

**Vostok  
Nafta  
Investment  
Ltd**

**Six Months  
Report 2007**



**Vostok Nafta Investment Ltd.  
Six Months Report  
Covering the Period  
January 1, 2007–June 30, 2007**

- Vostok Nafta Investment Ltd was incorporated in Bermuda on April 5, 2007 and following the acquisition of Vostok Komi (Cyprus) Ltd and Vostok Nafta Sverige AB from Vostok Gas Ltd (Old Vostok Nafta) the New Vostok Nafta Group was formed. In connection with the restructuring of Old Vostok Nafta, New Vostok Nafta has acquired non Gazprom assets in the amount of USD 377.5 mln.
- Net result for the period was USD 39.52 mln (Jan 1, 2006–Jun 30, 2006: 13.92). Earnings per share was USD 0.86 (0.30). Net result for the quarter was USD 36.11 mln (Apr 1, 2006–Jun 30, 2006: –43.65). Earnings per share for the quarter was USD 0.78 (–0.95).
- The net asset value of the company was USD 558.22 mln (Dec 31, 2006: 385.38) on June 30, 2007, corresponding to USD 12.13 (8.37) per share. Given a SEK/USD exchange rate of 6.83 the corresponding values were SEK 3,814.62 mln and SEK 82.89, respectively.
- The group's net asset value per share in USD increased by 44.85% over the period January 1, 2007–June 30, 2007. During the same period the RTS-index decreased by 1.26% in USD terms. Over the period April 1, 2007–June 30, 2007 the Group's NAV increased by 33.73% (RTS-index –1.96%).
- The number of outstanding shares and warrants at the end of the period was 46,020,901.
- The net asset value per share of Vostok Nafta as of July 31, 2007 was USD 12.68 (SEK 85.33).

**Background**

In order to highlight the value of the non-Gazprom-related holdings, offer more direct and transparent exposure to Old Vostok Nafta's portfolio of assets, and meet different investors' risk preferences, the shareholders in Old Vostok Nafta approved the board of directors' proposal for the Restructuring of the Company at an extraordinary General Meeting on May 24, 2007.

The Restructuring entailed spinning off the non-Gazprom-related part of Old Vostok Nafta's portfolio into a new company, New Vostok Nafta. As a result of this Restructuring, Old Vostok Nafta changed name on May 24, 2007 to Vostok Gas Ltd, whereas New Vostok Nafta took over the name Vostok Nafta Investment Ltd.

The board of directors that was elected at the extraordinary General Meeting in Old Vostok Nafta on March 30, 2007, will continue to work in New Vostok Nafta. Furthermore, the current corporate management of Old Vostok Nafta will continue to manage both New Vostok Nafta and Vostok Gas following the Restructuring.

### **Accounting principles**

The accounts of the interim report have been prepared as if the division of the Vostok Nafta Investment Ltd Group was carried out on September 30, 2003, and comprises the consolidated accounts of the companies that will be included in the new Vostok Nafta Group; i e Vostok Komi (Cyprus) Ltd, Vostok Nafta Sverige AB, RusForest (Cyprus) Ltd and RusForest Ltd. The restructuring of the Group further implies that items of the income statement and the balance sheet that relate to non-Gazprom assets, which formerly have been recognized in the accounts of other companies of the Old Vostok Nafta Group, are now included in the consolidated accounts of the New Vostok Nafta Group.

The transactions by which New Vostok Nafta acquires the companies mentioned above and the non Gazprom related assets, which have been recognized in other companies of the Old Vostok Nafta Group, comprises transactions between companies under joint control. These transactions are being recognized to the same values as they were in the selling company, in accordance with the so called predecessor accounting method.

The items of the income statement that have been recognized in other companies of the Old Nafta Group than in the completely transferred subsidiaries are non-Gazprom related realized and unrealized profits or losses from financial assets at fair value through profit or loss, results from investments in associated companies, dividend income (including withholding dividend taxes) and operating expenses that relate to non Gazprom assets.

### **New Vostok Nafta – legal structure**

New Vostok Nafta will continue to invest in accordance with previous strategies, with a clear and sustained focus on Russia and its neighbours. However, its mandate will be extended in terms of geographical areas and industrial sectors. The formation of New Vostok Nafta and the capital being injected into the Company in connection with the Restructuring will also provide a better basis for exploiting the investment opportunities to be found in Russia and the other CIS- states.

Vostok Nafta Investment Ltd was incorporated in Bermuda on April 5, 2007. A change of name from Vostok Nafta Holding Investment Ltd was made effective in June 2007. Following the acquisitions of Vostok Komi (Cyprus) Ltd and Vostok Nafta Sverige AB from Old Vostok Nafta, the Group consists of one Bermudian parent company, one wholly owned Cypriot subsidiary and one wholly owned Swedish subsidiary. The Swedish Depository Receipts of Vostok Nafta (SDB) are from July 4, 2007, listed on the OMX Nordic Exchange Stockholm (previously the Stockholm Stock Exchange), Mid Cap segment, with the ticker VNIL SDB.

The financial year is January 1–December 31.

### **Financial effects from the restructuring**

In connection with the Restructuring, New Vostok Nafta has acquired assets from Old Vostok Nafta for a total amount of USD 377.5 million. Acquired assets were:

- non-Gazprom share portfolio worth of USD 370.7 million
- unsettled trades of USD 1.8 million, and
- cash of USD 5.0 million.

Payment for the acquired assets was made by way of a promissory note equal to USD 377.5 million to Old Vostok Nafta. New Vostok Nafta thereafter sold 46,020,900 Warrants to Old Vostok Nafta for the corresponding amount; Payment for the acquired warrants was made by way of a promissory note to New Vostok Nafta, by which New Vostok Nafta thus had receivables from Old Vostok Nafta in the amount of USD 377.5 million. These receivables were used for the subsequent settlement of the liability to Old Vostok Nafta. After the share split in Vostok Gas (Old Vostok Nafta) half of the number of shares issued were redeemed and exchanged for 46,020,900 Warrants in New Vostok Nafta. One Warrant entitled the holder to subscribe for one newly issued Depository Receipt in New Vostok Nafta at a price of SEK 22.

On July 4, 2007, the restructuring of old Vostok Nafta was completed through the listing of new Vostok Nafta on Stockholm Stock Exchange. The proceeds from the new share issue, net after new share issue costs, amount to approximately USD 145 mln (SEK 990 mln).

### **Group – results for the period and net asset value**

During the period, the result from financial assets at fair value through profit or loss amounted to USD 1.62 mln (16.18). Result from investments in associated companies was USD 33.62 (–0.26) mln. Dividend income was USD 8.07 (0.22) mln.

Operating costs were USD –1.59 (–1.56) mln. Net financial items were USD –1.75 (–0.58) mln. Net result for the period was USD 39.52 (13.92) mln. Total shareholders' equity amounted to USD 558.22 (385.38) mln on June 30, 2007.

### **Group – results for the quarter**

During the period, the result from financial assets at fair value through profit or loss amounted to USD 4.35 mln (–42.81) Result from investments in associated companies was USD 31.63 (–) mln. Dividend income was USD 2.12 (–) mln.

Operating costs were USD –0.69 (–0.85) mln. Net financial items were USD –1.75 (0.01) mln. Net result for the period was USD 36.11 (–43.65) mln.

### **Parent company**

The parent company will finance the Cypriot subsidiary's operations on market terms. The net result for the period April 5, 2007–June 30, 2007 was USD –0.18 mln.

**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 16.19 mln (5.12) on June 30, 2007.

**Management's summary of general developments in Russia during the quarter ended June 30, 2007**

The separation of Vostok Gas and Vostok Nafta was completed after the end of the reporting period on July 4th. Vostok Nafta during the reporting period started to invest the proceeds from the loan of USD 50 mln and has thereafter also continued with the proceeds of the new issue bringing in some USD 145 mln. While the focus previously was nearly entirely listed equities the development of the Russian market has led us to increase the percentage of private investments in our portfolio.

During the last decade or so the public equity market in Russia has fulfilled the hurdle rate we need to achieve to meet our shareholders expectations. As the economy has not only stabilised but also grown rapidly both international and domestic interest in Russian equities has grown. The market has also matured in both liquidity and transparency in turn bringing down the cost of equity. A clear proof of this has been the massive amount of initial public offerings over 2006 and 2007. This has led us to increasingly look to the unlisted segment, or private equity, for achieving the type of expectations that our shareholders set upon us.

The private equity part of the portfolio has also grown during the past period. As of June 30, 2007 private equity constituted roughly 25% of the invested portfolio, a figure we believe will grow in the future. Investing in private equity puts different demands on our manpower needs, which has led us to increase the staffing at our Moscow office. As has been press released earlier this week we are very happy to bring on Alex Kim and his team (Julia Kiseleva, Dimitri Kozelkov and Maxim Mikhailov). Previously at institutions like Morgan Stanley, Renaissance Capital, Deutsche Bank and Sistema, they bring a deep knowledge and experience from the Russian equity and corporate market which will add to our capacity to analyse and execute within our investment mandate. With this add-on in our staffing we are sufficiently staffed to bring the private equity part of the portfolio to a higher level.

In a year's time our portfolio will be also be significantly more concentrated but in the meantime we have found value within the listed markets and started to put our liquidity to work there.

**Macro**

One has to admit that the headlines from Russia over the past months were disappointing not only for neophytes of the Russia-focused investment community but also for the experienced Russia watchers. The row with the UK over Mr. Litvinenko's tragic death, noises around Sakhalin project, pressure from the law enforcement agencies on Russneft and a number of other

headlines certainly made negative impact on assessment of the Russian country risk by investors. It is probably not a coincidence that MSCI Russia equity market index year-to-date (down 5.9%) visibly underperformed other emerging markets save only the tiny Sri Lanka (-19.4%) and Argentina (-6.2%).

However negative the recent news have been, one who is in the business of investing in Russia with a horizon of 12 months and more needs to look at longer term trends. How does today's Russia look in a longer-term context?

In historical context and especially against the backdrop of the 20th century, Russia is now experiencing an unprecedented combination of stability, economic growth and increase in well-being of its citizens.

During all of the 20th century, Russia never had the combination of all three together. The loss of human life has taken its heavy toll on Russia in two revolutions (1905 and 1917), two devastating world wars and a bloody civil war, not even to mention other military conflicts such as one with Finland in 1939 and in Afghanistan in the 1980s. Only in the Second World War Russia lost about 43 m people in military and civil losses, according to some modern estimates.

Stalin's rapid industrialization of the 1930s led to enormous sacrifices at the expense of civil liberties and the standard of living of the population, even without taking into account the slave labour camps of GULAG that absorbed millions of people. The arms race of the Cold War period also was funded at the expense of the standard of living, which in the end deteriorated to the point that led to collapse of the system. Finally, the economic, political and social instability of the wild days of the 1990s would make no ordinary Russian nostalgic for those days.

Against that backdrop, the past 7 years that coincided with president Putin's two presidential terms look like a unique period of prosperity. How much of this stability is due to president Putin's reforms and policies, how much is due to the 'competitive devaluation' of 1998 and how much is due to high commodity prices is a question for a discussion outside of this commentary. What is important is one thing – the stability record of the past 7 years sets in our view an important and solid foundation of economic growth for years to come.

Russia has a population with high material aspirations and a level of education way above most other emerging markets, and after a century of huge sacrifices and almost permanent poverty Russians value stable life and prosperity as arguably few other nations do.

The middle class that started to appear from the impoverished population of the late 1980s and has been growing at a high rate is the central moving force of many recent economic trends. Thanks to growth and stability of the past seven years, these people now have the means to improve their standard of living and the motivation to create more value for the economy.

Russians want to live in better apartments and build new houses – and that's why the construction component of GDP is up 23% year-on-year in the 1Q 2007 and production of construction materials is up 53%.

These are consumers that want and can afford to drive better cars – that is why sales of imported cars are up 67% this year. Ford and BMW already assemble their cars in Russia, soon to be joined by Toyota, Nissan and Mitsubishi, while Volvo plans to construct a truck plant.

Russian consumers make these days a lot of phone calls on the move – so the mobile penetration in Russia is already above 106% this year, up from 95% in May 2006. They buy computers and connect them to the Internet – the number of Internet users has been growing at a rate of 35–40% over the past three years.

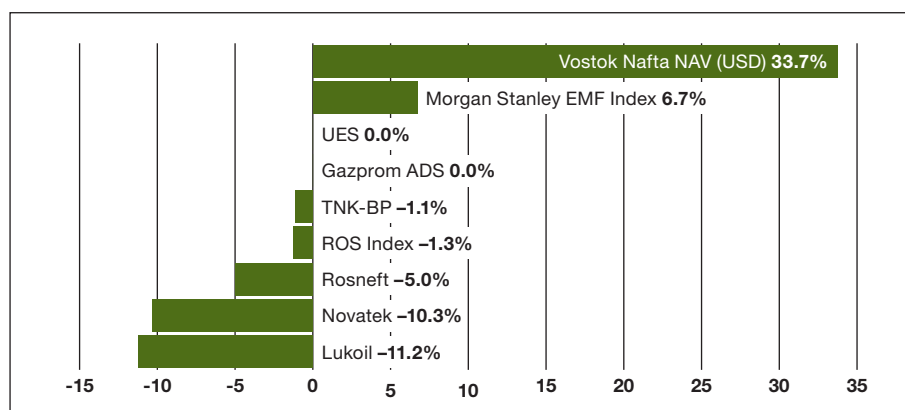
To catch up with demand, Russian corporates are increasing their fixed investment budgets. Corporate spending on fixed assets was up 22% year-on-year in the first half of 2007, as compared with 11% growth in the first half of 2006. Foreign strategic investors do not look scared to invest long-term either, as foreign direct investment in Russia has grown by 2.5 times in the first half of 2007 relative to the first half of 2006.

We do not continue this list only to avoid turning this commentary into a boring statistical monthly. One thing is clear to us however – we think that the long term positive case for Russia is still there and getting stronger, and it is our job and ultimate responsibility to make our shareholders benefit from it.

### Vostok Nafta's portfolio development

Given a full subscription of the Warrants and the completion of the new share issue Vostok Nafta's net asset value/share increased by 33,73% during April 1, 2007 and June 30, 2007 compared to the CSFB ROS Index decrease of 1.28% in USD terms, and the RTS index decrease of 1.96%.

#### Percent development, April 1–June 30, 2007



## Ukraine

Ukrainian political situation continues to stay quite jittery, however, with the signs that open confrontation between different branches of power, which was observed in May, is now subsiding and turning into a pre-election campaigning. Despite all the attempts to revert the presidential decree dissolving Rada (the Parliament) and scheduling extraordinary parliamentary elections, most political parties have agreed that the elections should be held on September 30, 2007, and the series of events in late July/early August (decisions by the Central Election Commission, formal presidential decrees) show that the executive power is seriously preparing for the elections.

Major political parties also started preparations, moving from general pre-election campaigning to the stage of party congresses, called to approve party candidate lists for the elections. Current polls show that the Party of Regions (Prime Minister Yanukovich) and Block of Yulia Tymoshenko continue to stay on top of popular support, but none of the forces would be able to create the ruling majority without entering into coalition with other parties. At the same time, the polls show that the pro-presidential forces (block of Our Ukraine and People's Self-Defence party) are gaining support and, while President Yuschenko still lags his opponents, he is well positioned to get enough seats in the new Parliament to retain a substantial bargaining power.

However, despite the political turmoil unfolding in the country for over two years, Ukraine is indeed showing economic resilience and steady growth. Recent statistics show that Ukraine is on track to show economic growth in 2007 of around 7%, while relatively warm winter this year helped to keep current account deficit lower at 3.2% of GDP (on low overall gas bills compared to the last year, despite continuing growth in gas prices). Quite substantial boost to future economic activity is expected from Ukraine's entry into WTO, and as the country had already completed all formal procedures, the final announcement could be made even this year.

Currently, with our investments (Poltava GOK, Luganskteplovoy, Dakor, Kherson Refinery) in the country we try to exploit several trends in Ukrainian economic and business life:

*Benefits from participation in Russia's structural reforms:* after months of delays, Luganskteplovoy have been privatised in March 2007, although with continuing controversies, and its control stake (76%) was acquired by Bryansk Machinery Plant, a part of a railway engineering giant TransMashHolding (Russia). The investment plans of Russian Railways (RZD) make a substantial part of the current program of structural reform in Russia, and now the monetary benefits to the subcontractors of these plans start to filter cross border to Ukraine. In July, Luganskteplovoy signed an agreement to ship 30 sections of freight locomotives for RZD by the end of 2007, and has a preliminary agreement to supply 90 sections more in 2008. The first freight twin-section diesel locomotive for RZD, the company's first shipment to RZD in 17 years, was supplied in the end of July. Based on this, the company will increase sales in 2007 to \$139 mn and in 2008 to \$376 mn, from \$87.5 mn in 2006.

However, the privatisation controversy continues, and on June 25, Kiev Arbitration Court (the court of first instance) partially satisfied the claim of DneproVagonMash (the rival of TransMashHolding during the privatisation of Luganskteplovoz, which was barred from the auction) and ruled to return the 76% stake in Luganskteplovoz back to the State Property Fund (SPF). The SPF had appealed this decision in Kiev Appeal Court, with the final decision still pending on September 4. Given the evident economic benefits of the tie-up between Luganskteplovoz and TransMashHolding, we believe that the Ukrainian authorities will uphold the results of its privatisation.

*Benefits from WTO accession and further consolidation of global ties:* Ferr-expo AG, a holding company of Poltava GOK (owns 85.85%), has successfully placed its shares on LSE in June and is currently the only metal pellet producer listed on the exchange. Based this unique position, the placement of Ferrexpo had been met with substantial interest and the book was oversubscribed at the top part of the placement range, which also inspired a rally in Poltava GOK shares (up over 50%). The post-placement news flow was also supportive of the further share price appreciation (e.g., Ferrexpo had extended its contract with Austria's Voest Alpine for supplies of 2 mmtn of pellets annually until 2015) until the recent announcement of Ukraine's Supreme Commercial Court decision to uphold an earlier verdict by the Donetsk Commercial Appeals Court, which ruled illegal Ferrexpo shareholder's purchase in 2002 of a 40.19% stake in Poltava GOK. Same as with Luganskteplovoz, this case indicates that post-privatization property rights are far from being settled and the current political turmoil in the country is hardly helping to speed up this process to the levels currently seen in Russia, hence the valuation differences. In Poltava GOK case, the majority shareholder claims that the ownership is not disputed by the court decision: the previous owner is just seeking higher monetary settlement for the transaction.

*Benefits from revival of Western Ukraine:* co-hosting of the final stage of UEFA Euro-2012 in itself could be quite a short bright period in contemporary Ukrainian history, but we believe that the revival effects in the currently lagging non-industrial Western Ukraine could be quite big and long-lasting. Lviv has been chosen as one of the four cities hosting Ukraine-based games and the city plans big investments in the stadium and the infrastructure (hotels, airport terminal, transport and roads), which after the event would be open for further utilisation. The fact that Lviv itself is a historic city with old town's streets reminding those of Prague or Vienna, and the city's proximity to the Carpathians, should be very supportive for the area to start thriving on tourism, given that the basics of infrastructure would already be in place following the football event.

### **Coal**

China's continuing economic growth and move towards net coal import status, global demand from the global steel industry and supply difficulties in

the key exporting countries (initially Australia and recently, after flooding, in Indonesia) continue to push global coal prices up. Market observers are now seeing seaborne prices for hard coking coal up to \$115/ton for 2008E and up to \$100/ton for 2009E, while prices for steaming coal up 20–30% to \$70/ton for 2008E and to \$75/ton for 2009E. Higher export prices could provide upward pressure to domestic coal prices; however, given the shortage of port loading capacity, we believe the deregulation in the Russian gas sector will be the major value driver for steaming coal prices, which are usually sold at 50% parity between prices for 1 tn of coal and 1 mcm of gas.

In July 2007, a fast-growing Russian coal producer Belon made an additional placement of its shares, which raised big investor interest (the issue was oversubscribed at \$41/share) and was a pleasant reminder that not all Russian coal producers have tons of corporate governance problems on top of their core output. During the pre-placement road show, Belon's management very openly discussed the achievements, plans and other issues of the company, the short take of which is as follows.

In 1H2007, Belon extended its record of growth in production: coal output was 44% up to 2.23 mmtn (1.1 mmtn coking and 1.2 mmtn steaming coal), with revenues following the same rate of growth to US\$258 mln. Annual forecast stands at 5.1 mmtn coal output and US\$581 mln revenues. The company confirms its ambitious growth plans, according to which coal production is to triple to 14.5 mmtn in 2012. The launch of the Listvyazhnaya coal preparation plant (now planned in mid-August, ahead of the original schedule) should allow the company to upgrade coal quality and create opportunity to export it at a higher price.

### **Black Earth Farming**

Black Earth Farming Limited ("BEF" or "The Company") was among the first foreign financed companies to make substantial investments in Russian agricultural land assets. The Company has because of its early establishment now gained a strong market position in several Russian regions, richly endowed with black earth soil. BEF continues to build up the already impressive land bank of first class soil while ramping up agricultural operations. On June 30, The Company had approximately 235,000 hectares of land under its control, which constitutes an increase of approximately 115,000 hectares since the beginning of the year. The Company has now moved into a second, more refined land acquisition stage, whereby new acquisitions are primarily targeted in proximity of the existing clusters of land, to create logistic efficiencies and other synergies. Extensive capital investments in modern machinery and equipment are in progress, coupled with other operations enhancing measures such as thorough soil analysis and education of local labour in modern farming techniques. BEF conducted its first harvest of approximately 5,900 hectares in 2006, this year BEF has approximately 53,300 hectares of seeded land to be harvested. An unusually warm and dry spring had a somewhat negative effect on growth, while the same weather factors coupled with increased global food demand and demand from bio-fuel producers have driven up crop prices considerably.

**Investments**

During the period, net investments of tangible non current assets amounted to USD –119 thousand (–7). Net investment in financial assets was USD –25.37 (–8.55) mln.

**Major changes in the portfolio during the quarter were:***Purchases (shares)*

- + 200,000 Tatneft ADR
- + 52,500 Silvinit
- + 5,000 Transneft Pref

*Sales (shares)*

- 4,500,000 Raspadskaya
- 61,800 Mechel Steel

**Portfolio structure**

The investment portfolio stated at market value as at June 30, 2007 is shown on next page. Vostok Nafta's three biggest investments are Black Earth Farming (23.04%), TNK BP Holding Pref (16.76%) and Belon (7.44%).

At the Vostok Nafta website ([www.vostoknafta.com](http://www.vostoknafta.com)) there are links to the websites of some of the larger constituents of the portfolio.

Vostok Nafta portfolio as at June 30, 2007

Number of shares	Company	Market price (USD)	Market value (USD)	Percentage weight
<b>Oil, Russia</b>				
5,156,903	Kherson Oil Refinery	0.22	1,119,048	0.25%
2,025	Orsk Refinery Stam	20.00	40,500	0.01%
538	Orsk Refinery Pref	15.25	8,205	0.00%
200,000	Tatneft ADR	91.10	18,220,000	4.08%
500,000	Tatneft Pref	2.60	1,300,000	0.29%
2,852,587	TNK-BP Holding Stam	2.08	5,933,381	1.33%
38,712,416	TNK-BP Holding Pref	1.94	74,908,525	16.76%
16,378	Transneft Pref	1,640.00	26,859,920	6.01%
	<b>Total Oil, Russia</b>		<b>128,389,579</b>	<b>28.73%</b>
<b>Oil, Non-Russia</b>				
233,250	Caspian Services Inc	2.80	653,100	0.15%
	<b>Total Oil, Non-Russia</b>		<b>653,100</b>	<b>0.15%</b>
	<b>Total Oil</b>		<b>129,042,679</b>	<b>28.87%</b>
<b>Gas</b>				
100,000	Yakutgazprom	0.15	15,100	0.00%
	<b>Total Gas</b>		<b>15,100</b>	<b>0.00%</b>
<b>Energy</b>				
2,618,241	Kyrgyzenergo	0.06	168,688	0.04%
	<b>Total Energy</b>		<b>168,688</b>	<b>0.04%</b>
<b>Other</b>				
140,000	Armada	9.90	1,386,000	0.31%
929,700	Belon	35.75	33,236,775	7.44%
23,460,000	Black Earth Farming Ltd	4.39	102,992,610	23.04% <sup>01</sup>
34,242	Dakor	122.00	4,177,524	0.93%
31,274	Gaisky GOK	475.00	14,855,150	3.32%
39,000	Gornozavodsk Cement	360.00	14,040,000	3.14%
800,000	Kamkabel	3.70	2,960,000	0.66%
110,000	Kemerovo Azot	24.25	2,667,500	0.60%
2,940,000	Kontakt East Holding AB	4.11	12,089,574	2.71% <sup>01</sup>
71,005,000	Kuzbassrazrezugol	0.40	28,330,995	6.34%
10,578,336	Luganskteplovov	0.68	7,161,533	1.60%
1,516,055	Poltavsky GOK GDR	17.24	26,136,788	5.85%
4,210,000	Raspadskaya	2.64	11,114,400	2.49%
11,004,813	Rusforest	1.00	11,001,740	2.46% <sup>01</sup>
152,000	Sibcement	65.10	9,895,200	2.21%
52,500	Silvinit	210.00	11,025,000	2.47%
5,926,991	Systemseparation	0.38	2,255,220	0.50%
1,022,445	Uchalinsky GOK	13.50	13,803,008	3.09%
298,162	Yuzhny Kuzbass	28.77	8,578,121	1.92%
	<b>Total Other</b>		<b>317,707,138</b>	<b>71.09%</b>
	<b>Total</b>		<b>446,933,605</b>	<b>100.00%</b>

01.

These investments are shown in the balance sheet as investments in associated companies.

**Income  
Statements**  
– Group

(Expressed in USD thousands)	Jan 1, 2007– Jun 30, 2007	Jan 1, 2006– Jun 30, 2006	Apr 1, 2007– Jun 30, 2007	Apr 1, 2006– Jun 30, 2006
<b>Result from financial assets at fair value through profit or loss</b>	1,615	16,182	4,352	–42,808
<b>Result from investments in associated companies</b>	33,622	–259	31,633	–
<b>Dividend income</b>	8,074	219	2,125	–
<b>Other operating income</b>	424	–	424	–
<b>Total operating income</b>	43,736	16,142	38,534	–42,808
<b>Operating expenses</b>	–1,588	–1,562	–689	–853
<b>Russian dividend withholding tax expenses</b>	–911	–32	–19	–
<b>Operating result</b>	41,237	14,548	37,826	–43,661
<b>Financial income and expenses</b>				
<b>Interest income</b>	104	–	104	–
<b>Interest expense</b>	–1,758	–597	–1,758	–
<b>Currency exchange gains/losses, net</b>	–9	13	–6	10
<b>Other financial expenses</b>	–91	–	–91	–
<b>Net financial items</b>	–1,754	–584	–1,751	10
<b>Result before tax</b>	39,483	13,964	36,075	–43,651
<b>Taxation</b>	41	–42	33	–
<b>Net result for the financial period</b>	39,524	13,922	36,108	–43,651
<b>Earnings per share (in USD)</b>	0.86	0.30	0.78	–0.95
<b>Diluted earnings per share (in USD)</b>	0.86	0.30	0.78	–0.95

**Balance  
Sheets**  
– Group

(Expressed in USD thousands)	Note	Jun 30, 2007	Dec 31, 2006
<b>NON CURRENT ASSETS</b>			
Tangible non current assets			
Office equipment		383	316
<b>Total tangible non current assets</b>		<b>383</b>	<b>316</b>
Financial non current assets			
Financial assets at fair value through profit or loss		320,850	294,808
Investment in associated companies		126,084	92,374
Other non current financial assets		930	–
<b>Total financial non current assets</b>		<b>447,864</b>	<b>387,182</b>
<b>CURRENT ASSETS</b>			
Cash and bank		16,186	5,124
Receivables from related parties		–	681
Receivables from associated companies		261	271
Other current receivables	2	145,297	358
<b>Total current assets</b>		<b>161,744</b>	<b>6,434</b>
<b>TOTAL ASSETS</b>		<b>609,990</b>	<b>393,932</b>
<b>SHAREHOLDERS' EQUITY</b> (including net result for the financial period)			
		558,223	385,384
<b>NON CURRENT LIABILITIES</b>			
Borrowings	3	49,813	–
Deferred tax liabilities		11	11
<b>Total non current liabilities</b>		<b>49,824</b>	<b>11</b>
<b>CURRENT LIABILITIES</b>			
Non-interest bearing current liabilities			
Tax payable		52	585
Liabilities to related parties		1,279	–
Unsettled trades		–	7,653
Other current liabilities		50	26
Accrued interest		531	–
Accrued expenses		31	299
<b>Total current liabilities</b>		<b>1,943</b>	<b>8,537</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>609,990</b>	<b>393,932</b>
<b>PLEGGED ASSETS &amp; CONTINGENT LIABILITIES</b>			
Pledged assets		446,934	–
Contingent liabilities		–	–

**Statement of  
Changes in Equity**  
– Group

(Expressed in USD thousands)	Share capital	Additional paid in capital	Retained earnings	Minority interest	Total new VNI
<b>Balance at December 31, 2005</b>	–	–	209,376	156	209,532
Profit for the period	–	–	69,633	–	69,633
Total recognized income for the financial year January 1, 2006 to December 31, 2006	–	–	69,633	–	69,633
Internal transactions	–	–	–	–	–
Old Vostok Nafta	–	–	-11,855	–	-11,855
Non Gazprom related assets and liabilities provided through an issue in kind (note 1)	–	–	118,230	–	118,230
Reversal of minority interest arising on business combinations	–	–	–	-156	-156
<b>Balance at December 31, 2006</b>	–	–	385,384	–	385,384
Profit for the period	–	–	39,524	–	39,524
Total recognized income for the financial year January 1, 2007 to June 30, 2007	–	–	39,524	–	39,524
Non Gazprom related assets and liabilities provided through an issue in kind (note 1)	–	–	-11,300	–	-11,300
Issue of 46,020,900 warrants	46,021	–	-46,021	–	–
New share issue in progress (note 2)	–	144,615	–	–	144,615
	46,021	144,615	-57,310	–	133,326
<b>Balance at June 30, 2007</b>	46,021	144,615	367,587	–	558,223

## Cash Flow Statements

– Group

(Expressed in USD thousands)	Note	Jan 1, 2007– Jun 30, 2007	Jan 1, 2006– Jun 30, 2006
<b>Operating activities</b>			
Net result for the financial period		39,524	13,922
Adjustment for:			
Taxes		–453	42
Interest expenses		1,758	597
Currency exchange losses		10	–13
Depreciation		53	12
Result from financial assets at fair value through profit or loss		–1,615	–16,182
Result from investments in associated companies		–33,622	259
Other non-cash items		62	–
<b>Operating cash flow before changes in working capital</b>		<b>5,717</b>	<b>–1,363</b>
<b>Changes in working capital</b>			
Investments in financial assets		–101,684	–57,926
Sales of financial assets		76,318	49,377
Change in current receivables		664	–4,281
Change in current liabilities		–8,274	835
<b>Net cash flow used in operating activities</b>		<b>–27,259</b>	<b>–13,358</b>
<b>Investing activities</b>			
Investments in machinery and equipment		–119	–7
<b>Net cash flow used in investing activities</b>		<b>–119</b>	<b>–7</b>
<b>Financing activities</b>			
Proceeds from borrowings	3	49,750	–
Transactions between Vostok Gas and Vostok Nafta		–	–11,855
Assets and liabilities provided through an owner's contribution		–11,300	23,126
<b>Net cash flow from financing activities</b>		<b>38,450</b>	<b>11,271</b>
<b>Change in cash and bank</b>			
Cash and bank at beginning of the period		11,072	–2,094
Cash and bank at beginning of the period		5,124	7,212
Exchange gains/losses on cash and bank overdrafts		–10	6
<b>Cash and bank at end of period</b>		<b>16,186</b>	<b>5,124</b>

**Key Financial Ratios**  
– Group

	Jan 1, 2007– Jun 30, 2007	Jan 1, 2006– Jun 30, 2006
<b>Return on capital employed, %</b> <sup>01</sup>	<b>8.31</b>	<b>6.49</b>
<b>Equity ratio, %</b> <sup>02</sup>	<b>91.51</b>	<b>99.75</b>
<b>Shareholders' equity/share, USD</b> <sup>03</sup>	<b>12.13</b>	<b>5.17</b>
<b>Earnings/share, USD</b> <sup>04</sup>	<b>0.86</b>	<b>0.30</b>
<b>Diluted earnings/share, USD</b> <sup>05</sup>	<b>0.86</b>	<b>0.30</b>
<b>Net asset value/share, USD</b> <sup>06</sup>	<b>12.13</b>	<b>5.17</b>
<b>Weighted average number of shares for the financial period</b>	<b>46,020,901</b>	<b>46,020,901</b>
<b>Weighted average number of shares for the financial period (fully diluted)</b>	<b>46,020,901</b>	<b>46,020,901</b>
<b>Number of shares at financial period end</b>	<b>46,020,901</b>	<b>46,020,901</b>

Until the utilization of the Warrants and the New Share Issue, the Company has only one share issued. The number of shares used for meaningful key financial ratios has been the number of shares achieved as full accession.

01.

Return on capital employed is defined as the Group's result plus interest expenses plus/less exchange differences on financial loans divided by the average capital employed (the average total assets less non-interest bearing liabilities over the period).

02.

Equity ratio is defined as shareholders' equity in relation to total assets.

03.

Shareholders' equity/share USD is defined as shareholders' equity divided by total number of shares.

04.

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

05.

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

06.

Net asset value/share USD is defined as shareholders' equity adjusted for market value of the share portfolio and with a deduction for deferred tax divided by total number of shares.

**Income  
Statement**  
– Parent Company

(Expressed in USD thousands)	Apr 5, 2007– Jun 30, 2007
Operating expenses	–178
Operating result	–178
Financial income and expenses	
Currency exchange gains/losses, net	0
Net financial items	0
Net result for the financial period	–178
Earnings per share (in USD)	–0.00
Diluted earnings per share (in USD)	–0.00

**Balance  
Sheet**  
– Parent Company

(Expressed in USD thousands)	Note	Jun 30, 2007
<b>NON CURRENT ASSETS</b>		
Financial non current assets		
Shares in subsidiaries		377,685
Total financial non current assets		377,685
<b>CURRENT ASSETS</b>		
Other current receivables	2	144,828
Total current assets		144,828
<b>TOTAL ASSETS</b>		<b>522,513</b>
<b>SHAREHOLDERS' EQUITY</b>		
(including net result for the financial period)		521,937
<b>CURRENT LIABILITIES</b>		
Non-interest bearing current liabilities		
Liabilities to group companies		356
Liabilities to other related parties		220
Total current liabilities		576
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>522,513</b>
<b>PLEGGED ASSETS &amp; CONTINGENT LIABILITIES</b>		
Pledged assets		–
Contingent liabilities		–

**Statement of  
Changes in Equity**  
– Parent Company

(Expressed in USD thousands)	Share capital	Additional paid in capital	Retained earnings	Total
Profit for the period	–	–	–178	–178
Total recognized income for the financial period April 5, 2007 to June 30, 2007	–	–	–178	–178
New share issue	0	–	–	0
Issue of 46,020,900 warrants to Vostok Gas Ltd in exchange for Promissory Note (note 2)	46,021	–	331,479	377,500
New share issue in progress (note 2)	–	144,615	–	144,615
	46,021	–	331,479	522,115
<b>Balance at June 30, 2007</b>	<b>46,021</b>	<b>144,615</b>	<b>331,301</b>	<b>521,937</b>

**Notes**

**Note 1 Accounting principles**

This consolidated interim account is prepared in accordance with IAS 34 Interim Financial Reporting. The same accounting principles and methods of calculations have been applied for the Group as for the preparations of the consolidated accounts for Vostok Nafta Investment Ltd 2006.

The accounts of the interim report have been prepared as if the division of the Vostok Nafta Investment Ltd Group was carried out on September 30, 2003, and comprises the consolidated accounts of the companies that will be included in the new Vostok Nafta Group; i.e. Vostok Komi (Cyprus) Ltd, Vostok Nafta Sverige AB, RusForest (Cyprus) Ltd and RusForest Ltd. The restructuring of the Group further implies that items of the income statement and the balance sheet that relate to non-Gazprom assets, which formerly have been recognized in the accounts of other companies of the Old Vostok Nafta Group, are now included in the consolidated accounts of the New Vostok Nafta Group.

The transactions by which New Vostok Nafta acquires the companies mentioned above and the non-Gazprom related assets, which have been recognized in other companies of the Old Vostok Nafta Group, comprises transactions between companies under joint control. These transactions are being recognized to the same values as they were in the selling company, in accordance with the so called predecessor accounting method.

The items of the income statement that have been recognized in other companies of the Old Nafta Group than in the completely transferred subsidiaries are non-Gazprom related realized and unrealized profits or losses from financial assets at fair value through profit or loss, results from investments in associated companies, dividend income (including withholding dividend taxes) and operating expenses that relate to non-Gazprom assets.

**Note 2 Restructuring of Vostok Nafta**

In connection with the restructuring of Old Vostok Nafta, New Vostok Nafta acquired assets from Old Vostok Nafta for a total amount of USD 377.5 million. Acquired assets were:

- non-Gazprom share portfolio worth of USD 370.7 million
- unsettled trades of USD 1.8 million, and
- cash of USD 5.0 million.

Payment for the acquired assets was made by way of a promissory note to Vostok Nafta, amounting to USD 377.5 million. Thereafter, New Vostok Nafta sold 46,020,900 Warrants to Vostok Nafta for the corresponding amount. Payment for the acquired Warrants was made by way of a promissory note to New Vostok Nafta, by which New Vostok Nafta thus had receivables from Old Vostok Nafta in the amount of USD 377.5 million. These receivables were used for the subsequent settlement of the liability to Old Vostok Nafta. After share split in Vostok Gas (Old Vostok Nafta) half of the number of shares issued was redeemed, whereby the consideration for the redemption was Warrants entitling the holder to subscribe for new Depository Receipts in New Vostok Nafta. One warrant entitled the holder to subscribe for one new share, represented by a Swedish Depository Receipt, of New Vostok Nafta to the subscription price of 22 SEK.

On July 4, 2007, the restructuring of old Vostok Nafta was completed through the listing of new Vostok Nafta on Stockholm Stock Exchange. The proceeds from the new share issue, net after new share issue costs, amount to approximately USD 145 mln (SEK 990 mln).

### **Note 3 Borrowings**

On May 4, 2007, Vostok Komi (Cyprus) Ltd, a company of the Group, has entered into a debt financing agreement. The loan, which amounts to USD 50 mln, will mature until 4 May 2008 and carries a floating interest rate of 200 basis points over LIBOR.

Assets pledged for the loan are the non-Gazprom share portfolio.

### **Operating and sector-related risks**

#### *Country-specific risks*

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

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

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

#### *Foreign-exchange risk*

The Company's investments are made in RUB or USD. The official exchange rate for RUB therefore directly or indirectly affects the value of investments, but it is impossible to quantify this effect as companies have differing foreign-exchange sensitivity. In addition, investors in the Company's Depository Receipts have differing base currencies. The Company's accounts are prepared up in USD as this is the functional currency. Taken together, this means that fluctuations in exchange rates may affect the net worth of the portfolio in various ways that do not necessarily reflect real economic changes in the underlying assets. Each investor is advised to make his or her own analysis of the foreign-exchange risk existing in the Company's portfolio.

#### *Acquisition and disposal risk*

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

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

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

#### ***Accounting practice and other information***

Practice in accounting, financial reporting and auditing in Russia and other CIS states cannot be compared with the corresponding practices that exist in the Western World. This is principally due to the fact that accounting and reporting have only been a function of adaptation to tax legislation. The Soviet tradition of not publishing information unnecessarily is still evident. The formal requirements for Russian companies are to be restrictive in publishing information. 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. Prospective investors should also be aware that Russia is undergoing rapid change, which means that the information presented in this Prospectus may become out of date relatively quickly.

#### ***International capital flows***

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

#### ***Political instability***

Russia has undergone deep political and social change in recent years. The value of Vostok Nafta's assets may be affected by uncertainties such as political and diplomatic developments, social or religious instability, changes in government policy, tax and interest rates, restrictions on the political and economic development of laws and regulations in Russia, major policy changes or lack of internal consensus between leaders, executive and decision-making bodies and strong economic groups. These risks entail in particular expropriation, nationalisation, confiscation of assets and legislative changes

relating to the level of foreign ownership. In addition, political changes may be less predictable in a growth country such as Russia than in other more developed countries. Such instability may in some cases have an adverse impact on both the operations and share price of the Company. Since the collapse of the Soviet Union in 1991, the Russian economy has, from time to time, shown

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

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

### **Upcoming Reporting Dates**

Vostok Nafta's interim report for the period January 1, 2007–September 30, 2007 will be published on November 21, 2007.

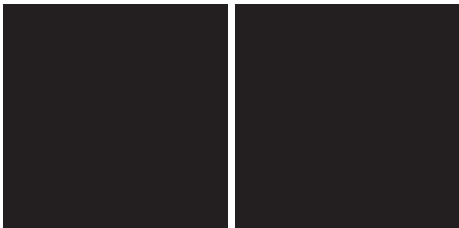
The Board of Directors and the CEO certify that this undersigned six month interim report provides a true and fair overview of the Parent Company and Group's operations, financial position and performance for the period, and describes the material risks and uncertainties facing the Parent Company and other companies in the Group.

August 22, 2007

Lukas H Lundin  
Al Breach  
Paul Leander-Engström  
Torun Litzén  
Ian H Lundin  
William A Rand  
Robert J Sali  
Per Brilioth, CEO

*This report has not been subject to review by the company's auditors.*

**Vostok  
Nafta  
Investment  
Ltd**



**Registered office**  
Codan Services Ltd  
2 Church Street  
P.O. Box HM 666  
Hamilton  
Bermuda

**Vostok Nafta Sverige AB**  
Hovslagargatan 5  
SE-111 48 Stockholm  
Sweden  
Telephone +46 8 545 015 50  
Facsimile +46 8 545 015 54