



RusForest AB (formerly Varyag Resources AB)

Year End Report

January 1 – December 31, 2009



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Results for the twelve months ended December 31, 2009

- The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) which complies with Swedish law through the application of the Swedish Financial Reporting Board's recommendation RFR 1.2, Supplementary Accounting Rules for Groups, and RFR 2.2, Accounting for Legal Entities, which are applied with respect to the parent company. The accounting principles, definitions of ratios and calculation methods are different from those used in the most recent annual report which was prepared under Swedish GAAP. The respective disclosure is presented in the Note 7 to the financial statements in the Q3 2009 report. This interim report has been prepared in accordance with IAS 34, *Interim Financial Reporting*.
- Up until June 1, 2009, the accounts show the result for Varyag Resources AB as a holding company. The results after June 1, 2009, show consolidated figures for all forestry operations. Accordingly, revenue and other items relate to seven months of 2009.
- Total turnover for the period amounted to SEK 207.5 million (SEK 0, for twelve months ended December 31, 2008).
- The operating result before financing costs for the period was SEK -113.6 million (SEK -91.8 million).
- Net result for the period was SEK 119.5 million (SEK -102.3 million), in large part due to the significant acquisition gain which arose from the acquisition of 50% of RusForest Limited from Vostok Nafta Investment Ltd on June 1, 2009. The acquisition gain has been restated from the amount reported in the Interim Report for the six months ended June 30, 2009, as fixed assets were then taken up at cost. As per May 31st, 2009, the fixed assets have been re-valued at fair market value, by an independent appraiser, in accordance with IFRS 3. The acquisition gain was largely offset by the goodwill impairment, amounting to SEK 142.6 million, recorded on acquisition of the subsidiaries between 2006 and 2008.
- Earnings per share was SEK 6.53 (SEK -7.69).
- Cash and cash equivalents decreased by SEK 29.6 million during the period, from SEK 55.7 million at December 31, 2008, to SEK 26.1 million at December 31, 2009. During the fourth quarter of 2009 cash and cash equivalents decreased by SEK 28.8 million from SEK 54.9 million at September 30, 2009.

Significant events during the fourth quarter, 2009

- Record production reached at the Boguchansky sawmill in December 2009, with 6,000 m³ of output and cash positive result.
- Heads of agreement signed for supply of 4.8 megawatts of power at Boguchansky.
- PIK-89 received long term 5 year loan for RUB 36 million which was used to buy transport equipment at PIK in order to expand harvesting capacity.
- The Russian Government confirmed its long term intention to stimulate domestic wood processing through the introduction of a prohibitively high export duty on logs, but has agreed to delay the planned export duty increase for 2010 and possibly longer.
- RusForest increased its holding in PIK-89 from 80% to 90% as part of a shareholder agreement.
- RusForest has impaired positive goodwill, created primarily in the period from 2006 to 2008, amounting to SEK 142.6 million.

Significant events after the end of the period

- For the purpose of guaranteeing a steady log supply and continuing its expansion programme including continuing work at the new sawmill in Magistralny, RusForest has carried out a bond issue with a 12 month maturity and a volume of SEK 50 million. The bond can be redeemed early, at the option of RusForest, after 6 months and runs with a fixed interest rate of 15.00 percent. E. Öhman J:or Fondkommission AB has placed the bond.
- All sawmill operations stopped at Tuba, assets sold to other group companies and Tuba-Les applied for creditor restructuring.

CEO's Comments

Forestry

2009 was certainly a tough year as RusForest contended with weak market conditions at the same time as bringing two major production facilities (the Boguchansky sawmill and the Belomorsk quarrying business) on stream. The completion of both investments represents a major milestone in that the shareholders now own two new production facilities, which won't require any material capital expenditure in the foreseeable future. Furthermore, Boguchansky was cash positive in December with a record production volume of 6,000 m³. The gravel business was cash negative in 2009 due to a collapse in the Russian gravel market. Going forward it seems unlikely that the conditions that we saw in the gravel sector in 2009 will be repeated.

The Company achieved significant growth in both harvesting operations (20.8% growth compared to 2008) and in sawmilling (37.9% growth compared to 2008) during the year. Although there was a reduction in sawnwood prices, the Company was never in a position where volume demand was significantly reduced, and the Company was able to expand sales even at a time when most competitors were closing down capacity. The Company's ability to sell is firstly a function of the quality of the forest holdings, where the Company arguably has the best quality softwood resources anywhere in the world. Secondly, the Company's location allows it to access Far East, Central Asian and European markets. During 2009, our ability to switch volumes from Northern Africa to Central Asia has been critical to maintaining sales volumes.

Cash was clearly the main focus for 2009 and whilst in absolute terms the cash result for 2009 was not inspiring (cash balance fell by SEK 29.6 million during the year) this has to be seen within the context of two large start-ups and weak external conditions. The Company was partially able to offset cash outflows by taking on a USD 4 million credit facility at the Boguchansky sawmill. It is important to remember that credit conditions were extremely tight in Russia during 2009; specifically PIK-89 was required to repay all of its bank debt in 2009, which was successfully achieved. Accordingly, although PIK-89 took on new debt in December, PIK-89 actually repaid a net of SEK 8.3 million in debt during the year.

Although the company has overcome some very significant operational risks in building two new facilities, there is still a huge amount of work to do on improving the existing operations. PIK-89, Lesprom (a logging operation) and the Trade House were all operating cash flow positive for 2009 but the result does not yet fully reflect the Company's inherent competitive advantage, principally the low cost access to high quality timber. The process of improving operations never finishes and in 2009 it was decided to stop sawmilling operations at Tuba and move the resulting logs to PIK-89 in order to increase throughput there. In addition a small non-core sawmill was sold at PIK-89. This process will continue into 2010. In addition to this ongoing rationalisation, the Company is working on the three initiatives described in the Q3 report, in summary these are;

1. To build a significant "snow stock" of logs and stems over the winter period to guarantee the smooth supply of logs over the summer months.
2. The Company is working to reduce the range of sawnwood that it sells in order to simplify product flow through the sawmills.
3. The Company is working to secure funding to complete the third sawmill at Magistralny to expand the earnings base without increasing overhead.

Beyond 2010, it is important that value added sectors develop around RusForest; this will allow the Company to sell by-products (particularly pulpwood) to the pulp and paper and related industries. So far the Russian Government's attempts to force investment in value added processing by increasing log export duties have not been particularly successful. However over time the prospect of increased export duties coupled with Russia's large forest holdings and low costs will likely spur development of pulp and related industries. The Company will stick to its core harvesting and sawmilling operations, but it can also act as a catalyst to encourage this process by seeking investors to establish value-added operations in our geographic area of operation in order to boost local pulpwood demand.

Gravel

2009 was an important year for our gravel business as we went into production in April having completed two years of construction work and an enormous amount of license permitting. It is a fact that 2009 was a difficult year to start-up operations as both general construction was down by some 20% and more importantly government funding for road building was cut by an estimated 20%. Since road building and other infrastructure projects are budget-financed at the Federal level and at the regional level, the outlook for infrastructure projects is driven by political decisions. In the long term, there is an obvious need to build roads in Russia and this is reflected in the Russian government's Transport Strategy. The Transport Strategy calls for 20,000 km of roads to be built in 2010 to 2015 and 3,000 km of new railway lines, in order to develop the infrastructure described in the Transport Strategy, Russia will require an estimated 86 million m³ of gravel per year which implies a doubling of output compared to today's level.

Clearly 2009 was not the year to begin major infrastructure projects given the unexpected pressure on Federal and regional budgets. Going forward the Russian government still has significant savings planned, but the road building programme should never the less be restarted in the near future. However, it is not certain that this will happen in 2010.

The gravel business was shut over winter in order to avoid operating at below break-even levels. Operations are expected to be restarted in mid March 2010. Cash burn levels before restart remain at some SEK 1.4 million per month excluding some small capital expenditure. During 2010, the intention is to run the plant at around two thirds of capacity and to increase sales to oil & gas producing areas in North West Russia.

Cash and Liquidity

The Group's closing net cash position was SEK 26.1 million compared to SEK 55.7 at December 31, 2008. The opening cash position relates to cash held at Varyag AB as at December 31, 2008. Following the 1st June 2009 acquisition of assets from Vostok Nafta Investment Limited, cash balances are consolidated across all group companies. The total net cash outflow for the twelve months ending December 31, 2009 was SEK 29.6 million in respect of cash held by Varyag Resources AB as compared to the closing consolidated group cash position.

The result reflects the fact that we started up two new facilities in 2009 as well as dealing with very weak external markets. The fully developed operating businesses at PIK-89 and our logging business at OOO Lesprom and the Trade House partially cross-subsidised operating cash outflows at the Boguchansky sawmill. The Boguchansky sawmill secured a SEK 28.6 million (USD 4 million) credit line in September 2009 in order to finance log purchases and start-up completion. Accordingly, the forestry division showed positive net cash movement of SEK 24.4 million. In addition to taking up debt, PIK-89 was required to repay in full all outstanding credit lines during 2009, and the company repaid SEK 19.8 million (RUB 83.3 million) in bank debt during the year. Even though PIK-89 took on some new debt in December 2009, there was a significant net debt reduction at PIK-89 during 2009 of SEK 8.3 million (RUB 34.9 million).

Alex Williams

CEO, RusForest AB

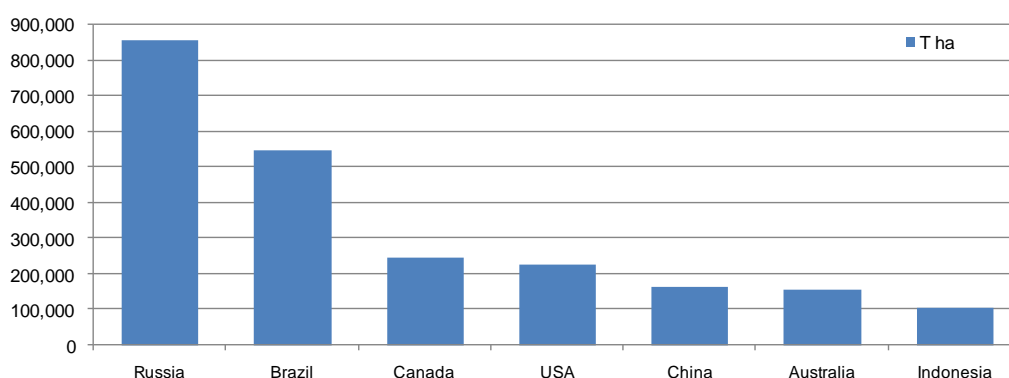
Overview

RusForest is a company active within the forestry sector in Eastern Siberia, Russia. The company was established in 2006 through the acquisitions of Tuba-Les and PIK-89 in the Ust Ilimsk region. Since then, RusForest has reached a considerable scale, both in terms of forest resources and sawmilling capacity, through strategic acquisitions and “brown field” development projects.

The company currently controls over 850,000 hectares of forest land with an annual allowable cut (AAC) of 1,443,200 m³. The Group's current sawmilling capacity of approximately 200,000 m³ is expected to increase to around 300,000 m³ within the near future as a result of the completion of the Boguchansky sawmill, which is approaching full capacity, and the assembly of the RusForest Magistralny sawmill which is expected to go online during 2010.

Russia has the world's largest timber reserves by a significant margin, and Eastern Siberia is known for its high quality Angarsk Pine and Siberian Larch. The forest resources in this area are of high density and subsequently well suited to produce sawnwood of exceptional quality.

Forest Area by Country, thousand Hectares

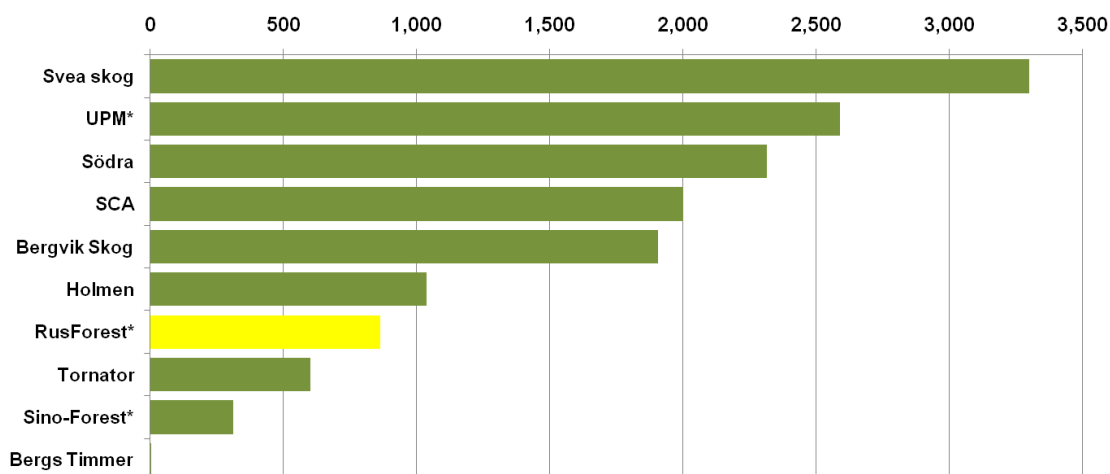


Source: UN Food and Agriculture Organisation

RusForest's operations are favourably positioned, in the southern part of Eastern Siberia, to effectively reach the rapidly growing Asian markets. Subsequently, most of the company's production is currently directed at customers in Central Asia, the Middle East, Northern Africa, Japan and China (the world's largest importer of wood and wood products). All of RusForest's products are sold through the wholly owned trading company, RusForest Trading.

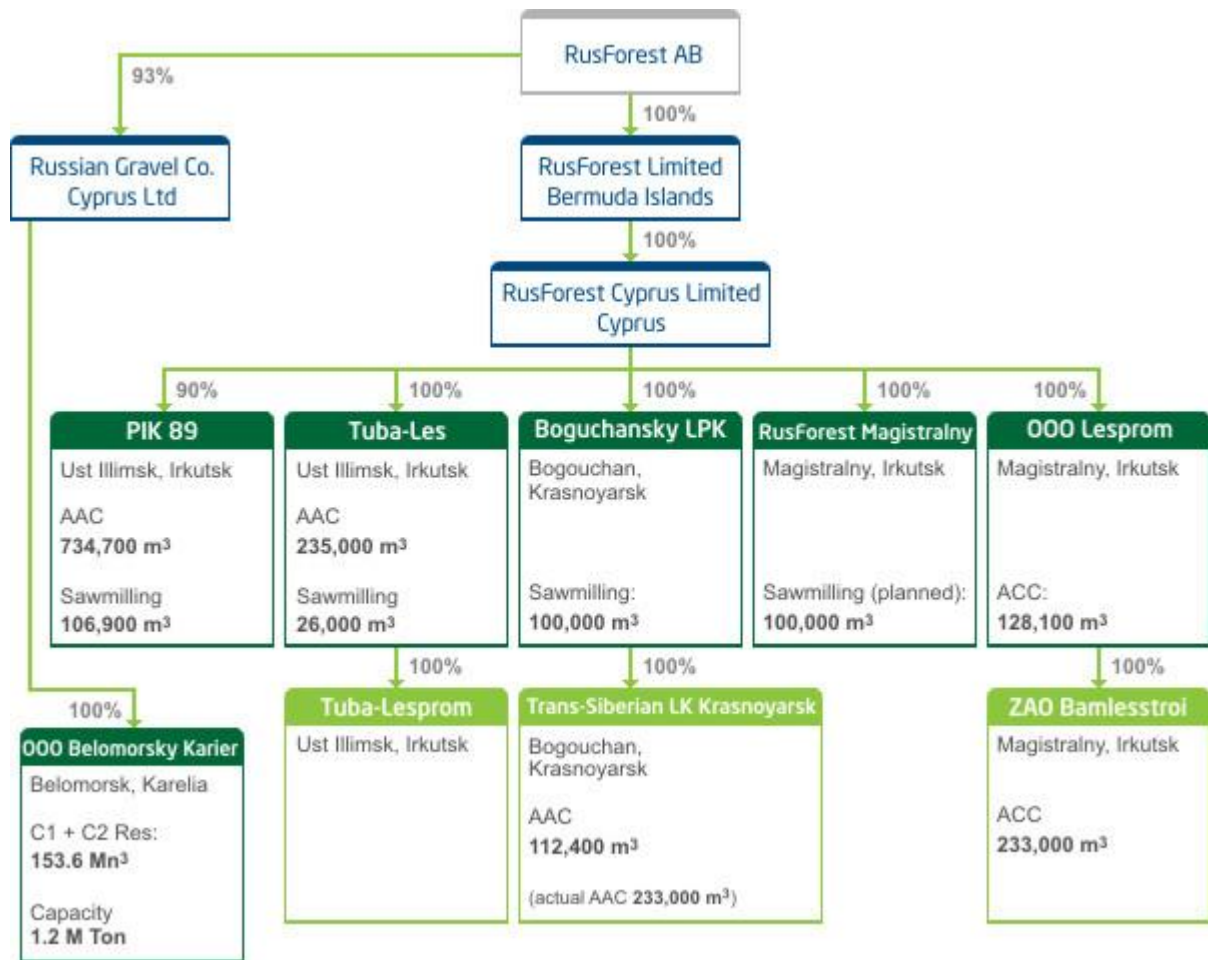
RusForest is the sixth largest forestry company in Russia in terms of harvest volumes according to data collated by Lesprom.ru, and is comparable in size to Swedish forestry company Holmen in terms of forest land controlled. RusForest's strategic objective is to fully utilize its forest resources whilst earning a reasonable return for its shareholders.

Forest Land Owned or Controlled, thousand Hectares



Source: Company Data for 2007, RusForest: Total forest land under long term lease on December 31, 2009

Legal Structure

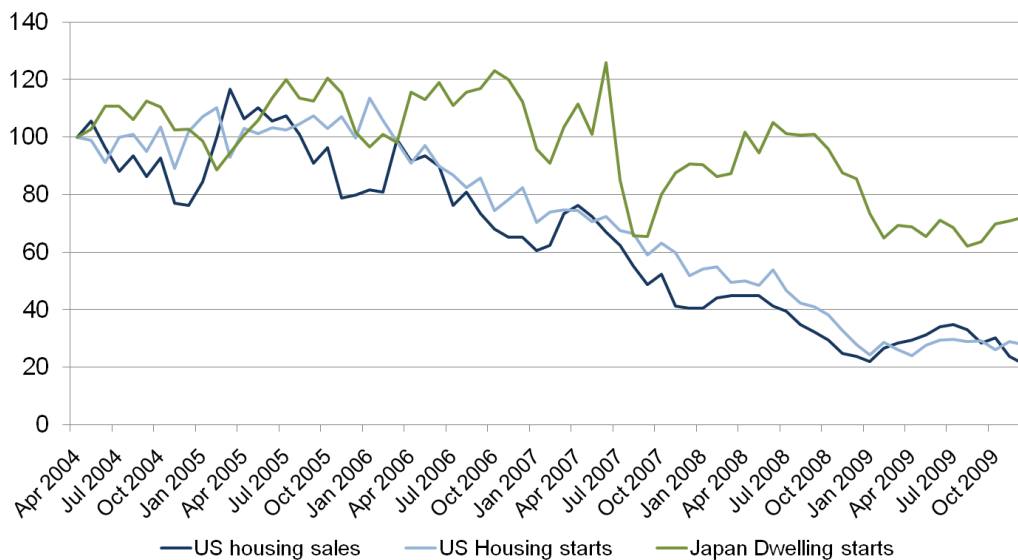


Sawnwood Market

The effects of the global financial crisis on industrial output, and sawmilling in particular, have been widely documented. The forest products market is global, and exceptionally sensitive to the economic cycle on the back of its close links to the construction sector. As a result, our industry has been fundamentally affected during the reporting period in focus.

Key benchmarks, housing sales and construction rates in the US, plummeted between 2006 and the end of 2008, and on December 30, 2008, the Case-Shiller home price index reported the largest drop in its history – a development which did not bode well for the sector in 2009. This was true for the first half of the year, when US Construction rates fell to the lowest rates recorded since the great depression. The rate of US Housing Starts and US Housing Sales had decreased by as much as 79% (April 09) and 81% (Feb 09) respectively in comparison with their peaks in 2005 and 2006.

Housing Data, 2004 to 2009 (April 04 = 100)



In the Euro zone the construction industry has been one of the hardest hit sectors of the economy, and the decrease in construction activity during the 3rd quarter of 2009 totalled 9.6% according to the ECB. The area has witnessed a large decline in housing supply, partially due to declining real housing investments since the middle of 2007. Real residential investment decreased by 8.3% year on year in Q3 2009 and building permit issuance in the region remains at low levels, indicating that the weakness could persist for some time longer.

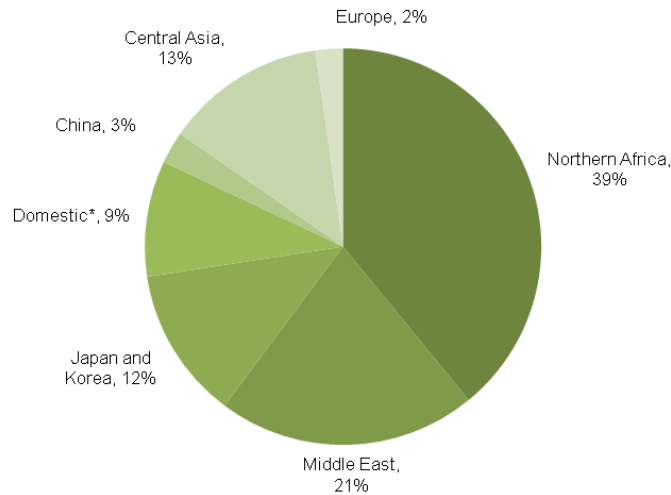
In North America, around half of the sawmilling capacity has been closed or mothballed since the industry peak in 2007. In Europe, sawnwood consumption is expected to decline by at least 10% in 2009 compared to 2008 and preliminary production volumes, of approximately 100 million m³, are 25% lower than in 2007. In Sweden sawnwood production dropped by 9% during the year, while sawn softwood production decreased by 22% in Finland, to 7.6 million m³.

Economic growth returned and solidified during the second half of 2009, in large part fuelled by an unprecedented amount of policy stimulus in western economies. Even slow moving advanced economies like Germany and Great Britain came out of recession during this period, while some emerging markets even achieved meaningful growth during the year – in particular China which steamed on reaching a growth rate of 8.7% according to the IMF.

In most advanced economies recovery should prove to be relatively slow. In 2010 the IMF is projecting that the output in advanced economies will increase by just 2%, from already depreciated levels. But in most emerging markets the upturn should be more forceful, with consolidated growth expectations of around 6 percent and with double digit growth rates once more expected in China for 2010 – backed by the country's extraordinary internal demand.

Sawnwood Market (continued)

RusForest's Sawnwood Sales Geography, 2009



Source: RusForest Trading, *predominantly volumes delivered domestically but for further processing to Japanese specifications

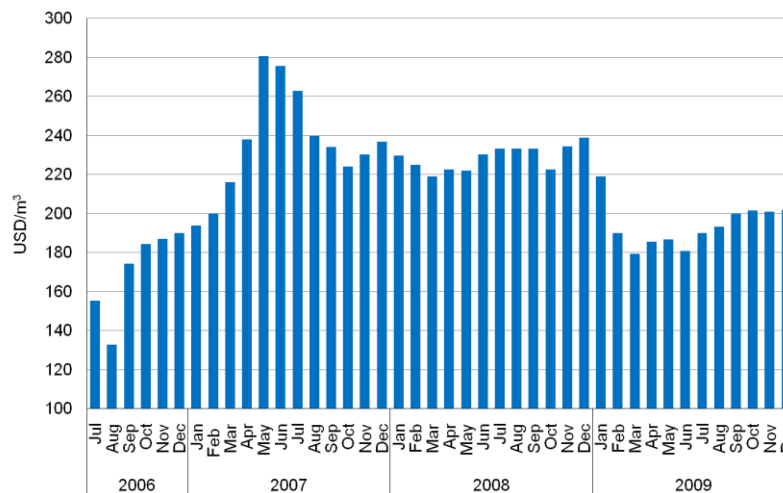
RusForest's main markets are located in Northern Africa, the Middle East, Central Asia, Japan and Korea. During 2009 the company's sales destinations remained relatively unchanged quarter on quarter. This clearly reflects the consistency in demand which the Company experienced and shows the relative stability enjoyed by the Northern African and Middle Eastern markets throughout the financial crisis (both economic areas grew during 2009).

RusForest has long standing, significant, log sales into China and during December 2009 deliveries to this market exceeded 8,000 m³. As a result of the Company's active initiative to make China one of its larger sales destinations for sawnwood, sizeable deliveries into China started during the third and fourth quarters of 2009.

Pricing

On the back of market improvements during the second half of 2009, and increasing confidence regarding the future, global sawnwood production and pricing started increasing once more during the period. For RusForest, average sawnwood prices balanced out during the second quarter, and increased during the third, after a sharp downturn in the beginning of the year. These increases were fuelled by supply side pressure forcing customers to accept higher prices. The price appreciations continued in most markets during the fourth quarter, and RusForest witnessed continuing increases in contract pricing and demand.

Sawnwood Export Prices, delivered to port, 2006 – 2009



Source: PIK-89, Sawnwood export prices delivered to port

Sawnwood Market (continued)

After positive developments in the third quarter the increases in weighted average prices levelled out during Q4 2009 in spite of stronger demand and increases in negotiated prices. This was the result of two main factors. The Company had to supply under "old" pricing in order to clear out an order backlog. In addition, the quality distribution in the sawmills fell during the fourth quarter due to log shortages.

Key Financial Data

Item	2009	2008
In thousands of SEK	1/1 - 31/12	1/1 - 31/12
Turnover	207,526	-
Cost of Sales	(201,101)	-
EBITDA	(79,163)	(91,744)
Income from RusForest acquisition, including impact of fixed assets revaluation	380,009	-
Goodwill impairment	(142,570)	
Net Profit	119,522	(102,317)
Cash Flow During Period	(29,018)	(270,077)
Per Share Data, SEK	31-Dec	31-Dec
Earnings	6.53	(7.69)
Shareholders Equity*	34.78	41.06
Share Price	19.00	11.00
Equity/Assets Ratio	79.5%	93.2%

*Shareholders equity per share for 2008 is calculated from the shareholders' equity and number of shares as per December 31, 2008.

Financial Performance

Overview

The 2009 accounts cover the period when Varyag Resources AB was treated as a holding company until 1st June 2009 and subsequently as a consolidated forestry operation. Accordingly, the financial statements reflect five months of investment activities combined with seven months of operation as a forestry business together with an available-for-sale gravel asset. Financial analysis and interpretation is therefore somewhat complicated by the transitional nature of the 2009 accounts.

In general terms the 2009 results reflect the fact that RusForest (formerly Varyag Resources) largely completed its investment plans during the year with the exception of the Magistralny sawmill. During start-up both the Boguchansky sawmill and the Belomorsk Gravel operations were cash negative as they went into production. The Boguchansky sawmill reduced both operating cash flows and earnings at the forestry division. The gravel business contributed a net loss and correspondingly an investment requirement at the corporate segment level.

The treatment of the gravel business as an available-for-sale asset means that its profit & loss account is not consolidated into the forestry profit & loss data on a line-by-line basis.

The profit & loss statement shows a small gross margin for the forestry operations effectively for seven months of 2009 (from 1st June 2009 onwards); the gross margin is not enough to cover distribution expenses plus other administrative expenditure. The low gross margin result reflects the fact that the Boguchansky sawmill was loss making until such times as it reached proper production volumes in December 2009. Furthermore, sawnwood prices were generally low in 2009 and disrupted log flows at PIK-89 over the summer led to poor cash results in June to August 2009.

Going forward, the fact that Boguchansky has achieved capacity and that sawnwood prices have strengthened towards the end of 2009 will have a positive impact in 2010. It is important to reduce the high administrative expenses as far as possible. A significant portion of these cost items relate to audit fees and the considerable work that needs to be done to transform the accounts of the group subsidiaries into IFRS accounts.

Financial Performance (continued)

The gravel business' net result is shown as a loss from assets available for sale (SEK 19.5 million) for 2009. The net result reflects both a combination of start-up related costs incurred from April 2009 together with the extra-ordinarily weak market conditions that the Company saw in 2009. It is difficult to gauge the extent of any improvement in 2010 as yet; however there is a strong probability that 2010 will be better than 2009. The expected sale of this asset will eliminate this item from the profit & loss statement.

In terms of the balance sheet, the company's activities are almost entirely financed by equity capital and gearing levels remain minimal when compared to equity. The forestry (and Group) balance sheet has been expanded following a revaluation of fixed assets, which added SEK 265.1 million on to fixed assets. The Group has entered into discussions with various banks in order to secure funding to complete the RusForest Magistralny sawmill. Credit conditions are still tight but significantly better than they have been during the past year.

During Q4 2009 both PIK and Lesprom (our logging business) showed reasonable gross margins, but the overall margin was dragged down by operating losses at the Boguchansky sawmill.

Cash outflows continued at the gravel division and totalled SEK 9.2 million. When the costs of maintaining the corporate centre are included, the Group cash flow was negative, at SEK 29.6 million, during the twelve months ended December 31, 2009.

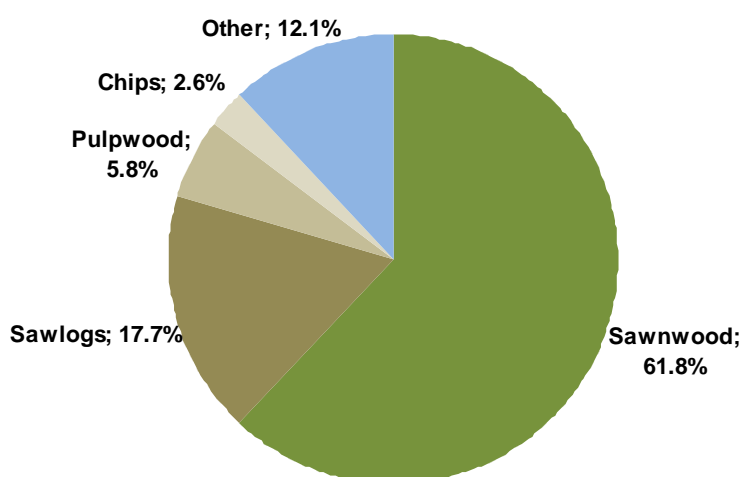
Comparative data from prior years is not provided as the Group accounted for investments in forestry using the equity method up until 100% ownership commenced on June 1st 2009.

Profit & Loss statement

Revenue

Group revenue for 2009 amounted to SEK 207.5 million. Effectively this figure only relates to seven months of sales which were consolidated following the 1st June 2009 acquisition of the forestry assets from Vostok Nafta. The Group revenue for the period had the following composition: Sawnwood, SEK 128.3 million; Sawlogs, SEK 36.8 million; Pulpwood, SEK 12.0 million; Chips, SEK 5.3 million and Other revenue SEK 25.1 million.

Revenue Breakdown FY 2009, percentage of total



Primarily during the third quarter of 2009 RusForest saw continuous increases in USD-denominated sales prices driven by both market factors and the USD depreciation to major currencies. However, the average export sawnwood price received at PIK-89 during 2009 was 14.4% lower than in 2008.

Financial Performance (continued)

Operating Expenses

RusForest's cost of sales for the period was SEK 201.1 million. One major driver, apart from sales volume, for the cost of sales was the extensive usage of purchased sawlogs during the period. Purchased logs cost, on average, SEK 400 per m³ compared to self-harvested sawlogs which cost approximately SEK 250 per m³. The Group has however implemented a cost saving policy which positively contributed to the operating margin.

Distribution expenses amounted to SEK 49.7 million and represented customs duties, railway tariffs, loading and hauling-to-loading costs. These costs are directly associated with the volumes shipped.

Personnel costs have decreased on monthly basis as the portfolio companies' new management has terminated the employment of unproductive staff, reviewed the production process and are re-allocating tasks.

Other Expenses

Financial Expenses

Financial expenses amounted to SEK 3.9 million during the period. The Group drew down the remaining part of the Unicreditbank loan (SEK 20.7 million) during September 2009, which resulted in additional interest payments.

Income Tax

All of the Group subsidiaries generated losses during the period, and tax losses will consequently be carried forward.

Net Profit

The Group's net result was SEK 119.5 million during twelve months ended December 31, 2009, in large part due to the significant acquisition gain which arose from the acquisition of 50% of RusForest Limited from Vostok Nafta Investment Ltd on June 1, 2009. The acquisition gain has been restated from the amount reported in the Interim Report for the six months ended June 30, 2009, as fixed assets were then taken up at cost. As per May 31st, 2009, the fixed assets have been re-valued at fair market value, by an independent appraiser, in accordance with IFRS 3.

The Group has during the third quarter signed a settlement agreement to write-off of loans payable to the minority shareholder of PIK-89, in the amount of SEK 10.3 million, which positively affected the Group's result for the quarter.

RusForest has decided that given the higher assets values resulting from the fixed asset valuation, it is prudent to remove all positive goodwill via impairment. As a result of this decision all positive goodwill created primarily in the period from 2006 to 2008 of SEK 142.6 million will be written down in 2009 (note 6).

Balance sheet

Assets and Investment

The opening balance sheet at December 31, 2008 reflects Varyag Resources balance sheet as a holding company. The current year-end balance sheet reflects the replacement of investments with the consolidated assets and liabilities of various group companies. All property plant and equipment have been valued to fair market value as of 31 May, 2009, as required by IFRS 3 to account for the fair value of the acquired assets and liabilities in the business combination. The valuation was performed based on reports prepared by independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience of valuations of assets of similar location and category. The basis used for the appraisal was market value of the assets, and fair values were estimated using appropriate valuation techniques. The increase of the value of fixed assets totalled SEK 265.1 million.

Financial Performance (continued)

On the liability side, the Company is primarily financed through equity with total equity of SEK 761.5 million compared to non-current interest bearing liabilities of SEK 20.2 million, primarily reflecting SEK 17.6 million of long-term portion of Sberbank loans and the fair value of a SEK 2.6 million Unicreditleasing lease obligation. SEK 37.7 million of current interest bearing loans primarily reflect the Unicredit Bank loan in the amount of SEK 25 million, the short-term portion of Sberbank loans in the amount of SEK 6.2 million and the current portion of Unicreditleasing lease obligation in the amount of SEK 5.0 million. The parent company does not have any interest bearing debt as at 31 December 2009.

Balance sheet data from the gravel business is shown both as asset line and as a liability line under available for sales assets (SEK 128.5 million) and an associated liability (SEK 43.5 million). The gravel businesses' assets primarily reflect the capitalised value of work done at the site including over-burden removal, blasting, road building, the value of the railhead and the acquisition of equipment. The main crushing plant is being acquired under a finance lease and the associated liability figure primarily reflects the amount of the finance lease which remains outstanding at December 31, 2009.

Cash Flow and Financial Position

The Group's closing net cash position was SEK 26.1 million compared to SEK 55.7 million at December 31, 2008. The opening cash position relates to cash held at Varyag AB as at December 31, 2008. Following the 1st June 2009 acquisition of assets from Vostok Nafta Investment Limited, cash balances are consolidated across all group companies. The total net cash outflow for the twelve months ending December 31, 2009 was SEK 29.6 million in respect of cash held by Varyag Resources AB as compared to the closing consolidated group cash position.

Looking at the cash results of the operating subsidiaries for 2009 shows that the cash outflow reflects the fact that the Company had to finance capital expenditure for the completion of the Boguchansky sawmill and the Belomorsky Gravel asset; furthermore there was a significant start-up cost for both subsidiaries during 2009. Within the context of the two major start-ups the cash result for 2009 is felt to be reasonable. In particular, the fully developed operating businesses at PIK-89, our logging business at OOO Lesprom and the Trade House partially cross-subsidised operating cash outflows at the Boguchansky sawmill. The Boguchansky sawmill secured a SEK 28.6 million (USD 4 million) credit line in September 2009 in order to finance log purchases and start-up completion. Accordingly the forestry division showed positive net cash movement of SEK 24.4 million. In addition to taking up debt, PIK-89 was required to repay in full all outstanding credit lines during 2009; PIK-89 repaid SEK 19.8 million (RUB 83.3 million) in bank debt during the year. Even though PIK-89 took on some new debt in December 2009, there was a significant net debt reduction at PIK-89 during 2009 of SEK 8.3 million (RUB 34.9 million).

Parent Company, January 1 – December 31, 2009

Profit before taxes amounted to SEK 13.0 million (SEK -6.9 million during the twelve months ended December 31, 2008).

An operating result of SEK 4.5 million was reported for the full year 2009. Operating expenses related primarily to personnel costs of SEK 1.2 million.

Exchange-rate income amounted to SEK 14.5 million (SEK -8.6 million in 2008).

The Parent Company's cash and cash equivalents amounted to SEK 8.2 million at the end of the period (SEK 55.2 million on December 31, 2008).

Significant events after the end of the period

The Company completed the plan to stop sawmilling activities at the small scale sawmill in Tuba and transfer these operations to PIK-89 in early 2010. The Tuba operations are run from two legal entities, OOO Tuba-Les and ZAO Tubesprom. During the year all of Tuba-Les' moveable fixed assets were sold to other Group companies and all employees were transferred from OOO Tuba-Les to ZAO Tubesprom. Following the period end, OOO Tuba-Les applied for creditor restructuring in respect of unpaid taxes and other payables and the initial petition was granted. OOO Tuba-Les now has approximately three months to come up with a creditor restructuring plan which should be subsequently presented to an external judge. These developments are not expected to have a material effect on the Group except for the impaired goodwill attributable to the initial acquisition of OOO Tuba-Les.

The Company requires additional working capital over the winter period in order to buy logs and store them under snow (a snow stock) in order to cover expected log shortages over April, May and October. During these periods it is almost impossible to move equipment in and out of forest areas accordingly the logs required for the sawmills have been acquired in advance of these periods. In the normal course of business, the Company therefore engaged E. Öhman J:or Fondkommission AB to investigate the prerequisites for a capital raising in the bond market for the purpose of guaranteeing a steady log supply and continuing its expansion programme. Investor interest proved to be high, and RusForest carried out a bond issue with a 12 month maturity and a volume of SEK 50 million. The bond can be redeemed early, at the option of RusForest, after 6 months and runs with a fixed interest rate of 15.00 percent.

Operations

RusForest Operational Data

FY 2009 Actuals

	Unit	PIK Group	Tuba Group	Lesprom	Boguchansky	Bamlesstroj	Consolidated FY 2009	FY 2008	%
RusForest ownership interest	(start of year)	80%	100%	100%	100%	100%			
Annual Allowable Cut (AAC)	m3	734,700	235,000	128,100	112,400	233,000	1,443,200	1,654,100	-12.8%
Utilised AAC	m3	460,373	92,932	69,317	94,204	-	716,826	593,529	20.8%
Utilisation of AAC (annualised)	%	62.7%	39.5%	54.1%	83.8%	-	49.7%	35.9%	38.4%
Sawnwood volumes	m3	105,688	15,971	1,526	43,149	-	166,333	120,617	37.9%
Forest area	Hectares	436,033	117,514	30,988	48,695	231,554	864,784	1,005,020	-14.0%

*The figures shown above are given for reference purposes only to make possible comparisons between the Group companies' operational performance in 2009 versus 2008, and do not constitute part of the RusForest AB financial statements for the twelve months ending December 31, 2009. PIK Group includes PIK-89, PIK 2005 and TD RusForest; TUBA Group includes Tuba-Les and Tubesprom; Boguchansky includes Boguchansky LPK and RusForest Angara. Physical harvesting and sawmilling volumes, and forest resources, for 12M 2008 are adjusted for volumes attributable to Nebelsky LPH. Boguchansky LPK harvesting volumes 2009 have been restated from log equivalent to stem equivalent.

On the operational side, 2009 was an eventful year. The start of operations at the greenfield sawmill in Boguchany, and the associated harvesting enterprise RusForest Angara (formerly TSLKK), has contributed to the significant output increases RusForest has achieved. On the back of these assets going online, and thanks to general operational improvements in the Company's other subsidiaries, RusForest achieved volume increases in harvesting and sawmilling of 20.8% and 37.9% respectively. Not a bad achievement given the weak market conditions which were prevalent for the most part of the year. The fact that RusForest witnessed such increases in output without waning customer demand, once more highlights the strength, and quality, of our products.

However, disruption of summer harvesting operations and subsequently in sawmilling output due to rain remains a perennial problem. On a long term basis, this problem will only be fully solved once we are able to build adequate log stocks, which can be drawn down over summer to ensure uninterrupted sawmilling operations.

During the period, RusForest increased its shareholding in PIK-89 to 90 % through a shareholders' agreement signed with the local minority shareholder. On another positive note, Boguchansky LPK signed a heads of agreement for 4.8 megawatts of power in December 2009. This is an encouraging development in a region where the Company earlier has faced difficulties in obtaining additional power to its mill.

Forestry Operations

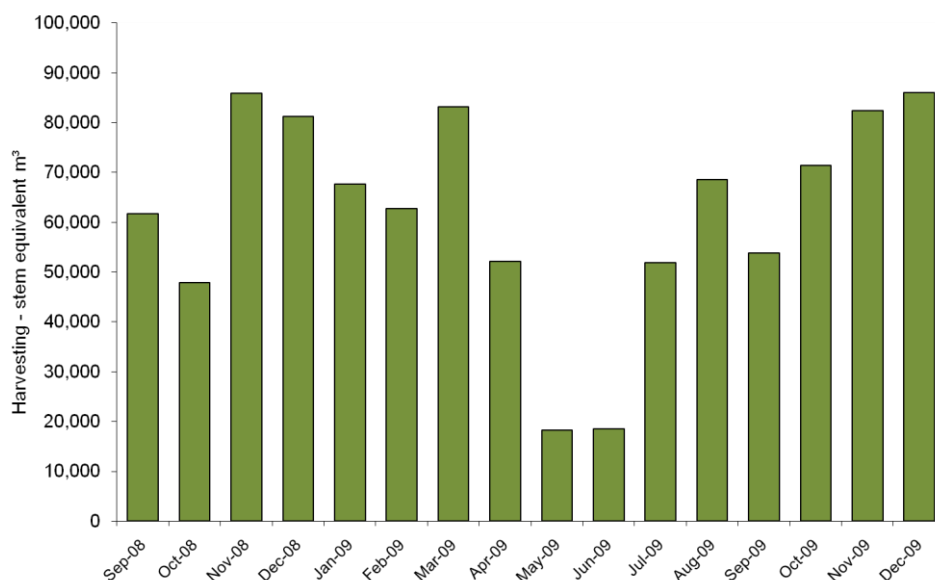
On a consolidated basis RusForest has increased its harvested volume by 20.8%, to 716,826 m³, during the full year of 2009 compared to the same period last year (593,529 m³). This increase is in large part due to the start of forestry operations at RusForest Angara (formerly TSLKK) contributing 94,204 m³ (0), and a volume increase of 17.5% at the PIK Group.

RusForest saw increases in harvesting volumes in each quarter of 2009 in comparison with the same periods the previous year. In Q4 2009 the company's combined harvesting output was 16.4% higher than the same period in 2008, and a record harvesting output was recorded in December 2009 with just under 86,000 m³ of stem equivalents. These increases come in spite of temperatures under -40 Celsius as early in the season as November and December.

The log flow at Boguchansky LPK was erratic throughout summer as RusForest Angara did not get access to summer harvesting plots until August and external suppliers delivered only a small fraction of their contracted volumes. As a result of the lack of reliable log suppliers the management team started negotiations to acquire standing timber and is also looking to acquire additional AAC in the Boguchan region.

Operations (continued)

RusForest Group Harvesting, Sep 08 – Dec 09



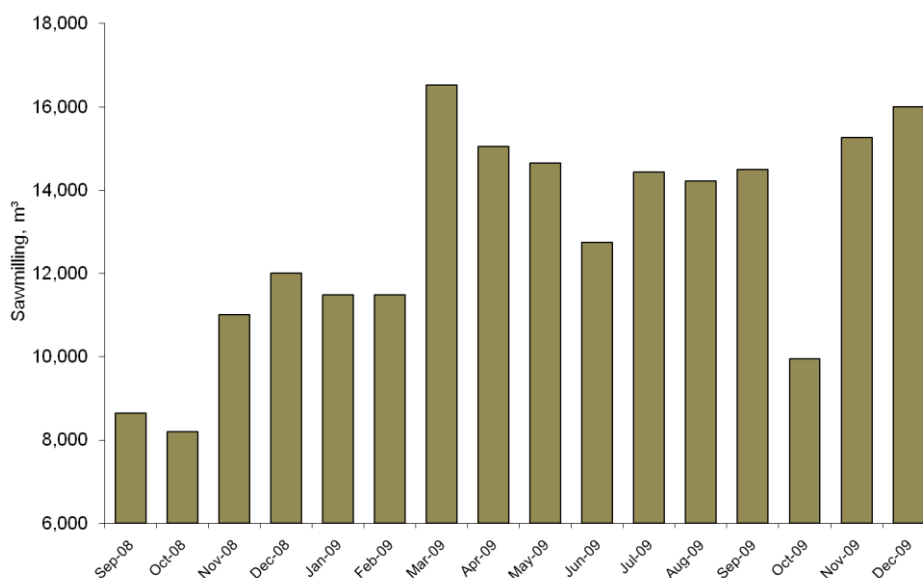
Sawmilling

RusForest's consolidated sawnwood output increased by 37.9%, to 166,333 m³, in 2009 compared with 2008 (120,617 m³). The Company's major sawmilling subsidiaries posted significant increases in production compared to the corresponding period in 2008 in spite of the weak market conditions prevailing throughout most of the year.

The PIK Group has been producing stable volumes throughout 2009 and achieved an average production rate of 9,100 m³ per month during the second half of 2009 which was a year on year increase of 10% (from 8,300 m³). Overall the PIK Group increased its sawnwood output by 6% during 2009.

Production at Boguchansky LPK remained inhibited, mainly during summer and early autumn, by log shortages from RusForest Angara and the absence of reliable external suppliers. However, the company has still shown steady increases in sawnwood output, and produced over 6,000 m³ in December for the first time in the history of the plant.

RusForest Group Sawmilling, Sep 08 – Dec 09

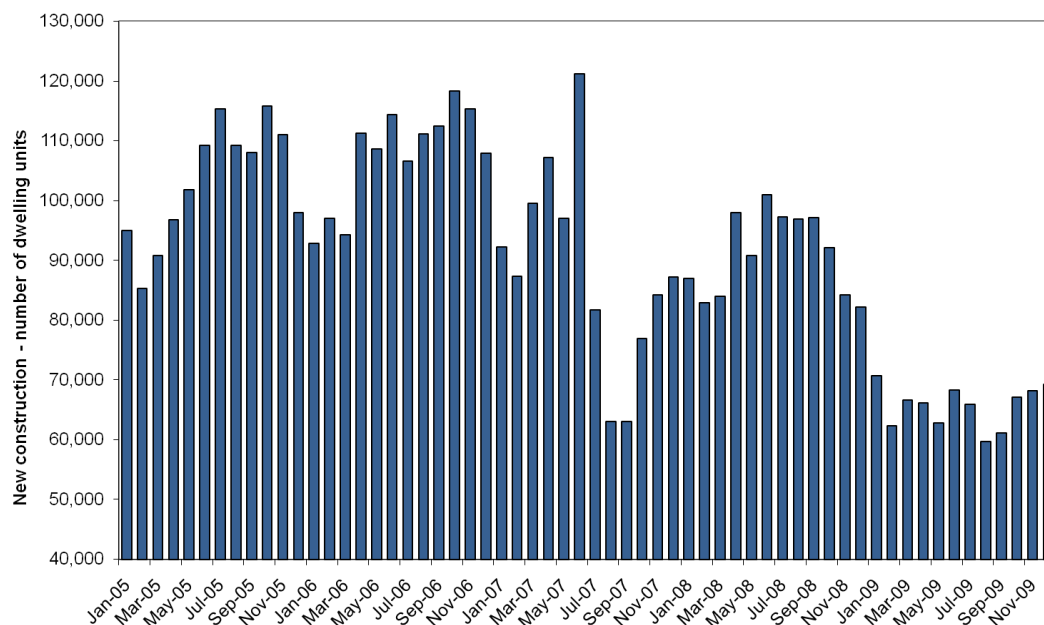


Outlook

As mentioned in the “Sawnwood Market” segment of this report, the rate of recovery in advanced economies is expected to continue at a somewhat muted rate, and has so far been fuelled to a large extent by the significant stimulus packages adopted during 2009. It is difficult to foresee the effects that decreased stimuli will have on the construction activity in the West. One somewhat worrying signal is that even as US mortgage rates reached record lows in the beginning of December 2009 (30 year fixed rate at 4.71%) – backed in part by the Fed buying over 1 trillion in mortgage backed securities – the US market recorded its lowest Housing sales figure to date in this crisis.

But one can just as easily choose to focus on the positive signals. China is again expected to reach double digit growth rates in 2010 according to the IMF. Japan has been enjoying stable construction levels with year-end increases in dwelling starts of 16% between August and December 2009. Sawnwood demand and pricing is increasing globally, and the average Swedish sawnwood export prices have increased by approximately 18% from the bottom in the first quarter of 2009.

Japanese New Dwelling Starts, 2005 - 2009



Source: Ministry of Land, Infrastructure and Transport

This rings true for RusForest as well – the company has been seeing improving conditions on practically all of the Company’s main markets during the second half of 2009, and when current contracts are fulfilled the corresponding increases in weighted average prices should follow.

In a recent speech the Minister of Finance of the Russian Federation, Alexei Kudrin, reiterated that the government’s primary agenda for the near term is macroeconomic stability. Attention will also be focused on improving the investment climate in the country, in part by reducing red tape. He continued to state that, going forward, economic growth in Russia should be driven by other factors than oil price inflation; such as cost reduction, increases in innovation and improved competitiveness.

Within Russian forestry there is a vast improvement potential in terms of operating efficiency to complement the competitive advantage of low cost raw materials. As investments into more value added forestry activities occur, there will be an increased competition and pricing for sawmilling by-products which RusForest currently sells, where possible, to the local monopoly pulp producer. As a result the Company intends – in addition to its ongoing near term plan of stabilising output volumes thanks to better log flow coordination, general operational improvements and increased production capacity – to act as a catalyst to encourage this process by seeking investors to establish value-added operations in our geographic area of operation.

The Share

Share Data

The RusForest AB share is listed on First North in Stockholm, a part of NASDAQ OMX. Trading is conducted under the ticker designation RUSF. As of December 31, 2009, the number of outstanding shares was 21,840,840. At the close of the period, the share price was SEK 19, and the Company's market capitalisation was approximately SEK 415 million. The Company's certified adviser on First North is HQ Bank.

ISIN: SE0001732728

Short name on First North: RUSF

Number of shares: 21,840,840

Major Shareholders on December 31, 2009

Shareholder	Number	Percentage
Vostok Nafta Investment	10,888,403	49.9
Staffan Rasjö	1,329,100	6.1
Fonden Zenit	913,000	4.2
SEB Östeuropafond	532,400	2.4
SEB Private Bank S.A.	496,052	2.3
Aleksandr Williams	471,768	2.2
EFG Private Bank S.A.	440,000	2.0
Avanza Pension	396,572	1.8
Per J Holding AB	320,000	1.5
JP Morgan Bank	300,240	1.4
Others	5,753,305	26.3
Total	21,840,840	100.0

Trading data for the period January – December, 2009



Source: Nasdaq OMX First North

Accounting policies

The consolidated financial statements for the period ended December, 31 2009 comprise the company and its subsidiaries (together referred to as “the Group” and individually as “Group entities”) and the Group’s interest in associates.

During June - December 2009, the Group has continued forest harvesting and sawmilling operations for the production of sawnwood, as its principal activities and with holding of investments and financing of group companies.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. Comparative data for 2008 have been translated in accordance with the new accounting principles.

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

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

The Group consolidated financial statements comprise the financial statements of the parent company RusForest AB and the financial statements of the following subsidiaries and sub-subsidiaries, RusForest (Cyprus) Limited, RusForest Limited, RusForest Angara LLC. Subsidiaries are entities controlled by the Group. Control exists where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial statements of subsidiaries acquired during the period are included in the consolidated financial statements from the date that control commences. Thus, the Group has consolidated the results of RusForest Limited for June 2009 as the acquisition transaction and obtaining the control over RusForest Limited took place on June 1, 2009. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group’s equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority’s share of changes in equity since the date of the combination.

Associates are those entities in which the Group has significant influence, but not control over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50% of the voting power of another entity. Investments in associates are accounted for using the equity method and are recognized initially at cost. Investments in RusForest Limited were previously accounted for as for available-for-sale. For the purpose of the year-end report these investments in associates were accounted for using the equity method up to June 1, 2009 and fully consolidated thereon.

The consolidated financial statements include the financial statements of the parent Company and its subsidiary undertakings after elimination of inter-company accounts and transactions.

No events other than those adjusted or disclosed in this report have occurred which relate to these subsidiaries as at December 31, 2009 that materially affect the consolidated financial position, the consolidated statement of comprehensive income or the consolidated cash flows of the Group.

Items included in the Group’s financial statements are initially measured in RUB (the currency of the primary economic environment in which the entity operates) and then translated into SEK at the closing rate effective at December 30, 2009.

Qualitative and Quantitative Disclosures and Market Risks

The Group is exposed to market risk from changes in global sawnwood prices, foreign currency exchange rates and interest rates. The Group is exposed to foreign exchange risk to the extent that sales revenues, costs, receivables, loans and debt are denominated in currencies other than SEK. The Group is subject to market risk from changes in interest rates that may affect the cost of financing.

Foreign currency risk

The Group's principal exchange rate risk involves changes in the value of the SEK relative to RUB, USD and EUR. As of December 31, 2009, SEK 6.8 million of the Group's debt was denominated in EUR and SEK 46.6 million was denominated in USD. Changes in the value of SEK relative to EUR and USD will impact foreign currency-denominated costs and expenses and debt service obligations for foreign currency-denominated borrowings in SEK terms. The management believes that the risks associated with foreign currency exposure are partially mitigated by the fact that revenues are denominated in USD so that the debt will not exceed the Group's ability to service it. The Group's costs are mainly denominated in RUB. As of December 31, 2009 RUB had depreciated by approximately 10% against SEK since January 1, 2009 (in Q3 2009 by 0.1%), which lead to the exchange gain. The Group does not use any financial instruments to hedge the foreign currency risk.

Market risk

Substantially all sawnwood is sold under long-term framework contracts with a review of prices once every 2 months. The Group's export prices are linked to international sawnwood prices. External factors such as house construction volumes, geopolitical developments, natural disasters and the fluctuations of US dollar to other currencies affect sawnwood prices and thus our export prices.

Availability of sawlogs

The Group's annual allowable cut (AAC) is sufficient to cover its raw material needs (sawlogs). However, due to the seasonality of harvesting and transportation of timber from the forest, the risk of sawlog shortages always exists and may be affected by unfavourable weather conditions during the harvesting season. In order to mitigate the risk of the sawlogs deficit the Group enters into contracts with external suppliers of sawlogs. This allows minimizing idle time in the sawmills and losses caused by such idle time. Purchased sawlogs can be twice as expensive in comparison with sawlogs from the Group's own harvesting operations, and therefore adversely affects the Group's cost of sales. The Group has started the activities for building up of the snow stocks in the volume of 60,000 m³, stem stocks in the volume of 60,000 m³ and sprinkled stocks in the volume of 15,000 m³ which will be used during previously idle months. Actions taken included the increase of the truck fleet by 20 units financed by Sberbank and the lease of additional land plots at the production site for snow stock storage.

Railroad access

The Group transports substantially all sawnwood through the Russian Railways (RZD). Under existing legislation, RZD must provide railway cars in accordance with the plan submitted by the Group 3 days before the beginning of the planned month. In practice, however, RZD exercises considerable discretion over access to the railway cars preferring to service metal companies and companies having loading facilities on the main lines of the rail ways. There is no assurance that RZD will continue to provide the Group with railway cars on a timely basis and fulfil Group plans. The maximum failure to provide railway cars has historically been 20% of the requested number, but may exceed this level in future.

Liquidity risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses followed by the risk of not fulfilling its obligations. The Group has procedures with the object of minimising such losses such as maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities.

Qualitative and Quantitative Disclosures and Market Risks (continued)

Capital management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from last year.

Off balance sheet activities

As of December 31, 2009, the Group did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which are typically established for the purpose of facilitating off-balance sheet arrangements.

Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for all tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the consolidated interim financial information could be significant, if the authorities were successful in enforcing their interpretations.

Russian Business Environment

The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. The consolidated financial information for the period ended December 31, 2009, reflects the management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from the management's assessment.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE 12 MONTH PERIOD ENDED 31 DECEMBER 2009

In thousands of SEK	Note	4Q 2009	4Q 2008 (restated)	12 months 2009	12 months 2008 (restated)
Turnover		89,865	-	207,526	-
Cost of sales	1	(85,191)	-	(201,101)	-
Gross Profit		4,674	-	6,425	-
Other income		5,334	240	20,209	968
Distribution expenses	2	(21,700)	-	(49,726)	-
Administrative expenditure	3	(18,425)	(6,422)	(65,328)	(26,020)
Loss disposal of interest			(19,324)		(19,324)
Other expenses	4	(4,827)	(36,330)	(25,166)	(47,393)
Operating profit before financing costs		(34,945)	(61,836)	(113,586)	(91,769)
Financing Income		71	14,016	9,587	28,991
Financing cost		(1,876)	-	(3,870)	0
Net financing income/(cost)		(1,805)	14,016	5,717	28,991
Income from acquisition of Rusforest	5	-	-	380,009	-
Goodwill impairment	6	(142,570)		(142,570)	
Share of losses from associates		-	-	-	(5,925)
Other comprehensive loss from assets held for sale	7	304	(8,404)	(19,501)	(33,614)
Profit before taxation		(179,016)	(56,224)	110,069	(102,317)
<i>Income tax</i>		1,199	-	7,603	-
Profit for the period		(177,817)	(56,224)	117,672	(102,317)
<i>Minority interest</i>		(1,389)	-	(1,850)	-
Shareholder's profit for the period		(176,427)	(56,224)	119,522	(102,317)

PER SHARE DATA

Per Share Data	2009	2008 (restated)
SEK	31/12	31/12
Earnings	6.53	(7.69)
Shareholders Equity*	34.78	41.06
Share Price	19.00	11.00

Number of Shares	2009	2008
	1/1 - 31/12	1/1 - 31/12
Beginning of period	13,303,200	13,303,200
End of Period	21,840,840	13,303,200
Average number of shares	18,299,127	13,303,200

DEFINITION OF KEY FIGURES

Earnings per share: Profit/Loss after tax divided by the average number of shares during the period.

Shareholders' equity per share: Reported shareholders' equity in relation to the number of shares at the end of the period. Shareholders' equity per share for 2008 is calculated using the shareholders' equity and number of shares as per December 31, 2008.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2009

In thousands of SEK	<u>31 December</u> <u>2009</u>	<u>31 December</u> <u>2008</u>
Assets		
Non current assets		
Property Plant and equipment	656,632	71
Investments in associates	2,300	173,940
Non-current assets held for sale	128,525	141,419
Other long-term receivables	10,601	9,180
Deferred tax asset	23,503	-
Total non current assets	821,561	324,610
Current assets		
Inventory	42,747	-
Trade and other receivable	64,045	205,910
Loans receivable	540	-
Cash and cash equivalents	26,085	55,704
Total current assets	133,417	261,614
Total assets	954,978	586,224
EQUITY		
Equity and reserves		
Share capital	218,408	133,032
Share premium	556,687	485,825
Translation reserve	22,519	83,070
Retained earnings	(155,676)	(53,359)
Income for the year	119,522	(102,317)
Total equity attributable to Shareholders of the Group	761,461	546,251
Minority interest	(1,842)	-
Total Equity	759,618	546,251
Liabilities		
Non current liabilities		
Interest-bearing loans and borrowings	20,218	-
Loans payable to related companies	10,435	-
Non-current liabilities held for sale	43,494	38,198
Deferred tax liability	1,102	-
Total non current liabilities	75,248	38,198
Current liabilities		
Interest bearing loans and borrowings	37,727	-
Trade and other payables	82,385	1,776
Total current liabilities	120,112	1,776
Total liabilities	195,360	39,974
Total equity and liabilities	954,978	586,224

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 31 DECEMBER 2009

In thousands of SEK	2009	2008
Cash flow from operating activities	(40,932)	(25,491)
Cash flow from investing activities	(22,502)	(244,196)
Cash flow from financing activities	16,689	(390)
Cash balances of acquired subsidiaries	17,727	-
Cash flow during the period	(29,018)	(270,077)
Cash and cash equivalents, beginning of period	55,704	318,095
Exchange-rate differences on cash and cash equivalents	(601)	7,686
Cash and cash equivalents, period end	26,085	55,704

The Group's closing net cash position was SEK 26.1 million compared to SEK 55.7 million at December 31, 2008. The opening cash position relates to cash held at Varyag Resources AB as at December 31, 2008. Following the 1st June 2009 acquisition of assets from Vostok Nafta Investment Limited, cash balances are consolidated across all group companies. The total net cash outflow for the twelve months ending December 31, 2009 was SEK 29.0 million in respect of cash held by Varyag Resources AB as compared to the closing consolidated group cash position.

The result reflects the fact that we started up two new facilities in 2009 as well as dealing with very weak external markets. The fully developed operating businesses at PIK-89, our logging business at OOO Lesprom and the Trade House partially cross-subsidised operating cash outflows at the Boguchansky sawmill. These developments are explained in more detail in the segment section.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In thousands of SEK	Share capital	Share premium	Translation reserve	Retained earnings	Total
Opening shareholders' equity	133,032	485,825	83,070	(155,676)	546,251
New share issue	85,376	70,862	0	0	156,239
Translation difference	0	0	(60,551)	0	(60,551)
Net profit/loss for the period	0	0	0	119,522	119,522
Shareholders' equity at end of period	218,408	556,687	22,519	(36,154)	761,461

NOTES TO THE FINANCIAL STATEMENTS

The Group does not provide comparative information for cost of sales and distribution costs since the Group previously had not consolidated its subsidiaries but included the results of the portfolio companies using the equity accounting method. However, the comparative information was supplied when it is relevant to an understanding of the current period's financial statements.

Note 1. Cost of sales

Cost of sales represents actual costs of production of the shipped sawnwood and sawlogs during the period.

Cost of sales	4Q 2009	12 months 2009
Sawing costs	30,429	65,329
Purchased sawlogs	14,310	35,327
Payroll	17,312	38,563
Depreciation	13,131	32,168
Other	10,009	29,713
	85,191	201,101

Note 2. Distribution expenses

In thousands of SEK	4Q 2009	12 months 2009
Railway tariffs	7,157	17,145
Customs duties	4,362	9,941
Other	10,181	22,641
	21,700	49,726

Distribution expenses increase in line with the increasing volume of sales from Boguchansky LPK.

Note 3. Administrative expenditure

In thousands of SEK	4Q 2009	12 months 2009	4Q 2008	12 months 2008
RusForest AB	1,063	19,059	6,422	26,020
Forestry	17,362	46,269	-	-
	18,425	65,328	6,422	26,020

Administrative expenditures of RusForest AB

In thousands of SEK	4Q 2009	12 months 2009	4Q 2008	12 months 2008
Management fee	-	8,741	4,031	16,125
Personnel costs	273	5,009	806	3,846
Other external costs	731	5,160	1,486	5,651
Travel expenses	34	105	93	373
Depreciation	25	44	6	25
	1,063	19,059	6,422	26,020

Personnel costs in RusForest AB dropped in 4Q 2009 due the contract termination with the Company officers and management fee paid to Taiga Capital Ltd during January-May 2009.

Administrative expenditures of Forestry

In thousands of SEK	4Q 2009	12 months 2009
Payroll	8,109	23,433
Audit	555	3,300
Property tax	1,124	3,255
Consulting fees	3,105	4,616
Other	4,468	11,665
	17,362	46,269

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 4. Other expenses**Other expenses**

In thousands of SEK

Company	4Q 2009	12 months 2009	4Q 2008	12 months 2008
RusForest AB	4,025	22,012	36,330	47,393
Forestry	803	3,154	-	-
	4,827	25,166	36,330	47,393

Other expenses of RusForest AB

In thousands of SEK

	4Q 2009	12 months 2009	4Q 2008	12 months 2008
Exchange-rate losses	4,025	22,012	36,330	47,393

Note 5. Income from acquisition of RusForest, including impact of fixed assets revaluation

During the course of 2009, the Group carried out three significant transactions, which resulted in the creation of significant negative goodwill of SEK 380 million for 2009, the three elements were as follows,

1. The transition from a holding company to a forestry company effective on 1st June 2009 meant that investments in portfolio companies were replaced with Varyag's 50% interest in underlying portfolio companies net assets as part of the process of consolidating the results of the portfolio companies. This transition created goodwill with respect to Varyag's assets which it owned on the day of the acquisition of various assets from Vostok Nafta on 1st June 2009,
2. On June 1, 2009, the Group acquired from Vostok Nafta equity and debt in RusForest and its subsidiaries, the equity acquired represented, 50% shareholding in RusForest Limited – 1 share in RusForest (Cyprus) Limited, 10% in Tuba-Les LLC, 10% in Tubesprom PLC and 50% in RusForest Angara LLC. The debt acquired from Vostok Nafta related to loans advanced to RusForest (Cyprus) Limited in amount of SEK 212.2 million. Varyag paid for this acquisition by way of newly issue shares which were transferred to Vostok Nafta, the consideration paid to Vostok Nafta was SEK 156,2 million representing 8,537,640 newly issued shares at SEK 18.3 per share. The value of the consideration paid to Vostok Nafta on 1st June 2009 was less than the value of the loans acquired of SEK 212.2 million and significantly less than the value of the debt and equity acquired from Vostok Nafta when combined. The difference between the consideration paid to Vostok Nafta and the value of the net assets acquired creates negative goodwill, negative goodwill is charged to the profit & loss statement as a income from the acquisition of RusForest (including various subsidiaries).
3. The combined effect of the replacement of Varyag's investment in the portfolio companies with its 50% interest in the net assets of the portfolio companies added to the negative goodwill created as a result of the acquisition of Vostok Nafta's 50% interest in RusForest (including various subsidiaries) resulted in a net negative goodwill effect of SEK 94.8 million as at 30th June 2009. Pursuant to the requirements of IFRS 3 the Group was required to carry out a revaluation of the assets of the companies acquired in the Vostok Nafta transaction. In consultation with RusForest's auditor, a Russian licensed valuer (Vertex Capital) was appointed to value all of the assets of RusForest portfolio companies. Following their review there was a conclusion that the net book value of a substantial part of the portfolio companies fixed assets as recorded under local Russian Accounting Standards did not reflect fair value under IFRS. Accordingly, the fixed assets of all portfolio companies under RusForest were revalued. The revaluation served to increase the net asset values of the portfolio companies thereby creating a significant increase in the negative goodwill calculated in the Q2 report, the net effect was to increase negative goodwill from SEK 94.8 million to SEK 380 million. In addition, the consolidated balance sheet of RusForest AB expanded with the increase in fixed assets arising from the revaluation.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Looking firstly at the net identifiable assets of RusForest as shown in Q2 report, adjusted for revaluation and closing values gives the following results,

The acquisition had the following effect on the Group's assets and liabilities on acquisition date	Recognised values on acquisition of		Total (Reported for the 9 months 2009)
	Reported for the 6 months 2009	Effect of transition to IFRS	
in thousand of SEK			
Property, plant and equipment	401,077	301,722	702,799
Goodwill of Rusforest Ltd	149,846	(1,423)	148,423
Other non-current assets	4,493	1,240	5,733
Deferred tax asset	15,707	(1,974)	13,733
Inventories	52,689	2,784	55,472
Trade and other receivables	119,243	(29,176)	90,067
Cash and cash equivalents	21,130	(3,850)	17,280
Loans and borrowings	(458,734)	1,765	(456,969)
Trade and other payables	(61,309)	(11,902)	(73,211)
Minority interest	(7,831)	7,831	-
Net identifiable assets and liabilities	<u>232,469</u>	<u>265,372</u>	<u>497,841</u>
Negative goodwill on acquisition	<u>94,795</u>	<u>285,214</u>	<u>(380,009)</u>

The details of the goodwill recognised at both stages of the acquisition are summarised below:

The acquisition had the following effect on the Group's assets and liabilities on acquisition date	Recognised values on acquisition of		Total
	Varyag's 50% in portfolio companies	Vostok's 50% in portfolio companies	
in thousand of SEK			
Property, plant and equipment	351,400	351,400	702,799
Goodwill of Rusforest Ltd	74,212	74,212	148,423
Other non-current assets	2,866	2,866	5,733
Deferred tax asset	6,866	6,866	13,733
Inventories	27,736	27,736	55,472
Trade and other receivables	45,033	45,033	90,067
Cash and cash equivalents	8,640	8,640	17,280
Loans and borrowings	(228,485)	(228,485)	(456,969)
Trade and other payables	(36,605)	(36,605)	(73,211)
Net identifiable assets and liabilities	<u>248,920</u>	<u>248,920</u>	<u>497,841</u>
Share of losses in the associate from initial acquisition date to June 1st 2009	(17,183)	-	(17,183)
Consideration paid	190,981	(55,966)	135,015
Negative goodwill on acquisition	<u>(75,122)</u>	<u>(304,886)</u>	<u>(380,009)</u>

The first element of goodwill relates to elimination of Varyag's investment in RusForest (including all subsidiaries) and its replacement with 50% of the above net identifiable assets owned prior to the Vostok Transaction. The negative goodwill created at this stage reflects the elimination of SEK 191.0 million of investments (adjusted for any share in profits/losses) in portfolio companies up to 1st June

NOTES TO THE FINANCIAL STATEMENTS (continued)

2009 and 50% of the above net identifiable assets = 50% x 497,841 which results in a negative goodwill effect of SEK 75.1 million from this part of the transaction.

The second part of the transaction compares the SEK 156.2 million consideration paid to Vostok Nafta with the value of debt acquired of SEK 212.2 million giving an implied consideration of negative SEK 56.0 million applied to the equity portion of 50% of the net identifiable assets of SEK 497.8 as shown above. This comparison creates a negative goodwill charge SEK 304.9 million. The combination of the negative goodwill arising on the Varyag reclassification and the Vostok transaction creates a total negative goodwill charge of SEK 380.0 million which is shown as an income from acquisition of RusForest.

Note 6. Goodwill impairment

In the initial development of Varyag, various positive amounts of goodwill were created as a result of the acquisition of various Russian subsidiaries primarily in the period from 2006 to 2008. This goodwill was created as a result of the difference between considerations paid by Varyag and the net asset values of the portfolio companies acquired between 2006 and 2008, generally the net book values of all Russian portfolio companies were depressed and hence positive goodwill was created. The creation of positive goodwill and its impairment (or otherwise) and the creation of negative goodwill described in Note 5 are separate entries in the Group's accounts and there is no scope for offsetting, or otherwise netting off positive and negative goodwill.

The Group has however decided that given the higher assets values resulting from the fixed asset valuation described in note 5, it is prudent to remove all positive goodwill via impairment. As a result of this decision all positive goodwill created primarily in the period from 2006 to 2008 of SEK 142.6 million will be written down in 2009. The relevant amounts of positive goodwill are shown below,

<u>Company</u>	<u>SEK mln</u>
PIK-89	68.12
UIZSI	2.00
PIK-2003	3.34
Lesprom	15.30
Bamlesstroy	15.70
TSLKK	7.27
Tubales	22.68
Tublesprom	8.15
Total	142.57

Following the period end, OOO Tuba-Les applied for creditor restructuring in respect of unpaid taxes and other payables and the initial petition was granted. OOO Tuba-Les now has approximately three months to come up with a creditor restructuring plan which should be subsequently presented to an external judge.

During the year all of Tuba-Les' moveable fixed assets were sold to other Group companies and all employees were transferred from OOO Tuba-Les to ZAO Tublesprom. However, for the purpose of the current report and applying the conservative approach the Group has impaired goodwill as part of the write down of SEK 142.6 million in positive goodwill described above, in addition it has been decided to also write down the deferred tax asset of OOO Tuba-Les which will not be recovered in the foreseeable future in the amount of SEK 3.8 million (in the income tax section of the statement of comprehensive income).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Note 7. Segment information

The operating segments definitions were developed by senior management in order to enable effective and efficient operating performance based on the geographic split of the production units in East Siberia (for the forestry) and Karelia (for gravel). The management company is located in Moscow. The parent companies (RusForest AB, Varyag Capital Ltd, Varyag Finance GmbH, RusForest Bermuda and RusForest Cyprus Ltd) are not included in any of the operating segments as they do not generate any revenue; therefore their assets and expenses have been reflected in the corporate segment of the assets and expenses.

Geographical information

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

Segment revenues and results 2009

	Revenue	Net result
Forestry companies	207,526	(67,860)
Gravel companies*	5,592	(19,501)
Corporate costs		(30,556)
Result of acquisition		380,009
Goodwill impairment		(142,570)
Total	213,118	119,522

* The revenue and result of the Russian Gravel Co is shown net as the Comprehensive loss of assets held for sale on the face of the Group Statement of Comprehensive Income.

Segment assets

	31 December 2009
Forestry companies	803,364
Gravel companies	128,525
Total segment assets	931,889
Corporate assets	23,090
Consolidated total assets	954,978

Segment cash flows 2009

In thousands of SEK	Forestry	Corporate	Total
Cash flow from operating activities	(9,468)	(31,464)	(40,932)
Cash flow from investing activities	(573)	(21,929)	(22,502)
Cash flow from financing activities	16,689	-	16,689
Cash balances of acquired subsidiaries	17,727	-	17,727
Cash flow during the period	24,375	(53,393)	(29,018)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Cash flows are divided up into segments so that all forestry activities are shown in the Forestry segment and all management services being shown in the Corporate segment. The gravel operations are not shown as a separate segment on the grounds that this is an available-for-sale asset, cash flows relating to gravel primarily appear as an investment activity in the corporate segment.

The forestry segment showed a cash increase of SEK 24.4 million over the period, this is partly a function of the fact that at 31st December 2008 the cash balance refers to Varyag's cash holdings as an investment company, the acquisition (and consolidation) of the forestry companies at 1st June 2009 resulted in the consolidation of SEK 17.7 million of cash balances held by the portfolio companies into the Group's accounts, accordingly this amount is shown as cash balances of acquired subsidiaries. Over the period in question (1st June 2009 to year end) the forestry companies were cash positive. This reflects a cash inflow from financing activities representing the Unicredit loan taken on at Boguchan reduced by negative cash flows from operating activities of SEK 9.5 million. Operating cash inflow was negative over the period as the positive results from PIK and Trade House RusForest were less than the cash outflow at Boguchan combined with management costs accrued at RusForest Cyprus. The investment element of the forestry business is rather low at SEK 0.6 million over the period as a result of the fact that current year capital expenditure at Boguchan and PIK was largely offset by VAT refunds received on capital expenditures made in prior periods at Lesprom and RusForest Magistralny.

The corporate segment is made up of all management related costs together with the activities of Russian Gravel Company and its subsidiaries in Russia. The negative operating cash flow at the corporate segment reflects cash costs incurred in running the listed entity together with management costs of RusForest Management in Russia. The corporate segment's investment of SEK 21.9 million represents all funds invested in the gravel activities, which covers both working capital investments and investments in fixed assets.

Dividends

The Group will not propose any dividend distributions for 2009.

Forthcoming information

Annual Report 2009, latest 6 May 2010 (at www.rusforest.com)

Interim report Q1, 20 May 2010 (at www.rusforest.com)

Annual General Meeting, 20 May 2010

Nomination Committee

The Nomination Committee is comprised of Anders Börjesson, Vostok Nafta, (chairman); Per Josefsson, Fonden Zenit; Viking Kjellström, SEB and Sven Hirdman, Chairman of the RusForest Board. The Nomination Committee can be contacted via e-mail on info@rusforest.com.

Stockholm, February 26, 2010

RusForest AB (publ)

The Board of Directors

This interim report has not been subject to examination by the Company's Auditors.

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