

SEGEZHA GROUP ANNOUNCES FINANCIAL AND OPERATING RESULTS FOR 6M 2021

Moscow, August 27, 2021 – Segezha Group (MOEX: SGZH), a leading vertically integrated holding company in the timber industry performing a full cycle of operations from logging to advanced wood processing, announces its operating and interim consolidated IFRS financial results for the first six months of 2021.

- **Revenue** amounted to RUB 43 bn, a 37% increase year-on-year (yoy), driven by a rebound in global demand and higher average selling prices for the Group's products.
- **OIBDA** reached RUB 13 bn, an increase of 112% year-on-year, driven by revenue growth and control over key cost items;
- **OIBDA margin** increased to 31% (+11 pp yoy);
- **Net profit** was RUB 8 bn, compared to a loss of RUB 2 bn a year earlier, thanks to strong operating performance, growth in revenue and business margins, and the absence of a one-off loss on the revaluation of foreign currency loans last year.

Financial performance, RUB mln	6M 2021	6M 2020	yoy
Revenue	42,671	31,211	37%
OIBDA	13,185	6,214	112%
margin, %	31%	20%	11 pp
Net profit	7,582	(2,111)	n/a
Capital expenditure	8,554	7,111	20%
M&A	4,678	894	5x
Free cash flow	(8,911)	(6,263)	(42%)
Net debt ¹	28,847	49,582	(42%)
Net debt/12M OIBDA ¹ , x	1.2x	2.8x	n/a

Mikhail Shamolin, President of Segezha Group, said:

"We delivered stellar results in the first half of 2021. Revenue rose by 37% year-on-year on and OIBDA more than doubled, surging by 112%.

"These results underscore both the robust pricing environment globally for our products and the strength of our vertically integrated business model. Against a backdrop where the cost of raw wood has increased sharply, we have benefitted tremendously from our own vast, high-quality forest resources. Strengths of our business include high level of supply of our own wood resources, which provides us with the ability to control this key cost input.

"We continue to invest in the future growth of our business, both by modernising existing facilities and by adding new high-value-added production capacity. Capital expenditures across the Group in the first half of 2021 totalled RUB 9 bn and included the completion of the Sokol CLT plant, as well as the ongoing modernisation of the Segezha and Sokol PPMs. On-time and on-budget delivery of these projects demonstrates our strength in investment project execution.

"We are committed to pursuing best-in-class environmental, social and governance standards, and are pleased that this week Sustainalytics assigned an inaugural ESG Risk Rating to Segezha that places us in the top quartile of companies in our industry.

¹ Net debt recorded as of 30 June 2021 and 31 December 2020, OIBDA for the last 12 months

Rovshan Aliyev, Segezha Group's Vice President for Finance and Investment, said:

"In the reporting period, we were able to significantly reduce leverage by deploying proceeds from our IPO in the second quarter, with net debt down 42% year-on-year to RUB 29 bn as of 30 June 2021.

"The IPO was one of the largest primary capital raises by a Russian company for a number of years, testifying to the strength of our investment case and the broader sector appeal to both domestic and international investors.

"Looking ahead, we expect favourable pricing for our products to persist, which, combined with a number of planned future investment projects, will result in strong operating and financial performance in 2021."

CONFERENCE CALL AND WEBCAST

A conference call and webcast will take place on 27 August 2021 at 12:00 noon Moscow time (10:00 a.m. London time).

To participate in the call:

- from Russia: +7 495 283 98 58
- from Great Britain: +44 203 984 9844
- from the United States: +1 718 866 4614
- the numbers for other countries can be found on [the website](#)

Access code: 738667

Follow this link to participate in the webcast: <https://mm.closir.com/slides?id=73866>

A recording of the conference call will be available in the "For Investors" section on the website.

CONTACTS

For investors:

Elena Romanova
+7 (499) 962-82-00
Ev.romanova@segezha-group.com

For media:

Tatiana Gorokhova
+7 (499) 962-82-00
Gorokhova_TN@segezha-group.com

Segezha Group is one of the largest Russian vertically integrated timber holding companies with a full cycle of logging and added-value wood processing. The holding includes Russian and European timber, woodworking, and pulp and paper factories. The group operates in 12 countries, including Russia. Its products are marketed in more than 100 countries. Segezha Group employs 13,000 people across its enterprises. The group is the largest forestry company in the European part of Russia. As of 31 December 2020, the total area of leased forest was 8.1 million hectares of forest plots, 83% (6.72 million hectares) of which have been certified for compliance with international voluntary forest certification schemes. In 2020, the holding made RUB 69 bn in revenue, achieving an OIBDA margin of 25%. Total investment over the past seven years is roughly RUB 50 bn. Segezha Group is Russia's largest producer of paper for multilayer bags, industrial paper bags, and timber; the world's second-largest producer of paper for multilayer bags and industrial paper bags; and the world's fifth-largest producer of large-format birch plywood. Website: <http://segezha-group.com>

MANAGEMENT COMMENTS

Market review

In 6M 2021, the average selling prices of Segezha Group's products were as follows:

- Sack paper – 585 euro/t (+8% yoy)
- Sawn timber – 219 euro/cu m (+60% yoy)
- Birch plywood – 506 euro/cu m (+22% yoy)
- Glulam – 364 euro/cu m (+25% yoy)

The main drivers of global price increases were global trends in all of the Company's markets of operation.

Factors that drove growth in demand:

- The construction sector. The main drivers of growth were: 1) significant government stimulus measures that have been implemented in the world's largest economies, and 2) changes in consumer behaviour in light of pandemic restrictions, which have led to increased renovations and demand for related goods and services, purchases and housing construction;
- The DIY and online segments demonstrated significant growth over the period;
- Low inventory.

The factors that influenced the price increase on the supply side were:

- Lack of operating capacity and inflation in key commodities;
- Rising timber prices and the scarcity of timber as a resource in world markets.

The dynamics of price increases for the Group's different products varied, inter alia, due to the different timing of product contracting. In the sack paper and paper packaging segments, for example, average selling prices increased more slowly than those for sawn timber and plywood, as around 60% of the paper and packaging portfolio consists of long-term contracts with terms ranging from one quarter to one year. In addition, the high proportion of converting (over 40% of Segezha Group's paper is converted into packaging at its own facilities) allows the Company to maximise sales efficiency and minimise market risks in a volatile price environment. The average contract period for lumber and plywood is one quarter, three months for glued timber, and between three and six months for prefabricated housing.

Market conditions in 6M 2021 enabled Segezha Group to increase exports to key markets and also increase the prices of its products. The Company's high degree of self-sufficiency in wood feedstock, resulting in low dependence on third-party feedstock, as well as near 100% utilisation of its production capacity were additional advantages.

Segezha Group estimates that a possible stabilisation of the supply-demand balance for key products will not occur until Q1 or Q2 2022, as the main drivers of price growth remain in place. Prices in Q3 2021 are expected to either remain the same or surpass the results of Q2 2021. A seasonal correction is possible in Q4 2021 due to the traditional slowdown in construction sector activity. However, the Company does not expect prices to return to pre-Covid-19 levels.

Review of the Group's results

The Group's revenue for 6M 2021 was RUB 42.7 bn (+37% yoy). This growth was driven by an increase in average selling prices for the Group's products, as well as the positive effect of changes in the RUB exchange rate against foreign currencies. The Company's share of export revenue for the period was 73%.

The Group's OIBDA for 6M 2021 increased to RUB 13.2 bn, more than doubling yoy. This result was achieved due to an increase in revenue, as well as the control of operating costs (cost of sales, selling and administrative expenses), which increased at a significantly lower rate than revenue. **OIBDA margin** increased by 11 pp to 31% in the reporting period.

The Group's net profit for 6M 2021 improved to RUB 7.6 bn from a loss of RUB 2.1 bn a year earlier due to strong revenue and profitability, a positive foreign exchange gain of RUB 1.2 bn, and other financial income of RUB 0.3 bn driven by a positive revaluation of cross-currency and interest rate swaps.

RUB 43 bn

The Group's revenue
in 6M 2021

RUB 13 bn

The Group's OIBDA
in 6M 2021

RUB 29 bn

The Group's net debt as of 30 June 2021

Financial position

As of 30 June 2021, total debt amounted to RUB 50.2 bn, down 6% yoy. The debt portfolio as of 30 June 2021 consisted of liabilities denominated in foreign currencies (60%) and in roubles (40%). This data takes into account the conversion of part of the previously placed rouble exchange-traded bonds into euros under cross-currency swap contracts.

Interest income and expense for 6M 2021 totalled RUB 1.6 bn, down 7% yoy, driven by the depreciation of the rouble and the corresponding revaluation of foreign currency-denominated debt, as well as an increase in cash deposits.

The weighted average funding rate on borrowed funds was 4.5% per annum as of 30 June 2021. The weighted average financing period is 4.5 years. Cash and cash equivalents, incl. bank deposits with less than three months maturity as of 30 June 2021, increased by RUB 17.7 bn yoy to RUB 21.4 bn as a result of a RUB 30 bn cash call on the Company's IPO on Moscow Exchange in April 2021. The currency split of cash and cash equivalents is 49% in foreign currency and 51% in roubles.

Net debt was RUB 28.8 bn, down 42% yoy, with a net debt to OIBDA ratio of 1.2x over the past 12 months vs 2.8x as of 31 December 2020.

Investments

Capital expenditures for the period totalled RUB 8.5 bn (+20% yoy), of which 29% was for maintenance, and 71% was invested in growth projects. RUB 4.7 bn was allocated for M&A, mainly for the purchase of the Novoeniseisk Wood-Chemical Complex (NLHK), which will increase sawn timber production by 350–400 ths cu m, 100 ths t of pellets, and expand the Group's annual allowable cut by 2.2 mln cu m. The deal is expected to be closed in Q3 2021.

The key investment lines during the period were:

- RUB 1.5 bn – modernisation of the Segezha PPM;
- RUB 0.7 bn – modernisation of the Sokol PPM;
- RUB 0.7 bn – converting development and the construction of a new industrial paper packaging facility in Romania;
- RUB 0.6 bn – converting development and the installation of a new E11 line for paper packaging production at Sokol Packaging;
- RUB 0.3 bn – the construction of a pellet factory and a new boiler house at the Sokol woodworking integrated plant.

Detailed information by segment

Paper and packaging

Paper and Packaging **revenue**³ was RUB 18.7 bn in 6M 2021 (+8% yoy), and **OIBDA** increased by RUB 0.6 bn to RUB 5.1 bn (+12% yoy). **OIBDA margin** was 27%.

RUB 19 bn

Revenue in the Paper and Packaging segment in 6M 2021

	Production output	Sales volume	Average price, euros per unit (FCA)
Sack paper, ths t	187	190 ²	585
Paper sacks, mln pcs	725	707	170

Market overview: In 6M 2021, the sack paper market had a deficit due to both a recovery in demand following the lifting of Covid-19-related restrictions and a limited supply of sack paper in the market. This decline in supply was caused by various factors, including the postponement of planned shutdowns by global producers from 2020, the transfer of some

² Sales volume of 190 ths t; including paper directed to Segezha Group's own converting facilities, 80 ths t.

³ Excluding revenue from intersegment transactions

Company capacity to cardboard production, etc. These factors ensured that sack paper prices rose and gradually recovered to pre-Covid-19 levels.

A similar dynamic was observed in the paper sack market, where demand for paper sacks grew amid a recovery in economic activity, contributing to a recovery in prices. The construction sector was also a main driver.

Key investment projects:

1. **The modernisation of the Sokol PPM** will increase the production of various types of paper by 65 ths t per year to 100 ths t per year. Investment in the project is approximately RUB 11 bn; the equipment has now been contracted, and the project is expected to be completed in 2023.
2. **Modernisation of the Segezha PPM** will increase sack paper production capacity by 25 ths t in 2022. Investment in the project will amount to RUB 4.5 bn, and the equipment is currently being installed.
3. **New conversion facilities in Lobnya.** The design capacity of the new plant is 138 mln units of consumer packaging. The plant will have a total of four lines, two of which were installed in Q1 2021, with the remaining two scheduled to be installed by the end of 2021. Investment in the project is around RUB 1 bn. For more information, follow [this link](#).
4. **The construction of a new industrial paper packaging unit and the modernisation of existing equipment in Romania.** Production capacity will increase by 60 mln pcs to 160 mln units per year. The project's capex is EUR 5.5 mln. The equipment is expected to be operational in 2022. For more information, follow [this link](#).

Other:

1. Segezha Group is expanding the geography of its sack paper sales, with deliveries to Brazil and Haiti to commence in 6M 2021.
2. The launch of an auction platform based on SAP Ariba will enable Segezha Group to expand its sales geography by attracting new customers, as well as improve sales efficiency.
3. In 6M 2021, the industrial production of white micro-crepe paper at Segezha PPM was launched, allowing the Company to expand its product range and increase raw material security. Plans for the production of this paper amount to 38 ths t a year. The entire volume is processed by the holding's converting facilities.
4. In Q1 2021, a new industrial sack production line by the German engineering company Windmüller & Hölscher was installed and launched at the Segezha site. This will enable the Company to increase sack production by 87 mln pcs in 2021.

Forestry Management and Woodworking

Revenue⁵ in "Forestry Management and Woodworking" segment in 6M 2021 amounted to RUB 12.3 bn (+49% yoy), while **OIBDA** increased by RUB 4.3 bn to RUB 5.7 bn (4x yoy). **OIBDA margin** was 46%.

RUB 12 bn

Revenue in the "Forestry Management and Woodworking" segment for 6M 2021

	Production output	Sales volume	Average price, euros per unit (FCA)
Sawn timber ⁴ , ths cu m	468	436	219
Pellets, t	46	43	52
Harvesting, ths cu m	2,976	-	-

Market overview: In 6M 2021, construction sector activity was on the rise globally thanks to state support measures, lower mortgage rates, and high DIY demand growth, resulting in faster demand growth, lower inventory throughout the supply chain, and significant price increases.

⁴ Excluding the production volume of the Sokol DOK, the results of which are reflected in Laminated Wood Products segment

With a growing demand for sawn timber, reduced logging in 2020 and the resulting decline in stocks, limited forest resources worldwide, a decline in available and quality raw wood, and an increase in the proportion of damaged timber due to bark beetle infestations and fires, there are shortages of wood around the world, leading to higher prices for raw wood in the first half of 2021.

Key investment projects:

1. **The modernisation of the Omega LDK** will increase total annual sawn timber output by 20% to 280 ths cu m and reduce production costs by 30% due to improved operational efficiency through the automation and development of added-value wood conversion. A new pellet plant with a capacity of 30 ths t will also be built. The project will be completed in the beginning of 2024, and the total investment will amount to ca. RUB 5.5 bn. The Company is currently conducting procurement procedures. For more information, follow [this link](#).
2. **The modernisation of the Lesosibirsk LDK** will increase production of sawn timber by 50 ths cu m pellets, by 100 ths t, and will also make it possible to achieve zero-waste manufacturing by constructing a new bark waste boiler with a capacity of 40 MW. More information is available [here](#) and [here](#). The project budget will be about RUB 4.4 bn; the project is currently at the stage of equipment acquisition.

Plywood and Boards

Plywood and Boards segment **revenue**⁵ in 6M 2021 amounted to RUB 5.4 bn (+39% yoy), while **OIBDA** increased by RUB 1.4 bn to RUB 2.5 bn (+2x yoy). OIBDA **margin** was 45%.

RUB 5 bn

Revenue in the Plywood and Boards segment in 6M 2021

	Production output	Sales volume	Average price, euros per unit (FCA)
Plywood, ths cu m	98	98	506
Fibreboard, ths m ²	24	24	0.49

Market overview: In 6M 2021, global consumption and prices increased, with a supply deficit due to strong demand in the construction segment, where the main drivers were the Chinese and US markets. This high demand was made possible due to a number of factors, such as government economic stimulation, including in the construction segment, as well as an increase in the cost of raw materials (birch logs).

Key investment projects:

1. **The expansion of capacity at the Vyatka plywood mill** by 33%, or 64 ths cu m, to 255 ths cu m. Investment in the project will amount to RUB 6.5 bn. The launch of new capacities is scheduled for 2022, and design work is currently being finalised. For more information, follow [this link](#).
2. **The construction of the Galich plywood mill (GPM)** will increase capacity by 125 ths cu m per year. GPM will produce high-margin types of plywood, including Maxi-format plywood, 7x13 ft, which is unique to Russia. Investment in the project is based on the principle of project financing, with the Group investing RUB 2.3 bn. The project is currently at the stage of equipment installation. Production is scheduled to start by the end of 2021.

Other:

1. Increase in the sales share of high-margin products for both export and domestic markets:
 - ClearPly – furniture segment;
 - Ecofloor – floor-covering and parquet segment;
 - PlyForm – construction segment.
2. Expansion of the customer base: cooperation has started with more than 20 new customers in Europe and North America, and trial deliveries of plywood to the new Mongolian market have been carried out.

RUB 3 bn

Revenue in the Laminated Wood Products segment in 6M 2021

Laminated Wood Products

Laminated Wood Products segment **revenue**⁵ in 6M 2021 amounted to RUB 2.7 bn (+60% yoy), while **OIBDA** increased by RUB 1.0 bn to RUB 1.2 bn (+7x yoy). OIBDA **margin** was 44%.

	Production output	Sales volume	Average price, euros per unit (FCA)
Glulam, ths cu m	35	35	364
Prefabricated houses, ths cu m	11	9	326
CLT, ths cu m	2.2	1.3	367
Sawn timber ⁵ , ths cu m	47	46	219

Market overview: Segezha Group's glulam production is primarily focused on exports to Europe, where there is high demand for glulam, also due to the recovery of the construction sector. The main global consumers of glulam beams remained Europe and Japan.

There was a shortage of products in the market in 6M 2021. The key factors influencing this shortage were restrictions on the supply of raw wood to European producers amid strong demand, which reduced stock levels to a minimum and, consequently, increased prices.

Key investment projects:

1. **Construction of a pellet plant at the Sokol DOK**, as well as a new boiler plant operating on bark and wood waste. The capacity of the new unit will be 65 ths t of pellets per year. Investments in the project are approx. RUB 1.1 bn. The installation of equipment is currently underway. Production is scheduled to start by the end of 2021. For more information, follow [this link](#).
2. **Construction of a new glulam plant in Segezha** with a capacity of 240 ths cu m of glulam and 100 ths t of pellets. Construction work is planned to start at the end of 2021 with a total project budget of RUB 11.2 bn, and it will be implemented through project financing, similar to the Galich Plywood mill project. The tenders for equipment are currently being finalised.

Other:

1. **CLT Segezha Group's production facility received an award from FSC** in the Green Project of the Year 2021 category. The Company presented the project "CLT panels: the climate-neutral building material of the future". For more information, follow [this link](#).
2. **Launch of Sokol CLT plant** – Russia's first large-scale industrial production of cross-laminated panels. Segezha Group has invested more than RUB 3 bn in the new manufacturing facility, which has a capacity of 50 ths cu m of CLT panels per year. For more information, follow [this link](#).

Events after the reporting period

August 2021: **Segezha Group received an ESG rating from Sustainalytics**. The Company's ESG Risk score was close to the "low" level, at 21.4. In the Paper and Forestry and Paper and Pulp sectors, the holding ranked in the top quartile of the best-rated companies, and among the top 30% of the entire list of Sustainalytics companies assessed globally. For more information, follow this [link](#).

⁵ Sawn lumber produced at the Sokol woodworking plant. Not accounted for in the Forestry Management and Woodworking segment

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