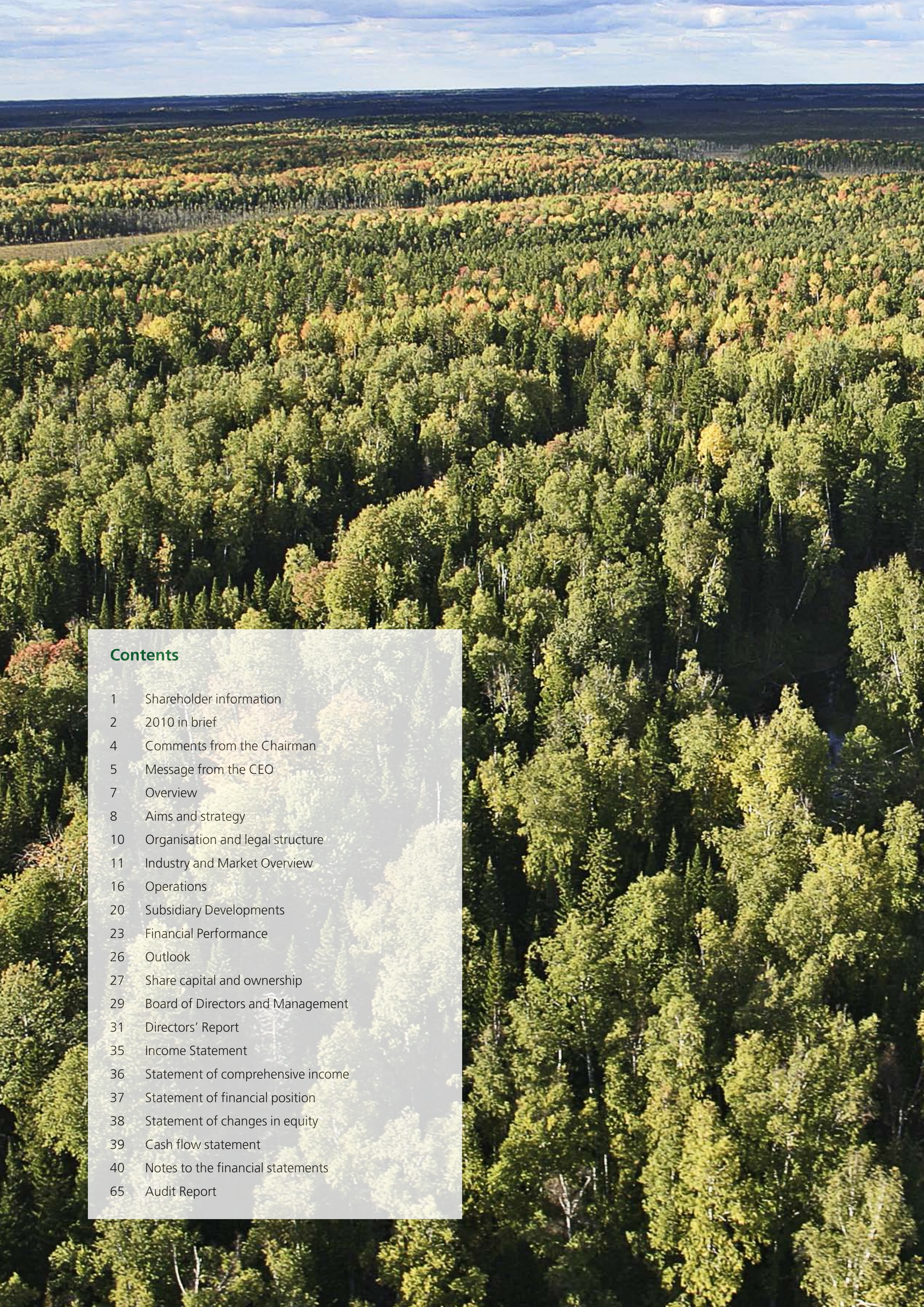
RusForest

Annual Report 2010

www.rusforest.com



Contents

Shareholder information

Annual General Meeting 26 May 2011

The Annual General Meeting of shareholders in RusForest AB (publ) will be held at 10 a.m. on Thursday 26 May 2011, at 7A Konferens, Strandvägen 7A, Stockholm.

Participation

To be entitled to participate at the Annual General Meeting, shareholders must be registered in the share register maintained by Euroclear Sweden AB (Swedish Securities Register Centre) no later than 20 May 2011 and notify their intention to attend the Annual General Meeting by 4 p.m. on 20 May 2011.

Notification

Notification of participation may be made:
By post to RusForest AB (publ),
Hovslagargatan 5, SE-111 48 Stockholm
By e-mail to agm@rusforest.com
By telephone to +46 8 771 85 00

Notification should include name, personal identification number (corporate registration number), address and daytime telephone number.

Trustee-registered shares

Shareholders whose shares are held in the name of a trustee must temporarily re-register the shares in their own name to be entitled to participate in and exercise their voting rights at the Meeting. Such registration must be completed with Euroclear no later than 20 May 2011. This means that the shareholder must request such registration prior to this date.

Dividend

The Board of Directors proposes that no dividend be paid for the 2010 financial year.

Financial information

Interim report Q1, 26 May 2011
Interim report Q2, 26 August 2011
Interim report Q3, 23 November 2011

2010 in brief

Road construction in the Arkhangelsk Region

Results for the year ended on December 31, 2010:
- Total turnover amounted to SEK 300.8 million (SEK 207.5 million for the same period 2009);
- The operating result before financing costs amounted to SEK –165.9 million (2009: SEK –97.0 million);
- The net result amounted to SEK –130.2 million (2009: SEK 117.7 million);
- Earnings per share was SEK –4.35 (2009: SEK 6.53);
- Cash and cash equivalents increased by SEK 41.1 million (from SEK 26.1 million to SEK 67.2 million).

In November 2010, RusForest completed an oversubscribed rights issue providing the Company with net proceeds of SEK 421.2 million:
- The Company's share capital was increased by SEK 436.8 million, from SEK 218.4 million to SEK 655.2 million;
- In conjunction with the rights issue, major shareholder Vostok Nafta Investment Ltd received repayment of two unsecured short-term loans amounting to USD 12 million through an off-set, and RusForest called for early redemption of SEK 50 million in corporate bonds, which were repaid on December 28, 2010.

RusForest established itself as one of a few pan-Russian forestry companies, with operations in both Siberia and Archangelsk:
- On December 22, RusForest acquired initially 86 per cent of OAO "LDK-3", a sawmilling operation located in the city of Arkhangelsk, in North West Russia, and 100 per cent of OOO "Infa", a planing mill at the same site. LDK-3 is one of the largest sawmills in Arkhangelsk, with a current monthly production capacity of 8,000 m^3 sawnwood and 1,800–2,000 m^3 planed products. LDK-3 also has its own dock, with cranes for direct loading, enabling efficient loading of finished products. Moreover, LDK-3 holds a forest lease with an Annual Allowable Cut ("AAC") amounting to 177,200 m^3;
- The acquisition of LDK-3 brought RusForest's consolidated sawmilling capacity to 300,000 m^3, and enabled RusForest to establish a strong presence in Russia's three largest and most developed forestry regions (Arkhangelsk, Irkutsk and Krasnoyarsk). The transaction marked an important step towards RusForest's goal of becoming a leading independent integrated forestry and sawmilling company in Russia.

RusForest has continued the developments of its Siberian subsidiaries:

- The Group made rapid progress with the construction of the Magistralny sawmill, which is scheduled to be launched for test operations in April 2011. The installation works were 95 per cent complete as of year end and the mill is almost ready for pilot mode production;
- Investments at Boguchansky LPK during 2010 included new log sorting, dry sorting and boiler capacity. This, together with additional drying capacity to be installed during 2011, will facilitate increased production in the main saw-line and an improved product mix;
- RusForest Ust-Ilimsk purchased additional harvesting equipment in order to increase the Cut-to-Length harvesting capacity in the region. Additionally, bulldozers and excavators were acquired to be used for forest road construction.

RusForest increased its forest lease holding:

- In December 2010, RusForest AB acquired a new forest lease in Magistralny covering 125,565 hectares with an AAC of 201,000 m^3. The additional forest lease increased RusForest's AAC in the Magistralny area to 560,000 m^3, which is sufficient to cover the future raw material requirements of the sawmill being finalized at RusForest Magistralny.

RusForest strengthened management capacity:

- On April 22, Anders Börjesson was appointed deputy CEO of RusForest AB, a position which, inter alia, entails responsibilities as Compliance Officer for RusForest;
- On June 1, Martin Hermansson was appointed President and Chief Executive Officer of RusForest AB;
- During the third quarter, RusForest appointed Eugeny Tereshchenko as the Company's new Head of Forestry. Mr. Tereshchenko is based in Ust-Ilimsk, but has 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;
- Peter Funk, previously employed in RusForest as sales manager, was appointed CEO of RusForest Trading.

The performance of the Group during 2010 was negatively impacted by raw material supply problems, which started in June 2010 and continued until the end of November:

- On a consolidated basis RusForest's harvested volume decreased by 11.4 per cent, to 634,902 m^3, during 2010 compared 2009 (716,826 m^3);
- The best forestry results during 2010 were achieved in Magistralny. During the year, harvesting levels in Magistralny increased by 85.6 per cent compared to 2009 levels, which is positive given the upcoming launch of the new Magistralny sawmill;
- RusForest's consolidated sawnwood output decreased by 15.1 per cent, to 141,233 m^3, in 2010 compared to 2009 (166,333 m3). Boguchansky LPK increased production by 22 per cent during the year, but this was not enough to compensate for the poor performance at RusForest Ust-Ilimsk;
- In the fourth quarter, RusForest's sale prices in Ust-Ilimsk increased by around 7 per cent compared to the previous quarter and the average prices received were approximately 9.4 per cent higher in 2010 compared to 2009.

Significant events after the end of the period

In April 2011, RusForest acquired Nord Timber Group through an issue in kind, for a total consideration of 29,437,529 RusForest shares. As a result of the acquisition, the Company's annual AAC in the Arkhangelsk region amounts to 984,800 m^3 which will cover the future raw material requirements of the sawmill at LDK-3. Through the acquisition, RusForest becomes one of Europe's leading forestry companies with control over 2.4 million hectares of forestry land with a total of 2.8 million m^3 of AAC.

In February 2011, RusForest acquired the Russian harvesting company Sibartles, which is the holder of a pine dominated forest lease, located approximately 80 km north of the Boguchansky LPK sawmill, with an AAC of 165,400 m^3. The transaction more than doubled RusForest's AAC in the Boguchany area and will allow RusForest to increase self-sufficiency and the proportion of internally supplied sawlogs – with the aim of increasing production and reducing raw material related costs – at Boguchansky LPK during 2011 and 2012.

After the end of the period, Ernst Pfefferkorn has been employed as Chief Technical Officer of RusForest's Siberian mills, with his initial focus being production improvements and equipment installations in Boguchany during 2011. Additionally, a new Managing director was hired at RusForest Ust Ilimsk and two experienced harvesting managers were added to the Boguchansky harvesting organisation.

For the purpose of continuing the Company's expansion programme with regards to forest resources, harvesting capacity and sawmilling, the board of RusForest has engaged E. Öhman J:or Fondkommission AB to investigate the prerequisites for a capital raising in the bond market with a maximum volume of SEK 400 million.

Comments from the Chairman

Developments in Russia

Russia has recovered relatively quickly from the economic crisis in 2008–2009. GDP fell by nearly 9 per cent in 2009 but increased by 4.5 per cent in 2010. In 2011, a growth rate of around 5 per cent is expected.

The rapid recovery is partly due to the fact that the Russian government used saved funds – over 200 billion dollars – to relieve the effects of the crisis and that oil prices have risen sharply, from 40 dollars per barrel in 2009 to about 120 dollars per barrel in the spring of 2011.

Industrial output is now rising faster than GDP, unemployment has fallen, the banking system works better and there is more confidence in the economy in general, which is reflected on the Stock Exchanges in Moscow.

However, the crisis has had a lasting effect. The government's focus on social spending in order to preserve stability in the country has turned the former large budget surplus into a structural deficit, which this year will be around 1–2 per cent. The deficit in the state pension fund accounts for 30 per cent of the budget deficit. This position will require large savings in other budget lines for the budget to balance in two to three years' time.

The other lasting effect of the crisis is growing inflationary pressure. In 2010 the inflation rate was 7.5 per cent and this year it looks to be another per cent higher. The Russian Central Bank's refinancing rate at 8 per cent, means that Russia is again close to having negative real interest rates. The rouble exchange rate is partly linked to the dollar, which contributes to the inflationary pressure. For years, the intention has been to allow the rouble to float freely with the fight against inflation the key objective, but the Russian government has not yet dared to take this step in full for both social reasons and concern for the Russian manufacturing sector.

The high oil price has meant that the Russian foreign exchange reserve again is equal to 500 billion dollars – the third largest in the world after China and Japan – despite the fact that gas exports have not developed as favourably as expected due to reduced demand in Europe. Nevertheless, the expansion of oil and gas pipelines to the outside world continues. The new oil pipeline to China has recently been opened, the Nord Stream in the Baltic Sea will begin delivering gas to Germany in the autumn and planning for the South Stream in the Black Sea for the supply of gas to southern Europe is in full swing.

A political impact of the economic crisis 2008–2009 is that Russia, in a completely different way than previously, has become aware that industry and commerce must be modernized and diversified and that this requires participation from the outside world in the form of foreign direct investment and technological cooperation. This awareness characterizes the policy of President Medvedev and Prime Minister Putin at the forefront. It has led to a more cooperative Russian foreign policy including important business alliances with the West in the energy sector, the automotive sector and in the retail sector.

2011 and 2012 are election years in Russia. In March regional elections took place throughout half of the country, in December there are parliamentary elections to the Duma and in March 2012 presidential elections. There is much speculation about the presidential election and whether Putin will run for, and win, the presidency. The decision will effectively be made by the highest Russian leaders, i.e. by Putin and Medvedev, at the end of this year. At present it seems most likely that Putin will remain the most powerful leader in Russia, whatever position he chooses to take. It does not rule out that the current arrangement with Medvedev will continue in one form or another. Medvedev has done a lot to strengthen civil society in Russia and has contributed to a freer society and debate-led climate. His approval ratings are now in line with Putin's. Personally, he apparently would like to continue in the presidential position, while Putin is concentrating on the real economy and on the hard questions.

Russia and the rest of the world

An important external issue in 2011 will be the decision about Russia's WTO membership, which is expected to be made this summer, with effect as of 1 January 2012. Negotiations to this effect are practically finalized and were facilitated by Russia expressing its willingness to abandon the planned large increase in export duties on timber.

Due to the fact that both the U.S. and Russia recently ratified the new START agreement on strategic nuclear weapons, the Russian-American relations are on the right track. The institutional cooperation between Russia and the EU still suffers from a lot of problems while there is great progress in the cooperation between Russia and several of the larger European states like Germany, France, Italy, Poland, but also with Finland and Norway.

The cooperation between Russia and Ukraine has deepened after president Yanukovych's admission to office in Kiev. Relations between Russia and Belarus remain problematic; however, Belarus has acceded to the Customs Union with Russia and Kazakhstan, which is now in force.

RusForest and the future

With all of its production in Russia, RusForest is obviously very dependent on developments in Russia. It is positive for us that Russia has recovered from the economic crisis so quickly and that there once again is growth in the economy. The focus on modernizing Russian trade and industry will benefit us, because we can bring to the Russian forest and timber industry excellence through the application of Swedish and foreign technology and best practices. Through the acquisitions in the Arkhangelsk region, we have become an all-Russian forestry company with good prospects to achieve a high degree of product refinement. With a new and qualified executive management, we are in a good position to achieve our goals.

Sven Hirdman
Chairman

Message from the CEO

Dear shareholders,

In 2010, RusForest implemented a new more coherent strategy. In November, financing was secured through the rights issue to further develop the Company.

In conjunction with the rights issue, RusForest also attracted new strong investors into the Company. My view is that RusForest is in a better position today than ever before. One reason is that management throughout the entire organization has been strengthened, and that the markets are slowly improving. 2011 will be a year of implementation, where increased harvesting and the start-up of new sawmilling capacity are key events. This, together with increased operational efficiency and improved utilization of forest leases and equipment, will improve profitability.

During my first two quarters as CEO of RusForest, many key problems have been identified and subsequently addressed. None-the-less, the financial results in 2010 were very disappointing as most improvements will first become visible in 2011.

RusForest's position as an emerging global industry player is based on access to cheap raw material of high quality and having a clear first-mover-advantage in the areas in which we operate. The target is not growth for growth's sake, but to reach full raw material self sufficiency at our own sawmills and to further increase profits through exports of excess logs at a high margin. Large diameter Pine and Larch logs, which are less suitable for our own sawmills, can currently be sold at a good premium, for instance to China.

The main factor determining competitiveness in the sawmilling industry is the cost of raw materials. Globally, increased log deficits are resulting in higher raw material prices for individual sawmills. This is true, not only for competitors in countries like China, but also in Sweden and Central Europe.

To address this, RusForest has been actively working to increase the Company's raw material base during 2010 and in the beginning of 2011. Since last summer, we have increased the lease base in all areas where we are active, to decrease our dependency on third party suppliers and to move towards self sufficiency.

In practice, this means that the new management team in Boguchany has started to improve operating standards at the newly acquired harvesting company Sibartles. The integration of local harvesting, forest planning and administration into one unit is ongoing, and results should start becoming visible during the course of 2011.

RusForest Magistralny: Spruce and larch sawlogs at harvesting site

Boguchansky LPK: Overview of the sawlog table and log turner

RusForest Ust-Ilimsk: The HewSaw R200 sawline

LDK-3: Dry sorting line

With the appointment of a new CEO in Ust Ilimsk, harvesting and equipment expansion plans have been revised upwards. As a result, a faster and more aggressive expansion of harvesting is planned in the Ust-Ilimsk area. This is a part of our strategy based on the expectation that saw log prices will continue to increase once the Russian export duties on logs fall following Russia's entry into the WTO.

The Magistralny entity has shown reduced production costs in harvesting, thanks to an increased utilization of forest leases. Harvesting volumes have nearly doubled during the course of the year with the same infrastructure, a marginal expansion of the machine park, and unchanged administration costs – resulting in improved profitability. RusForest's other subsidiaries are following suit. With guaranteed log supplies, the official inauguration of the Magistralny sawmill is planned for June 2011.

In December 2010, RusForest established itself as one of few pan-Russian forestry companies with operations in both Siberia and the European part of Russia (Arkhangelsk) through the acquisition of LDK-3. This presence has been further strengthened with the acquisition of NTG during April 2011.

Through LDK-3, RusForest has gained access to an impressive industrial site with unparalleled logistical infrastructure and a sawmill that can be upgraded to reach a production of 350,000 m^3 annually. Through the acquisition of NTG, the Company's AAC in the Arkhangelsk region now amounts to 984,800 m^3, which will satisfy the future raw material requirements of the sawmill at LDK-3. Additionally, NTG's forest leases are FSC certified, and the company is well-established in the region with newly built forest roads and its own railway terminals giving increased control of logistics and costs. These acquisitions have consequently jump-started RusForest's transition into a major integrated Russian forestry company able to supply the global market with first class timber products.

Going forward, the main initiatives in the Arkhangelsk region will be to increase harvesting levels – which should be implemented quickly, thanks to NTG's strong operational management team and the previous owners' clear focus on infrastructure developments in the forest – and the acquisition of new equipment needed in order to increase production at LDK-3.

Financing and general comments

The oversubscribed rights issue during the autumn permitted the repayment of existing debt, and for the acceleration of investments needed to reach profitability. The Company is, however, still planning to attract additional debt financing in order to increase production and profitability. The Company aims to issue a 3-year corporate bond of approximately SEK 300–400 million during the spring of 2011.

The risk related to this proposed level of leverage is considered moderate, since the Company is currently almost debt free. The planned divestment of the Belomorsk gravel business will add liquid funds, and negotiations are ongoing with potential buyers. The business climate in Russia for road construction is improving with state financing of infrastructure. Therefore, the priority is to achieve maximum value rather than a quick sale.

Following the successful closure of the acquisition of NTG in Arkhangelsk, the planned production capacity at LDK-3 can be increased and therefore the Company's long term targets have subsequently been adjusted upwards.

As a result, RusForest can now establish itself as a true global player with a sawn wood output growing over the next 4–5 years to around 800,000–850,000 m^3 per annum, backed up by 2.7–2.9 million m^3 of logs harvested from the Company's own forest leases. Long term, increased volumes should be supported by probable price increases on all markets.

Martin Hermansson
CEO

Overview

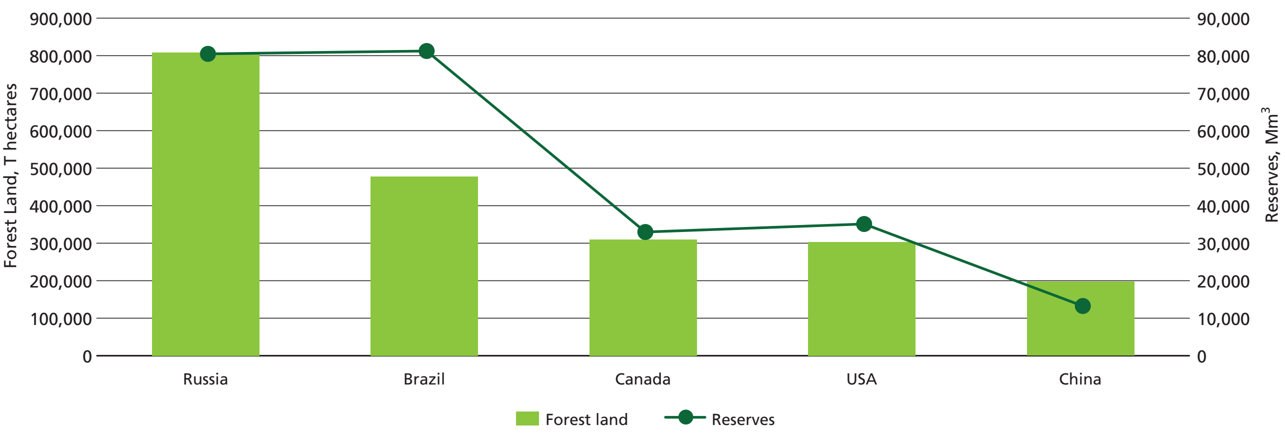
RusForest is a forestry company operating in Eastern Siberia. During 2010, the Company has expanded its geographical presence to include the Arkhangelsk region in North Western Russia, through the acquisition of LDK-3 and Nord Timber Group (NTG), acquired in April 2011.

Since its establishment in 2006, RusForest has increased its forest land and sawmilling capacity both by strategic acquisitions and own development projects. Through long term lease agreements the Company controls approximately 2.4 million hectares of forest land with an AAC of around 2.8 million m^3. Recent increases in controlled forest land comes from the acquisition of LDK-3 and a new forest lease in the Magistralny region during 2010, and through the acquisition of NTG as well as a harvesting company in the Boguchany region in the beginning of 2011.

RusForest's principal business concept is to refine the prime quality pine, spruce and larch logs from its forest leases into a wide range of sawnwood products of which a smaller share is attributable to planed products, including flooring and other interior products. The Group's total sawmilling capacity, which currently amounts to approximately 300,000–350,000 m^3, is expected to increase to around 800,000–850,000 m^3 thanks to improvements made at the existing sawmills, the completion of the sawmill at RusForest Magistralny and the future development 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, well suited for producing high quality sawnwood much appreciated on international markets. The Arkhangelsk region 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 and reserves by Country, 2005



Source: FAO, FRA, 2005

Aims and strategy

LDK-3: Port facility, 253 metres long and with 10 metres depth

Business concept

RusForest's business concept is to be an efficient supplier of high quality sawnwood. By utilizing the Company's access to high quality raw material, low input costs and by creating conditions for an expansion of well-functioning infrastructure, the Company aims to produce and sell high quality sawnwood and thereby generate return for its shareholders.

RusForest has achieved its primary objective of acquiring and consolidating forestry resources in Siberia and the Arkhangelsk region with closing in April 2011, and the Company will in the future focus on increasing harvesting levels, improving existing operations and finalizing its planned investment programme.

Overall objective

Through organic growth, acquisitions and investments in production capacity, RusForest will become a leading independent integrated forestry and sawmilling company in Russia.

RusForest's long-term objective is to expand its utilization of its significant forestry resources, to increase the sawmilling capacity and value-added activities, and at the same time generate an excellent return on equity.

Strategy

In order to benefit further from the Company's competitive advantages over Western competitors, such as access to cheap raw material and low electricity and personnel costs, RusForest seeks to consolidate the regional forestry operations and to increase productivity and efficiency across its entire value chain. Through the recent acquisition of NTG, RusForest has achieved its primary objective of obtaining administrative control over significant forest resources in the areas in which the Company operates. The strategy, around these resources, is now to further expand sawmilling capacity, streamline operations and to finalise the investment programme.

Through the acquisitions of LDK-3 and NTG in Arkhangelsk, RusForest has established itself as one of the few pan-Russian forestry companies with operations in both Siberia and in the European part of Russia. This provides the Company with great opportunities to efficiently export its products to both the European and the Asian markets.

Operational targets

RusForest considers that it has reached a scale where focus can be shifted from acquisitions of forestry assets for existing operations towards finalising the Company's investment plan, completing projects and improving operational efficiency. RusForest harvested 634,000 m^3 in 2010, which is a small share of the Company's current annual allowable cut, which recently increased to 2.8 million m^3. Over the next four to five years, the Company's objective is to gradually increase the Company's AAC to over three million m^3 with annual harvesting of 2.7–2.9 million m^3. The planned increase in harvesting will allow for greater internal supply of raw material to the Company's sawmills, which reduces costs and supply-related raw material risks. Sawnwood output is scheduled to grow to approximately 800,000–850,000 m^3 annually within the same timeframe.

RusForest's position as an emerging global industry player is based on access to cheap raw material of high quality and having a clear first-mover-advantage in the areas where the Company operates. However, the target is not growth for growth's sake, but to reach full self supply at the Company's sawmills as a first step, and to further increase profits from exports of logs at a high margin as a second. Large diameter logs of pine and larch, which are less suitable for processing in RusForest's own sawmills, can be sold at a good premium, for instance to China.

In the near future, the Company will focus on the following:

1. Completing its investment and development programme. In particular, the start up of the turnkey sawmill in Magistralny, finalizing the last investments in Boguchany, and restructuring of LDK-3 in Arkhangelsk.
2. Developing infrastructure in the forests, including harvesting and transportation capacity, as part of the efforts to secure the long-term development of the Company's harvesting areas and its raw material sourcing plan.
3. Expand capacity at several of the Company's existing production facilities by clearing bottlenecks and reorganising production flows, and thereby reducing the Company's costs. The current bottlenecks at the plants mainly consist of lack of sorting capacity (both green and dry sorting), lack of drying capacity in the sawmills and a partially under-developed forest infrastructure. In addition to increases in production, increased drying capacity and better sorting are also expected to entail higher sales prices due to larger volumes of kiln dried sawnwood with a more consistent sorting process.

Dividend policy

Dividend payments to shareholders are dependent on RusForest's result, financial position and investment needs. Considering RusForest's current investments and growth prospects, in addition to the Company's liquidity and financial position in general, dividends are not expected to be paid in the foreseeable future. RusForest currently intends to retain future earnings to fund the development and growth of the Company.

Organisation and legal structure

Organisation

RusForest is a public limited liability company with registration number 556694-6421, with its registered office in Stockholm, Sweden. The Company was incorporated in Sweden in accordance with Swedish law on 7 December 2005 and was registered with the Swedish Companies Registration Office on 9 May 2006. The Company's legal form is governed by the Swedish Companies Act (2005:551) and the Company's shares have been issued in accordance with Swedish law. The Company's shares are denominated in Swedish kronor. The current articles of association were adopted at the extraordinary shareholders' meeting held on 15 April 2011. The object of the Company's business is set forth in the third section of the articles of association.

RusForest AB is the Group's Parent Company. Operations began on 1 August 2006 and the company has been listed on NASDAQ OMX First North since 7 August 2006. A change of name from Varyag Resources AB to RusForest AB was made effective in August 2009.

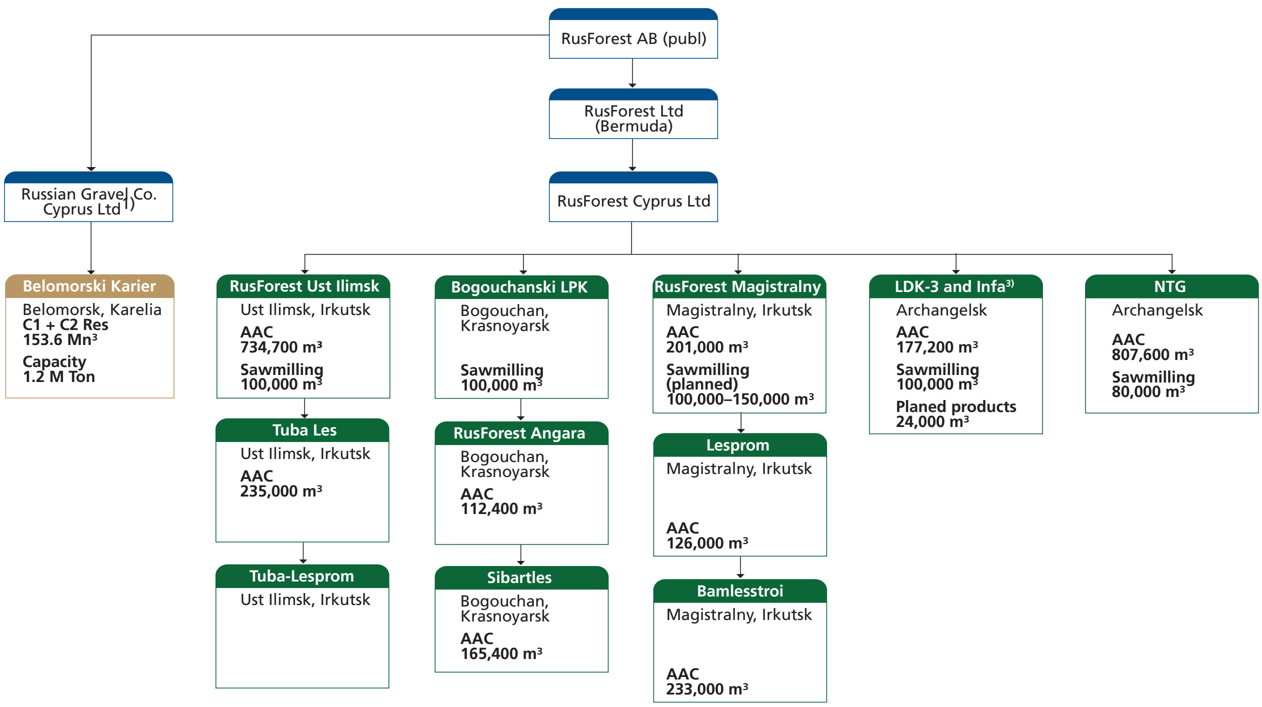
In addition to the Parent Company, the Group consists of the subsidiary RusForest Ltd (Bermuda). RusForest Ltd was incorporated in Bermuda on 8 March 2005 as a private company with limited liability under the Bermuda Companies Act 1981. Initially the Company was incorporated under the name Vostok Caspian Oil Limited and on 29 March 2006, it changed its name to RusForest Ltd. The Russian subsidiaries are owned via RusForest Ltd's wholly owned subsidiaries RusForest (Cyprus) Ltd and Varyag Capital (Cyprus) Ltd with registered offices in Nicosia, Cyprus. RusForest AB also owns Varyag Finance GmbH with its registered office in Zug, Switzerland. Varyag Capital (Cyprus) Ltd had, between 31 July 2006 and 1 June 2009 a management agreement with Taiga Capital Ltd, which managed the company's investments.

Three of the Group's subsidiaries, PIK-89, PIK-2003 and Vector-2003, were merged on 1 April 2010, and now form a new legal entity: RusForest Ust-Ilimsk. On 22 December 2010, RusForest finalized its acquisition of 86 per cent of OAO "LDK-3" and 100 per cent 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. LDK-3 also owns forest leases corresponding to 177,200 m^3 AAC.

In February 2011, the Group acquired the Russian harvesting company OOO Sibartles. Sibartles is the holder of a pine dominated forest lease, located approximately 80 km north of the Boguchansky LPK sawmill, with an AAC of 165,400 m^3 and covering an area of 105,497 hectares.

In April 2011, RusForest acquired Nord Timber Group (NTG) through an issue in kind. NTG is a forestry and sawmilling company with large forestry assets located in the Arkhangelsk region in North-Western Russia. NTG has forest leases exceeding 1.1 million hectares containing high quality spruce and pine resources similar to those found in Northern Sweden. NTG's forest leases are FSC certified and the company is well-established in the region with newly built forest roads and its own railway terminals giving increased control of logistics and costs. The forest leases have an AAC of 807,600 m^3. Additionally, NTG owns a sawmill in the region, which is being upgraded to reach an annual capacity of 80,000 m^3, and a planing mill in the city of Arkhangelsk.

Simplified operational structure, as per April 2011



Industry and Market Overview

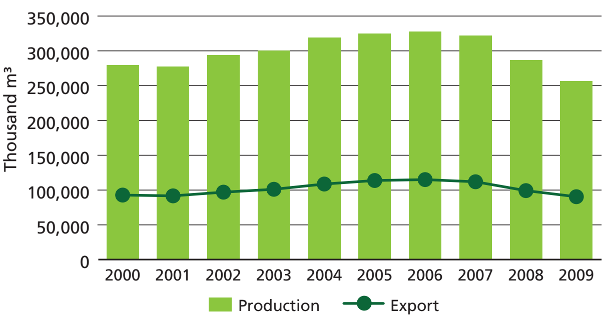
External environment

The market for sawnwood products

Forests are a source of raw material for a wide range of products. The most basic product is non-value added roundwood (sawlogs), which basically consists of cut down trees which are de-branched and cut to appropriate lengths, in Russia often 4 or 6 meters, adjusted to the length of the railway-carriages (12 meters). The roundwood is then used either in sawmilling for production of sawnwood for construction or other processing such as flooring, mouldings or furniture. The residual products, including logs of lower quality, are commonly used as raw material within pulp production or as fuel.

The global production of sawn softwood totalled just less than 260 million m^3 in 2009. Sawnwood is primarily consumed in the domestic market where it is produced, which is why only a third of the global production of sawnwood is exported. However, the price of sawnwood is to a great extent determined by global supply and demand.

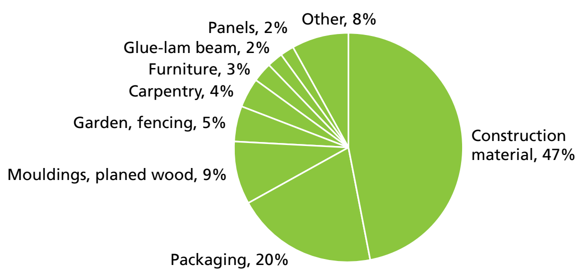
Development of global production and export of sawn softwood



Source: FAO, June 2010

As sawnwood is widely used as construction material, the sawmilling industry is dependent upon the development of the global economy in general and on developments in the construction industry in particular.

The usage of sawn softwood in Europe



Source: FAO, June 2010

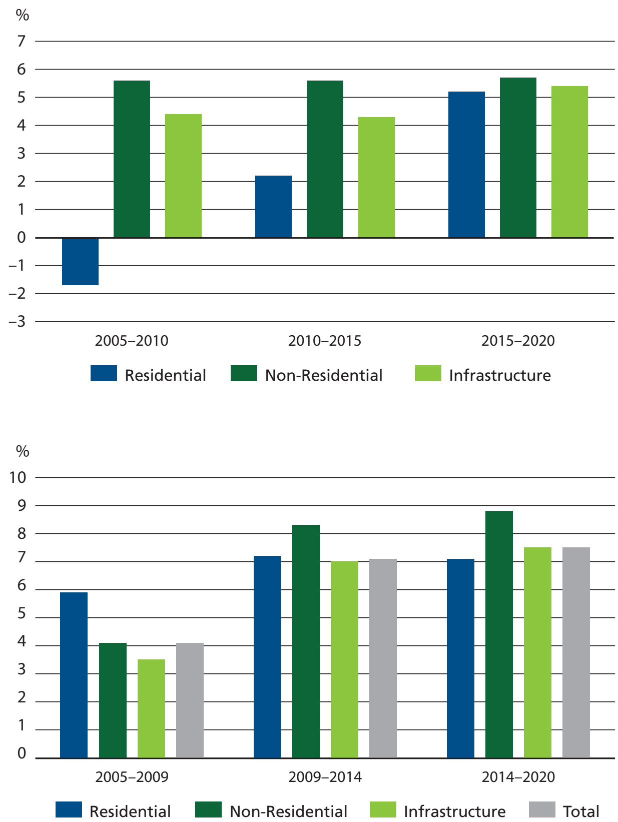
Macro and market tendencies

According to the Russian State Statistic Agency, Rosstat, Russian GDP growth totalled 4.0 per cent during 2010. In the leading Russian newspaper Kommersant, analysts' consensus expectation of 3.8 per cent for 2010 was based on previous 9 month data from Rosstat. The deviation was partly due to the fact that Rosstat previously appears to have taken a too large account of weak growth figures in periods leading up to the fourth quarter of 2010. For instance, the effect of the summer drought on full year economic growth seems to have been overestimated, which was later corrected.

Increases in oil prices, which usually feed into consumption and growth with a lag of about half a year, make analysts assume a higher growth rate in Russia during 2011 than in 2010 according to Kommersant.

More relevant for the forest industry is that global construction activity is still at very low levels both globally and in Russia, when comparing to pre-crisis levels. This is especially true in parts of Europe and North America. However, with short term housing supply being under expected long term demand, a correction in construction activity is expected which should have positive effects on the global sawnwood market.

Global (top) and Russian construction growth, forecast average annual growth rate by sector

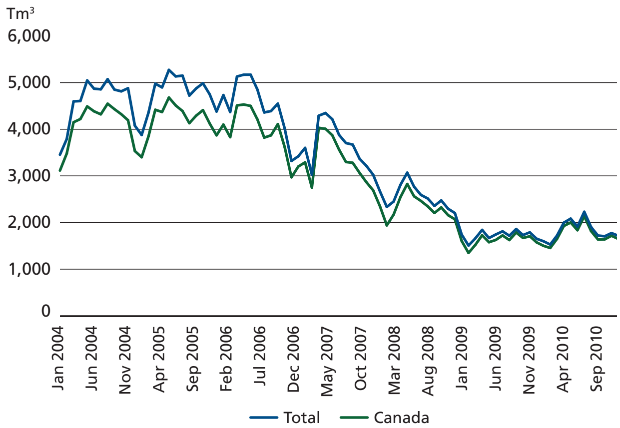


Source: Global Construction 2020

Sawlog supply shortages in Central Europe coupled with China's strong growth rates are factors affecting log prices and sawnwood markets upwards – and a return to American housing market growth is also expected to have a strong impact on world sawnwood prices in the coming years. Industry analysts notice that demand bottomed out in the US during 2009. Russell Taylor, President of the well known publication Wood Markets, forecasts that the US sawnwood market is going to steadily recover until 2015. He assumes a volume growth up towards 61 billion board feet in 2015, which represents a consumption growth of 50 per cent compared to the levels recorded in 2009.

"However, this is still well below the peak of 76 billion board feet in 2005, so there is a lot more upside after 2015 before the market finally stabilizes" he continues.

US: Monthly imports of softwood lumber



Source: Woodstat

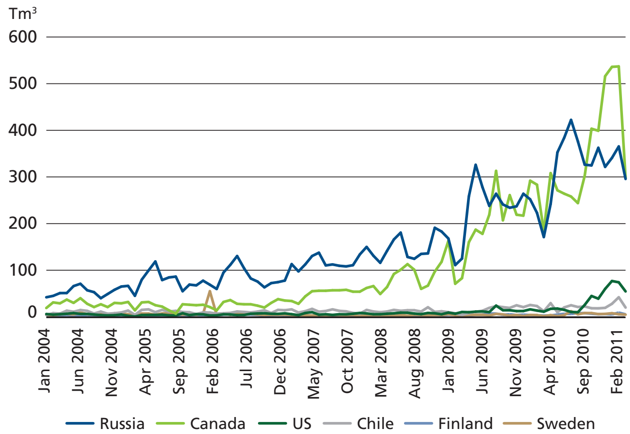
The main growth prospect for sawn wood demand is otherwise expected to originate from areas in the world with high economic growth rates and sizeable increases within the construction sector – in particular emerging Asia. It is in China that the major current market dynamics can be found, especially with regards to market impact for RusForest. Particularly companies operating in eastern Russia benefit from their proximity to the country, and RusForest's Siberian operations are favourably positioned in the southern part of Eastern Siberia to effectively reach the rapidly growing market.

According to estimates published by the National Bureau of Statistics of China (NBS) in January 2011, China reached a GDP growth of 10.3 per cent year-on-year during 2010. Impressively, a GDP of 6 trillion USD has now made China the world's second-largest economy.

Imports of roundwood to China have shown a significant recovery during 2010, and the country increased its imports of softwood and hardwood logs by 22.4 per cent during 2010 compared to 2009, reaching a total of 34.3 million m^3.

Chinese imports of sawn softwood have also shown significant positive developments during 2010 and increased by a full 49.2 per cent compared to 2009 levels. Imports of almost 10 million m^3 in 2010 makes China the world's second largest importer of softwood sawnwood, after the United States.

China: Monthly imports of softwood lumber



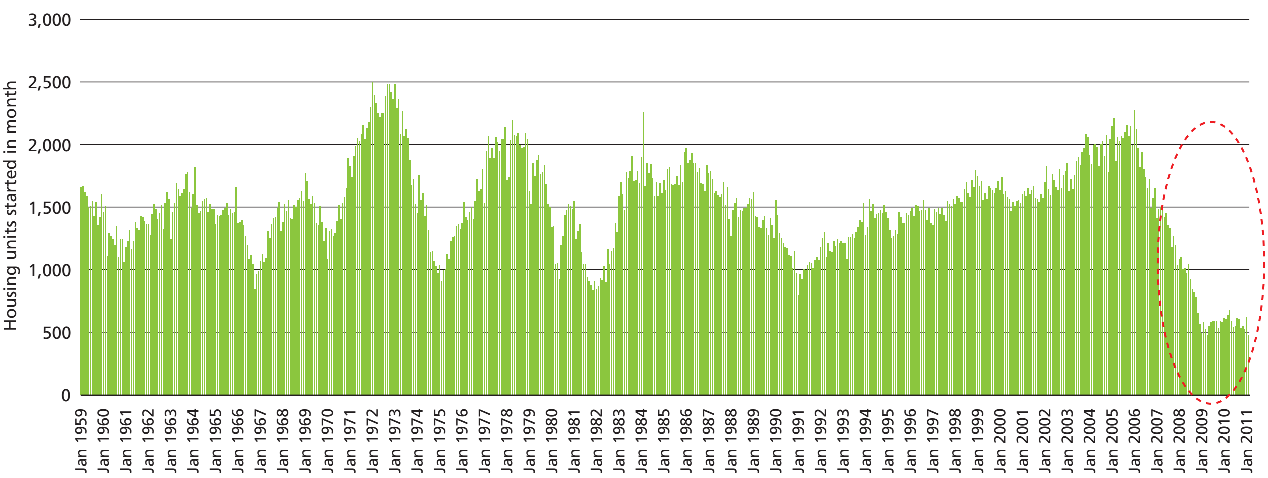
Source: Woodstat, Feb 2011

Canada and Russia are by far the largest suppliers of sawnwood and logs to the Chinese market, and both countries have increased their supplies of sawnwood to China significantly during the last few years. Canada have done so by, in large, delivering lower grades produced from timber sourced from mountain pine beetle infected forests while imports from Russia cover the domestic demand for better qualities.

Canada's main market for sawnwood has historically been the United States and it is expected that Canadian volumes, which currently compete for market shares in China, will decrease significantly once construction rates in the US start increasing once more.

After a harsh winter in North America, the housing sector is still struggling and new housing starts (seasonally adjusted) were around the lowest levels ever recorded in February 2011. However, a modest growth of 8 per cent in house construction volumes during 2010 resulted in a price increase of 40 per cent for sawnwood in comparison to 2009, according to a report by International Wood Markets from January 2011. The medium to long term prospects for the North American market look very interesting, as the normal average house construction level is around three times higher than current levels.

U.S. Housing starts – seasonally adjusted annual rate

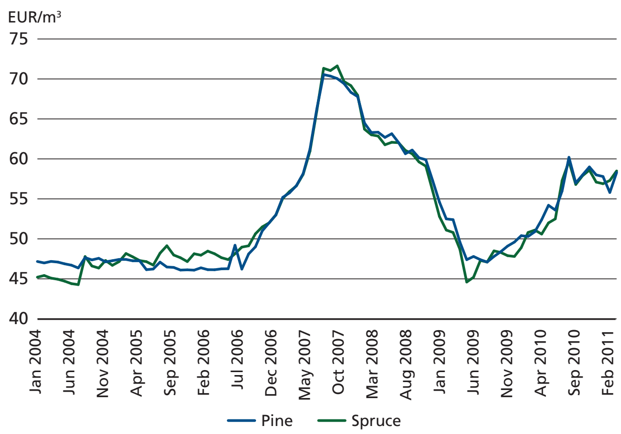


Europe and Nordics

European sawnwood production increased by approximately 7 per cent during 2010. However, the production rates were higher during the beginning of the year until autumn, when decreased demand and extremely high raw material costs decreased winter production levels.

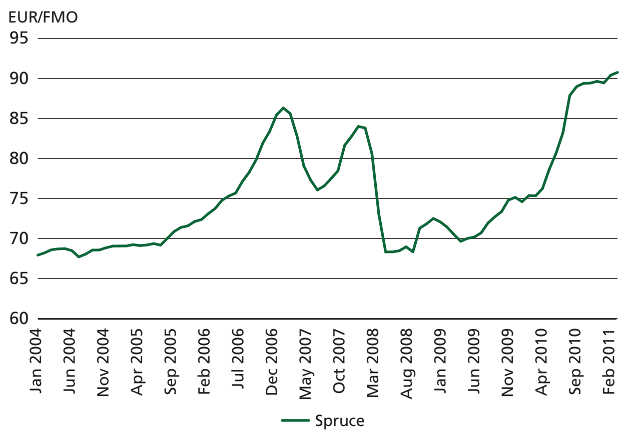
Also the Nordic countries showed production reductions during the end of 2010. This was done to counter high raw material prices and to compensate for lower demand levels on many markets (in part due to seasonal factors).

Finland: Prices for sawlogs at forest road



Source: Woodstat, Feb 2011

Austria price for spruce sawlogs at forest road



Source: Woodstat, Feb 2011

Production in Sweden increased by 5 per cent (to 17 million m^3) during 2010, while Finnish production increased by a full 17 per cent (to 9.4 million m^3). The significant increase in Finnish production was a result of increased demand for Finnish products, both domestically and on export markets, in part thanks to a currency advantage against Swedish producers (who enjoyed the reversed benefit during large parts of 2009).

According to data presented by Skogsindustrierna, the Swedish forest industry association, the export price index for 2010 increased by 13 per cent for pine sawnwood and 15 per cent for spruce sawnwood. In the fourth quarter, RusForest's sale prices in Ust-Ilimsk increased by around 7 per cent compared to the previous quarter and the average prices received were approximately 9.4 per cent higher in 2010 compared to 2009.

RusForest Sales

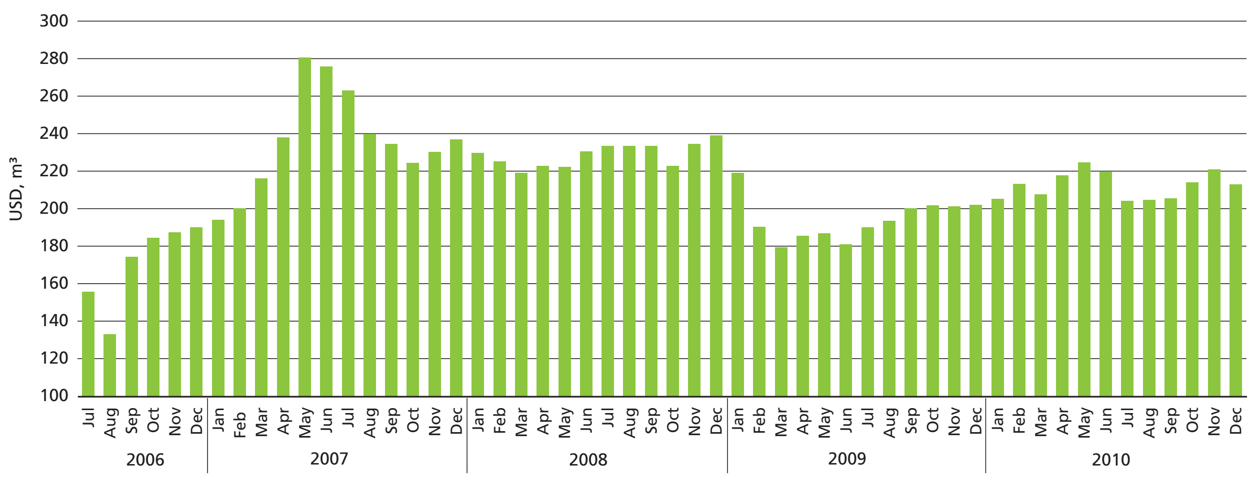
Most Siberian sawmills have lately tried to focus more on the Japanese and Chinese markets due to the turmoil in the Middle-East and Northern Africa. This trend is expected to continue if the regions' demand continues to grow. In past years, many Russian mills have avoided Japanese customers, as they have been serviced by Scandinavian sawmills with stricter demands on just-in-time delivery and sorting specifications. Japanese growth promises to be significant during 2011 and 2012 (after an initial slump in the market) due to new housing demand in light of the terrible damage caused by the tsunami in March 2011.

Almost 60 per cent of new houses in Japan are constructed using a timber frame, and as many as 100,000–150,000 houses were destroyed in the disaster. This corresponds to 15 per cent of the current annual housing construction rate, implying that construction rates could increase by 5–10 per cent in upcoming years.

RusForest has increased its focus on the Chinese and Japanese markets with regards to sales of sawn wood and logs since Q4 2010, when it was announced that the Russian export duties on logs would be reduced going forward. During the same period, sawnwood prices inside China have been increasing. This development gives some well needed support to the global market, as demand and prices have decreased on traditional markets in the Middle East and Northern Africa due to the recent local unrest. RusForest has had no credit exposure to Egypt but has seen delays in previously expected orders from the region.

Furthermore, RusForest has previously been supplying low grade material to the Egyptian market. Since the fourth quarter of 2010, the sales organisation has been actively searching for alternative takers of these products. Contracts have now been signed with customers in Korea and China for the same product, decreasing RusForest's direct reliance on markets in Northern Africa.

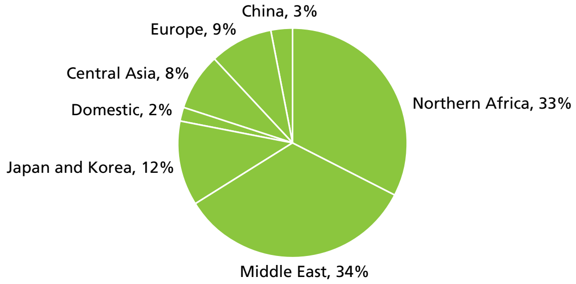
RusForest sawnwood Export Prices, delivered to port, 2006–2010

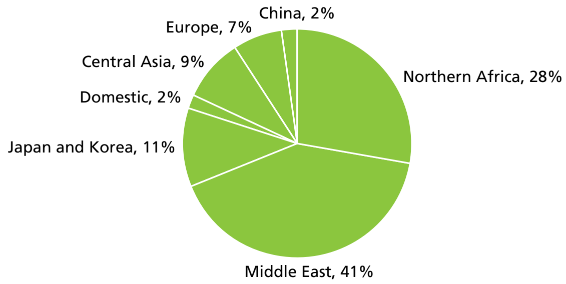


Source: RusForest Ust Ilimsk, Sawnwood export prices delivered to port

RusForest's prices are expected to increase more than prices on the open market in the future, as a result of stabilized production, a higher proportion of larch sawnwood out of total sales and improved drying capacity during 2011. Increased sales volumes of kiln dried sawnwood also lowers transport costs to end customers adding further support to sales margins.

RusForest Sales Geography, 1H 2010 (left) and 12M 2010





Source: RusForest Trading, sawnwood volumes of export quality

RusForest's main markets are located in Northern Africa, the Middle East, Central Asia, Europe, Japan and Korea. During the fourth quarter of 2010, RusForest's sales destinations remained relatively stable compared to the beginning of the year. However, as a result of reductions of prices in Egypt, new markets were found during the end of 2010 and Syria became the largest single market during the fourth quarter.

Operations

1) The gravel assets of the subsidiary Russian Gravel Co. are classified as held for sale.

Location of the subsidiaries

RusForest's forestry operations are conducted through a number of subsidiaries that are based in Siberia and the Arkhangelsk region. Eastern Siberia is an area dense in high-quality Angarsk pine and Siberian larch, and is a region well-situated for reaching the rapidly growing Asian markets, in particular China. The Arkhangelsk region is located in the north-western part of European Russia and has spruce and pine forests of very high quality, comparable to those found in the northern parts of Scandinavia. Operations in the Arkhangelsk area also provide opportunities to efficiently supply sawnwood to Europe, the Middle East and North Africa.

Karelia, in north-western Russia, where RusForest's gravel company OOO Belomorsky Karyer is located, is the region in Russia with the largest aggregates reserves (totalling upwards of 1,700 billion m^3). The region also has a well-developed transportation infrastructure, linking it to end users of aggregates in the construction and road-building sectors.

Forestry

RusForest operational data

2010 Actuals

	Unit	RusForest Ust Ilimsk	Tuba Group	Lesprom	RusForest Magistralny	Boguchansky	Bamlesstroi	LDK-3	Consolidated 2010	2009	%
RusForest ownership	per cent	90%	100%	100%	100%	100%	100%	86%			
Annual Allowable Cut (AAC)	m^3	734,700	235,000	126,000	201,000	112,400	233,000	177,200	1,819,300	1,443,200	26.1%
Harvesting (stem equivalent)	m^3	402,952	11,243	128,686		92,021	–		634,902	716,826	–11.4%
Logs purchased	m^3	57,522	–	–		92,068	–		149,590	111,096	34.6%
Sawnwood volumes	m^3	85,866	1,156	1,766		52,446	–		141,233	166,333	–15.1%
Forest area	Hectares	436,033	117,514	34,129	125,565	48,695	231,554	146,632	1,140,122	864,784	31.8%

1) The figures shown above are given for reference purposes only. Tuba Group includes Tuba-Les and Tublesprom; Boguchansky includes Boguchansky LPK and RusForest Angara. Harvesting volumes are stated as stem equivalent and include volumes harvested in subleased areas.

Having set a clear strategy for the next five years, RusForest has during the last few months finalized the management reorganization in its Siberian entities. As a result, more competent and experienced individuals have come to take leading positions in RusForest's production units in the area. In July 2010, a new CEO was hired in Magistralny to lead the construction process and start up of the mill. The results can clearly be seen in the pictures published on our web page, www.rusforest.com. The promise made during late summer 2010 regarding the start up of the new mill during the second quarter of 2011 is standing firm.

RusForest is a raw material focused company, where access to quality forest leases is seen as the main success factor needed to deliver value going forward. In recent time, RusForest has therefore focused on gaining access to new forest leases and developing infrastructure and harvesting capacity at its subsidiaries.

In Magistralny, an additional forest lease was acquired during the end of 2010. The lease has an AAC of 201,000 m^3 and is located approximately 190 km north of the sawmill which is under construction at RusForest Magistralny. The additional forest lease increases RusForest's AAC in the Magistralny area to 560,000 m^3, which is sufficient to cover the future raw material requirements of the new sawmill.

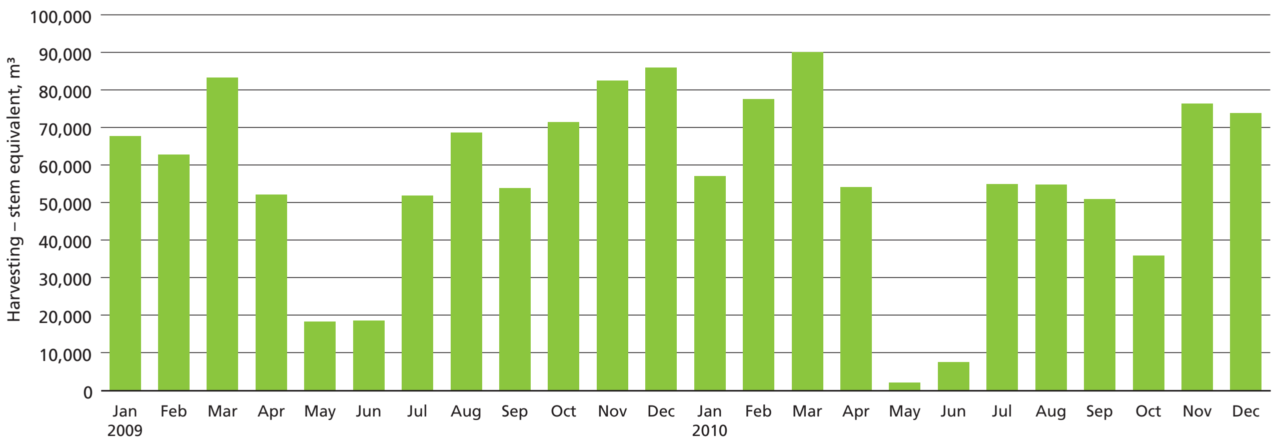
In Boguchany, where the raw material situation has been especially weak during previous years, additional forest leases have been identified and one has already been acquired; OOO Sibartles, a harvesting company with an AAC of 165,400 m^3 was acquired in February 2011. In conjunction with the acquisition, RusForest hired two experienced harvesting managers as a step to strengthen the local harvesting organisation.

The harvesting and sawmilling strategy, used to maximise profits going forward, will be to saw all small diameter logs in RusForest's own sawmills in Ust Ilimsk, Boguchany and Magistralny, while selling most large diameter logs to Chinese buyers. Investments in harvesting capacity for log exports has previously been considered too risky due to the threat of increased export duties making exports unprofitable (the suggested duty was going to reach 50 EUR/m^3). With Russia's recently proposed reduction of the export duties, or at least avoidance of future increases, the strategy becomes much clearer and the risk of increasing harvesting capacity before reprocessing is lowered.

This strategy works well for RusForest, given the fact that the current equipment at the Company's sawmills is constructed to process logs with a lower top diameter (HewSaw R200 at RusForest Ust Ilimsk and R250 at Boguchansky LPK). Furthermore, Chinese customers pay a disproportionally high price for logs of a top diameter above 30 cm.

Following a potential future reduction of export duties on pulp wood, pulp log prices are also expected to increase in the Arkhangelsk region – perhaps also allowing for exports to China.

Forestry Operations



Source: RusForest. The graph above shows total harvesting level per month, in stem equivalent, from RusForest Ust Ilimsk, RusForest Angara, Lesprom, Tuba Les and Tublesprom.

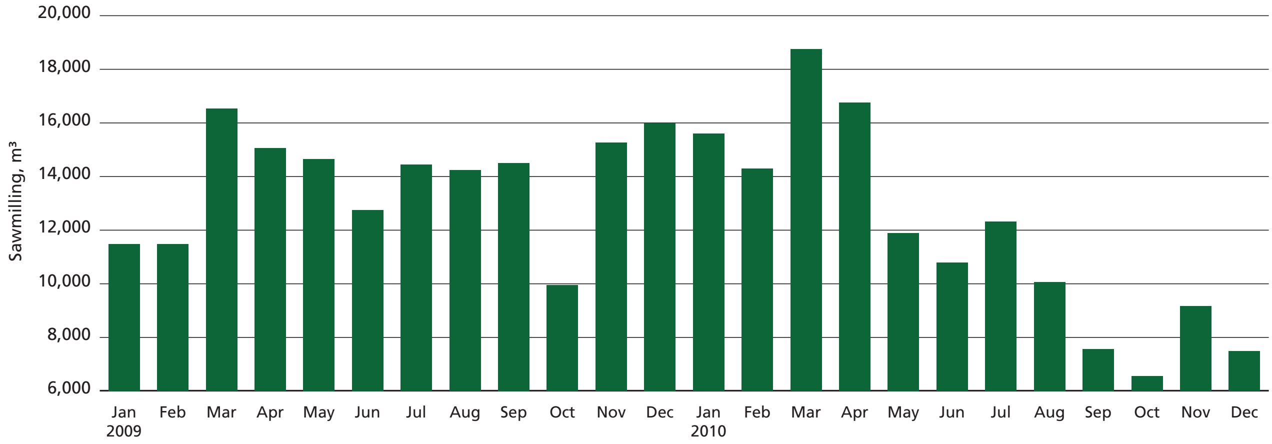
On a consolidated basis RusForest's harvested volume decreased by 11.4 per cent, to 634,902 m^3, during 2010 compared 2009 (716,826 m^3). The disappointing result was largely due to continued unstable summer harvesting levels as a result of poor planning and preparations, especially in Ust-Ilimsk. Necessary organisational changes have been made to guarantee that a similar situation will not be repeated in 2011. The new CEO in Ust-Ilimsk has made a significant impact on improving the situation.

The harvesting level in Boguchany, at 92,000 m^3 during 2010, was similar to the volume achieved in 2009 (–2.4 per cent). These levels are set to increase once Sibartles is included in the Boguchany harvesting operations as of the first quarter of 2011.

There should be significant improvements in harvesting volumes in both Ust-Ilimsk and Boguchany during 2011 thanks to the measures taken by the new local management teams. A lot of work is going into making sure that new and existing machinery will see longer working hours and increased utilization rates throughout the year.

The best forestry results during 2010 were achieved in Magistralny. Harvesting in the region picked up during the fourth quarter, and a harvesting volume of 81,600 m^3 during those three months helped to compensate for the shortfall in Ust-Ilimsk. During the year, harvesting levels in Magistralny increased by 85.6 per cent compared to 2009 levels, which is positive given the upcoming launch of the new Magistralny sawmill.

Sawmilling



Source: RusForest. The graph above shows total sawnwood production per month from RusForest Ust Ilimsk, Lesprom, Tuba Les, Tublesprom and Boguchansky LPK.

Disruptions in harvesting operations during the summer and autumn resulted in lower than expected log supplies at both Boguchansky LPK and RusForest Ust-Ilimsk. This had a knock-on effect on sawmilling which has been slower than planned throughout most of the year, but especially during the third and fourth quarters before deliveries from winter harvesting could begin.

RusForest's consolidated sawnwood output decreased by 15.1 per cent, to 141,233 m^3, in 2010 compared to 2009 (166,333 m^3). Boguchansky LPK increased production by 22 per cent during the year, but this was not enough to compensate for the poor performance at RusForest Ust-Ilimsk.

Subsidiary Developments

RusForest's main area of focus during 2010 has been its forestry operations. Throughout the year, a lack of preparations in previous periods has been evident in the Company's output as mentioned above. Internal deliveries of sawlogs have been consistently weak, with poor production volumes and lower received prices as a result. Since the third quarter of 2010, 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.
- The forest lease base has been increased in Magistralny and Boguchany.
- 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 one area. Transportation capacity is being increased through leasing.
- Company-wide forest road building plans have been confirmed for 2011 and new road tracts have been cleared during the winter season.

RusForest Ust-Ilimsk

In recent years, RusForest Ust-Ilimsk has been subject to unstable raw material flows during the summer season. Together with reduced supply volumes, this has had a negative effect on the Company in terms of involuntary production stops, lower end-product quality and higher production costs. Since the second quarter, significant efforts have gone into developing short and long term harvesting and road development plans at the subsidiary in order to address this problem.

Increased, and 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.

During the year, RusForest Ust-Ilimsk has been granted a USD 3.2 million leasing facility by Hansa Leasing (part of Swedbank) which allowed 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 to be used for forest road construction were acquired in 2010.

In 2009, it was resolved to suspend the sawmilling operations at the small-scale sawmill in Tuba-Les, and instead utilize the flow of sawlogs from Tuba-Les at RusForest Ust-Ilimsk. In connection with the suspension of all sawmilling operations at Tuba-Les, intra-group asset transfers were executed and Tuba-Les applied for creditor restructuring, which was subsequently approved.

Boguchansky LPK

With regard to the power grid connection at Boguchansky LPK, all installation work was completed during the autumn of 2010 and the company will gain access to an additional 1 MW (with further increases possible) during 2011. 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, worked to identify necessary equipment for Boguchansky LPK with the aim of clearing the main bottlenecks at the facility. Investments at the site include new boiler and drying kiln capacity. A new dry sorting line will make increased production possible in the main saw-line and facilitate an improved product mix. At the time of writing, all equipment has been acquired except for the drying chambers, which are expected to be contracted during 2011.

The search for additional AAC has been ongoing at Boguchansky LPK throughout 2010 in order to increase the share of internally supplied raw material to the sawmill. In February 2011, RusForest acquired the Russian harvesting company OOO "Sibartles". Sibartles is the holder of a pine dominated forest lease, located approximately 80 km north of the Boguchansky LPK sawmill, with an AAC of 165,400 m^3 and covering an area of 105,497 hectares. The remaining term of the forest lease is 43 years. Additionally, Sibartles owns harvesting and transportation equipment with a capacity to harvest and deliver approximately 30,000 m^3 sawlogs per year.

The transaction more than doubled RusForest's AAC in the Boguchany area and will allow RusForest to increase self-sufficiency and the proportion of internally supplied sawlogs – with the aim of increasing production and reducing raw material related costs – at Boguchansky LPK during 2011 and 2012. RusForest's long-term objective for Boguchansky LPK is to reach an annual sawnwood output of 200,000 m^3 through investments in additional drying and sorting capacity at the site.

In conjunction with the acquisition, RusForest has hired two experienced harvesting managers as a step to strengthen the local harvesting organisation in Boguchany.

Thanks to positive developments in the local economy, the construction of the bridge over the Angara River, next to the Boguchany sawmill, is continuing with stable financing from federal sources. Simultaneously, the hydroelectric power plant in the region is getting closer to completion. Much more, and in particular much cheaper, electricity will be available in the Boguchany region by 2011–2012 when the new power plant is expected to be launched.

RusForest Magistralny

As mentioned in RusForest's previous reports, installation work was initiated on a wide front at RusForest Magistralny in July 2010, and has proceeded according to plan during the third and fourth quarters of the year. All necessary concrete works were completed on the site prior to winter, and all main buildings (sawmill, drying chambers, dry sorting and boiler buildings) were constructed in order for the company to be able to continue equipment assembly during the winter period. Necessary repairs have 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 finished products.

On the sawmill equipment side, the team at RusForest Magistralny has installed the log sorting and trimming line, and local management has been able to use the log sorting line during the fourth quarter, by processing received stems from the harvesting operations and sorting the sawlogs for export.

The schedule for test production launch during April 2011 stands firm, and the official inauguration of the Magistralny sawmill is planned for June 2011.

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 were granted a RUB 68 million leasing facility in the fourth quarter 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.

LDK-3

On 22 December, following Russian anti-monopoly approval, RusForest finalized its acquisition of 86 per cent of OAO "LDK-3" and 100 per cent 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. RusForest paid SEK 83.0 million for the equity and outstanding shareholder debt; additionally SEK 4.5 million has been reserved for the acquisition of the remaining shares of LDK-3 through a mandatory bid.

LDK-3 is one of the largest sawmills in Arkhangelsk, with a current monthly production of 8,000 m^3 sawnwood and 1,800–2,000 m^3 planed products. However, the drying capacity at the site is at the historical production level of 160,000 m^3 per year.

LDK-3 is located on an industrial site comprising about 86 hectares, which has an existing log sorting line, well functioning dryers and dry sorting lines and export storage areas comprising a capacity of approximately 20,000 m^3 of finished products. Its own dock, with cranes for direct loading, enables efficient loading of larger vessels for shipments of sawnwood. Total port capacity is at least 400,000 m^3 sawnwood per year.

LDK-3's geographical position means that sawlogs can be delivered via railway, waterways (barges or rafting) or by truck. As there is sufficient storage space next to the industrial area's log sorting, an efficient supply of raw material to the sawmill can be ensured.

LDK-3's logistics solution, with its own export port right next to the mill, makes possible a significant expansion of the production capacity within the next few years, and RusForest intends to replace the older saw lines at the site and install additional drying capacity. As a result, the medium to long term goal at the sawmill is to produce around 350,000 m^3 of pine and spruce sawnwood per year.

Moreover, LDK-3 holds a lease with an AAC amounting to 177,200 m^3, which until today only has been used to a limited extent. In addition to LDK 3's existing operations, RusForest believes that the company's geographical position and logistical advantages – with a large industrial site in direct connection to its own port and access to international waters – provides the potential to create synergies by co-operation with third parties. Therefore, in the long run, the Company sees potential in offering other players the possibility to establish themselves close to LDK-3, thereby using the site's entire potential. Such a spin-off would further increase the profitability of the LDK-3 project for RusForest.

Nord Timber Group (acquired after period end in April 2011)

Through the acquisition of LDK-3 in December 2010, RusForest gained a strong foundation for its sawmilling operations in the Arkhangelsk region. Through the acquisition of Nord Timber Group (NTG), the Company's AAC in the Arkhangelsk region now amounts to 984,800 m^3 which will cover the future raw material requirements of the sawmill at LDK-3.

NTG is a company with large forestry assets located in the Arkhangelsk region in north-western Russia. NTG has forest leases exceeding 1.1 million hectares containing high quality spruce and pine resources similar to those found in northern Sweden. Additionally, NTG owns a sawmill in the region, which is being upgraded to reach an annual capacity of 80,000 m^3, and a planing mill in the city of Arkhangelsk.

NTG's forest leases are FSC certified and the company is well-established in the region with newly built forest roads and its own railway terminals giving increased control of logistics and costs. The forest leases have an AAC of 807,600 m^3.

Harvesting levels can be ramped up quickly thanks to its strong operative management team and the previous owners' clear focus on infrastructure developments. As a result, RusForest can increase its production targets and will be established as a true global player, with a sawn wood output growing over the next 4–5 years to around 800,000–850,000 m^3 per annum, backed up by 2.7–2.9 million m^3 of logs harvested from the Company's own forest leases.

Aggregates

Russian Gravel Company

As noted in the previous annual report, 2009 was an important year for the gravel business as we went into production in April 2009 having completed two years of construction work and an enormous amount of license permitting, including certification of the own rail-siding. At the same time 2009 was the hardest year in terms of the macro environment, as both general construction levels were down by some 20 per cent and more importantly government funding for road building was down by some 20 per cent. As a result, RusForest took available measures to reduce cash burn, in particular the leasing payments for the crushing equipment were reduced by 50 per cent until April 2011 and the employees worked in "forced shutdown" regime with only 50 per cent working time to reduce payroll costs.

In 2010, general construction in Russia decreased by some 0.6 per cent compared to the quite low levels experienced in 2009, so the quarry continued to operate in a special regime to limit the cash burn. However, the quarry shipped over 400,000 tonnes of products during the year. This was a level corresponding to approximately 35 per cent of the 2010 shipping capacity, and generated a small operating cash inflow of RUB 3.3 million.

The outlook for 2011 is not completely clear yet. Although we see that the demanded volumes are good based on the amount of requests received from customers, the price is still at a 5-year low with an expectation of an increase at the beginning of the construction season in May 2011. There are extensive discussions within the Russian Government, supported by Prime Minister Putin, to set up a Federal Road Fund, re-start the road building program that was suspended in 2008–2010 and stimulate regional investments into road infrastructure by matching the regions own investments with the same amount of federal support.

At the end of 2010, given the potential of the market to strengthen at the beginning of the season, RusForest decided to take certain steps to prepare for this. The measures planned include increase of the shipping capacity by arranging a shipping area in Sosnovets and sending barges by the White Sea and Baltic channel; re-directing part of sales volumes to the neighbouring, Arkhangelsk region based on the Company's presence in the region following acquisition of LDK–3; acquisition of a sifter to produce small fractions below 20 mm and acquisition of a wagon fleet to ensure stable shipment of gravel which should allow to command a premium of approximately 10 per cent to the regular market price. Altogether, these steps should increase profitability of the quarry and reap the benefits of the market turn-around.

Financial Performance

Overview

The performance of the Group during 2010 was negatively impacted by raw material supply problems, which started in June 2010 and continued until the end of November, when the new season of felling and extraction of timber started. Sawn wood sales during the period were below expectations and totalled SEK 199.9 million.

For comparisons with 2009, a financial analysis and interpretation is made by presenting comparative data for the previous year. However, the prior year includes only seven months' (June–December 2009) income, expenses and cash flows as during January–May 2009, RusForest AB (formerly Varyag Resources AB) was treated as a holding company. The 2009 accounts are as a result not fully comparable due to this difference.

Revenue from the continuing operations amounted to SEK 300.8 million in 2010 (2009: SEK 207.5 million). Sales income was below expectation due to lower volumes. However, the average price of sawn wood during 2010 has increased quarter-on-quarter (with the exception of Q3 2010) which helped the Group to report a positive gross profit at SEK 3.5 million (2009: SEK 6.4 million).

Cash flows in the forestry subsidiaries have been adversely affected due to low sales proceeds and the reluctance of customers to pre-pay in advance of delivery.

In Q4 2010 the Group expanded the felling and extraction of timber in preparation for the launch of the new sawmill in Magistralny and to secure log stocks in Ust-Ilimsk and Boguchany for the mid-season sawmilling (May–June and October–November).

The Group made rapid progress with the construction of the Magistralny sawmill, which is scheduled to be launched for test operations in April 2011. As of year end the installation works were 95 per cent complete and the mill is almost ready for pilot mode production. The additional amount invested in the sawmill amounted to SEK 32.9 million in 2010. Further capital expenditure at Boguchany and Ust-Ilimsk was used to upgrade felling and extraction equipment (harvesters, forwarders, road building equipment and log trucks) as well as for machinery for logs and lumber sorting and new boiler capacity (SEK 47.0 million).

The expenditure described above was made possible due to funds from the rights issue in November 2010. During 2010, operating cash outflows totalled SEK 149.1 million while cash outflows relating to investment activities totalled SEK 183.5 million.

Raw material issues had a negative effect on the production and sales of sawn wood which during the period was reflected in the financial results. The Group showed a net loss of SEK 130.2 million (2009: SEK 117.7 million profit).

In terms of the balance sheet, RusForest's activities are primarily financed by equity capital, with debt levels remaining modest. During Q4 2010 the Group repaid two bridge loans from Vostok Nafta (SEK 84.4 million), through an off-set of a part Vostok Nafta's participation in the rights issue, which on 31 December 2010 decreased financial expenses and short-term loans payable. In December 2010 the Group also repaid bonds issued in February 2010 (SEK 57.3 million) as well as a Unicredit bank loan (SEK 17.4 million). The Group is continuing discussions with various banks in order to secure additional funding to complete the removal of bottlenecks in harvesting and secure better log transportation in the harvesting units.

The banks in Russia offer competitive rates for quality borrowers, but most of the banks are still conservative and pay more attention to the current financial state of the borrower than to future plans and liquidity of the Group as a whole. The Group will be liaising with Russian and Nordic banks as well as with European export finance bodies such as Finnvera.

The acquisition of LDK-3 at the end of December 2010 has increased the Group's assets and liabilities in the balance sheet by SEK 91.1 million.

Foreign currency fluctuations affected the financial statements significantly during 2010 as the SEK has been appreciating against the RUB from 4.23 to 4.48 (6 per cent) with the greatest effect being in Q3 2010.

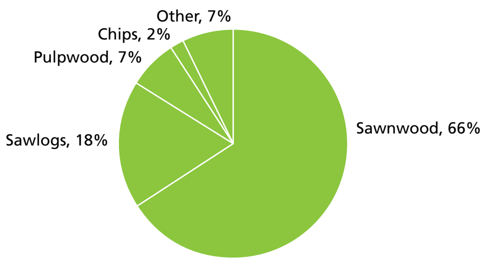
The treatment of the gravel business (Russian Gravel Company) as an asset held for sale means that its balance sheet is not consolidated into the forestry balance sheet on a line-by-line basis. The results are included in the profit and loss account as a loss from discontinued operations, which amounted to SEK –21.1 million in 2010 (2009: SEK –19.5 million). The gravel cash outflows have decreased during the reporting period as gravel has shown a sustainable production and sales volumes during 2010; albeit still at approximately 50 per cent of capacity. The net cash movement totalled SEK –7.9 million (2009: SEK –21.9 million). Bottlenecks in loading (rail wagon access) negatively affect business' ability to increase the volume of sales while production is quite expandable. The expected sale of the asset will eliminate this item from the profit and loss statement.

Profit & Loss statement

Revenue

Group revenue for 2010 amounted to SEK 300.8 million (2009: SEK 207.5 million[1)]). The Group revenue for the period was made up of: sawnwood, SEK 199.9 million (2009: SEK 128.3 million); sawlogs, SEK 54.3 million (2009: SEK 36.8 million); pulpwood, SEK 11.6 million (2009: SEK 12.0 million); chips, SEK 20.0 million (2009: SEK 5.3 million) and; other revenue SEK 14.9 million (2009: SEK 25.1 million).

Revenue Breakdown FY 2010, percentage of total



The share of sawn wood revenue has increased compared to sales in 2009 from 61.8 per cent to 66 per cent. This was in large due to the gradual increase of average sawnwood export prices (delivered to port) received at RusForest Ust-Ilimsk during 2010. In the fourth quarter, RusForest's sales prices in Ust-Ilimsk increased by around 7 per cent compared to the previous quarter and the average prices received were approximately 9.4 per cent higher in 2010 compared to 2009.

Operating Expenses

RusForest's cost of sales for the period was SEK 297.3 million (2009: SEK 201.1 million). The cost of sales was higher on a *pro-rata* basis compared to 2009 primarily due to the increase in fuel prices, cost of spare parts, and the cost of purchased sawlogs. Sawlogs were in low supply in both of the regions (Irkutsk and Krasnoyarsk) due to the cold 2009–2010 winter, when harvesting was poor and a rainy summer which did not allow sufficient extraction of timber from the forests. The cost of logs purchased on the market increased by 23 per cent during the year.

Distribution expenses amounted to SEK 83.8 million (2009: SEK 49.7 million) representing customs duties, railway tariffs, loading and hauling-to-loading costs. The increase in these costs is directly related to 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 an additional cost.

Other Expenses

Financial Expenses

Financial expenses amounted to SEK 22.5 million during the period (2009: SEK 20.5 million). The increase in financial expenses during the period is largely attributable to the interest on the SEK 50 million bonds issued by the Group in February 2010, together with issuance costs of SEK 2 million and early redemption commission of 2 per cent (SEK 1 million). The bonds had a twelve month maturity with a fixed interest rate of 15 per cent. The bonds were redeemed in December 2010. 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 rate of 15 per cent per annum, as an advance ahead of the rights issue. These loans were repaid in November 2010 through an off-set in conjunction with the issue. The subsidiary in Ust-Ilimsk received a loan from Sberbank of USD 1.3 million on 30 December 2009, with the 12 month charge for interest recorded in 2010.

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 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 130.2 million (2009: SEK 117.7 million profit). The relative increase in the net loss was driven by low sales volumes and significantly increased proportion of purchased sawlogs compared to logs from own harvesting at both RusForest Ust-Ilimsk and Boguchansky.

Balance sheet

Assets and Investment

The changes in the Group's balance sheet were mostly caused by the inclusion of newly acquired assets and liabilities of LDK-3 and Infa. On 22 December 2010 the Group completed the acquisition of 86 per cent of LDK-3, a sawmilling company located in the city of Arkhangelsk, in North West Russia, and 100 per cent of Infa, a planing mill at the same site for a total cash consideration of USD 12.6 million or approximately SEK 83.0 million. After the assessment of fair values of the net assets acquired under the requirements of IFRS 3 the Group had consolidated SEK

1) Effectively this figure only relates to seven months of sales which were consolidated following the 1st June 2009 acquisition of the forestry assets from Vostok Nafta.

191.0 million in assets, SEK 99.9 million in liabilities. The Group's gain from acquisition totalled SEK 51.2 million.

On the equity side a significant increase is shown due to the rights issue resulting in the number of shares in RusForest increasing by 43,681,680 shares, to 65,522,520 shares, and the share capital increasing by SEK 436.8 million, from SEK 218.4 to SEK 655.2 million.

Another major impact on Group's balance sheet during the year was attributable to the significant appreciation of the SEK/RUB exchange rate from 4.23 on 1 January 2010 to 4.48 on 31 December 2010 (6 per cent). As a result of this sizeable foreign exchange rate change, all major classes of assets and liabilities have decreased when translated into SEK.

Property, plant and equipment has increased due to the extensive investment in the construction of the Magistralny sawmill and also due to prepayments made by Boguchansky for the log and lumber sorting equipment and a boiler station. RusForest Ust-Ilimsk invested in harvesting and forest road construction equipment (all arrived in February–March 2011).

On the liability side, the Company is primarily financed through equity, with total equity of SEK 979.1 million (2009: SEK 723.5 million) compared to non-current interest bearing liabilities of SEK 18.0 million (2009: SEK 30.7 million) and current interest bearing liabilities of SEK 15.6 million (2009: SEK 37.7 million). The decrease in current interest-bearing liabilities (SEK 22.1 million) relates to the repayment of the Unicredit Bank loan and the regular payments performed by the Group to Sberbank and under existing leasing agreements. The new finance raised is represented by finance lease liabilities to Hansa Leasing and Federal Transport Lease Company.

The gravel business' assets of SEK 100.0 million (2009: SEK 116.6 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 as well as a currency effect when translating the business' assets into SEK.

The gravel business' main crushing plant is being acquired under a finance lease, and the associated liability figure of SEK 12.5 million (2009: SEK 17.1 million) primarily reflects the finance lease liability outstanding on 31 December 2010.

Cash Flow and Financial Position

The Group's closing net cash position was SEK 67.2 million compared to SEK 26.1 million on 31 December 2009. The total net cash inflow for the twelve months ended 31 December 2010 was SEK 40.8 million.

RusForest completed an oversubscribed rights issue in November 2010, providing the Company with net proceeds of SEK 421.2 million. The share capital was increased by SEK 436.8 million, from SEK 218.4 million to SEK 655.2 million. In conjunction with the rights issue, major shareholder Vostok Nafta Investment Ltd received repayment of two unsecured short-term loans amounting to USD 12 million through an off-set. Following the rights issue, RusForest also called for early redemption of SEK 50 million in corporate bonds, which were repaid (including outstanding interest) in December 2010. In December 2010, RusForest acquired LDK-3 and Infa for a total consideration of SEK 83.0 million and reserved another SEK 4.5 million for the mandatory bid to minority shareholders. The operational companies have invested considerably in new harvesting machinery, log trucks, excavators and other auxiliary equipment.

The operating cash outflow of SEK 119.1 million in forestry subsidiaries (2009: outflow of SEK 40.9 million) was a result of low sales volumes, significant cost inflation, consulting fees and interest payments during the period.

Cash outflows from investing activities in the forestry segment, of SEK 167.1 million (2009: SEK 22.5 million), mainly represent investments made during the period, including; the restart of construction activities at RusForest Magistralny; purchase of additional sorting capacity (both for logs and lumber) and a boiler for Boguchansky; investment in additional harvesting capacity in Rusforest-Ust-Ilimsk; as well as the consideration paid for LDK-3 and Infa. The Group will continue the investment at RusForest Magistralny until the beginning of Q2 2011. Funding of Russian Gravel Company has decreased to SEK 6.1 million during 2010 (2009: SEK 21.9 million) thanks to the gravel production and sales activities performed during the reporting period accompanied by lower leasing payments.

The cash balances acquired in the acquisition of LDK-3 and Infa totalled SEK 0.4 million.

After repayment of significant amounts of the Company's debt, and the investments made, following the rights issue, the Groups cash and cash equivalents amounted to SEK 67.2 million on 31 December 2010. This cash level is seen as quite reasonable to maintain the activities of the Group until spring 2011. Of the Company's total liabilities, amounting to SEK 172.2 million as per 31 December 2010, only SEK 42.6 million were interest bearing (of which SEK 9.0 million related to interest bearing liabilities associated with assets classified as held for sale) as per the same date. With total assets amounting to SEK 1,151.3 million per the same date, the Company is subsequently well suited to finance its growing operations also with debt. As previously announced, the board of RusForest has therefore engaged E. Öhman J:or Fondkommission AB to investigate the prerequisites for a capital raising in the bond market with a maximum volume of SEK 400 million during the spring of 2011. Due to the low debt levels in the Company, corporate bank loans as well as financial leasing of equipment might be an alternative source of financing.

Outlook

Having equity funding in place from the right issue, the execution of the planned investments and production improvements have continued in line with the descriptions given in this report as well as in the Prospectus published ahead of the rights issue.

Leverage will come mainly from issuance of a corporate bond during the spring of 2011 and by individual leasing of harvesting and log trucks, where appropriate, in the operational companies. Negotiations regarding the divestment of Russian Gravel Company are continuing at the same time as bottleneck removal at the site will increase turnover and improve operational results prior to divestment.

In addition, sale prices on saw logs from eastern Siberia as well as pulp wood prices from the Arkhangelsk region are expected to increase along with lowered export duties. The year of 2011, considering the completion of the Magistralny mill and increased production also in Boguchany, therefore promises to be the most eventful and dynamic year in the Company's history.

Share capital and ownership

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 31 December 2010, the number of outstanding shares was 65,522,520. The turnover rate for the share during the period of January–December 2010 was approx. 36 per cent. The average daily turnover was 55,742 shares, corresponding to approx. SEK 755,824. The average closing spread between the bid and the ask price was 2.09 per cent.

At the close of the period, the share price was SEK 12.8, and the Company's market capitalisation was approx. SEK 838.7 million. The number of shareholders was approximately 2,100.

Change in share capital

Year	Transaction	Change in the number of shares	Change in share capital in SEK	Total number of shares	Total share capital in SEK	Quota value
2005	Establishment of the Company	1,000	100,000	1,000	100,000	100
2006	Share split	9,000	–	10,000	100,000	10
2006	New issue	40,000	400,000	50,000	500,000	10
2006	New issue	8,818,800	88,188,000	8,868,800	88,688,000	10
2007	New issue	4,434,400	44,344,000	13,303,200	133,032,000	10
2009	Issue in-kind	8,537,640	85,376,400	21,840,840	218,408,400	10
2010	New issue	43,681,680	436,816,800	65,522,520	655,225,200	10

Major shareholders as of 31 December 2010 according to Euroclear

Shareholder	Number	Percentage
Vostok Nafta Investment Ltd	28,165,209	43.0
JP Morgan Clearing Corp.	6,768,467	10.3
Alecta Pensionsförsäkring	4,659,490	7.1
Staffan Rasjö	3,306,069	5.0
Avanza Pension	1,596,694	2.4
SIX SES AG	1,308,472	2.0
EFG Private Bank S.A.	1,260,000	1.9
Fonden Zenit	1,159,745	1.8
Handelsbankens Nordiska	1,021,350	1.6
JPM Chase NA	1,000,000	1.5
Others	15,277,024	23.3
Total	**65,522,520**	**100.0**

Warrants and employee stock options

Employee stock option plan 2010/2015

The annual shareholders' meeting on 20 May 2010 resolved to adopt an employee stock option plan for the managing director and other members of management, with the right to acquire maximum 1,200,000 shares in RusForest. Each stock option shall entitle the holder to subscribe for one share in the Company with the exercise price (a) SEK 27.60 for stock options under Series 1, (b) SEK 29.90 for stock options under Series 2 and, (c) SEK 34.50 for stock options under Series 3.

No employee is guaranteed an allocation of stock options as this shall be decided by the board of directors based on specific performance-based criteria. On 26 July 2010, the board of directors allocated 300,000 stock options to RusForest's managing director Martin Hermansson.

Additional information regarding Employee stock option plan 2010/2015 is presented in note 9 of this report.

Warrants 2009/2012 issued to Taiga Capital Limited

On 25 May 2009, an extraordinary shareholders' meeting resolved to issue 1,987,834 warrants to Taiga Capital Limited. The subscription period runs from 1 July 2009 until 1 January 2012 and the exercise price is SEK 63. If the warrants are fully exercised, the Company's share capital may be increased with a maximum of SEK 19,878,340.

The reason for the deviation from the shareholders' preferential rights was that the issue was part of the restructuring of the Company's business operations and that the issued warrants should be used as consideration to Taiga Capital Limited in connection with the final settlement of the transactions between Taiga Capital Limited and Varyag Capital (Cyprus) Limited.

New terms as a result of new share issue

As a result of the new share issue in RusForest AB in November 2010, the exercise terms for outstanding warrants in the Company were 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

Analysts covering RusForest AB

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Edvard Lenner, tel: +46 8 402 50 55

Remium AB
Susanna Helgesen, tel: +46 8 454 32 38
Claes Vikbladh, tel: +46 8 454 32 94

Share Price and Turnover

Board of Directors and Management

Board of Directors

SVEN HIRDMAN
Chairman of the Board since 2006
Bromma, born in 1939

Sven Hirdman has the rank of Ambassador and served in the Swedish Foreign Service from 1963 to 2004.During 1994 and 2004 Sven Hirdman was Sweden's Ambassador to Russia, with concurrent accreditation to other CIS countries. Among other Foreign Service posts, he has been Ambassador to Israel. In 1979–1982 Sven Hirdman was Under Secretary of State in the Ministry of Defence, and in 1987–1994 he was General of Military Equipment. Sven Hirdman is a Slavic scholar with an M.A. and B.A. from Uppsala University.

Sven Hirdman currently works as a business consultant and lecturer on Russia and international politics, as well as a Marshal of the Diplomatic Corps at the Ministry of Foreign Affairs.

Sven Hirdman is independent in his relations to RusForest, its management and its major shareholders.
Shareholding in RusForest AB: 9,000 shares

FRANZ BERSTRAND
Board Member since 2008
Stugun, born in 1946

Franz Bergstrand is a Forestry Engineer with 35 years experience from the forestry and wood industries, both domestically and internationally.

Franz Bergstrand is chairman of the boards of Mid Sweden Chamber of Commerce, Sporthaus Moxter AB, Robera AB, Wood Support AB and KåEss Knut Bygg AB and a board member in Clean Tech East AB and MidSweden Science Park AB. Franz Bergstrand is also a member of the market council with focus on forestry and the forest industry for Swedbank Sweden.

Franz Bergstrand is independent in relation to RusForest, its management and its major shareholders.
Shareholding in RusForest AB: 9,000 shares

PER BRILIOTH
Board Member since 2009
Stockholm, born in 1969

Per Brilioth has an MSc in Business and Economics from Stockholm University and a Master of Finance from the London Business School. Per Brilioth is CEO and board member of Vostok Nafta Investment Ltd since 2001 and has worked closely with the Russian stock market for many years.

Per Brilioth is chairman of the boards of Black Earth Farming Ltd, Vostok Nafta Sverige AB and Clean Tech East Holding AB and a board member in Avito Holding AB, Kontakt East Holding AB, OAO Resurs-Invest, Vosvik AB, Vostok Gas Ltd and X5 Group AB.

Per Brilioth is not independent in relation to RusForest, its management and its major shareholders due to his assignments as the managing director and board member in one of RusForest's major shareholders, Vostok Nafta Investment Ltd.
Shareholding in RusForest AB: 60 000 shares

TORBJÖRN GUNNARSSON
Board Member since 2006,
Lidingö, born in 1959

Torbjörn Gunnarsson has an MSc in Business and Economics from the Stockholm School of Economics. Torbjörn Gunnarsson was the CEO of Varyag Resources AB between 2006 and 2009.

Torbjörn Gunnarsson is chairman of the boards of Mio Möbler AB and Panare AB. He is a board member of several subsidiaries in the Mio Group, Sectra Communications AB, Gunnarsson Fastighets AB and Södra Hotellet AB.

Torbjörn Gunnarsson is independent in relation to RusForest, its management and its major shareholders.
Shareholding in RusForest AB: 60,000 shares.

JERKER KARLSSON
Board Member since 2010
Sundsvall, born in 1944

Jerker Karlsson is a Forestry Engineer with over 40 years experience from the forestry industry. Between 1970 and until his retirement in 2009 Jerker Karlsson was employed within SCA.

Jerker Karlsson has no current corporate positions beside his position as a member of the board in RusForest AB.

Jerker Karlsson is independent in relation to RusForest, its management and its major shareholders.
Shareholding in RusForest AB: none.

JOHAN UNGER
Board Member since 2006
Stocksund, born in 1961

John Unger has an MSc in Business and Economics from Uppsala University.

Johan Unger is a board member of BioPhausia AB, ALM Equity AB and DGC One AB, Klövergärdet AB and Johan Unger AB. He is also a partner in Handelsbolaget Birger Jarlsgatan 8.

Johan Unger is independent in relation to RusForest, its management and its major shareholders.
Shareholding in RusForest AB: 155,739 shares.

Senior executives

MARTIN HERMANSSON
Chief Executive Officer (CEO) of RusForest AB since June 2010.
Moscow, born in 1982

Martin Hermansson holds a BSc from London School of Economics and has an industry background in Russia. The Hermansson family controls close to 1,500 hectares of forestry land in southern Sweden. Martin Hermansson has worked in Russia for the past five years and is the founder of Nord Timber Group. Prior to setting up Nord Timber Group he established his own consultancy business within the forestry sector, where he was active as managing director between 2006 and 2008.
Shareholding in RusForest AB: 14,500 shares and 300,000 employee stock options.

ANDERS F. BÖRJESSON
Deputy CEO since 2010
Stockholm, born in 1971

Anders Börjesson has a Master of Law from Stockholm University and an LL.M. from the NYU School of Law, and he is admitted to The New York bar. He has long experience of Swedish and Russian business law. Since 2008, Anders Börjesson is employed as legal counsel to the Vostok Nafta Investment Ltd Group.

Anders Börjesson is deputy CEO. In addition, he is the legal counsel to one of the major shareholders in the Company, Vostok Nafta Investment Ltd.

Anders Börjesson is a board member of Vostok Nafta Sverige AB, Vosvik AB and OAO Resurs Invest.
Shareholding in RusForest AB: none.

VITALY ZHUKOV
CFO since 2009
Moscow, born in 1976

Vitaly Zhukov has a degree in Economics from St. Petersburg State Institute of Fine Mechanics and Optics, and is a certified public accountant from St. Petersburg State University. Vitaly Zhukov has extensive experience of Russian statutory accounting, U.S. GAAP audit and IFRS reporting and is ACCA qualified.
Shareholding in RusForest AB: 330 shares

Other key personnel

VLADIMIR GAIDAMAKIN
Head of Governmental Relations
Moscow, born in 1956

Vladimir Gaidamakin is highly experienced and has worked at senior levels both in government and in the commercial sector. Vladimir Gaidamakin has spent much of his working career in the oil and gas industry and in the forestry sector and brings a broad contact network in these sectors. Vladimir Gaidamakin is a member of the Russian government's forestry industry working group. Previously, Vladimir Gaidamakin was retained as a consultant to one of Vostok Nafta's Russian entities.

Auditors

KPMG AB

Chief Auditor: Carl Lindgren
Carl Lindgren is an authorised public accountant and member of FAR.
At the AGM 2010, KPMG AB was elected as the Company's auditor for the coming four years.

PREVIOUS AUDITORS

The Company's previous auditors were Ernst & Young AB with auditor in charge Mikael Ikonen. Mikael Ikonen is an authorised auditor and a member of FAR.

During 2010, RusForest performed a procurement of the audit services and, based on this process, elected KPMG AB as the Company's auditors.

Legal advisor

ADVOKATFIRMAN VINGE KB

Bankers

Östgöta Enskilda Bank
Swedbank

Sberbank of Russia
Unicreditbank
Rosselkhozbank

Directors' Report

The Board of Directors and management of RusForest AB (the "Company") hereby present their Annual Report together with the consolidated financial statements of the Company for the year ended 31 December 2010, prepared in accordance with International Financial Reporting Standards (IFRS).

Incorporation

RusForest AB was incorporated in Sweden on 20 December 2005. The Company became public after performing an IPO in July 2006. Initially the Company was incorporated under the name Varyag Resources AB but on 13 August 2009, it changed its name to RusForest AB.

Principal Activities

Before June 2009 the principal activities of the Group were investing, active management and exiting investments in unlisted natural resource companies in Russia and the rest of CIS, which changed effectively on 1 June 2009, to forest harvesting and sawmilling operations in Eastern Siberia, Russia.

The change of activities was triggered by the business combination entered into on 1 June 2009, where the Group acquired from Vostok Nafta equity and debt in RusForest and its subsidiaries. The equity acquired represented a 50 per cent shareholding in RusForest Ltd – 1 share in RusForest (Cyprus) Ltd, 10 per cent in Tuba-Les LLC, 10 per cent in Tublesprom PLC and 50 per cent in RusForest Angara LLC. The debt acquired from Vostok Nafta related to loans advanced to RusForest (Cyprus) Limited for the amount of SEK 212.2 million. Varyag paid for this acquisition by way of newly issued shares which were transferred to Vostok Nafta. The consideration paid to Vostok Nafta was SEK 156.2 million representing 8,537,640 newly issued shares at SEK 18.3 per share.

In December 2010 the Group expanded its presence in North-West Russia via the acquisition of a sawmill, LDK-3 Inc., and a planing mill, Infa Ltd, operating in Arkhangelsk.

Comments regarding the development, position and performance of the activities of the group

The financial position as at 31 December 2010 was considered satisfactory compared to 31 December 2009. However, the Group has been negatively impacted by the economic downturn and negative external conditions. Management has focused on reducing the Group's losses, by increasing operational efficiency and applying proper cost control. Management is confident that the profitability will be sustainable upon removal of the bottlenecks in the production process (both in harvesting and in sawmilling).

Loans and liquidity

The Group has improved its liquidity position by performing a rights issue in November 2010 in the amount of SEK 436.8 million. From the proceeds received RusForest had paid off the Unicredit Bank loan and the bonds issued in February 2010. As a result the level of external debt has been brought to an absolute minimum, to the extent that the Group can be considered debt-free.

After repayment of significant amounts of the Company's debt, and the investments made, following the rights issue, the Group's cash and cash equivalents amounted to SEK 67.2 million on 31 December 2010. This cash level is seen as quite reasonable to maintain the activities of the Group until spring 2011. Of the Company's total liabilities, amounting to SEK 172.2 million as per 31 December 2010, only SEK 42.6 million were interest bearing (of which SEK 9.0 million related to interest bearing liabilities associated with assets classified as held for sale) as per the same date. With total assets amounting to SEK 1,151.3 million per the same date, the Company is subsequently well suited to finance its growing operations also with debt. As previously announced, the board of RusForest has therefore engaged E. Öhman J:or Fondkommission AB to investigate the prerequisites for a capital raising in the bond market with a maximum volume of SEK 400 million during the spring of 2011. Due to the low debt levels in the Company, corporate bank loans as well as financial leasing of equipment might be an alternative source of financing.

Turnover

The Group's turnover for the year ended 31 December 2010 was SEK 300.8 million (2009: SEK 207.5 million).

The Group's results

The Group's results for the year are set out on page 35. The Group's results were significantly affected by the bargain purchase originating from the purchases of LDK-3 Inc. and Infa Ltd. The fair value of the acquired assets and liabilities was SEK 51.2 million higher than the consideration paid. The creation of the gain on bargain purchases is described in note 31.

Dividends

The Board of Directors does not recommend the payment of a dividend.

Future developments

The Board of Directors does not anticipate any significant changes to the operations of the Group in the near future.

Share capital

Authorised capital

In accordance with the Articles of Association adopted on the extraordinary shareholders meeting held on 15 April 2011, the company's share capital shall be not less than SEK 600,000,000 and not more than SEK 2,400,000,000.

Issued capital

On 31 December 2010, issued share capital of the Company amounted to SEK 655.2 million divided into 65,522,520 shares of SEK 10 each (2009: SEK 218.4 million divided into 21,840,840 shares of SEK 10 each).

Share capital and ownership information

The share capital and ownership information for RusForest AB are displayed on page 27 of this report.

Board of directors

The members of the Board of Directors of the Company as at 31 December 2010 and at the date of this report are shown on page 28–29. All of them were members of the board throughout the year ended 31 December 2010, except for Jerker Karlsson who was elected to the board at the Annual General Meeting held on 20 May 2010.

At the proposal of the 2010 Nomination Committee, the 2010 AGM resolved to instate an Audit Committee and an Operations Committee to enable more efficient utilization of the Board's resources. At the same time, board fees were increased to today's levels. While the 2011 Nomination Committee has not recommended any increase in the board's fees, it has proposed that individual board members be permitted to render services outside the scope of their board commitment to the company on a consultancy basis.

Post balance sheet events

The most important post balance sheet events were RusForest AB's acquisition of Nord Timber Group (NTG), in April 2011, by way of an issue in kind of 29,437,529 RusForest shares in exchange for shares in and claims against the companies included in the NTG group, and the acquisition of OOO Sibartles in February 2011.

The detailed description of the above mentioned events may be found in note 35 to the financial statements.

Independent auditors

The independent Auditors of the Group in 2010 were KPMG AB.

Parent Company Data

RusForest AB (prior Varyag Resources AB) is a listed company on the NASDAQ OMX First North.

Shareholder structure at 31 December 2010 was as follows:

Shareholders	No. of shares	Share %
Vostok Nafta Investment Ltd.	28,165,209	43.0
JP Morgan Clearing Corp.	6,768,467	10.3
Alecta Pensionsförsäkring	4,659,490	7.1
Staffan Rasjö	3,306,069	5.0
Avanza Pension	1,596,694	2.4
SIX SES AG	1,308,472	2.0
EFG Private Bank S.A.	1,260,000	1.9
Fonden Zenit	1,159,745	1.8
Handelsbankens Nordiska	1,021,350	1.6
JPM Chase NA	1,000,000	1.5
Others	15,277,024	23.3
Total	65,522,520	100.0

The Parent Company's net loss amounted to SEK 21.2 million (2009: SEK –0.6 million).

The loss of the Parent Company was significantly affected by negative foreign exchange differences totalling SEK –22.9 million for the period (2009: –1.6 million) and by fees relating to and interest on the bonds issued in February 2010, in the amount of SEK 9.4 million, as well as by interest from Vostok Nafta's bridge financing received prior to the rights issue, in the amount of SEK 1.5 million.

Operating expenses totalled SEK 9.7 million (2009: SEK 9.5 million) related primarily to audit and consulting fees as well as to personnel costs.

The Parent Company's cash and cash equivalents amounted to SEK 29.3 million at the end of the period (SEK 7.7 million on December 31, 2009).

Proposed treatment of losses, parent company

In thousands of SEK	31 December 2010
Loss carried forward	9,616
Loss for the year	21,198
	30,814

The Board of Directors proposes the losses to be appropriated as follows:

To be carried forward: SEK 30,814 thousand

Historical financial data

In thousands of SEK	31 Dec 2010	31 Dec 2009	31 Dec 2008	31 Dec 2007	31 Dec 2006
Narrative					
Turnover	300,846	207,526	–	–	–
Net result	(130,224)	117,672	(102,317)	(15,797)	(12,502)
Property, plant and equipment	768,054	656,632	71	97	106
Non-current assets	834,347	693,036	183,191	171,443	77,892
Total assets	1,151,258	943,078	586,224	600,612	415,052
Equity	979,072	723,533	546,251	595,106	412,991
Total debt	172,186	219,545	39,974	5,506	2,061

Results for 2009 and 2008 are prepared according to IFRS and the other years according to Swedish GAAP.

The historical key financial data for the past 4 periods of the Group's operations is summarized in the table above. Operations began on 1 August 2006 and the company has been listed on NASDAQ OMX First North since 7 August 2006. The Group has been equity accounting for the results of the investments. Commencing 1 June 2009 the Group has consolidated the results from the forestry operations of its subsidiaries.

Work of the Board of Directors

During 2010, 17 minuted Board meetings were held. Board work is conducted in compliance with the established working procedures governing the work of the Board of Directors and the Managing Director. The Board has established a finance policy, communications policy, business ethics policy, equality policy and environmental policy.

Corporate Governance

RusForest is listed on NASDAQ OMX First North. This means that the company is not subject to the Swedish Code of Corporate Governance. However, RusForest's Board of Directors will observe the development of the practical implications of the Code, in order to gradually adapt its activities to the Code in areas where it is regarded as being of relevance to RusForest and its shareholders.

Nomination Committee

The Nomination Committee is comprised of Anders Börjesson, Vostok Nafta, (chairman); Leif Törnvall, Alecta; and Sven Hirdman, chairman of the RusForest Board.

Risks and uncertainties

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. Further information regarding liquidity risk and foreign exchange risk can be found under note 32 "Financial Risk Management" in this report.

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 the US dollar to other currencies affect sawnwood prices and consequently the Groups received export prices.

Availability of sawlogs

The Group's annual allowable cut is sufficient to cover large parts of 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 per cent 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 other fuels. 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.

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. RusForest is at present to a large extent financed with equity capital. In addition to using shareholders' equity, RusForest's operations may be financed to a certain degree by borrowing from credit institutions through the bond market or otherwise. The borrowing risk refers to the risk that the possibility to refinance outstanding loans and take up new loans is missing or is unfavourable at a certain point in time. Local financial markets may affect companies' borrowing capabilities since the companies might be subject to changing interest rates. These factors might entail risks for the investments. The Group's overall strategy remains unchanged from last year.

Acquisitions

RusForest has recently acquired shares in a number of Russian companies. The acquisitions have increased RusForest's control over forests and will contribute to creating a solid platform for RusForest to run operations in the Arkhangelsk Region. The Company has inter alia acquired 86 per cent of the shares in LDK-3, 100 per cent of the participatory interest in Infa, 100 percent of Clonri Holding Limited and 100 per cent of Piatkowski Holdings Limited. However, there are always risks related to business acquisitions which are different from the risks RusForest faces in its other operations. In addition to company-specific risks, acquisitions imply risks that customers, suppliers or key personnel choose to end their relations with the acquired company or other companies in the Group. Should one or more of these risks materialise, it could have negative consequences for RusForest.

Off balance sheet activities

As at 31 December 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 31 December 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.

Income Statement

In thousands of SEK	Note	Group 2010	Group 2009	Parent Company 2010	Parent Company 2009
Continuing operations					
Turnover	4	300,846	207,526		
Cost of sales	5	(297,346)	(201,101)		
Gross Profit		**3,500**	**6,425**		
Other income	6	9,758	20,209	–	980
Distribution expenses	7	(83,770)	(49,726)		
Administrative expenditure	8	(84,247)	(63,208)	(9,670)	(9,455)
Loss disposal of interest		–	–		
Other expenses	10	(11,101)	(10,693)		
Operating profit		**(165,858)**	**(96,993)**	**(9,670)**	**(8,475)**
Financing Income	11	3,471	9,587	23,589	9,462
Financing cost	11	(22,545)	(20,463)	(35,117)	(1,565)
Net financing income/(cost)		**(19,074)**	**(10,876)**	**(11,528)**	**7,897**
Gain on bargain purchases		51,190	380,009		
Goodwill impairment		–	(142,570)		
Share of losses from associates		(100)	–		
Profit before tax from continuing operations		**(133,842)**	**129,570**	**(21,198)**	**(578)**
Income tax	12	24,767	7,603		
Profit for the year from continuing operations		**(109,075)**	**137,173**	**(21,198)**	**(578)**
Discontinued operations					
Profit/(loss) after tax for the year from discontinued operations		(21,149)	(19,501)		
Profit for the year		**(130,224)**	**117,672**	**(21,198)**	**(578)**
Attributable to:					
Equity holders of the parent		(127,369)	119,522	(21,198)	(578)
Non-controlling interests		(2,855)	(1,850)		
Profit for the year		**(130,224)**	**117,672**	**(21,198)**	**(578)**
Earnings per share	13				
basic, profit for the year attributable to ordinary equity holders of the parent		(4.35)	6.53		
Earnings per share for continuing operations					
basic, profit from continuing operations attributable to ordinary equity holders of the parent		(3.63)	7.60		

The notes on the pages 40 to 64 are an integral part of these consolidated financial statements.

Statement of comprehensive income

	Group		Parent company	
In thousands of SEK	2010	2009	2010	2009
Profit for the year	(130,224)	117,672	(21,198)	(578)
Other comprehensive income				
Translation difference	(43,321)	(60,628)	–	–
Other comprehensive income for the year, net of tax	**(43,321)**	**(60,628)**	**–**	**–**
Total comprehensive income for the year, net of tax	**(173,544)**	**57,044**	**(21,198)**	**(578)**
Attributable to:				
Equity holders of the parent	(170,690)	58,894	(21,198)	(578)
Non-controlling interests	(2,855)	(1,850)	–	–
Total comprehensive income for the year, net of tax	**(173,544)**	**57,044**	**(21,198)**	**(578)**

Statement of financial position

In thousands of SEK	Note	Group 31 December 2010	Group 31 December 2009	Parent Company 31 December 2010	Parent Company 31 December 2009
ASSETS					
Non current assets					
Property Plant and equipment	14	768,054	656,632	21	46
Intangible assets	15	12,212	–	–	–
Investments in Group Companies	1	–	–	661,902	649,133
Investments in associates	16	2,434	2,300	–	–
Other long-term receivables	19	7,553	10,601	–	–
Loans receivable from Group companies	21	–	–	473,959	109,061
Deferred tax asset	29	44,095	23,503	–	–
Total non current assets		**834,347**	**693,036**	**1,135,882**	**758,240**
Current assets					
Inventory	18	64,490	42,747	–	–
Current tax assets		791	2,245	110	98
Trade and other receivable	20	83,691	61,801	2,285	209
Loans receivable	21	725	540	–	–
Cash and cash equivalents	22	67,195	26,085	29,322	7,676
Total current assets		**216,891**	**133,417**	**31,717**	**7,983**
Assets classified as held for sale	17	100,019	116,625	–	–
Total assets		**1,151,258**	**943,078**	**1,167,599**	**766,223**
EQUITY[1]					
Equity and reserves					
Share capital	23	655,225	218,408	655,225	218,408
Share premium		541,114	556,687	541,114	556,687
Translation reserve		(6,348)	36,973	–	–
Retained earnings	24	(86,693)	(206,215)	(9,616)	(9,038)
Income for the year		(127,369)	119,522	(21,198)	(578)
Total equity attributable to Shareholders of the Group		**975,929**	**725,375**	**1,165,525**	**765,479**
Non-controlling interest		3,143	(1,842)	–	–
Total Equity		**979,072**	**723,533**	**1,165,525**	**765,479**
LIABILITIES					
Non current liabilities					
Interest-bearing loans and borrowings	25	10,703	20,218	–	–
Loans payable to related companies	26	7,334	10,434	–	–
Deferred tax liability	29	53,862	51,726	–	–
Total non-current liabilities		**71,899**	**82,378**	**–**	**–**
Current liabilities					
Interest bearing loans and borrowings	25	15,627	37,727	–	–
Trade and other payables	27	68,075	78,100	1,283	439
Current tax liabilities		142	807	–	–
Provisions	28	3,915	3,478	791	305
Total current liabilities		**87,759**	**120,112**	**2,074**	**744**
Liabilities directly associated with the assets classified as held for sale	17	12,527	17,055	–	–
TOTAL LIABILITIES		**172,186**	**219,545**	**2,074**	**744**
TOTAL EQUITY AND LIABILITIES		**1,151,258**	**943,078**	**1,167,599**	**766,223**

1) In the parent company Restricted equity consists of Share capital and Share premium and Non-restricted equity consists of Translation reserve, Retained earnings and Income for the year.

Statement of changes in equity

Group 1/1 2010 – 31/12 2010	Attributable to the equity holders of the parent					
In thousands of SEK	Share capital	Share premium	Translation reserve	Retained earnings	Non-controlling interest	Total
Opening shareholders' equity	218,408	556,687	36,973	(86,693)	(1,842)	723,533
Loss for the period	–	–	–	(127,369)	(2,855)	(130,224)
Other comprehensive income	–	–	(43,321)	–	–	(43,321)
Total comprehensive income	**–**	**–**	**(43,321)**	**(127,369)**	**(2,855)**	**(173,544)**
Non-controlling interest in acquired subsidiaries	–	–	–	–	7,839	7,839
Costs related to the rights issue	–	(15,573)	–	–	–	(15,573)
New share issue	436,817	–	–	–	–	436,817
Shareholders' equity at end of period	**655,225**	**541,114**	**(6,348)**	**(214,062)**	**3,143**	**979,072**

Parent company 1/1 2010 – 31/12 2010	Attributable to the equity holders of the parent					
In thousands of SEK	Share capital	Share premium	Translation reserve	Retained earnings	Non-controlling interest	Total
Opening shareholders' equity	218,408	556,687	–	(9,616)	–	765,479
Loss for the period	–	–	–	(21,198)	–	(21,198)
Other comprehensive income	–	–	–	–	–	–
Total comprehensive income	**–**	**–**	**–**	**(21,198)**	**–**	**(21,198)**
Costs related to the rights issue	–	(15,573)	–	–	–	(15,573)
New share issue	436,817	–	–	–	–	436,817
Shareholders' equity at end of period	**655,225**	**541,114**	**–**	**(30,814)**	**–**	**1,165,525**

Group 1/1 2009 – 31/12 2009	Attributable to the equity holders of the parent					
In thousands of SEK	Share capital	Share premium	Translation reserve	Retained earnings	Non-controlling interest	Total
Opening shareholders' equity	133,032	485,825	83,070	(155,676)	–	546,251
Adjustment for deferred tax	–	–	–	(50,539)	–	(50,539)
Profit for the period	–	–	–	119,522	(1,850)	117,672
Other comprehensive income	–	–	(46,097)	–	8	(46,089)
Total comprehensive income	**–**	**–**	**(46,097)**	**68,983**	**(1,842)**	**21,044**
New share issue	85,376	70,862	–	–	–	156,239
Shareholders' equity at end of period	**218,408**	**556,687**	**36,973**	**(86,693)**	**(1,842)**	**723,533**

Parent company 1/1 2009 – 31/12 2009	Attributable to the equity holders of the parent					
In thousands of SEK	Share capital	Share premium	Translation reserve	Retained earnings	Non-controlling interest	Total
Opening shareholders' equity	133,032	485,825	–	(9,038)	–	609,819
Profit for the period	–	–	–	(578)	–	(578)
Other comprehensive income	–	–	–	–	–	–
Total comprehensive income	**–**	**–**	**–**	**(578)**	**–**	**(578)**
New share issue	85,376	70,862	–	–	–	156,239
Shareholders' equity at end of period	**218,408**	**556,687**	**–**	**(9,616)**	**–**	**765,479**

Cash flow statement

In thousands of SEK	Note	Group 2010	Group 2009	Parent company 2010	Parent company 2009
Profit/loss after financial items		(130,224)	117,672	(21,198)	(578)
Adjustment for non-cash items, etc.	36	15,487	(199,637)	4,268	(3,882)
Paid income tax		(73)	(96)	–	–
Cash flow from operating activities before changes in working capital		**(114,810)**	**(82,061)**	**(16,930)**	**(4,460)**
Cash flow changes in working capital		(34,298)	44,105	(757)	(236)
Cash flow from operating activities		**(149,108)**	**(37,956)**	**(17,687)**	**(4,696)**
Investment in equipment		(69,096)	(16,535)	–	–
Proceeds from sales of equipment		826	2,339	–	–
VAT refund on capital investments		–	13,571	–	–
Payment for purchase of investments in associated undertakings		(91,508)	–	–	–
Interest received		372	–	–	–
Cash balances of acquired subsidiaries		412	17,727	–	–
Loans issued to related parties (LDK-3)		(11,012)	–	–	–
Loans issued to related parties (Gravel Co Group)		(13,019)	(2,344)	–	–
Loans issued to RusForest Group		–	–	(370,008)	–
Contributions to Varyag Capital		–	–	(12,769)	–
Investment in financial assets		(455)	(21,284)	–	(42,171)
Cash flow from investing activities		**(183,479)**	**(6,526)**	**(382,777)**	**(42,171)**
Interest paid – loans		(4,716)	(2,974)	–	–
Interest paid – bonds		(4,397)	–	–	–
Interest paid – leasing		(1,062)	(1,066)	–	–
Loans receipts		23,288	34,372	–	–
Loans repayments		(38,572)	(11,318)	–	–
Lease repayments		(22,372)	(3,196)	–	–
Bond issue		50,000	–	–	–
Bond repayment		(50,000)	–	–	–
New share issues		436,817	–	436,817	–
New share issues (transaction cost)		(15,573)	(354)	(15,573)	(354)
Cash flow from financing activities		**373,414**	**15,464**	**421,244**	**(354)**
Cash flow during the period		**40,827**	**(29,018)**	**20,780**	**(47,221)**
Cash and cash equivalents, beginning of period		26,085	55,704	7,676	55,200
Exchange-rate differences on cash and cash equivalents		283	(601)	866	(303)
Cash and cash equivalents, period end		**67,195**	**26,085**	**29,322**	**7,676**

Notes to the financial statements

Note 1. Incorporation and principal activities

RusForest AB (the "Company") was incorporated in Sweden on 20 December 2005 as a private company with limited liability under Swedish law. Initially the Company was incorporated under the name Varyag Resources AB and on 13 August 2009, it changed its name to RusForest AB.

The consolidated financial statements of the Company as at and for the year ended 31 December 2010 comprise the Company and its subsidiaries (together referred to as "the Group" and individually as "Group entities") and the Group's interest in associates.

Before June 2009 the principal activities of the Group were investing, active management and exiting investments in unlisted natural resources companies in Russia and the rest of CIS, which changed effectively on 1 June 2009 to forest harvesting and sawmilling operations in Eastern Siberia, Russia.

The direct and indirect subsidiary companies of RusForest AB are the following:

Name	Date of incorporation	Date of acquisition	Country of incorporation	Share Capital in thousands of SEK	Effective Economic ownership %	Principal Activities
Varyag Finance GmbH	29.12.2006	29.12.2006	Switzerland	145	100	Intermediate holding company
Varyag Capital (Cyprus) Ltd	03.03.2006	03.03.2006	Cyprus	18	100	Intermediate holding company
RusForest Ltd	08.03.2005	01.06.2009	Bermuda	266,833	100	Intermediate holding company
RusForest (Cyprus) Ltd	31.01.2002	01.06.2009	Cyprus	958	100	Intermediate holding company
RusForest Management LLC	21.04.2008	01.06.2009	Russia	2	100	Moscow office of RusForest Group
RusForest Trading LLC	13.11.2008	01.06.2009	Russia	2	100	Trading agent of RusForest group
PIK-2005 LLC	25.09.2005	01.06.2009	Russia	2	80	Trading agent of RusForest group
RusForest Magistralny LLC	21.11.2008	01.06.2009	Russia	21	100	Sawmilling production facility
Boguchansky LPK LLC	07.05.2007	01.06.2009	Russia	18,748	100	Sawmilling production facility
RusForest Angara LLC (prior TSLKK)	27.06.2005	01.06.2009	Russia	2	100	Forest leaseholder with harvesting operations
Tuba-Les LLC	29.01.2002	01.06.2009	Russia	11,841	100	Forest leaseholder with harvesting and sawmilling operations
Tublesprom CJSC	08.10.1998	01.06.2009	Russia	2	100	Forest leaseholder with harvesting operations
Lesprom LLC	16.07.1999	01.06.2009	Russia	460	100	Forest leaseholder with harvesting with limited sawmilling activities
Bamlesstroi LLC	03.12.2002	01.06.2009	Russia	67	100	Forest leaseholder with harvesting operations
UI ZSI LLC	23.09.2003	01.06.2009	Russia	11,220	98	Manufacturer of planed products
LDK-3 LLC	11.08.1992	22.12.2010	Russia	7,278	86	Forest leaseholder with harvesting and sawmilling operations
Infa LLC	24.11.1989	22.12.2010	Russia	2	100	Manufacturer of planed products
RusForest Ust-Ilimsk LLC and subsidiaries:						
RusForest Ust-Ilimsk LLC	14.11.2002	01.06.2009	Russia	31,253	90	Forest leaseholder with harvesting and sawmilling operations
Vanavarales LLC	08.02.1998	01.06.2009	Russia	2	46	Forest leaseholder
Taiga 2003 LLC	14.03.2003	01.06.2009	Russia	2	54	Forest leaseholder
Kodiniskoye LLC	08.02.1998	01.06.2009	Russia	119	90	Forest leaseholder
Property LLC	29.04.2004	01.06.2009	Russia	5,738	90	Lease of machinery

Note 2. Basis of preparation

(a) Statement of compliance
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), issued by the International Accounting Standards Board (IASB) as endorsed by the European Commission. Recommendation RFR 1 on Supplementary Accounting Rules for Groups as issued by the Swedish Financial Reporting Board has also been applied in the preparation of the report.

The consolidated financial statements were authorised for issue by the Board of Directors on 5 May 2011.

(b) Basis of measurement
The consolidated financial statements have been prepared based on the historical cost basis, except for investments, which are measured at fair value.

(c) Use of estimates and judgments
The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and underlying assumptions are based on historical experience and various other factors that are deemed to be reasonable based on knowledge available at that time. Actual results may differ from such estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the consolidated financial statements are described below:

- *Provision for bad and doubtful debts*
  The Group reviews its trade and other receivables for evidence of their recoverability. Such evidence includes the customer's payment record and the customer's overall financial position. If indications of irrecoverability exist, the recoverable amount is estimated and a respective provision for bad and doubtful debts is made. The amount of the provision is charged through the income statement. The review of credit risk is continuous and the methodology and assumptions used for estimating the provision are reviewed regularly and adjusted accordingly.

- *Income taxes*
  Significant judgment is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

- *Fair value of financial assets*
  The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. The fair value of the financial assets available for sale has been estimated based on the fair value of the particular assets held.

(d) Functional and presentation currency
Items included in the Group's financial statements are initially measured in Russian Roubles (RUB), as the currency of the primary economic environment in which the entity operates, and then translated into Swedish Kronor (SEK) at the closing rate effective at 30 December 2010. Assets and liabilities are translated at the closing rate, and income and expenses are translated at the average rate for the period.

All financial information presented in SEK has been rounded to the nearest thousand.

(e) Changes in accounting policies
(i) Overview
IAS 1 Presentation of Financial Statements – The IASB annual improvements process suggested changes which have been early adopted by the Group. The changes relate to the statement of changes in equity where the reconciliation of the changes in each item in equity, for instance the reserves for accumulated other comprehensive income, does not have to specify each item in other comprehensive income. The Group has chosen to disclose the detailed reconciliation of the reserves and other items In equity in the notes instead. Such detailed reconciliations were reported in the Annual Report for 2009. In accordance with the changes in IAS 1, the previous line for the total comprehensive income in the statement of changes in equity is split between this year's result and this year's other comprehensive income. The presentation is implied for both years, and has not caused any adjusted amounts in the financial reports.

(ii) Adoption of new and revised International Financial Reporting Standards and Interpretations
As from 1 January 2010, the Company adopted all of the IFRSs and International Accounting Standards (IAS), which are relevant to its operations. The adoption of these Standards did not have a significant effect on the financial statements of the Company except for the adoption of IFRS3 "Business Combinations" Under the provisions of the revised IFRS 3 entities have a choice to measure non-controlling interest in the acquiree either at its fair value or at its proportionate interest in the acquiree's net assets. In addition contingent consideration is measured at fair value at the date of acquisition with subsequent changes in the fair value being recognised in profit or loss. Also, acquisition-related costs are expensed through profit or loss at the time the services are received. The Group has applied the revised IFRS 3 in its financial statements prospectively.

The following Standards, Amendments to Standards and Interpretations had been issued but are not yet effective for the year ended 31 December 2010:

(i) Standards and Interpretations adopted by the EU
- Improvements to IFRSs issued in May 2010 (Effective for annual periods beginning on or after 1 July 2010 and 1 January 2010 as applicable).
- IFRS1 (amendment): Limited exemption from comparative IFRS7 disclosures for first time adopters (effective for annual periods beginning on or after 1 July 2010)
- IAS 24 "Related Party Disclosures" (revised) (effective for annual periods beginning on or after 1 January 2011).
- IAS 32 "Classification of rights issues" (amendments) (effective for annual periods beginning on or after 1 February 2010).
- IFRIC 14 Prepayments of a Minimum Funding Requirement (amendments) (effective for annual periods beginning on or after 1 January 2011).
- IFRIC 19: "Extinguishing Financial Liabilities with Equity Instruments" (effective for annual periods beginning on or after 1 July 2010).

(ii) Standards and Interpretations not adopted by the EU

- IFRS 1 – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters (amendments) (effective for annual periods beginning on or after 1 July 2011).
- IFRS 7 Financial Instruments (amendments): Disclosures – Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011).
- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2013).
- IAS 12 – "Deferred tax": Recovery of Underlying Assets (amendments) (effective for annual periods beginning on or after 1 January 2012).

The Board of Directors expects that the adoption of the above financial reporting standards in future periods will not have a significant effect on the financial statements of the Company except for:

- *The adoption of IFRS9 could change the classification and measurement of financial assets. The extent of the impact has not been determined.*

Note 3. Significant accounting policies

The principal accounting policies set below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities, except as explained in note 2(e) which addresses changes in accounting policies.

(a) Basis of consolidation

(i) Accounting for business combinations

The Group has adopted early IFRS 3 *Business Combinations* (2008) and IAS 27 *Consolidated and Separate Financial Statements* (2008) for all business combinations occurring in the financial year starting 1 January 2009. All business combinations occurring on or after 1 January 2009 are accounted for by applying the acquisition method. The change in accounting policy is applied prospectively and had no material impact on these consolidated financial statements.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable. The acquisition date is the date on which control is transferred to the acquirer. Judgment is applied in determining the acquisition date and determining whether control is transferred from one party to another.

The Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Consideration transferred includes the fair values of the assets transferred, liabilities incurred by the Group to the previous owners of the acquiree, and equity interests issued by the Group. Consideration transferred also includes the fair value of any contingent consideration and share-based payment awards of the acquiree that are replaced mandatorily in the business combination (see below). If a business combination results in the termination of pre-existing relationships between the Group and the acquiree, then the lower of the termination amount, as contained in the agreement, and the value of the off-market element is deducted from the consideration transferred and recognised in other expenses.

A contingent liability of the acquiree is assumed in a business combination only if such a liability represents a present obligation and arises from a past event, and its fair value can be measured reliably. The Group measures any non-controlling interest at its proportionate interest in the identifiable net assets of the acquiree.

Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees are expensed as incurred.

(ii) Accounting for acquisitions of non-controlling interest

The Group has adopted early IFRS 3 *Business Combinations* (2008) and IAS 27 *Consolidated and Separate Financial Statements* (2008) for acquisitions of non-controlling interests occurring in the financial year starting 1 January 2009.

Under the accounting policy, acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result of such transactions. Previously, goodwill was recognised arising on the acquisition of a non-controlling interest in a subsidiary; and that represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of exchange.

(iii) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Control exists where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account.

(iv) Investments in associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 per cent of the voting power of another entity.

Investments in associates are accounted for using the equity method and are recognized initially at cost. The Group's investment includes goodwill identified at acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of income and expense and equity movements of the accounted investees, after adjustments to align the accounting policies with those of the Group, from the date significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity investee, the carrying amount of that interest, including any long-term investments, is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

The cost of the investment includes transaction costs.

(v) Transactions eliminated on consolidation

Intergroup balances and transactions, and any unrealised income and expenses arising from intergroup transactions are eliminated in preparing consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to SEK at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to SEK at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control or significant influence is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate that includes a foreign operation while retaining significant influence, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented within equity in the FCTR.

(c) Financial instruments

(i) Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets:

Trade receivables

Trade receivables are initially measured at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Loans receivable

Loans originated by the Group by providing money directly to the borrower are categorised as loans and are carried at amortised cost. This is defined as the fair value of cash consideration given to originate those loans as is determined by reference to market prices at origination date. All loans are recognised when cash is advanced to the borrower.

An allowance for loan impairment is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms of loans. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(ii) Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial liabilities: loans and borrowings, bank overdrafts, and trade and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

(iii) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Borrowing costs related to the acquisition, construction or production of qualifying assets are capitalised as part of qualifying assets.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within "other income" in profit or loss.

Where the carrying amount of an asset is greater than its estimated recoverable amount, the asset is written down immediately to its recoverable amount.

(ii) Reclassification to assets put in use

Property that is being constructed for future use is accounted for as property, plant and equipment not in use until construction or development is complete, at which time it is reclassified to the appropriate asset category.

(iii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iv) Depreciation

Depreciation is recognised in the consolidated income statement on the straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that Group will obtain ownership by the end of the lease terms. Land is not depreciated.

The annual depreciation rates used for the current and comparative periods are as follows:

	Years
Buildings	7–40
Motor Vehicles	7–10
Plant and machinery	5–10
Computer Hardware	3–5
Fixtures and fittings	5–7

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate. No revisions were made in 2010.

(e) Intangible assets

(i) Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. For measurement of goodwill at initial recognition, see note 3(a)(i).

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity accounted investee.

(ii) Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful economic lives, are measured at cost less accumulated amortization and accumulated impairment losses.

(iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

(iv) Amortization

Amortization is charged to the income statement on a straight line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets other than goodwill which do not have an indefinite useful life are amortized from the date they are available for use.

(f) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised in the Group's statement of financial position.

(g) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(h) Impairment

(i) Financial asset (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security.

The Group considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than biological assets, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Goodwill that forms part of the carrying amount of an investment in an associate is not recognised separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

(i) Non-current assets held for sale or distribution

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale or distribution rather than through continuing use, are classified as held for sale or distribution. Immediately before classification as held for sale or distribution, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property or biological assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale or distribution and subsequent gains and losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss. Intangible assets and property, plant and equipment once classified as held for sale or distribution are not amortised or depreciated. Equity accounting of equity-accounted investees ceases once classified as held for sale or distribution.

(j) Employee benefits

(i) Termination benefits

Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

(ii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(iii) Share-based payment transactions

The grant-date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and nonmarket vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognised as an expense with a corresponding increase in liabilities, over the period that the employees unconditionally become entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expenses in profit or loss.

(k) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Site restoration

In accordance with the Group's published environmental policy and applicable legal requirements, a provision for site restoration in respect of harvested land, and the related expense, is recognised when the land is harvested.

(l) Revenue

(i) Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

The timing of the transfers of risks and rewards varies depending on the individual terms of the contract of sale. For sales of timber and other wood by-products, usually transfer occurs when the product is received at the customer's warehouse; however, for international shipments transfer occurs upon loading the goods onto the relevant carrier at the port of the seller. Generally for such products the buyer has no right of return.

(ii) Services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(iii) Commissions

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the Group.

(m) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the use of the underlying asset.

At inception or upon reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Group's incremental borrowing rate.

(n) Finance income and expenses

Finance income comprises interest income on funds invested that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance expenses comprise interest expense on borrowings that is recognised in the income statement. All borrowing costs are recognised in the income statement using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(o) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(p) Non current liabilities
Non current liabilities represent amounts that are due more than twelve months from the balance sheet date.

(q) Discontinued operations
A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale or distribution, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

(r) Earnings per share
The Group presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted for own shares held. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(s) Segment reporting
An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's CEO to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

(t) Parent Company
The parent company financial statements are prepared under Swedish GAAP. Necessary adjustments were made to transform the accounts to IFRS.

Note 4. Revenue

	Group		Parent company	
In thousands of SEK	2010	2009	2010	2009
Sales of sawn wood	199,893	128,331	–	–
Sales of saw logs	54,333	36,816	–	–
Sales of pulpwood	11,650	12,008	–	–
Sales of woodchips	20,043	5,314	–	–
Other revenue	14,927	25,058	–	–
TOTAL	300,846	207,526	–	–

Note 5. Cost of sales

	Group		Parent company	
In thousands of SEK	2010	2009	2010	2009
Personnel costs	83,375	44,235	–	–
Purchased sawlogs	67,550	35,327	–	–
Depreciation	57,942	33,782	–	–
Materials	21,325	31,053	–	–
Energy and fuel	26,013	13,637	–	–
Wood services	12,624	12,405	–	–
Transportation costs	7,139	8,234	–	–
Sundry expenses	21,377	22,428	–	–
TOTAL	297,346	201,101	–	–

Note 6. Other income

	Group		Parent company	
In thousands of SEK	2010	2009	2010	2009
Loan debt reassigned from minority shareholder for zero consideration	–	10,218	–	–
Net income on sale of materials	1,485	–	–	–
Inventory surplus discovered during the stock-take	4,034	2,284	–	–
Rental income	–	980	–	980
Accounts payable written off	36	529	–	–
Sundry operating income	4,203	6,198	–	–
TOTAL	9,758	20,209	–	980

Note 7. Distribution expenses

	Group		Parent company	
In thousands of SEK	2010	2009	2010	2009
Personnel costs	6,216	1,189	–	–
Railway tariff	33,417	17,145	–	–
Custom duty	12,433	9,941	–	–
Sundry distribution expenses	31,703	21,452	–	–
TOTAL	83,770	49,726	–	–

Note 8. Administrative expenses

	Group		Parent company	
In thousands of SEK	2010	2009	2010	2009
Personnel costs	38,741	28,442	2,909	4,995
Management fees	–	8,741	–	–
Consulting fees	9,411	4,616	1,769	1,269
Audit	8,493	3,300	1,257	532
Property tax	4,256	3,255	–	–
Rent	3,853	2,019	108	1,213
Sundry administrative expenses	19,492	12,834	3,627	1,446
TOTAL	84,247	63,208	9,670	9,455

The Groups Audit costs 2010 consist of (i) SEK 2,160 thousand paid in 2010 to KPMG Cyprus for the 2009 audit, (ii) SEK 2,340 thousand to KPMG Cyprus accrued for 2010 audit, (iii) SEK 1,200 thousand to KPMG Sweden for 2010 audit and SEK 150 thousand for consulting services, (iv) SEK 1,300 thousand paid to Ernst and Young for additional work during 2009 audit, and (v) SEK 1,343 thousand for the Russian audit firm Audit-Delo which performed the Russian Statutory audit needed according to Russian accounting legislation.

Note 9. Personnel expenses

	Group		Parent company	
In thousands of SEK	2010	2009	2010	2009
Wages and salaries	104,525	62,323	2,355	3,152
Compulsory social security contributions	23,808	11,543	554	1,843
TOTAL	128,333	73,865	2,909	4,995

Average number of employees

	2010	2009
Sweden	3	2
Male (percentage)	67%	50%
Russia	1,451	1,569
Male (percentage)	79%	80%
Total	1,454	1,571
Male (percentage)	79%	80%

Distribution between women and men in company management

	2010	2009
Percentage women		
Board members	0%	17%
Other key management personnel	0%	0%

Remuneration to Chief Executive Officer (in SEK)	2010	2009
CEO salary	1,207,428	1,535,018
TOTAL	1,207,428	1,535,018

Board fees

	Parent Company	
In SEK	2010	2009
Frans Bergstrand	195,863	110,000
Per Brilioth	180,521	55,000
Agneta Dreber	–	55,000
Torbjörn Gunnarsson	134,493	55,000
Johan Hessius	–	55,000
Sven Hirdman	341,986	250,000
Jerker Karlsson	125,521	–
Pia Rudengren	55,000	110,000
Johan Unger	180,521	110,000
TOTAL	1,213,904	800,000

Employee stock option plan 2010/2015

The annual shareholders' meeting on 20 May 2010 resolved to adopt an employee stock option plan for the managing director and other members of management, with the right to acquire maximum 1,200,000 shares in RusForest. Each stock option shall entitle the holder to subscribe for one share in the Company with the exercise price (a) SEK 27.60 for stock options under Series 1, (b) SEK 29.90 for stock options under Series 2 and, (c) SEK 34.50 for stock options under Series 3. The exercise price and the number of shares to which each stock option entitles the holder shall be recalculated in the event of a split, merger, new issue of shares, etc. in accordance with market standards. Stock options may be allocated up until the annual shareholders' meeting in 2015. On 26 July 2010, the board of directors allocated 300,000 stock options to the managing director Martin Hermansson. No employee is guaranteed an allocation of stock options as this shall be decided by the board of directors based on specific performance-based criteria.

The right to acquire new shares under the employee stock options is vested with 1/5 of the employee stock options allocated from each Series to such holder as from the date falling one year from the date of the initial allocation (the "anniversary date"), and an additional 1/5 as from each of the four subsequent anniversary dates, provided that the holder at such dates is still employed within the RusForest group. Vested employee stock options within each series, that have been vested, may be exercised for subscription of shares during the period 1 June 2015 up to and including 1 December 2015. As regards employee stock options, which may be exercised as set forth above, the exercise period upon termination of employment shall be three (3) months as from the termination of employment and shall thereafter become void. In connection with vesting, and in addition to the above, the employee's performance, position within, as well as contribution to RusForest shall be taken into consideration.

The annual shareholders' meeting also resolved to issue not more than 1,254,000 warrants to the wholly owned subsidiary RusForest Ltd in order to ensure that RusForest can fulfil its obligations to the stock option holders, including the ability to pay the social security contributions (Sw. *Arbetsgivaravgifter*), when the stock options are exercised. Out of these warrants, a maximum of 54,000 can be used to cover costs related to the benefit, including the social security contributions, if any, when the stock options are exercised.

Valuation

There is no market value for the employee stock options. A value may, however, be calculated in accordance with an established model for options. When calculating the value, the restrictions in the right to transfer and exercise the employee stock options and the fact that the employee stock options are forfeited if the employment of the holder is terminated have been considered. The option value of the employee stock options under the employee stock option plan is, based on a valuation made by the company, SEK 4.86 per employee stock option, assuming an average exercise price of approximately SEK 31.47 per share (of which SEK 28.32 for Series 1, SEK 30.68 for Series 2 and SEK 35.40 for Series 3, based on the price SEK 23.60 of the RusForest share at closing on 19 April 2010). When valuing the options, the company has used Black & Scholes model for valuating options, assuming a risk free interest of 2.469 percent, a volatility of 30 percent and duration of 1,800 days.

New terms as a result of new share issue

As a result of the new share issue in RusForest AB in November 2010, the exercise terms for outstanding warrants in the Company were adjusted in accordance with their respective terms and conditions. The new warrant terms are set out in the table below:

	Number of shares to which each warrant entitles		Subscription price per share, SEK	
Warrant	Original value	Adjusted value	Original value	Adjusted value
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

Note 10. Other expenses

	Group		Parent company	
In thousands of SEK	2010	2009	2010	2009
Exchange-rate changes	280	46	–	–
Inventory write-off	4,769	2,782	–	–
Net loss on sale of property, plant and equipment	3,366	950	–	–
Loss on sale of materials	–	899	–	–
Bad debts	660	700	–	–
Sundry operating expenses	2,026	5,316	–	–
TOTAL	11,101	10,693	–	–

Note 11. Finance income and finance costs

	Group		Parent company	
In thousands of SEK	2010	2009	2010	2009
Exchange-rate changes	2,765	–	–	–
Interest income relating to loans to third parties	335	320	–	–
Interest income relating to loans to related parties	–	14	–	–
Interest income relating to loans to associates (before acquisition of full control at 1 June 2009)	–	9,184	–	4,436
Interest income relating to loans to Group Companies	–	–	23,219	4,660
Bank interest income	371	69	370	366
Finance income	3,471	9,587	23,589	9,462
Exchange-rate changes	–	(14,473)	(22,850)	(1,565)
Bank charges	(2,771)	(2,119)	–	–
Interest expenses relating to borrowings from third parties	(15,180)	(2,596)	(9,313)	–
Interest expenses relating to borrowings from related parties	(3,498)	(192)	(2,954)	–
Finance lease interest	(1,096)	(1,082)	–	–
Finance expenses	(22,545)	(20,463)	(35,117)	(1,565)
Net finance expense recognized in income statement	(19,074)	(10,876)	(11,528)	7,897

Note 12. Income tax expense

	Group		Parent company	
In thousands of SEK	2010	2009	2010	2009
Current tax expense				
Current period	(2,052)	(52)	–	–
	(2,052)	(52)	–	–
Deferred tax income				
Origination and reversal of temporary tax differences	26,819	7,655	–	–
	26,819	7,655	–	–
TOTAL	24,767	7,603	–	–

Reconciliation of effective tax rate

In thousands of SEK	2010	2009
Loss/income for the year	(133,842)	129,570
Total income tax credit	24,767	7,603
Loss/income excluding income tax	(109,075)	137,173
Income tax using the Company's domestic tax rate 2010: 20% (2009: 20%)	(26,768)	25,914
Effect of tax rate in foreign jurisdictions	1,590	355
Effect of zero tax rate on income earned in foreign jurisdiction companies	(5,752)	53
Effect of expenses that are not deductible in determining taxable profit	8,800	21,361
Effect of (income) that are not taxable in determining taxable profit	(11,499)	(57,420)
Effect of other permanent differences	34,267	9,931
Effect of change in unrecognised temporary differences	(26,819)	(7,760)
Current year losses for which no deferred tax asset was recognised	465	–
Tax penalties	950	–
Under (over) provided in prior periods	–	(37)
Tax charge	(24,767)	(7,603)

Note 13. Earnings per share

Basic earnings per share have been calculated by dividing the net result for the financial year by the weighted average number of shares in issue during the year. For the period ended on 31 December 2009, the weighted average number of shares was affected by one new share issue, which was completed during the year. On 1 June 2009, the Company completed a new share issue, whereby 8,537,400 new shares were issued to Vostok Nafta Investment Ltd for a consideration of SEK 18.3 each, payable by in-kind contribution of 50 per cent shareholding in RusForest Limited – 1 share in RusForest (Cyprus) Limited, 10 per cent in Tuba-Les LLC, 10 per cent in Tublesprom PLC, 50 per cent in RusForest Angara LLC and loans advanced to RusForest (Cyprus) Limited in amount of SEK 212.2 million.

For the period ended 31 December 2010, the weighted average number of shares was affected by one new share issue, which was completed during the year. On 5 November 2010, the Company completed a rights issue, whereby 43,681,680 new shares were issued for a consideration of SEK 10 each. For the financial year ended 31 December 2010, the weighted average number of shares in issue was 29,260,742 (2009: 18,299,127).

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive ordinary shares. Share options are the only category of dilutive potential ordinary shares for the company. For the share options, a calculation is made in order to determine the number of shares that would have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the options. No dilution has been calculated for the financial year as the effect for the period would have been anti-dilutive.

Note 14. Property, plant and equipment

In thousands of SEK	Land	Buildings and infra-structure	Plant and machinery	Motor Vehicles	Computer Hardware	Fixtures and fit-tings	Other	Construction in progress and advances	Total
Cost									
Balance 1 January 2009	–	–	–	–	126	–	–	–	126
Additions through business combinations	27,503	217,066	217,322	57,544	1,157	138	801	181,269	702,799
Additions	–	37,583	18,363	4,259	288	168	30	–	60,690
Disposals	–	(2,850)	(668)	(469)	(10)	–	–	–	(3,997)
Translation difference	(1,040)	(7,773)	(8,028)	(2,129)	(41)	(3)	(30)	(6,983)	(26,027)
Transfer to property, plant and equipment in use	–	–	–	–	–	–	–	(40,572)	(40,572)
Balance 31 December 2009	26,463	244,027	226,988	59,204	1,520	303	800	133,714	693,019
Balance 1 January 2010	26,463	244,027	226,988	59,204	1,520	303	800	133,714	693,019
Additions through business combinations	–	92,786	39,400	1,433	5	–	1,139	62	134,825
Additions	28	5,767	26,429	1,260	138	–	884	55,531	90,038
Disposals	–	(4,395)	(3,897)	(3,434)	(80)	(4)	(31)	–	(11,842)
Translation difference	(1,659)	(14,349)	(16,016)	(3,032)	(158)	(28)	(112)	(11,632)	(46,987)
Transfer to property, plant and equipment in use	–	–	–	–	–	–	–	–	–
Balance 31 December 2010	24,832	323,836	272,903	55,430	1,425	271	2,681	177,675	859,053
Depreciation									
Balance 1 January 2009	–	–	–	–	55	–	–	–	55
Additions through business combinations	–	3	126	64	5	–	–	–	198
Translation difference	–	100	236	61	2	–	1	–	401
Depreciation charge for the year	–	8,245	22,089	5,275	249	39	42	–	35,937
Disposals	–	(42)	(111)	(47)	(4)	–	–	–	(203)
Balance 31 December 2009	–	8,306	22,340	5,353	307	39	42	–	36,387
Balance 1 January 2010	–	8,306	22,340	5,353	307	39	42	–	36,387
Additions through business combinations	–	–	–	–	–	–	–	–	–
Translation difference	–	(1,288)	(3,502)	(717)	(68)	(9)	9	–	(5,575)
Depreciation charge for the year	–	16,474	37,714	9,238	366	77	114	–	63,982
Disposals	–	(447)	(2,313)	(1,012)	(22)	(2)	–	–	(3,796)
Balance 31 December 2010	–	23,045	54,239	12,862	583	105	165	–	90,999
Carrying amounts									
At 1 January 2009	–	–	–	–	71	–	–	–	71
At 31 December 2009	26,463	235,721	204,648	53,851	1,213	264	758	133,714	656,632
At 1 January 2010	26,463	235,721	204,648	53,851	1,213	264	758	133,714	656,632
At 31 December 2010	24,832	300,791	218,664	42,568	842	165	2,515	177,675	768,054

Leased plant and machinery
The Group leases production equipment under a number of finance lease agreements. Some leases provide the Group with the option to purchase the equipment at a beneficial price. The leased equipment secures lease obligations (see note 25). At 31 December 2010 the net carrying amount of leased assets was SEK 22,750 thousand (2009: SEK 16,167 thousand).

Security
At 31 December 2010 properties with a carrying amount of SEK 20,566 thousand (2009: SEK 85,534 thousand) are subject to secure bank loans (see note 25).

Property, plant and equipment under construction and advances
During the year ended 31 December 2010 the Group purchased various assets that have not been put in use and commenced construction of new sawmilling facility for future use. The total cost incurred up to 31 December 2010 was SEK 118,606 thousand (2009: SEK 83,539 thousand).

The total advances given as at 31 December 2010 amounted to SEK 59,069 thousand (2009: SEK 50,176 thousand). Advances comprised of SEK 13,182 thousand to Carmac S.P.L and SEK 12,224 thousand to Storti S.P.A given for machinery and assembly of Magistralny facility. In addition, advances of SEK 12,167 thousand to A.S. Hekotek, SEK 6,950 thousand to Scantec, SEK 957 thousand to Estma and SEK 0.35 thousand to Richard Nordemalm Machine AB were given for machinery and assembly of Boguchansky facility. Furthermore advances of SEK 13,352 thousand were given for machinery leased in 2011.

All property plant and equipment have been valued to fair market value as of 31 May 2009, as required by IFRS 3 to account for the fair value of the acquired assets and liabilities in the business combination. The valuation was performed based on reports prepared by independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience of valuations of assets of similar location and category. The basis used for the appraisal was market value of the assets, and fair values were estimated using appropriate valuation techniques. The increase of the value of fixed assets totalled SEK 265.1 million.

Parent company
Property plant and equipment of the parent company is represented by computer hardware and amounted to SEK 21 thousand (2009: SEK 46 thousand).

Note 15. Intangible assets

In thousands of SEK	Goodwill	Customers	Land rights	Total
Cost				
Balance 1 January 2009	–	–	–	–
Additions through business combinations	148,423	–	–	148,423
Balance 31 December 2009	148,423	–	–	148,423
Balance 1 January 2010	148,423	–	–	148,423
Additions through business combinations	–	5,321	6,891	12,212
Balance 31 December 2010	148,423	5,321	6,891	160,635
Amortization and impairment losses				
Balance 1 January 2009	–	–	–	–
Impairment loss	142,570	–	–	142,570
Translation difference	5,853	–	–	5,853
Balance 31 December 2009	148,423	–	–	148,423
Balance 1 January 2010	148,423	–	–	148,423
Impairment loss	–	–	–	–
Translation difference	–	–	–	–
Balance 31 December 2010	148,423	–	–	148,423
Carrying amounts				
At 1 January 2009	–	–	–	–
At 31 December 2009	–	–	–	–
At 1 January 2010	–	–	–	–
At 31 December 2010	–	5,321	6,891	12,212

Note 16. Investments in equity accounted investees

The Group's share of loss in its equity accounted investees for the year was SEK 100 thousand (2009: null).

In 2010 and 2009 the Group did not receive dividends from its investments in equity accounted investees.

None of the Group's equity-accounted investees are publicity listed entities and consequently do not have published price quotations.

In thousands of SEK	2010	2009
Balance at 1 January	2,300	–
Additions	–	–
Acquisition of control interest in associate	–	2,300
Translation reserve	234	–
Share of (loss)/ profit from associate	(100)	–
Total investment in associated undertakings	2,434	2,300

The Group has a 50 per cent investment in Filial No.2 PIK89 LLC a company established in Russia and whose main operation is to provide transportation services to group entities.

Summary financial information for equity accounted investees, not adjusted for the percentage of ownership held by the Group:

In thousands of SEK	Ownership	Current assets	Non-current assets	Total Assets	Current liabilities	Non-current liabilities	Total Liabilities	Revenue	Expenses	Net profit/ (loss)
2009										
Filial No.2 PIK89 LLC	50.0%	161	75	236	528	–	528	3,384	(3,540)	(156)
		161	75	236	528	–	528	3,384	(3,540)	(156)
2010										
Filial No.2 PIK89 LLC	50.0%	9	68	77	356	–	356	39	(239)	(200)
		9	68	77	356	–	356	39	(239)	(200)

Note 17. Non-current assets held for sale and discontinued operations

	Group	
In thousands of SEK	31 December 2010	31 December 2009 (restated)
Property, plant and equipment	68,846	79,528
Intangible assets	11,889	14,001
Deferred tax asset	2,811	1,577
Inventories	4,983	12,841
Trade and other receivables	10,788	6,992
Cash at bank and in hand	703	1,686
Total assets classified as held for sale	100,019	116,625
Loans payable	–	–
Obligations under financial lease	8,971	13,252
Trade and other payables	3,556	3,803
Total liabilities directly associated with the assets classified as held for sale	12,527	17,055

The restatement of the 31 December 2009 values, relates to an elimination of the loan balances between Varyag Capital Ltd and the Group's subsidiary OOO GK Nerud in the amount of SEK 15.1 million (in the Group's Annual Report for 2009 taken to translation reserve instead of being eliminated). Also, the Group has re-assessed the fair values of property, plant and equipment purchased under the lease contracts at Belomorsk Gravel Company.

To arrive at the correct values in accordance with IFRS, the Group has discounted the future cash flows payable under the contract to calculate the present value of minimum lease payments which as at 31 December 2009 totalled SEK 27.1 million (previously reported in the Annual Report for 2009 as SEK 39.0 million). Therefore, Assets classified as held for sale and Liabilities directly associated with the assets classified as held for sale have been reduced by SEK 11.9 million.

	Group	
In thousands of SEK	2010	2009
Revenue	22,532	5,586
Other operating income	–	–
Cost of goods sold	(17,863)	(3,040)
Freight, admin and other operating expenses	(26,707)	(14,857)
Operating loss before financing expenses	(22,038)	(12,310)
Net finance expenses	132	(5,696)
Loss before taxation	(21,906)	(18,006)
Taxation	757	(1,495)
Total loss after tax for the year from discontinued operations	(21,149)	(19,501)

Note 17. Non-current assets held for sale and discontinued operations (cont'd)

	Group	
In thousands of SEK	2010	2009
Net cash used in operating activities	(6,254)	(4,681)
Net cash used in investing activities	(2,449)	(12,449)
Net cash from financing activities	(5,226)	17,047
Net cash flow	(13,929)	(83)

Earnings per share for discontinued operations	2010	2009
basic, profit from discontinued operations attributable to ordinary equity holders of the parent	(0,72)	(1,07)

Note 18. Inventories

	Group	
In thousands of SEK	2010	2009
Raw materials and consumables	29,949	22,860
Work in progress	10,015	5,163
Finished goods	24,525	14,724
TOTAL	64,490	42,747

Inventories are stated at the lower of cost and net realizable value. In 2010 there was no need for write-down of inventories to net realisable value.

Note 19. Other long-term receivables

	Group	
In thousands of SEK	2010	2009
Loans receivable from third party	7,553	8,668
Loans receivable from related party	–	1,933
	7,553	10,601

Note 20. Trade and other receivables

	Group		Parent company	
In thousands of SEK	2010	2009	2010	2009
Trade receivables	14,074	14,632	–	22
Receivables from related companies	–	26	–	–
Receivables from associate companies	98	298	–	–
Receivables from Group companies	–	–	687	–
Forest lease prepayments	742	–	–	–
Advance payments to suppliers	31,824	19,233	–	–
VAT Refundable	29,235	26,161	1,434	27
Other taxes receivable	2,788	162	–	–
Other receivables	4,930	1,289	164	160
	83,691	61,801	2,285	209

Concentrations of credit risk with respect to trade receivables are limited due to the Group's large number of customers who have a variety of end markets in which they sell. The Group's historical experience in collection of accounts receivable falls within the recorded allowances. Due to these factors, management believes that no additional credit risk beyond amounts provided for collections losses is inherent in the Group's trade receivables.

The Group does not hold any collateral over the trading balances.

The fair values of trade and other receivables due within one year approximate to their carrying amounts as presented above. The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 32.

Note 21. Loans receivable

	Group		Parent company	
In thousands of SEK	2010	2009	2010	2009
Loans receivable from Group companies	–	–	473,959	109,061
Loans receivable from third party	466	540	–	–
Loans receivable from associate companies	258	–	–	–
	725	540	473,959	109,061

Loans receivable from Group companies

In thousands of SEK	Parent company
Balance 1 January 2010	109 061
Loans issued	370 007
Interest income relating to loans to Group companies	22 833
Interest paid	(1 142)
Currency exchange loss	(26 800)
Balance 31 December 2010	473 959

Note 22. Cash and cash equivalents

	Group		Parent company	
In thousands of SEK	2010	2009	2010	2009
Cash at bank and in hand	67,195	26,085	29,322	7,676
TOTAL	67,195	26,085	29,322	7,676

The Group's exposure to interest rate risk and sensitivity analysis for financial assets and liabilities are disclosed in note 33.

Note 23. Share capital

	2010	2010	2009	2009
	Number of shares	SEK ('000)	Number of shares	SEK ('000)
Authorised				
Ordinary shares of SEK 10 each	21,840,840	218,408	13,303,200	133,032
Issue of shares	43,681,680	436,817	8,537,640	85,376
	65,522,520	655,225	21,840,840	218,408
Issued and fully paid				
Balance at 1 January	21,840,840	218,408	13,303,200	133,032
Issue of shares	43,681,680	436,817	8,537,640	85,376
Balance at 31 December	65,522,520	655,225	21,840,840	218,408

For the year ended 31 December 2010 43,681,680 shares were issued at nominal value of SEK 10 per share.

For the year ended 31 December 2009 8,537,640 shares were issued at market price of SEK 18.3 per share.

At 31 December 2010 the authorized share capital comprised of 65,522,520 ordinary shares (2009: 21,840,840) with a nominal value of SEK 10 each.

Note 24. Equity

Group

In thousands of SEK	Share premium	Retained earning	Total
Balance 1 January 2010	556,687	(86,693)	469,994
Loss for the year	–	(127,369)	(127,369)
Costs related to the rights issue	(15,573)	–	(15,573)
Translation difference	–	–	–
Balance 31 December 2010	541,114	(214,062)	327,052

Parent company

In thousands of SEK	Share premium	Retained earning	Total
Balance 1 January 2010	556,687	(9,616)	547,071
Loss for the year	–	(21,198)	(21,198)
Costs related to the rights issue	(15,573)	–	(15,573)
Balance 31 December 2010	541,114	(30,814)	510,300

Note 25. Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate and foreign currency risk, see note 32.

	Group	
In thousands of SEK	2010	2009
Short term portion of long-term loans		
Bank loans	11,218	32,718
Obligations under finance leases	4,309	4,902
Loans from related companies	100	107
	15,627	37,727
Non-current borrowings		
Bank loans	6,098	17,641
Obligations under finance leases	4,606	2,577
	10,703	20,218

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

In thousands of SEK				2010	2009
	Currency	Nominal interest rate	Year of maturity	Carrying amount	Carrying amount
Secured bank loan	RUB	12.0–18.0%	2011	4,578	3,782
Secured bank loan	USD	11.5–15.0%	2011–2014	10,243	14,655
Secured bank loan	EUR	11.5%	2010–2011	2,494	6,849
				17,315	50,359

The bank loans are secured over property, plant and equipment and shares with carrying amount of SEK 20,566 thousand.

Finance lease liabilities (2010 and 2009)

Finance lease liabilities are payable as follows:

	2010			2009		
In thousands of SEK	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	5,683	1,374	4,309	6,924	2,021	4,903
Between two and five years	5,674	1,068	4,606	3,816	1,238	2,577
	11,357	2,442	8,915	10,740	3,260	7,480

The Group entered several lease agreements with PK MMB LLC, Hansa Leasing LLC and GTLK LLC.

It is the Group's policy to lease certain of its assets under finance leases. The average lease term is 39 months. For the period ended 31 December 2010, the average effective borrowing rate was 13 per cent. Interest rates are fixed at the contract date, and thus expose the Company to fair value interest rate risk. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in thousands of Russian Roubles.

The fair values of lease obligations approximate to their carrying amounts as presented above.

The Company's obligations under finance leases are secured by the lessors' title to the leased assets.

Note 26. Loans payable to related companies

	Group		Parent company	
In thousands of SEK	2010	2009	2010	2009
Short term portion of long-term loans				
Loans from related companies	–	–	–	–
	–	–	–	–
Non-current borrowings				
Loans from related companies	7,334	10,434	–	–
	7,334	10,434	–	–

Note 27. Trade and other payables

	Group		Parent company	
In thousands of SEK	2010	2009	2010	2009
Trade creditors	17,688	21,433	803	147
Payables to associated company	204	313	–	–
Payables to related company	2,134	3,704	–	–
Advances from clients	17,293	23,179	–	–
Other taxes payable	16,496	14,443	442	–
Other payables	14,260	15,028	38	292
	68,075	78,100	1,283	439

The fair values of trade and other payables due within one year approximate to their carrying amounts as presented above.

The Group's exposure to currency risk related to trade and other payables is disclosed in note 33.

Note 28. Provisions

	Group		Parent company	
In thousands of SEK	2010	2009	2010	2009
Balance at 1 January	3,478	1,369	305	1,023
Additional provisions	486	2,827	486	–
Settled during the year	(49)	(718)	–	(718)
Balance at 31 December	3,915	3,478	791	305

The provisions assumed in business combination were agreed between Russian shareholders of PIK-89 LLC and Group's ex-investment company Austro (Cyprus) Limited on 1 May 2006. The amount of SEK 2,827 thousand will be reversed in the 2011 financial statements after exchanging the minority shareholder's shares in RusForest Ust-Ilimsk for RusForest AB shares.

The SEK 486 thousand of provisions recorded in 2010 are mainly represented by accrued social fees at RusForest AB level.

Note 29. Deferred tax

Deferred tax asset

	Group		Parent company	
In thousands of SEK	2010	2009	2010	2009
Deferred tax asset	44,095	23,503	–	–
Deferred tax liability	(53,862)	(51,726)	–	–
Net deferred tax asset	(9,767)	(28,223)	–	–

Deferred tax asset arises as follows:

	Group		Parent company	
In thousands of SEK	2010	2009	2010	2009
Balance as at 1 January	23,503	–	–	–
Additions through business combinations	10,428	20,766	–	–
Translation difference	5,492	358	–	–
Credit in the income statement	4,671	2,379	–	–
Balance as at 31 December	44,095	23,503	–	–

The nominal value of the losses carried forward as at 31 December 2010 is SEK 220,475 thousand. The losses could be utilized by the subsidiaries within 10 years from when they arise.

Deferred tax liability

In thousands of SEK	2010	2009
Balance as at 1 January	(51,726)	–
Additions through business combinations	–	(5,486)
Translation difference	(24,284)	(977)
Adjustment on retained earnings	–	(50,539)
Credit (Debit) in the income statement	22,148	5,276
Balance as at 31 December	(53,862)	(51,726)

Deferred taxation liability arises as follows

In thousands of SEK	2010	2009
Temporary tax differences on property, plant and equipment	(49,902)	(53,244)
Temporary tax differences on prior year losses	–	–
Temporary tax differences on other payables	(3,960)	1,569
Temporary tax differences on prepaid expenses	–	(51)
Balance as at 31 December	(53,862)	(51,726)

Note 30. Related party transactions

The following transactions were carried out with related parties:

(i) Sales of goods and services

In thousands of SEK	Nature of transactions	2010	2009
Filial No.2 PIK-89 LLC	Trading	–	166
ROSS LLC	Trading	1,066	–
PIK Angara LLC	Trading	262	5,294
Vostok Komi (Cyprus) Limited	Rent	649	–
		1,976	5,460

Sales to the related companies were made on commercial terms and conditions.

(ii) Purchases of goods and services

In thousands of SEK	Nature of transactions	2010	2009
Vostok Komi (Cyprus) Limited	Other	71	–
Vostok Nafta Investments Limited	Other	1,808	–
PIK Angara LLC	Trading	6,248	5,691
Filial No.2 PIK-89 LLC	Trading	–	1,718
		8,127	7,409

Purchases from related companies were made on commercial terms and conditions.

(iii) Finance expenses

In thousands of SEK	Nature of transactions	2010	2009
Vostok Komi (Cyprus) Limited	Financing	3,498	159
Plahotnik (shareholder PIK89)	Financing	–	33
		3,498	192

(iv) Loans to related parties

In thousands of SEK	2010	2009
Non-current		
Vostok Gas Ltd	–	1,933
	–	1,933
Current		
Filial No.2 PIK-89 LLC	258	–
	258	–

No securities were obtained on the above loans.

(v) Receivables from associate company

In thousands of SEK	2010	2009
Filial No.2 PIK-89 LLC	22	23
PIK Angara LLC	75	274
	98	298

The amount receivable from associate company is receivable within one year and bears no interest.

(vi) Receivables from related parties

In thousands of SEK	2010	2009
Vostok Gas Limited	–	26
	–	26

The amount receivable from related company is receivable within one year and bears no interest.

(vii) Loans from related parties

In thousands of SEK	2010	2009
Non-current		
Vostok Komi (Cyprus) Limited	7,334	10,435
	7,334	10,435
Current		
Taiga Capital Limited	100	107
	100	107

The loan from Taiga (Capital) Limited was provided interest free, and there was no specified repayment date.

The loan from Vostok Komi (Cyprus) Limited was provided at 8 per cent interest with repayment date 15 June 2012.

(viii) Payables to associate company

In thousands of SEK	2010	2009
Filial No.2 PIK-89 LLC	–	37
PIK Angara LLC	204	276
	204	313

Amounts payable to associate companies fall due within one year and bear no interest.

(ix) Payables to related parties

In thousands of SEK	2010	2009
Vostok Energo Investments Limited	–	581
Vostok Nafta Investments Limited	–	1,445
Taiga Capital Limited	912	–
Ross CJSC	1,222	1,678
	2,134	3,704

Amounts payable to related companies fall due within one year and bear no interest.

Note 31. Acquisitions of subsidiary and non-controlling interests

Business combinations

(i) Acquisition of non-controlling interest

On 22 December 2010 the Group acquired 86,09 per cent of LDK-3 LLC, a sawmilling operation located in the city of Arkhangelsk, in North West Russia, and 100 per cent of Infa LLC, a planning mill at the same site.

Taking control of LDK-3 LLC and Infa LLC will offer the Group geographical as well as logistical advantages. The large industrial site in direct connection to the company's port and access to international waters entails potentials to create synergies by co-operation with third parties.

The following summarises the major classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

Consideration transferred

In thousands of SEK	2010
Cash	39,924
	39,924

Identifiable assets acquired and liabilities assumed

The acquisition had the following effect on the Group's assets and liabilities on acquisition date	Recognised values on acquisition
In thousands of SEK	2010
Property, plant and equipment	134,739
Intangible assets	12,212
Inventories	21,135
Trade and other receivables	20,102
Cash and cash equivalents	2,803
Deferred tax liability	(8,566)
Loans and borrowings	(31,981)
Trade and other payables	(51,491)
Net identifiable assets and liabilities	98,953

The fair value of property, plant and equipment as well as intangible assets has been determined by independent valuers.

Goodwill

Goodwill was recognized as a result of the acquisition as follows:

In thousands of SEK	2010
Total consideration transferred	39,924
Non-controlling interests, based on their proportionate interest in the recognised amounts of the asset and liabilities in the acquire	7,839
Fair value of identifiable net assets	(98,953)
Gain on bargain purchase	(51,190)

The gain on bargain purchase is mainly due to the fact that Group takes advantage of the great opportunity arises as a result of the strategic decision of the previous shareholder to dispose forestry operations and concentrate on shipping operations.

Note 32. Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market price risk
- Operational risk
- Compliance risk
- Litigation risk
- Reputation risk
- Other risks

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. Risk management issues are also addressed by the Audit Committee and the Operations Committee. Both committees report to the Board of Directors on their activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(i) Credit risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date. The Group has no significant concentration of credit risk. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history and monitors on a continuous basis the ageing profile of its receivables. Cash balances are held with high credit quality financial institutions and the Group has policies to limit the amount of credit exposure to any financial institution.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified.

Exposure to credit risk
The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Group		Parent company	
In thousands of SEK	2010	2009	2010	2009
Investments in Group Companies	–	–	661,902	649,133
Investments in associates	2,434	2,300	–	–
Non-current assets held for sale	100,019	116,625	–	–
Other long-term receivables	7,553	10,601	–	–
Loans receivable	725	540	–	109,061
Trade and other receivable	83,691	61,801	2,285	209
Tax assets	791	2,245	110	98
Cash and cash equivalents	67,195	26,085	29,322	7,676
	262,407	220,196	693,619	766,177

(ii) 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. 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.

The following are the contractual maturities of financial liabilities, including estimated interest payments:

Group – 31 december 2010

In thousands of SEK	Carrying amounts	Within 1 year	1–2 year	2–5 year	More than 5 years
Loans and borrowings	33,664	15,627	11,465	6,572	–
Trade and other payables	68,075	68,075	–	–	–
Provisions	3,915	3,915	–	–	–
Tax payable	142	142	–	–	–
	105,796	87,759	11,465	6,572	–

Group – 31 december 2009

In thousands of SEK	Carrying amounts	Within 1 year	1–2 year	2–5 year	More than 5 years
Loans and borrowings	68,379	37,727	24,555	6,097	–
Trade and other payables	78,100	78,100	–	–	–
Provisions	3,478	3,478	–	–	–
Tax payable	807	807	–	–	–
	150,764	120,112	24,555	6,097	–

Parent company – 31 december 2010

In thousands of SEK	Carrying amounts	Within 1 year	1–2 year	2–5 year	More than 5 years
Loans and borrowings	–	–	–	–	–
Trade and other payables	1,283	1,283	–	–	–
Provisions	791	791	–	–	–
Tax payable	–	–	–	–	–
	2,074	2,074	–	–	–

Parent company – 31 december 2009

In thousands of SEK	Carrying amounts	Within 1 year	1–2 year	2–5 year	More than 5 years
Loans and borrowings	–	–	–	–	–
Trade and other payables	439	439	–	–	–
Provisions	305	305	–	–	–
Tax payable	–	–	–	–	–
	744	744	–	–	–

(iii) Market risk
Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rate and equity prices will affect the Company's income or the value of its holdings of financial instruments.

Sawnwood is sold under long-term framework contracts with a review of prices once every two months. The Group's export prices are linked to international sawnwood prices. External factors such as house construction volumes, geopolitical developments, natural disasters and the fluctuations of US dollar to other currencies affect sawnwood prices and thus Group's 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 substantially 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 20 per cent of the requested number, but may exceed this level in future.

Interest rate risk
Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's management monitors the interest rate fluctuations on a continuous basis and acts accordingly.

At the reporting date the interest rate profile of interest bearing financial instruments was:

	Group		Parent company	
In thousands of SEK	2010	2009	2010	2009
Fixed rate instruments				
Financial assets				
Loans receivable	725	540	473,959	109,061
Other long-term receivables	7,553	10,601	–	–
	8,278	11,142	473,959	109,061
Financial liabilities				
Interest-bearing loans and borrowings	(26,330)	(32,872)	–	–
Loans payable to related companies	(7,334)	(10,434)	–	–
	(33,664)	(43,306)	–	–
Net exposure	(25,386)	(32,165)	473,959	109,061

Currency risk
Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Group's measurement currency. The Group is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the United States Dollar (USD), Euro (EUR), and British Pound (GBP). The Group's management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

The Group's exposure to foreign currency risk was as follows:

31 December 2010		Group	
In thousands of SEK	USD	EUR	GBP
Assets			
Advances for CIP	9,636	45,481	–
Loans receivable	–	–	–
Trade and other receivables	710	2,642	2,349
Cash and cash equivalents	2,274	1,555	–
	12,620	49,677	2,349
Liabilities			
Loans and borrowings	(19,847)	(2,494)	–
Trade and other payables	(15,942)	(895)	–
	(35,789)	(3,389)	–
Net exposure	(23,169)	46,289	2,349

31 December 2010	Parent Company	
In thousands of SEK	USD	EUR
Assets		
Trade and other receivables	–	–
Cash and cash equivalents	105	946
	105	946
Liabilities		
Loans and borrowings	–	–
Trade and other payables	–	–
	–	–
Net exposure	105	946

31 December 2009	Group	
In thousands of SEK	USD	EUR
Assets		
Advances for CIP	–	13,002
Loans receivable	–	8,668
Trade and other receivables	509	83
Cash and cash equivalents	13,575	1,495
	14,085	23,247
Liabilities		
Loans and borrowings	(38,420)	(15,377)
Trade and other payables	(24,876)	(8,391)
	(63,295)	(23,767)
Net exposure	(49,211)	(520)

31 December 2009	Group	
In thousands of SEK	USD	EUR
Assets		
Loans receivable	–	–
Trade and other receivables	–	–
Cash and cash equivalents	6	1,101
	6	1,101
Liabilities		
Loans and borrowings	–	–
Trade and other payables	–	–
	–	–
Net exposure	6	1,101

(iv) Operational risk
Operational risk is the risk that derives from the deficiencies relating to the Group's information technology and control systems as well as the risk of human error and natural disasters. The Group's systems are evaluated, maintained and upgraded continuously.

(v) Compliance risk
Compliance risk is the risk of financial loss, including fines and other penalties, which arises from non compliance with laws and regulations of the state. The risk is limited to a significant extent due to the supervision applied by the Compliance Officer, as well as by the monitoring controls applied by the Group.

(vi) Litigation risk
Litigation risk is the risk of financial loss, interruption of the Group's operations or any other undesirable situation that arises from the possibility of non execution or violation of legal contracts and consequentially of lawsuits. The risk is restricted through the contracts used by the Group to execute its operations.

(vii) Reputation risk
The risk of loss of reputation arising from the negative publicity relating to The Group's operations (whether true or false) may result in a reduction of its clientele, reduction in revenue and legal cases against the Group. The Group applies procedures to minimize this risk.

(viii) Other risks
The general economic environment prevailing internationally may affect the Group's operations to a great extent. Concepts such as inflation, unemployment, and development of the gross domestic product are directly linked to the economic course of every country and any variation in these and the economic environment in general may create chain reactions in all areas hence affecting the Group.

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.

Note 33. Fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Inventories
The fair value of inventories acquired in a business combination is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(ii) Trade and other receivables
The fair value of trade and other receivables, excluding construction work in progress, but including service concession receivables, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

(iii) Non-derivative financial liabilities
Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

The fair values of the Group's financial assets and liabilities approximate to their carrying amounts at the balance sheet date.

Note 34. Contingencies

(i) Taxation contingencies
The taxation system in the Russian Federation is relatively new and is characterised 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 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 these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Russian tax authorities have recently begun to increase control over companies regarding the ability to recover value added tax (VAT) paid to suppliers in excess of VAT received from customers for companies which have low capital.

The Group entered into transactions with various suppliers in which it did not hold any direct or indirect equity interest. These entities are fully responsible for their own tax and accounting compliance. However, due to existing tax authorities' practice, if these entities' tax compliance is challenged by the tax authorities as not being in full conformity with the applicable tax legislation, this may result in additional tax risks for the Group. Should these suppliers be successfully challenged, the Group may become liable to additional tax payments, although management of these entities is primarily responsible for the correctness and timeliness of the entities' tax payments. Management of the Group believes that it is not practicable to estimate the financial effect of potential tax liabilities, which ultimately could be imposed on the Group due to transactions with suppliers. However, if such liabilities were imposed, the amounts involved, including penalties and interest, could be material.

If the cases described above were successfully challenged by the Russian tax authorities, the additional payments could become due together with penalties, ranging from 20–40% of the amount of underpaid taxes, and late-payment interest. Management has not provided any amounts in respect of such obligations in these consolidated financial statements as it believes that it is possible, but not probable, that an outflow of economic benefits will be required to settle such obligations.

(ii) Operating environment of the Group's related parties

The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and strong economic growth. Management is unable to predict all developments in the economic environment which could have an impact on the Group's related parties operations and consequently what effect, if any, they could have on the financial position of the Group's related parties.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the government, together with tax, legal, regulatory, and political developments.

Whilst there have been improvements in the economic trends, the future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the government, together with tax, legal, regulatory, and political developments.

(iii) Recent volatility in global financial markets

The global financial turmoil has significantly affected Russia's economy. While the Russian government has introduced a range of stabilization measures aimed at providing liquidity to Russian banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties. If the Group requires further financing, such financing may involve restrictions on investment and operating activities. There can be no assurance that such funding required by the Group will be made available to it and, if such funding is available, that it will be offered on reasonable terms. If the Group is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations or anticipated expansion, which may have a material adverse effect on the Group's financial condition and result of operations.

Debtors of the Group may be also affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for debtors may also have an impact on management's cash flow forecasts and the assessment of the impairment of financial and non-financial assets. To the extent that information is available management have properly reflected revised estimates of expected future cash flows in its impairment assessments, however management is unable to reliably estimate the effects on the Group's financial position of any further deterioration in the liquidity of the financial markets or their increased volatility.

(iv) Environmental matters

The majority of the Group's operating subsidiaries, from which the Group's entire finance income originates, operate within the Russian Federation. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The operating subsidiaries of the Group periodically evaluate their obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

Note 35. Post balance sheet events

In April 2011, RusForest acquired Nord Timber Group through an issue in kind, for a total consideration of 29,437,529 RusForest shares. As a result of the acquisition, the Company's annual AAC in the Arkhangelsk region amounts to 984,800 m^3 which will cover the future raw material requirements of the sawmill at LDK-3. Through the acquisition, RusForest becomes one of Europe's leading forestry companies with control over 2.4 million hectares of forestry land with a total of 2.8 million m^3 of AAC.

On 3 February 2011, RusForest AB entered into an agreement to acquire the Russian harvesting company Sibartles LLC. Sibartles is the holder of a pine dominated forest lease, located approximately 80 km north of the Boguchansky LPK sawmill, with an AAC of 165,400 m^3 and covering an area of 105,497 hectares. The remaining term of the forest lease is 43 years. Additionally, Sibartles owns harvesting and transportation equipment with a capacity to harvest and deliver approximately 30,000 m^3 sawlogs per year.

Note 36. Adjustment for non-cash items

Adjustment for non-cash items, etc.

	Group		Parent company	
In thousands of SEK	2010	2009	2010	2009
Depreciation	60,176	34,423	25	25
Income tax expense	(24,767)	(7,603)	–	–
Finance income	(706)	(9,587)	–	–
Finance expense	22,545	3,870	–	–
Loans payable write-off	–	(10,218)	–	–
Unpaid interest on loan receivables to portfolio companies	–	–	(21,691)	–
Gain on bargain purchases	(51,190)	(380,009)	–	–
Goodwill impairment	–	142,570	–	–
Net loss on sale of property, plant and equipment	3,366	–	–	–
Bad debts	660	–	–	–
Unrealised exchange rate income or losses	(2,485)	14,519	25,934	(3,907)
Loss from assets held for sale	21 149	19 501	–	–
Share of losses from associates	100	–	–	–
Other non-cash items	(13,361)	(7,103)	–	–
Total	15,487	(199,637)	4,268	(3,882)

Stockholm, 5 May 2011

RusForest AB (publ)

Sven Hirdman
Chairman of the Board

Franz Bergstrand   Per Brilioth   Torbjörn Gunnarsson

Jerker Karlsson   Johan Unger

Our audit report was issued on 5 May 2011.

KPMG AB

Carl Lindgren
Authorised Public Accountant

Audit Report

To the Annual General Meeting of RusForest AB (publ)
Corporate Registration Number 556694-6421

We have audited the annual accounts, the consolidated financial statements, the accounting records and the administration of the Board of Directors and the President of RusForest AB (publ) for the year 2010. The company's annual accounts are included in the printed version of this document on pages 31–64. The Board of Directors and the President are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of international financial reporting standards IFRS as adopted by the EU and the Annual Accounts Act when preparing the consolidated financial statements. Our responsibility is to express an opinion on the annual accounts, the consolidated financial statements and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting policies used and their application by the Board of Directors and the President and significant estimates made by the Board of Directors and the President when preparing the annual accounts and consolidated financial statements as well as evaluating the overall presentation of information in the annual accounts and the consolidated financial statements. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any Board member or the President has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting policies in Sweden. The consolidated financial statements have been prepared in accordance with international financial reporting standards IFRS as adopted by the EU and the Annual Accounts Act and give a true and fair view of the Group's financial position and results of operations. The Board of Directors' Report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the annual meeting of shareholders that the income statement and balance sheets of the Parent Company and the Group be adopted, that the profit of the Parent Company be dealt with in accordance with the proposal in the Board of Directors' Report and that the members of the Board of Directors and the President be discharged from liability for the fiscal year.

Stockholm, 5 May 2011

KPMG AB
Carl Lindgren
Authorised Public Accountant

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