

Annual Report 2013



ii Shareholder information

Annual general meeting May 15, 2014

The annual general meeting of shareholders in Rus-Forest AB (publ) will be held at 3 p.m. on Thursday, May 15, 2014, 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 May 9, 2014 and notify their intention to attend the annual general meeting by May 9, 2014.

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 (0)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 May 9, 2014. This means that the shareholder must request such registration prior to this date.

Disclaimer

This report contains "forward-looking statements". All statements other than statements of historical facts included in this presentation, including without limitation, those regarding the Company's financial position, business strategy, plans, objectives, goals, strategies and future operations and performance and the assumptions underlying these statements are forward-looking statements. Such forward-looking statements involve known and unknown risks and uncertainties and other factors which are or may be beyond the Company's control, which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Company's present and future business strategies and the environment in which the Company will operate in the future. Supplementary USD equivalent figures found in this report in relation to company financial information are provided solely for the convenience of users as described in the consolidated financial statements and do not form part of the audited consolidated financial statements. Some numerical figures included in this Presentation have been subject to rounding adjustments. Accordingly, numerical figures shown as totals in certain graphs or tables may not be an exact arithmetic aggregation of the figures that preceded them.

Dividend

The Board of Directors proposes that no dividend be paid for the 2013 financial year.

Financial information

Interim report Q1: May 30, 2014

Interim report Q2: August 29, 2014

Interim report Q3: November 28, 2014

Investor relations

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Corporate website

www.rusforest.com

Share codes

▶ ISIN SE0005132511

▶ NASDAQ OMX Stockholm First North: RUSF

▶ Reuters: RUSF.ST

▶ Bloomberg: RUSF:SS

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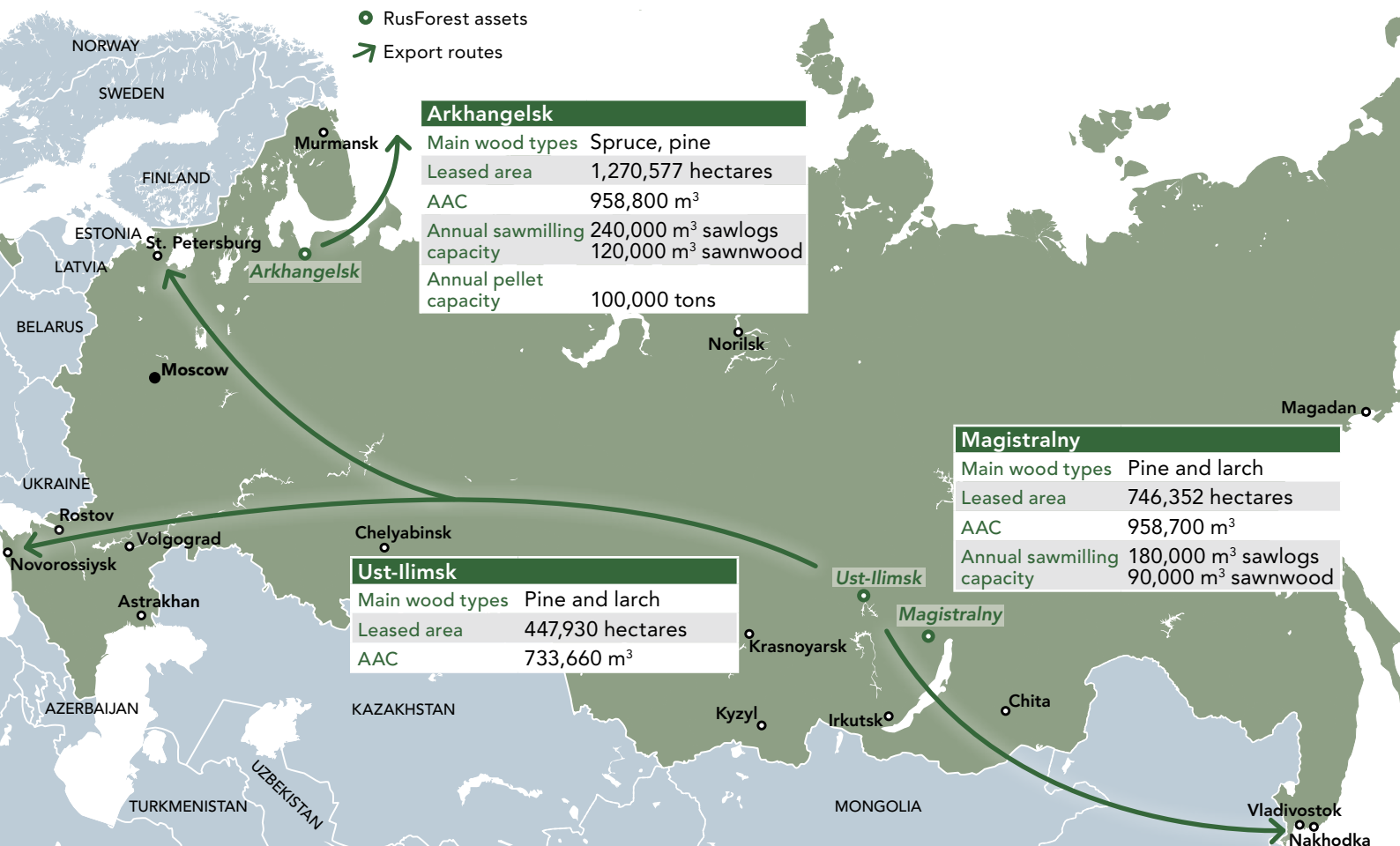
02 RusForest at a glance

Summary

- ▶ Swedish forestry company operating in Russia
- ▶ Large forest portfolio with 2.5 million hectares of leased forest land and an annual allowable cut (AAC) of 2.6 million cubic meters
- ▶ Vertically integrated from timber leases to sawmilling and pellets
- ▶ Low-cost, high-quality forest raw material
- ▶ Trans-regional operations with close proximity to main markets in Europe, China and Japan
- ▶ Extensive Russian forest industry experience from management and major shareholder

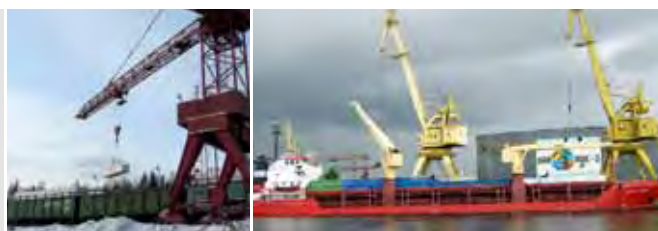
Asset locations

Eastern Siberia is renowned for its pine and larch of exceptional quality, while the Arkhangelsk region in northwest Russia has high-quality spruce and pine forests similar to those found in northern Sweden.



Russia has the world's largest forest resources and is the world's second largest exporter of softwood sawnwood after Canada

RusForest's sawmill sites have direct access to abundant forest resources and to sea/railway export routes



Corporate information

at December 31, 2013

Stock exchange listing	NASDAQ OMX Stockholm First North ticker "RUSF"
Shares outstanding	132,033,881
Market capitalization	USD 43.2 million
Net debt	USD 22.4 million
Enterprise value	USD 65.6 million
Main shareholder	Nova Capital (25.4%)



RusForest value chain



1. Includes Arkhangelsk, Magistralny and Ust-Ilimsk (excludes Boguchany).

04 2013 in brief

Financial highlights

	Twelve months ended		Twelve months ended	
	Dec 31, 2013	Dec 31, 2012 ³	Dec 31, 2013	Dec 31, 2012 ³
Continuing operations	SEK mln	SEK mln	USD mln¹	USD mln¹
Revenue	431.4	441.1	66.4	67.9
EBITDA adjusted	(52.3)	(139.0)	(8.0)	(21.4)
Operating loss	(194.0)	(605.6)	(29.9)	(93.2)
Net loss from continuing operations before bond restructuring	(224.9)	(657.6)	(34.6)	(101.2)
Gain from bond restructuring	269.8	–	41.5	–
Profit/(loss) from continuing operations	44.9	(657.6)	6.9	(101.2)
Profit/(loss) from discontinued operations	(334.9)	(428.6)	(51.5)	(65.9)
Including impairment loss	(230.1)	(238.5)	(35.4)	(36.7)
Profit/(loss) for the period	(290.0)	(1,086.1)	(44.6)	(167.1)
Net income/(loss) per share (SEK or USD per share ²)	(2.7)	(253.5)	(0.4)	(39.0)

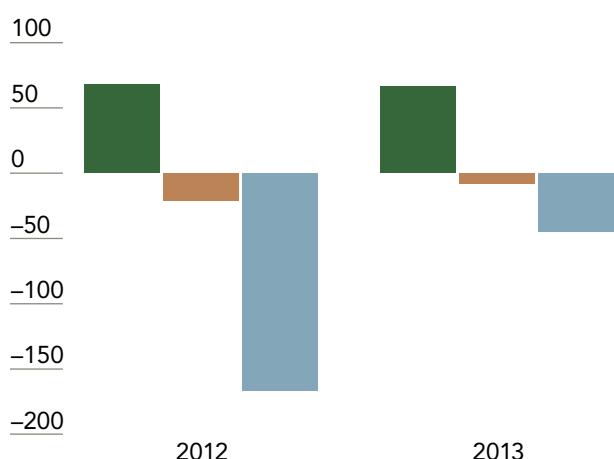
1. Exchange rate of 6.5 SEK per USD used to translate SEK amounts to USD for reference purposes

2. Adjusted for the reverse share split completed in April 2013

3. 2012 amounts restated to reflect Boguchany operating segment as discontinued operations

Revenue, EBITDA and loss 2012–2013, USD mln

■ Revenue ■ EBITDA, adjusted ■ Loss for the period



- ▶ Adjusted EBITDA loss from continuing operations was reduced by 62 percent
- ▶ Net loss was reduced by 73 percent
- ▶ Improved results driven by efficiency improvements in core production units, sales reorientation to premium Japanese market and divestment of unprofitable business units and other non-core assets

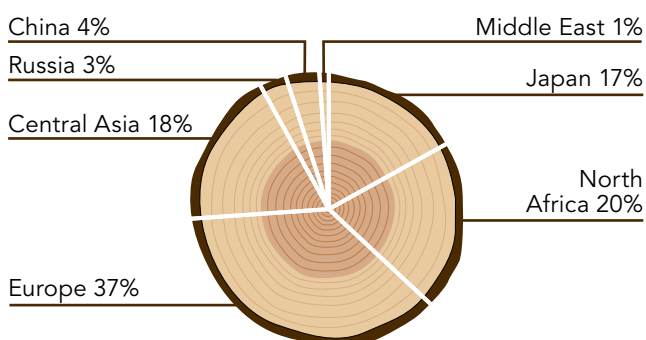
Significant events

2013						2014	
Financial restructuring	New strategic shareholder	New management	Divestment of non-core assets	New markets	Corporate simplification and cost reduction	Arkhangelsk pellet mill	Divestment of Boguchany
Debt-equity swap and new share issue	Nova Capital (25.4% ownership) Russian investor with extensive experience in Russian forestry	Significant changes to senior management, including new CEO, COO, CFO and Local CEOs	Non-core asset sales of USD 7 million in 2013 Ongoing forest lease (AAC) optimization	Realised first important sales to the premium Japanese market, which has grown to 21% of sales in Q4 2013	Initiated a simplification of legal structure Significant reduction of corporate costs Improving Company's corporate governance, internal controls and tax efficiency	Completed construction of 100,000 tons/year pellet factory in Arkhangelsk	Boguchany business segment divested for gross USD 13.8 million, Net USD 4 million in cash to RusForest

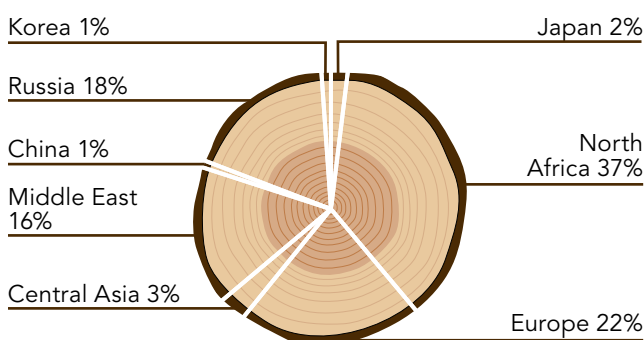
Market highlights

- ▶ Successful development of RusForest export sales, especially to the premium Japanese market
- ▶ Strong sawnwood demand in the US, China and Japan
- ▶ Higher US sawnwood market prices and a rise in Japanese demand combined boosted sawnwood export prices in 2013

Sales breakdown 2013



Sales breakdown 2012

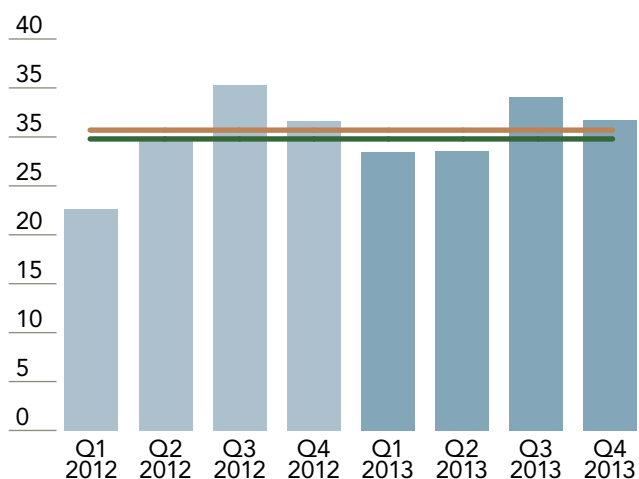


Production highlights

- ▶ 15 percent and 14 percent yearly increase in harvesting and sawnwood production, respectively, for continuing operations
- ▶ Magistralny reorientation to Japanese specifications has led to an increase in third-party area harvesting
- ▶ Majority of Ust-Ilimsk forest assets leased to third party

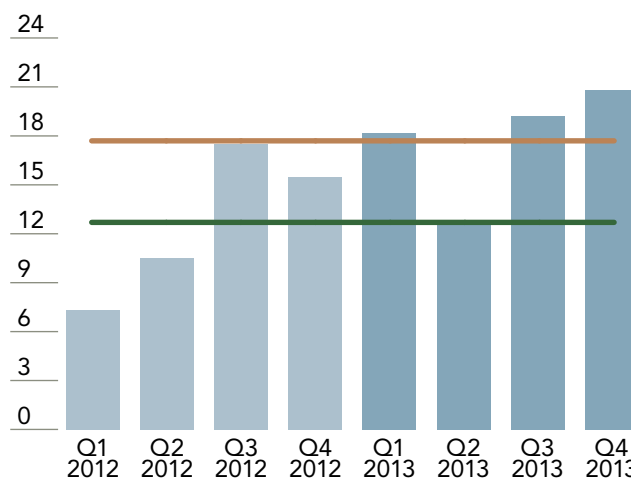
Arkhangelsk sawnwood production, thousand m³

■ Sawnwood production
 ■ 2013 average production ■ 2012 average production



Magistralny sawnwood production, thousand m³

■ Sawnwood production
 ■ 2013 average production ■ 2012 average production



06 Message from the CEO

Dear RusForest Shareholders,

2013 was a turning point for RusForest. The restructuring transaction brought in Nova Capital as a Russian strategic shareholder in March 2013 and accelerated the turnaround. When I joined as CEO in July 2013, I outlined an action plan for loss-making operations and improving operational results at every location.

In the last year, a number of things have changed and improved.

In Arkhangelsk, the launch of the new 100,000 tons/year wood pellet mill is increasing our likelihood of reaching positive cash flow later this year. The local project team managed to build the pellet mill on schedule and successfully pass the testing phase. The first shipment, more than 6,000 tons of wood pellets were recently shipped to the European industrial market.

In Magistralny, we made significant progress during 2013, exporting 32,400 cubic meters of sawnwood to Japan and generating USD 2.7 million of EBITDA.

Overall, RusForest's adjusted EBITDA loss from continued operations decreased by 62 percent from USD -21.4 million to USD -8.0 million when comparing 2013 to 2012. RusForest also managed to reduce overhead costs significantly in 2013.

In March 2014, we announced the sale of our main non-core asset, the Boguchany sawmill (Boguchansky LPK). The decision to divest the Boguchany project was not easy, but it was necessary to achieve long-term profitability. The sawmill's isolated location, the lack of a market for residual by-products and a missing rail connection created a loss-making unit with challenging long-term prospects. The sale of the Boguchany sawmill reduces our loss-making operations, improves our cash situation and allows management to focus on developing the remaining core RusForest assets.

Over the past year, there were significant changes in senior management: new CEO, COO and CFO were appointed and all local company CEOs were replaced.

In summary, RusForest is beginning 2014 with a clean slate and clear potential. Improving global sawnwood markets, growing wood pellet demand in Europe and the weakening Russian ruble give RusForest strong momentum for 2014. Unfortunately, recent events between Russia and Ukraine have overshadowed the solid fundamentals of our business.

Thank you for your support.

Kind regards,

Matti Lehtipuu
Group CEO, RusForest

History

RusForest AB (publ) (the "Company") was incorporated in Sweden under the name Varyag Resources AB (publ) on December 7, 2005 and was registered with the Swedish Companies Registration Office on May 9, 2006. Operations began on August 1, 2006 and the Company has been listed on NASDAQ OMX First North since August 7, 2006. In August 2009, the Company's name was changed to RusForest AB (publ).

In 2006, RusForest made its first investments into Russian forestry in the Ust-Ilimsk area in the Irkutsk region. In 2007 RusForest made its first investments into the Boguchany area in the Krasnoyarsk region and also into the Magistralny area in the Irkutsk region.

In 2010, the Company made its first investments into the Arkhangelsk region in Russia with the purchase of the LDK-3 sawmill and planing operation, close to the city of Arkhangelsk.

In April 2011, RusForest increased its presence in Arkhangelsk through the acquisition of Nord Timber Group (NTG) through an issue in kind. NTG was a forestry and sawmilling company with forestry assets located in the Arkhangelsk region.

While RusForest's achievements in Russian forestry were significant, and at one point it was the 5th or 6th largest forestry company in Russia in terms of sawmilling capacity, by mid-2012 the Company's operations had still never delivered a positive operational profit. In the second half of 2012, RusForest initiated a complete strategic overhaul. As a result, in 2012 and 2013, the Company divested several unprofitable assets deemed non-core, the Company brought in a new strategic investor in Nova Capital, and a new management team was appointed. The strategic overhaul culminated in March 2014 when an agreement was entered to sell all the assets in the Boguchany area in the Krasnoyarsk region. The new management team's focus is now on the remaining core assets in Arkhangelsk and Magistralny. In Ust-Ilimsk, the Company has kept the forest lease portfolio while options for the area are being evaluated. In March 2014, the Company completed construction of a 100,000 ton/year capacity pellet mill in Arkhangelsk.

Organization and structure

RusForest is a public limited liability company with registration number 556694-6421, with its registered office in Stockholm, Sweden. 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 share capital is denominated in Swedish kronor. The current articles of association were adopted at the extraordinary shareholders' meeting held on February 1, 2013.

The Company's head office is in Stockholm, while the Group has a second operational head office in Moscow. The average number of employees in 2013 was 1,829.

Group structure

RusForest AB is the parent company of the RusForest Group. The composition of the Group can be seen in the chart on the next page.

Vision and strategy

Vision

Our vision is to become the best performing forest industry company in Russia by:

- ▶ Understanding and meeting our clients' needs
- ▶ Producing high-quality wood products and bio-fuels originating from sustainably managed forests
- ▶ Attracting the best talent in the industry
- ▶ Applying best industry practices
- ▶ Building shareholder value

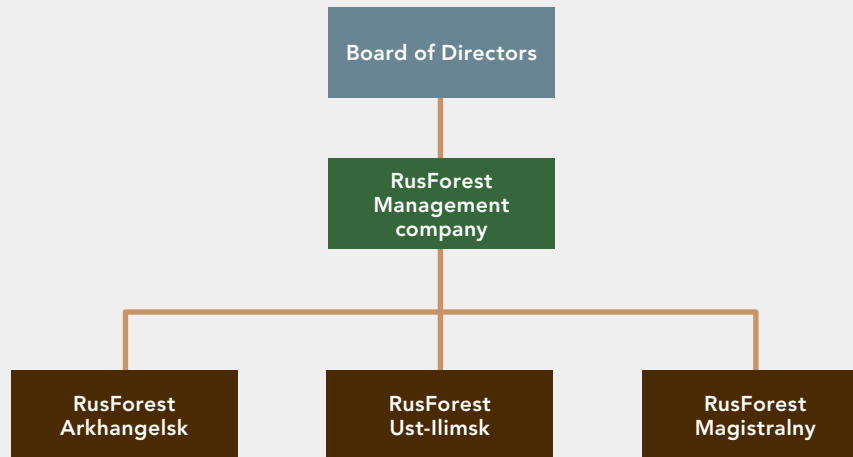
Strategy

RusForest's strategic objective is to become a leading integrated forest industry company focused on providing Russian sawlogs, sawnwood and pellets to the most profitable markets in order to earn an attractive return for shareholders.

Short-term objectives

RusForest is focused on finalizing the turnaround of the Company and improving operational efficiency.

Simplified corporate structure



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

- ▶ Use cash conservatively
- ▶ Continue to improve operational and financial performance of core assets
- ▶ Divest remaining non-core assets to eliminate losses and generate cash proceeds
- ▶ Optimize forest lease areas to better serve the market requirements of sawmills
- ▶ Finalize corporate simplification and streamline management structure to reduce administrative and overhead expenses
- ▶ Create strong market position in the pellet business
- ▶ Explore opportunities for strategic and financial partnerships
- ▶ Evaluate opportunities for developing the core assets

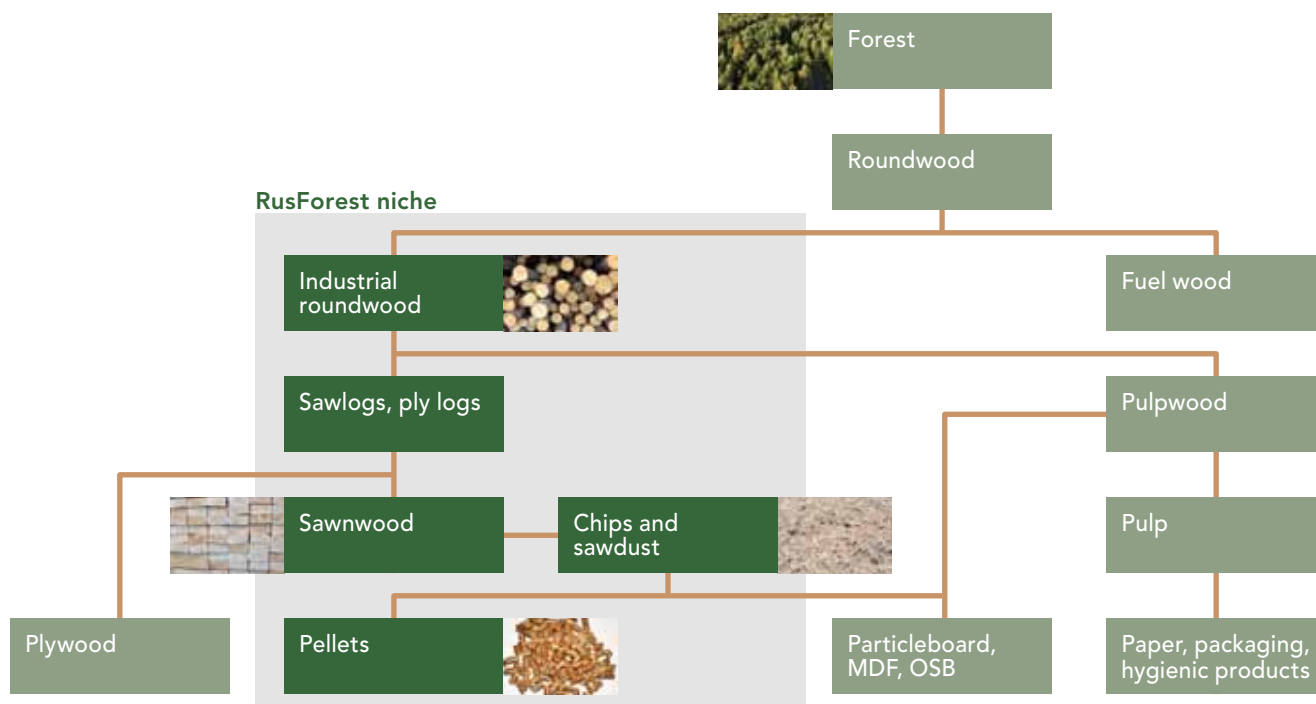
Core assets

RusForest's core assets are Arkhangelsk and Magistralny.

The Company is focusing on operational improvements in harvesting operations in both locations. This would also include optimizing the forest lease areas to reduce harvesting costs and to secure access to high-quality raw material.

RusForest will review development options for the LDK-3 sawmill in Arkhangelsk and execute minor capital investments in Magistralny to improve profitability and strengthen the sawmill's market position.

RusForest's position in the wood products value chain



Assets under review

The future status of the Ust-Ilimsk operations is under review, and the Company is evaluating development options.






Non-core assets

The majority of the non-core assets were sold in 2013 and at the beginning of 2014 (the Ust-Ilimsk sawmill, Russian Gravel Company, Shenkursk and Boguchansky LPK). The remaining non-core assets, which are in the process of being divested include Ystad Pellets AB (wood pellet manufacturing company in Sweden) as well as other minor operations such as unutilized forest lease areas in the Arkhangelsk and Irkutsk regions that are not core to the Company's future operations. Discussions for the sale of these assets are on-going.

Dividend policy

Dividend payments to shareholders are dependent on RusForest's financial results, cash position and investment requirements. 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 near future. RusForest currently intends to retain future earnings to fund the development and growth of the Company.

RusForest business model

Forest assets	Harvesting	Sawmilling	Wood pellets (& other residuals)	Sales & marketing
 <p>2.5 million hectares leased</p>	 <p>2.6 million cubic meters AAC</p>	 <p>210,000 cubic meters annual capacity</p>	 <p>100,000 tons annual capacity</p>	 <p>Own port in Arkhangelsk, railway access in Siberia</p>
<p>In Russia, forest land cannot be owned privately but can be leased for up to 49 years. The Company has successfully secured a total of 2.5 million hectares of forest land under lease agreements in its core locations in Arkhangelsk and eastern Siberia. It is of high importance to secure areas of the right forest composition. The vast majority of the forest leases are utilized solely for the Company's own forest needs, however, in Ust-Ilimsk forest leases are also subleased to third parties.</p>	<p>More important than area leased is the AAC, expressed in cubic meters related to the leased forest assets and also the Company's ability to monetize/harvest the AAC. Harvesting generates sawlogs and pulpwood. Sawlogs are further processed into various sawnwood products by the Company's sawmills. Pulpwood is generally sold to pulp mills.</p>	<p>The sawmills in Arkhangelsk and Magistralny process sawlogs, either from own harvesting or purchased, into various sawnwood products. This is the Company's main product and main source of revenue.</p> <p>Sawmilling output is naturally dependent on supply of raw material in the form of sawlogs but also on the specification being produced, which in turn depends on end client.</p>	<p>In the sawmilling process a number of by-products are created, these being chips, sawdust and bark.</p> <p>The chips and sawdust can also be sold to pulp mills along with pulpwood. However, the sawdust and chips are also good raw material for the production of wood pellets, thereby generating even more revenue than if sold to pulp mills. RusForest has constructed a 100,000 ton/year pellet mill in Arkhangelsk. This was a logical investment because of the very favourable location with its own port for shipping to Europe, and also as a necessity to generate revenue from the residuals, given the closed pulpmills in the area.</p>	<p>Logistics is an important part of the overall cost base of the forestry business given the high volume low value products, and the sometimes vast distances in Russia.</p> <p>In Arkhangelsk the Company's sawmill has a unique location with its own port and thereby direct access to export markets. The Magistralny sawmill in eastern Siberia also benefits from good logistics with access to the federal railroad system.</p> <p>Both these locations could also be upgraded with container terminals in the future.</p>

Forest assets

The Company's forest and sawmilling assets are located in the Arkhangelsk region in northwest Russia and in the Irkutsk region in eastern Siberia. There are several reasons why the Company's operations are specifically in these regions of Russia. Siberia has slow-growing larch and pine of very high quality. Based on these attributes, the Siberian larch and pine can attract a higher price in more exclusive market segments. The geographic location also enables export to the premium Japanese market and to China.

The Arkhangelsk region has high-quality spruce and pine forests similar to those found in northern Sweden. Also, the geographical location of the sawmill in Arkhangelsk allows raw material sourcing via rail, road or by waterways (barges or floating deck) since the site has its own port next to the sawmill.

Direct costs related to the Company's forest assets are forest lease payments and certain costs for reforestation.

Forest assets

● RusForest assets → Export routes



Arkhangelsk overview		Magistralny overview		Ust-Ilimsk overview	
Main wood types	Spruce, pine	Main wood types	Pine and larch	Main wood types	Pine and larch
Leased area	1,270,577 hectares	Leased area	746,352 hectares	Leased area	447,930 hectares
AAC	958,800 m ³	AAC	958,700 m ³	AAC	733,660 m ³

Even after considering the full divestment of the Boguchany operating segment, and the reduction of the Company's total AAC by 748,400 cubic meters to a new total of 2.6 million AAC, RusForest's ranks about 6th among Russian forestry companies in terms of annual allowable cut.

Top forestry companies in Russia by AAC 2013

No.	Company	AAC (Estimated)
1	Ilim	8.0 million m ³
2	Mondi	5.0 million m ³
3	RFP Group	4.5 million m ³
4	Investlesprom	4.5 million m ³
5	Altai	2.8 million m ³
6	RusForest	2.6 million m³
7	Russian Timber Group	2.3 million m ³
8	Terneiles	1.9 million m ³
9	Vologodskie Lesopromyshlenniki	1.9 million m ³
10	Titan	1.7 million m ³

Source: Company websites and presentations, RusForest estimates

Harvesting



Small-diameter logs for pulpwood

Logs for sawnwood

Currently, the Company utilizes a clear-cut approach to its harvesting operations, which is standard practice for the Russian forestry industry due to the generally slow growing forests and absence of private ownership of forest land.

A tree generates two main products for RusForest, pulpwood, from the part of the tree with a diameter less than 12–14 centimeters, and sawlogs, from the part of the tree with a larger diameter.

Harvesting, as referred to here, can be divided into two main work tasks: harvesting, which requires the harvester and forwarder equipment, and hauling, which requires logging trucks and loaders.

Harvesting is subject to seasonality due to external factors such as forest ground and road conditions, etc. May and September are seasonally slow months in harvesting. Generally, the winter months are peak months for harvesting logs, and during those months the cutting of trees is maximized, while hauling of those logs from the forests continues well afterwards.

The next step in the value chain is the collection point and sorting line at the sawmill.

Main direct costs related to harvesting: staff (salary); diesel, oil, lubricants, maintenance, spare parts and third party truck services.

Equipment range



Harvester



Forwarder

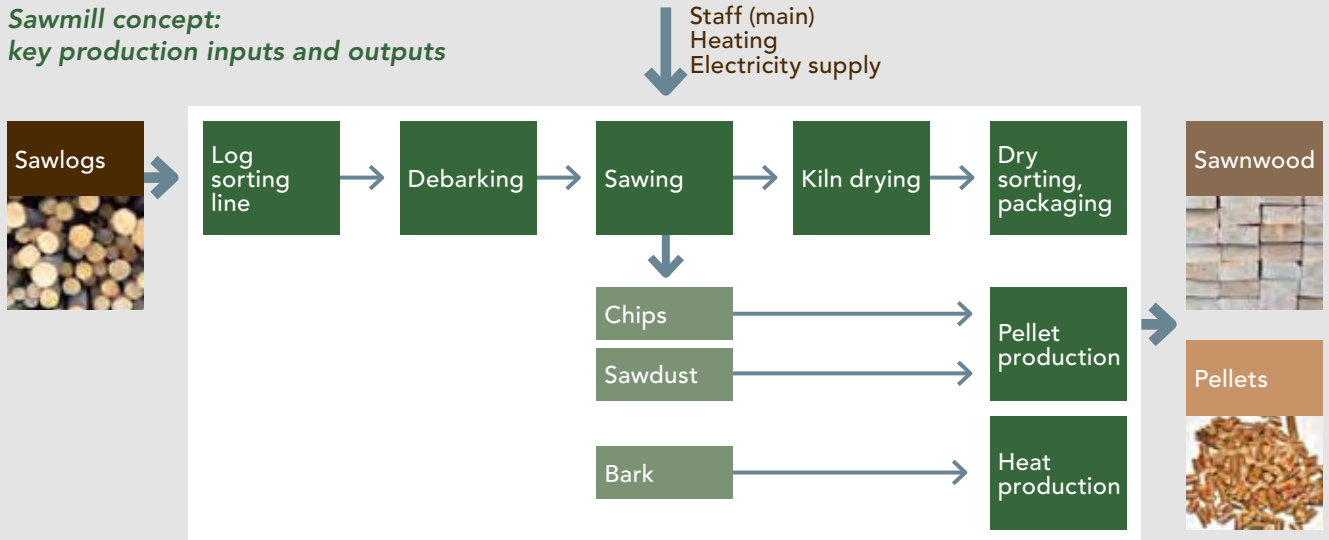


Logging trucks



Loaders

Sawmill concept:
key production inputs and outputs

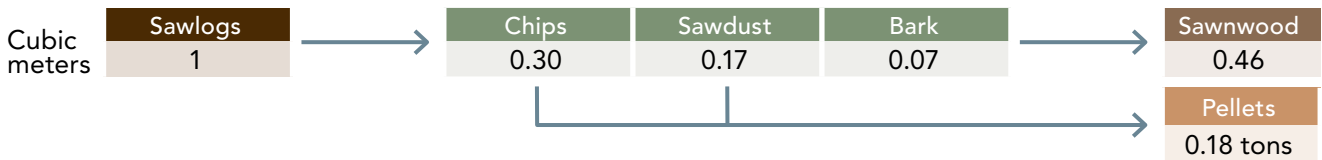


Sawmilling

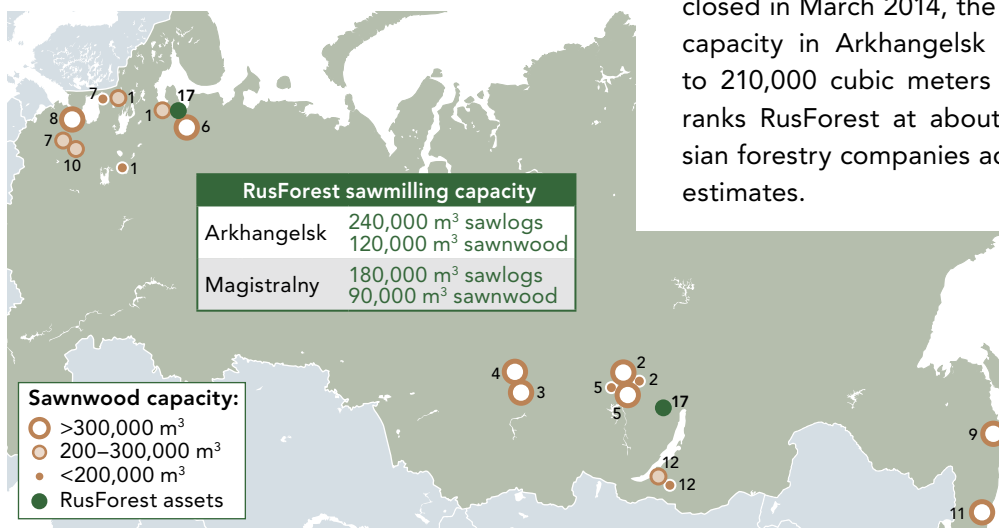
Various types of sawnwood products are the Company's main sources of revenue. Above is a typical schedule of the sawmill processes. It is at the first step in the sawmilling process, the log sorting, where it is determined which of the harvested logs will be used for sawnwood and which will be sold as sawlogs due to inferior quality or out of specification dimensions.

The output in terms of cubic meter sawnwood from one (1) cubic meter of sawlogs, also called yield, varies a lot depending on the raw material efficiency of the sawmill (age and type), the specification of sawnwood produced, etc.

An approximate output schedule from a modern sawmill in Russia would be as per below.



Sawnwood competition: top sawmilling companies in Russia by capacity 2013



Following the Company's sale of non-core sawmilling operations in 2013, namely Shenkursk and Ust-Ilimsk and lastly the sale of Boguchansky LPK, which closed in March 2014, the remaining total sawmilling capacity in Arkhangelsk and Magistralny amounts to 210,000 cubic meters per annum. This capacity ranks RusForest at about 17th place among Russian forestry companies according to the Company's estimates.

No.	Company	Total capacity
1	Investlesprom	760,000 m ³
2	Russian Timber Group	700,000 m ³
3	Lesosibirsky LDK No. 1	550,000 m ³
4	Novoeniseisky LHK	470,000 m ³
5	Illim Timber	460,000 m ³
6	Titan Group	450,000 m ³
7	Stora Enso	400,000 m ³
8	Mayr-Melnhof Holz	350,000 m ³
9	Arkaim	350,000 m ³
10	LIK (former UPM)	320,000 m ³
11	Terneyles	320,000 m ³
12	Baikal Wood Company	300,000 m ³
...		
17	RusForest	210,000 m³

Source: Company information, forestry publications, RusForest estimates

Wood pellets

The Company has constructed a pellet mill in connection with its Arkhangelsk sawmill, with an annual capacity of 100,000 ton pellets. The pellets will initially be produced for the industrial market, with a potential future move to residential pellets. For the Arkhangelsk sawmill this is currently the only way to generate revenue from its residual products. The macroeconomic fundamentals for wood pellets are very interesting as further described in the market section of this report.



Silos for storage of finished pellets

Pellet competition: top pellet companies in Russia by capacity 2013



No.	Company	Total capacity
1	Vyborgskaja Lesnaja Kompanija	1 million tons
2	SP Arkaim	250,000 tons
3	RusForest	100,000 tons
4	Novoenisejskij LHK	80,000 tons
5	DOK-Enisej	80,000 tons
6	Lesozavod-25	75,000 tons
7	Swedwood Tikhvin	75,000 tons
8	Setново	70,000 tons
9	Talion Terra	60,000 tons
10	Severo-Zapadnyj Holding	60,000 tons

Source: Company information, sector publications, RusForest estimates



The Company's new pellet mill in Arkhangelsk

Sales and marketing

Logistics is an important part of the overall cost base of the forestry industry, given the high volume, low value products, and the sometime vast distances in Russia.

As stated before, in Arkhangelsk the Company’s sawmill has its own port for shipping, which is currently being carried out in bulk. The Magistralny sawmill in eastern Siberia also benefits from good logistic connections, with access to the federal rail-road system. Each of Arkhangelsk and Magistralny employs experienced sales specialists locally in order to have the necessary close communication with production. The employed specialists are experts on their respective key markets, mainly Europe for Arkhangelsk and now Japan and CIS for Magistralny. The Company sells its products to a combination of wholesale companies, importers as well as industrial end-users. The delivery terms can vary depending on markets and clients. The Company strives to maxi-



Ship being loaded at the Company’s sawmill in Arkhangelsk

mize value, and for example in Arkhangelsk the Company has during 2013 significantly increased sales on CFR terms (Cost and Freight) rather than FOB (Free on Board), to capture additional margin. Magistralny in turn has significantly increased sales to the profitable Japanese market.

RusForest’s products

	Roundwood		Sawnwood	Pellets
	Sawlogs	Pulpwood		
Markets	China Japan	Domestic	Main markets: Japan, Europe, CIS Other markets: Russia, China, MENA	Arkhangelsk: vessel deliveries of pellets to Europe
Terms of delivery	FCA	EXW	Japan: FCA Vladivostok Europe: CPT, CFR, FOB CIS: CPT MENA: CPT Novorossiysk Russia: EXW, FCA	Europe: CIF



Rail wagons being loaded at the Company’s sawmill in Magistralny



RusForest locomotive in Magistralny

16 Industry and market overview

Macroeconomic situation in Russia

Real GDP growth slowed to an estimated 1.3 percent in 2013 from 3.4 percent in 2012. Weak domestic demand and zero investment growth dragged down the Russian economy close to stagnation.

Consumption remained the main growth driver, supported by fast credit and wage growth, yet its pace of expansion more than halved in 2013 compared to 2012.

The Russian ruble faced increased pressure as the current account deteriorated and investors became more risk-averse in anticipation of the impact of the scaling-down of the US monetary stimulus.

Inflation pressure remained high in 2013, driven by food and service prices.

Russian macroeconomic statistics

	2010	2011	2012	2013	2014E
GDP growth, %	4.5%	4.3%	3.4%	1.3%	1.1%
Unemployment, %	7.5%	6.5%	5.5%	5.7%	5.7%
Balance of current accounts, % of GDP	4.4%	5.1%	3.7%	2.9%	2.3%
Consumer price index (2005=100)	6.9%	8.4%	5.1%	6.7%	5.7%
10 year treasury interest, %	7.4%	8.1%	7.8%	7.2%	n/a

Sources: IMF, OECD, World Bank

At the same time, the external environment improved, translating into better demand for Russia's exports, which increased their contribution to growth to 1.2 percent last year from 0.4 percent in 2012.

Contribution to GDP growth by demand components, %

	2010	2011	2012	2013
GDP growth	4.5%	4.3%	3.4%	1.3%
Consumption	2.5%	3.6%	4.8%	2.4%
Households	2.8%	3.4%	4.1%	2.5%
Government	-0.3%	0.3%	0.7%	0.0%
Gross capital formation	4.7%	4.2%	0.3%	-0.8%
Fixed Investment	1.2%	1.9%	1.4%	-0.1%
Change in stocks	3.4%	2.3%	-1.1%	-0.7%
Export	2.3%	0.1%	0.4%	1.2%
Import	-4.3%	-4.1%	-2.0%	-1.4%

Sources: Rosstat, World Bank estimates

Wood markets development in 2013

Sawnwood

According to preliminary data the global production of sawn softwood totaled 298 million cubic meters in 2013¹, increasing by 3.1 percent compared to 2012. Total global sawn softwood consumption in 2013 increased by 1.8 percent, reaching 290 million cubic meters. The US, China and Japan achieved the highest growth rates in 2013.

North America

Increased sawnwood consumption in the US during 2013 has resulted in expanding domestic production and rising sawnwood imports.

Total production in North America was up almost 6 percent in 2013 compared with 2012, and imports from Canada and overseas increased by 18 percent.

Sawnwood production levels in the US and Canada have gradually gone up since 2009, and sawnwood shipments are currently back up to the same levels as in 2008, just after the beginning of the global financial crisis.

The growth in residential construction was the largest driver of overall US sawnwood demand in 2013, and will continue to be so for a number of years ahead².

Europe

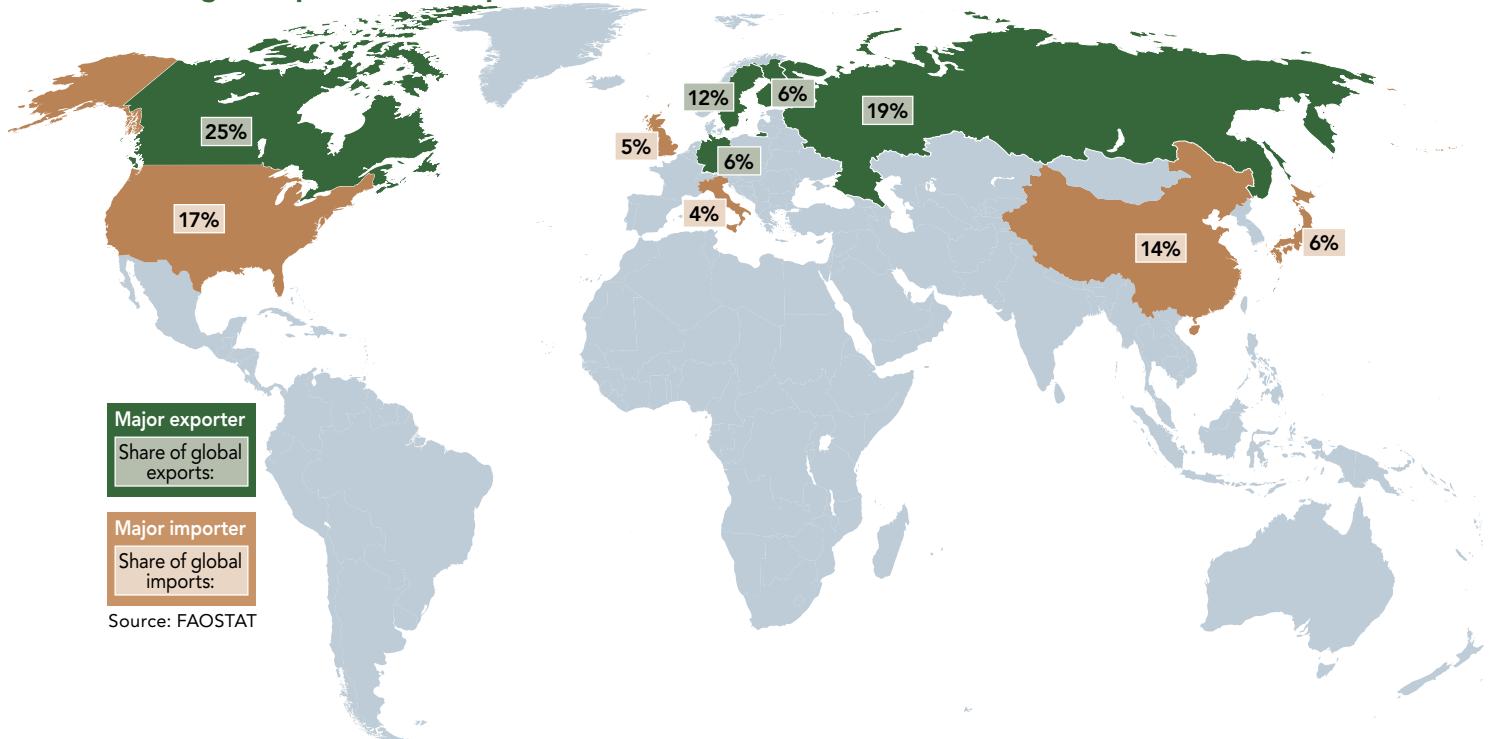
European housing markets remain in a state of disarray. Out of the 12 largest softwood sawnwood consuming countries in Europe (representing 83 percent of consumption for 31 nations), half of them have shown declining building permits based on Eurostat data indexed to 2010.

Softwood lumber demand in western Europe according to preliminary data declined for the second year in a row, reaching 81.4 million cubic meters in 2013 versus 85.7 million cubic meters in 2012, a drop of 5.0 percent.

At the same time, some markets (e.g., the UK, Germany, and Turkey) showed positive results. The European sovereign debt crisis appears to have reached its lowest point, allowing mills and buyers in many markets to start planning for better days.

1. International Wood Markets Group Inc., 2013
2. US Census Bureau statistics, December, 2013

Five largest exporters and importers of sawn softwood in 2012



European sawnwood exporters benefited from strong demand in China and Japan in 2013. Strong (and volatile) sawnwood prices in North America will open doors for European exporters, particularly in Asia. The export business in Africa and the Middle East remains challenged for the time being.

Japan

Japanese housing starts data paints a positive picture for wood consumption. Both non-wood and wooden housing starts are increasing, but wooden starts have actually made a full recovery to 2006–2007 levels, driven by a similar recovery in single-family starts.

Total housing starts for 2013 amounted to 980,025 units, up 11 percent from the previous year, which is the second largest level for the last 6 years following 1,093,000 units in 2008, while wooden housing starts are actually higher than in 2008.

Higher US market prices and a rise in Japanese demand combined boosted imported sawnwood prices early in 2013, and then kept them there. Japanese sawnwood demand grew as motivated consumers made purchases ahead of a consumption tax increase scheduled for April 2014. Another contributor to demand was the ongoing rebuild of the natural

disaster-hit areas of 2011. Despite a weakened yen, prices have remained stable.

According to preliminary data Japanese sawnwood imports in 2013 grew by 11.3 percent compared to 2012.

China

Chinese construction activity made a full recovery in 2013, reaching an all-time high. Residential starts grew by 11.6 percent, almost offsetting the decline of 11.2 percent in 2012. Other types of starts (offices, commercial space etc.) accelerated, with 18.8 percent growth in 2013. These figures do not include the social housing units the Chinese government has been building to increase the supply of affordable housing; announced a few years ago, the program was for 36 million units to be built between 2011 and 2015.

China is the fastest growing sawnwood market in the world. In 2009, China imported a total of 12 million cubic meters of sawnwood but in 2013 sawnwood imports had grown to over 24 million cubic meters. Compared to 2012 imports grew by 16.5 percent. China's softwood sawnwood imports totaled 16.9 million cubic meters in 2013, up 18.9 percent compared to 2012.

Wood pellets

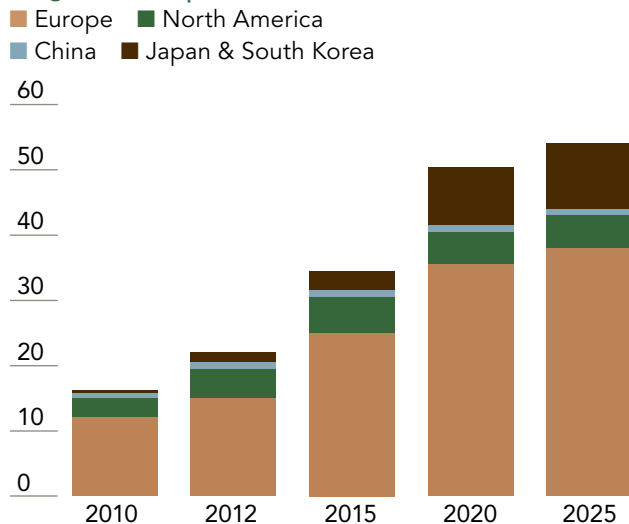
The wood pellets sector continues to be one of the most exciting areas of growth in the global forest products industry.

Global wood pellet demand has been projected to rise dramatically, based mainly on specific targets for green, renewable energy consumption set by most of the major industrial countries of the world. Some renewable energy targets set by European countries include the following:

- EU mandatory “clean energy” policy adopted in 2005 set a 20 percent reduction in greenhouse gas emissions and a minimum of 20 percent renewable energy consumption by 2020. Europe is still using 1.3 billion tons of coal annually. A 15 percent replacement of current coal consumption would require more than 200 million tons of wood pellets each year.
- The UK has a target of 15 percent of total energy consumption to be produced from renewable energy sources by 2020; 35 percent of electricity supply must be renewable. UK pellet demand is forecast to grow by 10–15 million tons over the next 3 to 5 years.

The EU is (and will remain) the world’s largest wood pellets market, with a consumption of about 14.3 million tons of pellets in 2012. Driven by the EC mandates and Member State incentives, the demand is expected to expand further to about 17 million tons in 2014.

Largest wood pellet consumers, million tons



Source: Pöyry

Japan plans to have renewable energy supply at least 20 percent of the country’s total power production by 2020, and has been testing wood pellet sourcing alternatives. Japan has introduced “feed-in subsidies” for renewable forms of electricity generation.

The Russian market

Sawnwood

According to preliminary data softwood sawnwood production in Russia increased to an estimated volume of 31 million cubic meters in 2013³.

Russian softwood sawnwood exports have grown rapidly since the late 1990s. In 1998, Russia exported 4.3 million cubic meters, in 2013 exports reached 20.2 million cubic meters (+8.8 percent compared to 2012).

While Russian log exports have fallen dramatically since 2008, due to higher log export taxes, soft sawnwood exports have increased significantly during the same 5-year period. This export trend has had a positive impact on the growth of the sawmill industry in eastern Russia (Siberia and RFE) where key export markets in Asia (China and Japan) are experiencing increasing demand for soft sawnwood.

The main export markets for Russian soft sawnwood producers during the last five years have been: China, the Middle East, North Africa, CIS countries, Europe and Japan. Of these six major soft sawnwood export markets, China has grown by far the fastest. Softwood sawnwood deliveries from Russia to China increased by 19 percent in 2012, to 7.5 million cubic meters.

Russian sawmills also hold a strong position in other export markets such as Europe, Japan, North Africa and CIS countries.

One of the most dynamic markets in 2013 was the Japanese market. According to preliminary data Japanese sawnwood imports in 2013 increased by 11.3 percent compared to 2012. Deliveries from Russia increased by 15.5 percent (886,200 cubic meters in 2013 compared to 767,400 cubic meters in 2012). The Japanese market is a high-value market.

Egypt is traditionally the dominant market in North Africa. As the country has no domestic production, it is entirely dependent on imports of sawn-

3. UNECE Committee on Forests and the Forest Industry, December 2013

wood. Historically, the majority of the market has consisted primarily of products of lower quality. Russia accounted for approximately 40 percent of Egypt's total imports of sawnwood.

Political tensions in Egypt had a negative influence on business activity on the Egyptian softwood-lumber market in 2013. As a result imports volumes were below 2012 levels. Deliveries from Russia decreased by 22 percent to 1.37 million cubic meters. Egypt is the third largest export market for Russian softwood sawnwood (7 percent of total exports).

Five CIS countries – Uzbekistan, Azerbaijan, Tajikistan, Kyrgyzstan and Turkmenistan are highly dependent on imports of sawnwood from Russia due to their geographical position. Together their share accounted for more than 26 percent of total Russian exports in 2013. Among the CIS countries the largest importer is Uzbekistan. In 2013 Uzbekistan increased its softwood sawnwood imports from Russia by 25 percent to 2.66 million cubic meters.

Russian softwood sawnwood exports in 2013

Country	1,000 m ³	%
China	7,516	37.3%
Uzbekistan	2,662	13.2%
Egypt	1,372	6.8%
Azerbaijan	1,019	5.1%
Tajikistan	955	4.7%
Japan	947	4.7%
Iran	745	3.7%
Estonia	505	2.5%
Germany	440	2.2%
Kyrgyzstan	379	1.9%
Finland	372	1.8%
South Korea	312	1.5%
Afghanistan	306	1.5%
France	289	1.4%
Netherlands	289	1.4%
Turkmenistan	286	1.4%
United Kingdom	276	1.4%
Other	1,493	7.4%
Total	20,163	100.0%

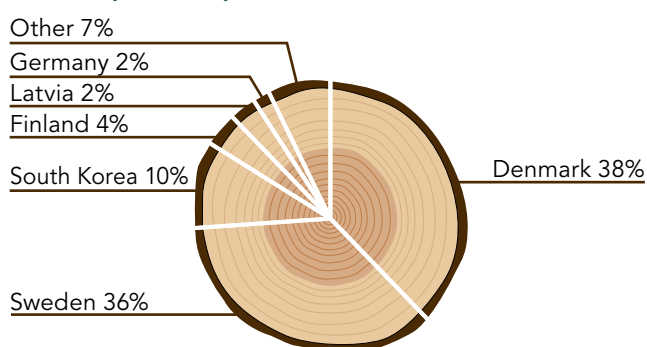
Source: Russian Customs

Wood pellets

Russia's domestic consumption of different kinds of wood energy for heat production is growing, including the use of sawmill co-products, firewood, wood briquettes and pellets. Russian wood pellet production surpassed 1.2 million tons in 2012, but decreased slightly in 2013 due to problems with the largest Russian producer – VLK (formerly Vyborgskaya Lesopromyshlennaya Korporatsiya).

Russia is one of the key players at the global wood pellet market. Total wood pellet export in 2013 was 741,000 tons, decreased by 1 percent compared to 2012. At the same time, excluding VLK volumes, exports increased by 36 percent compared to 2012. About 90 percent of Russian wood pellets in 2013 were exported to Europe, mainly by sea in bulk for industrial consumers primarily in Sweden and Denmark (together 81 percent of total export).

Russian pellet exports in 2013



Source: Russian Customs

The main production capacities are located in the Northwestern Federal District (the northern part of European Russia).

In the Russian Far East (near Vanino, Khabarovskiy Krai), wood pellet production capacity has increased to 250,000 tons per year with an estimated 70,000 tons produced in 2013. All volume was exported to the Republic of Korea. Several small companies located far from Baltic or Arkhangelsk ports have stopped production because of the high transport costs⁴.

Wood pellet manufacturers in the Russian Federation also find partners in private owners of small

4. UNECE/FAO Forest Products Annual Market Review, 2012–2013

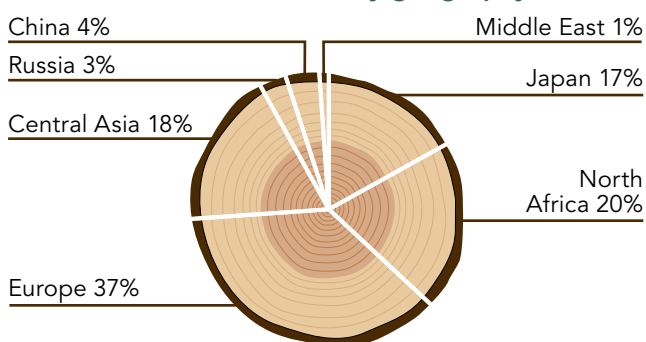
and medium sized heating systems and local governments. Several medium sized combined heat-and-power (CHP) plants are now also being built with foreign investment using different types of wood energy products. Co-combustion (with coal) for power production is not used in the Russian Federation.

RusForest sales

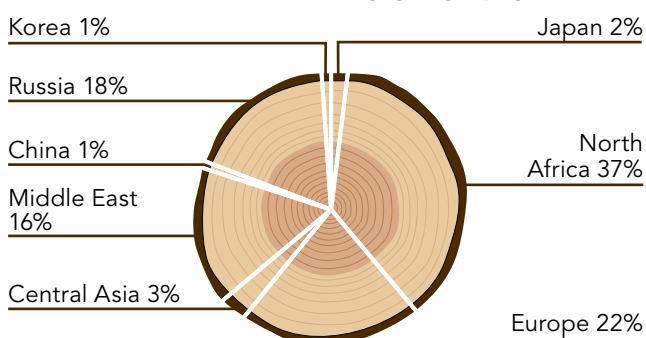
In 2013 RusForest shifted its customer base away from low-priced commodity markets, towards higher priced, specialty product markets, especially in Japan and Europe.

The following pie charts show the change in RusForest's sawnwood markets during 2013. The Middle East and North Africa have become much smaller markets, while Japan, Europe and Central Asia have become much larger. The growth of Japanese and European market shares is the key point in increasing the Company's price realizations.

RusForest sawnwood sales by geography 2013



RusForest sawnwood sales by geography 2012



According to preliminary statistics, in 2013 RusForest ranked sixth among Russian largest sawnwood exporters to Japan, with a share of 3.4 percent.

Outlook

The global outlook for 2014 is for an improved global softwood sawnwood consumption of 300 million cubic meters (+3.4 percent compared to 2013). The US and China are projected to see the highest growth rates in 2014, and these two regions could provide a catalyst for rising prices due to the tighter relationship of these markets in international trade.

Europe

Overall, EU residential construction was essentially flat in 2013. However, there were exceptions. Countries of strength included the UK and Germany (the largest and third-largest softwood consumers in the EU, respectively).

Higher sawnwood consumption figures are predicted for the UK, Italy, and Austria. The brisker pace of building activity in the UK for a number of months now will probably continue in 2014 and thereby lead to a rise of roughly 2.7 percent in sawnwood consumption to 8.1 million cubic meters.

The general consensus in Europe is one of cautious optimism that the softwood sector, although it may have undergone structural changes during the recession, is nevertheless on the road to recovery. For 2014, demand should pick up to 83.8 million cubic meters (+1.8 percent) as the recovery in Europe slowly starts to take hold.

Japan

Japan's consumption tax will rise from 5 percent to 8 percent in April 2014 (new houses were required to have a formal contract in place prior to the end of September 2013 to avoid the increased tax). As a result, a slowdown in housing is expected for 2014.

At the same time the outlook for Japanese demand is not clear given that Prime Minister Abe has indicated that additional stimulus may come later this year, possibly offsetting the negatives stemming from the tax increase.

China

While the economic outlook for China appears to have downside risk for 2014, government policy for urbanization remains steadfast. The social housing program for this year has a target of more than 6.0 million starts, with 4.8 million to be completed by year-end. Furthermore, during a central working committee session, the government acknowledged that its efforts to instill affordability back into China's housing market via measures to slow demand have not worked. Therefore, new policies will be designed to increase supply as an alternate way to tackle China's housing problem.

China's harvest decreased by 5–10 percent in 2013 and is expected to drop further in 2014. As such, import demand should continue to be supported in 2014, particularly for softwood species.

Egypt

Internal stabilization in Egypt, especially since the military take-over, is having a positive effect on business activity. Imports in 2013 were mostly below 2012 levels. This has meanwhile created a corresponding need to replenish stocks; therefore forecasted import volumes for 2014 are above 2013 levels.



Night loading in Arkhangelsk

22 Operational review



Loading of the Company's first shipment of pellets from Arkhangelsk

Overview of operations

RusForest is active in the forestry sector in eastern Siberia and in the Arkhangelsk region.

Below is a summary of the Company's log harvesting and sawnwood production volume growth during the past five years. As of December 31, 2013 the Boguchany business unit was classified as held for sale and is therefore not presented in this table.

RusForest operational data

	Unit	2009	2010	2011	2012	2013 ¹
AAC (period end)	m ³	1,443,200	1,819,300	3,631,060	3,608,460	2,651,160
Siberia		1,443,200	1,642,100	2,649,660	2,649,660	1,692,360
Arkhangelsk		n/a	177,200	981,400	958,800	958,800
Harvesting volume (sawlogs, pulp logs)	m ³	716,826	634,902	852,653	799,083 ²	443,934 ²
Siberia		716,826	634,902	678,194	625,007	307,590
Arkhangelsk		n/a	n/a	174,459	174,076	136,344
Sawmilling volume	m ³	166,333	141,233	218,489	292,591	193,844
Siberia		166,333	141,233	116,448	152,742	70,924
Arkhangelsk		n/a	n/a	102,041	139,849	122,920
Forest area (period end)	ha	864,784	1,140,122	2,956,290	2,956,850	2,453,800
Siberia		864,784	993,490	1,686,272	1,686,273	1,194,282
Arkhangelsk		n/a	146,632	1,270,018	1,270,577	1,259,518

1. Continuing operations (Arkhangelsk, Magistralny, and Ust-Ilimsk).

2. Harvesting volumes for 2012 and 2013 include sawlogs only as the market for pulpwood was limited in 2012. To estimate approximate harvesting including pulpwood, one should apply 50 percent yield of sawlogs from harvested AAC in Arkhangelsk and 70 percent yield in Siberia.

Subsidiary developments

During 2013 the Company sold several non-core assets:

- the Ust-Ilimsk sawmill;
- the Tuba forest leases in Ust-Ilimsk;
- the Shenkursk sawmill;
- the gravel quarry (Belomorsky Karyer);
- the planing mills in Ust-Ilimsk (UIZSI) and Arkhangelsk (ALK);
- the pellets operation in Latvia.

In addition, in Q1 2014 RusForest sold the Boguchany sawmill, Boguchansky LPK and agreed to sell the Boguchany harvesting company, RusForest Angara LLC, to the same buyer. The sale of the harvesting company is expected to close on or around September 30, 2014.

Arkhangelsk

RusForest has leases exceeding 1 million hectares with an AAC of 958,800 cubic meters in the Arkhangelsk region. The forest is comprised of high-quality spruce and pine, similar to that found in northern Sweden. LDK-3 is one of the largest sawmills in the area. Sawmilling capacity is 120,000 cubic meters per year.

In Q2 2013, RusForest started construction of a 100,000 tons per year pellet mill in Arkhangelsk. On January 22, 2014 the Company announced the start of wood pellet production at the mill. The pellet mill will have an annual capacity of 100,000 tons and will allow RusForest to monetize its sawmill by-products by exporting wood pellets to Europe.

In Q4 2013, RusForest started a forest lease optimization. In December 2013, two lease agreements in Arkhangelsk were terminated.

The Arkhangelsk sawmill produced 122,920 cubic meters of sawnwood in 2013 compared to 119,086 cubic meters in 2012.

Ust-Ilimsk

RusForest leases 447,930 hectares with an AAC of 733,660 cubic meters near the town of Ust-Ilimsk, in the northern Irkutsk region. The leases have a very high proportion of pine forest. During 2013 the Tuba forest leases were sold as non-core assets.

Currently, Ust-Ilimsk forest leases are rented out while the strategy for harvesting operations in the region is being reviewed. Some further rental agreements were entered into in Q4 2013 in order to ensure cost neutrality until the strategy review is finalized.

Magistralny

RusForest leases an area of 746,000 hectares with an AAC of 958,700 cubic meters. The leases are mainly dominated by larch and pine forests. Sawmilling capacity is 90,000 cubic meters per year.

The Magistralny sawmill is showing positive dynamics in production volumes. The sawmill produced 70,924 cubic meters of sawnwood in 2013 compared to 50,755 cubic meters in 2012.

The average Magistralny sawnwood price increased by 31 percent in Q4 2013 compared to in Q1 2013, thanks to Nova Capital and utilization of their contacts and reputation in Japan. As of the end of 2013, sales to Japan constituted 21 percent of sawnwood sales, compared to only 1 percent in 2012.

24 2013 financial review

2013 was a very important year for RusForest with many significant events and developments, also from a financial standpoint, starting with the debt restructuring and new share issue, continuing with divestment of unprofitable non-core assets, increased prices and operational improvements, especially in Magistralny. These and other factors led to a significantly improved operational result as seen by the adjusted EBITDA loss reduction of 62 percent compared to 2012. Net result was affected by several special items such as impairments in continuing operations as well as in discontinued operations and gain from bond restructuring and ended up with a loss 73 percent lower than in 2012.

Revenue

For the full year 2013, revenue from continuing operations decreased by 2 percent compared to 2012. However, more detailed analysis show some underlying positive developments for the Company's core assets Arkhangelsk and Magistralny.

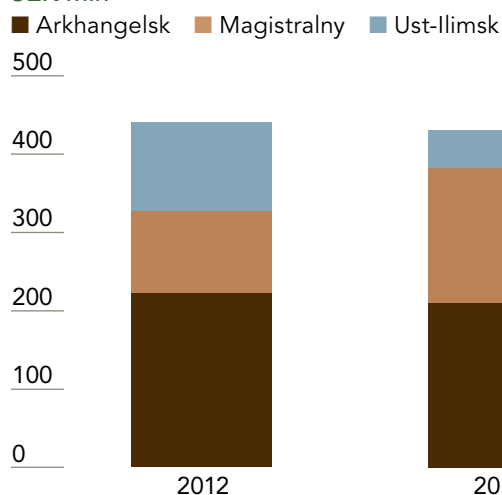
Sawlogs and sawnwood sales in cubic meters from core operations increased compared to 2012 and coupled with higher sawnwood prices and stable sawlog prices, that translated into a significant increase in revenue of 39 percent and 26 percent, respectively, for sawnwood and sawlog for these operations. The increase in price received for sawnwood in 2013 is mainly due to a larger share of sales to the premium Japanese market. However, part of

the increase in prices was attributable to the change in the pricing structure. The Arkhangelsk sawmill started to deliver sawnwood using its own rented vessels, thereby securing a higher price, but also increasing distribution costs in 2013 compared to 2012.

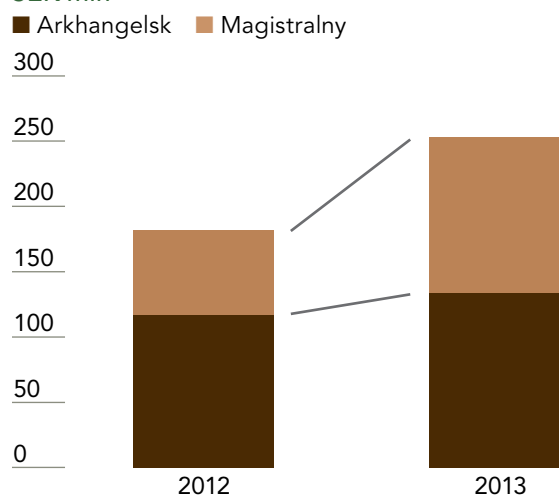
Magistralny was the best performer which experienced a significant positive development on basically all parameters. Sawnwood output was up 60 percent in 2013 compared to 2012, average sawnwood price in 2013 up 15 percent compared to 2012, which is more or less pure market increase unlike Arkhangelsk where the price increase was mainly due to different delivery terms. As a result Magistralny's sawnwood revenue increased 84 percent year-on-year and total revenue from Magistralny increased by 63 percent year on year, brought down somewhat from the less aggressive increase in sawlog and other revenue. Magistralny's share of total revenue from continuing operations increased from 24 percent in 2012 to 40 percent in 2013.

Arkhangelsk also developed well with positive development in the most important parameters, such as sawnwood output and prices. The price increase was mainly but not exclusively due to changed delivery terms. The reason that total revenue from Arkhangelsk still decreased by 5 percent compared to 2012 was due to the decrease in other revenue, mainly reduction in revenue from pulpwood and wood chips sales, following the Arkhangelsk pulp sector crisis.

Revenue breakdown per business, SEK mln



Sawnwood revenue development and breakdown, SEK mln



The large increase in sawnwood and sawlog revenue from Arkhangelsk and Magistralny was more than offset by a 57 percent reduction in Ust-Ilimsk revenue following the divestment of the sawmill there, and a reduction in other revenue mainly related to Arkhangelsk. Since the whole of Ust-Ilimsk has not been divested the impact from the loss of sawmill revenue impacts continuing operations.

Sales volume (m³)

	2013	2012	Δ%
Sawnwood (A+M)	177,143	144,836	22%
Sawnwood Arkhangelsk	103,575	98,802	5%
Sawnwood Magistralny	73,568	46,034	60%
Sawlogs (A+M)	145,341	112,376	29%
Sawlogs Arkhangelsk	38,398	38,945	-1%
Sawlogs Magistralny	106,943	73,431	46%

Average price (SEK)

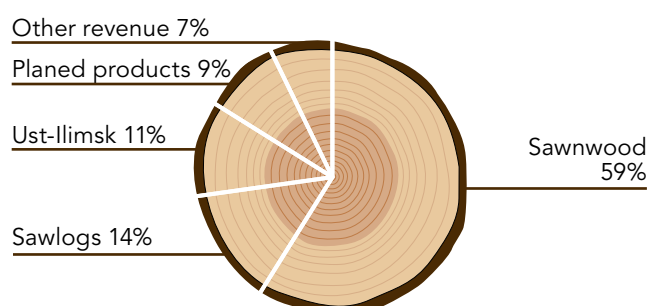
	2013	2012	Δ%
Sawnwood (A+M)	1,427	1,254	14%
Sawnwood Arkhangelsk	1,293	1,184	9%
Sawnwood Magistralny	1,615	1,405	15%
Sawlogs (A+M)	402	411	-2%
Sawlogs Arkhangelsk	281	221	27%
Sawlogs Magistralny	445	512	-13%

Revenue (SEK million)

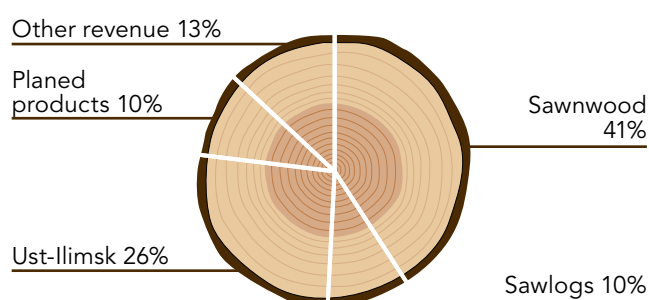
	2013	2012	Δ%
Sawnwood (A+M)	252.8	181.7	39%
Sawnwood Arkhangelsk	134.0	117.0	15%
Sawnwood Magistralny	118.8	64.7	84%
Sawlogs (A+M)	58.4	46.2	26%
Sawlogs Arkhangelsk	10.8	8.6	25%
Sawlogs Magistralny	47.6	37.6	27%
Ust-Ilimsk	49.5	114.4	-57%
Planned products	40.4	42.8	-6%
Other revenue	30.4	56.1	-46%
Total	431.4	441.1	-2%

RusForest revenue breakdown (continuing operations)

12 months 2013



12 months 2012

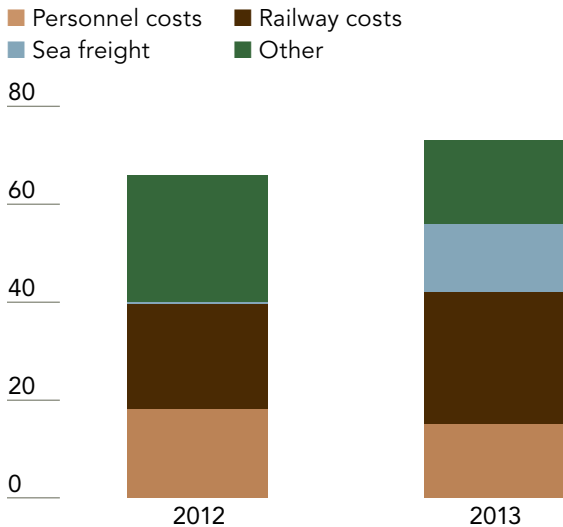


Costs

Cost of sales

While total revenue from continuing operations for 2013 was lower compared to the previous year, RusForest's gross result for 2013 improved to a gross profit of SEK 14.7 million from a gross loss of SEK 107.6 million in 2012. The improvement in gross result is achieved through higher prices in core units and lower cost of sales, the main drivers for the lower cost of sales was efficiency improvements which translated into lower personnel, material, energy and fuel costs and general impact from phasing out the unprofitable Ust-Ilimsk sawmill and planing mill operations. Only three cost categories were higher in 2013; repairs and maintenance from performing some long overdue maintenance, harvesting services and sawlogs which were mainly related to Magistralny and the need to secure right quality logs for the Japan oriented sawnwood products.

Distribution expenses development and breakdown, SEK mln



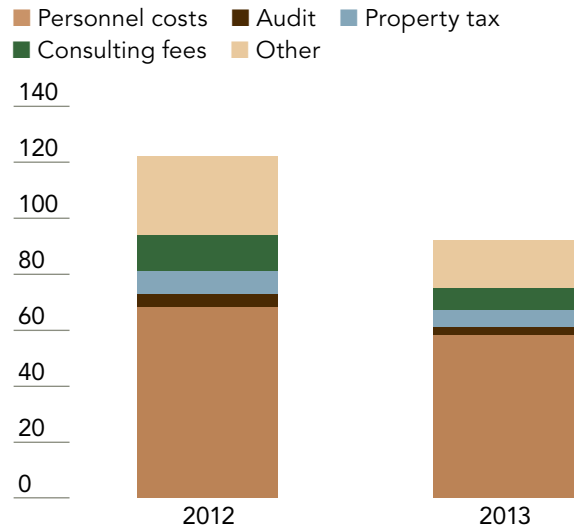
Distribution expenses

Distribution expenses increased in 2013 compared to 2012. The main drivers of higher distribution costs were increased sea freight and railway costs as part of a shift in the structure of sales terms, to later in the delivery chain to the end client (i.e. to port of buyer instead of port of seller for sawwood Arkhangelsk) and also due to increased rail transports to Japan from Magistralny. Such costs were however offset by higher prices received.

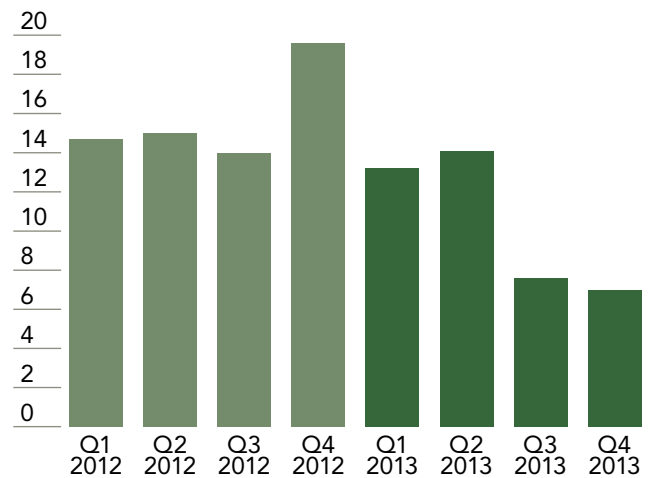
Administrative expenses

RusForest managed to reduce administrative expenditures by 24 percent from SEK 122.3 million to SEK 92.6 million when comparing 2013 to 2012. All cost categories under administrative expenditures were lower; personnel costs were 15 percent lower thanks to reduced headcount while the most notable reduction occurred in audit and consultancy costs. Corporate overhead costs, were reduced 34 percent year on year, from SEK 63.4 million in 2012 to SEK 41.9 million in 2013, the quarterly overhead rate had in Q4 of 2013 decreased to SEK 6.9 million compared to more than double that as the going rate in 2012 and first half of 2013. In addition to the above named contributing factors of personnel and consultancy, RusForest also managed to optimize office rental costs both in Stockholm and in Moscow. The spike in Q4 2012 in overhead costs were connected with termination payments to former employees.

Administrative expenditures development and breakdown, SEK mln



Overhead costs (quarterly), SEK mln



Impairments

In 2013 an impairment loss of SEK 49.7 million was recognized in continuing operations. Out of the SEK 49.7 million, SEK 24.6 million was related to Arkhangelsk and the write-off of non-operational machinery and the value of non-core forest lease agreements to be cancelled. The remaining SEK 25.1 million relates to Ust-Ilimsk and impairment of certain road structure investments, as well as old non-operational equipment.

Furthermore, the Boguchany operating segment unit was classified as held for sale as of December 31, 2013 and therefore presented separately as discontinued operations. In connection with the reclas-

sification of Boguchany an impairment loss of SEK 220.8 million was also recognized under discontinued operations in 2013 as the carrying amount of Boguchany segment was impaired. The Company's pellet mill in Ystad was still held for sale as of December 31, 2013, and a further impairment of its value by SEK 9.3 million was recognized in Q4 2013 under discontinued operations.

Financial expenses

In 2013 financing costs amounted to SEK 32.2 million and included interest on bank loans and financial leases. The cost was much lower than the SEK 91.3 million in 2012 due to the bond restructuring in the beginning of 2013 (refer to the Prospectus of February 2013 published on the Company's website).

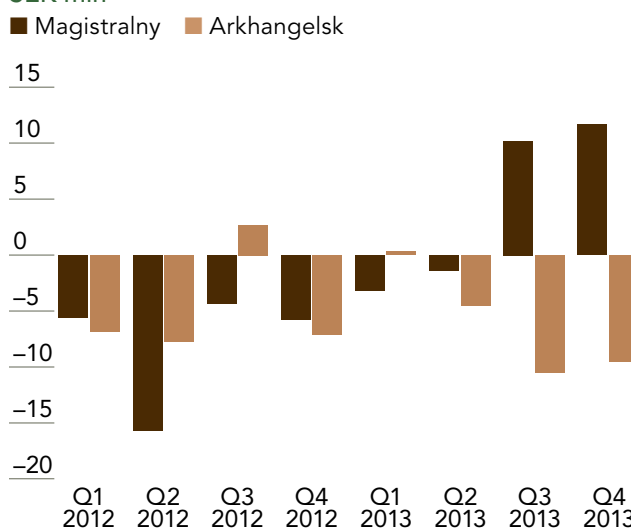
Results

EBITDA adjusted for non-recurring items

The EBITDA loss from continued operations adjusted for non-recurring items is the best indicator of true earnings from regular operations. The EBITDA loss decreased by 62 percent in 2013 at SEK 52.3 million compared to 2012 at SEK 139.0 million. Magistralny showed good positive earnings for the last two quarters of 2013 and positive SEK 17.3 million for the whole year, while Arkhangelsk was negative for all quarters except small positive earnings in Q1 2013. The main reason for Arkhangelsk's negative result

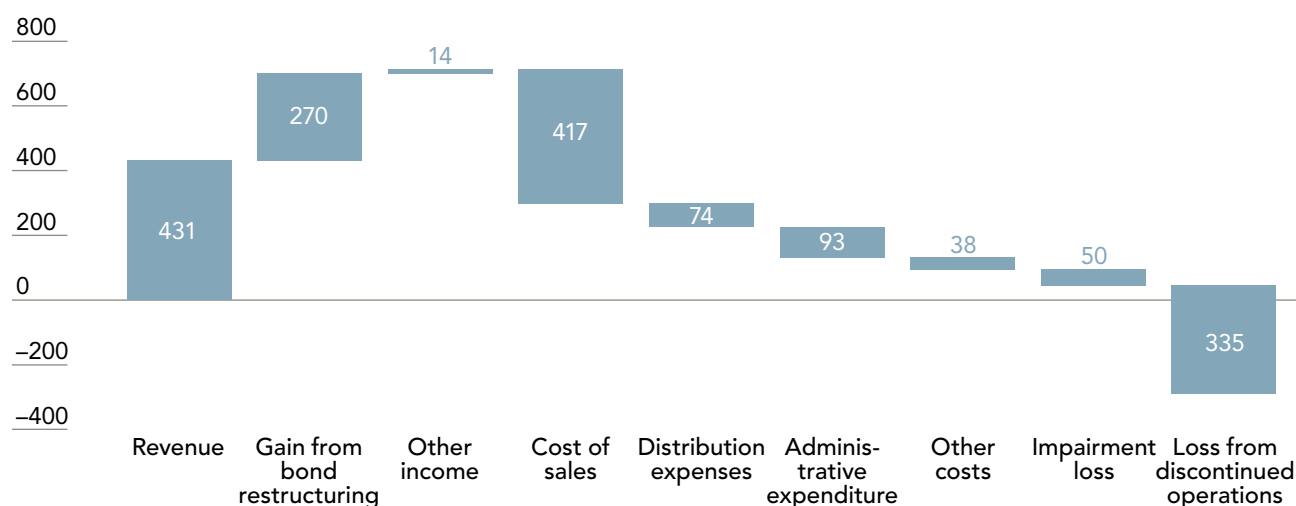
Quarterly EBITDA adjusted 2012–2013

Core operations Magistralny & Arkhangelsk, SEK mln



was the lack of a market for residual products in 2013 following the Arkhangelsk pulp crisis which erupted in 2013. Ust-Ilimsk had in 2013, following the sale of its sawmill asset, rented out the majority of its forest leases to third parties while reviewing the strategy for harvesting operations in the area. Ust-Ilimsk did not quite achieve earnings neutrality through rent income by the end of the year, but additional rent agreements were concluded in the last quarter of 2013. There is also always some seasonality in forestry from weather conditions that influence harvest-

Simplified income statements 2013, SEK mln



ing and hauling, and such operations might shift a bit between quarters dependent on when harvesting can be done, and one might also harvest more than usual in one quarter in anticipation of future difficulties. Difficult weather conditions can also drive up the costs for harvesting or hauling, or force the Company to buy more sawlogs externally from insufficient own harvesting. However, Magistralny is clearly on a positive real improvement trend and it was mainly thanks to Magistralny that the Group EBITDA adjusted loss significantly reduced in the last two quarters of 2013 and as a result, for the whole year.

The 2013 result was affected by several special items of a non-recurring nature. For the full year 2013 net result from continuing operations amounted to a profit of SEK 44.8 million compared to a loss of SEK 657.6 million in 2012, the result was significantly affected by a gain of SEK 269.8 million recognized from the bond restructuring in early 2013, and also impacted by certain impairments. The Group's total loss including discontinued operations amounted to SEK 290.0 million in 2013, compared to a loss of SEK 1,086.1 million in 2012. Besides the above mentioned items the net result in 2013 was affected by a loss of SEK 334.9 million from discontinued operations,

mainly stemming from the SEK 220.9 million impairment of the value of the Boguchany operational segment held for sale.

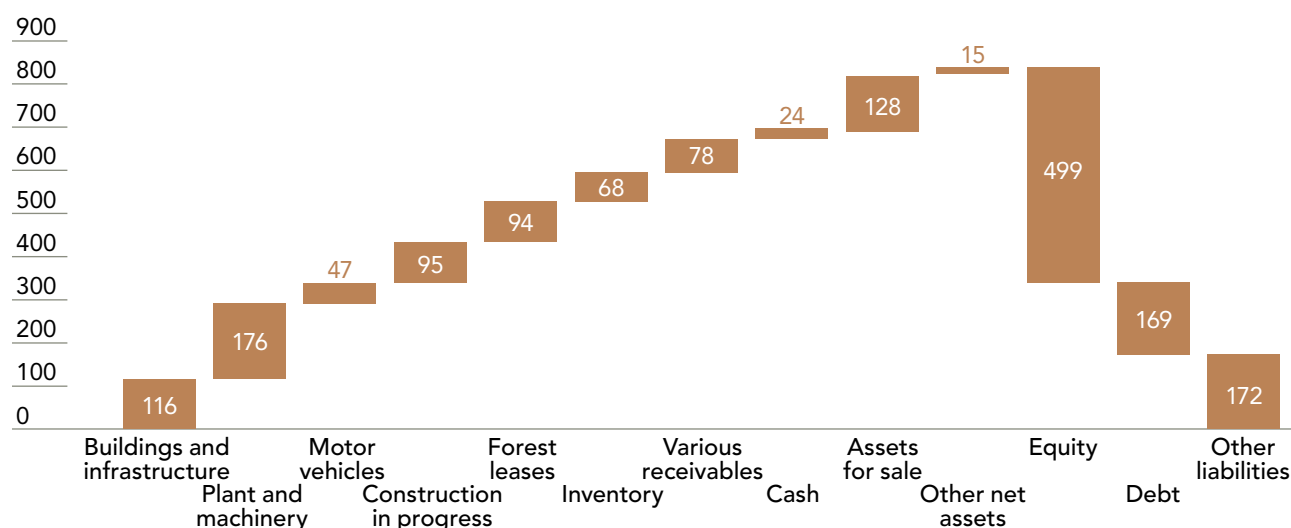
Balance sheet

In 2013, the consolidated balance sheet of RusForest was affected by several significant events.

Firstly, in Q1 2013, RusForest completed the restructuring transaction – refer to Q1 2013 report for details. The transaction had a significant effect on the equity and debt of RusForest:

- The shareholders contributed SEK 186.5 million in cash before issue costs of SEK 22.1 million;
- Approximately 50 percent of the bond payable as of December 31, 2012, was set-off as payment for newly issued shares in the debt-to-equity swap, and the remaining 50 percent was recognized as a gain from the bond restructuring in the income statement; RusForest accrued interest on the bond up to January 25, 2013;
- These steps all together strengthened RusForest's equity by approximately SEK 450 million before issue costs and reduced the net debt-to-equity ratio to 29 percent at December 31, 2013 from 167 percent at December 31, 2012.

Simplified balance sheet, December 31, 2013, SEK mln



Secondly, during 2013 the Company sold several non-core assets, including the Ust-Ilimsk sawmill, Tuba forest leases in Ust-Ilimsk for an aggregate amount of RUB 82 million (SEK 16.4 million), the Shenkursk sawmill for USD 1 million (SEK 6.5 million), the gravel quarry (Belomorsky Karyer), the planing mills in Ust-Ilimsk (UIZSI) and Arkhangelsk (ALK), and the pellets operation in Latvia for EUR 375,000 (SEK 3.3 million). RusForest classified the remaining non-core assets as held for sale at December 31, 2013.

The main non-core asset held for sale at December 31, 2013, was the Boguchany operating segment in eastern Siberia. In addition, the Ystad pellet plant was still for sale at December 31, 2013 and its value was also impaired by SEK 9.3 million in Q4 2013. It should be noted that the buyer of the gravel quarry failed to meet its obligations under the share purchase agreement signed in April 2013. In Q4 2013, the Company created a provision for doubtful debt of SEK 17 million while taking necessary legal measures to collect the receivable.

Sales of non-core assets and the reclassification of the Boguchany segment to an asset held for sale in Q4 2013 led to a reduction in almost all of the balance sheet line items when comparing balances at the end of 2013 and the end of 2012.

Thirdly, in Q2 2013, RusForest started construction of a 100,000 tons/year pellet mill in Arkhangelsk primarily using bank financing. As of December 31, 2013, RusForest had drawn approximately SEK 70 million from Centro Credit bank and invested in total about SEK 99.1 million for the pellet mill construction.

PP&E at December 31, 2013 had decreased by 40 percent compared to December 31, 2012 following all the impairments and divestments, the value of forest leases on the books significantly decreased at December 31, 2013 compared to December 31, 2012 also due to impairments and divestments.

Cash at December 31, 2013, amounted to SEK 23.7 million, the Company also had various receivables at December 31, 2013 at a total value of SEK 77.8 million.

Debt at December 31, 2013, included local bank borrowings in USD, EUR and RUB, the liabilities under finance lease contracts also in various currencies and the loan payable to Vostok Nafta Investment Ltd of USD 5 million.

Capital structure, debt/equity ratio, times



Cash flow

While significantly better than in 2012, cash flow from continuing operations was unfortunately still negative in 2013. Other large movements in 2013 were the SEK 99.1 million invested into the pellets factory in Arkhangelsk, SEK 42.1 million was received as proceeds from the sale of various non-core assets and businesses. There was a net inflow of SEK 164.7 million in connection with the share issue in the beginning of 2013. In total, the cash flow during the period was net positive SEK 13.5 million.

30 The RusForest share

General information concerning the RusForest share

The RusForest share (ISIN Code SE0001732728) is traded on NASDAQ OMX First North (ticker RUSF). As of December 31, 2013, the number of outstanding shares was 132,033,881. The average daily turnover for the period January–December 2013 was 324,869 shares, corresponding to approximately SEK 834,972.

At the close of the period, the share price was SEK 2.13 and the Company's market capitalization was approximately SEK 281.0 million. The number of shareholders was approximately 2,500.

The table below shows the changes in RusForest's share capital from the establishment of the Company including the recapitalization in 2013.

Share capital, new issue of shares and authorizations

As of the date of the annual report, the Company has issued 132,033,881 shares. All shares are of the same class. All issued shares have been fully paid.

In December 2012, the Company embarked on an extensive recapitalization program, which was concluded in April 2013. The program consisted of three steps: i) a restructuring of the Company's bond debt followed by a set-off issue to bondholders, ii) a fully

Major shareholders at December 31, 2013

Shareholder	Number of shares	Percentage
Nova Capital	33,500,000	25.4%
Euroclear Bank S.A.	10,850,573	8.2%
Avanza Pension	7,413,801	5.6%
Carnegie Strategifond	5,670,625	4.3%
JP Morgan Clearing Corp.	4,260,984	3.2%
Nordnet Pensionsförsäkring AB	4,197,292	3.2%
Others	66,140,606	50.1%
Total	132,033,881	100.0%

Source: Euroclear

Major shareholders at December 31, 2012

Shareholder	Number of shares	Percentage
Vostok Nafta Investment	140,826,045	29.4%
East Capital Funds	51,350,615	10.7%
Alecta Pensionsförsäkring	42,320,000	8.8%
Avanza Pension	30,468,070	6.4%
JP Morgan Clearing Corp.	27,318,811	5.7%
Morgan Stanley & Co LLC.	24,384,592	5.1%
Others	162,370,337	33.9%
Total	479,038,470	100.0%

Source: Euroclear

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	100,000.00	1,000	100,000.00	100.00
2006	Share split	9,000	–	10,000	100,000.00	10.00
2006	New issue	40,000	400,000.00	50,000	500,000.00	10.00
2006	New issue	8,818,800	88,188,000.00	8,868,800	88,688,000.00	10.00
2007	New issue	4,352,650	43,526,500.00	3,221,450	132,214,500.00	10.00
2008	New issue	81,750	817,500.00	13,303,200	133,032,000.00	10.00
2009	Issue in-kind	8,537,640	85,376,400.00	21,840,840	218,408,400.00	10.00
2010	New issue	43,681,680	436,816,800.00	65,522,520	655,255,200.00	10.00
2011	New issue	29,437,529	294,375,290.00	94,960,049	949,600,490.00	10.00
2011	New issue	847,645	8,476,450.00	95,807,694	958,076,940.00	10.00
2012	Reduction in share capital	–	(862,269,246.00)	95,807,694	95,807,694.00	1.00
2012	New issue	383,230,776	383,230,776.00	479,038,470	479,038,470.00	1.00
2013	Reduction in share capital	–	(474,248,085.30)	479,038,470	4,790,384.70	0.01
2013	Set-Off Issue	6,500,118,750	65,001,187.50	6,979,157,220	69,791,572.20	0.01
2013	Rights Issue	2,874,230,820	28,742,308.20	9,853,388,040	98,533,880.40	0.01
2013	Directed Issue	3,350,000,000	33,500,000.00	13,203,388,040	132,033,880.40	0.01
2013	New Issue	60	0.60	13,203,388,100	132,033,881.00	0.01
2013	Reverse share split	(13,071,354,219)	–	132,033,881	132,033,881.00	1.00

subscribed rights issue to previous shareholders, and iii) a directed issue to Nova Capital, followed by a reverse share split, all resolved on at an extraordinary shareholders' meeting held on February 1, 2013.

The debt restructuring and the set-off issue

Under the debt restructuring, the outstanding principal and interest accrued under the Company's 11 percent p.a. SEK 500 million 2011/2014 bond (the "Bond") was reduced from SEK 538,347,222 to SEK 263,750,000, the Bond coupon was reduced from 11 to zero percent, and the term of the Bond was extended from 2014 to 2018. The restructuring was approved by a large majority of bondholders at a bondholders' meeting held on January 25, 2013. Following the restructuring, Bondholders were offered to convert their Bonds into equity at a subscription price of SEK 0.04 per newly issued share in the Company in a set-off issue. Bondholders representing a total principal amount of SEK 60,004,750 (or 98.6 percent of the outstanding principal) converted their Bonds into 6,500,118,750 newly issued shares in the Company. The total principal outstanding under the remaining Bonds amounts to SEK 3,745,250.

RusForest share price development, January–December 2013 (SEK)



Source: Nasdaq OMX

The rights issue

Following the Bond restructuring and set-off issue, the Company concluded a rights issue, where one (1) existing share in RusForest entitled the holder to subscribe for six (6) new shares in the Company and the subscription price was set to SEK 0.03 per share.

The rights issue provided RusForest with approximately SEK 86 million before issue expenses and resulted in 2,874,230,820 new shares being issued to the previous shareholders.

The directed issue

In the last step of the Company's restructuring, a total of 6,500,118,750 new shares were issued to Nova Capital at SEK 0.03 per share in a directed issue which provided the Company with an additional SEK 100.5 million in cash, before issue expenses. The price above was before the reverse share split.

The reverse share split

As a result of the three steps of the restructuring program described above, the number of shares in RusForest increased by 3,350,000,000 from 9,853,388,040 to 13,203,388,040, and the share capital increased by SEK 33,500,000 from SEK 98,533,880.40 to SEK 132,033,880.40. In order for the Company to have a reasonable share price post-transactions, the Company then undertook a reverse share split where one hundred (100) shares in RusForest were consolidated into one (1) share (after issuance of a further 60 shares to Vostok Nafta to reach an even multiple of 100) for a new total of 132,033,881 shares.

Employee stock option plan 2013/2016

The annual general meeting on May 15, 2013 resolved to adopt an employee stock option plan for the managing director and other members of the management, containing a right to acquire a maximum of 2,400,000 shares in RusForest. Each stock option shall entitle the holder to subscribe for one share in the Company by paying an exercise price of SEK 2.93. There are currently 2,100,000 options outstanding under the employee stock option plan described above.

32 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 December 31, 2013, prepared in accordance with International Financial Reporting Standards (IFRS).

This report has been prepared in both Swedish and English versions. In case of variations in the content between the two versions, the Swedish version shall govern.

Incorporation

RusForest is a public limited liability company with registration number 556694-6421, with its registered office in Stockholm, Sweden. RusForest AB was incorporated in Sweden on December 20, 2005. The Company became public through an IPO in July 2006. Initially the Company was incorporated under the name Varyag Resources AB but on August 13, 2009, it changed its name to RusForest AB.

Principal activities

Principal activities of the group are managing forest lease portfolio, harvesting timber, operating sawmills and pellets mills as well as marketing and selling timber and processed woodproducts such as sawnwood and wood pellets.

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

The Group went through a significant restructuring and turn around program in 2013 targeted at ensuring the Company's future. The measures taken included a debt-to-equity swap, new share issue, attracting a new key shareholder, divestment of several non-core assets and significant changes to management. The current focus of the Group is efficiency and profitability in the existing core operations in Arkhangelsk and Magistralny.

Loans and equity

The Group's loans and borrowings and equity changed significantly during the period following the restructuring transaction in Q1 2013. In this complex transaction the shareholders contributed SEK 186.5 million in cash before issue costs of SEK 22.1 million.

Approximately 50 percent of the bond payable as of December 31, 2012, was set-off as payment for newly issued shares in a debt-to-equity swap, and the remaining 50 percent forgiven and was recognized as a gain from the bond restructuring in the income statement; RusForest accrued interest on the bond up to January 25, 2013;

These steps all together strengthened RusForest's equity by approximately SEK 450 million before issue costs and reduced the net debt-to-equity ratio to 29 percent at December 31, 2013 from 167 percent at December 31, 2012.

The total amount of interest bearing loans and borrowing amounted to SEK 169.3 million at December 31, 2013 compared to SEK 686.8 million at December 31, 2012. For further details on equity, please refer to the Statement of changes in equity.

Turnover

The Group's revenue from continuing operations for the year ended December 31, 2013 was SEK 431.4 million compared to SEK 441.1 million in 2012. The decrease in revenue is mainly attributable to the loss of revenue from Ust-Ilimsk following the divestment of the sawmill and planing mill there.

The Group's results

The Group's results for the year are set out on page 38.

While revenue from continuing operations in 2013 decreased 2 percent compared to 2012, the results in 2013 significantly improved from 2012. The improved group results were driven by lower cost of sales in general and significantly improved results from Magistralny, which resulted in a positive gross profit in 2013 of SEK 14.7 million. There was an impairment loss of SEK 49.7 million under continuing operations; this was however, significantly less than the impairment loss of SEK 282.4 million in 2012. The net result was also positively affected by a gain from the bond restructuring of SEK 269.8 million and benefited from significantly reduced financing costs following the debt-to-equity swap, and while there were also loss from discontinued operations in 2013, the loss was less than 2012 and all together led to a loss for the year of SEK 290.0 compared to a loss of SEK 1,086.1 million in 2012.

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.

RusForest intends to continue to develop its current assets.

Share capital

Authorised capital

In accordance with the Articles of association adopted on the extraordinary shareholders meeting held on February 1, 2013, the Company's share capital shall not be less than SEK 50,100,000 thousand and not more than SEK 200,000,000 thousand.

Issued capital

On December 31, 2013 the issued share capital of the Company amounted to SEK 132,033,881 divided into 132,033,881 shares of SEK 1 each (2012: SEK 479,038,470 divided into 479,038,470 shares of SEK 1 each).

Share capital and ownership information

The share capital and ownership information for RusForest AB are displayed on page 30 of this report.

Board of directors

The members of the Board of Directors of the Company as at the date of this report are shown on pages 68–69. Per Brilioth and Camilla Öberg were Board members throughout the year ended December 31, 2013. Alexander Rudik and Paul Putz were Board members from March 26, 2013. Peter Nilsson was a Board member from May 15, 2013. Garrett Soden was a Board member and Chairman of the Board from July 11, 2013.

Post balance sheet events

On January 13, 2014, Gustav Wetterling was appointed as Group CFO of RusForest.

On January 22, 2014, the Company announced the start of wood pellet production ahead of schedule from the new pellet mill at the Company's LDK-3

sawmill in Arkhangelsk. The pellet mill will have an annual capacity of up to 100,000 tons.

On March 3, 2014, RusForest announced the sale of the non-core Boguchany unit in Eastern Siberia. The transaction includes the Boguchany sawmill, Boguchansky LPK for gross consideration of USD 8.0 million. The Boguchany sawmill has an annual capacity of 120,000 cubic meters of sawnwood. The net cash received by RusForest after repayment of the sawmill's debts will be approximately USD 1.5 million. The Company has already received a cash prepayment of USD 1.5 million from the buyer.

RusForest also announced signing a Memorandum of Understanding to sell the related Boguchany harvesting company, RusForest Angara LLC, to the same buyer for gross consideration of USD 5.8 million. The harvesting company holds forestry leases with 748,400 cubic meters of annual allowable cut ("AAC"). The sale of the harvesting company is expected to close on or around September 30, 2014. The net cash received by RusForest after repayment of the harvesting company's debts is expected to be approximately USD 2.5 million.

Independent auditors

The independent auditors of the Group in 2013 were KPMG AB.

Parent company data

The Company's main activities are to own and manage companies and investments in/made into the forestry sector in Russia.

The Parent company's net loss amounted to SEK 560.9 million (2012: SEK 1,623.1 million loss).

The loss of the Parent company was significantly influenced by loss on disposal of investments totaling for the period SEK 435.6 million (2012: 1,568.2).

The Parent company's cash and cash equivalents amounted to SEK 11.5 million at the end of the period (SEK 4.8 million on December 31, 2012).

Non-restrictive equity*Total available funds for distribution*

in SEK	
Share premium	1,037,511,202
Retained earnings	(292,434,992)
Loss for the year	(560,887,153)
	184,189,057

To be allocated as follows:

in SEK	
To be carried forward	184,189,057
<i>(Of which share premium 1,037,510,202)</i>	
	184,189,057

Historical financial data

in thousands of SEK	31-Dec-13	31-Dec-12
Narrative		
Turnover	431,391	441,091
Net result	(290,049)	(1,086,128)
Property, plant and equipment	446,705	740,856
Non-current assets	542,942	1,018,816
Total assets	840,133	1,339,951
Equity	499,314	418,306
Total debt	340,819	921,645

Work of the Board of Directors

During 2013, 19 recorded 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 Chief Executive Officer. At the annual general meeting on May 20, 2010 it was resolved to form an Audit committee and an Operational committee.

Corporate governance

RusForest is listed on First North in Stockholm, a part of NASDAQ OMX. 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. The Board has deemed relevant to prepare a Corporate Governance and internal control report.

Nomination committee

The Nomination committee for the annual general meeting 2014 is comprised of Temo Jorbenadze (Nova Capital), Björn Lindström (Alpcot Capital) and Garrett Soden (Chairman of the Board of RusForest AB (publ)). The Nomination Committee can be contacted via e-mail at info@rusforest.com.

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 34 "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 two 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 USD to other currencies affect sawnwood prices and consequently the Groups received export prices.

Breakdowns and disruptions in production

The Group is insured against the risk of business interruptions caused by accidents or illegal actions of any party which lead to the damage of fixed assets. If the production process is interrupted for more than two weeks, the Group receives compensation for its fixed costs.

Energy prices

RusForest's cost of energy is 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.

Russian business environment

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The consolidated financial statements reflect 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 management's assessment.

Currency fluctuations

Risks related to currency fluctuations are the results of purchases and sales in different currencies (transaction risk) and of the translation of balance sheet items in local currencies into SEK (translation risk). The operations of the Company are subject to transaction risks because the majority of the Company's costs are denominated in RUB, whereas a significant share of the revenue emanates from sales made in USD. The value of the assets and liabilities of RusForest are measured in SEK, RUB, USD and EUR. The Company's equity is affected by changes in currency exchange rates when the assets and liabilities of the Russian subsidiaries are translated into SEK. Currently, the Company does not use any financial instruments to safeguard itself against currency exchange rate risks. The exchange rates of SEK to foreign currencies fluctuate and it cannot be ruled out that future changes in currency exchange rates could have a material adverse effect on the Company's business and financial position.

Counterparty risk

Counterparty risk refers to the risk that RusForest's counterparties cannot meet their undertakings towards RusForest. Potential shareholder and counterparty conflicts might have a negative impact on investments in the business. In addition, minority shareholders in the subsidiaries and counterparties could take actions that would be contrary to or make RusForest's strategy more difficult. The companies in the Group could, in certain circumstances, be held liable for the actions of their partners or co-investors. This risk might also arise in cash management as well as in receiving long and short-term credit agreements. Counterparty risks may consequently materially adversely affect the Company's business and financial position.

Environmental liability

A party that conducts operations that have caused damage to the environment may be held liable for such damage. In RusForest's operations there is a risk of environmental damage occurring. Liability claims or remediation orders as a result of any damage caused by the operations which RusForest conducts at present or has run in the past are difficult to predict, but may conceivably entail significant amounts. It cannot be ruled out that RusForest in the future will be ordered to investigate, remedy or otherwise pay for the remediation of affected areas where operations are or have been conducted or be subject to negative publicity in connection with alleged or actual damage to the environment, all of which may materially adversely affect the Company's business and financial position.

Taxation contingencies in the Russian Federation

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes 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 generally 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 and substance-based 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.

Dependence on key employees

The Company's success depends largely on the continued ability to identify, hire and retain qualified and experienced members of management and other key employees. The Company's ability to hire and retain qualified people depends on a number of factors, some of which are beyond RusForest's control, including the competitive environment in the local employment markets in which the Company operates. The loss of a chief executive officer or any other key employee due to, for example, the employee leaving to work for a competitor or retiring, may result in a loss of important know-how and may significantly delay or prevent the achievement of development objectives or the implementation of the Company's business strategy.

Macroeconomic risks

The general economic environment on an international level may affect the Company's operations considerably. Inflation, unemployment and GDP growth are directly linked to the economic framework for each country and any variation thereof and the economic environment in general may create chain reactions in all areas, thereby affecting the Company. In particular the correlation between the international construction cycle and the price of sawnwood is traditionally high.

The Company's export prices are linked to inter-

national prices of sawnwood. External factors such as the general macroeconomic development, housing construction, geopolitical developments, natural disasters and the fluctuation of USD in relation to other currencies affect the prices of sawnwood and thereby export prices, which may adversely affect the Company's business and financial position.

Legislation, regulation and disputes

RusForest's operations are subject to numerous laws, regulations, rules, agreements and guidelines, among others pertaining to the environment, health and safety, trade restrictions, competition laws and currency regulations. Changes in these frameworks, customs regulations and other trade restrictions, price and currency controls and other official guidelines in the countries where RusForest has operations may adversely affect the Company's business and financial position.

Companies within the Company are from time to time involved in disputes during the course of their ordinary business and risk, like other participants in RusForest's market, being subject to claims concerning for example contractual matters, product liability and alleged errors in delivery of goods and services. Such disputes and claims may be time consuming, disrupt normal business, concern large amounts and entail significant costs.

Regulation of forest leases

RusForest's forests are all property of the Russian state and are leased for a period of up to 49 years. There are few or no cases where forest leases have been cancelled or terminated unilaterally in Russia, but a failure to pay the rent or to provide the required forestry maintenance or to fulfil the other provisions of the agreement may lead to termination of the agreement.

The forest lease AAC is regulated by the volume of mature and harvestable forest on the leased land. This harvesting quota may be adjusted as a result of re-assessment of a specific section of the forest. However, such adjustments are usually of a marginal nature (i.e., ± 5 –10 percent). Changes to the forest leases, as well as to the Company's AAC, may materially adversely affect the Company's business and financial position.



Night loading in Magistralny



Finished profile planed products in Arkhangelsk

38 Income statement

In thousands of SEK	Note	Group		Parent company	
		2013	2012	2013	2012
Continuing operations					
Turnover	4	431,391	441,091	–	–
Cost of sales	5	(416,716)	(548,745)	–	–
Gross profit/(loss)		14,675	(107,654)	–	–
Other income	6	13,007	22,872	547	6,820
Distribution expenses	7	(73,609)	(66,535)	–	–
Administrative expenditure	8	(92,563)	(122,328)	(19,467)	(14,364)
Other expenses	10	(5,844)	(46,347)	–	–
Impairment loss	11	(49,714)	(283,246)	–	–
Impairment of investments in associates		–	(2,349)	–	–
Operating loss		(194,048)	(605,587)	(18,920)	(7,544)
Financing income	12	627	1,277	44,611	42,197
Income from bond restructuring		269,772	–	269,772	–
Financing cost	12	(32,181)	(91,373)	(856,350)	(1,657,794)
Net financing income/(cost)		238,218	(90,096)	(541,967)	(1,615,597)
Profit/(loss) before tax from continuing operations		44,170	(695,683)	(560,887)	(1,623,141)
Income tax	13	719	38,110	–	–
Profit/(loss) for the year from continuing operations		44,889	(657,573)	(560,887)	(1,623,141)
Discontinued operations					
Loss after tax for the year from discontinued operations	20	(334,938)	(428,555)		
Profit/(loss) for the year		(290,049)	(1,086,128)		
Attributable to:					
Equity holders of the parent		(294,958)	(1,083,148)		
Non-controlling interests		4,909	(2,980)		
Profit/(loss) for the year		(290,049)	(1,086,128)		
Earnings per share	14				
basic and diluted, loss for the year attributable to ordinary equity holders of the parent		(2.66)	(253.48)		
Earnings per share from continuing operations basic and diluted, earnings/(loss) from continuing operations attributable to ordinary equity holders of the parent		0.36	(153.19)		

The notes on pages 43 to 65 are an integral part of these consolidated financial statements.

Statement of comprehensive income

In thousands of SEK	Group	
	2013	2012
Profit/(loss) for the year	(290,049)	(1,086,128)
<i>Other comprehensive income</i>		
Items that may be reclassified subsequently to profit or loss:		
Currency translation difference	(53,060)	1,446
Other comprehensive income/(loss) for the year, net of tax	(53,060)	1,446
Total comprehensive income/(loss) for the year, net of tax	(343,109)	(1,084,682)
Attributable to:		
Equity holders of the parent	(347,894)	(1,081,773)
Non-controlling interests	4,785	(2,909)
Total comprehensive income/(loss) for the year, net of tax	(343,109)	(1,084,682)
Profit/(loss) from continuing operations	44,889	(657,573)
Attributable to:		
Equity holders of the parent	39,980	(654,593)
Non-controlling interests	4,909	(2,980)
Profit/(loss) from discontinued operations	(334,938)	(428,555)
Attributable to:		
Equity holders of the parent	(334,938)	(428,555)
Non-controlling interests	–	–

40 Group statement of financial position and parent company balance sheet

In thousands of SEK	Note	Group statement of financial position		Parent company balance sheet	
		December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
Assets					
<i>Non-current assets</i>					
Property, plant and equipment	15	446,705	740,856	80	–
Forest lease rights	16	94,028	243,266	–	–
Intangible assets	17	2,183	23,563	–	–
Investments in Group Companies	18	–	–	50,841	485,909
Investments in associates	19	–	–	–	–
Loans receivable from Group companies	23	–	–	299,220	511,895
Deferred tax asset	30	26	11,131	–	–
Total non-current assets		542,942	1,018,816	350,141	997,804
<i>Current assets</i>					
Inventory	21	67,668	117,720	–	–
VAT refundable		40,659	47,290	66	446
Trade and other receivable	22	37,099	45,481	207	15,704
Current tax assets		352	117	70	6
Loans receivable	23	–	5,024	–	–
Cash and cash equivalents	24	23,737	16,388	11,536	4,802
		169,515	232,020	11,879	20,958
Assets classified as held for sale	20	127,676	89,115	–	–
Total current assets		297,191	321,135	11,879	20,958
Total assets		840,133	1,339,951	362,020	1,018,762
Equity¹					
<i>Equity and reserves</i>					
Share capital	25	132,034	479,038	132,034	479,038
Share premium		–	–	1,037,511	740,027
Other paid in capital		2,374,028	1,602,296	–	–
Translation reserve		(115,712)	(62,776)	–	–
Retained earnings		(1,598,883)	(518,232)	(292,435)	856,458
Income/(loss) for the year		(294,958)	(1,083,148)	(560,887)	(1,623,141)
Total equity attributable to Shareholders of the Group		496,509	417,178	316,223	452,382
Non-controlling interest		2,805	1,128	–	–
Total Equity		499,314	418,306	316,223	452,382
Liabilities					
<i>Non-current liabilities</i>					
Interest-bearing loans and borrowings	26	116,729	576,772	3,745	498,675
Deferred tax liability	30	26	11,556	–	–
Total non-current liabilities		116,755	588,328	3,745	498,675
<i>Current liabilities</i>					
Interest-bearing loans and borrowings	26	52,563	110,061	32,634	31,360
Loans payable to related companies	27	–	33,201	–	33,201
Trade and other payables	28	79,491	157,102	9,418	2,374
Current tax liabilities		199	1,803	–	–
Provisions	29	208	1,214	–	770
		132,461	303,381	42,052	67,705
Liabilities directly associated with the assets classified as held for sale	20	91,603	29,936	–	–
Total current liabilities		224,064	333,317	42,052	67,705
Total liabilities		340,819	921,645	45,797	566,380
Total equity and liabilities		840,133	1,339,951	362,020	1,018,762

1. In the Parent company restricted equity consists of share capital and non-restricted equity consists of share premium, retained earnings and loss for the year.

Statement of changes in equity

Group Jan 1, 2013–Dec 31, 2013

Attributable to the equity holders of the parent

In thousands of SEK	Share capital	Other paid in capital	Translation reserve	Retained earnings	Non-controlling interest	Total
Opening shareholders' equity	479,038	1,602,296	(62,776)	(1,601,380)	1,128	418,306
Profit/(loss) for the period	–	–	–	(294,958)	4,909	(290,049)
Other comprehensive income/(loss)	–	–	(52,936)	–	(124)	(53,060)
Total comprehensive income/(loss)	–	–	(52,936)	(294,958)	4,785	(343,109)
Decrease in share capital	(474,248)	474,248	–	–	–	–
Acquired non-controlling interest in subsidiaries	–	–	–	2,497	(3,108)	(611)
Costs related to the share issue	–	(22,004)	–	–	–	(22,004)
New shares issue	127,244	319,488	–	–	–	446,732
Shareholders' equity at end of year	132,034	2,374,028	(115,712)	(1,893,841)	2,805	499,314

Parent company Jan 1, 2013–Dec 31, 2013

Restricted equity

Non-restricted equity

In thousands of SEK	Share capital	Share premium	Retained earnings	Total non-restricted equity	Total
Opening shareholders' equity	479,038	740,027	(766,683)	(26,656)	452,382
Profit/(loss) for the period	–	–	(560,887)	(560,887)	(560,887)
Other comprehensive income/(loss)	–	–	–	–	–
Total comprehensive income/(loss)	–	–	(560,887)	(560,887)	(560,887)
Decrease in share capital	(474,248)	–	474,248	474,248	–
Costs related to the rights issue	–	(22,004)	–	(22,004)	(22,004)
New shares issue	127,244	319,488	–	319,488	446,732
Shareholders' equity at end of year	132,034	1,037,511	(853,322)	184,189	316,223

Group Jan 1, 2012–Dec 31, 2012

Attributable to the equity holders of the parent

In thousands of SEK	Share capital	Other paid in capital	Translation reserve	Retained earnings	Non-controlling interest	Total
Opening shareholders' equity	958,077	686,598	(64,151)	(518,232)	4,037	1,066,329
Profit/(loss) for the period	–	–	–	(1,083,148)	(2,980)	(1,086,128)
Other comprehensive income/(loss)	–	–	1,375	–	71	1,446
Total comprehensive income/(loss)	–	–	1,375	(1,083,148)	(2,909)	(1,084,682)
Decrease in share capital	(862,269)	862,269	–	–	–	–
Costs related to the share issue	–	(15,553)	–	–	–	(15,553)
New shares issue	383,230	68,982	–	–	–	452,212
Shareholders' equity at end of year	479,038	1,602,296	(62,776)	(1,601,380)	1,128	418,306

Parent company Jan 1, 2012–Dec 31, 2012

Restricted equity

Non-restricted equity

In thousands of SEK	Share capital	Share premium	Retained earnings	Total non-restricted equity	Total
Opening shareholders' equity	958,077	686,598	(5,811)	680,787	1,638,864
Profit/(loss) for the period	–	–	(1,623,141)	(1,623,141)	(1,623,141)
Other comprehensive income/(loss)	–	–	–	–	–
Total comprehensive income/(loss)	–	–	(1,623,141)	(1,623,141)	(1,623,141)
Decrease in share capital	(862,269)	–	862,269	862,269	–
Costs related to the rights issue	–	(15,553)	–	(15,553)	(15,553)
New shares issue	383,230	68,982	–	68,982	452,212
Shareholders' equity at end of year	479,038	740,027	(766,683)	(26,656)	452,382

42 Cash flow statement

In thousands of SEK	Note	Group		Parent company	
		2013	2012	2013	2012
Profit/(loss) for the year		(290,049)	(1,086,128)	(560,887)	(1,623,141)
Adjustment for non-cash items	39	237,481	931,256	541,987	1,608,777
Paid income tax		(1,279)	(180)	(64)	–
Cash flow from operating activities before changes in working capital		(53,847)	(155,052)	(18,964)	(14,364)
Cash flow changes in working capital		(6,865)	14,726	(1,292)	(10,309)
Cash flow from discontinued operations		(18,288)	(66,672)	–	–
Cash flow from operating activities		(79,000)	(206,998)	(20,256)	(24,673)
Investment in equipment		(99,058)	(42,359)	(100)	–
Proceeds from sales of equipment		27,618	6,273	–	–
VAT refund on capital investments		5,827	3,174	–	–
Acquisition of shares in subsidiaries		(611)	(3,414)	–	–
Proceeds from sale of subsidiaries		14,528	–	–	–
Interest received		617	869	616	1,759
Loans issued to Group companies		–	–	(155,340)	(301,535)
Loans repaid by Group companies		–	–	23,996	–
Contributions to Varyag Capital		–	–	–	(401)
Contributions to Varyag Finance		–	–	(117)	(87)
Contributions to Rusforest Holding AB		–	–	(2,281)	(1,148)
Cash flow from discontinued operations		8,905	(42,903)	–	–
Cash flow from investing activities		(42,174)	(78,360)	(133,226)	(301,412)
New share issue		186,727	319,272	186,727	319,272
Costs related to the share issue		(22,004)	(15,553)	(22,004)	(15,553)
Increase/(decrease) in loans payable		4,703	37,767	–	71,411
Interest paid		(19,872)	(69,406)	(4,125)	(55,000)
Cash flow from discontinued operations		(14,923)	5,705	–	–
Cash flow from financing activities		134,631	277,785	160,598	320,130
Cash flow during the period		13,457	(7,573)	7,116	(5,955)
including cash flow during the period from continuing operations		37,763	96,297	7,116	(5,955)
including cash flow during the period from discontinued operations		(24,306)	(103,870)	–	–
Cash and cash equivalents, beginning of period		16,825	24,209	4,802	12,618
including cash and cash equivalents on continuing operations		16,388	23,571	4,802	12,618
including cash and cash equivalents on discontinued operations		437	638	–	–
Exchange-rate differences on cash and cash equivalents		(5,745)	189	(382)	(1,861)
Cash and cash equivalents, period end		24,537	16,825	11,536	4,802
including cash and cash equivalents on continuing operations		23,737	16,388	11,536	4,802
including cash and cash equivalents on discontinued operations		800	437	–	–

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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 the Swedish law. Initially the Company was incorporated under the name Varyag Resources AB and on August 13, 2009, it changed its name to RusForest AB.

The consolidated financial statements of the Company as at and for the year ended December 31, 2013 comprise the Company and its subsidiaries (together referred to as "the Group" and individually as "Group entities") and the Group's interest in associates.

The principal activities of the Group are forest harvesting and sawmilling operations in Russia.

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

Name	Country of incorporation	Effective Economic ownership
RusForest Holding AB	Sweden	100%
Eastern Bio Holding AB	Sweden	100%, indirectly owned
Ystad Pellets AB	Sweden	100%, indirectly owned
RusForest Ltd	Bermuda	100%, indirectly owned
Varyag Finance GmbH	Switzerland	100%
Varyag Capital (Cyprus) Ltd	Cyprus	100%, indirectly owned
RusForest (Cyprus) Ltd	Cyprus	100%, indirectly owned
Piatkowski Holdings Ltd	Cyprus	100%, indirectly owned
Clonri Holdings Ltd	Cyprus	100%, indirectly owned
Amalage Ltd	Cyprus	100%, indirectly owned
B.E.N. Bio Energy Nord Ltd.	Cyprus	100%, indirectly owned
Russian Gravelco (Cyprus) Ltd	Cyprus	100%, indirectly owned
SIA Pellets Latvia	Latvia	100%, indirectly owned
Bio Energy Nord Ltd LLC	Russia	100%, indirectly owned
RusForest LLC	Russia	100%, indirectly owned
RusForest Trading LLC	Russia	100%, indirectly owned
LDK-3 PJSC	Russia	95%, indirectly owned
Severny Les LLC	Russia	100%, indirectly owned
RusForest Arkhangelsk LLC	Russia	100%, indirectly owned
Yarensky Les LLC	Russia	100%, indirectly owned
Infa LLC	Russia	100%, indirectly owned
Boguchansky LPK LLC	Russia	100%, indirectly owned
RusForest Boguchany LLC	Russia	100%, indirectly owned
RusForest Angara LLC	Russia	100%, indirectly owned
ADAR CJSC	Russia	100%, indirectly owned
Sibartles LLC	Russia	100%, indirectly owned
RusForest Ust-Ilimsk LLC	Russia	100%, indirectly owned
Vanavarales LLC	Russia	51%, indirectly owned
Taiga-2003 LLC	Russia	60%, indirectly owned
Kodinskoye LLC	Russia	100%, indirectly owned
Tubinskoe LPH LLC	Russia	100%, indirectly owned
Kedrovskoe LPH LLC	Russia	100%, indirectly owned
RusForest Magistralny LLC	Russia	100%, indirectly owned
Lesprom LLC	Russia	100%, indirectly owned

The registration numbers and number of shares for RusForest AB's directly owned subsidiaries are the following:

Directly owned subsidiary	Registration number	Number of shares/votes
RusForest Holding AB	556881-3710	50,000
Varyag Finance GmbH	CH-170.4.006.895-6	1

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

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 April 23, 2014.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis.

(c) Adoption of new and revised International Financial Reporting Standards and Interpretations

As from 1 January 2013, the Company adopted all changes to International Financial Reporting Standards (IFRSs), which are relevant to its operations. This adoption did not have a material effect on the accounting policies of the Company.

The following Standards, Amendments to Standards and Interpretations have been issued but are not yet effective for annual periods beginning on January 1, 2013. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these Standards early.

(i) Standards and Interpretations adopted by the EU

- IFRS 7 (Amendments) "Financial Instruments: Disclosures" "Offsetting Financial Assets and Financial Liabilities" (effective the latest as from the commencement date of its first annual period beginning on or after January 1, 2013).
- IFRS 10 "Consolidated Financial Statements" (effective the latest as from the commencement date of its first annual period beginning on or after January 1, 2014).
- IFRS 12 "Disclosure of Interests in Other Entities" (effective the latest as from the commencement date of its first annual period beginning on or after January 1, 2014).
- IFRS 13 "Fair Value Measurement" (effective the latest as from the commencement date of its first annual period beginning on or after January 1, 2013).
- IAS 1 (Amendments) "Presentation of items of other Comprehensive Income" (effective the latest as from the commencement date of its first annual period beginning on or after July 1, 2012).
- IAS 19 (Amendments) "Employee Benefits" (effective the latest as from the commencement date of its first annual period beginning on or after January 1, 2013).
- IAS 32 (Amendments) "Offsetting Financial Assets and Financial Liabilities" (effective the latest as from the commencement date of its first annual period beginning on or after January 1, 2014).

(ii) Standards and Interpretations not adopted by the EU

- IFRS 9 "Financial Instruments" (effective the latest as from the commencement date of its first annual period beginning on or after January 1, 2015).
- Investment Entities amendments to IFRS 10, IFRS 12, and IAS 27 (effective the latest as from the commencement date of its first annual period beginning on or after January 1, 2014).
- IAS 36 (Amendments) "Recoverable Amount Disclosures for Non Financial Assets" (effective the latest as from the commencement date of its first annual period beginning on or after January 1, 2014).

The Board of Directors expects that the adoption of these standards in future periods will not have a material effect on the financial statements of the Company except from the adoption of IFRS 9 could change the classification and measurement of financial assets. The extent of the impact has not been determined.

(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 December 31, 2013. 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) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgment, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. 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.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in consolidated financial statements are described below:

– 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.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Group entities.

Certain comparative amounts in the consolidated financial statements have been reclassified to conform to the current year's presentation.

(a) Basis of consolidation**(i) Business combinations**

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. 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 in consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts generally are recognised in profit or loss.

Transactions costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

(ii) Acquisitions of non-controlling interest

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

(iii) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in 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) Loss of control

On the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(v) 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 percent and 50 percent of the voting power of another entity.

Investments in associates are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, 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.

(vi) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with equity-accounted investees 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 year, adjusted for effective interest and payments

during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

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. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in profit or loss.

(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 proportion of the translation difference is allocated to the non-controlling interest. 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 item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and presented in the translation reserve in equity.

(c) Financial instruments

(i) Non-derivative financial assets

The Group initially recognises loans and receivables on the date that they are originated. All other financial assets are recognized initially on the trade date, which is the date that 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 in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such 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 and receivables

Loans and receivables are financial assets with fixed or determinable payments that were not quoted in an active market. Such assets were recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables were measured at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances.

(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, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, 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 classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

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.

(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, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised 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

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. On-going repairs and maintenance is expensed as incurred.

(iv) Depreciation

Items of property, plant and equipment are depreciated on a straight-line basis in profit or loss over the estimated useful lives of each component. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use.

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

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

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. No changes were made in 2013.

(e) Forest lease rights

Forest lease rights that are acquired by the Group and have finite useful economic lives are measured at cost less accumulated amortization and accumulated impairment losses.

The estimated useful lives for the current and comparative years of significant forest lease rights are 15–45 years.

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 is recognised in profit or loss as incurred.

Amortization

Forest lease rights are amortised on a straight-line basis in profit or loss over their estimated useful lives, from the date that they are available for use.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(f) Intangible assets**(i) Goodwill**

Goodwill that arises on the acquisition of subsidiaries is presented with intangible assets. For the 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 any impairment loss is allocated to the carrying amount of the equity-accounted investee as a whole.

(ii) Other intangible assets

Other intangible assets that are acquired by the Group and 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

Except for goodwill, intangible assets are amortised on a straight-line basis in profit or loss over their estimated useful lives, from the date that they are available for use.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(g) Leased assets

Leases in terms of which the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. On 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 are not recognised in the Group's statement of financial position.

(h) 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.

(i) Impairment**(i) Financial assets**

A financial asset not classified as 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 there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes 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, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

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

In assessing collective impairment, the Group uses historical trends of the probability of default, the 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 loans and receivables. Interest on the impaired asset continues to be recognised. When an event occurring after the impairment was recognised 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 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.

An impairment loss is recognised if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU 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 or CGU.

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 CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, 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.

(j) 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 re-measured 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, 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 re-measurement 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.

(k) 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 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.

(l) 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.

(m) 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 customer, 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 sales agreement. 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 on loading the goods onto the relevant carrier at the port. Generally for such products the customer 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.

(n) Leases***(i) 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.

(ii) Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. This will be the case if the following two criteria are met:

- the fulfilment of the arrangement is dependent on the use of a specific asset or assets; and
- the arrangement contains a right to use the asset(s).

At inception or on 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, then 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 cost on the liability is recognised using the Group's incremental borrowing rate.

(iii) Forest leases

Forest lease costs (stumpage) are treated as operating leases and are taken to the expenses on accrual basis in the period when they occur.

(o) Finance income and finance costs

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

Finance costs comprise interest expense on borrowings.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

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

(p) Income tax

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

Current tax is the expected tax payable or receivable on the taxable income or loss 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 in respect of 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 nor loss, and differences related 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 recognized 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, using tax rates enacted or substantively enacted of 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 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 for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they 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.

(q) Non current liabilities

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

(r) 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.

(s) 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 share options granted to employees.

(t) 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.

(u) Accounting principles of the Parent company

RusForest AB applies the same accounting principles as the Group except in the instances specified below. The variances arising between RusForest AB and the Group's principles result from limitations in the possibility of applying IFRS in RusForest AB due to Swedish Annual Act (1995:1554).

RusForest AB prepares its annual report in accordance with the Swedish Annual Act and the Swedish Financial Reporting Board recommendations RFR 2, Accounting for Legal Entities, as well as the pronouncements of the Swedish Financial Reporting Board for the listed companies. Application of RFR 2 stipulates that, in its preparation of the annual report for the legal entity, RusForest AB apply all of the IFRS and interpretive statements approved by the European Union to the extent possible within the framework of the Swedish Annual Accounts Act and with consideration for the relationship between reporting and taxation.

The recommendation stipulates the exceptions and additions to IFRS which must be undertaken.

The accounting principles for the Parent company have been consistently applied to all periods presented in the financial statements, unless otherwise specified.

The Parent company reports shares in subsidiaries according to the cost method. Dividends received are to be recorded as revenue.

4. Revenue

In thousands of SEK	Group		Parent company	
	2013	2012	2013	2012
Sales of sawnwood	264,184	251,769	-	-
Sales of sawlogs	70,360	73,168	-	-
Sales of stems and pulpwood	32,447	29,877	-	-
Sales of woodchips	3,285	17,124	-	-
Sales of planned goods	40,374	42,831	-	-
Other revenue	20,741	26,322	-	-
Total	431,391	441,091	-	-

5. Cost of sales

In thousands of SEK	Group		Parent company	
	2013	2012	2013	2012
Personnel costs	90,695	132,269	-	-
Purchased sawlogs	50,052	49,004	-	-
Purchased sawnwoods	22,236	46,566	-	-
Purchased woodchips	-	2,348	-	-
Depreciation of property, plant and equipment	72,834	90,745	-	-
Amortization of intangible assets	12,120	25,482	-	-
Materials	8,770	24,636	-	-
Energy and fuel	49,113	70,078	-	-
Repairs and maintenance	30,430	26,791	-	-
Harvesting services	29,084	23,677	-	-
Forest lease	21,430	23,363	-	-
Sundry expenses	29,952	33,786	-	-
Total	416,716	548,745	-	-

6. Other income

In thousands of SEK	Group		Parent company	
	2013	2012	2013	2012
Exchange-rate changes	-	586	-	-
Net gain on sale of property, plant and equipment	3,503	-	-	-
Net gain on sale of materials	175	1,828	-	-
Rental of property, plant and equipment	4,763	1,019	-	-
Creditors written off	3,321	5,885	-	-
Compensation of overpaid forest leases	-	7,751	-	-
VAT refund from budget	-	5,952	-	-
Sundry operating income	1,245	437	547	6,820
Total	13,007	22,872	547	6,820

7. Distribution expenses

In thousands of SEK	Group		Parent company	
	2013	2012	2013	2012
Personnel costs	15,425	18,041	-	-
Railway costs	26,974	21,859	-	-
Sea freight	14,482	494	-	-
Sundry distribution expenses	16,728	26,141	-	-
Total	73,609	66,535	-	-

8. Administrative expenses

In thousands of SEK	Group		Parent company	
	2013	2012	2013	2012
Personnel costs	58,347	68,379	12,412	7,358
Consulting fees	7,983	12,893	3,718	3,389
Audit	2,775	5,123	573	475
Property tax	6,433	8,180	-	-
Rent	2,641	5,662	246	271
Sundry administrative expenses	14,384	22,091	2,518	2,871
Total	92,563	122,328	19,467	14,364

Audit fees

In thousands of SEK	Group		Parent company	
	2013	2012	2013	2012
Audit assignment	2,775	5,123	573	475
Total	2,775	5,123	573	475

9. Personnel expenses

In thousands of SEK	Group		Parent company	
	2013	2012	2013	2012
Wages and salaries	169,690	218,288	10,348	5,247
Compulsory social security contributions	48,333	61,004	2,064	2,111
Total	218,023	279,292	12,412	7,358

Remuneration to senior management

In thousands of SEK	Group		Parent company	
	2013	2012	2013	2012
Wages and salaries	7,718	7,394	5,909	4,356
Compulsory social security contributions	438	1,983	226	1,826
Total	8,156	9,377	6,135	6,182

Remuneration of Chief Executive Officer totalled SEK 4,079 thousand (2012: SEK 3,794 thousand, including severance payment of SEK 1,887 thousand to the former CEO) and included severance payment of SEK 799 thousand to the former CEO.

Senior management consists of three people (CEO, COO and CFO).

Pension costs for senior management

In thousands of SEK	Group		Parent company	
	2013	2012	2013	2012
Pension benefits	184	82	184	82
Total	184	82	184	82

Remuneration to other employees

In thousands of SEK	Group		Parent company	
	2013	2012	2013	2012
Wages and salaries	161,972	210,894	4,439	891
Compulsory social security contributions	47,895	59,021	1,838	285
Total	209,867	269,915	6,277	1,176

Average number of employees

	Group		Parent company	
	2013	2012	2013	2012
Sweden	4	5	4	4
Male (percentage)	25%	60%	25%	50%
Russia	1,825	2,581	-	-
Male (percentage)	77%	76%	-	-
Total	1,829	2,586	4	4
Male (percentage)	77%	77%	25%	50%

Distribution between women and men in company management

	Group		Parent company	
	2013	2012	2013	2012
Percentage women				
Board members	17%	20%	17%	20%
Other senior management personnel	0%	0%	0%	0%

Board fees

In SEK	Parent company	
	2013	2012
Camilla Öberg*	250,000	250,000
Per Brilioth	225,000	225,000
Garrett Soden	142,260	–
Paul Putz	186,079	–
Peter Nilsson	156,791	–
Alexander Rudik	162,004	–
Franz Bergstrand*	74,860	275,563
Sven Hirdman	37,443	208,266
Jerker Karlsson*	56,250	300,000
Kenneth Eriksson	168,493	375,000
Total	1,459,180	1,633,829

* In addition to the Board fees, Board members invoiced RusForest consultancy fees of SEK 840,000 (Franz Bergstrand in the amount of SEK 360,000, Jerker Karlsson in the amount of SEK 270,000 and Camilla Öberg in the amount of SEK 210,000) for the year ended December 31, 2012.

There was no program, or otherwise paid variable remunerations to senior management in 2013.

Employee stock option plan 2013/2016

At the annual general meeting on May 15, 2013, it was resolved to adopt an employee stock option plan 2013/2016. The plan stipulates the right to subscribe for not more than 2,400,000 shares in RusForest. Each stock option may be exercised to acquire one share in the company for payment of an exercise price of SEK 2.93. The exercise price and the number of shares that each employee stock option entitles to subscription for shall be recalculated in the event of a split, consolidation, new share issue, etc., in accordance with market practice. The employee stock options shall be issued free of charge, and the holders will be taxed when the options are exercised. Allocation shall, among other things, be determined with regard to the employee's performance, position and contribution to RusForest. In 2013, a total of 1,200,000 options were issued under the plan to new CEO Matti Lehtipuu. After the reporting period in January 2014, a total of 900,000 options were issued to other officers of the Company. The right to acquire new shares under the employee stock options shall for each holder be vested, with 1/3 of the employee stock options allocated to such holder as from the date falling one year from the date of the initial allocation. Upon the adoption of the 2013/2016 employee stock option plan, the Company resolved to cancel the two previously outstanding employee stock option plans.

10. Other expenses

In thousands of SEK	Group		Parent company	
	2013	2012	2013	2012
Exchange-rate changes	175	–	–	–
Net loss on sale of property, plant and equipment	–	7,367	–	–
Bad debts	4,704	36,199	–	–
Sundry operating expenses	965	2,781	–	–
Total	5,844	46,347	–	–

It should be noted that bad debt expenses for the year ended December 31, 2012 included a SEK 11.7 million provision for doubtful receivables from the pulp mills (Solombala, Kondopoga) in the Arkhangelsk region. These pulp mills are the main customers for RusForest's pulp logs and woodchips in the region. The situation with the pulp mills deteriorated significantly in Q4 2012 and Q1 2013, and it was considered prudent to establish reserves while trying to recover the receivables. In addition, a provision of SEK 8.3 million was set up for the receivable from Arkhangelsk heating company ("ArkhCoTEK") to which LDK-3 has been selling heat. The heating company stopped payments, and there is a high probability of bankruptcy as the company does not have any significant assets or equity.

11. Impairment loss

In thousands of SEK	Group	
	2013	2012
Arkhangelsk Cash Generating Unit	24,571	176,262
Ust-Ilimsk Cash Generating Unit	25,143	106,984
Total	49,714	283,246

As announced in the Q4 2013 interim report, RusForest reviewed its cash generating units for impairment. A strong indication that an impairment exists is the continued lack of profitability in RusForest's operations.

In Arkhangelsk and Ust-Ilimsk, which are historically well developed forestry regions, harvesting and sawmilling operations were reviewed separately for impairment.

In the Arkhangelsk CGU, the Company impaired Rottne harvesting machinery which is non-operational or functioning poorly and therefore no longer cash contributing assets, for SEK 7.4 million. The remaining SEK 17.2 million of impaired value in Arkhangelsk is related to unprofitable/ineffective forest lease contracts under cancellation or divestment as part of the on-going forest lease optimisation program. The previous book values for Arkhangelsk leases were based on RusForest's last impairment review made. However, if cancelled, the value is completely written-off.

In Ust-Ilimsk, the value of certain road infrastructure investments were written off due to de facto ceased own harvesting operations in Ust-Ilimsk, and thereby utilisation of these road structures also ceased.

12. Finance income and finance expenses

In thousands of SEK	Group		Parent company	
	2013	2012	2013	2012
Exchange-rate changes	–	419	–	–
Interest income relating to loans to third parties	12	–	–	–
Interest income relating to loans to Group Companies	–	–	44,010	41,360
Bank interest income	615	858	601	837
Total interest income arising from financial assets not measured at fair value through profit or loss	627	1,277	44,611	42,197
Finance income	627	1,277	44,611	42,197
Interest expenses relating to bonds issued	(3,488)	(58,752)	(3,488)	(58,752)
Interest expenses relating to borrowings from third parties	(7,457)	(4,266)	(4,039)	(379)
Interest expenses relating to borrowings from related parties	(10)	(12,635)	–	(12,635)
Finance lease interest	(11,268)	(11,917)	–	–
Interest expenses relating to financial liabilities measured at amortised cost	(22,223)	(87,570)	(7,527)	(71,766)
Exchange-rate changes	(7,254)	–	(44,367)	(17,635)
Bank charges	(2,704)	(3,803)	(43)	(200)
Loss on disposal of investments	–	–	(435,624)	(1,568,193)
Impairment of investments and receivables from subsidiaries	–	–	(368,789)	–
Finance expenses	(32,181)	(91,373)	(856,350)	(1,657,794)
Net finance expense recognized in profit or loss	(31,554)	(90,096)	(811,739)	(1,615,597)

13. Income tax

In thousands of SEK	Group		Parent company	
	2013	2012	2013	2012
Current tax credit/(expense)				
Current period	(4)	(16)	–	–
Adjustment for prior periods	519	–	–	–
Tax penalties	–	(87)	–	–
	515	(103)	–	–
Deferred tax income				
Origination and reversal of temporary tax differences	204	38,213	–	–
	204	38,213	–	–
Total	719	38,110	–	–

Reconciliation of effective tax rate

In thousands of SEK	Group	
	2013	2012
Profit/(loss) before tax from continuing operations	44,170	(695,683)
Total income tax credit	719	38,110
Profit/(loss) for the year from continuing operations	44,889	(657,573)
Income tax using the Company's domestic tax rate 2013: 20% (2012: 20%)	(8,834)	139,137
Effect of expenses that are not deductible in determining taxable profit	(941)	(2,435)
Effect of income that are not taxable in determining taxable profit	54,619	1,207
Current year losses for which no deferred tax asset was recognised	(44,644)	(99,712)
Tax penalties	–	(87)
Adjustment for prior periods	519	–
Under (over) provided in prior periods	–	–
Tax charge	719	38,110

In 2013, the Group revised profitability of its operating units and recoverability of the related deferred tax assets. As a result, the Group did not recognize deferred tax asset in the amount of SEK 44.6 million (2012: SEK 99.7 million) as the profitability of recovering this amount through tax credit is low.

The Group is using Russian tax rate for deferred tax calculations as most of the taxable results of RusForest Group are generated in Russia.

14. Earnings per share

	2013	2012
Profit/(loss) for the period attributable to equity holders of the parent (SEK)	(294,958,000)	(1,083,148,000)
Weighted average number of ordinary shares	110,698,605	4,273,060
Basic and diluted loss for the year attributable to ordinary equity holders of the parent (SEK/share)	(2.66)	(253.48)
Profit/(loss) for the year from continuing operations attributable to equity holders of the parent (SEK)	39,980,000	(654,593,000)
Weighted average number of ordinary shares	110,698,605	4,273,060
Basic and diluted earnings/(loss) from continuing operations attributable to ordinary equity holders of the parent (SEK/share)	0.36	(153.19)
Loss after tax for the year from discontinued operations attributable to equity holders of the parent (SEK)	(334,938,000)	(428,555,000)
Weighted average number of ordinary shares	110,698,605	4,273,060
Basic and diluted loss from discontinued operations attributable to ordinary equity holders of the parent (SEK/share)	(3.03)	(100.29)

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 year ended December 31, 2013, the weighted average number of shares was affected by four new share issues, which were completed during the year. On February 18, 2013, the Company completed the Debt-to-Equity Swap, whereby 6,500,118,750 new shares were issued to the bondholders (approximately 93 percent) and the original shareholders (approximately 7 percent) for a consideration of SEK 0.04 each. As a result of the Debt-to-Equity Swap the Company reduced liability before bondholders by SEK 260 million. On March 13, 2013, the Company completed the Rights Issue, whereby 2,874,230,820 new shares were issued to the original shareholders for a consideration of SEK 0.03 each. On March 26, 2013, the Company completed the Directed Issue, whereby 3,350,000,000 new shares were issued to Nova Capital for a consideration of SEK 0.03 each. At the extraordinary general meeting on February 1, 2013, shareholders approved the reversed split of shares whereby 100 shares were consolidated into one (1) share. To ensure that the quota value was an even number after the reverse stock split, 60 new shares were issued to Vostok Nafta for a consideration of SEK 0.01 each.

For the period ended December 31, 2012, the weighted average number of shares was affected by one new share issue, which was completed during the year. On April 4, 2012, the Company completed a rights issue, whereby 383,230,776 new shares were issued for a consideration of SEK 1.18 each.

For the financial year ended December 31, 2013, the weighted average number of shares in issue was 110,698,605 (2012: 4,273,060).

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. The exercise price of the options (2.93 SEK) is higher than the average share price (2.57 SEK) for the year ended December 31, 2013. Thus no dilution has been calculated for the financial year as the effect for the period would have been anti-dilutive.

15. Property, plant & equipment

In thousands of SEK	Land	Buildings and infrastructure	Plant and machinery	Motor vehicles	Computer hardware	Fixtures and fittings	Other	Construction in progress and advances	Total
Cost									
Balance January 1, 2012	26,849	376,779	591,361	121,706	3,561	363	403	153,232	1,274,254
Additions	28	24,605	66,559	24,398	235	11	121	–	115,957
Disposals	–	(5,174)	(14,968)	(13,236)	(279)	–	(8)	–	(33,665)
Translation difference	(44)	(1,614)	(2,393)	(386)	(4)	(1)	(3)	1,241	(3,204)
Transfer to property, plant and equipment in use	–	42,334	39,977	–	–	–	–	(82,311)	–
Reclassification from/(to) assets held for sale	(57)	(29,062)	(75,839)	(2,489)	(896)	(18)	(36)	(52,443)	(160,840)
Balance December 31, 2012	26,776	407,868	604,697	129,993	2,617	355	477	19,719	1,192,502
Balance January 1, 2013	26,776	407,868	604,697	129,993	2,617	355	477	19,719	1,192,502
Additions	14	1,800	2,999	2,112	130	100	–	97,786	104,941
Disposals	(25)	(165,127)	(75,819)	(14,686)	(421)	(154)	(231)	–	(256,463)
Translation difference	(840)	(18,100)	(25,307)	(6,523)	(154)	(15)	(23)	(2,468)	(53,430)
Transfer to property, plant and equipment in use	–	–	6,119	–	–	–	–	(6,119)	–
Reclassification from/(to) assets held for sale	(14,593)	(85,597)	(213,247)	(30,779)	(278)	(79)	(56)	(13,600)	(358,229)
Balance December 31, 2013	11,332	140,844	299,442	80,117	1,894	207	167	95,318	629,321
Depreciation and impairment losses									
Balance January 1, 2012	–	42,949	106,538	27,353	1,164	193	313	–	178,510
Translation difference	–	(445)	(1,551)	(260)	(9)	(1)	(2)	–	(2,268)
Depreciation charge for the year	–	23,863	89,303	18,988	658	66	190	–	133,068
Impairment loss for the year	3,352	108,711	39,219	1,301	230	24	63	12,700	165,600
Disposals	–	(1,706)	(7,949)	(6,311)	(220)	–	(81)	–	(16,267)
Reclassification from/(to) assets held for sale	–	(1,150)	(5,106)	(607)	(127)	(1)	(6)	–	(6,997)
Balance December 31, 2012	3,352	172,222	220,454	40,464	1,696	281	477	12,700	451,646
Balance January 1, 2013	3,352	172,222	220,454	40,464	1,696	281	477	12,700	451,646
Additions through business combinations	–	–	–	–	–	–	–	–	–
Translation difference	(1)	(7,172)	(9,439)	(2,247)	(93)	(13)	(15)	–	(18,980)
Depreciation charge for the year	–	14,396	53,121	12,835	293	61	20	–	80,726
Impairment loss for the year	–	25,143	7,526	–	–	–	–	–	32,669
Disposals	(10)	(152,480)	(67,256)	(9,188)	(402)	(135)	(139)	–	(229,610)
Reclassification from/(to) assets held for sale	(3,341)	(26,874)	(81,129)	(9,208)	(308)	(52)	(223)	(12,700)	(133,835)
Balance December 31, 2013	–	25,235	123,277	32,656	1,186	142	120	–	182,616
Carrying amounts									
At January 1, 2012	26,849	333,830	484,823	94,353	2,397	170	90	153,232	1,095,744
At December 31, 2012	23,424	235,646	384,243	89,529	921	74	–	7,019	740,856
At January 1, 2013	23,424	235,646	384,243	89,529	921	74	–	7,019	740,856
At December 31, 2013	11,332	115,609	176,165	47,461	708	65	47	95,318	446,705

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 26). At December 31, 2013 property, plant and equipment included leased assets on the net carrying amount of SEK 65,732 thousand (2012: SEK 132,984 thousand). Leased assets on the net carrying amount of SEK 20,035 thousand was classified as assets held for sale at December 31, 2013.

Collateral

At December 31, 2013 property, plant and equipment with a carrying amount of SEK 133,014 thousand (2012: SEK 118,367 thousand) are subject to secure bank loans (see note 26).

Property, plant and equipment under construction and advances

The total cost incurred for property, plant and equipment under construction as at December 31, 2013 amounted to SEK 94,564 thousand (2012: SEK 5,321 thousand).

The total advances given for property, plant and equipment as at December 31, 2013 amounted to SEK 754 thousand (2012: SEK 1,698 thousand).

16. Forest lease rights

In thousands of SEK	Forest lease rights	In thousands of SEK	Forest lease rights
Cost		Amortization and impairment losses	
Balance January 1, 2012	462,060	Balance January 1, 2012	16,540
Additions	–	Amortization	25,711
Translation difference	(745)	Impairment loss	176,262
Balance December 31, 2012	461,315	Translation difference	(464)
Balance January 1, 2013	461,315	Balance December 31, 2012	218,049
Disposals	(4,821)	Balance January 1, 2013	218,049
Translation difference	(22,906)	Amortization charge for the year	8,708
Reclassification to assets held for sale	(127,338)	Impairment loss for the year	10,050
Balance December 31, 2013	306,250	Disposals	(4,821)
		Translation difference	(15,062)
		Reclassification to assets held for sale	(4,702)
		Balance December 31, 2013	212,222
		Carrying amounts	
		At January 1, 2012	445,520
		At December 31, 2012	243,266
		At January 1, 2013	243,266
		At December 31, 2013	94,028

17. Intangible assets

In thousands of SEK	Goodwill	Client base	Land rights	Rights for increase of energy facilities	Other	Total
Cost						
Balance January 1, 2012	29,540	5,115	6,624	4,545	2,082	47,906
Additions	–	–	–	3,693	6,118	9,811
Reclassification to assets held for sale	(29,540)	–	–	–	(17)	(29,557)
Translation difference	–	(9)	(11)	(69)	(106)	(195)
Balance December 31, 2012	–	5,106	6,613	8,169	8,077	27,965
Balance January 1, 2013	–	5,106	6,613	8,169	8,077	27,965
Additions	–	–	–	–	1,637	1,637
Disposals	–	(4,754)	(6,157)	–	(4,390)	(15,301)
Translation difference	–	(352)	(456)	–	(488)	(1,296)
Reclassification to assets held for sale	–	–	–	(8,169)	(1,270)	(9,439)
Balance December 31, 2013	–	–	–	–	3,566	3,566
Amortization and impairment losses						
Balance January 1, 2012	–	1,137	331	–	–	1,468
Amortization	–	1,154	336	–	1,498	2,988
Translation difference	–	(22)	(6)	–	(26)	(54)
Balance December 31, 2012	–	2,269	661	–	1,472	4,402
Balance January 1, 2013	–	2,269	661	–	1,472	4,402
Amortization change for the year	–	1,084	316	–	2,087	3,487
Impairment loss for the year	–	1,626	5,369	–	–	6,995
Disposals	–	(4,754)	(6,157)	–	(2,022)	(12,933)
Translation difference	–	(225)	(189)	–	(154)	(568)
Balance December 31, 2013	–	–	–	–	1,383	1,383
Carrying amounts						
At January 1, 2012	29,540	3,978	6,293	4,545	2,082	46,438
At December 31, 2012	–	2,837	5,952	8,169	6,605	23,563
At January 1, 2013	–	2,837	5,952	8,169	6,605	23,563
At December 31, 2013	–	–	–	–	2,183	2,183

18. Investments in Group companies

In thousands of SEK	Parent company	
	2013	2012
Balance at January 1	485,909	2,041,385
Additions	2,398	1,637
Loans converted into share capital of Group companies	–	36,224
Impairment loss for the year	(318)	–
Disposals	(437,148)	(1,593,337)
Total	50,841	485,909

19. Investments in equity accounted investees

The Group's share of loss in its equity accounted investees for the year was null (2012: null).

In 2013 and 2012 the Group did not receive dividends from its investments in equity accounted investees.

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

In thousands of SEK	Group	
	2013	2012
Balance at January 1	–	2,349
Additions	–	–
Translation reserve	–	–
Impairment of investments in associates	–	(2,349)
Total	–	–

At December 31, 2012 the Group has a 50 percent investment in Filial No.2 PIK89 LLC a company established in Russia and whose main operation is to provide transportation services to Group entities.

RusForest (Cyprus) Ltd renounced of Filial No.2 PIK89 LLC on September 3, 2013.

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

In thousands of SEK	Current assets	Non-current assets	Total Assets	Current liabilities	Non-current liabilities	Total Liabilities	Revenue	Expenses	Net profit/(loss)
2013									
Filial No.2 PIK89 LLC	–	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–	–
2012									
Filial No.2 PIK89 LLC	2	15	17	79	–	79	–	–	–
	2	15	17	79	–	79	–	–	–

20. Assets held for sale and discontinued operations

At December 31, 2012 the assets held for sales comprised of the gravel quarry (OOO Belomorsky Karier), the Shenkursk sawmill (OOO Shenkursk DOK), the planing mills in Arkhangelsk (OOO ALK) and Ust-Ilimsk (OOO UIZSI), the pellets equipment in Ystad (Ystad Pellets AB) and Lijepaya (SIA Pellets Latvia).

As of December 31, 2013 Boguchany harvesting and sawmilling units were classified as held for sale. For a detailed description please refer to note 38.

In thousands of SEK	Dec 31, 2013	Dec 31, 2012
Assets		
<i>Non-current assets</i>		
Property Plant and equipment	52,454	54,532
Forest lease rights	24,348	–
Intangible assets	2,328	9,066
Deferred tax asset	–	388
Total non-current assets	79,130	63,986
<i>Current assets</i>		
Inventory	21,035	13,517
VAT refundable	14,515	2,183
Trade and other receivable	7,530	8,992
Loans receivable	4,666	–
Cash and cash equivalents	800	437
Total current assets	48,546	25,129
Total assets	127,676	89,115

In thousands of SEK	Dec 31, 2013	Dec 31, 2012
Liabilities		
<i>Non-current liabilities</i>		
Interest-bearing loans and borrowings	30,196	–
Deferred tax liability	–	–
Total non-current liabilities	30,196	–
<i>Current liabilities</i>		
Interest-bearing loans and borrowings	9,368	8,719
Trade and other payables	51,968	21,217
Current tax liabilities	71	–
Provisions	–	–
Total current liabilities	61,407	29,936
Total liabilities	91,603	29,936

In thousands of SEK	12 m 2013	12 m 2012
Discontinued operations		
Turnover	153,911	243,492
Cost of sales	(158,494)	(262,870)
Gross profit	(4,583)	(19,378)
Other income	5,824	1,008
Distribution expenses	(49,312)	(85,901)
Administrative expenditure	(21,404)	(30,779)
Other expenses	(12,017)	(15,892)
Impairment loss	(230,127)	(238,527)
Loss from disposal	(14,472)	–
Operating profit/(loss)	(326,091)	(389,469)
Financing income	88	1
Financing cost	(9,844)	(11,385)
Net financing income/(cost)	(9,756)	(11,384)
Income tax	909	(27,702)
Loss after tax from discontinued operations	(334,938)	(428,555)

Condensed statement of cash flows

In thousands of SEK	12 m 2013	12 m 2012
Cash flow from operating activities	(18,288)	(66,672)
Investment in equipment	(8,457)	(52,463)
Proceeds from sales of equipment	4,265	527
VAT refund on capital investments	13,097	9,033
Cash flow from investing activities	8,905	(42,903)
Increase/(decrease) in loans payable	(8,235)	13,338
Interest paid	(6,688)	(7,633)
Cash flow from financing activities	(14,923)	5,705
Cash flow during the period	(24,306)	(103,870)

Earnings per share from discontinued operations	2013	2012
basic, loss from discontinued operations attributable to ordinary equity holders of the parent	(3.03)	(100.29)

21. Inventories

In thousands of SEK	Group		Parent company	
	2013	2012	2013	2012
Raw materials and consumables	17,582	45,840	–	–
Work in progress	14,032	33,834	–	–
Finished goods	36,054	38,046	–	–
Total	67,668	117,720	–	–

Inventories are stated at the lower of cost and net realisable value.

22. Trade and other receivables

In thousands of SEK	Group		Parent company	
	2013	2012	2013	2012
Trade receivables	17,369	26,109	–	–
Receivables from related companies	22	–	–	–
Receivables from Group companies	–	–	–	15,259
Forest lease prepayments	214	1,103	–	–
Advance payments to suppliers	11,865	12,179	–	–
Other taxes receivable	380	372	–	–
Other receivables	7,249	5,718	207	445
	37,099	45,481	207	15,704
Current	37,099	45,481	207	15,704
Non-current	–	–	–	–
	37,099	45,481	207	15,704

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.

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 34.

23. Loans receivable

In thousands of SEK	Group		Parent company	
	2013	2012	2013	2012
Loans receivable from Group companies	–	–	299,220	511,895
Loans receivable from third parties	–	5,024	–	–
	–	5,024	299,220	511,895

The loans receivable from third parties as of December 31, 2012 represented promissory notes of Sberbank acquired by BLPK LLC as part of collateral under a loan agreement. As of December 31, 2013 these promissory notes were reclassified to assets held for sale.

Parent company

Loans receivable from Group companies	In thousands of SEK	
	2013	2012
Balance January 1	511,895	202,197
Loans issued	155,340	322,355
Interest income relating to loans to Group companies	44,010	41,360
Interest paid	–	(909)
Loans repaid	(23,996)	–
Loans converted into share capital of Group companies	–	(36,224)
Impairment loss for the year	(344,589)	–
Currency exchange loss	(43,440)	(16,884)
Balance December 31	299,220	511,895

24. Cash and cash equivalents

In thousands of SEK	Group		Parent company	
	2013	2012	2013	2012
Cash in hand	40	49	15	16
Bank balances	22,700	16,339	11,521	4,786
Bank deposits	997	-	-	-
Cash and cash equivalents in the statement of cash flows	23,737	16,388	11,536	4,802

The Group's exposure to interest rate risk and sensitivity analysis for financial assets and liabilities are disclosed in note 34.

25. Share capital

2013	Number of shares	Quota value	SEK ('000)
Authorised share capital			
Ordinary shares at January 1	479,038,470	SEK 1	479,038
Issue of shares	12,724,349,630	SEK 1	12,724,350
Total before 100:1 reverse split	13,203,388,100		13,203,388
Total after 100:1 reverse split	132,033,881	SEK 1	132,034
Ordinary shares at December 31	132,033,881		132,034
Issued and fully paid share capital			
Balance at January 1	479,038,470	SEK 1	479,038
Issue of shares	12,724,349,630	SEK 1	12,724,350
Total before 100:1 reverse split	13,203,388,100		13,203,388
Total after 100:1 reverse split	132,033,881	SEK 1	132,034
Balance at December 31	132,033,881		132,034

2012	Number of shares	Quota value	SEK ('000)
Authorised share capital			
Ordinary shares at January 1	95,807,694	SEK 1	95,808
Issue of shares	383,230,776	SEK 1	383,230
Ordinary shares at December 31	479,038,470		479,038
Issued and fully paid share capital			
Balance at January 1	95,807,694	SEK 1	95,808
Issue of shares	383,230,776	SEK 1	383,230
Balance at December 31	479,038,470		479,038

For the year ended December 31, 2012 383,230,776 shares were issued for a consideration of SEK 1.18 per share. At the extraordinary general meeting on 1 March 2012, shareholders approved the reduction in the nominal value of shares to SEK 1 from SEK 10 per share (10 times reduction).

For the year ended December 31, 2013 (i) 6,500,118,750 shares were issued at consideration of SEK 0.04 per share, (ii) 2,874,230,820 shares were issued at consideration of SEK 0.03 per share, (iii) 3,350,000,000 shares were issued at consideration of SEK 0.03 per share, (iv) 60 shares were issued at consideration of SEK 0.01 per share.

At the extraordinary general meeting on February 1, 2013, shareholders approved the reversed split of shares whereby 100 shares were consolidated into one (1) share.

At December 31, 2013 the authorized share capital comprised of 132,033,881 ordinary shares with a nominal value of SEK 1 each (2012: 479,038,470 ordinary shares with a nominal value of SEK 1 each).

26. 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, foreign currency and liquidity risk, see note 34.

In thousands of SEK	Group		Parent company	
	2013	2012	2013	2012
Current borrowings				
Bank loans	5,584	34,399	-	-
Loans from third parties	32,634	6,608	32,634	-
Bonds issued	-	31,360	-	31,360
Obligations under finance leases	14,345	37,694	-	-
	52,563	110,061	32,634	31,360
Non-current borrowings				
Bank loans	90,127	29,932	-	-
Bonds issued	3,745	498,675	3,745	498,675
Obligations under finance leases	22,857	48,165	-	-
	116,729	576,772	3,745	498,675

Bonds issued

Terms and conditions of outstanding bonds issued were as follows:

In thousands of SEK	Currency	Nominal interest rate	Year of maturity	2013 Carrying amount	2012 Carrying amount
Main debt	SEK	0%	2018	3,745	500,000
Unamortized part of commission	SEK	-	2013	-	(5,075)
Interest debt	SEK	-	2013	-	35,110
				3,745	530,035

Bank loans

Terms and conditions of outstanding bank loans were as follows:

In thousands of SEK	Currency	Nominal interest rate	Year of maturity	2013 Carrying amount	2012 Carrying amount
Secured bank loan	EUR	7%	2018	37,638	-
Secured bank loan	RUB	13.5%	2018	32,908	-
Secured bank loan	USD	9.16%	2016	19,581	19,517
Secured bank loan	RUB	14%	2014	5,584	-
Secured bank loan	USD	12%	2018	-	28,580
Secured bank loan	RUB	12%	2013	-	5,997
Secured bank loan	RUB	20%	2013	-	5,355
Secured bank loan	USD	12.5%	2013	-	3,918
Secured bank loan	RUB	13%	2013	-	964
				95,711	64,331

Loans from third parties

Terms and conditions of outstanding loans from third parties were as follows:

In thousands of SEK	Nominal interest rate	Year of maturity	2013 Carrying amount	2012 Carrying amount
Secured loan	USD 9%	2014	32,634	–
Secured loan	USD 25%	2013	–	6,608
			32,634	6,608

Finance lease liabilities

Finance lease liabilities are payable as follows:

In thousands of SEK	Future minimum lease payments 2013	Interest 2013	Present value of minimum lease payments 2013	Future minimum lease payments 2012	Interest 2012	Present value of minimum lease payments 2012
Less than one year	19,556	5,211	14,345	51,088	13,394	37,694
Between two and five years	28,388	5,531	22,857	58,547	12,698	45,849
More than five years	–	–	–	2,490	174	2,316
	47,944	10,742	37,202	112,125	26,266	85,859

At December 31, 2013 the Group entered several lease agreements with Hansa Leasing LLC, TransLeasingKom LLC, Delta LLC, Raiffeisen-Leasing LLC, Baltiysky Leasing LLC, GSK Leasing CJSC, Volvo Finance Service Vostok LLC and Siemens Finance LLC. For the year ended December 31, 2013, the Group repaid lease debt before GTLK PJSC, Karkade LLC, Stoun-XXI LLC, SEB Leasing CJSC and Autoleasing LLC.

It is the Group's policy to lease certain of its assets under finance leases. The average remaining lease term is 36 months. For the period ended December 31, 2013, the average effective borrowing rate was 18 percent (2012: 18 percent). 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.

At December 31, 2013 the bank loans and loans from third parties are secured by property, plant and equipment with carrying amount of SEK 133,014 thousand and 100 percent participatory share in Lesprom LLC.

At December 31, 2012 the bank loans and loans from third parties are secured by property, plant and equipment with carrying amount of SEK 118,367 thousand, forest lease rights with carrying amount of SEK 85,474 thousand, land rights with carrying amount of SEK 4,658 thousand, promissory notes issued by Sberbank with carrying amount of SEK 5,012 thousand.

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

Lease obligations are denominated as follows:

Present value of minimum lease payments

Currency	2013	2012
RUB	18,866	43,689
EUR	–	1,360
USD	18,336	40,810
	37,202	85,859

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

27. Loans payable to related companies

In thousands of SEK	Group 2013	Group 2012	Parent company 2013	Parent company 2012
<i>Current loans payable</i>				
Loans from related companies	–	33,201	–	33,201
Total	–	33,201	–	33,201

28. Trade and other payables

In thousands of SEK	Group 2013	Group 2012	Parent company 2013	Parent company 2012
Trade creditors	24,457	40,275	–	–
Payables to Group companies	–	–	8,085	–
Payables to associate companies	–	–	–	–
Payables to related companies	1,836	–	–	–
Forest lease payable	2,816	4,142	–	–
Advances from clients	7,702	27,127	–	–
Other taxes payable	8,712	23,568	658	980
Other payables	33,968	61,990	675	1,394
Total	79,491	157,102	9,418	2,374

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 and liquidity risk related to trade and other payables is disclosed in note 34.

29. Provisions

In thousands of SEK	Group 2013	Group 2012	Parent company 2013	Parent company 2012
Balance at January 1	1,214	1,736	770	222
Additional provisions	–	548	–	548
Settled during the year	(1,006)	(1,070)	(770)	–
Balance at December 31	208	1,214	–	770

30. Deferred tax assets/liabilities

In thousands of SEK	Group	
	2013	2012
Deferred tax asset	(26)	(11,131)
Deferred tax liability	26	11,556
Net deferred tax liabilities	-	425

Deferred tax asset arises as follows:

In thousands of SEK	Group	
	2013	2012
Balance as at January 1	(11,131)	(93,383)
Reclassification to assets held for sale	-	27,467
Translation difference	(499)	(842)
Debit/(Credit) in the income statement	11,604	55,627
Balance as at December 31	(26)	(11,131)

Deferred tax liability arises as follows:

In thousands of SEK	Group	
	2013	2012
Balance as at 1 January	11,556	106,379
Reclassification to assets held for sale	-	(2,845)
Translation difference	278	1,862
Credit/(Debit) in the income statement	(11,808)	(93,840)
Balance as at 31 December	26	11,556

Deferred tax asset and deferred tax liability arise as follows:

	Assets		Liabilities		Net	
	2013	2012	2013	2012	2013	2012
Temporary tax differences on property, plant and equipment	19,704	6,468	-	18,503	19,704	24,971
Temporary tax differences on forest lease rights	20,765	9,106	-	15,422	20,765	24,528
Temporary tax differences on prior year losses	(28,369)	(20,692)	-	(17,209)	(28,369)	(37,901)
Temporary tax differences on trade and other payables	(5,296)	(3,894)	-	(2,011)	(5,296)	(5,905)
Temporary tax differences on prepaid expenses	(198)	(1,879)	-	-	(198)	(1,879)
Other temporary tax differences	(6,632)	(240)	26	(3,149)	(6,606)	(3,389)
Tax liabilities/(assets)	(26)	(11,131)	26	11,556	-	425

Tax losses carried forward could be utilized by the subsidiaries within 10 years from when they arise. The oldest losses originate from year 2008.

At December 31, 2013 deferred tax asset was not recognised for unused tax losses on the amount of SEK 144,356 thousand (2012: SEK 99,712 thousand).

31. 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	2013	2012
ROSS CJSC – 40% shareholder of Taiga-2003	Trading	-	154
Lesresurs LLC	Trading	719	-
		719	154

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	2013	2012
Lesresurs LLC	Trading	814	-
ROSS CJSC – 40% shareholder of Taiga-2003	Trading	-	703
Vostok Nafta Sverige AB	Office rent	-	222
		814	925

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

(iii) Finance expenses

In thousands of SEK	Nature of transactions	2013	2012
Vostok Komi (Cyprus) Limited – subsidiary of Vostok Nafta Investment Limited (shareholder)	Financing	1,226	12,635
		1,226	12,635

(iv) Loans from related companies

In thousands of SEK	2013	2012
Current		
Vostok Komi (Cyprus) Limited	-	33,201
	-	33,201

Terms and debt repayment schedule

Terms and conditions of outstanding loans with related companies were as follows:

In thousands of SEK	Nominal interest rate	Year of maturity	2013 Carrying amount	2012 Carrying amount
Vostok Komi (Cyprus) Limited	16%	2013	-	33,201

(v) Payables to related companies

In thousands of SEK	2013	2012
ROSS CJSC – 40% shareholder of Taiga-2003	14	-
Lesresurs LLC	1,713	-
	1,727	-

32. Acquisitions of subsidiary and non-controlling interests

In 2013, the Company acquired an additional interest in LDK-3 PJSC for SEK 611 thousand in cash, increasing its ownership from 94 to 95.4 percent. The Company recognised (i) a decrease in non-controlling interest of SEK 3,108 thousand, (ii) an increase in retained earnings of SEK 2,497 thousand.

There were no business combinations in 2012.

33. Business segments

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

The operating segment definitions were developed by senior management in order to enable effective and efficient operating performance based on geographical division of production units among Arkhangelsk, Ust-Ilimsk, Magistralny and Boguchany.

RusForest LLC is located in Moscow. The financial results of the management company, the trading house and the holding companies (RusForest AB, Varyag Capital (Cyprus) Ltd, Varyag Finance GmbH and RusForest Ltd) are not included in any of the operating segments as they do not generate any revenue. Therefore, their results have been presented as unallocated.

Boguchany and Gravel segments, pellets operations, Shenskursk sawmill, planing mills in Arkhangelsk (ALK) and Ust-Ilimsk (UIZSI) were classified as discontinued operations.

There are no material intersegment transactions and revenue.

Operational segments January 1, 2013–December 31, 2013

In thousands of SEK	External revenue				Impairment loss	Profit/(loss) before tax
	Sawnwood	Sawlogs	Other	Total		
Arkhangelsk	133,970	10,797	65,182	209,949	(24,571)	(103,595)
Ust-Ilimsk	11,408	11,949	26,107	49,464	(25,143)	(42,396)
Magistralny	118,806	47,614	5,440	171,860	–	(28,718)
Unallocated*	–	–	118	118	–	218,879
Total from continuing operations	264,184	70,360	96,847	431,391	(49,714)	44,170
Boguchany	107,784	20,145	5,044	132,973	(220,785)	(299,304)
Pellets	–	–	3,613	3,613	(9,342)	(14,725)
Gravel	–	–	14,592	14,592	–	(18,179)
ALK	–	–	5	5	–	(399)
UI ZSI	–	–	2,616	2,616	–	(2,615)
Shenskursk	26	–	86	112	–	(625)
Total from discontinued operations	107,810	20,145	25,956	153,911	(230,127)	(335,847)
Total	371,994	90,505	122,803	585,302	(279,841)	(291,677)

* includes gain from bond restructuring in the amount of SEK 269.8 million.

Operational segments January 1, 2012–December 31, 2012

In thousands of SEK	External revenue				Impairment loss	Profit/(loss) before tax
	Sawnwood	Sawlogs	Other	Total		
Arkhangelsk	116,978	8,623	96,340	221,941	(176,262)	(313,184)
Ust-Ilimsk	70,688	26,401	17,262	114,351	(106,984)	(164,708)
Magistralny	64,686	37,560	2,553	104,799	–	(72,945)
Unallocated	–	–	–	–	–	(144,846)
Total from continuing operations	252,352	72,584	116,155	441,091	(283,246)	(695,683)
Boguchany	102,354	15,583	5,300	123,237	(58,616)	(160,668)
Pellets	–	–	8,127	8,127	(54,940)	(74,114)
Gravel	–	–	81,621	81,621	(43,656)	(58,137)
ALK	–	–	3,241	3,241	(13,564)	(19,878)
UI ZSI	–	–	9,605	9,605	(9,006)	(10,345)
Shenskursk	17,395	–	266	17,661	(58,745)	(77,711)
Total from discontinued operations	119,749	15,583	108,160	243,492	(238,527)	(400,853)
Total	372,101	88,167	224,315	684,583	(521,773)	(1,096,536)

34. 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 by means of combined work between Operational and Audit Committees.

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.

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:

In thousands of SEK	Group		Parent company	
	2013	2012	2013	2012
Loans receivable	–	5,024	–	–
VAT refundable	40,659	47,290	66	446
Trade and other receivable	37,099	45,481	207	15,704
Cash and cash equivalents	23,737	16,388	11,536	4,802
	101,495	114,183	11,809	20,952

(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 – December 31, 2013

In thousands of SEK	Carrying amounts	Total	Contractual cash flows			
			Within 1 year	1–2 years	2–5 years	More than 5 years
Non-derivative financial liabilities						
Loans and borrowings	169,292	220,818	70,730	30,957	119,131	–
Trade and other payables	79,491	79,491	79,491	–	–	–
	248,783	300,309	150,221	30,957	119,131	–

Group – December 31, 2012

In thousands of SEK	Carrying amounts	Total	Contractual cash flows			
			Within 1 year	1–2 years	2–5 years	More than 5 years
Non-derivative financial liabilities						
Loans and borrowings	720,034	746,300	156,656	531,008	48,267	10,369
Trade and other payables	157,102	157,102	157,102	–	–	–
	877,136	903,402	313,758	531,008	48,267	10,369

Parent company – December 31, 2013

In thousands of SEK	Carrying amounts	Total	Contractual cash flows			
			Within 1 year	1–2 years	2–5 years	More than 5 years
Non-derivative financial liabilities						
Loans and borrowings	36,379	40,352	36,607	–	3,745	–
Trade and other payables	9,418	9,418	9,418	–	–	–
	45,797	49,770	46,025	–	3,745	–

Parent company – December 31, 2012

In thousands of SEK	Carrying amounts	Total	Contractual cash flows			
			Within 1 year	1–2 years	2–5 years	More than 5 years
Non-derivative financial liabilities						
Loans and borrowings	563,236	563,236	64,561	498,675	–	–
Trade and other payables	2,374	2,374	2,374	–	–	–
	565,610	565,610	66,935	498,675	–	–

(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.

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. For interest bearing debt the Group strives to achieve the best possible interest at a fixed rate for the term of the credit in order to have predictability of interest expenses. The Group currently has interest bearing debt in EUR, USD and RUB with varying base interest rates depending on the base currency of the credit, the group strives to have a balanced portfolio when it comes to credit currency and interests rates, to approximately mirror the proportion of currency based revenue in respective currency. However, the Company currently does not have interest bearing liabilities in Japanese JPY, one of the major currencies in terms of revenue.

Interest rates on the Group's loans and borrowings are disclosed in note 26.

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Currency risk

The Group is exposed to currency risk to the extent that there is a mismatch between the currencies in which sales, purchases and borrowings are denominated and the respective functional currencies of Group companies. The functional currencies of Group companies are primarily the Russian roubles (RUB) and Swedish kronor (SEK). The currencies in which above mentioned transactions are primarily denominated are United States Dollar (USD), Euro (EUR), Japanese Yen (JPY) and British Pound (GBP). The Company is not engaged in currency risk hedging by other means than to balance the credit portfolio composition approximately in accordance of revenue currency composition. In light of the conflict between Russia and Ukraine over the Crimean peninsula that erupted in March of 2014 in the Russian ruble has significantly depreciated in value. At a net level of currency exposure the depreciation is positive since the majority of cost categories except for interest rates are incurred in Russian rouble.

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

December 31, 2013, Group			
In thousands of SEK	USD	EUR	JPY
Assets			
Advances for CIP	–	166	–
Trade and other receivables	4	5,765	2,080
Cash and cash equivalents	8,138	471	–
	8,142	6,402	2 080
Liabilities			
Loans and borrowings	(52,215)	(37,638)	–
Trade and other payables	(8,868)	(10,456)	–
	(61,083)	(48,094)	–
Net exposure	(52,941)	(41,692)	2 080

December 31, 2012, Group			
In thousands of SEK	USD	EUR	GBP
Assets			
Advances for CIP	82	597	–
Trade and other receivables	9,025	6,298	218
Cash and cash equivalents	3,967	1,817	20
	13,074	8,712	238
Liabilities			
Loans and borrowings	(132,634)	(1,360)	–
Trade and other payables	(22,415)	(2,665)	–
	(155,049)	(4,025)	–
Net exposure	(141,975)	4,687	238

December 31, 2013, Parent company		
In thousands of SEK	USD	EUR
Assets		
Cash and cash equivalents	7,752	5
	7,752	5
Liabilities		
Loans and borrowings	(32,634)	–
	(32,634)	–
Net exposure	(24,882)	5

December 31, 2012, Parent company		
In thousands of SEK	USD	EUR
Assets		
Cash and cash equivalents	648	723
	648	723
Liabilities		
Loans and borrowings	(33,201)	–
	(33,201)	–
Net exposure	(32,553)	723

Foreign currency sensitivity analysis

A 10% weakening of the Russian rouble (RUB) against the following currency at December 31 would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2012.

2013	Group	
	Equity	Profit or loss
In thousands of SEK		
USD	(5,294)	(5,294)
Euro	(4,169)	(4,169)
JPY	208	208
	(9,255)	(9,255)

2012	Group	
	Equity	Profit or loss
In thousands of SEK		
USD	(14,198)	(14,198)
Euro	469	469
GBP	24	24
	(13,705)	(13,705)

(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; however, inadequacies in these systems could materially affect the Group's operations.

In Russia and other developing countries it is not always possible to insure forest assets against, for example wildfire and storm regardless of whether these factors are contingent on human negligence. This may lead to a lack of compensation in the event RusForest's forest leases suffer from any of these events, which could materially adversely affect the Group's business, financial position and general position.

(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.

RusForest's operations are subject to numerous laws, regulations, rules, agreements and guidelines, among others pertaining to the environment, health and safety, trade restrictions, competition laws and currency regulations. Changes in these frameworks, customs regulations and other trade restrictions, price and currency controls and other official guidelines in the countries where RusForest has operations may adversely affect the Company's business, financial position and general position. Companies within the Group are from time to time involved in disputes during the course of their ordinary business and risk, like other participants in RusForest's market, being subject to claims concerning for example contractual matters, product liability and alleged errors in delivery of goods and services. Such disputes and claims may be time consuming, disrupt normal business, concern large amounts and entail significant costs. Further, the outcome of complex disputes may be difficult to predict. Disputes may consequently materially adversely affect the Company's business, financial position and general position.

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) Regulation of forest leases

RusForest's forests are all the property of the Russian state and are leased for a period equivalent to up to 49 years. There are few or no cases where forest leases have been cancelled or terminated unilaterally in Russia, but a failure to pay the rent or to provide forestry maintenance or to fulfill the other provisions of the agreement may lead to a right to terminate the agreement.

The forest lease's AAC is regulated by the volume of mature and harvestable forest on the leased land. This harvesting quota may be adjusted as a result of re-assessment of a specific section of the forest. However, such adjustments are usually of a marginal nature (that is $\pm 5-10$ percent).

(ix) 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.

The capital structure of the Group consists of debt (note 26), cash and cash equivalents (note 24) and equity, comprising issued capital (note 25), reserves and retained earnings (note 26).

35. 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) Non-derivative financial liabilities

Fair value for loans and borrowings (note 26), 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.

Fair value for non-derivative financial liabilities was determined using Level 2 of fair value hierarchy.

36. Operating leases

The Group leases forest areas under operating leases. The below data on operating leases relates to continuing operations.

The average remaining period of lease is 32 years.

Non-cancellable operating lease rentals are payable as follows.

In thousands of SEK	Group	
	2013	2012
Less than one year	(18,201)	22,154
Between one and five years	(69,509)	85,715
More than five years	(372,957)	497,032
Total	(460,667)	604,901

During the year an amount of SEK 21,430 thousand was recognised as an expense in respect of operating leases (2012: SEK 23,363 thousand).

37. 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 percent - 40 percent 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.

In addition, it should be noted that since RusForest was insolvent at the time of the bond restructuring in Q1 2013, the gain

recognized in respect of the bond restructuring has been considered tax-exempt and prior years' losses carried forward in the Parent Company of SEK 70.7 million have consequently been lost. As the case law regarding when a company is considered to be insolvent is not fully clear, there is a remote risk that this may be interpreted differently by the tax authorities.

(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

Debtors of the Group may be 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 our 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 income originates, operate within the Russian Federation. In RusForest's operations there is a risk of environmental damage occurring.

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. Liability claims or remediation orders as a result of any damage caused by the operations which RusForest conducts at present or has run in the past are difficult to predict, but may conceivably entail significant amounts.

In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage. However, it cannot be ruled out that RusForest in the future will be ordered to investigate, remedy or otherwise pay for the remediation of affected areas where operations are or have been conducted or be subject to negative publicity in connection with alleged or actual damage to the environment.

38. Post balance sheet events

Significant events after the end of the period:

- On January 13, 2014, Gustav Wetterling was appointed as CFO of RusForest. Gustav Wetterling joins RusForest from Black Earth Farming Ltd. (NASDAQ OMX: BEF) where he was Director of Procurement and previously Director of Investor Relations. He has also worked for Vostok Nafta Investment Ltd. (NASDAQ OMX: VNIL) and Svenska Handelsbanken in Moscow. Mr. Wetterling is a Swedish citizen and is fluent in Russian. He holds a Master of Science in Economics and Business from the Stockholm School of Economics.
- On January 22, 2014, the Company announced the start of wood pellet production ahead of schedule from the new pellet mill at the Company's LDK-3 sawmill in Arkhangelsk. As previously disclosed, RusForest engaged AS Hekotek, a mechanical engineering company, to build the wood pellet production facility. The pellet mill will have an annual capacity of up to 100,000 tons and will allow RusForest to monetize its sawmill by-products by exporting wood pellets to Europe.
- On March 3, 2014, RusForest announced the sale of the non-core Boguchany unit in Eastern Siberia. The transaction includes the Boguchany sawmill, Boguchansky LPK for gross consideration of USD 8.0 million. The Boguchany sawmill has an annual capacity of 120,000 cubic meters of sawnwood. The net cash received by RusForest after repayment of the sawmill's debts will be approximately USD 1.5 million. The Company has already received a cash pre-payment of USD 1.5 million from the buyer.

RusForest also announced signing a Memorandum of Understanding to sell the related Boguchany harvesting company, RusForest Angara LLC, to the same buyer for gross consideration of USD 5.8 million. The harvesting company holds forestry leases with 748,400 cubic meters of AAC. The sale of the harvesting company is expected to close on or around September 30, 2014. The net cash received by RusForest after repayment of the harvesting company's debts is expected to be approximately USD 2.5 million.

As of December 31, 2013, the Boguchany business unit was classified as held for sale and therefore the financial result of the Boguchany segment was included in the results from discontinued operations.

39. Adjustment for non-cash items*Adjustment for non-cash items*

In thousands of SEK	Group		Parent company	
	2013	2012	2013	2012
Depreciation of property, plant and equipment	81,425	96,515	20	–
Amortization of intangible assets	12,195	25,536	–	–
Income tax	(719)	(38,110)	–	–
Finance income	(627)	(1,277)	(601)	(837)
Income from bond restructuring	(269,772)	–	(269,772)	–
Finance expense	32,181	91,373	51,937	89,601,
Unpaid interest on loan receivables to portfolio companies	–	–	(44,010)	(41,360)
Net income/loss on disposal of property, plant and equipment	(3,503)	7,367	–	–
Net income/loss on disposal of intangible assets	–	–	–	–
Bad debts	4,704	36,199	–	–
Loss after tax for the year from discontinued operations	334,938	428,555	–	–
Impairment loss for the year	49,714	283,246	–	–
Impairment of investments in Group companies	–	–	318	–
Impairment of investments in associates	–	2,349	–	–
Impairment of receivables from Group companies	–	–	368,471	–
Loss on disposal of investments	–	–	435,624	1,568,193
Profit from conversion of loans into share capital of Group companies	–	–	–	(6,820)
Other non-cash items	(3,055)	(497)	–	–
Total	237,481	931,256	541,987	1,608,777

For the year ended December 31, 2013 property, plant and equipment on the amount of SEK 5,701 thousand was acquired by finance lease (2012: SEK 32,802 thousand).

Stockholm, April 24, 2014

RusForest AB (publ)

Matti Lehtipuu
Chief Executive Officer

Garrett Soden
Chairman of the Board

Per Brilioth

Paul Putz

Peter Nilsson

Alexander Rudik

Camilla Öberg

Our audit report was issued on April 24, 2014.

KPMG AB

Mats Kåvik
Authorized Public Accountant

66 Independent Auditors' Report

To the annual meeting of the shareholders of RusForest AB (publ), corp. id. 556694-6421

Report on the annual accounts and consolidated accounts

We have audited the annual accounts and consolidated accounts of RusForest AB (publ) for the year 2013. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 32–65.

Responsibilities of the Board of Directors and the Managing Director for the annual accounts and consolidated accounts

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these annual accounts in accordance with the Annual Accounts Act and of the consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but

not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of December 31, 2013 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of December 31, 2013 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act.

The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet for the parent company and the income statement and statement of financial position for the group.

Report on other legal and regulatory requirements

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Managing Director of RusForest AB (publ) for the year 2013.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the Managing Director are responsible for administration under the Companies Act.

Auditor's responsibility

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined whether the proposal is in accordance with the Companies Act.

As basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the Managing Director is liable to the company. We also examined whether any member of the Board of Directors or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Opinions

We recommend to the annual meeting of shareholders that the loss be dealt with in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Stockholm April 24, 2014

KPMG AB

Mats Kåvik

Authorized Public Accountant

68 Board of Directors and management

Board of Directors

The Board of Directors is responsible for the Company's organization and the administration of the Company's affairs and shall continuously evaluate RusForest's financial position. The work conducted in the Board is led by the chairman of the Board. The assignments for all Board members are determined by the annual shareholders' meeting and apply until the close of the following annual shareholders' meeting.

The extraordinary shareholders' meeting in February 2013 resolved to elect Alexander Rudik and Paul Putz as new members of the Board of Directors as from, and conditional upon, allocation of shares in the Directed Issue, which closed on March 26, 2013.

The annual general meeting on May 15, 2013 elected Peter Nilsson as new Board member and re-elected Per Brilioth, Paul Putz, Alexander Rudik and Camilla Öberg, with Paul Putz as Chairman of the Board.

The extraordinary shareholders' meeting that was held July 11, 2013 elected Garrett Soden as new Board member and Chairman of the Board and elected Paul Putz as deputy Chairman.



Garrett Soden

*Chairman of the Board since 2013
Geneva, born 1974*

Garrett Soden has experience across the natural resources sector in investment banking, government policy and public company management. He has worked with public companies associated with the Lundin family since 2007 and has extensive experience in the international capital markets. He previously served as CEO of RusForest AB from August 2012 until July 2013. Mr. Soden is also a board member of Etrion Corporation. He holds a BSc honors degree from the London School of Economics and an MBA from Columbia Business School.

Garrett Soden is independent in relation to RusForest, its management and its major shareholders.

Holding in RusForest AB¹: 32,000 shares



Per Brilioth

*Member of the Board since 2009
Stockholm, born 1969*

Per Brilioth is a graduate of Stockholm University and holds a Master of Finance from the London Business School. Per Brilioth is the managing director and a Board member of Vostok Nafta Investment Ltd since 2007 and has worked closely with the Russian stock market for many years. Per Brilioth is independent in relation to RusForest, its management and its major shareholders.

Per Brilioth is a Board member of Vostok Nafta Investment Ltd, Black Earth Farming Ltd, Avito AB, X5 Group AB and Svenska Fotografiska museet AB.

Holding in RusForest AB¹: 222,855 shares



Peter Nilsson

*Member of the Board since 2013
Västervik, born 1963*

Peter Nilsson is CEO of Bergs Timber AB and has more than 30 years of forestry experience. Peter Nilsson served as COO of RusForest from October 2012 through March 2013, before joining the RusForest board of directors. Previously, Peter Nilsson was CEO of Södra Timber AB and Geijer & Söner AB. He has also held various positions at SCA Timber AB, including CEO of the UK operations. Peter Nilsson has served on several boards in the sawnwood distribution and homebuilding industries. Peter Nilsson is independent in relation to RusForest, its management and its major shareholders.

Holding in RusForest AB¹: 45,000 shares



Paul Putz

*Deputy Chairman of the Board
since 2013*

Vienna, born 1969

Paul Putz began as a broker assistant at the Vienna Stock Exchange (Wiener Börse) in 1989, and he now has more than 25 years of experience in investment banking. He is currently a partner of Paul Putz & Partner Management Consultants, a company focused on supporting CEE and Russian companies in extending business and financing into the Euro-

1. Shareholding as of April 16, 2014

pean Union. He has served as a board member and manager of several Russian and international companies since 1993. Among other assignments, he has been COO of Ecolive SA, a holding company with Russian forestry assets, board member of the Region Investment Group and Director of Business Development at NEWEX Börse AG. Paul Putz holds an MBA from California State University, Hayward and an MBA from IMADEC University in Vienna. Paul Putz is independent in relation to RusForest, its management and its major shareholders.

Paul Putz is a board member of Ecolive SA and managing director of Paul Putz & Partner Management Consultants GmbH, Allgemeine Finanzberatung Putz & Putz GmbH, PPP Land Investment AG and PPP Real estate spol.s.r.o.

Holding in RusForest AB¹: 75,000 shares.



Alexander Rudik

Member of the Board since 2013

Moscow, born 1971

Alexander Rudik started his banking career in 1994 and is the founder and president of Nova Capital LLC.

Before founding Nova Capital in 2011, he established the Region Group of Companies, a leading Russian investment group, in 1995 and remained its principal shareholder and president until 2011. He has served as Vice Governor of a constituent entity of the Russian Federation and on the board of directors of Russian Timber Group LLC. He also chaired the Subcommittee on the Wood Processing Industry and Housing Construction of the Russian Federation Chamber of Commerce's Committee on the Development of the Timber Industry and Forestry and is a former member of the Forestry Board of the Russian Federation Ministry of Natural Resources. Alexander Rudik is independent in relation to RusForest and its management, but not in relation to its major shareholders due to his affiliation with Nova Capital.

Alexander Rudik is a member of the general council of the all-Russian public organization Business Russia.

Holding in RusForest AB¹: 61,560 shares.



Camilla Öberg

Member of the Board since 2011

Stockholm, born 1964

Camilla Öberg holds a Degree in Economics and Business Administration from Stockholm School of Economics. From 2006 to 2011

Camilla Öberg was employed at the IT-company Logica, and was CFO of Logica Sweden AB from 2007. Between 1998 and 2006 Camilla Öberg was employed at WM-data, where she, inter alia, worked as head of IR and Group Treasury. Camilla Öberg also worked as CFO of one of WM-data's subsidiaries and as business controller for one of four business areas. During her first two years at WM-data Camilla Öberg worked as CFO of Företagarservice. Before her time at WM-data, she worked as, inter alia, CFO of Integro AB, as CFO of Lexicon and in accounting and external reporting at SEB. Camilla Öberg is independent in relation to RusForest, its management and its major shareholders.

Camilla Öberg is a Board member of Black Earth Farming Ltd. She is also CFO for Cybercom Group AB. Camilla Öberg is also a Board member of subsidiaries of Cybercom Group AB.

Holding in RusForest AB¹: 3,500 shares.

1. Shareholding as of April 16, 2014

Management

RusForest senior management consists of the chief executive officer, the chief financial officer and the chief operating officer. RusForest's management has the overall responsibility for RusForest's day-to-day operations, liquidity management, business control, profit/loss follow up and information issues. Certain support services are purchased from external suppliers. RusForest's senior management includes the persons described below.



Matti Lehtipuu

Chief executive officer since July 2013

Moscow, born 1974

Matti Lehtipuu was appointed CEO of RusForest in July 2013. He has over 10 years of forest industry experience from Pöyry Management Consulting. Matti Lehtipuu started his career at Pöyry in 2001 as an Analyst in the Wood Products team in London. In 2004, he was transferred to Moscow to build a new office for Pöyry Forest Industry Consulting. Between 2007 and 2013, he led the management consulting business for Pöyry in Russia and the CIS countries. Matti Lehtipuu is Finnish, lives in Moscow and speaks Russian. He has a master of sciences degree in forest products marketing from the University of Helsinki.

Matti Lehtipuu has no corporate positions except for his position as chief executive officer of RusForest.

Holding in RusForest AB¹: 40,000 shares.

Stock options in RusForest AB: 1,200,000



Gustav Wetterling

Chief financial officer since 2014

Stockholm, born 1981

Gustav Wetterling was appointed CFO of RusForest in January 2014.

Gustav Wetterling joined RusForest from Black Earth Farming Ltd

where he was Director of Procurement and previously Director of Investor Relations. He has also worked for Vostok Nafta Investment Ltd and Svenska Handelsbanken. Gustav Wetterling is a Swedish citizen and is fluent in Russian. He holds a Master of Science in

Economics and Business from the Stockholm School of Economics.

Gustav Wetterling has no corporate positions except for his position as chief financial officer of RusForest.

Holding in RusForest AB¹: 14,000 shares.

Stock options in RusForest AB: 300,000



Anton Bogdanov

Chief operating officer since March 2013

Moscow, born 1974

Anton Bogdanov was appointed COO of RusForest AB in March 2013. He is a seasoned Russian

forestry executive and was most recently CEO of Nova Management Group, which operates Lesresurs, a Russian forestry company in eastern Siberia with 372,000 cubic meters of AAC and 170,000 cubic meters of annual sawnwood capacity. Lesresurs is one of the largest Russian suppliers of sawnwood to Japan.

Holding in RusForest AB¹: 73,800 shares.

Stock options in RusForest AB: 300,000

Auditors

KPMG AB

At the annual shareholders' meeting in 2010, the accounting firm KPMG AB was elected as the Company's auditor for the coming four years.

Auditor in charge: Mats Kåvik

Mats Kåvik is an authorized public accountant and member of FAR.

Legal advisor

Advokatfirman Vinge KB

Certified adviser

Pareto Securities AB

1. Shareholding as of April 16, 2014

Corporate governance and internal control report

The current version of the Swedish Code of Corporate Governance (the "Code") came into force on February 1, 2010. The rules of the Code are a supplement to the main provisions of the Swedish Companies Act (2005:551) regarding a company's organization, but also to the relatively extensive self-regulation that exists for corporate governance. The Code is based on the principle of "comply or explain". According to this principle a company may choose whether it wants to follow a clause in the Code, or explain why it has chosen not to.

Corporate governance code application

RusForest AB (the "Company") is a public limited liability company registered in Sweden. The Company's shares are listed on NASDAQ OMX First North, which has a less extensive rulebook than the main market and does not require that the Company follows the Code. However, RusForest has chosen to apply the rules of the main market and the Code. The Company will apply the Code in full, or, where applicable, explain deviations from it. The main principles of corporate governance in the Company are described below.

Shareholders' meetings

The annual general meeting ("AGM") is the highest decision-making body of the Company, in which all shareholders are entitled to attend in person or by proxy. The AGM of the Company is held in Stockholm, Sweden, in Swedish, once per year, no later than six months after the end of the financial year. The task of the AGM is to report on the financial results and take decisions on corporate matters, including payment of dividend and amendments to the Articles of Association. The AGM also appoints members of the Board of Directors and auditors, and establishes the remuneration of the Board of Directors and the auditors.

Major shareholders

Nova Capital, which holds a total of 33,500,000 shares in the Company, representing a total of 25.40 percent of the outstanding shares, is the largest shareholder. The shares are held through a legal entity controlled by Nova Capital.

Directors and senior management of the Company held a total of 0.51 percent of outstanding shares in the Company at April 16, 2014.

Nomination committee

Shareholders in the Company have the right to nominate members of the Board of Directors, and auditors, to the AGM.

At the Company's AGM on May 15, 2013 it was resolved to establish a nomination committee consisting of representatives of the three largest shareholders of the Company, as at the last banking day of August 2013. The nomination committee for the 2014 AGM consists of the following members: Temo Jorbenadze (Nova Capital), Björn Lindström (Alpcot Capital) and Garrett Soden (Chairman of the Board of RusForest AB). At the nomination committee's first meeting, Temo Jorbenadze was elected Chairman of the committee. The nomination committee's task is to prepare proposals for the following resolutions at the 2014 AGM: (i) election of the chairman of the AGM, (ii) election of Board members, (iii) election of the Chairman of the Board, (iv) remuneration to the directors, (v) election of auditors and their remuneration, and (vi) proposals on the nomination process for the AGM 2015.

Appointment and remuneration of the Board of Directors and the auditors

According to the Company's Articles of Association, the Board shall consist of not less than three (3) members and not more than seven (7) members, with or without not more than two (2) deputy members. The Board is appointed annually at the AGM for the period until the closing of the next AGM. The term of office of a director may be terminated prematurely at the director's own request to the Board or by the general meeting. In addition, the office of a director may be terminated prematurely by the Board upon the occurrence of any of the following events: (i) if he/she becomes of unsound mind or a patient for any purpose of any statute or applicable law relating to mental health; (ii) if he/she becomes bankrupt; or (iii) if he/she is prohibited by law from being a director. Where a director's term of office is terminated prematurely, then the other directors shall take steps to have a new director appointed by the general meet-

ing, for the remaining term of the office. However, such new appointment may be postponed until the next AGM at which an election of directors shall take place, provided that the remaining directors form a quorum and that the remaining number of directors is not less than the prescribed minimum number of directors.

Auditors are generally elected by the AGM for a term of four years at a time.

The 2013 Board of Directors

At the onset of 2013, the Board of Directors consisted of the following five Directors, all of whom were elected by the 2012 AGM held on May 10, 2012: Per Brilioth, Franz Bergstrand, Kenneth Eriksson, Jerker Karlsson and Camilla Öberg, with Kenneth Eriksson as Chairman. All Board members in this composition were independent vis-à-vis the Company and its management. However, Per Brilioth was not independent of the Company's major shareholder at the time, Vostok Nafta Investment Ltd.

At the EGM held on February 1, 2013, it was resolved, in accordance with the proposal of the 2013 Nomination Committee, to re-elect Per Brilioth, Kenneth Eriksson and Camilla Öberg as Directors, with Kenneth Eriksson as Chairman. Alexander Rudik and Paul Putz were elected as new Board members as from, and conditional upon, allocation of shares in the new share issue at the end of March 2013.

At the AGM held on May 15, 2013, it was resolved, in accordance with the proposal of the 2013 Nomination Committee, to re-elect Per Brilioth, Paul Putz, Alexander Rudik and Camilla Öberg as Directors, with Paul Putz as Chairman. Peter Nilsson was elected as a new Board member.

At the EGM held on July 11, 2013, it was resolved, in accordance with the proposal of the 2013 Nomination Committee, to re-elect Per Brilioth, Peter Nilsson, Paul Putz, Alexander Rudik and Camilla Öberg as Directors, with Paul Putz as Deputy Chairman. Garrett Soden was elected as a new Board member and Chairman of the Board.

All Board members are independent vis-à-vis the Company, its management and major shareholder, with the exception of Alexander Rudik, who is the founder and president of Nova Capital, the Company's largest shareholder.

For a detailed presentation of the current Board, see "Board of Directors, management and auditors" in the 2013 Annual Report.

Board meetings

The Board of Directors meets at least twice per year in person, and more frequently when necessary. In addition, meetings are conducted by telephone if considered necessary, and, on occasion, resolutions may be passed by circulation. The Chief Executive Officer is in regular contact with the Chairman of the Board of Directors as well as the other members of the Board of Directors. During 2013, 19 board meetings were held.

Work and responsibilities

The Board of Directors adopts decisions on overall issues affecting the Group. However, the Board of Directors' primary duties are the organization of the Company and the management of the Company's operations including:

- Decisions regarding the focus of the business and adoption of Company policies;
- Supply of capital;
- Appointment and regular evaluation of the work of the Chief Executive Officer and Company management;
- Approval of the reporting instructions for the Company management;
- Ensuring that the Company's external communications are open, objective and appropriate for target audiences;
- Ensuring that there is an effective system for follow-up and control of the Company's operations and financial position vis-à-vis the established goals; and
- Follow-up and monitoring that the operations are carried out within established limits in compliance with laws, regulations, stock exchange rules, and customary practice on the securities market.

Sub-committees of the Board

At the AGM, held May 20, 2010, it was resolved that the Board of Directors shall establish an audit committee and an operational committee, each consisting of up to three members.

Audit committee

The audit committee shall function as the primary communication channel between the board and the Company's auditors and shall be responsible for the preparation of the board's work to assure the quality of the Company's financial reporting. The audit committee has a particular responsibility to review and bring any problems with the internal control of financial reporting to the Board of Directors' attention. Potential reported shortcomings are followed up by management and the audit committee.

The audit committee shall address any critical accounting issues and review the financial reports issued by the Company. Among other the following issues and reports shall be considered:

- matters of internal control and application of relevant accounting principles and laws.
- discuss any uncertainties in presented values, changes in estimates and appraisals.
- significant events after the reporting period.
- address any established irregularities.
- the Company's annual report and the interim reports which are prepared four times annually shall be reviewed.
- discuss any other issues than the above that might affect the quality of the Company's reporting.

The audit committee meets with the Company's auditors on a continuous basis (at minimum once a year) to keep informed of the direction and extent of the audit. The audit committee and the auditors shall also discuss the coordination between internal

control and external audit and the auditors' views on potential risks to the Company's quality of reporting.

- The audit committee shall set the guidelines for what other services than audit the Company may procure from the auditors.
- The audit committee shall on an annual basis in connection with the end of the financial year, evaluate the performance by the Company's auditors. They shall inform the nomination committee of the result of the valuation, to be considered when they nominate auditors for the AGM.
- Assist the nomination committee in the process of nominating auditors and remuneration for the auditors.
- The audit committee shall review the annual and interim reports and make recommendations on these to the Board of Directors.

During 2013, the audit committee met six times. The audit committee consists of Camilla Öberg (Chair), Per Brilioth and Paul Putz.

Operational committee

The role of the operational committee is to make suitable investment recommendations and review the budget and operations in the operating units on a regular basis. These recommendations must at all times be in line with the overall strategy of the Company as decided by the Board of Directors

The operational committee consists of Peter Nilsson (Chair) and Alexander Rudik.

Composition of the Board of Directors, including meeting attendance 2013

Name	Elected to the board	Position	Connection to the Company	Audit committee	Operational committee	Attended board meetings	Share holding	Board fee (SEK)
Garrett Soden ¹	2013	Chairman	Independent			21%	32,000	142,260
Paul Putz ²	2013	Deputy chairman	Independent	X		63%	65,000	186,079
Per Brilioth	2009	Member	Independent	X		95%	222,855	225,000
Peter Nilsson ³	2013	Member	Independent		X	47%	45,000	156,791
Alexander Rudik ²	2013	Member	Main owner		X	63%	53,580	162,004
Camilla Öberg	2011	Member	Independent	X		100%	3,500	250,000
Number of meetings				6	2	19		1,122,134

1. Garrett Soden was elected to the Board on July 11, 2013, and has attended all meeting since then.

2. Paul Putz and Alexander Rudik were elected to the Board on March 26, 2013, and have attended all meetings since then.

3. Peter Nilsson was elected to the Board on May 15, 2013, and has attended all meetings since then.

Management

The Chief Executive Officer manages the Company's day-to-day activities and prepares investment recommendations in co-operation with the group management and members of the operating committee. For a detailed presentation of the management, see the section "Board of Directors and management".

Group Management in 2013

Matti Lehtipuu: Chief Executive Officer

Kirill Pronin: Chief Financial Officer

Anton Bogdanov: Chief Operating Officer

Investor relations

The investor relations function of the Company was during 2013 managed by Mia O'Connor. As from January 13, 2014, investor relations are handled by Gustav Wetterling, Chief Financial Officer.

Remuneration of the Board of Directors and group management

Remuneration of the Company's Board of Directors

The remuneration of the Board of Directors was set at SEK 300,000 for the Chairman of the Board and SEK 150,000 for each of the other members of the Board of Directors. For work on the audit committee, remuneration of SEK 100,000 was paid to the AC Chair and SEK 75,000 to each member, and for work on the operating committee, remuneration of SEK 100,000 was paid to the Chairman and SEK 75,000 to the other member.

Remuneration of the senior management

The Chief Executive Officer's fixed annual salary amounts to USD 300,000. The monthly salary is deemed to include provision for pension. The Company also covered the cost of the Chief Executive Officer's apartment and parking. The Chief Executive Officer is entitled to six months' full salary in the event of termination by the Company. Should he himself choose to resign the notice period is six months.

The combined fixed annual salary to the other senior executives amounts to a total of approximately USD 560,000. The new chief financial officer has a pension plan based on Swedish market practice, which is accounted for as a defined contribution

plan in accordance with IAS 19. The premium is calculated on the basis of base salary. The chief operating officer's monthly salary is deemed to include provision for pension. The employment agreements of the other members of the group management have a mutual notice period of six months.

Incentive program

Incentive program for the Company

A share-based incentive program was adopted at the AGM held on May 15, 2013. The program is described in detail in note 9 to the 2013 financial statements. A total of 2,100,000 options have been issued under the program.

Other matters related to remuneration

There are no agreements on severance payment or pensions for the Board of Directors. Except as otherwise stated there are no reserved or accrued amounts in the Company for pensions or other post-employment remunerations or post-assignment for members of the Board of Directors or the senior executives.

Auditors

At the Company's AGM held on May 15, 2013, it was noted that the term of the Company's auditor, KPMG AB, expires at the end of the AGM 2014 and that no election of auditor therefore took place.

Mats Kåvik, Authorized Public Accountant, Lead Partner. Auditor in charge since 2013. KPMG AB, Sweden.

During the year the auditing firm has not had any other significant assignments from RusForest in addition to auditing work specified in the section "Independent Auditors' Report" on pages 66–67.

Internal control

The Board of Directors is responsible for the Company's organization and administration of the Company's activities, which includes internal control. Internal control in this context regards those measures taken by the Company's Board of Directors, management and other personnel, to ensure that bookkeeping, asset management and the Compa-

ny's financial condition in general are controlled in a reliable fashion and in compliance with relevant legislation, applicable accounting standards and other requirements for listed companies. RusForest has an Audit Committee, consisting of three members of the board, charged with the special responsibility to evaluate the efficiency of internal control and ensure compliance with internal control methods as well as to review and discuss internal and external audit matters. This report on internal control is made in accordance with section 7.4 of the Code, which governs internal control over the financial reporting, and in accordance with guidance provided by FAR, the institute for the accounting profession in Sweden, and by the Confederation of Swedish Enterprise.

Management continuously monitors the Company's operations in accordance with the guidelines set out below. Monthly reports are produced for internal use, which later form the basis for a quarterly review by the Board of Directors.

Control environment

The control environment, which forms the basis of internal control over financial reporting, to a large extent exists of the core values which the Board of Directors communicate and themselves act upon. RusForest's ambition is that values such as precision, professionalism and integrity should permeate the organization. Another important part of the control environment is to make sure that such matters as the organizational structure, chain of command and authority are well defined and clearly communicated. This is achieved through written instructions and formal routines for division of labor between the Board of Directors on the one hand, and management and other personnel on the other. The Board of Directors establishes the general guidelines for RusForest's core business, which is utilizing its forest leases and produce a range of high-quality sawnwood. and pellets

The Company has in 2013 employed a full time internal auditor. In connection with large projects such as pellet mill construction the Company also utilized external construction audit services.

Risk assessment

The Board of Directors of RusForest is responsible for the identification and management of significant risks for errors in the financial reporting. The risk assessment specifically focuses on risks for irregularities, unlawful benefit of external parties at RusForest's expense and risks of loss or embezzlement of assets. It is the ambition of RusForest to minimize the risk of errors in the financial reporting by continuously identifying the safest and most effective reporting routines. An internal control report is prepared by management and reviewed by the Board of Directors on a quarterly basis. The Board of Directors puts most effort into ensuring the reliability of those processes that are deemed to hold the greatest risk for error or where potential errors would have the most significant negative effect. Among other things this includes establishing clearly stated requirements for the classification and description of income statement and balance sheet items according to generally accepted accounting principles and applicable legislation.

Control activities

To verify compliance with the requirements and routines established in response to the risk assessment made, a number of concrete control activities need to be put in place. The purpose of the control activities is to prevent, detect and rectify any weaknesses and deviations in the financial reporting. For RusForest's part such control activities include the establishment of verifiable written decisions at every instance in the investment procedure. In addition, after every completed transaction, purchase or sale, the whole process is examined to verify the validity of the transaction, from recommendation to approval, execution and entry of the transaction into the Company's books. Bank and custody reconciliations are also performed and compared to reported financial statement items. Control activities also include permanent routines for the presentation and reporting of company accounts, for example monthly reconciliations of RusForest's assets and liabilities. Special focus is also put on making sure that the requirements and routines for the accounting procedure, including consolidation of accounts and creation of interim and full year reports comply with pertinent legislation as

well as generally accepted accounting principles and other requirements for publicly listed companies. Controls have also been carried out to ensure that the IT-/computer systems involved in the reporting process have a sufficiently high dependability.

Information and communication

RusForest has tried to ensure an efficient and accurate provision of information internally and externally. For this purpose the Company has established fixed routines and invested in reliable technical applications to guarantee a fast and reliable way of sharing information throughout the organization. Internal policies and general guidelines for financial reporting are communicated between the Board of Directors, management and other personnel through regular meetings and e-mails. To ensure the quality of the external reporting, which is an extension of the internal reporting, there is a written communication policy which sets out what information shall be communicated and how it shall be communicated.

Monitoring

The Board of Directors receives detailed quarterly reports on RusForest's financial position. The Company's financial situation and strategy are discussed at every board meeting, as well as any problems in the business and financial reporting since the last board meeting. The Audit Committee has a particular responsibility to review and bring any problems with the internal control of financial reporting to the Board of Directors' attention. Potential reported shortcomings are followed up via management and the Audit Committee. The Company prepares interim reports four times annually which are reviewed by the board and Audit Committee. A review of the Company's accounts is performed at least once a year in addition to the comprehensive audit in connection with the Annual Report.

RusForest is in full compliance with the Nasdaq OMX First North member rules for issuers There has not been any infringement to fair practices on the First North marketplace.

AUDITOR'S REPORT ON THE CORPORATE GOVERNANCE STATEMENT

To the annual meeting of the shareholders in RusForest AB (publ), corp. id. 556694-6421

Engagement and responsibility

We have audited the corporate governance statement for the year 2013 on pages 71–76. It is the board of directors who is responsible for the corporate governance statement and that it has been prepared in accordance with the Annual Accounts Act. Our responsibility is to express an opinion on the corporate governance statement based on our audit.

The scope of the audit

We conducted our audit in accordance with Fars auditing standard RevU 16 the auditor's examination of the corporate governance statement. That standard requires that we have planned and performed the audit to obtain reasonable assurance that the corporate governance statement is free of material misstatements. An audit includes examining, on a test basis, evidence supporting the information included in the corporate governance statement. We believe that our audit procedures provide a reasonable basis for our opinion set out below.

Opinion

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

Stockholm, April 23, 2014

KPMG AB

Mats Kåvik
Authorized Public Accountant
Lead Partner



RusForest adopted an environmental policy in 2011, that requires the Company to work with materials and methods in a way that has minimal impact on the internal and external environment. The Company is constantly working to raise the importance of environmental awareness with all employees and to comply with the environmental demands from authorities, customers and the market.

RusForest has also completed the certification process for the majority of its operations according to Forest Stewardship Council (FSC) rules. FSC certificates for the Company's operations were issued by Rainforest Alliance, the global leader in forest certification:

- The majority of the Company's harvesting units located in the Arkhangelsk and Irkutsk regions of Russia received the FSC forest management and chain of custody certificates.
- RusForest's main sawmills (Arkhangelsk LDK-3 and Magistralny) and its wholesale export operation (RusForest Trade House) also received the chain of custody certificates for their products and raw materials.

Following the principles of the Forest Stewardship Council, RusForest Arkhangelsk is making every effort to prevent the sale and receipt of wood from the following categories:

- wood harvested from areas that violated traditional or civil rights;
- wood harvested in forests that are not FSC certified and where conservation values are threatened;
- wood from genetically modified (GM) trees;
- illegally logged wood.

RusForest pays special attention to the social and environmental impacts of its business activities in Russia. The Company maintains highly valuable forests in close cooperation with local communities and leading environmental organizations such as WWF and Greenpeace.



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