



RusForest AB

Year End Report

1 January – 31 December 2011

RusForest AB

Year End Report, 1 January – 31 December 2011

Results for the twelve months ended 31 December 2011

- Total turnover for the twelve month period ended 31 December 2011, amounted to SEK 431.8 million (2010: SEK 300.8 million);
- The operating loss before financing costs for the period amounted to SEK 284.5 million (2010: SEK -165.9 million);
- Net loss for the period was SEK 288.7 million (2010: SEK -130.2 million);
- Earnings per share was SEK -3.32 (2010: SEK -4.35);
- Cash and cash equivalents decreased during the reporting period by SEK 43.6 million, from SEK 67.2 million on 1 January 2011 to SEK 23.6 million on 31 December 2011.

Significant events during the fourth quarter 2011

- Mr Strange was appointed Chief Operating Officer of RusForest as of 15 November 2011. Mr Strange has been working in Russia for more than 15 years, speaks fluent Russian and has worked in agriculture, and mainly forest industry, his entire career in Russia. His previous position was as CEO of Russia Baltic Pork Invest, based in Kaliningrad;
- Harvesting operations showed a significant breakthrough after three new John Deere harvesting units were put into operation in Severny Les in Arkhangelsk. Four more units arrived a week before year end (two for each of Boguchany and Magistralny) and were put into use in January 2012;
- RusForest acquired all shares in Clean Tech East's wholly owned subsidiaries Eastern Bio Holdings AB (EBH) and B.E.N. Bio Energy Nord Ltd (BEN) – whose business is to manufacture and sell wood pellets;
- RusForest registered a new subsidiary based in the Irkutsk region called Siberian Cellulose, intended as a platform for cooperation with global pulp producers looking for establishment in Russia;
- The SEK 500 million bond raised by the Company in May 2011 was listed for trading on NASDAQ OMX Stockholm's Corporate Bonds list, with the ticker RUSF001.

Significant events after the end of the period

- RusForest appoints Kirill Pronin as interim CFO as of 2 March 2012, as current CFO, Vitaly Zhukov, will step down from his position. Mr Pronin has been employed as Project Director in Taiga Asset Management and later in RusForest Management in Moscow since 2008. Prior to joining RusForest he worked in Transaction Advisory at PricewaterhouseCoopers' Moscow office;
- RusForest intends to carry out a rights issue of approximately SEK 450 million. Notice has been given to convene an Extraordinary General Meeting on 1 March 2012 to resolve on the necessary amendments to the Articles of Association and on an authorisation for the Board of Directors to resolve on a rights issue;

- On 15 February RusForest was granted a bridge loan in the amount of USD 10 million from Vostok Komi (Cyprus) Limited, a wholly owned subsidiary of Vostok Nafta Investment Ltd. The proceeds will be used for working capital purposes in order to maintain sustainable production volumes at all locations and keep up the speed in on-going investments in sawmilling and transportation;
- On 16 February the East-Siberian Branch of Sberbank approved an investment loan in the amount of USD 10.5 million (SEK 70 million) for a period of seven years. The loan will be granted in two tranches: USD 5 million (SEK 32 million) was paid out in February 2012 and USD 5.5 million (SEK 38 million) is expected to be paid out in April 2012.

CEO's Comments

Looking at the last 18 months, RusForest has taken important steps to secure its future development and a new industrial group in the Russian forest industry has been formed. The Company operates in three of the best forest regions of Russia and has managed to follow a path of well-planned forest lease consolidation, on-going completion of sawmills and has recruited professional managers for key positions over the last year.

The significant investments up to date have not been enough to reach breakeven, or turn into positive EBITDA. That is a disappointing fact. The main reason for the reported weaker result in the fourth quarter of 2011, especially compared to the third quarter, was a 10 per cent reduction in average prices between the quarters. The sawnwood volumes were at the same levels as Q3 as the Magistralny sawmill was still suffering from start-up problems and the Boguchany sawmill was still affected by the on-going construction work. This affected the capacity utilization at the sawmills. The total harvesting volume has increased during the fourth quarter, mainly building up stocks for sawmill production. During the quarter several harvesting groups were added, which generated high start-up costs but initially low utilization. Once all equipment is in place normal production costs will be reached. The effect from the newly added harvesting capacity and the gradual increase in production in our sawmills in Magistralny, Boguchany and Shenkursk will be visible during the first half of 2012 and support the journey towards normalized production costs. Operations, which are judged not being able to turn profitable, began to be phased out in parts of the operations during the fourth quarter of 2011 and the first quarter of 2012, and when renting out inefficient operations is not possible, they will be closed. This is true for parts of the Ust Ilimsk operations, which have been generating losses on the sawmill side, as well as for a smaller planing company in Arkhangelsk.

Following the forest lease acquisitions during 2011, combined with proper planning and extensive road development, the prerequisites are there to support the final development of the Group's sawmills. The Company has finalized its current expansion phase and has come a long way towards creating the conditions for operational stability. During 2012 the remaining deficiencies will have been remedied. Needless to say, the way towards positive EBITDA would have been shorter if the conditions on the market for end-products had been stronger and the global economy had not been so weak.

From being just a harvesting company in **Magistralny** with limited forest leases (<350,000 m³ AAC), which was not sufficient to supply the sawmill, the area today represents a mill going into more normal production, which will be increasing, from the first quarter of 2012. This is supported by an additional 600,000 m³ of new quality leases secured during 2011.

Investments in complementary equipment for **Boguchany**, in both harvesting and sawmilling, were made in the first quarters of 2011 and delivered during the latter part of the year. In addition three local harvesting companies with associated forest leases were also consolidated into the Group during 2011. The new forest leases in Sibartles, Adar and Kansky have an expected payback period of no more than three years looking at the cost advantage compared to external purchases of raw material. This gives the mill stability, as the raw material situation was weak prior to these acquisitions. Combined with additional complementary mill equipment to Boguchany this will allow for more than doubled production capacity by the second quarter of 2012.

Harvesting and roads are still being developed in all locations. In 2011 the company constructed 55 km of permanent roads in Siberia and the Arkhangelsk region.

In addition to the strategic presence in the two Siberian regions, in December 2010 RusForest acquired a large port site and a sawmill in Arkhangelsk, LDK-3. The second phase of the development in the Arkhangelsk region was carried out in May 2011 through the merger with Nord Timber Group, a holder of quality spruce forest leases in that region. So far, the LDK-3 sawmill has had the most stable production.

During 2011, RusForest has focused the expansion on securing raw materials, rather than investments in processing only. This reflects the main assumption that the sawmills in Russia, as well as elsewhere, benefit from a stable raw material supply secured at the right price. Acquisitions, combined with additional road and harvesting machines and equipment, do not give an additional raw material output immediately, but will over time, reflecting that there always exists a lead time for delivery, installation and construction itself. Processes are less smooth than in Europe due to distances and other local conditions. Large financial, management and planning resources are needed in the regions where outsourcing of services is hard and local support for changes is small.

More positively, Russia is becoming more integrated globally in terms of trade, following the anticipated World Trade Organisation (“WTO”) accession in 2012. Naturally, this is important for us as a wood exporter. The WTO impact will reduce export duties related to pulp logs and quality export logs in particular. This increases the value of the forest resource at its root. The sawnwood market is not yet showing any significant signs of improvement, even if the summer of 2012 might offer some form of seasonal local demand peaks.

In fact we have moved forward in all our prime priorities in conjunction with the rights issue in 2010 and are confident that we will fulfil the remaining priorities over the next year. The money attracted in the new capital increase is however, absolutely necessary to fulfil the plans set in 2010, as since then, there has, due to weak markets, been a lower contribution to investments from running operations than initially expected. This, together with delays in the production ramp-up, expansion in Magistralny and Boguchany and the challenges with selling Russian Gravel Company have had a negative impact on cash flow but do not affect the strategy going forward.

As a shareholder, one can feel comfortable with the level of competence and experience within the forest industry that the Board of Directors of RusForest possesses, which easily matches that of any other listed forest company in Sweden.

It is important to note that, notwithstanding the losses during 2011, the average revenue of m³ sold is rising and the average cost per unit is falling in a predicted fashion. This will make it fully possible to reach positive EBITDA during 2012, all else being equal.

Martin Hermansson
CEO, RusForest AB

Overview

RusForest is a forestry company operating in Eastern Siberia and the Arkhangelsk region in North West Russia.

Since its establishment in 2006, RusForest has increased its forest land and sawmilling capacity both by strategic acquisitions and own development projects. Through long term lease agreements the Company controls approximately 3 million hectares of forest land with an AAC of around 3.6 million m³. During 2011 the controlled forest land increased through the acquisition of NTG in Arkhangelsk, new forest leases in Magistralny as well as two acquired harvesting companies in Boguchany.

RusForest's principal business concept is to refine the prime quality pine, spruce and larch logs from its forest leases into a wide range of sawnwood products of which a smaller share is attributable to planed products, including flooring and other interior products. The Group's total sawmilling capacity, which currently amounts to approximately 415,000 m³ of sawnwood, is expected to, after completion of on-going investments, gradually increase to 500,000-550,000 m³ of sawnwood. There is significant potential (of up to 800,000–850,000 m³ of sawnwood) within the limit of the maximum allowable harvesting.

Russia, alongside Brazil, has the world's largest timber reserves by a significant margin and Eastern Siberia is known for its high quality pine and Siberian larch. It is a source of quality sawlogs as well as pulpwood for the local pulp industry. The forest resources in this area are of high quality and, provided the right investments in production, well suited for producing high quality sawnwood much appreciated on international markets. RusForest is the sixth largest forestry company in Russia in terms of harvesting volumes, according to data collated by Lesprom.ru, and this position will be strengthened in future years. RusForest's strategic objective is to become a leading independent integrated forest and sawmill company in Russia by fully utilising its forest resources, whilst earning a reasonable return for its shareholders.

Operations

RusForest Operational Data

12M 2011

	Unit	RusForest Ust Ilimsk	RusForest Magistralny	Boguchansky LPK	Arkh 1 (LDK-3, Infa, SevLes)	Arkh 2 (Shenkursk+ Bakaritsa)	Consolidated 12M 2011	Consolidated 12M 2010	%
RusForest ownership interest	%	100%	100%	100%	(94%,100%,100%)	100%			
Annual Allowable Cut (AAC)	m ³	942 560	958 700	748 400	981 400		3 631 060	1 819 300	99,6%
Sawlogs harvested	m ³	217 791	121 189	129 395	68 336		536 711	444 431	20,8%
Pulpwood harvested	m ³	101 551	51 938	1 353	106 123		260 965	190 471	37,0%
Logs purchased	m ³	47 195	-	21 519	197 109	6 255	272 078	149 590	81,9%
Sawnwood sold	m ³	62 507	10 351	43 590	95 615	6 426	218 489	141 233	54,7%
Woodchips sold	m ³	62 239	4 981	-	67 647	4 749	139 616	66 310	110,6%
Planned Products sold	m ³	4 415	-	-	12 306	4 464	21 185	3 581	491,6%
Utilisation of AAC (annualised)	%	45%	24%	23%	24%		29%	47%	(37,1%)
Forest area	Hectares	565 444	746 352	374 477	1 270 018		2 956 290	1 140 122	159,3%

The figures shown above are given for reference purposes only. Boguchansky LPK includes Boguchansky LPK, RusForest Angara and Sibartles. RusForest Ust-Ilimsk includes Tuba Les' forest leases. RusForest Magistralny includes RusForest Magistralny, Lesprom and Bamlesstroi. The figure for 2010 harvesting has been restated to show an approximate distribution between sawlogs and pulpwood and Boguchansky LPK has been restated from stem equivalent to sawlogs. Arkh1 includes Severny Les (ex-NTG harvesting operation), LDK-3 (sawmilling) and Infa (planing). Arkh2 includes Shenkursk (sawmilling) and Bakaritsa (planing) – both ex-NTG. The grouping was made based on internal supply chains.

During 2011 the following key events affected RusForest's operations:

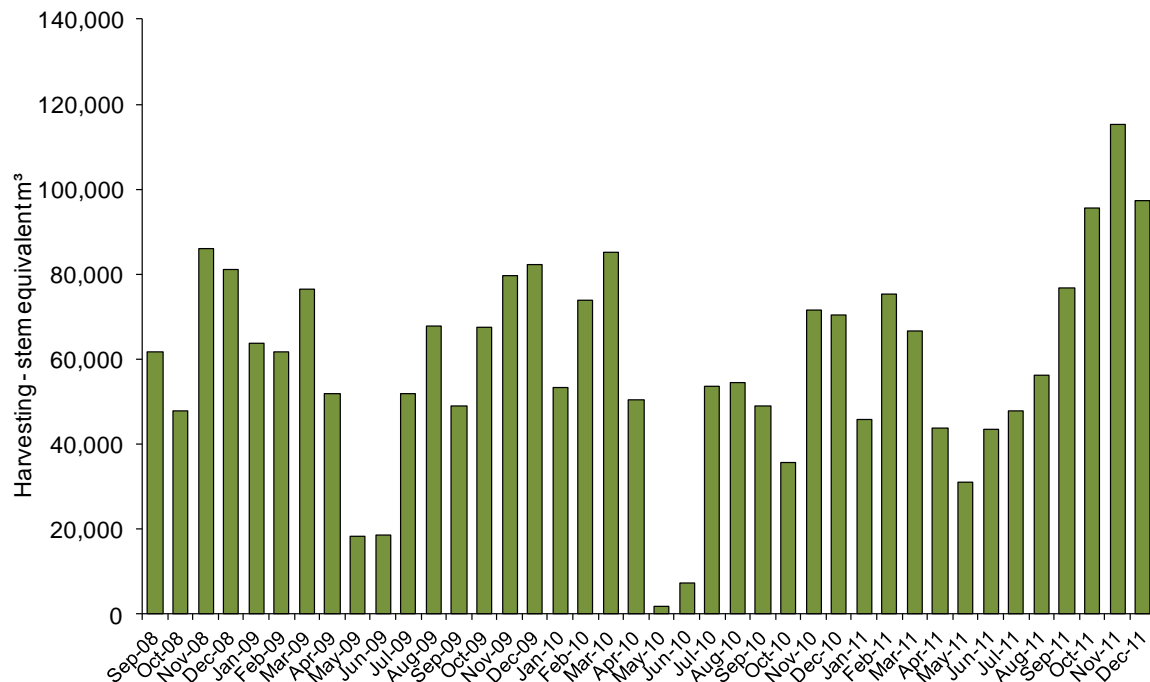
The Group acquired 1,811,760 m³ of annual allowable cutting rights (AAC) both through business combinations in the Krasnoyarsk area (in order to secure the raw material supply for Boguchansky LPK) and in the Arkhangelsk region (through the merger with Nord Timber Group to secure the saw logs availability for LDK-3) as well as by obtaining a priority investment project status in Magistralny through which the Group was granted an AAC of 398,700 m³.

Harvesting operations increased as a result of consolidating the harvesting volumes of Severny Les (ex-Nord Timber Group). During the year the Group significantly increased its capacity by purchasing additional harvesting groups (11 John Deere harvesters and forwarders) and road building equipment. Three harvesting units were put into use during Q2 2011, three units during Q3 2011 and six units in January 2012. These harvesting groups expanded the Group's harvested volumes significantly. The road building activities continued and a lot of progress was made in all the Group's business units securing the all-season access to the harvesting areas. By the end of 2011 the investments in the operations were completed by 75 per cent; the final investments should be carried out during 2012; mainly in transport capacity (log trucks and log loaders) in order to increase the volumes of timber that can be taken out from the forest. To increase competence, and thereby increase equipment utilisation and quality and reduce costs for maintenance, Swedish instructors have recently joined the teams both in Arkhangelsk and in Siberia.

Sawmilling increased due to the inclusion of the sawmilling volumes produced by LDK-3, which was acquired in December 2010. The other sawmills decreased their production volumes compared to 2010 as Boguchansky underwent significant construction activities, which resulted in a new log sorting line, which, going forward, will conform to the increased saw log volumes coming from the harvesting operations. A new boiler, an automatic dry lumber sorting line together with nine new WS Valutec kilns will allow for doubling the production of kiln-dried sawnwood in 2012. In Ust-Ilimsk, due to less than ideal logistics at the production site, the sawmilling capacity was reduced from 100,000 m³ to 60,000 m³ during 2011 following the closure of the inefficient circular saws in the third quarter of 2011. Also, the remaining sawmill in Ust Ilimsk is judged not to be able to turn profitable under current conditions and will be rented out or closed at the beginning of the second quarter 2012. The harvesting section will be the main focus going forward and sawmilling investments will be considered only when the market situation has improved. Unlike in Boguchany and Magistralny, deliveries to external sawmills are possible in Ust Ilimsk.

Forestry Operations

RusForest Group Harvesting, Sep 08 – Dec 11*



*The figures shown above are given for reference purposes only. The operational data of the Group's subsidiaries prior to June 1, 2009 (when control has been obtained by RusForest AB) are presented to show the historical statistics of harvesting and sawmilling as a benchmark. The graphs show volumes since September 2008 – the month when reliable production data could be derived from the subsidiaries.

RusForest's harvesting operations showed a relatively stable increasing trend towards the end of the year as part of the new harvesting equipment was put to use. A decline in volumes during the second and third quarters of 2011 was mainly due to widespread forest fires in Siberia and Arkhangelsk where large areas of the forests were closed for access. The harvesting volumes later increased after gaining access to more harvesting areas in Boguchany and Arkhangelsk, together with the more efficient use of new harvesting equipment delivered to Severny Les (in Arkhangelsk) in September.

The harvesting operations produced 536,711 m³ of sawlogs and 260,965 m³ of pulpwood on a consolidated basis during 2011 (2010: 444,431 m³ of sawlogs and 190,471 m³ of pulpwood). The share of harvested pulpwood increased due to the operations in Arkhangelsk. However, with the growing felling operations, extraction of timber is the main bottleneck at all locations and something that needs to be dealt with by adding more transport capacity or by outsourcing the transportation service where possible.

Harvesting in **Severny Les** has increased thanks to four new harvesting groups (three delivered at the end of the third quarter and one in November 2011). This, combined with a Swedish instructor being on site to train the local harvesting teams, had a positive effect on volumes during the fourth quarter. Road construction has been going well in Arkhangelsk after the acquisition of the company and investments have been made in road building equipment (more than 35 kilometres of roads have been built and repaired). The increase in accessible roads is a result of a targeted road improvement strategy which has been implemented at all units, but where Arkhangelsk has been the most successful. In the event of unexpectedly warm winters – the average temperature was 11.5 degrees higher than during the same period the year before (December 2010-January 2011) – the Company will need an increased fleet of log trucks to transport all the harvested timber from the forest.

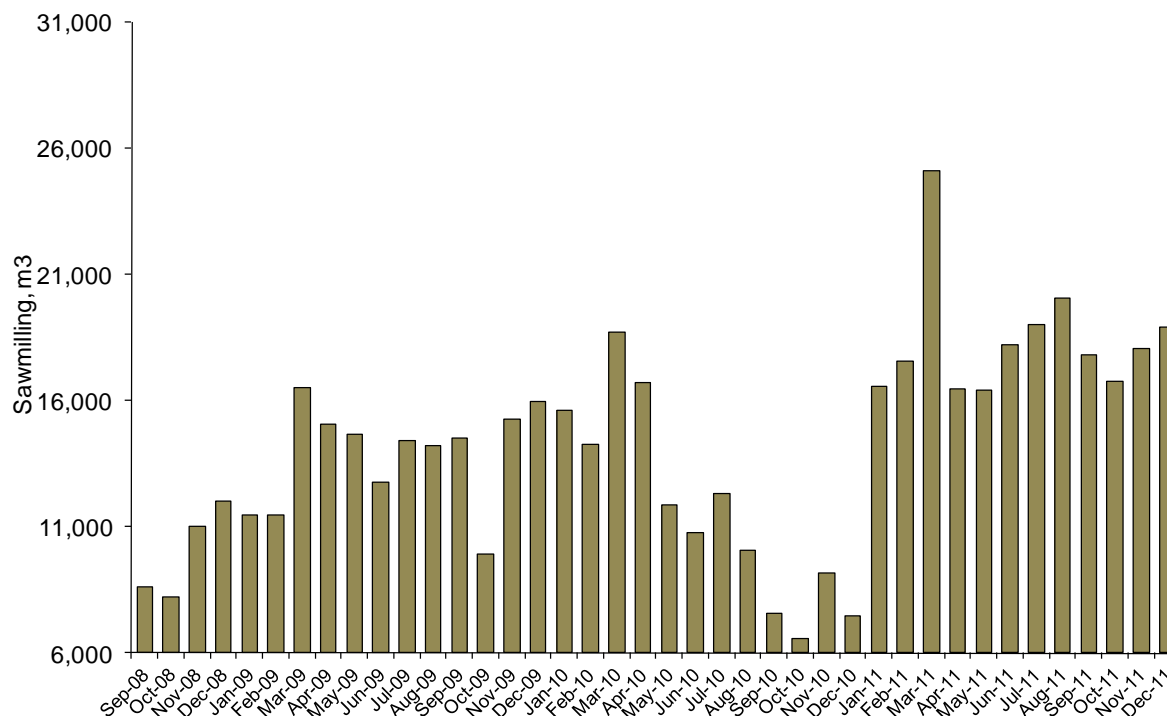
The harvesting operations in **Lesprom** (Magistralny) received two new harvesting groups one week before the year-end. The machines were put into operation early January and are being operated by experienced Swedish operators which provide on-going coaching to the employees of Lesprom.

Intensive road and bridge construction in the forest lease areas in **Boguchany** commenced during 2011, and the harvesting operations were strengthened with two new harvesting groups which were

delivered at the end of 2011. The bridge over the Angara River was inaugurated on 10 November by the Chairman of the Government of the Krasnoyarsk region. RusForest's log trucks were the first to pass over the bridge according to video images shown on Russian national TV. As the transportation has earlier been performed by barge, the bridge increases the access to the leases with 2-3 months and increases utilisation of the trucks with almost 30 per cent.

Sawmilling

RusForest Group Sawmilling, Sep 08 – Dec 11*



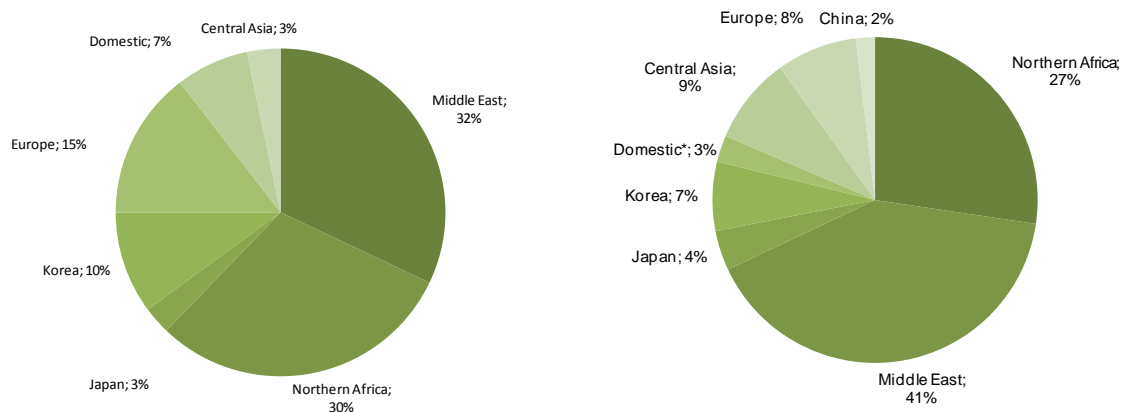
*The figures shown above are given for reference purposes only. The operational data of the Group's subsidiaries prior to June 1, 2009 (when control has been obtained by RusForest AB) are presented to show the historical statistics of harvesting and sawmilling as a benchmark. The graphs show volumes since September 2008 – the month when reliable production data could be derived from the subsidiaries.

The sawmilling volumes were supported by the stable production at LDK-3. However, the Siberian sawmills produced below expected capacity. Boguchansky LPK went through a significant expansion of the facility and was accumulating sawlogs to start at full capacity from December onwards. After construction has been completed at the end of the first quarter of 2012, the sawmill will be able to produce over 10,000 m³ of sawnwood per month. Ust-Ilimsk focused on selling large diameter sawlogs instead of processing them through the inefficient Laimat line – as a result the total volume has dropped but margins have increased.

By the end of 2011 95 per cent of installations of the remaining equipment needed for up-grading the **Shenkursk** sawmill in the Arkhangelsk region had been completed. The drying capacity is approximately 80,000 m³ when fully utilized, and the sawmilling line is already capable of producing the mentioned volume. The finalization includes completion of the installation of drying chambers, a new boiler and a lumber sorting line.

LDK-3 has had a good supply of logs and has been performing well despite falling market prices for spruce. The proportion of own logs to the main mill is increasing.

At **Magistralny** in Siberia, the trimming of equipment has continued until the end of 2011 after the launch of the sawmill in June 2011. The start-up phase has been slow due to defects on the equipment, which were caused by the equipment being stored for over two years before installation. During the fourth quarter improvements have been made which have solved all the main issues.

RusForest Sawnwood Sales Geography, 12M 2011 (left) and 12M 2010

Source: RusForest Trading, LDK-3

RusForest's main markets are located in Northern Africa, the Middle East, Europe, Japan and Korea. As a result of reduced prices in Egypt, alternative markets were sought during the end of 2010. During the first quarter of 2011, the local unrest in Northern Africa caused RusForest to further decrease deliveries to the area and Syria was established as the second largest buyer of RusForest's sawnwood. The Egyptian market improved during April-September in terms of sales volumes and became the largest single market for RusForest. The share of sales to Europe also increased due to the acquisition of LDK-3 and its closeness to Europe.

The Group is taking steps to obtain FSC certification and is also constantly monitoring the Chinese market for lucrative opportunities within sawn wood. Also, the Japanese customers became active at the end of the fourth quarter of 2011 and the outlook of increased sales of sawnwood to Japan looks rather promising during 2012.

During 2011, RusForest sold approximately 193,016 m³ (2010: 150,389 m³) of saw logs from its harvesting operations. The greatest part of this volume was exported to China (76 per cent) and Japan (16 per cent) and just less than 8 per cent of the volume was sold domestically.

Future projects in utilizing by-products

For the overall strategy it is natural for the Company to investigate all possible solutions and discuss how to fully utilize and generate more income from its by-products. Close to 65 per cent of the harvested log volumes eventually turn into something other than sawnwood, and pulp logs as well as woodchips are often sold below production cost with a negative impact on the Group's profitability.

As a first step in that direction, on 16 December 2011 RusForest acquired Clean Tech East Holding's Biomass Fuels business segment, whose business is to manufacture and sell wood pellets (see further details in press release). The idea is to, together with an industrial partner, move the acquired equipment to the LDK-3 industrial site, and then produce high quality pellets for the European market, supported by the already existing by-products.

As another step in this direction, RusForest has registered a new subsidiary in Eastern Siberia where the end consumers for pulp, mainly in Asia, are located far closer than for pellets. The new subsidiary is so far only a legal unit, called "Siberian Cellulose LLC", with preliminary project plans and a suitable industrial site for a pulp mill has been identified. It can be easily connected to rail, electricity and water in required quantities. The idea is to form a joint venture with an existing pulp player where RusForest will supply the raw material (mainly from Boguchany and Magistralny) as well as attain new forest leases for the project company.

Key Financial Data

Item	2011	2010	2011	2010
In thousands of SEK	Q4	Q4	12M	12M
Turnover	117,715	47,078	431,794	300,846
Cost of Sales	(153,124)	(46,695)	(509,122)	(297,346)
EBITDA	(60,784)	(16,458)	(176,863)	(105,642)
Gain on bargain purchases	-	51,190	-	51,190
Net Result	(97,230)	16,769	(288,699)	(130,224)
Cash Flow During period	(78,386)	35,037	(38,873)	40,827
Per Share Data, SEK	31-Dec	31-Dec	31-Dec	31-Dec
Earnings	(1.02)	0.34	(3.32)	(4.35)
Shareholders' Equity	11.13	14.94	11.13	14.94
Share Price	5.30	12.80	5.30	12.80
Equity/Assets Ratio	51.3%	85.0%	51.3%	85.0%

Financial performance

General

The Group's results were mainly affected by the inclusion of income and expenses of the newly acquired subsidiaries (LDK-3, Infa, Sibartles, Kansky, Adar and Nord Timber Group) which make the data for 2011 not quite comparable to the figures reported in 2010.

The Group's losses continued during the reporting period due to low utilization and start-up problems in sawmilling, mainly Magistralny and Boguchany. The sawmills were also affected by the on-going construction work, where Shenkursk started production again in December. The performance of the Group was also negatively affected by insufficient harvesting volumes, which created idle costs both in harvesting and, as a result, in sawmilling. One of the reasons for the insufficient harvesting volumes were the forest fires in both regions of operations – Siberia and Arkhangelsk – where harvesting operations were stopped during significant periods, which provided insufficient volumes of sawlogs to be processed at the sawmills. Late deliveries of harvesting capacity and lack of skilled operators created further delays in the required increase in harvesting volumes. The acquisitions of Kansky and Adar increased the forest lease costs, but the areas were not harvested during the reporting period as they were not accessible for harvesting planning and road construction until mid-2011. The access to most of the forest areas was prevented by very limited infrastructure. Market prices were stable but at fairly low levels compared to the beginning of 2011. Combined with the general increase in harvesting operations and sales volumes of pulpwood the drop in market prices had a significant negative effect on the net result of the Group. At the same time sawnwood production absorbed more fixed costs per m³ of production sold due to the low production volumes.

Profit and loss statement

General

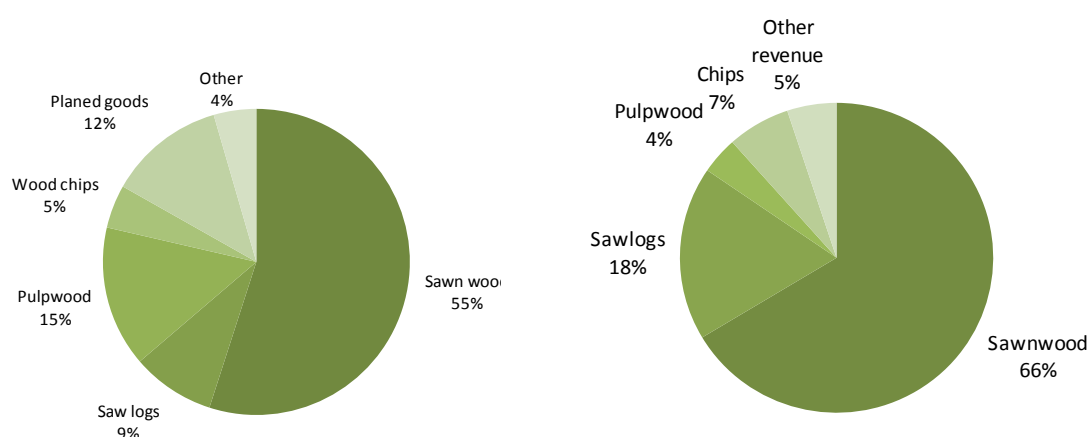
The Group's performance in 2011 was negatively affected by several factors which came together during the year: starting with the coup d'état in Egypt in the very beginning of the year when the sawnwood markets deteriorated; the continued investment phase into solving the bottlenecks of the subsidiaries in log supply and drying and sorting capacities did not allow for production of enough

volumes to cover the fixed costs and take advantage of the improving market during the third quarter of 2011 when the processes were growing. There is an increased share of pulpwood revenue in the Group's revenue which is currently sold below cost due to monopolistic position of the pulp factories; and the year ended with decreasing sales prices for sawnwood by 10 per cent in the fourth quarter of 2011.

Revenue

Group revenue for 2011 amounted to SEK 431.8 million (2010: SEK 300.8 million). The revenue for the period had the following composition: Sawnwood, SEK 243.2 million (2010: SEK 199.9 million); Sawlogs, SEK 72.7 million (2010: SEK 54.3 million); Pulpwood, SEK 33.4 million (2010: SEK 11.6 million); Woodchips, SEK 16.9 million (2010: SEK 20.0 million) and Other revenue SEK 66.0 million (2010: SEK 15.4 million).

Revenue Breakdown 12M 2011 (left) and 12M 2010, percentage of total



The share of sawnwood revenue decreased to 55 per cent in 2011 compared to 66 per cent in 2010. This was mainly due to lower than planned sawnwood volumes, increased sawlog sales from Lesprom (RusForest Magistralny) and the addition of sales volumes of pulp logs and planned products from NTG (from May onwards). Also, Ust-Ilimsk switched from sawmilling the large diameter logs on the Laimat lines to selling those sawlogs to the other sawmills.

The subsidiaries acquired in 2011 (NTG, Sibartles, Kansky and Adar) have a significant potential for successful performance in the first quarter of 2012 through commenced harvesting in Kansky and Adar. Further improvements in performance will be seen next year after the necessary investments to complete road infrastructure, harvesting teams and transportation facilities have been provided.

During 2010, planned products only had a 0.3 per cent share of total sales and are therefore not presented in the comparative graph.

Operating Expenses

RusForest's cost of sales for the year was SEK 509.1 million (2010: SEK 297.3 million). The main reason for the increase was the inclusion of LDK-3, Infa, Sibartles, Kansky, Adar and NTG, acquired December 2010-July 2011 and included in RusForest's consolidated financial statements. Apart from the growth of total volume, the cost of fuel (+5 per cent during 2011) and spare parts increased. Prices for purchased sawlogs were stable between June and November 2011, however, in December prices started to rise.

Extensive road maintenance and seasonal road building, which was a high priority, additionally contributed to the increase in the cost of sales. The lower than planned harvesting volumes, due to the forest fires, contributed to the cost per unit being quite high.

Repairs and maintenance costs were significantly higher than in 2010 as the Group now has almost three times more equipment that was purchased in 2011. In order to solve the bottlenecks in log extraction, the subsidiaries performed a lot of overhaul activities on the log trucks and loading facilities.

Distribution expenses amounted to SEK 79.7 million (2010: SEK 83.8 million) and included customs duties, railway tariffs, loading and hauling-to-loading costs. Railway tariffs stabilized during the third quarter in SEK terms due to significant depreciation of RUB against major currencies; however, there is still a certain wagon deficit in Russia. Distribution costs were lower in 2011 per m³ sold as the increase in volumes was mainly attributable to the sawnwood sold from LDK-3 where the distribution costs are very low. Unlike in 2010, when all the production was transported from East Siberia to the Russian ports (Novorossiysk, St. Petersburg or Nakhodka), LDK-3 loads the vessels directly from its own quay.

Other Income

Other income of the Group increased compared to previous reporting period by SEK 2.7 million and is represented by the receipt of an insurance reimbursement for the burnt down harvester in Ust-Ilimsk.

Other Expenses

Financial Expenses

Financial expenses amounted to SEK 54.7 million during the year (2010: SEK 22.5 million). The increase is represented by the interest accrued on the Bond issued in May 2011 together with the effect of the Group's capital expenditure program, primarily financed through financial lease arrangements (within the covenants set by the Terms and Conditions of the Bond).

Income Tax

All of the Group's subsidiaries generated losses during the year, and tax losses will consequently be carried forward for corporate income tax purposes.

The income tax of the Group was extraordinary affected during the year by written-off tax liabilities amounting to SEK 7.6 million in Sibartles, which were inherited in the acquisition and had an expired statute of limitation (over 3 years). The Company wrote off the liabilities after receiving a court order and a reconciliation paper from the tax authority which confirmed the clearance of the debt.

A deferred income tax credit positively affected the Group's results during 2011. The positive effect is also a result of the amortisation of a deferred tax liability accrued by the Group for the temporary difference in value of property, plant and equipment which originated from the fixed assets appraisal performed in June 2009 when accounting for the acquisition of 50 per cent of RusForest Ltd and purchase price allocations for NTG, Sibartles, LDK-3, Kansky and Adar.

Net Result

The Group's net loss for the year was SEK 288.7 million (2010: SEK -130.2) million. The share of the loss generated by the Gravel asset was SEK 17.1 million (2010: SEK -21.1 million).

Balance sheet

Due to the appreciation of SEK against RUB during the reporting period (2 per cent) the value of the assets and liabilities accordingly decreased when denominated in SEK.

Assets, Liabilities and Investment

A major change in the Group's balance sheet during the reporting period resulted from the inclusion of the assets and liabilities of Sibartles, LP Kansky, Adar, Nord Timber Group, Eastern Bio Holdings and Bio Energy Nord. These included both forestry holdings of additional 1.8 million m³ of AAC, the sawmill at Shenkursk with a capacity of 80,000 m³ per year, a planing mill with a capacity of 12,000 m³ per year and a pellet plant in Sweden and Latvia with a combined capacity of more than 100,000 tonnes per year.

Inventories of the Group increased both as a result of the described business combinations as well as significant stocks of timber harvested during the winter season of 2011-2012 (which increased after putting new harvesting groups into operation). As of the reporting date the Group has large stocks of timber in the forest and is looking to solve the log transportation bottlenecks.

On the liability side, the Company is primarily financed through equity, with total equity amounting to SEK 1,066.3 million (31 December 2010: SEK 979.1 million). Non-current interest bearing liabilities increased by SEK 500 million in May 2011, through the bond issue placed at 11 per cent interest. The amount shown on the Group's balance sheet includes accrued interest up to 31 December 2011. Other obligations mainly represent the liabilities under finance lease contracts, as the Group has purchased several pieces of equipment (3 John Deere harvesting groups, 38 rail wagons, etc.).

The gravel business' assets of SEK 93.0 million (31 December 2010: SEK 100.0 million) classified as held for sale in the Group's financial statements 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. During 2011 the Company succeeded in shipping volumes, which increased after the installation of a vessel loading facility on the bank of the Belomorsk channel.

The gravel business' main crushing plant is acquired under a finance lease, and the associated liability figure of SEK 12.6 million (31 December 2010: SEK 12.5 million) primarily reflects the present value of the lease payments which remain outstanding at 31 December 2011.

Cash Flow and Financial Position

The Group's net cash position at 31 December 2011 amounted to SEK 23.6 million, compared to SEK 67.2 million at 31 December 2010. The net cash flow during the year 2011 was SEK 38.9 million (2010: SEK 40.8 million). The operating cash flow amounted to SEK -185.0 million (2010: SEK -149.1 million).

Consolidated cash outflows from investing activities during 2011, amounting to SEK 378.4 million (2010: SEK 183.5 million), mainly represent investments relating to continued construction at the RusForest Magistralny and Boguchany sawmills (stage 2), the acquisition of subsidiaries (Sibartles, Kansky, Adar, Eastern Bio Holdings (EBH and Bio Energy Nord (B.E.N.)) and investments into fixed assets across the Group in order to remove the bottlenecks in both harvesting and sawmilling processes.

Investments in RusForest Magistralny are almost completed; the company had to acquire a screen for woodchips as a final main investment. After that purchase the capital expenditure into the sawmill can be seen as completed excluding some minor items.

Parent company funding of Russian Gravel Company has increased to SEK 6.2 million (2010: SEK 6.1 million). The gravel market showed a significant progress in terms of rising prices and increase in demand. The main drivers were the increase of government funding of road constructions and also the enhancement of the quality standards for gravel. Russian Gravel Company fully complies with the newly introduced rules. The Segment had generated some positive cash flows from operations; however, the Group had to finance the purchase of several pieces of equipment such as wheeled loaders and mobile ship loader in order to expand sales activity of the Segment

The investments during the year 2011 to remove the bottlenecks in harvesting, complete road building teams and increase sawmilling volumes summarize as follows (in SEK million):

Harvesting equipment	8.3
Road construction equipment and investment into road construction	35.6
Loading and transportation facilities (high-loaders, rail wagons)	21.4
Acquisition of additional AAC	100.2
Sawmilling equipment	75.3
Acquisition of EBH and B.E.N.	18.3
Construction of the sawmills	51.7
Total	310.8

The financial position was improved by the bond issue of SEK 500 million in May as well as by financial leases related to investments in harvesting and transportation equipment.

Outlook

Although there is still high uncertainty in the global economy, the global market is showing indications on improvement in prices of sawnwood. Russia becoming part of WTO should also have a positive effect on the Russian forest industry, affecting current levels of duties for exporting of saw logs and pulpwood. As RusForest is selling a major part of the production on already signed contracts, it will take time before market changes in prices will be visible in the revenue and therefore it is difficult to predict what effect the market changes will have on RusForest.

Preparing roads and expanding the equipment park raises production levels at the sawmills at the same time as the on-going investment driven improvements in the sawmills changes the product mix. That is to include a higher degree of dried products than in the past that can be sold for higher prices at new markets. Investments into road construction along with increased utilization of forest leases and equipment will help lowering internal log costs and improving profitability.

It is important to note that, notwithstanding the losses during 2011, the average revenue of m³ sold is rising and the average cost per unit is falling in a predicted fashion. This will make it fully possible to reach positive EBITDA during 2012, all else being equal.

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 31 December 2011, the number of outstanding shares was 95,807,694. At the close of the period, the share price was SEK 5.30 and the Company's market capitalisation was approximately SEK 507.8 million. The Company's certified adviser on First North is Pareto Öhman AB.

ISIN: SE0001732728

Short name on First North: RUSF

Number of shares (at 31 December 2011): 95,807,694

RusForest intends to carry out a rights issue of approximately SEK 450 million. The decision will be taken by an Extraordinary General Meeting that will be held on 1 March 2012;

Warrants

Following the new share issue carried out in November 2010, the exercise terms for outstanding warrants in the Company have been adjusted in accordance with their respective terms and conditions. The new warrant terms are set out in the table below:

Warrant	Number of shares to which each warrant entitles		Subscription price per share, SEK	
	Original value	Adjusted value	Original value	Adjusted value
2009/2011	1	1.17	63.00	53.70
2010/2015, Series A	1	1.17	27.60	23.53
2010/2015, Series B	1	1.17	29.90	25.49
2010/2015, Series C	1	1.17	34.50	29.41

Major Shareholders on 31 December 2011

Shareholder	Number	Percentage
Vostok Nafta Investment	28 165 209	29,4
East Capital Fonder	10 270 123	10,7
Alecta Pensionsförsäkring	9 209 490	9,6
Morgan Stanley & Co LLC.	6 000 293	6,3
BNY GCM Client Accounts	5 479 343	5,7
SSB CL Omnibus AC	3 097 098	3,2
Lillevrå Såg AB	2 722 000	2,8
Staffan Rasjö	2 697 944	2,8
Avanza Pension	2 196 870	2,3
TD Waterhouse Inv Serv (Can) Inc	1 887 900	2,0
Others	24 081 424	25,1
Total	95 807 694	100,0

Source: Euroclear Sweden AB

Trading data, January 2009 – December 2011



Source: NASDAQ OMX First North

Accounting policies

The interim report has been prepared in accordance with IAS 34 Interim Financial Reporting and related parts of the Annual Accounts Act. The interim report for the Parent Company has been prepared in accordance with the Annual Accounts Act chapter 9. The Group and Parent Company have applied the same accounting and valuation principles as in the most recent Annual Report.

Qualitative and Quantitative Disclosures and Market Risks

The Group's risk exposure is described in detail in the most recent Annual Report.

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE PERIOD ENDED 31 DECEMBER 2011

In thousands of SEK	Note	Q4 2011	Q4 2010	12M 2011	12M 2010
Continuing operations					
Turnover		117,715	47,078	431,794	300,846
Cost of sales	1	(153,124)	(46,695)	(509,122)	(297,346)
Gross profit/(loss)		(35,409)	383	(77,328)	3,500
Other income		2,070	12,467	12,395	9,758
Distribution expenses	2	(17,887)	(13,416)	(79,739)	(83,770)
Administrative expenditure	3	(30,909)	(24,955)	(113,719)	(84,245)
Other expenses		(14,943)	(1,634)	(26,083)	(11,101)
Operating profit/(loss)		(97,079)	(27,155)	(284,474)	(165,858)
Financing income		132	409	2,081	3,471
Financing cost		(18,181)	(6,354)	(54,716)	(22,545)
Net financing income/(cost)		(18,049)	(5,945)	(52,635)	(19,074)
Gain on bargain purchases		-	51,190	-	51,190
Share of profit of equity accounted investees		-	(100)	-	(100)
Loss before tax from continuing operations		(115,128)	17,990	(337,108)	(133,842)
Income tax		20,918	1,998	65,488	24,767
Loss for the year from continuing operations		(94,209)	19,988	(271,620)	(109,075)
Discontinued operations					
Loss after tax for the year from discontinued operations	4	(3,021)	(3,219)	(17,079)	(21,149)
Loss for the year		(97,230)	16,769	(288,699)	(130,224)
Attributable to:					
Equity holders of the parent		(97,431)	17,658	(284,732)	(127,369)
Non-controlling interests		201	(889)	(3,967)	(2,855)
Loss for the year		(97,230)	16,769	(288,699)	(130,224)

PER SHARE DATA

In SEK	Q4 2011	Q4 2010	12M 2011	12M 2010
	31/12	31/12	31/12	31/12
Earnings	(1.02)	0.34	(3.32)	(4.35)
Shareholders' Equity	11.13	14.94	11.13	14.94
Share Price	5.30	12.80	5.30	12.80

Number of Shares	Q4 2011	Q4 2010	12M 2011	12M 2010
	1/10 - 31/12	1/10 - 31/12	1/1 - 31/12	1/1 - 31/12
Beginning of period	95,807,694	21,840,840	65,522,520	21,840,840
End of Period	95,807,694	65,522,520	95,807,694	65,522,520
Average number of shares	95,807,694	51,278,494	85,795,189	29,260,742

DEFINITION OF KEY FIGURES

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

There are stock options outstanding that could increase the Company's number of shares by 3,241,834. No dilution has been calculated as the effect for the period would have been anti-dilutive.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED 31 DECEMBER 2011

In thousands of SEK	Q4 2011	Q4 2010	12M 2011	12M 2010
Loss for the year	(97,230)	16,769	(288,699)	(130,224)
Other comprehensive income				
Translation difference	13,086	(2,970)	(57,803)	(43,321)
Other comprehensive income/(loss) for the year, net of tax	13,086	(2,970)	(57,803)	(43,321)
Total comprehensive income/(loss) for the year, net of tax	(84,144)	13,799	(346,502)	(173,545)
Attributable to:				
Equity holders of the parent	(84,344)	14,688	(342,535)	(170,690)
Non-controlling interests	201	(889)	(3,967)	(2,855)
Total comprehensive income/(loss) for the year, net of tax	(84,144)	13,799	(346,502)	(173,545)

The fluctuations of the main currencies to SEK have been the following during the quarter: SEK depreciated against USD by 3.0 per cent, against EUR by 1 per cent and appreciated against EUR by 1.0 per cent and against RUB by 2.0 per cent.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2011

In thousands of SEK		31 December 2011	31 December 2010
Assets	Note		
Non-current assets			
Property Plant and equipment		1,095,744	768,054
Forest lease rights		440,967	-
Intangible assets		37,434	12,212
Investments in associates		2,349	2,434
Other long-term receivables		14,375	7,553
Deferred tax asset		93,383	44,095
Total non-current assets		1,684,253	834,348
Current assets			
Inventory		141,115	64,490
Trade and other receivables		127,400	83,691
Current tax assets		233	791
Loans receivable		8,088	725
Cash and cash equivalents		23,571	67,195
Total current assets		300,407	216,892
Assets classified as held for sale	4	92,994	100,018
Total assets		2,077,655	1,151,258
Equity			
Equity and reserves			
Share capital		958,077	655,225
Other capital		686,598	541,114
Translation reserve		(64,151)	(6,348)
Retained earnings		(233,500)	(86,693)
Loss for the year		(284,732)	(127,369)
Total equity attributable to Shareholders of the Group		1,062,292	975,929
Non-controlling interest		4,037	3,143
Total Equity		1,066,329	979,072
Liabilities			
Non-current liabilities			
Interest-bearing loans and borrowings		609,401	10,703
Loans payable to related companies		72,463	7,334
Deferred tax liability		106,379	53,862
Total non-current liabilities		788,243	71,899
Current liabilities			
Interest bearing loans and borrowings		73,652	15,627
Trade and other payables		133,705	68,075
Current tax liabilities		1,382	142
Provisions		1,736	3,915
Total current liabilities		210,474	87,759
Liabilities directly associated with the assets classified as held for sale	4	12,609	12,528
Total liabilities		1,011,326	172,186
Total equity and liabilities		2,077,655	1,151,258

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 31 DECEMBER 2011

In thousands of SEK	Q4 2011	Q4 2010	12M 2011	12M 2010
Loss for the year	(97,230)	16,769	(288,699)	(130,224)
Adjustment for non-cash items, etc.	36,216	(53,119)	129,337	15,487
Paid income tax	(110)	(41)	(193)	(73)
Cash flow from operating activities before changes in working capital	(61,124)	(36,391)	(159,555)	(114,810)
Cash flow changes in working capital	29,938	(40,853)	(25,469)	(34,298)
Cash flow from operating activities	(31,186)	(77,244)	(185,024)	(149,108)
Investment in equipment	(1,479)	(40,904)	(207,806)	(69,096)
Proceeds from sales of equipment	64	100	285	826
VAT refund on capital investments	6,793	-	15,179	-
Payment for purchase of subsidiaries	(17,355)	(91,508)	(102,188)	(91,508)
Interest received	112	360	2,003	372
Loans issued to related parties (LDK-3)	-	(11,012)	-	(11,012)
Loans issued to related parties (Gravel Co Group)	(1,455)	(6,859)	(13,701)	(13,019)
Investment in financial assets	-	(114)	-	(454)
Cash flow from investing activities	(13,319)	(149,525)	(306,228)	(183,479)
(Decrease)/Increase in loans payable	(33,881)	261,806	452,379	373,414
Cash flow from financing activities	(33,881)	261,806	452,379	373,414
Cash flow during the period	(78,386)	35,038	(38,873)	40,827
Cash and cash equivalents, beginning of period	104,962	29,609	67,195	26,085
Exchange-rate differences on cash and cash equivalents	(3,005)	2,549	(4,751)	283
Cash and cash equivalents, period end	23,571	67,195	23,571	67,195

Adjustment for non-cash items, etc.	Q4 2011	Q4 2010	12M 2011	12M 2010
Depreciation	36,294	10,650	107,610	60,176
Income tax	(20,918)	(1,998)	(65,488)	(24,767)
Finance income	(132)	(2,893)	(2,081)	(3,191)
Finance expense	18,181	9,125	54,716	22,545
Gain on bargain purchases	-	(51,190)	-	(51,190)
Net income/loss on disposal of property, plant and equipment	3,953	(731)	5,483	3,366
Bad debts	7,926	(687)	9,209	660
Other comprehensive loss from assets held for sale	3,021	3,219	17,079	21,149
Share of losses from associates	-	100	-	100
Other non-cash items	(12,108)	(18,713)	2,809	(13,361)
Total	36,216	(53,119)	129,337	15,487

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

01/01/2011 - 31/12/2011

Attributable to the equity holders of the parents

In thousands of SEK	Share capital	Share premium	Translation reserve	Retained earnings	Non-controlling interest	Total
Opening shareholders' equity	655,225	541,114	(6,348)	(214,062)	3,143	979,072
Loss for the period	-	-	-	(284,732)	(3,967)	(288,699)
Other comprehensive income	-	-	(57,803)	-	-	(57,803)
Total comprehensive income	-	-	(57,803)	(284,732)	(3,967)	(346,502)
Acquired non-controlling interest in subsidiaries	-	-	-	(19,438)	4,861	(14,578)
Costs related to the rights issue	-	-	-	-	-	-
New shares issue	302,852	145,484	-	-	-	448,336
Shareholders' equity at end of period	958,077	686,598	(64,151)	(518,232)	4,037	1,066,329

01/01/2010 - 31/12/2010

Attributable to the equity holders of the parents

In thousands of SEK	Share capital	Share premium	Translation reserve	Retained earnings	Non-controlling interest	Total
Opening shareholders' equity	218,408	556,687	36,973	(86,693)	(1,842)	723,533
Loss for the period	-	-	-	(127,369)	(2,855)	(130,224)
Other comprehensive income	-	-	(43,321)	-	-	(43,321)
Total comprehensive income	-	-	(43,321)	(127,369)	(2,855)	(173,545)
Non-controlling interest in acquired subsidiaries	-	-	-	-	7,840	7,840
Costs related to the rights issue	-	(15,573)	-	-	-	(15,573)
New share issue	436,817	-	-	-	-	436,817
Shareholders' equity at end of period	655,225	541,114	(6,348)	(214,062)	3,143	979,072

NOTES TO THE FINANCIAL STATEMENTS

The data for 2011 includes income and expenses of LDK-3 and Infa (both since January 2011), Sibartles (since March 2011), Nord Timber Group (since May 2011), Kansky (since June 2011) and Adar (since July 2011). For this reason the information presented below is not fully comparable.

Note 1. Cost of sales

In thousands of SEK	Q4 2011	Q4 2010	12M 2011	12M 2010
Personnel costs	33,093	14,470	119,705	83,375
Purchased sawlogs	26,865	5,803	100,472	65,536
Depreciation	32,481	10,138	100,319	57,942
Materials	7,178	8,138	24,897	19,587
Energy and fuel	15,936	3,508	55,405	26,013
Repairs and maintenance	9,607	632	23,054	3,806
Harvesting services	6,981	1,639	19,583	8,390
Forest lease	8,979	1,105	27,596	10,565
Road construction	4,280	-	11,358	-
Other	7,725	1,262	26,734	22,131
	153,124	46,695	509,122	297,346

Note 1.2. Road construction

In thousands of SEK	Q4 2011	Q4 2010	12M 2011	12M 2010
Personnel costs	783	-	2,993	-
Depreciation	757	-	2,614	-
Energy and fuel	526	-	2,394	-
Materials	1,191	-	1,430	-
Other	1,022	-	1,927	-
	4,280	-	11,358	-

Note 2. Distribution expenses

In thousands of SEK	Q4 2011	Q4 2010	12M 2011	12M 2010
Personnel costs	4,616	451	15,283	6,216
Railway costs	9,298	6,317	38,547	40,656
Custom duty	886	2,677	2,065	12,433
Other	3,088	3,971	23,844	24,465
	17,888	13,416	79,739	83,770

Note 3. Administrative expenditure

In thousands of SEK	Q4 2011	Q4 2010	12M 2011	12M 2010
Personnel costs	15,445	10,398	58,067	38,741
Audit	1,003	2,062	2,983	8,493
Property tax	3,290	687	7,150	4,256
Consulting fees	4,455	3,208	20,134	9,411
Other	6,716	8,600	25,385	23,344
	30,909	24,955	113,719	84,245

Note 4. Segment information

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

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 noncurrent assets are located in Russia and all of the Group's operations are based in Russia.

Operational segments

In thousands of SEK	12M 2011 Harvesting	12M 2011 Sawmilling	12M 2011 Gravel	Total
External revenue	110,564	321,230	59,361	491,155
Inter-segment revenue	115,480	37,842	-	153,390
Reportable segment profit before tax	(190,228)	(146,880)	(17,185)	(354,293)

Assets Classified as Held for Sale

In thousands of SEK	31 December 2011	31 December 2010
Assets		
Non-current assets		
Property Plant and equipment	66,232	68,844
Intangible assets	10,241	11,889
Deferred tax asset	2,842	2,811
Total non-current assets	79,315	83,544
Current assets		
Inventory	5,347	4,983
Trade and other receivable	6,805	10,788
Cash and cash equivalents	1,527	703
Total current assets	13,679	16,474
Total assets	92,994	100,018

Liabilities directly associated with the assets classified as held for sale

In thousands of SEK	31 December 2011	31 December 2010
Liabilities		
Non-current liabilities		
Interest-bearing loans and borrowings	1,899	3,977
Deferred tax liability	16	
Total non-current liabilities	1,915	3,977
Current liabilities		
Interest-bearing loans and borrowings	5,989	4,994
Trade and other payables	4,705	3,557
Total current liabilities	10,694	8,551
Total liabilities	12,609	12,528

Consolidated Statement of Comprehensive Income of Gravel Segment

In thousands of SEK	12M 2011	12M 2010
Discontinued operations		
Turnover	59,361	21,819
Cost of sales	(37,817)	(17,863)
Gross profit	21,544	3,956
Other income	2,065	713
Distribution expenses	(34,392)	(10,601)
Administrative expenditure	(4,640)	(16,106)
Operating profit/(loss)	(15,423)	(22,038)
Financing income	-	132
Financing cost	(1,762)	-
Net financing income/(cost)	(1,762)	132
Income tax	106	757
Loss after tax for the year from discontinued operations	(17,079)	(21,149)

Condensed consolidated statement of cash flows of the Gravel segment

In thousands of SEK	12M 2011
Cash flow from operating activities	4,357
Cash flow from investing activities	(6,181)
Cash flow from financing activities	2,701
Cash flow during the period	877

Note 5. Parent Company

Parent Company Income statement

In thousands of SEK	12M 2011	12M 2010
Turnover	-	-
Cost of sales	-	-
Gross profit	-	-
Distribution expenses	-	-
Administrative expenditure	(13,793)	(9,670)
Operating profit/(loss)	(13,793)	(9,670)
Exchange gain/loss	664	(22,850)
Financing income	76,140	23,589
Financing cost	(38,008)	(12,267)
Net financing income/(cost)	38,796	(11,528)
Income tax	-	-
Profit/(loss) for the year	25,003	(21,198)

Parent Company Balance Sheet

In thousands of SEK	31 December 2011	31 December 2010
Assets		
Non-current assets		
Property Plant and equipment	-	21
Investments in subsidiaries	2,041,385	661,901
Total non-current assets	2,041,385	661,922
Current assets		
Loans receivable from subsidiaries	202,197	473,959
Trade and other receivable	2,857	2,395
Cash and cash equivalents	12,618	29,322
Total current assets	217,672	505,676
Total assets	2,259,057	1,167,598
EQUITY		
Equity and reserves		
Share capital	958,077	655,225
Other capital	686,598	541,114
Retained earnings	(5,812)	(30,815)
Total equity	1,638,864	1,165,524
Liabilities		
Non-current liabilities		
Interest-bearing loans and borrowings	598,748	-
Total non-current liabilities	598,748	-
Current liabilities		
Interest-bearing loans and borrowings	17,746	-
Trade and other payables	3,700	2,074
Total current liabilities	21,446	2,074
Total equity and liabilities	2,259,057	1,167,598

The significant changes in the investments in subsidiaries and loans receivable from subsidiaries were mainly due to a transaction in which, as of 31 December 2011, RusForest AB converted the loans issued to subsidiaries (RusForest Cyprus and Tuba Les) in the amount of SEK 851.9 million into share capital of RusForest Bermuda.

Note 6. Acquisition of subsidiaries

RusForest Group has performed acquisition of Nord Timber Group ("NTG") by way of an issue in kind of 29,437,529 RusForest shares in exchange for shares in and claims against the companies included in the NTG group.

The values were restated compared to the information provided in the report for second and third quarters 2011 as the deferred tax rate applied was 10% as in Cyprus. However, the assets will generate future economic benefits that are expected to result in taxable profits in Russia at the rate of 20%; therefore the deferred tax liability had been reassessed.

Adjustments were also made to the net identifiable assets of Nord Timber Group after finalisation of the fair value report by the independent appraiser.

Consideration transferred**In thousands of SEK**

Equity instruments issued for acquisition of the subsidiary	308,100
Equity instruments issued for reassignment of loans payable to the previous shareholders	129,048
Total consideration	437,148

The acquisition had the following effect on the Group's assets and liabilities on acquisition date	Recognised values on acquisition
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In thousands of SEK

Property, plant and equipment	126,442
Intangible assets	338,083
Inventory	18,610
Trade and other receivables	19,563
Cash and cash equivalents	6,981
Loans and borrowings	(17,714)
Deferred tax liabilities	(36,411)
Trade and other payables	(18,406)
Net identifiable assets and liabilities	437,148
Total consideration	437,148

In June 2011 the Group acquired LLC Kansky LDK, a 207,000 m³ AAC holder.

Consideration transferred**In thousands of SEK**

Cash for acquisition of the subsidiary	28,495
Cash for reassignment of loans payable to the previous shareholders	12,171
Total consideration	40,666

The acquisition had the following effect on the Group's assets and liabilities on acquisition date	Recognised values on acquisition
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Property, plant and equipment	26
Forest lease rights	50,348
Trade and other receivables	2,149
Cash and cash equivalents	235
Deferred tax liabilities	(10,562)
Trade and other payables	(1,530)
Net identifiable assets and liabilities	40,666
Total consideration	40,666

In July 2011 the Group acquired ZAO ADAR, a 262,700 m³ AAC holder.

Consideration transferred

In thousands of SEK

Cash for acquisition of the subsidiary	8,234
Cash for reassignment of loans payable to the previous shareholders	22,965
Contingent consideration	6,275
Total consideration transferred	37,474

The acquisition had the following effect on the Group's assets and liabilities on acquisition date

Recognised values on acquisition

In thousands of SEK

Property, plant and equipment	4,142
Forest lease rights	43,658
Trade and other receivables	1,044
Cash and cash equivalents	391
Deferred tax liabilities	(7,326)
Trade and other payables	(4,436)
Net identifiable assets and liabilities	37,474
Total consideration	37,474

In December 2011 the Group acquired Clean Tech East's wholly owned subsidiaries Eastern Bio Holdings AB and B.E.N. Bio Energy Nord Ltd.

Consideration transferred

In thousands of SEK

Cash for acquisition of the subsidiary	1,914
Consideration for reassignment of loans payable to the previous shareholders	88,531
Total consideration transferred	90,445

The acquisition had the following effect on the Group's assets and liabilities on acquisition date

Recognised values on acquisition

In thousands of SEK

Property, plant and equipment	61,659
Inventories	6,278
Loans receivable	14,375
Trade and other receivables	1,989
Cash and cash equivalents	890
Trade and other payables	<u>(4,981)</u>
Net identifiable assets and liabilities	<u>80,210</u>
Total consideration	90,445
Goodwill on acquisition	10,235

Forthcoming information

Annual Report 2011	19 April 2012
Annual General Meeting	10 May 2012
Interim Report Q1	24 May 2012
Interim Report Q2	23 August 2012
Interim Report Q3	22 November 2012

Nomination Committee

The Nomination Committee is comprised of Anders F. Börjesson, Vostok Nafta (chairman); Leif Törnvall, Alecta; Oskar Rundlöf, Libra; and Louise Hedberg, East Capital. The Nomination Committee can be contacted via e-mail on info@rusforest.com.

Stockholm, 29 February 2012

RusForest AB (publ)
The Board of Directors

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