



RusForest AB (formerly Varyag Resources AB)

Interim Report

January 1 – June 30, 2009

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Interim Report, January 1 – June 30, 2009

Interim Results for the six months ended June 30, 2009

The acquisition of the remaining 50% in RusForest Limited (Bermuda) took place on June 1, 2009, and RusForest AB therefore fully consolidates the RusForest subsidiaries from that date. All consolidated financials attributable to the RusForest subsidiaries are subsequently based on the period June 1 – June 30, 2009. Comparable data is not adjusted and all the investments are recorded at historical cost.

- Total turnover amounted to SEK 21,590 thousand in June 2009 (SEK 0, for the six months ended June 30, 2008)
- The operating profit for the first six months of 2009 was SEK -41,947 thousand (SEK -23,994 thousand)
- Income from the RusForest acquisition was SEK 94,795 thousand.
- Profit before taxation amounted to SEK 62,617 thousand (SEK -14,657 thousand)
- Profit for the period was SEK 63,904 thousand (SEK -14,661 thousand)
- Earnings per share was SEK 4.35 (SEK -1.10)

Significant events during the period

- On June 1st Varyag Resources AB, a listed private equity company making investments primarily in unlisted natural resource related companies in Russia and the rest of the CIS, acquired 50% of RusForest Limited from its joint venture partner Vostok Nafta Investment Ltd. The acquisition was made through an issue in kind of 8,537,640 shares in Varyag to a by Vostok Nafta wholly owned subsidiary in exchange for, inter alia, 50% of the shares in RusForest Ltd and claims of SEK 212,205 thousand on RusForest. The acquisition gave Varyag Resources AB 100% ownership of the shares and votes in RusForest Limited (Bermuda), the parent company of the RusForest Group, and was a part of Varyag Resources AB's transition from a private equity company to a forestry company.
- Receipt of an export rebate, of RUB 440 per m³, for sawnwood exports at OOO Boguchansky LPK, which coincided with a site visit by the Governor of the Region, Mr. Khloponin.

Significant events after period end

- Varyag Resources AB changed its name to RusForest AB after a decision taken by the Extraordinary Shareholders Meeting held on August 5, 2009.
- RusForest AB has taken the decision to hand back lease agreements from its subsidiaries Tuba-Les and Tubesprom corresponding to approximately 140,000 m³ worth of AAC.
- PIK-89 signed an overdraft agreement for RUB 12,400 thousand for a period of 6 months.

CEO's Comments

On June 1, 2009, RusForest AB underwent a significant change by becoming a so called "pure-play" forestry company. As a result the company intends to exit the gravel business at an appropriate juncture in the future. The move to a forestry company reflects the changes that have de facto taken place over the past three years. Specifically, we have reduced the involvement of local partners and have moved towards 100% ownership in all assets; at the same time the management team has become increasingly involved in the operation of all operating divisions. At this stage, every manager in every portfolio company has been appointed by RusForest AB.

In terms of the underlying business there is no escaping the fact that the company has been caught in a once-in-lifetime economic downturn and we have added new capacity just as external conditions turned sharply negative. At these price levels (for both sawnwood and gravel) it is not possible to be consistently cash flow positive. Having said that, the fact that the company has seen cash inflow in one or two months during H1-09 is encouraging even though the figures for the half year are negative. The company remains optimistic about the forestry business as it is in the enviable position of under-delivering on orders by around 40%. RusForest's customers recognise the quality of Siberian pine and larch and are still placing high volume orders with the group despite the downturn, although at lower price levels.

The company's medium term priority is to increase operational efficiency, particularly in the forestry division. The limited forest infrastructure means that it is difficult and occasionally impossible to get in and out of the forest during summer. This leads to an uneven log flow, which in turn leads to stop-start operations at the sawmills and generally lower quality. We intend to escape this trap in winter 2009/10 by creating proper "snow stocks" of logs. These snow stocks can then be drawn down in early summer and will allow the company to run operations smoothly and meet customer demand. This move is necessary to ensure we make consistent profit; otherwise the company will constantly eradicate profits over poor summer months. In addition, the company is not expecting to generate strong profits in 2009 as two of the company's largest assets only came on stream during H1-2009.

Proper cost controls are essential in a period of weak prices and a lot of time and effort has been spent in introducing proper cash controls and basic information reporting system. Management now has proper control over daily cash movements throughout the group. As part of this process the company has had to curtail operations at Tuba and at Russian Gravel Co. in order to limit possible downside losses.

The company has adequate cash and available credit lines, however given external conditions it has been decided not to commence work on the Magistralny sawmill until such times as markets stabilise and credit become available at reasonable prices. Similarly work on the Boguchan pellet mill was stopped in the middle of 2008.

Long term, the case for sawnwood in East Siberia is compelling. RusForest AB has developed considerably – during less than three years the company has moved from a concept into a fully fledged forestry company with material assets and proper management. The management is confident that consistent profitability will be achieved when markets stabilise and the log flow is properly organised.

Alex Williams

Chief Executive Officer
RusForest AB

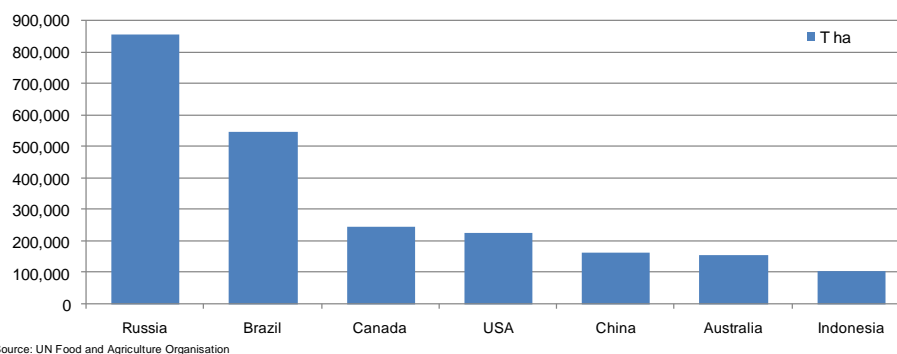
Overview

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 1,000,000 hectares of forest land with an annual allowable cut (AAC) of 1,665,200 m³. The Group's current sawmilling capacity of around 200,000 m³ is expected to increase to over 300,000 m³ within the near future as a result of the construction of the Boguchansky sawmill, which is approaching full capacity, and 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.

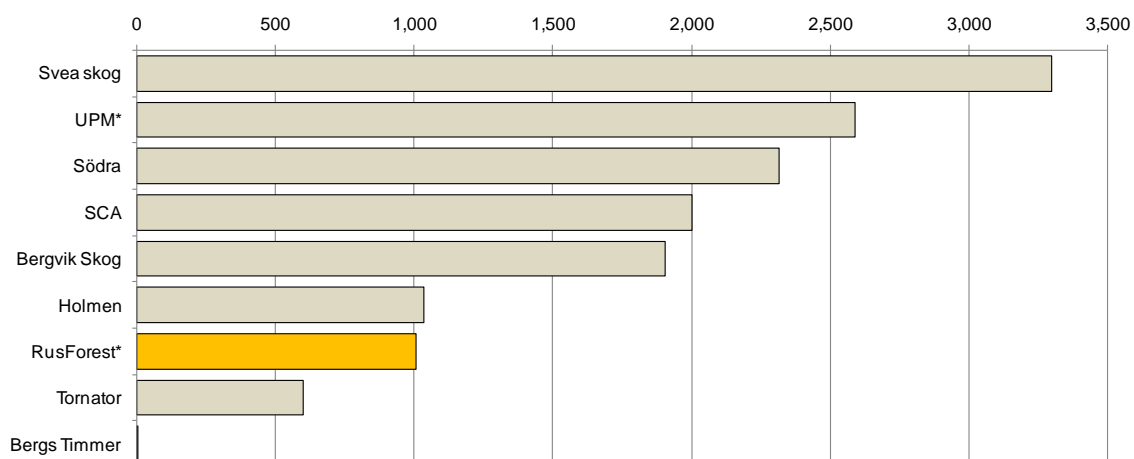
Forest Area by Country, thousand Hectares



RusForest's operations are also 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.

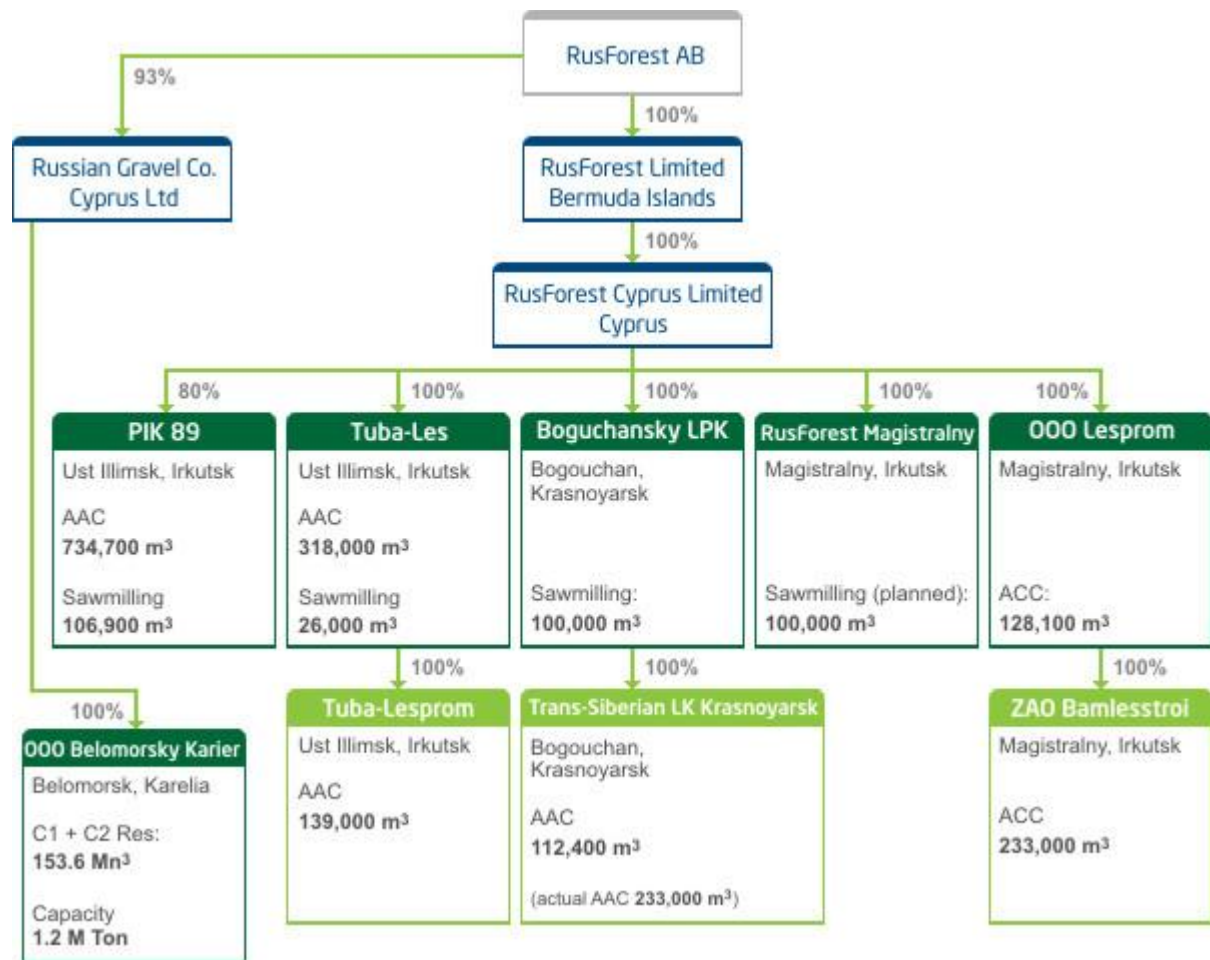
RusForest is the sixth largest forestry company in Russia in terms of harvest volumes according to data collated by Lesprom.ru, and is comparable in size to Swedish forestry company Holmen in terms of forest land controlled. RusForest's strategic objective is to fully utilize its forest resources whilst 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 as of June 30, 2009

Legal Structure



Key Financial Data

Item	2009	2008
In thousands of SEK	1/1 - 30/6	1/1 - 30/6
Turnover	21,590	-
Cost of Sales	(21,323)	-
EBITDA	(38,799)	(23,981)
Income from RusForest aquisition	94,795	-
Net Profit	63,904	(14,661)
Cash Flow During Period	(29,193)	(88,219)
Per Share Data, SEK	30-Jun	30-Jun
Earnings	4.35	(1.10)
Shareholders Equity*	37.93	46.22
Share Price	17.00	41.30
Equity/Assets Ratio	87.0%	99.7%

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

The acquisition of the remaining 50% in RusForest Limited took place on June 1, 2009, and RusForest AB therefore fully consolidates the RusForest subsidiaries from that date. All consolidated financials attributable to the RusForest subsidiaries are subsequently based on the period June 1 – June 30, 2009.

The acquisition was performed by exchange of newly issued RusForest AB shares for the 50% shareholding in RusForest Limited – 1 share in RusForest (Cyprus) Limited, 10% in Tuba-Les LLC, 10% in Tublesprom PLC and 50% in TSLKK LLC. Additionally, the loans issued to RusForest (Cyprus) Limited and its subsidiaries in the amount of SEK 212,205 thousand were assigned to RusForest AB. The consideration paid totalled SEK 156,239 thousand (calculated as 8,537,640 shares at the share closing price at First North on June 1, 2009, of SEK 18.3 per share).

The major subsidiary of RusForest AB is RusForest Limited which has the reporting date September 30, a different date from the parent Company's year end. Therefore, 6 months figures for RusForest Limited were reported for the period September 30, 2008 to March 31, 2009. Adjustments to these financial statements were made for the effects of significant transactions and events that occurred between March 31, 2009, and June 30, 2009.

RusForest AB's turnover for the first half of 2009 amounted to SEK 21,590 thousand (SEK 0, for the six months ended June 30, 2008).

The net profit for the period was SEK 63,904 thousand (SEK -14,661 thousand), in large part due to the income from the RusForest acquisition which amounted to SEK 94,795 thousand. The income from the RusForest acquisition was calculated through the difference of the fair value of the consideration paid and the fair value of the net identifiable assets and liabilities received by the company on the acquisition date. Net identifiable assets and liabilities were calculated from March 31, 2009, with accruals up until the transaction date.

RusForest's EBITDA for the first half of 2009 amounted to SEK -38,799 thousand (SEK -23,981 thousand), and was calculated as Operating profit/loss adjusted for depreciation for the first 6 months 2009.

Earnings per share increased during the period to SEK 4.35 (SEK -1.10).

Shareholders' Equity per share on June 30, 2009, amounted to SEK 37.93 (SEK 46.22 at December 31, 2008).

Sawnwood Market and Prices

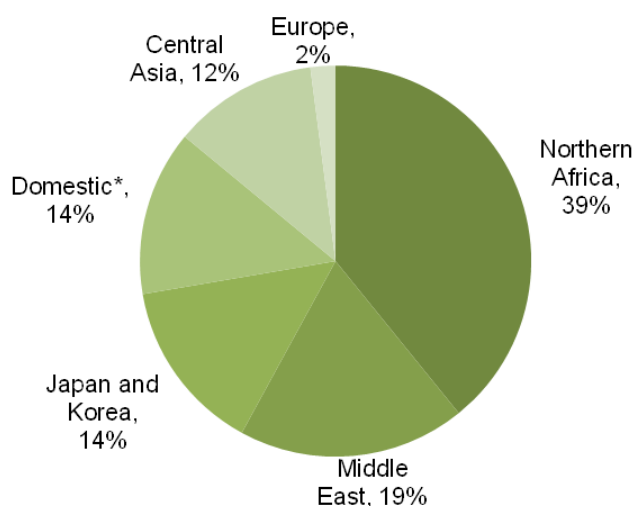
The macro-economic environment is still difficult given the global financial downturn and with construction at very low levels. European economies have continued to shrink during 2009, and the Euro Area economies are expected to contract by 3.8% during 2009 according to the IMF's latest estimates, with large decreases in timber consumption through the effects on the construction industry. North American timber demand is at around half of the historical high and US housing starts are down 46% in June 2009 compared to the same month last year, even though we have started to see signs of financial recovery.

Swedish softwood exports decreased by around 25% (while production decreased 15%) during the first quarter of 2009 in comparison with the same period 2008, mainly due to sharp decreases in the export volume to other European markets (down 36%). To make up for this drop in demand Scandinavian producers needed to redirect their sales, and exports to Northern Africa and the Middle East increased significantly.

RusForest has been a long time supplier to the markets mentioned above, and the company has therefore seen prices drop considerably in Japan, the Middle East and Egypt during the end of 2008 and beginning of 2009 due to large deliveries of relatively cheap, mainly Scandinavian and Canadian, sawnwood. RusForest's sales focus therefore shifted towards Central Asia and Azerbaijan during Q1 09, where demand and pricing had been relatively resilient. However, during the end of the second quarter and after the period end the price levels in the Middle East and Northern Africa seem to be increasing once more. This is in part due to decreases in volumes supplied by Scandinavian producers on the back of the cumulative effects of the production curtailments made in the region.

The establishment, and development, of RusForest Trading has given us more flexibility to redirect sales quickly to markets with greater demand and better pricing, and the company is as a result once more sending sizeable volumes to Lebanon, Syria, Turkey and Egypt.

RusForest's Sales Geography, 1H 2009

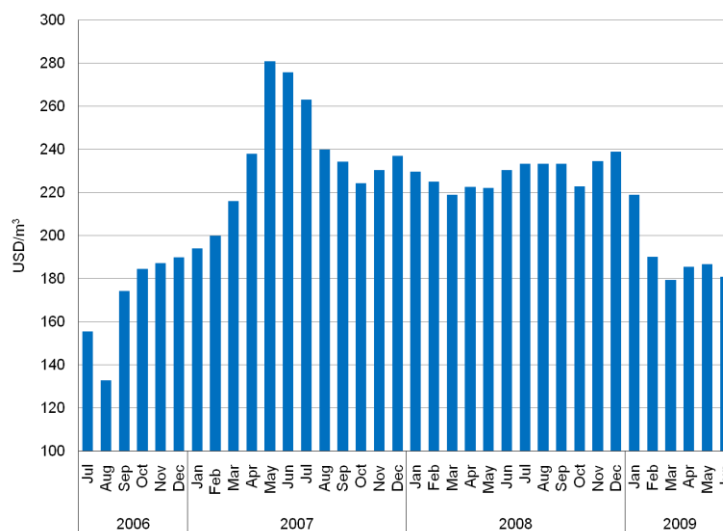


Source: RusForest Trading, *Includes volumes delivered domestically but for further processing to Japanese specifications

RusForest is working hard to find adequate pricing for its products, and this can be seen in the average pricing that the company receives. Following the sharp downturn in Dec-Feb, our weighted average pricing has stabilised during the second quarter of 2009, although still at relatively low levels.

Sawnwood Market and Prices (continued)

Weighted Average Sawnwood Prices in Ust Ilimsk, 2006 – 2009



Source: PIK-89, ExWorks Sawnwood prices in Ust Ilimsk including railway tariff to port

These low weighted average prices are of course in part due to the challenging financial environment, and the contractions in the construction sector. However, in addition to the weak market conditions, the low weighted average pricing also relates to continuing quality issues within our operating companies. The log flow has been low which has forced RusForest's sawmills to continuously produce sawnwood from logs of lesser quality than expected. Subsequently the average quality of the sawnwood output has dropped, leading to lower sales prices. RusForest's order book is still relatively strong in volume terms, and the company expects to see more favourable weighted average pricing as soon as it can ensure reliable log flows after the summer. RusForest does however still continue to position itself for low prices and has taken steps to rationalise sawmilling activities by focusing on its larger facilities and cutting costs.

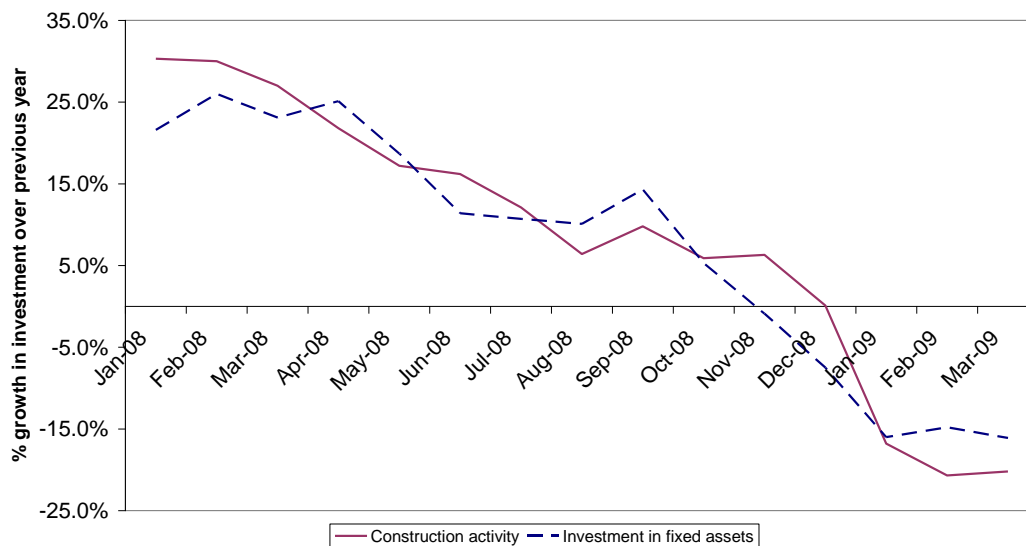
In December 2008, the Russian Government elected to postpone the planned introduction of log export duties for nine to twelve months, which were scheduled from January 1, 2009. This decision was probably a result of a combination of EU lobbying pressure coupled with the fact that only limited investment had been made in domestic sawmilling capacity prior to the year-end deadline. These statements were repeated by president Medvedev during March 2009, and he also worded government support for the creation of pulp and paper mills close to the country's borders to increase exports of value added products. In a recent meeting between Elvira Nabiullina, The Russian Minister for Economic Development, and Paavo Väyrynen, Finland's Minister of Foreign Trade and Development, Nabiullina stated that the Russian Government is currently discussing to postpone the tariff hike another year.

Aggregates market

The aggregates market has suffered a severe downturn since 2008. In any economic downturn construction typically suffers most as it is the most "leveraged" sector in the economy. Whilst Russian GDP dropped by 9.8% in the first quarter of 2009, construction work dropped by 19.3%, in comparison to the same period in 2008. The aggregates markets have been severely affected by the downturn and aggregate output was down by 45.8% in June 2009 compared to a year earlier. The scale of the downturn has left excess stocks in the system and the majority of quarries have closed down or are operating significantly reduced working weeks. In addition to a slowdown in the general construction sector, which drags down concrete demand, Federal and Regional road building has also been constrained in 2009. The Government has effectively abandoned the Transport Strategy and is not even fully disbursing the Federal Budget allocation of RUB 238 billion for roads in 2009.

Aggregates market (continued)

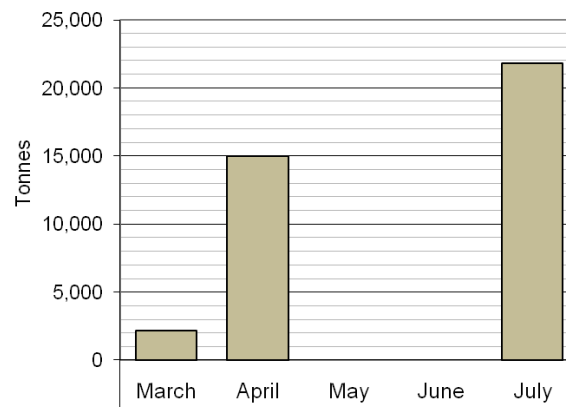
Year on year growth in investment and construction activity to March 2009



Source: Rosstat - social economic conditions in Russia

Against this backdrop Russian Gravel Co. has obviously found it hard to forward sell its production, particularly as the company is a new entrant to this market. Having said that, by the summer season, the company had a good order book for around 60,000 tonnes of aggregate per month, which is a significant achievement in such a weak market. The volumes that the company will supply in 2009 are significantly below planned levels and the plant is now operating at between 30% and 50% utilisation levels. At these levels it is almost impossible to generate cash given a very high share of fixed costs.

5 – 20 mm Production volumes, 2009



The company now is moving beyond the start-up phase and has been shipping gravel to end-customers since April 2009, albeit at low volumes. Sales to date have all been to road building companies in North West Russia and as far south as Tver. In general, customer feedback has been very positive and customers appreciate the technical quality of the stone (gabbro-diabaz) and the high levels of consistency that Russian Gravel Co. is able to achieve using new Metso equipment. One unexpected problem has been the lack of availability to railway wagons. Despite the enormous drop in cargo volumes many wagons are caught up in the ongoing re-organisation of OAO Russian Railways (RZhD). This issue is currently being resolved and the flow of railway wagons appears to have stabilised. In addition to supplying road building companies, Russian Gravel Co. is in the final stage of receiving a railway certificate for 25-60 mm gravel. Once the company receive such a certificate it will be the only certified supplier in North West Russia; other companies have not been certified due to poor quality rocks, or a lack of production consistency.

Aggregates market (continued)

2009 will clearly be a difficult year for Russian Gravel Co. However in 2010 external conditions are expected to improve and the company hopes to be a key supplier to several infrastructure projects in the region, in particular;

Project	Status
St.Petersburg ring road (expected commission date 2012)	Initial contacts
High speed motorway Moscow-St.Petersburg	Initial contacts
Plesetsk cosmodrome (replace Baikanour)	Already supplying
Murmansk port – part of Transport Strategy – funding not disbursed	Work not yet started

In addition to a severe downturn due to the economic crisis, Russian Gravel Co. will additionally face a seasonal slowdown over winter 2009/2010. Therefore, it has been decided to reduce operations to skeleton staff from November 2009 to April 2010. Although it's technically possible to sell during this period, it is more prudent to stop production and minimise costs over this period. During the winter months, road building falls and Russian Gravel Co. would be reliant on sales to concrete plants for onward use in general construction. Since general construction is the weakest segment of the building industry, management has felt it better to reduce operations. Maintenance costs at the plant will be around SEK 1,300 thousand per month during the winter months, most of which relates to equipment lease payments.

Operations

RusForest Combined Data

1H09 Actuals*

	Unit	PIK Group	Tuba Group	Lesprom	Boguchansky	Bamlesstroj	Consolidated 1H09	1H08
RusForest ownership interest	(start of year)	80%	100%	100%	100%	100%		
Annual Allowable Cut (AAC)	m3	734,700	457,000	128,100	112,400	233,000	1,665,200	1,203,000
Utilised AAC	m3	209,413	49,039	3,772	28,271	-	290,495	226,284
Utilisation of AAC	%	38.0%	14.3%	3.9%	33.5%	-	34.9%	37.6%
Sawnwood volumes	m3	51,087	9,936	768	20,160	-	81,951	61,564
Forest area	Hectares	436,033	257,750	30,988	48,695	231,554	1,005,020	633,898
Revenue (e)	MRUR	320.1	66.1	92.2	81.3	-	559.7	543.4
Net earnings	MRUR	(14.50)	(34.67)	(9.5)	(41.7)	(4.0)	(104.3)	(81.9)

*The financial figures shown above are given for reference purposes only to make possible comparisons between the Group companies' performance in 1H09 versus 1H08. The figures are based on financial statements prepared under Russian Accounting Standards (RAS) for the individual Group companies and do not constitute part of the RusForest AB financial statements for the six months ending June 30, 2009. PIK Group includes PIK-89, PIK 2005 and TD RusForest; TUBA Group includes Tuba-Les and Tublesprom; Boguchansky includes Boguchansky LPK and TSLKK. Physical harvesting and sawmilling volumes, and forest resources, for 1H08 are adjusted for volumes attributable to Nebelsky LPH.

RusForest developed rapidly in 2008, and during the first half of 2009 focus has shifted more towards operational efficiency and management control. As mentioned in Varyag Resources AB's Q1 report, the management of PIK-89 was removed in March and following this the management team from RusForest has taken a larger role in the day to day running of the company. The same is now the case at Boguchansky LPK where log supplies have had negative effects on sawmilling output. A unified information delivery system, which was implemented at PIK, is now also working at Boguchansky LPK. The reporting system gives key operational data day-by-day to local and senior management enabling quicker detection of, and response times to, potential operational problems.

Forestry Operations

At the Group level harvesting volumes have increased by 28% in 1H09, to 290,456 m³, compared to the same period in 2008 (226,284 m³). Our largest harvesting operations PIK-89 and Tuba increased their year-on-year volumes by 37.3% and 6.7% respectively. The increase in the utilised AAC is in part also due to the fact that the company has adjusted for volumes from the forestry operations of Nebelsky LPH which contributed just less than 90,000 m³ to the consolidated forestry output in the first half of 2008. However, the increase in harvesting volumes could also have been larger since Lesprom, after record harvests in the fourth quarter of 2008, has focused on selling these log volumes and only produced 3,772 m³ through new harvesting during the whole first half of 2009.

The output from our TSLKK subsidiary has also been below plan, and has not contributed with as large log volumes as expected to Boguchansky LPK. In February the company underperformed due to extremely cold weather, with temperatures at times around -50 °C.

Sawmilling

RusForest's consolidated sawnwood volumes in 1H09 increased by 33%, to 81,951 m³ in comparison with the same period last year (61,564 m³). The increase is mainly attributable to Boguchansky LPK starting production as PIK and Tuba only showed relatively small increases in sawnwood output during the period.

Although the company has seen increases in the consolidated sawnwood output, sawmilling was below planned levels. At the beginning of the period PIK found itself in a situation with low log stock levels going into the summer period. Production volumes in April were as a result slightly lower than expected at around 8,800 m³ and 7,655 m³ in May before recovering to a solid level of 9,746 m³ in June 2009.

In response to a shortage of sawlogs at PIK-89, the management elected to stop sawmilling operations at our smallest sawmill in Tuba and send unprocessed logs to PIK-89 in order to increase the capacity utilisation there. As part of this process costs were cut dramatically at both Tuba-Les and TubLesprom. In particular around 140,000 m³ of forest lease was handed back to the regional Government as it was felt to be excessive in the current environment.

Operations (continued)

In the period March through to May 2009, Boguchansky LPK was producing steady volumes of around 5,000 m³ of sawnwood per month. This was followed by a significant reduction in June as the company cleared inventories and the summer log shortage approached. The company subsequently only produced 20,160 m³ during the period versus planned volumes of around 40,000 m³.

Revenues and Earnings

RusForest's consolidated revenues amounted to RUB 559.7 million for the six months of 2009. This is a year-on-year increase by RUB 16.31 million or 3%. Adjusted for Nebelsky the revenues increased by 26.6% for the same period. The small increase in revenue at PIK (4.3%) and the decrease at Tuba (-23.3%) are in large course due to quality issues and lower market prices for sawnwood since both companies made small increases in sawnwood production in comparison with the same period in 2008. RusForest has seen sales prices drop by an average of 15.4 % during the period in comparison with the first six months of 2008.

Monthly weighted average sawnwood prices 2009 versus 2008, USD/m³

Month	2008	2009	% Change
Jan	229.6	219.0	-4.6%
Feb	225.0	190.1	-15.5%
Mar	219.0	179.3	-18.1%
Apr	222.6	185.5	-16.7%
May	222.1	186.7	-15.9%
Jun	230.3	181.0	-21.4%

Source: RusForest Trading

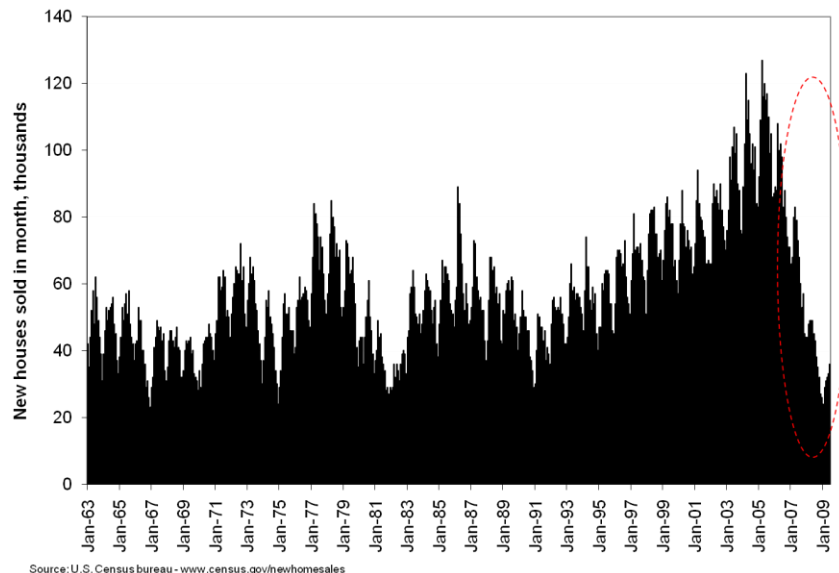
The net earnings (loss) have also developed negatively due to higher costs of operations. The company's total costs increased by 17.7% in the period due to a combination of:

- Larger volumes of sawlogs acquired on the open market;
- Significantly higher prices for sawlogs during the period;
- Higher fuel costs

Outlook

Recently we have seen some positive macroeconomic signals appearing on the horizon. US new housing sales were, in June 2009, at the highest level recorded since August 2008 at approximately 36,000 units. We are also hearing several reports from Europe about growing perceptions that sawnwood prices have reached some form of bottom and are set to start increasing cautiously in part due to the cumulative effect of continuous production curtailments in sawmilling.

US new residential sales – not seasonally adjusted



In Russia, the contraction of the economy in the second quarter of 2009 was the largest on record at 10.9%, on an annual basis, according to preliminary figures from RosStat. However, some say that the worst should now be behind us and that the Russian economy bottomed out during May-June 2009, with slightly better figures to be expected in upcoming quarters.

In terms of the underlying business there is no escaping the fact that the company has been caught in a once-in-lifetime economic downturn and we have added new capacity just as external conditions turned sharply negative. At these price levels (for both sawnwood and gravel) it is not possible to be consistently cash flow positive. Having said that, the fact that the company has seen cash inflow in one or two months during H1-09 is encouraging even though the figures for the half year are negative. The company remains optimistic about the forestry business as it is in the enviable position of under-delivering on orders by around 40%, RusForest's customers recognise the quality of Siberian pine and larch and are still placing high volume orders with the group despite the downturn, although at lower price levels.

On the gravel side, the outlook is less clear. The current state of the market is certainly extraordinary and the slowness of the disbursement of Federal and Regional funds for road building has been a negative surprise for Russian Gravel Co.

Financial Statements for the Six Months Ended June 30, 2009

Accounting principles

The consolidated financial statements for the period ended June, 30 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 2009, the Group has started forest harvesting and sawmilling operations for the production of sawnwood, as its principal activities and continued with holding of investments and financing of group companies.

The consolidated financial statements have been prepared under the policies which are presented in Varyag Resources AB (publ) Annual Report 2008.

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, TSLKK 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 current interim report these investments in associates were accounted for using the equity method up to June 1, 2009 and fully consolidated thereon.

Investments in Russian Gravel Company are presented as available-for-sale investments and are measured at cost.

The consolidated financial statements include the financial statements of the parent Company and its subsidiary undertakings after elimination of inter-company accounts and transactions. The financial statements of subsidiaries (RusForest Limited, Varyag Finance GmbH and Varyag Capital Ltd) are consolidated as of March 31, 2009, which is a different date from the parent Company period end due to time needed to consolidate these subsidiaries. Adjustments to the financial statements of these subsidiaries were made for the effects of significant transactions and events that occurred between 31 March 2009 and the date of the financial statements of parent Company. No events other than those adjusted or disclosed in this report have occurred which relate to these subsidiaries as at June 30, 2009 (parent period end) that materially affect the consolidated financial position, consolidated statement of comprehensive income or 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 June 30, 2009.

Group Statement of Comprehensive Income

In thousand of SEK	Note	6 months 2009	6 months 2008
Turnover		21,590	-
Cost of sales	1	(21,323)	-
Gross Profit		267	-
Other income		1,597	498
Distribution expenses		(4,590)	-
Administrative expenditure	2	(20,935)	(12,886)
Other expenses	3	(18,286)	(11,606)
Operating profit before financing costs		(41,947)	(23,994)
Financing Income		10,249	9,337
Financing cost		(480)	-
Net financing income/(cost)		(32,178)	(14,657)
Income from acquisition of Rusforest	4	94,795	-
Profit before taxation		62,617	(14,657)
Income tax expense		1,288	(4)
Profit for the period		63,904	(14,661)

Per Share Data

Per Share Data	2009	2008
SEK	30/06	30/06
Earnings	4,35	(1.10)
Shareholders Equity*	37,93	46,22
Share Price	17,00	41,30

Number of Shares	2009	2008
	1/1 - 30/6	1/1 - 30/6
Beginning of period	13 303 200	13 303 200
End of Period	21 840 840	13 303 200
Average number of shares	14 678 709	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

Group Balance Sheet

In thousands of SEK	30.06.2009	31.12.2008
Assets		
Non current assets		
Property Plant and equipment	401,138	71
Goodwill	149,846	-
Investments in portfolio companies	27,778	217,836
Other long-term receivable	11,208	9,180
Deferred tax asset	15,707	-
Total non current assets	605,677	227,087
Current assets		
Inventory	52,689	-
Trade and other receivable	122,176	333,836
Loans to subsidiaries	128,857	-
Cash and cash equivalents	42,388	55,704
Total current assets	346,109	389,540
Total assets	951,787	616,627
EQUITY		
Equity and reserves		
Share capital	218,408	133,032
Share premium	556,687	485,825
Translation reserve	68,764	83,070
Retained earnings	(87,076)	(24,298)
Income for the year	63,904	(62,778)
Total equity attributable to Shareholders of the Group	820,688	614,851
Minority interest	7,831	-
Total Equity	828,519	614,851
Liabilities		
Non current liabilities		
Interest-bearing loans and borrowings	20,737	-
Loans payable to related companies	8,918	-
Deferred tax liability	3,842	-
Total non current liabilities	33,498	-
Current liabilities		
Interest bearing loans and borrowings	12,198	-
Trade and other payables	77,573	1,776
Total current liabilities	89,770	1,776
Total liabilities	123,268	1,776
Total equity and liabilities	951,787	616,627

Group Cash Flow Statement

In thousands of SEK	6 months 2009	6 months 2008
Cash flow from operating activities	(13,561)	(893)
Cash flow from investing activities	(34,575)	(87,015)
Cash flow from financing activities	18,942	(311)
Cash flow during the period	(29,193)	(88,219)
Cash and cash equivalents, beginning of period	72,964	318,095
Exchange-rate differences on cash and cash equivalents	(1,383)	(11,586)
Cash and cash equivalents, period end	42,388	218,290

Group Statement of Changes in Equity

01/01/2009 - 30/06/2009

In thousands of SEK	Share capital	Share premium	Translation reserve	Retained earnings	Total
Opening shareholders' equity	133,032	485,825	83,070	(87,076)	614,851
New share issue	85,376	70,862	-	-	156,239
Translation difference	-	-	(14,306)	-	(14,306)
Net profit/loss for the period	-	-	-	63,904	63,904
Shareholders' equity at end of period	218,408	556,687	68,764	(23,172)	820,688

Notes to the 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	June 2009, TSEK
Sawing costs	8,521
Purchased sawlogs	5,222
Payroll	2,163
Other	5,417
	<u>21,323</u>

Note 2. Administrative expenditure

A significant portion of administrative costs is attributable to RusForest AB (including Varyag Finance GmbH and Varyag Capital Ltd). These costs mostly represent RusForest/Vostok Komi share transfer transaction costs, as well as increased salary expenditure for the contract termination with the Company officers and management fee paid to Taiga Capital Ltd during January-May 2009.

In thousands of SEK		
Company	6 months 2009	6 months 2008
RusForest AB (including Varyag Finance GmbH and Varyag Capital Ltd)	16,304	12,886
RusForest Group (June 2009)	4,631	-
	<u>20,935</u>	<u>12,886</u>

Administrative expenditures (RusForest AB, including Varyag Finance GmbH and Varyag Capital Ltd)

In thousands of SEK		
	6 months 2009	6 months 2008
Management fee	8,561	8,063
Personnel costs	4,388	2,003
Other external costs	3,302	2,621
Travel expenses	43	187
Depreciation	11	13
	<u>16,304</u>	<u>12,886</u>

Note 3. Other expenses

Other expenses represent foreign currency translation losses. The Group has performed the investments into its subsidiaries in RUB. During 6 months 2009 RUB depreciated against SEK by 5.3% (from 3.798 RUB/SEK to 4.003 RUB/SEK) compared to 2.3% in the 1H 2008.

In thousands of SEK		
Company	6 months 2009	6 months 2008
RusForest AB (including Varyag Finance GmbH and Varyag Capital Ltd)	16,442	11,606
RusForest Group (June 2009)	1,844	-
	<u>18,286</u>	<u>11,606</u>

Other expenses (RusForest AB, including Varyag Finance GmbH and Varyag Capital Ltd)

	6 months 2009	6 months 2008
Exchange-rate changes	16,442	11,606

Notes to the Financial Statements (continued)

Note 4. Income from acquisition of RusForest

On June 1, 2009, the Group acquired 50% shareholding in RusForest Limited – 1 share in RusForest (Cyprus) Limited, 10% in Tuba-Les LLC, 10% in Tublesprom PLC and 50% in TSLKK LLC. Additionally, the loans issued to RusForest (Cyprus) Limited in amount of SEK 212,205 thousand were assigned to RusForest AB.

The acquisition had the following effect on the Group's assets and liabilities on acquisition date	Recognised values on acquisition
in thousand of SEK	
Property, plant and equipment	401,077
Goodwill of Rusforest Ltd	149,846
Other non-current assets	4,493
Deferred tax asset	15,707
Inventories	52,689
Trade and other receivables	119,243
Cash and cash equivalents	21,130
Loans and borrowings	(458,734)
Deferred tax liabilities	(3,842)
Trade and other payables	(61,309)
Minority interest	(7,831)
	<hr/>
Net identifiable assets and liabilities	232,469
	<hr/>
Negative goodwill on acquisition	94,795
	<hr/>

Parent company, January – June 2009

Loss before taxes amounted to SEK 6,766 thousand.

An operating loss of SEK 6,652 thousand was reported for the first half of the year 2009. Operating expenses related primarily to personnel costs of SEK 4,388 thousand.

Exchange-rates losses amounted to SEK 412 thousand.

The Parent Company's cash and cash equivalents amounted to SEK 26,162 thousand at the end of the period.

The Share

Share Data

The RusForest share is listed on First North in Stockholm, a part of NASDAQ OMX. Trading is conducted under the ticker designation RUSF. As of June 30, 2009, the amount of outstanding shares was 21,840,840. At the close of the period, the share price was SEK 17.00, and the Company's market capitalisation was approximately SEK 371 million.

ISIN: SE0001732728

Short name on First North: RUSF

Number of shares: 21,840,840

Major Shareholders, as at June 30, 2009

Shareholder	Number	Percentage
Vostok Nafta Investment	10,195,802	46.7
Staffan Rasjö	1,329,100	6.1
Fonden Zenit	913,000	4.2
SEB Östeuropafond	532,400	2.4
E. Öhman J:or Fondkommission AB	492,350	2.3
Dunross & Co AB	463,950	2.1
EFG Private Bank S.A.	440,000	2.0
Avanza Pension	429,501	2.0
SEB Private Bank S.A.	429,100	2.0
Per J Holding AB	320,000	1.5
Others	6,295,637	28.8
Total	21,840,840	100.0

Trading data for the period



Source: Nasdaq OMX First North

Qualitative and Quantitative Disclosures and Market Risks

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

Foreign currency risk

Our principal exchange rate risk involves changes in the value of the SEK relative to RUB, USD and EUR. As of June 30, 2009, SEK 15,909 thousand of our debt was denominated in EUR and SEK 13,746 thousand was denominated in USD. Changes in the value of SEK relative to EUR and USD will impact our foreign currency-denominated costs and expenses and our debt service obligations for foreign currency-denominated borrowings in SEK terms. We believe that the risks associated with our foreign currency exposure are partially mitigated by the fact that our 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 June 30, 2009, RUB had depreciated by approximately 5.3% against SEK since January 1, 2009, which lead to the exchange loss. The Group does not use any financial instruments to hedge the foreign currency risk.

Market risk

Substantially all of our sawnwood is sold under long-term framework contracts with a review of prices once every 2 months. Our 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 sawlogs shortages always exists further 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 are twice as expensive in comparison with sawlogs from the Group's own harvesting operations, and therefore adversely affects the Group's cost of sales.

Railroad access

We transport substantially all of our 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 us with the railway cars on timely basis and fulfilling our 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. The Company 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.

Capital management

The Company 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 Company's overall strategy remains unchanged from last year.

Qualitative and Quantitative Disclosures and Market Risks (continued)

Off balance sheet activities

As of June 30, 2009, we 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 interim financial information for the period ended June 30, 2009, reflects management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

Forthcoming information

Interim report Q3	9 November 2009 (changed from 19/11)
Year End Report 2009,	11 February 2010
Interim report Q1	20 May 2010
Annual General Meeting	20 May 2010

Stockholm, 27 August 2009

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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