



RusForest AB

# Interim Report

July 1 – September 30, 2010

# RusForest AB

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## Interim results for the three months ended September 30, 2010

- Total turnover for the three month period ended September 30, 2010, amounted to SEK 66.6 million (SEK 96.1 million for the three months ended September 30, 2009).
- The operating result before financing costs for the period was SEK -65.4 million (SEK -35.1 million).
- Net result for the period was SEK -64.0 million (SEK -33.3 million).
- Earnings per share was SEK -2.87 (Q3 2009: SEK -1.51).
- Cash and cash equivalents increased by SEK 21.3 million during the period, from SEK 8.3 million at June 30, 2010, to SEK 29.6 million at September 30, 2010.

## Significant events during the third quarter

- RusForest AB decided to acquire 86 percent of OAO "LDK-3" and 100 percent of OOO "Infa", a sawmilling operation located in the city of Arkhangelsk, in North West Russia, and a planing mill located on the same site. The acquisition of LDK-3 is contingent of Russian anti-monopoly approval, which is expected to be obtained before the end of the year.
- As a step to strengthen its forestry operations in Siberia, RusForest appointed Eugeny Tereshchenko as the Company's new Head of Forestry. Mr. Tereshchenko will be based in Ust-Ilimsk, but will have the overall responsibility for RusForest's harvesting operations in Eastern Siberia, and will work to ensure the long term development of the Company's harvesting areas and raw material sourcing plans.
- The Groups financial result was negatively affected due to the fact that sawlog deficits and unsecured log deliveries impeded sawn wood production, sales volumes, quality distribution and contributed to increased costs during the period.
- Vostok Nafta Investment Ltd agreed to advance, in part, its share of RusForest's rights issue. The financing was provided by two short-term unsecured loans of USD 12 million in total, granted on July 1 and September 15.

## Significant events after the end of the period

- RusForest completed a rights issue providing the Company with approximately SEK 437 million before issue costs, as resolved by the extraordinary general meeting (EGM) held on 8 October 2010. As a result of the rights issue, the number of shares in RusForest was increased by 43,681,680 shares, to 65,522,520 shares, and the share capital increased with SEK 436,816,800, from SEK 218,408,400 to SEK 655,225,200. The EGM also resolved upon an authorisation for an issue in kind to enable acquisition of shares in companies within the group in which Nord Timber Group (NTG) is a part.
- As described in the prospectus, the estimated net proceeds of the rights issue of SEK 422 million will be used approximately as follows; 40 per cent for the acquisition and development of LDK-3 and Infa in Arkhangelsk; 25 per cent for investments in current operations, including investments in the Magistralny saw mill, infrastructure and bottleneck-removal, and; 35 percent to repay the short term loans from Vostok Nafta and the outstanding Bond of SEK 50 million.
- Following the intermediary debt financing from Vostok Nafta prior to the capital increase, which is now all repaid, RusForest has taken measures to remove the final bottle necks in Boguchany by purchasing a dry sorting line as well as a boiler for installation next summer. Necessary additional drying capacity of 100,000-110,000 m<sup>3</sup> is currently undergoing a tender and is expected to be contracted during December 2010 or January 2011.

- RusForest Ust-Ilimsk has been granted a USD 3.2 million (SEK 21.4 million) financial leasing facility by Hansa Leasing (part of Swedbank) for acquisitions of harvesting and road building equipment, while Lesprom and RusForest Magistralny have been granted a RUB 104 million (SEK 22.9 million) financial leasing facility by Federal Transport Leasing Company for the acquisition of additional transport capacity.
- In connection with the rights issue, RusForest has gained two new institutional shareholders in Alecta and Libra Fund LP, each with over 7 per cent of the shares.
- RusForest has on the 16<sup>th</sup> of November called for early redemption of the SEK 50 million bonds issued in February 2010. Early redemption will take place on Tuesday, December 28, 2010.
- Peter Funk, previously employed in RusForest as sales manager, has been appointed CEO of RusForest Trading.

## CEO's Comments

### Forestry

In most cases the description in the previous quarterly report and the newly released prospectus give a full view of the current status of the Company. The period from July to September is undoubtedly the most sensitive period for uneven planning and low levels of log stocks, as harvesting always is lower during this period than during winter time.

In future, under new management and with better control not only within harvesting, I will do the utmost to reduce these seasonal variations. Half of the key to success is adequate planning and equipment applied in road construction, while the second half relates to having skilled people involved in execution. For that reason, strengthening of the local management is continuing and the appointment of a new head of forestry, with full Group harvesting responsibility, is very good news.

The harvesting equipment in **Boguchany**, which was not utilized during the summer, contributed to an undersupply of sawlogs at the site as described in RusForest's Q2 report. For the next year we have therefore prepared for full utilization, not least by looking at new potential harvesting areas to be acquired but also by using already sub-leased forest areas that allow for an additional 170,000 m<sup>3</sup> of harvesting directed at the sawmill in 2011. Unlike at the end of 2009, the mill is now in a situation where the raw material supply is secured ahead of the coming year.

In the next phase of developing the sawmill in Boguchany, drying capacity is planned to be increased together with sorting capacity ahead of next summer. The main equipment for boilers and the dry sorting line have already been purchased, with only drying chambers remaining.

RusForest in **Ust-Ilimsk** holds the majority of the Group's forest leases but it is still necessary to expand harvesting to supply the mills, as better supply of own logs is the next logical next step in the subsidiary's development. It was therefore obvious to place our new head of forestry in Ust-Ilimsk. Additionally, three new harvesting groups have been ordered, adding an additional 150,000-200,000 m<sup>3</sup> in annual harvesting capacity. The same is true for new excavators and bulldozers to be applied in road construction.

Winter harvesting in **Magistralny** started forcefully in October 2010 and the target is to fully guarantee logs for the production plan of the Magistralny sawmill in 2011, as the launch of the mill is planned for the second quarter of 2011. The forest leases are generally of the best quality in Magistralny, and harvesting will increase further during 2011, as 2012 will be the first year when the mill is producing all year. Large diameter logs will continuously be exported to China and Japan. In short, Magistralny harvesting is picking up speed and will show a far better financial result already from the beginning of 2011, as the fixed costs will be carried by a significantly larger harvesting volume.

Having visited all harvesting areas and industrial sites personally over the last few months, it is clear to me that good profitability will follow an implementation of all changes described in previous reports and the prospectus, while we now have the means for necessary new investments through the successful capital increase. As a result, we are not only increasing efficiency and capacity in harvesting, but also improving the volume and quality of ready sawnwood produced.

In the **Arkhangelsk** region we are awaiting final antimonopoly clearance for the acquisition of LDK-3 and Infa, as well as continuing negotiations regarding potential equipment purchases and acquisition objects in relation to the LDK-3 mill.

### Financing

As seen in the rights issue prospectus released a month ago, the main tasks are now related to proper implementation of the new investment projects. The next recruitments are going to be in the fields of harvesting as well as project management on a technical level. The Company plans to employ a technical director responsible for all mills, while such technical responsibilities have been decentralized in the past. Financing of human capital, including training for operators of both harvesting equipment as well as drying kilns, will continue giving RusForest the competitive edge it needs in order to work with the best global practices in Russia.

Developing RusForest that far would of course not have been possible, had the completed capital increase not been a success. An oversubscription of close to 50 per cent indicates that the Company's current strategy is understood and approved by most shareholders. The contribution, net of Vostok Nafta's bridge financing, was SEK 351,460,100.

Hence, having called for the early redemption of the outstanding bonds of SEK 50 million, the Company will be close to debt free and subsequently well suited to finance its coming expansion also with debt, on better and longer terms.

With the planned divestment of the Belomorsk gravel business, we are in a good position to finance our expansion into a stronger company with a better production structure, and thereby becoming a global player known for production, quality and profitability. In an industry where access to quality raw materials at a decent cost is focal, the upcoming year of project implementation will be decisive in order to succeed.

Martin Hermansson  
*CEO, RusForest AB*

## Overview

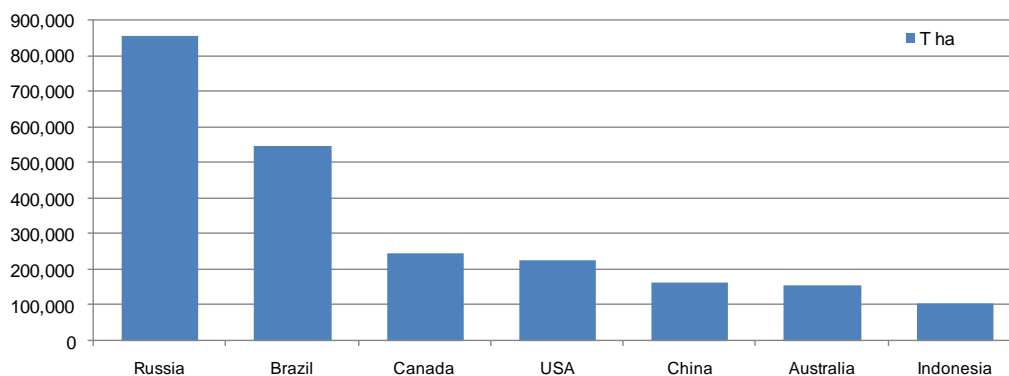
RusForest is a forestry company operating in eastern Siberia. Through the acquisition of LDK-3 and Infa<sup>1</sup>, the Company will expand its geographical presence to include Arkhangelsk in north-western Russia.

Since its establishment in 2006, RusForest has increased its controlled forest land and sawmilling capacity both by way of strategic acquisitions and own development projects. Through long term lease agreements the Company controls approximately 860,000 hectares of forest land with an annual allowable cut of approximately 1.44 million m<sup>3</sup>. As a result of the acquisition of LDK-3, the Company will gain access to another 177,200 m<sup>3</sup> of annual allowable cut in the Arkhangelsk region.

RusForest's principal business concept is to refine the pine, spruce and larch in its forest leases into a wide range of sawnwood products, of which a smaller share is attributable to planed products, flooring and other interior products. The Group's total sawmilling capacity, which currently amounts to approximately 200,000 m<sup>3</sup>, is expected to increase to around 550,000 m<sup>3</sup> – 600,000 m<sup>3</sup> in connection with improvements made at the existing sawmills, the completion of the sawmill at RusForest Magistralny and the acquisition of LDK-3.

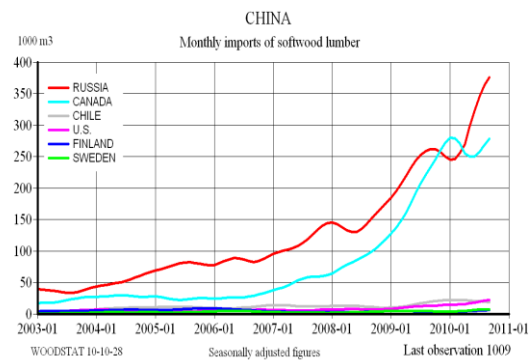
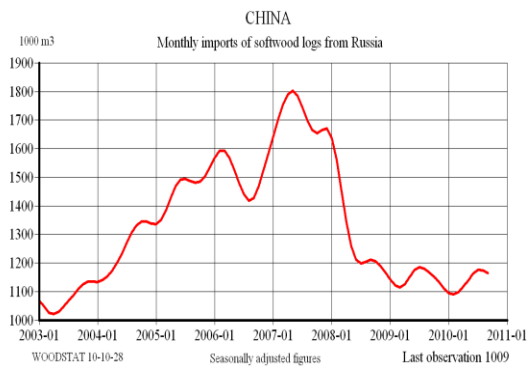
Russia, alongside Brazil, has the world's largest timber reserves by a significant margin and Eastern Siberia is known for its high quality Angarsk Pine and Siberian Larch. It is a source of quality sawlogs as well as pulpwood for the local pulp industry. The forest resources in this area are of high quality, and provided the right investments in production it is well suited for producing high quality sawnwood much appreciated on international markets. The Arkhangelsk region is located in the north-western part of European Russia and has a total forest area of about 23 million hectares. The forest consists of about 60 per cent spruce and 20 per cent pine followed by birch and aspen. The timber is of very high quality, and comparable to timber found in the northern parts of the Nordic Countries.

### Forest Area by Country, thousand Hectares



The main growth prospects for sawnwood demand in the mid to long term are expected to originate in Asia, and RusForest's operations are favourably positioned in the southern part of Eastern Siberia to effectively reach these rapidly growing markets. The trends of Chinese imports can be seen in the data provided below ([woodstat.se](http://woodstat.se)), clearly showing that decreased Chinese log imports from Russia has been offset by increased imports of sawnwood since 2007. Consequently, more focus will be put on deliveries to China and Japan in the near future, as most of RusForest's production currently is directed at customers in the Middle East and Northern Africa with only a lower share being shipped to Japan and China (the world's largest importer of wood and wood products).

<sup>1</sup> The acquisition of LDK-3 and Infa is contingent of Russian anti-monopoly approval, which is expected to be obtained before year end 2010.



Russia and Canada are currently the major suppliers of sawnwood on the Chinese market. However, Canadian deliveries to China today mainly constitute low quality goods sourced from Pine beetle infected areas, while quality sawn wood and logs still come from Russia. Canada has its main export market in the United States, and it is expected that Canadian volumes will decrease significantly once construction rates in the US start growing once more.

RusForest is the sixth largest forestry company in Russia in terms of harvest volumes according to data collated by Lesprom.ru. RusForest's strategic objective is to become a leading independent integrated forest and sawmill company in Russia by fully utilising its forest resources whilst earning a reasonable return for its shareholders. All of RusForest's products are today sold through the wholly owned company RusForest Trading.

## Macroeconomic Development and Sawnwood Market

According to statements by the Minister of Economic development and Trade, Elvira Nabiullina, Russian GDP growth slowed to 3.7 percent during the first eight months of 2010, after increasing 4.2 percent during the first half of the year. The decrease in the growth rate, according to Ms. Nabiullina, is largely attributable to the fact that the agricultural sector was negatively affected by the record temperatures and the wildfires during summer. However, the increase in Russian industrial production has been significant throughout the year, with a growth of 9.2 per cent during the first eight months of 2010 in comparison to the same period in 2009. Total Russian economic growth is estimated to amount to approximately 4.0 percent in 2010.

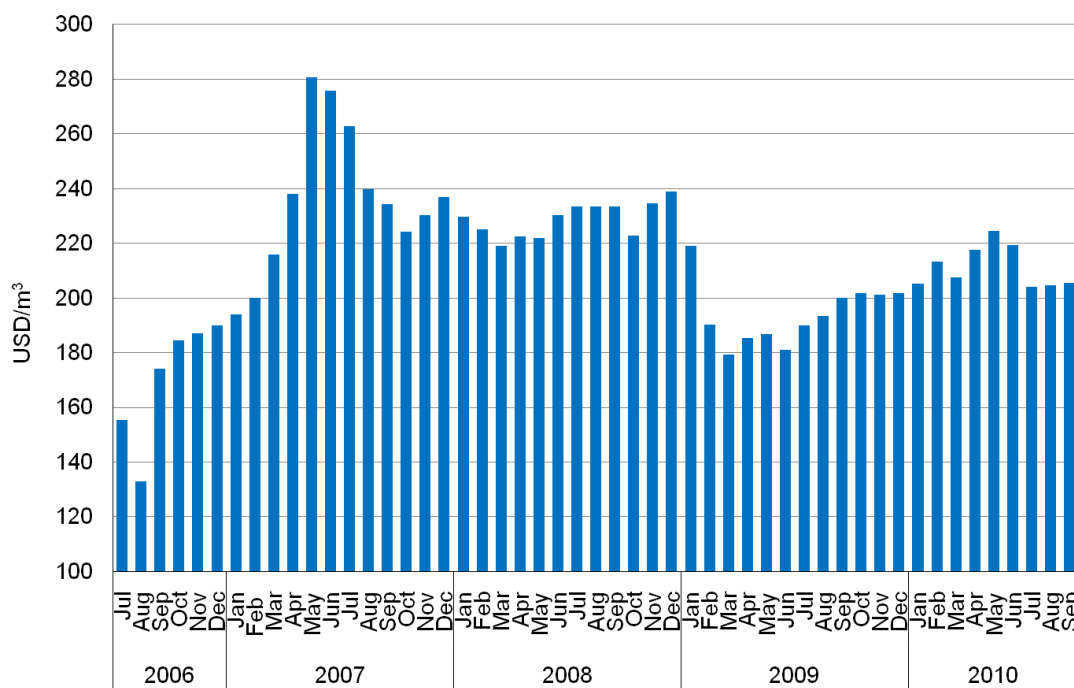
Construction activity is still at very low levels globally, especially in Europe and North America, while the debt crisis in Europe continues to create worries with regards to future growth prospects.

Chinese imports of roundwood are showing a significant recovery during 2010. The country has increased its imports of softwood and hardwood logs by 23 per cent during the first eight months of the year compared to the same period in 2009. However, the imports from Russia continue to show a negative trend and fell by six percent during the first four months of 2010.

China has also increased its imports of sawn softwood during the first seven months of 2010. Imports increased by 40 percent during the period January to July 2010 compared to the same period last year. The imports from Russia increased in particular, largely at the expense of imports from Canada.

The Nordic countries have witnessed significant increases in sawnwood production so far in 2010 with production increasing by 8 and 28 percent, in Sweden and Finland respectively, during the first eight months of the year. Other main European sawnwood producing countries are also showing increases in production and Sweden, Finland, Germany, Austria and Russia have together increased production by a total of 9 percent so far this year.

### Sawnwood Export Prices, delivered to port, 2006 – 2010



Source: RusForest Ust-Ilimsk, Sawnwood export prices delivered to port

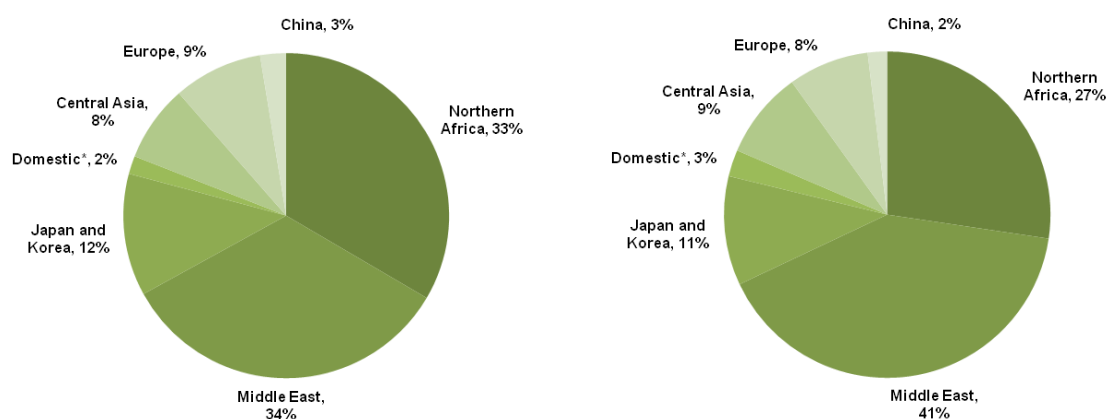
Source: RusForest Ust-Ilimsk, Sawnwood export prices delivered to port

After positive developments in received sales prices since the middle of 2009, RusForest's prices decreased during the third quarter of 2010. This is in part due to regular seasonal variations coming into the winter period, but mainly due to a poor quality distribution at RusForest's sawmills (i.e. the amount of the highest four export qualities in sorting compared to the share of fifth grade and domestic quality sawnwood). As a result of weak internal deliveries of sawlogs, RusForest has seen lower production volumes than planned coupled with lower quality distributions from the sawmills.



The low quality distribution decreased received prices under existing higher value contracts by around 10 USD per m<sup>3</sup>. Additionally, the share of sawnwood shipped to lower price markets increased as a result of the large volume of fifth grade and domestic quality goods, decreasing average prices further.

### RusForest Sales Geography, 1H 2010 (left) and 9M 2010



Source: RusForest Trading, \*Includes volumes delivered domestically but for further processing to Japanese specifications

RusForest's main markets are located in Northern Africa, the Middle East, Central Asia, Europe, Japan and Korea. During the second quarter of 2010, RusForest's sales destinations remained relatively stable compared to the beginning of the year. However, as a result of reductions in the sawnwood product range, RusForest has increased the share of products delivered to the Middle East and Europe in comparison with the first half of 2009.

During the third quarter, RusForest's sales destinations were largely affected by the shortage of logs in production. Fewer products were shipped to Northern Africa in favour of Middle Eastern countries, while sales to Japan, Korea and Europe declined as a result of the lack of suitable raw material for products aimed at these markets. Consequently, supplies to the domestic and Central Asian markets increased due to the higher share of lower quality products.

## Key financial data

Item	2010	2009	2010	2009
In thousands of SEK	Q3	Q3	9M	9M
Turnover	66,628	96,071	253,767	117,661
Cost of Sales	(76,248)	(92,972)	(249,585)	(115,910)
EBITDA	(61,215)	(18,421)	(89,184)	(57,678)
Net Profit	(63,985)	(33,278)	(146,993)	295,488
Cash Flow During Period	24,269	14,853	5,790	2,920
Per Share Data, SEK	30-Sep	30-Sep	30-Sep	30-Sep
Earnings	(2.87)	(1.51)	(6.64)	17.31
Shareholders Equity	24.05	42.33	24.05	42.33
Share Price	13.00	17.40	13.00	17.40
Equity/Assets Ratio	62.9%	74.2%	62.9%	74.2%

## Financial Performance

### Overview

The Q3 accounts cover three months of operation as a forestry business together with a gravel asset classified as held for sale. Financial analysis and interpretation is made by presenting comparative data for the previous year.

The performance of the Group during the third quarter of 2010 was highly influenced by the sawlog deficit which began in June 2010 and continued till the end of August. As a result, sawnwood sales during the period have dropped dramatically to around 30,000 m<sup>3</sup> compared to over 40,000 m<sup>3</sup> in the second quarter of 2010 and just under 45,000 m<sup>3</sup> in the first quarter of 2010 (Q3 2009: 41,300 m<sup>3</sup>).

Given the poor sales situation, the forestry subsidiaries suffered significant cash outflows during the period, which was covered by funds received from Vostok Nafta as an advance, in part, of Vostok Nafta's share in RusForest's rights issue. During the third quarter of 2010 operating cash outflows totalled SEK 39.6 million while cash outflows from investing activities totalled SEK 17.9 million

Russian Gravel Company was not significantly operating cash negative during the period, and the investment cash outflows decreased from SEK 1.7 million in the second quarter of 2010 to SEK 0.3 million in the third. The decrease was achieved thanks to active gravel sales and lowered leasing payments at Russian Gravel Company.

The operational issues faced during the quarter are reflected in the financial results, and the Company showed a gross loss of SEK 8.6 million. This was largely a result of that sawlog deficits and unsecured log deliveries impeded sawn wood production, sales volumes, quality distribution and contributed to increased costs during the period..

The treatment of the gravel business as an asset held for sale means that its balance sheet is not consolidated into the forestry balance sheet on a line-by-line basis. The results are included into the forestry profit and loss account as a loss from discontinued operations, which amounted to SEK 2.5 million in the third quarter of 2010 (Q3 2009: SEK -1.9 million). The quarry has been operating at 50 per cent of its capacity given bottlenecks in loading capacity. In the third quarter of 2009 the net loss was lower due to the fact that the Company had stopped production and sold existing stocks, decreasing variable costs during the period. The expected sale of the asset will eliminate this item from the profit and loss statement.

In terms of the balance sheet, RusForest's activities are primarily financed by equity capital and gearing levels remain modest. The Group received two loans from Vostok Nafta in the third quarter, as advances ahead of the rights issue, which increased financial expenses and short-term loans payable. In November 2010, the loans have been off-set against Vostok Nafta's participation in RusForest's rights issue. The Group has entered into discussions with various banks in order to secure funding to complete the RusForest Magistralny sawmill, until now un-leveraged, and in order to upgrade harvesting and log transportation functions on the harvesting unit. The direct result was an agreement, of RUB 104 million (SEK 22.9 million), with Federal Transport Leasing Company for transport solutions.

The Group has finalised negotiations for the prolongation of the Unicredit loan, so that the repayment will be due in February 2011. Credit conditions are becoming less tight in Russia and the rates for quality borrowers are decreasing, but most of the banks still exercise conservative approaches and pay more attention to the current financial state of the individual companies rather than future plans and liquidity of a Group as a whole.

In the coming months, following confirmation from the Russian antimonopoly agency regarding the purchase of LDK-3, RusForest will in a similar fashion position itself for securing all necessary decisions on new equipment as well as potential debt financing for the restructuring of the plant.

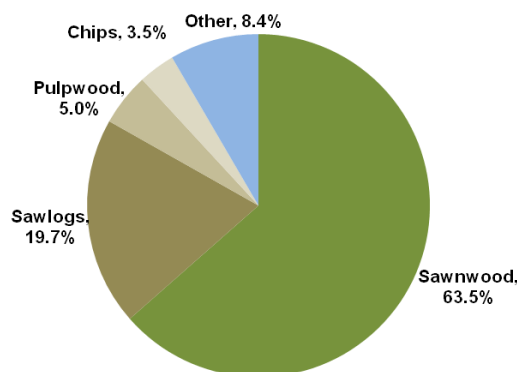
One of the major changes in the Group's balance sheet during the quarter was caused by the significant appreciation of the SEK to RUB exchange rate from 4.00 as at 30 June 2010 to 4.53 as at 30 September 2010 (13.3 per cent). Due to this sizeable foreign exchange rate change all major classes of assets and liabilities have decreased when translated to SEK.

## Profit & Loss statement

### Revenue

Group revenue for the third quarter of 2010 amounted to SEK 66.6 million (Q3 2009: SEK 96.1 million). The Group revenue for the period had the following composition: Sawnwood, SEK 42.3 million (Q3 2009: SEK 72.8 million); Sawlogs, SEK 13.1 million (Q3 2009: SEK 19.7 million); Pulpwood, SEK 3.3 million (Q3 2009: SEK 5.2 million); Chips, SEK 2.3 million (Q3 2009: SEK 3.9 million) and; Other revenue SEK 5.6 million (Q3 2009: SEK 16.0 million).

#### Revenue Breakdown Q3, 2010, percentage of total



The share of sawnwood revenue has decreased from 70 per cent in Q2 2010 (Q3 2009: 61%) due to the low volumes of sawnwood sold during the third quarter. The average sawnwood export price (delivered to port) received at RusForest Ust-Ilimsk during Q3 2010 was 7.2 per cent lower than in Q2 2010, and 5.2 per cent higher than during the corresponding period in 2009. The decline in the average price quarter on quarter was mainly a result of the low quality distribution of produced sawnwood.

### Operating Expenses

RusForest's cost of sales for the period was SEK 76.2 million, a decrease of 18 per cent compared to Q3 2009 (SEK 93.0 million) due to the significant drop in sales volumes. However, despite the sales decrease of 30.6 per cent compared to the third quarter of 2009, cost of sales went down by only 18 per cent. The major reasons for the uncorrelated decrease were the low quality of the product mix described above as well as the usage of only purchased logs for sawmilling at Boguchansky.

Distribution expenses amounted to SEK 20.5 million (Q3 2009: SEK 23.4 million) and represented customs duties, railway tariffs, loading and hauling-to-loading costs. The decrease of these costs is due to their direct relation with the volumes shipped. However, there was a significant increase in railway tariffs during the period as a result of a wagon deficit from Russian Railways, and the consequent need to rent wagons from private owners at additional cost.

### Other Expenses

#### Financial Expenses

Financial expenses amounted to SEK 4.7 million during the third quarter of 2010 (Q3 2009: SEK 1.5 million). The increase in financial expenses during the period is largely attributable to the interest accrued on the SEK 50 million bonds issued by the Group on February 25, 2010. The bonds have a twelve month maturity and run with a fixed interest rate of 15.00 percent. Another driving factor for the increase was the receipt of two loans from Vostok Nafta, amounting to USD 12 million in total with an interest of 15.00 per cent per annum.

## Income Tax

All of the Group's subsidiaries generated losses during the period, and tax losses will consequently be carried forward for corporate income tax purposes.

A deferred income tax credit has positively affected the Group's results during the third quarter of 2010. The positive effect is a result of the amortisation of a deferred tax liability accrued by the Group for the temporary difference in value of property, plant and equipment which originated from the fixed assets appraisal performed in June 2009 when accounting for the acquisition of 50 per cent of RusForest Ltd.

## Net Profit

The Group's net loss for the period was SEK 61.5 million (Q3 2009: SEK -31.4 million). The relative increase in the net loss was driven by low sales volumes and prices accompanied by significant increased proportion of purchased sawlogs compared to logs from own harvesting at both RusForest Ust-Ilimsk and Boguchansky.

## Balance sheet

### Assets and Investment

One of the major changes in the Group's balance sheet during the quarter was caused by the significant appreciation of the SEK to RUB exchange rate from 4.00 as at 30 June 2010 to 4.53 as at 30 September 2010 (13.3 per cent). Due to this sizeable foreign exchange rate change all major classes of assets and liabilities have decreased when translated into SEK.

Other significant changes were in inventories, which decreased by SEK 10.9 million (out of which SEK 5.2 million is attributable to the exchange rate fluctuation) due to the usage of all available stocks of sawlogs and clearing out work in progress stocks of sawnwood during the period. Additionally, the Group has been decreasing the stocks of spare parts in order to use working capital more efficiently.

Accounts receivable showed a further decrease of 2.6 per cent as the Group has performed better debt collection from customers.

On the liability side, the Company is primarily financed through equity, with total equity of SEK 529.2 million (Q2 2010: SEK 671.6 million) compared to non-current interest bearing liabilities of SEK 6.0 million (Q2 2010: SEK 14.4 million) and current interest bearing liabilities of SEK 165.4 million (Q2 2010: SEK 83.4 million). The increase in current interest-bearing liabilities (SEK 82.0 million) relates to the loans received from Vostok Nafta as prepayment for shares from the rights issue. After the regular payments performed by the Group to Sberbank and Unicredit under loan and lease agreements, these current interest-bearing liabilities have decreased by SEK 7.3 million and decreased further through exchange rate differences of SEK 1.1 million.

The gravel business' assets of SEK 94.8 million (Q2 2010: SEK 114.6 million) classified as held for sale in the Group's financial statements primarily reflect the capitalised value of work done at the site, including over-burden removal, blasting, road building, the value of the railhead and the acquisition of equipment. The change in the total value of the assets mainly represents sales of gravel stocks made during the period.

The gravel business' main crushing plant is being acquired under a finance lease, and the associated liability figure of SEK 13.5 million (Q2 2010: SEK 18.0 million) primarily reflects the lease amount which remains outstanding at September 30, 2010.

## Cash Flow and Financial Position

The Group's closing net cash position was SEK 29.6 million compared to SEK 8.3 million at June 30, 2010. The total net cash inflow for the three months ended September 30, 2010 was SEK 21.3 million.

The operating cash outflow of SEK 39.6 million in forestry subsidiaries (Q3 2009: inflow of SEK 4.0 million) was a result of low sales volumes during the quarter.

Cash outflows from investing activities, of SEK 17.9 million (Q3 2009: SEK 2.6 million), mainly represent the investments made after the restart of construction activities at RusForest Magistralny. The Group will continue the investments at RusForest Magistralny until approximately February 2011. Funding of Russian Gravel Company has decreased down to SEK 0.3 million (Q2 2010: SEK 1.7 million and Q3 2009: 2.9 million) thanks to the gravel production and sales activities performed during the reporting period accompanied by lower leasing payments.

The cash level as at 30 September 2010 was below the reasonable working level however, the proceeds from the rights issue will cover the working capital gap over the whole winter harvesting season.

## Operations

### RusForest Operational Data

#### 9M 2010 Actuals

	Unit	RusForest Ust Ilimsk	Tuba Group	Lesprom	Boguchansky	Bamlesstroj	Consolidated 9M 2010	9M 2009	%
RusForest ownership interest (start of year)		90%	100%	100%	100%	100%			
Annual Allowable Cut (AAC)	m3	734,700	235,000	126,000	112,400	233,000	1,441,100	1,665,200	-13.5%
Harvesting (stem equivalent)	m3	325,892	11,243	47,084	64,659	-	448,878	476,968	-5.9%
Logs purchased	m3	49,146	-	-	88,422	-	137,568	82,920	65.9%
Sawnwood volumes	m3	65,955	1,156	1,448	49,469	-	118,027	125,125	-5.7%
Forest area	Hectares	436,033	117,514	34,129	48,695	231,554	867,925	1,005,020	-13.6%

\*The figures shown above are given for reference purposes only to make possible comparisons between the Group companies' operational performance in 2010 versus 2009, and do not constitute part of the RusForest AB financial statements for the three months ending September 30, 2010. Tuba Group includes Tuba-Les and Tublesprom; Boguchansky includes Boguchansky LPK and RusForest Angara. Harvesting volumes 2009 and 2010 are stated as stem equivalent and include volumes harvested in subleased areas.

In November 2010, RusForest completed its rights issue providing the Company with approximately SEK 437 million before issue costs. As described in the prospectus, the proceeds will partly be used to repay the bridge financing received from Vostok Nafta and the Bond which was placed in February 2010, but primarily to acquire and develop LDK-3 and further develop RusForest's existing operations. The estimated net proceeds of the rights issue of SEK 422 million will be used approximately as follows; 40 per cent for the acquisition and development of LDK-3 and Infa in Arkhangelsk; 25 per cent for investments in current operations, including investments in the Magistralny saw mill, infrastructure and bottleneck-removal, and; 35 percent to repay the short term loans from Vostok Nafta and the outstanding Bond.

RusForest's main area of focus is currently its forestry operations. During the second and third quarters of 2010, the lack of preparations in previous periods was again evident in the Company's output as mentioned in previous reports. Internal deliveries of sawlogs have consistently been weak, with poor production volumes and lower received prices as a result. During the third quarter, and after the period end, several steps have been taken in order for the Company to move towards more stable harvesting and raw material supply levels:

- A new head of forestry has been appointed who will be based in Ust-Ilimsk, but will have the overall responsibility for all of RusForest's harvesting operations.
- Additional equipment has been acquired through financial leasing in Ust-Ilimsk to increase the harvesting and transport capacity in the region.
- More stem harvesting equipment has been moved to Magistralny in order to increase capacity and, over time, centralise stem harvesting equipment to the one area with the largest average stem volume, while transport capacity is being increased through leasing.
- Road building plans have been confirmed for the following year, with new road tracts being cleared during the winter season.
- Negotiations regarding additional harvesting leases are coming to an end, with results expected to be seen in at least a few of locations during the fourth quarter.

#### 1) RusForest Magistralny

As mentioned in RusForest's Q2 report, installation work was initiated on a wide front at RusForest Magistralny in July, and has proceeded according to plan during the third quarter. All necessary concrete works have been completed on the site prior to the winter, and all main buildings (sawmill, drying chambers, dry sorting and boiler buildings) have been constructed in order for the company to be able to continue equipment assembly during winter. Necessary repairs have also been performed on the 5 km railway line leading up to the plant and a new crane has been ordered for loading rail wagons with ready sawn wood.

On the sawmill equipment side, the team at RusForest Magistralny have installed the log sorting and trimming line and specialists from the equipment provider (Storti) are currently tuning the equipment.

The local management expects to be able to start using the log sorting line during the fourth quarter, by processing received stems from the harvesting operations and sorting the sawlogs for export.

The main saw line has been put into place and the assembly and tuning works are planned to start during November. The main structures for the drying kilns have been erected, and the associated boilers are now ready for test-operations. The plan for production launch during April-June 2011 stands firm.



To prepare for the launch of the RusForest Magistralny sawmill, the Group has doubled the harvesting capacity in Magistralny by moving one stem-harvesting group (TigerCat) from RusForest Ust-Ilimsk to RusForest Magistralny. The equipment (feller and skidder) arrived in Magistralny at the end of the third quarter and has since started harvesting operations in Lesprom's forest lease areas. To match the increase in harvesting capacity, Lesprom and RusForest Magistralny have been granted a RUB 104 million leasing facility to acquire 10 additional log trucks from IVECO as well as equipment needed at the sawmill. In particular regarding pay-loaders and forklifts ahead of the sawmill production start.

During the third quarter, RusForest Magistralny applied for "Priority Investment Project" status to the Irkutsk region, and is awaiting final approval.

## 2) Boguchansky LPK

With regard to the previous issue related to additional power supplies, and with regards to expansion of the power grid connection at Boguchansky LPK, all installation work has been completed during the autumn and the company is expecting to gain access to an additional 1 MW (with further increases possible) by the end of 2010, as soon as all paperwork has been processed. The additional power supply will result in more stable operations, and increased capacity at the Boguchansky LPK saw line.

In the third quarter, RusForest's management, with assistance from Swedish technical consultants, have worked to identify necessary equipment for Boguchansky LPK with the aim of clearing the main bottlenecks at the facility. Planned investments at the site include new boiler and drying kiln capacity and a new dry sorting line, which will make possible increased production in the main saw-line and facilitate an improved product mix. After period end, all equipment has been acquired except for the drying chambers, which are expected to be contracted during December 2010 or January 2011.



The search for additional AAC is ongoing at Boguchansky, in order for RusForest Angara to gain better access to summer harvesting plots and increase the share of internally supplied raw material to the sawmill. During the third quarter Boguchansky has signed an agreement for subleasing of an additional 130,000 m<sup>3</sup> AAC during 2011 and 2012.

In light of positive developments in the local economy, the construction of the bridge over the Angara river, next to the Boguchany sawmill, is continuing thanks to stable financing from federal sources (picture above left). Simultaneously, the hydroelectric power plant in the region is getting closer to completion (picture above right). At launch of the power plant much more, and in particular much cheaper, electricity will be available in the Boguchany region by 2011-2012. This will hopefully enable RusForest and other local players to establish a good cooperation with a potential new pulp production enterprise planned to be established in the region – i.e. in an area that will have one of the lowest electricity and wood costs in the world.

### 3) *RusForest Ust-Ilimsk*

During the second quarter, a harvesting plan leading up to the end of 2010 was developed and authorised. Subsequently, significant efforts have gone into developing longer term harvesting and road development plans at the subsidiary.

RusForest Ust-Ilimsk has been granted a USD 3.2 million leasing facility by Hansa Leasing (part of Swedbank) which will allow for the purchase of three John Deere harvesters and forwarders, in order to increase the Cut-to-Length harvesting capacity in the region. Additionally, two bulldozers and two excavators are to be acquired for forest road construction.

Increased, stable, raw material flows from own harvesting operations will lead to lower costs by decreasing external log purchases and start-stop operations in the mills, and will help to ensure consistently profitable operations at RusForest Ust-Ilimsk.

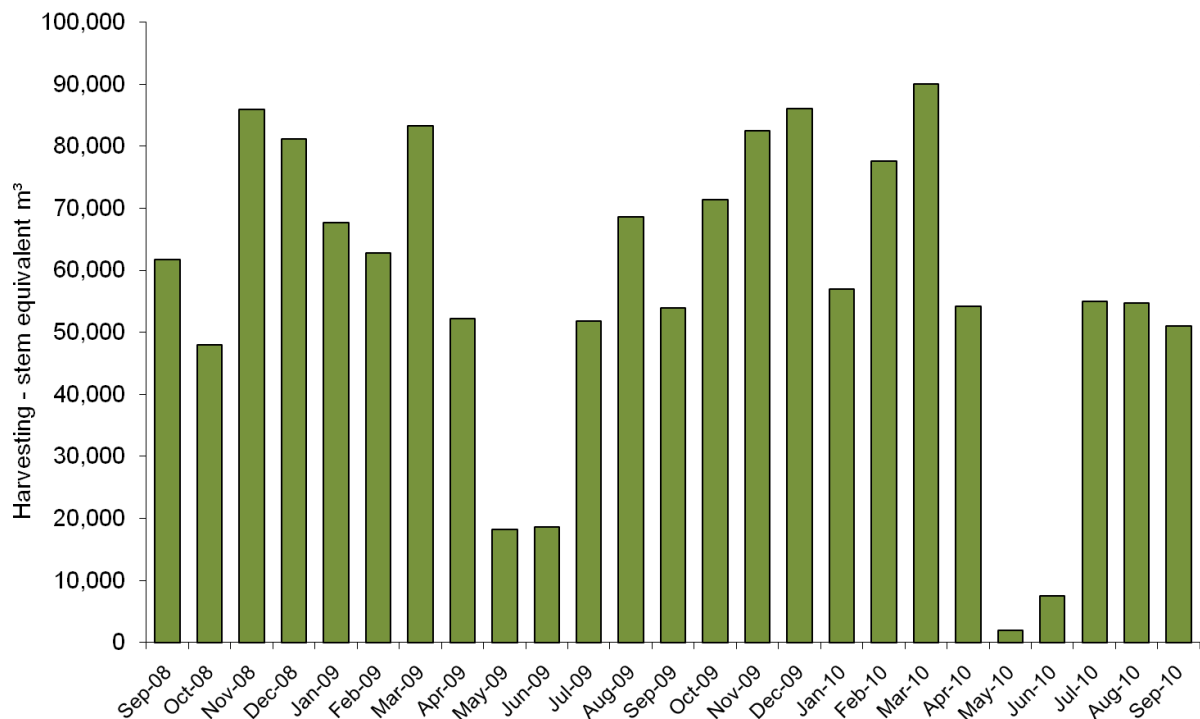




## Forestry Operations

The seasonal slowdown in harvesting can clearly be seen on the output during the second quarter of 2010, particularly during May and June. The levels for 9M 2010 harvesting was marginally lower than the corresponding period in 2009 (decreased by 5.9 percent), and volumes during the third quarter of 2010 were 7.9 percent lower than the same period last year. Improvements will therefore be significant over the next year, and new and existing machinery will see increased working hours and utilization rates during the coming winter. Important steps have been taken to acquire new equipment in the machine park, but new people in key positions is also of great importance.

### RusForest Group Harvesting, Sep 08 – Sep 10



Harvesting at RusForest Ust-Ilimsk during the third quarter exceeded plan and the 2009 level. The increase was a result of the company obtaining additional subleased forest areas for summer harvesting. The share of sawlogs harvested, in the amount of approximately 50,000 m<sup>3</sup>, and the log volume delivered to the lower landing, of approximately 37,000 m<sup>3</sup>, was however not enough to cover the sawmills input needs during the quarter.

At Boguchansky, the harvesting operations of RusForest Angara did not meet the planned targets as a result of poor summer harvesting planning. The summer leases awarded were of very low quality, and as a result Boguchansky LPK had to rely on external suppliers for log deliveries. Starting in November, RusForest Angara will initiate harvesting in the subleased winter harvesting plots attained during the second quarter, and sawlogs resulting from these operations are expected to reach the Boguchansky LPK sawmill as soon as transports are possible over the Angara river (beginning 2011). The raw material supplies are secured for 2011 at current production levels, as 170,000 m<sup>3</sup> has been subleased in advance this year.

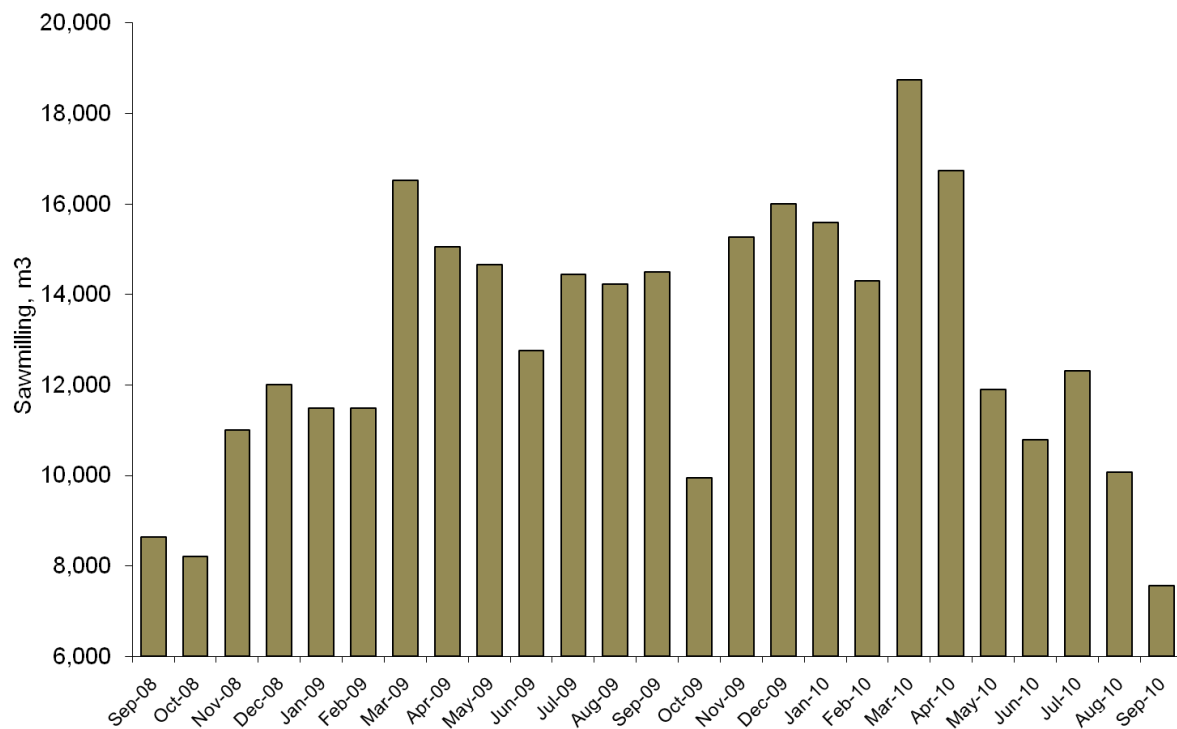
As mentioned in the RusForest Q2 report, the continuous problems within harvesting have provoked management changes in the local forestry departments, as not only a lack of investments has shown negative effects. RusForest has appointed Eugeny Tereshchenko as the Company's new Head of Forestry during the third quarter. Mr. Tereshchenko will be based in Ust-Ilimsk, but will have the overall responsibility for all of RusForest's harvesting operations, and will work to ensure the long term development of the Company's harvesting areas and raw material sourcing plans. Mr. Tereshchenko has previously had full raw material and harvesting responsibilities at leading pulp and sawmills in the North Western part of Russia.

## Sawmilling

The disruptions in forestry operations during the year have resulted in lower than expected sawlog supplies at both Boguchansky LPK and RusForest Ust-Ilimsk. This has naturally had a knock on effect on sawmilling which has been slower than planned throughout most of the year, but especially during the second and third quarters.

RusForest’s consolidated sawnwood output during the first nine months of 2010 was 5.7 percent lower compared to the same period in 2009. The decrease is mainly attributable to poor results during the third quarter of 2010 when sawmilling volumes were 30.6 percent lower than the corresponding period in 2009. RusForest Ust-Ilimsk accounted for the main part of the quarters relative decrease with a result of just 19,400 m<sup>3</sup> produced, due to log constraints and equipment failure which caused 63 idle hours in August and 23 idle hours in July.

### RusForest Group Sawmilling, Sep 08 – Sep 10



## Parent Company, July 1 – September 30, 2010

Loss before taxes amounted to SEK 20.2 million (SEK 9.2 million during the Q3 of 2009).

Income of the company was significantly affected by the negative foreign exchange differences totalling for the period SEK 20.9 million (Q3 2009: 2.0 million).

Operating expenses related primarily to personnel costs of SEK 0.8 million (Q3 2009: SEK 0.4 million) and consulting fees of SEK 1.5 million mainly incurred in connection with the merging activity in regards of NTG.

The Parent Company's cash and cash equivalents amounted to SEK 2.6 million at the end of the period (SEK 11.1 million on June 30, 2010).

## Significant events after the end of the period

RusForest completed a rights issue providing the Company with approximately SEK 437 million before issue costs, as resolved by the extraordinary general meeting (EGM) held on 8 October 2010. As a result of the rights issue, the number of shares in RusForest was increased by 43,681,680 shares, to 65,522,520 shares, and the share capital increased with SEK 436,816,800, from SEK 218,408,400 to SEK 655,225,200. The EGM also resolved upon an authorisation for an issue in kind to enable acquisition of shares in companies within the group in which Nord Timber Group (NTG) is a part.

The estimated net proceeds of the rights issue of SEK 422 million will be used approximately as follows; 40 per cent for the acquisition and development of LDK-3 and Infa in Arkhangelsk; 25 per cent for investments in current operations, including investments in the Magistralny saw mill, infrastructure and bottleneck-removal, and; 35 percent to repay the short term loans from Vostok Nafta and the outstanding Bond of SEK 50 million.

Following the intermediary debt financing from Vostok Nafta prior to the capital increase, which is now all repaid, RusForest has taken measures to remove the final bottle necks in Boguchany by purchasing a dry sorting line as well as a boiler for installation next summer. Necessary additional drying capacity of 100,000-110,000 m<sup>3</sup> is currently undergoing a tender and is expected to be contracted during December 2010 or January 2011.

RusForest Ust-Ilimsk has been granted a USD 3.2 million (SEK 21.4 million) financial leasing facility by Hansa Leasing (part of Swedbank) for acquisitions of harvesting and road building equipment, while Lesprom and RusForest Magistralny have been granted a RUB 104 million (SEK 22.9 million) financial leasing facility by Federal Transport Leasing Company for the acquisition of additional transport capacity.

In connection with the rights issue, RusForest has gained two new institutional shareholders in Alecta and Libra Fund LP, each with over 7 per cent of the shares.

RusForest has on the 16<sup>th</sup> of November called for early redemption of the SEK 50 million bonds issued in February 2010. Early redemption will take place on Tuesday, December 28, 2010.

Peter Funk, previously employed in RusForest as sales manager, has been appointed CEO of the RusForest trading house, responsible for coordinating and planning sales for all subsidiaries within RusForest. Prior to joining RusForest, Peter Funk has worked within Swedwood as well as with leading Swedish sawmills in similar positions both in production and sales, among them Bergkvist Insjön AB.

## Outlook

Having funding in place from the capital increase, the execution process of the planned investments and production improvements will continue in line with the descriptions given in this report as well as in the Prospectus published ahead of the rights issue.

The year 2011 therefore promises to be the most eventful and dynamic year in the Company's history.

## The Share

### Share Data

The RusForest AB share is listed on First North in Stockholm, a part of NASDAQ OMX. Trading is conducted under the ticker designation RUSF. As of September 30, 2010, the number of outstanding shares was 21,840,840. At the close of the period, the share price was SEK 13, and the Company's market capitalisation was approximately SEK 284 million. The Company's certified adviser on First North is E. Öhman J:or Fondkommission AB.

**ISIN:** SE0001732728

**Short name on First North:** RUSF

**Number of shares:** 21,840,840

### Warrants

Following the new share issue, the exercise terms for outstanding warrants in the Company have been adjusted in accordance with their respective terms and conditions. The new warrant terms are set out in the table below:

Warrant	Number of shares to which each warrant entitles		Subscription price per share, SEK	
	Original value	Adjusted value	Original value	Adjusted value
2009/2011	1	1.17	63	53.7
2010/2015, Series A	1	1.17	27.6	23.53
2010/2015, Series B	1	1.17	29.9	25.49
2010/2015, Series C	1	1.17	34.5	29.41

## Major Shareholders on September 30, 2010, including changes known to the Company

Shareholder	Number	Percentage
Vostok Nafta Investment	28,165,209	43.0
Libra Fund LP	4,884,413	7.5
Alecta Pensionsföräkring	4,659,490	7.1
Staffan Rasjö	3,306,069	5.0
Avanza Pension	1,860,354	2.8
Fonden Zenit	1,579,745	2.4
SIX SES AG	1,308,472	2.0
EFG Private Bank S.A.	1,260,000	1.9
Handelsbankens Nordiska	1,021,350	1.6
Banque Invik S.A.	783,969	1.2
Others	16,693,449	25.5
<b>Total</b>	<b>65,522,520</b>	<b>100.0</b>

## Trading data, January 2009 – September 2010



Source: Nasdaq OMX First North

## Accounting policies

The interim report has been prepared in accordance with IAS 34 Interim Financial Reporting and related parts of the Annual Accounts Act. The interim report for the parent company has been prepared in accordance with the Annual Accounts Act chapter 9. The Group and parent company have applied the same accounting and valuation principles as in the most recent annual report.

## Qualitative and Quantitative Disclosures and Market Risks

The Group is exposed to market risk from changes in global sawnwood prices, foreign currency exchange rates and interest rates. The Group is exposed to foreign exchange risk to the extent that sales revenues, costs, receivables, loans and debt are denominated in currencies other than SEK. The Group is subject to market risk from changes in interest rates that may affect the cost of financing.

### Foreign currency risk

The Group's principal exchange rate risk involves changes in the value of the SEK relative to RUB, USD and EUR. As of September 30, 2010, SEK 3.5 million of the Group's debt was denominated in EUR and SEK 93.7 million was denominated in USD. Changes in the value of SEK relative to EUR and USD will impact on foreign currency-denominated costs and expenses and debt service obligations for foreign currency-denominated borrowings in SEK terms. The management believes that the risks associated with foreign currency exposure are partially mitigated by the fact that revenues are denominated in USD so that the debt will not exceed the Group's ability to service it. The Group's costs are mainly denominated in RUB. As of September 30, 2010 RUB had depreciated by approximately 13% against SEK since June 2010 (in Q2 appreciated by 5%), which led to the exchange loss (gain in Q2 2010). The Group does not use any financial instruments to hedge the foreign currency risk.

### Market risk

Essentially all sawnwood is sold under long-term framework contracts with a review of prices once every 2 months. The Group's export prices are linked to international sawnwood prices. External factors such as general macroeconomic development, housing construction volumes, geopolitical developments, natural disasters and the fluctuations of US dollar to other currencies affect sawnwood prices and thus our export prices.

### Availability of sawlogs

The Group's annual allowable cut (AAC) is sufficient to cover its raw material needs (sawlogs). However, due to the seasonality of harvesting and transportation of timber from the forest, the risk of sawlog shortages always exists and may be affected by unfavourable weather conditions during the harvesting season. In order to mitigate the risk of the sawlogs deficit the Group enters into contracts with external suppliers of sawlogs. This allows minimizing idle time in the sawmills and losses caused by such idle time. Purchased sawlogs can be twice as expensive in comparison with sawlogs from the Group's own harvesting operations, and therefore adversely affects the Group's cost of sales.

### Railroad access

The Group transports essentially all sawnwood through the Russian Railways (RZD). Under existing legislation, RZD must provide railway cars in accordance with the plan submitted by the Group 3 days before the beginning of the planned month. In practice, however, RZD exercises considerable discretion over access to the railway cars, preferring to service metal companies and companies having loading facilities on the main lines of the rail ways. There is no assurance that RZD will continue to provide the Group with railway cars on a timely basis and fulfil Group plans. The maximum failure to provide railway cars has historically been around 20% of the requested number, but may exceed this level in future.

### Energy prices

RusForest's costs of energy are attributable to freight and production. The cost of transport mainly depends on the price of crude oil and fuel. The production costs mainly depend on the development in the general energy market and on price levels of the raw materials which are used as fuel in RusForest's production plants. Change in prices of fuel, raw materials for energy production and

energy may lead to an increase of the Group's operational costs and a decline in RusForest's profitability to the extent a cost increase cannot be compensated by way of increased prices of the Group's products.

### **Liquidity risk**

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses followed by the risk of not fulfilling its obligations. The Group has procedures with the object of minimising such losses such as maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities.

### **Capital management**

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from last year.

### **Off balance sheet activities**

As at September 30, 2010, the Group did not have any relationships with unconsolidated entities or financial partnerships such as entities often referred to as structured finance or special purpose entities, which are typically established for the purpose of facilitating off-balance sheet arrangements.

### **Taxation contingencies**

The taxation system in the Russian Federation is relatively new and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for all tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the consolidated interim financial information could be significant, if the authorities were successful in enforcing their interpretations.

### **Russian Business Environment**

The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. The consolidated financial information for the period ended September 30, 2010, reflects the management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from the management's assessment.

## CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE PERIOD ENDED 30 SEPTEMBER 2010

In thousands of SEK	Note	3Q 2010	3Q 2009	9 months 2010	9 months 2009	12 months 2009
<b>Continuing operations</b>						
Turnover		66,628	96,071	253,767	117,661	207,526
Cost of sales	1	(76,248)	(92,972)	(249,585)	(115,910)	(201,101)
<b>Gross Profit/(loss)</b>		<b>(8,554)</b>	<b>3,099</b>	<b>4,128</b>	<b>1,751</b>	<b>6,425</b>
Other income		1,733	16,816	7,246	18,412	20,209
Distribution expenses	2	(20,528)	(23,436)	(70,353)	(28,027)	(49,726)
Administrative expenditure	3	(20,255)	(25,968)	(63,128)	(46,903)	(65,328)
Other expenses	4	(17,831)	(5,589)	(16,657)	(23,875)	(25,166)
<b>Operating profit/(loss)</b>		<b>(65,436)</b>	<b>(35,078)</b>	<b>(138,709)</b>	<b>(78,642)</b>	<b>(113,586)</b>
Financing Income	6	83	298	9,516	9,587	9,587
Financing cost		(4,674)	(1,514)	(13,420)	(1,994)	(3,870)
<b>Net financing income/(cost)</b>		<b>(4,669)</b>	<b>(1,431)</b>	<b>(13,122)</b>	<b>7,522</b>	<b>5,717</b>
Income from acquisition of RusForest	5	-	-	-	380,009	380,009
Goodwill impairment		-	-	-	-	(142,570)
<b>Profit/(loss) before tax from continuing operations</b>		<b>(70,105)</b>	<b>(36,509)</b>	<b>(151,832)</b>	<b>308,889</b>	<b>129,570</b>
<i>Income tax</i>		8,586	5,117	22,769	6,404	7,603
<b>Profit/(loss) for the period from continuing operations</b>		<b>(61,519)</b>	<b>(31,392)</b>	<b>(129,063)</b>	<b>315,293</b>	<b>137,173</b>
<b>Discontinued operations</b>						
Profit/(loss) after tax for the period from discontinued operations	4	(2,466)	(1,886)	(17,930)	(19,805)	(19,501)
<b>Profit/(loss) for the period</b>		<b>(63,985)</b>	<b>(33,278)</b>	<b>(146,993)</b>	<b>295,488</b>	<b>117,672</b>
Attributable to:						
Equity holders of the parent		(62,755)	(32,905)	(145,027)	295,949	119,522
Non-controlling interests		(1,230)	(373)	(1,965)	(461)	(1,850)
<b>Profit/(loss) for the period</b>		<b>(63,985)</b>	<b>(33,278)</b>	<b>(146,993)</b>	<b>295,488</b>	<b>117,672</b>



## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED 30 SEPTEMBER 2010

In thousands of SEK	<u>Note</u>	<u>3Q 2010</u>	<u>3Q 2009</u>	<u>9 months</u> <u>2010</u>	<u>9 months</u> <u>2009</u>	<u>12 months</u> <u>2009</u>
Profit/(loss) for the period		(63,985)	(33,278)	(146,993)	295,488	117,672
<b>Other comprehensive income</b>						
Translation difference		(68,801)	(59,255)	(25,812)	(73,561)	(60,628)
<b>Other comprehensive income for the period, net of tax</b>		<b>(68,801)</b>	<b>(59,255)</b>	<b>(25,812)</b>	<b>(73,561)</b>	<b>(60,628)</b>
<b>Total comprehensive income for the period, net of tax</b>		<b>(132,786)</b>	<b>(92,533)</b>	<b>(172,805)</b>	<b>221,927</b>	<b>57,044</b>
Attributable to:						
Equity holders of the parent		(131,556)	(92,160)	(170,839)	222,388	58,894
Non-controlling interests		(1,230)	(373)	(1,965)	(461)	(1,850)
<b>Total comprehensive income for the period, net of tax</b>		<b>(132,786)</b>	<b>(92,533)</b>	<b>(172,805)</b>	<b>221,927</b>	<b>57,044</b>

### PER SHARE DATA

Per Share Data	<u>3Q 2010</u>	<u>3Q 2009</u>	<u>9 months</u> <u>2010</u>	<u>9 months</u> <u>2009</u>	<u>12 months</u> <u>2009</u>
SEK	30/09	30/09	30/09	30/09	31/12
Earnings	(2.87)	(1.51)	(6.64)	17.31	7.6
Shareholders Equity*	24.05	42.33	24.05	42.33	32.46
Share Price	13.00	17.40	13.00	17.40	19.00
<b>Number of Shares</b>	<u>3Q 2010</u>	<u>3Q 2009</u>	<u>9 months</u> <u>2010</u>	<u>9 months</u> <u>2009</u>	<u>12 months</u> <u>2009</u>
	1/7 - 30/09	1/7 - 30/09	1/1 - 30/09	1/1 - 30/09	1/1-31/12
Beginning of period	21,840,840	21,840,840	21,840,840	13,303,200	13,303,200
End of Period	21,840,840	21,840,840	21,840,840	21,840,840	21,840,840
Average number of shares	21,840,840	21,840,840	21,840,840	17,101,194	18,299,127

There are stock options outstanding that could increase the Company's number of shares by 3,241,834. No dilution has been calculated as the effect for the period would have been anti-dilutive.

### DEFINITION OF KEY FIGURES

**Earnings per share:** Profit/Loss after tax divided by the average number of shares during the period.

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2010

In thousands of SEK	Note	30 September 2010	31 December 2009
<b>Assets</b>			
<b>Non current assets</b>			
Property Plant and equipment	6	582,998	656,632
Investments in associates		2,131	2,300
Other long-term receivables		7,652	10,601
Deferred tax asset		38,451	23,503
<b>Total non current assets</b>		<b>631,232</b>	<b>693,036</b>
<b>Current assets</b>			
Inventory		29,532	42,747
Trade and other receivable		56,056	64,045
Loans receivable		595	540
Cash and cash equivalents		29,609	26,085
<b>Total current assets</b>		<b>115,792</b>	<b>133,417</b>
Assets classified as held for sale		94,834	128,525
<b>Total assets</b>		<b>841,858</b>	<b>954,978</b>
<b>EQUITY</b>			
<b>Equity and reserves</b>			
Share capital		218,408	218,408
Share premium		545,849	556,687
Translation reserve	6	(3,378)	22,434
Retained earnings		(86,693)	(206,215)
Income for the period		(145,027)	119,522
<b>Total equity attributable to Shareholders of the Group</b>		<b>529,159</b>	<b>710,836</b>
<b>Non-controlling interest</b>		<b>(3,807)</b>	<b>(1,842)</b>
<b>Total Equity</b>		<b>525,352</b>	<b>708,994</b>
<b>Liabilities</b>			
<b>Non current liabilities</b>			
Interest-bearing loans and borrowings		6,011	20,218
Loans payable to related companies		7,479	10,435
Deferred tax liability		45,516	51,726
<b>Total non current liabilities</b>		<b>59,005</b>	<b>82,379</b>
<b>Current liabilities</b>			
Interest bearing loans and borrowings		165,443	37,727
Trade and other payables		78,575	82,385
<b>Total current liabilities</b>		<b>244,017</b>	<b>120,112</b>
Liabilities directly associated with the assets classified as held for sale		13,485	43,494
<b>Total liabilities</b>		<b>305,669</b>	<b>245,985</b>
<b>Total equity and liabilities</b>		<b>841,859</b>	<b>954,979</b>

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 30 SEPTEMBER 2010

In thousands of SEK	3Q 2010	3Q 2009	9 months 2010	9 months 2009	12 months 2009
Cash flow from operating activities	(39,553)	3,976	(71,864)	(9,585)	(40,932)
Cash flow from investing activities	(17,938)	(2,583)	(33,954)	(19,897)	(22,502)
Cash flow from financing activities	81,759	13,460	111,608	32,402	16,689
Cash balances of acquired subsidiaries	-	-	-	-	17,727
<b>Cash flow during the period</b>	<b>24,269</b>	<b>14,853</b>	<b>5,790</b>	<b>2,920</b>	<b>(29,018)</b>
Cash and cash equivalents, beginning of period	8,301	42,388	26,085	55,704	55,704
Exchange-rate differences on cash and cash equivalents	(2,961)	(2,302)	(2,266)	(3,685)	(601)
<b>Cash and cash equivalents, period end</b>	<b>29,609</b>	<b>54,939</b>	<b>29,609</b>	<b>54,939</b>	<b>26,085</b>

The Group's closing net cash position was SEK 29.6 million compared to SEK 8.3 million at June 30, 2010. The total net cash inflow for the three months ending September 30, 2010 was SEK 21.3 million.

The operating cash outflow of SEK 39.6 million was affected by decreased inflows of revenue from customers. As a result of the low sales volumes and high uncertainties in the log flow during the period, RusForest has limited the amount of prepayments from customers during the period which also affected the operational cash flow. Cash outflows from investing activities were SEK 17.9 million, which mainly represent the financing of the resumed construction of RusForest Magistralny sawmill. The cash inflows from financing activities represent the prefunding received from Vostok Nafta ahead of RusForest's rights issue in the form of two short-term loans.

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

<b>9 months 2010, In thousands of SEK</b>	<b>Share capital</b>	<b>Share premium</b>	<b>Translation reserve</b>	<b>Retained earnings</b>	<b>Non-controlling interest</b>	<b>Total</b>
Opening shareholders' equity	218,408	556,687	22,434	(86,693)	(1,842)	708,994
Costs related to the rights issue	-	(10,838)	-	-	-	(10,838)
Profit/(Loss) for the period	-	-	-	(145,027)	(1,965)	(146,992)
Other comprehensive income	-	-	(25,812)	-	-	(25,812)
<b>Total comprehensive income</b>	-	-	<b>(25,812)</b>	<b>(145,027)</b>	<b>(1,965)</b>	<b>(172,804)</b>
<b>Shareholders' equity at end of period</b>	<b>218,408</b>	<b>545,849</b>	<b>(3,378)</b>	<b>(231,720)</b>	<b>(3,807)</b>	<b>525,352</b>

<b>9 months 2009, In thousands of SEK</b>	<b>Share capital</b>	<b>Share premium</b>	<b>Translation reserve</b>	<b>Retained earnings</b>	<b>Non-controlling interest</b>	<b>Total</b>
Opening shareholders' equity	133,032	485,825	83,070	(206,215)	-	495,712
Profit/(Loss) for the period	-	-	-	295,488	(461)	295,027
Other comprehensive income	-	-	(73,561)	-	-	(73,561)
<b>Total comprehensive income</b>	-	-	<b>(73,561)</b>	<b>295,488</b>	<b>(461)</b>	<b>221,466</b>
New share issue	85,376	70,862	-	-	-	156,238
<b>Shareholders' equity at end of period</b>	<b>218,408</b>	<b>556,687</b>	<b>9,509</b>	<b>89,273</b>	<b>(461)</b>	<b>873,416</b>

<b>12 months 2009, In thousands of SEK</b>	<b>Share capital</b>	<b>Share premium</b>	<b>Translation reserve</b>	<b>Retained earnings</b>	<b>Non-controlling interest</b>	<b>Total</b>
Opening shareholders' equity	133,032	485,825	83,070	(155,676)	-	546,251
Profit/(Loss) for the period	-	-	-	119,522	(1,850)	117,672
Deferred tax liability adjustment	-	-	-	(50,539)	-	(50,539)
Other comprehensive income	-	-	(60,636)	-	8	(60,628)
<b>Total comprehensive income</b>	-	-	<b>(60,636)</b>	<b>68,983</b>	<b>(1,842)</b>	<b>6,505</b>
New share issue	85,376	70,862	-	-	-	156,238
<b>Shareholders' equity at end of period</b>	<b>218,408</b>	<b>556,687</b>	<b>22,434</b>	<b>(86,693)</b>	<b>(1,842)</b>	<b>708,994</b>

## NOTES TO THE FINANCIAL STATEMENTS

The Group provides comparative information for cost of sales and distribution costs for 2009. However, the periods are not comparable since the Group previously, till May 31<sup>st</sup>, 2009, had not consolidated its subsidiaries but included the results of the portfolio companies using the equity accounting method. Thus income, expenses and cash flows of the Group in the first nine months of 2009 includes the results and cash flows of subsidiaries for only four months (June 2009 – September 2009). Quarterly results for the reporting period and the comparative data for Q3 2009 both include full three months of the operations of the Group.

### Note 1. Cost of sales

#### Cost of sales

In thousands of SEK	<u>3Q 2010</u>	<u>3Q 2009</u>	<u>9 months</u> <u>2010</u>	<u>9 months</u> <u>2009</u>
Personnel costs	21,875	19,624	68,905	24,566
Purchased sawlogs	21,208	10,223	59,733	17,533
Depreciation	15,979	16,264	47,804	20,392
Materials	1,342	13,427	11,449	14,830
Energy and fuel	6,406	4,802	22,505	5,930
Harvesting services	729	6,171	6,751	7,367
Other	8,709	22,460	32,439	25,292
	<b>76,248</b>	<b>92,972</b>	<b>249,585</b>	<b>115,910</b>

A major cost item that affected the cost of sales in Q3 2010 was usage of purchased logs due to the deficit of sawlogs from own harvesting. At Boguchansky the usage of purchased logs has been 100% during the reporting period.

### Note 2. Distribution expenses

#### Distribution expenses of Rusforest

In thousands of SEK	<u>3Q 2010</u>	<u>3Q 2009</u>	<u>9 months</u> <u>2010</u>	<u>9 months</u> <u>2009</u>
Personnel costs	2,512	493	5,765	589
Railway costs	8,777	8,086	34,339	9,825
Custom duty	2,651	3,733	9,756	4,866
Other	6,589	11,125	20,493	12,746
	<b>20,528</b>	<b>23,436</b>	<b>70,353</b>	<b>28,027</b>

Distribution expenses are lower than in the comparable period in 2009; however, a significant rise in railway tariffs, additional charges for rent of the wagons from private owners and hauling-to-loading costs raised the total figure of distribution expenses and eliminate the effect which the lower sales volumes had on the distribution costs.

### Note 3. Administrative expenditure

#### Administrative expenditures

#### In thousands of SEK

Company	<u>3Q 2010</u>	<u>3Q 2009</u>	<u>9 months</u> <u>2010</u>	<u>9 months</u> <u>2009</u>
RusForest AB (parent company)	2,884	1,692	7,240	17,996
RusForest (subsidiaries)	16,306	24,276	55,888	28,907
	<b>19,190</b>	<b>25,968</b>	<b>63,128</b>	<b>46,903</b>

**Note 3. Administrative expenditure (continued)****Administrative expenditures of RusForest AB (parent company)**

In thousands of SEK

	<u>3Q 2010</u>	<u>3Q 2009</u>	<u>9 months</u> <u>2010</u>	<u>9 months</u> <u>2009</u>
Management fee	-	-	-	8,741
Personnel costs	909	489	1,750	4,736
Consulting	717	723	3,270	3,273
Other external costs	1,038	404	1,891	1,155
Travel expenses	214	28	310	71
Depreciation	6	8	19	19
	<b>2,884</b>	<b>1,692</b>	<b>7,240</b>	<b>17,996</b>

**Administrative expenditures of RusForest (subsidiaries)**

In thousands of SEK	<u>3Q 2010</u>	<u>3Q 2009</u>	<u>9 months</u> <u>2010</u>	<u>9 months</u> <u>2009</u>
Personnel costs	7,472	11,633	27,658	14,172
Audit	2,869	2,745	5,002	2,745
Property tax	938	1,037	3,569	1,790
Consulting fees	253	1,246	2,933	1,428
Other	4,773	7,617	16,726	8,773
	<b>16,306</b>	<b>24,276</b>	<b>55,888</b>	<b>28,907</b>

In the previous periods the audit costs were invoiced to the subsidiary RusForest Ltd (Bermuda) in arrears, so the actual costs were booked in the period following the applicable reporting period. Starting 2010, the Group accrues for the audit costs in a timely manner, and the expenses are accounted in the period in which they occur.

**Note 4. Segment information**

The operating segments' definitions were developed by senior management in order to enable effective and efficient operating performance based on the geographic split of the production units in East Siberia (for forestry) and Karelia (for gravel). RusForest Management LLC is located in Moscow. The parent companies (RusForest AB, Varyag Capital Ltd, Varyag Finance GmbH and RusForest Bermuda) are not included in any of the operating segments as they do not generate any revenue; therefore their assets and expenses have been reflected in the corporate segment of the assets and expenses. RusForest Cyprus Ltd is a primary holding company for the forestry subsidiaries therefore its assets, expenses and cash flows are included into forestry segment.

**Geographical information**

The Group operates in the Russian Federation. The Group's parent company has a head office in Stockholm, Sweden. However, it does not own any non-current assets and generates only financial income and expenses in addition to administration costs and director's salaries. Therefore all non-current assets are located in Russia and all of the Group's operations are based in Russia.

**Segment revenues and results**

In thousands of SEK

	<u>9 months 2010</u>		<u>9 months 2009</u>	
	<u>Revenue</u>	<u>Net result</u>	<u>Revenue</u>	<u>Net result</u>
Forestry companies	253,767	(96,061)	117,661	(38,565)
Gravel companies*	18,488	(17,930)	4,541	(19,805)
Corporate costs	-	(33,002)	-	(25,689)
<b>Total</b>	<b>272,256</b>	<b>(146,993)</b>	<b>122,202</b>	<b>(295,550)</b>

\* The revenue and result of the Russian Gravel Co is shown net as the loss after tax from discontinued operations on the face of the Group Statement of Comprehensive Income.

**Note 4. Segment information (continued)****Segment assets**

In thousands of SEK

	<u>30 September 2010</u>	<u>31 December 2009</u>
Forestry companies	733,906	803,364
Gravel companies	94,834	128,525
<b>Total segment assets</b>	<b>828,740</b>	<b>931,889</b>
Corporate assets	13,119	23,090
<b>Consolidated total assets</b>	<b>841,858</b>	<b>954,978</b>

The Russian Gravel Company is planned to be brought up to production capacity in 2010/2011, and is intended to be sold. Therefore, the accounting treatment used was to classify assets and directly associated liabilities as held for sale as well as profit and loss are considered to be as from discontinued operations.

**Assets classified as held for sale**

In thousands of SEK

30 September 2010

<b>Assets</b>	
<b>Non current assets</b>	
Property Plant and equipment	69,505
Intangible assets	11,445
Deferred tax asset	2,166
<b>Total non current assets</b>	<b>83,116</b>
<b>Current assets</b>	
Inventory	3,700
Trade and other receivable	7,274
Cash and cash equivalents	744
<b>Total current assets</b>	<b>11,718</b>
<b>Total assets</b>	<b>94,834</b>

**Liabilities directly associated with the assets classified as held for sale**

In thousands of SEK

30 September 2010

<b>Liabilities</b>	
<b>Non current liabilities</b>	
Interest-bearing loans and borrowings	8,782
<b>Total non current liabilities</b>	<b>8,782</b>
<b>Current liabilities</b>	
Trade and other payables	4,703
<b>Total current liabilities</b>	<b>4,703</b>
<b>Total liabilities</b>	<b>13,485</b>

**Note 4. Segment information (continued)****Condensed statement of comprehensive income of the Gravel segment**

In thousands of SEK	<u>9 months</u> <u>2010</u>
<b>Discontinued operations</b>	
Turnover	18,488
Cost of sales	(15,417)
<b>Gross Profit/(Loss)</b>	<b>3,071</b>
Distribution expenses	(8,279)
Administrative expenditure	(12,611)
<b>Operating profit/(loss)</b>	<b>(17,819)</b>
Financing cost	(212)
<b>Net financing income/(cost)</b>	<b>(212)</b>
<i>Income tax</i>	102
<b>Profit/(Loss) for the period from discontinued operations</b>	<b>(17,930)</b>

**Condensed statement of cash flows of the Gravel segment**

For 9 months ended 30/09/2010

In thousands of SEK	
Cash flow from operating activities	(2,813)
Cash flow from investing activities	(253)
Cash flow from financing activities	2,188
<b>Cash flow during the period</b>	<b>(878)</b>

**Segment cash flows**

For the 9 months ended 30/09/2010

In thousands of SEK	Forestry	Corporate	Total
Cash flow from operating activities	(52,217)	(19,647)	(71,864)
Cash flow from investing activities	(27,806)	(6,148)	(33,954)
Cash flow from financing activities	(25,796)	137,403	111,608
<b>Cash flow during the period</b>	<b>(105,818)</b>	<b>111,608</b>	<b>5,790</b>

Cash flows are divided up into segments so that all Forestry activities are shown in the Forestry segment and all management services are shown in the Corporate segment. Cash flows relating to gravel primarily appear as an investment activity in the Corporate segment.

The Corporate segment is made up of all management related costs together with the activities of Russian Gravel Company and its subsidiaries in Russia. The negative operating cash flow at the Corporate segment reflects cash costs incurred in running the listed entity together with management costs of RusForest Management in Russia.



**Note 5. Income from acquisition of RusForest**

Income from acquisition of RusForest was reported in the Q2 2009 as SEK 94.8 million as in accordance with the Swedish GAAP. In accordance with IFRS the amount totals SEK 380.1 million

**Note 6. Translation reserve**

The significant movements of the translation reserve are mainly explained by the revaluation of retained earnings from RUB into SEK (SEK 25.8 million difference between Jan 1 and September 30, 2010) and historical costs of investments held at Varyag Capital Ltd denominated in EUR (SEK 25.6 million difference between Jan 1 and September 30, 2010). Fluctuation of SEK/RUB for 9 months 2010 was 13.3 per cent; EUR/RUB -8 per cent.

The Group's financial statements during the quarter were significantly affected by the described appreciation of the SEK to RUB exchange rate. Due to this sizeable foreign exchange rate change all major classes of assets and liabilities have decreased when translated to SEK. The effect on fixed assets has been SEK 87.3 million.

**Note 7. Parent company**

<b>Condensed consolidated statement of financial position, Parent company</b>		<b>Condensed statement of comprehensive income of the Parent company</b>	
<b>In thousands of SEK</b>	<b>30 September 2010</b>	<b>In thousands of SEK</b>	<b>9 months 2010</b>
<b>Assets</b>		Turnover	-
<b>Non current assets</b>		Cost of sales	-
Property Plant and equipment	27	<b>Gross profit/(loss)</b>	-
Investments in subsidiaries	660,640	Distribution expenses	-
<b>Total non current assets</b>	<b>660,667</b>	Administrative expenditure	(7,032)
<b>Current assets</b>		Other income (FOREX)	(20,849)
Loans receivable	218,603	<b>Operating profit/(loss)</b>	<b>(7,032)</b>
Trade and other receivable	1,142	Financing income/(expenses)	7,639
Cash and cash equivalents	2,585	<b>Net financing income/(cost)</b>	<b>7,639</b>
<b>Total current assets</b>	<b>222,330</b>	Income tax	-
<b>Total assets</b>	<b>882,997</b>	<b>Profit/(loss) for the period</b>	<b>(20,242)</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Interest-bearing loans and borrowings	136,692		
Trade and other payables	1,069		
<b>Total current liabilities</b>	<b>137,761</b>		
<b>Total equity and liabilities</b>	<b>882,997</b>		

### Forthcoming information

Year End Report 2010: 24 March 2011 (at [www.rusforest.com](http://www.rusforest.com))  
Annual Report 2010: to be published in May 2011 (at [www.rusforest.com](http://www.rusforest.com))  
Annual General Meeting: to be held during May 2011

### Nomination Committee

The Nomination Committee is comprised of Anders Börjesson, Vostok Nafta, (chairman); Leif Törnvall, Alecta; and Sven Hirdman, Chairman of the RusForest Board. The Nomination Committee can be contacted via e-mail on [info@rusforest.com](mailto:info@rusforest.com).

Stockholm, November 23, 2010

RusForest AB (publ)  
The Board of Directors

This interim report has not been subject to examination by the Company's Auditors.

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