



**RusForest AB**

# Interim Report

April 1 – June 30, 2011

# RusForest AB

Interim Report, April 1 – June 30, 2011

## Interim results for the three months ended June 30, 2011

- Total turnover for the three month period ended June 30, 2011, amounted to SEK 117.8 million (Q2 2010: SEK 91.7 million);
- The operating loss before financing costs for the period amounted to SEK 62.4 million (SEK -44.7 million);
- Net loss for the period was SEK 69.3 million (SEK -54.6 million);
- Earnings per share was SEK -0.70 (SEK -2.47);
- Cash and cash equivalents increased during the reporting period by SEK 297.7 million, from SEK 15.6 million on March 31, 2011 to SEK 313.4 million on June 30, 2011. The increase was a direct result of the SEK 500 million bond issue carried out in May.

## Significant events during the second quarter 2011

- RusForest completed the 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;
- RusForest's ownership structure was changed through a block trade brokered by Öhman on behalf of two of NTG's previous shareholders - Capricorn Forest Fund K/S and Greater Europe Deep Value Fund II - of their total of 25,641,744 consideration shares in RusForest to a number of Swedish and foreign investors, including Alecta and funds managed by East Capital;
- RusForest acquired the outstanding minority stakes in its Ust-Ilimsk based subsidiaries LLC RusForest Ust-Ilimsk and LLC PIK-2005. The acquisitions were carried out by way of an issue in kind of a total of 847,645 RusForest shares to the previous owner in accordance with the authorisation to issue shares granted to the Board by the EGM held on 15 April 2011;
- To enable continued expansion within harvesting and sawmilling, RusForest AB issued a bond loan in May 2011. The loan, which has a term of three years, amounts to SEK 500 million with a fixed interest rate of 11 per cent per annum;
- RusForest entered into an agreement to acquire ZAO ADAR and OOO LP LDK Kansky in the Boguchany region. The two companies hold forest leases with a combined Annual Allowable Cut (AAC) of 470,600 m<sup>3</sup>. The acquisitions were conditioned upon, inter alia, the two companies having settled certain debts. The acquisition of Kansky was closed on June 17 2011, while Adar was closed on July 25;
- RusForest contracted new drying chambers from Valutec, Finland, intended for Boguchany;
- During June, large parts of Siberia were affected by severe forest fires. Fortunately, the fires did not destroy any significant forest assets for RusForest. However, fires in proximate forest areas forced harvesting personnel and equipment to help control the fire. Therefore, harvesting and extraction of timber was significantly affected.

## Significant events after the end of the period

- The RusForest Magistralny sawmill was officially opened in June 2011 in the presence of the Mayor of the Kazachinsko-Lensky district, representatives of the Board of RusForest as well as an international delegation of invited guests. At the ceremony, the new sawmill was started up and initial sawnwood production commenced. The first ready packages of kiln dried sawnwood from the new mill were produced during July 2011;
- RusForest purchased new harvesting equipment at several units, including road construction for a total sum of 47.7 million SEK;
- RusForest Magistralny has been granted priority investment project status and has received an additional forest lease with an AAC of 398,700 m<sup>3</sup> at a reduced lease rate.

## CEO's Comments

Looking at the development of RusForest's operations, the second and third quarters of 2011 are becoming the heaviest investment periods in the Company's history. This is related to the finalization of the Group's new sawmill in Magistralny, the expansion of the sawmill in Boguchany as well as increased harvesting capacity. However, the lead time for the investments has been longer than we initially expected and, coupled with continued strained supplies of raw material, the effect on profitability has unfortunately been substantial during 2011.

The most important targets for RusForest going forward are; to increase sawmilling output (with focus on kiln dried products); to increase volumes from our harvesting operations, and; to continue cost cutting throughout the organisation. The Company has applied a long term approach, and we expect that our current efforts will bear fruit during the beginning of 2012.

In 2011, RusForest has driven a fairly aggressive campaign to fill the strategic gaps in the raw material base within the Company. New forest leases have been added in order to secure a stable future for both Boguchansky LPK and RusForest Magistralny. One key to profitability is still reaching higher harvesting volumes, lower raw material costs and independence from external suppliers.

In the second quarter, Nord Timber Group (NTG) in Arkhangelsk was added to RusForest's operations, the shareholder base has widened and a corporate bond in the amount of SEK 500 million was issued in May. The timing of the bond issue was beneficial, as debt markets began deteriorating directly afterwards.

Undoubtedly, management focus will now have to be more on restructuring and cost cuts than in the past, when financing and acquisitions played a large role. The organization has been growing quickly over the past year, and the high speed of acquisitions and construction activities now has to be coupled with stricter focus on production and cost optimization, especially as volumes now are set to increase. Lead times for equipment deliveries are long, especially in the harvesting segment, but road construction, new harvesting equipment and trucks will lead to significantly increased volumes over the upcoming winter period. These lead times are the main reason why volumes have yet not risen, despite serious investments.

Log supplies were subsequently still weak during the summer and will be weak until infrastructure in our harvesting areas has been improved. Wild fires in forest areas near our leases have also disturbed harvesting operations during the period. Unlike last year, when Siberia was spared from fires, harvesting personnel and equipment were at times forced to stop working in order to help control nearby fires. In some cases harvesting and transports from the forests were completely stopped during June.

Planning for 2012 harvesting is now in its final phase and the availability of better forest roads during 2012 will help RusForest avoid the recurring raw material shortages experienced in the summer period.

With regards to sawnwood, the main factor affecting the prices received for our products in the first quarter was the unrest in Egypt and the Middle-East. The impact of the unrest continued into the second quarter, since deliveries negotiated in Q1 were off-loaded during the current period.

Having been close to a domestic default in the US, which resulted in a lowered credit rating for the country, the world markets are now considered even more unstable especially when looking at the situation in many southern European countries. I would not go as far as some other market players and say that the sawmill industry is in global depression, but still consider high raw material prices as the greatest obstacle to profitability.

Growth rates in the Russian economy will most likely suffer in a similar fashion. Even if net debt in the economy is low, stable and high oil prices are required to balance the Russian state budget. In the view of several government sources, an oil price of up towards USD 115-125 per barrel will have to be seen over the next three years to balance the budget. Parliament elections during December 2011 and presidential elections during the beginning of 2012 are also considered to add uncertainty.

In the context of RusForest's operations, however, the effect of a lower oil price, and a consequently weaker Rouble exchange rate, can be seen as positive. Fuel is a main consumption item in the harvesting segment of the business, and local costs are all denominated in RUB. On our export markets, where producers all are price takers, prices are set in EUR and USD and the Company will benefit from the weaker RUB rate.

At **RusForest Magistralny**, a large group of investors and journalists attended the opening of the new sawmill on 14 June, and trimming of the equipment has continued until recently. The mill will be the first to start production of dried Larch wood during the autumn, and will finally allow us to get closer to the market of higher margin products in that field. The production target for Magistralny in 2012 is 120,000 m<sup>3</sup> of sawn wood, with a long term target of 150,000 m<sup>3</sup>. Production is planned to increase up to the target levels during the autumn, as operators are finishing their training and a second shift will be added towards the end of the third quarter of 2011. Heading for full utilization is feasible especially thanks to the additional 400,000 m<sup>3</sup> AAC received in Magistralny (please see separate press release issued on 23 August), which will also allow for increased log sales to China during 2012.

In the Arkhangelsk region, harvesting capacity has increased and **LDK-3** has a new project team working on adjustments and improvements to the existing saw line at the enterprise. In general, the availability of logs at LDK-3 has been good. The proportion of own logs to the main LDK-3 mill will also increase within the next few months. The main improvement in profitability will come from increased harvesting levels thanks to new equipment arriving during the autumn.

Putting serious focus on selling more high value products, the sawmill in **Boguchany** started installations of a new log sorting line which will be followed by new drying chambers and a new dry sorting line this autumn. The planned increase in drying capacity, up to a total of 140,000 m<sup>3</sup> per year, is expected to show an improvement on average sales prices as production with the new drying chambers and dry sorting line will start off in a normal fashion during the first months of 2012. This will also provide for cuts in the number of employees and lower the production costs at the site.

Transporting dried sawn wood, and later planed wood, is one of the few ways for the Company to increase its independence and decrease transport costs to end customers. Inventories of future road construction requirements in recently acquired forest leases in Boguchany has started and equipment is in place with more deliveries to come.

**RusForest Ust-Ilimsk** will mainly see increases in truck capacity during the autumn, and the current situation around the Ust-Ilimsk sawmill is still being evaluated for restructuring.

For several of the units, important recruitments have taken place, where each new project or attempt to restructure and make the organization slimmer needs a different mindset. The most important recruitment during the period was that of a new CEO of the harvesting company in Boguchany, Mr. Sean Vann. Following the completion of the construction activities in Magistralny and Boguchany, where progress can be followed on our website, remaining CAPEX is allocated to the harvesting segment.

RusForest is expected to enter a more stable phase this winter and next year, and we will start being able to provide more exact forecasts in 2012 with regards to harvesting and sawmilling volumes in future periods. Investments into road construction along with increased utilization of forest leases and equipment are essential to lowering internal log costs and improving profitability. The joint effect of all points mentioned above, combined with new efficiency measures (not only by reducing head count and improving the product mix) will help us streamline operations and improve profitability within the next 6 months.

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 m<sup>3</sup>. Recent increases in controlled forest land come from the acquisition of NTG in Arkhangelsk as well as harvesting companies in Boguchany during 2011.

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 sawmilling capacity is expected to increase to around 800,000–850,000 m<sup>3</sup> in the next four to five years thanks to improvements made at existing sawmills, the completion of the sawmill at RusForest Magistralny and the future development of LDK-3.

Russia, alongside Brazil, has the world's largest timber reserves by a significant margin and Eastern Siberia is known for its high quality Angarsk Pine and Siberian Larch. 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. The Arkhangelsk region has a total forest area of about 23 million hectares. The forest consists of about 60 per cent spruce and 20 per cent pine followed by birch and aspen. The timber is of very high quality, and comparable to timber found in the northern parts of the Nordic Countries.

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

#### 1H 2011 Actuals

	Unit	RusForest Ust-Ilmsk	RusForest Magistralny	Boguchansky LPK	Ark1 (LDK-3, Infa, SevLes)	Ark2 (Shenkursk+Bakaritsa)	Consolidated 1H 2011	Consolidated 1H 2010	%
RusForest ownership interest	%	100%	100%	100%	94% (LDK-3)	100%			
Annual Allowable Cut (AAC)	m3	942 560	958 700	748 400	981 400	-	3 631 060	1 441 100	152,0%
Harvesting Sawlogs	m3	116 800	29 548	65 041	11 294	-	222 683	207 132	7,5%
Harvesting Pulpwood	m3	45 539	12 573	478	22 162	-	80 752	81 078	-0,4%
Logs purchased	m3	17 099	-	14 442	115 005	6 079	152 626	104 058	46,7%
Sawnwood volumes	m3	36 744	748	28 906	41 762	2 688	110 848	88 076	25,9%
Woodchips sold	m3	35 142	-	-	29 057	2 176	66 375	27 161	144,4%
Planned Products	m3	2 057	-	-	4 643	1 053	7 753	1 574	392,6%
Forest area	Hectares	565 444	746 352	374 477	1 270 018	-	2 956 291	867 925	240,6%

The figures shown above are given for reference purposes only. Boguchansky LPK includes Boguchansky LPK, RusForest Angara and Sibartles. RusForest Ust-Ilmsk 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.

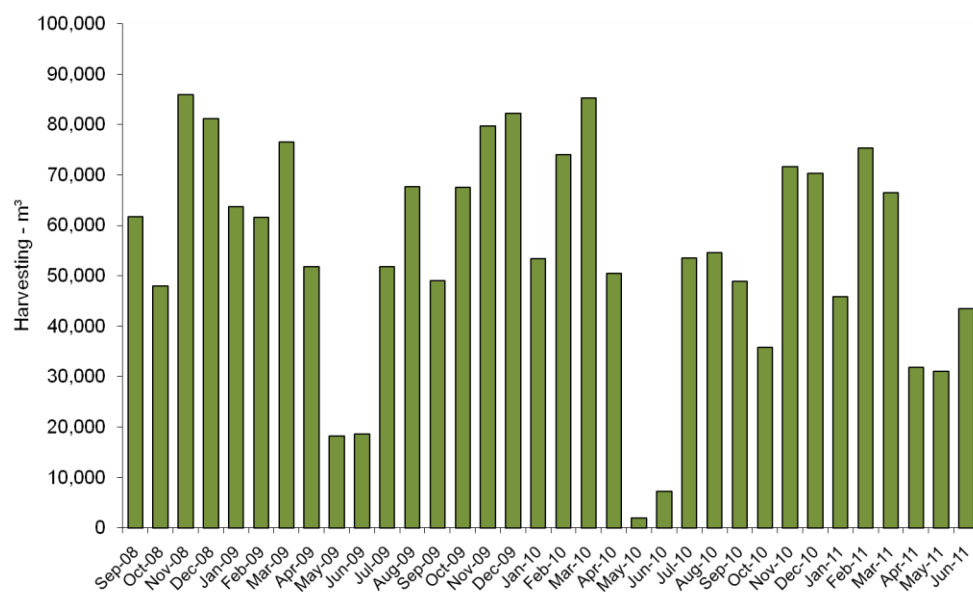
The second quarter of 2011 was highlighted by three main events for RusForest: the acquisition of NTG, the opening of the new Magistralny sawmill and an increase of forest land in Boguchany.

In April 2011, RusForest acquired NTG through an issue in kind. NTG is a forestry and sawmilling company with large forestry assets located in the Arkhangelsk region in North West Russia. NTG's forest leases are FSC certified and the company is well established in the region with newly built forest roads and its own railway terminals giving increased control of logistics and costs. The forest leases have an AAC of 807,600 m<sup>3</sup>. Additionally, NTG owns a sawmill in the region, which is being upgraded to reach an annual capacity of 80,000 m<sup>3</sup>, and a planing mill in the city of Arkhangelsk.

On 17 June, RusForest completed the acquisition of OOO LP LDK Kansky. Kansky holds a larch dominated forest lease, located approximately 170 km north of the Boguchansky LPK sawmill with an AAC of 207,900 m<sup>3</sup> and covering an area of 109,493 hectares. The remaining term of the forest lease is 43 years. On July 25, RusForest completed the acquisition of ZAO ADAR. Adar holds a pine-dominated forest lease located approximately 110 km north of the Boguchansky LPK sawmill, with an AAC of 262,700 m<sup>3</sup> and covering an area of 110,343 hectares. The remaining term of the forest lease is 44 years.

### Forestry Operations

#### RusForest Group Harvesting, Sep 08 – June 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 relatively stable levels throughout the first quarter of 2011, but during the second quarter volumes were below plan as a result of delays in deliveries of harvesting equipment and widespread forest fires in Siberia.

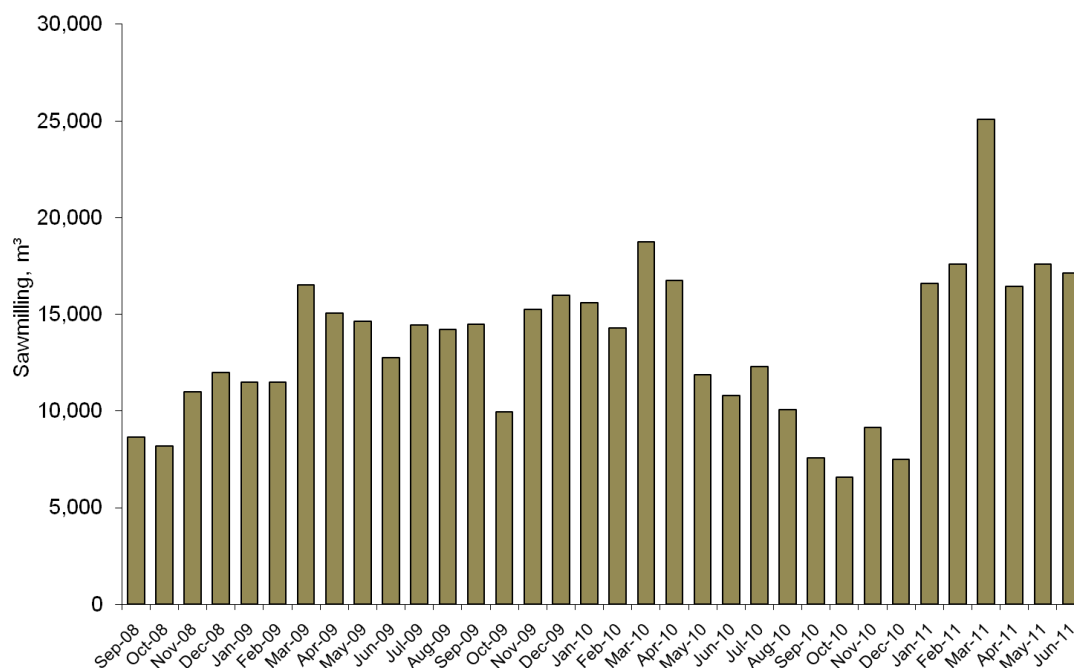
During June, large parts of Siberia were affected by severe forest fires. Fortunately, the fires did not destroy any significant forest assets for RusForest. However, fires in proximate forest areas forced harvesting personnel and equipment to help control the fire, which meant that harvesting and extraction of timber was significantly affected during the period, especially during June.

The harvesting operations produced 80,000 m<sup>3</sup> of sawlogs and 35,000 m<sup>3</sup> of pulpwood on a consolidated basis during Q2 2011. The best performance was seen in Magistralny, and harvesting in this area during the first half of the year has increased by around 65 per cent compared to 2010.

However, the total harvesting volume in the first half of 2011 was comparable to the volumes in the same period in 2010. RusForest expects improvements in harvesting volumes in both Ust-Ilimsk and Boguchany towards the end of 2011, thanks to the measures taken by the new local management teams, the addition of new forest leases and the delivery of delayed harvesting and road construction equipment.

## Sawmilling

### RusForest Group Sawmilling, Sep 08 – June 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 major event within RusForest's sawmilling operations during the second quarter of 2011 was the addition of the RusForest Magistralny sawmill, which was inaugurated on June 14 in the presence of the Mayor of the Kazachinsko-Lensky district, representatives of the Board of RusForest as well as an international delegation of invited guests.

Since construction started in July 2010, the management of RusForest Magistralny has completed the construction and installation of the entire sawmilling facility and only fine tuning remains before larger scale production can start in late autumn 2011. An impressive amount of work has been done, and the addition of the RusForest Magistralny sawmill constitutes a significant step towards achieving RusForest's long term production targets and allows the company to further process the excellent raw material available in the Magistralny area. The base capacity of the sawmill is 120,000-150,000 m<sup>3</sup> of kiln dried sawnwood per year. Sawnwood production at the mill commenced during the third quarter and will reach larger scale during the late autumn of 2011.

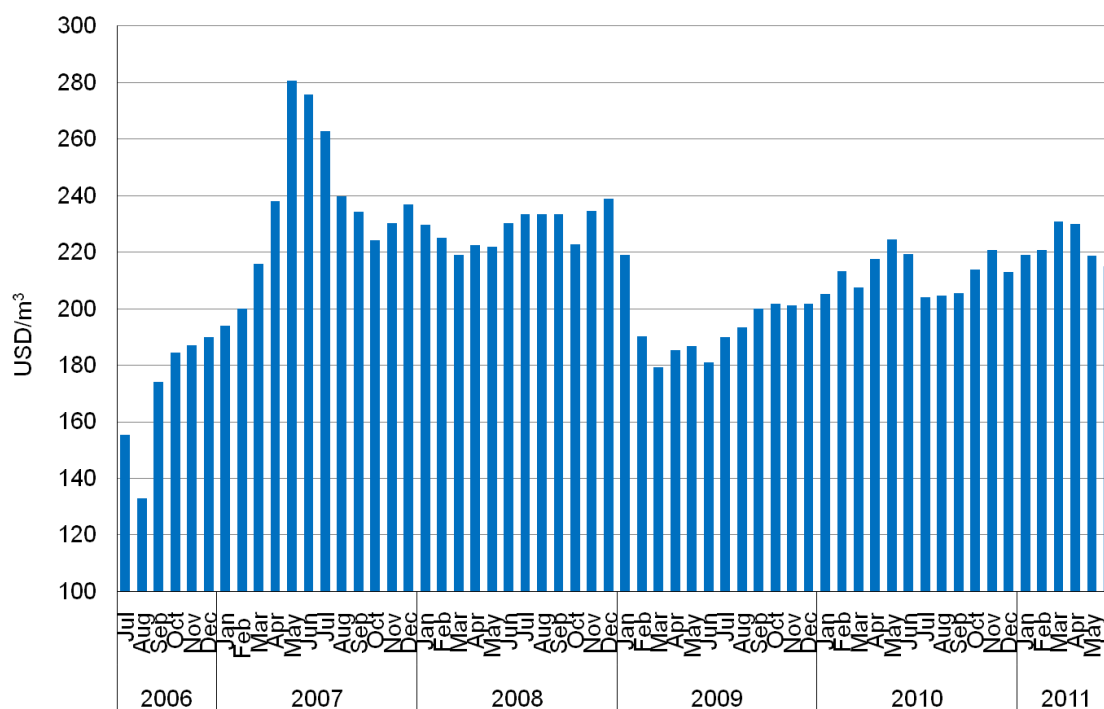
In Boguchany, the new CTO, Ernst Pfefferkorn, has started the construction process with regards to the assembly and installation of the new boiler, log and lumber sorting lines as well as new kilns at the site.

LDK-3 has shown continuous increases in sawnwood production throughout 2011, and in Q2 the mill increased production by 60 per cent compared to Q1 2011.

However, both Boguchansky LPK and RusForest Ust-Ilimsk decreased production by approximately 27 and 21 per cent respectively due to lower than expected log deliveries.

## Macroeconomic Development and the Market

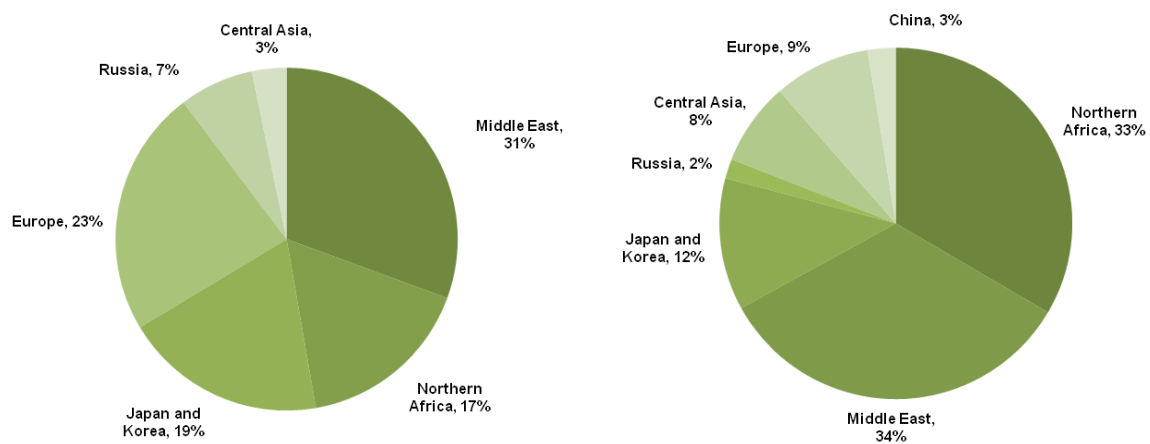
### RusForest sawnwood Export Prices, delivered to port, 2006 – 2011



Source: RusForest Ust-Ilimsk. Sawnwood export prices delivered to port

The global market for sawnwood has been under pressure during 2011, and most producers have witnessed price decreases of approximately 10-15 percent since the start of the year. Demand for sawnwood in Northern Africa and the Middle East has improved during the second quarter. However, the previous unrest has affected the pricing in the area, and the seasonal price increases usually seen in Q2 have not materialised during 2011. Instead, pricing continued to decrease in both Egypt and the Middle East during the period.

During 2011, RusForest's export prices for sawlogs have been stable. The average price for sawlogs at RusForest's main log exporter, RusForest Magistralny, was approximately USD 110-115 per m<sup>3</sup> during the second quarter of 2011 (including customs clearance, phytos control and declaration costs).

RusForest Sawnwood Sales Geography, 1H 2011 (left) and 1H 2010

Source: RusForest Trading, LDK-3

RusForest's main markets are located in the Middle East, Northern Africa, Europe, Japan and Korea. As a result of reduction in prices in Egypt, alternative markets were sought during the end of 2010. During the first quarter, the local unrest in Northern Africa caused RusForest to further decrease deliveries to the area and Syria was established as the single largest buyer of RusForest's sawn wood. Syria is still the largest single market for RusForest during 1H 2011. However, the Egyptian market is recovering and sales to Northern Africa have subsequently increased. The addition of sales volumes from LDK-3 can be seen in the increased share of sales to Europe and the domestic Russian market.

The Siberian entities proximity to China, Korea and Japan is very promising for future sales. Korea has developed to one of the most important markets for both low grade lumber, but higher grades are continuously being redirected from traditional pine markets to Korea as well. Japan has a constant demand for high quality lumber and the future looks very promising despite the current domestic problems in the country. China is a very important, long standing, market for RusForest when it comes to log sales. However, the Chinese market has been disappointing when it comes to sawnwood sales in general. Price levels were too low during the period to prompt any sales, and demand was visible mainly for low grade sawnwood. There is some demand for high grade product, but for these deliveries it is usually mandatory to have the forest FSC certified. The certification process is starting in Siberia, and RusForest is constantly monitoring the Chinese market for lucrative opportunities to enter.

During the first half of 2011, RusForest sold approximately 40,000 m<sup>3</sup> sawlogs from its forestry operations. The greatest part of this volume was exported to China (67 per cent) and Japan (30 per cent) and just less than 3 per cent of the volume was sold domestically.

## Key Financial Data

Item	2011	2010	2011	2010
In thousands of SEK	Q2	Q2	6M	6M
Turnover	117,839	91,730	209,383	187,139
Cost of Sales	(129,337)	(90,156)	(216,934)	(173,338)
EBITDA	(35,478)	(27,969)	(60,850)	(40,553)
Net Profit	(69,267)	(54,576)	(113,924)	(83,008)
Cash Flow during period	295,757	(14,673)	244,380	(18,480)
Per Share Data, SEK	30-Jun	30-Jun	30-Jun	30-Jun
Earnings	(0.70)	(2.47)	(1.37)	(3.77)
Shareholders' Equity	14.07	30.63	14.07	30.63
Share Price	11.50	18.70	11.50	18.70
Equity/Assets Ratio	62.4%	71.3%	62.4%	71.3%

## Financial performance

### General

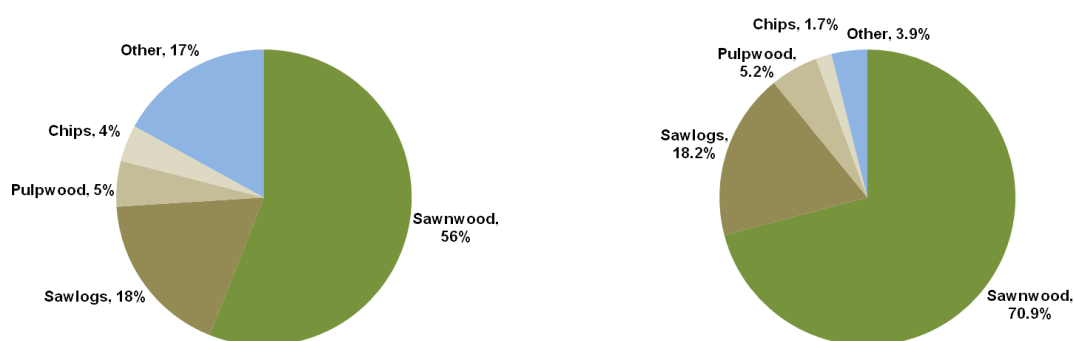
The RusForest Group merged with NTG on 30 April 2011, therefore the May and June results for NTG have been included in the Group's financial statements for Q2 2011. The financial data presented for the period is consequently not fully comparable with previous periods. The acquisition of Kansky LDK has not affected the Group's result as it was completed on 17 June and no activities have been initiated by the Group within Q2 2011. The acquisition only affected the Group's balance sheet.

### Profit and loss statement

#### Revenue

Group revenue for Q2 2011 amounted to SEK 117.8 million (Q2 2010: SEK 91.7 million). The revenue for the period had the following composition: Sawnwood, SEK 63.9 million (Q2 2010: SEK 65.1 million); Sawlogs, SEK 22.9 million (Q2 2010: SEK 16.7 million); Pulpwood, SEK 5.3 million (Q2 2010: SEK 4.8 million); Woodchips, SEK 4.5 million (Q2 2010: SEK 1.6 million) and; Other revenue SEK 21.2 million (Q2 2010: SEK 3.6 million).

Revenue Breakdown Q2 2011 (left) and Q2 2010, percentage of total



The share of sawn wood revenue decreased to 56 per cent in Q2 2011 compared to 70.9 per cent in Q2 2010. This was mainly a result of lower than planned sawn wood sales volumes, increased saw log sales from Lesprom (RusForest Magistralny) and the addition of sales volumes of saw logs and planed products from NTG (from May onwards). Also, the price for sawn wood decreased as a result of market factors and the effect of lower quality distribution of the sawn wood sold to Syria.

The revenue of the Group has not shown any dramatic increase after the acquisitions of LDK-3, NTG, Sibartles and Kansky. The acquired subsidiaries have a significant potential of successful performance commencing in 1-2 years from now after they are provided with necessary investment to complete road infrastructure, harvesting teams and transportation facilities. These measures are currently taken by the Group, however, the current activity results in a loss.

## Operating Expenses

RusForest's cost of sales for the period was SEK 129.3 million (Q2 2010: SEK 90.2 million). The main driver for the increase was the inclusion of LDK-3, Infa, Sibartles and NTG, acquired December 2010-June 2011 and included in RusForest's consolidated financial statements in H1 2011. Apart from the growth of total volume, the costs for fuel (+4.9 per cent during Q2 2011), spare parts and purchased saw logs also increased significantly during the reporting period.

Cost per unit fluctuated between the sawmills, decreasing at LDK-3 as a result of steady production levels around 10,000 m<sup>3</sup> per month. The Group's other sawmills experienced production stops due to saw log deficits. A positive effect on the net result, in the amount of SEK 2.5 million, was achieved at LDK-3 thanks to a switch of species in production, from spruce to pine.

Harvesting operations were at a low level during the period, mainly due to weather conditions (early spring 2011) and underfinanced production units; where companies were lacking the necessary number of harvesting teams, log trucks and road construction equipment. The process of completing needed investments in equipment started immediately after the receipt of the proceeds from the bonds issue, in mid-May 2011, which is likely to give positive results in the middle of 2012.

Distribution expenses amounted to SEK 27.5 million (Q2 2010: SEK 23.6 million) and represented customs duties, railway tariffs, loading and hauling-to-loading costs. The increase of these costs is due to their direct relation with the volumes shipped, which increased as a result of the merger with NTG. Railway tariffs kept increasing during the second quarter due to higher rental payments to the wagon owners - these rates keep growing as the wagon deficit is increasing in Russia.

## Financial Expenses

Financial expenses amounted to SEK 13.4 million during the period (Q2 2010: SEK 4.2 million). The increase represents the interest accrued on the bond issued in May 2011 together with effect of the Group's capital expenditure program, which is partly financed through financial lease arrangements (within the covenants set by the Terms and Conditions of the Bond).

The issue cost for the bonds, in the amount of SEK 11.25 million, has been capitalised and will be amortised over the term of the bonds using the effective interest method.

## Income Tax

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

A deferred income tax credit positively affected the Group's results during the second quarter of 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.

## Net Profit

The Group's net loss for the period was SEK 69.3 million (Q2 2010: SEK -54.6) million. The share of the loss generated by the Gravel asset was SEK 6.5 million (Q2 2010: SEK -14.8 million).

## Balance sheet

The total value of the Group's assets and liabilities has increased significantly as a result of the RusForest and Nord Timber Group merger on 30 April 2011.

### Assets, Liabilities and Investment

A major change in the Group's balance sheet during the quarter was a result of the inclusion of the assets and liabilities of NTG (forest leases accounted for as intangible assets). The forestry holdings of NTG have been valued at SEK 353.3 million with the useful life set to 15 years. However, NTG's forest lease contracts are valid until the year 2025 with a formal priority right for prolongation. Inventories increased significantly due to the addition of stocks from NTG together with purchase of 2 bundles of saw logs by LDK-3. Trade receivables increased as Severny Les (Harvesting operation within NTG) sells saw logs mainly on credit.

On the liability side, the Company is primarily financed through equity, with total equity amounting to SEK 1,346.6 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 30 June 2011. Other obligations mainly represent the liabilities under finance lease contracts, as the Group has purchased several pieces of equipment (forklifts, bus, pay loaders) for RusForest Magistralny, and the liabilities brought forward from NTG for log trucks.

Trade and other payables increased as a result of the lower than expected sales volumes forcing subsidiaries to manage cash levels and due to the expansion of harvesting operations to maintain stocks for mid-season sawmilling.

The gravel business' assets of SEK 103.2 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 Q2 the Company entered into a contract with Powerpack Minerals in order to purchase a conveyor for loading ships and to build a pier. First shipments by water took place in July 2011.

The gravel business' main crushing plant is being acquired under a finance lease, and the associated liability figure of SEK 15.2 million (31 December 2010: SEK 12.5 million) primarily reflects the present value of the lease payments which remain outstanding at June 30, 2011. The relative increase in the liability figure compared to December 31, 2010, represents liabilities for received goods and services including payables for overhauls performed during the winter idle period.

## Cash Flow and Financial Position

The Group's closing net cash position was SEK 313.4 million compared to SEK 67.2 million at December 31, 2010. The cash inflow during the six months ended June 30, 2011 was SEK 244.4 million (6M 2010: outflow of SEK 18.5 million). The operating cash outflow amounted to SEK 105.7 million (6M 2010: outflow of SEK 32.3 million).

Consolidated cash outflows from investing activities during 1H 2011, of SEK 150.9 million (1H 2010: SEK -16.0 million), mainly represent investments relating to continued construction at the RusForest Magistralny sawmill, the purchase of Kansky LDK and investments into harvesting and road building equipment across the Group subsidiaries. The Group will continue investments at RusForest Magistralny until August 2011.

The H1 investments to remove the bottlenecks in harvesting, complete road building teams and increase sawmilling volumes summarize as following (in SEK million):

Harvesting equipment	5.6
Road construction equipment and investment into road construction	20.1
Acquisition of additional AAC	63.9
Sawmilling equipment	61.3
<b>Total</b>	<b>150.9</b>

The cash flow changes in working capital amounted to SEK -45.2 million during the first half of 2011 as, apart from the seasonality factor, it was driven by the launch of the new sawmill in Magistralny demanding a sustainable saw log supply.

## Outlook

As mentioned in the CEO comments, the Company expects few improvements on the sawn wood markets as the outlook for the world economy is still gloomy in 2012.

The direct effect of this, and consequently lower market prices during 2011 and 2012 than what was initially expected, is that income and means available for further investments will be reduced.

Still, this does not stop the Company from implementing available actions to increase the out-take from its forest leases as costs are fixed for forest lease fees and to a certain extent road construction, no matter on what level harvesting is run.

Preparing roads and expanding the equipment park raises production levels at the sawmills at the same time as investment driven improvements 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 are essential to lowering internal log costs and improving profitability. The joint effect of all points mentioned above, combined with new efficiency measures (not only by reducing head count and improving the product mix) will help us streamline operations and significantly improve profitability within the next 6 months.

## 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 June, 2011, the number of outstanding shares was 95,807,694. At the close of the period, the share price was SEK 11.50 and the Company's market capitalisation was approximately SEK 1,102 million. The Company's certified adviser on First North is E. Öhman J:or Fondkommission AB.

During the second quarter of 2011, RusForest AB carried out two issues in kind which resulted in an increase in the number of shares and votes in the Company as follows:

Before the issues in kind, the number of shares in RusForest amounted to 65,522,520, corresponding to 65,522,520 votes. Through the two issues in kind, the number of shares and votes in the Company increased by 29,437,529 and 847,645 respectively. After the issues in kind, as at June 30, 2011, the total number of shares and votes in RusForest amounted to 95,807,694.

**ISIN:** SE0001732728

**Short name on First North:** RUSF

**Number of shares (at June 30, 2011):** 95,807,694

### 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 June 30, 2011

Shareholder	Number	Percentage
Vostok Nafta Investment	28,165,209	29.4
Alecta Pensionsförsäkring	9,209,490	9.6
JP Morgan Clearing Corp.	6,191,654	6.5
Morgan Stanley & Co Inc.	5,494,409	5.7
East Capital funds	5,280,000	5.5
Staffan Rasjö	4,306,069	4.5
CBLUX-Claycroft Ltd.	3,241,573	3.4
SSB CL Omnibus AC	2,986,940	3.1
Goldman Sachs & Co.	2,033,553	2.1
Avanza Pension	1,662,035	1.7
Other	27,236,762	28.4
<b>Total</b>	<b>95,807,694</b>	<b>100.0</b>

Trading data, January 2009 – June 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 30 JUNE 2011

In thousands of SEK	Note	Q2 2011	Q2 2010	6 M 2011	6 M 2010
<b>Continuing operations</b>					
Turnover		117,839	91,730	209,383	187,139
Cost of sales	1	(129,337)	(90,156)	(216,934)	(173,338)
<b>Gross Profit/(Loss)</b>		<b>(11,498)</b>	<b>1,574</b>	<b>(7,551)</b>	<b>13,801</b>
Other income		5,083	3,210	5,531	14,935
Distribution expenses	2	(27,462)	(23,622)	(49,652)	(49,825)
Administrative expenditure	3	(24,385)	(23,534)	(49,076)	(43,938)
Other expenses		(4,107)	(2,378)	(6,188)	(8,247)
<b>Operating loss</b>		<b>(62,369)</b>	<b>(44,749)</b>	<b>(106,936)</b>	<b>(73,273)</b>
Financing income		209	281	1,092	292
Financing cost		(13,364)	(4,241)	(15,479)	(8,746)
<b>Net financing cost</b>		<b>(13,154)</b>	<b>(3,960)</b>	<b>(14,386)</b>	<b>(8,453)</b>
<b>Loss before tax from continuing operations</b>		<b>(75,524)</b>	<b>(48,709)</b>	<b>(121,323)</b>	<b>(81,727)</b>
<i>Income tax</i>		12,797	8,937	19,345	14,183
<b>Loss for the period from continuing operations</b>		<b>(62,727)</b>	<b>(39,772)</b>	<b>(101,978)</b>	<b>(67,544)</b>
<b>Discontinued operations</b>					
Loss after tax for the period from discontinued operations	4	(6,540)	(14,804)	(11,946)	(15,464)
<b>Loss for the period</b>		<b>(69,267)</b>	<b>(54,576)</b>	<b>(113,924)</b>	<b>(83,008)</b>
Attributable to:					
Equity holders of the parent		(66,687)	(54,011)	(110,501)	(82,273)
Non-controlling interests		(2,580)	(565)	(3,423)	(735)
<b>Loss for the period</b>		<b>(69,267)</b>	<b>(54,576)</b>	<b>(113,924)</b>	<b>(83,008)</b>

## PER SHARE DATA

Per Share Data	Q2 2011	Q2 2010	6M 2011	6M 2010
SEK	30/06	30/06	30/06	30/06
Earnings	(0.70)	(2.47)	(1.37)	(3.77)
Shareholders' Equity	14.07	30.63	14.07	30.63
Share Price	11.50	18.70	11.50	18.70

Number of Shares	Q2 2011	Q2 2010	6M 2011	6M 2010
	1/4 - 30/06	1/4 - 30/06	1/1 - 30/06	1/1 - 30/06
Beginning of period	65,522,520	21,840,840	65,522,520	21,840,840
End of Period	95,807,694	21,840,840	95,807,694	21,840,840
Average number of shares	95,534,564	21,840,840	80,445,636	21,840,840

## 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 30 JUNE 2011

In thousands of SEK	Note	Q2 2011	Q2 2010	6 M 2011	6 M 2010
Loss for the period		(69,267)	(54,576)	(113,924)	(83,008)
<b>Other comprehensive income</b>					
Translation difference		51,010	14,467	49,342	28,450
<b>Other comprehensive income for the period, net of tax</b>		<b>51,010</b>	<b>14,467</b>	<b>49,342</b>	<b>28,450</b>
<b>Total comprehensive loss for the period, net of tax</b>		<b>(18,257)</b>	<b>(40,108)</b>	<b>(64,582)</b>	<b>(54,558)</b>
Attributable to:					
Equity holders of the parent		(15,677)	(39,543)	(61,159)	(53,823)
Non-controlling interests		(2,580)	(565)	(3,423)	(735)
<b>Total comprehensive income for the period, net of tax</b>		<b>(18,257)</b>	<b>(40,108)</b>	<b>(64,582)</b>	<b>(54,558)</b>

The fluctuations of the main currencies to SEK have been the following during the quarter: SEK appreciated against USD by 0.16 per cent against EUR by 2.6 per cent and depreciated against RUB by 2.0 per cent

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### AS AT 30 JUNE 2011

In thousands of SEK	Note	30 June 2011	31 December 2010
<b>Assets</b>			
<b>Non-current assets</b>			
Property Plant and equipment		963,808	768,054
Intangible assets	5	452,801	12,212
Investments in associates		2,496	2,434
Other long-term receivables		-	7,553
Deferred tax asset		78,244	44,095
<b>Total non-current assets</b>		<b>1,497,348</b>	<b>834,348</b>
<b>Current assets</b>			
Inventory		133,088	64,490
Trade and other receivables		118,672	83,691
Current tax assets		411	791
Loans receivable		10,799	725
Cash and cash equivalents		313,351	67,195
<b>Total current assets</b>		<b>576,322</b>	<b>216,892</b>
Assets classified as held for sale		103,190	100,018
<b>Total assets</b>		<b>2,176,860</b>	<b>1,151,258</b>
<b>EQUITY</b>			
<b>Equity and reserves</b>			
Share capital		958,077	655,225
Other capital		686,598	541,114
Translation reserve		42,994	(6,348)
Retained earnings		(230,589)	(86,693)
Income for the year		(110,501)	(127,369)
<b>Total equity attributable to Shareholders of the Group</b>		<b>1,346,579</b>	<b>975,929</b>
<b>Non-controlling interest</b>		<b>1,743</b>	<b>3,143</b>
<b>Total Equity</b>		<b>1,348,323</b>	<b>979,072</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings		525,786	10,703
Loans payable to related companies		-	7,334
Deferred tax liability		124,327	53,862
<b>Total non-current liabilities</b>		<b>650,023</b>	<b>71,899</b>
<b>Current liabilities</b>			
Interest bearing loans and borrowings		44,067	15,627
Trade and other payables		117,034	68,075
Current tax liabilities		256	142
Provisions		1,950	3,915
<b>Total current liabilities</b>		<b>163,308</b>	<b>87,759</b>
Liabilities directly associated with the assets classified as held for sale		15,206	12,528
<b>Total liabilities</b>		<b>828,537</b>	<b>172,186</b>
<b>Total equity and liabilities</b>		<b>2,176,860</b>	<b>1,151,258</b>

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 30 JUNE 2011

In thousands of SEK	Q2 2011	Q2 2010	6M 2011	6M 2010
Profit/loss after financial items	(69,267)	(54,576)	(113,924)	(83,008)
Adjustment for non-cash items, etc.	25,855	25,754	53,451	38,805
Paid income tax	(19)	-	(37)	-
<b>Cash flow from operating activities before changes in working capital</b>	<b>(43,431)</b>	<b>(28,822)</b>	<b>(60,510)</b>	<b>(44,203)</b>
Cash flow changes in working capital	(40,376)	26,793	(45,171)	11,892
<b>Cash flow from operating activities</b>	<b>(83,807)</b>	<b>(2,029)</b>	<b>(105,681)</b>	<b>(32,311)</b>
Investment in equipment	(70,757)	(2,826)	(88,753)	(9,823)
Proceeds from sales of equipment	11	366	20	366
VAT refund on capital investments	2,393	-	4,547	-
Payment for purchase of investments in associated undertakings	(31,679)	-	(45,028)	-
Interest received	(64)	4	-	10
Cash balances of acquired subsidiaries	6,968	-	6,968	-
Loans issued to related parties (Gravel Co Group)	(7,578)	(1,653)	(10,239)	(6,226)
Investment in financial assets	(15,090)	(367)	(18,416)	(343)
<b>Cash flow from investing activities</b>	<b>(115,796)</b>	<b>(4,476)</b>	<b>(150,901)</b>	<b>(16,016)</b>
(Decrease)/Increase in loans payable	495,361	(8,168)	500,961	29,848
<b>Cash flow from financing activities</b>	<b>495,361</b>	<b>(8,168)</b>	<b>500,961</b>	<b>29,848</b>
<b>Cash flow during the period</b>	<b>295,758</b>	<b>(14,673)</b>	<b>244,380</b>	<b>(18,480)</b>
Cash and cash equivalents, beginning of period	15,623	22,741	67,195	26,085
Exchange-rate differences on cash and cash equivalents	1,970	233	1,777	696
<b>Cash and cash equivalents, period end</b>	<b>313,351</b>	<b>8,301</b>	<b>313,351</b>	<b>8,301</b>

Adjustment for non-cash items, etc.	Q2 2011	Q2 2010	6M 2011	6M 2010
In thousands of SEK				
Depreciation	26,570	16,809	46,086	32,721
Income tax expense	(12,734)	(8,937)	(19,345)	(14,183)
Finance income	(209)	(281)	(1,092)	(292)
Finance expense	13,364	4,241	15,479	8,746
Net income/loss on disposal of property, plant and equipment	862	1,285	1,500	4,340
Bad debts	949	64	972	808
Other comprehensive loss from assets held for sale	6,540	14,804	11,946	15,464
Other non-cash items	(9,487)	(2,230)	(2,095)	(8,798)
<b>Total</b>	<b>25,855</b>	<b>25,754</b>	<b>53,451</b>	<b>38,805</b>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

01/01/2011 - 30/06/2011

Attributable to the equity holders of the parents

In thousands of SEK	Share capital	Other capital	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	-	-	-	(110,501)	(3,423)	(113,924)
Other comprehensive income	-	-	49,342	-	-	49,342
<b>Total comprehensive income</b>	-	-	<b>49,342</b>	<b>(110,501)</b>	<b>(3,423)</b>	<b>(64,582)</b>
Acquired non-controlling interest in subsidiaries	-	-	-	(16,527)	2,023	(14,504)
New shares issue	302,852	145,484	-	-	-	448,336
<b>Shareholders' equity at end of period</b>	<b>958,077</b>	<b>686,598</b>	<b>42,994</b>	<b>(341,090)</b>	<b>1,743</b>	<b>1,348,323</b>

01/01/2010 - 30/06/2010

Attributable to the equity holders of the parents

In thousands of SEK	Share capital	Other capital	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	-	-	-	(82,273)	(735)	(83,008)
Other comprehensive income	-	-	28,450	-	-	28,450
<b>Total comprehensive income</b>	-	-	<b>28,450</b>	<b>(82,273)</b>	<b>(735)</b>	<b>(54,558)</b>
<b>Shareholders' equity at end of period</b>	<b>218,408</b>	<b>556,687</b>	<b>65,423</b>	<b>(168,966)</b>	<b>(2,577)</b>	<b>668,975</b>

01/01/2010 - 31/12/2010

Attributable to the equity holders of the parents

In thousands of SEK	Share capital	Other capital	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)
<b>Total comprehensive income</b>	-	-	<b>(43,321)</b>	<b>(127,369)</b>	<b>(2,855)</b>	<b>(173,545)</b>
Non-controlling interest in acquired subsidiaries	-	-	-	-	7,839	7,839
Costs related to the rights issue	-	(15,573)	-	-	-	(15,573)
New share issue	436,817	-	-	-	-	436,817
<b>Shareholders' equity at end of period</b>	<b>655,225</b>	<b>541,114</b>	<b>(6,348)</b>	<b>(214,062)</b>	<b>3,142</b>	<b>979,071</b>

## NOTES TO THE FINANCIAL STATEMENTS

The data for 2011 includes income and expenses of LDK-3, Infa, Sibartles and Nord Timber Group acquired in Q4 2010 and H1 2011. The financial data presented for the period is consequently not fully comparable with previous periods.

### Note 1. Cost of sales

	Q2 2011	Q2 2010	6M 2011	6M 2010
Personnel costs	34,783	22,706	57,281	47,030
Purchased sawlogs	34,259	22,849	40,963	38,525
Depreciation	25,725	16,305	44,427	31,825
Materials	5,574	5,700	10,626	10,107
Energy and fuel	8,830	8,320	19,718	16,100
Harvesting services	3,508	1,740	10,432	6,022
Forest lease	4,384	3,002	7,672	7,216
Road construction	1,638	-	3,010	-
Other	10,637	9,534	22,806	16,513
	<b>129,338</b>	<b>90,156</b>	<b>216,934</b>	<b>173,338</b>

### Note 2. Distribution expenses

	Q2 2011	Q2 2010	6M 2011	6M 2010
Personnel costs	3,776	1,859	6,816	3,253
Railway costs	11,401	13,269	21,440	25,562
Custom duty	4,613	3,433	8,226	7,105
Other	7,671	5,061	13,169	13,905
	<b>27,462</b>	<b>23,622</b>	<b>49,652</b>	<b>49,825</b>

### Note 3. Administrative expenditure

	Q2 2011	Q2 2010	6M 2011	6M 2010
Personnel costs	13,394	11,028	25,994	21,027
Audit	1,150	103	2,217	2,133
Property tax	265	1,610	1,422	2,630
Consulting fees	5,513	3,963	9,252	5,232
Other	4,063	6,830	10,191	12,916
	<b>24,385</b>	<b>23,534</b>	<b>49,076</b>	<b>43,938</b>

### 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

SEK million	6M 2011 Harvesting	6M 2011 Sawmilling	6M 2011 Gravel	Total
External revenues	55.1	154.3	18.3	227.7
Inter-segment revenue	58.8	15.0	-	73.8
Reportable segment profit before tax	(65.2)	(56.0)	(12.7)	(134.0)

## Assets Classified as Held for Sale

In thousands of SEK	30 June 2011	31 December 2010
<b>Assets</b>		
<b>Non-current assets</b>		
Property Plant and equipment	69,296	68,844
Intangible assets	11,719	11,889
Deferred tax asset	3,700	2,811
<b>Total non-current assets</b>	<b>84,716</b>	<b>83,544</b>
<b>Current assets</b>		
Inventory	5,576	4,983
Trade and other receivable	10,375	10,788
Cash and cash equivalents	2,523	703
<b>Total current assets</b>	<b>18,474</b>	<b>16,474</b>
<b>Total assets</b>	<b>103,190</b>	<b>100,018</b>

## Liabilities directly associated with the assets classified as held for sale

In thousands of SEK	30 June 2011	31 December 2010
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Interest-bearing loans and borrowings	3,980	3,977
<b>Total non-current liabilities</b>	<b>3,980</b>	<b>3,977</b>
<b>Current liabilities</b>		
Interest-bearing loans and borrowings	5,831	4,994
Trade and other payables	5,395	3,557
<b>Total current liabilities</b>	<b>11,226</b>	<b>8,551</b>
<b>Total liabilities</b>	<b>15,206</b>	<b>12,528</b>

**Consolidated Statement of Comprehensive Income of Gravel Segment**

In thousands of SEK	6M 2011	6M 2010
<b>Discontinued operations</b>		
Turnover	18,339	8,156
Cost of sales	(14,683)	(15,061)
<b>Gross Profit/(Loss)</b>	<b>3,656</b>	<b>(6,905)</b>
Distribution expenses	(12,172)	(4,409)
Administrative expenditure	(2,307)	(4,629)
<b>Operating loss</b>	<b>(10,823)</b>	<b>(15,943)</b>
Financing income	-	-
Financing cost	(1,899)	(1,248)
<b>Net financing income/(cost)</b>	<b>(1,899)</b>	<b>(1,248)</b>
<i>Income tax</i>	775	1,727
<b>Loss for the year from discontinuing operations</b>	<b>(11,946)</b>	<b>(15,464)</b>

**Condensed statement of cash flows of the Gravel segment**

For 6 months ended 30/06/2011

In thousands of SEK	Gravel
Cash flow from operating activities	1,601
Cash flow from investing activities	(6,251)
Cash flow from financing activities	6,403
<b>Cash flow during the period</b>	<b>1,754</b>

**Note 5. Intangible assets**

The intangible assets the Group has acquired through the business combination (purchase of Sibartles, LDK-3 Inc. and Infa Ltd) are presented below:

In thousands of SEK	Forest leases	Other intangible assets	Total
<i>Carrying amounts</i>			
At 31 December 2010	-	12,212	12,212
<b>At 30 June 2011</b>	<b>441,043</b>	<b>11,758</b>	<b>452,801</b>

**Note 6. Parent Company****Parent Company Condensed Income Statement**

In thousands of SEK	6M 2011	6M 2010
Turnover	-	-
Cost of sales	-	-
<b>Gross Profit</b>	-	-
Distribution expenses	-	-
Administrative expenditure	(6,210)	(4,268)
<b>Operating profit</b>	<b>(6,210)</b>	<b>(4,268)</b>
Exchange gain/loss	(19,800)	6,759
Financing income	27,555	9,737
Financing cost	(18,753)	(4,405)
<b>Net financing income/(cost)</b>	<b>(10,998)</b>	<b>12,091</b>
<i>Income tax</i>	-	-
<b>Profit/loss for the year from continuing operations</b>	<b>(17,208)</b>	<b>7,823</b>

**Parent Company Condensed Statement of Financial Position**

In thousands of SEK	30 June 2011	31 December 2010
<b>Assets</b>		
<b>Non-current assets</b>		
Property Plant and equipment	10	21
Investments in subsidiaries	1,110,418	661,901
<b>Total non-current assets</b>	<b>1,110,428</b>	<b>661,922</b>
<b>Current assets</b>		
Loans receivable	761,284	473,959
Trade and other receivable	2,399	2,395
Cash and cash equivalents	233,232	29,322
<b>Total current assets</b>	<b>996,915</b>	<b>505,676</b>
<b>Total assets</b>	<b>2,107,343</b>	<b>1,167,598</b>
<b>EQUITY</b>		
<b>Equity and reserves</b>		
Share capital	958,077	655,225
Other capital	686,598	541,114
Retained earnings	(37,307)	(30,815)
<b>Total equity</b>	<b>1,607,368</b>	<b>1,165,524</b>
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Interest-bearing loans and borrowings	496,668	-
<b>Total non-current liabilities</b>	<b>496,668</b>	-
<b>Current liabilities</b>		
Trade and other payables	3,307	2,074
<b>Total current liabilities</b>	<b>3,307</b>	<b>2,074</b>
<b>Total equity and liabilities</b>	<b>2,107,343</b>	<b>1,167,598</b>

**Note 7. Acquisition of subsidiaries**

RusForest Group has performed the 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.

<b>The acquisition had the following effect on the Group's assets and liabilities on acquisition date</b>	<b>Preliminary recognised values on acquisition</b>
<b>In thousand of SEK</b>	
Property, plant and equipment	132,575
Forest lease rights and other intangibles	353,434
Inventory	19,512
Trade and other receivables	20,387
Cash and cash equivalents	6,986
Loans and borrowings	(18,575)
Deferred tax liabilities	(37,967)
Trade and other payables	<u>(18,002)</u>
Net identifiable assets and liabilities	<u>458,351</u>
Consideration equivalent	<u>458,351</u>

In June 2011 the Group acquired LLC Kansky LDK, a 207,000 m<sup>3</sup> AAC holder.

<b>The acquisition had the following effect on the Group's assets and liabilities on acquisition date</b>	<b>Preliminary recognised values on acquisition</b>
<b>In thousand of SEK</b>	
Property, plant and equipment	26
Forest lease rights	50,348
Trade and other receivables	2,149
Cash and cash equivalents	235
Loans and borrowings	(12,171)
Deferred tax liabilities	(10,562)
Trade and other payables	<u>(1,530)</u>
Net identifiable assets and liabilities	<u>28,495</u>
Consideration paid	<u>28,495</u>

