Vostok Nafta Investment Ltd

Annual Report 2012

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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 2013

The company shall issue the following reports:

Interim report for the first three months
May 15, 2013

Interim report for the first six months
August 14, 2013

Interim report for the first nine months
November 13, 2013

Financial accounts bulletin
February 12, 2014

Annual report and account
March/April 2014

General meeting of shareholders 2013
May 7, 2013

General meeting of shareholders 2014
May 2014

Cover: Opera singer Irina Vaschenko in *Tosca* at the beautiful Stanislavsky opera house, Moscow.
Photo by Jonas Lemberg

Vostok Nafta's NAV has displayed a positive performance over the course of 2012 with a 31.3% increase when adjusting for the disbursement of USD 246 mln during the course of the third quarter. The Company's stock price has risen by some 73% in USD as a result partly of the increase in NAV but also due to a reduction in the discount that the stock is trading at in relation to the NAV during the course of 2012. The increase in the NAV is to a large extent a factor of the revaluation of our two private holdings, TCS Bank and Avito on the back of transactions in both names. Our position in TCS Bank was during the fourth quarter revalued to USD 146 mln (when adjusting for our sale of a total of USD 15 mln worth of shares) and our position in Avito was revalued to USD 79 mln.

The funding of the USD 246 million that was distributed during 2012 was the sale of the Company's portfolio of listed Russian equities. These sales began during the first quarter of 2012 when the Russian market displayed a strong performance. The reasoning behind the distribution was to focus the portfolio on holdings that were more difficult to replicate for our average shareholder. Whereas the rationale of a portfolio of listed holdings in Russia was very clear during the first decade or so of Vostok Nafta (difficult to access for our average shareholder) it has become less evident over the past years with increasing availability of means of exposure to the Russian equity market.

During 2012 and up to now in 2013 we have bought back 10.26 mln shares in Vostok Nafta (of which 1.51 mln has been repurchased during January 2013), reducing the total outstanding number of shares to 88.21 mln. Although the current discount is lower than the average discount of 20.6% during 2012, we will continue to evaluate all opportunities to reduce the discount further.

Tinkoff Credit Systems (TCS Bank)

TCS Bank continues to show the wonderful combination of high growth and high profitability. During 2012 the company displayed a net profit of USD 122 mln on the back of revenues of USD 658 mln. This amounts to a Return on average equity of nearly 59%. The net credit card portfolio grew by 141% to USD 1.7 bln. To date the company has issued 3 mln credit cards of which 2.2 mln have been utilised by customers, giving the company a 7.2% market share. In January 2013 TCS Bank was the third largest credit card issuer in Russia.

The bank is increasingly becoming Russia's online bank. The vast majority of TCS Bank's new customers during 2012 came to the company through the internet and mobile channels. In addition to this a large part of the company's growth was underpinned by its successful online program which grew by 143% to USD 878 mln.

The market for consumer loans in Russia has continued to grow during the past quarter. The overall growth in the market has led the central bank to consider additional capital requirements for consumer loans in order to stage a gradual cooling off rather than risking a more abrupt and potentially disruptive period of market reversion.

TCS Bank has grown with the market and indeed also been able to take market share. However my impression is that the bank has been careful to control the quality of its lending. At other consumer finance institutions it has been possible to witness an increase in the loan book without increasing the number of customers i.e more loans to the same borrower. This is not the case with TCS Bank which has continued to add customers while still building its portfolio. Its NPLs (Non Performing Loans), defined as loans overdue by over 90 days, stood at 4.7% at the end of 2012. Also as part of the company's conservative policy cash stood at 21% of total assets at the end of 2012.

In anticipation of the Central Bank indeed following through on its threat of increasing the capital requirements for retail loans, TCS Bank has raised subordinated debt which counts as capital maintaining its strategy to be conservative in its handling of capital. A total of USD 200 mln was raised maturing in 2018. The capital position currently exceeds 17.6% as measured by the statutory N1 capital adequacy ratio.

Avito

In December last year Avito entered into a transaction which closed in March 2013 whereby Avito acquired Slando (and OLX) being the second largest Russian online classified website, paying with newly issued shares. Slando's sole shareholder, Naspers of South Africa will also invest an additional USD 50 mln in Avito after which it will be the second largest shareholder in the company after Kinnevik at 18.6% of the outstanding shares. The funds will be used to further strengthen Avito.ru's position in the key Auto and Real Estate categories.

The transaction resulted in a significant positive revaluation of Vostok Nafta's holding in Avito by approximately 55%.

We remain enthusiastic about Avito and its prospects. I would encourage anyone who is interested in the company to view the recording of its co-founder Filip Engelbert's presentation which is available on our website www.vostoknafta.com. His guidance of a revenue of USD 100 mln in 2015 is in our view not at all unrealistic and verifies the upside potential of our investment. Comparing Avito's margins to Leboncoin.fr of France (approximately 70%) and applying the market's anticipation of multiples (18–22x EBITDA) of the French company (it is wholly owned

Managing Director's introduction

by Schibsted) on Avito's USD 100 mln guidance, our stake in Avito would be worth nearly three times today's mark. In addition to this it is important to note that the Russian internet population is growing at a higher rate than the one of France.

Black Earth Farming (BEF)
Black Earth Farming released its full year figures for 2012 in late February, displaying a positive bottom line for the first time in its history. Full year operating profit came in at USD 19.9 mln versus a loss of USD 26.8 mln in 2011. Net profit came in at USD 7.2 mln. BEF has been helped by high agricultural commodity prices but improved crop yields, control of logistics and more effective marketing have also been significant components of the turnaround. The company's spring crops in 2012 was up on average 21% year-on-year while the average realised price during the third quarter was up 59% year-on-year as Russia has left its markets open for international trade in grains.

BEF's rights issue closed on December 7 last year and was oversubscribed in total raising SEK 530 mln (USD 81 mln) to the company. As has been presented previously the use of proceeds are to fund the strategic partnership with PepsiCo (USD 55 mln) and working capital.

Autumn seeding has also progressed well with some 74k hectares planted with winter wheat into good soil conditions. This seeding was completed by early September which is two weeks earlier than the previous year in turn improving yield potential.

The company has also utilised the strong pricing environment by securing a total of some 30% of the 2013 harvest through forward sales at a pricing at profitable levels. The Pepsi agreement further strengthens the company's ability to price its goods forward.

I think the financial results of 2012 as well as the partnership signed with Pepsi really starts to provide the visibility into the profitability potential of this company needed for the market to revalue the company. Although early so far the preparations for 2013 look very encouraging and of course another year of not only profit but growing profits will further strengthen the revaluation case.

RusForest
As discussed in the prior report, the poor development of RusForest has led to the need for additional financing. The company has replaced all the senior officers since August and has spent the last six months exploring financial and strategic alternatives, as well as accelerating the sale of assets to raise cash.

In mid-December, RusForest announced a financial restructuring that will fund the company and add a new strategic shareholder. The transaction provides the company with new cash of USD 28 mln and further equity of USD 40 mln through a debt for equity restructuring of the outstanding bond, leaving the company with close to zero net debt. The new capital is proposed to be raised through a USD 15 mln targeted issue to Nova Capital, a Russian financial group with extensive experience in running successful forestry operations in Russia, and a USD 13 mln rights issue to existing shareholders of RusForest. The rights issue to existing shareholders was guaranteed by Vostok Nafta. During the fourth quarter of 2012, Vostok lent the company USD 5 mln in bridge funding in order to cover working capital requirements until the company could find a long-term solution to its financial and operational challenges.

We believe these actions are in our interests as they allow RusForest to avoid insolvency, which would leave no value for equity holders and limited liquidation value for bondholders. Instead, the company will now have the possibility to complete its production ramp up and in turn become cash flow positive. Nova Capital will add local execution capability to the company through its experience of running successful forestry and sawmilling operations in Eastern Siberia.

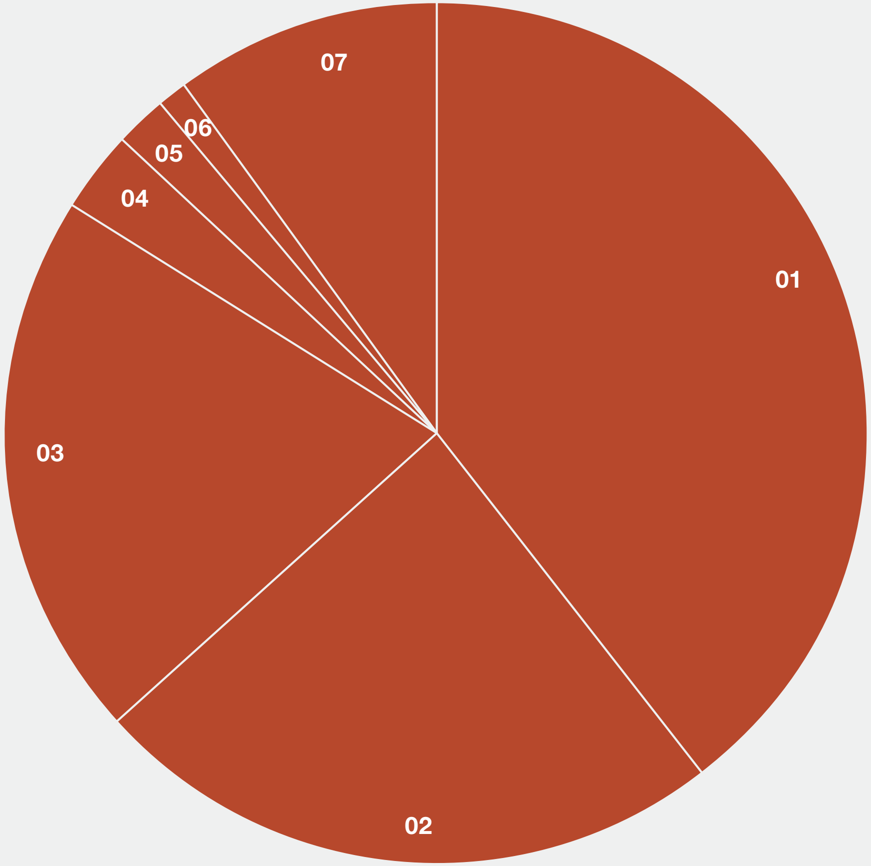
After the restructuring, Nova will be the largest RusForest shareholder with 25% of the company; current shareholders will retain 25% of the company, and the previous bondholders will own the remaining 50%. The rights issue to the existing shareholders was fully subscribed in March 2013 and Vostok Nafta therefore only subscribed to its pro-rata share of the issue. On March 27, 2013 the directed issue to Nova closed as well, which means that the restructuring is completed and Vostok Nafta now has an ownership of approximately 7.5%.

2013
The focus of 2013 is obviously to continue increasing value for our shareholders by both working on increasing the value of our holdings as well as improving where our stock trades in relation to our NAV.

March 2013,

Per Brilioth
Managing Director

Vostok Nafta investment portfolio as per December 31, 2012



01 Tinkoff Credit Systems 40%
02 Avito 24%
03 Black Earth Farming 21%
04 Kuzbass Fuel Company 3%
05 RusForest 2%
06 Other 1%
07 Cash 10%

The Group's net asset value as at December 31, 2012, was USD 329.58 mln, corresponding to USD 3.67 per share. Given a SEK/USD exchange rate of 6.5156 the values were SEK 2,147.43 mln and SEK 23.94, respectively.

The group's net asset value per share in USD increased by 31.32% over the period January 1, 2012–December 31, 2012. During the same period the RTS index decreased by 10.50% in USD terms.

During the period January 1, 2012–December 31, 2012, the investment portfolio, which represents the largest part of the Group's net asset value, has decreased by USD 123.55 mln. Movements of the investment portfolio are (USD mln):

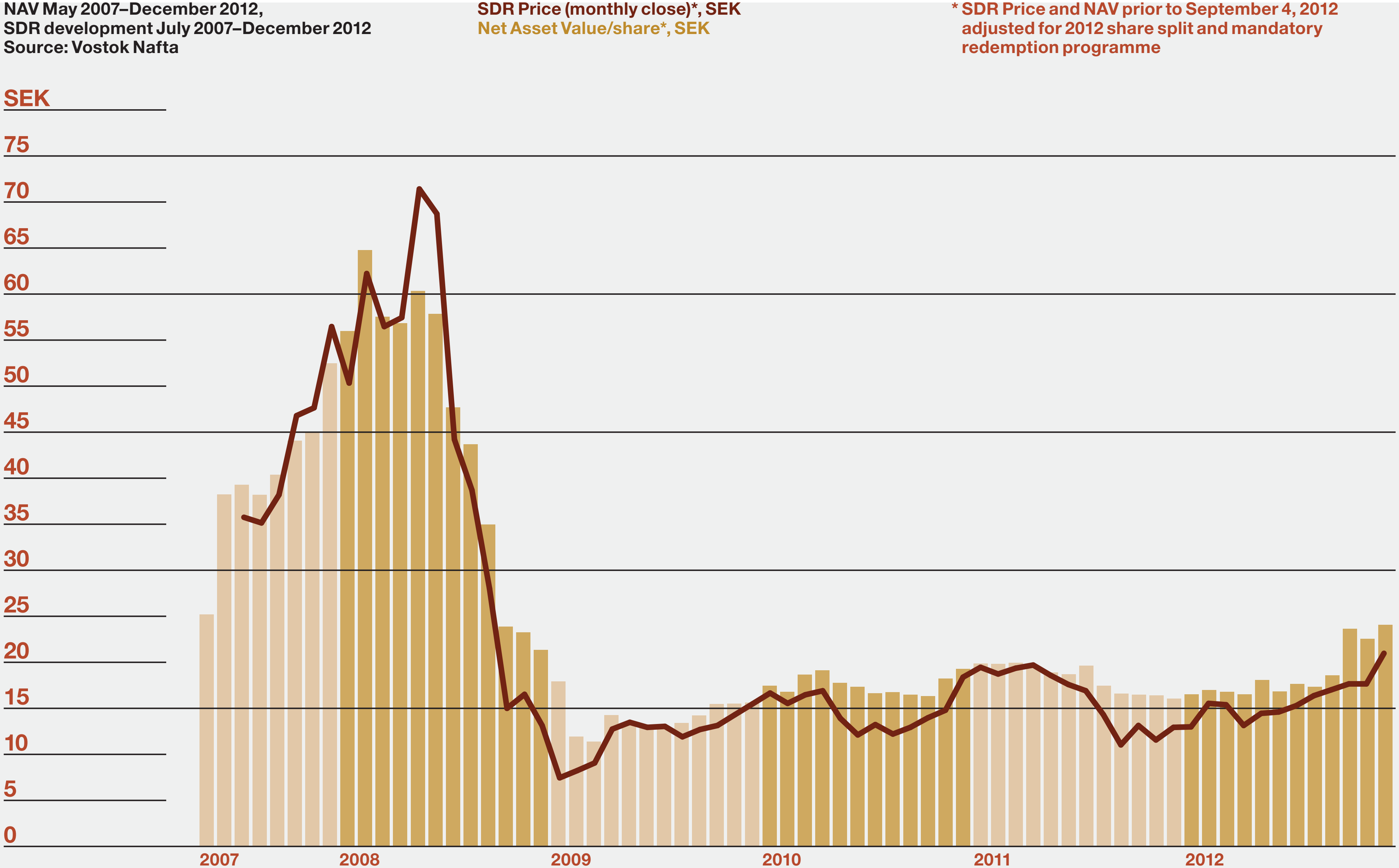
Opening balance	**454.29**
Additions	**90.18**
Proceeds from disposals	**–353.35**
Interest income	**2.18**
Exchange differences	**0.64**
Change in fair value and result from disposals	**104.97**
Cash at the end of the period	**31.84**
Closing balance	**330.74**

Major portfolio events of the year include partial liquidation of holdings in Tinkoff Credit Systems (USD 15.3 mln), as well as complete liquidation of the group's holdings in Acron (USD 11.4 mln), Alrosa (USD 14.4 mln), Gornozavodsk Cement (USD 11.4 mln), Inter Rao (USD 9.8 mln), Kuzbassrazrezugol (USD 47.4 mln), Priargunsky Ind Ord (USD 12.4 mln), TNK-BP Holding Ord (USD 52.7 mln), TNK-BP Holding Pref (USD 66.8 mln) and Transneft Pref (USD 13.8 mln). Also in 2012, Vostok Nafta made additional investments and subscribed for new shares in both Black Earth Farming (USD 19.7 mln) and RusForest (USD 20.2 mln). Vostok Nafta saw its stake in Avito reduced from 23.8 percent to 13.8 percent following two transactions in the company during the year.

At the end of December, 2012 the three biggest investments were Tinkoff Credit Systems (39.6%), Avito (23.9%) and Black Earth Farming (21.0%).

The Vostok Nafta investment portfolio

NAV May 2007–December 2012,
SDR development July 2007–December 2012
Source: Vostok Nafta



Net Asset Value (NAV) and SDR development, Vostok Nafta

The Vostok Nafta investment portfolio

Number of shares	Company	Fair value, USD Dec 31, 2012	Percent-age weight	Value per share, USD Dec 31, 2012	Value per share, USD Dec 31, 2011	
51,481,173	Black Earth Farming, equity	69,530,714	21.0%	1.35	1.99	2
406,156,995	Clean Tech East Holding	623,361	0.2%	0.00	0.00	2
902,667	Tinkoff Credit Systems (Egidaco) 4	131,000,000	39.6%	145.13	46.25	1
140,826,045	RusForest, equity	2,161,367	0.7%	0.02	0.74	2
	RusForest, bridge loan	5,095,556	1.5%			3
	RusForest, Issued call options	–53,627	0.0%			2
5,975,579	Avito 4,5	78,941,797	23.9%	13.21	6.31	2
	Growth Capital and Private Equity, Total	287,299,168	86.9%			

Number of shares	Company	Fair value, USD Dec 31, 2012	Percent-age weight	Value per share, USD Dec 31, 2012	Value per share, USD Dec 31, 2011	
5,364,850	Caspian Services	160,946	0.0%	0.03	0.08	1
272,106	Dakor	108,842	0.0%	0.40	10.34	1
1,600,000	Kamkabel	80,000	0.0%	0.05	0.10	1
2,925,000	Kuzbass Fuel Company	9,506,250	2.9%	3.25	4.50	1
2,618,241	Kyrgyzenergo	168,688	0.1%	0.06	0.06	1
85,332	Podolsky Cement	105,982	0.0%	1.24	1.25	1
1,442,400	Shalkiya Zinc GDR	14,424	0.0%	0.01	0.07	1
623,800	TKS Real Estate	16,499	0.0%	0.03	0.83	1
15,000	Tuimazy Concrete Mixers	22,941	0.0%	1.53	2.27	1
154,334	Varyoganneftegaz Pref	1,404,439	0.4%	9.10	11.00	1
	Financial Portfolio Investments, Total	11,589,012	3.5%			
	Other, including cash	31,854,028	9.6%			
	Grand Total	330,742,208	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 current loan and other receivables.
4. Private equity investment.
5. The shares in Avito are owned through the holding company Vosvik AB.

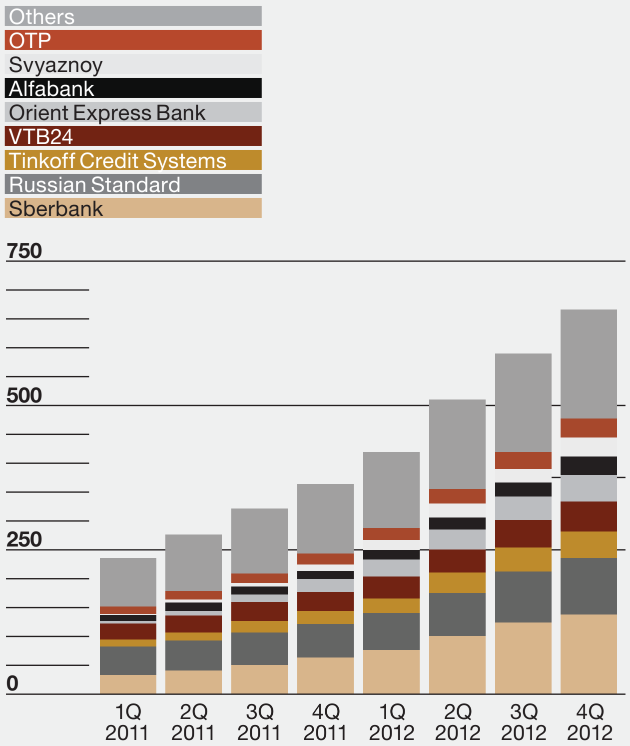
Vostok Nafta's portfolio as at December 31, 2012

The Vostok Nafta investment portfolio

Tinkoff Credit Systems (TCS Bank) 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 Bank'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 Bank is Oleg Tinkov, a renowned Russian entrepreneur with a long track of successful companies within the consumer sector. TCS Bank 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 Bank 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 retained their credit ratings of B/Positive and B2/Stable during 2012, and on March 21, 2013, Fitch upgraded TCS Bank to B+/Stable. The ratings reflect the diversification of the funding base and the strong cash generation capacity as well as the stable levels of NPLs at 4.0–5.5%.

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 Since 2010, after the financial crisis in 2008–09, the Russian credit card market has grown by 25–40% per year. Russia's penetration level is still extremely low (around 15% year 2012) and shows an exceptional potential for future growth. A change in consumer behaviour towards higher lending rates will pave the way for TCS Bank to further grow its credit card market share from approximately 7% in 2012. TCS Bank is currently #3 by market share according to CBR data. Russian banks continue to post impressive financial performance, driven by ongoing lending growth and stable net interest margins together with relatively low funding costs. 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 Bank'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 frac-

Market share of Key Russian Credit Card Issuers based on Non-delinquent Receivables
RUB bn. Source: CBRF, TCS Bank estimates



Tinkoff Credit Systems	
Vostok Nafta's number of shares as at December 31, 2012	902,667
Total Value (USD)	**131,000,000**
Share of total portfolio	39.6%
Share of total shares outstanding	13.1%
Value development 2012 (in USD)	213.8%

During the year, Vostok Nafta sold 103,846 shares

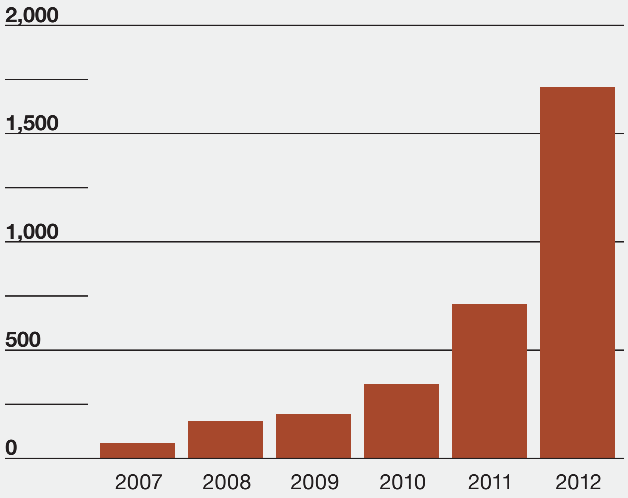
Tinkoff Credit Systems

tion 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 2012. Retail deposits have increased by 143% over the course of 2012, from USD 358.4 mln in 2011 to USD 878 mln in 2012. The net loan portfolio increased by 141% in 2012, to USD 1.7 bn. In 2012, TCS Bank successfully secured over USD 475 mln in wholesale funding through two local bonds totalling RUB 3.5 bn, a USD 250 mln Eurobond due in Sep 2015 and a subordinated Eurobond of USD 125 mln due in June 2018. As of February 1, 2013 N1 Capital Adequacy is at 17.6%. TCS Bank more than doubled its portfolio in 2012 and delivered a net income of USD 122 mln compared to USD 68 mln in 2011. In November 2012 Tinkoff Credit Systems announced the conclusion of a secondary transaction whereby Horizon Capital paid a total of USD 40 million for 4 percent of the shares in TCS Bank. Vostok Nafta participated in the transaction, selling approximately 10% of its stake in TCS Bank. The transaction values TCS Bank at USD 1 billion, which translates into a valuation of USD 131 million for Vostok Nafta's remaining position. This transaction generated a positive result of USD 57 million, of which USD 6 million was a realized gain, which was accounted for in the fourth quarter.

TCS Bank: Portfolio size 2007–2012

USD million. Source: Company data



Tinkoff Credit Systems

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 2012. The company has obtained a leading position in terms of visitors and number of ads, distancing itself from its competitors. Once a firm leading market position is achieved the business model has great potential in terms of profitability judging by the experience of peers in other countries. Avito is already the leading brand with the highest brand awareness in Moscow and St. Petersburg and the recently announced merger with Naspers-owned Slando.ru and OLX.ru will significantly reaffirm this #1 position in the Russian market.

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. Russia is already the largest internet market in Europe in terms of audience size. By the end of 2013 internet users in Russia are expected to reach over 90 million, with a penetration of 67% according to the Russian Minster of Communications. 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.

The Russian E-commerce market is expected to be worth some USD 12 bn in 2012, an increase of 9% compared to USD 11 bn in 2011. Avito attracts close to 30 million monthly unique users who browse a total of more than 2 billion pages and spend on average one hour a month on the site. More than 6 million new items are added every month by over 3 million users. Seller retention is high as the existing user base accounts for the majority of new ads, but new sellers are still important.

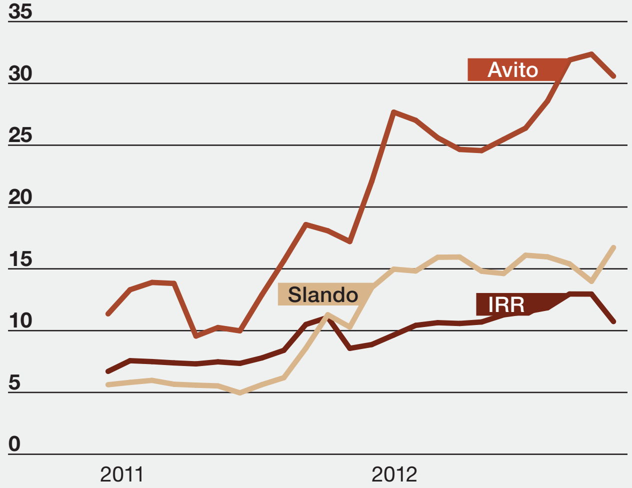
Avito showed strong development during 2012, with revenues of approximately USD 30 mln compared to USD 9 mln in 2011. Opex excluding marketing is at approximately USD 1–1.5 mln per month. Management has stated that the company could see revenues of USD 100 mln in 2015.

Avito is currently exploring new markets and after only eight months since the launch in Morocco, Avito.ma is as of February 2013, the third most visited site in the country measured by page views.

On March 12, 2013, Avito announced the closing of the transaction entered in December 2012. The transaction comprise of a merger with Naspers-

Unique monthly visitors 2011–2012

Million visitors. Source: Live Internet



Avito

Vostok Nafta's number of shares as at December 31, 2012*	5,975,579
Total Value (USD)	**78,941,797**
Share of total portfolio	23.9%
Share of total shares outstanding	13.8%
Value development 2012 (in USD)	108.9%

During the year, Vostok Nafta purchased and sold 0 shares

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

Avito

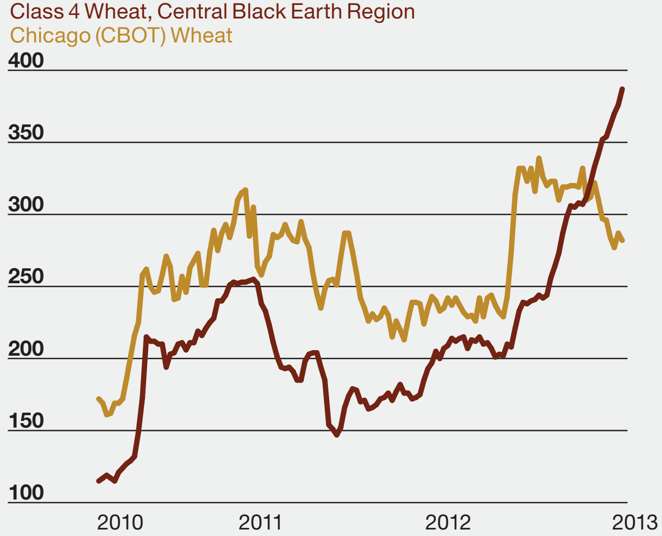
owned Slando.ru and OLX.ru as well as a previously disclosed USD 50 mln investment. Post the transaction Naspers has an 18.6% stake in Avito. Following this transaction, Avito has further strengthened its #1 position in the Russian online classifieds market and can now focus on increasing monetization.

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 potatoes and sugar beets. Black Earth Farming's initial business concept was to acquire and consolidate zero or low yielding land assets in the Russian Black Earth region. Russian agricultural land is cheap, both in comparative terms and in relation to its inherent production potential. Focus has now shifted to significantly increase productivity in terms of crops yielded per hectare of land, thus increasing the land value by introducing modern agricultural farming practices. As of December 31, 2012, Black Earth Farming held 250,000 hectares of land in full ownership, corresponding to 81% of the total controlled land bank of 308,000 hectares. Consolidation and further improvement of the operational efficiencies in and around the existing farm blocks remains the company's key target. Russian agricultural land is in the company's view still cheap, 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 current near term focus is on operating improvements and especially on unlocking the potential upside of the recently announced PepsiCo partnership. The partnership comprises a strategic 3 year cooperation agreement. Black Earth Farming will become a significant supplier of potatoes, sunflower and sugar to PepsiCo's Russian operations. This has a major positive impact on BEF as it offers the potential to lock in forward prices for a large part of its production, while also diversifying into competitively advantaged higher margin irrigated crops (see EBITDA graph to the right). PepsiCo is Russia's largest Food and Beverage Company with a USD 5 bn annual turnover and over 25,000 employees in Russia. Black Earth Farming will supply potatoes and sunflower oil for PepsiCo's Lay's Crisps and sugar beets for various PepsiCo products. By 2015 the PepsiCo contract has the potential to represent some 30% of BEF's total revenues.

The partnership was financed through a USD 80 mln rights issue of which 70% will be used for

Russian domestic Wheat Price vs. International May 2010–January 2013
USD/tonne. Source: BEF



Black Earth Farming

Vostok Nafta's number of shares as at December 31, 2012	51,481,173
Total Value (USD)	**69,530,714**
Share of total portfolio	21.0%
Share of total shares outstanding	24.8%
Share development 2012 (in USD)	–32.0%

During the year, Vostok Nafta's number of shares increased by 20,592,469 through participation in the rights issue

Black Earth Farming

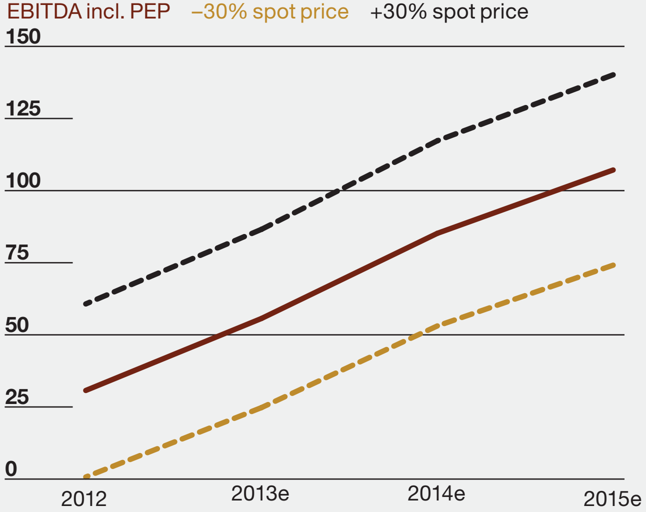
capital requirements related to potatoes and sugar beets production. The remaining 30% is intended for working capital needs. The rights issue was over subscribed and the two main owners Kinnevik and Vostok Nafta subscribed for their pro rata share in the company. Vostok Nafta's stake in Black Earth Farming remains unchanged at 24.8% during 2012. Black Earth Farming reported its first full year net profit of USD 7.2 mln for 2012 compared to the net loss of USD 44.2 mln in 2011. Improved operations and high commodity prices are the main drivers for this encouraging result. Crop prices were positively affected by the drought in Midwest US, at the same time other areas in Eurasia had difficult conditions. Total revenue for 2012 was USD 229 mln, up 179% from USD 82 mln in 2011. Another positive factor is that the Black Earth Farming managed to realize these high price levels compared to 2011 when price realization was impacted by poor quality crops and subsequent price discounts. Weather conditions were also overall more favourable in 2012 compared to 2011.

Richard Warburton was appointed Chief Executive Officer in 2011 and has proved to be a very strong addition to the management team. Even though some of the operating improvements put in motion by the new management are starting to show, there are a lot of initiatives underway to lift crop yield performance even further. These improvements will take some time and come through gradually over the next two years.

Black Earth Farming focus during 2013 will be continued operating improvements in order to raise crop yields as well as increasing the planting of potatoes and sugar beets. This gradual shift into more irrigated crops such as potatoes and sugar beets will increase the company's costs but should payoff in higher and more stable returns.

PepsiCo Agreement to Lift Profit Potential and Lower Risk 2012–2015e

USD. Source: BEF



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. RusForest's principal business concept is to refine the prime quality pine, spruce and larch logs from its long-term 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.

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.

The Company's location close to the Asian markets gives the Company the opportunity to serve both fast growing markets, such as China, as well as high margin markets, such as Japan. 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 an attractive return for its shareholders.

However, 2012 has been another disappointing year for RusForest and its shareholders.

In April 2012, RusForest closed a fully subscribed SEK 450 mln (USD 67 mln) rights issue in which Vostok Nafta subscribed for its pro rata share. The capital was intended to be used for the finalization of the ongoing investments in Eastern Siberia as well as in the Arkhangelsk region. In early autumn 2012, it became apparent that, despite some operational improvements, RusForest would be in highly strained financial position by the end of 2012. To resolve this issue and to address the company's long term challenges, key management was replaced. Garrett Soden, most recently from the Lundin Group's Etrion Corporation stepped in as the new CEO in August, and at the same time Kirill Pronin was appointed CFO. Later on in October, 2012 Peter Nilsson joined RusForest as COO. Peter Nilsson has 30 years of forestry experience and was most recently the CEO of Södra Timber AB.

The new management team came in and focused on three main issues. 1. Selling non-core assets to raise cash. 2. Strengthen local management to deliver operational results, and 3. exploring strategic alternatives to create value for stakeholders.

In December, 2012 RusForest announced its proposition to resolve the company's strained financial situation. The proposition from the board consisted of three main steps; debt restructuring including a bond write down and debt to equity swap, a new rights issue of approximately SEK 86 mln with preferential rights to the existing shareholders and finally a directed share issue to Nova Capital, a new Russian strategic partner, which intends to invest approximately SEK 100 mln.

In the end of January, 2013 the bondholders agreed to the proposed debt restructuring and on February 1, 2013 the restructuring was approved by the shareholders at an EGM.

Vostok Nafta committed to subscribe for its pro rata share (SEK 25 mln) and in addition to this, guaranteed the remaining part of the SEK 86 mln rights issue.

On March 15, RusForest announced that the rights issue to its existing shareholders had been fully subscribed. The company further announced that Anton Bogdanov from Nova Capital will replace Peter Nilsson as COO of RusForest. Peter Nilsson will remain

RusForest

Vostok Nafta's number of shares as at December 31, 2012	140,826,045
Total Value (USD)	**2,161,367**
Share of total portfolio	0.7%
Share of total shares outstanding	29.4%
Share development 2012 (in USD)	–94.6%

During the year, Vostok Nafta's number of shares increased by 112,660,836 through participation in the rights issue

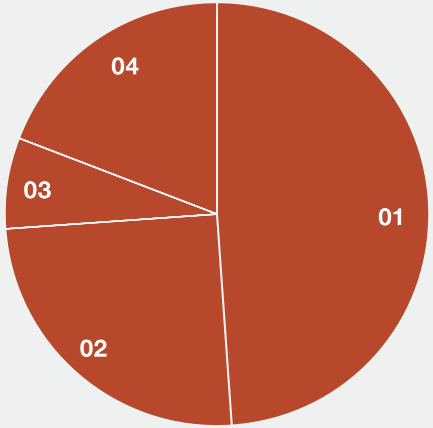
RusForest

an employee until the AGM in May 2013, at which time Vostok Nafta intends to propose his appointment to the Board of Directors.

The company also reported its financial results for the fourth quarter 2012 which amounted to a net loss of SEK 676 mln which includes a previously communicated expected write down of SEK 499 mln. Revenues in 2012 amounted to SEK 564 mln compared to SEK 409 mln in 2011. At December 31, 2012 RusForest had a cash balance of SEK 16 mln and a positive working capital of SEK 51 mln.

Post the restructuring, RusForest's ownership structure has changed significantly (see graph to the right) and Vostok Nafta now has an ownership of 7.5%. The recently completed financial restructuring leaves RusForest with close to zero net debt and brings in a new strategic partner, Nova Capital, which will add local expertise and execution to RusForest.

Ownership structure following the Debt-to-Equity Swap, Rights issue and Directed issue



01 Bondholders 49%
02 Nova Capital 25%
03 Vostok Nafta 7%
04 Other current shareholders 19%

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 May 16, 2012, 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. On December 4, 2012, 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, which increases the previous mandate, is valid until the next AGM of Vostok Nafta and stipulates that a maximum of an additional 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 2012, Vostok Nafta repurchased 8,750,921 SDRs.

The market

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

Share turnover

The average daily turnover during the period January 1, 2012 to December 31, 2012, was 180,000 shares (2011: 167,500 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 31, 2012

The shareholder list below as per December 31, 2012, shows the ten largest owners at that time. The number of shareholders in Vostok Nafta on December 31, 2012 amounted to around 14,300 (2011: 16,800).

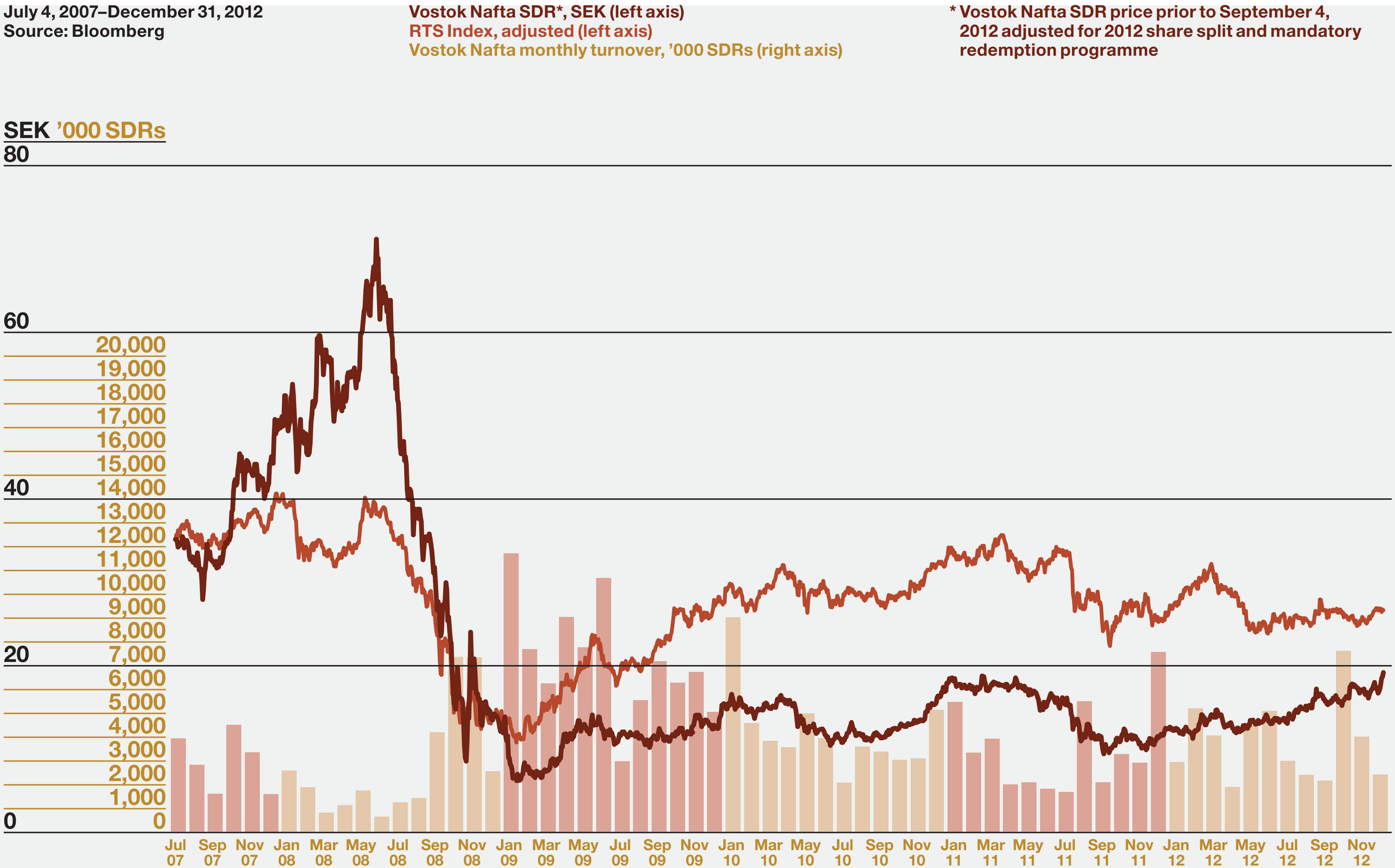
	Owner	Holding, SDRs	Holding, percent
01.	**The Lundin family** *	**28,000,000**	**31.21%**
02.	**Alecta Pension Insurance**	**8,071,000**	**9.00%**
03.	**Länsförsäkringar Funds**	**5,998,536**	**6.69%**
04.	**Fidelity Funds**	**4,754,339**	**5.30%**
05.	**Danske Invest Sweden Funds**	**2,165,000**	**2.41%**
06.	**Carnegie Funds**	**2,000,000**	**2.23%**
07.	**4th Swedish National Pension Fund**	**1,626,347**	**1.81%**
08.	**Avanza Pension Insurance**	**1,360,347**	**1.52%**
09.	**Pershing, LLC**	**1,125,219**	**1.25%**
10.	**Nordnet Pension Insurance**	**734,348**	**0.82%**
	10 largest owners	**55,835,665**	**62.23%**
	Total	**89,719,279**	**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

The Vostok Nafta share



Vostok Nafta share price development

Background

Vostok Nafta Investment Ltd ("Vostok Nafta", the "Company") was incorporated in Bermuda on April 5, 2007 with corporate identity number 39861. Swedish Depository Receipts (SDRs) representing the Vostok Nafta shares are listed on the NASDAQ OMX Nordic Exchange Stockholm, Mid Cap segment with the ticker: VNIL SDB. There were approximately 14,300 shareholders as at the end of December 2012.

Group structure

As of December 31, 2012, the Vostok Nafta Group consisted of the Bermudian parent company Vostok Nafta Investment Ltd; one wholly-owned Bermudian subsidiary, Vostok Holding Ltd; two wholly-owned Cypriot subsidiaries, Vostok Komi (Cyprus) Limited and Dodomar Ventures Limited (currently under liquidation); and one wholly-owned Swedish subsidiary, Vostok Nafta Sverige AB.

Vostok Komi (Cyprus) Limited is responsible for the group's portfolio, and Vostok Nafta Sverige AB provides corporate and support services to the entire group.

The Vostok Nafta Group

Company information

Operating policy

Business concept

Vostok Nafta's business concept is to maximize the value of the existing holdings, the majority of which are in non-listed private equity type investments in companies whose business is derived mainly from Russia and neighbouring countries.

Mission

The Company's overriding aim is to create value for its shareholders by maximizing the value of the existing portfolio and a strong growth in its net asset value.

Strategy

The Company shall create value by being an active shareholder in its portfolio holdings, building on the experience gathered from having been active on the Russian capital markets since the mid 1990's. The company seeks to create value by leveraging this experience as well as the expertise, network and its strong brand.

Investment strategy

The majority of the portfolio holdings are to be shares in non-listed, private equity style investments, but this does not rule out investments in listed companies. The principal geographic focus will be on Russia and neighbouring countries. 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. 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 liquity of between 1 and 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.

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)	2012	2011	2010	2009	2008
Result from financial assets	107,782	–141,614	135,093	141,582	–550,917
Other operating income	11,682	28,186	11,068	10,021	10,673
Total income	**119,464**	**–113,429**	**146,160**	**151,603**	**–540,244**
Operating expenses	–5,202	–5,843	–5,733	–5,897	–8,716
Dividend withholding tax expenses	3,228	–4,170	–1,593	–1,367	–1,381
Other operating expenses	–1,289	–521	–1,176	–	–15
Operating result	**116,202**	**–123,963**	**137,660**	**144,339**	**–550,356**
Net financial items	3,599	–276	798	–4,501	–6,988
Result before tax	**119,801**	**–124,239**	**138,458**	**139,838**	**–557,344**
Tax	–59	137	–98	8	956
Net result of the year	**119,742**	**–124,102**	**138,359**	**139,846**	**–556,388**

Balance sheet in brief

(Expressed in USD thousand)	Dec 31, 2012	Dec 31, 2011	Dec 31, 2010	Dec 31, 2009	Dec 31, 2008
Non current fixed assets	23	36	675	1,948	510
Non current financial assets	293,793	454,321	605,783	472,402	266,874
Current financial assets	5,109	–	9,283	3,180	27,847
Cash and cash equivalents	31,841	37,665	9,448	8,935	29,198
Other current receivables	442	1,772	1,974	2,580	2,727
Total assets	**331,207**	**493,794**	**627,164**	**489,045**	**327,156**
Equity	329,584	492,078	625,430	487,624	247,893
Deferred tax liability	–	–	–	–	19
Current tax liability	288	424	504	516	498
Other current liabilities	1,336	1,293	1,229	905	78,746
Total equity and liabilities	**331,207**	**493,794**	**627,164**	**489,045**	**327,156**

Financial summary

Cash flow in brief

(Expressed in USD thousand)	2012	2011	2010	2009	2008
Cash flow from/used in operating activities	274,110	37,769	–714	–6,199	–22,607
Cash flow used in/from investing activities	–17	40	–24	36	–146
Cash flow used in/from financing activities	–282,380	–9,180	326	–10,856	26,119
Cash flow for the period	–8,287	28,630	–411	–17,019	3,366
Exchange rate differences in cash and cash equivalents	2,462	–414	924	–3,244	–1,696
Cash and cash equivalents at the beginning of the period	37,665	9,448	8,935	29,198	27,528
Cash and cash equivalents at the end of the period	31,841	37,665	9,448	8,935	29,198

Key ratios

(Expressed in USD thousand if not stated otherwise)	2012	2011	2010	2009	2008
Equity ratio, percent	99.51	99.65	99.72	99.71	75.77
Return on equity, percent	29.15	–22.21	24.86	38.03	–105.79
Return on capital employed, percent	29.15	–22.21	24.86	34.68	–97.23
Debt/equity ratio, multiple	–	–	–	–	31.42
Interest coverage ratio, multiple	–	–	–	76	–81
Net asset value, MUSD	330*	492	625	488	248
SEK/USD	6.5156	6.9234	6.8025	7.1568	7.8644
Net asset value, MSEK	2,147*	3,407	4,254	3,490	1,950
Net asset value development in USD, percent	31**	–21	28	97	–69
RTS Index	1,527	1,382	1,770	1,445	632
Development RTS Index, percent	10	–22	23	129	–72
Dividends	–	–	–	–	–
Dividend/share	–	–	–	–	–
Yield, percent	–	–	–	–	–

Share data

	2012	2011	2010	2009	2008
Earnings per share, USD	1.29	neg.	1.37	1.40	neg.
Diluted earnings per share, USD	1.29	neg.	1.37	1.40	neg.
Net asset value per share, USD	3.67*	4.93	6.19	4.83	5.39
Net asset value per share, SEK	23.94*	34.12	42.12	34.56	42.36
Number of shares outstanding at year-end	89,719,279	98,470,200	100,990,975	100,990,975	46,020,901
Weighted average number of shares outstanding	92,918,593	100,705,275	100,990,975	100,052,565	53,936,496
– diluted	92,918,593	101,400,275	100,990,975	100,052,565	53,936,496

Employees

	2012	2011	2010	2009	2008
Average number of employees during the period	7	8	13	16	15

* After distribution of USD 246 mln to the shareholders through the 2012 redemption programme.
** Excluding the effect of the redemption programme.

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 226 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 29 thousand. No agreement regarding severance pay or pension.

Per Brilioth

Managing Director and board member

Swedish citizen, born 1969. Member of the board and Managing Director since 2007. Committee assignments in Vostok Nafta: investment committee. Professional and educational background: Between 1994 and 2000, Per Brilioth was head of the Emerging Markets section at Hagströmer & Qviberg and he has worked close to the Russian stock market for a number of years. Per Brilioth is a graduate of Stockholm University and holds a Master of Finance from the London Business School. Other significant board assignments: Member of the boards of Black Earth Farming Ltd, RusForest AB, Egidaco Investments PLC, Avito Holdings AB, Kontakt East Holding AB, X5 Group AB and Svenska Fotografiska museet AB. Holdings in Vostok Nafta: 525,000 call options and 180,000 depository receipts through an endowment insurance. Salary and remuneration including pension benefits: USD 645 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, vice chairman of Skansen, speaker of the elected body of representatives of Trygg Foundation, and sits on the boards of the Swedish National Debt Office, MDM Bank (Moscow), East Capital Explorer, the IT company Pro4U, and the Institute of International Economics at Stockholm University. Holdings in Vostok Nafta: 1,500 depository receipts. Salary and remuneration: USD 21 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 33 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:

Board, management and auditors

compensation committee. Professional and educational background: Co-founder and former Managing Director of Prosperity Capital Management (SE) AB and former partner/co-head of research at Brunswick Warburg Moscow. Paul Leander-Engström holds a degree in business administration from the Stockholm School of Economics and a law degree from Stockholm University. Other significant board assignments: member of the boards of Talking People AB, Ture Invest AB, Maskrosen Invest AB and Ture Promotion Capital AB. Holdings in Vostok Nafta: 669,251 depository receipts. Salary and remuneration: USD 25 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 33 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 25 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: 52,500 call options.

Anders F. Börjesson: Legal Counsel. Swedish citizen, born 1971. Employed since 2008. Holdings in Vostok Nafta: 11,000 depository receipts and 78,750 call options.

Auditors

PricewaterhouseCoopers AB

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

Ulrika Ramsvik, born 1973. Authorised public accountant, Director. Auditor in the Company since 2012. PricewaterhouseCoopers AB, Gothenburg, 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, 2012–December 31, 2012.

Group Result

During the year, the result from financial assets at fair value through profit or loss amounted to USD 114.02 (–53.88) mln. The result from investments in associated companies was USD –9.6 (–87.96) mln. Result from loan receivables was USD 2.82 (0.22) mln. Dividend income, net of withholding tax returns/expenses, was USD 14.47 (23.72) mln.

Net operating expenses (defined as operating expenses less other operating income) amounted to USD –4.77 (–5.55) mln.

Net financial items were USD 3.60 (–0.28) mln.

The net result for the year was USD 119.74 (–124.10) mln.

Total shareholders' equity amounted to USD 329.58 mln on December 31, 2012 (December 31, 2011: 492.08).

Portfolio performance

During the year January 1, 2012–December 31, 2012, Vostok Nafta's net asset value per share has increased by 31.32% excluding the effect of the redemption programme, and decreased by 24.82% including the effect of the redemption programme. During the same period the Russian RTS index increased by 10.50% in USD terms.

During the year January 1, 2012–December 31, 2012, the net asset value (NAV) has decreased from USD 492.08 mln to USD 329.58 mln, after distribution of USD 246 mln to the shareholders.

During the year January 1, 2012–December 31, 2012, gross investments in financial assets were USD 87.23 (102.94) mln, and proceeds from sales were USD 353.35 (116.75) mln. As at December 31, 2012, Vostok Nafta's three biggest investments are Tinkoff Credit Systems (39.6%), Avito (23.9%) and Black Earth Farming (21.0%).

Major events of the year

During 2012, the Company has repurchased 8,750,921 SDRs. For further information, see section Share data below.

During the year, the company has distributed SEK 18.00 per SDR for a total amount of SEK 1,619 million or USD 246 million through a share split in combination with a mandatory redemption programme, which was completed on October 2, 2012.

Tinkoff Credit Systems (TCS Bank) saw a significant positive revaluation in November 2012, when Horizon Capital invested USD 40 mln in TCS Bank in a secondary transaction which values TCS Bank at USD 1 billion.

Avito saw a significant positive revaluation in December 2012, when Naspers invested USD 50 mln and agreed to merge its Russian online classifieds operations Slando.ru and Olx.ru with Avito. The transaction values Avito at approximately USD 571 mln.

Subsequent events

Since January 1, 2013 the Company has repurchased an additional 1,509,279 SDRs. For further information, see section Share data below.

Portfolio transactions

Major portfolio events of the year include partial liquidation of holdings in Tinkoff Credit Systems (USD 15.3 mln), as well as complete liquidation of the group's holdings in Acron (USD 11.4 mln), Alrosa (USD 14.4 mln), Gornozavodsk Cement (USD 11.4 mln), Inter Rao (USD 9.8 mln), Kuzbassrazrezugol (USD 47.4 mln), Priargunsky Ind Ord (USD 12.4 mln), TNK-BP Holding Ord (USD 52.7 mln), TNK-BP Holding Pref (USD 66.8 mln) and Transneft Pref (USD 13.8 mln). Also in 2012, Vostok Nafta made additional investments and subscribed for new shares in both Black Earth Farming (USD 19.7 mln) and RusForest (USD 20.2 mln). Vostok Nafta saw its stake in Avito reduced from 23.8 percent to 13.8 percent following two transactions in the company during the year.

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

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

Administration report

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 subsequently adopted programs on May 9, 2012 and December 3, 2012, and has repurchased and cancelled an additional 10,260,200 shares up to and including the date of this report (of which 8,750,921 during 2012), resulting in a total number of 88,210,000 outstanding shares in the Company as per the date hereof (89,719,279 as at December 31, 2012), each with a par value of USD 0.50 per share (following the split and mandatory redemption programme described below).

During the third quarter of 2012, the Company liquidated the majority of its listed portfolio and subsequently transferred the proceeds in a total amount of approximately USD 246 mln to shareholders by way of a share split and mandatory redemption programme. Under the programme, each SDR was split into two SDRs, one of which was designated a Redemption SDR. The Redemption SDRs were then redeemed for a consideration of SEK 18.00 per SDR. The proceeds were distributed in October 2012.

Board meetings

The Board of Directors of Vostok Nafta comprises eight members. During the year, the Board has held six board meetings. 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 2012 AGM, a nomination committee has been established to make recommendations to the AGM 2013 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 2013.

The Nomination Committee has the following members: Ian H. Lundin, appointed by the Lundin family; Leif Törnvall, appointed by Alecta Pension Insurance; and Albert Hæggström, 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 seven persons employed in Sweden.

Treatment of retained earnings

The group's total retained earnings amount to USD 126,967 thousand.

The Board of Directors and the Managing Director propose that the retained earnings of the parent company USD 126,370 thousand, which include the year's profit of USD 121,206 thousand and USD

201,144 thousand distributed to the shareholders through a share split and mandatory redemption programme, 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 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 28, 2013

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

(Expressed in USD thousands)	Note	2012	2011
Result from financial assets at fair value through profit or loss 1	5,16	114,023	–53,876
Result from investments in associated companies	6,17	–9,057	–87,956
Result from loan receivables 1	8,18,19	2,817	218
Dividend income	7	11,246	27,893
Other operating income	9,29	436	293
Total operating income		**119,464**	**–113,429**
Operating expenses	10,28,29	–5,202	–5,843
Dividend withholding tax expenses	7	3,228	–4,170
Other operating expenses	30	–1,289	–521
Operating result		**116,202**	**–123,963**
Financial income and expenses			
Interest income		1,237	103
Interest expense	23	–35	–
Currency exchange gains/losses, net		2,397	–417
Other financial income		–	37
Net financial items		**3,599**	**–276**
Result before tax		**119,801**	**–124,239**
Taxation	11	–59	137
Net result of the year		**119,742**	**–124,102**
Earnings per share (in USD)	12	1.29	neg.
Diluted earnings per share (in USD)	12	1.29	neg.

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.

Income statements – Group

(Expressed in USD thousands)	2012	2011
Net result of the year	**119,742**	**–124,102**
Other comprehensive income for the year		
Currency translation differences	1,095	–83
Disposals	–951	–
Total other comprehensive income for the year	**144**	**–83**
Total comprehensive income for the year	**119,886**	**–124,185**

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

Statement of comprehensive income

Balance sheets – Group

(Expressed in USD thousands)	Note	Dec 31, 2012	Dec 31, 2011
NON CURRENT ASSETS			
Tangible non current assets			
Property, plant and equipment	13	23	36
Total tangible non current assets		23	36
Financial non current assets			
Financial assets at fair value through profit or loss	15,16	142,589	324,768
Investment in associated companies	15,17	151,204	120,416
Loan receivables	15,18,29	–	9,102
Deferred tax asset	11	–	35
Total financial non current assets		293,793	454,321
CURRENT ASSETS			
Cash and cash equivalents	15,21	31,841	37,665
Loan receivables	15,19	5,109	–
Tax receivables		218	325
Other current receivables	20	225	1,447
Total current assets		37,392	39,438
TOTAL ASSETS		331,207	493,794
SHAREHOLDERS' EQUITY (including net result for the financial year)	22	329,584	492,078
CURRENT LIABILITIES			
Non-interest bearing current liabilities			
Tax payables		288	424
Other current liabilities	24	986	907
Accrued expenses		350	386
Total current liabilities		1,624	1,717
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		331,207	493,794

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, 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
Balance at January 1, 2012	98,470	185,382	–1,007	209,232	492,078
Net result for the year January 1, 2012 to December 31, 2012	–	–	–	119,742	119,742
Other comprehensive income for the year					
Currency translation differences	–	–	1,095	–	1,095
Disposals	–	–	–	–951	–951
Total comprehensive income for the year January 1, 2012 to December 31, 2012	–	–	1,095	118,791	119,886
Transactions with owners:					
Redemption programme	–44,977	–	–	–201,144	–246,121
Employees share option scheme: [1]					
– value of employee services	–	–	–	–	–
Buy back of own shares	–8,634	–27,625	–	–	–36,259
	–8,634	–27,625	–	–	–36,259
Balance at December 31, 2012	44,860	157,757	88	126,879	329,584

1. The Board has adjusted the terms for options issued under the 2010 Incentive Scheme following the share split and redemption program in the third quarter of 2012, as required under the terms of the 2010 Incentive Scheme. Under the revised terms, each option issued 2010 (maturing in August 2013) entitles the holder to subscribe for 2.10 SDRs at a strike price of SEK 14.93, and each option issued 2011 (maturing in June 2014) entitles the holder to subscribe for 2.10 SDRs at a strike price of SEK 22.31. The 2010 Incentive Scheme is described in greater detail in Note 28 to the financial statements.

Cash flow statements – Group

(Expressed in USD thousands)	2012	2011
OPERATING ACTIVITES		
Result before tax	119,801	–124,239
Adjustment for:		
Interest income	–1,237	–103
Interest expenses	35	–
Currency exchange gains/-losses	–2,397	417
Depreciations and write downs	31	101
Result from financial assets at fair value through profit or loss	–114,023	53,876
Result from investments in associated companies	9,057	87,956
Result from loan receivables	–2,817	–1,178
Dividend income	–11,246	–27,893
Other non-cash items	1,289	1,559
Change in current receivables	86	266
Change in current liabilities	28	48
Net cash used in operating activities	**–1,393**	**–9,190**
Investments in financial assets	–87,226	–102,942
Sales of financial assets	353,351	116,745
Increase in loan receivables	–2,963	5,312
Dividend received	11,246	27,893
Interest received	1,237	103
Interest paid	–35	–
Tax paid	–106	–151
Net cash flow from operating activities	**274,110**	**37,769**
INVESTING ACTIVITIES		
Investments in office equipment	–17	–
Disposal, Group companies	–	40
Net cash flow used in/from investing activities	**–17**	**40**
FINANCING ACTIVITIES		
Redemption programme	–246,121	–
Buy back of own shares	–36,259	–9,180
Net cash flow used in financing activities	**–282,380**	**–9,180**
Change in cash and cash equivalents	–8,287	28,630
Cash and cash equivalents at beginning of the year	37,665	9,448
Exchange gains/losses on cash and cash equivalents	2,462	–414
Cash and cash equivalents at end of year	**31,841**	**37,665**

Key financial ratios – Group

	2012	2011
Return on capital employed, % (01)	29.15	–22.21
Equity ratio, % (02)	99.51	99.65
Shareholders' equity/share, USD (03)	3.67	4.93
Earnings/share, USD (04)	1.29	neg.
Diluted earnings/share, USD (05)	1.29	neg.
Net asset value/share, USD (06)	3.67	4.93
Weighted average number of shares for the year (07)	92,918,593	100,705,275
Weighted average number of shares for the year (fully diluted)	92,918,593	101,400,275
Number of shares at balance sheet date	89,719,279	98,470,200

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	2012	2011
Operating expenses	10	–4,785	–4,523
Reversal of write down/ write-down of shares in subsidiaries	27	110,094	–42,403
Dividends income from Group companies		276	22,274
Operating result		**105,585**	**–24,652**
Financial income and expenses			
Interest income	29	12,689	16,662
Currency exchange gains/losses, net		2,932	146
Net financial items		**15,621**	**16,808**
Net result of the year		**121,206**	**–7,844**

(Expressed in USD thousands)	2012	2011
Net result of the year	**121,206**	**–7,844**
Other comprehensive income for the year		
Currency translation differences	–	–
Total other comprehensive income for the year	**–**	**–**
Total comprehensive income for the year	**121,206**	**–7,844**

Income statement – Parent

Statement of comprehensive income

Balance sheet – Parent

(Expressed in USD thousands)	Note	Dec 31, 2012	Dec 31, 2011
NON CURRENT ASSETS			
Financial non current assets			
Shares in subsidiaries	27	294,507	184,412
Receivables from Group companies	29	34,282	307,731
Total financial non current assets		328,788	492,143
CURRENT ASSETS			
Cash and cash equivalents		716	71
Other current receivables	20	73	83
Total current assets		789	154
TOTAL ASSETS		329,577	492,297
SHAREHOLDERS' EQUITY (including net result for the financial year)	22	328,987	490,160
CURRENT LIABILITIES			
Non-interest bearing current liabilities			
Liabilities to Group companies	29	268	1,833
Other current liabilities	24	75	8
Accrued expenses		247	297
Total current liabilities		590	2,137
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		329,577	492,297

Statement of Changes in Equity – Parent

(Expressed in USD thousands)	Share Capital	Additional paid in capital	Retained earnings	Total
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
Balance at January 1, 2012	98,470	185,382	206,308	490,160
Net result for the year January 1, 2012 to December 31, 2012	–	–	121,206	121,206
Other comprehensive income for the year				
Currency translation differences	–	–	–	–
Total comprehensive income for the year January 1, 2012 to December 31, 2012	–	–	121,206	121,206
Transactions with owners:				
Redemption programme	–44,977	–	–201,144	–246,121
Employees share option scheme:				
– value of employee services	–	–	–	–
Buy back of own shares	–8,634	–27,625	–	–36,259
	–8,634	–27,625	–	–36,259
Balance at December 31, 2012	44,860	157,757	126,370	328,987

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 maximize the value of the existing holdings, the majority of which are in non-listed private equity type investments in companies whose business is derrived mainly from Russia and neighbouring countries.

These group consolidated financial statements were authorised for issue by the Board of Directors on March 28, 2013.

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 adopted by EU, as at December 31, 2012. 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 IFRS or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that will 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, 2015.

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.

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, 2012, and December 31, 2011, 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 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 investments in 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 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.

See Note 28 for more details.

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, 2012, 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 8.05 mln higher (2011: +14.43), 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 2012 than 2011 because of the decrease in SEK-denominated financial assets.

At December 31, 2012, 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 0.01 mln lower (2011: –0.17), 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 2012 than 2011 because of the decrease in RUB-denominated assets.

At December 31, 2012, 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 0.08 mln lower (2011: –0.80), mainly as a result of foreign exchange gains on translation of EUR-denominated financial assets at fair value through profit or loss and tax receivables.

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.

28% of the shares in the 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, 2012 would have affected post-tax profit and equity by approximately USD 15 mln. The risk has increased since the non-quoted investments represent a substantially larger part of the portfolio.

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, 2012 approximately 23% 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, 2012	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	986	–	–	–	–

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	–	–	–	–

Cash flow interest rate risk

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

Capital risk management

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders. Up to 2009, the Group's investments were partly financed through debt but since then the Board has decided on a new financial strategy with zero debt. The Group will therefore continue to work with financial leverage only on a restrictive basis during shorter periods of time.

Operating and sector-related risks

Country-specific risks

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

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

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

Acquisition and disposal risk

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

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

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

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

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

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

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

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

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

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

Political instability
Russia has undergone deep political and social change in recent years. The value of Vostok Nafta's assets may be affected by uncertainties such as political and diplomatic developments, social or religious instability, changes in government policy, tax and interest rates, restrictions on the political and economic development of laws and regulations in Russia, major policy changes or lack of internal consensus between leaders, executive and decision-making bodies and strong economic groups. These risks entail in particular expropriation, nationalisation, confiscation of assets and legislative changes relating to the level of foreign ownership. In addition, political changes may be less predictable in a growth country such as Russia than in other more developed countries. Such instability may in some cases have an adverse impact on both the operations and share price of the Company. Since the collapse of the Soviet Union in 1991, the Russian economy has, from time to time, shown
– significant decline in GDP
– weak banking system with limited supply of liquidity to foreign companies
– growing black and grey economic markets
– high flight of capital
– high level of corruption and increased organised economic crime
– hyperinflation
– significant rise in unemployment

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

Fair value estimation
Effective January 1, 2009, the group adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:
– Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
– Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
– Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the group's assets that are measured at fair value at December 31, 2012.

	Level 1	Level 2	Level 3	Total balance
Financial assets at fair value through profit or loss	11,589	131,000	–	142,589
Investments in associated companies	72,262	78,942	–	151,204
Non current loan receivables	–	–	–	–
Current loan receivables	–	5,109	–	5,109
Total assets	83,851	215,051	–	298,902

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, 2012.

	Financial assets at fair value through profit or loss	Investments in associated companies	Total
Opening balance	46,551	37,790	84,341
Gains or losses for the period recognized in profit or loss – "Result from financial assets at fair value through profit or loss"	84,449	–	84,449
Gains or losses for the period recognized in profit or loss – "Result from investments in associated companies"	–	41,152	41,152
Transfers into level 2	–131,000	–78,942	–209,942
Closing balance	**–**	**–**	**–**

Investments in assets that are not traded on any market will be held at fair value determined by recent transactions made at prevailing market conditions or 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.

The investments in Vostok Nafta's unlisted financial instruments Tinkoff Credit Systems and Avito have been reclassified as level 2 investments since both investments are valued on the basis of recent transactions in the companies made at prevailing market conditions in close proximity to the year end 2012. 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. At each reporting date, possible changes or events subsequent to the relevant transaction are assessed and if this assessment implies a change in the investment's fair value, the valuations are adjusted accordingly.

Tinkoff Credit Systems (Egidaco)

The valuation of the shares in TCS Bank as per December 31, 2012, has been calculated on the basis of the valuation made in November 2012 when a new shareholder invested USD 40 mln for 4% of the share capital in a secondary transaction. Vostok Nafta participated in the transaction selling 103,846 shares. The transaction was made at a USD 1 billion valuation which translates into a valuation of USD 131 mln for Vostok Nafta's remaining fully diluted share of 13.1%.

In addition to this, a comparable multiples valuation has been conducted taking into account the development of both external market conditions as well as company specific factors. The model indicates that the valuation based on this latest transaction is still valid and taking into consideration the ongoing uncertainty in financial markets and the sensitivity in the modelling, our view is that the most appropriate valuation is the one that was made in connection with the transaction in the end of 2012.

Avito (Vosvik)

Avito, is per December 31, 2012 valued based on a transaction, which Avito entered in December 2012 which includes Avito issuing new shares in the amount of USD 50 million to a new shareholder. The transaction closed on March 11, 2013 and resulted in a post-money valuation of total USD 571 million for 100% of the share capital. Vostok Nafta's share of 13.8% is accordingly valued at approximately USD 78.9 million.

A comparable multiples valuation has been done on Avito as well in order to check the validity of the valuation made at the last transaction. The peer group consists most of the few listed companies in the online classifieds/ads universe and since their business models and revenue drivers differ from one another the comparable valuation is quite sensitive to assumptions. Therefor, our view is that the most appropriate valuation is the one made in connection with the latest transaction in the end of 2012.

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, 2012, the Vostok Nafta Group consisted of the Bermudian parent company Vostok Nafta Investment Ltd; one wholly-owned Bermudian subsidiary, Vostok Holding Ltd; two wholly-owned Cypriot subsidiaries, Vostok Komi (Cyprus) Limited and Dodomar Ventures Limited; 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 2012	Group 2011
Proceeds from sale of financial assets at fair value through profit or loss	353,351	116,745
Carrying value of sold financial assets at fair value through profit or loss	–449,424	–100,318
Change in fair value of undisposed financial assets at fair value through profit or loss	210,096	–70,303
Result from financial assets at fair value through profit or loss	**114,023**	**–53,876**

During 2012 and 2011 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 2012	Group 2011
Proceeds from sale of investments in associated companies	–	–
Carrying value of sold investments in associated companies	–	–
Change in fair value of undisposed investments in associated companies	–9,057	–87,956
Result from investments in associated companies	**–9,057**	**–87,956**

During 2012 and 2011 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 2012	Group 2011
Dividend income recognized in the income statement	11,246	27,893
whereof unsettled at balance sheet date	–	–
Tax withheld on dividends	–596	–4,170
Withholding tax returns on prior year dividends	3,824	–
Net proceeds from dividends, net of tax, recognized in the income statement during the year	14,474	23,723

Note 8
Result from loan receivables

	Group 2012	Group 2011
Interest income	2,178	760
Impairments	–	–960
Foreign exchange rate gains/losses	639	417
Total	2,817	218

Note 9
Other operating income

	Group 2012	Group 2011
Reimbursed expenses (see also Note 29)	366	181
Rental income (see also Note 29)	54	93
Other	15	19
Total	436	293

Note 10
Operating expenses by nature

	Group 2012	Group 2011	Parent Company 2012	Parent Company 2011
Employee benefit expense (Note 28)	2,270	2,299	222	259
Depreciation and write down of property, plant and equipment	31	101	–	–
Operating lease expenses	266	324	–	–
Other expenses	2,635	3,120	4,563	4,264
Total operating expenses	5,202	5,843	4,785	4,523

Lease rentals amounting to TUSD 266 (2011: 324) relating to rent of office space in Stockholm in 2012 and in Stockholm and Moscow in 2011 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 2012 are subject to Russian income tax at the rate of 20% (2011: 20%).

During 2012, the Swedish subsidiary's profits are subject to Swedish income tax at the rate of 26.3% (2011: 26.3%).

Income tax expense

	Group 2012	Group 2011
Current tax	–59	137
Deferred tax	–	–
Taxation	–59	137

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 2012	Group 2011
Result before tax	119,801	–124,239
Tax calculated at domestic tax rates applicable to profits in the respective countries	–10,678	15,173
Tax effects of:		
– Income not subject to tax	57,468	16,888
– Expenses not deductible for tax purposes	–46,770	–30,551
– Adjustment in respect of prior years	293	55
– Utilisation of previously unrecognised tax losses	17	210
– Tax losses for which no deferred income tax asset was recognised	–390	–1,638
Tax charge	–59	137

The weighted average applicable tax rate was 9% (2011: 12%). The decrease is caused by a change in the profitability of the group's subsidiaries in the respective countries and sale of Russian subsidiaries in 2011. Tax rates were unchanged in 2012 compared with 2011.

Deferred tax

	Group Dec 31, 2012	Group Dec 31, 2011
Deferred tax assets relating to		
– tax losses	–	35
Total	–	35

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

	Group 2012	Group 2011
Beginning of the year	35	61
Acquired deferred tax asset	–	–
Disposal of subsidiaries	–35	–24
Charged to income statement	–	–
Currency translation differences	–	–2
End of the year	–	35

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 0.03 mln (2011: 0.36) in respect of losses amounting to USD 0.29 mln (2011: 3.55) 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.

	2012	2011
Profit attributable to the equity holders of the company	119,742	–124,102
Weighted average number of ordinary shares on issue	92,918,593	100,705,275
Earnings per share, basic	1.29	neg.
Adjustment for dilution effect of incentive options	–	695,000
Weighted average number of ordinary shares for diluted	92,918,593	101,400,275
Earnings per share, diluted	1.29	neg.

Note 13
Property, plant and equipment

Group	
At January 1, 2011	
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
Year ended December 31, 2012	
Opening net book amount	36
Additions	17
Disposals	–
Write downs	–2
Depreciation charge	–29
Exchange differences	1
Closing net book amount	23
At December 31, 2012	
Cost or valuation	126
Accumulated depreciation	–103
Net book amount	23

Depreciations and write downs amounting to net USD –31 thousand (–101) for the Vostok Nafta Group have been recognized among operating expenses in the income statement (see also Note 10).

Note 14
Investment property

Group	2012	2011
Year ended December 31		
At the beginning of the year	–	543
Disposals (Note 30)	–	–543
Fair value adjustments	–	–
Effect of translation to presentation currency	–	–
At the end of the year	–	–

Note 15
Financial instruments by category

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

December 31, 2012 – 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	–	142,589	142,589
Investments in associates	–	151,204	151,204
Loan receivables	5,109	–	5,109
Cash and cash equivalents	31,841	–	31,841
Total	36,950	293,793	330,743

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

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

	Group Dec 31, 2012	Group Dec 31, 2011
Beginning of the year	324,768	401,547
Additions	51,149	93,842
Reclassifications	–	–
Disposals	–449,424	–100,318
Change in fair value	210,096	–70,303
End of the year	142,589	324,768

The assets specified in the table to the right 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 Bank as per December 31, 2012, has been calculated on the basis of the valuation made in November 2012 when the price was settled for the shares sold to Horizon Capital at the value of USD 131 million, corresponding to Vostok Nafta's fully diluted share of 13.1%. For further information, see Note 3 – Fair Value Estimation.

Security/Company name	Number of shares held Dec 31, 2012	Fair value (USD), Dec 31, 2012	Ownership share %	Number of shares held Dec 31, 2011	Fair value (USD), Dec 31, 2011	Ownership share %
Group						
Acron	–	–	–	266,760	11,023,321	0.56%
Agrowill Group	–	–	–	1,765,000	323,802	2.47%
Alrosa	–	–	–	15,250,000	14,487,500	0.21%
Bekabadcement	–	–	–	3,654	657,720	6.53%
Caspian Services	5,364,850	160,946	10.19%	5,364,850	434,553	10.41%
Dakor	272,106	108,842	4.76%	272,106	2,812,383	4.76%
Tinkoff Credit Systems (Egidaco), equity	902,667	131,000,000	13.10%	1,006,513	46,551,014	15.5%
Tinkoff Credit Systems (Egidaco), bonds		–			9,333,624	
Eksportfinans, bonds		–			10,091,872	
Fortress Minerals Corp	–	–	–	300,000	1,103,974	2.00%
Gaisky GOK	–	–	–	16,434	4,520,993	2.66%
Gornozavodsk Cement	–	–	–	63,500	17,462,500	8.19%
Inter RAO	–	–	–	11,509,294,872	12,386,683	0.12%
Kamkabel	1,600,000	80,000	4.12%	1,600,000	160,000	4.12%
Kuzbass Fuel Company	2,925,000	9,506,250	2.95%	3,500,000	15,750,000	3.53%
Kuzbassrazrezugol	–	–	–	134,352,681	22,839,956	2.20%
Kyrgyzenergo	2,618,241	168,688	0.27%	2,618,241	168,688	0.27%
Podolsky Cement	85,332	105,982	0.01%	85,332	106,665	0.01%
Poltava GOK	–	–	–	3,004,498	6,284,419	1.57%
Priargunsky Ind Ord	–	–	–	111,685	11,168,500	6.12%
Priargunsky Ind Pref	–	–	–	11,709	585,450	0.52%
RusForest, bonds		–			2,446,790	
Shalkiya Zinc GDR	1,442,400	14,424	0.48%	1,442,400	100,968	2.55%
Steppe Cement Ltd	–	–	–	13,454,303	6,903,632	7.52%
TKS Real Estate	623,800	16,499	5.54%	623,800	515,789	5.54%
TNK-BP Holding Ord	–	–	–	15,760,237	40,590,396	0.11%
TNK-BP Holding Pref	–	–	–	31,053,600	69,575,378	6.90%
Transneft Pref	–	–	–	7,730	11,925,906	0.50%
Tuimazy Concrete Mixers	15,000	22,941	0.18%	1,215,000	2,758,050	14.78%
Varyoganneftegaz Pref	154,334	1,404,439	0.64%	154,334	1,697,674	0.64%
Total non current financial assets at fair value through profit or loss		142,589,012			324,768,200	

Note 17
Investment in associated companies

	Group Dec 31, 2012	Group Dec 31, 2011
Beginning of the year	120,416	199,272
Additions	39,845	9,100
Reclassifications	–	–
Disposals	–	–
Change in fair value or share of income	–9,057	–87,956
End of the year	**151,204**	**120,416**

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 (subsequently renamed Cortus Energy 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 December 2012, Clean Tech East acquired Cortus AB through a non-cash issue and subsequently changed its name to Cortus Energy AB in January 2013.
- RusForest AB: In March 2012, Vostok Nafta defended its pro-rata share in RusForest in connection with the rights issue conducted by RusForest AB, subscribing for a total of 112,660,836 newly issued shares which it paid for by setting off claims against RusForest AB in the total amount of SEK 132,939,786.48.
- Avito Holding AB (Vosvik): The valuation of the shares in Avito as per December 31, 2012, has been calculated on the basis of a transaction Avito entered in December 2012, which includes Avito issuing new shares in the amount of USD 50 million to a new shareholder.

Name	Number of shares held	Interest held, percent	Fair value	Revenues Jan 1, 2012–Dec 31, 2012	Profit/Loss Jan 1, 2012–Dec 31, 2012	Assets Dec 31, 2012	Liabilities Dec 31, 2012
2012							
Black Earth Farming Ltd	51,481,173	24.8	69,531	USD 229.3 mln	USD 7.2 mln	USD 422.2 mln	USD 129.0 mln
Clean Tech East Holding AB,							
shares	406,156,995	44.3	623	–	SEK –0.59 mln	SEK 10.0 mln	SEK 7.7 mln
Avito Holding AB	5,975,579	13.8	78,942	n/a	n/a	n/a	n/a
RusForest AB, shares	140,826,045	29.4	2,161	SEK 564.3 mln	SEK –1,084.7 mln	SEK 1,340.0 mln	SEK 921.6 mln
RusForest AB,							
issued call options			–54				
Total			**151,204**				

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**				

Note 18
Non-current loan receivables

	Group 2012	Group 2011
Beginning of the year	9,102	4,902
Additions	–	–
Repayments	–10,166	–
Interest income	863	68
Reclassifications	–200	4,773
Exchange differences	401	290
Write offs	–	–931
End of the year	–	9,102

Counterparty	Credit rating Dec 31, 2012	Nominal value Dec 31, 2012	Nominal value Dec 31, 2011	Carrying value Dec 31, 2012	Carrying value Dec 31, 2011	Terms of interest	Maturity
Clean Tech East Holding AB	–	990	931	–	–	0%	Mar 2018
RusForest (Cyprus) Limited	–	–	–	–	–	–	–
RusForest AB	–	–	8,902	–	8,902	–	–
Loans to personnel	–	–	1,250	–	200	–	–
Total		990	11,084	–	9,102		

During the year, RusForest AB has fully repaid the loan received from Vostok Komi (Cyprus) Limited in 2011 as part of RusForest AB's acquisition of Clean Tech East Holding AB's wood pellet producing subsidiaries. The major part of this loan was converted into new shares in RusForest AB.

During the financial year, loans to personnel were reclassified from non-current to current loan receivables.

Note 19
Current loan receivables

	Group 2012	Group 2011
Beginning of the year	–	9,283
Additions	34,904	7,266
Repayments	–31,548	–12,577
Reclassifications	200	–4,773
Interest income	1,315	692
Write-offs	–	–18
Exchange differences	238	127
End of the year	5,109	–

Counterparty	Credit rating Dec 31, 2012	Nominal value Dec 31, 2012	Nominal value Dec 31, 2011	Carrying value Dec 31, 2012	Carrying value Dec 31, 2011	Terms of interest	Maturity
RusForest AB	–	5,096	–	5,096	–	16%	April 2013
Loans to personnel	–	25	–	13	–	–	–
Total		5,121	–	5,109	–		

Vostok Nafta has a credit line of USD 12.5 mln to Black Earth Farming Ltd which carries an annual interest rate of 11% and matures in June 2013. There were no outstanding loan receivables from Black Earth Farming Ltd as per December 31, 2012.

In November 2012, RusForest secured bridge financing of USD 5 mln from Vostok Nafta. The bridge loan initially carried a 16 per cent interest rate and would mature on April 30, 2013. On February 8, 2013, after the end of the period, the terms of this loan were amended to 9 per cent interest and the maturity term was extended to December 31, 2013. As part of the new agreement, RusForest also secured an additional USD 4 mln bridge loan from Vostok Nafta. This second loan carries 9 per cent and matures on March 31, 2013.

During the financial year, loans to personnel were reclassified from non-current to current loan receivables.

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, 2012, the outstanding loans including accrued interest amounted to nominally USD 25 thousand.

Note 20
Other current receivables

	Group Dec 31, 2012	Group Dec 31, 2011	Parent Company Dec 31, 2012	Parent Company Dec 31, 2011
Prepayments and accrued income	225	258	73	83
Prepayments for geological survey costs at ZAO Baikal Energy	–	1,139	–	–
Sundry debtors	–	51	–	–
Total	225	1,447	73	83

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, 2012	Group Dec 31, 2011
Cash and cash equivalents	31,841	37,665
Total	31,841	37,665

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, 2011	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
Redemption programme	–	–44,977	–
Repurchase of own shares	–8,750,921	–8,634	–27,625
Employees share option scheme:			
– value of employee services	–	–	–
At December 31, 2012	89,719,279	44,860	157,757

Vostok Nafta'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 was valid until the next AGM of Vostok Nafta and stipulated 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 2012, Vostok Nafta repurchased 8,750,921 (2011: 2,520,775) SDRs.

There are currently 1,480,500 (2011: 995,000) 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 2012 or 2011.

Note 24
Other current liabilities

	Group Dec 31, 2012	Group Dec 31, 2011	Parent Company Dec 31, 2012	Parent Company Dec 31, 2011
Other current liabilities	203	124	75	8
Accrued VAT liability	783	783	–	–
Total	986	907	75	8

Note 25
Financial guarantees

On December 12, 2012 RusForest announced a proposition to resolve the company's strained financial situation consisting of a debt restructuring, a new rights issue of approximately SEK 86 mln and finally a directed SEK 100 mln share issue to a new Russian strategic partner. Vostok Nafta has committed to subscribe to it's pro rata share of approximately SEK 25 mln in the SEK 86 mln rights issue and, in addition to this, guaranteed to subscribe for any remaining shares not subscribed for by others.

Note 26
Pledged assets and contingent liabilities

Neither the Group nor the Company had any pledged assets or contingent liabilities as per December 31, 2012 or as per December 31, 2011.

Note 27
Shares in subsidiaries

Parent Company	Country	Number of shares	Share of capital and votes, %	Book value Dec 31, 2012 USD thousand	Book value Dec 31, 2011 USD thousand
Vostok Komi (Cyprus) Limited	Cyprus	150,000	100	294,497	184,402
Vostok Holding Ltd	Bermuda	10,000	100	10	10
Other subsidiaries of the Group					
Vostok Nafta Sverige AB	Sweden	1,000	100		
Dodomar Ventures Limited	Cyprus	2,000	100		
Total				294,507	184,412

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

During the period ended December 31, 2012, a reversal of write downs on shares in subsidiary Vostok Komi (Cyprus) Limited has been made in the amount of USD 110 mln up to the value of net assets of the subsidiary.

During the period ended December 31, 2011, the Company impaired the value of shares in its subsidiary Vostok Komi (Cyprus) Limited to the value of net assets of the subsidiary . The total write down amounted to USD 42.41 mln.

Note 28
Employee benefit expense

	Group 2012	Group 2011	Parent Company 2012	Parent Company 2011
Wages and salaries	1,504	1,578	212	248
Social security costs	482	466	10	10
Share based compensations	–	2	–	2
Pensions costs	280	250	–	–
Other employee benefit expenses	4	4	–	–
Total employee benefit expense	**2,270**	**2,299**	**222**	**259**

	Group 2012	Group 2011	Parent Company 2012	Parent Company 2011
Salaries and other remunerations to the management and the Board of Directors of the parent and its subsidiaries	1,339	1,323	212	233
Salaries to other employees	449	510	–	15
Total salaries	**1,788**	**1,833**	**212**	**248**

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 7 (8), of which 4 (3) were men. The average number of persons in the management was 3 (3).

Group, 2012	Base salaries/ board fee	Variable compensations	Other benefits	Pension expenses	Shares based compensations	Other remunerations	Total
Lukas H. Lundin	46	–	–	–	–	-	46
Al Breach	29	–	–	–	–	–	29
Lars O Grönstedt	21	–	–	–	–	–	21
Ashley Heppenstall	33	–	–	–	–	–	33
Paul Leander-Engström	25	–	–	–	–	–	25
William A. Rand	33	–	–	–	–	–	33
Robert J. Sali	25	–	–	–	–	–	25
Per Brilioth	531	–	–	114	–	–	645
Other management and board members of subsidiaries	385	–	–	97	–	–	482
Total	**1,128**	**–**	**–**	**211**	**–**	**–**	**1,339**

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**

Parent, 2012	Base salaries/ board fee	Variable compensations	Other benefits	Pension expenses	Shares based compensations	Other remunerations	Total
Lukas H. Lundin	46	–	–	–	–	-	46
Al Breach	29	–	–	–	–	–	29
Lars O Grönstedt	21	–	–	–	–	–	21
Ashley Heppenstall	33	–	–	–	–	–	33
Paul Leander-Engström	25	–	–	–	–	–	25
William A. Rand	33	–	–	–	–	–	33
Robert J. Sali	25	–	–	–	–	–	25
Per Brilioth	–	–	–	–	–	–	–
Other management and							
board members of subsidiaries	–	–	–	–	–	–	–
Total	212	–	–	–	–	–	212

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

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.

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 terms of the 2010 Incentive Programme were adjusted to reflect the results of the Share Split and Mandatory Redemption Programme concluded in October 2012. Adjusted figures are shown below, with original terms in parentheses. (A previous programme adopted at an Extraordinary General Meeting on 29 August 2007 has lapsed, since the last outstanding options under that programme matured during 2011.)

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 4,200,000 (originally 2,000,000) options. Allocation of Options to the Managing Director shall not exceed 2,100,000 (originally 1,000,000) Options and allocation to each member of the executive management or to other key employees shall not exceed 820,000 (originally 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 4,200,000 (originally 2,000,000) Options are fully exercised, the holders will acquire shares represented by Swedish Depositary Receipts corresponding to a maximum of approximately 4 (originally 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 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 1,480,500 (originally 705,000) out of the 4.2 million options authorized under the 2010 Incentive Programme have been issued to employees in 2010 and 2011. These have a strike price of SEK 14.93 and 22.31 (originally 31.41 and 46.94) respectively, 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 2010 Incentive Programme

	Issued 2010[1]	Issued 2011[1]	Total Dec 31, 2012[1]
Management and board members of subsidiaries			
Per Brilioth	1,050,000	–	1,050,000
Nadja Borisova	105,000	–	105,000
Anders F. Börjesson	157,500	–	157,500
Robert Eriksson	147,000	–	147,000
Other	–	21,000	21,000
Total[1]	1,459,500	21,000	1,480,500
Strike price, SEK[2]	14.93	22.31	
Market value per option at the time of issue, SEK[3]	1.63	3.10	
Option life	August 7, 2010– August 31, 2013	June 2, 2011– June 30, 2014	
Exercise period	August 1, 2013– August 31, 2013	June 1, 2014– June 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 2010 Incentive Programme.
2. The Board has adjusted the terms for options issued under the 2010 Incentive Programme following the share split and redemption programme carried out in the third quarter of 2012, as required under the terms of the 2010 Incentive Scheme. Under the adjusted terms, each option issued in 2010 (maturing in August 2013) entitles the holder to subscribe for 2.10 SDRs at a strike price of SEK 14.93 (originally 31.41), and each option issued 2011 (maturing in June 2014) entitles the holder to subscribe for 2.10 SDRs at a strike price of SEK 22.31 (originally 46.94). Figures in the table reflect adjusted values.
3. The market value at the time of issue 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, standard deviation of expected share price returns based on an analysis of historical share prices, option life; and the Swedish market interest rate at the grant date. The original values as calculated on the date of grant and based on original number of options were SEK 3.43 and SEK 6.52, respectively. The significant inputs into the model were a share price of SEK 24.10 / 39.12, a volatility of 30% / 30%, a dividend yield of 0% / 0%, an expected option life of three years and an annual risk-free interest rate of 2.01% / 2.71%. Figures in the table reflect adjusted values following the share split and mandatory redemption programme carried out in the third quarter of 2012.

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, 2012	Options Dec 31, 2011
At opening balance day	32.66	995,000	985,000
Forfeited	–35.17	–290,000	–
Modified	15.03	775,500	–
Granted	–	–	10,000
At closing balance day	15.03	1,480,500	995,000

Out of the 1,480,500 options (2011: 995,000) 1,459,500 options (2011: 695,000) were exercisable, but lapsed without value in September 2012.

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

	Exercise price, SEK	Options 2012	Options 2011
August 31, 2013	14.93	1,459,500	695,000
June 30, 2014	22.31	21,000	10,000
At the end of the financial year		1,480,500	995,000

Note 29
Related-party transactions

The Group is controlled by a Lundin family trust, which as at December 31, 2012 held 31.21% 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 and Austro (Cyprus) Limited.
Associated companies with subsidiaries: Black Earth Farming Ltd, RusForest AB, Clean Tech East Holding AB (renamed Cortus Energy AB in January 2013) and Vosvik AB (under liquidation since October 2012).
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 and Board of Directors, 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	2012 Associated companies	2012 Lundin family and group of companies	2012 Key management and Board of Directors	2011 Associated companies	2011 Lundin family and group of companies	2011 Key management and Board of Directors
Items of the income statement						
Income from loan receivables	2,178[1]	–	–	409[1]	–	–
Other operating income	29[2]	406[2]	–	41[2]	233[2]	–
Operating expenses	–	–465[3]	–1,128[4]	–	–387[3]	–1,132[4]
Interest expenses	–	–	–	–	–	–
Balance sheet items						
Non current loan receivables	–	–	–	8,902[1]	–	–
Current loan receivables	5,096[1]	–	–	–	–	–
Other current receivables	–	–	–	–	–	–
Retained earnings	–	–	–	–	–	–12
Other current liabilities and accrued expenses	–9[2]	–14[2]	–152[4]	–6[2]	–66[2]	–143[4]

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 5.10 mln as per December 31, 2012. In the Income Statement for the period ended December 31, 2012 Vostok Nafta has recognised interest income in the amount of USD 0.36 mln from Black Earth Farming Ltd and USD 1.81 mln from RusForest AB. Vostok Nafta has a credit line of USD 12.5 mln to Black Earth Farming Ltd which carries an annual interest rate of 11% and matures in June 2013. There were no outstanding loan receivables from Black Earth Farming Ltd as per December 31, 2012.

2) Other operating income from associated companies and Lundin companies and other current receivables
Vostok Nafta has an office rental agreement with RusForest AB, Lundin Mining AB and Clean Tech East Holding AB (renamed Cortus Energy AB in January 2013). Vostok Nafta provides head office facilities service 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. Vostok Nafta paid USD 285,209 (2011: 84,359) to Mile High Holdings Ltd in respect of aviation services received.

4) Operating expenses: Key management and Board of Directors
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 January 2012, Vostok Nafta sold its subsidiary ZAO Baikal Energy at nominal value. Vostok Nafta's loss amounted to USD 1,286 thousand.

In November 2012, Freemosa Holdings Limited was liquidated. Dodomar Ventures Limited is under liquidation.

Note 31
Events after the balance sheet date

Since January 1, 2013 the Company has repurchased 1,509,279 SDRs.

On February 7, 2013, the Company issued a short term loan to RusForest AB in an amount of USD 3.9 mln to bridge the company's working capital needs ahead of a planned capital raising in March 2013. The loan was repaid in its entirety on March 25, 2013.

Note 32
Adoption of annual report

The annual report has been submitted by the Board of Directors on March 28, 2013, see page 27. The balance sheet and profit and loss accounts are to be adopted by the company's shareholders at the annual general meeting on May 7, 2013.

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 28 to 49, which comprise balance sheets as at December 31, 2012 and 2011, 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, 2012 and 2011, and of its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Stockholm, March 28, 2013

PricewaterhouseCoopers AB

Klas Brand
Authorised public accountant
Lead Partner

Ulrika Ramsvik
Authorised public accountant

Independent Auditors' Report

Corporate Governance Report

The current Swedish Code of Corporate Governance (the "Code") came into force on 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. Since the Company's depository receipts are listed on a Swedish regulated market, it 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 31.74 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 9, 2012 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 2012. The Nomination Committee for the 2013 Annual General Meeting consists of the following members: Ian H. Lundin appointed by the Lundin family, Leif Törnvall appointed by Alecta and Albert Hæggström, 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 2013 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 2014.

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 2012 Board of Directors

The Board of Directors consists of eight Directors. All Directors were re-elected at the AGM on May 9, 2012: Al Breach, Per Brilioth, Lars O Grönstedt, C. Ashley Heppenstall, Paul Leander-Engström, Lukas H. Lundin, William A. Rand and Robert J.

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 2012 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 2012, 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 2012, the Compensation Committee met once with all members present. The Compensation Committee includes Paul Leander-Engström (Chairman), Lukas H. Lundin and Robert J. Sali.

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).

Composition of the Board of Directors, elected on May 9, 2012, including meeting attendance 2012

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			86%	205,000
Per Brilioth	2007	Member	Management			X	100%	0
Lars O Grönstedt	2010	Member	Independent				86%	150,000
Ashley Heppenstall	2010	Member	Independent	X		X	100%	235,000
Paul Leander-Engström	2007	Member	Independent		X		100%	170,000
William A. Rand	2007	Member	Independent	X			100%	235,000
Robert J. Sali	2007	Member	Independent		X		100%	170,000
Number of meetings				5	1	12	6	1,490,000

The Investment Committee consists of Lukas H. Lundin (Chairman), Per Brilioth and Ashley Heppenstall.

The committees' representation at the Annual General Meeting

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

Management

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

Group Management in 2012

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 9, 2012 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 USD 300,000 (approximately SEK 2,000,000) 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 9, 2012 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 2012, the Managing Director received a fixed annual salary of approximately USD 531,000. 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 2012. 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 385,000, 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. The Board of Directors has on two occasions during the year 2012 – May 9 and December 5 – authorized the repurchase of SDRs representing up to a maximum of 10 percent of the outstanding shares in Vostok Nafta on each occasion. 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 latest authorization is valid until the 2013 AGM. The repurchased SDRs and the underlying shares will be cancelled.

Incentive programme

Incentive programme for the Company

A share-based incentive programme has been adopted at an Annual General Meeting held on May 5, 2010. The programme is described in detail in note 28 to the 2012 financial statements. No new options were granted to employees under the 2010 incentive programme during 2012. A total of 1,480,500 options issued under the programme remain outstanding (the number has been adjusted with account taken to the share split and mandatory redemption programme carried out during the autumn of 2012 and described in detail in note 28 to the 2012 financial statements). A previous programme adopted at an Extraordinary General Meeting held on August 29, 2007 has lapsed, as all outstanding options issued under that programme matured during 2011.

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 9, 2012, 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.

Ulrika Ramsvik, born 1973. Authorised public accountant. Auditor in the Company since 2012. PricewaterhouseCoopers AB, Gothenburg, 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 50.

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

To the annual meeting of the shareholders in Vostok Nafta Investment Ltd.

Engagement and responsibility

We have audited the corporate governance statement for the year 2012 on pages 51–57. 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.

The scope of the audit

We conducted our audit in accordance with Fars auditing standard RevU 16 The auditor's examination of the corporate governance statement. That standard require 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 our opinion set out below.

Opinion

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

Stockholm, March 28, 2013

PricewaterhouseCoopers AB

Klas Brand
Authorised public accountant
Lead Partner

Ulrika Ramsvik
Authorised public accountant

Glossary of terms and acronyms used in the annual report

AAC Annual Allowable Cut

ADR American Depository Receipt

bln Billion

Capex Capital Expenditures: expenditures by a company to acquire or upgrade physical assets such as equipment, property and industrial buildings

CBR The Central Bank of the Russian Federation

CIS Commonwealth of Independent States (former Soviet Union)

cm Cubic meters

E Estimate

EBITDA Earnings Before Interest, Taxes, Depreciation and Amortization

EV Enterprise Value, i.e. stock exchange value + net liability

F Forecast

FSU Former Soviet Union

Holding company The parent company in the vertically integrated Russian oil groups

lb English pound – unit of weight (454 grammes)

mcm Thousand cubic metres

mln or mm Million

N1 Capital adequacy ratio The bank equity capital adequacy ratio (N1) is established as the ratio of the bank's equity capital to the overall risk-weighted assets minus the sum of the reserves created for depreciation of securities and possible losses on Risk Groups 3–5 loans

n/a Not available

Neft or Neftegas Russian for oil company

nm Not material

NPL Non performing loans: defined as loans overdue over 90 days

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 cash-flow, 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

T Thousand

tn Tonne

UAH Ukrainian hryvnia

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

Vostok
Nafta
Investment
Ltd

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