

SEGEZHA GROUP ANNOUNCES OPERATING AND FINANCIAL RESULTS FOR 9M 2022

Moscow, December 9, 2022 – Segezha Group (MOEX: SGZH, a PJSC Sistema company), a leading vertically integrated holding company in the timber industry performing a full cycle of operations from logging to advanced wood processing, announces its unaudited consolidated financial and operating results for 9M 2022.

- Revenue was up 28% year-on-year (yoy) to RUB 87.4 bn, driven mostly by the consolidation of the assets of the Novoeniseisk Wood-Chemical Complex (NLHK) and Inter Forest Rus (IFR), which became part of the Group in Q3 and Q4 2021, respectively;
- OIBDA totalled RUB 20.3 bn, down 7% yoy on the back of price inflation for a number of production components and a considerable increase in logistics costs;
- OIBDA margin came in at 23%;
- Net profit was RUB 7.0 bn, down 37% yoy following a reduction in operating profit;
- Net debt as of September 30, 2022 totalled RUB 97.4 bn, almost flat vs June 30, 2022;
- CAPEX declined by 30% yoy to RUB 9.0 bn after the investment programme was adjusted to reflect high levels of macroeconomic uncertainty.

Financial performance, RUB mln	9M 2022	9M 2021	yoy
Revenue	87,379	68,280	28%
OIBDA	20,268	21,712 ¹	(7%)
margin, %	23%	32%	(9 pp)
Net profit	7,024	11,129	(37%)
Capital expenditure	8,997	12,878	(30%)
M&A	18,390	5,040	3.7x
Free cash flow	(24,225)	(11,957)	2.0x
Net debt ²	97,406	95,153	2%
Net debt ² /12M OIBDA, x	3.5	2.8	-

CONFERENCE CALL AND WEBCAST

A conference call and webcast to discuss the financial results will take place on December 9, 2022, at 12:00 pm Moscow time (9:00 am London time).

To participate in the webcast, go to https://us06web.zoom.us/webinar/register/WN_FoNte9JQW2h6aVLbD314w

¹ OIBDA for 9M 2021 was previously recognised in the amount of RUB 23,693 mln, reflecting adjustments for management remuneration expenses for a total of RUB 1,981 mln for a liquidity event, namely the Group's IPO.

² Net debt as of 30 September 2022 and 30 June 2022.

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MANAGEMENT COMMENTS

Market review

In Q3 2022, average selling prices for Segezha Group's products were as follows:

- Sack paper – EUR 993/t (up 30% yoy)
- Sawn timber – EUR 195/cu m (down 34% yoy)
- Birch plywood – EUR 599/cu m (down 37% yoy)
- Glulam – EUR 558/cu m (down 21% yoy)

Q3 2022 saw the following trends in the Group's key products:

- In 6M 2022, the global sack paper market saw supply shortages, while the situation changed during Q3 2022. Market prices began to stabilise against the backdrop of lower demand and increased supply. On July 10, 2022, Europe banned imports of Russian paper. As a result, Segezha Group redirected its sales volumes to other destinations, ramping up shipments to the markets of Russia, the CIS, Turkey, South Africa, and China. In Russia, the domestic market for industrial sacks was undersupplied owing to a decline in shipments from abroad. Because of the need to substitute imports of sacks and consumer packaging in the domestic market, the Group maintained high levels of paper supplies for its own converting facilities in Russia and expanded production of packaging. In exports of sack paper, logistical challenges remained, but Segezha Group put alternative routes in place and resumed shipments to the markets of Asia and MENA.
- In Q3 2022, Russian birch plywood facilities continued operating at much lower utilisation rates (down 41% yoy³) and amid restrictions on exports. On July 10, 2022, Europe implemented a full ban on imports of timber products from Russia. The main export destinations for Russian plywood manufacturers in Q3 2022 were Turkey (+106% qoq), Egypt (+85% qoq) and Israel (+42% qoq). Despite the high import duty (50%) and logistics challenges, shipments to the USA began to increase in July 2022, but volumes were considerably lower than those seen in 2021. Experts are predicting that the shortage in the birch plywood market in North America will worsen. This is expected to trigger a further rise in demand and cause price hikes across the region in early 2023.
- Q3 2022 saw a downward price trend in the markets for softwood sawn timber and glulam in the company's key sales regions, such as China and Egypt, as demand normalised after peaking in 2021. The key drivers were as follows:
 - China had persistently high levels of port inventories (1.3 mln cu m) in Q3 2022, with supply exceeding demand. Customers became pickier in terms of cross sections and lengths of timber. Between July and the end of September 2022, prices for sawn timber in China decreased by as much as 25% (USD 70 per cu m).⁴ European sawn timber manufacturers engaged in serious price

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

⁴ Price indicative for spruce lumber produced at plants in the North-western Federal District of the Russian Federation, based on the CPT port of China. Source: China Bulletin

competition in the Chinese market. An additional driver pushing prices down was the depreciation of the yuan against the dollar, which made products more expensive for the final consumer. Market players were cautious in their forecasts until the end of the year. However, Chinese authorities lent some optimism to the market, as they unveiled a comprehensive rescue package for the property sector. The key measures included the following:

- a reduction in the size of down payments for mortgage loans;
 - extensions of banking loans to developers;
 - reduced caps on banks' exposure to the sector.
- In Egypt, market prices declined throughout Q3 2022. This came on the back of a considerable price reduction on the part of European manufacturers to USD 80/cu m⁵ between July and September. Prices in the region were under pressure due to high inventories in ports and the devaluation of the national currency.

Overview of the Group's results

The Group's revenue for 9M 2022 was up 28% yoy and reached RUB 87.4 bn on the back of higher average prices for the Group's products and the consolidation of the assets of NLHK and IFR, which began in Q3 and Q4 2021, respectively. The share of the Group's revenue from exports decreased to 69% (down 4 pp yoy).

In 9M 2022, Segezha Group's OIBDA amounted to RUB 20.3 bn, a drop of 7% yoy. The OIBDA margin for 9M 2022 was 23% (down 9 pp yoy). 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.

In 9M 2022, the Group's net profit totalled RUB 7.0 bn, a reduction of 37% yoy, reflecting a lower operating profit for the period.

Financial position

As of 30 September 2022, total debt amounted to RUB 103.8 bn (up 5% compared to 30 June 2022). The debt portfolio at the end of 9M 2022 mainly consisted of liabilities denominated in roubles (97%). All cross-currency swap contracts in euros concluded for a portion of previously issued rouble exchange-traded bonds were cancelled. As of 30 September 2022, the rouble had strengthened by 34% against the euro compared to the exchange rate on 31 December 2021, which resulted in a downward adjustment of the fair value of liabilities denominated in foreign currency of RUB 4.0 bn.

Interest income less interest expense and including the results of cross-currency swaps for 9M 2022 resulted in a loss of RUB 4.2 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 30 September 2022, the weighted average interest rate on borrowed funds was 9.2% per annum. The weighted average financing period was 2.7 years as a result of the issuance of a new RUB 5.0 bn tranche of bonds with a 10.75% coupon rate that will mature in 2025. As of September 30, 2022, cash and cash equivalents, including bank deposits with maturities of three months or less, were up 73% to RUB 6.4 bn vs 6M 2022. The currency split of cash and cash equivalents was 26% in foreign currencies and 74% in roubles.

RUB 87 bn

Group revenue
in 9M 2022

RUB 20 bn

Group OIBDA
in 9M 2022

RUB 97 bn

The Group's net debt
as of 30 September 2022

Net debt remained almost flat vs 6M 2022 at RUB 97.4 bn. The net debt to LTM OIBDA ratio increased to 3.5x from 2.8x as of June 30, 2022.

Investments

Capital expenditures for 9M 2022 totalled RUB 9.0 bn (down 30% yoy), of which 57% was invested in capacity expansion projects and 43% in maintenance. Funds allocated to complete the acquisition of Inter Forest Rus totalled RUB 18.4 bn.

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

- RUB 1.8 bn – modernisation of the Sokol PPM;
- RUB 1.0 bn – capacity expansion at the Vyatka Plywood Mill;
- RUB 0.4 bn – modernisation of the Lesosibirsk Sawmills;
- RUB 0.3 bn – modernisation of the Segezha PPM;
- RUB 0.3 bn – development of converting facilities and acquisition of relevant equipment.

Detailed information by segment

Paper and Packaging

Paper and Packaging segment **revenue**⁷ for 9M 2022 was RUB 31.9 bn (up RUB 3.5 bn, or +12% yoy). The key drivers behind the segment's revenue growth were a yoy rise in average selling prices and higher sales of paper sacks and consumer packaging. **OIBDA** rose to RUB 9.0 bn (up 15% yoy). The OIBDA **margin** was 28%.

9M 2022	Production output	Sales volume	Average price, euros per unit (FCA)
Sack paper, ths t	262	250 ⁴	854
Paper packaging, mln units	1,149	1,133	236 ⁸

Market overview: Q3 2022 saw the global sack paper market move towards a demand and supply balance, which helped stabilise prices. Prices in the Russian micro crepe paper market remained steady due to high demand and the absence of import alternatives.

In the domestic paper sack market, prices remained high as a result of a decline in imports and resulting product shortages.

Key investment projects:

1. The modernisation of the Sokol PPM is ongoing. Waste water treatment facilities and new steam boilers are being designed. A project to install a new paper-making machine is in progress. The structural steelwork for the mill's main building and the shop for a waste paper preparation plant are being built. The construction of a new paper-making machine will support an increase in the production of various types of paper of 65 ths t per year to 100 ths t per year. Investment in the project is about RUB 17 bn.

⁶ Sales volume of 250 ths t, including 125 ths t of paper for Segezha Group's own converting facilities

⁷ Excluding revenue from intersegment transactions

⁸ Price per thousand sacks

RUB 27 bn

CAPEX, incl. M&A
for 9M 2022

RUB 32 bn

Revenue in the Paper and
Packaging segment
for 9M 2022

RUB 41 bn

Revenue in the Forestry Management and Woodworking segment for 9M 2022

Forestry Management and Woodworking

Forestry Management and Woodworking segment **revenue**⁸ for 9M 2022 increased by 98% yoy, or by RUB 20.2 bn, to RUB 40.8 bn. The major driver for the segment was sales growth following the consolidation of new assets in Q3 and Q4 2021, respectively. **OIBDA** amounted to RUB 9.8 bn (down 7% yoy). The **OIBDA margin** was 24%.

9M 2022	Production output	Sales volume	Average price, euros per unit (FCA)
Sawn timber, ⁹ ths cu m	1,682	1,684	216
Pellets, ths t	166	157	58
Fibreboard, mln sq m	22	18	0.81 ¹⁰
Harvesting, ths cu m	6,383	-	-

Market overview: in Q3 2022, Russian sawn timber producers faced a decrease in market prices, persistently high logistics costs, the loss of a number of markets, and rouble volatility, which resulted in a 19% yoy drop in Russian export volumes in 9M 2022. As exports to China declined by only 12% yoy, its share in overall Russian exports of sawn timber increased from 55% in 9M 2021 to 61% in 9M 2022. Other countries whose imports from Russia remained flat or increased were Uzbekistan (up 13% yoy) and Tajikistan (up 5% yoy).

In 9M 2022, domestic output of sawn timber decreased by an estimated 8% yoy.

Key investment projects:

1. As part of the modernisation of the Lesosibirsk Sawmills, the second drying kiln complex was installed and is now undergoing test runs. Foundation work for the thermal power plant is complete; the floor slab is being built. Work is underway to install a reducing rotor for the log debarker. The modernisation of the Lesosibirsk plant will increase the production of sawn timber by 50 ths cu m, reduce production costs, switch manufacturing to more advanced technologies, and boost product competitiveness in export markets. Operations at Lesosibirsk Sawmills will become waste-free thanks to the construction of a new 40 MW boiler house fuelled by bark waste. The project budget will be approximately RUB 6.0 bn.

Plywood and Boards

RUB 10 bn

Revenue in the Plywood and Boards segment for 9M 2022

Plywood and Boards segment **revenue**⁸ for 9M 2022 was RUB 9.6 bn (essentially flat yoy). **OIBDA** totalled RUB 2.8 bn, down 44% yoy due to the structural transformation of the sales geography. The **OIBDA margin** was 29%.

9M 2022	Production output	Sales volume	Average price, euros per unit (FCA)
Plywood, ths cu m	124	121	689
Fibreboard, mln sq m	18	17	0.81 ⁶

Market overview: Q3 2022 was marked by a sharp decrease in birch plywood exports from Russia (down 44% qoq and 49% yoy) as the ban on imports of Russian timber products into the EU came into effect. It also saw a drop in market prices for birch plywood from Russia

⁹ Excluding the output of Sokol DOK reported in the Laminated Wood Products segment

¹⁰ Price per thousand sq m

due to a higher share of low-margin markets in the sales portfolio, as well as tight competition in Russia and in export markets.

In this environment, Segezha Group allocated its supplies to a number of alternative markets (Egypt, Turkey, the CIS) while also increasing domestic sales (up 145% qoq). The Group maintains a strong focus on increasing its market share in China, Israel and India, as well as on tapping into new regions (the Middle East, South Africa).

Key investment projects:

1. Construction of the Galich Plywood Mill was completed, with 11 out of 13 process lines commissioned and the facilities registered in the Unified State Register of Legal Entities. The start-up and pre-commissioning of 8 process lines; construction work on the installation of the ventilation, fire-extinguishing and heating systems; as well as finishing works are underway. The grounds of the raw materials exchange, fire lanes and the offsite area are also being developed. The mill's capacity is 125 ths cu m.

Laminated Wood Products

Laminated Wood Products segment **revenue**⁸ for 9M 2022 was RUB 4.9 bn (up 7% yoy). **OIBDA** totalled RUB 2.0 bn, down 19% yoy due to the need to redirect sales to new markets, as well as an increase in logistics and other costs. The OIBDA **margin** was 40%.

RUB 5 bn

Revenue in the Laminated Wood Products segment for 9M 2022

9M 2022	Production output	Sales volume	Average price, euros per unit (FCA)
Glulam, ths cu m	27	34	491
House kits, ths cu m	13	13	681
CLT panels, ths cu m	10	7	543
Sawn timber, ¹¹ ths cu m	112	91	216
Pellets, ths t	32	33	58

Market overview: Q3 2022 saw a drop in demand in the Russian housing construction market, driven by consumers' shrinking purchasing power and an uncertain environment.

Q3 2022 revenues of domestic suburban housing developers dropped by an estimated 50% yoy. According to construction companies, the industry is facing stagnation triggered by various factors, including seasonality.

The laminated beam and CLT panels segment was affected by low levels of business activity. Most dealers and buyers maintained high inventory levels, hence placing no new orders.

Events subsequent to the reporting date

October 2022: Segezha Group issued series 002P-07R bonds worth RUB 10 bn with an 11.83% coupon and maturity on April 10, 2037.

November 2022: Segezha Group placed its first-ever issue of series 003P-01R yuan-denominated bonds worth CNY 500 mln, or RUB 4.2 bn, at the exchange rate of the Bank of Russia as at the issue date. The coupon was set at 4.15%. The put date is 6 November 2025, and the maturity date is October 22, 2037.

¹¹ Sawn timber produced at Sokol DOK. Not accounted for in the Forestry Management and Woodworking segment

Segezha Group has a robust financial position and comfortable level of debt, 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 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 and/or 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 a total leased forest area of 16.1 million hectares and an annual allowable cut of 23.2 million cubic metres (including PIPs, or priority investment projects). Segezha Group has a high level of self-sufficiency in raw materials, with 93% of the Company's timber needs covered by its own 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 green carbon-capturing forestry products. It is Russia's largest manufacturer of paper for multilayer sacks, industrial paper sacks and sawn timber. Globally, the Group is the world's second-largest producer of kraft paper and industrial paper packaging, and the world's fifth-largest producer of large-format birch plywood. The Company is also Europe's third-largest sawn timber manufacturer. Segezha Group is an international holding company that operates in 14 countries, although all of its primary 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 100 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>

APPENDIX 1

SEGEZHA GROUP PJSC INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME (UNAUDITED)

(in millions of Russian Rubles)

	For nine months, ended	
	30 September 2022	30 September 2021 года
Revenue	87,379	68,280
Cost of sales	(56,549)	(37,218)
Gross profit	30,830	31,062
Selling and administrative expenses	(22,080)	(14,948)
Other operating income, net	881	587
Operating profit	9,631	16,701
Interest income	1,045	540
Interest expense	(7,836)	(2,849)
Other finance income, net	2,554	688
Foreign exchange differences, net	3,995	1,254
Profit before tax	9,389	16,334
Income tax	(2,365)	(5,205)
Net profit for the reporting period	7,024	11,129
Other comprehensive (loss)/ income		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	(1,087)	87
Other comprehensive (loss)/ income	(1,087)	87
Total comprehensive income for the period	5,937	11,216
Net profit/(loss) attributable to:		
Shareholders of Segezha Group PJSC	7,023	11,150
Non-controlling interests	1	(21)
	7,024	11,129
Total comprehensive income/(loss) attributable to:		
Shareholders of Segezha Group PJSC	5,936	11,237
Non-controlling interests	1	(21)
	5,937	11,216

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(UNAUDITED)

(in millions of Russian Rubles)

	30 September 2022	31 December 2021
ASSETS		
NON-CURRENT ASSETS:		
Property, plant and equipment	85,001	84,308
Right-of-use assets	47,850	49,430
Intangible assets	5,974	5,984
Goodwill	444	444
Investments in joint ventures and associates	1,539	593
Deferred tax assets	2,449	1,947
Prepayments for non-current assets, net	4,825	5,280
Loans issued to related parties	10,758	8,266
Other non-current assets	1,280	629
Total non-current assets	160,120	156,881
CURRENT ASSETS:		
Inventories, net	23,652	21,965
Contract assets	1,085	1,186
Trade and other receivables, net	7,707	7,370
Taxes receivable	2,391	5,245
Income tax receivable	1,815	2,263
Advances and other current assets	3,177	2,815
Cash and cash equivalents	6,439	12,634
Total current assets	46,266	53,478
TOTAL ASSETS	206,386	210,359
EQUITY AND LIABILITIES		
EQUITY:		
Share/charter capital	1,569	1,569
Additional paid-in capital	35,129	35,129
Retained earnings	4,439	7,758
Accumulated other comprehensive income	622	1,709
Equity attributable to the shareholders of Segezha Group PJSC	41,759	46,165
Non-controlling interest	33	27
Total equity	41,792	46,192
NON-CURRENT LIABILITIES:		
Loans and borrowings	77,396	52,362
Lease liabilities	18,756	19,446
Other financial liabilities	-	974
Pension obligations	522	737
Deferred tax liabilities	10,538	8,652
Consideration payable for business acquisition	2,871	3,715
Other non-current liabilities	3,578	3,472
Total non-current liabilities	113,661	89,358
CURRENT LIABILITIES:		
Loans and borrowings	26,449	21,409
Trade and other payables	14,276	14,481
Lease liabilities	3,152	3,203
Provisions	2,065	1,214
Taxes payable	2,348	2,489
Income tax payable	312	1,484
Consideration payable for business acquisition	945	18,411
Dividends payable	-	6,590
Advances received	1,386	5,528
Total current liabilities	50,933	74,809
TOTAL EQUITY AND LIABILITIES	206,386	210,359

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)

(in millions of Russian Rubles)

	For nine months, ended	
	30 September 2022	30 September 2021 года
Cash flows from operating activities:		
Net profit for the reporting period	7,024	11,129
<i>Adjustments for:</i>		
Depreciation and amortisation	8,487	4,202
Depreciation of right-of-use assets	2,150	810
Interest income recognised in profit or loss	(1,045)	(540)
Interest expense recognised in profit or loss	7,836	2,849
Other finance income	(2,554)	(688)
Income tax recognised in profit or loss	2,365	5,205
Foreign exchange differences, net	(3,995)	(1,254)
Other	(34)	210
	20,234	21,923
Movements in working capital:		
Increase in trade and other receivables	(4,856)	(3,535)
Increase in inventories	(2,524)	(5,366)
Decrease/(increase) in other assets	3,933	(2,692)
Decrease in trade and other payables	(2,567)	(671)
(Decrease)/increase in other liabilities	(3,797)	1,854
Cash generated from operating activities	10,423	11,513
Interest paid	(5,564)	(2,096)
Income taxes paid	(1,697)	(3,457)
Net cash from operating activities	3,162	5,960
Cash flows from investing activities		
Payments for property, plant and equipment, intangible assets and right-of-use assets	(8,997)	(12,878)
Proceeds on disposal of property, plant and equipment	141	218
Loans issued to joint venture	(2,491)	(4,093)
Interest received	379	453
Dividends received	-	4
Advances on business acquisitions	-	(1,500)
Investment in joint venture	(1,141)	(280)
Distribution to companies under common control	(295)	(43)
Net cash outflow on acquisition of Group companies	(18,390)	(3,540)
Net cash used in investing activities	(30,794)	(21,659)
Cash flows from financing activities		
Proceeds from issue of shares through public offering	-	30,000
Share issue transactions costs	-	(941)
Proceeds from loans and borrowings	46,264	13,342
Proceeds from bonds	32,200	-
Repayment of principal of loans and borrowings	(40,033)	(18,207)
Other finance income	1,579	410
Dividends paid	(16,614)	-
Lease liability payments	(2,686)	(1,265)
Net cash generated from financing activities	20,710	23,339
Net (decrease)/increase in cash and cash equivalents	(6,922)	7,640
Cash and cash equivalents, beginning of the year	12,634	3,670
Effect of exchange rate changes on cash held in foreign currencies	727	615
Cash and cash equivalents, end of the period	6,439	11,925