

# Year End Report 2014 Earnings Call

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31 March 2015



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# Company Overview

## Summary

- Swedish forestry company focused on Russia.
- Vertically integrated from timber leases to sawmilling.
- High-quality, slow-growth forests.
- Close proximity to main growth markets in Asia.
- Extensive Russian forestry experience from new management and major shareholder.

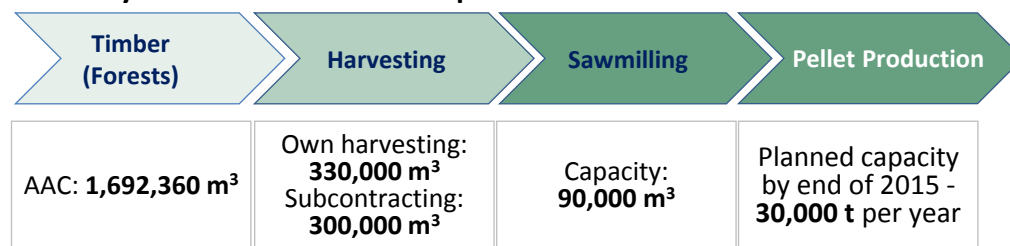
## Corporate Information

|                               |   |
|-------------------------------|---|
| <b>Stock Exchange Listing</b> | NASDAQ OMX Stockholm<br>First North ticker "RUSF" |
| <b>Share Price *</b>          | SEK 1.94  |
| <b>Shares Outstanding</b>     | 132,033,881                                       |
| <b>Market Capitalization</b>  | USD 29.8 million                                  |
| <b>Net Debt</b>               | USD -9.6 million                                  |
| <b>Enterprise Value</b>       | USD 20.2 million                                  |
| <b>Main Shareholder</b>       | Nova Capital (25.4%)                              |

\*Share price at closing on 30 March 2015. Net debt at 31 December 2014.



## Forestry value chain & annual capacities



AAC = Annual Allowable Cut; m<sup>3</sup> = cubic meters

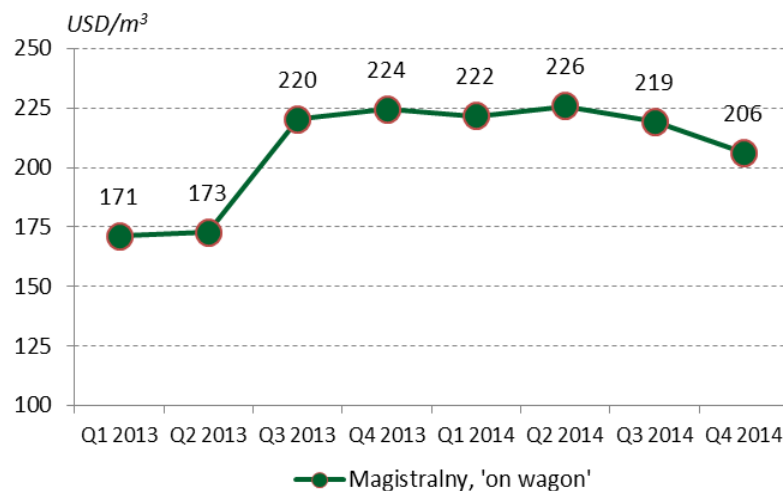
## Fourth Quarter 2014 Production and Sales

- Sawnwood production in Q4 2014 increased by 3% compared with last year, while sawlog harvesting increased by 11% due to more efficient management of the operations.
- Less sawlogs sold due to weak demand from Chinese market and focus on sawnwood output.
- The average sawnwood price realised (price 'on wagon') decreased by 8% in Q4 2014 compared with Q4 2013 to 206.2 USD/m<sup>3</sup>.
- Sales attributable to the Japanese market increased from 49% in Q4 2013 to 53% in Q4 2014.

|   | Fourth quarter |        | 12M     |         |
|---|----------------|--------|---------|---------|
|   | 2014           | 2013   | 2014    | 2013    |
| <b>Production &amp; sales continuing operations</b> |                |        |         |         |
| Sawlogs harvested, m <sup>3</sup>                   | 105,038        | 94,220 | 278,896 | 312,228 |
| Sawlogs harvested, m <sup>3</sup> (subcontracting)  | 106,379        | 68,174 | 320,210 | 222,414 |
| Sawnwood produced, m <sup>3</sup>                   | 21,368         | 20,805 | 78,826  | 70,924  |
| Sawlogs sold, m <sup>3</sup>                        | 19,670         | 25,176 | 78,312  | 106,942 |
| Sawnwood sold, m <sup>3</sup>                       | 20,355         | 19,733 | 78,088  | 73,566  |

*Production figures include Magistralny and Ust-Ilimsk operations but do not include the discontinued operations Arkhangelsk and Boguchany.*

Price development of sawnwood



## Fourth Quarter 2014 Financial Highlights

- Magistralny Q4 2014 adjusted EBITDA of USD 3.1 million (46% EBITDA margin)
- Positive full year EBITDA for the first time in the company's history. Magistralny full year adjusted EBITDA of USD 7.1 million (27% EBITDA margin).
- Profit from continuing operations of USD 3.1 million in Q4 2014, compared with a loss of USD 5.9 million in Q4 2013.
- Net loss of USD 5.0 million in Q4 2014, compared with loss of USD 54.5 million in Q4 2013.
- Cash balance of USD 10.0 million at 31 December 2014, compared with USD 3.6 million at 31 December 2013.

| USDm                                     | Fourth quarter |        | 12M    |        |
|--|----------------|--------|--------|--------|
|  | 2014           | 2013   | 2014   | 2013   |
| Revenue                                  | 7.1            | 8.1    | 27.4   | 34.0   |
| EBITDA adjusted*                         | 1.6            | 0.5    | 1.5    | (4.3)  |
| Profit/(loss) from continuing operations | 3.1            | (5.9)  | (2.9)  | 22.8** |
| Loss from discontinued operations***     | (8.1)          | (48.6) | (11.6) | (67.3) |
| Loss for the period                      | (5.0)          | (54.5) | (14.5) | (44.5) |
| Net loss per share (USD per share)       | (0.04)         | (0.41) | (0.11) | (0.41) |

|                     | 31 Dec 2014 | 31 Dec 2013 |
|---------------------|-------------|-------------|
| Cash balance        | 10.0        | 3.6         |
| Working capital**** | 7.2         | 10.1        |
| Net debt*****       | (9.6)       | 22.3        |

\*Detailed EBITDA calculation on page 5 of year end report 2014.

\*\*Includes gain from bond restructuring in the amount of USD 41.4 million.

\*\*\*Boguchany and Arkhangelsk business segments which were divested in 2014 are included in discontinued operations.

\*\*\*\*Calculated as inventory, trade & other current receivables (receivable from asset sale not included) less trade and other current payables .

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

# Fourth Quarter 2014 Income Statement

- Revenue decreased 12% in Q4 2014 compared with Q4 2013:
  - Sawnwood revenue down 8% due to lower prices.
  - Sawlog revenue declined significantly due to lower volumes and prices.
- Cost of sales decreased 47% in Q4 2014 compared with Q4 2013, due to operational improvement measures and the weakening Russian rouble. As a result gross profit margin in Q4 2014 was 55%, compared with 24% in Q4 2013.
- Significant financing income of USD 2.8, which mainly consists of FX gain on loans receivable from related parties and cash deposits.

| In thousands of USD  | Q4 2014        | Q4 2013         | 12M 2014        | 12M 2013        |
|--|----------------|-----------------|-----------------|-----------------|
| <b>Continuing operations</b>                               |                |                 |                 |                 |
| Revenue  | 7,137          | 8,112           | 27,429          | 33,987          |
| Cost of sales  | (3,241)        | (6,168)         | (18,204)        | (30,054)        |
| <b>Gross profit</b>  | <b>3,896</b>   | <b>1,944</b>    | <b>9,225</b>    | <b>3,933</b>    |
| Other income   | 192            | 413             | 422             | 2,063           |
| Distribution expenses                                      | (989)          | (1,636)         | (4,891)         | (6,669)         |
| Administrative expenditure                                 | (2,455)        | (2,279)         | (8,477)         | (10,853)        |
| Other expenses   | (199)          | (135)           | (1,526)         | (516)           |
| Impairment loss  | -              | (3,859)         | -               | (3,859)         |
| <b>Operating profit/(loss)</b>                             | <b>445</b>     | <b>(5,552)</b>  | <b>(5,247)</b>  | <b>(15,901)</b> |
| Financing income   | 2,801          | 12              | 3,333           | 93              |
| Gain from bond restructuring                               | -              | -               | -               | 41,404          |
| Financing cost   | (126)          | (471)           | (969)           | (2,895)         |
| <b>Net financing income/(cost)</b>                         | <b>2,675</b>   | <b>(459)</b>    | <b>2,364</b>    | <b>38,602</b>   |
| <b>Profit/(loss) before tax from continuing operations</b> | <b>3,120</b>   | <b>(6,011)</b>  | <b>(2,883)</b>  | <b>22,701</b>   |
| Income tax   | (11)           | 98              | (26)            | 111             |
| <b>Profit/(loss) from continuing operations</b>            | <b>3,109</b>   | <b>(5,913)</b>  | <b>(2,909)</b>  | <b>22,812</b>   |
| <b>Discontinued operations</b>                             |                |                 |                 |                 |
| Loss after tax from discontinued operations                | (8,081)        | (48,576)        | (11,632)        | (67,329)        |
| <b>Loss for the period</b>                                 | <b>(4,972)</b> | <b>(54,489)</b> | <b>(14,541)</b> | <b>(44,517)</b> |
| Attributable to:   |                |                 |                 |                 |
| Equity holders of the parent                               | (4,912)        | (54,321)        | (14,493)        | (45,270)        |
| Non-controlling interests                                  | (60)           | (168)           | (48)            | 753             |
| <b>Loss for the period</b>                                 | <b>(4,972)</b> | <b>(54,489)</b> | <b>(14,541)</b> | <b>(44,517)</b> |
| Loss per share   | (0.04)         | (0.41)          | (0.11)          | (0.41)          |

## Fourth Quarter 2014 Balance Sheet

- Balance sheet at 31 December 2014 significantly affected by divestments and RUB to USD depreciation.
- Magistralny and Ust-Ilimsk forest leases at zero-book value in the BS.
- Receivable from the sale of Arkhangelsk of USD 6.2 million at 31 December 2014.
- Cash balance of USD 10.0 million at 31 December 2014, compared with USD 3.6 million at 31 December 2013.
- Debt of USD 0.5 million at 31 December 2014. Consists of zero-coupon bonds maturing in 2018.
- Working Capital of USD 7.2 million at 31 December 2014, compared with USD 10.1 million at 31 December 2013.

| In thousands of USD   | 31 Dec 2014   | 31 Dec 2013    |
|---|---------------|----------------|
| Property, plant and equipment   | 14,914        | 68,441         |
| Forest lease rights   | -             | 14,406         |
| Intangible assets   | 98            | 334            |
| Deferred tax asset  | 6             | 4              |
| <b>Total non-current assets</b>   | <b>15,018</b> | <b>83,185</b>  |
| Inventory   | 1,750         | 10,368         |
| VAT refundable  | 1,530         | 6,229          |
| Trade and other receivables   | 1,563         | 5,684          |
| Receivable from assets sale   | 6,242         | -              |
| Current tax assets  | 52            | 54             |
| Loans receivable from third parties   | 93            | -              |
| Cash and cash equivalents   | 9,987         | 3,637          |
| <b>Total current assets</b>   | <b>21,217</b> | <b>25,972</b>  |
| Assets classified as held for sale  | -             | 19,562         |
| <b>Total current assets</b>   | <b>21,217</b> | <b>45,534</b>  |
| <b>Total assets</b>   | <b>36,235</b> | <b>128,719</b> |
| <b>Total Equity</b>   | <b>31,820</b> | <b>76,502</b>  |
| Loans and borrowings  | 479           | 17,884         |
| Deferred tax liability  | 6             | 4              |
| <b>Total non-current liabilities</b>  | <b>485</b>    | <b>17,888</b>  |
| <b>Current liabilities</b>  |               |                |
| Interest bearing loans and borrowings                                       | 6             | 8,053          |
| Trade and other payables  | 3,858         | 12,179         |
| Current tax liabilities   | 42            | 30             |
| Provisions  | 24            | 32             |
| <b>Total current liabilities</b>  | <b>3,930</b>  | <b>20,294</b>  |
| Liabilities directly associated with the assets classified as held for sale | -             | 14,035         |
| <b>Total current liabilities</b>  | <b>3,930</b>  | <b>34,329</b>  |
| <b>Total liabilities</b>  | <b>4,415</b>  | <b>52,217</b>  |
| <b>Total equity and liabilities</b>   | <b>36,235</b> | <b>128,719</b> |

# Fourth Quarter 2014 Cash Balance Reconciliation

- Positive cash flow from operating activities, as well as in total for the quarter.
- Proceeds from sale of subsidiaries (Boguchany and Arkhangelsk) and equipment (Ust-Ilimsk idle equipment) of USD 9.1 million.
- Repayment of loans and interest from related parties of USD 4.6 million.
- USD 5.0 million repayment of Vostok Nafta loan.
- Discontinued operations negative cash flow of USD 1.1 million.

| in thousands of USD   | Q4 2014        |
|---|----------------|
| <b>Cash balance 30 Sep 2014</b>                                 | <b>3,391</b>   |
| <i>including discontinued operations</i>                        | 5              |
| <b>Continuing operations</b>                                    |                |
| <b>Cash flow from operating activities</b>                      | <b>237</b>     |
| Net Investment in equipment                                     | (206)          |
| VAT refund on capital investments                               | 8              |
| Costs related to the sale of subsidiaries                       | (832)          |
| Proceeds from sale of subsidiaries& equipment                   | 9,068          |
| Repayment of loans & interest by related parties                | 4,573          |
| <b>Cash flow from investing</b>                                 | <b>12,611</b>  |
| Increase/(decrease) in loans payable                            | (5,004)        |
| Interest paid   | (90)           |
| <b>Cash flow from financing activities</b>                      | <b>(5,094)</b> |
| <b>Cash flow during the period from continuing operations</b>   | <b>7,754</b>   |
| <b>Discontinued operations</b>                                  |                |
| Cash flow from operating activities                             | 147            |
| Cash flow from investing activities                             | (591)          |
| Cash flow from financing activities                             | (639)          |
| <b>Cash flow during the period from discontinued operations</b> | <b>(1,083)</b> |
| Exchange-rate differences on cash balance                       | (75)           |
| <b>Cash balance 31 December 2014</b>                            | <b>9,987</b>   |
| <i>including discontinued operations</i>                        | -              |



# Conclusion

## Unique platform:

- Swedish forestry company focused on Russia.
- Vertically integrated from timber leases to sawmilling.
- High-quality, slow-growth forests.
- Close proximity to main growth markets in Asia.
- Extensive Russian forestry experience from new management and major shareholder.

## Next steps:

- Construction of pellet mill in Magistralny
- Consolidation of forestry assets in Ust-Ilimsk
- Further simplification of the corporate structure
- Additional reduction of administrative costs
- Optimization of our forest resources (possible sales and/or swaps)





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