Vostok Nafta Investment Ltd

Annual Report 2013

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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 2014

The company shall issue the following reports:

Interim report for the first three months
May 14, 2014

Interim report for the first six months
August 13, 2014

Interim report for the first nine months
November 12, 2014

Financial accounts bulletin
February 11, 2015

Annual report and account
March/April 2015

General meeting of shareholders 2014
May 14, 2014

General meeting of shareholders 2015
May 2015

Managing Director's introduction

2013 was an eventful year for Vostok Nafta. To say the least…

Portfolio

Both Avito and TCS were revalued during 2013. Avito is currently up some 2,000% on the money we put in, while TCS (IPO proceeds plus current valuation) is up some 900%.

Avito was first revalued on the back of the purchase of Nasper's classified assets in Russia and then revalued again at the end of the year (on the back of a transaction that admittedly took place in early 2014). The transaction with Naspers established Avito as the undisputed market leader within general classifieds as well as set it well on the path to also take the lead in the verticals of cars, jobs and real estate. As online classifieds is a winner-takes-all world, these are major achievements for this company and its valuation.

There has been, and there still is a flurry of transactions in classified companies across the world. In China 58.com IPO:ed last year and from what we understand there are numerous more to come. Scout24 in Germany (largest real estate and auto classified player in Germany) was bought by an American private equity firm. EV/EBITDA multiples in the twenties on listed peers have likely lured out sellers of equity. However in our view it is not difficult to find value even in these multiples as they are a reflection of assets that when reaching a dominating position have very high barriers to entry (hence carrying a lower business risk) and where the arguably most mature assets in the world still grow at 10%+. It will obviously take many years before Avito only grows at those type of rates. That is the opportunity of venturing into these type of assets and the companies around them (for us preferably at a very early stage) within emerging markets! We have spoken before about this before but one of the more exciting trends globally right now is the accelerating smartphone penetration in emerging markets and how this gives millions, billions of people access to internet. Avito gives this exposure in Russia.

At Avito with the online marketplace for general goods won, the focus is to win the verticals of cars, jobs and real estate. Whilst the existing products with the general C2C marketplace are offered more or less to all participants, private or professional, going forward and especially within the verticals, it is not unlikely that new products and software are tailored much more specifically towards the professional users. By making Avito a more integral and also a very value adding part of the daily life of car dealers, real estate agents and job facilitators, it becomes a central part of the Russian economic ecosystem. And regardless of macro and political noise the market in Russia for cars (both new and second hand), real estate and jobs have years of growth ahead of them before reaching any sort of maturity.

For investors it will be increasingly relevant to break up the valuation of Avito in parts. First as the leading C2C player where revenue per UMV or per internet pop is the relevant benchmark to use for a valuation exercise, but then adding on to this each of the verticals where it much more becomes revenue per real-estate agent or per car dealer etc that becomes the relevant valuation tool.

Very few operators have achieved dominance within general goods as well as the verticals. Finn in Norway is most likely the only one, although there are plenty of examples of players with multi-vertical dominance (Trade me of New Zealand in General, Cars and Real Estate, Blocket of Sweden in General and Cars, LeBonCoin in General and Cars. It is not a given that Avito will reach the same position as Finn but its position today versus competition is indeed promising enough to expect at least capturing multiple verticals. We would like to stay exposed and if possible increasingly exposed…

TCS successfully carried out its IPO in October at a USD 3.2 bln which was a large upward revaluation from our previous mark. It has been a little wobbly out the door since, but the company keeps on growing its profits even under challenging cycles which is obviously a huge show of strength.

New shareholder

The Lundins sold their stake in Vostok to Luxor Capital. Luxor Capital is a New York-based investor with some USD 5.5 bln under management that also owns some 9% of Schibstedt, the global online classified leader.

Strategy

I also sense that although our historical strategy is one of being opportunistic around investments in newly formed private companies in Russia and its neighbouring countries, going forward the niche that Avito operates in, online marketplaces is one that will attract a lot of focus from us. Certainly in Russia but possibly also starting to use our experience within the space to utilise our possibility to also venture into other emerging markets.

In this annual report we have interviewed Greg Lockwood and Andrin Blachman of Piton Capital. Piton is a small VC that focuses solely on businesses with network effects or online marketplaces. We came across Piton in one of the early fund raisings for Avito when everyone involved (including the Founders of Avito) grew to like and respect Greg and Andrin enormously and have stayed in touch since. As Vostok gets more and more focused on our investment in Avito and online marketplaces in general I thought it would be interesting to share some insight into this sector on a more general basis beyond Avito by "listening in" on a conversation with Greg and Andrin. Recommended reading if you ask me.

Cash distributions?

Vostok has a large cash holding since the partial exit of our stake in TCS at the time of the IPO. Vostok has always had a high level of risk appetite which while investing in private companies has led us to invest in companies at an early stage of their life with a consequence that the initial investment sizes are relatively small. This together with our propensity to be very picky about deals (which has actually kept us from investing into a new company for some years) the board has decided that we do have the ability to distribute some of this cash to our shareholders. The mechanism by which this is currently done is through share buy backs. After some 3 weeks of being in the market 6.6% of the outstanding shares have been bought back.

We have also used some of this cash to increase our stake in Avito.

What will 2014 bring for us?

Avito will keep on growing, increasing its dominance within the key verticals of cars, jobs and real estate.

I believe the media frenzy that has been whipped up around the situation in Ukraine will decrease over the year and hence the risk premium on Russian assets will return to more normal levels. Although situations like the one in Crimea are never good for markets I believe it is difficult to see the conflict escalating from here.

Vostok will at the end of 2014 have distributed cash to shareholders (currently through buy-backs). It will have an increasingly valuable asset in Avito and possibly one or two more investments (albeit very small ones in comparison to Avito) in other online marketplaces.

March 2014,

Per Brilioth
Managing Director

An interview with Piton Capital Ventures

Piton Capital Ventures is a London based VC that focuses solely on investments in businesses with network effects. It is run by Andrin Bachmann and Greg Lockwood who both have a great deal of experience within this space. We came across Piton in one of the early fund raisings for Avito when everyone involved (including the Founders of Avito) grew to like and respect Greg and Andrin enormously. We have stayed in touch ever since. As Vostok gets more focused on our investment in Avito and the classified sector in general we thought it would be interesting to let our shareholders get some insight into the space by "listening in" on a conversation with Greg and Andrin. Here we go:

What exactly is a business with network effects?

Simple definitions are best: a business whose product or service improves with more customers. Classifieds is a great example. For buyers, choice and the ability to compare, often proximity of the seller, and pricing information all in one place are benefits that come from more sellers. This attracts more buyers, which in turn benefits prospective sellers. It becomes better for everyone to do business in a single place. One could call this a natural and beneficial monopoly.

So in a sector where there are network effects, the player with most customers has the best product, and this makes it very hard to compete with. The market structure of these sectors becomes concentrated, often with one overall winner with dominant market share, great defensibility, and very good margins. These are incredibly attractive businesses to own.

How did you get engaged in businesses with network effects?

Greg: When I was twenty-three I joined AutoTrader Magazines in Ontario, a photo-classified publication to buy and sell used cars. Although pre-internet, I witnessed the same winner-take-all phenomenon seen online today, but in the old world. AutoTrader had strong classified network effects and became the dominant medium of exchange for used cars at the cost of the three large newspapers. Years later that experience led me to invest in a P2P sports betting exchange in the UK, subsequently part of Betfair where I became Chairman. An exchange created better pricing of bets than bookmakers offered through the interaction of its customers, and created a dominant business with 90% of exchange betting volumes, and one of the highest transaction-volume electronic trading platforms in Europe. I suppose by this point I was convinced about the merits of network-effect business models.

Andrin: My history with network-effects began when I set up a special purpose investment vehicle that became the largest shareholder in QXL ricardo, a UK holding company that emulated eBay across Europe. There was great value here that the market couldn't see. QXL was becoming dominant through network effects in several markets, notably with its subsidiary allegro in Poland, but this was masked by the financial losses sustained by its failure to withdraw from markets where it had lost to eBay. By gaining influence, strengthening management, and shutting down the failed parts of the business, the market suddenly saw a dominant, increasingly cash-generative business. Whilst we had started buying at a valuation in the low tens of millions of pounds, QXL was sold to Naspers about 3 years later for almost £1bn.

Can you tell us more about how QXL came to be such a powerful player in Poland?

The local management team at allegro was very skilful at managing the balance between buyers and sellers in the early days. They understood the power of network effects at scale and focused their efforts on market dominance, rather than optimizing monetisation. Also, they were systematic in removing barriers to adoption. For example, there wasn't a good online payment mechanism in Poland when they started. So they simply set one up themselves. Finally, the team there recognised that the threats to their dominance would likely not come from a frontal attack on their auction business model, but from other ways to connect buyers and sellers, such as classified and comparison shopping. And they went about either setting up these businesses themselves, or they acquired potential competitors very quickly.

Can you give examples are of these type of businesses other than online classified players?

There are many types of platforms that combine elements of user-generated content, or user-supplied goods or services, with connectivity and communication that result in network effects. They can look like an exchange for a financial product (Betfair), a marketplace for goods or services (Etsy or AirBnB), a communication standard (a telephone network, or Twitter), a social network (Facebook), a booking platform (Booking.com, JustEat) and many variations on these themes, market by market. You can describe all these loosely as trading points that organize fragmented or disorderly markets. A centralized trading point is really one of man's oldest economic constructs, only today technology allows them to be built relatively cheaply and quickly, and electronic communications allows access to more people.

Are e-commerce businesses in this group or are they different?

You have to be a little careful of generalizing here because there are so many variations of business model. But classic ecommerce holds inventory sourced from wholesale channels, and then acquires customers and sells the inventory. The number of customers does not change product characteristics, but it does change purchasing power. So the magic that gives successful e-commerce businesses real strength is economies of scale, and not generally network effects. These can be great business but they can be very capital intensive to start, and inventory and logistics costs can result in lower margins than a pure two-sided marketplace that doesn't hold inventory. However, many of the most successful e-commerce businesses also have elements of their business benefiting from network effects – Amazon's marketplace service for example allows 3rd party sellers onto the platform.

Are there any experiences of when a dominant player has been overtaken by a newcomer?

Even though a seemingly dominant business with network effects should have great barriers to entry (because more customers create a better product that is hard for an entrant to emulate), there are many examples of leader being overturned. For instance, it can happen when there is still a high level of product or format innovation. Friendster was overturned by MySpace was overturned by FaceBook which could well be overturned. It is simply hard to know whether they have the ultimate mechanism for online social interaction and sharing. It can also happen with regulatory change, or when monopoly pricing is exercised to the extreme. Finally, if a format is very broad – for instance eBay sells everything from chainsaws to baby carriages – there can be erosion from vertical specialists that try to tailor the trading format only to a single class of item. We have an investment in France called Videdressing that lines up directly against eBay's fashion category, but we think our format is better.

How did AutoTrader evolve? Was this an offline-classified space that developed successfully into an online classified operator?

AutoTrader was started in Florida in the mid '70s by a man named Stuart Arnold. He kept several large US metro markets for himself, and sold franchises for many other US and Canadian markets. As well as growing his markets into a very large and successful publishing business, most of his franchise holders built good, and sometimes very valuable businesses. In turn the format was copied or licensed in many international markets and created several large fortunes. Arnold sold out to a large US media company, Cox Communications, really prior to the Internet, but the remaining holders of these business were largely successful at transitioning the format online. Almost 40 years later they remain very successful and often dominant businesses.

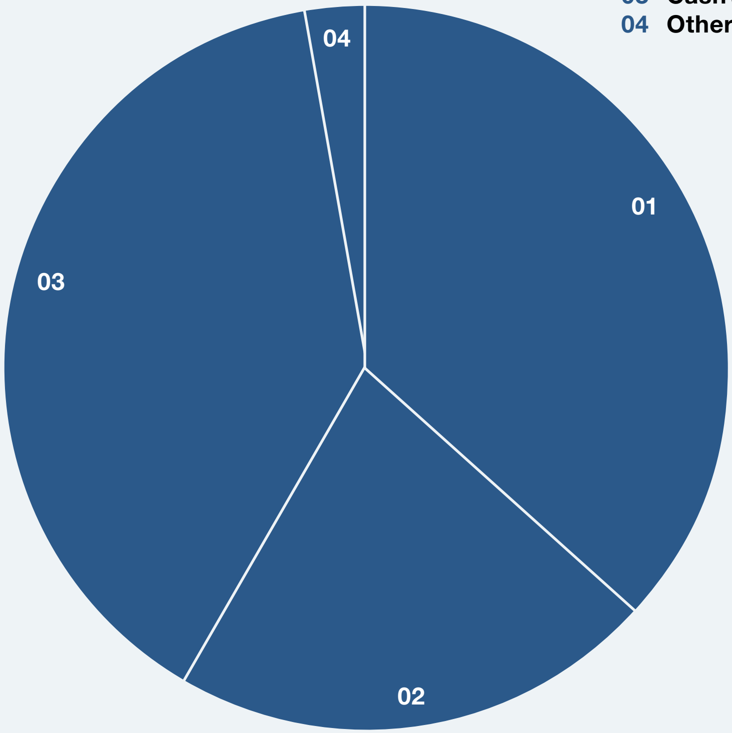
What do you look for in a new investment in your fund?

The central purpose of Piton Capital is to specialize in recognising when a business is actually starting to experience the benefit of network effects and has a reasonable likelihood of dominating its market. Beyond that, we are looking for passionate entrepreneurs who can actually make it happen.

How are you thinking about valuations in the current environment?

Generally, valuations seem relatively high to us at the moment. However, all else being equal, we strongly believe network effects business should attract higher multiples than other companies. They tend to be far more defensible and less exposed to competition, and therefore able to maintain higher margins for longer. Often, they also keep growing for much longer than people expect. We have seen many situations where a valuation that looks high initially quickly turns into a bargain.

Vostok Nafta investment portfolio as per December 31, 2013



01 Avito 36.9%
02 Tinkoff Credit Systems 21.6%
03 Cash and cash eqivalents 38.8%
04 Other 2.7%

Number of shares	Company	Fair value, USD December 31, 2013	Percentage weight	Value per share, USD December 31, 2013	Value per share, USD December 31, 2012
8,742,294	Tinkoff Credit Systems (TCS Group Holding PLC) 3	137,254,016	21.6%	15.7	145.13 1
5,975,579	Avito 2	234,124,001	36.9%	39.2	13.21 1
	Other, including cash	264,022,222	41.6%		
	Total	**635,400,238**	**100.0%**		

1. This investment is shown in the balance sheet as financial asset at fair value through profit or loss.
2. Private equity investment.
3. The value per share in Tinkoff Credit Systems per December 31, 2012 is calculated based on the number of shares 902,667 per the year-end 2012. Following a share split 1:25 on October 22, 2013 Vostok Nafta owned a total of 22,566,675 shares in the company.

The Group's net asset value as at December 31, 2013, was USD 633.97 mln, corresponding to USD 7.05 per share. Given a SEK/USD exchange rate of 6.5084 the values were SEK 4,126.10 mln and SEK 45.89, respectively.

The group's net asset value per share in USD increased by 91.96%, or by 110.21% excluding the effect of the distribution of holdings in Black Earth Farming and RusForest, over the period January 1, 2013–December 31, 2013. During the same period the RTS index decreased by 5.52% in USD terms.

During the period January 1, 2013–December 31, 2013, the investment portfolio, which represents the largest part of the Group's net asset value, has increased by USD 304.66 mln. Movements of the investment portfolio are (USD mln):

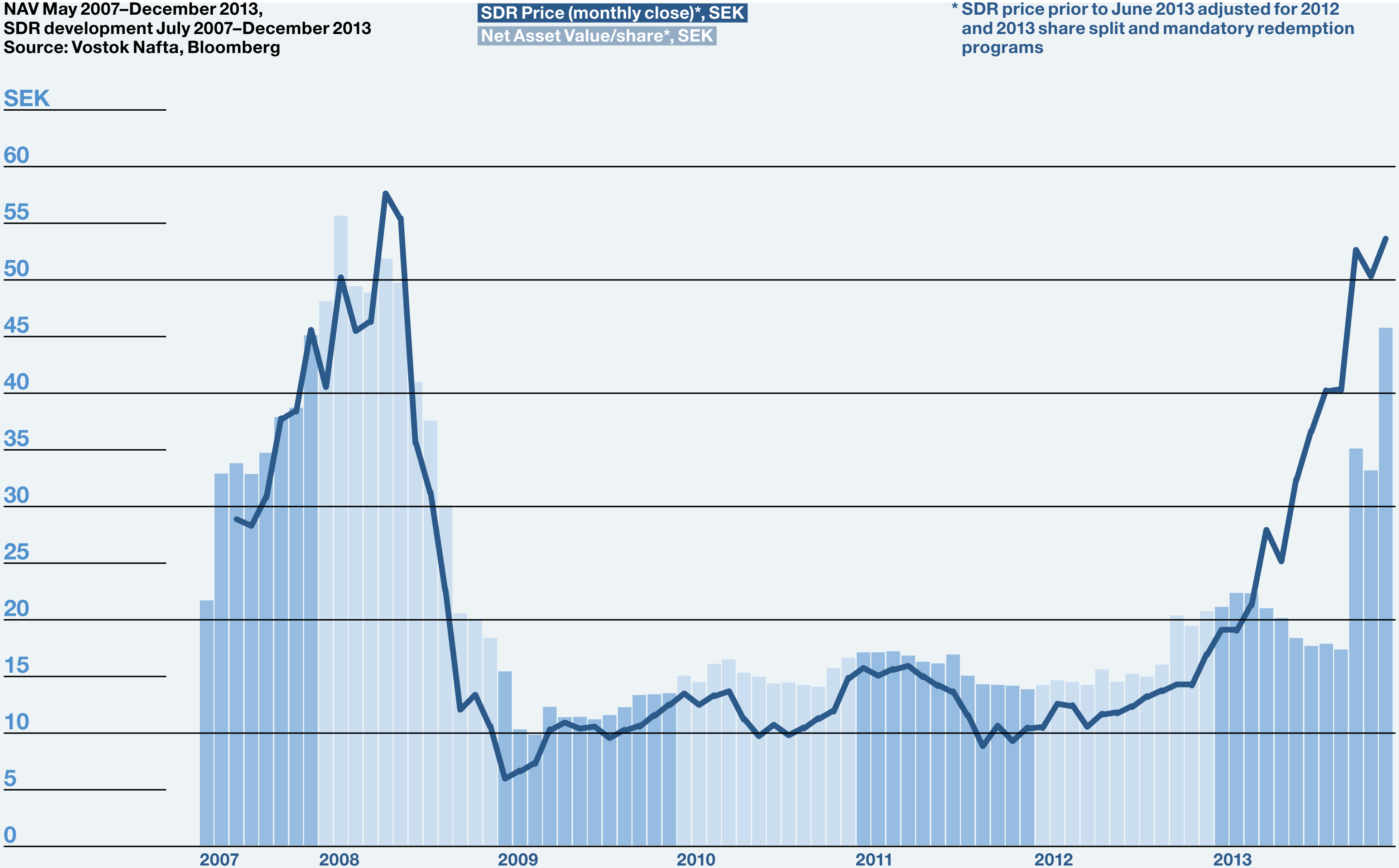
Opening balance	330.74
Additions	28.26
Proceeds from disposals	–252.04
Redemption program	–59.64
Interest income	0.13
Exchange differences	–0.18
Change in fair value and result from disposals	373.45
Change in cash	214.73
Closing balance	635.40

Major portfolio events of the year include partial liquidation of holdings in Tinkoff Credit Systems in connection with its IPO on the London Stock Exchange (USD 232 mln), as well as distribution of the group's holdings in Black Earth Farming and RusForest AB (USD 68.8 mln). Also in 2013, Vostok Nafta made additional investments in corporate bonds as part of liquidity management operations (23.73 mln).

At the end of December, 2013 the two biggest investments were Avito (36.9%) and Tinkoff Credit Systems (21.6%).

The Vostok Nafta investment portfolio

NAV May 2007–December 2013,
SDR development July 2007–December 2013
Source: Vostok Nafta, Bloomberg



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

The Vostok Nafta investment portfolio

Avito is Russia's leading online classifieds site and 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 satisfying pace during 2013. 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 the leading brand and has the highest brand awareness in Moscow and St. Petersburg and the merger with Naspers-owned Slando.ru and OLX.ru in the beginning of 2013 has significantly reaffirmed this #1 position in the Russian market.

Compared to western countries, Russia still has a low proportion of internet users in relation to the large total population. By the end of 2016 the number of internet users in Russia is expected to reach around 100 million, compared to 70–75 million in 2013. 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 strongly over the past year. Although internet penetration is still low in relative terms Russia is already the largest internet market in Europe in terms of audience size in absolute terms. The Russian E-commerce market is expected to grow with the increasing internet penetration to approximately USD 25 bln in 2016 according to Goldman Sachs Investment Research.

According to LiveInternet.ru, Avito had 51.2 mln unique visitors between February 25 and March 27, 2014 measured by unique cookies compared to approximately 30 million at the end of 2012. Avito also owns and operates the leading classified site in Morocco and has presence in Ukraine and Egypt.

In February 2014, Schibsted announced a joint venture between its Moroccan site and Avito.ma to create a clear market leader and further strengthen the combined sites position on the Moroccan online classified market.

Verticals

During 2013, Avito has continued to strengthen its position in the key verticals, Auto, Real Estate and Jobs and Services with several directed marketing campaigns that have shown positive developments. Avito publishes (in Russian) updates and other interesting statistics on different categories at http://www.avito.ru/company/press/release.

Real estate

Avito will continue to strengthen the real estate vertical in 2014. The real estate market is growing in Russia and during 2013, according to Avito, 4.5 million real estate ads were published on Avito.ru compared with 1.8 million during 2012, an increase of 150% year on year. According to Rosreestr, the Russian federal service for state registration, cadaster and cartography there were over 4 million residential property transactions in Russia in 2012. This is an impressive number, which indicates a great market opportunity for Avito.

An international peer in the real estate space one can look at is Rightmove.co.uk which is the leading and highly profitable real estate vertical in the UK. According to their 2013 full year report, Rightmove had 18.4 thousand advertisers and generated total revenues of USD 231 mln in 2013 using the exchange rate of December 31, 2013. Annual revenue per advertiser/agency amounted to approximately USD 12 thousand.

Auto Vertical

Avito's Auto category has also progressed well during 2013. About 1.45 million used cars were sold on Avito in 2013 according to the company, an increase of 21.4% compared to 2012. In mid March 2014 there

Avito

Vostok Nafta's number of shares as at December 31, 2013	5,975,579
Total Value (USD)	**234,124,001**
Share of total portfolio	36.9%
Share of total shares outstanding	13.3%
Value development in 2013 (in USD)	196.6%

During 2013 Vostok Nafta purchased 0 shares and sold 0 shares in Avito.

Avito

were almost 253 thousand live ads in the cars category from professional dealers on Avito.

According to a 2013 report from Boston Consulting Group, Russia will surpass Germany and become Europes largest car market by 2016. This would make Russia the fifth largest car market in the world. New cars sold in Russia during 2013 amounted to 2.6 million and sold used cars amounted to 5.75 million according to Autostat.ru.

An international peer in the auto vertical is Autotrader.com in the US. Autotrader.com is a private company owned by the majority shareholder Cox enterprises. Financial information on Autotrader is scarce, but according to their website the company generated Revenue of just short of USD 1.2 bln in 2012 and served on average 20 thousand dealers and 85 thousand private listers on a monthly basis.

In January 2014, Cox enterprises acquired 25% of Autotrader from a minority shareholder at valuation of USD 7.2 bln for the whole company according to media reports.

Jobs Vertical

Avito launched its jobs and services vertical in 2013. In late summer Avito ran a TV-campaign in the category which generated instant results in the two targeted categories. In March 2014 there were about 265 thousand live ads in the jobs category from professional advertisers and almost 349 thousand live ads in the services category from professional advertisers on Avito.

Avito trading statement as per 3Q13

Set out below are the latest public unaudited financials and figures from Avito originally published on February 12, 2013.

- Revenues[1] in 9M 2013 were RUB 1.6 bln (USD 49.5 mln[2]), up 167% compared with 9M 2012 (RUB 0.6 bln). Revenues[1] in 3Q 2013 amounted to RUB 632 mln (USD 19.5 mln[2]), up 173% compared with 3Q 2012 (RUB 231 mln). The above figures are translated with the USD/RUB rate as per September 30, 2013. Using the average exchange rate for the period revenues in 9M13 amounted to USD 50.5 mln.
- Avito was profitable during the third quarter and during the first 9 months of 2013.
- Page views in September 2013 amounted to 4.1 bln compared to 2.3 bln for the previous year.
- Page views for the first 9 months in 2013 amounted to 32.9 bln compared to 17.9 bln for the previous year.
- Monthly audience[3] in September 2013 according to TNS Russia and the Web Index project was 23.1 mln.

Valuation

Vostok Nafta revalued its holding in Avito as per December 31 to USD 234.1 mln, 2013 based on a transaction in the company, which was initiated in early January 2014 and finalized in the end of February, 2014. The founders of Avito sold 10% of their holdings, which corresponds to approximately 1.7% of the total number of shares in Avito. The pricing in the transaction equals SEK 255 per underlying Avito share, which equates to a valuation of approximately USD 1.8 bln for the whole company. All shareholders were guaranteed their pro-rata share of this offering and Vostok Nafta purchased 183,551 warrants, which are immediately exercisable, for a total consideration SEK 46.8 mln, including the subscription price of the warrants. As a result of the transaction, The purchased warrants corresponds to 0.4% of the total number of outstanding shares and warrants in Avito, bringing Vostok Nafta's total shareholding in Avito to 13.7%.

Avito is indirectly followed by a number of investment banks through their coverage of Avito's listed shareholders, Vostok Nafta, Kinnevik and Naspers. These banks assign different valuations of Avito where USD 4 bln is in the top of the range and the average of the valuations we have noted is roughly USD 3 bln.

Revenue per internet population

To highlight the revenue potential of leading online classified sites the graph to the right shows the annual revenue per internet population in 2013 for five leading classified sites in other countries compared with Avito's 12 months trailing revenue per internet population as per 3Q13. Leboncoin.fr (France), BLocket.se (Sweden), TradeMe (New Zealand) and Finn.no (Norway) are all the leading online classified sites (general and verticals) in their respective country. RightMove is the leading real estate ver-

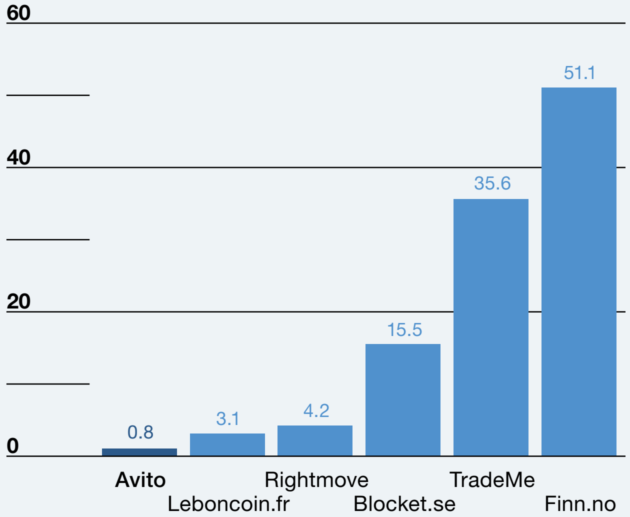
1. Unaudited figures from Avito.
2. Translated with official FX rate of 32.3451 as of September 30, 2013 quoted by the Central Bank of the Russian Federation.
3. Monthly audience is measured by a regular survey performed by TNS Russia. Details can be found at http://en.tns-global.ru/services/media/media-audience/internet/description/.

tical in the UK. Leboncoin.fr is probably the best and closest peer to Avito as it was founded just two years before Avito and has very similar revenue model.

Avito is still early in its evolution, and even though one should be careful comparing revenue dynamics from country to country, we are confident Avito we will se continued growth as the company and the market matures.

Annual revenue per internet population 2013

USD. Source: Annual reports, company websites, Internet-worldstats, FX as per December 31, 2013.
Avito revenues 4Q12–3Q13



TCS Group Holding PLC is an innovative provider of online retail financial services operating in Russia through a high-tech branchless platform, which is supported by a "smart courier network that covers around 600 cities and towns in Russia.

TCS's main offering is credit cards and had as of December 31, 2013 USD 2.3 bln in net loans and advances to customers, up 43.6% year on year. In addition to a market-leading credit card offering, the Group has developed a successful online retail deposits program and added Tinkoff Mobile Wallet to its portfolio of innovative online products and services for Russian consumers, including mobile financial services, payment solutions and insurance.

TCS's senior management consists of a team of experienced professionals formerly employed by Visa, McKinsey and several top Russian banks. By combining a purpose-built platform with dedicated staff, TCS can serve millions of customers. The advanced underwriting process and customer acquisition by invitation only limits the risk of fraud and exposure to less desirable customers, thus reducing the credit risk. The low-cost business model is flexible with a proven ability to rapidly grow and effectively service the credit card portfolio.

2013 was a transformative year for TCS which was successfully listed at a valuation of USD 3.2 bln on the main list of London Stock Exchange on October 25, 2013. Vostok Nafta sold down its stake in TCS in conjunction with the IPO, which comprised of both primary and secondary equity. Vostok Nafta sold a total of 13,824,381 shares at the offer price of USD 17.50 per share for a total purchase price of USD 232,249,596 after applicable fees. As per December 31, 2013, Vostok Nafta owns 4.82% of TCS Group Holding plc valued at USD 137.25 mln.

2013 Financial results

2013 was another strong year for TCS in terms of growth and financial performance. On March,3 2014 TCS released its IFRS financial results for 2013. TCS generated net income of USD 181 mln in 2013, up an impressive 48% compared to 2012. Return on average equity (RoAE) came in at 44.8% for 2013. TCS cash position as per December 31, 2013 stood at 19% of total assets and 43.6% of retail deposits and customer accounts. The net loan portfolio grew by 43.6% in 2013 up to USD 2.3 bln and TCS acquired almost 800,000 new active customers during the year. Non performing loans as per 4Q13 stood at 7.0% of the gross loan portfolio and loan loss provision, with TCS's conservative provisioning policy, was 161% of NPLs. Credit quality deteriorated some during the year, but the loan portfolio remained robust with negative credit risk dynamics in the Russian market in general. Cost of Risk increased from 10.5% in 2012 to 14.3% in 2013. The increase is explained by a move towards online acquisition channels, which are more profitable but also inherently more risky than offline channels and an increase in cost of risk in the Russian retail segment overall.

TCS guidance for 2014 is earnings of RUB 7.2–7.8 bln or USD 197–214 with the exchange rate of USD/RUB 36.5, as well as loan growth of 15–20% in the current challenging environment.

Launch of new products

In November 2013, TCS launched Tinkoff Mobile Wallet, a new high volume acquisition channel for the company which allows users easy and transparent online payment solution for a wide range of serices as well as peer-to peer money transfers.

In February 2014, TCS announced the mass market launch of its property insurance product through the Tinkoff Online Insurance platform following the acquisition of the Moscow insurance company earlier in 2013. TCS plans to offer a full range of insurance products in property, travel, life, health insurance and automotive insurance in the future.

Tinkoff Credit Systems

Vostok Nafta's number of shares as at December 31, 2013	8,742,294
Total Value (USD)	**137,254,016**
Share of total portfolio	21.6%
Share of total shares outstanding	4.8%
Value development in 2013 (in USD)	170.5%

During 2013 Vostok Nafta purchased 0 shares and sold 13,824,381 shares in TCS.

Tinkoff Credit Systems

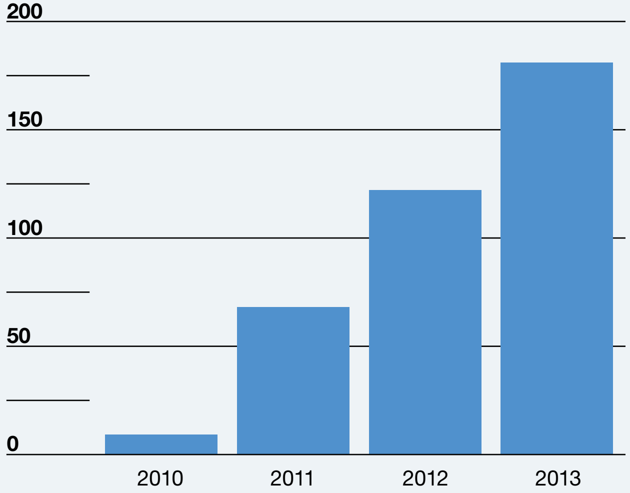
Share price performance

Following the IPO of the company in October 2013, TCS share price has been very volatile primarily affected by speculation in the media on new banking regulations in November 2013 as well as the weakness of ruble and continued negative sentiment towards Russia in the market in general. As per December 31, 2013 TCS share price was USD 15.7 and has since, decline by some 55% to USD 7.0 as per the date prior to this report.

As TCS went public in October 2013, several large investment banks now cover TCS and the current price targets we have noted are all strong Buys ranging from USD 12.8/GDR (Sberbank Investment Research) to 20.10/GDR (Ren Cap).

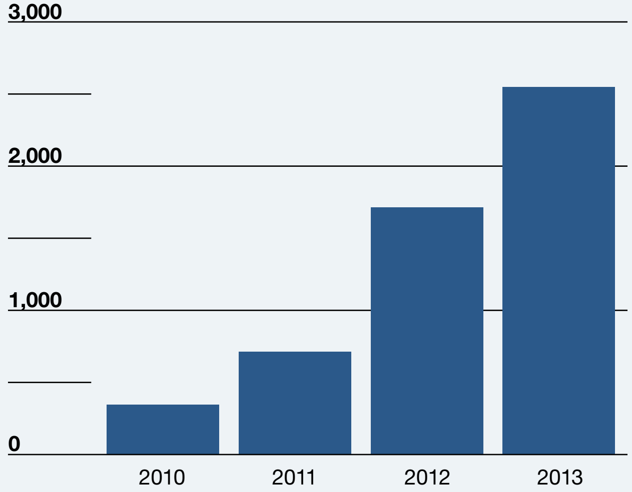
Tinkoff Credit Systems, net income, 2010–2013

USD mln. Source: company data



Tinkoff Credit Systems, gross loan portfolio size, 2010–2013

USD mln. Source: company data



Share information
All the shares carry one vote each. The shares are traded as depository receipts (SDR) in Stockholm, where Pareto Securities 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 detailed breakdown of the Company's portfolio is published in the quarterly reports.

Potential net asset discount
With a view to limiting a possible net asset discount and maximizing shareholder value, 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 canceled.

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 increased the previous mandate, was valid until the next AGM of Vostok Nafta and stipulated that a maximum of an additional 10 percent of the SDRs that are outstanding at the time of the resolution could be bought back. The SDRs that were bought back under the mandate and the underlying shares were canceled.

During 2013, Vostok Nafta repurchased 1,509,279 SDRs (2012: 8,750,921). On February 13, 2014, Vostok Nafta informed that he Company's Board of Directors had resolved to mandate the management of Vostok Nafta to repurchase SDRs of the Company. The new mandate stipulates that a maximum of 10 percent of the SDRs that are outstanding at the time of the resolution can be bought back.

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, 2013 to December 31, 2013, was 387,000 shares (2012: 180,000 shares). Trading has been conducted 100% of the time.

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

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

Largest shareholders as per December 31, 2013
The shareholder list below as per December 31, 2013, shows the ten largest owners at that time. The number of shareholders in Vostok Nafta on December 31, 2013 amounted to around 12,250 (2012: 14,300).

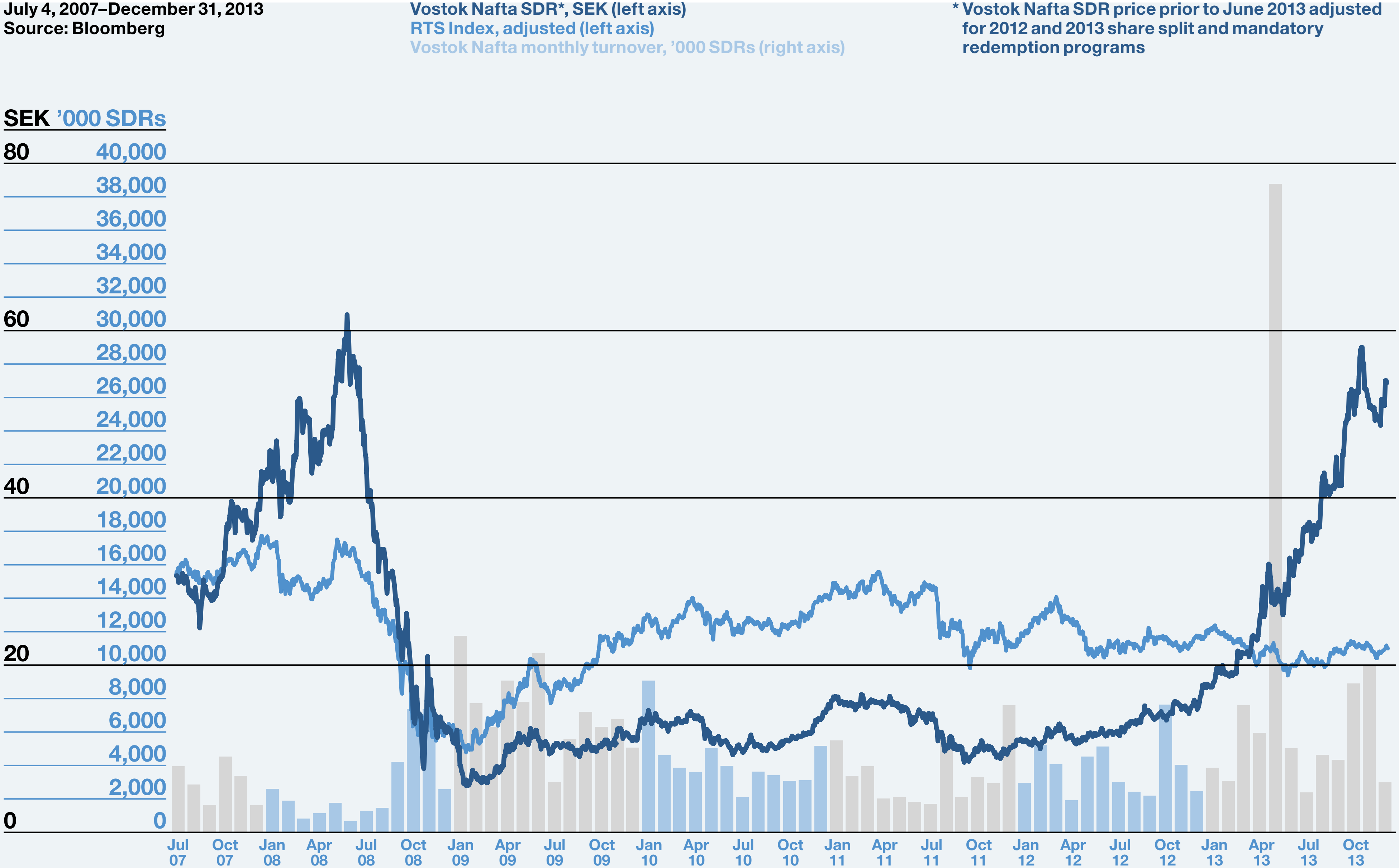
	Owner	Holding, SDRs	Holding, percent
01.	Luxor Capital Group L.P.	30,307,912	33.71%
02.	Alecta Pension Insurance	8,071,000	8.98%
03.	Fidelity Funds	4,847,200	5.39%
04.	Swedbank Robur Funds	3,257,552	3.62%
05.	Carnegie Funds	2,000,000	2.22%
06.	4th Swedish National Pension Fund	1,566,347	1.74%
07.	Handelsbanken Funds	1,478,743	1.64%
08.	Avanza Pension Insurance	1,226,969	1.36%
09.	Pershing, LLC	1,099,219	1.22%
10.	Futuris Fund	900,000	1.00%
	10 largest owners	54,754,942	60.90%
	Total	89,903,020	100.00%

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

The Vostok Nafta share

The Vostok Nafta share

Vostok Nafta share price development



Company information

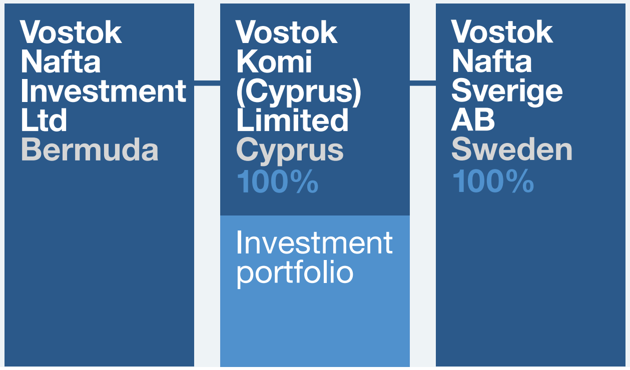
Background

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 12,200 shareholders as at the end of December 2013.

Group structure

As of December 31, 2013, the Vostok Nafta Group consisted of the Bermudian parent company Vostok Nafta Investment Ltd; one wholly-owned Cypriot subsidiary, Vostok Komi (Cyprus) Limited; 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.



Operating policy

Business concept

Vostok Nafta Investment Ltd (Vostok Nafta) is an investment company with the business concept of using experience, expertise and a widespread network to identify and invest in assets with considerable potential for value appreciation, with the focus on Russia and the other CIS states.

The sector mandate is broad and the proposition is to create shareholder value by investing in assets that are associated with risks which Vostok Nafta is well-equipped to manage. Such typical risks include corporate governance risks, liquidity risks and operational risks. During the past years, Vostok Nafta has gained experience and built an extensive network in order to handle the risks associated with investments in Russia. In addition, a broad and widespread knowledge of the Russian and CIS markets has been acquired from many years of local presence.

Strategy

The Company’s investment strategy is to run investments into primarily equity holdings in private companies with a high return potential. The Company will mainly, but not exclusively, evaluate and make investments in Russia and the former Soviet Union.

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 the 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 Board of Directors.

Recommendations on investments are made by the Board of Directors. Investment decisions are then taken by the Board of Directors of Vostok Komi (Cyprus) Limited.

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)	2013	2012	2011	2010	2009
Result from financial assets	374,411	107,782	–141,614	135,093	141,582
Other operating income	885	11,682	28,186	11,068	10,021
Total income	375,296	119,464	–113,429	146,160	151,603
Operating expenses	–10,614	–5,202	–5,843	–5,733	–5,897
Dividend withholding tax expenses/repayment	–23	3,228	–4,170	–1,593	–1,367
Other operating expenses	–	–1,289	–521	–1,176	–
Operating result	364,659	116,202	–123,963	137,660	144,339
Net financial items	148	3,599	–276	798	–4,501
Result before tax	364,807	119,801	–124,239	138,458	139,838
Tax	–182	–59	137	–98	8
Net result of the year	364,626	119,742	–124,102	138,359	139,846

Balance sheet in brief

(Expressed in USD thousand)	Dec 31, 2013	Dec 31, 2012	Dec 31, 2011	Dec 31, 2010	Dec 31, 2009
Non current fixed assets	11	23	36	675	1,948
Non current financial assets	388,828	293,793	454,321	605,783	472,402
Current financial assets	1,261	5,109	–	9,283	3,180
Cash and cash equivalents	246,572	31,841	37,665	9,448	8,935
Other current receivables	460	442	1,772	1,974	2,580
Total assets	637,133	331,207	493,794	627,164	489,045
Equity	633,966	329,584	492,078	625,430	487,624
Deferred tax liability	–	–	–	–	–
Current tax liability	402	288	424	504	516
Other current liabilities	2,764	1,336	1,293	1,229	905
Total equity and liabilities	637,133	331,207	493,794	627,164	489,045

Cash flow in brief

(Expressed in USD thousand)	2013	2012	2011	2010	2009
Cash flow from/used in operating activities	216,667	274,110	37,769	–714	–6,199
Cash flow used in/from investing activities	–4	–17	40	–24	36
Cash flow used in/from financing activities	–1,929	–282,380	–9,180	326	–10,856
Cash flow for the year	214,735	–8,287	28,630	–411	–17,019
Exchange rate differences in cash and cash equivalents	–4	2,462	–414	924	–3,244
Cash and cash equivalents at the beginning of the period	31,841	37,665	9,448	8,935	29,198
Cash and cash equivalents at the end of the year	246,572	31,841	37,665	9,448	8,935

Financial summary

Key ratios

	2013	2012	2011	2010	2009
Equity ratio, percent	99.50	99.51	99.65	99.72	99.71
Return on equity, percent	75.68	29.15	–22.21	24.86	38.03
Return on capital employed, percent	75.68	29.15	–22.21	24.86	34.68
Debt/equity ratio, multiple	–	–	–	–	–
Interest coverage ratio, multiple	–	–	–	–	76
Net asset value, MUSD	634*	330**	492	625	488
Exchange rate at balance sheet date,SEK/USD	6.5084	6.5156	6.9234	6.8025	7.1568
Net asset value, MSEK	4,126*	2,147**	3,407	4,254	3,490
Net asset value development in USD, percent	110***	31***	–21	28	97
Net asset value development in USD including the effect of the redemption programs, percent	92	–25	–21	28	97
RTS Index	1,443	1,527	1,382	1,770	1,445
Development RTS Index, percent	–6	10	–22	23	129
Dividends	–	–	–	–	–

Share data

	2013	2012	2011	2010	2009
Earnings per share, USD	4.10	1.29	neg.	1.37	1.40
Diluted earnings per share, USD	4.10	1.29	neg.	1.37	1.40
Net asset value per share, USD	7.05*	3.67**	4.93	6.19	4.83
Net asset value per share, SEK	45.89*	23.94**	34.12	42.12	34.56
Number of shares outstanding at year-end	89,903,020	89,719,279	98,470,200	100,990,975	100,990,975
Weighted average number of shares outstanding	88,899,415	92,918,593	100,705,275	100,990,975	100,052,565
– diluted	88,923,775	92,918,593	101,400,275	100,990,975	100,052,565

Employees

	2013	2012	2011	2010	2009
Average number of employees during the period	6	7	8	13	16

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 net 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 year.

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

* After distribution of holdings in Black Earth Farming Limited and RusForest AB to the shareholders through the 2013 redemption program.
** After distribution of USD 246 mln to the shareholders through the 2012 redemption program.
*** Excluding the effect of the redemption programs.

Board, management and auditors

Board of Directors

Lars O Grönstedt
Chairman
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 and the Swedish National Debt Office, speaker of the elected body of representatives of Trygg Foundation, and sits on the boards of 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 62 thousand. No agreement regarding severance pay or pension.

Josh Blachman
Board member
US citizen, born 1974. Member of the board since 2013. Professional and educational background: Josh Blachman is a Founder and Managing Director of Atlas Peak Capital, an investment firm focused on private technology companies. Prior to co-founding Atlas Peak Capital, Josh Blachman was a Vice President at Saints Capital where he completed a variety of investments in private technology companies. Previously, Josh Blachman worked in the Corporate Development groups at Microsoft and Oracle where he evaluated and executed both acquisitions and investments. Josh Blachman holds Bachelor and Master of Science degrees in Industrial Engineering from Stanford University and an MBA from the Stanford Graduate School of Business. Holdings in Vostok Nafta: none. Salary and remuneration: USD 14 thousand. No agreement regarding severance pay or pension.

Keith Richman
Board member
US citizen, born 1973. Member of the board since 2013. Professional and educational background: Keith Richman is Founder and President of Defy Media, an Internet entertainment community for men. Prior to co-founding Defy Media, Keith Richman was the Co-Founder and Vice-President of OnePage (acquired by Sybase 2002) and Co-Founder and Director of Business Development for Billpoint Inc. (acquired by eBay in 1999). Previous posts include Director of Corporate Planning at the Walt Disney Company, where he focused on consumer products, cable and emerging media. Keith Richman holds Bachelor and Master of Arts degrees in International Policy Studies from Stanford University. Holdings in Vostok Nafta: none. Salary and remuneration: USD 14 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. Per Brilioth was a member of the Investment Committee until its dissolution on May 7, 2013. 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 Limited, RusForest AB, Avito AB, X5 Group AB, Tethys Oil AB and Svenska Fotografiska museet AB. Holdings in Vostok Nafta: 500,000 call options and 226,000 depository receipts through an endowment insurance. Salary: USD 552 thousand. Other remuneration, including pension benefits and variable compensation: USD 2,429 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 Swedish market practice.

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: 1,478 depository receipts and 300,000 call options.

Anders F. Börjesson: General Counsel. Swedish citizen, born 1971. Employed since 2008. Holdings in Vostok Nafta: 20,000 depository receipts and 300,000 call options.

Auditors

PricewaterhouseCoopers AB

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

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, 2013–December 31, 2013.

Group Result

During the year, the result from financial assets at fair value through profit or loss amounted to USD 389.61 (114.02) mln. The result from investments in associated companies was USD –16.16 (–9.6) mln. Result from loan receivables was USD 0.96 (2.82) mln. Dividend income, net of withholding tax returns/expenses, was USD 0.60 (14.47) mln.

Net operating expenses (defined as operating expenses less other operating income) amounted to USD –10.36 (–4.77) mln, which includes variable compensation paid to the employees of the Company in the amount of USD 5.39 mln (including social taxes) and an ex-gratie payment to the former General Manager of RusForest AB, Mr. Garrett Soden, in the amount of USD 1 mln.

Net financial items were USD 0.15 (3.60) mln.

The net result for the year was USD 364.63 (119.74) mln.

Total shareholders' equity amounted to USD 633.97 mln on December 31, 2013 (December 31, 2012: 329.58).

Liquid assets

The liquid assets of the group, defined as cash and bank deposits adjusted for concluded but not yet settled share transactions, amounted to USD 246.57 mln on December 31, 2013 (December 31, 2012: 31.84).

Portfolio performance

During the year January 1, 2013–December 31, 2013, Vostok Nafta's net asset value per share has increased by 91.96% excluding the effect of the distribution of its holdings in Black Earth Farming Limited and RusForest AB. During the same period the Russian RTS index decreased by 5.52% in USD terms.

During the year January 1, 2013–December 31, 2013, gross investments in financial assets were USD 27.81 (87.23) mln, and proceeds from sales were USD 252.04 (353.35) mln. As at December 31, 2013, Vostok Nafta's two biggest investments are Avito (36.9%) and Tinkoff Credit Systems (21.6%).

Major events of the year

During 2013, the Company has repurchased 1,509,279 SDRs. For further information, see section Share data below.

During 2013, the Company has liquidated or distributed all but two remaining portfolio holdings (Avito and TCS). For further information, see Note 21.

The Company's holdings in Black Earth Farming and RusForest were distributed in kind via a mandatory redemption program during 2013.

Avito saw a significant positive revaluation in the end of 2013 on the basis of a transaction in the company which closed in February 2014, where as the founders of Avito sold 10% of their holdings (1.7% of Avito) at a valuation of roughly USD 1.8 bln for the whole company. Vostok Nafta purchased 183,551 (0.4% of Avito) of these warrants. For further information, see Note 3.

Tinkoff Credit Systems saw a significant positive revaluation in October 2013 when the company listed it shares in the form of GDRs on the main list of the London Stock Exchange. As part of the IPO, Vostok Nafta sold a substantial part of its holdings in TCS at the offer price of USD 17.50 per GDR. Vostok Nafta's proceeds from the IPO amounted to USD 232 mln after applicable fees.

Subsequent events

Since January 1, 2014 the Company has repurchased 5,963,139 SDRs under an authorization granted by the Board of Directors on February 6, 2014. For further information, see section Share data below.

Portfolio transactions

The main portfolio events of the year were the distribution of holdings in Black Earth Farming Limited and RusForest,AB to shareholders through a share split and mandatory redemption program in June 2013 and the partial liquidation of holdings in Tinkoff Credit Systems in connection with its IPO on the London Stock Exchange in October 2013. Also in 2013, Vostok Nafta made additional investments in corporate bonds as part of liquidity management operations.

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

Administration report

shares were issued in an in-kind issue in June 2009. As a result, at the end of December 2009, the number of outstanding shares in the company was 100,990,975, with a par value of USD 1 per share.

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

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

During 2012, the Company continued to repurchase shares under the 2011 program and adopted new programs on May 9, 2012 and December 3, 2012. The Company repurchased and cancelled a total of 8,750,921 shares during 2012, resulting in a total of 89,719,279 shares as at December 31, 2012, each with a par value of USD 0.50 per share (following the split and mandatory redemption program 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 program. Under the program, 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.

During 2013, the company repurchased an additional 1,509,279 SDRs under the Board of Directors' repurchase authorization of December 3, 2012. The underlying shares were cancelled in 2013. In August, 2013, a number of employees exercised options issued in 2010 under the 2010 Incentive Program to purchase a total of 1,693,020 SDRs. (For more information on the 2010 Incentive Program, see note 27 to the Financial Statements below.)

Subsequent to the balance date, on February 6, 2014, the Board of Directors aurhorized management to repurchase SDRs representing up to 10% of the shares outstanding at the time of the resolution.

Special General Meetings

A Special General Meeting was held on May 24, 2013. At the meeting, the shareholders approved the Board's proposed resolutions to effect a mandatory redemption programme for all shareholders by first executing a subdivision of shares whereby each outstanding common share in the Company of par value USD 0.50 per share be divided into three shares: one common share of par value USD 0.35, one Redemption Share Class A of par value USD 0.13 and one Redemption Share Class B of par value USD 0.02 (together the "Redemption Shares"). Holders of Swedish Depository Receipts ("SDRs") representing shares in the Company were to receive one Redemption Depository Receipt Class A ("RDR A") and one Redemption Depository Receipt Class B ("RDR B") for each SDR held, whereby one RDR A represented one Redemption Share Class A and one RDR B represented one Redemption Share Class B. Each even number of 100 RDR A entitled the holder to non-cash consideration consisting of 58 SDRs in Black Earth Farming Limited and each even number of 1,000 RDR B entitled the holder to non-cash consideration consisting of 111 shares in RusForest AB (publ).

A second Special General Meeting in Vostok Nafta was held on October 17, 2013. At the meeting, the shareholders approved the Nomination Committee's proposed resolutions. The SGM resolved that the Board of Directors shall consist of four Directors. The SGM re-elected Per Brilioth and Lars O Grönstedt and elected Josh Blachman and Keith Richman to the Board of Directors. Lars O Grönstedt was appointed as Chairman of the Board. It was further resolved that remuneration for the Board shall be SEK 1,300 thousand, of which SEK 800 thousand shall be allocated to the Chairman of the Board and SEK 250 thousand to each of the other Directors who are not employed by the Company.

Board meetings

At the onset of 2013, the Board of Directors of Vostok Nafta comprised eight members. Following the May 7, 2013 AGM, the number of Directors was reduced to five, and, at a Special General Meeting held on October 17, 2013, the number of Directors was further reduced to four. The Board of Directors currently comprises four Directors. During the year, the Board (in its various compositions) has held thirteen board meetings. The directors represent a number of nationalities. Board meetings are conducted in English. Until May 7, 2013, the Board of Directors had three sub-committees: the Investment Committee, the Audit Committee and the Compensation Committee. As the size of the Board of Directors was reduced from eight to five Directors by resolution at the May 7, 2013 AGM, the work of the committees was assumed by the Board of Directors in its entirety. 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 2013 AGM, a nomination committee has been established to make recommendations to the AGM 2014 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: Jonathan Green, appointed by Luxor Capital; Leif Törnvall, appointed by Alecta Pension Insurance; and Annika Andersson, appointed by Robur Funds.

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 7, 2013, 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 four persons employed in Sweden.

Treatment of retained earnings

The group's total retained earnings amount to USD 444,561 thousand.

The Board of Directors and the Managing Director propose that the retained earnings of the parent company USD 157,939 thousand, which include the year's profit of USD 78,601 thousand and USD 47,033 thousand distributed to the shareholders through a share split and mandatory redemption program, be brought forward, and that no dividends be paid for the year.

Declaration

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 27, 2014

Lars O Grönstedt
Chairman

Josh Blachman
Board member

Keith Richman
Board member

Per Brilioth
Managing Director and Board member

Income statements – Group

(Expressed in USD thousands)	Note	2013	2012
Result from financial assets at fair value through profit or loss 1	5,15	389,611	114,023
Result from investments in associated companies	6,16	–16,159	–9,057
Result from loan receivables 1	8,17,18	958	2,817
Dividend income	7	627	11,246
Other operating income	9,28	258	436
Total operating income		**375,296**	**119,464**
Operating expenses	10,27,28	–10,614	–5,202
Dividend withholding tax expenses/repayments	7	–23	3,228
Other operating expenses	29	–	–1,289
Operating result		**364,659**	**116,202**
Financial income and expenses			
Interest income		90	1,237
Interest expense	22	–29	–35
Currency exchange gains/losses, net		87	2,397
Net financial items		**148**	**3,599**
Result before tax		**364,807**	**119,801**
Taxation	11	–182	–59
Net result for the year		**364,626**	**119,742**
Earnings per share (in USD)	12	4.10	1.29
Diluted earnings per share (in USD)	12	4.10	1.29

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

Statement of comprehensive income

(Expressed in USD thousands)	2013	2012
Net result for the year	**364,626**	**119,742**
Other comprehensive income for the year		
Items that may be subsequently reclassified to profit or loss		
Currency translation differences	1	1,095
Disposals	–	–951
Total other comprehensive income for the year	**1**	**144**
Total comprehensive income for the year	**364,626**	**119,886**

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

Balance sheets – Group

(Expressed in USD thousands)	Note	Dec 31, 2013	Dec 31, 2012
NON CURRENT ASSETS			
Tangible non current assets			
Property, plant and equipment	13	11	23
Total tangible non current assets		11	23
Financial non current assets			
Financial assets at fair value through profit or loss	14,15	383,828	142,589
Investment in associated companies	14,16	–	151,204
Loan receivables	14,17,28	5,000	–
Total financial non current assets		388,828	293,793
CURRENT ASSETS			
Cash and cash equivalents	14,20	246,572	31,841
Loan receivables	14,18	–	5,109
Receivables from related parties		1,261	–
Tax receivables		315	218
Other current receivables	19	145	225
Total current assets		248,293	37,392
TOTAL ASSETS		637,133	331,207
SHAREHOLDERS' EQUITY (including net result for the year)	21	633,966	329,584
CURRENT LIABILITIES			
Non-interest bearing current liabilities			
Tax payables		402	288
Other current liabilities	23	1,998	986
Accrued expenses		766	350
Total current liabilities		3,166	1,624
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		637,133	331,207

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, 2012	98,470	185,382	–1,007	209,232	492,078
Net result for the year 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 2012	–	–	1,095	118,791	119,886
Transactions with owners:					
Redemption program	–44,977	–	–	–201,144	–246,121
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
Balance at January 1, 2013	44,860	157,757	88	126,879	329,584
Net result for the year 2013	–	–	–	364,626	364,626
Other comprehensive income for the year					
Currency translation differences	–	–	1	–	1
Disposals	–	–	–	–	–
Total comprehensive income for the year 2013	–	–	1	364,626	364,626
Transactions with owners:					
Proceeds from shares issued	593	2,749	–	–	3,342
Redemption program	–13,232	–	–	–47,033	–60,264
Employees' share options [1]	–	1,322	–	–	1,322
Buy back of own shares	–755	–3,889	–	–	–4,644
	–755	–3,889	–	–	–4,644
Balance at December 31, 2013	31,466	157,939	89	444,472	633,966

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 and distribution of holdings in Black Earth Farming Limited and RusForest AB in the second quarter of 2013, as required under the terms of the 2010 Incentive Scheme. Under the revised terms, each original option issued 2010 (maturing in August 2013) entitles the holder to subscribe for 2.436 SDRs at a strike price of SEK 14.93, and each option issued 2011 (maturing in June 2014) entitles the holder to subscribe for 2.436 SDRs at a strike price of SEK 22.31. The 2010 Incentive Scheme is described in greater detail in Note 27 to the financial statements.

Cash flow statements – Group

(Expressed in USD thousands)	2013	2012
OPERATING ACTIVITIES		
Result before tax	364,807	119,801
Adjustment for:		
Interest income	–90	–1,237
Interest expense	29	35
Currency exchange gains/-losses	–87	–2,397
Depreciations and write downs	15	31
Result from financial assets at fair value through profit or loss	–389,611	–114,023
Result from investments in associated companies	16,159	9,057
Result from loan receivables	–958	–2,817
Dividend income	–627	–11,246
Other non-cash items	–	1,289
Change in current receivables	175	86
Change in current liabilities	1,442	28
Net cash used in operating activities	**–8,746**	**–1,393**
Investments in financial assets	–27,813	–87,226
Sales of financial assets	252,041	353,351
Decrease/increase in loan receivables	574	–2,963
Dividend and coupon income	707	11,246
Interest received	40	1,237
Interest paid	–29	–35
Tax paid	–107	–106
Net cash flow from operating activities	**216,667**	**274,110**
INVESTING ACTIVITIES		
Investments in office equipment	–11	–17
Sale of office equipment	7	–
Net cash flow used in investing activities	**–4**	**–17**
FINANCING ACTIVITIES		
Redemption program transaction fees	–627	–
Redemption program	–	–246,121
Proceeds from shares issued	3,342	–
Buy back of own shares	–4,644	–36,259
Net cash flow used in financing activities	**–1,929**	**–282,380**
Change in cash and cash equivalents	214,735	–8,287
Cash and cash equivalents at beginning of the year	31,841	37,665
Exchange gains/losses on cash and cash equivalents	–4	2,462
Cash and cash equivalents at end of the year	**246,572**	**31,841**

Key financial ratios – Group

	2013	2012
Return on capital employed, % (01)	75.68	29.15
Equity ratio, % (02)	99.50	99.51
Shareholders' equity/share, USD (03)	7.05	3.67
Earnings/share, USD (04)	4.10	1.29
Diluted earnings/share, USD (05)	4.10	1.29
Net asset value/share, USD (06)	7.05	3.67
Weighted average number of shares for the financial period	88,899,415	92,918,593
Weighted average number of shares for the financial period (fully diluted)	88,923,775	92,918,593
Number of shares at balance sheet date	89,903,020	89,719,279

01. Return on capital employed is defined as the Group's 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).
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 year divided by the adjusted average weighted number of shares for the year.
05. Diluted earnings/share USD is defined as result for the year divided by the adjusted average weighted number of shares for the year calculated on a fully diluted basis.
06. Net asset value/share USD is defined as shareholders' equity divided by total number of shares.

Income statement – Parent

(Expressed in USD thousands)	Note	2013	2012
Result from financial assets at fair value through profit or loss	5,15	–225	–
Result from investments in associated companies	6,16	–8,753	–
Operating expenses	10	–10,380	–4,785
Reversal of write down of shares in subsidiaries	26	96,463	110,094
Dividends income from Group companies		130	276
Operating result		**77,236**	**105,585**
Financial income and expenses			
Interest income	28	1,176	12,689
Currency exchange gains/losses, net		190	2,932
Net financial items		**1,366**	**15,621**
Net result for the year		**78,601**	**121,206**

Statement of comprehensive income

(Expressed in USD thousands)	2013	2012
Net result for the year	**78,601**	**121,206**
Other comprehensive income for the year		
Total other comprehensive income for the year	**–**	**–**
Total comprehensive income for the year	**78,601**	**121,206**

Balance sheet – Parent

(Expressed in USD thousands)	Note	Dec 31, 2013	Dec 31, 2012
NON CURRENT ASSETS			
Financial non current assets			
Shares in subsidiaries	26	84,389	294,507
Financial assets at fair value through profit or loss	14	12,450	–
Loan receivables	17,28	5,000	–
Receivables from Group companies	28	110	34,282
Total financial non current assets		101,949	328,788
CURRENT ASSETS			
Cash and cash equivalents		246,434	716
Receivables from related parties	19	1,261	–
Other current receivables	19	126	73
Total current assets		247,820	789
TOTAL ASSETS		349,769	329,577
SHAREHOLDERS' EQUITY (including net result for the financial year)	21	347,344	328,987
CURRENT LIABILITIES			
Non-interest bearing current liabilities			
Liabilities to Group companies	28	2,314	268
Other current liabilities	23	23	75
Accrued expenses		89	247
Total current liabilities		2,425	590
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		349,769	329,577

Statement of Changes in Equity – Parent

(Expressed in USD thousands)	Share Capital	Additional paid in capital	Retained earnings	Total
Balance at January 1, 2012	98,470	185,382	206,308	490,160
Net result for the year 2012	–	–	121,206	121,206
Other comprehensive income for the year				
Currency translation differences	–	–	–	–
Total comprehensive income for the year 2012	–	–	121,206	121,206
Transactions with owners:				
Redemption program	–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
Balance at January 1, 2013	44,860	157,757	126,370	328,987
Net result for the year 2013	–	–	78,601	78,601
Other comprehensive income for the year				
Currency translation differences	–	–	–	–
Total comprehensive income for the year 2013	–	–	78,601	78,601
Transactions with owners:				
Proceeds from shares issued	593	2,749	–	3,342
Redemption program	–13,232	–	–47,033	–60,264
Employees' share options	–	1,322	–	1,322
Buy back of own shares	–755	–3,889	–	–4,644
	–755	–3,889	–	–4,644
Balance at December 31, 2013	31,466	157,939	157,939	347,344

(Expressed in USD thousand unless indicated otherwise)

Note 1
General information

Introduction

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

The Vostok Nafta Group was formed in 2007, in connection with the restructuring of the Vostok Gas Group. Vostok Nafta's business concept is to 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.

These group consolidated financial statements were authorised for issue by the Board of Directors on March 27, 2014.

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, 2013. 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

New and amended standards adopted by the group

The following standards have been adopted by the group for the first time for the financial year beginning on or after 1 January 2013:

Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments).

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.

New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

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. The Group will also consider the impact of the remaining phases of IFRS 9 when completed by the Board.

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.

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 group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. 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 group recognises any non-controlling interest in the acquire on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and eviously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

No goodwill was recognized in the consolidated balance sheet as of December 31, 2013, and December 31, 2012, 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.

Foreign currency translation

(a) The functional and presentational currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional currency of the Parent Company and its Bermudian and Cypriot subsidiary is USD, which is also considered to be the presentational currency of the Group.

b) Transactions and balances

Transactions in currencies other than USD are 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 are 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.

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. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. 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.

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 is 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 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.

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 initially 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 loan receivables'. Impairment losses on other financial assets are recognized in the income statement as 'Other financial expenses' among financial items.

Cash and cash equivalents

Cash and bank include cash and bank balances and other short-term highly liquid investments with original maturities of three months or less.

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.

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. The Group currently has no temporary differences and has no deferred income tax recognised.

Employee benefits

Pension obligations

The Group has a defined contribution pension plan which is based on Swedish market practice. 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.

There was no share-based compensation of this type in 2013 or 2012. See Note 27 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 foreign exchange risk, price risk and interest rate 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, 2013, 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 27.36 mln higher (2012: +8.05), mainly as a result of foreign exchange gains on translation of SEK-denominated investments in financial assets at fair value through profit and loss. Profit is more sensitive to movement in SEK/USD exchange rates in 2013 than 2012 because of the increase in SEK-denominated financial assets, mainly Avito. Avito is exposed to the foreign exchange risks arising mainly with respect to RUB, SEK, USD and EUR.

At December 31, 2013, 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 0.09 mln lower (2012: –0.08), mainly as a result of foreign exchange gains on translation of EUR-denominated tax receivables.

Price risk

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

38% 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, 2013 would have affected post-tax profit and equity by approximately USD 26 mln.

Market interest rate risk

The group is exposed to a market interest rate risk because of outstanding loan receivables to RusForest AB 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 Notes 17 and 18. 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. The majority of cash is placed in different type of cash securities which are fully protected in the event of a bankruptcy of the custodian institution since securities on account are separate from the custodian's balance sheet and thus never become a part of the custodian's bankruptcy estate.

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, 2013 approximately 38% of the Group's investment portfolio comprises liquid assets.

The Group does not have any financial liability as per December 31, 2013 and December 31, 2012.

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 (Commonwealth of Independent States, i.e., the former Soviet Union) 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 more mature legal systems.

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 or valued at the balance sheet. Vostok Nafta may therefore fail to sell its holdings in a portfolio company or be forced to do so at less than its maximum value or at a loss. If Vostok Nafta disposes of the whole or parts of an investment in a portfolio company, the Company may receive less than the potential value of the participations, and the Company may receive less than the sum invested.

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

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

Accounting practice and other information

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

Corporate governance risk

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

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

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

Dependence on key individuals

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

Investments in growth markets

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

International capital flows

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

Political instability

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

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

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

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

– 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 Group's assets that are measured at fair value at December 31, 2013:

	Level 1	Level 2	Level 3	Total balance
Financial assets at fair value through profit or loss	149,704	234,124	–	383,828
Total assets	**149,704**	**234,124**	**–**	**383,828**

The Group's assets that were 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. In October 2013 the investment in TCS was transferred to level 1 from level 2 following the company's IPO and listing on The London Stock Exchange. Vostok Nafta also invests in high quality corporate bonds as part of its liquidity management operations. The corporate bond investments are classified as 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.

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 asset Avito has been reclassified as a level 2 investment since it is valued on the basis of a recent transaction in the company made at prevailing market conditions in close proximity to the year-end 2013. The validity of a valuation 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 (TCS Group Holding PLC)

TCS Group Holding PLC (TCS) listed its shares in the form of GDRs on the main list of the London Stock Exchange during the fourth quarter of 2013. As a result of the IPO, the investment in TCS was reclassified from a level 2 investment to a level 1 investment. As part of the offering, Vostok Nafta sold 13,824,381 shares in the company bringing in proceeds of USD 232 mln after applicable fees. As per December 31 2013, Vostok Nafta owns a 4.82% stake in TCS. The remaining TCS shares in the portfolio are subject to a 180-day lock-up period from the date of the IPO.

Avito AB (Avito)

The investment in the Group's unlisted holding Avito is classified as a level 2 investment as it is valued on the basis of a transaction in the company which closed in February, 2014. On January 9, 2014 Vostok Nafta and the other shareholders received an offer to purchase warrants in Avito from the company's management at an underlying valuation of SEK 255 per Avito share, which translates into a total company valuation of approximately USD 1.8 bln. The details of the offer were governed by the shareholders' agreement in Avito and guaranteed all current shareholders to purchase its pro-rata share of the total warrants offered for sale in a two-stage process. Vostok Nafta alongside some other shareholders in Avito accepted this offer and as a result of the transaction Vostok Nafta purchased 183,551 warrants in Avito corresponding to 0.4% of the total number of outstanding shares and warrants, bringing Vostok Nafta's total shareholding in Avito to 13.7%. Several shareholders in Avito participated in the transaction and acted to purchase more than their simple pro-rata share of the offering. As this transaction was initiated in such limited time after the fourth quarter ending and no significant company-specific or market related events occurred during this time frame, the underlying valuation of SEK 255 per Avito share is the best fair value estimate of the investment in Avito as per December 31, 2013. As Avito currently is the largest asset in Vostok Nafta's portfolio, a change in valuation of Avito would have significant impact on Vostok Nafta's portfolio. A 20% lower/ higher valuation of Avito would result in an increase/decrease by USD 46.8 mln or 7.4% of the total portfolio.

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, 2013, the Vostok Nafta Group consisted of the Bermudian parent company Vostok Nafta Investment Ltd; one wholly-owned Cypriot subsidiary, Vostok Komi (Cyprus) 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 2013	Group 2012
Proceeds from sale of financial assets at fair value through profit or loss	251,045	353,351
Carrying value of sold financial assets at fair value through profit or loss	–95,020	–449,424
Change in fair value of financial assets at fair value through profit or loss since initial recognition	233,586	210,096
Result from financial assets at fair value through profit or loss	389,611	114,023

During 2013 and 2012 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 2013	Group 2012
Proceeds from sale of investments in associated companies	997	–
Carrying value of sold investments in associated companies	–17,515	–
Change in fair value of investments in associated companies since initial recognition	360	–9,057
Result from investments in associated companies	–16,159	–9,057

During 2013 and 2012 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 2013	Group 2012
Dividend income recognized in the income statement	627	11,246
whereof unsettled at balance sheet date	–	–
Tax withheld on dividends	–23	–596
Withholding tax returns on prior year dividends	–	3,824
Net proceeds from dividends, net of tax, recognized in the income statement during the year	604	14,474

Note 8 Result from loan receivables

	Group 2013	Group 2012
Interest income	1,014	2,178
Foreign exchange rate gains/losses	–56	639
Total	958	2,817

Note 9 Other operating income

	Group 2013	Group 2012
Reimbursed expenses (see also Note 28)	218	366
Rental income (see also Note 28)	29	54
Other	11	15
Total	258	436

Note 10
Operating expenses by nature

	Group 2013	Group 2012	Parent Company 2013	Parent Company 2012
Employee benefit expense (Note 27)	7,419	2,270	138	222
Depreciation and write down of property, plant and equipment	15	31	–	–
Operating lease expenses	216	266	–	–
Service agreement between Vostok Nafta Sverige AB and Vostok Nafta Investment Ltd	–	–	8,001	2,771
Other expenses	2,964	2,635	2,241	1,792
Total operating expenses	10,614	5,202	10,380	4,785

Lease rentals amounting to TUSD 216 (2012: 266) relating to rent of office space 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.

The Group's Cypriot entities are subject to corporation tax on taxable profits at the rate of 12.5% (2012: 10%).

Under certain conditions, interest may be exempt from income tax and only subject to defence contribution at the rate of 30% as from April 29, 2013 (August 31, 2011–April 28, 2013: 15%).

In certain cases dividends received from abroad may be subject to defence contribution at the rate of 20% (2012: 20%).

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

As from the tax year 2012, brought forward losses of the prior five years may be utilized.

During 2013, the Swedish subsidiary's profits are subject to Swedish income tax at the rate of 22% (2012: 26.3%).

Income tax expense

	Group 2013	Group 2012
Current tax	–182	–59
Deferred tax	–	–
Taxation	–182	–59

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 2013	Group 2012
Result before tax	364,807	119,801
Tax calculated at domestic tax rates applicable to profits in the respective countries	–47,852	–10,678
Tax effects of:		
– Income not subject to tax	60,478	57,468
– Expenses not deductible for tax purposes	–12,718	–46,770
– Adjustment in respect of prior years	–96	293
– Utilisation of previously unrecognised tax losses	7	17
– Tax losses for which no deferred income tax asset was recognised	–	–390
Tax charge	–182	–59

The weighted average applicable tax rate was 13% (2012: 9%). The increase is caused by a change in the profitability of the group's subsidiaries in the respective countries. The corporate tax rate was increased to 12.5% in Cyprus as of January 1, 2013 (2012: 10%) and decreased in Sweden to 22% (2012: 26.3%).

Deferred tax

	Group Dec 31, 2013	Group Dec 31, 2012
Deferred tax assets relating to		
– tax losses	–	–
Total	–	–

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

	Group 2013	Group 2012
Beginning of the year	–	35
Acquired deferred tax asset	–	–
Disposal of subsidiaries	–	–35
Charged to income statement	–	–
Currency translation differences	–	–
End of the year	–	–

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 0.01 mln (2012: 0.03) in respect of losses amounting to USD 0.05 mln (2012: 0.29) that can be set off against the profits of the next five years effective January 1, 2013 (2012: losses could 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.

	2013	2012
Profit attributable to the equity holders of the company	364,626	119,742
Weighted average number of ordinary shares on issue	88,899,415	92,918,593
Earnings per share, basic	4.10	1.29
Adjustment for dilution effect of incentive options	24,360	–
Weighted average number of ordinary shares for diluted	88,923,775	92,918,593
Earnings per share, diluted	4.10	1.29

Note 13
Property, plant and equipment

Group	
At January 1, 2012	
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**
Year ended December 31, 2013	
Opening net book amount	23
Additions	11
Disposals	–7
Write downs	–
Depreciation charge	–15
Exchange differences	–
Closing net book amount	**11**
At December 31, 2013	
Cost or valuation	55
Accumulated depreciation	–43
Net book amount	**11**

Depreciations and write downs amounting to net USD –15 thousand (2012: –31) for the Vostok Nafta Group have been recognized among operating expenses in the income statement (see also Note 10).

Note 14
Financial instruments by category

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

December 31, 2013 – 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	–	383,828	383,828
Investments in associates	–	–	–
Loan receivables	5,000	–	5,000
Cash and cash equivalents	246,572	–	246,572
Total	**251,572**	**383,828**	**635,400**

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, 2013 – Parent Company

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	–	12,450	12,450
Loan receivables	5,000	–	5,000
Cash and cash equivalents	246,434	–	246,434
Receivables from Group Companies	110	–	110
Total	**251,544**	**12,450**	**263,994**

December 31, 2012 – Parent Company

Assets as per balance sheet	Loans and receivables	Assets at fair value through profit and loss – designated	Total
Cash and cash equivalents	716	–	716
Receivables from Group Companies	34,282	–	34,282
Total	**34,998**	**–**	**34,998**

Note 15
Non-current financial assets at fair value through profit or loss

	Group Dec 31, 2013	Group Dec 31, 2012
Beginning of the year	142,589	324,768
Additions	23,731	51,149
Reclassifications	78,942	–
Proceeds from disposals	–95,020	–449,424
Change in fair value for the year	233,586	210,096
End of the year	383,828	142,589

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.

– Avito AB: The valuation of the shares in Avito as per December 31, 2013, has been calculated on the basis of the valuation in the recently closed transaction in the company where the founders sold 10 percent of their holdings to other current shareholders including Vostok Nafta. Vostok Nafta's ownership share following the transaction increased to 13.7%.

	Parent Company Dec 31, 2013	Parent Company Dec 31, 2012
Beginning of the year	–	–
Additions	23,731	–
Reclassifications	–	–
Disposals	–11,056	–
Change in fair value	–225	–
End of the year	12,450	–

Security/Company name	Currency	Number of shares held Dec 31, 2013	Fair value (USD), Dec 31, 2013	Ownership share %	Number of shares held Dec 31, 2012	Fair value (USD), Dec 31, 2012	Ownership share %
Group							
Avito AB	SEK	5,975,579	234,124,001	13.3%	–	–	–
Caspian Services		–	–	–	5,364,850	160,946	10.2%
Dakor		–	–	–	272,106	108,842	4.8%
Tinkoff Credit Systems*	USD	8,742,294	137,254,016	4.8%	902,667	131,000,000	13.1%
Kamkabel		–	–	–	1,600,000	80,000	4.1%
Kuzbass Fuel Company		–	–	–	2,925,000	9,506,250	3.0%
Kyrgyzenergo		–	–	–	2,618,241	168,688	0.3%
Podolsky Cement		–	–	–	85,332	105,982	0.0%
Shalkiya Zinc GDR		–	–	–	1,442,400	14,424	0.5%
TKS Real Estate		–	–	–	623,800	16,499	5.5%
Tuimazy Concrete Mixers		–	–	–	15,000	22,941	0.2%
Varyoganneftegaz Pref		–	–	–	154,334	1,404,439	0.6%
Liquidity management (corporate bond portfolio)			12,449,789			–	
Total non current financial assets at fair value through profit or loss			383,827,806			142,589,012	
Parent Company							
Liquidity management (SEK denominated corporate bond portfolio)			9,357,661			–	
Liquidity management (USD denominated corporate bond portfolio)			3,092,128			–	
Total non current financial assets at fair value through profit or loss			12,449,789			–	

* The number of shares in Tinkoff Credit Systems was 902,667 per the year-end 2012. Following a share split 1:25 on October 22, 2013 Vostok Nafta owned a total of 22,566,675 shares in the company.

Note 16
Investment in associated companies

	Group Dec 31, 2013	Group Dec 31, 2012
Beginning of the year	151,204	120,416
Additions	4,531	39,845
Reclassifications	–78,942	–
Proceeds from disposals	–997	–
Redemption at fair value	–59,637	–
Change in fair value for the year	–16,159	–9,057
End of the year	**0**	**151,204**

The shares specified in the table to the right are investments in associated companies. Black Earth Farming Limited, RusForest AB, and Clean Tech East Holding AB (subsequently renamed Cortus Energy AB) were all liquidated or distributed during 2013. Avito AB was reclassified as a financial asset at fair value through profit or loss following the liquidation of Vosvik AB and the direct ownership of the Avito shares which followed.

- Clean Tech East Holding AB: 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. Vostok Nafta sold its holding during the course of 2013.
- RusForest AB and Black Earth Farming Limited: In June 2013, Vostok Nafta distributed its holdings in RusForest and Black Earth Farming Limited to the shareholders of Vostok Nafta through a mandatory redemption program.
- Avito AB: Avito AB was reclassified as a financial asset following the liquidation of the holding company Vosvik AB. See note 15 and note 3 – fair value for more detail.

Name	Number of shares held	Interest held, percent	Fair value	Revenues Jan 1, 2013– Dec 31, 2013	Profit/Loss Jan 1, 2013– Dec 31, 2013	Assets Dec 31, 2013	Liabilities Dec 31, 2013
2013							
–	–	–	–	–	–	–	–
Total			**–**				

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 Limited	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**				

Note 17
Non-current loan receivables

	Group 2013	Group 2012
Beginning of the year	–	9,102
Additions	–	–
Repayments	–589	–10,166
Interest income	175	863
Reclassifications	5,414	–200
Exchange differences	–	401
Write offs	–	–
End of the year	5,000	–

Counterparty	Credit rating Dec 31, 2013	Nominal value Dec 31, 2013	Nominal value Dec 31, 2012	Carrying value Dec 31, 2013	Carrying value Dec 31, 2012	Terms of interest	Maturity
Clean Tech East Holding AB	–	–	990	–	–	0%	Mar 2018
RusForest AB	–	5,000	–	5,000	–	16% / 9%	Dec 2014
Total		5,000	990	5,000	–		

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, the terms of this loan were amended to 9 per cent interest and the maturity term was extended to December 31, 2013. On August 14, 2013, the loan was extended to December 31, 2014. The annual rate was changed to 11 per cent for the first six months of 2014 and to 13 per cent for the last six months of 2014. Interest is due quarterly. In February 2013, Vostok Nafta extended an additional USD 3.94 mln bridge loan to RusForest at 9 per cent interest, which was fully repaid in March 2013.

During the financial year, the bridge loan to RusForest of USD 5 mln and accrued interest was reclassified from current to non current loan receivables.

Note 18
Current loan receivables

	Group 2013	Group 2012
Beginning of the year	5,109	–
Additions	3,943	34,904
Repayments	–3,942	–31,548
Reclassifications	–5,414	200
Interest income	360	1,315
Write-offs	–	–
Exchange differences	–56	238
End of the year	–	5,109

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

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, the terms of this loan were amended to 9 per cent interest and the maturity term was extended to December 31, 2013. On August 14, 2013, the loan was extended to December 31, 2014. The annual rate was changed to 11 per cent for the first six months of 2014 and to 13 per cent for the last six months of 2014. Interest is due quarterly. In February 2013, Vostok Nafta extended an additional USD 3.94 mln bridge loan to RusForest at 9 per cent interest which was fully repaid in March 2013.

During the financial year, the bridge loan to RusForest of USD 5 mln and accrued interest was reclassified from current to non 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. During 2013 the loan was repaid.

Note 19
Other current receivables

	Group Dec 31, 2013	Group Dec 31, 2012	Parent Company Dec 31, 2013	Parent Company Dec 31, 2012
Prepayments and accrued income	76	225	57	73
Other receivables	69	–	69	–
Total	145	225	126	73

Note 20
Cash and cash equivalents

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

	Group Dec 31, 2013	Group Dec 31, 2012
Cash and cash equivalents	246,572	31,841
of which short-term investments equivalent to cash	241,700	–
Total	246,572	31,841

Note 21
Share capital and additional paid in capital

Group and Parent Company	Number of shares held	Share capital	Additional paid in capital
At January 1, 2012	98,470,200	98,470	185,382
Redemption program	–	–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
New shares issued	1,693,020	593	2,749
Redemption program	–	–13,232	–
Repurchase of own shares, December 2013	–1,509,279	–755	–3,889
Employees share option scheme:			
– value of employee services	–	–	1,322
At December 31, 2013	89,903,020	31,466	157,939

On December 3, 2012, Vostok Nafta's Board of Directors, acting under Bermudan law and the Company's bye-laws, mandated 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 could be bought back. The SDRs that were bought back under the mandate and the underlying shares were to be cancelled.

During 2013, Vostok Nafta repurchased 1,509,279 (2012: 8,750,921) SDRs. The SDRs and underlying shares were cancelled.

A Special General Meeting held on May 24, 2013 adopted a resolution to transfer assets of the Company having a value of approximately USD 66.25 million to its shareholders by way of a share split 3:1 followed by redemption of all Redemption Shares, where each even number of 100 redemption SDRs of series A entitled the holder to non-cash consideration consisting of 58 SDRs in Black Earth Farming Limited and each even number of 1,000 redemption shares of series B entitled the holder to non-cash consideration consisting of 111 shares in RusForest AB (publ). The distribution was completed on June 26, 2013.

There are currently 1,184,360 (2012: 1,480,500) ordinary shares allocated 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 27.

Note 22
Borrowings

The Company has not used any credit facilities under 2013 or 2012.

Note 23
Other current liabilities

	Group Dec 31, 2013	Group Dec 31, 2012	Parent Company Dec 31, 2013	Parent Company Dec 31, 2012
Other current liabilities	1,215	203	23	75
Accrued VAT liability	783	783	–	–
Total	1,998	986	23	75

Note 24
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 committed to subscribe to its pro rata share of approximately SEK 25 mln in the SEK 86 mln rights issue which was completed in March, 2013. On June 26, 2013 Vostok Nafta distributed shares held in RusForest to its shareholders. There are no financial guarantee contracts as at December 31, 2013.

Note 25
Pledged assets and contingent liabilities

Neither the Group nor the Company had any pledged assets or contingent liabilities as per December 31, 2013 or as per December 31, 2012.

Note 26
Shares in subsidiaries

Parent Company	Country	Number of shares	Share of capital and votes, %	Book value Dec 31, 2013 USD thousand	Book value Dec 31, 2012 USD thousand
Vostok Komi (Cyprus) Limited	Cyprus	150,000	100	84,389	294,497
Vostok Holding Ltd	Bermuda	–	–	–	10
Other subsidiaries of the Group					
Vostok Nafta Sverige AB	Sweden	1,000	100		
Total				84,389	294,507

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

During the period ended December 31, 2013, a reversal of write downs on shares in subsidiary Vostok Komi (Cyprus) Limited has been made in the amount of USD 96 mln (2012: 110) up to the value of the original investment in the subsidiary. During 2013 the Cyprus subsidiary repaid back to the parent company the shareholder's contribution in the amount of USD 306.55 mln.

Note 27
Employee benefit expense

	Group 2013	Group 2012	Parent Company 2013	Parent Company 2012
Wages and salaries	5,457	1,504	147	212
Social security costs	1,694	482	–9	10
Pensions costs	265	280	–	–
Other employee benefit expenses	4	4	–	–
Total employee benefit expense	**7,419**	**2,270**	**138**	**222**

	Group 2013	Group 2012	Parent Company 2013	Parent Company 2012
Salaries and other remunerations to the management and the Board of Directors of the parent and its subsidiaries	5,040	1,339	147	212
Salaries and other remunerations to other employees	686	449	–	–
Total salaries	**5,726**	**1,788**	**147**	**212**

Decisions regarding remuneration to managers are made by the Board of Directors (previously by the Compensation Committee until its' dissolution on May 7, 2013). 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 6 (7), of which 3 (4) were men. The average number of persons in the management was 3 (3).

Group, 2013	Base salaries/ board fee	Variable compensations[1]	Other benefits	Pension expenses	Shares based compensations	Other remunerations	Total
Lukas H. Lundin	13	–	–	–	–	–	13
Josh Blachman	14	–	–	–	–	–	14
Al Breach	14	–	–	–	–	–	14
Lars O Grönstedt	62	–	–	–	–	–	62
Ashley Heppenstall	9	–	–	–	–	–	9
Paul Leander-Engström	6	–	–	–	–	–	6
William A. Rand	8	–	–	–	–	–	8
Keith Richman	14	–	–	–	–	–	14
Robert J. Sali	6	–	–	–	–	–	6
Per Brilioth	552	2,307	–	122	–	–	2,981
Other management and board members of subsidiaries	400	1,411	–	100	–	–	1,911
Total	**1,100**	**3,718**	**–**	**222**	**–**	**–**	**5,040**

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**

1. Bonuses were paid out during 2013 on four occasions: (i) in connection with the successful distribution of listed holdings in June 2013, (ii) in connection with the expiry of call options under the 2010 Incentive Program (see below), (iii) following the successful IPO of TCS Holding PLC in October 2013, and (iv) in connection with the issue of further call options under the 2010 Incentive Program.

Parent, 2013	Base salaries/ board fee	Variable compensations	Other benefits	Pension expenses	Shares based compensations	Other remunerations	Total
Lukas H. Lundin	13	–	–	–	–	–	13
Josh Blachman	14	–	–	–	–	–	14
Al Breach	14	–	–	–	–	–	14
Lars O Grönstedt	62	–	–	–	–	–	62
Ashley Heppenstall	9	–	–	–	–	–	9
Paul Leander-Engström	6	–	–	–	–	–	6
William A. Rand	8	–	–	–	–	–	8
Keith Richman	14	–	–	–	–	–	14
Robert J. Sali	6	–	–	–	–	–	6
Per Brilioth	–	–	–	–	–	–	–
Other management and board members of subsidiaries	–	–	–	–	–	–	–
Total	**147**	**–**	**–**	**–**	**–**	**–**	**147**

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**

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 Program

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 Program") 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 Program were adjusted to reflect the results of the Share Split and Mandatory Redemption Programs concluded in October 2012 and June 2013. Adjusted figures are shown below, with original terms in parentheses. (A previous program adopted at an Extraordinary General Meeting on 29 August 2007 has lapsed, since the last outstanding options under that program matured during 2011.)

The 2010 Incentive Program 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 4,872,000 (originally 2,000,000) options. Allocation of Options to the Managing Director shall not exceed 2,436,000 (originally 1,000,000) Options and allocation to each member of the executive management or to other key employees shall not exceed 974,400 (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

Originally, 2,000,000 options were authorized under the 2010 Option Program. A total of 1,184,360 options are currently issued an outstanding. If all options are fully exercised, the holders will acquire shares represented by Swedish Depositary Receipts corresponding to a maximum of approximately 1.3 percent of the share capital as at December 31, 2013. The proposed number of Options was chosen 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 thousand 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 Program

A total of 1,717,380 (originally 705,000) out of the 4,872,000 options authorized under the 2010 Incentive Program were issued to employees in 2010 and 2011. Of these, a total of 1,495,500 options, entitling to the purchase of 1,693,020 SDRs with a strike price of SEK 12.83 (originally 31.41) matured and were exercised in August 2013, and the remaining 21,000, entitling to the purchase of 24,360 at a strike price of SEK 19.18 (originally 46.94) mature on June 30, 2014. A total of 1,160,000 out of the remaining 3,154,620 call options available for issue under the same program have been issued to employees in 2013. These have a strike price of SEK 60.35 and mature in January 2017. All employees chose to purchase options at fair market value, under option (b) above.

Options Outstanding under the 2010 Incentive Program

	Issued 2011	Issued 2013	Total Dec 31, 2013
Management and board members of subsidiaries			
Per Brilioth	–	500,000	500,000
Nadja Borisova	–	300,000	300,000
Anders F. Börjesson	–	300,000	300,000
Other	24,360[1]	60,000	84,360
Total	24,360	1,160,000	1,184,360
Strike price, SEK[2]	19.18	60.35	
Market value per option at the time of issue, SEK[3]	2.68	7.46	
Option life	Jun 2, 2011– Jun 30, 2014	Dec 10, 2013– Jan 31, 2017	
Exercise period	Jun 1, 2014– Jun 30, 2014	Dec 1, 2016 Jan 31, 2017	

1. Originally, 10,000 options were issued in 2011. The Board has subsequently adjusted the terms for the options twice, following the share split and redemption programs in the third quarter of 2012 and in the second quarter of 2013, respectively, as required under the terms of the 2010 Incentive Program. Under the revised terms, each option issued 2011 (maturing in June 2014) entitles the holder to subscribe for 2.436 (1.16x2.10) SDRs at a strike price of SEK 19.18 (originally 46.94).
2. 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 Program.
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 value as calculated on the date of grant and based on original number of options was SEK 6.52. The significant inputs into the model were a share price of SEK 39.12, a volatility of 30 per cent, a dividend yield of 0 per cent, an expected option life of three years and an annual risk-free interest rate of 2.71 per cent. Figures in the table reflect adjusted values following the share split and mandatory redemption program carried out in the third quarter of 2012 and in the second quarter of 2013.

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, 2013	Options Dec 31, 2012
At opening balance day	15.03	1,480,500	995,000
Modified	12.92	236,880	775,500
Forfeited	–	–	–290,000
Exercised	12.83	–1,693,020	–
Granted	60.35	1,160,000	–
At closing balance day	**59.50**	**1,184,360**	**1,480,500**

Out of the 1,184,360 options (2012: 1,480,500) 24,360 options (2012: 1,459,500 options) were exercisable.

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

	Exercise price, SEK	Options 2013	Options 2012
August 31, 2013	12.83	–	1,459,500
June 30, 2014	19.18	24,360 [1]	21,000
January 31, 2017	60.35	1,160,000	–
At the end of the financial year		**1,184,360**	**1,480,500**

1. Originally, 10,000 options were issued in 2011. The Board has subsequently adjusted the terms for the options twice, following the share split and redemption program in the third quarter of 2012 and in the second quarter of 2013, respectively, as required under the terms of the 2010 Incentive Program. Under the revised terms, each option issued 2011 (maturing in June 2014) entitles the holder to subscribe for 2.436 (1.16x2.10) SDRs at a strike price of SEK 19.18 (originally 46.94).

Note 28
Related-party transactions

The Group was up to May 21, 2013 controlled by a Lundin family trust, which held 30.92 per cent of the shares (through companies).

The Group has identified the following related parties:
Associated companies with subsidiaries: Black Earth Farming Limited, (up to June 26, 2013), RusForest AB, (up to June 26, 2013), Clean Tech East Holding AB (renamed Cortus Energy AB in January 2013 and sold in April 2013) and Vosvik AB (liquidated in October 2013).

The Lundin family and the Lundin Group of Companies; including Lukas H. Lundin, Ian H. Lundin, Africa Oil Corp., Etrion Corporation, Fortress Minerals Corp., Lundin Mining AB, Lundin Mining Corporation, Lundin Petroleum AB, Aktiebolag H Bukowskis Konsthandel and Mile High Holdings Ltd (up to May 21, 2013).
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	2013 Associated companies	2013 Lundin family and group of companies	2013 Key management and Board of Directors	2012 Associated companies	2012 Lundin family and group of companies	2012 Key management and Board of Directors
Items of the income statement						
Income from loan receivables	305 [1]	–	–	2,178 [1]	–	–
Other operating income	19 [2]	181 [2]	–	29 [2]	406 [2]	–
Operating expenses	–	–196 [3]	–4,818 [4]	–	–465 [3]	–1,128 [4]
Interest expenses	–	–	–	–	–	–
Balance sheet items						
Non current loan receivables	–	–	–	–	–	–
Current loan receivables	–	–	–	5,096 [1]	–	–
Other current receivables	–	–	1,261 [4]	–	–	–
Retained earnings	–	–	1,253 [4]	–	–	–
Other current liabilities and accrued expenses	–	–	–41 [4]	–9 [2]	–14 [2]	–152 [4]

1) Loans to associated companies
On June 26, 2013 the Company distributed shares held in RusForest AB through a share split with a mandatory redemption program. RusForest AB was a related party to the Company up to the point when the distribution took place. Vostok Nafta had an outstanding short-term loan receivable from RusForest AB, which was recognized at a book value of USD 5.36 mln as per June 30, 2013. The loan, in the principal amount of USD 5 mln, initially carried a 16 per cent interest rate and would mature on April 30, 2013. On February 8, 2013, the interest rate was changed to 9 per cent and the term was extended to December 31, 2013. On August 14, 2013, the loan was extended to December 31, 2014. The annual interest rate was changed to 11 per cent for the first six months of 2014 and to 13 per cent for the last six months of 2014. Interest is due quarterly. In February 2013, Vostok Nafta extended an additional USD 3.94 mln bridge loan to RusForest at 9 per cent interest which was fully repaid in March 2013. In the Income Statement for the period ended June 30, 2013 Vostok Nafta has recognised interest income from both loans in the aggregate amount of USD 0.30 mln.

2) Other operating income from associated companies and Lundin companies and other current receivables
Up to June 30, 2013 Vostok Nafta had an office rental agreement with RusForest AB and Lundin Mining AB. Up to June 30, 2013 Vostok Nafta provided head office facilities service to Lundin Petroleum AB and Investor Relations and Corporate Communication services to Lundin Petroleum AB, Lundin Mining Corporation, Africa Oil Corporation, Etrion Corporation, ShaMaran Petroleum Corp. and Lucara Diamond Corp.

3) Operating expenses: Lundin companies

On May 21, 2013 the Company's largest shareholders, Lorito Holdings Ltd and Zebra Holdings and Investments Ltd sold all of their SDRs in Vostok Nafta. Lundin companies were related parties to the Company up to May 21, 2013. Vostok Nafta bought management and Investor Relations services regarding relations with the stock and financial markets from Namdo Management. The fee amounted to USD 15 thousand per month. Vostok Nafta paid USD 78,972 (2012: 285,209) 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. Total variable compensation (excluding social taxes) paid to the management in 2013 amounted to USD 3.72 mln, of which USD 1.89 mln relates to a bonus payment which after tax corresponds to 50 percent of the option premium (Note 27).

Note 29
Business combinations

Disposals of group companies

In December 2013, Vostok Holding Limited was liquidated.

Note 30
Events after the balance sheet date

Since January 1, 2014 the Company has repurchased 5,963,139 SDRs.

Since December 31, 2013, TCS has had significant negative share price development. As per December 31, 2013, TCS's share price was USD 15.7 and has since, declined by some 55% to USD 7. This down turn translates into decline of USD 76 mln or 11.9% of Vostok Nafta's NAV as per December 31, 2013. TCS's negative development since year-end 2013 has been significantly worse than the Russian market overall because of company and sector specific events. The valuation of Avito is deemed not to have changed during the first months of 2014.

Note 31
Adoption of annual report

The annual report has been submitted by the Board of Directors on March 27, 2014, see page 22. The balance sheet and profit and loss accounts are to be adopted by the company's shareholders at the annual general meeting on May 14, 2014.

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 23 to 44, which comprise balance sheets as at December 31, 2013, and income statements, statements of changes in equity and cash flow statements for the year 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, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 consolidated and parent company financial statements present fairly, in all material respects, the financial position of Vostok Nafta Investment Ltd as of December 31, 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Stockholm, March 27, 2014

PricewaterhouseCoopers AB

Klas Brand
Authorised public accountant
Lead Partner

Ulrika Ramsvik
Authorised public accountant

Independent Auditors' 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 deviates from the Code in that it does not have an Internal Audit function and that the Board of Directors does not have a designated Audit Committee, as further explained below. 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

Luxor Capital – which holds a total of 30,307,912 shares in the Company, representing a total of 33.71 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 various legal entities controlled by Luxor Capital.

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 7, 2013 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 2013. The Nomination Committee for the 2014 Annual General Meeting consists of the following members: Jonathan Green, appointed by Luxor Capital, Leif Törnvall, appointed by Alecta and Annika Andersson, appointed by Robur Funds. At the Nomination Committee's first meeting Jonathan Green was elected Chairman of the Committee. The Nomination Committee's task is to prepare proposals for the following resolutions at the 2014 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 of the directors, (v) election of auditors and remuneration of the Company's auditors, and (vi) proposals on the nomination process for the AGM 2015.

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 2013 Board of Directors

At the onset of 2013, the Board of Directors consisted of the following eight Directors, all of whom were elected by the 2012 AGM held on May 9, 2012: Al Breach, Per Brilioth, Lars O Grönstedt, C. Ashley Heppenstall, Paul Leander-Engström, Lukas

Corporate Governance Report

H. Lundin, William A. Rand and Robert J. Sali, with Lukas H. Lundin as Chairman. All Board members in this composition were 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 were not independent of the Company's major shareholders. Lukas H. Lundin is a member of the Lundin family and thus represented the largest shareholder of the Company at the time. 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 of Lundin Petroleum AB and several other companies in which the Lundin family is a major shareholder. Al Breach, Per Brilioth, Lars O Grönstedt, Paul Leander-Engström and Robert J. Sali were independent of the Company's major shareholders.

At the 2013 AGM held on May 7, 2013, it was resolved, in accordance with the proposal of the 2013 Nomination Committee, to reduce the number of Directors to five and to re-elect Al Breach, Per Brilioth, Lars O Grönstedt, C. Ashley Heppenstall and Lukas H. Lundin as Directors, with Lukas H. Lundin as Chairman. The reduction of the number of Directors was a reflection of the reduction in size of the Company's portfolio following the liquidation of the Company's listed portfolio and distribution of the Company's holdings in Black Earth Farming Limited and RusForest AB to shareholders.

In June, the Lundin family sold their SDRs in the Company to Luxor Capital. In connection with the sale, Lukas H. Lundin and C. Ashley Heppenstall tendered their resignation from the Board, effective May 27, 2013, and the remaining Board elected Lars O Grönstedt as Interim Chairman until such time as a General Meeting could be convened to elect a new Board. Thus, as from May 27, 2013, the Board consisted of only three Directors.

A special Nomination Committee was convened consisting of Jonathan Green, appointed by Luxor Capital and Leif Thörnvall, appointed by Alecta. A Special General Meeting held on October 17, 2013 resolved, in accordance with the Nomination Committee's proposal, to re-elect Per Brilioth and Lars O Grönstedt and to elect Josh Blachman and Keith Richman to the Board of Directors, with Lars O Grönstedt as Chairman. 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, and all Directors 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 2013 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 as well as with the 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

In its composition until May 7, 2013, the Board of Directors had three sub-committees: the audit committee, the compensation committee and the investment committee. The description of the committees that follows applies to Board work conducted up to and including May 7, 2013. Following May 7, 2013, the work of the committees has been shared by the Board in its entirety.

Audit committee

The audit committee functioned as the primary communication channel between the board and the company's auditors and was 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 were followed up via management and the audit committee.

The main tasks of the audit committee were as follows:

- The audit committee shall address any critical accounting issues and review the financial reports issued by the company. Among others 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 2013, the Audit Committee met twice. The Audit Committee consists consisted of William A. Rand (Chairman), Al Breach and C. Ashley Heppenstall. The Audit Committee was dissolved on May 7, 2013.

Compensation committee

The responsibility of the compensation committee was 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.

The Compensation Committee included Paul Leander-Engström (Chairman), Lukas H. Lundin and Robert J. Sali. The Compensation Committee was dissolved on May 7, 2013.

Investment committee

The role of the Investment Committee was to make suitable investment recommendations to the Cypriot subsidiary Vostok Komi (Cyprus) Limited. These recommendations must at all times be in line with the overall strategy of the Company as decided by the Board of Directors and communicated from time to time to the Investment Committee. In order for a meeting of the Investment Committee to be deemed quorate at least two members must be present (in person or by video or telephone conference).

The Investment Committee consisted of Lukas H. Lundin (Chairman), Per Brilioth and Ashley Heppenstall, and was dissolved on May 7, 2013.

Composition of the Board of Directors, elected on May 9, 2012, including meeting attendance 2013

Name	Elected to the board	Position	Connection to the company	Audit committee	Compensation committee	Investment committee	Attended board meetings	Annual board fee, SEK
Lukas H. Lundin	2007	Chairman	Main Owner		X	X	100%	325,000
Al Breach	2007	Member	Independent	X			100%	205,000
Per Brilioth	2007	Member	Management			X	100%	0
Lars O Grönstedt	2010	Member	Independent				100%	150,000
Ashley Heppenstall	2010	Member	Independent	X		X	100%	235,000
Paul Leander-Engström	2007	Member	Independent		X		67%	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				2	0	5	3	1,490,000

Composition of the Board of Directors, elected on May 7, 2013, including meeting attendance

Name	Elected to the board	Position	Connection to the company	Attended board meetings	Annual board fee, SEK
Lukas H. Lundin	2007	Chairman	Main Owner	100%	250,000
Al Breach	2007	Member	Independent	75%	150,000
Per Brilioth	2007	Member	Management	100%	0
Lars O Grönstedt	2010	Member	Independent	100%	150,000
Ashley Heppenstall	2010	Member	Independent	100%	150,000
Number of meetings				7	700,000

Composition of the Board of Directors, elected on October 17, 2013, including meeting attendance

Name	Elected to the board	Position	Connection to the company	Attended board meetings	Annual board fee, SEK
Lars O Grönstedt	2010	Chairman	Independent	86%	800,000
Josch Blachman	2013	Member	Main Owner	100%	250,000
Per Brilioth	2007	Member	Management	100%	0
Keith Richman	2013	Member	Independent	100%	250,000
Number of meetings				6	1,300,000

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 2013

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

Investor Relations

The Investor Relations function of the Company was during 2013 managed by Robert Eriksson, former Head of Investor Relations of the Company. Robert Eriksson devoted 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. As from January 1, 2014, Investor Relations are handled inhouse by Björn von Sivers, analyst.

Remuneration of the Board of Directors and group management

Remuneration of the Company's Board of Directors

Until the AGM on May 7, 2013, the remuneration of the Board of Directors (including work in the committees) was set at a total of SEK 1,490 thousand, of which SEK 250 thousand was for the Chairman of the Board and SEK 150 thousand for each of the other members of the Board of Directors. For work on the Audit Committee, remuneration of SEK 85 thousand was paid to the Chairman and SEK 55 thousand to each member, and for work on the Compensation Committee, remuneration of SEK 30 thousand was paid to the Chairman and SEK 20 thousand to each member. For work on the Investment Committee, SEK 45 thousand was paid to the Chairman and SEK 30 thousand to each member. There was no remuneration to the Managing Director for work on the Board of Directors.

In addition, a maximum amount of USD 300 thousand (approximately SEK 2 million) was allocated to the Board for remuneration of Namdo Management for management and investor relations services rendered. Namdo Management is a company controlled by Lukas H. Lundin, who was Chairman of the Board until May 27, 2013.

At the AGM on May 7, 2013, it was resolved that the remuneration of the Board of Directors be changed to SEK 700 thousand, with SEK 250 thousand to the Chairman and SEK 150 thousand to each of the other Directors who were not employed by the Company.

Subsequently, at the SGM on October 17, 2013, it was resolved that the remuneration of the Board of Directors be set at SEK 1,300 thousand, with SEK 800 thousand to the Chairman and SEK 250 thousand to each of the other Directors who are not employed by the Company.

Remuneration of the senior management

The Company's AGM held on May 7, 2013 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 2013, the Managing Director received a fixed annual salary of approximately USD 552 thousand, and bonuses in the total amount of USD 2,307 thousand. The Managing Director has a pension plan based on Swedish market practice, 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 2013. 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 400 thosuand, with bonuses in the total amount of USD 1,411 thousand. The other senior executives have a pension plan based on Swedish market practice, 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.

Bonuses were paid out during 2013 on four occasions: (i) in connection with the successful distribution of listed holdings in June 2013, (ii) in connection with the expiry of call options under the 2010 Incentive Program (see below), (iii) following the successful IPO of TCS Holding PLC in October 2013, and (iv) in connection with the issue of further call options under the 2010 Incentive Program.

Share repurchase authorization

While share repurchases in Swedish companies require authorization by the General Meeting, neither Bermudan company law nor the Company's Bye-Laws contains any restriction against repurchasing own shares. On December 5, 2012, the Board of Directors 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. This authorization was valid until the 2013 AGM. The repurchased SDRs and the underlying shares were cancelled during 2013.

Incentive program

Incentive program for the Company

A share-based incentive program has been adopted at an Annual General Meeting held on May 5, 2010. The program is described in detail in note 27 to the 2013 financial statements. A total of 1,459,500 options issued under the program in 2010, entitling their holders to purchase a total of 1,693,020 Company SDRs, were exercised during 2013, with another 21,000 options issued in 2011, entitling their holder to purchase a total of 24,360 Company SDRs still outstanding (the numbers have been adjusted with account taken to the share split and mandatory redemption program carried out during the autumn of 2012 and to the distribution of Black Earth Farming Limited SDRs and RusForest AB shares to the Company's shareholders in June 2013, as described in detail in note 28 to the 2012 financial statements). During 2013, a total of 1,160,000 new options were granted to employees under the 2010 incentive program, of which 500,000 to the Managing Director. Together with the 21,000 options issued in 2011 and still outstanding, entitling their holder to purchase a total of 24,360 Company SDRs, as at December 31, 2013, a total of 1,181,000 options are outstanding under the 2010 Incentive Program, entitling their holders to purchase a total of 1,184,360 SDRs.

Incentive program 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 program. 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 7, 2013, 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 45.

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. Until May 7, 2013, Vostok Nafta had 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. Currently, this control is exercised by the Board in its entirety. 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 2013 on pages 46–53. 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 27, 2014

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

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SANDSNAS COMMUNICATION, 2014