Vostok Nafta Investment Ltd

Annual Report

2011

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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 2012
The company shall issue the following reports:

Interim report for the first three months
May 16, 2012

Interim report for the first six months
August 15, 2012

Interim report for the first nine months
November 14, 2012

Financial accounts bulletin
February 13, 2013

Annual report and account
March/April 2013

General meeting of shareholders 2012
May 9, 2012

General meeting of shareholders 2013
May 2013

Managing Director's introduction

Introduction

In my book 2011 goes down as a disappointing year. The Russian index was down, driven partly by global risk aversion brought about by the European economic (and political) mess and partly by a fear of heightened political risk in Russia during the 2011/2012 election cycle. Our NAV is down less than the index but still off by some 20% during 2011. A far cry from the doubling of the NAV that I spoke of when writing this report a year ago. What went wrong? Well, for one I missed the amount of global risk aversion that Europe created. I thought it was a train wreck that we had seen coming for a long time and therefore was already in the price. That might have been correct, but it still created a liquidity crisis and I have learnt again that when liquidity dries up risk is not in favour.

Closer to home, in Russia heightened political risk due to the 2011/2012 election cycle kept foreigners away from Russian assets. On the ground it was always difficult to see that the Putin/Medvedev camp was anything but the same camp and therefore easy to see that there is no real political risk in the country. The demonstrations of the winter of 2011 and 2012 did not in reality increase political risk, if anything they probably long term brought it down a notch by ensuring that political reform would be a bit more centre stage going forward.

In terms of our portfolio, the domestically listed part is focused on the second tiers which usually underperform during times of risk aversion, and 2011 was no exception. In the part of the portfolio where we are a large shareholder two clear trends stood out:

1 – Companies with no inheritance from the Soviet era (Avito and Tinkoff Credit Systems) have performed very well. No inherited work force, no Soviet-era budget routines (planned economy), no run down infrastructure that needs to be rebuilt (or built from scratch). The two we have are also exposed to the Russian consumer story which has proved strong and resilient to global economic worries over the past years.

2 – Companies with assets and corporate structures that stem from the Soviet days have performed less well during 2011. The assets of RusForest and Black Earth Farming (whose low price was the driving factor behind the investment entries into these two) came with a corporate and/or an organization culture which has taken longer than initially thought to change into a modern corporation. Also whereas Avito and Tinkoff Credit Systems are very light on the need for infrastructure, both the forestry and farming sector are infrastructure intensive and therefore capital intensive. This is true in any part of the world and even more so in Russia as these early companies face the burden of taking on the part of the value chain that is usually outsourced in more mature markets. In contrast to Avito and Tinkoff Credit Systems, Black Earth Farming and RusForest have also been subject to very tough macro headwinds in their respective sectors over the past years.

However, both have a place in the Vostok portfolio. We are traditionally more heavy on the asset rich side. We were drawn to the upside of the enormous assets of Black Earth Farming and RusForest. In terms of Avito and Tinkoff Credit Systems our investment was triggered by our belief in the development of the Russian society and the opportunities around it, coupled with us being able to invest alongside strong entrepreneurs. Avito and Tinkoff Credit Systems were very immature investment propositions some three years ago and performed very well since. Black Earth Farming's and RusForest's share prices are poor now but both companies have resources, including management, that can deliver turnarounds like Avito and Tinkoff Credit Systems have over the past years.

Russian market

If we stay focused on the Russian market, politics have been the name of the game in 2011 as well as in the beginning of 2012. We are finally coming to the end of this election cycle, with the victory of Putin in the first round of the Presidential election. The anti-Putin demonstrations that started post the vote rigging allegations of the December 4 Parliamentary elections will not immediately disintegrate. On the contrary the momentum they have built up will probably leave them active throughout 2012, most likely with some attempts to provoke a more violent response from the authorities and most likely without success. In my view, these demonstrations act as a reform reminder for the President as well as the Government. A combination of them not turning violent and in turn driving an accelerated reform agenda is an outcome that will be taken as positive by the markets.

The first sign that this third Putin Presidential term will be one of reform also in terms of politics with the implementation of more power sharing, will be the new Government that will form itself around the Prime Minister that the new president will propose to the Parliament. As things stand now, Dmitri Medvedev will likely be proposed as Prime Minister and a reform focused Government formed around him. Dmitri Medvedev's reputation as the liberal and more reform minded of him and Vladimir Putin is somewhat tainted though, after it became clear that the changing of posts between him and Putin was planned quite some time ago. Still, a pro-reform

Government around Medvedev would be welcomed by the markets. A perhaps even more popular candidate would be Alexei Kudrin (the strong Finance Minister during the past ten years), preferred both by the middle class voters – making up the bulk of the people in the demonstrations during the winter of 2011/2012 – and also by the markets. A strong and responsible candidate, who despite being loyal to Putin during his years as Finance Minister where he earned a very strong fiscal track record, is widely considered to be an independent politician.

The new Government will take Russia into the WTO during the summer. I sense that the combination of political uncertainty out of the way, a strong reform minded Government and the entry into WTO, could bring the beginning of a period where global investors warm to Russia again. How long that will last this time around is more difficult to judge.

A very important factor in this will be the price of oil. We are very bullish long term on the price of oil because of the structural supply problems that the market for it now faces. Both geological challenges, rising costs and political constraints vouch for a tight supply. But the price now is high and outside emerging markets (with a heavy emphasis on Asia) demand is weak. A price that moves higher because of suddenly increased geographic tensions such as Israel bombing Iran could well, like several times earlier in history, break the back of this fragile world economy. The latest such historical point is of course 2008. I am not saying that it must happen. Easing tension in the Middle East could have the oil price staying flat or slowly falling 10 or 20 dollars. This would be good for global risk appetite and through this also Russia, although oil is a heavy ingredient in its capital markets. An oil price that spikes by 20 or 30 dollars because of some increased tension will not be good though despite the oil link in Russia. Risk averseness will increase and markets including Russia's will fall.

Four main holdings

Black Earth Farming

As we have previously reported, the management of Black Earth Farming is being completely overhauled. The new CEO, Richard Warburton, joined the management team at the beginning of 2011 and has since recruited a new COO in Fraser Scott. In addition to this the number of production directors has doubled and a proper Sales and Marketing director has been hired. Crucially, the management team brought in a new technical partner which has completed a crop yield audit of the company's land assets. Alexander Betsky joined the company as its new CFO in December.

The focus of the company centres around three main points:

1 – Crop yield improvement
2 – Price risk management and
3 – Cost reductions.

Of these three points the second and third are managerially fairly straight forward to carry out. Crop yield improvement is more multi-facetted but also by far the most important of the three. The crop yields of Black Earth Farming have been disappointing over the past years, especially in the light of the fact that an increasing part of the land bank has been in production for more than two years since its fallow state. Although the weather has definitely played a role (especially in 2010) the crop yield audit completed this year has identified a number of impediments to growth. The good thing is that the management has set out to remove these restrictions and, although it will take a couple of years for a complete fix, results will be visible already for the next crop.

All in all we believe it is fair to expect an improvement of some 25–40% on today's blended yield of some 3 tonnes per hectare with a revenue of USD 760 per hectare, getting us to somewhere north of 4 tonnes per hectare resulting in a revenue of USD 1,000 per hectare, in a couple of years. This yield improvement comes as a result of the one-off work carried out over the next couple of years then leaving future operating costs per hectare unchanged in turn allowing the extra revenue to fall down to profits. Measured against Black Earth Farming's invested capital per hectare of USD 1,100, the return increases from the 30% range to some 50–60%. Assuming a 10% asset return (two to three times higher than in the developed world) as being the fair level, the upside is large. I believe visibility into this will increase materially over the coming 6–12 months – which in turn will allow the market to start feeding it into the valuation of the stock.

RusForest

In January 2012, RusForest announced its intention to raise SEK 450 mln (USD 67 mln) in new capital through a rights issue. This capital will be used to complete the investments in harvesting and sawmilling that were started in 2010. When setting out on the industrial launch of RusForest in the summer of 2010 (going from a portfolio of world class assets but under a Soviet stewardship to a modern forestry group with Swedish operating standards), the financial plan was to complete the financing needed through an equity issue in November 2010 and a debt issue in the spring of 2011. Indeed a total of SEK 930 mln (USD 140 mln) was raised in these two financings. As we have discussed throughout the latter part of 2011, last year did not go according to plan. Prices for sawn products (of the quality RusForest is producing) fell by some 20%. If this would have happened in mid-2012 the company would be producing large enough volumes of sawn products, supported by its own harvesting operations, to achieve a cost per unit that was low enough to still be profitable under current pricing. However, the fall in prices came at a time when production was being ramped up and still not at a stage when unit cost was low enough. We cannot only blame the macro. On the operational side the company has experienced delays in getting equipment up and running as well as delays in taking out "Soviet era" costs out of the operations. The rights issue is needed to fund the completion of the investment ramp up started in mid 2010 and to prepare for lower prices staying on for the next couple of years (although the industry globally is in a very difficult situation under these prices).

The management worked hard to arrange for alternative financing by trying to speed up the sale of its non-core asset as well as securing local bank financing. The outlook for securing this deteriorated during the turn of the year which left no options but to secure the financing through an equity rights issue. The market started pricing in the risk of a rights issue at the time of the release of the company's Q3 report (late November 2011), and the stock has performed poorly since. The result is that the money raised is large in comparison to the current market capitalization of the company. Our view is that the market capitalization is not reflective of the true value of the company and its assets even today in a pre-production mode. It is reflecting a company in need of financing in a world where financing is expensive for companies with a poor track record of providing visibility on profitability. I see the potential for increased visibility during 2012 and a consequent large leverage to this in the stock price. In addition to this the completion of this equity financing will also act as a natural positive. We have committed to take our pro rata share of the rights offering. The company has also received support from the other major shareholders.

Finally it is important to remember the underlying value of the company's assets, especially its forests. If you wanted to buy the same amount of forestry land in Sweden that RusForest controls in Russia, you would have to put approximately USD 25 bln on the table. The company might have taken on too many assets without having enough management resources to ensure perfect control of their transformation from the Soviet legacy to a Swedish standard of operation. We are at the beginning of the end of this process now. However frustrating and irritating it feels today to be forced to put up more cash than initially planned to achieve profitability, when we look back at the early days of building this company, taking part in the rights issue makes abundant sense; I would not be surprised if in the future it will look like a steal.

Avito

Avito has performed very well during the course of 2011 and up to today. The major milestone for 2011 was that the company became the largest online market place in Russia. In December 2011 the company recorded 3 million new listings, which compares to about 1 million new listings for the same month 2010. Unique monthly visitors are currently in excess of 20 million and monthly page views are at almost 2 billion – figures which rank well anywhere in the world. Also 2011 was the first year when the company saw substantial user generated revenues in the form of value added services.

In terms of investments the company now has the platform in terms of offered services and sheer size to generate substantial growth in revenues and cash flows during the coming years. I believe it has the potential to generate revenues of at least USD 100 mln in a 3–5 year time frame with EBIT margins of 70% plus.

Also on the macro side of things the Russian internet space continues to display potential. With well over 60 mln internet users it is the world's sixth largest market despite having a penetration of only 43%, thus leaving for serious further growth.

It remains one of the most exiting constituents of our portfolio.

Tinkoff Credit Systems

Tinkoff Credit Systems continues to deliver strong growth with an increasingly diversified set of funding options, providing its shareholders with a high return on equity. 2011 has been a year when funding markets have opened and closed on many businesses. The attractiveness and robustness of Tinkoff Credit Systems was clearly visible when the company closed a USD 70 mln SEK bond during December 2011 in the midst of high global uncertainty on credit markets.

Summary

What does 2012 hold in stock for us? Like last year's annual report, this one includes an interview with our Chairman and main owner, Lukas Lundin. It provides very useful insight into how the head of the Lundin Group sees the big global themes panning out throughout the year.

As you know, I believe the perception of Russia, from both strategic investors as well as portfolio managers, will improve over the year. This together with the strong oil price (but not too strong) will underpin increasing demand for Russian assets. The potential headwind comes from decreasing general risk appetite. Despite the improvement in perception that I see forthcoming, Russia will not completely shake off its role as a high beta play on global growth and risk appetite and volatility will persist. It will be important to try and utilize this volatility for maximum returns.

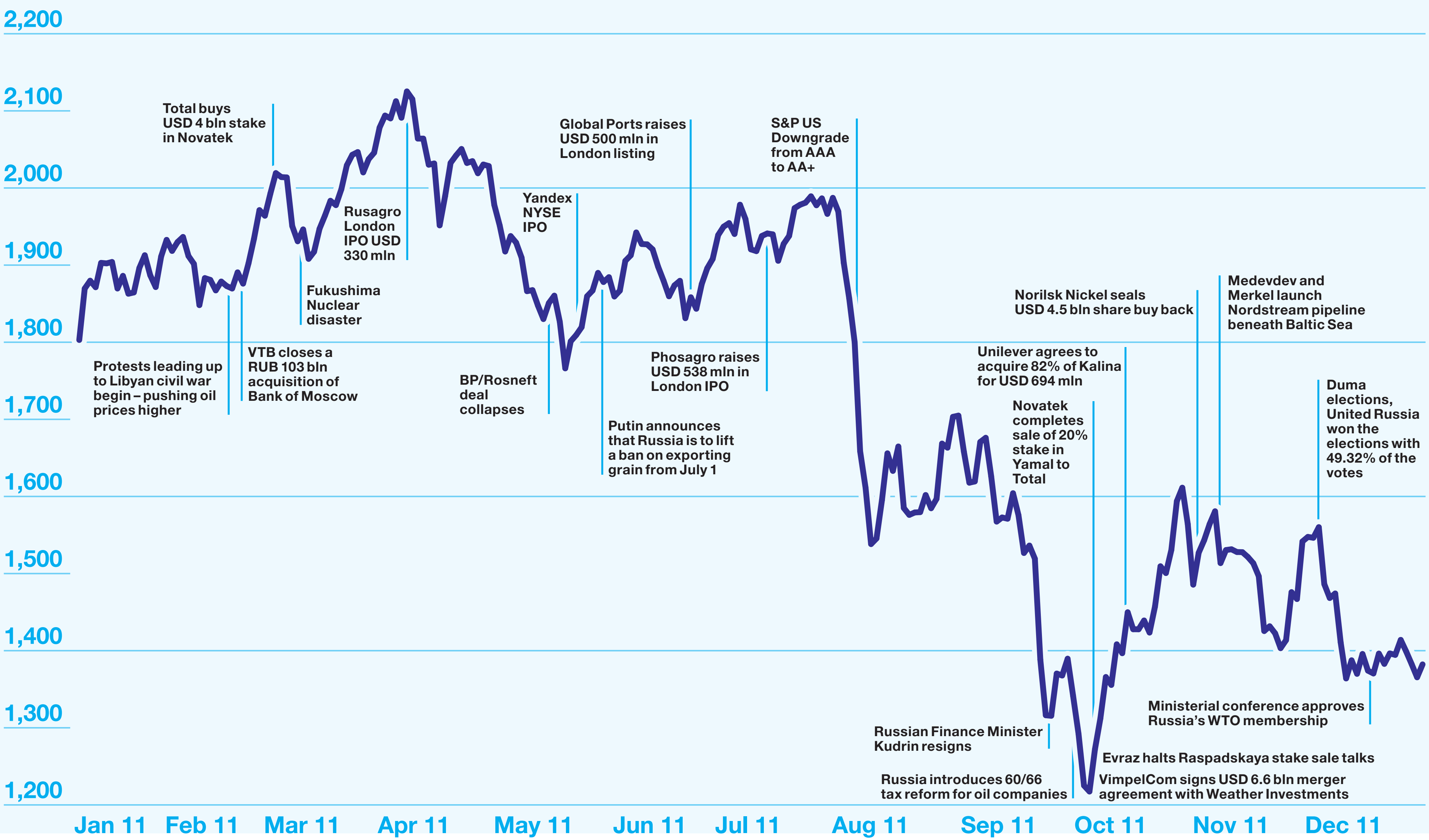
Our portfolio of direct investments I believe will perform well. Black Earth Farming and RusForest from levels that only asigns option value to the large assets that they encompass and the profitability that I believe 2012 will provide much better visibility into. Avito and Tinkoff Credit Systems I believe will be revalued in our portfolio on the back of transactions that will display high quality global investor appetite for these types of Russian assets. As in previous years a lot of work will be put into these investments by me and my colleagues at Vostok Nafta. Again, I think the reward from both the capital and time put in will be large.

Our stock market portfolio includes exposure to very large underlying assets within coal, uranium, cement assets, iron ore and power generation assets. The valuations of these assets are low most often because the local corporate frameworks make international investors shun away. Having been around the local Russian market throughout good times and bad times for some 16 years, Vostok Nafta feels very comfortable investing into these higher risk premiums and in turn enjoying the returns offered as the corporate structures mature and the perceived risk diminishes or through the high streams of dividends.

All in all we remain very enthusiastic about both parts of our portfolio, direct and portfolio investments. Given this enthusiasm the opportunity to buy the portfolio at large discounts by going into the market for our own stock is something that is too tempting not to embark on. 2011 saw us come back to this opportunity during the month of December, something that has continued into these first months of 2012. The moment our stock is repurchased by us they are cancelled in turn providing a boost to the NAV which is enjoyed by the remaining shareholders. I hope you remain with us throughout 2012. It will for sure not be dull.

Per Brilioth
Managing Director

RTS Index 2011 History



Managing Director's introduction

It is not always that a year really makes that huge of a difference. When we sat down for a conversation with the Chairman of Vostok Nafta's Board of Directors, Lukas Lundin a year ago global stock indices were roughly at the same levels as they are today. However, the fact is that we have seen some wild swings over the course of 2011, as fears about the sovereign debt crisis have gripped the market on countless occasions. However, Lukas Lundin thinks that the worst is behind us.

"I am quite optimistic with regards to the overall health of the global economy. For example, even though we experienced a lot of turmoil during 2011, there were more cars being sold and more oil consumed than ever before. To me, that is a very clear sign that the global economy is more robust today than, say three or four years ago. We have multiple centres of economic importance today, which limits the impact from problems like the ones that we see in parts of Europe."

"Sure, we continue to have pockets of uncertainty in Europe, with some countries experiencing quite a severe slump. It has been a tough time for some of these economies, and I think that this period of hardship can continue for some time, maybe a couple of years – but we will slowly see improvements. There are already plenty of signs telling me that the politicians are in fact working hard on getting debt levels down and budgets in order – which bodes well for the mid to long term."

Even though he is an optimist, Lukas Lundin does not think that 2012 will be all cheers. As an investor, he thinks we need to be ready to face continued volatility going forward.

"Just the other day we saw gold fall by more than 100 USD an ounce, just because the people investing into gold got nervous about the US Federal Reserve not saying what they wanted to hear. So, it is a nervous market and I think we could still see some serious corrections during the course of the year. But in general it is still the same theme as last year, the world continues to grow by healthy numbers."

Being an optimist when it comes to the world economy's ability to maintain a strong level of growth, it is hard for Lukas Lundin to see what could possibly make the price of oil come down significantly from today's levels.

"Demand will continue to be very strong, so I see prices remaining at these levels for the rest of the year. At the same time we have a situation where there continues to be a lot of noise about the possibility of an attack on Iran to prevent the country from gaining access to nuclear weapons, and that threatens to lead to a quite severe spike in the price of oil, at least in the short term."

So how worried are you about the development in the Persian Gulf and the possibility of a rather imminent attack on Iran by the US or Israel?

"I am concerned about what the outcome will be from the decisions made in the coming months. It's a dangerous game that ultimately threatens to destabilize the region. The last thing anyone wants this year is that kind of uncertainty, especially the US politicians that are now entering the presidential election period. However, they might not have the sway to stop an attack on Iran."

Could the oil price go too high – and thus threaten to throw the world into a recession?

"I did not expect it to happen, but when the price of oil reached above 140 USD/barrels, climbing towards 150 USD – the Americans started to consume less oil and quite quickly went from a total consumption of some 21 million barrels to 19 million barrels. So, at a certain level people will consume less oil. I view today's levels of around 100–140 USD for a barrel of Brent crude to be a healthy one, but I would not want to see prices reach the upper range of the 150–200 USD level in the near term, as that would certainly pose a threat to the global economy."

You have taken a strong view on us being in the midst of a commodity super-cycle that will keep the price of most base metals at high levels for the foreseeable future. So far you have been proved right, even if the swings have been quite wild here as well. Copper is edging closer to 9,000 USD/tonne and the magical 10,000 USD level is not far away. What's your take on the price of base metals in 2012?

"I think copper will stay at these levels for the remainder of 2012, with the possibility of it strengthening somewhat. We see how demand for iron ore continues to be very robust – and since that is a fundamental component for basically all sorts of infrastructure investments, it is telling me that the rest of the commodities will continue to be strong as well."

"Zinc has been weaker than copper, but if you look at world supply there are a lot of big mines like Century coming off production in the coming years, and at the same time inventories are on the decrease. Because of this the outlook for zinc is very strong right now. I think the price could easily double over the next 18 months."

These days there seems to be a widespread fear of the Chinese economy falling off a cliff – with far-reaching effects for all of us. What's your view on China and the country's ability to keep growing by 8–10 percent in the years to come?

"The Chinese economy is definitely slowing down a bit. It is hard to have any real insight into the numbers produced by the Chinese. They say that their econ-

A conversation with the Chairman

omy is growing by 8 percent, and the world wants to believe that. The real number might be closer to 6 percent, which is still a healthy growth rate."

Gold continued to shine in 2011 – will the price keep climbing towards 2,000 USD/ounce during the remainder of 2012?

"One thing is for sure, and that is that we will have to print a lot of new money in order for the world to get out of the sovereign debt crisis once and for all. In such an environment hard assets will be very valuable. Therefore I believe that the gold price will be strong for the coming years."

At this time last year, President Mubarak of Egypt had been ousted and you expressed hopes that the Libyan people would be able to get rid of their bloodthirsty dictator as well. This has since happened, but the uprising in the Arab world continues nevertheless. How do you see this develop from here on?

"The world has changed a lot over the past decade. In this day and age I don't think you can run a country with such firm dictatorships as we have seen, and continue to see in the Middle East. The power of the social media is too strong to allow for these regimes to cling to power by the use of force. Egypt is slowly, slowly moving towards implementing a more democratic system – even if the military have a hard time to let go of power. Libya has to sort itself out and make sure that the fractional infighting comes to an end. I think Tunisia has done the best job of implementing real, lasting democratic reforms so far. Looking at Syria, I don't see how the country can survive in its present state. President Bashar Al-Assad can't continue to slaughter his own people for much longer – he will have to give up power, one way or another."

The Lundin Group of Companies has remained focused on investing into mining and oil. Are there any other sectors you see that global investors should look a little closer at over the coming year?

"I think one sleeper that is about to wake up is US manufacturing. The US is getting more and more interesting as an investment case as the discoveries of shale gas and shale oil will make the country more self sufficient when it comes to energy. At the same time they have a very productive work force. Coupled with the trend for increased automation it will most likely lead to manufacturing jobs moving back home from China – as you need less and less people to manufacture goods. I think this is going to be the big switch in the world over the next ten years."

Your father Adolf Lundin founded Vostok Nafta back in the mid 1990's and you yourself have been active in Russia for well over a decade. What's you current view on the investment climate in Russia?

"Russia continues to be a difficult place to do business – the rule of law is still not clear, the country's infrastructure is in need of major upgrades, etc. The Lundin Group of Companies as a whole won't be looking at any new direct investments into Russia, not for the time being at least. We have invested a lot of money there, and have seen very little returns."

We are just past the Russian presidential election. As expected, Mr. Putin is now back in the presidential seat. However, there have been quite significant numbers of people protesting against the parliamentary and presidential elections over the past months. Do you believe that we will be witnessing a popular revolt in Russia over the coming years?

"I do not see that happening. But they sure got a warning. I think the powers that be in Russia have not been responsive enough towards the people. The people that went out to protest in cities like Moscow and St. Petersburg actually belonged to the middle class – a class that was created by Putin. So, he needs to be very careful going forward – and not push the limits the way he has done so far."

Elections in Russia are now behind us, but we have an interesting year coming up – with elections in France and the US. Any predictions for the outcome of these much anticipated events?

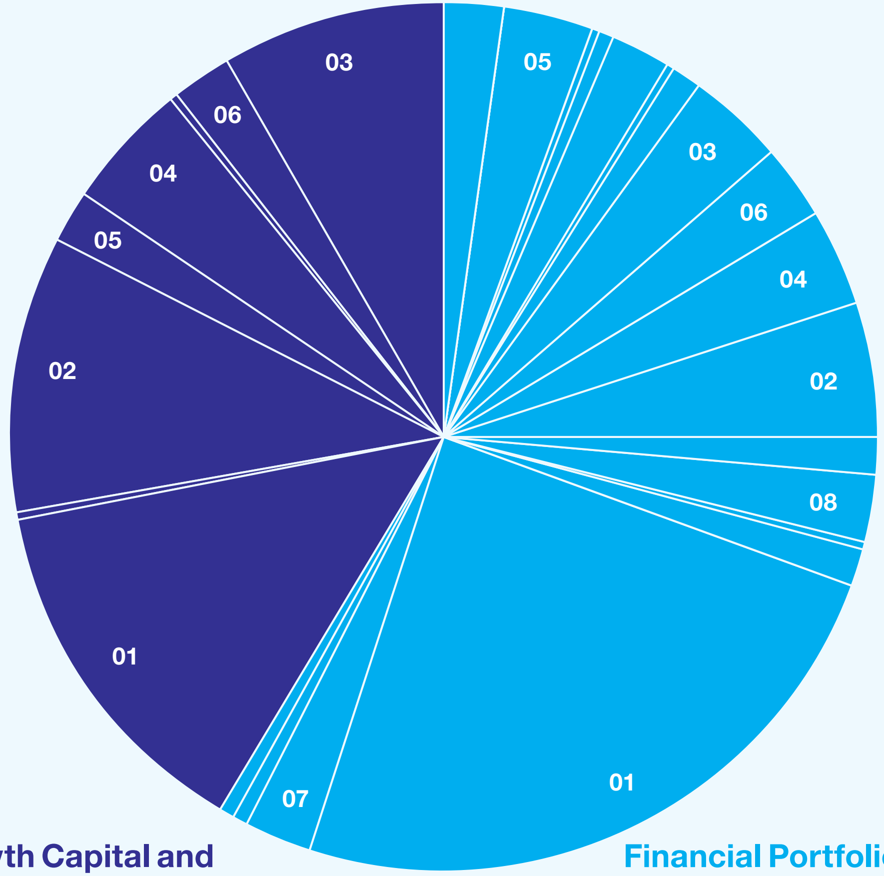
"Mr. Hollande in France is a classic socialist that wants to raise taxes. I just can't see him winning the election. His politics are out-dated; this is what politicians in Europe loved to talk about 40 years ago. A win by Mr. Sarkozy is probably the best for France right now – and I am quite sure it will happen. In the US, Mr. Obama is most likely going to win by default. There is no one there to challenge him, I mean – look at the fragmentation of the Republican party.

There continues to be a lot of talk about alternative energy, and we have seen The Lundin Group enter the arena through your investment into the publicly listed solar producer Etrion. Will you be looking at other investments in this sector?

"Most alternative energy sources are not competitive at today's commodity prices; they are still too low to make investments into alternative sources profitable enough. The gas price is very low, coal enjoys decent pricing, and if oil holds around these levels there won't be too much interest in alternatives. But if oil goes to 200 USD/barrel, the situation will of course change. Right now I think solar is the most interesting, because of the rapid fall in the cost of installing new capacity. It has the best chance of becoming profitable without any subsidies."

With those words we thank Lukas Lundin for his time and look forward to summing up 2012 and looking into 2013 in about a year from now!

Vostok Nafta investment portfolio as per December 31, 2011



Growth Capital and Private Equity 41.3%

01 Black Earth Farming 13.5%
02 Tinkoff Credit Systems 10.3%
03 Vosvik/Kontakt East (Avito & Yellow Pages) 8.3%
04 RusForest 4.6%
05 Tinkoff Credit Systems, bonds 2.1%
06 RusForest, loan 2.0%

Financial Portfolio Investments 58.7%

01 TNK-BP Holding 24.2%
02 Kuzbassrazrezugol 5.0%
03 Gornozavodsk Cement 3.8%
04 Kuzbass Fuel Company 3.5%
05 Alrosa 3.2%
06 Inter RAO 2.7%
07 Transneft 2.6%
08 Priargunsky Ind 2.6%

The Group's net asset value as at December 31, 2011, was USD 492.08 mln, corresponding to USD 4.93 per share. Given a SEK/USD exchange rate of 6.9234 the values were SEK 3,406.84 mln and SEK 34.12, respectively.

The group's net asset value per share in USD decreased by 21.32% over the period January 1, 2011–December 31, 2011. During the same period the RTS index decreased by 21.94% in USD terms.

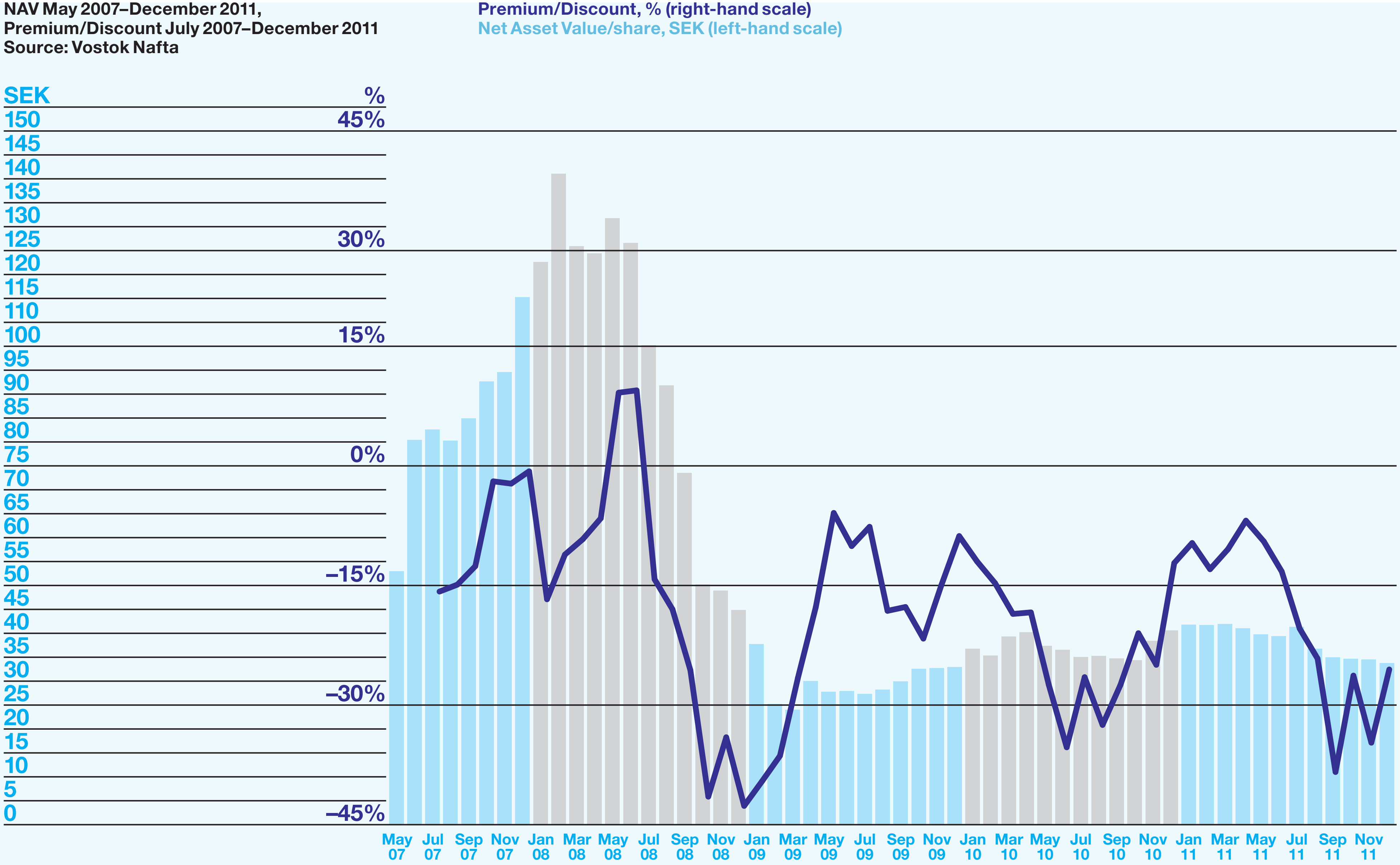
During the period January 1, 2011–December 31, 2011, the investment portfolio, which represents the largest part of the Group's net asset value, has decreased by USD 160.72 mln. Movements of the investment portfolio are (USD mln):

Opening balance	615.00
Additions	97.63
Proceeds from disposals	–116.74
Result from disposals	16.43
Interest income	0.76
Exchange differences	0.42
Change in fair value	–159.21
Closing balance	454.29

Major portfolio events of the year include partial liquidation of holdings in Alrosa (USD 21.5 mln) and Transneft (USD 18.5 mln), as well as complete liquidation of the group's holdings in RusHydro (USD 7.4 mln), Ufaneftekhim (USD 5.2 mln) and Ufa Oil Refinery (USD 14.1 mln). New positions were taken up in Acron (USD 12.3 mln) and Inter RAO (USD 13.7 mln). Also in 2011, Vostok Nafta saw its stake in RusForest reduced from 42.8 percent to 29.4 percent as a result of RusForest's acquisition of Arkhangelsk-based Nord Timber Group in exchange for newly issued RusForest shares.

At the end of December, 2011 the three biggest investments were TNK-BP Holding (24.2%), Black Earth Farming (13.5%), and Tinkoff Credit Systems (TCS: 10.3%).

The Vostok Nafta investment portfolio



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

The Vostok Nafta investment portfolio

The Vostok Nafta investment portfolio

Vostok Nafta's portfolio as at December 31, 2011

Number of shares	Company	Fair value, USD Dec 31, 2011	Percentage weight	Value per share, USD Dec 31, 2011	Value per share, USD Dec 31, 2010	
30,888,704	Black Earth Farming	61,345,661	13.5%	1.99	3.90	2
406,156,995	Clean Tech East Holding	586,645	0.1%	0.00	0.02	2
1,006,513	Tinkoff Credit Systems (Egidaco), equity 4	46,551,014	10.3%	46.25	40.47	1
	Tinkoff Credit Systems (Egidaco), bonds	9,333,624	2.1%			1
28,165,209	RusForest, equity	20,747,445	4.6%	0.74	1.88	2
	RusForest, Issued call options	–53,627	0.0%			2
	RusForest, bonds	2,446,790	0.5%			1
	RusForest, loan	8,901,614	2.0%			3
50,000	Vosvik (Avito and Yellow Pages) 4	37,790,026	8.3%	755.80	390.76	2
	Growth Capital and Private Equity, Total	**187,649,192**	**41.3%**			
266,760	Acron	11,023,321	2.4%	41.32		1
1,765,000	Agrowill	323,802	0.1%	0.18	0.34	1
15,250,000	Alrosa	14,487,500	3.2%	0.95	0.53*	1
3,654	Bekabadcement	657,720	0.1%	180.00	180.00	1
5,364,850	Caspian Services	434,553	0.1%	0.08	0.12	1
272,106	Dakor	2,812,383	0.6%	10.34	10.59	1
	Eksportfinans, bonds	10,091,872	2.2%			1
300,000	Fortress Minerals	1,103,974	0.2%	3.68	4.26	1
16,434	Gaisky GOK	4,520,993	1.0%	275.10	390.00	1
63,500	Gornozavodsk Cement	17,462,500	3.8%	275.00	250.00	1
11,509,294,872	Inter RAO	12,386,683	2.7%	0.001		1
1,600,000	Kamkabel	160,000	0.0%	0.10	0.10	1
3,500,000	Kuzbass Fuel Company	15,750,000	3.5%	4.50	6.87	1
134,352,681	Kuzbassrazrezugol	22,839,956	5.0%	0.17	0.39	1
2,618,241	Kyrgyzenergo	168,688	0.0%	0.06	0.06	1
85,332	Podolsky Cement	106,665	0.0%	1.25	0.63	1
3,004,498	Poltava GOK	6,284,419	1.4%	2.09	5.23	1
111,685	Priargunsky Ind Ord	11,168,500	2.5%	100.00	229.00	1
11,709	Priargunsky Ind Pref	585,450	0.1%	50.00	109.00	1
1,442,400	Shalkiya Zinc GDR	100,968	0.0%	0.07	0.11	1
13,454,303	Steppe Cement	6,903,632	1.5%	0.51	0.79	1
623,800	TKS Real Estate	515,789	0.1%	0.83	1.59	1
15,760,237	TNK-BP Holding Ord	40,590,396	8.9%	2.58	2.65	1
31,053,600	TNK-BP Holding Pref	69,575,378	15.3%	2.24	2.44	1
7,730	Transneft Pref	11,925,906	2.6%	1,542.81	1,233.16	1
1,215,000	Tuimazy Concrete Mixers	2,758,050	0.6%	2.27	4.30	1
154,334	Varyoganneftegaz Pref	1,697,674	0.4%	11.00	19.50	1
	Financial Portfolio Investments, Total	**266,436,772**	**58.7%**			
	Other non current loan receivables	**200,000**	**0.0%**			3
	Grand Total	**454,285,964**	**100.0%**			

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

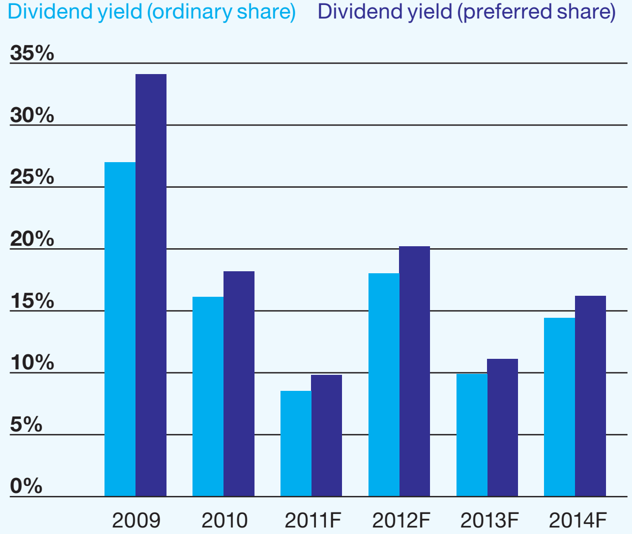
* Adjusted for share split

TNK-BP is a leading Russian oil company and is among the top ten non-state owned oil companies in the world in terms of crude oil production, accounting for some 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). 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). 2011 marked another year of successfully replacing production with new reserves. As of December 31, 2011, total proved reserves according to SEC LOF criteria reached 9.1 bn barrels of oil equivalent representing a 145% reserve replacement ratio. Under PRMS criteria the reserve replacement ratio was 203% with total proved reserves of 13.8 bn barrels of oil equivalent. 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.

Revenues for 2011 increased by 34% relative to 2010 driven by a higher Urals price and production growth partly offset by changes in sales mix, i.e. redirection of crude volumes from export to the domestic and CIS market to take advantage of higher margins. 2011 EBITDA reached an historic high of USD 14.6bn, or a 41% increase y-o-y, primarily driven by stronger crude and higher oil production and refining volumes. TNK-BP International generated USD 5.9 bln in FCF in 2011 and based on the company's 2011 results, the stock trades at an 11% FCF yield. Net income amounted to a record USD 9 bln which is 54% higher than in 2010.

Oil and gas production from consolidated subsidiaries in 2011 continued to grow and reached an historical record of 1,784 mboe/d, up 2.4% on 2010. Production including affiliates – Slavneft and Venezuela assets – was 1,987 mboe/d, up 2.8% on 2010. The company's producing greenfields, Uvat and Verkhnechonskoye, continued to deliver strong growth and their share in liquids production reached

TNK-BP Dividend yields 2009-2014F
Source: VTB Capital



TNK-BP Holding
Vostok Nafta's number of shares as at December 31, 2011

Ordinary	*15,760,237*
Preferred	*31,053,600*
Value Ordinary	*40,590,396*
Value Preferred	*69,575,378*
Total Value (USD)	**110,165,774**
Portfolio percentage weight	24.2%
Share of total shares outstanding, Ordinary	0.1%
Share of total shares outstanding, Preferred	6.9%
Share development 2011, Ordinary	–2.8%
Share development 2011, Preferred	–8.2%

During the year, Vostok Nafta sold 742,000 ordinary shares and purchased 100,000 preferred shares

TNK-BP Holding

14%. The company has during the year completed its international acquisitions in Vietnam, where they have commenced their first offshore operations, Venezuela, and they have entered Brazil. In Russia, TNK-BP has made significant headway with its projects in the Yamal region, the country's newest emerging oil and gas province, which could contribute over 30% of TNK-BP's total production by 2020.

The key trigger for the stock has been a company restructuring in order to improve the free float and trading liquidity. In 2010, TNK-BP received approval from MICEX and RTS for its shares to be traded at these two stock exchanges. The shares had previously been traded at RTS Board only (over-the-counter-market), but trading of both ordinary and preferred shares commenced in December, 2010. This move was clearly positive as it has improved liquidity of TNK-BP Holding's existing shares and acted to the benefit of the company's minority shareholders.

The strong performance of the stock in the first three months of 2012, we believe, is on the back of better liquidity in the stock following its listing on local exchanges, its strong track record of paying dividends, and the strong oil price.

Black Earth Farming

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, 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. As of December 31, 2011, Black Earth Farming held 260,000 hectares of land in full ownership, corresponding to 82% of the total controlled land bank of 318,000 hectares. 40,000 hectares are held under long-term lease. Consolidation and further improvement of the operational efficiencies in and around the existing farm blocks remains the company's key target. Non-core land areas have been divested during 2011, where no land is being cropped in addition to pasture and low quality areas. The current near term focus is not on significant expansion of the land portfolio, but on finalizing the registration process of controlled land into full ownership. At the same time operating improvements are ongoing with substantial long term potential for increased production and profitability. Russian agricultural land is in the company's view still undervalued, both in terms of comparison with land of similar quality in other countries and also in relation to its inherent production potential. Black Earth Farming is fully focused on realizing that production potential and to generate cash flows from the assets to unlock the land value.

The fact that Black Earth Farming's operating loss for 2011 is of the same magnitude as in 2010 is of course highly disappointing. Several driving factors, both external and internal, affecting crop yield and price, have limited 2011 revenue. Although absolute revenues of USD 77.7 million are up 29% from 2010 due to increased volumes, market prices for realized sales and inventory valuation in 2011 are lower. The 2011 harvest was hit by an early dry spell that up until mid-July was almost identical in rainfall pattern to 2010. This affected wheat, barley and rape volumes negatively. Although harvest volumes were up from the drought stricken 2010 harvest, crop yields were significantly below expectations for these three crops. Wheat and barley yields were 30–35% below the average yields achieved during normal conditions in 2007–09. Russian domestic prices have though strengthened gradually since December 2011.

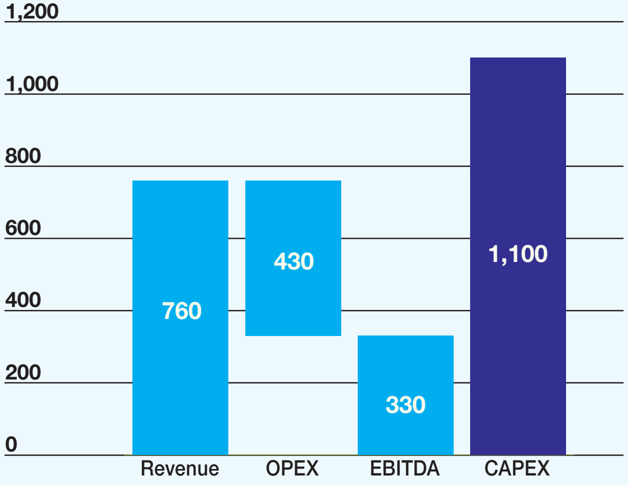
In 2011, Richard Warburton of Kinnevik took the role as Chief Executive Officer at the company, which is a very strong addition to the management team. With Richard at the operating steering wheel the company has the ability to start to deliver, on not only the completion of putting the maximum number of hectares on production, but also on getting a completely modern farming company in terms of organization and costs. There are a lot of initiatives underway to lift crop yield performance. The company has prioritized their efforts by totally revamping top and mid-level management within production and bringing in a new technical partner. These improvements will take some time and come through gradually over two to three years. 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. All in all we believe it is fair to expect an improvement of some 25–40% on today's

Black Earth Farming	
Vostok Nafta's number of shares as at December 31, 2011	30,888,704
Total Value (USD)	**61,345,661**
Portfolio percentage weight	13.5%
Share of total shares outstanding	24.8%
Share development 2011 (in USD)	–49.0%

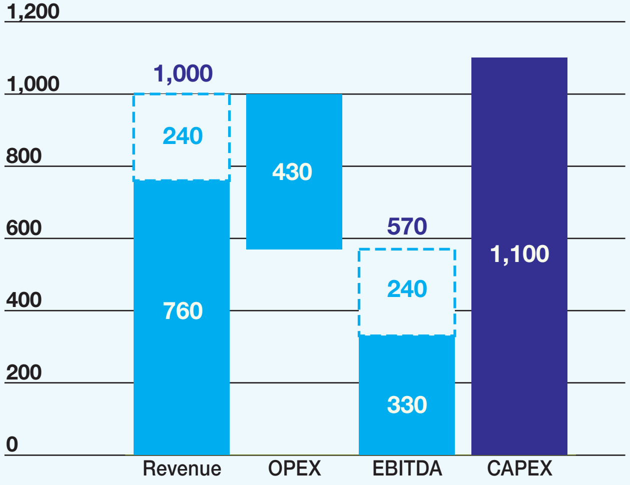
During the year, Vostok Nafta purchased and sold 0 shares blended yield of some 3 tonnes per hectare with a revenue of USD 760 per hectare (see graph *Profitability vs. Capex* to the right), getting us to somewhere north of 4 tonnes per hectare resulting in a revenue of USD 1,000 per hectare (see graph *Profitability increase* to the right) in a couple of years. This yield improvement comes as a result of the one-off work carried out over the next couple of years, then leaving future operating costs per hectare unchanged – in turn allowing the extra revenue to fall down to profits. Measured against BEF's invested capital per hectare of USD 1,100, the return increases from the 30% range to some 50–60%. 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.

We have during the year not transacted in Black Earth Farming. As discussed previously, 2011 turned out to be another year of adverse weather effects in the central region of Russia where Black Earth is located. The market has thus not been provided the visibility into a normal weather year that is needed to put a normal valuation on the company, instead sending the stock south during the year. While this is natural, it provides yet more leverage to a normal year. Although it is obviously too early to tell what kind of a year 2012 will be, the winter season seems to be going well so far.

Profitability vs. Capex
USD per hectare
Source: Company data, Vostok Nafta estimates



Profitability increase
USD per hectare
Source: Company data, Vostok Nafta estimates



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. TCS operates through a branchless business model, virtual network and uses direct mail as well as the internet as customer acquisition channel. 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. 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 a credit card portfolio. Both Fitch and Moody's recognized the positive developments in the company's credit standing and in 2011 upgraded their credit ratings to B and B2 respectively. The upgrade reflects the diversification of the funding base and the strong cash generation capacity, which significantly mitigates liquidity risk.

Tinkoff Credit Systems

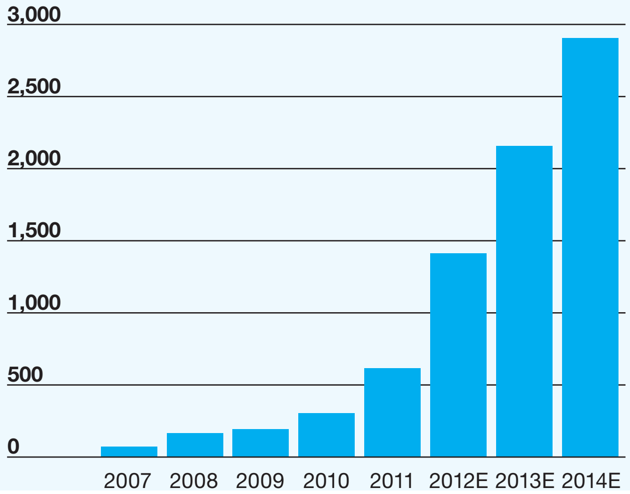
Vostok Nafta's number of shares as at December 31, 2011	1,006,513
Total Value (USD)	**46,551,014**
Portfolio percentage weight	10.3%
Share of total shares outstanding	15.8%
Value development 2011 (in USD)	14.3%

During the year, Vostok Nafta sold 66,661 shares

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 (around 10% year 2011) and shows an exceptional 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 approximately 6% in 2011. The Russian banking sector as a whole should post at least a 20% return on average equity in the next two years, despite volatile markets. Russian banks continue to post impressive financial performance, driven by ongoing lending growth, more stable or widening net interest margins and a low cost of risk. Lending growth has already beaten 2011 projections in

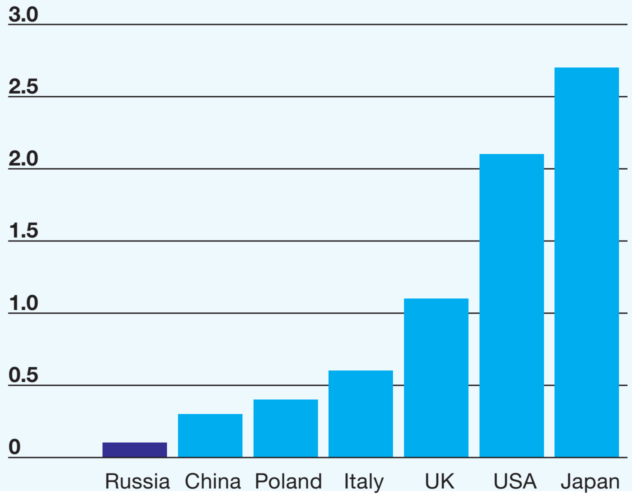
Portfolio size 2007–2014E

USD million. Source: Company data



International Comparison of Credit Card Penetration 2011E

Credit cards per person.
Source: CBR, Euromonitor, CIA World Fact Book, lafferty.com



y-o-y terms and the sector remains underpenetrated with corporate and retail loans/GDP at 32% and 9% respectively – the lowest level amid other emerging markets. The main driver of retail lending growth is returning consumer confidence and the Russian consumer lending market continues to grow very rapidly from a low-base. TCS's focus and unique business model enable the company to tap into this growth and to grow significantly faster than the market. 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.

Tinkoff Credit Systems has continued to deliver record high financial results in 2011. Retail deposits have increased by 110.8% in 2011, from USD 169.9 mln in 2010 to USD 358.4 mln in 2011. The net loan portfolio increased by 104.2% in 2011, from USD 300.6 mln to USD 613.8 mln. On December 29, 2011, TCS Bank successfully closed a 12.75% SEK 550 mln (approx. USD 80 mln) bond due in 2013. The placement price was 95%. The proceeds of the bond will be used to grow the bank's credit-card portfolio. Having delivered on its promise to double its portfolio in 2011, TCS Bank plans to grow it by a further 60–90% in 2012.

We have carried out a small transaction in TCS, where we have divested the zero strike warrants that we received as part of our initial exposure to the company dating back to 2007.

Avito enables individuals and businesses to buy and sell goods through classified ads over the internet, similar to Blocket in Sweden or Craigslist in the US. Avito is the largest and fastest growing online trading platform in Russia and the number of monthly unique visitors continued to grow at a rapid pace during 2011. The company has obtained a leading position in terms of visitors and number of ads, distancing itself from its competitors. Once market dominance is achieved the business model has great potential in terms of profitability judging by the experience in other countries. Avito is already the leading brand and has the highest brand awareness in Moscow and St. Petersburg, with the goal to achieve close to 100% in the long term.

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 internet penetration in Russia is low in relative terms but very high in absolute terms. According to ComScore, Russia is already the largest internet market in Europe in terms of audience size, having overtaken Germany. By 2013 internet users in Russia are expected to reach over 90 million, with a penetration of 67%. The market for internet related services is expected to grow significantly in correlation with an increased internet penetration and the number of Russians who want to buy things online grew exponentially over the past year. A record 6.1 million Russians made online purchases last year, an increase of 16.5% compared to 5.2 million in 2010. The Public Opinion Foundation has estimated the size of the Russian e-commerce market in 2011 at RUB 315bn (USD 10.7bn). This is close to the size of the markets in India and Brazil due to Russia's significantly higher spending per online shopper: around USD 1,800 per year (4–10x BRIC peers). Only 4% of the Russian population uses e-commerce, compared with approximately 10% in China and Brazil and 25–40% in Western Europe. The Russian e-commerce market is growing rapidly (around 30–35% in 2011) and Avito has been reporting huge increases in users and turnover as internet usage soared and broadband penetrated many more of Russian regions. In the fourth quarter 2011, Avito had 18.3 million unique monthly visitors (8.7 in 4Q10). Avito's revenue amounted to approximately USD 8.5 million in 2011, compared to approximately USD 1 million in 2010.

Avito is targeting one of the fastest growing Internet audiences in the world and a valuation could be dramatically higher if the company continues to reinforce and monetize its market leadership. Avito is in an extremely exciting phase, with great future prospects.

We participated in the rights issue of Avito, carried out in mid 2011. Otherwise there were no transactions.

Avito*

Vostok Nafta's number of shares as at December 31, 2011	5,975,586
Total Value (USD)	**37,749,590**
Portfolio percentage weight	8.3%
Share of total shares outstanding	23.8%
Value development 2011 (in USD)	121.6%

During the year, Vostok Nafta participated in the rights issue resulting in an increase of 698,630 shares through Vosvik AB

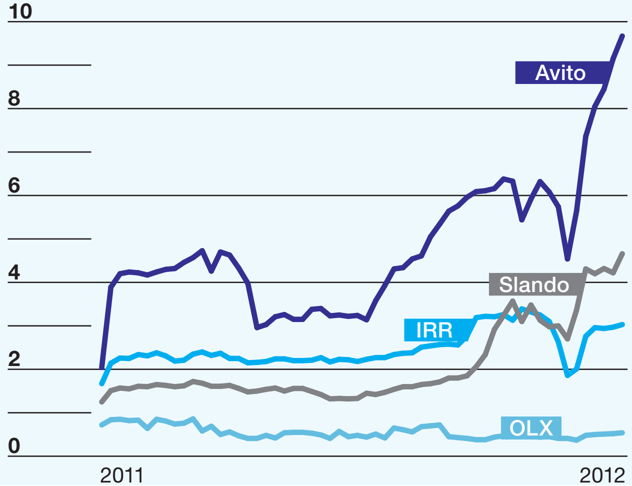
* The shares in Avito are owned through the holding company Vosvik AB.

Internet users and internet penetration in Russia 2008–2013E

Source: J'son & Partners

Unique visitors per week

Million visitors. Source: Live Internet



Avito

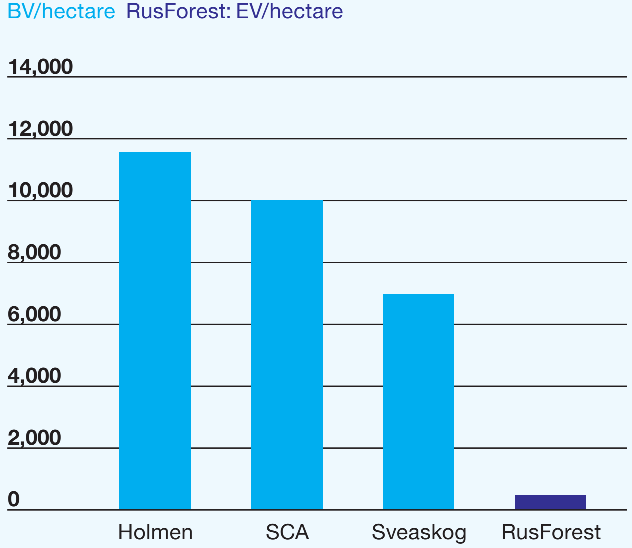
RusForest is a forestry company operating in Eastern Siberia and the Arkhangelsk region in northwest Russia. Since its establishment in 2006, RusForest has increased its forest land and sawmilling capacity both by strategic acquisitions and own development projects. Through long term lease agreements the company controls approximately 3 million hectares of forest land with an AAC of around 3.6 million m^3. Recent increases in controlled forest land come from the acquisition of NTG in Arkhangelsk, new forest leases in Magistralny as well as two acquired harvesting companies in Boguchany during 2011. RusForest's principal business concept is to refine the prime quality pine, spruce and larch logs from its forest leases into a wide range of sawnwood products of which a smaller share is attributable to planed products, including flooring and other interior products. The Group's total sawmilling capacity, which currently amounts to approximately 415,000 m^3 of sawnwood, is expected to, after completion of on-going investments, gradually increase to 500,000-550,000 m^3 of sawnwood. There is significant potential (of up to 800,000–850,000 m^3 of sawnwood) within the limit of the maximum allowable harvesting.

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. The forest resources in this area are of high quality and, provided the right investments in production, well suited for producing high quality sawnwood much appreciated on international markets. Within Russian forestry there is a vast improvement potential in terms of operating efficiency to complement the competitive advantage of low cost raw materials. 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. When comparing the values of the forestry assets of the Swedish companies Holmen, SCA and Sveaskog, RusForest's value proves to be extremely discounted. In a comparison of each company's forestry book value/hectares controlled land, Holmen is valued at approximately SEK 11,560 per hectare, SCA at approximately SEK 10,000 per hectare, and Sveaskog at approximately SEK 6,970 per hectare. This is in comparison with RusForest's entire enterprise value of SEK 1.4 bn (post 2012 rights offering) divided by hectare, which results in a SEK 460 per hectare valuation of RusForest's controlled forestry assets (see graph *Peer comparison: Forestry assets valuation*). 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 strategic objective is to become a leading independent integrated forest and sawmill company in Russia by fully utilizing its forest resources, whilst earning a reasonable return for its shareholders. For the overall strategy it is natural for the Company to investigate all possible solutions and discuss how to fully utilize and generate more income from its by-products. Close to 65 percent of the harvested log volumes eventually turn into something other than sawnwood, and pulp logs as well as woodchips

Peer comparison: Forestry assets valuation

SEK. Source: Company data



RusForest

Vostok Nafta's number of shares as at December 31, 2011	28,165,209
Total Value (USD)	**20,747,445**
Portfolio percentage weight	4.6%
Share of total shares outstanding	29.4%
Share development 2011 (in USD)	–60.8%

During the year, Vostok Nafta purchased and sold 0 shares

RusForest

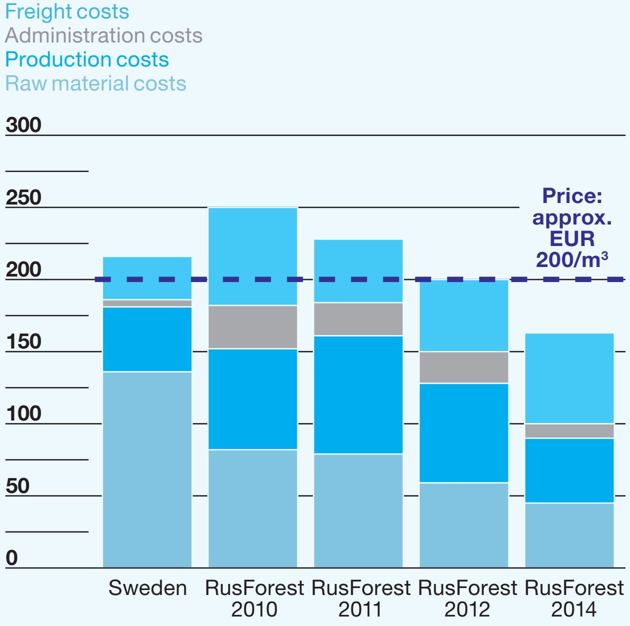
are often sold below production cost with a negative impact on the Group's profitability. In December 2011, RusForest acquired Clean Tech East Holding's Biomass Fuels business segment, whose business is to manufacture and sell wood pellets. The idea is to, together with an industrial partner, move the acquired equipment to the LDK-3 industrial site, and then produce high quality pellets for the European market, supported by the already existing by-products.

In January 2012, RusForest announced its intention to raise SEK 450 mln (USD 67 mln) in new capital through a rights issue. The subscription period is March 21–April 4, 2012. The capital will be used for finalization of the ongoing investments in Eastern Siberia as well as in the Arkhangelsk region and will enable continued increases in harvesting capacity as well as an expansion of the sawmilling capacity across the company's operations. The rights issue will also serve to provide RusForest with the additional working capital needed as an effect of previous losses in operations during 2011. Prices for sawn products (of the quality RusForest is producing) fell by some 20%. If this would have happened in mid-2012 the company would be producing large enough volumes of sawn products, supported by its own harvesting operations, to achieve a cost per unit that was low enough to still be profitable under current pricing. However the fall in prices came at a time when production was being ramped up and still not at a stage when unit cost was low enough. Also, on the operational side the company has experienced delays in getting equipment up and running as well as delays in taking out "Soviet era" costs out of the operations. The rights issue is needed to fund the completion of the investment ramp up started in mid-2010 and to prepare for lower prices staying on for the next couple of years. Although there is still high uncertainty in the global economy, the global market is showing indications on improvement in prices of sawnwood. Russia becoming part of WTO should also have a positive effect on the Russian forest industry, affecting current levels of duties for exporting of saw logs and pulpwood. As RusForest is selling a major part of the production on already signed contracts, it will take time before market changes in prices will be visible in the revenue and therefore it is difficult to predict what effect the market changes will have on RusForest. It is important to note that, notwithstanding the losses during 2011, the average revenue of m^3 sold is rising and the average cost per unit is falling in a predicted fashion. This will make it fully possible to reach positive EBITDA during 2012, all else being equal.

As previously discussed, 2011 has been a very disappointing year in terms of the stock market performance. The overriding reason for the negative performance is the failure of the company to achieve a plus minus zero year in terms of profitability, instead producing a large net loss. This large net loss is the result of the prices for sawn products coming off during the year, the company suffering a delay of some 6 months in terms of getting the new equipment into Russia and up and running, and finally the global and local credit market closing down during the latter half in response to primarily the liquidity crisis in Europe. One could also say that the company is young and perhaps not ready for a stock market which is very focused on quarterly performance. Setting up a large harvesting and saw milling operation is a time consuming affair in any part of the world, and even more in Russia. The delays the company has experienced in 2011 are a nuisance, but not the complete failure the market perhaps sees it as.

RusForest cost structure

EUR/m^3. Source: Company data



Alrosa is the world's largest producer of rough diamonds in terms of volume, slightly above De Beers' production of 33 million carats. The company estimates that the annual production will increase by 15% from current levels to reach 39.6 mln carats/year by 2018. Alrosa, located in the Sakha Republic in eastern Russia, accounts for 96 percent of Russia's total diamond production, and approximately 25 percent of global diamond production. Together with De Beers, the two companies controls over 50 percent of the international diamond market. The largest shareholders are the Russian state and the regional government of Sakha, together controlling over 90% of the company. Alrosa's diamond reserves and resources are preliminarily estimated at the level of 1.6 bn tonnes of ore with 1.3 bn carats of diamonds. Average grade of ore is 0.81 carats/tonne.

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. 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. China became the second largest diamond consumer after the US in 2009 and the Boston Consulting Group foresees China becoming the world's largest luxury market between 2014 and 2016. Alrosa's production of gem-

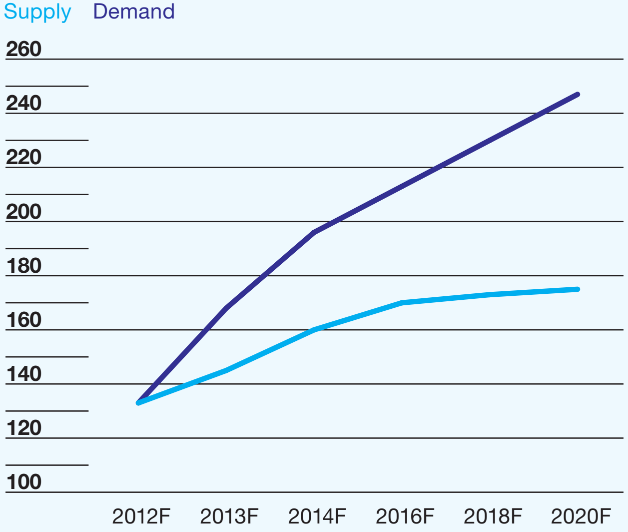
Alrosa

Vostok Nafta's number of shares as at December 31, 2011	15,250,000
Total Value (USD)	**14,487,500**
Portfolio percentage weight	3.2%
Share of total shares outstanding	0.2%
Share development 2011	78.2%

During the year, Vostok Nafta sold 18,803,305 shares

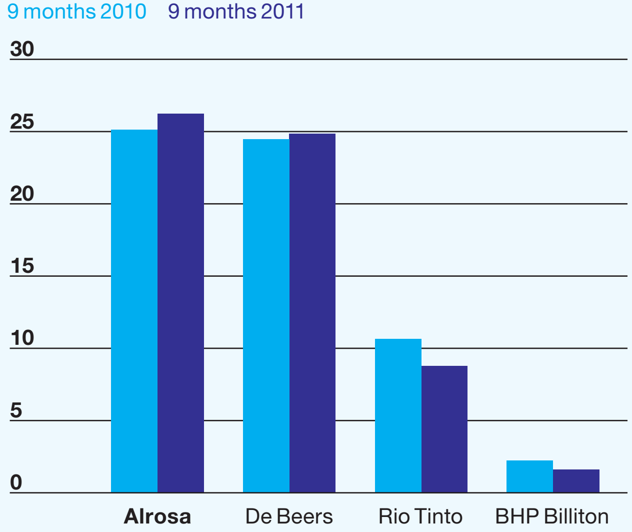
Supply and demand of rough diamonds 2012F–2020F

Million carats. Source: Bain & Company



Production dynamics: Alrosa and key diamond producers

Thousand carats. Source: Company data



Alrosa

quality diamonds, used primarily in its polished form in the jewellery industry, accounts for approximately 99% of Alrosa's sales revenue.

In 4Q 2011, the demand for rough diamonds softened as a result of the uncertain macro outlook and liquidity problems in India, but in the beginning of 2012 rough diamond producers have seen sustained growth in demand compared to 4Q11. In the longer term, the rough diamond market fundamentals remain strong thanks to expanding demand and flat supply. The company expects a sustained growth in demand for rough diamonds in the first quarter this year as compared with the fourth quarter last year. Alrosa has reported that the company expects to increase sales in 1Q12 by 20% y-o-y to USD 1.1bn as a result of strong demand for diamonds on the spot market. The company also expects its net profit to amount to over 34.1 billion roubles in 2012, up 16.9% on the year, with capital expenditures at 21.8 billion roubles, and geological exploration spending expected to increase 31.7% to 5.4 billion roubles.

Expectations are that transparency and corporate governance will continue to improve and thus that the current discount to its peers will narrow even more than it already has during 2011. Expectations are that IPO will become reality towards the end of 2012 or during the early part of 2013. In December 2010, the Russian government voted to convert Alrosa from a closed to an open joint stock company, which also allowed the company's shares to trade freely on Russian exchanges. The company performed a share split during autumn 2011 at the conversion ratio of 27,005, where each of the company's old shares was converted into 27,005 new shares. The positive effect from the share splitting for the shareholders is higher liquidity and, consequently, greater investment attractiveness of the shares. Clearly, IPO plans and Alrosa's appealing investment case are attracting more investors' interest and the stock's liquidity and performance has improved significantly during 2011.

We have divested part of our position in Alrosa during 2011, to try and lock in some of the profits achieved as a result of the strong price performance of the stock. The strong performance, we think, is primarily on the back of the continued news flow on the company's plan to conduct an IPO during late 2012 or early 2013.

Gornozavodsk Cement

Gornozavodsk Cement is a medium-sized independent cement producer, located in the 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. Cement is one of the key basic materials used in construction globally. After a downturn in 2009, the Russian cement industry is demonstrating a fast recovery. Russia and its CIS neighbours have a comprehensive need for upgrading its underdeveloped infrastructure which is crucial in maintaining the region's economic transformation. Investment in roads, railways, seaports, utility networks and the like has failed to keep up with the rate of depreciation since the Soviet era. Vostok Nafta sees this theme as vital for the long term growth path of the Russian economy, wherefore investments in cement producing companies in Russia and its neighbouring regions have been undertaken. The cement sector is highly geared towards infrastructure spending and also shows high barriers to entry given limited supply of limestone as well as a low value to weight ratio making it uneconomical to transport cement over greater distances. Even though the current global turmoil still presents significant risks for near-term construction activity in Russia, the December trends indicate that the recent fears might be exaggerated. The average 2011 cement price in Russia rose 26% y-o-y in USD terms to USD 89/tonne. The seasonal price decline in December was insignificant at just 1% m-o-m in RUB terms. In Siberia, the December price decline was 2% m-o-m, but the price level remained high at RUB 2,943/tonne (USD 89/tonne based on the December exchange rate) and exceeded the average Russian price for the month by 5%.

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 2.1 million tonnes, with the potential to reach 2.8 mn tonnes if a new furnace is launched. The company's reserves imply 50 years of operations. Due to the low price of cement per ton 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 and 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.

We added to our position in Gornozavodsk during the year with the reasoning to capture the opportunity of the underperformance of the stock in the midst of a recovering cement sector outlook.

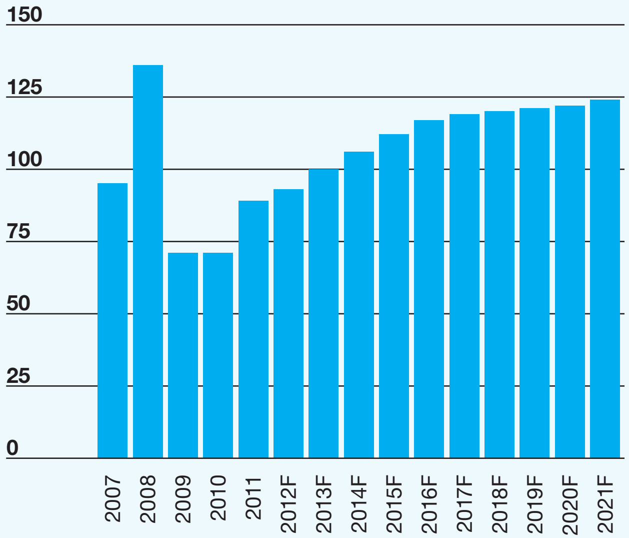
Gornozavodsk Cement

Vostok Nafta's number of shares as at December 31, 2011	63,500
Total Value (USD)	**17,462,500**
Portfolio percentage weight	3.8%
Share of total shares outstanding	8.2%
Share development 2011	10.0%

During the year, Vostok Nafta purchased 24,500 shares

Russia's cement prices 2007–2021F

USD/tonne. Source: VTB Capital



Kuzbassrazrezugol

Kuzbassrazrezugol (KZRU) is Russia's second largest thermal coal producer with an output of around 46 million tonnes. The majority of production consists of thermal coal which is mainly used in coal-fired power plants but the company 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. The company's reserves are among the largest in Russia, with balance reserves estimated at 2.2 billion tonnes of coal implying a reserve life of at least 50 years. 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.

Coal is a basic fuel for power generation, transport and steel. It accounts for 27% of the world's primary energy demand, making it the second-most important fuel after oil. The International Energy Agency estimates that coal demand will grow more strongly than all other energy sources at an average annual rate of 1.9% (from 4,548 Mtce in 2007 to 9,980 Mtce) in the period to 2030. Most of the projected increase in demand should come from Asia, mainly China and India. After the tragedy in Japan in March 2011, many Asian and European countries started to reconsider their use of nuclear energy in favour of traditional fossil fuels such as coal and gas. Immediately after the incident, the British mining group Xstrata signed an annual thermal coal contract with Chugoku Electric Power of Japan priced at USD 130/tonne, which reflected a 30% y-o-y gain in price, higher than the USD 125/tonne peak reached in 2008. Russia is a strategic player in the global coal trade, hosting 18% of the world's coal reserves. According to Metalexpert, Russia's total coal production last year reached 336mt (up 5% y-o-y), higher than the pre-crisis level of 326mt in 2008. The domestic steam coal price increased 20% in 2011 and further growth of 7% is expected in 2012. International thermal coal prices increased more than 30% in 2011 and should remain stable at USD 120–130/tonne next year.

The key driver of the Russian thermal coal market is the power sector liberalization and the transition from gas to coal as a fuel source. Continued growth in Russian domestic coal prices are expected as a result of gradual gas market liberalization and increasing energy consumption. 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, however, 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 an affiliated offshore company, which limits profitability. As a result, Kuzbassrazrezugol's earnings are substantially understated. Had market prices been employed, the company's EBITDA would have been significantly higher. 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.

The main owner has provided signals of increasing risks, both to the stock's already poor liquidity as well as the continued suffering due to the existing transfer pricing structure. The stock has nevertheless moved substantially higher during the first months of 2012 on the back of speculation that the same main owner was about to divest their stake in the company.

Kuzbassrazrezugol

Vostok Nafta's number of shares as at December 31, 2011	134,352,681
Total Value (USD)	**22,839,956**
Portfolio percentage weight	5.0%
Share of total shares outstanding	2.2%
Share development 2011	–55.8%

During the year, Vostok Nafta purchased 600,000 shares

	EV/Sales 2012E	EV/EBITDA 2012E	P/E 2012E	EV/Production 2012E	EV/Reserves 2012E
KZRU*	1.1	4.2	5.9	59	1.6
KTK	0.7	3.3	4.9	63	1.4
Raspadskaya	2.5	5.2	8.6	293	2.9
Mechel	0.9	4.9	5.8	564	4.0

* Not adjusted for potential transfer pricing elimination
Source: Aton

Kuzbass Fuel Company

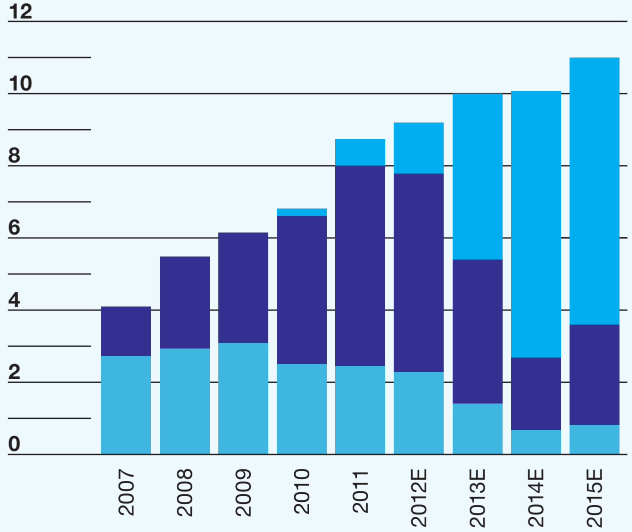
Kuzbass Fuel Company (KTK) is one of the fastest-growing thermal coal producers in Russia. In terms of 2011 production volume, it was ranked 7th among the largest thermal coal producers in the country. In the eleven years since its establishment, the company has commissioned and launched three open-pit mines and an enrichment plant, achieving annual production volume of 8.74 mln tonnes of coal in 2011. Its assets are located in Western Siberia and the company is currently operating its three mines – Cheremshansky, Vinogradovsky and Karakansky – within a 5 km range in the Kuzbass region. 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. In December 2011 the Company won an auction for the right to use subsurface of "Bryansk 1" coal deposit with reserves of 250.2 mln tonnes of coal in the C2 category. The surface mine is located in close proximity to existing infrastructure and production assets. The Company expects to continue to grow its production volume, in particular, following the launch of the Cheremshansky mine in 2008 and ongoing investments into its high performance modern mining technology, aimed at achieving the aggregate structural capacity of existing mines of 11 mln tonnes of coal per year.

During 2011 coal sales volumes increased by 24.8% y-o-y and reached 10.66 mln tonnes, compared to 8.54 mln tonnes in 2010. 8.58 mln tonnes of own-produced coal were sold and 2.08 mln tonnes of coal were purchased from third parties. The increase in sales was driven by export volumes, which increased by 72.0% y-o-y to 6.45 mln tonnes, compared to 3.75 mln tonnes in 2010. The proportion of export sales increased to 61.4% in 2011 while the domestic sales volume decreased by 12.1% to 4.21 mln tonnes. The Company maintains a diversified sales structure balanced between export and domestic sales, in 2011 about 38.6% of total sales were sold to domestic consumers and approximately 61.4% exported, primarily to Eastern Europe and the Asia-Pacific region. During the year management has implemented a strategy of increasing the share of high added value products in total sales structure. Average production cash costs were approximately USD 17/tonne. This is slightly higher than Kuzbassrazrezugol (USD 16/tonne) but vs international thermal coal peers (with average cash costs slightly over USD 30/tonne), KTK can be considered one of the lowest cost producers. In 2011 the volume of coal sorted by coal-crushing and screening units increased by 35.4% to 5.56 mln tonnes, compared to 4.1 mln tonnes in 2010. During 2011 the coal enrichment plant "Kaskad" worked on full designed

Coal production 2007–2015E

Million tonnes. Source: Company data

Enriched coal
Sorted coal
Ordinary coal



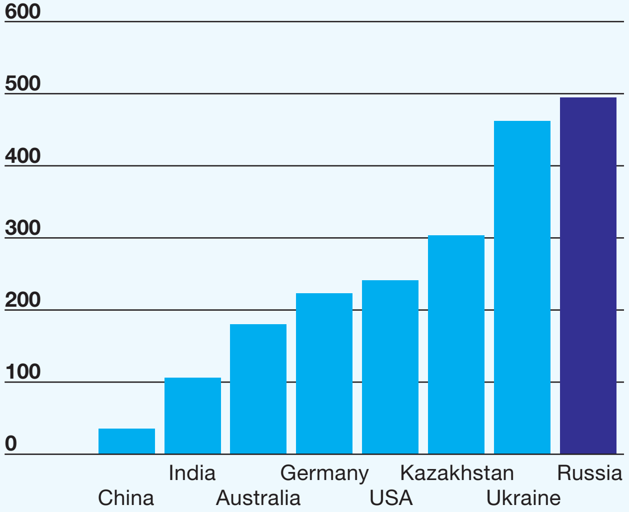
Kuzbass Fuel Company	
Vostok Nafta's number of shares as at December 31, 2011	3,500,000
Total Value (USD)	**15,750,000**
Portfolio percentage weight	3.5%
Share of total shares outstanding	3.5%
Share development 2011	–34.5%

During the year, Vostok Nafta purchased and sold 0 shares capacity and produced 736 thousand tonnes coal of export quality. As a result the volume of processed products of coal by the Company increased from 63.3% in 2010 to 72.0% in 2011.

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, 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.

Coal reserves/production, years

Source: Aton



Inter RAO is a diversified energy holding headquartered in Moscow and managing assets in Russia, Georgia, Armenia, Kazakhstan, Tajikistan, Moldova, Lithuania and Finland. The company owns generating, distribution, supply, trading and engineering assets, achieving multiple synergies. Inter RAO controls and manages 24 thermal, one nuclear and nine hydro power plants with combined capacity in excess of 29 GW. However, on an equity adjusted basis, after it swaps its 40% stake in Irkutskenergo for new RusHydro shares, Inter RAO is estimated to own 33 GW. The company's generating capacity is located in five countries. In Russia, the company owns a very efficient portfolio of newly-built gas fired thermal power plants with a relatively low installed capacity. Inter RAO's international generating assets are spread across the former Soviet republics of Armenia, Georgia, Kazakhstan and Moldavia. They are much less efficient than the domestic assets, with the age of their power-generating units ranging from 25–35 years.

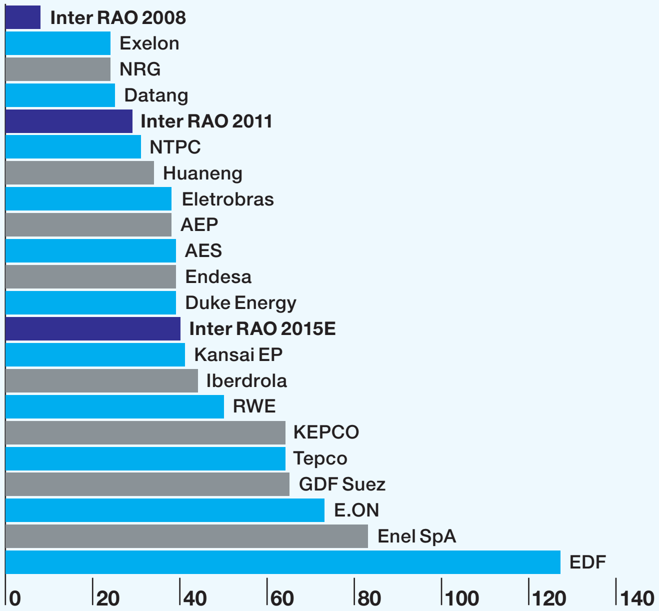
The gradual de-regulation of Russian gas and electricity prices towards complete liberalization of Russia's energy market is necessary as the low regulated prices discourage energy efficiency and new investments in the sector. Russia will face a substantial restructuring of the sources of its energy use up until 2020. The country's total energy consumption is also projected to grow significantly during this period, driven by rapid economic development which in turn requires additional capacity. The liberalization process will incentivize the export of Russia's vast gas resources while energy from coal, hydro and nuclear power is estimated to constitute a much higher share of the domestic consumption.

Inter RAO has shifted from being primarily an export/import trader with volatile revenues, to being mainly an electricity generator with much more predictable cash flows. The key driver for the company's financials is therefore electricity prices on the free market and the successful implementation of its investment program.

An important task is the implementation of capacity supply contracts of investment projects for construction of generating facilities. Strategy is focused on creating a highly efficient and diversified world-class energy holding represented in all key competitive segments of the energy market. This strategy will enable the company to become a top ten energy company worldwide in terms of combined installed production capacity by 2020. Its main shareholder is state-owned Federal Grid Company but Inter RAO was one of the state-controlled companies that were mentioned in the privatization discussions that took place in 2011. According to different sources, the government was ready to privatize Inter RAO by 2017, which could be a strong catalyst for the name.

Inter RAO is a new position during the year. The reasoning behind the purchase was to get exposure to the large, and in our view undervalued, assets of the company. Again, in our view this undervaluation is the result of investors' reluctance to buy the stock because of their difficulty in getting a clear long-term picture of the company since it has grown so swiftly, as it has driven the consolidation of the sector by buying assets with its own stock. Also, the sector

Inter RAO vs. Global Peers: Installed capacity
Megawatts.
Source: Inter RAO data from company's presentation



Inter RAO

Vostok Nafta's number of shares as at December 31, 2011	11,509,294,872
Total Value (USD)	**12,386,683**
Portfolio percentage weight	2.7%
Share of total shares outstanding	0.1%
Share development 2011	–29.7%

During the year, Vostok Nafta purchased 11,509,294,872 shares

Inter RAO

in general has suffered in an election period under which the outlook of electricity in general has been clouded by politically motivated populist moves. We believe this outlook will change with the passing of the election period, and with it investors' inclination to get exposure to Inter RAO, as their main growth period seems to be over and the format of the company has been more stable as of late, as well as the fact that it provides the most liquid exposure to the sector.

	EV/IC USD/kW	EBITDA/IC USD/kW
Inter RAO	**USD 309**	**USD 15**
Average emerging markets peer group	USD 1,934	USD 319
Inter RAO discount to emerging markets peer group	84.0%	95%
Average developed markets	USD 1,177	USD 219
Inter RAO discount to developed markets peer group	73.7%	93.2%

Source: URALSIB Capital

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 2011, Steppe Cement's sales rose 6.5% y-o-y to 1.23 mln tonnes. The fourth quarter 2011 was relatively weak, when volumes fell 13% y-o-y to 180,000 tonnes. According to the company, apart from the seasonal decline, this relative weakness was due to repair works at its Line 6 and extremely harsh weather in December, which affected construction activity. Meanwhile, ex-works prices remained firm, averaging USD 74/t in 4Q11, almost unchanged from 3Q11. For the full year, average cement prices stood at USD 68/t, up 25% y-o-y. Steppe Cement's 2011 revenues increased 32% y-o-y to USD 96mn. The company managed to maintain its market share at about 20%, despite the launch of two new cement plants in Kazakhstan earlier last year. Total cement demand in Kazakhstan rose 9% y-o-y to 6.2 mln tonnes, while imports declined 28% y-o-y to 0.9 mln tonnes.

Priargunsky

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.

We have constantly over the year added to the position in order to build a large and long-term position in Priargunsky. The stock price has performed poorly, primarily on the back of the negative sentiment around the nuclear sector as a whole, following the Fukishima accident in early 2011.

Transneft

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 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.

The stock has displayed a volatile, but in general positive, development during the course of 2011. Especially the State's indication about a privatization of its holding in Transneft was a positive driver. We have during 2011 divested a large part of our holding on the back of this positive price performance. We believe the risk/reward has deteriorated on the back of the price performance.

Other holdings

Acron

Acron Group is a world's leading mineral fertilizer producer with a high level of vertical integration, including potash and phosphate asset development. The Group's key business segments include ammonia, nitrogen and complex mineral fertilizers, as well as organic and non-organic compounds. Acron (Veliky Novgorod), the first company in the Group, was established in 1961. Today, the Group includes three major production facilities, has its own logistics infrastructure and international sales network, and is investing in its own raw material base.

In 2011 the fertilizer world market was favourable for producers. The global demand completely recovered following the 2008/2009 crisis which made producers boost output volumes to meet the increased demand for fertilizers. Prices of all types of fertilizers continued growing all through the year. However, in late Q4 the market underwent sharp correction caused by seasonal factors and temporary glut of supply on the market. In early 2012 prices partially recovered and stabilized. In 2012 the balance between demand and supply in the world market is expected to remain favourable for fertilizer producers. In 2011 the Group's total commercial output was up 5.3% year-on-year to 5,843,600 tonnes, record high for the Group's history. This increase was due to the Group's balanced industrial policy aimed at continuous revamping and developing production facilities.

During 2011, Acron was added to the portfolio. We believe that Acron's range of non-core assets on its balance sheet does not enjoy its real value in the stock's current pricing.

Share information
All the shares carry one vote each. The shares are traded as depository receipts (SDR) in Stockholm, where Pareto Öhman 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.

On December 7, 2011, Vostok Nafta informed that the Company's Board of Directors had resolved to mandate the management of Vostok Nafta to repurchase Swedish Depository Receipts (SDRs) of the Company. The mandate from the Board of Directors is valid until the next AGM of Vostok Nafta and stipulates that a maximum of 10 percent of the SDRs that are outstanding at the time of the resolution can be bought back. The SDRs that are bought back under the mandate and the underlying shares are cancelled.

During 2011, Vostok Nafta repurchased 2,520,775 SDRs.

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, 2011 to December 31, 2011, was 167,500 shares (2010: 198,000 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

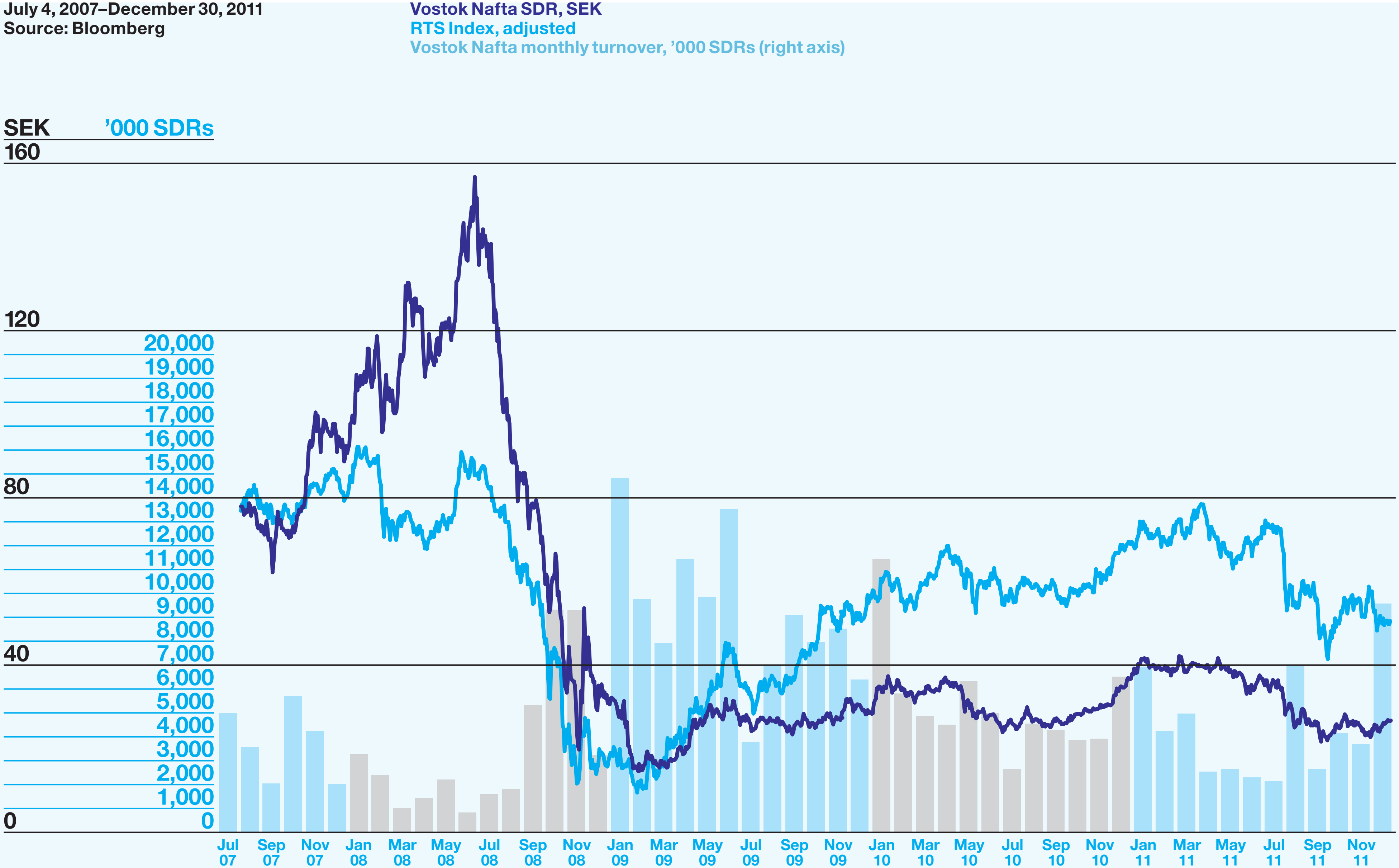
Largest shareholders as per December 30, 2011
The shareholder list below as per December 30, 2011, shows the ten largest owners at that time. The number of shareholders in Vostok Nafta on December 30, 2011 amounted to around 16,800 (2010: 15,000).

Owner	Holding, SDRs	Holding, percent
01. The Lundin family *	28,000,000	28.43%
02. Alecta Pension Insurance	8,071,000	8.20%
03. AFA Insurance	4,646,233	4.72%
04. Länsförsäkringar Funds	4,288,111	4.35%
05. 4th Swedish National Pension Fund	3,754,915	3.81%
06. SEB Funds	2,539,300	2.58%
07. Carnegie Funds	2,000,000	2.03%
08. Avanza Pension Insurance	1,779,074	1.81%
09. Danske Invest Sweden Funds	1,847,000	1.80%
10. Fidelity Funds	1,126,900	1.14%
10 largest owners	58,052,533	58.95%
Other foreign owners and nominees	23,544,043	23.91%
Other Swedish owners and nominees	16,873,624	17.14%
Total	98,470,200	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

The Vostok Nafta Group

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 16,800 shareholders as at the end of December 2011.

Group structure

As of December 31, 2011, the Vostok Nafta Group consisted of the Bermudian parent company Vostok Nafta Investment Ltd; one wholly-owned Bermudian subsidiary, Vostok Holding Ltd; three wholly-owned Cypriot subsidiaries, Vostok Komi (Cyprus) Limited, Dodomar Ventures Limited and Freemosa Holdings Limited; one wholly-owned Russian subsidiary, ZAO Baikal Energy; and one wholly-owned Swedish subsidiary, Vostok Nafta Sverige AB.

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

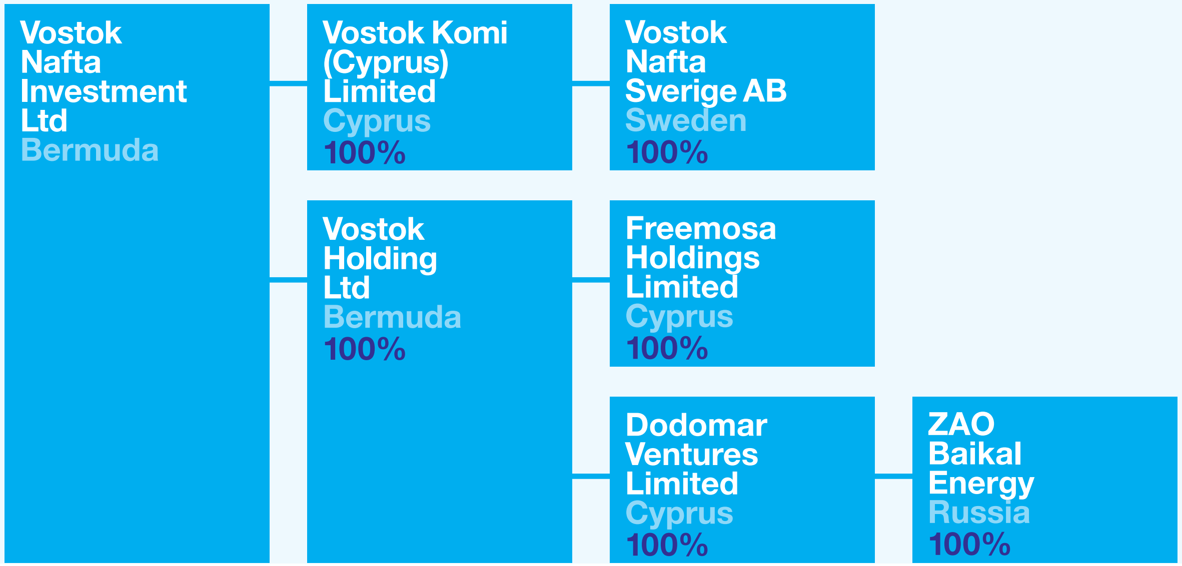
Operating policy

Business concept

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

Mission

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



Strategy
The Company shall create value through professional investing activities, building on a structured process for continuous analysis of both current and prospective acquisitions. 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)	2011	2010	2009	2008	2007
Result from financial assets	–141,614	135,093	141,582	–550,917	282,157
Other operating income	28,186	11,068	10,021	10,673	10,355
Total income	–113,429	146,160	151,603	–540,244	292,512
Operating expenses	–5,843	–5,733	–5,897	–8,716	–5,705
Dividend withholding tax expenses	–4,170	–1,593	–1,367	–1,381	–1,499
Other operating expenses	–521	–1,176	–	–15	–
Operating result	–123,963	137,660	144,339	–550,356	285,309
Net financial items	–276	798	–4,501	–6,988	–2,155
Result before tax	–124,239	138,458	139,838	–557,344	283,154
Tax	137	–98	8	956	–389
Net result of the year	–124,102	138,359	139,846	–556,388	282,765

Balance sheet in brief

(Expressed in USD thousand)	Dec 31, 2011	Dec 31, 2010	Dec 31, 2009	Dec 31, 2008	Dec 31, 2007
Non current fixed assets	36	675	1,948	510	545
Non current financial assets	454,321	605,783	472,402	266,874	822,394
Current financial assets	–	9,283	3,180	27,847	4,197
Cash and cash equivalents	37,665	9,448	8,935	29,198	27,528
Other current receivables	1,772	1,974	2,580	2,727	4,568
Total assets	493,794	627,164	489,045	327,156	859,232
Equity	492,078	625,430	487,624	247,893	803,954
Deferred tax liability	–	–	–	19	1,358
Current tax liability	424	504	516	498	106
Other current liabilities	1,293	1,229	905	78,746	53,814
Total equity and liabilities	493,794	627,164	489,045	327,156	859,232

Financial summary

Cash flow in brief

(Expressed in USD thousand)	2011	2010	2009	2008	2007
Cash flow from/used in operating activities	37,769	–714	–6,199	–22,607	–162,982
Cash flow from/used in investing activities	40	–24	36	–146	–300
Cash flow used in/from financing activities	–9,180	326	–10,856	26,119	185,673
Cash flow for the period	28,630	–411	–17,019	3,366	22,391
Exchange rate differences in cash and cash equivalents	–414	924	–3,244	–1,696	13
Cash and cash equivalents at the beginning of the period	9,448	8,935	29,198	27,528	5,124
Cash and cash equivalents at the end of the period	37,665	9,448	8,935	29,198	27,528

Key ratios

(Expressed in USD thousand if not stated otherwise)	2011	2010	2009	2008	2007
Equity ratio, percent	99.65	99.72	99.71	75.77	93.57
Return on equity, percent	–22.21	24.86	38.03	–105.79	47.56
Return on capital employed, percent	–22.21	24.86	34.68	–97.23	46.04
Debt/equity ratio, multiple	–	–	–	31.42	6.21
Interest coverage ratio, multiple	–	–	76	–81	77
Net asset value, MUSD	492	625	488	248	804
SEK/USD	6.9234	6.8025	7.1568	7.8644	6.4683
Net asset value, MSEK	3,407	4,254	3,490	1,950	5,200
Net asset value development in USD, percent	–21	28	97	–69	109
RTS Index	1,382	1,770	1,445	632	2,291
Development RTS Index, percent	–22	23	129	–72	19
Dividends	–	–	–	–	–
Dividend/share	–	–	–	–	–
Yield, percent	–	–	–	–	–

Share data

Earnings per share, USD	neg.	1.37	1.40	neg.	5.24
Diluted earnings per share, USD	neg.	1.37	1.40	neg.	5.24
Net asset value per share, USD	4.93	6.19	4.83	5.39	17.47
Net asset value per share, SEK	34.12	42.12	34.56	42.36	113.00
Number of shares outstanding at year-end	98,470,200	100,990,975	100,990,975	46,020,901	46,020,901
Weighted average number of shares outstanding	100,705,275	100,990,975	100,052,565	53,936,496	53,936,496
– diluted	101,400,275	100,990,975	100,052,565	53,936,496	53,936,496

Employees

Average number of employees during the period	8	13	16	15	9

Financial summary

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 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 293 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 32 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, Gateway Storage Company Limited 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 including pension benefits: USD 660 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 based on the Swedish ITP standard.

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 23 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, investment 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 boards of Etrion Corp and Gateway Storage Company Limited. Holdings in Vostok Nafta: none. Salary and remuneration: USD 37 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. Professional and educational background: Co-founder and former Man-

Board, management and auditors

aging 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: 669,251 depository receipts. Salary and remuneration: USD 27 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 37 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: 53,000 depository receipts. Salary and remuneration: USD 27 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, 2011–December 31, 2011.

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, 2011, the Vostok Nafta Group consisted of the Bermudian parent company Vostok Nafta Investment Ltd; one wholly-owned Bermudian subsidiary, Vostok Holding Ltd; three wholly-owned Cypriot subsidiaries, Vostok Komi (Cyprus) Limited, Dodomar Ventures Limited and Freemosa Holdings Limited; one wholly-owned Russian subsidiary, ZAO Baikal Energy; and one wholly-owned Swedish subsidiary, Vostok Nafta Sverige AB. 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 –53.88 (106.67) mln. The result from investments in associated companies was USD –87.96 (20.42) mln. Result from loan receivables was USD 0.22 (8.01) mln. Dividend income, net of withholding tax expenses, was USD 23.72 (9.06) mln.

Net operating expenses (defined as operating expenses less other operating income) amounted to USD –5.55 (–5.32) mln.

Net financial items were USD –0.28 (0.80) mln.

The net result for the year was USD –124.10 (138.36) mln.

Total shareholders' equity amounted to USD 492.08 mln on December 31, 2011 (December 31, 2010: 625.43).

Portfolio performance

During the year January 1, 2011–December 31, 2011, Vostok Nafta's net asset value per share has decreased by 21.32%. During the same period the Russian RTS index decreased by 21.94% in USD terms.

During the year January 1, 2011–December 31, 2011, the net asset value (NAV) has decreased from USD 625.43 mln to USD 492.08 mln.

During the year January 1, 2011–December 31, 2011, gross investments in financial assets were USD 102.94 (113.67) mln and proceeds from sales were USD 116.75 (88.57) mln. As at December 31, 2011, Vostok Nafta's three biggest investments are TNK-BP Holding (24.2%), Black Earth Farming (13.5%), and Tinkoff Credit Systems (TCS: 10.3%).

Major events of the year

During 2011, the Company has repurchased 2,520,775 SDRs. For further information, see section *Share data* below.

Subsequent events

Since January 1, 2012 the Company has repurchased an additional 3,065,543 SDRs. For further information, see section *Share data* below.

Portfolio transactions

Major portfolio events of the year include partial liquidation of holdings in Alrosa (USD 21.5 mln) and Transneft (USD 18.5 mln), as well as complete liquidation of the group's holdings in RusHydro (USD 7.4 mln), Ufaneftekhim (USD 5.2 mln) and Ufa Oil Refinery (USD 14.1 mln). New positions were taken up in Acron (USD 12.3 mln) and Inter RAO (USD 13.7 mln). Also in 2011, Vostok Nafta saw its stake in RusForest reduced from 42.8 percent to 29.4 percent as a result of RusForest's acquisition of Arkhangelsk-based Nord Timber Group in exchange for newly issued RusForest shares.

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.

Pursuant to a resolution by the Board of Directors on December 6, 2011, Vostok Nafta repurchased and cancelled 2,520,775 shares during 2011. As a result, at the end of December 2011, the number of outstanding shares in the company as per December 31, 2011 was 98,470,200, with a par value of USD 1 per share.

During 2012 the Company has continued to repurchase shares under the 2011 program and has repurchased and cancelled an additional 3,065,543 shares up to and including the date of this report, resulting in a total number of 95,404,657 outstanding shares in the Company as per the date hereof.

All shares carry one vote each. The Vostok Nafta

Administration report

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 one resolution has 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.

As per the resolution of the 2011 AGM, a nomination committee has been established to make recommendations to the AGM 2012 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 2012.

The Nomination Committee has the following members: Ian H. Lundin, appointed by the Lundin family; Leif Törnvall, appointed by Alecta Pension Insurance; and Albert Häggström, appointed by Alfred Berg/Länsförsäkringar.

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 4, 2011, shall continue to apply. The principles adopted are as follows: 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 one person employed in Russia.

Treatment of retained earnings
The group's total retained earnings amount to USD 208,226 thousand.

The Board of Directors and the Managing Director propose that the retained earnings of the parent company USD 206,308 thousand, which include the year's loss of USD 7,844 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.

The board of directors and the managing director declare that the consolidated financial statements have been prepared in accordance with IFRS and give a true and fair view of the Group's financial position and results of operations.

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

Stockholm, March 29, 2012

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	2011	2010
Result from financial assets at fair value through profit or loss	5,16	–53,876	106,665
Result from investments in associated companies	6,17	–87,956	20,422
Result from loan receivables 1	8,18,19	218	8,005
Dividend income	7	27,893	10,653
Other operating income	9,29	293	415
Total operating income		–113,429	146,160
Operating expenses	10,28,29	–5,843	–5,733
Dividend withholding tax expenses	7	–4,170	–1,593
Other operating expenses		–521	–1,176
Operating result		–123,963	137,660
Financial income and expenses			
Interest income		103	16
Interest expense	23	–	–7
Currency exchange gains/losses, net		–417	682
Other financial income		37	107
Net financial items		–276	798
Result before tax		–124,239	138,458
Taxation	11	137	–98
Net result of the year		–124,102	138,359
Earnings per share (in USD)	12	neg.	1.37
Diluted earnings per share (in USD)	12	neg.	1.37

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)	2011	2010
Net result of the year	–124,102	138,359
Other comprehensive income for the year		
Currency translation differences	–83	–882
Total other comprehensive income for the year	–83	–882
Total comprehensive income for the year	–124,185	137,477

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, 2011	Dec 31, 2010
NON CURRENT ASSETS			
Tangible non current assets			
Property, plant and equipment	13	36	133
Investment property	14	–	543
Total tangible non current assets		36	675
Financial non current assets			
Financial assets at fair value through profit or loss	15,16	324,768	401,547
Investment in associated companies	15,17	120,416	199,272
Loan receivables	15,18,29	9,102	4,902
Deferred tax asset	11	35	61
Total financial non current assets		454,321	605,783
CURRENT ASSETS			
Cash and cash equivalents	15,21	37,665	9,448
Loan receivables	19	–	9,283
Tax receivables		325	186
Other current receivables	20	1,447	1,789
Total current assets		39,438	20,706
TOTAL ASSETS		493,794	627,164
SHAREHOLDERS' EQUITY (including net result for the financial year)	22	492,078	625,430
CURRENT LIABILITIES			
Non-interest bearing current liabilities			
Liabilities to related parties	29	–	200
Tax payables		424	504
Unsettled trades		–	406
Other current liabilities	24	907	110
Accrued expenses		386	513
Total current liabilities		1,717	1,733
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		493,794	627,164

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, 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
Balance at January 1, 2011	100,991	192,029	–924	333,334	625,430
Net result for the year					
January 1, 2011 to December 31, 2011	–	–	–	–124,102	–124,102
Other comprehensive income					
for the year:					
Currency translation differences	–	–	–83	–	–83
Total comprehensive income for the year January 1, 2011 to December 31, 2011	–	–	–83	–124,102	–124,185
Transactions with owners:					
Employees share option scheme:					
– value of employee services	–	12	–	–	12
Buy back of own shares	–2,521	–6,659	–	–	–9,180
	–2,521	–6,647	–	–	–9,168
Balance at December 31, 2011	98,470	185,382	–1,007	209,232	492,078

Cash flow statements – Group

(Expressed in USD thousands)	2011	2010
OPERATING ACTIVITES		
Result before tax	–124,239	138,458
Adjustment for:		
Interest income	–103	–16
Interest expenses	–	7
Currency exchange gains/-losses	417	–682
Depreciations and write downs	101	1,292
Result from financial assets at fair value through profit or loss	53,876	–106,665
Result from investments in associated companies	87,956	–20,422
Result from loan receivables	–1,178	–8,005
Dividend income	–27,893	–10,653
Other non-cash items	1,559	3
Change in current receivables	266	510
Change in current liabilities	48	411
Net cash used in operating activities	–9,190	–5,762
Investments in financial assets	–102,942	–113,672
Sales of financial assets	116,745	88,572
Increase in loan receivables	5,312	17,615
Dividend received	27,893	10,653
Interest received	103	2,003
Interest paid	–	–7
Tax paid	–151	–115
Net cash flow from/used in operating activities	37,769	–714
INVESTING ACTIVITIES		
Investments in office equipment	–	–24
Disposal, Group companies	40	–
Net cash flow from/used in investing activities	40	–24
FINANCING ACTIVITIES		
Proceeds from issue of warrants	–	326
Buy back of own shares	–9,180	–
Net cash flow used in/from financing activities	–9,180	326
Change in cash and cash equivalents	28,630	–411
Cash and cash equivalents at beginning of the year	9,448	8,935
Exchange gains/losses on cash and cash equivalents	–414	924
Cash and cash equivalents at end of year	37,665	9,448

Key financial ratios – Group

	2011	2010
Return on capital employed, % (01)	–22.21	24.86
Equity ratio, % (02)	99.65	99.72
Shareholders' equity/share, USD (03)	4.93	6.19
Earnings/share, USD (04)	neg.	1.37
Diluted earnings/share, USD (05)	neg.	1.37
Net asset value/share, USD (06)	4.93	6.19
Adjusted weighted average number of shares for the year *	100,705,275	100,990,975
Adjusted weighted average number of shares for the year (fully diluted)	101,400,275	100,990,975
Number of shares at balance sheet date	98,470,200	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.

(Expressed in USD thousands)	Note	2011	2010
Operating expenses	10	–4,523	–5,004
Write-down of shares in subsidiaries	27	–42,403	–
Operating result		**–46,926**	**–5,004**
Financial income and expenses			
Interest income	29	16,662	24,453
Currency exchange gains/losses, net		146	–10
Dividends income from Group companies		22,274	–
Net financial items		**39,082**	**24,443**
Net result of the year		**–7,844**	**19,439**

(Expressed in USD thousands)	2011	2010
Net result of the year	**–7,844**	**19,439**
Other comprehensive income for the year		
Currency translation differences	–	–
Total other comprehensive income for the year	**–**	**–**
Total comprehensive income for the year	**–7,844**	**19,439**

Income statement – Parent

Statement of comprehensive income

Balance sheet – Parent

(Expressed in USD thousands)	Note	Dec 31, 2011	Dec 31, 2010
NON CURRENT ASSETS			
Financial non current assets			
Shares in subsidiaries	27	184,412	246,591
Receivables from Group companies	29	307,731	261,302
Total financial non current assets		492,143	507,893
CURRENT ASSETS			
Cash and cash equivalents		71	39
Other current receivables	20	83	183
Total current assets		154	222
TOTAL ASSETS		492,297	508,115
SHAREHOLDERS' EQUITY (including net result for the financial year)	22	490,160	507,172
CURRENT LIABILITIES			
Non-interest bearing current liabilities			
Liabilities to Group companies	29	1,833	619
Other current liabilities	24	8	54
Accrued expenses		297	270
Total current liabilities		2,137	943
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		492,297	508,115

Statement of Changes in Equity – Parent

(Expressed in USD thousands)	Share Capital	Additional paid in capital	Retained earnings	Total
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
Balance at January 1, 2011	100,991	192,029	214,152	507,172
Net result for the year January 1, 2011 to December 31, 2011	–	–	–7,844	–7,844
Other comprehensive income for the year:				
Currency translation differences	–	–	–	–
Total comprehensive income for the year January 1, 2011 to December 31, 2011	–	–	–7,844	–7,844
Transactions with owners:				
Employees share option scheme:				
– value of employee services	–	12	–	12
Buy back of own shares	–2,521	–6,659	–	–9,180
	–2,521	–6,647	–	–9,168
Balance at December 31, 2011	98,470	185,382	206,308	490,160

(Expressed in USD thousand unless indicated otherwise)

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 29, 2012.

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, 2011. 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

There are no IFRAs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2011 that would be expected to have a material impact on the group.

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 after January 1, 2013 or later periods, but the group has not early adopted them:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after January 1, 2013.

IFRS 10, 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The group is yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after January 1, 2013.

IFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The group is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after January 1, 2013.

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The group is yet to assess IFRS13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on or after January 1, 2013.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the group.

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. The group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where the size of the group's voting rights relative to the size and dispersion of holdings of other shareholders give the group the power to govern the financial and operating policies, etc. The group does not consider having control where it does not have more than 50% of the voting power. 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, 2011, and December 31, 2010, 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 current 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 which is based on Swedish ITP-standards. The Group has no further obligations once the contributions have been paid. The contributions are reported as a cost recognised 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, 2011, 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 14.43 mln higher (2010: +23.36), mainly as a result of foreign exchange gains on translation of SEK-denominated investments in associated companies. Profit is less sensitive to movement in SEK/USD exchange rates in 2011 than 2010 because of the decrease in SEK-denominated financial assets.

At December 31, 2011, 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 0.17 mln lower (2010: –1.48), mainly as a result of foreign exchange gains on translation of RUB-denominated other current receivables. Profit is less sensitive to movement in RUB/USD exchange rates in 2011 than 2010 because of the decrease in RUB-denominated assets.

At December 31, 2011, 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 0.80 mln lower (2010: –1.85), 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% decrease in the price of the quoted shares in the Group's portfolio at December 31, 2011 would have affected post-tax profit and equity by approximately USD 61.01 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, 2011 approximately 17% 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, 2011	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Other current liabilities	907	–	–	–	–

At December 31, 2010	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Other current liabilities	110	–	–	–	–

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 take-overs, 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, 2011.

	Level 1	Level 2	Level 3	Total balance
Financial assets at fair value through profit or loss	278,217	–	46,551	324,768
Investments in associated companies	82,626	–	37,790	120,416
Non current loan receivables	–	9,102	–	9,102
Current loan receivables	–	–	–	–
Total assets	**360,843**	**9,102**	**84,341**	**454,286**

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, 2011.

	Financial assets at fair value through profit or loss	Investments in associated companies	Total
Opening balance	44,938	2,506	47,444
Gains or losses for the period recognized in profit or loss – "Result from financial assets at fair value through profit or loss"	1,613	–	1,613
Gains or losses for the period recognized in profit or loss – "Result from investments in associated companies"	–	–2,466	–2,466
Transfers into level 3	–	37,750	37,750
Closing balance	**46,551**	**37,790**	**84,341**

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 may 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)

The valuation of the shares in TCS as per December 31, 2011, has been calculated on the basis of the valuation made mid-2011 when the price was settled for the shares sold at the value of USD 46.5 million corresponding to Vostok Nafta's fully diluted share of 15.5%.

In addition to this, a comparable multiple valuation has been conducted taking into account the development of both external market conditions as well as company specific factors. Taking into consideration the current uncertainty in the financial markets and how much these multiples affect the valuation of the company, our view is that the most appropriate but conservative valuation is the one that was made in connection with the transaction earlier in 2011.

Vosvik (Avito and Yellow Pages)

Vosvik's major holding, Avito, is per December 31, 2011 valued based on a transaction that took place in mid-2011 when a total sum of SEK 100,000,000 was contributed. The valuation was made by GP Bullhound, a leading investment banking firm with a strong domain expertise in the areas of Internet and Digital Media, Software and Services, Cleantech and Hardware. The transaction resulted in a post-money valuation of total SEK 1 bn for 100% of share capital (USD 158,730,159 at fixed SEK/USD exchange rate of 6.3). Vostok Nafta's share of 23.8% is accordingly valued at approximately USD 37.7 million.

The validity of valuations based on a transaction is inevitably eroded over time, since the price at which the investment was made reflects the conditions that existed on the transaction date. However, since there are no exactly comparable companies or transactions from which to infer value our most reasonable estimations of fair value are the ones made in connection with the latest transactions earlier in 2011. Even though the valuations are based on observable data, we have chosen to classify Vosvik as a level 3 investment. At each reporting date, we assess whether changes or events subsequent to the relevant transaction would imply a change in the investment's fair value and if so, we will adjust our valuation accordingly.

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 of December 31, 2011, the Vostok Nafta Group consisted of the Bermudian parent company Vostok Nafta Investment Ltd; one wholly-owned Bermudian subsidiary, Vostok Holding Ltd; three wholly-owned Cypriot subsidiaries, Vostok Komi (Cyprus) Limited, Dodomar Ventures Limited and Freemosa Holdings Limited; one wholly-owned Russian subsidiary, ZAO Baikal Energy; and one wholly-owned Swedish subsidiary, Vostok Nafta Sverige AB.

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 2011	Group 2010
Proceeds from sale of financial assets at fair value through profit or loss	116,745	85,845
Carrying value of sold financial assets at fair value through profit or loss	–100,318	–92,017
Change in fair value of undisposed financial assets at fair value through profit or loss	–70,303	112,837
Result from financial assets at fair value through profit or loss	**–53,876**	**106,665**

During 2011 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 2011	Group 2010
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	–87,956	25,335
Result from investments in associated companies	**–87,956**	**20,422**

During 2011 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 2011	Group 2010
Dividend income recognized		
in the income statement	27,893	10,653
whereof unsettled at balance sheet date	–	–
Tax withheld on dividends	–4,170	–1,593
Net proceeds from dividends, net of tax,		
recognized in the income statement		
during the year	23,723	9,060

Note 8
Result from loan receivables

	Group 2011	Group 2010
Interest income	760	8,835
Impairments	–960	–
Foreign exchange rate gains/losses	417	–830
Total	218	8,005

Note 9
Other operating income

	Group 2011	Group 2010
Reimbursed expenses (see also Note 29)	181	99
Rental income (see also Note 29)	93	88
Other	19	228
Total	293	415

Note 10
Operating expenses by nature

	Group 2011	Group 2010	Parent Company 2011	Parent Company 2010
Employee benefit				
expense (Note 28)	2,299	2,695	259	160
Depreciation and write down				
of property, plant and				
equipment	101	1,292	–	–
Operating lease expenses	324	363	–	–
Other expenses	3,120	1,382	4,264	4,844
Total operating expenses	5,843	5,733	4,523	5,004

Lease rentals amounting to TUSD 324 (2010: 363) relating to rent of office space in Stockholm and Moscow 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 were subject to 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 2011 are subject to Russian income tax at the rate of 20% (2010: 20%).

During 2011, the Swedish subsidiary's profits are subject to Swedish income tax at the rate of 26.3% (2010: 26.3%).

Income tax expense

	Group 2011	Group 2010
Current tax	137	–52
Deferred tax	–	–47
Taxation	137	–98

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 2011	Group 2010
Result before tax	–124,239	138,458
Tax calculated at domestic tax rates applicable		
to profits in the respective countries	–15,173	11,492
Tax effects of:		
– Income not subject to tax	–16,888	–24,245
– Expenses not deductible for tax purposes	30,551	12,630
– Adjustment in respect of prior years	–55	–292
– Utilisation of previously unrecognised		
tax losses	–210	–27
– Tax losses for which no deferred income tax		
asset was recognised	1,638	539
Tax charge	–137	98

The weighted average applicable tax rate was 12% (2010: 8%). The increase is caused by a change in the profitability of the group's subsidiaries in the respective countries. Tax rates were unchanged in 2011 compared with 2010.

Deferred tax

	Group Dec 31, 2011	Group Dec 31, 2010
Deferred tax assets relating to		
– tax losses	35	61
Total	35	61

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

	Group 2011	Group 2010
Beginning of the year	61	109
Acquired deferred tax asset	–	–
Disposal of subsidiaries	–24	–
Charged to income statement	–	–47
Currency translation differences	–2	–1
End of the year	35	61

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 0.36 mln (2010: 0.64) in respect of losses amounting to USD 3.55 mln (2010: 6.40) that can be carried forward against future taxable income indefinitely.

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.

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.

	2011	2010
Profit attributable to the equity holders of the company	–124,102	138,359
Weighted average number of ordinary shares on issue	100,705,275	100,990,975
Earnings per share, basic	neg.	1.37
Adjustment for dilution effect of incentive options	695,000	–
Weighted average number of ordinary shares for diluted	101,400,275	100,990,975
Earnings per share, diluted	neg.	1.37

Note 13
Property, plant and equipment

Group	
At January 1, 2010	
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
Write downs	–
Depreciation charge	–117
Exchange differences	–3
Closing net book amount	133
At December 31, 2010	
Cost or valuation	692
Accumulated depreciation	–560
Net book amount	133
Year ended December 31, 2011	
Opening net book amount	133
Additions	–
Disposals	–
Write downs	–
Depreciation charge	–101
Exchange differences	4
Closing net book amount	36
At December 31, 2011	
Cost or valuation	661
Accumulated depreciation	–625
Net book amount	36

Depreciations and write downs amounting to net USD –101 thousand (–117) for the Vostok Nafta Group have recognized among operating expenses in the income statement (see also Note 10).

Note 14
Investment property

Group	2011	2010
Year ended December 31		
At the beginning of the year	543	1,722
Disposals (Note 30)	–543	–
Fair value adjustments	–	–1,176
Effect of translation to presentation currency	–	–3
At the end of the year	–	543

Note 15
Financial instruments by category

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

December 31, 2011 – Group

Assets as per balance sheet	Loans and receivables	Assets at fair value through profit and loss – designated	Total
Financial assets at fair value through profit or loss	–	324,768	324,768
Investments in associates	–	120,416	120,416
Loan receivables	9,102	–	9,102
Cash and cash equivalents	37,665	–	37,665
Total	46,767	445,184	491,951

December 31, 2010 – Group

Assets as per balance sheet	Loans and receivables	Assets at fair value through 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

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

	Group Dec 31, 2011	Group Dec 31, 2010
Beginning of the year	401,547	301,607
Additions	93,842	80,125
Reclassifications	–	–
Disposals	–100,318	–92,017
Change in fair value	–70,303	111,832
End of the year	324,768	401,547

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

– Tinkoff Credit Systems (Egidaco Investments PLC): The valuation of the shares in TCS as per December 31, 2011, has been calculated on the basis of the valuation made mid-2011 when the price was settled for the shares sold to Tradek Holding at the value of USD 46.5 million corresponding to Vostok Nafta's fully diluted share of 15.5%. For further information, see Note 3 – Fair value Estimation.

Security/Company name	Number of shares held Dec 31, 2011	Fair value (USD), Dec 31, 2011	Ownership share %	Number of shares held Dec 31, 2010	Fair value (USD), Dec 31, 2010	Ownership share %
Group						
Acron	266,760	11,023,321	0.56%	–	–	–
Agrowill Group	1,765,000	323,802	2.47%	1,765,000	607,279	2.47%
Alrosa	15,250,000	14,487,500	0.21%	1,261	18,158,400	0.46%
Bekabadcement	3,654	657,720	6.53%	3,654	657,720	6.53%
Caspian Services	5,364,850	434,553	10.41%	5,364,850	643,782	10.27%
Dakor	272,106	2,812,383	4.76%	272,106	2,880,704	4.76%
Tinkoff Credit Systems (Egidaco), equity	1,006,513	46,551,014	15.5%	1,073,174	43,430,866	17.08%
Tinkoff Credit Systems (Egidaco), bonds		9,333,624			–	
Eksportfinans, bonds		10,091,872			–	
Fortress Minerals Corp	300,000	1,103,974	2.00%	300,000	1,277,681	2.02%
Gaisky GOK	16,434	4,520,993	2.66%	31,434	12,259,260	5.09%
Gornozavodsk Cement	63,500	17,462,500	8.19%	39,000	9,750,000	5.03%
Inter RAO	11,509,294,872	12,386,683	0.12%	–	–	–
Kamkabel	1,600,000	160,000	4.12%	1,600,000	160,000	4.12%
Kherson Oil Refinery	–	–	–	5,789,903	7,261	4.40%
Kuzbass Fuel Company	3,500,000	15,750,000	3.53%	3,500,000	24,045,000	3.53%
Kuzbassrazrezugol	134,352,681	22,839,956	2.20%	133,752,681	51,494,782	2.18%
Kyrgyzenergo	2,618,241	168,688	0.27%	2,618,241	168,688	0.27%
Novoil Ord	–	–	–	1,470,000	1,389,150	0.19%
Podolsky Cement	85,332	106,665	0.01%	85,332	53,503	0.01%
Poltava GOK	3,004,498	6,284,419	1.57%	3,104,498	16,231,882	1.63%
Priargunsky Ind Ord	111,685	11,168,500	6.12%	106,242	24,329,418	5.82%
Priargunsky Ind Pref	11,709	585,450	0.52%	11,709	1,276,281	0.52%
RusForest, bonds		2,446,790			–	
RusHydro ADR	–	–	–	1,459,734	7,955,550	0.05%
RusHydro Local shares	–	–	–	34,821,499	1,862,950	0.01%
Shalkiya Zinc GDR	1,442,400	100,968	2.55%	1,442,400	158,664	2.55%
Steppe Cement Ltd	13,454,303	6,903,632	7.52%	11,804,303	9,293,340	6.59%
TKS Concrete	–	–	–	375	1,506,750	10.00%
TKS Real Estate (Waymore Holding)	623,800	515,789	5.54%	623,800	990,597	5.54%
TNK-BP Holding Ord	15,760,237	40,590,396	0.11%	16,502,237	43,730,928	0.11%
TNK-BP Holding Pref	31,053,600	69,575,378	6.90%	30,953,600	75,526,784	6.88%
Transneft Pref	7,730	11,925,906	0.50%	19,730	24,330,215	1.27%
Tuimazy Concrete Mixers	1,215,000	2,758,050	14.78%	1,215,000	5,224,500	14.78%
Ufa Refinery	–	–	–	10,300,000	14,729,000	1.89%
Ufaneftekhim	–	–	–	1,165,000	5,300,750	0.42%
Varyoganneftegaz Pref	154,334	1,697,674	0.64%	108,500	2,115,750	0.45%
Total non current financial assets at fair value through profit or loss		324,768,200			401,547,435	

Notes to the financial statements

Note 17
Investment in associated companies

	Group Dec 31, 2011	Group Dec 31, 2010
Beginning of the year	199,272	148,084
Additions	9,100	33,547
Reclassifications	–	–
Disposals	–	–7,694
Change in fair value or share of income	–87,956	25,335
End of the year	120,416	199,272

The shares specified in the table to the right 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: In March 2011, Vostok Nafta exercised the 121,300,900 warrants in Clean Tech East Holding AB received in the rights issue in the latter company conducted in May 2010. As a result, Vostok Nafta's shareholding increased to 406,156,995 shares, or 44.3 percent of the shares in Clean Tech East Holding AB.

Name	Number of shares held	Interest held, percent	Fair value	Revenues Jan 1, 2011–Dec 31, 2011	Profit/Loss Jan 1, 2011–Dec 31, 2011	Assets Dec 31, 2011	Liabilities Dec 31, 2011
2011							
Black Earth Farming Ltd	30,888,704	24.8	61,346	USD 64.2 mln	USD –41.7 mln	USD 315.4 mln	USD 120.0 mln
Clean Tech East Holding AB, shares	406,156,995	44.3	587		SEK –94.7 mln	15,104	9,329
Vosvik AB (Avito and Kontakt East)	50,000	50.0	37,790	n/a	n/a	n/a	n/a
RusForest AB, shares	28,165,209	29.4	20,747	SEK 431.8 mln	SEK –288.7 mln	SEK 2,077.7 mln	SEK 1,011.3 mln
RusForest AB, issued call options			–54				
Total			120,416				

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	USD 46.9 mln	USD –42.5 mln	USD 366.1 mln	USD 120.6 mln
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 AB, issued call options			–54				
Total			199,272				

Note 18
Non-current loan receivables

	Group 2011	Group 2010
Beginning of the year	4,902	22,602
Additions	–	–
Interest income	68	3,073
Reclassifications	4,773	–20,240
Exchange differences	290	–533
Write offs	–931	–
End of the year	9,102	4,902

Counterparty	Credit rating Dec 31, 2011	Nominal value Dec 31, 2011	Nominal value Dec 31, 2010	Carrying value Dec 31, 2011	Carrying value Dec 31, 2010	Terms of interest	Maturity
Clean Tech East Holding AB	–	931	3,606	–	3,633	0%	
RusForest (Cyprus) Limited	–	–	1,078	–	1,068	8%	–
RusForest AB	–	8,902	–	8,902	–	11.5%	May 2014
Loans to personnel	–	1,250	1,250	200	200	7%	–
Total		11,084	5,934	9,102	4,902		

During the year, RusForest (Cyprus) Ltd has fully repaid its loan granted in 2009.

In October 2011, Vostok Nafta granted a loan to Clean Tech East Holding AB in the amount of SEK 41 mln.

In December 2011, RusForest AB took over Clean Tech East Holding AB's debts to Vostok Nafta (except interest on two loans by SEK 10 mln each) as part of acquisition of Clean Tech East Holding AB's subsidiaries.

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, 2011, the outstanding loans including accrued interest amounted to nominally USD 1,250 thousand.

Note 19
Current loan receivables

	Group 2011	Group 2010
Beginning of the year	9,283	3,180
Additions	7,266	12,838
Repayments	–12,577	–30,437
Reclassifications	–4,773	21,576
Interest income	692	2,422
Write-offs	–18	–
Exchange differences	127	–296
End of the year	0	9,283

Counterparty	Credit rating Dec 31, 2011	Nominal value Dec 31, 2011	Nominal value Dec 31, 2010	Carrying value Dec 31, 2011	Carrying value Dec 31, 2010	Terms of interest	Maturity
Tinkoff Credit Systems Bank	–	–	9,267	–	9,267		
Other short term receivables	–	–	17	–	17		
Total		–	9,283	–	9,283		

During the year, Closed Joint Stock Company Tinkoff Credit Systems Bank (TCS) has fully repaid its loan.
During the financial year, several loans were reclassified from current to non-current loan receivables and vice versa.

Note 20
Other current receivables

	Group Dec 31, 2011	Group Dec 31, 2010	Parent Company Dec 31, 2011	Parent Company Dec 31, 2010
Prepayments and accrued income	258	395	83	183
Prepayments for geological survey costs at ZAO Baikal Energy	1,139	1,355	–	–
Sundry debtors	51	39	–	–
Total	1,447	1,789	83	183

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, 2011	Group Dec 31, 2010
Cash and cash equivalents	37,665	9,448
Total	37,665	9,448

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, 2010	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
Repurchase of own shares,			
December 2011	–2,520,775	–2,521	–6,659
Employees share option scheme:			
– value of employee services	–	–	12
At December 31, 2011	98,470,200	98,470	185,382

On December 7, 2011, Vostok Nafta informed that the Company's Board of Directors had resolved to mandate the management of Vostok Nafta to repurchase Swedish Depository Receipts (SDRs) of the Company. The mandate from the Board of Directors is valid until the next AGM of Vostok Nafta and stipulates that a maximum of 10 percent of the SDRs that are outstanding at the time of the resolution can be bought back. The SDRs that are repurchased under the mandate and the underlying shares are cancelled. For more information, please see press release dated December 7, 2011.

During 2011, Vostok Nafta repurchased 2,520,775 SDRs.

There are currently 995,000 (2010: 985,000) ordinary shares available under the employee share option scheme. Each option entitles the holder to one new share (SDR) in Vostok Nafta Investment Ltd. For more information on the options, see Note 28.

Note 23
Borrowings

The Company has not used any credit facilities under 2011 or 2010.

Note 24
Other current liabilities

	Group Dec 31, 2011	Group Dec 31, 2010	Parent Company Dec 31, 2011	Parent Company Dec 31, 2010
Other current liabilities	124	110	8	54
Accrued VAT liability	783	–	–	–
Total	907	110	8	54

Note 25
Financial guarantees

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 Bohusman AB subsequently went into liquidation. Pursuant to a settlement reached in November 2011 between Vostok Komi (Cyprus) Limited, Clean Tech East Holding AB and the liquidator of Bohusman AB, the guarantee undertaking was dissolved.

Note 26
Pledged assets and contingent liabilities

Neither the Group nor the Company had any pledged assets or contingent liabilities as per December 31, 2011 or as per December 31, 2010.

Note 27
Shares in subsidiaries

Parent Company	Country	Number of shares	Share of capital and votes, %	Book value Dec 31, 2011 USD thousand	Book value Dec 31, 2010 USD thousand
Vostok Komi					
(Cyprus) Limited	Cyprus	150,000	100	184,402	226,805
Vostok Holding Ltd	Bermuda	10,000	100	10	19,786
Other subsidiaries of the Group					
Vostok Nafta					
Sverige AB	Sweden	1,000	100		
Dodomar Ventures					
Limited	Cyprus	2,000	100		
Freemosa Holdings					
Limited	Cyprus	2,000	100		
ZAO Baikal Energy	Russia	20,000*	100		
Total				184,412	246,591

* 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 contributions to the capital of Vostok Holding Ltd in the total amount of USD 19.73 mln.

During the period ended December 31, 2011, Vostok Holding Ltd repaid to the Company previously granted shareholders contributions in the total amount of USD 19.78 mln.

During the period ended December 31, 2011, the Company impaired the value of shares in its subsidiary Vostok Komi (Cyprus) Limited up to the value of net assets of the subsidiary. The total write down amounted to USD 42.40 mln.

Note 28
Employee benefit expense

	Group 2011	Group 2010	Parent Company 2011	Parent Company 2010
Wages and salaries	1,578	1,892	248	151
Social security costs	466	553	10	6
Share based compensations	2	3	2	3
Pensions costs	250	236	–	–
Other employee benefit expenses	4	11	–	–
Total employee benefit expense	**2,299**	**2,695**	**259**	**160**

	Group 2011	Group 2010	Parent Company 2011	Parent Company 2010
Salaries and other remunerations to the management and the Board of Directors of the parent and its subsidiaries	1,323	1,385	233	131
Salaries to other employees	510	758	15	20
Total salaries	**1,833**	**2,143**	**248**	**151**

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 three months, 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 8 (13), of which 3 were men (5). The average number of persons in the management was 3 (3).

Group, 2011	Base salaries/ board fee	Variable compensations	Other benefits	Pension expenses	Shares based compensations	Other remunerations	Total
Lukas H. Lundin	51	–	–	–	–	-	51
Al Breach	32	–	–	–	–	–	32
Lars O Grönstedt	23	–	–	–	–	–	23
Ashley Heppenstall	37	–	–	–	–	–	37
Paul Leander-Engström	27	–	–	–	–	–	27
William A. Rand	37	–	–	–	–	–	37
Robert J. Sali	27	–	–	–	–	–	27
Per Brilioth	554	–	–	107	–	–	660
Other management and board members of subsidiaries	345	–	–	85	–	–	430
Total	**1,132**	**–**	**–**	**191**	**–**	**–**	**1,323**

Group, 2010	Base salaries/ board fee	Variable compensations	Other benefits	Pension expenses	Shares based compensations	Other remunerations	Total
Lukas H. Lundin	29	–	–	–	–	–	29
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**	**–**	**–**	**1,385**

Parent, 2011	Base salaries/ board fee	Variable compensations	Other benefits	Pension expenses	Shares based compensations	Other remunerations	Total
Lukas H. Lundin	51	–	–	–	–	-	51
Al Breach	32	–	–	–	–	–	32
Lars O Grönstedt	23	–	–	–	–	–	23
Ashley Heppenstall	37	–	–	–	–	–	37
Paul Leander-Engström	27	–	–	–	–	–	27
William A. Rand	37	–	–	–	–	–	37
Robert J. Sali	27	–	–	–	–	–	27
Per Brilioth	–	–	–	–	–	–	–
Other management and board members of subsidiaries	–	–	–	–	–	–	–
Total	233	–	–	–	–	–	233

Parent, 2010	Base salaries/ board fee	Variable compensations	Other benefits	Pension expenses	Shares based compensations	Other remunerations	Total
Lukas H. Lundin	29	–	–	–	–	–	29
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	–	–	–	–	–	131

Severance compensation in the amount of USD 104 thousand has been paid out during 2010.

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 1,000,000 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 1,000,000 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 705,000 out of the 2 million options authorized under the 2010 Incentive Programme have been issued to employees in 2010 and 2011. These have a strike price of SEK 31.41 and 46.94, and mature on August 31, 2013 and June 30, 2014. 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]	Issued 2011[1,2,3]	Total Dec 31, 2011
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	–	10,000	30,000
Total	**290,000**	**695,000**	**10,000**	**995,000**
Strike price, SEK	35.17	31.41	46.94	
Market value per issue at the time of issue, SEK[2]	3.98	3.43	6.52	
Option life	Jun 19, 2009– Jun 19, 2012	Aug 7, 2010– Aug 31, 2013	Jun 2, 2011– Jun 30, 2014	
Exercise period	Jun 19, 2011– Jun 19, 2012	Aug 1, 2013– Aug 31, 2013	Jun 1, 2014– Jun 30, 2014	

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, 2010 and 2011 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.
3. The fair value of the options granted during the year was SEK 6.52 (3.43) per option. The significant inputs into the model were a share price of SEK 39.12 (24.10), 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 2.71% (2.01%).

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, 2011	Options Dec 31, 2010
At opening balance day	32.52	985,000	1,533,920
Modified	–	–	–
Forfeited	–	–	–1,243,920
Granted	46.94	10,000	695,000
At closing balance day	**32.66**	**995,000**	**985,000**

Out of the 995,000 options (2010: 985,000) 695,000 options (2010: 0) were exercisable.

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

	Exercise price, SEK	Options 2011	Options 2010
June 19, 2012	35.17	290,000	290,000
August 31, 2013	31.41	695,000	695,000
June 30, 2014	46.94	10,000	–
At the end of the financial year		**995,000**	**985,000**

Note 29
Related-party transactions

The Group is controlled by a Lundin family trust, which holds 28.43% of the shares (through companies).

The Group has identified the following related parties:

The Vostok Gas Ltd Group, including Vostok Gas Ltd, Vostok Energo Investment Ltd, Austro (Cyprus) Limited and Vostok Gas Sverige AB (liquidated during the year 2010).
Associated companies with subsidiaries: Black Earth Farming Ltd, 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 and Mile High Holdings Ltd.
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	2011 Vostok Gas	2011 Associated companies	2011 Lundin family and group of companies	2011 Key Management	2010 Vostok Gas	2010 Associated companies	2010 Lundin family and group of companies	2010 Key Management
Items of the income statement								
Income from loan receivables	–	409[1]	–	–	–	795	–	–
Other operating income	–	41[2]	233[2]	–	–	16	117	–
Operating expenses	–	–	–387[3]	–1,132[4]	–	–	–194	–1,251
Interest expenses	–	–	–	–	–	–	–	–
Balance sheet items								
Non current loan receivables	–	8,902[1]	–	–	–	4,702	–	–
Current loan receivables	–	–	–	–	–	–	–	–
Other current receivables	–	–	–	–	23	–	–	–
Retained earnings	–	–	–	–12	–	–	–	–296
Other current liabilities and accrued expenses	–	–6[2]	–66[2]	–143[4]	–200	–	–	–146

1) Loans to associated companies
Vostok Nafta has an outstanding short-term loan receivable from RusForest AB, which was recognized at a book value of USD 8.90 mln as per December 31, 2011. In the Income Statement for the period ended December 31, 2011 Vostok Nafta has recognised interest income in the amount of USD 0.32 mln from Clean Tech East Holding AB and USD 0.09 mln from RusForest AB.

2) Other operating income from associated companies and Lundin companies and other current receivables
Vostok Nafta has office rental agreements with RusForest AB, Lundin Mining AB and Clean Tech East Holding AB. Vostok Nafta provides head office facilities services to Lundin Petroleum AB and Investor Relations and Corporate Communication services to Lundin Mining Corporation, Africa Oil Corp., Etrion Corporation, ShaMaran Petroleum Corp. and Lucara Diamond Corp.

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 fee amounts to USD 15,000 per month. In July 2011 Vostok Nafta bought extra management services in the amount of USD 62,171. Vostok Nafta paid USD 84,359 to Mile High Holdings Ltd in respect of aviation services received.

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).

Note 30
Business combinations

Disposals of group companies

In September 2011, OAO Resurs-Invest and OOO Resursniye Investisii were liquidated.

In October 2011, Vostok Nafta sold its subsidiary Premline Holdings Ltd whose sole asset was a 100% participatory share in OOO Volga-Nash Dom. Consideration transferred amounted to USD 40 thousand and Vostok Nafta's loss amounted to USD 528.59 thousand.

Note 31
Events after the balance sheet date

Since January 1, 2012 the Company has repurchased 3,065,543 SDRs.

Note 32
Adoption of annual report

The annual report has been submitted by the Board of Directors on March 29, 2012, 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 9, 2012.

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 65, which comprise balance sheets as at December 31, 2011 and 2010, 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, 2011 and 2010, and of its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Stockholm, March 29, 2012

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 was 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 it has chosen not to.

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 28.43 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 4, 2011 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 2011. The Nomination Committee for the 2012 Annual General Meeting consists of the following members: Ian H. Lundin appointed by the Lundin family, Leif Törnvall appointed by Alecta and Albert Häggström, appointed by Alfred Berg/Länsförsäkringar. 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 2012 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, (v) election of auditors and remuneration of the Company's auditors, and (vi) proposals on the nomination process for the AGM 2013.

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 elected by the AGM for a term of one year at a time.

The 2011 Board of Directors

The Board of Directors consists of eight Directors. All Directors were re-elected at the AGM on May 4, 2011: Al Breach, Per Brilioth, Lars O Grönstedt, C. Ashley Heppenstall, Paul Leander-Engström, Lukas H. Lundin, William A. Rand and Robert J.

Corporate Governance Report

Sali. 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 largest 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's major shareholders. For a detailed presentation of the current Board, see "Board of Directors, group management and auditors" in the 2011 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 2011, the Audit Committee met five times. The Audit Committee consists of William A. Rand (Chairman), Al Breach and C. Ashley Heppenstall.

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 2011, the Compensation Committee met once 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 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.

Composition of the Board of Directors, elected on May 4, 2011, including meeting attendance 2011

Name	Elected to the board	Position	Connection to the company	Audit committee	Compensation committee	Investment committee	Attended board meetings	Board fee, SEK
Lukas H. Lundin	2007	Chairman	Main Owner		X	X	100%	325,000
Al Breach	2007	Member	Independent	X			100%	205,000
Per Brilioth	2007	Member	Management			X	100%	0
Lars O Grönstedt	2010	Member	Independent				100%	150,000
Ashley Heppenstall	2010	Member	Independent	X		X	100%	235,000
Paul Leander-Engström	2007	Member	Independent		X		88%	170,000
William A. Rand	2007	Member	Independent	X			100%	235,000
Robert J. Sali	2007	Member	Independent		X		88%	170,000
Number of meetings				5	1	12	7	1,490,000

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 2011

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

Investor Relations

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

Remuneration of the Board of Directors and group management

Remuneration of the Company's Board of Directors

At the AGM on May 4, 2011 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. 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 1,800,000 (approximately USD 270,000) was 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 of the senior management

The Company's AGM held on May 4, 2011 resolved on the following guidelines for the remuneration of the 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.

In 2011, the Managing Director received a fixed annual salary of approximately USD 554,000. 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 2011. The Managing Director is entitled to 12 months' full salary in the event of termination by the Company. Should he himself 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 345,000, with no bonus paid. 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.

Share repurchase authorization

While share repurchases in Swedish companies require authorization by the General Meeting, neither Bermudan company law nor the Company's Bye-Laws contains any restriction against repurchasing own shares. On December 6, 2011, the Board of Directors authorized the repurchase of SDRs representing up to a maximum of 10 percent of the outstanding shares in Vostok Nafta. In keeping with Swedish market practice, the Board mandated that the SDRs be purchased, on one or several occasions, on NASDAQ OMX Stockholm at a price within the registered share price interval on each occasion. SDRs are to be bought back when the management deems appropriate, taking into consideration the discount to the Net Asset Value (NAV) that Vostok Nafta is trading at, observing blackout periods before reports and all other applicable rules. The authorization is valid until the 2012 AGM. The repurchased SDRs and the underlying shares will be cancelled.

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 2011 financial statements. In May 2011, 10,000 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 46.94. 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 4, 2011, 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 significant assignments from Vostok Nafta in addition to auditing work specified in the section "Independent Auditors' Report" on page 66.

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 evaluate the efficiency of internal control and ensure compliance with internal control methods as well as to review and discuss internal and external audit matters. This report on internal control is made in accordance with section 7.4 of the Code, which governs internal control over the financial reporting, and in accordance with guidance provided by Far, the institute for the accounting profession in Sweden, and by the Confederation of Swedish Enterprise.

Vostok Nafta is an investment company whose main activity is the management of financial transactions. As such, 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.

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. Vostok Nafta has a close and flat organisational structure. The limited number of staff members and the close cooperation among 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 prepared by management and 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 that are deemed to hold the greatest risk for error or where 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 2011 on pages 67 to 73. 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 29, 2012

PricewaterhouseCoopers AB

Klas Brand
Authorised public accountant
Lead Partner

Bo Hjalmarsson
Authorised public accountant
Partner

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
LOF On a "life of field" basis
mcm Thousand cubic metres
mln or mm Million
mmboepd Million barrels of oil equivalent per day
mmbopd Million barrels of oil per day
mtce Million tonnes coal equivalent
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
PRMS Petroleum Resources Management System methodology
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
SEC Securities and Exchange Commission
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

Glossary of terms and acronyms used in the annual report

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