



**Offering to subscribe for shares in
RusForest AB's (publ) new share issue 2010**



The Rights Issue in brief

Preferential right One (1) existing share entitles the holder to subscribe for two (2) new shares.	ISIN-codes Subscription right SE0003559681 Interim share (Sw. BTA) SE0003559699 Share SE0001732728
Subscription price For each subscribed share SEK 10 shall be paid in cash. ¹⁾	
Record date 15 October 2010.	
Subscription period 18 October – 1 November 2010.	Financial calendar The interim report for the nine months period ending on 30 September 2010 will be published on 23 November 2010. The year-end report for the period 1 January 2010 to 31 December 2010 will be published on 24 March 2011.
Subscription and payment with subscription rights Subscription with subscription rights shall be made by way of cash payment during the subscription period and not later than 1 November 2010. Vostok Nafta subscribes and pays for new shares with subscription rights through submitting a separate subscription list not later than 1 November 2010.	
Trading in subscription rights 19 October – 27 October 2010.	
Trading in interim shares (Sw. BTA) 19 October 2010 until the share capital increase has been registered.	
Subscription without preferential rights Subscription without preferential rights takes place through the subscriber submitting a separate subscription list not later than 1 November 2010.	
Settlement day for subscription without preferential rights Payment for shares subscribed without subscription rights shall be made in cash not later than the third banking day after a transfer note has been received by the subscriber.	
<small>1) The shareholder, Vostok Nafta, has the right to make payment for subscribed shares by way of set-off of the claim against the Company of in total SEK 85,356,700 (USD 12,220,000) calculated on the exchange rate SEK/USD 6.985 on 21 September 2010.</small>	

Definitions

AAC

mean Allowable Annual Cut

BFN

means the general guidelines of the Swedish Accounting Standards Board

BTA

means interim share

CTL

means cut-to-length

Dollar or USD

means US dollar

Euro or EUR

means the official currency of the European Union

Euroclear

means Euroclear Sweden AB (registration number 556112-8074)

First North

means NASDAQ OMX First North

FSC

means Forest Stewardship Council

Infa

means OOO Infa (registration number 1022900533160)

Kronor, kr or SEK

means Swedish kronor

LDK-3

means OAO Arkhangelskiy Iesopilno-derevoobrabatativaushchiy kombinat No 3 (registration number 1022900511809)

Nord Timber Group or NTG

means Amalage Limited (Cypriot registration number HE 211475) and its subsidiaries, unless otherwise indicated by the context

Standing price

means timber standing on root that is sold for final felling through a bidding process

Ruble or RUB

means the Russian ruble

RusForest, the Company or the Group

means RusForest AB (publ), previously Varyag Resources AB (publ), (registration number 556694-6421) and its subsidiaries, unless otherwise indicated by the context

RusForest Trading

means OOO TD RusForest

The Code

means the Swedish Corporate Governance Code

The Rights Issue

means the invitation to subscribe for shares with preferential rights for existing shareholders of RusForest AB (publ)

Tuba

means OOO Tuba-Les and ZAO Tubesprom

Vostok Nafta

means Vostok Nafta Investment Ltd. (registration number 39861) and its subsidiaries

Öhman

means E. Öhman J:or Fondkommission AB (registration number 556206-8956) which, is acting as financial advisor to the Company and issuing institution in connection with this Rights Issue

Important information

The Company has issued a Swedish language prospectus and an English translation thereof in connection with the new share issue (the "Rights Issue") of a maximum of 43,681,680 new shares with preferential rights for existing shareholders in RusForest AB (publ).

The Swedish prospectus is issued in accordance with the Financial Instruments Trading Act (1991:980) (Sw: *lag (1991:980) om handel med finansiella instrument*), Directive 2003/71/EC of the European Parliament and the Council, and Commission Regulation (EC) 809/2004. The prospectus has been approved and registered by the Swedish Financial Supervisory Authority (Sw: *Finansinspektionen*) in accordance with the provisions of chapter 2, sections 25 and 26 of the Financial Instruments Trading Act. The approval and registration do not imply that the Swedish Financial Supervisory Authority guarantees that statements of fact in the prospectus are accurate or complete.

The Rights Issue is not directed to shareholders in the United States of America, Canada, Russia, Japan or Australia or other countries where participation in the issue would require additional prospectuses, registration or measures other than those pursuant to Swedish law. Accordingly, this prospectus may not be distributed in countries where distribution would require such measures or would conflict with regulations in such country. Neither the subscription rights, the interim shares nor the new shares will be registered pursuant to the United States Securities Act 1933 (the "Securities Act") or any provincial law of Canada and may not be transferred or offered for sale in the United States of America or in Canada or to any person with a registered address in such country or for such person's behalf other than in such exceptional cases that do not require registration pursuant to the Securities Act or provincial laws in Canada.

This prospectus contains forward-looking statements made by the board of directors and is based on the board of directors' knowledge of current circumstances with respect to RusForest, market conditions and other current states of affairs. Potential investors should note that these statements, like all forecasts, are subject to uncertainties, and projections and expectations may turn out to be incorrect. Potential investors in RusForest must therefore read this prospectus carefully, and in particular the section entitled "Risk Factors". The prospectus also contains information from third parties. Such third party information has been accurately reproduced and, as far as the board of directors is aware, no information has been omitted that would make the information reproduced inaccurate or misleading. The figures reported in the prospectus have in some cases been rounded up or down, which explains why certain sums in the tables do not always tally. Except as expressly stated herein, no other parts of the prospectus have been reviewed or revised by the Company's auditors.

Each investor should consult its own advisors before subscribing or purchasing subscription rights, interim shares or shares in the Company. The distribution of this prospectus does not mean that the information contained herein is up to date as of any time after the date of this prospectus, or that the Company's business, results or financial standing has remained unchanged after this date. In the event that there are material changes in the information in the prospectus during the period from the date of publication but before the subscription period for the Rights Issue expires, such changes will be made public according to the provisions of the Financial Instruments Trading Act, which regulates the publication of supplements to the prospectus.

Öhman is financial advisor to RusForest and has also assisted RusForest with drafting this prospectus. Öhman has relied on information provided by the Company, and since all information in this prospectus originates from RusForest, Öhman does not accept any liability in relation to shareholders in the Company and other direct or indirect economic consequences resulting from investment decisions or other decisions wholly or partially based on information in the prospectus. Öhman is also the issuing institution for the Rights Issue. Öhman has no financial or other interests in the Rights Issue, apart from a fee, fixed in advance, for services provided in relation to the Rights Issue.

RusForest reserves the right, at its discretion, to reject or revoke any exercise of subscription rights, interim shares or shares in the Company which the Company or its advisors deem may involve a breach or violation of any legislation, rules or regulations.

Disputes concerning or related to the Rights Issue pursuant to this prospectus shall be settled exclusively in accordance with Swedish law and by Swedish courts. The district court of Stockholm (Sw. *Stockholms tingsrätt*) shall be the court of first instance. Ownership of shares or other financial instruments always entails a risk. An investment in RusForest entails a significant risk *inter alia* because the business is conducted through subsidiaries in Russia. An investment in the Company should be preceded by a thorough analysis of RusForest, its business and general information about Russia.

Except as set out in the auditors' report for the pro forma financial information on page 65 and of the auditors' audit reports, which are incorporated in this prospectus by reference, or otherwise expressly provided, no information in this prospectus has been reviewed or audited by the Company's current or former auditors.

THIS DOCUMENT IS AN ENGLISH TRANSLATION OF THE SWEDISH PROSPECTUS. IN THE EVENT OF ANY DISCREPANCY BETWEEN THIS ENGLISH TRANSLATION AND THE SWEDISH PROSPECTUS, THE SWEDISH PROSPECTUS SHALL PREVAIL.

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Summary

This summary should be viewed as an introduction to the prospectus. Any decision to subscribe for shares in the Company should be based on an assessment of the prospectus as a whole.

Investors who take legal action based on the information in the prospectus may be required to pay for the cost of translating the document. A person may be held responsible for the information that is included in or omitted from the summary, or the translation thereof only if the summary or the translation is misleading or inaccurate in relation to the other parts of the prospectus.

The Rights Issue in brief

Registered shareholders of RusForest as of the record date, 15 October 2010, have the right to subscribe for two new shares for one existing share. The subscription price is SEK 10 per share. Subscription of shares with subscription rights shall be made by way of cash payment during the period from and including 18 October up to and including 1 November 2010. The shareholder, Vostok Nafta, has the right to make payment for subscribed shares by way of set-off of the claim against the Company of in total SEK 85,356,700 (USD 12,220,000).¹⁾ Vostok Nafta subscribes and pays for new shares with subscription rights through submitting a separate subscription list not later than 1 November 2010.

Through the Rights Issue, the Company's share capital may be increased with a maximum of SEK 436,816,800 by way of an issue of up to 43,681,680 shares. The Company's share capital may thus be increased from SEK 218,408,400 to a maximum of SEK 655,225,200 and the number of shares in the Company from 21,840,840 shares to a maximum of 65,522,520 shares. In the event the Rights Issue is fully subscribed, the Company will receive approximately SEK 437²⁾ million in proceeds before deduction of costs and expenses related to the Rights Issue, which are expected to amount to approximately SEK 15 million.

Summary of terms, conditions and instructions

Preferential Right: Each existing share in RusForest entitles the holder to subscribe for two (2) new shares.

Subscription price: SEK 10 per share.

Last day of trading including right to receive subscription rights: 12 October 2010.

Record date: 15 October 2010.

Subscription period: 18 October – 1 November 2010.

Subscription with preferential rights and payment:

Subscription with subscription rights shall be made by way of cash payment during the subscription period. The shareholder Vostok Nafta, has the right to make payment for subscribed shares by way of set-off of the claim against the Company of in total SEK 85,356,700 (USD 12,220,000)¹⁾.

Vostok Nafta subscribes and pays for new shares with subscription rights by submitting a separate subscription list not later than 1 November 2010.

Subscription without preferential rights and payment:

Payment for shares subscribed without subscription rights shall be made not later than the third banking day after a transfer note has been received by the subscriber.

Trading in subscription rights: 19–27 October 2010.

Trading in interim shares: 19 October 2010 until the share capital increase has been registered.

Shareholders will be granted two (2) subscription rights for one registered share. For subscription of one (1) new share, one (1) subscription right is required. In order for subscription rights not to lose their value they must either be sold, no later than 27 October 2010, or exercised for subscription of new shares in RusForest no later than 1 November 2010. For further information, please see "*Terms, conditions and instructions*".

Reasons for the Rights Issue

RusForest refines the pine, larch, and spruce in its leased forest areas in Siberia into a wide range of sawnwood products, of which a smaller part is attributable to planed wood, flooring and other interior products, at two different sawmilling sites. The Company's objective is to become a leading independent integrated forestry and sawmill Company in Russia with an annual harvest of 1.8–2.0 million m³ and an annual sawmill production of 550,000–600,000 m³ during the next four years. However, a number of important measures remain to be implemented in order for the Company to be able to show satisfactory growth and be able to utilise the entire potential that Russian forestry offers. The Company intends to use the proceeds from the Rights Issue to finance future investments and further develop RusForest's existing operations. RusForest has entered into agreements to acquire the companies LDK-3 and Infa, which will expand RusForest's geographical presence into the Arkhangelsk Region and, after the restructuring, offer RusForest the opportunity to efficiently supply sawnwood to Europe, the Middle East and North Africa. LDK-3 and Infa were

1) Calculated on the exchange rate SEK/USD 6.985 on 21 September 2010.

2) Of the issue proceeds SEK 83,820,000 (USD 12,000,000) has been paid in advance by Vostok Nafta and the entire amount including accrued interest as of 21 September 2010 may be used for set-off in the Rights Issue. Accrued interest amounts as per 21 September 2010 to SEK 1,536,700 (USD 220,000).

acquired for approximately SEK 96 million from Northern Shipping Company. In order to carry out the acquisitions and the investments, the extraordinary shareholders' meeting on 8 October 2010 resolved to carry out the Rights Issue. Moreover, the proceeds will be used to repay the outstanding bond, including accrued interest, of in total SEK 57.5 million and repay the bridge financing, including accrued interest, received from Vostok Nafta of in total SEK 85.4 million (USD 12.2 million)¹. Vostok Nafta has the right to make payment for the subscribed shares in the Rights Issue by way of set-off of their claim.

Risk factors

Below is an overview of the material potential risks connected to an investment in RusForest: "Risk related to Russia", "Suppliers and customers", "Reliance on key personnel", "Forest leasing", "RusForest's share price and limited liquidity". The risks mentioned above are a summary of risk factors that are material to RusForest's operations or for an investment in shares or other securities issued by RusForest. For more detailed information, please see the section "Risk Factors".

RusForest in brief

RusForest is a forestry company conducting operations in eastern Siberia. Through the acquisition of LDK-3 and Infa, the Company will expand its geographical presence to include Arkhangelsk in north-western Russia. Since its establishment in 2006, RusForest has increased its controlled forest land and sawmilling capacity both by way of strategic acquisitions and own development projects. Through leasing agreements the Company controls approximately 860,000 hectares of forest land with an annual allowable cut of approximately 1.44 million m³. As a result of the acquisition of LDK-3, the Company expects to gain access to another 177,200 m³ of annual allowable cut in the Arkhangelsk region.²

RusForest's principal business concept is to refine the pine, spruce and larch in its forest leases into a wide range of sawnwood products, of which a smaller share is attributable to planed products, flooring and other interior products. The Group's total sawmilling capacity, which currently amounts to approximately 200,000 m³, is expected to increase to approximately 550,000 m³ – 600,000 m³ in connection with improvements made at the existing sawmills, the completion of the sawmill at RusForest Magistralny and the acquisition of LDK-3.

1) Calculated on the exchange rate SEK / USD 6.985 on 21 September 2010.

2) The acquisition of LDK-3 and Infa is contingent of Russian anti-monopoly approval, which is expected to be attained before year end.

Summary

Financial information

The following summary of RusForest's financial statements should be read in conjunction with the section "Comments on financial development" and RusForest's audited consolidated financial statements and notes pertaining thereto for the years 2007–2009 as well as the unaudited interim report for the period 1 January – 30 June 2010, all of which are incorporated in this prospectus by reference.

Summary of consolidated income statements

In thousands of SEK	IFRS				BFN	
	Jan–Jun 2010 (6 months) Unaudited	Jan–Jun 2009 (6 months) Unaudited	Jan–Dec 2009 (12 months) Audited	Jan–Dec 2008 (12 months) Audited	Jan–Dec 2008 (12 months) Audited	Jan–Dec 2007 (12 months) Audited
Turnover	187,139	21,590	207,526	–	–	–
Cost of sales	(173,338)	(22,938)	(201,101)	–	–	–
Gross Profit	13,801	(1,348)	6,425	–	–	–
Other income	14,935	1,597	20,209	968	968	903
Distribution expenses	(49,825)	(4,590)	(49,726)	–	–	–
Administrative expenditure	(43,938)	(20,935)	(65,328)	(26,020)	(26,020)	(20,310)
Loss disposal of interest	–	–	–	(19,324)	(19,324)	–
Other expenses	(8,247)	(18,286)	(25,166)	(47,393)	(47,393)	(7,688)
Operating profit	(73,273)	(43,562)	(113,586)	(91,769)	(91,769)	(27,095)
Financing items	(8,453)	8,953	5,717	28,991	28,991	11,358
Net financing income	(81,727)	(34,609)	(107,869)	(62,778)	(62,778)	(15,736)
Income from acquisition of RusForest	–	380,009	380,009	–	–	–
Goodwill impairment	–	–	(142,570)	–	–	–
Share of losses from associates	–	–	–	(5,925)	–	–
Profit before tax	(81,727)	345,400	129,570	(68,703)	(62,778)	(15,736)
Tax on the period's earnings	14,183	1,288	7,603	–	–	(61)
Profit/loss for the period from continuing operations	(67,544)	346,688	137,173	(68,703)	(62,778)	(15,797)
Profit from discontinued operations	(15,464)	(17,920)	(19,501)	(33,614)	–	–
Profit for the period	(83,008)	328,769	117,672	(102,317)	(62,778)	(15,797)

Summary of consolidated balance sheets

In thousands of SEK	IFRS			BFN	
	30 June 2010 Unaudited	31 Dec 2009 Audited	31 Dec 2008 Audited	31 Dec 2008 Audited	31 Dec 2007 Audited
Property, plant and equipment	661,939	656,632	71	71	97
Investments in associates	2,414	2,300	173,940	217,836	171,346
Other non-current assets	44,597	34,104	9,180	9,180	–
Inventory	40,411	42,747	–	–	–
Trade and other short-term receivables	65,700	64,586	205,910	333,837	111,074
Cash and cash equivalents	8,301	26,085	55,704	55,704	318,095
Assets classified as held for sale	114,562	128,525	141,419	–	–
Total assets	937,924	954,978	586,224	616,627	600,612
Equity	668,975	708,994	546,251	614,852	595,106
Non-current interest-bearing loans and borrowings	14,378	20,218	–	–	–
Other non-current liabilities	60,273	62,161	–	–	–
Current interest-bearing loans and borrowings	83,429	37,727	–	–	–
Other current liabilities and provisions	92,866	82,385	1,776	1,776	5,505
Liabilities directly associated with the assets classified as held for sale	18,005	43,494	38,198	–	–
Total equity and liabilities	937,924	954,978	586,224	616,627	600,612

Summary of consolidated cash flow statements

In thousands of SEK	IFRS				BFN	
	Jan–Jun 2010 (6 months) Unaudited	Jan–Jun 2009 (6 months) Unaudited	Jan–Dec 2009 (12 months) Audited	Jan–Dec 2008 (12 months) Audited	Jan–Dec 2008 (12 months) Audited	Jan–Dec 2007 (12 months) Audited
Cash flow from operating activities	(32,311)	(13,561)	(37,956)	(9,391)	(9,391)	(12,546)
Cash flow from investing activities	(16,016)	(17,314)	(6,526)	(244,196)	(244,196)	(173,470)
Cash flow from financing activities	29,849	18,942	15,463	(390)	(390)	195,676
Cash flow during the period	(18,479)	(11,933)	(29,019)	(253,977)	(253,977)	9,660
Cash and cash equivalents, beginning of period	26,085	55,704	55,704	318,095	318,095	316,100
Exchange rate differences on cash and cash equivalents	695	(1,383)	(601)	(8,414)	(8,414)	(7,665)
Cash and cash equivalents, period end	8,301	42,388	26,084	55,704	55,704	318,095

Summary

Principles for the preparation of the pro forma financial information

The pro forma financial information has been prepared solely for the purpose to provide information about and illustrate:

- how RusForest's consolidated income statement for the period 1 January to 30 June 2010 might have been affected if the acquisition of 86 per cent of the shares in LDK-3 and 100 per cent of the participatory interest in Infa as well as the sellers' receivables in respect of LDK-3 had been completed and the Rights Issue, to which the offer in this prospectus refers, had been fully subscribed and completed as of 1 January 2010; and
- how RusForest's consolidated balance sheet as of 30 June 2010 might have been affected if the acquisition of 86 per cent of the shares in LDK-3 and 100 per cent of participatory interest in Infa as well as the sellers' receivables in respect of LDK-3 had been completed and the Rights Issue had been fully subscribed and completed as of 30 June 2010.

The purpose of the pro forma financial information is solely to inform and illustrate facts as well as describe a hypothetical situation and the purpose is not to present RusForest's actual profit and financial position if the acquisition had been completed at the dates stated. It is not the purpose of the pro forma financial information to show the results of the operations for a future period.

Pro forma consolidated income statement

TSEK	1 January – 30 June 2010							
	RusForest interim report	Adjustments for the acquisition of LDK-3 and Infa				Total LDK-3 and Infa	Note 4: Adjustments for the Rights Issue	Total
		Note 1: Russian GAAP	Note 2: IFRS	Note 3: Acquisi- tion analysis				
	IFRS							
Turnover	187,139	83,428	–	–	83,428	–	270,567	
Cost of sales	(173,338)	(60,675)	–	(1,134)	(61,809)	–	(235,147)	
Gross profit/loss	13,801	22,753	–	(1,134)	21,619	–	35,420	
Other income	14,935	73,119	(72,068)	–	1,051	–	15,986	
Distribution expenses	(49,825)	(8,363)	–	–	(8,363)	–	(58,188)	
Administrative expenditure	(43,938)	(7,162)	–	–	(7,162)	–	(51,100)	
Other expenses	(8,247)	(77,131)	70,649	(2,000)	(8,482)	–	(16,729)	
Operation profit/loss	(73,274)	3,216	(1,419)	(3,134)	(1,337)	–	(74,611)	
Financing income	292	–	–	–	–	1,620	1,912	
Financing cost	(8,746)	(2,063)	–	–	(2,063)	–	(10,809)	
Net financing income/cost	(8,454)	(2,063)	–	–	(2,063)	1,620	(8,896)	
Income from acquisition of RusForest	–	–	–	–	–	–	–	
Goodwill impairment	–	–	–	–	–	–	–	
Profit/loss before tax from continuing operations	(81,728)	1,153	(1,419)	(3,134)	(3,400)	1,620	(83,508)	
Income tax	14,183	(582)	–	227	(355)	(426)	13,402	
Profit/loss for the year from continuing operations	(67,545)	571	(1,419)	(2,907)	(3,756)	1,194	(70,106)	
Discontinued operations	(15,464)	–	–	–	–	–	(15,464)	
Profit/loss after tax for the year from discontinued operations	–	–	–	–	–	–	–	
Profit/loss of the period	(83,008)	571	(1,419)	(2,907)	(3,756)	1,194	(85,570)	
Attributable to:								
Equity holders of the parent	(82,273)	–	–	(533)	(533)	–	(82,806)	
Non-controlling interests	(735)	–	–	(315)	(315)	–	(1,050)	
Loss for the period	(83,008)	–	–	(848)	(848)	–	(83,856)	

Pro forma consolidated balance sheet

TSEK	30 June 2010							
	RusForest interim report	Adjustments for the acquisition of LDK-3 and Infa				Total LDK-3 and Infa	Note 4: Adjustments for Rights Issue	Total
	IFRS	Note 1: Russian GAAP	Note 2: IFRS	Note 3: Acquisi- tion analysis				
ASSETS								
Non-current assets								
Goodwill	–	–	–	–	–	–	–	–
Property, plant and equipment	661,939	29,373	–	18,145	47,518	–	–	709,457
Investments in associates	2,414	–	–	–	–	–	–	2,414
Other long-term receivables	8,011	1,407	–	–	1,407	–	–	9,418
Deferred tax asset	36,586	10,322	–	–	10,322	–	–	46,908
Total non-current assets	708,950	41,102	–	18,145	59,247	–	–	768,197
Current assets								
Inventory	40,411	50,030	–	–	50,030	–	–	90,441
Trade and other receivables	64,970	36,318	–	–	36,318	–	–	101,288
Loan receivable	730	46	–	–	46	–	–	776
Cash and cash equivalents	8,301	3,092	–	(98,041)	(94,949)	422,114	–	335,466
Total current assets	114,412	89,486	–	(98,041)	(8,555)	422,114	–	527,971
Assets classified as held for sale	114,562	–	–	–	–	–	–	114,562
Total assets	937,924	130,588	–	(79,896)	50,692	422,114	–	1,410,730
EQUITY								
Equity and reserves								
Share capital	218,408	9,883	–	(9,883)	–	436,819	–	655,227
Share premium	556,687	16,124	–	(16,124)	–	–	–	556,687
Translation reserve	65,423	14	–	(14)	–	–	–	65,423
Retained earnings	(86,693)	10,348	–	(10,348)	–	(10,838)	–	(97,531)
Income for the period	(82,273)	(848)	–	(1,152)	(2,000)	–	–	(84,273)
Total equity attributable to shareholders of the Group	671,552	35,521	–	(37,522)	(2,000)	425,981	–	1,095,533
Non-controlling interests	(2,578)	–	–	4,116	4,116	–	–	1,538
TOTAL EQUITY	668,974	35,521	–	(33,406)	2,116	425,981	–	1,097,071
LIABILITIES								
Non-current liabilities								
Interest-bearing loans and borrowings	14,378	–	–	–	–	–	–	14,378
Loans payable to related companies	8,008	–	–	–	–	–	–	8,008
Deferred tax liability	52,265	299	–	4,772	5,071	–	–	57,335
Total non-current liabilities	74,650	299	–	4,772	5,071	–	–	79,721
Current liabilities								
Interest bearing loans and borrowings	83,429	32,018	–	(18,101)	13,917	–	–	97,346
Trade and other payables	92,866	62,750	–	(33,161)	29,588	(3,867)	–	118,587
Total current liabilities	176,295	94,768	–	(51,262)	43,506	(3,867)	–	215,933
Liabilities directly associated with the assets classified as held for sale	18,005	–	–	–	–	–	–	18,005
TOTAL LIABILITIES	268,950	95,067	–	(46,490)	48,576	(3,867)	–	313,659
TOTAL EQUITY AND LIABILITIES	937,924	130,588	–	(79,896)	50,692	422,114	–	1,410,730

Working capital statement

There will not be sufficient working capital (including for example investments mentioned below) to meet the Company's needs during the coming 12-months period. The Company estimates that the shortage in the above mentioned working capital may occur in November 2010 and estimates that the current working capital need during the coming 12-months period will amount to approximately SEK 422 million. The Company's current needs consist of repayment of the bridge financing, including accrued interest, to Vostok Nafta in the amount of approximately SEK 85.4 million (USD 12.2 million)¹⁾, and the acquisition of LDK-3 and Infa in the amount of approximately SEK 96 million (LDK-3 is a sawmilling plant situated in Arkangelsk, which has a forest lease with an annual allowable cut of 177,200 m³, and Infa is a planing facility located at the same site). The current needs also include investments in acquired and already existing companies, as well as repayment of the outstanding bond, which matures for payment in February 2011, in the amount of SEK 57.5 million in total, including accrued interest.

In order to secure the Company's need for working capital, the Company is carrying out a rights issue with preferential rights for the Company's shareholders, whereof 43 per cent have been subscribed for through a subscription undertaking (for additional information, see "*Subscription undertaking*" under "*Legal considerations and additional information*"). The Company estimates that the proceeds of approximately SEK 422 million²⁾, after issue expenses, that will be provided to the Company in connection with the Rights Issue will be sufficient to finance the current needs during the coming 12-months period. If the Rights Issue provides less than SEK 422 million to the Company, the Company may reduce the investment rate or refrain from investments. If required, the Company may also accelerate the sale of the subsidiary Russian Gravel Co.,³⁾ with a book value of SEK 114.6 million as of 30 June 2010.

Outlook

The outlook for both the sawnwood and gravel markets have improved in line with the stabilisation of the global economic situation and a more positive GDP development. During the first six months, the prices for sawnwood improved, reflecting a general recovery in demand.

The measures to increase the efficiency of existing operations entail a significant focus on increased management capacity in the regions in combination with an adopted plan to clear bottlenecks in production at all sawmills. This plan should enable the Boguchansky sawmill to almost double its production of kiln dried sawnwood, as a share of the production to date has been sold un-dried. In addition, the dry sorting line at Boguchansky LPK will be upgraded to enable the Company to sort larger volumes of sawnwood in accordance with customer demands.

At RusForest Ust-Ilimsk, minor replacement works will be performed during 2011/2012. At the same time, a new development plan is being prepared with the objective to determine the future industry structure at the site. As at the sawmill in Boguchansky, investments in more developed dry sorting capacity will be carried out.

An improvement of the technical conditions at RusForest's sawmills will result in a higher average value for the produced sawnwood and will enable the Company to reduce headcount. In the same way as with the efforts at the harvesting operations, the continuing restructuring of the sawmilling operations entails a combination of increased investment for improvement of plants and production lines coupled with more stringent requirements on the management.

The RusForest Magistralny sawmill is currently under construction and only assembly and installation works remains. The sawmill has a base capacity of 100,000 – 150,000 m³ and is estimated to be launched for trial operations during the second quarter of 2011.

Through the acquisition of LDK-3 and Infa, RusForest can now establish itself as one of a few pan-Russian forestry companies with operations in both Siberia and in the European part of Russia.⁴⁾ This provides significant opportunities for the Company to efficiently export its products to both the European and the Asian markets.

The goal to acquire and consolidate significant forest assets is about to be achieved, and RusForest is focusing on fully utilising its significant forest resources, improving productivity and increasing sawmilling capacity and the share of value-added for the products. In the long-term, RusForest will continue to work towards becoming a leading independent integrated forest and sawmill company in Russia with an annual harvesting volume of 1.8–2.0 million m³ and annual sawnwood production of 550,000–600,000 m³ in the next four years.

1) Calculated using the exchange rate SEK/USD 6.985 as of 21 September 2010.

2) Of the issue proceeds, SEK 83,820,000 (USD 12,000,000) has been paid in advance by Vostok Nafta and the entire amount including accrued interest may be used for set-off in the Rights Issue. As of 21 September 2010 the accrued interest amounted to SEK 1,536,700 (USD 220,000).

3) Russian Gravel Co. is part of the Group as assets classified as held for sale.

4) The acquisition of LDK-3 and Infa is contingent of Russian anti-monopoly approval, which is expected to be attained before the year end.

Major shareholders

As of 30 September 2010, the number of shareholders in RusForest was in total approximately 1,400. The table below shows the ten largest owners as at 30 September 2010.

Shareholders	Number of shares	Number of shares and votes, %
Vostok Nafta	9,388,403	43.0%
Alecta Pensionsförsäkring	1,500,000	6.9%
Staffan Rasjö	1,308,778	6.0%
Fonden Zenit	913,000	4.2%
SEB Östeuropafond	532,400	2.4%
SEB Private Bank S.A.	492,052	2.3%
Aleksandr Williams	471,768	2.2%
Avanza Pension	420,112	1.9%
EFG Private Bank S.A.	420,000	1.9%
Handelsbankens Nordiska	340,450	1.6%
Other	6,053,877	27.7%
Total	21,840,840	100.0%

Board of directors, management and auditors

RusForest's board of directors consists of Sven Hirdman (chairman of the board), Franz Bergstrand, Per Brilioth, Torbjörn Gunnarsson, Jerker Karlsson and Johan Unger. Members of the management are Martin Hermansson, Anders F. Börjesson and Vitaly Zhukov. The Company's auditor, as of the annual shareholders meeting 2010, is KPMG AB with Carl Lindgren as auditor in charge. For more information about the board members, management and the Company's auditors, see section "Board of directors, management and auditors" on pages 69–72.

Related party transactions

Vostok Nafta has provided two partial advance payments in respect of its participation in the Rights Issue to allow RusForest to immediately continue the work with key projects and to cover working capital needs. The advance payments have been provided in the form of two short-term loans (unsecured), each amounting to SEK 41.9 million (USD 6 million)¹⁾ and with a duration until 30 November 2010 and a fixed annual interest rate

of 15 per cent. Vostok Nafta has the right to pay for subscribed shares in the Rights Issue by way of set-off of these short-term loans.²⁾ In addition, Vostok Nafta has provided two loans to RusForest amounting to approximately SEK 7.7 million (USD 1.1 million)¹⁾ with a duration until 15 June 2011 and a fixed annual interest rate of 8 per cent.

RusForest has otherwise not provided any commitments, loans, guarantees for the benefit of board members, shareholders or auditors of RusForest. Except for the managing director's right to severance payment, none of the board members or the managing director have entered into any agreements regarding benefits once their assignments have been terminated. None of the board members has any direct or indirect participation in any business transaction with RusForest, apart from the loans from Vostok Nafta as described above that are or were unusual in their nature or as regards their terms and conditions and which occurred during the current or previous financial year. This also applies to transactions that in some aspects remain unregulated or unfinished. Nor have the auditors participated in any business relations according to the above.

Trading in RusForest's shares

RusForest's shares are traded under the ticker RUSF on First North with the ISIN-code SE0001732728. The Company's Certified Adviser is Öhman. RusForest has entered into an agreement with Carnegie Investment Bank AB ("Carnegie") pursuant to which Carnegie will act as a liquidity provider. In its role as liquidity provider Carnegie shall provide buy- and sell-volume equivalent to a minimum of SEK 50,000 in order to achieve a spread of maximum four per cent between the asking and selling prices. Each share comprises one trading post.

Miscellaneous information

According to the articles of association, adopted at the extraordinary shareholders meeting held 24 June 2010, the Company's share capital shall amount to not less than SEK 200,000,000 and not more than SEK 800,000,000 and the number of shares shall be not less than 20,000,000 and not more than 80,000,000.

1) Calculated on the exchange rate SEK / USD 6.985 on 21 September 2010.

2) Accrued interest amounts as per 21 September 2010 to SEK 1,536,700 (USD 220 000).

Risk factors

Potential investors should carefully consider the risks described below and all of the information contained in this prospectus prior to making an investment decision. Should any of the following risks actually occur, RusForest's business, financial condition or results of operations may be adversely affected. The value of the shares could decline, and investors may lose all or part of their investment. The order in which these risks are presented is not an indication of the likelihood of their occurrence or of their severity or significance. Below is a description of certain risks and uncertainties which, in the Group's opinion, are of material importance. These risks and uncertainties, however, are not the only risks which may affect RusForest's business. Other risks and uncertainties, including risk factors that the Group at present does not consider to be material or is not aware of, may also have an adverse effect on RusForest's business, financial condition, results of operation, future prospects or may result in investors losing all or part of their investment. The prospectus also contains forward-looking statements which are contingent on future risks and uncertainties. RusForest's results of operations may differ materially from the forecast in the forward-looking statements as a consequence of several factors, including, but not limited to, the risks described below or elsewhere in this prospectus. In addition to these risk factors, an investor in RusForest should carry out a general analysis of the corporate culture in Russia, additional information in this prospectus and general information about growth companies in Russia.

Political risk and market risk

Risk associated with Russia

An investment in RusForest's shares is associated with risks that are normally related to owning and managing investments in general. Moreover, an investor should observe the specific risks related to ownership and investment management in Russia. Investment activities in Russia imply a high risk and demand specific considerations, including those mentioned below, that are not normally associated with investing in shares in more established markets. Investments in Russia are thus only suitable for investors capable of understanding the risks involved and able to bear the potential economic loss. Since the economy is still in a developing phase, the investments are affected by extraordinary performance variations. Factors beyond the control of RusForest may adversely affect the value of RusForest's equity. It will be more difficult for the Group to exercise and defend its rights in Russia compared to more established economies. Russia does not have a fully developed legal system comparable to those of more developed countries. Property rights are, for example, not as well developed. Existing laws and regulations are often inconsistently applied and the independence as well as the efficiency of the judiciary system is still a significant risk for potential investors and existing stakeholders. Legislative changes have been and are likely to continue to be rapid and it is still difficult to anticipate the impact of legislative changes and decisions

on RusForest or the market segments in which RusForest is and will be present.

Russia has over the recent decades undergone profound political and social changes. The value of RusForest's assets may be affected by uncertainties such as political or diplomatic developments, social and religious instability, changes in government policies, taxation and interest rates, currency restrictions and other political and economic developments in the law or regulations in Russia. In particular, these risks may involve expropriation, nationalisation (it is not known with any certainty whether the privatisation and marketisation processes will continue at the same pace or whether they will be curtailed or abandoned altogether) and confiscation of assets and changes in legislation relating to the level of foreign ownership.

Market risk

The Group's export prices are based on international prices of sawnwood. External factors such as the general macroeconomic development, housing construction, geopolitical developments, natural disasters and fluctuations of USD in relation to other currencies affect the prices of sawnwood and thereby export prices.

Operational risks

Suppliers and customers

RusForest depends on an adequately functioning co-operation with its suppliers. Should the co-operation with these suppliers be obstructed or discontinued, RusForest would have to replace them with new suppliers. This could have a negative impact on the Company's result and general position. Moreover, RusForest depends on its customers. Should RusForest for whatever reason, lose customers or be unable to attract new customers, the Company's result and general position may be adversely affected. RusForest does not, however, depend on any specific supplier or customer.

Dependence on key employees

The Group's success depends largely on the continued ability to identify, hire and retain qualified and experienced executives and other key employees. The Group's ability to hire and retain qualified people depends on a number of factors, some of which are beyond RusForest's control, including the competitive environment in the local employment markets in which the Group operates. The loss of a managing director or any other key employee due to, for example, such employee leaving to work for a competitor or retiring, may result in a loss of important know-how and may significantly delay or prevent the achievement of development objectives or the implementation of the Group's business strategy. If the Group is unable to hire or retain qualified and experienced executives and key employees, this could have a material

adverse effect on the Group's business, financial condition and results of operations and general condition. In order to prevent the loss of the Company's most talented personnel and to attract suitable personnel, RusForest's board of directors approved an employee option plan in the spring of 2010, which is expected to be allocated to the key employees during late autumn 2010 and spring 2011.

Energy prices

RusForest's energy costs are attributable to transportation and production. The costs for transportation are mainly dependent on oil and fuel prices. The production costs are primarily dependent on the general development of the energy market, as well as of the price levels of raw materials that are used as fuel in RusForest's production facilities. Changes in the price of fuel, raw materials for energy production and energy might lead to a significant increase of the operating costs of the Group, and a decrease of RusForest's profitability to the extent such an increase of the costs cannot be compensated through increased pricing of the Group's products.

Supply of timber

The Group's annual allowable cut (AAC) is sufficient to cover the Company's current raw material needs (sawlogs). Locally, such as in Boguchansky LPK, timber shortages have arisen from time to time. Due to the seasonality of harvesting and transportation of timber from the forest, the risk of sawlog shortages always exists and may be affected by unfavorable weather conditions during the harvesting season. Historically, this has been caused mainly by insufficient road construction to be able to reach suitable harvesting areas during the summer season.

In order to reduce the risk of sawlogs deficits, the Group enters into contracts with external suppliers of sawlogs and implements an extensive programme for road construction in the areas suitable for harvesting during the summer season.

Thus, during the winter season, the Group focuses on harvesting in areas that are the longest distance from the sawmills and the areas where the least favourable terrain conditions are present which therefore reduce the requirement for investments in new roads. This means that it is possible to minimise idle time in the sawmills and consequential losses. Purchased sawlogs can be twice as expensive compared to sawlogs derived from the Group's own harvesting operations, which therefore adversely affects the Group's cost of sales.

Construction of snow stocks and watering is used pending completion of the road network. Further, the number of trucks is constantly adjusted to facilitate maximum use of the transport capacity from the forest.

Railway transport

The Group transports substantially all sawnwood via the Russian railway (RZD) to the final customers. According to current legislation, RZD must provide railway cars in accordance with the plan submitted by the Group, three days before the planned month. In practice, RZD exercises considerable discretion when providing railway cars. Since RZD prefers to assist steel companies and companies with loading facilities on the main lines of the railway, there is no guarantee that RZD will continue to provide the Group with railway cars on time or fulfil the Group's plans. The maximum failure rate in providing railway cars has historically amounted to 20 per cent of the requested number, but this level may be exceeded in the future.

Forest leases

RusForest's forests are all the property of the Russian state and are leased for a period equivalent to up to 49 years. There are few or no cases where forest leases have been cancelled or terminated unilaterally in Russia, but a failure to pay the rent or to provide forestry maintenance or failure to fulfil the other provisions of the agreement may lead to a court judgment terminating the agreement. In general, the authorities have a right to initiate such proceedings in the event that the rent has not been paid for more than two consecutive periods (quarterly), (in some cases a period of three consecutive periods (monthly)). However, the Company always has the possibility of paying the rent before the court procedure is initiated which would lead to the right to continue to use the lease.

The forest lease Annual Allowable Cut - AAC is regulated by the volume of mature and harvestable forest on the leased land. This harvesting quota may be adjusted as a result of re-assessment of a specific section of the forest. However, such adjustments are usually of a marginal nature (+ max 5-10 per cent).

Production facilities

The Group is working on prevention and continuous maintenance of their production facilities to maintain none disrupted operation. The production facilities are important for RusForest's operations. If production facilities or other equipment would be seriously damaged, destroyed or for some reason have to be closed, this can lead to decreased income for RusForest because of reduction in production.

Investments

RusForest continuously invests in existing production facilities to form a competitive group and follow the Company's long term strategic goals. Investments consist in part of large investments in order to develop the business through increased efficiency and increased capacity, and in part of smaller, maintenance-related investments.

Risk factors

There is no guarantee that RusForest's investments will generate return high enough to cover the initial investment or be in line with market returns for similar investments. Information on planned, future and previous years' investments is available in the section "*Comments on financial development*".

Operational risk

Operational risk is the risk attributable to inadequacies or failures in the Group's IT and control systems and the risk of human error and natural disasters. The Group's systems are evaluated, maintained and upgraded continuously; however inadequacies in these systems could have a material adverse effect on the Group's business, financial condition and general condition. In Russia and other developing countries it is not always possible to insure forest assets against, e.g. fire and storm, as is customary in Sweden, regardless of whether these factors are contingent on human negligence. This may lead to a lack of compensation in the event RusForest's forest leases suffer from any of these events. The Company's forest leases have not, however, been affected by the fires which were widely reported in the media during the summer of 2010.

Reputation risk

The risk of loss of reputation as a result of negative publicity regarding the Group's business (whether true or false) may result in loss of customers, reduced revenues and litigation against the Group. The Group has implemented procedures to minimise this risk.

Corporate governance risk

RusForest's business is conducted through a number of Russian subsidiaries. Abuse of corporate governance remains a common problem in Russia. Shareholders in Russia can face a range of abuses *inter alia* in connection with, divestment of assets, intra-group pricing, dilution, limited access to shareholders' meetings and restrictions for third party investors from being represented on the company boards. Divestment of assets and transactions with close related parties are common practice. Intra-group pricing is widely used by holding companies to transfer value from their subsidiaries and third party investors to various types of holding companies. It happens that companies omit to comply with the laws that regulate share issues such as adequate pre-notification for exercise of preferential rights.

Obstruction of share registration is also prevalent. While independent certified registrars must administer most share registers, some are still in the hands of companies' management, thus leading to possible share register manipulation. Management could thereby undertake major strategic steps without obtaining the required consent from the shareholders. The shareholders'

possibilities to exercise their rights in a correct and representative manner at the annual shareholders' meeting, to express opinions and take decisions are thus materially obstructed.

Inadequate accounting rules and standards could impede the development of an efficient system for remedying abuses and to promote enhanced transparency. Shareholders can hide their ownership by acquiring shares through offshore shell-company structures, not traceably connected to the beneficial owner, which gives rise to insider dealings and conflicts of interest. The Russian Financial Supervisory Authority's role, as regulator of the stock market to guarantee transparency and to disclose abuses is undermined by lack of legal and administrative enforcement tools. Flaws in corporate governance legislation, legal enforcement and Company legislation may lead to hostile take-overs, whereby minority shareholders' rights may be ignored or be abused.

Acquisitions

RusForest has recently acquired shares in a number of Russian companies. The acquisitions have increased RusForest's control over forests and will contribute to creating a solid platform for RusForest to run operations in the Arkhangelsk Region.

The Company has *inter alia* resolved to acquire 86 per cent of the shares in LDK-3 and 100 per cent of the participatory interest in Infa, this is contingent of Russian anti-monopoly approval which is expected to be attained before year-end. However, there are always risks related to business acquisitions which are different from the risks RusForest faces in its other operations. In addition to company-specific risks, acquisitions imply risks that customers, suppliers or key personnel choose to end their relations with the acquired company or other companies in the Group. In relation to the acquisition of LDK-3 and Infa there is also a risk that the approval of the transaction is not obtained. Should one or more of these risks materialise, it could have negative consequences for RusForest.

Other risks

The general economic environment on an international level may affect the Group's operations considerably. Inflation, unemployment and developments of the gross national product are directly linked to the economic framework for each country and any variation thereof and the economic environment in general may create chain reactions in all areas thereby affecting the Group. In particular the correlation between the international new housing market and the price of sawnwood is traditionally high. This can only be counteracted by domestic or nearby situated countries if these have more favourable growth than the average.

Legal risks

Legislation, regulation and disputes

RusForest's operations are subject to numerous laws, regulations, rules, agreements and guidelines, among others pertaining to the environment, health and safety, trade restrictions, competition laws and currency regulations. With focus on operations at the local or regional level and with support centrally from the Group, RusForest will strive to continuously comply with the rules and regulations applicable in each market and RusForest works to adjust the Group to identified future changes in relevant areas. Changes in legal frameworks, customs regulations and other trade restrictions, price and currency controls and other official guidelines in the countries where RusForest has operations may however affect the Group's business and future development of operations.

Companies within the Group are from time to time involved in disputes during the course of their ordinary business and risks, like other actors in RusForest's market, being subject to claims concerning e.g. contractual matters, product liability and alleged errors in delivery of goods and services. Such disputes and claims may be time consuming, disrupt normal business, concern large amounts and entail significant costs. Further, the outcome of complex disputes may be difficult to predict. See also "*Legal considerations and additional information*".

Taxation risks

Russian tax law and practice is not as clearly established as their equivalents in the Western countries.

The Russian tax system is subject to varying interpretations, frequent changes and inconsistent enforcement at the federal, regional and local levels. Many of the tax rules and regulations prevailing in Russia are, as a general matter, either new or under different stages of review and revision. It is therefore possible that the current interpretation of the law or understanding of practice may change or that the law may be changed with retrospective effect. Accordingly, there is a risk that RusForest's investments may become subject to additional taxation within Russia that is not anticipated either at present or when the investments are made, valued or disposed of. No assurance can be given that RusForest will benefit from the current tax treaty arrangements that Russia has with other countries.

Furthermore, taxation in other countries such as Sweden and Cyprus are also subject to continuous changes in legislation. A change in tax legislation in Sweden and/or Cyprus entailing, for example, a change to income tax or corporate tax rates could also result in changes in the future tax situation for RusForest.

Environmental liability

A party that conducts operations that have caused damage to the environment may be held liable for such damage. In RusForest's operations there is a risk of environmental damage occurring. Liability claims or remediation orders as a result of any damages caused by the operations which RusForest conducts at present or has run in the past are difficult to predict, but may amount to significant amounts. It cannot be ruled out that RusForest will be ordered to investigate, remediate or otherwise pay for the remediation of affected areas where operations are or have been conducted.

Financial risks

Liquidity risk

Liquidity risk refers to the risk of being unable to meet payment obligations as a result of insufficient liquidity. RusForest may experience fluctuations in results and cash flows due to a number of factors; the level of expenses, variations in and the timing of the recognition of realised and unrealised gains or losses, possible conflicts with tax authorities, the degree to which it encounters competition in its markets, general economic conditions, interest rates, exposure to local currencies and exchange rate fluctuations. There is no assurance that macroeconomic stabilisation and recovery in Russia will continue in the future and in the event of an economic downturn or a recession the investments may be affected. In such circumstances, the Group's operating results and financial condition may be adversely affected and RusForest might face difficulties in meeting its obligations.

Borrowing risk

RusForest is at present to a large extent financed with equity capital. In addition to using shareholders' equity, RusForest's operations may be financed to a certain degree by borrowing from credit institutions through the bond market or otherwise. The borrowing risk refers to the risk that the possibility to refinance outstanding loans and take up new loans is missing or is unfavourable at a certain point in time. Local financial markets may affect companies' borrowing capabilities since the companies might be subject to changing interest rates. These factors might entail risks for the investments.

Counterparty risk

Counterparty risk entails the risk that RusForest's counterparties cannot meet their undertakings to RusForest. Potential shareholder and counterparty conflicts might have a negative impact on the investments. In addition, shareholders and counterparties could take actions that would be contrary to or make RusForest's strategy more difficult. The companies could, in certain circumstances,

Risk factors

be held liable for the actions of their partners or co-investors. This risk might also arise in cash management as well as in receiving long and short term credit agreements.

Currency risks and exchange rates

The Group's main currency risk involves changes in the value of SEK in relation to RUB, USD and EUR. On 30 June 2010, SEK 4.4 million of the Group's debt was denominated in EUR and SEK 34.2 million was denominated in USD. Changes in value of SEK in relation to USD and EUR will affect costs and expenses in foreign currencies as well as borrowing commitments in respect of foreign currency measured in SEK. The management's opinion is that the risks associated with the exposure of currency exchange rates are partially outweighed by the fact that revenue is denominated in USD so that debts do not exceed the Group's ability to pay them. The Group's costs are mainly listed in RUB. As of March 2010 until 30 June 2010 the RUB had increased in value by approximately 2 per cent in relation to SEK (in the first quarter 2010 the increase was 4 per cent), which resulted in a currency exchange profit (loss in the first quarter 2010). The Group does not use any financial instruments to safeguard itself against currency rate risk.

The value of the assets and debt and revenue and costs of RusForest are measured in foreign currencies such as RUB, USD, and EUR and may be affected by fluctuations in exchange rates. Changes in the regulations of the currency market may have adverse material effects on RusForest's operations. The exchange rates of SEK to foreign currencies have fluctuated during the past years and therefore it cannot be ruled out that such future changes could have a material adverse effect on the Group's business, financial condition and general condition.

Interest rate risk

Interest rate risk entails that the value of financial instruments varies due to changes in the market rates of interest. Loans with a variable rate of interest expose the Group to interest rate risk for real values. The Group's management monitors the changes in interest rates continuously and acts accordingly, but should the monitoring fail in any respect, the Group's business, financial position and general position may be materially adversely affected.

Credit risk

Credit risk arises when a failure by counterparties to fulfil their obligations could reduce the future cash inflows from financial assets as per the accounting date. The Group has no significant concentration of credit risks. The Group applies a policy ensuring that products and services are

sold to customers with an appropriate credit history and monitors on a continuous basis the ageing profile of its receivables. Cash balances are held with financial institutions with high creditability and the Group applies a policy limiting the amount of credit exposure to any financial institutions. The Group's exposure to credit risk is largely contingent on the individual merits of each customer. The Group makes provisions representing estimated losses in respect of customer receivables and other receivables. The most important components of these provisions are a certain loss component relating to large exposures, and a collective loss component established for groups of similar assets concerning losses which have arisen but have not yet been identified.

Risks associated with the shares and the Rights Issue

RusForest's share price and limited liquidity

RusForest's share price may fall after the Rights Issue is consummated due to the increased number of shares in the Group. Furthermore, the share price may be negatively affected by the possibility of shares being sold in the market in unusually large numbers following the Rights Issue or as a result of the expectation that such sales will take place. Sales of shares can also make it difficult for the Company to raise capital in the future through share issues or other types of securities. In addition, limited liquidity in RusForest's shares may result in great fluctuations in the Group's share price. The limited liquidity of the share may result in difficulties for individual shareholders to sell larger blocks of shares. There is no guarantee that shares in RusForest may be sold at an acceptable price for the holder at any point in time. Moreover, the annual shareholders' meeting in 2013 shall, due to a provision in the articles of association, decide whether the Group shall enter into liquidation or not. The provision in the articles of association is described in detail in "*Share capital and ownership – General information regarding RusForest's share*". Such provisions may lead to a future situation where investors choose not to invest in RusForest's shares in connection with the annual shareholders' meeting in 2013, whereby the trading in the share may become illiquid and as a result thereof the share price may fall.

Furthermore, securities markets worldwide are experiencing significant price and volume fluctuations. This market volatility, and corresponding fluctuations in the share prices does not need to correlate with performance or operating results. Events and factors that may cause the share prices to fluctuate or decrease significantly from the subscription price in the Rights Issue include, *inter alia*:

- general business, political, social and economic developments;
- variations in actual or anticipated operating results;
- changes in the level of ongoing disclosure that RusForest provides regarding the Group;
- changes in, or failure to meet, earnings estimates of securities analysts;
- regulatory actions;
- changes in stock market analyst estimates or recommendations regarding the Group's assets;
- changes in market valuations of companies in related industries;
- fluctuations in stock market prices and volumes, generally;
- additional issuances or future sales of RusForest's shares or other securities exchangeable for or convertible into the shares;
- sales or acquisitions of a substantial number of shares by the Group's board of directors and management or major shareholders, or the perception that such sales could occur;
- the addition or departure of key personnel; and
- announcements by the Group or the Group's competitors of new contracts, acquisitions or joint ventures.

Future financing

In the future, the Group may issue additional shares in connection with acquisitions, investments or repayments of debt or for other purposes. The number of issued shares could constitute a material portion of the Group's then outstanding share capital. It cannot be predicted what effect, if any, future sales of additional shares, or the availability of additional shares for future sales, will have on the market price of the shares. Sales of substantial amounts of additional shares in the public market following the Rights Issue, or the perception that sales of this type could occur, could result in a decrease in share price and may make it more difficult for investors to sell the shares at a time and price that the investors deem appropriate.

Dividends

The ability to pay dividends to the holders of the shares depends on the availability of sufficient distributable profits. The Group cannot provide any assurance that distributable profits will be available in any given financial year. Even if there are sufficient distributable profits available, the Group may not distribute dividends for a variety of reasons. Payment of future dividends will depend on earnings, strategy, future outlook, financial condition and other factors, including regulatory and liquidity requirements, as well as tax and other legal considerations.

Due to RusForest's financial position and the Group's earnings, the Group has not paid any dividends to shareholders as to this date. RusForest currently plans to retain future profits to finance the development and growth of the Group. While no dividend is paid, any returns on investments will be generated through the share price development.

Subscription undertaking is unsecured

Vostok Komi (Cyprus) Limited, representing a total of 43 per cent of the shares in the Company, has through a subscription undertaking undertaken to exercise their subscription rights for subscription of shares in the Rights Issue, which equals approximately 18.8 million shares. The subscription undertaking is regulated through a binding, written agreement dated 29 September 2010. No funds are pledged or restricted for this purpose, nor is the subscription undertaking secured via bank guarantee. In the event Vostok Nafta would not be able to fulfil its subscription undertaking, there is a risk that the Company's capital needs would not be met according to plan.



Road construction in the Arkhangelsk Region

Invitation to subscribe for shares in RusForest

The shareholders of RusForest are hereby invited to subscribe for shares in the Company, in accordance with the terms and conditions set forth in this prospectus, with preferential rights *pro rata* in relation to the number of shares held at the record date on 15 October 2010. On 8 October 2010, an extraordinary shareholders' meeting resolved to increase the share capital by way of a new share issue of up to 43,681,680 shares. Through the Rights Issue the share capital may be increased with up to SEK 436,816,800 from SEK 218,408,400 up to SEK 655,225,200. Shareholders deciding not to participate in the Rights Issue will have their shareholdings diluted with up to 66.7 per cent, but may sell their subscription rights in order to obtain some compensation for the dilution. One (1) existing share entitles the holder to subscription of two (2) new shares. For each newly subscribed share, SEK 10 shall be paid in cash. Through the Rights Issue, the Company will be provided with up to approximately SEK 437 million before issue costs, which are estimated to amount to approximately SEK 15 million.¹⁾ The new shares shall carry the same rights as the existing shares in the Company.

In the event that not all newly issued shares are subscribed for with subscription rights, the board of directors is entitled, within the limits of the maximum amount of the issue, to resolve to allocate shares to those who have applied to subscribe for shares without subscription rights. It is therefore possible, in addition to the subscription taking place with subscription rights, to apply for subscription without subscription rights by using a particular application form, see further under the section "*Terms, conditions and instructions*".

Subscription undertaking

Vostok Komi (Cyprus) Limited (a wholly owned subsidiary of Vostok Nafta Investment Ltd) has undertaken to subscribe for its share in the Rights Issue amounting to approximately 18.8 million shares. Thus there is a subscription undertaking equivalent to approximately SEK 188 million and 43 per cent of the issue's volume.

Stockholm 14 October 2010

RusForest AB (publ)
The board of directors

1) Of the issue proceeds, SEK 83,820,000 (USD 12,000,000) has been paid in advance by Vostok Nafta and the entire amount including accrued interest as of 21 September 2010 may be used for set-off in the Rights Issue. Accrued interest as per 21 September 2010 amounts to SEK 1,536,700 (USD 220,000).

Background and reasons

RusForest is a company operating within the forestry industry in eastern Siberia. The Company refines the high quality pine, larch, and spruce timber in its forest areas into a wide range of sawnwood products, of which a small share consists of planed products, flooring and other interior products, at two sawmilling sites. RusForest is also in the course of implementing several efficiency measures, which are expected to increase the Company's production capacity significantly over the next four years.

The Company (originally named Varyag Resources AB) was established in 2006 as an investment company focused on investing, actively managing and exiting investments mainly in natural resources companies in Russia and the rest of the CIS. Since 2006, RusForest has reached a considerable scale, both in terms of forest resources and sawmilling capacity, through strategic acquisitions and "brown field" development projects. As part of this development, the Company was reorganised during 2009 from an investment company into a pure play forestry company, and changed its name to RusForest AB.

The combination of access to cheap, high quality, raw material coupled with low costs on several other input items, provide forestry companies in Russia with a long-term competitive advantage over Western competitors. At the same time, there are obstacles which inhibit these companies from fully capitalizing on these advantages. Examples of such obstacles include inferior infrastructure in harvesting areas, seasonal variations in raw material supplies, a low degree of added value production and widespread use of outdated equipment and partially obsolete technical applications within production.

RusForest has consistently worked to improve its production and working methods, with focus on using of state-of-the-art equipment within its value chains. The Company's objective is to develop into a leading independent integrated forestry and sawmill company in Russia, with an annual harvest of 1.8–2.0 million m³ and an annual sawmilling production of 550,000–600,000 m³ during the next four years. However, a number of important measures remain to be implemented in order for the Company to be able to show satisfactory growth and fully utilise the opportunities that Russian forestry offers.

Geographical expansion and completion of commenced capacity development

The board of directors of RusForest has resolved to acquire LDK-3, a sawmill plant in the city of Arkhangelsk in north-western Russia, and Infa, a planing mill located at the same site.¹⁾ LDK-3 also holds forestry leases with an annual allowable cut amounting to 177,200 m³. LDK-3 and Infa were acquired from Northern Shipping Company for, in total, approximately SEK 96 million. The acquisition enables RusForest to establish a strong presence in Russia's three largest, and most developed, forestry regions (Arkhangelsk, Irkutsk and Krasnoyarsk). As a result, the Company will be able to efficiently deliver products from north-western Russia to the domestic and European markets, while an increased focus in Siberia can be directed towards the rapidly growing markets in Asia and Central Asia. LDK-3 is located on an industrial site comprising of 86 hectares with its own port in close proximity to the large export port in Arkhangelsk, which enables minimised costs for both raw material deliveries and direct loading of finished products. Furthermore, the industrial property at the site has the potential to be developed into a modern, competitive, sawmilling plant with a capacity exceeding 200,000 m³ of kiln dried sawnwood per year. The investments required to reach the higher production volume at the site will be reasonable as log sorting capacity, good boiler and drying capacity and dry sorting lines are already installed.

Necessary preparations have already been made at RusForest's existing subsidiaries in order to develop the production capacity both within harvesting and sawmilling. This particularly applies to RusForest Magistralny, where assembly and installation works are currently being carried out with the aim of launching trial operations at a new sawmill, with a capacity of 100,000–120,000 m³ kiln dried sawnwood per year, during the second quarter of 2011. The completion of the sawmill at RusForest Magistralny constitutes an important step to reach RusForest's production and profitability targets. Investments at Boguchansky LPK and RusForest Ust-Ilimsk primarily relate to improvements of the existing facilities.

Clearing bottlenecks and improving the product mix

By clearing bottlenecks and reorganising parts of the production flows, RusForest believes there are significant possibilities to increase the capacity at the Company's existing operations. Currently, the bottlenecks at the facilities mainly comprise of drying and sorting capacity, which to a too high degree is performed manually both within green and dry sorting. In addition to production increases, increased drying and sorting capacity is expected to lead to improved margins due to the sales organisation's access to larger volumes of higher quality products and an improved product mix.

1) The acquisition of LDK-3 and Infa is contingent of the Russian anti-monopoly approval, which is expected to be attained before year end.

By implementing new routines developed by the new management, there are also significant opportunities to increase efficiency and to cut costs within the Company's value chains. Higher pricing for the Company's products shall also be obtained by improved delivery routines, coupled with specialisation and flexibility within production.

Increased efficiency, and the implementation of new routines, will be facilitated by the strengthening of the management at several of the subsidiaries. The Company has, for example, already appointed a new managing director at the RusForest Magistralny sawmill this summer. Additionally, a new head of forestry, with overall responsibility for all harvesting operations in Siberia, was appointed in September while RusForest Trading has been strengthened with a new manager.

Road construction as part of the core business in the forestry companies

An important step to increase the share of internally supplied sawlogs to RusForest's sawmills, is to carefully plan and implement large efforts to develop infrastructure and construct forest roads. Improved forest roads facilitate harvesting and transport of timber throughout the whole year, which secures a stable supply of raw materials and reduces transport costs as a result of improved accessibility and decreased equipment damage. The road construction projects have already been initiated, and results will become visible when additional road construction equipment is added in the spring and summer 2011.

In connection with the strategic road projects in the regions where RusForest operates, the Company will also strive to expand its forest leases, for example by acquiring existing companies. It cannot be ruled out that some of the issue proceeds, however probably not more than 20 per cent, may be used to acquire suitable companies if and when opportunities arise.

These development plans are a central part of RusForest's initiative to secure the long-term development of the Company's harvesting areas and its raw material sourcing plan – initially with focus on stable supplies of sawlogs starting from the winter 2010. An increased internal supply of sawlogs is expected to significantly impact the cost of production in a favourable way, as purchased sawlogs, depending on the season, currently can cost up to 60 per cent more than the Company's own logs.

The Company intends to use the proceeds from the Rights Issue to continue with investments and further develop RusForest's existing operations. Fully subscribed, the Rights Issue will provide the Company with a maximum of SEK 437 million before issue costs. As a partial advance payment in the Rights Issue, the Company received SEK 83.8 million (USD 12 million)¹⁾ from Vostok Nafta. The entire advance payment, including interest accrued as per 21 September 2010, may be used for set-off in the issue. The accrued interest as per 21 September 2010 amounts to SEK 1.5 million (USD 220,000).¹⁾

The board of directors' assessment is that the net proceeds of approximately SEK 422 million (including the advance payment) will strengthen the Company's financial position, which will enable the Company to carry out the following projects: (i) approximately SEK 96 million for the acquisition of LDK-3 and Infa; (ii) approximately SEK 75 million for upgrades and investments in LDK-3; (iii) approximately SEK 55 million for investments at RusForest Magistralny (including approximately SEK 35 million which was provided through the bridge financing from Vostok Nafta); (iv) approximately SEK 61 million to clear bottlenecks in the existing sawmills; (v) approximately SEK 27 million to expand the harvesting capacity and improve infrastructure; (vi) repayment of the bond, including interest, amounting to SEK 57.5 million which matures in February 2011; and (vii) approximately SEK 50.5 million for investments in Ust-Ilimsk and Boguchansky (which have been financed through the bridge financing from Vostok Nafta). The above may be adjusted depending on the availability of external financing.

For more information, please refer to the information in this prospectus which has been prepared by the board of directors of RusForest in connection with the Rights Issue. The board of directors of RusForest is responsible for the contents of this prospectus. The board of directors of RusForest hereby declares that, having taken all reasonable care to ensure that such is the case, the information contained in this prospectus is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import.

Stockholm, 14 October 2010

RusForest AB (publ)
The board of directors

1) Calculated on the exchange rate of SEK/USD 6.985 as of 21 September 2010.

Message from the managing director



RusForest has now reached its primary goal of acquiring and consolidating large forestry assets. From a Russian, and a global, perspective RusForest's forestry resources are of high quality and located in strategically important regions of Russia. In future, the Company will focus on improving its existing operations, continuing the consolidation of forest leases and finalising its planned investment programme.

Through the acquisition of the LDK-3 sawmill and the planing mill Infa, in Arkhangelsk, RusForest has managed to establish itself as one of few pan-Russian forestry companies with operations both in Siberia and European Russia.¹⁾ This will entail significant possibilities for development, in particular with regards to efficient supplies of products to both the European and Asian markets.

Alongside Irkutsk, Arkhangelsk is the most developed forestry region in Russia. In Arkhangelsk, LDK-3 has access to its own forest leases, railway terminals, an overall good quality infrastructure at the industrial property as well as its own export harbour. This facilitates cost-effective exports of sawnwood from the facility. Following

the planned investments in the sawmill, mainly in a new sawline, the production facility will be able to compete with the best in the world, in terms of both cost structure and access to high-quality raw material.

In the near future RusForest will primarily focus on:

1. Completing its investment and development plans. This includes in particular the completion of the sawmill in Magistralny and the acquisition of LDK-3.
2. Developing the forest infrastructure, including harvesting and transportation capacity, as a step in securing the long-term development of the Company's harvesting areas and its raw material sourcing plan, initially with a focus on stable sawlog supplies commencing as of the winter season 2010.
3. Increasing capacity at a number of the Company's existing production facilities by clearing bottlenecks and reorganising the production flows. Today, bottlenecks at the facilities mainly consist of the lack of sorting capacity in the sawmills (both green and dry sorting), drying capacity and partially underdeveloped

1) The acquisition of LDK-3 and Infa is contingent of Russian anti-monopoly approval, which is expected to be attained before year end.

forest infrastructure. In addition to the production increases, an increased drying and sorting capacity is also expected to lead to increased sale margins as a result of larger volumes of further processed sawnwood and a more attractive product mix, for instance with a larger share of kiln dried larch.

4. General improvements and streamlining measures in existing production facilities. This work has previously been somewhat neglected due to the fact that the primary focus was put on acquisitions and consolidation of assets.

The acquisition of LDK-3 and the completion of the sawmill in Magistralny, together with certain add-on investments in existing production facilities, will more than double the Company's production capacity in the next few years and create many opportunities for productivity improvements and enhanced profitability.

Market assessment

Since the third quarter of 2009 the prices of sawnwood have increased, and we are currently not seeing any tendencies of a slowdown, apart from temporary and natural seasonal variations. Price increases have in part been driven by international production volumes decreasing more than demand, which has forced customers to accept higher prices. Since the beginning of 2010, the prices have primarily been driven by improved demand and the lack of raw material in Europe. However, RusForest's order book resulted in that the Company was not able to fully benefit from the increased prices until the second quarter of 2010.

The increase in demand originates from most markets, but primarily from the Asian markets and Asia currently represents approximately 30 per cent of RusForest's total sales. Upon completion of the sawmill in Magistralny in 2011, and by further increases in production volume from other sawmills within RusForest, it is the Company's view that the Asian markets will account for the greater part of RusForest's total sales in 2012.

RusForest believe that China will show the most rapid growth during the next few years, and that it will become one of the Company's single largest markets. The Chinese market grew by 10–20 per cent on an annual basis during the first quarter of 2010, and the country's imports of sawnwood from Russia simultaneously increased by approximately 40 per cent compared to the same period in 2009.

RusForest's operations in the south-eastern parts of Siberia are favourably located to supply this rapidly growing Chinese market, as our production facilities have access both to the Trans-Siberian railway and the Baikal-Amur railway.

Potential for margin improvements

Apart from improved market prices, there is also a possibility of margin improvements through internal efforts to better the product range and customer service. Sawnwood from Russian producers has for historical reasons been traded with a discount of nearly ten per cent in comparison to suppliers from most other countries. By introducing service and customer support similar to that of Scandinavian suppliers, RusForest's objective over the next few years is to increase prices and thereby improve margins.

Cost improvement potential by way of more stable raw material flows

There are significant opportunities to reduce costs during the next few years, primarily by RusForest developing its harvesting operations and securing stable raw material flows. Unstable flows of raw material have had significant negative effects on output and productivity during the last two years. This has led to that our sawmills at times have been forced to stop production due to the lack of sawlogs. As a smaller share of internally sourced sawlogs has been used in production, production costs have also been negatively affected. Purchased sawlogs cost up to 60 per cent more than sawlogs delivered from own harvesting.

Accordingly, there is significant potential to reduce production costs by building log stocks during winter, and by improving harvesting and transportation possibilities in the forest through road construction and other logistical solutions during summer. A main priority in the next few years will be to secure a stable supply of raw material.

Concluding remarks

The goal of acquiring and consolidating significant forest resources is in the process of being achieved, and going forward RusForest will to a large extent focus on fully utilising the Company's significant forest resources, improving productivity and increasing the sawmilling capacity and the share of higher value added products.

Strategically we will continue to strive towards our long-term goal of developing into a leading independent integrated forestry and sawmilling company in Russia.

Martin Hermansson

Managing director of RusForest AB (publ)

Terms, conditions and instructions

Preferential rights to subscription

Each person who on the record date of 15 October 2010 has registered as a shareholder of RusForest AB (publ) has preferential rights to subscribe for two (2) new shares for each existing share.¹⁾

Subscription price

The subscription price for each share shall be SEK 10 payable in cash.

The shareholder Vostok Nafta, has however, a right to pay for subscribed shares by way of set-off of the claim against the Company of SEK 85,356,700 (USD 12,220,000).²⁾

Record date

The record date was 15 October 2010. Shares in RusForest were traded including subscription rights up to and including 12 October 2010 and excluding subscription rights from and including 13 October 2010.

Subscription rights

Each existing share will entitle the holder to two (2) subscription rights. To subscribe for one (1) share, one (1) subscription right is required.

Trading in subscription rights

Trading in subscription rights will take place on First North during the period from and including 19 October up to and including 27 October 2010. *The subscription rights must be sold not later than 27 October 2010 or be used for subscription of shares not later than 1 November 2010 in order not to expire and lose their value.*

Subscription period

Subscription of shares with preferential rights shall be made by way of cash payment during the period from and including 18 October 2010 up to and including 1 November 2010. Please note that subscription and payment must be completed not later than 1 November 2010. The shareholder, Vostok Nafta, has the right to make payment for subscribed shares by way of set-off of the claim against the Company of SEK 85,356,700 (USD 12,220,000)³⁾. Vostok Nafta subscribes and pays for new shares with subscription rights by submitting a separate subscription list not later than 1 November 2010. After the expiry of the subscription period, subscription rights that have not been exercised will expire and therefore have no value. They will then be removed from the securities accounts ("VP-accounts") without any notification. In order to avoid that subscription rights expire and lose their value, a holder of subscription rights must either:

- (i) Sell the subscription rights on First North not later than 27 October 2010; or
- (ii) Use the subscription rights and subscribe for new shares in RusForest not later than 1 November 2010.

The board of directors of RusForest reserves the right to extend the period during which subscription and payment may take place.

1) See section "Shares" under "Share capital and ownership structure" for the rights connected with the shares.

2) Of which accrued interest amounts as of 21 September 2010 to SEK 1,536,700 (USD 220,000). Calculated on exchange rate SEK/USD 6.985 on 21 September 2010.

3) Calculated on exchange rate SEK/USD 6.985 on 21 September 2010.

4) In addition to subscription by payment the shareholder Vostok Nafta has the right to make payment for subscribed shares by way of set-off of the claim against the Company based on the interim financing that RusForest received from Vostok Nafta on 1 July 2010 and 15 September 2010. As of 21 September 2010 the total claim and the accrued interest amounted to USD 12,220,000.

Subscription by directly registered shareholders

Shareholders or representatives of shareholders who as of the record date are registered in the Company's share register kept by Euroclear will receive an issue statement with an attached pre-printed payment note and a prospectus. The pre-printed issue statement includes, among other things, the number of subscription rights received. Those persons who are registered on the special list of pledge holders, etc. that accompanies the share register will be notified separately.

No separate VP-notice evidencing registration of subscription rights on VP-accounts will be sent out.

Nominee-registered shareholdings

Shareholders whose holdings in RusForest are registered with a nominee will not receive an issue statement from Euroclear. Subscription and payment will instead be conducted in accordance with nominee's instructions.

Subscription with preferential rights and payment

Subscription will be made by way of cash payment not later than 1 November 2010 via any bank in accordance with one of the following alternatives⁴⁾:

A. Payment notice from Euroclear

In those cases where all subscription rights received on the record date are used, only the payment notice from Euroclear shall be used as a basis for subscription by way of payment.

The application form is not used in such case.

B. Application form (I) for subscription with preferential rights

In cases where subscription rights are acquired or sold or if for some other reason the number of subscription rights differs from that shown in the pre-printed issue statement from Euroclear, the application form (I) for subscription with preferential rights shall be used as a basis for subscription by way of payment. The pre-printed issue statement from Euroclear shall thereby not be used. The application form (I) can be ordered via telephone from Öhman, +46 8 402 51 32.

The application form shall be submitted or sent by post to:

E. Öhman J:or Fondkommission AB
Issue department/RusForest
Box 7415
SE-103 91 Stockholm
Sweden

Visiting address: Berzelii Park 9, Stockholm, Sweden

Subscribers who are not existing customers of Öhman must provide certified copies of identification documents for the person signing the application form. In the event the signatory is a legal person who is not an existing customer of Öhman, documents evidencing that the signatory is authorised to sign the application form must be attached to the application form.

The application form and payment must be received by Öhman not later than 5 p.m. CET on 1 November 2010.

Application forms sent by post should be sent sufficiently in advance of the last day of subscription. Please note that the application is binding. Incomplete or inaccurately completed application forms and application forms without the required identity and authorisation documents, may be disregarded. Only one application form per subscriber will be considered. In the event that several subscription forms are received from the same subscriber, only the most recently submitted application form will be considered.

The same applies to those persons who, as of the record date, were not registered shareholders of the Company, but who have acquired subscription rights during the subscription period. In the event that the amount paid exceeds the subscription amount, the balance will be repaid as soon as possible.

Subscription without preferential rights

Where all shares have not been subscribed for with preferential rights, the board of directors shall, within the maximum amount of the issue, determine the allocation of shares, which shall be allocated among those that subscribed for shares over and above their preferential rights, and in case of over-subscription, *pro rata* in relation to the number of subscription rights used for subscription of shares and, where this is not possible, by drawing of lots.

Where all shares have not been subscribed for in accordance with the above, the board of directors shall, within the maximum amount of the issue, determine the allocation of shares to other parties who have notified their interest in subscribing for shares without preferential rights and, in case of over subscription, allocation shall be made *pro rata* in relation to their subscriptions. Where this is not possible, allocation shall be made by drawing of lots.

Subscription without preferential rights shall take place during the same period as subscription with preferential rights, i.e. during the period from and including 18 October up to and including 1 November 2010.

An application to subscribe for shares without preferential rights shall be made on the application form (II). This application form can be ordered by telephone from Öhman, +46 8 402 51 32. The application form must be received by Öhman not later than 5 p.m. CET on 1 November 2010. Subscribers who are not existing customers of Öhman must provide certified copies of identification documents for the person signing the application form. In the event the signatory is a legal person who is not an existing customer of Öhman, documents evidencing that the signatory is authorised to sign the application form must be attached to the application form. Please note that the application is binding. Incomplete or inaccurately completed application forms and application forms without the required identity and authorisation documents may be disregarded. Only one application form per subscriber will be considered. In the event that several subscription forms are received from the same subscriber, only the most recently submitted application form will be considered.

Notice in respect of any allocation of shares without preferential rights will be made by way of delivery of a settlement note. Shares subscribed for with or without preferential rights must be paid in cash not later than the third banking day after receipt of the settlement note. Shares which have not been paid in due time may be transferred to another party. If the price in connection with such transfer is less than the subscription price in the Rights Issue, the person who has been allocated shares may be forced to pay the difference. No notification will be sent to a party who does not receive any allocation.

Please note that investors whose holdings are or will be registered with a nominee at a bank or other nominee and who wish to subscribe for shares without preferential rights must do so via their nominee.

Interim shares (Sw. BTA)

Subscription by way of payment is registered by Euroclear as soon as possible, which normally means a few banking days following payment. The subscriber will subsequently receive a VP-notice which confirms that the interim shares ("BTA") have been entered into the subscribers VP-account. The shares will be booked as BTA's on the VP-account until registration of the share capital increase with the Swedish Companies Registration Office has been made, whereupon the shares will be converted into new shares without any special notice by Euroclear. The conversion is estimated to occur at the end of November 2010.

Trading in interim shares (Sw. BTA)

BTAs can be traded on First North from and including 19 October 2010 until the Swedish Companies Registration Office has registered the new shares.

Trading in new shares

Trading in new shares is expected to begin on First North on or about the date when the new shares are registered in the VP-accounts.

Announcement of outcome in the Rights Issue

The outcome of the Rights Issue will be made public through a press release on or about 4 November 2010.

Trading in RusForest shares

RusForest's shares are traded under the ticker RUSF on First North with the ISIN-code SE0001732728. The Company's Certified Adviser is Öhman. RusForest has entered into an agreement with Carnegie Investment Bank AB ("Carnegie") pursuant to which Carnegie will act as a liquidity provider. In its role as liquidity provider Carnegie shall provide buy- and sell-volume equivalent to a minimum of SEK 50,000 in order to achieve a spread of maximum four per cent between the asking and selling prices. Each share comprises one trading post.

Right to dividends

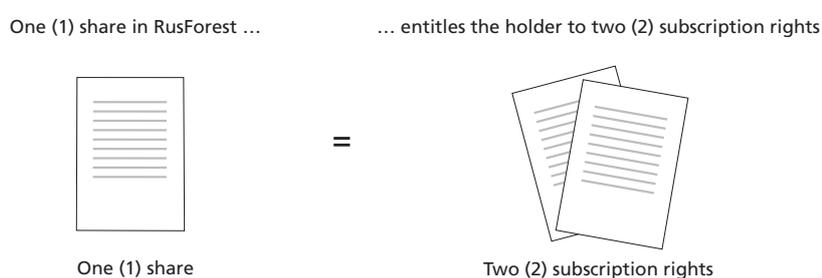
The newly issued shares shall entitle to dividends as from the date such shares are registered in the Company's share register kept by Euroclear, provided dividends are paid. Payment of any dividends will be made by Euroclear. See further under section "Dividend policy" and "Share capital and ownership structure".

The issue in brief

Terms:	One (1) share entitles the holder to two (2) subscriptions rights. Subscription of one (1) share requires one (1) subscription right.
Subscription price:	SEK 10 in cash. ¹⁾
Record date:	15 October 2010.
Subscription period:	18 October – 1 November 2010.
Trading in subscription rights:	19 October – 27 October 2010

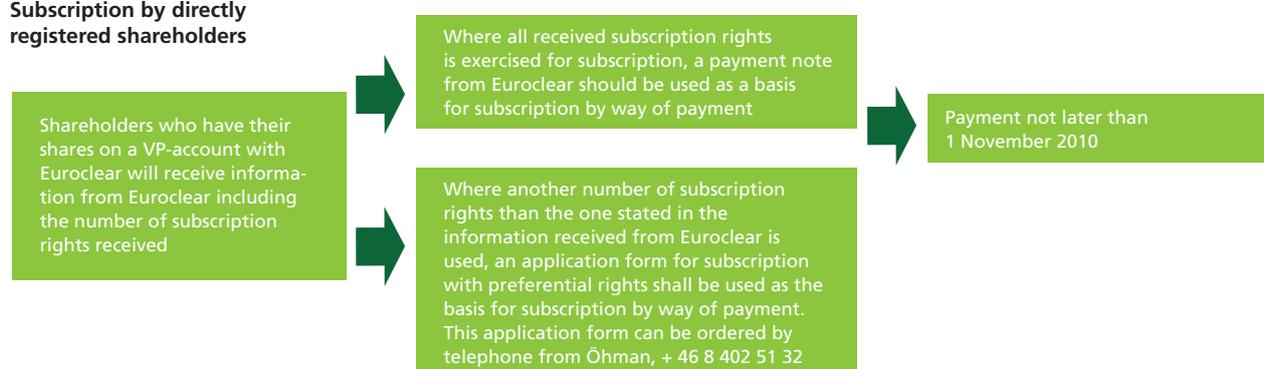
1) The Shareholder Vostok Nafta has the right to make payment for subscribed shares by way of set-off of the claim against the Company of SEK 85,356,700 (USD 12,220,000). Calculated on the exchange rate SEK / USD 6.985 on 21 September 2010.

1. Allotment of subscription rights



2. Utilizing the subscription rights

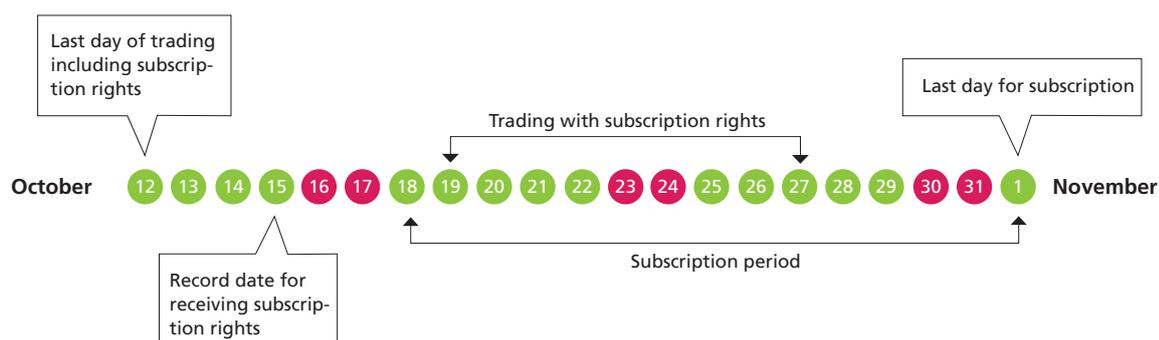
Subscription by directly registered shareholders



Subscription by nominee-registered shareholders



3. Important dates



Market

Macroeconomic situation

Overview of economic indicators in Russia

	2003	2004	2005	2006	2007	2008	2009
GDP growth, % ¹⁾	7.3 %	7.2 %	6.4 %	7.7 %	8.1 %	5.6 %	-7.9 %
Unemployment, % ²⁾	8.3 %	8.1 %	7.6 %	7.2 %	n/a	6.4 %	8.4 %
Current accounts, % of GDP ³⁾	8.0 %	10.0 %	11.0 %	10.0 %	6.0 %	6.0 %	n/a
Consumer price index (2005 = 100)	80.1	88.7	100	109.7	119.6	136.4	152.3
10 year treasury bond rate, % ⁴⁾	9.1 %	8.3 %	8.1 %	7.0 %	6.7 %	7.5 %	9.9 %

1) IMF, June 2010

2) IMF, June 2010

3) WDI, June 2010

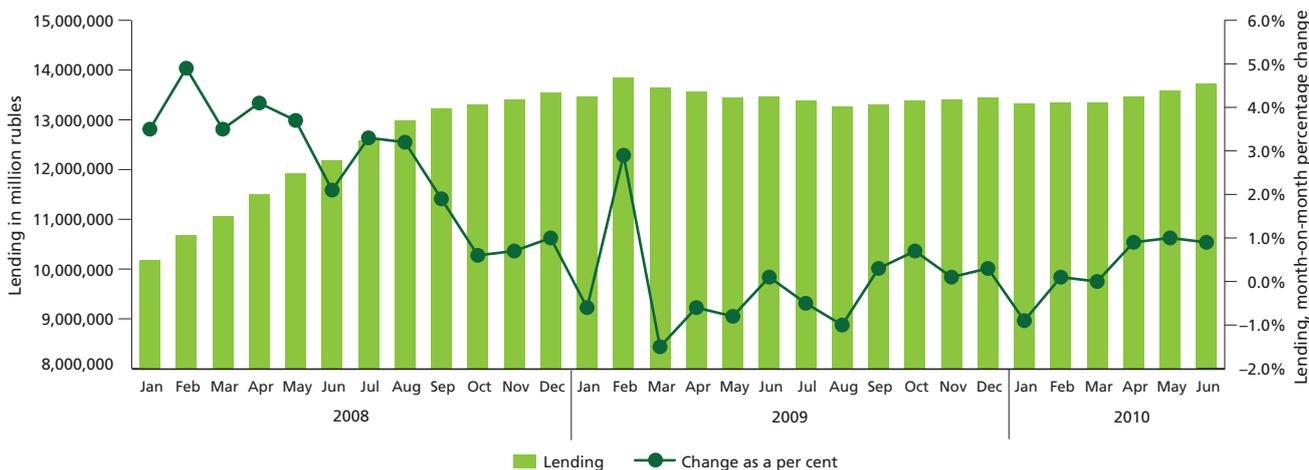
4) OECD, June 2010

The global financial crisis had a major impact on the Russian economy, and the country's GDP decreased by 7.9 per cent during 2009. At the same time, foreign direct investment in Russia's non-financial sector fell by 41.1 per cent in 2009, after showing an average annual growth rate of 60 per cent since the year 2000.¹⁾

The financial crisis also affected domestic bank lending and limited the availability of capital on the Russian

credit market during most of 2009.²⁾ The Central Bank of Russia, CBR, has on several occasions in 2010, and most recently on 31 May 2010, cut its refinancing rate, which now amounts to 7.75 per cent. The interest rate cuts have been executed in order to support economic recovery, encourage bank lending, counteract the strengthening of the Ruble and support the Russian export industry.

Lending on the Russian market



Source: CBR Bulletin of Banking Statistics, no. 8 2010

1) Vedomosli, March 2010

2) Aton, April 2010

As a result of sustained low interest rates and stimulated economic growth, the Russian credit market is expected to improve gradually during 2010.¹⁾ According to prime minister Vladimir Putin, the current liquidity of Russian banks is good and their lending is expected to increase by about five to ten per cent in 2010. Moreover, the Russian government intends to stimulate the housing market by introducing an stimulus programme of 250 billion rubles which shall be used to subsidise more favourable mortgages for private individuals.²⁾

The financial crisis has reduced the inflation rate in Russia, in part due to lower salaries and lower employee turnover. At the same time, several companies have been forced to reduce their often relatively aggressive growth rate and instead focus on much-needed rationalisations, cost reductions and efficiency measures.³⁾

The stimulus package that was introduced in Russia following the crisis has been reduced significantly, from 1.1 trillion rubles in 2009 to 195 billion rubles in 2010, and now aims, among other things, primarily at stimulating the modernisation of the economy. Of the promised 195 billion rubles, equivalent to approximately SEK 58 billion, 15 billion rubles will be used to support the housing and energy sectors.⁴⁾

According to statements by the minister of economic development and trade, Elvira Nabiullina, Russian growth reached 4.2 per cent during the first half of 2010 in comparison to the same period last year.⁵⁾ The increase in Russian industrial production has been significant throughout the year, with a growth of 9.2 per cent during the first eight months of 2010 in comparison to the same period in 2009.⁶⁾ Russian growth is estimated at approximately 4.0 per cent in 2010.⁷⁾

The market for forest products

Forests are a source of raw material for a wide range of products. The most basic product is non-value added roundwood (sawlogs), which basically consists of cut down trees which are debranched and cut to appropriate lengths – in Russia often 4 or 6 meters, adjusted to the length of the railway-carriages (12 meters). The roundwood is then used either in sawmilling for production of sawnwood for construction or other processing such as flooring, mouldings or furniture. The residual products, including logs of lower quality, are used as raw material within pulp production or as fuel.

Demand for sawnwood, wood-based panels, paper and cardboard in the UNECE region (Europe, CIS and North America)

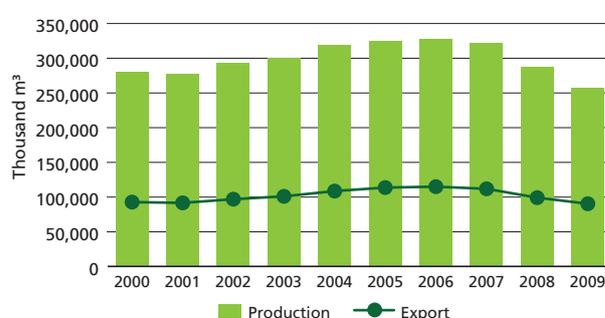
	Thousand	2004	2005	2006	2007	2008
Sawnwood	m ³	281,552	287,128	280,576	273,954	238,051
Wood-based panels	m ³	138,351	144,555	148,639	150,353	136,131
Paper and cardboard	Millions of tonnes	197,133	200,872	204,500	204,858	194,028
Total	m³ equivalents	1,340,125	1,371,649	1,380,000	1,373,358	1,256,446

Source: UNECE/FAO, 2009

The global market

The total global production of sawn softwood totalled just under 260 million m³ in 2009.⁸⁾ Sawnwood is primarily consumed in the domestic market where it is produced, which is why only a third of the global production of sawnwood is exported.⁹⁾ However, the price of sawnwood is to a great extent determined by global supply and demand.

Development of global production and export of sawn softwood

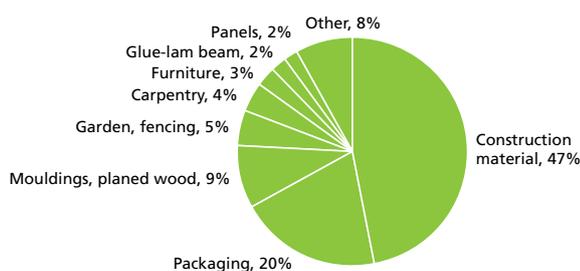


Source: FAO, June 2010

1) Aton, April 2010
 2) Rossijskaja Gazeta, April 2010
 3) Troika, February 2010
 4) Vedomosti, March 2010
 5) Kommersant, July 2010
 6) Rosstat, September 2010
 7) IMF, WEO, October 2010
 8) FAO, September 2010
 9) FAO, June 2010

As sawnwood is widely used as a construction material, the sawmilling industry is dependent upon the development of the global economy in general and on developments in the construction industry in particular.¹⁾

The usage of sawn softwood in Europe

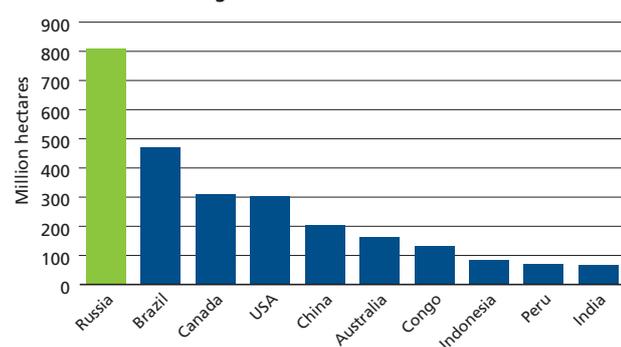


Source: FAO, June 2010

Russia

Russia has, alongside Brazil, the world's largest timber reserves. Eastern Siberia is known for its high quality Angarsk pine and Siberian larch, and the Arkhangelsk Region in northwest Russia has high quality spruce and pine forests similar to those found in northern Sweden. The high quality of the raw material derives, among other things, from the slow biological growth due to the somewhat colder climate.²⁾

Countries with the largest areas of forest in millions of hectares



Source: FAO, FRA, 2005

Russian forest land is almost exclusively owned by the Russian state or units and departments linked to the Russian state. The forest may be leased by private parties for up to 49 years with the possibility of extension and leases are, with a few exceptions, acquired through auctions (see below concerning the "Forest Code"). The annual allowable cut is calculated from a schedule, which is based on annual growth and availability of mature forest on the leased land. The lease agreements contain detailed descriptions of reforestation and other obligations, such as fire protection, road maintenance, etc. Most of the reforestation, mainly relating to pine, is executed by sowing, leaving seed trees or replanting. Where there is good undergrowth (spruce), this may, in addition to conventional replanting, be accepted as natural regeneration.

There are no formal restrictions for foreign investors to acquire leases or to conduct forestry operations in Russia.

As a result of deficiencies in infrastructure, and especially the lack of adequate road and rail networks in many parts of the country, there are still significant practical limitations on the ability to fully utilise the Russian forest resources. The proximity and access to a major rail road links as well as the presence of buyers of the residual products are therefore significant competitive advantages for forestry companies operating in Russia.³⁾ Due to the lack of infrastructure, only a small percentage of the annual allowable cut is utilised.⁴⁾

The current Russian forestry industry is characterised by a low degree of further processing, which is reflected in the country's export structure. Roundwood represented USD 4.1 billion of Russia's total export value of forest products in 2007, which totalled about USD 11.2 billion.⁵⁾ The proportion of value added products is, in proportion to the total forest-related exports from Russia, significantly lower than that of competing countries. Globally, the share of further processed wood products represents about 95 per cent of the exports, while Russia's share of processed products, as a percentage of the total forestry industry exports, only amounts to about 65 per cent, which is a direct result of the country exporting around 30 per cent of its sawlog production annually.⁶⁾

1) UNECE, November 2010

2) PriceWaterhouseCoopers, October 2006

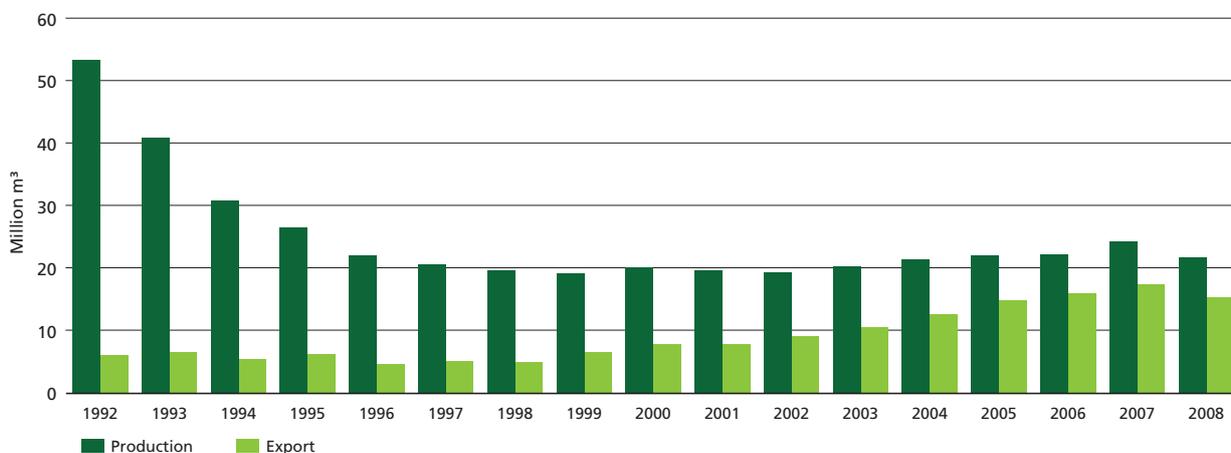
3) PriceWaterhouseCoopers, October 2006

4) Pöyry, September 2008

5) FAO, June 2010

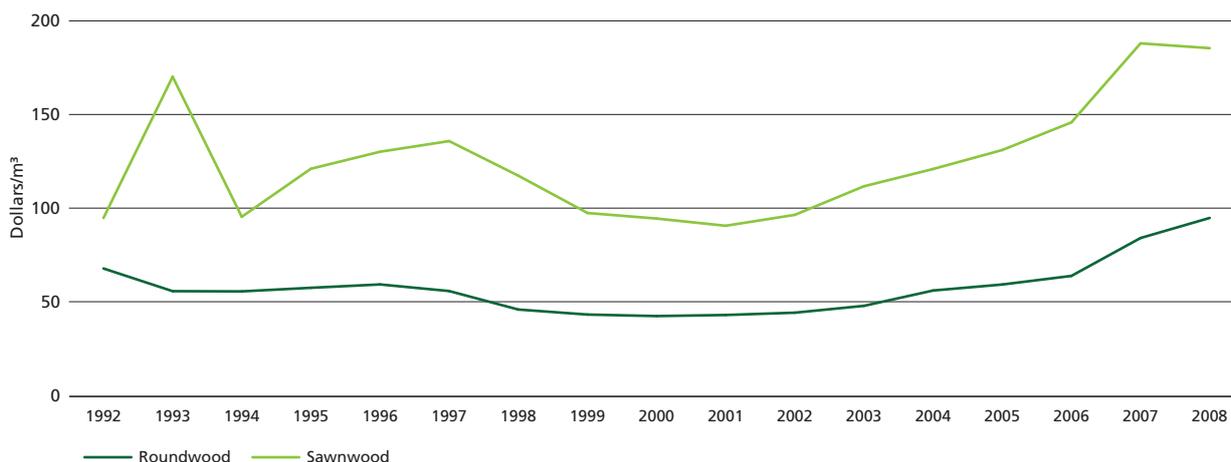
6) FAO, June 2010

Russian production and exports of sawnwood



Source: FAO, June 2010

Price trend for Russian export of wood



Source: FAO, June 2010

The Russian forestry sector was severely hit by the transition to a market economy and the weak international market in the 1990s. However, the Russian forestry industry has recovered and the value of its forestry-related exports recorded an average annual growth of 15.4 per cent per year between 1998 and 2007.¹⁾

The decrease of 5.5 per cent in the Russian export value from the forestry sector in 2008, was mainly due to the negative trends on the global market. The Russian sawmilling industry currently produces significantly below its 1980s level of approximately 100 million m³ per year. However, during the 2000s the industry showed growth up until 2008 and 2009, when production levels once again decreased by 10.9 and 12.3 per cent respectively.²⁾

In order to encourage investments and to increase the degree of added value in the domestic forestry industry, the Russian forest legislation, or the “Forest Code”, was amended in 2007 to further emulate modern forestry legislation in the West. The responsibilities of the individual leaseholder were increased, in particular with regards to functions for which the state was previously responsible. For example, prior to 2007, it was the owner, i.e. the state, which was responsible for reforestation, whereas today the leaseholder bears that responsibility. In addition, the term “woodland” was introduced as a concept and a land survey register has been introduced, in which all forest leases are registered and provided with exact positions and cadastre numbers.

1) FAO, June 2010

2) Lesprom, March 2010

The legislation includes several measures with the aim to develop the Russian forestry industry, for example, the introduction of a so-called priority status for large investors, which means that investors do not have to participate in an auction procedure when acquiring forest leases from the state. An investor can attain priority status by committing to new investments of at least 300 million rubles, equivalent to approximately SEK 75 million.

In Europe and the Nordic Countries, attention has been paid to the introduction of Russia's high export duties on roundwood. The export duties on roundwood are designed to create incentives for investments in domestic production and for exports of processed products rather than exports of roundwood. On 1 July 2007, export tariffs on roundwood were raised to 20 per cent (with a minimum amount of EUR 10/m³) and in April 2008 there was a further increase to 25 per cent (with a minimum amount of EUR 15/m³).

Russian export duties

Date	Export tariff (%)	Minimum, duty cost	Species (top diameter)
Prior to July 2007	6.5 %	4 EUR/m ³	Birch (> 15 cm), all spruce, all pine
July 2007	20.0 %	10 EUR/m ³	Birch (> 15 cm), all spruce, all pine, aspen
April 2008	25.0 %	15 EUR/m ³	Birch (> 15 cm), all spruce, all pine, aspen
January 2009 (Postponed)	80.0 %	50 EUR/m ³	Birch (> 15 cm), all spruce, all pine, aspen
January 2011 (Postponed)	80.0 %	50 EUR/m ³	All birch, spruce, pine and aspen

Source: Pöyry, September 2008 and RusForest

However, the Russian government has decided to postpone the final increase (of 80 per cent and not less than EUR 50/m³), which was supposed to be introduced for most types of roundwood from 1 January 2009. The decision not to further raise export tariffs could be explained by factors such as the economic crisis, pressure from the EU in connection with Russia's WTO membership and the fact that only limited investments in domestic sawmilling capacity and new pulp industries were made prior to the deadline at year end.¹⁾

Currently, the export duties on industrial roundwood are 25 per cent, whereas almost all value-added products can be exported duty free. This means that forestry companies without value-adding capacity, which are dependent on the export of roundwood, are to a larger extent affected by the increased export duties than companies with such processing capacity.²⁾

Key drivers and trends within the Russian forestry industry

1. Domestic consumption, investment and new construction

Domestic demand is largely driven by general economic growth. As the construction industry accounts for a significant portion of the demand for sawnwood, domestic construction activity is particularly important. Accelerated growth, sustained urbanisation, government stimulus activities and a general need for modernisation is therefore likely to have a positive impact on sawnwood demand.³⁾

2. Low production costs compared to competing countries

The cost of roundwood in Russia is considerably lower than in many competing countries, such as Sweden and Finland, primarily as a result of the low price for standing timber.⁴⁾ Moreover, due to government regulatory controls the cost of electricity in certain regions is relatively low.

3. Proximity to emerging markets

Russia benefits from its proximity to emerging markets such as Asia, CIS, and North Africa.⁵⁾

4. Transition of the Russian forestry sector towards production of a larger share of further processed products

Historically, the Russian forestry industry has been characterised by a low value-added ratio. This is about to change, partly as a result of increased investments and by the export duties that the Russian government has introduced on roundwood, and which are intended to favour companies that produce and export products with a higher degree of added value.

5. Large unexploited forest resources

Russia controls one of the world's largest forest reserves, which to a large extent is unexploited. Thus, there is great potential to consolidate the existing forestry industry as well as to develop new products, such as green energy and pellets. These products are particularly relevant to the Arkhangelsk Region, with its relative proximity to the European markets.

1) AP, October 2009

2) Pöyry, September 2008

3) UNECE/FAO, 2005

4) Pöyry, September 2009

5) Pöyry, September 2009

Market

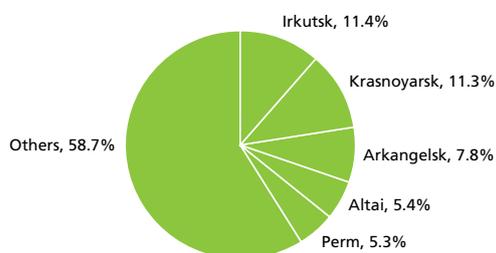
Competitive environment

The Russian sawmilling industry is fragmented, and the five largest producers accounted for less than 10 per cent of the country's total production in 2008.¹⁾

Investlesprom, Lesosibirsky LDK No. 1, Novoeniseisky, Ilim Drev and Titan Group are among the largest sawmilling companies in Russia. These companies each have an annual production of approximately 400,000 m³ to 750,000 m³, which from a Central European and Nordic perspective is considered to be relatively small.²⁾

Eight of the ten largest sawmills in Russia are located in either the Krasnoyarsk, Irkutsk or Arkhangelsk regions.³⁾

Production of sawnwood in Russia by region (2009)

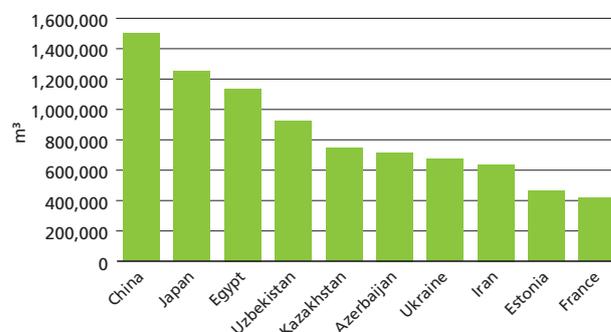


Source: Lesprom

The market for Russian exports of sawnwood

The main export markets for Russian sawnwood producers are China, Japan, North Africa and Europe.⁴⁾ Other export markets include, among others, the Middle East, Central Asia and the other CIS countries.

Russian export volume of sawnwood by geographical market (2007)



Source: FAO

The Asian market is of major significance for the Russian forestry sector, and particularly companies in eastern Russia benefit from their proximity to these emerging markets. In addition, a market for pellets and bio-energy is emerging in Japan.

As other materials are preferred for construction in China, the Chinese market for sawnwood is not as sensitive to changes in the conditions in the construction sector in comparison to other countries. Instead, demand is driven primarily by furniture, window and packaging producers.⁵⁾ The market for sawn softwood has grown rapidly in China over the past ten years, and the visible annual consumption has increased by about 11 million m³ corresponding to an average growth of 16 per cent per year since 2000.⁶⁾

Historically, Chinese demand for sawnwood has to large extent been covered by imports of roundwood from Russia processed in domestic sawmills.⁷⁾ Between 1997 and 2007 the average annual growth rate of the import volume of roundwood in China was approximately 18.3 per cent. During 2008, imports of roundwood decreased by 18.4 per cent, in part as a result of the introduction of the Russian export duties.⁸⁾

1) Lesprom, March 2009

2) Pöyry, September 2008

3) Lesprom, March 2010

4) Metla, June 2008

5) Pöyry, February 2009

6) FAO, June 2010

7) FAO, June 2010

8) www.globalwood.org, May 2010

Chinese imports of roundwood are showing a significant recovery during 2010. The country imported 11 million m³ roundwood during the first four months of the year, an increase of 24 per cent compared to the same period in 2009. However, the imports from Russia continued to show a negative trend and fell by six per cent during the period.¹⁾

China has also increased its imports of sawn softwood during the first seven months of 2010. Imports increased by 40 per cent during the period January to July 2010 compared to the same period last year. The imports from Russia increased in particular, largely at the expense of imports from Canada.²⁾

As Russian forestry companies can export their products by land to the Chinese market, it is possible to avoid sea shipping costs. This is a significant competitive advantage for the Russian players in comparison to exporters from Europe, North America, Brazil and New Zealand.³⁾

Russian sawmilling companies also hold a strong position on other Asian markets, such as Japan. After Canada, Russia is the second largest exporter of sawnwood to Japan, providing approximately 10 per cent of the country's annual imports.⁴⁾ Russian suppliers have a competitive advantage through shorter transport distances and thus lower costs, but the products are often of less value added than to those of Western competitors.⁵⁾

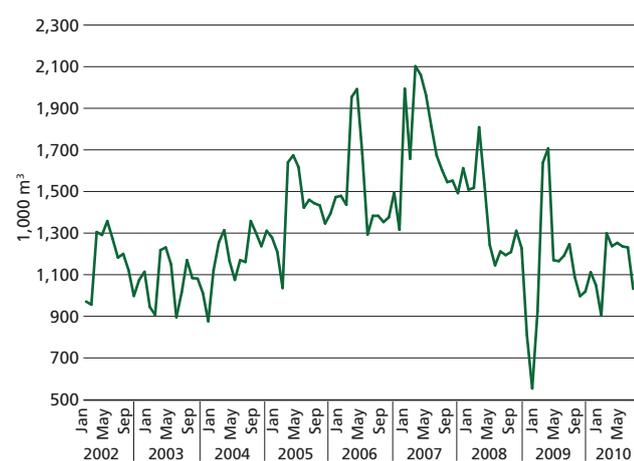
Egypt is an important part of the North African market. As the country has no domestic production, it is entirely dependent on imports of sawnwood.⁶⁾ Historically, the majority of the market has consisted primarily of products of lower quality.⁷⁾ Russia accounted for half of Egypt's total imports of sawnwood in 2008.⁸⁾

Two CIS countries, Uzbekistan and Azerbaijan, are highly dependent on imports of sawnwood from Russia.

Uzbekistan has very limited forest resources, as most of the forest area is protected from exploitation. In order to meet domestic demand, the country therefore depends entirely on imports of sawnwood, mainly from Russia and China.

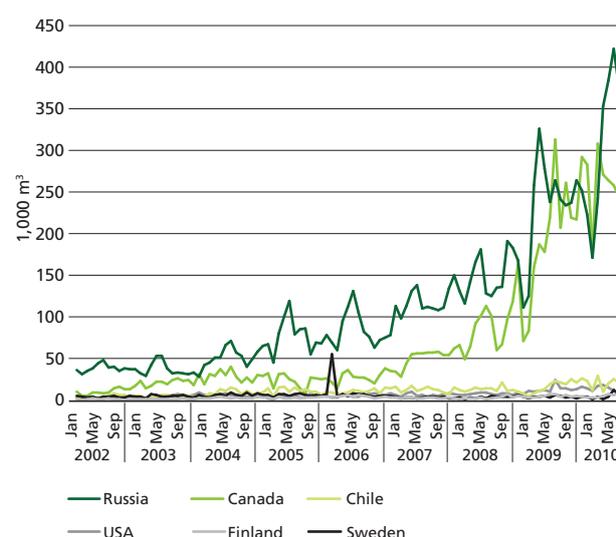
Azerbaijan has a virtually non-existent domestic sawmill production and thus its entire sawnwood requirements must be imported. The greater part of the country's imports of sawnwood comes from Russia. The demand for sawnwood products in Azerbaijan has benefited from the country's sound economic growth driven by oil production in the Caspian Sea. The Azerbaijani market is also relatively protected from competition as imports from European producers are subject to high export costs. Uzbekistan and Azerbaijan are therefore a competitive alternative to the North African markets, with regards to exports of sawnwood of lower quality, for Russian producers.⁹⁾

China's import of softwood logs from Russia



Source: Woodstat, August 2010

China's import of sawn softwood



Source: Woodstat, August 2010

1) www.globalwood.org, May 2010

2) Woodstat, August 2010

3) Pöyry, February 2009

4) Pöyry, February 2009

5) Pöyry, February 2009

6) FAO, June 2010

7) Pöyry, February 2009

8) FAO, June 2010

9) Pöyry, February 2009

Operations

Business concept

RusForest's business concept is to be an efficient supplier of high quality sawnwood. By utilizing the Company's access to high quality raw material, low input costs and by creating conditions for an expansion of well-functioning infrastructure, the Company aims to produce and sell high quality sawnwood and thereby generate return for its shareholders.

RusForest has achieved its primary objective of acquiring and consolidating forestry resources in Siberia and the Arkhangelsk region¹⁾ and the Company will in the future focus on improving existing operations, finalising the geographical expansion and its planned investment programme.

Overall objective

Through organic growth, acquisitions and investments in production capacity, RusForest will become a leading independent integrated forestry and sawmilling company in Russia.

RusForest's long-term objective is to continue to utilize its significant forestry resources, to increase the sawmilling capacity and value-added activities, and at the same time generate a good return on equity.

Strategy

In order to benefit further from the Company's competitive advantages over Western competitors, such as access to cheap raw material and low electricity and personnel costs, RusForest seeks to consolidate the regional forestry operations and to increase productivity and efficiency across its entire value chain. The Company has achieved its primary objective of obtaining administrative control over significant forest resources and the strategy, around these resources, is now to further expand sawmilling capacity, streamline operations and to finalise the investment programme.

Through the acquisition of the sawmilling plant LDK-3 and the planing mill Infa in Arkhangelsk¹⁾, RusForest will be established as one of the few pan-Russian forestry companies with operations in both Siberia and in the European part of Russia. This provides the Company with great opportunities to efficiently export its products to both the European and the Asian markets.

Operational targets

RusForest considers that it has reached a scale where focus can be shifted from the acquisition of forestry assets for the existing operations towards finalising the Company's investment plan, completing projects and improving operational efficiency. RusForest harvested 716,826 m³ in 2009, which corresponded to almost half the Company's current annual allowable cut of 1.44 million m³. Over the next four years, the Company's objective is to gradually increase the Company's annual allowable cut to approximately 2.1 million m³ with annual harvesting of 1.8–2.0 million m³. The planned increase in harvesting will allow for greater internal supply of raw material, which reduces costs and supply-related raw material risks. The increase in production of sawnwood is scheduled to approximately 550,000–600,000 m³ annually.

RusForest considers the increase in production capacity as important in order for the Company to fully adapt to the new Russian export duties on roundwood (see section *"Driving forces for the Russian forest industry"* under *"Market"*). The Company believes that forestry companies with a higher value-adding ratio will benefit from these export duties.

In the near future, the Company will focus on the following:

1. Securing funding in order to complete its investment and development programme. In particular, the completion of the turnkey sawmill in Magistralny and restructuring of LDK-3 in Arkhangelsk.
2. Developing infrastructure in the forest, including harvesting and transportation capacity, as part of the efforts to secure the long-term development of the Company's harvesting areas and its raw material sourcing plan, with focus on stable sawlog supplies commencing during the winter of 2010.
3. Expand capacity at several of the Company's existing production facilities by clearing bottlenecks and reorganising production flows, and thereby reducing the Company's costs. The current bottlenecks at the plants mainly consist of lack of sorting capacity (both green and dry sorting), lack of drying capacity in the sawmills and a partially under-developed forest infrastructure. In addition to increases in production, increased drying capacity and better sorting are also expected to entail higher sales prices due to larger volumes of kiln dried sawnwood with a more consistent sorting process.

1) The acquisition of LDK-3 and Infa is contingent of Russian anti-monopoly approval, which is expected to be attained before the year end.

History

2006

RusForest Ltd's forestry activities were established through Vostok Nafta's acquisition of PIK-89 (now RusForest Ust-Ilimsk), Tuba-Les and Tubesprom.

The investment company RusForest (then Varyag Resources AB) was listed on First North on 7 August, which provided the Company with SEK 441 million before issue expenses. RusForest became Vostok Nafta's co-investor in RusForest Ltd after the share issue, when RusForest acquired 50 per cent of Vostok Nafta's share in PIK-89, Tuba-Les and Tubesprom.

2007

In March, RusForest entered into an agreement concerning the acquisition of OOO Boguchansky LPK, where the principal asset was a sawmill plant located in Boguchany in the Krasnoyarsk region. At the time of the acquisition, the plant, which had a capacity of 50,000 m³ sawnwood, had been closed since 2000.

In May, RusForest acquired 100 per cent of OOO Lesprom; a harvesting and forestry company with smaller sawmilling operations in Magistralny, in the Irkutsk Region. OOO Lesprom's main asset was a forest lease agreement for 34,000 hectares.

In August, RusForest acquired 50 per cent of the shares in OOO Nebelsky, a Russian harvesting and forestry company located in the city of Magistralny in the Irkutsk Region. At the time of the acquisition, OOO Nebelsky's main assets were two forest licences for 90,000 hectares.

In December, RusForest carried out a new share issue of SEK 200 million.

In addition to the investments in the forestry operations, at year end the portfolio also included investments in a gravel business as well as coal mining operations in Russia.

2008

In June, RusForest entered into an agreement to acquire the Russian forestry company TSLKK (now RusForest Angara). At the time of the acquisition, TSLKK held a forest lease with an annual allowable cut of 112,400 m³, which spread over approximately 48,700 hectares.

In July, RusForest entered into an agreement to acquire the Russian forestry company ZAO Bamlesstroi, with a forest lease holding an annual allowable cut of 233,000 m³, spread over approximately 231,600 hectares.

Operations at the new sawmill in Boguchansky LPK started in October.

An agreement to split the Nebelsky joint venture project into a forestry company, owned by Russian shareholders, and a sawmilling site, RusForest Magistralny, owned by RusForest, was concluded.

In 2008, the Company sold its stake in the Unal coal project.

2009

In June, RusForest acquired 50 per cent of RusForest Ltd from its co-investor, Vostok Nafta, through an issue in kind. The acquisition was part of RusForest's transition from an investment company to a pure play forestry company. Alexandr Williams was appointed managing director of RusForest AB at the same time. The Company also changed its name from Varyag Resources AB to RusForest AB in August of the same year.

2010

In order to increase the Company's financial flexibility, RusForest carried out a bond issue with a 12 month maturity and a volume of SEK 50 million in February.

In order to reinforce the Company's Swedish management function, RusForest appointed Anders F. Börjesson as new deputy CEO in April. The appointment entails, among other things, the position as Compliance Officer at RusForest.

In May, RusForest signed a letter of intent with NTG's main shareholders with the aim of merging the two companies.

Martin Hermansson was appointed President and CEO of RusForest as of 1 June.

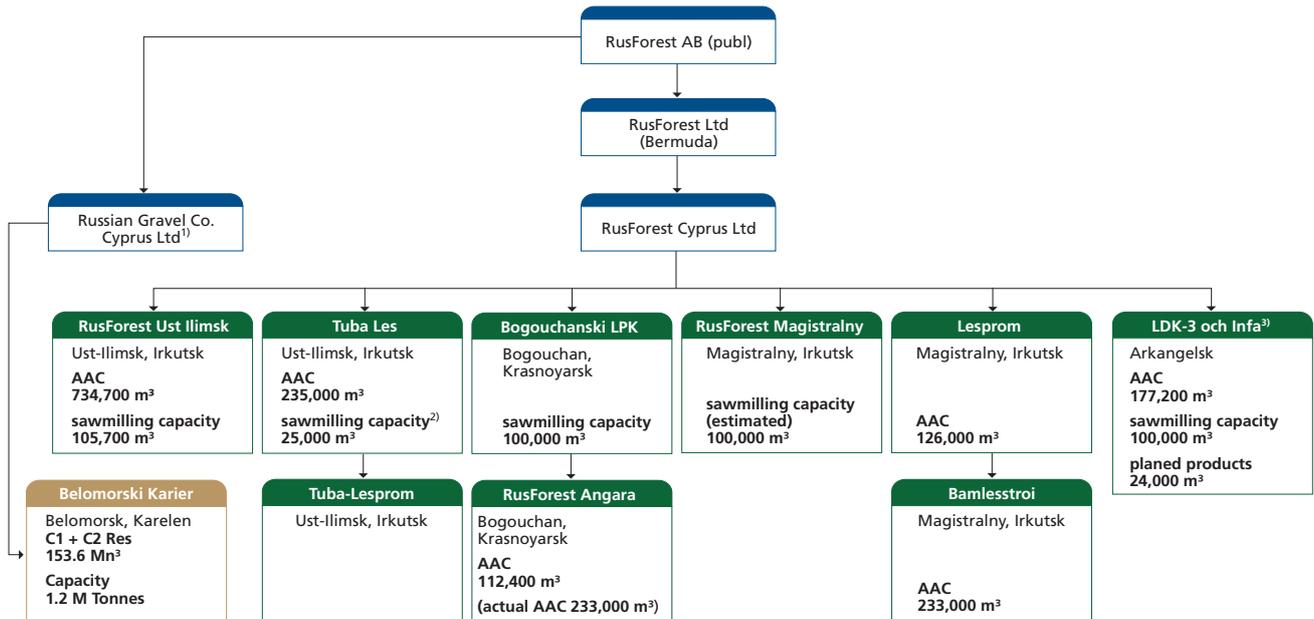
RusForest resolved to change the Company's Certified Advisor on NASDAQ OMX First North from HQ Bank AB to Öhman as of 21 September.

The extraordinary shareholders' meeting on 8 October resolved on a rights issue of approximately SEK 437 million before issue expenses and on an authorisation for the best of directors to resolve on an issue in-kind to enable an acquisition of shares in companies within the group in which NTG is a part. The board of directors also decided to acquire 86 percent of LDK-3 and 100 percent of Infa, a sawmill plant in the city of Arkhangelsk in north-western Russia and a planing mill located at the same site. The acquisition of LDK-3 and Infa is contingent of Russian anti-monopoly approval, which is expected to be received before year end.

Operational structure

RusForest AB (publ) is the Group’s parent company with its registered office in Stockholm. The Company was founded on 1 August 2006. The Group consists of the wholly owned subsidiary RusForest Ltd (Bermuda), which owns RusForest (Cyprus) Ltd, which in turn owns the Russian subsidiaries.

RusForest’s simplified operational structure is presented below:



1) Russian Gravel Co. Cyprus Ltd is included in the Group as assets classified as held for sale.

2) In connection with the suspension of all sawmill operations at Tuba-Les, intra-group asset transfers were executed and Tuba-Les filed for creditor restructuring, which was subsequently approved.

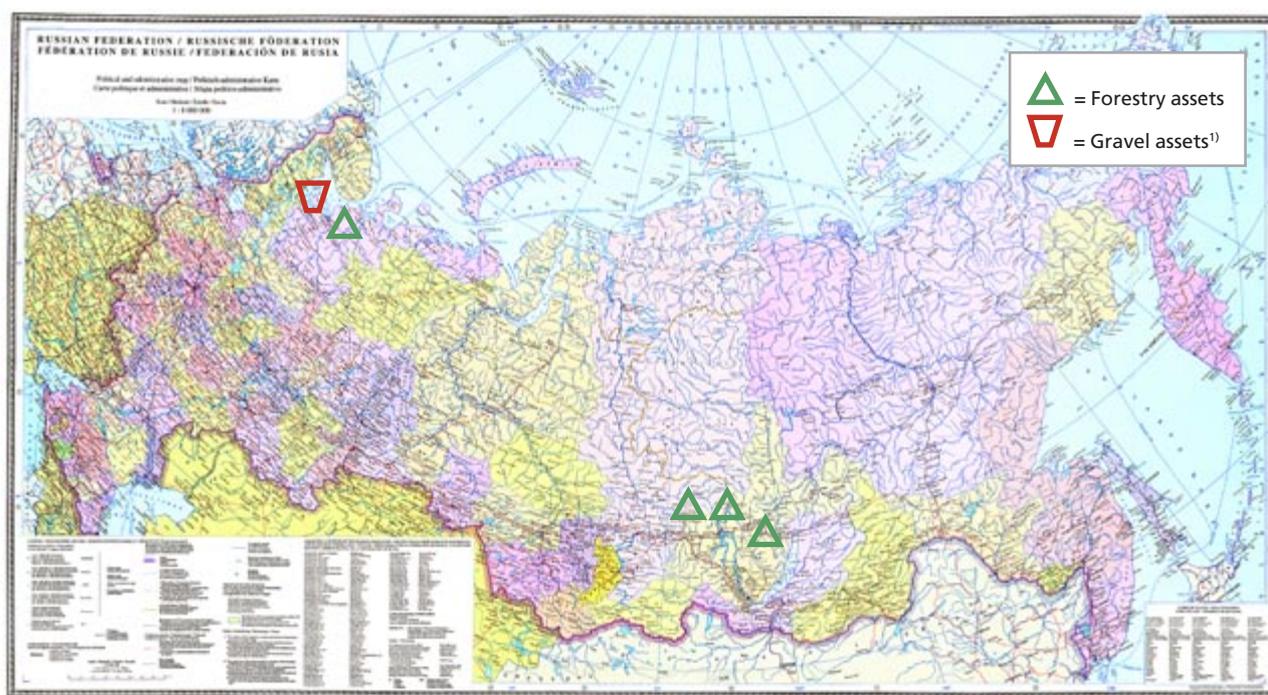
3) The acquisition of LDK- 3 and Infa is contingent of Russian anti-monopoly approval, which is expected to be attained before the year end.

For legal structure see the section “Legal considerations and additional information”.

RusForest

RusForest is a forestry company which operates in eastern Siberia. Through the acquisition of LDK-3 and Infa, the Company will expand its geographical presence to Arkhangelsk in north western Russia.¹⁾ Since the Company's formation, in 2006, RusForest has grown with respect to forestry resources and sawmilling capacity through both strategic acquisitions and own development projects. Through its forest leases, which have an average remaining term of approximately 36 years, the Company controls approximately 860,000 hectares of forest land, with an annual allowable cut of approximately 1.44 million m³. As a result of the acquisition of LDK-3, an additional 177,200 m³ cutting rights will be obtained.

Geographical overview of RusForest's assets



1) The gravel assets of the subsidiary Russian Gravel Co. are classified as held for sale.

Overview of RusForest's operational history

	Units	2007 ¹⁾	2008 ¹⁾	2009	1st six months 2010
Annual allowable cut (AAC)	m ³	1,449,000	1,654,100	1,443,200	1,441,100
Harvesting volume	m ³	708,404	593,529	716,826	288,210
Volume of sawnwood	m ³	153,672	120,617	166,333	88,076
Forest area	Hectares	723,664	1,005,020	864,784	867,925

1) Refers to RusForest's portfolio company RusForest Ltd In which RusForest held 50 per cent until 1 June 2009.

RusForest processes sawlogs, originating from the Company's leased pine, larch and spruce forests, into a variety of sawnwood products, of which a smaller share consists of planed products, flooring and interior products. The Group's total sawmilling capacity, which currently amounts to around 200,000 m³, is expected to increase to approximately 550,000–600,000 m³ upon completion of the RusForest Magistralny sawmill and the acquisition and restructuring of LDK-3.

RusForest's forestry assets (as of 30 June 2010)

RusForest subsidiaries	AAC m ³	Type of wood							Softwood % av AAC	Area Hectares
		Pine	Larch	Spruce	Fir	Cedar	Birch	Aspen		
RusForest Ust-Ilimsk	734,700	50 %	20 %	7 %	5 %	5 %	8 %	5 %	85 %	436,033
Tuba	235,000	35 %	15 %	10 %	15 %	0 %	15 %	10 %	69 %	117,514
Bamlesstroj	233,000	0 %	70 %	0 %	10 %	10 %	0 %	10 %	85 %	231,554
Lesprom	126,000	47 %	10 %	23 %	0 %	0 %	10 %	10 %	81 %	34,129
RusForest Angara	112,400	25 %	50 %	12 %	2 %	6 %	3 %	2 %	96 %	48,695
Total	1,441,100	37 %	28 %	8 %	7 %	4 %	8 %	7 %	83 %	867,925

1) The acquisition of LDK-3 and Infa is contingent of Russian anti-monopoly approval, which is expected to be attained before the year end.

Sales and trends

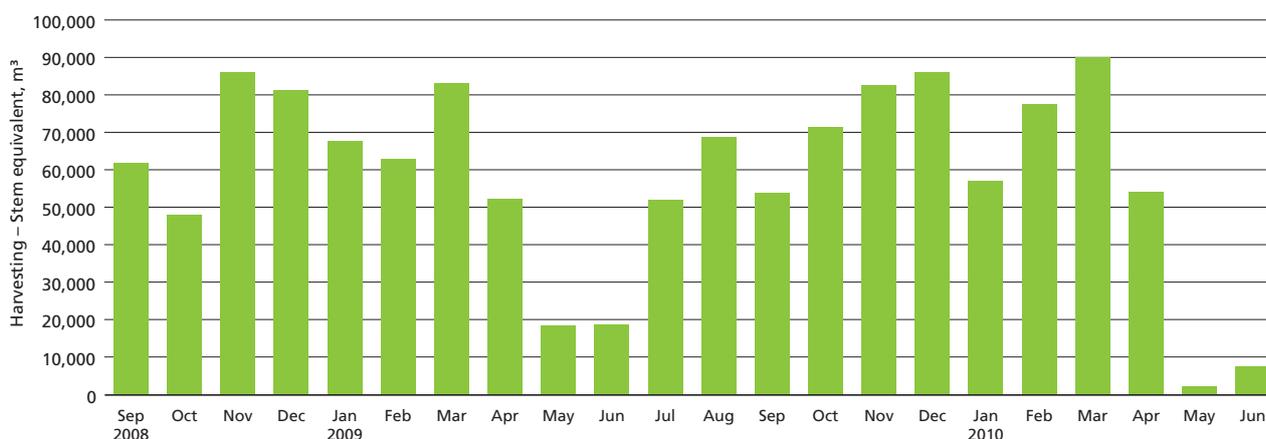
RusForest's main product is construction sawnwood made from high-quality pine, spruce and larch. As approximately half the production (by volume) from a sawmill consists of by-products, such as chips and sawdust, the sale of such products to pulp producers is an important source of income for the Company. RusForest's products are sold by the wholly owned sales company RusForest Trading. A joint trading company for all of RusForest's production facilities provides greater flexibility for the Company through centrally controlled sales, production planning and logistics.

RusForest harvests large amounts of timber each year, and part of the harvested sawlogs have a larger diameter than what can normally be handled internally by the Company's own sawmills. These logs are therefore often sold on the open market, in part to China, along with the logs harvested in areas which currently do not have any sawmilling capacity (Magistralny). Parts of the annual

harvest are of lower quality (rot) or not suitable for sawmilling due to a low top diameter, which is why these logs are sold as pulpwood.

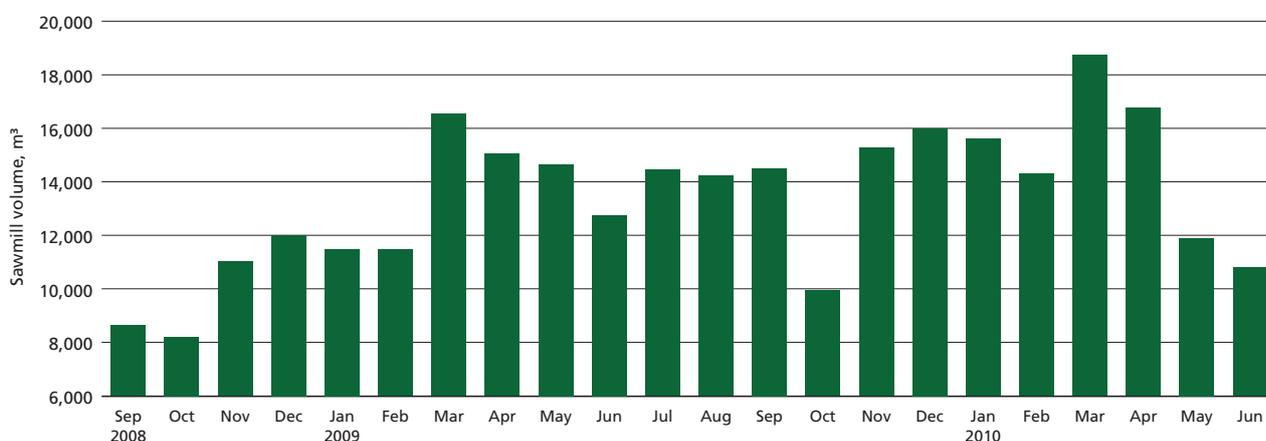
Lack of planning within the forestry operations and seasonality within harvesting has had a significant effect on production in the second quarter of 2010. The harvesting levels in the first half of 2010 were marginally lower than the corresponding period in 2009 (down by 4.8 per cent), but the production volume during the second quarter of 2010 was 28.5 per cent lower than the corresponding period in 2009. This significant decline occurred because of failures in planning and unfavourable conditions, particularly in Tubas' forest regions, and led to low production from the harvesting operations in the Ust-Ilimsk region. As a result of this, RusForest's board of directors resolved to make changes in the forestry companies' managements and additional reinforcements will take place in the autumn of 2010.

RusForest harvesting, September 2008 – June 2010



Source: RusForest

RusForest sawmilling, September 2008 – June 2010



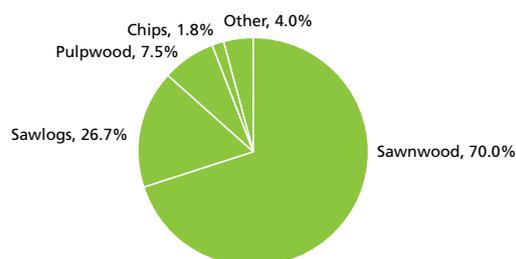
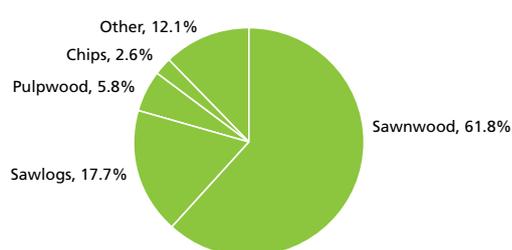
Source: RusForest

The disturbances in the forestry operations during the first and second quarters resulted in lower logstock levels than anticipated in both Boguchansky LPK and RusForest Ust-Ilimsk, which had a negative effect on the sawmilling operations.

Thanks to increased log purchases on the open market, both sawmilling companies have run their sawlines

without longer interruptions. As a result, RusForest's consolidated volume of sawmilling increased by 7.5 per cent in the first half of 2010 compared to same period in 2009. Most of the increase derives from Boguchansky LPK that improved its production significantly, while RusForest Ust-Ilimsk failed to reach its goals due to raw material shortages.

Distribution of income for 2009 (left) and first half of 2010, share of total (%)

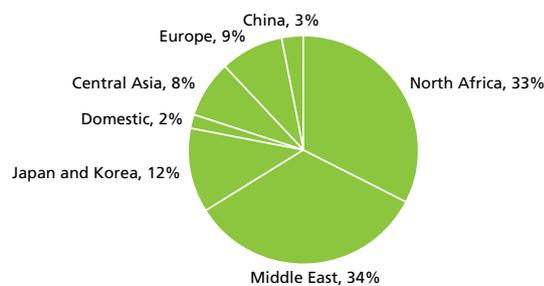
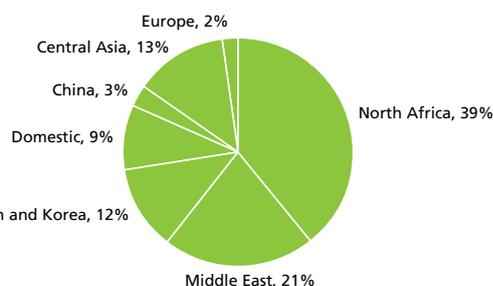


Source: RusForest

The Company's income during the first half of 2010 totalled SEK 187.1 million and consisted of: sawnwood – SEK 130.9 million; sawlogs – SEK 31.3 million; pulpwood – SEK 14.1 million; chips – SEK 3.3 million; and

other revenue – SEK 7.5 million. The share of sawnwood as a proportion of total revenue amounted to 70 per cent during the first half of 2010.

RusForest's sales areas for sawnwood for the full-year 2009 (left) and first half of 2010



Source: RusForest Trading, sawnwood volume of export quality

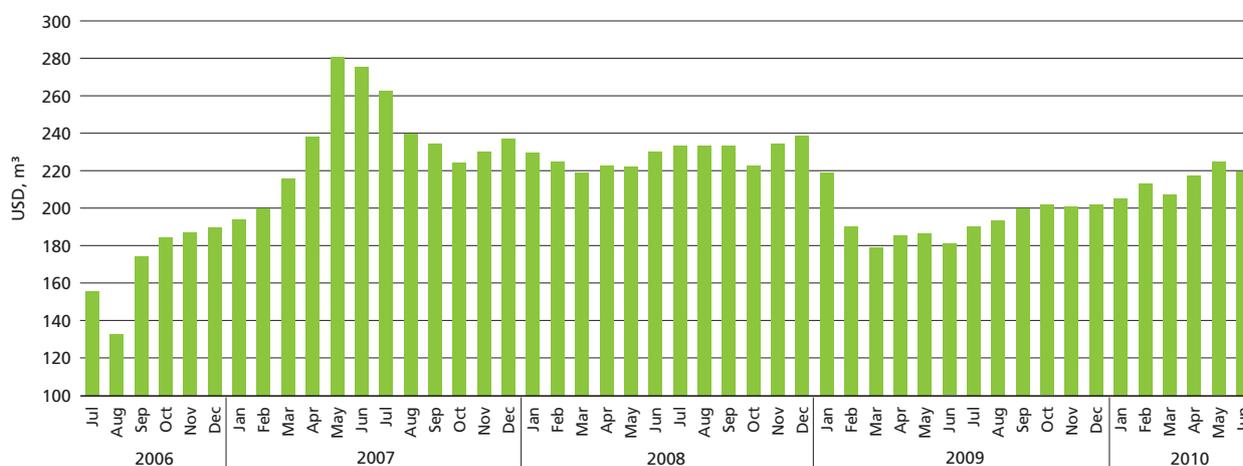
RusForest's production is sold both on the Russian market and for export. The Company's main export markets for sawnwood in the first half of 2010 were primarily North Africa, the Middle East, Central Asia, Japan and Korea. In 2009, steps were taken to reduce the Company's product range, in order to enable production of larger batches and longer run-times in the sawmills. These measures will result in less complex product flows and enable greater efficiency and increased production, which is particularly important in the absence of sufficiently high capacity

in the dry sorting that lines. Furthermore, the reduced product range also lead to that greater proportion of sawnwood was delivered to the Middle East and Europe during the first quarter of 2010 compared to 2009.

The Company's assets and operations in the south-eastern parts of Siberia are located close to the emerging markets in Asia, and RusForest production facilities have access to the Trans-Siberian Railway or the Baikal-Amur Railway allowing for transportation to the Company's export markets.

Pricing

Received export prices for sawnwood (2006–2010)



Source: RusForest Ust-Ilimsk, export prices for sawnwood including transport costs

In early 2009, the prices of sawnwood fell dramatically, but stabilised during the second quarter of 2009 and then steadily increased during the third quarter of 2009. In part, the price increases occurred because the international production volumes decreased more than the demand. Hence, the limited supply forced customers to accept higher prices. A lagging order book forced the Company to deliver at previously settled, and lower, prices during the fourth quarter. However, as most of the lagging order book could be delivered in the first quarter of 2010, prices could thereafter increase again.

In addition to the actions taken to simplify production and to reduce the product range at the sawmills, RusForest has made efforts to reduce the proportion of advance payments from customers to RusForest Trading. The goal is to better match payments with deliveries, and to reduce the Company’s dependency of the customers. These measures have led to an improvement in RusForest’s ability to increase the prices on its products.

RusForest’s Russian subsidiaries

RusForest’s operations are conducted through a number of subsidiaries that are based in Siberia and the Arkhangelsk Region¹⁾, in south-eastern and north-western Russia. A brief description of RusForest’s operating subsidiaries is set forth below.

Overview of operating subsidiaries for the period 1 January to 30 June 2010

	Unit	RusForest Ust-Ilimsk	Tuba	Lesprom	Bogutjanskij ¹⁾	Bamlesstroj
RusForest’s equity interest	Per 1 January 2010	90 %	100 %	100 %	100 %	100 %
Annual allowable cut (AAC)	m ³	734,700	235,000	126,000	112,400	233,000
Harvesting volume	m ³	198,860	11,243	25,331	52,776	–
Purchased sawlogs	m ³	33,769	–	–	70,289	–
Volume of sawnwood	m ³	46,550	1,156	769	39,602	–
Forest area in Hectares	Hectares	436,033	117,514	34,129	48,695	231,554

1) Boguchansky comprises Boguchansky LPK and RusForest Angara

1) The acquisition of LDK- 3 and Infa is contingent of Russian anti-monopoly approval, which is expected to be attained before the year end.

RusForest Ust-Ilimsk

RusForest owns 90 per cent of RusForest Ust-Ilimsk, which is the parent company in a group with a consolidated annual allowable cut of 734,700 m³ and a current sawmilling capacity of approximately 100,000 m³ per year. The group's own forestry resources are sufficient to cover the sawmills entire raw material requirements.

RusForest Ust-Ilimsk holds seven forest leases with a very high proportion of pine forests covering an area of 436,000 hectares, which are located in the Irkutsk Region as well as the autonomous region of Evenkeya. The leases have an average remaining term of approximately 42 years and the forest assets are situated in favourable locations with an average distance of 120–150 kilometres from the Company's sawmills. RusForest Ust-Ilimsk mainly relies on its own harvesting capacity as well as the capacity of sub-contractors in the harvesting areas for its supply of raw material.

The Company operates two sawmills in Ust-Ilimsk, one equipped with a reducer saw from Veisto (Hew Saw R200) and one with older circular sawlines (Laimet) for cutting logs with a larger diameter. RusForest Ust-Ilimsk currently has a capacity to produce about 9,000 m³ of sawnwood per month and to dry about 80 per cent of this volume (approximately 7,000 m³).

During 2009, RusForest Ust-Ilimsk harvested 460,373 m³ and produced 105,688 m³ sawnwood, an increase of 17.5 per cent and 6 per cent respectively compared to 2008.

In 2009, about 20 per cent of the logs consumed in RusForest Ust-Ilimsk was purchased externally, whereas approximately 80 per cent was supplied internally. As a part of increasing the share of internally delivered sawlogs to RusForest Ust-Ilimsk to 100 per cent, the Company has recently developed a plan for the construction of forest roads. Improved forest roads enable harvesting and transport of timber throughout the year, and reduce transport costs by improved accessibility and less extensive damage to the equipment.

In practice, this means that harvesting reports for the rest of 2010 and 2011 were prepared and approved during the second and third quarter of 2010. Thereafter, a significant amount of time will be spent on developing long-term plans for harvesting and road construction at the subsidiary. The new head of forestry in Ust-Ilimsk will lead this work going forward.



RusForest Ust-Ilimsk: Sawlog deliveries in summer are also made by barge



RusForest Ust-Ilimsk: The HewSaw R200 sawline

Long-term harvesting plans, which have been lacking in the past, are of great importance to ensure sufficient road construction. This, in turn, enables stable raw material flows at the same time as it decreases timber purchases from external suppliers. Operations at the sawmills will then not suffer disturbances related to raw material.

Operations

In order to improve the overall operations, increase efficiency and reduce costs at RusForest Ust-Ilimsk, a comprehensive programme of cost controls and cost reductions were implemented at the subsidiary during the second quarter 2010. The program comprises, among other things, the linking of salaries to operational and financial performance to a greater extent, restructuring of the forestry department and continued reductions of personnel.

Moreover, the Company considers that there are significant opportunities for expanding capacity at the small diameter sawline at RusForest Ust-Ilimsk by addressing production bottlenecks. Currently, these bottlenecks primarily comprise debarking and sorting, which is why the Company is investigating the possibilities to invest in a new debarking facility and in increased sorting capacity. The objective of these investments is to increase capacity at RusForest Ust-Ilimsk with about 50 per cent, to more than 150,000 m³ kiln dried sawnwood per year.

The forestry industry in the Irkutsk Region is relatively well developed, and Ilim Pulp operates two pulp mills in the cities of Ust-Ilimsk and Bratsk. RusForest Ust-Ilimsk is situated in close proximity to Ilim Pulp's Ust-Ilimsk mill. Ilim Pulp's own harvesting company provides a significant part of the pulp mill's raw material needs, however, the mill is still dependent on external pulpwood supply. In 2009, RusForest Ust-Ilimsk supplied just below 160,000 m³ pulpwood and 77,000 m³ chips to Ilim Pulp.

The operations at Tuba are conducted by two legal entities; OOO Tuba-Les and ZAO Tubesprom. Tuba-Les is a harvesting and sawmilling company that holds three leases, representing approximately 117,000 hectares of forest land in the Irkutsk Region of Siberia. The annual allowable cut is in total 235,000 m³ and the collection comprises about 75 per cent softwood. Tuba-Les owns a sawmill with a capacity of approximately 25,000 m³ per year.

In 2009, it was resolved to suspend the sawmilling operations at the small-scale sawmill in Tuba-Les, and instead utilise the flow of sawlogs from Tuba-Les at RusForest Ust-Ilimsk. In connection with the suspension of all sawmilling operations at Tuba-Les, intra-group asset transfers were executed and Tuba-Les applied for creditor restructuring, which was subsequently approved. The existing leases have an average remaining term of approximately 20 years.



RusForest Ust-Ilimsk: Drying chambers



RusForest Ust-Ilimsk: Packaged sawnwood under the registered trademark "Angara"

Boguchansky LPK

Boguchansky LPK is located in the Krasnoyarsk region of Siberia and was acquired by RusForest in 2007. Thereafter, RusForest has installed a new sawlog table, a new Veisto HewSaw R250 sawline and a new log sorting line with 24 compartments from Hekotek. Because of limitations in drying capacity and dry sorting, the sawmill's current capacity is approximately 7,000 m³ sawnwood per month. With an increased drying and dry sorting capacity, the long-term objective is to reach an output of 200,000 m³ sawnwood per year at the facility. The Company is planning to invest approximately SEK 50 million in the facility during the period 2010–2012.

RusForest Angara (formerly TSLKK), which was acquired in 2008, is a harvesting company in the Krasnoyarsk Region, north of Boguchansky, that holds a forest lease with an annual allowable cut of 112,400 m³ in an area of 48,695 hectares. The lease comprises approximately 50 per cent larch and 25 per cent pine.

The sawmill at Boguchansky LPK is well situated in order to process logs that are passing the plant on its way to the railway terminal in Karbula. The federal government is currently building a bridge over the nearby Angara River, which is estimated to be completed in 2011 or 2012. The bridge will enable a smoother supply of sawlogs across the river throughout the year.

Moreover, both the federal and regional government have approved an extension of the railway from Karabula to the city of Boguchany, and the government plans to further extend the railroad across the new bridge over the Angara River. The completion of the 40 km railway line is expected to reduce Boguchansky LPK's transport costs for sawnwood, chips and pulpwood.

Currently, RusForest Angara's harvesting capacity with existing equipment totals 200,000 m³ per year, which exceeds the annual allowable cut at the subsidiary's forest lease. Therefore, the Company is currently investigating the opportunity to co-operate with local forestry companies and to acquire additional leases in the Krasnoyarsk Region.

Efforts to take control over additional forest leases are obstructed by a planned pulp and paper project with priority status in Boguchany run by the state. In June 2010, RusForest entered into an agreement to acquire 40,000 cubic meters standing timber until the end of 2010, with the intention of concluding an agreement for an additional 80,000 m³ in 2011. Negotiations have been initiated concerning another harvesting area, which is available for winter harvesting, and provides an annual allowable cut of approximately 100,000 m³.



Boguchansky LPK: Overview of the sawlog table and log turner



Boguchansky LPK: The main HewSaw R250 sawline

On 1 July, RusForest had a meeting with Lev Kuznetsov, Governor of Krasnoyarsk, where RusForest's managing director Martin Hermansson presented the Company's operations in the Krasnoyarsk Region and the Governor ordered the local forestry agency to assist RusForest to locate available forestry areas and help manage Boguchansky LPK's application for priority investment status.

After initial production trials in the end of 2008, the Boguchansky sawmill and the associated harvesting company RusForest Angara commenced operations in 2009. With a production exceeding 8,100 m³ in March 2010, Boguchansky LPK set its production record and the plant increased its sawmilling production by 96 per cent in the second quarter of 2010 compared to same period last year.

Operations

The current harvesting operations at RusForest Angara uses two different harvesting techniques; CTL and stem harvesting. In order to simplify the raw material flow to the Boguchansky sawmill, the long-term objective is to exclusively use CTL equipment at RusForest Angara and to concentrate the machinery used in stem harvesting to Magistralny, where the trees, on average, have a larger diameter.

In addition, RusForest intends to increase the share of internally supplied sawlogs to reduce the production costs at the mill in Boguchany. Approximately 50 per cent of the sawlogs used at Boguchansky LPK in 2009 were supplied by RusForest Angara. Due to increased production volumes and major purchases of sawlogs on the local market, the internal supply decreased to around 30 per cent in 2010.

As externally purchased sawlogs cost around 30–50 per cent more than logs harvested by RusForst, there are significant cost savings opportunities in developing the harvesting capacity of RusForest Angara. Thus, investments in harvesting capacity, additional leases and infrastructure developments are planned within the forestry company. RusForest's harvesting operations are currently being restructured and a new head of forestry was appointed as of September 2010.

The bottlenecks at the Boguchansky sawmill currently consist of an under-dimensioned drying capacity and a lack of sufficient dry sorting capacity. In order to further increase annual production to exceed 150,000 m³ kiln dried sawnwood per year, RusForest plans to invest, among other things in, a new boiler, drying and sorting equipment and an improved electricity connectivity at Boguchansky LPK.

With regard to the electricity connectivity at Boguchansky LPK, the cables have been put underground and the switching gears were paid for when the Company received funding from Vostok Nafta in July. The construction work is progressing as scheduled and Boguchansky LPK is expected to have access to an additional 1 MW (with the possibility of additional capacity), which will increase the plant's capacity to 3.5 MW at the end of 2010. The additional network capacity will result in more stable operations at Boguchansky LPK's sawline.

In 2011, the planned future investments in the plant include, as stated above, an additional boiler and drying and sorting capacity, which will allow for increased saw production and an improved product mix.



Boguchansky LPK: Operator at the green sorting line



Boguchansky LPK: Existing drying kilns

RusForest Magistralny Lesprom and Bamlesstroi

RusForest Magistralny is a company located in the city of Magistralny, in the Irkutsk Region, where RusForest is currently building a new sawmill with a base capacity of 100,000–150,000 m³ kiln dried sawnwood per year. The facility is located next to the Baikal-Amur railway line that leads to major export ports on the Russian east coast and also provides access to the Central Asian and Chinese export markets. Lesprom and Bamlesstroi are harvesting companies located near the sawmill site at RusForest Magistralny, which will supply raw material to the sawmill.

At the sawmill in Magistralny, infrastructure, the sawmill foundation, steel structures for buildings, sawmill equipment, and sorting and drying equipment have already been paid for and only assembly and installation remain before the sawmill can be put into operation. In order to facilitate, among other things, strong measures with regard to the installation works, RusForest received funding from Vostok Nafta in early June.

The construction of the sawmill building, cross cutting and timber sorting line and work on local infrastructure were initiated immediately, while the assembly of the sawline and drying equipment commenced in August. Following the quick start of the project in July 2010, the

completion of the sawmill is expected to occur in the second quarter of 2011. The company expects the harvesting capacity in Magistralny to double during the winter season 2010/2011 compared to last season.

Lesprom and Bamlesstroi are harvesting companies with access to an annual allowable cut of 126,000 m³ and 233,000 m³ respectively, and harvesting equipment with a total annual capacity of 250,000–300,000 m³. The forest leases provide access to high quality timber, and a large proportion of softwoods, mainly larch. The leases have an average remaining term amounting to approximately 22 years. The harvesting companies will function as suppliers of sawlogs to RusForest Magistralny, when the mill is fully operational. Currently there is no harvesting at Bamlesstroi, while Lesprom continuously harvests timber for export, mainly to China and Japan.

In order to ensure availability of raw material at the Magistralny sawmill when production commences, the Company plans to increase the harvesting capacity and develop infrastructure in order to ensure stable flows of raw material during the summer months. Improved forest roads enable harvesting and sawlog transports throughout the year, while at the same time lowering transport costs through better accessibility and reduced wear and tear on the equipment.



RusForest Magistralny: Spruce and larch sawlogs at harvesting site



RusForest Magistralny: A new sawmill building completed



RusForest Magistralny: Installed log sorting line



RusForest Magistralny: 10 MW boiler capacity

Operations

LDK-3 och Infa¹⁾

In the autumn of 2010, RusForest's board of directors resolved to acquire 86 per cent of the share capital of, and 92 per cent of the votes in, LDK-3, 100 per cent of Infa, a sawmill plant in the city of Arkhangelsk in north-western Russia and a planing mill located at the same site. LDK-3 and Infa were acquired for approximately SEK 96 million from Northern Shipping Company. LDK-3 is one of the largest sawmills in Arkhangelsk, with a current monthly production of 8,000 m³ sawnwood and 1,800–2,000 m³ planed products. However, the drying capacity at the site is at the historical production level of 160,000 m³ per year. LDK-3 is located on an industrial site comprising about 86 hectares, which has an existing log sorting line, well functioning dryers and dry sorting lines and export storage areas comprising a capacity of approximately 20,000 m³ of finished products. Its own dock, with cranes for direct loading, enables efficient loading of larger vessels for shipments of sawnwood. Total port capacity is at least 400,000 m³ sawnwood per year.

LDK-3's geographical position entails that sawlogs can be delivered via railway, waterways (barges or rafting) or by truck. As there is sufficient storage space next to the industrial area's log sorting, an efficient supply of raw material to the sawmill can be ensured.

LDK-3's logistics solution, with its own export port right next to the mill, enables a doubling of the production capacity within the next few years, and RusForest intends to replace the older sawlines at the site and install additional drying capacity. As a first step, this is expected to increase annual production to about 175,000–200,000 m³ of pine and spruce sawnwood.

Moreover, LDK-3 holds a lease with an annual allowable cut amounting to 177,200 m³, which until today only has been used to a limited extent. In order to increase the internal supply of raw material, RusForest intends to double the annual allowable cut and develop its own harvesting organisation in the Arkhangelsk Region. Initially, the Company will also enter into long-term agreements with a number of local harvesting companies to secure raw material supplies.

LDK-3 currently has approximately 848 shareholders and through the acquisition of 86 per cent of LDK-3, RusForest will be obliged to make a mandatory bid for the remaining shares. During the second quarter 2010, LDK-3 had an average number of employees of approximately 700.

Infa is a small planing mill situated at the LDK-3 industrial site. The number of employees at Infa is currently 157.



LDK-3: Dry sorting line



LDK-3: Unloading of a barges onto the industrial site

The planing mill is relatively modern and manufactures products primarily aimed at the domestic market, with customers in southern Russia and in the areas around Moscow and St. Petersburg.

In addition to LDK-3's existing operations, RusForest believes that the Company's geographical position and logistical advantages – with a large industrial site in direct connection to its own port and access to international waters – entails potential to create synergies by co-operation with third parties. Therefore, in the long run, the Company sees potential in offering other players the possibility to establish themselves close to LDK-3, thereby using the site's entire potential. Such a spin-off would further increase the profitability of the LDK-3 project for RusForest.

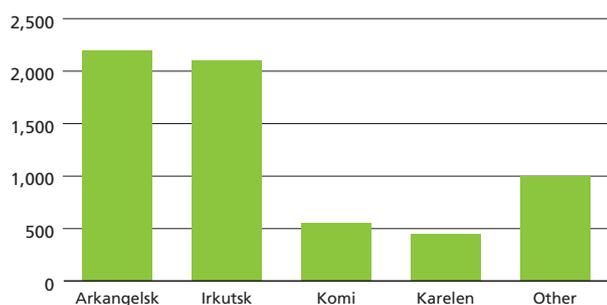
1) The acquisition of LDK-3 and Infa is contingent of Russian anti-monopoly approval, which is expected to be attained before the year end.

The Arkhangelsk Region

The Arkhangelsk region has a long tradition of forestry and a major part of Russia's value-added forest products are shipped through the harbour in the city of Arkhangelsk. The infrastructure is well developed and there is a market for all parts of the raw wood material, which maximises the value for the forestry companies in the region. There is a market for sawlogs, pulpwood and all forms of residual by products such as chips and saw dust. These residual products are on the margin, an important source of revenue for sawmills.

Three of the country's largest pulp and paper mills, Kotlas (part of IlimPulp), Arkangelsk Pulp and Paper (part of Titan Holding) and Solombala are all located in the region and together they account for nearly 40 per cent of the total Russian exports of pulp and paper products.

Total production of pulp in different regions of Russia (millions of tons) in 2009



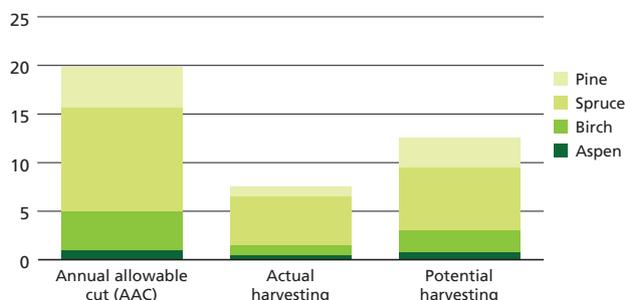
Source: Lesprom

As pulp mills provide a market for pulpwood, chips and sawdust, their presence is of great importance for both harvesting companies and sawmills.

This has resulted in historically low exports of roundwood from the Arkhangelsk region, as the majority of it is processed locally by the forestry industry. Log prices in the region are therefore influenced principally by the demand from the local sawmills, and to a lesser extent by the prices in adjacent regions or countries.

The Arkhangelsk region is located in the north-western part of European Russia and has a total forest area of about 23 million hectares. The forest consists of about 60 per cent spruce and 20 per cent pine followed by birch and aspen. The timber is of very high quality, and comparable to timber found in the northern parts of the Nordic Countries.

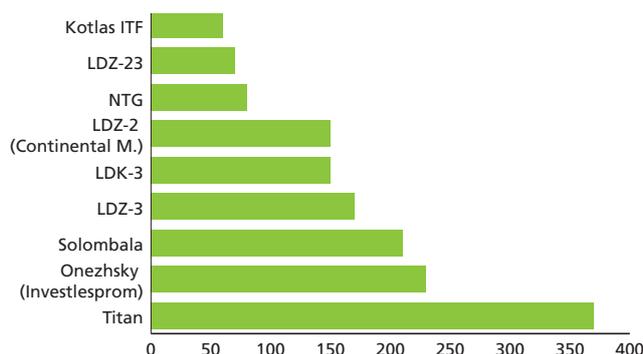
Annual allowable cut and actual harvesting in the Arkhangelsk region in 2009 million m³



Source: Pöyry and RusForest estimat, March 2009

There are nearly 20 sawmills in the Arkhangelsk region, with a total production of about 2 million m³ sawnwood of which the majority is exported. Most sawmills are small and there are only a few sawmills with an annual capacity exceeding 100,000 m³ sawnwood.

Sawmilling capacity in the Arkhangelsk area in 2008 (million m³)



Source: Lesprom

The sawmills in the Arkhangelsk region are ideally located for exports to both Europe and North Africa and, historically, there has been a European presence in the area for a long time. Prior to the Russian Revolution, a majority of the sawmills in the Arkhangelsk region were owned by Nordic and British companies. In addition, there has been a long-standing, and strong, tradition of forestry expertise at the university.



LDK-3: Port facility, 253 metres long and with 10 metres depth



Infa: Planing Mill

Overview of the development possibilities in the subsidiaries

Since 2006, RusForest has grown considerably through strategic acquisitions and its own development projects, both in terms of controlled forest land and sawmilling capacity. As part of this development RusForest was reorganised from an investment company to a pure forestry company in 2009.

This reorganisation is also reflected in the development projects that have now been initiated by the Company. Apart from the acquisition of LDK-3, the primary focus is to develop the existing operations and complete the initiated expansion.

The table below sets out a summary of the efficiency measures, and the acquisition, that RusForest plans to implement:

Efficiency measures in RusForest's subsidiaries

Priority	Subsidiary	Operations	Status	Efficiency measures
1	RusForest Ust-Ilimsk	Harvesting, Irkutsk (Siberia)	In recent years, RusForest Ust-Ilimsk has been subject to unstable raw material flows during the summer season. Together with reduced supply volumes, this has had a negative influence on the Company in terms of involuntary production stops, lower end-product quality and higher production costs.	Investment in road construction, Transportation capacity and harvesting equipment.
1	RusForest Angara	Harvesting, Krasnoyarsk (Siberia)	The controlled forest area and the harvesting capacity at RusForest Angara is not sufficient to provide satisfactory sawlog volumes to the Boguchansky sawmill.	Investment in harvesting and transport capacity as well as additional forestry leases.
1	RusForest Magistralny	Harvesting, Irkutsk (Siberia)	The harvesting companies Lesprom and Bamlesstroi shall function as sawlog suppliers to the new sawmill at RusForest Magistralny when the plant is fully operational. There are currently no harvesting operations at Bamlesstroi, while Lesprom regularly harvests timber for export mainly to China and Japan.	Investment in road construction, transportation capacity and harvesting equipment as well as additional forest leases.
1	RusForest Magistralny	Sawmill, Irkutsk (Siberia)	In June 2010, infrastructure, sawmill foundations, steel structures for buildings, sawmill equipment and sorting and drying equipment were already paid for by RusForest Magistralny and only assembly and installation work remains before the mill can commence operations.	Complete construction work in order to commence trial operations at the sawmill during the second quarter of 2011.
2	Boguchansky LPK	Sawmill, Krasnoyarsk (Siberia)	In order to optimise the use of the plant, Boguchansky LPK's HewSaw R250 will be supplemented with a new boiler facility, additional drying capacity and a new dry sorting line.	Investment in, <i>inter alia</i> , new drying and sorting equipment, and expanded electricity grid capacity.
2	LDK-3 och Infa	Sawmill and harvesting, Arkhangelsk	An agreement to acquire LDK-3 and Infa was signed in September. ¹⁾	Acquisition of a new sawline and renovation of green Sorting will be added.
3	RusForest Ust-Ilimsk	Sawmill, Irkutsk (Siberia)	Possibilities of expanding the capacity at the HewSaw R200 by clearing certain bottlenecks in the production.	Investments in a new de-barking machine, new sorting capacity and reorganisation of the production flow.

1) The acquisition of LDK- 3 and Infa is contingent of Russian anti-monopoly approval, which is expected to be attained before the year end.

In order to ensure that the projects are progressing at an appropriate pace and that focus is directed on a limited number of projects at each time, the development projects mentioned above have been ranked in order of priority. To ensure a satisfactory operational and financial development for the operations during 2010/2011, RusForest's management team has identified a number of projects that need to be carried out urgently. These fall into the category with the highest priority status.

As seasonal variations in raw material supplies have been a recurring problem during the summer months, projects with the highest priority primarily consists of investments in harvesting capacity and infrastructure development, principally for RusForest's Siberian operations.

Hence, well-developed forest infrastructure and additional harvesting capacity provide opportunities for improved saw production and reduced costs through a higher degree of internally supplied sawlogs at the sawmills, reduced seasonal variations in raw material supply and reduced transportation costs due to better accessibility and less damage to the equipment.

Moreover, as considerable measures are needed at the sawmill in RusForest Magistralny prior to the winter 2010 in order to ensure that trial operations will be commenced at the mill in the second quarter of 2011 as planned, the installation work at RusForest Magistralniy is one of the most prioritised projects.

Projects with lower priority are less urgent and will be carried out when RusForest considers that the progress in the prior projects have reached a satisfactory level. RusForest believes that there are significant opportunities to expand the capacity at RusForest Ust-Ilimsk and Boguchansky LPK by clearing bottlenecks and reorganising the production flow. In addition to pure production increases, developed drying and sorting capacities are expected to lead to increased margins, not least by a higher proportion of kiln dried sawnwood and improved sorting in the new dry sorting lines.

Since well functioning forestry operations are of the very important for the entire Company's sawmilling operations, these efforts, as well as the development of LDK-3, are partially dependent on the development of the forestry operations in the respective areas reaching a satisfactory level.

Potential mergers

RusForest has established a strong platform for its operations in the Arkhangelsk region through the acquisition of LDK-3. RusForest hopes to supplement this acquisition by acquiring shares in companies within the NTG group. To enable this, the extraordinary shareholders' meeting in RusForest resolved on 8 October 2010 on an in-kind authorisation (for more information, see section "*Share capital and ownership*"). The in-kind authorisation is a result of the previously communicated negotiations concerning a merger between RusForest and NTG, or, as an alternative thereto, to explore the possibilities for a collaboration with NTG in the Arkhangelsk Region.

NTG has a significant presence in the Arkhangelsk region, with forest leases exceeding 1.0 million hectares of high quality spruce and pine stands, similar to the those in northern Sweden. To control logistics and costs, NTG's forest areas are all well-established with forest roads, which were built by the current owners, and its own railway terminals. Martin Hermansson and his family own approximately 19.2 per cent of the shares in NTG. NTG has an annual allowable cut of 750,000 m³ and harvesting is expected to increase to 400,000 m³ during 2011. The timber supply from the forest increased to almost 100,000 m³ during the first quarter of 2010. Through the acquisition of LDK-3, the board believes that RusForest will establish a stable platform for operations in the Arkhangelsk region. RusForest intends to double LDK-3's allowable cut and to develop its own harvesting operations in Arkhangelsk in order to gain more control over the raw material supply to the planned new sawmill facility at LDK-3's industrial site. Any potential acquisition of shares in, or co-operation with, NTG would further strengthen this control.

Subsidiaries under divestment

RusForest owns 93 per cent of Russian Gravel Co. Cyprus Ltd., which in turn owns 100 per cent in OOO Belomorsky Karier, a gravel company that holds licences on three large granite and gabbro-diabase deposits totalling approximately 150 million m³ in Karelia, near the border to the Arkhangelsk Region in north-western Russia. Following RusForest's shift in operational focus to a forestry company instead of an investment company, the aggregate operations have been classified as held for sale.

In 2009, the Russian gravel market weakened considerably, a situation that has continued during 2010. There is limited federal and regional support for infrastructure investments and the Russian market for building materials remains weak, except in Moscow and Sochi that benefit from the preparations for the 2014 Olympics.

In order to reduce cash outflow, the operations at the gravel business were suspended during the winter 2009/2010. Operations resumed at the end of the first quarter of 2010 and 43,400 tonnes 5–20 mm gravel and 36,800 tonnes 25–60 mm railway gravel were sold during the second quarter of 2010. To this date, gravel sales have been restrained by the requirement of 100 per cent advance payment from all customers except OAO Russian Railways, which is entitled to purchase on credit. In order to move closer to its competitors' payment terms, well known end customers, often enjoying state guarantees for infrastructure projects, will in future only need to make part pre-payments to Russian Gravel Co.

Russian Gravel Co.'s competitiveness relies on the transport distance to the end customer, gravel quality and, in part, sorting. The gabbro-diorite in Belomorsk is of high quality and is better suited for the production of high quality asphalt than granite (which requires more

chemical additives). The professional customers also notice, and appreciate, the quality of products produced in the new crusher and sorting equipment. From a transportation perspective, the natural markets for Russian Gravel Co.'s production are infrastructure and construction projects in the Arkhangelsk Region (which also are accessible by the waterway), supply to OAO Russian Railways and Moscow as well as other regions in need of high quality roadbuilding material.

Although the gravel market remains very weak due to the decrease in the rate of construction, particularly within road constructions, there are signs of improvement and the level of demand is becoming more constant over the entire year. Therefore, in order to reduce the average unit cost, as the subsidiary's largest expense items are equipment costs and salaries, the plan is to increase capacity in 2010. At the same time, Russian Gravel Co. will continue to reduce cash outflows from the Company, partly through the extension of existing leasing contracts. Notwithstanding that Russian Gravel Co. is listed as an asset held for sale, the Company shall reach production capacity and be streamlined as soon as possible in order to provide a higher valuation in a future sale.



Belomorsk crushing plant, Russian Gravel Co.

Financial information in summary

The following summary of the Group's financial statements should be read in conjunction with RusForest's audited consolidated financial statements and notes pertaining thereto for the years of 2007-2009 as well as the unaudited interim report for the period 1 January – 30 June 2010, all of which are incorporated in this prospectus by reference. The information should also be read in conjunction with the section, "Comments to the financial development":

In 2009, the Company completed three significant transactions. This entailed, inter alia, that the Company was transformed from an investment company to an operating forestry company as of 1 June 2009. This has affected the structure of the consolidated financial statements as of the date of transition. It thus follows that the financial statements for 2009 are not fully comparable to the financial statements for the financial years 2008 and 2007. Nor is the interim report for the period 1 January 2010 – 30 June 2010 fully comparable to the interim report for the corresponding period in 2009. A report on the changes in connection with, and the financial implications of, the transactions is included in the Annual Report 2009 (p. 47–48).

The information describing the Company's earnings and financial position during the periods 1 January – 30 June 2009 and 2010 have not been subject to review or audit by the Company's auditors.

RusForest converted to consolidated financial statements in accordance with IFRS as of the financial year of 2009. A report of the changes of the accounting principles is included in the Annual Report 2009 (p. 53–58). In order to facilitate comparability, the financial year 2008 was restated in accordance with IFRS in the 2009 annual report.

Consolidated income statements

	IFRS				BFN	
	Jan–Jun 2010 (6 months) Unaudited	Jan–Jun 2009 (6 months) Unaudited	Jan–Dec 2009 (12 months) Audited	Jan–Dec 2008 (12 months) Audited	Jan–Dec 2008 (12 months) Audited	Jan–Dec 2007 (12 months) Audited
In thousands of SEK						
Turnover	187,139	21,590	207,526	–	–	–
Cost of sales	(173,338)	(22,938)	(201,101)	–	–	–
Gross Profit	13,801	(1,348)	6,425	–	–	–
Other income	14,935	1,597	20,209	968	968	903
Distribution expenses	(49,825)	(4,590)	(49,726)	–	–	–
Administrative expenditure	(43,938)	(20,935)	(65,328)	(26,020)	(26,020)	(20,310)
Loss disposal of interest	–	–	–	(19,324)	(19,324)	–
Other expenses	(8,247)	(18,286)	(25,166)	(47,393)	(47,393)	(7,688)
Operating profit	(73,273)	(43,562)	(113,586)	(91,769)	(91,769)	(27,095)
Financing items	(8,453)	8,953	5,717	28,991	28,991	11,358
Net financing income	(81,727)	(34,609)	(107,869)	(62,778)	(62,778)	(15,736)
Income from acquisition of RusForest	–	380,009	380,009	–	–	–
Goodwill impairment	–	–	(142,570)	–	–	–
Share of losses from associates	–	–	–	(5,925)	–	–
Profit before tax	(81,727)	345,400	129,570	(68,703)	(62,778)	(15,736)
Tax on the period's earnings	14,183	1,288	7,603	–	–	(61)
Profit/loss for the period from continuing operations	(67,544)	346,688	137,173	(68,703)	(62,778)	(15,797)
Profit from discontinued operations	(15,464)	(17,920)	(19,501)	(33,614)	–	–
Profit for the period	(83,008)	328,769	117,672	(102,317)	(62,778)	(15,797)

Consolidated balance sheets

In thousands of SEK	IFRS			BFN	
	30 June 2010 Unaudited	31 Dec 2009 Audited	31 Dec 2008 Audited	31 Dec 2008 Audited	31 Dec 2007 Audited
Property, plant and equipment	661,939	656,632	71	71	97
Investments in associates	2,414	2,300	173,940	217,836	171,346
Other non-current assets	44,597	34,104	9,180	9,180	–
Inventory	40,411	42,747	–	–	–
Trade and other short-term receivables	65,700	64,586	205,910	333,837	111,074
Cash and cash equivalents	8,301	26,085	55,704	55,704	318,095
Assets classified as held for sale	114,562	128,525	141,419	–	–
Total assets	937,924	954,978	586,224	616,627	600,612
Equity	668,975	708,994	546,251	614,852	595,106
Non-current interest-bearing loans and borrowings	14,378	20,218	–	–	–
Other non-current liabilities	60,273	62,161	–	–	–
Current interest-bearing loans and borrowings	83,429	37,727	–	–	–
Other current liabilities and provisions	92,866	82,385	1,776	1,776	5,505
Liabilities directly associated with the assets classified as held for sale	18,005	43,494	38,198	–	–
Total equity and liabilities	937,924	954,978	586,224	616,627	600,612

Consolidated cash flow statement

In thousands of SEK	IFRS				BFN	
	Jan–Jun 2010 (6 months) Unaudited	Jan–Jun 2009 (6 months) Unaudited	Jan–Dec 2009 (12 months) Audited	Jan–Dec 2008 (12 months) Audited	Jan–Dec 2008 (12 months) Audited	Jan–Dec 2007 (12 months) Audited
Cash flow from operating activities	(32,311)	(13,561)	(37,956)	(9,391)	(9,391)	(12,546)
Cash flow from investing activities	(16,016)	(17,314)	(6,526)	(244,196)	(244,196)	(173,470)
Cash flow from financing activities	29,849	18,942	15,463	(390)	(390)	195,676
Cash flow during the period	(18,479)	(11,933)	(29,019)	(253,977)	(253,977)	9,660
Cash and cash equivalents, beginning of period	26,085	55,704	55,704	318,095	318,095	316,100
Exchange rate differences on cash and cash equivalents	695	(1,383)	(601)	(8,414)	(8,414)	(7,665)
Cash and cash equivalents, period end	8,301	42,388	26,084	55,704	55,704	318,095

Consolidated key figures

	IFRS				BFN	
	Jan–Jun 2010 (6 months) Unaudited	Jan–Jun 2009 (6 months) Unaudited	Jan–Dec 2009 (12 months)	Jan–Dec 2008 (12 months)	Jan–Dec 2008 (12 months)	Jan–Dec 2007 (12 months)
Gross profit margin (%)	7.4 %	Neg.	3.1 %	–	–	–
Net profit margin (%)	Neg.	n/a	56.7	n/a	n/a	n/a
Return on equity (%)	Neg.	Neg.	16.6	Neg.	Neg.	Neg.
Equity/assets ratio (%)	71.3%	n/a	74.2%	93.2%	99.7%	99.1%
Net debt ratio (%)	13.4%	n/a	4.5 %	0.0 %	0.0 %	0.0 %
Profit per share, SEK	(3.8)	20.2	6.5	(7.7)	(4.7)	(1.2)
Dividend per share, SEK	0.0	0.0	0.0	0.0	0.0	0.0
Number of shares outstanding, period end	21,840,840	13,303,200	21,840,840	13,303,200	13,303,200	13,303,200
Number of employees, period end	1,496	1,468	1,508	1,410	1,410	1,260
Of which temporary employees	57	51	95	10	10	5
Average number of employees	1,428	1,454	1,600	1,539	1,539	1,379

Key figure definitions

Gross profit margin

Sales minus cost of sales as a percentage of net sales

Net debt ratio

Interest-bearing liabilities less liquid assets as a percentage of equity

Net profit margin

Profit of the period as a percentage of net sales

Profit per share

The period's earnings divided by the number of shares outstanding at end of period

Return on equity

Net profit as a percentage of average shareholders' equity

Equity/assets ratio

Equity as a percentage of total assets

Dividend per share

Dividend divided by the number of shares outstanding at end of period

Comments to the financial development

Segment Information

Commencing in 2009, the Company has prepared a segment division based on its current operations. For the period 1 January – 30 June 2009, no segment reporting was prepared as the Company was an investment company until 1 June. RusForest's management is domiciled in Moscow. The parent companies, RusForest AB, Varyag Capital Ltd, Varyag Finance GmbH, RusForest Ltd Bermuda and RusForest Cyprus Ltd are not part of any of the operational segments as they do not generate any revenue.

Segment information

In thousands of SEK	IFRS			
	Jan–Jun 2010 (6 months) Unaudited		Jan–Dec 2009 (12 months) Unaudited	
	Revenue	Net profit/loss	Revenue	Net profit/loss
Revenue and profit				
Forestry company	187,139	(56,199)	207,526	(67,860)
Gravel company ¹⁾	8,156	(15,464)	5,592	(19,501)
Administration expenses		(11,345)		(30,556)
Profit/loss from acquisitions				380,009
Impairment of goodwill				(142,570)
Total	195,295	(83,008)	213,118	119,522

Assets	30 June 2010	31 December 2009
Forestry companies	810,679	803,364
Gravel companies	114,562	128,525
Total of the segments' assets	925,240	931,889
Administrative assets	12,683	23,090
Total consolidated assets	937,924	954,979

1) The revenue and profit/loss for Russian Gravel Co. is accounted for as net, taking into account the significant loss of assets that were classified as held for sale in the Company's balance sheet.

Earning trends

The numbers in brackets refers to the previous year comparative unless the context requires otherwise.

The periods 1 January 2010 – 30 June 2010 and 2009 compared to the interim report for 1 January – 30 June 2010 (IFRS)

During the first six months of 2010, the financial statements report RusForest as an operating forestry company. As the operations were carried out as an investment company until 31 May 2009 the financial statements are not fully comparable to the financial statements for the corresponding period in 2009.

Income

During the period 1 January – 30 June 2010, RusForest reported a turnover of SEK 187.1 million (SEK 21.6 million). The revenue consisted of sawnwood SEK 130.9 million, sawlog SEK 31.3 million, pulpwood SEK 14.1 million, chips SEK 3.3 million and other revenue SEK 7.5 million. The share of sawnwood revenue amounted to 70 per cent during the entire period in comparison to 69 per cent in the first quarter of 2010. RusForest Ust-Ilimsk's obtained average export price for sawnwood (including transport expenses) during the first six months of 2010 was higher than the corresponding period in 2009. In the second quarter, the price was 13.8 per cent higher than during the corresponding period in 2009 and 4.8 per cent higher than the first quarter of 2010.

Operating expenses

During the first six months of 2010, the cost of sales amounted to SEK 173.4 million (SEK 22.9 million) contributing to a gross profit of SEK 13.8 million (SEK –1.3 million) and equivalent to a gross profit margin of 7.4 per cent. The cost for sales consisted primarily of personnel expenses of SEK 47.0 million, cost of purchased sawlogs SEK 38.5 million and depreciations SEK 31.8 million. During the first six months of 2010, RusForest reported other income of SEK 14.9 million (SEK 1.6 million). The distribution expenses of SEK 49.8 million (SEK 4.6 million) consisted mainly of costs for railroad tariffs. The administration expenditure during the period amounted to SEK 43.9 million (SEK 20.9 million) and other expenses amounted to SEK 8.2 million (SEK 18.3 million).

Profit/loss before financial items

During the first six months of 2010, the Company reported a loss before financial items amounting to SEK –73.3 million (SEK –43.6 million). The Company's loss before financial items was affected by the low gross profit margin that, which among other things, reflects the low sawmill volumes in May and June, which resulted in higher fixed costs.

Profit/loss for the period

The financial income during the first six months of 2010 amounted to SEK 0.3 million (SEK 9.4 million) and the financial expenses to SEK 8.7 million (SEK 0.5 million). The financial expenses are to a large extent attributable to the interest incurred from the bond issued by the Group on 25 February 2010. Accordingly, the loss before tax for the continuing operations amounted to SEK –81.7 million (SEK 345.4 million). The profit before tax for the first half of 2009 was positively affected by the income of SEK 380.0 million from the acquisition of RusForest. The Company had a positive tax during the period of SEK 14.2 million (SEK 1.3 million), which resulted in a loss after taxes from the continuing operations in the amount of SEK –67.5

million (SEK 346.7 million). During the period, the loss after tax from discontinued operations amounted to SEK –15.5 million (SEK –17.9 million). During the first six months of 2010 RusForest reported a loss of SEK –83.0 million (SEK 328.8 million).

2009 compared to 2008 in accordance with the annual report for 2009 (IFRS)

As the operations were conducted in the form of an investment company during the period 1 January 2009 to 31 May 2009, the financial statements are not fully comparable to the financial statements for the corresponding period in 2008.

Income

In 2009, RusForest's turnover amounted to SEK 207.5 million (SEK 0 million). The increase was a result of the conversion of the Company from an investment company to an operating company and comprises only seven months of sales (1 June 2009 – 31 December 2009). The turnover is mainly attributable to the sale of sawnwood amounting to SEK 128.3 million and equivalent to 61.8 per cent of the turnover, timber SEK 36.8 million, pulpwood SEK 12.0 million, chips SEK 5.3 million and other revenue of SEK 25.1 million. Towards the end of 2009, driven by both market factors and the depreciation of the US dollar in relation to other major currencies, the sales price increased continuously. The average export price for sawnwood obtained by RusForest Ust-Ilimsk in 2009 was 14.4 per cent lower than in 2008, which had a negative impact on the turnover.

Operating expenses

In 2009, the cost of sales amounted to SEK 201.1 million (SEK 0 million). Accordingly, the Company reported a gross profit of SEK 6.4 million, equivalent to a gross profit margin of 3.1 per cent. In addition to the sales volume, the extensive use of purchased timber during the period was a materially contributing factor to the cost of sales. The average costs of purchased timber amounts to SEK 400 per m³, whereas timber from own harvesting amounts to approximately SEK 250 per m³. During the period, the distribution expenses of SEK 49.7 million (SEK 0 million) consisted of customs, railroad tariffs, loading and transportation costs. These costs are directly attributable to the delivered volumes. Administrative expenditure amounted to SEK 65.3 million (SEK 26.0 million) during the period and consisted primarily of personnel costs in the amount of SEK 28.4 million. On a monthly basis, the personnel costs have decreased as a result of layoffs, a review of the manufacturing process and redistribution of tasks.

Profit/loss before financial items

Profit/loss before financial items

In 2009, RusForest reported a loss before financial items of SEK –113.6 million (SEK –91.8 million). The results are not fully comparable because of the conversion of the Company from an investment company to an operating company. During the period, the Company did not achieve a sufficient gross profit to cover the distribution expenses and other administrative expenditure. The low gross profit margin was a result of the losses at the Boguchansky Sawmill that occurred prior to sufficient production volumes being achieved in December 2009. In addition, the uneven timber flow to RusForsest Ust-Ilimsk during the summer, in conjunction with lower prices on sawnwood in general during 2009, contributed to the loss. Extensive measures to convert the subsidiaries' accounting standards to IFRS also impaired the result negatively.

Profit/loss for the period

In 2009, the financial income amounted to SEK 9.6 million (SEK 29.0 million). The reduction was primarily a result of the acquisition of the controlling shares in the associates that entailed a decline in interest income attributable to loans to associates. During 2009, the financing expenses amounted to SEK 3.9 million (SEK 0 million). The profits before tax from the continuing operations amounted to SEK 129.6 million (SEK –68.7 million). The improvement relates primarily to the negative goodwill originating from the acquisition of RusForest Ltd and its subsidiaries. To a certain extent, the increase in profit was counteracted by an impairment of the goodwill that was built up during the period 2006–2008. During the period, the Company reported tax revenue of SEK 7.6 million (SEK 0 million) as a result of delayed tax expense and return of temporary differences in taxation. The loss after tax from discontinued operations of SEK –19.5 million (SEK –33.6 million) was attributable to the Company's gravel operations. The profit for the year amounted to SEK 117.7 million (SEK –102.3 million).

2008 compared to 2007 in accordance with the annual report for 2008 (BFN)

RusForest's annual reports for 2008 and 2007 were prepared in accordance with guidance issued by the Swedish Accounting Standard Board (BFN) and are therefore not comparable to subsequent annual reports.

Income

During the financial years 2007 and 2008, RusForest's operations were conducted in the form of an investment company and thus the Company reported no turnover.

During 2008, RusForest's other income increased to SEK 1.0 million (SEK 0.9 million). The revenue consisted exclusively of rental income.

Operating expenses

Due to the nature of its operations the Company had no cost of sales or gross profit during these years. In 2008, the Company's administrative expenditure increased to SEK 26.0 million (SEK 20.3 million). The increase in administrative expenditure was primarily due to increased compensation to members of the management and amounted to SEK 16.1 million (SEK 10.7 million) in 2008. During 2008, a capital loss of SEK 19.3 million (SEK 0 million) arose following the sale of shares in the coal project Unal/AGK.

Profit/loss before financial items

In 2008, the aggregate loss before financial items was SEK -91.8 million (SEK -27.1 million). The results were affected negatively primarily by other expenses amounting to SEK 47.4 million (SEK 7.7 million). The increase in loss was attributable to losses in currency exchange as the weakened position of the RUB and the USD in relation to the EUR had a negative impact on the loan receivables on Russian portfolio companies.

Profit/loss for the period

In 2008, the income from financial items amounted to SEK 29.0 million (SEK 11.4 million). The increase in income was attributable to increased interest income amounting to SEK 29.0 million (SEK 10.8 million). In addition to interest income, the Company also received dividends from RusForest Ust-Ilimsk in the amount of SEK 0.5 million in 2007. During 2008, RusForest was not burdened with any tax expenses (SEK 0 million). The loss for the period amounted to SEK -62.8 million (SEK -15.8 million) in 2008.

Liquidity and cash flow analysis

Liquidity

On 30 June 2010, RusForest's cash and cash equivalents amounted to SEK 8.3 million, of which approximately SEK 2.6 million was denominated in SEK, approximately SEK 2.5 million was denominated in RUB and the remaining amount was divided between EUR and USD. The cash and cash equivalents amounted to SEK 26.1 million as of 31 December 2009, to SEK 55.7 million as of 31 December 2008, and SEK 318.1 million as of 31 December 2007.

The numbers in brackets refers to the previous year comparatives unless the context requires otherwise.

The periods 1 January 2010 – 30 June 2010 and 2009 in accordance with the interim report for 1 January – 30 June 2010 (IFRS)

During the first six months of 2010, the financial statements report RusForest as an operating forestry company. As the operations were conducted in the form of an investment company up until 31 May 2009, the financial

statements are not fully comparable to the financial statements for the corresponding period in 2009.

The cash flow for the period 1 January 2010 – 30 June 2009 was SEK -18.5 million (SEK -11.9 million). The cash flow from the operations amounted to SEK -32.3 million (SEK -13.6 million). The negative cash flow was attributable to a loss for the period and an extensive winter harvesting with the objective to build up inventories of sawlogs during the first quarter. The cash flow from the investing activities amounted to SEK -16.0 million (SEK -17.3 million). The negative cash flow was primarily caused by the continued financing of the gravel business at Belomorsky and the continued construction of the sawmill Boguchansky LPK. The cash flow from the financing activities amounted to SEK 29.8 million (SEK 18.9 million). The positive cash flow was mainly attributable to the issuance of a bond in the amount of SEK 50.0 million before issue expenses of SEK 2.0 million and was negatively affected by repayment of bank loans and leasing.

2009 compared to 2008 in accordance with the annual report for 2009 (IFRS)

In 2009, the cash flow amounted to SEK -29.0 million (SEK -254.0 million). Cash flow from operating activities before changes in working capital amounted to SEK -82.1 million (SEK -17.3 million). The cash flow changes in working capital amounted to SEK 44.1 million (SEK 8.0 million). Accordingly, the cash flow from the operating activities amounted to SEK -38.0 million (SEK -9.4 million). The cash flow from the investing activities amounted to SEK -6.5 million (SEK -244.2 million). The cash flow from financing activities amounted to SEK 15.5 million (SEK -0.4 million). The positive cash flow from financing activities is primarily attributable to the granting of a bank loan of SEK 34.4 million, which to a certain extent was counteracted by the repayment of a bank loan and leasing.

2008 compared to 2007 in accordance with the annual report for 2008 (BFN)

The cash flow for 2008 amounted to SEK -254.0 million (SEK 9.7 million). During 2008, the cash flow from operating activities before changes in working capital amounted to SEK -17.3 million (SEK -8.1 million). The cash flow changes in working capital amounted to SEK 8.0 million (SEK -4.5 million). The aggregate cash flow from the operating activities was SEK -9.4 million (SEK -12.6 million). The cash flow from investing activities amounted to SEK -244.2 million (SEK -173.5 million). The investments consisted solely of investments in financial assets in the portfolio companies and short-term loans granted to the portfolio companies. The cash flow from the financing activities amounted to SEK -0.4 million (SEK 195.7 million). In 2007, the cash flow was improved by a rights issue in the amount of SEK 195.7 million.

Investments

The periods 1 January 2010 – 30 June 2010 and 2009 in accordance with the interim report for 1 January – 30 June 2010 (IFRS)

During the first six months of 2010, the Company invested SEK 16.0 million (SEK 17.3 million) mainly in the continued construction of Boguchansky LPK and the financing of the gravel operations at Belomorsky.

2009 in accordance with the annual report for 2009 (IFRS)

On 1 June 2009, RusForest acquired 50 per cent of RusForest Ltd from its co-investor Vostok Nafta. The acquisition was executed through an issue in-kind of 8,537,640 shares in RusForest AB (publ) in exchange for 50 per cent of the shares in RusForest Ltd and claims of SEK 212.2 million. In addition, the Company invested SEK 16.5 million in tangible fixed assets. The objective of the investments was primarily investments in the sawmill Boguchansky LPK which was granted a total of SEK 8.1 million and harvesting equipment in Ust-Ilimsk in the amount of SEK 7.2 million. In addition, the Company invested SEK 21.3 million in financial assets during 2009, entirely directed to financing of the operations in Russian Gravel Co. as this company was listed as an asset classified as held for sale in the balance sheet.

2008 in accordance with the annual report for 2008 (BFN)

During 2008, the Company invested SEK 244.2 million in portfolio companies. The investments of SEK 222.5 million were principally designated for short-term lending to the portfolio companies RusForest Ltd and Russian Gravel Co. In addition, the Company acquired shares in companies in the amount of SEK 29.2 million and sold shares amounting to SEK 15.0 million.

2007 in accordance with the annual report for 2007 (BFN)

In 2007, the Company invested SEK 173.5 million in a portfolio company. During the year, the acquired minority shares amounted to SEK 88.9 million and comprised 10 per cent of RusForest Ltd, approximately 22 per cent of OOO Nebelsky LPH, 50 per cent of OOO Bogouchanski LPK, 50 per cent of Lesprom, 51 per cent of Russian Gravel Co. and 50 per cent of OOO AGK. The remaining investments related to for short-term loans to the portfolio companies.

Current and future investments

Significant installation measures has been initiated at the sawmill in RusForest Magistralny. During the period July–October, the assembly rate at the sawmill plant has increased as outdoor construction later in the year will be disrupted by the winter conditions. Infrastructure, sawmill foundation, steel construction for facilities, sawmill equipment and sorting and drying equipment have already been delivered and paid for, only the last stage of

the assembly and installation remains before the sawmill can be rendered operational. An investment is directed to Bougutjansky sawmill to improve the electrical grid. In addition, current investments are directed to construct a forest road in Ust Ilimsk to support the intention of long-term development of the Company's harvesting areas and its raw material sourcing plan, which emphasises securing supply of timber commencing the winter of 2010. The above-mentioned investments are financed by two short-term loans that the Company received from Vostok Nafta at the end of June 2010 and September 2010.

In summary, the current and future investments carried out or intended to be carried out by the Company are as follows:

1. Approximately SEK 96 million to the acquisition of LDK-3 and Infa;
2. Approximately SEK 75 million to upgrades and investments in LDK-3;
3. Approximately SEK 55 million to investments in RusForest Magistralny;
4. Approximately SEK 61 million to dissolve bottlenecks at existing sawmills;
5. Approximately SEK 27 million to expand harvesting capacity and improve infrastructure; and
6. Approximately SEK 50.5 million to investments in Ust-Ilimsk and Boguchansky.

Property, plant and equipment

The numbers in brackets refers to the balance per 31 December previous year comparative unless the context requires otherwise.

30 June 2010 compared to 31 December 2009 in accordance with the interim report for 1 January – 30 June 2010 (IFRS)

On 30 June 2010, the Company's tangible fixed assets amounted to SEK 661.9 million (SEK 656.6 million). The tangible fixed assets consisted mainly of buildings and infrastructure as well as plants and machinery. Through the acquisition of LDK-3, tangible fixed assets at a book value of SEK 28.3 million were transferred to the Company as of 30 June 2010. The acquisition of LDK-3 and Infa is subject to of Russian competition authority approval, which is expected to be received before yearend.

2009 compared to 2008 according to the annual report for 2009 (IFRS)

On 31 December 2009, the Company's tangible fixed assets amounted to SEK 656.6 million (SEK 0.1 million). The tangible fixed assets consisted mainly of buildings and infrastructure as well as plants and machinery. The changes in the tangible fixed assets followed the Company's conversion from an investment company to an operating forestry company.

2008 compared to 2007 according to the annual report for 2008 (BFN)

On 31 December 2008, the Company's tangible fixed assets amounted to SEK 0.1 million (SEK 0.1 million). The tangible fixed assets consisted of inventories.

Financing

Until recently, RusForest's financing has mainly consisted of shareholders' equity. The Company's shareholders' equity amounted to SEK 669.0 million as of 30 June 2010. On 30 June 2010, the Company had non-current interest bearing liabilities in the amount of SEK 14.4 million and current interest bearing liabilities amounting to SEK 83.4 million. In comparison to 31 December 2009, the increase in current interest bearing liabilities is primarily a result of the Group's bond of SEK 50 million, issued in February 2010, which has a maturity equivalent to one year. The Company's cash and cash equivalents amounted to approximately SEK 8.3 million as of 30 June 2010.

Vostok Nafta has issued two partial advances on its participation in the Rights Issue to allow RusForest to immediately continue with the key project and cover working capital needs. The advance was issued as two short-term loans (unsecured), each amounting to SEK 41,9 million (USD 6 million)¹⁾ and maturing on 30 November 2010 with a fixed annual interest rate of 15 per cent. Vostok Nafta has the right to make payment for subscribed shares in the Rights Issue by way of set-off of these short-term loans.²⁾ Moreover, Vostok Nafta has also issued two loans to RusForest amounting to approximately SEK 7,7 million (USD 1,1 million)¹⁾ and valid until 15 June 2011 with a fixed annual interest rate of 8 per cent.

Additionally, Unicredit Bank has approved a prolongation of the loan granted to Boguchansky LPK. Prior to the extension, the final payment, amounting to SEK 18.2 million (USD 2.6 million)¹⁾ that was due in September 2010, has been renegotiated with monthly payments of SEK 1.4 million (USD 0.2 million)¹⁾ and a payment of the remaining balance of the loan of SEK 10.5 million (USD 1.5 million)¹⁾ in February 2011, with the option for further extension.

In addition to the abovementioned sources of financing, the Company, as of this day, has no other additional financing sources at its disposal. See further under the section "Share and ownership". The Company is also investigating the possibility to use external financing for certain investments.

Currency risk

As sales revenue, expenses, claims, loans and liabilities are denominated in currencies other than SEK, the Group is subjected to currency exposure. The Group's principal currency exposure relates to changes in the SEK value in relation to RUB, USD and EUR. Such exchange rate fluctuations will affect the Group's expenses, expenditures and loan obligations that are denominated in currencies other than SEK. The Group's expenses are mainly in RUB. The Group does not use any financial instruments to hedge from currency exchange rate fluctuations, but the Group's management monitors currency exchange rate changes on a continuous basis and acts accordingly.

Working capital statement

There will not be sufficient working capital (including for example investments mentioned below) to meet the Company's needs during the coming 12-months period. The Company estimates that the shortage in the above mentioned working capital may occur in November 2010 and estimates that the current in working capital need during the coming 12-months period will amount to approximately SEK 422 million. The Company's current needs consist of repayment of the bridge financing, including accrued interest, to Vostok Nafta in the amount of approximately SEK 85.4 million (USD 12.2 million)¹⁾, and the acquisition of LDK-3 and Infa in the amount of approximately SEK 96 million (LDK-3 is a sawmilling plant situated in Arkangelsk, which has a forest lease with an annual allowable cut of 177,200 m³, and Infa is a planing facility located at the same site). The current needs also include investments in acquired and already existing companies, as well as repayment of the outstanding bond, which matures for payment in February 2011, in the amount of SEK 57.5 million in total, including accrued interest.

In order to secure the Company's need for working capital, the Company is carrying out a rights issue with preferential rights for the Company's shareholders, whereof 43 per cent have been subscribed for through a subscription undertaking (for additional information, see "Subscription undertaking" under "Legal considerations and additional information"). The Company estimates that the proceeds of approximately SEK 422 million²⁾, after issue expenses, that will be provided to the Company in connection with the forthcoming Rights Issue will be sufficient to finance the current needs during the coming 12-months period. If the forthcoming Rights Issue provides less

1) Calculated on exchange rate SEK/USD 6.985 on 21 September 2010.

2) Of the issue payment, SEK 83,820,000 (USD 12,000,000) has been paid in advance by Vostok Nafta and the entire amount including the accrued interest may be used for set-off in the Rights Issue. As of 21 September 2010 the accrued interest amounted to SEK 1,536,700 (USD 220,000).

Comments to the financial development

than SEK 422 million to the Company, the Company may reduce the investment rate or refrain from investments. If required, the Company may also accelerate the sale of the subsidiary Russian Gravel Co.,¹⁾ with a book value of SEK 114.6 million as of 30 June 2010.

Shareholders' equity

Below follows an account of RusForest's shareholders' equity as of 31 August 2010.

Amount in millions of SEK	31 August 2010
Share capital	218.4
Share premium reserve	556.7
Currency exchange reserve	41.0
Total shareholders' equity (excluding retained earnings and period's profit/loss)	816.1

Current debt

Amount in millions of SEK	31 August 2010
Current debt:	
Guaranteed	–
Secured	36.4
Unguaranteed/unsecured	53.9
Total current debt	90.3

Non-current debt

Amount in millions of SEK	31 August 2010
Non-current debt:	
Guaranteed	0
Unsecured	7.0
Unguaranteed/unsecured	11.0
Total non-current debt	18.0

The security consist of tangible fixed assets and shares in subsidiaries.

Maturity structure for outstanding bank loans

In thousands of SEK	Currency	Nominal interest rate	Year of maturity	31 August 2010 Carrying amount	31 December 2009 Carrying amount
Secured bank loan	Rubles	17–18%	2010	875	3,782
Secured bank loan	Dollars	11.50%	2010–2014	12,262	14,655
Secured bank loan	Euros	11.50%	2010–2011	3,805	6,849
Secured bank loan	Dollars	LIBOR +11.5%	2011	19,686	25,073
Total				36,628	50,358

Net indebtedness

Below follows an account of RusForest's net indebtedness as of 31 August 2010.

Amount in millions of SEK	31 August 2010
A. Cash	9.8
B. Cash and cash equivalents	–
C. Trading securities	–
D. Liquidity (A)+(B)+(C)	9.8
E. Current financial receivables	0.6
F. Current bank debt	26.6
G. Current portion of non-current debt	3.1
H. Other current financial debt	6.9
I. Bonds issued	53.8
J. Current financial debt (F)+(G)+(H)+(I)	90.3
K. Net current financial indebtedness (J)–(E)–(D)	79.9
L. Non-current bank loans	7.0
M. Bonds issued	–
N. Other non-current loans	11.0
O. Non-current financial indebtedness (K)+(L)+(M)	18.0
P. Net financial indebtedness (K)+(O)	97.9

1) Russian Gravel Co. is part of the Group as assets classified as held for sale.

Significant events after 30 June 2010

In order to immediately commence work on key projects, RusForest received interim financing on 1 July 2010, amounting to SEK 41.9 million (USD 6 million)¹⁾ from Vostok Nafta in the form of a partial advance for Vostok Nafta's participation in the proposed Rights Issue. The advance was given as a short-term loan (unsecured) that matured on 30 September 2010, and subject to a fixed annual interest rate of 15 per cent.

On 26 July 2010, the board of directors granted Martin Hermansson 300,000 warrants under RusForest's employee stock option plan 2010/2015.

At the extraordinary shareholders' meeting held on 24 June 2010 new articles of association were adopted whereby the limits for the Company's registered share capital were changed from a minimum of SEK 80,000,000 and a maximum of SEK 320,000,000 to a minimum of SEK 200,000,000 and a maximum of SEK 800,000,000 and the limit for the number of shares was changed from a minimum of 8,000,000 and a maximum of 32,000,000 to a minimum of 20,000,000 and a maximum of 80,000,000.

Unicredit Bank has approved an extension of the loan issued to Boguchansky LPK. The final repayment of SEK 18.2 million (USD 2.6 million)¹⁾ which was due at the end of September 2010 has been renegotiated with monthly payments of SEK 1.4 million (0.2 million USD)¹⁾ and a payment of the remaining balance of the loan of SEK 10.5 million (USD 1.5 million)¹⁾ in February 2011, with the possibility of extension.

The construction work at RusForest Magistralny was started on a wide front and a new managing director was appointed in the subsidiary as of July 2010. After the quick start of the project work, the completion of the sawmill is planned to the second quarter of 2011.

Aleksandr Williams resigned from the board of directors of RusForest at his own request, effective from 25 August 2010. Aleksandr Williams will continue to serve the management in the projects where he is engaged, until June 2011.

Negotiations are currently taking place with several parties regarding the financial leasing options to ensure increased harvesting capacity at Ust-Ilimsk and the Magistralny Regions during the upcoming 2010/2011 winter harvesting season.

The board of directors resolved to initiate preparations for FSC certification of the Group's forest areas and local harvesting companies.

The maturity date of the short-term loan of SEK 41.9 million (USD 6 million)¹⁾ from Vostok Nafta was extended from 30 September 2010 to 30 November 2010. In addition, the Company received another short-term loan from

Vostok Nafta amounting to SEK 41.9 million (USD 6 million)¹⁾ as a partial advance for Vostok Nafta's participation in the proposed Rights Issue. The loan matures on 30 November 2010 with a fixed annual interest rate of 15 per cent. Vostok Nafta is entitled to pay for the subscribed shares by a set-off of the short-term loans.¹⁾

RusForest resolved, as per 21 September 2010, to replace HQ Bank with Öhman as the Company's Certified Adviser at NASDAQ OMX First North.

On 8 October 2010 the extraordinary shareholders' meeting resolved on a rights issue of approximately SEK 437 million before issue expenses and on an approval of in-kind authorisation to enable the acquisition of shares in companies in the Group of which NTG is part. The board of directors resolved to acquire 86 per cent of LDK-3 and 100 per cent of Infa, a sawmill plant located in the city of Arkangelsk in north-west Russia and a planning mill located at the same plant.

Outlook

The outlooks for both the sawnwood and gravel markets has improved in line with the stabilisation of the global economic situation and a more positive GDP development. During the first half of the year, the prices for sawnwood improved, reflecting a general recovery of demand.

The measures to increase efficiency of existing operations entail a significant focus on increased management capacity in the regions in combination with an adopted plan to dissolve bottlenecks in production at all sawmills. This plan may enable the Boguchansky sawmill to almost double the production of kiln dried sawnwood, as a portion of the production up until now has been sold un-dried. In addition, the dry sorting line at Boguchansky LPK will be upgraded to enable the Company to sort greater volumes of kiln dried sawnwood in accordance with customer demands.

At RusForest Ust-Ilimsk, minor replacement work will be performed during 2011/2012. At the same time, a new development plan is being prepared with the objective to clarify the future industry structure at the site. As at the sawmill in Boguchansky, investments in more developed dry sorting capacity will be carried out.

An improvement in the technical conditions at RusForest's sawmill will result in a higher average value for the produced sawnwood and will enable the Company to reduce its staff. As with to the harvesting operations, the continuing restructuring of the operations at the sawmill entails a combination of increased investment for improvement of plants and production lines and more stringent requirements on the management.

1) Calculated using currency exchange rate SEK/USD 6.985 as of 21 September 2010.

2) The acquisition of LDK-3 and Infa is contingent of Russian anti-monopoly approval, which is expected to be attained before the year end.

Comments to the financial development

The RusForest Magistralny sawmill is currently under construction and only assembly and installation work remains. The sawmill has a base capacity of 100,000–200,000 m³ and is estimated to be launched for said operations during the second quarter of 2011.

By the acquisition of LDK-3 and Infa, RusForest is now established as one of a few pan-Russian forestry companies with operations both in Siberia and in the European part of Russia.¹⁾ For the Company this means great opportunities to export the Company's products to both the European and the Asian markets.

The intermediate aim to acquire and consolidate significant forest assets is about to be achieved and RusForest is focusing on fully utilising the significant forest resources, improving productivity and increasing sawmill capacity and the value-added for the products. In the long-term, RusForest will continue to work towards becoming a leading independent integrated forest and sawmill company in Russia with an annual harvesting volume of 1.8–2.0 million m³ and annual sawmilling of 550,000–600,000 m³ in the next four years.

1) The acquisition of LDK-3 and Infa is contingent of Russian anti-monopoly approval, which is expected to be attained before the year end.

Pro forma financial information for the period 1 January – 30 June 2010

The pro forma financial information has been prepared in connection with the acquisition of 86 per cent of the shares in LDK-3 and 100 per cent of the participatory interest in Infa, as well as the acquisition of the sellers' receivables in respect of LDK-3 (hereinafter jointly referred to as "The acquisition of LDK-3 and Infa") and the Rights Issue.

Principles for the preparation of the pro forma financial information

The pro forma financial information has been prepared solely for the purpose to provide information about and illustrate:

- how RusForest's consolidated income statement for the period 1 January to 30 June 2010 might have been affected if The Acquisitions of LDK-3 and Infa had been completed and the Rights Issue, to which the offer in this prospectus refers, had been fully subscribed and completed as of 1 January 2010; and
- how RusForest's consolidated balance sheet as of 30 June 2010 might have been affected if The Acquisition of LDK-3 and Infa had been completed and the Rights Issue had been fully subscribed and completed as of 30 June 2010.

The purpose of the pro forma financial information is solely to inform and illustrate facts as well as describe a hypothetical situation and the purpose is not to present RusForest's actual profit and financial position if the acquisition had been completed at the dates stated. It is not the purpose of the pro forma financial information to show the results of the operations for a future period.

The pro forma financial information has been prepared only for the period 1 January to 30 June 2010. The Company's opinion is that a statement for the historical development up until 1 January 2010 would not be representative for evaluating the Company's current operations and financial development, since the Company has made a fundamental reorganization of the business during 2009 and 2010, including major investments. During 2010, the Company has appointed a new management, including a new managing director, and carried out major operational changes in order to improve the capacity utilization and the efficiency at the Company's sites. The Company also intends to carry out major investments in the business in order to increase the capacity, clear bottlenecks in production and improve the mix of products, and also carry out investments in infrastructure and harvesting equipment in order to increase the internal supply of sawlogs. Accordingly, the Company does not believe that a pro forma financial information for the full year 2009 provides the investors with any valuable guidance for the purpose of their investment decisions.

Acquisitions of LDK-3 and Infa

The board of directors in RusForest has, during autumn 2010, approved an acquisition of 86 per cent of the share capital and 92 per cent of the votes in LDK-3 and 100 per cent of the participatory interest in Infa, a sawmill plant in the city of Arkhangelsk in north-western Russia, and a planing mill located at the same site. LDK-3 is one of the largest sawmills in Arkhangelsk. During the second quarter 2010, the number of employees at LDK-3 was in average approximately 700 persons. Infa is a smaller planing mill with production in connection with LDK-3. The number of employees at Infa is currently approximately 160 persons.

On 29 September 2010, the sellers' board of directors approved RusForest's acquisition of LDK-3 and Infa. The only remaining condition for completing the acquisitions is now an approval from the Russian anti-monopoly. The conditions for the acquisition are set forth in a purchase agreement and the completion is contingent of the Russian anti-monopoly approval of all parts of the acquisition.

In connection with the acquisition of LDK-3 and Infa, RusForest will acquire the sellers' receivables in respect of LDK-3.

The intention is that the acquisitions shall be paid in cash. The financing is provided through the Rights Issue.

The Rights Issue

On 8 October 2010, the extraordinary shareholders' meeting resolved on the Rights Issue, whereby the Company's share capital can be increased with maximum SEK 436,816,800 through an issue of maximum 43,681,680 shares.

The shareholders have the right to subscribe for new shares with preferential rights, whereby each existing share will entitle the holder to two subscription rights. One subscription right entitles to subscription of one share. The record date for participating in the Rights Issue with preferential rights was 15 October 2010.

The new shares entitle to dividends as from the day the shares are registered in the share register. Subscription of shares shall be made during the period 18 October – 1 November 2010. The subscription price is SEK 10 per share.

The Rights Issue is estimated to provide the Company with approximately SEK 437 million before issue costs, which are estimated to amount to approximately SEK 14.7 million.

In total SEK 83,820,000 (USD 12,000,000) of the issue proceeds has been paid in advance by Vostok Komi (Cyprus) Limited (one of Vostok Nafta Investment Ltd's wholly-owned subsidiaries) and the entire advance payment, including accrued interest as of 21 September 2010, may be used for set-off in the Rights Issue. Accrued interest as of 21 September 2010 was SEK 1,536,700 (USD 220,000). Vostok Nafta is entitled to pay SEK 85,356,700 by

Pro forma financial information for the period 1 January – 30 June 2010

way of set-off of the claim based on an exchange rate SEK/USD as of 21 September 2010 of 6.985.

Part of the issue proceeds is intended to be used for repayment of the bond loan of SEK 57.5 million, including accrued interest, which matures for payment in February 2011. This has not been accounted for in the pro forma financial information since the loan has only been possible to repay in advance following the period to which the pro forma refers. The above mentioned advance payment from Vostok Komi (Cyprus) Limited has been transacted after 30 June, and as such this has not been accounted for in the pro forma financial information.

Note that the pro forma adjustments do not take into account future events such as planned investments.

Accounting principles

The pro forma financial information has been prepared based on RusForest's previous publicly available interim reports (unaudited) for the period 1 January – 30 June 2010 and LDK-3's public as well as Infa's non-public unaudited interim report for the same period. The pro forma financial information has been prepared in accordance with the accounting principles that RusForest applies, International Financial Reporting Standards (IFRS). Since LDK-3 and Infa reported in accordance with Russian GAAP, adjustments have been made in order to present the acquired companies' income statements and balance sheets according to IFRS. In addition thereto, the consideration transferred has been allocated in the Acquisition analysis column.

Pro forma consolidated income statement

TSEK	1 January – 30 June 2010							
	RusForest interim report	Adjustments for the acquisition of LDK-3 and Infa				Total LDK-3 and Infa	Note 4: Adjustments for the Rights Issue	Total
		Note 1: Russian GAAP	Note 2: IFRS	Note 3: Acquisi- tion analysis				
Turnover	187,139	83,428	–	–	83,428	–	270,567	
Cost of sales	(173,338)	(60,675)	–	(1,134)	(61,809)	–	(235,147)	
Gross profit/loss	13,801	22,753	–	(1,134)	21,619	–	35,420	
Other income	14,935	73,119	(72,068)	–	1,051	–	15,986	
Distribution expenses	(49,825)	(8,363)	–	–	(8,363)	–	(58,188)	
Administrative expenditure	(43,938)	(7,162)	–	–	(7,162)	–	(51,100)	
Other expenses	(8,247)	(77,131)	70,649	(2,000)	(8,482)	–	(16,729)	
Operation profit/loss	(73,274)	3,216	(1,419)	(3,134)	(1,337)	–	(74,611)	
Financing income	292	–	–	–	–	1,620	1,912	
Financing cost	(8,746)	(2,063)	–	–	(2,063)	–	(10,809)	
Net financing income/cost	(8,454)	(2,063)	–	–	(2,063)	1,620	(8,896)	
Income from acquisition of RusForest	–	–	–	–	–	–	–	
Goodwill impairment	–	–	–	–	–	–	–	
Profit/loss before tax from continuing operations	(81,728)	1,153	(1,419)	(3,134)	(3,400)	1,620	(83,508)	
Income tax	14,183	(582)	–	227	(355)	(426)	13,402	
Profit/loss for the year from continuing operations	(67,545)	571	(1,419)	(2,907)	(3,756)	1,194	(70,106)	
Discontinued operations	(15,464)	–	–	–	–	–	(15,464)	
Profit/loss after tax for the year from discontinued operations	–	–	–	–	–	–	–	
Profit/loss of the period	(83,008)	571	(1,419)	(2,907)	(3,756)	1,194	(85,570)	
Attributable to:								
Equity holders of the parent	(82,273)	–	–	(533)	(533)	–	(82,806)	
Non-controlling interests	(735)	–	–	(315)	(315)	–	(1,050)	
Loss for the period	(83,008)	–	–	(848)	(848)	–	(83,856)	

Consolidated statement of balance sheet

TSEK	30 June 2010							
	RusForest interim report	Adjustments for the acquisition of LDK-3 and Infa				Total LDK-3 and Infa	Note 4: Adjustments for Rights Issue	Total
		Note 1: Russian GAAP	Note 2: IFRS	Note 3: Acquisi- tion analysis				
	IFRS							
ASSETS								
Non-current assets								
Goodwill	–	–	–	–	–	–	–	–
Property, plant and equipment	661,939	29,373	–	18,145	47,518	–	–	709,457
Investments in associates	2,414	–	–	–	–	–	–	2,414
Other long-term receivables	8,011	1,407	–	–	1,407	–	–	9,418
Deferred tax asset	36,586	10,322	–	–	10,322	–	–	46,908
Total non-current assets	708,950	41,102	–	18,145	59,247	–	–	768,197
Current assets								
Inventory	40,411	50,030	–	–	50,030	–	–	90,441
Trade and other receivables	64,970	36,318	–	–	36,318	–	–	101,288
Loan receivable	730	46	–	–	46	–	–	776
Cash and cash equivalents	8,301	3,092	–	(98,041)	(94,949)	422,114	–	335,466
Total current assets	114,412	89,486	–	(98,041)	(8,555)	422,114	–	527,971
Assets classified as held for sale	114,562	–	–	–	–	–	–	114,562
Total assets	937,924	130,588	–	(79,896)	50,692	422,114	–	1,410,730
EQUITY								
Equity and reserves								
Share capital	218,408	9,883	–	(9,883)	–	436,819	–	655,227
Share premium	556,687	16,124	–	(16,124)	–	–	–	556,687
Translation reserve	65,423	14	–	(14)	–	–	–	65,423
Retained earnings	(86,693)	10,348	–	(10,348)	–	(10,838)	–	(97,531)
Income for the period	(82,273)	(848)	–	(1,152)	(2,000)	–	–	(84,273)
Total equity attributable to shareholders of the Group	671,552	35,521	–	(37,522)	(2,000)	425,981	–	1,095,533
Non-controlling interests	(2,578)	–	–	4,116	4,116	–	–	1,538
TOTAL EQUITY	668,974	35,521	–	(33,406)	2,116	425,981	–	1,097,071
LIABILITIES								
Non-current liabilities								
Interest-bearing loans and borrowings	14,378	–	–	–	–	–	–	14,378
Loans payable to related companies	8,008	–	–	–	–	–	–	8,008
Deferred tax liability	52,265	299	–	4,772	5,071	–	–	57,335
Total non-current liabilities	74,650	299	–	4,772	5,071	–	–	79,721
Current liabilities								
Interest bearing loans and borrowings	83,429	32,018	–	(18,101)	13,917	–	–	97,346
Trade and other payables	92,866	62,750	–	(33,161)	29,588	(3,867)	–	118,587
Total current liabilities	176,295	94,768	–	(51,262)	43,506	(3,867)	–	215,933
Liabilities directly associated with the assets classified as held for sale	18,005	–	–	–	–	–	–	18,005
TOTAL LIABILITIES	268,950	95,067	–	(46,490)	48,576	(3,867)	–	313,659
TOTAL EQUITY AND LIABILITIES	937,924	130,588	–	(79,896)	50,692	422,114	–	1,410,730

Notes to the pro forma consolidated income statement and consolidated balance sheet

Note 1: Russian GAAP¹⁾

The column concerns LDK-3, Infa and the eliminations of transactions between them.

Subsidiaries subject to bankruptcy proceedings

LDK-3 has investments in the subsidiaries Splay-Les, Konosha-Les and Dvinskie Lesopromyshlenniki LLC, which are subject to bankruptcy proceedings. Currently, there are no reliable estimates for the outcome of these bankruptcy proceedings and whether the value of the companies' assets will exceed the value of the companies' debts. The subsidiaries Splay-Les, Konosha-Les and Dvinskie Lesopromyshlenniki LLC have not been consolidated since LDK-3 does not have controlling interest and as a result thereof LDK-3 have been charged with a loss of SEK 1,610,000.

Note 2: IFRS²⁾

Re-classification of non-deductible costs

According to Russian GAAP, non-deductible costs are accounted for directly in equity and not in the income statement, which is not in accordance with IFRS.

Exchange of foreign currency to RUB

LDK-3 and Infa have treated exchange from foreign currency to RUB as a sale of the foreign currency and purchase of RUB in the income statement. This is not in accordance with IFRS.

Note 3: Acquisition analysis³⁾

The acquisition analysis regards The Acquisitions of LDK-3 and Infa.

According to agreements, RusForest shall pay the sellers USD 12,600,000 (SEK 96,041,000, based on an exchange rate SEK/USD as of 30 June 2010 of 7.622) for the acquisitions. The transferred consideration for the shares in LDK-3 and the participatory interest in Infa amounts to SEK 44,779,000. Real value on the net assets amounts to 48,895,000 and holdings without controlling interest amounts to SEK 4,116,000.

The costs in connection with The Acquisitions of LDK-3 and Infa are estimated to approximately SEK 2,000,000. According to Swedish tax law, these costs are non-deductible costs, whereby no tax effects have been accounted for.

The acquisition analysis is preliminary.

Note 4: Adjustments for the Rights Issue

If RusForest had completed the Rights Issue as of 1 January 2010, the amount of cash (after deductions for The Acquisitions of LDK-3 and Infa, transaction costs in connection with the acquisitions and issue costs in connection with the Rights Issue) could have been deposited on a bank account in Sweden with an annual interest rate of 1 per cent. Swedish tax rate of 26.3 per cent have been calculated on the interest income.

Costs in connection with the Rights Issue are estimated to approximately SEK 14,700,000. The costs are mainly attributable to Sweden and therefore deductible for tax purposes, whereby a tax effect of 26.3 per cent of the costs have been accounted for.

1) LDK-3's public, but unaudited interim report for the period 1 January – 30 June 2010 and Infa's non-public and unaudited interim report for the same period, the Russian Registration Authority and the Russian Tax Agency (www.nalog.ru).

2) LDK-3's public, but unaudited interim report for the period 1 January – 30 June 2010 and Infa's non-public and unaudited interim report for the same period.

3) Purchase agreement regarding The Acquisitions of LDK-3 and Infa.

Auditor's report for the pro forma financial information for the period 1 January – 30 June 2010

To the Board of Directors in RusForest AB (publ)
Org nr 556694-6421

The Auditors' report on pro forma financial information

We have examined the pro forma financial information set out on pages 61–64 in RusForest AB (publ)'s prospectus dated 14 October 2010.

The pro forma financial information has been prepared solely for the purpose to provide information about and illustrate how RusForest AB (publ)'s consolidated income statement for the period 1 January to 30 June 2010 might have been affected if the acquisition of OAO Arkhangelskiy lesopilno-derevoobrabatival'shchiy kombinat No3 (org no 1022900511809) (LDK-3) and OOO Infa, (org no 1022900533160) (Infa) and the acquisition of the seller's receivables from LDK-3 had been completed and the preferential rights issue, to which the offer in this prospectus refers (Rights Issue), had been fully subscribed and completed as of 1 January 2010 and how RusForest AB (publ)'s consolidated balance sheet as of 30 June 2010 might have been affected if the acquisition of LDK-3 and Infa had been completed and the Rights Issue had been fully subscribed and completed as of 30 June 2010.

The Board of Directors' and the Managing Directors' responsibility

The Board of Directors and the Managing Director are responsible for preparing the pro forma financial information in accordance with the requirements of the EC Regulation 809/2004/EC.

The auditors' responsibility

Our responsibility is to provide an opinion as required by Annex II item 7 of EC Regulation 809/2004/EC. We are not responsible for expressing any other opinion on the pro forma financial information or of any of its constituent elements. We are not responsible for any financial information which has been used in the preparation of the pro forma financial information.

Scope of work

We performed our work in accordance with FAR's Recommendation RevR 5 *Examination of Prospectuses*. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the historical information, assessing the evidence supporting the pro forma adjustments and discussing the pro forma financial information with the management of the company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to obtain high but not absolute assurance that the pro forma financial information has been compiled on the basis stated on pages 61–62 and is in accordance with the accounting principles applied by the company.

Opinion

In our opinion the pro forma financial information has been compiled in accordance with the principles stated on pages 61–62 and in accordance with the accounting principles applied by the company.

Stockholm 14 October 2010

KPMG AB

Carl Lindgren
Authorised public accountant

The English text is a translation of the Swedish original only and in case of any discrepancy, the Swedish text shall prevail.

Share capital and ownership

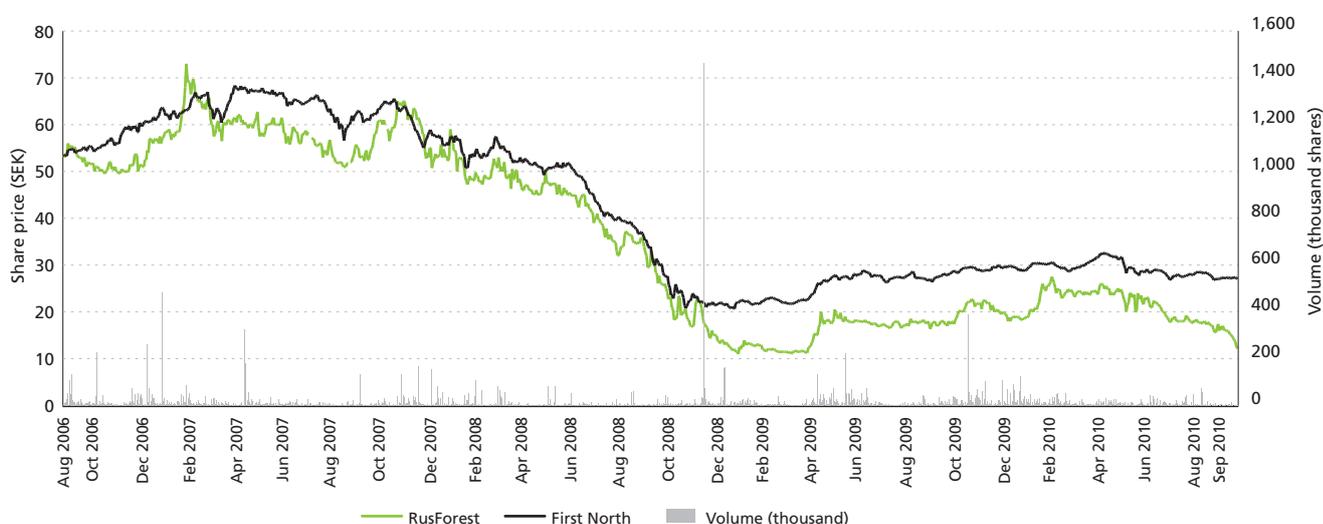
General information about the RusForest share

The shares in RusForest have been issued in accordance with Swedish law and the rights of the shareholders, including minority shareholders, can only be altered in accordance with the procedures outlined in the Swedish Companies Act (2005:551). At the shareholders' meeting, each share entitles the holder to one vote. Each shareholder entitled to vote may vote for the full number of shares owned, without limitation. All shares carry the same rights to dividends and any surplus in connection with a liquidation. The shares are not subject to any transfer restrictions. In the event of a share issue, existing shareholders have preferential rights to newly issued shares in accordance with, and only subject to the exceptions specified in, the Swedish Companies Act. In the Company's articles of association there is a special provision regarding the liquidation of the Company and the amendment of certain provisions in the articles of association. At the annual shareholders' meeting to be held in 2013, it shall be determined whether the Company shall

enter into liquidation, or whether the Company shall continue its operations. Should such annual shareholders' meeting resolve that the Company shall continue its operations, this section in the articles of association shall cease to apply. A resolution regarding amendments of sections 3, 13 or 14 of the articles of association is not valid unless it is supported by nine tenths (9/10) of the votes cast, representing nine tenths (9/10) of all shares in the Company. For a complete description of these provisions, see the section, "Articles of association".

The RusForest share (ISIN Code SE0001732728) is traded on First North (ticker RUSF). The share was admitted to trading on First North on 7 August 2006. The chart below shows the share price trend for the RusForest share for the period 28 August 2006 – 23 September 2010. The subscription price in the new share issue in connection with the Company's admission to trading on First North was SEK 50 per share. The following chart shows the share price trend:

Share price development and volume



Share capital

The Company's share capital is expressed in SEK and is allocated among the shares, and with a quota value, which is also expressed in SEK. As of the date of this prospectus, the share capital in RusForest amounts to SEK 218,408,400, allocated to 21,840,840 shares. Accordingly, the share's quota value is SEK 10. Following the new share issue in accordance with this prospectus, the share capital will amount to a maximum of SEK 655,225,200 allocated to a maximum of 65,522,520 shares. The Company's articles of association prescribe a maximum permitted share capital of SEK 800,000,000, corresponding to a maximum of 80,000,000 shares.

Share register

The Company's share register with information concerning the shareholders is administered by Euroclear at the following address: Euroclear Sweden AB, Box 7822, SE-103 97 STOCKHOLM, Sweden.

New issue of shares

At the board of directors' meeting on 21 September 2010, the board proposed that the extraordinary shareholders' meeting to be held on 8 October 2010, should adopt a resolution to issue new shares with preferential rights for the shareholders. One (1) existing share in RusForest entitles the holder to subscribe for two (2) new shares in the Company. The subscription price is SEK 10 per share.

Authorisations

The extraordinary shareholders' meeting on 8 October 2010 resolved to authorise the board for the period up to the next annual shareholders' meeting to adopt, on one or several occasions resolutions, to issue new shares, provided that any such issue must not result in the Company's share capital exceeding the Company's

maximum permissible share capital as set out in the articles of association, as adopted from time to time. Such new resolution shall only be resolved if it includes a provision that the new shares shall be paid in-kind. The reason for the authorisation is to enable the acquisition of shares in companies within the group of which NTG is part.

Changes in the share capital

As of 30 September 2010, the total number of shareholders in RusForest was approximately 1,400. The table below shows the ten largest shareholders as of 30 September 2010.

Year	Transaction	Change in the number of shares	Change in share capital in SEK	Total number of shares	Total share capital in SEK	Quota value
2005	Establishment of the Company	1,000	100,000	1,000	100,000	100
2006	Share split	9,000	–	10,000	100,000	10
2006	New issue	40,000	400,000	50,000	500,000	10
2006	New issue	8,818,800	88,188,000	8,868,800	88,688,000	10
2007	New issue	4,434,400	44,344,000	13,303,200	133,032,000	10
2009	Issue in-kind	8,537,640	85,376,400	21,840,840	218,408,400	10
2010	New issue	43,681,680	436,816,800	65,522,520	655,225,200	10

Shareholders

As of 30 September 2010, the number of shareholders in RusForest was in total approximately 1,400. The table below shows the ten largest owners as of 30 September 2010.

Shareholders	Number of shares	Number of shares and votes, %
Vostok Nafta	9,388,403	43.0%
Alecta Pensionsförsäkring	1,500,000	6.9%
Staffan Rasjö	1,308,778	6.0%
Fonden Zenit	913,000	4.2%
SEB Östeuropafond	532,400	2.4%
SEB Private Bank S.A.	492,052	2.3%
Aleksandr Williams	471,768	2.2%
Avanza Pension	420,112	1.9%
EFG Private Bank S.A.	420,000	1.9%
Handelsbankens Nordiska	340,450	1.6%
Other	6,053,877	27.7%
Total	21,840,840	100.0%

Warrants and employee stock options

Employee stock option plan 2010/2015

The annual shareholders' meeting on 20 May 2010 resolved to adopt an employee stock option plan for the managing director and other members management, with the right to acquire maximum 1,200,000 shares in RusForest. Each stock option shall entitle the holder to subscribe for one share in the Company with the exercise price (a) SEK 27.60 for stock options under Series 1, (b) SEK 29.90 for stock options under Series 2 and, (c) SEK 34.50 for stock options under Series 3. The exercise price

and the number of shares to which each stock option entitles the holder shall be recalculated in the event of a split, merger, new issue of shares, etc. in accordance with market standards. Stock options may be allocated up until the annual shareholders' meeting in 2015. On 26 July 2010, the board of directors allocated 300,000 stock options to the managing director Martin Hermansson. No employee is guaranteed an allocation of stock options as this shall be decided by the board of directors based on specific performance-based criteria.

The right to acquire new shares under the employee stock options is vested with 1/5 of the employee stock options allocated from each Series to such holder as from the date falling one year from the date of the initial allocation (the "anniversary date"), and an additional 1/5 as from each of the four subsequent anniversary dates, provided that the holder at such dates is still employed within the RusForest group. Vested employee stock options within each series, that have been vested, may be exercised for subscription of shares during the period 1 June 2015 up to and including 1 December 2015. As regards employee stock options, which may be exercised as set forth above, the exercise period upon termination of employment shall be three (3) months as from the termination of employment and shall thereafter become void. In connection with vesting, and in addition to the above, the employee's performance, position within, as well as contribution to RusForest shall be taken into consideration.

The annual shareholders' meeting also resolved to issue not more than 1,254,000 warrants to the wholly owned subsidiary RusForest Ltd in order to ensure that RusForest can fulfil its obligations to the stock option holders, including the ability to pay the social security

contributions (Sw. *Arbetsgivaravgifter*), when the stock options are exercised. Out of these warrants, a maximum of 54,000 can be used to cover costs related to the benefit, including the social security contributions, if any, when the stock options are exercised.

Warrants Taiga Capital Limited

On 25 May 2009, an extraordinary shareholders' meeting resolved to issue 1,987,834 warrants to Taiga Capital Limited. The subscription period runs from 1 July 2009 until 1 January 2012 and the exercise price is SEK 63. If the warrants are fully exercised, the Company's share capital may be increased with a maximum of SEK 19,878,340.

The reason for the deviation from the shareholders' preferential rights was that the issue was part of the restructuring of the Company's business operations and that the issued warrants should be used as consideration to Taiga Capital Limited in connection with the final settlement of the transactions between Taiga Capital Limited and Varyag Capital (Cyprus) Limited.

Shareholders' agreement

The board of directors is not, to the best of its knowledge, aware of any shareholders' agreements or similar arrangements among the major shareholders in RusForest with the intention of creating joint influence over the Company. In addition, the board is not aware of any shareholders' agreements or similar agreements that can lead to a change of control of the Company.

Outstanding bond loans

In February 2010, RusForest carried out a placement of a bond in the amount of SEK 50 million, in order to further increase the operations. The duration of the loan is 12 months and runs with a fixed interest rate of 15 per cent. After 6 months, the loan may be repaid in advance by RusForest. The placement was made by Öhmans.

Bridge financing

Vostok Nafta has provided two advance payments in respect of its participation in the Rights Issue in order to allow RusForest to immediately continue the work with key projects and to cover working capital needs. The advance payments have been provided as two short-term loans (unsecured) each amounting to SEK 41.9 million (USD 6 million)¹⁾ with a duration until 30 November 2010 and a fixed annual interest of 15 per cent. Vostok Nafta is entitled to pay for the subscribed shares by a set-off of the short-term loans.²⁾

Dividend policy

Dividend payments to shareholders are dependent on RusForest's result, financial position and investment needs. Considering RusForest's current investments and growth prospects, in addition to the Company's liquidity and financial position in general, dividends are not expected to be paid in the foreseeable future. RusForest currently intends to retain future earnings to fund the development and growth of the Company.

Dividends may be made in the form of distribution, redemption or repurchase of shares. Dividends are paid via Euroclear following a resolution at the shareholders' meeting. Following the expiration of the 10-year limitation period for dividends, the Company has the right to the dividend. There are no restrictions on dividends for shareholders who are resident outside Sweden, and payments are made via Euroclear at the same conditions as for shareholders resident in Sweden. Shareholders that are not domiciled in Sweden for tax purposes are subjected to Swedish withholding tax, see the section "*Tax issues in Sweden*".

1) Calculated using currency exchange rate SEK/USD 6.985 as of 21 September 2010.

2) As of 21 September 2010, the accrued interest amounted to SEK 1.536.700 (USD 220,000).

Board of directors, management and auditors

Board of directors

The board of directors is responsible for the Company's organisation and administration of the Company's affairs and shall continuously evaluate RusForest financial position. The work conducted in the board is led by the chairman of the board. Currently, RusForest's board of

directors consists of six board members including the chairman, all of whom were elected by the shareholders. The assignments for all board members are determined by the annual shareholders' meeting and apply until the close of the following annual shareholders' meeting.

Name	Year of birth	Elected/appointed for the first time	Position
Sven Hirdman	1939	2006	Member and chairman
Franz Bergstrand	1946	2008	Member
Per Brilioth	1969	2009	Member
Torbjörn Gunnarsson	1959	2006	Member
Johan Unger	1961	2006	Member
Jerker Karlsson	1944	2010	Member



SVEN HIRDMAN

Chairman of the board since 2006. Sven Hirdman is an ambassador and served in the Swedish Foreign Service from 1963 to 2004. During the last ten years, 1994–2004, Sven Hirdman was Sweden's ambassador in Moscow, with concurrent accreditation in other CIS countries.

Sven Hirdman is a Slavic scholar with an M.A. and B.A. from Uppsala University and has also served at the Swedish Army's Interpreter School in Uppsala.

Sven Hirdman's many previous assignments include: Associate Director of SIPRI from 1969 to 1972, embassy counsellor in Beijing from 1972 to 1976, undersecretary of state at the Swedish Ministry of Defence from 1979 to 1982; ambassador in Tel Aviv from 1983 to 1987; and war material inspector from 1987 to 1994.

Sven Hirdman is independent in his relations to RusForest, its management and its major shareholders.

Holding in RusForest: Sven Hirdman holds 3,000 shares in RusForest as of 12 October 2010.

Current corporate positions September 2010: Currently Sven Hirdman works as a business consultant and lecturer on Russia and international politics, as well as a presenter for foreign diplomats at the Ministry of Foreign Affairs.

Previous corporate positions since September 2005: President of Transparency International Sweden 2008–2010.



FRANZ BERGSTRAND

Member of the board since 2008. Franz Bergstrand is a Forestry Engineer with 35 years experience from the forest and wood industries, both domestically and internationally.

Franz Bergstrand is independent in relation to RusForest, its management and its major shareholders.

Holding in RusForest: Franz Bergstrand holds 3,000 shares in RusForest as of 12 October 2010.

Current corporate positions since September 2010: Franz Bergstrand is chairman of the board for Mid Sweden Chamber of Commerce, Sporthaus Moxter AB, Robera AB, Swedish Timber Group AB, Wood Support AB, KåEss Knut Bygg AB and a board member in Clean Tech East AB (publ), MidSweden Science Park AB and Thai-Swedish Chamber of Commerce. Franz Bergstrand is also a member of the market council with focus on forestry and the forest industry for Swedbank Sweden.

Previous corporate positions since September 2005: Franz Bergstrand was previously chairman of the board in Biathlon Event AB and board member of Jämtlamell Maskin AB, Procliva Skogscertificering AB, Jordbrukskredit AB, Swedbank Skog och Lantbruk AB, Såtab AB, VMF Nord Ekonomisk förening and Sågab Ekonomisk förening. Franz Bergstrand was also managing director and board member of Backe Trä AB, Träinnova AB, Jämtlamell AB, Jämtlamell Industri AB and managing director of Jämtlamell Skog AB.



PER BRILIOTH

Member of the board since 2009. Per Brilioth is a graduate of Stockholm University and holds a Master of Finance from the London Business School. Per Brilioth is managing director and member of the board of Vostok Nafta Investment Ltd since 2001 and has worked closely with the Russian stock market for

many years.

Per Brilioth is not independent in relation to RusForest, its management and its major shareholders due to his assignments as the managing director and board member in one of RusForest's major shareholders, Vostok Nafta Investment Ltd.

Holding in RusForest: Per Brilioth holds 20,000 shares in RusForest as of 12 October 2010.

Current corporate positions September 2010: Per Brilioth is the chairman of the board in Black Earth Farming Ltd, Vostok Nafta Sverige AB and Clean Tech East Holding AB. Per Brilioth is also a board member in Avito Holding AB, Kontakt East Holding AB, OAO Resurs-Invest, Vosvik AB, Vostok Gas Ltd and X5 Group AB.

Previous corporate positions since September 2005: Per Brilioth was previously a board member of Port Capital AB, H Bukowskis Konsthandel, Bukowski Strandvägen Auktioner Aktiebolag, Bukowski Real Estate AB, Bukowski Auktioner Aktiebolag, Bukowski Holding AB, Varing Capital AB and Custos AB.



TORBJÖRN GUNNARSSON

Member of the board since 2006. Torbjörn Gunnarsson has an MSc in Business and Economics from the Stockholm School of Economics. Torbjörn Gunnarsson was the managing director of Varyag Resources AB between 2006 and 2009. From 1996 to 2006, he was employed by Hagströmer

& Qviberg AB, where he was responsible for institutional sales and analysis, Equity Capital Market and Corporate Finance and was a member of the management group for the Investment Banking business area. Previously Torbjörn Gunnarsson has worked within ABB Financial Services, primarily within Aros Fondkommission and as an analyst with responsibility for option trading and Corporate Finance.

Torbjörn Gunnarsson is independent in relation to RusForest, its management and its major shareholders.
Holding in RusForest: Torbjörn Gunnarsson holds 20,000 shares in RusForest as of 12 October 2010.

Current corporate positions September 2010: Chairman of the board of Mio Möbler AB and Panare AB. Torbjörn Gunnarsson is a board member in several subsidiaries in the Mio Group, Gunnarsson Fastighets AB, Panare AB and Södra Hotellet AB.

Previous corporate positions since September 2005: Previously, Torbjörn Gunnarsson was a board member of Varyag Capital Cyprus Limited.



JERKER KARLSSON

Member of the board since 2010. Jerker Karlsson is a forest officer and has more than 40 years experience of from the forest industry. Between 1970 and up to his retirement in 2009, Jerker Karlsson was employed within SCA, *inter alia*, as managing director of SCA Skog (between 1989 and 2008), deputy

managing director of SCA Forest Products (2000-2009) and chairman of SCA Transforest (2000-2009).

Jerker Karlsson is independent in relation to RusForest, its management and its major shareholders.

Holding in RusForest: Jerker Karlsson holds no shares in RusForest as of 12 October 2010.

Current corporate positions September 2010: Jerker Karlsson has no current corporate positions beside his position as a member of the board in RusForest AB.

Previous corporate positions since September 2005: Previously, Jerker Karlsson was the chairman of the board, board member and managing director of the following companies: Åbordsön AB, Rundviksverken AB, SCA:s Timmerförvaltning AB, Scanninge Skog AB and Svanö AB. He has also been the chairman of the board and board member of SCA BioNorr AB and SCA Transforest AB as well as board member and managing director of SCA Skog AB, Scanninge Holding AB and SCA Forest Products AB (deputy managing director). Jerker Karlsson was also a member of the board or a deputy member of the board in SCA Timber AB, Arbio AB, SCA Graphic Sundsvall AB, Inlandsbanan (IBAB) AB and Foran Sverige AB. Jerker Karlsson was also an external authorised signatory of SCA AB.



JOHAN UNGER

Member of the board since 2006. Johan Unger has an MSc in Business and Economics from Uppsala University. From 1990 to 2005, he was employed by Hagströmer & Qviberg, where he primarily worked in Corporate Finance and was a member of the management group for the

Investment Banking division. From 1996 to 2005, he was head of Corporate Finance operations at Hagströmer & Qviberg. During the period from 1985 to 1989, Johan Unger worked as an auditor within Arthur Andersen & Co.

Johan Unger is independent in relation to RusForest, its management and its major shareholders.

Holding in RusForest: Johan Unger holds 42,050 shares in RusForest through an capital insurance as of 12 October 2010.

Current corporate positions since September 2010: Johan Unger is a board member in BioPhausia AB, ALM Equity AB, DGC One AB, Klövergården A and Johan Unger AB. He is also a partner in Handelsbolaget Birger Jarlsgatan 8.
Previous corporate positions September 2005: Previously, Johan Unger was chairman of the board in DGC Products AB, DGC Access AB, DGC Solutions AB and DGC Communications AB.

Management

RusForest's management consists of the managing director, deputy managing director and the Chief Financial Officer. RusForest's management has the overall responsibility for RusForest's day-to-day operations, liquidity management, business control, profit/loss follow up and information and disclosure issues. To a certain extent, support services are purchased from external suppliers.

RusForest's management includes the following persons: ¹⁾

Name	Birth year	Elected/appointed for the first time	Position
Martin Hermansson	1982	2010	Managing director
Anders F. Börjesson	1971	2010	Deputy managing director
Vitaly Zhukov	1976	2008	Chief Financial Officer



MARTIN HERMANSSON

Managing director since 2010. Martin Hermansson holds a BSc from London School of Economics and has an industry background in Russia. The Hermansson family controls close to 1,500 hectares of forestry land in southern Sweden, and the forestry operation has been

actively present in the family business since the 19th century. Martin Hermansson has worked in Russia for the past five years and is the founder of Nord Timber Group. Prior to setting up Nord Timber Group he established his own consultancy business within the forestry sector, where Martin Hermansson was active as managing director between 2006 and 2008.

Since early 2008, Martin Hermansson has established Nord Timber Group (where he currently serves as a non-executive director) as a successful forestry company with presence in the Arkhangelsk Region of north-western Russia.

Holding in RusForest: Martin Hermansson holds 300,000 employee stock options and holds 35,300 shares in RusForest together with related parties as of 12 October 2010.

Current corporate positions September 2010: Martin Hermansson is a non-executive member of the board of NTG.

Previous corporate positions since September 2005: Martin Hermansson was the managing director and is the founder of Gungner industries Ltd as well as NTG. Martin Hermansson was also a board member of NTG and Lillevrå Såg AB.



ANDERS F. BÖRJESSON

Deputy managing director since 2010. Anders Börjesson has long experience of Swedish and Russian business law and was employed by Mannheimer Swartling Law Firm between 2000 and 2008. He was head of mergers & acquisitions and corporate law in Moscow between

2006 and 2008. Anders Börjesson has a Master of Laws from Stockholm University and an LL.M. from the NYU School of Law, and he is admitted to The New York bar. Since 2008, Anders Börjesson is employed as legal counsel to the Vostok Nafta Investment Ltd Group. Anders Börjesson is not independent in relation to RusForest as he is deputy managing director. In addition, he is the legal counsel to one of the major shareholders in the Company, Vostok Nafta Investment Ltd.

Holding in RusForest: Anders F. Börjesson holds no shares in RusForest as of 12 October 2010.

Current corporate positions September 2010: Anders Börjesson is legal counsel to Vostok Nafta Investment Ltd and a board member of Vostok Nafta Sverige AB, Vosvik AB and OAO Resurs Invest.

Previous corporate positions since September 2005: Anders Börjesson has no previous corporate positions.

1) Aleksandr Wiliams was the managing director in RusForest up to June 2010 and thereafter remained on the board at RusForest up to the end of August when he left of his own accord.



VITALY ZHUKOV

Chief Financial Officer since 2009. Vitaly Zhukov has a degree in Economics from the St. Petersburg State Institute of Fine Mechanics and Optics, and is a Russian Statutory Auditor from the St. Petersburg State University. Prior to joining RusForest, Vitaly

Zhukov worked for PricewaterhouseCoopers Russia from 2000 until 2005 and acted as chief financial officer of SmartGames International Ltd between 2005 and 2008.

Vitaly Zhukov has extensive experience of Russian statutory accounting, US GAAP audit, IFRS reporting and is ACCA qualified.

Holding in RusForest: Vitaly Zhukov holds no shares in RusForest as of 12 October 2010.

Current corporate positions September 2010: Vitaly Zhukov has no corporate positions except for his position as Chief Financial Officer of RusForest.

Previous corporate positions since September 2005: Previously, Vitaly Zhukov was the marketing manager of Smart Games International and Unicum Gaming Ltd. He has also been the director of Unicum CIS LLC as well as Eelex SP LLC.

The address to RusForest's management is c/o RusForest AB (publ), Hovslagargatan 5, SE-111 48 Stockholm, Sweden.

Auditor

At the annual shareholders' meeting 2010, the auditing firm KPMG AB was elected as the Company's auditor for the coming four years with Carl Lindgren, KPMG AB (address: KPMG AB, Box 16106, 103 23 Stockholm, Sweden) as auditor in charge. Carl Lindgren is a member of FARS SRS.

Previous auditors

The Company's previous auditors were Ernst & Young AB with auditor in charge Mikael Ikonen. Mikael Ikonen is an authorised auditor and a member of FAR. The address for Ernst & Young is: Box 7850, Jakobsbergsgatan 24, SE-103 99 Stockholm, Sweden.

During 2010, RusForest performed a procurement of the audit services and, based on this process, elected KPMG AB as the Company's auditors.

Other information regarding the board of directors and members of management

None of the above directors or members of management is closely related with any other director or any other member of management. During the past five years none of the board members or members of the management has been involved in any bankruptcies, receiverships or liquidations in their capacity as board members or members of management. None of the directors or members of management has been convicted for fraudulent offences during the last five years or has been subject to any public incrimination or sanctions by statutory or regulatory authorities (including designated statutory bodies) and none of the members of the board or of the management has been disqualified by a court from acting as a member of administrative, management or supervisory bodies of a company or from acting in management or otherwise from conducting the affairs of a company during the last five years. There are no conflicts of interest in relation to RusForest. Several of the directors or members of management have financial interests in the Company through their current holdings of shares and their remuneration from the Company.

Articles of association

For RusForest AB (Reg. No. 556694-6421)
Adopted at an extraordinary shareholders' meeting on
24 June 2010.

1 § Name

The Company's name is RusForest AB. The Company is a public company.

2 § Registered office of the board of directors

The board of directors' registered office shall be situated in Stockholm, Sweden.

3 § Business

The object of the Company's business is to, directly or indirectly, make, manage and divest investments in primarily unlisted companies in Russia and within CIS (Commonwealth of Independent States), manage movable property and to conduct any other activities compatible therewith.

4 § Share capital

The share capital shall be not less than two hundred million Swedish kronor (SEK 200,000,000) and not more than eight hundred million Swedish kronor (SEK 800,000,000).

5 § Shares

The number of shares shall be not less than twenty million (20,000,000) and not more than eighty million (80,000,000).

6 § Euroclear company

The Company's shares shall be registered in a securities register in accordance with the Swedish Financial Instruments Accounts Act (1998:1479).

7 § Financial year

The Company's financial year shall be 1 January – 31 December.

8 § Board of directors

The board of directors shall consist of not less than three (3) members and not more than seven (7) members, without or with not more than two (2) deputy members.

9 § Auditors

The Company shall have not less than one (1) and not more than two (2) auditors, without or with not more than two (2) deputy auditors. As auditor and, when applicable, deputy auditor, shall be elected an authorised public accountant or a registered public accounting firm.

10 § Notice of shareholders' meeting

Notice of annual shareholders' meetings as well as of extraordinary shareholders' meetings at which matters regarding amendments to the articles of association are to be addressed, shall be issued not earlier than six weeks and not later than four weeks prior to the shareholders' meeting. Notice of other extraordinary shareholders' meetings shall be issued not earlier than six weeks and not later than two weeks prior to the shareholders' meeting.

Notices of shareholders' meetings shall be published in Post- och Inrikes Tidningar (the Swedish Official Gazette) and in Svenska Dagbladet.

11 § Shareholders' right to participate in shareholders' meetings

Shareholders who want to participate in shareholders' meetings, shall be listed in print-outs or other representation of the entire shareholders' register concerning the circumstances five weekdays prior to the meeting, and notify the Company not later than 4.00 pm the day which is specified in the notice to the meeting. The last-mentioned day may not be a Sunday, other public holiday, Saturday, Midsummer Eve, Christmas Eve or New Years Eve and not fall earlier than the fifth weekday prior to the meeting.

Shareholders or representatives may bring up to two counsels at shareholders' meetings only if the shareholder is giving notice of the number of counsels to the Company in accordance with the previous section.

12 § Annual shareholders' meetings

The following business shall be addressed at annual shareholders' meetings:

- 1) Election of a chairman of the meeting;
- 2) Preparation and approval of the voting list;
- 3) Approval of the agenda;
- 4) Election of one or two persons who shall approve the minutes of the meeting;
- 5) Determination of whether the meeting was duly convened;
- 6) Submission of the annual report and the auditors' report as well as, where applicable, the consolidated financial statements and the auditors' report for the group;
- 7) Resolutions regarding the adoption of the income statement and the balance sheet as well as, where applicable, the consolidated income statement and the consolidated balance sheet;
- 8) Resolutions regarding appropriation of the Company's profit or loss pursuant to the adopted balance sheet;
- 9) Resolutions regarding discharge of the members of the board of directors and the managing director from liability;
- 10) Determination of the number of members and deputy members of the board of directors as well as, where applicable, the number of auditors and deputy auditors;
- 11) Determination of fees for the members of the board of directors and, where applicable, the auditors;
- 12) Election of the members and potential deputy members of the board of directors as well as, where applicable, auditors and potential deputy auditors;

Other matters, which rest upon the shareholders' meeting pursuant to the Swedish Companies Act or the articles of association.

13 § Liquidation

At the annual shareholder's meeting in 2013, it shall be determined whether the Company shall enter into liquidation, or whether the Company shall continue its operations. Should such annual shareholders' meeting resolve that the Company shall continue its operations, this section shall cease to apply.

14 § Amendment to the articles of association

A resolution regarding an amendment to sections 3, 13 or 14 in these articles of association is not valid unless it is supported by more than nine tenths (9/10) of the votes cast, representing nine tenths (9/10) of all shares in the Company.

Corporate governance

Corporate governance

RusForest is a Swedish public limited liability company. RusForest complies with applicable rules and regulations regarding corporate governance and is governed through the shareholders' meeting, the Company's board of directors, the Company's managing director and other members of the management, in accordance with, *inter alia*, the Swedish Companies Act, the Company's articles of association and the rules of procedure for the board of directors.

Shareholders' meetings

The shareholders' meeting is the highest deciding body where the shareholders exercise their influence by casting votes on central issues such as adopting the income statement and balance sheet, allocation of the Company's profit and loss, discharge of liability for members of the board and the managing director, election of the board of directors and auditors and determination of fees for members of the board of directors and auditors.

The board of directors

The board is responsible for the organisation of the Company and management of the Company's affairs and shall assess the financial situation of RusForest on an ongoing basis. This work is led by the chairman of the board who is appointed by the annual shareholders' meeting. The board shall consist of not less than three and not more than seven board members, with a maximum of two deputy board members. The board members are appointed up until the next annual shareholders' meeting.

The Swedish Corporate Governance Code

The Swedish Corporate Governance Code (the "Code") complements the Swedish Companies Act and the relatively extensive self-regulation concerning corporate governance. The Code is based on the principle of "comply or explain", which means that companies applying the Code may deviate from the provisions set forth therein, provided that each such deviation is properly explained. The Code is applicable to all Swedish companies that are listed on NASDAQ OMX Stockholm or any other regulated market.

As RusForest's shares are traded on First North, which is a non-regulated market, no obligation to apply the Code exists. However, the Company has chosen to report, part of what the Code requires in future annual reports in order to inform the shareholders of the governance and control of the Company.

RusForest intends to initiate a process to apply for listing on NASDAQ OMX Stockholm.

Board committees

Audit committee

At the annual shareholders' meeting on 20 May 2010, it was resolved that the members of the audit committee shall be Sven Hirdman (chairman), Johan Unger and Per Brilioth.

Compensation committee

The board does not deem it necessary to establish a compensation committee as the size of the board and the limited number of employees in RusForest entail that the board may hold the same function as a compensation committee. Any board member who is concurrently a member of the management will not participate in relation to such issues.

Operations committee

At the annual shareholders' meeting on 20 May 2010, it was resolved that the members of the operations committee shall be Franz Bergstrand (chairman) and Jerker Karlsson.

Nomination committee

The main tasks of the nomination committee include preparing and providing a proposal for election of the chairman of the board and other members of the board of the Company, board fees, chairman of the annual shareholders' meeting and, as applicable, election and fees for the auditors and the principles for the composition of the nomination committees.

At the extraordinary shareholders' meeting on 5 August 2009, it was resolved to adopt the following principles for the appointment of members of the nomination committee. The chairman of the board shall as soon as possible after the end of the third quarter each year summon the three largest shareholders, who thereafter may appoint one member each to the nomination committee. Such member should not be a board member. In addition, the members of the nomination committee may appoint the chairman of the board as a member of the nomination committee. No remuneration shall be paid to the members of the nomination committee.

The chairman of the board shall summon the nomination committees first meeting. A representative of the shareholders should be appointed chairman of the nomination committee. The composition of the nomination committee shall be announced at the latest in connection with the Company's report for the third quarter.

The principles for appointing the nomination committee shall be applied unless the shareholders' meeting resolve otherwise. It falls upon the nomination committee to determine prior to the annual shareholders' meeting whether it is necessary to propose an amendment of the principles and in such case submit a proposal to the annual shareholders' meeting.

The nomination committee for 2010 consists of Anders F. Börjesson, Vostok Nafta (chairman); Per Josefsson, Fonden Zenit; Viking Kjellström, SEB; and RusForest's chairman of the board, Sven Hirdman.

Compensation to the board of directors and the managing director

At the annual shareholders' meeting on 20 May 2010, it was resolved that the compensation to board members should be SEK 150,000 for members who are not employed by the Company and SEK 300,000 for the chairman of the board. In addition, compensation is paid to the committee chairman in the amount of SEK 100,000 and other committee members in the amount of SEK 75,000. Compensation to the managing director consists of salary, pension and other benefits. The managing director is entitled to a fixed monthly salary of SEK 118,745 (USD 17,000)¹⁾. The notice period for RusForest is 12 months and 6 months for the managing director. The retirement age for the managing director is 60 years. If the Company terminates the employment, the managing director is entitled to severance payment equivalent to 6 monthly salaries, however deductions shall be made for remuneration that the managing director receives from other employment during that period.

1) Calculated using currency exchange rate SEK/USD 6.985 as of 21 September 2010.

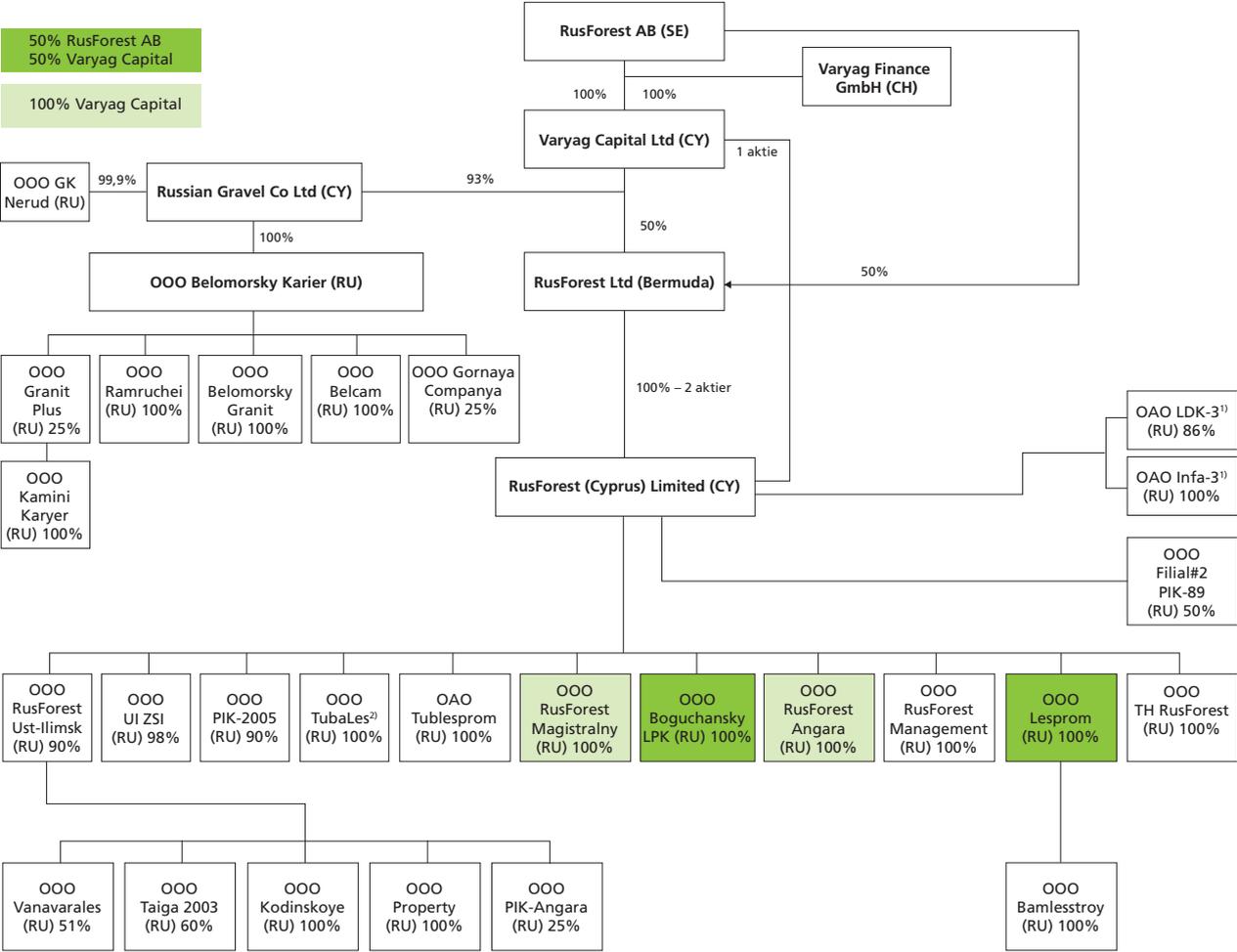
Legal considerations and additional information

Company registration and legal form

RusForest is a public limited liability company with registration number 556694-6421, with its registered office in Stockholm, Sweden. The Company was incorporated in Sweden in accordance with Swedish law on 7 December 2005 and was registered with the Swedish Companies Registration Office on 9 May 2006. The Company’s legal form is governed by the Swedish Companies Act (2005:551) and the Company’s shares have been issued in accordance with Swedish law. The Company’s shares are denominated in Swedish kronor. The current articles of association were adopted at the extraordinary shareholders’ meeting held on 24 June 2010. The object of the Company’s business is set forth in the third section of the articles of association.

Group structure

The Company is the parent company in the Group.



1) The acquisition of LDK-3 and Infa is contingent of the Russian anti-monopoly approval, which is expected to be attained before year end.
 2) In connection with the halt of all sawmill operations at Tuba-Les, assets have been sold to other companies within the Group and Tuba-Les has applied for corporate reconstruction, which was subsequently approved.

1) The Company was established by Lagrummet AB.

Material agreements

Purchase agreements

Recently, RusForest has acquired shares in several Russian companies in order to gain control over more forest assets. The Group has also acquired minority shares in a number of companies that were already controlled by RusForest. RusForest has also formed two new Russian companies, RusForest Trading and RusForest Management. RusForest Magistralny was established through a spin-off from Nebelsky LPH. In connection with a reorganisation in RusForest, RusForest AB acquired in June 2009, *inter alia*, 50 per cent of the shares in RusForest Ltd (Bermuda) through an issue in-kind.

During the autumn 2010, RusForest's board of directors has resolved to acquire 86 per cent of LDK-3 and 100 per cent of Infa, a sawmill facility located in the city of Arkhangelsk in northwest Russia, and a planing mill located at the same facility.

The acquisition of LDK-3 and Infa is contingent of the Russian anti-monopoly approval, which is expected to be attained before year end. As a result of the acquisition of 86 per cent of the shares in LDK-3, RusForest must make a mandatory bid for the remaining outstanding shares.

The purchase agreement for LDK-3 and Infa contains a limited number of warranties provided by the sellers and the sellers' liability, according to the agreement, is also limited to a minor part of the purchase price. Currently the book value of LDK-3's net assets is negative, which means that the Company must take steps to restore the negative value before the end of 2010. The fact that the book value is currently negative relates to the principles for valuation the Company's assets and liabilities. However, the board of directors intends to resolve this deficiency as soon as possible after the closing of the acquisition of the shares in LDK-3.

Supplier agreements

During 2009, RusForest signed three supplier agreements regarding oil products. Two of these agreements concern deliveries to RusForest Ust-Ilimsk and the third concern deliveries to Boguchansky LPK.

In 2008, RusForest Ust-Ilimsk entered into an electricity agreement with CJSC Bratskie Elektricheskie Seti.

Forest assets

According to RusForest's forest lease agreements, RusForest has an annual allowable cut of 1,441,100 m³. The lease agreements have a duration of at least 20 years. Some agreements, however, will not cease for 44 to 46 years. When the current agreements expire, RusForest has a priority right to enter into new agreements for the forest land without a new auction process.

RusForest's lease fees for 2010 were in total RUB 51,272,201 (approximately EUR 1,235,177). These fees are not fixed, and may be increased or decreased based on decisions by the Russian government or through new

legislation. The terms and conditions of RusForest's lease agreements are primarily based on a framework agreement for forest leasing approved by the Russian government. Common conditions for the lease agreements are:

- The landowner's approval is required for assignment of the agreement and for sub-letting of the forest-land; and
- The landowner may unilaterally terminate the agreement without a court order if the leaseholder fails to correctly pay the lease fees on two consecutive occasions.

Eight companies in the Group currently hold forest leases with a total area of 867,925 hectares in the Irkutsk and Krasnoyarsk regions. RusForest has entered into 14 forest lease agreements with the relevant forestry agencies in the Irkutsk and Krasnoyarsk regions.

Customer agreements

Based on current market practice, the Group's customer agreements have short duration and the majority of them will expire on 31 December 2010.

Through RusForest Trading, RusForest has customer agreements with regards to sale of timber (sawnwood) larch, spruce, and pine, as well as chips and full-tree.

According to these agreements, customers usually pay after RusForest Trading has delivered the products to a transport company and delivered the relevant receipt (for example, a railroad bill of freight, which is sealed at the railroad station) to the customer and/or the customer's bank. Consequently, the sales are made with for the customers credits.

Intellectual property

RusForest has registered the domain names www.rusforest.se, .com, .net, .org. Moreover, RusForest has registered "Angara" as a trademark for pre-packaged sawnwood.

Insurance

RusForest has adequate insurance protection to cover the liabilities that the normal operations entail.

Disputes and compliance

The Company is not aware of any existing or expected disputes that could have significant consequences for the Company's earnings or financial position nor has the Company been involved in such disputes.

Permits and regulations

The board of directors of RusForest considers that the Company complies with applicable rules and regulations and holds the necessary permits with regard to its operations.

Related party transactions

Vostok Nafta has provided two partial advance payments in respect of its participation in the Rights Issue to allow RusForest to immediately continue the work with key projects and to cover working capital needs. The advance payments have been provided in the form of two short-term loans (unsecured), each amounting to SEK 41.9 million (USD 6 million)¹⁾ with a duration until 30 November 2010 and a fixed annual interest rate of 15 per cent. Vostok Nafta has the right to pay for subscribed shares in the Rights Issue by way of set-off of these short-term loans.²⁾ In addition, Vostok Nafta has provided two loans to RusForest amounting to approximately SEK 7.7 million (USD 1.1 million)¹⁾ with a duration until 15 June 2011 and a fixed annual interest rate of 8 per cent.

RusForest has otherwise not provided any commitments, loans, guarantees for the benefit of board members, shareholders or auditors of RusForest. Except for the managing director's right to severance payment, none of the board members or the managing director have entered into any agreements regarding benefits once their assignments have been terminated. None of the board members has any direct or indirect participation in any business transaction with RusForest, apart from the loans from Vostok Nafta as described above, that are or were unusual in their nature or as regards their terms and conditions and which occurred during the current or previous financial year. This also applies to transactions that in some aspects remain unregulated or unfinished. Nor have the auditors participated in any business relations according to the above.

Dividends and other information about the Company's shares

The new shares shall entitle the holder to the same rights as existing shares in RusForest and to dividends as from the 2010 financial year and subsequent years. Any distribution is decided upon by the annual shareholders' meeting and is paid through Euroclear. The right to any distribution accrues to those who are registered as owners in the share register maintained by Euroclear on the record date. The record date is normally three days after the annual shareholders' meeting. If shareholder cannot be contacted by Euroclear, the shareholder's claim for distribution, is not limited other than by the rules regarding statutory limitations. In accordance with Swedish law, the general statute of limitation is ten years.

Following the expiration of the statutory limitation period the Company has the right to the dividend amount. There are no restrictions for distributions for shareholders who are resident outside Sweden and payment are made via Euroclear on the same conditions as for as to

shareholders resident in Sweden. Shareholders that are not domiciled in Sweden for tax purposes are subjected to Swedish withholding tax, see the section "*Tax issues in Sweden*".

Life of the Company

The Company does not have a fixed lifetime. However, the articles of association include a provision which states that the annual shareholders' meeting in 2013 shall decide on whether the Company shall be liquidated or not. In the event the annual shareholders' meeting resolves that the Company shall continue its operations, the provision in the articles of association will cease to apply.

Subscription undertaking

Vostok Komi (Cyprus) Limited (a wholly owned subsidiary to Vostok Nafta Investment Ltd), representing in total 43 per cent of the shares in the Company, has through a subscription undertaking undertaken to exercise its subscription rights for subscription of shares in the Rights Issue, which equals approximately 18.8 million shares. No compensation is paid. The subscription undertaking is regulated through a binding, written agreement dated 29 September 2010. No funds are pledged or restricted for this purpose, nor is the subscription undertaking secured via any bank guarantee. Vostok Nafta is entitled to pay for subscribed shares through a set-off of the claim against the Company of in total SEK 85,356,700 (USD 12,220,000)¹⁾. This implies that Vostok Nafta is entitled to pay SEK 85,356,700¹⁾ by way of set-off of the claim mentioned above and SEK 102,411,360 in cash for the subscription of shares using Vostok Nafta's subscription rights.

In the event Vostok Nafta would not be able to fulfil its subscription undertaking, there is a risk that the Company's capital needs will not be met according to plan.

Subscription undertaking

Name	Address	Amount (SEK)
Vostok Komi (Cyprus) Limited	1 Lampousas Street PC 1095 Nicosia, Cyprus	187,768,060
Total		187,768,060

First North

First North is an alternative marketplace operated by NASDAQ OMX Stockholm. Companies whose shares are traded on First North are not obliged to follow the same rules as companies listed on a regulated market, but are subject to a less extensive regulatory framework adapted for smaller companies and growth companies.

1) Calculated on exchange rate SEK / USD 6.985 on 21 September 2010.

2) Accrued interest amounts as per 21 September 2010 to SEK 1,536,700 (USD 220 000).

An investment in a Company with its shares traded on First North, might therefore be an investment with more risk than investing in a share listed on a regulated market. All companies with their shares traded on First North have a Certified Adviser, who is responsible for monitoring that the Company complies with First North's requirements on information distribution to the market and investors. The Certified Adviser monitors companies whose shares are about to be traded on First North, and NASDAQ OMX Stockholm approves applications for trading on First North. Shares on First North are traded via the NASDAQ OMX Stockholm trading system INET Nordic. The trading is computerised in a simple cost efficient manner and is conducted in the same way as for companies listed on a regulated market. Information regarding prices, volumes, etc. is published in real time through the same channels as for shares listed on a regulated market. Öhman is the Company's Certified Adviser.

Advisors

E. Öhman J:or Fondkommission is the Company's financial advisor and acts as the issuing institution in connection with the Rights Issue and Advokatfirman Vinge KB is the Company's legal advisor. The Company's auditor is KPMG AB, with Carl Lindgren as the auditor in charge.

Documents available for inspection

RusForest's articles of association and all reports and historical financial information that have been prepared by specialists following an assignment from RusForest and are included in or are referred to in this prospectus are available at RusForest during the prospectus term of validity. Information about RusForest is also available on the Company's website, www.rusforest.com.

Other

There have not been any public takeover bids regarding RusForest's shares during the current or previous financial year.

Tax issues in Sweden

Below is a summary of certain Swedish tax issues related to the Rights Issue for private individuals and limited liability companies that are residents of Sweden for tax purposes (unless otherwise stated) and that hold shares or subscription rights in RusForest. The summary is based on current legislation and is intended to provide general information only regarding the shares and the subscription rights for the period during which the shares and the subscription rights, respectively, are traded on First North.

The summary does not cover:

- tax issues related to Vostok Nafta's set-off of the claim against RusForest;
- situations where securities are held as current assets in business operations;
- situations where securities are held by a limited partnership or a partnership;
- the special rules regarding tax-free capital gains (including non-deductible capital losses) and dividends that may be applicable when the investor holds shares or subscription rights in RusForest that are deemed to be held for business purposes (for tax purposes);
- the special rules that in certain cases may be applicable to shares or subscription rights in companies which are or have been so-called close companies or to shares or subscription rights acquired by means of such shares or subscription rights;
- foreign companies conducting business through a permanent establishment in Sweden; or
- foreign companies that have been Swedish companies.

Further, special tax rules apply to certain categories of companies. The tax consequences for each individual security holder depend to some extent on the holder's particular circumstances. Each shareholder and holder of subscription rights is advised to consult an independent tax advisor as to the tax consequences relating to the holder's particular circumstances that could arise from the Rights Issue, including the applicability and effect of foreign income tax legislation (including regulations) and provisions in tax treaties for the avoidance of double taxation.

The summary below is based on the assumption that the shares and the subscription rights in RusForest are deemed to be listed for tax purposes during the period when the shares and the subscription rights, respectively, are traded on First North (should the shares and the subscription rights be deemed not listed for tax purposes, different tax rules than those described below will to some extent apply). However, no guarantee that the shares and the subscription rights will be deemed to be listed for tax purposes is given.

General information

Private individuals

For private individuals resident in Sweden for tax purposes, capital income such as interest income, dividends and capital gains is taxed in the capital income category. The rules regarding capital gains taxation are normally also applicable to payments by a Swedish limited liability

company as a result of redemption of the Company's shares and repurchase of shares as well as upon liquidation of the Company. The tax rate in the capital income category is 30 per cent.

The capital gain or the capital loss is computed as the difference between the consideration, less selling expenses, and the acquisition value. The acquisition value for all shares of the same class and type shall be added together and computed collectively in accordance with the so-called average method (Sw. *genomsnittsmetoden*). In this context, it should be noted that BTAs are not regarded as being of the same class and type as the existing shares in RusForest until the resolution concerning the new issue has been registered with the Swedish Companies Registration Office. As an alternative, the so-called standard method (Sw. *schablonmetoden*) may be used at the disposal of listed shares. This method means that the acquisition value may be determined as 20 per cent of the consideration less selling expenses.

Capital losses on listed shares and other listed securities taxed as shares (such as subscription rights and BTAs) may be fully offset against taxable capital gains the same year on shares, as well as on listed securities taxed as shares (however not investment funds containing Swedish receivables only, Sw. *räntefonder*). Capital losses not absorbed by these set-off rules are deductible at 70 per cent in the capital income category.

Should a net loss arise in the capital income category, a reduction is granted of the tax on income from employment and business operations, as well as property tax. This tax reduction is granted at 30 per cent of the net loss that does not exceed SEK 100,000 and at 21 per cent of any remaining net loss. An excess net loss cannot be carried forward to future tax years.

For private individuals resident in Sweden for tax purposes, a preliminary tax of 30 per cent is withheld on dividends. The preliminary tax is normally withheld by Euroclear or, in respect of nominee-registered shares, by the nominee.

Limited liability companies

For limited liability companies (Sw. *aktiebolag*) all income, including taxable capital gains and dividends, is taxed as income from business operations at a rate of 26.3 per cent. Capital gains and capital losses are calculated in the same way as described for private individuals above.

Deductible capital losses on shares and other securities taxed as shares may only be offset against taxable capital gains on shares and other securities taxed as shares. If a capital loss cannot be deducted by the Company that has suffered the loss, it may be deducted the same year from another legal entity's taxable capital gains on shares and other securities taxed as shares, provided that the companies are entitled to tax consolidation (through so-called group contributions) and that both companies request this at the same year of assessment. A net capital loss on shares

and other securities taxed as shares that cannot be utilized during the year of the loss, may be carried forward (by the limited liability company that has suffered the loss) and offset in future years against taxable capital gains on shares and other securities taxed as shares, without any limitation in time. Special tax rules may apply to certain categories of companies or certain legal persons, e.g. mutual funds and investment companies.

Exercise of received subscription rights

If shareholders in RusForest exercise their received subscription rights to acquire new shares, no tax is levied.

Sale of received subscription rights

Shareholders that do not wish to make use of their preferential right to participate in the Rights Issue can sell their subscription rights. At the disposal of subscription rights the taxable capital gain shall be calculated. Subscription rights deriving from the holding of shares in RusForest are deemed to be acquired for SEK 0. The standard method may not be used to determine the acquisition value in this situation. The entire consideration less selling expenses is thus liable to taxation. The acquisition value of the original shares is not affected. A subscription right that is not exercised or sold and therefore expires is deemed to be disposed of for SEK 0. Since subscription rights received in the aforementioned manner, are deemed to be acquired for SEK 0, neither a capital gain nor a capital loss will arise.

Acquired subscription rights

The amount payable by anyone buying or similarly acquiring subscription rights in RusForest constitutes the acquisition value of the same. No tax is levied if these subscription rights are exercised to subscribe for shares. The acquisition value of the subscription rights shall be included when calculating the acquisition value of the shares. If the subscription rights on the other hand are sold, capital gains taxation is triggered. The acquisition value for subscription rights is calculated in accordance

with the average method. The standard method may be used for listed subscription rights acquired in the aforementioned manner. If the subscription right is not exercised or sold and therefore expires, the subscription right is deemed to be disposed of for SEK 0.

Shareholders and holders of subscription rights not resident in Sweden for tax purposes

For shareholders not resident in Sweden for tax purposes that receive dividends on shares in a Swedish limited liability company, Swedish withholding tax is normally withheld. The same withholding tax applies to certain other payments made by a Swedish limited liability company, for example, payments as a result of redemption of shares, repurchase of shares through an offer directed to all shareholders or all holders of shares of a certain class and liquidation of the Company. The tax rate is 30 per cent. The tax rate is, however, generally reduced through tax treaties for the avoidance of double taxation. In Sweden, withholding tax deductions are normally carried out by Euroclear or, in respect of nominee-registered shares, by the nominee.

Shareholders and holders of subscription rights not resident in Sweden for tax purposes – that are not conducting business through a permanent establishment in Sweden – are normally not liable for capital gains taxation in Sweden upon disposals of shares or subscription rights. Shareholders and holders of subscription rights, respectively, may however be subject to taxation in their state of residence.

According to a special rule, private individuals not resident in Sweden for tax purposes are subject to Swedish capital gains taxation upon disposals of shares and subscription rights in RusForest, if they have been residents of Sweden or have had a habitual abode in Sweden at any time during the calendar year of disposal or the ten calendar years preceding the year of disposal. However, in many cases, the applicability of this rule is limited by the applicable tax treaty for the avoidance of double taxation.

Documents incorporated by reference

Investors should inform themselves of all information that has been included in the prospectus by reference, and the information to which the reference is made shall be read as part of this prospectus. The parts of the documents indicated below that are not incorporated by reference do not constitute a part of this prospectus.

The information below can be considered as incorporated into the prospectus by reference. Copies of the prospectus and the documents that are incorporated by reference may be acquired from RusForest via email prospectus@rusforest.com or by telephone +46 (8) 771 85 00 and can be downloaded electronically from RusForest's website, www.rusforest.com.

Information	Source
Unaudited financial information for the period January – June 2010 and the corresponding period for 2009.	Interim report January –June 2010
Audited income statements and balance sheets, cash flow statements, notes and information about accounting principles for the financial years 2007, 2008 and 2009.	Annual report 2009 Annual report 2008 Annual report 2007
Auditor's reports for the financial years 2007, 2008 and 2009.	Annual report 2009 Annual report 2008 Annual report 2007

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