

Stockholm den 28 februari 2007

YEAR-END REPORT, 1 JANUARY – 31 DECEMBER 2006

- Varyag Resources was listed on the First North list of the Stockholm Stock Exchange on 7 August 2006.
- A public offering to subscribe for shares provided the company with SEK 441 million before issue expenses. In total, 8,818,800 shares were subscribed.
- Acquisition of 40 per cent of the shares in the Russian forestry companies PIK 89, Tuba-Les and Tuba-Lesprom was completed through utilisation of call option agreements in August.
- An agreement was reached in November to invest USD 9.7 million in the development of three aggregate deposits in Belamorsk.

Events after period end

- Following the close of the financial year, an agreement was reached to acquire 50 per cent of the shares in a terminal for loading of sawlogs to rail for a price of USD 0.37 million.
- Michail Zadornov, former Minister of Finance of the Russian Federation and currently Chairman & CEO of Vneshtorgbank24, has been appointed a member of the advisory committee.

OPERATIONS

Varyag Resources seeks to invest, actively manage and sell investments primarily in unlisted companies in the commodities sector in Russia and in the rest of the CIS.

Varyag Resources AB is the Group's Parent Company, with its registered office in Stockholm. In addition to the Parent Company, the Group consists of the subsidiary Varyag Capital (Cyprus) Ltd with its registered office in Nicosia, Cyprus, and Varyag Finance GmbH with its registered office in Zug, Switzerland. Operations began on 1 August 2006 and the company was listed on the First North list of the Stockholm Stock Exchange on 7 August 2006. Investments in Russia are owned via the newly started wholly owned subsidiary Varyag Capital (Cyprus) Ltd. Varyag Resources has concluded a management agreement with Taiga Capital Ltd, which manages the company's investments. The management agreement extends for a period of seven years from 31 July 2006.

Operations since the listing on First North

Since the operations were established, the company has evaluated a number of investments in the natural resources sector. These have primarily pertained to the forest, coal and aggregates areas. During the autumn, the company invested in three forest products companies and an aggregates project.

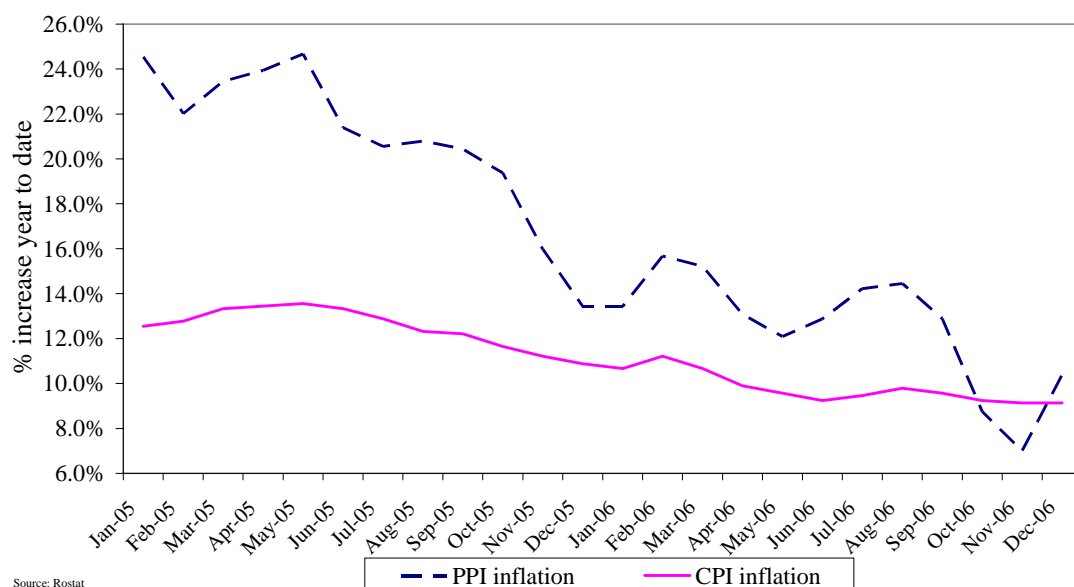
Macro environment

The Russian economy continues to experience strong growth, with preliminary figures showing 6.7% GDP growth for 2006. As in previous years, growth is shifting away from exclusively export-oriented sectors and is now being registered in the retail and construction sectors in particular. Provided that there is no significant deterioration in the country's political climate, the consensus is for growth to continue at these rates for the coming two to three years. The forecasts for 2007 GDP growth range from 5.0% up to around 7.5%ⁱ. The country continues to

experience a very strong current account surplus and large fiscal surpluses driven by relatively high oil prices coupled with the regressive nature of the oil taxation regime, which taxes away most oil prices over USD 26 per barrel of Urals grade crude. The Federal Government ran a budget surplus of 7.4% of GDP for 2006.

The current account balance was some USD 95.6 for the first eleven months of 2006. The Central Bank continues to sell Roubles in order to maintain an approximately flat exchange rate, and hard currency reserves stood at USD 303 billion by the end of 2006. In addition, the Government had accumulated a further USD 89.1 billion in the Stabilisation Fund as at 1st Jan 2007. Both producer and consumer inflation rates are coming down and consumer price inflation was relatively low at 9% for the year to December 2006.

Year to date inflation - CPI and PPI (Jan 2005 to Dec 06)



The key risks to the economic outlook are i) a possible deterioration in the political environment in the run-up to the March 2008 Presidential election, and ii) a very significant and sustained drop in crude oil prices. Going into 2007 both of these risks appear to be limited and the economy and the stock market continue to perform strongly.

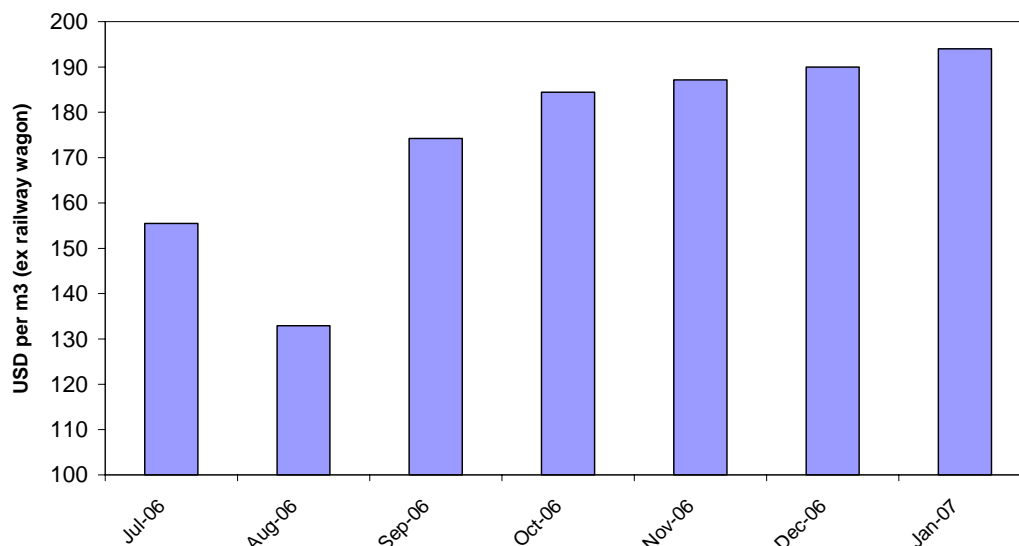
Sector developments

Forest products

After many years of flat to declining prices, the price of forest products (sawlogs and sawnwood) finally saw a run-up, which began in September 2006 and continued into 2007. In global terms, the market for forest products has been extremely weak in North America on the back of a marked slowdown in housing activity. For the purposes of the portfolio companies, we believe that the Chinese and Japanese markets are very much more relevant for price setting. The Chinese economy continues to grow at rates of around 9% and although it is showing signs of overheating in selected sectors there is no reason to expect a rapid slowdown. Similarly the Japanese economy is showing reasonable signs of growth with Q4-2006 GDP growth of 4.8% on an annualised basis. As a result of these positive developments in Asian markets and the rapid domestic expansion inside Russia, the price of forest products has grown rapidly in recent months.

The sales staff of our portfolio companies inform us that stocks in Japan and in Eastern Russian ports are very low and several buyers are willing to increase prices and pre-pay in order to secure supply. In these conditions, we believe that there is scope for further price increases.

Sawnwood prices (less railroad charge) 06-07



Source: PIK-2005 management estimates

The Russian Government passed a new Forest Code at the end of 2006. The document itself excludes the possibility of private ownership and also transfers the responsibility for government supervision of forests from the Federal Forestry Agency down to regional agencies. What has been more important has been the new export tax policy, which has been designed to essentially eliminate the export of sawlogs from Russia. The government recently announced a new export tax regime, which will increase the export duty up to a maximum of EUR 50 per cubic meter from 1st April 2009¹. Such a duty would effectively make the export of sawlogs uneconomic, given that the ex-mill price is currently some USD 70 per m3. The intention is that this new duty regime will provide a stimulus to invest in sawmilling inside Russia.

Another important development has been the introduction of Rail Terminals in the Irkutsk Region, an initiative that has been designed so that only a limited number of companies are allowed access to railway wagons to transport sawlogs to export markets. The initiative has been advertised as helping to control illegal logging, however in reality it is being used as a means to extract profits from smaller harvesting companies by those companies who have enough political influence to achieve the status of a Rail Terminal. The legality of this regime is being challenged in the Russian courts since it has no legislative basis. However, to counter this new situation, Varyag has decided to acquire an equity interest in a rail terminal for USD 0.37 million.

Forestry

The Company acquired a 40% interest in three Russian companies; PIK 89, Tuba-Les and Tuba-Lesprom, all of which are located in Ust-Ilimsk in the Irkutsk region. Their combined annual allowable cut (AAC) amounts to 1,086,000 cubic metres per year and the annual harvest for 2007 is expected to be about 700,000 cubic metres. By means of these acquisitions, about half of the asset base deemed appropriate for a market listing has been gained.

The forestry companies are taking steps to increase the degree of mechanisation in the harvesting operations by buying new harvesting equipment and increasing the volume of sawnwood. There is substantial synergy between the companies and Varyag has appointed a steering group to identify and implement measures to expand operations and raise the level of processing. The international brand, Angara, will be the joint brand for wood products and timber. Previously, the operations were based mainly on manual harvesting. To raise the harvest level within the framework of the licenses, harvesters at a value of some USD 3 million have been acquired. These have now been delivered and are being used in production.

PIK-89

A 40 per cent shareholding was acquired for some USD 8.1 million. Vostok Nafta owns 40 per cent and Russian partners own 20 per cent of the remaining shares. Turnover for 2006 amounted to some USD 26 million. PIK-89 is expected to comprise the core of a forestry group. The company is one of the largest dedicated harvesting and sawmill companies in the Irkutsk region. Its leases cover an area of 345,000 hectares. The forest holdings are favourably located with an average distance of 90 km to the sawmills, which have direct connections to the rail network. PIK-89 is permitted to cut 629,000 cubic metres of roundwood annually. Annual harvesting is somewhat more than 400,000 cubic metres. Using its own sawmills, the company produces about 100,000 cubic metres of sawn timber products as well as 1,800 square metres of finger-joined products along with glulam beams. Some 90 per cent of output is exported, primarily to Japan, China and the Middle East. Since acquiring this stake, PIK-89 has received delivery of a new Timberjack harvesting and forwarding complex which became operational in November 2006. PIK-89 will expand its sawmilling operations during 2007 through the expansion of its sawnwood sorting line and the acquisition of further kilns, as well as acquiring more log transporting equipment to serve its harvesting business. These acquisitions will be financed through operating cash flow and an increase in debt.

Tuba-Les

A 40 per cent shareholding was acquired for approximately USD 2.1 million. Vostok Nafta owns 40 per cent and Russian partners own 20 per cent of the remaining shares. Turnover for 2006 amounted to some USD 2.2 million. The company is an integrated harvesting and sawmilling operation, and the leases at its disposal cover an area of 120,000 hectares. Tuba-Les is licensed to fell some 242,000 cubic meters of roundwood, while actual harvesting volumes are about 185,000 cubic metres. The company's sawmill produces some 22,000 cubic metres of sawnwood. Logistically, the forest holdings are favourably located with an average distance of some 50 km to the sawmill. Since becoming a shareholder of the company, Tuba-Les has taken delivery of a new Timberjack harvesting and forwarding complex, which was also delivered in November 2006. The intention is to increase both harvesting and sawnwood volumes during 2007, with capital for this expansion being provided by internally generated cash flow and bank debt.

Tuba-Lesprom

Varyag acquired a 40 per cent shareholding for some USD 0.7 million. Vostok Nafta owns 40 per cent and the Russian partner owns 20 per cent of the remaining shares. Turnover for 2006 amounted to some USD 1 million. The company holds a license to a forest area with an annual allowable cut of 139,000 cubic metres with a lease area of slightly over 70,000 hectares. Actual harvest volumes are currently 109,000 cubic metres. Saw timber is currently sold primarily to China and Japan. The company will be merged with Tuba-Les during 2007 as the company's operations have already been fully integrated into Tuba-Les.

Aggregates

In November 2006, Varyag committed to invest USD 2.958 million in a newly created Cyprus company called Russian Gravel Co., with our Russian partners contributing licenses to three aggregate deposits and a 25% interest in an operating quarry called Zalatukha. As a result of this transaction Varyag will acquire a 51 per cent of the shares of Russian Gravel Co. In addition to investing in equity, Varyag has committed to providing a USD 6.742 million convertible loan facility to Russian Gravel Co. The loan will be converted upon a number of events, including an exit of the project. In the event that the loan is converted upon its fourth anniversary, Varyag will increase its equity interest in Russian Gravel Co. to just over 77%. The remaining shares are owned by local Russian partners. The funding provided to Russian Gravel Co. will be used to finance the development of three aggregates reserves near Belamorsk in Karelia. The company in Cyprus has a number of fully owned Russian

subsidiaries, which hold the licenses to develop three aggregate deposits, which contain a combined reserve base of 152 million tonnes of aggregates under Russian reserve classification standards. When fully developed, the company is expected to attain annual output of some 1.5 million tonnes. Whilst the Cyprus company was being incorporated, Varyag provided an interim loan to a Russian company, Belomorski Karier, which will be refunded from the proceeds of the convertible loan once the process of incorporation of Russian Gravel Co. is complete, at which point Belomorski Karier will become a wholly owned subsidiary of Russian Gravel Co. This investment will provide exposure to Russia's rapidly expanding construction industry. From the logistics viewpoint, the deposits are very attractively located with access to both the railway and the Belomorsk canals. Russian aggregates consumption is currently about 150 million tonnes annually. The approved federal road construction programme in Russia is expected to increase demand for this material by about 65 per cent. The exit horizon for this investment is when the initial production capacity is achieved, which is expected to occur during 2008. At this time, it will be possible to decide on further expansion or possibly an exit depending on market conditions.

Since making this investment, the Russian partners conducted a tender for a suitable equipment supplier for crushing and mining. The procurement process resulted in Metso signing an equipment supply contract in January 2007. It is expected that the mining equipment will be installed and operational by the end of August 2007.

General

On a continuous basis, various projects are evaluated in the commodities sector. Varyag is deemed to be well positioned in terms of its target of being fully invested within 18-24 months of its initial listing in August 2006. There is favourable potential to complete acquisitions at attractive levels in the natural resources sector. Investments frequently need to be consolidated and co-ordinated to attain economies of scale, and capital injected to ensure growth and expansion. To prepare and create the conditions for attractive prices in exit situations, part of the value growth is attained through creating legal and financial transparency. Transparency also creates the conditions for financing with external capital.

GROUP

EARNINGS

The Group did not conduct any operations during the first six months of the year. The Group was established during the year and thus no comparative data are provided.

Operating profit/loss

The operating loss totalled SEK 5,055,000 for the fourth quarter and SEK 8,288,000 for the full year. The results include unrealized exchange-rate losses of SEK 8,932,000, of which approximately half had been recovered up to the reporting date. Exchange-rate losses have no impact on cash flow. Operating expenses consist primarily of management service expenses in Russia amounting to SEK 2,796,000 and Group management costs of SEK 957,000 during the fourth quarter and management service expenses in Russia amounting to SEK 4,644,000 and Group management costs of SEK 1,582,000 for the full year.

Financial income

Interest income amounted to SEK 3,528,000 for the fourth quarter and SEK 4,828,000 for the full year.

Tax and earnings after tax

The Group has no tax expenses and the loss after tax was SEK 10,559,000 for the fourth quarter and SEK 12,502,000 for the full year. The tax receivable for accrued loss carry-forwards is not reported.

INVESTMENTS, FINANCING AND LIQUIDITY

Investments

In October, 40 per cent of the shares in three Russian forest products companies in Ust Ilimsk – PIK-89, Tuba-Les and Tuba-Lesprom – were acquired for a total of USD 10.9 million.

Investments in equipment totalled SEK 34,000 during the fourth quarter and SEK 106,000 during the full-year. In November, an agreement was reached concerning the acquisition of 51 per cent of the shares in a newly formed Cyprus-based company established to finance the development of three reserves of aggregates near Belamorsk in Karelia. The investment will total USD 9.7 million in shares and convertible debentures. Since the formation of this company had not been completed on the balance-sheet date, the investment will be reported during the next quarter. In December, a bridging loan of USD 2.1 million was granted to the Russian company for investment in equipment. The proceeds from the convertible loan that Varyag will provide to the Cyprus-based company when the formation of the company has been completed will be used to repay this loan.

Financing

July 2006 marked the completion of an offering to subscribe for shares that provided the company with SEK 440,940,000 before issue expenses. The subscription price was SEK 50 per share. The new share issue provided the company with SEK 425,470,687 after share issue expenses.

Financing is currently conducted using shareholders' equity. Reported shareholders' equity at the close of the period was SEK 413,080,000, which corresponds to SEK 46.57 per share and an equity/assets ratio of 99.5 per cent.

Cash and cash equivalents

Cash and cash equivalents at the close of the period totalled SEK 316,100,000.

Finance policy – currency risk

As a measure to safeguard the company's investment capacity, the Board has decided that funds intended for investment shall be placed in a basket of currencies comprising 30-35 per cent EUR, 35-50 per cent USD and 0-30 per cent RUB. When an investment decision is made, an amount corresponding to the payment price is hedged in the currency in which payment is to be made. On the closing date, USD 9,734,000 was hedged for forthcoming approved investments. On the balance-sheet date, the exchange-rate change on this exposure in relation to SEK was reported as a deferred expense amounting to SEK 4,521,000. Currency exposure in completed investments will not be hedged. The company's currency exposure with regard to annual management fees and Parent Company expenses is in SEK.

EVENTS AFTER THE CLOSE OF THE PERIOD

The associated company Belomorski Karier has invested approximately USD 1.2 million in equipment from Metso. This equipment is scheduled to be delivered and installed in June 2007, with production scheduled to start in July. The impression is that the market for aggregates is strong and project volumes are expected to be sold at prices that are higher than those estimated on the date of investment.

Nadja Borisova has been appointed new CFO. She joins Varyag from Cloetta Fazer and is expected to take up her new position in April. She will succeed Gösta Lundgren, who has served as temporary CFO under an out-sourcing agreement.

Investment Advisory Committee

Mr Michail Zadornov, former Minister of Finance of the Russian Federation and currently Chairman & CEO of Vneshtorgbank24, has been appointed as member of the advisory committee. Yegenij Yasin resigned from this position at year-end.

An agreement has been reached to acquire a 50% ownership of a rail terminal for loading of logs to rail. The terminal is located by Ust-Ilimsk and handles essentially all rail shipments around Ust-Ilimsk. The holding will be acquired for the sum of USD 0.37 million and includes a commitment to invest a further USD 0.5 million. The regional government has decided that only approved terminals have the right to order railway wagons for exporting sawlogs. This new regulation has been imposed as part of a campaign against illegal export of logs.

NOMINATION COMMITTEE

The Nomination Committee comprises Varyag's Board Chairman Sven Hirdman as the convening authority and Hans Hedström from HQ Fonder, Per Josefsson from Zenit, Peter Lind, representing Skrifdan and Jörgen Persson from Dunross & Co. Viking Kjellström from SEB Funds, who had previously been appointed, has left the Nomination Committee and been replaced by Peter Lind. Well in advance of the Annual General Meeting, the

Nomination Committee intends to present its proposals concerning election of Board members and the other matters that the Nomination Committee has to address.

PARENT COMPANY JANUARY – DECEMBER 2006

The result before tax amounted to a loss of SEK 7,404,000 for the fourth quarter and a loss of SEK 7,385,000 for the full year. The loss includes exchange-rate losses of SEK 8,932,000.

In May, Varyag acquired the Cypriot company Varyag Capital (Cyprus) Ltd for SEK 26,000. This company was granted a shareholder contribution of SEK 80,303,000 during the fourth quarter. In December, the subsidiary Varyag Finance GmbH of Switzerland was newly formed. The acquisition price for the shares was SEK 124,000, corresponding to the shareholders' equity in the company.

Investments amounted to SEK 34,000 during the fourth quarter and SEK 106,000 for the full year. The Parent Company's cash and cash equivalents totalled SEK 315,041,000 at year-end.

ORGANISATION

The Board of Directors consists of the Chairman Sven Hirdman, and members Agneta Dreber, Thomas Krishan, Pia Rudengren, Johan Unger and Torbjörn Gunnarsson. Torbjörn Gunnarsson is also the company's Chief Executive Officer.

SHARE DATA

The Varyag share was listed on the First North list of the Stockholm Stock Exchange on 7 August 2006. Trading is conducted under the ticker designation VARY and a trading lot comprises 100 shares. The share price at listing was SEK 50.

The public offering and subsequent new share issue in August 2006 raised the company' share capital by SEK 88,188,000 to SEK 88,688,000 and the number of shares outstanding to 8,868,800.

The turnover rate for the share during 2006 was approximately 120 per cent. The average daily turnover during the year was 40,000 shares, corresponding to approximately SEK 2 million. The average difference between the bid price and the selling price was about 1 per cent.

At the close of the period, the share price for Varyag Resources was SEK 57.25 kronor and market capitalisation was approximately SEK 508 million. The number of shareholders was 1,979.

Major shareholders as of 31 December 2006 according to VPC

Shareholder	Number	Percentage
Skrindan AB	885 000	9.98
Staffan Rasjö	800 000	9.02
HQ Rysslandsfond	789 900	8.91
Fonden Zenit	589 000	6.64
Dunross & Co	400 000	4.51
CS SEC (Europé) Ltd	369 000	4.16
EFG Private Bank SA	280 000	3.16
Perj Förvaltnings AB	200 000	2.26
Euroclear Bank S.A/N.V	181 800	2.05
Johan Rapp	134 000	1.51

DIVIDEND

The Board proposes that the Annual General Meeting resolve to pay no dividend for the fiscal year.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on 1 June 2007 at 15.00 p.m. at Salén Konferens & Matsalar, Forum, Norrlandsgatan 15, Stockholm.

Consolidated income statement

Amounts in SEK 000s	2006	2006
	1 Oct-31 Dec	1 Jan-31 Dec
Other revenues	71	71
Operating expenses	-5 126	-8 359
Operating loss	-5 055	-8 288
Interest income	3 538	4 828
Exchange-rate losses	-9 042	-9 042
Loss after financial items	-10 559	-12 502
Tax on loss for the period	-	-
Loss for the period	-10 559	-12 502

PER SHARE DATA

	2006	2006
	1 Oct-31 Dec	1 Jan-31 Dec
Earnings, SEK	-1.19	-4.16
Shareholders' equity, SEK	46.57	46.57
Share price, SEK	57.25	57.25

NUMBER OF SHARES

	2006	2006
	1 Oct-31 Dec	1 Jan-31 Dec
Beginning of period	8 868 800	1 000
End of period	8 868 800	8 868 800
Average number of shares	8 868 800	3 006 061

Definition of key figures

Earnings per share

Profit/loss after tax divided by weighted average number of shares.

Shareholders' equity per share

Reported shareholders' equity in relation to the number of shares at the end of the period.

Consolidated balance sheet

	2006
Amounts in SEK 000s	31 Dec
Assets	
<i>Fixed assets</i>	
Equipment	106
Participations in associated companies	77 786
Total fixed assets	77 892
<i>Current assets</i>	
Other current assets	21 061
Cash and bank balances	316 100
Total current assets	337 161
Total assets	415 053
Shareholders' equity and liabilities	
Shareholders' equity	412 991
Interest-free liabilities	2 062
Total shareholders' equity and liabilities	415 053

CHANGES IN SHAREHOLDERS' EQUITY

	2006 1 Oct-31 Dec	2006 1 Jan-31 Dec
Amounts in SEK 000s		
Opening shareholders' equity	426 044	100
New share issues	-	441 340
Issue expenses	-405	-15 869
Unconditional shareholder contribution	0	2 000
Translation difference	-2 089	-2 078
Net loss for the period	-10 559	-12 502
Shareholders' equity at end of period	412 991	412 991

Consolidated cash flow statement

Amounts in SEK 000s	2006 1 Oct-31 Dec	2006 1 Jan-31 Dec
Loss after financial items	-10 559	-12 502
Adjustment for non-cash items	8 936	8 946
Cash flow from operating activities before changes in working capital	-1 623	-3 556
Cash flow from changes in working capital	-5 526	-4 385
Cash flow from operating activities	-7 149	-7 941
Investments in subsidiaries	-	-26
Investments in office fittings	-38	-110
Investments in financial assets	-94 362	-94 362
Cash flow from investment activities	-94 400	-94 498
New share issues	-405	425 471
Shareholder contribution	0	2 000
Cash flow from financing activities	-405	427 471
Cash flow during the period	-101 954	325 032
Cash and cash equivalents, beginning of period	426 986	-
Exchange-rate differences on cash and cash equivalents	-8 932	-8 932
Cash and cash equivalents, period end	316 100	316 100

Accounting principles

This year-end report has been prepared in accordance with the accounting principles presented in the interim report for the period ended 30 September 2006, with the exception of the reporting of shares in associated companies, which are commented on above under the section headed Group.

Stockholm, 28 February 2007
Varyag Resources AB (publ)
The Board

This year-end report has not been subject to examination by the company's auditor

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FORTHCOMING INFORMATION

Interim report Jan-March 2007	31 May, 2007
Annual General Meeting	1 June 2007
Interim report Jan-June, 2007	30 August 2007
Interim report Jan-Sept, 2007	29 November

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ⁱⁱ UBS Investment Research, Russia Economic Comment – 24th Jan 2007

ⁱⁱⁱ Government Decision signed 5th February 2007.