



**Invitation to subscribe for shares in
RusForest AB (publ)**

Information to investors

The Company has issued a Swedish language prospectus and an English translation thereof in connection with the Rights Issue 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 Australia, Canada, Hong Kong, Japan, New Zealand, Russia, Singapore, South Africa, Switzerland or the United States of America 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 titled "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 position 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 application 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.

Pareto Öhman is financial advisor to RusForest and have also assisted RusForest with drafting this prospectus. Pareto Öhman have relied on information provided by the Company, and since all information in this prospectus originates from RusForest, Pareto 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. Pareto Öhman is also the issuing institution for the Rights Issue. Pareto 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' 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.

Abbreviations, explanations and definitions

AAC means Annual Allowable Cut, harvesting allowed per year in the respective forest leases measured in cubic meters

Boguchany means OOO Boguchansky LPK, the Company's sawmill in Boguchansky in the Krasnoyarsk region

BTA means interim share

The Code means the Swedish Corporate Governance Code

CE means the mandatory quality mark for products sold in the European Union

CIS means Commonwealth of Independent States: Russia, Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan, Ukraine and Uzbekistan

Clean Tech East means Clean Tech East Holding AB (publ) (Swedish registration number 556670-2584)

CTL means cut-to-length, the method of harvesting when trees are cut in specific log-lengths in the forest and only the logs are transported to mill site. This is opposed to "tree-length" harvesting where full-length trees are transported to a separate processing site

EUR means Euro

Euroclear means Euroclear Sweden AB (Swedish registration number 556112-8074)

First North means NASDAQ OMX First North

FSC means Forest Stewardship Council, the independent, non-governmental, not-for-profit organisation established to promote the responsible management of the world's forests

Hardwood means wood from deciduous species (aspen, beech, birch, oak)

Infra means OOO Infra (Russian main state registration number 1022900533160)

LDK-3 means OAO Arkhangelskiy Iesopilno-derevoobrabativaushchiy kombinat No 3 (Russian main state registration number 1022900511809)

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

The Rights Issue means the new share issue with preferential rights for existing shareholders that the Board of RusForest, with support of the authorization from the Extraordinary General Meeting 1 March 2012, resolved on 7 March 2012

RUB means Russian roubles

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

RusForest Trading means OOO TD RusForest (Russian main state registration number 1083817001531)

Russian Gravel Company means Russian Gravel Co. (Cyprus) Ltd. (Cyprus registration number HE180679)

RZD means OAO Russian Railways

Pareto Öhman means Pareto Öhman AB (Swedish registration number 556206-8956), which is acting as financial advisor to the Company and issuing institution in connection with this Rights Issue

Pöyry means Pöyry Consulting and is a global consulting and engineering firm focusing on the energy, forest industry and infrastructure and environment sectors

Round wood means all types of logs that are used for either sawnwood or pulp production

Sawlogs means logs of a certain quality that are used for sawnwood e.g. for furniture or the construction industry

Sawn softwood means sawnwood from coniferous species (larch, pine, spruce)

Sawnwood means all types of sawnwood both coniferous wood and hardwood

SEK means Swedish kronor

Softwood means wood from coniferous species (larch, pine, spruce)

USD means US dollar

Vostok Nafta means Vostok Nafta Investment Ltd. (Registration number in Bermuda 39861) and its subsidiaries

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The Rights Issue in brief

Preferential right

One (1) existing share entitles subscription for four (4) new shares.

Subscription price

For each subscribed share SEK 1.18 shall be paid in cash.

Record date

19 March 2012

Subscription period

21 March – 4 April 2012

ISIN-codes

Subscription right:	SE0004519049
Interim shares (Sw. <i>BTA</i>):	SE0004519056
Share:	SE0001732728

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 4 April 2012. Vostok Nafta subscribes and pays for new shares with subscription rights by submitting a separate subscription list not later than 4 April 2012.

Trading in subscription rights

21 March – 30 March 2012

Trading in interim shares (Sw. *BTA*)

21 March 2012 until the share capital increase has been registered.

Subscription without preferential rights

Subscription without preferential right takes place by the subscriber submitting a separate subscription list not later than 4 April 2012.

Settlement day for subscription with subsidiary preferential right or 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.

Financial Calendar

The annual report for the financial year 2011 will be published on 19 April 2012.

The interim report for the period 1 January 2012 to 31 March 2012 will be published on 24 May 2012.

Summary

The 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 content 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 only if the summary of the translation is misleading or inaccurate in relation to other parts of the prospectus.

The Rights Issue in brief

The Board of RusForest AB (publ) ("RusForest" or the "Company") decided on 7 March 2012, with authorisation from the extraordinary general meeting 1 March 2012, a new share issue with preferential rights for existing shareholders (the "Rights Issue"). Registered shareholders of RusForest as of the record date 19 March 2012, have the right for one (1) existing share to subscribe for four (4) new shares. The subscription price is set to SEK 1.18 per share. Subscription of shares with subscription rights shall be made by way of cash payment during the period from and including 21 March 2012 up to and including 4 April 2012. The shareholder Vostok Komi (Cyprus) Limited, a wholly owned subsidiary of Vostok Nafta Investment Ltd ("Vostok Nafta") has granted two loans to RusForest in the total amount of approximately SEK 143 million including accrued interest. These shareholder loans can in full or in part be used to subscribe and pay for new share in the Rights Issue by way of set-off. Vostok Nafta subscribes and pays for new shares by submitting a separate subscription list not later than 4 April 2012.

The Company's share capital may be increased with the proceeds of the Rights Issue by a maximum of SEK 383,230,776 by way of issue of up to 383,230,776 shares. The Company's share capital may thus increase from SEK 95,807,694 to a maximum of SEK 479,038,470 and the number of shares in the Company from 95,807,694 shares to a total maximum of 479,038,470 shares. In the event the Rights Issue is fully subscribed, the Company will receive approximately SEK 452 million in proceeds before deduction of costs and expenses related to the Rights Issue, which are expected to amount to approximately 15 million.

Summary of Terms, conditions and instructions

Preferential right

One (1) existing share entitles the holder to subscribe for four (4) new shares.

Subscription price:

For each subscribed share SEK 1.18 shall be paid in cash.

Last day of trading including right to receive subscription rights:

14 March 2012

Record date:

19 March 2012

Subscription period:

21 March – 4 April 2012

Subscription and payment with subscription rights:

Subscription with subscription rights shall be made by way of cash payment during the subscription period. Vostok Nafta has granted two loans to RusForest in the total amount of approximately SEK 143 million, including accrued interest. These shareholder loans can in full or in part be used to subscribe and pay for new shares in the Rights Issue by way of set-off. Vostok Nafta subscribes and pays for new shares with subscription rights by submitting a separate subscription list not later than 4 April 2012.

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.

Trading in subscription rights

21 March – 30 March 2012

Trading in interim shares (Sw. BTA)

21 March 2012 until the share capital increase has been registered.

Shareholders will be granted four (4) subscription rights for each registered share. For subscription of one (1) new share, one (1) subscription right is required. In order for received subscription rights not to lose the value they must either be sold not later than 30 March 2012 or utilised to subscribe for new shares in RusForest not later than 4 April 2012. The outcome of the Rights Issue will be made public through a press release on or about 5 April 2012. For further information, please see "Terms, conditions and instructions".

Reasons for the Rights Issue

RusForests goal is to become a leading independent integrated Russian forestry group with an annual harvest of up to 2.9 million m³. The Company's total sawnwood production is expected to, after completion of on-going investments, gradually increase up to 500,000–550,000 m³ of sawnwood.

2011 has been characterised by complementary investments to lay the foundations for a balanced activity within forestry, with self-sufficiency in raw materials. The development of the Company's activities have taken longer time – and led to high costs – than initially considered, but is now starting to come in place and will be able to deliver a significantly improved results in 2012. In order to complete the on-going improvements in sawmills, remove remaining bottlenecks and cover the working capital need that is required before the measures have become effective, additional capital is required and the Board believes that the existing working capital is not sufficient for current needs of the next twelve months. Due to this, RusForest's Board has resolved on a new share issue, which will provide the Company approximately SEK 452 million before transaction costs¹⁾, with preferential rights for existing shareholders.

The proceeds from the placement will be used for the completion of investments in Eastern Siberia and in the Arkhangelsk region which will further increase the logging and sawmilling capacity in RusForest. Furthermore, the capital will be used to cover the Company's working capital requirements, and conversion of debt into equity of Vostok Nafta's shareholder loans to RusForest.

Risk Factors

An investment in shares of RusForest is associated with risks related to (i) investments in Russia, such as market risk, political and social risks, that Russia does not have a fully developed legal system, corporate governance risk, (ii) risks associated with RusForest and the business such as supplier and customer risk, dependence on key employees, changes in energy prices, supply of timber,

that railway transports cannot be guaranteed, regulation of forest leases, disruptions and shutdowns at production facilities, return on investments, operational risk, reputation risk, acquisitions, macroeconomic risks, (iii) legal risks such as legislation, regulation and disputes, taxation risks, environmental liability, (iv) financial risks such as liquidity risk, insufficient working capital, borrowing risk, counterparty risk, currency fluctuations, interest rate risk, credit risk. Risks associated with the shares and the Rights Issue include risks associated with the price of RusForest's shares and limited liquidity, future financing, dividends and that the subscription undertakings are not secured.

The risks mentioned above are a summary of risk factors that are material to RusForest's operations or for an investment in shares issued by RusForest or other securities. For more detailed information, please see the "Risk factors".

RusForest in brief

RusForest is a forestry company with operations in Eastern Siberia and Arkhangelsk in northwest Russia. Since the foundation in 2006, RusForest has grown in terms of forest resources and sawmill capacity through both strategic acquisitions and its own development projects. The Company controls, by lease agreements, assets with an Annual Allowable Cut ("AAC") of approximately 3.6 million m³.

RusForest's main business is to process pine, spruce and larch stands on its forest lands for a variety of sawnwood, with a smaller proportion of planed products, flooring and interior products. The Company's total sawmilling capacity is around 415,000 m³ and is expected to increase to 500,000–550,000 m³ when the ongoing modernisation and expansion of the Company's sawmill production is completed. The Company will in the future, through the acquisition of assets from Clean Tech East Holding AB (publ) ("Clean Tech East"), begin manufacturing wood pellets for better management of the Company's residual products.

1) Issue expenses are expected to amount to approximately SEK 15 million, which includes costs related to financial and legal advisors, accountants and administrative costs related to the Rights Issue

Summary of financial information

Consolidated income statements

In thousands of SEK	Jan-Dec 2011	Jan-Dec 2010	Jan-Dec 2009	Jan-Dec 2008
	Unaudited	Audited	Audited	Audited
Turnover	431,794	300,846	207,526	–
Cost of sales	(509,122)	(297,346)	(201,101)	–
Gross Profit	(77,328)	3,500	6,425	–
Other income	12,395	9,758	20,209	968
Distribution expenses	(79,739)	(83,770)	(49,726)	–
Administrative expenses	(113,719)	(84,245)	(65,328)	(20,020)
Loss disposal of interest	–	–	–	(19,324)
Other expenses	(26,083)	(11,101)	(25,166)	(47,393)
Operating profit	(284,474)	(165,858)	(113,586)	(91,769)
Financing items	(52,635)	(19,074)	5,717	28,991
Gain on bargain purchases	–	51,190	–	–
Income from acquisition of RusForest	–	–	380,009	–
Goodwill impairment	–	–	(142,570)	–
Share of losses from associates	–	(100)	–	(5,925)
Profit before tax from continuing operations	(337,108)	(133,842)	129,570	(68,703)
Income tax	65,488	24,767	7,603	–
Result for the period from continuing operations	(271,620)	(109,075)	137,173	(68,703)
Result from discontinued operations	(17,079)	(21,149)	(19,501)	(33,614)
Result for the period	(288,699)	(130,224)	117,672	(102,317)

Consolidated balance sheets

In thousands of SEK	31 Dec 2011	31 Dec 2010	31 Dec 2009	31 Dec 2008
	Unaudited	Audited	Audited	Audited
Property, plant and equipment	1,095,744	768,054	656,632	71
Investments in associates	2,349	2,434	2,300	173,940
Other non-current assets	586,160	63,860	34,104	9,180
Inventory	141,115	64,490	42,747	–
Trade and other short-term receivables	127,400	83,691	61,801	205,910
Other non-current assets	8,321	1,516	2,785	–
Cash and cash equivalents	23,571	67,195	26,085	55,704
Assets classified as held for sale	92,994	100,019	128,525	141,419
Total assets	2,077,655	1,151,258	954,978	586,224
Equity	1,066,329	979,072	708,994	546,251
Non-current interest bearing loans and borrowings	609,401	10,703	20,218	–
Other non-current liabilities	178,842	61,196	62,161	–
Current interest bearing loans and borrowings	73,652	15,627	37,727	–
Other current liabilities and provisions	136,822	72,132	82,385	1,776
Liabilities directly associated with the assets classified as held for sale	12,609	12,528	43,494	38,198
Total equity and liabilities	2,077,655	1,151,258	954,978	586,224

Consolidated cash flow analysis

In thousands of SEK	Jan–Dec 2011	Jan–Dec 2010	Jan–Dec 2009	Jan–Dec 2008
	Unaudited	Audited	Audited	Audited
Cash flow from operating activities	(185,024)	(149,108)	(37,956)	(9,391)
Cash flow from investing activities	(306,228)	(183,479)	(6,526)	(244,196)
Cash flow from financing activities	452,379	373,414	15,463	(390)
Cash flow during the period	(38,873)	40,827	(29,019)	(253,977)
Cash and cash equivalents, beginning of period	67,195	26,085	55,704	318,095
Exchange rate differences on cash and cash equivalents	(4,751)	283	(601)	(8,414)
Cash and cash equivalents, period end	23,571	67,195	26,084	55,704

Shareholders' equity and debt

Below follows an account of RusForest's shareholders' equity and debt as at 31 December 2011.

In thousands of SEK	31 Dec 2011
Current debt:	
Guaranteed	0
Secured	51,231
Unguaranteed/unsecured	125,319
Total current debt	176,550
Non-current debt:	
Guaranteed	0
Secured	78,965
Unguaranteed/unsecured	500,000
Total non-current debt	578,965
Shareholders' equity:	
Share capital	958,077
Share premium reserve	686,598
Other reserves	(64,151)
Retained earnings	(518,232)
Total shareholders' equity	1,062,292

Working capital statement and outlook

The Company's current working capital is not sufficient to support the ongoing working plan, including planned investments, during the coming twelve months. The Company believes that lack of working capital occurs by the end of April 2012 and that the total capital requirement during the coming twelve month period amounts to approximately SEK 452 million. The current need refers to repayment of the bridge financing as well as previous debt to Vostok Nafta amounting to SEK 143 million, strengthening of the working capital amounting to SEK 134 million as well as investments in the existing operations, as described in this prospectus, amounting to SEK 175 million. To ensure the Company's working capital needs, the Company carries out an issue with preferen-

Net indebtedness

Below follows an account of RusForest's net indebtedness as at 31 December 2011.

In thousands of SEK	31 Dec 2011
A. Cash	0
B. Cash equivalents	23,571
C. Trading securities	0
D. Liquidity (A)+(B)+(C)	23,571
E. Current financial receivables	0
F. Current bank debt	27,335
G. Current portion of non-current debt	0
H. Other current financial debt	149,215
I. Current financial debt (F)+(G)+(H)	176,550
J. Net current financial indebtedness (I)–(E)–(D)	152,979
K. Non-current bank loans	0
L. Bonds issued	500,000
M. Other non-current loans	78,965
N. Non-current financial indebtedness (K)+(L)+(M)	578,965
O. Net financial indebtedness (J)+(N)	731,944

tial rights for the existing shareholders of the Company, of which 52.6 percent have been subscribed for through subscription agreements (for details, see section "Invitation to subscribe for shares in RusForest" in "Subscription Undertakings"). The Company believes that the funds supplied to the Company of approximately SEK 452 million in connection with the proposed Rights Issue is sufficient to further finance current needs over the next twelve months. If the forthcoming Rights Issue provides the Company less than SEK 452 million, the Company may reduce the rate of investment or refrain from investments. If required, the Company may also accelerate the sale of the subsidiary Russian Gravel Company, and in the last case also reduce the assets in any region through divestment to focus the processing of other regions.

Outlook

Despite high uncertainty in the global economy, global demand for sawnwood is showing some signs of price improvement. It is primarily affected by the economic development in Europe and the U.S. which in turn affects global trade flows and, thereby, also Russian producers and end customers.

Russia is becoming increasingly integrated with the rest of the world in terms of trade, following the anticipated World Trade Organisation (“WTO”) accession at the end of 2012. This is expected to increase the value of the Russian forests, which will lead to increased harvesting volumes and revenues.

As a result of the planned and described increase in production at the sawmills in Boguchany, Magistralny and Shenkursk in 2012, the average cost of goods sold will decline, and the proportion of dried sawnwood will increase. That leads to increased average revenues also in a weak market and a reduction in costs per unit due to higher utilisation at the mills.

The Company’s acquisition of additional long-term forest leases in 2011, combined with proper planning and extensive road development, has created the prerequisites to support the finalisation of planned investments at the Company’s sawmills. The Company expects to resolve the remaining deficiencies during 2012.

The funds raised through the Rights Issue will partly secure continued financing of more forest roads, which are still being developed at all locations. In 2011, the Company completed 55 km of permanent roads in Eastern Siberia and in the Arkhangelsk region. This is of great importance in order to increase the utilisation of existing harvesting equipment.

No further expansion other than what is described in this prospectus has been approved, or will be approved, until the operations are profitable.

RusForest has the intention to continue to develop its current assets, by way of finding partners and new customers for utilisation of residual products. Furthermore, the Company will continue to educate its staff and increase efficiency to achieve the mid-term target of a final sawnwood production of 500,000–550,000 m³.

Major shareholders

As at 31 December 2011, the number of shareholders in RusForest was in total approximately 1,300. The table below sets out the largest shareholders as at 31 December 2011.

Shareholder	Number of shares	Number of shares and votes, %
Vostok Nafta	28,165,209	29.4
East Capital ¹⁾	10,270,123	10.7
Alecta Pensionsförsäkring	9,209,490	9.6
Morgan Stanley & Co Inc	6,000,293	6.3
BNY GCM Client Accounts	5,479,343	5.7
SSB CL Omnibus AC	3,097,098	3.2
Lillevrå Såg AB	2,722,000	2.8
Staffan Rasjö	2,697,944	2.8
Avanza Pension	2,196,870	2.3
TD Waterhouse Inc Serv (CAN) Inc	1,887,900	2.0
Others	24,081,424	25.1
Total	95,807,694	100.0

1) This holding is a merger of several minor holdings held by different East Capital funds.

Related party transactions

Vostok Nafta, the largest shareholder in RusForest, has granted two loans to RusForest which are described in the section “Share capital and ownership – Loans that entitle the creditor to subscribe and pay for shares by way of set-off”.

On 9 December 2011 RusForest acquired all shares in Eastern Bio Holding AB and B.E.N. Bio Energy Nord Ltd. The seller was Clean Tech East – where Vostok Nafta, as in RusForest, is the largest shareholder – and the acquisition was financed in part by a loan that was granted by Vostok Nafta. This is the acquisition loan that is described in the section “Share capital and ownership – Loans that entitle the creditor to subscribe and pay for shares by way of set-off”.

The Company acquired NTG on 2 May 2011. The total consideration amounted to 29,437,529 RusForest shares. RusForest’s managing director, Martin Hermansson, together with Lillevrå Såg AB, owned approximately 19 per cent of the shares in NTG. Lillevrå Såg AB is a company that is closely related to Martin Hermansson’s family.

Otherwise, RusForest has not provided commitments, loans or 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 have had any direct or indirect participation in any business transaction with RusForest, apart from the situations described above, that are or were unusual in their nature or regarding the terms and conditions thereof 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.

Board of Directors, management and auditors

RusForest's Board of Directors consists of Kenneth Eriksson (chairman of the board), Franz Bergstrand, Per Brilioth, Jerker Karlsson and Camilla Öberg. Members of the management are Martin Hermansson, Anders F. Börjesson, Kirill Pronin, Vladimir Gaidamakin and Jeppe Strange. The Company's former chairman, Sven Hirdman, continues to work as honorary chairman. The Company's auditor, as of the annual shareholders meeting 2010, is KPMG AB with Carl Lindgren as auditor in charge. For information on the board members, management and the Company's auditor, see section "*Board of Directors, management and auditors*".

Trading in RusForest shares

RusForest shares are traded under the ticker RUSF on First North under the ISIN-code SE0001732728. The Company's Certified Adviser is Pareto Öhman AB ("Pareto Öhman"). RusForest has entered in a liquidity guarantee agreement with Carnegie Investment Bank AB ("Carnegie"). Carnegie will, as the liquidity guarantor, set a buy- and sell-volume equivalent of minimum SEK 50,000 in order to achieve a spread of a maximum four percent between the asking and selling prices. Each share comprises one trading post.

Miscellaneous information

According to the articles of association, adopted at the extraordinary general meeting held 1 March 2012, the Company's share capital shall amount to not less than SEK 60,000,000 and not more than SEK 240,000,000 and the number of shares shall be not less than 60,000,000 and not more than 240,000,000.

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 materialise, RusForest's business, financial position or results of operations may be materially 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 relative significance. Below is a description of certain risks and uncertainties which, in the Company'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 Company at present does not consider to be material or is not aware of, may also have an adverse effect on RusForest's business, financial position, results of operation or 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 markets for forest products and sawnwood, as well as the corporate culture in Russia, additional information in this prospectus and general information about growth companies in Russia.

Risks associated with RusForest

Risks associated with investments in Russia

Market risk

An investment in RusForest's shares is associated with risks that are related to owning and managing investments in general. Moreover, an investor should observe that an investment in RusForest is associated with specific risks related to ownership and running operations in Russia. Investments in Russia imply a high risk and demand specific considerations, including those mentioned below, that are not normally associated with investments in more established markets. Investments in Russia are thus only suitable for investors capable of understanding the risks involved and who are also able to bear potential economic loss. Since the Russian economy is still in a developing phase, investments there are affected by extraordinary performance variations. Factors beyond the control of RusForest may adversely affect the value of RusForest's equity, business, financial position and general position.

Political and social risks

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 domestic or foreign policy development, social or religious instability, changes in government policies, taxation and interest rates, currency restrictions and other political and economic developments in rules or regulations in Russia. In particular, these risks may involve expropriation, nationalisation, confiscation of assets and changes in legislation related to the permitted level of foreign ownership. Political and social risks may adversely affect the value of RusForest's equity, business, financial position and general position.

Russia does not have a fully developed legal system

It will be more difficult for the Company to defend its rights in Russia compared to more established jurisdictions. 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 rules and regulations are sometimes inconsistently applied and the lack of independence as well as the lack of efficiency of the judiciary system is still a significant risk for investments in Russia. 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. Shortcomings in the legal system may adversely affect the value of the Company's business, financial position and general position.

Corporate governance risk

RusForest's business is conducted through a number of Russian subsidiaries. Flaws in corporate governance legislation, legal enforcement and company legislation may lead to hostile take-overs and other abusive practices, whereby shareholders' rights may be ignored or abused. Inadequate accounting rules and the lack of legal and administrative enforcement tools could impede the development of an efficient system for revealing abuses and to promote enhanced transparency. Abuse of corporate governance may consequently adversely affect the value of the Company's business, financial position and general position.

Risks associated with RusForest and the business

Suppliers and customers

RusForest does not depend on any specific supplier or customer. Sales of woodchips and pulp wood are however, to a great extent, concentrated to Ilim Pulp.

With regard to RusForest's sales of sawnwood, it is, to a certain extent, concentrated to the Middle East and North Africa. The Syrian and Egyptian markets in particular are important to RusForest. Both these markets have been subject to significant turbulence during 2011 and early 2012.

The local sawmills are dependent on local energy suppliers. Furthermore, RusForest in general does depend on its customers in order to generate revenues and on a functioning co-operation with its suppliers. Should RusForest for whatever reason, lose customers, be unable to attract new customers, or should the co-operation with these suppliers be obstructed or discontinued, this could have a material adverse effect on the Company's business, financial position and general position.

Dependence on key employees

The Company's success depends largely on the continued ability to identify, hire and retain qualified and experienced members of management and other key employees. The Company'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 Company operates. The loss of a managing director or any other key employee due to, for example, the 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 Company's business strategy. If the Company is unable to hire or retain qualified and experienced members of management and key employees, this could have a material adverse effect on the Company's business, financial position and general position.

Changes in 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 commodities that are used as fuel in RusForest's production facilities. Changes in the price of fuel, commodities for energy production and energy might lead to an increase of the operating costs of the Company, and a decrease in RusForest's profitability to the extent such an increase of the costs cannot be compensated through increased pricing of the Company's products. Such energy price changes may consequently materially adversely affect the Company's business, financial position and general position.

Supply of timber

The Company's AAC is sufficient to cover the Company's current sawlog needs. Locally, however, timber shortages can arise 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 the production may be affected by unfavourable 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.

Purchased sawlogs can be twice as expensive compared to sawlogs derived from the Company's own harvesting operations, adversely affecting the Company's cost of goods sold. Timber shortage may consequently materially adversely affect the Company's business, financial position and general position.

Railway transports cannot be guaranteed

The Company transports the main part of its sawnwood to its end customers via railway. In the last year the Russian railway has gone through a restructuring process, where part of the rail wagons, previously being owned by the state monopoly ("RZD"), now have been privatised. In practice, RZD still exercises considerable discretion when providing railway cars, whereas the agreements with private rail wagon operators are negotiable and a matter of price. Since RZD typically 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 Company with railway cars on time or fulfil the Company's plans. If railway transports are not provided to sufficient extent it may materially adversely affect the Company's business, financial position and general position.

Regulation of 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 to fulfil the other provisions of the agreement may lead to a right to terminate the agreement.

The forest lease's 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 (that is $\pm 5-10$ per cent). Changes of the forest leases, as well as of the Company's AAC, may however materially adversely affect the Company's business, financial position and general position.

Risk factors

Disruptions and shutdowns at production facilities

The production facilities are important for RusForest's operations.

If a production facility or equipment at a production facility would be seriously damaged, is destroyed or for some reason has to be closed, this can lead to decreased income for RusForest because of reduction in production capacity which may materially adversely affect the Company's business, financial position and general position.

Return on investment

RusForest continuously invests in existing production facilities to form a competitive group and fulfil 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. There is no guarantee however that RusForest's investments will generate high enough return to cover the initial investment or be in line with market returns for similar investments. Lack of return on investments may materially adversely affect the Company's business, financial position and general position.

Operational risk

Operational risk is the risk attributable to inadequacies or failures in the Company's IT and control systems and the risk of human error and natural disasters. The Company's systems are evaluated, maintained and upgraded continuously; however, inadequacies in these systems could materially adversely effect on the Company's business, financial position and general position.

In Russia and other developing countries it is not always possible to insure forest assets against, for example wildfire and storm 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, which could materially adversely affect the Company's business, financial position and general position.

Reputation risk

The risk of loss of reputation as a result of negative publicity (whether true or false) regarding the Company's business, for example regarding environmental conservation and responsibility (see further "*Environmental liability*" below), may result in loss of customers, reduced revenues and claims being made against the Company. The Company applies procedures to minimise this risk, but it cannot be ruled out that negative publicity may materially adversely affect the Company's business, financial position and general position.

Acquisitions

RusForest has recently acquired shares in a number of Russian, Swedish and other companies. There are always risks related to business acquisitions which are different from the risks that RusForest deals with 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 Company. If any of these risks were to materialise it may adversely affect the Company's business, financial position and general position.

Macroeconomic risks

The general economic environment on an international level may affect the Company's operations considerably. Inflation, unemployment and GDP growth 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 Company. In particular the correlation between the international construction cycle and the price of sawnwood is traditionally high.

The Company's export prices are linked to international prices of sawnwood. External factors such as the general macroeconomic development, housing construction, geopolitical developments, natural disasters and the fluctuation of USD in relation to other currencies affect the prices of sawnwood and thereby export prices, which may adversely affect the Company's business, financial position and general position.

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. Changes in these frameworks, customs regulations and other trade restrictions, price and currency controls and other official guidelines in the countries where RusForest has operations may adversely affect the Company's business, financial position and general position.

Companies within the Company are from time to time involved in disputes during the course of their ordinary business and risk, like other participants in RusForest's market, being subject to claims concerning for example 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. Disputes may consequently materially adversely affect the Company's business, financial position and general position.

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 varying stages of review and revision. It is 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 treaties that Russia has with other countries.

Furthermore, taxation in countries such as Sweden, Cyprus and Bermuda are also subject to continuous changes in legislation. A change in tax legislation in Sweden, Cyprus and/or Bermuda entailing, for example, a change to income tax or corporate tax rates could also result in changes in the tax situation for RusForest. Changes in the tax system, as well as changes in practice, may consequently materially adversely affect the Company's business, financial position and general position.

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 damage caused by the operations which RusForest conducts at present or has run in the past are difficult to predict, but may conceivably entail significant amounts. It cannot be ruled out that RusForest in the future will be ordered to investigate, remedy or otherwise pay for the remediation of affected areas where operations are or have been conducted or be subject to negative publicity in connection with alleged or actual damage to the environment, all of which may materially adversely affect the Company's business, financial position and general position.

Financial risks**Liquidity risk**

The Company is exposed 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 gains or losses, possible conflicts with tax authorities, the degree to which it encounters competi-

tion in its markets, general economic conditions, interest rates, and exposure to local currencies and exchange rate fluctuations. There is no assurance that Russia will experience positive development in the future and in the event of an economic downturn or a recession the investments in the business may be affected. In such circumstances, the Company's operating results, financial position and general position may be adversely affected and RusForest might face difficulties in meeting its financial obligations.

Insufficient working capital

The Company's current working capital is not sufficient to support the current work plan, including scheduled investments, for the next 12 months. If shares are not subscribed for in sufficient extent in the Rights Issue the Company will need additional capital contributions. There are no guarantees that such capital contributions can be obtained on conditions that are commercially acceptable or that it can be obtained at all. The insufficient working capital may consequently materially adversely affect the Company's business, financial position and general position.

Borrowing risk

RusForest's business is financed by equity capital as well as by borrowing from credit institutions, through the bond market and otherwise. The borrowing risk refers to the risk that financing, in the form of refinancing of outstanding loans or taking up new loans, is unavailable or is not possible to obtain on conditions that are commercially acceptable at a certain point in time. In this respect, local financial markets may affect the subsidiaries' borrowing capabilities since the Company might be subject to changing interest rates. These factors might entail risks for investments in the business and therefore the Company's financial position and ability to meet its financial obligations.

Counterparty risk

Counterparty risk refers to the risk that RusForest's counterparties cannot meet their undertakings towards RusForest. Potential shareholder and counterparty conflicts might have a negative impact on investments in the business. In addition, minority shareholders in the subsidiaries and counterparties could take actions that would be contrary to or make RusForest's strategy more difficult. The group companies could, in certain circumstances, 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. Counterparty risks may consequently materially adversely affect the Company's business, financial position and general position.

Risk factors

Currency fluctuations

Risks related to currency fluctuations are the results of purchases and sales in different currencies (transaction risk) and of the translation of balance sheet items in local currencies into SEK (translation risk). The operations of the Company are subject to transaction risks because the majority of the Company's costs are denominated in RUB, whereas a significant share of the revenue emanates from sales made in USD. The payments under the bond loan 2011/14 are to be made in SEK, which give rise to further transaction risks. The value of the assets and liabilities of RusForest are measured in SEK, RUB, USD and EUR. The Company's equity is affected by changes in currency exchange rates when the assets and liabilities of the Russian subsidiaries are translated into SEK. Currently, the Company does not use any financial instruments to safeguard itself against currency exchange rate risks. The exchange rates of SEK to foreign currencies fluctuates and it cannot be ruled out that future changes in currency exchange rates could have a material adverse effect on the Company's business, financial position and general position.

Interest rate risk

Interest rate risk includes possible variations in the value of financial instruments due to changes in the market rates of interest. Loans with a variable rate of interest expose the Company to interest rate risk for real values. The Board of Directors and the Company's management monitors the changes in interest rates continuously and acts accordingly. Should the monitoring fail in any respect or should the Board of Directors or management fail to react adequately to any interest rate change, it could have a material adverse effect on the Company's business, financial position and general position.

Credit risk

Credit risk arises when a failure by counterparties to fulfil their obligations to the Company is expected to reduce the future cash inflow from financial assets as per the accounting date. The Company has no significant concentration of credit risks. Should the Company's concentration of credit risks increase or counterparties fail to meet their undertakings to the Company, it could have a material adverse effect on the Company's business, financial position and general position.

Risks associated with the shares and the Rights Issue

The price of RusForest's shares and limited liquidity

RusForest's share price may fall after the Rights Issue is consummated due to the increased number of shares in the Company. Furthermore, the share price may be negatively affected by the risk 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. In addition, limited liquidity in RusForest's shares may result in great fluctuations in the Company'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 a price that is acceptable to 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 Company shall enter into liquidation. When RusForest was incorporated, as an investment company, it was intended to mimic the legal structure of an investment fund regarding its lifetime, wherefore the provision was added to the articles of association. With the Company's present business concept and strategy the provision has become obsolete. However, due to a provision in the articles of association regarding attendance requirements when changing the provision in question, it has not been removed from the articles of association. 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 trade 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 price, does not necessarily correlate with performance or operating results. Events and factors that may cause the share price 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 on-going disclosure that RusForest provides regarding the Company;
- regulatory actions;
- changes in or failure to meet stock market analyst estimates or recommendations regarding the Company'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 Company's Board of Directors and members of management or major shareholders, or the perception that such sales will occur;
- the addition or departure of key personnel; and
- announcements by the Company or the Company's competitors of new contracts, acquisitions or joint ventures.

Future financing

In the future, the Company 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 Company's outstanding share capital at such future point in time. It cannot be predicted what effect, if any, such 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 will occur, could result in a decrease in the price of RusForest's share 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 shareholders depends on the availability of distributable profits. The Company cannot provide any assurance that distributable profits will be available in any given financial year. Even if there

are distributable profits available, there may be a variety of reasons not to resolve to distribute dividends. Payment of future dividends will depend on revenue, strategy, future outlook, financial position and other factors, including regulatory and liquidity requirements, as well as tax and other legal considerations. Due to RusForest's financial position and the Company's revenue, the Company has not paid any dividends to shareholders to date. RusForest currently plans to retain future profits to finance the development and growth of the Company. For as long as no dividend is paid, returns on investments, if any, will be generated solely through share price development.

While the bond loan 2011/2014 remains outstanding, RusForest has undertaken to not pay any dividends to the shareholders. Furthermore, as RusForest resolved on a reduction of the share capital for the purpose of securing cover for losses in March 2012, RusForest will, during a period of three years following the registration of the resolution to reduce the share capital (that took place in March 2012), be prohibited from passing a resolution to pay dividends unless RusForest is granted permission to do so by the Swedish Companies Registration Office (or a court of general jurisdiction in disputed cases).

Subscription undertakings are unsecured

No funds are pledged or restricted in order to secure the subscription undertakings given in respect of the Rights Issue nor are the subscription undertakings secured via bank guarantee (for further details, see section "Invitation to subscribe for shares in RusForest" in "Subscription Undertakings"). In the event that any of the subscription undertakings are not fulfilled, there is a risk that the Company's capital needs would not be met according to plan.

Invitation to subscribe for shares in RusForest

The Board of Directors of RusForest decided on 27 January 2012 to propose an extraordinary general meeting, to authorise the Board of Directors, to resolve on a Rights Issue with preferential rights for the Company's shareholders. Such authorisation was given by the extraordinary general meeting on 1 March 2012. On 7 March 2012 the Board of Directors resolved that up to 383,230,776 new shares will be issued at a subscription price of SEK 1.18 per share.

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. The shareholders will have preferential right to subscribe for new shares in proportion to their holdings as at the record date 19 March 2012. One (1) existing share entitles subscription for four (4) new shares. The subscription period will run from and including 21 March 2012 up to and including 4 April 2012 or such later date as resolved by the Board of Directors. The new shares shall carry the same rights as the existing shares in the Company.

Through the Rights Issue the share capital may be increased by up to SEK 383,230,776 from SEK 95,807,694 up to SEK 479,038,470. Assuming full subscription of the Rights Issue the Company will be provided with up to SEK 452 million before issue costs, which are estimated to amount to approximately SEK 15 million.

Shareholders who refrain from participating in the Rights Issue will have their holdings diluted by up to 80 percent, but these shareholders may sell their subscription rights in order to obtain compensation for the dilution. In the event that all newly issued shares are not subscribed for on the basis of subscription rights, the Board of Directors is entitled, within the limits of the maximum amount of the issue, 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 special application form, see further under the section "*Terms, conditions and instructions*".

Subscription undertaking

Vostok Nafta and East Capital as well as all members of the board and senior management who currently hold shares in the Company have undertaken to subscribe for their respective *pro rata* share in the Rights Issue. Alecta has undertaken to subscribe for its *pro rata* share of the subscribed shares in the Rights Issue (upon full subscription of the Rights Issue, it would represent a sum amounting to approximately SEK 43.4 million). Lillevrå Såg AB has undertaken to subscribe for shares to a value of at least SEK 6 million, and the Company's CEO Martin Hermansson has undertaken to subscribe for shares amounting to a value of at least SEK 2 million.

The total value of the subscription undertakings received by the Company amounts to SEK 238 million, which corresponds to 52.6 per cent of the issue amount.

Stockholm 12 March 2012

RusForest AB (publ)
The Board of Directors

Background and reasons

RusForest is a company operating within the forestry industry in Eastern Siberia and the Arkhangelsk region of Russia. The Company controls long term forest leases with an AAC of 3.6 million m³, and utilises these resources to produce different wood-based products across the value chain. Eastern Siberia is renowned for its pine and larch of exceptional quality, while the Arkhangelsk region in northwestern Russia has high quality spruce and pine forests similar to those found in northern Sweden. RusForest strives to become a leading independent integrated forestry group in Russia with an annual harvesting of up to 2.9 million m³. The Company's total sawmilling capacity is expected to, following completion of on-going investments, gradually increase up to 500,000–550,000 m³ of sawnwood.

The year 2011 has been characterised by supplementary investments in order to lay the foundation for a well-balanced forestry operation with self-sufficiency in raw material supply. The AAC has increased through acquisitions by 1.8 million m³, in fact doubling, and investments have been made in new and existing sawmills and infrastructure (see the section “Operations – Operations” for further descriptions). The development of the Company's operations has, however, required more time – and more expenses – than initially thought, although things are beginning to come into place and RusForest should be able to deliver a considerably improved financial result during 2012. To establish forestry operations in Russia require considerably larger investments in infrastructure (for example, road construction and transportation) than in Europe and long distances complicates logistics. The availability of skilled labour has also been a limiting factor. Many of the recently acquired forest leases did not become available for harvest planning and road construction until mid-2011. Comprehensive road construction continued during the year to ensure full harvest even during the summer of 2012. The expansion of the logging equipment was also delivered late in the year. These factors also affected sawmill production in the form of occasional timber shortage. Several sawmills' production have been affected by the ongoing work on capacity expansion and improvement works, which will be completed during the first half of 2012. Several of the measures taken during 2011 will give effect in the form of increased efficiency, starting in 2012. Considerable work has been done on road construction. Harvesting capacity is now markedly increased and Swedish operators are acting as instructors to raise competence in harvesting. The market for sawnwood has been weaker than expected, which delayed the timing when the Company achieves a positive cash flow. In order to complete on-going improvements of sawmills, remove remaining bottlenecks and cover the need for working capital needed until the measures have full effect, additional capital is needed, and in the Board of Directors' judgment, the existing working capital is not sufficient to cover the Company's needs during the coming twelve months.

For this reason, the Board of Directors of RusForest has resolved to carry out a new share issue with preferential rights for existing shareholders in a total amount of approximately SEK 452 million before issue expenses¹⁾. Vostok Nafta has granted two loans to RusForest in the total amount of approximately SEK 143 million, including accrued interest.²⁾ These shareholder loans can in full or in part be used to subscribe and pay for new shares in the Rights Issue by way of set-off. The Company plans to use the remaining proceeds, approximately SEK 309 million, of the issue in accordance with the following:

- SEK 134 million for working capital
- SEK 175 million for capital expenditure

The capital expenditure relates to the finalisation of the on-going investments in Eastern Siberia as well as in the Arkhangelsk region (see the description in the section “Operations”). This will enable the completion of the on-going efficiency measures and expansion of the sawmilling capacity,

1) Issue expenses are expected to amount to approximately SEK 15 million, which includes expenses for financial and legal advisors, auditors and administrative expenses related to the Rights Issue

2) The shareholder loans have been used partly to finance the acquisition of the pellet assets in December 2011 and partly to continue the completion of the on-going investments without losing momentum. For a more detailed description, please refer to the section “Share capital and ownership – Loans that entitle the creditor to subscribe and pay for shares by way of set-off”.

Background and reasons

handling of the existing bottle necks, primarily within transportation and other infrastructure, and further increases in harvesting capacity. The amount set aside for working capital is deemed to be sufficient to cover the Company's needs until the operations are cash flow positive, including head room.

The Board of Directors and the management of RusForest expect that the current challenging market situation will eventually improve globally, and can see indications of improvements in price, and that Russia's expected entry into the WTO in 2012 will affect the Russian forestry industry positively. However, the current work plan will enable the Company to turn profitable even under current market conditions. The Board of Directors also believes that the Rights Issue is the best way to raise the necessary capital to realise the value of RusForest going forward.

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 12 March 2012

RusForest AB (publ)

The Board of Directors

Message from the managing director

If one looks back at the last 18 months, RusForest has taken important steps to secure its future development, and a new industrial group in the Russian forest industry has been formed. The Company operates in the three of the best forest regions in Russia and has, after securing necessary raw material, followed the determined path of forest lease consolidation, ongoing completion of sawmills and recruitment of key personnel.

Following the recent forest lease acquisitions combined with proper planning and extensive road development, the prerequisites are there to support the completion of the Company's sawmills. The Company has entered a consolidation phase and has come a long way towards creating the foundation for operational stability. During 2012 the remaining deficiencies will have been remedied and the operations will thereafter move to more continuous optimisation. Despite large investments, this has not yet been sufficient to reach break-even or turn around the operations to a positive EBITDA, which has been disappointing. As mentioned in the last report, the capacity has not increased significantly during the fourth quarter, but the effect of additional harvesting capacity and the gradual escalation of production at our mills in Magistralny, Boguchany and Shenkursk, will not be effective until the first half of 2012. Only when this is completed, with a more than doubled production at these sawmills, we will achieve normal production costs.

For activities lacking the potential to achieve profitability in the current market, we have, in the first quarter of 2012, begun to phase out these activities in the form of either renting out the facility or, where this is not possible, closure. This applies to parts of the Ust Ilimsk operations that continue to generate losses in the sawmill operations and a small planing mill in Arkhangelsk.

Looking back on my time as CEO, starting in June 2010, we have conducted one rights issue and more than doubled the size of the Company in terms of access to raw materials.

Approximately a third of the SEK 437 million we raised in 2010 was used to strengthen the balance sheet. This included, among other things, bridge financing from shareholders, that was used for getting construction of the sawmill in Magistralny started, and an outstanding bond that was pre-maturely called. The remainder was used for construction of the sawmill in Magistralny which came into production trimming during the second half of 2011, for expansion of the Boguchany sawmill, and for regional expansion in Arkhangelsk through the acquisition of LDK-3.

In 2011, the Company acquired an additional 600,000 m³ of new high quality leases in Magistralny, which together with the Company's additional 300,000 m³ is considered sufficient to meet the sawmills needs.

Investments in complementary equipment for Boguchansky, in both harvesting and sawmilling, were made in the first quarters of 2011. The new forest leases in Sibartles, Adar and Kansky have an expected payback period of less than three years. This gives the mill stability, as the raw material situation was weak prior to these acquisitions. Combined with additional complementary equipment to the sawmill in Boguchany this will allow for more than doubled production capacity by the second quarter of 2012.

In addition to the strategic presence in the two Siberian regions, RusForest in December 2010 also acquired a large port site and a sawmill in Arkhangelsk, LDK-3, with proceeds from the capital increase. The second phase of the development in the Arkhangelsk region was financed through an issue in kind in conjunction with the merger with Nord Timber Group (NTG), a holder of quality spruce forest leases in that region.

RusForest has, at the first stage, focused the expansion on securing raw materials, rather than on processing only. This reflects the main assumption that the sawmills in Russia, as well as elsewhere, benefit from a stable raw material supply secured at the right price. Access to raw materials through our forest leases are now in balance with consumption of raw materials in the sawmills and focus on harvesting are now on improved planning, infrastructure development and logistics within the forest leases. The goal is to supply the sawmills with sawlogs from the own forest leases at a cost that is significantly lower than that of our Scandinavian and German competitors. There is ongoing work in legal restructuring. Production and accounting systems as well as data-security will be raised to European corporate standards. The goal is to create high efficiency, streamline the local organisations and develop the team leaders.

I am convinced that the strategic focus of the Company is correct, not least due to the potential that lies in raw materials, with high quality available at a low cost. This is the same strategy as the one that has defined successful companies in other developing forest nations and we do not think Russia is different in this respect, even though this initially requires more infrastructure investments and harvesting expansion by own means. The challenges in 2011, with the delayed start of production and expansion in Magistralny and Boguchansky respectively, as well as delays in the delivery of harvesting equipment and a lack of local expertise are factors that have delayed the time for when the operations will show a positive cash flow, but does not affect the strategy going forward.

In addition, Russia is becoming increasingly integrated with the rest of the world in terms of trade, following the anticipated WTO accession. Naturally, this is important for us as an exporter of round wood from Siberia

Message from the managing director

to, mainly, China. The impact of the WTO membership is reduced export duties related to pulplogs and quality export logs in particular. This increases the value of the forest resource.

In fact, we have moved in all the directions we set as prime priorities in conjunction with the rights issue in 2010 and we are confident that we will fulfill the remaining priorities over the next year. The use of proceeds from previous issues is explained further in the section on operations. It is important to note that, notwithstanding the losses in previous periods, the average revenue per cubic meter sold is increasing and the average cost per unit is falling in a predicted fashion. With this trend it will be possible to reach a positive EBITDA from and including the fiscal year 2012, all else being equal. More detailed information is given through the descriptions on the following pages where we explain the next step in the development of our sawmills Boguchansky, Magistralny and Shenkursk.

Martin Hermansson

Managing director of RusForst AB (publ)

Terms, conditions and instructions

Preferential right and subscription rights

Each person who on the record date of 19 March 2012 is registered as holder of RusForest shares is entitled to subscribe for shares in the forthcoming new share issue, with preferential right. New shares that are not subscribed for through primary preferential right will be offered to all shareholders for subscription (subsidiary preferential right). Those who are registered as shareholders of RusForest will receive four (4) subscription rights for one (1) share held on the record date. One (1) subscription right entitles the holder to subscribe for one (1) new share. In the event that subscription rights are transferred to a new shareholder, primary and subsidiary right will also be transferred to the new shareholder.

The shareholders who do not participate in the Rights Issue will, on full subscription, be diluted by approximately 80 percent. These shareholders can, however, obtain financial compensation for the dilution by selling their subscription rights.

Issue price

The new shares in RusForest will be issued at a subscription price of SEK 1.18 per new share. No commission will be charged.

Record date

The record date at Euroclear Sweden AB ("Euroclear") for the determination of who is entitled to obtain subscription rights is 19 March 2012. The final date for trading including the right to obtain subscription rights in the Rights Issue is 14 March 2012. As of 15 March 2012 the shares are traded excluding rights to participate in the Rights Issue.

Trading in subscription rights

Trading in subscription rights will take place on NASDAQ OMX First North ("First North") during the period from and including 21 March 2012 up to and including 4 April 2012. The subscription rights must be sold not later than 30 March 2012 or be used for subscription of shares not later than 4 April 2012 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 21 March 2012 up to and including 4 April 2012. Following the expiry of the subscription period, all subscription rights that have not been utilised will be rendered invalid. These will 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 30 March 2012; or
- (ii) Use the subscription rights and subscribe for new shares not later than 4 April 2012.

The Board of Directors of RusForest reserve the right to extend the period during which subscription and payment may take place. A subscription for new shares through the exercise of subscription rights is irrevocable and the shareholder may not cancel or modify a subscription for new shares.

Directly registered shareholders

Shareholders or representatives of shareholders who as at 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. 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 4 April 2012 via any bank in accordance with one of the following alternatives:

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 Pareto Öhman, +46 (0)8 402 51 32.

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

Pareto Öhman 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 Pareto 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 Pareto 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 Pareto Öhman not later than 4 April 2012.

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 who subscribed for shares over and above their preferential rights. In case of over-subscription, the shares shall be allocated between the subscribers 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 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 21 March 2012 up to and including 4 April 2012.

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 Pareto Öhman, +46 (0)8 402 51 32. The application form must be received by Pareto Öhman not later than 4 April 2012. Subscribers who are not existing customers of

Pareto 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 Pareto 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 and that 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.

Interim shares (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 Interim shares on the VP-account until registration of the share capital increase with the Swedish Companies Registration Office has been made, at which time the shares will be converted into new shares without any special notice by Euroclear. The conversion is estimated to occur on 26 April 2012.

Trading in Interim shares

Interim shares can be traded on First North from and including 21 March 2012 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 24 April 2012, when the new shares are registered in the VP-accounts.

Announcement of outcome of the issue

The outcome of the Rights Issue will be made public through a press release on or about 5 April 2012, which will be made available on the Company's website.

Trading in RusForest shares

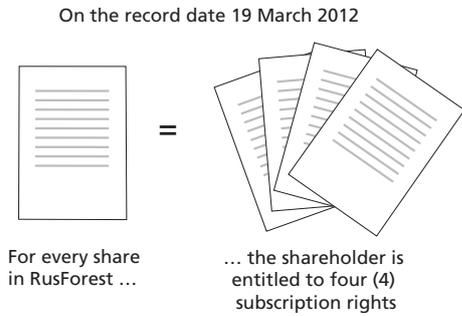
RusForest's shares are traded under the ticker RUSF on First North with the ISIN-code SE0001732728. Each share comprises one trading post. The Company's Certified Adviser is Pareto Öhman.

Right to dividends

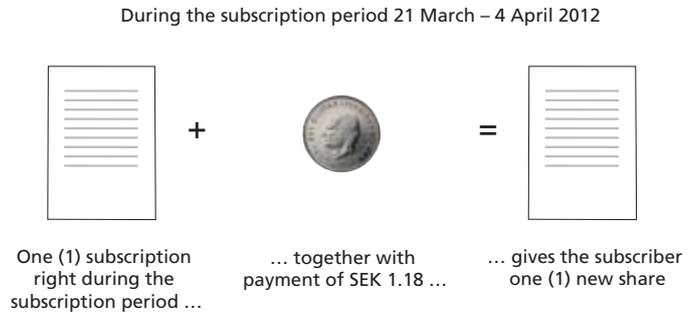
The new shares will carry right to dividends commencing from the first record date for dividends occurring after the New Shares has been registered at the Swedish Companies Registration Office and introduced in the share register kept by Euroclear.

The issue in brief

1. Allotment of subscription rights

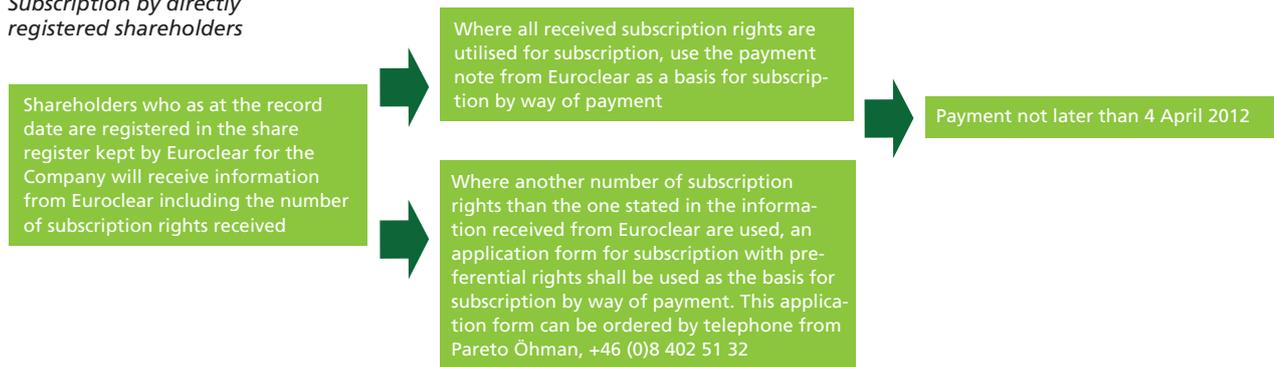


2. Subscription and payment with preferential right

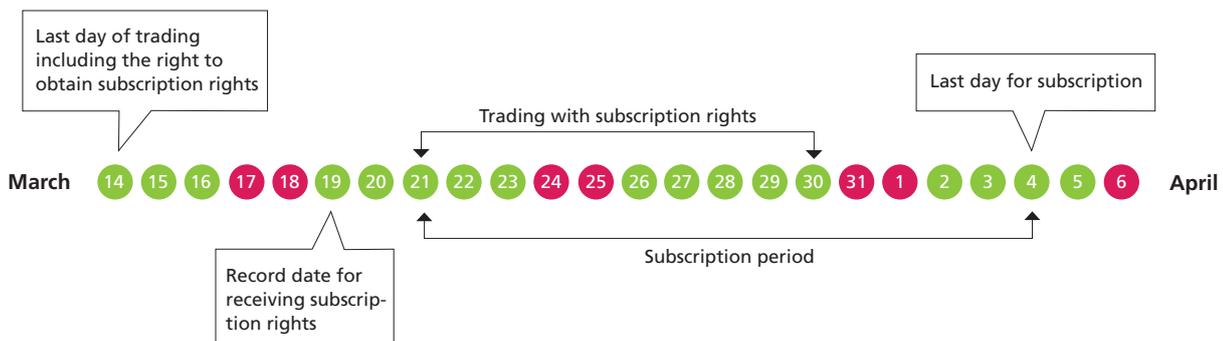
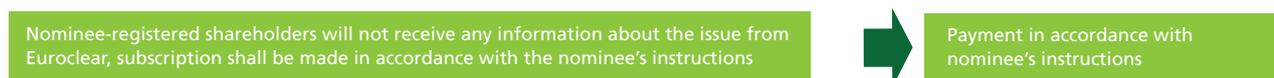


3. Utilising the subscription rights

Subscription by directly registered shareholders



Subscription by nominee-registered shareholders



Market

Macroeconomic situation in Russia

Despite increasing external risks from the slowdown in the United States and the European Union, Russia's GDP is expected to grow 4.1 percent during 2012. Russian banks have limited exposure towards the debt crisis in Greece and also towards other highly indebted countries in Europe. At the same time, the indirect effect from a wide economic downturn in Europe could have a substantial effect on Russia, primarily through external channels such as oil price and capital flows, which would cause financial and liquidity problems.¹⁾

Russia's short term economic and fiscal situation remains favourable due to high oil prices that contribute to an almost balanced budget for 2011. The World Bank expects unemployment to be fairly stable around 6 to 6.5 percent and expects the inflation for 2012 to stay around 6 to 7 percent.¹⁾

One of the world's lowest corporate tax rates (20 percent) combined with a likely entrance to the WTO in July 2012 (see section concerning "*Membership in the World Trade Organisation, WTO*") make Russia an increasingly attractive place to do business. The World Bank expects that the economic effect for Russia from entering the WTO will be a 3.3 percent increase of the annual GDP in the next few years.²⁾

	2003	2004	2005	2006	2007	2008	2009	2010	2011E	2012E
GDP growth, %	7.3%	7.2%	6.4%	8.2%	8.5%	5.2%	-7.8%	4.0%	4.3%	4.1%
Unemployment, %	8.6%	8.2%	7.6%	7.2%	6.1%	6.4%	8.4%	7.5%	7.3%	7.1%
Balance of current accounts, % of GDP	8.2%	10.1%	11.1%	9.5%	5.9%	6.2%	4.1%	4.8%	5.5%	3.5%
Consumer price index (2005=100)	80.0	88.7	100.0	109.7	120.6	136.4	152.3	162.8	177.2	190.1
10 year treasury interest, %	9.1%	8.3%	8.1%	7.0%	6.7%	7.5%	9.9%	7.8%	n/a	n/a

Source: IMF and OECD

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 sawlogs, or round wood, which basically consists of trees that have been cut down, debranched and cut to appropriate lengths. In Russia these lengths are often 4 or 6 meters, and are thereby well-adjusted to the length of the railway-carriages (12 meters). The round wood is applied in sawmilling for production of sawnwood later used in construction or further processing such as flooring, mouldings or furniture. The residual products from the forests, in particular logs of lower quality, are used as raw material for pulp production or as fuel. RusForest's forests consist of coniferous wood, or softwood (spruce, pine and larch), which is particularly suited for processing in sawmills, and hardwood (birch and aspen), which is generally sold as pulpwood and fuel wood.

The total global production of sawn softwood totalled just less than 280 million m³ in 2010.³⁾ A third of the global production of sawnwood is exported.³⁾ The share of export is however expected to increase over time, as the main regions with an expected increase in demand, notably China, will need to import sawnwood. Over the last ten years, Europe has reduced its imports while China, the Central Asian countries, the Middle East and North Africa have increased their share significantly. The structural change in China has mainly been caused by a shift in Chinese wood imports from logs to sawnwood.⁴⁾

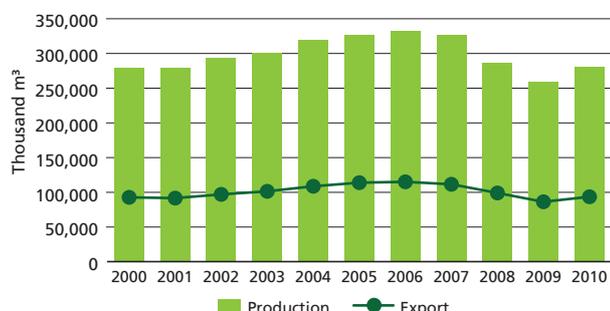
1) Russian Economic Report, World Bank, number 26, September 2011

2) <http://uk.reuters.com/article/2011/11/03/uk-russia-wto-georgia-idUKTRE7A26ZC20111103>

3) FAO stat, January - 12

4) Russian Forestry Review, number 4, 2011

Development of global sawnwood production and exports (thousand m³)



Source: FAO, 2012

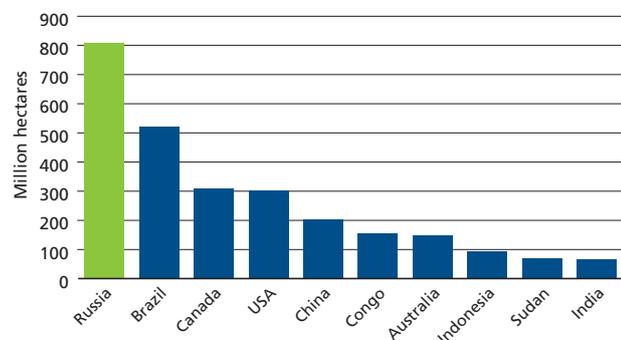
As sawnwood is widely used as a construction material, the sawmilling industry is dependent upon the development of the global economy in general and on developments in the construction industry in particular.

The Russian market

The forest area

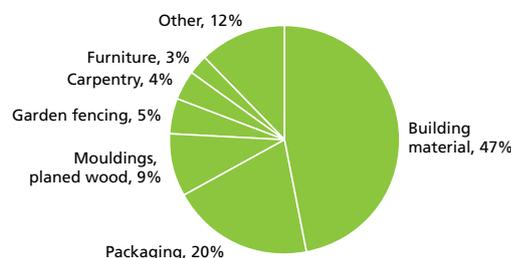
Russia has one of the world’s largest timber reserves. Eastern Siberia is known for its high quality pine and Siberian larch, and the Arkhangelsk region in north-western Russia has high quality spruce and pine forests similar to those found in northern Sweden. The high quality of the raw material derives, among other things, from the slow biological growth caused by the cold climate.¹⁾ The processing industry is underdeveloped relative to the availability of raw materials. The main production of pulp is found in the Arkhangelsk and Irkutsk region.

Countries with the largest area of forests (millions of ha)



Source: FAO, 2009

The use of sawn coniferous wood in Europe



Source: FAO, 2010

Forest leases in the Russian Federation

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. Leases are, with a few exceptions, acquired through auctions (see below concerning the “Forest Code”). Forest leases can be transferred and sold to other legal persons making them liquid assets. The forest lease is defined in terms of AAC and the fee is usually paid in 8–10 tranches per year. The full fee is due no matter the degree of utilisation of the forest lease. The AAC is derived from a schedule to the lease agreement, which is based on annual growth and availability of mature forest on the leased land. The lease agreements contain detailed provisions on reforestation and other obligations, such as fire protection, road maintenance, etc. There are no formal restrictions regarding the possibilities for foreign investors on acquiring leases or conducting forestry operations in Russia. However, 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 major rail road links as well as the presence of buyers of residual products can therefore offer key competitive advantages for forestry companies operating in Russia.¹⁾

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. In addition, a land survey register was introduced, in which all forest leases are registered and provided with exact positions and cadastre numbers.

1) PwC, Risk & rewards – Forest, paper & packaging in Russia, October – 2006

Market

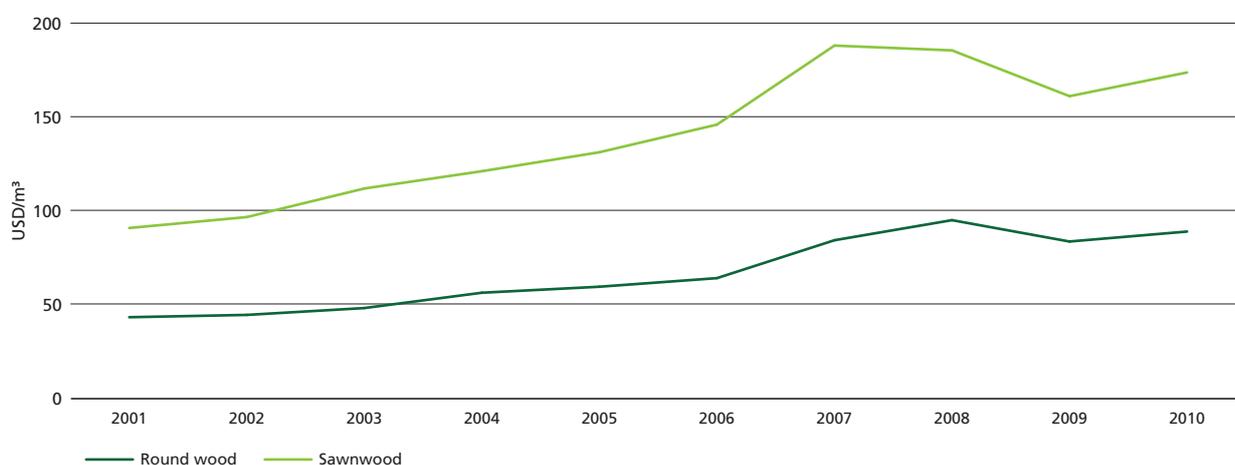
Russian legislation includes several measures aimed at developing the Russian forestry industry, for example, the introduction of a so-called priority status for large investors, which means that qualified investors do not have to participate in an auction procedure when acquiring forest leases from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

Production and exports

Russian forestry is growing increasingly focused on exporting processed products. This is reflected in the

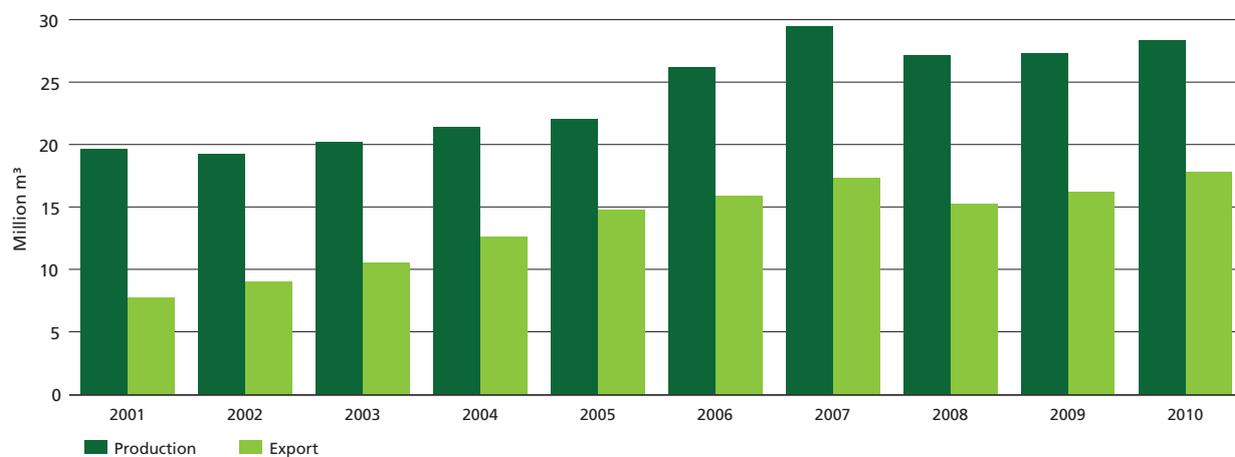
country's export structure, which shows a relative decrease of exports of round woods. In 2010, exports of round wood amounted to USD 1.9 billion, corresponding to approximately 20 percent of Russia's total export value of forest products (USD 9.2 billion) that year.¹⁾ In 2007 the same figure was approximately 37 percent, which demonstrates an increase in domestic processing. The amount 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 processed wood products represents 95 percent of the total exports, while Russia's share only amounts to 65 percent.

Price development for Russian exports of round wood and sawnwood (USD/m³)



Source: FAO, 2010

Russian production and exports of sawnwood (million m³)

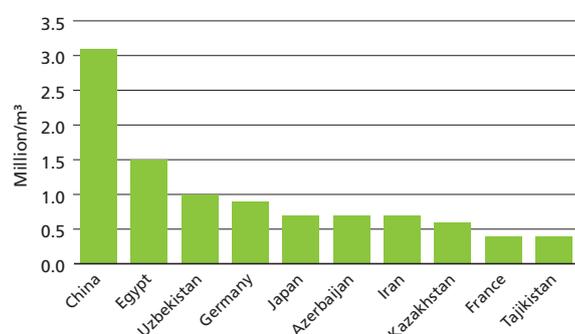


Source: FAO, 2012

1) FAO Stat, January – 2012

The main export markets for Russian sawnwood producers are China, Japan, North Africa and Europe.¹⁾ Other export markets include the Middle East, Central Asia and the other CIS countries. Between 2010 and 2011, Chinese sawnwood imports increased by 46 percent on volume to 21.5 million m³. This is the first time Chinese sawnwood imports exceed 20 million m³.²⁾ The Asian market is of major significance for the Russian forestry sector, and particularly companies in eastern Russia such

Russian export volume of sawnwood by geographical market 2009 (million m³)



Source: FAO

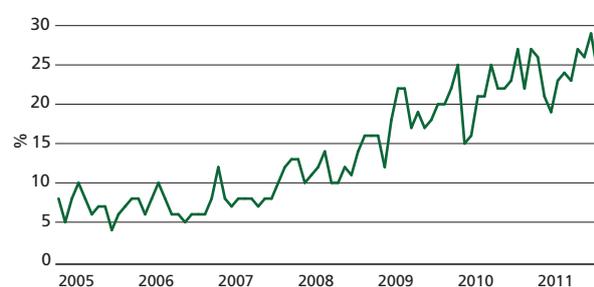
Historically, Chinese demand for sawnwood has to a large extent been covered by imports of round wood from Russia, which has then been processed in domestic sawmills.⁵⁾ China has however heavily increased its imports of sawn softwood during the past 2 years. Chinese imports increased by approximately 125 percent during 2010 and 2011, particularly from Russia and Canada.⁶⁾

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. Although Japan has decreased its imports of sawnwood, Russia has maintained its relative share providing approximately 14 percent of the country's annual imports.⁷⁾

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.⁸⁾ Histori-

as the Company's Siberian holdings, benefit from their relative proximity to these emerging markets. Chinese demand is driven primarily by furniture, window and packaging producers.³⁾ 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 rate of 16 percent per year since 2000.⁴⁾

Russian export volume of sawnwood to China 2005–2011 (share of total Russian exports)



Source: Woodstat

cally, the majority of the market has consisted primarily of products of lower quality.⁹⁾ Russia accounted for approximately 40 percent of Egypt's total imports of sawnwood in 2009.¹⁰⁾ The construction activities are increasing in the Arab world and the import level of sawnwood in for instance Egypt has already reached the pre-revolutionary level of 2011.¹¹⁾

Two CIS countries, Uzbekistan and Azerbaijan, are highly dependent on imports of sawnwood from Russia. Uzbekistan has very limited own forest resources, as most of its forest area is legally protected from exploitation. In order to meet domestic demand, the country 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.

1) FAO Stat, January – 2012

2) International Wood Markets Group, China Bulletin, February – 2012

3) Pöyry, Selected sawn softwood business information, February – 2009

4) FAO Stat, June – 2010

5) FAO Stat, June – 2010

6) Woodstat January – 2012

7) FAO Stat, January – 2012

8) FAO Stat, June – 2010

9) Pöyry, Selected sawn softwood business information, February – 2009

10) FAO Stat, January – 2012

11) Woodstat: www.woodstat.se, January – 2012

Export duties

In Europe and particularly in the Nordic countries, much attention has been paid to the introduction of Russia's high export duties on round wood. These were designed to create incentives for investments in domestic production by shifting focus to exports of processed products rather than exports of round wood. On 1 July 2007, export tariffs on round wood were raised to 20 percent (with a minimum amount of EUR 10/m³) and in April 2008 there was a further increase to 25 percent (with a minimum amount of EUR 15/m³).

However, the Russian government decided to postpone the final increase (to 80 percent and not less than EUR 50/m³), which was supposed to be introduced for most types of round wood from 1 January 2009, and later from 1 January 2011.

Currently, the export duties on industrial round wood are 25 percent, whereas almost all value-added products can be exported duty free.

Membership in the World Trade Organisation, WTO

According to the final consolidated "Schedule of Concessions and Commitments on Goods of the Russian Federation" attached to Russia's accession protocol to the World Trade Organisation, WTO, import duties to Russia for wood and wood products should fall from 15 percent to 0–8 percent over the next 4–5 years.

Wood import is less significant than export flows to the Russian economy. Even though export duties are not the main focus of WTO, and are allowed by WTO rules, the impact of an accession to WTO will mainly realise changes in the export regime on raw timber. According to Russia's accession protocol, some members of WTO expressed a concern that export duties on wood were being used by Russia to distort investment decisions in processing industries and gave companies which were producing in the Russian Federation, a cost advantage. These members requested that the Russian Federation make a commitment to phase out export duties under an established timetable. Russia considered such a request excessive and a compromise was reached, whereby Russia committed to introduce a quota with a lower export duty level for pine and spruce, mainly directed at the EU.

The existing export duty for pine will be reduced to 15 percent – compared with the current duty of 25 percent – within a quota of 16.0 million m³. For spruce the duty will be 13 percent within a quota of 6.3 million m³ as compared to the current 25 percent. In addition to quotas, sanitary control will be aligned with WTO rules.

Different regions with different customers



Eastern Siberia

Historically, Eastern Siberia has been a known source for the Japanese and Chinese markets of quality pine logs, which have contributed to a strong growth in export over the last ten years. Round log exports to China was reduced only following the introduction of Russian export duties in 2007. The strongest growth in demand today is however in imports of sawnwood, where the year to year development is twice as large on sawnwood as on round logs.

Chinese buyers are mainly interested in Siberian pine due to the special interest for high quality pine for their furniture factories. Canada as the largest exporter of sawnwood to China usually sells lower grades for construction purposes. According to International Wood Markets Group, China's furniture export exceeded USD 35 billion in 2011. However, the largest export market for Russian companies is still the Middle East. Larch wood on the other hand, is traditionally more requested in Europe.

Arkhangelsk

The Arkhangelsk region is famous for spruce of similar or higher quality than that found in northern Sweden. The markets have historically been the United Kingdom, the Netherlands, France and the Middle East. From 2012 there is an increased importance for FSC- and CE-certification for products supplied to European markets.

Key drivers and trends

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 are therefore likely to have a positive impact on sawnwood demand globally.

Low production costs compared to competing countries

The cost of round wood in Russia is lower than in many competing countries, such as Sweden and Finland, primarily as a result of the low price for standing timber.¹⁾ Moreover, due to government regulatory controls the cost of electricity in certain regions is relatively low.

Proximity to emerging markets

Russia benefits from its proximity to emerging markets such as Asia, CIS, and North Africa. Several of these markets are showing strong economical growth but do not have own forest resources or sawmilling capacity that can correspond to the demand. Therefore the increasing demand in these markets will need to be met through imports.

1) Pöyry, Selected sawn softwood business information, February – 2009

Market

Transition of the Russian forestry sector towards production of processed products

Historically, the Russian forestry industry has been characterised by a low value-added ratio. This is changing, partly as a result of increased investments and as a result of the export duties on round wood, creating benefits for further processing.

Large unexploited forest resources

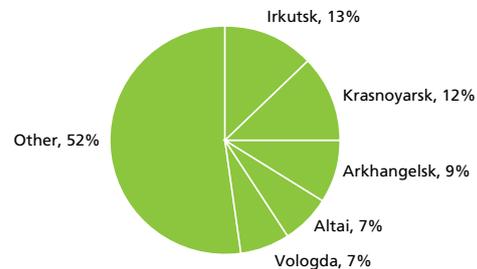
Russia controls one of the world's largest forest reserves, which to a large extent is unexploited. Thus, there is great potential to consolidate the existing forestry industry as well as to develop new products, such as green energy and wood-pellets. These products are particularly relevant to the Arkhangelsk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

Competition

Russian suppliers have a competitive advantage in supplying the Asian markets through shorter transport distances and thus lower transportation costs, but the products often carry less value added than those of Western competitors.¹⁾ Pricing of sawnwood is however global and prices between countries are directly correlated. The Company's main international competition stems from the main global exporters such as Canada, Sweden, Finland and Germany.

The Russian sawmilling industry is fragmented, and the five largest producers accounted for less than 10 percent of the country's total production in 2008.²⁾ 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 Nordic perspective is relatively small.³⁾ Eight of the ten largest sawmills in Russia are located in either the Krasnoyarsk, Irkutsk or Arkhangelsk regions.⁴⁾

Production of sawnwood in Russia by area (2010)



Source: Lesprom

1) Pöyry, Selected sawn softwood business information, February – 2009

2) Lesprom, Overall results of Russian forest products industry in 2008, March – 2009

3) Pöyry, Development of the sawmill industry in Russia, September – 2008

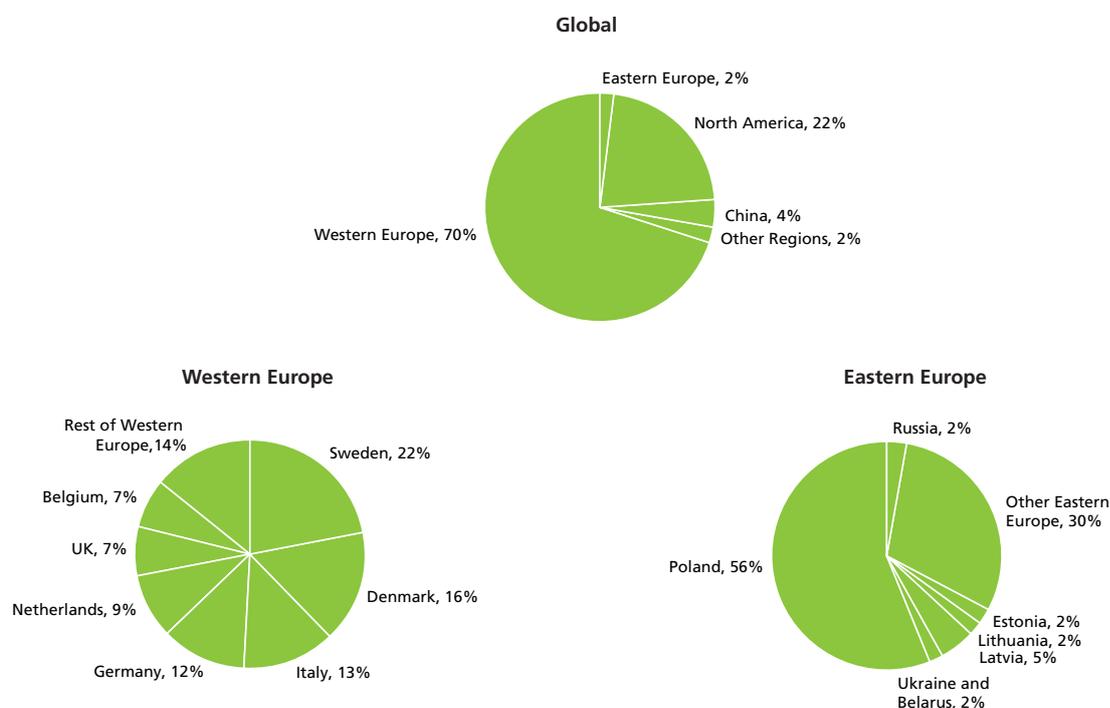
4) Lesprom, Overall results of Russian forest products industry in 2008, March – 2010

The market for wood-pellets

Wood-pellets are a refined bio-fuel produced by dried and ground biomass that is pressed into cylindrical pellets. The raw material for wood-pellets production may for example consist of sawdust, woodchips, logging residual products, and bark or energy grasses. Following drying, grinding and compression, the wood-pellets obtain low moisture and high energy content per weight unit, facilitating cost-efficient transportation and storage. The combustion process of the wood-pellets is carbon neutral since the same amount of carbon dioxide is absorbed and converted during the period of growth as is released by combustion.¹⁾

Europe is the single largest market for wood-pellets, consuming approximately 11 million tonnes annually, corresponding to 70 percent of global consumption, and will continue to drive global demand.²⁾ This is the result of limited fuel deposits in the region and aspiration to increase sustainability in the energy sector and reduce carbon dioxide emissions. In particular, the goal is to have 20 percent of sustainable energy in the energy consumption by 2020 following a decision by the European Energy Commission. If enforced this will require an additional wood supply of 200 to 260 million m³ to energy producers (approximately 530 million m³ of round wood and sawn-wood was produced within the EU in 2010).^{3,4)}

Wood-pellets consumption 2010



Source: Pöyry

Although the largest wood-pellets production capacities are expected to remain in Europe, a region with strong competition for raw material, the growing demand will increasingly be satisfied by imports from other regions which have surplus biomass, e.g. South America and Russia.

The global wood-pellets market is expected to triple by 2020, the internationally traded segment will grow even faster.⁵⁾

Russian bio-fuel production is currently under development. Russian wood-pellets production increased in 2010 compared to 2009 and the total installed wood-

1) Pelletsindustrins Riksförbund, www.pelletsindustrin.org

2) Pöyry, International Trading – Global Pellet Market Outlook to 2020, October – 2011

3) Pöyry/McKinsey & Co Bio-energy and the European Pulp and Paper Industry – an impact assessment, May – 2010

4) Eurostat: http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Forestry_statistics

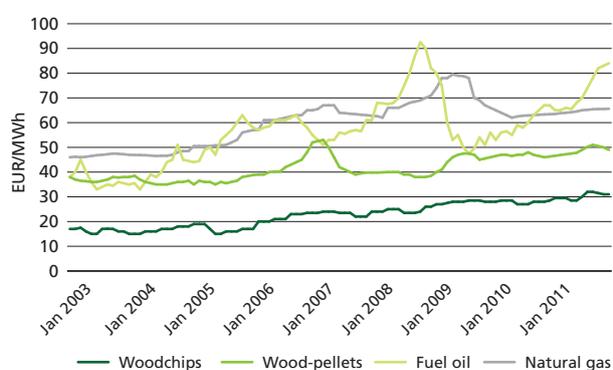
5) Pöyry, International Trading – Global Pellet Market Outlook to 2020, October – 2011

Market

pellets production capacity is about three million tonnes annually. Estimates indicate that 800,000 tonnes of wood-pellets are produced inside Russia and approximately 600,000 tonnes of those are exported to Europe.¹⁾

The wood-pellets industry delivered nearly 2.3 million tonnes of wood-pellets to the Swedish market in 2010, which is approximately 11 TWh of energy. In 2010, Sweden imported about 700,000 tonnes of wood-pellets and exported 60,000 tonnes of wood-pellets. Since 1997, production of wood-pellets has increased significantly in Sweden from about 400,000 tonnes to just under 1.7 million tonnes in 2010.²⁾

Price development (EUR/MWh)



Source: KWA EVIVA GMBH

Key variables in the industry are the balance between supply and demand, cost of wood-based biomass, cost of transport, exchange rates and wood-pellets customers increasing their power generation capabilities. The prices are currently demand driven, however the prices are limited by the buyers' paying capability in comparison with other clean alternatives such as water, wind and solar energy.

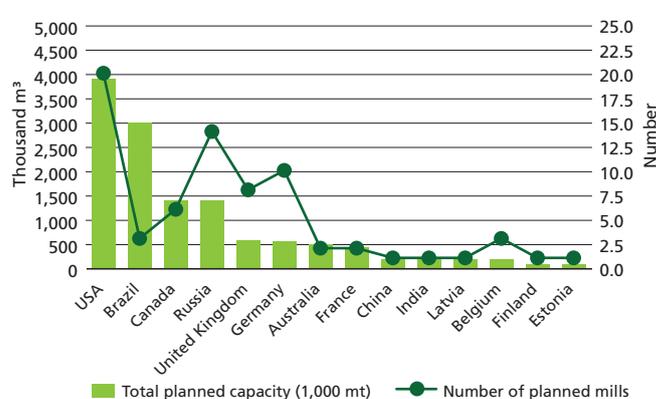
Price increases, while likely, will be moderated following capacity increases in low cost regions, where the deficit of wood fibre globally is the main concern. The trend is such that new emerging supply from lower wood cost regions like Russia may push producers with higher costs further back on the global cost/supply curve and take a larger share of increased European consumption. This is also reflected in the amount of new capacity planned to be built in Russia in the near future.

- 1) The International Bioenergy. Russia magazine, January – 2011
- 2) Pelletsindustrins Riksförbund, www.pelletsindustrin.org
- 3) www.worldofbioenergy.com, January – 2010
- 4) The International Bioenergy. Russia magazine, January – 2011

Key drivers and trends

Demand and pricing in the wood-pellets industry is driven primarily by competition with other energy resources, e.g. oil, gas and coal. While wood-pellets may be competitive with oil and gas in the mid- and long-term, wood-pellets lose in competition to coal looking at price. Regulators in Europe and increasingly in the world, however, take steps to phase out power plants fired by coal, and support wood-pellets and other sustainable fuel in competition with oil. Current coal power plants may also use a mix of coal and wood-pellets, so called co-firing, hence reducing carbon dioxide emissions.

Planned wood-pellets production capacity increases (as of 2010)



Source: KWA EVIVA GMBH

Competition

Several reports in the press communicate new pellets initiatives from Russia, the largest of which is Vyborgskaya Cellulose, located in Viborg in the Gulf of Finland, with a total production capacity of one million tonnes of wood-pellets per year.³⁾ The actual production has however not reached the projected levels due to lack of raw material. Previously, the two largest producers have been DOK ENISEY from the Krasnoyarsk region in Siberia and LESOZAVOD-25 from the Arkhangelsk region, both with a capacity of 120,000–130,000 tonnes of wood-pellets per year.⁴⁾

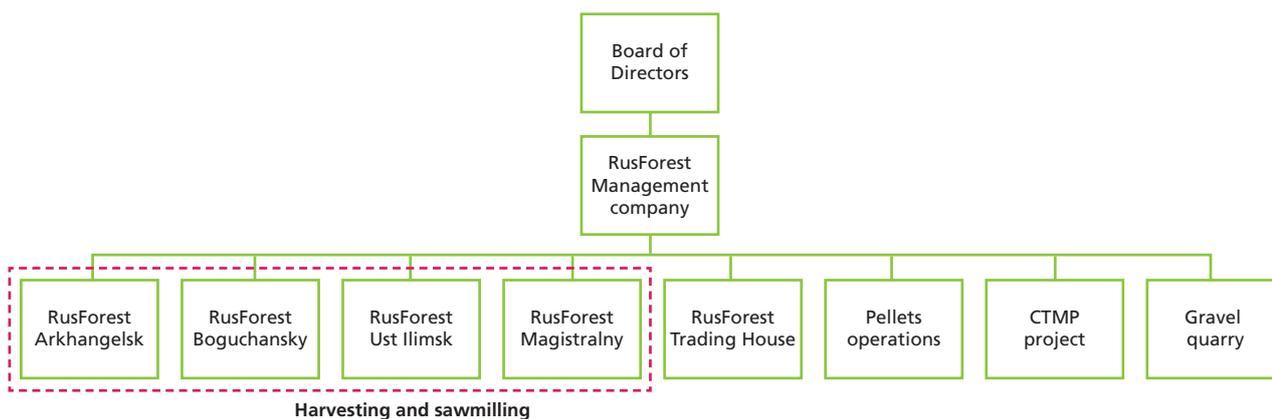
Operations

Business concept

RusForest's business concept is to be an efficient supplier of high quality sawnwood. By utilising 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 generating return for its shareholders.

Operational structure

The business model below applies to the four highlighted subsidiaries in the operational structure, RusForest Arkhangelsk, RusForest Boguchany, RusForest Ust Ilimsk as well as RusForest Magistralny.



Operational and financial objectives

RusForest considers that it has reached a scale where focus can be shifted from the acquisition of forestry assets towards completing projects and improving operational efficiency. The planned increase in harvesting will increase the Company's self-sufficiency of sawlogs. Thereby risk exposure in sawlog supply as well as raw material cost is reduced. The target production of sawnwood in the mid-term is approximately 500,000–550,000 m³ on an annual basis.

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

- Final launch of designed capacity in Boguchansky and gradual production increases in Magistralny during the first half of 2012
- Efficiency increases and continued staff reductions following newly installed technologies and establishment of stronger local management teams
- Finalising started infrastructure projects and continued road expansion in the Company's forest leases
- Increasing presence on main markets for sawnwood which reflects the increased and improved quality mix of the Company's sawnwood
- Continued negotiations with suitable partners in relation to handling of the Company's residual products, mainly aimed at establishing a wood-pellets production in the Arkhangelsk region as well as pulp and/or wood-pellets production in the Siberian operations

The Company's financial objectives are to:

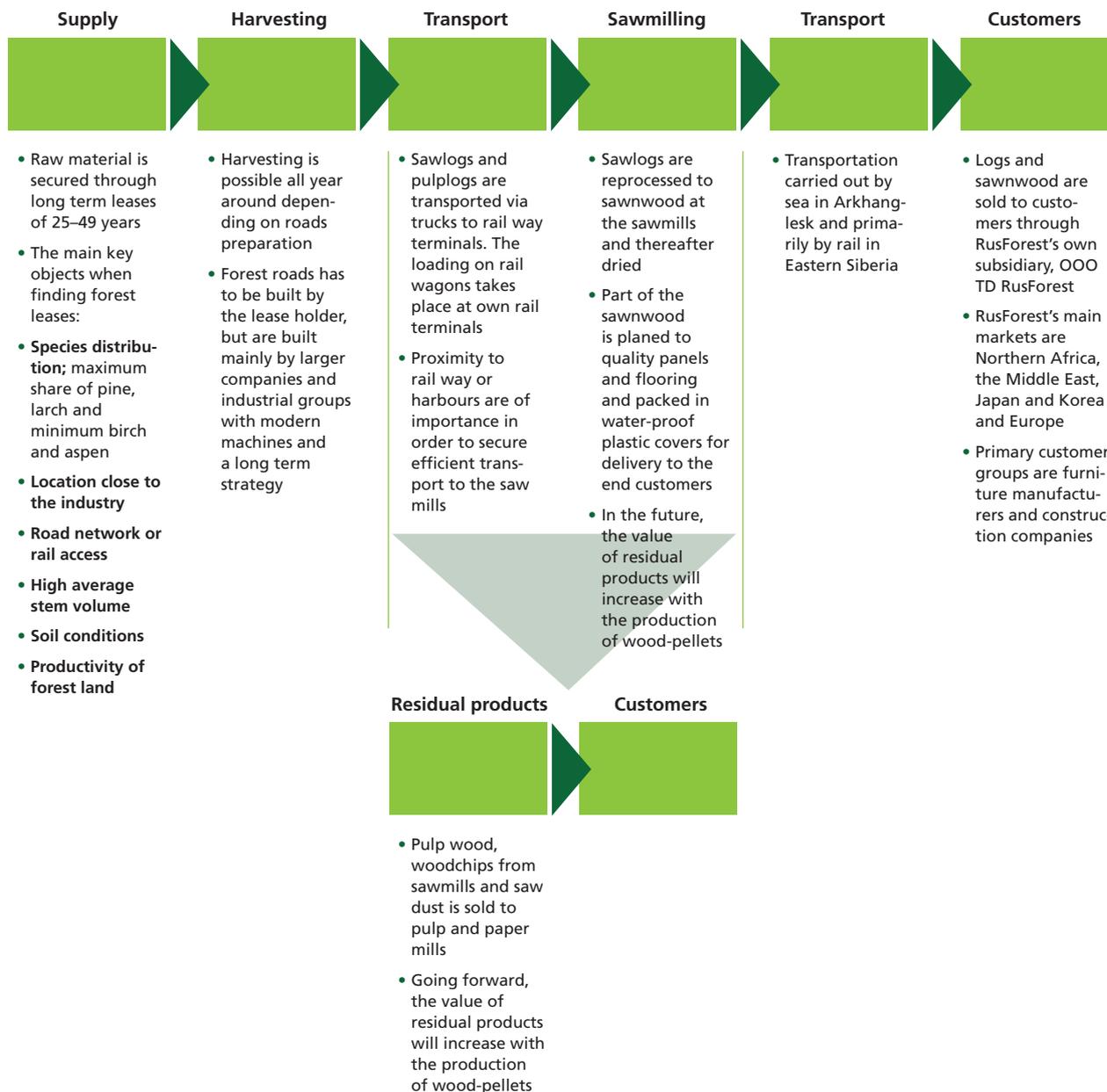
- Show positive EBITDA from and including the fiscal year 2012

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. Through the acquisition of NTG, the Company has achieved its primary objective of obtaining administrative control over significant forest resources and going forward the strategy is to further expand sawmilling capacity, streamline operations and to finalise the investment programme around these resources.

Through the acquisitions of LDK-3 and NTG in Arkhangelsk, RusForest can establish itself 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 product to both the European and the Asian markets.

Business model



The figure above shows the value chain in which RusForest operates. Since the start of the Company in 2006 and onward, the main products have included sawnwood, sawlogs, pulplogs, woodchips and planed wood products. The Company covers the value chain from supply of raw material to sawmilling, as described in the upper part of the figure. Eastern Siberia and the Arkhangelsk region both have access to takers of residuals such as pulplogs and woodchips, however, the demand for the residuals on the market is considerably higher in the northwestern part of the country. The Company is investigating the possibility for a joint venture related to pellet

production in the Arkhangelsk region in order to increase the return on the residual products. The Company is also investigation the opportunity for processing of residual products in Eastern Siberia.

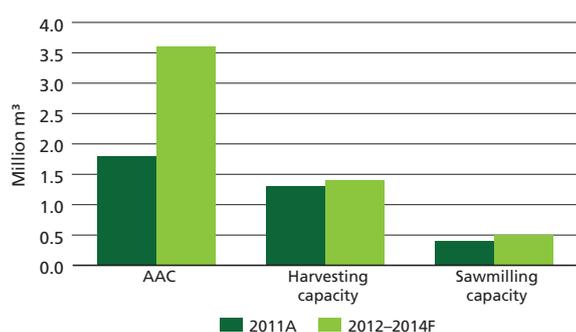
The main advantage for both operations is largely derived from the Company's access to high quality forest leases from which the Company is able to source quality wood at one of the most attractive cost levels in the world. This is the result of a targeted forest lease consolidation and local infrastructure expansion within the forest leases.

Operations

RusForest operates in Eastern Siberia and in the Arkhangelsk region of Russia. The Company controls long term forest leases of pine, larch and spruce with an AAC of approximately 3.6 million m³. RusForest's goal is to develop into a leading independent integrated forestry group in Russia with an annual harvesting of up to 2.9 million m³ and, after the completion of the ongoing investments in the Company's sawmills in Magistralny, Boguchany and Shenkursk, an annual production of sawnwood of 500,000 m³ – 550,000 m³. The Company's current aggregated sawmilling capacity amounts to approximately 415,000 m³. Already during 2012, these activities are expected to result in an increase in volume of 70 percent in the volume of sold timber, from 204,000 m³ to about 350,000 m³. RusForest harvested approximately

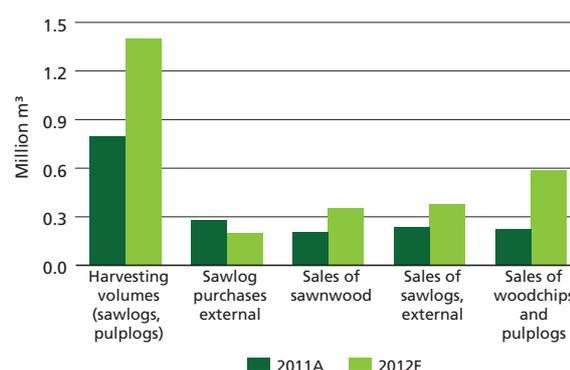
1.1 million m³ in 2011, corresponding to slightly below one third of the Company's AAC at the end of 2011, also including not absorbed timber. The majority of the existing forest leases were added in 2011, meeting the Company's objective to ensure raw material supplies to the Company's sawmills. With the investments in equipment for harvest and road construction made during the latter part of 2011 along with continued investments in transportation, roads and education of the operators, harvest volumes is expected to increase during 2012, from 850,000 m³ to about 1.4 million m³ (sawlogs, pulplogs). Improved forest roads enable harvesting and timber transportation throughout the year and reduce transportation costs through better accessibility and less extensive damage to equipment.

Investments snapshot (million m³)



AAC is for 01/01/2011 (left column) and 01/01/2012 (right column)
Harvesting capacity and Sawmilling capacity is for 31/12/2011 (left column) and 2012-2014 (right column)

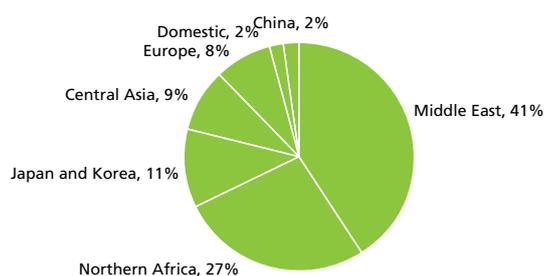
Operations snapshot (million m³)



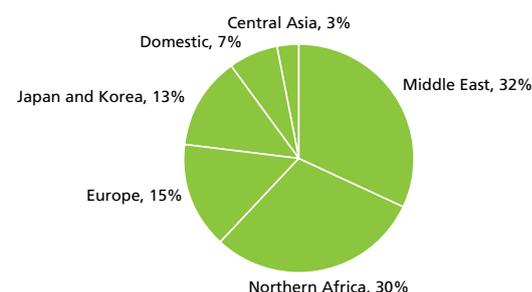
RusForest's products are sold by the wholly owned sales company OOO TD RusForest ("RusForest Trading"). A centralised sales organisation, including production planning and logistics, provides greater flexibility to meet the actual demand and better control of the quality of the products reaching the market. RusForest's main product

by revenue is construction sawnwood from high-quality pine, spruce and larch for export. Half the production (by volume) from the forest and sawmills represents residual products such as pulplogs, chips and saw dust, which is why an important next step in order to improve profitability is to add value to this also.

Geographical breakdown of the Company's export sales volumes of sawnwood 2010 (Total volume of approximately 110,000 m³)



Geographical breakdown of the Company's export sales volumes of sawnwood 2011 (Total volume of approximately 190,000 m³)



Operations

Exports of round logs are expected to increase, as RusForest increases its harvesting capacity. Sawlogs exported are usually of larger diameter than what can be handled at the Company's own sawmills. In particular Chinese buyers are offering competitive prices for these products.

Part of the trees harvested, which are of lower quality, e.g. due to rot, or a too low diameter for sawmilling are sold as pulpwood. Moreover, RusForest's acquisition of Clean Tech East's wood-pellets production equipment at the end of 2011 will enable RusForest to further utilise its residual products in the Arkhangelsk region by re-processing residuals to bio energy.



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

RusForest is active in the forestry sector in Eastern Siberia and in the Arkhangelsk region, three of Russia's best forest regions. The Company also owns a gravel operation located in Karelia. This business is for sale.

Below is the Company's volume growth during the past four years. The volume increase in 2011 is mainly explained by acquisitions, primarily sawmills and forest leases in Arkhangelsk.

	Unit	2008	2009	2010	2011
AAC year end	m³	1,654,100	1,443,200	1,819,300	3,631,060
Siberia		1,654,100	1,443,200	1,642,100	2,649,660
Arkhangelsk		n/a	n/a	177,200	981,400
Harvesting volume (sawlogs, pulplogs)	m³	593,529	716,826	634,902	852,653
Siberia		593,529	716,826	634,902	678,194
Arkhangelsk		n/a	n/a	n/a	174,459
Sawmilling volume	m³	120,617	166,333	141,233	218,489
Siberia		120,617	166,333	141,233	116,448
Arkhangelsk		n/a	n/a	n/a	102,041
Forest area (year-end)	ha	1,005,020	864,784	1,140,122	2,956,290
Siberia		1,005,020	864,784	993,490	1,686,272
Arkhangelsk		n/a	n/a	146,632	1,270,018

Forestry in Eastern Siberia and Arkhangelsk – a comparison

The business model for the four production clusters where RusForest operates is similar. Harvesting is carried out by modern harvesters and the sawlogs are transported by truck to railway terminals or directly to the local sawmills and pulp producers. About 90 percent of the sawnwood is exported and the residual products are sold locally. Eastern Siberia is known for its high qualitative pine, so-called Angara pine, and Siberian larch, whilst the Arkhangelsk region in the northwestern part of the country has a high qualitative spruce and pine stand, much like what is found in northern Sweden.

In Siberia there are fewer buyers of residual products, resulting in price pressure from the pulp mills on prices for woodchips and low quality logs. End market pricing is, however, similar for the two regions.

For the operations in Siberia, the transportation costs for sawnwood to port are slightly higher but this is partly offset by cheaper timber and lower transportation costs from forest to industry.

The Arkhangelsk operations do, to a larger extent, incorporate the whole chain of production as it is able to deliver residual products such as woodchips directly to the pulp mill. However, due to direct port access at the Company's industrial site LDK-3, residual products will serve as raw materials for the newly acquired pellet mill. The new pellet mill will consist of the previously acquired facilities that will be moved to Arkhangelsk as soon as a partnership with an external party is in place.

The main difference today between Eastern Siberia and the Arkhangelsk region is dictated by logistics. Arkhangelsk ships to Europe and the Middle East, and has historically been a main supplier to both these regions. Also Eastern Siberia has delivered to the Middle East,

shipping wood via rail and reloading to vessels at the Black Sea port of Novorossiysk, but with the proximity to Asia, a significant proportion is delivered thereto.

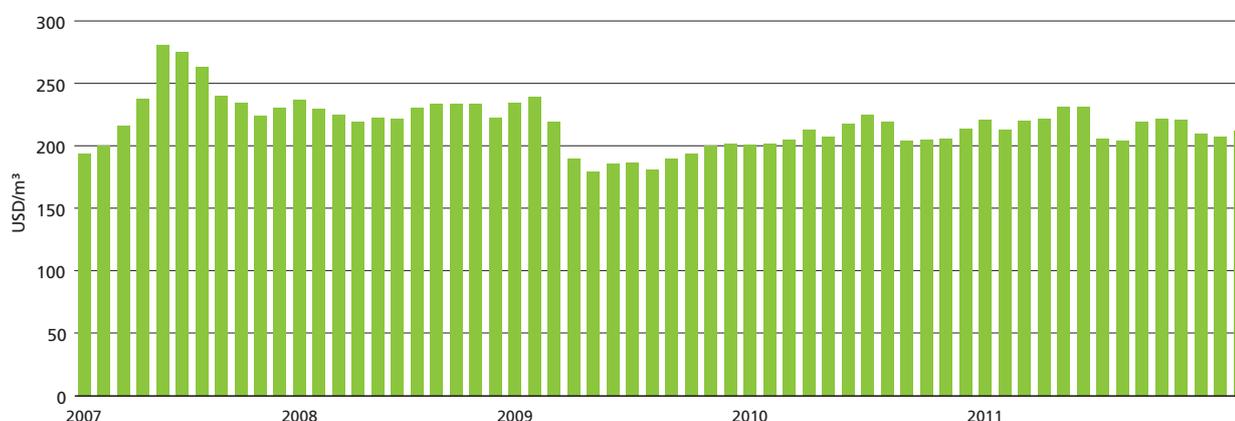
Eastern Siberia has been a main supplier for round logs rather than sawnwood to China. However, as a result of increasing demand and high prices for sawlogs, exports of sawnwood have increased in recent years. RusForest plans to develop and gradually redirect sales to that region.

Moreover, the Arkhangelsk region has a history of forestry and has far reaching ties to Europe and European trade. As a consequence, staff is generally better educated, logistics are more developed, the industry is more regulated and the market for sawmilling residual products is more developed. Thus, the general business environment is more predictable compared to Eastern Siberia.

Eastern Siberia showed low harvesting results in 2011 as focus was on development measures regarding the road networks and sawmill modernisation. Moreover, the new harvesting equipment ordered, had long delivery times and did not arrive in the forest until the end of 2011. Therefore it could not contribute to the production in 2011 significantly.

Sawmilling in Eastern Siberia decreased in 2011 as RusForest started a significant restructuring and expansion program at the sawmill in Boguchany and also shut down one sawing line in Ust Ilimsk, which was deemed unable to reach profitability. Thus, the Company only kept the largest production line, the HewSaw R200 line in Ust Ilimsk in operation. Also this production line has now been deemed unprofitable in the current form and will be closed down or leased out, which is expected to occur early in the second quarter of 2012.

Average prices for delivered sawnwood (USD/m³)



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

Operations

Price levels have partly increased since the price falls of sawnwood in 2009 and they remain suppressed due to a relatively difficult macro situation. The global market shows some signs of price improvements concerning sawnwood, but is not expected to recover to a larger extent until the construction activities in the US and Europe increase.

Eastern Siberia

The region Eastern Siberia consists of Boguchany in the Krasnoyarsk region as well as Magistralny and Ust Ilimsk in the Irkutsk region of Russia.

The forest in the Eastern Siberian region is primarily characterised by softwood with good soil conditions and a larger average stem volume. However, the region's main mills were built during the days of the Soviet Union

(Lesosibirsk, Ust Ilimsk and Bratsk) and are thereby lacking Western European equipment. Harvesting has historically been carried out using mainly manual labour. Modern imported equipment was not used until after 2000 in most locations. In addition, there has been no proper reforestation legislation in Russia or in the Soviet Union and the current legislation has limited focus on such operations. The region as such has always been hampered by its distance from Moscow, poor infrastructure, as well as severe weather conditions with temperatures reaching minus 40°C during the winter.

The Angara River has served as a natural dividing line with regards to forest harvesting. Areas south of the river are to a large extent harvested, whilst the areas north of river are much more intact. Most of RusForest's land plots are located north of the river.

Site	2011 Main investment items		2012–2014 Remaining priority investments	
	Harvesting capacity	Sawmilling capacity	Harvesting capacity	Sawmilling capacity
Boguchany	636,000 m ³ of additional lease rights 2 John Deere harvesting groups Log loader at forest road Road construction: grader, bulldozer, 2 trucks 5 log trucks Service vehicles and homes	Log sorting line, Springer, 36 pockets Woodchips screener Boilers and dryers 2 Forklifts Dry sorting line for sawnwood Rail siding, 8 capacity wagons/day Completion of buildings and infrastructure	1 log loader Road construction equipment: bulldozers, excavators Support transport and equipment Road infrastructure, incl. bridges Harvesting capacity expansion	Continued mill improvements and modernisations, installation works, including pay-loaders
Ust Ilimsk	3 John Deere harvesting groups Road construction: 4 excavators, grader, 2 bulldozers	De-barker Completion of buildings and infrastructure	Log loader at forest road 6 log trucks Road infrastructure, incl. bridges	
Magistralny	2 John Deere harvesting groups Log loader at forest road Roads construction: 1 bulldozer 8 trailers to support CTL harvesting	Log loaders, forklifts, cranes Completion of buildings and infrastructure	Harvesting capacity expansion Log loader Terminal loader 5 log trucks + 6 trailers Road infrastructure, incl. bridges	Completion of boilers and dryers



Log sorting line



Drying chambers in Boguchansky

Boguchansky

Boguchansky sawmill is located in the city Boguchany in the Krasnoyarsk region in Siberia, on the southern bank of the Angara river. The Company leases an area of 374,477 ha with an AAC of 748,400 m³. The average remaining term on the leases in this area is 39 years. The leases are dominated by 40 percent pine forest and 40 percent larch forest. All lease areas are located on the northern bank of the Angara River in close range, which allows for logistical efficiency.

Historically, through the company RusForest Angara, RusForest has had a limited AAC in the region, holding forest lease rights with an AAC of merely 112,400 m³ until 2010, within an area of 48,695 ha. During 2011, following extensive negotiations with the nearby forest lease holders, RusForest acquired three additional leases. This has created a stable platform for the development of the sawmill and significantly reduced the raw material risk. Moreover, it was an especially important step as competition with regards to access to high quality raw material continues to increase in Russia. Even in Siberia more foreign actors, including Chinese companies, have become more active. Furthermore, two large state-funded projects in the Krasnoyarsk region, Angara Paper (in a potential cooperation with Södra, the Swedish economic forestry association, as an industrial partner) and Kraslesinvest (saw mill under construction and potentially later a pulp mill in Boguchany), will also have a significant impact.

The additional leases in Boguchany were only available from the middle of the year, when the preparations for future harvesting and road constructions could begin. New harvesting equipment, which enables an increase of the harvesting capacity up to 420,000 m³, was delivered to the mill by the end of 2011 and harvesting levels are consequently forecast to increase in Boguchany in 2012 as the new equipment is deployed. This will require additional infrastructure investments and supporting equipment, which is planned during the year. With the expanded availability RusForest expects to eliminate the need to compete for the sawlogs in the region, but rather to become a net seller, which will reduce log costs significantly.

The sawmill is equipped with a sawlog table from Hekotek, a sawline, from Finnish Veisto, HewSaw R250 and a green sorting line from Hekotek. Due to bottlenecks in drying and sorting, the sawmill's current capacity of dried sawnwood is currently below 50,000 m³ per year. Following the installations of the new drying chambers, which is expected during the first half of 2012, the Company will reach an annual production capacity of up to 130,000 m³ of dried sawnwood.



Larch sawnwood

Recent development

By the end of 2011, the harvesting and sawmilling investments were completed by 75 percent and 90 percent respectively. RusForest intends to complete the sawmill reconstruction by the first half of 2012. This will eliminate most of the bottlenecks at the sawmill, stemming from under dimensioned drying capacity, lack of sufficient dry sorting capacity as well as lack of electricity connectivity at the Boguchany sawmill. In addition, permanent roads of 20 km were built during 2011, which should be compared to the goal of having completed roads of 30 km by the end of 2012. Prior to 2011 no road construction took place.

In November 2011, the federal government completed and opened a new 1.6 km long bridge over the Angara River, which enables an all year access to RusForest's leases in Boguchany. Previously, all transportation was handled with barge across the river and the new bridge extends the transport period of 2–3 months, or nearly 30 percent higher utilisation of the trucks. In January 2012, the sawmill started to ship woodchips, following the installation of a woodchips screener at the sawmill. Moreover, an extension of the railway from Karabula, 60 km from Boguchany, during 2012–2013 to the village of Yarki (6 km from the sawmill) is expected to reduce transportation costs for sawnwood, woodchips and pulpwood going forward.



The picture shows the new bridge over the Angara river

Ust Ilimsk

RusForest Ust Ilimsk is located near the town of Ust Ilimsk, in the northern part of the Irkutsk region. The Company leases an area of 565,444 ha with an AAC of 942,560 m³ in the Ust Ilimsk region. The average remaining term on the leases for this area is approximately 41 years. The leases have a very high proportion of pine forests. The forest assets are situated in favourable locations with an average distance of 120–150 km from the Company's sawmill and the local pulp mill.

RusForest Ust Ilimsk relies mainly on its own harvesting capacity as well as the capacity of sub-contractors in the harvesting areas. RusForest has focused on the development of harvesting and three new harvesting groups were acquired in 2011. The total harvesting capacity thereafter amounts to 450,000 m³. The Company has also paid significant attention to the development of road infrastructure, that with a new management team in place has laid the foundation for harvesting also during the summer 2012. As this previously was underdeveloped, the Company experienced shortages in sawlogs during the summer/autumn period of 2011.

The sawmill is equipped with a sawline from Finnish Veisto, HewSaw R200, and the current sawmilling capacity amounts to approximately 60,000 m³ per year. Poor logistics and an incomplete sawmill led to a reduction in sawmilling capacity in 2011. Also the remaining facility is considered to remain unprofitable and the Company has decided to rent out the current facility or take it out of service, effective the second quarter of 2012, until a long-term strategy has been set for the sawmill operations in Ust Ilimsk.

Recent development

The harvesting section will be the main focus going forward and sawmilling investments will be considered only when the market situation has improved. 49 km of roads were repaired and built in 2011. Unlike in Boguchany and Magistralny, deliveries to external sawmills are possible in Ust Ilimsk.

The produced saw- and pulplogs will hence be sold locally and on exports. RusForest Ust Ilimsk is situated in close proximity to Ilim Pulp's Ust Ilimsk mill, which is partly dependent on external pulpwood supplies. In 2011, RusForest Ust Ilimsk supplied just below 115,000 m³ pulpwood and woodchips to Ilim Pulp.



The first sawnwood from Magistralny ready for shipping

Magistralny

RusForest Magistralny is located in the village of Magistralny in the Irkutsk region, northwest of the Baikal Lake. RusForest leases an area of 746,000 ha with an AAC of 960,000 m³. The average remaining term of the leases for this area is approximately 38 years. The leases are mainly dominated by larch and pine, corresponding to 38 and 49 percent respectively of the total area.

In August 2011, RusForest Magistralny increased its available AAC by almost 400,000 m³, corresponding to forest leases of 355,000 ha. This was achieved by receiving a special status, called “priority investment project”, from Russia’s Ministry of Industry and Trade. This status can be granted to companies that commit to investing in the Russian forest industry, such as RusForest’s sawmill in Magistralny and results in lower fees while the lease has been obtained without cost as no auction procedure has been conducted before allocation.

Therefore RusForest increased the harvesting capacity by acquiring two new CTL harvesting units, which were delivered in the end of the year and were put into operation in January 2012. Moreover, the infrastructure is being improved in new and old forest leases.

Harvesting capacity amounted to 450,000 m³ by the end of 2011. The market for sawlogs in the region around Magistralny is limited and sales are made mainly through export.

The new forest leases secure the supply of raw materials to the sawmill, where sawnwood is produced with equipment from Italian Storti. The facility is located next to the Baikal-Amur railway line, which leads to major export ports on the Russian East Coast and also provides access to the Central Asian and Chinese export markets.

Recent development

The sawmilling investments were completed by 90 percent by the end of 2011. In addition, 5 km of roads were built in the forest in 2011. This should be compared to the target of having completed another 20 km by the end of 2012.

RusForest started trimming of the sawmill in Magistralny during the second quarter of 2011 and expect to gradually increase production during 2012. Full capacity, 100,000–130,000 m³ (depending on the degree of drying), is expected to be reached after 2012. Residuals such as woodchips are delivered to Ilim Pulp’s mill in Bratsk.

Arkhangelsk

The Arkhangelsk region is located in the northwestern part of Russia covering a total forest area of about 23 million ha. The forest consist of about 60 percent spruce, 20 percent pine as well as birch and aspen. The timber is of high quality and comparable to timber found in northern Sweden.

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

The sawmills in the Arkhangelsk region are ideally located for exports to both Europe and North Africa and there has been a European presence in the region for a long time. Prior to the Russian Revolution in 1917, 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 forest technology at the local university.

RusForest established its presence in the region by acquiring a sawmill with a port of its own, OAO LDK-3, in December 2010. This was followed by the acquisition of NTG in May 2011, which included harvesting operations by the sawmill in Shenkursk.

RusForest's goal is to consolidate forest leases in the region, achieving a balance between existing saw mills and raw material supply after the modernisation of Shenkursk is completed. As previously described, the Company is investigating the prospects and final technical details for construction of a pellet mill on the LDK-3 site.

Site	2011 Main investment items		2012–2014 Remaining priority investments	
	Harvesting capacity	Sawmilling capacity	Harvesting capacity	Sawmilling capacity
Arkhangelsk	4 John Deere harvesting groups Road construction unit: 3 bulldozers, 2 excavators, 1 front loader, 7 dump trucks 38 railway wagons 2 high capacity railway terminal loaders	Finalisation of drying chamber installations at the Shenkursk sawmill Log loaders and forklifts	20 log trucks 1 log loader Improvement of railway terminals Road infrastructure, incl. bridges Harvesting capacity expansion	Continued improvements of the Shenkursk sawmill

In addition, 25 km of roads were repaired and built during 2011, which should be compared to the goal of having completed an additional 30 km of roads by the end of 2012.

Forest leases and harvesting

In order to ensure stable supply of sawlogs to the sawmill, RusForest acquired NTG in May 2011. NTG is a forest- and sawmilling company, engaged primarily in harvesting, with a significant presence in the Arkhangelsk region. The acquisition increased RusForest's forest leases in the region to an area exceeding 1 million ha with an AAC of 981,400 m³. The average remaining term on RusForest's leases in this area is approximately 20 years. The forest is comprised of high quality spruce and pine, similar to the ones in northern Sweden.

Harvesting capacity has during the second half of the year more than doubled and investments in infrastructure and transportation capacity will allow for a significantly higher harvesting volume during 2012 and a higher degree of self-sufficiency, even if a share of the raw material to the sawmills will still have to be purchased on the market. The forest areas are all well-established with forest roads and their own railway terminals.

The sawmills

RusForest's sawmill near the city of Arkhangelsk, LDK-3, is one of the largest sawmills in the area, with a yearly production capacity of 120,000 m³ sawnwood and 22,000–24,000 m³ planed products. Its geographical location entails raw material sourcing via rail, waterways (barges or floating deck) or by truck. LDK-3 has good logistics with its own export port right next to the sawmill. This creates good prerequisites to expand production capacity in the future as RusForest intends to replace the older saw lines and install additional drying capacity.

At the Shenkursk sawmill, part of the NTG acquisition, the main part of the construction of new drying plant, with a capacity of 80,000 m³ in full operation, has been completed. The sawmill resumed the operations in December 2011 after being out of operation during most of 2011.

The logistical advantages of Arkhangelsk, derived from large areas of industrial land with direct access to an in-house quay with access to international waters, enables efficient integration of sawmilling and pellet production.

Operations

Wood-pellets – A new business opportunity

RusForest believes that there is significant potential in establishing large scale wood-pellets production targeted at a growing European market and thereby increase the return on residual products from forestry and sawmilling operations. Unlike most wood-pellet producers, RusForest will in the future together with one of several identified partners, be able to guarantee wood-pellet supply from vertically integrated forest leases and sawmills. The assets acquired from Clean Tech East in December 2011 gives RusForest access to both technology in the form of equipment and otherwise hard-acquired plant-specific skills necessary to run a large-scale plant. This equipment that has been in production and relatively quickly can be moved to Arkhangelsk and consequently be put into operation can produce good quality pellets for the European market.

The fundamental potential up-side for wood-pellets lies in the differences in price comparing oil and gas heating of houses and municipalities with wood-pellet heating. The difference is not yet reflected in wood-pellets prices as those are still mainly driven by the coal consumers. Legislation is believed to force changes on emission rights pricing going forward, which is expected to increase demand of bio-fuel.

Gravel – operations held for sale

RusForest holds a 93 percent interest in Russian Gravel Company, which holds licences on three large granite and gabbro-diabase deposits totalling approximately 150 million m³ in Karelia, near the border of the Arkhangelsk region in northwestern Russia.

Russian Gravel Company's competitiveness relies on the transport distance to the end customers, gravel quality and, in part, sorting. The gabbro-diabase in Belomorsk is of high quality and is better suited for the production of high quality asphalt than granite (which requires more chemical additives). From a transportation perspective, the natural markets for Russian Gravel Company's production are infrastructure and construction projects in the Arkhangelsk region (which are also accessible by water), supply to RZD and Moscow as well as other regions in need of high quality road material.

The gravel market remains weak due to the decrease in the rate of building, particularly within road constructions. However, there are signs of improvement and the level of demand is more even over the year, which is reflected in prices gradually increasing. In addition, large scale state construction projects, such as the Sochi Winter Olympics 2014, the 2018 FIFA World Cup and intentions by the Russian Government to develop infrastructure like reconstruction of the Belomorsk port, should stimulate demand. This, however, will most likely be clearer after the presidential election which was held in March 2012 as well as the formation of the new federal government.

The Russian Gravel Company is listed as an asset held for divestment and the Company has identified several potential buyers.

Summary of development possibilities, efficiency measures and historical investment levels

Summarised below is the current status of development measures considered during the previous equity capital raise in November 2010.

Business unit	Operations	Status, November 2010	Efficiency measures	Current status, January 2012
RusForest Ust Ilimsk	Harvesting	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, transport capacity and harvesting equipment.	90 % completed. More transport capacity is needed.
RusForest Boguchansky	Harvesting	The controlled forest area and the harvesting capacity at RusForest Angara are not sufficient to provide satisfactory sawlog volumes to the Boguchany sawmill.	Investment in harvesting and transport capacity as well as additional forest leases.	80 % completed. Acquired 636,000 m ³ AAC and harvesting capacity, but more transport capacity is needed as well as certain supporting equipment items.
RusForest Magistralny	Harvesting	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, transport capacity and harvesting equipment as well as additional forest leases.	80 % completed. Acquired 400,000 m ³ AAC, but more transport capacity is needed.
RusForest Magistralny	Sawmill	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.	100 % complete.
RusForest Boguchansky	Sawmill	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 new drying and sorting equipment, and expanded electricity grid capacity.	90 % complete. Shall be completed during the first quarter 2012.
RusForest Arkhangelsk	Sawmill and harvesting	An agreement to acquire LDK-3 and Infa was signed in September.	Acquisition of a new sawline and renovation of green sorting will be added.	It has been decided not to go through with the investment.
RusForest Ust Ilimsk	Sawmill	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.	100 % completed. A decision has been taken not to develop sawmilling in Ust Ilimsk and to lease out or sell the equipment until there is financing available for proper complete renovation.

Operations

Summarised below is a disposition of historical investments related to the rights issue in 2010 and the bond issue in 2011. The majority of the investments refer to Arkhangelsk and Boguchany, as LDK-3 and Infa were acquired together with forest lease acquisitions in Boguchany, and it also includes the consumption of working capital and coverage of deficits in activities during the construction phase.

In millions of SEK	Rights issue November 2010	Bond loan May 2011	Total	Major investment items
Arkhangelsk	120.0	95.8	215.7	Acquisition of LDK-3 and Infa, roads, harvesting expansion up to 500,000 m ³
Boguchany	53.4	211.5	264.8	Forest lease acquisitions (636,000 m ³), harvesting equipment, sawmill expansion
Ust Ilimsk	54.6	52.8	107.4	Additional harvesting equipment expansion, road construction
Margistralny	71.9	79.6	151.5	Completion and start up of new sawmill, road construction, harvesting equipment
Russian Gravel Co.	9.3	11.1	20.4	Continous efficiency improvements, new harbour, increased capacity
Corporate	25.8	30.6	56.4	Over head, other
Refinancing of bonds	82.1	7.4	89.5	Bond issue from 2009, repaid pre-maturely in December 2010
Issue costs	20.0	11.3	31.3	Due diligence, financial advisors, lawyers
	437	500	937	

Apart from pure expansionary investments and modernisation, efforts are also made to improve skills at the sawmills and in the harvesting operations, which increase volumes and reduce costs related to downtime, spare parts and other operating costs. This all leads to higher efficiency, high utilisation of the Company's assets and higher quality and prices of end-products.

History

RusForest's forestry activities stem back to Vostok Nafta's acquisition of PIK-89 (now RusForest Ust Ilimsk), OOO Tuba-Les ("Tuba") and Tubesprom. The investment company RusForest (then Varyag Resources AB) was listed on First North on 7 August 2006 and shortly thereafter acquired 50 percent of Vostok Nafta's forestry holdings.

2007

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

In May, RusForest acquired 100 percent of OOO Lesprom; a harvesting and forestry company with certain sawmilling operations in Magistralny in the Irkutsk region. OOO Lesprom's main asset was a forest lease agreement with an area of 34,000 ha or 102,000 m³ AAC.

In August, RusForest acquired 50 percent 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 of 90,000 ha.

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 gravel as well as aggregates and 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 AAC of 112,400 m³, which spread over approximately 48,695 ha. Operations at the new sawmill in Boguchansky LPK started in October.

In July, RusForest entered into an agreement to acquire the Russian forestry company ZAO Bamlesstroj, with a forest lease holding an AAC of 233,000 m³, spread over approximately 231,600 ha.

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

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

2009

In June, RusForest acquired the remaining 50 percent of Vostok Nafta's forestry holdings through an issue in kind. The acquisition marked the beginning of RusForest's transition from an investment company to a commercial forestry company. In conjunction with this, RusForest

decided to divest Russian Gravel Company at a suitable time. Aleksandr Williams was appointed as managing director of RusForest at the same time. The Company changed its name from Varyag Resources AB to RusForest AB in August of 2009.

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 May, RusForest signed a letter of intent with Amalage Limited's ("NTG") majority owner with the aim of merging the two companies. Martin Hermansson was appointed as managing director and group chief executive of RusForest as of 1 June.

The Company's result during 2010 was affected negatively by problems with supply of raw material, which started in June 2010 and continued to the end of November. The extraordinary general meeting on 8 October 2010 resolved on a rights issue of approximately SEK 437 million before issue expenses, and on an authorisation for an issue in kind to enable acquisition of shares in companies within the group in which NTG was a part.

In December 2010, RusForest acquired 86 percent of LDK-3, a sawmilling operation located in the city of Arkhangelsk in northwestern Russia, and 100 percent of Infa, a planing mill at the same site.

2011

In May, RusForest acquired NTG through an issue in kind of 29,437,529 RusForest shares in exchange for shares in and claims against the companies included in the NTG Group. Through the acquisition of NTG, RusForest gained an additional AAC of 807,600 m³, increasing the Company's aggregate AAC to 2.8 million m³ and positioning it as one of the largest forest-controlling companies in Russia in terms of cutting rights.

In the same month, RusForest issued a three year SEK 500 million bond loan with a fixed interest rate of 11 percent. The capital was raised primarily to continue the expansion within harvesting and sawmilling.

In July, RusForest completed the acquisition of ZAO ADAR, OOO LP LDK Kansky and OOO Sibartles. These companies hold forest leases with a combined AAC of 636,000 m³. By acquiring these companies, RusForest created a stable platform for development of the Boguchany sawmill and gained independence in terms of cost and raw material supplies in Boguchany.

In August, RusForest Magistralny was granted priority investment project status by the Russian Minister of Industry and Trade. As a result, RusForest Magistralny was included on the list of priority investment projects within the forestry industry in Russia and was able to receive an additional forest lease with an AAC of 398,700 m³.

In November, the Company strengthened its management team by recruiting Jeppe Strange as Chief Operating Officer.

In December, RusForest acquired Clean Tech East's subsidiaries Eastern Bio Holding AB and B.E.N. Bio Energy Nord Ltd. The acquisition will give RusForest access to wood-pellets equipment that has been in production. The intention is to move the equipment to the LDK-3 site in Arkhangelsk. Negotiations are on-going with a strategic partner to finance the establishment of production in Arkhangelsk.

2012

In February, Vostok Nafta issued a short term loan in the amount of SEK 70 million to enable the Company to maintain momentum regarding harvesting and to be able to continue to invest in sawmills, pending a planned rights issue.

The same month, RusForest received bank financing amounting to USD 10.5 million. The first tranche of the loan amounted to USD 5 million.

Summary of financial information

The following summary of RusForest's financial statements should be read in conjunction with RusForest's audited consolidated financial statements and notes pertaining thereto for the financial years 2008, 2009 and 2010 as well as the year-end report for the financial year 2011, all of which are included or incorporated in this prospectus by reference. Financial statements are available in digital form on the Company's website, www.rusforest.com. 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 year 2008. 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). 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).

Consolidated income statements

In thousands of SEK	Jan–Dec 2011	Jan–Dec 2010	Jan–Dec 2009	Jan–Dec 2008
	Unaudited	Audited	Audited	Audited
Turnover	431,794	300,846	207,526	–
Cost of sales	(509,122)	(297,346)	(201,101)	–
Gross Profit	(77,328)	3,500	6,425	–
Other income	12,395	9,758	20,209	968
Distribution expenses	(79,739)	(83,770)	(49,726)	–
Administrative expenses	(113,719)	(84,245)	(65,328)	(20,020)
Loss disposal of interest	–	–	–	(19,324)
Other expenses	(26,083)	(11,101)	(25,166)	(47,393)
Operating profit	(284,474)	(165,858)	(113,586)	(91,769)
Financing items	(52,635)	(19,074)	5,717	28,991
Gain on bargain purchases	–	51,190	–	–
Income from acquisition of RusForest	–	–	380,009	–
Goodwill impairment	–	–	(142,570)	–
Share of losses from associates	–	(100)	–	(5,925)
Profit before tax from continuing operations	(337,108)	(133,842)	129,570	(68,703)
Income tax	65,488	24,767	7,603	–
Result for the period from continuing operations	(271,620)	(109,075)	137,173	(68,703)
Result from discontinued operations	(17,079)	(21,149)	(19,501)	(33,614)
Result for the period	(288,699)	(130,224)	117,672	(102,317)

Consolidated balance sheets

In thousands of SEK	31 Dec 2011	31 Dec 2010	31 Dec 2009	31 Dec 2008
	Unaudited	Audited	Audited	Audited
Property, plant and equipment	1,095,744	768,054	656,632	71
Investments in associates	2,349	2,434	2,300	173,940
Other non-current assets	586,160	63,860	34,104	9,180
Inventory	141,115	64,490	42,747	–
Trade and other short-term receivables	127,400	83,691	61,801	205,910
Other non-current assets	8,321	1,516	2,785	–
Cash and cash equivalents	23,571	67,195	26,085	55,704
Assets classified as held for sale	92,994	100,019	128,525	141,419
Total assets	2,077,655	1,151,258	954,978	586,224
Equity	1,066,329	979,072	708,994	546,251
Non-current interest bearing loans and borrowings	609,401	10,703	20,218	–
Other non-current liabilities	178,842	61,196	62,161	–
Current interest bearing loans and borrowings	73,652	15,627	37,727	–
Other current liabilities and provisions	136,822	72,132	82,385	1,776
Liabilities directly associated with the assets classified as held for sale	12,609	12,528	43,494	38,198
Total equity and liabilities	2,077,655	1,151,258	954,978	586,224

Consolidated cash flow analysis

In thousands of SEK	Jan–Dec 2011	Jan–Dec 2010	Jan–Dec 2009	Jan–Dec 2008
	Unaudited	Audited	Audited	Audited
Cash flow from operating activities	(185,024)	(149,108)	(37,956)	(9,391)
Cash flow from investing activities	(306,228)	(183,479)	(6,526)	(244,196)
Cash flow from financing activities	452,379	373,414	15,463	(390)
Cash flow during the period	(38,873)	40,827	(29,019)	(253,977)
Cash and cash equivalents, beginning of period	67,195	26,085	55,704	318,095
Exchange rate differences on cash and cash equivalents	(4,751)	283	(601)	(8,414)
Cash and cash equivalents, period end	23,571	67,195	26,084	55,704

Consolidated key figures

	2011	2010	2009	2008
Profitability				
Gross profit margin (%)	Neg.	1.2	3.1	–
Operating profit margin (%)	Neg.	Neg.	Neg.	n/a
Net profit margin (%)	Neg.	Neg.	56.7	n/a
Return on equity (%)	Neg.	Neg.	16.6	n/a
Capital structure				
Equity ratio (%)	51.1	85.0	74.2	93.2
Net debt ratio (%)	61.8	Neg.	4.5	Neg.
Interest coverage ratio (%)	Neg.	Neg.	Neg.	–
Data per share				
Result per share (SEK)	(3.3)	(4.4)	6.5	(7.7)
Dividend per share (SEK)	0.0	0.0	0.0	0.0
Number of shares outstanding, period end	95,807,694	65,522,520	21,840,840	13,303,200
Employees				
Average number of employees	1,987	1,454	1,600	1,539

Summary of financial information

Key figure definitions

Dividend per share

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

Equity ratio

Equity as a percentage of total assets

Gross profit margin

Sales minus cost of sales as a percentage of net sales

Interest coverage ratio

Operating profit before depreciation and amortisation plus interest income divided by interest cost

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

Operating profit margin

Operating profit as a percentage of net sales

Result per share

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

Return on equity

Net profit as a percentage of average shareholders' equity

Comments on the financial development

This information should be read in conjunction with RusForest's audited consolidated financial statements and notes pertaining thereto for the financial years 2008, 2009 and 2010 as well as the year-end report for the financial year 2011, all of which are incorporated in this prospectus by reference. The Company's financial statements are available in digital form on the Company's website, www.rusforest.com. This information should also be read in conjunction with the section, "Summary of financial information".

Segment information

The Company has from the financial year 2009, segment reporting based on activity. For the financial year 2008, no segment reporting was established as the Company until 1 June 2009, was an investment company.

SEK million	Jan-Dec 2011	Jan-Dec 2010	Jan-Dec 2009
	Unaudited	Audited	Audited
Revenue			
Sales of sawnwood	243.2	199.9	128.3
Sales of sawlogs	72.7	54.3	36.8
Sales of pulpwood	33.4	11.7	12.0
Sales of woodchips	16.9	20.0	5.3
Other revenue	66.0	14.9	25.1
Total	431.8	300.8	207.5

Sales and earnings

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

1 January 2011 – 31 December 2011 compared to 1 January 2010 – 31 December 2010

Turnover

In 2011, RusForest's turnover amounted to SEK 431.8 million (SEK 300.8 million). The turnover was attributable to the sale of sawnwood amounting to SEK 243.2 million and equivalent to 56 percent of the turnover, sawlogs SEK 72.7 million, pulpwood SEK 33.4 million, woodchips SEK 16.9 million, and other revenue of SEK 66.0 million. The share of sold sawn goods declined compared to the previous year mainly due to less production than planned and an increase in sales of timber from Ust Ilimsk. In 2011, the export prices of sawnwood fluctuated between USD 200–240/m³. The share of pulpwood and planed wood products increased in proportion to total revenue. This was a consequence of the increased volume of pulpwood and planed timber from NTG.

Operating expenses

In 2011, the cost of sales amounted to SEK 509.1 million (SEK 297.3 million). Accordingly, the Company reported a gross profit of SEK –77.2 million. The main reason for the increased costs was the integration of the acquired businesses that contributed to higher production volumes. Also, higher fuel costs, road construction and

maintenance, as well as repair and maintenance costs of machinery contributed to the increase. During the period, the distribution expenses of SEK 79.7 million (SEK 83.8 million) consisted of customs, railroad tariffs, loading and transportation costs. Administrative expenses amounted to SEK 113.7 million (SEK 84.2 million) during the period and consisted primarily of personnel costs in the amount of SEK 58 million.

Profit/loss before financial items

For the year 2011, RusForest reported a profit before financial items of SEK –284.5 million (SEK –165.9 million). The increased loss was primarily driven by increased costs of goods sold, but also by increased administrative costs. These were due to start-up costs and low utilisation rates of certain saw mills.

Profit/loss for the period

In 2011, the financial income amounted to SEK 2.1 million (SEK 3.4 million). The financial expenses in 2011 amounted to SEK 54.7 million (SEK 22.5 million). The increase in financial expenses is mainly attributable to interest expense for the Company's bond loan. The profit before tax from the continuing operations amounted to SEK –337.1 million (SEK –133.8 million). The net profit for the year amounted to SEK –288.7 million (SEK –130.2 million).

1 January 2010 – 31 December 2010 compared to 1 January 2009 – 31 December 2009

As the operations were carried out as an investment company until 31 May 2009 the financial statements for 2010 are not fully comparable to the financial statements for 2009.

Turnover

In 2010, RusForest's turnover amounted to SEK 300.9 million (SEK 207.5 million). The increase was primarily a result of the conversion of the Company from an investment company to an operating company on 1 June 2009 resulting in only seven months of sales in 2009. The turnover in 2010 was attributable to the sale of sawnwood amounting to SEK 199.9 million and equivalent to 66.4 percent of the turnover, sawlogs SEK 54.3 million, woodchips SEK 20.0 million, pulpwood SEK 11.6 million and other revenue of SEK 14.9 million. Following an increase towards the end of 2009, export prices for sawnwood continued to increase to levels above USD 220/m³ after which they fell back to levels between USD 200–220/m³.

Operating expenses

In 2010, the cost of sales amounted to SEK 297.3 million (SEK 201.1 million). Accordingly, the Company reported a gross profit of SEK 3.5 million, equivalent to a gross profit margin of 1.2 percent. The cost of sales was higher on a *pro rata* basis compared to 2009 primarily due to increase in fuel prices, cost of spare parts and an increased cost for purchased sawlogs. The cost of sawlogs purchased on the market increased by 23 percent during 2010. During the period, the distribution expenses of SEK 83.8 million (SEK 49.7 million) consisted of customs duties, railroad tariffs, loading and hauling-to-loading costs. These costs were directly attributable to the delivered volumes. However, there was a significant increase in railroad tariffs in Russia during the period as a result of wagon deficit from Russian Railways. Administrative expenditure amounted to SEK 84.2 million (SEK 65.3 million) during the period and consisted primarily of personnel costs in the amount of SEK 38.7 million.

Profit/loss before financial items

In 2010, RusForest reported a result before financial items of SEK -165.9 million (SEK -113.6 million). The results are not fully comparable because of the conversion of the Company from an investment company to an operating company. The increased loss was mainly driven by an increase in distribution expenses and administrative expenditure.

Profit/loss for the period

In 2010, the financial income amounted to SEK 3.5 million (SEK 9.6 million). During 2010, the financing expenses amounted to SEK 22.5 million (SEK 20.5 million). The profit before tax from the continuing operations amounted to SEK -133.8 million (SEK 129.6 million). The decrease relates primarily to a significant decline in bargain purchases following the acquisition of RusForest in 2009. The result after tax from discontinued operations was SEK -21.1 million (SEK -19.5 million). The result for the year amounted to SEK -130.2 million (SEK 117.7 million).

1 January 2009 – 31 December 2009 compared to 1 January 2008 – 31 December 2008

RusForest conducted its business as an investment company during the period 1 January 2009 to 31 May 2009 as well as during the fiscal year 2008. Due to this the financial statements are not fully comparable between the years.

Turnover

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 in 2009 was mainly attributable to sales of sawnwood amounting to SEK 128.3 million and equivalent to 61.8 percent of the turnover, sawlogs SEK 36.8 million, pulpwood SEK 12.0 million, woodchips 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 percent 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 percent. 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. During the period, the distribution expenses of SEK 49.7 million (SEK 0 million) consisted of customs duties, railroad tariffs, loading and transportation costs. These costs were directly attributable to the delivered volumes. Administrative expenditure amounted to SEK 65.3 million (SEK 20.0 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 decreased as a result of layoffs, a review of the manufacturing process and redistribution of tasks.

Profit/loss before financial items

In 2009, RusForest reported a result 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 RusForest Ust Ilimsk during the summer, in conjunction with lower prices on sawnwood in general during 2009, contributed to the loss.

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 profit 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. The result 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).

Liquidity and cash flow analysis

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

Liquidity

On 31 December 2011, RusForest's cash and cash equivalents amounted to SEK 23.6 million. Cash and cash equivalents amounted to SEK 67.2 million as at 31 December 2010, to SEK 26.1 million as at 31 December 2009, and SEK 55.7 million as at 31 December 2008.

1 January 2011 – 31 December 2011 compared to 1 January 2010 – 31 December 2010

In 2011, cash flow amounted to SEK –38.9 million (SEK 40.8 million). Cash flow from operating activities before changes in working capital amounted to SEK –159.6 million (SEK –114.8 million). The negative cash flow was due to, among other things, integration of acquired businesses that contributed to higher production volumes, but also fuel costs, road construction and maintenance, as well as repair and maintenance costs for the machines. The cash flow from changes in working capital amounted to SEK –25.5 million (SEK –34.3 million). Accordingly, the cash flow from the operating activities amounted to SEK –185.0 million (SEK –149.1 million). The cash flow from investing activities amounted to SEK –306.2 million (SEK –183.5 million). The investments consisted primarily of investments in connection with construction of sawmills, equipment to solve bottlenecks in logging and sawmill operations as well as acquisitions of companies. The cash flow from financing activities amounted to SEK 452.4 million (SEK 373.4 million). The positive cash flow was mainly attributable to the issuance of a bond in the amount of SEK 500.0 million.

1 January 2010 – 31 December 2010 compared to 1 January 2009 – 31 December 2009

In 2010, cash flow amounted to SEK 40.8 million (SEK –29.0 million). Cash flow from operating activities before changes in working capital amounted to SEK –114.8 million (SEK –82.1 million). The cash flow from changes in working capital amounted to SEK –34.3 million (SEK 44.1 million). Accordingly, the cash flow from the operating activities amounted to SEK –149.1 million (SEK –38.0 million). The cash outflow from operating activities was primarily due to significant cost increases in fuel prices, spare parts and purchased timber. Also, fees to consultants were paid during the period. The cash flow from investing activities amounted to SEK 183.5 million (SEK –6.5 million) and consisted primarily of investments in the resumption of construction activities, acquisition of additional sorting capacity, boiler capacity and harvesting capacity as well as the acquisition costs for LDK-3 and Infa. The cash flow from financing activities amounted to SEK 373.4 million (SEK 15.5 million). The positive cash flow was mainly attributable to the issuance of new shares in the amount of SEK 436.8 million, which to a certain extent was counteracted by the repayment of bank loans and leasing.

1 January 2009 – 31 December 2009 compared to 1 January 2008 – 31 December 2008

In 2009, 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 negative cash flow was, among other things, attributable to the start-up of the Boguchansky sawmill and the quarry in Belomorsk. The cash flow from 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) and is mainly due to high start-up costs related to the sawmill in Boguchansky and the gravel pit in Belomorskij. 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 grant 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.

Investments

1 January 2011 – 31 December 2011

On 2 May 2011, RusForest acquired NTG through an issue in kind of 29,437,529 shares. The acquisition added an AAC of 807.600 m³ and significant sawmilling capacity for the Company. Through the acquisition, the Company overtook SEK 237 million worth of assets. Payments from investing activities consisted mainly of the acquisition of forest leases, harvesting equipment and expansion of the sawmill in Boguchany.

1 January 2010 – 31 December 2010

On 22 December 2010, RusForest acquired 86 percent of LDK-3 and 100 percent of Infa for a total consideration of SEK 83.0 million. The acquisition added significant sawmilling capabilities to the Company. Through the acquisition the Company consolidated SEK 191 million in assets and SEK 99.9 million in liabilities to its balance sheet. Other cash outflows from investing activities were mainly comprised of the restart of construction activities at Magistralny and purchase for additional capacity for Boguchansky. In 2010, funding of Russian Gravel Company decreased to SEK 6.1 million thanks to gravel production and sales activities performed during the reporting period accompanied by lower leasing payments.

1 January 2009 – 31 December 2009

On 1 June 2009, RusForest acquired 50 percent 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 in exchange for 50 percent 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 Company as this company was listed as an asset classified as held for sale in the balance sheet.

1 January 2008 – 31 December 2008

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 Company. 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.

Property, plant and equipment

RusForest's tangible assets, with a book value of SEK 1,095.7 million as at 31 December 2011, refers primarily to buildings, infrastructure and machinery. Leased tangible fixed assets amounted to a value of SEK 120.8 million and pledged tangible fixed assets amounted to a value of SEK 112.1 million.

Intangible assets

RusForest's intangible assets, with a book value of SEK 478.5 million as at 31 December 2011, of which SEK 441 million were forest leases and SEK 37.4 were other intangible assets. Other intangible assets refer primarily to customers and land rights relating to the acquisition of 86 percent of LDK-3 and 100 percent of Infa.

Financing

RusForest's financing is mainly comprised of shareholders' equity as well as interest-bearing debt in the form of an outstanding senior unsecured bond. The shareholders' equity in the Company amounted to SEK 1,066.5 million as at 31 December 2011. On 31 December 2011, the Company's interest-bearing loans and borrowings amounted to SEK 683.5 million, of which SEK 73.7 million were current interest bearing loans and borrowings. The Company also had non-current non-interest bearing liabilities in the amount of SEK 136.8 million and current non-interest bearing liabilities amounting to SEK 178.9 million. In comparison to 31 December 2010, the increase in interest bearing liabilities is primarily a result of the bond of SEK 500 million, issued in May 2011, which matures in May 2014. The Company's cash and cash equivalents amounted to approximately to SEK 23.6 million as at 31 December 2011.

Shareholders' equity and debt

Below follows an account of RusForest's shareholders' equity and debt as at 31 December 2011.

In thousands of SEK	31 Dec 2011
Current debt:	
Guaranteed	0
Secured	51,231
Unguaranteed/unsecured	125,319
Total current debt	176,550
Non-current debt:	
Guaranteed	0
Secured	78,965
Unguaranteed/unsecured	500,000
Total non-current debt	578,965
Shareholders' equity:	
Share capital	958,077
Share premium reserve	686,598
Other reserves	(64,151)
Retained earnings	(518,232)
Total shareholders' equity	1,062,292

Net indebtedness

Below follows an account of RusForest's net indebtedness as at 31 December 2011.

In thousands of SEK	31 Dec 2011
A. Cash	0
B. Cash equivalents	23,571
C. Trading securities	0
D. Liquidity (A)+(B)+(C)	23,571
E. Current financial receivables	0
F. Current bank debt	27,335
G. Current portion of non-current debt	0
H. Other current financial debt	149,215
I. Current financial debt (F)+(G)+(H)	176,550
J. Net current financial indebtedness (I)-(E)-(D)	152,979
K. Non-current bank loans	0
L. Bonds issued	500,000
M. Other non-current loans	78,965
N. Non-current financial indebtedness (K)+(L)+(M)	578,965
O. Net financial indebtedness (J)+(N)	731,944

Below follows the maturity structure for the Company's outstanding loans.

In thousands of SEK	Currency	Nominal interest rate	Year of maturity	31 December carrying amount
8,130	USD	12.5%	2012	6,236
3,647	RUB	13.0%	2012	884
6,007	RUB	12.0%	2013	3,218
1,502	RUB	9.7%	2012	1,500
24,028	USD	9.0%	2012	24,211
43,314				36,049

Working capital statement

The Company's current working capital is not sufficient to support the ongoing working plan, including planned investments, during the coming twelve months. The Company believes that lack of working capital occurs by the end of April 2012 and that the total capital requirement during the coming twelve month period amounts to approximately SEK 452 million. The current need refers to the repayment of the bridge financing as well as previous debt to Vostok Nafta amounting to SEK 143 million, strengthening of the working capital amounting to SEK 134 million as well as investments in the existing operations, as described in this prospectus, amounting to SEK 175 million. To ensure the Company's working capital needs, the Company carries out an issue with

preferential rights for the existing shareholders of the Company, of which 52.6 percent have been subscribed for through subscription agreements (for details, see section "Invitation to subscribe for shares in RusForest" in "Subscription Undertakings"). The Company believes that the funds supplied to the Company of approximately SEK 452 million in connection with the proposed Rights Issue is sufficient to further finance current needs over the next twelve months. If the forthcoming Rights Issue provides the Company less than SEK 452 million, the Company may reduce the rate of investment or refrain from investments. If required, the Company may also accelerate the sale of the subsidiary Russian Gravel Company, and in the last case also reduce the assets in any region through divestment to focus the processing of other regions.

Significant events after 31 December 2011

In February, Vostok Nafta issued a short term loan in the amount of SEK 70 million to enable the Company to maintain momentum regarding harvesting and to be able to continue to investment in sawmills, pending a planned rights issue. The loan will run from 15 February 2012 to 31 August 2012 with an annual interest of 15 percent.

The same month, RusForest received bank financing amounting to USD 10.5 million. The first tranche of the loan amounted to USD 5 million. The loan is for seven years with an annual interest of 12 percent.

Outlook

Despite the high uncertainty in the global economy, global demand for sawnwood is showing some signs of price improvement. It is primarily affected by the economic development in Europe and the U.S. which in turn affects global trade flows and, thereby, also Russian producers and end customers.

Russia is becoming increasingly integrated with the rest of the world in terms of trade, following the anticipated WTO accession at the end of 2012. This is expected to increase the value of the Russian forests, which will lead to increased harvesting volumes and revenues.

As a result of the planned and described increase in production at the sawmills in Boguchany, Magistralny and Shenkursk in 2012, the average cost of goods sold will decline, and the proportion of dried sawnwood will increase. That leads to increased average revenues also in a weak market and a reduction in costs per unit due to higher utilisation at the mills.

The Company's acquisition of additional long-term forest leases in 2011, combined with proper planning and extensive road development, has created the prerequisites to support the finalisation of planned investments at the Company's sawmills. The Company expects to resolve the remaining deficiencies during 2012.

The funds raised through the Rights Issue will partly secure continued financing of more forest roads, which are still being developed at all locations. In 2011, the Company completed 55 km of permanent roads in Eastern Siberia and in the Arkhangelsk region. This is of great importance in order to increase the utilisation of existing harvesting equipment.

No further expansion other than what is described in this prospectus has been approved, or will be approved, until the operations are profitable.

RusForest has the intention to continue to develop its current assets, by way of finding partners and new customers for utilisation of residual products. Furthermore, the Company will continue to educate its staff and increase efficiency to achieve the mid-term target of a final sawnwood production of 500,000–550,000 m³.

Share capital and ownership

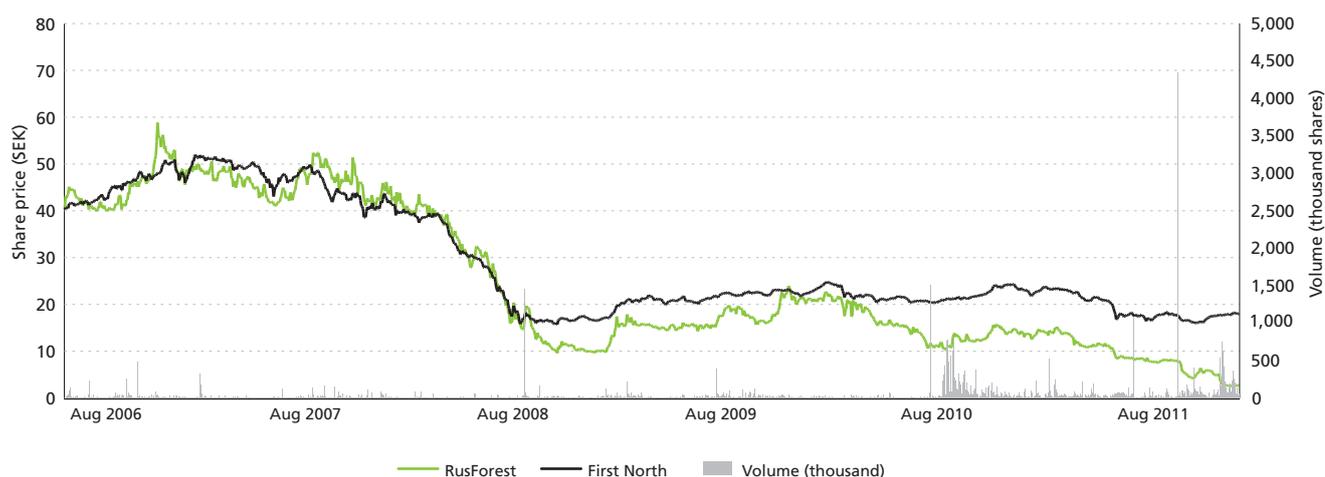
General information concerning the RusForest share

The shares in RusForest have been issued in accordance with Swedish law and the rights of the owners, including minority shareholders, associated with the shares can only be altered in accordance with the procedures in the Swedish Companies Act (Sw. *aktiebolagslagen (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 liquidation. The shares are not subject to any limitations as regards the right to transfer ownership. In the event of a share issue, existing shareholders have preferential rights to newly issued shares in accordance with, and subject only to the exceptions specified in, the Swedish Companies Act. In the Company's articles of association there are special provisions regarding the liquidation of the Company and regarding amendments of certain provisions in the articles of association. At the annual shareholders' meeting to be held in 2013, it shall be determined, according to the provision in the Company's articles of association, whether the Company shall enter into liquidation, or whether the Company shall continue its operations. When RusForest was incorporated, as an investment company, it was intended to mimic the legal structure of an investment fund regarding its lifetime, wherefore the

provision was added to the articles of association. With the Company's current business concept and strategy the provision has become obsolete. However, due to the provision in the articles of association regarding attendance requirements when changing the provision in question, it has not been removed from the articles of association. Should the annual shareholders' meeting resolve that the Company shall continue its operations, the provision shall cease to apply. A resolution regarding amendments of sections 3, 13 or 14 of 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 version of the current articles of association, see the section, "Articles of association".

In connection with RusForest's acquisition of NTG in April 2011, Martin Hermansson undertook not to, for a period of two years after the acquisition, transfer the shares that he received as consideration in the transaction.

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 – 29 February 2012. The issue 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 capital and ownership

Share register

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

Share capital, new issue of shares and authorisations

The Company's share capital is expressed in SEK and is distributed among the shares issued by the Company with a quota value, which is also expressed in SEK.

In order to enable the Rights Issue, the extraordinary general meeting on 1 March 2012 resolved to reduce the Company's share capital by SEK 862,269,246, without redemption of shares. The reduction was executed for the purpose of securing cover of losses and did therefore not require permission from the Swedish Companies Registration Office. Through the share capital reduction the share's quota value was lowered from SEK 10 to SEK 1.

The resolution to reduce the Company's share capital required the limits of the Company's share capital in the articles of association to be changed. Hence, it was resolved at the extraordinary general meeting to change section 4 of the Company's articles of association so that the permitted share capital is not less than SEK 60,000,000 and not more than SEK 240,000,000.

The result of the reduction was, and is as of the date of this prospectus, that the share capital in RusForest amounts to SEK 95,807,694, distributed among 95,807,694 shares. Accordingly, the share's quota value is SEK 1.

As the Rights Issue, for practical reasons, was to be effected through a decision by the Board of Directors it

was resolved at the extraordinary general meeting to authorise the Board of Directors to resolve to issue new shares. The authorisation allows the Board of Directors to, for the period up to the next annual shareholders' meeting, resolve to issue, whether on one or several occasions and with preferential rights for the shareholders, new shares. Provided, however, that any such issue must not result in the Company's share capital exceeding the Company's maximum share capital as set out in the articles of association, as adopted from time to time. Furthermore, such new share issue may in addition to subscription in cash include a provision that new shares shall be subscribed for by a right of set-off.

In order to prepare for the Rights Issue it was also required to raise the limits for the maximum share capital and the maximum number of shares in the Company's articles of association. It was therefore resolved at the extraordinary general meeting that new articles of association will be registered in order to enable the Company to register the Rights Issue with the Swedish Companies Registration Office. In the new articles of association the limits for the share capital will amount to a maximum of SEK 800,000,000 distributed among a maximum of 800,000,000 shares, maintaining a quota value of SEK 1.

At the Board of Directors' meeting on 7 March 2012, it was, with support of the authorisation from the shareholders' meeting, resolved to carry out the Rights Issue where one (1) existing share in RusForest entitles the holder to subscribe for four (4) new shares in the Company. The subscription price was set to SEK 1.18 per share.

Changes in the share capital

The following table shows the changes in RusForest share capital from the establishment of the Company to the current new issue.

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	4,352,650	43,526,500	3,221,450	132,214,500	10
2008	New issue	81,750	817,500	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	655,255,200	10
2011	New issue	29,437,529	294,375,290	94,960,049	949,600,490	10
2011	New issue	847,645	8,476,450	95,807,694	958,076,940	10
2012	Reduction in share capital	–	–862,269,246	95,807,694	95,807,694	1
2012	New issue	383,230,776	383,230,776	479,038,470	479,038,470	1

Shareholders

As at 31 December 2011, the number of shareholders in RusForest was in total approximately 1,300. The table below reflects the ten largest owners as at 31 December 2011.

Shareholders	Number of shares	Number of shares and votes, %
Vostok Nafta	28,165,209	29.4
East Capital ¹⁾	10,270,123	10.7
Alecta Pensionsförsäkring	9,209,490	9.6
Morgan Stanley & Co Inc	6,000,293	6.3
BNY GCM Client Accounts	5,479,343	5.7
SSB CL Omnibus AC	3,097,098	3.2
Lillevrå Säg AB	2,722,000	2.8
Staffan Rasjö	2,697,944	2.8
Avanza Pension	2,196,870	2.3
TD Waterhouse Inc Serv (CAN) Inc	1,887,900	2.0
Others	24,081,424	25.1
Total	95,807,694	100.0

1) This holding is a merger of general minor holdings held by different East Capital funds.

Shareholders' agreement

As far as the Board of Directors is aware, there are no shareholders' agreements or similar arrangements that can lead to a change of control of the Company.

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 of the management, containing a right to acquire a maximum of 1,200,000 shares in RusForest. Each stock option shall entitle the holder to subscribe for one share in the Company by paying an exercise price of (a) SEK 27.60 for stock options under Series 1, (b) SEK 29.90 for stock options under Series 2 or, (c) SEK 34.50 for stock options under Series 3. The exercise price and the number of shares that each stock option entitles the holder to subscribe for 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 variables.

The right to acquire new shares under the employee stock options shall for each holder be vested, with 1/5 of the employee stock options allocated from each Series to the holder as from the date falling one year from the

date of the initial allocation (the "anniversary date").

An additional 1/5 of the employee stock options will be allocated to the holder on each of the four subsequent anniversary dates, provided that the holder at such dates is still employed within the Company. 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 after which period all vested employee stock options shall 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 are intended to be used to finance the expenses related to the benefit, including the social security contributions, if any, when the stock options are exercised.

Bond

In May 2011, RusForest issued a three-year bond loan of SEK 500 million. The bonds carry a fixed annual interest of 11 per cent and RusForest may elect to redeem all of the bonds (but not less than all) on any banking day falling after 12 May 2012.

In accordance with the terms and conditions of the bond loan, RusForest applied for listing of the bonds at the Corporate Bond's list of NASDAQ OMX Stockholm. The first day of trading of the bonds was 18 November 2011.

Loans that entitle the creditor to subscribe and pay for shares by way of set-off

Vostok Nafta has granted two loans to RusForest in the form of a bridge loan and an acquisition loan that both can, pursuant to the terms and conditions when the loans were granted and the Board of Directors' resolution on the Rights Issue, be used to subscribe and pay for shares by way of set-off in the Rights Issue.

The bridge financing consists of a loan amounting to SEK 70,000,000 that carries a fixed annual interest rate of 15 per cent. The loan matures on 31 August 2012, but even if it is redeemed earlier, for example through subscription by way of set-off in the Rights Issue, interest for the entire term of the loan will be payable. The total claim, including accrued interest, that can be used to

Share capital and ownership

subscribe and pay for shares in the Rights Issue by way of set-off amounts to SEK 75,775,000.

The acquisition loan was granted in order to finance the Company's acquisition of Eastern Bio Holding AB and B.E.N. Bio Energy Nord Ltd. from Clean Tech East. The acquisition loan amounted to SEK 61,056,006 when it was granted. The loan carried a fixed annual interest rate of 11.5 per cent up to and including 31 December 2011. From 1 January 2012 the loan carries a fixed annual interest rate of 15 per cent. In the same manner as for the bridge financing the interest payable includes the period up to and including 31 August 2012 even if the loan is redeemed earlier, for example through subscription by way of set-off in the Rights Issue. The total claim, including accrued interest, that can be used to subscribe and pay for shares in the Rights Issue by way of set-off amounts to SEK 67,836,667.

Dividend policy

Dividend payments to shareholders are dependent on RusForest's result, financial position and investment needs. Even so – 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.

Dividend payments 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. In conjunction with expiration of the statutory 10 year limitation period, the dividend amount accrues to the Company. There are no restrictions for dividends or special procedures for shareholders residing outside Sweden and payment is made via Euroclear in the same manner as with shareholders residing in Sweden. However, for shareholders who are not resident for tax purposes in Sweden, a normal Swedish coupon tax is withheld; see the section "*Tax Issues in Sweden*".

While the bond loan 2011/2014 remains outstanding, RusForest has undertaken to not pay any dividends to the shareholders. Furthermore, as RusForest resolved on a reduction of the share capital for the purpose of securing cover for losses in March 2012, RusForest will, during a period of three years following the registration of the resolution to reduce the share capital (that took place in March 2012), be prohibited from passing a resolution to pay dividends unless RusForest is granted permission to do so by the Swedish Companies Registration Office (or a court of general jurisdiction in disputed cases).

Board of Directors, management and auditors

Board of Directors

The Board of Directors is responsible for the Company's organisation and the administration of the Company's affairs and shall continuously evaluate RusForest's financial position. The work conducted in the Board is led by the chairman of the Board. Currently, RusForest's Board of Directors consists of five Board members, including the chairman, all of whom were elected by the shareholders' meeting. The assignments for all Board members are determined by the annual shareholders' meeting and apply until the close of the following annual shareholders' meeting.



KENNETH ERIKSSON

Chairman of the Board since 2011. Kenneth Eriksson is a mechanical engineer and has 40 years of experience from the forest industry. Between 1994 and up to retirement in 2010, Kenneth Eriksson was employed within SCA, *inter alia*, as COO of SCA (2008–2010),

managing director of SCA Forest Products (2000–2008), managing director of SCA Graphic Paper (1997–1999) and as managing director of SCA Graphic Sundsvall (1994–1996). Kenneth Eriksson is independent in his relations to RusForest, its management and its major shareholders.

Between 1984 and 1993 Kenneth Eriksson was employed at Sunds Defibrator AB, at first as deputy managing director (1984–1986) and then as managing director (1986–1993). Before that he was employed as project manager at SCA Östrand Kraft (1979–1983), as a consultant/owner at Speab (1978–1979), as a project engineer at MoDo Chemetics (1973–1979) and as a designer at MoDo Mekan AB (1971–1972).

Holding in RusForest: Kenneth Eriksson holds 15,000 shares in RusForest as of 7 March 2012 and 150,000 call options, issued by Vostok Nafta, each entitling to one share in Rusforest.

Current corporate positions March 2012: Kenneth Eriksson is chairman of the Board of Statkraft SCA Vind AB. He is a Board member of Fastighetsaktiebolaget Norrporten as well as of NS Holding AB.

Previous corporate positions since March 2007: Kenneth Eriksson was previously a Board member in the following companies: EFT SCA, Munters Aktiebolag, Arbio Aktiebolag, BasEL i Sverige AB, HPC Rön AB, HPC Ammerån AB, HPC Byske AB, HPC Edsox AB, Industrikraft i Sverige AB and the non-profit organisation The Confederation of Swedish Enterprise. He has also previously been a Board member and chairman of the Board of SCA Timber AB and SCA Skog AB and he has previously been a Board member, chairman of the Board and managing director of SCA Graphic Sundsvall Aktiebolag.



SVEN HIRDMAN

Honorary chairman of the Board since 2011. Chairman of the Board from 2006 to 2011. Sven Hirdman is an ambassador and has served in the Swedish Foreign Service from 1963 to 2004. Between 1994 and 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 he has also served at the Swedish Army's Interpreter School in Uppsala.

Sven Hirdman's many previous assignments include: associate director of SIPRI 1969–1972, embassy counsellor in Beijing 1972–1976, undersecretary of state at the Swedish Ministry of Defence 1979–1982; ambassador in Tel Aviv 1983–1987; and war material inspector 1987–1994. Sven Hirdman is independent in his relations to RusForest, its management and its major shareholders.

Holding in RusForest: Sven Hirdman holds 10,000 shares in RusForest as of 7 March 2012.

Current corporate positions March 2012: Currently Sven Hirdman works as a business consultant and lecturer focused on Russia and as the government's auditor at Stockholm Institute of Transition Economies.

Previous corporate positions since March 2007: Sven Hirdman was previously president of Transparency International Sweden. He has also been employed as Marshal of the Swedish Diplomatic Corps.



FRANZ BERGSTRAND

Member of the Board since 2008. Franz Bergstrand is a forestry engineer with 40 years of 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 9,000 shares in RusForest as of 7 March 2012 and 150,000 call options, issued by Vostok Nafta, each entitling to one share in Rusforest.

Current corporate positions March 2012: Franz Bergstrand is chairman of the Board for Mid Sweden Chamber of Commerce, Sporthaus Moxter AB, Robera AB, Wood Support AB, KåEss Knut Bygg AB, Berge Invest AB and a Board member in Clean Tech East and MidSweden Science Park AB.

Previous corporate positions since March 2007: Franz Bergstrand was previously chairman of the Board in Biathlon

Event AB and Board member of Jämtlamell Maskin AB, Procilva Skogscertificering AB, Jordbrukskredit AB, Swedbank Skog och Lantbruk AB, Såtab AB, VMF Nord Ekonomisk förening and Sågab Ekonomisk förening. Franz Bergstrand was also previously 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 the managing director and a Board member 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 assignment as managing director and Board member in one of RusForest's major shareholders, Vostok Nafta Investment Ltd.

Holding in RusForest: Per Brilioth holds 60,000 shares in RusForest as of 7 March 2012.

Current corporate positions March 2012: Per Brilioth is the chairman of the Board in Black Earth Farming Ltd, Vostok Nafta Sverige AB and Clean Tech East. Per Brilioth is also a Board member in Vostok Nafta Investment Ltd, Vostok Gas Ltd, Vosvik AB, Kontakt East Holding AB, Avito Holding AB, X5 Group AB, Svenska Fotografiska museet AB and Egidaco Investments PLC.

Previous corporate positions since March 2007: 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, Väring Capital AB, Custos AB and OAO Resurs-Invest.



JERKER KARLSSON

Member of the Board since 2010. Jerker Karlsson is a forest officer and has more than 40 years of experience from the forest industry. Between 1970 and up to 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 7 March 2012, but holds 150,000 call options, issued by Vostok Nafta, each entitling to one share in Rusforest.

Current corporate positions March 2012: Jerker Karlsson is general examiner of Skogs- and Lantarbetargivareförbundet and of Skogforsk. He is, furthermore, a member of the research council of Bo Rydén's stiftelse.

Previous corporate positions since March 2007: 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, Svanö AB and Scanning Skog 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, Scanning Holding AB and SCA Forest Products AB (deputy managing director). Jerker Karlsson was also a Board member or a deputy Board member of 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.



CAMILLA ÖBERG

Member of the Board since 2011. Camilla Öberg holds a Bachelor of Science in Economics from Stockholm School of Economics. From 2006 to 2011 Camilla Öberg was employed at the IT-company Logica, and was CFO of Logica Sweden AB from 2007. Between

1998 and 2006 Camilla Öberg was employed at WM-data, where she, *inter alia*, worked as head of IR and Group Treasury. Camilla Öberg also worked as CFO of one of WM-data's subsidiaries and as business controller for one of four business areas. During her first two years at WM-data Camilla Öberg worked as CFO of Företagservice. Before her time at WM-data, she worked as, *inter alia*, CFO of Integro AB, as CFO of Lexicon and in accounting and external reporting at SEB. Camilla Öberg is independent in relation to RusForest, its management and its major shareholders.

Holding in RusForest: Camilla Öberg holds 10,000 shares in RusForest as of 7 March 2012.

Current corporate positions March 2012: Camilla Öberg is a Board member of Investment AB Vålåslund. She is also a partner of Öberg & Öberg Handelsbolag.

Previous corporate positions since March 2007: Previously, Camilla Öberg was a Board member of WM-data Sverige Management AB, Finansfabriken i Sverige AB, Logica Stockholm Aktiebolag, Conagri AB, Logica Sverige AB, High Integrity Architectures Sweden AB, WM-data Service Centers AB, Internet & Telecom Payment Solu-

tions (ITPS) Aktiebolag, Logica Sverige Infrastructure Management AB, Logica Aktiebolag, AS Logica Eesti, Logica Holdings AB and the tenant-owners' building society Rudan 2. She was also CFO of Logica Sverige (2007–2011).

Management

RusForest management consists of the managing director, deputy managing director, chief operating officer, head of governmental relations and the interim 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 issues. To a certain extent, certain support services are purchased from external suppliers. RusForest's management consists of the persons that are described below.



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 since 2005 and founded NTG early in 2008. Prior to setting up NTG he established his own consultancy business within the forestry sector, where he was active as managing director between 2006 and 2008.

Holding in RusForest: Martin Hermansson holds 1,294,185 shares and 300,000 employee stock options in RusForest as of 7 March 2012.

Current corporate positions March 2012: Martin Hermansson has no corporate positions except for his position as managing director of RusForest.

Previous corporate positions since March 2007: Martin Hermansson was the managing director and founder of Gungner industries Ltd and 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 after having been employed by the law firm Mannheimer Swartling between 2000 and 2008, *inter alia*, as 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 is admitted to The New York State Bar Association. As of April 2008, Anders Börjesson is employed as legal counsel at the Vostok Nafta group.

Holding in RusForest: Anders F. Börjesson holds 11,000 shares in RusForest as of 7 March 2012.

Current corporate positions March 2012: Anders Börjesson is legal counsel for Vostok Nafta Investment Ltd and a Board member of Vostok Nafta Sverige AB, Kontakt East Holding AB, Vosvik AB, Eastern Bio Holding AB and Ystad Pellets AB.

Previous corporate positions since March 2007: Anders Börjesson has been, but is no longer, a Board member of OAO Resurs-Invest.



KIRILL PRONIN

Interim chief financial officer since 2012. Kirill Pronin is a graduate of the Finance Academy under the Government of the Russian Federation, where he majored in accounting, economic analysis and auditing. In 2002 Kirill Pronin became a certified public

accountant. Kirill Pronin has been employed at RusForest Management in Moscow since 2008. Prior to joining RusForest he was employed as a manager, and later senior manager, at PriceWaterhouseCoopers in Moscow.

Holding in RusForest: Kirill Pronin holds no shares in RusForest as of 7 March 2012.

Current corporate positions March 2012: Kirill Pronin has no corporate positions except for his position as interim chief financial officer of RusForest.

Previous corporate positions since March 2007: Kirill Pronin has previously been manager and senior manager at PriceWaterhouseCoopers in Moscow (2005–2008).



JEPPE STRANGE

Chief Operating Officer since 2011. Jeppe Strange holds a master of science in economics from University of Copenhagen. Prior to joining RusForest he was managing director of Russia Baltic Pork Invest ASA (2007–2011), Pravedinsk Pig Production (2007–2011) and M.I.R. (2007–2011).

Holding in RusForest: Jeppe Strange holds no shares in RusForest as of 7 March 2012.

Current corporate positions March 2012: Jeppe Strange is a Board member of Vesterby Denmark Aps.

Previous corporate positions since March 2007: Jeppe Strange has previously been managing director of Russia Baltic Pork Invest ASA, Pravdinsk Pig Production and M.I.R.



VLADIMIR GAIDAMAKIN

Head of Governmental Relations since 2006. Vladimir Gaidamakin is highly experienced and has worked at senior levels both in government and in the commercial sector. Vladimir Gaidamakin has spent much of his working career in the oil and gas industry and in

the forestry sector and brings a broad contact network in these sectors. Vladimir Gaidamakin is a member of the Russian government's forestry industry working group. Previously, Vladimir Gaidamakin was retained as a consultant to one of Vostok Nafta's Russian entities where he was responsible for the contacts with local and federal authorities. Vladimir Gaidamakin has been instrumental in obtaining access to senior political and business figures in Russia and his role is also to generate various business deals and transactions. Vladimir Gaidamakin's previous roles include acting as an advisor to the Federation Council on which he represented Bashkiria. Prior to this, Vladimir Gaidamakin acted as chief specialist of Gosnab (SSSR), a state company which formerly was responsible for all planning and procurement for the Soviet Union's forestry and chemicals industries. Vladimir Gaidamakin was also a director of RMNTK, the centre of analysis of oil and gas exploration and development.

Holding in RusForest: Vladimir Gaidamakin holds no shares in RusForest as of 7 March 2012.

Current corporate positions March 2012: Vladimir Gaidamakin has no corporate positions except for his position as Head of Governmental Relations of RusForest.

Previous corporate positions since March 2007: Previously, Vladimir Gaidamakin was an advisor to the Representative office of Austro (Cyprus) Limited as well as deputy head of representative office at Taiga Capital Limited.

The address to RusForest's Board of Directors and management is c/o RusForest AB (publ), Hovslagar-gatan 5, 111 48 Stockholm, Sweden.

Auditors

At the annual shareholders' meeting 2010, the accounting firm KPMG AB was elected as the Company's auditor for the coming four years. The auditor in charge is authorised public accountant Carl Lindgren. The address for KPMG AB is: KPMG AB, Box 16106, 103 23 Stockholm, Sweden. Carl Lindgren is a member of FAR SRS.

Previous auditor

The Company's previous auditors were Ernst & Young AB with auditor in charge Mikael Ikonen. Mikael Ikonen is an authorised public accountant and a member of FAR. The address for Ernst & Young is: Box 7850, Jakob-sbergsgatan 24, 103 99 Stockholm, Sweden. During 2010, RusForest performed a procurement of the audit services and, based on this process, elected to hire KPMG AB as the Company's auditors.

Other information regarding Directors and members of management

None of the Directors or any member of the management is closely related with any other Director or any other member of management.

During the past five years none of the Directors or any member of the management has been involved in any bankruptcies, liquidation or receiverships in their capacity as Directors or members of management.

None of the Directors or any member of the management has been convicted in relation to fraudulent offences during the last five years.

None of the Directors or any member of the management has been subject to any public incrimination and/or sanctions by statutory or regulatory authorities (including designated statutory bodies) and none of the Directors or any member of the management has been disqualified by a court from acting as a member of administrative, management or supervisory bodies of an issuer or from acting in management or otherwise from conducting the affairs of an issuer during the last five years.

There are no potential conflicts of interest between the Directors or any member of the management and the Company. Most of the Directors or members of the management may have financial interests in the Company through their current holding of shares and the remuneration from the Company.

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' meeting

The shareholders' meeting is the highest deciding body where the shareholders exercise their influence by casting votes on central issues such as adopting the profit and loss account 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 on-going 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 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, a non-regulated market, no obligation to apply the Code exists for the Company. Instead, the Company has chosen to report part of what the Code requires in the annual reports, in order to provide shareholders with a good view of the governance and control of the Company. RusForest intends to initiate the process to apply for listing on NASDAQ OMX Stockholm in the future.

Nomination committee

The main tasks of the nomination committee include preparing and providing proposals for election of the chairman of the Board and other members of the Board of the Company, Board fees and, in applicable cases, remuneration for committee members, election of and fees for the auditors and deputy auditors and the principles for the composition of the nomination committees.

At the extraordinary general meeting on 5 August 2009, it was resolved to adopt the current principles for the appointment of the nomination committee.

The chairman of the Board shall each year as soon as possible after the end of the third quarter summon the three largest shareholders in the Company, who thereafter may appoint one member each to the nomination committee. One representative of the shareholders should be appointed chairman of the nomination committee. A member of the nomination committee should not concurrently 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 composition of the nomination committee shall be announced in connection with the Company's report for the third quarter.

The principles for appointing the nomination committee shall be in force until otherwise resolved by a shareholders' meeting. It falls upon the nomination committee to determine prior to the annual shareholders' meeting whether it is necessary to propose an amendment of these principles and under such circumstances submit a proposal to the annual shareholders' meeting.

The nomination committee for 2012 consists of Anders F. Börjesson, Vostok Nafta, chairman; Leif Törnvall, Alecta; Oskar Rundlöf, Libra; and Louise Hedberg, East Capital.

Board committees

Audit committee

At the annual shareholders' meeting on 26 May 2011, it was resolved that the members of the audit committee shall be Camilla Öberg (chairman), Per Brilioth and Kenneth Eriksson.

Compensation committee

So far, the nomination committee has not deemed it necessary to appoint a compensation committee as the Board, due to the size of the Board and the limited number of employees in RusForest, can fulfil the functions of the compensation committee. Any Board member who is concurrently a member of management will not participate in relation to such issues.

Operations committee

At the annual shareholders' meeting on 26 May 2011, it was resolved that the members of the operations committee shall be Franz Bergstrand (chairman), Kenneth Eriksson and Jerker Karlsson.

Compensation to the Board of Directors, the managing director and other members of management

At the annual shareholders' meeting on 26 May 2011, the compensation to Board members was decided to SEK 150,000 for members who are not employed by the Company and SEK 300,000 for the chairman of the Board. In addition thereto, compensation is paid to the chairman of the committees in the amount of SEK 100,000 and other committee members in the amount of SEK 75,000. Furthermore, the Board is authorised, in case it is needed, to hire one or several Board members in order to strengthen the Company's management, with a fixed fee of SEK 10,000 per person and day.

Compensation to the managing director consists of salary. The managing director is entitled to a fixed monthly salary of SEK 128,083 (USD 18,750)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 pay equivalent to 6 monthly salaries, however that deductions shall be made for such remuneration that the managing director receives from other employment during that period.

Compensation to the other members of management consists of salary, pension and other benefits. During 2011, total compensation to other members of management amounted to SEK 2,576,374, of which SEK 2,446,152 consisted of salaries, SEK 109,500 consisted of pension benefits and SEK 20,722 consisted of other benefits.

RusForest has made no provisions for pensions or similar benefits after retirement for other members of management.

1) Calculated with an exchange rate of SEK/USD 6.9234 as of 30 December 2011.

Articles of Association

Current articles of association

Articles of Association for RusForest AB

(Reg. No. 556694-6421)

Adopted at an extraordinary general meeting on 1 March 2012.

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 sixty million Swedish kronor (SEK 60,000,000) and not more than two hundred forty million Swedish kronor (SEK 240,000,000).

5 § Shares

The number of shares shall be not less than sixty million (60,000,000) and not more than two hundred and forty million (240,000,000).

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

Notices of shareholders' meetings shall be published in Post- och Inrikes Tidningar (the Swedish Official Gazette) and be kept available on the company's website. At the time of the notice, an announcement with information that the notice has been issued shall be published 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;

Articles of Association

- 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.

Articles of association after completion of the Rights Issue

In connection with the completion of the Rights Issue the following articles of association will be registered with the Swedish Companies Registration Office.

Articles of Association for RusForest AB (Reg. No. 556694-6421)

Adopted at an extraordinary general meeting on 1 March 2012.

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 two hundred million (200,000,000) and not more than eight hundred million (800,000,000).

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

Notices of shareholders' meetings shall be published in Post- och Inrikes Tidningar (the Swedish Official Gazette) and be kept available on the company's website. At the time of the notice, an announcement with information that the notice has been issued shall be published 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;

Articles of Association

- 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.

Legal considerations and additional information

Company registration and legal form

RusForest AB (publ) is a Swedish public limited liability company with registration number 556694-6421, and with its registered office in Stockholm, Sweden. The Company was incorporated according to 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 SEK and are traded on NASDAQ OMX First North with the ticker RUSF. The current articles of association were adopted at the annual shareholders' meeting held on 1 March 2012. The object of the Company's business is set forth in the third section of the articles of association.

Group structure

RusForest AB (publ) is the parent company in the RusForest group. The composition of the group can be seen in the chart of the group on the following page.

Material agreements

Forrest assets

The Company is dependent on forest lease agreements in order to be able to conduct its business. According to RusForest's forest lease agreements, RusForest has an AAC of 3,631,060 m³. The lease agreements have duration of at least 20 years. Some agreements, however, will not cease for 47 to 48 years. When the current agreements expire, RusForest has a right of priority to enter into new agreements for the forest-land without going through a new auction process. RusForest's lease fees for 2011 amounted to in total to RUB 145 million (approximately SEK 32 million). 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 in 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
- failure to pay the lease fees or lack of forestry and breach of other conditions of the agreement can result in a right to terminate the lease agreement.

Customer agreements

RusForest sells its product both on credit and against advance payments.

Sales to most of the Company's customers in the Middle East, North Africa and Central Asia are conducted against advance payments. Other customers, predominantly located in East Asia and Western and Central Europe, however, pay after RusForest has delivered

the products to a transport company and supplied 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.

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.

Disputes and compliance

The Company is not and has not been part of any governmental, legal or arbitrational proceedings (including any such proceedings which are pending or threatened and of which the Company is aware) for the past 12 month, which may have, or have had in the recent past significant effects on the Company's financial position or profitability.

Insurance

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

Environment and permits and regulations

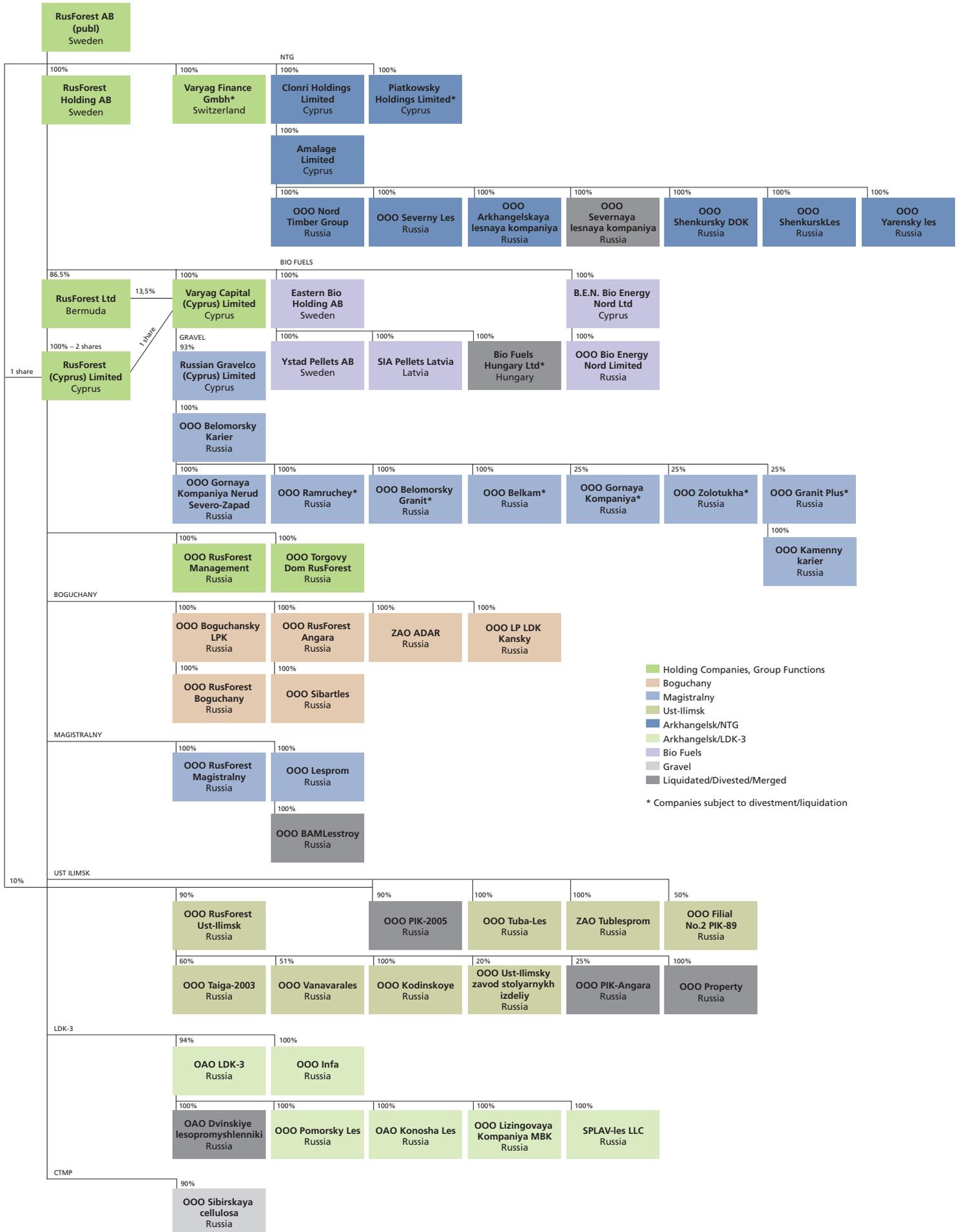
The Board of Directors of RusForest considers that the Company complies with applicable rules and regulations and holds the necessary permits with regard to its operations and environmental considerations.

Dividends and other information about the Company's share

The new shares shall entitle the holder to the same rights as existing shares in RusForest and to dividends as from the 2012 financial year. Any dividends are resolved upon by the shareholders' meeting and are paid through Euroclear. The right to any dividend accrues to those who on the record date are registered as owners in the share register maintained by Euroclear. The record date is normally three banking days after the annual shareholders' meeting. If any shareholder cannot be contacted by Euroclear, the shareholder's claim on the dividend against the Company remains and is not limited other than by the rules regarding statutory limitations. In accordance with Swedish law, the so-called general statute of limitation applies after ten years.

In conjunction with expiration of the statutory limitation period, the dividend amount accrues to the Company. There are no restrictions for payment of dividends or special procedures for shareholders residing outside Sweden and payment is made via Euroclear in the same manner as with shareholders residing in Sweden. However, for shareholders who are not resident in Sweden for tax purposes, a normal Swedish coupon tax is withheld. Shareholders have the right to share in surpluses in the event of a liquidation *pro rata* to the number of shares the holder owns.

Legal considerations and additional information



- Holding Companies, Group Functions
- Boguchany
- Magistralny
- Ust-Ilimsk
- Arkhangel'sk/NTG
- Arkhangel'sk/LDK-3
- Bio Fuels
- Gravel
- Liquidated/Divested/Merged

* Companies subject to divestment/liquidation

While the bond loan 2011/2014 remains outstanding, RusForest has undertaken to not pay any dividends to the shareholders. Furthermore, as RusForest resolved on a reduction of the share capital for the purpose of securing cover for losses in March 2012, RusForest will, during a period of three years following the registration of the resolution to reduce the share capital (that took place in March 2012), be prohibited from passing a resolution to pay dividends unless RusForest is granted permission to do so by the Swedish Companies Registration Office (or a court of general jurisdiction in disputed cases).

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. When RusForest was incorporated, as an investment company, it was intended to mimic the legal structure of an investment fund regarding its lifetime, wherefore the provision was added to the articles of association. With the Company's present business concept and strategy the provision has become obsolete. However, due to a provision in the articles of association regarding attendance requirements when changing the provision in question, it has not been removed from the articles of association. In the event the annual shareholders' meeting 2013 resolves that the Company shall continue its operations, the provision in the articles of association will cease to apply (but the provision may, due to the attendance requirements, remain in the articles of association without effect).

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. An investment in a Company with its shares traded on First North, might therefore be associated with greater risk than an investment 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 fulfils 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, the 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 and order depth is published in real time through the same channels as for shares listed on a regulated market. Pareto Öhman is the Company's Certified Adviser.

Related party transactions

Vostok Nafta, the largest shareholder in RusForest, has granted two loans to RusForest which are described in the section "*Share capital and ownership – Loans that entitle the creditor to subscribe and pay for shares by way of set-off*".

On 9 December 2011 RusForest acquired all shares in Eastern Bio Holding AB and B.E.N. Bio Energy Nord Ltd. The seller was Clean Tech East – where Vostok Nafta, as in RusForest, is the largest shareholder – and the acquisition was financed in part by a loan that was granted by Vostok Nafta. This is the acquisition loan that is described in the section "*Share capital and ownership – Loans that entitle the creditor to subscribe and pay for shares by way of set-off*".

The Company acquired NTG on 2 May 2011. The total consideration amounted to 29,437,529 RusForest shares. RusForest's managing director, Martin Hermansson, together with Lillevrå Såg AB, owned approximately 19 per cent of the shares in NTG. Lillevrå Såg AB is a company that is closely related to Martin Hermansson's family.

Otherwise, RusForest has not provided commitments, loans or 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 have had any direct or indirect participation in any business transaction with RusForest, apart from the situations described above, that are or were unusual in their nature or regarding the terms and conditions thereof 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.

Advisors

Pareto Öhman is the Company's financial advisor and acts as the issuing institution in connection with the Rights Issue and Vinge is the Company's legal advisor. The Company's auditors are KPMG, with Carl Lindgren as the auditor in charge.

Documents available for inspection

RusForest's articles of association and all reports and historical financial information and which to some extent are included or are referred to in this prospectus are available at RusForest during the validity period of the prospectus. Information about RusForest is also available on the Company's website, www.rusforest.com.

Other information

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 claims 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;
- situations where securities are held in an investment savings account (Sw. *investeringssparkonto*);
- 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 also normally 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 Interim shares 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 Interim shares) 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 30 per cent of the net loss that does not exceed SEK 100,000 and 21 per cent of any remaining net loss. A 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. 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 taxable capital gains on shares and other securities taxed as shares in future years, without any limitation in time. If a capital loss cannot be deducted by the company that has suffered the loss, it may be deducted 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 both companies request this for a tax year having the same filing date for each company or, if one of the companies' accounting liability ceases, would have had the same filing date.¹⁾ Special tax rules may apply to certain categories of companies or certain legal persons, for example 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 – which 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, however, 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. In a number of cases though, the applicability of this rule is limited by the applicable tax treaty for the avoidance of double taxation.

1) These provisions entered into force on 1 January 2012 and apply to tax years starting after 31 January 2012. The provisions also apply when one of the companies has an extended financial year ending after 31 December 2012 or a shortened financial year which both starts and ends during year 2012. In cases where earlier provisions apply, the requirements for a capital loss to be deductible from another legal entity's taxable capital gains on shares and other securities taxed as shares are that the companies are entitled to tax consolidation (through group contributions) and that both companies request this at the same year of assessment.

Year-end report 2011



RusForest AB

Year End Report

1 January – 31 December 2011

www.rusforest.com

RusForest AB

Year End Report, 1 January – 31 December 2011

Results for the twelve months ended 31 December 2011

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

Significant events during the fourth quarter 2011

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

Significant events after the end of the period

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

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

CEO's Comments

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

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

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

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

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

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

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

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

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

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

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

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

Martin Hermansson
CEO, RusForest AB

Overview

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

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

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

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

Operations

RusForest Operational Data

12M 2011

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

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

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

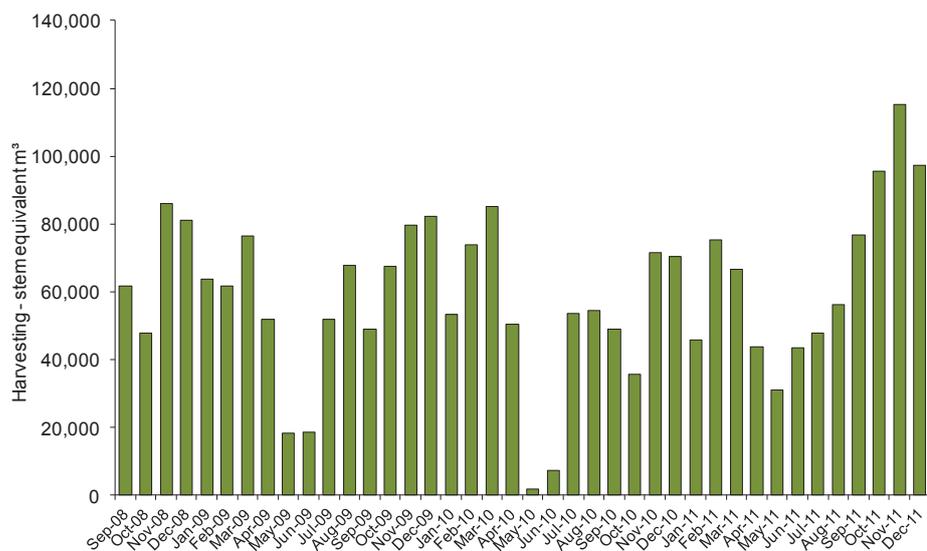
The Group acquired 1,811,760 m³ of annual allowable cutting rights (AAC) both through business combinations in the Krasnoyarsk area (in order to secure the raw material supply for Boguchansky LPK) and in the Arkhangelsk region (through the merger with Nord Timber Group to secure the saw logs availability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

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

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

Forestry Operations

*RusForest Group Harvesting, Sep 08 – Dec 11**



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

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

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

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

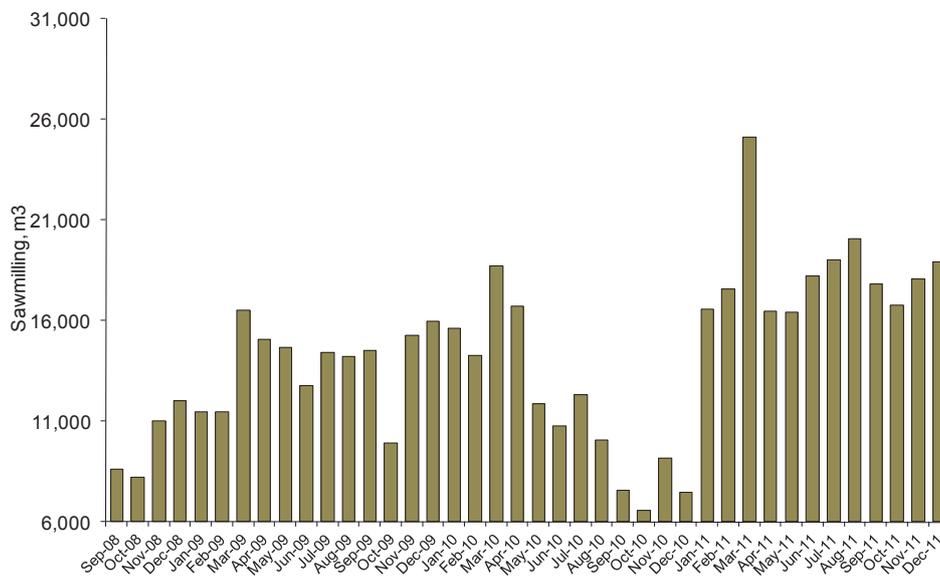
The harvesting operations in **Lesprom** (Magistralny) received two new harvesting groups one week before the year-end. The machines were put into operation early January and are being operated by experienced Swedish operators which provide on-going coaching to the employees of Lesprom.

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

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

Sawmilling

*RusForest Group Sawmilling, Sep 08 – Dec 11**



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

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

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

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

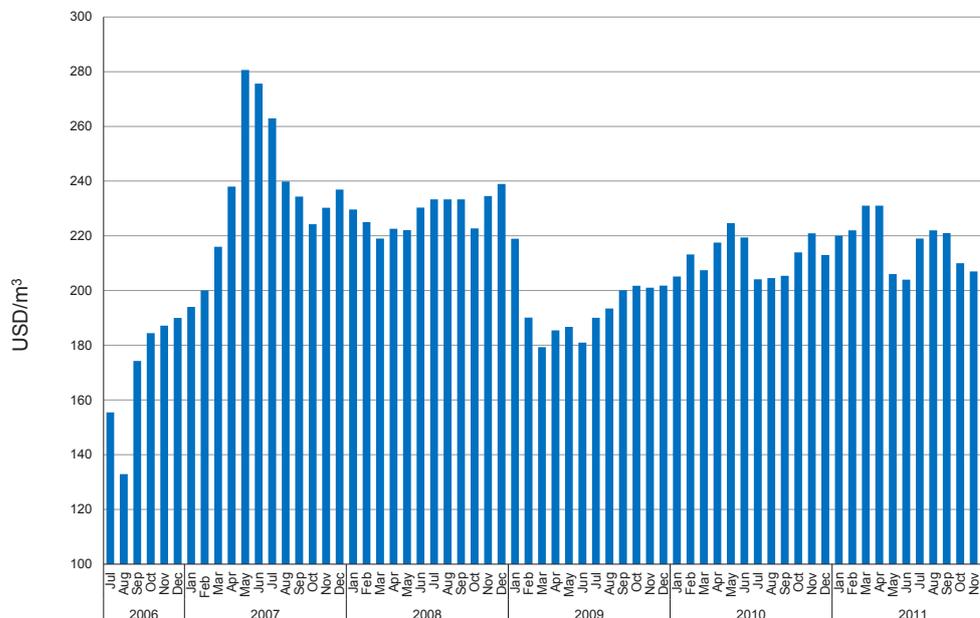
At **Magistralny** in Siberia, the trimming of equipment has continued until the end of 2011 after the launch of the sawmill in June 2011. The start-up phase has been slow due to defects on the equipment, which were caused by the equipment being stored for over two years before installation. During the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

In **Boguchany** the installation of a new log sorting line has been completed and five of the nine new drying chambers have been erected (see pictures on the RusForest web page). The main work remaining is on the side of the boiler and on the dry sorting line, where work is on-going. The timing of the launch for test running in the first quarter of 2012 still stands.

RusForest Ust-Ilimsk has seen staff reductions of around 100 employees at the sawmill as a part of an overhaul and closure of the older part of the sawmill, which turned off its engines on 1 September. The capacity at the sawmill was thereby reduced from 100,000 m³ to 60,000 m³. Also the remaining sawmill is judged not to be able to turn profitable under current conditions and will be rented out or closed at the beginning of the second quarter of 2012.

Macroeconomic Development and the Market

RusForest sawnwood Export Prices, delivered to port, 2006 – 2011



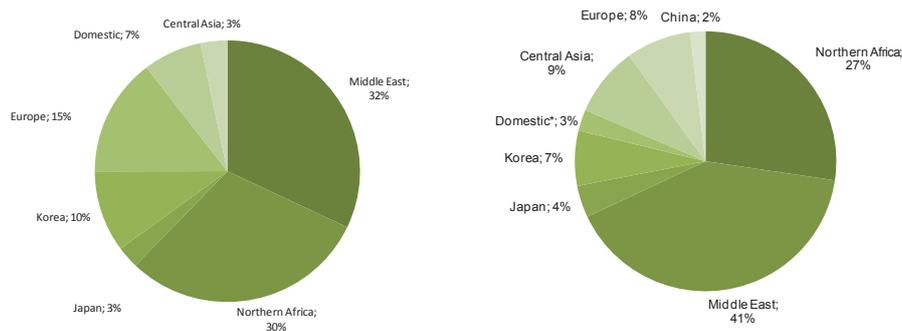
Source: RusForest Ust Ilimsk, Sawnwood export prices delivered to port

During the third quarter of 2011, RusForest's average sale prices in Ust-Ilimsk (in USD terms) increased by 7 per cent compared to the second quarter of 2011, as the markets reflected increased demand due to the continuing construction season as well as good quality distribution of the sales mix on offer from the second quarter onwards. However, during the fourth quarter of 2011, due to the instability in the global economy, prices fell on most markets and the average price dropped by 10 per cent.

RusForest does not sell any volumes on spot and there is a lag in market and sale prices of 1-2 months.

During 2011, RusForest's export prices for sawlogs have been relatively stable. The average price for sawlogs at RusForest's main log exporter, RusForest Magistralny, was approximately USD 108 per m³ during 2011 (including freight, customs clearance, phytos control and declaration costs).

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



Source: RusForest Trading, LDK-3

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

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

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

Future projects in utilizing by-products

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

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

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

Key Financial Data

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

Financial performance

General

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

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

Profit and loss statement

General

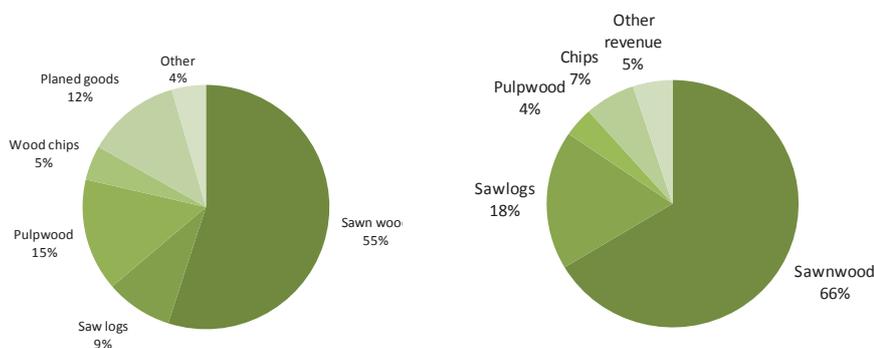
The Group's performance in 2011 was negatively affected by several factors which came together during the year: starting with the coup d'état in Egypt in the very beginning of the year when the sawnwood markets deteriorated; the continued investment phase into solving the bottlenecks of the subsidiaries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

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

Revenue

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

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



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

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

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

Operating Expenses

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

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

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

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

Other Income

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

Other Expenses

Financial Expenses

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

Income Tax

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

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

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

Net Result

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

Balance sheet

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

Assets, Liabilities and Investment

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

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

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

The gravel business' assets of SEK 93.0 million (31 December 2010: SEK 100.0 million) classified as held for sale in the Group's financial statements primarily reflect the capitalised value of work done at the site, including over-burden removal, blasting, road building, the value of the railhead and the acquisition of equipment. During 2011 the Company succeeded in shipping volumes, which increased after the installation of a vessel loading facility on the bank of the Belomorsk channel.

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

Cash Flow and Financial Position

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

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

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

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

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

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

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

Outlook

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

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

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

The Share

Share Data

The RusForest AB share is listed on First North in Stockholm, a part of NASDAQ OMX. Trading is conducted under the ticker designation RUSF. As of 31 December 2011, the number of outstanding shares was 95,807,694. At the close of the period, the share price was SEK 5.30 and the Company's market capitalisation was approximately SEK 507.8 million. The Company's certified adviser on First North is Pareto Öhman AB.

ISIN: SE0001732728

Short name on First North: RUSF

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

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

Warrants

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

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

Major Shareholders on 31 December 2011

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

Source: Euroclear Sweden AB

Trading data, January 2009 – December 2011



Source: NASDAQ OMX First North

Accounting policies

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

Qualitative and Quantitative Disclosures and Market Risks

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

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE PERIOD ENDED 31 DECEMBER 2011

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

PER SHARE DATA

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

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

DEFINITION OF KEY FIGURES

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

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

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

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

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

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

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

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

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

01/01/2011 - 31/12/2011

Attributable to the equity holders of the parents

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

01/01/2010 - 31/12/2010

Attributable to the equity holders of the parents

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

NOTES TO THE FINANCIAL STATEMENTS

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

Note 1. Cost of sales

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

Note 1.2. Road construction

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

Note 2. Distribution expenses

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

Note 3. Administrative expenditure

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

Note 4. Segment information

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

Geographical information

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

Operational segments

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

Assets Classified as Held for Sale

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

Liabilities directly associated with the assets classified as held for sale

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

Consolidated Statement of Comprehensive Income of Gravel Segment

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

Condensed consolidated statement of cash flows of the Gravel segment

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

Note 5. Parent Company**Parent Company Income statement**

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

Parent Company Balance Sheet

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

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

Note 6. Acquisition of subsidiaries

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

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

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

Consideration transferred**In thousands of SEK**

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

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

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

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

Consideration transferred**In thousands of SEK**

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

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

Property, plant and equipment	26
Forest lease rights	50,348
Trade and other receivables	2,149
Cash and cash equivalents	235
Deferred tax liabilities	(10,562)
Trade and other payables	(1,530)
Net identifiable assets and liabilities	40,666
Total consideration	40,666

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

Consideration transferred

In thousands of SEK

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

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

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

RusForest AB

Year End Report 2011

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

Consideration transferred**In thousands of SEK**

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

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

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

Forthcoming information

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

Nomination Committee

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

Stockholm, 29 February 2012

RusForest AB (publ)
The Board of Directors

For Further information, please contact

Martin Hermansson, CEO, Tel: +7 (495) 787 58 72

Vitaly Zhukov, CFO, Tel: +7 (495) 787 58 72

RusForest AB (publ), Corp. Reg. No. 556694-6421

Hovslagargatan 5,
SE-111 48 Stockholm, Sweden
Telephone: +46-8-771 85 00
E-mail: info@rusforest.com
Website: www.rusforest.com

OOO RusForest Management,
10 Nikolskaya Street, Office 502
109012 Moscow, Russia
Telephone: +7 (495) 787 58 72

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 which 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 obtained from RusForest via email prospectus@rusforest.com or telephone +46 (0) 8 771 85 00 and can be downloaded electronically via RusForest's website, www.rusforest.com.

Information	Source
Audited income statement, balance sheets, cash flow analyses, notes and information about accounting principles for the financial years 2008, 2009 and 2010	Annual report 2010 Annual report 2009 Annual report 2008
Audit reports for the financial years 2008, 2009 and 2010	Annual report 2010 Annual report 2009 Annual report 2008

Addresses

RusForest AB (publ)

Hovslagargatan 5
SE-111 48 Stockholm

Sweden

Tel: +46 (0) 8 771 85 00

Fax: +46 (0) 8 545 015 54

Home page: www.rusforest.com

Financial advisor

Pareto Öhman AB

Box 7415

Berzelii Park 9

SE-103 91 Stockholm

Sweden

Tel: +46 (0) 8 402 50 00

Legal advisor

Advokatfirman Vinge KB

Box 1703

Smålandsgatan 20

SE-111 87 Stockholm

Sweden

Tel: +46 (0) 10 614 30 00

Auditor

KPMG

Box 16106

Tegelbacken 4A

SE-103 23 Stockholm

Sweden

Tel: +46 (0) 8 723 91 00

Clearing house

Euroclear Sweden AB

Box 7822

SE-109 97 Stockholm

Sweden

RusForest AB (publ)

Reg. No. 556694-6421

Hovslagargatan 5

SE-111 48 Stockholm

Sweden

Tel: +46 (0)8 771 85 00

Fax: +46 (0)8 545 015 54

E-mail: info@rusforest.com

www.rusforest.com