

Interim Report 1 January – 30 June 2016

USDm	Second quarter		Six months	
	2016	2015	2016	2015
Revenue	5.8	4.9	13.2	10.5
EBITDA	3.0	0.3	6.0	2.3
Operating profit	1.9	(0.7)	4.1	0.5
Profit/(Loss) for the period	1.4	(1.6)	2.6	0.2
Net profit/(loss) per share (USD per share)	0.01	(0.01)	0.02	0.00
Production & sales				
Logs harvested, m ³	31,770	29,704	152,891	104,008
Logs harvested, m ³ (subcontracting)	714	82,816	274,647	345,231
Sawnwood produced, m ³	17,838	18,467	40,859	40,245
Pellets produced	6,658	-	12,883	-
Sawlogs sold, m ³	30,232	11,476	73,395	27,886
Sawnwood sold, m ³	20,651	21,572	42,306	40,863
Pellets sold	6,269	-	12,488	-
	30 Jun 2016		31 Dec 2015	
Cash balance	12.5		8.4	
Working capital*	1.8		2.5	
Net debt**	(12.4)		(8.3)	

Highlights

Second quarter of 2016

- Revenue increased by 18% to USD 5.8 million in Q2 2016 compared with USD 4.9 million in Q2 2015.
- EBITDA of USD 3.0 million in Q2 2016, including income from non-core forest lease sales, compared with USD 0.3 million in Q2 2015. EBITDA margin of 51% in Q2 2016 compared with 6% in Q2 2015.
- Profit for the period of USD 1.4 million in Q2 2016, compared with a loss of USD 1.6 million in Q2 2015.
- Sawnwood production in Magistralny decreased by 3% to 17,838 m³ of sawnwood, compared with 18,467 m³ in Q2 2015.
- In Q2 2016 RusForest concluded a sale for three non-core forest lease areas belonging to the Ust-Ilimsk unit, corresponding to a total of 353,400 m³ of annual allowable cut ("AAC"). The sale resulted in a USD 2.1 million profit, recognised as other income in Q2 2016.
- Following redemption under the Company's synthetic buy-back program the number of issued and outstanding shares of the Company officially decreased by 1,378,410 shares or 1.0% of outstanding shares, to 130,655,471 common shares with voting rights on June 29, 2016.

After the end of the reporting period

- In July the Company completed another sale of non-core forest leases of 39,885 hectares and annual allowable cut of 53,400 m³, in the Ust-Ilimsk production unit. The price amounted to USD 590,000.

*Calculated as inventory, trade & other current receivables and receivable from asset sale, less trade and other current payables.

**Calculated as loans and borrowings less interest bearing loan receivables and cash.



Management Comments

RusForest is happy to report a financially very strong second quarter, largely due to the successful sales of non-core forest leases and recognition of profit thereto. However, the core operational activities also performed well and therefore even if excluding income from forest lease sales core EBITDA increased year-on year.

Own harvesting in Ust-Ilimsk performed according to plan in spite of traditionally difficult second quarter for wood harvesting and hauling. Magistralny harvesting in Q2 2016 was lower than in Q2 2015, which was partially planned and partially due to weather related issues with hauling.

Relatively high proportions of sales to Japan and China couple with somewhat strengthened prices in those markets led to an overall increase of 6.4% in average sawnwood price in Q2 2016 compared with Q1 2016. The Japanese and Chinese markets are expected to be stable to positive while the situation in other markets (MENA, Central Asia) is expected to remain uncertain. The new log volumes from Ust-Ilimsk and pellets sales also helped increase total revenue by 18% in Q2 2016 compared with Q2 2015.

RusForest has been working to optimize its forest lease portfolio through the sale of non-core forest areas. With the successful conclusion of these most recent sales of non-core forest leases in the Ust-Ilimsk production unit, the main phase of optimizing the Company's forest assets is completed. In the first six months of 2016 the Company has recorded a total of USD 2.6 million of profit from the non-core forest leases sales and by the end of the year it will be more than USD 3.0 million. Divestment of these non-core forest areas also has longer term cost and fire risk reduction benefits.

Both new business activities performed as expected. The own harvesting operations in Ust-Ilimsk added 24,636 m³ of harvested volume in Q2 2016 and the new pellet mill in Magistralny produced a total of 6,658 tons in Q2 2016. Short term focus is mainly on continuous improvement of Ust-Ilimsk harvesting and pellet mill performance to increase revenue and profitability further, however, RusForest is currently also reviewing the long term technical strategy for the Magistralny sawmilling operation, to ensure long term maximum output, efficiency and safety based on available forest resources.

Sincerely,

Anton Bogdanov

CEO RusForest Management Company

Operational Review

RusForest operational data

Forest resources continuing operations		As at June 30, 2016	As at June 30, 2015
Annual Allowable Cut (AAC)	m^3	1,117,260	1,692,360
Forest area	Hectares	756,609	1,194,282

In Q2 2016 RusForest sold three non-core forest lease areas with total AAC of 353,400 m^3 , belonging to Ust-Ilimsk unit.

Continuing operations		Three months ended			Six months ended		
		June 30, 2016	June 30, 2015	% Q2'16 vs Q2'15	June 30, 2016	June 30, 2015	% 6M'16 vs 6M'15
Subcontracting*							
Total harvested	m^3	714	82,816	-99%	274,647	345,231	-20%

Production

Logs harvested	m^3	31,770	29,704	7%	152,891	104,008	47%
Ust-Ilimsk	m^3	24,636	-	-	53,429	-	-
Magistralny	m^3	7,134	29,704	-76%	99,462	104,008	-4%
in own forest leases	m^3	7,134	29,704	-76%	99,462	104,008	-4%
in third party forest leases	m^3	-	-	-	-	-	-
Sawnwood production	m^3	17,838	18,467	-3%	40,859	40,245	2%
incl. Japanese specification	m^3	6,942	6,925	0%	15,295	14,911	3%
Pellet production	t	6,658	-	-	12,883	-	-

Sales volumes

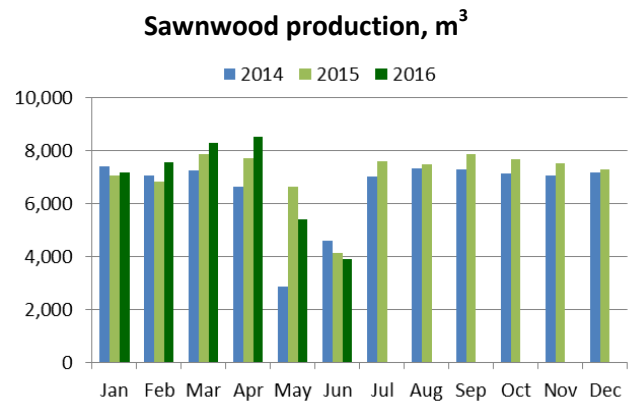
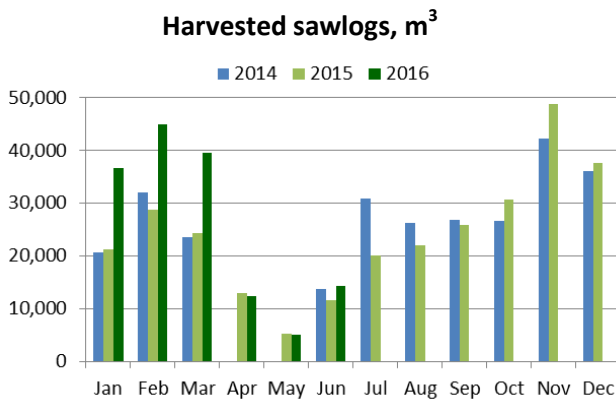
Sawlogs sold	m^3	30,232	11,476	163%	73,395	27,886	163%
Ust-Ilimsk	m^3	18,868	-	-	45,691	-	-
Magistralny	m^3	11,364	11,476	-1%	27,704	27,886	-1%
Sawnwood sold	m^3	20,651	21,572	-4%	42,306	40,863	4%
Pellet sold	t	6,269	-	-	12,488	-	-

* Ust-Ilimsk operations

In Q2 2016, RusForest harvested 31,770 m^3 of logs, compared with 29,704 m^3 in Q2 2015 (+7%), which included 24,636 m^3 of own harvesting in Ust-Ilimsk. Development of own harvesting naturally leads to lower volumes of subcontracting. The current objective for Ust-Ilimsk is to abandon work with subcontractors and to only develop further own harvesting.

Harvesting operations in Magistralny decreased by 76% in Q2 2016 to 7,134 m^3 . The main reason for lower harvesting volumes was early spring and problems with hauling in the beginning of April. At the same time the Company also planned to harvest comparatively less in Q2 2016 compared with Q2 2015 because of intensive harvesting in the first quarter. Total harvested volumes in Magistralny for the first half 2016 decreased just by 4% compared with the first half 2015.

In Q2 2016, RusForest produced 17,838 m^3 of sawnwood, compared with 18,467 m^3 in Q2 2015 (-3%). Lower sawnwood production volumes caused by sawlogs shortage in June. At the same time sawmilling volumes for the first half 2016 increased by 2% compared with the first half 2015.



RusForest's sales

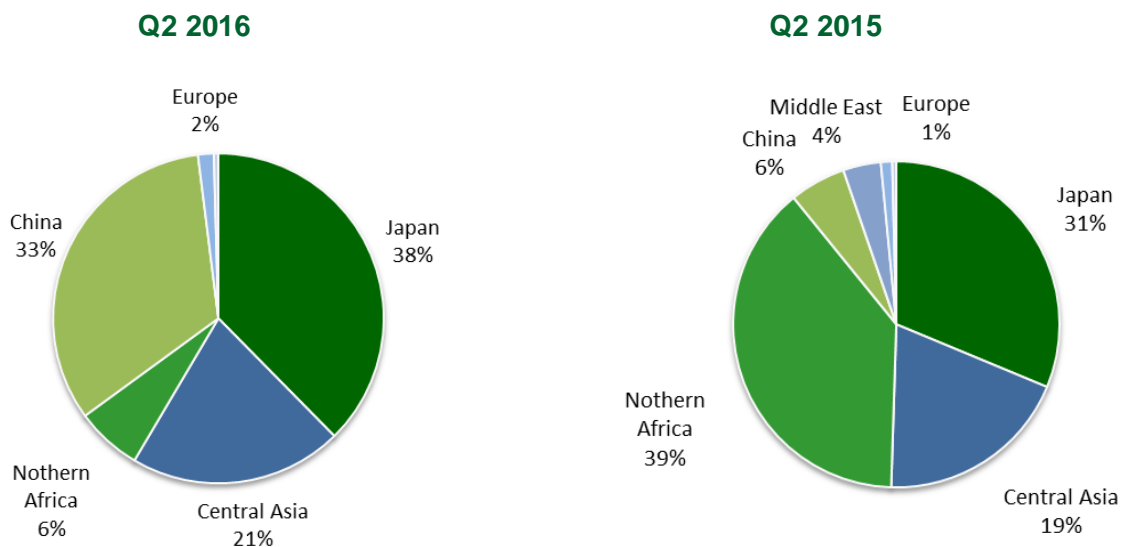
In Q2 2016 RusForest sold 20,651 m³ of sawnwood from Magistralny compared with 21,572 m³ in Q2 2015 (-4%). Northern African market environment was still difficult with low prices and the share of this market in total RusForest's sales decreased from 39% in Q2 2015 to just 6% in Q2 2016. At the same time, the share of Japanese market in total sales increased from 31% in Q2 2015 to 38% in Q2 2016. High volume of sawnwood was also sold to China – 6,830 m³ in Q2 2016 compared with 2,203 m³ in Q2 2015.

In Q2 2016 RusForest Magistralny sold 11,364 m³ of sawlogs compared with 11,476 m³ in Q2 2015 (-1%). In Q2 2016 RusForest also delivered 18,868 m³ of sawlogs from own harvesting in Ust-Ilimsk to local market.

As a result of improvement on the Japanese market, the average sawnwood price realised (price 'on wagon') increased by 2.3% in Q2 2016 compared with Q1 2016 to 166.4 USD/m³. Also, the average sawnwood price in Q2 2016 increased by 6.4% compared with Q2 2015 level.

A total of 6,219 tonnes of wood pellets were sold from Magistralny in Q2 2016.

RusForest's sawnwood sales by region



Financial Review

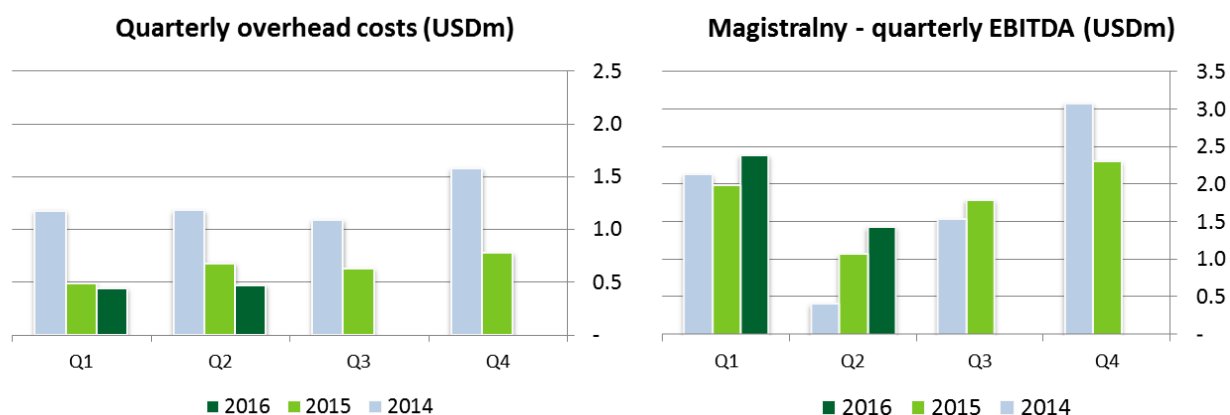
EBITDA development

in thousands of USD	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
IFRS results						
Continuing operations						
Revenue (gross, at ports)	5,838	7,340	6,399	5,053	4,932	5,613
Operating profit/(loss)	1,950	2,159	992	(14)	(739)	1,221
add back depreciation and amortization non-cash expense	1,045	807	713	694	1,045	749
EBITDA unadjusted	2,995	2,966	1,705	680	306	1,970
a. Doubtful receivables	1	-	5	(6)	121	7
b. Disposal of non-current assets	(2,015)	(577)	76	(54)	24	(92)
d. Other items	(3)	(3)	(47)	(44)	(50)	47
Non-recurring items	(2,015)	(577)	34	(104)	95	(38)
EBITDA adjusted	978	2,386	1,739	576	401	1,932
Ust-Ilimsk	22	641	212	(585)	16	441
Magistralny	1,431	2,187	2,306	1,792	1,067	1,986
Unallocated	(475)	(442)	(779)	(631)	(682)	(495)
EBITDA adjusted, by segments	978	2,386	1,739	576	401	1,932

Earnings before interest, taxes, depreciation and amortisation (EBITDA) improved 10 times year-on-year, and amounted to USD 3.0 million in Q2 2016 compared with USD 0.3 million in Q2 2015. The large improvement in EBITDA was significantly influenced by the sale of non-core forest leases in the amount of USD 2.1 million, USD 2.0 million directly related to the lease contracts and another USD 0.1 million for seed inventory and receivables connected with the forest areas. However, also adjusted for this non-recurring income the EBITDA result significantly improved year-on-year. Magistralny continued to deliver strong results, with an adjusted EBITDA of USD 1.4 million, compared with USD 1.1 million in Q2 2015, the new pellet factory positively contributed to the results. Ust-Ilimsk adjusted result was similar to the same period in 2015.

Overhead costs in Q2 2016 were 30% lower than in Q2 2015, USD 0.5 million compared with USD 0.7 million in Q2 2016.

The profitability of Ust-Ilimsk and Magistralny improved year-on-year in both Q1 and Q2 and overhead costs were lower as well and as a result EBITDA for 6 months 2016 improved 162% compared with same period in 2016. Adjusted for the non-recurring income from forest lease sales EBITDA increased by 44%.



Revenue

	Sales volume (m ³ /tonnes)			Revenue per m ³ /tonne (USD)			Revenue (USD thousand)					
	2016	2015	Δ%	2016	2015	Δ%	2016	2015	Δ%			
Q2	Sawnwood	20,651	21,572	-4%	Sawnwood	192	185	4%	Sawnwood	3,970	3,986	0%
	Sawlogs	30,232	11,476	163%	Sawlogs	38	49	-22%	Sawlogs	1,145	558	105%
	Pellets	6,269	-	n/a	Pellets	100	-	n/a	Pellets	628	-	n/a
6M	Sawnwood	42,306	40,863	4%	Sawnwood	193	189	2%	Sawnwood	8,167	7,727	6%
	Sawlogs	73,395	27,886	163%	Sawlogs	40	58	-31%	Sawlogs	2,937	1,627	81%
	Pellets	12,488	-	n/a	Pellets	104	-	n/a	Pellets	1,304	-	n/a

Sales volumes of sawnwood decreased by 4% in Q2 2016 compared with Q2 2015 while sawlog volumes increased by as much as 163%. Sales volumes of sawlogs increased due to the newly launched own harvesting operations in Ust-Ilimsk. The price for sawlogs recovered some in Q2 2016 compared to previous quarters. As stated on page 4 of this report, the average price for sawnwood on wagon for Magistralny in Q2 2016 increased by 6.4% to USD 166.4/m³ compared with USD 156.4/m³ in Q2 2015. Sawnwood revenue per cubic meter for Magistralny, as the average generated revenue across all types of contracts and sales terms per cubic meter increased by 4% Q2 2016 compared with Q2 2015. Total revenue from sawnwood sales in Q2 2016 was at similar levels to 2015, while sawlog revenue significantly increased due to additional volumes from Ust-Ilimsk. Besides the increased revenue from sawnwood and sawlog the new pellet mill also contributed USD 628 thousand of revenue in the quarter, thereby, Group revenue for Q2 2016 increased by 18% compared with Q2 2015. The first six months of 2016 shows a similar picture of significantly increased sawlog and pellets revenue, while revenue from sawnwood also increased by 6% which all result in a 25% increase in revenue for first six months of 2016.

Other income

Other income increased significantly in Q2 2016 compared with Q2 2015, which is due to the sale of three non-core forest lease areas belonging to the Ust-Ilimsk unit, corresponding to a total of 353,400 m³ of annual allowable cut ("AAC") which generated income of USD 2.1 million in Q2 2016. For the first six months of 2016 income from the sales of non-core forest leases of USD 2.6 million contributed to a total other income of USD 2.7 million.

Costs

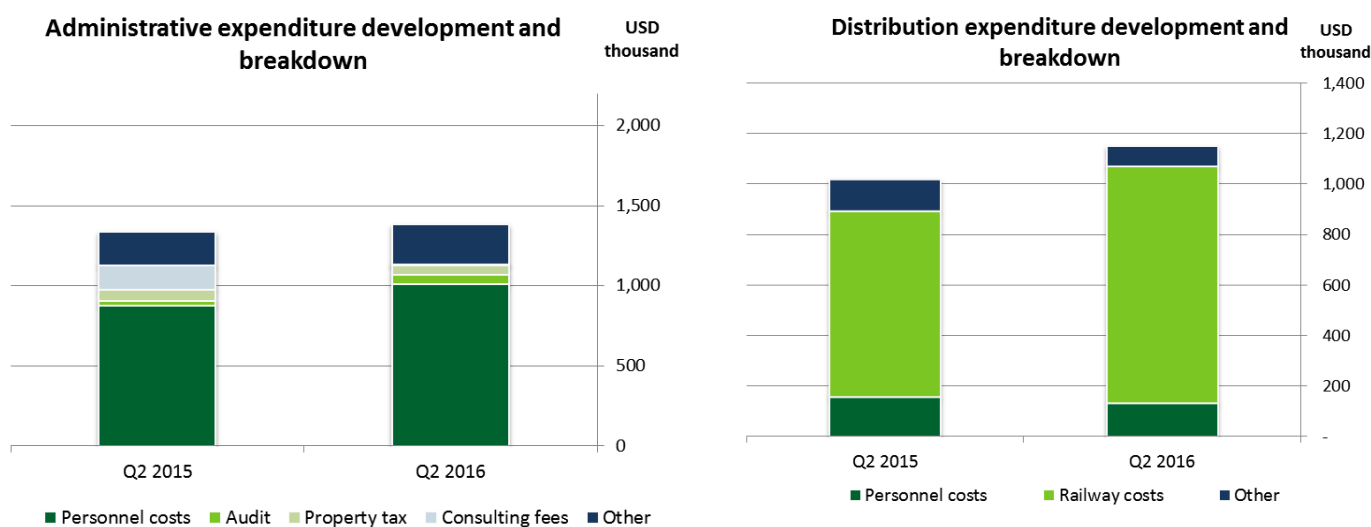
In Q2 2016 the Company benefitted from a weak RUB on the cost side, the average USD-to-RUB rate in Q2 2016 was 65.9 compared with 52.8 in Q2 2015, a weakening of average quarterly RUB by 20% year-on-year. However, the RUB did strengthen by 5.2% in the second quarter of 2016 and 13.4% compared with beginning of the year. The most significant effect from a weaker RUB is in cost of sales.

The cost of sales increased by 8% to USD 3.5 million in Q2 2016, compared with USD 3.2 million in Q2 2015. The second quarter 2016 contained some third party purchases of sawlogs, personnel expenses also included quarterly reserve for the employee cash bonus system which were minimal in Q2 2015. As a result of recent sales of non-core forest leases certain forest restoration reserves connected with those land plots were reversed and shown as "other" in the table in Note 1 to the financial statements.

Distribution expenses increased by 13% to USD 1.2 million in Q2 2016, compared with USD 1.0 million in Q2 2015, the main reason being increased sales volumes of pellets and sawlogs and therefore increased delivery costs, such as railway. Because sawlog deliveries from Ust-Ilimsk were mostly local Russian

sales, the volume increase in percentage terms was comparatively much larger than the percentage increase in monetary terms.

Administrative expenses increased by 3.4% to USD 1.4 million in Q2 2016, compared with USD 1.3 million for the same period in 2015. The increase in administrative costs for the quarter was mainly driven by higher personnel expenses. The organisation has been strengthened with new personnel for the newly launched pellet factory in Magistralny and own harvesting operations in Ust-Ilimsk and it is natural that admin cost will increase as a result. Furthermore personnel expenses include reserve for RusForest's employee cash bonus system. For the first six months of 2016 administrative expenses increased by 28% or USD 535 thousand, the majority of which constitute reserve for employee cash bonus system, such reserves were minimal in 2015.



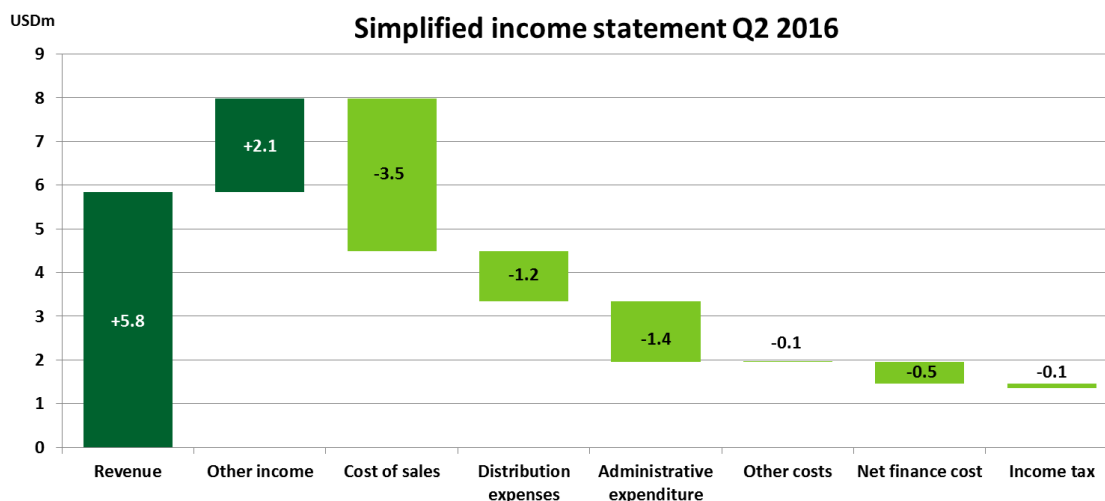
Other expenses decreased in Q2 2016, to USD 5 thousand compared with USD 145 thousand in Q2 2015.

Net finance cost decreased by 40% in Q2 2016, to USD 0.5 million, compared with USD 0.8 million in Q2 2015. The largest finance item was a USD 0.5 million foreign exchange loss, which however, was lower than in same period in 2015. For the first six months of 2016 net finance cost increased by USD 0.9 million due to significant FX loss also in Q1 2016 as previously reported. The foreign exchange losses are connected with the strengthening of the Russian Rouble in the first six months of 2016.

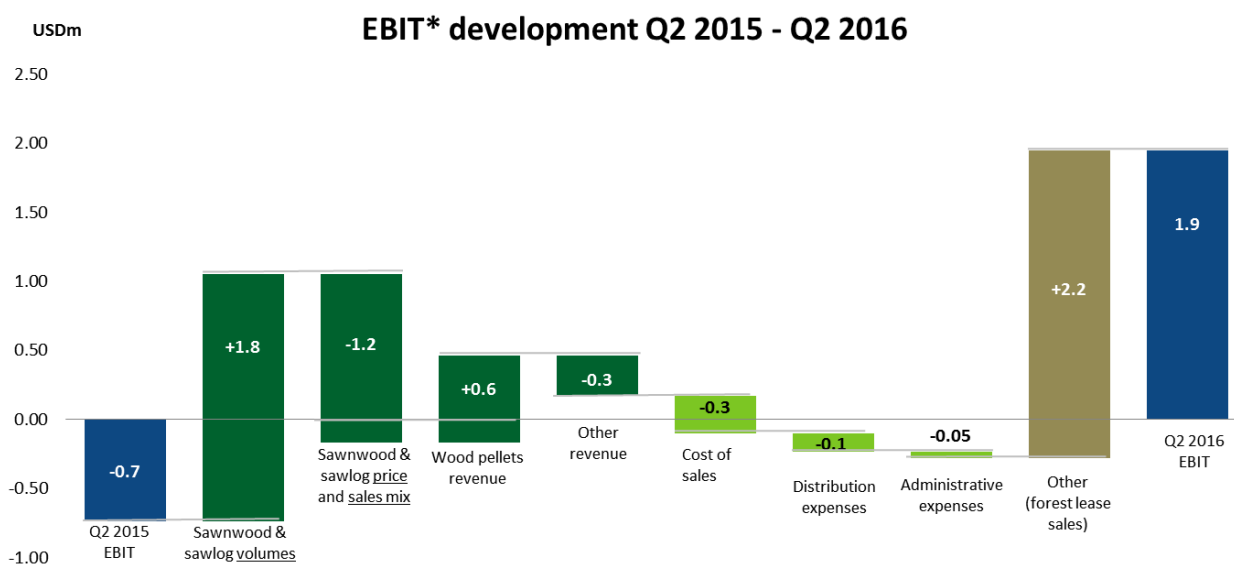
Earnings

The Company achieved a gross profit of USD 2.3 million in Q2 2016, representing a 40% gross profit margin, compared with gross profit of USD 1.7 million and gross profit margin of 35% in Q2 2015. The operating profit was USD 1.9 million in Q2 2016, compared with a loss of USD 0.7 million in Q2 2015. Profit for the period in Q2 2016 amounted to USD 1.4 million, compared with a loss of USD 1.5 million in Q2 2015.

For the first six months of 2016 the profit amounted to USD 2.6 million compared with a profit for the period of USD 0.2 million in 2015. If adjusting for the non-recurring income from the sale of non-core forest leases, EBITDA and operating profit still increased for first six months of 2016 compared with 2015, while profit for the period would decrease due to significantly higher FX loss in 2016 than 2015.



The chart below summarises positive/(negative) year-on-year changes in cost and revenue categories contributing to the positive development from an operating loss of USD 0.7 million in Q2 2015 to an operating profit of USD 1.9 million in Q2 2016. The year-on-year improvement is revenue driven, mainly derived from increased sales volumes of sawnwood, sawlogs and pellets, as well as income from non-core forest lease sales..

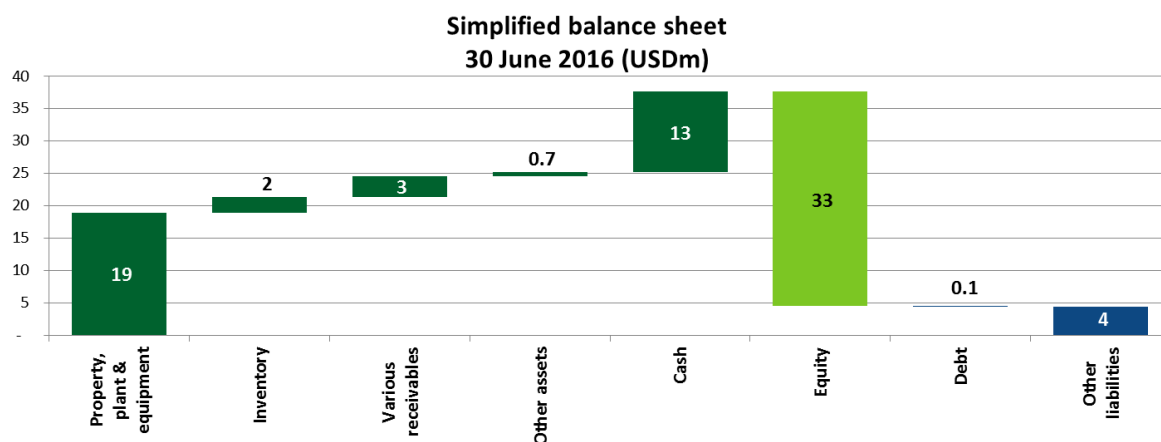


*EBIT = Earnings before interest and taxes

Balance Sheet and Cash Flow

At 30 June 2016, the Company's total assets amounted to USD 37.7 million. Property, plant and equipment constituted the largest component of assets at USD 18.9 million. The balance sheet at 30 June 2016 also included an advance of USD 0.4 million for the purchase of non-controlling interest in subsidiaries, which is related to the buyout of minority interests in Ust-Ilimsk. In Q2 2016 RusForest as reported sold intangible assets of three forest lease agreements in Ust-Ilimsk. The assets were recorded at 0 value on the balance sheet prior to sale so the affect was only positive influence on the result and cash position. Working capital amounted to USD 1.8 million at 30 June 2016, compared with USD 2.5 million at 31 December 2015. The Company's cash and cash equivalents totalled USD 12.5 million at 30 June 2016, compared with USD 8.4 million at 31 December 2015.

Non-current loans and borrowings amounted to USD 0.1 million at 30 June 2016, same level as 31 December 2015. This debt comprises the remainder of the SEK bond, a zero-coupon bond maturing in 2018. The debt-to-equity ratio at the end of Q2 2016 was 0.01.

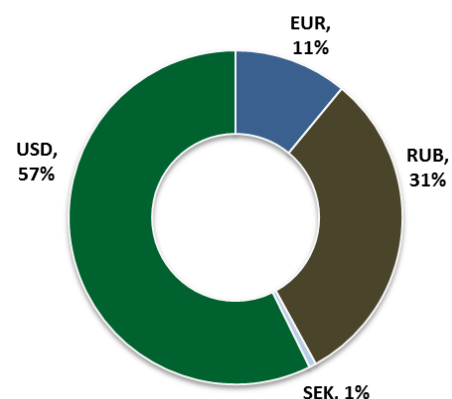


The values in USD of Russian assets and liabilities on the balance sheet are affected by the fluctuations in the RUB. At 30 June 2016, the RUB had appreciated by 13% against the USD compared with 31 December 2015.



Source: Russian Central Bank

**Cash balance breakdown
30 June 2016**



At 30 June 2016, the Company held its cash predominantly in USD. Given the recent depreciation and volatility of the RUB, the Company only keeps cash in RUB as required for efficient ongoing operations in Russia.

Despite the second quarter in the year always being the weakest due to seasonal factors the Company achieved positive cash flow from operating activities. Cash flow from operating activities amounted to USD 1.0 million, compared with USD 0.8 million in Q2 2015. Investing activities in Q2 2016 summed up to a cash inflow of USD 0.5 million and the largest items were: investment in equipment of USD 1.3 million, mainly related to additional machinery for Ust-Ilimsk new harvesting operation and Magistralny boiler improvement, cash payment of USD 0.3 million under the synthetic buy back program and cash inflow of USD 2.1 million related to the sale of the non-core forest lease assets. Total cash flow in Q2 2016 was inflow of USD 1.5 million, compared with an outflow of USD 0.3 in Q2 2015.

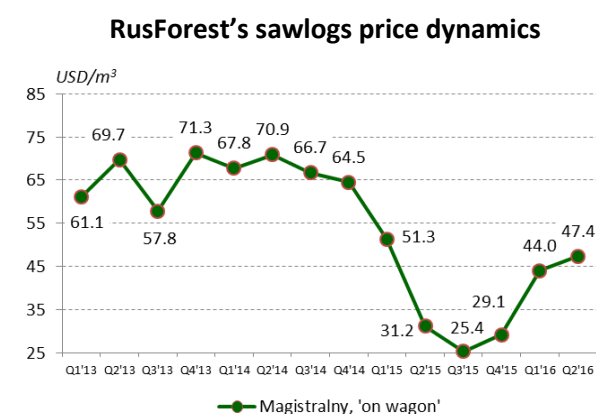
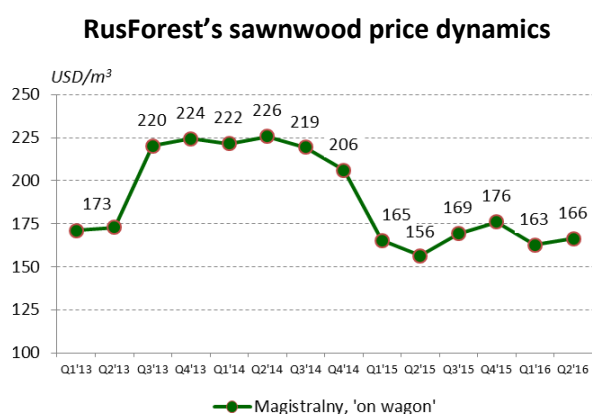
Markets in Q2 2016

Market trends

RusForest's prices

Product	Q2 2016	Q1 2016	Q2 2016 vs. Q1 2016
Sawnwood*	166.4	162.6	+2.2%
Sawlogs*	47.4	44.0	+7.6%

* Magistralny, 'on wagon', USD/m³



RusForest sawnwood markets

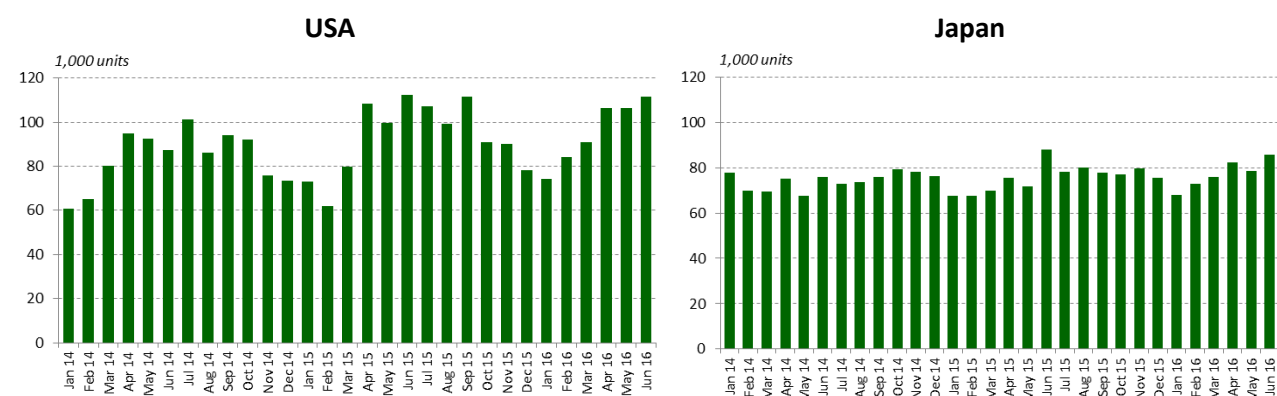
- Japan – End of Q2 is traditionally high construction season in Japan. Increase of housing starts in Q2 2016 (+5%) and decrease in the supply of North American sawnwood (-4%) led to a slight increase in prices on the Japanese market at the end of Q2 2016.
- MENA – the situation on the Egyptian sawnwood market in Q2 2016 remained challenging. Imported volumes decreased by 15% compared with Q2 2015 and deliveries from Russia decreased by 17%. Besides, sawnwood prices remained under the pressure due to strong US dollar.
- China – In Q2 2016 China continued to increase sawnwood imports. During the first half 2016 China imported 10.4 million m³ of softwood sawnwood. Deliveries from Russia increased by 40% to 5.7 million m³. Also demand and prices for housing continued to increase.
- Europe – The positive trend on the sawnwood market at the beginning of Q2 2016 more likely to be curtailed after the Brexit referendum. At the end of Q2 2016 softwood sawnwood prices in Europe were 3-5% lower compared with Q2 2015. Just the prices for the value-adding industry were at the last year's level.
- US – Sawnwood prices in Q2 2016 were close to decade-high levels. In addition to strong prices, imported volumes were up. Softwood lumber negotiations continue, but it appears there's no progress. The key issue of dispute is the actual volumes being shipped across the border.

Our short-term outlook for Q3 2016 assumes that the market situation will be mostly unchanged compared with Q2. We expect the prices on our key Japanese market will remain at the Q2 average level.

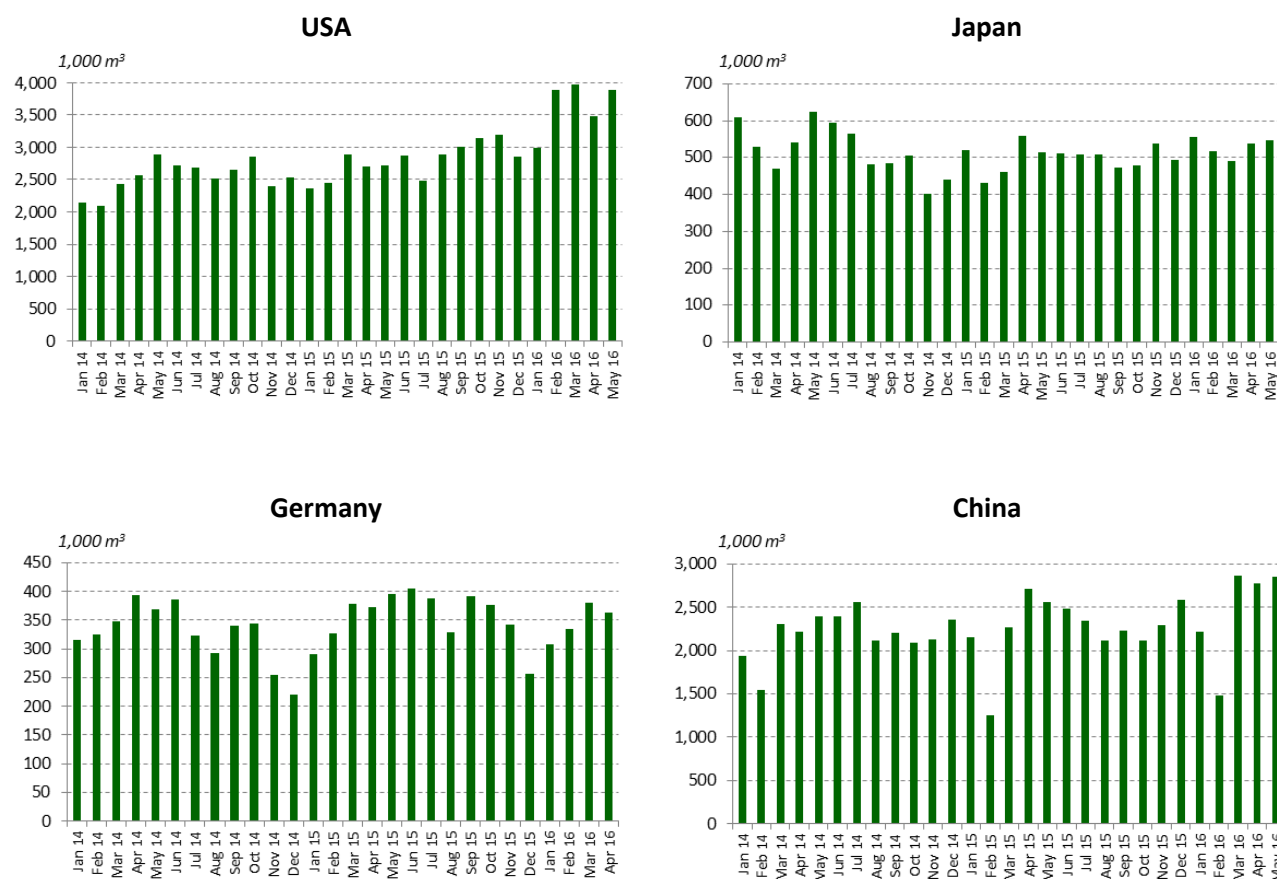
We also expect steady demand on Chinese market, which will be supported by the growing residential building. At the same time there are still concerns that China's government measures to stimulate the economy are not as efficient as forecasted.

The situation in other markets (MENA, Central Asia) is expected to remain uncertain.

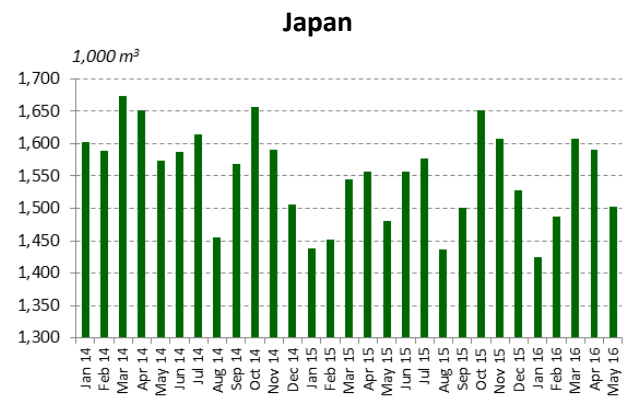
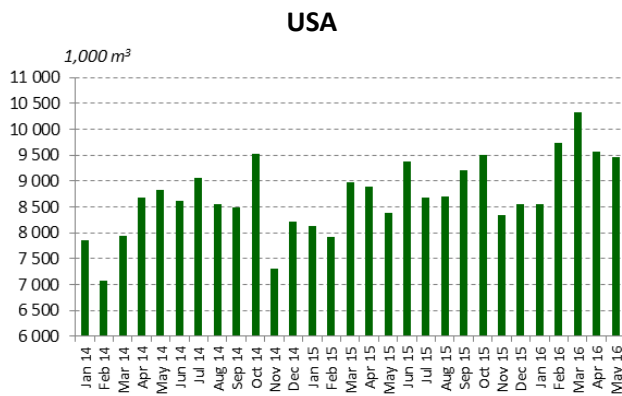
Construction - housing starts



Imports



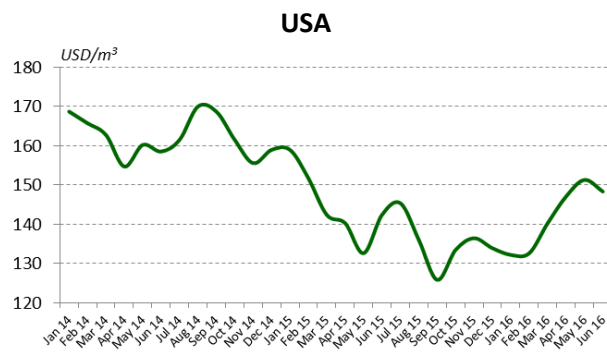
Consumption



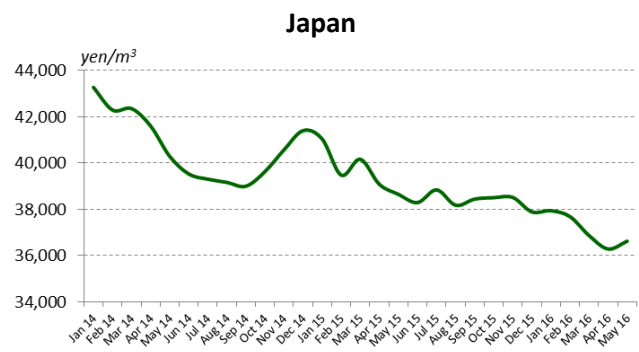
Sources: International Trade Centre (ITC), US Census Bureau, Japanese Ministry of Finance, General Customs Administration of China, Eurostat

Prices

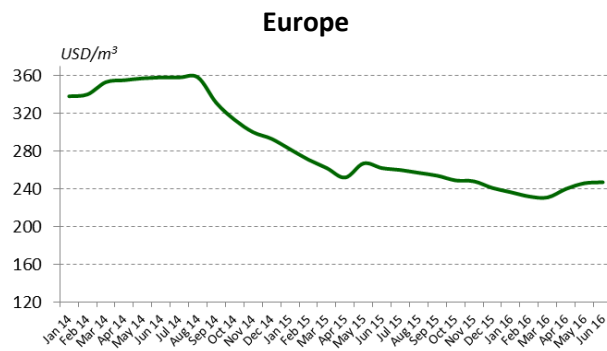
Sawnwood



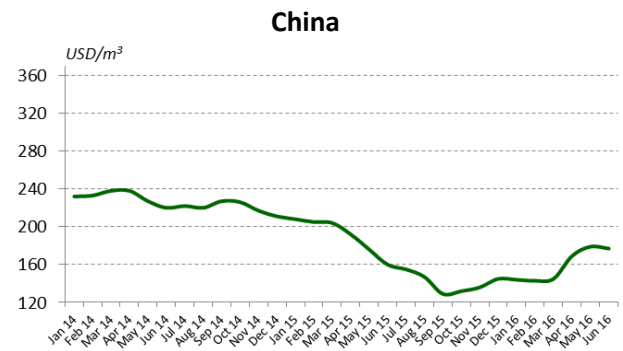
— Framing Lumber Composite Price
(weighted average of 15 key framing lumber prices)



— Russian pine sawnwood, CIF Japan ports



— Whitewood, sawfalling, KD, 47x75-225mm, CIF ARA ports



— SPF Utility, KD, 2x4", 8/20', CIF China ports

Sources: Random Lengths, Wood Markets, Japan Lumber Journal

The Share

The RusForest AB shares are listed on NASDAQ First North Stockholm. At the close of the period, the share price was SEK 1.95 (0.23 USD) and the Company's market capitalisation was approximately SEK 255 million or USD 30 million. The Company's certified adviser on First North is Pareto Securities AB, which also acts as a market maker in RusForest shares. As a result of the redemption of the amount of shares that Pareto Securities AB owned as part of the Company's synthetic buy-back program, the number of issued and outstanding shares of the Company officially decreased by 1,378,410 shares, or 1.0% of outstanding shares, to 130,655,471 common shares with voting rights as at June 29, 2016.

Summary shareholder information	
Official listing:	NASDAQ First North
Outstanding shares:	130,655,471
Round lot:	1
Sector:	Basic Resources
ISIN:	SE0001732728
Short name:	RUSF
Reuters:	RUSF.ST
Bloomberg:	RUSF:SS

6 months 2016 share data averages

Daily Turnover (SEK)	No of Traded Shares	No of daily trades
127,599	242,469	21

Shareholder	No. of shares	Share %
Nova Capital	33,500,000	25.6%
Merrill Lynch International	19,183,276	14.7%
Avanza Pension	11,279,616	8.6%
Banque Carnegie Luxembourg	3,978,213	3.0%
Nordnet Pensionsförsäkring	3,124,483	2.4%
Credit Suisse Sec. Europe LTD	3,015,175	2.3%
Alexander Rudik	2,959,589	2.3%
Jesihemma Limited	2,505,200	1.9%
Client Long Timer Hill	2,257,319	1.7%
Pershing Securities Ltd	2,189,409	1.7%
Morgan Stanley And co Llc	2,076,573	1.6%
Berner-Eyde Benedict	1,329,322	1.0%
Lars Sjögren	1,009,600	0.8%
UBS Switzerland Client Acc	981,595	0.8%
Banque Öhman	890,156	0.7%
Other	40,375,945	30.9%
Total	130,655,471	100%

RusForest share price performance in first six months 2016



Source: NASDAQ OMX First North Stockholm

RusForest share

Price SEK/share 30 Jun 2016	Change 1 Month	Change 3 months	52 week high
1.95	2.6%	3.7%	2.48
	Change 6 Months	Change 1 year	52 week low
	-1.0%	-1.5%	1.71



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 Group and parent company have applied the same accounting and valuation principles as in the most recent Annual Report. Since the Q1 2014 report, RusForest has reported Group consolidated financials in US dollars instead of Swedish krona, while parent company financials continue to be reported in Swedish krona. 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 United States Dollars (USD). Assets and liabilities are translated at the closing rate, and income and expenses are translated at the appropriate average rate for the period. All financial information presented in USD has been rounded to the nearest thousand.

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: Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost 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.

Purchases and sales of non-controlling interests

The Group applies the economic entity model to account for transactions with owners of non-controlling interest in transactions that do not result in a loss of control. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and the carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

Financial instruments – key measurement terms

Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Derivative financial instruments: Such financial instruments are carried at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year. The Group does not apply hedge accounting.

Non-derivative financial instruments: Such financial instruments are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial instruments are measured at amortised cost using the effective interest method.



Risks

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 to develop, 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 ongoing conflict in Ukraine and related events have increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, have resulted in an increased economic uncertainty including more volatile equity markets, the depreciation of the Russian rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state-owned banks to finance their operations. The longer-term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine.

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.

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 rouble exchange rate and a noticeable downturn in credit activity throughout the Russian financial system. The Company continues to monitor the situation closely. Although the Company is exposed to the effect of fluctuations in the Russian rouble, 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 rouble, can be found in the Company's 2015 annual report. The risks are indirectly the same for the parent company as for the Group.

Condensed Consolidated Income Statement

In thousands of USD	Q2 2016	Q2 2015	6M 2016	6M 2015
Revenue	5,838	4,932	13,178	10,545
Cost of sales	(3,499)	(3,230)	(6,776)	(5,931)
Gross profit	2,339	1,702	6,402	4,614
Other income	2,146	57	2,699	170
Distribution expenses	(1,151)	(1,019)	(2,106)	(1,830)
Administrative expenditure	(1,380)	(1,334)	(2,881)	(2,249)
Other expenses	(5)	(145)	(5)	(223)
Operating profit/(loss)	1,949	(739)	4,109	482
Exchange gain/loss	(497)	(878)	(1,176)	(347)
Financing income	45	92	63	126
Financing cost	(32)	(25)	(70)	(48)
Net financing income/(cost)	(484)	(811)	(1,183)	(269)
Profit/(loss) before tax	1,465	(1,550)	2,926	213
<i>Income tax</i>	(103)	(2)	(319)	(32)
Profit/(loss)	1,362	(1,552)	2,607	181
Attributable to:				
Equity holders of the parent	1,320	(1,560)	2,552	144
Non-controlling interests	42	8	55	37
Profit/(loss) for the period	1,362	(1,552)	2,607	181
Profit/(loss) per share	0.01	(0.01)	0.02	0.00

Condensed Consolidated Statement of Comprehensive Income

In thousands of USD	Q2 2016	Q2 2015	6M 2016	6M 2015
Profit/(loss) for the period	1,362	(1,552)	2,607	181
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
Currency translation difference	1,665	1,557	3,908	413
Other comprehensive income/(loss) for the period	1,665	1,557	3,908	413
Total comprehensive income/(loss) for the period	3,027	5	6,515	594
Attributable to:				
Equity holders of the parent	2,985	6	6,466	560
Non-controlling interests	42	(1)	49	34
Total comprehensive income/(loss) for the period	3,027	5	6,515	594

Per Share Data

Per Share Data (USD)	Q2 2016	Q2 2015	6M 2016	6M 2015	12M 2015
Earnings	0.01	(0.01)	0.02	0.00	0.02
Earnings from continuing operations	0.01	(0.01)	0.02	0.00	0.03
Shareholders' Equity (end of period)	0.25	0.24	0.25	0.24	0.20

Number of Shares	Q2 2016	Q2 2015	6M 2016	6M 2015	12M 2015
Beginning of period	132,033,881	132,033,881	132,033,881	132,033,881	132,033,881
End of Period	130,655,471	132,033,881	130,655,471	132,033,881	132,033,881
Average number of shares	132,033,881	132,033,881	132,033,881	132,033,881	132,033,881

As a result of the redemption of the amount of shares that Pareto Securities AB owned as part of the Company's synthetic buy-back program, the number of issued and outstanding shares of the Company has officially decreased to 130,655,471 common shares with voting rights as at June 29, 2016. Share capital amounts to 132,055,471 SEK as at June 29, 2016. The average number of shares is unchanged since the redemption took place on the last business day in the reporting period.

USD for 1 unit of foreign currency	RUB
31-Mar-15	0.017
30-Jun-15	0.018
30-Sep-15	0.015
31-Dec-15	0.014
31-Mar-16	0.015
30-Jun-16	0.016

source: www.cbr.ru

Condensed Consolidated Statement of Financial Position

In thousands of USD	30 Jun 2016	31 Dec 2015
Assets		
Non-current assets		
Property, plant and equipment	18,917	16,152
Intangible assets	51	49
Deferred tax asset	5	5
Total non-current assets	18,973	16,206
Current assets		
Inventory	2,450	2,134
Advance for purchase of non-controlling interest in subsidiaries	389	343
VAT refundable	1,532	2,278
Trade and other receivables	1,586	1,483
Current tax assets	221	24
Loans receivable	2	12
Cash and cash equivalents	12,501	8,404
Total current assets	18,681	14,678
Total assets	37,654	30,884
EQUITY		
Equity and reserves		
Share capital	20,752	20,683
Other paid in capital	358,068	358,448
Reserves	49	44
Translation reserve	(49,330)	(53,244)
Accumulated loss	(298,929)	(302,139)
Profit/(loss) for the period	2,552	3,238
Total equity attributable to Shareholders of the Group	33,162	27,030
Non-controlling interest	(31)	(80)
Total Equity	33,131	26,950
Liabilities		
Non-current liabilities		
Interest-bearing loans and borrowings	130	133
Deferred tax liability	5	5
Total non-current liabilities	135	138
Current liabilities		
Call option		5
Trade and other payables	4,035	3,041
Current tax liabilities	34	76
Provisions	319	674
Total current liabilities	4,388	3,796
Total liabilities	4,523	3,934
Total equity and liabilities	37,654	30,884

Condensed Consolidated Statement of Cash Flows

In thousands of USD	Q2 2016	Q2 2015	6M 2016	6M 2015
Profit/(loss) for the period	1,363	(1,552)	2,607	181
Adjustment for non-cash items	(654)	2,089	487	2,357
Paid income tax	(429)	(8)	(546)	(20)
Cash flow from operating activities before changes in working capital	280	529	2,548	2,518
Cash flow changes in working capital	769	262	1,584	23
Cash flow from operating activities	1,049	791	4,132	2,541
Investment in equipment	(1,305)	(2,909)	(2,758)	(4,098)
Proceeds from sales of equipment	10	178	30	299
Buyback redemption	(314)	-	(314)	-
Acquisition of shares in subsidiaries (less cash balances)	-	-	-	8
Proceeds from sale of intangible assets	2,054	-	2,735	-
Proceeds from sale of subsidiaries	-	2,000	-	3,000
Costs related to the sale of subsidiaries	-	-	-	(330)
Repayment of the loans by third parties	-	-	-	7
Interest received	45	39	63	69
Cash flow from investing activities	490	(692)	(244)	(1,045)
Acquisition of non-controlling interest in subsidiaries	-	(300)	-	(699)
Increase/(decrease) in loans payable	-	(138)	-	(142)
Interest paid	-	-	-	(1)
Cash flow from financing activities	-	(438)	-	(842)
Cash flow during the period	1,539	(339)	3,888	654
Cash and cash equivalents, beginning of period	10,854	10,752	8,404	9,987
Exchange-rate differences on cash balance	108	(139)	209	(367)
Cash and cash equivalents, period end	12,501	10,274	12,501	10,274

In thousands of USD	Q2 2016	Q2 2015	6M 2016	6M 2015
Adjustment for non-cash items				
Depreciation of property, plant and equipment	1,045	1,043	1,844	1,786
Amortization of intangible assets	2	2	8	8
Income tax	104	2	320	32
Exchange gain/loss	497	878	1,176	347
Finance income	(45)	(92)	(63)	(126)
Finance expense	32	25	70	48
Net loss on disposal of property, plant and equipment	-	3	-	(89)
Net income/loss on disposal of intangible assets	(2,015)	21	(2,592)	21
Bad debts	1	121	1	128
Forest restoration provision	(271)	135	(271)	251
Other non-cash items	(4)	(49)	(6)	(49)
Total	(654)	2,089	487	2,357

Condensed Consolidated Statement of Changes in Equity

1 January 2016 – 30 June 2016

In thousands of USD	Attributable to the equity holders of the parents					Non-controlling interest	Total
	Share capital	Other paid in capital	Reserves	Translation reserve	Accumulated loss		
Opening shareholders' equity	20,683	358,448	44	(53,244)	(298,901)	(80)	26,950
Profit/(loss) for the period					2,552	55	2,607
Other comprehensive income/(loss)				3,914		(6)	3,908
Total comprehensive income/(loss)	-	-	-	3,914	2,552	49	6,515
Redemption of synthetically repurchased shares*	(99)	(212)					(311)
Bonus issue*	168	(168)					-
Acquired non-controlling interest in subsidiaries						(28)	(28)
Employee stock options			5				5
Shareholders' equity at end of period	20,752	358,068	49	(49,330)	(296,377)	(31)	33,131

*As a result of the redemption of the amount of shares that Pareto Securities AB owned as part of the Company's synthetic buy-back program, the number of issued and outstanding shares of the Company has officially decreased to 130,655,471 common shares with voting rights as at June 29, 2016.

1 January 2015 – 30 June 2015

In thousands of USD	Attributable to the equity holders of the parents					Non-controlling interest	Total
	Share capital	Other paid in capital	Reserves	Translation reserve	Accumulated loss		
Opening shareholders' equity	20,683	358,448	24	(45,426)	(301,803)	(106)	31,820
Profit/(loss) for the period					144	37	181
Other comprehensive income/(loss)				416		(3)	413
Total comprehensive income/(loss)	-	-	-	416	144	34	594
Acquired non-controlling interest in subsidiaries					(336)	36	(300)
Disposed non-controlling interest in subsidiaries							
Employee stock options			10				10
Shareholders' equity at end of period	20,683	358,448	34	(45,010)	(301,995)	(36)	32,124

1 January 2015 – 31 December 2015

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	24	(45,426)	(301,803)	(106)	31,820
Profit/(loss) for the period					3,238	(28)	3,210
Other comprehensive income/(loss)				(7,818)		18	(7,800)
Total comprehensive income/(loss)	-	-	-	(7,818)	3,238	(10)	(4,590)
Acquired non-controlling interest in subsidiaries*					(336)	36	(300)
Employee stock options			20				20
Shareholders' equity at end of period	20,683	358,448	44	(53,244)	(298,901)	(80)	26,950

* In 2015, the Company acquired an additional interest in Vanavaraes LLC for USD 300 thousand in cash, increasing its ownership from 51 to 100 percent.

Parent Company Income Statement

In thousands of SEK	Q2 2016	Q2 2015	6M 2016	6M 2015
Administrative expenditure	(3,060)	(3,101)	(7,944)	(5,288)
Operating loss	(3,060)	(3,101)	(7,944)	(5,288)
Exchange gain/loss	5,877	(11,170)	6,596	(11,502)
Financing income	576	1,081	1,040	1,579
Financing cost	(1,957)	(28)	(2,068)	(291)
Reversal of bad debt provision	-	153,043		231,813
Impairment of investments and forgiveness of receivables from subsidiaries	-	(200)		(200)
Net financing income/(cost)	4,496	142,726	5,568	221,399
Profit/(loss) for the period	1,436	139,625	(2,376)	216,111

In 2015 as part of internal group loan restructuring to clean the balance sheets of Cyprus companies set for termination/exclusion from the Group, internal loans between Rusforest AB and Cyprus group entities were consolidated in Bermuda and forgiven by utilising previous bad debt provisions related to RusForest Bermuda. The income from reversal of bad debt provision will have no tax effect.

Parent Company Balance Sheet

In thousands of SEK	30 Jun 2016	31 Dec 2015
Assets		
Non-current assets		
Property, plant and equipment	30	40
Investments in subsidiaries	218,158	218,158
Total non-current assets	218,188	218,198
Current assets		
VAT refundable	41	96
Receivables from subsidiaries	2,810	2,547
Trade and other receivable	714	843
Loans receivable from subsidiaries	44,568	33,119
Other financial assets	-	2,000
Cash and cash equivalents	21,129	36,377
Total current assets	69,262	74,982
Total assets	287,450	293,180
Equity		
Equity and reserves		
<i>Restricted equity</i>		
Share capital*	132,055	132,034
<i>Non-restricted equity</i>		
Share premium	1,034,938	1,037,511
Retained earnings	(888,415)	(886,039)
Total equity	278,578	283,506
Liabilities		
Non-current liabilities		
Interest-bearing loans and borrowings	1,108	1,108
Loans payable to Group companies	1,754	1,714
Total non-current liabilities	2,862	2,822
Current liabilities		
Payables to Group companies	4,814	4,205
Trade and other payables	1,196	2,647
Total current liabilities	6,010	6,852
Total equity and liabilities	287,450	293,180

*As a result of the redemption of the amount of shares that Pareto Securities AB owned as part of the Company's synthetic buy-back program, the number of issued and outstanding shares of the Company has officially decreased to 130,655,471 common shares with voting rights as at June 29, 2016. Share capital amounts to 132,055,471 SEK as at June 29, 2016.

Notes to the Financial Statements

Note 1. Cost of sales

In thousands of USD	Q2 2016	Q2 2015	6M 2016	6M 2015
Personnel costs	1,060	1,040	2,324	1,829
Purchased sawlogs	352	-	361	-
Depreciation of property, plant and equipment	1,017	988	1,785	1,669
Amortization of intangible assets	2	2	3	4
Materials	268	143	343	203
Energy and fuel	451	389	1,112	892
Repairs and maintenance	394	257	683	501
Transportation services	68	76	141	225
Forest lease	77	155	179	267
Other	(185)	180	(155)	341
Total	3,504	3,230	6,776	5,931

Note 2. Distribution expenses

In thousands of USD	Q2 2016	Q2 2015	6M 2016	6M 2015
Personnel costs	132	155	263	295
Railway costs	941	738	1,661	1,308
Other	78	126	182	227
Total	1,151	1,019	2,106	1,830

Note 3. Administrative expenditure

In thousands of USD	Q2 2016	Q2 2015	6M 2016	6M 2015
Personnel costs	1,012	876	2,047	1,512
Audit	55	28	83	59
Property tax	61	73	104	119
Consulting fees	3	150	219	211
Other	249	207	428	348
Total	1,380	1,334	2,881	2,249

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.

Operational segments, results for six months ended 30 June 2016

In thousands of USD	External revenue				Total	Profit/(loss) before tax
	Sawnwood	Sawlogs	Pellets	Other		
Ust-Ilimsk	-	1,654	-	682	2,336	2,189
Magistralny	8,167	1,283	1,304	88	10,842	1,919
Unallocated	-	-	-	-	-	(1,181)
Total from continuing operations	8,167	2,937	1,304	770	13,178	2,927
Total	8,167	2,937	1,304	770	13,178	2,927

Operational segments, results for six months ended 30 June 2015

In thousands of USD	External revenue				Total	Profit/(loss) before tax
	Sawnwood	Sawlogs	Pellets	Other		
Ust-Ilimsk	-	-	-	1,002	1,002	481
Magistralny	7,727	1,627	-	189	9,543	1,175
Unallocated	-	-	-	-	-	(1,443)
Total from continuing operations	7,727	1,627	-	1,191	10,545	213
Total	7,727	1,627	-	1,191	10,545	213

Note 5. Related party transactions

	6M 2016	6M 2015
	USD thousand	USD thousand
Lesresurs LLC		
Management services provided by RMG LLC	281	229
Sales of goods and other services	976	23
Purchase of goods and services	5	271
Rent expenses	1	1
Accounts receivable	70	7
Accounts payable	9	128
RMG LLC		
Management services provided to RusForest entities		47
Anton Bogdanov		
Acquisition of 100% share in RMG LLC		56

The Group company - RusForest Management Group ("RMG LLC") is a management service company employing certain specialists. RMG LLC provides management services internally but also to one external company: LesResurs LLC. Management service fees from LesResurs are recorded as other income in the profit and loss statement of RusForest and costs related to those assignments as other expenses. Related party transactions stated above in relation to RMG LLC include transactions until date of acquisition of RMG LLC. In addition the Ust-Ilimsk business unit has had sales of sawlogs to LesResurs LLC which constitute the largest related party transactions.

Note 6. Commitments


As at 30 June 2016 RusForest had preliminary capital commitments to the amount of USD 807 thousand for new harvesting related equipment and improvements to boiler in Magistralny.

Note 7. Synthetic buybacks

The annual meeting of shareholders on 15 May 2016 resolved to authorize the Board of Directors of RusForest AB ("RusForest") to perform synthetic buybacks of RusForest shares with the aggregate number of own shares synthetically bought back at all times not exceeding 10 per cent of all shares in the Company. The Board of Directors has for this purpose entered into a swap agreement with Pareto Securities AB ("Pareto").

The swap agreement means that Pareto purchases RusForest shares on the market and RusForest will pay a fixed fee and interest on the purchase amount in exchange for the return on the shares of RusForest, based on share price development from the date of purchase and until settlement date at the annual general meeting 2017. The agreement also allows for the parties to settle the difference between Pareto's purchase price of the shares and the market price of the shares through a RusForest shareholders meeting resolution to reduce the share capital of the company, in which case the original purchase price of the shares will be paid to Pareto. RusForest has an account with Pareto to where the Company transfers money before any purchases, however, that is solely for the purpose of ensuring RusForest's capacity to cover future settlement under the swap agreement and the amount on the account is therefore restricted by a separate pledge agreement to the swap agreement.

RusForest recognizes the difference between the current share price and the price paid by Pareto in the balance sheet as either an asset/call option (if the current market price is higher than the purchase price) or liability (if the current market price is lower than the purchase price) and changes are recognised in profit or loss under the line item finance income/expense. The asset/call option or liability



that initially arises is in subsequent quarters revalued at fair value, with any changes in fair value recognized in profit or loss. The amount on the account with Pareto is presented as restricted cash in the balance sheet line item Cash and cash equivalents.

If and when the shareholders meeting decides to redeem the shares to reduce the share capital this transaction is accounted for in the following manner; the share capital is reduced with a nominal amount corresponding to the number of redeemed shares. The residual amount between the fair value of the underlying shares reduced by the nominal amount of the share capital reduces the share premium reserve.

Fee expenses that accrue to Pareto for the services of purchasing RusForest shares on the market are recognised when services have been provided, i.e. when share have been purchased on the market by Pareto.

Financial Calendar

Interim report Jan – Sep 2016

29 November 2016

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

Stockholm, 30 August 2016

RusForest AB (publ.)
The Board of Directors

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