 600 million m³, depending on EU's political commitment for reaching its 20/20 target.

Also, China is now focusing on increasing energy generation from wood fibres with a national wood pellets target of 50 million tonnes by 2020, compared to a consumption of 2 million tonnes in 2009. Even if successful, this will only provide a fraction of the biomass required to meet China's biomass power target of 30 GW by 2020, compared to 5.5 GW in 2010.

At the same time as demand growth for timber is accelerating due to demand from the energy sector, supply is diminishing as the global forest is decreasing by close to 10 million hectares per annum. Increasing restrictions in the harvesting of natural forest also reduce the supply potential for industrial wood and in total some 15 million hectares of forest are disappearing every year.

Global population growth and industrial roundwood demand, 1968–2048E

Population (billion, lhs)
Industrial roundwood (million m³, rhs)



The expected increase in demand for wood can only be satisfied by means of plantation forestry and by utilizing Russian vast forest resources better and this will come at substantially higher future prices for fibres. If Scandinavian forests can deliver enough wood growth to motivate a valuation of USD 10,000–20,000 per hectare, it is astonishing that companies like RusForest still can secure volume and future growth for a valuation around USD 30 per hectare.

Regional position of our investments

RusForest is primarily a play on the expected global wood shortage and increasing demand for timber from China, while CTEH is primarily a play on the increased demand for renewable energy in Europe.

Both of these companies aim to capitalize on Russia's position as having vast forest resources and being the natural supplier of biomass to Europe and timber products to China. Rail transports from the Russian side shall at least be as efficient over time as shipping from far away countries like New Zealand (which is the second largest wood supplier to China.

The European biomass market potential

Biomass represents the largest and most cost efficient renewable source for replacing significant portions of the world's fossil fuel consumption and the only realistic solutions for reaching the EU commitment by 2020.

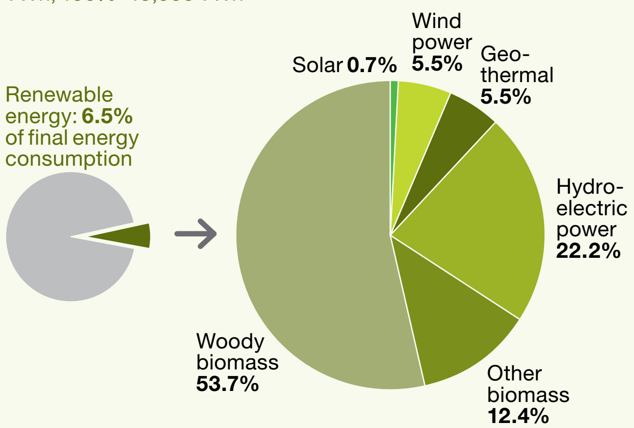
However, massive increase in biomass sourcing will be required by the EU 20/20 scenario and provided the proportion of biomass and wood remains the same as at present (50–60% of total renewable), it would imply a 100–200% increase in demand of biomass in Europe by 2020, based on the EU scenario.

The expected supply gap will lead to sharply increased biomass prices due to lack of supply – a process that will be supported by increasing CO_2 taxation on fossil based energy sources. However, not even with substantially higher prices for biomass in Europe will local EU supply increase materially due to physical lack of biomass resources and the expected supply gap can only be filled by import from overseas. Pellet prices in Europe can even rise with some 70% from today's levels and still be cheaper in heating on a kWh basis than just using heating oil.

Forests located in Russia have among the biggest potential to supply woody biomass to Central European markets.

Final energy consumption EU-25, 2020E

TWh, 100%=15,000 TWh



The Nordic countries and Russia – Europe's wood baskets

For the different biomass alternatives– wood pellets is the only biomass alternative that can be transported cost efficiently over long distances as having high energy density and being easy to store and handle and it is estimated that some 100 million tonnes of wood pellets will be needed to reach the EU commitment of 20/20. This is a ten times increase from today's level.

There is however substantially bigger potential if the politicians get serious about combating global warming by increasing renewable energy sources as some 40% of the global electricity and heat production is today produced in coal fired power plants. Through co-firing, wood pellets as an energy source can be easily incorporated into existing power generation systems without any significant investments and by replacing coal with wood pellets carbon dioxide emissions can be reduced by 55 to 98 percent compared to fossil fuels. Forests near the border to Finland and Europe in Russia, or near the all-year port of Arkhangelsk like in the case of RusForest, is indeed the closest and cheapest biomass supply attainable at an attractive cost.

Co-firing of pellets together with coal therefore has the potential of being the singel most important action in the reduction of green house gas emissions in order to combat climate change and offers the power industry and policy makers the quickest and easiest way to expand low-carbon power generation.

Today, standard wood pellets can be co-fired and replace 10–15% of the coal usage in existing power stations without any significant investments in new feeding mechanisms and dry storage. However, with next generation wood pellets – torrefied pellets (thermally pre-treated with a different cell structure) – the co-firing potential increase up to 40% in existing coal fueled power plants.

A 5% world global co-burning ratio (~1260 TWh to be replaced with pellets) would require 250 million tonnes of wood pellets, corresponding to close to 700 million m³ of wood per year.

Clearly, the potential demand from the energy sector could dramatically tighten the global supply balance for forest fibres. We believe, CTEH will be in an excellent position to benefit from this development with its already existing operation in Ystad geared towards the residential market in and with the expansion project of building a world class pellet plant in Archangelsk, Russia for the central European market.

The Chinese timber market potential

In 2009, China become the world's leading producer of paper and paper board and more than half of the expected growth in paper and board production through 2025 will be in China.

However, many pulp and paper mills are non-integrated due to lack of local forest resources and therefore dependent on external sourcing of wood fibre. As a result, China is already today the world's largest importer of logs and wood chips and the wood fibre deficit is expected to increase by some 25% over 2010–2012 period reaching 125 million m³.

Demand for wood chips have increased five-fold in just two years and the scarcity of fibres has meant that mills in China often have to take production curtailments due to lack of raw-material. With a large number of non-integrated mills under construction in the region, the need for import of wood chips is set to continue to increase dramatically during the next ten years.

In addition to the pulp and paper industry, China also has a large share of the global timber industry which is rapidly increasing import of timber and sawn goods as China has very limited domestic resources and large markets of ready products abroad. Exports of solid furniture to USA and Europe is one example.

In 2010, import of unprocessed logs into China increased by 22% in volume and 49% in value, compared to 2009 to reach 34 million m³, while import of sawn goods increased even faster, with volumes being up by 49% and in value by 65%; to reach 15 million m³.

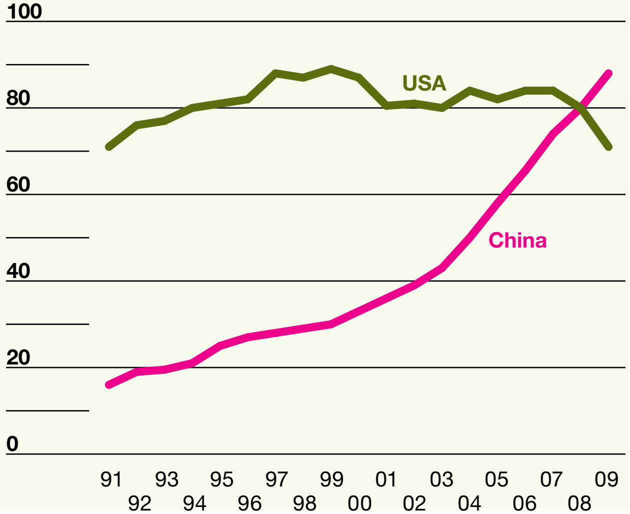
The trend of value increasing almost twice as fast as volume is set to continue as China has been a major destination for illegally harvested timber but there is a lot to suggest that these volumes will increasingly dry up as the low-cost sources for illegally harvested timber have already been severely depleted and is now being replaced by legally harvested timber at higher prices.

Russia from its eastern regions is the main supplier to China of both logs and sawn timber and given the countries proximity to China and its vast forest resource, Russia is the natural wood basket for China. Already today, Siberian saw logs at the border to China command a higher price than the average log price paid by a Swedish sawmill.

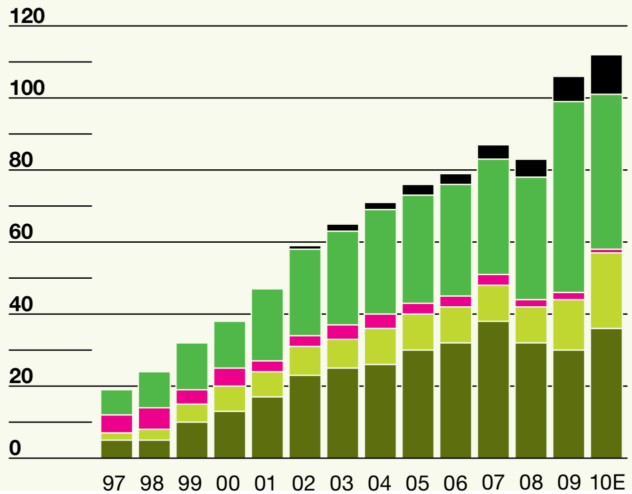
We believe this offers a huge potential for RusForest's Siberian operation, as being practically located on the doorstep of China and the company's aim is to become one of the main players in supplying the massive Chinese wood deficit from its ideally located forest assets in Russia. The real task for RusForest is therefore to be strong and quick enough to continue to position itself in securing quality forests, that will allow for increased off-loadings on export at higher and higher prices, delivering ultimate shareholder value as cash flows improves and the forest land resource itself becomes re-evaluated.

Carl Johan Krigström
Forest Explorer AB

USA and China: Paper and paperboard production, 1991–2009
Million tonnes.

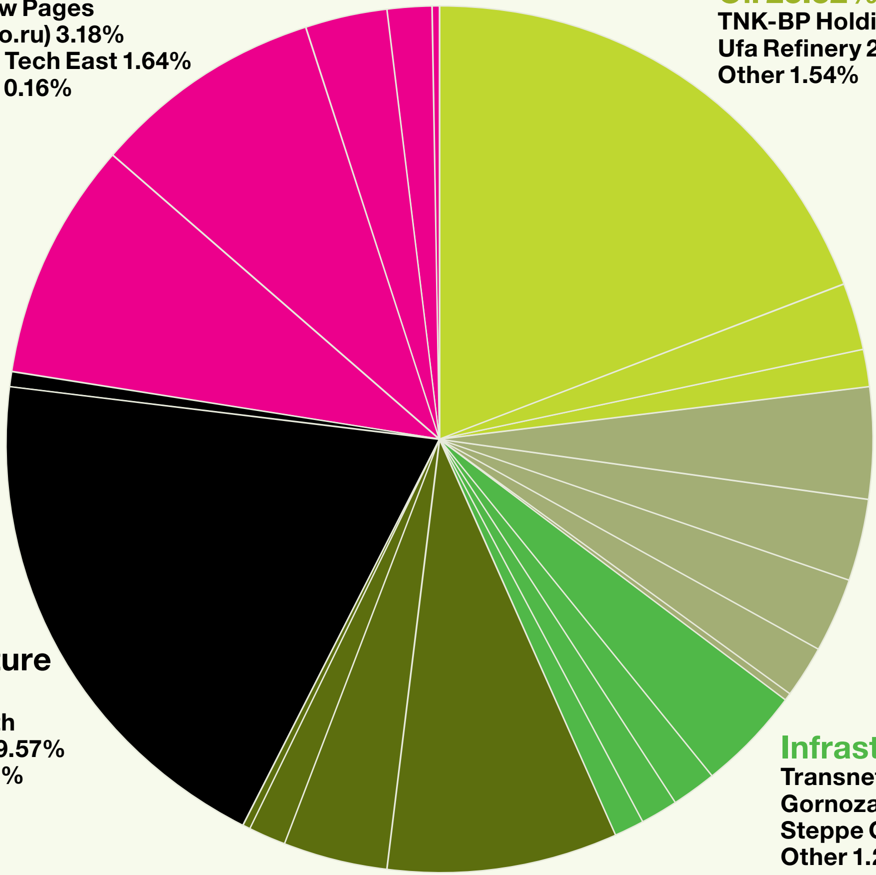


China's growing timber deficit, 1997–2010E
Million m³.
Woodchips Pulp Wood panels
Lumber Logs



Forestry: The dawn of the green gold

Vostok Nafta investment portfolio as per December 31, 2010



The Group's net asset value as at December 31, 2010, was USD 625.43 mln, corresponding to USD 6.19 per share. Given a SEK/USD exchange rate of 6.8025 the values were SEK 4,254.48 mln and SEK 42.12, respectively.

The group's net asset value per share in USD increased by 28.25% over the period January 1, 2010–December 31, 2010. During the same period the RTS index increased by 22.54% in USD terms.

During the period January 1, 2010–December 31, 2010, the investment portfolio, which represents the largest part of the Group's net asset value, has increased by USD 139.53 mln. Movements of the investment portfolio are (USD mln):

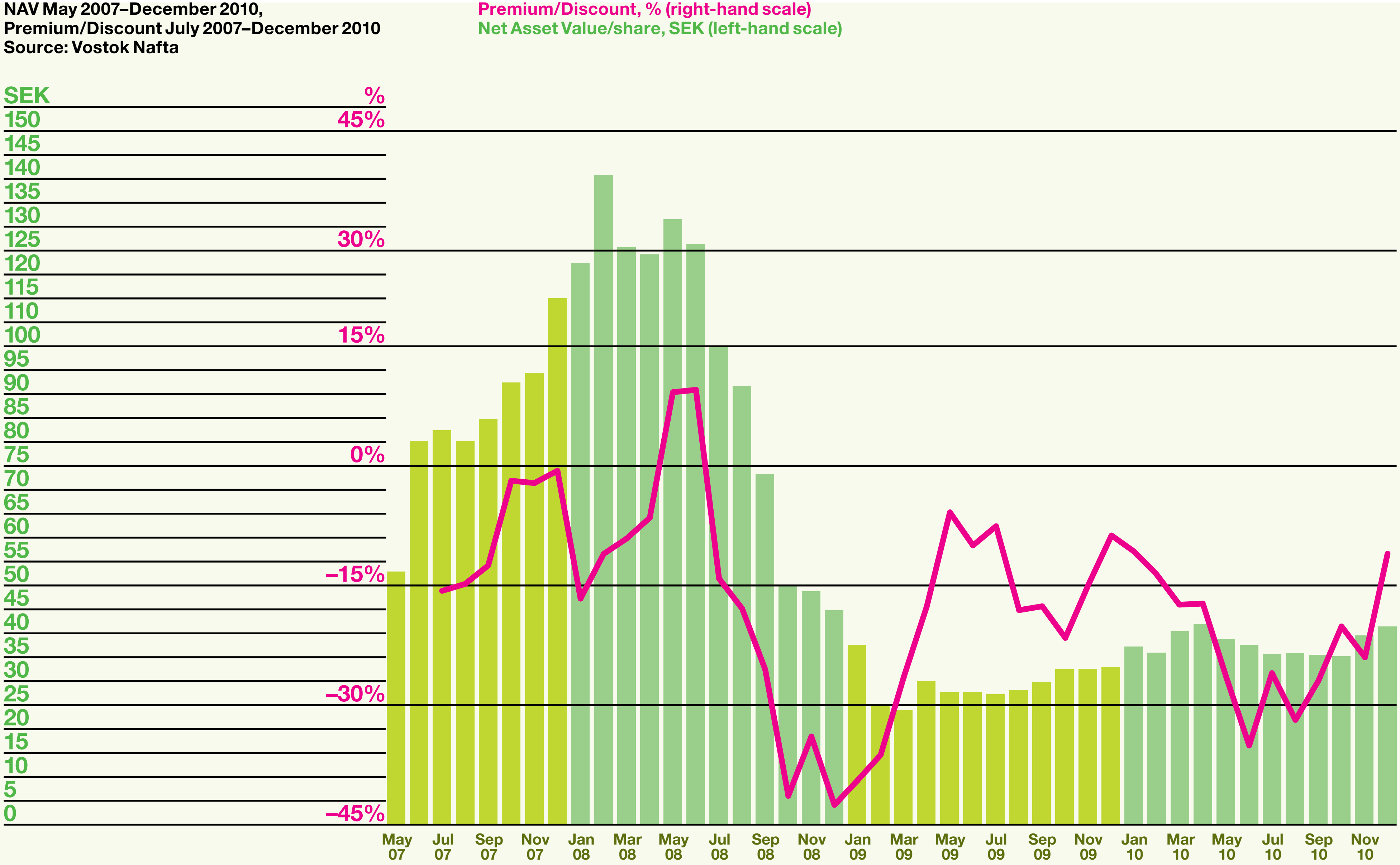
Opening balance	475.47
Additions	96.07
Reclassifications	1.34
Proceeds from disposals	–88.57
Result from disposals	–11.14
Interest income	5.50
Exchange differences	–0.83
Change in fair value	137.17
Closing balance	615.00

Major investments have during 2010 been made to increase the group's shareholdings in RusForest, Clean Tech East and TNK-BP Holding. Following the rights issue in Clean Tech East Holding during the second quarter, Vostok Nafta's stake in the company rose to 42.8 percent of the shares outstanding as a result of our participation in the guarantee consortium of the new issue.

Vostok Nafta has subscribed its share in RusForest's rights issue during the fourth quarter, contributing with approximately SEK 187.8 mln. For the purpose of creating a more well-balanced shareholder structure, Vostok Nafta has also sold 1,500,000 shares of RusForest. Vostok Nafta remains the largest shareholder of RusForest after this transaction, controlling 43% of the shares.

At the end of December, 2010 the three biggest investments were Black Earth Farming (19.57%), TNK-BP Holding (19.39%), and RusForest (8.78%).

The Vostok Nafta investment portfolio



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

The Vostok Nafta investment portfolio

Number of shares	Company	Fair value, USD	Percentage weight	Percentage of outstanding shares	
5,364,850	Caspian Services	643,782	0.10%	10.27%	1
5,789,903	Kherson Oil Refinery	7,261	0.00%	4.40%	1
16,502,237	TNK-BP Holding Ord	43,730,928	7.11%	0.11%	1
30,953,600	TNK-BP Holding Pref	75,526,784	12.28%	6.88%	1
1,470,000	Novoil	1,389,150	0.23%	0.19%	1
10,300,000	Ufa Refinery	14,729,000	2.39%	1.89%	1
1,165,000	Ufaneftekhim	5,300,750	0.86%	0.42%	1
108,500	Varyaganneftegaz Pref	2,115,750	0.34%	0.45%	1
	Oil, Total	**143,443,405**	**23.32%**		
1,261	Alrosa	18,158,400	2.95%	0.46%	1
300,000	Fortress Minerals	1,277,681	0.21%	2.02%	1
31,434	Gaisky GOK	12,259,260	1.99%	5.09%	1
3,104,498	Poltava GOK	16,231,882	2.64%	1.63%	1
106,242	Priargunsky Ind Ord	24,329,418	3.96%	5.82%	1
11,709	Priargunsky Ind Pref	1,276,281	0.21%	0.52%	1
1,442,400	Shalkiya Zinc GDR	158,664	0.03%	2.55%	1
	Other commodities, Total	**73,691,585**	**11.98%**		
3,654	Bekabadcement	657,720	0.11%	6.53%	1
375	TKS Concrete [5]	1,506,750	0.24%	10.00%	1
39,000	Gornozavodsk Cement	9,750,000	1.59%	5.03%	1
1,600,000	Kamkabel	160,000	0.03%	4.12%	1
85,332	Podolsky Cement	53,503	0.01%	0.01%	1
11,804,303	Steppe Cement Ltd	9,293,340	1.51%	6.59%	1
19,730	Transneft Pref	24,330,215	3.96%	1.27%	1
1,215,000	Tuimazy Concrete Mixers	5,224,500	0.85%	14.78%	1
	Infrastructure, Total	**50,976,028**	**8.29%**		
1,459,734	RusHydro ADR (1 ADR = 100 Local shares)	7,955,550	1.29%	0.05%	1
34,821,499	RusHydro Local shares	1,862,950	0.30%	0.01%	1
3,500,000	Kuzbass Fuel Company	24,045,000	3.91%	3.53%	1
133,752,681	Kuzbassrazrezugol	51,494,782	8.37%	2.18%	1
2,618,241	Kyrgyzenergo	168,688	0.03%	0.27%	1
	Energy Sector Restructuring, Total	**85,526,970**	**13.91%**		
1,765,000	Agrowill Group	607,279	0.10%	2.47%	1
30,888,704	Black Earth Farming	120,330,857	19.57%	24.79%	2
272,106	Dakor	2,880,704	0.47%	4.76%	1
	Agriculture, Total	**123,818,840**	**20.13%**		
1,073,174	Egidaco Investments PLC (TCS), equity [5]	43,430,866	7.06%	17.08%	1
	Tinkoff Credit Systems Bank (TCS), loan	9,266,579	1.51%		4
50,000	Vosvik AB/Kontakt East [5]	19,538,223	3.18%	50.00%	2
28,165,209	RusForest AB	52,997,380	8.62%	42.99%	2
	RusForest, long-term loans	1,068,316	0.17%		3
	RusForest, Issued call options	–53,627	–0.01%		2
284,856,095	Clean Tech East Holding AB	6,281,281	1.02%	14.45%	2
121,300,900	Clean Tech East Holding AB, Warrants	178,318	0.03%		2
	Clean Tech East Holding AB, loans	3,633,409	0.59%		3
623,800	TKS Real Estate	990,597	0.16%	5.54%	1
	What Works in the West…, Total	**137,331,343**	**22.33%**		
	Other non current loan receivables	200,000	0.03%		3
	Other current loan receivables	16,853	0.00%		4
	Other loan receivables, Total	**216,853**	**0.04%**		
	Grand Total	**615,005,025**	**100.00%**		

1. These investments are shown in the balance sheet as financial assets at fair value through profit or oss.
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.
5. Private equity investment.

Vostok Nafta's portfolio as at December 31, 2010

The Vostok Nafta investment portfolio

Black Earth Farming (BEF) is a leading farming company, publicly listed in Stockholm and operating in Russia. BEF was among the first foreign financed companies to make substantial investments in Russian agricultural land assets to exploit the large untapped potential. Because of its early establishment, BEF has gained a strong market position in the Kursk, Tambov, Lipetsk and Voronezh regions, all located in the Black Earth areas which holds one of the most fertile soils in the world. The company's main products are wheat, barley, corn, sunflowers and rapeseeds.

Black Earth Farming's business concept is to acquire and consolidate zero or low yielding land assets in the Russian Black Earth region. Russian agricultural land is significantly undervalued, both in comparative terms and in relation to its inherent production potential. Unproductive land can currently be acquired at a significant discount in an international comparison (see graph *BEF: Land price comparison* to the right), but with large appreciation potential. By introducing modern agricultural farming practices there is also a vast opportunity to significantly increase productivity in terms of crops yielded per hectare of land, thus increasing the land value. The registration of controlled land into full ownership continues successfully, with the majority of land now under fully registered free holds. Total land under control amounted to 328,000 hectares as of December 31, 2010 (see graph *BEF: Land holdings 2006–2010* to the right). Land in ownership amounted to 250,000 hectares, or 76% of total land under control, land in ownership registration amounted to 30,000 hectares, and land under long term lease has increased to 48,000 hectares. At the same time operating improvements are ongoing with substantial long term potential for increased production and profitability.

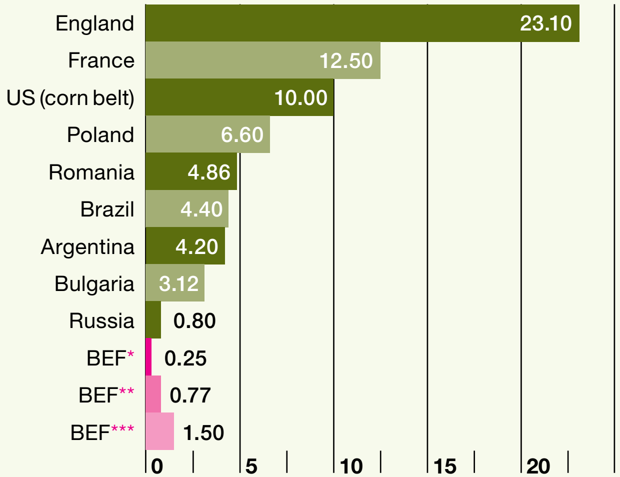
BEF: Land price comparison

Thousand USD/hectare. Source: Company data

* BEF: book value of total land bank

** BEF: implicit value of total land bank given non-land fixed assets at book

*** BEF: implied value of total land bank at BEF market cap



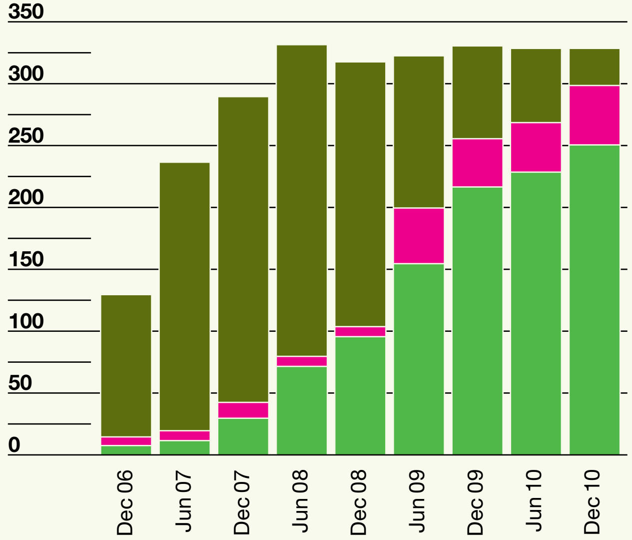
BEF: Land holdings 2006–2010

Thousand hectares. Source: Company data

Land in ownership registration

Long term leases

Land in registered ownership



Black Earth Farming

The extreme weather during the summer of 2010 has had a significant impact on the financial performance. The extremely dry conditions severely impeded the crop yields as well as the total harvested area for 2010. Full year 2010 sales revenue amounted to USD 46.9 million, representing a 40% decline compared to 2009 largely due to significantly lower harvest volumes. The gross commercial crops harvested in 2010 amounted to 231,000 tonnes, gathered from 180,000 hectares, a decrease by 58% compared to 2009. The resulting average gross crop yield spread over all cultures of 1.3 tonnes per hectare is a 56% decrease compared to 2.9 tonnes per hectare in 2009.

Current focus is on gaining efficiencies in production coupled with best-in-class cost structure. Ongoing cost cutting initiatives are focused on fixed costs that do not directly affect crop yields. Distribution expenses decreased 64% for the full year 2010 compared to 2009, partly due to lower sales volumes. Distribution costs per tonne were 21% lower in 2010 compared to 2009, which can be attributed to the company's investments into own storage and handling capacity, thus eliminating third party services. General and administrative costs decreased by 22% in 2010. As the labour intensive process of land registration draws to an end BEF's cost structure will be trimmed down below global benchmarks to fully realise the potential for a profitable large scale farming business.

Black Earth Farming's outlook for 2011 is inspiring. Prices seem to be holding up well although not at the levels of early 2008 yet. Costs are in order, although there is more to do to reach our targets. Richard Warburton of Kinnevik has taken the role of Chief Operating Officer at the company, which is a very strong addition to the management team. With Richard at the operating steering wheel the company has the ability to start to deliver, on not only the completion of putting the maximum number of hectares on production, but also on getting a completely modern farming company in terms of organization and costs.

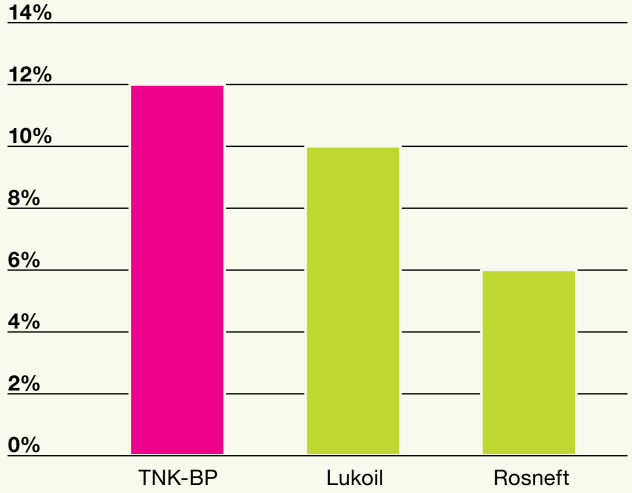
Black Earth Farming	
Vostok Nafta's number of shares	30,888,704
Total Value (USD)	**120,330,857**
Portfolio percentage weight	19.57%
Share of total shares outstanding	24.79%
Share development 2010 (in USD)	22.82%

TNK-BP is a leading Russian oil company and is among the top ten privately-owned oil companies in the world in terms of crude oil production, accounting for about 16% of oil production in Russia. The company was formed in 2003 as a result of the merger of BP's Russian oil and gas assets and the oil and gas assets of Alfa Access Renova group (AAR). BP and AAR consortium are the company shareholders on a parity basis. TNK-BP also owns about 50% of the Slavneft oil and gas company. TNK-BP is a vertically integrated oil company with a diversified upstream and downstream portfolio in Russia and Ukraine. The company's upstream operations are located primarily in West Siberia (Khanty-Mansiysk and Yamalo-Nenets Autonomous Districts, Tyumen Region), East Siberia (Irkutsk Region), and Volga-Urals (Orenburg Region). The company's total proved reserves amounted to 13.07 billion barrels of oil equivalents as of December 31, 2010, compared to 11.67 billion barrels as of December 31, 2009. This reserves growth is mainly due to an increase in the oil recovery factor, resulting from efficiently maintaining reservoir pressure and engineering studies at the Verkhnechonskoye, Urnenskoye and Ust-Tegusskoye oil fields. To ensure growth in the production output, TNK-BP concentrates up to 80% of investment in upstream annually. The company's goal is to replace 100% of its production with new reserves each year. To accomplish this, the company uses international best-practice field, level technology and advanced techniques to locate new reserves. TNK-BP offers investors a superior production growth outlook and quality investments, along with high cash flows. The company has reported strong financial results for the full year 2010 with impressive cash flows. The 2010 financial results and operating cash flows are the highest in TNK-BP's history (adjusted for divestments), with an EBITDA increase of 18% to USD 10.3 billion and an increase in net income by 17% to USD 5.8 billion. Based on the current share price, 2010 FCF of USD 5.56 billion gives an FCF yield (FCF/EV) of more than 12%, which exceeds both that of LUKOIL (10%) and Rosneft (6%). (See graph *Free cash flow yield*)

Investors have recently started to acknowledge the improved fundamentals and the valuation gap between TNK-BP and its Russian peers has recently narrowed. A higher valuation is still expected given the company's production growth and high quality investments.

TNK-BP is a highly cash generative, well managed and cost efficient oil company thanks to a highly competent management team, with staff from TNK's Russian business and BP's global operations. The company's dividend pay-out policy (historically around 40 percent of net income) is very transparent and rigid given the shareholder structure. In 2008 the two majority shareholders AAR and BP settled on a shareholders' agreement to end a much covered dispute. The two have previously had differing opinions regarding the strategic use of the company's cash stream, where the former favours dividends and the latter investment into new projects and operations, which has been resolved. Part of the agreement also entails an IPO in order to increase the company's free float to 20 percent from the current 5 percent, which is positive. The key trigger for the stock is a company restructuring in order to improve the free float and trading liquidity. TNK-BP has during 2010 received approval from MICEX and RTS for its shares to be traded at these two stock exchanges. The shares have previously been traded at RTS Board only (over-the-counter-market), but trading of both ordinary and preferred shares commenced in December, 2010. We see this move as clearly positive as it will improve liquidity of TNK-BP

Free cash flow yield (FCF/EV)



TNK-BP Holding

Holding's existing shares and act to the benefit of the company's minority shareholders.

One of the majority shareholders in TNK-BP, BP, has announced a deal between BP and Rosneft involving a mutual share swap (9.5% of Rosneft to be exchanged for a 5% stake in BP) and the formation of an arctic exploration joint venture (66.67% Rosneft/33.33% BP). The deal has been legally challenged by BP's partner in TNK-BP, AAR citing a shareholders' agreement whereby both sides' oil interests in Russia have to be made through TNK-BP. TNK-BP as an entity is likely not subject to a share swap offer from Rosneft and does not have the same capacity, in terms of access to new licenses through political links, to enter the Arctic as Rosneft does, so the challenge is likely more driven by the quest for a financial penalty. There has even been speculation of a complete buy-out by Rosneft of the AAR stake in TNK-BP. AAR has been known to have negotiated its exit in TNK-BP several times in the recent five years but have been unable to agree on price. If a buy-out by Rosneft is done (Rosneft could be even more eager than BP for commercial reasons and because the deal would distance them from their historical involvement with Yukos, which has been especially vocal in the UK) it will likely also act as the trigger for the revaluation of the listed TNK-BP Holding in which Vostok Nafta has one of its largest positions.

TNK-BP Holding	
Vostok Nafta's number of shares	
Ordinary	*16,502,237*
Preferred	*30,953,600*
Value Ordinary	*43,730,928*
Value Preferred	*75,526,784*
Total Value (USD)	**119,257,712**
Portfolio percentage weight	19.39%
Share of total shares outstanding, Ordinary	0.11%
Share of total shares outstanding, Preferred	6.88%
Share development 2010, Preferred	62.67%

TNK-BP Holding

RusForest is active within the forestry sector in Eastern Siberia, Russia. The company was established in 2006 through the acquisitions of Tuba-Les and PIK-89 in the Irkutsk region. Since then, RusForest has reached a considerable scale, both in terms of forest resources and sawmilling capacity, through strategic acquisitions and brownfield development projects. The company currently controls approximately 1.3 million hectares of forest land with an annual allowable cut (AAC) of 1.98 m^3. By increasing its sawmilling capacity as well as adding other value-adding activities RusForest will continue to develop its vast resource and unlock its potential by delivering a good return to its shareholders.

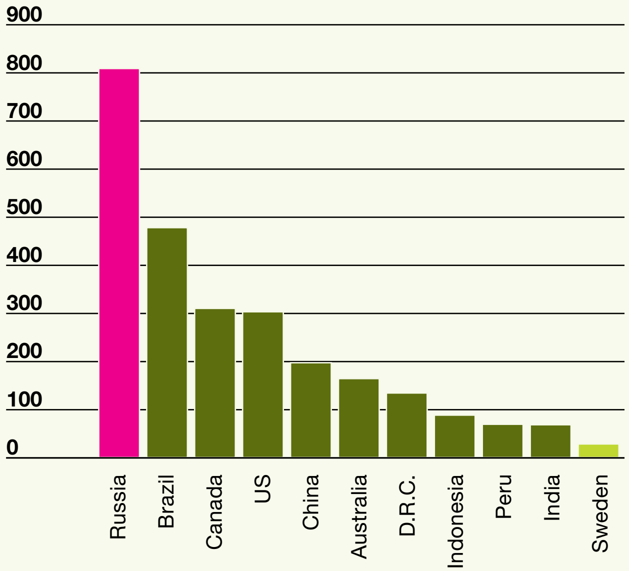
Alongside Brazil, Russia has the world's largest forest reserves by a significant margin, and Eastern Siberia is known for its Pine and Larch of exceptional quality, while the Arkhangelsk Region in northwest Russia has high quality spruce and pine forests similar to those found in northern Sweden. Within Russian forestry there is a vast improvement potential in terms of operating efficiency to complement the competitive advantage of low cost raw materials. As investments into more value added forestry activities occur, there will be an increased competition and pricing for sawmilling by-products which RusForest currently sells, where possible, to the local monopoly pulp producer. As a result the company intends – in addition to its ongoing near term plan of stabilizing output volumes thanks to better log flow coordination, general operational improvements and increased production capacity. RusForest has a highly impressive asset base both in terms of forestry area as well as equipment, both of which are currently valued very conservatively. There is a great potential to monetize on these assets and generate a healthy return which currently is the key focus of RusForest. The Company's location close to main European and Asian markets gives the Company the opportunity to serve both fast growing markets, such as China, as well as high margin markets, such as Europe, in an efficient way. RusForest's aim is to apply Scandinavian best practices to a Russian cost base, which should have the potential of offering among the lowest production costs in the world.

RusForest's goal is to develop into a leading independent integrated forestry and sawmilling company in Russia, with an annual harvest of 1.8–2.0 million m^3 and an annual sawnwood production of 550,000–600,000 m^3 during the coming four years. These goals will be revised upwards as a result of the proposed acquisition of Nord Timber Group (NTG) in Arkhangelsk. The aim is to achieve this through both organic growth from improving existing operations as well as acquisitions with large synergy potential. 2010 has been a very eventful year for RusForest. The company has completed the acquisition of initially 86% of OAO "LDK 3", a sawmill operation including forestry leases and an industrial port located in the city of Arkhangelsk, in northwest Russia, and 100% of OOO "Infa", a planning mill, located in the same area. The company has also acquired (February 2011) the Russian harvesting company OOO "Sibartles", a holder of a pine dominated forest lease, located approximately 80 km north of the Boguchansky LPK sawmill. Sibartles has an annual allowable cut of 165,400 m^3 and cover an area of 105,497 hectares. Furthermore, the company has acquired a new forest lease in Magistralny covering 125,565 hectares with an annual allowable cut (AAC) of 201,000 m^3. The additional forest lease increases RusForest's AAC in the Magistralny area to 560,000 m^3, which is sufficient to cover the future raw material requirements of the sawmill under construction at RusForest Magistralny.

During the fourth quarter of 2010, RusForest has

Countries with the largest forest areas

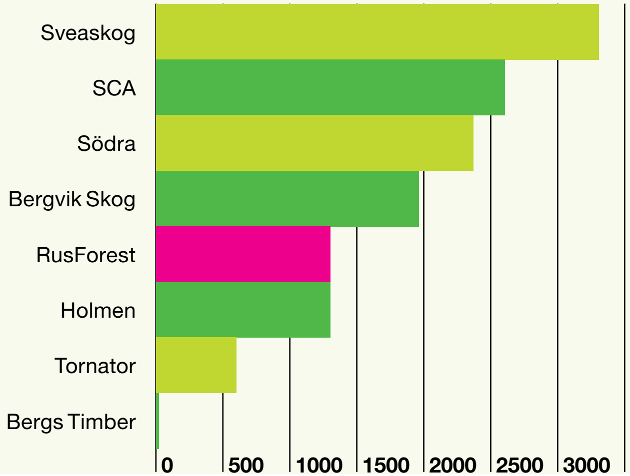
Million hectares. Source: Öhman, FAO



Forest land owned or controlled

Thousand hectares. Source: Company data for 2010

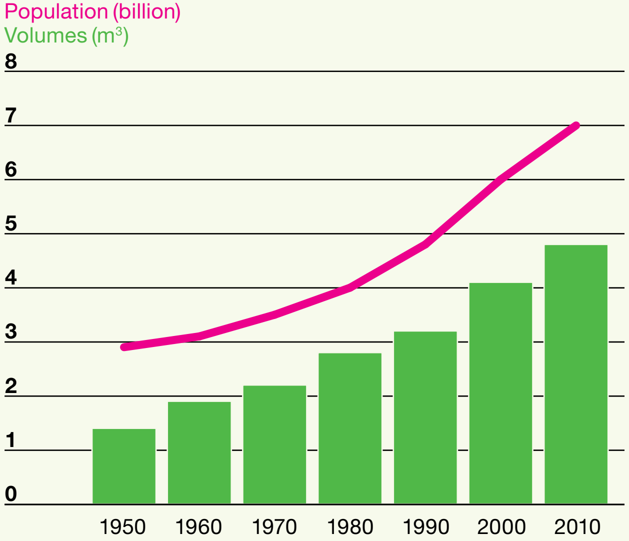
RusForest: Forest land controlled as of February 28, 2011



completed a rights issue that was oversubscribed by 46%. The new share issue has provided the company with approximately SEK 437 mln before issue costs. Vostok Nafta subscribed its share of the rights issue, contributing with approximately SEK 187.8 mln. Prior to the rights issue Vostok Nafta has sold 1,500,000 shares of RusForest AB to Alecta, a large Swedish pension fund, thereby creating a more well-balanced shareholder structure. Vostok Nafta remains the largest shareholder of RusForest after the rights issue, controlling 43% of the shares.

Strong correlation between population growth and level of timber consumption, 1950–2010

Source: Öhman, FAO



RusForest	
Vostok Nafta's number of shares	28,165,209
Value shares	*52,997,380*
Value loan	*1,068,316*
Total Value (USD)	**54,065,696**
Portfolio percentage weight	8.78%
Share of total shares outstanding	42.99%
Share development 2010 (in USD)	–27.99%

RusForest

Kuzbassrazrezugol

Kuzbassrazrezugol (KZRU) is Russia's second largest thermal coal producer with an output of around 46 million tonnes. It also produces 2.6 million tonnes of coking coal. KZRU extracts its coal from 12 open pit mines, all located in the large coal district of Kuzbass in south-western Siberia, making it one of the lowest cost producers of high quality thermal coal. Reserves are estimated at 2.3 billion tonnes of coal implying a reserve life of at least 50 years. The majority of production consists of thermal coal which is mainly used in coal-fired power plants. Kuzbassrazrezugol is Russia's main coal exporter, supplying its coal to European and Asian countries, and accounting for over 25% of the country's total coal export. KZRU exports approximately 50% of its production via the Austrian company Krutrade, which is wholly owned by KZRU's majority shareholder. KZRU's domestic sales are managed directly by the parent company.

KZRU has implemented an investment program for enabling an increase of coal production, construction of additional enrichment capacity and expanding the transportation infrastructure. The company has recently commissioned a new underground mine that will extract thermal coal with a capacity of 2.5 mln tonnes per annum. The company plans to increase its enrichements capacity to 15.6 mln tonnes by 2011, in response to growing production volumes and increasing coal quality. In the longer term, KZRU plans to increase its coal production up to 75 mln tonnes by 2015–2017. The key driver of the Russian thermal coal market is the power sector liberalisation and the transition from gas to coal as a fuel source. Domestic thermal coal prices are at a large discount to international prices due to the regulations of natural gas and electricity prices in Russia. The gradual liberalization of these markets will close that gap. There are also apparent governance issues regarding the company concerning disclosure and transparency towards minority shareholders. In addition the prices which the company realizes on its exports are at significant discounts to the market due to transfer pricing between KZRU and Krutrade, which limits profitability. The transfer pricing, poor corporate governance and the lack of transparency are already priced in, making KZRU one of the cheapest coal companies in Russia (see table below). When these situations improve, KZRU will start realizing higher prices on its vast production via improved governance as well as power sector liberalisation.

Kuzbassrazrezugol: Peer group comparison

	Mcap, USD mln	EV/EBITDA, 2011E	EV/Reserves, USD/t	EV/Production, USD/t	P/Reserves, USD/t	P/Production, USD/t
Mechel	14,107	6.7	1.4	235	2.1	347
Raspadskaya	5,622	10.3	2.7	785	2.7	786
Belon	874	3.1	2.3	174	1.5	116
Kuzbass Fuel Company	754	5.7	2.1	122	1.9	111
Kuzbassrazrezugol	2,446	3.1	1.5	70	1.1	53

Source: UBS

Kuzbassrazrezugol	
Vostok Nafta's number of shares	133,752,681
Total Value (USD)	**51,494,782**
Portfolio percentage weight	8.37%
Share of total shares outstanding	2.18%
Share development 2010	4.05%

Kuzbass Fuel Company (KTK) is Russia's seventh largest thermal coal producer and every year the company is strengthening its positions on the domestic and foreign markets. KTK was founded in 2000 at the initiative of the local governments of the Kemerovo and Novosibirsk regions. Its assets are located in Western Siberia and the company is currently operating three open pit mines – Cheremshansky, Vinogradovsky and Karakansky – within a 5 km range in the Kuzbass region.

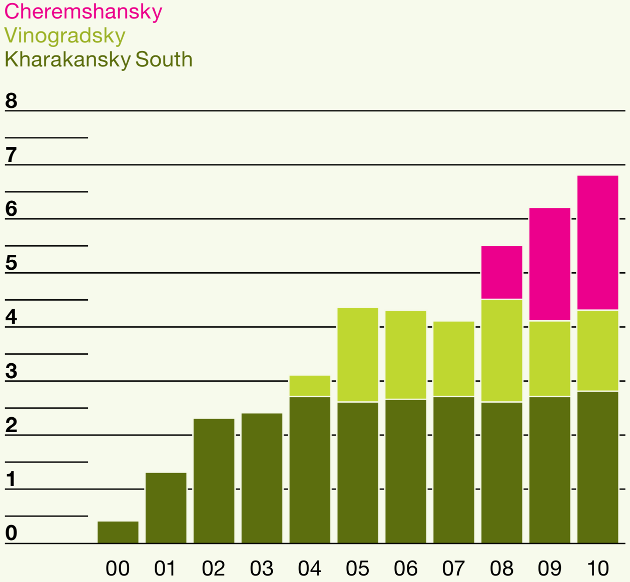
KTK produces high-quality thermal coal and the current product mix enables the company to sell both in the domestic market and in foreign markets. In 2010 the Company increased total coal production volume by 11% year-on-year to 6.80 mln tonnes, having accomplished its annual production plan. During the year coal sales volume increased by 15% year-on-year and reached 8.5 mln tonnes, of which 6.4 mln tonnes were produced by the company and 2.1 mln tonnes were retailed after purchasing from other coal producers. The share of export sales increased from 36% in 2009 to 44% in 2010. The Company maintains a diversified sales structure balanced between export and domestic sales with approximately 56% of the coal sold to domestic consumers and approximately 44% exported, primarily to Poland, South Korea and China. The Company's coal resources totalled 402 million tonnes of coal as of January 1, 2011 and proven and probable reserves amounted to 185 million tonnes of coal, recoverable during the period of 2011–2030. The company has its own transport and production infrastructure including a power plant, rail road tracks and cars along with its in house distribution company.

KTK is a very transparent company with excellent corporate governance including frequent meetings with investors, clear strategy, IFRS accounts in a timely manner and a large free-float. Capital was raised in 2010 via a public offering to fund future output growth and also to increase the share of quality coal available for export to markets in Europe and Asia. Vostok Nafta was one of the first institutional investors in KTK as a part of a small private placement conducted in 2008. The company is in an excellent position to deliver future organic growth as production is forecast to increase to 11 million tonnes of coal per year by 2013, in addition to the favourable long term dynamics for thermal coal prices. Globally the thermal coal market's fundamentals are among the strongest in the commodity universe, supported by the continuing growth in demand from the world's two most populous economies, China and India. In Russia the market for thermal coal has further upside on the back of the deregulation of the local market for natural gas.

Kuzbass Fuel Company	
Vostok Nafta's number of shares	3,500,000
Total Value (USD)	**24,045,000**
Portfolio percentage weight	3.91%
Share of total shares outstanding	3.53%
Share development 2010	–14.13%

Kuzbass Fuel: Coal production 2000–2010

Million tonnes. Source: Company data



Kuzbass Fuel Company

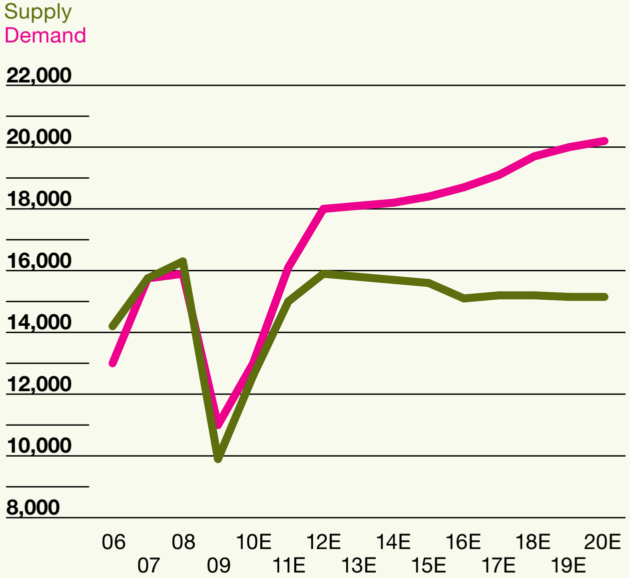
Alrosa is the world's largest rough diamond producer in terms of volume, with a production of 34.4 million carats in 2010, slightly above De Beers production of 33 million carats. According to the latest public release by the company, Alrosa has in 2010 sold a total of over USD 3.483 billion worth of rough and polished diamonds. The company estimates a growth in annual production by 15% from current levels to reach 39.6 mln carats/year by 2018. Alrosa, which is located in the Sakha Republic in eastern Russia, accounts for 97 percent of Russia's total diamond production, and approximately 30 percent of global rough diamond production. Together with De Beers, the two companies controls over 50 percent of the international diamond market. In addition, Alrosa holds some 30% of the world's diamond reserves which total 5.1 billion carats. The company also has assets in the regions of Karelia, Irkutsk, Arkhangelsk and Murmansk and also participates in a joint venture in Angola. The largest shareholders are the Russian state and the regional government of Sakha, together controlling over 85% of the company.

Alrosa's production of gem-quality diamonds, used primarily in jewellery, accounts for approximately 99% of Alrosa's sales revenue. Economic growth is believed to be the main driver for diamond demand, with China, India and the Middle East as major factors in a demand upturn (see graph *Rough diamond supply and demand*). The global economic slowdown led to a decrease in global diamond demand, but then again jewellery demand increases with the growth of consumer confidence and rising personal incomes. As of the end of 2009, China became the second largest diamond consumption country after the US and the Boston Consulting Group foresees China becoming the world's largest luxury market between 2014 and 2016.

Following a change of management Alrosa has articulated a new financial strategy which includes concentrating on its main operations, reducing leverage, improving the debt maturity profile and making a public equity offering. The company's earlier attempts to diversify into other mining areas increased leverage and resulted in large capital expenditure requirements, which did not improve its cash flow generation capacity. Focus has now shifted to monetizing its key domestic mining assets and dispersing non-core assets in order to bring down the elevated debt level. The strategic focus is on its core Russian diamond business and the company is reviewing further sales of non-core assets. Optimization of Alrosa's operations at its Russian diamond mines has great potential value. Following the recovery from the sharp downturn of diamond sales in 2009 the majority of Alrosa's rough diamond production is currently sold on the open market and no longer to the Russian government.

Alrosa has for a long time been a closed joint stock company (CSJC) which has put restrictions on trading of the company's shares and hampered liquidity. The stated aim of changing the legal structure accompanied by interaction with capital markets to fund development of the company's assets has been seen as a likely trigger for revaluation. In December 2010, the Yakut government voted to convert Alrosa from a closed to an open joint stock company. This allows outside investors to buy new shares and it is a big step towards a public offering. The company's management stated that by the end of 2011 it intends to meet all the requirements for a public offering of 20% stake in the company worth up to USD 2 billion. An IPO is also envisioned to help balance the company's capital structure which would be highly positive for the company's development. We believe Alrosa's transparency is improving as its IPO plans advance and it will provide investors a unique opportunity for diamond industry exposure. Alrosa is currently trading at a significant discount to small diamond producers and to Russian and international diversified miners. As the company moves towards an IPO, expectations are that transparency and corporate governance will improve and thus narrow the current discount to its peers.

Rough diamond supply and demand 2006–2020E
USD million. Source: BMO Capital Markets Ltd



Alrosa	
Vostok Nafta's number of shares	1,261
Total Value (USD)	**18,158,400**
Portfolio percentage weight	2.95%
Share of total shares outstanding	0.46%
Share development 2010	130.40%

Alrosa

The flagship of the Russian uranium-mining industry, Priargunsky (PGHO), is one of the largest uranium-mining companies in the world. Priargunsky 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 tonnes of uranium per year, which gives PGHO a global market share of almost 8 percent. Its stated reserves imply a reserve life of 44 years at the current production rate. 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. Apart from uranium, it mines manganese ore, zeolites, limestone, and brown coal, in addition to producing electrical and thermal energy, sulphuric acid, and engineering products. A national uranium holding company, Atomenergoprom, has been created to consolidate the assets within the civil part of the Russian nuclear industry and to create an integrated full-cycle company similar to Areva in France. Atomredmetzoloto (ARMZ), which owns 82 percent of PGHO, is the holding company for the mining assets within Atomenergoprom.

Over the last few years, Russia's nuclear industry has been developing at an ever faster pace. Power generation by Russia's nuclear power plants is expected to grow 44.7% to 234.4 billion kWh by 2015. Ambitious plans for nuclear power both in Russia and globally will exacerbate the current primary supply shortage of uranium. The deficit is currently compensated for by secondary sources, i.e. reprocessed fuel and decommissioned military warheads, which are in a state of decline yet cater to 40 percent of global demand. The Russian government fully supports the development of the nation's nuclear industry.

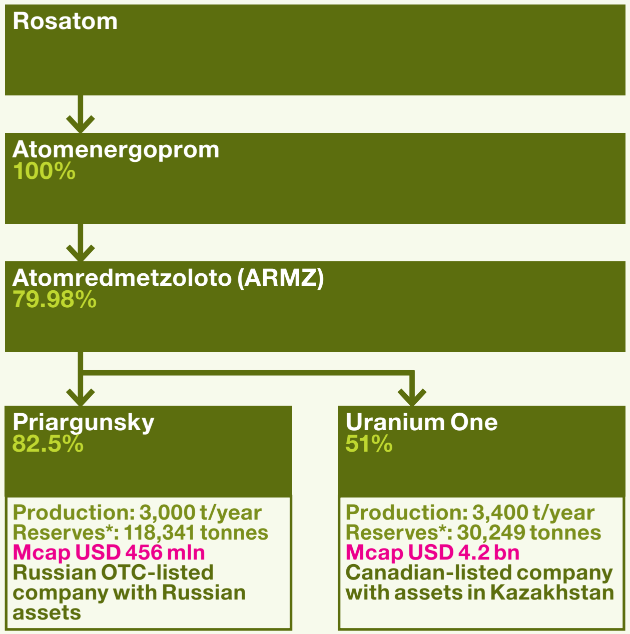
PGHO sits on a world-class reserve but is currently operating at 100 percent capacity and is therefore in need of development and investment. The construction of new capacity is capital intensive and time consuming and the company is in apparent need of external funding. The company has historically used additional share issues as a way to fund capital expenditures. From 2006 to 2010, the company conducted several additional issues with ARMZ as the main buyer of the shares. Russian domestic uranium prices are furthermore regulated at a steep discount to world long term contract prices which hampers PGHO's profitability severely. Alleviation of the regulated domestic uranium price is however on the agenda as to finance PGHO's investment need in order to increase production and cater to the national deficit of uranium. ARMZ's CEO Vadim Zhivov has previously stated that starting from 2011, the holding company would sell its uranium to domestic consumers at international prices. As the ongoing process of electricity price liberalisation in Russia nears completion nuclear power plants will also be able to pay a higher fuel price as they realize better pricing for its electricity output. The realization of market prices will significantly improve PGHO's operational cash flows enabling the company to fund investments internally.

Priargunsky peer group comparison

	EV/Reserves (USD/lb of U_3O_8)	EV/Production (USD/lb of U_3O_8)	EV/EBITDA 2011E
Areva	51.7	1,225	15.8
Cameco	30.3	697	17.5
ERA	9.9	205	7.2
Paladin Resources	n/a	801	16.4
Uranium One	95.9	244	14.3
Priargunsky	1.85	81	7.9

Source: Troika, UBS, December 2010

Priargunsky group structure



* Proven and probable reserves (Reasonably Assured Resources (RAR)+Inferred Resources according to IAEA classification)

Priargunsky

Vostok Nafta's number of shares	
Ordinary	*106,242*
Preferred	*11,709*
Value Ordinary	*24,329,418*
Value Preferred	*1,276,281*
Total Value (USD)	25,605,699
Portfolio percentage weight	4.17%
Share of total shares outstanding, Ordinary	5.82%
Share of total shares outstanding, Preferred	0.52%
Share development 2010	
Ordinary	*17.44%*
Preferred	*18.48%*

Priargunsky

Transneft is the world's largest crude oil pipeline operator with around 50 thousand kilometres of long-distance pipelines, 386 oil refilling stations and 833 reservoirs with a storage capacity or approximately 15 million cubic meters. Transneft's ordinary common stock is fully owned by the Russian government while its non-voting preferred shares comprise the current free float. The company transports roughly 90 percent of Russia's total oil production. It is currently involved in the USD 20 billion project building a new pipeline connecting Eastern Siberia with the Pacific Ocean which will open up an additional important export channel to Asia for Russian oil companies.

Transneft's high profitability and highly strategic nature makes it a very attractive asset. Transneft has been successful in increasing the regulated oil transport tariffs boosting profitability in order to finance the substantial capital expenditure projects being undertaken. Yet corporate governance issues have been the key issue for minority shareholders where Transneft has lagged other state controlled companies. We expect that once the ongoing projects are completed Russia will have all the oil export capacity it will need. Previous experiences with state ownership in strategic companies suggest that the substantial free cash flows generated thereafter will likely be shared with minority shareholders via dividends. Changes in governance would be revaluation triggers where initial signs of improvements have been demonstrated as the compensation to the Board of Directors is linked to the development of preference shares.

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

Transneft	
Vostok Nafta's number of preferred shares	19,730
Total Value (USD)	**24,330,215**
Portfolio percentage weight	3.96%
Share of total shares outstanding	1.27%
Share development 2010	58.10%

Transneft

Tinkoff Credit Systems

Tinkoff Credit Systems (TCS) is Russia's first and only pure credit card lending institution. Based in Moscow, TCS Bank issues credit cards to customers in all of Russia's regions. TCS's senior management consists of a team of experienced professionals formerly employed by Visa, McKinsey and several top Russian banks. The founder and majority shareholder of TCS is Oleg Tinkov, a renowned Russian entrepreneur with a long track of successful companies within the consumer sector. The business model is branch-less with customer recruitment and distribution handled via direct mail complemented by online services and a call centre. The Internet is becoming an increasingly important part of TCS's business. The company is singularly focused on issuing and servicing consumer credit cards. By combining a purpose-built platform with dedicated staff, TCS can serve millions of customers. TCS issued its millionth card in April and grew its credit card receivables by 82% in 2010. The advanced underwriting process and customer acquisition by invitation only limits the risk of fraud and exposure to less desirable customers, thus reducing the credit risk. The low-cost business model is flexible with a proven ability to rapidly grow and effectively service credit card portfolio. Fitch Ratings has in March 2011 upgraded TCS to 'B' from 'B–', "The Outlook is Stable". The upgrade reflects the diversification of the funding base and the strong cash generation capacity, which significantly mitigates liquidity risk.

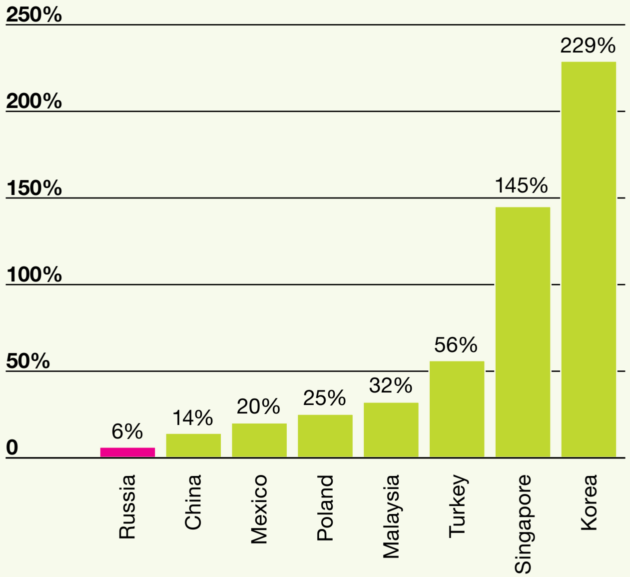
Driven by a growing number of middle class households and the emergence of online shopping portals, the credit card market in emerging countries has grown exceptionally during the past years. Poland and China have between the years 2008–2010 experienced an annual growth of around 17% and 29% respectively in terms of total number of credit card issued. This compares to Russia's annual growth of only 2% between the years 2008–2010. Russia's penetration level is still extremely low (6% year 2010) and shows an exceptionally potential for future growth. A change in consumer behaviour towards higher lending rates will pave the way for TCS to further grow its credit card market share from its current share of almost 5%.

The main driver of retail lending growth is returning consumer confidence. According to RosStat estimates, the level of consumer confidence has improved massively although it still remains below pre-crisis levels. Consumption has been the backbone of economic recovery in Russia and lending is expected to grow significantly in 2011 driven by a strong macro-economic performance and outlook. Even though credit card lending is the fastest growing consumer debt category, Russia's current penetration rates are still at a fraction of the levels typical for developed and emerging markets. Since Russian consumers continue to be under-levered, the Russian market is considered to be a brilliant example of untapped growth potential. TCS will exploit the credit data that has already accumulated in credit bureau to tap into the market. This is analogous to the entry of the US credit card monoliners into the UK market in the 80's.

Vostok Nafta has valued its equity position in TCS based on assumptions that comprise Vostok Nafta's best assessment of the economic conditions that are expected to prevail. This valuation is Vostok Nafta's subjective valuation and may not reflect the real value of the business. More information on our valuation approach can be found in Note 3 on page 54.

Credit card penetration 2010

Percent of population. Source: UBS



Tinkoff Credit Systems	
Vostok Nafta's number of shares	1,073,174
Value shares	*43,430,866*
Value loan	*9,266,579*
Total Value (USD)	**52,697,445**
Portfolio percentage weight	8.57%
Share of total shares outstanding	17.08%
Value development 2010 (in USD)	209.53%

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

Avito

Avito offers individuals and businesses to buy and sell goods through classified ads over the internet, similar to Blocket in Sweden. Avito is the fastest growing online trading platform in Russia and the number of monthly unique visitors continued to grow at a rapid pace during 2010. In February 2011, www.avito.ru had approximately 15 million unique visitors per month compared to 3 million unique visitors in the beginning of 2010. As a comparison, the Swedish online site Blocket has 5.5 million unique visitors a month. Avito has obtained a leading position in terms of visitors and number of ads, distancing itself from its competitors. Once market dominance is determined the business model has great potential in terms of profitability judging by the experience in other countries. Avito is already the leading brand and have the highest brand awareness in Moscow and St Petersburg, with the goal to achieve close to a 100% in the long term. According to research made in November 2010, 48% of the population in Moscow and St Petersburg answered Avito on the question "Where would you sell something online?". During 2010, goods for over SEK 25 billion were sold and the growth in number of unique visitors was exceptional. With today's sales level, the company could generate SEK 50 million in 2011. This is nevertheless not intended since the cash flow instead will be reinvested in future growth and expansion.

Compared to western countries, Russia has a very low proportion of internet users in relation to the total population. Although the growth rate is significant, the current penetration in Russia of about 42% is low in relative terms but very high in absolute terms. With about 60 million internet users Russia represents the second largest market in Europe. These figures can be compared to Sweden, which has an internet penetration of about 93% but only about 8.4 million users. (See graphs *Internet population 2010* and *Internet penetration 2010* to the right) The market for internet related products is expected to grow significantly in correlation with an increased internet penetration. Avito is in an extremely exciting phase with great future prospects and the company has the potential to be valued at approximately USD 1 billion within a couple of years. The leading Russian search engine and contextual advertising company Yandex is to follow in the footsteps of Mail.ru with a USD 1 billion IPO in 2011 as interest rises in Russian Internet companies. Investors are currently very enthusiastic about investing in Russian internet companies and Yandex's IPO will most probably generate a lot of attention. Yandex might become an attractive stock for investors seeking exposure to the Russian online advertising market.

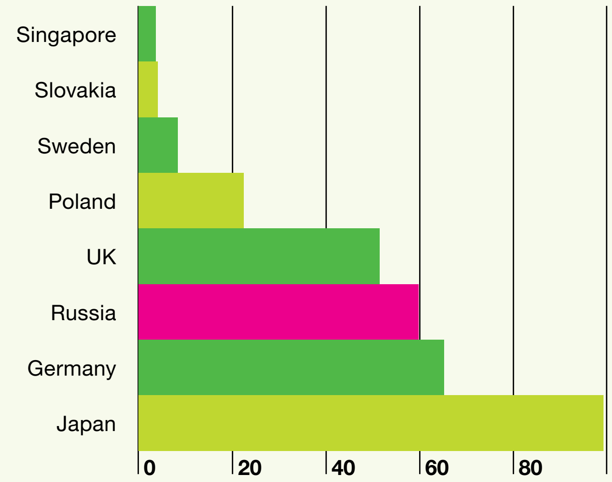
During 2010, Kinnevik and Northzone contributed with approximately SEK 175 million through an equity fund raising process. The proceeds were used to further strengthen Avito's leading position and increase the market share.

Yellow Pages

Yellow Pages Russia is the leading online directory service in Russia, with a large number of user generated company reviews. Directory Services offers its customers both online and printed directories via Russian Yellow Pages which has a leading market position. 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.

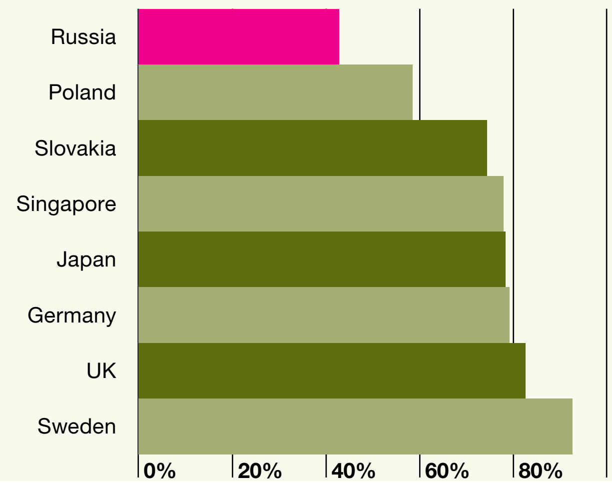
Internet population 2010

Million people. Source: Internet World Stats 2010



Internet penetration 2010

Percent. Source: Internet World Stats 2010



Vosvik

Clean Tech East Holding

As the single largest shareholder of Clean Tech East Holding AB ("Clean Tech East") Vostok Nafta's vision is to build on the established Clean Tech East platform in order to develop the Company into becoming one of the leading suppliers of Biomass for the Energy sector on a global basis.

Vostok Nafta currently holds 46.2 percent of the total number of outstanding shares of Clean Tech East, after having exercised subscription rights held since the rights issue carried out in the summer of 2010 to subscribe to an additional 121,300,900 shares in Clean Tech East.

The Clean Tech East group is made up of two business areas; Biomass Fuels and Power Chemicals.

During 2010 the Biomass Fuels division achieved a significant increase in production at the wood pellet plant in Ystad in southern Sweden - which is now 100% owned by Clean Tech East after the buy-out of Fortum's 20 percent stake, completed i June 2010. At the same time pricing for pellets sold has increased significantly as a result of the termination of long-term delivery contracts and a successful investment in capacity to package pellets in bags for sale to the higher margin consumer market.

As a result of the increase in production volumes, a more profitable sales mix and significantly lower production costs in Ystad, Clean Tech East expects to achieve a positive EBITDA during the second half of 2011 – which compares to a negative EBITDA of SEK 55 million during the second half of 2010.

Given the positive mid- to long-term demand outlook for renewable energy in general and wood pellets in particular we expect the price of pellets to pick up from today's level, especially given the recent surge in the price of crude oil and other competing forms of energy. The European Union's ambitious goal of having 20% of the total EU energy basket come from renewable sources by 2020 means that the window of opportunity for large scale pellets producers is now wide open. In order to reach the goal set out by the EU, a certain amount of the coal that is used to produce electricity and heating in Europe today will have to be substituted by wood pellets. If only five percent of today´s European coal consumption would be substituted by wood pellets, it would lead to the global pellets market increasing from just over 10 million tonnes a year to close to 60 million tonnes.

With the pellet plant in Ystad about to become profitable by gearing its production towards the higher margin consumer sector, Clean Tech East's management has been increasingly busy evaluating opportunities to grow and take an active part in the new, global pellets market that is rapidly forming. After having studied the opportunities at hand, it is clear to Clean Tech East's management and Board of Directors that the key to becoming a significant player on the fast growing European market for wood pellets lies in establishing large scale production in an area with high-quality, low-cost natural forest supplies that is relatively close to the industrial pellets market in Europe.

In Clean Tech Easts view, there is no better place to establish such a large-scale production unit than in the Archangelsk area of northwest Russia, with its vast resource of natural wood fibre at a competitive price – and access to the European market through a port that is ice-free year round. Through the planned acquisition of Bio Energy Nord (BEN), Clean Tech East is positioning itself to becoming a major player within the Biomass universe towards 2014–2015 by establishing a wood pellet plant with a total capacity of up to 500,000 tonnes in Arkhangelsk.

Gaisky GOK

Gaisky GOK is Russia's second largest company with respect to volume of mined copper ore with a domestic market share of nearly 9%. Gaisky GOK is located in the Orenburg region of the Urals and controls 76% of the region's ore reserves. The company's total ore reserves are estimated at 305 million tonnes, with a remaining reserve life of more than 50 years at current production levels. The company is controlled by the Urals Mining and Metallurgical (UGMK) and is a key supplier of copper ore to UGMK's copper producing subsidiaries. In 2009, Gaisky GOK produced around 5.5 million tonnes of ore from an underground mine, which is its largest. UGMK has projected a long-term strategy to become a Russian blue chip in the metals and mining sector, including a consolidation of its subsidiaries and an introduction of international standard financial reporting. Gaisky GOK plans to invest further capex to boost production by 14% to 6.5 million tonnes of ore in 2011 and by another 15% to 7.5 million tonnes by 2013. The company is currently investing all operating cash flow into production growth but the investment programme is expected to come to an end, meaning there is a chance that positive free cash flows will be distributed through dividends.

Gornozavodsk Cement

Gornozavodsk Cement is a medium-sized independent cement producer, located in Perm region in the Urals. The company's main products are Portland cement used for construction and oil well cement, used by the oil and gas industry. In 2009, the company produced only 0.5 million tonnes cement, a decrease by 66% compared to 2008, due to the sharp reduction in demand and falling prices. Cement is one of the key basic materials used in construction globally. After a downturn in

Other holdings

2009, the Russian cement industry is demonstrating a fast recovery. Having one of the lowest utilization levels in the industry Gornozavodsk should be able to increase its production without significant investments going forward when the cement market recovers and demand strengthens. The company has a production capacity of 2.2 million tonnes. Due to the low price of cement per tonne versus for instance steel, its transportation is economically possible only if the distance is no more than 500–700 km. Therefore, most of the Russian Federal Districts intend to be self-sufficient with cement supplies. Gornozavodsk is located close to the Urals and West Siberia districts, where many construction projects are concentrated. Additionally, new oil & gas projects in Western Siberia, such as the development of the Yamal gas fields by Gazprom and a number of other oil fields by the oil majors, are likely to have their Portland cement and oil well cement needs partially supplied by Gornozavodsk as one of few local cement producers.

Steppe Cement

Steppe Cement is one of the largest cement producers located near Aktau in central Kazakhstan. The company operates two subsidiaries, Karacement and Central Asia Cement. Steppe Cement has its own limestone and clay quarries located adjacent to the production plant which gives the company ample supply. The company is self-sufficient in raw materials and sits on reserves that will last for more than 100 years. Other input supplies such as electricity, water, iron ore and coal are available from regional suppliers.

In 2010, the cement market in Kazakhstan increased by 14% compared to 2009. At the same time, Steppe Cement increased its revenue by 23% in 2010 compared to 2009. Sales volume in 2010 represented an improvement of 24% over sales in 2009. Steppe Cement's market share increased to 20.3% in 2010 from 18.4% in the previous year. In November 2010, Steppe Cement raised GBP 10 million via the issuance of 25 million new ordinary at 40p per share shares in the offer for subscription. A major portion of the proceeds raised is used to partially redeem the bonds due in Aug 2011 and the remaining for working capital purposes. The offer was oversubscribed by 34%.

Poltava GOK

Poltava GOK was founded in 1970 as a state-owned company but is the principal asset of Ferrexpo, the twelfth largest iron ore producer in the world and listed on LSE. Poltava is one of the largest mining companies in Ukraine and the country's foremost exporter of iron ore pellets. 85% of Poltava GOK's production is exported to eastern and central Europe as well as to China. Ukraine holds the largest iron ore deposits in the world, totalling 30 billion tonnes of reserves (17% of world deposits). Even after adjustment for Fe content (30% on average), Ukraine places in the top five globally. Such a natural advantage will result in the country being an influential player on the iron ore market in the long-term perspective. Despite having such abundant reserves, Ukraine plays a modest role on the international iron ore market. Available resources are put primarily toward satisfying the country's own needs in iron ore, and exports only account for around one third of total production in Ukraine. Ongoing increases in production capacities and anticipated development of infrastructure, i.e. the deepening of seaports, will enable Ukraine sell more of its explored reserves beyond its borders. Ferrexpo bears logistic and marketing expenses while Poltava sells its output to Ferrexpo trading houses at discount to market prices. Despite questionable corporate governance practices, the company remains a strong iron player with 3 billion tonnes in reserves. Poltava GOK is currently operating at its full capacity of 10 million tonnes per year and the profitability should improve in 2011.

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. 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.

Dividends

No dividend has been proposed for the year.

Information about the net asset value

Vostok Nafta publishes a monthly estimated net asset value (NAV), issued on the second working day of each 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, 2010 to December 31, 2010, was 198,000 shares. During the quarter October 1, 2010 to December 31, 2010, the average daily turnover was 175,000 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, 2010

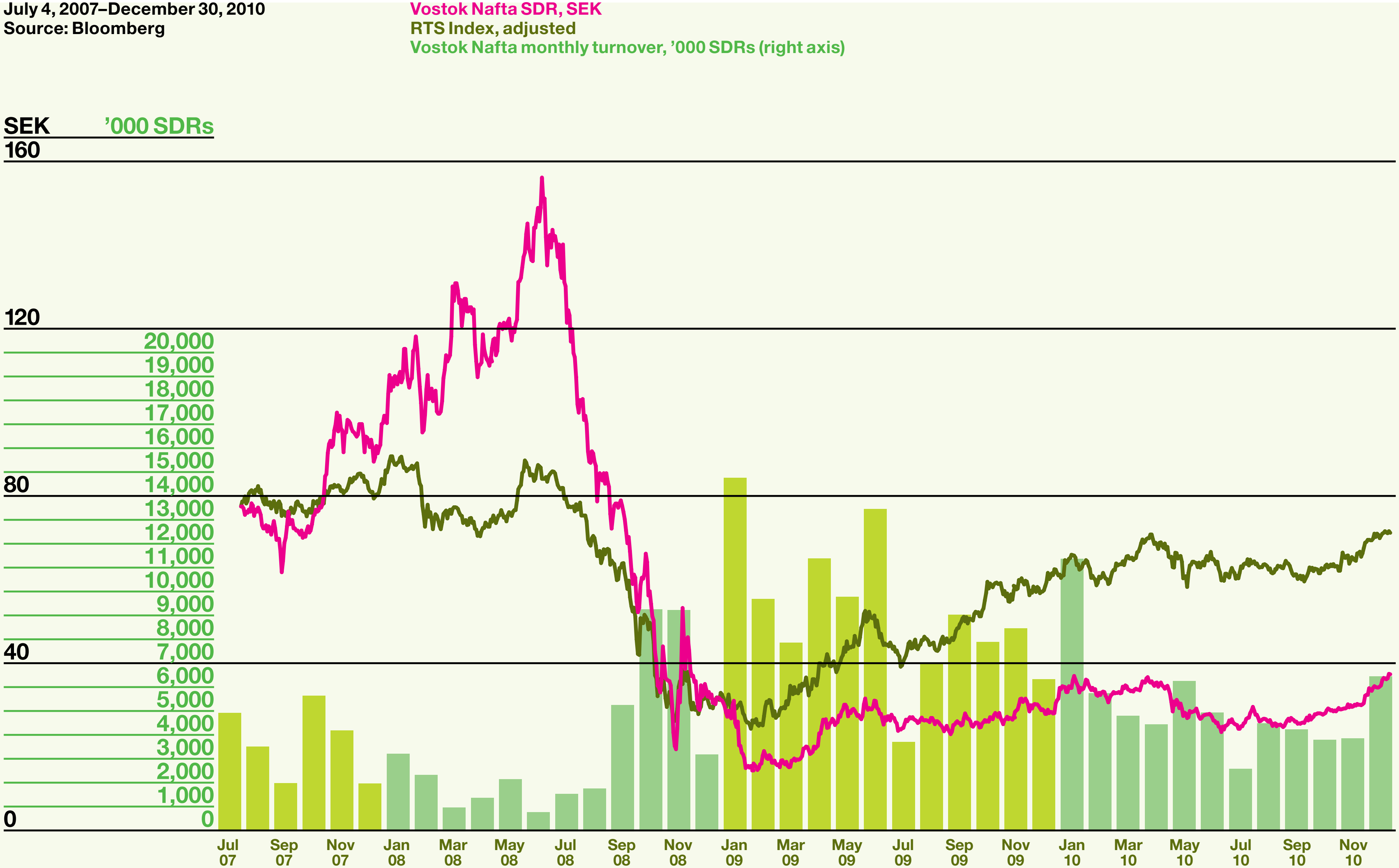
The shareholder list below as at December 30, 2010, shows the ten largest owners at that time. The number of shareholders in Vostok Nafta on December 30, 2010 amounted to around 15,000.

Owner	Holding, SDRs	Holding, percent
01. The Lundin family*	28,000,000	27.73%
02. Alecta Pension Insurance	8,000,000	7.92%
03. 4th Swedish National Pension Fund	5,141,125	5.09%
04. AFA Insurance	4,646,233	4.60%
05. Länsförsäkringar Funds	4,544,230	4.50%
06. HQ Funds	2,000,000	1.98%
07. Avanza Pension Insurance	1,776,891	1.76%
08. Nordea Funds	1,642,720	1.63%
09. DLG Funds	1,500,000	1.49%
10. SEB Funds	1,319,300	1.31%
10 largest owners	58,570,499	58.00%
Other foreign owners and nominees	21,095,672	20.89%
Other Swedish owners and nominees	21,324,804	21.12%
Total	100,990,975	100.00%

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

* Combined holdings of investment companies wholly owned by a Lundin family trust.

The Vostok Nafta share



Vostok Nafta share price development

The Vostok Nafta share

Company information

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 15,000 shareholders as at the end of December 2010.

Group structure
As of December 31, 2010, the Vostok Nafta Group consisted of the Bermudian parent company Vostok Nafta Investment Ltd; one wholly-owned Bermudian subsidiary, Vostok Holding Ltd; four wholly-owned Cypriot subsidiaries, Vostok Komi (Cyprus) Limited, Premline Holdings Limited, Dodomar Ventures Limited and Freemosa Holdings Limited; four wholly-owned Russian subsidiaries, ZAO Baikal Energy, OAO Resurs-Invest, OOO Resursniye Investitsii and OOO Volga – Nash Dom; 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.

Vostok Nafta Group

Strategy
The Company shall create value through professional investing activities, building on a structured process for continuous analysis of both current and prospective acquisitions. In holdings where Vostok Nafta is a major shareholder, the Company seeks to play an active role and 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 principal geographical focus will be on Russia. 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, which consists of three members of the Board of Directors. 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. 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.

Income statement in brief

(Expressed in USD thousand)	2010	2009	2008	2007	2006
Result from financial assets	135,093	141,582	–550,917	282,157	61,908
Other operating income	11,068	10,021	10,673	10,355	12 541
Total income	146,160	151,603	–540,244	292,512	74,449
Operating expenses	–5,733	–5,897	–8,716	–5,705	–3,441
Dividend withholding tax expenses	–1,593	–1,367	–1,381	–1,499	–1 897
Other operating expenses	–1,176	–	–15	–	–
Operating result	137,660	144,339	–550,356	285,309	69,111
Net financial items	798	–4,501	–6,988	–2,155	610
Result before tax	138,458	139,838	–557,344	283,154	69,721
Tax	–98	8	956	–389	–88
Net result of the year	138,359	139,846	–556,388	282,765	69,633

Balance sheet in brief

(Expressed in USD thousand)	Dec 31, 2010	Dec 31, 2009	Dec 31, 2008	Dec 31, 2007	Dec 31, 2006
Non current fixed assets	675	1,948	510	545	316
Non current financial assets	605,783	472,402	266,874	822,394	387,182
Current financial assets	9,283	3,180	27,847	4,197	–
Cash and cash equivalents	9,448	8,935	29,198	27,528	5,124
Other current receivables	1,974	2,580	2,727	4,568	969
Total assets	627,164	489,045	327,156	859,232	393,591
Equity	625,430	487,624	247,893	803,954	385,043
Deferred tax liability	–	–	19	1,358	11
Current tax liability	504	516	498	106	585
Other current liabilities	1,229	905	78,746	53,814	7,952
Total equity and liabilities	627,164	489,045	327,156	859,232	393,591

Financial summary

Cash flow in brief

(Expressed in USD thousand)	2010	2009	2008	2007	2006
Cash flow used in operating activities	–714	–6,199	–22,607	–162,982	–108,225
Cash flow used in/from investing activities	–24	36	–146	–300	–264
Cash flow from/used in financing activities	326	–10,856	26,119	185,673	106,375
Cash flow for the period	–411	–17,019	3,366	22,391	–2,114
Exchange rate differences in cash and cash equivalents	924	–3,244	–1,696	13	26
Cash and cash equivalents at the beginning of the period	8,935	29,198	27,528	5,124	7,212
Cash and cash equivalents at the end of the period	9,448	8,935	29,198	27,528	5,124

Key ratios

(Expressed in USD thousand if not stated otherwise)	2010	2009	2008	2007	2006
Equity ratio, percent	99.72	99.71	75.77	93.57	97.83
Return on equity, percent	24.86	38.03	–105.79	47.56	20.88
Return on capital employed, percent	24.86	34.68	–97.23	46.04	20.88
Debt/equity ratio, multiple	–	–	31.42	6.21	–
Interest coverage ratio, multiple	–	76	–81	77	–
Net asset value, MUSD	625	488	248	804	385
SEK/USD	6.8025	7.1568	7.8644	6.4683	6.85
Net asset value, MSEK	4,254	3,490	1,950	5,200	2,638
Net asset value development in USD, percent	28	97	–69	109	84
RTS Index	1,770	1,445	632	2,291	1,922
Development RTS Index, percent	23	129	–72	19	71
Dividends	–	–	–	–	–
Dividend/share	–	–	–	–	–
Yield, percent	–	–	–	–	–

Share data

Earnings per share, USD	1.37	1.40	–10.32	5.24	1.29
Diluted earnings per share, USD	1.37	1.40	–10.32	5.24	1.29
Net asset value per share, USD	6.19	4.83	5.39	17.47	8.34
Net asset value per share, SEK	42.12	34.56	42.36	113.00	57.31
Number of shares outstanding at year-end	100,990,975	100,990,975	46,020,901	46,020,901	46,020,901
Weighted average number of shares outstanding	100,990,975	100,052,565	53,936,496	53,936,496	46,020,901
– diluted	100,990,975	100,052,565	53,936,496	53,936,496	46,020,901

Employees

Average number of employees during the period	13	16	15	9	10

Financial summary

Share data

The company was incorporated in 2007 and until the initial public offering in July 2007 had 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 initial public offering.

In accordance with IAS 33, the weighted average number of shares has been adjusted as a consequence of the rights issue, which was carried out in February 2009. The number of shares outstanding before the issue has been adjusted, as if the issue had occurred at the beginning of the earliest period reported. In the computation, the number of ordinary shares to be used in calculating the earnings per share is the number of shares outstanding prior to the issue, multiplied by an adjustment factor of 1.172.

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.

Interest coverage ratio Interest coverage ratio is defined as net result plus interest and taxes divided by interest expenses.

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.

Earnings/share, USD is defined as result for the period divided by the adjusted average weighted number of shares for the period.

Diluted earnings/share, USD is defined as result for the period divided by the adjusted average weighted number of shares for the period calculated on a fully diluted basis.

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: Chairman of Lundin Mining Corporation and director of Lundin Petroleum AB. As head of the Lundin Group of Companies, a group of twelve publicly traded companies, Mr. Lundin is actively involved in the exploration, development and production of copper, cobalt, zinc, nickel, lead, gold, uranium, iodine, nitrate fertilizers, oil and gas and diamonds. Over the years, Mr. Lundin has been instrumental in the realization of extraordinary value for his shareholders through exploration and development success, takeovers and multi-billion dollar mergers. Mr. Lundin holds a degree in mining engineering from The New Mexico Institute of Mining and Technology. Holdings in Vostok Nafta: 66,070 depository receipts. Salary and remuneration: USD 139 thousand (including Namdo Management). No agreement regarding severance pay or pension.

Al Breach
Board member

British citizen, born 1970. Member of the board since 2007. Committee assignments in Vostok Nafta: audit committee. 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: 70,000 depository receipts. Salary and remuneration: USD 18 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 and Clean Tech East Holding AB, member of the boards of RusForest AB, Egidaco Investments PLC, Avito Holdings AB, Kontakt East Holding AB, X5 Group AB and Svenska Fotografiska museet AB. Holdings in Vostok Nafta: 700,000 call options and 180,000 depository receipts through an endowment insurance. Salary and remuneration: USD 858 thousand. Agreement regarding severance pay and pension: Mr. 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. Mr. Brilioth also has a pension plan in accordance with the Swedish ITP standards.

Lars O Grönstedt
Board member

Swedish citizen, born 1954. Member of the board since 2010. Lars O Grönstedt holds a BA in languages and literature from Stockholm University, and an MBA from Stockholm School of Economics. Mr. Grönstedt spent most of his professional life at Handelsbanken. He was CEO of the bank 2001–2006, and Chairman 2006–2008. Today he is, among other things, senior advisor to Nord Stream, chairman of the Nordic Museum and ATC Industries Group, and sits on the boards of the Swedish National Debt Office, MDM Bank (Moscow), the IT company Pro4U, the liberal think tank Timbro, and the Institute of International Economics at Stockholm University. Holdings in Vostok Nafta: 1,500 depository receipts. Salary and remuneration: USD 13 thousand. No agreement regarding severance pay or pension.

Ashley Heppenstall
Board member

British citizen, born 1962. Member of the board since 2010. Committee assignments in Vostok Nafta: audit committee. Graduate of the University of Durham were he obtained a degree in Mathematics. Mr. Heppenstall is President & Chief Executive Officer of Lundin Petroleum AB and serves on the Board of Etrion Corp and Gateway Storage Company Limited. Holdings in Vostok Nafta: none. Salary and remuneration: USD 19 thousand. No agreement regarding severance pay or pension.

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: 337,321 depository receipts. Salary and remuneration: USD 17 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 NGEx Resources Inc., Denison Mines Corp., Lundin Mining Corporation, Lundin Petroleum AB and New West Energy Services 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 21 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 15 thousand. No agreement regarding severance pay or pension.

Group management
Per Brilioth: Managing Director. See also heading “Board of Directors” above.
Nadja Borisova: Chief Financial Officer. Swedish and Russian Citizen, born 1968. Employed since 2010. Holdings in Vostok Nafta: 50,000 call options.
Anders F. Börjesson: Legal Counsel. Swedish citizen, born 1971. Employed since 2008. Holdings in Vostok Nafta: 2,500 depository receipts and 125,000 call options.

Auditors
PricewaterhouseCoopers AB
Klas Brand, born 1956. Authorised public accountant, Lead Partner. Auditor in the Company since 2007. PricewaterhouseCoopers AB, Gothenburg, 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, 2010–December 31, 2010.

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.

As of December 31, 2010 the Vostok Nafta group (the "Group") consists of one Bermudian parent company, one wholly-owned Bermudian subsidiary, four wholly-owned Cypriot subsidiaries, four wholly-owned Russian subsidiaries and one wholly-owned Swedish subsidiary. The Group's portfolio management activities are performed through Vostok Komi (Cyprus) Limited.

Group Result

During the year, the result from financial assets at fair value through profit or loss amounted to USD 106.67 (139.83) mln. Result from investments in associated companies was USD 20.42 (–5.30) mln. Result from loan receivables was USD 8.01 (7.04) mln. Dividend income, net of withholding tax expenses, was USD 9.06 (7.74) mln.

Net operating expenses (defined as other operating income less operating expenses) amounted to USD 5.32 (–4.99) mln.

Net financial items were USD 0.80 (–4.50) mln.

Net result for the year was USD 138.36 (139.85) mln.

Total shareholders' equity amounted to USD 625.43 mln on December 31, 2010 (December 31, 2009: 487.62).

Portfolio performance

During the year January 1, 2010–December 31, 2010, Vostok Nafta's net asset value per share has increased by 28.25%. During the same period the Russian RTS index increased by 22.54% in USD terms.

During the year January 1, 2010–December 31, 2010, the net asset value (NAV) has increased from USD 487.62 mln to USD 625.43 mln.

During the year January 1, 2010–December 31, 2010, gross investments in financial assets were USD 113.67 (90.67) mln and proceeds from sales were USD 88.57 (84.80) mln. As at December 31, 2010, Vostok Nafta's three biggest investments are Black Earth Farming (19.57%), TNK-BP Holding (19.39%) and RusForest (8.78%).

Major events of the year

Portfolio transactions

RusForest

In November 2010, RusForest AB concluded a rights issue, whereby the capital of the company was trebled. Ahead of the rights issue, Vostok Nafta had divested a 6.9 percent stake in the company to Alecta, which thereby became the third largest shareholder in the company. Following the rights issue, Vostok Nafta's shareholding amounted to 28,165,209 shares, representing some 43 percent of the total outstanding shares in RusForest AB.

Clean Tech East Holding

During 2010, Clean Tech East Holding AB completed a rights issue, whereby the capital of the company was quadrupled. Vostok Nafta participated in a consortium which guaranteed the rights issue. Following the rights issue, Vostok Nafta's shareholding in Clean Tech East Holding AB amounted to 284,856,095 shares, or some 42 percent fo the total outstanding shares in Clean Tech East Holding AB.

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.

As a result, 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.

There were no changes in the share capital of the company during 2008.

During 2009, the Company completed two share issues. 46,020,901 new shares were issued in a rights issue in February 2009, and 8,949,173 shares were issued in an in-kind issue in June 2009. As a result, at the end of December 2009, the number of outstanding shares in the company was 100,990,975, with a par value of USD 1 per share.

There were no changes in the share capital of the company during 2010.

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 year, seven board meetings have been held and two resolutions have been passed by circulation. The directors represent a number of nationalities. Board meetings are conducted in English. The Board of Directors has three sub-committees: the Investment Committee, the Audit Committee and the Compensation Committee. The work and the composition of the Board and its sub-committees are described in detail in the Corporate Governance Report.

Administration report

As per the resolution of the 2010 AGM, a nomination committee has been established to make recommendations to the AGM 2011 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 2011.

The Nomination Committee has the following members: Ian H. Lundin, appointed by the Lundin family; Leif Törnvall, appointed by Alecta Pension Insurance; and Anders Algotsson, appointed by 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, which have remained in force and were last confirmed at the Annual General Meeting of the Company held on May 5, 2010, 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 director, 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.

Personnel

At year-end, Vostok Nafta had six persons employed in Sweden and four persons employed in Russia.

Treatment of retained earnings

The group's total retained earnings amount to USD 332,410 thousand.

The Board of Directors and the Managing Director propose that the retained earnings of the parent company USD 214,152 thousand, which include the year's profit of USD 19,439 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 Administration Report and the other parts of the Annual Report of the Group and the Parent Company provide a fair review of the development of the Group's and the Parent Company's operations, financial position and results of operations and describe material risks and uncertainties facing the Parent Company and the companies included in the Group.

Stockholm, March 30, 2011

Lukas H. Lundin
Chairman

Al Breach
Board member

Lars O Grönstedt
Board member

Ashley Heppenstall
Board member

Paul Leander-Engström
Board member

William A. Rand
Board member

Robert J. Sali
Board member

Per Brilioth
Managing Director and Board member

Income statements – Group

(Expressed in USD thousands)	Note	2010	2009
Result from financial assets at fair value through profit or loss	5,16	106,665	139,835
Result from investments in associated companies	6,17	20,422	–5,296
Result from loan receivables[1]	8,18,19	8,005	7,043
Dividend income	7	10,653	9,111
Other operating income	9,29	415	910
Total operating income		**146,160**	**151,603**
Operating expenses	10,28,29	–5,733	–5,897
Dividend withholding tax expenses	7	–1,593	–1,367
Other operating expenses		–1,176	–
Operating result		**137,660**	**144,339**
Financial income and expenses			
Interest income		16	109
Interest expense	23,29	–7	–1,868
Currency exchange gains/losses, net		682	–2,745
Other financial income		107	22
Other financial expenses		–	–19
Net financial items		**798**	**–4,501**
Result before tax		**138,458**	**139,838**
Taxation	11	–98	8
Net result of the year		**138,359**	**139,846**
Earnings per share (in USD)	12	1.37	1.40
Diluted earnings per share (in USD)	12	1.37	1.40

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

Statement of comprehensive income

(Expressed in USD thousands)	2010	2009
Net result of the year	**138,359**	**139,846**
Other comprehensive income for the year		
Currency translation differences	–882	–58
Total other comprehensive income for the year	**–882**	**–58**
Total comprehensive income for the year	**137,477**	**139,788**

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

Balance sheets – Group

(Expressed in USD thousands)	Note	Dec 31, 2010	Dec 31, 2009
NON CURRENT ASSETS			
Tangible non current assets			
Property, plant and equipment	13	133	226
Investment property	14	543	1,722
Total tangible non current assets		675	1,948
Financial non current assets			
Financial assets at fair value through profit or loss	15,16	401,547	301,607
Investment in associated companies	15,17	199,272	148,084
Loan receivables	18,29	4,902	22,602
Deferred tax asset	11	61	109
Total financial non current assets		605,783	472,402
CURRENT ASSETS			
Cash and cash equivalents	21	9,448	8,935
Loan receivables	19	9,283	3,180
Receivables from related parties	29	–	375
Tax receivables		186	155
Other current receivables	20	1,789	2,050
Total current assets		20,706	14,695
TOTAL ASSETS		627,164	489,045
SHAREHOLDERS' EQUITY (including net result for the financial year)	22	625,430	487,624
CURRENT LIABILITIES			
Interest bearing current liabilities			
Borrowings	23	–	–
Non-interest bearing current liabilities			
Liabilities to related parties	29	200	211
Tax payables		504	516
Unsettled trades		406	–
Other current liabilities	24	110	61
Accrued expenses		513	633
Total current liabilities		1,733	1,421
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		627,164	489,045

Statement of Changes in Equity – Group

(Expressed in USD thousands)	Share Capital	Additional paid in capital	Other reserves	Retained earnings	Total
Balance at January 1, 2009	46,021	146,884	16	54,972	247,893
Net result for the year January 1, 2009 to December 31, 2009	–	–	–	139,846	139,846
Other comprehensive income for the year:					
Currency translation differences	–	–	–58	–	–58
Total comprehensive income for the year January 1, 2009 to December 31, 2009	–	–	–58	139,846	139,788
Transactions with owners:					
Proceeds from new share issues, net of transaction costs	54,970	44,604	–	–	99,574
Proceeds from issue of warrants	–	–	–	157	157
Employees share option scheme:					
– value of employee services	–	212	–	–	212
	54,970	44,816	–	157	99,943
Balance at December 31, 2009	100,991	191,700	–42	194,975	487,624
Balance at January 1, 2010	100,991	191,700	–42	194,975	487,624
Net result for the year January 1, 2010 to December 31, 2010	–	–	–	138,359	138,359
Other comprehensive income for the year:					
Currency translation differences	–	–	–882		–882
Total comprehensive income for the year January 1, 2010 to December 31, 2010	–	–	–882	138,359	137,477
Transactions with owners:					
Employees share option scheme:					
– value of employee services	–	329	–	–	329
	–	329	–	–	329
Balance at December 31, 2010	100,991	192,029	–924	333,334	625,430

Cash flow statements – Group

(Expressed in USD thousands)	2010	2009
OPERATING ACTIVITIES		
Result before tax	138,458	139,838
Adjustment for:		
Interest income	–16	–109
Interest expenses	7	1,868
Currency exchange gains/-losses	–682	2,745
Depreciations and write downs	1,292	174
Result from financial assets at fair value through profit or loss	–106,665	–139,835
Result from investments in associated companies	–20,422	5,296
Result from loan receivables	–8,005	–7,043
Dividend income	–10,653	–9,111
Other non-cash items	3	1,578
Change in current receivables	510	8
Change in current liabilities	411	–76
Net cash used in operating activities	**–5,762**	**–4,667**
Investments in financial assets	–113,672	–90,665
Sales of financial assets	88,572	84,795
Increase in loan receivables	17,615	–2,431
Investments in subsidiaries	–	–51
Dividend received	10,653	7,744
Interest received	2,003	989
Interest paid	–7	–1,868
Tax paid	–115	–45
Net cash flow used in operating activities	**–714**	**–6,199**
INVESTING ACTIVITIES		
Investments in office equipment	–24	–2
Sales of office equipment	–	38
Net cash flow used in/from investing activities	**–24**	**36**
FINANCING ACTIVITIES		
Repayments of borrowings	–	–77,214
Proceeds from new share issue	–	66,201
Proceeds from issue of warrants	326	157
Net cash flow from/used in financing activities	**326**	**–10,856**
Change in cash and cash equivalents	–411	–17,019
Cash and cash equivalents at beginning of the year	8,935	29,198
Exchange gains/losses on cash and cash equivalents	924	–3,244
Cash and cash equivalents at end of year	**9,448**	**8,935**

Key financial ratios – Group

	2010	2009
Return on capital employed, % (01)	24.86	34.68
Equity ratio, % (02)	99.72	99.71
Shareholders' equity/share, USD (03)	6.19	4.83
Earnings/share, USD (04)	1.37	1.40
Diluted earnings/share, USD (05)	1.37	1.40
Net asset value/share, USD (06)	6.19	4.83
Adjusted weighted average number of shares for the year *	100,990,975	100,052,565
Adjusted weighted average number of shares for the year (fully diluted)	100,990,975	100,052,565
Number of shares at balance sheet date	100,990,975	100,990,975

* In accordance with IAS 33, the weighted average number of shares has been adjusted as a consequence of the preferential issue, which was carried out in February 2009. The number of shares outstanding before the issue has been adjusted, as if the issue had occurred at the beginning of the earliest period reported. In the computation, the number of ordinary shares to be used in calculating the earnings per share is the number of shares outstanding prior to the issue, multiplied by an adjustment factor; 1.172 (see note 12).

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

Income statement – Parent

(Expressed in USD thousands)	Note	2010	2009
Operating expenses	10	–5,004	–4,187
Write-downs/Reversals of write-downs on shares in subsidiaries	27	–	124,562
Operating result		**–5,004**	**120,375**
Financial income and expenses			
Interest income	29	24,453	21,431
Interest expenses	29	–	–1,436
Currency exchange gains/losses, net		–10	–1,153
Other financial expenses		–	–2
Net financial items		**24,443**	**18,840**
Net result of the year		**19,439**	**139,215**

Statement of comprehensive income

(Expressed in USD thousands)	2010	2009
Net result of the year	**19,439**	**139,215**
Other comprehensive income for the year	–	–
Currency translation differences	–	–
Total other comprehensive income for the year	**–**	**–**
Total comprehensive income for the year	**19,439**	**139,215**

Balance sheet – Parent

(Expressed in USD thousands)	Note	Dec 31, 2010	Dec 31, 2009
NON CURRENT ASSETS			
Financial non current assets			
Shares in subsidiaries	27	246,591	226,865
Receivables from Group companies	29	261,302	261,044
Total financial non current assets		507,893	487,909
CURRENT ASSETS			
Cash and cash equivalents		39	29
Receivables from related parties		–	219
Other current receivables	20	183	382
Total current assets		222	630
TOTAL ASSETS		508,115	488,539
SHAREHOLDERS' EQUITY (including net result for the financial year)	22	507,172	487,404
CURRENT LIABILITIES			
Non-interest bearing current liabilities			
Liabilities to group companies	29	619	569
Other current liabilities	24	54	–
Accrued expenses		270	566
Total current liabilities		943	1,135
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		508,115	488,539

Statement of Changes in Equity – Parent

(Expressed in USD thousands)	Share Capital	Additional paid in capital	Retained earnings	Total
Balance at January 1, 2009	46,021	146,884	55,341	248,246
Net result for the year January 1, 2009 to December 31, 2009	–	–	139,215	139,215
Other comprehensive income for the year:				
Currency translation differences	–	–	–	–
Total comprehensive income for the year January 1, 2009 to December 31, 2009	–	–	139,215	139,215
Transactions with owners:				
Proceeds from new share issue, net of transaction costs	54,970	44,604	–	99,574
Employees share option scheme:				
– value of employee services	–	212	–	212
Proceeds from issue of warrants	–	–	157	157
	54,970	44,816	157	99,943
Balance at December 31, 2009	100,991	191,700	194,713	487,404
Balance at January 1, 2010	100,991	191,700	194,713	487,404
Net result for the year January 1, 2010 to December 31, 2010	–	–	19,439	19,439
Other comprehensive income for the year:				
Currency translation differences	–	–	–	–
Total comprehensive income for the year January 1, 2010 to December 31, 2010	–	–	19,439	19,439
Transactions with owners:				
Employees share option scheme:				
– value of employee services	–	329	–	329
	–	329	–	329
Balance at December 31, 2010	100,991	192,029	214,152	507,172

Note 1
General information

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 March 30, 2011.

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

Note 2
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, 2010. 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.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

Changes in accounting policy and disclosures

(a) New and amended standards adopted by the group

The Group has adopted the following new and amended IFRSs as of January 1, 2010:

IFRIC 17, 'Distribution of non-cash assets to owners'. The interpretation is part of the IASB's annual improvements project published in April 2009. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable.

IAS 27 (revised), 'Consolidated and separate financial statements'. 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 remeasured to fair value, and a gain or loss is recognised in profit or loss.

IFRS 3 (revised), 'Business combinations'. 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 remeasured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed.

IFRS 5 (amendment), 'Measurement of non-current assets (or disposal groups) classified as held-for-sale'. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1.

IAS 1 (amendment), 'Presentation of financial statements'. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.

IFRS 2 (amendments), 'Group cash-settled and share-based payment transactions'. In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 – Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation.

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 January 1, 2011 or later periods, but the group has not early adopted them:

IFRS 9, 'Financial instruments', issued in November 2009. This standard is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets. The standard is not applicable until January 1, 2013 but is available for early adoption. However, the standard has not yet been endorsed by the EU. The Group is yet to assess IFRS 9's full impact.

Revised IAS 24 (revised), 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after January 1, 2011. Earlier application, in whole or in part, is permitted. However, the standard has not yet been endorsed by the EU.

The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Group will apply the revised standard from January 1, 2011. When the revised standard is applied, the group and the parent will need to disclose any transactions between its subsidiaries and its associates.

IFRIC 19, 'Extinguishing financial liabilities with equity instruments', effective July 1, 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. The Group will apply the interpretation from January 1, 2011, subject to endorsement by the EU.

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

Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the group. 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. All acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement. No goodwill was recognized in the consolidated balance sheet as of December 31, 2010, and December 31, 2009, 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, that is the Board of Directors. 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 Bermudian and two Cypriot subsidiaries is USD (Vostok Komi (Cyprus) Limited and Dodomar Ventures Limited), 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 not 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 other comprehensive income.

Property, plant and equipment
Property, plant and equipment is stated at historical cost less accumulated depreciation. Depreciation on furniture, fittings and equipment 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.

Investment property
Investment property (land) is measured initially at its cost. After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of specific asset. Changes in fair value are recognised in the income statement as "Other operating expenses".

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. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current. Financial assets are securities held in listed and unlisted companies.

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.

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:
- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  (i) adverse changes in the payment status of borrowers in the portfolio; and
  (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio

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% and 50%, 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".

This treatment is permitted by IAS 28 'Investments in associates', which allows investments to be excluded from its scope where those investments are designated, upon initial recognition, as at fair value through profit or loss and accounted for in accordance with IAS 39, with changes in fair value recognized in the income statement in the period of change. There are no significant restrictions on the associated companies ability to transfer funds for loan repayments. On increase/decrease of the investments in associated companies, the Group makes an assessment of fair value for the total investment.

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 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 and bank balances.

Share capital

Ordinary shares are classified as equity. 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 contribution pension plan, according to the Group's pension policy wich is based on Swedish ITP-standards. The Group has no further obligations once the contributions have been paid. The contributions are reported as a costrecognised as employee benefit pension expense in profit or loss when they are due.

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.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. The Group's leases are exclusively operating leases, and refer mainly to office rents and office machines.

Note 3
Financial risk management

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.

Market risk

Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk reflects currency risk, price risks and interest rate risk.

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, 2010, if the USD had weakened by 10.0% against the SEK with all other variables held constant, post-tax profit for the year and equity would have been USD 23.36 mln higher (2009: +17.05), mainly as a result of foreign exchange gains on translation of SEK-denominated investments in associated companies. Profit is more sensitive to movement in SEK/USD exchange rates in 2010 than 2009 because of the increase in SEK-denominated financial assets.

At December 31, 2010, if the USD had strengthened by 15.0% against the RUB with all other variables held constant, post-tax profit for the year and equity would have been USD 1.48 mln lower (2009: –3.01), mainly as a result of foreign exchange gains on translation of RUB-denominated short term loan receivables and other current receivables. Profit is less sensitive to movement in RUB/USD exchange rates in 2010 than 2009 because of the decrease in RUB-denominated assets.

At December 31, 2010, if the USD had strengthened by 10.0% against the EUR with all other variables held constant, post-tax profit for the year and equity would have been USD 1.85 mln lower (2009: –1.83), mainly as a result of foreign exchange gains 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. The price risk associated with Vostok Nafta's portfolio may be illustrated by stating that a 20.0% increase in the price of the quoted shares in the Group's portfolio at December 31, 2010 would have affected post-tax profit and equity by approximately USD 96.55 mln.

Market interest rate risk

The group is exposed to a market interest rate risk because of outstanding loan receivables which are carried at fixed interest rate. Since the fair value of the loan receivables are not estimated using valuation models based on market rate inputs, the Groups consolidated accounts are not significantly exposed to market interest risks.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a loss for the other party by failing to pay for its obligation.

Within the Group's portfolio investments operations, credit risk arises from non current and current loan receivables. See further note 18 and 19. 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.

Liquidity risk

Liquidity risk is the risk that an entity will have difficulties in paying its financial liabilities.

For the Group, prudent liquidity risk management implies maintaining sufficient cash and marketable securities. As at December 31, 2010 approximately 21% of the Group's investment portfolio comprises liquid assets.

The table below analyses the Group's financial liabilities into relevant maturing groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows. Comparative information have been restated as permitted by the amendments to IFRS 7 for the liquidity risk disclosures.

At December 31, 2010	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Other current liabilities	110	–	–	–

At December 31, 2009	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Other current liabilities	61	–	–	–

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.

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. Up to 2009, the Group's investments were partly financed through debt but since then the Board has decided on a new financial strategy with zero debt. The Group will therefore continue to work with financial leverage only on a restrictive basis during shorter periods of time.

Operating and sector-related risks

Country-specific risks

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

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

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

Acquisition and disposal risk

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

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

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

Accounting practice and other information

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

Corporate governance risk

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

Inadequate accounting rules and standards have hindered the development of an effective system for uncovering fraud and increasing insight. Shareholders can conceal their ownership by acquiring shares through shell company structures based abroad which are not demonstrably connected to the beneficiary, which leads to self-serving transactions, insider deals and conflicts of interest. The role of the Russian financial inspectorate as the regulator of the equity market to guarantee effective insight and ensure that fraud is uncovered is complicated by the lack of judicial and administrative enforcement instruments.

Deficiencies in legislation on corporate governance, judicial enforcement and corporate legislation may lead to hostile takeovers, where the rights of minority shareholders are disregarded or abused, which could affect Vostok Nafta in a detrimental manner.

Dependence on key individuals

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

Investments in growth markets

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

International capital flows

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

Political instability

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

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

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

Fair value estimation

Effective January 1, 2009, the group adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

– Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
– Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
– Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the group's assets that are measured at fair value at December 31, 2010.

	Level 1	Level 2	Level 3	Total balance
Financial assets at fair value through profit or loss	356,610	–	44,938	401,547
Investments in associated companies	196,766	–	2,506	199,272
Non current loan receivables	–	4,902	–	4,902
Current loan receivables	–	9,283	–	9,283
Total assets	553,376	14,185	47,444	615,005

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The following table presents the changes in level 3 instruments for the year ended December 31, 2010.

	Financial assets at fair value through profit or loss	Investments in associated companies	Total
Opening balance	24,007	18,293	42,300
Gains or losses for the period recognized in profit or loss – "Result from financial assets at fair value through profit or loss"	20,931	–	20,931
Gains or losses for the period recognized in profit or loss – "Result from investments in associated companies"	–	1,245	1,245
Transfers out of level 3	–	–17,032	–17,032
Closing balance	44,938	2,506	47,444

Investments in assets that are not traded on any market will be held at fair value determined by different valuation models depending on the characteristics of the company as well as the nature and risks of the investment. These different techniques will include discounted cash flow valuation (DCF), exit-multiple valuation also referred to as LBO-valuation, asset based valuation as well as forward looking multiples valuation based on comparable traded companies.

Tinkoff Credit Systems (Egidaco)

Tinkoff Credit System's value is defined by using a multiples-based valuation method. Russia's banks average 2011E P/E and 2010E P/B multiples is compared to corresponding global emerging markets average P/E and P/B multiples to find the discount (premium) at which Russian banks traded against other emerging markets banks. As of year-end of 2010, Russian banks traded at a 2011E P/E of 9.73, a 9.22% discount to global emerging markets, and a premium of 15.86% on 2010E P/B. Several fast growing, high yield consumer finance institution in the global emerging markets universe with exposure to sub-prime segment was subsequently identified. Our peer group included Banco Compartamos (leading microfinance franchise in Mexico), Bank of Rakyat (Indonesia's third largest bank focusing on under-banked, rural communities), African Bank (focusing on micro lending to the formally-employed, lower income consumers in South Africa), Samsung Card (one of the top three credit card providers in Korea, SKS Microfinance (Indian micro-finance institution) and several other similar financial institutions.

The P/E and P/B based values were derived from these peer group multiples and corresponding discounts (premium) were applied. Tinkoff Credit System's value of USD 43.43 mln was calculated as simple average of the resulting P/E based and P/B based values.

If the average emerging markets P/E-multiple would decline by one point (1.00), the value of Vostok Nafta's share of TCS's total equity would decrease by 5.07% to MUSD 41.2. An increase by one point would lead to an increase of Vostok Nafta's share of TCS's value by approximately 5.76% to MUSD 45.9. If the average emerging markets P/B-multiple would decline by one point (1.00), the value of Vostok Nafta's share of TCS's value would decrease by 9.22% to MUSD 39.4. An increase by one point would lead to an increase of Vostok Nafta's share of TCS's value by approximately 8.98% to 47.3. This sensitivity analysis is based on all other factors remaining unchanged.

Vosvik (Avito and Yellow Pages)

Vosvik's major holding, Avito (87.2% of Vosvik's value), is valued through a recently completed transaction where Northzone and Kinnevik Investment AB contributed with a total sum of SEK 185,250,000. The transaction has resulted in a post-money valuation of total SEK 489,059,976 for 100% of share capital (USD 65,999,997 at fixed SEK/USD exchange rate of 7.41). Vostok Nafta's share of 25.8% is accordingly valued at approximately USD 17.03 million. After this transaction, Avito's valuation is based on observable market data and the total value of USD 17.03 mln is therefore no longer classified as a level 3 investment.

Value for Yellow Pages (12.8% of Vosvik's value) is estimated by Vostok Nafta's share of the value from a discounted cash flow model. As the holding period of the investment is estimated to be extensive with no clear exit under a foreseeable future, a continuing value based on an infinite growth rate has been estimated. Assessments of future cash flows are based on the most recent management forecasts covering a forecasting period of 5 years. Thereafter the continuing value is based on an assumption of an unchanged future growth rate deemed appropriate for the industry. The present value is calculated using a weighted average cost of capital as a discount rate. Key parameters include sales growth, profitability, continuing growth rate and the discount rate. Average annual sales growth and profitability on the EBITDA level is estimated by management and evaluated by Vostok Nafta as reasonable. The continuing growth rate after the forecast period is in line with estimated overall economic growth. The weighted average cost of capital (WACC is based on market rates for Russian sovereign bonds and corporate lending as well as company specific risk premiums.

TKS Concrete

Value for TKS Concrete is estimated by Vostok Nafta's share of the value from a discounted cash flow model. As the holding period of the investment is estimated to be extensive with no clear exit under a foreseeable future, a continuing value based on an infinite growth rate has been estimated. Assessments of future cash flows are based on Vostok Nafta estimates covering a forecasting period of 6 years. Thereafter the continuing value is based on an assumption of an unchanged future growth rate deemed appropriate for the industry. The present value has been calculated using a weighted average cost of capital as a discount rate.

Key parameters include plant additions, capacity utilization, price of concrete, profitability and the discount rate. An increase of the current 4 plants to 12 along with a ramp up capacity utilization to 80% is estimated by management and evaluated by Vostok Nafta as reasonable. An average concrete price of USD 80 per m^3 and an average operating margin of 17% are considered realistic given the company's future prospects. The weighted average cost of capital is based on market rates for Ukrainian sovereign bonds and corporate lending as well as company specific risk premiums.

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:

Fair value of unlisted financial assets

The estimates and judgements when assessing the fair value of unlisted investments in associated companies and 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. For further information on fair value estimation, see above.

Note 4
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, 2010, the Vostok Nafta group (the Group) consists of a Bermudian parent company, Vostok Nafta Investment Ltd, one wholly owned Bermudan subsidiary, Vostok Holding Limited, four wholly owned Cypriot subsidiaries; Vostok Komi (Cyprus) Limited, Dodomar Ventures Limited, Premline Holdings Limited and Freemosa Holdings Limited; one Swedish subsidiary; Vostok Nafta Sverige AB, and four wholly owned Russian subsidiaries, OAO Resurs-Invest, OOO Resursniye Investitsii, ZAO Baikal Energy, and OOO Volga – Nash Dom.

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

Note 5
Result from financial assets at fair value through profit or loss

	Group 2010	Group 2009
Proceeds from sale of financial assets at fair value through profit or loss	85,845	84,795
Carrying value of sold financial assets at fair value through profit or loss	–92,017	–126,818
Change in fair value of undisposed financial assets at fair value through profit or loss	112,837	181,858
Result from financial assets at fair value through profit or loss	106,665	139,835

During 2009 and 2010, 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 6
Result from investments in associated companies

	Group 2010	Group 2009
Proceeds from sale of investments in associated companies	2,727	–
Carrying value of sold investments in associated companies	–7,640	–
Change in fair value of undisposed investments in associated companies	25,335	–5,296
Result from investments in associated companies	20,422	–5,296

During 2009 and 2010 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 7
Dividend income

	Group 2010	Group 2009
Dividend income recognized in the income statement	10,653	9,111
whereof unsettled at balance sheet date	–	–
Tax withheld on dividends	–1,593	–1,367
Net proceeds from dividends, net of tax, recognized in the income statement during the year	9,060	7,744

Note 8
Result from loan receivables

	Group 2010	Group 2009
Interest income	8,835	6,507
Impairments	–	–8
Foreign exchange rate gains/losses	–830	544
Total	8,005	7,043

Note 9
Other operating income

	Group 2010	Group 2009
Reimbursed expenses (see also note 29)	99	498
Rental income (see also note 29)	88	178
Other	228	234
Total	415	910

Note 10
Operating expenses by nature

	Group 2010	Group 2009	Parent Company 2010	Parent Company 2009
Employee benefit expense (Note 28)	2,806	3,090	271	715
Depreciation and write down of property, plant and equipment	117	174	–	–
Fair value adjustments of investment property	1,176	–201	–	–
Operating lease expenses	363	441	–9	107
Other expenses	1,271	2,393	4,743	3,364
Total operating expenses	5,733	5,897	5,004	4,187

Lease rentals amounting to TUSD 363 (2009: 441) relating to rent of office space in Stockholm, Moscow and London have been recognized in the income statement.

Note 11
Tax

Corporate income tax – general

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

Up to December 31, 2008, the Group's Cypriot entities are subject to Cyprus corporation tax on taxable profits at the rate of 10%. Under certain conditions, interest may be subject to defence contribution 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%.

From January 1, 2009 onwards, under certain conditions, interest may be exempt from income tax and only subject to defence contribution at the rate of 10%.

In certain cases dividends received from abroad may be subject to defence contribution at the rate of 15%.

Any gains from disposal of qualified securities are not subject to corporate tax in Cyprus.

The Russian subsidiaries' profits during 2010 are subject to Russian income tax at the rate of 20 % (2009: 20%).

During 2010, the Swedish subsidiary's profits are subject to Swedish income tax at the rate of 26.3% (2009: 26.3%).

Income tax expense

	Group 2010	Group 2009
Current tax	–52	–20
Deferred tax	–47	28
Special defence contribution tax	–	–
Taxation	–98	8

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:

	Group 2010	Group 2009
Result before tax	138,458	139,838
Tax calculated at domestic tax rates applicable to profits in the respective countries	11,492	10,837
Tax effects of:		
– Income not subject to tax	–24,245	–19,024
– Expenses not deductible for tax purposes	12,630	8,168
– Adjustment in respect of prior years	–292	–
– Utilisation of previously unrecognised tax losses	–27	–
– Tax losses for which no deferred income tax asset was recognised	539	27
Tax charge	98	8

Deferred tax

	Group Dec 31, 2010	Group Dec 31, 2009
Deferred tax assets relating to		
– tax losses	61	109
Deferred tax liabilities relating to		
– untaxed reserves	–	–
Total	61	109

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

	Group 2010	Group 2009
Beginning of the year	109	–5
Acquired deferred tax asset	–	85
Charged to income statement	–47	28
Currency translation differences	–1	1
End of the year	61	109

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 0.64 mln (2009: 2.69) in respect of losses amounting to USD 6.40 mln (2009: 15.74) that can be carried forward against future taxable income without any time limitation.

Note 12
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.

For the period ended December 31, 2009, the weighted average number of shares has been affected by two new share issues, which have been completed during the year. On February 6, 2009, the Company completed a rights issue whereby 46,020,901 new shares were issued for a consideration of SEK 12 each, and on June 25, 2009, the Company completed a directed share issue whereby 8,949,173 new shares were issued for a consideration of USD 3.84 each, payable by in-kind contribution of publicly traded shares in companies whose main business activities are conducted in Russia and the C.I.S. As at December 31, 2010, the unadjusted weighted average number of shares in issue during the year was 100,990,975 (2009: 92,136,970).

In accordance with IAS 33, the weighted average number of shares in issue during the year has been adjusted to reflect the discounted value of shares issued in the rights issue. The number of shares outstanding before the issue has been adjusted, as if the issue had occurred at the beginning of the earliest period reported. In the adjustment, the number of ordinary shares outstanding prior to the issue has been multiplied by an adjustment factor, which has been derived by using the following inputs:

	2009
Fair value of outstanding shares immediately prior to the exercise of the rights:	SEK 782,355,317
Proceeds from rights issue:	SEK 552,250,812
Number of shares outstanding after exercise:	92,041,802
Total theoretical ex-rights fair value/share:	SEK 14.50
Fair value/share immediately prior to the exercise of the rights:	SEK 17.00
Adjustment factor:	1.172

Diluted earnings per share have been calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive 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.

	2010	2009
Profit attributable to the equity holders of the company	138,359	139,846
Weighted average number of ordinary shares on issue	100,990,975	100,052,565
Earnings per share, basic	1.37	1.40
Adjustment for dilution effect of incentive options	–	–
Weighted average number of ordinary shares for diluted	100,990,975	100,052,565
Earnings per share, diluted	1.37	1.40

Note 13
Property, plant and equipment

Group	
At January 1, 2009	
Cost or valuation	873
Accumulated depreciation	–363
Net book amount	510
Year ended December 31, 2009	
Opening net book amount	510
Additions (property, plant and equipment)	2
Additions (investment property)	1,520
Transfer to Investment property	–1,520
Disposals	–32
Write downs	–30
Depreciation charge	–144
Exchange differences	–80
Closing net book amount	226
At December 31, 2009	
Cost or valuation	640
Accumulated depreciation	–414
Net book amount	226
Year ended December 31, 2010	
Opening net book amount	226
Additions	27
Disposals	–1
Depreciation charge	–117
Exchange differences	–3
Closing net book amount	132
At December 31, 2010	
Cost or valuation	692
Accumulated depreciation	–560
Net book amount	133

Depreciations and write downs amounting to net USD –117 thousand (–174) for the Vostok Nafta Group have recognized among operating expenses in the income statement (see also note 10).

Note 14
Investment property

Group	2010	2009
Year ended December 31, 2009		
At the beginning of the year	1,722	–
Transfer from property, plant and equipment	–	1,520
Fair value adjustments	–1,176	201
Effect of translation to presentation currency	–3	1
At the end of the year	543	1,722

Fair value adjustments amounting to net USD –1,176 thousand (201) for the Vostok Nafta Group have recognized among operating expenses in the income statement (see also note 10).

Note 15
Financial instruments by category

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

December 31, 2010 – 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	–	401,547	401,547
Investments in associates	–	199,272	199,272
Loan receivables	4,902	–	4,902
Cash and cash equivalents	9,448	–	9,448
Total	14,350	600,820	615,169

December 31, 2009 – 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	–	301,607	301,607
Investments in associates	–	148,084	148,084
Loan receivables	22,602	–	22,602
Cash and cash equivalents	8,935	–	8,935
Total	31,537	449,691	481,228

Note 16
Non-current financial assets at fair value through profit or loss

	Group Dec 31, 2010	Group Dec 31, 2009
Beginning of the year	301,607	134,181
Additions	80,125	115,063
Reclassifications	–	–2,677
Disposals	–92,017	–126,818
Change in fair value	111,832	181,858
End of the year	401,547	301,607

The assets specified in the table below are investments in financial assets at fair value through profit or loss. Except for the securities/companies mentioned below, all assets are listed ´and valued on the basis of the bid price as per the balance sheet date.

- Egidaco Investments PLC (Tinkoff Credit Systems) is unlisted and the fair value as per December 31, 2010 is estimated using an exit multiple valuation, since the intention to sell the company to a strategic buyer within 3 to 5 years is outspoken by the company's major shareholders. For further information, see Note 3 – Fair Value Estimation
- TKS Concrete. The company is unlisted and the fair value as per December 31, 2010 is estimated using a discounted cash flow model. For further information, see Note 3 – Fair Value Estimation.

Security/Company name	Number of shares held Dec 31, 2010	Fair value (USD), Dec 31, 2010	Ownership share %	Number of shares held Dec 31, 2009	Fair value (USD), Dec 31, 2009	Ownership share %
Group						
Agrowill Group	1,765,000	607,279	2.47%	1,765,000	0	6.75%
Alrosa	1,261	18,158,400	0.46%	1,159	7,243,750	0.42%
Bekabadcement	3,654	657,720	6.53%	3,000	450,000	5.36%
Caspian Services	5,364,850	643,782	10.27%	5,364,850	3,165,262	10.48%
Custos AB	–	–	–	547,000	2,292,920	13.68%
Dakor	272,106	2,880,704	4.76%	272,106	3,007,078	4.76%
Egidaco 18% 2011	–	–	–	5,000,000	6,073,821	–
Egidaco Investments PLC (Tinkoff Credit Systems), equity	1,073,174	43,430,866	17.08%	885,934	17,697,000	15.00%
Egidaco Investments PLC (Tinkoff Credit Systems), warrants		–	–		2,510,000	2.00%
Tinkoff Credit Systems Bank						
Fortress Minerals Corp	300,000	1,277,681	2.02%	6,000,000	2,335,519	0.48%
Gaisky GOK	31,434	12,259,260	5.09%	31,274	8,131,240	5.06%
Gazprom Neft ADR	–	–	–	189,300	5,300,400	0.02%
Gornozavodsk Cement	39,000	9,750,000	5.03%	39,000	5,460,000	5.03%
Kamkabel	1,600,000	160,000	4.12%	1,600,000	128,000	4.12%
Kherson Oil Refinery	5,789,903	7,261	4.40%	5,789,903	7,196	4.40%
Kuzbass Fuel Company	3,500,000	24,045,000	3.53%	50,000	20,000,000	2.96%
Kuzbassrazrezugol	133,752,681	51,494,782	2.18%	133,752,681	49,488,492	2.18%
Kyrgyzenergo	2,618,241	168,688	0.27%	2,618,241	168,688	0.27%
Lukoil ADR	–	–	–	258,000	14,757,600	0.03%
Novoil Ord	1,470,000	1,389,150	0.19%	1,620,000	1,425,600	0.20%
Novoil Pref	–	–	–	1,122,705	366,002	1.42%
Podolsky Cement	85,332	53,503	0.01%	85,332	106,058	0.01%
Poltava GOK	3,104,498	16,231,882	1.63%	3,154,498	10,218,589	1.65%
Priargunsky Ind Ord	106,242	24,329,418	5.82%	98,242	19,157,190	5.62%
Priargunsky Ind Pref	11,709	1,276,281	0.52%	11,709	1,077,228	2.82%
RusHydro ADR	1,459,734	7,955,550	0.05%	4,678,734	17,919,551	0.17%
RusHydro Local shares	34,821,499	1,862,950	0.01%	–	–	–
Shalkiya Zinc GDR	1,442,400	158,664	2.55%	1,442,400	57,696	2.55%
Sibirsky Cement	–	–	–	322,767	5,971,190	1.06%
Steppe Cement Ltd	11,804,303	9,293,340	6.59%	10,156,113	10,180,650	6.59%
Surgutneftegaz Pref	–	–	–	785,000	3,728,750	0.10%
TKS Concrete	375	1,506,750	10.00%	187	1,506,750	10.00%
TKS Real Estate (Waymore Holding)	623,800	990,597	5.54%	623,800	894,124	6.93%
TNK-BP Holding Ord	16,502,237	43,730,928	0.11%	–	–	–
TNK-BP Holding Pref	30,953,600	75,526,784	6.88%	27,096,616	40,644,924	6.02%
Transneft Pref	19,730	24,330,215	1.27%	19,730	15,389,400	1.27%
Tuimazy Concrete Mixers	1,215,000	5,224,500	14.78%	1,215,000	7,290,000	14.78%
Ufa Refinery	10,300,000	14,729,000	1.89%	10,300,000	9,270,000	1.89%
Ufaneftekhim	1,165,000	5,300,750	0.42%	1,715,000	5,102,125	0.62%
Ufaorgsintez	–	–	–	670,000	2,378,500	0.69%
Varyaganneftgas Pref	108,500	2,115,750	0.45%	41,500	705,500	0.17%
Total non current financial assets at fair value through profit or loss		401,547,435			301,606,793	

Note 17
Investment in associated companies

	Group Dec 31, 2010	Group Dec 31, 2009
Beginning of the year	148,084	115,296
Additions	33,547	8,974
Reclassifications	–	29,110
Disposals	–7,694	–
Change in fair value or share of income	25,335	–5,296
End of the year	199,272	148,084

The shares specified in the table below are investments in associated companies. Black Earth Farming Ltd, RusForest AB, and Clean Tech East Holding AB are listed companies and valued on the basis of the bid price as per the balance sheet date. Vosvik AB is an unlisted company. For information on the value assessment of this investment; see note 3 – Fair Value Estimation.

Clean Tech East Holding has completed a rights issue of SEK 81 mln in June 2010. Following the capital increase Vostok Nafta's stake in the company rose to 42.8% of the shares outstanding as a result of our participation in the guarantee consortium of the new issue.

During the fourth quarter of 2010, RusForest has completed a rights issue that was oversubscribed by 46%. The new share issue has provided the company with approximately SEK 437 mln before issue costs. Vostok Nafta subscribed its share of the rights issue, contributing with approximately SEK 187.8 mln. Prior to the rights issue, Vostok Nafta sold 1,500,000 shares in RusForest AB, representing 6.9% of the total number of shares outstanding, to Alecta, a large Swdish pension fund, with an aim to create a more balanced shareholder structure. Vostok Nafta remains the largest shareholder of RusForest after this transaction, controlling 43% of the shares.

Name	Number of shares held	Interest held, percent	Fair value	Revenues Jan 1, 2010–Dec 31, 2010	Profit/Loss Jan 1, 2010–Dec 31, 2010	Assets Dec 31, 2010	Liabilities Dec 31, 2010
2010							
Black Earth Farming Ltd	30,888,704	24.8	120,331	46,922	–42,466	366,125	120,638
Clean Tech East Holding AB, shares	284,856,095	42.8	6,281	SEK 74.3 mln	SEK –75.2 mln	SEK 164.5 mln	SEK 104.4 mln
Clean Tech East Holding AB, warrants	121,300,900		178				
Vosvik AB (Avito and Kontakt East)	50,000	50.0	19,538	n/a	n/a	n/a	n/a
RusForest AB, shares	28,165,209	43.0	52,997	SEK 300.8 mln	SEK –130.2 mln	SEK 1,151.3 mln	SEK 172.2 mln
RusForest, issued call options			–54				
Total			199,272				

Name	Number of shares held	Interest held, percent	Fair value	Revenues Jan 1, 2009–Dec 31, 2009	Profit/Loss Jan 1, 2009–Dec 31, 2009	Assets Dec 31, 2009	Liabilities Dec 31, 2009
2009							
Black Earth Farming Ltd	30,888,704	24.8	97,973	79,180	–44,613	365,350	76,238
Clean Tech East Holding AB, shares	42,254,295	31.3	3,367	SEK 51.8 mln	SEK –39.7 mln	SEK 167.0 mln	SEK 107.6 mln
Clean Tech East Holding AB, granted call options	–4,000,000		–139				
Vosvik AB (Kontakt East)	50,000	50.0	18,432	SEK 64.3 mln	SEK –133.5 mln	SEK 232.3 mln	SEK 23.1 mln
RusForest AB	10,888,403	49.9	28,450	SEK 207.5 mln	SEK 117.7 mln	SEK 955.0 mln	SEK 246.0 mln
Total			148,084				

Note 18
Non-current loan receivables

	Group Dec 31, 2010	Group Dec 31, 2009
Beginning of the year	22,602	17,384
Additions	–	1,157
Interest income	3,073	5,323
Reclassifications	–20,240	–1,465
Exchange differences	–533	203
End of the year	4,902	22,602

Counterparty	Credit rating Dec 31, 2010	Nominal value Dec 31, 2010	Nominal value Dec 31, 2009	Carrying value Dec 31, 2010	Carrying value Dec 31, 2009	Terms of interest	Maturity
Clean Tech East Holding AB	–	3,606	–	3,633	–	10%	Mar 2012
Tinkoff Credit Systems Bank	–	–	21,125	–	21,389	24.5%/26.5%/18.5%	Jun 2011
RusForest (Cyprus)	–	1,078	1,003	1,068	996	8%	Jan 2012/Mar 2013
Loans to personnel	–	1,250	1,250	200	200	7%	–
Other	–	–	17	–	17		
Total		5,934	23,395	4,902	22,602		

During the year, the terms of the two loans to Clean Tech East Holding AB by SEK 10 mln each were amended, so the maturity was prolonged to March 2012 and the loan receivable has been reclassified from current to non-current loan receivables.

During the year, the loan receivable from Closed Joint Stock Company Tinkoff Credit Systems Bank (TCS) has been reclassified from non-current loan receivables to current loan receivables with maturity on June 26, 2011.

In July 2009, Vostok Holding Ltd acquired from Vostok Gas Ltd two interest bearing unsecured loans to employees of the Vostok Nafta Group for a total consideration of USD 200,000. As at December 31, 2010, the outstanding loans including accrued interest amounted to nominally USD 1,250 thousand.

The carrying value corresponds to the fair value.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

Note 19
Current loan receivables

	Group Dec 31, 2010	Group Dec 31, 2009
Beginning of the year	3,180	27,847
Additions	12,838	1,292
Repayments	–30,437	–
Reclassifications	21,576	–26,595
Interest income	2,422	326
Write-offs	–	–8
Exchange differences	–296	319
End of the year	9,283	3,180

Counterparty	Credit rating Dec 31, 2010	Nominal value Dec 31, 2010	Nominal value Dec 31, 2009	Carrying value Dec 31, 2010	Carrying value Dec 31, 2009	Terms of interest	Maturity
Clean Tech East Holding AB	–	–	3,153	–	3,153	18%	Mar 2012
Tinkoff Credit Systems Bank	–	9,267	–	9,267	–		Jun 2011
Other short term receivables	–	17	27	17	27		
Total		9,283	3,180	9,283	3,180		

During the year, the terms of the RUB 500 mln loan receivable from Closed Joint Stock Company Tinkoff Credit Systems Bank (TCS), were amended, so that the monthly repayments will be made from September 2010 until the date of maturity, which was determined to June 26, 2011. The interest rate has been determined at 18.5% p.a.from the date of the first repayment on September 2, 2010. 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 2010, interest income in relation to the loan, using the effective interest method, has been recognized in the amount of USD 4,700 (2009: 5,267) thousand.

During the year, the terms of the two loans to Clean Tech East Holding AB by SEK 10 mln each were amended, so the maturity was prolonged to March 2012 and the loan receivable has been reclassified from current to non-current loan receivables.

The carrying value corresponds to the fair value.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

Note 20
Other current receivables

	Group Dec 31, 2010	Group Dec 31, 2009	Parent Company Dec 31, 2010	Parent Company Dec 31, 2009
Prepayments and				
accrued income	1,750	1,350	183	73
Sundry debtors	39	700	–	309
Total	1,789	2,050	183	382

Note 21
Cash and cash equivalents

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

	Group Dec 31, 2010	Group Dec 31, 2009
Cash and cash equivalents	9,448	8,935
Total	9,448	8,935

Note 22
Share capital and additional paid in capital

Group and Parent Company	Number of shares held	Share capital	Additional paid in capital
At January 1, 2009	46,020,901	46,021	146,884
Rights issue, February 2009	46,020,901	46,021	20,180
Directed share issue, June 2009	8,949,173	8,949	24,424
Employees share option scheme:			
– value of employee services	–	–	212
At December 31, 2009	100,990,975	100,991	191,700
Employees share option scheme:			
– value of employee services	–	–	329
At December 31, 2010	100,990,975	100,991	192,029

In February 2009, the Company completed a rights issue whereby 46,020,901 new shares were issued for a consideration of SEK 12 each. Net of transaction costs the proceeds from the new share issue was USD 66,201 thousand.

In June 2009, the Company completed a directed share issue whereby 8,949,173 new shares were issued for a consideration of USD 3.84 each, payable by in-kind contribution of publicly traded shares in companies whose main business activities are conducted in Russia and the C.I.S. Net of transaction costs the proceeds from the new share issue was USD 33,373 thousand.

An Extra General Meeting held on June 25, 2009, approved a resolution to increase the authorised share capital of the Company from USD 100,000,000 to USD 110,000,000. As at December 31, 2010, the number of outstanding shares was 100,990,975 at a par value of USD 1 each, all of which have been paid in full. 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 985,000 (2009:1,533,920) 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, see Note 28.

Note 23
Borrowings

During the period ended December 31, 2009, all bank borrowings, debentures and other loans were repaid in full. Interest expenses in relation to the repaid borrowings have been recognized in the amount of USD 1,857 thousand under 2009. The Company did not have any credit facilities during 2010.

Note 24
Other current liabilities

	Group Dec 31, 2010	Group Dec 31, 2009	Parent Company Dec 31, 2010	Parent Company Dec 31, 2009
Other current liabilities	110	61	54	–
Total	110	61	54	–

Note 25
Financial guarantees

In August 2010, Clean Tech East Holding AB issued a Bond of maximum SEK 40 mln with maturity date in February 2012 and an annual interest of 8% p.a. Vostok Nafta Investment Ltd guaranteed the obligations of Clean Tech East Holding AB under the bonds. In consideration for the guarantee, Clean Tech East Holding AB is to pay to Vostok Nafta Investment Ltd an amount equal to 3% of the total amount the bonds issued. The total consideration amounts to SEK 1.2 mln of which one third, amounting to SEK 0.4 mln, was paid to Vostok Nafta Investment Ltd during 2010.

In May 2010, Vostok Komi (Cyprus) Limited issued a subscription guarantee along with a number of other existing and prospective shareholders in connection with a rights issue in Clean Tech East Holding AB. In the rights issue, each existing share in Clean Tech East Holding AB entitled its owner to subscribe for one unit consisting of four newly issued shares and two warrants to subscribe for additional shares at a fixed price during 2011. The guarantors undertook to subscribe for any shares otherwise not subscribed for in the rights issue. Vostok Komi (Cyprus) Limited's total undertaking under the subscription guarantee amounted to a maximum SEK 15.6 mln. In consideration for the guarantee, Clean Tech East Holding AB paid an amount of 5% of the guaranteed amount, of which Vostok Komi (Cyprus) Limited's share amounted to SEK 778 thousand. In compliance with its undertaking under the subscription guarantee, Vostok Komi (Cyprus) Limited purchased 18,396,156 units above and beyond its pro-rata share in the rights issue, at a total purchase price of SEK 11 mln.

In July 2009, Vostok Komi (Cyprus) Limited entered into an agreement with Bohusman AB and Clean Tech East Holding AB, under which Vostok Komi guaranteed a SEK 1,368,872 debt of Bohusman AB to Eastern Bio Holdings AB, a wholly owned subsidiary of Clean Tech East Holding AB. The guarantee undertaking was secured by the pledge by Bohusman AB of shares in Clean Tech East Holding AB, and the value of the undertaking itself expressly limited to the value of the pledged shares. The underlying debt matured on February 9, 2010, and Clean Tech East Holding AB is currently in talks with Bohusman AB regarding final settlement.

Note 26
Pledged assets and contingent liabilities

As per December 31, 2008, assets were pledged as collateral for the bank borrowings amounting to USD 50.0 mln. The assets pledged were the shares in Vosvik AB, and all assets held at custody with Deutsche Bank and HQ Bank. During the period ended December 31, 2009, the Group has repaid the outstanding bank borrowings, whereupon the pledged assets have been returned to the Group.

Neither the Group nor the Company had any contingent liabilities as per December 31, 2010 or as per December 31, 2009.

Note 27
Shares in subsidiaries

Parent Company	Country	Number of shares	Share of capital and votes, %	Book value Dec 31, 2010, USD thousand	Book value Dec 31, 2009, USD thousand
Vostok Komi (Cyprus) Limited	Cyprus	150,000	100	226,805	226,805
Vostok Holding Ltd	Bermuda	10,000	100	19,786	60
Other subsidiaries of the Group					
Vostok Nafta Sverige AB	Sweden	1,000	100		
Dodomar Ventures Limited	Cyprus	2,000	100		
Premline Holdings Limited	Cyprus	1,000	100		
Freemosa Holdings Limited	Cyprus	2,000	100		
OOO Volga – Nash Dom	Russia	N/A	100		
ZAO Baikal Energy	Russia	20,000*	100		
OAO Resurs-Invest	Russia	11,544	100		
OOO Resursniye Investitsii	Russia	N/A	100		
Total				246,591	226,865

* 15,000 ordinary, 5,000 preferred

All the companies are included in the consolidated financial statements from the time of acquisition.

During the period ended December 31, 2010, Vostok Nafta Investment Ltd has made unconditional shareholders contribution to the capital of Vostok Holding Ltd in the total amount of USD 19.73 mln.

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

During the period ended December 31, 2009, a reversal of write downs on shares in Vostok Komi (Cyprus) Limited has been made in the amount of USD 124.56 mln.

Note 28
Employee benefit expense

	Group 2010	Group 2009	Parent Company 2010	Parent Company 2009
Wages and salaries	2,003	2,373	262	477
Social security costs	553	355	6	21
Share based compensations	3	212	3	212
Pensions costs	236	126	–	–
Other employee benefit expenses	11	24	–	5
Total employee benefit expense	2,806	3,090	271	715

	Group 2010	Group 2009	Parent Company 2010	Parent Company 2009
Salaries and other remunerations to the management and the Board of Directors of the parent and its subsidiaries	1,495	1,505	242	549
Salaries to other employees	758	1,230	23	146
Total salaries	2,253	2,735	265	695

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 13 (16), of which 5 were men (9). The average number of persons in the management was 3 (4).

Group, 2010	Base salaries/ board fee	Variable compensations	Other benefits	Pension expenses	Shares based compensations	Other remunerations	Total
Lukas H. Lundin	29	–	–	–	–	111*	139
Al Breach	18	–	–	–	–	–	18
Lars O Grönstedt	13	–	–	–	–	–	13
Ashley Heppenstall	19	–	–	–	–	–	19
Paul Leander-Engström	17	–	–	–	–	–	17
William A. Rand	21	–	–	–	–	–	21
Robert J. Sali	15	–	–	–	–	–	15
Per Brilioth	498	283	–	77	–	–	858
Other management and board members of subsidiaries	268	71	–	57	–	–	395
Total	897	354	–	133	–	111	1,495

* Remuneration to Namdo Management for management and investor relations services rendered. Namdo Management is a company controlled by the chairman of the Board Lukas H. Lundin.

Group, 2009	Base salaries/ board fee	Variable compensations	Other benefits	Pension expenses	Shares based compensations	Other remunerations	Total
Lukas H. Lundin	40	–	–	–	–	189*	229
Al Breach	15	–	–	–	–	–	15
Paul Leander-Engström	22	–	–	–	–	–	22
Torun Litzén	22	–	–	–	–	–	22
Ian H. Lundin	22	–	–	–	–	–	22
William A. Rand	26	–	–	–	–	–	26
Robert J. Sali	18	–	–	–	–	–	18
Per Brilioth	297	125	–	46	–	–	468
Other management and board members of subsidiaries	490	44	6	56	87	–	683
Total	952	169	6	102	87	189	1,505

* Remuneration to Namdo Management for management and investor relations services rendered. Namdo Management is a company controlled by the chairman of the Board Lukas H. Lundin.

Parent, 2010	Base salaries/ board fee	Variable compensations	Other benefits	Pension expenses	Shares based compensations	Other remunerations	Total
Lukas H. Lundin	29	–	–	–	–	111*	139
Al Breach	18	–	–	–	–	–	18
Lars O Grönstedt	13	–	–	–	–	–	13
Ashley Heppenstall	19	–	–	–	–	–	19
Paul Leander-Engström	17	–	–	–	–	–	17
William A. Rand	21	–	–	–	–	–	21
Robert J. Sali	15	–	–	–	–	–	15
Per Brilioth	–	–	–	–	–	–	–
Other management and board members of subsidiaries	–	–	–	–	–	–	–
Total	131	–	–	–	–	111	242

* Remuneration to Namdo Management for management and investor relations services rendered. Namdo Management is a company controlled by the chairman of the Board Lukas H. Lundin.

Parent, 2009	Base salaries/ board fee	Variable compensations	Other benefits	Pension expenses	Shares based compensations	Other remunerations	Total
Lukas H. Lundin	40	–	–	–	–	189*	229
Al Breach	15	–	–	–	–	–	15
Paul Leander-Engström	22	–	–	–	–	–	22
Torun Litzén	22	–	–	–	–	–	22
Ian H. Lundin	22	–	–	–	–	–	22
William A. Rand	26	–	–	–	–	–	26
Robert J. Sali	18	–	–	–	–	–	18
Per Brilioth	–	–	–	–	–	–	–
Other management and board members of subsidiaries	103	–	6	–	87	–	195
	267	–	6	–	87	189	549

* Remuneration to Namdo Management for management and investor relations services rendered. Namdo Management is a company controlled by the chairman of the Board Lukas H. Lundin.

1. Severance compensation in the amount of USD 104 thousand has been paid out during the year.
2. The managing director has a defined contribution pension plan, according to the Group's pension policy which is based on Swedish ITP-standards. The Group has no further obligations once the contributions have been paid. The contributions are recognized as employee benefit pension expense in profit or loss when they are due. The pension is not tied to the managing director's employment and is based on the managing director's base salary.

Incentive programmes

a) The 2007 Incentive Programme

An 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 (the "2007 Incentive Programme") entitling 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 2007 Incentive Programme is governed by the following terms and conditions:

Principal Conditions and Guidelines

- 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.

Current Status of the 2007 Incentive Programme

All 1 million options authorized under the 2007 Incentive Programme have been issued to employees. A first round, totalling 710,000 options (adjusted to 1,243,920 options after the February 2009 rights issue), was issued in 2007. These had a strike price (adjusted after the February 2009 rights issue) of SEK 48.33 and were out-of-the-money at maturity on August 30, 2010 and thus left unexercised. A second round, totalling 290,000 options were issued in 2009. These have a strike price of SEK 35.17 and mature June 19, 2012.

b) The 2010 Incentive Programme

The Annual General Meeting held on May 5, 2010 decided in accordance with the proposal from the Board of Directors to adopt a renewed incentive program in Vostok Nafta Investment Ltd (the "2010 Incentive Programme") entitling present and future employees to be allocated call options to acquire shares represented by Swedish Depositary Receipts in Vostok Nafta Investment Ltd.

The 2010 Incentive Programme is governed by the following terms and conditions:

Principal Conditions and Guidelines

- 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 during an exercise period of one month starting three years from the time of the granting.
- For employees resident outside of Sweden, no premium shall be paid for the Options and the Options may only be exercised if the holder is still employed within the group at the time of exercise.
- For employees resident in Sweden, the employees may elect either of the following alternatives:
  a) No premium shall be paid for the Options and the Options may only be exercised if the holder is still employed within the group at the time of exercise (same as for employees resident outside of Sweden); OR
  b) The Options shall be offered to the employee 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 thereby be considered as securities. This also means that Options granted under this option (b) 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 the Company or by other group companies.

Preparation and Administration

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

Allocation

The incentive scheme is proposed to include granting of not more than 2,000,000 options. Allocation of Options to the Managing Director shall not exceed 1,000,000 Options and allocation to each member of the executive management or to other key employees shall not exceed 400,000 Options.

The allocation of Options shall be decided by the Board of Directors or by the Compensation Committee, taking into consideration, among other things, the performance of the employee and his or her importance to the group. Specific criteria to be considered include the employee's ability to manage and develop the existing portfolio and to identify new investment opportunities and evaluate conditions of new investments as well as return on capital or estimated return on capital in investment targets. 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 afterwards.

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

Bonus for employees resident in Sweden under option (b)

In order to stimulate the participation in the scheme by employees resident in Sweden electing option (b) above, the Company intends to subsidize participation by way of a bonus payment which after tax corresponds to the Option premium. Half of the bonus will be paid in connection with the purchase of the Options and the remaining half at exercise of the Options, or, if the Options are not exercised, at maturity. In order to emulate the vesting mechanism offered by the employment requirement under option (a) above, the second bonus payment is subject to the requirement that the holder is still an employee of the group at the time of exercise or maturity, as the case may be. Thus, for employees in Sweden who choose option (b), the participation in the scheme includes an element of risk.

Dilution and costs

In the event all 2,000,000 Options are fully exercised, the holders will acquire shares represented by Swedish Depositary Receipts corresponding to a maximum of approximately 2 percent of the share capital. The proposed number of Options is expected to meet allocation requirements for the next couple of years, also taking into account possible future recruitment needs.

The total negative cash flow impact for the bonus payments described above is estimated to approximately SEK 20,000,000 over the life of the incentive scheme, provided that all Options are offered to employees resident in Sweden, that all such employees choose to purchase the Options under option (b) above, and that all Option holders are still employed by the Company at the time of exercise or maturity of the Options.

Other costs for the incentive scheme, including fees to external advisors and administrative costs for the scheme are estimated to amount to approximately SEK 250,000 for the duration of the Options. Social security contributions in respect of Options granted to employees resident outside of Sweden are deemed to be insignificant.

Purpose

The purpose of the proposed incentive scheme is to create conditions that will enable the Company to retain and recruit competent employees to the group as well as to 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 given the absence of any variable bonus scheme for the employees in the Company.

Current Status of the 2010 Incentive Programme

A total of 695,000 out of the 2 million options authorized under the 2010 Incentive Programme have been issued to employees in 2010. These have a strike price of SEK 31.41 and mature on August 31, 2013. All employees chose to purchase options at fair market value, under option (b) above.

Options Outstanding under the 2007 and 2010 Incentive Programmes

	Issued 2009[1,2]	Issued 2010[1,2]	Total Dec 31, 2010
Management and board members of subsidiaries			
Per Brilioth	200,000	500,000	700,000
Nadja Borisova	–	50,000	50,000
Anders F. Börjesson	50,000	75,000	125,000
Anders Sjöberg	10,000	–	10,000
Robert Eriksson	10,000	70,000	80,000
Other	20,000	–	20,000
Total	290,000	695,000	985,000
Strike price, SEK	35.17	31.41	
Market value per issue at the time of issue, SEK[2]	3.98	3.43	
Option life	June 19, 2009– June 19, 2012	August 7, 2010– August 1, 2013	
Exercise period	June 19, 2011– June 19, 2012	August 31, 2013– August 31, 2013	

1. The strike price for the options has been calculated as 120% of the average last paid price of the ten trading days leading up to the day of issue in line with the rules of the 2007 Incentive Programme and 2010 Incentive Programme, respectively.
2. The market value at the time of issue for the options issued in 2009 and 2010 was 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 (as shown above), standard deviation of expected share price returns based on an analysis of historical share prices, option life (as shown above); and the Swedish market interest rate at the grant date.

The fair value of the options granted during the year was SEK 3.43 (3.98) per option. The significant inputs into the model was a share price of SEK 24.10 (27.80), a volatility of 30% (30%), a dividend yield of 0% (0%), an expected option life of three years and an annual risk-free interest rate of 2.01% (2.23%).

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, 2010	Options Dec 31, 2009
At opening balance day	45.84	1,533,920	710,000
Modified	–	–	533,920
Forfeited	48.33	–1,243,920	–
Granted	31.41	695,000	290,000
At closing balance day	32.52	985,000	1,533,920

Out of the 985,000 options (2009: 1,533,920) 0 options (2009: 1,243,920) were exercisable.

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

	Exercise price, SEK	Options 2010	Options 2009
August 30, 2010	48.33	–	1,243,920
June 19, 2012	35.17	290,000	290,000
August 31, 2013	31.41	695,000	–
At the end of the financial year		985,000	1,533,920

Note 29
Related-party transactions

The Group is controlled by a Lundin family trust, which holds 27.73% of the shares (through companies).

The Group has identified the following related parties:
The Vostok Gas Limited Group, including Vostok Gas Limited, Vostok Energo Investment Limited and Austro (Cyprus) Limited and Vostok Gas Sverige AB (liquidated during the year 2010).
Associated companies with subsidiaries: Black Earth Farming Limited, RusForest AB, Clean Tech East Holding AB and Vosvik AB.
The Lundin family and the Lundin Group of Companies; including Lukas H. Lundin, Ian H. Lundin, Africa Oil Corp., Atacama Minerals Corp., BlackPearl Resources Inc., Denison Mines Corp., Etrion Corporation, Fortress Minerals Corp., Lucara Diamond Corp., Lundin Mining Corporation, Lundin Petroleum AB, NGEx Resources Inc., ShaMaran Petroleum Corp., as well as Aktiebolag H Bukowskis Konsthandel.
Key Management, including members of the Board and Management, and members of the Board of subsidiaries.

During the period, the Group has recognized the following related party transactions:

USD thousand	2010 Vostok Gas	2010 Associated companies	2010 Lundin family and group of companies	2010 Key Management	2009 Vostok Gas	2009 Associated companies	2009 Lundin family and group of companies	2009 Key Management
Items of the income statement								
Income from loan receivables	–	795[1]	–	–	–	953	–	–
Other operating income	–	16[2]	117[2]	–	123	325	108	–
Operating expenses	–	–	–111[3]	–1,251[4]	–	–	–252	–1,221
Interest expenses	–	–	–	–	–	–	–419	–254
Balance sheet items								
Non current loan receivables	–	4,702[1]	–	–	–	996	–	–
Current loan receivables	–	–	–	–	–	3,153	–	–
Other current receivables	–	–	–	–	23	335	17	–
Retained earnings	–	–	–	–296[5]	–	–	–	–157
Other current liabilities and accrued expenses	–200[6]	–	–	–146[4]	–211	–	–268	–110

1) Loans to associated companies
During the third quarter 2010 Vostok Nafta provided two short-term loans to RusForest AB in the total amount of USD 12 mln as an advance of Vostok Nafta's share in RusForest rights issue. The unsecured loans carried an interest rate of 15%. Interest income amounting to USD 0.42 mln has been recognised in the Income Statement. Loans were repaid by the way of set-off against shares in RusForest's right issue on November 1, 2010.

Vostok Nafta has outstanding long-term loan receivables from Clean Tech East Holding AB and RusForest AB, which were recognized at a book value USD 3.63 mln and USD 1.07 mln, respectively as per December 31, 2010 (Note 18). In the Income Statement for the period ended December 31, 2010, Vostok Nafta has recognised interest income in the amount of USD 0.3 mln from Clean Tech East Holding AB and USD 0.07 mln from RusForest AB.

2) Other operating income from associated companies and Lundin companies and other current receivable
Vostok Nafta has an office rental agreement with RusForest AB and Lundin Mining AB (a subsidiary of Lundin Mining Corporation). Vostok Nafta provides head office facilities service to Lundin Petroleum AB and Investor Relations and Corporate Communication services to Lundin Mining Corporation, Africa Oil Corporation and Etrion Corporation.

3) Operating expenses: Lundin companies
Vostok Nafta buys management and Investor Relations services regarding relations with the stock and financial markets from Namdo Management. The total services provided under 2010 amounted to USD 0.1 mln.

4) Operating expenses: Key management
Key management includes members of the Board of Directors and members of the management of Vostok Nafta. The compensation paid or payable includes salary and bonuses to the management and remuneration to the Board members (Note 28).

5) Retained earnings: Key management: Issue of call options to a group of employees
On July 21, 2010 the Company authorized the issue of 695,000 of the authorized 2,000,000 options under the company's 2010 Incentive Programme (adopted at the AGM of Vostok Nafta on May 5, 2010) to a group of employees.

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

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

The options are offered at a purchase price corresponding to the market value of the options at the time of the offer. The options shall be fully transferable and will hereby be considered as securities (Note 28).

6) Other current liabilities: Vostok Gas
In July 2009, Vostok Holding Ltd acquired from Vostok Gas Ltd all rights of the lender under two interest bearing unsecured loans to employees of the Vostok Nafta Group for a total consideration of USD 200,000. As at December 31, 2010, the consideration for the acquired receivables was still outstanding.

7) Other related party transactions
In January 2010, the Company entered into consultancy agreements with Franz Bergstrand and Jerker Karlsson for services relating to evaluation and development of Vostok Nafta's shareholding within forestry and related sectors. Mr. Bergstrand was at the time and remains a board member in RusForest AB and in Clean Tech East Holding AB, both companies in which Vostok Nafta is the largest shareholder, and Mr. Karlsson was appointed board member of RusForest AB in May 2010. During 2010, Vostok Nafta has also sold call options with respect to shares in RusForest AB to Mr. Bergstrand and Mr. Karlsson. During the first quarter 2011, the number of shares and subscription price each option is entitled to, has been recalculated in line with exe-

cuted rights issue in RusForest AB during 2010. All agreements are made on arms' length terms.

During October 2010, Freemosa Holdings Limited purchased 1,159 Alrosa shares from OOO "Resursniye Investitsii" on arm's length terms.

8) Transactions between Parent and Subsidiaries

The Parent company provides financing to its subsidiaries' operations on market terms. Interest income recognized during 2010 was USD 24.43 mln (2009: 21.40). As at December 31, 20010, outstanding net receivables from Group companies amounted to USD 261.30 mln (2009: 260.47).

Vostok Nafta Sverige AB provides administration services to the Parent on market terms. During 20109, USD 3,535 thousand (2009: 2,190) of service fees were charged from Vostok Nafta Sverige AB to Vostok Nafta Investment Ltd, whereof USD 1,042 thousand (2009: –568) were prepaid as at December 31, 2010.

Note 30
Business combinations

Acquisition of Freemosa Holdings Limited

On January 12, 2010, Vostok Holding Ltd acquired 100% of the shares in Freemosa Holdings Limited (resident in Cyprus) for a total consideration of EUR 10. As per the date of the acquisition the company held only one asset in the form of a receivable from the former owner, Mr. D. Kozelkov, in the amount of EUR 2,000.

Note 31
Events after the balance sheet date

No significant events have taken place efter the balance sheet date.

Note 32
Adoption of annual report

The annual report has been submitted by the Board of Directors on March 30, 2011, see page 43. The balance sheet and profit and loss accounts are to be adopted by the company's shareholders at the annual general meeting on May 4, 2011.

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 44 to 69, which comprise balance sheets as at December 31, 2010 and 2009, 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, 2010 and 2009, and of its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Stockholm, March 30, 2011

PricewaterhouseCoopers AB

Klas Brand
Authorised public accountant
Lead Partner

Bo Hjalmarsson
Authorised public accountant
Partner

The Swedish Code of Corporate Governance ("the Code") came into force on July 1, 2008 and updated as per February 1, 2010. 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 explain why the company chose not to follow it.

CORPORATE GOVERNANCE CODE APPLICATION

Vostok Nafta Investment Ltd (the "Company") is a limited liability company registered in Bermuda. In the absence of a Bermudan corporate governance code, the Company applies the Code. The Company will apply the Code in full to the extent it is compliant with the Bermudian Companies Act, or, where applicable, explain deviations from it. At present, the Company does not deviate from the Code. The main 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.

Major Shareholders

The Lundin family, which holds a total of 28,000,000 shares in the Company, representing a total of 27.73 percent of the outstanding shares is the only shareholder directly or indirectly controlling 10 percent or more of the votes in the Company. The shares are held through investment companies wholly owned by a Lundin family trust.

Nomination Committee

Shareholders in the Company have the right to nominate members of the Board of Directors, and auditors, to the AGM.

At the Company's AGM on May 5, 2010 it was resolved to establish a Nomination Committee, consisting of representatives of the three largest shareholders of the Company, as at the last banking day of August 2010. The Nomination Committee for the 2011 Annual General Meeting consists of the following members: Ian H. Lundin appointed by the Lundin family, Leif Törnvall appointed by Alecta and Anders Algotsson appointed by AFA Insurance. 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 2011 AGM: (i) election of the chairman of the AGM, (ii) the election of Board members, (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 2012 will be implemented.

Appointment and Remuneration of the Board of Directors and the Auditors

Rules on appointment and removal of Directors are contained in clauses 4.1.1 through 4.1.3 of the Company's Bye-Laws, which are available on the Company's website. Under the Bye-Laws, the Board shall consist of not less than 3 and not more than 15 directors with no alternate directors. The Board is appointed annually at the AGM for the period until the closing of the next AGM. The term of office of a director may be terminated prematurely at the director's own request to the Board or by the general meeting. In addition, the office of a director may be terminated prematurely by the Board upon the occurrence of any of the following events: (i) if he becomes of unsound mind or a patient for any purpose of any statute or applicable law relating to mental health; (ii) if he becomes bankrupt or compounds with his creditors; or (iii) if he is prohibited by law from being a director. Where a director's term of office is terminated prematurely, then the other directors shall take steps to have a new director appointed by the general meeting, for the remaining term of the office. However, such new appointment may be postponed until the next AGM at which an election of directors shall take place, provided that the remaining directors form a quorum and that the remaining number of directors is not less than the prescribed minimum number of directors.

Auditors are also elected by the AGM for a term of one year and auditors for a period of one year.

The 2010 Board of Directors

The Board of Directors consists of eight Directors. Six Directors were re-elected at the AGM on May 5, 2010: Lukas H. Lundin, Paul Leander-Engström, Per Brilioth, Al Breach, William A. Rand and Robert J. Sali. Two Directors were newly elected: Ashley

Corporate Governance Report

Heppenstall and Lars O Grönstedt, who replaced Ian H. Lundin and Torun Litzén. Lukas H. Lundin was appointed as Chairman of the Board of Directors. All Board members are independent vis-à-vis the Company and its management, with the exception of Per Brilioth, who is Managing Director of the Company. Lukas H. Lundin, Ashley Heppenstall and William A. Rand are not independent of the Company's major shareholders. Lukas H. Lundin is a member of the Lundin family and thus represents the major shareholder of the Company. Ashley Heppenstall is CEO and member of the board of Lundin Petroleum AB, in which the Lundin family is a major shareholder, and William A. Rand is a member of the Board of Directors in Lundin Petroleum AB and several other companies in which the Lundin family is a major shareholder. Al Breach, Lars O Grönstedt, Paul Leander-Engström and Robert J. Sali are independent of the Company, the Company's management and the Company's major shareholders. For a detailed presentation of the current Board, see "Board of Directors, group management and auditors" in the 2010 Annual Report.

Board meetings

The Board of Directors meets at least twice per year in person, and more frequently when necessary. In addition, meetings are conducted by telephone if considered necessary, and, on occasion, resolutions may be passed by circulation. The Managing Director is in 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 are 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 shall function as the primary communication channel between the board and the company's auditors and shall be responsible for the preparation of the board's work to assure the quality of the company's financial reporting. 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 audit committee shall address any critical accounting issues and review the financial reports issued by the company. Among other the following issues and reports shall be considered:
  - matters of internal control and application of relevant accounting principles and laws.
  - discuss any uncertainties in presented values, changes in estimates and appraisals.
  - significant events after the reporting period.
  - address any established irregularities.
  - the company's annual report and the interim reports which are prepared four times annually shall be reviewed.
  - discuss any other issues than the above that might affect the quality of the company's reporting.
- On a continuous basis (at minimum once a year) meet with the company's auditors to keep informed of the direction and extent of the audit. The audit committee and the auditors shall also discuss the coordination between internal control and external audit and the auditors' views on potential risks to the company's quality of reporting.
- The audit committee shall set the guidelines for what other services than audit the company may procure from the auditors.
- The audit committee shall on an annual basis in connection with the end of the financial year, evaluate the performance by the company's auditors. They shall inform the nomination committee of the result of the valuation, to be considered when they nominate auditors for the Annual General Meeting ("AGM").
- Assist the nomination committee in the process of nominating auditors and remuneration for the auditors.
- The audit committee shall review the annual and

interim reports and make recommendations on these to the Board of Directors.

During 2010, the Audit Committee met seven times. The Audit Committee consists of William A. Rand (Chairman), Al Breach and Ashley Heppenstall, the latter two replacing Torun Litzén and Ian H. Lundin as from May 5, 2010.

Compensation committee

The responsibility of the compensation committee is to prepare issues of remuneration and other terms of employment for the senior management of the company.

The compensation committee shall before the annual general meeting present suggestions for the principles of remuneration and other terms of employment for the senior management, to be approved by the AGM. Establishing principles of remuneration and other terms of employment for the senior management shall hence be included as an item on the agenda for the AGM. The suggestions shall be posted on the company's website in connection with the notice of annual general meeting of shareholders. When considering the details of the suggested principles, the committee shall always have the position that the total remuneration package for senior management shall correspond to the prevailing market conditions and be competitive.

The suggested principles shall include the following considerations:

– The relationship between fixed and variable remuneration as well as the connection between performance and remuneration.
– The main terms for bonus- and stock option programs.
– The main terms for non-monetary benefits, pensions, termination of employment and severance pay upon termination.
– Which members of the senior management that are encompassed by the suggested remuneration principles.

It should be stated to the AGM if the suggested principles are significantly different from previous principles and how the question of remuneration for the senior management is prepared and decided on by the board.

The compensation committee shall also on annual basis review the compensation to the CEO, senior management and key personnel, and, where appropriate, propose for the board's approval the final terms and specific allocation among employees of options awarded under an incentive scheme authorized by the general meeting of the company.

During 2010, the Compensation Committee met three times with all members present. The Compensation Committee includes Lukas H. Lundin, Robert J. Sali and Paul Leander-Engström.

Investment committee

The role 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. In order for a meeting of the Investment Committee to be deemed

Composition of the Board of Directors, elected on May 5, 2010, including meeting attendance 2010

Name	Elected to the board	Position	Connection to the company	Audit committee	Compensation committee	Investment committee	Attended board meetings	Board fee, SEK thousand
Lukas H. Lundin	**2007**	**Chairman**	**Main Owner**		**X**	**X**	**100%**	**325.0**
Al Breach	**2007**	**Member**	**Independent**	**X**			**100%**	**205.0**
Per Brilioth	**2007**	**Member**	**Management**			**X**	**100%**	**–**
Lars O Grönstedt*	**2010**	**Member**	**Independent**				**100%**	**150.0**
Ashley Heppenstall*	**2010**	**Member**	**Independent**	**X**		**X**	**100%**	**217.5**
Paul Leander-Engström	**2007**	**Member**	**Independent**		**X**		**56%**	**187.5**
William A. Rand	**2007**	**Member**	**Independent**	**X**			**100%**	**235.0**
Robert J. Sali	**2007**	**Member**	**Independent**		**X**		**89%**	**170.0**
Number of meetings				**7**	**3**	**84**	**9**	

* Board Member since May 5, 2010

quorate at least two members must be present (in person or by video or telephone conference). The Investment Committee consists of Lukas H. Lundin, Per Brilioth and Ashley Heppenstall.

The committees' representation at the Annual General Meeting

If one or more proposal to the annual general meeting has been prepared by one of the board's committees, the chairman or another member of that committee should be present at the AGM, to present and give a motivation for the proposal. In the instance that no member of the particular committee is able to physically attend the AGM, the committee shall appoint another member of the board to speak on their behalf.

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 2010

Per Brilioth: Managing Director.
Nadja Borisova: Chief Financial Officer.*
Anders F. Börjesson: Legal Counsel.

**Replacing Anders Sjöberg as from July 1, 2010.*

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 senior management

The Company's AGM held on May 5, 2010 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 consist a fixed salary, variable remuneration, other benefits and pension. Except for the Managing Director, the group management currently includes two individuals. The total remuneration shall correspond to prevailing market conditions and be competitive. The fixed and variable remuneration shall correspond to the respective individual's responsibility and authority. The variable remuneration 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 a member of 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 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 5, 2010 it was resolved that the remuneration of the Board of Directors (including work in the committees) be set at a total of SEK 1,490,000, of which SEK 250,000 is for the Chairman of the Board and SEK 150,000 for each of the other members of the Board of Directors. For work on the Audit Committee, remuneration of SEK 85,000 is paid to the Chairman and SEK 55,000 to each member and for work on the Compensation Committee, remuneration of SEK 30,000 is paid to the Chairman and SEK 20,000 to each member. In addition, remuneration for work on the Investment Committee, SEK 45,000 is paid to the Chairman and SEK 30,000 to each member. There is no remuneration to the Managing Director for work on the Board of Directors.

In addition, a maximum amount of SEK 1,300,000 (approximately USD 180,000) shall be allocated to the Board for remuneration of Namdo Management for management and investor relations services rendered. Namdo Management is a company controlled by the chairman of the Board Lukas H. Lundin.

Remuneration to the Managing Director and other senior executives

The Managing Director received a fixed annual salary of approximately USD 498,000 and a bonus payment of approximately USD 283,000, which was paid out in accordance with the Company's 2010 incentive programme (see below). The Managing Director has a pension plan based on the Swedish ITP standard, which is accounted for as a defined contribution plan in accordance with IAS 19. The premium is calculated on the basis of the Managing

Director's base salary. No other payments have been made to the Managing Director during 2010. The Managing Director is entitled to 12 months' full salary in the event of termination by the Company. Should he choose to resign the notice period is six months.

The combined fixed annual salary to the other senior executives amounted to a total of approximately USD 268,000, and bonus paid in accordance with the Company's incentive programme amounted to approximately USD 71,000. The other senior executives have a pension plan based on the Swedish ITP standard, which is accounted for as a defined contribution plan in accordance with IAS 19. The premium is calculated on the basis of base salary. The employment agreements of the other members of the group management have a mutual notice period of three months.

Incentive programme

Incentive programme for the Company

Two share-based incentive programmes have been adopted at an Extra General Meeting held on August 29, 2007, and at the Annual General Meeting held on May 5, 2010, respectively. The programmes are described in detail in note 28 to the 2010 financial statements. In June 2010, 695,000 new options were granted to employees under the 2010 incentive programme, each entitling the owner to subscribe to one SDR with a strike price of SEK 31.41. Employees resident in Sweden were offered to purchase the warrants at a price corresponding to the market value prevailing at the time of the offer. The options may be exercised three years from the time of the grant.

Incentive programme for the Company's portfolio companies

At an Extra General Meeting held on August 29, 2007, an incentive scheme was adopted under which 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.

Other matters related to remuneration

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 Company's AGM held on May 5, 2010, the audit firm PricewaterhouseCoopers AB, Sweden, was appointed as 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, Gothenburg, 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 70.

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 the Company's Board of Directors, management and other personnel, to ensure that bookkeeping, asset management and the Company's financial condition in general are controlled in a reliable fashion and in compliance with relevant legislation, applicable accounting standards and other requirements for listed companies. Vostok Nafta has 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, section 7.4, which governs internal control over the financial reporting. In addition this report has been prepared in accordance with the guidance provided by Far, the institute for the accounting profession in Sweden, and the Confederation of Swedish Enterprise.

Vostok Nafta is an investment company and hence the Company's main activity 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. According to the Swedish Code of Corporate Governance, the board shall ensure that the company has an adequate internal control and shall continuously evaluate the company's internal control system. Since Vostok Nafta is a relatively small organisation, the Board has decided that an internal audit function is not needed, since the internal control can be maintained through the work methods described above. 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.

Management continuously monitors the Company's operations in accordance with the guidelines set out below. Monthly reports are produced for internal use, which later form the basis for a quarterly review by the Board of Directors. Documents describing internal work procedures are 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 large 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 Chief Financial Officer 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 parties 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. An internal control report is reviewed by the Board of Directors on a quarterly basis. The Company's flat organizational structure and open internal communication facilitate the work to identify potential shortcomings in the financial reporting, and also simplify 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 and applicable legislation. Another example is the routine of a sequential procedure for investment recommendations and approvals of the same.

Control activities

To verify compliance with the requirements and routines established in response to the risk assessment made, a number of concrete control activities need to be put in place. The purpose of the control activities is 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. In addition, after every completed transaction, purchase or sale, the whole process is examined to verify the validity of the transaction, from recommendation to approval, execution and entry of the transaction into the Company's books. 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.

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 meetings 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 an extension of the internal reporting, there is a written communication policy which sets out what information shall be communicated and how it shall be communicated.

Monitoring

The Board of Directors receives monthly NAV reports and detailed quarterly 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 business 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.

Vostok Nafta is in full compliance with the NOREX member rules for issuers, which are rules and regulations for members and trading in the SAXESS system for each exchange in the NOREX-alliance, i.e. NASDAQ OMX in Copenhagen, Helsinki, Iceland, Stockholm and Oslo Börs. There has not been any infringement to fair practices on the Swedish stock market.

AUDITOR'S REPORT ON THE CORPORATE GOVERNANCE STATEMENT

We have audited the corporate governance statement for the year 2010 on pages 71 to 77. It is the board of directors who is responsible for the corporate governance statement and that it has been prepared in accordance with the Annual Accounts Act. Our responsibility is to express an opinion on the corporate governance statement based on our audit.

We conducted our audit in accordance with Far's auditing standard RevU 16 *The auditor's examination of the corporate governance statement*. This standard requires that we have planned and performed the audit to obtain reasonable assurance that the corporate governance statement is free of material misstatements. An audit includes examining, on a test basis, evidence supporting the information included in the corporate governance statement. We believe that our audit procedures provide a reasonable basis for my/our opinion set out below.

In our opinion, the corporate governance statement has been prepared and is consistent with the annual accounts and the consolidated accounts.

Stockholm, March 30, 2011

PricewaterhouseCoopers AB

Klas Brand
Authorised public accountant
Lead Partner

Bo Hjalmarsson
Authorised public accountant
Partner

Glossary of terms and acronyms used in the annual report

AAC Annual Allowable Cut
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
mtpa 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/B Price-to-Book, i.e. the relationship between the stock exchange value and book value
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
RAR Reasonably Assured Resources
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 United States 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

Vostok
Nafta
Investment
Ltd

Registered office
Codan Services
Clarendon House
2 Church Street
Hamilton HM1108
Bermuda

Vostok Nafta Sverige AB
Hovslagargatan 5
SE-111 48 Stockholm
Sweden
Phone +46 8 545 015 50
Fax +46 8 545 015 54

www.vostoknafta.com
info@vostoknafta.com