

SEGEZHA GROUP ANNOUNCES FINANCIAL AND OPERATING RESULTS FOR 12M 2022

Moscow, 31 March 2023 – Segezha Group (MOEX: SGZH, owned by AFK Sistema), Russia's leading vertically integrated wood and paper holding company carrying out a full cycle of logging and advanced wood processing, announces its consolidated audited IFRS financial results and operating results for the 12 months of 2022.

- Revenue was up 15% year-on-year (yoy) to RUB 106.8 bn, driven mostly by the consolidation of the assets of NLHK and Inter Forest Rus (IFR), which became part of the Group in Q3 and Q4 2021, respectively;
- OIBDA amounted to RUB 24.7 bn, down by 16% yoy, on the back of the necessary refocus on alternative target markets, price inflation for a number of production components, as well as considerable growth of logistics costs;
- OIBDA margin came in at 23%;
- Net profit was RUB 6.1 bn, down 60% yoy following a reduction in operating profit and a growth in interest expense;
- Net debt as of 31 December 2022 was RUB 101.0 bn, almost flat vs 30 September 2022;
- CAPEX declined by 56% yoy to RUB 10.2 bn after the investment programme was adjusted to reflect high levels of macroeconomic uncertainty.

Financial performance, RUB mln	12M 2022	12M 2021	yoy
Revenue	106,766	92,442	15%
OIBDA	24,662	29,252	(16%)
margin, %	23%	32%	(9 pp)
Net profit	6,052	15,237	(60%)
Capital expenditure	10,181	23,116	(56%)
M&A	18,390	20,161	(9%)
Free cash flow	(26,312)	(30,210)	13%
Net debt ¹	100,962	97,406 ¹	4%
Net debt ¹ /12M OIBDA, x	4.1	3.3	-

CONFERENCE CALL AND WEBCAST

A conference call with management to discuss the results will take place on 31 March 2023 at 12:00 pm Moscow time.

To participate in the webcast, go to: https://us06web.zoom.us/webinar/register/WN_O-7rtyHaSiOmolHx2SNiDA

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¹ Net debt is shown as of 31 December 2022 and 30 September 2022.

MANAGEMENT COMMENTS

Market review

For Q4 2022, average selling prices of Segezha Group's products amounted to:

- Sack paper – EUR 765/t (down 2% yoy)
- Sawn timber – EUR 153/cu m (down 34% yoy)
- Birch plywood – EUR 494/cu m (down 41% yoy)
- Glulam – EUR 368/cu m (down 31% yoy)

Q4 2022 saw the following trends in the Group's key products:

- Demand in the global sack paper market declined due to a reduction in construction activity on the key markets because of low season. European manufacturers of sack paper increased sales in the domestic market (up 4%)² due to withdrawal of Russian importers, exports outside the EU went down by 1%. Russian manufacturers of sack paper vigorously redirected volumes to Turkey, Asia, MENA as exports to Europe were prohibited. logistical difficulties remained in export deliveries.
- Russian birch plywood output demonstrated minor growth (up 5% qoq) in 4Q 2022³, yet, as compared with the same period of last year, Russian manufacturers continued operating at much lower utilisation rates, down 45% yoy (industry average). Plywood output in 2022 went down by 24% yoy to 3.2 mln cu m. Plywood exports from the Russian Federation in 4Q 2022 were characterised by a positive trend (+6% qoq) due to an optimisation of logistics routes and rates, partial substitution of the share of European competitors and better awareness of the Russian product in the new target markets. Greater imports of the Russian plywood as compared to 3Q 2022⁴ were demonstrated by destinations like Turkey (+2%), China (+34%), South Korea (+22%), Saudi Arabia (+13%) and UAE (+4%), with a surplus of birch plywood supply in the countries of Asia, the Middle East and North Africa due to redirected trade flows. Europe, however, experienced a deficit of supply and price growth due to a ban on plywood import from the Russian Federation.
- 4Q 2022 saw a downward price trend in the markets for sawn softwood in the period of seasonal slowdown of construction activity. The key drivers behind price decline in 4Q 2022 were as follows:
 - High levels of port inventories in China: in mid-November, inventories in the port of Taican (the basic port for sawn timber imports from the Russian Federation) stood at 1.2 mln cu m, up 31% vs the same period of 2021.
 - In Egypt, after a price fall in October 2022, an upward trend started to emerge in mid-November. Egyptian warehouses were 50% full, with the product specifications being represented by a high share of inferior-quality products. In late November to early December 2022 there were a growing number of customer requests, yet also persisting limitations due to buyers low solvency.
- The Russian segment of wooden house construction in 4Q 2022, against the backdrop of slowdown in construction activity in the winter period, was facing lower demand and, consequently, prices.

² According to ITC data for 11M 2022 vs 11M 2021

³ According to the Federal Service for State Statistics (Rosstat)

⁴ According to the Federal Customs Service of the Russian Federation

RUB 107 bn

The Group's revenue for 12M 2022

RUB 25 bn

The Group's OIBDA for 12M 2022

RUB 101 bn

The Group's net debt as of 31 December 2022

Overview of the Group's results

The Group's revenue for 12M 2022 was up 15% yoy and reached RUB 106.8 bn owing to the growth of average prices of the Group's products and an effect from the consolidation of the assets of NLHK and IFR, which commenced in 3Q and 4Q 2021, respectively. The share of export revenue of the Group declined to 72% (down 2 pp yoy).

OIBDA for 12M 2022 stood at RUB 24.7 bn, down 16% yoy. OIBDA margin for 12M 2022 made up 23% (down 9 pp yoy). OIBDA includes positive adjustment for RUB 3.4 bn⁵. The decrease was driven by price inflation for key raw materials, the increased cost of the harvesting and transportation of logs amid a higher share of harvesting at the Group's Siberian assets, as well as a considerable rise in logistics costs and the strengthening of the rouble against foreign currencies.

The net profit of the Group for 12M 2022 amounted to RUB 6.1 bn, a reduction of 60% yoy primarily in the context of operating profit reduction and interest expense growth.

Financial position

As of 31 December 2022, total debt stood at RUB 123.8 bn (up 19% vs 30 September 2022). The debt portfolio at the end of 12M 2022 mainly consisted of liabilities denominated in roubles (93%).

Net financial expenses for 12M 2022 totalled RUB (7.1) bn, driven by higher borrowings, a slight increase in the interest rates on the debt portfolio and the positive effect of the revaluation and termination of a portion of cross-currency swaps denominated in euros.

As of 31 December 2022, the weighted average funding rate on borrowed funds was 9.7% per annum. The average weighted period of financing was 2.2 years due to the issue of two new tranches of bonds: 1) worth RUB 10.0 bn, with a coupon of 10.83% and maturing in 2024, 2) worth CNY 500 mln (RUB 4.2 bn at the exchange rate set by the Bank of Russia as of placement date) with a rate of 4.15% and maturing in 2037. As of 31 December 2022, cash and cash equivalents, including bank deposits with maturities of three months or less, grew 3.6x vs 9M 2022 to RUB 22.9 bn. The currency split of cash and cash equivalents was 33% in foreign currencies and 67% in roubles.

Net debt remained almost flat vs 9M 2022 at RUB 101.0 bn. The net debt to LTM OIBDA ratio was 4.1x vs 3.5x as of 30 September 2022.

Investments

Capital investments for 12M 2022 stood at RUB 10.2 bn (-56% yoy), of which 36% were directed toward new capacity expansion projects and 64% in maintenance. Investments in the completion of M&A acquisition of Inter Forest Rus totalled RUB 18.4 bn.

Excluding M&A, key areas of investment were as follows:

- RUB 2.0 bn – upgrade of the Sokol PPM;
- RUB 1.3 bn – expansion of capacity at the Vyatka Plywood Mill;
- RUB 0.5 bn – upgrade of the Lesosibirsk Sawmills;
- RUB 0.4 bn – upgrade of the Segezha PPM;
- RUB 0.3 bn – development of converting facilities and acquisition of relevant equipment.

⁵ See note 5 to consolidated financial statement for 2022

Detailed information by segment

Paper and Packaging

RUB 41 bn

Revenue in the Paper and Packaging segment for 12M 2022

Paper and Packaging segment **revenue**⁷ for 12M 2022 was RUB 40.7 bn (+ RUB 1.0 bn, or +2% yoy). The key driver behind revenue growth was growth in the products selling prices vs 2021. The Division's **OIBDA** grew to RUB 11.2 bn (+33% yoy). **The OIBDA margin** was 28%.

12M 2022	Production output	Sales volume	Average price, euros per unit (FCA)
Sack paper, ths t	336	319 ⁵	834
Paper packaging, mln pcs	1,405	1,406	245 ⁸

Market overview:

In 4Q 2022 Segezha Group 1) increased sales to available external markets, especially the markets of China, Turkey and South Africa; 2) developed alternative logistical routes to Latin America, Africa; 3) resumed shipments to Malaysia, Pakistan, India.

As regards industrial paper packaging, Segezha Group increased sales to the domestic market as part of import substitution of the European suppliers that left Russia.

Key investment projects:

1. The upgrade of Sokol Pulp and Paper Mill continues. Waste water treatment facilities and new steam boilers are being designed. The project to install a new paper machine is still underway. The production of various types of paper will increase by 65 ths t per year to 100 ths t per year thanks to the construction of a new paper-making machine. Investment in the project is about RUB 17 bn.

Forestry Management and Woodworking

RUB 50 bn

Revenue in the Forestry Management and Woodworking segment for 12M 2022

Forestry Management and Woodworking segment **revenue**⁷ for 12M 2022 grew by 72% yoy (or RUB 20.8 bn) to RUB 49.8 bn. The major driver for the segment was product sales growth following the consolidation of new assets in Q3 and Q4 2021, respectively. **OIBDA** amounted to RUB 9.0 bn, down 45% yoy. **The OIBDA margin** was 18%.

12M 2022	Production output	Sales volume	Average price, euros per unit (FCA)
Sawn timber ⁹ , ths cu m	2,095	2,146	204
Pellets, ths t	232	217	57
Fiberboard, mln sq m	30	25	0.76 ¹⁰
Harvesting, ths cu m	8,271	-	-

Market overview: in 4Q 2022, the market situation for the Russian manufacturers of sawn timber was characterised by low market prices, persistently high logistics costs and rouble volatility against foreign currencies, which resulted in a 22% yoy drop in softwood and hardwood sawn timber exports from Russia in 12M 2022. Exports to China reduced by as

⁶ Sales volume of 319 ths t, including paper directed to Segezha Group's own converting facilities, 142 ths t.

⁷ Excluding revenue from intersegment transactions

⁸ Price for one thousand sacks

⁹ Excluding the production volume of the Sokol Woodworking integrated plant, the results of which are reflected in the Laminated wood products segment

¹⁰ Price per sq m

little as 10% yoy. As a result, its share in the Russian exports of sawn timber in 12M 2022 went up from 53% a year ago to 61%.

Segezha Group sought to relocate volumes among available geographies and to develop domestic market, including for larch products. The company worked to optimise logistics, reducing deliveries through the seaports of the Far Eastern Sea Basin with a focus on overland routes.

Key investment projects:

1. An upgrade of the Lesosibirsk Sawmills entailed commissioning all of the 12 drying kilns. Thermal station foundation works are now complete, work is underway to arrange the floor slab. The installation of debarker reducer rotor was completed, the equipment was commissioned. The modernisation of the Lesosibirsk LDK will increase the production of sawn timber by 50 ths cu m pellets, reduce the production cost, switch manufacturing to more state-of-the-art technologies and boost product competitiveness in the export markets. Lesosibirsk Sawmills production will become waste-free due to the construction of a new boiler house fired by bark waste with a capacity of 40 MW. The project budget will be about RUB 6.0 bn.

Plywood and boards

RUB 10 bn

Revenue in the Plywood and Boards segment for 12M 2022

Plywood and Boards segment revenue⁷ for 12M 2022 was RUB 10.3 bn, down 18% yoy. **OIBDA** stood at RUB 3.0 bn, a reduction of 53% yoy due to the structural transformation of the sales geography. **The OIBDA margin was 29%.**

12M 2022	Production output	Sales volume	Average price, euros per unit (FCA)
Plywood, ths cu m	162	156	642
Fiberboard, mln sq m	25	24	0.76 ¹⁰

Market overview: in 4Q 2022, the prices of Russian plywood across virtually all directions declined both on the back of seasonal correction and due to a surplus of supply across all markets available to manufacturers from the Russian Federation.

In the reporting period, Segezha Group restored its sales volume due to the sale of plywood both in the domestic and export markets and was able to grow its share in markets like China, Turkey, UAE, the CIS countries. A separate focus for Segezha Group is the promotion of tanker plywood in Asian markets, predominantly in China and South Korea.

Key investment projects:

1. Galich Plywood Mill¹¹ was commissioned on 14 December 2022. The site of raw material exchange, fire fighting passways, plant facilities area are now being arranged. The capacity of the mill is 125 ths cu m of plywood per year.

Laminated Wood Products

RUB 6 bn

Revenue in the Laminated Wood Products segment for 12M 2022

Laminated Wood Products⁷ segment revenue for 12M 2022 was RUB 5.7 bn, down 8% yoy. **OIBDA** stood at RUB 2.0 bn, a reduction of 39% yoy due to the necessity of reorienting sales to new markets, plus the growth of logistics and other costs. **The OIBDA margin was 36%.**

¹¹ The results of Galich Plywood Mill are not consolidated as a subsidiary of the Group in accordance with the terms and conditions of the loan agreement between Alfa-Bank and GPM dated 20 March 2020.

12M 2022	Production output	Sales volume	Average price, euros per unit (FCA)
Glulam, ths cu m	27	35	475
Prefabricated housing, ths cu m	17	18	670
CLT panels, ths cu m	14	11	531
Sawn timber ¹² , ths cu m	145	117	204
Pellets, ths t	42	42	57

Market overview: 4Q 2022 witnessed a reduction in demand in Russia's housing construction market in the context of lower purchasing power and high levels of uncertainty.

4Q 2022 will saw low levels of business activity in the laminated beam and CLT segment.

Events subsequent to the reporting date

January 2023: Segezha Group redeemed its series 001P-01R exchange-traded bonds with a par value of RUB 10 bn.

February 2023: Segezha Group placed series 003P-02R bonds worth RUB 6 bn. The coupon was set at 10.60%. The offer date is 7 May 2025.

February 2023: Segezha Group entered into an agreement for the sale of seven Segezha Packaging factories in Europe and Turkey with a total capacity of 704 mln sacks per year. The company's management does not expect this transaction to have any significant impact on the Group's financial result.

Segezha Group has a robust financial position, and also has all the necessary resources, management experience and expertise to ensure the seamless operation of all of the Group's assets and the Group itself.

That said, given the high degree of uncertainty and turbulent market environment, Segezha Group cannot rule out the possibility of adverse effects on the operations and the financial results of the Group's companies and, consequently, on Segezha Group's operations and consolidated financial results due to current and/or future external factors beyond its control, including macroeconomic changes, restrictions on business or trade.

Segezha Group is a unique Russian wood and paper holding company. It stands out in the industry for its full cycle of operations from logging to specialised manufacturing of a wide range of high-margin products. Segezha Group's development focus is on green technologies for advanced wood processing and waste-free use of raw materials. The Group is one of the world's largest forestry companies, with total leased forest area of 15.9 million hectares and an annual allowable cut of 23.3 million cubic meters (including PIPs, or priority investment projects). Business stability is guaranteed by the high degree of self-sufficiency in raw materials, as 93% of the company's timber needs are covered by its resources. To increase the contribution of Russian forests to the global fight against climate change, as well as to improve productivity, sustainable forest management principles based on a scientifically proven intensive model are being introduced across all of the Group's forest assets. Segezha Group is a leader in several highly environmentally friendly, carbon-depositing products of the timber industry. For instance, it is Russia's largest manufacturer of paper for multilayer sacks, industrial paper sacks and sawn timber. Globally, the Group is the world's 2nd largest producer of craft paper and industrial paper packaging, and the world's 5th largest producer of large-format birch plywood. Moreover the Company is Europe's 3rd-largest sawn timber manufacturer. The asset geography of Segezha Group covers three countries, while all of its key production facilities are located exclusively in the Russian Federation. The Company is confident in its position in the global market for forestry products and responds flexibly to the slightest changes in the global business environment. It is represented in more than 80 countries. The Group's workforce grows and develops together with the holding, and currently numbers approximately 20 thousand employees. More information is available on the website: <http://segezha-group.com>

¹² Sawn timber produced at the Sokol woodworking plant. Not accounted for in the Forestry Management and Woodworking segment

APPENDIX No. 1

SEGEZHA GROUP PJSC

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022 (in millions of Russian Rubles)

	<u>2022</u>	<u>2021</u>
Revenue	106,766	92,442
Operating expenses:		
Cost of goods sold	(74,062)	(53,016)
Selling and administrative expenses	(28,216)	(20,000)
Gain on business acquisition	-	3,822
Other operating income/(expenses), net	5,623	(898)
Operating profit	10,111	22,350
Interest income	1,627	772
Interest expense	(11,626)	(3,911)
Other finance income	2,892	380
Foreign exchange differences, net	4,467	760
Other (expenses)/income	(14)	1
Profit before tax	7,457	20,352
Income tax expense	(1,405)	(5,115)
Net profit for the reporting year	6,052	15,237
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit pension obligations	-	73
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	147	67
Other comprehensive income	147	140
Total comprehensive income for the year	6,199	15,377
Net profit attributable to:		
Shareholders of Segezha Group PJSC	6,035	15,270
Non-controlling interests	17	(33)
	6,052	15,237
Total comprehensive income attributable to:		
Shareholders of Segezha Group PJSC	6,182	15,410
Non-controlling interests	17	(33)
	6,199	15,377
Earnings per share (in RUB)	0.38	1.06

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022
(in millions of Russian Rubles)

	31 December 2021	31 December 2022 (Restated)*
ASSETS		
NON-CURRENT ASSETS:		
Property, plant and equipment	82,213	73,862
Right-of-use assets	60,591	64,061
Intangible assets	5,442	5,427
Goodwill	444	444
Investments in joint ventures and associates	386	593
Deferred tax assets	1,215	803
Prepayments for non-current assets	4,039	5,280
Loans issued to related parties	7,978	8,266
Other non-current assets	1,154	629
Total non-current assets	163,462	159,365
CURRENT ASSETS:		
Inventories	24,613	21,806
Contract assets	1,281	1,186
Trade and other receivables	8,522	7,477
VAT receivable and taxes receivable	2,573	5,611
Income tax receivable	928	1,787
Advances and other current assets	3,832	4,082
Cash and cash equivalents	22,879	12,634
Total current assets	64,628	54,583
TOTAL ASSETS	228,090	213,948
EQUITY AND LIABILITIES		
EQUITY:		
Share capital	1,569	1,569
Additional paid-in capital	35,129	35,129
Retained earnings	3,451	7,758
Accumulated other comprehensive income	1,856	1,709
Equity attributable to the shareholders of Segezha Group PJSC	42,005	46,165
Non-controlling interest	49	27
Total equity	42,054	46,192
NON-CURRENT LIABILITIES:		
Loans and borrowings	86,584	52,362
Lease liabilities	19,562	21,271
Other financial liabilities	-	974
Pension obligations	559	737
Deferred tax liabilities	7,775	8,258
Consideration payable for business acquisition	-	3,715
Other non-current liabilities	1,430	3,472
Total non-current liabilities	115,910	90,789
CURRENT LIABILITIES:		
Loans and borrowings	37,257	21,408
Trade and other payables	21,110	16,779
Lease liabilities	3,953	3,903
Provisions	2,070	1,553
Taxes payable	2,864	2,644
Income tax payable	856	1,096
Consideration payable for business acquisition	-	17,466
Dividends payable	229	6,590
Advances received	1,787	5,528
Total current liabilities	70,126	76,967
TOTAL EQUITY AND LIABILITIES	228,090	213,948

* Comparative information for the year ended 31 December 2021 has been retrospectively adjusted for the completion of the allocation of the purchase price of business acquired in 2021 (Note 5 of consolidated financial statements for 2022) and also reclassification of income tax receivable and income tax payable from total balances of taxes receivable and payable.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2022
(in millions of Russian Rubles)

	2022	2021
Cash flows from operating activities:		
Net profit for the year	6,052	15,237
<i>Adjustments for:</i>		
Depreciation and amortisation	10,963	5,786
Depreciation of right-of-use assets	3,588	1,116
Interest income recognised in profit or loss	(1,627)	(772)
Interest expense recognised in profit or loss	11,626	3,911
Other finance income	(2,892)	(380)
Partial discharge of deferred payment on business acquisition	(3,386)	-
Gain on business acquisition	-	(3,822)
Income tax expense recognised in profit or loss	1,405	5,115
Allowance for expected credit losses	(61)	339
Loss on write-off of inventories	117	45
Allowance for inventory impairment	(179)	649
Gain on disposal of property, plant and equipment	(37)	(185)
Foreign exchange differences, net	(4,467)	(759)
Impairment loss on property, plant and equipment	13	907
Other	25	178
	21,140	27,365
Movements in working capital:		
Increase in trade and other receivables	(4,212)	(1,429)
Increase in inventories	(3,060)	(5,573)
Decrease/(increase) in other assets	4,451	(4,817)
(Decrease)/increase in trade and other payables	(618)	1,584
(Decrease)/increase in other liabilities	(5,505)	4,592
	12,196	21,722
Cash generated from operating activities	12,196	21,722
Interest paid	(8,258)	(2,548)
Income taxes paid	(1,679)	(6,106)
	2,259	13,068
Net cash from operating activities	2,259	13,068
Cash flows from investing activities		
Payments for property, plant and equipment	(9,958)	(20,238)
Payments for intangible assets	(223)	(2,878)
Proceeds on disposal of property, plant and equipment	439	451
Loans issued to joint ventures	(3,052)	(6,968)
Repayment of loans issued to joint ventures	-	50
Interest received	648	447
Investments in joint ventures	(1,578)	(536)
Distribution to companies under common control	(295)	(644)
Net cash outflow on acquisition of subsidiaries of the Group	(18,390)	(20,161)
Other movements	42	4
	(32,367)	(50,473)
Net cash used in investing activities	(32,367)	(50,473)
Cash flows from financing activities		
Proceeds from issue of shares through public offering	-	30,000
Share issue transactions costs	-	(1,025)
Proceeds from loans and borrowings	54,704	21,242
Proceeds from bonds	46,399	20,000
Repayment of principal of loans and borrowings	(44,472)	(22,637)
Proceeds from cross-currency interest-rate swaps	1,579	411
Dividends paid	(16,385)	-
Lease liability payments	(4,143)	(1,710)
Share-based payments	-	(127)
	37,682	46,154
Net cash generated from financing activities	37,682	46,154
Net increase in cash and cash equivalents	7,574	8,749
Cash and cash equivalents, beginning of the year	12,634	3,670
Effect of exchange rate changes on cash held in foreign currencies	2,671	215
Cash and cash equivalents, end of the year	22,879	12,634

