

**GROUP OF COMPANIES  
«SEGEZHA»  
PUBLIC JOINT STOCK  
COMPANY**

**Consolidated Financial Statements and  
Independent Auditor's Report  
For the Year Ended 31 December 2021**

# SEGEZHA GROUP PJSC

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# SEGEZHA GROUP PJSC

## STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2021

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Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Segezha Group PJSC and its subsidiaries (hereinafter, collectively referred to as the "Group") as of 31 December 2021, and the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and consolidated financial performance;
- Making an assessment of the Group's ability to continue as a going concern.

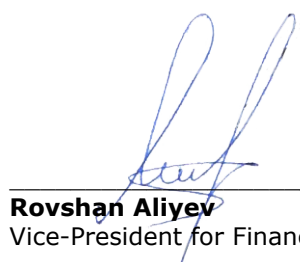
Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in accordance with the legislation and accounting standards of the countries where the Group operates;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group;
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2021 were approved by management on 29 March 2022.

On behalf of management:

  
**Mikhail Shamolin**  
President

  
**Rovshan Aliyev**  
Vice-President for Finance and Investment

29 March 2022

## INDEPENDENT AUDITOR'S REPORT

To the shareholders and the Board of Directors of Group of Companies "Segezha" Public Joint Stock Company.

### Opinion

We have audited the accompanying consolidated financial statements of Group of Companies "Segezha" Public Joint Stock Company and its subsidiaries (hereinafter, collectively referred to as the "Group") which comprise the consolidated statement of financial position as at 31 December 2021 and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year ended 31 December 2021, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

### Basis for opinion

We conducted our audit in accordance with International Standards of Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Auditor's Independence Rules and the Auditor's Professional Ethics Code, that are relevant to our audit of the financial statements in the Russian Federation together with the ethical requirements of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon. Therefore, we do not express a separate opinion on these matters.

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**Why the matter was determined to be a key audit matter****How the matter was addressed in the audit**

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***Acquisition of JSC Novoyeniseysky Wood-Chemical Complex ("NLHK")***

In February 2021, the Group gained the rights to exercise an option to acquire a 71% of NLHK's share. On 17 July 2021, the Group acquired a 29% share in NLHK, however the control over its operations was obtained only on 15 September 2021, when the bankruptcy proceedings were terminated.

As a result of this transaction the Group recognized gain on business acquisition of RUB 3,821,825 thousand representing the excess of the fair value of the net identifiable assets over the acquisition price (Note 5).

We believe that the commencement of business consolidation is a key audit matter since it required the Group's management to make professional judgments regarding when the Group obtained control over NLHK, the identification and evaluation of the fair value of the assets acquired and the completeness of the liabilities recognized.

Our procedures related to the existence of control over the NLHK as of 15 September 2021, included:

- analyzing documents on the phased purchase of interests in the share capital of NLHK in February and July 2021;
- assessing the Group's powers to control NLHK's operations until 15 September 2021;
- analyzing the settlement agreement and documents confirming the end of the NLHK bankruptcy procedure.

Our audit procedures performed as part of testing the correctness of the NLHK purchase price allocation included:

- engaging our valuation experts to assist in our assessing of the methodology, mathematical accuracy and assumptions used in the fair value model;
- analyzing management's assessment of gain from business acquisition, including an assessment of the circumstances surrounding the acquisition, the appropriateness of the approaches used to determine the fair values of assets and liabilities, and procedures performed by management to test their completeness and accuracy;
- comparing the key assumptions used in the fair value model with forecast data and publically available macroeconomic indicators, including, where applicable, reconciliations between financial records and the budgets approved;
- benchmarking of key assumptions used in the valuation model (including selling prices, inflation rate, and discount rates) with external expert estimates, macroeconomic and industry forecasts, which confirmed their appropriateness.

We also checked the completeness and assessed the consistency of the disclosures in the financial statements with the requirements of IFRS.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
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***Acquisition of LLC Inter Forest Rus and its subsidiaries ("IFR")***

In December 2021, the Group completed the acquisition of 100% interest in the charter capital of IFR and consolidated IFR's business as at 28 December 2021.

According to IFRS 3 *Business Combinations*, management shall complete the valuation of the acquired business by December 2022. Therefore, management has recorded preliminary valuation of IFR in the 2021 consolidated financial statements and will make retrospective adjustments in 2022.

The IFR Group includes 25 legal entities that have not prepared IFRS financial statements before. Consolidation and calculation of consolidated adjustments required us and Group's management to perform a time-consuming analysis of the accounting records. This required more audit procedures and complex professional judgements.

The preliminary total valuation of the IFR's assets amounted to 17% of Segezha Group's consolidated assets as at 31 December 2021.

As a result of the above circumstances, these issues were identified as a key audit matter.

***Investments in joint ventures GalichLes LLC, GPM LLC and Segezha-West JSC***

During the reporting period and as at 31 December 2021, the Group's investments in GalichLes LLC and GPM LLC were recognized as investments in joint ventures. Although the Group increased its ownership interest in LLC Segezha-West to 100% in the reporting

Our procedures for checking the preliminary evaluation of an IFR acquisition included:

- Confirming the existence and completeness of assets, in particular by conducting a stock-counts of property, plant, and equipment and inventories;
- sample-based testing of receivables and payables to confirm their accuracy and existence, as well as cash, loans and borrowings to verify the correctness of their presentation in the financial statements;
- testing of lease contracts for forest plots and other property, checking the accuracy of the right-of-use assets calculation and the corresponding liability;
- testing of individual and consolidated IFRS accounting records with respect to the acquisition and consolidation of IFR;
- verifying the accuracy of the provisional purchase price of the IFR as at 31 December 2021;

We also verified the appropriateness of the approach for the preliminary valuation of identified assets and liabilities and assessed the consistency of the disclosures in the financial statements (Note 5) with the requirements of IFRS.

Our procedures associated with loss of control over the Galich Entities and Segezha-West JSC included:

- obtain and evaluate all contracts signed as part of obtaining project financing.
- evaluation of whether management's assessment of the relevant activities is consistent with the requirements of IFRS 10 *Consolidated Financial Statements*;

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
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period, it continued to recognize this investment as an investment in joint ventures at the reporting date (Note 6).

In March 2020, the Group entered into a credit facility agreement and a corporate governance agreement (hereinafter, the “Agreement”) with a bank with respect to GalichLes LLC and GPM LLC, its 100% subsidiaries (hereinafter, collectively as the “Galich Entities”), to obtain project financing to build a plywood mill in the city of Galich.

On 30 December 2021, the Group entered into an interest sale agreement and a shareholding agreement (hereinafter, the “Agreement”) with financial partners with respect to Segezha-West JSC, to obtain project financing to build a new pulp mill in Segezha.

Based on the above agreements in respect of the Galich Entities and LLC Segezha-West, management concluded that each party is equally entitled to direct significant activities of the investees, which resulted in the loss of control over these companies by the Group with 85% and 100% interests, respectively.

We believe that the above judgments are a key audit matter since it requires management to assess the existence/absence of control over the investees at each reporting date and to make significant analysis and judgment.

### Other information

Management is responsible for the other information. The other information comprises disclosures in the annual and quarterly reports of the issuer but does not include the consolidated financial statements and our auditor’s report thereon. We expect that the annual and quarterly reports will be made available to us after the date of this auditor’s report.

- analysis the rights provided by the Agreement to the Group, financial partners and the bank jointly directing the significant activities and assessing whether the conclusion made by management in identifying the Galich Entities and Segezha-West JSC as joint ventures is consistent with the requirements of IFRS 11 *Joint Arrangements*;
- evaluation of compliance of disclosures in the consolidated financial statements with the requirements of IFRS.

Our opinion on the consolidated financial statements does not cover the other information. Therefore, we do not express any form of assurance thereon.

As part of our audit of the consolidated financial statements, it is our responsibility to read other information when it is made available to us. In doing so, we consider whether such other information is materially consistent with the consolidated financial statements or our knowledge obtained in the audit or whether it is free from material misstatements.

When we read the annual and quarterly reports, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

### **Responsibilities of management and those charged with governance for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (“IFRSs”), and for such internal controls as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group’s financial reporting process.

### **Auditor’s responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.  
The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal controls;



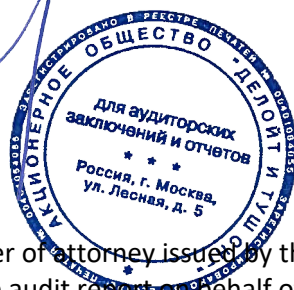
- Evaluate the appropriateness of the accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management’s use of the going-concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that achieves fair presentation;
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express our opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, as well as communicate all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period, and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Sharif Galeev  
 (ORNZ № 21906101013),  
 Engagement partner,  
 Acting based on the power of attorney issued by the General Director on 19.02.2021  
 authorizing to sign off the audit report on behalf of AO “Deloitte & Touche CIS”  
 (ORNZ № 12006020384)



29 March 2022

## SEGEZHA GROUP PJSC

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021 (in thousands of Russian Rubles)

	Notes	2021	2020
Revenue	4	92,442,267	68,986,649
Cost of sales	7	(53,016,391)	(45,477,189)
<b>Gross profit</b>		<b>39,425,876</b>	<b>23,509,460</b>
Selling and administrative expenses	8	(19,999,990)	(14,545,143)
Gain on business acquisition	5	3,821,825	988,745
Other operating (expenses)/income, net	9	(897,789)	1,213,365
<b>Operating profit</b>		<b>22,349,922</b>	<b>11,166,427</b>
Interest income		772,353	176,415
Interest expense		(3,910,111)	(3,402,662)
Other finance income/(expenses), net	26	379,540	(782,639)
Foreign exchange differences, net		758,961	(7,674,875)
Other income		667	18,243
<b>Profit/(loss) before tax</b>		<b>20,351,332</b>	<b>(499,091)</b>
Income tax expense	10	(5,114,517)	(848,792)
<b>Net profit/(loss) for the reporting year</b>		<b>15,236,815</b>	<b>(1,347,883)</b>
<b>Other comprehensive income/(loss)</b>			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit pension obligations		72,814	(52,420)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		67,240	1,004,488
<b>Other comprehensive income</b>		<b>140,054</b>	<b>952,068</b>
<b>Total comprehensive income/(loss) for the year</b>		<b>15,376,869</b>	<b>(395,815)</b>
Net profit/(loss) attributable to:			
Shareholders of Segezha Group PJSC		15,270,220	(1,346,726)
Non-controlling interests		(33,405)	(1,157)
		<b>15,236,815</b>	<b>(1,347,883)</b>
Total comprehensive income/(loss) attributable to:			
Shareholders of Segezha Group PJSC		15,410,274	(394,658)
Non-controlling interests		(33,405)	(1,157)
		<b>15,376,869</b>	<b>(395,815)</b>
Earnings per share for profit/(loss) attributable to the ordinary equity holders of the Company (in RUB)	19	1.06	(0.11)

  
**Mikhail Shamolin**  
President

29 March 2022

  
**Rovshan Aliyev**  
Vice-President for Finance and Investments

The accompanying notes on pages 13-53 are an integral part of these consolidated financial statements.

# SEGEZHA GROUP PJSC

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021 (in thousands of Russian Rubles)

	Notes	31 December 2021	31 December 2020
<b>ASSETS</b>			
NON-CURRENT ASSETS:			
Property, plant and equipment	11	81,387,769	42,315,222
Right-of-use assets	28	49,105,235	14,649,041
Intangible assets	12	5,967,749	1,822,070
Goodwill		443,838	443,838
Investments in joint ventures and associates	6	593,036	458,192
Deferred tax assets	10	1,317,143	1,132,567
Prepayments for non-current assets, net	11	5,279,688	2,482,463
Loans issued to related parties	27	8,266,061	1,347,870
Other non-current assets		629,045	230,470
<b>Total non-current assets</b>		<b>152,989,564</b>	<b>64,881,733</b>
CURRENT ASSETS:			
Inventories, net	13	23,469,638	9,432,609
Contract assets		1,185,695	1,290,658
Trade and other receivables, net	14	8,224,944	5,862,900
Taxes receivable	16	7,712,461	3,057,269
Advances and other current assets	17	3,093,172	1,222,277
Cash and cash equivalents	15	12,633,628	3,670,197
<b>Total current assets</b>		<b>56,319,538</b>	<b>24,535,910</b>
<b>TOTAL ASSETS</b>		<b>209,309,102</b>	<b>89,417,643</b>
<b>EQUITY AND LIABILITIES</b>			
EQUITY:			
Share/charter capital	18	1,569,000	1,194,000
Additional paid-in capital	18	35,128,800	6,323,605
Retained earnings		7,757,982	(345,035)
Accumulated other comprehensive income		1,709,070	1,569,016
Equity attributable to the shareholders of Segezha Group PJSC		46,164,852	8,741,586
Non-controlling interest		26,628	126,630
<b>Total equity</b>		<b>46,191,480</b>	<b>8,868,216</b>
NON-CURRENT LIABILITIES:			
Loans and borrowings	20	52,361,914	50,758,014
Lease liabilities	28	19,256,015	9,573,338
Other financial liabilities	26	974,465	943,358
Pension obligations		737,137	917,435
Deferred tax liabilities	10	8,555,202	1,835,476
Consideration payable for business acquisition	5	3,714,630	-
Other non-current liabilities	5	4,296,183	5,931
<b>Total non-current liabilities</b>		<b>89,895,546</b>	<b>64,033,552</b>
CURRENT LIABILITIES:			
Loans and borrowings	20	21,364,349	2,494,023
Trade and other payables	21	14,430,964	9,612,693
Lease liabilities	28	3,184,023	1,380,598
Provisions		1,261,601	559,758
Taxes payable	22	3,391,242	1,210,363
Consideration payable for business acquisition	5	18,410,897	-
Dividends payable	18	6,591,137	-
Advances received		4,587,863	1,258,440
<b>Total current liabilities</b>		<b>73,222,076</b>	<b>16,515,875</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>209,309,102</b>	<b>89,417,643</b>

  
Mikhail Shamolin

President

  
Rovshan Aliyev

Vice-President for Finance and Investments

29 March 2022

The accompanying notes on pages 13-53 are an integral part of these consolidated financial statements.

## SEGEZHA GROUP PJSC

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021 (in thousands of Russian Rubles)

	Notes	Share/ charter capital	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income		Equity attributable to shareholders of Segezha Group PJSC	Non- controlling interests	Total equity
					Translation to presentation currency	Other			
<b>31 December 2019</b>		<b>12</b>	<b>7,517,593</b>	<b>5,581,246</b>	<b>699,743</b>	<b>(82,795)</b>	<b>13,715,799</b>	<b>132,709</b>	<b>13,848,508</b>
Net loss for the reporting period		-	-	(1,346,726)	-	-	(1,346,726)	(1,157)	(1,347,883)
Other comprehensive income/(loss) for the year		-	-	-	1,004,488	(52,420)	952,068	-	952,068
Total comprehensive loss for the year		-	-	(1,346,726)	1,004,488	(52,420)	(394,658)	(1,157)	(395,815)
Increase the share capital		1,193,988	(1,193,988)	-	-	-	-	-	-
Dividends to the participants	18	-	-	(4,500,000)	-	-	(4,500,000)	-	(4,500,000)
Distribution to companies under common control	18	-	-	(79,599)	-	-	(79,599)	-	(79,599)
Other movements		-	-	44	-	-	44	(4,922)	(4,878)
<b>31 December 2020</b>		<b>1,194,000</b>	<b>6,323,605</b>	<b>(345,035)</b>	<b>1,704,231</b>	<b>(135,215)</b>	<b>8,741,586</b>	<b>126,630</b>	<b>8,868,216</b>
Net profit/(loss) for the reporting period		-	-	15,270,220	-	-	15,270,220	(33,405)	15,236,815
Other comprehensive income/(loss) for the year		-	-	-	67,240	72,814	140,054	-	140,054
Total comprehensive loss for the year		-	-	15,270,220	67,240	72,814	15,410,274	(33,405)	15,376,869
Issue of shares through public offering	18	375,000	29,625,000	-	-	-	30,000,000	-	30,000,000
Share issue transactions costs net of current and deferred income tax	18	-	(819,805)	-	-	-	(819,805)	-	(819,805)
Buy-back of non-controlling interest	18	-	-	66,597	-	-	66,597	(66,597)	-
Distribution to companies under common control	18	-	-	(644,000)	-	-	(644,000)	-	(644,000)
Dividends to the shareholders	18	-	-	(6,589,800)	-	-	(6,589,800)	-	(6,589,800)
<b>31 December 2021</b>		<b>1,569,000</b>	<b>35,128,800</b>	<b>7,757,982</b>	<b>1,771,471</b>	<b>(62,401)</b>	<b>46,164,852</b>	<b>26,628</b>	<b>46,191,480</b>

The accompanying notes on pages 13-53 are an integral part of these consolidated financial statements.

## SEGEZHA GROUP PJSC

### CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2021 (in thousands of Russian Rubles)

	Notes	2021	2020
<b>Cash flows from operating activities:</b>			
Net profit/(loss) for the reporting period		15,236,815	(1,347,883)
<i>Adjustments for:</i>			
Depreciation and amortisation		5,785,994	5,357,137
Depreciation of right-of-use assets	28	1,116,004	915,559
Interest income recognised in profit or loss		(772,353)	(176,415)
Interest expense recognised in profit or loss		3,910,111	3,402,662
Other finance (income)/expenses	26	(379,540)	782,639
Gain on business acquisition	5	(3,821,825)	(988,745)
Income tax expense recognised in profit or loss	10	5,114,517	848,792
Allowance for expected credit losses	8	338,760	98,826
Loss on write-off of inventories		44,894	66,149
Allowance for inventory impairment		649,245	(445)
Gain on disposal of property, plant and equipment		(184,655)	(341,304)
Foreign exchange differences, net		(758,961)	7,674,875
Impairment loss on property, plant and equipment	11	906,554	-
Other		178,465	150,086
		<b>27,364,025</b>	<b>16,441,933</b>
Movements in working capital:			
(Increase)/decrease in trade and other receivables		(1,429,423)	96,085
(Increase)/decrease in inventories		(5,573,158)	1,031,276
Increase in other assets		(4,817,331)	(345,682)
Increase in trade and other payables		1,609,375	213,705
Increase in other liabilities		4,591,987	1,075,664
		<b>21,745,475</b>	<b>18,512,981</b>
<b>Cash generated from operating activities</b>			
Interest paid		(2,547,568)	(2,099,438)
Income taxes paid		(6,105,982)	(1,679,085)
		<b>13,091,925</b>	<b>14,734,458</b>
<b>Net cash from operating activities</b>			

The accompanying notes on pages 13-53 are an integral part of these consolidated financial statements.

## SEGEZHA GROUP JSC

### CONSOLIDATES STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED) (in thousands of Russian Rubles)

	Notes	<u>2021</u>	<u>2020</u>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(20,237,668)	(10,768,349)
Payments for intangible assets and right-of-use assets		(2,877,837)	(1,070,907)
Proceeds on disposal of property, plant and equipment		451,142	205,023
Loans issued to joint venture	27	(6,968,191)	(1,490,010)
Repayment of loans issued to joint venture	27	50,000	1,319,540
Interest received		447,170	176,415
Cash outflow from deconsolidation of Group companies		-	(44,657)
Investment in joint venture	6	(535,590)	(297,178)
Distribution to companies under common control	18	(644,000)	(55,600)
Net cash outflow on acquisition of Group companies	5	(20,185,987)	(901,963)
Other movements		3,805	3,157
		<u>(50,497,156)</u>	<u>(12,924,529)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares through public offering	18	30,000,000	-
Share issue transactions costs	18	(1,024,756)	-
Proceeds from loans and borrowings	20	21,241,889	22,431,413
Proceeds from bonds	20	20,000,000	-
Repayment of principal of loans and borrowings	20	(22,637,309)	(18,122,246)
Other finance income	26	410,647	160,719
Dividends paid	18	-	(4,500,000)
Lease liability payments	28	(1,709,617)	(1,462,324)
Share-based payments	23	(126,990)	(130,761)
		<u>46,153,864</u>	<u>(1,623,199)</u>
Net increase in cash and cash equivalents		8,748,633	186,730
<b>Cash and cash equivalents, beginning of the year</b>	15	<b>3,670,197</b>	<b>3,214,409</b>
Effect of exchange rate changes on cash held in foreign currencies		214,798	269,058
<b>Cash and cash equivalents, end of the year</b>	15	<b><u>12,633,628</u></b>	<b><u>3,670,197</u></b>

The accompanying notes on pages 13-53 are an integral part of these consolidated financial statements.

## SEGEZHA GROUP PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2021 (in thousands of Russian Rubles, unless otherwise indicated)

#### 1. GENERAL INFORMATION

Group of Companies «Segezha» Public Joint Stock Company (hereinafter, the “Company” or jointly with its subsidiaries – «Segezha Group» or the «Group») is a vertically integrated timber holding company with full-cycle logging and value-added wood conversion. The Group operates both Russian and European timber, woodworking, pulp and paper companies, as well as paper packaging producers.

Group of Companies «Segezha» Public Joint Stock Company (hereinafter – PJSC “Segezha Group” or the Company) was incorporated in the Russian Federation (“RF”) in 2013 (before 7 April 2021 Group of Companies “Segezha” Joint Stock Company, before 28 December 2020 Group of Companies Segezha LLC). The Company has a registered office 15, level 48, at 10 Presnenskaya Naberezhnaya, Moscow.

As at 31 December 2021 Sistema, PJSFC (0.53%) and its subsidiary Sistema Telecom Assets, LLC (61.57%) were the key shareholders of the Company. 23.9% of the Company’s ordinary shares are traded in a public market. Vladimir Evtushenkov is the ultimate controlling shareholder of Sistema, PJSFC (the “Parent”). The ownership structure is presented in the Note 18.

As at 31 December 2020 Sistema, PJSFC (14.57%) and its subsidiary Sistema Telecom Assets, LLC (83.67%) were the key shareholders of the Company.

Below are the Group's significant entities, shares of ownership, locations and principal activities:

Significant entities	Country	31 December 2021	31 December 2020
<b>Pulp and paper</b>			
Segezha Pulp and Paper Mill, JSC	Russia	100%	100%
Sokol Pulp and Paper Mill, JSC	Russia	99.13%	99.13%
<b>Packaging</b>			
Segezha Packaging, LLC	Russia	100%	100%
Arka Merchants Limited	Ireland	100%	100%
Segezha Packaging GmbH	Germany	100%	100%
Segezha Packaging A/S	Denmark	100%	100%
Segezha Packaging S.p.A.	Italy	100%	100%
Segezha Packaging B.V.	Netherlands	100%	100%
Segezha Ambalaj Sanayi ve ticaret Anonim Sirketi	Turkey	100%	100%
Segezha Packaging Pazarlama Anonim Sirketi	Turkey	- <sup>1</sup>	100%
Segezha Packaging s.r.o.	Czech Republic	100%	100%
Segezha Packaging SRL	Romania	100%	100%
<b>Plywood and boards</b>			
Vyatsky Plywood Mill, LLC	Russia	100%	100%
Krasfan, LLC	Russia	100%	-
<b>Woodworking</b>			
Lesosibirsky LDK No.1, JSC	Russia	100%	100%
Novoyeniseiskiy Wood-Chemical Complex, JSC	Russia	100%	-
Segezha Sawmills, LLC	Russia	100%	100%
Onega Sawmills, JSC	Russia	100%	100%
Sokol Timber Company, JSC	Russia	100%	100%
Ksilotek-Siberia, LLC	Russia	100%	100%
LDK Igirma, JSC	Russia	100%	-
Igirma-Tairiku Lumber Mill, LLC	Russia	100%	-
Trans-Siberian Forest Company Ltd	Russia	100%	-
<b>Forestry management</b>			
Karelian Wood Company LLC	Russia	100%	100%
Lenderskiy LPH, JSC	Russia	100%	100%
LPH Kipelovo, JSC	Russia	100%	100%
Volomsky KLPH Leskarel, JSC	Russia	98.91%	76.23%
Ledmozerskoye LZH, JSC	Russia	99.44%	87.25%
Les Proekt, LLC	Russia	100%	-
LesTorgService, LLC	Russia	100%	-
Baikal forest company, LLC	Russia	100%	-
LesPromService, LLC	Russia	100%	-
Priangarue TM, LLC	Russia	100%	-

<sup>1</sup> Segezha Packaging Pazarlama Anonim Sirketi – self-liquidated

## SEGEZHA GROUP PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2021 (in thousands of Russian Rubles, unless otherwise indicated)

Significant entities	Country	31 December 2021	31 December 2020
<b>Energy</b>			
VBM (Vologda Bumazhnaya Manufactura), LLC	Russia	- <sup>1</sup>	100%
Onega-Energy, JSC	Russia	75%	75%
<b>Other</b>			
Segezha Group Management Company, LLC	Russia	100%	100%
Verkhnelenskoe Rechnoe Parokhodstvo, LTD	Russia	100%	-
Inter Forest Rus, LLC	Russia	100%	-

On 15 September 2021, the Group obtained control over JSC «Novoyeniseiskiy Wood-Chemical complex» an integrated forestry management and wood working facility (Note 5).

On 28 December 2021 the Group acquired control over Inter Forest Rus, LLC and its 24 subsidiaries: forestry management and wood working assets in Krasnoyarsk and Irkutsk regions (Note 5).

As at 31 December 2021 the Group has pledged interests in Verkhnelenskoe Rechnoe Parokhodstvo LTD, Tairiku-Igirma Group LLC, Priangarue TM LLC to secure performance under the loan agreements. As at 31 December 2020, the Group had no pledged shares/interests in subsidiaries to secure performance under the loan and overdraft agreements (Note 20).

## 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") on a historical cost basis, except for property, plant and equipment recognised at fair value as at 1 January 2015 (the date of the first adoption of IFRS) and cross-currency interest rate swaps recognized at fair value through profit or loss. Historical cost is generally based on the fair value of the consideration given in exchange for acquired assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

The entities of the Group maintain their accounting records in accordance with the laws and accounting/reporting regulations of the jurisdictions in which they are incorporated. The accounting principles in these jurisdictions may differ substantially from IFRS. Accordingly, individual financial statements of the entities were adjusted to ensure that the consolidated financial statements are presented in accordance with IFRS.

The principal accounting policies applied to prepare these consolidated financial statements are set out below and in related Notes. These accounting policies have been consistently applied to all years presented in these statements, except where indicated otherwise.

**Functional and presentation currency.** Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Russian Ruble is the functional currency of the Company and its Russian subsidiaries. The functional currency of foreign subsidiaries is the local currency of the country of location. These consolidated financial statements are presented in Russian Rubles. All values are rounded to the nearest thousand Rubles, except as indicated otherwise.

<sup>1</sup> VBM LLC as a result of reorganization merged with JSC Sokol Pulp and Paper Mill



## SEGEZHA GROUP PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2021 (in thousands of Russian Rubles, unless otherwise indicated)

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For the purpose of preparation of the Group consolidated financial statements transactions in currencies other than the subsidiary's functional currency ("foreign currencies") are recognised at the rates of exchange prevailing at the dates of the transactions. Monetary items denominated in foreign currencies are translated at the rates prevailing at reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items reported at historical cost denominated in a foreign currency are not retranslated.

Foreign exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for exchange differences on monetary items receivable from or payable to the subsidiaries of the Group, representing foreign operations, for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation). Such foreign exchange differences are recognised initially in other comprehensive income and reclassified from equity to profit or loss on settlement of the monetary items.

For the purposes of presenting these consolidated financial statements, the financial information on the Group's foreign operations is translated from the functional currency into Russian Rubles as follows:

- All assets and liabilities, both monetary and non-monetary, are translated at the exchange rates prevailing at the end of reporting periods;
- All income and expense items are translated at the average exchange rates for the reporting period unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used;
- Equity components are translated at the historic rate;
- Exchange differences are presented as a separate item (*Foreign exchange differences on translation of foreign operations*) in the consolidated statement of profit or loss and other comprehensive income, with the accumulated effect recognised in equity and attributed to non-controlling interest as appropriate;
- Cash flows are translated at the average exchange rates for the reporting period unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences are recognised as a separate item (*Effect of exchange rate changes on cash held in foreign currencies*).

Below are exchange rates as at year-end, which were used by the Group for the purpose of preparation of these consolidated financial statements:

	<u>31 December 2021</u>	<u>31 December 2020</u>
RUB/USD	74.2926	73.8757
RUB/EUR	84.0695	90.6824

Below are average exchange rates for the year, which were used by the Group for the purpose of preparation of these consolidated financial statements:

	<u>2021</u>	<u>2020</u>
RUB/USD	73.6541	72.1464
RUB/EUR	87.1877	82.4488

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to participants of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal that does not result in losing control over the subsidiary, the proportionate share of accumulated exchange differences is recalculated based on new non-controlling interest value and are not reclassified in profit or loss.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2021**  
***(in thousands of Russian Rubles, unless otherwise indicated)***

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**Offsetting financial instruments.** Financial assets and liabilities are netted and the net amount is reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. The right to offset (1) must not be contingent on a future event and (2) must be legally enforceable in all of the following circumstances: (a) in the normal course of business, (b) the event of default and (c) the event of insolvency or bankruptcy.

**Basis of consolidation.** These consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control over an entity (an investee) is achieved where the Group:

- has power to direct relevant activities of the investees that significantly affect their returns;
- is exposed, or has rights to, variable returns from its involvement with an investee; and
- has the ability to use its power over the investees to affect the amount of investor's returns.

The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have the practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than a majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of other vote holders to determine if it has de-facto power over the investee. The protective rights of other investors, such as those that relate to fundamental changes of an investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee.

Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

Intragroup transactions, balances and unrealised gains on transactions between companies in the Group are eliminated. Unrealised losses are also eliminated unless costs cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Group. Non-controlling interest forms a separate component of the Group's equity.

**Purchases and sales of non-controlling interests.** The Group applies the economic entity model to account for transactions with owners of non-controlling interest provided such transactions do not result in loss of control. Any difference between the consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity.

**Deconsolidation of subsidiaries and associates.** When the Group ceases to have control or significant influence, any interest retained in the entity is remeasured to its fair value at the date when control or significant influence is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purpose of subsequent accounting for the interest retained in an associate or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity, are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2021**  
**(in thousands of Russian Rubles, unless otherwise indicated)**

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**Revenue.** Revenue represents income arising in the normal course of business of the Group. Revenue is recognised at a transaction price. Transaction price represents a consideration to which the Group expects to become entitled in exchange for transferring control over promised goods or services to a customer, excluding any amounts received on behalf of third parties. Revenue is recognised net of discounts, VAT, export duties, excise and other similar mandatory payments.

Revenue comprises sales of goods (paper and package products, sawn timber, plywood, boards and other goods), as well as services related to the delivery of finished goods to customers after the transfer of control over goods. Sales are recognised as control passes to the customer, i.e. when (i) products have been delivered to the customer under Incoterms 2010, (ii) the customer is free to dispose of the products delivered and (iii) there is no outstanding obligation that may affect the acceptance of the products by the customer. The delivery of products is considered completed where (i) the products have been delivered to a specific location, (ii) control over the products has passed to the customer, (iii) the customer has accepted the products under the contract and (iv) the acceptance terms and conditions have expired or the Group has objective evidence that all the acceptance terms and conditions have been satisfied.

Receivables are recognised upon product delivery because the right to consideration becomes unconditional due to the fact that consideration is only contingent on the passage of time.

If the Group transfers control over the service over the time (such as delivery of finished goods to the customer after having transferred the control) and, therefore, a performance obligation is satisfied over time, the sales revenue is included in the reporting period when the services were provided.

**Critical judgements**

The Group makes accounting estimates and assumptions that affect the amounts recognised in the consolidated financial statements and the carrying amounts of assets and liabilities. Accounting estimates and judgements are reviewed regularly and are based on the management's previous experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In applying the accounting policies, management also makes professional judgements other than accounting estimates. Professional judgements with the most significant effect on accounting estimates and the amounts recognised in the consolidated financial statements, which may result in a significant adjustment to the carrying amount of assets and liabilities within the next financial year, include:

- Assessment of lease liabilities (Note 28);
- Useful lives of property, plant and equipment (Note 11);
- Deferred tax assets recoverability (Note 10);
- Fair value measurement, including provisional valuation of the businesses acquired (Notes 5, 11 and 26);
- Impairment of financial and non-current assets (Note 14).

**Going concern assumption**

Management has prepared these consolidated financial statements on a going concern basis. This judgment has been made by management based on the Group's financial position, current plans, profitability of operations and availability of financial resources, as well as the impact of recent macroeconomic changes on the future operations of the Group (Note 30).

As at 31 December 2021, current liabilities exceeded the Group's current assets by RUB 16,902,538 thousand. This excess is mainly due to the consideration payable for the business acquisition of Inter Forest Rus LLC and its subsidiaries (Note 5) in the amount of RUB 21,797,104 thousand. In January and February 2022, the Group settled this liability in full, including by placing interest-bearing non-convertible bonds (Note 30). The Group expects an increase in cash flows from operating activities due to, among other things, the cash flows from operating activities of the newly acquired subsidiaries of Inter Forest Rus LLC and JSC NLHK, which allows us to conclude that the Group is able to continue its operations for a period exceeding, at least, twelve months from the reporting date, and fulfill all of its obligations in accordance with the agreed terms.

## SEGEZHA GROUP PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2021 (in thousands of Russian Rubles, unless otherwise indicated)

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#### 3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The following amended standards became effective from 1 January 2021, but did not have any material impact on the Group:

- Interest rate benchmark (IBOR) reform - phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021).

#### New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2022, and which the Group has not early adopted. The Group does not expect that these standards will have a material impact on its consolidated financial statements, unless otherwise stated below.

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB). The directors of the Company anticipate that the application of these amendments may have an impact on the Group's consolidated financial statements in future periods should such transactions arise;
- Amendments to IFRS 17 and an amendment to IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023);
- Classification of liabilities as current or non-current, deferral of effective date - Amendments to IAS 1 (issued on 15 July 2020 and effective for annual periods beginning on or after 1 January 2023);
- Proceeds before intended use, Onerous contracts - cost of fulfilling a contract, Reference to the Conceptual Framework - narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 - amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022);
- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023);
- Amendments to IAS 8: Definition of Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023);
- Covid-19-Related Rent Concessions - Amendments to IFRS 16 (issued on 31 March 2021 and effective for annual periods beginning on or after 1 April 2021). An amendment issued on 31 March 2021 extended the date of the practical expedient from 30 June 2021 to 30 June 2022;
- Deferred tax related to assets and liabilities arising from a single transaction - Amendments to IAS 12 (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023).

#### 4. OPERATING SEGMENTS

Operating segments are components that engage in business activities from which they may earn revenues and incur expenses. The Chief Operating Decision Maker (CODM) is responsible for the regular analysis of segment performance, with separate financial information provided for operating segments. The CODM function is the responsibility of the Management Board, led by the President of the Group.

The Group's segments are strategic business units defined based on the goods and services they produce with a focus on certain customer categories. The Group has four operating segments:

- **Paper and packaging** segment is engaged in the production and sale of sack kraft paper and artificial parchment produced from northern unbleached softwood kraft. The segment also offers the whole range of brown sack paper, as well as industrial paper sacks for a wide range of industries, such as cement, building, food, agriculture and chemicals, and retail paper bags;

## SEGEZHA GROUP PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2021 (in thousands of Russian Rubles, unless otherwise indicated)

- **Forestry management and wood working** segment is engaged in the production of high-quality northern softwood sawn timber and wood chips. Sawn timber is used in construction, manufacturing of furniture blanks, glued timber structures, as well as wooden containers and packaging;
- **Plywood and boards** segment is engaged in the production of high-tech birch plywood of various types, dry process wood fibreboards ("fibreboards") and RUF fuel briquettes. Plywood is then used in construction, furniture manufacturing, transportation and packaging. Fibreboards are used in the manufacture of doors, wall coverings and floorings, moldings and furniture.
- **Laminated wood products** segment is engaged in the production of glued laminated timber, glulam-based home kits and cross-laminated timber (CLT panels) that are used in the construction of wooden houses and multi-story buildings over 10 stories in height.

For the purpose of presentation, operating segments are reported without aggregation. The *Other* group includes companies that are not operating segments, i.e. management and holding companies. It also includes the Group's companies engaged in sales of carton boards produced using a tolling scheme with a pulp and paper mill located in Vyborg, which are not material for the Group at the moment and, therefore, not regarded as a separate reporting segment.

The CODM analyses IFRS financial information, adjusted based on the internal reporting requirements. Segment operation results are assessed based on OIBDA (operating income before depreciation and amortization) indicators. Assets and liabilities by segment are not reported to the CODM on a regular basis.

Transaction prices between operating segments are set on an arm's length basis.

The Group's financial transactions (including finance costs, finance income, and other income) and income taxes are analysed with regards to the Group as a whole, without allocation to operating segments.

The following is an analysis of reportable segments for the year ended 31 December 2021:

	<b>Paper and packaging</b>	<b>Forestry management and wood working</b>	<b>Plywood and boards</b>	<b>Laminated wood products</b>	<b>Other</b>	<b>Total segments</b>
Segment revenue	39,731,408	33,861,520	12,540,533	6,404,253	11,455,050	<b>103,992,764</b>
Elimination of intersegment transaction revenue	(9,575)	(4,898,864)	(39)	(212,856)	(6,429,163)	<b>(11,550,497)</b>
<b>Total revenue from external customers</b>	<b>39,721,833</b>	<b>28,962,656</b>	<b>12,540,494</b>	<b>6,191,397</b>	<b>5,025,887</b>	<b>92,442,267</b>
<b>OIBDA</b>	<b>8,443,824</b>	<b>16,386,607</b>	<b>6,361,827</b>	<b>3,349,926</b>	<b>(5,290,264)</b>	<b>29,251,920</b>

OIBDA of the Forestry management and wood working segment includes income from acquisition of Novoyeniseiskiy Wood-Chemical Complex, JSC in the total amount of RUB 3,821,825 thousand. (Note 5).

OIBDA of the other companies includes management remuneration in the total amount of RUB 1,982,773 thousand (including relevant taxes and social contributions) payable as a result of a liquidity event, the Group's IPO (Note 23).

The following is an analysis of reportable segments for the year ended 31 December 2020:

	<b>Paper and packaging</b>	<b>Forestry management and wood working</b>	<b>Plywood and boards</b>	<b>Laminated wood products</b>	<b>Other</b>	<b>Total segments</b>
Segment revenue	35,667,634	23,908,660	7,666,319	4,170,333	5,372,377	<b>76,785,323</b>
Elimination of intersegment transaction revenue	(7,290)	(4,749,649)	(121)	(159,924)	(2,881,690)	<b>(7,798,674)</b>
<b>Total revenue from external customers</b>	<b>35,660,344</b>	<b>19,159,011</b>	<b>7,666,198</b>	<b>4,010,409</b>	<b>2,490,687</b>	<b>68,986,649</b>
<b>OIBDA</b>	<b>10,016,858</b>	<b>5,830,514</b>	<b>2,914,492</b>	<b>1,249,247</b>	<b>(2,552,159)</b>	<b>17,458,952</b>

To ensure comparability the information for the year ended 31 December 2020 was restated for the separate representation of the *Laminated wood products* segment.

## SEGEZHA GROUP PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2021 (in thousands of Russian Rubles, unless otherwise indicated)

OIBDA of the Forestry management and wood working segment includes income from acquisition of Karelian Wood Company LLC in the total amount of RUB 988,745 thousand (Note 5).

Below is the reconciliation of segment OIBDA and consolidated operating profit and also with net profit/(loss) before tax of the Group:

	For the year ended	
	31 December 2021	31 December 2020
<b>OIBDA</b>	<b>29,251,920</b>	<b>17,458,952</b>
Depreciation and amortisation	(6,901,998)	(6,272,696)
Other	-	(19,829)
<b>Operating profit</b>	<b>22,349,922</b>	<b>11,166,427</b>
Interest income	772,353	176,415
Interest expense and other finance expenses	(3,530,571)	(4,185,301)
Foreign exchange differences, net	758,961	(7,674,875)
Other income	667	18,243
<b>Profit/(loss) before tax</b>	<b>20,351,332</b>	<b>(499,091)</b>

#### Geographical information

Revenue is presented by country and based on client location:

	For the year ended	
	31 December 2021	31 December 2020
Russia	23,612,551	19,291,643
China	11,477,985	10,340,730
Egypt	6,531,491	3,493,523
Germany	5,541,038	4,204,359
USA	3,282,265	1,455,488
United Kingdom	3,247,988	1,399,683
Italy	2,931,648	1,580,927
Finland	2,838,311	2,517,623
France	2,627,864	1,541,095
Turkey	2,443,371	1,658,365
Netherlands	2,364,630	1,877,771
Denmark	2,035,105	1,847,312
Kazakhstan	1,353,632	1,133,512
Belgium	1,282,970	641,591
Romania	1,243,898	1,150,547
Ghana	1,082,157	798,018
Korea, Republic	987,890	869,754
Poland	915,886	611,743
Saudi Arabia	882,141	1,471,609
Mexico	654,975	897,215
Czech republic	623,993	945,023
Other	14,480,478	9,259,118
<b>Total third-party revenue</b>	<b>92,442,267</b>	<b>68,986,649</b>

None of the Group's external customers generate more than 10% of consolidated revenue.

Non-current assets are reported by country, based on geographic location:

	For the year ended	
	31 December 2021	31 December 2020
Russia	138,977,612	59,214,429
Netherlands	1,504,086	1,057,642
Romania	1,057,602	142,575
Germany	798,841	811,987
Denmark	501,563	537,369
Other	566,656	637,294
<b>Total</b>	<b>143,406,360</b>	<b>62,401,296</b>

**5. BUSINESS COMBINATIONS**

Subsidiaries are accounted for in the consolidated financial statements using the acquisition method. Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interests that represent ownership interests and entitle the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interest that is not an ownership interest is measured at fair value.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of (i) the consideration transferred for the acquiree, (ii) the amount of non-controlling interest in the acquiree and (iii) the fair value of an interest in the acquiree held immediately before the acquisition date. Bargain purchase (income from acquisition) is not recognised in profit or loss until management has made reassessments to see whether it has (i) identified all the assets acquired and all liabilities and contingent liabilities assumed and (ii) reviewed related measurements.

The consideration transferred for the acquiree is measured at the fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed, including the fair value of assets or liabilities from contingent consideration arrangements, but excludes acquisition-related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred to issue equity instruments are deducted from equity; transaction costs incurred to issue debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

**Consolidation of JSC "Novoyeniseiskiy Wood-Chemical Complex"**

On 15 February 2021 the Group applied to participate in an auction for assets related to JSC "Novoyeniseiskiy Wood-Chemical Complex" (NLHK) organised by Trust Bank PJSC, a financial institution entrusted with government over non-financial assets. NLHK is one of the leading full-cycle sawmills in Russia. It is located in Lesosibirsk, Krasnoyarsk region specialised on production of coniferous woods sawn timber, fibreboards, wood pellets and other timber products used for construction of private and industrial structures.

The auctioned lot included the bank's rights of claim for NLHK loans payable and other payables totaling RUB 11.5 billion denominated in various currencies, and also rights to conclude call option for 71% of shares in NLHK exercisable upon the termination of arbitration proceedings under the bankruptcy procedure in respect of NLHK. The Group acquired the lot for a cash consideration amounting to RUB 2,305,818 thousands paid in February 2021.

On 20 May 2021 the Group concluded a purchase agreement for a minority stake of 29% shares in share capital of NLHK. The purchase was completed on 27 July 2021 with share ownership transferred to JSC Lesosibirsky LDK No.1, a subsidiary of the Group. The total purchase price of USD 17 million is payable in two installments: RUB 619,594 thousand paid on 8 June 2021, and the residual amount (RUB 600,614 thousand) was settled on 19 August 2021 after the transfer of ownership.

On 15 September 2021 Court of Arbitration of Krasnoyarsk region has terminated the bankruptcy procedures in respect of NLHK leading to the option for 71% of shares in NLHK becoming exercisable with the Group obtaining control over the relevant activities of NLHK and consolidating 100% of the assets and liabilities of NLHK. Until 15 September 2021, the Group accounted for all consideration paid as part of prepayments for non-current assets.

## SEGEZHA GROUP PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2021 (in thousands of Russian Rubles, unless otherwise indicated)

As at 31 December 2021 the Group engaging an independent valuation specialist has completed purchase price allocation to the fair value of identifiable assets acquired and liabilities assumed.

The estimate of the fair value of the acquired assets and assumed liabilities at date of consolidation of NLHK comprised:

	<b>Fair value as at the consolidation date</b>
<b>Assets and liabilities</b>	
Property, plant and equipment	4,058,154
Right-of-use assets	4,922,644
Intangible assets	35
Deferred tax assets	928,884
Cash and cash equivalents	162,261
Inventories	1,250,107
Trade and other accounts receivable	114,147
Other current assets	469,647
Lease liabilities	(1,836,663)
Deferred tax liabilities	(1,224,488)
Trade and other payables	(1,315,059)
<b>Total identifiable net assets</b>	<b>7,529,669</b>
Gain on business acquisition	(3,821,825)
<b>Total acquisition value</b>	<b>3,707,844</b>
<b>Settled in the form of:</b>	
Cash consideration	3,707,844

The estimates of the fair value of the acquired assets and assumed liabilities at the acquisition date were based on the following:

#### ***Property, plant and equipment***

Fair value assessment of production assets was based on the cost approach using current market value of replacement assets of equivalent characteristics. At the same time, potential economic impairment was assessed through discounted cash flow approach. Land plots and vehicles, for which an active secondary/resale market exists, were valued using market approach.

#### ***Right-of-use assets***

Right-of-use assets are long-term lease agreements for forest plots, fair value of which was assessed through discounted cash flow approach.

#### ***Deferred tax assets***

Deferred tax assets were formed by tax losses carried forward. These assets were accounted for at the date of acquisition in accordance with IAS 12, taking into account projected taxable profits and absence of legal limitations regulating the maximum amount of losses carried forward to be offset against taxable profit in each tax period.

#### ***Lease liabilities***

In accordance with IFRS 16 *Leases* discounted future cash payments under lease contracts for the full duration of the lease contracts are reported as lease liabilities.

#### ***Deferred tax liabilities***

Adjustments to deferred tax liabilities include the tax effect of the fair value adjustments for property, plant and equipment and right-of-use assets.

#### ***Trade and other receivables and payables***

Trade and other receivables and payables are reported at fair value, fair value estimate represents the best estimate of contractual cash flows receivable and payable at the acquisition date.



## SEGEZHA GROUP PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2021 (in thousands of Russian Rubles, unless otherwise indicated)

The Group recorded an income from acquisition of NLHK in the total amount of RUB 3,821,825 thousand, which was included in "Gain on business acquisition" in the consolidated statement of profit or loss and other comprehensive income. The income received is mainly due to the bankruptcy procedure initiated as a result of the corporate conflict among the former owners of the company. Due to the conflict NLHK failed to match its potential in respect of the logging operations and sawn timber production volumes. In 2021 the Group terminated the bankruptcy procedures and provided the adequate level of working capital thus increasing logging operations volume, as well as sawn timber production volume and the company's operating profit; no additional capital investment was required to achieve that.

#### Acquisition of LLC "Inter Forest Rus" and its subsidiaries

On 28 December 2021 the Group has acquired from a third party a 100% stake in share capital of Inter Forest Rus LLC and its 24 subsidiaries, including four sawmills, a plywood mill, pellets production, as well as forestry management facilities with annual allowable cuts at 10.9 million cubic meters. All acquired facilities are located in the Krasnoyarsk and Irkutsk regions.

Provisional purchase price includes cash settlement in the total amount of USD 528 million (equivalent to RUB 38,747,962 thousand at the exchange rate effective on the acquisition date), with USD 230 million (equivalent to RUB 16,950,858 thousand at the exchange rates effective on the day of each payment) paid during 2021. Provisional purchase price is subject to adjustments calculated on the basis of the actual OIBDA and Working capital balances for 2021, as well as other applicable adjustments. Deferred payments in the total amount of USD 50 million (RUB 3,714,630 thousand as at 31 December 2021) payable in 2 and 4 years from the date of signing of the acquisition agreement are accounted for as non-current liabilities. Deferred consideration is not discounted as it is used as collateral for the possible damage to the Group due to decisions and actions of the previous owners, including but not limited to the risk of property loss, accrual of additional taxes, fees and penalties, alienation of annual allowable cuts.

As at 31 December 2021 the Group has not completed assessment of the fair value of the acquired assets and liabilities and corresponding purchase price allocation. Purchase price allocation of fair value of assets and liabilities will be concluded within 12 months from the date of acquisition. Provisional fair value has been assessed as follows:

	<b>Fair value (preliminary valuation)</b>
<b>Assets and liabilities</b>	
Property, plant and equipment	23,490,253
Right-of-use assets	28,731,491
Intangible assets	557,040
Deferred tax assets	770,778
Cash and cash equivalents	310,454
Inventories	8,030,723
Trade and other accounts receivable	2,228,822
Other current assets	2,835,357
Lease liabilities	(8,270,347)
Deferred tax liabilities	(7,067,978)
Loans and borrowings	(4,307,529)
Provisions	(4,907)
Other non-current liabilities	(4,280,679)
Trade and other payables	(4,275,516)
<b>Total identifiable net assets</b>	<b>38,747,962</b>
<b>Provisional purchase price</b>	<b>38,747,962</b>
<b>Settled in the form of:</b>	
Cash consideration	16,950,858
Cash consideration payable (as at date of acquisition)	21,797,104
	<b>38,747,962</b>

## SEGEZHA GROUP PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2021 (in thousands of Russian Rubles, unless otherwise indicated)

Taking into account that the companies acquired had no previous IFRS accounting and did not prepare financial statements in accordance with IFRS requirements, the Group based its provisional valuation of the acquired assets and assumed liabilities at the acquisition date on the following:

- the total value of property, plant and equipment was determined as the difference between the provisional purchase price of Inter Forest Rus LLC and the preliminary valuation of other identifiable assets and liabilities;
- the total value of right-of-use assets was calculated on the available information on similar comparable transactions concluded in the reporting period;
- lease liabilities are accounted for in accordance with IFRS 16 Leases discounted future cash payments under lease contracts for the full duration of the lease contracts;
- inventories, trade and other receivables and payables, other long-term liabilities are reported at the historic cost at the acquisition date;
- cash and cash equivalents and loans and borrowings are reported based on book value at the reporting date.

## 6. JOINT VENTURES AND ASSOCIATES

Investments in the entities over which the Group exercises significant influence, but has no control are accounted for using the equity method. Such investments include the Group's share in associates and joint ventures.

An associate is an entity over which the Group has significant influence, but has no control or joint control for the financial and operating policy decisions. A joint venture is a joint arrangement whereby the Group has joint control of the arrangement and thus has rights to the net assets of the arrangement.

Investments in associates and joint ventures are initially recognised at historical cost increased by the transaction costs directly attributable to the transaction. Consolidated financial statements includes the Group's share in the profit or loss and other comprehensive income of the companies accounted for using the equity method, accordingly adjusted for the differences in the accounting policies, starting from the date the Group has acquired significant influence or joint control, until cessation of such control. When the Group's share of the associate's losses is greater than its investment in the associate, the book value of the investment, including any unsecured accounts receivable, decreases to zero and the Group recognises further losses only to the extent of its assumed obligations or payments made on behalf of that associate.

As at 31 December 2021 and 31 December 2020, joint ventures and associates comprised:

	Principal activities	Type	Country	Book value		Effective shares of ownership, %	
				31 December 2021	31 December 2020	31 December 2021	31 December 2020
GalichLes LLC, GPM LLC (Galich Plywood Mill)	Forestry management Plywood and boards	Joint ventures	Russia	-	-	85%	100%
Group Segezha West	Pulp and paper	Joint ventures	Russia	410,486	255,000	100%	50%
LHC Karellesprom, JSC	Timber resources	Associates	Russia	86,563	140,536	43.88%	43.88%
Segezha Nord, LLC	Hotel management	Joint ventures	Russia	75,576	47,228	50%	50%
Other				20,411	15,428	-	-
<b>Total</b>				<b>593,036</b>	<b>458,192</b>	-	-

## SEGEZHA GROUP PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2021 (in thousands of Russian Rubles, unless otherwise indicated)

Changes in the Group's interest in the associates and joint ventures are presented as follows:

	<u>2021</u>	<u>2020</u>
<b>Balance, beginning of the year</b>	<b>458,192</b>	<b>199,760</b>
Investment in joint ventures and associates	188,817	258,432
Group's share of the associate and joint ventures' losses (net)	(53,973)	-
<b>Balance, end of the year</b>	<b><u>593,036</u></b>	<b><u>458,192</u></b>

#### GalichLes LLC and GPM LLC

In March 2020, the Group organized project financing for the construction of a plywood mill in the city of Galich, the Kostroma Region, based on the Group's 100% subsidiaries GalichLes LLC and GPM LLC (jointly referred to as the "Companies").

According to the Corporate Governance Agreement, concluded with the bank, both parties have equal rights to govern significant activities of the investees, including:

- approval of significant transactions over RUB 100 million;
- approval of the annual business plan and (or) budget, and reports on budget execution, introduction of amendments and additions to the approved annual business plan and (or) budget, and reports on budget execution.

In addition, the bank monitors the construction progress and controls payments.

Taking into account the provisions of the Corporate Governance Agreement, the management concluded that starting from 27 March 2020 the Group loses control over its 100% subsidiaries and recognises them as joint ventures with a 100% interest as the *Investments in joint ventures and associates*.

On 26 April 2021 in accordance with the provisions of the Corporate Governance Agreement the Group sold a 15% stake in GalichLes LLC (a 100% owner of GPM LLC) for a nominal value. This transaction did not amend the rights to govern significant activities of the investment. The Bank has a put option to sell the purchased 15% stake for a fixed consideration of RUB 475,000 thousand exercisable not earlier than 1 October 2025. The consideration approximates the expected fair value of the 15% stake as at 1 October 2025. The Group has a call option to purchase the 15% stake for the fixed consideration of RUB 475,000 thousand exercisable not later than 30 September 2025.

The summarised financial information below represents amounts in joint ventures' financial statements prepared in accordance with IFRS Standards:

	<u>31 December 2021</u>	<u>31 December 2020</u>
Current assets	2,413,154	739,384
<i>inc. Cash and cash equivalents</i>	294,994	126,712
Non-current assets	14,224,934	4,788,650
<b>Total assets</b>	<b><u>16,638,088</u></b>	<b><u>5,528,034</u></b>
<b>Current liabilities:</b>		
Trade and other payables	(974,476)	(362,796)
Loans and borrowings	(372,055)	-
Other current liabilities	(20,008)	(1,339)
<b>Non-current liabilities:</b>		
Loans and borrowings	(8,097,995)	(3,848,259)
Loans received from the Group, including interest accrued (Note 27)	(5,928,370)	(1,347,869)
Lease liabilities	(1,521,563)	(6,748)
Other non-current liabilities	(267,853)	(61,322)
<b>Total liabilities</b>	<b><u>(17,182,320)</u></b>	<b><u>(5,628,333)</u></b>
<b>Net assets</b>	<b><u>(544,232)</u></b>	<b><u>(100,299)</u></b>

## SEGEZHA GROUP PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2021 (in thousands of Russian Rubles, unless otherwise indicated)

	<b>For the year, ended 31 December 2021</b>	<b>For the period from deconsolidation to 31 December 2020</b>
Revenue	39,341	-
Depreciation and amortisation	(43,735)	(779)
Interest expense	(172,597)	(19,765)
Income tax expense	(67,921)	(42,827)
Net loss	<u>(443,933)</u>	<u>(82,056)</u>

Reconciliation of the above summarised financial information to the carrying amount of the interest in the joint ventures recognised in the consolidated financial statements:

	<b>For the year, ended 31 December 2021</b>	<b>For the period from deconsolidation to 31 December 2020</b>
<b>Net assets as at beginning of the period</b>	(100,299)	(18,243)
Loss for the period, net	(443,933)	(82,056)
<b>Net assets as at end of the year</b>	<u><b>(544,232)</b></u>	<u><b>(100,299)</b></u>
Effective shares of ownership, %	85%	100%
Group's share in the Net assets of the joint ventures	-	-
<b>Book value as at the end of the year</b>	<u>-</u>	<u>-</u>

#### Group Segezha West

In 2020 a joint venture in the form of the Group Segezha West was created by the Group and Sistema Telecom Assets, LLC, each holding an equal share of 50%. The joint venture was created to exercise technical design, basic engineering, preparation for the construction works, including obtaining the relevant permissions, for the construction of a new pulp mill at Segezha in Karelia with the production capacity of 1,500 thousand tons of pulp per year (referred to as the "Project").

On 20 December the Group has consolidated a 100% stake in the Segezha West Project. On 30 December 2021 the Group has signed with its two financial partners a share purchase agreement for the sale of 20% less one share for each partner of the Project and a Corporate agreement on the governance of the Project.

According to the Corporate agreement parties have equal rights to govern significant activities of the investee, including:

- decisions over significant transactions over RUB 500 million;
- approval of the annual budgets, and any amendments and additions to the approved annual budgets, leading to the changes in the key financial indicators (revenue, expenses, capital expenditures) exceeding 10%.

Taking into account the provisions of the Corporate agreement, the management concluded that starting from 30 December 2021 the Group loses control over the Segezha West project and recognizes it as joint venture with a 100% interest as the *Investments in joint ventures and associates*.

On 25 January 2022 the transfer of ownership over the 40% minus 2 shares stake in Segezha West Project to the Group's partners has been registered, this did not amend the rights to govern significant activities. By concluding the options agreements the Group's partners have the right to quit the Project upon expiration of the 13th month from the date of the agreement. The Group also has corresponding options to buy back the shares belonging to the partners during the 13th and 14th months.

## SEGEZHA GROUP PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2021 (in thousands of Russian Rubles, unless otherwise indicated)

The Group's conclusions over the significant activities and control over such activities are subject to reevaluation upon acceptance of offers on options exercised by any party or should significant provisions of the above agreements be amended.

The summarised financial information below represents amounts in joint ventures' financial statements prepared in accordance with IFRS Standards:

	<b>31 December 2021</b>
Current assets	900,213
<i>inc. Cash and cash equivalents</i>	417,328
Non-current assets	3,216,630
<b>Total assets</b>	<b>4,116,843</b>
<b>Current liabilities:</b>	
Trade and other payables	(666,053)
Other current liabilities	(93,201)
<b>Non-current liabilities:</b>	
Loans received from the Group, including interest accrued (Note 27)	(2,737,560)
Other non-current liabilities	(209,543)
<b>Total liabilities</b>	<b>(3,706,357)</b>
<b>Net assets</b>	<b>410,486</b>

Reconciliation of the above summarised financial information to the carrying amount of the interest in the joint ventures recognised in the consolidated financial statements:

<b>Net assets as at 31 December 2020</b>	412,532
Loss for the period, net	(2,046)
<b>Net assets as at 31 December 2021</b>	<b>410,486</b>
Effective shares of ownership, %	100%
Group's share in the Net assets of the joint ventures	410,486
<b>Book value as at 31 December 2021</b>	<b>410,486</b>

## 7. COST OF SALES

Below is the analysis of the cost of products and services for the year ended 31 December 2021 and 2020:

	<b>2021</b>	<b>2020</b>
Raw materials and supplies	26,604,971	21,214,793
Employee benefits	11,275,932	9,023,977
Supplier and contractor services	10,704,617	8,945,979
Depreciation and amortisation	6,178,622	5,584,603
Other expenses	671,666	421,319
Net change in inventories, finished goods and work in progress	(2,419,417)	286,518
	<b>53,016,391</b>	<b>45,477,189</b>

## 8. SELLING AND ADMINISTRATIVE EXPENSES

Below is the analysis of selling and administrative expenses for the years ended 31 December 2021 and 2020:

	<b>2021</b>	<b>2020</b>
Finished goods transportation and other selling expenses	8,364,424	7,491,573
Employee benefits	7,508,402	4,424,103
Supplier and contractor services	1,612,263	1,066,265
Depreciation and amortisation	640,522	602,706
Increase in allowance for expected credit losses, net	338,760	98,826
Raw materials and supplies	252,359	131,273
Taxes, other than income tax	158,939	128,864
Other expenses	1,124,321	601,533
	<b>19,999,990</b>	<b>14,545,143</b>

## SEGEZHA GROUP PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2021 (in thousands of Russian Rubles, unless otherwise indicated)

#### 9. OTHER OPERATING (EXPENSES)/INCOME, NET

Below is the analysis of other operating income and expenses for the years ended 31 December 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Income from government grants	771,484	1,086,326
Gain on disposal of property, plant and equipment and intangible assets	204,551	358,451
Loss on write-off of inventories	(44,894)	(65,141)
Depreciation and amortisation	(82,854)	(85,387)
Allowance for inventory impairment	(649,245)	445
Impairment for property, plant and equipment and properties in the course of construction (Note 11)	(906,554)	-
Other	(190,277)	(81,329)
<b>Other operating (expenses)/income, net</b>	<b><u>(897,789)</u></b>	<b><u>1,213,365</u></b>

Comparative information for the year ended 31 December 2020 was adjusted to account for gain on business acquisition disclosed separately in Consolidated Statement of profit or loss and other comprehensive income.

Government grants represent government assistance provided to the Group subject to compliance with certain conditions, in the past or in the future, related to the Group's operating activities. Government grants do not include types of government assistance that cannot be reasonably estimated or transactions with governments that cannot be distinguished from regular market transactions of the Group.

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attached to them and that the grants will be received.

Government grants that are receivable as compensation for expenses already incurred, particularly transportation costs related to goods sold by the Group for export, are recognised in profit or loss in the period in which the compensated expenses are incurred, providing that there is a reasonable assurance that these grants will be received.

In 2021 the Group received grants to compensate costs attributable to (i) the transportation of products (in accordance with Russian Government Resolution No. 496 of 26 April 2017 *On the provision of subsidies from the federal government to Russian civilian industry organisations, as a partial compensation for product transportation costs*); (ii) certification of products for export markets (in accordance with Russian Government Resolution No. 687 of 30 April 2021 *On the subsidies from the government to organisations as a partial compensation for certification of products, including medical products and products of pharmaceutical industry, on export markets*).

#### 10. INCOME TAX

Income taxes are recognised in the consolidated financial statements in accordance with laws enacted or substantively enacted by the end of the reporting period. Income tax expense comprises current tax and deferred tax and is recognised in profit or loss for the year, except where it must be recognised in other comprehensive income or directly in equity as related to transactions that are recognised in other comprehensive income or directly in equity in the same or a different period.

Current tax is the amount expected to be payable or recoverable in respect of taxable profits or losses for the current and prior periods.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill that is not deductible for tax purposes.

## SEGEZHA GROUP PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2021 (in thousands of Russian Rubles, unless otherwise indicated)

Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period that are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that temporary differences will be recovered and sufficient taxable profit will be available against which deductible temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred tax assets and liabilities are netted only within the individual entities of the Group.

The Group controls reversal of temporary differences relating to taxes payable on dividends from subsidiaries or on gains on their disposal. The Group does not recognise deferred tax liabilities on such temporary differences except to the extent that management expects temporary differences to reverse in the foreseeable future.

The tax rate used for the reconciliations below is the corporate tax rate of 20% payable by the Company and its subsidiaries incorporated in the Russian Federation on taxable profits under the tax laws in the jurisdiction. Taxes for other jurisdictions are calculated at the rates prevailing in the respective jurisdictions.

**Uncertain tax positions.** Management reassesses uncertain tax positions at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues.

Liabilities for penalties, interest and taxes other than income tax are recognised based on management's best estimate of the expenditure required to settle the liabilities at the reporting date. Adjustments of uncertain income tax positions, except for fines and penalties, are recognised as income tax expenses. Adjustments of uncertain income tax positions related to fines and penalties are recognised net as finance expenses and other profit/(loss) respectively.

#### 10.1. Income tax recognised in profit or loss

	<u>2021</u>	<u>2020</u>
Current income tax expense	5,191,372	1,400,394
Deferred tax	(76,855)	(551,602)
<b>Total income tax expense recognised in the current year relating to continuing operations</b>	<b><u>5,114,517</u></b>	<b><u>848,792</u></b>

The effective tax rate reconciliation for 2021 and 2020 is presented below:

	<u>2021</u>	<u>2020</u>
<b>Profit/(loss) before tax from continuing operations</b>	<b><u>20,351,332</u></b>	<b><u>(499,091)</u></b>
Theoretical income tax expense/(income) at the rate of 20%	4,070,266	(99,818)
Non-deductible expenses, net	185,212	123,028
Tax effect of restructuring of intercompany settlements	1,164,146	1,343,344
Prior period adjustments	387,315	(70,332)
Non-taxable gain on the business acquisition	(764,365)	(197,749)
Accrual/(recovery) of the allowance for unutilised tax losses and offsets not recognised as deferred tax assets	49,709	(247,871)
Effect of tax rate other than the rate of 20%	22,234	(1,810)
<b>Total income tax expense recognised in the current year for continuing operations</b>	<b><u>5,114,517</u></b>	<b><u>848,792</u></b>

## SEGEZHA GROUP PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2021 (in thousands of Russian Rubles, unless otherwise indicated)

#### 10.2. Deferred tax

As at 31 December 2021 and 2020, deferred tax assets and liabilities recognised by the Group in the consolidated statement of financial position comprised:

	<u>31 December 2021</u>	<u>31 December 2020</u>
Deferred tax assets	1,317,143	1,132,567
Deferred tax liabilities	<u>(8,555,202)</u>	<u>(1,835,476)</u>
	<b><u>(7,238,059)</u></b>	<b><u>(702,909)</u></b>

The following is the analysis of deferred tax assets and liabilities presented in the consolidated statement of financial position:

<b>Deferred tax (liabilities)/assets</b>	<b><u>31 December 2020</u></b>	<b><u>Recognised in profit or loss</u></b>	<b><u>Acquisition of companies</u></b>	<b><u>31 December 2021</u></b>
Property, plant and equipment, intangible assets and right-of-use assets	(2,511,365)	(504,376)	(8,013,124)	(11,028,865)
Inventories and contract assets	(44,570)	145,710	32,677	133,817
Trade and other receivables	410,358	13,237	47,888	471,483
Trade and other payables, lease liabilities	180,653	481,893	439,341	1,101,887
Other financial liabilities	188,672	(34,601)	-	154,071
Provisions	185,259	92,652	13,843	291,754
Tax losses carried forward	770,825	(230,813)	959,887	1,499,899
Other	117,259	113,153	(92,517)	137,895
<b>Deferred tax liabilities, net</b>	<b><u>(702,909)</u></b>	<b><u>76,855</u></b>	<b><u>(6,612,005)</u></b>	<b><u>(7,238,059)</u></b>

<b>Deferred tax (liabilities)/assets</b>	<b><u>31 December 2019</u></b>	<b><u>Recognised in profit or loss</u></b>	<b><u>Acquisition/ disposal of companies</u></b>	<b><u>31 December 2020</u></b>
Property, plant and equipment, intangible assets and right-of-use assets	(2,416,999)	30,301	(124,667)	(2,511,365)
Inventories and contract assets	(197,301)	152,731	-	(44,570)
Trade and other receivables	339,703	70,655	-	410,358
Trade and other payables, lease liabilities	118,418	62,235	-	180,653
Other financial liabilities	-	188,672	-	188,672
Provisions	124,215	61,046	(2)	185,259
Tax losses carried forward	592,261	(77,971)	256,535	770,825
Other	50,395	63,933	2,931	117,259
<b>Deferred tax liabilities, net</b>	<b><u>(1,389,308)</u></b>	<b><u>551,602</u></b>	<b><u>134,797</u></b>	<b><u>(702,909)</u></b>

In the context of the Group's existing structure, tax losses and current tax assets of different companies may not be offset against the current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even if there is a net consolidated tax loss.

Deferred tax assets are recognised for tax loss carry-forwards to the extent that the Group's subsidiaries have sufficient taxable temporary differences or there is objective evidence that sufficient taxable profit will be available against which tax losses can be utilised. Unrecognised deferred tax assets related to tax losses are reviewed at each reporting date.

Federal Law No. 401-FZ of 30 November 2016 enables loss carry-forwards for an indefinite period. The carry-forward period was previously limited to 10 years. Federal Law No. 401-FZ also stipulates that losses from prior tax periods may not reduce the tax base for 2017-2021 by more than 50%.

The Group does not recognise deferred tax assets related to the tax losses of subsidiaries with losses in prior periods. Such losses may not be offset against taxable income within the Group. The Group reverses such previously unrecognised tax assets where previously unprofitable subsidiaries have been profitable within the last five years and previously accumulated tax losses could be recovered in the foreseeable future in accordance with the tax planning results.



## SEGEZHA GROUP PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2021 (in thousands of Russian Rubles, unless otherwise indicated)

The movement in unrecognised deferred tax assets comprised:

	<u>2021</u>	<u>2020</u>
<b>Balance, beginning of the year</b>	1,056,961	1,304,832
Increase in unrecognised deferred tax assets	362,809	176,955
Recognition of previously unrecognised deferred tax assets	(312,619)	(424,479)
Other	(481)	(347)
<b>Balance, end of the year</b>	<u><u>1,106,670</u></u>	<u><u>1,056,961</u></u>

The Group did not recognise deferred tax liabilities of RUB 2,196,192 thousand (2020: RUB 913,706 thousand) with respect to temporary differences related to investments in subsidiaries because the Group is able to monitor the recovery timelines for these temporary differences and does not plan to recover them in the foreseeable future.

#### 11. PROPERTY, PLANT AND EQUIPMENT

Land, buildings and structures, equipment and other property are recognised at the acquisition cost less accumulated depreciation and impairment losses (freehold land is not depreciated). Properties in the course of construction are carried at cost, less any recognised impairment loss. Such construction in progress is classified to the appropriate categories of property, plant and equipment as they are completed and ready for intended use.

Depreciation is calculated using the straight-line method over their estimated useful lives and commences when the assets are ready for their intended use, i.e. comply with technical specifications and can be used in the manner intended by management.

The estimated useful lives, carrying amount and depreciation method are reviewed at the end of each reporting period for reasonableness and compliance with the plans and expectations of management, with the effect that any changes in estimates are accounted for on a prospective basis using relevant annual rates according to the following useful lives:

Buildings and other real estate	20-55 years
Plant and machinery	5-20 years
Other fixed assets	3-20 years

Estimates of expected useful lives are based on the following: (a) estimated useful life of an asset; (b) expected physical wear and tear of equipment determined by operating characteristics and technical maintenance requirements; and (c) technological and commercial obsolescence due to changes in market conditions.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss. An impairment loss is recognised immediately in profit or loss.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2021 (in thousands of Russian Rubles, unless otherwise indicated)

As at 31 December 2021 and 2020, property, plant and equipment comprised:

	Land and natural assets	Buildings and facilities	Machinery and equipment	Other fixed assets	Properties in the course of construction	Total
<b>31 December 2019</b>						
<b>Historical cost</b>	<b>776,217</b>	<b>15,847,572</b>	<b>31,634,880</b>	<b>3,552,323</b>	<b>3,166,843</b>	<b>54,977,835</b>
Additions	-	-	-	-	8,389,904	<b>8,389,904</b>
Internal transfers	3,391	1,449,651	2,897,601	1,036,437	(5,387,080)	-
Reclassification between groups	149	(4,272)	(186,446)	190,569	-	-
Disposals of assets	(2,923)	(46,844)	(846,793)	(239,980)	(143,006)	<b>(1,279,546)</b>
Additions from business combinations	53,945	385,356	178,971	85,134	579	<b>703,985</b>
Other movements	-	-	(18,392)	(165)	(4,003)	<b>(22,560)</b>
Translation to presentation currency	32,218	350,734	453,162	8,064	32,625	<b>876,803</b>
<b>31 December 2020</b>						
<b>Historical cost</b>	<b>862,997</b>	<b>17,982,197</b>	<b>34,112,983</b>	<b>4,632,382</b>	<b>6,055,862</b>	<b>63,646,421</b>
Additions	100,137	-	71	-	18,543,539	<b>18,643,747</b>
Internal transfers	881	1,573,934	6,837,084	1,671,873	(10,083,772)	-
Reclassification between groups	29	57,628	52,889	(123,770)	-	<b>(13,224)</b>
Disposals of assets	(4,605)	(58,210)	(388,898)	(617,616)	(36,979)	<b>(1,106,308)</b>
Additions from business combinations	207,632	5,932,119	10,783,992	9,374,623	1,250,041	<b>27,548,407</b>
Translation to presentation currency	(27,057)	(99,986)	119,517	(5,063)	(357,319)	<b>(369,908)</b>
<b>31 December 2021</b>						
<b>Historical cost</b>	<b>1,140,014</b>	<b>25,387,682</b>	<b>51,517,638</b>	<b>14,932,429</b>	<b>15,371,372</b>	<b>108,349,135</b>
<b>Accumulated depreciation and impairment</b>						
<b>31 December 2019</b>						
<b>Accumulated depreciation</b>	-	<b>4,108,897</b>	<b>10,839,349</b>	<b>1,703,511</b>	-	<b>16,651,757</b>
<b>Accumulated impairment</b>	-	-	<b>65,000</b>	<b>2,604</b>	<b>2,409</b>	<b>70,013</b>
Depreciation charge	-	<b>4,108,897</b>	<b>10,839,349</b>	<b>1,703,511</b>	-	<b>16,651,757</b>
Reclassification between groups	-	1,251,957	3,460,859	536,905	-	<b>5,249,721</b>
Disposals	-	44,485	(170,493)	126,008	-	-
Other movements	-	(32,365)	(794,168)	(216,210)	-	<b>(1,042,743)</b>
Translation to presentation currency	-	-	(1,973)	(96)	-	<b>(2,069)</b>
Translation to presentation currency	-	93,226	304,913	6,381	-	<b>404,520</b>
<b>31 December 2020</b>						
<b>Accumulated depreciation</b>	-	<b>5,466,200</b>	<b>13,640,460</b>	<b>2,156,595</b>	-	<b>21,263,255</b>
<b>Accumulated impairment</b>	-	-	<b>63,027</b>	<b>2,508</b>	<b>2,409</b>	<b>67,944</b>
Depreciation charge	-	<b>5,466,200</b>	<b>13,703,487</b>	<b>2,159,103</b>	-	<b>21,331,199</b>
Reclassification between groups	-	1,403,121	3,540,405	691,355	-	<b>5,634,881</b>
Disposals	-	51,691	(2,039)	(62,876)	-	<b>(13,224)</b>
Impairment	-	(40,934)	(364,029)	(366,476)	-	<b>(771,439)</b>
Translation to presentation currency	-	71,250	57,234	1,152	776,712	<b>906,348</b>
Translation to presentation currency	-	(30,167)	(93,121)	(3,111)	-	<b>(126,399)</b>
<b>31 December 2021</b>						
<b>Accumulated depreciation</b>	-	<b>6,849,911</b>	<b>16,721,676</b>	<b>2,415,487</b>	-	<b>25,987,074</b>
<b>Accumulated impairment</b>	-	<b>71,250</b>	<b>120,261</b>	<b>3,660</b>	<b>779,121</b>	<b>974,292</b>
	-	<b>6,921,161</b>	<b>16,841,937</b>	<b>2,419,147</b>	<b>779,121</b>	<b>26,961,366</b>
Net book value as at						
<b>31 December 2020</b>	<b>862,997</b>	<b>12,515,997</b>	<b>20,409,496</b>	<b>2,473,279</b>	<b>6,053,453</b>	<b>42,315,222</b>
<b>31 December 2021</b>	<b>1,140,014</b>	<b>18,466,521</b>	<b>34,675,701</b>	<b>12,513,282</b>	<b>14,592,251</b>	<b>81,387,769</b>

During November-December 2021, as part of the strategic project of a powerful Siberian cluster of full cycle added-value wood processing (Segezha East) the Group has acquired detailed design documentation for the construction of a new pulp and paper mill with production capacity of 0.9 million tons of cellulose per year in the town of Lesosibirsk, Krasnoyarsk region, for the total amount of RUB 1,911 million. The Group has also acquired a Priority Investment Project (PIP) relating to the above construction of a new pulp and paper mill for the total amount of RUB 2,405 million that provides the Group with a priority right to conclude lease agreements for forest plots with a total annual allowable cut up to 4.3 cubic metres. The detailed design documentation is accounted for as Properties in the course of construction and PIP is accounted for as Intangible assets (Note12).

## SEGEZHA GROUP PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2021 (in thousands of Russian Rubles, unless otherwise indicated)

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In 2021 additions to Properties in the course of construction related mainly to the projects of modernization of Segezha Pulp and Paper Mill, acquisition of new consumer packaging production lines, acquisition of a new paper-making machine on Sokol Pulp and Paper Mill, as well as acquisition of forestry management equipment.

At each reporting date, the Group reviews property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is determined as the higher of (i) an asset's fair value less costs of disposal and (ii) its value in use. If asset impairment exists, the carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. Asset impairment loss recognised in prior reporting periods is recovered (if necessary) provided that accounting estimates used to determine the asset's value in use or its fair value net of disposal cost have been changed.

In 2021 the Group assessed whether there were any indicators of the possible impairment of fixed assets and properties in the course of construction. The Group identified impairment in the total amount of RUB 129,626 thousand relating to Buildings and facilities, Machinery and equipment and other fixed assets of Segezha Sawmills LLC due to production closure. The Group has also accrued impairment in the total amount of RUB 776,712 thousand relating to the detailed design documentation and other capitalized costs of White Bear and Lesbiotech projects due to revised and updated technical parameters of the projects.

In 2020, the Group assessed whether there were any indicators of the possible impairment of the production assets. As no indicators had been identified, the Group did not perform the impairment test regards to production assets.

As at 31 December 2021, the Group had fully depreciated property, plant and equipment with a historical cost totalling RUB 7,068,420 thousand (31 December 2020: RUB 5,572,963 thousand).

As at 31 December 2021, the Group had property, plant and equipment with a carrying amount of RUB 3,905,921 thousand (31 December 2020: RUB 16,686,955 thousand) pledged as collateral to secure performance under loan and overdraft agreements.

In 2021, the Group capitalised interest expenses of RUB 91,716 thousand (2020: RUB 155,435 thousand).

As at 31 December 2021, advances paid for long-term assets included advances to suppliers for the purchase of property, plant and equipment of RUB 5,279,688 thousand (31 December 2020: RUB 2,482,463 thousand).

As at 31 December 2021, payables for property, plant and equipment were RUB 1,874,601 thousand (31 December 2020: RUB 2,456,456 thousand).

As at 31 December 2021, the Group had contractual obligations to machinery and equipment suppliers for the purchase of assets of RUB 17,522,408 thousand (31 December 2020: RUB 5,746,568 thousand).

## 12. INTANGIBLE ASSETS

The Group's Intangible assets, excluding goodwill, have finite useful lives and mainly include ERP software (SAP), other capitalized software and intangible assets in respect of Priority Investment Project (PIP) that give the Group a priority right to conclude lease agreements for forest plots. After the conclusion of lease agreements the intangible assets are reclassified to Right-of-use assets and are accounted for in accordance with IFRS 16 Leases, before the conclusion of the lease agreements, intangible assets are not amortized.

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses.

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Amortisation is recognised on a straight-line basis over their estimated useful lives

The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis in accordance with the annual amortization rates based on the following estimated useful life:

ERP software (SAP)	15 years
Other capitalized software	1-10 years
Other intangible assets	1-8 years

As at 31 December 2021 and 2020, intangible assets comprised:

	SAP	Other capitalized software	Other Intangible assets	Priority Investment Project (PIP)	Intangible assets in progress <sup>1</sup>	Total
<b>31 December 2019</b>						
<b>Historical cost</b>	-	<b>297,245</b>	<b>14,973</b>	-	<b>383,622</b>	<b>695,840</b>
Additions	3,684	-	-	-	1,386,024	<b>1,389,708</b>
Internal transfers	-	282,426	559	-	(282,985)	-
Disposals	-	(29,297)	(3,381)	-	-	<b>(32,678)</b>
Additions from business combinations	-	344	-	-	-	<b>344</b>
<b>31 December 2020</b>						
<b>Historical cost</b>	<b>3,684</b>	<b>550,718</b>	<b>12,151</b>	-	<b>1,486,661</b>	<b>2,053,214</b>
Additions	-	-	805	2,405,475	1,377,598	<b>3,783,878</b>
Internal transfers	1,866,645	109,521	3,606	-	(1,979,772)	-
Disposals	-	(96,207)	(72)	-	-	<b>(96,279)</b>
Additions from business combinations	-	-	35	557,040	-	<b>557,075</b>
<b>31 December 2021</b>						
<b>Historical cost</b>	<b>1,870,329</b>	<b>564,032</b>	<b>16,525</b>	<b>2,962,515</b>	<b>884,487</b>	<b>6,297,888</b>
<b>31 December 2019</b>						
<b>Accumulated amortisation</b>	-	<b>129,845</b>	<b>3,545</b>	-	-	<b>133,390</b>
Amortisation charge	3,511	123,372	1,300	-	-	<b>128,183</b>
Disposals	-	(29,285)	(1,144)	-	-	<b>(30,429)</b>
<b>31 December 2020</b>						
<b>Accumulated amortisation</b>	<b>3,511</b>	<b>223,932</b>	<b>3,701</b>	-	-	<b>231,144</b>
Amortisation charge	64,096	130,007	938	-	-	<b>195,041</b>
Disposals	-	(95,974)	(72)	-	-	<b>(96,046)</b>
<b>31 December 2021</b>						
<b>Accumulated amortisation</b>	<b>67,607</b>	<b>257,965</b>	<b>4,567</b>	-	-	<b>330,139</b>
<b>Net book value as at</b>						
<b>31 December 2020</b>	<b>173</b>	<b>326,786</b>	<b>8,450</b>	-	<b>1,486,661</b>	<b>1,822,070</b>
<b>31 December 2021</b>	<b>1,802,722</b>	<b>306,067</b>	<b>11,958</b>	<b>2,962,515</b>	<b>884,487</b>	<b>5,967,749</b>

### 13. INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Net realisable value represents an estimated selling price for inventories less all estimated completion and selling costs. The cost of inventory is determined by the weighted average method.

The carrying amount of inventories has been decreased by the allowance for inventory impairment. The cost of inventories that are not used is written off against the allowance. Subsequent reversals of previous write-downs are performed using the allowance account. Changes in the carrying amount of the allowance are recognised in profit or loss.

<sup>1</sup> In 2020 the amount is mostly represented by investment in development of ERP software (SAP)

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2021 (in thousands of Russian Rubles, unless otherwise indicated)

Below is the analysis of inventories as at 31 December 2021 and 2020:

	<b>31 December 2021</b>	<b>31 December 2020</b>
Raw materials, supplies and spare parts	12,326,033	6,872,459
Work-in-progress	6,212,351	958,471
Finished goods	5,827,435	1,746,198
Less: allowance for inventory impairment	(896,181)	(144,519)
<b>Total inventories</b>	<b>23,469,638</b>	<b>9,432,609</b>

The cost of inventories recognised as an expense for continuing operations was RUB 26,857,330 thousand (2020: RUB 21,604,539 thousand).

The cost of inventories recognised as an expense includes RUB 784,019 thousand (2020: RUB 169,310 thousand) in respect of write-downs of inventories to net realisable value, and has been reduced by RUB 89,880 thousand (2020: RUB 103,606 thousand) due to the reversal of such write-downs. Previous write-downs have been reversed due to increased sales prices in certain markets.

As at 31 December 2021, the Group had inventories with a carrying amount of RUB 916,951 thousand (31 December 2020: RUB 850,317 thousand) pledged as collateral to secure performance under loan and overdraft agreements.

#### 14. TRADE AND OTHER RECEIVABLES

Accounts receivable comprise amounts due from customers to the Group. Accounts receivable are recognised at the nominal value net of the allowance for expected credit losses (ECL).

Below is the analysis of trade and other receivables as at 31 December 2021 and 2020:

	<b>31 December 2021</b>	<b>31 December 2020</b>
Trade and other receivables	9,146,493	6,599,316
Allowance for expected credit losses	(921,549)	(736,416)
<b>Total trade and other receivables, net</b>	<b>8,224,944</b>	<b>5,862,900</b>

The Group sets a range of terms of payment for its customers, prioritizing advance payments, but also using letters of credit and credit periods up to 60 days.

The Group applies the simplified approach specified in IFRS 9 to measure ECL using the allowance for lifetime ECL with respect to all trade and other receivables.

To measure ECL, the Group aggregated trade and other receivables based on similar credit risk characteristics and days past due.

ECL levels are based on customer characteristics for 36 months prior to each reporting date and similar historic credit losses incurred for that period. Losses for prior periods are adjusted based on the current and forecast macroeconomic data affecting customers' ability to repay receivables.

The expected credit losses on trade and other accounts receivable are estimated using a provision matrix with reference to past default experience and analysis of:

- The nature of the relationship with the debtor (trade accounts receivables, accounts receivables for heat and other accounts receivable);
- Currency risks for accounts receivable denominated in RUB, USD, EUR and CYN;
- Country risks;
- The debtor's current financial position adjusted for factors that are specific to the debtor, general economic conditions, and an assessment of both the current and forecast direction of conditions at the reporting date.

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2021 (in thousands of Russian Rubles, unless otherwise indicated)

The Group has recognised a loss allowance of 100% against all receivables over 365 days past due because historical experience has indicated that these receivables are generally not recoverable.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over three years past due, whichever occurs earlier. None of the trade receivables that have been written off is subject to enforcement activities. The maximum exposure to credit risk as at the reporting date is equal to the carrying amount of each class of financial assets detailed in Note 25. The Group has no property pledged to secure receivables.

The Group did not apply the above general rules with regards to consumer debts for heat energy generated by the Group's entities and made a separate allowance for such debts. The Group relied on the experience of recovering past due debts from previous years to assess expectations of recoverability of past due debts at the end of each period and calculate the necessary allowance.

The change in the allowance for expected credit losses is presented as follows:

	<u>2021</u>	<u>2020</u>
<b>Balance, beginning of the year</b>	<b>(736,416)</b>	<b>(666,565)</b>
Allowance	(314,493)	(204,559)
Amounts written off	75,190	53,062
Amounts recovered	34,111	105,733
Translation to presentation currency	20,059	(24,087)
<b>Balance, end of the year</b>	<b><u>(921,549)</u></b>	<b><u>(736,416)</u></b>

The aging analysis of trade and other receivables and the allowance for expected credit losses as at 31 December 2021 is presented as follows:

<b>Trade and other receivables</b>	<b>Weighted average level of loss</b>	<b>Gross carrying amount</b>	<b>Lifetime ECL</b>
Not past due	1%	6,556,241	(39,486)
Overdue 1-30 days	6%	813,663	(51,543)
Overdue 31-90 days	22%	744,628	(163,627)
Overdue 91-180 days	47%	204,003	(95,401)
Overdue 181-365 days	41%	420,017	(172,372)
Overdue more than 365 days	98%	407,941	(399,120)
<b>Total</b>	<b><u>10%</u></b>	<b><u>9,146,493</u></b>	<b><u>(921,549)</u></b>

The aging analysis of trade and other receivables and allowance for expected credit losses as at 31 December 2020 is presented as follows:

<b>Trade and other receivables</b>	<b>Weighted average level of loss</b>	<b>Gross carrying amount</b>	<b>Lifetime ECL</b>
Not past due	1%	4,537,610	(59,421)
Overdue 1-30 days	3%	892,165	(27,030)
Overdue 31-90 days	17%	331,719	(55,149)
Overdue 91-180 days	19%	164,535	(30,572)
Overdue 181-365 days	58%	261,999	(152,956)
Overdue more than 365 days	100%	411,288	(411,288)
<b>Total</b>	<b><u>11%</u></b>	<b><u>6,599,316</u></b>	<b><u>(736,416)</u></b>

## SEGEZHA GROUP PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2021 (in thousands of Russian Rubles, unless otherwise indicated)

The Group is not exposed to concentration risk because major debtors change every year and the receivables due from 10 major customers as at 31 December 2021 were RUB 1,292,394 thousand (31 December 2020: RUB 1,254,891 thousand).

As at 31 December 2021, receivables of RUB 944,445 thousand (31 December 2020: RUB 804,569 thousand) were pledged to secure obligations under loan and overdraft agreements.

#### 15. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, call deposits with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are recognised at amortised cost because (i) they are held to collect contractual cash flows that are solely payments of principal and interest on the principal amounts outstanding, and (ii) they are not designated at fair value through profit or loss.

	<b>31 December 2021</b>	<b>31 December 2020</b>
Cash on hand	3,070	2,210
Cash in current accounts	2,619,258	3,509,687
Bank deposits with original maturity of less than three months (interest rate 0.01%- 10%)	10,011,300	158,300
<b>Total cash and cash equivalents</b>	<b>12,633,628</b>	<b>3,670,197</b>

As at the reporting dates, cash and cash equivalents were denominated in the following currencies:

	<b>In Russian Rubles</b>	
	<b>31 December 2021</b>	<b>31 December 2020</b>
RUB	11,209,124	2,431,359
EUR	672,620	562,652
USD	364,909	264,941
CNY	161,493	340,108
GBP	63,750	7,521
Other cash amounts denominated in other currencies	161,732	63,616
	<b>12,633,628</b>	<b>3,670,197</b>

#### 16. TAXES RECEIVABLE

	<b>31 December 2021</b>	<b>31 December 2020</b>
VAT receivable	5,454,924	2,076,655
Income tax receivable	2,030,990	615,838
Other taxes receivable	226,547	364,776
<b>Total taxes receivable</b>	<b>7,712,461</b>	<b>3,057,269</b>

#### 17. ADVANCES AND OTHER CURRENT ASSETS

	<b>31 December 2021</b>	<b>31 December 2020</b>
Advances issued	2,355,463	918,502
Other current assets	737,709	303,775
<b>Total advances and other current assets</b>	<b>3,093,172</b>	<b>1,222,277</b>

## SEGEZHA GROUP PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2021 (in thousands of Russian Rubles, unless otherwise indicated)

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#### 18. SHARE CAPITAL AND ADDITIONAL PAID-IN CAPITAL

On 7 April 2021 Group of Companies "Segezha" Joint Stock Company registered its prospectus of securities, concluded an agreement for the listing of shares, and added indication of the public status to the Company's name (Group of Companies "Segezha" Public Joint Stock Company).

On 28 April 2021 Segezha Group PJSC made initial public offering of 3.75 billion shares on Moscow Exchange. Each share has a par value of RUB 0.1, the indicative price range per one ordinary share was RUB 7.75-11, with the Offer Price was RUB 8.00 per one ordinary share. As a result of the initial public offering the Group raised RUB 30,000,000 thousand. Transactions costs directly relating to the share issue and initial public offering amounted to RUB 1,024,756 thousand accounted for directly in equity in the total amount of RUB 819,805 thousand net of the relevant current and deferred income tax at 20%. This transaction costs is payable in the second half of 2021 and is to be presented as *Share issue transactions costs* as cash flows from financing activities in the Statement of Cash Flows.

As a result of additional share issue for initial public offering the Group's share capital increased to RUB 1,569,000 thousand consisting of 15,690,000,000 ordinary shares with a par value of RUB 0.1.

As at 31 December 2021 Company's authorised and issued share capital amounted to RUB 1,569,000 thousand (31 December 2020: RUB 1,194,000 thousand) and consisted of 15,690,000,000 shares (31 December 2020: 11,940,000,000 shares) with a par value of RUB 0.1. All issued ordinary shares were fully paid. Ordinary shares provide voting rights but do not guarantee dividend returns.

Upon completion of the share issue and public placement transactions 23.9% of the Company's issued ordinary shares are traded in a public market.

Profit distributable by the Company is defined on the basis of financial statements prepared in accordance with Russian Accounting Standards. As at 31 December 2021, the Company's retained earnings calculated in accordance with RAS were RUB 11,337,415 thousand (31 December 2020: RUB 4,371,370 thousand) (unaudited). The Company's additional paid-in capital as at 31 December 2020 was RUB 36,172,899 thousand (31 December 2020: RUB 6,547,899 thousand) (unaudited).

Based on the financial results for 9 months of 2021, the Company distributed dividends to its shareholders in the total amount of RUB 6,589,800 thousand (for 9 months of 2020: RUB 4,500,000 thousand). The dividends for 9 months of 2021 have been paid in January 2022.

#### **Distributions to entities under common control**

In 2021, the Group made a contribution of RUB 644,000 thousand (2020: RUB 79,599 thousand), without change in the ownership share, to the additional paid-in capital of associates under common control with the Group's stakeholders.

These transactions were recognised in equity as involving businesses under common control.



## SEGEZHA GROUP PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2021 (in thousands of Russian Rubles, unless otherwise indicated)

#### 19. EARNINGS PER SHARE

The calculation of the earnings per share is based on the net income/(loss) for the reporting period and a weighted average number of ordinary shares in circulation during the reporting period. The Group has no instruments with potential dilutive effect.

Earnings per share for the year ended 31 December 2021 and 2020 is presented below:

	For the year ended	
	31 December 2021	31 December 2020
Net profit/(loss) attributable to shareholders of Segezha Group PJSC	15,270,220	(1,346,726)
Weighted average number of ordinary shares in circulation (thousand shares)	14,426,301	11,940,000
Earnings/(loss) per share attributable to the ordinary equity holders of the company (in RUB)	<b>1.06</b>	<b>(0.11)</b>

#### 20. LOANS AND BORROWINGS

All loans and borrowings represent financial instruments initially recorded at fair value, net of direct issue costs. Subsequently, loans and borrowings are recognised at amortised cost using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all payments received or paid that form an integral part of the effective interest rate, and transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

As at 31 December 2021 and 2020, loans and borrowings comprised:

	Currency	31 December 2021		31 December 2020	
		Effective interest rate	Carrying amount	Effective interest rate	Carrying amount
<b>Short-term loans and borrowings</b>					
<b>Secured loans</b>					
Short-term bank loans	RUB	9.18%	4,307,249	7.80%	457,599
Short-term bank loans	EUR	2.45%	24,839	3.05%	662,044
Other			248,208		83,377
			<b>4,580,296</b>		<b>1,203,020</b>
<b>Unsecured loans</b>					
Short-term bank loans	RUB	9.67%	7,132,410	6.88%	603,251
Short-term bank loans	EUR	1.27%	9,651,643	4.10%	687,752
			<b>16,784,053</b>		<b>1,291,003</b>
<b>Long-term loans and borrowings</b>					
<b>Secured loans</b>					
Long-term bank loans	EUR	-	-	3.05%	26,937,458
Long-term bank loans	RUB	-	-	8.94%	6,553,659
			-		<b>33,491,117</b>
<b>Unsecured loans</b>					
Long-term bank loans	EUR	3.22%	17,187,721	2.45%	7,183,126
Long-term bank loans	RUB	9.16%	5,153,794	10.60%	69,149
Other			112,794		37,348
			<b>22,454,309</b>		<b>7,289,623</b>
<b>Long-term corporate bonds</b>	RUB	9.34%	<b>29,907,605</b>	7.45%	<b>9,977,274</b>
<b>Total loans and borrowings</b>			<b>73,726,263</b>		<b>53,252,037</b>

## SEGEZHA GROUP PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2021 (in thousands of Russian Rubles, unless otherwise indicated)

The table below details changes in the liabilities arising from financial activities, including changes related to cash flows and other changes:

	31 December 2020	Loans and borrowings received	Loans and borrowings repaid	Non-cash changes			31 December 2021
				Fair value adjustments	Acquisition of subsidiary	Foreign exchange differences*	
Loans and borrowings	53,252,037	41,241,889	(22,637,309)	(36,117)	4,307,529	(2,401,766)	73,726,263

	31 December 2019	Loans and borrowings received	Loans and borrowings repaid	Non-cash changes			31 December 2020
				Fair value adjustments	Disposal of subsidiary	Foreign exchange differences*	
Loans and borrowings	42,542,194	22,431,413	(18,122,246)	(29,886)	(1,482,750)	7,913,312	53,252,037

\* Foreign exchange differences include differences on translation to the presentation currency

#### Assets pledged as security

As at 31 December 2021, the Group pledged the following assets to secure obligations under loan agreements and overdrafts: property, plant and equipment with a carrying amount of RUB 3,905,921 thousand; inventories with a carrying amount of RUB 916,951 thousand; receivables of RUB 944,445 thousand, shares in its subsidiaries Verkhnelenskoe Rechnoe Parokhodstvo LTD, Tairiku-Igirma Group LLC, Priangarue TM LLC.

As at 31 December 2020, the Group pledged the following assets to secure obligations under loan agreements: property, plant and equipment with a carrying amount of RUB 16,686,955 thousand; inventories with a carrying amount of RUB 850,317 thousand; receivables of RUB 804,569 thousand. As at 31 December 2020, the Group had no pledged shares/interests in subsidiaries to secure performance of obligations under the loan and overdraft agreements.

**Covenants** – as part of loan agreements, the Companies in the Group are subject to certain restrictive covenants, including the consolidated net debt to adjusted consolidated EBITDA ratio (profit before interest, foreign exchange differences, rental expenses, taxes and depreciation and amortisation, which is equivalent to OIBDA adjusted for IFRS 16 lease expenses as detailed in Note 25), compliance with the limits to ownership interest by the Group's ultimate shareholder, with forestry regulations, and with the requirements for the maintenance of licenses and restrictions on making new borrowings (in excess of the set consolidated net debt to the adjusted consolidated EBITDA ratio), providing loans, guarantees, sureties to third parties, assets management (disposing of material assets), increasing of collateral.

If the Group fails to meet these covenants, creditors may request that debt becomes immediately due and payable. Certain loan agreements also impose controls with respect to cross defaults by the Group.

As at 31 December 2021 the Group has reclassified a total of RUB 2,770,000 thousand of Long-term loans and borrowings to Short-term loans and borrowings due to the breach of several covenants. The liability relates to Priangarue TM, LLC and Verkhnelenskoe Rechnoe Parokhodstvo, LTD control over which was received by the Group on 28 December 2021 (Note 5). As of the date of the issue of these financial statements the banks have not exercised their rights to impose penalties or to demand immediate repayment of the loan. The Group had no other breaches of covenants.

As at 31 December 2020, the Group had no breaches of covenants.

## SEGEZHA GROUP PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2021 (in thousands of Russian Rubles, unless otherwise indicated)

#### 21. TRADE AND OTHER PAYABLES

Trade payables and accruals are recognised when the counterparty fulfills its contractual obligations. Trade payables and accruals are initially recognised at fair value and then carried at amortised cost using the effective interest method.

Below is the breakdown of trade and other payables as at 31 December 2021 and 2020:

	<u>31 December 2021</u>	<u>31 December 2020</u>
Trade payables	7,754,946	5,312,078
Wages and salaries	1,573,776	1,007,636
Interest payable	551,538	320,429
Other payables	4,550,704	2,972,550
<b>Total trade and other payables</b>	<b><u>14,430,964</u></b>	<b><u>9,612,693</u></b>

Other payables mainly consist of payables to suppliers and contractor for capital construction projects.

#### 22. TAXES PAYABLE

Taxes payable and payments to social funds are presented as follows:

	<u>31 December 2021</u>	<u>31 December 2020</u>
VAT	1,142,198	383,303
Income tax	1,076,792	161,445
Payments to social funds	740,326	462,063
Personal income tax	249,866	101,325
Other taxes	182,060	102,227
<b>Total taxes payable</b>	<b><u>3,391,242</u></b>	<b><u>1,210,363</u></b>

#### 23. EMPLOYEE BENEFIT EXPENSE

Employee benefit expenses comprise salary, bonuses, long-term incentive plans and social contributions. Employee benefit expenses included in cost of sales, selling and administrative expenses for 2021 and 2020 were RUB 18,784,334 thousand and RUB 13,448,080 thousand respectively.

The Group recognizes liability for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period when the respective service is rendered, in the amount of the benefits that the Group expects to pay, net of the effect of discounting.

**Long-term Incentive Plans ("LTIPs")** – In 2018 the Company's Board of Directors adopted three-year incentive plans for senior and mid-level management: the Long-Term Incentive Plan for the President of the Group and the Long-Term Incentive Plan for Management). Subject to certain performance indicators and continuing employment with the Group, participants in the plans are granted equity interest in the Company. As at 31 December 2021 these programs have been completed, the Group has no outstanding obligations to the participants.

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market-based vesting conditions. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of equity instruments that will eventually vest. At each reporting date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. If initial estimates are revised, the effect of the revision is recognized in profit or loss over the remaining vesting period of the equity instruments, in correspondence with the equity-settled employee benefit account.

**Long-Term Incentive Plan for the President of the Group**

In accordance with the Long-Term Incentive Plan for the President of the Group (the "President LTIP"), the President of the Group is eligible for a share-based payment of a 5% equity share in the Group, subject to either achievement of the Group's key performance indicators (KPIs) for 2018, 2019 and 2020 or the occurrence of a liquidity event envisaged by the President LTIP (i.e. IPO of ordinary shares or depositary receipts; cash sale of an interest in the Company, subject to certain conditions; receipt of a legally binding offer from the buyer to purchase an interest in the Company at a certain price, subject acceptable business terms).

Based on the Group's results for 2020 the Board of Directors granted the President a remuneration of RUB 130,761 thousand that will be subsequently used to acquire an interest of 1.45% in the Company.

Upon the occurrence of a liquidity event envisaged by the Long-Term Incentive Plan for the President of the Group, i.e. initial public offering in 2021 the President was paid a bonus of RUB 126,990 thousand. The above amount was used to acquire 1.45% stake in the Company's equity.

**Long-Term Incentive Plan for Management**

In accordance with the Long-Term Incentive Plan for Management (the "Management LTIP"), participants in the Management LTIP are entitled to compensation subject to one of the following liquidity events: IPO of ordinary shares or depositary receipts; cash sale of an equity share in the Company, subject to certain conditions. The compensation payable to each of the participants is calculated upon a liquidity event based on the time worked during the Management LTIP and the increase in the Group's value over the period of the Management LTIP.

In September 2021, in connection with compliance with the Program condition on the need to exceed the price of a share, determined by the volume of trading on the stock exchange for a period of 30 trading days, over the price of the initial offering of shares, a remuneration in the amount of RUB 1,982,773 thousand was accrued and paid to the Group's management (subject to applicable taxes and social contributions). The remuneration was used to acquire the Group's shares.

**24. ADVANCES RECEIVED**

As a part of the accounts receivable management activities, during 2021 the Group made a transition from credit based to advance based method of payment for its goods sold. Due to these activities, the amount of advances received from operating activities increased and amounted to RUB 4,332,440 thousand as at 31 December 2021 (31 December 2020: RUB 1,258,440 thousand), other advances received as at 31 December 2021 – RUB 255,423 thousand. (31 December 2020: RUB 0 thousand).

**25. CAPITAL AND FINANCIAL RISK MANAGEMENT**

**Capital risk management**

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt to equity ratio. The capital structure of the Group consists of net debt (borrowings as detailed in Note 20, less cash and cash equivalents) and equity comprising issued capital, additional paid-in capital, reserves, retained earnings and non-controlling interests as detailed in Note 18.

The Group's policy is to maintain a high level of capital that is sufficient to preserve the confidence of investors, lenders and the market for the future development of the Group's operations. The Group may sell assets to reduce its loans and borrowings payable, maintain or adjust the capital structure.

## SEGEZHA GROUP PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2021 (in thousands of Russian Rubles, unless otherwise indicated)

The Board of Directors monitors the ratio of consolidated net debt to operating income before depreciation and amortisation of non-current assets (OIBDA). As IFRS do not provide for these indicators, the meaning of OIBDA and consolidated net debt as used by the Group may differ from those of other companies. Below is the analysis of the ratio of net consolidated debt to OIBDA:

	<u>2021</u>	<u>2020</u>
Total consolidated net debt	61,092,635	49,581,840
OIBDA	29,251,920	17,458,952
<b>Net debt-to-OIBDA ratio</b>	<b>2.09</b>	<b>2.84</b>
Lease expenses under IFRS 16	(1,712,559)	(1,444,566)
OIBDA adjusted for lease expenses under IFRS 16	27,539,361	16,014,386
<b>Net debt to adjusted OIBDA</b>	<b>2.22</b>	<b>3.10</b>

Below is the reconciliation of OIBDA and net debt:

	<b>Notes</b>	<u>2021</u>	<u>2020</u>
Operating profit		22,349,922	11,166,427
Depreciation and amortisation	7,8,9	6,901,998	6,272,696
Other		-	19,829
<b>OIBDA</b>		<b>29,251,920</b>	<b>17,458,952</b>
Loans and borrowings	20	73,726,263	53,252,037
Cash and cash equivalents	15	(12,633,628)	(3,670,197)
<b>Total consolidated net debt</b>		<b>61,092,635</b>	<b>49,581,840</b>

The Group is subject to certain external regulations and capital restrictions that are taken into account when managing the Group's capital. The Group is not subject to mandatory minimum capital requirements.

#### Financial risk management

The Group's Corporate Treasury function co-ordinates access to domestic and international financial markets, monitors and manages financial risks through internal risk reports that analyse exposures by degree and magnitude of risks. These financial risks include market risks, credit risks and liquidity risks. The Group's management ensures policies that are aimed at reducing these risks without affecting, to the extent possible, the Group's competitiveness and flexibility.

**Market risk** is the risk of fluctuations in foreign exchange and interest rates.

The Group does not enter into any derivative financial instruments to manage its exposure to foreign currency risk and interest rate risk.

**Currency risk** is the risk of fluctuations in foreign exchange rates. Fluctuations in foreign exchange rates have a significant impact on financial performance of the Group as it exports goods produced in Russia to other countries and sells products manufactured by its operations in Europe for foreign currency. Moreover, the Group has a substantial loans and borrowings denominated in foreign currencies. The Group has also entered into cross-currency interest-rate swap agreements (detailed information provided in Note 26). Therefore, the Group is exposed to currency risks. The Group is exposed to fluctuations in foreign currency rates, with a major exposure coming from USD/RUB and EUR/RUB exchange rates.

## SEGEZHA GROUP PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2021 (in thousands of Russian Rubles, unless otherwise indicated)

Below are the carrying amounts of the Group's financial instruments denominated in foreign currencies:

	EUR	USD	CNY	GBP
<b>31 December 2021</b>				
Trade and other receivables	1,016,583	1,526,612	314,269	119,715
Cash	607,227	364,909	161,493	63,750
Trade and other payables	(1,768,066)	(1,783,279)	(267)	(46)
Loans and borrowings	(26,864,203)	-	-	-
<b>Net currency position</b>	<b>(27,008,459)</b>	<b>108,242</b>	<b>475,495</b>	<b>183,419</b>
<b>31 December 2020</b>				
Trade and other receivables	987,180	560,674	367,366	112,339
Cash	416,336	264,941	340,108	7,521
Trade and other payables	(1,171,733)	(97,053)	(103,919)	(1)
Loans and borrowings	(35,479,787)	-	-	-
<b>Net currency position</b>	<b>(35,248,004)</b>	<b>728,562</b>	<b>603,555</b>	<b>119,859</b>

The following table details the Group's sensitivity to a 40% decrease (2020: 30%) in the RUB exchange rates against the relevant foreign currencies. A sensitivity rate of 40% (2020: 30%) is applied to report foreign currency risk internally to key management personnel. It reflects management's assessment of reasonably possible change in foreign exchange rates. The sensitivity analysis only includes outstanding foreign currency denominated monetary items and adjusts their year-end translation change only where there are changes in foreign currency rates.

	2021		2020	
	Movements in RUB exchange rate against	Impact on profit or loss before tax	Movements in RUB exchange rate against	Impact on profit or loss before tax
EUR	+40%	(10,803,384)	+30%	(10,574,401)
USD	+40%	43,297	+30%	218,569
CNY	+40%	190,198	+30%	181,067
GBP	+40%	73,368	+30%	35,958

An increase by 40% (2020: 30%) in the RUB exchange rate against the above currencies will result in a decrease of profit or loss before tax.

In management's opinion, the sensitivity analysis is not fully representative of the inherent foreign exchange risk as the year-end exposure does not reflect exposure during the year.

Due to the significant amount of export revenue denominated in USD and EUR, the Group is able to reduce the risk related to the open currency position.

**Interest rate risk** – the Group borrows funds at both fixed and floating interest rates. In 2021, the Group borrowed funds at a floating rate. Expenses on borrowings at floating interest rates were RUB 262,829 thousand for the year ended 31 December 2021 (for the year ended 31 December 2020: RUB 327,308 thousand).

In 2021 the Central Bank of Russia, concerned with keeping inflation at a target rate of 4%, temporarily adopted a moderately strict monetary policy later returning to a neutral one: during the year the Central Bank of Russia has been consistently increasing the key rate from 4.25% up to 8.5%.

In February 2022 the Central Bank of Russia has increased the key rate up to 20%. The impact of these developments and possible future changes in the economic environment on the future results of the Group's operations and its financial standing is difficult to assess. At the same time, the total amount of borrowings with floating interest rates does not exceed 14% of the total loan portfolio of the Group. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the reporting date was outstanding for the whole year.

**Credit risk** refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss for the Group. The Group has adopted a policy of only dealing with creditworthy counterparties.

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Trade receivables are represented by a large number of customers across various geographical areas. The Group reviews the financial position of debtors on a regular basis and monitors whether debt is repaid in a timely manner. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

The Group is not exposed to concentration risk because major debtors change every year and the receivables due from 10 major customers as at 31 December 2021 were RUB 1,292,394 thousand (31 December 2020: RUB 1,254,891 thousand).

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international rating agencies.

As at the reporting dates, cash and cash equivalents were placed with the banks that had the following credit ratings:

Rating agency	International rating assigned	31 December 2021	31 December 2020
Fitch rating	B	11,569,160	2,143,603
Fitch rating	F-2	532,739	610,176
Fitch rating	BBB	117,056	-
Moody's	B2	80,932	-
Moody's	A3	79,999	76,380
Fitch rating	F-3	15,455	811
Standard&Poor's	A	-	274,836
Standard&Poor's	B	-	256,334
Moody's	Not Prime	-	118,740
Moody's	P-3	-	66
	Other	235,217	187,041
		<b>12,630,558</b>	<b>3,667,987</b>

**Liquidity risk** is the risk that arises as the Group manages working capital, financial expenses and repayment of the principal amounts due under debt instruments. This risk may arise if the Group faces difficulties with regards to settling its financial liabilities as they fall due.

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. The Group maintains a balance between short-, middle- and long-term borrowings to ensure that the target value of short-term borrowings is below 15% of the Group's credit portfolio.

Below is the maturity analysis of the Group's financial liabilities:

31 December 2021	0 - 30 days	31 - 365 days	1 year - 5 years	Over 5 years	Total amount including repayments related to financial expenses	Carrying value
Loans and borrowings	1,091,306	24,665,001	54,432,062	7,399,699	<b>87,588,068</b>	<b>73 726 263</b>
Trade and other payables	7,752,258	6,678,706	-	-	<b>14,430,964</b>	<b>14 430 964</b>
Lease liability	231,889	3,306,582	9,777,351	53,370,095	<b>66,685,917</b>	<b>22 440 038</b>
Other non-current liabilities	-	-	-	4,296,183	<b>4,296,183</b>	<b>4 296 183</b>
	<b>9,075,453</b>	<b>34,650,289</b>	<b>64,209,413</b>	<b>65,065,977</b>	<b>173,001,132</b>	<b>114 893 448</b>

## SEGEZHA GROUP PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2021 (in thousands of Russian Rubles, unless otherwise indicated)

31 December 2020	0 - 30 days	31 - 365 days	1 year – 5 years	Over 5 years	Total amount including repayments related to financial expenses	Carrying value
Loans and borrowings	505,933	4,263,258	44,978,788	12,132,259	<b>61,880,238</b>	<b>53,252,037</b>
Trade and other payables	7,071,879	2,540,615	199	-	<b>9,612,693</b>	<b>9,612,693</b>
Lease liability	53,624	1,519,382	5,212,294	24,654,701	<b>31,440,001</b>	<b>10,953,936</b>
	<b><u>7,631,436</u></b>	<b><u>8,323,255</u></b>	<b><u>50,191,281</u></b>	<b><u>36,786,960</u></b>	<b><u>102,932,932</u></b>	<b><u>73,818,666</u></b>

As at 31 December 2021, unused credit line facilities were RUB 10,667,586 thousand, EUR 43,341 thousand and DKK 36,736 thousand (31 December 2020: 15,502,600 thousand and EUR 84,776 thousand). In the future, the Group expects to settle its liabilities with operating cash flows and long-term financing.

## 26. FAIR VALUE

Fair value measurements are analysed by levels in the fair value hierarchy as follows:

- **Level 1** fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- **Level 2** fair value measurements are those derived from models based on significant inputs for the asset or liability, which are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- **Level 3** fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Management applies judgements to place financial instruments within the fair value hierarchy. If a fair value measurement uses observable data that require significant adjustment, that measurement is a Level 3 measurement. The significance of the inputs to a fair value measurement is assessed against the fair value measurement in its entirety.

Long-term loans and borrowings for which the carrying amount is generally measured using discounted cash flows are classified within Level 3 of the fair value hierarchy above.

The carrying amount of the Group's main financial assets and liabilities approximates their fair values, except for the following financial liabilities:

	Carrying amount	Fair value
<b>31 December 2021</b>		
Long-term loans and borrowings	52,361,914	52,797,077
<b>31 December 2020</b>		
Long-term loans and borrowings	50,758,014	51,396,869

The change in the fair value of long-term loans and borrowings is primarily due to a change in the discount rate used for ruble-denominated borrowings from 7.22% as at 31 December 2020 to 9.7% as at 31 December 2021.



## SEGEZHA GROUP PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2021 (in thousands of Russian Rubles, unless otherwise indicated)

In 2021 and 2021, the Group entered into cross-currency interest-rate swap agreements with respect to previously issued corporate bonds. Both principal and half-year interest payments are swapped. The main parameters of the concluded cross-currency interest rate swaps are presented below:

	SWAP 1	SWAP 2	SWAP 3	SWAP 4	SWAP 5
<b>31 December 2021</b>					
Transaction date	06.03.2020	06.03.2020	12.03.2020	17.11.2021	17.11.2021
Expiration date	23.01.2023	23.01.2023	23.01.2023	13.11.2024	13.11.2024
Par value, RUB `thousand	2,500,000	2,500,000	2,500,000	5,000,000	5,000,000
Transaction currency	RUB/Euro	RUB/Euro	RUB/Euro	RUB/Euro	RUB/Euro
Exchange rate as at the transaction date	76.00	76.00	84.50	82.30	82.30
Interest rate (RUB)	7.10%	7.10%	7.10%	9.85%	9.85%
Interest rate (EUR)	1.48%	1.48%	1.25%	1.78%	1.78%
Spot exchange rate as at the reporting date	84.07	84.07	84.07	84.07	84.07
<b>Fair value of liability (RUB thousand)</b>	<b>(317,134)</b>	<b>(312,005)</b>	<b>(21,806)</b>	<b>(156,806)</b>	<b>(166,715)</b>

	SWAP 1	SWAP 2	SWAP 3
<b>31 December 2020</b>			
Transaction date	06.03.2020	06.03.2020	12.03.2020
Expiration date	23.01.2023	23.01.2023	23.01.2023
Par value, RUB `thousand	2,500,000	2,500,000	2,500,000
Transaction currency	RUB/Euro	RUB/Euro	RUB/Euro
Exchange rate as at the transaction date	76.00	76.00	84.50
Interest rate (RUB)	7.10%	7.10%	7.10%
Interest rate (EUR)	1.48%	1.48%	1.25%
Spot exchange rate as at the reporting date	90.68	90.68	90.68
<b>Fair value of liability (RUB thousand)</b>	<b>(410,819)</b>	<b>(451,429)</b>	<b>(81,110)</b>

These cross-currency interest rate swaps are recognised in the financial statements at fair value through profit or loss (presented in *Other finance expenses*). The fair value of swaps is determined using discounted future cash flows. Future cash flows are estimated using spot exchange rates (at the reporting date), contract and forward exchange rates, discounted at the interest rates applicable to similar financial transactions at each reporting date (Level 3).

Changes in cross-currency interest rate swaps for the year ended 31 December 2021 and 31 December 2020, are presented below:

	For the year ended	
	31 December 2021	31 December 2020
<b>Fair value, beginning of the period</b>	<b>(943,358)</b>	-
Income from interest swap transaction	410,647	160,719
Cash received	(410,647)	(160,719)
Fair value revaluation	(31,107)	(943,358)
<b>Fair value, end of the period</b>	<b>(974,465)</b>	<b>(943,358)</b>

## 27. RELATED PARTY TRANSACTIONS

Below is presented information on transactions between the Group and its related parties, which also includes shareholders of the Group, parties related to shareholders of the Group, joint ventures and associates of the Group, as well as members of the Board of Directors and key management personnel is given below.

## SEGEZHA GROUP PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2021 (in thousands of Russian Rubles, unless otherwise indicated)

In 2021 and 2020, the companies in the Group entered into the following related party transactions as part of operating activities, with the following balances recognised in the consolidated statement of financial position as at 31 December 2021 and 2020:

		For the year		As at 31 December	
		Sale of goods and services	Purchase of goods and services	Accounts receivable from related parties	Accounts payable to related parties
Sistema, PJSFC	2021	-	2,001,528	-	35,115
	2020	-	1,538	-	168
Sistema subsidiaries	2021	362,245	2,317,771	30,469	4,280,674
	2020	6,235	2,107,030	37,843	400,094
Other related parties	2021	31,908	837,258	422,479	69,593
	2020	32,701	503,631	2,294	57,661

Transactions with other related parties are represented by transactions with associates of the Group, so the purchase of goods, services from other related parties includes the purchase of roundwood from PJSC LHK Karellesprom, an associate. Purchases of goods and services from Sistema subsidiaries mainly include purchases of electric power from MTS Energo, LLC. Purchase of goods and services from Sistema, PJSFC includes acquisition of the detailed design documentation with respect to construction of a new pulp and paper mill and land plots for the total amount of RUB 2,000 million.

All related party balances are unsecured and will be settled in cash under normal commercial credit terms. No guarantees have been given or received in relation to any related party balance.

The Group keeps cash in current accounts and as deposits maturing within 3 months with MTS Bank, PJSC (a subsidiary of the Sistema, PJSFC).

		Finance income for the year	Cash as at 31 December
Deposits maturing within to 3 months	2021	343,984	10,010,600
	2020	16,444	135,700
Cash in current accounts	2021	-	265,995
	2020	-	554,122

As at 31 December 2021, the Group had outstanding balances of loans issued to Galich Plywood Mill LLC, GalichLes LLC and Segezha West JSC as a part of joint venture financing.

The change in the loans issued for the 12 months ended December 31, 2021 and 2020 are as follows:

	For the year ended	
	31 December 2021	31 December 2020
<b>Balance, beginning of the period</b>	<b>1,347,870</b>	-
Reclassified from intercompany loans on deconsolidation of Group companies	-	1,177,400
Loans issued to joint venture	6,968,191	1,490,010
Repayment of loans issued to joint venture	(50,000)	(1,319,540)
<b>Balance, end of the period</b>	<b>8,266,061</b>	<b>1,347,870</b>

For the 12 months ended December 31, 2021 the Group received interest income on these loans in the amount of RUB 282,008 thousand (for the 12 months ended December 31, 2020: RUB 72,804 thousand). As at 31 December 2021, interest receivable is RUB 399,869 thousand (31 December 2020: 117,861 thousand).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2021  
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In 2021, remuneration to the members of the Board of Directors was RUB 29,052 thousand (2020: RUB 20,527 thousand). In 2021, remuneration to key management was RUB 1,796,545 thousand (2020: RUB 593,583 thousand).

**28. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES****The Group as lessee**

The group leases land for the purpose of timber harvesting. All of the land leased for this purpose is owned by the Russian Federation in accordance with Russian regulations, including the Forest Code of the Russian Federation. The lease agreements define the intended use of these forest plots, and restricts the use of the land for any other purpose. As specified in the lease agreements, the Group leases certain forest plots for up to 49 years. The Group is not involved in any agricultural activity as it relates to the timber, such as managing the biological transformation process as defined in IAS 41 «Agriculture». The Group is only engaged in the process of harvesting the trees from unmanaged sources, and therefore accounts for the right-of-use assets in respect of the timber harvesting land rights in accordance with IFRS 16 «Leases». As trees are harvested, they are recorded as raw materials within inventories. After processing, the trees are recorded as work-in-progress or finished goods. The Group is responsible for the reforestation of cleared plots.

The Group has also entered into operating leases for cars, machines and equipment, as well as offices with an average lease term from two to five years without a renewal option. The Group is not subject to any limitations as regards entering into such leases.

Under IFRS 16, the Group recognises the right-of-use asset at the lease inception date (the date when the respective asset is ready for its intended use). The right-of-use asset is recognised at cost, excluding assets acquired as part of a business combination, less accumulated depreciation and impairment losses, if any, and adjusted for any remeasurement of the lease liability. The cost of the right-of-use asset includes the initial measurement of the lease liability, initial direct costs incurred by the lessee and lease payments made at or before the inception date, less any lease incentives received. If there is no certainty that the Group will obtain control over the asset by the end of the lease term, the right-of-use asset is depreciated over the shorter of the lease term and its useful life.

At the lease inception date, the Group recognises the lease liability at the present value of future lease payments over the lease term. Lease payments include fixed payments (including in-substance fixed payments), less any lease incentives receivable; variable lease payments that depend on an index or a rate; and amounts expected to be payable by the Group under residual value guarantees.

Lease payments also include the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and payments of penalties for terminating the lease if the lease term reflects the Group exercising an option to terminate the lease.

In measuring the lease term and discounting rate, the Group assumes that:

- the lease term is equal to the non-cancellable agreement term unless the Group has an extension option. The Group takes into account the extension options where it is reasonably certain that the Group will exercise those options, and the early termination options that the Group is reasonably certain not to exercise. In considering such options, the Group takes into account the residual useful lives of leasehold improvements, the Group's investment strategy and relevant decisions made, as well as time remaining until the exercise of extension or termination option;
- in calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease inception date if the rate implicit in the lease cannot be readily determined.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability and by reducing the carrying amount to reflect the lease payments made. Additionally, the carrying amount of the liability is remeasured to reflect any lease modifications, changes in lease arrangements, revised in-substance fixed lease payments or changes in the option to purchase the underlying asset.

## SEGEZHA GROUP PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2021 (in thousands of Russian Rubles, unless otherwise indicated)

The Group used the following weighted average rates to calculate the present value of lease payments:

Group entity	Country	2021	2020
Timber harvesting companies and divisions in			
Russia	Russia	9.70%	9.18%
Arka Merchants Limited	Ireland	5.00%	5.00%
Segezha Packaging GmbH	Germany	8.93%	8.93%
Segezha Packaging A/S	Denmark	2.63%	2.63%
Segezha Packaging S.p.A.	Italy	3.03%	3.03%
Segezha Packaging B.V.	Netherlands	4.44%	4.44%
Segezha Ambalaj Sanayi ve ticaret Anonim Sirketi	Turkey	6.24%	6.24%
Segezha Packaging SRL	Romania	4.61%	4.61%

As at 31 December 2021 and 2020, right-of-use assets comprised:

	Forest plots	Buildings and facilities	Machinery and equipment	Transport	Other	Total
<b>31 December 2019</b>	<b>10,184,083</b>	<b>1,272,117</b>	<b>152,327</b>	<b>64,506</b>	<b>344,353</b>	<b>12,017,386</b>
Acquisition of Group entities (Note 5)	1,251,713	8,900	-	-	8,158	<b>1,268,771</b>
Additions of right-of-use assets / modification of lease agreements for the year	1,149,045	430,993	188,474	18,296	390,651	<b>2,177,459</b>
Depreciation of right-of-use assets	(557,143)	(239,759)	(46,756)	(29,874)	(42,027)	<b>(915,559)</b>
Disposal of Group entity	-	-	-	-	(1,376)	<b>(1,376)</b>
Disposals of right-of-use assets for the year	-	(58,856)	(4,282)	(1,916)	(1,600)	<b>(66,654)</b>
Translation to presentation currency	-	107,662	47,428	9,005	4,919	<b>169,014</b>
<b>31 December 2020</b>	<b>12,027,698</b>	<b>1,521,057</b>	<b>337,191</b>	<b>60,017</b>	<b>703,078</b>	<b>14,649,041</b>
Acquisition of Group entities (Note 5)	31,681,354	24,582	1,249,260	431,631	267,308	<b>33,654,135</b>
Additions of right-of-use assets / modification of lease agreements for the year	1,705,224	140,979	110,817	15,344	89,865	<b>2,062,229</b>
Depreciation of right-of-use assets	(709,958)	(259,817)	(50,585)	(32,765)	(62,879)	<b>(1,116,004)</b>
Disposals of right-of-use assets for the year	-	(6,398)	-	-	(6,336)	<b>(12,734)</b>
Translation to presentation currency	-	(81,680)	(48,787)	2,121	(3,086)	<b>(131,432)</b>
<b>31 December 2021</b>	<b>44,704,318</b>	<b>1,338,723</b>	<b>1,597,896</b>	<b>476,348</b>	<b>987,950</b>	<b>49,105,235</b>

The table below shows expenses recognised in the statement of profit or loss for 2021 and 2020:

	2021	2020
Depreciation of right-of-use assets	1,116,004	915,559
Short-term lease expenses	97,746	61,527
Interest on lease liabilities	1,146,021	972,393

## SEGEZHA GROUP PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2021 (in thousands of Russian Rubles, unless otherwise indicated)

**2,359,771**

**1,949,479**

Changes in the liabilities arising from financial activities, including changes related to cash flows and non-cash changes:

	Opening balance	Lease liability payments	Non-cash changes				Closing balance
			Conclusion/ (disposal) and modification of lease agreements	Financial expenses	Acquisition of Group entities	Exchange differences on translation	
Lease liability — 2021	10,953,936	(1,709,617)	2,042,864	1,146,021	10,107,010	(100,176)	<b>22,440,038</b>
Lease liability — 2020	8,460,730	(1,462,324)	2,095,243	972,393	518,386	369,508	<b>10,953,936</b>

As at 31 December 2021 and 2020, lease liabilities comprised:

	31 December 2021	31 December 2020
<b>Minimum lease payments due under lease liabilities were as follows:</b>		
Up to 1 year	3,538,471	1,573,006
From 1 year to 5 years	9,777,351	5,212,294
Over 5 years	53,370,095	24,654,700
<b>Total minimum lease payments</b>	<b>66,685,917</b>	<b>31,440,000</b>
Less the effect of discounting	(44,245,879)	(20,486,064)
<b>Present value of net minimum lease payments, including:</b>		
Up to 1 year	3,184,022	1,380,598
From 1 year to 5 years	7,653,237	4,016,796
Over 5 years	11,602,779	5,556,542
<b>Total lease liability as per the Group's statement of financial position</b>	<b>22,440,038</b>	<b>10,953,936</b>
Long-term liability	19,256,015	9,573,338
Short-term liability	3,184,023	1,380,598

## 29. CONTINGENT ASSETS AND LIABILITIES

### Taxation

Russian tax, trade and customs legislation that was enacted or substantively enacted at the end of the reporting period is subject to varying interpretations when being applied to the transactions and activities of the Group. Therefore, the tax position taken by management and the formal documentation supporting the tax position may be challenged by the tax authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax non-compliant counterparties. Tax audit may cover three calendar years preceding the year in which the decisions to conduct tax audits are taken. Under certain circumstances, reviews may cover longer periods.

Russian transfer pricing rules are generally consistent with international transfer pricing principles developed by the OECD subject to certain distinctions. Under transfer pricing rules, the tax authorities may assess additional tax with respect to controlled transactions (transactions with related parties and certain transactions with unrelated parties) if the transaction price is not at arm's length. Management has implemented the internal control system to comply with the current transfer pricing legislation.

Tax liabilities arising from controlled transactions are determined using actual transaction prices. Such transfer prices could be challenged as the interpretation of transfer pricing rules continues to evolve. The impact from these developments cannot be reliably estimated. However, it may be significant for financial position and/or business activities.

The Group operates entities incorporated outside the Russian Federation. The tax liabilities of the Group are determined on the assumption that, in accordance with Russian legislation, these entities are not subject to profit tax because they do not have a permanent establishment in Russia. This interpretation may be challenged but the impact of any such challenge cannot be reliably estimated. However, the effect may be significant to the financial position and/or the overall operations of the Group. According to controlled foreign corporation (CFC) laws, profit generated by foreign companies and unincorporated foreign entities (including funds) controlled by Russian tax residents (controlling parties) is subject to Russian profit tax. The CFC profit tax rate is 20%. Based on the analysis of tax risks, management has concluded that no further current or deferred taxes should be additionally recognised in the consolidated financial statements.

Russian tax legislation does not offer definitive guidance on certain issues. As a result, the Group may from time to time adopt interpretations that can reduce taxes of the Group as a whole. According to management, the tax positions and interpretations adopted are more likely to be recognised. However, there is also a risk that the Group may incur additional expenses should its tax positions and interpretations be challenged by the tax authorities. The impact of any such challenge cannot be reliably estimated but may be significant to the financial position of the Group and/or the results of its operations.

### **Operating environment**

Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment. Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

The Group's operations have a focus on exports, with 74% of revenue denominated in foreign currency. Therefore, the weaker Russian Ruble has a positive impact on financial performance of the Group.

In 2022 foreign policy tensions have disrupted supply chains for both: goods supplied by the Group and certain components, spare parts and auxiliary raw materials and supplies, as well as have increased logistics rates. An increased to 20% key rate resulted in a more expensive debt financing.

Management of the Group takes all the necessary steps to ensure stable operations of the Group. However, the future impact of the current economic developments on the Group's activities is difficult to determine at this stage, the current expectations and estimates of the management may differ from the actual results.

### **Effects of COVID-19**

A COVID-19 pandemic declared by WHO on 11 March 2020 had a significant effect on the global economic situation, and its effects still continue. All the companies of the Group strictly follow the official guidelines effective in the countries where the Group's assets are present; all the facilities comply with all health and safety standards and recommendations for social distancing and personal hygiene. During the restrictions imposed, all production sites of the Group operated as planned with 100% utilization.

Positive experience of coping with COVID-19 and vaccination campaigns give hope that the pandemic will come to an end in the foreseeable future. However, the uncertainty caused by the pandemic will continue to affect the markets where the Group is present for some time still.

As at 31 December 2021 the Group considers the effects of COVID-19 on its activities and financial standing to be insignificant.

## **SEGEZHA GROUP PJSC**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2021** ***(in thousands of Russian Rubles, unless otherwise indicated)***

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The Group continues to closely monitor the COVID-19 pandemic developments to mitigate negative effects on its operating activities and financial standing.

#### **30. EVENTS AFTER THE REPORTING PERIOD**

On 26 January 2022, the Group placed on the Moscow Exchange fifteen years uncertificated interest-bearing non-convertible bonds of 002P-03R series totaling RUB 9 bln (10.9% coupon) maturing in two years. Proceeds from the bonds placed were used to settle outstanding consideration payable for the acquisition of LLC "Inter Forest Rus" and its subsidiaries.