

## Interim Report 1 January – 30 June 2014

USDm	Second quarter		6M	
	2014	2013	2014	2013
Revenue	17.8	15.2	34.7	33.4
EBITDA adjusted	0.2	(3.5)	1.3	(5.8)
Profit/(loss) from continuing operations	(2.6)	(8.8)	(6.0)	26.0*
Profit/(loss) from discontinued operations	(1.2)	(3.0)	(1.1)	(9.0)
Profit/(loss) for the period	(3.8)	(11.8)	(7.1)	17.0
Net income/(loss) per share (USD per share)	(0.0)	(0.1)	(0.1)	0.2

<i>Production &amp; sales continuing operations</i>				
Sawlogs harvested, m <sup>3</sup>	28,918	49,028	142,377	210,005
Sawnwood produced, m <sup>3</sup>	41,335	41,284	89,869	88,069
Sawlogs sold, m <sup>3</sup>	7,939	26,431	36,151	83,035
Sawnwood sold, m <sup>3</sup>	48,645	51,318	99,163	85,463
Pellets produced, tonnes	12,830	-	19,320	-
Pellets sold, tonnes	16,251	-	16,259	-

	30 Jun 2014	31 Dec 2013
Cash balance	1.9	3.6
Working capital	9.2	10.1
Net debt	21.9	22.3

## Highlights

### Second quarter 2014

- Second consecutive quarter reporting a positive EBITDA despite the seasonal slowdown.
- Adjusted EBITDA in Q2 2014 of USD 0.2 million, compared with USD -3.5 million in Q2 2013. Magistralny was negatively affected by weather in Q2 2014 but continues to deliver positive results, while pellet sales boosted the adjusted EBITDA for Arkhangelsk to USD 1.6 million.
- Sawlog harvesting was reduced due to challenging weather conditions.
- Sawnwood production overall in Q2 2014 remained unchanged compared with Q2 2013; a slight drop in Arkhangelsk productivity was offset by an increase in Magistralny.
- Loss for the period of USD 3.8 million in Q2 2014, compared with a loss of USD 11.8 million in Q2 2013.
- On 23 June 2014, RusForest announced a contract for the sale of 60,000 tons of pellets, which represents a majority of the company's annual pellet production. The pellets are being sold through one of the leading trading houses focused on bioenergy.

### After reporting period

- On 28 July 2014, RusForest announced the sale of its subsidiary, Ystad Pellets AB, which owns a non-core wood pellet mill that has been idle for several years in Ystad, Sweden. Net cash proceeds to RusForest from the transaction amount to USD 0.6 million.

\* includes gain from bond restructuring in the amount of USD 41.4 million



## CEO's Comment

Dear RusForest Shareholders,

The second quarter is traditionally the weakest due to seasonal factors in Russia. In Q2 2014, RusForest's adjusted EBITDA from continuing operations was USD 0.2 million, compared with USD -3.5 million in the same period last year. We are pleased to continue delivering positive EBITDA results despite the seasonal slowdown.

In Arkhangelsk, we entered into a sales contract for 60,000 tons of pellets, a majority of the company's annual pellet production. The pellets are being sold through one of the leading trading houses focused on bioenergy and are expected to be used as fuel in various European coal-fired power plants. The pellet sales in Q2 2014 were the key contributor to the improved EBITDA in Arkhangelsk. This confirms the rationale behind our investment decision to build the pellet mill in Arkhangelsk last year.

However, as mentioned earlier, the Arkhangelsk sawmill itself is outdated and suffers from low productivity. In order to maintain long-term profitability, the sawmilling facility will need to be rebuilt at some point. All development options for the sawmill are being considered and a review is underway.

In our Ust-Ilimsk business segment, the loss was larger than expected due to challenges with weather and our subcontractors. We are continuing to review Ust-Ilimsk operations and evaluate development options.

The Magistralny business segment also suffered from seasonal variation. Spring arrived to Siberia earlier than expected, which resulted in a longer slowdown in log hauling and sawmilling than usual. To further improve the competitiveness of the Magistralny sawmill, we have invested in new de-barker equipment, which should be operational during Q3 2014. This allows us to serve the local pulp industry better by providing higher quality wood chip by-products from the sawmill.

As for the non-core asset sales, we were pleased to divest Ystad Pellets AB in July. We are looking forward to finalising the previously announced sale of Boguchany later this year.

The corporate simplification is progressing well. As of the end of August, the Group had 29 legal entities, compared with 36 entities at 31 December 2013. The Magistralny and Ust-Ilimsk assets are now directly owned by RusForest AB, the Swedish parent company.

Last but not least, a few words about the on-going crisis in Ukraine. So far, our daily business activities have not suffered from the situation. On the contrary, we have shown gains due to the weakened Russian ruble. However, investor sentiment for Russian operations has weakened, and, together with the sanctions imposed by the international community, access to financing has become more difficult for Russian businesses. Of course, this is an on-going concern for management, but we believe RusForest is a unique investment opportunity with a management and major shareholder that now has a proven track record and a viable business model.

Sincerely,

Matti Lehtipuu

*Group CEO, RusForest AB (publ)*

## Operational Review

### RusForest operational data

Forest resources continuing operations		As at 30 June 2014			As at 30 June 2013		
Annual Allowable Cut (AAC)	<i>m<sup>3</sup></i>	2,613,460			2,749,760		
Forest area	<i>Hectares</i>	2,453,800			2,527,064		

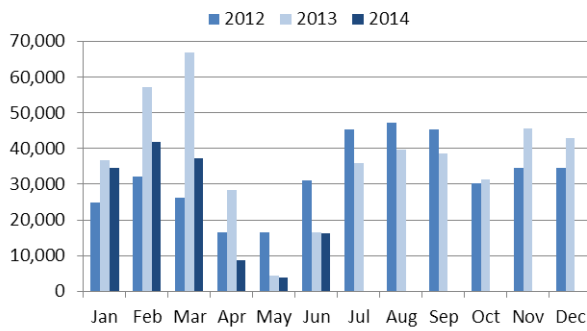
Continuing operations		Three months ended			Six months ended		
		30 June 2014	30 June 2013	% Q2'14 vs Q2'13	30 June 2014	30 June 2013	% 6M'14 vs 6M'13
<b>Production</b>							
<b>Sawlogs harvested</b>	<i>m<sup>3</sup></i>	<b>28,918</b>	<b>49,028</b>	<b>-41%</b>	<b>142,377</b>	<b>210,005</b>	<b>-32%</b>
Arkhangelsk	<i>m<sup>3</sup></i>	15,116	27,612	-45%	52,469	84,384	-38%
in own forest leases	<i>m<sup>3</sup></i>	15,116	-	-	52,469	-	-
in third party forest leases	<i>m<sup>3</sup></i>	-	-	-	-	-	-
Magistralny	<i>m<sup>3</sup></i>	13,802	21,416	-36%	89,908	125,621	-28%
in own forest leases	<i>m<sup>3</sup></i>	9,677	-	-	85,783	-	-
in third party forest leases	<i>m<sup>3</sup></i>	4,125	-	-	4,125	-	-
<b>Logs purchased</b>	<i>m<sup>3</sup></i>	<b>59,075</b>	<b>51,034</b>	<b>16%</b>	<b>105,277</b>	<b>60,877</b>	<b>73%</b>
Arkhangelsk	<i>m<sup>3</sup></i>	59,075	45,600	30%	105,277	55,443	90%
Magistralny	<i>m<sup>3</sup></i>	-	5,434	-	-	5,434	-
<b>Sawnwood production</b>	<i>m<sup>3</sup></i>	<b>41,335</b>	<b>41,284</b>	<b>0%</b>	<b>89,869</b>	<b>88,069</b>	<b>2%</b>
Arkhangelsk	<i>m<sup>3</sup></i>	27,222	28,635	-5%	54,045	57,177	-5%
Magistralny	<i>m<sup>3</sup></i>	14,113	12,649	12%	35,824	30,892	16%
<b>Pellets produced</b>	<i>tonnes</i>	<b>12,830</b>	-	-	<b>19,320</b>	-	-
Arkhangelsk	<i>tonnes</i>	12,830	-	-	19,320	-	-
Magistralny	<i>tonnes</i>	-	-	-	-	-	-
<b>Sales volumes</b>							
<b>Sawlogs sold</b>	<i>m<sup>3</sup></i>	<b>7,939</b>	<b>26,431</b>	<b>-70%</b>	<b>36,151</b>	<b>83,035</b>	<b>-56%</b>
Arkhangelsk	<i>m<sup>3</sup></i>	-	4,765	-100%	360	31,968	-99%
Magistralny	<i>m<sup>3</sup></i>	7,939	21,666	-63%	35,791	51,067	-30%
<b>Sawnwood sold</b>	<i>m<sup>3</sup></i>	<b>48,645</b>	<b>51,318</b>	<b>-5%</b>	<b>99,163</b>	<b>85,463</b>	<b>16%</b>
Arkhangelsk	<i>m<sup>3</sup></i>	34,955	32,748	7%	63,427	51,841	22%
Magistralny	<i>m<sup>3</sup></i>	13,690	18,570	-26%	35,736	33,622	6%
<b>Planed products sold</b>	<i>m<sup>3</sup></i>	<b>3,416</b>	<b>6,242</b>	<b>-45%</b>	<b>6,064</b>	<b>10,137</b>	<b>-40%</b>
Arkhangelsk	<i>m<sup>3</sup></i>	3,416	6,242	-45%	6,064	10,137	-40%
Magistralny	<i>m<sup>3</sup></i>	-	-	-	-	-	-
<b>Pellets sold</b>	<i>tonnes</i>	<b>16,251</b>	-	-	<b>16,259</b>	-	-
Arkhangelsk	<i>tonnes</i>	16,251	-	-	16,259	-	-
Magistralny	<i>tonnes</i>	-	-	-	-	-	-

In Q2 2014, RusForest harvested 28,918 m<sup>3</sup> of sawlogs, compared with 49,028 m<sup>3</sup> in Q2 2013 (-41%). The low harvesting volumes were caused by poor weather conditions as warm weather shortened the harvesting season.

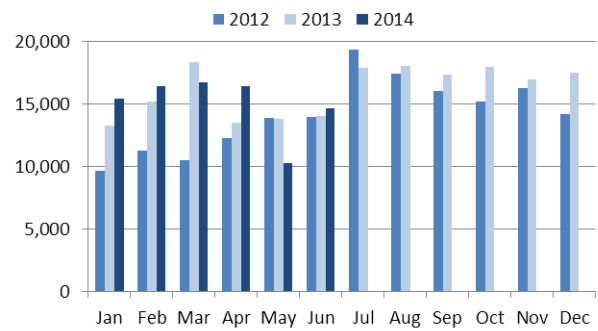
In Q2 2014, RusForest produced 41,335 m<sup>3</sup> of sawnwood, compared with 41,284 m<sup>3</sup> in Q2 2013 (+0.1%).

In Q2 2014, pellet production in Arkhangelsk totalled 12,830 tonnes.

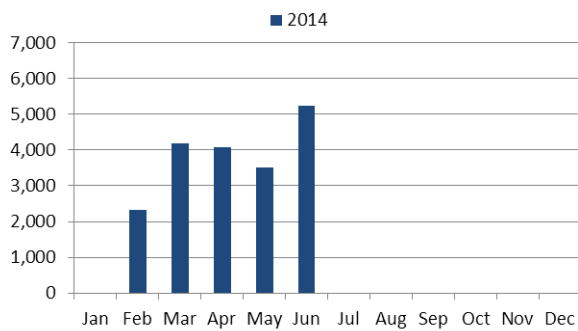
### Harvesting sawlogs, m<sup>3</sup>



### Sawnwood production, m<sup>3</sup>



### Pellet production, tonnes



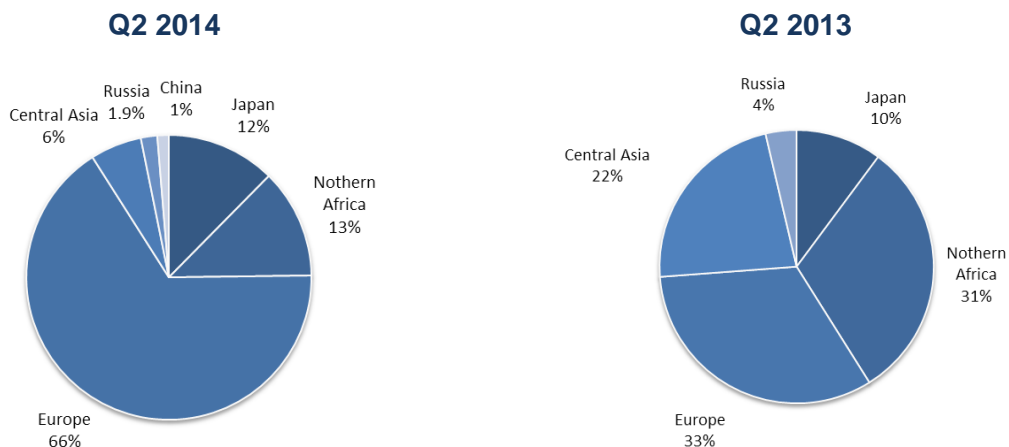
### RusForest's sales

Sawnwood sales in Q2 2014 were 5% less than in Q2 2013 (48,645 m<sup>3</sup> compared with 51,318 m<sup>3</sup>).

In Q2 2014, RusForest sales volumes from Magistralny to the Japanese market continued to be strong and amounted to 6,019 m<sup>3</sup> (+19% compared with Q2 2013). The largest geographical change in RusForest sales in Q2 2014 compared to Q2 2013 was the increase of sales to Europe. However, this is due to the divestment of Boguchany earlier in the year and the consequent larger contribution to total sales from Arkhangelsk, for which Europe is the main market.

The average sawnwood price realization, using a FOB basis for all sales, increased slightly in Q2 2014 compared to Q1 2014 by 0.3% to 215.2 USD/m<sup>3</sup>. Compared to Q2 2013 prices increase was 31%. Note that the company sells its products with various terms, including FOB, CIF, FCA and CPT.

### RusForest's sawnwood sales by region



## Regional Update

### Northwest Russia

#### Production

Arkhangelsk harvested 15,116 m<sup>3</sup> of sawlogs in Q2 2014, compared with 27,612 m<sup>3</sup> in Q2 2013. In Q2 2014, harvesting operations and hauling were restricted due to unfavourable (warm) weather and road conditions.

The company purchased high volumes of logs on the open market (59,075 m<sup>3</sup> compared with 45,600 m<sup>3</sup> in Q2 2013) to compensate for the sawlog shortage.

The Arkhangelsk sawmill (LDK-3) produced 27,222 m<sup>3</sup> of sawnwood in Q2 2014, compared with 28,635 m<sup>3</sup> in Q2 2013. Sawnwood production was lower than planned due to scheduled repair of sawmilling equipment in May.

In Q2 2014, the Arkhangelsk planing mill was shut down as part of efforts to improve profitability. The planed products were sold in Russian rubles on the domestic market while sawnwood has been sold in EUR on export markets. The current exchange rate between EUR vs. Russian ruble favours exporting all sawnwood instead of using some of the sawnwood as a raw material to produce planed products for the domestic market.

At the beginning of April 2014, the first vessel loaded with pellets was delivered to Europe.

The total pellet output in Q2 2014 amounted 12,830 tonnes of pellets, which was less than planned. During Q2 2014, the pellet mill performed adjustments on some of the equipment and was working on training the operators. By the end of the Q2 2014, daily production of pellets reached 200 tonnes.

#### Sales

In Q2 2014, LDK-3 sold 34,955 m<sup>3</sup> of sawnwood compared with 32,748 m<sup>3</sup> in Q2 2013 (+6.7%).

The total pellet sales in Q2 2014 amounted 16,251 tonnes, 27% more than the production volume.

### Eastern Siberia

#### Production

Magistralny harvested 13,802 m<sup>3</sup> of sawlogs in Q2 2014, compared with 21,416 m<sup>3</sup> in Q2 2013. Harvesting operations were suspended due to unfavourable weather conditions. In Siberia, harvesting season ended one month earlier than usual.

The Magistralny sawmill produced 14,113 m<sup>3</sup> of sawnwood in Q2 2014, compared with 12,649 m<sup>3</sup> in Q2 2013 (+11.6%). Due to an insufficient supply of sawlogs, there was no sawing in May and only semi-finished products were processed. To utilise the down time in May, maintenance work was also performed: dismantling of the old debarking machine and repairs to the roundwood sorting line.

#### Sales

In Q2 2014, Magistralny sold 13,690 m<sup>3</sup> of sawnwood, compared with 18,570 m<sup>3</sup> in Q2 2013 (-22.3%). High sales volumes in Q2 2013 were caused by the sale of old sawnwood stocks.

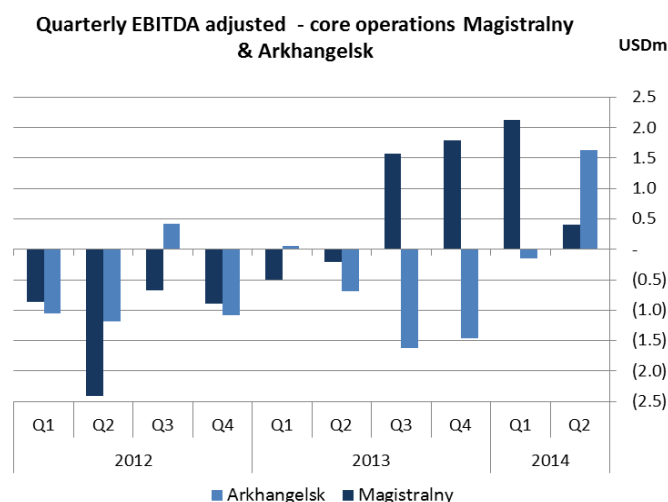
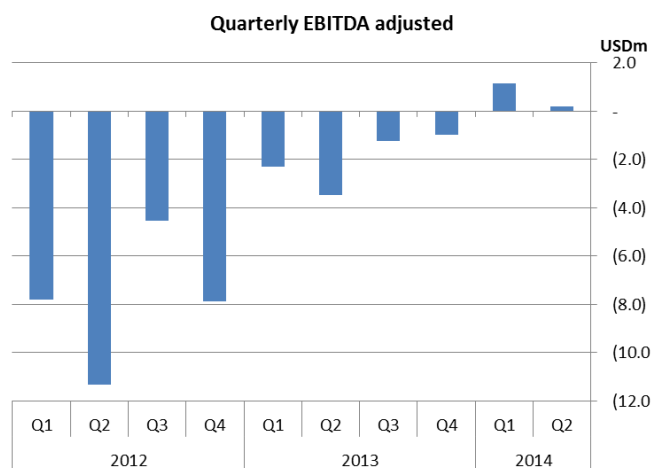
In Q2 2014, RusForest Magistralny sold 7,939 m<sup>3</sup> of sawlogs compared with 21,666 m<sup>3</sup> in Q2 2013. Lower volumes of sawlogs were sold due to shortage of sawlogs for sawing.

## Financial Review

### EBITDA development

in USD thousand	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013
<b>EBITDA unadjusted, continuing operations</b>	<b>420</b>	<b>1,069</b>	<b>(1,781)</b>	<b>(1,666)</b>	<b>(2,880)</b>
a. Doubtful receivables	360	130	236	233	1
b. Disposal of non-current assets	764	170	7	660	(130)
c. Correction of forest lease accrual (Arkhangelsk)	-	-	444	(444)	-
d. Collection of old receivable for pulpwood (Arkhangelsk)	(1,420)	-	-	-	-
e. Non-recoverable income (Ust-Ilimsk)	266	(266)	-	-	-
f. Other items	(197)	52	108	(24)	(476)
Non-recurring items	(227)	86	795	424	(604)
<b>EBITDA adjusted, continuing operations</b>	<b>193</b>	<b>1,155</b>	<b>(987)</b>	<b>(1,241)</b>	<b>(3,484)</b>
Arkhangelsk	1,637	(153)	(1,465)	(1,617)	(692)
Ust-Ilimsk	(666)	360	(243)	(35)	(407)
Magistralny	405	2,128	1,793	1,573	(214)
Unallocated	(1,183)	(1,180)	(1,072)	(1,163)	(2,172)
<b>EBITDA adjusted, by segments</b>	<b>193</b>	<b>1,155</b>	<b>(987)</b>	<b>(1,241)</b>	<b>(3,484)</b>
For reference					
Adjusted EBITDA of Boguchany segment	(67)	(331)	(867)	(58)	(1,741)

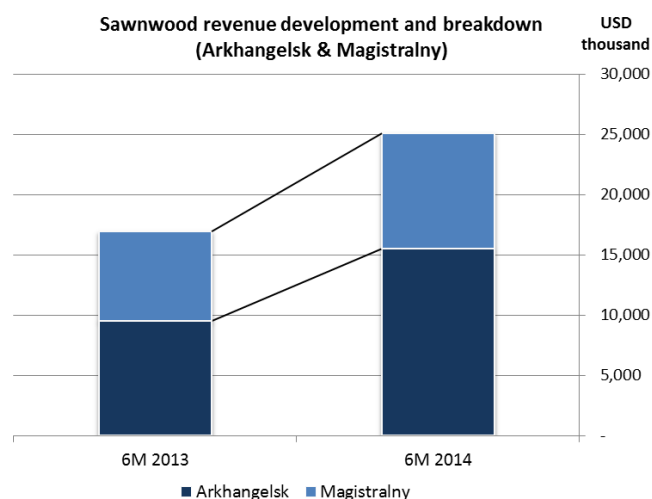
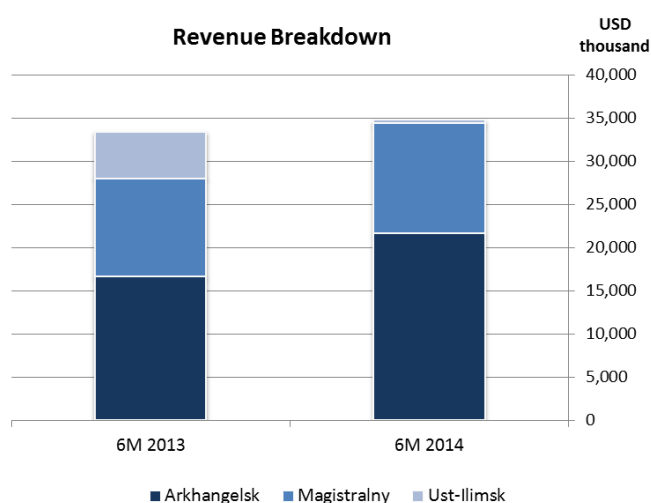
Earnings before interest taxes and depreciation and amortisation (EBITDA), also adjusted for non-recurring items (adjusted EBITDA), is a good metric for measuring financial performance of the operations. Adjusted EBITDA for the company improved substantially year-on-year, with negative earnings of USD 3.5 million in Q2 2013 turning into positive adjusted EBITDA of USD 0.2 million in Q2 2014. The second quarter is usually the weakest due to seasonal factors, and conditions this year were unusually bad with a significantly reduced harvesting period in Arkhangelsk but especially in Siberia. While there was a significant reduction in EBITDA in Magistralny for the quarter due to the weather, it continues to deliver positive results. Meanwhile, Arkhangelsk showed a large improvement and a positive adjusted EBITDA result of USD 1.6 million largely thanks to the wood pellets sales. The positive contribution from the pellet business was even larger than usual in Q2 2014 since all raw material used was old, written-off, stocks of chips and sawdust. The margin will decrease going forward as the raw material supply will be a mix of own production and sourced from third party. Ust-Ilimsk showed negative earnings due to reduced activity in Q2 2014, as previously indicated, as well as due to some payment issues from subcontractors.



## Revenue

Sales volume (m <sup>3</sup> /tonnes)				Revenue per cubic meter/tonne (USD)				Revenue (USD thousand)			
	Q2 2014	Q2 2013	Δ%		Q2 2014	Q2 2013	Δ%		Q2 2014	Q2 2013	Δ%
Sawnwood	48,645	51,318	-5%	Sawnwood	255	190	34%	Sawnwood	12,388	9,743	27%
Sawlogs	7,939	26,431	-70%	Sawlogs	73	67	9%	Sawlogs	582	1,772	-67%
Pellets	16,251	-	n/a	Pellets	174	-	n/a	Ust-Limsk	377	989	-62%
								Pellets	2,835	-	n/a
								Other revenue	1,962	2,743	-28%
								<b>Total</b>	<b>18,144</b>	<b>15,247</b>	<b>19%</b>

Sales volumes of sawnwood decreased slightly year-on-year while sawlog volumes significantly decreased, a result of decreased harvesting due to difficult weather conditions in Q2 that shortened the harvesting season, especially in Siberia. However, for both of these products the company experienced a significant increase in revenue per cubic meter compared year-on-year. This was due to an increase in prices from the sales geography shift to Japan as well as an increase in sales with delivery to customers, which included freight in the price, in particular the sawnwood sales from Arkhangelsk. Due to the price increases of sawnwood etc, revenue from sawnwood, the company's main product, increased 27% in Q2 2014 compared with same period last year, despite the drop in sales volumes. The Ust-Ilimsk sawmill divestment and subsequent exclusion of sawnwood revenue from the second half of 2013 is still having a negative impact on the year-on-year comparison. Nevertheless, Group revenue for Q2 2014 increased by 19% compared with Q2 2013 due to sales of wood pellets from Arkhangelsk that started in Q2 2014.



## Costs

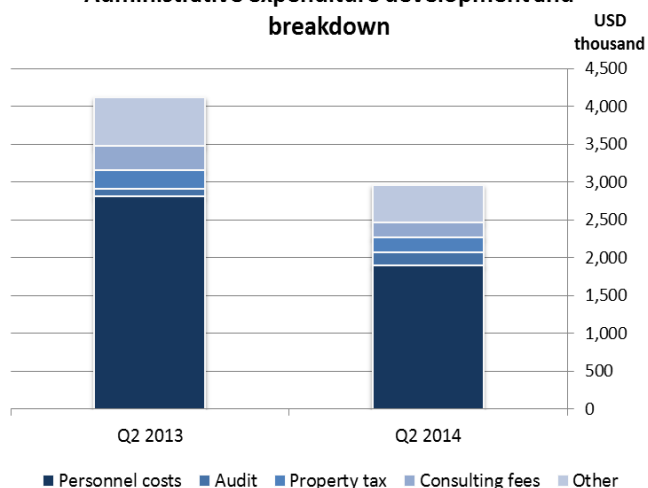
The cost of sales decreased by 11% to USD 14.5 million in Q2 2014, compared with USD 16.3 million in Q2 2013. This reduction is mainly due to improved efficiency in the sawmills. However, some of the cost benefits from increased efficiency there, were offset by increase in purchased logs because weather conditions shortened the harvesting season and thereby limited RusForest's own harvesting operations.

Distribution expenses decreased by 3% to USD 2.8 million in Q2 2014, compared with USD 2.9 million in Q2 2013. The shift mainly in Arkhangelsk to sell more products with delivery to customers by boat in order to gain additional margin has led to significantly increased sea freight costs when comparing Q2 2014 with Q2 2013. The increase in sea freight was however offset by lower costs for personnel, rail and other distribution expenses.

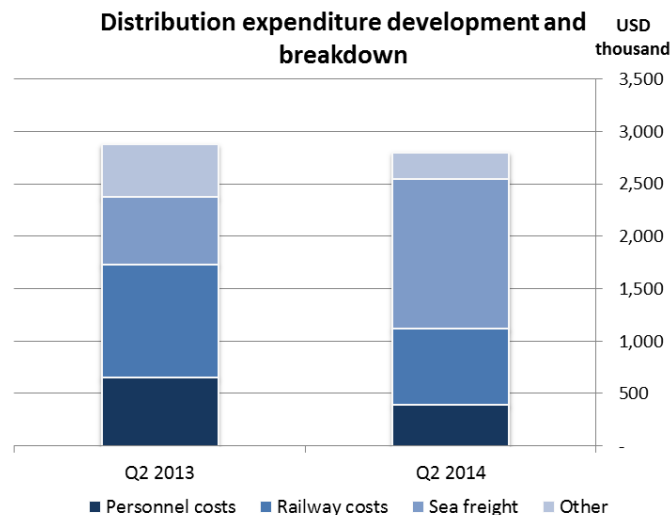
Administrative expenses decreased by 28% to USD 3.0 million in Q2 2014, compared with USD 4.1 million in Q2 2013. The company's continued focus on cutting administrative expenses led to a reduction in all but one of the cost categories, audit, with the most significant reduction being in personnel costs.

Other expenses increased significantly in Q2 2014 to USD 1.6 million compared with USD 0.1 million in Q2 2013. The other expenses mainly consist of bad debt provisions in connection with recent issues with Ust-Ilimsk subcontractors and losses in connection with disposal of old machinery and equipment, mainly in Ust-Ilimsk.

**Administrative expenditure development and breakdown**



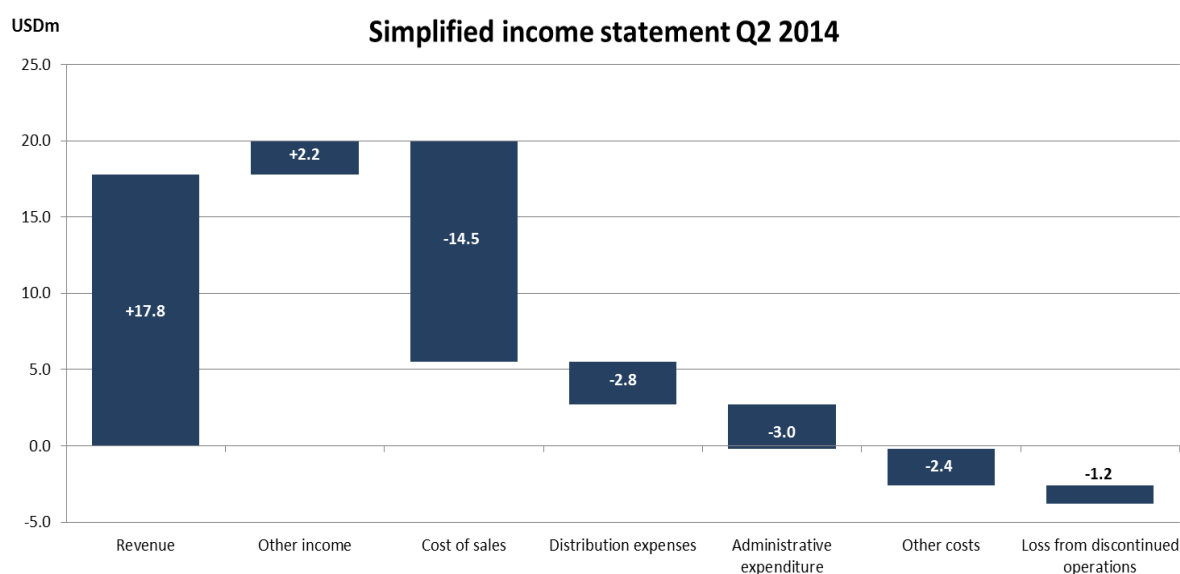
**Distribution expenditure development and breakdown**



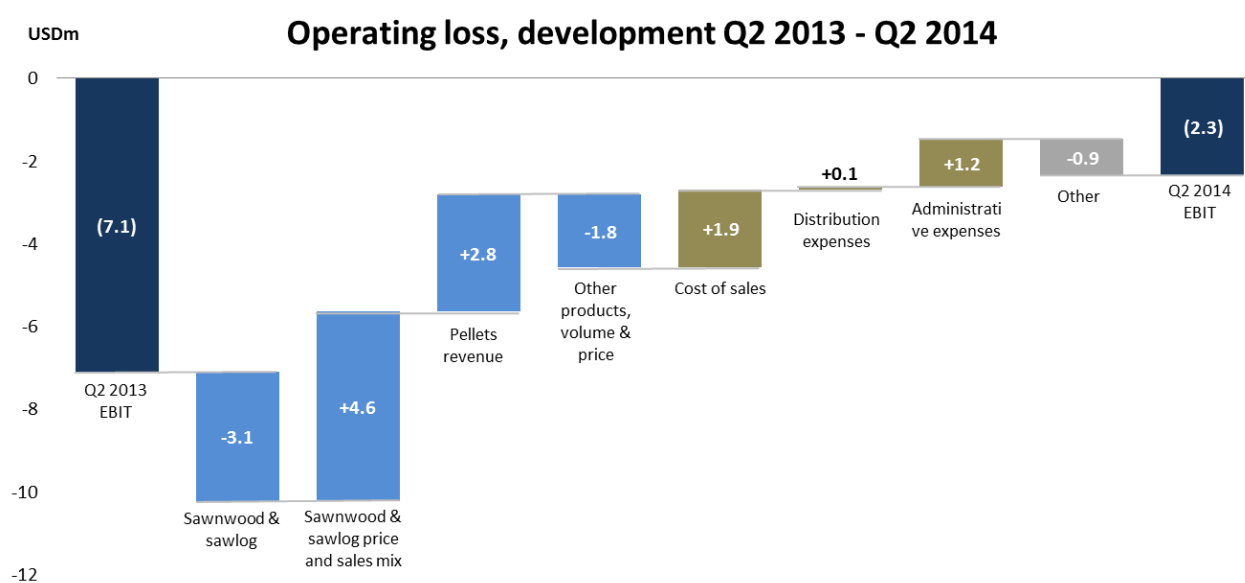


## Earnings

The company achieved a gross profit of USD 3.3 million in Q2 2014 in continuing operations, representing a 19% gross profit margin, compared with gross loss of USD 1.1 million in Q2 2013. As previously stated, the company achieved positive adjusted EBITDA in continuing operations of USD 0.2 million, compared with negative USD 3.5 million in Q2 2013. The operating loss in continuing operations was USD 2.5 million in Q2 2014, compared with a loss of USD 3.8 million in Q2 2013. Discontinued operations generated a loss after tax of USD 1.2 million in Q2 2014, compared with a loss of USD 3.0 million in Q2 2013, the loss in Q2 2014 was mainly related to an impairment of the value of Ystad Pellets of USD 0.9 million. The loss for the period amounted to USD 3.8 million, compared with a loss of USD 11.8 million in Q2 2013.



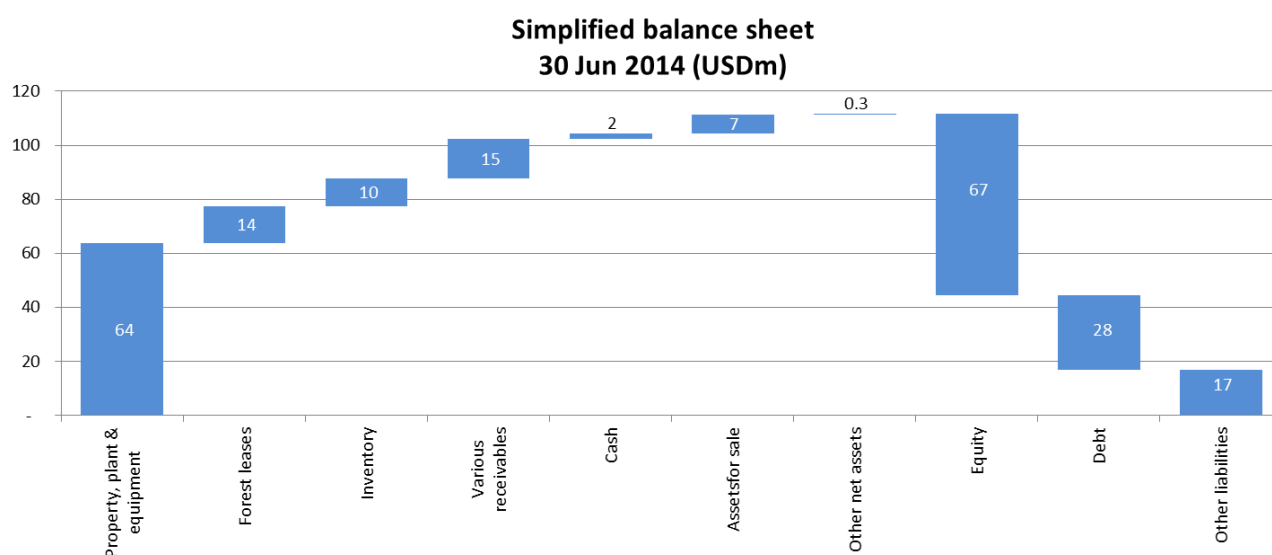
The previous revenue and cost sections above set out the development of the individual reasons behind the improved financial performance of continuing operations in Q2 2014 compared with Q2 2013. The chart below summarises the effect of each of these factors on the 67% reduction in operating loss.



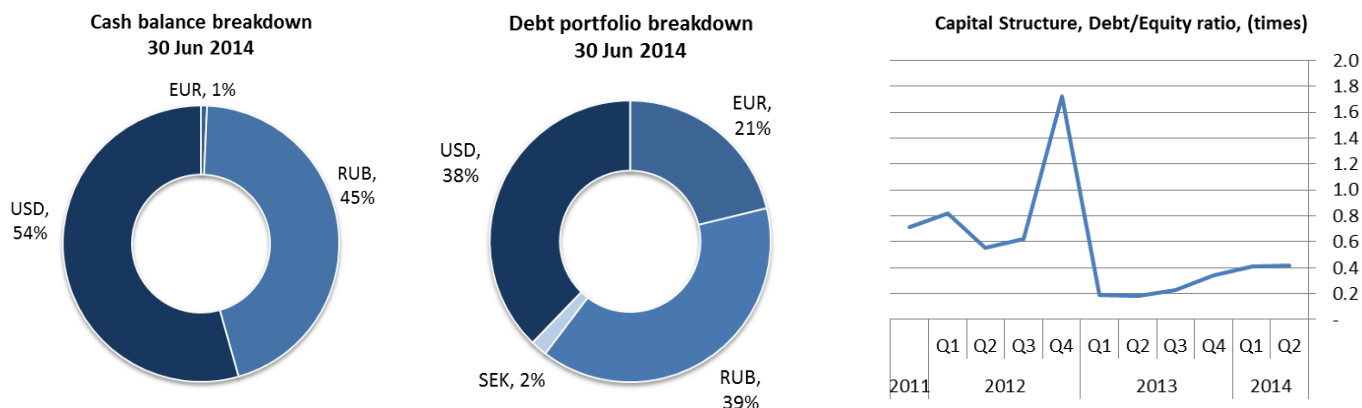
## Balance sheet and cash flow

At 30 June 2014, the total assets of the company amounted to USD 111.8 million. Property, plant and equipment constituted the largest component of assets, amounting to USD 63.8 million. Assets classified as held for sale amounted to USD 7.1 million, including the Boguchany harvesting company but excluding the Boguchany sawmilling company whose title transferred to the buyer in Q1 2014. The company's pellets operation in Ystad, Sweden, was sold in the end of July 2014 but still recorded as an asset held for sale at 30 June 2014, however, at its impaired value equal to the actual sales price. Working capital was reduced to USD 9.2 million at 30 June 2014, compared with USD 10.1 million at 31 December 2013. The company's cash and cash equivalents totalled USD 1.9 million at 30 June 2014, compared with USD 3.6 million at 31 December 2013.

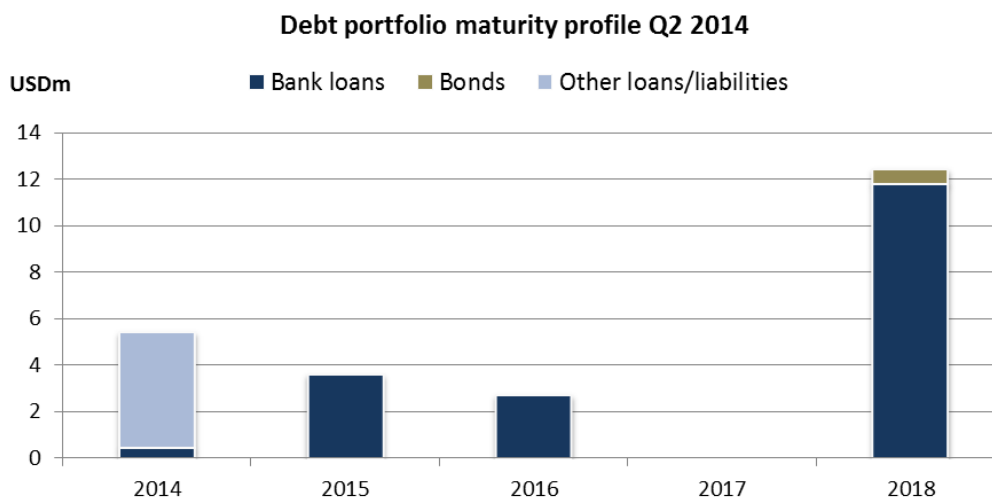
Interest-bearing loans and borrowings have increased by about USD 2 million since 31 December 2013. Interest-bearing loans and borrowings amounted to USD 27.8 million at 30 June 2014. Some additional loans have been received in connection with the pellet investment project in Arkhangelsk.



The Russian ruble depreciated by about 9% against USD during Q1 2014 but then recovered during Q2 2014. At 30 June 2014 the Russian ruble had depreciated by about 3% compared with the beginning of the year. At 30 June 2014 the company held its cash in predominantly USD and RUB. The company's debt portfolio at 30 June 2014 was mainly split between USD, EUR and RUB. The debt-to-equity ratio at the end of Q2 2014 was unchanged at 0.4.



*The chart below summarises the company's debt maturity profile (excluding leases)*



In Q2 2014, the company again achieved positive cash flow from operating activities of USD 1.1 million. The main item affecting cash flow after operating activities was the USD 2.6 million investment in equipment of which USD 0.7 million was related to investment in timber hauling machinery in Magistralny and USD 1.9 million was related to finalisation of pellet mill in Arkhangelsk including repayment of some of the debt raised for its construction. Cash flow for the period was an outflow of USD 1.8 million.

## The Market

### Development of sawnwood markets in Q2 2014

World sawnwood markets mainly grew in Q2 2014. The exception was the Japanese market, where a rise in consumption tax led to lower demand throughout the winter.

Market	Market development in Q2 2014	Impact on RusForest's activity In Q2 2014 / ST Outlook
Japan	<p>There were 218,834 housing starts in Q2 2014 compared with 241,349 in Q2 2013 (-9.3%). At the same time, starts in Q2 2014 were 1% higher compared with Q1 2014 figures (216,943).</p> <p>In Q2 2014 the market remained sluggish as a reaction to the rush demand before the tax increase in April.</p> <p>Prices on North American products appeared to have been adjusted at the end of Q2. On the other hand, domestic prices on these items were the same as the previous months though they are bearish. Unprofitable wholesalers are making a great effort to shift inventory.</p> <p>Deliveries of Russian sawnwood were slow, while prices of high-grade items remained largely unchanged, as they are scarce. Prices for lower-grade items such as rafters are decreasing gradually, as there are many manufacturers. Prices for stiffeners and studs remained mostly unchanged during Q2 as their supply was low.</p> <p>In European products, sales of connective posts were not good and their prices dropped. Other items are currently under negotiation, so prices on these items are taking a wait and see attitude.</p> <p>Deliveries of Russian pine sawnwood in Jan-May 2014 decreased to 356,948 m<sup>3</sup> compared with 368,187 m<sup>3</sup> in Jan-May 2013 (-3.1%). Deliveries of European sawnwood decreased by 6.7% over the same period.</p> <p>European shippers are planning to try more vigorously than before to withdraw volumes from the Japanese market and divert them to other markets instead. The cuts in volumes are attributable to the faltering outflow of the mostly high stocks in the ports.</p> <p>Generally, the market situation is consistently poor. Stocks are still high. Many sawmills in Siberia are reducing deliveries to Japan. Market improvement expected first in early Q4.</p>	<p><b>Neutral / negative</b></p> <p><i>The decrease in housing starts leads to lower sawnwood demand and prices. At the same time a much greater decrease in starts was expected for Q2 2014.</i></p> <p><i>Lower sawnwood deliveries from Russia and Europe lead to lower competition for RusForest's products.</i></p> <p><i>The impact of the current market environment on the RusForest operations is limited. Terms of contracts with customers require obligatory delivery of pre-contracted volumes.</i></p>

<p><b>Europe</b></p>	<p>In Q2 2014, the construction sector in EU expanded. In April 2014, production in construction increased by 8.0% (compared with April 2013), and it increased by 3.5% in May.</p> <p>European demand for sawnwood from planing works in Q2 was mostly stable at a level of volumes comparable with that of last year.</p> <p>Since the end of Q2, the European market registered a growth of sawnwood inventory, especially of spruce assortments. In the current situation, importers force lower prices (5-10 EUR/m3).</p> <p>Scandinavian sawmillers traditionally reduce production in July-August, which helps to reduce the expanded stocks. Normalization is expected first in the beginning of Q4.</p>	<p><b>Positive / Neutral-to-Negative</b></p> <p><i>Stable demand on RusForest's products. Possible slight decrease in autumn prices.</i></p>
<p><b>Egypt</b></p>	<p>Before this year's Ramadan, which began on 28 June, a number of European shippers registered somewhat brisker ordering activity on the Egyptian market.</p> <p>In Q2 the supply on the whitewood markets continued to exceed demand. In contrast, the high volumes of pine sawnwood seen in the last few months remain undiminished.</p> <p>The price increases achieved during the first four months of this year are evidently impossible to maintain in spite of comparatively good demand. However, even after the latest price adjustments at the end of Q2, the quoted range of prices for sawnwood is at a high level.</p> <p>The current situation and forecasts for Q3 are more cautious. After end of Ramadan the importers are willing to buy at a discounted price. However, the seasonal decline in the market is a normal situation. In the end of Q3, market activity is expected to increase.</p>	<p><b>Neutral / negative</b></p> <p><i>Stable demand on RusForest's products.</i></p>
<p><b>North America</b></p>	<p>Lumber markets are moving sideways. The U.S. housing recovery is progressing very slowly, while lumber production is increasing.</p> <p>U.S. housing starts for June were disappointing, with the seasonally adjusted total down 9.3% month-to-month to 893,000 starts, and 6.3% below the average year-to-date pace. Unadjusted starts in June tend to be the second-highest for the year, and there was optimism that this June's data point would be above both April and May, given the slow beginning to the construction season. Instead, it appears that April was this year's peak. Typically, the trend for housing starts is downhill for the</p>	<p><b>Neutral / Neutral</b></p> <p><i>RusForest's sawnwood grades generally do not compete with North American products.</i></p> <p><i>At the same time North American housing construction is one of the key indicators for the global sawnwood market.</i></p>

	<p>remainder of the year, dashing hopes for acceleration in the housing recovery this year, and adding doubt to next year.</p> <p>Softwood sawnwood prices declined by 11% from mid-May until mid-June, but have turned upward on news of recent Chinese buying activity.</p> <p>The National Association of Home Builders (NAHB) assumes that there will be growth in building activity in the second half of the year on account of rising permit numbers for detached houses in conjunction with declining unemployment and general economic growth.</p>	
<p><b>China</b></p>	<p>China's housing market is in transition. As of April, the year-to-date data showed private residential starts by floor space down 24.5%. Non-residential construction was down by 13.3%. Sales of private residential houses by floor space were also down 8.6%. At the same time, China's social housing program is continuing, with a goal of building 7 million units this year; that, plus completions, mean that construction has not stopped. Building is going to continue, but growth is adjusting to a more moderate pace.</p> <p>In April and May, China's market of imported sawnwood was relatively quiet and prices mostly declined. At the end of Q2, sawnwood import dynamics and prices became more positive and market activity increased.</p> <p>At the same time the demand for sawlogs began to decline at the end of June and by mid Q3, demand was significantly reduced. Moreover, the demand does not even respond to a price reduction. The situation is tense, it is not clear when it will stabilize.</p>	<p><b>Neutral/ Negative</b></p> <p><i>China is not a key market for RusForest's sawnwood.</i></p> <p><i>At the same time China is the largest Asian market and it has great impact on all other markets.</i></p> <p><i>Expected problems with deliveries of sawlogs in Q3.</i></p>

Sources: International Wood Markets Group, EUWID, Japan Lumber Journal.

## Development of pellet markets in Q2 2014

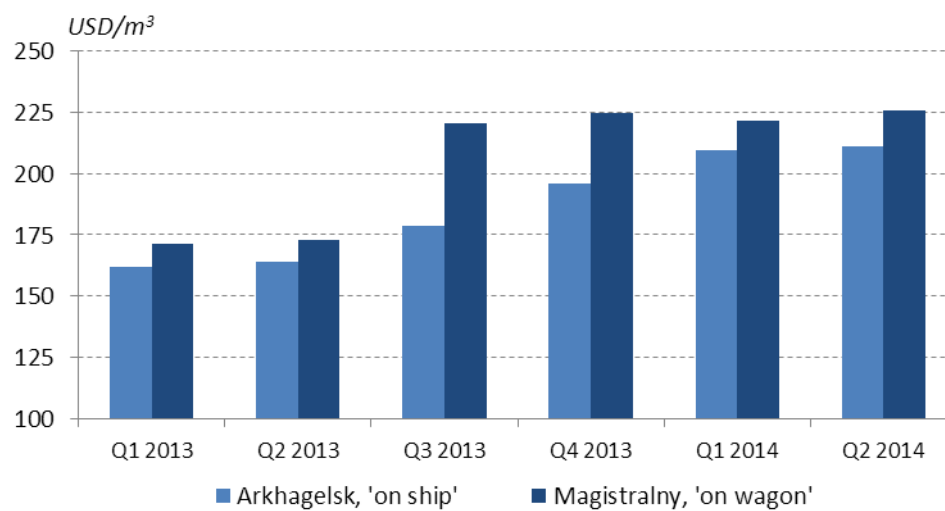
Market	Market development in Q2 2014	Impact on RusForest's activity <i>In Q2 2014 / ST Outlook</i>
<b>Europe</b>	<p>Argus industrial wood pellet index (CIF ports of Northern Europe) early in Q2 reached the lowest value since the beginning of the year, 177 USD/tonnes. After that, the dynamics of the index changed and by the end of Q2 it had grown by 3%.</p> <p>The Baltic industrial pellet index was at its lowest level during the whole of Q2.</p> <p>Forward prices for Q3 and especially Q4 indicate growth both for CIF ports of Northern Europe and FOB Baltic.</p> <p>One of the fastest growing industrial pellet markets in Europe is the UK. The UK's biomass heating markets continue to display rapid growth, with three times as much heat generated under the country's subsidy scheme in June as in the same month last year. And the increases look likely to continue, on the back of another surge in subsidy applications.</p> <p>Heat produced and paid for under the non-residential section of the renewable heat incentive (RHI) totalled 174,000MWh in June, according to the latest data from the Department of Energy and Climate Change.</p> <p>The output figure was more than 8% higher than May, and only 5% below April's record high, in spite of the move into the lower-demand summer period. And it took the total for the first half of 2014 to 750,000MWh, compared with just over 550,000MWh for the whole of last year. Biomass accounts for more than 95% of heat generated under the RHI.</p> <p>Further growth is likely in the coming months.</p>	<p><b>Neutral / Neutral-to-Positive</b></p> <p><i>In June 2014 RusForest signed a long-term contract for pellet sales. The pellets will be sold through one of the leading trading houses focused on bioenergy and are expected to be used as fuel in various European coal-fired power plants.</i></p>

Sources: Argus Biomass Markets

## Prices

Site	Q2 2014	Q1 2014	Q2 2014 vs. Q1 2014
Arkhangelsk, 'on ship', USD/m <sup>3</sup>	211.1	209.4	0.8% →
Magistralny, 'on wagon', USD/m <sup>3</sup>	225.8	221.5	1.9% →
RusForest Group, USD/m <sup>3</sup>	215.2	214.7	0.3% →

### RusForest's sawnwood price dynamics





## The Share

The RusForest AB shares are listed on NASDAQ OMX First North Stockholm. At the close of the period, the share price was SEK 1.80 (0.27 USD) and the company's market capitalization was approximately SEK 238 million or USD 35 million. The company's certified adviser on First North is Pareto Securities AB, which also acts as a market maker in the RusForest shares.

### Share data for first six months of 2014

Summary shareholder information		Average Daily Turnover (SEK)	Average No of Traded Shares	Average No of daily trades
Official listing:	NASDAQ OMX First North	905,146	447,473	90
Outstanding shares:	132,033,881			
Round lot:	1			
Sector:	Basic Resources			
ISIN:	SE0001732728			
Short name:	RUSF			
Reuters:	RUSF.ST			
Bloomberg:	RUSF:SS			

Shareholder	Number of shares	Percentage
Nova Capital	33,500,000	25.4%
Avanza Pension	9,436,296	7.1%
Carnegie Strategifond	5,670,625	4.3%
Nordet Pensionsförsäkring AB	4,489,132	3.4%
Morgan Stanley & Co, W9 Secs dept	3,169,996	2.4%
Credit Suisse Sec. Europe Ltd	3,015,175	2.3%
Others	72,752,657	55.1%
<b>Total</b>	<b>132,033,881</b>	<b>100.0%</b>

### RusForest share price performance 1 January–30 June 2014



Source: NASDAQ OMX First North Stockholm

RusForest share			
Price SEK/share 30 June 2014	Change 1 Month	Change 3 months	52 week high
<b>1.81</b>	-7.7%	-5.8%	2.8
	Change 6 Months	Change 1 year	52 week low
	-15.5%	-12.2%	1.6

## Accounting policies

This interim report has been prepared in accordance with IAS 34 Interim Financial Reporting and related parts of the Annual Accounts Act. The interim report for the Parent Company has been prepared in accordance with the Annual Accounts Act Chapter 9, with the exception that it has not been prepared in Swedish. The Group and Parent Company have applied the same accounting and valuation principles as in the most recent Annual Report. As of the Q1 2014 report RusForest is reporting Group consolidated financials in US dollars instead of Swedish krona, while Parent Company financials continue to be reported in Swedish krona. Comparative financials have been restated to US dollars for proper comparison. The comparative financial information has been restated as if US dollars had always been RusForest's presentation currency for consolidated financials. Assets and liabilities are translated based on the exchange rate at the end of the comparative reporting period. Items of income, expense and cash flows relating to transactions in a previous period are translated at the appropriate average rate. Components of equity have been translated at the exchange rates at the dates of the relevant transactions.

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.

**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.

**Non-derivative financial liabilities:** Fair value for loans and borrowings, 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.

## Risks

The company and the company's products remain directly unaffected by the current situation with sanctions against Russia, with the exception of the general fluctuations in the ruble exchange rate and a noticeable downturn in credit activity throughout the Russian financial system. The company continues to monitor the situation closely, however. The company is subject to the effect of fluctuations in the Russian ruble, although such exposure is still limited in terms of the negative impact on the financial performance of the Group. A more detailed description of general risks, as well as a sensitivity analysis of the weakening of the ruble, can be found in the company's annual report 2013. The risks are indirectly the same for the parent company as for the Group.

## Subsequent events

On 28 July 2014, RusForest announced the sale of its subsidiary, Ystad Pellets AB, which owns a non-core wood pellet mill that has been idle for several years in Ystad, Sweden. Net cash proceeds to RusForest from the deal amount to USD 0.6 million.

## Condensed Consolidated Income Statement

In thousands of USD	Q2 2014	Q2 2013	6M 2014	6M 2013	12M 2013
<b>Continuing operations</b>					
Revenue	17,780	15,247	34,741	33,396	66,210
Cost of sales	(14,452)	(16,312)	(27,377)	(33,360)	(63,957)
<b>Gross profit/(loss)</b>	<b>3,328</b>	<b>(1,065)</b>	<b>7,364</b>	<b>36</b>	<b>2,253</b>
Other income	1,693	1,049	1,999	1,348	1,996
Distribution expenses	(2,803)	(2,879)	(5,703)	(5,547)	(11,297)
Administrative expenditure	(2,961)	(4,120)	(5,891)	(8,213)	(14,207)
Other expenses	(1,597)	(86)	(1,568)	417	(897)
Impairment loss	-	-	-	0	(7,630)
Impairment of investments in associates	-	-	-	0	0
<b>Operating profit/(loss)</b>	<b>(2,340)</b>	<b>(7,101)</b>	<b>(3,799)</b>	<b>(11,959)</b>	<b>(29,782)</b>
Financing income	478	48	200	58	96
Gain from bond restructuring	-	-	-	41,404	41,404
Financing cost	(769)	(1,881)	(2,345)	(3,468)	(4,939)
<b>Net financing income/(cost)</b>	<b>(291)</b>	<b>(1,833)</b>	<b>(2,145)</b>	<b>37,994</b>	<b>36,561</b>
<b>Profit/(loss) before tax from continuing operations</b>	<b>(2,631)</b>	<b>(8,934)</b>	<b>(5,944)</b>	<b>26,035</b>	<b>6,779</b>
<i>Income tax</i>	19	122	(17)	5	110
<b>Profit/(loss) from continuing operations</b>	<b>(2,612)</b>	<b>(8,812)</b>	<b>(5,961)</b>	<b>26,040</b>	<b>6,889</b>
<b>Discontinued operations</b>					
Profit/(loss) after tax from discontinued operations	(1,227)	(3,021)	(1,115)	(9,002)	(51,406)
<b>Profit/(loss) for the period</b>	<b>(3,839)</b>	<b>(11,833)</b>	<b>(7,076)</b>	<b>17,038</b>	<b>(44,517)</b>
Attributable to:					
Equity holders of the parent	(3,858)	(12,862)	(7,061)	16,025	(45,270)
Non-controlling interests	19	1,029	(15)	1,013	753
<b>Profit/(loss) for the period</b>	<b>(3,839)</b>	<b>(11,833)</b>	<b>(7,076)</b>	<b>17,038</b>	<b>(44,517)</b>
Earnings per share	(0.03)	(0.10)	(0.05)	0.18	(0.41)

## Condensed Consolidated Statement of Comprehensive Income

In thousands of USD	Q2 2014	Q2 2013	6M 2014	6M 2013	12M 2013
Profit/(loss) for the period	(3,839)	(11,833)	(7,076)	17,038	(44,517)
<b>Other comprehensive income</b>					
Items that may be reclassified subsequently to profit or loss:					
Currency translation difference	4,417	(6,712)	(2,267)	(11,670)	(9,897)
<b>Other comprehensive income/(loss) for the period, net of tax</b>	<b>4,417</b>	<b>(6,712)</b>	<b>(2,267)</b>	<b>(11,670)</b>	<b>(9,897)</b>
<b>Total comprehensive income/(loss) for the period, net of tax</b>	<b>578</b>	<b>(18,545)</b>	<b>(9,343)</b>	<b>5,368</b>	<b>(54,414)</b>
Attributable to:					
Equity holders of the parent	537	(19,515)	(9,315)	4,417	(55,137)
Non-controlling interests	41	970	(28)	951	723
<b>Total comprehensive income/(loss) for the period, net of tax</b>	<b>578</b>	<b>(18,545)</b>	<b>(9,343)</b>	<b>5,368</b>	<b>(54,414)</b>

In thousands of USD	Q2 2014	Q2 2013	6M 2014	6M 2013	12M 2013
<b>Profit/(loss) from continuing operations</b>	<b>(2,612)</b>	<b>(8,812)</b>	<b>(5,961)</b>	<b>26,040</b>	<b>6,889</b>
Attributable to:					
Equity holders of the parent	(2,631)	(9,841)	(5,946)	25,027	6,136
Non-controlling interests	19	1,029	(15)	1,013	753
<b>Profit/(loss) from discontinued operations</b>	<b>(1,227)</b>	<b>(3,021)</b>	<b>(1,115)</b>	<b>(9,002)</b>	<b>(51,406)</b>
Attributable to:					
Equity holders of the parent	(1,227)	(3,021)	(1,115)	(9,002)	(51,406)
Non-controlling interests	0	0	0	0	0

## Per Share Data

Per Share Data	Q2 2014	Q2 2013	6M 2014	6M 2013
<b>USD</b>				
Earnings	(0.03)	(0.10)	(0.05)	0.18
Shareholders' Equity (end of period)	0.51	1.02	0.51	1.02
<b>Number of Shares</b>	<b>Q2 2014</b>	<b>Q2 2013</b>	<b>6M 2014</b>	<b>6M 2013</b>
Beginning of period	132,033,881	132,033,881	132,033,881	5,609,540
End of Period	132,033,881	132,033,881	132,033,881	132,033,881
Average number of shares	132,033,881	132,033,881	132,033,881	89,009,706

Earnings per share were calculated as net profit/loss after tax divided by the average number of shares during the period adjusted for the results of the reverse share split of 22 April 2013.

## Condensed Consolidated Statement of Financial Position

In thousands of USD	Note	30 Jun 2014	31 Dec 2013
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment		63,835	68,441
Forest lease rights		13,621	14,406
Intangible assets		275	334
Deferred tax asset		9	4
<b>Total non-current assets</b>		<b>77,740</b>	<b>83,185</b>
<b>Current assets</b>			
Inventory		10,329	10,368
VAT refundable		6,173	6,229
Trade and other receivables		4,476	5,684
Current tax assets		64	54
Loans receivable from related companies		4,070	-
Cash and cash equivalents		1,874	3,637
		<b>26,986</b>	<b>25,972</b>
Assets classified as held for sale	5	7,118	19,562
<b>Total current assets</b>		<b>34,104</b>	<b>45,534</b>
<b>Total assets</b>		<b>111,844</b>	<b>128,719</b>
<b>EQUITY</b>			
<b>Equity and reserves</b>			
Share capital		20,683	20,683
Other paid in capital		358,448	358,448
Reserves		32	-
Translation reserve		(17,992)	(15,738)
Accumulated loss		(287,321)	(242,051)
Profit/(loss) for the period		(7,061)	(45,270)
<b>Total equity attributable to Shareholders of the Group</b>		<b>66,789</b>	<b>76,072</b>
<b>Non-controlling interest</b>		<b>402</b>	<b>430</b>
<b>Total Equity</b>		<b>67,191</b>	<b>76,502</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings		16,810	17,884
Deferred tax liability		9	4
<b>Total non-current liabilities</b>		<b>16,819</b>	<b>17,888</b>
<b>Current liabilities</b>			
Interest bearing loans and borrowings		11,059	8,053
Trade and other payables		11,771	12,179
Current tax liabilities		30	30
Provisions		26	32
		<b>22,886</b>	<b>20,294</b>
Liabilities directly associated with the assets classified as held for	5	4,948	14,035
<b>Total current liabilities</b>		<b>27,834</b>	<b>34,329</b>
<b>Total liabilities</b>		<b>44,653</b>	<b>52,217</b>
<b>Total equity and liabilities</b>		<b>111,844</b>	<b>128,719</b>

## Condensed Consolidated Statement of Cash Flows

In thousands of USD	Q2 2014	Q2 2013	6M 2014	6M 2013	12M 2013
Profit/(loss) for the period	(3,839)	(11,833)	(7,076)	17,038	(44,517)
Adjustment for non-cash items	5,274	8,494	9,720	(22,679)	36,449
Paid income tax	(18)	(2)	(18)	(22)	(196)
<b>Cash flow from operating activities before changes in working capital</b>	<b>1,417</b>	<b>(3,341)</b>	<b>2,626</b>	<b>(5,663)</b>	<b>(8,264)</b>
Cash flow changes in working capital	(862)	747	(1,422)	451	(1,054)
Cash flow from discontinued operations	545	(1,264)	990	(1,869)	(2,807)
<b>Cash flow from operating activities</b>	<b>1,100</b>	<b>(3,858)</b>	<b>2,194</b>	<b>(7,081)</b>	<b>(12,125)</b>
Investment in equipment	(2,628)	(2,889)	(3,274)	(3,053)	(15,203)
Proceeds from sales of equipment	432	4	816	1,714	4,239
VAT refund on capital investments	-	-	1,642	-	894
Acquisition of shares in subsidiaries	(3)	-	(3)	-	(94)
Proceeds from sale of subsidiaries	-	1,223	1,475	1,399	2,230
Interest received	1	-	1	-	95
Cash flow from discontinued operations	41	1,369	(59)	1,311	1,367
<b>Cash flow from investing activities</b>	<b>(2,157)</b>	<b>(293)</b>	<b>598</b>	<b>1,371</b>	<b>(6,472)</b>
New share issue	-	-	-	28,659	28,659
Costs related to the share issue	-	(3,071)	-	(3,301)	(3,377)
Redemption of the loans of sold subsidiaries	-	-	(3,941)	-	-
Increase/(decrease) in loans payable	267	(4,291)	1,778	(5,918)	722
Interest paid	(788)	(758)	(1,610)	(1,592)	(3,050)
Cash flow from discontinued operations	(250)	(1,288)	(650)	(1,603)	(2,290)
<b>Cash flow from financing activities</b>	<b>(771)</b>	<b>(9,408)</b>	<b>(4,423)</b>	<b>16,245</b>	<b>20,664</b>
<b>Cash flow during the period</b>	<b>(1,828)</b>	<b>(13,559)</b>	<b>(1,631)</b>	<b>10,535</b>	<b>2,067</b>
including continuing operations	(2,164)	(12,376)	(1,912)	12,696	5,797
including discontinued operations	336	(1,183)	281	(2,161)	(3,730)
<b>Cash and cash equivalents, beginning of period</b>	<b>3,617</b>	<b>26,677</b>	<b>3,760</b>	<b>2,586</b>	<b>2,586</b>
including continuing operations	3,533	26,217	3,637	2,519	2,519
including discontinued operations	84	460	123	67	67
Exchange-rate differences on cash balance	149	(701)	(191)	(704)	(893)
<b>Cash and cash equivalents, period end</b>	<b>1,938</b>	<b>12,417</b>	<b>1,938</b>	<b>12,417</b>	<b>3,760</b>
including continuing operations	1,874	12,104	1,874	12,104	3,637
including discontinued operations	64	312	64	312	123

In thousands of USD	Q2 2014	Q2 2013	6M 2014	6M 2013	12M 2013
<b>Adjustment for non-cash items</b>					
Depreciation of property, plant and equipment	2,547	3,771	4,864	6,724	12,497
Amortization of intangible assets	213	450	424	899	1,872
Income tax	(19)	(122)	17	(5)	(110)
Finance income	(478)	(48)	(200)	(58)	(96)
Income from bond restructuring	-	-	-	(41,404)	(41,404)
Finance expense	769	1,881	2,345	3,468	4,939
Net loss on disposal of property, plant and equipment	810	(130)	977	(1,205)	(538)
Net income/loss on disposal of intangible assets	(43)	-	(43)	-	-
Bad debts	360	1	490	253	722
Other comprehensive (profit)/loss from assets held for sale	1,227	3,021	1,115	9,002	51,406
Impairment loss	-	-	-	-	7,630
Impairment of investments in associates	-	-	-	-	-
Other non-cash items	(112)	(331)	(269)	(354)	(469)
<b>Total</b>	<b>5,274</b>	<b>8,494</b>	<b>9,720</b>	<b>(22,679)</b>	<b>36,449</b>

## Condensed Consolidated Statement of Changes in Equity

1 January 2014 – 30 June 2014

In thousands of USD	Attributable to the equity holders of the parent					Non-controlling interest	Total
	Share capital	Other paid in capital	Reserves	Translation reserve	Accumulated loss		
Opening shareholders' equity	20,683	358,448	-	(15,738)	(287,321)	430	76,502
Profit/(loss) for the period					(7,061)	(15)	(7,076)
Other comprehensive income/(loss)				(2,254)		(13)	(2,267)
<b>Total comprehensive income/(loss)</b>	-	-	-	<b>(2,254)</b>	<b>(7,061)</b>	<b>(28)</b>	<b>(9,343)</b>
Employee stock options			32				32
<b>Shareholders' equity at end of period</b>	<b>20,683</b>	<b>358,448</b>	<b>32</b>	<b>(17,992)</b>	<b>(294,382)</b>	<b>402</b>	<b>67,191</b>

1 January 2013 – 30 June 2013

In thousands of USD	Attributable to the equity holders of the parent					Non-controlling interest	Total
	Share capital	Other paid in capital	Reserves	Translation reserve	Accumulated loss		
Opening shareholders' equity	72,766	239,667	-	(5,871)	(242,435)	173	64,300
Profit/(loss) for the period					16,025	1,013	17,038
Other comprehensive income/(loss)				(11,608)		(62)	(11,670)
<b>Total comprehensive income/(loss)</b>	-	-	-	<b>(11,608)</b>	<b>16,025</b>	<b>951</b>	<b>5,368</b>
Decrease in share capital	(72,039)	72,039					-
Costs related to the share issue		(3,457)					(3,457)
New share issue	19,956	50,199					70,155
<b>Shareholders' equity at end of period</b>	<b>20,683</b>	<b>358,448</b>	-	<b>(17,479)</b>	<b>(226,410)</b>	<b>1,124</b>	<b>136,366</b>

1 January 2013 – 31 December 2013

In thousands of USD	Attributable to the equity holders of the parent					Non-controlling interest	Total
	Share capital	Other paid in capital	Reserves	Translation reserve	Accumulated loss		
Opening shareholders' equity	72,766	239,667	-	(5,871)	(242,435)	173	64,300
Profit/(loss) for the period					(45,270)	753	(44,517)
Other comprehensive income/(loss)				(9,867)		(30)	(9,897)
<b>Total comprehensive income/(loss)</b>	-	-	-	<b>(9,867)</b>	<b>(45,270)</b>	<b>723</b>	<b>(54,414)</b>
Decrease in share capital	(72,039)	72,039					-
Acquired non-controlling interest in subsidiaries					384	(466)	(82)
Costs related to the share issue		(3,457)					(3,457)
New share issue	19,956	50,199					70,155
<b>Shareholders' equity at end of period</b>	<b>20,683</b>	<b>358,448</b>	-	<b>(15,738)</b>	<b>(287,321)</b>	<b>430</b>	<b>76,502</b>

## Parent Company Income Statement

In thousands of SEK	6M 2014	6M 2013
Other income	-	625
Administrative expenditure	(5,631)	(13,869)
<b>Operating profit/(loss)</b>	<b>(5,631)</b>	<b>(13,244)</b>
Exchange gain/loss	1,257	(27,355)
Financing income	3,797	27,698
Income on bond restructuring	-	269,772
Financing cost	(1,751)	(6,496)
Loss on disposal of investments	-	(435,624)
Impairment of investments and receivables from subsidiaries	(917)	-
<b>Net financing income/(cost)</b>	<b>2,386</b>	<b>(172,005)</b>
<i>Income tax</i>	-	-
<b>Profit/(loss) for the period</b>	<b>(3,245)</b>	<b>(185,249)</b>

## Parent Company Balance Sheet

In thousands of SEK	30 Jun 2014	31 Dec 2013
<b>Assets</b>		
<b>Non-current assets</b>		
Property, plant and equipment	56	80
Investments in subsidiaries	55,857	50,841
Loans receivable from subsidiaries	75,298	299,220
<b>Total non-current assets</b>	<b>131,211</b>	<b>350,141</b>
<b>Current assets</b>		
VAT refundable	109	66
Receivables from subsidiaries	232,340	-
Trade and other receivable	363	207
Current tax assets	140	70
Cash and cash equivalents	16	11,536
<b>Total current assets</b>	<b>232,968</b>	<b>11,879</b>
<b>Total assets</b>	<b>364,179</b>	<b>362,020</b>
<b>Equity</b>		
<b>Equity and reserves</b>		
<i>Restricted equity</i>		
Share capital	132,034	132,034
<i>Non-restricted equity</i>		
Share premium	1,037,511	1,037,511
Retained earnings	(856,567)	(853,322)
<b>Total equity</b>	<b>312,978</b>	<b>316,223</b>
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Interest-bearing loans and borrowings	3,745	3,745
<b>Total non-current liabilities</b>	<b>3,745</b>	<b>3,745</b>
<b>Current liabilities</b>		
Interest-bearing loans and borrowings	33,695	32,634
Payables to Group companies	10,794	8,085
Trade and other payables	2,967	1,333
<b>Total current liabilities</b>	<b>47,456</b>	<b>42,052</b>
<b>Total equity and liabilities</b>	<b>364,179</b>	<b>362,020</b>



## Notes to the Financial Statements

### Note 1. Cost of sales

In thousands of USD	Q2 2014	Q2 2013	6M 2014	6M 2013
Personnel costs	3,250	3,865	6,577	7,470
Purchased sawlogs	3,718	561	6,406	1,642
Purchased sawnwood	569	1,463	661	2,791
Purchased woodchips	39	-	39	-
Depreciation of property, plant and equipment	2,425	3,383	4,452	6,056
Amortization of intangible assets	198	443	407	896
Materials	439	554	899	875
Energy and fuel	1,468	1,945	3,615	4,192
Repairs and maintenance	942	1,177	1,439	2,365
Harvesting services	114	628	324	2,518
Forest lease	549	878	1,164	1,542
Other	741	1,415	1,394	3,013
<b>Total</b>	<b>14,452</b>	<b>16,312</b>	<b>27,377</b>	<b>33,360</b>

### Note 2. Distribution expenses

In thousands of USD	Q2 2014	Q2 2013	6M 2014	6M 2013
Personnel costs	393	655	879	1,399
Railway costs	726	1,078	1,722	2,041
Sea freight	1,427	643	2,403	706
Other*	257	503	699	1,401
<b>Total</b>	<b>2,803</b>	<b>2,879</b>	<b>5,703</b>	<b>5,547</b>

\* Other distribution expenses mainly consist of 1.Materials, 2.Agent fees, 3.Fuel, 4.Quarantine and sanitary certificates, 5.Depreciation of PPE and 6.Energy

### Note 3. Administrative expenditure

In thousands of USD	Q2 2014	Q2 2013	6M 2014	6M 2013
Personnel costs	1,897	2,805	3,817	5,462
Audit	169	102	260	181
Property tax	196	249	389	510
Consulting fees	206	320	500	578
Other	493	644	925	1,482
<b>Total</b>	<b>2,961</b>	<b>4,120</b>	<b>5,891</b>	<b>8,213</b>

### Note 4. Segment information

The Group's Parent Company has its head office in Stockholm, Sweden. All of the Group's operating companies are located in the Russian Federation.

Starting from Q1 2013, it has been decided to monitor and present performance of the operations based on the geographical division of production units. The financial results of the parent holding companies (RusForest AB, Varyag Capital Ltd, Varyag Finance GmbH and RusForest Bermuda) are not included in any of the operating segments and are presented as unallocated. Previously, RusForest divided operations into harvesting and sawmilling.

### Operational segments, results for six months ended 30 June 2014

In thousands of USD	External revenue					Impairment loss	Profit/(loss) before tax
	Sawnwood	Sawlogs	Pellets	Other	Total		
Arkhangelsk	15,486	13	2,835	3,242	21,576	-	(210)
Ust-Ilimsk	-	-	-	377	377	-	(1,692)
Magistralny	9,611	2,519	-	658	12,788	-	(1,117)
Unallocated	-	-	-	-	-	-	(2,925)
<b>Total from continuing operations</b>	<b>25,097</b>	<b>2,532</b>	<b>2,835</b>	<b>4,277</b>	<b>34,741</b>	<b>-</b>	<b>(5,944)</b>
Boguchany	2,452	860	-	119	3,431	-	(210)
Pellets (Sweden & Latvia)	-	-	60	-	60	(853)	(902)
<b>Total from discontinued operations</b>	<b>2,452</b>	<b>860</b>	<b>60</b>	<b>119</b>	<b>3,491</b>	<b>(853)</b>	<b>(1,112)</b>
<b>Total</b>	<b>27,549</b>	<b>3,392</b>	<b>2,895</b>	<b>4,396</b>	<b>38,232</b>	<b>(853)</b>	<b>(7,056)</b>

## Operational segments, results for six months ended 30 June 2013

In thousands of USD	External revenue				Total	Impairment loss	Profit/(loss) before tax
	Sawnwood	Sawlogs	Pellets	Other			
Arkhangelsk	9,510	1,421	-	5,670	16,601	-	(5,780)
Ust-Ilimsk	1,687	1,878	-	1,834	5,399	-	(488)
Magistralny	7,413	3,647	-	336	11,396	-	(4,019)
Unallocated*	-	-	-	-	-	-	36,322
<b>Total from continuing operations</b>	<b>18,610</b>	<b>6,946</b>	<b>-</b>	<b>7,840</b>	<b>33,396</b>	<b>-</b>	<b>26,035</b>
Boguchany	8,741	2,216	-	541	11,498	-	(7,767)
Pellets (Sweden & Latvia)	-	-	437	-	437	-	(787)
Gravel	-	-	-	2,263	2,263	-	(57)
ALK	-	-	-	1	1	-	(127)
UI ZSI	-	-	-	405	405	-	(276)
Shenkursk	4	-	-	13	17	-	(96)
<b>Total from discontinued operations</b>	<b>8,745</b>	<b>2,216</b>	<b>437</b>	<b>3,223</b>	<b>14,621</b>	<b>-</b>	<b>(9,110)</b>
<b>Total</b>	<b>27,355</b>	<b>9,162</b>	<b>437</b>	<b>11,063</b>	<b>48,017</b>	<b>-</b>	<b>16,925</b>

\* includes gain from bond restructuring in the amount of USD 41.4 million

## Note 5. Assets held for sale and the result of discontinued operations

### Assets classified as held for sale

In thousands of USD	30 Jun 2014	31 Dec 2013
<b>Non-current assets</b>		
Property, plant and equipment	2,450	8,037
Forest lease rights	3,586	3,730
Intangible assets	34	357
Deferred tax asset	-	-
<b>Total non-current assets</b>	<b>6,070</b>	<b>12,124</b>
<b>Current assets</b>		
Inventory	436	3,223
VAT refundable	133	2,223
Trade and other receivables	415	1,154
Current tax assets	-	-
Loans receivable	-	715
Cash and cash equivalents	64	123
<b>Total current assets</b>	<b>1,048</b>	<b>7,438</b>
<b>Total assets</b>	<b>7,118</b>	<b>19,562</b>

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

In thousands of USD	30 Jun 2014	31 Dec 2013
<b>Non-current liabilities</b>		
Interest-bearing loans and borrowings	417	4,626
Deferred tax liability	-	-
<b>Total non-current liabilities</b>	<b>417</b>	<b>4,626</b>
<b>Current liabilities</b>		
Interest-bearing loans and borrowings	691	1,435
Trade and other payables	3,826	7,963
Current tax liabilities	14	11
Provisions	-	-
<b>Total current liabilities</b>	<b>4,531</b>	<b>9,409</b>
<b>Total liabilities</b>	<b>4,948</b>	<b>14,035</b>

### Consolidated statement of comprehensive income, discontinued operations

In thousands of USD	6M 2014	6M 2013
<b>Discontinued operations</b>		
Revenue	3,491	14,621
Cost of sales	(3,829)	(16,062)
<b>Gross profit/(loss)</b>	<b>(338)</b>	<b>(1,441)</b>
Other income	1,194	766
Distribution expenses	(849)	(4,816)
Administrative expenditure	(639)	(1,930)
Other expenses	(294)	(1,282)
Impairment loss	(853)	-
<b>Profit from disposal</b>	<b>1,333</b>	<b>455</b>
Operating profit/(loss)	(446)	(8,248)
Financing income	-	-
<b>Financing cost</b>	<b>(666)</b>	<b>(862)</b>
Net financing income/(cost)	(666)	(862)
Income tax	(3)	108
<b>Loss after tax from discontinued operations</b>	<b>(1,115)</b>	<b>(9,002)</b>

### Condensed consolidated statement of cash flows, discontinued operations

In thousands of USD	6M 2014	6M 2013
<b>Cash flow from operating activities</b>	<b>990</b>	<b>(1,869)</b>
Investment in equipment	(100)	(758)
Proceeds from sales of equipment	41	10
VAT refund on capital investments	-	2,059
<b>Cash flow from investing activities</b>	<b>(59)</b>	<b>1,311</b>
Increase/(decrease) in loans payable	(469)	(1,016)
Interest paid	(181)	(587)
<b>Cash flow from financing activities</b>	<b>(650)</b>	<b>(1,603)</b>
<b>Cash flow during the period</b>	<b>281</b>	<b>(2,161)</b>

### Note 6. Related party transactions

In thousands of USD	6M 2014
<b>Boguchansky LPK LLC</b>	
Sales of goods and services	675
Purchase of goods and services	45
Rent income	489
Finance income	185

<b>Lesresurs LLC</b>	
Sale of property, plant and equipment	61

### Related party balances

In thousands of USD	30 Jun 2014
<b>Boguchansky LPK LLC</b>	
Accounts payable	532
Short-term loans receivable	4,070

## Financial calendar

*Interim Report Q3 2014*

28 November 2014

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

Stockholm, 29 August 2014

RusForest AB (publ.)  
*The Board of Directors*

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