IMPORTANT NOTICE: You must read the following before continuing. The following applies to the offering memorandum following this notice (the "**Offering Memorandum**"), and you are therefore advised to read this carefully before reading, accessing or making any other use of the Offering Memorandum. In accessing the Offering Memorandum, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from Segezha Group PJSC (the "**Company**") as a result of such access.

This Offering Memorandum has been prepared in connection with the proposed offer (the "**Offering**") and sale of the securities described herein (the "**Offer Shares**"). The Offering Memorandum and its contents are confidential and should not be copied, downloaded, distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other person. If you are not the intended recipient of this electronic transmission, please do not distribute or copy the information contained in this electronic transmission or the Offering Memorandum, but instead delete and destroy all copies of this electronic transmission and the Offering Memorandum.

THE FOLLOWING OFFERING MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THE OFFERING MEMORANDUM MAY ONLY BE DISTRIBUTED TO INSTITUTIONAL INVESTORS OUTSIDE THE UNITED STATES IN "OFFSHORE TRANSACTIONS" AS DEFINED IN AND IN RELIANCE ON REGULATION S UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND (B) QUALIFIED INSTITUTIONAL BUYERS ("QIBS") IN ACCORDANCE WITH RULE 144A ("RULE 144A") UNDER THE SECURITIES ACT. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE OFFERING MEMORANDUM IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF THE OFFER SHARES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE OFFER SHARES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OF THE UNITED STATES OR OF ANY OTHER JURISDICTION, AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES, EXCEPT TO PERSONS REASONABLY BELIEVED TO BE QIBS IN RELIANCE ON RULE 144A OR ANOTHER EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, OR OUTSIDE THE UNITED STATES IN OFFSHORE TRANSACTIONS IN RELIANCE ON REGULATION S. PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT SELLERS OF THE OFFER SHARES MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A.

THIS ELECTRONIC TRANSMISSION AND THE ATTACHED DOCUMENT AND THE OFFERING WHEN MADE ARE ONLY ADDRESSED TO, AND DIRECTED AT, PERSONS IN MEMBER STATES OF THE EUROPEAN ECONOMIC AREA WHO ARE "QUALIFIED INVESTORS" WITHIN THE MEANING OF ARTICLE 2(E) OF THE PROSPECTUS REGULATION (REGULATION (EU) 2017/1129) (AS AMENDED), (THE "**PROSPECTUS REGULATION**"). THIS ELECTRONIC TRANSMISSION AND THE ATTACHED DOCUMENT MUST NOT BE ACTED ON OR RELIED ON IN ANY MEMBER STATE OF THE EUROPEAN ECONOMIC AREA BY PERSONS WHO ARE NOT EEA-QUALIFIED INVESTORS. ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS ELECTRONIC TRANSMISSION AND THE ATTACHED DOCUMENT RELATE IS AVAILABLE ONLY TO EEA-QUALIFIED INVESTORS AND WILL BE ENGAGED IN ONLY WITH SUCH PERSONS.

IN THE UNITED KINGDOM, THIS ELECTRONIC TRANSMISSION AND THE ATTACHED DOCUMENT AND THE OFFERING WHEN MADE ARE ONLY ADDRESSED TO, AND DIRECTED AT, PERSONS IN THE UNITED KINGDOM WHO ARE "QUALIFIED INVESTORS" WITHIN THE MEANING OF ARTICLE 2(E) OF THE PROSPECTUS REGULATION AS IT FORMS PART OF DOMESTIC LAW BY VIRTUE OF THE EUROPEAN UNION (WITHDRAWAL) ACT 2018 WHO: (I) ARE PERSONS WHO HAVE PROFESSIONAL EXPERIENCE IN MATTERS RELATING TO INVESTMENTS FALLING WITHIN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005 (AS AMENDED, THE "**ORDER**"); (II) ARE PERSONS WHO ARE HIGH NET WORTH ENTITIES OR OTHER PERSONS FALLING WITHIN ARTICLE 49(2)(A) TO (D) OF THE ORDER; OR (III) ARE PERSONS TO WHOM AN INVITATION OR INDUCEMENT TO ENGAGE IN INVESTMENT ACTIVITY (WITHIN THE MEANING OF SECTION 21 OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (AS AMENDED, THE "**FSMA**")) MAY OTHERWISE LAWFULLY BE COMMUNICATED (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS "**RELEVANT PERSONS**"). THIS ELECTRONIC TRANSMISSION AND THE ATTACHED DOCUMENT MUST NOT BE ACTED ON OR RELIED ON IN THE UNITED KINGDOM BY PERSONS WHO ARE NOT RELEVANT PERSONS , ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS ELECTRONIC TRANSMISSION AND THE ATTACHED DOCUMENT RELATE IS AVAILABLE ONLY TO RELEVANT PERSONS AND WILL BE ENGAGED IN ONLY WITH SUCH PERSONS.

Information to Distributors: Solely for the purposes of the product governance requirements of Chapter 3 of the FCA Handbook Product Intervention and Product Governance Sourcebook (the "**UK Product Governance Requirements**"), and disclaiming all and any liability, whether arising in tort, contract or otherwise, which any "**manufacturer**" (for the purposes of the UK Product Governance Requirements) may otherwise have with respect thereto, the Offer Shares the subject of the Offering have been subject to a product approval process, which has determined that such Offer Shares are: (i) compatible with an end target market of retail investors and investors who meet the criteria of professional clients and eligible counterparties, each as defined in the FCA Handbook Conduct of Business Sourcebook; and (ii) eligible for distribution through all permitted distribution channels (the "**UK Target Market Assessment**"). Notwithstanding the UK Target Market Assessment, "distributors" (for the purposes of the UK Product Governance Requirements) should note that: the price of the Offer Shares may decline and investors could lose all or part of their investment; the Offer Shares offer no guaranteed income and no capital protection; and an investment in the Offer Shares is compatible only with investors who do not need a guaranteed income or capital protection, who (either alone or in conjunction with an appropriate financial or other adviser) are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses that may result therefrom. The UK Target Market Assessment is without prejudice to the requirements of any contractual, legal or regulatory selling restrictions in relation to the Offering. Furthermore, it is noted that, notwithstanding the UK Target Market Assessment, the joint global coordinators and joint bookrunners and the co-manager will only procure investors who meet the criteria of professional clients and eligible counterparties. For the avoidance of doubt, the UK Target Market Assessment does not constitute: (a) an assessment of suitability or appropriateness for the purposes of Chapters 9A or 10A respectively of the FCA Handbook Conduct of Business Sourcebook; or (b) a recommendation to any investor or group of investors to invest in, or purchase, or take any other action whatsoever with respect to the Offer Shares. Each distributor is responsible for undertaking its own target market assessment in respect of the Offer Shares and determining appropriate distribution channels.

Solely for the purposes of the product governance requirements contained within: (a) EU Directive 2014/65/EU on markets in financial instruments (as amended, "**MiFID II**"); (b) Articles 9 and 10 of Commission Delegated Directive (EU) 2017/593 supplementing MiFID II; and (c) local implementing measures (together, the "**MiFID II Product Governance Requirements**"), and disclaiming all and any liability, whether arising in tort, contract or otherwise, which any "manufacturer" (for the purposes of the MiFID II Product Governance Requirements) may otherwise have with respect thereto, the Offer Shares the subject of the Offering have been subject to a product approval process, which has determined that such Offer Shares are: (i) compatible with an end target market of retail investors and investors who meet the criteria of professional clients and eligible counterparties, each as defined in MiFID II; and (ii) eligible for distribution through all distribution channels permitted by MiFID II (the "**EEA Target Market Assessment**"). Notwithstanding the EEA Target Market Assessment, "distributors" (for the purposes of the MiFID II Product Governance Requirements) should note that: the price of the Offer Shares may decline and investors could lose all or part of their investment; the Offer Shares offer no guaranteed income and no capital protection; and an investment in the Offer Shares is compatible only with investors who do not need a guaranteed income or capital protection, who (either alone or in conjunction with an appropriate financial or other adviser) are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses that may result therefrom. The EEA Target Market Assessment is without prejudice to the requirements of any contractual, legal or regulatory selling restrictions in relation to the Offering. Furthermore, it is noted that, notwithstanding the EEA Target Market Assessment, the joint global coordinators and joint bookrunners and the co-manager will only procure investors who meet the criteria of professional clients and eligible counterparties. For the avoidance of doubt, the EEA Target Market Assessment does not constitute: (a) an assessment of suitability or appropriateness for the purposes of MiFID II; or (b) a recommendation to any investor or group of investors to invest in, or purchase, or take any other action whatsoever with respect to the Offer Shares. Each distributor is responsible for undertaking its own target market assessment in respect of the Offer Shares and determining appropriate distribution channels.

Confirmation of your representation: In order to be eligible to view the attached Offering Memorandum or make an investment decision with respect to the ordinary shares, you must be an institutional and qualified investor in the Russian Federation, an institutional investor outside the United States or a QIB within the United States.

By accepting electronic delivery of and accessing the Offering Memorandum, you shall be deemed to have represented to each of J.P. Morgan Securities plc, UBS AG London Branch, VTB Capital plc, Merrill Lynch International, Bank GPB International S.A. (a member of Gazprombank group), Renaissance Securities (Cyprus) Limited and Alfa Capital Markets Ltd. (together the "**Underwriters**") and the Company that you are an institutional and qualified investor in the Russian Federation, an institutional investor outside the United States or a QIB within the United States and that you consent to delivery of such Offering Memorandum by electronic transmission. You are reminded that the Offering Memorandum has been delivered to you on the basis that you are a person into whose possession the Offering Memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver the Offering Memorandum to any other person.

Under no circumstances shall the Offering Memorandum constitute, and may not be used in connection with, an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of ordinary shares, in any jurisdiction in which such offer, solicitation or sale would be unlawful. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Underwriters or any affiliate of the Underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Underwriters or such affiliate on behalf of the Company in such jurisdiction.

The Offering Memorandum has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission, and consequently none of the Underwriters, or any of their respective affiliates, or any of their respective directors, officers, employees or agents accepts any liability or responsibility whatsoever in respect of any difference between the Offering Memorandum distributed to you in electronic format and the hard copy version available to you on request from the Underwriters.

None of the Underwriters, or any of their respective affiliates, or any of its or their respective directors, officers, employees or agents accepts any responsibility whatsoever for the contents of this Offering Memorandum or for any statement made or purported to be made by it, or on its behalf, in connection with the Company or the offering. The Underwriters and any of their respective affiliates accordingly disclaim all and any liability whether arising in tort, contract, or otherwise which they might otherwise have in respect of such Offering Memorandum or any such statement. No representation or warranty express or implied, is made by any of the Underwriters or any of their respective affiliates as to the accuracy, completeness, reasonableness, verification or sufficiency of the information set out in this Offering Memorandum.

The Underwriters are acting exclusively for the Company and no one else in connection with the offering. They will not regard any other person (whether or not a recipient of this Offering Memorandum) as their client in relation to the offering and will not be responsible to anyone other than the Company for providing the protections afforded to their clients nor for giving advice in relation to the offering or any transaction or arrangement referred to herein.

You are responsible for protecting against viruses and other destructive items. Your receipt of this Offering Memorandum via electronic transmission is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

SEGEZHA GROUP PJSC

(a public joint-stock company organized under the laws of the Russian Federation)

Offering of up to 3,870,967,742 ordinary shares with a nominal value of RUB 0.1 each (the "Ordinary Shares")

Offer Price Range: RUB 7.75 to RUB 10.25 per Offer Share

This is an offering (the "**Offering**") by Segezha Group PJSC (the "**Company**" or "**Segezha**") of up to 3,870,967,742 new Ordinary Shares (the "**New Shares**") and together with the Over-Allotment Shares (as defined below), the "**Offer Shares**"), each with a nominal value of RUB 0.1 to be issued through an open subscription (the "**New Shares Issuance**").

The New Shares to be issued in the New Shares Issuance are expected to be purchased by the Joint Global Coordinators (as defined below), on behalf of the Underwriters (as defined below), as initial purchasers for onward sale by the Underwriters to investors (the "**Offering**").

The number of the Offer Shares to be issued and sold pursuant to the Offering and the price at which each of the Offer Shares is to be issued and sold under the Offering (the "**Offer Price**") will be published on or about 28 April 2021 (the "**Pricing Date**").

The Offering consists of an offering of the Offer Shares (i) in the Russian Federation and (ii) otherwise to institutional investors outside the United States in "offshore transactions" as defined in, and in reliance on, Regulation S ("**Regulation S**") under the United States Securities Act of 1933, as amended (the "**Securities Act**"), and (ii) within the United States to "qualified institutional buyers" ("**QIBs**") as defined in, and in reliance on, Rule 144A ("**Rule 144A**") under the Securities Act or pursuant to another exemption from, or in a transaction not subject to, the registration requirements under the Securities Act. See "*Plan of Distribution*."

In connection with the Offering, Sistema PJSFC and/or Sistema Telecom Assets LLC, on or about the Pricing Date, is also expected to grant to the Underwriters an option (the "**Over-Allotment Option**"), exercisable within 30 calendar days of the announcement of the Offer Price (the "**Stabilization Period**") to purchase up to 580,645,161 Ordinary Shares (the "**Over-Allotment Shares**") at the Offer Price to cover over-allotments in connection with the Offering, if any, and short positions resulting from any such over-allotments. See "*Plan of Distribution—Stabilization.*"

The Offering does not constitute an offer to sell, or solicitation of an offer to buy, securities in any jurisdiction in which such offer or solicitation would be unlawful. The Offer Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered, sold, pledged or otherwise transferred within the United States, except to persons reasonably believed to be QIBs in reliance on Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act, or outside the United States in offshore transactions in reliance on Regulation S. Prospective purchasers are hereby notified that sellers of the Offer Shares may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a discussion of these and certain further restrictions on offers, sales and transfers of the Offer Shares and the distribution of this Offering Memorandum, see "*Selling and Transfer Restrictions*."

The New Shares Issuance was registered by the Central Bank of Russia (the "**CBR**") on 1 April 2021, under state registration number 1-01-87154-H. A statutory Russian prospectus in respect of the Ordinary Shares was registered by the CBR on the same date. As at the date of this Offering Memorandum and prior to the Offering, there is no public market for the Ordinary Shares. The Ordinary Shares are expected to be admitted to trading on the "Level 1" part of the List of Securities Admitted to Trading on Public Joint-Stock Company "Moscow Exchange MICEX-RTS" (the "**Moscow Exchange**") under the symbol "SGZH" on or about 28 April 2021 (the "**First Trading Date**"). Subject to acceleration or extension of the timetable for the Offering, trading on an "as-if-and-when-issued" basis in the Ordinary Shares on the Moscow Exchange is expected to commence on or about the First Trading Date. No assurance can be given that thereafter the Ordinary Shares will continue to be admitted to trading on the Moscow Exchange. See "*Risk Factors.*"

AN INVESTMENT IN THE OFFER SHARES INVOLVES A HIGH DEGREE OF RISK. THE OFFER SHARES ARE OF A SPECIALIST NATURE AND SHOULD ONLY BE PURCHASED AND TRADED BY INVESTORS WHO ARE PARTICULARLY KNOWLEDGEABLE IN INVESTMENT MATTERS. POTENTIAL INVESTORS SHOULD BE PREPARED TO BEAR THE RISK OF A TOTAL LOSS OF THEIR INVESTMENT. INFORMATION CONTAINED HEREIN MAY NOT CORRESPOND TO THE RISK PROFILE OF A PARTICULAR INVESTOR, DOES NOT TAKE IN ACCOUNT AN INVESTOR'S PERSONAL PREFERENCES AND EXPECTATIONS ON RISK AND/OR PROFITABILITY AND DOES NOT CONSTITUTE AN INDIVIDUAL INVESTMENT RECOMMENDATION FOR THE PURPOSES OF RUSSIAN LAW. PROSPECTIVE INVESTORS SHOULD READ THE ENTIRE DOCUMENT WHEN CONSIDERING AN INVESTMENT IN THE COMPANY, AND, IN PARTICULAR, FOR A DISCUSSION OF CERTAIN RISKS THAT SHOULD BE CONSIDERED BY POTENTIAL INVESTORS IN CONNECTION WITH AN INVESTMENT IN THE OFFER SHARES, SEE "*RISK FACTORS*."

Subject to acceleration or extension of the timetable for the Offering, payment (in Russian rubles) for, and delivery of, the Offer Shares ("**Settlement**") is expected to take place on or about 30 April 2021 (the "**Settlement Date**"). If Settlement does not take place on the Settlement Date as planned or at all, the Offering may be withdrawn, in which case all subscriptions for the Offer Shares will be disregarded, any allotments made will be deemed not to have been made and any subscription payments made will be returned without interest or other compensation and transactions in the Offer Shares on the Moscow Exchange may be annulled. Any transactions in the Offer Shares prior to Settlement are at the sole risk of the parties concerned. The Company and the Underwriters do not accept responsibility or liability towards any loss incurred by any person as a result of the withdrawal of the Offering or the (related) annulment of any transactions in the Offer Shares on the Moscow Exchange. Each purchaser of the Offer Shares must pay for such Offer Shares by the date agreed with the Joint Global Coordinators and the Joint Bookrunners. The Offer Shares will be delivered to purchasers through the facilities of the National Settlement Depository (the "**NSD**"). Therefore, to take delivery of the Offer Shares, purchasers must have a depositary account with the NSD or a depo account with a depositary that has a depositary account with the NSD.

The Offering may be extended or revoked at any time without cause. The Offer Shares are offered severally by the Underwriters, subject to receipt and acceptance by them of any order in whole or in part. The Underwriters reserve the right to reject any offer to purchase the Offer Shares, in whole or in part, and to sell to any prospective investor less than the amount of the Offer Shares sought by any such investor.

Joint Global Coordinators and Joint Bookrunners

J.P. Morgan UBS VTB Capital

Joint Bookrunners

BofA Securities Gazprombank Renaissance Capital Alfa Capital Markets

The date of this Offering Memorandum is 21 April 2021

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SUMMARY

*This section contains a summary of the detailed information and financial statements included elsewhere in this Offering Memorandum. This overview may not contain all of the information that may be material to prospective investors and, therefore, should be read in conjunction with this entire Offering Memorandum, including the more detailed information regarding the business of the Company and its consolidated subsidiaries (together, the "**Group**") and the financial statements and related notes included elsewhere in this Offering Memorandum. Prospective investors should also carefully consider the information set forth under the heading "Risk Factors." Certain statements in this Offering Memorandum include forward-looking statements that also involve risks and uncertainties as described under "Forward-Looking Statements."*

Summary of the Group

Overview

The Group is a vertically integrated holding company in the forest industry performing a full cycle of operations, which cover the whole range of the value-added chain from forestry operations, to wood, pulp, paper and manufacturing of products including sack paper, paper sacks, sawn timber, plywood, pellets and glulam. The Group benefits from a substantial and high quality natural resource base. As of 31 December 2020, the Group had the largest forestry area in the European part of Russia, with access to 8.1 million hectares across five forestry regions (with access to an additional 1.1 million hectares contingent on the execution of agreed and approved terms of Priority Investment Projects in Forest Development ("**PIPs**") applications), 83% of which are voluntarily certified in accordance with the requirements of generally recognized international standards. Russia holds the largest forest resources globally, as well as approximately 50% of the world's northern softwood (a raw material required for the production of high quality wood products), according to the UN Food and Agriculture Organization Global Forest Resources Assessment report (2015). The Group operates 17 facilities, with two additional facilities in the process of being constructed. The Group's facilities include pulp and paper mills, paper sacks production plants (in both Russia and Europe), plywood mills and sawmills, fiberboard facilities and pellet lines, glulam and CLT operations, throughout Russia. The Group's production facilities use raw wood as an input material and are strategically located in close proximity to the Group's wood sourcing regions, allowing the Group to be 80% self-sufficient in wood supply. The Group serves domestic customers in Russia and also exports to a diverse range of customers across Europe, Asia, the Middle East and North Africa and the rest of the world.

The Group's operations are divided into four operating segments: Paper and Packaging, Forestry Management and Woodworking, Plywood and Boards and Other (which includes glulam products as well as non-revenue generating parts of the Group, such as management and holding companies). From 1 January 2021, the Group intends to report its production of glulam-based products as a separate operating segment, on the basis that, in line with the requirements of IFRS 8, these operations are expected to constitute more than 10% of the Group's consolidated revenue for the year ended 31 December 2021 as a result of the Group's commencement of operations at the Sokol CLT plant, launched in February 2021. For the years ended 31 December 2020, 2019 and 2018, respectively, glulam product sales constituted less than 10% of the Group's consolidated revenue. For further information, see "*Operating and Financial Review—Reorganization of Glulam as a Separate Segment*."

Paper and Packaging

The Group's paper and packaging segment includes the production of sack paper and artificial parchment produced from unbleached craft pulp, as well as industrial and consumer packaging (in the form of paper sacks). This segment contributed 51.7% of the Group's revenue for the year ended 31 December 2020. As of 31 December 2020, the Group had a sack paper capacity of 384 thousand tons, a packaging production capacity of 1,388 million pieces and an artificial parchment capacity of approximately 25 thousand tons. For further information on this segment, see "*Business—The Group's Operating Segments—Paper and Packaging.*"

The Group's sack papers are designed to be moisture-resistant with high tensile strength, and are used primarily for industrial sacks and consumer packaging production. Artificial parchment is resistant to heat up to 250 degrees centigrade, allowing it to be used in food product markets. Industrial sacks have a wide range of applications, including construction, food, agriculture, chemicals and mineral markets. Consumer packaging includes paper pouches and retailer bags.

Forestry Management and Woodworking

The Group's forestry management and woodworking segment include the production of (i) sawn timber, (ii) pellets, (iii) woodchips and (iv) fiberboards, in addition to wood harvesting operations to supply wood internally and to third parties. Pellets, woodchips and fiberboard are produced as by-products. This segment contributed 27.8% of the Group's revenue for the year ended 31 December 2020. As of 31 December 2020, the Group had a sawn timber production capacity of 1,200 thousand cubic meters, a pellets production capacity of 110 thousand tons and a fiberboard production capacity of 25 million meters squared (refers only to the fiberboard volumes produced at Lesosibirsky LDK No. 1). For further information on this segment, see "*Business—The Group's Operating Segments—Forestry Management and Woodworking.*"

Sawn timber is primarily utilized in the construction and furniture markets, and is also used as an intermediate material to produce the Group's glulam products and CLT panels. Woodchips are by-products of the sawn timber production process and are used in pulp production, fiberboard production and as an environmentally friendly fuel source. Pellets are used primarily as fuel for power generation, commercial or residential heating and cooking. Fiberboards are manufactured in a wide range of thickness and sizes for use in construction, furniture and packaging end markets. In addition, the Group's wood harvesting operations are also accounted for in this segment, including all logging activities. Sawlogs, pulpwood and veneer logs from the forestry regions are supplied to all Group business segments for use as a raw material and to some external customers at market prices. For the year ended 31 December 2020, approximately 89% of sawlogs at the Group's woodworking facilities in this segment were supplied by the Group's own forest resources, with 2,313 thousand cubic meters of sawlogs supplied by internal forestry resources, and 279 thousand cubic meters of sawlogs provided by third parties.

Plywood and Boards

The Group's plywood and boards segment includes the production of birch plywood. Fiberboards and briquettes are produced as by-products. For the year ended 31 December 2020, the plywood and boards segment contributed 11.1 % of the Group's revenue and had a plywood capacity of 192 thousand cubic meters and a fiberboard capacity of 26 million meters squared. For further information on this segment, see "*Business—The Group's Operating Segments—Plywood and Boards.*"

The Group's birch plywood is characterized by excellent strength and stiffness properties and therefore performs very well for end-use applications demanding high strength and rigidity. The Group's plywood can be fully customized and routed into any size and thickness, including higher margin large size and specialty plywood products. The Group's plywood is used primarily in the construction, transportation, furniture, flooring and packaging markets. Fiberboard production is focused on medium density fiberboard in a range of thicknesses and sizes applicable in manufacturing doors and wall panels, construction, wood moldings, furniture and packaging for mechanically engineered goods. Briquettes are a wood fuel source made from sawdust and, being dry and dense, can be used more effectively for burning than a traditional log or firewood.

Other (including glulam and non-revenue generating parts of the Group)

This segment can be split into non-revenue generating components (which includes the management company, holding companies and certain logistics and personnel) and revenue generating components. The latter category principally consists of glulam (glued laminated timber), glulam-based home kits, CLT panels and sawn timber. Glued laminated timber, also called glulam, is a type of structural engineered wood product consisting of layers of dimensional lumber bonded together with durable, moisture-resistant structural adhesives. For the year ended 31 December 2020, this segment contributed 9.4% of the Group's revenue and had a glulam (including home kits) capacity of 100 thousand cubic meters. The sawn timber produced in this segment is mainly used internally for glulam production, as well as sold externally. For further information on this segment, see "*Business—The Group's Operating Segments—Other (including Glulam).*"

Glulam is highly durable and moisture resistant, and can be used to produce large pieces and unique shapes, and is widely used in the construction of wooden houses, ceilings in multi-story buildings, load bearing structures, rafter systems, stairs, claddings and other applications. Pre-fabricated housing kits are used to construct wooden houses and multi-story buildings and are manufactured using glulam beams and glued timber. CLT panels are made by gluing together softwood lumber in perpendicular layers, resulting in a panel with a strength comparable to concrete whilst being superior in terms of weight, cost-efficiency, sustainability, sound absorption and insulation.

The following table sets forth an overview of the Group's production volumes across key product lines for the years ended 31 December 2020, 2019 and 2018.

Key Product Lines	**2020**	**2019**	**2018**
Sack Paper (thousand tons)	379	365	354
Paper Sack (million pieces)	1,291	1,262	1,286

Artificial parchment and sack paper (thousand tons)[1]	23	22	21
Sawn Timber (thousand cubic meters)	1,192	1,014	924
Pellets (thousand tons)	88	72	6
Plywood (thousand cubic meters)	192	192	136
Fiberboard (million meters squared)	51	51	50
Glulam products (thousand cubic meters)	38	55	51
Prefabricated home kits (thousand cubic meters)	19	28	26

(1) Production volumes at Sokol Pulp and Paper Mill ("**Sokol PPM**").

The following table sets forth an overview of the Group's production capacity volumes across key product lines and annual allowable cut ("**AAC**") for the year ended 31 December 2020.

Paper production capacity (thousand tons)	**409**
Segezha Pulp and Paper Mill ("**Segezha PPM**")	384
Sokol PPM	25[1]
Paper sacks production capacity (million pieces)	**1, 388**
Segezha Packaging Russia	668
Segezha Packaging Europe	720
Sawn timber input capacity (thousand cubic meters)	**3,207**
Lesosibirsky LDK No.1	1,500
Onega Sawmill	560
Karelian Wood Company	300
Segezha Sawmill	297
Sokol Timber Company	550
Pellets production capacity (thousand tons)	**110**
Lesosibirsky LDK No.1	110
Plywood production capacity (thousand cubic meters)	**192**
Vyatsky Plywood Mill	192
Fibreboards production capacity (million meters squared)	**51**
Vyatsky Plywood Mill	25
Lesosibirsky LDK No.1	26
Glulam production capacity (thousand cubic meters)	**100**
Sokol Timber Company	100
AAC (million cubic meters)	**10.2**[2]

(1) Production capacity volume for artificial parchment and sack paper.
(2) Access to additional 2.1 million cubic meters of AAC is contingent on the execution of agreed and approved terms of PIPs applications, as of 31 December 2020.

History of the Group

The Group was founded in September 2014, when Sistema PJSFC acquired and consolidated a 100% stake in OJSC Segezha Pulp and Paper Mill and LLC Derevoobrabotka-Proekt from the Bank of Moscow, thereby establishing the Group. Since this date, the Group has implemented a number of large-scale investment and maintenance projects, investing over RUB 49 billion in transforming the Group into an efficient, fully integrated platform. Through strategic investments, the Group aims to modernize its asset base and construct new assets, increase capacity and operational efficiency, maintain cost leadership, improve self-sufficiency in wood supplies through forestry expansion and pursue environmental and sustainability goals. The Group has a successful development track record and has a pipeline of approved investment projects aimed at furthering its strategic goals "*Business—Investment Projects.*"

The following is a summary of key investment projects and acquisitions completed by the Group since its formation:

August 2015	Launch of a new automated line producing paper sacks for dry mixtures and cement (capacity of 90 million sacks per year).
December 2015	Launch of a new veneer processing line in Vyatsky Plywood Mill.
February 2016	Acquisition of Lesosibirsky LDK No. 1 (approximately 150% increase in aggregate output of sawn timber).
March 2016	Launch of a paper-sack mill in Salsk, Rostov Region (with capacity of 90 million sacks per year).
November 2017	The commissioning of paper machine No. 11 by Voith at Segezha PPM (approximately 30% increase in sack paper capacity).
July 2018	Launch of a new plywood production line at Vyatsky Plywood Mill (with birch plywood production capacity of 192 thousand cubic meters).
October 2018	Launch of a new consumer packaging line in Salsk, Rostov Region (capacity of 25 million pieces per year).
December 2018	Launch of the first stage of pellet production in Lesosibirsky LDK No. 1 (capacity of 80 thousand tons per year).
January 2019	Launch of a 120 tons per hour multi-fuel boiler at full capacity at the Segezha PPM.
November 2019	Launch of a new industrial packaging production line in Salsk, Rostov Region (capacity of 83 million sacks per year).
January 2020	Acquisition of Karelian Wood Company LLC (approximately 10% increase in annual allowable cut in Karelia).
April 2020	Launch of the second stage of pellet production in Lesosibirsky LDK No. 1 (capacity of 30 thousand tons per year).
June 2020	Replacement of the splicing line at Sokol Timber Company (increase in production of laminated beams by 20%).
November 2020	New line for production of paper packaging launched at Segezha Packaging Russia (capacity will increase by 87 million pieces per annum).
February 2021	Launch of Sokol CLT plant at Sokol Timber Company (CLT panel production capacity of 50 thousand cubic meters per year).
February 2021	Acquisition of Trust Bank PJSC’s and Troika Leasing LLC’s right of claim for Novoyeniseysk-Wood Chemical Complex (“**NLHK**”) loans payable and other payables totaling RUB 11.5 billion and rights to conclude call option for 71% of control in NLHK, for RUB 2.3 billion.

Key Strengths and Competitive Positioning

Leadership in attractive market segments

The Group holds leading positions across a number of key segments by product capacity. As of 31 December 2020, the Group is ranked second globally in multiwall sack paper by product capacity and ranked second globally in industrial paper sacks by product capacity, according to Fisher International, and ranked fifth globally in birch plywood by product capacity and first in Russia in sawn timber by product capacity, according to Vision Hunters.

Robust long-term growth across these market segments is driven by a diversified set of macro and end-market trends. In particular, demand for the Group’s products is supported by globalization, economic growth, population growth and urbanization, as well as the global trend for sustainability. For example, according to Fisher International, the forecasted increase of the global population with compound annual growth rate (“**CAGR**”) of 0.8% to 9.8 billion in 2050 will drive increased construction activity, industrial production and retail activity. In addition, increased focus on sustainability and consequent demand for wood-based products globally has resulted in a growing demand for the use of sustainable raw materials across products, a trend which is expected to continue. Wood-based products are not only recyclable, but are produced with significantly lower emissions – according to Euroconstruct, the carbon dioxide emitted in the production of a 25 kilogram paper cement sack is almost three times lower than the carbon dioxide emitted in the production of a 25 kilogram plastic cement sack (71 grams compared to 192 grams, respectively). Globalization and economic growth have contributed to end market trends such as strong consumer demand for sustainable fiber-based packaging and bags, growth in construction, increased demand for housing and furniture and growth in e-commerce. Population growth and urbanization have contributed to long term growth in global construction and therefore demand for sawn timber, birch plywood, glulam, home kits and CLT panels (for further information, see "*Industry Overview—Sack and kraft paper market overview—Key paper market drivers—Megatrends: Economic and population growth*). The construction market typically constitutes between 60-65% of demand for the Group's products and, as such, growth in this market may be particularly advantageous for the demand outlook for products across the Group's portfolio "*Operating and Financial Review—Key Factors Affecting Results of Operations—Demand for the Group's Products.*" These are the core long-term drivers of growth for the Group's key product markets, and stimulate demand for the Group's products. According to Vision Hunters and Fisher International, the predicted CAGR for the group's products from 2019-2025 are 2.5% for multiwall sack paper, globally; 2.5% for paper sacks, globally; 5% for consumer paper packaging, in Russia; 1.4% for birch plywood, globally; and 2% for sawn timber, globally.

In addition, the Group's leadership in attractive market segments is demonstrated by the growth of its production capacity, which can be attributed to the Group's investment in its growth and expansion. From 2015 to 2020, the Group's production capacity for paper has grown by approximately 54%, from 265 thousand tons per year to 409 thousand tons per year and the Group's production of plywood has doubled, from 95 thousand cubic meters per year to 192 thousand cubic meters per year. In addition, the Group's sawn timber production has tripled from 2015 to 2020, from 386 thousand cubic meters per year to 1,192 thousand cubic meters per year.

Further, stronger environmental awareness has led to sustainability trends such as substitution of plastic products, demand for biodegradable materials and a market preference for environmentally friendly producers/ products. Growing demand for sustainable materials across product lines is bolstered by a supportive regulatory environment. The European Union Directive (EU) 2019/904 of the European Parliament and of the Council of 5 June 2019 on the reduction of the impact of certain plastic products on the environment is just one example of the regulations imposed across many countries to prohibit or limit single-use plastics. Further, China and a number of Latin American companies have implemented regulations to limit the size of cement packaging, which has stimulated demand for sack paper and packaging products. The Group believes that it is well-positioned to leverage these trends in its favor, as a leading producer in its key markets of plant fiber-based materials, which are increasingly relevant given the current global focus on indecomposable waste reduction, ocean plastic pollution and climate change. The Group has positioned itself to demonstrate a strong focus on ESG whilst leveraging these trends for the benefit of its business. For more information, see "*—Strategically positioned for the global transition to sustainable materials and committed to best practices in ESG.*"

Well-invested large scale operational platform with strategically located assets

The Group has a large and diversified asset base, including production facilities and mills in proximity to its forestry resources, as well as converting plants that are strategically located to service its key markets. The Company has also made substantial investments to build and modernize its production platform and launch attractive niche products since 2014. Through organic growth, modernization and acquisitions, the Group has become a fully integrated and diversified forestry, pulp and paper packaging and woodworking platform. For further information on the Group's operating facilities, see "*Business—The Group's Business Model.*"

The Group has a track record of executing large and complex investment projects in order to improve the productivity of its plants and contribute to its organic growth. Between 2015 and 2020, the Group invested approximately RUB 49 billion into development of its asset base, resulting in over 50% growth in sack paper production capacity, doubled plywood production capacity and tripled sawn timber production volumes, as well as significant growth in logging volumes. Between 2018 and 2020, the Group's ROCE averaged 21%. Since 2015, the Group has successfully implemented numerous investment projects with no time or budget overruns, including, but not limited to, the following (ordered by operating segment):

Segment		**Investment Amount (RUB bn, excluding VAT)**
Paper and Packaging		
2020	Launch of a new production line for 90 million industrial paper sacks in Segezha	0.9
2019	Commissioning of a new semi-automatic line for industrial sacks at the Salsk facility with a capacity of 90 million sacks	0.5
2018	Launch of a multifuel boiler at Segezha PPM	3.1
2017	Modernization of a digester at Segezha PPM to increase cooking capacity of pulp by 28%	2.3
2017	Commissioning of Paper Making Machine No. 11 at Segezha PPM to increase sack paper capacity by 30%	9.4
2016	Modernizing the paper sack mill in the Rostov region to increase production by 90 million sacks per annum	1.4

Forestry Management and Woodworking		
2020	Acquiring the Karelian Wood Company LLC in 2020, resulting in a more than 10% increase in AAC in Karelia	0.8
2020	Launch of the second stage of pellet production in Lesosibirsky LDK No. 1 (capacity of 30 thousand tons per year).	0.2
2018	Launch of the first stage of pellet production in Lesosibirsky LDK No. 1 (capacity of 80 thousand tons per year).	0.7
2016	Acquiring Lesosibirsky LDK No. 1, resulting in a 150% increase in the aggregate output of sawn timber	5.2
Plywood and Boards		
2018	Launching a new line at the Vyatsky Plywood mill to double plywood production	5.7
Other		
2021	CLT plant at the Sokol Timber Company, which has a 50 thousand cubic meter CLT panel capacity	1.9
2020	Replacing the existing line at Sokol Timber Company resulting in a 20% increase in the production of laminated beams	0.5

Balanced revenue mix and geographical diversification

The Group aims to maintain an export-oriented sales strategy with high diversification of markets, sales channels and products. For the year ended 31 December 2020, the Group derived 28% of revenue from domestic Russian sales and 72% of its revenue derived outside of Russia, with a geographic breakdown of revenue as follows: 31.6% from Europe, 23.6% from Asia, 9.9% from the Middle East and North Africa and 6.9% from other regions.

In terms of distribution channels, the Group is focused on growing direct sales to end customers (as opposed to using third-party intermediaries, who charge fees to facilitate sales, or selling the products to international traders) in segments where the market structure allows for this (such as sack paper, paper sacks, plywood and sawn timber markets), with a target to secure higher margins.

For the year ended 31 December 2020, 72% of the Group's revenue derived outside of Russia in foreign currencies, primarily EUR and USD. With a predominantly ruble-based cost structure, this provides an advantage to the Group given the relative weakness of the ruble against USD and EUR.

The Group also has geographically diverse product markets. The export destinations for the Group's key products are diverse and cover over 100 countries, with no destination accounting for more than 20% of sales within a product group (the exception being sawn timber, for which 48% of total sales are made to China). For further information, see Note 4 to the consolidated financial statements as of and for the year ended 31 December 2020.

Further, diversification of products combined with control over raw wood supply allows the Group to speed up or slow down production between facilities and products as needed. For further information, see "*Operating and Financial Review—Key Factors Affecting Results of Operations—Revenue and Profitability Mix of the Group's Business.*"

Extensive and fast-growing forestry resource base

A key competitive advantage of the Group is its management of an extensive forestry resource base with ample opportunity for expansion. In the year ended 31 December 2020, Russia held the largest forest resources globally, as well as approximately 50% of the world's softwood according to the UN Food and Agriculture Organization Global Forest Resources Assessment report (2015), a key component of many pulp and paper and forestry products.

As of 31 December 2020, the Group has the largest forestry area in the European part of Russia, with an AAC of 8.1 million cubic meters. As of 31 December 2020, approximately 80% of the Group's wood requirements were met by its own harvesting operations, which the Group believes give it a competitive advantage due to increased control over its cost of production. The Group also has in place Priority Investment Projects in Forest Development ("**PIPs**"), a government mechanism that provides various benefits and investment incentives, including preferential terms for the lease of forest plots, in exchange for an obligation to create or modernize forestry and timber processing infrastructure facilities. The main focus of the PIPs is to aid forestry companies to reorient business strategies from mostly logging operations to sawmilling and timber-processing operations and to bring new investments into the industry. Projects selected for priority status must meet strict selection criteria, and projects that are awarded priority status are able to sign forest lease agreements with additional AAC. As of 31 December 2020, the Group has approved PIPs that secure an additional 2.1 million cubic meters of AAC (from an additional 1.1 million hectares of forest area), the harvesting of which is contingent on the execution of agreed and approved terms of PIPs applications.

For further information, see "*Business—The Group's Business Model—Harvesting raw materials*."

The Group's substantial forestry resource base provides advantages including:

- *Supply Security:* As forests are held under long-term lease agreements up to 49 years, the Group has long-term access to timber resources at moderate and predictable costs. The weighted average remaining lease length of the Group's forest leases is 28 years. In line with its strategy to maintain strategically located assets, the Group's forest resources are located in close proximity to its production facilities, which creates economic and logistical benefits.

- *Cost Control:* By using its own raw materials and minimizing transport costs from forests to sawmills, the Group aims to ensure the consistency and quality of its wood supplies, enabling the Company to consistently maintain attractive margins and therefore the cost competitiveness of the Group's products, given that the availability of own-harvesting operations is an effective method of controlling manufacturing expenses. The Group's harvesting costs are highly stable and predictable.

- *Expansion optionality:* Maintaining a high degree of self-sufficiency in wood supplies through AAC expansion is a strategic priority for the Group. In addition to the signed PIPs that grant an additional 2.1 million cubic meters of AAC, the Group is well positioned to further expand its forestry resource base in the future against the backdrop of government support for additional high value-added projects granting access to forestry resources (for further information, see "*—Strategy—Pursue value-accretive growth opportunities*").

Advantageous cost position and fully integrated business model driving strong profitability

Full vertical integration, from harvesting operations to converting facilities, is a key component of the Group's business model, with a focus on driving towards 100% utilization of wood resources, adding value across the production chain and securing business stability. For more information on the Group's business model, see "*Business—The Group's Business Model*."

The Group's in-house production of raw materials is key to enabling the Group to manage its costs, as the prices for externally sourced materials can be unpredictable (for further information see "*—Extensive and fast-growing forestry resource base*"). The Group primarily utilizes its own raw materials throughout the production process. For example, at the Group's sawn timber production facilities, approximately 89% of saw logs are sourced from the Group's own forestry resources; at the Group's paper and packaging production facilities, approximately 81% of pulpwood and chips are sourced internally while 29% of sack paper is shipped for further processing at the Group's own converting facilities; approximately 80% of the Group's forest harvesting is used to meet internal demand. By-products are consumed internally or sold to third parties: woodchips are utilized at the Group's PPMs in the pulp cooking process, bark is used for energy generation at the Group's facilities, and pellets and briquettes are sold to third parties.

The Group has achieved an advantageous cost position and efficiencies across the value chain as a result of its fully integrated business model. The Group's high levels of vertical integration enable it to actively manage raw wood costs and keep them stable over time. This stability is also supported by an attractive production cost environment in the Russian market as compared to that of global peers. The Group therefore benefits from low costs both in forestry inputs and end products, with costs of timber harvesting which are two to three times lower than those in other regions and a low cost of wood, giving the Group strong cost positions compared to its competitors, according to Vision Hunters (see "*Industry Overview—Forestry resources overview—Log prices—Softwood logs mill gate price (US$/m3), Q4'2020*"). In the third quarter of 2020, the Group was the only top-five producer located in the lowest quartile of the multiwall sack paper cost curve, according to Fisher International. For further information, see "*Business—The Group's Business Model—Key elements of the Group's business model—Cost management*."

The Group has a strategic focus on a number of cost reduction measures, such as increasing the percentage of its direct sales in order to reduce costs incurred from distributors. Between 2018 and 2020, the Group's percentage of direct sales increased from 61% to 68% for paper packaging in Russia; from 15% to 21% for plywood (overall, a high share of distributors are sustained as plywood is sold through local market warehouses in small consignments) and from 11% to 39% for woodworking products. Direct sales of paper packaging in Europe are already at 98% due to the proximity of converting facilities to customers in Europe. The Group is also able to reduce its energy costs through the production and usage of its own biofuels, and has invested in multifuel boilers that are powered by the products naturally produced in the

Group’s manufacturing process. For example, the Group utilizes wood residuals produced as by-products for energy generation in Segezha PPM and Onega Sawmill.

The Group has achieved additional efficiencies through its logistics infrastructure. Further, in 2019, the Group implemented an investment project to automate its transportation logistics by automating the tendering of long-term transportation contracts and building an instrument to generate timetables and rules for booking transportation vehicles for loading, and is now equipped with fully automated processes for domestic and export transportation. This automation has assisted in cutting export and domestic transportation costs by 35% and 25%, respectively, in the year ended 31 December 2019 compared to 2018. The Group has developed its logistics infrastructure across the regions in which it operates, which among other things improves the transport accessibility of such territories. For further information on the Group’s cost structures, including logistics costs, see “*Business—The Group’s Business Model—Logistics*.”

A vertically integrated business model and resulting cost controls contribute to high margins as well as stable and sustainable returns for the Group. Between 2015 and 2020, the Group’s revenue and OIBDA more than doubled, with revenue increasing from RUB 32,961.8 million to RUB 68,986.6 million and OIBDA from RUB 6,212.9 million to RUB 17,458.9 million. In addition, the Group has achieved strong financial performance in recent years, with an OIBDA CAGR of 15% from 2018 to 2020. The Group has also maintained high profitability, with an OIBDA margin of approximately 25% in 2020.

Strategically positioned for the global transition to sustainable materials and committed to best practices in ESG

The Group is focused on fiber-based products from a well-managed, renewable source in the form of its forests resources. This focus on sustainable forestry use and sustainable products is supported by consumers and is encouraged from a regulatory perspective. As such, the Group’s operations are guided by sustainable development principles based on the United Nations Global Compact, an initiative of the United Nations focused on corporate social responsibility. The Group has implemented a number of initiatives to reduce environmental impact in the areas of reforestation, sustainable forest management and corporate social responsibility.

The Group takes a number of existing measures to address environmental concerns and reduce its carbon footprint. For example, production of biofuel in the form of pellets, briquettes and woodchips is also a core aspect of the Group’s approach to environmental, social and corporate governance (“**ESG**”), as renewable and environmentally friendly fuels are popular in many markets including Europe and North America. In 2019, the Group constructed a large multi-fuel boiler at the Segezha PPM that burns wood residuals as production wastes to produce power with the minimal impact on the environment. The boiler provides a means to utilize wood residuals and effluent sludge as fuel, while concurrently reducing the consumption of fuel oil up to 30% and decreasing the atmospheric discharge up to 40%. Further, two thermal oil heating systems and two saturated steam generation plants are in operation at the Vyatsky Plywood Mill. All plants run on bark and wood residuals and provide heat for the process, while reducing the atmospheric discharge by 44.5%.

The Group’s commitment to sustainable forestry practices is also demonstrated by its adherence to international certification standards. The Group has voluntarily certified its entire wood procurement chain, including all forest harvesting, management units and wood processing units, in accordance with the requirements of generally recognized international standards. Further, 83% of the Group’s leased forests are voluntarily certified in accordance with generally recognized international standards, and the Group is systematically working on increasing the certification level of its forest area up to 100%. The Group has created a wide reforestation program and aims to reforest the areas where it harvests timber. The Group’s reforestation activities increased in each of the years ended 31 December 2020, 2019 and 2018, with reforestation areas of 29 thousand hectares, 26 thousand hectares and 23 thousand hectares, respectively, which consisted of 90%, 89% and 81% of the harvested area, respectively. Reforestation expenditures increased in each of the years ended 31 December 2018, 2019 and 2020, with investments of RUB 56 million, RUB 98 million and RUB 142 million, respectively. The Group also contributes to, and has strong relationships with, local governments and global associations focused on climate change and position ESG agendas.

The Group is also committed to minimizing injury frequency rates and avoiding accidents through the implementation of technical and organizational activities aimed at industrial injury prevention. In the year ended 31 December 2020, the Group had a low lost time injury frequency rate of 2.1 per million hours worked. One of the Group’s strategic goal is to become a leading forest industry company in terms of industrial safety. For more information, see “*Business—Environmental, Social and Health and Safety Matters—Health and Safety.*”

The Group is committed to a robust ESG agenda, and has demonstrated this commitment through its charity work, environmental efforts and social strategy. In April 2021, the Group implemented a new Sustainability Strategy and ESG Policy that set out key ESG and sustainability targets for 2025. For further information on the Group’s approach to ESG and sustainability, see “*—Strategy—Maintain high ESG standards and continue focus on sustainability.*”

Robust project pipeline to deliver organic growth

The Group aims to achieve organic growth through the implementation of investment projects that improve productivity and operating efficiency, and the Group has a strong track record of executing such investment projects (for further information, see "*Business—Investment Projects*"). As of the date of the Offering Memorandum, the total growth capex (capital investments aimed at increasing production capacity) for the current project pipeline is RUB 32 billion, of which RUB 23 billion is attributed to Ongoing and New Investment Projects in 2021-2025 and RUB 9 billion is attributed to Other Projects (each as defined below). In addition, the Group aims to focus on long-term attractive market segments and launch new high-margin value added products. To meet the Group's minimum investment criteria, new projects must have an expected internal rate of return ("**IRR**") in excess of 25% and a return on capital employed ("**ROCE**") in excess of 20%. Through realization of the investment program, the Group targets increased output and operating efficiency contributing to OIBDA growth, reduction in costs and a higher OIBDA margin.

The Group has a robust portfolio of value accretive projects to be commissioned by the year ended 31 December 2021, which are expected to contribute to earnings in the near term. Short-term investments are focused on naturally low-risk selective expansion, efficiency improvement and modernization. Of the Group's current pipeline of short-term investments, approximately 35% of capex for projects in implementation, or RUB 3 billion, has already been invested. For further information, see "*—Strategy—Pursue value-accretive growth opportunities*" and "*Business—Investment Projects—Capital Expenditure and Investment Projects—Projects in implementation.*"

Experienced management team supported by a listed reputable shareholder

The Group benefits from an experienced management team with a strong track record in the pulp and paper sector as well as other relevant industries, including strategy consulting, finance, sales and customer support, product management and sustainability. With an average of approximately 19 years of relevant experience, members of the Management Board bring extensive industry knowledge while leveraging their understanding of the strategy and working practices of the Group; in particular, Mikhail Shamolin (previously the CEO of MobileTelesystems and Sistema PJSFC), currently the CEO, President and Executive Board Chairman, utilizes his substantial industry knowledge for the benefit of the Group. Further, the Group's approach to corporate governance centers on strict compliance with the law and adherence to best practices in corporate governance and transparency. Five of the nine members of the Group's Board of Directors are independent directors, and the Board is supported by three committees focused on audit, strategy and sustainable development, and nomination and remuneration.

The Group also benefits from strong support from its majority shareholder Sistema PJSFC, a reputable private investor in the Russian economy which is itself listed on the London Stock Exchange and MOEX, with a track record of creating and/or growing leading industry players (including Ozon, MTS, Detsky Mir and Etalon Group) and bringing eight portfolio companies to public markets. Sistema PJSFC, and its senior management, directly and indirectly control 100% of the Ordinary Shares as of the date of this Offering Memorandum. The Group's governance mechanisms are in line with market best practices, with independent directors accounting for over 50% of the Board of Directors. Board committees include audit, strategy & sustainable development and nomination & remuneration, all of which are chaired by independent directors. For further information, see "*Management and Corporate Governance*."

Strategy

The Group's strategy focuses on expansion of its forest land under long-term lease, value-accretive projects providing further integration into processing, development of new products and efficiency improvements and a focus on high ESG standards and sustainability, as further described below.

Strengthen market leadership within key segments

The Group aims to strengthen its position in certain key product segments by focusing on export-oriented sales and growing its sales presence by targeting specific countries. These key product segments include sack paper, industrial paper sacks, consumer paper bags, birch plywood, pellets and other products. The Group also plans to focus on growing its proportion of direct sales for key products, such as paper sacks in Russia, sawn timber, birch plywood and sack paper, supported by its significant access to forestry resources and commitment to producing high-quality products. The Group aims to grow its proportion of direct sales by building close relationships with large industrial end users. For further information, see "*Business—Revenue Generation*" for each of the Group's key products under "*Business—The Group's Operating Segments*."

Pursue value-accretive growth opportunities

The Group continuously evaluates options for further growth and efficiency improvements and has a pipeline of additional new, value accretive investment projects which aim to increase production and capacity, modernize the Group's facilities, launch new products and support environmental goals, including increasing the utilization of wood residuals and the optimization of energy consumption. The Group also has in place approved PIPs which secure an additional 2.1 million cubic meters of AAC, the harvesting of which is contingent on the execution of agreed and approved terms of PIPs applications. Projects selected for priority status must meet strict selection criteria, and projects that are awarded with priority status are able to sign forest lease agreements with additional AAC. New investments are focused on the expansion and upgrade of the capacity of select brownfield projects, development of the Group's packaging business and increasing the Group's share of own logging and wood processing. The Group's strategy for selecting future investments is based on developing its competitive advantages, such as increasing its share of own logging and wood processing depth, focusing on attractive market segments and increasing utilization of wood residuals and optimization of energy consumption. For further information, see "*Business—Investment Projects.*" In implementing its growth strategy, the Group aims to ensure an optimal balance between the pace of investment program, positive free cash flow profile, dividend proposition, and conservative leverage.

The Group has commissioned projects to increase the production capacity of product lines in several facilities, as well as projects that modernize and debottleneck existing capacities. Examples of such projects include the Segezha PPM modernization, the construction of Galich Plywood Mill, and the construction of a CLT-panel plant at Sokol Timber Company. In the near-term, the majority of the Group's projects involve expanding or improving on existing facilities, with lower associated risks given the brownfield nature of the projects. In addition, subject to a suitable funding structure (with minimal equity participation expected from it), the Group is considering a further long-term growth opportunity, Segezha West, which would involve the construction of a new pulp mill at the site of Segezha PPM in Karelia, designed to expand the Group's product portfolio and increase its capacity by 850 thousand tons to 1,500 thousand tons of pulp production per year. The execution of the Group's long term capex program is part of the capital allocation framework, which is also aimed at securing a robust capital structure and efficient free cash flow profile. For further information, see "*Business—Investment Projects*"

The Group's investment criteria is for investment projects to have an IRR of over 25% and a ROCE of over 20%. For the years ended 31 December 2018, 2019 and 2020, respectively, the Group has achieved a ROCE of 22%, 19% and 22%. For further information, see "*Business—Investment Projects*" and *"Operating and Financial Review—Liquidity and Capital Resources.*" From 2015 until 31 December 2020, the Group's total expenditure on investments amounted to RUB 49 billion, and OIBDA more than doubled. The Group's investment and modernization efforts have resulted in an efficient and large scale asset base that, in the Group's view, gives it a strong competitive advantage against the backdrop of the considerable barriers to entry within the packaging solutions and forest products industries, including high new build costs, long investment cycles and the necessity of securing raw materials.

The core production facilities of the Group are strategically situated in the European part of Russia, benefitting from their proximity to wood resources, with comfortable access to logistics channels, including auto, rail and sea, to key international markets. Converting plants and manufacturing facilities are strategically located in close proximity to core markets such as large construction sites, thus securing reliable sales channels.

The Group is also working on introducing new products, such as: increasing the Group's share of high-margin products, such as special films, coatings and treatment; and increasing the Group's sack paper converting capacity. For example, the Group is expanding its premium plywood production capacity through development of the Galich Plywood Mill, which is expected to increase the plywood manufacturing capacity of the Group as discussed above. In addition, in 2021 the Group aims to add approximately 300 thousand cubic meters of sawn timber per annum and approximately 60 thousand tons of pellets per annum through a potential M&A transaction.

Another way in which the Group aims to expand its product and capacity is through selective inorganic opportunities (growth arises from acquisitions). The forest, paper and packaging sector is relatively fragmented and there are various opportunities for the Group to strengthen its offering and asset base, specifically opportunities in the logging sector and Russia. The Group has strong expertise in integration and a robust acquisition track record, such as its acquisition of Lesosibirsky LDK No.1 in 2016 and the acquisition of Karelian Wood Company LLC in 2020. Management believes that the Group is well-positioned to pursue further opportunities in future.

Enhance further operating efficiency and resiliency of the business

The Group continually works to further enhance the operating efficiency and resiliency of its business. One of the ways the Group aims to achieve this goal is by optimizing its production costs, investing in its own logging operations and increasing the utilization of its forest resources. The Group's aim to grow its timber self-sufficiency (for further information, see "*—Key Strengths and Competitive Positioning—Extensive and fast-growing forestry resource base*") not only has the objective of ensuring a secure supply of raw material, but also enables the Group to maximize its production and vertical efficiency. Another way in which the Group seeks to increase its efficiency is through the optimization of its procurement function and supply chain processes, by ensuring that purchases and deliveries are made on schedule, certifying the quality and cost effectiveness of supplies, maintaining centralized procurement and category management and increasing its share of long-term supply contracts. In addition, the Group has begun to implement the SAP S/4HANA control system to improve process control and automation, with expected benefits including higher accuracy in the execution of production goals, reduction in emergency shutdowns and in warehouse inventories, optimization of transportation costs and acceleration of financial modeling and planning. For further information on the Group's contracts framework for each product, see "*Business—The Group's Operating Segment*."

The Group also seeks to maximize the utilization of its resources by reducing waste wood through conversion into biofuel and launch of new products. The Group produces power, heat, sulfonates, tall oil, fiberboards, pellets and briquettes from by-products and wood residuals generated as by-products, and uses these at other stages of its production process. For example, a boiler plant will be installed at Sokol Timber Company that will use strips of bark, a by-product, as fuel. This bark will replace sawdust, which will instead be utilized for additional production of pellets. Other examples of this approach to utilization of resources include the multi-fuel boilers at Segezha PPM, the thermal oil heating systems at Vyatsky Plywood Mill and ecological pellet productions at Lesosibirsky LDK No. 1. For further information, see "*Business—Environmental Social and Health and Safety Matters—Green production*" and "*—Key Strengths and Competitive Positioning—Strategically positioned for the global transition to sustainable materials and committed to best practices in ESG*." The automation of day-to-day operations, the periodic upgrade of informational technology systems and the development of risk management are also factors that contribute to the Group's goal of further enhancing its operation efficiency.

Commitment to prudent financial policy supporting growth ambitions

The Group seeks to proactively manage its debt maturity profile, focusing on refinancing shorter-term indebtedness and extending current loans, in addition to maintaining diversified and cost-effective sources of funding, such as bank debt, syndicated loans and pledge free public instruments. The Group aims to substitute a large proportion of its liabilities with public debt.

Management believes the Group is well-positioned to maintain a robust balance sheet due to strong operating cash flow generation, stemming from a well-invested asset base which is being strengthened by the commissioning of several high capital expenditure projects currently in progress, including the modernization of Segezha PPM, the construction of Galich Plywood Mill as well as other paper packaging projects. Management aims for the Group to build on this platform through its planned capital expenditure program, and targeted growth ambitions, while maintaining its prudent financial policy and meeting its existing financing obligations. The Group's growth ambitions are focused on naturally low-risk, selective expansion, which envisages IRRs above 25% in completed projects and ROCE of above 20%, consistent with the Group's track record. For further information on the Group's prudent growth strategy, see "*—Pursue value-accretive growth opportunities*." In addition, in the mid-term the Group targets a net debt / OIBDA ratio of 2.0, inclusive of the proceeds from the Offering and subject to market conditions, while being committed to its dividend policy (see "*Dividend Policy*").

Maintain high ESG standards and continue focus on sustainability

The Group is committed to maintaining high ESG standards and best practices in sustainability. The Group's selected sustainability strategy milestones by 2025 include the following: 100% of forest certifications in accordance with the requirements of generally recognized international standards, 100% of the investment projects to meet high ESG standards and 50% of green financing in the Group's capex program. One of the ways in which the Group maintains this is through promoting the green agenda and through its effective application of circular economy and reduction of hazardous emissions. Since 2018, the Group has reduced the level of emissions by 16% from 561 thousand tons to 469 thousand tons for the years ended 31 December 2018 and 2020, respectively, and has increased the use of recycled water by 11%, from 36% to 47%. For further information, see "*—Key Strengths and Competitive Positioning—Strategically positioned for the global transition to sustainable materials and committed to best practices in ESG*."

ESG is a key component of the Group's long term strategy. In the year ended 31 December 2020, the Group spent RUB 439 million on environmental investments, provided 711 employees with special environment protection education and invested RUB 603 million into investment projects with direct or indirect environmental impact. Key environmental investment projects include the following:

- *Multi-fuel boiler, Segezha PPM*: The boiler utilizes wood residuals as the fuel, which reduces fuel oil consumption up to 30% and atmospheric discharge up to 40%.
- *Effective use of side products, Vyatsky PM*: The site contains 2 thermal oil heating systems and 2 saturated steam plants which run on bark and wood residuals, to provide heat for the process and reduce atmospheric discharge by 44.5%.
- *Pellet plants, Lesosibirsky LDK No. 1:* The plants utilize sawdust to produce a source of fuel with reduced greenhouse gas emissions during combustion, and 1.5x higher heating value than conventional firewood.

Other ESG strategies include the Group's development of the "Decarbonization Strategy" for 2021-2022, with the support of the "Science Based Targets Initiative", which aims to estimate greenhouse gas (**"GHG")** emissions in 2021 and mitigate those emissions in key regions, and the development of its environment impact management system, which involves multiple ISO re-certifications, certifications in over 10 production units across the Group's mills and obtaining complex ecological permits for PPMs in Segezha and Sokol by 2025. In collaboration with the GFA Consulting Group, the Group is also conducting an inventory of its GHG emissions in the Karelia region, with plans to expand into other regions in due course. In all regions in which it is present, the Group has in place agreements on cooperation and memorandum of intention, which are intended to provide support from the government for the implementation of investment projects. These agreements relate to the development of social and economic environments in "mono-towns" and climate change regulations. Since 2016, three PIPs have been successfully completed with the support of federal and local authorities and further priority projects have commenced. The Group is fully compliant with regulatory requirements, including holding certifications in accordance with the requirements of generally recognized international standards, and is a member of international voluntary sustainability initiatives such as the United Nations Global Compact. In addition, a key strategic priority for the Group is industrial safety. The Group invested RUB 242 million in labor safety in 2020 and had a low lost time injury frequency rate at 2.1 per million hours worked.

Selected Consolidated Statement of Profit or Loss and Other Comprehensive Income
(in thousands of Russian Rubles)

	2020	**2019**	**2018**
Revenue	68,986,649	58,494,635	57,890,264
Cost of sales	(45,477,189)	(39,423,999)	(37,724,350)
Gross profit	**23,509,460**	**19,070,636**	**20,165,914**
Selling and administrative expenses	(14,545,143)	(12,548,477)	(12,353,411)
Other operating income, net	2,202,110	1,470,133	751,044
Operating profit	**11,166,427**	**7,992,292**	**8,563,547**
Interest income	176,415	73,991	70,996
Interest expense	(3,402,662)	(3,626,961)	(3,627,052)
Other finance expenses	(782,639)	-	-
Foreign exchange differences, net	(7,674,875)	2,404,415	(4,337,206)
Other income/(expenses)	18,243	(863)	(304,847)
(Loss)/profit before tax	**(499,091)**	**6,842,874**	**365,438**
Income tax expense	(848,792)	(2,091,912)	(353,229)
Net (loss)/profit for the reporting period	**(1,347,883)**	**4,750,962**	**12,209**
Other comprehensive income/(loss)			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit pension obligations	(52,420)	(81,769)	7,567
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	1,004,488	(243,574)	644,447
Other comprehensive income/(loss)	**952,068**	**(325,343)**	**652,014**
Total comprehensive (loss)/income for the year	**(395,815)**	**4,425,619**	**664,223**
Net (loss)/profit attributable to:			
Shareholders/participants of Segezha Group JSC	(1,346,726)	4,787,419	(20,483)
Non-controlling interests	(1,157)	(36,457)	32,692
	(1,347,883)	**4,750,962**	**12,209**
Total comprehensive (loss)/income attributable to:			
Shareholders/participants of Segezha Group JSC	(394,658)	4,462,076	631,531
Non-controlling interests	(1,157)	(36,457)	32,692
	(395,815)	**4,425,619**	**664,223**

Selected Consolidated Statement of Financial Position
(in thousands of Russian Rubles)

	31 December 2020	31 December 2019	31 December 2018
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	42,315,222	38,256,065	37,404,797
Right-of-use assets	14,649,041	12,017,386	11,372,345(3)
Intangible assets	1,822,070	559,324(4)	-
Goodwill	443,838	423,136	423,136(3)
Investments in joint ventures and associates	458,192	199,760	204,643
Deferred tax assets	1,132,567	658,941	542,101
Prepayments for non-current assets, net	2,482,463	1,789,897	750,022
Loans issued to related parties	1,347,870	-	-
Other non-current assets	230,470	253,564(4)	448,756
Total non-current assets	**64,881,733**	**54,158,073**	**51,145,800**
CURRENT ASSETS:			
Inventories, net	9,432,609	9,344,329(5)	10,480,502
Contract assets	1,290,658	1,307,377(5)	-
Trade and other receivables, net	5,862,900	5,378,830	6,401,838
Taxes receivable(1)	3,057,269	2,194,262	2,824,911
Advances and other current assets	1,222,277	963,440	-
Cash and cash equivalents	3,670,197	3,214,409	3,006,868
Total current assets	**24,535,910**	**22,402,647**	**22,714,119**
TOTAL ASSETS	**89,417,643**	**76,560,720**	**73,859,919**
EQUITY AND LIABILITIES			
EQUITY:			
Share/charter capital	1,194,000	12	12
Additional paid-in capital	6,323,605	7,517,593	7,648,354
Retained earnings	(345,035)	5,581,246	4,734,314
Accumulated other comprehensive income	1,569,016	616,948	942,291
Equity attributable to the shareholders/participants of Segezha Group JSC	8,741,586	13,715,799	13,324,971
Non-controlling interest	126,630	132,709	170,300
Total equity	**8,868,216**	**13,848,508**	**13,495,271**
NON-CURRENT LIABILITIES:			
Loans and borrowings	50,758,014	29,969,945	32,708,060
Lease liabilities	9,573,338	7,573,098	6,334,982
Other financial liabilities	943,358	-	-
Pension obligations	917,435	754,587	806,981
Deferred tax liabilities	1,835,476	2,048,249	1,836,877(3)
Other non-current liabilities	5,931	14,342	35,525
Total non-current liabilities	**64,033,552**	**40,360,221**	**41,722,425**
CURRENT LIABILITIES:			
Loans and borrowings	2,494,023	12,572,249	8,823,662
Trade and other payables	9,612,693	7,079,386	6,547,012
Lease liabilities	1,380,598	887,632	841,620
Provisions	559,758	392,611	772,297
Taxes payable	1,210,363	937,479	-
Advances received and other liabilities(2)	1,258,440	482,634	1,657,632
Total current liabilities	**16,515 875**	**22,351,991**	**18,642,223**
TOTAL EQUITY AND LIABILITIES	**89,417,643**	**76,560,720**	**73,859,919**

(1) “Taxes receivable and other current assets” in the consolidated financial statements as of and for the year ended 31 December 2019.
(2) “Advances received, other liabilities and taxes payable” in the consolidated financial statements as of and for the year ended 31 December 2019.
(3) Amount restated in the consolidated financial statements as of and for the year ended 31 December 2019. For further information, see Note 6 thereto.
(4) “Other non-current assets” in the consolidated financial statements as of and for the year ended 31 December 2019.
(5) “Inventories, net” in the consolidated financial statements as of and for the year ended 31 December 2019.

Selected Consolidated Statement of Cash Flows
(in thousands of Russian Rubles)

	Year ended 31 December		
	2020	**2019**	**2018**
Cash flows from operating activities:			
Net (loss)/profit for the reporting period	(1,347,883)	4,750,962	12,209
Adjustments for:			
Depreciation and amortization	5,357,137	4,954,133	4,203,028
Depreciation of right-of-use assets	915,559	1,047,685	423,058
Interest income recognised in profit or loss	(176,415)	(73,991)	(70,996)
Interest expense recognised in profit or loss	3,402,662	3,626,961	3,627,052
Other finance expenses	782,639	-	-
Gain on business acquisition	(988,745)	-	-
Income tax expense recognised in profit or loss	848,792	2,091,912	353,229
Allowance for expected credit losses	98,826	7,408	147,657
Loss on write-off of inventories	66,149	7,755	161,562
Allowance for inventory impairment	(445)	(14,356)	(5,976)
(Gain)/loss on disposal of property, plant and equipment	(341,304)	25,429	(24,181)
Foreign exchange differences, net	7,674,875	(2,404,415)	4,337,206
Reversal of impairment loss on property, plant and equipment	-	(478,887)	-
Gain on deconsolidation of Group companies[(1)]	(18,243)	-	248,345
Share in net profit of associates recognized using equity method	-	-	(140,535)
Revaluation of previously held interest in acquire to fair value	-	-	(306,246)
Other non-monetary operating expenses/(income) and other expenses/(income), net	168,329	(118,996)	(8,168)
	16,441,933	**13,421,600**	**12,957,244**
Movements in working capital:			
Decrease/(increase) in trade and other receivables	96,085	(236,646)	(1,367,506)
Decrease/(increase) in inventories	1,031,276	(445,016)	(2,850,258)
Increase in other assets	(345,682)	(1,743,511)	1,124,271
Increase in trade and other payables	213,705	1,631,549	726,392
Increase/(decrease) in other liabilities	1,075,664	(678,318)	847,361
Cash generated from operating activities	**18,512,981**	**11,949,658**	**11,437,504**
Interest paid	(2,099,438)	(2,649,048)	(2,420,233)
Income taxes paid	(1,679,085)	(1,680,242)	(519,761)
Net cash from operating activities	**14,734,458**	**7,620,368**	**8,497,510**
Cash flows from investing activities:			
Payments for property, plant and equipment and intangible assets	(11,839,256)	(6,431,770)	(6,468,603)
Proceeds on disposal of property, plant and equipment	205,023	174,112	309,717
Loans issued to joint venture	(1,490,010)	-	-
Repayment of loans issued to joint venture	1,319,540	-	-
Interest received	176,415	73,991	70,996
Cash outflow from deconsolidation of Group companies	(44,657)	-	-
Investment in joint venture	(297,178)	-	-
Imputed dividends paid[(2)]	(55,600)	(138,987)	(169,942)
Net cash outflow on acquisition of Group companies	(901,963)	(139,588)	(544,464)
Proceeds from disposal of Karelia DSP JSC	-	-	8,135
Buy out of the stake of non-controlling shareholders of Group companies	-	-	(20,665)
Other movements[(3)]	3,157	54,036	16,483
Net cash used in investing activities	**(12,924,529)**	**(6,408,206)**	**(6,798,343)**
Cash flows from financing activities			
Proceeds from loans and borrowings	22,431,413	19,982,604	37,291,058
Repayment of principal of loans and borrowings	(18,122,246)	(15,892,885)	(38,630,197)

Proceeds from return of short-term investments	-	940	254
Other finance income	160,719	-	-
Dividends paid	(4,500,000)	(3,800,000)	(1,500,000)
Lease liability payments	(1,462,324)	(1,119,117)	(945,760)
Share-based payments	(130,761)	(130,761)	-
Net cash used in financing activities	**(1,623,199)**	**(959,219)**	**(3,784,645)**
Net increase in cash and cash equivalents	186,730	252,943	(2,085,478)
Cash and cash equivalents, beginning of the year	**3,214,409**	**3,006,868**	**4,755,636**
Effect of exchange rate changes on cash held in foreign currencies	269,058	(45,402)	336,710
Cash and cash equivalents, end of the year	**3,670,197**	**3,214,409**	**3,006,868**

(1) "Loss on disposal of a Group company" in the consolidated financial statements as of and for the year ended 31 December 2019.
(2) "Deemed dividends paid" in the consolidated financial statements as of and for the year ended 31 December 2019.
(3) "Dividends received" in the consolidated financial statements as of and for the year ended 31 December 2019.

Summary of the Offering

The Company	Segezha Group PJSC.
Offering	The Offering consists of an offering of up to 3,870,967,742 Offer Shares to (i) to investors in the Russian Federation and (ii) otherwise to institutional investors outside the United States in "offshore transactions" as defined in, and in reliance on, Regulation S under the Securities Act, and (ii) within the United States to QIBs as defined in, and in reliance on, Rule 144A under the Securities Act or pursuant to another exemption from, or a transaction not subject to, the registration requirements under the Securities Act. The Company reserves the right to extend or shorten the timetable, or any aspects of the timetable for the Offering.
Stabilization	In connection with the Offering, Renaissance Securities (Cyprus) Limited, acting as a stabilizing manager (the "**Stabilizing Manager**"), on behalf of the Underwriters, is expected to procure that the Renaissance Broker LLC, an affiliate of the Stabilizing Manager (the "**Market Maker**") shall, to the extent permitted by applicable laws, regulations and rules of the CBR and/or the Moscow Exchange, purchase, for the purpose of Stabilization, up to 580,645,161 Offer Shares on the Moscow Exchange within the Stabilization Period, with a view to supporting the market price of the Ordinary Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the Settlement Date, in accordance with the market-making agreement to be entered into among the Market Maker, the Company and the Moscow Exchange on or about the Pricing Date (the "**Market-Making Agreement**"). There will be no obligation on the Stabilizing Manager or any person acting on behalf of the Stabilizing Manager to effect stabilizing transactions and there is no assurance that stabilizing transactions will be undertaken. The Stabilization, if commenced, may be discontinued at any time without prior notice. Except as required by law or regulation, neither the Stabilizing Manager nor any person acting on behalf of the Stabilizing Manager intends to disclose the extent of any stabilization transactions conducted in relation to the Offering. See "*Plan of Distribution*."
Over-Allotment Option	In connection with the Offering, Sistema PJSFC and/or Sistema Telecom Assets LLC, on or about the Pricing Date, is expected to grant to the Underwriters the Over-Allotment Option, exercisable within the Stabilization Period to purchase the Over-Allotment Shares to cover over-allotments in connection with the Offering, if any, and short positions resulting from any such over-allotments. See "*Plan of Distribution.*"
Joint Global Coordinators and Joint Bookrunners	J.P. Morgan Securities plc, UBS AG London Branch and VTB Capital plc.
Joint Bookrunners	Merrill Lynch International, Bank GPB International S.A. (a member of Gazprombank group), Renaissance Securities (Cyprus) Limited and Alfa Capital Markets Ltd.
Offer Price Range	RUB 7.75 – 10.25 per Offer Share.

Share Capital	As of the date of this Offering Memorandum, the Company has a share capital of RUB 1,194,000,000, represented by 11,940,000,000 Ordinary Shares with a nominal value of RUB 0.1 each, which are issued, fully paid and outstanding. Following completion of the Offering, the total number of the Ordinary Shares in issue will be 15,810,967,742, assuming 3,870,967,742 Offer Shares are offered in the Offering. Upon completion of the Offering, the Offer Shares will rank equally in all respects with all other Ordinary Shares. The Ordinary Shares are subject to applicable provisions of Russian corporate law and the Company Charter as applicable and have the rights described under "*Description of Share Capital and Certain Requirements of Russian Law.*"
Listing and Market for the Securities	The Ordinary Shares are expected to be admitted to trading on the "Level 1" part of the List of Securities Admitted to Trading on the Moscow Exchange under the symbol "SGZH" on or about the First Trading Date. As of the date of this Offering Memorandum, there has been no public market for the Ordinary Shares Subject to acceleration or extension of the timetable for the Offering, trading on an "as-if-and-when-issued" basis in the Ordinary Shares on the Moscow Exchange is expected to commence on or about the First Trading Date. No assurance can be given that thereafter the Ordinary Shares will continue to be admitted to trading on the Moscow Exchange. See "*Risk Factors*." The Offering is expected to become effective, and unconditional dealings in the Ordinary Shares are expected to commence on the Moscow Exchange on the Settlement Date.
Lock-Up	The Company, Sistema PJSFC, Sistema Telecom Assets LLC, have each agreed in respect of themselves, their affiliates and any person acting on their behalf, for a period of 180 days, and Mr. Mikhail Shamolin and Mr. Ali Uzdenov have each agreed in respect of themselves and any person acting on their behalf, for a period of 365 days, after the Settlement Date, subject to certain limited exceptions, not to, without the prior written consent of the Joint Global Coordinators, on behalf of the Underwriters, issue, offer, sell, lend, mortgage, assign, pledge, charge, contract to sell or issue, sell any option or contract to purchase, purchase any option or contract to sell or issue, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of (or publicly announce any such action), directly or indirectly, any shares of the Company or any securities convertible or exchangeable into or exercisable for, or substantially similar to, any shares of the Company or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying shares of the Company, including equity swaps, forward sales and options representing the right to receive any such shares of the Company; or enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of shares of the Company; or enter into any transaction with the same economic effect as, or agree to, or publicly announce any intention to enter into any transaction described above. See "*Plan of Distribution—Lock-Up.*"
Use of Proceeds	In the Offering, the Company aims to raise total gross proceeds of at least RUB 30 billion to be reduced by commissions, fees and expenses

incurred by the Company in connection with the Offering, as applicable. See "*Use of Proceeds*." The Company intends to use net proceeds from the Offering to accelerate the Company's growth by financing value accretive investments and optimizing leverage. The Company expects to receive all proceeds from the Offering in rubles.

Voting Rights

Voting at a general shareholders' meeting of the Company (the "**General Shareholders' Meeting**") is generally based on the principle of 1 vote per Ordinary Share, with the exception of the election of the board of directors (the "**Board of Directors**"), which is carried through cumulative voting.

Dividend Rights

Holders of the Ordinary Shares are entitled to receive amounts, if any, declared by the Company as dividends, subject to applicable law. See "*Dividend Policy*" and "*Description of Share Capital and Certain Requirements of Russian Law*." In accordance with the Dividend Policy, the Company aims to pay dividends in the amount of no less than RUB 3 billion and no greater than RUB 5.5 billion each year from 2021 to 2023. Starting from 2024, the Company aims to pay dividends at a level no lower than 75% and no greater than 100% of the adjusted net cash flow defined as net cash from operating activities less net cash used in investing activities and lease payments each derived from the audited consolidated financial statements prepared under IFRS for the preceding 12 months.

Taxation

For a discussion of certain Russian tax and United States federal income tax consequences of purchasing and holding the Offer Shares, see "*Tax Considerations.*"

Selling and Transfer Restrictions

The Offer Shares will be subject to certain sale and transfer restrictions set forth in "*Selling and Transfer Restrictions.*"

Settlement and Delivery

Subject to acceleration or extension of the timetable for the Offering, Settlement is expected to take place on or about the Settlement Date.

If Settlement does not take place on the Settlement Date as planned or at all, the Offering may be withdrawn, in which case all subscriptions for the Offer Shares will be disregarded, any allotments made will be deemed not to have been made and any subscription payments made will be returned without interest or other compensation and transactions in the Offer Shares on Moscow Exchange may be annulled. Any transactions in the Offer Shares prior to Settlement are at the sole risk of the parties concerned. Each purchaser of the Offer Shares must pay for such Offer Shares by the date agreed with the Underwriters. The Offer Shares will be delivered to purchasers through the facilities of the NSD. Therefore, to take delivery of the Offer Shares, purchasers must have a depositary account with the NSD or a depo account with a depositary that has a depositary account with the NSD. See "*Settlement and Delivery.*"

Risk Factors

Prospective investors should carefully consider the risks discussed under "*Risk Factors*."

ISIN:.. RU000A102XG9

Trading symbol:.. SGZH

IMPORTANT INFORMATION ABOUT THIS OFFERING MEMORANDUM

Each prospective investor, by accepting delivery of this Offering Memorandum, agrees that this Offering Memorandum is being furnished by the Company for the purpose of enabling a prospective investor to consider the purchase of the Offer Shares. Any reproduction or distribution of this Offering Memorandum, in whole or in part, any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the Offer Shares is prohibited, except to the extent that such information is otherwise publicly available.

If you are in any doubt about the contents of this Offering Memorandum, you should consult your stockbroker, bank manager, solicitor, accountant or financial adviser. It should be remembered that the price of listed securities (including the Offer Shares) and the income from them can be volatile and go down as well as up.

The Company has included its own estimates, assessments, adjustments and judgments in preparing some market information, which has not been verified by an independent third party. Market information included herein is, therefore, unless otherwise attributed to a third-party source, to a certain degree, subjective. This information may at times be less complete or reliable than that of some of the more developed market economies of North America and Western Europe and may be produced on a basis that differs from those used in Western countries. Some official data released by the Russian government may also be inaccurate. Any discussion of matters relating to the Russian Federation herein is therefore subject to uncertainty due to concerns about the completeness or reliability of available official and public information. While the Company believes that its own estimates, assessments, adjustments and judgments are reasonable and that the market information prepared by the Company approximately reflects the industry and the markets in which the Company operates, there is no assurance that the Company’s own estimates, assessments, adjustments and judgments are the most appropriate for making determinations relating to market information or that market information prepared by other sources will not differ materially from the market information included herein.

The contents of the Company’s website do not form any part of this Offering Memorandum.

This Offering Memorandum is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Company or the Underwriters that any recipient of this Offering Memorandum should purchase the Offer Shares.

In making an investment decision, each person contemplating making an investment in the Offer Shares must conduct its own investigation and analysis of the creditworthiness of the Company and its consolidated subsidiaries (together, the “**Group**”), the terms of the Offering, including the merits and risks involved, its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience and any other factors which may be relevant to it in connection with such investment. Any decision to buy the Offer Shares should be based solely on the information contained in this Offering Memorandum. No person has been authorized to provide any information or to make any representation in connection with the Offering other than those contained in this Offering Memorandum. If any such information is given or any such representations are made, such information or representations must not be relied upon as having been authorized by or on behalf of the Company or the Underwriters or any of their respective affiliates, advisers or any other person. The information contained in this Offering Memorandum is only accurate as of the date on the front cover of this Offering Memorandum. The delivery of this Offering Memorandum at any time does not imply that the information contained in it is correct as at any time subsequent to its date. Neither the delivery of this Offering Memorandum, nor the offering, sale or delivery of any Offer Shares shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Company or the Group since the date of this Offering Memorandum.

None of the Underwriters nor any of their respective affiliates or advisors make any representation or warranty, express or implied, or, to the fullest extent permitted by applicable law, accepts any responsibility whatsoever as to the accuracy or completeness of any of the information in this Offering Memorandum or for any other statement made, or purported to be made, by it or any of them or on its or their behalf in connection with the Company, the Group or the Offering. The Underwriters and each of their respective affiliates or advisors accordingly disclaims, to the fullest extent permitted by applicable law, all and any liability whether arising in tort or contract or which they might otherwise have in respect of this Offering Memorandum or any such statement.

No prospective investor should consider any information in this Offering Memorandum to be investment, legal, tax or other advice. Each prospective investor should consult its own counsel, accountants and other advisors for legal, tax, business, financial and related advice regarding purchasing the Offer Shares. Neither the Company, the Underwriters nor any of their respective affiliates or advisors makes any representation to the offeree or purchaser of the Offer Shares regarding the legality of an investment in the Offer Shares by such offeree or purchaser under appropriate investment or similar laws.

The Underwriters are acting exclusively for the Company and no one else in connection with the Offering. They will not regard any other person (whether or not a recipient of this Offering Memorandum) as their client in relation to the Offering and will not be responsible to anyone other than the Company for providing the protections afforded to their clients nor for giving advice in relation to the Offering or any transaction or arrangement referred to herein.

In connection with the Offering, each of the Underwriters and any of their respective affiliates acting as an investor for its own account may take up the Offer Shares and in that capacity may retain, purchase or sell for its own account the Offer Shares and any of the Company's other securities or related investments and may offer or sell the Offer Shares or other investments otherwise than in connection with the Offering. Accordingly, references in this Offering Memorandum to the Offer Shares being offered or placed should be read as including any offering or placement of securities to any of the Underwriters and any of their respective affiliates acting in such capacity. In addition, certain of the Underwriters or their respective affiliates may enter into financing arrangements (including swaps, warrants or contracts for differences) with investors in connection with which such Underwriters (or their respective affiliates) may from time to time acquire, hold or dispose of the Offer Shares. None of the Underwriters intends to disclose the extent of any such investment or transaction otherwise than in accordance with any legal or regulatory obligation to do so.

In connection with the Offering, the Stabilizing Manager on behalf of the Underwriters will procure that the Market Maker shall, to the extent permitted by applicable laws, regulations and rules of the CBR and/or the Moscow Exchange, purchase, for the purpose of Stabilization, the Ordinary Shares on the Moscow Exchange in a total number of up to 580,645,161 Offer Shares within the Stabilization Period, with a view to supporting the market price of the Ordinary Shares at a level higher than that which might otherwise prevail in the open market, in accordance with the Market-Making Agreement. There will be no obligation on the Stabilizing Manager or any person acting on behalf of the Stabilizing Manager to effect stabilizing transactions and there is no assurance that stabilizing transactions will be undertaken. The Stabilization, if commenced, may be discontinued at any time without prior notice. Except as required by law or regulation, neither the Stabilizing Manager nor any person acting on behalf of the Stabilizing Manager intends to disclose the extent of any stabilization transactions conducted in relation to the Offering.

The distribution of this Offering Memorandum and the offer and sale of the Offer Shares may be restricted by law in certain jurisdictions. Neither the Company nor the Underwriters are making an offer to sell any Offer Shares to, or is soliciting an offer to buy, the Offer Shares from any person in any jurisdiction except where such an offer or solicitation is permitted. This Offering Memorandum may not be used for, or in connection with, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstances in which such offer or solicitation is unauthorized or unlawful. Each of the Company and the Underwriters requires persons into whose possession this Offering Memorandum comes to inform themselves about and observe such restrictions. Neither the Company nor the Underwriters has taken any action, other than as part of the Offering, that would permit an offering of or relating to the Offer Shares in any jurisdiction that requires action for that purpose. Further information with regard to restrictions on offers and sales of the Offer Shares is set forth under "*Plan of Distribution*" and "*Selling and Transfer Restrictions.*"

This Offering Memorandum is not a prospectus prepared or filed with any governmental authority in connection with the Offering, or prepared pursuant to any specific regulatory requirement.

RISK FACTORS

*An investment in the Offer Shares involves a high degree of risk. You should carefully consider all of the information in this Offering Memorandum, including the following risk factors, before deciding to invest in the Offer Shares. The actual occurrence of any of the following events could have a material adverse effect on the Group's business, financial condition, prospects and results of operations, in which case the trading price of the Offer Shares could decline, and you could lose all or part of your investment. Most of these factors are contingencies that may or may not occur, and the Group is not in a position to express a view on the likelihood of any such contingency occurring. The risks described below are not exhaustive and are only those that management of the Group ("***Management***") is aware of and believes are material, but these may not be the only risks and uncertainties that the Group faces. Additional risks that are not currently known or that are currently deemed immaterial may also have a material adverse effect on the Group's business, financial condition, prospects and results of operations or result in other events that could lead to a decrease in the trading price of the Offer Shares. You could therefore lose all or part of your investment in the Offer Shares. Consequently, only persons who can assume such risks should consider an investment in the Offer Shares.*

Risks Relating to the Group's Operations

Deterioration in global economic conditions could negatively affect the Group's business, financial condition and results of operations.

As of 31 December 2020, the Group sold its products to over 100 countries. Consequently, the Group's business, financial condition and/or results of operations have been, and are expected to continue to be, affected by changes in global economic conditions, see "*Industry Overview*," "*Business—Key Factors Affecting Results of Operations—Economic Factors*." Among others, these include the sharp decline in global gross domestic product ("**GDP**") in 2020 due to the COVID-19 pandemic, with a gradual recovery of global GDP projected for 2021 (see "*Current Trading and Prospects*"), and the ongoing tension between the United States and China following the imposition of tariffs and other trade barriers by the administration of U.S. President Donald Trump, which have been maintained under the current administration of U.S. President Joseph Biden. For example, demand for paper sacks in Europe has been, and is expected to continue to be, affected by changes in growth rates in residential construction. Similarly, the oversupply of birch plywood due to the large volume of underutilized capacities of small format cheaper birch plywood is expected to continuously affect the price of birch plywood, see "*Industry Overview—Plywood market overview—Birch plywood supply and demand.*"

There is currently considerable uncertainty regarding the world economy, particularly following the spread of COVID-19 and consequent tight government controls and containment measures implemented around the world. The COVID-19 pandemic has caused severe disruption to global supply chains and economic activity, increased the potential of default by customers and suppliers, led to dramatic rises in unemployment and reduced consumer demand, and prompted aggressive financial stimulus measures by governments, which could lead to financial deficits that could adversely impact further economic growth. Consequently, the credit and equity markets have entered a period of significantly increased volatility. For further information, see "*Industry Overview*," "*Key Factors Affecting Results of Operations—Impact of the COVID-19 Pandemic*," and *"—The global paper and pulp industry has been adversely affected by, and may continue to be adversely affected by, the COVID-19 pandemic*."

Such circumstances could negatively impact the Group's business and financial condition in ways that the Group is unable to predict and may also lead to a decline in customers' operations or ability to pay for the Group's services, which could have a material adverse effect on the Group's business, financial condition and results of operations.

The global paper and pulp industry has been adversely affected by, and may continue to be adversely affected by, the COVID-19 pandemic.

The COVID-19 pandemic that was first identified at the beginning of 2020 has now spread to nearly all regions of the world. The outbreak and measures taken to contain or mitigate it have had dramatic adverse consequences for the global economy, as well as regional and national economies. The continued spread of COVID-19 has led to supply chain destabilization, facility closures, workforce disruption and volatility, slowdown in consumer demand in the global economy. See *"Operating and Financial Review—Key Factors Affecting Results of Operations—Impact of the COVID-19 Pandemic."*

In particular, in the year ended 31 December 2020, the Group experienced a number of negative impacts as a result of the COVID-19 pandemic, including the following:

- Demand: reduced demand for the Group's products generally from customers in the construction and food sectors in the second quarter of 2020, a decrease in market demand for sack paper in the first half of 2020, a decrease in market demand for paper sacks generally as a result of temporary decreased activity in the European construction industry and a decrease in market demand for plywood in the main sectors of plywood consumption; this weaker demand triggered a consequent temporary reduction in the group's production volumes, see "*Operating and Financial Review—Key Factors Affecting Results of Operations—Demand for the Group's Products*;" and
- Pricing: a decrease in sack paper pricing due to weak demand resulting from the COVID-19 pandemic, and a decrease in birch plywood pricing in international markets due to weak demand in the construction, furniture and transportation segments.

For further information on the impact of the COVID-19 pandemic on the Group's financial condition and results of operations in 2020, see "*Operating and Financial Review—Key Factors Affecting Results of Operations—Impact of the COVID-19 pandemic*." Given the uncertainty surrounding the full impact of the COVID-19 pandemic, there can be no assurance that such negative effects, or those of a different scope, type and severity, will not arise in the future.

In addition, the COVID-19 pandemic has had the following impacts on the Group's key markets. For further information on the Group's key markets and expected developments in future years, see "*Industry Overview*."

- Global sack paper: a decline in the activity of the construction industry in 2020, with the European construction market's output decreasing by 7.8% in 2020, compared to growth of 2.9% in 2019, according to Euroconstruct;
- Paper sacks in Europe: global demand for industrial paper sacks decreased in 2020 due to the COVID-19 pandemic, resulting in decreased construction activity, which represents a significant portion of industrial paper sack consumption;
- Paper sacks in Russia: consumption of industrial paper sacks decreased in 2020 primarily due to a decline in activity in the construction and chemical industries, according to Fisher International;
- Consumer packaging in Russia: a decline in the demand for consumer packaging in Russia in 2020, primarily due to a decline in the retail, food and hospitality industries, according to Fisher International;
- Sawn timber: from 2018 to 2020, the market experienced sawn timber supply build-up on the back of overproduction, forest damages and weaker demand in 2020 due to the COVID-19 pandemic;
- Birch plywood: in 2020, the COVID-19 pandemic had minimal impact on birch plywood supply, while demand weakened across all key consumption industries, including the construction, furniture and transportation industries; and
- Glulam: a slight decrease in the price of glulam products, partially due to the COVID-19 pandemic.

Other effects of the COVID-19 pandemic on the Group's operations and business in the future include:

- disruptions to the Group's operations as a result of the potential health impact on employees and crew, and on the workforces of customers and business partners (see "*Business—Environmental, Social and Health and Safety Matters—Health and Safety*");
- disruptions to the Group's business from, or additional costs related to, new regulations, directives or practices implemented in response to the pandemic, such as travel restrictions, increased inspection regimes, hygiene measures (such as quarantining and physical distancing) or increased implementation of remote working arrangements;
- potential shortages, delays or a lack of access to raw wood material from third parties required in the manufacturing of the Group's products, as well as spare parts required for the Group's machinery;
- delays in deliveries of finished products to the Group's customers, along with significantly higher logistics costs (see "*—The Group is dependent on third parties for certain transportation services*");
- potential reduced cash flows and financial condition, including potential liquidity constraints; and
- potential deterioration in the financial conditions and prospects of the Group's customers or partners, which could adversely impact their ability or willingness to fulfill their obligations to the Group and make them or third parties

renegotiate existing agreements or invoke force majeure contractual clauses as a result of delays or other disruptions, such as the renegotiation of contracts for the purchase of the Group's products.

The extent to which COVID-19 may impact the Group will depend on future developments, including, but not limited to, the duration and spread of the pandemic, its severity, the actions to contain the virus or treat its impact, and the duration, timing and severity of the impact on global financial markets and the condition of the Russian economy. All of these are highly uncertain and cannot be predicted.

The Group's product prices are subject to significant fluctuations.

Prices for the Group's products are affected by overall changes in global capacity and production within the industry, as well as by demand for the Group's products (see "*Industry Overview*"). These are, in turn, influenced by general economic conditions, changes in consumer spending and inventory levels maintained by the Group's customers (see "*Business—The Group's Operating Segments*"). Changes in these factors have, in the past, resulted in significant fluctuations in the prices for the Group's products and can be expected to have a similar effect in the future. Price fluctuations differ between products and geographic regions and the timing and magnitude of such changes have varied over time. For example, according to Fisher International, sack paper prices are correlated to a certain degree (with some timing lag and less volatility) with kraft market pulp (the key raw material), prices of which have decreased materially from a cycle peak in late 2018 and early 2019. In the first half of 2019, sack paper prices began to decrease, a trend that was prolonged due to the COVID-19 pandemic, which led to sack paper prices reaching historical lows, from which they are only recently starting to rebound on the back of stronger demand outlook (see "*Industry Overview—Key paper market drivers*"). An additional example includes the decrease in the prices for birch plywood in 2020 due to the COVID-19 pandemic, as demand weakened across key industries, including construction, furniture and transportation. For more details, see "*Operating and Financial Review—Key Factors Affecting Results of Operations.*"

There can be no assurance that prices for the Group's products will increase or remain at present levels. Any price change brings about complex effects to the Group's business, influencing both revenue and expenses through forest stock pricing, production costs and sales pricing for the Group's products. In particular, the creation of additional production capacity either by the Group or its competitors by building new mills or plants, expanding existing mills or plants or converting existing machines to enable them to compete in markets in which the Group operates could have a disruptive influence in the market in the short term, as additional production capacity can lead to excess supply.

The Group's industry is subject to seasonal fluctuations.

The Group's industry is subject to specific seasonal cycles each year. In particular, wood harvesting is subject to the availability of transportation infrastructure, including navigation periods or the access to temporary roads during the winter. In addition, the overall levels of demand for some of the Group's products, particularly sack paper, tend to change according to the seasons. This seasonality depends in part on general macroeconomic conditions, competition from similar products and seasonality fluctuations in demand from industries in which the Group's customers operate. For instance, demand for the Group's sack paper corresponds to seasonality owing to the high degree of dependence on the construction industry's consumption, which has lower demands during the first and fourth quarters of each year due to lower cement production during those periods, and subsequently, a lower demand for sack paper by cement producers. Alternatively, commodity items such as paper are sold consistently throughout the year and as such, are not susceptible to seasonal fluctuations. Seasonal fluctuations in demand result in changes to the Group's sales from quarter to quarter and affect the stability of its revenue across quarters. For further information, see "*Key Factors Affecting Results of Operations—Seasonality.*"

The Group's manufacturing facilities are subject to operational risks.

The Group's reliance on complex machinery for its operations and production of paper and packaging as well as woodworking involves a significant degree of uncertainty and risk for the Group, both in terms of operational performance and operational costs. The Group's paper mills, sawmills and other facilities consist of large scale machinery combining many components which are intended to run complex production processes on large volumes of raw materials with low tolerance for output deviations. With the exception of scheduled maintenance stops and certain market driven production stops, the paper mills are intended to run 24 hours a day throughout the year. The mills' components malfunction from time to time. To resume operations, they require repairs and the purchase of spare parts, which may not be available in the short term. Unexpected malfunctions of the mills' components may significantly affect the intended operational efficiency of the mills and their target utilization rates. If operations at any of the Group's key facilities were interrupted for any significant length of time for any reason, including fires, drought, explosions or large machinery breakdowns, unplanned maintenance, or work stoppages due to labor disputes, it could have a material adverse effect on the Group's business, financial condition and/or results of operations. See "*Business—Environmental, Social and Health and Safety Matters.*"

Operational performance and costs can be difficult to predict and are often influenced by factors outside of the Group's control. Such factors include environmental hazards and remediation; costs associated with decommissioning of machines, or mills that the Group may temporarily or permanently close; damages or defects in electronic systems; industrial accidents; and fire, seismic activity, weather conditions and other natural disasters.

Should any of such risks or other operational risks materialize, it may result in fatal or grave injury to mill workers; the loss of production equipment; damage to production facilities; the closure of mills; unexpected direct or subsequent monetary losses; delays and unanticipated fluctuations in production; lost profits; environmental damage; administrative fines; increased insurance costs and potential legal liabilities, all of which could have a material adverse effect on the Group's business, results of operations, cash flows, financial condition or prospects.

A period of high cost of raw materials or other consumables could negatively affect the Group's profitability.

Key costs of raw materials and other consumables used by the Group include significant amounts of raw wood, electric and heat power, fuel, petroleum products and chemicals. Raw wood is a significant cost driver for the Group, although only 20% of the Group's raw wood consumption supplied by third parties, it is still subject to price fluctuations which could affect the Group's profitability during periods of high prices for raw wood. The Group is a significant consumer of electricity and it both purchases electricity from external suppliers and generates it internally. To the extent that the Group generates its own electricity and heat other than from biomass and other by-products of the pulp and paper production process, it is dependent on outside suppliers for fuel such as gas, oil and coal used in the production of electricity. For the years ended 31 December 2020, 2019 and 2018, the raw materials and supplies accounted for 46.6%, 47.8%, and 50.6% of the Group's total costs of sales. See also "*Business—The Group's Business Model—Key elements of the Group's business model—Cost management*," "*—Sourcing of raw materials*" and "*—Pulp sourcing.*"

The prices for many of these resources generally fluctuate in correlation with global commodity cycles. For the year ended 31 December 2020, 30% of the Group's raw materials and other consumables were purchased pursuant to long term contracts (those with a duration of six months or more), with the remainder being purchased on the spot market. While the Group has taken, and continues to take, steps to increase the proportion of raw materials and other consumables purchased pursuant to such contracts, there can be no assurance that the Group's ongoing efforts in this respect will be successful. There can be no assurance that the Group will be able to secure all of its future resource requirements at acceptable prices or that the Group's margins for some or all of its products will not decline due to an inability to pass on the full impact of increased costs associated with resource inputs. For further information, see "*Business—Key Strengths and Competitive Positioning—Advantageous cost position and fully integrated business model driving strong profitability*" and "*—The Group's Operating Segments*."

The Group is dependent on third parties for certain transportation services.

The Group's products and raw materials are transported in heavy and large quantities, often over long distances. The Group's logistics are complex and include a mix of transportation methods, such as by ships, railroad and trucks. Furthermore, the logistics involve large quantities of voluminous and heavy paper products and raw materials, such as paper rolls, timber and additives necessary for the production process. The Group relies primarily on third parties for transportation of its products to customers and transportation of raw material to the Group. The sales contracts of the Group usually assume commitments on volume, timing and location of delivery. In addition, the Group could also be subject to fluctuating transportation costs, particularly rates for sea freight, which it relies on for the transportation of its products to regions like Far East. For example, at the beginning of the COVID-19 outbreak in March 2020, freight rates increased due to COVID-19 related restrictions and the subsequent critical shortage in containers and vessel space, which resulted in inland shipping and logistics alternatives having to be arranged. Despite the Group's efforts to achieve additional efficiencies through its logistics infrastructure, failure of third party transportation providers to deliver products or materials in a timely manner, together with the foregoing fluctuations and cost increases in transportation costs could have a material adverse effect on the Group's reputation, business, results of operations, cash flows, financial condition or prospects. For further information, see "*Business—The Group's Business Model—Logistics*."

Similarly, unsatisfactory conditions of transport infrastructure in some locations and regions could influence significantly the Group's logistic operations for delivery of raw materials and goods for sale.

Implementation of the Group's strategy depends on the experience and expertise of senior management, as well as the Group's ability to recruit and retain experienced operational personnel.

The Group's continued success is dependent on the experience, skills and knowledge of its executive directors, senior management and key employees who provide expertise crucial to the Group's business and the implementation of the Group's strategy. Any limitations on the Group's ability to recruit and retain executive directors, senior management and key personnel may cause a significant disruption to the Group's business, including its ability to implement the Group's strategy, and could have a material adverse effect on the Group's business, financial condition and/or results of operations.

The Group's continued success is also dependent on attracting and retaining specialists in the pulp and paper, logging and woodworking industries, which are limited in number, particularly in certain remote locations in which the Group's production facilities are located. The failure of the Group to recruit and retain such employees could have a material adverse effect on the Group's business, financial condition and/or results of operations. For further information, see "*Business—Employees of the Group—Personnel Management and Development*."

Labor disruptions could adversely affect the Group's operations.

Key enterprises of the Group have collective agreements in place, valid until 2023, and aligned with the Labor Code of the Russian Federation and labor safety requirements. In 2020, the collective agreements covered 6,664 employees. Such agreements need to be renegotiated from time to time. Renewal of such agreements could also potentially result in higher wages or benefits paid to employees. Consequently, the Group could experience an increase in labor costs, which could have an adverse effect on its business, financial results and/or financial condition. For further information, see "*Business—Employees of the Group—Personnel Management and Development*."

The Group's manufacturing operations can be hazardous and may cause injury to people or damage to property in certain circumstances.

The Group's operations are subject to hazards such as equipment failure, work accidents or fire and require individuals to work with potentially dangerous machinery or with flammable materials. The Group has in place an "Occupational Health and Industrial Safety Management System" that aims to create a safe working environment, protect the life and health of employees, mitigate the risk of accidents and hazards at the Group's facilities and foster safe workplace conduct and accident prevention skills among the Group's employees (see "*Business—Environmental, Social and Health and Safety Matters—Health and Safety*"). Although the Group has made and continues to make significant investments in safety training for employees and regularly conducts internal and independent external audits of safety measures and prevention systems, there remains a risk that an accident that puts the health and safety of the Group's employees or third parties at risk may occur at one of the Group's facilities, including fatal accidents.

A hazardous accident may result in destruction of property or equipment, environmental damage, manufacturing or delivery delays, or may lead to suspension of the Group's operations and/or the imposition of liabilities. Any such accident may result in litigation, the outcome of which is difficult to assess or quantify, and the cost to defend litigation can be significant. The costs to defend any action or the potential liability resulting from any such accident or death or arising out of any other litigation, and any negative publicity associated therewith, may have an adverse effect on the Group's business, financial results and/or financial condition.

Cost of compliance with the laws and regulations in the jurisdictions in which the Group operates could have a material adverse effect on the Group's business, financial condition and/or results of operations.

The Group is subject to a wide range of laws and regulations in all the jurisdictions in which it operates, including international, national, state and local laws and regulations. These include laws and regulations relating to the forestry industry, environmental protection, including the management of natural resources and use of hazardous substances, greenhouse gas emissions, exports, price controls, import controls, repatriation of capital and currency exchange controls, sanctions, anti-bribery, data protection, human rights, labor standards and occupational health and safety (see "*Regulatory Overview*). These requirements are complex, frequently changing and have generally become more stringent over time. In addition, there is a risk that customs duties or anti-dumping duties, import quotas or other tariffs may be introduced by individual states, associations of states or trading blocs, such as anti-dumping measures contemplated by the European Commission in respect of birch plywood originating in Russia, which may negatively affect the Group's export sales. The costs associated with compliance with these laws and regulations are substantial and possible future laws and regulations or changes to existing laws and regulations could result in additional expenses or capital expenditures for the Group or result in restrictions on or suspensions of the Group's operations, or, in the case of import tariffs, affect the competitiveness of the Group's products in those markets. Any such cost increases or changes in tariffs could have a material adverse effect on the Group's business, financial condition and/or results of operations.

In addition, the Group faces the risk that its business could be adversely affected by the application of competition laws to any agreements or practices in which the Group may have been engaged or to which it is a party. If the Group is found to be, or to have been, party to any agreements or practices that infringe competition law, the relevant agreements could be void and unenforceable in whole or in part. A finding of infringement of competition law could have an impact on the manner in which the Group conducts its business and could lead, among other things, to substantial fines being imposed and/or damages claims from third parties.

An increasing area of focus for the Group's management is compliance with the growing number of environmental, health and safety laws and regulations. The Group's operations generate hazardous and non-hazardous waste and emissions into the air and water. The Group is subject to a wide range of international, national and local environmental, health and safety laws and regulations in all the jurisdictions in which it operates or where the relevant waste or emission occurs, including those governing the discharge of pollutants into the air, soil or water, the use, storage and disposal of hazardous substances and waste and the clean-up of contaminated properties. For example, the Group faces regulatory risks through increased timber charges and charges for emissions and sewage waters, necessitating, among other measures, upgrading treatment facilities at Segezha PPM, Sokol PPM and Vyatsky Plywood Mill. For further information, see "*Business—Environmental, Social and Health and Safety Matters—Green production*." Other applicable environmental laws relate to, among other things, forestry management, the use of recycled material and extended product responsibility principles. The Group could incur significant costs, including fines, penalties, civil and criminal sanctions, investigation and clean-up costs and third-party claims for property damage or personal injury, as a result of violations of or liabilities under environmental laws and regulations or otherwise. These requirements are complex, frequently change and have tended to become more stringent over time. As changes occur at different rates in different jurisdictions, changes in jurisdictions where the Group operates may have an impact on the Group which is materially different than to its competitors that operate in other jurisdictions. The costs of complying with such laws and regulations, or future environmental laws and regulations, could have a material adverse effect on the Group's business, financial condition and/or results of operations.

While the Group has procedures to comply with applicable environmental and health and safety requirements, there can be no assurance that it will be at all times in compliance with such requirements, that it will not incur material costs or liabilities in connection with such requirements in the future or that it will be able to obtain and maintain all licenses, consents or other permits necessary to operate its business, see *"—The Group may fail to fulfill the terms of its licenses, permits and other authorizations, fail to obtain the necessary authorizations or fail or be unable to renew them on expiration.*" Similarly, there can be no assurance that it will not experience environmental accidents or discover, or otherwise become liable for, environmental contamination in the future. The Group may incur significant expenditure in connection with the required remediation of past environmental conditions at both currently-owned and formerly-owned facilities.

The Group is exposed to exchange rate risks.

The Group's financial statements are presented in Russian rubles. As a result of the global nature of the Group's business, for the year ended 31 December 2020, 72% of its revenue is generated in foreign currencies, and 67% of the Group's debt (and related interest expense) is denominated in foreign currencies. There have been significant fluctuations in the exchange rate of the ruble against the USD in the past five years, with average exchange rates per year of 73.12, 64.49, 62.97, 58.63, 66.48 and 61.87 for the years ended 31 December 2020, 2019, 2018, 2017, 2016 and 2015, respectively. However, for the year ended 31 December 2020, 81%, and 47% of the Group's operating costs and capital expenditure, respectively, were incurred in rubles. As such, exchange rate fluctuations could, to an extent, adversely affect the Group's financial condition and results of operations. In particular, the Group's operating margins are generally adversely affected by appreciation of the ruble against the U.S. dollar and the Euro, as this causes the Group's operating costs to increase relative to the Group's revenue, which could have a material adverse effect on the Group's business, financial condition, prospects and results of operations. See "*Business—Key Factors Affecting Results of Operations—Economic Factors"* and *"Exchange Rate Information."*

The Group's insurance may not be sufficient to cover losses incurred by the Group.

There may be circumstances where the Group's insurance does not cover (in whole or in part) the consequences of an event, or against which it either cannot insure or may have elected not to have insured given that particular insurance products may not be available in the local markets in which the Group operates or the costs for such products may not be economically viable. Many products of insurance protection common in countries with more mature insurance markets might not yet be available for the Group's facilities in the Russian Federation on commercially acceptable terms, including coverage for business interruption. The Group currently maintains for its Russia-based facilities property protection coverage for transportation equipment and immovable assets, cargo insurance and third party liability. The Group's facilities located in Europe have insurance policies that cover property damage, vehicle damage, third party liability, business interruption, credit insurance and cargo damage. In particular, insurance broadly covering environmental risks (including potential liability for pollution or other hazards as a result of accidental disposal of waste products occurring from production and processing) is not generally available to the Group as of the date hereof. There can be no assurance that the Group's insurance will be sufficient to cover any incurrence of significant liability. In addition, in certain cases, the Group's production facilities may be insured for less than the full replacement value of the insured property. If the Group's core properties or facilities were to experience any major accidents or significant natural disasters, the Group could experience substantial property and equipment loss and disruption in operations. Moreover, depending on the severity of the damage, the Group may not be able to rebuild such damaged property or restore operations in a timely fashion, or at all. In addition, existing insurance policies may not cover all cases of loss of property. For example, the Group's insurance policies will not recover damages in the event of any acts of terrorism. In addition, most insurance companies are unwilling to cover losses resulting from business interruption due to COVID-19 related reasons under reasonable tariffs. Although the Group has had no significant insurance claims in the past, the Group can make no assurances that it will not experience events in the future, for which it may not have sufficient coverage. An uninsured loss could have a material adverse effect on the Group's business, financial condition and/or results of operations.

The Group may become involved in legal and administrative proceedings.

The Group has operations around the world. As a result, from time to time, it may be involved in disputes in various jurisdictions. Accordingly, the Group risks being involved in civil law, work environment-related proceedings and administrative proceedings resulting from its day-to-day operations.

Disputes could arise from claims by customers that the Group's products are inadequate, defective or fail to deliver the level of quality, security and reliability expected by the customer, which could result in claims for damages or other monetary compensation. Disputes could also arise in the ordinary course of business within the scope of the Group's operations, for instance over construction work for its operating facilities. The Group also risks being involved in administrative proceedings with supervisory authorities on the basis of complaints by counterparties, third parties or routine investigations.

It is inherently difficult to predict the outcome of legal, regulatory and other adversarial proceedings or claims and if any current or future legal or administrative proceedings have a negative outcome for the Group, this could have an adverse effect on the Group's financial condition and results of operations. It is similarly difficult to predict the extent of the adverse effect, as for instance, individual claims that are not significant in themselves, when aggregated could have the potential to produce a significant adverse effect. Even in cases where the outcomes of such proceedings are positive for the Group, such proceedings would involve additional costs and resources for defense and other measures. For further information, see "*Business—Legal Proceedings*."

If the Group fails to maintain an effective internal control over financial reporting, the Group may be unable to accurately report its results of operations, meet reporting obligations or prevent fraud and investor confidence in the Company and the market price of the Ordinary Shares may decline.

The Group maintains internal control and audit policies aimed at ensuring the Group's compliance with standard accounting and compliance practices and/or reporting practices. These policies envision, inter alia, that a special internal audit department that is independent of Management will evaluate and determine the effectiveness of the Group's internal control over financial reporting, report any material weaknesses in internal control and provide a report on internal control over the Group's financial reporting to Management.

However, notwithstanding the foregoing, in the event of material inaccuracies, misstatements and other failures to meet the Group's reporting obligations investors may lose confidence in the Group's reported financial information, and could in turn limit the Group's access to capital markets, harm the Group's results of operations, and lead to a negative impact on the trading price of the Ordinary Shares.

The Group may be adversely affected by changes in tax laws.

The Group operates in a number of countries and its earnings are subject to tax in those countries. Tax laws and regulations of the countries in which the Group operates may be subject to change, varying or adverse interpretation or inconsistent enforcement in a manner that might be adverse to the Group. Additionally, the pricing of intra-group transactions may be subject to review during tax audits. Any changes and developments in tax laws could have a material adverse effect on the Group's business, financial condition and/or results of operations. For further information, see "*—Weaknesses relating to the Russian legal system and Russian legislation create an uncertain environment for investment and business activity*" and "*—The Russian taxation system is relatively underdeveloped.*"

The Group may face reputational risks and may be targeted with criticism for socially irresponsible operations.

The Group may attract attention on social media and face reputational risks due to the fact that the Group operates in an environmentally sensitive industry, and some of its production facilities are effectively located in "mono-town" regions, which could potentially evoke environmental concerns. For example, in November 2019, residents of Segezha raised concerns regarding the environmental impact of Segezha PPM in the town of Segezha. Following this negative attention on social media, regardless of confirmation by Rosprirodnadzor, the Russian federal body responsible for the supervision and monitoring of natural resources, that there was no material excess of pollutants above the permitted levels in industrial emissions and waste waters of Segezha PPM, residents of Segezha and environmental activists claimed that Segezha PPM was responsible for releasing harmful substances into the environment. For further information, see "*Business—Environmental, Social and Health and Safety Matters.*"

The Group understands its social, economic and environmental responsibility and systematically manages its stakeholders and balances their interests. Notwithstanding such policies and procedures, negative media speculation or other negative public statements relating to environmental matters, and consequent risk of reputational harm to the Group, cannot be excluded.

Furthermore, environmental NGOs are increasingly more focused on GHG emissions, which may lead to activism against the Group's operations, such as through incidents or campaigns of harassment, protests or other negative publicity, resulting in significant reputational risks for the Group. Environmental activists may also use social media platforms to publicize stories or perceptions about the forestry and paper-production industry or the Group, which could adversely affect the Group's business, financial condition, prospects and results of operations.

Failures in the Group's information technology systems could adversely affect its business and future growth.

In 2020, the Group implemented Segezha Automated Control System SAP 4/HANA ("**SAP 4/HANA**"), a complex tool for improving process control, automation and information technology systems, including systems which communicate over the internet, see "Business—*The Group's Business Model—IT*." Notwithstanding the implementation of this tool and the continued development of cyber-security and protection measures, the Group's information technology systems may be vulnerable to damage or interruption from human error, data inconsistency, internet unavailability or lags in internet speed, natural disasters, power loss, computer viruses, intentional acts of vandalism, breaches of security and other similar events. In addition, third parties may attempt to gain illegal access to the Group's systems, and the Group may unable to protect the internal systems from such cyberattacks, given that cyber-crime and illicit activities are constantly evolving. If such attacks are successful, the Group may face theft or destruction of data, including commercial, customer, financial and product information, which could cause the Group to suffer commercial detriment or damage to the Group's reputation. Contingency plans in place to deal with such events may not be sufficient to prevent the Group's systems from suffering failures or delays that might cause significant data loss or other disruptions to its business. Significant systems failures could cause delays in the delivery of products, decreased customer service and customer satisfaction, and harm to the Group's reputation. Insufficient capacity of the Group's information technology systems may cause delays in the Group's operations. Accordingly, any of the foregoing failures in the Group's information technology systems could have a material adverse effect on the Group's business, financial condition, prospects and results of operations.

Risks Relating to the Group's Strategy

The Group may not be successful in implementing its business strategy or managing its growth effectively.

The future growth of the Group is dependent in part on its ability to implement its business strategy successfully, which is in turn dependent on a variety of factors, certain of which are beyond the Group's control. The Group's strategy is to implement investment projects with the aim of improving the productivity of its plants, acquiring forest resources in key industrial regions to meet the growing demand for wood, and improving efficiency in management, production, manufacturing and energy. The success of this strategy will depend on a number of factors, including the Group's ability to:

- further increase its own-to-purchased wood ratio, while expanding the area of forest leases under its control;

- adopt intensive forest management practices;
- construct new plants and mills, while upgrading existing plants, to increase production capacity and reduce production risks and stoppages;
- improve efficiency of its operations through its ongoing initiatives relating to its cost reduction and energy programs;
- enhance its health, safety and environmental practices by upgrading its production and treatment facilities;
- fully roll out its planned digital management and statistics storage platforms on their intended timelines;
- establish and develop research and development centers to develop innovative solutions for its products; and
- identify and explore other market opportunities, particularly diversifying its product portfolio to mitigate the risk of price fluctuations in specific products.

In addition, the Group's growth has placed, and will continue to place, significant demands on the Group's management, operational and financial resources. As the Group expands its operations, the Group must effectively manage and monitor operations, control costs and maintain quality and control in geographically dispersed markets. From time to time, the Group may consider potential investment opportunities to expand its paper and packaging, sawn timber, plywood and glulam operations. The Group's future growth and financial performance will partially depend on the Group's ability to continue to improve financial controls and information systems, and take advantage of greater economies of scale. The Group's failure to execute its business strategy, on a timely basis or at all, follow through with potential acquisitions or to manage its growth and the system and procedural transitions required to expand in a cost-effective manner could materially adversely affect the Group's business, financial condition and results of operations. For further information, see "*Business—Strategy—Pursue value-accretive growth opportunities.*"

Capital investment in projects may require substantial funds and carry risks, which might adversely affect the Group's business.

The Group's business is capital intensive and therefore requires ongoing capital investment to expand, maintain or upgrade existing facilities, to develop new facilities and to ensure compliance with new regulatory requirements. For further information, see "*Business—Strategy—Pursue value-accretive growth opportunities*" and "*Operating and Financial Review—Liquidity and Capital Resources—Capital Expenditures*." Investment projects carry risks that include, but are not limited to, failure to complete the project within the scheduled project timetable and/or within the budget, failure of the project to perform according to prescribed operating specifications following its completion and significant, unforeseen changes in input costs or inability to sell the envisaged volumes or achieve envisaged price levels. Overruns in capital expenditure during the implementation of projects could be due to the impact of exchange rates, changes in the cost of work during procurement procedures and delays in contractor works. In circumstances where additional funding is needed at times to complete a project, there is no guarantee that the Group would be able to raise the required funds. Due to the significant amount of capital required and the long lead time between planning and completion of these projects, project failure could have a material adverse effect on the Group's business, financial condition and/or results of operations.

The Group's indebtedness may affect the Group's ability to obtain financing and refinance existing debt, and may result in increased interest payments and reduced flexibility in pursuing other business opportunities.

The Group's ability to make scheduled payments of interest and principal under its indebtedness will depend on, among other things, its future financial and operating performance and its ability to refinance its debt, which will be affected by prevailing economic conditions as well as financial, business, regulatory and other factors, many of which are beyond its control. See "*—Risks Relating to the Russian Federation—Although no entity in the Group is currently a sanctioned person, sanctions imposed by the United States, the European Union and other states in relation to the Russian Federation may have a material adverse effect on the Group's business, financial condition, results of operations and liquidity.*" These factors could negatively impact the Group's ability to obtain financing, or significantly increase the costs of such financing. The Group cannot make assurances that it will be able to repay or refinance its loans upon maturity or that such financings will be on favorable terms for the Group.

The Group's indebtedness could restrict the Group's operations. Among other things, the Group's indebtedness may:

- limit the Group's ability to pay dividends;

- limit the Group's ability to incur or guarantee indebtedness or otherwise obtain additional financing for working capital, capital expenditures, acquisitions of machinery and other physical assets or other strategic acquisitions and general corporate purposes;
- require the Group to dedicate all or a substantial portion of the Group's cash flow to service the Group's debt, which would reduce funds available for other business purposes, such as capital expenditures, investments or acquisitions;
- limit the Group's flexibility in planning for or reacting to changes in the markets in which the Group competes, such as engaging in strategic acquisitions or disposing of assets;
- place the Group at a competitive disadvantage relative to its competitors with less indebtedness;
- render the Group more vulnerable to general adverse economic and industry conditions; and
- make it more difficult for the Group to satisfy its financial obligations or to refinance maturing indebtedness.

Further, if the Group's operating income is not sufficient to service its current or future indebtedness, the Group will be forced to take actions such as reducing or delaying its business activities, acquisitions, investments or capital expenditures, selling assets, restructuring or refinancing its debt or seeking additional equity capital. The Group may not be able to effect any of these remedies on satisfactory terms, or at all. For a discussion of the Group's existing indebtedness, see "*Operating and Financial Review—Liquidity and Capital Resources*."

Access to forest resources lease agreements is critical to the Group's business and failure to establish the requisite forest and wood processing infrastructure and execute forest lease agreements with respect to agreed PIPs may negatively affect the Group's business, financial condition and/or results of operations.

The Group's fully-integrated business model is dependent on access to cost effective forest resources through long-term leases with the Russian government. Through the Group's long-term lease agreements, the Group is able to generate in-house the raw materials required for its products, which enables the Group to keep its costs of production below that of other forestry regions and certain other European and North American producers (see "*Industry Overview*" and "*Business—Key Strengths and Competitive Positioning*"). Failure by the Group to renew or enter into additional forest lease agreements could adversely affect the Group's business, financial results and/or financial condition.

In addition, the Group has in place approved PIPs relating to an additional 2.1 million cubic meters of AAC, the harvesting of which is contingent on the execution of agreed and approved terms of PIPs. Failure to execute the aforementioned PIPs' lease agreements may delay the Group's plans for expansion of its wood supply and its own-to-purchased wood ratio. In addition, the Group's failure to ensure compliance with applicable rules and regulations as well as the terms of its current lease agreements that relate to its existing AAC of 8.1 million cubic meters may expose the Group to risks related to denied renewal approvals of these leases or the reduction of the duration of these leases, which may limit the Group's access to affordable forest resources, a critical cost management resource for the Group's operations (for further information, see "*Regulatory Overview—Russian Regulation of Forestry Industry*"). Failure by the Group to execute lease agreements with respect to agreed PIPs or noncompliance with applicable rules and regulations or current lease agreements could have a material adverse effect on the Group's business, financial condition and/or results of operations.

Risks Relating to the Group's Industry

Failure to compete successfully could result in a reduction in sales and profitability and have a material adverse effect on the Group's business, financial condition and/or results of operations.

The markets for the Group's products are highly competitive with many participants. Competition in the markets in which the Group operates is based principally on some or all of the following factors, depending on the product and market specifics: price, quality, product specifications and design, location, overall product performance and service. The Group principally competes with several large multinational manufacturers (see "*Industry Overview*" and "*Business—Key Strengths and Competitive Positioning*"). The Group also competes with numerous regional and/or specialized manufacturers in the markets for most of its products. Some of these competitors may have greater market presence, lower production costs, governmental support and/or financial and other resources than the Group, allowing them to sell at lower prices and make product developments or investments in manufacturing facilities at levels that the Group may not be able to match. Any failure by the Group to compete successfully with other producers of the Group's key products could result in a reduction in the Group's sales and profitability and have a material adverse effect on the Group's business, financial condition and/or results of operations.

Climate change, or legal, regulatory or market measures to address climate change, may negatively affect the Group's business or operations.

There is a growing concern that carbon dioxide and other greenhouse gases in the atmosphere may have an adverse impact on global temperatures, weather patterns and the frequency and severity of extreme weather and natural disasters. Increased severity of extreme weather events could lead to drought or fire in forests. Sustained higher temperatures may increase vulnerability of forests to pests and diseases. As such, the effects of climate change could have a material adverse effect on the Group's business, financial condition and/or results of operations.

As countries explore options to transition to low carbon economies in order to achieve international commitments to respond to the risk of climate change, laws are being implemented to enforce both mitigation and adaptation measures to deal with and reverse the effects of climate change. These measures, which include carbon taxes and emission trading schemes, may negatively affect the Group's operations and the cost of doing business. For example, the Group anticipates the risk of a cross-border carbon tax within two to eight years, as proposed in the European Union Green Deal for imports from outside the European Union, which may bring additional risks to the Group's operations and financial performance. The aim of the tax is to address climate change by taxing imports based on the carbon emissions that countries produce. In anticipation of the introduction of the aforementioned carbon tax, the Group approved a functional strategy in the field of environmental safety which provides for reducing GHG emissions and other anthropogenic impacts, which meets the new international requirements and recommendations under the Paris Climate Agreement, identifies the risk of introduction of the aforementioned carbon tax, and also provides for specific measures to mitigate significant environmental risks.

The Group may fail to fulfill the terms of its licenses, permits and other authorizations, fail to obtain the necessary authorizations or fail or be unable to renew them on expiration.

The Group is required to maintain various licenses, permits and other authorizations, including but not limited to, health and safety, environmental and transportation (see "*Regulatory Overview*"). These licenses, permits and other authorizations are subject to various requirements, and if the Group fails to comply with them, they may be suspended or terminated, possibly leading to temporary or potentially permanent closing of sites, breakdown in operations, incurrence of costs in eliminating or remedying violations, or other adverse consequences. The Group may also face similar consequences in the event the Group is found by a relevant state authority to conduct any particular operations in the absence of a requisite license, permit or authorization.

Any or all of these factors may adversely affect the Group's ability to obtain or renew necessary licenses, permits and authorizations. If the Group is unable to obtain or renew them or are only able to do so on unfavorable terms, this could have a material adverse effect on the Group's business, results of operations, cash flows, financial condition and prospects.

The Group's operations require a wide variety of environmental permits.

The Group's operations require the Group to obtain and comply with the terms and conditions of multiple environmental permits. These permits are costly and difficult to obtain, and may be subject to legal challenges, particularly those that may affect air and water quality, see *"—The Group may fail to fulfill the terms of its licenses, permits and other authorizations, fail to obtain the necessary authorizations or fail or be unable to renew them on expiration.*" Each of the Group's mills are regularly assessed on an individual basis by authorities in the relevant jurisdiction, and permits given by the authorities may include requirements for the mills, the compliance of which can involve significant costs if they pertain to additional installations or renewal of existing equipment and machinery. Failure to comply with applicable environmental laws, regulations, permits and requirements may result in civil or criminal fines, penalties or enforcement actions. Increased operational requirements could reduce the Group's profit margins and earnings and could have a material adverse impact on the Group's business, results of operations, cash flows, financial condition and prospects.

Forests are exposed to a number of natural risks and hazards which could cause disruptions to the Group.

Forests are exposed to a number of natural risks and hazards which are outside the control of the Group, including fire, insect infestation, diseases, epidemics, extreme weather, droughts or floods and other natural events which, in each case, may have an adverse impact on the timing of harvests, reduce the volume and value of wood harvested from the Group's forests or impact the Group's ability to produce wood internally. Wood harvests of both the Group and its third party suppliers may be adversely impacted by natural risks and hazards, which could adversely affect the Group's business, financial condition and/or results of operations.

The Group is exposed to risks inherent in operating internationally, including the risk of breaching international sanctions and anti-bribery/anti-corruption laws and regulations.

The Group has put in place what it considers strict sanctions, anti-bribery and anti-corruption policies and procedures requiring compliance with applicable laws and regulations, and implements precise know-your-contactor/know-your-client procedures and measures designed to facilitate reasonable assurance of such compliance and to minimize risks of breaching international sanctions and anti-bribery/anti-corruption laws and regulations. However, the Group's employees and third-party contractors may take actions in violation of applicable laws and regulations or the Group's policies and procedures. Any such violation, even if prohibited by the Group's policies, could have a material adverse effect on the Group's business and reputation.

Furthermore, sanctions imposed on certain countries, companies or individuals by individual countries such as the United States, or by international and regional bodies such as the United Nations and European Union could in the future materially adversely affect the Group's ability to trade with those sanctioned countries and companies/individuals affected by such sanctions. See "*—Risks Relating to the Russian Federation—Although no entity in the Group is currently a sanctioned person, sanctions imposed by the United States, the European Union and other states in relation to the Russian Federation may have a material adverse effect on the Group's business, financial condition, results of operations and liquidity*." Any of the above factors could have a material adverse effect on the Group's reputation, business, financial condition, prospects and results of operations.

Risks Relating to the Group's Corporate Structure

Sistema PJSFC has the ability to exert significant influence over the Group, and its interests could conflict with those of the holders of the Ordinary Shares.

The Company's shareholder, Sistema Public Joint Stock Financial Corporation ("**Sistema PJSFC**"), and its senior management, directly and indirectly control 100% of the Ordinary Shares as of the date of this Offering Memorandum. Following the Offering, Sistema PJSFC will continue to hold a majority interest in the Company, through beneficial ownership of approximately 73.2% of the Ordinary Shares (assuming the Over-allotment Option is not exercised and the Company issues 3,870,967,742 Offer Shares in the Offering). Accordingly, Sistema PJSFC and its senior management will be able to exercise significant influence over matters relating to the Group, including, but not limited to, decisions on amendment of the Charter, proposed substantial sale of assets or other major corporate transactions, election of the members of the Board of Directors, appointment of the Group's senior managers, declaration of dividends and the determination of the Group's policies. Its continued significant shareholding in the Company may have the effect of making certain transactions more difficult without its support and may have the effect of delaying or preventing an acquisition of or other change in control in the Group. The interests of Sistema PJSFC may also differ from the interests of other holders of the Ordinary Shares and may materially adversely affect the value of any investment made by such other holders of the Ordinary Shares.

Disputes or litigations that the Group's shareholders are or may be involved in may have a material effect on the trading price of the Ordinary Shares.

According to publicly available information, in 2017, Sistema PJSFC, which was then the Company's controlling shareholder and will retain the majority stake following the Offering, as discussed above, was involved in litigation in relation to its historic ownership of Public Joint Stock Oil Company Bashneft ("**Bashneft**"). Rosneft Oil Company ("**Rosneft**") currently owns a controlling stake in Bashneft and the Republic of Bashkortostan currently owns 25% of Bashneft. For the purposes of this discussion, all references to Sistema PJSFC in this risk factor include Sistema-Invest JSC, wholly-owned subsidiary of Sistema PJSFC, which was a codefendant together with Sistema, in these lawsuits. According to publicly available information, in May 2017, Rosneft and Bashneft, joined by the Republic of Bashkortostan in June 2017, filed a lawsuit against Sistema PJSFC for the recovery of RUB 170.6 billion in damages purportedly associated with reorganisation of Bashneft in 2014 (the "**First Lawsuit**"). In August 2017, the Arbitrazh Court of the Republic of Bashkortostan allowed for the recovery by the claimants of RUB 136.3 billion in damages.

Further, in December 2017, Rosneft and Bashneft filed another lawsuit for the recovery of RUB 131.6 billion in dividends received by Sistema PJSFC from Bashneft when Sistema PJSFC was the major shareholder of Bashneft (the "**Second Lawsuit**"). As an injunctive relief under the Second Lawsuit, on 12 December 2017, shares in many of Sistema PJSFC's subsidiaries, including the Company, were arrested by the court. The court order also restricted the rights of Sistema PJSFC to receive dividends from the arrested shares.

In December 2017, Sistema PJSFC filed a lawsuit against Rosneft and Bashneft, seeking damages of

RUB 330.4 billion caused to Sistema PJSFC by their claims (the "**Sistema Lawsuit**" and, together with the First Lawsuit and the Second Lawsuit, the "**Bashneft Dispute**"). On 22 December 2017, Sistema signed a settlement agreement with Rosneft, Bashneft and the Republic of Bashkortostan, according to which Sistema PJSFC was required to pay to Bashneft RUB 100.0 billion in three instalments, whereupon the parties would dismiss all their lawsuits and claims against each other. As of the date of this Offering Memorandum, Sistema PJSFC has timely paid all the three instalments.

Similar or other claims may be brought against, among others, the Group's significant shareholders or the Company in the future, which may result in, among other things, a change in the control or ownership of the Company, significant reputational damage to the Company or its shareholders, any or all of which may have a material adverse effect on the Group's business, financial condition, results of operations and prospects. Any change in the control or ownership of the Company as a result of such claims may result in the new shareholders having interests, views or strategies in relation to the Group that may not coincide with those of the Group's other shareholders.

The Group has engaged in and will continue to engage in ordinary course commercial dealings with Sistema PJSFC and its subsidiaries.

In the ordinary course of business, the Group has commercial dealings with Sistema PJSFC and its subsidiaries. Commercial dealings of the Group with Sistema PJSFC and other related parties are concluded on an arm's-length basis. Notwithstanding the Group's control procedures in respect of related-party transactions, transactions with related parties pose the risk of the Group entering into transactions on terms less favorable than could be obtained in arm's length transactions with unrelated parties. If any such risk materializes, it could have a material adverse effect on the Group's business, financial condition, results of operations, prospects and the trading price of the Ordinary Shares. See also "*Related-Party Transactions.*"

In addition, related-party transactions with Sistema PJSFC may in certain circumstances be challenged as contrary to the interest of the Company. In accordance with the Joint Stock Companies Law, if an interested party transaction is deemed to have been entered into without prior consent, a member of the board of directors or shareholder(s) of the company which hold at least 1% of the voting shares of the company, have a right to request information relating to the transaction from the company, including documents confirming that the transaction does not breach the company's interests (including that the transaction was made on terms that are not materially different from market terms). Upon a claim by the company, or a member of its board of directors, or shareholder(s) of the company, which hold more than 1% of the voting shares of the company, a court may invalidate an interested party transaction entered into without prior consent if the transaction is adverse to the company's interests and it is proved that the other party to such interested party transaction did know and should have known that the transaction was an interested party transaction for the company and/or that the consent for such transaction has not been obtained. Such invalidation of transactions could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The ongoing reorganization of the Company could adversely affect its operating results and financial condition.

In March 2021, the Board of Directors of the Company proposed to its shareholders to merge its 100% subsidiary company – LLC Management Company "Segezha group" (the "**Merging Subsidiary**") into the Company through a statutory merger accompanied by the redemption of the Merging Subsidiary's charter capital ("**Reorganization**") with the view to optimizing the corporate structure of the Group and shifting its corporate center to the Company. In April 2021, the Company's General Shareholders Meeting, as well as the sole participant of the Merging Subsidiary approved the Reorganization. Following the Reorganization, the Merging Subsidiary will merge into the Company and cease to exist. The Company will act as the surviving entity in this Reorganization while the Merging Subsidiary cease to exist. The Company expects the Reorganization to be completed by the end of the third quarter of 2021.

The Reorganization entitles the Company's and the Merging Subsidiary's creditors to demand early performance of the Company's or the Merging Subsidiary's obligations or, if such performance is not possible, demand termination of such obligations and reimbursement of applicable losses. This right may be exercised by the creditors no later than 30 days after the date of the last notice of the Reorganization published by the Company in accordance with applicable procedures. Moreover, a number of loan agreements prescribe for the Company's obligation to notify the relevant lenders on the commencement of the Reorganization. Failure to send such notification may constitute an event of default under a loan agreement and may, in some cases, cause the acceleration of the Company's indebtedness. The acceleration of indebtedness under one such agreement may also trigger cross-default provisions in other agreements. Any acceleration of indebtedness triggered by the Reorganization or as a result of a failure to give notification to the lenders under the relevant loan agreements could adversely affect the Company's operating results and financial condition.

Under the Joint Stock Companies Law buy-back rights are available to those shareholders of the Company who voted against or did not participate in voting on the Reorganization at a price not less than that determined by a mandatory independent appraisal. The Joint Stock Companies Law, however, caps the aggregate amount payable by the Company at 10% of its net assets, as measured under RAS. Given that the General Shareholders Meeting of the Company approved the Reorganization unanimously, the risks of buy-back right being triggered by the decision on the Reorganization are remote.

Furthermore, reorganization of a legal entity entitles Russian tax authorities to initiate an unscheduled tax audit in respect of such entities undergoing the reorganization. If such audit is initiated in respect of the Company, it may put additional strain on the Management and divert their attention from ongoing operational concerns, which could adversely affect the business of the Company. Moreover, if the relevant tax authorities find that the Company has not duly satisfied its tax obligations in any given year, this could result in additional costs for the Company.

Risks Relating to the Russian Federation

Emerging markets, including the Russian Federation, are subject to greater risks than more developed markets.

Prospective investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is suitable only for sophisticated investors who are familiar with and fully appreciate the significance of the risks involved in investing in emerging markets.

Investors should be aware that emerging markets such as the Russian Federation are subject to greater risk than more developed markets, including in some cases greater economic, political and social, and legal and legislative risks. As has happened in the past, including during the 2008 financial crisis and the economic and political developments affecting the Russian economy since 2014, financial problems or an increase in the perceived risks associated with investing in emerging economies may adversely affect the level of foreign investment, which may, in turn, adversely affect the economies in those countries. In addition, during such times, businesses that operate in emerging markets can face severe liquidity constraints as funding sources are withdrawn. As an emerging economy, the Russian Federation remains particularly vulnerable to external shocks. Events occurring in one geographic or financial market sometimes result in an entire region or class of investments being disfavored by international investors – so-called “contagion effects.” The Russian Federation has been adversely affected by contagion effects in the past, and it is possible that the markets for Russian investments will be similarly affected in the future by negative economic or financial developments in other countries. Any financial turmoil in emerging or developing markets other than in the Russian Federation could also have a material adverse effect on the Group’s business, results of operations, financial condition and prospects. Investors should also note that emerging economies are subject to rapid change and that the information set forth herein may become outdated relatively quickly.

Although no entity in the Group is currently a sanctioned person, sanctions imposed by the United States, the European Union and other states in relation to the Russian Federation may have a material adverse effect on the Group’s business, financial condition, results of operations and liquidity.

The United States and the European Union (among others) have imposed a series of sanctions on certain Russian and Ukrainian persons and entities, as well as on the territory of Crimea and Sevastopol. These sanctions generally target and either prohibit or impose restrictions on dealings or activities with or involving specific persons and companies, certain entities linked to the Government of the Russian Federation, designated sectors of the Russian economy, and, in some instances, entities owned or controlled by sanctioned persons. These sanctions also impose restrictions on the export of certain goods and technology to Russia. The resulting prohibitions and restrictions generally apply to nationals of the countries imposing such sanctions and to nationals of other countries to the extent they act within the jurisdiction of the country imposing the sanctions and may, particularly in the case of U.S. sanctions, have extraterritorial effect. Most of the Group’s entities are neither U.S. persons nor EU persons, and therefore are subject to these sanctions prohibitions and restrictions only to the extent their dealings are subject to U.S. or EU jurisdiction. However, the Group does include some entities incorporated within the European Union, and the United States takes a broad view of its jurisdiction. Accordingly, there can be no assurance that compliance issues under U.S. and/or EU sanctions laws and regulations will not arise with respect to the Group’s subsidiaries or their personnel.

The United States also maintains so-called “secondary” sanctions threatening the imposition of a range of sanctions against non-U.S. entities engaging in, among other activities, targeted activities involving Russia, certain sectors of the Russian economy, or sanctioned persons outside of U.S. jurisdiction. While the actual imposition of U.S. secondary sanctions requires affirmative action by the U.S. administration and is thus in practice discretionary, potential sanctions can be as severe as designation for blocking sanctions, which involves the complete blocking of all transactions and property of the blocked person or entity within U.S. jurisdiction, including U.S. dollar and securities clearing transactions.

No individual or entity within the Group is currently designated under U.S. or EU sanctions. However, U.S. sanctions authorize the designation of or, in some cases, the imposition of secondary sanctions on, any person that engages in sanctionable conduct or materially assists, sponsors or provides financial, material or technological support for, or goods or services to or in support of, sanctioned persons as well as persons engaged in targeted activities. The Group, like many major Russian company groups, has had and may, from time to time, have commercial relationships with entities or within the territories that are or may become subject to U.S. and EU sanctions. For example, in the year ended December 31, 2020, while sanctions policies and procedures of the Group were in place, dealers to whom the Group supplied certain paper sacks sold these on to purchasers in Crimea (contributing less than 0.01% of the Group's revenue for the year). While the Group is not aware of any such arrangements in place at present and maintains, and updates on an ongoing basis, its policies and procedures aimed at ensuring the Group's counterparties are not designated under U.S. or EU sanctions, there can be no assurance that events such as those described above, which may arise as a result of circumstances outside the Group's control, may not occur again in the future. The Group can give no assurance that it, any of its subsidiaries, individuals holding positions in the Group and its direct and indirect shareholders and controlling persons will not be affected by future sanctions designations or secondary sanctions. For further information on the Group's policies and procedures, see "*—Risks Relating to the Russian Federation— The Group is exposed to risks inherent in operating internationally, including the risk of breaching international sanctions and anti-bribery/anti-corruption laws and regulations.*"

If persons or entities collectively owning 50% or more of any Group entity or any Group entity is designated on U.S. sanctions lists, such sanctions would also automatically apply to any entity 50% or more owned by the designated persons or entities, whether or not such subsidiaries were separately designated. In January 2018, pursuant to the Countering America's Adversaries through Sanctions Act of 2017, the U.S. administration presented the U.S. Congress with a report on senior Russian political figures, "oligarchs" and "parastatal" entities. The list included, among others,Mr. Vladimir Evtushenkov, who beneficially owns more than 59% in Sistema PJSFC, one of the Group's principal shareholders. Although the Group is not aware of any intention on the part of the U.S. government to impose sanctions on Mr. Evtushenkov, if he were to become a target of sanctions, it could have a material adverse effect on the Group's business, access to international financial markets, results of operations, financial condition and prospects. Moreover, if the Group becomes subject to U.S. or EU sanctions, investors subject to the jurisdiction of an applicable sanctions regime may become restricted in their ability to hold, deal in, or receive dividends with respect to, the Offer Shares, which could make such Offer Shares partially or completely illiquid and have a material adverse effect on their market value.

The U.S. Congress is considering several bills to expand sanctions against Russia, Russian companies and individuals, including:

- new sanctions on Russian officials and wealthy individuals;
- blocking sanctions against Russian state-owned financial institutions;
- sanctions against Russian energy sectors and export pipelines for Russian oil and gas; and
- restrictions on Russian sovereign debt and debt of Russian state-owned companies.

The future scope and application of U.S. sanctions in relation to the Russian Federation is impossible to predict and may be materially affected by political developments, including adoption of U.S. legislative proposals for imposition of additional sanctions related to Russia. Similarly, EU sanctions on the Russian Federation may continue to be extended and could also change in scope or application as a result of political developments.

In addition, starting from 1 January 2021, EU sanctions targeting Russia ceased to apply within the United Kingdom, but were replaced by a new sanctions regime, with substantially the same, but not identical, effect, under The Russia (Sanctions) (EU Exit) Regulations 2019 that came fully into force on 31 December 2020.

The sanctions discussed above have had, and may in the future have, a material adverse effect on the Russian financial markets and investment climate and the Russian economy generally and, as a result, may materially adversely affect the Group's business, results of operations, financial condition and prospects.

Changes in government policy, other government actions and political risks could adversely affect the Group's operations and the value of investments in Russia, including the Offer Shares.

Political conditions in the Russian Federation were highly volatile in the 1990s, as evidenced by frequent conflicts among executive, legislative and judicial authorities, which had a negative effect on Russia's business and investment climate. From 2001 until 2013, the political and economic situation in the Russian Federation became generally more stable and conducive to investment. This stability, however, has been negatively affected by the 2008 global financial crisis, the economic sanctions imposed on the Russian Federation by the United States, the European Union and some other states and the economic recession in the Russian Federation in recent periods. Moreover, in December 2011 and in 2012, there were public protests alleging voting irregularities in federal parliamentary and presidential elections and demanding political reform. In 2018, there were public protests against the increase of the retirement age. In January 2020, a series of political reforms were proposed purporting to reallocate powers and responsibilities among the Russian governmental authorities, including those of the Russian Parliament and the Government. In addition, further amendments were proposed in March 2020, under which the previous and current Presidents of Russia are allowed to participate in presidential elections for two additional terms following the amendment of the Russian Constitution. In July 2020, following a public vote, the changes to the Russian Constitution necessary to implement proposed political reforms were enacted, however further reforms would have to be administered and other laws would be necessary for the political decisions to become effective. See "*—Risks Relating to the Russian Federation—Weaknesses relating to the Russian legal system and Russian legislation create an uncertain environment for investment and business activity.*" The implementation of such political steps and actions could take time, and eventually the political and constitutional structure of Russia may change, subject to the completion of the relevant implementation procedures. Further, in the beginning of 2021, there were social tensions following the arrest and subsequent imprisonment of the opposition leader Alexey Navalniy. Changes in political leaders, high ranking officials or political parties as a result of governmental elections in the Russian Federation or in other circumstances may also affect the legal and regulatory regime in the Russian Federation to a greater extent than in certain more developed countries.

Any significant increase in political instability, uncertainty over the direction of future reforms or a reversal of the reform process could lead to another deterioration in the Russian Federation's investment climate that might constrain the Group's ability to obtain financing in the international capital markets, limit its sales in the Russian Federation or otherwise have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

In the past, Russian authorities have prosecuted some Russian companies, their executive officers and their shareholders on tax evasion, fraud and related charges. In some cases, the result of these prosecutions has been the prolonged prison detention or imposition of prison sentences for individuals and significant fines and/or claims for unpaid taxes. Any similar actions by governmental authorities could lead to further negative effects on investor confidence in the Russian Federation's business and legal environment, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The Russian Federation is a federal state consisting of 85 constituent entities, or "subjects." The Constitution of the Russian Federation of 1993 (the "**Russian Constitution**") reserves some governmental powers for the Russian Government, some for the subjects and some for areas of joint competence. In addition, eight "federal districts" ("*federal'nye okruga*"), which are overseen by a plenipotentiary representative of the President, supplement the country's federal system. The delineation of authority among and within the subjects is, in many instances, unclear and contested, particularly with respect to the division of tax revenue and authority over regulatory matters. The subjects have enacted conflicting laws in areas such as privatization, land ownership and licensing. For these reasons, the Russian political system is vulnerable to tension and conflict between the authorities at the level of a state, a subject or a municipal entity. This tension creates uncertainties in the operating environment in Russia and could adversely affect the Group's ability to carry out its strategy effectively. In addition, ethnic, religious, historical and other divisions have on occasion given rise to tensions and, in certain cases, military conflict. Moreover, various acts of terrorism have been committed within the Russian Federation.

The risks associated with these events or potential events could materially and adversely affect the investment environment and overall consumer and entrepreneurial confidence in the Russian Federation, which in turn could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Crime and corruption could disrupt the Group's ability to conduct its business and thus materially adversely affect the Group's operations.

Organized criminal activity in Russia has reportedly been high since the dissolution of the Soviet Union in 1991, particularly in large metropolitan centers. In addition, the Russian and international press have reported high levels of official corruption in Russia, including the bribery of officials for the purpose of initiating investigations by state agencies, obtaining licenses or other permissions or in order to obtain the right to supply products or services to state agencies. Press reports have also described instances in which state officials have engaged in selective investigations and prosecutions to further interests of the state and individual officials. The proliferation of organized or other crime, corruption and other illegal activities that disrupt the Group's ability to conduct its business effectively or any claims that the Group has been involved in corruption, or illegal activities (even if false) that generate negative publicity could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

Economic instability in the Russian Federation could have an adverse effect on the Group's business.

The Group's primary production facilities are located in the Russian Federation. As a result, the Group's business and results of operations are dependent on the economic conditions in Russia. Over the last two decades, the Russian economy has experienced or continues to experience at various times:

- significant volatility in its gross domestic product ("**GDP**");
- the impact of international sanctions;
- high levels of inflation;
- increases in, or high, interest rates;
- sudden price declines in oil and other natural resources;
- instability in the local currency market; lack of reform in the banking sector and a weak banking system providing limited liquidity to Russian enterprises;
- budget deficits;
- the continued operation of loss-making enterprises due to the lack of effective bankruptcy proceedings;
- capital flight; and
- significant increases in poverty rates, unemployment and underemployment.

The Russian economy has been subject to abrupt downturns in the past. Furthermore, following the imposition of economic sanctions by the United States and the EU and the decline of oil prices, in 2015, Russia's GDP declined by 2.0% in real terms. In 2017, 2018 and 2019, Russia's GDP grew by 1.8%, 2.8% and 2.0% in real terms, respectively, according to Rosstat. However, in 2020, Russia's GDP declined by 3.0%, mostly due to the impact of the COVID-19 pandemic on the Russian economy, with a gradual recovery possible in 2021. Nonetheless, there is a risk that Russia's expected growth in the future will not be achieved due to generally unfavorable economic conditions or geopolitical factors, and this consequently may materially and adversely affect the Group's business, prospects, financial condition and results of operations.

Further, the recent outbreak of COVID-19 across the world has and could continue to adversely affect business activity and trade, resulting in an overall deterioration of spending power and general willingness to spend in the Russian economy and thus, a decreased demand for the Group's products. See *"—Risks Relating to the Group's Industry—The global paper and pulp industry has been adversely affected by, and may continue to be adversely affected by, the COVID-19 pandemic*." There can be no guarantee that, despite any national or international responses to COVID-19 or any other diseases, such outbreaks would not cause material and sustained disruptions to global and domestic economic activity and the Group's business. Any deterioration in the general economic conditions in Russia (whether or not as a result of the events mentioned above) could have a material adverse effect on the Russian economy and the Group's business, prospects, financial condition and results of operations.

Weaknesses relating to the Russian legal system and Russian legislation create an uncertain environment for investment and business activity.

The Russian Federation continues to develop its legal framework in accordance with international standards and the requirements of a market economy. Since 1991, new Russian domestic legislation has been put into place. Currently, this system includes the Russian Constitution, the Civil Code of the Russian Federation (the "**Russian Civil Code**"), the Tax Code of the Russian Federation (the "**Russian Tax Code**") and other federal laws, resolutions, decrees, orders and regulations adopted and issued by the Russian Parliament, the Russian President, the Russian Government and federal ministries, which can be complemented by regional and local rules and regulations and adopted in certain spheres of regulation. In addition, in July 2020, the Russian Constitution was amended to include a number of changes, including changes regarding presidential term limits, procedure of appointment and removal of federal judges and certain requirements for candidates to high-profile offices. The amendments to the Russian Constitution may trigger further changes in the Russian legal framework, and the impact of any such changes could have a material adverse effect on the Group's business, financial condition, prospects and results of operations.

Several fundamental Russian laws have only recently become effective, including laws amending procedures for approval of major and interested party transactions, and there still remain gaps and inconsistencies in regulatory infrastructure. Consequently, certain areas of judicial practice are not yet fully settled and are therefore sometimes difficult to predict. Among the risks of the current Russian legal system are:

- inconsistencies among federal laws; decrees, orders and regulations issued by the President, the Russian Government, federal ministries and regulatory authorities; and regional and local laws, rules and regulations;
- limited judicial and administrative guidance on interpreting Russian legislation;
- the relative inexperience of judges, courts and arbitration tribunals in interpreting new principles of Russian legislation, particularly business and corporate law;
- a lack of judicial independence from political, social and commercial forces;
- bankruptcy procedures that are still under development;
- difficulty in enforcing court judgments in practice;
- substantial gaps in the regulatory structure due to delay or absence of implementing legislation; and
- a high degree of unchecked discretion on the part of governmental and regulatory authorities.

Unlawful, selective or arbitrary governmental actions have reportedly included denial or withdrawal of licenses, sudden and unexpected tax audits, criminal prosecutions and civil actions and the expropriation of property. The possibility of unlawful, selective or arbitrary governmental action, arising from the high degree of discretion afforded to state authorities in the markets in which the Group operates, also enhances opportunities for official corruption and extortion, as well as the penetration of organized crime into the economy, all of which is widely reported to be high in Russia.

There are also legal uncertainties relating to property rights in Russia. During Russia's transformation to a market economy, the Russian Government has enacted legislation to protect property against expropriation and nationalization, and, if property is expropriated or nationalized, legislation provides for fair compensation. There is, however, no assurance that such protections would be enforced.

Notwithstanding recent reforms of the Russian court system, the transitional state of the Russian legal system could affect the Group's ability to enforce its rights under contracts, or to defend itself against claims by others, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Shareholder rights provisions of Russian law may impose additional costs on the Group, which could cause the Group's financial results to suffer.

Under Russian law, shareholders that vote against or abstain from voting on some decisions may demand repurchase of all or some of their shares. See "*Description of Share Capital and Certain Requirements of Russian Law—Description of Share Capital—Share Capital Decrease and Share Repurchases*."

Although the Company's obligation to purchase shares, as well as similar obligations of the Company's subsidiaries that have minority shareholders, in these circumstances will be limited to 10% of the Company's or such subsidiaries' net assets as calculated under Russian Accounting Standards ("**RAS**") at the time the matter at issue is voted upon, any such repurchase requirements, if triggered, could have a material adverse effect on the Group's cash flow, as well as on the Group's business, financial condition, results of operations and prospects.

Russia's securities laws and regulations may limit the Group's ability to attract future investment and could subject the Group to fines or other enforcement measures despite its best efforts.

The regulation and supervision of the securities market, financial intermediaries and issuers are considerably less developed in the Russian Federation than in Western European jurisdictions or in the United States. Disclosure and reporting requirements, anti-fraud safeguards, insider trading restrictions and duties of the directors to the company are relatively new concepts in the Russian Federation and are unfamiliar to many Russian companies and managers.

In addition, Russian securities rules and regulations can change rapidly, which may adversely affect the Group's ability to conduct securities-related transactions. While some important transactions are subject to little or no oversight in the Russian Federation, other transactions are subject to requirements not found in other jurisdictions, resulting in delays in conducting securities offerings and accessing the capital markets. It is often unclear whether certain regulations, decisions and letters issued by the various regulatory authorities apply to the Group. Violation of reporting and other securities regulation requirements can result in the imposition of fines or difficulties in registering subsequent share issuances. The Group may be subject to fines or other enforcement measures despite its best efforts at compliance, which could adversely affect the Group's business, financial condition, results of operations and prospects.

Corporate governance and disclosure requirements in the Russian Federation might significantly differ from those in other jurisdictions.

The Company will comply with corporate governance and public reporting standards applicable to publicly listed companies in Russia, which are not of the same standard as those applicable to companies listed on major stock exchanges in Western European jurisdictions or in the United States. Accordingly, there may be fewer protections for investors than would otherwise be the case if the Company was required to comply with corporate governance principles or standards applicable to public companies in such jurisdictions. In addition, the rights of shareholders and the responsibilities of members of supervisory councils/boards of directors and management boards under Russian law are different from, and may be subject to certain requirements not generally applicable to, companies organized in Western European jurisdictions or the United States. Despite recent initiatives to improve disclosure and corporate governance in Russia, there may be less publicly available information about the Group than for some comparable companies in Western European jurisdictions or the United States. Russian laws regulating corporate governance of Russian companies are relatively new and in many cases have not been tested in the courts. The relatively less transparent nature of corporate governance in the Russian Federation could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Russian banking system remains under ongoing development.

Russia's banking and other financial systems are in a period of ongoing development. There are currently a limited number of creditworthy Russian banks with the capacity to service companies of the Group's size. Although the CBR has the mandate and authority to suspend banking licenses of insolvent banks, there may be a time lag between such banks becoming insolvent and their licenses being revoked, during which time they may continue to operate. Some banks may not be fully compliant with existing CBR regulations with respect to lending criteria, credit quality, loan loss reserves or diversification of exposure. Many Russian banks also do not meet international banking standards, and the transparency of the Russian banking sector still does not meet all internationally accepted norms. In late 2017, the CBR announced its decision to implement measures aimed at improving the financial stability of several Russian banks, including PJSC Bank Otkritie Financial Corporation, PJSC B&N Bank and PJSC Promsvyazbank (PSB). Liquidity difficulties on the market arose among the private and state owned banks in Russia, which undermined investors' confidence and led to instability of the Russian banking system. As of the date hereof, 19 Russian banks are subject to ongoing rehabilitation measures imposed by the CBR or the Deposit Insurance Agency. There can be no assurance that other banks will not be subject to rehabilitation measures by the CBR, which could further exacerbate difficulties in the banking sector and the local financial markets.

Further, the Group partially relies on debt financing from Russian banks. Accordingly, if a prolonged or serious banking crisis were to occur in Russia, the Group's ability to access this source of financing may be limited, which in turn could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The serious deficiencies in the Russian banking sector, combined with the deterioration in the credit portfolios of Russian banks as a result of, inter alia, the impact of COVID-19, may result in the banking sector being more susceptible to any worldwide credit market downturn and economic slowdown. Given the Group's reliance on the Russian banking sector, a prolonged or serious banking crisis or the bankruptcy of a number of Russian banks could have a material adverse effect on the Group's business.

The Russian taxation system is relatively underdeveloped.

The Russian Government is continually reforming the tax system by modifying parts of the Tax Code of the Russian Federation (the "**Russian Tax Code**"). Russian tax laws, regulations and court practice are subject to frequent change, varying interpretations and inconsistent and selective enforcement. Differing interpretations of tax regulations may exist both among and within government bodies at the federal, regional and local levels, increasing the number of existing uncertainties and leading to the inconsistent enforcement of these laws and regulations in practice. In some instances, the Russian tax authorities applied new interpretations of laws and regulations retroactively.

There is a possibility that the Russian Federation could impose arbitrary or onerous taxes and penalties in the future. These conditions complicate tax forecasting and related business decisions. The consequent uncertainties could also expose the Group to significant fines and penalties and potentially severe enforcement measures, and could result in a greater than expected tax burden. This, in turn, could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Tax returns together with related documents are subject to review and investigation by the Russian tax authorities which are enabled by Russian law to impose severe fines and interest charges on taxpayers. Subject to certain exceptions, tax returns are subject to tax audit for a period of three calendar years immediately preceding the year in which the decision to carry out a tax audit was taken. In certain circumstances, repeated tax audits may be conducted, therefore, previous tax audits do not necessarily preclude subsequent claims relating to the audited period. The Russian Tax Code provides for the possibility of an extension of the three-year statute of limitations under certain conditions.

Tax audits or inspections may result in additional costs to the Group, in particular if the relevant tax authorities conclude that the Group did not satisfy its tax obligations in any given year. Tax audits may also impose additional burdens on the Group by diverting the attention of Management.

In 2017 the general anti-avoidance rules were introduced by Article 54.1 of the Russian Tax Code. Prior to that a similar "unjustified tax benefit" concept introduced by the Plenum of the Supreme Arbitration Court of the Russian Federation in its Resolution No. 53 had been in existence for more than 10 years in Russian law and was widely used by the Russian tax authorities to challenge the tax positions of Russian taxpayers, inter alia, with respect to the application of double tax treaty-related benefits. Under these new general anti-avoidance rules, a taxpayer is not able to reduce the tax base and/or the amount of tax payable by misrepresenting information regarding economic events or the objects of taxation which are required to be disclosed in a taxpayer's tax and/or accounting records or tax statements. Moreover, in order for the tax base to be reduced the taxpayer must prove, among other things, that their counterparty has performed their part of the contractual obligations or that they were performed by a person to whom such obligation has been transferred by contract or by law. Thus, a taxpayer is obliged to check the reputation and capabilities of its suppliers as well as confirm whether they fulfill their tax liabilities to be able to support recovery of input value added tax or deduction of expenses for corporate income tax purposes. While the Group have established internal procedures to monitor and control this risk, the it may still be affected by it due to ambiguity of criteria used by the tax authorities, subjective nature of the risk and lack of consistent court practice on this matter. In March 2021 the Federal Tax Service published a clarification letter summarizing the practice on the application of Article 54.1 of the Russian Tax Code. While the letter aims to systemize the approach to the Russian general anti-avoidance rules, the exact impact of the letter on the practice and consistency of the application of the abovementioned rules remains to be seen.

As a result, it is possible that despite the best efforts of the Group to comply with Russian tax laws and regulations, certain transactions and activities of the Group that have not been challenged in the past may be challenged in the future, resulting in a greater than expected tax burden, exposure to significant fines and penalties and potentially severe enforcement measures for the Group.

Recent developments show that the Russian tax authorities are scrutinizing various tax planning and mitigation techniques used by taxpayers, including international tax planning. In particular, the Russian Federation introduced "controlled foreign companies" rules, the concept of "tax residency for an organization" and the "beneficial ownership" concept, and is increasingly engaged in the international exchange of tax and financial information (including through country-by-country reporting standards and common reporting standards developed and approved by the

Organization for Economic Co-operation and Development ("**OECD**").

The Group includes companies incorporated and operating outside of Russia. It is possible that with the evolution of such rules (concepts) the Group might become subject to additional taxation in Russia in respect of its operations performed outside of the Russian Federation through its foreign legal entities. These rules (concepts) are being regularly updated where some of the amendments have retrospective effect.

Furthermore, Russian tax legislation is consistently becoming more sophisticated. It is possible that new revenue-raising measures could be introduced. Although it is unclear how any new measures would operate, the introduction of such measures may affect the Group's overall tax efficiency and may result in significant additional taxes becoming payable. No assurance can be given that no additional tax exposures will arise for the Group.

All the aforesaid evolving tax conditions create tax risks in the Russian Federation that are greater than the tax risks typically found in countries with more developed taxation, legislative and judicial systems. These tax risks impose additional burdens and costs on the Group's operations, including Management's resources.

Russian transfer pricing rules may subject the Group's transfer prices to challenge by the Russian tax authorities.

Certain transactions by the Group are subject to Russian transfer pricing rules. Russian transfer pricing legislation allows the Russian tax authorities to make transfer pricing adjustments and impose additional tax liabilities with respect to "controlled" transactions. The list of "controlled" transactions under the transfer pricing legislation includes transactions performed with related parties (certain exclusions are possible) and certain types of cross-border transactions. The legislation shifts the burden of proving market prices from the Russian tax authorities to the taxpayer. Although Russian transfer pricing rules were modelled based on the transfer pricing principles developed by the OECD, there are some peculiarities as to how the OECD transfer pricing principles are reflected in the Russian rules. Special transfer pricing rules continue to apply to transactions with securities and derivatives.

Even if a particular transaction may not formally be subject to a transfer pricing control, it may still be challenged from the arm's-length price perspective under the general anti-abuse rules described above.

Accordingly, due to uncertainties in the interpretation of the Russian transfer pricing legislation and underdeveloped court practice, no assurance can be given that the Russian tax authorities will not challenge the pricing in the Group's "controlled" transactions and require adjustments which could adversely affect the Group's tax position. As such, the Russian transfer pricing rules could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

One or more of the Group's subsidiaries may be forced into liquidation due to formal non-compliance with certain requirements of Russian law, which could have a material adverse effect on the Group's business, financial condition and results of operations.

Certain provisions of Russian law may allow a court to order liquidation of a Russian legal entity on the basis of its formal non-compliance with certain requirements in connection with its formation or reorganization or during its operation. There have been cases in the past in which formal deficiencies in the establishment process of a Russian legal entity or non-compliance with provisions of Russian law have been used by Russian courts as a basis for liquidation of a legal entity. For example, in Russian corporate law, negative net assets calculated on the basis of the Russian Accounting Standards (RAS) as of the end of the financial year following the second or any subsequent financial year of a company's operation can serve as a basis for a court to order the liquidation of the company, upon a claim by governmental authorities (if no decision is taken to liquidate the company). Many Russian companies have negative net assets due to very low historical asset values reflected on their Russian balance sheets. However, their solvency (i.e., their ability to pay debts as they come due) is not otherwise adversely affected by such negative net assets. In addition, according to Russian court practice, formal non-compliance with certain requirements that may be remediated by a non-compliant legal entity should not itself serve as a basis for liquidation of such legal entity.

Several Russian entities of the Group, including Sokol PPM, LLC Vologda Paper Manufactory and JSC Kipelovo Forestry Enterprises, had negative year-end net assets in the period of 2016-2020. The Group believes that none of these subsidiaries face any solvency risks that cannot be remediated, thus, involuntary liquidation proceeding is unlikely to be applied to any of these subsidiaries. However, if involuntary liquidation was to occur to any of these subsidiaries, then the Group may be forced to reorganize the operations that Group currently conducts through the affected subsidiaries. Any such liquidation could lead to additional costs, which could materially adversely affect the Group's business, financial condition and results of operations.

Risks Relating to the Offer Shares and the Trading Market

There has been no prior public market for the Offer Shares, and liquidity and the trading price of the Offer Shares may be volatile.

Prior to the Offering, there has been no public trading market for the Offer Shares. There can be no assurance that, after completion of the Offering, a liquid market will develop for the Offer Shares. Although the Offer Shares are expected to be traded on the Moscow Exchange, an active liquid trading market may not develop or be sustained after the Offering. The lack of an active market may impair investors' ability to sell their Offer Shares at the time they wish to sell them or at a price they consider reasonable. The lack of an active market may also reduce the market value of the Offer Shares. Active liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors.

The Russian stock markets have experienced and may continue to experience extreme price and volume volatility. The trading price of the Offer Shares may be subject to volatility in response to a number of factors, including: actual or anticipated variations in the Group's operating results and those of the Group's competitors and Russian companies; adverse business developments; changes in financial estimates by securities analysts and investors; variations in national and industry growth rates; changes in governmental legislation or regulation; regulatory actions that affect the Group's business; depth and liquidity of the market for the Offer Shares; general economic conditions within the business sector where the Group operates or in the Russian Federation; or extreme price and volume fluctuations on the Russian or other emerging market stock exchanges. Any of these events could have a material adverse effect on the trading price of the Offer Shares.

If closing of the Offering does not take place, purchases of the Ordinary Shares will be disregarded and transactions effected in the Ordinary Shares will be annulled.

The Ordinary Shares are expected to be admitted to trading on the "Level 1" part of the List of Securities Admitted to Trading on the Moscow Exchange under the symbol "SGZH" on or about the First Trading Date. Subject to acceleration or extension of the timetable for the Offering, the Company expects that the trading on an "as-if-and-when-issued" basis in the Ordinary Shares on the Moscow Exchange will commence and Settlement will take place on or about the First Trading Date. Settlement may not take place on the Settlement Date or at all, if certain conditions of events referred to in the Underwriting Agreement, as described in "*Plan of Distribution*", are not satisfied or waived or occur on or prior to such date. Trading in the Ordinary Shares before Settlement will take place subject to the condition that, if Settlement does not take place, the Offering will be withdrawn, all subscriptions for the Ordinary Shares will be disregarded, any allotments made will be deemed not to have been made and any subscription payments made will be returned without interest or other compensation and transactions in the Offer Shares on the Moscow Exchange will be annulled. Any transactions in the Offer Shares prior to Settlement are at the sole risk of the parties concerned. The Company and the Underwriters do not accept any responsibility or liability towards any loss incurred by any person as a result of a withdrawal of the Offering or the (related) annulment of any transaction in the Offer Shares on the Moscow Exchange.

The Company may decide not to pay dividends in the future.

The Company may in future be unable or elect not to declare any dividends, or may decide to declare lower dividends compared to the previous periods. The payment of dividends, if any, by the Company to holders of the Offer Shares will depend on, among other things, the Company's future profits, financial position and capital requirements, general economic conditions, and other factors that the members of the Board of Directors deem to be important from time to time. See "*Dividend Policy.*" Should the Board of Directors and/or the shareholders of the Company decide in the future against declaring dividends on the Offer Shares or decide to declare lower dividends compared to the previous periods, the trading price of the Offer Shares may be adversely affected.

Investors may face risks arising from the Company's dividend payments being made in rubles.

The Company intends to pay dividends, if any, on the Offer Shares in rubles. Currently, Russian currency control legislation does not prohibit payment of ruble dividends on shares to non-Russian residents. However, there can be no assurance that it will not be reversed in the future. The ability to convert rubles into U.S. dollars or other foreign currencies is subject to the availability of U.S. dollars or such other foreign currencies on Russia's currency markets. Although there is an existing market within the Russian Federation for the conversion of rubles into U.S. dollars or other foreign currencies, including the interbank currency exchange and over-the-counter and currency future markets, the market for the conversion of rubles into foreign currencies outside the Russian Federation is limited and, therefore, non-Russian holders of the Offer Shares wishing to convert ruble dividends paid on the Offer Shares into local currencies outside the Russian Federation may not be able to do so at a favorable exchange rate, or at all.

Holders of the Offer Shares in certain jurisdictions may be subject to restrictions regarding the exercise of pre-emptive rights in future offerings.

In order to raise funding in the future, the Company may issue additional ordinary shares, subject to applicable Russian regulations, including relating to the status of the Company. See "*Description of Share Capital and Certain Requirements of Russian Law—Description of Share Capital—Share Capital Increase*." Generally, existing holders of shares in Russian public joint-stock companies (such as the Company) are in certain circumstances entitled to pre-emptive rights on the issue of new shares in that company as described in "*Description of Share Capital and Certain Requirements of Russian Law—Description of Share Capital—Pre-emptive Rights*." However, holders of Offer Shares in certain jurisdictions (including the United States) may not be able to exercise pre-emptive rights with respect to any new equity issuances by the Company unless the applicable securities law requirements in such jurisdiction (including, in the United States, in certain circumstances the filing of a registration statement under the Securities Act) are adhered to or an exemption from such requirements is available. The Company is unlikely to adhere to such requirements and an exemption from such requirements may not be available. Accordingly, such holders may not be able to exercise their pre-emptive rights on percentage ownership in the Company would be reduced.

Future sales of the Offer Shares may adversely affect their market price.

Sales, or the possibility of sales, of substantial numbers of the Ordinary Shares following the Offering could have an adverse effect on the trading price of the Offer Shares or impair the Group's ability to raise equity capital in the future. The Company, Sistema PJSFC, Sistema Telecom Assets LLC, have each agreed in respect of themselves, their affiliates and any person acting on their behalf, for a period of 180 days, and Mr Mikhail Shamolin and Mr Ali Uzdenov have each agreed in respect of themselves and any person acting on their behalf, for a period of 365 days, after the Settlement Date, subject to certain limited exceptions, not to, without the prior written consent of the Joint Global Coordinators, on behalf of the Underwriters, issue, offer, sell or otherwise transfer or dispose of, directly or indirectly, any Shares, or securities convertible or exchangeable into, or exercisable for, the Ordinary Shares. See "*Plan of Distribution—Lock-up*." Sales, or the possibility of sales, of substantial numbers of Ordinary Shares by any of these persons could have an adverse effect on the trading price of the Offer Shares following the Offering or impair the Group's ability to raise equity capital in the future. Moreover, the Company may in the future issue additional Ordinary Shares or any other securities convertible or exchangeable into the Ordinary Shares, subject to applicable Russian regulations, including relating to the status of the Company. See "*Description of Share Capital and Certain Requirements of Russian Law—Description of Share Capital—Share Capital Increase*." Any such issue could result in an effective dilution for investors purchasing the Offer Shares in the Offering and adversely affect the trading price of the Offer Shares.

The listing of the Offer Shares on the Moscow Exchange could be revoked or the level of listing could be downgraded, which could limit the investor base and adversely affect the price of the Offer Shares.

The Offer Shares are expected to be admitted on or around the Pricing Date to trading on the Moscow Exchange. In order to maintain its listing on the Moscow Exchange, the Group is required to comply with listing requirements, including, among others, compliance with Russian securities laws and CBR regulations, and with certain minimum corporate governance and free float requirements, as well as maintaining minimum trading volumes. These rules and requirements may change in the future. A failure to comply with the listing rules and requirements may constitute grounds for a downgrading of the Offer Shares to "Level 2" or "Level 3" (without quotation), or a delisting of the Offer Shares. A downgrading or a delisting may have a material adverse effect on the trading price and liquidity of the Offer Shares.

For some Russian institutional investors and certain international investors, the listing of the Offer Shares on the highest level of the quotation list of a relevant recognized stock exchange may be a requirement for the purchase or holding of such shares. The downgrade of the listing of the Offer Shares or their delisting from the Moscow Exchange could significantly limit the Group's investor base and have a material adverse effect on the trading price of the Offer Shares.

Russia's unpredictable recognition and enforcement of foreign judgments may give rise to significant uncertainties.

Final judgments rendered by a court in any jurisdiction outside the Russian Federation will be generally recognized and enforced by courts in the Russian Federation if an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country where the judgment is rendered and/or a federal law is adopted in the Russian Federation that provides for the recognition and enforcement of foreign court judgments. No such treaty for the reciprocal enforcement of foreign court judgments in civil and commercial matters exists between the Russian Federation and certain jurisdictions (including the United States and the United Kingdom), and no relevant federal law on enforcement of foreign court judgments has been adopted in the Russian Federation.

In the absence of an applicable treaty, enforcement of a final judgment rendered by a foreign court may still be recognized by a Russian court on the basis of reciprocity if courts of the country where the foreign judgment is rendered have previously enforced judgments issued by Russian courts. While Russian courts have recently recognized and enforced English court judgments on these grounds, the existence of reciprocity must be established at the time the recognition and enforcement of a foreign judgment is sought, and it is not possible to predict whether a Russian court will in the future recognize and enforce on the basis of reciprocity a judgment issued by a foreign court, including an English court. Even if an applicable international treaty is in effect or a foreign judgment might otherwise be recognized and enforced on the basis of reciprocity, the recognition and enforcement of a foreign judgment will in all events be subject to exceptions and limitations provided for in Russian law. For example, a Russian court may refuse to recognize or enforce a foreign judgment if its recognition or enforcement would contradict Russian public policy.

These limitations may deprive investors of effective legal recourse for claims related to their investment in the Offer Shares. The Company's presence outside the United Kingdom and the United States may limit the legal recourse of the investors against the Group and its directors and executive officers. The Company is incorporated under the laws of the Russian Federation. Most of the assets of the Group are located outside the United States and the United Kingdom. In addition, only one of the independent directors of the Board of Directors is a citizen of the United States. As a result, it may not be possible for investors to effect service of process within the United States or the United Kingdom upon the Group or its directors and officers or to enforce against any of them court judgments obtained in United States and English courts. In addition, it may be difficult for investors to enforce, in original actions brought in courts in jurisdictions located outside the United States or the United Kingdom, liabilities predicated upon the United States securities laws or upon English laws. See "*Enforceability of Judgments*."

The transfer of the Offer Shares is subject to restrictions under the securities laws of the United States and other jurisdictions.

The Offer Shares have not been and will not be registered under Securities Act or any U.S. state securities laws or any other jurisdiction outside the Russian Federation and are not expected to be registered in the future. As such, the Offer Shares may not be offered or sold except pursuant to an exemption from, or in transactions not subject to, the registration requirements of the Securities Act and other applicable securities laws. See "*Selling and Transfer Restrictions*." In addition, there is no assurance that shareholders residing or domiciled in the United States will be able to participate in future capital increases or rights offerings.

Income in the form of material benefit from the acquisition of the Offer Shares below the fair market value may be subject to Russian personal income tax.

Generally, no Russian tax implications should arise for shareholders, whether resident in the Russian Federation or not, upon the purchase of the Offer Shares. However, in certain circumstances, taxable income in the form of a so-called material benefit (imputed income) may arise for shareholders who are individuals if the Offer Shares are purchased at a price below market value. The difference may become subject to Russian personal income tax at the rate of 13% or 15% (or such other tax rate as may be effective at the time of acquisition) for Russian Resident Holders—Individuals (as defined in "*Tax Considerations—Certain Russian tax considerations*") and, if treated as Russian-source income, 30% (or such other tax rate as may be effective at the time of acquisition) for Non-Resident Holders—Individuals (as defined in "*Tax Considerations—Certain Russian tax considerations*"), which may be subject to reduction or elimination under an applicable DTT. See "*Tax Considerations—Certain Russian tax considerations*."

Payment of dividends (if any) on the Offer Shares may be subject to Russian withholding tax.

In general, payment of dividends by a Russian legal entity to a Non-Resident Holder is subject to Russian withholding tax at the rate of 15% for legal entities and 13%/15% for individuals (or such other rate as may be effective at the time of payment) unless such withholding tax rate is reduced based on an applicable double tax treaty ("**DTT**").

The procedure of the application of the reduced withholding tax rates envisaged by the relevant DTTs depends on the status of the Holder and/or whether the Offer Shares are held through the Special Depositary Account (as defined in the section "*Tax Considerations—Certain Russian tax considerations*"). Generally, the reduction of the Russian withholding tax rate (based on the applicable DTT) could be made only with respect to the Non-Resident Holders that are the beneficial owners of the dividends paid. See "*Tax Considerations—Certain Russian tax considerations.*" The beneficial ownership concept was officially introduced into the Russian Tax Code starting from 1 January 2015; and as of the date of this Offering Memorandum, there is still limited practice as to the interpretation of this concept by the Russian tax authorities and/or Russian courts. In this respect, there is no assurance that, while some Non-Resident Holders may be eligible for the reduction in Russian income withholding tax or personal income tax, as applicable, under relevant DTT the respective treaty benefits will be available to them in practice (and, particularly, with respect to non-Russian tax residents who are individuals, as a result of difficulties related to the advance tax relief). See "*Tax Considerations—Certain Russian tax considerations.*"

Moreover, there is no assurance that the Russian depositaries, upon payment of dividends on the Offer Shares held through the Special Depositary Accounts, will apply the Russian withholding tax at a reduced tax rate (which is envisaged by the Russian Tax Code or the relevant DTT) to which the relevant Holder is eligible and will not conservatively seek to apply the Russian withholding tax at the standard tax rate of 15% for Non-Resident Holders.

Although the Holders may apply for a refund of a portion of the amount of the Russian income withholding tax or personal income tax excessively withheld by the Russian tax agent (under the relevant DTT or the Russian Tax Code), there is no assurance that the Russian tax authorities will grant any such refunds. See "*Tax Considerations—Certain Russian tax considerations.*"

In addition, on 7 June 2017, 68 jurisdictions, including Russia, signed the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (the "MLI"). Several additional jurisdictions have signed the MLI since then. A number of jurisdictions have expressed their intention to sign the MLI. The MLI sets forth additional requirements for the application of the DTT benefits, including the reduced tax rates. It is expected that changes to specific DTTs would come into effect after the parties to the treaties deposit their instruments of ratification, acceptance or approval of the MLI, subject to an additional phase-in period. The MLI entered into force for the Russian Federation on 1 October 2019. The Russian Federation has submitted through the OECD diplomatic channels its notifications of completion of the internal procedures required for the MLI enforcement in respect of the DTTs concluded with a number of countries beginning from 1 January 2021. The MLI-related changes, when implemented, might negatively affect the availability of certain DTT benefits to Non-Resident Holders that are tax residents in the relevant countries.

In March 2020, the president of Russia proposed to cancel tax benefits with certain DTT partner countries and increase the tax rates on income withholding on dividends and interest to 15%, noting that Russia is ready to withdraw from DTTs with countries that do not agree with such measures. The Russian Ministry of Finance has signed amendments to the DTTs with Cyprus and Malta, which have become effective on 1 January 2021 under the clauses for their provisional application prior to their entry into force. Amendments to the DTT with Luxembourg has also been signed but is yet to enter into force. In accordance with these amendments, the 5% withholding tax rate on dividends will remain for certain categories of recipients of income, such as insurance companies and pension funds, some listed public companies and government authorities. The Russian Ministry of Finance is also working to denunciate the DTT with the Netherlands and the relevant draft law was introduced to the Parliament on 12 April 2021. It is currently unclear whether any other tax treaties are planned to be revised by the Russian Ministry of Finance. The changes to the tax treaties may negatively affect the availability of certain DTT benefits to Non-Resident Holders that are tax residents in the relevant countries.

The imposition or possibility of the imposition of the above tax liabilities in the Russian Federation, as applicable, could adversely affect the value of the Offer Shares. See "*Tax Considerations—Certain Russian tax considerations.*" In addition, while some Holders might be eligible for an exemption from or a reduction in Russian withholding tax under applicable double tax treaties, there is no assurance that such exemption or reduction will be available in practice.

Capital gains from the sale of the Offer Shares may be subject to Russian income tax.

The proceeds (capital gain) of a Non-Resident Holder—Legal Entity (as defined in "*Tax Considerations—Certain Russian tax considerations*") from the sale (or other disposal) of the Offer Shares should not be subject to Russian withholding tax provided that (a) the Offer Shares qualify as securities traded on an organized securities market as defined in the Russian Tax Code, and/or (b) not more than 50% of the asset base of the Company directly or indirectly consists of immovable property located in the Russian Federation. While the Group believes this to be the case, there is a risk that a Russian tax agent may not have sufficient information with respect to the Company's asset base composition and may therefore seek to apply a 20% Russian withholding tax rate (or such other tax rate as may be effective at the time of such sale or other disposal) to the amount of consideration paid to, or capital gain realized by, a Non-Resident Holder—Legal Entity that sells (or otherwise disposes of) the Offer Shares.

Where the proceeds from the sale (or other disposal) of the Offer Shares are treated as received from a source within the Russian Federation by a Non-Resident Holder—Individual (as defined in "*Tax Considerations—Certain Russian tax considerations*"), Russian personal income tax at the rate of 30% (or such other tax rate as is effective at the time of such sale or other disposal) will apply to the gross amount of proceeds from the sale or other proceeds from the disposition of the Offer Shares less any available deduction of expenses incurred by the shareholder (which includes the purchase price of the Offer Shares) subject to any available DTT relief.

The imposition or possibility of imposition of the above tax liabilities in the Russian Federation, as applicable, could adversely affect the value of the Offer Shares. See "*Tax Considerations—Certain Russian tax considerations.*" In addition, while some shareholders might be eligible for an exemption from or a reduction in Russian withholding tax under an applicable DTT, there is no assurance that such exemption or reduction will be available in practice.

NOTICE TO CERTAIN INVESTORS

Notice to EEA Investors

This Offering Memorandum has been prepared on the basis that all offers of the Offer Shares in any member state of the European Economic Area (each a "**Member State**") will be made pursuant to an exemption under Article 1(4) of Regulation (EU) 2017/1129 (as amended, the "**Prospectus Regulation**"). Accordingly, any person making or intending to make any offer within a Member State of the Offer Shares may only do so in circumstances in which no obligation arises for the Company or any of the Underwriters to produce a prospectus pursuant to Article 3(1) of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation, in each case in relation to such offer. Neither the Company nor the Underwriters have authorized, or will authorize, the making of any offer of the Offer Shares through any financial intermediary, other than offers made by the Underwriters which constitute the final placement of the Offer Shares contemplated in this Offering Memorandum.

In relation to each Member State, the Offer Shares which are the subject of the Offering contemplated by this Offering Memorandum have not and will not to be offered to the public in that Member State prior to the publication of a prospectus in relation to the Offer Shares that has been approved by the competent authority in that Member State or, where appropriate, approved in another Member State and notified to the competent authority in that Member State, all in accordance with the Prospectus Regulation, except that offers of the Offer Shares may be made to the public in that Member State at any time:

(a) to any legal entity which is a qualified investor as defined in Article 2(e) of the Prospectus Regulation;

(b) to fewer than 150 natural or legal persons (other than qualified investors as defined in Article 2(e) of the Prospectus Regulation) in that Member State, subject to obtaining the prior consent of the Joint Global Coordinators and Joint Bookrunners; or

(c) in any other circumstances falling within Article 1(4) of the Prospectus Regulation,

provided that no such offer of the Offer Shares shall require the Company or any of the Underwriters to publish a prospectus pursuant to Article 3 of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation.

Each person who initially acquires the Offer Shares or to whom any offer is made will be deemed to have represented, warranted and agreed to, and with the Company and the Underwriters, that it is a qualified investor within the meaning of Article 2(e) of the Prospectus Regulation.

For the purposes of this provision, the expression an "offer to the public" in relation to the Offer Shares in any Member State means the communication in any form and by any means of sufficient information on the terms of the Offering and the Offer Shares so as to enable an investor to decide to purchase the Offer Shares.

In the case of any Offer Shares being offered to a financial intermediary as that term is used in Article 5(1) of the Prospectus Regulation, such financial intermediary will also be deemed to have represented, acknowledged and agreed that the Offer Shares acquired by it in the Offering have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to persons in circumstances which may give rise to an offer of any Offer Shares to the public other than their offer or resale in a Member State to qualified investors as defined in Article 2(e) of the Prospectus Regulation or in circumstances in which the prior consent of the Joint Global Coordinators and Joint Bookrunners has been obtained to each such proposed offer or resale. The Company, the Underwriters and their affiliates and others, will rely upon the truth and accuracy of the foregoing representation, acknowledgement and agreement. Notwithstanding the above, a person who is not a qualified investor and who has notified the Joint Global Coordinators and Joint Bookrunners of such fact in writing may, with the prior consent of the Joint Global Coordinators and Joint Bookrunners, be permitted to acquire the Offer Shares in the Offering.

Notice to UK Investors

This Offering Memorandum has been prepared on the basis that all offers of the Offer Shares in the United Kingdom will be made pursuant to an exemption under Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**EUWA**") (the "**UK Prospectus Regulation**"). Accordingly, any person making or intending to make any offer within the United Kingdom of the Offer Shares may only do so in circumstances in which no obligation arises for the Company or any of the Underwriters to produce a prospectus pursuant to section 85 of the Financial Services and Markets Act 2000 (as amended, the "**FSMA**") or supplement a prospectus pursuant to Article 23 of the UK Prospectus Regulation, in each case in relation to such offer. Neither the Company nor the Underwriters have authorized, or will authorize, the making of any offer of the Offer Shares through any financial intermediary, other than offers made by the Underwriters which constitute the final placement of the Offer Shares contemplated in this Offering Memorandum.

No offer of the Offer Shares which are the subject of the Offering contemplated by this Offering Memorandum may be made to the public in the United Kingdom prior to the publication of a prospectus in relation to the Offer Shares that either (i) has been approved by the Financial Conduct Authority or (ii) is to be treated as if it had been approved by the Financial Conduct Authority in accordance with the transitional provisions in Regulation 74 of the Prospectus (Amendment etc.) (EU Exit) Regulations 2019, except that offers of the Offer Shares may be made to the public in the United Kingdom at any time:

(a) to any legal entity which is a qualified investor as defined in Article 2 of the UK Prospectus Regulation;

(b) to fewer than 150 natural or legal persons (other than qualified investors as defined in Article 2 of the UK Prospectus Regulation subject to obtaining the prior consent of the relevant Joint Global Coordinators and Joint Bookrunners nominated by the Group for any such offer; or

(c) in any other circumstances falling within section 86 of the FSMA,

provided that no such offer of the Offer Shares shall require the Group or any Joint Global Coordinator or Joint Bookrunner to publish a prospectus pursuant to section 85 of the FSMA or supplement a prospectus pursuant to Article 23 of the UK Prospectus Regulation. Each person who initially acquires the Offer Shares or to whom any offer is made will be deemed to have represented, warranted and agreed to, and with the Company and the Underwriters, that it is a qualified investor within the meaning of Article 2 of the UK Prospectus Regulation.

For the purposes of this provision, the expression "an offer of Offer Shares to the public" in relation to any Offer Shares in the United Kingdom means the communication in any form and by any means of sufficient information on the terms of the offer and the Offer Shares to be offered so as to enable an investor to decide to purchase or subscribe for the Offer Shares.

Notice to Distributors

Solely for the purposes of the product governance requirements of Chapter 3 of the FCA Handbook Product Intervention and Product Governance Sourcebook (the "**UK Product Governance Requirements**"), and disclaiming all and any liability, whether arising in tort, contract or otherwise, which any "manufacturer" (for the purposes of the UK Product Governance Requirements) may otherwise have with respect thereto, the Offer Shares the subject of the Offering have been subject to a product approval process, which has determined that such Offer Shares are: (i) compatible with an end target market of retail investors and investors who meet the criteria of professional clients and eligible counterparties, each as defined in the FCA Handbook Conduct of Business Sourcebook; and (ii) eligible for distribution through all permitted distribution channels (the "**UK Target Market Assessment**"). Notwithstanding the UK Target Market Assessment, "distributors" (for the purposes of the UK Product Governance Requirements) should note that: the price of the Offer Shares may decline and investors could lose all or part of their investment; the Offer Shares offer no guaranteed income and no capital protection; and an investment in the Offer Shares is compatible only with investors who do not need a guaranteed income or capital protection, who (either alone or in conjunction with an appropriate financial or other adviser) are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses that may result therefrom. The UK Target Market Assessment is without prejudice to the requirements of any contractual, legal or regulatory selling restrictions in relation to the Offering. Furthermore, it is noted that, notwithstanding the UK Target Market Assessment, the Underwriters will only procure investors who meet the criteria of professional clients and eligible counterparties. For the avoidance of doubt, the UK Target Market Assessment does not constitute: (a) an assessment of suitability or appropriateness for the purposes of Chapter 9A or 10A respectively of the FCA Handbook Conduct of Business Sourcebook; or (b) a recommendation to any investor or group of investors to invest in, or purchase, or take any other action whatsoever with respect to the Offer Shares. Each distributor is responsible for undertaking its own target market assessment in respect of the Offer Shares and determining appropriate distribution channels.

Solely for the purposes of the product governance requirements contained within: (a) EU Directive 2014/65/EU on markets in financial instruments (as amended, "**MiFID II**"); (b) Articles 9 and 10 of Commission Delegated Directive (EU) 2017/593 supplementing MiFID II; and (c) local implementing measures (together, the "**MiFID II Product Governance Requirements**"), and disclaiming all and any liability, whether arising in tort, contract or otherwise, which any "manufacturer" (for the purposes of the MiFID II Product Governance Requirements) may otherwise have with respect thereto, the Offer Shares the subject of the Offering have been subject to a product approval process, which has determined that such Offer Shares are: (i) compatible with an end target market of retail investors and investors who meet the criteria of professional clients and eligible counterparties, each as defined in MiFID II; and (ii) eligible for distribution through all distribution channels permitted by MiFID II (the "**EEA Target Market Assessment**"). Notwithstanding the EEA Target Market Assessment, "distributors" (for the purposes of the MiFID II Product Governance Requirements) should note that: the price of the Offer Shares may decline and investors could lose all or part of their investment; the Offer Shares offer no guaranteed income and no capital protection; and an investment in the Offer Shares is compatible only with investors who do not need a guaranteed income or capital protection, who (either alone or in conjunction with an appropriate financial or other adviser) are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses that may result therefrom. The EEA Target Market Assessment is without prejudice to the requirements of any contractual, legal or regulatory selling restrictions in relation to the Offering. Furthermore, it is noted that, notwithstanding the EEA Target Market Assessment, the joint global coordinators and joint bookrunners and the co-manager will only procure investors who meet the criteria of professional clients and eligible counterparties. For the avoidance of doubt, the EEA Target Market Assessment does not constitute: (a) an assessment of suitability or appropriateness for the purposes of MiFID II; or (b) a recommendation to any investor or group of investors to invest in, or purchase, or take any other action whatsoever with respect to the Offer Shares. Each distributor is responsible for undertaking its own target market assessment in respect of the Offer Shares and determining appropriate distribution channels.

Notice to United States Investors

Because of the following restrictions, purchasers in the United States are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of the Offer Shares.

The Offer Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States and may not be offered or sold in the United States, except to persons reasonably believed to be QIBs or outside the United States in offshore transactions in reliance on Regulation S. Prospective investors are hereby notified that sellers of the Offer Shares may be relying on the exemption from the registration requirements of Section 5 of the Securities Act provided by Rule 144A.

Any resale or other transfer, or attempted resale or other transfer, of such Offer Shares, made other than in compliance with the above-stated restriction, shall not be recognized by the Company. In addition, until 40 days after the commencement of the Offering of the Offer Shares, an offer or sale of the Offer Shares within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

NEITHER THE U.S. SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION IN THE UNITED STATES NOR ANY OTHER U.S. REGULATORY AUTHORITY HAS APPROVED OR DISAPPROVED OF THE OFFER SHARES OR PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF THE OFFER SHARES OR THE ACCURACY OR ADEQUACY OF THIS OFFERING MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

Notice to Singapore Investors

*Singapore SFA Product Classification: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the issuer has determined and hereby notifies all relevant persons (as defined in Section309A(1) of the SFA) that the Offer Shares are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).*

PRESENTATION OF FINANCIAL AND OTHER DATA

The audited consolidated financial statements of the Group as of and for the years ended 31 December 2020 and 2019 included in this Offering Memorandum have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**"), and have been audited by AO Deloitte & Touche CIS, the Group's independent auditors. The financial information pertaining to the year ended 31 December 2018 has been derived, without material adjustment, from the unaudited comparative financial information included in the consolidated financial statements of the Group as of and for the year ended 31 December 2019.

In this Offering Memorandum, the Group uses the following metrics in the analysis of its business and financial position, certain of which are not defined by, or presented in accordance with, IFRS (such measures, "**Alternative Performance Measures**"). For further information, see "*Selected Consolidated Financial and Operating Information.*"

"**OIBDA**" is calculated as operating profit or loss before depreciation and amortization. The Group uses OIBDA as a measure equivalent to EBITDA (earnings before interest, taxes, depreciation and amortization). OIBDA assists Management in measuring the Group's financial performance from period to period on a more comparable basis against the financial performance of other companies in the Group's industry that also present OIBDA and/or EBITDA-based information. This increased comparability is achieved by excluding the potentially disparate effects between periods or companies of interest expense, taxes, depreciation and amortization, and impairment, which are affected by various, and possibly changing financing methods, capital structure and historical cost basis and which items may significantly affect net income between periods.

"**OIBDA margin**" represents OIBDA divided by revenue for a given period. The Group uses OIBDA margin as a measure of the Group's operating performance as a percentage of the Group's revenue.

OIBDA and OIBDA margin are not calculated in accordance with IFRS or any other generally accepted accounting principles and should not be considered as an alternative to profit for the period, operating profit or any other measure of financial performance or liquidity presented in accordance with IFRS. OIBDA excludes some, but not all, items that affect profit or loss for the period and operating profit, and these measures may vary among other companies. Therefore, OIBDA and OIBDA margin as defined above may not be comparable to similarly titled measures of other companies.

"**OIBDA CAGR**" is calculated as the compound annual growth in OIBDA from 31 December 2018 through 31 December 2020, expressed as a percentage, determined by comparing OIBDA for the year ended 31 December 2020 to the OIBDA for the year ended 31 December 2018.

"**Ratio of net debt/ OIBDA**" is the ratio of net debt to OIBDA. Net debt is calculated as total borrowings (defined as non-current loans and borrowings and current loans and borrowings and the current portion of non-current loans and borrowings) less cash and cash equivalents. Lease liabilities are not included in the calculation of net debt. The Group believes that net debt is a useful indicator of the Company's indebtedness, financial flexibility and capital structure because it indicates the level of borrowings after taking account of cash and cash equivalents within the Group's business that could be utilized to pay down the outstanding borrowings. Net debt and similar measures are used by different companies for differing purposes and are often calculated in ways that reflect the circumstances of those companies. For instance, the Group excludes lease liabilities from the calculation of net debt, however, the adoption of IFRS 16 had an impact on the Group's financial position due to the recognition of right of use assets and lease liabilities for a substantial part of leases where the Group acts as lessee. Accordingly, caution is required in comparing net debt as reported by the Group to net debt of other companies. The ratio of net debt to OIBDA is a measurement of leverage, that shows the number of years it would take for the Group to pay back its debt if net debt and OIBDA were held constant.

"**Working capital**" represents current assets less current liabilities.

"**Net working capital**" is calculated as trade and other receivables plus inventories, contract assets and advances and other current assets less trade and other payables and advances received and other liabilities. Net working capital measures the Group's ability to meet short-term day-to-day obligations, maturing short-term debt as well as fund the Group's operations. Net working capital represents the Group's cash cycles of receivables and payables turnover.

"**Capex**" represents cash payments effected by the Group to acquire, upgrade, and appreciably extend the life, increase the earning capacity or improve efficiency or safety of property, plant and equipment, as well as investment in intangible assets.

"**Return on capital employed**" or "**ROCE**" is calculated as operating profit divided by average capital employed (simple average of the balance of capital employed at the end of the respective period). Capital employed is calculated as total assets less current liabilities. Total assets are adjusted for IFRS 16 by excluding rights of use assets. Notwithstanding the foregoing, "ROCE" presented in this Offering Memorandum insofar as it relates to future investment projects ("**future investment projects**") is defined as:

ROCE for future investment projects is calculated as operating profit divided by capex for the applicable investment project.

ROCE is a measurement of the Group's efficiency at allocating the capital under its control to profitable investments. ROCE provides a sense of how well the Group is using its capital to generate returns.

In this Offering Memorandum:

- The "**Group**" refers, collectively, to the Company and its subsidiaries;
- The "**Company Charter**" refers to the charter of the Company in effect as of the date of this Offering Memorandum.

Market data used in this Offering Memorandum under the headings "*Selected Consolidated Financial Information and Operating Information*," "*Risk Factors*," "*Operating and Financial Review*," "*Industry Overview*" and "*Business*" have been extracted from official, industry and internal sources and other sources the Group believes to be reliable. This Offering Memorandum also sets forth certain statistics from industry sources and other sources the Group believes to be reliable. Sources of such information, data and statistics include Russian federal authorities; Bloomberg L.P. ("**Bloomberg**"); EUROCONSTRUCT ("**Euroconstruct**"); Exane BNP Paribas ("**Exane**"); Federal State Statistics Service ("**Rosstat**"); Fisher International, Inc. ("**Fisher International**"); U.N. Food and Agriculture Organisation (FAO); Vision Hunters Ltd Oy ("**Vision Hunters**") and all such sources have been named throughout this Offering Memorandum. Such information, data and statistics have been accurately reproduced, and, as far as the Group is aware and is able to ascertain from information published by the aforementioned sources, no facts have been omitted which would render the reproduced information, data and statistics inaccurate or misleading. However, the official data published by Russian federal authorities may be substantially less complete or researched than those of more developed countries. Official statistics may also be produced on different bases than those used in Western European jurisdictions or in the United States. Any discussion of matters relating to the Russian Federation in this document must therefore be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

In this Offering Memorandum, all references to "RUB" and "ruble" are to the currency of the Russian Federation, all references to "EUR" and "euro" are to the currency of the participating member states in the third stage of the Economic and Monetary Union of the Treaty establishing the European Community, all references to "GBP" and "pound sterling" are to the currency of the United Kingdom and all references to "US$," "$," "U.S. dollar" and "dollar" are to the currency of the United States.

In this Offering Memorandum, all references to:

- "**EU**" are to the European Union and its member states as of the date of this Offering Memorandum;
- "**Russia**" are to the Russian Federation;
- "**UK**" are to the United Kingdom; and
- "**U.S.**" are to the United States.

Certain amounts and percentages that appear in this Offering Memorandum have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be the mathematical aggregation of the figures that precede them, and figures expressed as percentages in the text may not total 100% when aggregated.

EXCHANGE RATE INFORMATION

The table below sets forth, for the periods and dates indicated, certain information regarding the exchange rates for U.S. dollars, expressed in rubles per U.S. dollar, based on the official exchange rates quoted by the CBR; in U.S. dollars per pound sterling, based on the official exchange rates quoted by the Bank of England; and in U.S. dollars per euro, based on the official exchange rates quoted by the European Central Bank. Fluctuations in these exchange rates in the past are not necessarily indicative of fluctuations that may occur in the future. These rates may also differ from the actual rates used in the preparation of the Group's consolidated financial statements and other information presented in this Offering Memorandum.

	RUB per US$			
Year ended 31 December,	**High Exchange Rate**	**Low Exchange Rate**	**Average Exchange Rate(1)**	**Period end**
2018	69.97	55.67	62.97	69.47
2019	67.19	61.72	64.49	61.91
2020	80.88	60.95	73.12	73.88

	RUB per US$			
	High Exchange Rate	**Low Exchange Rate**	**Average Exchange Rate(1)**	**Period end**
January 2021	76.19	73.36	74.27	76.19
February 2021	76.25	73.29	74.41	74.47
March 2021	76.17	72.96	74.40	75.70
April 2021 (through 19 April)	77.77	75.55	76.58	75.55

(1) The average of the exchange rates on the last business day of each full month for the relevant annual periods and on each business day for which the CBR quotes the U.S. dollar to ruble exchange rate for the relevant monthly period.

On 19 April 2021, the exchange rate quoted by the CBR between the ruble and the U.S. dollar was RUB 75.55 to US$ 1.00.

	GBP per US$			
Year ended 31 December,	**High Exchange Rate**	**Low Exchange Rate**	**Average Exchange Rate(1)**	**Period end**
2018	0.80	0.70	0.75	0.78
2019	0.83	0.75	0.78	0.76
2020	0.87	0.73	0.78	0.73

	GBP per US$			
	High Exchange Rate	**Low Exchange Rate**	**Average Exchange Rate(1)**	**Period end**
January 2021	0.74	0.73	0.73	0.73
February 2021	0.73	0.71	0.72	0.72
March 2021	0.73	0.71	0.72	0.72
April 2021 (through 19 April)	0.73	0.72	0.73	0.72

(1) The average of the exchange rates on the last business day of each full month for the relevant annual periods and on each business day for which the Bank of England quotes the U.S. dollar to pound sterling exchange rate for the relevant monthly period.

On 19 April 2021, the exchange rate quoted by the Bank of England between the U.S. dollar and the pound sterling was GBP 0.72 to US$ 1.00.

Year ended 31 December,	EUR per US$ High Exchange Rate	Low Exchange Rate	Average Exchange Rate(1)	Period end
2018	0.89	0.80	0.85	0.87
2019	0.92	0.87	0.89	0.89
2020	0.93	0.81	0.87	0.82

	EUR per US$ High Exchange Rate	Low Exchange Rate	Average Exchange Rate(1)	Period end
January 2021	0.83	0.81	0.82	0.82
February 2021	0.84	0.82	0.83	0.83
March 2021	0.85	0.83	0.84	0.85
April 2021 (through 19 April)	0.85	0.83	0.84	0.83

(1) The average of the exchange rates on the last business day of each full month for the relevant annual periods and on each business day for which the European Central Bank quotes the U.S. dollar to euro exchange rate for the relevant monthly period.

On 19 April 2021, the exchange rate quoted by the European Central Bank between the U.S. dollar and the euro was 0.83.

No representation is made that the amounts referred to in this Offering Memorandum could have been or could be converted into any other currency at the above exchange rates, at any other rate or at all. In particular, the ruble is generally not convertible outside the Russian Federation. A market exists within the Russian Federation for the conversion of rubles into other currencies, but the limited availability of other currencies may tend to distort their values relative to the ruble.

ENFORCEABILITY OF JUDGMENTS

The Company is a public joint-stock company incorporated under the laws of the Russian Federation. Substantially all of the Company's assets are located outside the United Kingdom or the United States, and may be located outside other jurisdictions in which investors may be located. In addition, the majority of the Company's directors and the majority of the members of the Company's senior management named in this Offering Memorandum are nationals or residents of jurisdictions other than the United Kingdom or the United States, and may not be nationals or residents of other jurisdictions in which investors may be located, and all or a substantial portion of their assets are located outside the United Kingdom or the United States, and may be located outside other jurisdictions in which investors may be located.

It may be difficult for investors to enforce, in original actions brought in courts in jurisdictions located outside the United Kingdom or the United States, liabilities predicated upon English or U.S. securities laws. Courts in the Russian Federation will generally recognize judgments rendered by a court in any jurisdiction outside the Russian Federation only if an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the jurisdiction where the judgment is rendered or a federal law is adopted in the Russian Federation providing for the recognition and enforcement of foreign court judgments. No such treaty for the reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters exists between the Russian Federation and certain other jurisdictions, including the United Kingdom and the United States, and no relevant federal law on enforcement of foreign court judgments has been adopted in the Russian Federation. Although on 2 July 2019, the Russian Federation signed the final act on the adoption of the 2019 Convention on the Recognition and Enforcement of Foreign Judgments in Civil or Commercial Matters (the "**Hague Judgments Convention**"), the Hague Judgments Convention has not yet entered into force. Consequently, as at the date of this Offering Memorandum, the Russian Federation is not a party to any international treaty providing for the recognition and enforcement of judgments in civil cases rendered by the courts of the United Kingdom or the United States. As a result, new proceedings may have to be brought in the Russian Federation in respect of a judgment already obtained in any such jurisdiction against the Company or its officers or directors. These limitations, as well as the general procedural grounds set out in Russian legislation for the refusal to recognize and enforce foreign court judgments in the Russian Federation, may significantly delay the enforcement of such judgments or deprive the investors of effective legal recourse for claims related to the investment in the Offer Shares.

In the absence of an applicable treaty, enforcement of a final judgment rendered by a foreign court may still be recognized by a Russian court on the basis of reciprocity, if courts of the jurisdiction where the foreign judgment is rendered have previously enforced judgments issued by Russian courts. In a number of recent instances, Russian courts have recognized and enforced a foreign court judgment (including English court judgments) on the basis of a combination of the principle of reciprocity and the existence of a number of bilateral and multilateral treaties to which the Russian Federation and certain other jurisdictions, including the United Kingdom, are parties. The courts determined that such treaties constituted grounds for the recognition and enforcement of the relevant foreign court judgment in the Russian Federation. In the absence of established court practice, however, no assurances can be given that a Russian court would be inclined in any particular instance to recognize and enforce a foreign court judgment on these or similar grounds. The existence of reciprocity must be established at the time the recognition and enforcement of a foreign judgment is sought, and it is not possible to predict whether a Russian court will in the future recognize and enforce on the basis of reciprocity a judgment issued by a foreign court, including an English court.

Accordingly, it may be difficult or impossible for investors to:

- effect service of process within the United Kingdom, the United States or other jurisdictions in which investors may be located, on the Company, certain directors or members of senior management of the Company;
- enforce judgments obtained in courts in the United Kingdom, the United States or other jurisdictions in which investors may be located, against the Company's assets and against certain directors or members of senior management of the Company; or
- enforce, in original actions brought in courts in the Russian Federation, liabilities predicated upon the civil liability provisions of the laws of the United Kingdom, the United States or the laws of other jurisdictions in which investors may be located.

Recognition and enforceability of any arbitral award may be limited by mandatory provisions of Russian laws relating to the exclusive jurisdiction of Russian courts and the application of Russian laws with respect to bankruptcy, winding up or liquidation of Russian companies. The Arbitrazh (Commercial) Procedure Code of the Russian Federation (the "**Arbitrazh Procedure Code**") sets out the procedure for the recognition and enforcement of foreign awards by

Russian courts. The Arbitrazh Procedure Code also contains an exhaustive list of grounds for the refusal of recognition and enforcement of foreign arbitral awards by Russian courts, which grounds are broadly similar to those provided by the 1958 United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards.

In addition, Federal Law No. 382-FZ "On Arbitration in the Russian Federation" dated 29 December 2015, as amended (the "**Law on Arbitration**") and the related amendments to the Russian legislation, which came into force in September 2016, introduced significant changes to the arbitrability of disputes and the way the arbitration process is regulated. In particular, such laws limit the arbitrability of corporate disputes to permanent arbitration institutions that have received the necessary regulatory approvals in the Russian Federation and meet certain formal criteria (including compliance of the rules of the permanent arbitration institution with the Law on Arbitration, existence of a recommended panel of arbitrators and reputational requirements). As a result, no assurance can be given that disputes relating to the Offer Shares will be arbitrable in the Russian Federation in accordance with the provisions of the relevant agreements or at all.

The above limitations may deprive investors of effective legal recourse for claims related to an investment in the Offer Shares.

Prospective investors should read the entire document and, in particular, the section headed "*Risk Factors*" when considering an investment in the Offer Shares.

AVAILABLE INFORMATION

The Company has agreed that, for so long as any of the Offer Shares are 'restricted securities' within the meaning of Rule l44(a)(3) under the Securities Act, it will, during any period in which it is neither subject to Section 13 or 15(d) of the U.S. Securities and Exchange Act of 1934, as amended (the "**Exchange Act**"), nor exempt from reporting under the Exchange Act pursuant to Rule 12g3-2(b) thereunder, make available to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner, upon the request of such holder, beneficial owner or prospective purchaser, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

This Offering Memorandum is being furnished by the Company in connection with an offering exempt from the registration requirements of the Securities Act solely for the purpose of enabling a prospective investor to consider the acquisition of the Offer Shares described herein. The information contained in this Offering Memorandum has been provided by the Company and other sources identified herein. Any reproduction or distribution of this Offering Memorandum, in whole or in part, in the United States and any disclosure of its contents or use of any information herein in the United States for any purpose, other than considering an investment by the recipient in the Offer Shares offered hereby, is prohibited. Each potential investor in the Offer Shares, by accepting delivery of this Offering Memorandum, agrees to the foregoing.

FORWARD-LOOKING STATEMENTS

This Offering Memorandum includes statements that are, or may be deemed to be, "forward-looking statements." These forward-looking statements may be identified by the use of forward-looking terminology, including the terms "believes," "estimates," "forecasts," "plans," "projects," "anticipates," "expects," "intends," "may," "will," "could," "targets" or "should" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, business prospects, guidance, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Offering Memorandum and include, but are not limited to, statements regarding the Group's intentions, beliefs or current expectations concerning, among other things, the Group's business, results of operations, financial position, liquidity, prospects, growth, strategies and the industry.

By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Forward-looking statements are not guarantees of future performance and the actual results of the Group's operations, financial position and liquidity, and the development of the markets and the industries in which the Group operates may differ materially from those described in, or suggested by, the forward-looking statements contained in this Offering Memorandum. In addition, even if the Group's results of operations, financial position and liquidity, and the development of the markets and the industries in which the Group operates, are consistent with the forward-looking statements contained in this Offering Memorandum, those results or developments may not be indicative of results or developments in subsequent periods. A number of risks, uncertainties and other factors could cause results and developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation:

- materially adverse changes in political, economic or industry conditions globally, in the Russian Federation or in the markets served by the Group;
- materially adverse changes on the Group's business, results of operations, financial condition and prospects as a result of the COVID-19 pandemic;
- significant fluctuations to the Group's product prices;
- seasonal fluctuations to the Group's industry;
- manufacturing facilities subject to operational risks;
- negative changes in the Group's profitability as a result of periods of high raw material or other consumable costs;
- the Group's dependency on third parties for certain transportation services;
- the dependency of the implementation of the Group's strategy on the experience and expertise of senior management, as well as the Group's ability to recruit and retain experienced personnel;
- labor disruptions to the Group's operations;
- limitations of the Group's insurance portfolio to cover losses incurred by the Group;
- ongoing legal and administrative proceedings of the Group;
- fluctuations in exchange rates;
- disruptions due to reputational risks and criticism for socially irresponsible operations;
- failures in the Group's information technology systems;
- inability to successfully implement the Group's business strategy or manage its growth effectively;
- adverse effects to the Group's business due to risks related to the substantial funds required for Group's capital investment in projects;
- ability to obtain financing and refinance existing debt, resulting in increased interest payments and reduced flexibility in pursuing other business opportunities, as a result of the Group's indebtedness;

- developments in, or changes to, laws, regulations, governmental policies, taxation or accounting standards or practices affecting the Group's operations and the costs associated with complying with these developments or changes;

- other factors discussed in "*Risk Factors*," "*Business*," "*Operating and Financial Review*," and "*Industry Overview*;" and

- the Group's success in accurately identifying future risks to its business and managing the risks of the aforementioned factors.

Forward-looking statements may and often do differ materially from actual results. Any forward-looking statement in this Offering Memorandum reflects the Group's current view with respect to future events and is subject to risks relating to future events and other risks, uncertainties and assumptions relating to the Group's business, results of operations, financial position, liquidity, prospects (including contract backlog), growth and strategies. Investors should specifically consider the factors identified in this Offering Memorandum, which could cause actual results to differ before making an investment decision. Subject to the applicable disclosure and listing rules, the Group undertakes no obligation to publicly release the result of any revisions to any forward-looking statements in this Offering Memorandum that may occur due to any change in the Group's expectations or to reflect events or circumstances that occur after the date of this Offering Memorandum.

USE OF PROCEEDS

In the Offering, the Company aims to raise total gross proceeds of at least RUB 30 billion to be reduced by commissions, fees and expenses incurred by the Company in connection with the Offering, as applicable.

The Company intends to use net proceeds from the Offering to accelerate the Company's growth by financing value accretive investments and optimizing leverage.

The Company expects to receive all proceeds from the Offering in rubles.

DIVIDEND POLICY

Procedures for Dividends

The procedure for declaration and distribution of dividends by the Company is set out in Federal Law No. 208-FZ "On Joint-Stock Companies" dated 26 December 1995, as amended (the "**Joint-Stock Companies Law**"), the Company Charter and the Dividend Policy (as defined below). The Joint-Stock Companies Law allows dividends on the Offer Shares to be paid only out of the Company's net profits derived from accounting records prepared in accordance with RAS. In accordance with the Joint-Stock Companies Law and the Company Charter, the Company may distribute dividends on the Offer Shares based on first quarter, six-month, nine-month and/or annual results derived from accounting records prepared in accordance with RAS. For a dividend on the Offer Shares to be declared, the Board of Directors shall recommend to a General Shareholders' Meeting the amount of the proposed distribution and the record date for determining the list of persons entitled to receive dividends. Upon recommendation of the Board of Directors, the General Shareholders' Meeting may approve such amount and record date by a majority vote. The distribution amount may not be more than that recommended by the Board of Directors. Under the Company Charter, dividends may be distributed in cash or in any other form as approved by the General Shareholders' Meetings. The declaration and payment of dividends on the Offer Shares is subject to certain statutory restrictions. See "*Description of Share Capital and Certain Requirements of Russian Law—Description of Share Capital—Dividends.*" Furthermore, the Company may decide not to pay dividends in the future. See "*Risk Factors—Risks Relating to the Offer Shares and the Trading Market—the Company may decide not to pay dividends in the future*."

Historical Dividends

For the years ended 31 December 2020, 2019 and 2018, the Company paid dividends based on quarterly and annual statutory results under RAS. The total amount of dividends paid was RUB 1,500 million in 2018, RUB 3,800 million in 2019 and RUB 4,500 million in 2020.

Dividend Policy

On 9 April 2021, the Board of Directors approved the Company's dividend policy (the "**Dividend Policy**") which sets forth recommendations on the size of dividends as well as the procedure for declaring and paying dividends and the Company's obligations as to relevant disclosures. In accordance with the Dividend Policy, the Company will aim to pay dividends in the amount of no less than RUB 3 billion and no greater than RUB 5.5 billion in each 2021, 2022 and 2023. The Company may adopt the decision on dividend distribution in the third or the fourth quarter of 2021. Subject to approval by the General Shareholders Meeting of the Company, all shareholders of the Company to be determined as of the Dividend Payment Record Date will be entitled to receive such dividends. For a more detailed discussion on the procedure of payment of dividends see "*Description of Share Capital and Certain Requirements of Russian Law—Description of Share Capital—Dividends.*" Starting from 2024 the Company aims to pay dividends at a level no lower than 75% and no greater than 100% of the adjusted net cash flow defined as net cash from operating activities less net cash used for the investing activities and lease payments each derived from the audited consolidated financial statements prepared under IFRS for the preceding 12 months. Certain credit arrangements of the Group contain financial covenants that should be complied with by the Group prior to distribution of dividends.

CAPITALIZATION

The following table shows the Group's capitalization as of 31 December 2020, on an actual basis. These figures have been prepared in a manner consistent with the Group's accounting practices. You should read this table together with the Group's financial statements included in this Offering Memorandum under "*Operating and Financial Review—Description of Key Performance Measures and Income Statement Line Items / Critical Accounting Policies and Estimates—Liquidity and Capital Resources*." There have been no material changes to the Group's capitalization since 31 December 2020.

	As of 31 December 2020
	(RUB'000)
Current debt	
Collateralized loans	1,203,020(1)
Non-collateralized loans	1,291,003(1)
Lease liabilities	1,380,598
Total current debt	3,874,621
Non-current debt	
Collateralized loans	33,491,117(2)
Non-collateralized loans	7,289,623(2)
Lease liabilities	9,573,338
Corporate bonds	9,977,274(2)
Total non-current debt	60,331,352
Total debt	64,205,973
Equity	
Share capital	1,194,000
Additional paid-in capital	6,323,605
Retained earnings	(345,035)
Accumulated other comprehensive income	1,569,016
Non-controlling interest	126,630
Total equity	8,868,216
Total capitalization	73,074,189

(1) "Loans and borrowings" of current liabilities in the consolidated financial statements as of and for the year ended 31 December 2020.

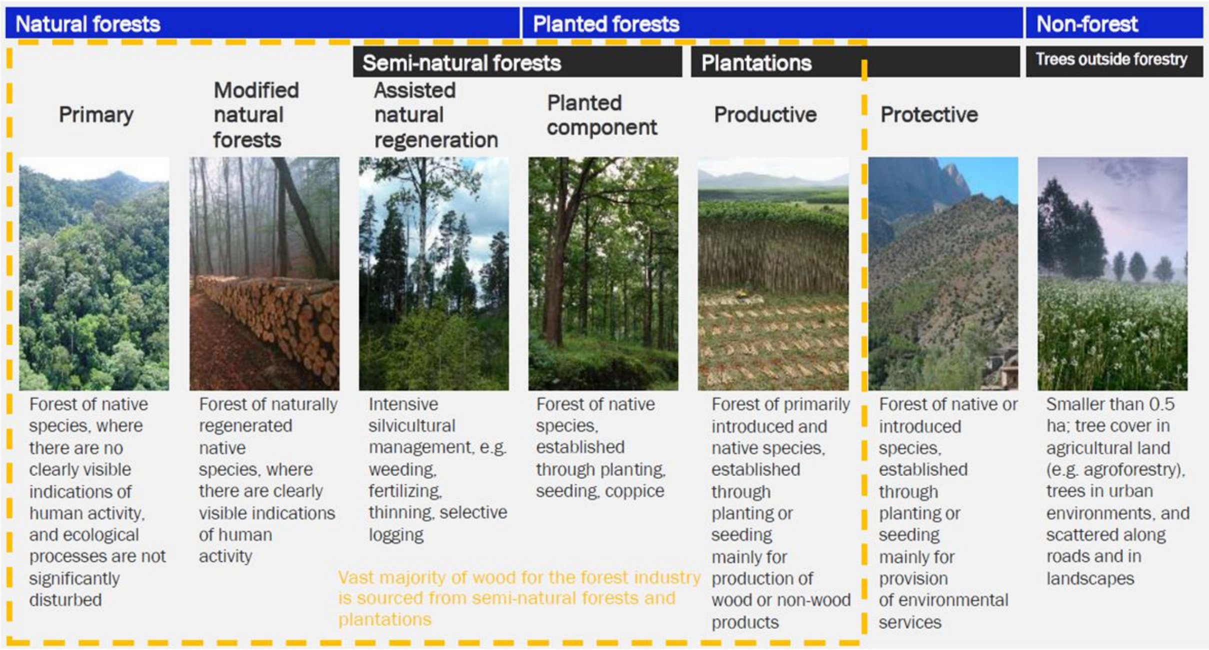
(2) "Loans and borrowings" of non-current liabilities in the consolidated financial statements as of and for the year ended 31 December 2020.

Forestry resources overview

Introduction

According to U.N. Food and Agriculture Organization (FAO), two main categories of forest areas include natural forests and forest plantations. In 2005, FAO introduced two additional forest categories: modified natural forests and semi-natural forests, which resulted in five major forest categories based on the degree of human intervention and the silvicultural methods of forest regeneration. These include primary forest, modified natural forest, semi-natural forest (comprising assisted natural regeneration and planted component), plantations (comprising productive and protective plantations), and trees outside forestry. Countries with vast forest resources, like Russia and Canada, exploit primary and modified natural forests, while other countries source semi-natural forests and productive plantations for forest industry procurement.

Overview of forest categories



Source: Vision Hunters

There are two types of species, which are commonly used in the forest industry: softwood and hardwood. Softwood species have longer fiber length giving strength to end products, while hardwood species have shorter fibers giving lighter color to end products. Spruce, pine and douglas fir are the most popular softwood species, while eucalyptus, birch and acacia are the most popular hardwood species.

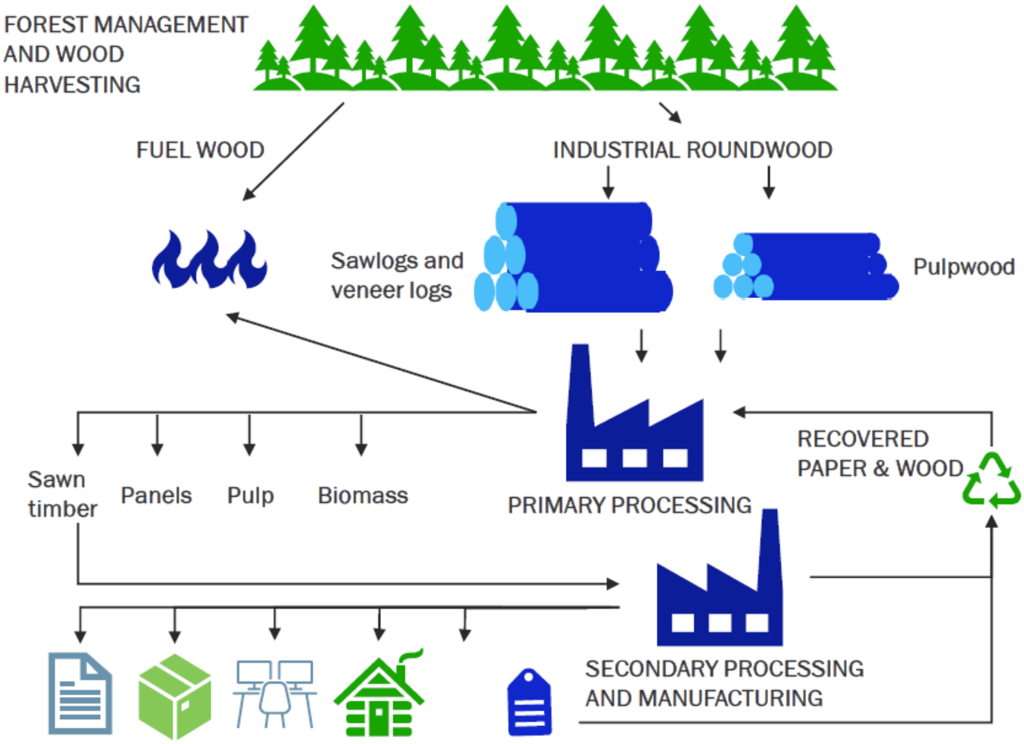
Selected species overview commonly used in forest industry

	Spruce	Pine	Douglas fir	Eucalyptus	Birch	Acacia
Latin name	Picea spp.	Pinus spp.	Pseudotsuga spp.	Eucalyptus spp.	Betula spp.	Acacia spp.
Type	Softwood	Softwood	Softwood	Hardwood	Hardwood	Hardwood
Fibre length (mm)	1.0-4.0	1.4-4.4	~3.9	0.80-0.95	0.8-1.6	0.9
Weight dry	405 kg/m3	545 kg/m3	510 kg/m3	480-600 kg/m3	640 kg/m3	585 km/m3
Workability for industry	Good, suitable for veneer, panels, structures, flooring, instruments, pulping	Good, suitable for veneer, panels, structures, flooring, instruments, pulping	Good, suitable for construction, joinery, veneer, flooring	Good, suitable for pulping	Good, suitable for many applications, especially for veneer, panels, furniture, boxes, pulping	Good, suitable, for flooring, panels, pulping

Source: Vision Hunters

Wood harvesting includes felling and processing of trees. Processing of trees includes top removal (topping), delimbing, crosscutting into logs (bucking), debarking, and sometimes chipping of undesirable trees or logging residues. Half of the wood harvested globally is used in industrial roundwood and another half is used as fuelwood. Out of the total industrial wood consumed, 54% is going to pulp production and 46% to logs. Logs are large diameter trunks of good quality suitable for industrial processing especially in production of sawn goods and veneer. Pulpwood is a small diameter trunk applicable in pulp production, wood-based panels, and sawn goods. Fuelwood is typically wood and pulp material obtained from the trunks, branches and other parts of trees and shrubs used as fuel for cooking, heating or electricity generation through wood burning in households and agriculture industry. After primary processing industrial roundwood is converted into panels, pulp and sawn timber, which is further processed into end-use products, like paper, paper sacks, glulam and plywood among others. For more details regarding the process of roundwood flow to industrial use, please refer to the scheme below.

The process of roundwood flow to end use



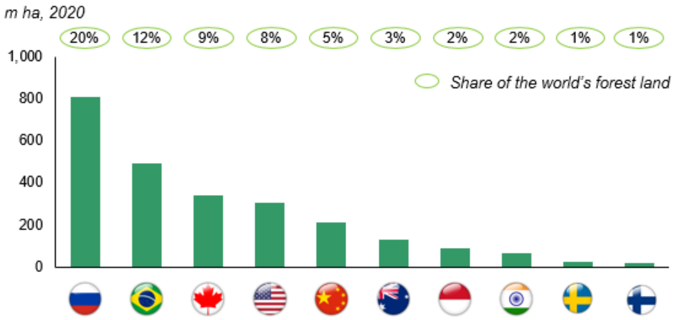
Source: Vision Hunters

Forest resources

63% of the world's total forest land of 4.1 billion hectares is possessed by 10 countries. Russia possesses by far the largest forest area in the world (almost all boreal forests and also some temperate) of 0.8[1] billion hectares which accounts for 49% share of total land in Russia. Aside from Russia, which accounts for 20% of the world's total forest land, the other major forest land holders are Brazil (12% of the world's total forest land), Canada (9%), United States (8%), China (5%) and Australia (3%). In Russia, 2% of the forest land is planted forest and the remaining share of forests is typically regenerated by planting seedlings after harvesting. The total standing stock of Russian forest sums up to 82 billion cubic meters.

[1] Excluding unforested area of 0.3 billion hectares.

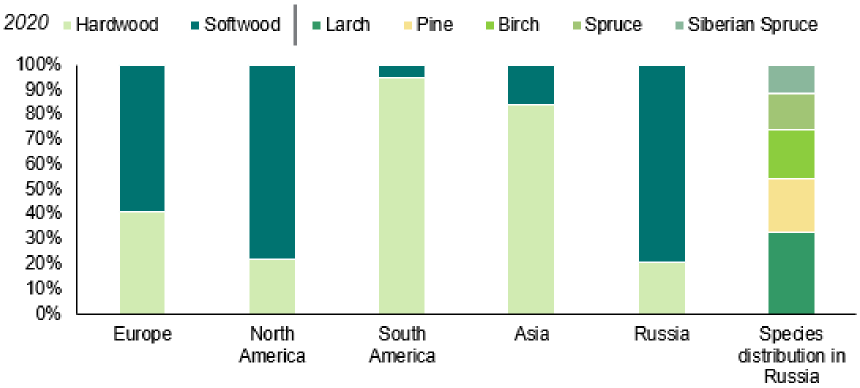
Forest land in selected countries



Source: Vision Hunters

Russian forest is mostly softwood (~80%) similar to Europe and North America. In other regions hardwood species prevail. Russia accounts for ~50% of boreal forests softwood resources. Key species growing in Russia are larch, pine, birch and spruce. Softwood species are preferred materials for sturdy products, such as sack kraft, industrial and consumer packaging.

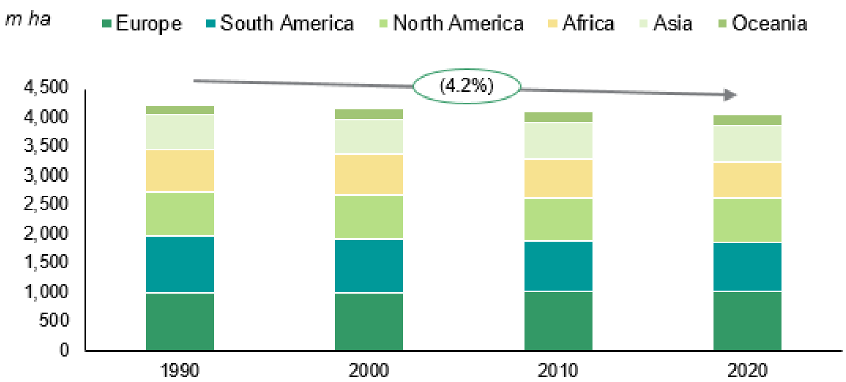
Species distribution by regions



Source: Vision Hunters

Global forest land is diminishing at a rate of roughly six million hectares annually due to deforestation and forest damages (the land is being used for agriculture) making forest resources more valuable.

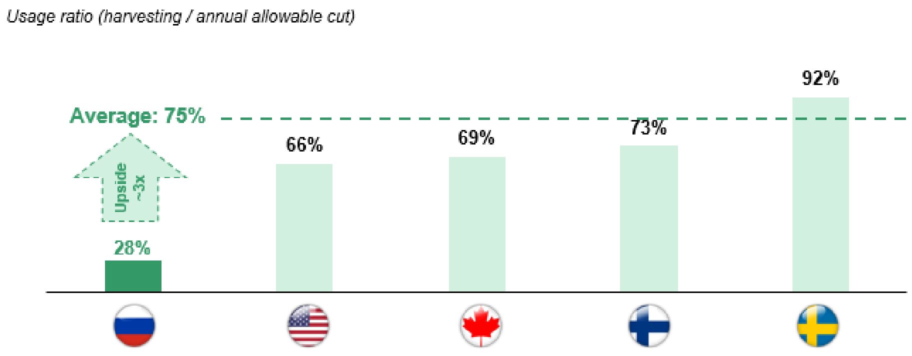
Global forest area dynamics



Source: Vision Hunters

At the same time, Russia retains major harvesting potential as current output is almost three times lower than annual allowable cut while in other countries harvesting opportunities are limited. Canada's harvesting opportunities are decreasing due to nature conservation, insects and diseases and account for 69% in terms of usage which is calculated as harvesting divided by annual allowable cut. In the USA, the harvesting potential accounts for 66% in terms of usage ratio and can only be increased in southern regions. Finland and Sweden are reaching their limits in annual allowable cut with 73% and 92% usage ratios, respectively. Finnish harvesting potential is hindered by political initiatives and focuses on retaining biodiversity. The area of productive forest land in Sweden has been decreasing since the 1950s due to nature and forest conservation actions limiting harvesting opportunities.

Harvesting penetration



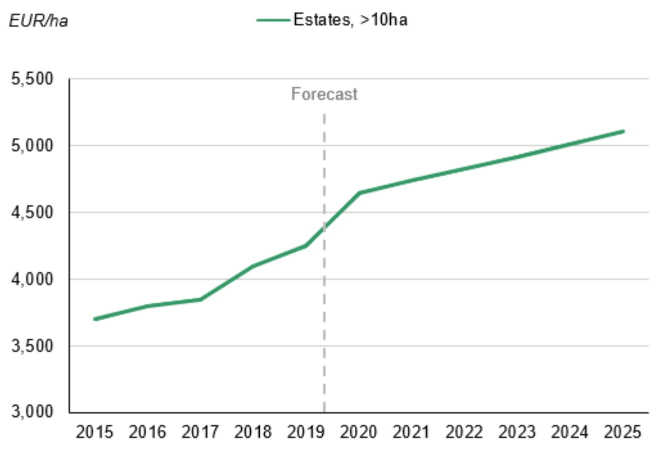
Source: Vision Hunters

Furthermore, there are risks of environmental damages, such as from fires, and insects that apply further caps on harvesting growth in these regions. There is an increasing pressure to use land for food production and settlements in Asia. Production capacity of industrial roundwood in Asia can be improved with better harvesting practices, but available forests are limited.

Forest land

Forest land is a valuable asset and can serve as a safeguard during increasing uncertainty on capital markets. Price of forest land depends on location and size, current price of wood, volume of standing stock and future growth expectations of the standing stock. Price of forest land in southern Finland has increased rapidly over the last decade due to decreasing cost of capital as a result of shift to low interest rate economy, increased number of institutional investors entering the market, forest estate sales which have shifted towards online and become more transparent.

Southern Finland forest land price average

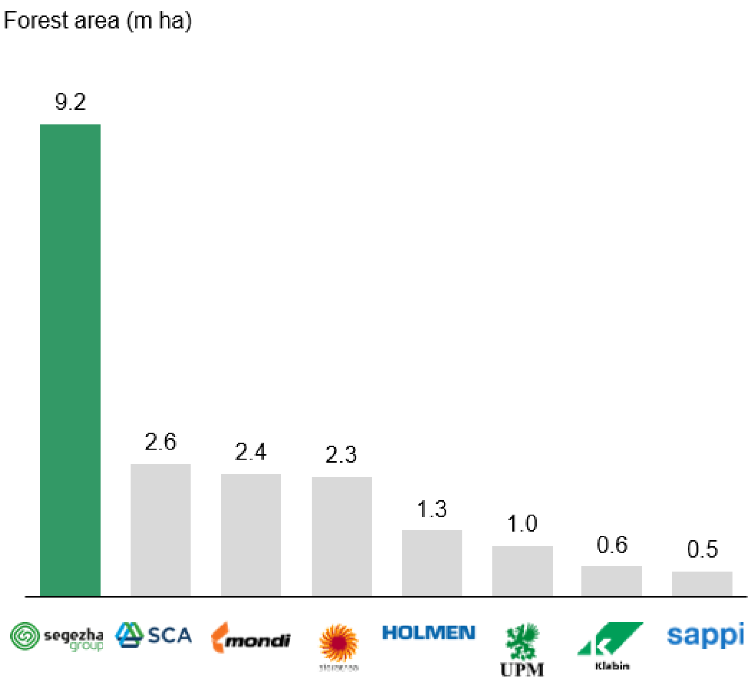


Source: Vision Hunters

Forest is considered to be a strategic resource with limited supply and carries substantial value for integrated forestry players. Segezha holds the largest forest area lease rights of 9.2[2] million hectares among peers, see "*Business—Key Strengths and Competitive Positioning—Extensive and fast-growing forestry resource base*." Closest competitors such as SCA, Mondi (89% of the group's forest area is in Russia), and Stora Enso have 2.6, 2.4, and 2.3 million hectares, respectively, of both owned and leased forest area.

[2] Total area of 8.1 million hectares as of 31 December 2020. Access to additional 1.1 million hectares is contingent on the execution of agreed and approved terms of PIPs.

Forestry resources size

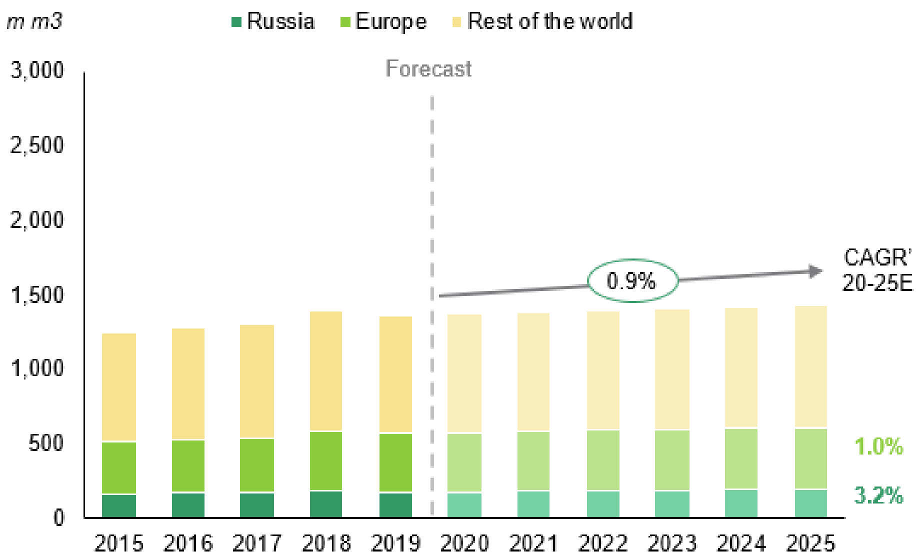


Source: Company data and Paper & Packaging companies disclosure of FY2020

Wood harvesting

Approximately 35% of the world's harvesting is attributable to softwood. Global softwood harvesting is expected to grow by a CAGR of 0.9% between 2020 and 2025. Over the same period, European[3] softwood harvesting is expected to increase by a CAGR of 1.0% with majority of growth coming from Russia which will demonstrate a strong softwood harvesting CAGR of 3.2%.

Softwood harvesting



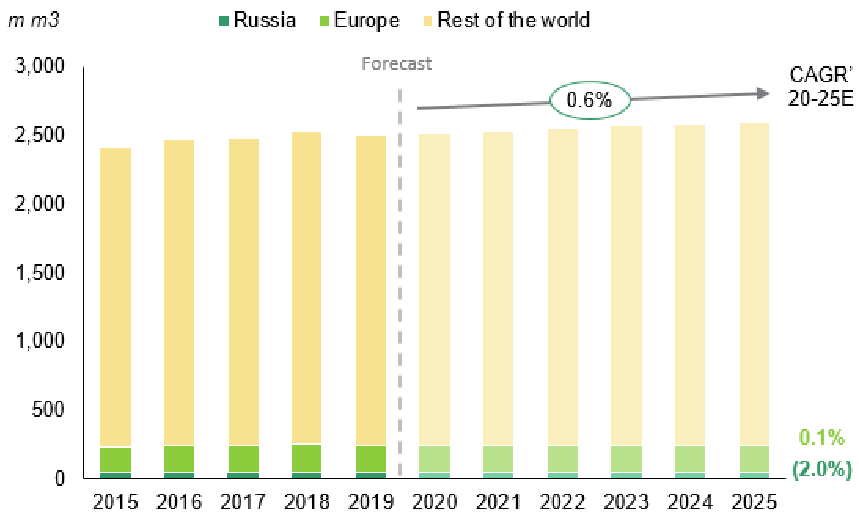
Source: Vision Hunters. Note: 2020-25 CAGR for Europe (incl. Russia)

Approximately 65% of the world's harvesting is attributable to hardwood. Global hardwood harvesting is expected to grow by a CAGR of 0.6% between 2020 and 2025. Over the same period, European hardwood harvesting output is forecasted to grow modestly by a CAGR of 0.1% given recent sustainability trends.

[3] Including Russia.

Russian hardwood harvesting output is expected to decrease by a CAGR of 2.0%.

Hardwood harvesting



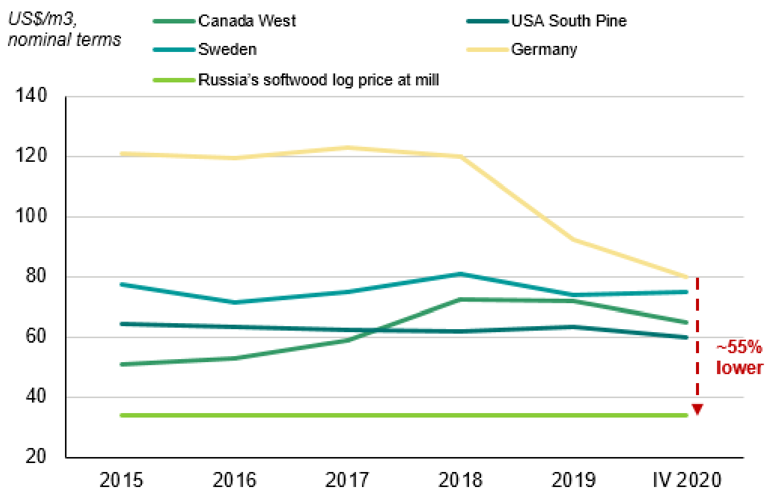
Source: Vision Hunters. Note: 2020-25 CAGR for Europe (incl. Russia)

The COVID-19 pandemic has not hampered wood procurement globally, including in Russia. On the contrary, the pandemic has increased interest to invest in forest land which has provided some support to land prices. Key drivers behind the expected growth of harvesting operations include increasing efficiency of harvesting operations and higher utilization of trees, the growing importance of logistics and infrastructure, growing environmental focus, and the promotion of a carbon-neutral agenda and forests certification. Key risks and potential challenges related to harvesting include a potential hike in land prices and growth in wages – these risks are more pronounced in countries with scarce forestry resources and a high level of wages (for example, European countries). Other risks also include the increasing costs connected with reforestation requirements as well as an increasing need for the development of hard-to-reach locations which hampers harvesting operations in terms of logistics and required infrastructure within the backdrop of globally diminishing forest land.

Log prices

Log prices have been relatively stable in all regions aside from Germany, where a material oversupply happened due to forest damages between 2017 and 2019, putting material pressure on log prices in the region and resulting in material exports out of the region. As for any bulk product, logistics costs play an important role in log prices.

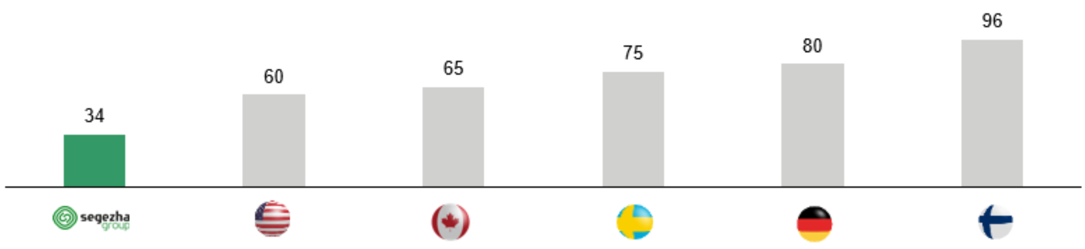
Softwood logs price dynamics across selected regions



Source: Vision Hunters

Russian logs mill gate prices are lower compared to other regions due to low harvesting costs driven by an extensive model versus an intensive model used in other regions (e.g. Nordics) with active replanting and use of fertilizers. In the fourth quarter of 2020, the cost of timber harvesting at the Group's softwood logs mill gate accounted for $34 per cubic meter, which is two to three times below the U.S. ($60 per cubic meter), Canada ($65),Sweden ($75), Germany ($80) and Finland ($96).

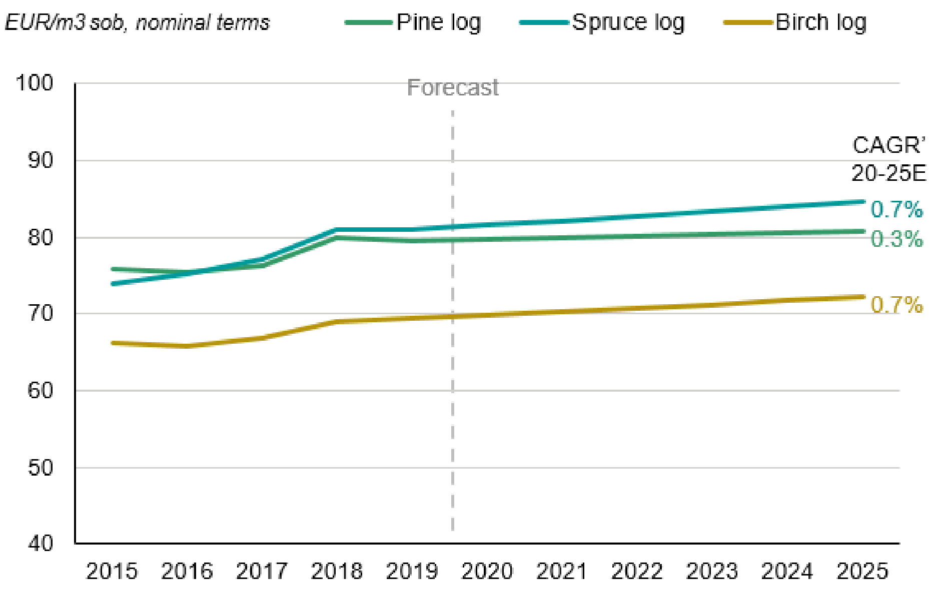
Softwood logs mill gate price (US$/m3), Q4'2020



Source: Vision Hunters

The future price growth of softwood logs is supported by a limited capacity for expansion due to already high utilization of forestry resources worldwide (except for Russia). Aside from limited harvesting growth, in the coming years modest growth of log prices is expected on the back of an overall economic recovery, risks of rising costs for harvesters and willingness of forest owners to extract reasonable return from appreciated value of forest land. Pine log, spruce log and birch log are expected to grow by CAGRs of 0.7%, 0.3% and 0.7%, respectively, between 2020 and 2025, which is supported by limited potential for capacity expansion due to already high utilization of forestry resources worldwide (except for Russia).

Price dynamics of logs delivered to mill gate in Finland



Source: Vision Hunters. Note: sob relates to solid overbark

Sawn timber market overview

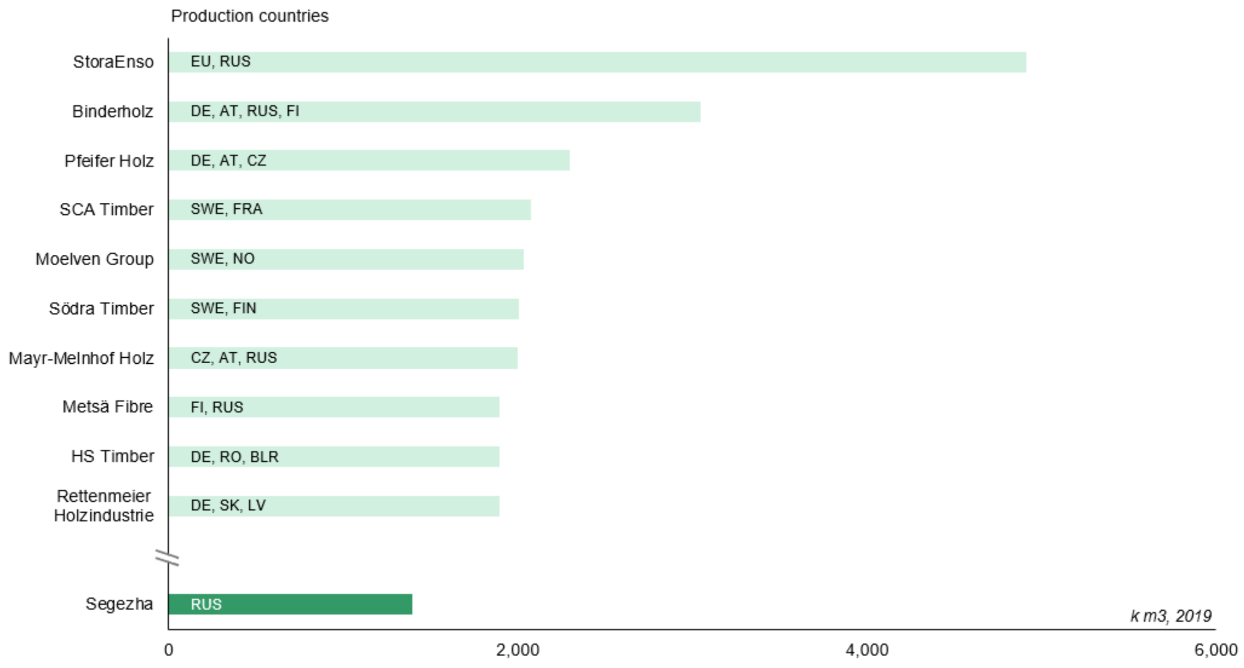
Introduction

Sawn timber is a general term for pieces of wood, which is sawn from logs and cut into different shapes and sizes. Sawn timber can vary by width, length and grade, depending on end use. Sawn timber is usually an intermediary material, which is further processed in end-use industries, like construction and furniture, among others. Log prices correspond to around 50-70% of overall costs of softwood sawn timber. Global trade balance as well as logistics costs also play important role in sawn timber price dynamics. Sawn timber is mainly used in the construction industry.

Sawn timber supply and demand

Europe is the largest producer of sawn timber in the world. Production of sawn timber in Europe is very fragmented – top five players control less than 5% of total capacity and on average have low double digit EBITDA margins on this business. In 2019, the largest player in Europe was Stora Enso with a total of 18 sawmills and almost five million cubic meters' capacity. Major investment of Western companies (e.g. Stora Enso, Binderholz, Mayr-Melnhof Holz and Metsa Fibre) to Russian market were made between 2000 and 2014. Although the Group is smaller than the top 10 European players, it has a larger forestry resource base and a higher level of integration providing cost leadership. This fundamental advantage allows the Group expand its offering of high margin products, as the production of glulam products and CLT panels utilizes own sawn timber.

The largest sawn timber producers in Europe and Russia in volume terms



Source: Vision Hunters

As a result of massive harvesting of damaged forest in Germany and Austria during 2017-2019, the price of logs fell significantly. Since logs account for a significant part of sawn timber price, decreased log prices improved sawmill margins and many companies started investments into new capacities that have come or would come online. However, in 2020, the global sawn timber supply was negatively affected by the COVID-19 pandemic.

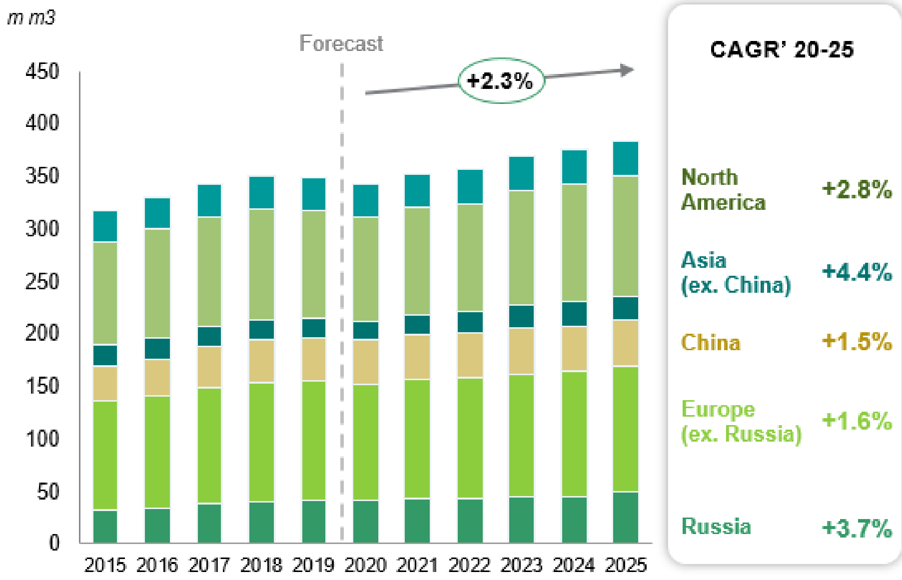
Recently announced investments in sawmills

Company	Country	Capacity, k m3	Start-up
Stallinger Holzindustrie	Austria	500	2020
Gelo Timber	Germany	350	2020
Klenk Holz (part of Binderholz)	Germany	500	2020
Hasslacher Preding Holzindustrie	Austria	500	2021
Rettenmeier Holzindustrie	Austria	500	2021
ULK	Russia	1,000	2022
Metsa Fibre	Finland	750	2022
HS Timber	Belarus	500	2022
BR Wood	Belarus	180	2020
Total		**4,730**	

Source: Vision Hunters

Global supply is expected to grow by a CAGR of 2.3% between 2020 and 2025. Despite decreased log prices, Europe (excluding Russia) is expected to demonstrate limited supply growth of 1.6% CAGR between 2020 and 2025 partially due to natural harvesting limitation and higher costs. Russian supply is expected to show robust growth by a CAGR of 3.7% between 2020 and 2025 on the back of no limitations to increase harvesting and strong export demand from China, Asia and other countries. Supply in Asia (excluding China), China and North America are expected to grow by respective CAGRs of 4.4%, 1.5%, 2.8% between 2020 and 2025.

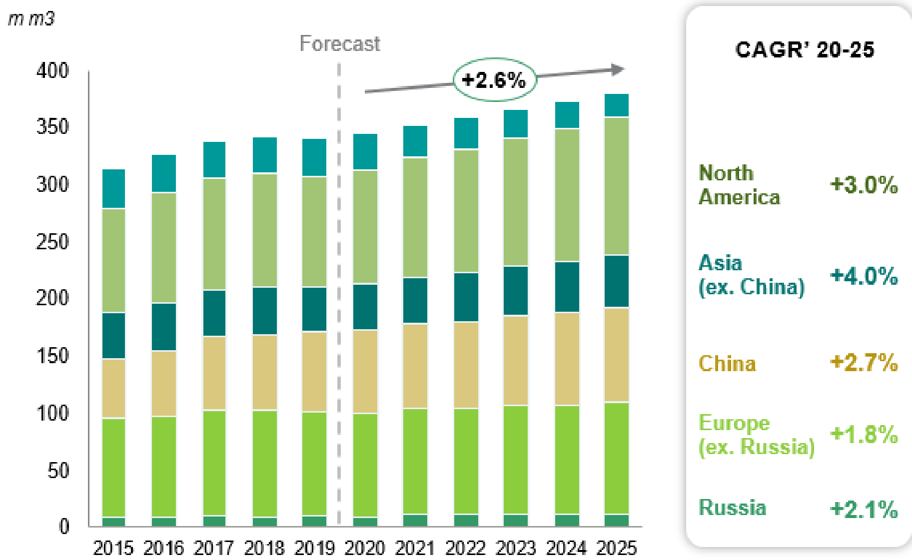
Breakdown of global softwood sawn timber supply



Source: Vision Hunters

Global demand had been growing in line with supply during 2015-2017. In 2018-2020, the market experienced softwood sawn timber supply build-up on the back of overproduction, forest damages and the COVID-19 pandemic negatively impacting the demand. However, due to supply normalization already in 2020 and anticipated demand recovery, the gap between global demand and supply is expected to balance out by 2022. Global demand is expected to grow by a CAGR of 2.6% between 2020 and 2025 supported mainly by construction growth (accounts for roughly 70-75% of sawn timber demand depending on the region). Over the same period, Russian and European demand are expected to grow by respective CAGRs of 2.1% and 1.8%, while demand in Asia (excluding China), China and North America is expected to grow by respective CAGRs of 4.0%, 2.7% and 3.0%.

Breakdown of global softwood sawn timber demand



Source: Vision Hunters

Sawn timber global trade

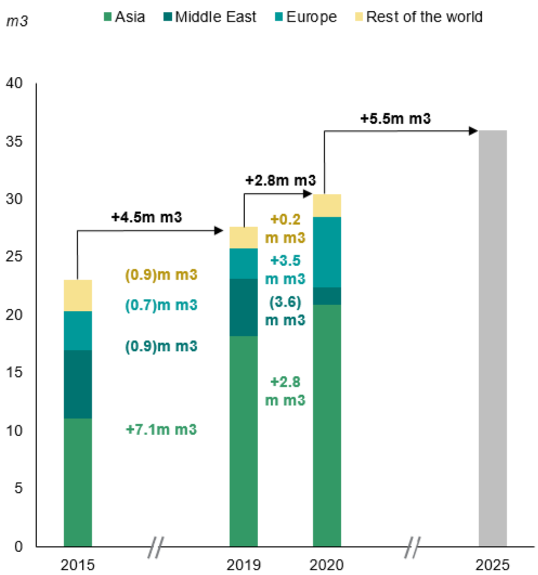
Asia and Africa are major net importers of softwood sawn timber, while North America and Europe (including Russia) are net exporters. In 2019, China imported around 28 million cubic meters of sawn timber, primarily coming from Russia (17 million cubic meters) and Europe (5 million cubic meters) with the rest coming from North America and Oceania. During the same period, Africa imported around five million cubic meters primarily from Europe (including Russia). Oceania and South America are self-sufficient in sawn timber, with some marginal exports coming from North to South America. In North America and Europe intra-region trade is significant – in 2019, around 31 million cubic meters of sawn timber were exported from Canada to the U.S., while intra-Europe trade accounted for 32 million cubic meters.

Global trade flows of softwood sawn timber

Source: Vision Hunters

Russia is the largest softwood sawn timber exporter in the world. Between 2015 and 2019, Russian export volumes increased by 4.5 million cubic meters, primarily driven by increased export volumes to Asia by 7.1 million cubic meters which was partially offset by decreased export volumes to the Middle East, Europe and the rest of the world by respective 0.9, 0.7 and 0.9 million cubic meters. Between 2019 and 2020, Russian export volumes increased by 2.8 million cubic meters, backed up by increased export volumes to Asia, Europe and the rest of the world by 2.8, 3.5 and 0.2 million cubic meters, respectively, which was partially offset by decreased export volumes to the Middle East by 3.5 million cubic meters.

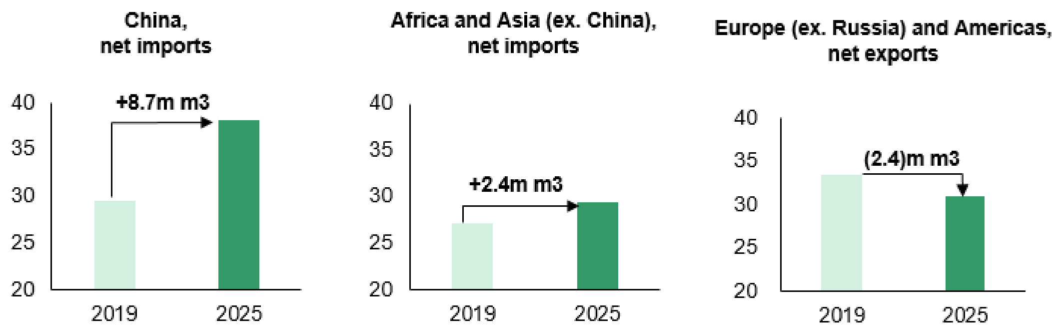
Russian softwood sawn timber export volumes breakdown by regions



Source: Vision Hunters

Between 2020 and 2025, Russian export volumes are expected to increase by 5.5 million cubic meters, partly driven by growing demand from Asia and Africa, which are Segezha's focus markets. At the same time, export competition from Europe and the Americas is expected to soften on the back of decreasing net exports due to harvesting limitations in Europe and strong internal demand in the Americas. Net imports of sawn timber in China, as well as in Africa and Asia (excluding China) in volume terms are expected to increase by 8.7 and 2.4 million cubic meters respectively, between 2020 and 2025. Over the same period, net exports in Europe (excluding Russia) and America are expected to fall by 2.4 million cubic meters.

Trade balance in selected major world regions

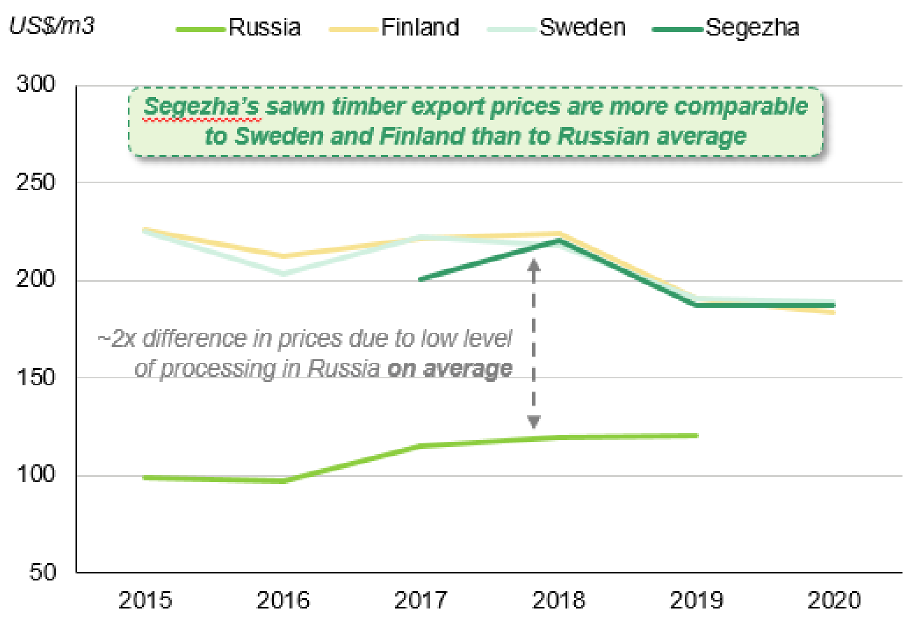


Source: Vision Hunters

Sawn timber prices

Historically, softwood sawn timber export prices to China (a major importer of sawn timber) have been relatively stable. Approximately two times difference in export prices from Europe and Russia to China is explained by the lower level of processing in Russia on average. At the same time, Segezha's sawn timber export prices are more comparable to Finland and Sweden.

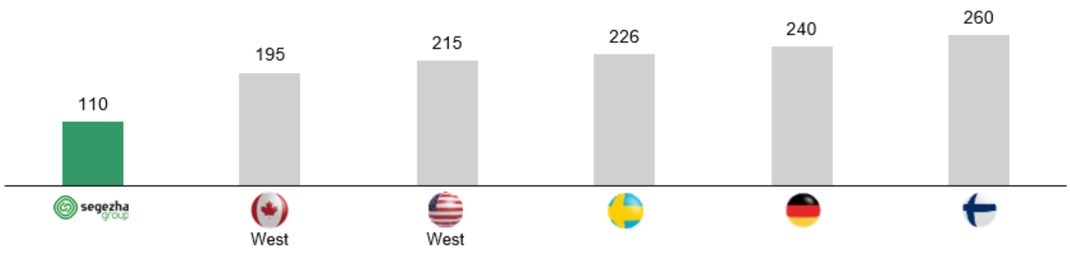
Softwood sawn timber exports FOB price to China



Source: Vision Hunters. Note: For Finland and Sweden – estimated prices for 2020. Prices for Segezha presented for 2017-2020, because active exports to China began after acquisition of Lesosibirsky LDK No. 1 in 2016. Export FOB prices to China for Segezha are calculated as free carrier (FCA) prices plus average cost of transportation to the nearest sea port and cost of loading.

Many leading sawn timber producers in Europe operate at low double-digit EBITDA margins, implying costs support on price. Log prices correspond to approximately 50-70% of overall costs of softwood sawn timber and logistics costs also play an important role in price dynamics. However in Russia, sawn timber producers enjoy higher margins compared to other regions due to lower sawn timber sawmill gate cash cost on the back of abundant forestry resources and low cost of harvesting in Russia. In the fourth quarter of 2020, sawn timber production costs of Segezha accounted for $110 per cubic meter which is considerably lower compared to peers from West Canada ($195 per cubic meter), Western U.S. ($215), Sweden ($226), Germany ($240) and Finland ($260).

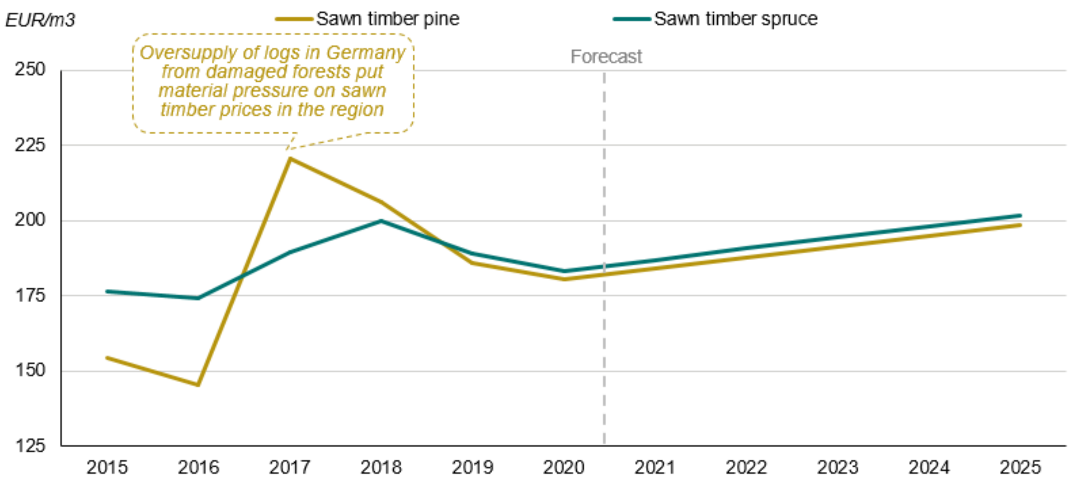
Sawmill cash costs (US$/m3), Q4 2020



Source: Vision Hunters

In the coming years growth of softwood sawn timber prices is expected on the back of overall economic recovery, improving supply-demand balance and strong costs support (including from log prices; for further information, see "—*Forestry resources overview—Log prices*."

Sawn timber prices forecasts for Germany



Source: Vision Hunters

Pellets market overview

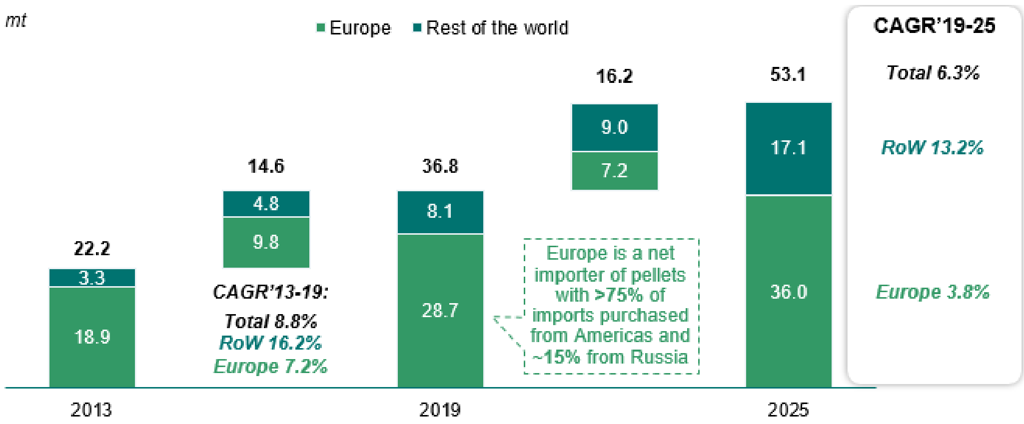
Wood pellets are biofuels made from compacted sawdust and related industrial wood wastes from the milling of timber and manufacture of other wood products. Pellets are primarily used as fuels for power generation, commercial or residential heating. The pellet market, from the demand side, is driven by energy market regulations, heating sector subsidies, weather conditions, oil and gas prices. Key impacts from the supply side are wood and logistics costs and sawmill activity.

Global pellet demand amounted to 36.8 million tons in 2019 compared to 22.2 million tons in 2013, growing by a CAGR of 8.8% between 2013 and 2019. In 2025, demand is expected to reach 53.1 million tons compared to 36.8 million tons in 2019, with an expected CAGR of 6.3% between 2019 and 2025.

European pellet demand increased from 18.9 million tons in 2013 to 28.7 million tons in 2019, growing by a CAGR of 7.2%. In 2025, demand is forecasted to reach 36.0 million tons, with an expected CAGR of

3.8% between 2019 and 2025. Europe is a net importer of pellets having purchased over 12 million tons in 2020 with more than 75% of imports purchased from the Americas and approximately 15% from Russia. As with any bulk commodity, logistics play an important role in this market and Russian producers, being attractively located close to Europe, are well positioned to benefit from future growth.

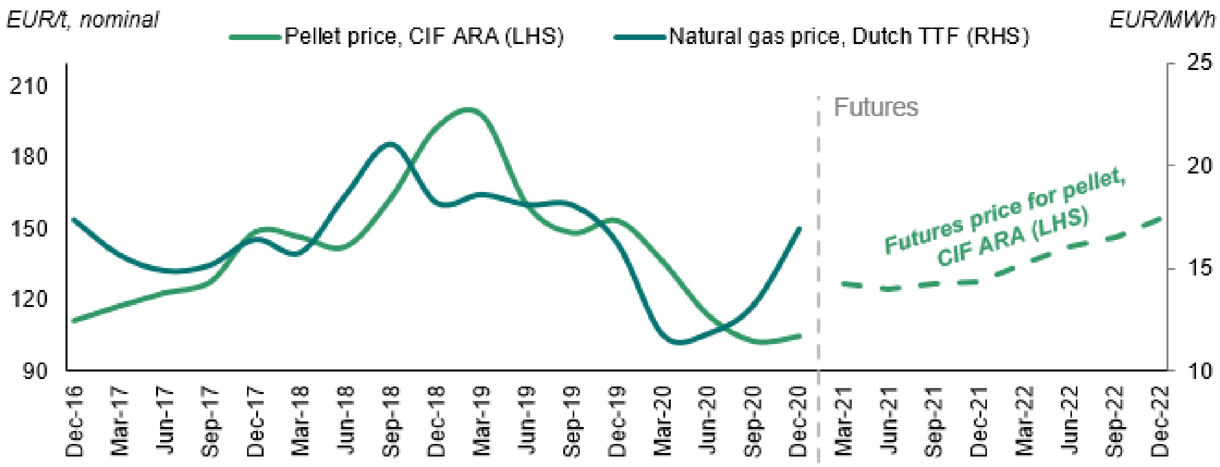
Global pellet demand



Source: Vision Hunters

Pellet prices experience seasonality and have a strong correlation with energy demand. Current prices are at low levels, driven by a warm winter in 2019 and 2020, which was partly offset by delays in pellet mill start-ups due to the COVID-19 pandemic. Current lows are not sustainable for many producers, indicating potential for upside supported by a cold winter in 2020/2021 and can be seen in increasing future prices for pellet in the mid-term.

Pellet price in European dynamics



Source: Vision Hunters, Bloomberg

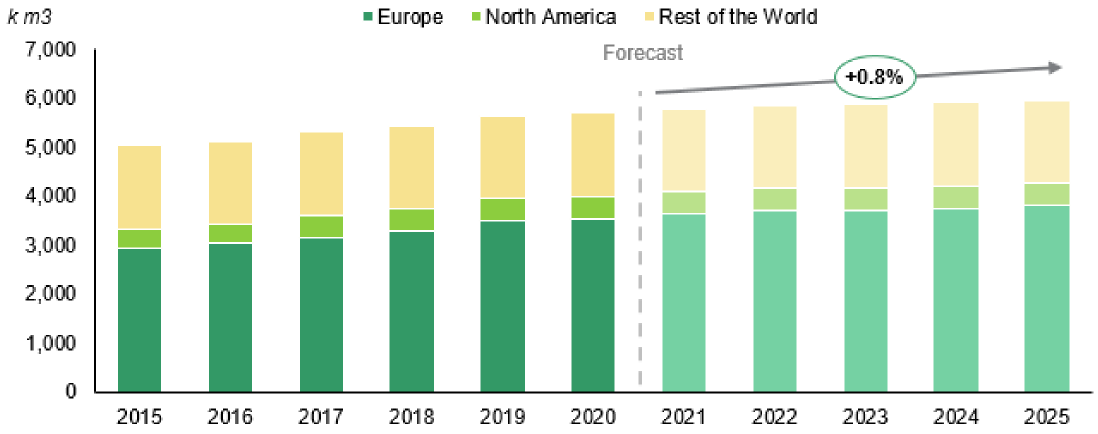
Glulam market overview

Glulam (or glued laminated timber) is a wood product made by gluing two or more items of sawn timber together. Glulam is used in loadbearing construction as vertical columns and horizontal beams. It is also used as blanks for various wood products such as window frames and laminated logs, among others. Glulam offers a unique customer proposition capitalizing on the sustainability megatrend and general interest towards nature.

Glulam is the largest segment of the engineered wood products market in Europe, and the second largest in North America (after LVL, which along with cross laminated timber ("**CLT**") are a major glulam substitutes). Overall demand for glulam products is driven by residential construction which is in turn underpinned by stable economic growth, interest rates and re-modelling business boom. European demand has grown quickly – faster than construction in general. Key consumers within Europe are more developed countries – Germany, Austria, Italy, France and Switzerland. North American demand is yet quite small compared to overall engineered wood market and remains rather cyclical.

Most of European glulam facilities are located in Austria and Germany which dominate the European glulam market. The total number of glulam plants in Germany and Austria amounts to 53 plants with around 20 plants in Nordic countries. Hasslacher Norica Timber, Binderholz, Stora Enso, Keitele Wood Productsa and Mayr-Melnhof Holz are the largest European glulam producers. Globally, top five players account for 33% of the glulam market. Global glulam supply is expected to grow in volume by a CAGR of 0.8% between 2021 and 2025.

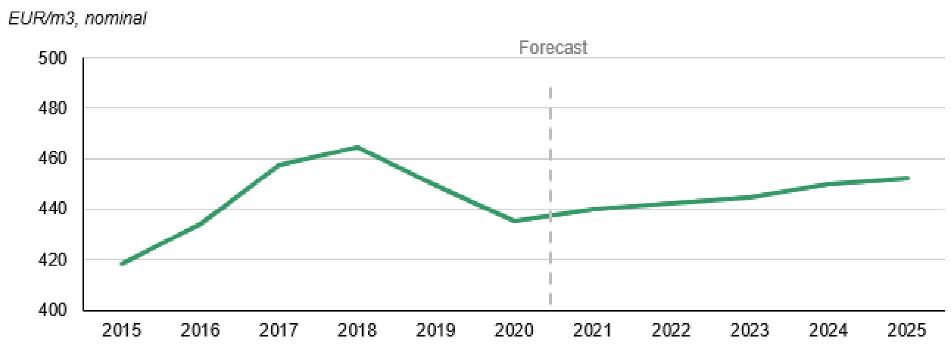
Glulam supply in Europe and North America



Source: Vision Hunters

Glulam products have a high degree of differentiation to address specific market needs and end-uses and is therefore considered a building solution, not as a commodity like sawn timber products. This value add of glulam results in much higher prices than sawn timber, providing producers with a high degree of integration and solid and sustainable margins. Being close to the end customer/use, glulam demonstrates a high degree of price resilience. Glulam price is expected to grow between 2021 and 2025 after the fall in 2020 partially caused by the COVID-19 pandemic.

Glulam price in Germany



Source: Vision Hunters. Note: price in Germany is reference point for European price

Sack and kraft paper market overview

Introduction

Sack and kraft paper is primarily used for various paper-based packaging – cement, dry-mix mortars, chemicals, food, as well as bags and carriers for retailers. The paper market consists of various types of paper, each with different target end-uses and quality. Paper and paper-based packaging are made from softwood fiber, hardwood fiber and waste paper. Through a chemical, mechanical or de-inking pulping process, fibers are converted into pulp. Depending on the end-product that is being produced, different fiber sources and pulp processes are needed to give the product its key color, strength and other characteristics. Paper market is generally divided into multiwall sack paper, packaging kraft paper and specialty kraft paper.

The multiwall sack paper market is presented by extensible and flat sack paper. Extensible sacks paper is characterized by the high degree of stretch, while flat sack paper has lower stretch compared to extensible sack paper. High stretch papers are used in demanding applications, mainly for materials filling sack at high speeds, such as cement and other mineral or chemical packaging. Lower stretch papers are used for packaging of coarser materials, grains as well as materials with lower density. Building materials packaging typically accounts for 60-80% of multiwall sack paper consumption, while roughly 15-20% of multiwall sack paper is being consumed by the food segment.

The packaging kraft paper market can be divided into lightweight and heavyweight. Packaging kraft paper is used for a wide range of consumer-facing and retail-trade applications. The main products include bags and pouches, packaging and wrapping.

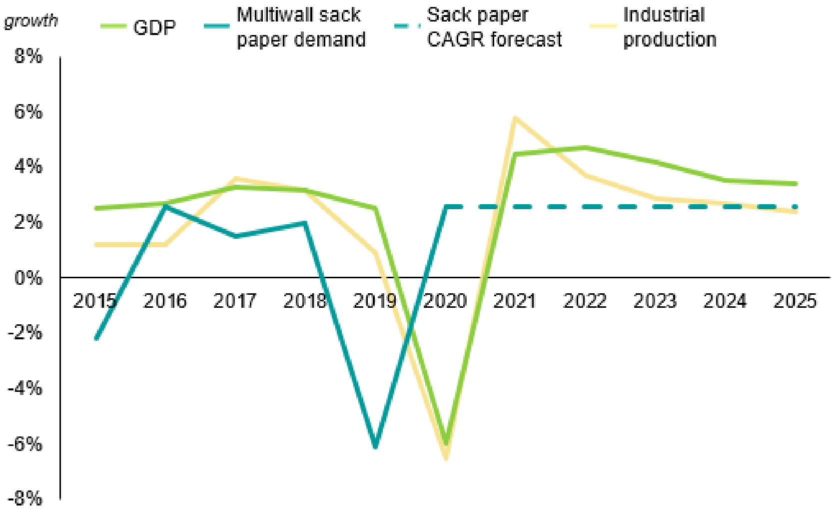
The specialty kraft paper market is a highly fragmented market. It is mainly presented by saturating papers beside other products. Saturating specialty kraft paper is used for decorative and industrial purposes. Other products include glassine, tape base, interleaving and wire wraps.

Key paper market drivers

Megatrends: Economic and population growth

Paper demand is cyclical by nature, affected by general economic trends and industrial production. In 2021, industrial production in line with global GDP is expected to rebound after the fall in 2020 caused by the COVID-19 pandemic and demonstrate robust growth in the medium and long term. In turn, sack paper demand is expected to grow by a CAGR of approximately 2% between 2020 and 2025.

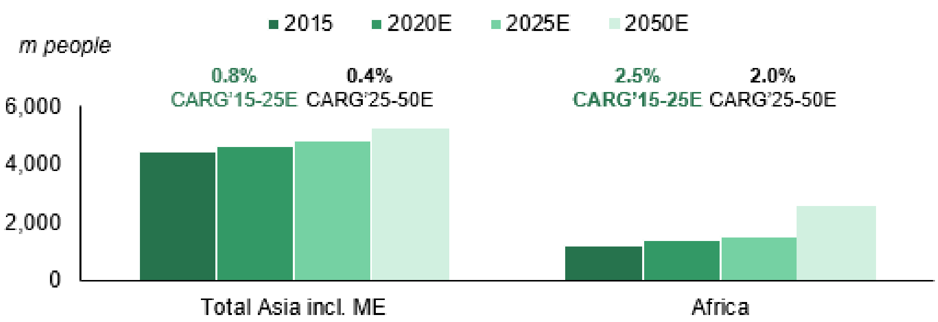
Global economic indicators vs. sack paper demand



Source: Fisher International

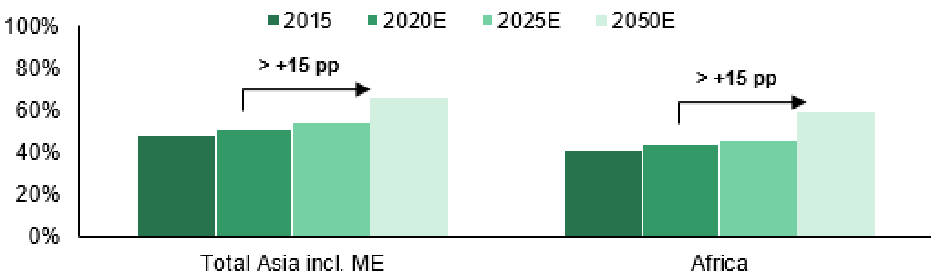
Population growth and urbanization are important drivers for the construction industry as well as for private consumption and retail trade. World population is expected to increase by 26% by 2050 to 9.8 billion people due to strong population growth in Asia and Africa. Urban population growth, the key driver of consumption, is expected to experience additional effects from strong urbanization trends in Asia and Africa – share of people living in cities in these regions is expected to increase by roughly 15 percentage points between 2020 and 2025.

Long-term population outlook for key growth regions



Source: Fisher International

Share of urban population of key growth regions, %

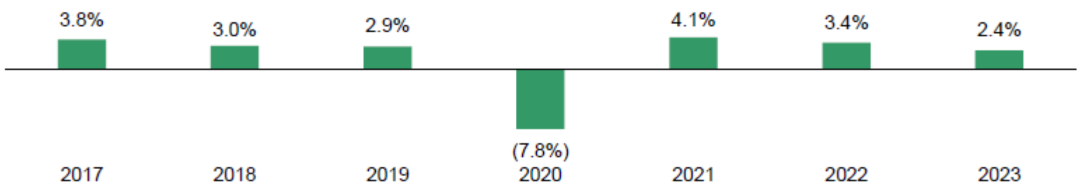


Source: Fisher International

End-uses markets growth: Construction, e-commerce and online food delivery and other applications

The construction industry is the primary driver of the multiwall sack paper market. The COVID-19 pandemic has negatively impacted the construction industry globally in 2020. However, it is expected that the construction market will return to a growth trajectory by 2021 and demonstrate robust growth in the medium and long term. The European construction market is expected to start recovery in 2021, with expected growth of 4.1% in 2021, 3.4% in 2022 and 2.4% in 2023.

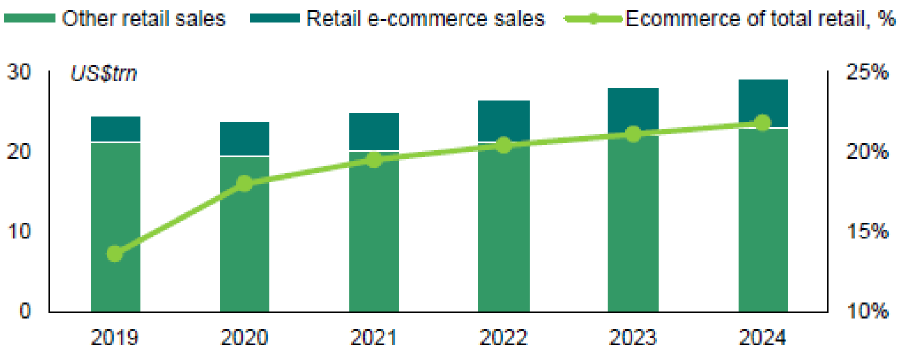
European construction market, construction output growth



Source: Euroconstruct

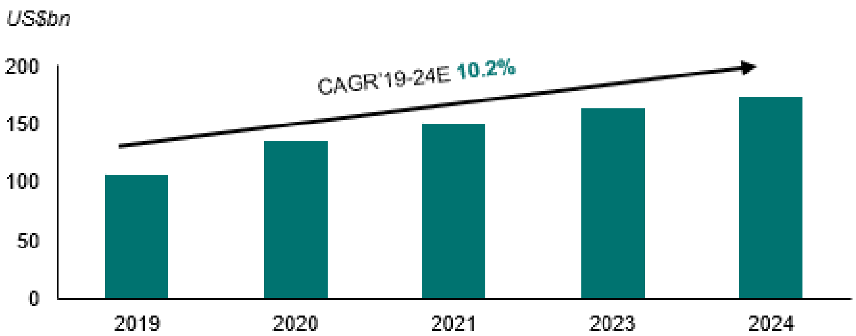
Retail and e-commerce sales are the major factors driving the packaging kraft paper market. These factors also have an impact on the multiwall sack paper market. Consumer markets experience rapid growth of e-commerce and food delivery which require sustainable, cost-efficient and single-use only packaging solutions – sack and kraft papers address many needs of these markets. Shift to online and delivery was accelerated by the COVID-19 pandemic. Share of e-commerce of total retail is expected to increase considerably from 18% in 2020 to 22% in 2024. Worldwide online food delivery is expected to grow by a CAGR of 10.2% between 2019 and 2024.

Retail and e-commerce sales globally



Source: Fisher International

Worldwide online food delivery



Source: Fisher International

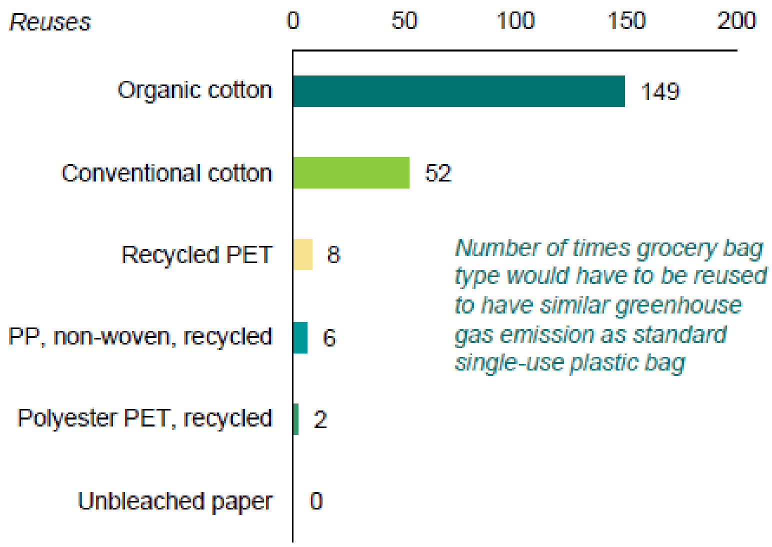
Other end-markets for paper consumption, such as pet food and food products, are expected to demonstrate robust growth driven by growing disposable income. Between 2015 and 2025, world pet food demand is expected to grow by a CAGR of 4.4%, while whole milk powder consumption is expected to grow by a CAGR of 4.7%. Moreover, consumption of paper packaging by these markets may be stimulated by sustainability trends – paper packaging solutions may substitute for plastics, which is currently widely used for food packaging.

Green agenda: plastic substitution, recycling, minimization of environmental impact and regulatory initiatives

A green agenda is providing the stimulus for additional paper demand. Global trends towards plastic usage reduction and importance of recyclability are examples of paper demand drivers. Paper is a sustainable alternative to plastic to protect the environment. According to Exane, 70% of European consumers actively reduce their use of plastic packaging and 48% avoid shopping in stores that do not reducing plastic packaging. In addition, paper packaging has higher recyclability – 72% percent of paper packaging globally is obtained from recycled materials against only 14% of plastic packaging.

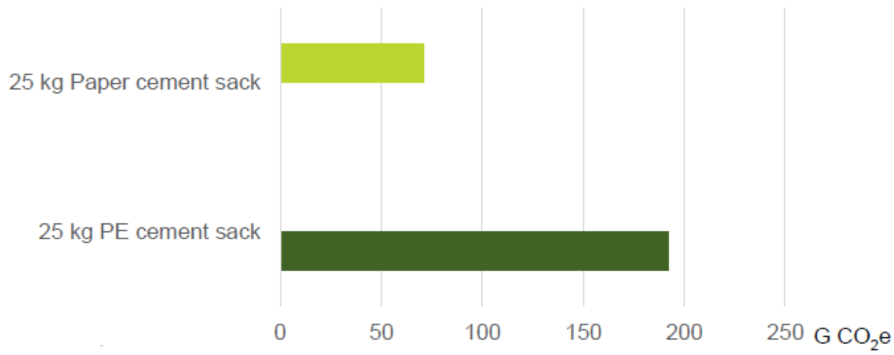
The global trend to minimize environmental impact beneficially positions paper in comparison to other packaging alternatives. For example, organic and conventional cotton bags can be reused 149 and 52 times, respectively, to reach a similar level greenhouse gas emissions as standard single-use plastic bags. Also greenhouse gas emissions for a 25kg paper cement sack is approximately 2.5 times lower compared to the same size polyethylene cement sack.

Grocery bag comparisons for greenhouse gas emission



Source: Fisher International

Sack bag comparisons for greenhouse gas emissions



Source: Fisher International

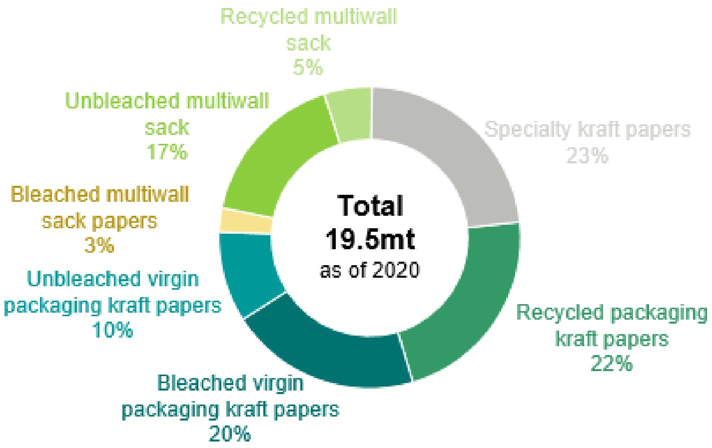
The world has an increased focus on green agenda and wellbeing – many countries have already implemented various regulations that stimulated demand for sack paper and packaging. One hundred seventy United Nations member states agreed to "significantly reduce" single-use plastics by 2030, 127 out of 192 countries have adopted legislation regulating plastic bag usage, while 27 countries have enacted laws implementing the ban, in varying degrees, on single-use plastics. Among other measures, the UK pledged to remove all avoidable plastic waste by 2042, while China has banned the imports of consumer waste plastic since 2018 and will ban non-degradable bags in major cities by the end of 2020 and in all cities and towns by 2022. Latin American countries are limiting the size of cement bags to 25kg, half of the current standard size, while Western Europe and China have already implemented limits on cement paper sack sizes.

Sack paper (multiwall)

Multiwall sack paper production capacities

In 2020, the global sack and kraft paper capacity amounted to 19.5 million tons, with specialty kraft papers accounting for 23%, packaging kraft papers accounting for 52% and multiwall sack paper accounting for the remaining 25%.

Sack and kraft paper global capacity breakdown by products

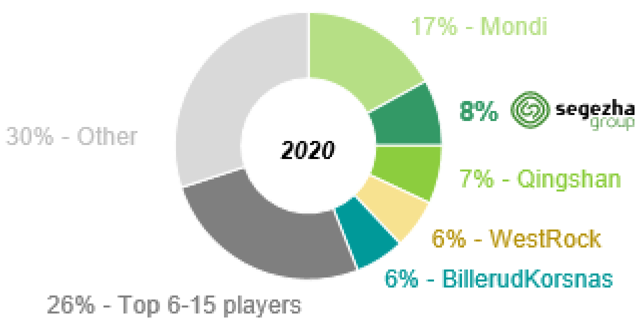


Source: Fisher International

Segezha's current product portfolio predominantly includes high-quality extensible unbleached sack papers and has some presence in flat unbleached sack papers as well as virgin packaging kraft papers, but Segezha is flexible to switch capacities in case market conditions change. Segezha's strategy is to increase share of high-margin sack paper products with special features, including high-quality extensible sack paper (both bleached and unbleached) as well as further expand into packaging solutions, such as greaseproof and specialty, moving in the value chain closer to the end-customers targeting food packaging and frozen goods, among others.

Production of sack paper is a capital intensive business and requires material supply of quality pulp for operations – these two facts create significant barriers for new companies to enter this business and for the current players to expand their capacities. The market is relatively consolidated – top five players account for 44% of total sack paper production capacity.

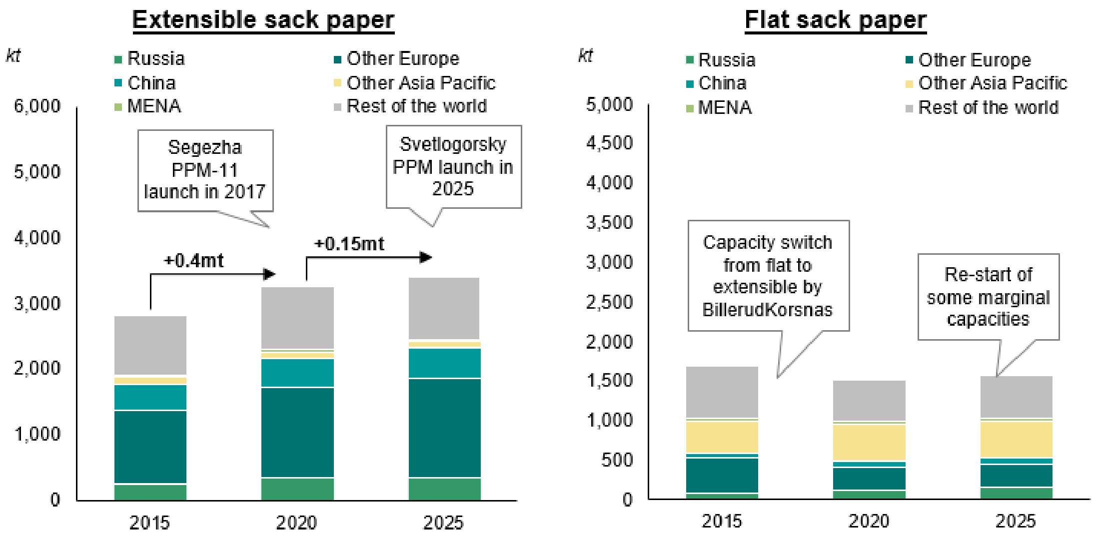
Sack paper capacity breakdown by producers



Source: Fisher International

Limited multiwall sack paper capacities were added globally over the last five years. Between 2015 and 2020, only 0.4 million tons capacity were added in extensible sack paper, including 0.1 million tons from the launch of Segezha PPM No. 11 in 2017. Flat sack paper capacity decreased between 2015 and 2020, which was partly driven by BillerudKorsnäs' switch from flat to extensible sack paper. In the mid-term, only one new sizable extensible sack paper machine is expected to come online in the coming years – Svetlogorsky PPM in Belarus in 2025 and only some marginal capacities to be added in flat sack paper from existing mills.

Multiwall sack paper capacity by region



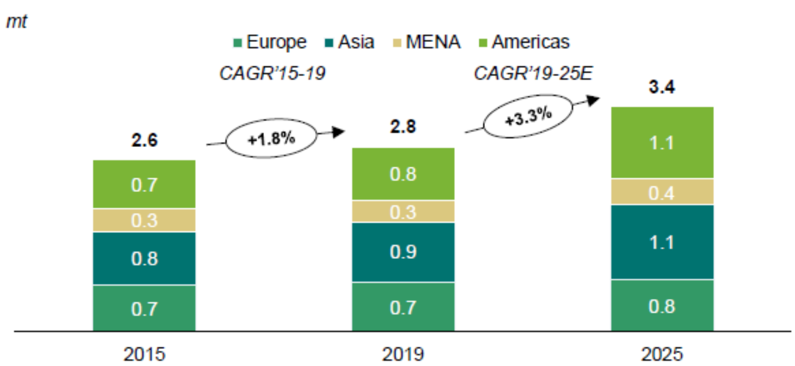
Source: Fisher International

For cost-efficient sack paper manufacturing, integration into pulp production is critical given high dependency on market pulp, and can cause quality variations in sack paper. Availability of quality pulp feed is limited, creating disparity between supply and demand in various regions – for example, long-fiber softwood required for high-quality multiwall sack paper (the core product of Segezha) is available only in Russia and Northern Europe, but not in Asia. Availability of unbleached kraft market pulp (key component for sack paper) is limited as most of its supply is controlled by integrated producers. These fundamental factors structurally limit additions of new sack paper capacities on the market – only a few lines were added and are expected to be added in the mid-term.

Sack paper demand

Multiwall extensible sack paper demand amounted to 2.8 million tons in 2019, growing by a CAGR of 1.8% between 2015 to 2019. It is expected to demonstrate stronger growth, with a CAGR of 3.3% between 2019 and 2025. Over the same period, in terms of volume it is expected to result in an increase by 0.6 million tons. European consumption of sack paper is expected to increase by 0.1 million tons, Asian consumption by 0.2 million tons, Middle East and North Africa ("**MENA**") by 0.1 million tons, and the Americas by 0.3 million tons over the same period.

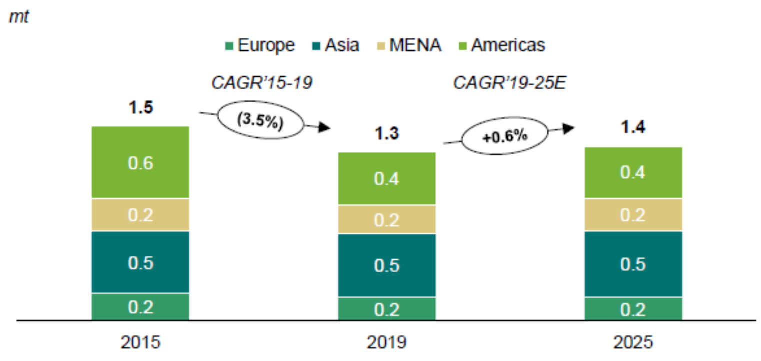
Multiwall extensible sack paper demand



Source: Fisher International

Multiwall flat sack paper demand amounted to 1.3 million tons in 2019, decreasing with a CAGR of 3.5% between 2015 and 2019. Between 2019 and 2025, it is expected to demonstrate improved growth, with a CAGR of 0.6%.

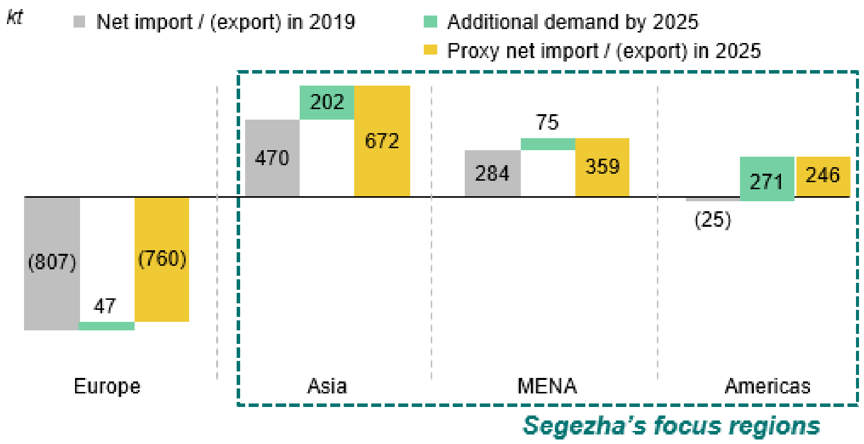
Multiwall flat sack paper demand



Source: Fisher International

Materially growing demand from MENA, Asia and Latin America for extensible sack paper is unlikely to be fulfilled by local production given no capacities expansions are expected in these regions due to unavailability of softwood pulp; import of sack paper to these countries is expected to increase materially to match demand. European consumption and production of sack paper is expected to stay roughly flat as well as net exports out of Europe. Having a strong presence in MENA, Asian and Latin American markets, Segezha is well positioned to capitalize on the abovementioned situation and expand extensible sack paper sales to these regions.

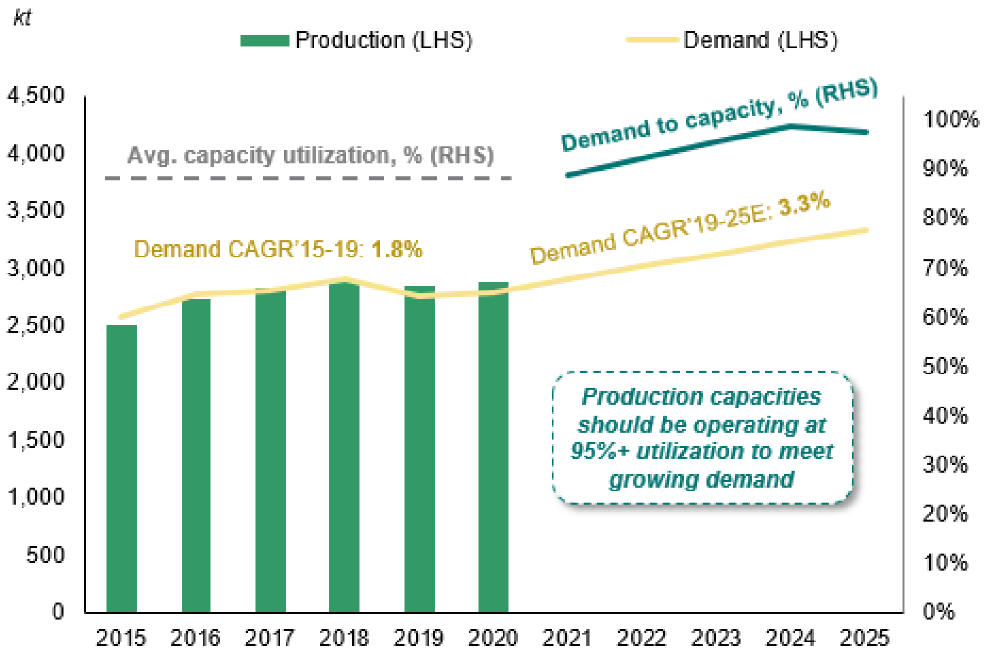
Multiwall extensible sack paper illustrative trade balance



Source: Fisher International

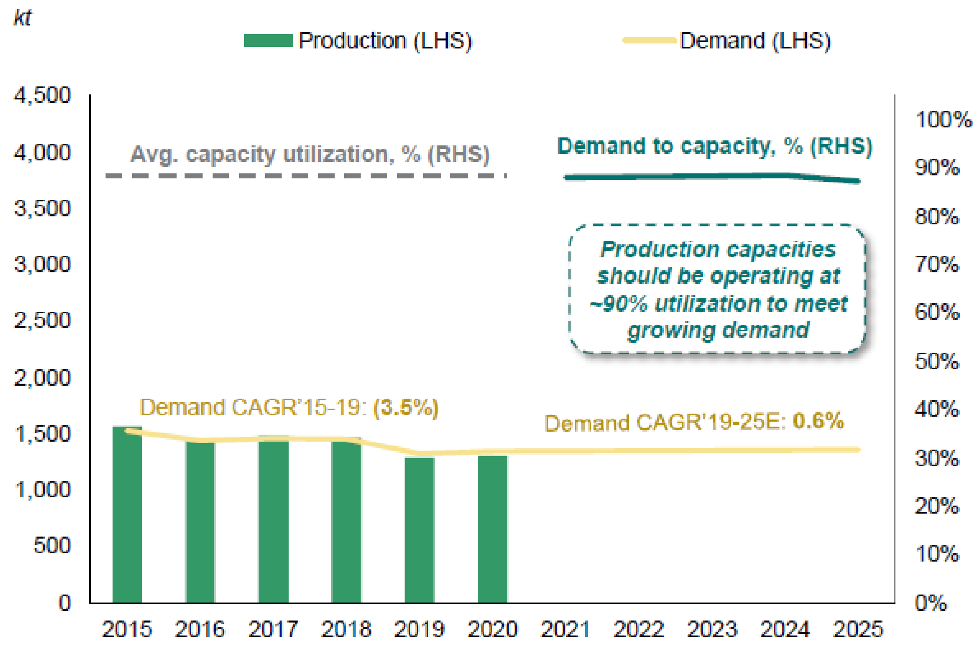
Multiwall extensible sack paper production grew by a CAGR of 1.8% between 2015 and 2019 at approximately 90% average capacity utilization. Over the same period, multiwall flat sack paper production had a CAGR of -3.5% at approximately 90% average capacity utilization. Excessive stocks accumulated in 2019 and the COVID-19 pandemic resulted in weak demand in the second half of 2019 and the first half of 2020, both in extensible and flat sack paper segments, negatively impacting prices. In 2021, slow recovery in demand and prices is expected to be driven by economic recovery and activity growth. Capacity additions are expected to be limited in both segments, resulting in supply-demand balance becoming tight by 2023. To meet growing demand, extensible sack paper production capacities should be operating at more than 95% utilization, which is above historical rates and is not sustainable.

Multiwall extensible sack paper production, demand and utilization



Source: Fisher International

Multiwall flat sack paper production, demand and utilization



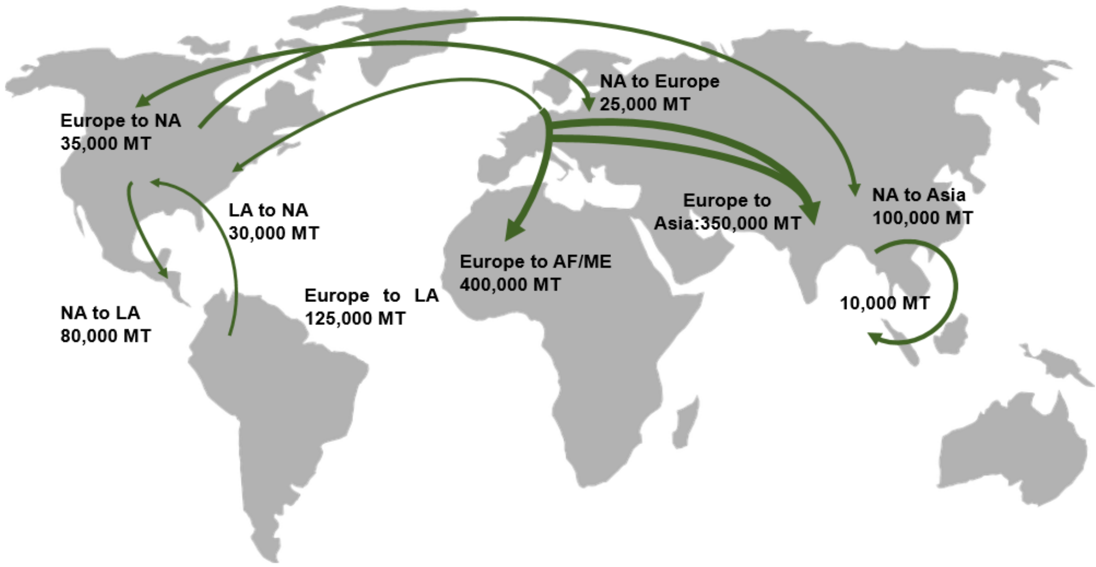
Source: Fisher International

Sack paper prices

The main drivers for sack paper prices are supply-demand balance, general economic conditions and production costs in case the demand is soft. As for every global commodity, trends for regional sack paper prices follow each other tightly, with some discrepancies being explained by logistics costs, local supply-demand balance and differences in quality. For example, North American export prices are below European levels as European suppliers mainly produce higher-quality extensible sack papers compared to North American manufacturers.

Logistics costs account for a significant part of sack paper price. Europe, being a large net exporter of sack paper, has a strong impact on global sack prices across all regions and acts as a "price setter." The tight pricing currently present between extra and intra regional exports in Europe indicates that there are limited incentives for European producers to increase international exports to overseas destinations given broadly similar prices in Europe.

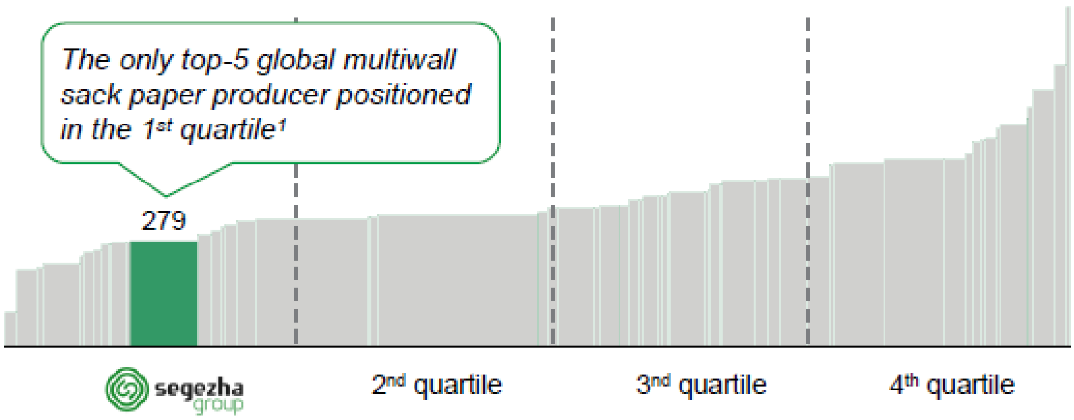
Main sack paper trade flows in 2019



Source: Fisher International

Production costs which include wood and other raw materials costs, labor costs and utilities expenses are not flexible. There is limited opportunity to decrease costs without deep modernization of facilities and there are material risks of cost inflation due to wage growth, for example. This provides natural support to sack paper price levels. In the third quarter of 2020, Segezha was the only top-five producer located in the lowest quartile of the multiwall sack paper cost curve. Other top-five producers of multiwall sack paper were positioned in the higher quartiles on the cost curve.

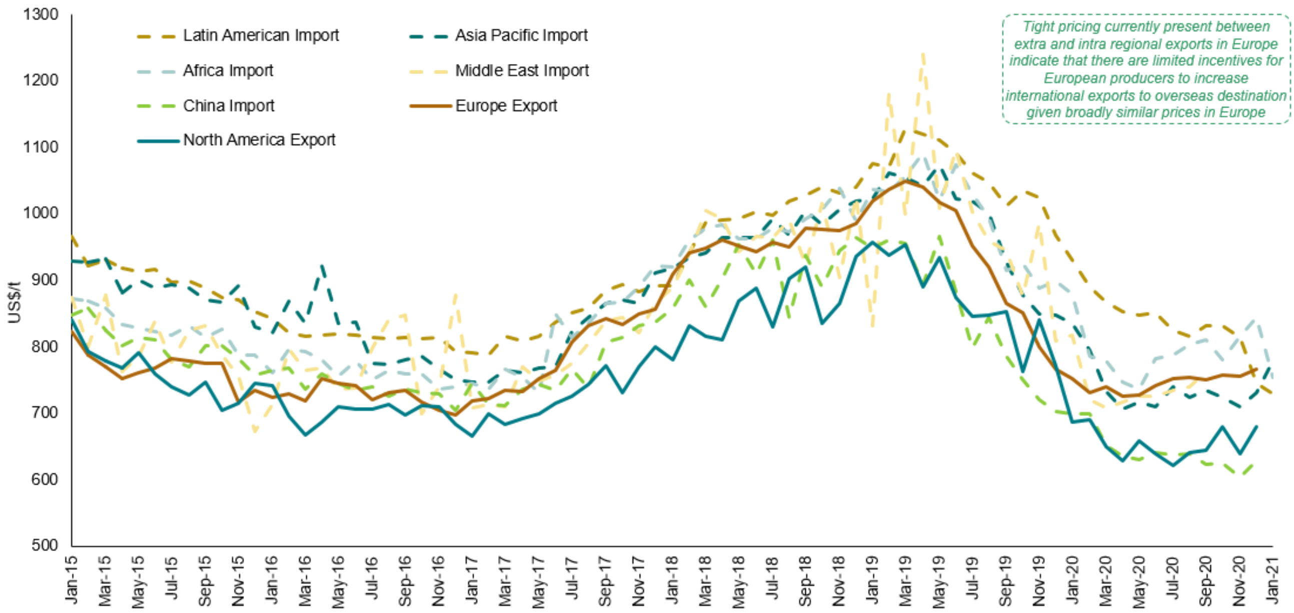
Multiwall sack paper total cost curve (US$/t), Q3 2020



Source: Fisher International

Sack paper prices are correlated to a certain degree (considering some timing lag and less volatility) with kraft market pulp (the key raw material) prices that decreased materially since a cycle peak in late 2018 / early 2019 and started to rebound only in the end of 2020 due to expectations of a more constructive market. In 2020, due to the COVID-19 pandemic, sack paper prices decreased materially to historical lows and only recently started to rebound on the back of stronger demand outlook.

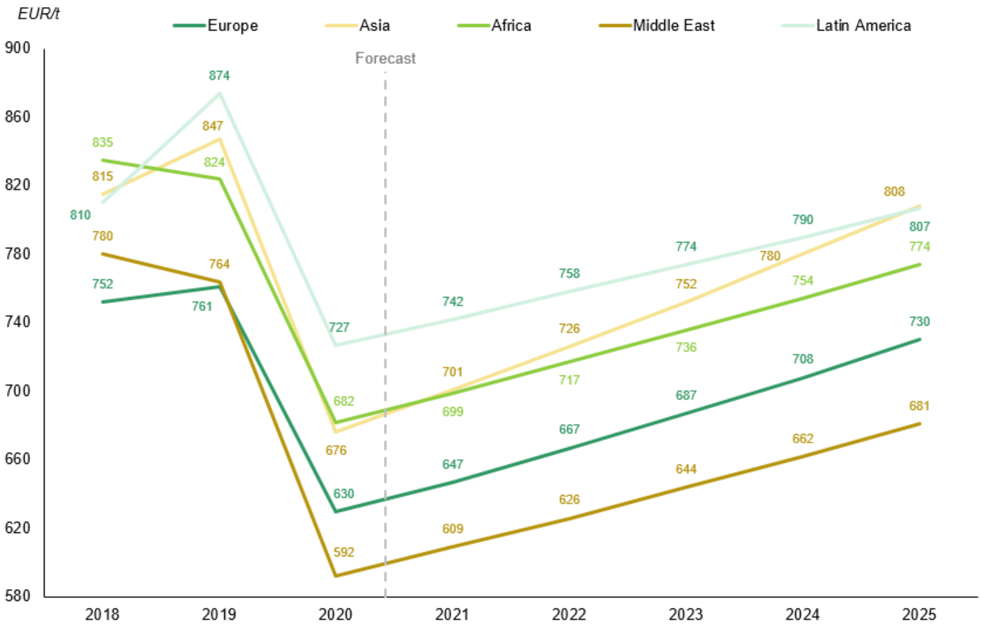
Unbleached multiwall sack paper extra regional trade price dynamics



Source: Fisher International

Sack paper prices are expected to rebound in the coming years on the back of limited capacity additions, balancing the gap between demand and supply, improved demand outlook after the COVID-19 pandemic, stronger EUR and increasing production costs for wood, labor and utilities. Among other factors, a growing economy, structural demand increases for multiple industries and increasing focus on sustainability are expected to be additional supportive factors.

Multiwall sack paper European domestic and export prices forecasts

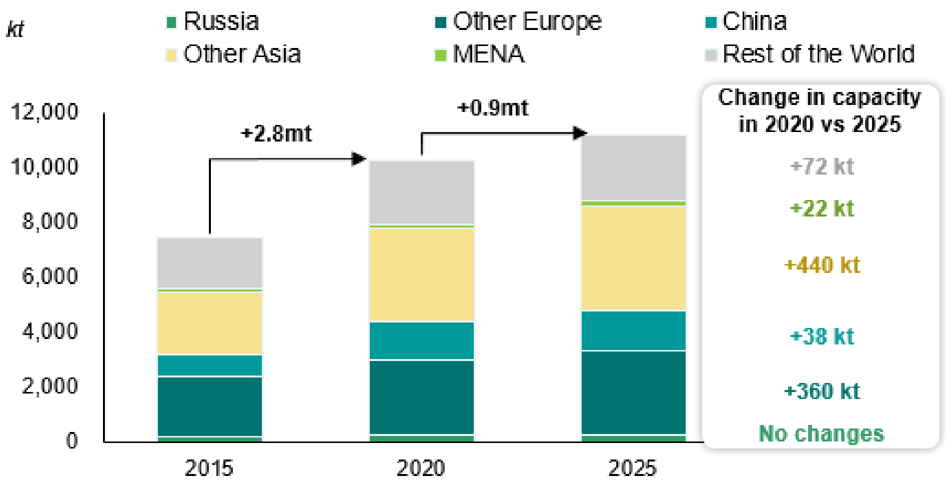


Source: Fisher International

Packaging kraft paper

On the back of rapidly growing demand, 2.8 million tons of packaging kraft paper capacities were added between 2015 and 2020 and an additional 0.9 million tons of capacities are expected to be built by 2025. Material part of these additions are in Europe and Asia.

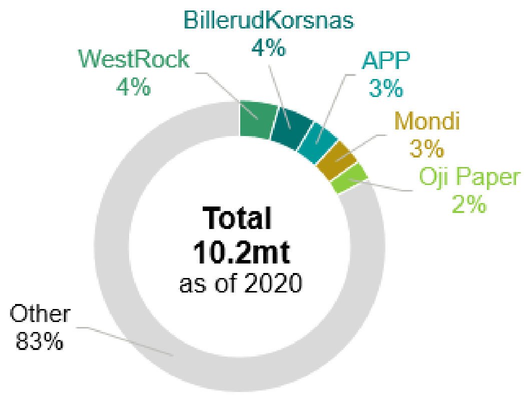
Packaging kraft paper capacity by region



Source: Fisher International

Entry barriers are somewhat lower for consumer packaging kraft papers than for sack paper resulting in a more fragmented market. The top five players globally account for only 16% of total 10.2 million tons of capacity as of 2020. Consumer packaging kraft papers do not require high strength properties and thus quality virgin pulp feed – products in this segment can partially or totally use recycled fiber. Segezha has some presence in virgin packaging kraft papers which is more prone to capacity additions segment due to raw material supply barriers.

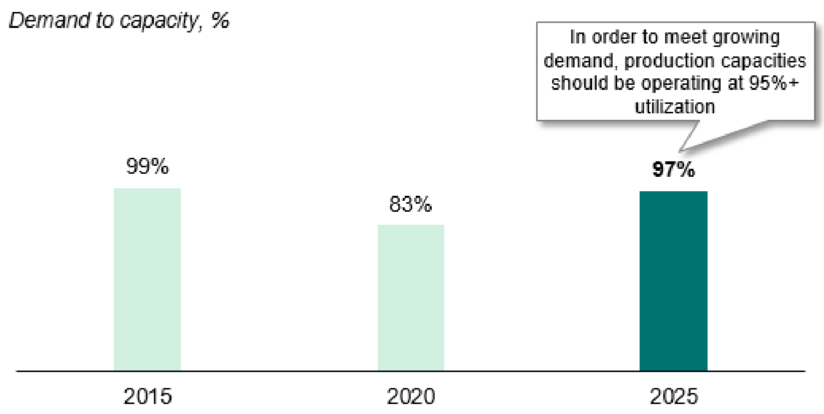
Packaging kraft paper capacity breakdown by producers



Source: Fisher International

Despite material capacity additions, plants are expected to operate at high utilization levels in order to meet robust demand growth suggesting tight supply-demand balance. Recently added and future production capacities are expected to be nearly fully utilized. In order to meet growing demand, production capacities should be operating at very high utilization levels of above 95%.

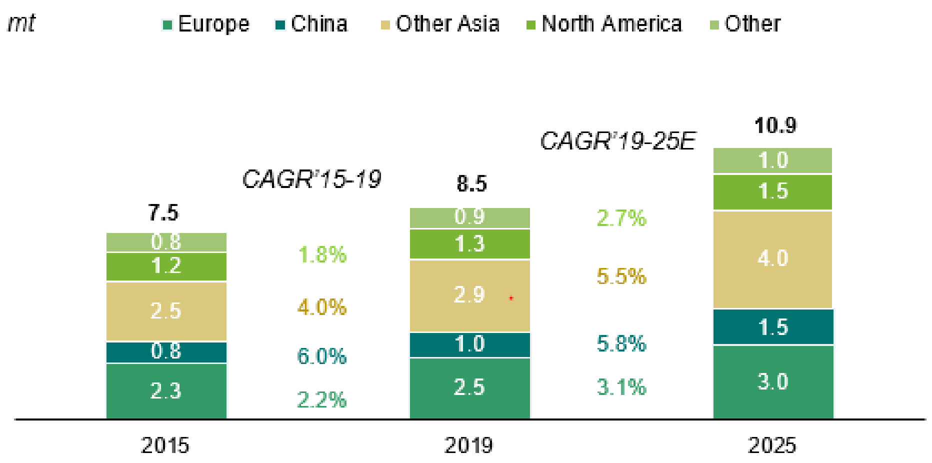
Packaging kraft paper demand to capacity, %



Source: Fisher International

Global packaging kraft paper demand reached 8.5 million tons in 2019, growing by a CAGR of 3.1% between 2015 and 2019. Demand in China and other Asia amounted to respective 1.0 and 2.9 million tons in 2019, while European and North American demand reached respective 2.5 and 1.3 million tons. In 2020, packaging kraft paper demand was supported by rapid growth of e-commerce and food delivery markets as a result of the COVID-19 pandemic. Global packaging kraft paper demand is expected to grow by a CAGR of 4.2% between 2019 and 2025, expanding from 8.5 million tons in 2019 to 10.9 million tons in 2025. Over the same period, demand in China and other Asian countries is expected to grow with respective CAGRs of 5.8% and 5.5%, while demand in Europe and North America is expected to grow with respective CAGRs of 3.1% and 2.7%.

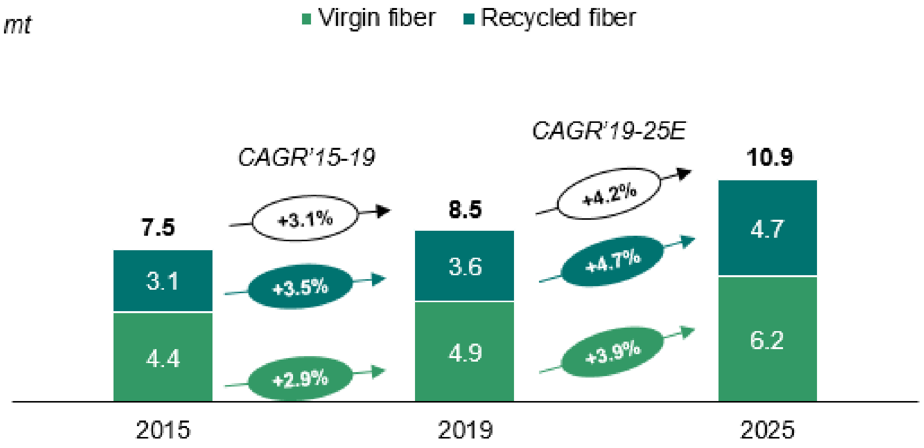
Packaging kraft paper demand by region



Source: Fisher International

Global packaging kraft paper demand consists of 3.6 million tons for recycled fiber and 4.9 million tons for virgin fiber in 2019 with respective CAGRs of 3.5% and 2.9% between 2015 to 2019. Growth in recycled fiber packaging is expected to be slightly faster than in virgin fiber with respective CAGRs of 4.7% and 3.9% over the period from 2019 to 2025.

Packaging kraft paper demand by grade



Source: Fisher International

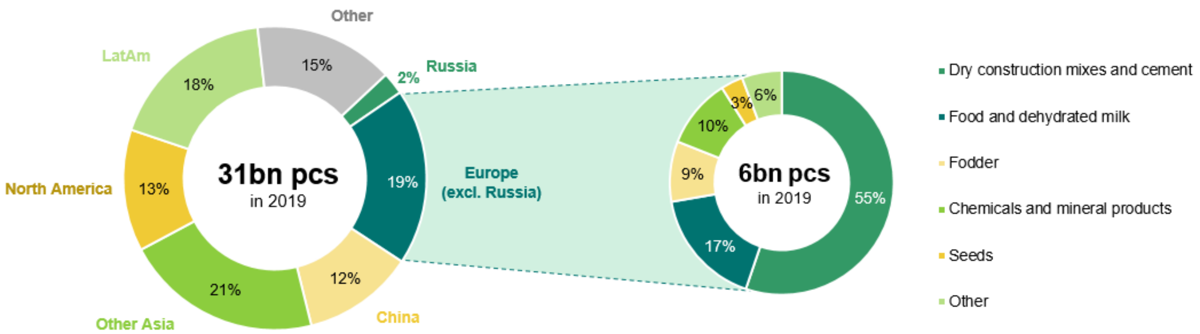
Paper packaging market overview

Global industrial paper sacks market

Global industrial paper sacks demand amounted to 31 billion of packs in 2019. It is mainly presented by Europe (excluding Russia), China and other Asia, North America and Latin America, with respective shares of 19%, 33%, 13% and 18% in the total demand. Europe (excluding Russia) and Asia are net exporters of industrial paper sacks as its supply exceeds local demand – some of the supply is imported into Russia and North America (net importers) due to strong local demand for industrial paper sacks.

European consumption of industrial sack paper amounted to six billion of packs in 2019, which is expected to grow by a CAGR of 1% between 2019 and 2025. European consumption is influenced mainly by construction industry (55 % of total European demand), food and dehydrated milk (17%), fodder (9%) and chemicals and mineral products (10%). European industrial paper sacks production is consolidated by integrated paper producers – Mondi, Segezha and Gascogne combined account for 66% of the market.

Global industrial paper sacks demand structure by geography and European consumption breakdown



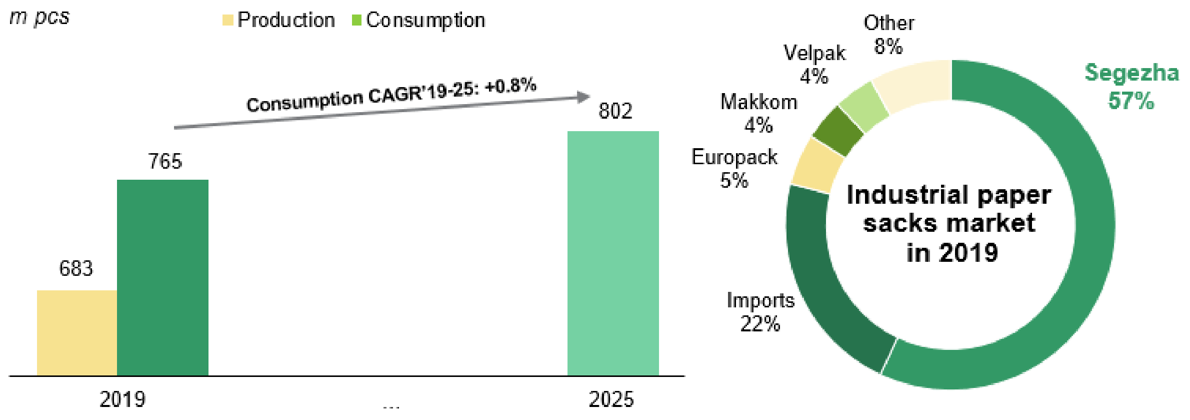
Source: Fisher International

Global demand for industrial paper sacks decreased in 2020 due to the COVID-19 pandemic, which affected construction activity, accounting for significant part of industrial paper sacks consumption. Consumption of industrial paper sacks is expected to grow on the back of a recovering economy and increasing construction activity, however no additions of new converting capacities in Europe are expected.

Paper sacks market in Russia

Russian industrial paper sacks is consolidated – Segezha is the largest industrial paper sack producer in Russia occupying over a half of the market, while the second largest player in Russia is more than 10 times smaller. Industrial paper sacks players are primarily focused on meeting internal demand that currently exceeds local sack converting capacities. In 2019, production of industrial paper sacks in Russia amounted to 683 million packs, while consumption amounted to 765 million packs The gap between demand and capacity was compensated by imports, which in 2019 accounted for 22% of Russian industrial paper sack consumption. In 2020, consumption of industrial paper sacks decreased primarily due to decline in construction activity and the chemical industry, which in place were affected by the COVID-19 pandemic. The Russian industrial paper sack market is expected to grow by a CAGR of 0.8% between 2019 and 2025 on the back of economic recovery and sustainability trends.

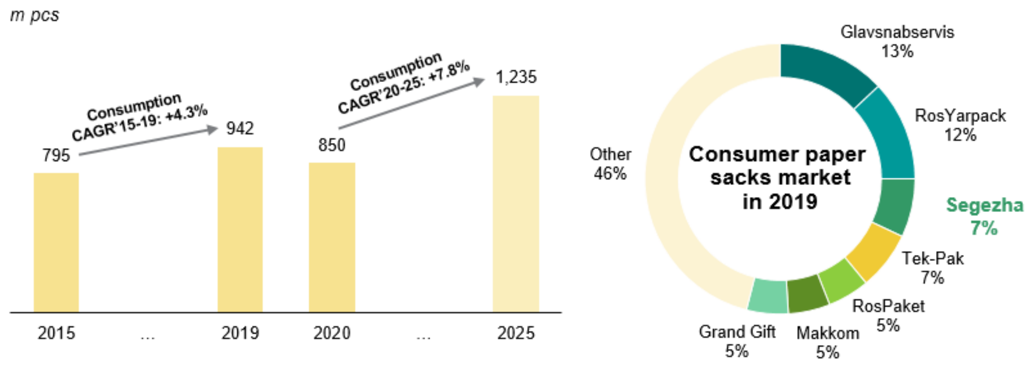
Russian industrial paper sacks market



Source: Fisher International

The Russian consumer paper sack market is very fragmented – the top seven players occupy less than 50% of the market, with Segezha ranked third in terms of market share. Many players lack integration into paper production. The Russian consumer paper sack market amounted to 942 million packs in 2019, with a CAGR of 4.3 % between 2015 and 2019. In 2020, demand of industrial paper sacks decreased primarily due to decline in retail, hotel, restaurant and cafe sectors, which was partly offset by e-commerce development due to the COVID-19 pandemic. In 2025, it is expected to account for 1,235 million packs, growing by a CAGR of 7.8 % between 2020 to 2025.

Russian consumer paper sacks market



Source: Fisher International

The structural deficit of Russian paper sack market, competitive costs and vertical integration of Segezha provide an opportunity for the Company to increase its market share even further on both industrial and consumer markets. In particular, Segezha's strategy is to substitute imported industrial sacks and consumer packaging, which currently accounts for a significant part of both markets, and to outpace local non-integrated paper producers as well as enter into new product niches (for example, food packaging). In addition, the Company aims to further increase its presence in industrial paper sack market in the Commonwealth of Independent States ("**CIS**") region.

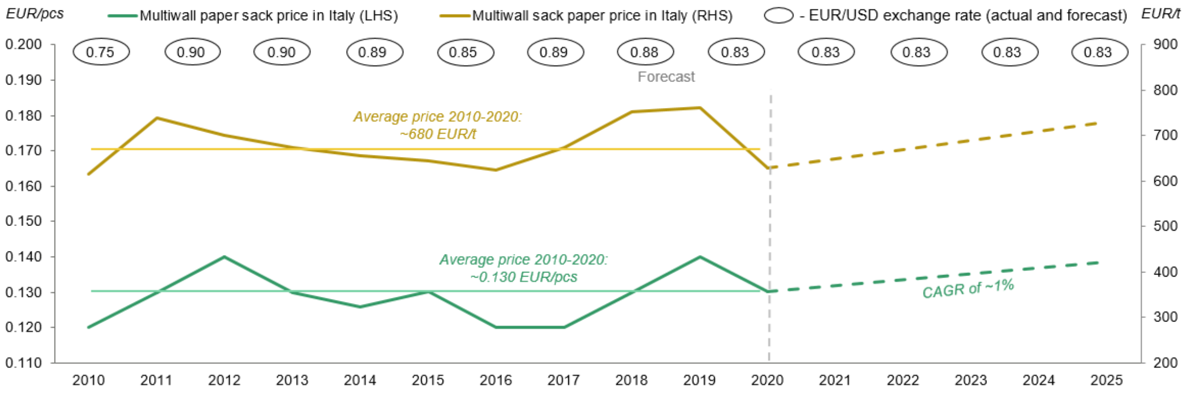
Paper sacks prices

Being a derivative of sack paper, industrial paper sack prices in Europe generally follow trends of sack paper prices with some margin attributable to converting operations and some timing lag. However, the value-add of paper sacks makes the price a bit less volatile than sack paper prices. In 2020, the paper sack price[4] in Italy was around 0.13 EUR/pcs, which is in line with a 10-year historical average. Due to stronger demand following a recovering economy and increasing construction activity, supply-demand balance in paper sacks market in Europe is

[4] Price in Italy which generally reflects overall price levels in Europe due to tight pricing on the market.

expected to tighten providing a support to paper sack prices in future. Thus, the multiwall sack paper price is expected to increase by a CAGR of approximately 1% between 2020 and 2025.

Multiwall sack paper and paper sack price



Source: Fisher International. Note: EUR/pcs, assuming average basis weight of 125 gr

Similar to the sack paper market, Europe, being a large net exporter of paper sacks, has a strong impact on global paper sacks prices across all regions and acts as a "price setter." Given a deficit in paper sacks production in Russia, local prices are determined based on the monitoring of alternative import prices available to clients.

Plywood market overview

Introduction

Plywood is a layered wood panel, which is formed by at least three veneer layers, which are glued together. Historically, birch (deciduous hardwood) species were used as raw material, which was primarily applied for furniture components and transport crates for tea and rubber. Later, spruce (coniferous softwood) species were introduced and found its large scale application in building and construction sectors, even though birch is still the most commonly used material for plywood. The unique properties of birch plywood are based on the uniform and solid structure of birch wood material. Density variation is very small, thus product strength is very controllable, stable and reliable. Also, introduction of synthetic resins boosted the use of plywood products to technical end-uses for exterior weather conditions. Traditionally, plywood was produced in square formats from single veneer sheets, so called 5x5 plywood. New gluing and pressing technologies allowed introducing larger sized plywood that is tailored for a wider range of applications.

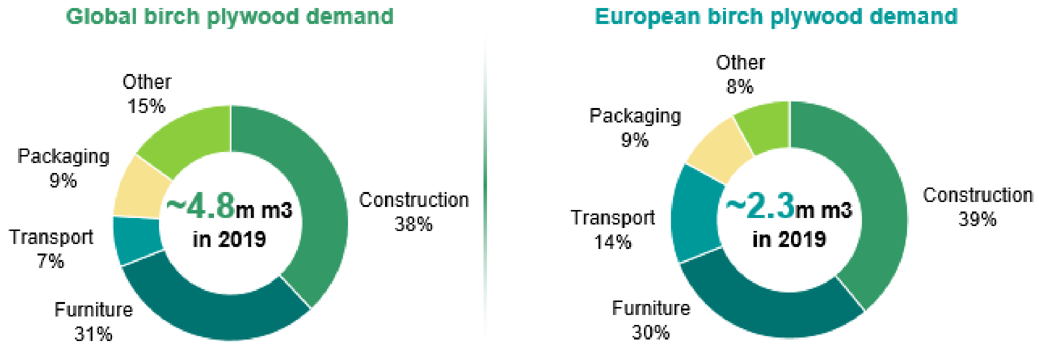
Plywood has a wide range of end-users. In construction hardwood plywood is used in load-bearing structures and concrete formwork, while softwood plywood is used in roofing and floors. It is also applicable in various types of décor in furniture. In transportation, hardwood plywood is used in truck floors, containers, insulation solutions and LNG, while softwood plywood is used in insulation solutions as well. In packaging plywood is used in pallets and boxes, among others. Different types of plywood are used in each application, depending on required properties. Birch plywood has a uniform and solid structure, possesses high strength and is extremely resistant to temperature variations and may be used in high-end applications, such as LNG.

Hardwood and softwood plywood applications by end use

Source: Vision Hunters

In 2019, globally plywood demand amounted to approximately 4.8 million cubic meters of which 2.3 million cubic meters was European demand. Global plywood consumption structure by end-uses is comparable to European – with construction accounting for 38-39%, furniture accounting for 30-31%, transport accounting for 7% and 14%, respectively, and packaging accounting for 9%, with the rest attributable to other sectors.

Plywood demand structure by end-users

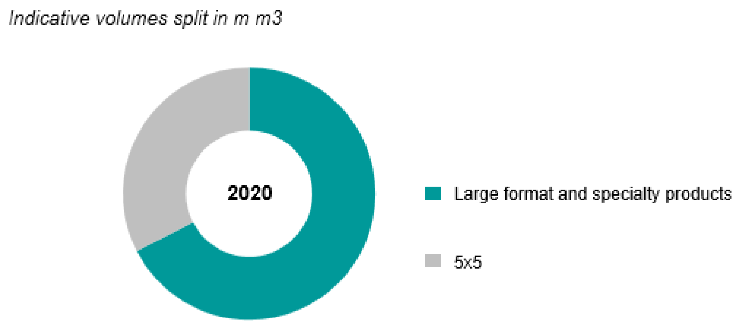


Source: Vision Hunters

Birch plywood supply and demand

Historically, supply of birch plywood exceeded demand primarily due to large volume of underutilized capacities of small format, cheaper birch plywood. At the same time, demand for more premium birch plywood products (large and maxi formats and with special features) is much stronger – this segment of the market is currently and is expected to be balanced.

Indicative global birch plywood demand breakdown

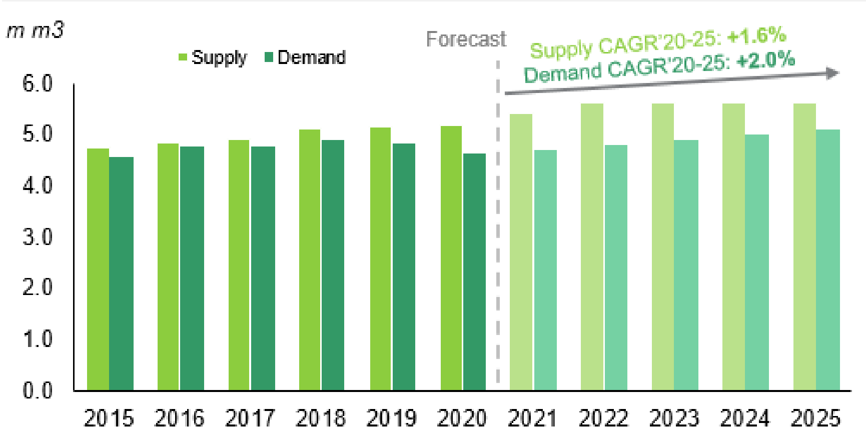


Source: Company data

Segezha's current product portfolio is based on birch plywood only and Segezha's strategy is to increase share of high-margin birch plywood products (large and maxi formats and with special features) as demand for such products is expected to grow substituting consumption of cheaper birch plywood.

In 2020, the COVID-19 pandemic had a minor global effect on birch plywood supply, and demand weakened across all key segments, including construction, furniture and transportation. The global birch plywood demand in terms of volume is expected to grow by a CAGR of 2.0% between 2021 and 2025, while the supply is expected to grow by a CAGR of 1.6%. Thus, current oversupply of birch plywood will remain over the next several years due to new projects coming online in 2021-2022, however demand recovery driven by a stronger economy and construction activity is expected to balance out incremental supply in the mid-term.

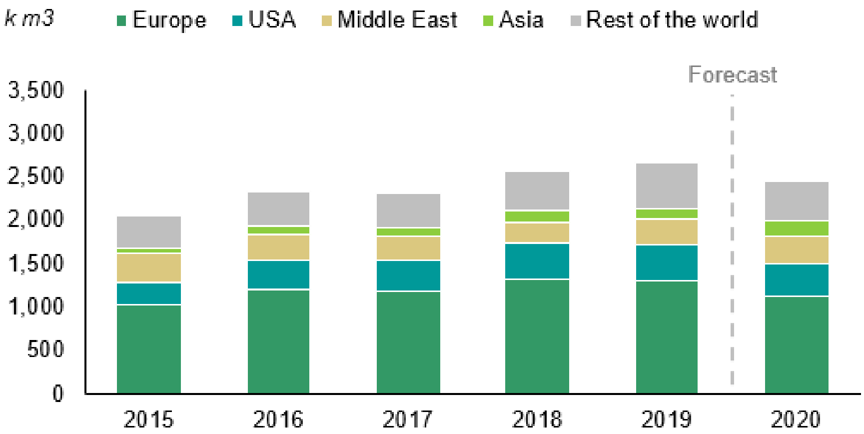
Global birch plywood supply and demand



Source: Vision Hunters

Russia is the major global exporter of birch plywood and is the key driver of supply. Russian players have increased their presence significantly globally during the past 10 years and are expected to strengthen their positions and expand capacities further. Europe, USA and Middle East were the major destination countries of Russian birch plywood exports.

Russian birch plywood exports



Source: Vision Hunters

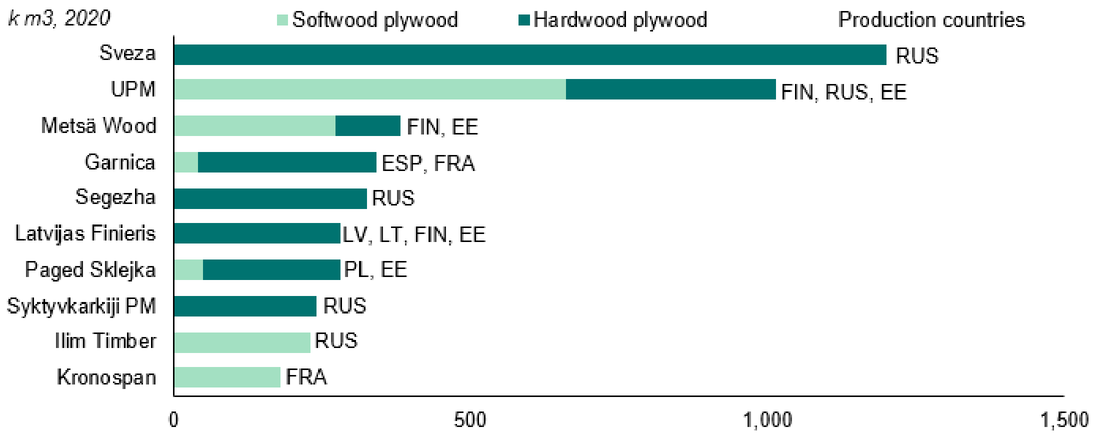
Global trade flows of birch plywood

Source: Vision Hunters

Plywood capacities in Europe

European plywood production market is primarily represented by capacities in Russia, Finland and Baltic countries. European producers (UPM, Metsa and Latvijas Finieris) are primarily presented in high-end segments with customized solutions sold directly to end-users. Compared to Europe, Russian producers on average are currently more exposed to commodity-like plywood products, with major sales made through distributors.

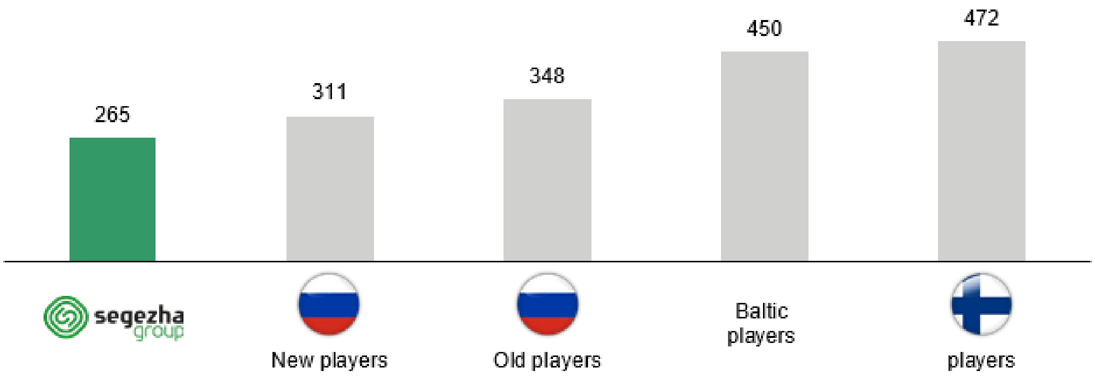
Largest plywood producers in Europe and Russia



Source: Vision Hunters. Note: Segezha's capacity includes 125kt Galich mill which is under construction

Even though European players have low margins in plywood due to higher costs of raw materials and labor, Segezha's own birch harvesting supports its cost efficiency in plywood. In the fourth quarter of 2020, birch plywood production costs of Segezha amounted to 265 EUR per cubic meter. At the same time, new and old Russian players have higher production costs amounting to 311 and 348 EUR per cubic meter on average, respectively, while Baltic and Finnish players have notably higher production costs amounting to 450 and 472 EUR per cubic meter on average, respectively.

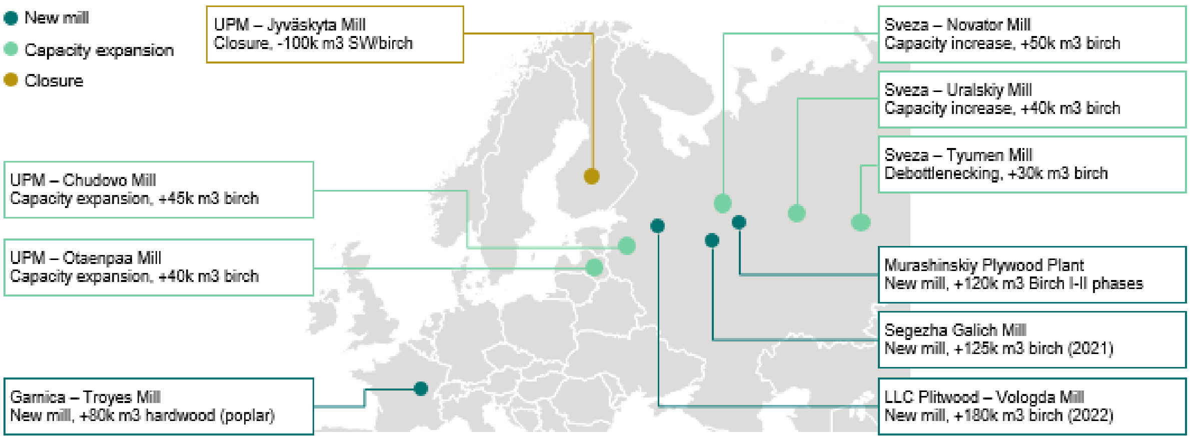
Birch plywood production costs (EUR/m3), Q4 2020



Source: Vision Hunters

This could be further constrained by potential shortage of raw material supplies in Finland in the mid-term. For example, the most notable recent capacity closure was UPM's Jyväskylä softwood mill in Finland with 100 thousand cubic meters of capacity taken offline due to prolonged weak profitability. These facts motivate European producers to either increase imports, which can put them in a weaker market position, or reallocate production (for example, during recent years, the majority of investments in European birch plywood market have been made into Russia).

Recent plywood capacity additions / closures



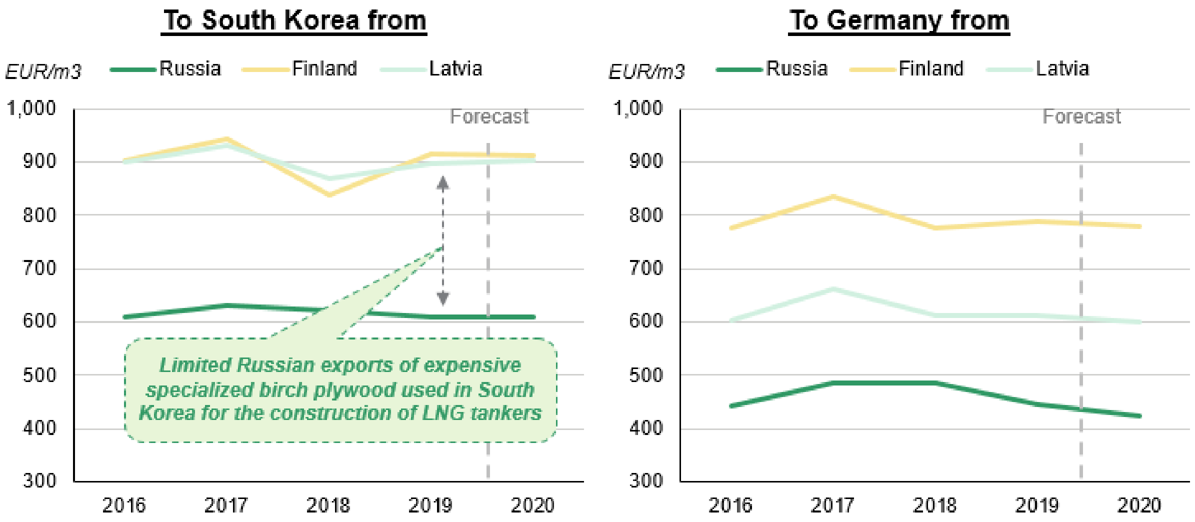
Source: Vision Hunters

Current market situation is beneficial for Segezha, which has a material cost advantage vs major European players, to gain market share and expand their current portfolio with specialty plywood products with high margins and less price volatility.

Birch plywood prices

Leading European plywood producers operate at low double digit EBITDA margins – veneer log prices correspond to around a third of overall costs of plywood. Even though export prices from Finland and the Baltics are higher than in Russia, The export price difference is primarily explained by a higher share of low-margin and outdated 5x5 plywood in the product portfolio of suppliers from Russia with a significant share of sales to medium and large traders and distributors, while supplies from Europe are focused on specialized and large-format plywood with a high share of direct sales to large industrial end-users. In addition, exports from Russia to Europe are charged with 7% import duty on birch plywood.

Birch plywood exports FOB price

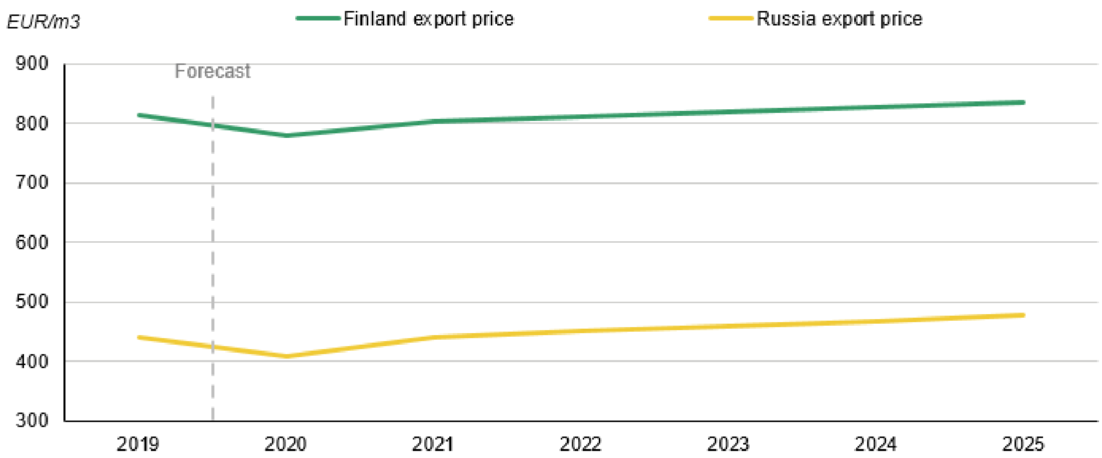


Source: Vision Hunters

Segezha is planning to significantly increase its presence in specialized and large-format plywood after the construction of Galich Plywood Mill, thus achieving comparably to Finnish and Baltics producers' price levels.

In 2020, birch plywood prices decreased due to the COVID-19 pandemic as demand weakened across all key segments, including construction, furniture and transportation. The growth of birch plywood prices in the coming years is expected as a result of a recovery of the economy, and a recovery in the construction and transportation sectors, improving supply-demand balance and costs support (including from veneer log prices).

Forecast of birch plywood prices to Europe

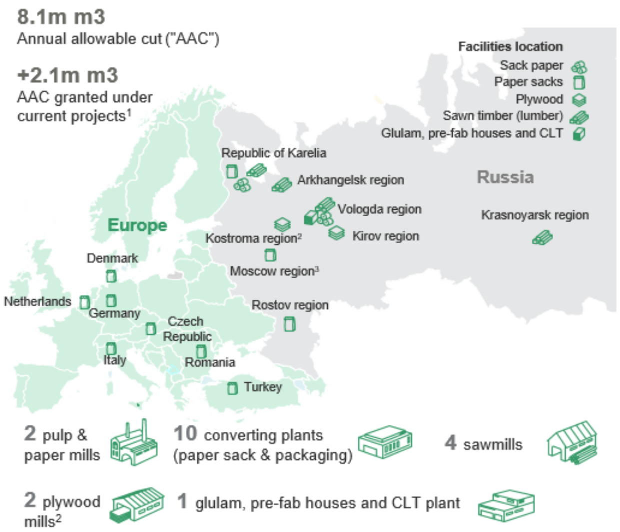


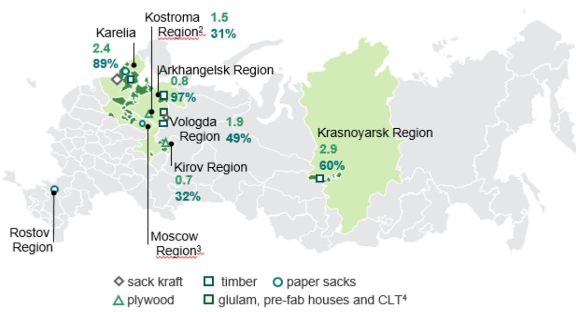
Source: Vision Hunter

Overview

The Group is a vertically integrated holding company in the forest industry performing a full cycle of operations, which cover the whole range of the value-added chain from forestry operations, to wood, pulp, paper and manufacturing of products including sack paper, paper sacks, sawn timber, plywood, pellets and glulam. The Group benefits from a substantial and high quality natural resource base. As of 31 December 2020, the Group had the largest forestry area in the European part of Russia, with access to 8.1 million hectares across five forestry regions (with access to an additional 1.1 million hectares contingent on the execution of agreed and approved terms of PIPs applications), 83% of which are voluntarily certified in accordance with the requirements of generally recognized international standards. Russia holds the largest forest resources globally, as well as approximately 50% of the world's northern softwood (a raw material required for the production of high quality wood products), according to the UN Food and Agriculture Organization Global Forest Resources Assessment report (2015). The Group operates 17 facilities, with two additional facilities in the process of being constructed. The Group's facilities include pulp and paper mills, paper sacks production plants (in both Russia and Europe), plywood mills and sawmills, fiberboard facilities and pellet lines, glulam and CLT operations, throughout Russia. The Group's production facilities use raw wood as an input material and are strategically located in close proximity to the Group's wood sourcing regions, allowing the Group to be 80% self-sufficient in wood supply. The Group serves domestic customers in Russia and also exports to a diverse range of customers across Europe, Asia, the Middle East and North Africa and the rest of the world.

The figures below set forth the Group's facilities and the proximity of the Group's timber resources to its production facilities.





1) Access to additional 2.1m m3 AAC is contingent on the execution of agreed and approved terms of PIPs applications, as of 31 December 2020.

2) Including Galich Plywood Mill which is under construction, to be commissioned in 2021.

3) New packaging facility in Lobnya (Moscow region) to be commissioned in 2021.

4) Including CLT plant which was launched in Feb 2020.

The Group's operations are divided into four operating segments: Paper and Packaging, Forestry Management and Woodworking, Plywood and Boards and Other (which includes glulam products as well as non-revenue generating parts of the Group, such as management and holding companies). From 1 January 2021, the Group intends to report its production of glulam-based products as a separate operating segment, on the basis that, in line with the requirements of IFRS 8, these operations are expected to constitute more than 10% of the Group's consolidated revenue for the year ended 31 December 2021 as a result of the Group's commencement of operations at the Sokol CLT plant, launched in February 2021. For the years ended 31 December 2020, 2019 and 2018, respectively, glulam product sales constituted less than 10% of the Group's consolidated revenue. For further information, see "*Operating and Financial Review—Reorganization of Glulam as a Separate Segment*."

Paper and Packaging

The Group's paper and packaging segment includes the production of sack paper and artificial parchment produced from unbleached craft pulp, as well as industrial and consumer packaging (in the form of paper sacks). This segment contributed 51.7% of the Group's revenue for the year ended 31 December 2020. As of 31 December 2020, the Group had a sack paper capacity of 384 thousand tons, a packaging production capacity of 1,388 million pieces and an artificial parchment capacity of approximately 25 thousand tons. For further information on this segment, see "—*The Group's Operating Segments—Paper and Packaging.*"

The Group's sack papers are designed to be moisture-resistant with high tensile strength, and are used primarily for industrial sacks and consumer packaging production. Artificial parchment is resistant to heat up to 250 degrees centigrade, allowing it to be used in food product markets. Industrial sacks have a wide range of applications, including construction, food, agriculture, chemicals and mineral markets. Consumer packaging includes paper pouches and retailer bags.

The Group's Paper and Packaging Products

Forestry Management and Woodworking

The Group's forestry management and woodworking segment include the production of (i) sawn timber, (ii) pellets, (iii) woodchips and (iv) fiberboards, in addition to wood harvesting operations to supply wood internally and to third parties. Pellets, woodchips and fiberboard are produced as by-products. This segment contributed 27.8% of the Group's revenue for the year ended 31 December 2020. As of 31 December 2020, the Group had a sawn timber production capacity of 1,200 thousand cubic meters, a pellets production capacity of 110 thousand tons and a fiberboard production capacity of 25 million meters squared (refers only to the fiberboard volumes produced at Lesosibirsky LDK No. 1). For further information on this segment, see "—*The Group's Operating Segments—Forestry Management and Woodworking.*"

Sawn timber is primarily utilized in the construction and furniture markets, and is also used as an intermediate material to produce the Group's glulam products and CLT panels. Woodchips are by-products of the sawn timber production process and are used in pulp production, fiberboard production and as an environmentally friendly fuel source. Pellets are used primarily as fuel for power generation, commercial or residential heating and cooking. Fiberboards are manufactured in a wide range of thickness and sizes for use in construction, furniture and packaging end markets. In addition, the Group's wood harvesting operations are also accounted for in this segment, including all logging activities. Sawlogs, pulpwood and veneer logs from the forestry regions are supplied to all Group business segments for use as a raw material and to some external customers at market prices. For the year ended 31 December 2020, approximately 89% of sawlogs at the Group's woodworking facilities in this segment were supplied by the Group's own forest resources, with 2,313 thousand cubic meters of sawlogs supplied by internal forestry resources, and 279 thousand cubic meters of sawlogs provided by third parties.

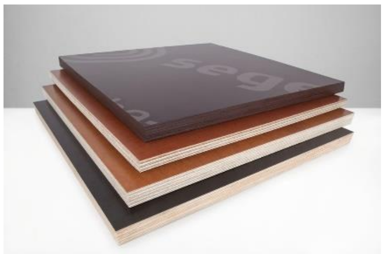
The Group's Forestry Management and Woodworking

Plywood and Boards

The Group's plywood and boards segment includes the production of birch plywood. Fiberboards and briquettes are produced as by-products. For the year ended 31 December 2020, the plywood and boards segment contributed 11.1 % of the Group's revenue and had a plywood capacity of 192 thousand cubic meters and a fiberboard capacity of 26 million meters squared. For further information on this segment, see "—*The Group's Operating Segments—Plywood and Boards.*"

The Group’s birch plywood is characterized by excellent strength and stiffness properties and therefore performs very well for end-use applications demanding high strength and rigidity. The Group’s plywood can be fully customized and routed into any size and thickness, including higher margin large size and specialty plywood products. The Group’s plywood is used primarily in the construction, transportation, furniture, flooring and packaging markets. Fiberboard production is focused on medium density fiberboard in a range of thicknesses and sizes applicable in manufacturing doors and wall panels, construction, wood moldings, furniture and packaging for mechanically engineered goods. Briquettes are a wood fuel source made from sawdust and, being dry and dense, can be used more effectively for burning than a traditional log or firewood.

The Group’s Plywood and Boards Products



Other (including glulam and non-revenue generating parts of the Group)

This segment can be split into non-revenue generating components (which includes the management company, holding companies and certain logistics and personnel) and revenue generating components. The latter category principally consists of glulam (glued laminated timber), glulam-based home kits, CLT panels and sawn timber. Glued laminated timber, also called glulam, is a type of structural engineered wood product consisting of layers of dimensional lumber bonded together with durable, moisture-resistant structural adhesives. For the year ended 31 December 2020, this segment contributed 9.4% of the Group’s revenue and had a glulam (including home kits) capacity of 100 thousand cubic meters. The sawn timber produced in this segment is mainly used internally for glulam production, as well as sold externally. For further information on this segment, see “*—The Group’s Operating Segments—Other (including Glulam).*”

Glulam is highly durable and moisture resistant, and can be used to produce large pieces and unique shapes, and is widely used in the construction of wooden houses, ceilings in multi-story buildings, load bearing structures, rafter systems, stairs, claddings and other applications. Pre-fabricated housing kits are used to construct wooden houses and multi-story buildings and are manufactured using glulam beams and glued timber. CLT panels are made by gluing together softwood lumber in perpendicular layers, resulting in a panel with a strength comparable to concrete whilst being superior in terms of weight, cost-efficiency, sustainability, sound absorption and insulation.

The Group’s Other Products

The following table sets forth an overview of the Group’s production volumes across key product lines for the years ended 31 December 2020, 2019 and 2018.

Key Product Lines	**2020**	**2019**	**2018**
Sack Paper (thousand tons)	379	365	354
Paper Sack (million pieces)	1,291	1,262	1,286
Artificial parchment and sack paper (thousand tons)(1)	23	22	21
Sawn Timber (thousand cubic meters)	1,192	1,014	924
Pellets (thousand tons)	88	72	6

Plywood (thousand cubic meters)	192	192	136
Fiberboard (million meters squared)	51	51	50
Glulam products (thousand cubic meters)	38	55	51
Prefabricated home kits (thousand cubic meters)	19	28	26

(1) Production volumes at Sokol PPM.

The following table sets forth an overview of the Group's production capacity volumes across key product lines and AAC for the year ended 31 December 2020.

Paper production capacity (thousand tons)	**409**
Segezha PPM	384
Sokol PPM	25[(1)]
Paper sacks production capacity (million pieces)	**1, 388**
Segezha Packaging Russia	668
Segezha Packaging Europe	720
Sawn timber input capacity (thousand cubic meters)	**3,207**
Lesosibirsky LDK No.1	1,500
Onega Sawmill	560
Karelian Wood Company	300
Segezha Sawmill	297
Sokol Timber Company	550
Pellets production capacity (thousand tons)	**110**
Lesosibirsky LDK No.1	110
Plywood production capacity (thousand cubic meters)	**192**
Vyatsky Plywood Mill	192
Fibreboards production capacity (million meters squared)	**51**
Vyatsky Plywood Mill	25
Lesosibirsky LDK No.1	26
Glulam production capacity (thousand cubic meters)	**100**
Sokol Timber Company	100
AAC (million cubic meters)	**10.2[(2)]**

(1) Production capacity volume for artificial parchment and sack paper.
(2) Access to additional 2.1 million cubic meters of AAC is contingent on the execution of agreed and approved terms of PIPs applications, as of 31 December 2020.

History of the Group

The Group was founded in September 2014, when Sistema PJSFC acquired and consolidated a 100% stake in OJSC Segezha Pulp and Paper Mill and LLC Derevoobrabotka-Proekt from the Bank of Moscow, thereby establishing the Group. Since this date, the Group has implemented a number of large-scale investment and maintenance projects, investing over RUB 49 billion in transforming the Group into an efficient, fully integrated platform. Through strategic investments, the Group aims to modernize its asset base and construct new assets, increase capacity and operational efficiency, maintain cost leadership, improve self-sufficiency in wood supplies through forestry expansion and pursue environmental and sustainability goals. The Group has a successful development track record and has a pipeline of approved investment projects aimed at furthering its strategic goals "—*Investment Projects.*"

The following is a summary of key investment projects and acquisitions completed by the Group since its formation:

August 2015	Launch of a new automated line producing paper sacks for dry mixtures and cement (capacity of 90 million sacks per year).
December 2015	Launch of a new veneer processing line in Vyatsky Plywood Mill.
February 2016	Acquisition of Lesosibirsky LDK No. 1 (approximately 150% increase in aggregate output of sawn timber).
March 2016	Launch of a paper-sack mill in Salsk, Rostov Region (with capacity of 90 million sacks per year).

November 2017	The commissioning of paper machine No. 11 by Voith at Segezha PPM (approximately 30% increase in sack paper capacity).
July 2018	Launch of a new plywood production line at Vyatsky Plywood Mill (with birch plywood production capacity of 192 thousand cubic meters).
October 2018	Launch of a new consumer packaging line in Salsk, Rostov Region (capacity of 25 million pieces per year).
December 2018	Launch of the first stage of pellet production in Lesosibirsky LDK No. 1 (capacity of 80 thousand tons per year).
January 2019	Launch of a 120 tons per hour multi-fuel boiler at full capacity at the Segezha PPM.
November 2019	Launch of a new industrial packaging production line in Salsk, Rostov Region (capacity of 83 million sacks per year).
January 2020	Acquisition of Karelian Wood Company LLC (approximately 10% increase in annual allowable cut in Karelia).
April 2020	Launch of the second stage of pellet production in Lesosibirsky LDK No. 1 (capacity of 30 thousand tons per year).
June 2020	Replacement of the splicing line at Sokol Timber Company (increase in production of laminated beams by 20%).
November 2020	New line for production of paper packaging launched at Segezha Packaging Russia (capacity will increase by 87 million pieces per annum).
February 2021	Launch of Sokol CLT plant at Sokol Timber Company (CLT panel production capacity of 50 thousand cubic meters per year).
February 2021	Acquisition of Trust Bank PJSC's and Troika Leasing LLC's right of claim for NLHK loans payable and other payables totaling RUB 11.5 billion and rights to conclude call option for 71% of control in NLHK, for RUB 2.3 billion.

Key Strengths and Competitive Positioning

Leadership in attractive market segments

The Group holds leading positions across a number of key segments by product capacity. As of 31 December 2020, the Group is ranked second globally in multiwall sack paper by product capacity and ranked second globally in industrial paper sacks by product capacity, according to Fisher International, and ranked fifth globally in birch plywood by product capacity and first in Russia in sawn timber by product capacity, according to Vision Hunters.

Robust long-term growth across these market segments is driven by a diversified set of macro and end-market trends. In particular, demand for the Group's products is supported by globalization, economic growth, population growth and urbanization, as well as the global trend for sustainability. For example, according to Fisher International, the forecasted increase of the global population with CAGR of 0.8% to 9.8 billion in 2050 will drive increased construction activity, industrial production and retail activity. In addition, increased focus on sustainability and consequent demand for wood-based products globally has resulted in a growing demand for the use of sustainable raw materials across products, a trend which is expected to continue. Wood-based products are not only recyclable, but are produced with significantly lower emissions – according to Euroconstruct, the carbon dioxide emitted in the production of a 25 kilogram paper cement sack is almost three times lower than the carbon dioxide emitted in the production of a 25 kilogram plastic cement sack (71 grams compared to 192 grams, respectively). Globalization and economic growth have contributed to end market trends such as strong consumer demand for sustainable fiber-based packaging and bags, growth in construction, increased demand for housing and furniture and growth in e-commerce. Population growth and urbanization have contributed to long term growth in global construction and therefore demand for sawn timber, birch plywood, glulam, home kits and CLT panels (for further information, see "*Industry Overview—Sack and kraft paper market overview—Key paper market drivers—Megatrends: Economic and population growth*). The construction market typically constitutes between 60-65% of demand for the Group's products and, as such, growth in this market may be particularly advantageous for the demand outlook for products across the Group's portfolio "*Operating and Financial Review—Key Factors Affecting Results of Operations—Demand for the Group's Products.*" These are the core long-term drivers of growth for the Group's key product markets, and stimulate demand for the Group's products. According to Vision Hunters and Fisher International, the predicted CAGR for the group's products from 2019-2025 are 2.5% for multiwall sack paper, globally; 2.5% for paper sacks, globally; 5% for consumer paper packaging, in Russia; 1.4% for birch plywood, globally; and 2% for sawn timber, globally.

In addition, the Group's leadership in attractive market segments is demonstrated by the growth of its production capacity, which can be attributed to the Group's investment in its growth and expansion. From 2015 to 2020, the Group's production capacity for paper has grown by approximately 54%, from 265 thousand tons per year to 409 thousand tons per year and the Group's production of plywood has doubled, from 95 thousand cubic meters per year to 192 thousand cubic meters per year. In addition, the Group's sawn timber production has tripled from 2015 to 2020, from 386 thousand cubic meters per year to 1,192 thousand cubic meters per year.

Further, stronger environmental awareness has led to sustainability trends such as substitution of plastic products, demand for biodegradable materials and a market preference for environmentally friendly producers/ products. Growing demand for sustainable materials across product lines is bolstered by a supportive regulatory environment. The European Union Directive (EU) 2019/904 of the European Parliament and of the Council of 5 June 2019 on the reduction of the impact of certain plastic products on the environment is just one example of the regulations imposed across many countries to prohibit or limit single-use plastics. Further, China and a number of Latin American companies have implemented regulations to limit the size of cement packaging, which has stimulated demand for sack paper and packaging products. The Group believes that it is well-positioned to leverage these trends in its favor, as a leading producer in its key markets of plant fiber-based materials, which are increasingly relevant given the current global focus on indecomposable waste reduction, ocean plastic pollution and climate change. The Group has positioned itself to demonstrate a strong focus on ESG whilst leveraging these trends for the benefit of its business. For more information, see "*—Strategically positioned for the global transition to sustainable materials and committed to best practices in ESG.*"

Well-invested large scale operational platform with strategically located assets

The Group has a large and diversified asset base, including production facilities and mills in proximity to its forestry resources, as well as converting plants that are strategically located to service its key markets. The Company has also made substantial investments to build and modernize its production platform and launch attractive niche products since 2014. Through organic growth, modernization and acquisitions, the Group has become a fully integrated and diversified forestry, pulp and paper packaging and woodworking platform. For further information on the Group's operating facilities, see "*—The Group's Business Model.*"

The Group has a track record of executing large and complex investment projects in order to improve the productivity of its plants and contribute to its organic growth. Between 2015 and 2020, the Group invested approximately RUB 49 billion into development of its asset base, resulting in over 50% growth in sack paper production capacity, doubled plywood production capacity and tripled sawn timber production volumes, as well as significant growth in logging volumes. Between 2018 and 2020, the Group's ROCE averaged 21%. Since 2015, the Group has successfully implemented numerous investment projects with no time or budget overruns, including, but not limited to, the following (ordered by operating segment):

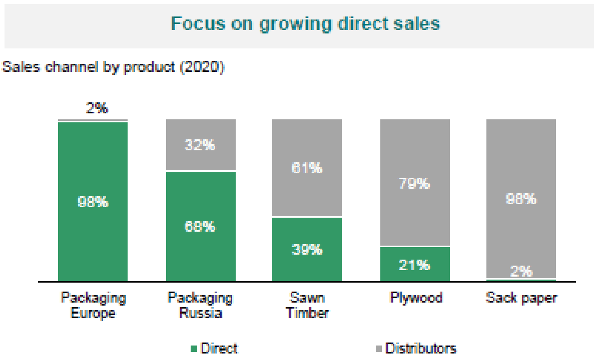
Segment		**Investment Amount (RUB bn, excluding VAT)**
Paper and Packaging		
2020	Launch of a new production line for 90 million industrial paper sacks in Segezha	0.9
2019	Commissioning of a new semi-automatic line for industrial sacks at the Salsk facility with a capacity of 90 million sacks	0.5
2018	Launch of a multifuel boiler at Segezha PPM	3.1
2017	Modernization of a digester at Segezha PPM to increase cooking capacity of pulp by 28%	2.3
2017	Commissioning of Paper Making Machine No. 11 at Segezha PPM to increase sack paper capacity by 30%	9.4
2016	Modernizing the paper sack mill in the Rostov region to increase production by 90 million sacks per annum	1.4
Forestry Management and Woodworking		
2020	Acquiring the Karelian Wood Company LLC in 2020, resulting in a more than 10% increase in AAC in Karelia	0.8
2020	Launch of the second stage of pellet production in Lesosibirsky LDK No. 1 (capacity of 30 thousand tons per year).	0.2
2018	Launch of the first stage of pellet production in Lesosibirsky LDK No. 1 (capacity of 80 thousand tons per year).	0.7
2016	Acquiring Lesosibirsky LDK No. 1, resulting in a 150% increase in the aggregate output of sawn timber	5.2
Plywood and Boards		
2018	Launching a new line at the Vyatsky Plywood mill to double plywood production	5.7
Other		
2021	CLT plant at the Sokol Timber Company, which has a 50 thousand cubic meter CLT panel capacity	1.9

2020	Replacing the existing line at Sokol Timber Company resulting in a 20% increase in the production of laminated beams	0.5

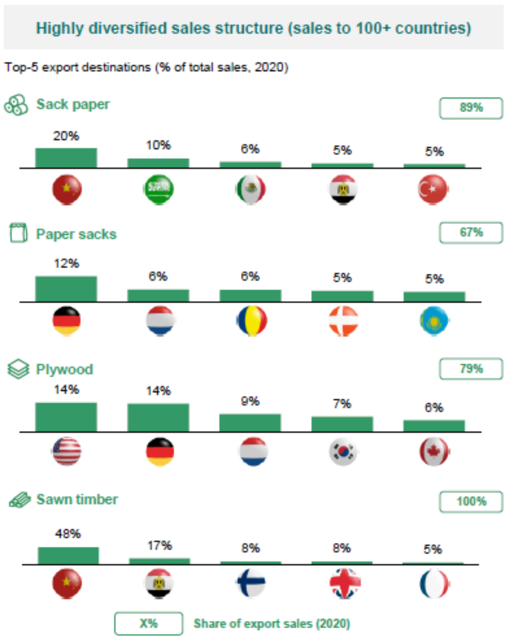
Balanced revenue mix and geographical diversification

The Group aims to maintain an export-oriented sales strategy with high diversification of markets, sales channels and products. For the year ended 31 December 2020, the Group derived 28% of revenue from domestic Russian sales and 72% of its revenue derived outside of Russia, with a geographic breakdown of revenue as follows: 31.6% from Europe, 23.6% from Asia, 9.9% from the Middle East and North Africa and 6.9% from other regions.

In terms of distribution channels, the Group is focused on growing direct sales to end customers (as opposed to using third-party intermediaries, who charge fees to facilitate sales, or selling the products to international traders) in segments where the market structure allows for this (such as sack paper, paper sacks, plywood and sawn timber markets), with a target to secure higher margins. The figure below sets forth the Group's sales channel by product in the year ended 31 December 2020.



For the year ended 31 December 2020, 72% of the Group's revenue derived outside of Russia in foreign currencies, primarily EUR and USD. The figure below sets forth the Group's top five export destinations by in the year ended 31 December 2020.



With a predominantly ruble-based cost structure, this provides an advantage to the Group given the relative weakness of the ruble against USD and EUR.

The Group also has geographically diverse product markets. The export destinations for the Group's key products are diverse and cover over 100 countries, with no destination accounting for more than 20% of sales within a product group (the exception being sawn timber, for which 48% of total sales are made to China). For further information, see Note 4 to the consolidated financial statements as of and for the year ended 31 December 2020.

Further, diversification of products combined with control over raw wood supply allows the Group to speed up or slow down production between facilities and products as needed. For further information, see "*Operating and Financial Review—Key Factors Affecting Results of Operations—Revenue and Profitability Mix of the Group's Business*."

Extensive and fast-growing forestry resource base

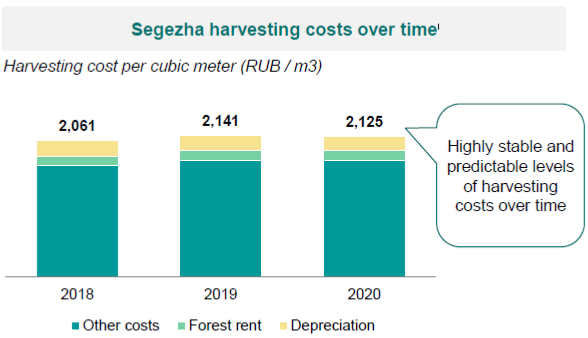
A key competitive advantage of the Group is its management of an extensive forestry resource base with ample opportunity for expansion. In the year ended 31 December 2020, Russia held the largest forest resources globally, as well as approximately 50% of the world's softwood according to the UN Food and Agriculture Organization Global Forest Resources Assessment report (2015), a key component of many pulp and paper and forestry products.

As of 31 December 2020, the Group has the largest forestry area in the European part of Russia, with an AAC of 8.1 million cubic meters. As of 31 December 2020, approximately 80% of the Group's wood requirements were met by its own harvesting operations, which the Group believes give it a competitive advantage due to increased control over its cost of production. The Group also has in place PIPs, a government mechanism that provides various benefits and investment incentives, including preferential terms for the lease of forest plots, in exchange for an obligation to create or modernize forestry and timber processing infrastructure facilities. The main focus of the PIPs is to aid forestry companies to reorient business strategies from mostly logging operations to sawmilling and timber-processing operations and to bring new investments into the industry. Projects selected for priority status must meet strict selection criteria, and projects that are awarded priority status are able to sign forest lease agreements with additional AAC. As of 31 December 2020, the Group has approved PIPs that secure an additional 2.1 million cubic meters of AAC (from an additional 1.1 million hectares of forest area), the harvesting of which is contingent on the execution of agreed and approved terms of PIPs applications.

For further information, see "*—The Group's Business Model—Harvesting raw materials*."

The Group's substantial forestry resource base provides advantages including:

- *Supply Security:* As forests are held under long-term lease agreements up to 49 years, the Group has long-term access to timber resources at moderate and predictable costs. The weighted average remaining lease length of the Group's forest leases is 28 years. In line with its strategy to maintain strategically located assets, the Group's forest resources are located in close proximity to its production facilities, which creates economic and logistical benefits.
- *Cost Control:* By using its own raw materials and minimizing transport costs from forests to sawmills, the Group aims to ensure the consistency and quality of its wood supplies, enabling the Company to consistently maintain attractive margins and therefore the cost competitiveness of the Group's products, given that the availability of own-harvesting operations is an effective method of controlling manufacturing expenses. The Group's harvesting costs are highly stable and predictable, as shown in the figure below, which sets forth the Group's harvesting costs for the year ended 31 December 2020.



- *Expansion optionality:* Maintaining a high degree of self-sufficiency in wood supplies through AAC expansion is a strategic priority for the Group. In addition to the signed PIPs that grant an additional 2.1 million cubic meters of AAC, the Group is well positioned to further expand its forestry resource base in the future against the backdrop of government support for additional high value-added projects granting access to forestry resources (for further information, see "*—Strategy—Pursue value-accretive growth opportunities*").

Advantageous cost position and fully integrated business model driving strong profitability

Full vertical integration, from harvesting operations to converting facilities, is a key component of the Group's business model, with a focus on driving towards 100% utilization of wood resources, adding value across the production chain and securing business stability. For more information on the Group's business model, see "*—The Group's Business Model*."

The Group's in-house production of raw materials is key to enabling the Group to manage its costs, as the prices for externally sourced materials can be unpredictable (for further information see "*—Extensive and fast-growing forestry resource base*"). The Group primarily utilizes its own raw materials throughout the production process. For example, at the Group's sawn timber production facilities, approximately 89% of saw logs are sourced from the Group's own forestry resources; at the Group's paper and packaging production facilities, approximately 81% of pulpwood and chips are sourced internally while 29% of sack paper is shipped for further processing at the Group's own converting facilities; approximately 80% of the Group's forest harvesting is used to meet internal demand. By-products are consumed internally or sold to third parties: woodchips are utilized at the Group's PPMs in the pulp cooking process, bark is used for energy generation at the Group's facilities, and pellets and briquettes are sold to third parties.

The Group has achieved an advantageous cost position and efficiencies across the value chain as a result of its fully integrated business model. The Group's high levels of vertical integration enable it to actively manage raw wood costs and keep them stable over time. This stability is also supported by an attractive production cost environment in the Russian market as compared to that of global peers. The Group therefore benefits from low costs both in forestry inputs and end products, with costs of timber harvesting which are two to three times lower than those in other regions and a low cost of wood, giving the Group strong cost positions compared to its competitors, according to Vision Hunters (see "*Industry Overview—Forestry resources overview—Log prices—Softwood logs mill gate price (US$/m3), Q4'2020*"). In the third quarter of 2020, the Group was the only top-five producer located in the lowest quartile of the multiwall sack paper cost curve, according to Fisher International. For further information, see "*—The Group's Business Model—Key elements of the Group's business model—Cost management*."

The Group has a strategic focus on a number of cost reduction measures, such as increasing the percentage of its direct sales in order to reduce costs incurred from distributors. Between 2018 and 2020, the Group's percentage of direct sales increased from 61% to 68% for paper packaging in Russia; from 15% to 21% for plywood (overall, a high share of distributors are sustained as plywood is sold through local market warehouses in small consignments) and from 11% to 39% for woodworking products. Direct sales of paper packaging in Europe are already at 98% due to the proximity of converting facilities to customers in Europe. The Group is also able to reduce its energy costs through the production and usage of its own biofuels, and has invested in multifuel boilers that are powered by the products naturally produced in the Group's manufacturing process. For example, the Group utilizes wood residuals produced as by-products for energy generation in Segezha PPM and Onega Sawmill.

The Group has achieved additional efficiencies through its logistics infrastructure. Further, in 2019, the Group implemented an investment project to automate its transportation logistics by automating the tendering of long-term transportation contracts and building an instrument to generate timetables and rules for booking transportation vehicles for loading, and is now equipped with fully automated processes for domestic and export transportation. This automation has assisted in cutting export and domestic transportation costs by 35% and 25%, respectively, in the year ended 31 December 2019 compared to 2018. The Group has developed its logistics infrastructure across the regions in which it operates, which among other things improves the transport accessibility of such territories. For further information on the Group's cost structures, including logistics costs, see "*—The Group's Business Model—Logistics*."

A vertically integrated business model and resulting cost controls contribute to high margins as well as stable and sustainable returns for the Group. Between 2015 and 2020, the Group's revenue and OIBDA more than doubled, with revenue increasing from RUB 32,961.8 million to RUB 68,986.6 million and OIBDA from RUB 6,212.9 million to RUB 17,458.9 million. In addition, the Group has achieved strong financial performance in recent years, with an OIBDA CAGR of 15% from 2018 to 2020. The Group has also maintained high profitability, with an OIBDA margin of approximately 25% in 2020.

Strategically positioned for the global transition to sustainable materials and committed to best practices in ESG

The Group is focused on fiber-based products from a well-managed, renewable source in the form of its forests resources. This focus on sustainable forestry use and sustainable products is supported by consumers and is encouraged from a regulatory perspective. As such, the Group's operations are guided by sustainable development principles based on the United Nations Global Compact, an initiative of the United Nations focused on corporate social responsibility. The Group has implemented a number of initiatives to reduce environmental impact in the areas of reforestation, sustainable forest management and corporate social responsibility.

The Group takes a number of existing measures to address environmental concerns and reduce its carbon footprint. For example, production of biofuel in the form of pellets, briquettes and woodchips is also a core aspect of the Group's approach to ESG, as renewable and environmentally friendly fuels are popular in many markets including Europe and North America. In 2019, the Group constructed a large multi-fuel boiler at the Segezha PPM that burns wood residuals as production wastes to produce power with the minimal impact on the environment. The boiler provides a means to utilize wood residuals and effluent sludge as fuel, while concurrently reducing the consumption of fuel oil up to 30% and decreasing the atmospheric discharge up to 40%. Further, two thermal oil heating systems and two saturated steam generation plants are in operation at the Vyatsky Plywood Mill. All plants run on bark and wood residuals and provide heat for the process, while reducing the atmospheric discharge by 44.5%.

The Group's commitment to sustainable forestry practices is also demonstrated by its adherence to international certification standards. The Group has voluntarily certified its entire wood procurement chain, including all forest harvesting, management units and wood processing units, in accordance with the requirements of generally recognized international standards. Further, 83% of the Group's leased forests are voluntarily certified in accordance with generally recognized international standards, and the Group is systematically working on increasing the certification level of its forest area up to 100%. The Group has created a wide reforestation program and aims to reforest the areas where it harvests timber. The Group's reforestation activities increased in each of the years ended 31 December 2020, 2019 and 2018, with reforestation areas of 29 thousand hectares, 26 thousand hectares and 23 thousand hectares, respectively, which consisted of 90%, 89% and 81% of the harvested area, respectively. Reforestation expenditures increased in each of the years ended 31 December 2018, 2019 and 2020, with investments of RUB 56 million, RUB 98 million and RUB 142 million, respectively. The Group also contributes to, and has strong relationships with, local governments and global associations focused on climate change and position ESG agendas.

The Group is also committed to minimizing injury frequency rates and avoiding accidents through the implementation of technical and organizational activities aimed at industrial injury prevention. In the year ended 31 December 2020, the Group had a low lost time injury frequency rate of 2.1 per million hours worked. One of the Group's strategic goal is to become a leading forest industry company in terms of industrial safety. For more information, see "*—Environmental, Social and Health and Safety Matters—Health and Safety.*"

The Group is committed to a robust ESG agenda, and has demonstrated this commitment through its charity work, environmental efforts and social strategy. For further information on the Group's approach to ESG and sustainability, see "*—Strategy—Maintain high ESG standards and continue focus on sustainability.*"

Robust project pipeline to deliver organic growth

The Group aims to achieve organic growth through the implementation of investment projects that improve productivity and operating efficiency, and the Group has a strong track record of executing such investment projects (for further information, see "*—Investment Projects*"). As of the date of the Offering Memorandum, the total growth capex (capital investments aimed at increasing production capacity) for the current project pipeline is RUB 32 billion, of which RUB 23 billion is attributed to Ongoing and New Investment Projects in 2021-2025 and RUB 9 billion is attributed to Other Projects (each as defined below). In addition, the Group aims to focus on long-term attractive market segments and launch new high-margin value added products. To meet the Group's minimum investment criteria, new projects must have an expected IRR in excess of 25% and a ROCE in excess of 20%. Through realization of the investment program, the Group targets increased output and operating efficiency contributing to OIBDA growth, reduction in costs and a higher OIBDA margin.

The Group has a robust portfolio of value accretive projects to be commissioned by the year ended 31 December 2021, which are expected to contribute to earnings in the near term. Short-term investments are focused on naturally low-risk selective expansion, efficiency improvement and modernization. Of the Group's current pipeline of short-term investments, approximately 35% of capex for projects in implementation, or RUB 3 billion, has already been invested. For further information, see "*—Strategy—Pursue value-accretive growth opportunities*" and "*—Investment Projects—Capital Expenditure and Investment Projects—Projects in implementation.*"

Experienced management team supported by a listed reputable shareholder

The Group benefits from an experienced management team with a strong track record in the pulp and paper sector as well as other relevant industries, including strategy consulting, finance, sales and customer support, product management and sustainability. With an average of approximately 19 years of relevant experience, members of the Management Board bring extensive industry knowledge while leveraging their understanding of the strategy and working practices of the Group; in particular, Mikhail Shamolin (previously the CEO of MobileTelesystems and Sistema PJSFC), currently the CEO, President and Executive Board Chairman, utilizes his substantial industry knowledge for the benefit of the Group. Further, the Group's approach to corporate governance centers on strict compliance with the law and adherence to best practices in corporate governance and transparency. Five of the nine members of the Group's Board of Directors are independent directors, and the Board is supported by three committees focused on audit, strategy and sustainable development, and nomination and remuneration.

The Group also benefits from strong support from its majority shareholder Sistema PJSFC, a reputable private investor in the Russian economy which is itself listed on the London Stock Exchange and MOEX, with a track record of creating and/or growing leading industry players (including Ozon, MTS, Detsky Mir and Etalon Group) and bringing eight portfolio companies to public markets. Sistema PJSFC, and its senior management, directly and indirectly control 100% of the Ordinary Shares as of the date of this Offering Memorandum. The Group's governance mechanisms are in line with market best practices, with independent directors accounting for over 50% of the Board of Directors. Board committees include audit, strategy & sustainable development and nomination & remuneration, all of which are chaired by independent directors. For further information, see "*Management and Corporate Governance*."

Strategy

The Group's strategy focuses on expansion of its forest land under long-term lease, value-accretive projects providing further integration into processing, development of new products and efficiency improvements and a focus on high ESG standards and sustainability, as further described below.

Strengthen market leadership within key segments

The Group aims to strengthen its position in certain key product segments by focusing on export-oriented sales and growing its sales presence by targeting specific countries. These key product segments include sack paper, industrial paper sacks, consumer paper bags, birch plywood, pellets and other products. The Group also plans to focus on growing its proportion of direct sales for key products, such as paper sacks in Russia, sawn timber, birch plywood and sack paper, supported by its significant access to forestry resources and commitment to producing high-quality products. The Group aims to grow its proportion of direct sales by building close relationships with large industrial end users. For further information, see "*—Revenue Generation*" for each of the Group's key products under "*—The Group's Operating Segments*."

Pursue value-accretive growth opportunities

The Group continuously evaluates options for further growth and efficiency improvements and has a pipeline of additional new, value accretive investment projects which aim to increase production and capacity, modernize the Group's facilities, launch new products and support environmental goals, including increasing the utilization of wood residuals and the optimization of energy consumption. The Group also has in place approved PIPs which secure an additional 2.1 million cubic meters of AAC, the harvesting of which is contingent on the execution of agreed and approved terms of PIPs applications. Projects selected for priority status must meet strict selection criteria, and projects that are awarded with priority status are able to sign forest lease agreements with additional AAC. New investments are focused on the expansion and upgrade of the capacity of select brownfield projects, development of the Group's packaging business and increasing the Group's share of own logging and wood processing. The Group's strategy for selecting future investments is based on developing its competitive advantages, such as increasing its share of own logging and wood processing depth, focusing on attractive market segments and increasing utilization of wood residuals and optimization of energy consumption. For further information, see *"—Investment Projects."* In implementing its growth strategy, the Group aims to ensure an optimal balance between the pace of investment program, positive free cash flow profile, dividend proposition, and conservative leverage.

The Group has commissioned projects to increase the production capacity of product lines in several facilities, as well as projects that modernize and debottleneck existing capacities. Examples of such projects include the Segezha PPM modernization, the construction of Galich Plywood Mill, and the construction of a CLT-panel plant at Sokol Timber Company. In the near-term, the majority of the Group's projects involve expanding or improving on existing facilities, with lower associated risks given the brownfield nature of the projects. In addition, subject to a suitable funding structure (with minimal equity participation expected from it), the Group is considering a further long-term growth opportunity, Segezha West, which would involve the construction of a new pulp mill at the site of Segezha PPM in Karelia, designed to expand the Group's product portfolio and increase its capacity by 850 thousand tons to 1,500 thousand tons of pulp production per year. The execution of the Group's long term capex program is part of the capital allocation framework, which is also aimed at securing a robust capital structure and efficient free cash flow profile. For further information, see *"—Investment Projects"*

The Group's investment criteria is for investment projects to have an IRR of over 25% and a ROCE of over 20%. For the years ended 31 December 2018, 2019 and 2020, respectively, the Group has achieved a ROCE of 22%, 19% and 22%. For further information, see *"—Investment Projects"* and *"Operating and Financial Review—Liquidity* *and Capital Resources.*" From 2015 until 31 December 2020, the Group's total expenditure on investments amounted to RUB 49 billion, and OIBDA more than doubled. The Group's investment and modernization efforts have resulted in an efficient and large scale asset base that, in the Group's view, gives it a strong competitive advantage against the backdrop of the considerable barriers to entry within the packaging solutions and forest products industries, including high new build costs, long investment cycles and the necessity of securing raw materials.

The core production facilities of the Group are strategically situated in the European part of Russia, benefitting from their proximity to wood resources, with comfortable access to logistics channels, including auto, rail and sea, to key international markets. Converting plants and manufacturing facilities are strategically located in close proximity to core markets such as large construction sites, thus securing reliable sales channels.

The Group is also working on introducing new products, such as: increasing the Group's share of high-margin products, such as special films, coatings and treatment; and increasing the Group's sack paper converting capacity. For example, the Group is expanding its premium plywood production capacity through development of the Galich Plywood Mill, which is expected to increase the plywood manufacturing capacity of the Group as discussed above. In addition, in 2021 the Group aims to add approximately 300 thousand cubic meters of sawn timber per annum and approximately 60 thousand tons of pellets per annum through a potential M&A transaction.

Another way in which the Group aims to expand its product and capacity is through selective inorganic opportunities (growth arises from acquisitions). The forest, paper and packaging sector is relatively fragmented and there are various opportunities for the Group to strengthen its offering and asset base, opportunities in the logging sector and Russia. The Group has strong expertise in integration and a robust acquisition track record, such as its acquisition of Lesosibirsky LDK No.1 in 2016 and the acquisition of Karelian Wood Company LLC in 2020. Management believes that the Group is well-positioned to pursue further opportunities in future.

Enhance further operating efficiency and resiliency of the business

The Group continually works to further enhance the operating efficiency and resiliency of its business. One of the ways the Group aims to achieve this goal is by optimizing its production costs, investing in its own logging operations and increasing the utilization of its forest resources. The Group's aim to grow its timber self-sufficiency (for further information, see "*—Key Strengths and Competitive Positioning—Extensive and fast-growing forestry resource base*") not only has the objective of ensuring a secure supply of raw material, but also enables the Group to maximize its production and vertical efficiency. Another way in which the Group seeks to increase its efficiency is through the optimization of its procurement function and supply chain processes, by ensuring that purchases and deliveries are made on schedule, certifying the quality and cost effectiveness of supplies, maintaining centralized procurement and category management and increasing its share of long-term supply contracts. In addition, the Group has begun to implement the SAP S/4HANA control system to improve process control and automation, with expected benefits including higher accuracy in the execution of production goals, reduction in emergency shutdowns and in warehouse inventories, optimization of transportation costs and acceleration of financial modeling and planning. For further information on the Group's contracts framework for each product, see "*—The Group's Operating Segment*."

The Group also seeks to maximize the utilization of its resources by reducing waste wood through conversion into biofuel and launch of new products. The Group produces power, heat, sulfonates, tall oil, fiberboards, pellets and briquettes from by-products and wood residuals generated as by-products, and uses these at other stages of its production process. For example, a boiler plant will be installed at Sokol Timber Company that will use strips of bark, a by-product, as fuel. This bark will replace sawdust, which will instead be utilized for additional production of pellets. Other examples of this approach to utilization of resources include the multi-fuel boilers at Segezha PPM, the thermal oil heating systems at Vyatsky Plywood Mill and ecological pellet productions at Lesosibirsky LDK No. 1. For further information, see "*—Environmental Social and Health and Safety Matters—Green production*" and "*—Key Strengths and Competitive Positioning—Strategically positioned for the global transition to sustainable materials and committed to best practices in ESG*." The automation of day-to-day operations, the periodic upgrade of informational technology systems and the development of risk management are also factors that contribute to the Group's goal of further enhancing its operation efficiency.

Commitment to prudent financial policy supporting growth ambitions

The Group seeks to proactively manage its debt maturity profile, focusing on refinancing shorter-term indebtedness and extending current loans, in addition to maintaining diversified and cost-effective sources of funding, such as bank debt, syndicated loans and pledge free public instruments. The Group aims to substitute a large proportion of its liabilities with public debt.

Management believes the Group is well-positioned to maintain a robust balance sheet due to strong operating cash flow generation, stemming from a well-invested asset base which is being strengthened by the commissioning of several high capital expenditure projects currently in progress, including the modernization of Segezha PPM, the construction of Galich Plywood Mill as well as other paper packaging projects. Management aims for the Group to build on this platform through its planned capital expenditure program, and targeted growth ambitions, while maintaining its prudent financial policy and meeting its existing financing obligations. The Group's growth ambitions are focused on naturally low-risk, selective expansion, which envisages IRRs above 25% in completed projects and ROCE of above 20%, consistent with the Group's track record. For further information on the Group's prudent growth strategy, see "*—Pursue value-accretive growth opportunities*." In addition, in the mid-term the Group targets a net debt / OIBDA ratio of 2.0, inclusive of the proceeds from the Offering and subject to market conditions, while being committed to its dividend policy (see "*Dividend Policy*").

Maintain high ESG standards and continue focus on sustainability

The Group is committed to maintaining high ESG standards and best practices in sustainability. The Group's selected sustainability strategy milestones by 2025 include the following: 100% of forest certifications in accordance with the requirements of generally recognized international standards, 100% of the investment projects to meet high ESG standards and 50% of green financing in the Group's capex program. One of the ways in which the Group maintains this is through promoting the green agenda and through its effective application of circular economy and reduction of hazardous emissions. Since 2018, the Group has reduced the level of emissions by 16% from 561 thousand tons to 469 thousand tons for the years ended 31 December 2018 and 2020, respectively, and has increased the use of recycled water by 11%, from 36% to 47%. For further information, see "*—Key Strengths and Competitive Positioning—Strategically positioned for the global transition to sustainable materials and committed to best practices in ESG*."

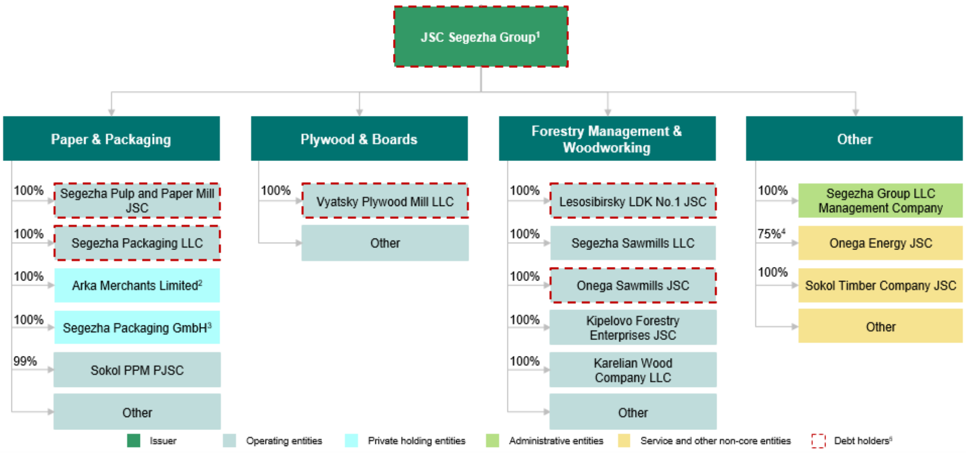
ESG is a key component of the Group's long term strategy. In the year ended 31 December 2020, the Group spent RUB 439 million on environmental investments, provided 711 employees with special environment protection education and invested RUB 603 million into investment projects with direct or indirect environmental impact. Key environmental investment projects include the following:

- *Multi-fuel boiler, Segezha PPM*: The boiler utilizes wood residuals as the fuel, which reduces fuel oil consumption up to 30% and atmospheric discharge up to 40%.
- *Effective use of side products, Vyatsky PM*: The site contains 2 thermal oil heating systems and 2 saturated steam plants which run on bark and wood residuals, to provide heat for the process and reduce atmospheric discharge by 44.5%.
- *Pellet plants, Lesosibirsky LDK No. 1:* The plants utilize sawdust to produce a source of fuel with reduced greenhouse gas emissions during combustion, and 1.5x higher heating value than conventional firewood.

Other ESG strategies include the Group's development of the "Decarbonization Strategy" for 2021-2022, with the support of the "Science Based Targets Initiative", which aims to estimate GHG emissions in 2021 and mitigate those emissions in key regions, and the development of its environment impact management system, which involves multiple ISO re-certifications, certifications in over 10 production units across the Group's mills and obtaining complex ecological permits for PPMs in Segezha and Sokol by 2025. In collaboration with the GFA Consulting Group, the Group is also conducting an inventory of its GHG emissions in the Karelia region, with plans to expand into other regions, in due course. In all regions in which it is present, the Group has in place agreements on cooperation and memorandum of intention, which are intended to provide support from the government for the implementation of investment projects. These agreements relate to the development of social and economic environments in "mono-towns" and climate change regulations. Since 2016, three PIPs have been successfully completed with the support of federal and local authorities and further priority projects have commenced. The Group is fully compliant with regulatory requirements, including holding certifications in accordance with the requirements of generally recognized international standards, and is a member of international voluntary sustainability initiatives such as the United Nations Global Compact. In addition, a key strategic priority for the Group is industrial safety. The Group invested RUB 242 million in labor safety in 2020 and had a low lost time injury frequency rate at 2.1 per million hours worked.

Organizational Structure

The figure below sets forth the organizational structure of the Group as of 31 December 2020.



1) Renamed "PJSC Segezha Group" prior to the publication of this Offering Memorandum.

The Group's Business Model

The Group's operations are organized through the following segments, based on goods and services produced. For further detail on the Group's production assets per segment, including capacities, please see the "Production assets" section for each segment under "—*The Group's Operating Segments.*"

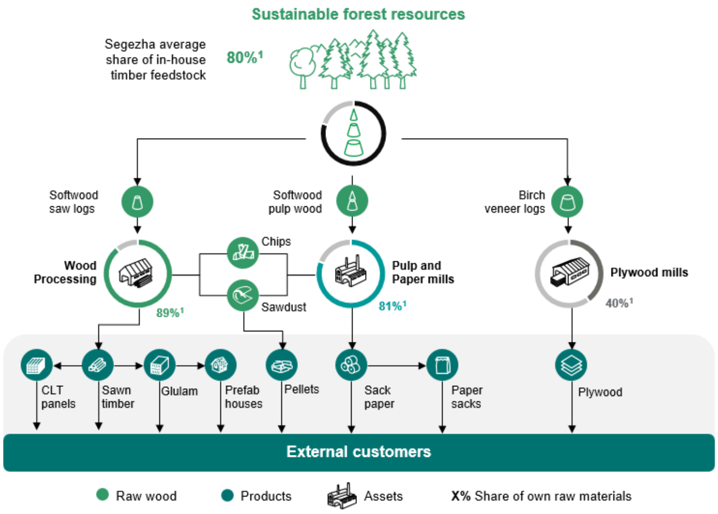
Business Segments

	Paper and Packaging	**Forestry Management and Woodworking**	**Plywood and Boards**	**Other**
Core products	• Sack paper • Papers sacks and bags • Artificial parchment produced from unbleached craft pulp	• Sawn timber	• Birch plywood	• Glued timber • Glulam beam • Glulam-based home kits • CLT panels
Other products	• Ligno-sulfonates • Wood chemistry	• Pellets • Woodchips • Fiberboard	• Fiberboard • Fuel briquettes	• Sawn timber • Chips
Production assets	• Segezha PPM • Sokol PPM • Segezha Packaging Russia • Segezha Packaging Europe	• Segezha Sawmill • Onega Sawmill • Karelian Wood Company • Lesosibirsky LDK No. 1	• Vyatsky Plywood Mill	• Sokol Timber Compann y • Sokol CLT Plant
2020 share of revenue	**52%**	**28%**	**11%**	**9%**
2020 OIBDA margin	**28%**	**30%**	**38%**	**31% (glulam products)**

The Group's business model is focused on maximizing the benefits of full vertical integration and encompasses the entire length of the production chain, from harvesting raw materials to end products, focused on the security of raw materials, control of operating costs and strong returns.

The Group's raw materials come from its substantial forest reserves. In the year ended 31 December 2020, the proportion of the Group's internal demand for timber which was met by its own timber resources ("**timber self-sufficiency**") was over 80%, enabling the Group to make significant production cost savings, with the remainder being purchased from third-party suppliers. The raw materials are used to manufacture the products described above, which are later sold to the Group's customers.

The following diagram sets forth the Group's fully integrated business model:



1) In the year ended 31 December 2020.

Key elements of the Group's business model

Key elements of the Group's business model can be summarized as follows:

Balanced asset portfolio

Management considers the Group's asset portfolio to be well-balanced, including forest leases, harvesting companies and processing plants, thus providing the Group with the means for monetizing its forest resources effectively.

Location of key assets

The close proximity of processing assets to raw material sources provides key logistical advantages, as certain raw materials, such as raw wood, can be costly to transfer over long distances due to inherent logistical inefficiencies (for example, difficulties in packing raw wood in a space-efficient manner for transportation purposes). Converting plants and manufacturing facilities are also strategically located to be close to core markets such as large construction clusters, thus securing reliable sales channels. For further information, see "*—Key Strengths and Competitive Positioning—Well-invested large scale operational platform with strategically located assets.*"

Cost management

The Group is one of the largest forest leaseholders in Russia, and has focused in recent years on the rapid expansion of its forest resource base with the goal of keeping the costs of raw materials low. For further information, see "*—Key Strengths and Competitive Positioning—Extensive and fast-growing forestry resource base*."

The Group's forestry resources allow it to benefit from low costs both in forestry inputs and end products. For example, according to Vision Hunters, in the year ended 31 December 2020 the cost of timber harvesting for the Group, by softwood logs mill gate price in US dollars/ cubic meters, was two to three times lower than that of other forestry regions. Further, also according to Vision Hunters, in the year ended 31 December 2020 the Group had lower plywood production costs, in EUR/ cubic meters, than its Russian, Baltic and Finnish peers in the forestry industry. To give a further example, in the third quarter of 2020 the Group had a leading cost position for sack paper production, by extensible paper variable costs in US dollars/ ton, among European and North American manufacturers. For further information on the Group's cost management advantages due to its forestry resources, see "*Industry Overview*."

The Group has transitioned from spot purchasing, in which spot supplies exceed 90% of overall supplies, to long-term contracts with formula pricing for the main procurement categories (including information technology equipment, product transportation and employee protective equipment). Benefits of long-term contracts include lower prices compared to the market price, guaranteed delivery and volumes and precise planning.

Modernization and efficiency initiatives

The Group is committed to maximizing the efficiency of its production and achieves this through investments in modernization projects. For further information, see "—*Strategy—Pursue value-accretive growth opportunities*."

Sourcing of raw materials

The Group operates a centralized purchasing function across all mills. The responsibility of the purchasing organization is to secure a stable availability of the products and services. The Group is focused on shifting its procurement of raw materials from purchases in spot markets to purchases under long-term contracts (with average term of 1-3 years) using formula-based pricing. As of 31 December 2020, 30% of the Group's operating costs were incurred through purchases made pursuant to such contracts.

The Group has approximately 5,000 active suppliers, of which more than 80% are located in Russia. Other suppliers are mainly European Union suppliers from the raw materials and industrial equipment sector. Prior to engaging with new suppliers with a direct impact on production or with contract value in excess of $2000 per year, a supplier evaluation is made. The Group regularly carries out evaluations of the suppliers to ensure that the suppliers meet the Group's expectations. Annual assessments are made of suppliers that have a critical effect on the end product, quality and service, and that have a certain scope and frequency of purchases.

Harvesting and wood sourcing

The Group benefits from a substantial and high quality natural resource base. As of 31 December 2020, the Group had the largest forestry area in the European part of Russia, with access to 8.1 million cubic meters of annual allowable cut across five forestry regions. Russia holds the largest forest resources globally, as well as approximately 50% of the world's northern softwood. As such, despite the Group's already extensive forestry resources, there is plenty of available forest land to allow the Group to expand its AAC in a sustainable way. For further information, see "—*Key Strengths and Competitive Positioning—Extensive and fast-growing forestry resource base*." Pulp made from northern softwood is strong, with long fibers and significant durability, making it a key component of many pulp and paper products. Hardwood has shorter fibers and is commonly used to produce consumer tissue and fine papers. The Group ensures its long term access to timber resources at moderate costs by acquiring the rights to use state-owned forest areas for logging through concluding long-term lease agreements for forest areas in accordance with applicable rules and regulations in Russia (for further information, see "*Regulatory Overview—Russian Regulation of Forestry Industry*"). The weighted average remaining lease length of the Group's forest leases is 28 years.

For the year ended 31 December 2020, the Group's timber self-sufficiency was approximately 80%. The Group is further seeking to increase its timber resources in the future, with the goal of increasing its timber self-sufficiency (for further information, see "—*Strategy—Enhance further operating efficiency and resiliency of the business*"). The Group is the largest forest leaseholder in the European part of Russia and one of the largest forest users in Russia. The Group has approved PIPs in further areas of forest in an amount of 2.1 million cubic meters and expects lease agreements relating to these additional areas to be finalized by the end of 2021. Following the execution of agreed and approved terms of PIP applications for timber harvesting in these new areas, the Group expects to be in a position to harvest timber from this additional area, thereby increasing its timber self-sufficiency further in the medium-term. For further information, see "—*Key Strengths and Competitive Positioning—Extensive and fast-growing forestry resource base.*"

As a result of the Group's integrated timber production, the Group is currently "timber neutral," meaning that the amount of timber that the Group consumes is equal to the area of reforestation. The Group has created a wide reforestation program, and is expected to launch its own forest seed supply center in the Kostroma region to produce nursery stock in September 2021, which is expected to allow improved quality of seedlings with year-round survival and convenient transportation, with the aim to reach output of four million units of seedlings by 2023. The Group's reforestation activities increased in each of the years ended 31 December 2020, 2019 and 2018, with reforestation areas of 29 thousand hectares, 26 thousand hectares and 23 thousand hectares, which consisted of 90%, 89% and 81% of the harvested area for each year. Reforestation expenditures increased in each of the years ended 31 December 2020, 2019 and 2018, with investments of RUB 142 million, RUB 98 million and RUB 56 million, respectively. For further information, see "—*Key Strengths and Competitive Positioning—Strategically positioned for the global transition to sustainable materials and committed to best practices in ESG*."

The integrated timber production creates several advantages, including security and quality of supply, increasing the cost competitiveness of the Group's paper, packaging and plywood businesses and enhancing tree utilization, which in turn helps the Group to realize the full value of its forestry resources and furthers its sustainability goals. The Group's fully integrated business model has allowed it to achieve an advantageous cost position and efficiencies across the value chain, for further information, see "*—Key Strengths and Competitive Positioning—Advantageous cost position and fully-integrated business model driving strong profitability.*" For example, the percentage of the Group's total costs from purchases of raw wood for the year ended 31 December 2020, was: 27% for paper; 43% for sawn timber sold to third parties; 27% for plywood and boards; and 75% for sawn timber used for glulam production (noting that the low logistic costs for glulam production results in a higher percentage of raw wood in the cost structure). In addition, the Group's harvesting costs are highly stable and predictable; for the years ended December 2020, 2019 and 2018, the Group's harvesting costs were RUB 2,124 per cubic meter, RUB 2,141 per cubic meter and RUB 2,061 per cubic meter, respectively.

Any wood required by the Group that is not sourced internally is purchased on the market. There are various factors that can affect the supply of wood on the market ranging from weather patterns and seasonality to the economic cycles of the forest and wood products industries. The Group has a clear strategy to address these dynamics designed to ensure a constant wood supply for production. The Group actively monitors changes in market conditions on a daily basis to help ensure it can react swiftly and adjust its purchasing strategy accordingly. Group has strong long-term relationships with its suppliers, which is key to maintaining a stable wood supply over the cycle. The Group also has a balanced mix of both larger and smaller suppliers, contributing to stability in the wood supply. For further information, see "*—Key Strengths and Competitive Positioning—Extensive and fast-growing forestry resource base.*"

Pulp sourcing

As of 31 December 2020, the Group's level of wood-self-sufficiency reached 80% in 2020, the highest among the major public pulp and paper producers globally, according to public disclosure by peer pulp and paper producers. For the year ended 31 December 2020, 81% of wood for pulping came from the Group's own harvesting operations and wood product manufacturing plants: the Segezha Sawmills, Onega Sawmills and Sokol Timber Company. Third parties supplied the remainder of the wood for pulping. The Group's pulp and paper mills use softwood pulpwood and chips for pulping, with the entire volume being scrutinized for quality, size distribution, bark and impurities content as well as moisture content. The long fibers of softwood pulpwood contribute to the strength of paper produced from such pulpwood.

Pulp is used as input material for the production of paper. The Group integrates its pulp and paper operations, with pulp produced at Segezha PPM and Sokol PPM being used solely for paper production at the same mills. The Group does not sell pulp between mills or externally.

The Group's integration of pulp production provides the following benefits to its operations:

- Limits exposure to volatile pulp prices: Integrated pulp production reduces the Group's exposure to volatile pulp prices and is key for increased cost control.
- Product quality and control over the production process: Complete control over the production process and the quality of the products produced. It also reduces dependency on external suppliers, helping to ensure reliability of supply.
- Energy surplus: Pulp production produces an energy surplus, which can be used in the production of paper.
- Reduced energy consumption: The pulp can be used directly in the paper manufacturing process, and needs no intermediate drying, which saves energy.
- Sale of heat and by-products of pulp production.

Energy sourcing

The Group's mills need supply of energy, such as electricity and steam, in order to operate. This steam is produced on site through the combustion of fuels in a boiler. Fuels used include biofuels, various types of oils, including bio-oils, bark and wood residuals or natural gas. In addition, the Group has implemented several initiatives to reduce environmental impact and adapt to the circular economy framework, which include its sourcing of energy. For further information, see "*—Key Strengths and Competitive Positioning—Strategically positioned for the global transition to sustainable materials and committed to best practices in ESG.*"

Logistics

The Group's logistics set-up is managed at the Group level, with minor differences between operational segments and mills. There are logistic services at production facilities that are functionally subordinate to the Group level. For the past four years, the Russian government has provided subsidies to the Group for export logistics, demonstrating the government's intention to support the Russian Federation's export sales of "non primary products nor fossil fuels". As of the date of the Offering Memorandum, the Decree of the Government of the Russian Federation dated 26 April 2017 No. 496 "On State Support of Russian Civilian Industrial Organizations in Order to Reduce the

Costs of Transportation of Products" as well as the Decree of the Government of the Russian Federation dated 23 February 2019 No. 191 "On State Support of Organizations Implementing Corporate Programs to Improve Competitiveness, and Amending the Rules of Providing the Subsidy from the Federal Budget in the Form of Property Contribution of the Russian Federation to the State Corporation "Bank of Development and Foreign Trade" to Compensate Part of the Expenses Connected with Support of Manufacturing of High-Tech Products" are examples of such government support currently in effect.

The Group is responsible for the provision of out-bound deliveries comprising products transported to packaging converters and distributers, via third-party trucking and shipping companies. The majority of products that are transported with trucks have Russian and European destinations. For the shipments of products overseas, products are transferred from trucks, into containers and onwards via ships and trains.

The Group's sack paper is delivered to customers through a variety of means. Multimodal container transportation is employed to deliver paper to the St. Petersburg port, then to European sea hubs and other marine destinations worldwide. Both railway and automobile transportation are used to deliver goods to European countries and domestic customers. Deliveries of paper to China are carried out only by railway transportation, and deliveries to mainland Europe are carried out by automobile transportation. Shipping is arranged by the Group and products are either shipped directly to the customer or to the nearest logistic hub.

The Group's paper packaging is delivered by automobile and railway transportation. Paper packaging products manufactured in Russia are delivered by railway and automobile transportation to CIS countries and domestic customers, while paper packaging products manufactured in Europe are usually sold on a FCA basis, by which customers pick up products directly from converting facilities.

The Group's woodworking products are delivered to customers through various means. Goods manufactured in the Western cluster (i.e., Segezha Sawmill, Onega Sawmill and Karelian Wood Company) are delivered through multimodal container transportation to the St. Petersburg sea port and then to European sea hubs and other marine destinations worldwide, to the Novorossiysk sea port or to China. Additionally, goods manufactured at Onega Sawmill are also delivered by freight bulk method to Europe and other regions. Deliveries to domestic destinations are carried out through automobile and railway transportation. Goods manufactured at Lesosibirsky LDK No. 1 are delivered through multimodal container transportation to China and the Asia-Pacific region, while deliveries to CIS countries and the Novorossiysk sea port are carried out through railway transportation. Railway and automobile transportation is used to deliver the goods to domestic customers. Shipping is arranged by the Group and is done either directly to the customer or to the nearest logistic hub, except for sales to Turkey and Egypt, whether clients prefer to buy sawn timber on a free on board basis from the Novorossiysk sea port.

The Group's plywood and boards products are delivered by automobile, railway and multimodal container transportation. Shipping is arranged by the Group and is done either directly to the customer or to the nearest logistic hub.

The Group's glulam products are delivered primarily by automobiles for export to Europe, to key markets of Austria, Italy and Germany, while prefabricated home kits are delivered by automobiles to the domestic market.

In-bound logistics consist of raw materials such as raw wood transported to the production units via trucks, trains and ships. Transportation by trucks is split between trucks owned by the Group and third parties, whereas transportation by train and ships is solely by third parties.

IT

The Group's IT infrastructure and platforms are centrally managed. The Group's shared overall systems and applications are managed in and from the Kirov Shared Service Centre. There is also local IT infrastructure located at each production mill for specific local use, mainly near-production IT solutions. The Group's production units are linked together through a network with wireless redundancy. As part of the continual development of the Group's production infrastructure, it actively works to evaluate new and upgraded IT solutions that can more efficiently support the Group's internal processes.

The Group uses a system solution called Segezha Automated Control System SAP 4/HANA to support the process from order to delivery: order management, production planning, traceability in production, delivery, invoicing and consolidated accounting of the Group. It is expected that all enterprises of the Group will join SAP by 2021.

For further information, see *"—The Group's Operations"* and *"—Key Strengths and Competitive Positioning— Advantageous cost position and fully-integrated business model driving strong profitability.*"

The Group's Operating Segments

The Group's operations are divided into distinct operating segments, as follows:

I. Paper and Packaging

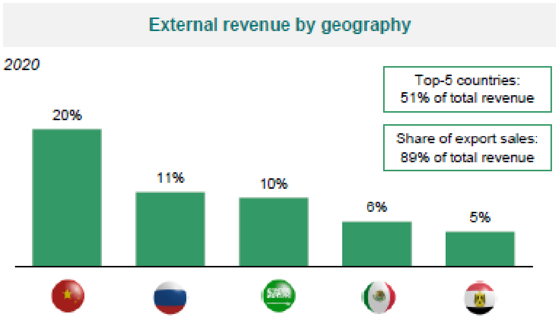
A. Products

i. Paper

The Group produces brown sack paper from unbleached craft pulp. The Group's sack paper is resistant to moisture, with significant tensile strength and high porosity. Of the Group's produced paper, 29% is transferred to own converting assets in Russia and Europe for processing into paper sacks and consumer packaging bags. The Group's artificial parchment is made from natural fibers without chemical additives, is heat resistant up to 250 degrees Celsius, has high strength, and is thin, flexible and elastic.

<u>Revenue Generation</u>

The Group has a well-diversified revenue structure with sales of paper to over 70 countries. The figure below sets forth the Group's export revenue by country for its paper sales in the year ended 31 December 2020.

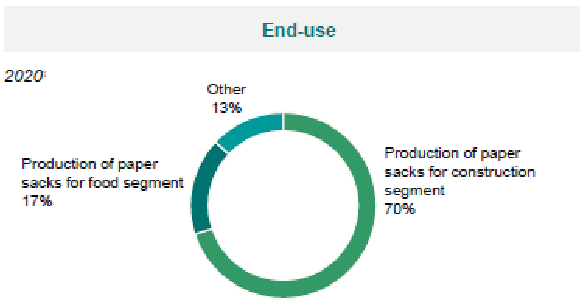


The Group derived 11% of its paper revenue from domestic sales in Russia. In terms of the sales channels, paper sales are mainly sold through the Group's distributors, with 98% sold through distributors and 2% sold through direct sales.

The Group mainly sells its paper via long-term framework contracts, with prices normally negotiated on a quarterly / semi-annual basis. Prices are established on a contract by contract basis depending on a number of factors, the most important of which are market environment in specific region, product type and logistics costs.

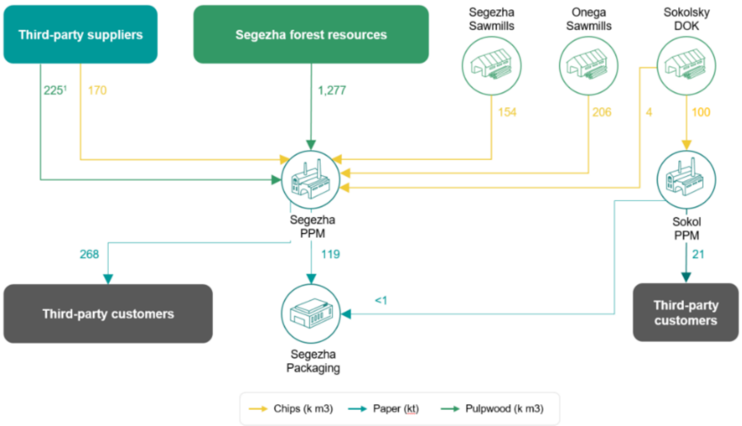
<u>Customers</u>

There is high global demand for extensible and high-porosity sack paper made from softwood fiber, especially brown sack paper. This demand is driven by the construction sector, due to the production of cement and dry mixes and the increase in the share of high-capacity packaging production lines, as well as the rapid growth of e-commerce and food delivery, which require sustainable, cost-efficient and single-use only packaging solutions. The figure below sets forth the end-uses for the Group's sales of its paper products in the year ended 31 December 2020.



Production Flows

For the production of paper, approximately 81% of required pulpwood and chips are supplied from the Group's own business units, and approximately 29% of paper produced is further shipped for processing at the Group's own converting facilities. The figure below sets forth the vertical integration and production flows relating to the Group's sack paper production, for the year ended 31 December 2020:



1) Includes pulpwood (197 thousand cubic meters) and other (28 thousand cubic meters).

Costs Structure

For the year ended 31 December 2020, the primary cost components in the production of the Group's paper products were raw wood, logistics, basic materials, fuel & heat and personnel.

Market Position and Competition

As of 31 December 2020 the Group's multiwall sack paper was ranked second globally by production capacity (in thousand tons per year) according to Fisher International.

For further information, see "*Industry Overview.*"

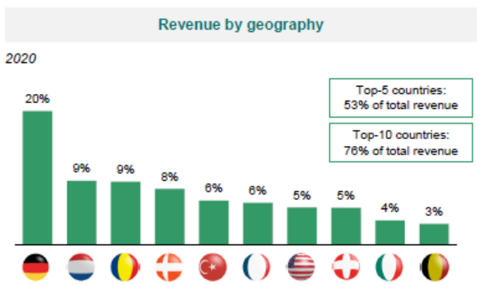
ii. *Paper Packaging*

The Group's paper packaging portfolio is largely made up of industrial packaging (being paper sacks), with the remainder consisting of consumer packaging. The Group's paper sacks and consumer packaging are moisture resistant, easy to use and can be readily adapted by the Group's customers (who can, for example, print in color on the Group's products). The Group manufactures paper packaging for cement, dry construction mixtures, chemicals and food, in addition to bags and carriers for retailers.

Revenue Generation

The Group produces paper packaging products in both Russia and Europe. The majority of the Group's paper packaging sales are in Europe and Russia.

For the Group's paper packaging products produced in Europe, 81% of revenue in the year ended 31 December 2020, are generated from sales across Europe, with the rest sold to Asia, North and Latin America, and the Middle East and Africa. Paper packaging products produced in Europe are mainly sold through direct sales, with 98% sold through direct sales and 2% sold through distributors. The figure below sets forth the Group's export revenue by country for its sales of paper packaging products produced in Europe in the year ended 31 December 2020.



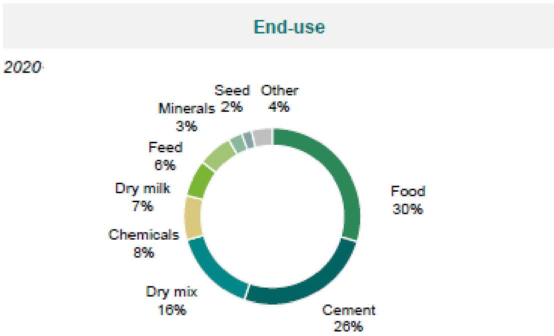
Paper packaging products made in Russia are mainly sold in the domestic market, accounting for 85% of sales in the year ended 31 December 2020, with the rest sold to CIS countries. With regards to the sales channels, 68% of sales are direct sales and 32% are sold through distributors.

The Group sells its paper packaging mainly via long-term framework contracts, with prices normally negotiated on a quarterly / semi-annual basis. Due to the current deficit of paper sacks in Russia, pricing for domestic sales is determined based on monitoring of alternative import prices available to clients, while for sales in Europe pricing is set on a "cost+" basis due to the surplus of industrial sacks. Prices of industrial sacks is exposed to seasonality, with higher demand from spring till autumn and lower demand in winter, which is primarily caused by the construction cycle.

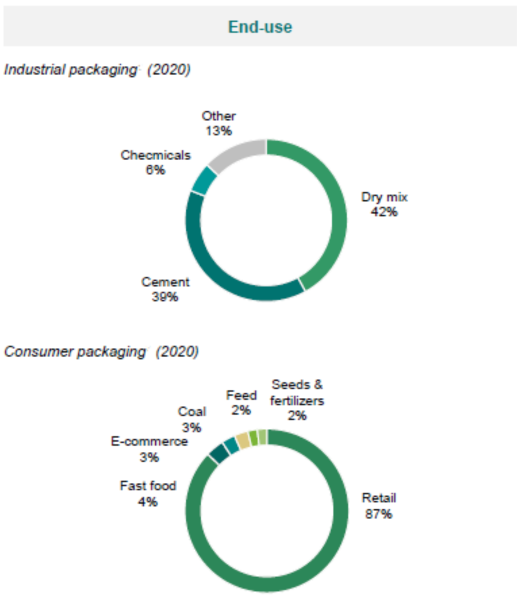
Customers

The bulk of the Group's paper packaging consists of industrial paper sacks.

In Europe, the demand for the Group's industrial packaging is largely driven by the food, cement, dry mix and chemical industries, consisting of 80% of the demand. The figure below sets forth the end-uses for the Group's sales of its industrial packaging products in Europe for the year ended 31 December 2020.



In Russia, demand for the Group's industrial paper sacks is largely driven by the construction sector and the Group's consumer paper packaging is largely driven by the retail industry. The figures below set forth the end-uses for the Group's sales of its industrial paper packaging products in Russia and consumer paper packaging products in Russia for the year ended 31 December 2020.



Costs Structure

For the year ended 31 December 2020, the primary cost components in the production of the Group's paper packaging products produced in Europe, were paper and personnel. The Group uses primarily brown paper (approximately 75% of volumes), which is supplied internally. White paper is purchased from third parties.

For the year ended 31 December 2020, the primary cost component in the production of the Group's paper packaging products produced in Russia, was paper. The Group uses primarily brown paper (approximately 84% of volumes), which is supplied internally. White paper is purchased from third parties.

Market Position and Competition

As of 31 December 2020 the Group's paper sack production was ranked second globally by production capacity (in million sacks per year) according to Fisher International.

For further information, see "*Industry Overview*."

iii. *Additional products*

The Group produces artificial parchment from unbleached craft pulp and ligno-sulfonates as a by-product of cooking wood and producing pulp. For the year ended 31 December 2020, the Group's artificial parchment and ligno-sulfonates made up approximately 2% and 1%, respectively, of the Group's total revenue of the paper and packaging segment.

B. *Production assets*

As of 31 December 2020, the Group's owned and operated the following production assets in this segment:

Asset Group	**Products**	**Location**	**Capacity**
Segezha PPM	Sack paper	Segezha, Karelian Republic	384 thousand tons
Sokol PPM	Artificial parchment and sack paper	Sokol, Vologda	25 thousand tons
Segezha Packaging Russia	Paper sacks	Segezha, Karelian Republic, Salsk Rostov area, Moscow area	668 million sacks
Segezha Packaging Europe	Paper sacks	Germany, the Netherlands, Denmark, Italy, Turkey, Romania, and Czech Republic	720 million sacks

II. ***Forestry management and woodworking***

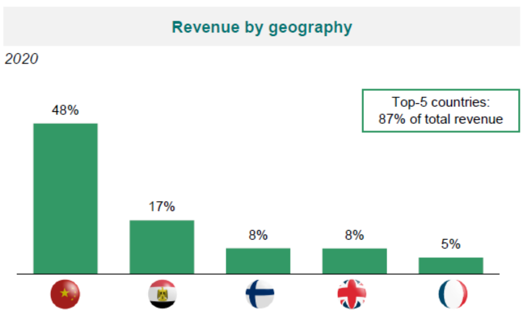
A. *Products*

i. *Sawn Timber*

The Group produces high quality sawn timber, which is used in construction, manufacturing of furniture and glulam products as well as wooden packaging. High quality softwood, from environmentally benign sources, is used for sawn timber manufacturing. The wood is mainly supplied by the Group's own harvesting operations, while the high level of diversification provides it with the flexibility to switch between product flows in response to arising challenges and opportunities. Along with pine and spruce, the output of the Group's sawmills also includes premium sawn Siberian larch products.

Revenue Generation

In the year ended 31 December 2020, exports accounted for approximately 100% of sawn timber revenue and the Group's sales structure was well diversified from a geographical perspective. The figure below sets forth the Group's export revenue by country for its sales of sawn timber in the year ended 31 December 2020.

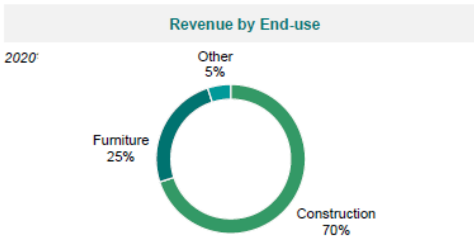


There has been a meaningful shift in the Group's sales channels over time to direct sales, with 61% attributed to distributors and 39% attributed to direct sales. However, even through distributors, the Group maintains relationships with its end customers; the distributor adds "last mile" services only.

The Group largely sells its sawn timber under long-term, volume based contracts, with prices negotiated on a quarterly basis. Different end markets require different specifications of sawn timber, deterring moves from one region to another. Prices of sawn timber are mainly affected by logistics costs and economic cycles of the construction sector.

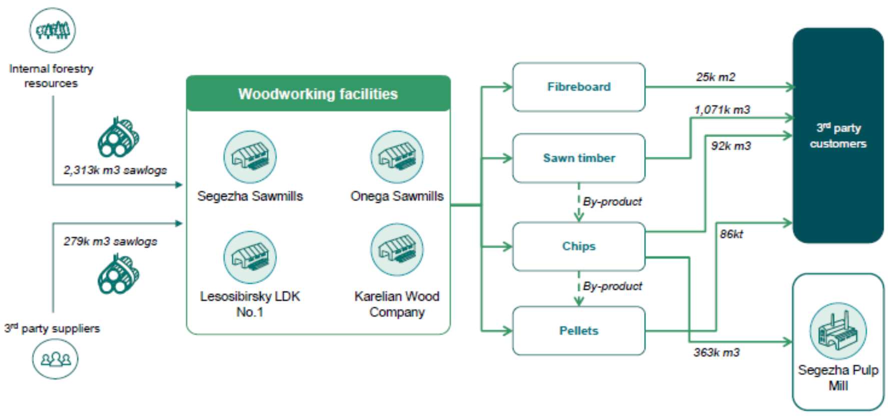
Customers

The figure below sets forth the end-uses for the Group's sales of its sawn timber for the year ended 31 December 2020.



Production Flows

For the production of sawn timber, approximately 89% of sawlogs at the Group's woodworking facilities were covered by the Group's own forest resources. The majority of produced timber and other by-products are sold to external customers. The figure below sets forth the vertical integration and production flows relating to the Group's woodworking products, including sawn timber, for the year ended 31 December 2020:



1) Represents production data.

Costs Structure

For the year ended 31 December 2020, the primary cost components in the production of the Group's woodworking products were raw wood and personnel. High levels of vertical integration allow the Group to actively manage raw wood costs and keep them stable over time, and the Group therefore compares favorably to its European peers in relation to cash cost at the mill gate. An attractive labor cost environment and reduced energy costs resulting from the use of biofuels also contribute to low and stable costs. For more information, see "*—Key Strengths and Competitive Positioning—Advantageous cost position and fully-integrated business model driving strong profitability.*"

Market Position and Competition

As of 31 December 2020 the Group's sawn timber production was ranked first in Russia by production capacity (in thousand cubic meters per year) according to Vision Hunters.

For further information, see *"Industry Overview."*

ii. *Pellets*

The Group produces pellets, a renewable environmentally friendly fuel with high energy value. Pellets are products of a standard cylindrical shape that are made by compressing sawdust wastes, dried and milled wood or other biomass under high pressure without using any binding agents. The heat value of pellets is roughly equal to that of coal. Pellets emit fewer sulfur compounds during combustion, thus reducing greenhouse gas emissions – a key contributor to adverse climate change. Biofuel production is crucial for implementing the Group's environmental policy and pellets are popular in many markets including Europe and North America. For an overview of the Group's pellet products, see "*—The Group's Operating Segments—Forestry management and woodworking—Products—Sawn timber*"

<u>Revenue Generation</u>

The Group largely sells its pellets under one year contracts, with fixed prices for the contract duration. Prices of pellets are mainly affected by the energy sector, weather conditions and oil and gas prices.

<u>Customers</u>

Pellets are sold in Europe, and used as fuels for power generation, commercial or residential heating, and cooking. Global demand for pellets is forecasted to demonstrate robust growth with a CAGR of 6.3% between 2019 and 2025, according to Vision Hunters.

iii. *Additional products*

The Group produces woodchips as by-products of sawn timber production. Woodchips are used for pulp and fiberboard production, and as a fuel for boilers, which contributes to the Group's goal of environmentally friendly waste usage and full utilization of forest resources. The Group also produces fiberboards as a by-products of sawn timber productions, which are used in construction, furniture and door manufacturing, and as a packaging material. Fiberboard produced at Lesosibirsky LDK No.1 is therefore accounted for in the woodworking segment.

B. *Production assets*

As of 31 December 2020, the Group owned and operated the following production assets in this segment:

Asset Group	**Products**	**Location**	**Input capacity**
Segezha Sawmill	Sawn timber; woodchips	Segezha Karelia	297 thousand cubic meters
Onega Sawmill	Sawn timber; woodchips	Onega, Arkhangelsk	560 thousand cubic meters
Karelian Wood Company	Sawn timber; woodchips	Kostomuksha, Karelian Republic	300 thousand cubic meters
Lesosibirsky LDK No. 1	Sawn timber; pellets; fiberboard and woodchips	Lesosibirsk, Krasnoyarsk	1,500 thousand cubic meters

III. ***Plywood and Boards***

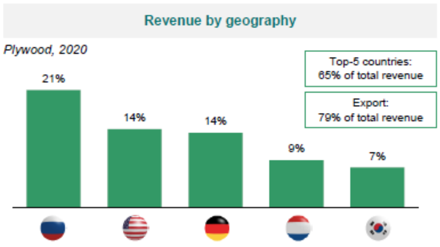
A. *Products*

i. *Birch Plywood*

The Group produces highly adaptable-to-manufacturing birch plywood, which is used for construction, furniture manufacturing, transportation and packaging applications. As birch plywood has a uniform and solid structure, it is highly resistant to humidity and temperature fluctuations and can endure heavy use. Other advantages of the Group's birch plywood include dimensional stability, high quality of sanded surface, good visual appearance of veneer and customized manufacturing. The Group's product portfolio is focused on higher-margin birch plywood products (such as large size products and products with special features), and the Group's key products are laminated plywood and plywood in non-overlaid format, which are available in several size, width and cover options.

Revenue Generation

In the year ended 31 December 2020, the Group's birch plywood sales structure was well diversified from a geographical perspective. The figure below sets forth the Group's export revenue by country for its sales of plywood in the year ended 31 December 2020.

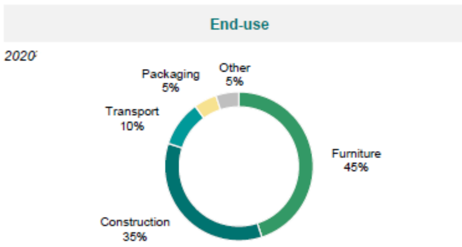


In addition, 61% of sales were attributed to distributors and 39% attributed to direct sales. Direct sales are mostly made to large industrials clients. In response to challenges posed by the COVID-19 pandemic, the Group re-directed part of its production volumes to Asia, causing the share of sales to South Korea to increase to 7% of total revenue in 2020, from 1% in 2019.

The Group sells its birch plywood mainly via long-term framework contracts. Volumes and prices are negotiated on a contract-by-contract basis and are influenced by a number of factors, the most important of which are current market environment (such as the balance of supply and demand in the respective region), delivery destination and logistics costs and product type. Due to birch plywood's durability, ability to withstand heavy loads and lightweight and stable parameters, its main target markets are construction and formwork, which provide higher margin and stability due to long-term contract structure and low pricing sensitivity.

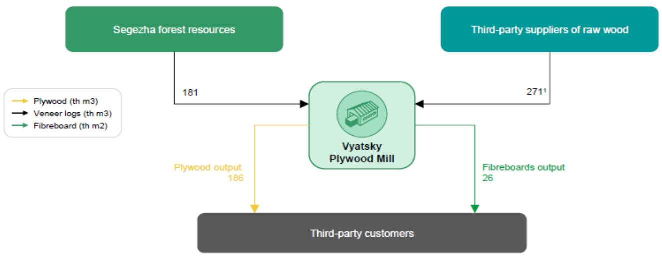
Customers

The figure below sets forth the end-uses for the Group's sales of its plywood for the year ended 31 December 2020.



Production Flows

For the production of plywood and boards, approximately 40% of raw wood is provided by own forest resource base with all products sold to external customers. The figure below sets forth the vertical integration and production flows relating to the Group's plywood and boards products for the year ended 31 December 2020:



1) Includes veneer logs (261 thousand cubic meters) and other (ten thousand cubic meters).

Costs Structure

For the year ended 31 December 2020, the primary cost components in the Group's production of plywood and boards were high-quality wood, basic materials, personnel and logistics. The Group has the lowest production costs in birch plywood among Russian and European (Baltic and Finnish) manufacturers for the year ended 31 December 2020, according to Vision Hunters. For more information, see "—*Key Strengths and Competitive Positioning—Advantageous cost position and fully-integrated business model driving strong profitability.*"

Market Position and Competition

As of 31 December 2020 the Group's birch plywood production was ranked fifth globally by product capacity (in thousand cubic meters), according to Visions Hunters.

For further information, see *"Industry Overview.*"

ii. *Additional products*

The Group also produces fiberboards and briquettes as by-products of birch plywood production.

B. *Production assets*

As of 31 December 2020, the Group owned and operated the following production assets in this segment:

Asset Group	**Products**	**Location**	**Capacity**
Vyatsky Plywood Mill	Birch plywood; fiberboard; briquettes	Kirov	192 thousand cubic meters (plywood); 26million meters squared (fiberboard); 12,500 tons (briquettes)

IV. ***Other (including glulam)***

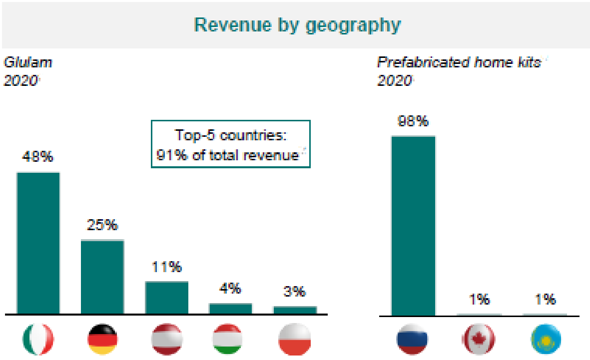
A. *Products*

Glulam (glulam beam and glued timber), glulam-based home kits and CLT panels

Glulam products have a high degree of differentiation to address specific market needs and are considered to be a building solution rather than commodity and is both sustainable and renewable, which results in significantly higher prices compared to sawn timber. Glulam beam is produced from wood species which have high strength and are resilient to external influences, such as spruce and Siberian larch. The high quality and unique properties of glulam beam make it possible not only to use it in timber housing construction but also to combine it with other building materials. The Group also produces glued timber products, which have strong surfaces that do not require additional treatment, high adhesive bond strength and high stability which contributes to the accuracy of sizes and geometry of the product. Another glulam product of the Group are prefabricated / glulam-based home kits for housing construction; their main advantages are reliability and multiple functionalities, easy manufacturing, cost efficiency, and compliance with environmental regulations. The Group also launched production of CLT panels, a wood panel product made from gluing together softwood lumber in such a manner that each layer is oriented perpendicular to the adjacent one. The strength of the resulting panel is equal to that of conventional concrete, steel or brick, while being superior in terms of weight, cost efficiency, eco-friendliness, sound absorption and insulation. CLT panels are widely used for residential, industrial and social construction of 10-storied buildings or higher. The Group expects that CLT panels will continue to be in high demand in the European market.

Revenue Generation

In the year ended 31 December 2020, this segment focused on the construction market, with a regional split. Glulam and CLT sales primarily focused on European markets, particularly Austria, Italy and Germany, whereas prefabricated home kits were mainly sold in Russia due to the depth of fabrication and customization. The figure below sets forth the Group's export revenue by country for its sales of glulam products and prefabricated home kits in the year ended 31 December 2020.

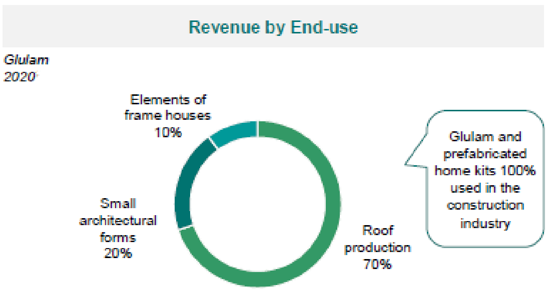


With regards to the sales channels, glulam is split between direct sales and distributors, at 41% and 59%, respectively, and prefabricated home kits are split at 11% and 89%, respectively.

Glulam is sold via long-term contracts with an order backlog of usually approximately six months. Prices for glulam are mainly affected by the supply and demand balance, market environment, product type and exchange rate fluctuations. Prices for pre-fabricated home kits are negotiated on a contract by contract basis and remain generally stable.

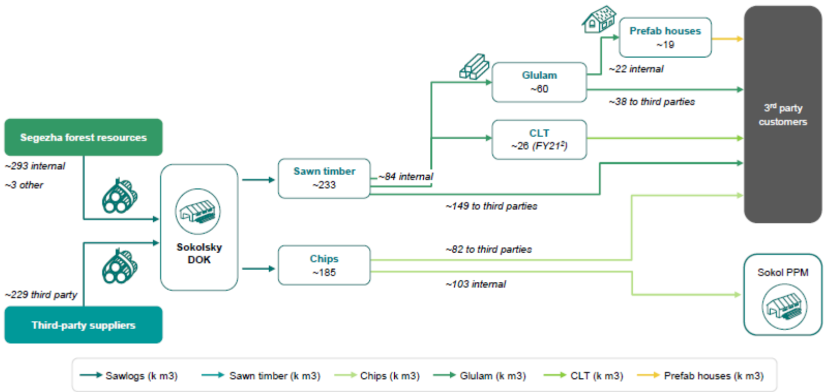
Customers

Glulam and prefabricated home kits are 100% used in the construction industry, split between roof production, small architectural forms and elements of frame houses, in the following percentages: 70%, 20% and 10%, respectively. The figure below sets forth the end-uses for the Group's sales of its glulam products and prefabricated home kits for the year ended 31 December 2020.



Production Flows

For the production of glulam products, production is fully integrated from wood cutting to premium wooden house kits. The figure below sets forth the vertical integration and production flows relating to the Group's glulam products for the year ended 31 December 2020:



1) Represents production data as of 2020.

2) CLT production began in 2021.

Costs Structure

For the year ended 31 December 2020, the primary cost components in the Group's production of glulam products are raw wood and personnel. As a result of the Group's vertical integration throughout the value-added chain, it has access to its own raw wood and sawn timber resources and is therefore able to tightly control and minimize costs and reduce price vulnerability. The Group aims to increase conversion of sawn timber into glulam, CLT and prefabricated home kits, as opposed to selling sawn timber to third parties, as this is expected to contribute to generating higher OIBDA margins for the Group. For more information, see "*—Key Strengths and Competitive Positioning—Advantageous cost position and fully-integrated business model driving strong profitability.*"

Market Position and Competition

As of 31 December 2020 the Group's glulam-based housing production is ranked first in Russia by thousand cubic meters according to Vision Hunters.

For further information, see "*Industry Overview*."

B. *Production assets*

As of 31 December 2020, the Group owned and operated the following production assets in this segment:

Asset Group	**Products**	**Location**	**Capacity**
Sokol Timber Company	Sawn timber; glulam products; glulam-based home kits; CLT panels; woodchips	Vologda	550 thousand cubic meters (input capacity for sawn timber); 100 thousand cubic meters (glulam products); 50 thousand cubic meters (CLT)

Investment Projects

Since its inception in 2014, the Group has implemented a number of large-scale investment and maintenance projects, investing over RUB 49 billion since 2015 in the development of its business to an efficient, fully integrated platform. Through strategic investments, the Group aims to modernize its asset base and construct new assets, increase capacity and operational efficiency, maintain cost leadership, improve self-sufficiency in wood supplies and pursue environmental and sustainability goals. For further information on the strategic objectives of the Group's investment projects, see "*—Key Strengths and Competitive Positioning—Robust project pipeline to deliver organic growth*" and "*—Strategy—Pursue value-accretive growth opportunities.*"

Administration

The Group's investment project management system has two levels. The lower level consists of the initiator, the project team and the project committee. The upper level is the management company, which consists of the project execution department, the investment committee and also consists of the project committee. The key functions of the investment project management system involve the initiation, development and preparation of investment proposals, the implementation, control and project risk-management of investment projects, and financial, investment planning and project decisions. The Group's project committee and project office is a permanent working group of the investment division, consisting of employees of the division and exercises control of and monitors the division's projects.

Recent Investments

The Group executed a diversified set of investment projects in the years ended 31 December 2020, 2019 and 2018.

The Group's capital expenditure on investment projects can be summarized as follows:

	Year ended 31 December 2020	**Year ended 31 December 2019**	**Year ended 31 December 2018**
Capital expenditure, including VAT (RUB millions)	6,822	2,939	4,073

For further information, see "*Operating and Financial Review—Liquidity and Capital Resources—Capital Expenditures.*"

Capital Expenditure and Investment Projects

The Group has a comprehensive expansion program to drive growth and enhance operating efficiency through investment projects. The Group categorizes its expansion program into four project types: (i) Projects in Implementation, which are ongoing; (ii) New Projects, which have yet to be commissioned but have received internal Group approval (together with Projects in Implementation, "**Ongoing and New Investment Projects**"); (iii) Additional Projects, which are longer-term projects in nature and at an early stage of consideration; and (iv) Other Projects (relating to the development of the Group's wood resources and implementation of the SAP system). These categories are discussed further below.

As of the date of the Offering Memorandum, the total growth capex for the current project pipeline is RUB 32 billion, of which RUB 23 billion is attributed to Ongoing and New Investment Projects and RUB 9 billion is attributed to Other Projects (see "*—Other Projects*").

The Group also requires approximately RUB 4-4.5 billion of maintenance capex (capex employed to maintain current operations, such as equipment replacement and repairs, maintenance of roads and infrastructure) to maintain current operations of the Group. The Ongoing and New Investment Projects are not, once completed, expected to require meaningful maintenance capex in the near term.

(i) Projects in Implementation

There are five projects in this category, with a growth capex of RUB 9.5 billion, with RUB 3 billion already invested, to be completed throughout 2021.

1. Modernization of Segezha PPM:

- Segment: Paper and Packaging
- Products: Bleached sack paper
- Anticipated timing: start of operations – Q3 2021; at full capacity – 2022.
- Description: This project is focused on modernizing the mill by reconstructing the condensing turbine and recovery boilers, constructing a hydrobeater for pulp, modernizing the fiber line and constructing a causticizing section, and is thereby expected to increase operational efficiency. In addition, this project enable the production of a new product, bleached sack paper. Expected to increase production capacity by 25 thousand tons of sack paper per annum.
- Capex profile: Total capex of RUB 4.5 billion, of which RUB 1.5 billion had been spent as of 31 December 2020. Remaining capex of approximately RUB 3.0 billion.

2. Galich Plywood Mill:

- Segment: Plywood and Boards
- Products: Large format birch plywood
- Anticipated timing: start of operations – Q4 2021; at full capacity – 2023.
- Description: The construction of a new plant in the Kostroma region aimed at capacity expansion of the production of large format plywood with a capacity of 125 thousand cubic meters of plywood per annum. The Group contributed 20% of the project financing, with the optionality to consolidate the asset (post deleveraging, based on certain covenants), likely in 2023.
- Capex profile: The Group's share of total capex is RUB 2.3 billion; as of 31 December 2020, RUB 0.9 billion had been spent by the Group. Remaining capex of approximately RUB 1.4 billion.[5]

3. Boiler and pellets line at Sokol Timber Company:

- Segment: Other (glulam)
- Products: Pellets
- Anticipated timing: start of operations – Q4 2021; at full capacity – 2022.
- Description: Construction of new pellet line aimed at capacity expansion with additional capacity of approximately 55 thousand tons of pellets per annum and installation of a boiler plant that will run on bark instead of sawdust. Available sawdust will be utilized for pellet production resulting in cost optimization.
- Capex profile: Total capex of RUB 1.1 billion, of which RUB 0.2 billion had been spent as of 31 December 2020. Remaining capex of approximately RUB 0.9 billion.

4. Industrial sacks production line in Segezha:

- Segment: Paper and Packaging
- Products: Industrial paper sacks
- Anticipated timing: start of operations – Q3 2021; at full capacity – 2022.
- Description: Installation of an extra industrial packaging line aimed at capacity expansion with an output capacity of approximately 90 million industrial paper sacks per annum.
- Capex profile: Total capex of RUB 0.8 billion, of which RUB 0.1 billion had been spent as of 31 December 2020. Remaining capex of approximately RUB 0.7 billion.

5. Consumer packaging in the Moscow region:

- Segment: Paper and Packaging
- Products: Consumer paper sacks
- Anticipated timing: start of operations – Q4 2021; at full capacity – 2023.
- Description: Installation of four new consumer packaging lines aimed at capacity expansion with an output capacity of approximately 144 million consumer paper sacks per annum, on a leased production site in the Moscow region.
- Capex profile: Total capex of RUB 0.8 billion, of which RUB 0.2 billion had been spent as of 31 December 2020. Remaining capex of approximately RUB 0.6 billion.

(ii) New Projects

The Group has four new projects in its mid-term pipeline, to be completed by 2025.

1. Modernization of Onega Mill:

- Segment: Forestry Management and Woodworking
- Products: Sawn timber and pellets
- Anticipated timing: start of operations – 2022; at full capacity – 2024.
- Description: Modernization of Onega mill to include the construction of the sawmilling line, log sorting line and pellet production facility, with the aim to increase operational efficiency, with an increase in output capacity by approximately four thousand cubic meters of sawn timber per annum and

[5] Project financing structure with Segezha contribution of 20% with optionality to consolidate the asset as early as 2023, subject to the condition that the project's debt/OIBDA will be below 3x; excluding capex on AAC expansion (roads construction, investments into equipment).

approximately 30 thousand tons of pellets per annum, and reduce costs by decreasing the need for approximately 190 employees and improve environmental impact.
- Capex profile: Total capex of RUB 2.4 billion, of which none had been spent as of 31 December 2020.

2. Modernization of Sokol PPM:

- Segment: Paper and Packaging
- Products: Sack paper and greaseproof paper
- Anticipated timing: start of operations – 2021; at full capacity – 2024.
- Description: Modernization of Sokol PPM to include the installation of a new paper machine to expand current capacity by approximately 64 thousand tons of paper, the installation of a ligno-sulfonate drying line and the reconstruction and upgrade of a power plant and wastewater treatment system.
- Capex profile: Total capex of RUB 8.8 billion, none of which had been spent as of 31 December 2020.

3. Development of Segezha Packaging Europe:

- Segment: Paper and Packaging
- Products: Industrial paper sacks
- Anticipated timing: start of operations – 2022; at full capacity – 2025.
- Description: Installation of new industrial packaging lines in lucrative European locations (the Netherlands and Romania) aimed at capacity expansion with an output capacity of approximately 90 million industrial paper sacks per annum, the product relocation from a higher cost geography (Denmark) to a lower cost geography (the Czech Republic) and the development of higher margin businesses in the Czech Republic.
- Capex profile: Total capex of RUB 2.6 billion, none of which had been spent as of 31 December 2020.

4. Development of Segezha Packaging Russia:

- Segment: Paper and Packaging
- Products: Consumer and industrial paper sacks
- Anticipated timing: start of operations – 2022; at full capacity – 2025.
- Description: Installation of three new industrial packaging and four consumer packaging lines aimed at capacity expansion with an output capacity of approximately 139 million consumer paper sacks and approximately 180 industrial paper sacks per annum, respectively.
- Capex profile: Total capex of RUB 2.4 billion, none of which had been spent as of 31 December 2020.

For further information and examples of production and capacity related investments, see "—*Key Strengths and Competitive Positioning—Well-invested large scale operational platform with strategically located assets*"; for further information and examples of investments that support the Group's environmental goals, see "—*Key Strengths and Competitive Positioning—Strategically positioned for the global transition to sustainable materials and committed to best practices in ESG*"; for further information and examples of cost optimization and efficiency related investments, see "—*Strategy—Enhance further operating efficiency and resiliency of the business.*"

(iii) Additional Projects

The Group is considering five potential projects, which amounts to total capex of approximately RUB 34 billion, consisting of greenfield and brownfield projects across all business segments. Whether the Group decides to pursue these five potential projects is subject to market conditions, the investment criteria and financial position of the Group.

Project	**Segment**	**Target operational impact (subject to change)**	**Description**
Modernization of Lesosibirsky LDK No. 1	Forest Management & Woodworking	Increase production capacity to approximately 80 thousand cubic meters per year of sawn timber and approximately 100 thousand tons per year of pellets.	• Construction of new pellet plant with a fiberboard production shutdown • Upgrade of the log sorting line • Obtaining approximately 300-500 thousand cubic meters of allowable cut
Expansion of Vyatka Plywood Mill	Plywood & Boards	Increase production capacity to approximately 61	• Upgrades on Vyatka Plywood Mill premises with an output increase

		thousand cubic meters per year of plywood.	• Increase in the share of special high-margin products (special films, coatings, treatment, CNC)
Laminated beams mill in Karelia	Forestry Management & Woodworking	Increase production capacity to approximately 120 thousand cubic meters per year of laminated beams and approximately 120 thousand tons per year of pellets.	• Construction of laminated beams plant at existing Segezha sawmill premises • Obtaining approximately 300 thousand cubic meters of allowable cut
New plywood mill in Karelia	Plywood & Boards	Increase production capacity to approximately 125 thousand cubic meters per year of plywood.	• Construction of new plywood plant aimed at production of lucrative plywood grades: LCV, HCV, LNG and king size • Obtaining approximately 700 thousand cubic meters of allowable cut
Segezha West	Paper & Packaging	Increase production capacity to approximately 850-1,500 thousand tons of pulp per year.	• Construction of new pulp mill at the site of Segezha PPM in Karelia • Off-balance sheet funding structure

(iv) Other Projects

The Group has two investment projects, with a total growth capex of RUB 9 billion over 2021 - 2025.

1. Wood Resources:

- Segment: Forestry Management & Woodworking
- Anticipated timing: 2021 – 2025.
- Description: Renewal of forest equipment and AAC expansion
- Capex profile: RUB 7.5 billion, none of which had been spent as of 31 December 2020.

2. SAP:

- Segment: Other (including Glulam)
- Anticipated timing: Start of operations – 2019
- Description: Implementation of SAP
- Capex profile: RUB 2.5 billion, of which RUB 1.3 billion had been spent as of 31 December 2020.

Investment Targets and Guidance

The Group has three key strategy pillars that guides its investment strategies: expand forest lands, pursue value-accretive projects integrating further into processing and maintain high ESG standards with a focus on sustainability. The Group's pipeline of value-accretive investment projects is expected to be supported by the expansion of AAC through projects realization grants and potential M&A opportunities. The Group's target is to develop its own logging operations in order to further utilize own forest resources and reach 86% wood self-sufficiency by approximately 2025.

Under the expansion of forest lands strategy pillar, as having a considerable forestry base provides significant advantages, such as increased control of resources, guaranteed security and quality of supply of resources, cost competitiveness and increased efficiency. This is achieved primarily through the Group's implementation of projects, which grant the Group increases to its AAC. For further information, see "—*Key Strengths and Competitive Positioning—Extensive and fast-growing forestry resource base*." The Group's aims to obtain additional areas of forest land through PIPs and acquisitions, with a view to increasing its AAC by 2 million cubic meters by 31 December 2021 and by 4 million cubic meters in the mid-term. The Group is also targeting an increase of its harvesting volumes by 3.5 million cubic meters in the mid-term. The Group's long term target is to increase its AAC up to 20 million cubic meters by 2030.

Under the pursuit of value-accretive projects strategy pillar, in the mid-term the Group aims to increase the share of own logging and wood processing depth by approximately three percent, focusing in the long-term on attractive market segments with new high-market value added products, with view to increasing the utilization of wood residuals and the optimization of energy consumption. In terms of the Group's investment strategy, the Group plans to maintain its minimum investment criteria for new projects, of an expected IRR of over 25% and an expected ROCE of over 20%. In addition, the Group's dividend policy seeks to ensure a balance between growth, shareholder distributions and maintenance of a sustainable capital structure, in the context of the Group's pursuit of value-accretive projects. The Group aims to pay dividends in the amount of no less than RUB 3 billion and no greater than RUB 5.5 billion in each 2021, 2022 and 2023. The Company may adopt the decision on dividend distribution in the third or the fourth quarter of 2021. Starting from 2024 the Group aims to pay dividends at a level no lower than 75% and no greater than 100% of the adjusted net cash flow defined as net cash from operating activities less net cash used in investing activities and lease payments each derived from the audited consolidated financial statements prepared under IFRS for the preceding 12 months. For further information on the Group's Dividend Policy, see "*Dividend Policy*."

The Group's short term projects are focused on capacity expansion, efficiency improvement and modernization of the Group's facilities, and are expected to contribute to earnings in the near-term. The Group's product prices in the coming years are expected to experience support from the anticipated growth of global prices, with OIBDA margin expansion from current levels due to an increase in the share of premium products in sales, higher integration, efficiency and productivity. The Group's mid-term projects consist of four new investment projects with anticipated commissioning dates from 2021 to 2025. In this period, the Group expects revenue generation to be supported by increasing global prices, with OIBDA margin expansion targeted to reach levels similar to margins of current high-margin segments of the Group. The Group plans to deleverage in the short term and targets a net debt to OIBDA ratio of approximately two in the mid-term (depending on the amount of proceeds from the Offering and overall market conditions).

Under the maintain high ESG standards and focus on sustainability strategy pillar, the Group aims to further promote sustainable forestry management practices through mills certification and reforestation investments, develop eco-friendly products and reduce emissions and environmental impact through decarbonization strategy development. The Group's long-term target under this pillar is its commitment to best ESG practices.

Environmental, Social and Health and Safety Matters

The Group's approach towards sustainable development centers around the protection of the environment and conservation of natural resources. In 2017, the Group first adopted its Corporate Social Responsibility and Charity Development Strategy (the "**CSR Strategy**"), which addresses current sustainable development trends and is consistent with the Sustainable Development Goals adopted by the UN for the year 2030. In March 2021, the Board of Directors approved the Group's Sustainable Development Strategy ("**Sustainable Development Strategy**"), with focus areas and milestones planned for 2025. The Sustainable Development Strategy update was made with the expert support of KPMG, and is based on an analysis of the sustainability management system and alignment with trends, risks and opportunities for forest, pulp and paper industries as well as an in-depth analysis of corporate strategy. The Group is focused on progressing its key development goals; the development of the environment impact management system, reducing its ecological footprint, obtaining complex ecological permits for its mills and adopting voluntary environmental initiatives. For further information, see "*—Key Strengths and Competitive Positioning—Strategically positioned for the global transition to sustainable materials and committed to best practices in ESG.*"

The Group seeks to develop a responsible supply chain through responsible procurement, prevention of corruption and sustainable forest management. With regards to sustainable forest management, the Group voluntarily implemented globally recognized certification systems in all forest harvesting, management units and wood processing units, meaning that the Group's entire wood procurement chain is certified. Further, 83% of leased forests are voluntarily certified in accordance with the requirements of generally recognized international standards, and the Group is working on increasing the certified forest area up to 100% (noting that, due to the time required to obtain certification and the Group's continued expansion of leased forest land, it is unusual to achieve 100% certification). Certification in accordance with the requirements of generally recognized international standards requires the strict and supervised fulfillment of responsible forest management standards in order to reach and maintain the balance between the economic and environmental value of forests and their social importance for local communities, and significantly reduces the risk of potential disruptions in product supplies to environmentally sensitive markets. Certification in accordance with the requirements of generally recognized international standards is provided by an independent accredited certifying entity, following a comprehensive audit of forest management and harvesting operations in accordance with certification requirements. Obtaining this certification ensures continued consistent demand for the Group's products in international markets, including Europe.

The Group contributes to a number of associations with a focus on ESG, and climate change in particular, including:

- Russian Union of Industrialists and Entrepreneurs Committee on Climate Policy and Carbon Regulation (2020);

- Timber Charter (2019) and United Nations Global Compact (European assets since 2018, and the whole Group since 2021);
- Boreal Forest Platforms of the World Wildlife Fund;
- "National Working Group on Voluntary Forest Certification" Association;
- Social Charter of Russian Business (RUIE);
- Expert Council for Sustainable Development under the Ministry of Economic Development of Russia;
- RUIE Committee on Climate Policy and Carbon Regulation;
- Association of Managers of Russia;
- European Federation of Multiwall Paper Sacks Manufacturers (Eurosac);
- European Association for Producers of Sack Kraft Paper for the Paper Sack Industry and Kraft Paper for the Packaging Industry (CEPI Eurokraft);
- German Association of Paper Sack Manufacturers (GemPSI);
- Italian Association of Paper Sack Manufacturers (GIPSAC);
- Entrepreneurship Development Fund;
- Wood Housing Association of Russia; and
- Russian Association of Organizations and Enterprises of the Pulp and Paper Industry (RAO "Bumprom").

The Group has also made investments in reforestation activities. For example, a nursery located in Sharya, the Kostroma region, was leased to the Group in 2020 for ten years by Kostroma's government, under the condition that the Group would modernize the nursery. The launch of the nursery is expected to occur in September 2021, which will allow improved quality of seedlings with year-round survival and convenient transportation, with the aim to reach output of four million units of seedlings by 2023. The Group also has plans to construct nurseries in other leased forest areas. The Group has also signed a World Wildlife Fund agreement aimed at preserving intact forest land at the Onega production site.

The Group's enterprises have signed voluntary declarations with the goal of protecting biodiversity, which includes undertakings not to engage in the illegal logging and trade of timber, the violation of human rights, the destruction of forests with high conservation value, the significant conversion of forests to plantations, the use of genetically modified organisms or the violation of any of the International Labor Organization's conventions. The Group is also ISO 14001, OHSAS 18001 and ISO 45001 certified.

The Group actively supports the communities in regions in which the Group operates and has a program called "Comfortable Life in the Forested Regions of Russia" within the Sustainable Development Strategy focus area, which implements charity projects with local authorities, provides local communities with essential products and services and develops infrastructure. In the year ended 31 December 2020, the Group invested RUB 74 million in charity projects, RUB 767 million in providing heating and water services to local communities, created approximately 42 projects and programs to support local communities and paid RUB 7.5 billion in corporate and social taxes, making the Group one of the largest tax payers in the regions in which the Group operates. Examples of the Group's contributions to local communities and local governments include the installation of art projects made of glulam in Sokol and Lesosibirsk and the installation of outdoor fitness equipment in towns and villages in various regions. In addition, the Group proactively responds to environmental concerns of communities in regions in which the Group operates. For example, at the end of 2019, residents of Segezha raised concerns regarding the environmental impact of Segezha PPM to the town of Segezha. As a result of these concerns, the Group commissioned Rosprirodnadzor to carry out an audit, which revealed an uncritical excess of the maximum permissible concentration of pollutants in industrial emissions and waste waters of Segezha PPM within the boundaries of Segezha PPM. No excess emissions were found beyond the boundaries of Segezha PPM. As a result of these environmental concerns and to increase the transparency and develop the stakeholder dialogue, in 2020 the Group emphasized presentations of its ecological initiatives and prioritized discussions with local communities. In addition, representatives of Segezha PPM became members of the Public Council on Ecology under the administration of the Segezha Municipal District. The Public Council on Ecology was created with the aim of implementing a coordinated environmental policy, and to ensure interaction of local self-government bodies with citizens and public organizations of the region on environmental protection, environmental safety and rational use of natural resources.

Furthermore, the Group continues to focus on health and safety practices for its employees, and promotes a "zero tolerance to safety violations" policy. As part of the Group's personnel development programs, the Group partners with educational institutions aimed at training staff and attracting new talent. As of 31 December 2020, the Group has sent a number of Segezha PPM employees to obtain higher education degrees from Saint-Petersburg State Technology University of Industrial Technologies and Design. In addition, the Group supports regional industry forums and professional skills championships, such as the "Eniseyskaya Siberia – the Professional Generation" professional skills championship in 2019. The Group believes this training and education is instrumental in attracting highly qualified personnel, retaining top talent and developing the talents of personnel. The Group aims to promote efficiency and dedicated teamwork within its workforce, while enabling the potential of each individual employee.

Green production

The Group has adopted a green production framework, which requires strict observance of all applicable legal requirements, open interactions on environmental and protection issues and a process to identify and minimize environmental risks. Environmental factors are considered in the Group's operations and the planning of investment projects (for further information, see "*—Investment Projects*"), and the Group has completed a number of such projects that aim to improve the Group's sustainability and reduce its environmental impact. For example:

- Segezha PPM: The multi-fuel boilers here utilize wood residuals as the fuel and reduce fuel oil consumption up to 30% and atmospheric discharge up to 40%, with purification efficiency of 99.7%. The boiler has enabled the Segezha PPM to receive additional electrical power for production needs, and aids with sustainable waste disposal.
- Vyatsky Plywood Mill: Two thermal oil heating systems and two saturated steam plants run on bark and wood residuals. This provides heat for the process, reduces atmospheric discharge by 44.5% and makes effective use of side products.
- Lesosibirsky LDK No. 1: Ecological pellet production utilizes sawdust to produce a source of fuel with reduced GHG emissions during combustion and 1.5 times the heating value of conventional firewood. Pellets supply Russian and European customers with biofuel for automatic boilers to produce heat in both commercial sectors and households.
- Arkhangelsk Region: The biofuel boiler has an output capacity of 14 megawatts and significantly reduces the role of inefficient sources of heat supply such as coal. The boiler runs on wood residuals generated by the Onega Sawmills.

In the year ended 31 December 2020, the Group contributed RUB 439 million to environmental related projects, invested RUB 603 million in projects with a direct or indirect environmental impact at production sites and provided special environmental protection education to 711 employees.

The Group also has investment programs in place to support residents in forested regions of Russia where the Group operates, through charity projects and providing local communities with essential products and services and the development of infrastructure. For further information, see "*—Key Strengths and Competitive Positioning—Strategically positioned for the global transition to sustainable materials and committed to best practices in ESG.*"

Health and Safety

One of the Group's strategic goals is to become a leading forest industry company in terms of industrial safety. It has a zero tolerance policy to safety violations and requires strict adherence to safety regulations. In the year ended 31 December 2020, the Group invested RUB 242 million in implementing health and safety measures such as industrial safety examinations, safety training for employees and conducting special assessment of working conditions on a regular basis and internal and external independent audits. The Group's objective is to ensure safe working conditions for its employees, mitigate the occurrence of emergency situations and foster a culture of safe behavior and accident prevention among employees.

The Group is committed to minimizing injury frequency rates and avoiding accidents through the implementation of technical and organizational activities aimed at industrial injury prevention. The Group has an Occupational Health and Industrial Safety Management System with the objectives of creating safe working conditions and protecting the life and health of employees, ensuring reliable performance of and mitigating emergency situation occurrence risks at hazardous plants and fostering safe behavior and accident prevention skills among employees. In the year ended 31 December 2020, the Group had a low lost time injury frequency rate of 2.1 per million hours worked. All accidents undergo scrutiny on an individual basis and in accordance with Russian law. Required prevention measures are taken by the Group based on the results of such investigations to avoid re-occurrence at mills where similar risks exist. If a serious operational safety accident occurs, the Group cooperates fully with authorized state representatives investigating any such accident and immediately implements measures to ensure such accidents will not occur in the future at any of the Group's operating facilities. For further information, see "*Risk Factors—Risks Relating to the Group's Operations—The Group's manufacturing operations can be hazardous and cause injury to people or property in certain circumstances.*"

The Group also carefully considers its health and safety obligations in response to the COVID-19 pandemic. Placing the safety of its 13,000-strong workforce as the first priority, the Group has ensured the timely roll out of precautionary measures, such as providing personal protective equipment and disinfectant, and has developed a specialized social distancing regime for production personnel and office employees. The Group spent over RUB 44 million to ensure appropriate measures were established to maintain the safety of employees and RUB 19 million was contributed to local communities to support the fight against COVID-19. Further, the Group has minimized the impact of COVID-19 to its supply chain by the creation of an inventory buffer, implementing stricter controls over the availability of raw materials and logistics, putting in place back-up suppliers, increasing the Group's share of direct sales, introducing selective incentive discounts and proactively redirecting sales to new markets. For further information, see "*—Key Strengths and Competitive Positioning—Strategically positioned for the global transition to sustainable materials and committed to best practices in ESG.*" The Group is in full compliance with all applicable legislation, norms and standards for labor protection.

Employees of the Group

The following chart sets forth the number of employees for the Group for the periods indicated:

	For the year ended 31 December ,		
	2020	**2019**	**2018**
Production staff	9,851	9,838	9,692
Specialists and other staff	2,135	1,902	1,819
Mid management	1,050	1,061	1,045
Senior Management	95	99	123
Group total	**13,131**	**12,900**	**12,679**

As of 31 December 2020, the Group employed 13,131 people, compared to 12,900 people as of 31 December 2019. Over 32% of the employees fall under the 35-44 years age category.

The Group considers employees as the Group's most valuable assets. This is reflected by the Group's three key principles:

- *Motivational compensation system*: The Group invests in the development of an attractive working environment for existing and potential employees, maintains a competitive salary and benefits and provides an incentive programs for mid-level employees. The Group's employee turnover for the year end 31 December 2020 was 29%, a 4% decrease compared to 2019.

- *Development of personnel*: The Group seeks to promote increased efficiency and innovation through personal development programs and performance management systems. The Group provides numerous training and in-service education programs for employees. As of 31 December 2020, 3,396 employees have received training, approximately double the number of employees that received training in 2019.

- *Diversity and promotion of corporate culture*: Approximately 40% of the Group's employees are female. The Group is committed to diversity promotion across all business areas and partners with educational institutions to develop programs aimed at training staff and attracting young specialists.

Personnel Management and Development

The Group has established programs that create conducive conditions for work and professional development. The Group has collective agreements in place, valid until 2023, and aligned with the Labor Code of the Russian Federation and with labor safety requirements. All obligations under the collective agreements have been fulfilled and financed by the Group, including regular indexation of wages.

The Group maintains an effective talent management framework. As part of the personnel development programs, the Group cooperates with related universities, and vocational and technical schools, and signs cooperation agreements with such educational institutions, ensuring the maintenance and growth of these relationships.

Legal proceedings

As of the date of this Offering Memorandum, the Group is not subject to legal proceedings that may result in a material adverse effect to the Group's business.

REGULATORY OVERVIEW

The Group's business and operations of its facilities are significantly affected by international conventions, treaties and national, supranational, state and local laws and regulations ("**Norms**") in the jurisdictions in which its facilities operate. Because these Norms change frequently, the Management cannot predict the ultimate cost of compliance or their impact on the resale price of Group's products. Additional Norms may be adopted that could limit the Group's ability to do business or increase the Group's cost of doing business, and that may materially adversely affect its operations.

The following is a non-exhaustive overview of certain material Norms which affect the Group's business and operation of its facilities. It is not a comprehensive summary of all Norms to which the Group and the operations of the Group's facilities are subject.

International Regulations and Standards

International Plant Protection Convention, 1952, as amended (the "IPPC")

The IPPC aims to protect the world's plant resources from the spread and introduction of pests and deceases and to promote safe trade by establishing International Standards for Phytosanitary Measures ("**ISPMs**") for pest surveillance and monitoring, import regulation and pest risk analysis, compliance procedures and methodologies of phytosanitary inspections etc. ISPM 15 "Regulation of wood packaging material in international trade" is of particular relevance to the Group's business and operations, as it sets forth phytosanitary measures applicable to the wood packaging material. Under ISPM 15, it is required that wood packaging material or timber which is to be made into packaging material is subject to various treatments in order to remove the pests before import.

United Nations Framework Convention on Climate Change, 1992, as amended (the "UNFCCC")

Forests play a key part in reducing emissions of greenhouse gases and offsetting consequences of climate change within the UNFCCC. The Kyoto Protocol to the UNFCCC which came into force on February 2005 requires that adopting countries, among other measures, promote sustainable forest management practices, afforestation and reforestation. Moreover, on 12 December 2015, the Paris Agreement was adopted by a large number of countries. The Paris Agreement sets forth parties' obligation to conserve forests and to implement and support measures aimed at reducing emissions from deforestation and forest degradation and sustainable management of forests.

Convention on International Trade in Endangered Species of Wild Fauna and Flora, 1973, as amended (the "CITES")

The CITES is aimed at protecting certain endangered species of wild fauna and flora from overexploitation through international trade through a system of import and export permits. The CITES designates certain species as endangered by listing them in one of three appendices thereto, each of which invokes a different level of control in international trade. Certain timber species are designated as endangered by the CITES and are restricted or prohibited from trading.

European Union Regulations

The Group is subject to extensive European Union environmental regulations, governing, *inter alia*, industrial emissions into the air and water, waste treatment and operation of the Group's facilities. In recent years the European Union has been playing an increasingly active role in promoting, developing and adopting regulations for the purpose of the forests' preservation and environment protection. The below reflects a discussion of key applicable regulations and directives.

Regulation (EU) No. 995/2010 of 20 October 2010, as amended (the "**Timber Regulation**") is aimed at countering the trade in illegally harvested timber and products manufactured from such timber (including, but not limited to, pulp and paper). In particular, the Timber Regulation prohibits trading in such timber or products in the European market and obliges traders who place timber products on the EU market for the first time to exercise 'due diligence' in order to provide detailed information on the supply chain of timber products and prove compliance with the applicable laws and regulations of the country of timber products' origin. Further, the Timber Regulation requires traders to keep records of their suppliers and customers in order to facilitate tracing and transparency throughout the supply chain.

Directive 2008/98/EC of 12 December 2010, as amended (the "**Waste Framework Directive**") is aimed at waste prevention and recycling and sets forth procedures applicable to by-products and waste to be then reused and recycled. The Waste Framework Directive requires that waste should be managed without endangering human health and harming the environment and prescribes that any entity intending to carry out waste treatment should obtain a permit from the competent authority. Further, the Waste Framework Directive provides for the 'polluter pays' principle.

The Group is constantly working at ensuring that the raw materials it uses originate from sustainably managed forests that provide for a long-term supply of high-quality products while preserving wildlife habitat and forest ecosystem. For this purpose, the Group obtained and is maintaining certifications under the Program for the Endorsement of Forest Certification and Forest Stewardship Council in respect of its forest management practices and chain of custody systems.

Russian Regulation of Forestry Industry

Set forth below are certain key provisions of Russian legislation relating to pulp and paper industry, which apply to the Group's business activities. However, this description is not comprehensive and is qualified in its entirety by reference to applicable Russian law.

Applicable Legislation

The regulation of pulp and paper industry in Russia is based primarily on the following key laws and regulations:

- *Russian Forest Code dated 4 December 2006 No. 200-FZ, as amended (the "**Forest Code**")*

  The Forest Code regulates, among others, forest ownership, principles of forest management and inventory, forest utilization, forest protection and forest regeneration. Being the core statutory act relating to forest regulation, it seeks, *inter alia*, to ensure sustainable management of forest resources, preservation of biologic diversity in forests and improvement of forest quality, compensatory basis of forest use.

  The forest parcels located within the forestry land funds are state owned. Third party may use such forest parcels for business purposes under a lease agreement, and for non-business purposes – under certain special rights. The lease agreements are entered into for a fixed period and presume payment, while special non-business rights may be granted for unlimited duration and free of direct payments. Under the Forest Code, certain types of forests and lands, depending on their designated use and useful features, may be leased out to third parties. Under general rule the limited lease is allowed for 10 to 49 years depending on the length of the permitted forest use. For the lessees under the limited leases the Forest Code prescribes for preferential rights to the subsequent leases, provided that during the lease term the lessees complied with applicable requirements.

  Under the Forest Code, forest users are subject to a number of obligations relating to proper forest exploitation, including obligations to procure protection of forests from fires, propagation of hazardous organisms, pollution and negative impact. It also prescribes for extensive reporting duties in the form of submission of reports on forest utilization, forest protection and forest regeneration. Forest regeneration is another key obligation of the forest users imposed by the Forest Code and may take the form of seedage, forest restoration and tending of forest. Within the year of the wood felling, to compensate for its consequences the forest users must engage in forest restoration works covering the land area of the same acreage as the area of the harvesting in accordance with the forest restoration plan. As another measure of countering deforestation, the Forest Code also puts limitations on the felling operations – thus, for example, the felling beyond the allowable cut as well as the harvesting of trees below the minimum age are prohibited and the clear-cut harvesting is always subject to strictly controlled forest restoration on the exploited land plots. Violation of such forest restoration obligations may lead to termination of the lease. Moreover, the Russian government maintains the list of tree and shrub species harvesting of which is prohibited.

  Under the Forest Code, transactions relating to trade of wood products produced out of certain tree species require filing of declarations with state authorities to inform them of the transaction details. Such information is stored in a comprehensive database – Unified State Automated Informational System of Wood Accounting – which contains, inter alia, information on forest users and land plots leased for forestry purposes. Starting from 1 January 2022, the system will contain more detailed information on trade of wood products, logistics, harvesting equipment and lease rights.

  The Forest Code also sets out legal framework for harvesting and timber transportation.

  On 2 February 2021, certain provisions of the Federal Law No. 3-FZ "On Amendments to the Forest Code of the Russian Federation and certain legislative acts of the Russian Federation in terms of improving the legal regulation of forest relations" dated 4 February 2021 came into force. The law is aimed at increasing efficiency and transparency of the forest industry and envisions, *inter alia*, new rules on wood transportation, processing and storing, as well as recording of transactions relating to wood, and grants respective supervision powers to the federal authorities in order to facilitate enforcement of the amendments.

- *Resolution of the Government of the Russian Federation No. 190 dated 23 February 2018 "On prioritized forest exploitation projects and on amendments to and cancellation of certain acts of the Government of the Russian Federation", as amended (the "**Priority Project Resolution**")*

  The Ministry of Industry and Trade of the Russian Federation maintains a list of prioritized projects in forestry industry (the "**List**"). The projects included in the List receive additional state benefits. Together with the Forest Code, the Priority Project Resolution sets out conditions and procedures applicable to the projects for the purposes of inclusion in the List. For instance, one of such conditions is establishing forest or wood processing infrastructure or modernization of the existing infrastructure, in each case with expected capital expenditure of at least RUB 2 billion. The outline of procedure is as follows: an application for inclusion of the project into the List shall be submitted to a state, regional or municipal competent authority. Such authority decides whether the application should be approved and further submitted it to the Ministry of Industry and Trade which makes the final decision.

- *Resolution of the Government of the Russian Federation No. 800 dated 10 July 2018 "On carrying out of land recultivation and conservation", as amended (the "**Recultivation Resolution**")*

  The Recultivation Resolution sets forth the obligations applicable to the persons and entities exploiting land plots, including forest parcels. Such obligations include, among others, insuring prevention or minimization of the lands' deterioration caused by the forest users. The recultivation may be implemented by means of technological (e.g., removal of the surface soil) and biological (e.g., revegetation) measures. The ultimate purpose of recultivation is to restore the land to the condition where it is fit for its designated use. After the recultivation the land must also comply with the ecological and sanitary requirements.

- *Resolution of the Government of the Russian Federation No. 1730 dated 29 December 2018 "On peculiarities of compensation of damage caused to forests and natural objects located therein by the violations of the forest legislation", as amended*

  The resolution provides for the procedure of voluntary compensation of damage caused to the forest ecosystem by actions of the forest user in breach of the statutory rules as well as the standard amounts of penalties to be recovered from such user which vary depending on the nature of the offence.

- *The Federal Law No. 7-FZ dated 10 January 2002 "On Protection of Environment", as amended (the "**Environment Protection Law**")*

  The Environment Protection Law is based on the "pay-to-pollute" principle which is enforced by federal and regional authorities. The payments represent compensation for pollution of air, water and disposal of waste and are calculated and made for each facility which produces a negative impact on the environment. Such facilities are to be registered with the Federal Service for Supervision of Natural Resources and are classified into 4 categories depending on the gravity of impact, with wood processing and pulp and paper industry facilities being placed into the first category, i.e. facilities having substantial impact on the environment. Attribution of a facility to the first environmental category entails the duty of a person operating such facility to obtain a complex ecological permit which contains technological standards, standards of permitted air and water emissions, requirements to waste treatment and disposal and agreed programme for ecologic monitoring.

- *Federal Law No. 174-FZ dated 23 November 1995 "On Environmental Audit", as amended (the "**Environmental Audit Law**")*

  Under the Environmental Audit Law, if a project for construction of infrastructure implies substantial environmental impact, the documentation regarding such project is subject to the state environmental audit carried out by expert commission. Upon the results of such audit, the commission issues a statement on compliance of the project to applicable environmental requirements.

- *Federal Law No. 184-FZ dated 27 December 2002, "On Technical Regulation", as amended (the "**Technical Regulation Law**")*

  The Technical Regulation Law provides for the development, enactment, application and enforcement of mandatory technical requirements and the voluntary standards relating to products (including buildings) and the engineering, production, construction, installation, adjustment, exploitation, storage, transportation, selling and utilization processes related to the products. Compliance with the obligatory technical regulations is supervised by the authorized state organizations.

- *Federal Law No. 116-FZ dated 21 July 1997, "On Industrial Safety of Hazardous Industrial Facilities", as amended (the "**Industrial Safety Law**")*

  The Industrial Safety Law provides legal, economic and social grounds for securing hazardous industrial facilities' operations and focuses on preventing accidents on such facilities. The law establishes that technical equipment must comply with mandatory technical requirements in the Russian Federation.

- *Federal Law No. 96-FZ dated May 4, 1999 "On Protection of Atmospheric Air", as amended (the "**Atmospheric Air Protection Law**")*

  The Atmospheric Air Protection Law describes general standards of air quality and atmosphere emission limit values. The law provides that atmosphere emissions must be accompanied by a permit issued by governmental authorities. Failure to comply with the provisions of this law (including, but not limited to, conducting operations without a required permit, or violation of its conditions) may lead to administrative or criminal liability.

- *Federal Law No. 68-FZ dated 21 December 1994 "On Citizens and Territory Protection from Natural and Man-Made Emergency Situations", as amended (the "**Law on Protection from Emergency Situations**")*

  The Law on Protection from Emergency Situations sets forth general rules for protection of land, air and water space in the territory of the Russian Federation and the environment from natural and man-made emergencies.

- *The Federal Law No. 89-FZ dated 24 June 1998 "On Production and Consumption Waste" (the "**Law on Production and Consumption Waste**")*

  The Law on Production and Consumption Waste sets forth general rules for handling production and consumption waste to prevent its harmful effects on human health and the environment, as well as for involving such waste into economic turnover as additional sources of raw materials.

- *Federal Law No. 52-FZ dated 30 March 1999 "On Sanitary and Epidemiological Welfare of the Population", as amended (the "**Sanitary and Epidemiological Welfare Law**")*

  The Sanitary and Epidemiological Welfare Law provides for certain sanitary and epidemiological requirements to labour conditions and environment at industrial sites, as well as their operation. The Sanitary and Epidemiological Welfare Law also sets forth procedures aimed at controlling observance of these requirements. Failure to comply with the requirements established by the Sanitary and Epidemiological Welfare Law may lead to administrative or criminal liability.

The Regulatory Bodies

The key state and local bodies are:

- The Ministry of Economic Development, among others, is responsible for the development of state policy, analysis and forecasting in respect of socioeconomic and business development in Russia, foreign economic activity (except for foreign trade) and opinions and drafts of the legal acts which regulate the relationships among business entities and their relationships with the Russian state in the relevant industry.

- The Ministry of Finance determines, inter alia, the state budgetary, taxation, insurance, and accounting policy.

- The Ministry of Natural Resources and the Environment of the Russian Federation, which, among other things, is responsible for development the governmental policy for, and the regulatory regime of, natural resources and environment.

- The Ministry of Industry and Trade of the Russian Federation, which, among other things, is the principal federal body authorized to develop the governmental policy for, and the regulatory regime of, trade.

- The Federal Forestry Agency of the Russian Federation (Rosleskhoz), which implements government policies in the forestry industry, manages lease of forest parcels, maintains state forestry register, decides on conversion of forest parcels into non-forest parcels, and is responsible for forest monitoring and forest protection.

- The Federal Service for Supervision of Natural Resources (Rosprirodnadzor), which implements government policies in the supervising natural resources, supervises waste disposal activities, and is responsible for environmental protection.

- The Federal Antimonopoly Service (FAS), which promotes the development of the commodity markets and competition by exercising state control over the observance of anti-monopoly legislation and prevents and terminates monopolistic activity, unfair competition and other actions restricting competition. The FAS, among others, oversees the acquisition of controlling stakes in companies and dominant market position by business enterprises.

- The Federal Customs Service, which develops governmental policy and the regulatory regime for customs operations and exercises control over the transfer of goods across the borders of the Eurasian Economic Union (Russia, Belarus, Kazakhstan, Armenia and Kyrgyz Republic).

- The Federal Veterinary and Phytosanitary Monitoring Service, which carries out control and supervision in the field of veterinary science, establishes and lifts phytosanitary quarantine zones, controls the use of pesticides and agrochemicals, and maintains soil fertility.

- The Federal Environmental, Industrial and Nuclear Supervision Service, which carries out control and supervision, *inter alia*, in the field of industrial safety and safety of electrical and thermal installations and networks, maintains the state register of hazardous industrial facilities and inspects compliance of such facilities with mandatory technical requirements.

- Regional and local municipal authorities, which control compliance by the companies operating in their respective regions and municipalities with various regional and local rules.

- State courts, which resolve arbitration, civil and administrative disputes, such as invalidating provisions of consumer contracts that violate consumer rights, as well as consider criminal cases relating to the retail industry, such as manufacturing and sale of goods not in compliance with the applicable standards.

Technical requirements

Russian legislation establishes technical requirements for a number of products manufactured by the Group. These requirements are set forth in various state standards (*GOSTs*), as well as standards and regulations (*STOs* and *TUs*, respectively), which are adopted by companies on the basis and in furtherance of state standards.

Licensing

Generally, pulp and paper industry in Russia is not subject to licensing. However, under Russian law, certain activities of the Group require licenses, thus, some of the companies of the Group have obtained, *inter alia*, the licenses for: waste collection, transportation and utilization, exploitation of hazardous industrial objects, subsoil use, phytosanitary quarantine disinfection, loading and off-loading of hazardous cargo and medical services.

SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

The selected consolidated financial information as of and for the years ended 31 December 2020, and 2019 has been derived from the Group's audited consolidated financial statements included in this Offering Memorandum. The audited consolidated financial statements of the Group as of and for each of the years ended 31 December 2020 (the "**2020 Financial Statements**") and 31 December 2019 (the "**2019 Financial Statements**") included in this Offering Memorandum have been prepared in accordance with IFRS as issued by the IASB and have been audited by AO Deloitte & Touche CIS, the Group's independent auditors, who are members of the self-regulatory organization of auditors Association "Sodruzhestvo." The financial information pertaining to the year ended 31 December 2018 (the "**2018 Financial Statements**") has been derived, without material adjustment, from the unaudited comparative financial information included in the 2019 Financial Statements.

The selected financial and operating information set forth below should be read in conjunction with "*Operating and Financial Review*" included elsewhere in this Offering Memorandum and the Group's financial statements included in this Offering Memorandum.

Selected Consolidated Statement of Profit or Loss and Other Comprehensive Income
(in thousands of Russian Rubles)

	2020	2019	2018
Revenue	68,986,649	58,494,635	57,890,264
Cost of sales	(45,477,189)	(39,423,999)	(37,724,350)
Gross profit	**23,509,460**	**19,070,636**	**20,165,914**
Selling and administrative expenses	(14,545,143)	(12,548,477)	(12,353,411)
Other operating income, net	2,202,110	1,470,133	751,044
Operating profit	**11,166,427**	**7,992,292**	**8,563,547**
Interest income	176,415	73,991	70,996
Interest expense	(3,402,662)	(3,626,961)	(3,627,052)
Other finance expenses	(782,639)	-	-
Foreign exchange differences, net	(7,674,875)	2,404,415	(4,337,206)
Other income/(expenses)	18,243	(863)	(304,847)
(Loss)/profit before tax	**(499,091)**	**6,842,874**	**365,438**
Income tax expense	(848,792)	(2,091,912)	(353,229)
Net (loss)/profit for the reporting period	**(1,347,883)**	**4,750,962**	**12,209**
Other comprehensive income/(loss)			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit pension obligations	(52,420)	(81,769)	7,567
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	1,004,488	(243,574)	644,447
Other comprehensive income/(loss)	**952,068**	**(325,343)**	**652,014**
Total comprehensive (loss)/income for the year	**(395,815)**	**4,425,619**	**664,223**
Net (loss)/profit attributable to:			
Shareholders/participants of Segezha Group JSC	(1,346,726)	4,787,419	(20,483)
Non-controlling interests	(1,157)	(36,457)	32,692
	(1,347,883)	**4,750,962**	**12,209**
Total comprehensive (loss)/income attributable to:			
Shareholders/participants of Segezha Group JSC	(394,658)	4,462,076	631,531
Non-controlling interests	(1,157)	(36,457)	32,692
	(395,815)	**4,425,619**	**664,223**

Selected Consolidated Statement of Financial Position
(in thousands of Russian Rubles)

	31 December 2020	31 December 2019	31 December 2018
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	42,315,222	38,256,065	37,404,797
Right-of-use assets	14,649,041	12,017,386	11,372,345[(3)]
Intangible assets	1,822,070	559,324[(4)]	-
Goodwill	443,838	423,136	423,136[(3)]
Investments in joint ventures and associates	458,192	199,760	204,643
Deferred tax assets	1,132,567	658,941	542,101
Prepayments for non-current assets, net	2,482,463	1,789,897	750,022
Loans issued to related parties	1,347,870	-	-
Other non-current assets	230,470	253,564[(4)]	448,756
Total non-current assets	**64,881,733**	**54,158,073**	**51,145,800**
CURRENT ASSETS:			
Inventories, net	9,432,609	9,344,329[(5)]	10,480,502
Contract assets	1,290,658	1,307,377[(5)]	-
Trade and other receivables, net	5,862,900	5,378,830	6,401,838
Taxes receivable[(1)]	3,057,269	2,194,262	2,824,911
Advances and other current assets	1,222,277	963,440	-
Cash and cash equivalents	3,670,197	3,214,409	3,006,868
Total current assets	**24,535,910**	**22,402,647**	**22,714,119**
TOTAL ASSETS	**89,417,643**	**76,560,720**	**73,859,919**
EQUITY AND LIABILITIES			
EQUITY:			
Share/charter capital	1,194,000	12	12
Additional paid-in capital	6,323,605	7,517,593	7,648,354
Retained earnings	(345,035)	5,581,246	4,734,314
Accumulated other comprehensive income	1,569,016	616,948	942,291
Equity attributable to the shareholders/participants of Segezha Group JSC	8,741,586	13,715,799	13,324,971
Non-controlling interest	126,630	132,709	170,300
Total equity	**8,868,216**	**13,848,508**	**13,495,271**
NON-CURRENT LIABILITIES:			
Loans and borrowings	50,758,014	29,969,945	32,708,060
Lease liabilities	9,573,338	7,573,098	6,334,982
Other financial liabilities	943,358	-	-
Pension obligations	917,435	754,587	806,981
Deferred tax liabilities	1,835,476	2,048,249	1,836,877[(3)]
Other non-current liabilities	5,931	14,342	35,525
Total non-current liabilities	**64,033,552**	**40,360,221**	**41,722,425**
CURRENT LIABILITIES:			
Loans and borrowings	2,494,023	12,572,249	8,823,662
Trade and other payables	9,612,693	7,079,386	6,547,012
Lease liabilities	1,380,598	887,632	841,620
Provisions	559,758	392,611	772,297
Taxes payable	1,210,363	937,479	-
Advances received and other liabilities[(2)]	1,258,440	482,634	1,657,632
Total current liabilities	**16,515 875**	**22,351,991**	**18,642,223**
TOTAL EQUITY AND LIABILITIES	**89,417,643**	**76,560,720**	**73,859,919**

(1) “Taxes receivable and other current assets” in the 2019 Financial Statements.
(2) “Advances received, other liabilities and taxes payable” in the 2019 Financial Statements.
(3) Amount restated in the 2019 Financial Statements. For further information, see Note 6 thereto
(4) “Other non-current assets” in the 2019 Financial Statements.
(5) “Inventories, net” in the 2019 Financial Statements.

Selected Consolidated Statement of Cash Flows
(in thousands of Russian Rubles)

	Year ended 31 December		
	2020	**2019**	**2018**
Cash flows from operating activities:			
Net (loss)/profit for the reporting period	(1,347,883)	4,750,962	12,209
Adjustments for:			
Depreciation and amortization	5,357,137	4,954,133	4,203,028
Depreciation of right-of-use assets	915,559	1,047,685	423,058
Interest income recognised in profit or loss	(176,415)	(73,991)	(70,996)
Interest expense recognised in profit or loss	3,402,662	3,626,961	3,627,052
Other finance expenses	782,639	-	-
Gain on business acquisition	(988,745)	-	-
Income tax expense recognised in profit or loss	848,792	2,091,912	353,229
Allowance for expected credit losses	98,826	7,408	147,657
Loss on write-off of inventories	66,149	7,755	161,562
Allowance for inventory impairment	(445)	(14,356)	(5,976)
(Gain)/loss on disposal of property, plant and equipment	(341,304)	25,429	(24,181)
Foreign exchange differences, net	7,674,875	(2,404,415)	4,337,206
Reversal of impairment loss on property, plant and equipment	-	(478,887)	-
Gain on deconsolidation of Group companies(1)	(18,243)	-	248,345
Share in net profit of associates recognized using equity method	-	-	(140,535)
Revaluation of previously held interest in acquire to fair value	-	-	(306,246)
Other non-monetary operating expenses/(income) and other expenses/(income), net	168,329	(118,996)	(8,168)
	16,441,933	**13,421,600**	**12,957,244**
Movements in working capital:			
Decrease/(increase) in trade and other receivables	96,085	(236,646)	(1,367,506)
Decrease/(increase) in inventories	1,031,276	(445,016)	(2,850,258)
Increase in other assets	(345,682)	(1,743,511)	1,124,271
Increase in trade and other payables	213,705	1,631,549	726,392
Increase/(decrease) in other liabilities	1,075,664	(678,318)	847,361
Cash generated from operating activities	**18,512,981**	**11,949,658**	**11,437,504**
Interest paid	(2,099,438)	(2,649,048)	(2,420,233)
Income taxes paid	(1,679,085)	(1,680,242)	(519,761)
Net cash from operating activities	**14,734,458**	**7,620,368**	**8,497,510**
Cash flows from investing activities:			
Payments for property, plant and equipment and intangible assets	(11,839,256)	(6,431,770)	(6,468,603)
Proceeds on disposal of property, plant and equipment	205,023	174,112	309,717
Loans issued to joint venture	(1,490,010)	-	-
Repayment of loans issued to joint venture	1,319,540	-	-
Interest received	176,415	73,991	70,996
Cash outflow from deconsolidation of Group companies	(44,657)	-	-
Investment in joint venture	(297,178)	-	-
Imputed dividends paid(2)	(55,600)	(138,987)	(169,942)
Net cash outflow on acquisition of Group companies	(901,963)	(139,588)	(544,464)
Proceeds from disposal of Karelia DSP JSC	-	-	8,135
Buy out of the stake of non-controlling shareholders of Group companies	-	-	(20,665)
Other movements(3)	3,157	54,036	16,483
Net cash used in investing activities	**(12,924,529)**	**(6,408,206)**	**(6,798,343)**
Cash flows from financing activities			
Proceeds from loans and borrowings	22,431,413	19,982,604	37,291,058
Repayment of principal of loans and borrowings	(18,122,246)	(15,892,885)	(38,630,197)
Proceeds from return of short-term investments	-	940	254
Other finance income	160,719	-	-
Dividends paid	(4,500,000)	(3,800,000)	(1,500,000)
Lease liability payments	(1,462,324)	(1,119,117)	(945,760)

Share-based payments	(130,761)	(130,761)	-
Net cash used in financing activities	**(1,623,199)**	**(959,219)**	**(3,784,645)**
Net increase in cash and cash equivalents	186,730	252,943	(2,085,478)
Cash and cash equivalents, beginning of the year	**3,214,409**	**3,006,868**	**4,755,636**
Effect of exchange rate changes on cash held in foreign currencies	269,058	(45,402)	336,710
Cash and cash equivalents, end of the year	**3,670,197**	**3,214,409**	**3,006,868**

(1) "Loss on disposal of a Group company" in the 2019 Financial Statements.
(2) "Deemed dividends paid" in the 2019 Financial Statements.
(3) "Dividends received" in the 2019 Financial Statements.

Non-IFRS Measures

OIBDA and non-IFRS related measures

	For the year ended		
	31 December 2020	**31 December 2019**	**31 December 2018**
		(RUB'000)	
OIBDA	**17,458,952**	**14,019,066**	**13,202,203**
Divided by Revenue	**68,986,649**	**58,494,635**	**57,890,264**
OIBDA margin	25.3	24.0	22.8

The following table reconciles the Group's OIBDA and consolidated net (loss)/profit before tax:

	For the year ended		
	31 December 2020	**31 December 2019**	**31 December 2018**
		(RUB'000)	
OIBDA	**17,458,952**	**14,019,066**	**13,202,203**
Depreciation and amortisation expense	(6,272,696)	(6,001,819)	(4,626,086)
Other	(19,829)	(24,955)	(12,570)
Operating profit	**11,166,427**	**7,992,292**	**8,563,547**
Interest income	176,415	73,991	70,996
Interest expense and other finance expenses	(4,185,301)	(3,626,961)	(3,627,052)
Foreign exchange differences, net	(7,674,875)	2,404,415	(4,337,206)
Other income/(expenses)	18,243	(863)	(304,847)
(Loss)/profit before tax	**(499,091)**	**6,842,874**	**365,438**

Ratio of net debt / OIBDA

The following tables reconcile the Group's ratio of net debt / OIBDA to IFRS line items:

	For the year ended		
	31 December 2020	**31 December 2019**	**31 December 2018**
		(RUB'000)	
Loans and borrowings[1]	53,252,037	42,542,194	41,531,722
Cash and cash equivalents	(3,670,197)	(3,214,409)	(3,006,868)
Total net debt	**49,581,840**	**39,327,785**	**38,524,854**
Divided by OIBDA	**17,458,952**	**14,019,066**	**13,202,203**
Net debt to OIBDA	**2.8**	**2.8**	**2.9**

(1) Loans and borrowings consists of Current loans and borrowings and non-current loans and borrowings.

OIBDA CAGR

The following table reconciles the Group's OIBDA CAGR:

	(RUB'000)
OIBDA for the year ended 31 December 2018	**13,202,203**
OIBDA for the year ended 31 December 2020	**17,458,952**
OIBDA CAGR	**15.0%**

Net working capital

The following table reconciles the Group's net working capital to IFRS line items:

	For the year ended		
	31 December 2020	**31 December 2019**	**31 December 2018**
		(RUB'000)	
Current assets			
Inventories	9,432,609	9,344,329	10,480,502
Contract assets	1,290,658	1,307,377	-
Trade and other receivables	5,862,900	5,378,830	6,401,838
Advances and other current assets	1,222,277	963,440	-
Less current liabilities			
Trade and other payables	(9,612,693)	(7,079,386)	(6,547,012)
Advances received and other liabilities	(1,258,440)	(482,634)	-[(1)]
Net working capital	**6,937,311**	**9,431,956**	**10,335,328**

(1) Advances received and other liabilities were presented as part of "Advances received, other liabilities and taxes payable" in the comparative information for the year ended 31 December 2018 in the 2019 Financial Statements.

ROCE

The following table reconciles the Group's ROCE to IFRS line items:

	For the year ended		
	31 December 2020	**31 December 2019**	**31 December 2018**
		(RUB'000)	
Operating profit	11,166,427	7,992,292	8,563,547
Capital employed (excluding right-of-use assets)	**58,252,727**	**42,191,343**	**43,845,351**
Total assets	89,417,643	76,560,720	73,859,919
Less:			
Right-of-use assets	(14,649,041)	(12,017,386)	(11,372,345)
Current liabilities	(16,515 875)	(22,351,991)	(18,642,223)
ROCE	**22.2%**	**18.6%**	**22.2%**

OPERATING AND FINANCIAL REVIEW

Overview

The Group is a vertically integrated holding company in the forest industry performing a full cycle of operations, which cover the whole range of the value-added chain from forestry operations, to wood, pulp, paper and manufacturing of products including sack paper, paper sacks, sawn timber, plywood, pellets and glulam. The Group benefits from a substantial and high quality natural resource base. As of 31 December 2020, the Group had the largest forestry area in the European part of Russia, with access to 8.1 million hectares across five forestry regions (with access to an additional 1.1 million hectares contingent on the execution of agreed and approved terms of PIPs applications), 83% of which are voluntarily certified in accordance with the requirements of generally recognized international standards. Russia holds the largest forest resources globally, as well as approximately 50% of the world's northern softwood (a raw material required for the production of high quality wood products), according to the UN Food and Agriculture Organization Global Forest Resources Assessment report (2015). The Group operates 17 facilities, with two additional facilities in the process of being constructed. The Group's facilities include pulp and paper mills, paper sacks production plants (in both Russia and Europe), plywood mills and sawmills, fiberboard facilities and pellet lines, glulam and CLT operations, throughout Russia. The Group's production facilities use raw wood as an input material and are strategically located in close proximity to the Group's wood sourcing regions, allowing the Group to be 80% self-sufficient in wood supply. The Group serves domestic customers in Russia and also exports to a diverse range of customers across Europe, Asia, the Middle East and North Africa and the rest of the world.

The Group's operations are divided into four operating segments: Paper and Packaging, Forestry Management and Woodworking, Plywood and Boards and Other (which includes glulam products as well as non-revenue generating parts of the Group, such as management and holding companies). From 1 January 2021, the Group intends to report its production of glulam-based products as a separate operating segment, on the basis that, in line with the requirements of IFRS 8, these operations are expected to constitute more than 10% of the Group's consolidated revenue for the year ended 31 December 2021 as a result of the Group's commencement of operations at the Sokol CLT plant, launched in February 2021. For the years ended 31 December 2020, 2019 and 2018, respectively, glulam product sales constituted less than 10% of the Group's consolidated revenue. For further information, see "*—Reorganization of Glulam as a Separate Segment*."

Paper and Packaging

The Group's paper and packaging segment includes the production of sack paper and artificial parchment produced from unbleached craft pulp, as well as industrial and consumer packaging (in the form of paper sacks). This segment contributed 51.7% of the Group's revenue for the year ended 31 December 2020. As of 31 December 2020, the Group had a sack paper capacity of 384 thousand tons, a packaging production capacity of 1,388 million pieces and an artificial parchment capacity of approximately 25 thousand tons. For further information on this segment, see "*Business—The Group's Operating Segments—Paper and Packaging.*"

The Group's sack papers are designed to be moisture-resistant with high tensile strength, and are used primarily for industrial sacks and consumer packaging production. Artificial parchment is resistant to heat up to 250 degrees centigrade, allowing it to be used in food product markets. Industrial sacks have a wide range of applications, including construction, food, agriculture, chemicals and mineral markets. Consumer packaging includes paper pouches and retailer bags.

Forestry Management and Woodworking

The Group's forestry management and woodworking segment include the production of (i) sawn timber, (ii) pellets, (iii) woodchips and (iv) fiberboards, in addition to wood harvesting operations to supply wood internally and to third parties. Pellets, woodchips and fiberboard are produced as by-products. This segment contributed 27.8% of the Group's revenue for the year ended 31 December 2020. As of 31 December 2020, the Group had a sawn timber production capacity of 1,200 thousand cubic meters, a pellets production capacity of 110 thousand tons and a fiberboard production capacity of 25 million meters squared (refers only to the fiberboard volumes produced at Lesosibirsky LDK No. 1). For further information on this segment, see "*Business—The Group's Operating Segments—Forestry Management and Woodworking.*"

Sawn timber is primarily utilized in the construction and furniture markets, and is also used as an intermediate material to produce the Group's glulam products and CLT panels. Woodchips are by-products of the sawn timber production process and are used in pulp production, fiberboard production and as an environmentally friendly fuel source. Pellets are used primarily as fuel for power generation, commercial or residential heating and cooking. Fiberboards are manufactured in a wide range of thickness and sizes for use in construction, furniture and packaging end markets. In addition, the Group's wood harvesting operations are also accounted for in this segment, including all logging activities. Sawlogs, pulpwood and veneer logs from the forestry regions are supplied to all Group business segments for use as a raw material and to some external customers at market prices. For the year ended 31 December 2020, approximately 89% of sawlogs at the Group's woodworking facilities in this segment were supplied by the Group's own forest resources, with 2,313 thousand cubic meters of sawlogs supplied by internal forestry resources, and 279 thousand cubic meters of sawlogs provided by third parties.

Plywood and Boards

The Group's plywood and boards segment includes the production of birch plywood. Fiberboards and briquettes are produced as by-products. For the year ended 31 December 2020, the plywood and boards segment contributed 11.1 % of the Group's revenue and had a plywood capacity of 192 thousand cubic meters and a fiberboard capacity of 26 million meters squared. For further information on this segment, see "*Business—The Group's Operating Segments—Plywood and Boards.*"

The Group's birch plywood is characterized by excellent strength and stiffness properties and therefore performs very well for end-use applications demanding high strength and rigidity. The Group's plywood can be fully customized and routed into any size and thickness, including higher margin large size and specialty plywood products. The Group's plywood is used primarily in the construction, transportation, furniture, flooring and packaging markets. Fiberboard production is focused on medium density fiberboard in a range of thicknesses and sizes applicable in manufacturing doors and wall panels, construction, wood moldings, furniture and packaging for mechanically engineered goods. Briquettes are a wood fuel source made from sawdust and, being dry and dense, can be used more effectively for burning than a traditional log or firewood.

Other (including glulam and non-revenue generating parts of the Group)

This segment can be split into non-revenue generating components (which includes the management company, holding companies and certain logistics and personnel) and revenue generating components. The latter category principally consists of glulam (glued laminated timber), glulam-based home kits, CLT panels and sawn timber. Glued laminated timber, also called glulam, is a type of structural engineered wood product consisting of layers of dimensional lumber bonded together with durable, moisture-resistant structural adhesives. For the year ended 31 December 2020, this segment contributed 9.4% of the Group's revenue and had a glulam (including home kits) capacity of 100 thousand cubic meters. The sawn timber produced in this segment is mainly used internally for glulam production, as well as sold externally. For further information on this segment, see "*Business—The Group's Operating Segments—Other (including Glulam).*"

Glulam is highly durable and moisture resistant, and can be used to produce large pieces and unique shapes, and is widely used in the construction of wooden houses, ceilings in multi-story buildings, load bearing structures, rafter systems, stairs, claddings and other applications. Pre-fabricated housing kits are used to construct wooden houses and multi-story buildings and are manufactured using glulam beams and glued timber. CLT panels are made by gluing together softwood lumber in perpendicular layers, resulting in a panel with a strength comparable to concrete whilst being superior in terms of weight, cost-efficiency, sustainability, sound absorption and insulation.

The following table sets forth an overview of the Group's production volumes across key product lines for the years ended 31 December 2020, 2019 and 2018.

Key Product Lines	**2020**	**2019**	**2018**
Sack Paper (thousand tons)	379	365	354
Paper Sack (million pieces)	1,291	1,262	1,286
Artificial parchment and sack paper (thousand tons)[(1)]	23	22	21
Sawn Timber (thousand cubic meters)	1,192	1,014	924
Pellets (thousand tons)	88	72	6
Plywood (thousand cubic meters)	192	192	136
Fiberboard (million meters squared)	51	51	50
Glulam products (thousand cubic meters)	38	55	51
Prefabricated home kits (thousand cubic meters)	19	28	26

(1) Production volumes at Sokol PPM.

The following table sets forth an overview of the Group's production capacity volumes across key product lines and AAC for the year ended 31 December 2020.

Paper production capacity (thousand tons)	**409**
Segezha PPM	384
Sokol PPM	25(1)
Paper sacks production capacity (million pieces)	**1, 388**
Segezha Packaging Russia	668
Segezha Packaging Europe	720
Sawn timber input capacity (thousand cubic meters)	**3,207**
Lesosibirsky LDK No.1	1,500
Onega Sawmill	560
Karelian Wood Company	300
Segezha Sawmill	297
Sokol Timber Company	550
Pellets production capacity (thousand tons)	**110**
Lesosibirsky LDK No.1	110
Plywood production capacity (thousand cubic meters)	**192**
Vyatsky Plywood Mill	192
Fibreboards production capacity (million meters squared)	**51**
Vyatsky Plywood Mill	25
Lesosibirsky LDK No.1	26
Glulam production capacity (thousand cubic meters)	**100**
Sokol Timber Company	100
AAC (million cubic meters)	**10.2(2)**

(1) Production capacity volume for artificial parchment and sack paper.
(2) Access to additional 2.1 million cubic meters of AAC is contingent on the execution of agreed and approved terms of PIPs applications, as of 31 December 2020.

Key Factors Affecting Results of Operations

Our performance and results of operations have been and will continue to be affected by a number of factors. We believe that the key factors affecting our results of operations include the following.

Demand for the Group's Products

The demand for the Group's products is impacted by the change in the consumption behavior of these products. The two key products in the paper and packaging segment are sack paper and paper sacks. The demand for global sack paper is cyclical by nature, affected by the general economic environment, industrial production and construction development. Population growth and urbanization are important drivers for the construction and retail industries, and the urban population, the key driver of sack paper consumption, is expected to increase by approximately 26% by 2050 compared to 2020, according to Fisher International based on United Nations data. The demand for global sack paper decreased moderately in 2020 due to the COVID-19 pandemic, resulting in lower sack paper prices. According to Fisher International, the recovery of economic activity, an escalation of global bans on the use of plastic packaging, the substitution of plastic packaging with paper packaging and the growing consumption of paper in Asia and Latin America are expected to drive up the price of sack paper starting in 2021. With regard to the demand for paper sacks, the global demand for industrial paper sacks decreased in 2020 due to a significant decrease in activity in the construction industry, which accounts for 60-80% of global industrial paper sacks consumption, according to Fisher International. Demand for consumer paper sacks also decreased, as a result of drops in demand in the retail, hotel and restaurant industries, partially offset by an increase in demand as a result of increased e-commerce, each of which can be attributed to the COVID-19 pandemic. According to Fisher International, the consumption of industrial and consumer paper sacks are expected to grow on the back of the recovering economy and increasing activity in the aforementioned industries.

In the forestry management and woodworking segment, the Group's key products are sawn timber and pellets. Sawn timber supply built up from 2018 to 2020, on the back of overproduction from forest damage and decrease in demand due to the COVID-19 pandemic. However, the gap between global demand and supply of sawn timber is expected to balance out by 2021-22, due to the expected recovery of strong export demand in Asia and a limit in supply growth in Europe due to natural harvesting limitations and higher production costs. As such, global demand of sawn timber is expected to be strong, supported by increased construction activity, which accounts for approximately 70-75% of sawn timber demand, depending on the region, according to Fisher International. The demand for the pellets market is driven by European energy market regulations, heating sector subsidies, weather conditions and oil and gas prices, while the key factors from the supply side are wood and logistics costs and sawmill activity. The global demand for pellets is expected to demonstrate robust growth in the next five years, with Europe as a net importer of pellets, having imported over 12 million tons of pellets in 2020. The Group, along with other Russian producers, believes it is well positioned to benefit from the expected growth and demand for pellets, given the Group's proximity to Europe.

The key products in the Group's plywood and boards segment are birch plywood and fiberboard. According to Vision Hunters, the global birch plywood market has grown steadily over the past five years, despite a global oversupply of birch plywood. In the mid-term, demand is expected to increase, driven by the recovery of the economy and an increase in construction activity, which is expected to balance out the supply surplus. The supply surplus is of large volume underutilized capacities of small format birch plywood, and the demand for such products remains weak; however, the demand for premium birch plywood products, such as large and maxi formats with special features, is significantly stronger, which is expected to contribute to balancing out the demand.

The Group's other segment consists of glulam products, with overall demand for glulam products driven by residential construction, which is in turn underpinned by stable economic growth, interest rates and the uptick of the re-modelling business. The demand for glulam products has grown rapidly in Europe, specifically in Austria, France, Germany, Italy and Switzerland, while North American demand has grown at a slower pace.

Economic Factors

The Russian economy is particularly sensitive to oil and gas prices, as oil and gas consist of a large proportion of Russia's exports and provide more than a third of the country's GDP. In 2019, oil price stability, low unemployment and salary growth contributed to moderate growth of the Russian economy. In March 2020, as a result of a significant decrease in global demand for oil due to the COVID-19 pandemic, oil prices dropped by more than 40%, immediately resulting in depreciation of the ruble against major foreign currencies. The Group's results have benefited from the depreciation of the ruble, as 72% of the Group's revenue was denominated in foreign currency in the year ended 31 December 2020, leading to positive translation effects when converted into rubles, the Group's reporting currency.

Impact of the COVID-19 Pandemic

The COVID-19 pandemic has impacted the demand for the Group's products by negatively affecting the industries of the Group's key customers, such as the construction and food industries, as described above in "—*Demand for the Group's products*." In the second quarter of 2020, there was a deferral of demand in paper sacks due to the decrease in activity in the construction industry as a result of the COVID-19 pandemic in the first half of 2020, although ultimately all paper sack inventory produced was sold by the end of the third quarter. There was a slight decrease in the Group's sales volume of paper sacks in the second quarter of 2020 compared to the second quarter of 2019 by 5.9%, from 367.9 million units to 344.9 million units due to the suspension of operations in the construction industry and temporary closure of retail businesses as a result of the COVID-19 pandemic. However, in the third quarter of 2020, the sales volume of sack paper increased by 4.9% to 358.9 million units, compared to 342.1 million units in the third quarter of 2019, due to a recovery in demand from the European construction industry. In the third quarter of 2020, there was also a decrease in birch plywood by 21.1%, from 48.2 thousand cubic meters to 38.1 thousand cubic meters, due to the weakening of demand within the main sectors of plywood consumption, construction, furniture, transportation, and packaging, as a result of the COVID-19 pandemic.

In the year ended 31 December 2020, despite prices for all of the Group's segments being relatively weak due to challenging market conditions resulting from the COVID-19 pandemic, the Group managed to strengthen sales volumes across all segments, with total revenue increasing by 17.9% compared to 2019, due to the implementation of alternative logistics arrangements, the reallocation of volumes to customers in other industries and the depreciation of the ruble. The paper and packaging segment and plywood and boards segment offset the lower prices with higher sales volumes and increases in the Group's share of direct sales, while the forestry management and woodworking segment offset the lower prices with an increased scale of business due to the acquisition of Karelian Wood Company. For further information on the impact of the COVID-19 pandemic, see "*Industry Overview*."

Seasonality

The demand for industrial paper sacks follows the seasonality of the construction industry, with high demand seasons from mid-spring to mid-autumn, with demand slowing down in winter. The demand for the forestry management and woodworking segment also follows the seasonality of the construction industry, as 70% of its revenue in the year ended 31 December 2020, was derived from the construction industry, with peak demand in March and May. Pellet prices experience seasonality as well, and have a strong correlation with energy demand; for example, pellet prices in the year ended 31 December 2020 were at lower levels due to the warm winter at the end of 2019, according to Vision Hunters.

Regulation

The expected ban on exports of round timber from coniferous species out of Russia at the beginning of 2022, is likely to decrease or eliminate international purchases, with the decreased demand expected to cause a consequent decrease in the price of round timber, a key raw material for the Group's products, leading to a potential increase in sales margins across the Group's segments. The decreased availability of such raw materials to producers outside Russia may also impact their ability to meet the needs of their existing customers, potentially driving increased demand for the Group's products abroad.

Revenue and Profitability Mix of the Group's Business

The Group's financial performance depends on the revenue generated, and the OIBDA contributed, by each of its segments.

The following table sets out the Group's revenue by segment:

	Year ended 31 December,					
	2020		2019		2018	
	(RUB '000)					
Revenues		% of total		% of total		% of total
Paper and packaging	35,660,344	51.7	33,359,114	57.0	32,449,128	56.0
Forestry management and woodworking	19,159,011	27.8	14,973,196	25.6	15,546,292	26.9
Plywood and boards	7,666,198	11.1	6,556,293	11.2	5,612,081	9.7
Other	6,501,096	9.4	3,606,032	6.2	4,282,764	7.4
Total	68,986,649	100%	58,494,635	100	57,890,264	100

The following table sets out the Group's segment OIBDA for each of the Group's segments:

	Year ended 31 December,					
	2020		2019		2018	
	(RUB '000)					
Segment OIBDA		% of total		% of total		% of total
Paper and packaging	10,016,858	57.4	10,604,900	75.7	9,440,091	71.5
Forestry management and woodworking[(1)]	5,830,514	33.4	2,927,003	20.9	3,115,634	23.6
Plywood and boards	2,914,492	16.7	1,660,163	11.8	1,769,364	13.4
Other	(1,302,912)	(7.5)	(1,173,000)	(8.4)	(1,122,886)	(8.5)
Total	17,458,952	100	14,019,066	100	13,202,203	100

(1) "Timber resources and woodworking" segment was renamed "Forestry management and woodworking" in 2020.

The following table sets out segmental OIBDA margin (calculated as OIBDA divided by revenue) for each of the Group's segments:

	Year ended 31 December,		
	2020	2019	2018
	(RUB'000)		
Segment OIBDA Margin	%	%	%
Paper and packaging	28.1	31.8	29.1
Forestry management and woodworking	30.4	19.5	20.0
Plywood and boards	38.0	25.3	31.5
Other	(20.0)	(32.5)	(26.2)

The Group generated over half of its revenue from the paper and packaging segment for the years ended 31 December 2020, 2019 and 2018. The paper and packaging segment's increase in revenue of 6.9% to RUB 35,660.3 million from the year ended 31 December 2019 to 2020, was primarily due to higher sales volumes due to the rise in demand for consumer sack paper, which can be attributed to the rapid growth of e-commerce and food delivery activity, as well as an increased global focus on sustainable packaging instead of plastic packaging, partially offset by historically low global prices of sack paper and paper sacks due to the COVID-19 pandemic. The demand for this segment is expected to demonstrate robust growth as a result of trends such as economy and population growth, urbanization and an increased focus on sustainability, as well as new and developing end use cases, including changes in industrial appliances, consumer, retail and food packaging, and the general substitution of other packaging materials for paper. The paper and packaging segment's OIBDA decreased in the year ended 31 December 2020 due to the weakness in global prices affecting the profitability of the segment, which was partially offset by higher sales volumes.

The Group generated approximately a third of its revenue from the forestry management and woodworking segment in the years ended 31 December 2020, 2019 and 2018. The forestry management and woodworking segment's growth in revenue of 28.0% to RUB 19,159.0 million in the year ended 31 December 2020, primarily due to the increased scale of business, as a result of both organic growth of production and the acquisition of Karelian Wood Company in January 2020, which increased production capacity by 112 thousand cubic meters per year, with improved year on year pricing. The increased OIBDA margin of the forestry management and woodworking segment in the year ended 31 December 2020 (30.4%) compared to the year ended 31 December 2019 (19.5%), can also be attributed to higher internal supply of raw wood material and increased efficiency initiatives undertaken by the Group in forestry management. For further information, see "*Business—Strategy—Enhance further operating efficiency and resiliency of the business*." In addition, the Group recorded a gain on acquisition of the Karelian Wood Company of RUB 988.7 million, which is recorded as other operating income (thereby contributing to segment OIBDA, but not segment revenue). For further information, see Notes 5 and 9 of the 2020 Financial Statements.

The Group generated 11.1%, 11.2% and 9.7% of its revenue from the plywood and boards segment in the years ended 31 December 2020, 2019 and 2018, respectively. The plywood and boards segment's growth in revenue of 16.9% to RUB 7,666.2 million in the year ended 31 December 2020, was primarily driven by increased sales volumes, as a result of the Group's expansion of its current portfolio to high margin products (see "*Business-Plywood and Boards*"), its material cost advantage compared to other major European players and RUB depreciation, given the segment's high exposure to exports. The OIBDA growth of the plywood and boards segment in the year ended 31 December 2020 can be attributed to the same reasons.

Lastly, the Group's other segment generated 9.4% of its revenue in the year ended 31 December 2020, an increase of 80.3% to RUB 6,501.1 million from the year ended 31 December 2019, primarily due to the Group acting as a trader for third party Vyborg PPM sales of carton boards from June 2020. The decrease of OIBDA for the other segment can be attributed to low margins attributable to trading activity as well as a two and a half month pause in production of laminated beams due to a new production line installation which is expected to increase total production capacity by 20% in the future.

For information on the Group's revenue structure and contract pricing strategies, see "*Business—The Group's Business Model—Revenue Generation*."

Reorganization of Glulam as a Separate Segment

From 1 January 2021, the Group intends to report its production of glulam-based products as a separate operating segment, on the basis that in line with the requirements of IFRS 8, these operations are expected to constitute more than 10% of the Group's consolidated revenue for the year ended 31 December 2021 as a result of the Group's commencement of operations at the Sokol CLT plant, launched in February 2021, as well as increased production of laminated beams after replacement of the splicing line at Sokol Timber Company in June 2020. For the years ended 31 December 2020, 2019 and 2018, respectively, glulam product sales constituted less than 10% of the Group's consolidated revenue.

Current Trading and Prospects

Markets for the Group's products are experiencing fundamental upward momentum on the back of the global economic recovery following the COVID-19 slowdown in 2020, as well as the supportive sustainability megatrend. Demand growth is outpacing production capabilities across the industry, driving a strong recovery in prices for all of the Group's key products in the first quarter of 2021 compared to 2020 (FCA prices for March 2021 compared to average FCA prices for 2020). Sack paper prices in the first quarter of 2021 grew by 12% (in EUR terms), plywood prices increased by 23% (in RUB terms), and sawn timber and glulam prices rose by 48% and 13%, respectively (in RUB terms). This strong price recovery, together with increased production volumes driven by demand growth and the constructive market outlook, has provided a favorable operating environment for the Group in the first quarter of 2021.

The Group preliminarily expects revenue for the first quarter of 2021 to be in the range of RUB 18.0 billion to RUB 18.5 billion, an increase of 25.9% to 29.4%, compared to the first quarter of 2020. OIBDA for the first quarter of 2021 is expected to be in the range of RUB 4.7 billion to RUB 5.3 billion, an increase of 80.8% to 103.8%, compared to the first quarter of 2020. The OIBDA margin for the first quarter of 2021 is expected to be in the range of 25.4% to 29.4%, compared to 18.4% in the first quarter of 2020.

Revenue and OIBDA increased across all segments of the Group in the first quarter of 2021 on the back of price increases for the Group's key products. In the paper and packaging segment, there was a significant contribution from the Group's European assets, where markets began to recover earlier than in other countries. In addition to price increases, substantial OIBDA growth was also driven by an increase in the share of higher-margin products in the Group's portfolio and growth of prices for glulam products and housing kits.

The table below presents the Group's preliminary results for the first quarter of 2021, in the form of the following estimated ranges, which are subject to change and are not audited or reviewed. The Group intends to publish its unreviewed summary results for the three months ended 31 March 2021 on or about 23 April 2021.

	Quarter ended 31 March,		
	2021	**2020**	**Change**
	(RUB billion)		**(%)**
Revenue	18.0 - 18.5	14.3	25.9% - 29.4%
OIBDA	4.7 - 5.3	2.6	80.8% - 103.8%
OIBDA margin	25.4% - 29.4%	18.4%	-
Net debt	55 - 57	48.4	13.6 - 17.8
Net debt / OIBDA (last twelve months)	2.9 - 3.2	3.8	-
Capex(1)	6.7 - 7.2	2.6	157.7 - 176.9

(1) Capex represents cash payments effected by the Group to acquire, upgrade, and appreciably extend the life, increase the earning capacity or improve efficiency or safety of property, plant and equipment, as well as investment in intangible assets and payments for mergers and acquisitions, including VAT.

Description of Key Performance Measures and Income Statement Line Items

Revenue

Revenue represents income arising in the normal course of business of the Group. Revenue is recognized 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 recognized 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 recognized as control passes to the customer, i.e. when (i) products have been delivered to the customer under the commercial terms of the arrangements, (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 recognized 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 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.

For further information, see Note 2 to the Group's 2020 Financial Statements.

Cost of sales

Cost of sales comprises raw materials and supplies; employee benefits; supplier and contractor services; depreciation and amortization expenses; other expenses and net change in inventories, finished goods and work in progress.

Selling and administrative expenses

Selling and administrative expenses is comprised of: finished goods transportation and other selling expenses; employee benefits; supplier and contractor services; depreciation and amortization expenses; taxes, other than income tax; increase in allowance for expected credit losses (net) and other expenses.

Other operating income and expenses

Other operating income and expenses consists of reversal of previously accrued impairment for property, plant and equipment; depreciation and amortization; loss on write-off of inventories and other expenses.

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 recognized 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 recognized 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 2020 and 2019, the Group received grants to compensate costs attributable to the transportation of products and cover expenses related to the increase in coal and fuel oil prices in accordance with Russian Government Resolution No. 496 of 26 April 2017 *On the provision of subsidies from the federal government to Russian organizations, including organizations in the car-making, agricultural machine-building, transport machine-building, and energy-related machine-building industries, as a partial compensation for product transportation costs* and Resolution No. 489-P of 24 December 2018 by the Government of the Republic of Karelia *On the approval of the procedure for granting subsidies from the budget of the Republic of Karelia to legal entities (other than subsidies to state (municipal) institutions), individual entrepreneurs and individuals – producers of goods, work, services for the compensation of expenses related to the increase in coal and fuel oil prices*, as well as Russian Government Resolution No. 1007 of 8 July 2020 *On the subsidies from the government to organizations as a partial compensation for certification and homologation costs of product on export markets*.

Income tax

For information on changes on income tax, see Note 10 to the Group's 2020 Financial Statements.

OIBDA

OIBDA is a non-IFRS financial measure defined as operating income before depreciation and amortization. See "*Selected Consolidated Financial and Operating Information—Other Financial and Operating Data—OIBDA*."

Results of Operations

Years Ended 31 December 2020 and 31 December 2019

	Years ended 31 December,		
	2020	**2019**	**Change**
	(RUB'000)		**(%)**
Revenue	68,986,649	58,494,635	17.9
Cost of sales	(45,477,189)	(39,423,999)	15.4
Gross profit	**23,509,460**	**19,070,636**	**23.3**
Selling and administrative expenses	(14,545,143)	(12,548,477)	15.9
Other operating income, net	2,202,110	1,470,133	49.8
Operating profit	**11,166,427**	**7,992,292**	**39.7**
Interest income	176,415	73,991	138.4
Interest expense	(3,402,662)	(3,626,961)	(6.2)
Other finance expenses	(782,639)	-	(100)
Foreign exchange difference, net	(7,674,875)	2,404,415	(419.2)
Other income/(expenses)	18,243	(863)	2213.9
(Loss)/profit before tax	**(499,091)**	**6,842,874**	**(107.3)**
Income tax expense	(848,792)	(2,091,912)	(59.4)
Net (loss)/profit for the reporting period	**(1,347,883)**	**4,750,962**	**(128.4)**
Other comprehensive income/(loss)			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit pension obligations	(52,420)	(81,769)	(35.9)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	1,004,488	(243,574)	512.4
Other comprehensive income/(loss)	**952,068**	**(325,343)**	**392.6**
Total comprehensive (loss)/income for the year	**(395,815)**	**4,425,619**	**(108.9)**
Net (loss)/profit attributable to:	(1,346,726)	4,787,419	(128.1)
Shareholders/participants of Segezha Group JSC	(1,157)	(36,457)	96.8
Non-controlling interests	**(1,347,883)**	**4,750,962**	**(128.4)**
Total comprehensive (loss)/income attributable to:	(394,658)	4,462,076	(108.9)
Shareholders/participants of Segezha Group JSC	(1,157)	(36,457)	96.8
Non-controlling interests	**(395,815)**	**4,425,619**	**(108.9)**

Revenue

Group

The Group's revenue for the year ended 31 December 2020 was RUB 68,986.6 million compared to RUB 58,494.6 million for the year ended 31 December 2019, an increase of RUB 10,492.0 million, or 17.9%. The increase was primarily as a result of an increase in sales volumes across all segments and the depreciation of the ruble, partially offset by relatively weak prices due to challenging market conditions. See "*—Key Factors Affecting Results of Operations*."

The following table sets forth the breakdown by segment of the Group's revenue for the years ended 31 December 2020 and 2019:

	Year ended 31 December,	
	2020	**2019**
	(RUB '000)	
Segment revenue		
Paper and packaging	35,660,344	33,359,114
Forestry management and woodworking[(1)]	19,159,011	14,973,196
Plywood and boards	7,666,198	6,556,293
Other	6,501,096	3,606,032
Total	68,986,649	58,494,635

(1) "Timber resources and woodworking" segment was renamed "Forestry management and woodworking" in 2020.

Paper and packaging

Revenue in the paper and packaging segment for the year ended 31 December 2020 was RUB 35,660.3 million compared to RUB 33,359.1 million for the year ended 31 December 2019, an increase of RUB 2,301.2 million, or 6.9 %. The increase was primarily as a result of increased sales volume to meet increased demand across the geographies as well as inventory level reduction (that is, the sales during the year ended 31 December 2020 of inventory which had remained unsold during the year ended 31 December 2019), partially offset by a decrease in cross market average realized prices on a FCA basis (that is, where the seller of goods is responsible for the delivery of those goods to a destination specified by the buyer) of sack paper to EUR 530 per ton from EUR 693 per ton, a decrease of 30.8%, for the years ended 31 December 2020 and 2019, respectively.

Forestry management and woodworking

Revenue in the forestry management and woodworking segment for the year ended 31 December 2020 was RUB 19,159.0 million compared to RUB 14,973.2 million for the year ended 31 December 2019, an increase of RUB 4,185.8 million, or 28.0 %. The increase was primarily as a result of an increase in the scale of operations due to the acquisition of Karelian Wood Company, which specializes in logging and wood processing, providing RUB 1,424.6 million of revenue from the date of acquisition to 31 December 2020, as well as an increase in production volumes at existing facilities and the increase of average realized prices on an FCA basis of sawn timber to RUB 11,235 per cubic meter from RUB 9,494 per cubic meter, an increase of 18.3%, for the years ended 31 December 2020 and 2019, respectively.

Plywood and boards

Revenue in the plywood and boards segment for the year ended 31 December 2020 was RUB 7,666.2 million compared to RUB 6,556.3 million for the year ended 31 December 2019, an increase of RUB 1,109.9 million, or 16.9 %. The increase was primarily as a result of a shift in product portfolio mix towards more premium products which led to an increase of average realized prices on an FCA basis of plywood to RUB 32,632 per cubic meter from RUB 28,087 per cubic meter, an increase of 16.0%, for the years ended 31 December 2020 and 2019, respectively.

Other (including glulam and non-revenue generating parts of the Group)

Revenue in the other segment for the year ended 31 December 2020 was RUB 6,501.1 million compared to RUB 3,606.0 million for the year ended 31 December 2019, an increase of RUB 2,895.1 million, or 80.3 %. The increase was primarily as a result of the trading activity related to third party Vyborg PPM sales of carton boards from June 2020 and the increase of average realized prices on an FCA basis of glulam to RUB 26,430 per cubic meter from RUB 22,983 per cubic meter, an increase of 14.8%, for the years ended 31 December 2020 and 2019, respectively, in line with global prices, partially offset by lower sales volume due to a pause in production for two and a half months for the installation of a new gluing line.

Cost of sales

The Group’s cost of sales for the year ended 31 December 2020 was RUB 45,477.2 million compared to RUB 39,424.0 million for the year ended 31 December 2019, an increase of RUB 6,053.2 million, or 15.4% in line with the increase in production and sales volumes.

The following table sets forth the breakdown of cost of sales by categories for the years ended 31 December 2020 and 2019:

	Year ended 31 December,	
	2020	2019
	(RUB ’000)	
Cost of sales		
Raw materials and supplies	21,214,793	18,854,679
Employee benefits	9,023,977	8,087,295
Supplier and contractor services	8,945,979	7,735,117
Depreciation and amortization expense	5,584,603	5,327,478
Other expenses	421,319	120,513
Net change in inventories, finished goods and work in progress	286,518	(701,083)
Total	45,477,189	39,423,999

Raw materials and supplies

The Group’s expenditure on raw materials and supplies for the year ended 31 December 2020 was RUB 21,214.8 million compared to RUB 18,854.7 million for the year ended 31 December 2019, an increase of RUB 2,360.1 million, or 12.5%. The increase was primarily as a result of the increase in sales volume, partially offset by the higher internal wood supply as well as the decrease in the cost of raw wood through increased efficiencies developed in the Group’s own logging operations, with a decrease in the Group’s harvesting costs, which were RUB 2,124 per cubic meter and RUB 2,141 per cubic meter, for the years ended December 2020 and 2019, respectively.

Employee benefits

The Group's expenditure on employee benefits for the year ended 31 December 2020 was RUB 9,024.0 million compared to RUB 8,087.3 million for the year ended 31 December 2019, an increase of RUB 936.7 million, or 11.6%. The increase was primarily as a result of the increase in production and sales volume as well as the negative effect from the ruble weakening related to operations in European production facilities where salaries are denominated in euro.

Supplier and contractor services

The Group's expenditure on supplier and contractor services for the year ended 31 December 2020 was RUB 8,946.0 million compared to RUB 7,735.1 million for the year ended 31 December 2019, an increase of RUB 1,210.9 million, or 15.7%. The increase was primarily as a result of the increase in sales volume and the addition of back-up suppliers to ensure continuity of the supply chain in response to the COVID-19 pandemic.

Depreciation and amortization expenses

The Group's depreciation and amortization expenses for the year ended 31 December 2020 was RUB 5,584.6 million compared to RUB 5,327.5 million for the year ended 31 December 2019, an increase of RUB 257.1 million, or 4.8%. The increase was primarily as a result of an increase in asset base of the Group resulting from the construction of new production facilities and the acquisition of Karelian Wood Company (see "*Business—Key Strengths and Competitive Positioning—Well-invested large scale operational platform with strategically located assets*").

Other expenses

The Group's other expenses for the year ended 31 December 2020 was RUB 421.3 million compared to RUB 120.5 million for the year ended 31 December 2019, an increase of RUB 300.8 million, or 249.6%. The increase was primarily as a result of the reallocation of individually immaterial costs between cost of sales and selling and administrative expenses for organizational purposes.

Net change in inventories, finished goods and work in progress

The Group's net change in inventories, finished goods and work in progress for the year ended 31 December 2020 was RUB 286.5 million compared to negative RUB 701.1 million for the year ended 31 December 2019, an increase of RUB 987.6 million, or 140.9%. The increase was primarily as a result of the Group selling out finished goods inventory accumulated during the year ended 31 December 2019.

Selling and administrative expenses

The Group's selling and administrative expenses for the year ended 31 December 2020 was RUB 14,545.1 million compared to RUB 12,548.5 million for the year ended 31 December 2019, an increase of RUB 1,996.6 million, or 15.9 %. The increase was primarily as a result of the increase in finished goods transportation and other selling expenses, which was RUB 7,491.6 million for the year ended 31 December 2020 compared to RUB 6,783.8 million for the year ended 31 December 2019, an increase of RUB 707.8 million, or 10.4%, due to the growth in sales as well as an increase in freight rates due to the COVID-19 pandemic disruption to the global logistics supply chain as well as an increase in employee benefits, which was RUB 4,424.1 million for the year ended 31 December 2020 compared to RUB 3,379.6 million for the year ended 31 December 2019, an increase of RUB 1,044.5 million, or 30.9%, due to the growth of management company expenses attributable to the compensation payable to the members of senior management who joined the Group from 2018 to 2019.

Other operating income

The Group's other operating income for the year ended 31 December 2020 was RUB 2,202.1 million compared to RUB 1,470.1 million for the year ended 31 December 2019, an increase of RUB 732.0 million, or 49.8%. The increase was primarily as a result of the gain on acquisition of Karelian Wood Company of RUB 988.7 million.

Operating profit

The Group's operating profit for the year ended 31 December 2020 was RUB 11,166.4 million compared to RUB 7,992.3 million for the year ended 31 December 2019, an increase of RUB 3,174.1 million, or 39.7%, for the reasons described above.

OIBDA

Group

In the year ended 31 December 2020, OIBDA amounted to RUB 17,459.0 million, compared to RUB 14,019.1 million for the year ended 31 December 2019, an increase of RUB 3,439.9 million, or 24.5%. The increase was primarily as a result of increased production volumes and operating efficiency, decreased costs of raw materials, and local currency depreciation with a weakening of the average RUB/USD exchange rate to 73.88 RUB/USD from 61.91 RUB/UDS, in the year ended 31 December 2020 and 2019, respectively, partially offset by the decrease in average realized prices on an FCA basis of sack paper to RUB 530 per ton from RUB 693 per ton, a decrease of 30.8%, for the years ended 31 December 2020 and 2019, respectively, as a result of the COVID-19 pandemic.

The following table sets forth the breakdown by segment of the Group's OIBDA for the years ended 31 December 2020 and 2019:

	Year ended 31 December,		
	2020	**2019**	**Change**
	(RUB '000)		**%**
Segment OIBDA			
Paper and packaging	10,016,858	10,604,900	5.5
Forestry management and woodworking[(1)]	5,830,514	2,927,003	99.2
Plywood and boards	2,914,492	1,660,163	75.6
Other	(1,302,912)	(1,173,000)	11.1
Total	17,458,952	14,019,066	24.5

(1) "Timber resources and woodworking" segment was renamed "Forestry management and woodworking" in 2020.

Paper and packaging

OIBDA in the paper and packaging segment for the year ended 31 December 2020 was RUB 10,016.9 million compared to RUB 10,604.9 million for the year ended 31 December 2019, a decrease of RUB 588.0 million, or 5.5%. The decrease was primarily as a result of a decrease in average realized prices on an FCA basis of sack paper to EUR 530 per ton in the year ended 31 December 2020 from EUR 693 per ton in the year ended 31 December 2019, a 30.8% decrease, as a result of the COVID-19 pandemic, partially offset by an increase in sales volume of sack paper to 289 thousand tons in the year ended 31 December 2020 from 254 thousand tons in the year ended 31 December 2019.

Forestry management and woodworking

OIBDA in the forestry management and woodworking segment for the year ended 31 December 2020 was RUB 5,830.5 million compared to RUB 2,927.0 million for the year ended 31 December 2019, an increase of RUB 2,903.5 million, or 99.2%. The increase was primarily as a result of an increase in production volumes at existing facilities and the increase of average realized prices on an FCA basis of sawn timber to RUB 11,235 per cubic meter from RUB 9,494 per cubic meter, an increase of 18.3%, for the years ended 31 December 2020 and 2019, respectively, as well as the increased scale of operations due to the acquisition of Karelian Wood Company.

Plywood and boards

OIBDA in the paper and packaging segment for the year ended 31 December 2020 was RUB 2,914.5 million compared to RUB 1,660.2 million for the year ended 31 December 2019, an increase of RUB 1,254.3 million, or 75.6%. The increase was primarily as a result of the Group's expansion into higher margin products, including special films, coatings and treatment, an increase in average realized prices on an FCA basis of plywood to RUB 32.6 per cubic meter from RUB 28.1 per cubic meter, an increase of 16.0%, for the years ended 31 December 2020 and 2019, respectively, and depreciation of the ruble, due to the high exposure of the plywood segment to exports.

Other

OIBDA in the other segment for the year ended 31 December 2020 was negative RUB 1,302.9 million compared to negative RUB 1,173.0 million for the year ended 31 December 2019, a decrease of RUB 129.9 million, or 11.1%. The decrease was primarily as a result of a pause in production for two and a half months for the installation of a new gluing line.

Interest income

The Group's interest income for the year ended 31 December 2020 was RUB 176.4 million compared to RUB 74.0 million for the year ended 31 December 2019, an increase of RUB 102.4 million, or 138.4%. The increase was primarily as a result of income from a loan granted to Galich Plywood Mill.

Interest expense

The Group's interest expense for the year ended 31 December 2020 was RUB 3,402.7 million compared to RUB 3,627.0 million for the year ended 31 December 2019, a decrease of RUB 224.3 million, or 6.2%. The decrease was primarily as a result of lower cost of debt as a result of debt portfolio restructuring.

Other finance expenses

The Group's other expenses for the year ended 31 December 2020 was RUB 782.6 million compared to nil for the year ended 31 December 2019, an increase of RUB 782.6 million, or 100%. The increase was primarily as a result of the revaluation of the fair value of the cross-currency interest-rate swap agreements entered into with respect to previously issued corporate bonds. For a discussion of the Group's capital and financial risk management policies, see Note 25 to the 2020 Financial Statements.

Foreign exchange differences (net)

The Group's net foreign exchange differences for the year ended 31 December 2020 was negative RUB 7,674.9 million compared to RUB 2,404.4 million for the year ended 31 December 2019, a decrease of RUB 10,079.3 million, or 419.2%. The decrease was primarily as a result of the effect of the revaluation of the Group's foreign currency denominated debt.

Other income / (expenses)

The Group's other income for the year ended 31 December 2020 was RUB 18.2 million compared to the Group's other expenses of RUB 0.9 million for the year ended 31 December 2019, an increase of RUB 19.1 million, or 2,213.9%. The increase was as a result of the gain on deconsolidation of Galich Plywood Mill LLC of RUB 18.2 million, arising due to a credit facility agreement and corporate governance agreement entered into by the Group with a bank in March 2020, as a result of which the Group concluded that it ceased to have control over the Galich Plywood Mill LLC and its affiliates. For further information, see Note 6 to the 2020 Financial Statements.

(Loss) / profit before tax

The Group's loss before tax for the year ended 31 December 2020 was RUB 499.1 million compared to the Group's profit before tax of RUB 6,842.9 million for the year ended 31 December 2019, a decrease of RUB 7,342.0 million, or 107.3%, for the reasons described above.

Income tax expense

The Group's income tax expense for the year ended 31 December 2020 was RUB 848.8 million compared to RUB 2,091.9 million for the year ended 31 December 2019, a decrease of RUB 1,243.1 million, or 59.4%. The decrease was primarily as a result of the decrease in taxable profit mainly due to the foreign exchange losses on revaluation of the Group's foreign currency denominated debt.

Net (loss) / profit for the reporting period

The Group's net loss for the reporting period for the year ended 31 December 2020 was RUB 1,347.9 million compared to the Group's net profit of RUB 4,751.0 million for the year ended 31 December 2019, a decrease of RUB 6,098.9 million, or 128.4%, for the reasons set forth above.

Years Ended 31 December 2019 and 31 December 2018

	Years ended 31 December,		
	2019	**2018**	**Change**
	(RUB'000)		**(%)**
Revenue	58,494,635	57,890,264	1.0
Cost of sales	(39,423,999)	(37,724,350)	4.5
Gross profit	**19,070,636**	**20,165,914**	**(5.4)**
Selling and administrative expenses	(12,548,477)	(12,353,411)	1.6
Other operating income, net	1,470,133	751,044	95.7
Operating profit	**7,992,292**	**8,563,547**	**(6.7)**
Interest income	73,991	70,996	4.2
Interest expense	(3,626,961)	(3,627,052)	-
Foreign exchange difference, net	2,404,415	(4,337,206)	155.4
Other expenses	(863)	(304,847)	99.7
Profit before tax	**6,842,874**	**365,438**	**1772.5**
Income tax expense	(2,091,912)	(353,229)	492.2
Net profit for the reporting period	**4,750,962**	**12,209**	**38,813.6**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss Remeasurement of defined benefit pension obligations	(81,769)	7,567	(1,180.6)
Items that may be reclassified subsequently to profit or loss: Exchange differences on translating foreign operations	(243,574)	644,447	(137.8)
Other comprehensive (loss)/income	**(325,343)**	**652,014**	**(149.9)**
Total comprehensive income for the reporting period	**4,425,619**	**664,223**	**566.3**
Net profit/(loss) attributable to:	4,787,419	(20,483)	23,472.6
Participants of Group of Companies Segezha LLC	(36,457)	32,692	(211.5)
Non-controlling interest	**4,750,962**	**12,209**	**38,813.6**
Total comprehensive income/(loss) attributable to:	4,462,076	631,531	606.5
Participants of Group of Companies Segezha LLC	(36,457)	32,692	(211.5)
Non-controlling interest	**4,425,619**	**664,223**	**566.3**

Revenue

Group

The Group's revenue for the year ended 31 December 2019 was RUB 58,494.6 million compared to RUB 57,890.3 million for the year ended 31 December 2018, an increase of RUB 604.3 million, or 1.0%. The increase was primarily as a result of strengthened positions in the Russian market arising from an improved product mix which included a greater proportion of paper sacks, a high margin product, average sales prices rising throughout the year, and increased output of plywood as the plywood production line in the Kirov region reached full design capacity, which was partially offset by a downturn in the global prices for sack paper, plywood and sawn timber.

The following table sets forth the breakdown by segment of the Group's revenue for the years ended 31 December 2019 and 2018:

	Year ended 31 December,	
	2019	**2018**
	(RUB '000)	
Segment revenue		
Paper and packaging	33,359,114	32,449,128
Forestry management and woodworking[(1)]	14,973,196	15,546,292
Plywood and boards	6,556,293	5,612,081
Other	3,606,032	4,282,764
Total	58,494,635	57,890,264

(1) "Timber resources and woodworking" segment was renamed "Forestry management and woodworking" in 2020.

Paper and packaging

Revenue in the paper and packaging segment for the year ended 31 December 2019 was RUB 33,359.1 million compared to RUB 32,449.1 million for the year ended 31 December 2018, an increase of RUB 910.0 million, or 2.8%. The increase was primarily as a result of an increase in Russian paper packaging prices throughout the year, as well as increased sales of complex high-margin packaging for dry milk, animal feed and consumer packaging, and an increase in output and optimization of the product portfolio structure. This was partially offset by a decrease in sack paper prices as a result of a decrease in the price of kraft market pulp, the key raw material of sack paper, a decrease in paper sack consumption largely due to a decline of consumption from the construction sector as certain cement producers transitioned to large-size packaging, and a decrease in paper packaging sales volumes due to a weaker demand for paper sacks from the construction industry in Europe.

Forestry management and woodworking

Revenue in the forestry management and woodworking segment for the year ended 31 December 2019 was RUB 14,973.2 million compared to RUB 15,546.3 million for the year ended 31 December 2018, a decrease of RUB 573.1 million, or 3.7%. The decrease was primarily as a result of falling prices for sawn timber, due to a temporary decline in demand from the construction sector and the subsequent excess of output over demand. This was partially offset by increased sales, raw materials supply chain improvements resulting from an increased share of the Group's own logging and increased sawn timber production, attributable to a number of performance improvement initiatives undertaken by the Group's four sawmills.

Plywood and boards

Revenue in the plywood and boards segment for the year ended 31 December 2019 was RUB 6,556.3 million compared to RUB 5,612.1 million for the year ended 31 December 2018, an increase of RUB 944.2 million, or 16.8%. The increase was primarily as a result of the increased share of high-margin products, including new plywood grades, as well as increased plywood production growth, supported by the commissioning of a second plywood production line in the Kirov region. The additional output was sold in high-margin markets of the United States, Canada and Europe, and the share of industrial clients in the end use structure also increased.

Other

Revenue in the other segment for the year ended 31 December 2019 was RUB 3,606.0 million compared to RUB 4,282.8 million for the year ended 31 December 2018, a decrease of RUB 676.8 million, or 15.8%. The decrease was primarily as a result of a reduction in physical sales and revenue of a portion of the unsold volumes of prefabricated home kits in the fourth quarter of 2019, which was rescheduled to be sold in the first half of 2020, partially offset by an increase in the prices for prefabricated home kits in the second half of 2019 and an increase in sales and production of prefabricated home kits due to improved performance of glulam manufacturing equipment. The decrease in revenue in this segment was also partially offset by an increase in glulam sales driven by improvements to the Group's product portfolio and increased production efficiency in glulam manufacturing.

Cost of sales

The Group's cost of sales for the year ended 31 December 2019 was RUB 39,424.0 million compared to RUB 37,724.4 million for the year ended 31 December 2018, an increase of RUB 1,699.6 million, or 4.5%. The increase was primarily as a result of the increase in employee benefits costs due to the increased scale of operations, including the commissioning of the second plywood line at Vyatsky Plywood Mill, partially offset by the implementation of the efficiency improvement program and reductions in manufacturing costs.

The following table sets forth the breakdown of cost of sales by categories for the years ended 31 December 2019 and 2018:

	Year ended 31 December,	
	2019	**2018**
	(RUB '000)	
Cost of sales		
Raw materials and supplies	18,854,679	19,100,200
Employee benefits	8,087,295	7,483,122
Supplier and contractor services	7,735,117	7,323,272
Depreciation and amortization expense	5,327,478	4,145,070
Other expenses	120,513	240,686
Net change in inventories	(701,083)	(568,000)
Total	39,423,999	37,724,350

Raw materials and supplies

The Group's expenditure on raw materials and supplies for the year ended 31 December 2019 was RUB 18,854.7 million compared to RUB 19,100.2 million for the year ended 31 December 2018, a decrease of RUB 245.5 million, or 1.3%. The decrease was primarily as a result of the Group's raw materials supply chain improvements resulting from an increased share of the Group's own logging.

Employee benefits

The Group's expenditure on employee benefits for the year ended 31 December 2019 was RUB 8,087.3 million compared to RUB 7,483.1 million for the year ended 31 December 2018, an increase of RUB 604.2

million, or 8.1%. The increase was primarily as a result of the commissioning of the second plywood line at Vyatsky Plywood Mill.

Supplier and contractor services

The Group's expenditure on supplier and contractor services for the year ended 31 December 2019 was RUB 7,735.1 million compared to RUB 7,323.3 million for the year ended 31 December 2018, an increase of RUB 411.8 million, or 5.6%. The increase was primarily as a result of due to the increased scale of operations, including the commissioning of the second plywood line at Vyatsky Plywood Mill.

Depreciation and amortization expenses

The Group's depreciation and amortization expenses for the year ended 31 December 2019 was RUB 5,327.5 million compared to RUB 4,145.1 million for the year ended 31 December 2018, an increase of RUB 1,182.4 million, or 28.5%. The increase was primarily as a result of an increase in the asset base of the Group.

Other expenses

The Group's other expenses for the year ended 31 December 2019 was RUB 120.5 million compared to RUB 240.7 million for the year ended 31 December 2018, a decrease of RUB 120.2 million, or 49.9%. The decrease was primarily as a result of reallocation of individually immaterial costs between cost of sales and selling and administrative expenses for organizational purposes.

Net change in inventories

The Group's net change in inventories for the year ended 31 December 2019 was negative RUB 701.1 million compared to negative RUB 568.0 million for the year ended 31 December 2018, an increase of negative RUB 133.1 million, or 23.4%. The increase was primarily as a result of the increase in the finished goods which were held in stock and remained unsold as at the year ended 31 December 2019.

Selling and administrative expenses

The Group's selling and administrative expenses for the year ended 31 December 2019 was RUB 12,548.5 million compared to RUB 12,353.4 million for the year ended 31 December 2018, an increase of RUB 195.1 million, or 1.6%. The increase was primarily as a result of the growing scale of operations increasing the Group's transportation and other selling expenses, which was RUB 6,783.8 million for the year ended December 2019 compared to RUB 6,199.8 million for the year ended December 2018, an increase of RUB 584.0 million, or 9.4%, partially offset by implementation of the efficiency improvement program and reductions in administrative and managerial expenses, which was RUB 3,379.6 million for the year ended December 2019 compared to RUB 3,735.2 million for the year ended December 2018, a decrease of RUB 355.6 million, or 9.5%.

Other operating income

The Group's other operating income for the year ended 31 December 2019 was RUB 1,470.1 million compared to RUB 751.0 million for the year ended 31 December 2018, an increase of RUB 719.1 million, or 95.7%. The increase was primarily as a result of an increase in income from government grants, which was RUB 1,147.3 million for the year ended 31 December 2019 compared to RUB 738.5 million for the year ended December 2018, an increase of RUB 408.8 million, or 55.4%, as well as the reversal of a previously accrued impairment for detailed design documentation and basic engineering results for a capital construction project, which was an additional RUB 478.9 million.

Operating profit/loss

The Group's operating profit for the year ended 31 December 2019 was RUB 7,992.3 million compared to RUB 8,563.5 million for the year ended 31 December 2018, a decrease of RUB 571.2 million, or 6.7%, for the reasons described above.

OIBDA

Group

In the year ended 31 December 2019, OIBDA amounted to RUB 14,019.1 million, compared to RUB 13,202.2 million for the year ended 31 December 2018, an increase of RUB 816.9 million, or 6.2%. The increase was primarily as a result of the implementation of the efficiency improvement program and reductions in manufacturing costs, most notably, commercial, administrative and managerial expenses.

The following table sets forth the breakdown by segment of the Group's OIBDA for the years ended 31 December 2019 and 2018:

	Year ended 31 December,	
	2019	2018
	(RUB '000)	
Segment OIBDA		
Paper and packaging	10,604,900	9,440,091
Forestry management and wood working[(1)]	2,927,003	3,115,634
Plywood and boards	1,660,163	1,769,364
Other	(1,173,000)	(1,122,886)
Total	14,019,066	13,202,203

(1) "Timber resources and woodworking" segment was renamed "Forestry management and woodworking" in 2020.

Paper and packaging

OIBDA in the paper and packaging segment for the year ended 31 December 2019 was RUB 10,604.9 million compared to RUB 9,440.1 million for the year ended 31 December 2018, an increase of RUB 1,164.8 million, or 12.3%. The increase was primarily as a result of the optimization of paper manufacturing costs, the increased share of high-margin sacks in the product portfolio and the improvement of the Group's own-to-purchased wood ratio, to 70% in the year ended 31 December 2019 from 60% in the year ended 31 December 2018, which resulted in lower manufacturing costs. Another factor that contributed to this increase was the reduction in oil and power costs, mainly through the commissioning of a multi-fuel boiler No. 11 at the Segezha PPM which runs on wood residuals. The increase was partially offset by the decline in paper pricing and the high volatility of the ruble against foreign currencies in 2019.

Forestry management and woodworking

OIBDA in the forestry management and woodworking segment for the year ended 31 December 2019 was RUB 2,927.0 million compared to RUB 3,115.6 million for the year ended 31 December 2018, a decrease of RUB 188.6 million, or 6.1%. The decrease was primarily as a result of falling global prices for sawn timber and the high volatility of the ruble against foreign currencies in 2019, which was partially offset by the substantial increase in the production of sawn timber, the commissioning of a pellet plant in Lesosibirsk and subsidies for logistics costs.

Plywood and boards

OIBDA in the plywood and boards segment for the year ended 31 December 2019 was RUB 1,660.2 million compared to RUB 1,769.4 million for the year ended 31 December 2018, a decrease of RUB 109.2 million, or 6.2%. The decrease was primarily as a result of a decrease in average realized prices on an FCA basis of plywood to RUB 28.1 per cubic meter from RUB 33.8 per cubic meter, a decrease of 16.9%, for the years ended 31 December 2019 and 2018, respectively, as well as the volatility of the ruble against the USD, with an average exchange rate per year of 64.49 from 62.97, in the years ended 31 December 2019 and 2018, respectively, partially offset by increased production and a number of measures taken to reduce manufacturing costs.

Other

OIBDA in the other segment for the year ended 31 December 2019 was negative RUB 1,173.0 million compared to negative RUB 1,122.9 million for the year ended 31 December 2018, a decrease of RUB 50.1 million, or 4.5%. The decrease was primarily as a result of the reductions in administrative and managerial expenses.

Interest income

The Group's interest income for the year ended 31 December 2019 was RUB 74.0 million compared to RUB 71.0 million for the year ended 31 December 2018, an increase of RUB 3.0 million, or 4.2%. The increase was primarily as a result of increased interest earned on short-term deposits placed with banks.

Interest expense

The Group's interest expense for the year ended 31 December 2019 was RUB 3,627.0 million compared to RUB 3,627.1 million for the year ended 31 December 2018, a decrease of RUB 0.1 million, or 0.003%.

Foreign exchange difference (net)

The Group's foreign exchange difference (net) for the year ended 31 December 2019 was RUB 2,404.4 million compared to negative RUB 4,337.2 million for the year ended 31 December 2018, an increase of RUB 6,741.6 million, or 155.4 %. The increase was primarily as a result of the effect of the revaluation of the Group's foreign currency denominated debt due to ruble appreciation against those foreign currencies in the year ended 31 December 2019, as compared to ruble depreciation in the year ended 31 December 2018.

Other expenses

The Group's other expenses for the year ended 31 December 2019 was RUB 0.9 million compared to RUB 304.8 million for the year ended 31 December 2018, a decrease of RUB 303.9 million, or 99.7%. The decrease was primarily as a result of the loss on disposal of Karelia DSP JSC in the year ended 31 December 2018.

Profit/loss before tax

The Group's profit before tax for the year ended 31 December 2019 was RUB 6,842.9 million compared to RUB 365.4 million for the year ended 31 December 2018, an increase of RUB 6,477.5 million, for the reasons described above.

Income tax expense

The Group's income tax expense for the year ended 31 December 2019 was RUB 2,091.9 million compared to RUB 353.2 million for the year ended 31 December 2018, an increase of RUB 1,738.7 million, or 492.2%. The increase was primarily as a result of the increase in taxable profit mainly due to the foreign exchange income on revaluation of the Group's foreign currency denominated debt.

Net profit/loss for the reporting period

The Group's net profit for the reporting period for the year ended 31 December 2019 was RUB 4,751.0 million compared to RUB 12.2 million for the year ended 31 December 2018, an increase of RUB 4,738.8 million. The increase was primarily as a result of an exchange rate difference resulting from a revaluation of the Group's foreign currency debt as of the reporting date.

Liquidity and Capital Resources

Overview

The Group's principal source of liquidity is cash generated from operations. Additional sources of liquidity include credit facilities and issuances of debt securities. The Group's liquidity requirements arise primarily in funding working capital requirements and capital expenditure for the maintenance and expansion of the Group's mills and plants and debt servicing.

The Group's net working capital is calculated as trade and other receivables plus inventories, contract assets and advances and other current assets less trade and other payables and advances received and other liabilities, which the Group considers to be the most appropriate measure of its liquidity. The Group's net working capital has decreased in the period under review, being RUB 6,937.3 million, RUB 9,432.0 million and RUB 10,335.3 million as of 31 December 2020, 2019 and 2018, respectively, due to the decrease of cash cycles as a result of the acceleration of receivables turnover and the increase of payables turnover due to the Group's proactive negotiations with customers and suppliers, partially offset in 2020 by increased sales volume across almost all products and selling all of the finished goods stock accumulated in 2019. For the net working capital reconciliation table, see "*Selected Consolidated Financial and Operating Information—Other Financial and Operating Data—Net Working Capital*."

Management believes that the Group's financial resources are sufficient to meet its liquidity needs and that its existing capital resources, along with available sources of external financing, will be sufficient to meet its currently anticipated capital expenditures for the next 12 months.

Cash flows

The following table sets forth the principal components of the Group's consolidated cash flows for the periods indicated. For further information, see the 2020 and 2019 Financial Statements.

	Year ended 31 December,		
	2020	**2019**	**2018**
		(RUB'000)	
Cash flows from operating activities:			
Net cash generated from operating activities	14,734,458	7,620,368	8,497,510
Cash flows from investing activities:			
Net cash (used in) investing activities	(12,924,529)	(6,408,206)	(6,798,343)
Cash flows from financing activities:			
Net cash (used in) financing activities	(1,623,199)	(959,219)	(3,784,645)
Cash and cash equivalents, beginning of the year	3,214,409	3,006,868	4,755,636
Cash and cash equivalents, end of the year	3,670,197	3,214,409	3,006,868

Cash flow from operating activities

The Group's net cash from operating activities for the year ended 31 December 2020 was RUB 14,734.5 million compared to RUB 7,620.4 million for the year ended 31 December 2019, an increase of RUB 7,114.1 million, or 93.4%. The increase was primarily as a result of an increase in sales volumes across all segments and the depreciation of the ruble, together with the acceleration of receivables turnover and the increase of payables turnover due to the Group's proactive negotiations with customers and suppliers. The Group's net cash from operating activities for the year ended 31 December 2019 was RUB 7,620.4 million compared to RUB 8,497.5 million for the year ended 31 December 2018 a decrease of RUB 877.1 million, or 10.3%. The decrease was primarily as a result of a downturn in the global prices for sack paper, plywood and sawn timber and accumulation of finished goods in stock unsold as at 31 December 2019.

Cash flow used in investing activities

The Group's net cash used in investing activities for the year ended 31 December 2020 was RUB 12,924.5 million compared to RUB 6,408.2 million for the year ended 31 December 2019, an increase of RUB 6,516.3 million, or 101.7%. The increase was primarily as a result of the Group's extensive capital construction program, including modernization of Segezha PPM, a new line in Sokol Timber Company, new industrial sacks production lines, as well as a renewal and increase in wood logging and transportation fleet.

The Group's net cash used in investing activities for the year ended 31 December 2019 was RUB 6,408.2 million compared to RUB 6,798.3 million for the year ended 31 December 2018 a decrease of RUB 390.1 million, or 5.7%. The decrease was primarily as a result of the completion and commissioning of a multi-fuel boiler No. 11 at the Segezha PPM.

Cash flow from financing activities

The Group's net cash used in financing activities for the year ended 31 December 2020 was RUB 1,623.2 million compared to RUB 959.2 million for the year ended 31 December 2019, an increase of RUB 664.0 million, or 69.2%. The increase was primarily as a result of the increased amount of dividends paid. For further information, see Note 19 to the 2020 Financial Statements.

The Group's net cash used in financing activities for the year ended 31 December 2019 was RUB 959.2 million compared to RUB 3,784.6 million for the year ended 31 December 2018 a decrease of RUB 2,825.4 million, or 74.7%. The decrease was primarily as a result of debt portfolio restructuring effected by the Group during the course of the year ended 31 December 2019.

Indebtedness

As of 31 December 2020, 2019 and 2018, the Group had indebtedness (total current and non-current loans and borrowings) in the amount of RUB 53.3 billion, RUB 42.5 billion and RUB 41.5 billion, respectively. As of 31 December 2020, the Group has unused credit line facilities of approximately RUB 15.5 billion and EUR 84.8 million. As of 31 December 2020, the Group's indebtedness was mainly denominated in rubles, euros and U.S. dollars and provided by several banks, including, among others, Alfa Bank, Sberbank, ING Bank, and also included Russian corporate bonds listed on the Moscow Exchange in the principal amount of RUB 10.0 billion with interest rate of 7.1% due in January 2023. Key facility arrangements of the Group are generally secured by mortgages and pledges of the Group's immovable property, equipment and other assets, and some of those are additionally guaranteed by the

Company and other companies of the Group.

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

As at 31 December 2020, 2019 and 2018, loans and borrowings comprised the following:

		31 December 2020		31 December 2019		31 December 2018	
	Currency	**Effective interest rate**	**Carrying value**	**Effective interest rate**	**Carrying value**	**Effective interest rate**	**Carrying value**
Short-term loans and borrowings							
Secured loans							
Short-term bank loans..................	RUB	7.80%	457,599	8.25%	75,833	13%	708,747
Short-term bank loans..................	USD	3.05%	662,044	2.65%	27,196	7%-9%	626,978
Other..			83,377		134,540		167,766
			1,203,020		**237,569**		**1,503,491**
Unsecured loans							
Short-term bank loans..................	RUB	6.88%	603,251	8.86%	11,888,700	9.09% - 10.11%	6,820,000
Short-term bank loans..................	EUR	4.10%	687,752	4.13%	445,980	4.13%	500,171
			1,291, 003		**12,334,680**		**7,320,171**
Long-term loans and borrowings							
Secured loans							
Long-term bank loans..................	EUR	3.05%	26,937,458	3.66%	19,420,146	3.25% – 3.92%	15,935,049
Long-term bank loans..................	RUB	8.94%	6,553,659	10.51%	7,011,259	CBR Key rate +2%-13%	7,845,189
Long-term bank loans..................	USD		-		-	7%-9%	4,481,905
			33,491,117		**26,431,405**		**28,262,143**
Non-collateralized loans							
Long-term bank loans..................	EUR	2.45%	7,183,126	4.13%	3,433,450	4.13%	4,445,613
Other..			106,497		105,090		304
			7,289,623		**3,538,540**		**4,445,917**
Long-term corporate bonds	RUB	7.45%	**9,977,274**		-		-
Total loans and borrowings			**53,252,037**		**42,542,194**		**41,531,722**

Certain of the Group's credit facilities contain covenants requiring the Group to provide a creditor with prior or post written notification or obtain its written consent in respect of essential changes in the Group's corporate and shareholding structure. In particular, restrictions on Sistema PJSFC's total direct and indirect shareholding. Certain of the Group's credit facilities contain covenants requiring the Group to meet certain financial ratios, which, among other things, may restrict payment of dividends under certain circumstances. Certain of the Group's credit facilities also contain some non-monetary obligations, such as regular reporting, restriction regarding disposals and imposition of encumbrances over certain assets.

For further information, see Note 20 to the 2020 Financial Statements.

Capital Expenditures

The table below sets forth details on the Group's capital expenditures for the periods indicated.

	Year ended 31 December		
	2020	**2019**	**2018**
		(RUB'000)	
Maintenance Capex	5,619,424	3,426,348	2,509,220
Strategic Projects	6,821,924	2,939,091	4,073,397
Total Capital Expenditure	12,441,348	6,365,439	6,582,617

The Group's capital expenditures primarily consists of maintenance capex, including projects aimed at increasing the Group's operating efficiency, and strategic projects. In the year ended 31 December 2020, the Group's maintenance capex was RUB 5,619.4 million, primarily relating to equipment replacement and repairs for the paper and packaging segment, and investments into roads and infrastructure for the forestry management and woodworking segment; the Group's capex for strategic projects was RUB 6,821.9 million, including projects such as the modernization of Segezha PPM, investment in construction of Galich Plywood Mill, the CLT plant at Sokol Timber Company and implementation of ERP SAP/HANA. In the year ended 31 December 2019, the Group's maintenance capex was RUB 3,426.3 million, with an increase to RUB 5,619.4 million in the year ended 31 December 2020, primarily relating to the increased scale of operations of the Group; the Group's capex for strategic projects was RUB 2,939.1 million, including projects such as the start of the construction of Galich Plywood Mill and a CLT-panel mill in Sokol. In the year ended 31 December 2018, the Group's maintenance capex was RUB 2,509.2 million, primarily relating to multi-fuel boiler No. 11 at the Segezha PPM; the Group's capex for strategic projects was RUB 4,073.4 million, including projects such as the completion of a new plywood line in Kirov and the construction of a pellet plant in Lesosibirsk.

Contingent assets and contingent liabilities

As of 31 December 2020, 2019 and 2018, the Group had no contingent assets, as defined by IFRS. For further information on the environment in which the Group operates, including applicable taxation regimes, see Note 29 to the 2020 Financial Statements and Note 28 to the 2019 Financial Statements.

Schedule of Obligations

The following table shows the Group's remaining contractual obligations as of 31 December 2020, based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay:

	Payments due by period (RUB'000)					
As of 31 December 2020	**0-30 days**	**31-365 days**	**1-5 years**	**More than 5 years**	**Total amount including financial expenses**	**Carrying value**
Loans and borrowings	505,933	4,263,258	44,978,788	12,132,259	61,880,238	53,252,037
Trade and other payables	7,071,879	2,540,615	199	-	9,612,693	9,612,693
Lease liability	53,624	1,519,382	5,212,294	24,654,701	31,440,001	10,953,936
Provisions	-	559,758	-	-	559,758	559,758
	7,631,436	8,883,013	50,191,281	36,786,960	103,492,690	74,378,424

Quantitative and Qualitative Disclosures about Financial Risk Management

For information on quantitative and qualitative disclosures about financial risk management, see Note 25 to the 2020 Financial Statements.

Critical Accounting Policies

For information on changes on critical accounting policies, see Note 2 to the 2020 Financial Statements.

MANAGEMENT AND CORPORATE GOVERNANCE

Governance Bodies

In accordance with the Joint-Stock Companies Law and the Company Charter, the Company's principal governance bodies are the General Shareholders' Meeting, the Board of Directors, the Management Board and the General Director (President), being at the same time the head of the Management Board (the "**CEO**").

General Shareholders' Meeting

The General Shareholders' Meeting is the Company's highest governing body. An annual General Shareholders' Meeting shall be held between 1 March and 30 June of each year (unless other time period is prescribed by Russian law), and an extraordinary General Shareholders' Meeting may be called by the Board of Directors on its own initiative, or at the request of the Internal Audit Commission, the independent auditor or a shareholder or group of shareholders owning in the aggregate at least 10% of the issued voting shares as of the date of the request.

Powers of the General Shareholders' Meeting

The powers of a General Shareholders' Meeting are set out in the Joint-Stock Companies Law and in the Company Charter. A General Shareholders' Meeting may not decide issues that are not included in the list of its authority under the Joint-Stock Companies Law. The following matters, among others, are within the competence of the General Shareholder's Meeting:

- amendments to the Company Charter or approval of a new version of the Company Charter;
- the re-organization or liquidation of the Company and the appointment of a liquidation commission, and approval of interim and final liquidation balances;
- election of members of the Board of Directors and early termination of the tenure of the Board of Directors, approval of the amount of remuneration payable to members of the Board of Directors and/ or the procedure for reimbursement of expenses to members of the Board of Directors;
- determining the number, nominal value and class/type of the authorized shares and the rights attached to such shares;
- increasing share capital by increasing the nominal value of shares or issuing additional shares;
- decreasing share capital by decreasing the nominal value of shares or reducing the number of shares, including by way of share repurchases or cancellations;
- the appointment and early termination of the tenure of the members of the Internal Audit Commission and approval of the amount of remuneration and compensation payable to the members of the Internal Audit Commission;
- appointment of an independent auditor;
- approval of certain interested-party transactions and major transactions;
- distribution of profits, including approval of dividends (provided that the amount of any dividend cannot exceed the amount recommended by the Board of Directors);
- repurchase of issued shares in circumstances provided for by the Joint-Stock Companies Law;
- participation in financial and industrial groups, associations and other types of commercial organizations;
- approval of annual reports and financial statements;
- splitting and consolidation of the share capital;
- determining General Shareholders' Meeting procedure;
- approval of certain internal documents and regulations; and
- any other matter which, according to the Joint-Stock Companies Law and the Company Charter, is within

the powers of the General Shareholders' Meeting.

Voting and Quorum

The general rules of the Joint-Stock Companies Law regarding the procedure and terms for preparation, convocation and holding of a General Shareholders' Meeting, as described below, apply to the Company.

Under the Joint-Stock Companies Law, voting at a General Shareholders Meeting is generally based on the principle of 1 vote per voting share, with the exception of the election of the Board of Directors, which is carried through cumulative voting. Voting shares comprise ordinary shares and, in certain cases, preferred shares. Decisions are generally passed by a majority vote of the voting shares present at a General Shareholders Meeting. However, Russian law requires a three-quarter majority vote of the voting shares present at a General Shareholders' Meeting to approve, *inter alia*, the following:

- the Company Charter amendments or approval of a new version of the Company Charter;
- re-organization or liquidation of the Company and the appointment of the liquidation commission, and approval of interim and final liquidation balances;
- major transactions involving assets in excess of 50% of the balance sheet value of the assets of the Company;
- determination of the number, nominal value and type of authorized shares and the rights attached to such shares;
- repurchase of issued shares in cases provided for by the Joint-Stock Companies Law;
- any issuance of shares or securities convertible into ordinary shares by closed subscription;
- issuance by open subscription of ordinary shares or securities convertible into ordinary shares, in each case, constituting more than 25% of the number of ordinary shares outstanding at the time;
- decrease of share capital by means of change of the nominal value of shares; or
- application for delisting of shares or securities convertible into shares.

A decision approving termination of the public status of the Company would require a 95% majority vote of all shareholders.

The quorum requirement for the General Shareholders' Meeting is met if shareholders (or their representatives) accounting for more than 50% of the issued voting shares are present. If the 50% quorum requirement is not met, another General Shareholders' Meeting with the same agenda may (and, in case of an annual General Shareholders' Meeting, must) be scheduled and the quorum requirement will be satisfied if shareholders' (or their representatives) accounting for at least 30% of the issued voting shares are present at that meeting.

According to the Joint-Stock Companies Law, the Board of Directors must convene the annual General Shareholders' Meeting between 1 March and 30 June of each year (unless other time period is prescribed by Russian law), and the agenda must include the following items:

- election of the members of the Board of Directors;
- approval of the annual report and the annual financial statements;
- approval of distribution of profits, including approval of annual dividends;
- approval of an independent auditor; and
- election of the members of the Internal Audit Commission.

A shareholder or a group of shareholders owning in the aggregate at least 2% of the issued voting shares may, inter alia, introduce proposals for the agenda of the annual General Shareholders' Meeting and may nominate candidates for the Board of Directors and the Internal Audit Commission and a candidate for the position of the CEO. Under the Company Charter, any agenda proposals or nominations must be provided to the Company no later than 100 days after the preceding financial year-end.

Under the Joint-Stock Companies Law, certain shareholders' resolutions relating to a company's re-organization, an increase or decrease of share capital or a splitting or consolidation of shares may provide that they only remain valid for a specific period of time (the "**Validity Period**"). However, in the event such shareholders' resolutions are not implemented within the Validity Period and/or the effective Validity Period for such resolutions has expired, such resolutions are no longer enforceable.

Extraordinary General Shareholders' Meeting may be called by the Board of Directors on its own initiative, or at the request of the Internal Audit Commission, the independent auditor or a shareholder or group of shareholders owning in the aggregate at least 10% of the issued voting shares as of the date of the request.

A General Shareholders' Meeting may be held in a form of a meeting or by absentee ballot. In a meeting, the adoption of resolutions is carried out through the attendance of shareholders or their authorized representatives for the purpose of discussing and voting on issues of the agenda. The Company may use telecommunications technologies in order to enable shareholders to participate in a meeting remotely. General Shareholders' Meeting can also be held by absentee ballot, where the Company collects ballots completed and mailed to it by its shareholders; in such cases no physical meeting is held.

The following issues cannot be decided by a General Shareholders' Meeting by absentee ballot (except for General Shareholders Meetings to be held in 2021 to the extent the Board of Directors approved decision in respect of such issues by absentee ballot):

- election of the members of the Board of Directors;
- election of the Internal Audit Commission;
- approval of an independent auditor; and
- approval of the annual report, the annual financial statements.

Notice and Participation

Under the Joint-Stock Companies Law and the Company Charter, all shareholders entitled to participate in a General Shareholders' Meeting must be notified of the meeting, whether the meeting is to be held in a form of a meeting or by absentee ballot, not less than 21 days prior to the date of the meeting and not less than 30 days prior to the date of the meeting if the agenda of such meeting includes re-organization of the Company, such notification shall specify the agenda for the meeting. However, if, among other things, the meeting in question is an extraordinary General Shareholders' Meeting to elect the Board of Directors or to terminate its tenure early, shareholders must be notified at least 50 days prior to the date of such a meeting. Only those items that were set out in the agenda sent to shareholders may be voted upon at a General Shareholders' Meeting. A General Shareholders' Meeting is not entitled to change its agenda.

The list of persons entitled to participate in a General Shareholders' Meeting is to be compiled on the basis of data in its shareholders' register on the date determined by the Board of Directors, which date shall neither be earlier than 10 days following the date of adoption of the resolution to hold a General Shareholders' Meeting nor more than 25 days before the date of the meeting (or, in the case of an extraordinary General Shareholders' Meeting to elect the Board of Directors or to terminate its tenure early, not more than 55 days before the date of such General Shareholders' Meeting).

Shareholders may exercise their right to participate in a General Shareholders' Meeting by:

- personal attendance;
- attendance of a duly authorized representative (by proxy);
- remote participation through telecommunication technologies;
- absentee ballot; or
- delegating the right to fill out the absentee ballot to a duly authorized representative.

Board of Directors

The Board of Directors is responsible for the general management of the Company's activities and meets several times each year.

Composition of the Board of Directors

The Joint-Stock Companies Law requires at least a 5-member Board of Directors for all public joint-stock companies, at least a 7-member Board of Directors for a public joint-stock company with more than 1,000 holders of voting shares, and at least a 9-member Board of Directors for a public joint-stock company with more than 10,000 holders of voting shares. Under the Company Charter, the number of members of the Board of Directors is determined by the General Shareholders' Meeting on a case-by-case basis (but in any even shall not be less than 5), and it currently consists of 9 such members. Five members of the current Board of Directors are independent. Under Russian law, members of the Board of Directors will be elected through cumulative voting. Under cumulative voting, each shareholder may cast an aggregate number of votes equal to the number of shares held by such shareholder multiplied by the number of persons on the Board of Directors, and each shareholder may give all such votes to one candidate or distribute them among two or more candidates.

All members of the current Board of Directors will remain in office until the next annual General Shareholders' Meeting unless removed as a group before the expiration of their term by a majority vote of a General Shareholders' Meeting.

The Board of Directors elects the Chairman of the Board of Directors from its members and has the right to remove its Chairman at any time. However, the CEO may not be elected as the Chairman of the Board of Directors. The Chairman of the Board of Directors organizes its work, calls and presides over meetings of the Board of Directors and performs other functions provided for by Russian law and the Company's internal documents. The Chairman of the Board of Directors also has the casting vote in the case of a tied vote.

Powers of the Board of Directors

The Joint-Stock Companies Law generally prohibits the Board of Directors from acting on issues that fall within the exclusive authority of a General Shareholders' Meeting. The Company's Board of Directors has the power to perform the general management of the Company, and to decide, among other things, the following issues:

- determination of its business priorities;
- approval of its business plans and budgets;
- determination of its long-term developmental strategy;
- convening annual and extraordinary General Shareholders' Meeting, except in certain circumstances specified in the Joint-Stock Companies Law;
- approval of the agenda of a General Shareholders' Meeting with a right to include additional questions in the agenda at its own discretion and determination of the record date which establishes the shareholders that are entitled to participate in a General Shareholders' Meeting;
- appointment of the CEO and early termination of his or her appointment;
- election of the Management Board;
- establishment of committees of the Board of Directors and election of members of the committees;
- placement of bonds and other securities;
- determination of the price of property and securities to be placed or repurchased, as provided for by the Joint-Stock Companies Law;
- repurchase of shares, bonds and other securities in accordance with the Joint-Stock Companies Law and the Company Charter;
- determination of the amount of remuneration and compensation payable to members of the Management Board;
- recommendations to the General Shareholders' Meeting on the amount of remuneration and compensation to be paid to members of the Internal Audit Commission;
- determination of the fees payable for the services of an independent auditor;

- recommendations to the General Shareholders' Meeting on the amount of any dividend payable on shares and the record date for determining the list of persons entitled to receive dividends (the "**Dividend Payment Record Date**");

- use of the reserve fund and other funds;

- approval of its internal documents, except for those documents whose approval falls within the competence of the General Shareholders' Meeting;

- creation and liquidation of branches and representative offices;

- approval of major and interested-party transactions in the cases provided for by the Joint-Stock Companies Law;

- submission for consideration by the General Shareholders' Meeting of certain major transactions;

- appointment of its share registrar;

- approval of its participation (or termination of such participation) in other organizations except when it falls within the competence of the General Shareholders' Meeting; and

- any other matter which, according to the Joint-Stock Companies Law and the Company Charter, is within the competence of the Board of Directors.

Meetings: Voting and Quorum

The Board of Directors meets as needed but at least twice per quarter. Meetings of the Board of Directors are called by its chairman on his own initiative or upon request of a member the Board of Directors, Internal Audit Commission, the independent auditor, CEO or as otherwise prescribed by the Joint-Stock Companies Law.

A meeting of the Board of Directors generally has a quorum if at least half of the elected members of the Board of Directors are present at the meeting or have filed their voting ballots in case of absentee voting. Generally, a majority vote of the directors present at the meeting is required to adopt a decision.

Under the Company Charter, certain decisions require either unanimous vote (for example, major transactions with a value of 25% or more but equal to or less than 50% of the Company's assets as reported under RAS), see "*Description of Share Capital and Certain Requirements of Russian Law—Certain Requirements of Russian Legislation—Major Transactions*", or a majority vote of the disinterested and otherwise eligible for voting directors (for example, related-party transactions with a value of less than 10% of its assets), see "*Description of Share Capital and Certain Requirements of Russian Law—Certain Requirements of Russian Legislation —Interested-Party Transactions.*"

Members of the Board of Directors

The following table sets forth the name, year of birth, the year of initial election and position of each of the Company's directors as of the date hereof.

Name	**Year of birth**	**Board Member since**	**Position (Independence)**
Ali Uzdenov..........................	1962	2020	Chairman of the Board of Directors
Mikhail Shamolin	1970	2020	Member
Vladimir Travkov	1979	2020	Member
Anna Belova	1961	2020	Member (Independent)
Vladimir Tuzov	1976	2020	Member (Independent)
Evgeni Dod...........................	1973	2020	Member
Daniel Lesin Wolfe...............	1965	2020	Member (Independent)
Zumrud Rustamova	1970	2021	Member (Independent)
Marcus Rhodes	1961	2021	Member (Independent)

Certain biographical information and key positions held by the members of the Company's Board of Directors are set forth below.

Ali Uzdenov

Mr. Uzdenov was born in Kislovodsk in 1962. He graduated from Rostov Institute of Railway Transportation Engineering with a degree in automatic control, telemetry and communication in railway, and is an electrical engineer by training. He furthered his studies at the International Survival School (Italy). Mr. Uzdenov occupied the positions as Director of the Rostov Branch Company of OJSC ANK Bashneft from 1998 to 2001, Chairman of the Board of OJSC Kormmash from 2001 to 2007, General Director of Rostovregiongaz LLC from 2007 to 2009, First Vice-President for Processing and Commerce of OJSC ANK Bashneft from 2009 to 2012, Vice-President of Sistema PJSFC from 2012 to 2013, and Head of the Investment Portfolio and Senior Vice-President of Sistema PJSFC from 2013 to 2018. From 2015 to 2020, he also served the Chairman of the Board of Directors of the Company's subsidiary, i.e. Management Company "Segezha group" LLC ("**MC Segezha**"). He currently serves as Chairman of the Board of Directors of the Company, and Managing Partner of Sistema PJSFC.

Mr. Uzdenov was appointed as a member of the Board of Directors of the Company on 28 December 2020.

Mikhail Shamolin

Mr. Shamolin was born in Moscow in 1970. He graduated from Moscow Institute of Road Traffic, and furthered his studies at the Russian Presidential Academy of National Economy and Public Administration and at the Wharton Business School Executive Development Programme in the field of finance and management. Mr. Shamolin worked in McKinsey & Company from 1998 to 2004, and occupied the positions as Managing Director of the Ferroalloy business of Interpipe Corporation in Ukraine from 2004 to 2005, President of PJSC MTS from 2005 to 2011, and President of Sistema PJSFC from 2011 to 2018. From 2018 to 2020, he also served on the Board of Directors of MC Segezha. He currently serves as CEO and Chairman of the Management Board of the Company and as CEO of MC Segezha.

Mr. Shamolin was appointed as a member of the Board of Directors of the Company on 28 December 2020.

Vladimir Travkov

Mr. Travkov was born in Tashkent in 1979. He graduated from Lomonosov Moscow State University with a degree in Economics and Management. Mr. Travkov occupied the positions as Director of Department of Planning, Management Accounting and Analysis from 2011 to 2016 and Director of Functional Control Department from 2016 to 2018 in PJSC MTS. From 2018 to 2020, he also served on the Board of Directors of MC Segezha. He currently serves as Vice-President for Finance of Sistema PJSFC.

Mr. Travkov was appointed as a member of the Board of Directors of the Company on 28 December 2020.

Anna Belova

Mrs. Belova was born in Aleksandrovsk in 1961. She graduated from Moscow Engineering Physics Institute in 1984 with a degree in system engineering and has a PhD in economics. Mrs. Belova occupied the positions of the Deputy Railway Minister of Russia from 2001 to 2003 and further served as the Deputy Chair on the Management Board of OJSC Russian Railway from 2004 to 2005. From 2005 to 2007, she held the posts of First Deputy CEO of OJSC TekhSnabExport and advisor to the head of the Federal Nuclear Energy Agency. From 2007 to 2011 Mrs. Belova was the Deputy CEO, Director for strategy, corporate development and integration of OJSC SUEK, also serving as the independent director on the Board of Directors of OJSC Sheremetyevo International Airport from 2008 to 2016. In 2017, Mrs. Belova joined the Board of Directors of Sistema PJSFC as an independent director and currently serves as the Deputy Chairperson. During 2020, she also served on the Board of Directors of MC Segezha. Mrs. Belova served as an independent board member in more than 20 companies, including, among others, PJSC Sovcomflot, Russian Venture Company (RVC JSC). Also Mrs. Belova is a member of Strategic Advisory Board EMEA Intel, a member of World Economic Forum's Global Future Council. She is also a Founder and Chief Scientific Head of System Transformation Centre of Moscow State University. In addition, Mrs. Belova is a Deputy Chairman of the Board of Directors of PJSC "UNIPRO", Tiscali S.p.a and a Deputy Chairperson of the Board of Directors of CFE Inc.

Mrs. Belova was appointed as a member of the Board of Directors of the Company on 28 December

2020 and currently serves as a Deputy Chairperson of the Company’s Board of Directors.

Vladimir Tuzov

Mr. Tuzov was born in Moscow in 1976. He graduated from Bauman Moscow State Technical University in 2000 with a degree of research engineer in biomedical equipment and furthered his studies in Ecole Centrale Paris with a degree of master of industrial management in 2001. In 2007 he earned an MBA degree from the Wharton School, University of Pennsylvania. In 2020, he received a diploma in corporate governance from the Institute of Directors.

From 2002 to 2004, Mr. Tuzov occupied the positions of the Director of Logistics Department and Head of production controlling department at the Rolled production division of the Russian Aluminium. In 2004, he worked at Alumina refinery plant at Guinea as the Manager of special projects (Finance Directorate). Also in 2004-2005, he was a Senior consultant at the IBM Business Consulting Services. Mr. Tuzov held the posts of Director in BCG from 2007 to 2013 and Deputy General Director for Strategic Development and Product management of JSC Ilim Group from 2013 to 2015. He also held the position of a member of the Board of Directors of OJSC Ilim Gofra from 2013 to 2015. Starting from 2015 and until January 2021 he served as the Deputy General Director (Strategy Director) in JSC “SUEK”. During 2020, he also served on the Board of Directors of MC Segezha. At the moment he holds the position of the Head of Global Supply Chain Department in MCC EuroChem JSC and also he has been a member of the Board of Directors of Volga JSC from 2019.

Mr. Tuzov was appointed as a member of the Board of Directors of the Company on 28 December 2020.

Evgeni Dod

Mr. Dod was born in Moscow in 1973. He graduated from Moscow Aviation Institute in 1995 with a degree in Economics and Management at Machine Building Enterprises. In 1999, he became the Deputy Head of the Export Department of OAO RAO UES of Russia and was further appointed Chairman of the Management Board of INTER RAO UES in 2000, serving until 2010. From 2009 to 2016, Mr. Dod held the position of the Chairman of the Management Board of OAO RusHydro (now PJSC RusHydro), from 2015 till 2016 he was a member of Board of directors of JSC RAO ES Vostoka and further, from 2016 to 2017, held the positions of the Member and Chairman of the Board of Directors of PAO Quadra. During 2020, he also served on the Board of Directors of MC Segezha. Since July 2020 he has been serving as CEO of Segezha West JSC.

Mr. Dod was appointed as a member of the Board of Directors of the Company on 28 December 2020.

Daniel Lesin Wolfe

Mr. Lesin Wolfe was born in New York in 1965. In 1987, he graduated from Dartmouth University with a degree in Russian Language and Literature and Political Science. In 1991, he earned the juris doctor degree from Columbia Law School.

From 2010 to 2014, he served as a Deputy General Director, member of the Management Board at OJSC Kvadra and as a Board of directors member of PJSC Kvadra from 2011 to 2018. From 2014 to 2017, he held the positions of the member of the Board of Directors at Brooklyn Nets and Barclays Center and Deputy General Director at Onexim Group. From 2014 to 2018, he also served as a member of the Board of Directors and the Audit Committee of UC Rusal and from 2014 to 2017, he was a board member of Renaissance Capital being the Chairman of its Audit Committee. He served as CEO of Tradingene from 2017 till 2020. During 2020, he also served on the Board of Directors of MC Segezha. Mr. Lesin Wolfe has been the Chairman of the Board of Directors of New York Bakery (OOO Tortopiya) since 2012, the Managing Director of Simoleon Long-Term Value since 2017 and an independent member of the Board of Directors, member of the Audit Committee and Compensation & Remuneration Committee at PAO Uralkali since 2018.

Mr. Wolfe was appointed as a member of the Board of Directors of the Company on 28 December 2020.

Zumrud Rustamova

Mrs. Rustamova was born in Moscow in 1970. In 1992, she graduated from the Moscow State University of Economy and Statistics with a degree in statistics.

From 2000 to 2004, she served as a Deputy Minister of Property Relations. During the period of

2004-2006, she occupied the position of Deputy CEO of JSC SUEK and further the position of Vice-President of OJSC SUEK. During 2006, she was a member and Deputy Chairperson of the Management Board of OJSC "Russian Development Bank". From 2006 to 2011, she also served as a managing director of LLC "Nafta-Moskva". She was a member of the board of directors of OJSC International Airport Sheremetyevo from 2008 to 2013, a member of the board of directors of OJSC "Khanty Mansisk Bank" from 2009 to 2012 , a member of the board of directors of OJSC "Polyus" from 2009 to 2013, a member of the Supervisory Board of JSC "NPF Electric Power Industry" from 2012 to 2014, member of the Supervisory Board of Development Fund of the Polytechnic Museum from 2011 to 2016 and a member of the board of directors of PJSC United Wagon Company from 2013 to 2017. She is a current member of the board of directors of PJSC Magnitogorsk Iron and Steel Works, PJSC PIK Group of Companies and a member of the Supervisory Board of Ladya Foundation for supporting social, educational, innovative and sports projects. She is also serving as a Deputy CEO in JSC Polymetal MC and concurrently in JSC Polymetal as well as a Deputy CEO of LLC EAST-Capital.

Mrs. Rustamova was elected to the Board of Directors of the Company on 12 March 2021.

Marcus Rhodes

Mr. Rhodes was born in Matlock, England in 1961. In 1982, he graduated from the University of Loughborough with a degree in Economics and Economics & Social History. In 1987, he qualified as a chartered accountant and is a member of the Institute of Accountants in England & Wales (ICAEW).

He served as a Non-Executive Director of Wimm-Bill-Dann Foods from 2008 to 2011. He was an independent board member and Audit Committee Chairman of Ros Agro from 2009 to 2011, Tethys Petroleum Group from 2009 to 2015, Rosinter Group from 2008 to 2015, Cherkizovo Group from 2009 to 2017, Zoltav Resources Inc. from 2015 – 2018 and Rustranscom from 2018 to 2019. He is currently serving as an independent non-executive director and Audit Committee Chair at Phosagro Group and QIWI plc.

Mr. Rhodes was elected to the Board of Directors of the Company on 12 March 2021.

Management Board

Details of the Management Board

The Management Board is a collective executive body responsible for the Company's day-to-day management. The CEO is the Chairman of the Management Board. Members of the Management Board, except for the CEO, are nominated by the CEO and are appointed by the Board of Directors. The Board of Directors has the right to terminate the powers of the Management Board at any time and appoint a new Management Board. The number of members of the Management Board is not fixed and is determined by the Board of Directors on a case-by-case basis. Currently, the Management Board consists of 13 members. According to the Company Charter, the duties of the Management Board include, among other things:

- coordination of the Company's cooperation with the Group;
- recommendations to the Board of Directors on approving and amending a consolidated budget of the Group;
- approval of certain transactions;
- participation in settlement of labor disputes; and
- other issues related to day-to-day management of the Company's business.

The Management Board regulation requires a majority vote of the members of the Management Board present for an action to pass, provided that minimum half of the elected members are present at the meeting.

The Management Board holds its meetings in accordance with the internal schedule and may also hold meetings when necessary. Usually the Management Board meets monthly.

Members of the Management Board

The following table sets forth the name, year of birth, year of initial election and position of each of the Group's Management Board members as of the date hereof.

Name	Year of birth	Board Member since	Position
Mikhail Shamolin	1970	2020	Chairman of the Management Board and CEO
Rovshan Aliyev	1984	2020	Member
Vladimir Vinogradov..........	1976	2020	Member
Evgeny Batalov..................	1973	2020	Member
Pavel Vakhnin.....................	1974	2020	Member
Mikhail Mileshin	1988	2020	Member
Salavat Mirsaev	1976	2020	Member
Alexey Stepanov.................	1982	2020	Member
Yury Chernitsev..................	1968	2020	Member
Oksana Tikhonova	1976	2020	Member
Alexander Kharitonov.........	1984	2020	Member
Aleksey Sherlygin..............	1976	2020	Member
Sergey Dolgikh	1950	2020	Member

Certain biographical information about each of the Group's current Management Board members is set forth below.

Mikhail Shamolin — CEO, Chairman of the Management Board

Mr. Shamolin was appointed Chairman of the Management Board of the Company on 30 December 2020. Prior to that, he occupied the same position with the Management Board of MC Segezha Group since 2018.

For additional information regarding Mr. Shamolin, see "—*Board of Directors—Members of the Board of Directors*."

Rovshan Aliyev

Mr. Aliyev was born in Azerbaijan in 1984. He graduated from Azerbaijan State Economics University with a degree in external economic relations, and from the Russian State Social University with a degree in law. He furthered his studies with an MBA in finance from St. Thomas University (Houston, USA). Mr. Aliyev occupied various financial positions within Schlumberger Limited in the USA, Russia and France.

Mr. Aliyev was appointed a member of the Management Board of the Company on 30 December 2020. Prior to that, he occupied the position of Vice-President for Finance and Investing with the Management Board of MC Segezha since 2019 and continues to hold this position as at the date of the Offering Memorandum.

Vladimir Vinogradov

Mr. Vinogradov was born in Zhdanov in 1976. He graduated from Moscow Institute of Physics and Technology with a degree in applied mathematics and physics, and furthered his studies with a master of business administration degree (EMBA) from Columbia Business School, USA. From 1999 to 2001, Mr. Vinogradov occupied the position of the Head of the Measurements Science Department of CJSC A.C. Nilsen. From 2003 to 2005, he held a position of Head of Department of Moscow Representative Office of Finstery Investments Ltd. From 2003 to 2005, he was Director of Planning and Analysis Service of Bystrov Trade LLC. From 2005 to 2016, he was Director of M&A Department, Strategy, M&A and Corporate Development Block of PJSC MTS.

Mr. Vinogradov was appointed a member of the Management Board of the Company on 30 December 2020. Prior to that, he occupied the position of Vice-President for Strategy and Business Development with the Management Board MC Segezha since 2016 and continues to hold this position as at the date of the Offering

Memorandum.

Evgeny Batalov

Mr. Batalov was born in Arkhangelsk in 1973. He graduated from Arkhangelsk State Technical University with a degree in wood processing. From 2004 to 2005, Mr. Batalov occupied the position of General Director of OJSC Konetsgorsky Lespromhoz. From 2005 to 2007, he held a position of General Director of Titan-Lesprom LLC. From 2007 to 2009, he was General Director and First Deputy General Director for production of OJSC Dallesprom. He then was General Director of OJSC "Sawmill No. 2" from 2009 to 2011 and Head of Wood Products of Trade House ILP LLC from 2012 to 2014.

Mr. Batalov was appointed a member of the Management Board of the Company on 30 December 2020. Prior to that, he occupied the position of Vice President, Head of Woodwork and Forest Resources Division with the Management Board of MC Segezha since 2017 and continues to hold this position as at the date of the Offering Memorandum.

Pavel Vakhnin

Mr. Vakhnin was born in Oktyabrskiy in 1974. He graduated from Moscow Technical Institute for Communication and Informatics with a degree in information systems in the economy. During various periods from 2006 to 2012, Mr. Vakhnin occupied the position as Director for IT of CJSC FosAgro AG. He was Member of the Management Board and Director for IT of JSC Uralkali from 2012 to 2014, Advisor to CEO of Tescon/Business Solutions Consulting Group of Companies LLC from 2015 to 2016, and Director of IT and Information Control Department of JSC Yamal SPG from 2016 to 2018.

Mr. Vakhnin was appointed a member of the Management Board of the Company on 30 December 2020. Prior to that, he occupied the position of Vice-President for IT and Process Automation with the Management Board of MC Segezha since 2018 and continues to hold this position as at the date of the Offering Memorandum.

Mikhail Mileshin

Mr. Mileshin was born in Ruzaevka, Mordovian ASSR in 1988. He graduated from the National Research University Higher School for Economics with a degree in business informatics and management from the Educational Centre of Siemens (Munich) with a degree in marketing and management. From 2010 to 2016, Mr. Mileshin occupied various positions in ZM Russia CJSC, TNK-Industries LLC, Siemens LLC. From 2016 to 2018, he was the Head of "Plastic and Organic Synthesis" business area of LLC "SIBUR".

Mr. Mileshin was appointed a member of the Management Board of the Company on 30 December 2020. Prior to that, he occupied the position of Vice-President for Marketing and Innovations with the Management Board of MC Segezha since 2018 and continues to hold this position as at the date of the Offering Memorandum.

Salavat Mirsaev

Mr. Mirsaev was born in Ufa in 1976. He graduated from Bashkiria State Agricultural University with a degree in economics and management, and from Bashkiria Academy of Public Administration and Management with a degree in law. Mr. Mirsaev occupied the positions as Head of Legal Department of OJSC Sistema-Invest from 2009 to 2010, Head of Large Transactions and Judicial Projects Support of OJSC ANK Bashneft in 2010, Head of Legal Support and Property Management Department of Bashneft-Drilling LLC from 2010 to 2012, Deputy General Director for Legal Affairs and Property Management of JSC Targin from 2012 to 2016, and General Director of JSC Targin from 2016 to 2017. He served as a member of the Board of Directors of JSC Sokol Timber Company from 2017 to 2019, PJSC Volomsky KLPH "Leskarel" from 2018 to 2019 and LLC "Pitomnik" from 2019 to 2020 and is currently serving as a member of the Board of Directors of Arka Merchants Limited and Segezha Packaging AB.

Mr. Mirsaev was appointed a member of the Management Board of the Company on 30 December 2020. Prior to that, he occupied the position of Vice-President for Legal Affairs and Corporate Governance with the Management Board of MC Segezha since 2017 and continues to hold this position as at the date of the Offering Memorandum.

Alexey Stepanov

Mr. Stepanov was born in Karelian ASSR in 1982. He graduated from Petrozavodsk State University with a degree in wood products engineering, and from Saint-Petersburg State University with a degree in economics and management. He furthered his studies with an MBA Executive Program from Stockholm Economics

School. Mr. Stepanov occupied the positions as Production Manager of Phleider MDF LLC from 2007 to 2009, Technical Director of MADOK LLC from 2009 to 2012, General Director of JSC VU FK Novator Plywood Mill from 2013 to 2018, and General Director of Russian Forest Products (RFP) Amurskaya LK LLC from 2018 to 2019. Since April 2021, Mr. Stepanov is holding the position of the CEO of Vyatsky Plywood Mill.

Mr. Stepanov was appointed a member of the Management Board of the Company on 30 December 2020. Prior to that, he occupied the position of Vice-President, Head of Plywood and Boards Division with the Management Board of MC Segezha since 2019 and continues to hold this position as at the date of the Offering Memorandum.

Yury Chernitsev

Mr. Chernitsev was born in Shchuchinsk in 1968.He graduated from Omsk State Technical University with a degree in electrical engineering and from Omsk Juridical Academy with a degree in law. Mr. Chernitsev occupied the positions in senior commanding officers of Ministry of Internal Affairs of the Russian Federationfrom 2007 to 2012, First Vice-President of Region LLC from 2012 to 2013, Director in Control LLC from 2013 to 2014, Head of Department of Inzhstroyproekt LLC from 2014 to 2016, and Managing Director for Economic Security of Sistema PJSFC from 2018 to 2019.

Mr. Chernitsev was appointed a member of the Management Board of the Company on 30 December 2020. Prior to that, he occupied the position of Vice-President for Security with the Management Board of MC Segezha since 2019 and continues to hold this position as at the date of the Offering Memorandum.

Oksana Tikhonova

Ms. Tikhonova was born in Kazan in 1976. She graduated from the Law School of Kazan Federal University in 1998 with a degree in law, in 2005 also took an advanced training program in human resources at Russian Presidential Academy of National Economy and Public Administration (advanced training program), in 2020 also took an advanced training program in Skolkovo Moscow School of Management; Executive coaching for the development of management, top-teams and companies. From 2010 to 2011, Ms. Tikhonova worked as a lead consultant at the Consulting Bureau Stavka. She held a position of the Human Resources Director at EuroSibEnergo LLC from 2011 to 2017 and then the Human Resources and Organizational Development Director at ChTPZ PJSC from 2018 to 2019.

Ms. Tikhonova was appointed a member of the Management Board of the Company on 30 December 2020. Prior to that, she occupied the position of Vice-President of Human Resources and Organizational Development with the Management Board of MC Segezha during 2020 and continues to hold this position as at the date of the Offering Memorandum.

Alexander Kharitonov

Mr. Kharitonov was born in Moscow in 1984. He graduated from Moscow State Technical University "Moscow Automechanical Institute" in 2006. In 2011, he earned a degree in chemical technology from the Institute of Fine Chemical Technologies. From 2006 to 2011, he worked as a manager and senior manager for the companies of the Poliplastic group. From 2011 to 2018, he occupied positions of an expert and later the Section Head at PAO SIBUR HOLDING. From 2017 to 2018, he occupied the position of the Sales Director at Segezha Group LLC.

Mr. Kharitonov was appointed a member of the Management Board of the Company on 30 December 2020. Prior to that, he occupied the position of Vice-President for Commerce with the Management Board of MC Segezha during 2020 and continues to hold this position as at the date of the Offering Memorandum.

Aleksey Sherlygin

Mr. Sherlygin was born in Cherepovets in 1976. He graduated with honors from Cherepovets High Military Engineering School of Radio Electronics and from Non-State Educational Institution of Higher Professional Education "Institute of Business and Law". He then furthered his studies by getting a master's degree in business administration from Higher School of Public Administration, RANEPA. He also studied in North-West Academy of Civil Service, Non-State Educational Institution of Higher Professional Education "Synergy" and Autonomous Non-Profit Organization for Higher Education "Eurasian Higher Business School". Mr. Sherlygin has a long track record in government relations. Earlier in his career, he worked in City Public Council of Cherepovets, City Hall of Cherepovets (as Deputy Mayor) and Government of Vologda Region (as First Deputy Governor). In 2017 he occupied the position of the Board Member, Deputy General Director for Special Projects of RTI JSC.

Mr. Sherlygin was appointed a member of the Management Board of the Company on 30 December 2020. Prior to that, he occupied the position of Vice-President for Government Relations with the Management Board of MC Segezha since 2017 and continues to hold this position as at the date of the Offering Memorandum.

Sergey Dolgikh

Mr. Dolgikh was born in Chita in 1950. He graduated from Lenin Komsomol Chelyabinsk Polytechnic Institute with major in cars and tractors. He also graduated from the Academy of Foreign Intelligence. In 1996 – 2002 he held the position of the General Director Deputy in JV Continentalinvest. From 2002 until 2006 he worked as General Director Deputy in Forest Industry Company Continental Management LLC. Then Mr. Dolgikh was appointed Vice-President in Group of Companies Bazel. From 2006 to 2012 he worked as a General Director Deputy and Chairman of the Board of Directors in Continentalinvest LLC. From 2013 until 2014 he served as Advisor to General Director in the Inter-Regional Distribution Network Company.

Mr. Dolgikh was appointed a member of the Management Board of the Company on 30 December 2020. Prior to that, he occupied the position of the member of the Management Board and Advisor to the Chairman to the Board of Director of MC Segezha since 2015 and continues to hold these positions as at the date of the Offering Memorandum.

Other Information

The business address of each of the members of the Group's Board of Directors and Management Board is Moscow, Russian Federation.

There are no current or potential conflicts of interest between the private interests and/or other duties of any member of the Company's Board of Directors or Management Board and the duties of the members of the Company's Board of Directors and Management Board to the Company.

CEO

The CEO of the Company is also the chairman of the Management Board and is responsible for its day-to-day activities. The CEO exercises executive authority over all the Company's activities, except for issues specifically reserved for the exclusive authority of the General Shareholders' Meeting, the Board of Directors and the Management Board. Under the Company Charter, the Board of Directors appoints the CEO for the period of up to 3 years and may re-appoint him or her an unlimited number of times. Mr. Shamolin, the CEO of the Company as of the date of this Offering Memorandum, has been appointed for a term that expires on 12 March 2024.

Under the Company Charter, the CEO has the authority to act on behalf of the Company without power of attorney and his powers include, among other things, the following:

- management of the property and funds on behalf of the Company;
- entering into transactions on behalf of the Company and disposal of its property except when it requires approval by the General Shareholders' Meeting or the Board of Directors;
- approval of the staff schedules and executing of employment contracts with its employees;
- maintenance of accounting and tax records;
- acting on behalf of the Company in court;
- adopting orders and approving the Company's internal documents, except for those documents whose approval falls within the competence of other governing bodies; and
- performing certain other activities.

Interest of Directors and Officers

Compensation

According to the Company Charter, the amount of remuneration and compensation payable to the members of the Management Board shall be determined by the Board of Directors under the terms and conditions and within the scope set out in the respective employment contracts. The General Shareholders' Meeting decides on the amount of remuneration and compensation payable to the members of the Board of Directors.

In 2020, the aggregate amount of remuneration paid (including contingent or deferred compensation), and benefits in kind granted, to the members of the Board of Directors and the key management personnel for services in all capacities was RUB 614 million. Management's annual compensation structure consists of a fixed portion and a variable portion which depends on financial and operational KPIs.

Long-Term Incentive Plan

Long-Term Management Incentive Plan

In September 2018, the Board of Directors approved the long-term incentive plan (the "**Management Incentive Plan**") (cash or share-based, long-term motivation and retention program for certain key executive and senior level employees). Under the terms of the Management Incentive Plan, key executives and senior level employees of the Company are entitled to cash and/or share-based compensation (as applicable) upon the occurrence of any of the following events: (i) an initial public offering of the Ordinary Shares or global depositary receipts issued in relation to the Ordinary Shares in the amount not less than 20% in the share capital of the Company; or (ii) sale of controlling shareholder's stake in the share capital of the Company in the amount of not less than 20% to a non-affiliated third party for a fair market value. Given that the Offering falls within the definition of the liquidity event, following the Offering the Management will be entitled to cash-based and share-based compensation in the aggregate amount of which shall not exceed the amount equal to 5.0% of the valuation increase of the Company (calculated in rubles). Under the Management Incentive Plan, the amount of compensation for each executive (employee) is also limited and varies from 0.145% to 0.75% of the valuation increase of the Company.

Long-Term CEO Incentive Plan

In July 2018, the Board of Directors approved a long-term incentive plan for the CEO (the "**CEO Incentive Plan**"). Under the CEO Incentive Plan, the CEO is entitled to receive an annual share-based compensation of up to 1.67% equity stake in the share capital of the Company (the "**CEO Compensation**") upon achievement of certain key performance indicators (the "**KPIs**") and/or upon the occurrence of any of the following events: (a) an initial public offering of the Ordinary Shares or global depositary receipts issued in relation to the Ordinary Shares in the amount not less than 20% in the share capital of the Company; (b) sale of controlling shareholder's stake in the share capital of the Company in the amount of not less than 20% to a non-affiliated third party for a certain value; or (c) receiving of a binding offer from a third party to purchase not less than 20% stake in the Company for a certain value, provided that such offer is rejected due to the sale having been considered impracticable, in each case the requirements to certain value of the total equity capital of the Company having also been satisfied (the "**Liquidity Event**"). The total amount of the CEO Compensation is limited by 5% of the Ordinary Shares in the share capital of the Company.

The CEO Compensation is accrued in annual tranches over 2018-2020, subject to continued employment with the Group, achievement of the KPIs or, if the KPIs are not achieved for the relevant period, occurrence of the Liquidity Event. Due to achievement of the relevant KPIs for 2018, Mikhail Shamolin received RUB 150,300,000 which, subject to tax deductions, were further used for purchasing the Ordinary Shares under the terms of the CEO Incentive Plan and the relevant share purchase agreement. As a result of this purchase, on 6 May 2019 Mr. Shamolin acquired 173,450,000 Shares (approx. 1.45% of the Company's share capital prior to the Offering) at a share option exercise price. In 2019, the KPIs for the relevant period were not achieved and no compensation under the CEO Incentive Plan was received by Mr. Shamolin. Based on the Group's results for 2020 the Board of Directors granted the CEO a remuneration of RUB 150,300,000 which, subject to tax deductions, were further used for purchasing the Ordinary Shares under the terms of the CEO Incentive Plan and the relevant share purchase agreement. As a result of this purchase, on 14 April 2021 173,476,260 Shares (approx. 1.45% of the Company's share capital prior to the Offering) at a share option exercise price. Also, subject to any amendments to the CEO Incentive Plan, following the Offering Mr. Shamolin will be entitled to receive the compensation in the amount of 172,463,740 Shares (approx. 1.44% of the Company's share capital prior to the Offering).

Share Ownership of Directors and Management Board Members

As of the date of this Offering Memorandum, members of the Board of Directors hold the following equity interest in the Company:

- CEO and member of the Board of Directors, Mikhail Shamolin, held approximately 2.9056% Shares in the Company;

- member of the Board of Directors, Ali Uzdenov, held approximately 0.2221% Shares in the Company.

Loans and Guarantees

As of the date of this Offering Memorandum, the Company did not have outstanding loans and guarantees to the members of the Board of Directors and the Management Board.

D&O Liability Insurance

The Company's directors and officers (D&O) liability is covered by two separate Directors, Officers and Companies Liability Insurance policies with JSC IC Allianz and Ingosstrakh Insurance Company, executed on 28 December 2020. The policies stipulate total limit of liability of US$ 50 million for all types of coverage and extensions (other than independent director extension) and an additional independent director aggregate excess liability limit of US$ 3.5 million with respect to the lability of independent directors. The policy period is valid from 31 December 2020 (23:59) until 1 January 2022 (0:00). The policy provides for a standard set of exceptions, including for intentional criminal activity, unlawful profit and pollution related claims.

Litigation Statement about Directors and Officers

At the date of this Offering Memorandum, for at least the previous five years, none of the members of the Board of Directors or the Management Board:

- has had any convictions in relation to fraudulent offences;

- has held an executive function in the form of a senior executive officer or a member of the administrative, management or supervisory bodies, of any company at the time of or preceding any bankruptcy, receivership or liquidation; or

- has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) or has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

Corporate Governance

Strategy and Sustainable Development Committee of the Board of Directors

The Strategy and Sustainable Development Committee is responsible for assisting the Board of Directors in corporate and strategy development, ESG, strategic planning and management, determining priority development areas and evaluating M&As and large scale investment projects. This committee currently has eight members, four of which are independent non-executive directors, consisting of Anna Belova, Zumrud Rustamova, Daniel L. Wolfe and Vladimir Tuzov. The Strategy Committee is chaired by Anna Belova.

Audit Committee of the Board of Directors

The Audit Committee coordinates the Company's policies regarding internal controls and audit services, monitors the work of the Company's independent auditors and controls the Company's financial and operational activities, assists with the budgeting process and financial modelling, assesses the IAD's performance efficiency and participates in approval of major, related party and special procedure transactions as well as in risk management processes (including by reviewing reports it receives from the treasury, budget department and risk management department and presenting the result to the Board of Directors). This committee currently has five members, four of which are independent non-executive directors, consisting of Anna Belova, Daniel Wolfe, Vladimir Tuzov and Marcus Rhodes. The Audit Committee is chaired by Daniel L. Wolfe.

Nomination and Remuneration Committee of the Board of Directors

The Nomination and Remuneration Committee advises the Board of Directors on policies regarding the appointment of executive officers and the remuneration to be paid to executive officers of the Company and other HR-related matters. This committee currently has five members, four of which are independent non-executive directors, consisting of Anna Belova, Vladimir Tuzov, Zumrud Rustamova and Daniel L. Wolfe. The Nomination and Remuneration Committee is chaired by Zumrud Rustamova.

PRINCIPAL SHAREHOLDER

The Company's shareholder, Sistema PJSFC, and its senior management, directly and indirectly control 100% of the Ordinary Shares as of the date of this Offering Memorandum, of which approximately 13.1% is owned directly by Sistema PJSFC, approximately 83.7% is held indirectly via Sistema PJSFC's wholly owned subsidiary, Sistema Telecom Assets LLC, approximately 2.9% is held by Mr. Mikhail Shamolin, a member of Sistema PJSFC's board of directors, approximately 0.2% is held by Mr. Ali Uzdenov, a managing partner of Sistema PJSFC and approximately 0.08% is held indirectly via Sistema PJSFC's wholly owned subsidiary, JSC Region. Following the Offering, Sistema PJSFC will continue to hold a majority interest in the Company, through beneficial ownership of approximately 73.2% of the Ordinary Shares (assuming the Over-allotment Option is not exercised and the Company issues 3,870,967,742 Offer Shares in the Offering).

Sistema PJSFC is one of the largest public investment companies in Russia. Founded in 1993, Sistema PJSFC is today represented across over 10 high-potential sectors of the Russian economy through its portfolio companies that serve over 150 million consumers. Sistema PJSFC's investment portfolio includes mostly Russian companies in sectors including telecommunications, forestry, agriculture, healthcare, real estate, consumer retail, pharmaceuticals and others. Sistema PJSFC's shares trade on Moscow Exchange (ticker: AFKS) and on London Stock Exchange in the form of global depositary receipts (ticker: SSA). One global depositary receipt represents 20 ordinary shares.

Sistema PJSFC's strategic goal is to create long-term growth of shareholder value by boosting returns on investments in existing assets and reinvesting available cash in new investment projects to diversify its portfolio and increase overall returns on investment.

For additional information on the other shareholders of the Company, see "*Management and Corporate Governance—Interest of Directors and Officers—Share Ownership of Directors and Management Board Members*."

DESCRIPTION OF SHARE CAPITAL AND CERTAIN REQUIREMENTS OF RUSSIAN LAW

Below is the description of the Company's share capital, the material provisions of the Company Charter in effect at the date hereof and certain requirements of Russian law. This description, however, is not complete and is qualified in its entirety by reference to the Company Charter and any applicable Russian law.

Corporate Purpose

Pursuant to Article 2.1 of the Company Charter, the primary purpose of the Company is earning profits by carrying out business activities.

Description of Share Capital

General Matters

The Company was originally incorporated on 24 December 2013 as a limited liability company. In December 2020 the Company was reorganized into a joint-stock company and on 7 April 2021 the Company was registered as a public joint-stock company.

Pursuant to the Joint-Stock Companies Law, the Company has the right to issue registered ordinary shares, preferred shares and other securities. Under Russian law, share capital refers to the aggregate nominal value of the issued and outstanding shares. Immediately prior to the Offering, the share capital of the Company consisted of 11,940,000,000 issued, fully paid and outstanding Shares, each with a nominal value of 0.1 ruble. In addition, the Company is authorized by the Company Charter to issue an additional 11,940,000,000 Shares. Subject to certain requirements of Russian law, when issued, such Shares will be identical to, and fully fungible with, the Company's currently issued and outstanding Shares. Under the Company Charter, the Company has the right to issue preferred shares. No preferred shares are currently authorized and outstanding.

The Joint-Stock Companies Law requires the Company to dispose of any of its treasury shares that the Company acquires within one year of their acquisition or, failing that, reduce its share capital by the respective amount. Russian legislation does not allow voting rights or payment of dividends in relation to treasury shares. As at the date of this Offering Memorandum, the Company does not have any treasury shares (as referred to herein). Shares owned by subsidiaries of the Company (if any) are not considered treasury shares under Russian law (i.e., they are considered outstanding shares), and such subsidiaries are able to exercise voting rights and receive dividends relating to such shares and dispose of such shares.

History of the Company's Share Capital

The following table sets forth the changes in the Company's share capital that have occurred from the date of its incorporation to the date of this Offering Memorandum.

Date of event	Type of shares	Par value	Number of interest / shares	Event
24 December 2013	Participant Interests	RUB 1	10,000	Distribution of participant interests among the founders in relation to incorporation
5 October 2016	Participant Interests	RUB 1	11,940	Increase of the Company's authorized capital under a third party's application for admitting him to the Company and making a contribution
28 December 2020	Shares	RUB 0.1	11,940,000,000	Conversion of participant interests into shares and allotment to shareholders as a result of the reorganization into a joint-stock company

Rights Attaching to Shares

Holders of Shares of the Company have the right to vote at all General Shareholders' Meetings. As required by the Joint-Stock Companies Law and the Company Charter, all of the Company's Shares have the same nominal value and grant to their holders identical rights. Each fully paid ordinary share, except for treasury shares, gives its holder the right to:

- freely transfer the Ordinary Shares without the consent of other shareholders;
- receive dividends;
- participate in General Shareholders' Meetings and vote on all matters within the competence of the General Shareholders' Meeting;
- transfer rights to vote in a General Shareholders' Meeting to a representative pursuant to a power of attorney;
- if holding, alone or with other holders, 1% or more of the Ordinary Shares, to access the list of persons entitled to participate in the General Shareholders' Meeting and to sue in court, on the Company's behalf, members of the Board of Directors, the CEO and members of the Executive Board for damages incurred by the Company as a result of their wrongful actions or failures to act;
- if holding, alone or with other holders, 2% or more of the voting shares, within 100 days after the end of the Company's fiscal year, make proposals for the annual General Shareholders' Meeting and nominate candidates to the Board of Directors and the Internal Audit Commission;
- if holding, alone or with other holders, 10% or more of the voting shares, demand that the Board of Directors call an extraordinary General Shareholders' Meeting or an unscheduled audit by the Internal Audit Commission;
- demand repurchase by the Company of all or some of the voting shares in the Company held by the shareholder if that shareholder voted against or did not participate in the voting on, the decision approving any of the following actions:
    - a corporate reorganization;
    - a conclusion of a major transaction involving assets valued in excess of 50% of the balance sheet value of the Company's assets;
    - amendments to the Company Charter or the adoption of a new version of the Company Charter in a manner that restricts shareholders' rights;
    - termination of the public status of the Company and delisting of shares and/or securities convertible into shares.
- upon the Company's liquidation, receive an amount of its residual assets (after fulfilment of its obligations to creditors) proportionate to their shareholding;
- have access to certain of the Company's documents, receive copies for a reasonable fee, and if holding alone or with other shareholders, 25% or more of the voting shares, have free access to minutes of the Executive Board and accounting documents; and
- exercise other shareholder rights, provided by the Company Charter and Russian legislation.

Any decision determining the maximum number, nominal value, category (i.e., type) of authorized shares and the rights attached to such shares must be approved by 75% of the shareholders holding ordinary shares participating in the General Shareholders' Meeting.

Pre-emptive Rights

The Company has the right to issue shares or securities convertible into shares by way of offering them to the public (an open subscription) or by way of offering them to its shareholders and/or certain third parties determined in the issuance decision (a closed subscription). The Joint-Stock Companies Law provides existing shareholders with a pre-emptive right to purchase shares or securities convertible into shares issued through an open subscription in an amount proportionate to their existing shareholdings. In addition, the Joint-Stock Companies Law provides the Company's shareholders with a pre-emptive right to purchase new shares or securities convertible into shares issued through a closed subscription if the shareholders voted against or did not participate in the voting on the decision approving such subscription. Pre-emptive rights are not available in relation to a closed subscription to existing shareholders, provided that such shareholders may each acquire a whole number of shares (or securities convertible into shares) in proportion to their existing shareholdings. In both cases, the Company must notify the shareholders in writing of the opportunity to exercise their pre-emptive rights and the period during which such pre-emptive rights may be exercised. As a general rule, such period may not be less than 45 days from the date when the notification is published or sent to the shareholders, and in certain cases it may be shortened to 20 days or, subject to further requirements, eight working days if the price of the offered shares or securities convertible into shares is not set out in the issuance decision, and to 12 working days if such price is set out in the issuance decision.

Dividends

The Joint-Stock Companies Law, the Company Charter and the Dividend Policy set out the procedure for determining the dividends that the Company distributes to its shareholders.

Under the Joint-Stock Companies Law the Company Charter and the Dividend Policy, the Company may declare dividends based on first quarter, six-month, nine-month or annual results. A decision on quarterly, six-month and nine-month dividends must be taken within three months of the end of the respective quarter at a General Shareholders' Meeting. The Board of Directors shall recommend to the General Shareholders' Meeting an amount of the proposed distribution and the Dividend Payment Record Date. Upon recommendation of the Board of Directors, the General Shareholders' Meeting may approve such amount and the Dividend Payment Record Date by a majority vote. The distribution amount may not be more than that recommended by the Board of Directors.

The Company shall pay dividends to shareholders and the central depository entitled to receive dividends as of the Dividend Payment Record Date (the "**Central Depository**"). Under the Federal Law No. 39-FZ "On Securities Market" dated 22 April 1996, as amended (the "**Securities Market Law**"), upon receipt of the dividends the Central Depository must transfer them to depositary account holders, including another depositary or nominee holder, who are entitled to receive dividends as of the Dividend Payment Record Date. Dividends are not paid on treasury shares.

Under the Joint-Stock Companies Law, the Dividend Payment Record Date shall not be earlier than 10 days prior to and not later than 20 days following the date of the shareholders' decision on dividend payments. The dividends must be paid to the Central Depository within 10 working days and to shareholders whose rights have been registered in the shareholders' register within 25 working days following the Dividend Payment Record Date. Dividends are paid by way of wire transfer to bank accounts of the shareholders and the Central Depository. If the bank details of shareholders – private individuals whose rights to the shares are registered in the shareholders' register are not available, the dividends shall be paid in cash by post orders. If a shareholder holds shares in a depositary account, the Central Depository shall transfer the dividends to the depositary nominee account within 1 working day and such depositary shall transfer the dividends to the shareholder's bank account within 7 working days.

The Charter provides that the dividends shall be paid in cash except when other form is prescribed by a decision of the General Shareholders' Meeting. According to the Dividend Policy, the Company aims to pay dividends at least once a year and the payments to be made as soon as possible after the dividends are declared subject to Russian law requirements.

The Joint-Stock Companies Law allows dividends to be declared only out of net profits calculated under RAS and as long as the following conditions have been met:

- the share capital of the company has been paid in full;
- the company has repurchased all shares from shareholders who have exercised their right to demand repurchase;
- the company is not insolvent on the date of adoption of the decision to pay dividends (and would not become insolvent as a result of the proposed dividend payment);
- the value of the company's net assets, calculated under RAS, on the date of adoption of the decision to pay dividends is not less (and would not become less as a result of the proposed dividend payment) than the sum of the company's share capital, the company's reserve fund and the difference between the liquidation value and the nominal value of the issued and outstanding preferred shares of the company; and
- other requirements of Russian legislation have been fulfilled.

In addition, a Russian company is prohibited from paying dividends (even if they have been declared) if:

- the company is insolvent on the date of payment or would become insolvent as a result of the proposed dividend payment;

- the value of the company's net assets, calculated under RAS, on the date of payment, is less (or would become less as a result of the proposed dividend payment) than the sum of the company's share capital, the company's reserve fund and the difference between the liquidation value and the nominal value of the issued and outstanding preferred shares of the company; or

- otherwise prohibited by Russian legislation.

Distributions to Shareholders on Liquidation

Under Russian legislation, liquidation of a company results in its termination without the transfer of rights and obligations to other persons as legal successors. The Joint-Stock Companies Law and the Company Charter allow the Company to be liquidated:

- by a three-quarters majority vote of a General Shareholders' Meeting; or

- by a court order.

Following a decision to liquidate the Company, the right to manage its affairs would pass to a liquidation commission which, in the case of voluntary liquidation, is appointed by a General Shareholders' Meeting and, in an involuntary liquidation, is appointed by the court. Creditors may file claims within a period to be determined by the liquidation commission, but such period must not be less than two months from the date of publication of notice of liquidation by the liquidation commission.

The Russian Civil Code gives creditors the following order of priority during liquidation:

- first priority: to individuals owed compensation for injuries or deaths or compensation above moral damages in certain cases provided by law;

- second priority: to employees and copyright claims;

- third priority: to federal and local governmental authorities claiming taxes and similar payments to the budgets and non-budgetary funds; and

- fourth priority: to other creditors in accordance with Russian legislation.

Claims of creditors in obligations secured by a pledge of the company's property shall be satisfied from the sale proceeds of the pledged property prior to claims of any other creditors, save for the creditors of the first and second orders of priority, provided that claims of those creditors of the first and second orders of priority arose before the respective pledges have been entered into. Any residual claims of secured creditors that remain unsatisfied after the sale of the pledged property rank *pari passu* with claims of the fourth priority creditors.

The remaining assets of a company are distributed among shareholders in the following order of priority:

- payments to repurchase shares from shareholders having the right to demand repurchase;

- payments of declared but unpaid dividends on preferred shares and the liquidation value of the preferred shares, if any; and

- distribution of the remaining assets of a company between the holders of ordinary and preferred shares on a pro rata basis.

Liability of Shareholders

The Russian Civil Code and the Joint-Stock Companies Law generally provide that shareholders in a Russian joint-stock company are not liable for the obligations of a joint-stock company and only bear the risk of loss of their investments. However, this may not be the case when one person (the "**effective parent**") is capable of determining decisions made by another entity (the "**effective subsidiary**") by way of giving binding instructions to the effective subsidiary. If the effective subsidiary is a joint-stock company, the effective parent bears joint and several liability for transactions entered into by the effective subsidiary if: (i) the effective parent caused the effective subsidiary to conclude the transaction, and (ii) the ability of the effective parent to give binding instructions is provided for in the charter of the effective subsidiary or in a contract between such entities.

If the effective subsidiary is a Russian limited liability company, the effective parent bears joint and several liability if the effective parent caused the effective subsidiary to conclude the transaction (regardless of how the effective parent's ability to determine decisions of the effective subsidiary arises).

Thus, a shareholder of an effective parent is not itself liable for the debts of the effective parent's effective subsidiary, unless that shareholder is itself an effective parent of the effective subsidiary.

Accordingly, the shareholders will not be personally liable for the Company's debts or those of its effective subsidiaries unless such shareholders control its business and/or its effective subsidiaries, and the conditions set out above are met.

In addition, an effective parent may be held secondarily liable for the debts of an effective subsidiary if the latter becomes insolvent (bankrupt) as a result of the action or inaction of the former. This is the case no matter how the effective parent's capability to determine decisions of the effective subsidiary arises, such as through ownership of voting securities or by contract. If the effective subsidiary is a joint-stock company, then the effective parent will have secondary liability only if the effective parent caused the effective subsidiary to take any action or fail to take any action knowing that such action or failure to take action would result in insolvency of the effective subsidiary. If the effective subsidiary is a limited liability company, then the effective parent will be held secondarily liable if the effective subsidiary's insolvency is caused by the willful misconduct or negligence of such effective parent, subject to the insufficiency of the effective subsidiary's assets to cover its obligations.

Shareholders of an effective subsidiary that is a joint-stock company may also claim compensation for the effective subsidiary's losses from the effective parent if: (i) the effective parent caused the effective subsidiary to take any action or fail to take any action that resulted in a loss and (ii) the effective parent knew that such action or failure to take such action would result in the effective subsidiary's loss. Participants of an effective subsidiary that is a limited liability company may claim compensation for the effective subsidiary's losses from the effective parent if the effective parent through its willful misconduct or negligence caused the effective subsidiary to take any action, or fail to take any action, that resulted in a loss.

Share Capital Increase

The Company may increase its share capital by:

- issuing new shares, or
- increasing the nominal value of its previously issued shares.

Under the Company Charter, a decision on any issuance of shares or securities convertible into shares by closed subscription, or an issuance by open subscription of ordinary shares or securities convertible into ordinary shares constituting more than 25% of the number of issued ordinary shares, requires a three quarters majority vote of the General Shareholders' Meeting. A decision on the issuance by open subscription of ordinary shares or securities convertible into ordinary shares constituting 25% or less of the number of issued ordinary shares, requires unanimous approval by the Board of Directors. A decision to increase the share capital by increasing the nominal value of issued shares requires a majority vote of the General Shareholders' Meeting. In addition, the issuance of shares above the number of authorized and non-issued shares provided in our Charter necessitates a Charter amendment, which requires a three quarters majority vote of the General Shareholders' Meeting.

On 1 January 2020, certain amendments to the Securities Market Law came into force, allowing issuers to change the rights attaching to issued securities by means of adopting relevant corporate decisions and registering with the CBR amendments to the relevant securities issuance decision. Such amendments may include, among other things, changing the nominal value, split and consolidation of securities.

The Joint-Stock Companies Law requires that the placement price of the newly issued shares be determined by the Board of Directors based on their market value but not less than their nominal value. Placement price for existing shareholders exercising a pre-emptive right to purchase shares may be less than the price paid by third parties, but in any event no more than by 10% of the price paid by third parties. Fees of an intermediary participating in the placement of shares cannot exceed 10% of the share price. The Board of Directors may, but is not required to, involve an appraiser to set the placement price of the shares. There is a specific requirement for determining the placement price of securities, for which prices are regularly published, that the Board of Directors shall take into account such prices. The Board of Directors shall value any in-kind contributions for new shares, based on the appraisal report of an appraiser.

Russian securities laws and regulations set out detailed procedures for the issuance and registration of shares of a Russian joint-stock company. These procedures require:

- adoption of a decision to increase capital by placing additional shares;
- adoption of a decision on share issuance (and in certain cases of a prospectus);
- prior registration of a share issuance (and in certain cases of a prospectus) with the CBR;
- placement of the shares;
- registration of the report or filing of the notice on the results of the share issuance; and
- public disclosure of information at the required stages of the issuance.

Share Capital Decrease and Share Repurchases

The Company has the right to, and under certain circumstances, is statutorily required to, decrease its share capital.

The Joint-Stock Companies Law does not allow a company to reduce its share capital below the minimum share capital required by law, which is RUB 100,000 for a public joint-stock company. The Joint-Stock Companies Law requires that any decision to reduce the share capital of a company, whether through the repurchase and cancellation of shares or a reduction in the nominal value of the shares, be made by a General Shareholders' Meeting. In addition, within three business days of a decision to reduce a company's share capital, such company should notify the competent authority on adoption of such decision, and then twice publish a notification on the decrease of the share capital in specially designated mass media with regularity of once in a month.

The Joint-Stock Companies Law allows a company to decrease the share capital through a reduction in the nominal value of the shares only if the following conditions have been met:

- the company's share capital has been paid in full;
- the company has repurchased all shares from shareholders who have exercised their right to demand repurchase of their shares;
- the company is not insolvent on the date of adoption of the decision to decrease the share capital and would not become insolvent as a result of the proposed decrease of share capital;
- the value of a company's net assets on the date of adoption of the decision to decrease the share capital is not less (and would not become less as a result of the proposed decrease of share capital) than the sum of its share capital, the reserve fund and the difference between the liquidation value and nominal value of the company's issued and outstanding preferred shares;
- the company has paid all declared and unpaid dividends; and
- other requirements of Russian legislation have been fulfilled.

Russian legislation provides that a company's shareholders may demand repurchase of all or some of their shares so long as the shareholder demanding repurchase voted against or did not participate in the voting on the decision approving any of the following actions, subject to certain exemptions set out in the Joint Stock Companies Law:

- a reorganization of the company;
- a conclusion of a major transaction involving assets in excess of 50% of the balance sheet value of the assets of the company;
- amendments to the charter or approval of a new version of the charter in a manner that restricts the shareholder's rights; or
- termination of the public status of a company and delisting of shares and/or securities convertible into shares.

The company may spend up to 10% of its net assets calculated under RAS on a share redemption demanded by the shareholders. As a general rule, if the value of shares in respect of which the shareholders have exercised their right to demand repurchase exceeds 10% of the net assets of the company, the company will repurchase shares from each such shareholder on a *pro rata* basis.

The decision on termination of the public status of a company along with delisting of shares and/or securities convertible into shares requires a 95% majority vote of the General Shareholders' Meeting. Under the Joint-Stock Companies Law, such decision enters into force if the aggregate number of shares in respect of which the shareholders have exercised their right to demand repurchase does not increase the number of shares that can be repurchased by the company given that the company may spend only up to 10% of its net assets calculated under RAS. Otherwise, the decision of the General Shareholders' Meeting does not enter into force and the application is not approved.

Registration and Transfer of Shares

The Company's shares comprise its Shares in registered form. Russian legislation requires that a joint-stock company hold a register of its shareholders. Russian legislation requires that a register of shareholders must be held by a specialized licensed registrar. Ownership of the Company's shares is evidenced by entries made in the shareholders' register, and after the Offering, on the books of a relevant depositary.

Pursuant to the Federal Law No. 414-FZ "On Central Depository", dated 7 December 2011, as amended (the "**Central Depository Law**") which sets out a legal framework for establishment and operation of the Central Depository, the sole nominal holder who can be registered in the shareholders' register is the Central Depository. NSD, having the status of the Central Depository, opened its nominal holder account in the Company's register of shareholders on 9 April 2021. The Central Depository Law provides that other nominal holders (depositaries) must open depositary accounts with the Central Depository to carry out operations with securities.

Any of the Company's shareholders may obtain an extract from the register of shareholders maintained by the registrar or from their respective depositary, as the case may be, certifying the number of shares that such shareholder holds. The Company is also entitled to obtain an extract from its shareholders' register which sets out all of its shareholders registered directly therein. In addition, the Company is entitled to obtain a list of nominal holders that opened depositary accounts with the Central Depository as well as a list of entities that have accounts opened with the nominal holders, given that such list is provided by the relevant nominal holder. However, after the Offering, the Company will be unable to monitor transfers of its shares that are held on the books of depositaries registered with the Central Depository, because underlying shareholders have no obligation to reveal and such depositaries have no obligation to notify the Company about such transfers. As a result, the Company will be able to identify its actual shareholders only in a limited number of cases when such possibility is provided for by Russian law, including when requesting its registrar and the Central Depository to compile a list of shareholders of record for the General Shareholders' Meeting.

However, the Company's shareholders and beneficial owners of its shares shall notify it and the CBR of an acquisition of 5% or more of its voting shares or of an acquisition of the right to vote on 5% or more of its voting shares by virtue of an agreement or otherwise, and of any subsequent change in the number of such voting shares above or below certain thresholds, and the Company is required to disclose such information in accordance with Russian securities regulations. See "*—Certain Requirements of Russian Legislation—Notification of Acquisition of Significant Interest*" and also "*—Disclosure of Information*."

The purchase, sale or other transfer of shares is accomplished through the registration of the transfer in the shareholders' register, or the registration of the transfer with a depositary if shares are held through a depositary. The registrar or depositary may not require any documents in addition to those required by Russian legislation in order to register a transfer of shares in the register. Refusal to register the shares in the name of the transferee or, upon request of the beneficial holder, in the name of a nominee holder, is not allowed, and such refusals may be challenged in court. See "*Risk Factors—Risks Relating to the Offer Shares and the Trading Market.*"

Listing

In accordance with Regulation of the CBR No. 534-P dated 24 February 2016, and Moscow Exchange listing rules, there are three listing levels for securities: premium Level 1 with quotation, Level 2 with quotation and Level 3 without quotation. Listing rules set forth, among others, certain trading, reporting and corporate governance requirements for each of Level 1 and Level 2 listings.

Reserve Fund

Russian legislation requires each joint-stock company to establish a reserve fund to be used only to cover the company's losses, redeem the company's bonds and repurchase the company's shares in cases when other funds are not available. The Joint-Stock Companies Law and the Company Charter provide for a minimum reserve fund of 5% of the Company's share capital, funded through mandatory annual transfers of at least 5% of net profits of the Company until the reserve fund has reached the 5% requirement. The Company also may establish special purpose funds upon a decision of a General Shareholders' Meeting. Decisions on the composition, formation and use of such funds shall be approved by the Company's Board of Directors.

Disclosure of Information

In accordance with Russian securities regulations, as a public company, the Company is required to make the following public disclosures and filings on a periodical basis:

- publishing on the website quarterly issuer's reports containing information about it, its shareholders, the structure of its management bodies, the members of the Board of Directors and Executive Board, its branches and representative offices, its shares, bank accounts and statutory auditors, important developments during the reporting quarter, and other information about its financial and business activity (this requirement will cease to be applicable from 1 October 2021);
- publishing on a newswire, as well as on its website, any information concerning material facts and changes in its financial and business activity, including among other things:
    - its reorganization;
    - material transactions;
    - certain facts related to share issuances;
    - decisions of the General Shareholders' Meeting;
    - acquisition by a person of 5% or more of its voting shares or an acquisition of the right to vote on 5% or more of the voting shares by virtue of an agreement or otherwise, and any subsequent change in the number of such voting shares above or below any of 5%, 10%, 15%, 20%, 25%, 30%, 50%, 75% or 95% threshold;
    - the information on the receipt of any of (i) a voluntary offer (including any competing offer), (ii) a mandatory offer (including any competing offer), (iii) notice of the right of shareholders to sell their shares to the person that has acquired more than 95% of the voting shares and (iv) a demand that minority shareholders sell their shares to the person that has acquired more than 95% of the voting shares;
- disclosing information at various stages of share issuances through publication of certain data as required by securities regulations;
- disclosing its annual report and annual financial statements;
- disclosing on its website on a quarterly basis a list of its affiliated persons (starting from 1 October 2021, it will be required to disclose a list of affiliated persons semi-annually); and
- other information as required by applicable Russian securities legislation.

In January 2018, the Russian Government adopted regulations according to which the following information with respect to sanctioned persons should not be publicly disclosed even if otherwise required to be so disclosed pursuant to applicable Russian laws: (i) financial reports and accounting statements, (ii) information on pledges of movable property, (iii) information on issuance and material conditions of guarantees, save for certain exceptions, and (iv) certain other information (see also "*Risk Factors—Risks Relating to the Russian Federation—Although no entity in the Group is currently a sanctioned person, sanctions imposed by the United States, the European Union and other states in relation to the Russian Federation may have a material adverse effect on the Group's business, financial condition, results of operations and liquidity*"). In April 2019, the Russian Government also adopted regulations allowing Russian issuers not to disclose certain information, among other, when (i) disclosure of information related to a sanctioned person may lead to imposition of new sanctions against (the issuer or other persons), or (ii) such issuer is a sanctioned person.

Certain Requirements of Russian Legislation

Interested-Party Transactions

The Joint-Stock Companies Law contains special requirements with respect to entering into interested-party transactions. "Interested-party transactions" include transactions involving a member of the Board of Directors, a member of the Executive Board, the CEO, a controlling person of the company (as defined by the Joint-Stock Companies Law) or any person who is able to direct the actions of the Company, if that person and/or that person's spouse, parents, children, adoptive parents or children, brothers or sisters or persons or entities under their control, are:

- a party to, or beneficiary of, a transaction with the Company, or act as a representative or intermediary in such transaction;
- the controlling person of a legal entity that is a party to, or beneficiary of, a transaction with the Company, or acts as a representative or intermediary in such transaction; or
- a member of any management body of a company that is a party to, or beneficiary of, a transaction with the Company, or acts as a representative or intermediary in such transaction, or a member of any management body of a management organization of such a company.

The Joint-Stock Companies Law requires that the Company notify (i) its Board of Directors, (ii) members of the Executive Board; and, in certain cases, (iii) shareholders (in case all the members of the Board of Directors are interested, the company does not have the Board of Directors or the company's charter provides for notification of the shareholders) of any planned interested-party transaction at least 15 days prior to its execution. If such request is appropriately made, an interested party transaction is subject to a prior approval in accordance with the procedural and voting requirements of the Joint Stock Companies Law.

The Company's CEO, a member of the Board of Directors, a member of the Executive Board or a shareholder owning at least 1% of the voting shares of the Company, may request the Board of Directors or General Shareholders' Meeting to give consent for execution of the transaction.

Consent is to be provided by a majority of shareholders present at the meeting who are not interested in the transaction if:

- the value of such transaction or a number of interrelated transactions is 10% or more of the balance sheet value of the company's assets calculated under RAS;
- the transaction or a number of interrelated transactions involves the disposal of Shares in an amount exceeding 2% of the company's issued Shares and ordinary shares into which issued convertible securities may be converted, unless the charter of the company provides for a smaller number of such shares;
- the transaction or a number of interrelated transactions involves the disposal of preferred shares in an amount exceeding 2% of the company's issued shares and ordinary shares into which issued convertible securities may be converted, unless the charter of the company provides for a smaller number of such shares; or
- the number of directors who are not interested in the transaction and otherwise eligible for giving consent for the execution of the transaction is not sufficient to constitute a quorum.

The notification on execution and consent in respect of an interested-party transaction is not required if, *inter alia*:

- transactions are conducted in the ordinary course of business of the company on the terms similar to terms of previous non-interested transactions on this type;
- the company has only one shareholder that simultaneously performs the functions of the company's sole executive body;
- all shareholders of the company are deemed interested in the transaction, provided that other persons are not interested in the transaction;
- transactions are conducted in connection with placement of the company's shares and other securities, convertible to shares;
- transactions are conducted in connection with a public offering of bonds or the repurchase of issued bonds;

- the company is repurchasing its issued shares;

- transactions are conducted in connection with a reorganization of the company;

- the company is required by law to enter into the transaction, and settlements under such transactions are made pursuant to prices set by the Russian government on or pursuant to tariffs and prices established by appropriate state authorities authorized by the Russian government;

- transactions are concluded on the terms of a preliminary agreement, provided such preliminary agreement was duly approved;

- transactions are concluded on the open organised market or under an open tender, provided that terms of company's participations in such trades were prior approved by the Board of Directors; or

- transactions involve the acquisition or disposal of property having a value of less than 0.1% of the balance sheet value of the assets of a company calculated under RAS.

Upon a claim by a Company, member of the Board of Directors or shareholder owning at least 1% of the voting shares of the Company, a court may invalidate any interested-party transaction, provided that: (i) the transaction is executed at the expense of the company's interests; and (ii) the counterparty has been proven to have known and should have known that the transaction constituted an interested-party transaction with respect to the company and the respective consent has not been received. However, pursuant to Joint-Stock Companies Law, a court shall dismiss the claim seeking to invalidate an interested-party transaction entered into in breach of the above-mentioned requirement in certain instances.

Major Transactions

The Joint-Stock Companies Law defines a major transaction as a transaction or (a series of interrelated transactions) conducted outside the ordinary course of business of the company and involving the acquisition or disposal (including temporary transfer), or the possibility of disposal, directly or indirectly, of property having the value of 25% or more of the balance sheet value of the assets of the company calculated under RAS, with the exception of, *inter alia*:

- transactions performed by the company which has only one shareholder that simultaneously performs the functions of the company's sole executive body;

- transactions in connection with the placement (public offering) and/or organization of the placement of shares through a subscription (sale of shares), or with the placement of securities convertible into shares;

- transactions in connection with a reorganization of the company;

- transactions that are mandatory for a company pursuant to Russian law requirements, and settlements under which transactions are made pursuant to prices set by the Russian government or pursuant to tariffs and prices established by appropriate state authorities authorized by the Russian government;

- transactions aimed at the acquisition of securities under the terms of a mandatory offer; and

- transactions concluded on the terms of a preliminary agreement, provided such preliminary agreement was duly approved.

Major transactions involving the acquisition or disposal (including temporary transfer), or the possibility of disposal, directly or indirectly, of assets ranging from 25% to 50% of the balance sheet value of the assets of a company requires the unanimous consent of all the members of the Board of Directors. If the transaction fails to receive such consent, it can be provided by a simple majority vote of the shareholders present at the General Shareholders' Meeting. Major transactions involving assets in excess of 50% of the balance sheet value of the assets of a company require a three-quarter majority vote of shareholders present at the General Shareholders' Meeting. A major transaction, which is simultaneously is an interested party transaction, shall be approved in accordance with the specific requirements provided by the Joint-Stock Companies Law.

Any major transaction entered into in breach of the above requirements may be invalidated by a court following an action brought by the company, its directors or its shareholders owning at least 1% of the company's voting shares. However, pursuant to the Joint Stock Companies Law, a court shall dismiss the claim seeking to invalidate a major transaction entered into in breach of the abovementioned requirement in certain instances.

Shareholders' Agreements

The Civil Code and the Joint-Stock Companies Law provides for the possibility of entering into shareholders' agreements in respect of Russian joint-stock companies. Thus, the Civil Code and the Joint-Stock Companies Law stipulates that shareholders may enter into an agreement under which they undertake to exercise their shareholder rights in a certain manner or to refrain from exercising their shareholders' rights, including, *inter alia*:

(i) to vote in a certain manner at a General Shareholders' Meeting;

(ii) to coordinate voting with other shareholders;

(iii) to acquire or dispose of shares at a pre-determined price or upon occurrence of certain circumstances;

(iv) to refrain from disposing of shares until the occurrence of certain circumstances; and

(v) to perform jointly other actions relating to the company's management, activities, reorganization and liquidation.

The shareholders of a joint-stock company shall notify the company on execution of the shareholders' agreement within 15 days as of the date of its execution.

The provisions of the Civil Code and the Joint-Stock Companies Law in respect of shareholders' agreements are very generic, rather vaguely drafted and still remain largely untested. It still remains to be seen how the regulation is implemented and enforced in practice.

Approval of the Russian Federal Antimonopoly Service

Pursuant to Federal Law No. 135 "On Protection of Competition" dated 26 July 2006, acquisitions of voting shares of a joint-stock company, involving companies with a combined asset value or annual revenue exceeding a certain threshold under RAS, and which would result in a shareholder (or a group of shareholders, as defined under Russian law) holding more than 25%, 50% or 75% of the voting shares of such company, or in a transfer between such companies of assets or rights to assets, the value of which exceeds a certain amount, or obtaining rights to determine the conditions of business activity of a joint-stock company or to exercise the authorities of its executive body must be approved in advance by the FAS. Such transactions executed between members of a group of companies may require only a subsequent notification to the FAS if prior notification about the members of the group of companies has been filed with the FAS and the information contained in such notification is still accurate as of the date of the relevant transaction and had not been changed within 30 days from the date of the group's disclosure and prior to the date of the transaction's settlement.

Foreign Ownership

Federal Law No. 57-FZ "On the Procedure for Foreign Investment in Companies with Strategic Impact on National Defense and Security of the Russian Federation" dated 29 April 2008, as amended (the "**Foreign Strategic Investments Law**") establishes procedures for obtaining approval by foreign investors prior to purchasing (directly or indirectly) a blocking or controlling number of shares in certain entities (the "**Strategic Entity**"). In particular, a foreign investor who is acquiring more than 50 percent of voting shares in a Strategic Entity, or a right to elect the sole executive body or more than half of its board of directors or the executive board, should obtain a clearance for such acquisition from a governmental commission. Any transactions completed in breach of applicable requirements of the Foreign Strategic Investments Law are null and void and may therefore be unwound by Russian courts.

Under The Federal Law No. 160-FZ "On Foreign Investments in the Russian Federation" dated 9 July 1999, as amended (the "**Foreign Investments Law**"), any transaction of any foreign investor in respect of any Russian legal entity could be subject to review and approval by the Governmental Strategic Investments Commission (the "**Commission**") in accordance with the procedure set out in the Strategic Enterprises Law, if so resolved by a decision of the Commission's Chairman (currently, the Russian Prime Minister). Such decision would be made "with the view of securing national defense and security of the state". This is the only test expressly set out in the Foreign Investments Law. Any other criteria or requirements to trigger such review and approval are not provided, including volume or structure of the transaction, type of business operations or assets of a target Russian entity or even type of the transaction (not limited to direct or indirect acquisition of shares or participation interests in the charter capital of the Russian company). Within 3 working days of receipt of the decision of the Commission's Chairman, the FAS would be required to notify the relevant foreign investor that the transaction would be submitted for clearance of the Commission in accordance with the Strategic Enterprises Law. The transaction cannot be closed prior to obtaining a clearance. Failure of the foreign investor to comply with the above requirements could lead to invalidation of the transaction.

At the date of this Offering Memorandum, the Company does not conduct any strategic activities pursuant to the Foreign Strategic Investments Law, and, therefore, the Company does not have the status of a Strategic Entity, and acquisition of its shares is not subject to the requirements of the Foreign Strategic Investments Law.

In addition, organizations that are taxpayers and individuals registered as individual entrepreneurs, in Russia who acquire more than 10% of shares in a Russian joint-stock company must notify the Russian tax authorities within one month after such acquisition. Accordingly, foreign persons registered as individual entrepreneurs in Russia and foreign companies may need to notify the Russian tax authorities within one month after such acquisition if they are already registered with the Russian tax authorities at the time of the acquisition. However, the notification procedure for a foreign company that is not yet registered with such tax authorities at the time of their acquisitions is unclear.

Notification of Acquisition of Significant Interest

Pursuant to Russian securities legislation, each holder of voting shares of a joint-stock company that has issued securities and registered a prospectus in respect of such securities in the Russian Federation must notify the company and the CBR of an acquisition of 5% or more of the company's voting shares or of an acquisition of the right to vote on 5% or more of the voting shares by virtue of an agreement or otherwise, and of any subsequent change in the number of such voting shares above or below any of 5%, 10%, 15%, 20%, 25%, 30%, 50%, 75% or 95% thresholds. Each notification should contain the name of the acquirer, the name of the company and the number of the voting shares acquired (or votes that can be cast). Such notifications must be generally given within ten days after the voting shares have been transferred to such shareholder's securities account or after the acquisition of the right to cast votes attached to such voting shares.

Change of Control and Anti-takeover Protection

The Joint-Stock Companies Law provides for anti-takeover protection measures applicable under Russian law.

A person intending to acquire more than 30% of a public joint-stock company's ordinary shares and certain preferred shares, including shares already owned by such person and its affiliates, has the right to make a public offer to purchase the remaining shares from other shareholders (voluntary offer). A voluntary offer may be made at any price (although the price should be the same for all tendering shareholders).

Within 35 days after acquisition by any means of more than 30%, 50% or 75% of ordinary shares and certain preferred shares or 35 days from the date when the acquirer learned or should have learned that it, either independently or together with its affiliates, owns such number of shares, the acquirer is required to make a public offer to purchase the remaining shares from other shareholders (mandatory offer). A mandatory offer should be made at a price that is the higher of: (i) the highest acquisition value that the offeror or its affiliate paid or agreed to pay for the target securities in any transaction in the six months preceding the date of the mandatory offer launch, or (ii) in the case of a publicly traded joint-stock company, the weighted average price of the target securities on the Russian stock exchange during the six months preceding the date of the mandatory offer filing with the CBR and, if the company is not publicly traded or is traded for less than six months, the price determined as "market value" by an appraiser.

While the offeror is required to make an all-cash voluntary or mandatory offer, it may also offer securities or a mix of cash and securities as an alternative, in which case tendering shareholders have the right to choose between cash consideration and consideration in the form of securities (or mixed consideration).

If, as a result of either voluntary or a mandatory offer, the acquirer purchases more than 95% of the ordinary shares and certain preferred shares, including shares owned by its affiliates, it is required to notify all the other shareholders (within 35 days after acquisition of shares above such threshold) of their right to sell their shares and other securities convertible into such shares. The purchase price in a buy-out offer is determined in accordance with the rules applicable to mandatory tender offers and shall not be lower than (i) the price paid in the voluntary offer or mandatory offer that resulted in passing the 95% threshold and (ii) the highest price that the 95% shareholder or its affiliates paid or agreed to pay for the target securities after the end of the voluntary offer or mandatory offer that resulted in passing the 95% threshold.

Instead of giving notice, the acquirer may deliver a buy-out demand, binding on the minority shareholders, that they sell their shares if the acquirer crossed the 95% threshold by acquiring at least 10% of the voting shares in a voluntary or mandatory offer at a price that may not be lower than: (i) the price paid in the voluntary offer or the mandatory offer that resulted in passing the 95% threshold, and (ii) determined as "market value" by an appraiser and (iii) the highest price that the 95% shareholder or its affiliates paid or agreed to pay for securities after the end of the voluntary offer or the mandatory offer that resulted in passing the 95% threshold.

An offer of the kind described in the preceding four paragraphs must be accompanied by an irrevocable bank guarantee of payment (except for a buy-out demand) and certain other documents. If the company is publicly traded, prior notice of the offers must be filed with the CBR; otherwise, such offers must be filed with the CBR no later than the date of the offer. The CBR may require revisions to be made to the terms of the offer (including the price) in order to bring them into compliance with the rules.

At any time after the company receives a voluntary or a mandatory offer and until 25 days prior to the expiration of the relevant acceptance period, any person will have the right to make a competing offer (that satisfies the requirements for a voluntary or mandatory offer, as applicable) to purchase shares in the quantity of and at the price that is greater than or equal to the quantity and the price offered in the initial voluntary or mandatory offer. Any shareholder may revoke its previous acceptance of the respective offer and accept the competing offer. A copy of the competing offer shall be sent to the person who made the initial voluntary or mandatory offer so that such person can amend its offer by increasing the purchase price and/or shortening the settlement period. As soon as the voluntary or mandatory offer has been received by a company and until the expiration of a 20-day period after the expiration of the period for acceptance of the voluntary or mandatory offer, only the General Shareholders' Meeting will have the exclusive power to make decisions on a share capital increase through an additional share issuance, on approval of interested-party and certain other transactions and on certain other significant matters. The Joint-Stock Companies Law provides for instances when the mandatory offer may not be made, which include, *inter alia*, the following:

- acquisition of the company's shares was performed in the course of its establishment or reorganization;
- partial redemption of its shares by the company;
- acquisition of shares by a company's shareholder as a result of using respective pre-emptive rights;
- shares of the company were earlier acquired under the voluntary offer;
- shares of the company were earlier acquired under another mandatory offer;
- transfer of shares between shareholder of the company and its affiliates;
- acquisition of shares by contribution thereof to the share capital of the company by the Russian Federation, its region or municipality provided the Russian Federation, its region or municipality is, or becomes, owner of more than 50% of the company's share capital as a result of such transaction; and
- acquisition of shares by contribution thereof as a payment for the newly issued shares placed under the closed subscription of a public joint-stock company included in the list of strategic enterprises and strategic joint-stock companies approved by the President of the Russian Federation by Order No. 1009 On Approval of the List of Strategic Enterprises and Strategic Joint-Stock Companies of 4 August 2004, as amended.

Currency control

Russian currency control restrictions with regard to instruments such as ordinary shares are set out in Federal Law No. 173-FZ "On Currency Regulations and Currency Control" dated 10 December 2003, as amended (the "**Currency Law**") and respective regulations of the CBR. Pursuant to the Currency Law, currency operations with ordinary shares between residents and non-residents may be conducted without limitations in both rubles and in foreign currencies. Under the Currency Law, currency operations with securities between non-residents may be conducted either in rubles or in foreign currencies, subject to compliance with Russian securities and competition laws and regulations. Finally, non-residents may receive dividends declared by Russian companies both in foreign currencies (confirmed by the CBR in its Information Letter No. 31 dated 31 March 2005) and rubles. Dividends declared and paid in rubles may be freely converted through Russian authorized banks and remitted outside of the Russian Federation.

RELATED-PARTY TRANSACTIONS

In the ordinary course of business, the Group enters into transactions with related parties. Parties are considered related if they are under common control, or one party has the ability to control the other party, exercise significant influence over decisions on matters of economic and financial activity, or can exercise joint control. In considering each possible related party, the management paid special attention to the substance of the relationship and not merely the legal form. Transactions with related parties may be on terms that are not always accessible to third parties.

The following table shows the total amount of the Group's transactions that have been entered into with related parties in the years ended 31 December 2020, 2019 and 2018. For further details, see Note 27 to the 2020 Financial Statements and Note 26 to the 2019 Financial Statements.

	Sales to related parties			Purchases from related parties		
	(RUB'000)					
	2020	2019	2018	2020	2019	2018
Sistema PJSFC........................	-	-	121	1,538	1,818	1,259
Subsidiaries of Sistema PJSFC	6,235	196,150	58,028	2,107,030	1,956,552	411,483
Other related parties................	32,701	31,299	251,885	503,631	57,437	420,856

	Receivables from related parties			Payables to related parties		
	(RUB'000)					
	2020	2019	2018	2020	2019	2018
Sistema PJSFC........................	-	-	-	168	336	165
Subsidiaries of Sistema PJSFC	37,843	41,152	131,019	400,094	326,307	43,553
Other related parties................	2,294	1,091	48,862	57,661	1,341	41,274

For the years ended 31 December 2020, 2019 and 2018, purchases from subsidiaries of Sistema PJSFC were mainly comprised of purchases of electric power from MTS Energo LLC. For the same periods, transactions with other related parties mainly included transactions with Group's associates.

The Group places cash in settlement accounts and as deposits for the period of up to three months with MTS Bank PJSC, a subsidiary of Sistema PJSFC. For the years ended 31 December 2020, 2019 and 2018, the Group obtained finance income of RUB 16.4 million, RUB 13.3 million and RUB 13.9 million, respectively, from deposits placed with MTS Bank PJSC. As at 31 December 2020, the Group had RUB 135.7 million and RUB 554.1 million in cash placed as deposits and in settlement accounts, respectively, with MTS Bank PJSC.

In March 2020, the Group obtained project financing from banks to construct a plywood mill in Galich, Kostroma region. According to the shareholders' agreement entered into between the Group and the bank, both parties thereto equally control operating and investing activities under the project. As a result, the Group ceased to control Galich Plywood Mill LLC and GalichLes LLC and, thus, no longer consolidates these entities within the Group. As at 31 December 2020, RUB 1.3 billion was outstanding under the loans granted by the Group to Galich Plywood Mill LLC and GalichLes LLC to finance the joint venture. For the year ended 31 December 2020, the Group obtained interest income of RUB 72.8 million under these loans.

Remuneration of senior management personnel

For the years ended 31 December 2020, 2019 and 2018, remuneration paid to key management personnel amounted to RUB 593.6 million, RUB 689.0 million and RUB 293.9 million, respectively. For the years ended 31 December 2020, 2019 and 2018, remuneration paid to the Board of Directors amounted to RUB 20.5 million, RUB 15.5 million and RUB 17.1 million, respectively.

PLAN OF DISTRIBUTION

Description of the Distribution

The Offering consists of an offering of the Offer Shares by the Company (i) in the Russian Federation and (ii) otherwise to institutional investors outside the United States in "offshore transactions", as defined in, and in reliance on, Regulation S and (iii) within the United States to QIBs, as defined in, and in reliance on, Rule 144A under the Securities Act or pursuant to another exemption from, or in a transaction not subject to, the registration requirements thereunder.

The New Shares are expected to be issued and sold by the Company to the Joint Global Coordinators, on behalf of the Underwriters, pursuant to the Underwriting Agreement (as defined below), and the offer and acceptance of the offer for such New Shares, pursuant to the New Share Issuance documentation for the purpose of onward sale by the Underwriters to investors.

In connection with the Offering, the Company and the Underwriters are expected to enter into an underwriting agreement and an underwriting support agreement (together, the "**Underwriting Agreement**") on or about the Pricing Date. Under the terms of, and subject to, the conditions contained in the Underwriting Agreement, the Underwriters will agree to purchase, at the Offer Price, the number of New Shares in the amounts to be determined and announced on or about the Pricing Date.

The Offer Price Range is RUB 7.75 to RUB 10.25 per Offer Share.

The Offer Shares have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. See "*Selling and Transfer Restrictions*."

Underwriting Agreement

In the Underwriting Agreement, the Company is expected to make certain representations and warranties and to agree to indemnify the Underwriters against certain liabilities, including liability under the Securities Act.

The obligation of the Underwriters pursuant to the terms of the Underwriting Agreement will be subject to the satisfaction of certain conditions precedent contained in the Underwriting Agreement, such as the receipt by the Underwriters of officers' certificates and customary legal opinions.

The Underwriting Agreement may be terminated upon written notice by the Joint Global Coordinators (on behalf of the Underwriters), upon the occurrence of certain events, including the suspension or limitation of trading on the Moscow Exchange or breach of the representations and warranties to be given by the Company. If the Underwriting Agreement is terminated, the Offering will not take place, in which case any allotments already made to investors will be invalidated and investors will have no claim for delivery. Claims with respect to any subscription fees already paid and costs incurred by an investor in connection with the subscription will be governed solely by the legal relationship between the investor and the financial intermediary to which the investor submitted its purchase order. Investors who engage in short-selling bear the risk of being unable to satisfy their delivery obligations.

Lock-up

The Company, Sistema PJSFC and Sistema Telecom Assets LLC, have each agreed in respect of themselves, their affiliates and any person acting on their behalf, for a period of 180 days, and Mr. Mikhail Shamolin and Mr. Ali Uzdenov have each agreed in respect of themselves and any person acting on their behalf, for a period of 365 days, after the Settlement Date, subject to certain limited exceptions, not to, without the prior written consent of the Joint Global Coordinators, on behalf of the Underwriters:

(i) issue, offer, sell, lend, mortgage, assign, pledge, charge, contract to sell or issue, sell any option or contract to purchase, purchase any option or contract to sell or issue, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of (or publicly announce any such action), directly or indirectly, any shares of the Company or any securities convertible or exchangeable into or exercisable for, or substantially similar to, any shares of the Company or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying shares of the Company, including equity swaps, forward sales and options representing the right to receive any such shares of the Company; or

(ii) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of shares of the Company; or

(iii) enter into any transaction with the same economic effect as, or agree to, or publicly announce any intention to enter into any transaction described above.

Stabilization

In connection with the Offering, Sistema PJSFC and/or Sistema Telecom Assets LLC is expected to grant to the Underwriters the Over-Allotment Option exercisable within the Stabilization Period to purchase the Over-Allotment Shares at the Purchase Price to cover over-allotments in connection with the Offering, if any, and short positions resulting from any such over-allotments.

In connection with the Over-Allotment Option, Sistema PJSFC and/or Sistema Telecom Assets LLC and the Stabilizing Manager are expected to enter into a stock lending agreement. The Market Maker is expected, to the extent permitted by applicable laws, regulations and rules of the CBR and/or the Moscow Exchange, effect transactions in relation to the Ordinary Shares, with a view to supporting the market price of the Ordinary Shares on the Moscow Exchange at a level higher than that which might otherwise prevail in the open market for a limited period after the Settlement Date as set out in this Offering Memorandum and in accordance with the Market-Making Agreement.

Neither the Stabilizing Manager nor the Market-Maker will be required to enter into such transactions and such transactions may be effected on any securities market, over-the-counter market, stock exchange or otherwise and may be undertaken at any time during the Stabilization Period. However, there will be no obligation on the Stabilizing Manager, the Market Maker or any of their respective agents to effect stabilizing transactions and there is no assurance that stabilizing transactions will be undertaken. Such stabilization, if commenced, may be discontinued at any time without prior notice. Except as required by law or regulation, neither the Stabilizing Manager, nor the Market Maker, or any of their respective agents intends to disclose the extent of any over-allotments made and/or stabilization transactions conducted in relation to the Offering

Dealings arrangement

The Ordinary Shares are expected to be admitted to trading on the “Level 1” part of the List of Securities Admitted to Trading on the Moscow Exchange under the symbol “SGZH” on or about the First Trading Date. Prior to the Settlement Date, it is expected that dealings in the Offer Shares will commence on an “as-if-and-when-issued” basis on the Moscow Exchange on or about the First Trading Date. All dealings between the First Trading Date and the Settlement Date will be on an “as-if-and-when issued” basis and at the risk of the parties concerned. If the Underwriting Agreement is terminated and the Offering does not become unconditional, these dealings will be of no effect. The Offer Shares are expected to be issued and dealings in the Offer Shares on an unconditional basis are expected to commence on the Moscow Exchange on or about the Settlement Date. It is expected that the Offer Shares allocated to investors in the Offering will take place through the NSD facilities on or about the Settlement Date. The above-mentioned dates may be changed without further notice. All New Shares issued or sold pursuant to the Offering will be issued or sold payable in full at the Offer Price. It is intended that settlement of the Offer Shares allocated to investors will take place by means of crediting the Offer Shares to relevant depositary accounts with the NSD or a depo account with a depositary that has a depositary account with the NSD. Dealings in advance of the crediting of the relevant account shall be at the risk of the person concerned.

Other relationships

The Underwriters are full-service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Underwriters and their respective affiliates have in the past performed commercial banking, investment banking and advisory services for the Group from time to time for which they have received customary fees and reimbursement of expenses and may, from time to time, engage in transactions with and perform services for the Group in the ordinary course of their business for which they may receive customary fees and reimbursement of expenses. In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve our securities and instruments. In particular, the Underwriters may enter into foreign exchange hedging transactions with the Company with respect to the proceeds received by it from the Offering.

In connection with the Offering, each of the Underwriters and any of their respective affiliates acting as an investor for its own account may take up the Offer Shares and in that capacity may retain, purchase or sell for its own account the Offer Shares and any of the Company’s other securities or related investments and may offer or sell the Offer Shares or other investments otherwise than in connection with the Offering. Accordingly, references in this Offering Memorandum to the Offer Shares being offered or placed should be read as including any offering or placement of securities to any of the Underwriters and any of their respective affiliates acting in such capacity. In addition, certain of the Underwriters or their respective affiliates may enter into financing arrangements (including swaps, warrants or contracts for differences) with investors in connection with which such Underwriter (or their respective affiliates) may from time to time acquire, hold or dispose of the Offer Shares. None of the Underwriters intends to disclose the extent of any such investment or transaction otherwise than in accordance with any legal or regulatory obligation to do so.

TAX CONSIDERATIONS

The following is a general description of certain tax considerations relating to the Offer Shares and does not purport to be a comprehensive discussion of the tax treatment of the Offer Shares. Prospective holders of the Offer Shares should consult their own tax advisors as to the tax consequences of the purchase, ownership and disposition of the Offer Shares in light of their particular circumstances, including but not limited to the applicability and effect of any other tax laws or tax treaties, of pending or proposed changes in applicable tax laws as at the date hereof, and of any actual changes in applicable tax laws after such date.

Certain Russian tax considerations

General

The following is an overview of certain Russian tax considerations relevant to the purchase, ownership and disposal of the Offer Shares. This overview is based on the laws of the Russian Federation in effect on the date of this Offering Memorandum, which are subject to potential change (possibly with retrospective effect). This overview does not seek to address the applicability of, or procedures in relation to, taxes levied by regions, municipalities or other non-federal level authorities of the Russian Federation, nor does it seek to address the availability of double tax treaty relief in respect of income payable on the Offer Shares or practical difficulties connected with claiming such double tax treaty relief.

Prospective investors should consult their own tax advisers regarding the tax consequences of investing in the Offer Shares that may arise in their own particular circumstances. No representation with respect to the Russian tax consequences of investing in, owning or disposing of the Offer Shares pertinent to any particular holder of the Offer Shares ("**Holder**") is made hereby.

Many aspects of Russian tax laws are subject to significant uncertainty and a lack of interpretive guidance, resulting in the inconsistent interpretation and application of such laws. Further, provisions of the Russian Tax Code applicable to financial instruments and the interpretation and application of those provisions by the Russian tax authorities may be subject to more rapid and unpredictable changes (possibly with retrospective effect) and inconsistent interpretation than in jurisdictions with better developed capital markets or taxation systems. In particular, the interpretation and application of such provisions will in practice rest substantially with local tax inspectorates, and relevant interpretations may continually change. In practice, interpretation by different tax inspectorates may be inconsistent or contradictory and may result in the imposition of conditions, requirements or restrictions that are not explicitly stated in the Russian Tax Code. Similarly, in the absence of binding precedents, court rulings on tax or other related matters taken by different Russian courts relating to the same or similar facts and circumstances may also be inconsistent or contradictory.

For the purposes of this overview, the term "**Russian Resident Holder**" means:

(a) a Holder which is a legal entity or an organization and is:

- (i) a Russian legal entity;
- (ii) a foreign legal entity or organization treated as a Russian tax resident based on the requirements of the Russian Tax Code;
- (iii) a foreign legal entity or organization treated as a Russian tax resident based on the provisions of an applicable double tax treaty (for the purposes of application of such double tax treaty); or
- (iv) a foreign legal entity or organization which holds and/or disposes of the Offer Shares through its permanent establishment in the Russian Federation (a "**Russian Resident Holder—Legal Entity**"), or

(b) a Holder who is an individual and is actually present in the Russian Federation for a total of 183 calendar days or more in any period comprised of 12 consecutive months (a "**Russian Resident Holder—Individual**"). The presence in the Russian Federation is not considered interrupted if an individual departs for short periods (less than six months) from the Russian Federation for medical treatment or educational purposes as well as for employment or other duties related to the performance of services on offshore hydrocarbon fields. The interpretation of this definition by the Ministry of Finance of the Russian Federation states that, for tax withholding purposes, an individual's tax residence status should be determined on the date of the payment (based on the number of days in the Russian Federation in the 12-month period preceding the date of the payment). An individual's final tax liability in the Russian Federation for any reporting calendar year should be determined based on the number of days spent in the Russian Federation in such calendar year.

For the purposes of this overview, the term "**Non-Resident Holder**" means any Holder (including any individual (a "**Non-Resident Holder**—**Individual**") and any legal entity or an organization (a "**Non-Resident Holder**—**Legal Entity**")) that does not qualify as a Russian Resident Holder.

Holders of the Offer Shares should seek professional advice on their tax status in Russia.

Taxation of the Offer Shares

Taxation of the Acquisition of the Offer Shares

The acquisition of the Offer Shares by a Russian Resident Holder—Legal Entity or a Non-Resident Holder—Legal Entity should not constitute a taxable event under Russian tax law. Consequently, the acquisition of the Offer Shares should not trigger any Russian tax implications for a Russian Resident Holder—Legal Entity or a Non-Resident Holder—Legal Entity.

In certain circumstances, the acquisition of the Offer Shares by a Russian Resident Holder—Individual may constitute a taxable event for Russian personal income tax purposes. In particular, if the acquisition price of the Offer Shares is below fair market value (calculated under a specific procedure for the determination of the market price of securities for Russian personal income tax purposes), this may constitute a taxable event pursuant to the provisions of the Russian Tax Code relating to material benefit (imputed income) received by individuals as a result of acquiring securities. Such difference may be subject to the Russian personal income tax at a rate of 13% or 15% for a Russian Resident Holder—Individual.

The taxation of income of a Non-Resident Holder—Individual will depend on whether the income is characterized as received from a Russian or non-Russian source. Although the Russian Tax Code does not contain any provisions as to how the source of a material benefit should be determined, in practice the Russian tax authorities may treat such income as Russian source income if the Offer Shares are purchased "in the Russian Federation." In the absence of any additional guidance as to what should be considered as a purchase of securities in the Russian Federation, the Russian tax authorities could apply various criteria, including looking at the place of the acquisition transaction, the location of the seller, or other similar criteria. In such a case, if the acquisition price of the Offer Shares is below fair market value, a Non-Resident Holder—Individual could be subject to Russian personal income tax at a rate of 30% on an amount equal to the difference between the fair market value (calculated under the Russian Tax Code) and the purchase price of the Offer Shares.

The tax may be withheld at source of payment or, if the tax is not withheld, a Non-Resident Holder—Individual may be required to declare his or her income in the Russian Federation by filing a tax return and paying the tax on a self-assessment basis or based on a tax assessment received from the Russian tax authorities, depending on the circumstances.

In certain circumstances, a Russian Resident Holder—Legal Entity acquiring the Offer Shares must fulfill the responsibilities of a tax agent (i.e., a legal entity resident in the Russian Federation for tax purposes which pays taxable Russian source income to a non-resident legal person, organization or non-resident individual and is responsible for withholding Russian tax) with respect to withholding tax from the sales proceeds for the Offer Shares to be transferred to a Non-Resident Holder disposing of the Offer Shares. Holders of the Offer Shares should consult their own tax advisers with respect to the tax consequences of acquiring the Offer Shares.

Taxation of Dividends

Russian tax on dividends is withheld and remitted to the Russian budget by an entity that, in accordance with the provisions of the Russian Tax Code, is regarded as a tax agent. The applicable withholding tax rate will depend on the status of the dividend recipient. In cases where the Offer Shares are held through the Russian depositary in its foreign nominee holder deposit account, a foreign authorized holder depositary account or a depositary account of a depositary program (the "**Special Depositary Accounts**"), the withholding tax rate applicable will also depend on the disclosure of information to such Russian custodian in respect of the persons executing rights attached to the relevant Offer Shares and on the jurisdiction where such persons are resident for tax purposes.

Taxation of dividends paid by the Company in respect of the Offer Shares held other than through Special Depositary Accounts.

Russian Resident Holders

Payments of dividends by the Company to a Russian Resident Holder that is an individual should generally be subject to tax in Russia, and such tax should not exceed 13% or 15% based on cumulative tax base of the Russian Resident Holder – Individual (15% tax rate applies to income exceeding RUB 5 million per annum starting from the calendar year 2021).

Dividends paid to Resident Holders – Legal Entities should generally be subject to Russian withholding income tax at a rate of 13%. The effective tax rate may be lower than 13% as the amount of tax should be determined as the product of the tax rate and the difference between (1) the amount of dividends to be distributed by the Company and (2) the amount of dividends received by the Company in the current and previous periods.

The Russian Tax Code provides for participation exemption rules, pursuant to which dividends received by a Resident Holder – Legal Entity could be taxed at a zero tax rate if, as of the day of the adoption of the decision to pay dividends, such Resident Holder – Legal Entity has continuously owned for at least 365 days not less than 50% of the Company's share capital or depositary receipts conferring the right to receive dividends in an amount equal to not less than 50% of the total amount of dividends payable by the Company. If the above conditions are not met, the dividends received by the Resident Holder – Legal Entity would be taxed in Russia at a rate not exceeding 13% as stated above. These participation exemption rules could not be applied if the Offer Shares (on which the dividends are paid) are accounted for on the Special Depositary Accounts.

Payments of dividends by the Company to a Holder that is a legal entity or organization not organized under Russian law that holds the Offer Shares through a permanent establishment in the Russian Federation should generally be subject to Russian withholding tax at a rate of 15%. A Holder that is a legal entity or organization not organized under Russian law that holds the Offer Shares through a permanent establishment in the Russian Federation is entitled to pay this tax to the Russian budget on its own behalf (i.e., without the withholding of tax by the Russian entity distributing the dividends to such holder) if such Holder provides the Russian entity distributing the dividends as the Russian tax agent with special documentary evidence confirming the fact that this dividend income is attributable to a permanent establishment of the Holder in Russia.

This evidence includes (a) a notarized copy of the form confirming registration of the Holder with the Russian tax authorities and (b) notification from the Holder that such dividend income is attributable to the permanent establishment of the Holder in Russia. The Russian Tax Code does not provide any formal guidance as to the required format of the notification.

At the same time, letters issued by the Russian tax authorities state that dividends attributed to a Russian permanent establishment of a foreign legal entity or organization are subject to withholding tax at the rate established for the Russian legal entities (e.g., 13% tax rate). This lower rate could apply to each such Holder of the Offer Shares through a permanent establishment in the Russian Federation if the applicable double tax treaty between the Russian Federation and the country of the tax residence of such Holder provides for the non-discrimination of tax residents of such country as compared with Russian tax residents. However, as the Russian Tax Code does not specifically provide for the application of the reduced (i.e., local) tax rate, no assurance can be given that the application of a 13% tax rate to dividends paid to the Non-Resident Holder — Legal Entity holding the Offer Shares through a permanent establishment in Russia would not be challenged by the Russian tax authorities in the future and that the Russian tax agent would apply Russian withholding tax at 15% tax rate with respect to dividends paid to such Holder.

Russian Resident Holders should consult their own tax advisers with respect to the tax consequences of the receipt of dividend income in respect of the Offer Shares.

Non-Resident Holders

In general, payment of a dividend by a Russian entity to a Non-Resident Holder is subject to Russian withholding tax at a rate of 15%. Such Russian withholding tax may generally be subject to reduction pursuant to the terms of an applicable double tax treaty between the Russian Federation and the country of tax residence of the Non-Resident Holder to the extent such Non-Resident Holder is entitled to benefit from this double tax treaty and the corresponding tax reliefs provided by such treaty.

Payment of a dividend on the Offer Shares made by the Company to a Non-Resident Holder may be subject to withholding tax at a reduced rate if such reduction is provided for by an applicable double tax treaty, provided that the Russian tax documentation requirements are satisfied (see "—*Tax Treaty Procedures and Refund of Tax Withheld*" below).

Non-Resident Holders should consult their own tax advisers with respect to the tax consequences of the receipt of dividends from the Offer Shares.

Taxation of dividends paid by the Company in respect of the Offer Shares held through Special Depositary Accounts.

Special requirements are provided by the Russian Tax Code with respect to the taxation of dividends in respect of securities of Russian issuers which are held in Special Depositary Accounts with Russian custodians.

This tax regime introduces, *inter alia*, disclosure of tax-related information on an aggregate basis by a foreign nominal holder to the Russian custodian acting as a tax agent in respect of persons executing rights in respect of the Offer Shares issued by the Company held with Russian custodians in Special Depositary Accounts. When the Russian custodian transfers dividends in respect of the Offer Shares, Russian withholding tax is calculated and withheld by such Russian custodian acting as a tax agent based on the disclosure of the aggregated information about the persons executing rights in respect of the relevant Offer Shares.

The Russian custodian acting as a tax agent should be provided with the aggregate information on persons exercising their rights concerning the Offer Shares and who are the beneficial owners of income payable on the Offering Shares, including the data on the amount of the Offering Shares belonging to such persons, and the jurisdictions of tax residence of such persons and applicable tax rates (based on the Russian Tax Code (with respect to the Resident Holders) or the relevant double tax treaty (with respect to the Non-Resident Holders)).

The Russian custodian acting as a tax agent can, *prima facie*, withhold the tax from the dividends payable under the Offer Shares held in the above types of accounts at a rate of 15% (including in cases where the aggregate information was not duly provided to the Russian custodian acting as a tax agent). If the aggregate information is properly disclosed in accordance with the Russian Tax Code, the Russian custodian can withhold Russian withholding tax at the tax rate stipulated in the Russian Tax Code or as determined by a relevant double tax treaty, but only if the application of such reduced tax rate provided by such double tax treaty does not require compliance with any additional requirements (see also "*Risk Factors—Risks Relating to the Offer Shares and the Trading Market—Payment of dividends (if any) on the Offer Shares may be subject to Russian withholding tax*" of Risk Factors).

If the tax is withheld at a rate higher than that established by a relevant double tax treaty, a Non-Resident Holder—Legal Entity that meets certain additional requirements set by the relevant double tax treaty can claim a reduced withholding income tax rate for dividends established by such treaty by claiming a refund from the Russian budget (see "—*Tax Treaty Procedures and Refund of Tax Withheld*" below).

In order to claim advance double tax treaty relief for a Non-Resident Holder—Individual, such individual's tax resident status and eligibility for a reduced rate under the double tax treaty should be confirmed based on aggregated information provided by the respective foreign nominal holder as described above.

If the tax is withheld at a rate higher than that established by a relevant double tax treaty, a Non-Resident Holder—Individual that meets certain additional requirements set by the relevant double tax treaty can claim a reduced withholding income tax rate on dividends established by such treaty by claiming a refund from the Russian budget (see "—*Tax Treaty Procedures and Refund of Tax Withheld*" below). However, no assurance could be given that the refund will eventually be granted.

The Russian Tax Code explicitly states that the Russian custodian acting as a tax agent is not liable for the tax unduly withheld due to the misstatements in the aggregate reporting received. It remains unclear who is liable for tax which was not withheld. Although currently there is no requirement and mechanism in the Russian tax legislation for foreign income recipients which are the legal entities to self-assess and pay the tax to the Russian revenue, there can be no assurance that such rules will not be introduced in the future or that the Russian tax authorities would not make attempts to collect the tax from the foreign income recipients, including the Non-Resident Holders – Legal Entities.

Both Russian Resident Holders and Non-Resident Holders should therefore consult their own tax advisers with respect to the tax consequences of their receipt of dividends in respect of the Offer Shares registered in the above accounts.

Taxation of Capital Gains

Russian Resident Holders

A Russian Resident Holder—Legal Entity should, *prima facie*, be subject to Russian profits tax at a rate of up to 20% on the capital gains realized on a disposal of the Offer Shares. Generally, Russian Resident Holders—Legal Entities are required to submit Russian profits tax returns and assess and pay tax on capital gains. The financial result from the sale (or other disposal) of securities which are treated as traded on an organized securities market for Russian tax purposes should be recognized in the taxpayer's general tax base where the other income and expenses of such taxpayer is recognized. The taxable capital gain from the disposal of the Offer Shares is generally determined by a Russian Resident Holder—Legal Entity as the gross proceeds from the disposal of the Offer Shares less the cost of acquisition of such Offer Shares and expenses incurred by such Russian Resident Holder in relation to the acquisition, holding and sale of the Offer Shares (provided that the cost of acquisition of the Offer Shares and the other expenses can be confirmed by appropriate documents).

The applicable Russian profits tax rate could be reduced to zero provided that (a) at the date of sale (or other disposal) of the Offer Shares, the Offer Shares continuously belonged to the Russian Resident Holder—Legal Entity on the basis of legal ownership or other proprietary right for more than five years and (b) not more than 50% of the asset base of the Company directly or indirectly consists of immovable property located in the Russian Federation.

Russian Resident Holders—Legal Entities should consult their own tax advisers with respect to the tax consequences of gains derived from a disposal of the Offer Shares.

A Russian Resident Holder—Individual should generally be subject to personal income tax at a rate of 13% / 15% on the gross proceeds from a disposal of the Offer Shares less any available deductions (including the cost of acquisition of the Offer Shares, expenses incurred by such Russian Resident Holder in relation to the acquisition, holding and sale of the Offer Shares (provided that the cost of acquisition of the Offer Shares and the other expenses can be confirmed by appropriate primary documents) and material benefit resulted from the acquisition of the Offer Shares provided that Russian personal income tax was paid from such material benefit). The applicable personal income tax rate could be reduced to zero provided that (a) at the date of sale (or other disposal) of the Offer Shares, the Offer Shares continuously belonged to the Russian Resident Holder—Individual on the basis of legal ownership or other proprietary right for more than five years, and (b) not more than 50% of the asset base of the Company directly or indirectly consists of immovable property located in the Russian Federation. Other tax reliefs may apply depending on the circumstances; please consult with a professional tax advisor on this matter. If such income is paid to a Russian Resident Holder—Individual by a tax agent, the applicable Russian personal income tax should be withheld at source by such tax agent (including a licensed broker or an asset manager who carries out operations on behalf of the Russian Resident Holder—Individual under an asset management agreement, a brokerage service agreement, an agency agreement or a commission agreement or a legal entity being a Russian tax resident, an individual entrepreneur, a Russian representative office, or a Russian branch of a foreign organization making payments to the Russian Resident Holder—Individual under relevant sell-purchase or share exchange agreement). The tax agent that is a professional intermediary acting under an asset management agreement, a brokerage service agreement, an agency agreement or a commission agreement would be required to report to the Russian tax authorities in respect of its inability to withhold personal income tax in full within one month upon termination of such agreement or by 1 March of the year following the calendar year in which the income was received. If the Russian personal income tax has not been withheld (if there was no tax agent), a Russian Resident Holder—Individual is required to submit an annual personal income tax return, assess and pay the tax.

Russian Resident Holders—Individuals should consult their own tax advisers with respect to the tax consequences of gains derived from a disposal of the Offer Shares.

Non-Resident Holders

A Non-Resident Holder—Legal Entity generally should not be subject to any Russian taxes on the capital gains realized on a disposal of the Offer Shares.

The proceeds (capital gain) of a Non-Resident Holder—Legal Entity from a sale (or other disposal) of the Offer Shares could be subject to Russian withholding tax if (a) the Offer Shares are not qualified as securities traded on an organized securities market as defined in the Russian Tax Code, and (b) more than 50% of the asset base of the Company directly or indirectly consists of immovable property located in the Russian Federation. Since the procedure of the calculation of the percentage of immovable property located in Russia in the entire asset base of a taxpayer is not clearly established by the Russian Tax Code and this procedure is inherently factual and is made on an on-going basis, there can be no assurance that the immovable property located in Russia does not currently, or will not, constitute (directly or indirectly) more than 50% of the assets of the Company. In such case, the gross proceeds of such disposal less any available deductions (including, but not limited to, the purchase price of the Offer Shares and associated transaction costs) may be subject to withholding income tax in the Russian Federation at a rate of 20%. The Non-Resident Holder — Legal Entity should provide the payer of the income with the documentation confirming the basis cost of the Offer Shares. Otherwise, the gross proceeds, rather than the amount of capital gain, will be subject to Russian withholding income tax.

The above withholding tax rate is subject to any available double tax treaty relief. In order to enjoy the benefits of an applicable double tax treaty, documentary evidence is required to be presented by a Non-Resident Holder—Legal Entity to the tax agent prior to any payment being made to confirm the applicability of the double tax treaty under which benefits are claimed (see "—*Tax Treaty Procedures and Refund of Tax Withheld*").

Non-Resident Holders—Legal Entities should consult their own tax advisers with respect to the possibility of being subject to Russian taxes on the capital gains realized on a disposal of the Offer Shares.

A Non-Resident Holder—Individual generally should not be subject to any Russian taxes on the capital gains realized from a disposal of the Offer Shares outside the Russian Federation, provided the proceeds of such disposal of the Offer Shares are not received from a source within the Russian Federation. According to an opinion of the Ministry of Finance of the Russian Federation, such proceeds shall be treated as income received from a source within the Russian Federation if the depository or registry, which keep records about transactions resulting in the transfer of ownership of shares, is located in Russia. In the absence of any additional guidance as to what should be considered as a source within the Russian Federation, the Russian tax authorities may apply various criteria in order to determine the source of the sale (or other disposal) of the Offer Shares, including the place where the transaction was concluded, the location or tax residency of the buyer, the location of the register where the transfer of title to the Offer Shares takes place, or other similar criteria. If proceeds from the disposal of the Offer Shares are treated as received from a Russian source as discussed above, a Non-Resident Holder—Individual will generally be subject to Russian personal income tax at a rate of 30% (which could be reduced to zero if certain criteria are met as discussed above for a Russian Resident Holder—Individual) in respect of the gross proceeds from such sale, redemption or other disposal less any available deduction of expenses incurred by the Holder (which includes the purchase price of the Offer Shares) subject to any available double tax treaty relief and the discussion above in "—*Taxation of the Acquisition of the Offer Share*s."

If the sale (or other disposal) of the Offer Shares is made by a Non-Resident Holder—Individual to a legal entity being a Russian tax resident, an individual entrepreneur, a Russian representative office, or a Russian branch of a foreign organization, Russian personal income tax should be withheld at source by such tax agent. The tax agent would be required to report to the Russian tax authorities in respect of its inability to withhold personal income tax in full within one month upon termination of such agreement or by 1 March of the year following the calendar year in which the income was received.

If the sale (or other disposal) of the Offer Shares is made by a Non-Resident Holder—Individual through a Russian licensed broker or an asset manager which carries out operations on behalf of the Non-Resident Holder—Individual under an asset management agreement, a brokerage service agreement, an agency agreement or a commission agreement, the latter would be deemed a tax agent in respect of income from transactions with the Offer Shares. The tax agent that is a professional intermediary acting under an asset management agreement, a brokerage service agreement, an agency agreement or a commission agreement would be required to report to the Russian tax authorities in respect of its inability to withhold personal income tax in full within one month upon termination of such agreement or by 1 March of the year following the calendar year in which the income was received.

If the Offer Shares are not sold through a Russian tax agent, generally no Russian personal income tax should be withheld at source.

If a Non-Resident Holder—Individual does not obtain double tax treaty relief at the time the proceeds from the disposal of the Offer Shares are paid to such Non-Resident Holder—Individual, and income tax is withheld by the Russian payer of such income, the Non-Resident Holder—Individual generally may apply for a refund within three years from the end of the tax period during which the tax was withheld, as discussed below. However, no assurance could be given that any available double tax treaty relief (or the refund of any taxes withheld) will be available for a Non-Resident Holder—Individual.

Non-Resident Holders—Individuals should consult their own tax advisers with respect to the tax consequences of the receipt of proceeds from a disposal of the Offer Shares and the possibilities of benefiting from any double tax treaty relief to obtain the refund of any taxes withheld.

Tax Treaty Procedures and Refund of Tax Withheld

Advance Relief

The Russian Federation has concluded double tax treaties with a number of countries and honors some double tax treaties concluded by the former Union of Soviet Socialist Republics. These double tax treaties may contain provisions that allow for the reduction or elimination of Russian withholding taxes with respect to income or proceeds received by Non-Resident Holders from a source within Russia, which would include dividend income or proceeds from the sale, redemption or other disposal of the Offer Shares. To the extent double tax treaty relief is available and the Russian Tax Code requirements are met (i.e., the "beneficial ownership" concept and the concept of "tax residency"), a non-resident holder must comply with the information, documentation and reporting requirements which are then in force in the Russian Federation to obtain such relief.

A Non-Resident Holder—Legal Entity which is the beneficial owner of income or proceeds for the purposes of an applicable double tax treaty and the Russian Tax Code must provide the payer of the income or proceeds with a certificate of tax residence issued by the competent tax authority of the relevant treaty country in advance of payment of such income or proceeds in order to obtain relief from Russian withholding taxes under a double tax treaty. This certificate should confirm that the respective Non-Resident Holder—Legal Entity is a tax resident of the relevant double tax treaty country in the particular calendar year during which the income or proceeds is paid. This certificate should be apostilled or legalized and needs to be renewed on an annual basis. A notarized Russian translation of the certificate may be required. In addition, in order to enjoy benefits under an applicable double tax treaty, the person claiming such benefits must be the actual recipient (i.e., the beneficial owner) of the relevant income or proceeds according to the requirements of the Russian Tax Code. In addition to a certificate of tax residency, the Russian Tax Code obliges a Non-Resident Holder—Legal Entity to provide the tax agent with a confirmation that it is the actual recipient (i.e., the beneficial owner) of the relevant income or proceeds in advance of the payment of such income or proceeds. As of the date of this Offering Memorandum, there has been no guidance on the form of such confirmation and it is at the moment unclear how these measures will be applied in practice. In practice, the payer of the income or proceeds may request additional documents confirming the eligibility of a Non-Resident Holder—Legal Entity for the benefits of the double tax treaty. Considering the above, there can be no assurance that treaty relief at source will be available in practice for non-resident holders, which are either legal entities or individuals.

Currently, in order to obtain a full or partial exemption from taxation in the Russian Federation, as well as reduced tax rate for dividend distributions under an applicable double tax treaty at source, a Non-Resident Holder—Individual must confirm to a tax agent that he or she is a tax resident of a relevant foreign jurisdiction having a double tax treaty with the Russian Federation by providing the tax agent with (i) a passport of the foreign resident or (ii) another document envisaged by an applicable federal law or recognized as a personal identity document of the foreign resident in accordance with an international treaty and (iii) if such passport/document does not confirm the individual's tax resident status in such foreign country, upon request of the tax agent, an official confirmation issued by the competent authorities evidencing his or her status as a tax resident of the respective country. A notarized Russian translation of such official confirmation is required. The above provisions are intended to provide a tax agent with the opportunity of applying reduced withholding tax rates or exemptions under an applicable double tax treaty at source.

The treaty relief procedure as described above does not apply if dividends are paid in respect of the Offer Shares which are registered in Special Depositary Accounts opened with a Russian custodian (for guidance on the tax treaty relief procedure for Special Depositary Accounts see "*—Taxation of the Offer Shares—Taxation of dividends paid by the Company in respect of the Offer Shares held through Special Depositary Accounts*").

The Russian Federation has submitted through OECD diplomatic channels its notifications of completion of the internal procedures required for the MLI enforcement beginning from 1 January 2021 in respect of the double tax treaties concluded with a number of countries. The MLI-related changes have an additional adverse impact on the availability of double taxation treaty benefits to the Non-Resident Holders that are tax residents in the respective countries (see "*—Risk Factors—Risks Relating to the Offer Shares and the Trading Market—Payment of dividends (if any) on the Offer Shares may be subject to Russian withholding tax*" of Risk Factors).

Non-Resident Holders and Russian Resident Holders should consult their own tax advisers with respect to the applicability of tax relief under a double tax treaty and the relevant procedures required in the Russian Federation to claim such relief.

Refund of Tax Withheld

For a Non-Resident Holder—Legal Entity for which double tax treaty relief is available, if Russian income tax was withheld at the source on a payment at a rate which is higher than the applicable rate established by a relevant double tax treaty, a claim for refund of such tax is possible within three years from the end of the tax period during which the tax was withheld.

To reclaim the tax, the by the Non-Resident Holder—Legal Entity a wide range of documentation may be requested for submission to the Russian tax authorities.

For a Non-Resident Holder—Individual for whom double tax treaty relief is available, if Russian income tax was withheld by the source on a payment at a rate higher than the applicable rate established by a relevant double tax treaty, a refund of such tax may be filed with the tax agent generally within three years from the end of the tax period during which the tax was withheld. In the absence of a tax agent who withheld the Russian personal income tax, such an application for a refund may be filed with the Russian tax authorities within three years from the end of the tax period during which the tax was withheld if it is accompanied by a Russian tax return, a tax residency certificate and documentation proving the tax was withheld and paid to the Russian authorities. To obtain a refund, documentation confirming the right of the recipient of the income to double tax treaty relief is required.

Although the Russian Tax Code arguably contains an exhaustive list of documents and information which has to be provided by a foreign person to the Russian tax authorities for tax refund purposes, the Russian tax authorities may, in practice, require a wide variety of documentation confirming the right of a Non-Resident Holder to obtain tax relief available under an applicable double tax treaty. Such documentation may not be explicitly required by the Russian Tax Code and may depend on the position of local representatives of the tax inspectorates.

Obtaining a refund of Russian taxes that were excessively withheld at source is likely to be a time-consuming process and no assurance can be given that such refund will be granted to a Non – Resident Holder in practice.

Stamp duties

No Russian stamp duty should be payable by the Holders upon any of the transactions with the Offer Shares discussed in this section of the Offering Memorandum (e.g., on a purchase or sale of the Offer Shares).

Certain United States Federal Income Tax Considerations

The following is a summary of certain U.S. federal income tax considerations that are likely to be relevant to the purchase, ownership and disposition of the Offer Shares by a U.S. Holder (as defined below).

This summary is based on provisions of the Internal Revenue Code of 1986, as amended (the "**Code**"), and regulations, rulings and judicial interpretations thereof, in force as of the date hereof, and the income tax treaty between the United States and the Russian Federation effective as of 1 January 1994 (the "**Treaty**"). Those authorities may be changed at any time, perhaps retroactively, so as to result in U.S. federal income tax consequences different from those summarized below.

This summary is not a comprehensive discussion of all of the tax considerations that may be relevant to a particular investor's decision to purchase, hold or dispose of the Offer Shares. In particular, this summary is directed only to U.S. Holders that hold the Offer Shares as capital assets and does not address particular tax consequences that may be applicable to U.S. Holders who may be subject to special tax rules, such as banks, brokers or dealers in securities or currencies, traders in securities electing to mark to market, financial institutions, life insurance companies, tax-exempt entities, regulated investment companies, entities or arrangements that are treated as partnerships for U.S. federal income tax purposes (or partners therein), holders that own or are treated as owning 10% or more of the Company's stock (by vote or value), persons holding the Offer Shares as part of a hedging or conversion transaction or a straddle, or persons whose functional currency is not the U.S. dollar. Moreover, this summary does not address U.S. state, local or non-U.S. taxes, the U.S. federal estate and gift taxes, the Medicare contribution tax applicable to net investment income of certain non-corporate U.S. Holders, or alternative minimum tax consequences of acquiring, holding or disposing of the Offer Shares.

For purposes of this summary, a "U.S. Holder" is a beneficial owner of the Offer Shares that is a citizen or resident of the United States or a U.S. domestic corporation or that otherwise is subject to U.S. federal income taxation on a net income basis in respect of such Offer Shares and that is fully eligible for benefits under the Treaty.

YOU SHOULD CONSULT YOUR OWN TAX ADVISORS ABOUT THE CONSEQUENCES OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF THE OFFER SHARES, INCLUDING THE RELEVANCE TO YOUR PARTICULAR SITUATION OF THE CONSIDERATIONS DISCUSSED BELOW AND ANY CONSEQUENCES ARISING UNDER NON-U.S., U.S. STATE, LOCAL OR OTHER TAX LAWS.

Taxation of Dividends

Subject to the discussion below under "—*Passive Foreign Investment Company*," the gross amount of any distribution of cash or property with respect to the Offer Shares (including any amount withheld in respect of Russian taxes) that is paid out of the Company's current or accumulated earnings and profits (as determined for United States federal income tax purposes) will generally be includible in a U.S. Holder's taxable income as ordinary dividend income on the day on which the U.S. Holder receives the dividend and will not be eligible for the dividends-received deduction allowed to corporations under the Code.

The Company does not expect to maintain calculations of its earnings and profits in accordance with U.S. federal income tax principles. U.S. Holders therefore should expect that distributions generally will be treated as dividends for U.S. federal income tax purposes.

For a U.S. Holder, dividends paid in a currency other than U.S. dollars generally will be includible in the U.S. Holder's income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day the dividends are received. Any gain or loss on a subsequent sale, conversion or other disposition of such non-U.S. currency by such U.S. Holder generally will be treated as ordinary income or loss and generally will be income or loss from sources within the United States.

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual with respect to the Offer Shares will be subject to taxation at a preferential rate if the dividends are "qualified dividends." Dividends paid on the Offer Shares will be treated as qualified dividends if:

- the Offer Shares are readily tradable on an established securities market in the United States or the Company is eligible for the benefits of a comprehensive tax treaty with the United States that the U.S. Department of the Treasury determines is satisfactory for purposes of this provision and that includes an exchange of information program; and

- the Company was not, in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid, a passive foreign investment company (a "**PFIC**").

The U.S. Department of the Treasury has determined that the Treaty meets the requirements for reduced rates of taxation, and the Company believes it is eligible for the benefits of the Treaty. Based on its audited financial statements and relevant market and shareholder data, the Company believes that it was not treated as a PFIC for U.S. federal income tax purposes with respect to the Company's 2020 taxable year. In addition, based on its audited financial statements and its current expectations regarding the value and nature of its assets, the sources and nature of its income, and relevant market and shareholder data, the Company does not anticipate becoming a PFIC for its current taxable year or in the foreseeable future. U.S. Holders should consult their own tax advisers regarding the availability of the reduced dividend tax rate in light of their own particular circumstances.

Dividend distributions with respect to the Offer Shares generally will be treated as "passive category" income from sources outside the United States for purposes of determining a U.S. Holder's U.S. foreign tax credit limitation. Subject to the limitations and conditions provided in the Code and the applicable U.S. Treasury Regulations, a U.S. Holder may be able to claim a foreign tax credit against its U.S. federal income tax liability in respect of any Russian income taxes withheld at the appropriate rate applicable to the U.S. Holder from a dividend paid to such U.S. Holder. Alternatively, the U.S. Holder may deduct such Russian taxes from its U.S. federal taxable income, provided that the U.S. Holder elects to deduct rather than credit all foreign income taxes for the relevant taxable year. The rules with respect to foreign tax credits are complex and involve the application of rules that depend on a U.S. Holder's particular circumstances. Accordingly, U.S. Holders are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

U.S. Holders that receive distributions of additional shares or rights to subscribe for shares as part of a *pro rata* distribution to all the Company's shareholders generally will not be subject to U.S. federal income tax in respect of the distributions, unless the U.S. Holder has the right to receive cash or property, in which case the U.S. Holder will be treated as if it received cash equal to the fair market value of the distribution.

Taxation of a Sale, Exchange or other Disposition of the Offer Shares

Subject to the discussion below under "—*Passive Foreign Investment Company*," upon a sale, exchange or other disposition of the Offer Shares, U.S. Holders will realize gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the amount realized on the disposition and the U.S. Holder's adjusted tax basis in the Offer Shares, as determined in U.S. dollars as discussed below. Such gain or loss will be capital gain or loss, and generally will be long-term capital gain or loss if the Offer Shares have been held for more than one year. Long-term capital gain realized by a U.S. Holder that is an individual generally is subject to taxation at a preferential rate. The deductibility of capital losses is subject to limitations.

Gain, if any, realized by a U.S. Holder on the sale, exchange or other disposition of the Offer Shares generally will be treated as U.S. source income for U.S. foreign tax credit purposes. Consequently, if a Russian tax is imposed on the sale, exchange or other disposition of the Offer Shares, a U.S. Holder that does not receive significant foreign source income from other sources may not be able to derive effective U.S. foreign tax credit benefits in respect of such Russian taxes. U.S. Holders should consult their own tax advisors regarding the application of the foreign tax credit rules to their investment in, and disposition of, the Offer Shares.

If a U.S. Holder sells or otherwise disposes of the Offer Shares in exchange for currency other than U.S. dollars, the amount realized generally will be the U.S. dollar value of the currency received at the spot rate in effect on the date of sale or other disposition (or, if the shares are traded on an established securities market at such time, in the case of cash basis and electing accrual basis U.S. holders, the settlement date). An accrual basis U.S. Holder that does not elect to determine the amount realized using the spot exchange rate on the settlement date will recognize foreign currency gain or loss equal to the difference between the U.S. dollar value of the amount received based on the spot exchange rates in effect on the date of the sale or other disposition and the settlement date. A U.S. Holder generally will have a tax basis in the currency received equal to the U.S. dollar value of the currency received at the spot rate in effect on the settlement date. Any currency gain or loss realized on the settlement date or the subsequent sale, conversion or other disposition of the non-U.S. currency received for a different U.S. dollar amount generally will be U.S.-source ordinary income or loss, and will not be eligible for the reduced tax rate applicable to long-term capital gains. If an accrual basis U.S. Holder makes the election described in the first sentence of this paragraph, it must be applied consistently from year to year and cannot be revoked without the consent of the IRS. A U.S. Holder should consult its own tax advisors regarding the treatment of any foreign currency gain or loss realized with respect to any currency received in a sale or other disposition of the Offer Shares.

Passive Foreign Investment Company

Special tax rules apply to U.S. Holders if the Company is classified as a PFIC. In general, the Company will be classified as a PFIC in a particular taxable year if either 75 percent or more of its gross income for the taxable year is passive income, or the average percentage of the value of its assets that produce or are held for the production of passive income is at least 50 percent. The determination of whether the Company is a PFIC depends on the composition of its income and assets and the manner in which it conducts its business. Whether the Company is a PFIC is a factual determination made annually, and its status could change depending, among other things, upon changes in the composition of its gross income and the relative quarterly average value of its assets. Although no assurance can be given, the Company does not expect to be classified as a PFIC for the current taxable year or for any taxable year in the foreseeable future.

In the event that, contrary to our expectation, the Company is classified as a PFIC for the current taxable year or for a future taxable year during which U.S. Holders own the Offer Shares, U.S. Holders will be subject to a special tax at ordinary income rates on certain distributions and on gain recognized on the sale, exchange or other disposition of their Offer Shares. In addition, the amount of income tax on any excess distributions will be increased by an interest charge to compensate for tax deferral, calculated as if the excess distributions were earned ratably over the period a U.S. Holder holds the Offer Shares. Classification as a PFIC may also have other adverse tax consequences and subject a U.S. Holder to certain reporting requirements. U.S. Holders should consult their own tax advisor regarding the U.S. federal income tax considerations discussed above.

Foreign Financial Asset Reporting

Certain U.S. Holders that own "specified foreign financial assets" with an aggregate value in excess of US$ 50,000 on the last day of the taxable year or more than US$ 75,000 at any time during the taxable year are generally required to file an information statement along with their tax returns, currently on Form 8938, with respect to such assets. "Specified foreign financial assets" include any financial accounts held at a non-U.S. financial institution, as well as securities issued by a non-U.S. issuer (which would include the Offer Shares) that are not held in accounts maintained by financial institutions. The understatement of income attributable to "specified foreign financial assets" in excess of US$ 5,000 extends the statute of limitations with respect to the tax return to six years after the return was filed. U.S. Holders who fail to report the required information could be subject to substantial penalties. Prospective investors are encouraged to consult with their own tax advisors regarding the possible application of these rules, including the application of the rules to their particular circumstances.

Backup Withholding and Information Reporting

Dividends paid on, and proceeds from the sale or other disposition of, the Offer Shares to a U.S. Holder generally may be subject to the information reporting requirements of the Code and may be subject to backup withholding unless the U.S. Holder provides an accurate taxpayer identification number and makes any other required certification or otherwise establishes an exemption. Backup withholding is not an additional tax. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a refund or credit against the U.S. Holder's U.S. federal income tax liability, provided the required information is furnished to the U.S. Internal Revenue Service in a timely manner.

A holder that is not a U.S. Holder may be required to comply with certification and identification procedures in order to establish its exemption from information reporting and backup withholding.

SELLING AND TRANSFER RESTRICTIONS

Selling Restrictions

General

No action has been or will be taken in any jurisdiction that would permit a public offering of the Offer Shares, or possession or distribution of this Offering Memorandum or any other offering material in any country or jurisdiction where action for that purpose is required. Accordingly, the Offer Shares may not be offered or sold, directly or indirectly, and neither this Offering Memorandum nor any other offering material or advertisement in connection with the Offer Shares may be distributed or published in or from any country or jurisdiction except under circumstances that will result in compliance with any and all applicable rules and regulations of any such country or jurisdiction. Persons into whose possession this Offering Memorandum comes should inform themselves about and observe any restrictions on the distribution of this Offering Memorandum and the offer and sale of the Offer Shares offered in the Offering, including those in the paragraphs below. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. This Offering Memorandum does not constitute an offer to subscribe for or buy any of the Offer Shares offered in the Offering to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

United States

The Offer Shares have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Offer Shares are being offered and sold outside the United States in offshore transactions in reliance on Regulation S. The Underwriting Agreement provides that the Underwriters may directly or through their respective U.S. broker-dealer affiliates, arrange for the offer and resale of the Offer Shares within the United States only to QIBs in reliance on Rule 144A. VTB Capital plc has engaged Xtellus Capital Partners Inc. ("**Xtellus**") to act as its agent pursuant to Rule 15a-6 under the U.S. Securities Exchange Act of 1934 in connection with securities transactions effected by VTB Capital plc with U.S. investors. Xtellus is a broker-dealer registered with the U.S. Securities and Exchange Commission and a member of the Financial Industry Regulatory Authority with address at 452 Fifth Avenue, 3rd Floor, New York, NY 10018. Alfa Capital Markets Ltd has engaged StoneX Financial Inc. ("**StoneX**") to act as its agent pursuant to Rule 15a-6 under the U.S. Securities Exchange Act of 1934 in connection with securities transactions effected by Alfa Capital Markets Ltd with U.S. investors. StoneX is a broker-dealer registered with the U.S. Securities and Exchange Commission and a member of the Financial Industry Regulatory Authority with address at 230 Park Avenue, 10th Floor, New York, NY 10169.

In addition, until 40 days after the commencement of the Offering of the Offer Shares, an offer or sale of the Offer Shares within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

EEA

In relation to each Member State of the EEA (each a "**Member State**"), an offer to the public of any Offer Shares which are the subject of the Offering contemplated herein may not be made in that Member State, prior to the publication of a prospectus in relation to the Offer Shares that has been approved by the competent authority in that Member State or, where appropriate, approved in another Member State and notified to the competent authority in that Member State, all in accordance with the Prospectus Regulation, except that an offer to the public in that Member State may be made at any time:

(a) to any legal entity which is a qualified investor as defined in Article 2(e) of the Prospectus Regulation;

(b) to fewer than 150 natural or legal persons (other than qualified investors as defined in Article 2(e) of the Prospectus Regulation in that Member State), subject to obtaining the prior consent of the Joint Global Coordinators and Joint Bookrunners for any such offer; or

(c) in any other circumstances falling within Article 1(4) of the Prospectus Regulation,

provided that no such offer of the Offer Shares shall result in a requirement for the publication by the Company or any Joint Bookrunner of a prospectus pursuant to Article 3 of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation.

For the purposes of this provision, the expression an "offer to the public" in relation to any Offer Shares in any Member State means the communication in any form and by any means of sufficient information of the terms of the offer and any Offer Shares to be offered so as to enable an investor to decide to purchase or subscribe for any Offer Shares.

United Kingdom

No offer of the Offer Shares which are the subject of the Offering contemplated by this Offering Memorandum may be made to the public in the United Kingdom prior to the publication of a prospectus in relation to the Offer Shares that either (i) has been approved by the Financial Conduct Authority or (ii) is to be treated as if it had been approved by the Financial Conduct Authority in accordance with the transitional provisions in Regulation 74 of the Prospectus (Amendment etc.) (EU Exit) Regulations 2019 except that an offer may be made to the public in the United Kingdom at any time:

(a) to any legal entity which is a qualified investor as defined in Article 2 of the UK Prospectus Regulation;

(b) to fewer than 150 natural or legal persons (other than qualified investors as defined in Article 2 of the UK Prospectus Regulation) subject to obtaining the prior consent of the relevant Joint Global Coordinators and Joint Bookrunners nominated by the Group for any such offer; or

(c) in any other circumstances falling within section 86 of the FSMA,

provided that no such offer of the Offer Shares shall require the Group or any Joint Global Coordinator or Joint Bookrunner to publish a prospectus pursuant to section 85 of the FSMA or supplement a prospectus pursuant to Article 23 of the UK Prospectus Regulation.

For the purposes of this provision, the expression "an offer of the Offer Shares to the public" in relation to any Offer Shares means the communication in any form and by any means of sufficient information on the terms of the offer and the Offer Shares to be offered so as to enable an investor to decide to purchase or subscribe for the Offer Shares.

Canada

The Offer Shares may be sold in Canada only to purchasers resident or located in the Provinces of Ontario, Québec, Alberta and British Columbia, purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the Offer Shares must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Offering Memorandum (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 (or, in the case of securities issued or guaranteed by the government of a non-Canadian jurisdiction, section 3A.4) of National Instrument 33-105 Underwriting Conflicts ("**NI 33-105"),** the Underwriters are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this Offering.

Switzerland

The Offer Shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange ("**SIX**") or on any other stock exchange or regulated trading facility in Switzerland. This document does not constitute a prospectus within the meaning of, and has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering or marketing material relating to the Offer Shares or the offering may be publicly distributed or otherwise made publicly available in Switzerland. Neither this document nor any other offering or marketing material relating to the offering, the Company, the Offer

Share have been or will be filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with, and the offer of the Offer Shares will not be supervised by, the Swiss Financial Market Supervisory Authority FINMA (FINMA), and the offer of the Offer Shares has not been and will not be authorized under the Swiss Federal Act on Collective Investment Schemes ("**CISA**"). The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of the Offer Shares.

Cyprus

Each Underwriter and each further Underwriter to be appointed:

- has not offered or sold and will not offer or sell any Offer Shares, except in conformity with the provisions of the Public Offer and Prospectus Law, Law 114(I)/2005 and the provisions of the Cyprus Companies Law, Cap. 113 (as amended);

- has not and will not offer or sell any Offer Shares other than in compliance with the provisions of the Investment Services and Activities and Regulated Markets Law, Law 144(I)/2007 (the "**Cyprus Investment Services Law**");

- has not and will not distribute copies of the Underwriting Agreement or this Offering Memorandum or any other offering material to the information distribution channels or the public in Cyprus, nor (when distributed by a duly licensed investment firm established or operating through a branch in Cyprus) to any person in Cyprus other than a "professional client" as defined in the Cyprus Investment Services Law;

- has not used the material and disclosure statements in the Underwriting Agreement or in this Offering Memorandum for solicitation purposes for or in connection with the acquisition of the Offer Shares in circumstances under which is unlawful under Cyprus laws to make such an offer or solicitation; and

- will not be providing from or within Cyprus any "investment services," "investment activities" and "non-core services" (as such terms are defined in the Cyprus Investment Services Law) in relation to the Offer Shares or will be otherwise providing investment services, investment activities and non-core services to residents or persons domiciled in Cyprus and will not be concluding in Cyprus any transaction relating to such investment services, investment activities and non-core services in contravention of the Cyprus Investment Services Law and/or any applicable regulations adopted pursuant thereto or in relation thereto.

Japan

The Offer Shares have not been and will not be registered under the Financial Instruments and Exchange Law, as amended (the "**FIEL**"). This Offering Memorandum is not an offer of securities for sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or entity organized under the laws of Japan) or to others for reoffer or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exception from the registration requirements under the FIEL, and otherwise in compliance with the FIEL and other relevant laws and otherwise in compliance with such law and any other applicable laws, regulations or ministerial guidelines of Japan.

Australia

This Offering Memorandum: (i) does not constitute a prospectus or a product disclosure statement under the Australian Corporations Act 2001 of the Commonwealth of Australia (Cth), as amended, (the "**Australian Corporations Act**"); (ii) does not purport to include the information required of a prospectus under Part 6D.2 of the Australian Corporations Act or a product disclosure statement under Part 7.9 of the Australian Corporations Act; has not been, nor will it be, lodged as a disclosure document with the Australian Securities and Investments Commission (ASIC), the Australian Securities Exchange operated by ASX Limited or any other regulatory body or agency in Australia; and (iii) may not be provided in Australia other than to select investors ("**Exempt Investors**") who are able to demonstrate that they: (a) fall within one or more of the categories of investors under Section 708 of the Australian Corporations Act to whom an offer may be made without disclosure under Part 6D.2 of the Australian Corporations Act; and (b) are "wholesale clients" for the purpose of Section 761G of the Australian Corporations Act.

The Offer Shares may not be directly or indirectly offered for subscription or purchase or sold, and no invitations to subscribe for, or buy, the Offer Shares may be issued, and no draft or definitive offering memorandum, advertisement or other offering material relating to any Offer Shares may be distributed, received or published in Australia, except where disclosure to investors is not required under Chapters 6D and 7 of the Australian Corporations Act or is otherwise in compliance with all applicable Australian laws and regulations. By submitting an application for the Offer Shares, each prospective investor in the Offer Shares represents and warrants to the Company, the

Underwriters and their affiliates that such prospective investor is an Exempt Investor.

United Arab Emirates

This Offering Memorandum is strictly private and confidential and is being issued to a limited number of investors who are exempt from the requirements of the Securities and Commodities Authority ("**SCA**") Board of Directors' Chairman Decision No.(3/R.M.) of 2017 on the Regulation of Promotion and Introduction ("**PIRs**"). No Offer Shares have been or are being publicly offered, sold, promoted or advertised in the UAE in accordance with the PIRs. The Offer Shares will be sold outside the UAE and are not part of a public offering. This Offering Memorandum and the relevant documents have not been reviewed, approved or licensed by the UAE Central Bank, SCA or any other relevant licensing authorities or governmental agencies in the UAE. This Offering Memorandum is strictly private and confidential and has not been reviewed, deposited or registered with any licensing authority or governmental agency in the UAE. This Offering Memorandum must not be shown, made available or provided to any person other than the original recipient and may not be reproduced or used for any other purpose. The Offer Shares may not be offered or sold directly or indirectly to the public in the UAE. If you do not understand the contents of this Offering Memorandum you should consult an authorized financial adviser. The Offer Shares have not been and will not be offered, sold or publicly promoted or advertised in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities.

Dubai International Financial Centre

This Offering Memorandum relates to an exempt offer ("**Exempt Offer**") in accordance with the Offered Securities Rules of the Dubai Financial Services Authority (the "**DFSA**"). This Offering Memorandum is intended for distribution only to persons of a type specified in the Offered Securities Rules of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this Offering Memorandum nor taken steps to verify the information set forth herein and has no responsibility for this Offering Memorandum. The Offer Shares to which this Offering Memorandum relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the Offer Shares should conduct their own due diligence on the Offer Shares. If you do not understand the contents of this Offering Memorandum you should consult an authorized financial advisor.

Qatar

This Offering Memorandum may not be distributed in Qatar and does not constitute an offer to sell, or the solicitation of an offer to subscribe for or buy, the Offer Shares in Qatar or the Qatar Financial Centre. In particular, the Offer Shares offered under this Offering Memorandum have not been and will not be registered under the applicable laws of Qatar (including the laws and regulations of the Qatar Financial Centre and the Qatar Financial Centre Regulatory Authority) or before the Qatar Financial Markets Authority or the Qatar Stock Exchange. This Offering Memorandum and the underlying instruments have not been reviewed, approved, registered or licensed by any regulator in Qatar (including the Qatar Financial Centre Authority, the Qatar Financial Centre Regulatory Authority, the Qatar Financial Markets Authority, the Qatar Stock Exchange and the Qatar Central Bank).

Hong Kong

No Offer Shares have been offered or sold or will be offered or sold in Hong Kong, by means of any document, other than: (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**Hong Kong Securities and Futures Ordinance**") and any rules made under that Ordinance; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provision) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance. No advertisement, invitation or document relating to the Offer Shares has been issued or has been in the possession of any person for the purposes of issue, nor will any such advertisement, invitation or document be issued or be in the possession of any person for the purpose of issue, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Offer Shares which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Hong Kong Securities and Futures Ordinance and any rules made under the Hong Kong Securities and Futures Ordinance.

Singapore

This Offering Memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Bookrunner has not offered or sold any Offer Shares or caused the Offer Shares to be made the subject of an invitation for subscription or purchase and will not offer or sell any Offer Shares or cause the Offer Shares to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Offer Shares, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "**SFA**")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Offer Shares are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Offer Shares pursuant to an offer made under Section 275 of the SFA except:

(i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Singapore SFA Product Classification: In connection with Section 309B of the SFA and the CMP Regulations 2018, the Company has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Offer Shares are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12): Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products.

Kuwait

The Ordinary Shares have not been and will not be offered, sold, promoted or advertised in Kuwait except on the basis that an offer is made in compliance with Decree Law No. 31 of 1990 and the implementing regulations thereto, as amended, and Law No. 7 of 2010 and the bylaws thereto, as amended governing the issue, offering and sale of securities. No private or public offering of the Ordinary Shares is being made in Kuwait, and no agreement relating to the sale of the Ordinary Shares will be concluded in Kuwait. No marketing or solicitation or inducement activities are being used to offer or market the Ordinary Shares in Kuwait.

South Africa

In South Africa, the Offer will only be made by way of private placement to, and be capable of acceptance by (i) persons falling within the exemptions set out in section 96(1)(a) and/or (ii) selected persons, acting as principal, acquiring the Offer Shares for a contemplated total acquisition cost of R1 million or more, as envisaged in section 96(1)(b), of the South African Companies Act, 2008 (South African Companies Act) and to whom the Offer will specifically be addressed (South African Qualifying Investors) and this Prospectus is only being made available to such South African Qualifying Investors. The Offer and the Offering Memorandum do not constitute an offer for the sale of or subscription for, or the solicitation of an offer to buy and to subscribe for, Shares to the public as defined in the South African Companies Act and will not be made or distributed, as applicable, to any person in South Africa in any manner which could be construed as an offer to the public in terms of the South African Companies Act. Should any person who is not a South African Qualifying Investor receive this Offering Memorandum, they should not and will not be entitled to acquire any Offer Shares or otherwise act thereon. This Offering Memorandum does not, nor is it intended to, constitute a prospectus prepared and registered under the South African Companies Act or an advertisement in terms of section 98 of the South African Companies Act. Accordingly, the Offering Memorandum does not comply with the substance and form requirements for prospectuses or advertisements set out in the South African Companies Act and the South African Companies Regulations of 2011 and has not been approved by, and/or registered with, the South African Companies and Intellectual Property Commission, or any other south African authority.

The information contained in this Offering Memorandum constitutes factual information as contemplated in section 1(3)(a) of the FAIS Act and should not be construed as an express or implied recommendation, guidance or proposal that any particular transaction in respect of the Offer Shares is appropriate to the particular investment objectives, financial situations or needs of a prospective investor, and nothing in this Offering Memorandum should be construed as constituting the canvassing for, or marketing or advertising of, Financial services in South Africa.

Saudi Arabia

Each Manager severally and not jointly nor jointly and severally represents, warrants and undertakes that any offer of GDRs to any investor in the Kingdom of Saudi Arabia or who is a Saudi person shall comply with Article 11 or Article 12 or Article 13 or Article 15 of the "Offers of Securities Regulations" as issued by the Board of the Capital Market Authority resolution number 2-11-2004 dated 4 October 2004 and amended by the Board of the Capital Market Authority resolution number 3-151-2016 dated 21 December 2016.

Transfer Restrictions

Each purchaser of the Offer Shares within the United States pursuant to Rule 144A, by its acceptance of delivery of this Offering Memorandum, will be deemed to have represented, agreed and acknowledged as follows:

The purchaser (i) is a QIB as that term is defined by Rule 144A under the Securities Act, (ii) is aware that, and each beneficial owner of such Offer Shares has been advised that, the sale to it is being made in reliance on Rule 144A under the Securities Act or another exemption from, or transaction not subject to, the registration requirements of the Securities Act, (iii) is acquiring such Offer Shares for its own account or for the account of one or more QIBs and (iv) if it is acquiring such Offer Shares for the account of one or more QIBs, has sole investment discretion with respect to each such account and has full power to make the acknowledgements, representations and agreements herein on behalf of each such account.

The purchaser understands that the Offer Shares are being offered and sold in the United States only in a transaction not involving any public offering within the meaning of the Securities Act and that the Offer Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered, sold, pledged or otherwise transferred except (a) to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, or another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available) or (d) pursuant to an effective registration statement under the Securities Act, in each case in accordance with any applicable securities laws of any state of the United States.

The purchaser understands that the Offer Shares (to the extent they are in certificated form), unless otherwise determined by the Company in accordance with applicable law, will bear a legend substantially to the following effect:

THE OFFER SHARES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) TO A PERSON THAT THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, (2) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION

STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALES OF THE ORDINARY SHARES. NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THE FOREGOING, THE OFFER SHARES REPRESENTED HEREBY MAY NOT BE DEPOSITED INTO ANY UNRESTRICTED DEPOSITARY RECEIPT FACILITY IN RESPECT OF THE OFFER SHARES ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK. EACH HOLDER, BY ITS ACCEPTANCE OF SHARES, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

For so long as the Offer Shares are restricted securities, it will not deposit such Offer Shares into any depositary receipt facility in respect of the Offer Shares established and maintained by a depositary bank other than a Rule 144A restricted depositary receipt facility.

The Company, the Underwriters and their respective affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

Prospective purchasers are hereby notified that sellers of the Offer Shares purchased within the United States pursuant to Rule 144A may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A under the Securities Act.

SETTLEMENT AND DELIVERY

Subject to acceleration or extension of the timetable for the Offering, payment (in Russian rubles) for, and delivery of, the Offer Shares ("**Settlement**") is expected to take place on or about the Settlement Date. If Settlement does not take place on the Settlement Date as planned or at all, the Offering may be withdrawn, in which case all subscriptions for the Offer Shares will be disregarded, any allotments made will be deemed not to have been made and any subscription payments made will be returned without interest or other compensation and transactions in the Offer Shares on Moscow Exchange may be annulled. Any transactions in the Offer Shares prior to Settlement are at the sole risk of the parties concerned. The Company and the Underwriters do not accept responsibility or liability towards any person as a result of the withdrawal of the Offering or the (related) annulment of any transactions in the Offer Shares. Each purchaser of the Offer Shares must pay for such Offer Shares by the date agreed with the Underwriters. The Offer Shares will be delivered to purchasers through the facilities of the NSD. Therefore, to take delivery of the Offer Shares, purchasers must have a depositary account with the NSD or a depo account with depositary that has a depositary account with the NSD.

LEGAL MATTERS

Certain legal matters with respect to the Offering will be passed upon for the Company in respect of the laws of England and the United States by Cleary Gottlieb Steen & Hamilton LLP and in respect of the laws of the Russian Federation by Cleary Gottlieb Steen & Hamilton LLC. Certain legal matters with respect to the Offering will be passed upon for the Underwriters in respect of the laws of England and the United States by Skadden, Arps, Slate, Meagher & Flom (UK) LLP and in respect of the laws of the Russian Federation by Skadden, Arps, Slate, Meagher & Flom LLP.

INDEPENDENT AUDITORS

The audited consolidated financial statements of the Group as of and for the years ended 31 December 2020 and 31 December 2019 included in this Offering Memorandum have been audited by AO Deloitte & Touche CIS.

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GROUP OF COMPANIES «SEGEZHA» JOINT STOCK COMPANY

Consolidated Financial Statements and
Independent Auditor's Report
For the Year Ended 31 December 2020

SEGEZHA GROUP JSC

CONTENTS

SEGEZHA GROUP JSC

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2020

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Segezha Group JSC and its subsidiaries (hereinafter, collectively referred to as the "Group") as of 31 December 2020, 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 2020 were approved by management on 15 March 2021.

On behalf of management:

Mikhail Shamolin
President

Rovshan Aliyev
Vice-President for Finance and Investment

15 March 2021

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying consolidated financial statements of Group of Companies "Segezha" 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 2020 and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year ended 31 December 2020, 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 2020, 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 *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants* (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Russia, 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.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Gain on acquisition of Karelian Wood Company LLC In January 2020, the Group closed the deal to acquire 100% in Karelian Wood Company LLC in exchange for RUB 950,000 thousand. As a result of the acquisition, the Group recognised a gain of RUB 988,745 thousand, representing an excess of the fair value of the net identifiable assets acquired over the cost of acquisition (please see Note 5). We believe that this is a key audit matter since the acquisition of Karelian Wood Company required the Group to make professional judgments to determine whether the acquiree is a business, as well as to identify and measure the fair value of assets acquired and assess the completeness and determine the values of liabilities assumed.	We obtained an understanding of the procedures and controls used by the Group to measure fair value and allocate the acquisition cost related to Karelian Wood Company, including the use of management experts, and the procedures applied by management to verify completeness and determine fair value of assets acquired and liabilities assumed. Our substantive audit procedures, performed with the assistance of the internal fair value specialists, included: • analysis of management assessment of the reasonableness of the bargain purchase gain, including analysis of the circumstances of the acquisitions, appropriateness of methods used to determine fair values of assets and liabilities of the acquiree and procedures performed by management to verify their completeness. • evaluation of management analysis of whether the acquired set of activities constitute a business in accordance with IFRS 3 *Business Combinations*, including analysing the operations, personnel, other inputs, processes and performance of the acquiree; • evaluation of methods and models used by management to determine fair values of identifiable assets and liabilities assumed, as well as verification of the arithmetic accuracy of the related calculations; • comparison of key assumptions used in the fair value measurement models (cost of capital, wood prices and harvesting costs, growth rates) to forecast data and publicly available macroeconomic indicators, including, where applicable, reconciliations between financial records and the budgets approved;

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
	• assessment of the reasonableness of fair values of the right-of-use assets (forest plots) by comparing their fair value against the similar assets previously acquired by the Group; • involvement of the internal tax experts to assess the valuation of tax assets acquired and completeness of tax liabilities assumed by the Group as part of the acquisition of Karelian Wood Company LLC. We also assessed the completeness and evaluated compliance of disclosures in the consolidated financial statements with the requirements of IFRS.
Loss of control (deconsolidation) of GalichLes LLC and Galich Plywood Mill LLC 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 Galich Plywood Mill LLC, its 100% subsidiaries (hereinafter, collectively as the "Galich Entities"), to obtain project financing to build a plywood mill in the city of Galich in the Kostroma Region. Both parties under the Agreement are equally entitled to direct relevant activities of the investee (please see Note 6). Based on the Agreement, management have concluded that the Group ceased to have control over the Galich Entities from 27 March 2020. We believe that the deal above is a key audit matter since the deconsolidation of the Galich Entities required the Group to make complex professional judgments to determine what constitutes relevant activities of the Galich Entities, as well as to identify which party to the Agreement is entitled to direct relevant activities. This required more audit procedures and complex professional judgements.	We have obtained and analysed all contracts entered into as part of the deal under consideration. Our procedures related to the loss of control over the Galich Entities included: • evaluation of whether management's assessment of the relevant activities is consistent with the requirements of IFRS 10 *Consolidated Financial Statements;* • analysis of the rights of the Group and the financing bank under the Agreement and assessment of whether the conclusion made by management in identifying the Galich Entities as joint ventures is consistent with the requirements of IFRS 11 *Joint Arrangements;* • evaluation of fair values of the Galich Entities at the date of deconsolidation as determined by management; • evaluation of compliance of disclosures in the consolidated financial statements with the requirements of IFRS.

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.

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 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 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.

Based on the matters communicated to those charged with governance, we determine matters that are key to the audit of the consolidated financial statements for the period, and, therefore, are the key audit matters. We include 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
Engagement Partner

15 March 2021

Company: Segezha Group JSC

Primary state registration number: 1207700498279

Date of entry in the Unified State Register: 28.12.2020

Registration authority name: Interdistrict Inspectorate of the Federal Tax Service No.46 for Moscow

Address:
10 Presnenskaya Naberezhnaya, Moscow

Independent Auditor: AO Deloitte & Touche CIS

Certificate of state registration No. 018.482, issued by the Moscow Registration Chamber on 30 October 1992.

Primary state registration number: 1027700425444.

Certificate of registration in the Unified State Register series 77 No. 004840299 issued by Interregional Inspectorate for Taxes and Levies No. 39 for Moscow on 13 November 2002.

Member of Self-Regulated Organization of Auditors "Sodruzhestvo" (Association), ORNZ 12006020384.

SEGEZHA GROUP JSC

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020
(in thousands of Russian Rubles)

	Notes	2020	2019
Revenue	4	68,986,649	58,494,635
Cost of sales	7	(45,477,189)	(39,423,999)
Gross profit		**23,509,460**	**19,070,636**
Selling and administrative expenses	8	(14,545,143)	(12,548,477)
Other operating income, net	9	2,202,110	1,470,133
Operating profit		**11,166,427**	**7,992,292**
Interest income		176,415	73,991
Interest expense		(3,402,662)	(3,626,961)
Other finance expenses	26	(782,639)	-
Foreign exchange differences, net		(7,674,875)	2,404,415
Other income/(expenses)		18,243	(863)
(Loss)/profit before tax		**(499,091)**	**6,842,874**
Income tax expense	10	(848,792)	(2,091,912)
Net (loss)/profit for the reporting period		**(1,347,883)**	**4,750,962**
Other comprehensive income/(loss)			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit pension obligations	22	(52,420)	(81,769)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		1,004,488	(243,574)
Other comprehensive income/(loss)		**952,068**	**(325,343)**
Total comprehensive (loss)/income for the year		**(395,815)**	**4,425,619**
Net (loss)/profit attributable to:			
Shareholders/participants of Segezha Group JSC		(1,346,726)	4,787,419
Non-controlling interests		(1,157)	(36,457)
		(1,347,883)	**4,750,962**
Total comprehensive (loss)/income attributable to:			
Shareholders/participants of Segezha Group JSC		(394,658)	4,462,076
Non-controlling interests		(1,157)	(36,457)
		(395,815)	**4,425,619**

Mikhail Shamolin
President

Rovshan Aliyev
Vice-President for Finance and Investments

15 March 2021

The accompanying notes on pages 13-51 are an integral part of these consolidated financial statements.

SEGEZHA GROUP JSC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020
(in thousands of Russian Rubles)

	Notes	31 December 2020	31 December 2019
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	11	42,315,222	38,256,065
Right-of-use assets	28	14,649,041	12,017,386
Intangible assets	12	1,822,070	559,324
Goodwill		443,838	423,136
Investments in joint ventures and associates		458,192	199,760
Deferred tax assets	10	1,132,567	658,941
Prepayments for non-current assets, net	11	2,482,463	1,789,897
Loans issued to related parties	27	1,347,870	-
Other non-current assets		230,470	253,564
Total non-current assets		**64,881,733**	**54,158,073**
CURRENT ASSETS:			
Inventories, net	13	9,432,609	9,344,329
Contract assets	14	1,290,658	1,307,377
Trade and other receivables, net	15	5,862,900	5,378,830
Taxes receivable	17	3,057,269	2,194,262
Advances and other current assets	18	1,222,277	963,440
Cash and cash equivalents	16	3,670,197	3,214,409
Total current assets		**24,535,910**	**22,402,647**
TOTAL ASSETS		**89,417,643**	**76,560,720**
EQUITY AND LIABILITIES			
EQUITY:			
Share/charter capital	19	1,194,000	12
Additional paid-in capital	19	6,323,605	7,517,593
Retained earnings		(345,035)	5,581,246
Accumulated other comprehensive income		1,569,016	616,948
Equity attributable to the shareholders/participants of Segezha Group JSC		8,741,586	13,715,799
Non-controlling interest		126,630	132,709
Total equity		**8,868,216**	**13,848,508**
NON-CURRENT LIABILITIES:			
Loans and borrowings	20	50,758,014	29,969,945
Lease liabilities	28	9,573,338	7,573,098
Other financial liabilities	26	943,358	-
Pension obligations	22	917,435	754,587
Deferred tax liabilities	10	1,835,476	2,048,249
Other non-current liabilities		5,931	14,342
Total non-current liabilities		**64,033,552**	**40 360,221**
CURRENT LIABILITIES:			
Loans and borrowings	20	2,494,023	12,572,249
Trade and other payables	21	9,612,693	7,079,386
Lease liabilities	28	1,380,598	887,632
Provisions	24	559,758	392,611
Taxes payable		1,210,363	937,479
Advances received and other liabilities		1,258,440	482,634
Total current liabilities		**16,515,875**	**22,351,991**
TOTAL EQUITY AND LIABILITIES		**89,417,643**	**76,560,720**

Mikhail Shamolin
President

Rovshan Aliyev
Vice-President for Finance and Investments

15 March 2021

The accompanying notes on pages 13-51 are an integral part of these consolidated financial statements.

SEGEZHA GROUP JSC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020
(in thousands of Russian Rubles)

	Notes	Share/ charter capital	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income: Translation to presentation currency	Accumulated other comprehensive income: Other	Equity attributable to sharehol-ders/partici-pants of Segezha Group JSC	Non-controlling interests	Total equity
31 December 2018		**12**	**7,648,354**	**4,734,314**	**943,317**	**(1,026)**	**13,324,971**	**170,300**	**13,495,271**
Net profit/(loss) for the reporting period		-	-	4,787,419	-	-	4,787,419	(36,457)	4,750,962
Other comprehensive loss for the year		-	-	-	(243,574)	(81,769)	(325,343)	-	(325,343)
Total comprehensive income/(loss) for the year		-	-	4,787,419	(243,574)	(81,769)	4,462,076	(36,457)	4,425,619
Share-based payments	23	-	(130,761)	-	-	-	(130,761)	-	(130,761)
Buy-back of non-controlling interests		-	-	-	-	-	-	(1,134)	(1,134)
Distribution to companies under common control	19	-	-	(140,487)	-	-	(140,487)	-	(140,487)
Dividends to the participants	19	-	-	(3,800,000)	-	-	(3,800,000)	-	(3,800,000)
31 December 2019		**12**	**7,517,593**	**5,581,246**	**699,743**	**(82,795)**	**13,715,799**	**132,709**	**13,848,508**
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	19	1,193,988	(1,193,988)	-	-	-	-	-	-
Dividends to the participants	19	-	-	(4,500,000)	-	-	(4,500,000)	-	(4,500,000)
Distribution to companies under common control	19	-	-	(79,599)	-	-	(79,599)	-	(79,599)
Other movements		-	-	44	-	-	44	(4,922)	(4,878)
31 December 2020		**1,194,000**	**6,323,605**	(345,035)	**1,704,231**	**(135,215)**	**8,741,586**	**126,630**	**8,868,216**

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020
(in thousands of Russian Rubles)

	Notes	2020	2019
Cash flows from operating activities:			
Net (loss)/profit for the reporting period		(1,347,883)	4,750,962
Adjustments for:			
Depreciation and amortisation		5,357,137	4,954,133
Depreciation of right-of-use assets	28	915,559	1,047,685
Interest income recognised in profit or loss		(176,415)	(73,991)
Interest expense recognised in profit or loss		3,402,662	3,626,961
Other finance expenses	26	782,639	-
Gain on business acquisition	5	(988,745)	-
Income tax expense recognised in profit or loss	10	848,792	2,091,912
Allowance for expected credit losses	8	98,826	7,408
Loss on write-off of inventories	9	66,149	7,755
Allowance for inventory impairment		(445)	(14,356)
(Gain)/loss on disposal of property, plant and equipment		(341,304)	25,429
Foreign exchange differences, net		7,674,875	(2,404,415)
Reversal of impairment loss on property, plant and equipment	11	-	(478,887)
Gain on deconsolidation of Group companies	6	(18,243)	-
Other non-monetary operating expenses/(income) and other expenses/(income), net		168,329	(118,996)
		16,441,933	**13,421,600**
Movements in working capital:			
Decrease/(increase) in trade and other receivables		96,085	(236,646)
Decrease/(increase) in inventories		1,031,276	(445,016)
Increase in other assets		(345,682)	(1,743,511)
Increase in trade and other payables		213,705	1,631,549
Increase/(decrease) in other liabilities		1,075,664	(678,318)
Cash generated from operating activities		**18,512,981**	**11,949,658**
Interest paid		(2,099,438)	(2,649,048)
Income taxes paid		(1,679,085)	(1,680,242)
Net cash from operating activities		**14,734,458**	**7,620,368**

CONSOLIDATES STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)
(in thousands of Russian Rubles)

	Notes	2020	2019
Cash flows from investing activities			
Payments for property, plant and equipment and intangible assets		(11,839,256)	(6,431,770)
Proceeds on disposal of property, plant and equipment		205,023	174,112
Loans issued to joint venture	27	(1,490,010)	-
Repayment of loans issued to joint venture	27	1,319,540	-
Interest received		176,415	73,991
Cash outflow from deconsolidation of Group companies		(44,657)	-
Investment in joint venture		(297,178)	-
Imputed dividends paid	19	(55,600)	(138,987)
Net cash outflow on acquisition of Group companies	5	(901,963)	(139,588)
Other movements		3,157	54,036
Net cash used in investing activities		**(12,924,529)**	**(6,408,206)**
Cash flows from financing activities			
Proceeds from loans and borrowings	20	22,431,413	19,982,604
Repayment of principal of loans and borrowings	20	(18,122,246)	(15,892,885)
Proceeds from return of short-term investments		-	940
Other finance income		160,719	-
Dividends paid	19	(4,500,000)	(3,800,000)
Lease liability payments	28	(1,462,324)	(1,119,117)
Share-based payments	23	(130,761)	(130,761)
Net cash used in financing activities		**(1,623,199)**	**(959,219)**
Net increase in cash and cash equivalents		186,730	252,943
Cash and cash equivalents, beginning of the year	16	**3,214,409**	**3,006,868**
Effect of exchange rate changes on cash held in foreign currencies		269,058	(45,402)
Cash and cash equivalents, end of the year	16	**3,670,197**	**3,214,409**

1. GENERAL INFORMATION

Group of Companies «Segezha» Joint Stock Company (before 28 December 2020 Group of Companies Segezha LLC, 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.

On 28 December 2020 Group of companies Segezha Limited Liability Company was reorganised into Group of Companies «Segezha» Joint Stock Company.

The Company has a registered office at 10 Presnenskaya Naberezhnaya, Moscow.

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

Significant entities	Country	31 December 2020	31 December 2019
Pulp and paper			
Segezha Pulp and Paper Mill, JSC	Russia	100%	100%
Sokol Pulp and Paper Mill, PJSC	Russia	99.13%	92.60%
Packaging			
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	100%	100%
Segezha Packaging s.r.o.	Czech Republic	100%	100%
Segezha Packaging SRL	Romania	100%	100%
Plywood and boards			
Vyatsky Plywood Mill, LLC	Russia	100%	100%
Woodworking			
Lesosibirsky LDK No.1, JSC	Russia	100%	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%
Forestry management			
Muezerskiy LPH, PJSC	Russia	-[1]	100%
Karelian Wood Company LLC	Russia	100%	-
Lenderskiy Lespromhoz, PJSC	Russia	100%	100%
Medvezhyegorskiy LPH, LLC	Russia	-[1]	100%
LPH Kipelovo, JSC	Russia	100%	100%
PLO Onegales, LLC	Russia	-[2]	100%
Onegales, PJSC	Russia	-[2]	100%
Techprom, LLC	Russia	-[3]	100%
Volomsky KLPH Leskarel, OJSC	Russia	76.23%	75.61%
Ledmozerskoye LZH, OJSC	Russia	87.25%	87.25%
Severlesprom, LLC	Russia	-[1]	100%
Energy			
Vologda Bumazhnaya Manufactura, LLC	Russia	100%	100%
Onega-Energy, JSC	Russia	75%	75%
Other			
Segezha Group Management Company, LLC	Russia	100%	100%
Voloma-Invest, LLC	Russia	-[1]	100%

[1] Muezerskiy LPH, PJSC, Medvezhyegorskiy LPH, LLC, LLC Severlesprom, Voloma-Invest, LLC as a result of reorganization merged with JSC Lendersky Lespromkhoz
[2] PLO Onegales, LLC, Onegales, PJSC as a result of reorganization merged with Onega Sawmills, JSC
[3] Techprom, LLC as a result of reorganization merged with LPH Kipelovo, JSC

As at 31 December 2020 and 2019, Sistema, PJSFC (14.57%) and its subsidiary Sistema Telecom Assets, LLC (83.67%) were the key shareholders/participants in the Company. Vladimir Yevtushenkov is the ultimate controlling shareholder of Sistema, PJSFC (the "Parent"). The ownership structure is presented in the Note 19.

On 14 January 2020, the Company acquired 100% in Karelian Wood Company, LLC, a forestry management and woodworking company (Note 5).

On 3 June 2019, the Company acquired 100% in Severlesprom, LLC, a forestry management company operating leased forest plots.

As at 31 December 2020, the Group had no pledged shares/interests in subsidiaries to secure performance under the loan and overdraft agreements. As at 31 December 2019, the Group pledged shares/interests in the subsidiary Onega Sawmills 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). 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. These consolidated financial statements are presented in Russian Rubles. All values are rounded to the nearest thousand Rubles, except as indicated otherwise.

Transactions in currencies other than the subsidiary's functional currency are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that 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;
- 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 these consolidated financial statements:

	31 December 2020	**31 December 2019**
RUB/USD	73.8757	61.9057
RUB/EUR	90.6824	69.3406

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

	2020	**2019**
RUB/USD	72.1464	64.7362
RUB/EUR	82.4488	72.5021

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 re-attributed to non-controlling interest and are not recognised in profit or loss.

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.

Associates. Associates are entities significantly influenced, directly or indirectly, but not controlled by the Group. Generally, the voting rights in such entities vary from 20% to 50%. Investments in associates are accounted for using the equity method and initially recognised at historical cost. The carrying amount of the investments is then increased or decreased based on the investor's interest in the profit or loss of the associate after the acquisition date. Dividends from associates decrease the carrying amount of investments in the same associates. Other changes in the Group's share of net assets of the associates arising after the acquisition are recognised as follows:

- The Group's share in profit or loss of the associates is included in consolidated profit or loss for the year as a share of their financial results;
- The Group's share of other comprehensive income is stated as a separate line within other comprehensive income;
- All other changes in the Group's share of the carrying amount of the associates' net assets are included in profit or loss as a share of their financial results.

However, when the Group's share of the associate losses is equal or greater than its interest in the associate, including any unsecured accounts receivable, the Group derecognises further losses, except where the Group has assumed obligations or made payments on behalf of that associate.

Unrealised gains on transactions between the Group and its associates are eliminated in proportion to the Group's interest in those associates; unrealised losses are also eliminated unless the transaction has an indication that the transferred asset has been impaired.

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 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.

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 based on the management's 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 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:

- Loss of control (deconsolidation) in subsidiaries (Note 6);
- Assessment of lease liabilities (Note 28);
- Useful lives of property, plant and equipment (Note 11);
- Deferred tax assets recoverability (Note 10);
- Fair value measurement (Notes 5, 11 and 26);
- Impairment of financial and non-current assets (Note 15).

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.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Below are the revised standards that have become obligatory for the Group as of 1 January 2020 but have not had any material impact on its operations:

- COVID-19-Related Rent Concessions Amendment to IFRS 16 (issued on 28 May 2020 and effective for annual periods beginning on or after 1 June 2020).
- Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for the annual periods beginning on or after 1 January 2020).
- Definition of a Business — Amendments to IFRS 3 (issued on 22 October 2018 and effective for the annual periods beginning on or after 1 January 2020). These amendments introduce changes to definition of a business. A business includes an input and a substantive process that together significantly contribute to the ability to create outputs. The updated guidelines provide a system that allows for the presence of an input and a substantive process to be determined, including for companies that are in the initial development phase and have no outputs yet. If there are no outputs, the presence of an organised workforce is required for an entity to be considered a business. The definition of outputs is narrowed by focusing on goods and services provided to customers, by making an investment and other income, and by removing the reference to the ability to reduce costs and receive other economic benefits. There is also no need to assess the ability of market participants to substitute missing elements or integrate an acquired set of activities and assets. An entity may apply a concentration test. An acquired set of activities and assets is not a business if substantially all the fair value of the gross assets acquired is concentrated in a single asset (or group of similar assets).
- Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).
- Interest rate benchmark reform - Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020).

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2021, 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. The effective date of the amendments has yet to be set by the Board; however, earlier application of the amendments is permitted). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary.

IFRS 17 «Insurance Contracts» (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023); ***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). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The amendments include a number of clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and transition.

Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022).These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance. The Group is currently assessing the impact of the amendments on its financial statements.

Amendments to IAS 37 – Onerous Contracts—Cost of Fulfilling a Contract The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. Comparatives are not restated. Instead, the entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

The amendments are effective for annual periods beginning on or after 1 January 2022, with early application permitted.

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 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 three 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;
- ***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.

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 glued timber structures and prefabricated houses made of laminated veneer lumber, 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. OIBDA is calculated as operating profit or loss before depreciation and amortisation. 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 treated 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 2020:

	Paper and packaging	Forestry manage-ment and wood working(1)	Plywood and boards	Other	Total segments
Segment revenue	35,667,634	23,908,660	7,666,319	9,392,914	**76,635,527**
Elimination of intersegment transaction revenue	(7,290)	(4,749,649)	(121)	(2,891,818)	**(7,648,878)**
Total revenue reported in the consolidated statement of profit or loss and other comprehensive income	**35,660,344**	**19,159,011**	**7,666,198**	**6,501,096**	**68,986,649**
OIBDA	**10,016,858**	**5,830,514**	**2,914,492**	**(1,302,912)**	**17,458,952**

(1) In previous years, the segment was referred to "Timber resources and woodworking." There have been no changes to the composition of the segment.

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 The following is an analysis of reportable segments for the year ended 31 December 2019:

	Paper and packaging	Forestry manage-ment and wood working	Plywood and boards	Other	Total segments
Segment revenue	33,366,684	20,325,835	6,556,574	6,303,000	**66,552,093**
Elimination of intersegment transaction revenue	(7,570)	(5,352,639)	(281)	(2,696,968)	**(8,057,458)**
Total revenue reported in the consolidated statement of profit or loss and other comprehensive income	**33,359,114**	**14,973,196**	**6,556,293**	**3,606,032**	**58,494,635**
OIBDA	**10,604,900**	**2,927,003**	**1,660,163**	**(1,173,000)**	**14,019,066**

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

	For the year ended 31 December 2020	For the year ended 31 December 2019
OIBDA	**17,458,952**	**14,019,066**
Depreciation and amortisation expense	(6,272,696)	(6,001,819)
Other	(19,829)	(24,955)
Operating profit	**11,166,427**	**7,992,292**
Interest income	176,415	73,991
Interest expense and other finance expenses	(4,185,301)	(3,626,961)
Foreign exchange differences, net	(7,674,875)	2,404,415
Other income/(expenses)	18,243	(863)
(Loss)/profit before tax	**(499,091)**	**6,842,874**

Geographical information

Revenue is presented by country and based on client location:

	For the year ended	
	31 December 2020	**31 December 2019**
Russia	19,291,643	15,762,224
China	10,340,730	7,236,633
Germany	4,204,359	3,811,585
Egypt	3,493,523	2,814,874
Finland	2,517,623	639,191
Netherlands	1,877,771	1,720,871
Denmark	1,847,312	1,534,771
Turkey	1,658,365	830,644
Italy	1,580,927	1,408,245
France	1,541,095	1,496,329
Saudi Arabia	1,471,609	840,972
USA	1,455,488	1,379,233
United Kingdom	1,399,683	1,226,195
Romania	1,150,547	762,368
Kazakhstan	1,133,512	1,010,649
Czech republic	945,023	393,140
Mexico	897,215	1,175,302
Korea, republic	869,754	484,961
Ghana	798,018	482,162
Other	10,512,452	13,484,286
Total third-party revenue	**68,986,649**	**58,494,635**

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

	For the year ended	
	31 December 2020	**31 December 2019**
Russia	60,562,299	51,516,365
Netherlands	1,057,642	407,322
Germany	811,987	518,633
Denmark	537,369	412,359
Other	779,869	644,453
Total non-current assets	**63,749,166**	**53,499,132**

5. BUSINESS COMBINATIONS

All business combinations are accounted for 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 interests that are not ownership interests are 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. 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.

Acquisition of Karelian Wood Company

On 14 January 2020, the Group acquired a 100% stake in Karelian Wood Company LLC, a forestry management, timber harvesting and woodworking company with annual permitted volume of logging operations of 206,000 cubic meters, for agreed cash consideration of RUB 950,000 thousand. The Group's management expects synergetic effect from the acquisition, strengthening raw material security of the Group through Karelian's timber supply rights. Forest plots of the Karelian Wood Company are located in close proximity to the Group's main forest area in Karelia.

As at 31 December 2020 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 the acquisition date comprise:

	Fair value as at the acquisition date
Assets and liabilities	
Property, plant and equipment	703,539
Right-of-use assets	1,084,110
Deferred tax assets	349,667
Cash and cash equivalents	930
Inventories	410,073
Trade and other accounts receivable	215,012
Other current assets	85,978
Lease liabilities	(427,051)
Deferred tax liabilities	(196,606)
Provisions	(33,865)
Other liabilities	(14,654)
Trade and other payables	(238,388)
Total identifiable net assets	**1,938,745**
Gain on business acquisition	(988,745)
Total acquisition value	**950,000**
Settled in the form of:	
Cash consideration	829,115
Cash consideration payable	120,885

Cash consideration payable is an additional amount for the agreed upon level of working capital acquired.

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 of production assets was based on the cost approach using current market value of replacement assets. At the same time, potential economic impairment was assessed through discounted cash flow approach. Land, apartments 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 are tax losses carried forward, fair value of which was assessed through discounted cash flow approach, taking into account projected taxable profits and 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 are reported at fair value. Fair value estimate represents the best estimate of contractual cash flows receivable and payable at the acquisition date.

The Group recorded gain on acquisition of Karelian Wood Company in the total amount of RUB 988,745 thousand as other operating income in its consolidated statement of profit or loss. The gain received is due to the fact that there were limited number of potential acquirers able to perform the acquisition. Previous owners of Karelian Wood Company failed to reach maximum permitted logging operations volume, to utilize maximum production capacity, and to maximize returns for geographic diversification of sales that represented additional interest for the Group. In 2020 the Group increased logging operations volume, as well as sawn timber production volume, thus increasing the company’s operating profit; no additional capital investment was required to achieve that.

From the date of acquisition, Karelian Wood Company LLC contributed RUB 1,424,607 thousand of revenue and RUB 43,822 thousand of profit before tax of the Group. The Group does not provide information on the revenue and profit before tax from 1 January 2020 to the acquisition date due to immateriality.

Acquisition of other companies

On 13 January 2020, the Group acquired control over Giprobum CJSC (75.02%), an engineering company located in St. Petersburg engaged in designing of pulp and paper production facilities, for a cash consideration of RUB 8,000 thousand. The Group plans to utilize Giprobum’s engineering and project management capabilities to enhance the efficiency of the Group’s existing production facilities, as well as to construct new production facilities.

On 1 April 2020, the Group acquired 100% stake in Land-10 LLC engaged in timber harvesting with annual permitted volume of logging operations of 35,000 cubic meters, for the consideration of RUB 65,899 thousand. The transaction was concluded as a part of increasing the raw material base for the Group's companies; the forest plots are located in close proximity to the Group's main forest area in Karelia.

The fair value estimates of the acquired assets and assumed liabilities at the acquisition date comprise:

	Fair value
Assets and liabilities	
Property, plant and equipment	445
Right-of-use assets	184,661
Cash and cash equivalents	121
Trade and other accounts receivable	3,076
Other current assets	778
Lease liabilities	(91,335)
Deferred tax liabilities	(16,974)
Trade and other payables	(31,805)
Total identifiable net assets	**48,967**
Goodwill	20,702
Non-controlling interest	4,230
Total acquisition value	**73,899**
Settled in the form of:	
Cash consideration	**73,899**

6. DECONSOLIDATION OF SUBSIDIARIES

Galich Plywood Mill LLC was organized for the purposes of birch plywood production. In order to start the construction of a plywood mill in the city of Galich, the Kostroma Region, in March 2020 the Group organized project financing based on the Group's 100% subsidiaries GalichLes LLC and Galich Plywood Mill LLC (jointly referred to as the "Galich entities") and signed the Corporate Governance Agreement.

The Corporate Governance Agreement provides both parties with equal rights to govern significant activities of the Galich entities, 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.

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

Given the rights provided to the bank by the Corporate Governance Agreement, management has concluded that starting from 27 March 2020 the Group loses control over its 100% subsidiaries and recognizes them as joint ventures with a 100% interest as the *Investments in joint ventures and associates*. Additionally, the parties agreed on the terms for the bank to purchase a 15% stake in the project.

The net assets of the Galich entities as at the date of deconsolidation as well as the gain on deconsolidation, are given below:

	As at the deconsolidation date
Assets and liabilities	
Property, plant and equipment (construction-in-progress)	130,212
Prepayments for non-current assets	2,515,709
Cash and cash equivalents	44,657
Bank loans received	(1,482,750)
Loans received from Group companies	(1,177,400)
Other assets and liabilities, net	(48,671)
Total net assets	**(18,243)**
Gain on deconsolidation	**18,243**

7. COST OF SALES

Below is the analysis of the cost of products and services for the year ended 31 December 2020 and 2019:

	2020	2019
Raw materials and supplies	21,214,793	18,854,679
Employee benefits	9,023,977	8,087,295
Supplier and contractor services	8,945,979	7,735,117
Depreciation and amortisation expense	5,584,603	5,327,478
Other expenses	421,319	120,513
Net change in inventories, finished goods and work in progress	286,518	(701,083)
	45,477,189	**39,423,999**

8. SELLING AND ADMINISTRATIVE EXPENSES

Below is the analysis of selling and administrative expenses for the years ended 31 December 2020 and 2019:

	2020	2019
Finished goods transportation and other selling expenses	7,491,573	6,783,815
Employee benefits	4,424,103	3,379,624
Supplier and contractor services	1,066,265	897,107
Depreciation and amortisation expense	602,706	559,183
Raw materials and supplies	131,273	140,989
Taxes, other than income tax	128,864	221,776
Increase in allowance for expected credit losses, net	98,826	7,408
Other expenses	601,533	558,575
	14,545,143	**12,548,477**

9. OTHER OPERATING INCOME, NET

Below is the analysis of other operating income and expenses for the years ended 31 December 2020 and 2019:

	2020	2019
Income from government grants	1,086,326	1,147,346
Gain on business acquisition (Note 5)	988,745	-
Gain/(loss) on disposal of property, plant and equipment	358,451	(11,243)
Reversal of previously accrued impairment for property, plant and equipment (Note 11)	-	478,887
Depreciation and amortisation	(85,387)	(115,157)
Loss on write-off of inventories	(64,696)	(4,457)
Other	(81,329)	(25,243)
Other operating income, net	**2,202,110**	**1,470,133**

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 2020 and 2019, the Group received grants to compensate costs attributable to the transportation of products and cover expenses related to the increase in coal and fuel oil prices in accordance with Russian Government Resolution No. 496 of 26 April 2017 *On the provision of subsidies from the federal government to Russian organisations, including organisations in the car-making, agricultural machine-building, transport machine-building, and energy-related machine-building industries, as a partial compensation for product transportation costs* and Resolution No. 489-P of 24 December 2018 by the Government of the Republic of Karelia *On the approval of the procedure for granting subsidies from the budget of the Republic of Karelia to legal entities (other than subsidies to state (municipal) institutions), individual entrepreneurs and individuals – producers of goods, work, services for the compensation of expenses related to the increase in coal and fuel oil prices,* as well as Russian Government Resolution No. 1007 of 8 July 2020 *On the subsidies from the government to organisations as a partial compensation for certification and homologation costs of product 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.

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

	2020	**2019**
Current income tax expense	1,400,394	2,032,875
Deferred tax	(551,602)	59,037
Total income tax expense recognised in the current year relating to continuing operations	**848,792**	**2,091,912**

The effective tax rate reconciliation for 2020 and 2019 is presented below:

	2020	**2019**
(Loss)/profit before tax from continuing operations	**(499,091)**	**6,842,874**
Theoretical income tax (income)/expense at the rate of 20%	(99,818)	1,368,575
Non-deductible expenses, net	123,028	421,174
Tax effect of restructuring of intercompany settlements	1,343,344	572,531
Prior period adjustments	(70,332)	379,210
Non-taxable gain on the business acquisition	(197,749)	-
Recovery of unutilised tax losses and offsets not recognised as deferred tax assets	(247,871)	(192,158)
Effect of tax rate other than the rate of 20%	(1,810)	(457,420)
Total income tax expense recognised in the current year for continuing operations	**848,792**	**2,091,912**

10.2. Deferred tax

As at 31 December 2020 and 2019, deferred tax assets and liabilities recognised by the Group in the consolidated statement of financial position comprised:

	31 December 2020	**31 December 2019**
Deferred tax assets	1,132,567	658,941
Deferred tax liabilities	(1,835,476)	(2,048,249)
	(702,909)	**(1,389,308)**

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

Deferred tax (liabilities)/assets	31 December 2019	Recognised in profit or loss	Recognised in other comprehensive income	Acquisition/ disposal of companies	31 December 2020
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
Deferred tax (liabilities)/assets, net	**(1,389,308)**	**551,602**	**-**	**134,797**	**(702,909)**

Deferred tax (liabilities)/assets	31 December 2018	Recognised in profit or loss	Recognised in other comprehensive income	Acquisition/ disposal of companies	31 December 2019
Property, plant and equipment, intangible assets and right-of-use assets	(2,171,006)	(213,177)	-	(32,816)	(2,416,999)
Inventories and contract assets	(150,490)	(46,811)	-	-	(197,301)
Trade and other receivables	220,851	120,934	-	(2,082)	339,703
Trade and other payables, lease liabilities	14,400	104,018	-	-	118,418
Provisions	42,149	81,247	-	819	124,215
Tax losses carried forward	733,253	(139,576)	-	(1,416)	592,261
Other	16,067	34,328	-	-	50,395
Deferred tax liabilities, net	**(1,294,776)**	**(59,037)**	**-**	**(35,495)**	**(1,389,308)**

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.

The movement in unrecognised deferred tax assets comprised:

	2020	2019
Balance, beginning of the year	1,304,832	1,496,990
Increase in unrecognised deferred tax assets on tax losses	176,955	205,916
Recognition of previously unrecognised deferred tax assets on tax losses	(424,479)	(379,047)
Other	(347)	(19,027)
Balance, end of the year	**1,056,961**	**1,304,832**

The Group did not recognise deferred tax liabilities of RUB 913,706 thousand (2019: RUB 1,123,119 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.

As at 31 December 2020 and 2019, property, plant and equipment comprised:

	Land and natural assets	Buildings and facilities	Machinery and equipment	Other fixed assets	Properties in the course of construc-tion	Total
31 December 2018						
Historical cost	**786,850**	**14,284,220**	**26,359,593**	**2,976,005**	**5 873,615**	**50,280,283**
Additions	-	-	-	-	5,751,319	**5,751,319**
Internal transfers	20,601	1,926,827	5,745,266	704,461	(8,397,155)	**-**
Disposals of assets	(5,325)	(199,544)	(262,647)	(122,648)	(49,521)	**(639,685)**
Other movements	-	-	7,522	(311)	(527)	**6,684**
Translation to presentation currency	(25,909)	(163,931)	(214,854)	(5,184)	(10,888)	**(420,766)**
31 December 2019						
Historical cost	**776,217**	**15,847,572**	**31,634,880**	**3,552,323**	**3,166,843**	**54,977,835**
Additions	-	-	-	-	8,389,904	**8,389,904**
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)	**(1,279,546)**
Additions from business combinations	53,945	385,356	178,971	85,134	579	**703,985**
Other movements	-	-	(18,392)	(165)	(4,003)	**(22,560)**
Translation to presentation currency	32,218	350,734	453,162	8,064	32,625	**876,803**
31 December 2020						
Historical cost	**862,997**	**17,982,197**	**34,112,983**	**4,632,382**	**6,055,862**	**63,646,421**
Accumulated depreciation and impairment						
31 December 2018						
Accumulated depreciation		**2,976,284**	**8,028,195**	**1,322,107**	**-**	**12,326 586**
Accumulated impairment	**-**	**-**	**65,000**	**2,604**	**481,296**	**548,900**
	-	**2,976,284**	**8,093,195**	**1,324,711**	**481,296**	**12,875,486**
Depreciation charge	-	1,266 602	3,130,401	486,157	-	**4,883,160**
Reversal of impairment	-	-	-	-	(478,887)	**(478,887)**
Disposals	-	(105,197)	(174,184)	(102,296)	-	**(381,677)**
Other movements	-	4,996	(10,996)	205	-	**(5,795)**
Translation to presentation currency	-	(33,788)	(134,067)	(2,662)	-	**(170,517)**
31 December 2019						
Accumulated depreciation	-	**4,108,897**	**10,839,349**	**1,703,511**	**-**	**16,651,757**
Accumulated impairment	**-**	**-**	**65,000**	**2,604**	**2,409**	**70,013**
	-	**4,108,897**	**10,904 349**	**1,706,115**	**2,409**	**16,721,770**
Depreciation charge	-	1,251,957	3,460,859	536,905	-	**5,249,721**
Reclassification between groups	-	44,485	(170,493)	126,008	-	-
Disposals	-	(32,365)	(794,168)	(216,210)	-	**(1,042,743)**
Other movements	-	-	(1,973)	(96)	-	**(2,069)**
Translation to presentation currency	-	93,226	304,913	6,381	-	**404,520**
31 December 2020						
Accumulated depreciation	**-**	**5,466,200**	**13,640,460**	**2,156,595**	**-**	**21,263,255**
Accumulated impairment	**-**	**-**	**63,027**	**2,508**	**2,409**	**67,944**
	-	**5,466,200**	**13,703,487**	**2,159,103**	**2,409**	**21,331,199**
Net book value as at						
31 December 2019	**776,217**	**11,738,675**	**20,730,531**	**1,846,208**	**3,164,434**	**38,256,065**
31 December 2020	**862,997**	**12,515,997**	**20,409,496**	**2,473,279**	**6,053,453**	**42,315,222**

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.

As at 31 December 2018, the historical cost of properties in the course of construction included design documents and basic engineering results related to the construction of new production facilities at Segezha Pulp and Paper Mill site, totalling RUB 478,887 thousand, including 100% accumulated impairment related to these documents. Impairment was accrued due to the project being put on hold because of a lack of financing.

In 2019, the Group decided that it was reasonable to continue with the project and recover previously accrued impairment in full based on the following:

- Previously developed design documents are still up to date and technically feasible;
- The Group's management decided to launch the Segezha West project based on these design documents;
- The Group has access to sufficient financial resources to implement the project in full and in a timely manner.

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.

In 2019, the Group identified a number of impairment indicators with regards to a timber production facility of Lesosibirsky LDK No.1. As a result, the Group assessed the recoverable amount of that production facility as a single CGU. The assessment was based on the value in use and a discount rate of 12.6% per annum. No impairment was identified based on the impairment test.

As at 31 December 2020, the Group had fully depreciated property, plant and equipment with a historical cost totalling RUB 5,572,963 thousand (31 December 2019: RUB 4,783,703 thousand).

As at 31 December 2020, the Group had property, plant and equipment with a carrying amount of RUB 16,686,955 thousand (31 December 2019: RUB 11,561,877 thousand) pledged as collateral to secure performance under loan and overdraft agreements.

In 2020, the Group capitalised interest expenses of RUB 155,435 thousand (2019: RUB 47,762 thousand).

As at 31 December 2020, advances paid for long-term assets included advances to suppliers for the purchase of property, plant and equipment of RUB 2,482,463 thousand (31 December 2019: RUB 1,789,897 thousand).

As at 31 December 2020, payables for property, plant and equipment were RUB 2,456,456 thousand (31 December 2019: RUB 1,560,210 thousand).

As at 31 December 2020, the Group had contractual obligations to machinery and equipment suppliers for the purchase of assets of RUB 5,746,568 thousand (31 December 2019: RUB 6,788,758 thousand).

12. INTANGIBLE ASSETS

Intangible assets increased mainly due to software acquired, including expenses of RUB 1,437,874 thousand (2019: RUB 259,177 thousand) incurred to adapt, implement and launch an SAP enterprise management system, including capitalised expenses for the project team totalling RUB 353,252 thousand (2019: RUB 62,995 thousand). The system is planned to be launched by 31 May 2021.

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.

Below is the analysis of inventories as at 31 December 2020 and 2019:

	31 December 2020	31 December 2019
Raw materials, supplies and spare parts	6,872,459	6,694,293
Work-in-progress	958,471	853,560
Finished goods	1,746,198	1,941,440
Less: allowance for inventory impairment	(144,519)	(144,964)
Total inventories	**9,432,609**	**9,344,329**

The cost of inventories recognised as an expense for continuing operations was RUB 21,604,539 thousand (2019: RUB 18,995,668 thousand).

The cost of inventories recognised as an expense includes RUB 169,310 thousand (2019: RUB 33,866 thousand) in respect of write-downs of inventories to net realisable value, and has been reduced by RUB 103,606 thousand (2019: RUB 40,467 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 2020, the Group had inventories with a carrying amount of RUB 850,317 thousand (31 December 2019: RUB 1,292,609 thousand) pledged as collateral to secure performance under loan and overdraft agreements.

14. CONTRACT ASSETS

The Group reports as contract assets at the end of the reporting period industrial paper sacks and retail paper bags in stock, produced to a unique specification from customers, thus having no alternative use. Moreover, customer contracts provide for customers' obligation to purchase the full volume of goods produced, or to compensate 100% of cost of goods produced but not purchased. Contract assets have been presented as a separate line item in the consolidated statement of financial position beginning as at 31 December 2020. This presentation resulted in a decrease of a comparative data for Inventories as at 31 December 2019 in amount of RUB 1,307,377 thousands.

15. 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 2020 and 2019:

	31 December 2020	31 December 2019
Trade and other receivables	6,599,316	6,045,395
Allowance for expected credit losses	(736,416)	(666,565)
Total trade and other receivables, net	**5,862,900**	**5,378,830**

The average credit period on sales of goods is 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 receivables.

To measure ECL, the Group aggregated trade 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 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.

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:

	2020	**2019**
Balance, beginning of the year	**(666,565)**	**(711,109)**
Allowance	(204,559)	(118,578)
Amounts written off	53,062	65,513
Amounts recovered	105,733	111,170
Translation to presentation currency	(24,087)	(13,561)
Balance, end of the year	**(736,416)**	**(666,565)**

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

Trade and other receivables	Weighted average level of loss	Gross carrying amount	Lifetime ECL
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)
Total	**11%**	**6,599,316**	**(736,416)**

The aging analysis of trade and other receivables and allowance for expected credit losses as at 31 December 2019 is presented as follows:

Trade and other receivables	Weighted average level of loss	Gross carrying amount	Lifetime ECL
Not past due	2%	4,261,687	(71,140)
Overdue 1-30 days	3%	793,195	(24,284)
Overdue 31-90 days	5%	320,209	(17,034)
Overdue 91-180 days	24%	61,685	(14,604)
Overdue 181-365 days	76%	286,870	(217,751)
Overdue more than 365 days	100%	321,749	(321,752)
Total	**11%**	**6,045,395**	**(666,565)**

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 2020 were RUB 1,254,891 thousand (31 December 2019: RUB 2,164,003 thousand).

As at 31 December 2020, receivables of RUB 804,569 thousand (31 December 2019: RUB 607,412 thousand) were pledged to secure obligations under loan and overdraft agreements.

16. 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 expected to generate cash flows that are solely payments of principal and interest on the principal amounts outstanding, and (ii) designated at fair value through profit or loss.

	31 December 2020	31 December 2019
Cash on hand	2,210	2,361
Cash in current accounts	3,509,687	2,701,965
Bank deposits with original maturity of less than three months (0.01%- 10%)	158,300	510,083
Total cash and cash equivalents	**3,670,197**	**3,214,409**

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

	In Russian Rubles	
	31 December 2020	31 December 2019
RUB	2,431,359	1,961,431
EUR	562,652	804,217
CNY	340,108	230,052
USD	264,941	85,755
GBP	7,521	99,693
Other cash amounts denominated in other currencies	63,616	33,261
	3,670,197	**3,214,409**

17. TAXES RECEIVABLE

	31 December 2020	31 December 2019
VAT receivable	2,076,655	1,987,758
Income tax receivable	980,614	206,504
Total taxes receivable	**3,057,269**	**2,194,262**

18. ADVANCES AND OTHER CURRENT ASSETS

	31 December 2020	31 December 2019
Advances issued	918,502	751,928
Other current assets	303,775	211,512
Total advances and other current assets	**1,222,277**	**963,440**

19. SHARE CAPITAL AND ADDITIONAL PAID-IN CAPITAL

On 28 December 2020 Group of companies Segezha Limited Liability Company was reorganised into Group of Companies «Segezha» Joint Stock Company.

As at 31 December 2020 Company's authorised and issued share capital amounted to RUB 1,194,000 thousand and consisted of 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.

As at 31 December 2019 the Company was a Limited Liability Company with a charter capital amounting to RUB 12 thousand. Charter capital was fully paid. Each participant in Segezha Group had voting rights based on a share of the charter capital of the Company.

As at 31 December 2020 and 2019, the Company's ownership structure comprised:

	Registered stakes of the shareholders/participants	
	31 December 2020	**31 December 2019**
Sistema Telecom Aktivy, LLC	83.67%	83.67%
Sistema, PJSFC	14.57%	14.57%
Region, JSC	0.08%	0.08%
M.V. Shamolin	1.45%	1.45%
A.M. Uzdenov	0.22%	0.22%
	100%	**100%**

Profit distributable by the Company is defined on the basis of financial statements prepared in accordance with Russian Accounting Standards. As at 31 December 2020, the Company's retained earnings calculated in accordance with RAS were RUB 3,064,225 thousand (31 December 2019: RUB 5,125,678 thousand) (unaudited). The Company's additional paid-in capital as at 31 December 2020 was RUB 6,555,296 thousand (31 December 2019: RUB 7,741,887 thousand) (unaudited).

In 2020, the Company paid dividends totalling RUB 4,500,000 thousand (2019: RUB 3,800,000 thousand).

Distributions to entities under common control

In 2020, the Group made a contribution of RUB 79,599 thousand (2019: RUB 140,487 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.

20. LOANS AND BORROWINGS

All borrowings represent financial instruments initially recorded at fair value, net of direct issue costs. Subsequently, borrowings are stated at amortised cost using the effective interest rate method. The effective interest 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 fees and points paid or received that form an integral part of the effective interest rate, 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 2020 and 2019, loans and borrowings comprised:

		31 December 2020		31 December 2019	
	Currency	**Effective interest rate**	**Carrying amount**	**Effective interest rate**	**Carrying amount**
Short-term loans and borrowings					
Secured loans					
Short-term bank loans	RUB	7.80%	457,599	8.25%	75,833
Short-term bank loans	EUR	3.05%	662,044	2.65%	27,196
Other			83,377		134,540
			1,203,020		**237,569**
Unsecured loans					
Short-term bank loans	RUB	6.88%	603,251	8.86%	11,888,700
Short-term bank loans	EUR	4.10%	687,752	4.13%	445,980
			1,291,003		**12,334,680**
Long-term loans and borrowings					
Secured loans					
Long-term bank loans	EUR	3.05%	26,937,458	3.66%	19,420,146
Long-term bank loans	RUB	8.94%	6,553,659	10.51%	7,011,259
			33,491,117		**26,431,405**
Unsecured loans					
Long-term bank loans	EUR	2.45%	7,183,126	4.13%	3,433,450
Other			106,497		105,090
			7,289,623		**3,538,540**
Long-term corporate bonds	RUB	7.45%	**9,977,274**		-
Total loans and borrowings			**53,252,037**		**42,542,194**

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

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

				Non-cash changes			
	31 December 2018	**Loans and borrowings received**	**Loans and borrowings repaid**	**Fair value adjust-ments**	**Disposal of subsidiary**	**Foreign exchange differences ***	**31 December 2019**
Loans and borrowings	41,531,722	19,982,604	(15,892,885)	80,711	-	(3,159,958)	42,542,194

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

Assets pledged as security

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 2019, the Group pledged the following assets to secure obligations under loan agreements: property, plant and equipment with a carrying amount of RUB 11,561,877 thousand; inventories with a carrying amount of RUB 1,292,609 thousand; receivables of RUB 607,412 thousand; shares/interest in the subsidiary Onega Sawmill.

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, income 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, as well as with requirements for the maintenance of licenses and restrictions on making new borrowings (in excess of the set consolidated net debt to adjusted for IFRS 16 lease expenses EBITDA ratio), providing loans, guarantees, sureties to third parties, disposing of assets (disposing of material assets) and with limits on increasing collateral.

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

As at 31 December 2020 and 31 December 2019, the Group had no breaches of covenants.

21. TRADE AND OTHER PAYABLES

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. Trade payables and accruals are initially recognised at fair value and then carried at amortised cost using the effective interest method.

Below is the analysis of trade and other payables as at 31 December 2020 and 2019:

	31 December 2020	**31 December 2019**
Trade payables	5,312,078	4,462,464
Wages and salaries	1,007,636	803,971
Interest payable	320,429	47,550
Other payables	2,972,550	1,765,401
Total trade and other payables	**9,612,693**	**7,079,386**

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

22. PENSION OBLIGATIONS

The Group sponsors defined benefit plans. Defined benefit plan expenses are measured using the projected unit credit method. Actuarial valuation is performed at the end of each annual reporting period. Revaluation involving changes in actuarial assumptions is recognised immediately in the statement of financial position, with income or expense recognised in other comprehensive income for the reporting period. Past service cost is recognised in profit or loss for the period in which the plan amendment occurs. Net interest is calculated by applying a discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expense or income; and
- remeasurements.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

Retirement benefit plan in Germany

The Group's pension liabilities under the German retirement benefit plan represent a benefit scheme that continued from 1959 until 1979. The German retirement benefit plan is a private pension scheme. Pension obligations are calculated based on the methodology in which rights (obligations) are recognised based on various factors, including years served and average annual wage/salary.

Collective agreements in Russia – Segezha Pulp and Paper Mill

Employee benefit obligations at Segezha Pulp and Paper Mill are determined as required by collective bargaining agreements. These obligations cover both existing and retired employees.

As at 31 December 2020 and 2019, the Group's total employee benefit obligations comprised:

	31 December 2020	31 December 2019
Retirement benefit plan in Germany	732,589	583,075
Collective agreements in Russia – Segezha Pulp and Paper Mill	150,023	141,339
Other retirement plans	34,823	30,173
	917,435	**754,587**

Below are the principal actuarial assumptions:

	Estimated as at:	
	31 December 2020	31 December 2019
Discount rate		
Germany	0.30%	0.75%
Russia	5.90%	6.50%
Expected rate of salary increase		
Germany	1.25%	1.25%
Russia	5.50%	5.60%
Expected growth rate for payments		
Germany	0.50%	0.50%
Russia	4.00%	4.10%

Below is the analysis of costs related to post-employment employee payments and benefits recognised in the statement of profit or loss and other comprehensive income, as well as changes in the present value of retirement benefit plan liabilities and amounts recognised for each retirement benefit plan in the statement of financial position:

	Retirement benefit plan in Germany	**Collective agreements in Russia – Segezha Pulp and Paper Mill**	**Other retirement plans**	**Total**
31 December 2018	**(657,571)**	**(114,961)**	**(34,449)**	**(806,981)**
Contribution for the current year	(576)	(6,100)	(938)	(7,614)
Interest expense	(9,770)	(8,978)	(1,339)	(20,087)
Gain/(loss) on liability revaluation	(53,662)	(29,962)	(1,200)	(84,824)
Cost of past services, including curtailments	-	-	-	-
Plan payments	54,337	18,661	4,873	77,871
Translation to presentation currency	84,168	-	2,880	87,048
31 December 2019	**(583,074)**	**(141,340)**	**(30,173)**	**(754,587)**
Contribution for the current year	(12)	(7,853)	(1,284)	(9,149)
Interest expense	(4,988)	(8,376)	(867)	(14,231)
Gain/(loss) on liability revaluation	(27,459)	(19,711)	(4,614)	(51,784)
Cost of past services, including curtailments	-	-	-	-
Plan payments	59,974	27,257	6,600	93,831
Translation to presentation currency	(177,030)	-	(4,485)	(181,515)
31 December 2020	**(732,589)**	**(150,023)**	**(34,823)**	**(917,435)**

The Group's management has analysed the key exposures inherent in retirement benefit plans and post-employment benefits. Given the characteristics of these plans, management believes that key exposures include:

- Present retirement benefit plan obligations towards participants who have not reached their retirement age are calculated on the basis of their future salaries. An increase in the salaries of participants will lead to an increase in obligations;
- All of the Group's retirement benefit plans provide for lifetime employee benefits. Any increase in life expectancy will result in increased liabilities under a retirement benefit plan.

The current service cost and the net interest expense for the year are included in the employee benefit expense in profit or loss. The effect of net retirement benefit plan liabilities revaluation and the effect of translation to the presentation currency are included in other comprehensive income.

The Group expects the following payments for the year ending 31 December 2021: under the retirement benefit plans in Germany - EUR 708 thousand (RUB 58,374 thousand), under collective agreement in Segezha Pulp and Paper Mill Russia - RUB 27,345 thousand, under other plans - RUB 4,376 thousand.

The Group reviews assumptions on a regular basis. As the sensitivity of assumptions to changes in financial performance is negligibly low, it can only result in some insignificant changes in the consolidated financial statements.

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 2020 and 2019 were RUB 13,448,080 thousand and RUB 11,466,919 thousand respectively.

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

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.

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. The impact of the revision of original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

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 one of the following conditions:

- Payable in three annual tranches, up to 1.67% each: upon the achievement of the Group's key performance indicators (KPIs) for 2018, 2019 and 2020, as set by the Board of Directors for each respective year. Where KPIs are achieved in the reporting year following the year in which KPIs were not achieved, the President is granted shares for both the reporting year and the previous year;
- Payable in the amount of a 5% equity share in the Group: upon 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).

The President LTIP also sets out a mandatory condition requiring that the full amount of the bonus received be transferred within three days to acquire a related equity share in the Company.

The vesting date of the first tranche of compensation was in 2018 when the Board of Directors established KPIs for 2018. This amount was recognised within selling and administrative expenses in the statement of profit or loss for 2018 and recognised in the Group's equity based on the Group's fair value as at the date of the tranche.

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.

The fair value of the remuneration granted was determined based on the fair value of a 100% equity share in the Company in accordance with the remuneration formula envisaged by the President LTIP. The fair value measurement of the Company was performed by a professional appraiser using the income approach based on the following key assumptions:

- Forecast period was set at eight years;
- Discount rate was set at 16.4% as at 30 June 2018
- Long-term growth rate was set at 4.0%;
- EBITDA margin for the last forecasted period was set at 18.4%;
- Capital expenditure in the terminal period was set at 6.3%.

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.

For the purpose of the Management LTIP, the Group has approved a distribution of shares equal to 4.545% of the increase in the Group's value. Depending on a participant's position, the share may vary from 0.275% to 0.63% of the increase in the Group's value.

The payment of compensation under the Management LTIP is subject to the occurrence of a liquidity event, which may also depend on multiple external factors beyond the control of management. Therefore, the Group does not recognise a related provision in the financial statements.

24. PROVISIONS

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

From time to time, the Group companies may become a party to legal proceedings; a provision is made if the probability of a liability arising from a claim (or a potential claim) against the company is high. Among other assumptions, management makes assumptions about the likelihood of an adverse outcome and the possibility for making reliable estimates of related damages or costs.

Unexpected events or changes in assumptions may require the Group increase or decrease the existing allowance or create an allowance for events that have been previously considered to have remote probability.

Provisions for bonuses and other employee compensations that depend on individual performance and financial performance of the Group are also subject to uncertainty.

As at 31 December 2020 and 2019, short-term provisions comprised:

	Reforestation	**Legal claims**	**Employee benefits**	**Other**	**Total**
31 December 2018	**41,966**	**56,674**	**647,154**	**26,503**	**772,297**
Provisions	52,328	9,437	302,923	26,320	391,008
Provisions utilised during the year	(41,966)	(56,674)	(647,153)	(24,901)	(770,694)
31 December 2019	**52,328**	**9,437**	**302,924**	**27,922**	**392,611**
Provisions	85,619	44,984	380,849	14,441	525,893
Additions from business combinations	10,155	23,710	-	-	33,865
Provisions utilised during the year	(52,328)	(9,437)	(302,924)	(27,922)	(392,611)
31 December 2020	**95,774**	**68,694**	**380,849**	**14,441**	**559,758**

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 19.

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.

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:

	2020	**2019**
Total consolidated net debt	49,581,840	39,327,785
OIBDA	17,458,952	14,019,066
Net debt-to-OIBDA ratio	**2.84**	**2.81**
Lease expenses under IFRS 16	(1,444,566)	(1,127,410)
OIBDA adjusted for lease expenses under IFRS 16	16,014,386	12,891,596
Net debt to adjusted OIBDA	**3.10**	**3.05**

Below is the reconciliation of OIBDA and net debt:

	Notes	**2020**	**2019**
Operating profit		11,166,427	7,992,292
Depreciation and amortisation expense	7,8,9	6,272,696	6,001,818
Other		19,829	24,956
OIBDA		**17,458,952**	**14,019,066**
Loans and borrowings	20	53,252,037	42,542,194
Cash	16	(3,670,197)	(3,214,409)
Total consolidated net debt		**49,581,840**	**39,327,785**

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.

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

	EUR	USD	CNY	GBP
31 December 2020				
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)	-	-	-
Net currency position	**(35,248,004)**	**728,562**	**603,555**	**119,859**
31 December 2019				
Trade and other receivables	1,026,373	1,414,563	701,114	91,025
Cash	433,363	85,755	230,052	99,693
Trade and other payables	(1,203,124)	(1,050,789)	(691,077)	(70,705)
Loans and borrowings	(23,384,740)	-	-	-
Net currency position	**(23,128,128)**	**449,529**	**240,089**	**120,013**

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.

The following table details the Group's sensitivity to a 30% decrease (2019: 30%) in the RUB exchange rates against the relevant foreign currencies. A sensitivity rate of 30% (2019: 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.

	2020		**2019**	
	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	+30%	(10,574,401)	+30%	(6,938,439)
USD	+30%	218 569	+30%	134,859
CNY	+30%	181,067	+30%	72,027
GBP	+30%	35,958	+30%	36,004

An increase by 30% (2019: 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.

Interest rate risk – the Group borrows funds at both fixed and floating interest rates. In 2020, the Group borrowed funds at a floating rate. Expenses on borrowings at floating interest rates were RUB 327,308 thousand for the year ended 31 December 2020 (for the year ended 31 December 2019: RUB 427,282 thousand).

Due to the soft monetary policy of the Central Bank of Russia (the "CBR"), gradually lowering the key rate from 6.25% to 4.25% in 2020, the Group's management does not expect a future increase in the interest rate with regards to these borrowings. On 12 February the CBR confirmed the key rate of 4.25% at its board of directors meeting. It has also announced a gradual transition from a stimulating monetary policy to a neutral one.

The interest rate increasing by 1% p.a. will not result in extra material expenses under the existing loans and borrowing liabilities because total borrowings with floating interest rates do not exceed 20% 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.

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 2020 were RUB 1,254,891 thousand (31 December 2019: RUB 2,164,003 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 2020**	**31 December 2019**
Fitch rating	B	2,143,603	2,131,875
Fitch rating	F-2	610,176	151,763
Standard&Poor's	A	274,836	190,143
Standard&Poor's	B	256,334	177,342
Moody's	Not Prime	118,740	257,174
Fitch rating	F-3	811	136,286
Moody's	P-3	66	85
	Other	263,421	167,379
		3,667,987	**3,212,047**

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 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	**61,880,238**	**53,252,037**
Trade and other payables	7,071,879	2,540,615	199	-	**9,612,693**	**9,612,693**
Lease liability	53,624	1,519,382	5,212,294	24,654,701	**31,440,001**	**10,953,936**
Provisions	-	559,758	-	-	**559,758**	**559,758**
	7,631,436	**8,883,013**	**50,191,281**	**36,786,960**	**103,492,690**	**74,378,424**

31 December 2019	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	429,659	14,368,508	22,535,229	13,988,969	**51,322,365**	**42,542,194**
Trade and other payables	5,626,236	1,429,297	23,853	-	**7,079,386**	**7,079,386**
Lease liability	116,061	1,049,765	4,986,782	21,829,571	**27,982,179**	**8,460,730**
Provisions	-	392,611	-	-	**392,611**	**392,611**
	6,171,956	**17,240,181**	**27,545,864**	**35,818,540**	**86,776,541**	**58,474,921**

As at 31 December 2020, unused credit line facilities were RUB 15,502,600 thousand and EUR 84,776 thousand (31 December 2019: RUB 4,211,300 thousand and EUR 146,146 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
31 December 2020		
Long-term loans and borrowings	50 758 014	51 396 869
31 December 2019		
Long-term loans and borrowings	29,969,945	30,745,160

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 10.60% as at 31 December 2019 to 7.22% as at 31 December 2020. As at 31 December 2020, the yield on issued corporate bonds is used.

In March 2020, 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**
31 December 2020			
Transaction date	06.03.2020	06.03.2020	12.03.2020
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
Fair value of liability (RUB thousand)	**(410,819)**	**(451,429)**	**(81,110)**

These cross-currency interest rate swaps are recognized 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.

As at 31 December 2020 an expense of RUB 782,639 thousand relating to the cross-currency interest rate swaps was recognised in *Other finance expenses.*

	2020
Fair value, beginning of the year	-
Income from interest swap transaction	160 719
Income from interest swap transaction received	(160 719)
Fair value revaluation	(943 358)
Fair value, end of the year	**(943 358)**

As at 31 December 2019 the Group had no financial instruments reported at fair value.

27. RELATED PARTY TRANSACTIONS

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.

In 2020 and 2019, 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 2020 and 2019:

		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	2020	-	1,538	-	168
	2019	-	1,818	-	336
Sistema subsidiaries	2020	6,235	2,107,030	37,843	400,094
	2019	196,150	1,956,552	41,152	326,307
Other related parties	2020	32,701	503,631	2,294	57,661
	2019	31,299	57,437	1,091	1,341

Transactions with other related parties mainly consist of transactions with the PAO LHK Karellesprom, an associate of the Group, for purchases of goods and services including purchases of pulpwood and softwood sawlogs. Purchases of goods and services from Sistema subsidiaries mainly include purchases of electric power from MTS Energo, LLC.

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, subsidiary of the Sistema, PJSFC.

		Finance income for the year	**Cash as at 31 December**
Deposits maturing within to 3 months	2020	16,444	135,700
	2019	13,316	165,310
Cash in current accounts	2020	-	554,122
	2019	-	235,307

As at 31 December 2020, the Group had outstanding balances of loans issued to Galich Plywood Mill LLC and GalichLes LLC as a part of joint venture financing. The change in the loans issued for the 12 months ended 31 December 2020 is presented as follows:

	2020
Balance, beginning of the year	-
Reclassified from intercompany loans on deconsolidation of Group companies	1,177,400
Loans issued to joint venture	1,490,010
Repayment of loans issued to joint venture	(1,319,540)
Balance, end of the year	**1,347,870**

For the 12 months ended 31 December 2020 the Group received interest income on these loans in the amount of RUB 72,804 thousand.

In 2020, remuneration to the members of the Board of Directors was RUB 20,527 thousand (2019: RUB 15,500 thousand). In 2020, remuneration to key management was RUB 593,583 thousand (2019: RUB 689,001 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 of the Forest Code of the Russian Federation. The leases specify that the purpose of the leased land is for timber harvesting and restricts the use of the land for any other purpose. As specified in the lease agreements, the Group holds the timber harvesting rights to a defined area 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», given that 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 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.

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

Group entity	**Country**	**2020**	**2019**
Timber harvesting companies and divisions in Russia	Russia	9.18%	11.50%
Arka Merchants Limited	Ireland	5.00%	5.00%
Segezha Packaging GmbH	Germany	8.93%	9.32%
Segezha Packaging A/S	Denmark	2.63%	2.33%
Segezha Packaging S.p.A.	Italy	3.03%	3.03%
Segezha Packaging B.V.	Netherlands	4.44%	4.74%
Segezha Ambalaj Sanayi ve ticaret Anonim Sirketi	Turkey	6.24%	3.65%
Segezha Packaging SRL	Romania	4.61%	4.61%

As at 31 December 2020 and 2019, right-of-use assets comprised:

	Forest plots	Other	Total right-of-use assets
31 December 2018	**10,005,561**	**1,366,784**	**11,372,345**
Acquisition of Group entities (Note 5)	219,400	-	**219,400**
Additions of right-of-use assets for the year	705,340	1,145,016	**1,850,356**
Depreciation of right-of-use assets	(746,218)	(301,467)	**(1,047,685)**
Disposals of right-of-use assets for the year	-	(336,877)	**(336,877)**
Translation to presentation currency	-	(40,153)	**(40,153)**
31 December 2019	**10,184,083**	**1,833,303**	**12,017,386**
Acquisition of Group entities (Note 5)	1,251,713	17,058	**1,268,771**
Additions of right-of-use assets for the year	1,149,045	1,028,414	**2,177,459**
Depreciation of right-of-use assets	(557,143)	(358,416)	**(915,559)**
Disposal of Group entity	-	(1,376)	**(1,376)**
Disposals of right-of-use assets for the year	-	(66,654)	**(66,654)**
Translation to presentation currency	-	169,014	**169,014**
31 December 2020	**12,027,698**	**2,621,343**	**14,649,041**

The table below shows expenses recognised in the statement of profit or loss for 2020 and 2019:

	2020	2019
Depreciation of right-of-use assets	915,559	1,047,685
Short-term lease expenses	61,527	21,541
Interest on lease liabilities	972,393	888,528
	1,949,479	**1,957,754**

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

			Non-cash changes				
	Opening balance	Lease liability payments	Conclusion/ (disposal) and modifi-cation of lease agree-ments	Financial expenses	Acquisition of Group entities	Exchange differences on translation	Closing balance
Lease liability — 2020	8,460,730	(1,462,324)	2,095,243	972,393	518,386	369,508	**10,953,936**
Lease liability — 2019	7,176,603	(1,119,117)	1,445,183	888,528	55,320	14,213	**8,460,730**

As at 31 December 2020 and 2019, lease liabilities comprised:

	31 December 2020	31 December 2019
Minimum lease payments due under lease liabilities were as follows:		
Up to 1 year	1,573,006	1,165,826
From 1 year to 5 years	5,212,294	4,986,782
Over 5 years	24,654,700	21,829,571
Total minimum lease payments	**31,440,000**	**27,982,179**
Less the effect of discounting	(20,486,064)	(19,521,449)
Present value of net minimum lease payments, including:		
Up to 1 year	1,380,598	887,632
From 1 year to 5 years	4,016,796	3,116,309
Over 5 years	5,556,542	4,456,789
Total lease liability as per the Group's statement of financial position	**10,953,936**	**8,460,730**
Long-term liability	9,573,338	7,573,098
Short-term liability	1,380,598	887,632

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 incompliant 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. In March 2020 oil prices dropped for more than 40%, which resulted in immediate weakening of Russian Ruble against major currencies.

The Group’s operations have a focus on exports, with 72% of revenue denominated in foreign currency. Therefore, the weaker Russian Ruble has a positive impact on financial performance of the Group.

The impact of further economic and political developments on future operations and financial position of the Group might be significant.

In early 2020, the world saw an outbreak of a novel coronavirus (COVID-19), and in March 2020, the World Health Organization (WHO) declared it a pandemic. COVID-19 prevention efforts taken by many countries have lead to significant operating restraints for many businesses and have had a significant impact on international financial markets. COVID-19 may continue to significantly affect many businesses operating in various industries, including, but not limited to, disruption of operations due to production interruptions/shutdowns, supply chain disruptions, staff quarantine, lower demand and more difficult access to finance. COVID-19 also affects the global economy and major financial markets.

The Group's management monitors the situation closely. The main priority of the Group remains the safety of its employees, clients and the population in the regions where the Group operates at the same time maintaining a normal level of business activity. 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 government-imposed lockdowns throughout 2020, all production sites of the Group were able to operate as planned with 100% utilization.

The Group has analyzed the economic situation, the demand for the Group's products, supply chain, available bank financing, and the possible impact on its cash flows and liquidity, including compliance with debt covenants. The management also reviewed the key assumptions used in determining the fair value of production assets, including the weighted average cost of capital, prices for finished goods and the RUB/EUR/USD exchange rates, which are the most significant assumptions in the production assets fair value model. Based on the detailed analysis of various scenarios, the Group has concluded that as at 31 December 2020 and the date of signing these consolidated financial statements, there are no indicators of potential impairment of the Group's production assets.

The management has taken into consideration events and conditions that may lead to material uncertainty regarding the Group's ability to continue as a going concern. Based on the analysis performed, the management believes that there are no uncertainties regarding the Group's ability to operate in the foreseeable future.

30. EVENTS AFTER THE REPORTING PERIOD

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 and its main products are: coniferous woods sawn timber, fibreboards, wood pellets and other timber products used for construction of private and industrial structures.

The auctioned lot includes (i) the bank's rights of claim for NLHK loans payable and other payables totaling RUB 11.5 billion denominated in various currencies, (ii) rights to conclude call option for 71% of shares in NLHK. The Group acquired the lot for a cash consideration amounting to RUB 2,305,818 thousands paid in February 2021. This transaction did not result in the Group's acquiring control over NLHK.

Group of Companies Segezha LLC and Subsidiaries

Consolidated Financial Statements and Independent Auditor's Report For the Year Ended 31 December 2019

GROUP OF COMPANIES SEGEZHA LLC AND SUBSIDIARIES

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GROUP OF COMPANIES SEGEZHA LLC AND SUBSIDIARIES

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Group of Companies Segezha LLC and its subsidiaries (the "Group") as at 31 December 2019, and the results of its operations, cash flows and changes in equity for the year then ended in compliance with the 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 IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and 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; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2019 were approved by management on 6 April 2020.

On behalf of the Management

Mikhail Valeryevich Shamolin	**Rovshan Beilyarovich Aliyev**
President	Vice-President for Finance and Investment

6 April 2020

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INDEPENDENT AUDITOR'S REPORT

To the Participants and Board of Directors of Group of Companies Segezha LLC

Opinion

We have audited the accompanying consolidated financial statements of Group of Companies Segezha LLC and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at 31 December 2019 and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year ended, and 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 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). 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 Company in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants* (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Russia, 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, and we do not provide a separate opinion on these matters.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Recoverability of non-current assets On an annual basis the Group's management assesses whether there is any indication that non-current assets or cash generating units (CGU) may be impaired. If impairment indicators are identified, the Group's management compares recoverable amount of non-current assets or cash generating units to their carrying value in order to determine whether it is necessary to recognize any impairment loss. As of 31 December 2019, the Group's management identified CGU impairment indicators in relation to Lesosibirsky LDK No.1 and analyzed its recoverable amount. As a result, no impairment was identified. The recoverable amount was determined as the value in use according to the discounted cash flows model, where such cash flows were based on the management's forward-looking information. We believe that this matter is key to our audit because reviewing for impairment indicators, determining of CGU and assessing of CGU recoverable amount require the management to make judgments and estimates including with regard to key assumptions (such as discount rates and forecast prices for finished goods) taken when assessing the recoverable amount. Non-current assets and relevant impairment tests are disclosed in Note 12.	We obtained an understanding of the Group's procedures and controls related to identification of impairment indicators and calculation of recoverable amount of non-current assets. Our substantive audit procedures included the following: • assessment of asset grouping and CGU carrying value determination performed by the management; • evaluation of completeness for non-current assets and CGU impairment indicators determined by the management; • evaluation of the methodology and models adopted by the management for the determination of CGU recoverable amount; • analysis of the main assumptions used in the models in comparison with published macroeconomic indicators and forecast data; • reconciliation of key inputs and assumptions used in calculations to accounting records, budgets and assumptions, used in preparing forecasts in previous periods and in other valuation models; • assessment of the discount rate applied in the valuation; • testing the mathematical accuracy of the models used for valuation. Our internal valuation specialists assessed the calculations of the non-current asset recoverable amount performed by the Group's management. We also assessed whether the disclosure in the consolidated financial statements is complete and in compliance with IFRS requirements.

Other information

Management is responsible for the other information. The other information comprises the information included in the annual and quarterly reports of the issuer, but does not include the consolidated financial statements and our auditor's report thereon. The annual and quarterly reports are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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 IFRS, 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 ISA 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 ISA, we exercise professional judgement and maintain professional skepticism 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 controls.
- Obtain an understanding of internal control 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 assumption 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 auditors' 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 represent 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 an 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 and communicated with them 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 Igorevich Galeev,
Engagement Partner

6 April 2020

The Entity: Group of Companies Segezha LLC

State Registration Certificate 77 No.016030550 issued by Interdistrict Inspectorate of the Federal Tax Service No.46 for Moscow on 26 December 2013.

Primary State Registration Number: 5137746232839

Certificate of registration in the Unified State Register of Legal Entities: Certificate of registration in the Unified State Register No. 2167747611271, issued by Interdistrict Inspectorate of the Federal Tax Service No. 46 for Moscow on 13 May 2016.

Address:
10 Presnenskaya Naberezhnaya, Moscow

Audit Firm: AO "Deloitte & Touche CIS"

Certificate of State Registration No. 018.482 issued by Moscow Registration Chamber on 30 October 1992.

Primary State Registration Number: 1027700425444

Certificate of registration in the Unified State Register of Legal Entities:
No. 77 004840299 issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation No. 39 on 13 November 2002.

Member of Self-Regulated Organization of Auditors "Sodruzhestvo" (Association), ORNZ 12006020384.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

(in thousands of Russian Rubles)

	Notes	2019	2018
Revenue	4	58 494 635	57 890 264
Cost of sales	7	(39 423 999)	(37 724 350)
Gross profit		**19 070 636**	**20 165 914**
Selling and administrative expenses	8	(12 548 477)	(12 353 411)
Other operating income, net	9	1 470 133	751 044
Operating profit		**7 992 292**	**8 563 547**
Interest income		73 991	70 996
Interest expense		(3 626 961)	(3 627 052)
Foreign exchange difference, net		2 404 415	(4 337 206)
Other expenses	10	(863)	(304 847)
Profit before tax		**6 842 874**	**365 438**
Income tax expense	11	(2 091 912)	(353 229)
Net profit for the reporting period		**4 750 962**	**12 209**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of defined benefit pension obligations	21	(81 769)	7 567
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		(243 574)	644 447
Other comprehensive (loss)/income		**(325 343)**	**652 014**
Total comprehensive income for the reporting period		**4 425 619**	**664 223**
Net profit/(loss) attributable to:			
Participants of Group of Companies Segezha LLC		4 787 419	(20 483)
Non-controlling interest		(36 457)	32 692
		4 750 962	**12 209**
Total comprehensive income/(loss) attributable to:			
Participants of Group of Companies Segezha LLC		4 462 076	631 531
Non-controlling interest		(36 457)	32 692
		4 425 619	**664 223**

Mikhail Valeryevich Shamolin
President

Rovshan Beilyarovich Aliyev
Vice-President for Finance and Investment

6 April 2020

GROUP OF COMPANIES SEGEZHA LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019
(in thousands of Russian Rubles)

	Notes	31 December 2019	31 December 2018*	1 January 2018*
ASSETS				
NON-CURRENT ASSETS:				
Property, plant and equipment	12	38 256 065	37 404 797	35 012 521
Right-of-use assets	27	12 017 386	11 372 345	10 058 645
Goodwill		423 136	423 136	423 136
Investments in associates		199 760	204 643	137 333
Deferred tax assets	11	658 941	542 101	134 539
Prepayments for non-current assets, net	12	1 789 897	750 022	972 964
Other non-current assets	13	812 888	448 756	578 360
Total non-current assets		**54 158 073**	**51 145 800**	**47 317 498**
CURRENT ASSETS:				
Inventories, net	14	10 651 706	10 480 502	8 013 013
Trade and other receivables, net	15	5 378 830	6 401 838	4 549 178
Taxes receivable and other current assets	17	3 157 702	2 824 911	4 057 022
Cash and cash equivalents	16	3 214 409	3 006 868	4 755 636
Total current assets		**22 402 647**	**22 714 119**	**21 374 849**
TOTAL ASSETS		**76 560 720**	**73 859 919**	**68 692 347**
EQUITY AND LIABILITIES				
EQUITY:				
Charter capital	18	12	12	12
Additional paid-in capital	18	7 517 593	7 648 354	7 517 593
Retained earnings		5 581 246	4 734 314	6 479 100
Accumulated other comprehensive income		616 948	942 291	290 277
Equity attributable to participants of the Group		13 715 799	13 324 971	14 286 982
Non-controlling interest		132 709	170 300	(144 522)
Total equity		**13 848 508**	**13 495 271**	**14 142 460**
NON-CURRENT LIABILITIES:				
Loans and borrowings	19	29 969 945	32 708 060	21 078 574
Lease liabilities	27	7 573 098	6 334 982	5 753 987
Pension obligations	21	754 587	806 981	782 567
Deferred tax liabilities	11	2 048 249	1 836 877	1 434 751
Other non-current liabilities		14 342	35 525	63 171
Total non-current liabilities		**40 360 221**	**41 722 425**	**29 113 050**
CURRENT LIABILITIES:				
Loans and borrowings	19	12 572 249	8 823 662	17 086 292
Trade and other payables	20	7 079 386	6 547 012	5 890 644
Lease liabilities	27	887 632	841 620	729 241
Provisions	23	392 611	772 297	328 227
Advances received, other liabilities and taxes payable		1 420 113	1 657 632	1 402 433
Total current liabilities		**22 351 991**	**18 642 223**	**25 436 837**
TOTAL EQUITY AND LIABILITIES		**76 560 720**	**73 859 919**	**68 692 347**

* Restated (Note 6).

Mikhail Valeryevich Shamolin
President

Rovshan Beilyarovich Aliyev
Vice-President for Finance and Investment

6 April 2020

GROUP OF COMPANIES SEGEZHA LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands of Russian Rubles)

					Accumulated other comprehensive income				
	Notes	Charter capital	Additional paid-in capital	Retained earnings	Translation to presentation currency	Other	Equity attributable to participants of Group of Companies Segezha LLC	Non-controlling interest	Total equity
31 December 2017		**12**	**7 517 593**	**6 507 615**	**298 870**	**(8 593)**	**14 315 497**	**(144 522)**	**14 170 975**
Effect of initial application of IFRS 9		-	-	(28 515)	-	-	(28 515)	-	(28 515)
1 January 2018 including effect of IFRS 9		**12**	**7 517 593**	**6 479 100**	**298 870**	**(8 593)**	**14 286 982**	**(144 522)**	**14 142 460**
Net (loss)/profit for the reporting period		-	-	(20 483)	-	-	(20 483)	32 692	12 209
Other comprehensive income for the year, net of income tax		-	-	-	644 447	7 567	652 014	-	652 014
Total comprehensive (loss)/income for the year		-	-	(20 483)	644 447	7 567	631 531	32 692	664 223
Share-based payments	22	-	130 761	-	-	-	130 761	-	130 761
Buy out of the stake of non-controlling shareholders of Onegales PJSC and Onega Sawmills JSC		-	-	(86 442)	-	-	(86 442)	65 937	(20 505)
Deemed dividends	18	-	-	(137 861)	-	-	(137 861)	-	(137 861)
Declared dividends	18	-	-	(1 500 000)	-	-	(1 500 000)	-	(1 500 000)
Purchase of the controlling stake in Voloma-Invest Group of companies	5	-	-	-	-	-	-	216 193	216 193
31 December 2018		**12**	**7 648 354**	**4 734 314**	**943 317**	**(1 026)**	**13 324 971**	**170 300**	**13 495 271**
Net profit/(loss) for the reporting period		-	-	4 787 419	-	-	4 787 419	(36 457)	4 750 962
Other comprehensive loss for the year		-	-	-	(243 574)	(81 769)	(325 343)	-	(325 343)
Total comprehensive income/(loss) for the year		-	-	4 787 419	(243 574)	(81 769)	4 462 076	(36 457)	4 425 619
Share-based payments	22	-	(130 761)	-	-	-	(130 761)	-	(130 761)
Buy out of non-controlling interest		-	-	-	-	-	-	(1 134)	(1 134)
Deemed dividends	18	-	-	(140 487)	-	-	(140 487)	-	(140 487)
Declared dividends	18	-	-	(3 800 000)	-	-	(3 800 000)	-	(3 800 000)
31 December 2019		**12**	**7 517 593**	**5 581 246**	**699 743**	**(82 795)**	**13 715 799**	**132 709**	**13 848 508**

GROUP OF COMPANIES SEGEZHA LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands of Russian Rubles)

	Notes	2019	2018
Cash flows from operating activities:			
Net profit for the reporting period		4 750 962	12 209
Adjustments for:			
Depreciation and amortization of property, plant and equipment and intangible assets		4 954 133	4 203 028
Amortization of right-of-use assets	27	1 047 685	423 058
Interest income recognized in profit or loss		(73 991)	(70 996)
Interest expense recognized in profit or loss		3 626 961	3 627 052
Income tax expense recognized in profit or loss	11	2 091 912	353 229
Allowances for expected credit losses	8	7 408	147 657
Loss on write-off of inventories	9	7 755	161 562
Allowance for inventory impairment		(14 356)	(5 976)
Loss/(gain) on disposal of property, plant and equipment		25 429	(24 181)
Foreign exchange differences		(2 404 415)	4 337 206
Reversal of impairment of property, plant and equipment	9	(478 887)	-
Loss on disposal of a Group company	10	-	248 345
Share in net profit of associates recognized using equity method	9	-	(140 535)
Revaluation of previously held interest in acquiree to fair value	9	-	(306 246)
Other non-monetary operating expenses and other expenses, net		(118 996)	(8 168)
		13 421 600	**12 957 244**
Movements in working capital:			
Increase in trade and other receivables		(236 646)	(1 367 506)
Increase in inventories		(650 668)	(2 850 258)
(Increase)/decrease in other assets		(708 065)	1 124 271
Increase in trade and other payables		596 103	726 392
Decrease/(increase) in other liabilities		(678 318)	847 361
Cash generated from operating activities		**11 744 006**	**11 437 504**
Interest paid		(2 649 048)	(2 420 233)
Income tax paid		(1 680 242)	(519 761)
Net cash from operating activities		**7 414 716**	**8 497 510**

CONSOLIDATES STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)
(in thousands of Russian Rubles)

	Notes	2019	2018
Cash flows from investing activities:			
Payments for property, plant and equipment and intangible assets		(6 226 118)	(6 468 603)
Proceeds from sale of property, plant and equipment		174 112	309 717
Interest received		73 991	70 996
Proceeds from disposal of Karelia DSP JSC		-	8 135
Dividends received		54 036	16 483
Net cash outflow on acquisition of Group companies	5	(139 588)	(544 464)
Deemed dividends paid	18	(138 987)	(169 942)
Buy out of the stake of non-controlling shareholders of Group companies		-	(20 665)
Net cash used in investing activities		**(6 202 554)**	**(6 798 343)**
Cash flows from financing activities:			
Proceeds from loans and borrowings	19	19 982 604	37 291 058
Repayment of principal of loans and borrowings	19	(15 892 885)	(38 630 197)
Proceeds from return of short-term investments		940	254
Dividends paid	18	(3 800 000)	(1 500 000)
Lease liability payments	27	(1 119 117)	(945 760)
Share-based payments	18	(130 761)	-
Net cash used in financing activities		**(959 219)**	**(3 784 645)**
Net increase/(decrease) in cash and cash equivalents		252 943	(2 085 478)
Cash and cash equivalents, beginning of the year	**16**	**3 006 868**	**4 755 636**
Effect of exchange rate changes on cash held in foreign currencies		(45 402)	336 710
Cash and cash equivalents, end of the year	**16**	**3 214 409**	**3 006 868**

Non-monetary transactions on financial and investment activity are disclosed in Notes 12, 19 and 27.

1. GENERAL INFORMATION

Group of Companies Segezha LLC (the "Company" or jointly with its subsidiaries – "Segezha Group" or the "Group") is the timber industry holding with a vertically integrated structure and a full-cycle of harvesting and timber processing. The Group includes both Russian and European timber, woodworking, pulp and paper industry enterprises, as well as paper packaging production enterprises.

Group of Companies Segezha LLC was registered in the Russian Federation ("RF") in 2013. The registered office of the Company is located at 10 Presnenskaya Naberezhnaya, Moscow.

As at 31 December 2019 and 2018 the key participants in the Company are Sistema PJSFC (14.57%) and its subsidiary Sistema Telecom Assets LLC (83.67%). The ultimate controlling shareholder of Sistema PJSFC (the "Parent") is Mr. Vladimir Petrovich Evtushenkov.

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

Significant entities	**Country**	**31 December 2019**	**31 December 2018**
Pulp and paper industry			
Segezha Pulp and Paper Mill JSC	RF	100%	100%
Sokol Pulp and Paper Mill PJSC	RF	92,60%	92,60%
Packaging production			
Segezha Packaging LLC	RF	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	100%	100%
Segezha Packaging s.r.o.	Czech Republic	100%	100%
Segezha Packaging SRL	Romania	100%	100%
Plywood and wood particle board production			
Vyatsky Plywood Mill LLC	RF	100%	100%
Woodworking			
Lesosibirsky LDK No.1 JSC	RF	100%	100%
Segezha Sawmills LLC	RF	100%	100%
Onega Sawmills JSC	RF	100%	100%
Sokol Timber Company JSC	RF	100%	100%
Ksilotek-Siberia LLC	RF	100%	100%
Timber harvesting			
Muezerskiy LPH PJSC	RF	100%	100%
Lenderskiy Lespromhoz PJSC	RF	100%	100%
Medvezhyegorskiy LPH LLC	RF	100%	100%
LPK Kipelovo JSC	RF	100%	100%
PLO Onegales LLC	RF	100%	100%
Onegales PJSC	RF	100%	100%
Techprom LLC	RF	100%	100%
Volomsky KLPH Leskarel OJSC	RF	75,61%	74,99%
Ledmozerskoye LZH OJSC	RF	87,25%	87,25%
Severlesprom LLC	RF	100%	-
Energy			
Vologda Bumazhnaya Manufactura LLC	RF	100%	100%
Onega-Energy JSC	RF	75%	75%
Other			
Management Company Segezha Group LLC	RF	100%	100%
Voloma-Invest LLC	RF	100%	100%

In June 2019, the Company acquired a 100% stake in Severlesprom LLC engaged in timber harvesting on the leased forest areas (Note 5).

As at 31 December 2019, the Group pledged shares/interest in its subsidiary Onega Sawmills JSC (31 December 2018: shares/interest in its subsidiaries Onega Sawmill JSC, Lesosibirsky LDK No.1 OJSC, Ksilotek-Siberia LLC) as collateral to secure performance under loan and overdraft agreements (Note 19).

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") on the historical cost basis except for measurement of property, plant and equipment as at 1 January 2015 (the date of the first adoption of IFRS), which were accounted for at fair value amounts at the date of the first adoption of IFRS, except for the items fully impaired at the same date (Note 12).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 ordinary 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, accounting and 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 individual entities were adjusted to ensure that the consolidated financial statements are presented in accordance with IFRS.

Described below and in the relevant notes is the summary of significant accounting policies applied in the preparation of these consolidated financial statements. These accounting policies have been consistently applied to all years presented in these statements, except when otherwise indicated.

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 functional currency of the Company is the Russian Ruble. The presentation currency of the consolidated financial statements is the Russian Ruble. All values are rounded to the nearest thousand Rubles, except when otherwise indicated.

In preparing the financial statements of each individual Group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that 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 measured at historical cost in a foreign currency are not recalculated.

Exchange differences on monetary items are recognized 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 exchange differences are recognized initially in other comprehensive income and reclassified from equity to profit or loss on repayment 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 the assets and liabilities (both monetary and non-monetary ones) - are translated at the appropriate exchange rates prevailing at the end of the reporting periods;
- All the income and expense items are translated at the average exchange rates for the reporting period;
- Equity components are translated at the historic exchange rates;
- Arising exchange differences are recognized in a separate item *Exchange differences on translating foreign operations* as other comprehensive income; the accumulated effect is recognized in equity (and attributed to non-controlling interest as appropriate);
- Cash flows are translated at the average exchange rates for the reporting period. Arising exchange differences are recognized in 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 these consolidated financial statements:

	31 December 2019	**31 December 2018**
RUB/USD	61,9057	69,4706
RUB/EUR	69,3406	79,4605

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

	2019	**2018**
RUB/USD	64,7362	62,7078
RUB/EUR	72,5021	73,9546

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 the loss of control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interest and is not recognized in profit or loss.

Offsetting financial instruments. Financial assets and liabilities are netted off and the net amount is reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognized amounts, and there is an intention to either settle on a net basis, or to realize the asset and settle the liability simultaneously. Such a right of 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 include 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 to the risks 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 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 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 the other vote holders to determine if it has substantive power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of 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 when control is lost.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless costs cannot be recovered. The Company and all of its subsidiaries use 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 interest. 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 purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity.

Associates. Associates are entities significantly influenced, directly or indirectly, but not controlled by the Group. The voting rights in such entities vary from 20 to 50 percent, as a rule. Investments in associates are accounted for using the equity method and initially recognized at historical cost. The carrying amount of the investments is then increased or decreased based on the investor's interest in the profit or loss of the associate after the acquisition date. Dividends from associates decrease the carrying amount of relevant investments. Other changes in the Group's interest in net assets of the associates arising after the acquisition are recognized as follows:

- The Group's interest in profit or loss of the associates is included in consolidated profit or loss for the year as a share of their financial results;
- The Group's interest in other comprehensive income is stated in a separate line within other comprehensive income;
- All other changes in the Group's interest in the carrying amount of the associates' net assets are included in profit or loss as a share of their financial results.

But, when the Group's interest in the associates' losses equals or exceeds its interest in the associate, including any unsecured accounts receivable, the Group derecognizes further losses, except if the Group undertook obligations or made payments on behalf of that associate.

Unrealized gains on transactions between the Group and its associates are eliminated pro rata to the Group's interest in those associates; unrealized losses are also eliminated unless the transaction provides evidence of a transferred asset impairment.

Disposal of subsidiaries and associates. When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purpose of subsequent accounting for the retained interest in an associate or financial asset. In addition, any amounts previously recognized 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 recognized in other comprehensive income are transferred 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 recognized in other comprehensive income are reclassified to profit or loss where appropriate.

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

The Group's revenue comprises sales of goods (paper and package, sawn timber, plywood, boards and other goods) and provision of services related to delivery of finished goods to customers after the transfer of control over goods. Sales are recognized upon transferring the control over products, 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 when (i) the products have been delivered to a specific location, (iii) control over the products has passed to the customer, (iv) the customer has accepted the products under the contract and (v) 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 recognized upon product delivery because a 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 recognized in the consolidated financial statements and the carrying amounts of assets and liabilities within the next financial year. Accounting estimates and judgements are continually evaluated and are based on the management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving accounting estimates, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognized in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

- Assessment of lease liabilities (Note 27);
- Useful lives of property, plant and equipment (Note 12);
- Tax legislation (Note 28);
- Deferred tax assets recoverability (Note 11);
- Provisions and contingent liabilities (Notes 23 and 28);
- Fair value measurement (Notes 5, 6, 12 and 25);
- Impairment of financial and non-current assets (Note 15).

Going concern assumption

Management prepared these consolidated financial statements on a going concern basis. This judgment has been made by the 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 future operations of the Group.

3. NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Below are the revised standards that have become obligatory for the Group as from 1 January 2019 but have not had significant impact on its operations:

- IFRIC 23 *Uncertainty over Income Tax Treatments* (issued on 7 June 2017, effective for annual periods beginning on or after 1 January 2019).
- Prepayment features with negative compensation — Amendments to IFRS 9 (issued on 12 October 2017, effective for annual periods beginning on or after 1 January 2019).
- Long-term interests in associates and joint ventures — Amendments to IAS 28 (issued on 12 October 2017, effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 Cycle – Amendments to IFRS 3, IFRS 11, IAS 12, and IAS 23 (issued on 12 December 2017, effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement* (issued on 7 February 2018, effective for annual periods beginning on or after 1 January 2019).

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2020, and which the Group has not early adopted. The Group does not expect that these standards will have a material effect on its consolidated financial statements, unless otherwise stated below.

Amendment to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (issued on 11 September 2014, effective for annual periods beginning on or after a date to be determined by the IASB). These amendments eliminate inconsistences between IFRS 10 and IAS 28 with regard to sale or contribution of assets to an associate or a joint venture by an investor. A key implication of applying these amendments is that profit or loss is recognized in full if a transaction impacts the business. If the assets do not constitute the business or even if they are owned by a subsidiary, only a part of profit or loss is recognized.

IFRS 17 Insurance contracts (issued on 18 May 2017 and effective for the annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4 that allowed entities to continue using the existing practices of accounting for insurance contracts, which made it difficult for investors to compare financial results of insurance companies that were similar in other indicators. IFRS 17 is a single principle-based standard for recognition of all types of insurance contracts, including the insurer's reinsurance contracts. According to this standard, groups of insurance contracts must be recognized and measured at (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all available information about the fulfilment cash flows in a way that is consistent with observable market information, to which its is added (if the cost is an obligation) or from which it is deducted (if the cost is an asset), (ii) the amount of retained earnings for the group of contracts (the contractual service margin). Insurers will recognize profit from a group of insurance contracts over the period they provide insurance coverage, and as at release from risk. If a group of contracts is or becomes onerous, an entity recognizes the loss immediately.

Amendments to Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for the annual periods beginning on or after 1 January 2020). The revised Conceptual Framework includes a new chapter on measurement, guidance on reporting financial performance; improved definitions of liabilities, and guidance supporting these definitions, as well as clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Definition of Materiality — Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for the annual periods beginning on or after 1 January 2020). These amendments clarify the definition of 'materiality' and its application by including relevant guidance that was previously incorporated in other IFRS standards. The explanations accompanying this definition were also improved. The amendments also align the definition of 'materiality' used in all the IFRS standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Definition of a Business — Amendments to IFRS 3 (issued on 22 October 2018 and effective for the annual periods beginning on or after 1 January 2020). These amendments introduce changes to definition of a business. A business includes an input and a substantive process that together significantly contribute to the ability to create outputs. The new standard applies a system allowing to determine the presence of an input and a substantive process, including to the companies that are in the initial development phase and have no outputs yet.

If there are no outputs, the presence of an organized workforce is required for an entity to be considered a business. The definitions of outputs are narrowed by focusing on goods and services provided to customers, by making an investment and other income, and by removing the reference to an ability to reduce costs and receive other economic benefits. There is also no need to assess the ability of market participants to substitute missing elements or integrate an acquired set of activities and assets. An entity may apply a concentration test. An acquired set of activities and assets is not a business if substantially all the fair value of the gross assets acquired is concentrated in a single asset or group of similar assets. These amendments will be applicable to business acquisitions as from 1 January 2020. The Group will assess their impact during the preparation of 2020 financial statements.

4. SEGMENT INFORMATION

Operating segments are components engaged in business activities and that are able to generate revenue or that may be related to expenses. Operating results of the segments are regularly analyzed by a chief operating decision maker; discrete financial information is available for operating segments. The Management Board led by the Group's President acts as the chief decision maker.

The Group's segments are strategic business units based on the goods they produce and the services they provide, focusing on distinctive groups of clients. The Group is organized on the basis of three main operating segments:

- ***Paper and packaging*** segment is engaged in the production and sale of sack kraft paper and artificial parchment produced from unbleached craft pulp manufactured from the wood of Northern coniferous species, as well as the entire range of brown sack paper.
- ***Timber resources and woodworking*** segment is engaged in production of high-quality coniferous woods sawn timber and industrial woodchips. 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 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 manufacturing of doors, wall coverings and floorings, moldings and furniture.

No operating segments have been aggregated for the purpose of presentation of the above reporting segments. The *Other* group includes companies that are not operating segments, i.e. the management and holding companies. It also includes the Group's companies engaged in sales of glued timber structures and glued-beam houses which are not material for the Group at the moment and therefore do not comprise a separate reporting segment.

The operating decision makers analyze the IFRS financial information adjusted for the internal reporting requirements. Segment operation results are assessed based on the revenue and OIBDA indicators. The revenue includes revenue from both third parties and between the segments. OIBDA is calculated as operating profit or loss before depreciation. Assets and liabilities broken down by segments are neither analyzed nor submitted to the Group's management on a regular basis.

Transaction prices between the operating segments are set on an arm's length basis (similarly to third party transactions).

The Group's financial transactions (including finance costs, finance income, foreign exchange differences and other expenses) and income taxes are taken into account with regard to the whole Group and are not allocated to the operating segments.

Segment information for the year ended 31 December 2019 comprised the following:

	Paper and packaging	Timber resources and wood working	Plywood and boards	Other	Total segments
Segment revenue analyzed by the management	33 366 684	20 325 835	6 556 574	6 303 000	**66 552 094**
Elimination of intersegment transaction revenue	(7 570)	(5 352 639)	(281)	(2 696 968)	**(8 057 458)**
Total revenue reported in the consolidated statement of profit or loss and other comprehensive income	**33 359 114**	**14 973 196**	**6 556 293**	**3 606 032**	**58 494 635**
OIBDA	**10 604 900**	**2 927 003**	**1 660 163**	**(1 173 000)**	**14 019 066**

Segment information for the year ended 31 December 2018 comprised the following:

	Paper and packaging	Timber resources and wood working	Plywood and boards	Other	Total segments
Segment revenue analyzed by the management	32 785 050	19 972 445	5 634 244	9 459 158	67 850 896
Elimination of intersegment transaction revenue	(335 922)	(4 426 153)	(22 163)	(5 176 393)	(9 960 631)
Total revenue reported in the consolidated statement of profit or loss and other comprehensive income	**32 449 128**	**15 546 292**	**5 612 081**	**4 282 764**	**57 890 264**
OIBDA	**9 440 091**	**3 115 634**	**1 769 364**	**(1 122 886)**	**13 202 203**

Below is the reconciliation of segment OIBDA and consolidated operating profit of the Group:

	For the year ended	
	31 December 2019	31 December 2018
OIBDA	**14 019 066**	**13 202 203**
Depreciation and amortization expense	(6 001 819)	(4 626 086)
Elimination of intersegment transactions	(24 955)	(12 570)
Operating profit	**7 992 292**	**8 563 547**

Despite the fact that the activity of some subsidiaries of the Group and their financial results were historically exposed to certain seasonal trends, different in the first and the second half of the year, the consolidated financial results of the Group historically were not exposed to material seasonal fluctuations.

Geographic information

Revenue broken down by each country is recognized separately (provided it is material) as follows (the analysis is based on the client location):

	For the year ended	
	31 December 2019	**31 December 2018**
Russia	15 762 224	15 817 146
China	7 236 633	5 268 038
Germany	3 811 585	3 295 061
Egypt	2 814 874	4 185 854
Indonesia	1 856 735	1 318 086
Netherlands	1 720 871	2 000 249
Denmark	1 534 771	1 167 317
France	1 496 329	2 226 596
Italy	1 408 245	1 329 485
USA	1 379 233	1 177 551
United Kingdom	1 226 195	1 491 982
Mexico	1 175 302	1 021 641
Kazakhstan	1 010 649	1 037 208
Saudi Arabia	840 972	1 742 358
Turkey	830 644	775 666
Romania	762 368	614 140
Belgium	661 888	776 094
Finland	639 191	619 720
Pakistan	575 767	918 285
Other	11 750 159	11 107 787
Total external revenue	**58 494 635**	**57 890 264**

Non-current assets broken down by each country are recognized separately (provided they are material) as follows (the analysis is based on the asset location):

	For the year ended	
	31 December 2019	**31 December 2018**
Russia	51 516 365	48 232 507
Germany	518 633	563 116
Denmark	412 359	394 557
Netherlands	407 322	518 547
Other	644 453	894 972
Total non-current assets	**53 499 132**	**50 603 699**

5. ACQUISITION OF SUBSIDIARIES

The acquisition method of accounting is used to account for acquisition of subsidiaries. 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 interest that represents present ownership interests and entitles 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 present ownership interests is measured at fair value.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount (“negative goodwill”) is recognized in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

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 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 for issuing equity instruments are deducted from equity; transaction costs incurred for issuing 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 Company 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 recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

Acquisition of Severlesprom LLC

In June 2019, the Group acquired 100% stake in Severlesprom LLC engaged in timber harvesting for RUB 140,000 thousand.

Severlesprom LLC was acquired as part of the program to further expand timber harvesting services of the Group in order to improve efficiency of timber harvesting operations of the Group, self-sufficiency of wood supply of the Group’s current business, reduce average raw material purchase prices for the Group's production assets, increase raw material base to further expand and upgrade the Group’s production assets.

As at the acquisition date, the assets and liabilities of the acquired subsidiary comprised the following:

	Fair value
Assets and liabilities	
Right-of-use assets	219 400
Inventories	12 152
Trade and other receivables	10 343
Cash	412
Trade and other payables	(14 171)
Lease liability	(55 320)
Deferred tax liabilities	(32 816)
Total identifiable net assets	**140 000**
Total acquisition value	**140 000**
Settled in the form of:	
Cash consideration	140 000

In order to determine the fair value of right-of-use assets with respect to forest areas, the acquisition cost was decreased by the net amount of other identifiable assets and liabilities. Thus, the fair value of right-of-use assets with respect to forest areas recognized in the right-of-use assets was assessed based on their acquisition cost.

Relative financial data representing the Group's financial results as if the acquisition took place on 1 January 2019 had not been provided because the impact of this transaction is not material for the consolidated financial results of the Group.

Acquisition of Voloma-Invest group of companies

In June 2018, the Company acquired a 100% stake in Voloma-Invest group of companies (Voloma-Invest LLC and its subsidiaries Volomsky KLPH Leskarel OJSC (74,993%) and Ledmozerskoye LZH OJSC (51%, effective interest held by the Group – 38,25%)) engaged in timber harvesting services. The acquisition of Ledmozerskoe LZH OJSC was conducted as a phased acquisition as at the date of the acquisition of Voloma-Invest LLC the Group was already holding a 49% interest in the company. The effective interest held by the Group in Ledmozerskoe LZH OJSC after the acquisition was 87,25%.

The acquisition of Voloma-Invest group was performed as part of the program to further expand timber harvesting services of the Group in order to improve efficiency of timber harvesting operations for the Group, self-sufficiency of wood supply of the Group's current business, reduce average raw material purchase prices for Segezha Pulp and Paper Mill, increase raw material base to further expand and upgrade the Group's production assets.

During six months ended 30 June 2019 the Group assessed the acquisition cost of Voloma-Invest group of companies and allocated it to the fair value of acquired assets and liabilities.

The preliminary and final estimates of the fair value of acquired assets and assumed liabilities at the acquisition date and the adjustments of the measurement period comprised the following:

	Fair value (preliminary estimate)	**Adjustments**	**Fair value (final estimate)**
Assets and liabilities			
Right-of-use assets	916 568	521 285	1 437 853
Property, plant and equipment	290 265	991	291 256
Cash	104 596	-	104 596
Inventories	78 141	-	78 141
Trade and other receivables	55 372	279	55 651
Other current assets	6 130	8 087	14 217
Lease liability	(344 872)	-	(344 872)
Net deferred tax assets and liabilities	(167 422)	(110 492)	(277 914)
Trade and other payables	(93 633)	-	(93 633)
Total identifiable net assets	**845 145**	**420 150**	**1 265 295**
Goodwill	305 583	(305 583)	-
Non-controlling interest	(174 249)	(41 944)	(216 193)
Total acquisition cost	**976 479**	**72 623**	**1 049 102**
Settled in the form of:			
Cash consideration	646 310	2 909	649 219
Historical cost of previously held interest in acquiree	93 638	-	93 638
Revaluation of previously held interest in acquiree to fair value	236 531	69 714	306 245
	976 479	**72 623**	**1 049 102**

Adjustments of the measurement period with regard to the fair value of assets and liabilities of Voloma-Invest group of companies are related to the reassessment of the market value of the right-of-use assets with respect to forest areas based on the acquisition cost of the Group and the revaluation of the relevant deferred income tax liabilities.

Trade receivables are recognized at fair value of RUB 55,651 thousand and represented the best estimate of contractual cash flows receivable at the acquisition date.

Non-controlling interest representing ownership interest and entitling their holders to a proportionate share of the entity's net assets in the event of liquidation was measured in proportion to the non-controlling interest share in the recognized amounts of the identifiable net assets acquired.

During the period from the acquisition date until 31 December 2018, the Group's revenue and profit before tax included RUB 406 160 thousand and RUB 20 631 thousand, respectively, attributable to the acquirees. Had this business combination been effected at 1 January 2018, the revenue of the Group attributable to the acquirees would have been RUB 852 793 thousand, and the Group's loss before tax attributable to the acquirees would have been RUB 94 334 thousand.

6. RESTATEMENT FOR PRIOR PERIODS

In 2016, the Group acquired 99.97% stake in Lesosibirsky LDK No. 1 group of companies that is a woodworking company with vertically-integrated structure, located in the Krasnoyarsk Region. It is one of the largest Russian producers of sawn timber and it also produces fibreboards, square-sawn timber and wooden furniture.

As at 31 December 2016, the Group completed allocation of the acquisition cost to the fair value of the acquired assets and liabilities of Lesosibirsky LDK No.1 JSC. The allocation was performed based on the fair value of the assets and liabilities identified at the acquisition date defined by the Group's management with the support of independent appraisers. Goodwill of RUB 3 187 824 thousand was recognized.

In 2019, the Group's management analyzed the acquisition cost allocation and concluded that not all of the acquired identifiable assets were identified as at the acquisition date. Thus, as part of the transaction the Group acquired right-of-use assets with respect to leased forest areas for timber harvesting. In accordance with *IFRS 3 Business combinations* intangible assets that arose from contractual or other legal rights and the fair value of which can be determined should be recognized separately from goodwill.

The Group contracted an independent appraiser in order to determine the fair value (as at the acquisition date) of intangible right-of-use assets with respect to the leased forest areas. The fair value was determined based on the anticipated use method, provided that total term of forest area lease agreements comprised 39-48 years and 15.76% discount rate was applied, and it amounted to RUB 3 455 860 thousand.

After the allocated acquisition cost was adjusted the amount of recognized goodwill decreased to RUB 423 136 thousand. This goodwill relates to a group of two CGUs: Timber sawing (sawn timber production facility) and timber harvesting (leased forest areas of acquired companies). Both CGUs are included in the Timber resources and woodworking segment. As at 31 December 2019, the Group performed an impairment test of goodwill related to these CGUs and identified no impairment.

After the allocated acquisition cost was adjusted the Group also restated its financial statements for prior periods as follows:

	1 January 2018			31 December 2018		
	As reported	**Restatement**	**Restated amount**	**As reported**	**Restatement**	**Restated amount**
NON-CURRENT ASSETS:						
Right-of-use assets	6 602 785	3 455 860	10 058 645	7 916 485	3 455 860	11 372 345
Goodwill	3 187 824	(2 764 688)	423 136	3 187 824	(2 764 688)	423 136
NON-CURRENT LIABILITIES:						
Deferred tax liabilities	743 579	691 172	1 434 751	1 145 705	691 172	1 836 877
NET ASSETS	**14 142 460**	**-**	**14 142 460**	**13 495 271**	**-**	**13 495 271**

This restatement did not have any material impact on the consolidated statement of profit or loss. Therefore, no changes were made to that statement.

7. COST OF SALES

Below is the analysis of the cost of sales of products and services for the years ended 31 December 2019 and 2018:

	2019	2018
Raw materials and supplies	18 854 679	19 100 200
Employee benefits	8 087 295	7 483 122
Supplier and contractor services	7 735 117	7 323 272
Depreciation and amortization expense	5 327 478	4 145 070
Other expenses	120 513	240 686
Net change in inventories	(701 082)	(568 000)
	39 423 999	**37 724 350**

8. SELLING AND ADMINISTRATIVE EXPENSES

Below is the analysis of selling and administrative expenses for the years ended 31 December 2019 and 2018:

	2019	2018
Finished goods transportation and other selling expenses	6 783 815	6 199 816
Employee benefits	3 379 624	3 735 244
Supplier and contractor services	897 107	1 082 157
Depreciation and amortization expense	559 183	382 236
Taxes, other than income tax	221 776	278 263
Raw materials and supplies	140 989	126 659
Increase in allowance for expected credit losses, net	7 408	147 657
Other expenses, net	558 575	401 379
	12 548 477	**12 353 411**

9. OTHER OPERATING INCOME

Below is the analysis of other operating income and expenses for the years ended 31 December 2019 and 2018:

	2019	2018
Income from government grants	1 147 346	738 461
Reversal of previously accrued impairment for property, plant and equipment (Note 12)	478 887	-
Revaluation of previously held interest in acquiree to fair value (Note 5)	-	306 245
Share in net profit of associates recognized using equity method	-	140 535
Depreciation and amortization expenses	(115 157)	(98 779)
Loss on write-off of inventories	(4 457)	(161 562)
Other	(36 486)	(173 856)
Other operating income, net	**1 470 133**	**751 044**

Government grants represent government support 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 such types of government support which cannot be reasonably estimated or such transactions with the governments which cannot be distinguished from regular market transactions of the Group.

Government grants are not recognized until there is a reasonable degree of certainty that the Group will comply with the grants' conditions and that the grants will be received.

Government grants that are receivable as reimbursement of the expenses already incurred, particularly transportation costs related to the Group's export sales, are recognized in profit or loss in the period in which there is a reasonable degree of certainty that these grants will be received.

In 2019 and 2018, the Group received grants to reimburse costs attributable to the transportation of finished goods and expenses related to the increase in coal and fuel oil prices in accordance with Resolution of the Russian Government No. 496 *On Provision of Subsidies from the Federal Budget to the Russian Organizations Including Automobile Production, Agricultural Machine-Building, Transport Machine-Building, and Energy-Related Machine-Building Entities to Compensate Part of Costs for the Transportation of Products* dated 26 April 2017 and Resolution of the Government of the Republic of Karelia No. 489-П *On the Approval of the Procedure for Granting Subsidies from the Budget of the Republic of Karelia to Legal entities (other than subsidies to state (municipal) institutions), Individual Entrepreneurs and Individuals – Producers of Goods, Work, Services for the Compensation of Expenses Related to the Increase in Coal and Fuel Oil Prices* dated 24 December 2018.

10. OTHER EXPENSES

Below is the analysis of other expenses for the years ended 31 December 2019 and 2018:

	2019	**2018**
Loss on disposal of Karelia DSP JSC	-	248 345
Other	863	56 502
Other expenses	**863**	**304 847**

11. INCOME TAX

Income taxes are recognized in the consolidated financial statements in accordance with laws enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognized in profit or loss for the year except for the tax recognized in other comprehensive income or directly in equity because it relates to transactions that are recognized, in the same or a different period in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to the tax authorities (or recovered from budget) in respect of taxable profits or losses for the current and prior periods.

Deferred income tax is accrued using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.
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, which is not deductible for tax purposes.

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

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 utilized.

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 tax 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 off only within the individual entities of the Group.

The Group controls reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains at their disposal. The Group does not recognize deferred tax liabilities on such temporary differences except to the extent that Management expects the 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 in the Russian Federation on taxable profits under tax law in this jurisdiction. Taxes for other jurisdictions are calculated using rates prevailing in the respective jurisdictions.

Uncertain tax positions. The Group's uncertain tax positions are reassessed by the management 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 recognized based on management's best estimate of the expenditure required to settle the obligations at the reporting date. Adjustments of uncertain income tax positions, except for fines and penalties, are recognized as income tax expenses. Adjustments of uncertain income tax positions related to fines and penalties are recognized net as finance expenses and other profit / (loss) respectively.

11.1. Income tax recognized in profit or loss

	2019	2018
Current income tax	2 032 875	615 372
Deferred income tax	59 037	(262 143)
Total income tax expense recognized in the current year relating to continuing operations	**2 091 912**	**353 229**

The effective income tax rate reconciliation for 2019 and 2018 is presented as follows:

	2019	2018
Profit before tax from continuing operations	**6 842 874**	**365 438**
Theoretical income tax expense at 20%	1 368 575	73 088
Non-deductible expenses, net	1 372 915	475 435
Reversal of previously unrecognized assets for unutilized tax losses and offsets	(192 158)	(192 038)
Effect of tax rate, different from the rate of 20% (subsidiaries operating in other jurisdictions)	(457 420)	(3 256)
Total income tax expense recognized in the current year relating to continuing operations	**2 091 912**	**353 229**

11.2. Deferred taxes

As at 31 December 2019 and 2018, deferred tax assets and liabilities recognized by the Group in the consolidated statement of financial position comprised the following:

	31 December 2019	31 December 2018
Deferred tax assets	658 941	542 101
Deferred tax liabilities	(2 048 249)	(1 836 877)
	(1 389 308)	**(1 294 776)**

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

Deferred tax (liabilities)/assets, by item:	**31 December 2018**	**Recorded in profit and loss**	**Recorded in other comprehensive income**	**Acquisition / disposal of companies**	**31 December 2019**
PPE and right-of-use assets	(2 171 006)	(213 177)	-	(32 816)	(2 416 999)
Inventories	(150 490)	(46 811)	-	-	(197 301)
Trade and other receivables	220 851	120 934	-	(2 082)	339 703
Trade and other payables	14 400	104 018	-	-	118 418
Provisions	42 149	81 247	-	819	124 215
Tax losses carried forward	733 253	(139 576)	-	(1 416)	592 261
Other	16 067	34 328	-	-	50 395
Deferred tax (liabilities)/assets, net	**(1 294 776)**	**(59 037)**	**-**	**(35 495)**	**(1 389 308)**

Deferred tax (liabilities)/assets, by item:	**31 December 2017**	**Recorded in profit and loss**	**Recorded in other comprehensive income**	**Acquisition / disposal of companies**	**31 December 2018**
PPE and right-of-use assets	(1 650 902)	(250 432)	-	(269 672)	(2 171 006)
Inventories	(211 154)	58 664	-	2 000	(150 490)
Trade and other receivables	215 816	5 035	-		220 851
Trade and other payables	(93 283)	107 683	-	-	14 400
Provisions	34 606	8 566	-	(1 023)	42 149
Tax losses carried forward	339 464	381 801	-	11 988	733 253
Other	65 241	(49 174)	-	-	16 067
Deferred tax (liabilities)/assets, net	**(1 300 212)**	**262 143**	**-**	**(256 707)**	**(1 294 776)**

Given the Group's current structure, tax losses and current tax assets of different companies may not be offset against 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 recognized 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 utilized. Unrecognized deferred tax assets related to tax losses are reviewed at each reporting date.

Federal Law of the Russian Federation No. 401-FZ dated 30 November 2016 provided for a transfer of losses of prior tax periods for an indefinite period; earlier, the period was limited to 10 years. The law also provided that in 2017-2020 the tax base cannot be reduced by the amount of losses of prior tax periods by more than 50%.

The Group does not recognize deferred tax assets related to tax losses of the subsidiaries with losses in prior periods. Such losses may not be offset against taxable income within the Group. If previously unprofitable subsidiaries have been profitable within the last years and previously accumulated tax losses could be recovered in the foreseeable future based on the tax forecasts, the Group reversed such previously unrecognized tax assets.

The movement in unrecognized deferred tax assets comprised the following:

	2019	**2018**
Opening balance	1 496 990	1 689 028
Increase in unrecognized deferred tax assets on unutilized tax loss	205 916	496 126
Recognition of previously unrecognized deferred tax asset on unutilized tax losses	(379 047)	(605 689)
Other	(19 027)	(82 475)
Closing balance	**1 304 832**	**1 496 990**

The Group has not recognized deferred tax liabilities with respect to temporary differences in the amount of RUB 1 123 119 thousand (2018: RUB 620 753 thousand) related to the 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.

12. PROPERTY, PLANT AND EQUIPMENT

Land, buildings and structures, equipment and other property, plant and equipment are recognized at the acquisition cost less accumulated depreciation and impairment losses (freehold land is not depreciated). Construction in progress is carried at cost, less any recognized impairment losses. When completed or ready for intended use, construction in progress is classified to the appropriate category of property, plant and equipment.

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 the 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 structures	20-55 years
Machinery and equipment	5-20 years
Other property, plant and equipment	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 change in market conditions.

An item of property, plant and equipment is derecognized 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, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss. An impairment loss is recognized 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 capitalization. All other borrowing costs are recognized in profit or loss when incurred.

As at 31 December 2019 and 2018, property, plant and equipment comprised the following:

	Land and natural assets	Buildings and construc-tions	Machinery and equipment	Other property, plant and equipment	Construc-tion-in-progress	Total
1 January 2018 (restated)						
Deemed / historical cost	**824 380**	**10 951 799**	**20 823 554**	**2 683 907**	**8 406 727**	**43 690 367**
Acquisitions	-	-	-	-	6 310 929	**6 310 929**
Internal transfers	5	3 081 046	5 428 797	355 466	(8 865 314)	**-**
Reclassification between groups	3 045	8 724	(11 769)	-	-	**-**
Disposals	(17 370)	(53 182)	(99 194)	(76 965)	(32 319)	**(279 030)**
Disposal on sale of the Group’s company	(99 758)	(2 329)	(27 328)	(25 773)	(859)	**(156 047)**
Additions from business combinations (Note 5)	76 279	103 378	72 001	38 607	-	**290 265**
Translation to presentation currency	269	194 784	173 532	763	54 451	**423 799**
31 December 2018 (restated)						
Deemed / historical cost	**786 850**	**14 284 220**	**26 359 593**	**2 976 005**	**5 873 615**	**50 280 283**
Acquisitions	-	-	-	-	5 751 319	**5 751 319**
Internal transfers	20 601	1 926 827	5 745 266	704 461	(8 397 155)	**-**
Disposals	(5 325)	(199 544)	(262 647)	(122 648)	(49 521)	**(639 685)**
Other movements	-	-	7 522	(311)	(527)	**6 684**
Translation to presentation currency	(25 909)	(163 931)	(214 854)	(5 184)	(10 888)	**(420 766)**
31 December 2019						
Deemed / historical cost	**776 217**	**15 847 572**	**31 634 880**	**3 552 323**	**3 166 843**	**54 977 835**

	Land and natural assets	Buildings and facilities	Machinery and equipment	Other property, plant and equipment	Construc-tion-in-progress	Total
Accumulated depreciation and impairment						
1 January 2018 (restated)						
Accumulated depreciation	**-**	**1 809 377**	**5 405 207**	**984 375**	**-**	**8 198 959**
Accumulated impairment	**-**	**-**	**-**	**-**	**478 887**	**478 887**
	-	**1 809 377**	**5 405 207**	**984 375**	**478 887**	**8 677 846**
Depreciation charge	-	1 163 284	2 591 467	415 384	-	**4 170 135**
Disposals	-	(21 330)	(114 924)	(72 115)	-	**(208 369)**
Disposal on sale of the Group's company	-	(265)	(10 325)	(7 673)	-	**(18 263)**
Impairment accrued	-	-	65 000	2 604	2 409	**70 013**
Translation to presentation currency	-	25 218	156 770	2 136	-	**184 124**
31 December 2018 (restated)						
Accumulated depreciation		**2 976 284**	**8 028 195**	**1 322 107**	**-**	**12 326 586**
Accumulated impairment	**-**	**-**	**65 000**	**2 604**	**481 296**	**548 900**
	-	**2 976 284**	**8 093 195**	**1 324 711**	**481 296**	**12 875 486**
Depreciation charge	-	1 266 602	3 130 401	486 157	-	**4 883 160**
Reversal of previously accrued impairment	-	-	-		(478 887)	**(478 887)**
Disposals	-	(105 197)	(174 184)	(102 296)	-	**(381 677)**
Other movements	-	4 996	(10 996)	205	-	**(5 795)**
Translation to presentation currency	-	(33 788)	(134 067)	(2 662)	-	**(170 517)**
31 December 2019						
Accumulated depreciation	**-**	**4 108 897**	**10 839 349**	**1 703 511**	**-**	**16 651 757**
Accumulated impairment	**-**	**-**	**65 000**	**2 604**	**2 409**	**70 013**
	-	**4 108 897**	**10 904 349**	**1 706 115**	**2 409**	**16 721 770**
Net book value as at						
31 December 2018	**786 850**	**11 307 936**	**18 266 398**	**1 651 294**	**5 392 319**	**37 404 797**
31 December 2019	**776 217**	**11 738 675**	**20 730 531**	**1 846 208**	**3 164 434**	**38 256 065**

As at the end of each reporting period, the management assesses whether there are any indicators of possible impairment of property, plant and equipment. Should any such indicators be identified, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs of disposal and its value in use. If the impairment of an asset is identified, the carrying amount is reduced to the recoverable amount and the impairment loss is recognized in profit or loss for the year. Asset impairment loss recognized in prior reporting periods is reversed (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.

As at 1 January 2018, historical cost of construction-in-progress included detailed design documentation and basic engineering results with respect to construction of new production facilities at Segezha Pulp and Paper Mill JSC site in total amount of RUB 478,887 thousand, as well as 100% accumulated impairment related to this documents. Impairment was accrued due to project freezing caused by the lack of financing.

In 2019, the Group decided to proceed with the project and reverse the full amount of previously accrued impairment based on the following:

- Previously developed detailed design documentation is up to date and technologically feasible;
- The Group's management approved the start of the Segezha West project based on this detailed design documentation;
- The Group has access to financial resources sufficient to complete the project as scheduled.

In 2019, the Group identified a number of impairment indicators with regard to timber production facility of Lesosibirsky LDK No.1 JSC. As a result, the Group assessed the recoverable amount of that production facility as a single CGU. The assessment was based on the value in use and the discount rate of 12.6% per annum. No impairment was identified based on the test.

In 2018, the Group identified a number of impairment indicators at Segezha Packaging S.p.A. plant engaged in paper packaging production in Italy. As a result, the Group assessed the recoverable amount of the plant and relevant equipment. An impairment loss of RUB 70 013 thousand was recognized as a result. The impairment was assessed based on the value in use and the discount rate of 9.52% per annum.

As at 31 December 2019, the Group had fully depreciated property, plant and equipment with the total initial cost of RUB 4 783 707 thousand on the balance sheet (31 December 2018: 3 015 729 thousand).

As at 31 December 2019, the Group pledged property, plant and equipment with the carrying value of RUB 11 561 877 thousand (31 December 2018: RUB 5 343 450 thousand) as collateral to secure its obligations under loan and overdraft agreements.

In 2019, the Group capitalized interest expenses of RUB 47 762 thousand (2018: RUB 212 029 thousand).

As at 31 December 2019, advances paid for long-term assets included advances to suppliers as regards the purchase of property, plant and equipment in the amount of RUB 1 789 897 thousand (31 December 2018: RUB 750 022 thousand).

As at 31 December 2019, payables for property, plant and equipment were RUB 1 560 210 thousand (31 December 2018: RUB 1 090 006 thousand).

As at 31 December 2019, the Group had contractual obligations to suppliers of machinery and equipment as regards the purchase of assets in the total amount of RUB 6 788 758 thousand (31 December 2018: RUB 1 831 877 thousand).

13. OTHER NON-CURRENT ASSETS

	31 December 2019	**31 December 2018**
Intangible assets	559 324	185 700
Strategic stock of spare parts for property, plant and equipment	243 710	248 773
Other	9 854	14 283
Total other non-current assets	**812 888**	**448 756**

Intangible assets increased mainly due to software acquisition, including expenses of RUB 259 177 thousand for improvement, implementation and launch of an SAP enterprise management system, including capitalized expenses for the project team. The enterprise management system is expected to be launched into operation on 1 July 2020.

14. INVENTORIES

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

Carrying value of inventories has been decreased by the amount of the allowance for inventory impairment. If inventories are not used, their cost shall be written off from the allowance account. Previously written off amounts are subject to subsequent recovery through the allowance account. Changes in the carrying value of the allowance account are recognized in profit or loss.

Below is the analysis of inventories as at 31 December 2019 and 2018:

	31 December 2019	31 December 2018
Raw materials, supplies and spare parts	6 694 293	6 820 724
Work-in-progress	853 560	1 025 032
Finished goods	3 248 817	2 794 066
Less: allowance for inventory impairment	(144 964)	(159 320)
Total inventories	**10 651 706**	**10 480 502**

The cost of inventories recognized as an expense during the year in respect of continuing operations was RUB 18 995 668 thousand (2018: RUB 19 226 859 thousand).

The cost of inventories recognized as an expense includes RUB 33 866 thousand (2018: RUB 187 360 thousand) in respect of write-downs of inventories to net realizable value and has been reduced by RUB 40 467 thousand (2018: RUB 31 774 thousand) in respect of the reversal of such write-downs. Previous write-downs have been reversed as a result of increased sales prices in certain markets.

As at 31 December 2019, the Group pledged inventories with the carrying amount of RUB 1 292 609 thousand (31 December 2018: RUB 1 346 331 thousand) as collateral to secure loan and overdraft agreements.

15. TRADE AND OTHER RECEIVABLES

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

Below is the analysis of trade and other receivables as at 31 December 2019 and 2018:

	31 December 2019	31 December 2018
Trade and other receivables	6 045 395	7,112,947
Allowance for expected credit losses	(666 565)	(711 109)
Total trade and other receivables, net	**5 378 830**	**6 401 838**

The average credit period on sales of goods is 60 days.

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

Trade receivables were grouped based on similar credit risk characteristics and the past due period in order to measure ECL.

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

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

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

The Group recognized an allowance for losses of 100% against all receivables past due beyond 365 days because historical experience has been that such receivables are not recoverable.

No change in measurement techniques or significant assumptions occurred during the reporting period.

The Group derecognizes trade receivables provided that there is evidence that a borrower experiences considerable financial difficulties and that such trade receivables are unlikely to be collected (for example, if a borrower is in the process of liquidation or bankruptcy, or if trade receivables are older than three years (depending on which event took place earlier). The Group did not apply any enforcement activities to trade accounts receivable written off. The maximum exposure to credit risk as at the reporting date equals to the carrying amount of each class of financial assets detailed in Note 24. The Group has no property pledged to secure a receivable due to it.

The Group did not apply the above general rules as regards to consumer receivables for heat energy generated by the Group's entities and made a separate allowance for such receivables. Considering the collectability statistics of past due receivables for previous years the Group's management assesses expectations of recoverability of past due receivables at the end of each period and calculates the necessary allowance.

Change in the allowance for expected credit losses comprised the following:

	2019	2018
Opening balance	**(711 109)**	**(766 148)**
Allowance accrued	(118 578)	(350 926)
Write-off of uncollectible debts	65 513	261 958
Recovery of credit losses	111 170	187 096
Acquisition of the Group's company	-	(37 112)
Translation to presentation currency	(13 561)	(5 977)
Closing balance	**(666 565)**	**(711 109)**

The analysis of aging of trade and other receivables and allowance for expected credit losses as at 31 December 2019 comprised the following:

Trade and other receivables	Weighted average level of loss	Gross carrying amount	Lifetime ECL
Not past due	2%	4 261 687	(71 140)
Overdue by 1-30 days	3%	793 195	(24 284)
Overdue by 31-90 days	5%	320 209	(17 034)
Overdue by 91-180 days	24%	61 685	(14 604)
Overdue by 181-365 days	76%	286 870	(217 751)
Overdue by more than 365 days	100%	321 749	(321 752)
Total	**11%**	**6 045 395**	**(666 565)**

The analysis of aging of trade and other receivables and allowance for expected credit losses as at 31 December 2018 comprised the following:

Trade and other receivables	Weighted average level of loss	Gross carrying amount	Lifetime ECL
Not past due	2%	4 287 333	(102 684)
Overdue by 1-30 days	3%	913 173	(25 609)
Overdue by 31-90 days	6%	1 107 142	(62 034)
Overdue by 91-180 days	18%	224 408	(39 487)
Overdue by 181-365 days	55%	221 623	(122 027)
Overdue by more than 365 days	100%	359 268	(359 268)
Total	**10%**	**7 112 947**	**(711 109)**

The Group does not have concentration risk because major debtors are changing every year and receivables of 10 major customers as at 31 December 2019 were RUB 2 164 003 thousand (31 December 2018: RUB 2 032 612 thousand).

As at 31 December 2019, the Group pledged receivables in the total amount of RUB 607 412 thousand (31 December 2018: RUB 826 213 thousand) as collateral to secure its obligations under loan and overdraft agreements.

16. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are recognized at amortized cost because (i) they are held to collect contractual cash flows which are expected to generate cash flows that are solely payments of principal and interest on the principal amounts outstanding, and (ii) designated at fair value through profit or loss.

	31 December 2019	31 December 2018
Cash on hand	2 361	2 360
Cash on settlement accounts	2 701 965	2 273 418
Bank deposits with original maturity of less than three months (0.01%-10%)	510 083	731 090
Total cash and cash equivalents	**3 214 409**	**3 006 868**

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

	RUB equivalent	
	31 December 2019	31 December 2018
Russian Ruble (RUB)	1 961 431	1 448 070
Euro (EUR)	804 217	938 270
Chinese yuan (CNY)	230 052	52 174
Pound sterling (GBP)	99 693	134 701
United States dollar (USD)	85 755	398 931
Other cash amounts denominated in other currencies	33 261	34 722
	3 214 409	**3 006 868**

17. TAXES RECEIVABLE AND OTHER CURRENT ASSETS

	31 December 2019	31 December 2018
VAT receivable	1 987 758	1 865 342
Advances paid	963 428	542 924
Income tax receivable	206 504	205 454
Other taxes receivable	-	161 767
Other current assets	12	49 424
Total current taxes receivable and other current assets	**3 157 702**	**2 824 911**

18. CHARTER CAPITAL AND ADDITIONAL PAID-IN CAPITAL

As at 31 December 2019 and 2018, the Company's charter capital amounted to RUB 12 thousand.

As at 31 December 2019 and 2018, the Company’s ownership structure comprised the following:

	Registered stakes of the participants	
	31 December 2019	**31 December 2018**
Sistema Telecom Aktivy LLC	83,67%	83,67%
Sistema PJSFC	14,57%	16,18%
Region JSC	0,08%	0,08%
M.V. Shamolin	1,45%	-
A.M. Uzdenov	0,22%	0,07%
	100%	**100%**

In accordance with the Long-Term Incentive Program for the President of the Group, the President was paid a bonus of RUB 130 761 thousand based on the Group's KPIs for 2018 (Note 22). The above amount was used to acquire 1.45% stake in the Company’s equity.

The Group of companies Segezha is a Russian limited liability company. Each participant in a limited liability company has voting rights that are based on a portion of ownership in the share capital of the Company.

In accordance with the Russian legislation, participants in a limited liability company may at any time require the company to buy back their portion in the share capital, subject to certain rules, by paying a consideration equivalent to the interest attributable to a participant in the company's net assets defined in accordance with the Russian Accounting Standards (RAS).

Profit distributable by the Company is defined based on the RAS financial statements. As at 31 December 2019, the Company’s retained earnings calculated in accordance with RAS were RUB 5 125 678 thousand (31 December 2018: RUB 3 896 308 thousand), the Company's additional paid-in capital was RUB 7 741 887 thousand as at both of the reporting dates (unaudited).

In 2019, the Company paid dividends to its stakeholders totaling RUB 3 800 000 thousand (2018: RUB 1 500 000 thousand).

Deemed dividends

During 2019 the Group made a cash contribution to additional paid-in capital without change in ownership share of the associate under common control with the Group’s stakeholders Okhotoved LLC (the Group holds a 30% ownership) of RUB 39 986 thousand (2018: RUB 39 506 thousand).

During 2019 the Group made a cash contribution to additional paid-in capital without change in ownership share of the associate under common control with the Group’s stakeholders Serebryany Bor LLC (the Group holds a 2,62% ownership) of RUB 100 501 thousand (2018: RUB 130 436 thousand).

The result of both transactions was recognized in equity, as the transactions involved businesses under common control.

19. LOANS AND BORROWINGS

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

As at 31 December 2019 and 2018, loans and borrowings comprised the following:

		31 December 2019		31 December 2018	
	Currency	**Effective interest rate**	**Carrying value**	**Effective interest rate**	**Carrying value**
Short-term loans and borrowings					
Collateralized loans					
Short-term bank loans	RUB	CBR Key rate + 2%	75 833	13%	708 747
Short-term bank loans	USD		-	7%-9%	626 978
Other			161 736		167 766
			237 569		**1 503 491**
Non-collateralized loans					
Short-term bank loans	RUB	CBR Key rate + 1% – 10,25%	11 888 700	9,09%-10,11%	6 820 000
Short-term bank loans	EUR	4,13%	445 980	4,13%	500 171
			12 334 680		**7 320 171**
Non-current loans and borrowings					
Collateralized loans					
Long-term bank loans	EUR	3,00% – 3,92%	19 420 146	3,25% – 3,92%	15 935 049
Long-term bank loans	RUB	CBR Key rate + 2% – 10,92%	7 011 259	CBR Key rate +2%-13%	7 845 189
Long-term bank loans	USD		-	7%-9%	4 481 905
			26 431 405		**28 262 143**
Non-collateralized loans					
Long-term bank loans	EUR	4,13%	3 433 450	4,13%	4 445 613
Other			105 090		304
			3 538 540		**4 445 917**
Total loans and borrowings			**42 542 194**		**41 531 722**

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

				Non-monetary changes			
	31 December 2018	**Loans and borrowings received**	**Loans and borrowings repaid**	**Loss on early repayment**	**Disposal of subsidiary**	**Foreign exchange differences***	**31 December 2019**
Loans and borrowings	41 531 722	19 982 604	(15 892 885)	80 711	-	(3 159 958)	42 542 194

	1 January 2018	Loans and borrowings received	Loans and borrowings repaid	Non-monetary changes Loss on early repayment	Disposal of subsidiary	Foreign exchange differences*	31 December 2018
Loans and borrowings	38 164 866	37 291 058	(38 630 197)	349 088	(18 265)	4 375 172	41 531 722

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

Assets pledged as collateral

As at 31 December 2019, the Group pledged the following as collateral to secure its obligations under loan agreements: property, plant and equipment with a carrying value of RUB 11 561 877 thousand; inventories with a carrying amount of RUB 1 292 609 thousand; receivables of RUB 607 412 thousand; shares/interest in the subsidiary Onega Sawmill JSC.

As at 31 December 2018, the Group pledged the following as collateral to secure its obligations under loan agreements: property, plant and equipment with a carrying value of RUB 5 343 450 thousand; inventories with a carrying amount of RUB 1 346 331 thousand; receivables of RUB 826 213 thousand; lease rights to forest areas of 869 255 ha in the Krasnoyarsk region; shares/interest in the subsidiaries Onega Sawmill JSC, Lesosibirsky LDK No.1 JSC, Ksilotek-Siberia LLC.

Covenants – As part of loan agreements, the Companies of the Group are subject to certain covenants, including debt to EBITDA ratio (profit before interest, tax and depreciation which is equivalent to adjusted OIBDA detailed in Note 24), compliance with the ownership requirements in respect of the Group's ultimate shareholder, with forestry regulations, as well as with requirements for maintenance of licenses and restrictions on new borrowings (in excess of the set debt to EBITDA ratio), providing loans, guarantees, sureties to third parties, disposing of assets (disposing of material assets) and with limits on increasing in collateral.

Should the Companies breach the covenants, the creditors have a right to request immediate repayment of debt. Certain loan agreements have cross default clauses.

As at 31 December 2019 and 31 December 2018, the Group had no breaches of covenants that had not been previously waived by the banks.

20. TRADE AND OTHER PAYABLES

Trade payables are accrued when the counterparty performs its contractual obligations and are initially recognized at fair value and then carried at amortized cost using the effective interest method.

Below is the analysis of trade and other payables as at 31 December 2019 and 2018:

	31 December 2019	31 December 2018
Trade accounts payable	4 462 464	4 065 732
Wages and salaries payable	803 971	883 719
Interest payable	47 550	78 225
Other payables	1 765 401	1 519 336
Total trade and other payables	**7 079 386**	**6 547 012**

The Group has financial risk management policies in place to ensure that all payables are paid within credit terms set forth by counterparties.

In 2019, the court ruling approved amicable agreements between Segezha Pulp and Paper Mill JSC and Magnit LLC on the claims on collecting payables of RUB 962 107 thousand from Segezha Pulp and Paper Mill JSC for the performed scope of contracted work.

Based on the approved amicable agreements RUB 636 359 thousand shall be payable to Magnit LLC. The Group recorded its accounts payable for the disputed scope of work to Magnit LLC of RUB 682 067 thousand in the consolidated financial statements for 2018. As at 31 December 2018, no provisions were recognized by the Group with respect to this claim.

21. PENSION OBLIGATIONS

Some entities in the Group have defined benefits pension plans. Defined benefits pension plans expenses are measured using the projected unit credit method. Actuarial valuation is performed at the end of each annual reporting period. Revaluation involving changes in actuarial assumptions is recognized immediately in the statement of financial position, with income or expense recognized in other comprehensive income for the reporting period. Cost of services rendered during prior periods is recognized in the statement of profit or loss for the period when changes in the pension plan occurred. Net interest income/ (expense) is calculated by applying the discount rate at the beginning of the period to net liability of the pension plan at this date. Expense categories for defined benefit pension plan include the following:

- Service cost (including service cost of the current and prior periods, and also profit or loss arising from curtailment and redemption of pension plans);
- Net interest income/(expense); and
- Remeasurement.

Pension obligations are recognized in the statement of financial position at actual deficiency or surplus of the defined benefit pension plan. The surplus is limited by the present value of economic benefits in the form of the return of funds from the pension plan or deductions from future contributions under the pension plan.

Pension scheme in Germany

Pension liabilities under the German pension scheme of the Group represent a benefit scheme that continued from 1959 until 1979. The German pension scheme is a private pension plan. Pension obligations are calculated based on the methodology in which rights (obligations) are recognized based on various factors, including years of employment and average annual wage and salary.

Pension scheme in Italy

Pension obligations of the Group in Italy are defined in line with the TFR, an Italian pension system established under Act No. 297 of 29 May 1982. This mainly includes amounts payable to the employee as agreed under an employment contract between a private company and an employee. Such amounts are paid to the employee upon employment termination. This is similar to a severance payment or a deferred wage/salary and applies to all private sector employees.

Collective agreements in Russia – Segezha Pulp and Paper Mill JSC and Segezha Packaging LLC

Employee benefit obligations in Segezha Pulp and Paper Mill JSC and Segezha Packaging LLC are determined in accordance with Collective agreements. These obligations cover both the existing and retired employees.

As at 31 December 2019 and 2018 the Group had total employee benefit obligations as follows:

	31 December 2019	**31 December 2018**
Pension scheme in Germany	583 075	657 572
Collective agreements in Russia – Segezha Pulp and Paper Mill JSC	141 339	114 960
Pension scheme in Italy	15 585	21 511
Collective agreements in Russia – Segezha Packaging LLC	14 588	12 938
	754 587	**806 981**

Below are the key actuarial assumptions:

	Estimated as at 31 December 2019	Estimated as at 31 December 2018
Discount rate		
Germany	0,75%	1,70%
Italy	0,17%	1,15%
Russian Federation	6,50%	8,50%
Expected salary growth rate		
Germany	1,25%	1,25%
Italy	1,50%	1,50%
Russian Federation	5,60%	5,60%
Expected payments growth rate		
Germany	0,50%	0,50%
Italy	3,50%	1,50%
Russian Federation	4,10%	4,10%

Below is the analysis of costs related to post-employment employee payments and benefits recognized in the statement of profit or loss and other comprehensive income, as well as changes in the present value of pension scheme liabilities and amounts recognized for each pension scheme in the statement of financial position:

	Pension scheme in Germany	Collective agreements in Russia – Segezha Pulp and Paper Mill JSC	Pension scheme in Italy	Collective agreements in Russia – Segezha Packaging LLC	Total
31 December 2017	**(635 896)**	**(103 008)**	**(20 617)**	**(23 046)**	**(782 567)**
Contributions for the current year	(1 348)	(5 561)	-	(1 066)	(7 975)
Interest expense	(9 832)	(6 973)	(195)	(1 488)	(18 488)
Gain/(loss) on liability revaluation	26 212	(26 217)	(230)	7 802	7 567
Cost of past services, including curtailments	-	6 741	-	2 938	9 679
Scheme payments	55 835	20 057	2 085	1 922	79 899
Translation to presentation currency	(92 542)	-	(2 554)	-	(95 096)
31 December 2018	**(657 571)**	**(114 961)**	**(21 511)**	**(12 938)**	**(806 981)**
Contributions for the current year	(576)	(6 100)	-	(938)	(7 614)
Interest expense	(9 770)	(8 978)	(298)	(1 041)	(20 087)
Gain/(loss) on liability revaluation	(53 662)	(29 962)	(143)	(1 057)	(84 824)
Cost of past services, including curtailments	-	-	-	-	-
Scheme payments	54 337	18 661	3 487	1 386	77 871
Translation to presentation currency	84 168	-	2 880	-	87 048
31 December 2019	**(583 074)**	**(141 340)**	**(15 585)**	**(14 588)**	**(754 587)**

Management of the Group has analyzed key risk exposures inherent in the pension schemes and post-employment benefits. Given the characteristics for these schemes, the management believes that key risk exposures include the following:

- Present pension obligations towards the participants who have not reached their retirement age are calculated on the basis of their future salaries. An increase in the salaries of participants leads to an increase in liabilities.
- All of the pension schemes of the Group provide for lifetime employee benefits. Any increase in life expectancy will result in increased liabilities under pension scheme.

The cost of services for the reporting year and net interest expense for the year are included in payroll and financial expenses, respectively, in profit or loss. Effect of net pension scheme liabilities revaluation and relevant effect of translation to the presentation currency are included in other comprehensive income.

Payments for the year ending 31 December 2020 under the pension schemes in Germany, Italy and Russia are expected to be EUR 747 thousand (RUB 54 159 thousand), EUR 46 thousand (RUB 3 358 thousand) and RUB 31 463 thousand, respectively.

The Group reviews the assumptions on a regular basis. As the sensitivity of the assumptions to changes in financial performance is negligibly low, it can only result in some insignificant changes in the consolidated financial statements.

22. EMPLOYEE BENEFIT EXPENSES

Employee benefit expenses comprise salaries, bonuses, long-term incentive programs and social contributions. Employee benefit expenses included in the cost of sales, selling and administrative expenses for 2019 and 2018 were RUB 11 466 919 thousand and RUB 11 218 366 thousand, respectively.

The Group recognizes its liabilities for employee benefits related to salary, vacation, payment of sick leaves in the period when respective service was rendered, in the amount of benefit which the Group is planning to pay without considering the discount effect.

Long-term incentive programs ("Programs") – in 2018, the Company's Board of Directors established three-year incentive programs for senior management (Long-Term Incentive Program for the President of the Group and Long-Term Incentive Program for the Management). Upon fulfilment of certain performance conditions and subject to continuing employment with the Group, participants of the programs are granted equity share in the Company.

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. The fair value does not include the effect of non-market 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 equity instruments that will eventually vest. At each reporting date, the Group revises its estimate of the number of equity instruments expected to vest to include the effect of non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

Long-Term Incentive Program for the President of the Group

In accordance with the Long-Term Incentive Program for the President of the Group ("President Program"), the President of the Group is granted the share-based compensation of a 5% equity share in the Group, subject to the fulfillment of one of the following conditions:

- Payable in three annual tranches, 1,67% equity share each: upon the achievement of the Group's key performance indicators (KPIs) for 2018, 2019 and 2020, as set by the Board of Directors for each respective year. If KPIs for the reporting year are not achieved, while the following year's KPIs are achieved, the President is granted shares for the reporting year and the previous one;
- Payable in the amount of a 5% equity share in the Group: upon the occurrence of a liquidity event stipulated by the Program (i.e. IPO of ordinary shares or depositary receipts; cash sale of an interest in the Company's equity under certain conditions; receipt of a legally binding offer from the buyer to purchase a share in the Company's equity on acceptable business terms and at a certain price).

A mandatory condition of the President Program is the transfer of the entire amount of bonus granted for the acquisition of the equity share in Company within three days.

The vesting date of the first tranche was in 2018 when the Board of Directors established KPIs for 2018. The compensation was recognized within selling and administrative expenses in the statement of profit or loss for 2018 and recognized in the Group's equity based on the Group's fair value as at the date of the tranche. As in 2018 the Group achieved the KPIs established by the Board of Directors, the President was granted a compensation of RUB 130 761 thousand. In May 2019, the President spent the compensation to acquire 1.45% share in the Company's equity.

Since the Group had not met 2019 KPIs and the Board of Directors had not established the KPIs for 2020, the vesting conditions for second and third tranches did not occur as at 31 December 2019.

The fair value of the compensation was determined based on the fair value of a 100% equity share in the Company in accordance with the compensation formula stipulated by the Program. The fair value measurement of the Company was performed by a professional appraiser using the income approach and the following key assumptions:

- Forecast period was set at 8 years;
- Discount rate was set at 16,4% as at 30 June 2018;
- Long-term growth rate was set at 4,0%;
- EBITDA margin for the last forecast period was set at 18,4%;
- Capital expenditure in the terminal period was set at 6,3%.

Long-Term Incentive Program for the Management

In accordance with the Long-Term Incentive Program for the Management (the "Management Program"), employees included in the approved list of Management Program participants are granted the right to a compensation in the event of one of the liquidity events, namely, IPO of ordinary shares or depositary receipts; cash sale of an equity share in the company under certain conditions. The amount of compensation payable to each of the participants is calculated upon a liquidity event based on the time worked by the employee during the Management Program period and the increase in the Group's value over the period of the Management Program.

For the implementation of the Management Program, the Group approved a distribution of shares equal to 4.545% of the increase in the Group's value. The share of a participant ranges from 0,275% to 0,63% of the increase in the Group's value depending on the position of the participant.

Since the Management Program provides for the payment of compensation only upon the occurrence of a liquidity event, with such events depending, among other things, on a range of external factors, the Group does not recognize the respective provision in the financial statements.

23. PROVISIONS

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event where it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

From time to time, the Group companies may become a party to legal proceedings; a provision is made if the probability of settling a liability arising from a claim (or a potential claim) against the company is high. Among other assumptions, management makes assumptions about the likelihood of adverse outcome and the possibility for making reliable estimates of related damages or costs.

Unexpected events or changes in assumptions may require the Group to increase or decrease the existing allowance or create an allowance for events that have been previously considered to have remote probability.

Provisions for bonuses and other employee compensations that depend on individual performance and financial performance of the Group are also subject to uncertainty.

As at 31 December 2019 and 2018, short-term provisions comprised the following:

	Reforestation	Legal claims	Remuneration	Other	Total
Balance at 31 December 2017	**56 076**	**38 181**	**224 298**	**9 672**	**328 227**
Provisions	42 770	53 970	647 154	25 088	768 982
Use of provisions during the year	(56 880)	(35 477)	(224 298)	(8 257)	(324 912)
Balance at 31 December 2018	**41 966**	**56 674**	**647 154**	**26 503**	**772 297**
Provision	52 328	9 437	302 923	26 320	391 008
Use of provisions during the year	(41 966)	(56 674)	(647 153)	(24 901)	(770 694)
Balance at 31 December 2019	**52 328**	**9 437**	**302 924**	**27 992**	**392 611**

24. 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 maximizing the return to stakeholders through optimizing the debt to equity ratio. The capital structure of the Group consists of net debt (borrowings as detailed in Note 19, less cash and cash equivalents) and equity comprising issued capital, additional paid-in capital, reserves, retained earnings and non-controlling interest 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 manages its capital structure and adjusts its accounting policies in accordance with economic conditions. The Group may sell assets to reduce its loans and borrowings payable, maintain or adjust the capital structure.

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

	2019	2018
Total net debt	39 327 785	38 524 854
OIBDA	14 019 066	13 202 203
Net debt to OIBDA ratio	**2.81**	**2.92**
Lease expenses under IFRS 16	(1 127 410)	(866 471)
OIBDA adjusted for lease expenses under IFRS 16	12 891 596	12 335 732
Net debt to adjusted OIBDA	**3.05**	**3.12**

Below is the reconciliation of OIBDA and net debt:

	Notes	2019	2018
Operating profit		7 992 292	8 563 547
Depreciation and amortization expense	7,8,9	6 001 818	4 626 086
Allowance for investment impairment		24 956	12 570
OIBDA		**14 019 066**	**13 202 203**
Loans and borrowings	19	42 542 194	41 531 722
Cash	16	(3 214 409)	(3 006 868)
Total net debt		**39 327 785**	**38 524 854**

The Group is subject to certain external regulations and capital restrictions that are taken into account when managing the Group's capital.
There are no mandatory minimum capital requirements for the Group.

Financial risk management

The Group's Corporate Treasury function co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze 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, competitiveness and flexibility of the Group.

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. 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.

The carrying amounts of the Group's financial instruments denominated in foreign currencies are presented in the table below:

	EUR	USD	CNY	GBP
31 December 2019				
Trade and other receivables	1 026 373	1 414 563	701 114	91 025
Cash	433 363	85 755	230 052	99 693
Trade and other payables	(1 203 124)	(1 050 789)	(691 077)	(70 705)
Loans and borrowings	(23 384 740)	-	-	-
Net currency position	**(23 128 128)**	**449 529**	**240 089**	**120 013**
31 December 2018				
Trade and other receivables	848 779	1 695 310	576 045	181 771
Cash	596 797	398 931	52 174	134 701
Trade and other payables	(673 159)	(73 983)	-	-
Loans and borrowings	(20 852 410)	(5 108 883)	-	-
Net currency position	**(20 079 993)**	**(3 088 625)**	**628 219**	**316 472**

The Group has a significant amount of export revenue denominated in USD and EUR. This enables the Group to reduce the risk related to open currency position.

The following table details the Group's sensitivity to a 30% decrease (2018: 15%) in the RUB exchange rates against the relevant foreign currencies. A 30% (2018: 15%) sensitivity rate is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis addresses only balances related to monetary items denominated in foreign currency and adjusts their translation at the period end for a relevant change in foreign currency rates.

	2019		2018	
	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	+30%	(6 938 439)	+15%	(3 012 881)
USD	+30%	134 859	+15%	(476 592)
GBP	+30%	36 004	+15%	47 471
CNY	+30%	72 027	+15%	94 233

A 30% (2018: 15%) increase in RUB exchange rate against the above currencies will result in the opposite effect on profit or loss before tax as the one specified in the table above.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk because the year end exposure does not reflect the exposure during the year.

Interest rate risk – the Group borrows funds at both fixed and floating interest rates. In 2019, the Group borrowed funds at a floating rate. Expenses on borrowings made at floating interest rates were RUB 427 282 thousand for the year ended 31 December 2019 (for the year ended 31 December 2018: RUB 1 728 868 thousand).

The Group's management does not expect future increase in the interest rate with regard to these borrowings, as the Central Bank of Russia (the "CBR") was gradually lowering the key rate from 7.75% down to 6.25% in 2019. In February 2020, the key rate was lowered one more time down to 6.00%. As at the date of signing these financial statements, the CBR did not announce any changes to its credit policy. The risk of increasing the interest rate by 1% p.a. will not result in additional material expenses on the existing loans and borrowing balances, as the total amount of borrowings with floating interest rates does not exceed 20% of total loan portfolio of the Group. For floating rate loans and borrowings, the analysis is prepared assuming the amount of the payables outstanding during the reporting period did not change and equaled to the amount outstanding as at the reporting date.

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

Trade receivables are represented by amounts due from a large number of customers across various geographical areas. The Group has in place regular monitoring of the financial position of debtors and the timeliness of debt repayment. The Group does not hold any collateral or other pledges to mitigate its credit risks associated with its financial assets.

The Group is not exposed to concentration risk because major debtors are changing every year and receivables of 10 major customers as at 31 December 2019 were RUB 2 164 003 thousand (31 December 2018: RUB 2 032 612 thousand).

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

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

Rating agency	International rating assigned	31 December 2019	31 December 2018
Fitch rating	B	2 131 875	970 233
Moody's	Not Prime	257 174	684 237
Standard&Poor's	A	190 143	-
Standard&Poor's	B	177 342	-
Fitch rating	F-2	151 763	-
Fitch rating	F-3	136 286	1 211 438
Moody's	P-3	85	61 862
	Other	167 379	76 738
		3 212 047	**3 004 508**

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 is the risk of the Group facing difficulties to settle its financial liabilities as they fall due.

The Group manages liquidity risk by maintaining adequate reserves, available loans and borrowings facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. The Group also concentrates on balancing its short-term, middle-term and long-term borrowings with a target of short-term borrowings not exceeding 15% of the Group's credit portfolio.

Represented below is the maturity analysis of the Group's financial liabilities:

31 December 2019	0 - 30 days	31 - 365 days	1 – 5 years	More than 5 years	Total amount including financial expenses	Carrying value
Loans and borrowings	429 659	14 368 508	22 535 229	13 988 969	**51 322 365**	**42 542 194**
Trade and other payables	5 626 236	1 429 297	23 853	-	**7 079 386**	**7 079 386**
Lease liability	116 061	1 049 765	4 986 782	21 829 571	**27 982 179**	**8 460 730**
Provisions	-	392 611	-	-	**392 611**	**392 611**
	6 171 956	**17 240 181**	**27 545 864**	**35 818 540**	**86 776 541**	**58 474 921**

31 December 2018	0 – 30 days	31 - 365 days	1 – 5 years	More than 5 years	Total amount including financial expenses	Carrying value
Loans and borrowings	775 230	10 466 012	21 559 947	20 034 963	**52 836 152**	**41 531 722**
Trade and other payables	5 231 098	1 294 556	21 358	-	**6 547 012**	**6 547 012**
Lease liability	70 887	942 673	3 948 588	20 528 041	**25 490 189**	**7 176 602**
Provisions	-	714 208	-	-	**714 208**	**714 208**
	6 077 215	**13 417 449**	**25 529 893**	**40 563 004**	**85 587 561**	**55 969 544**

As at 31 December 2019, unused credit line facilities were RUB 4 211 300 thousand and EUR 146 146 thousand (31 December 2018: RUB 2 742 000 thousand). In the future, the Group expects to use operating cash flows and obtain long-term financing, including by placing commercial bonds, for settling its liabilities (Note 29).

25. FAIR VALUE

Fair value measurements are analyzed by level in the fair value hierarchy as follows:

- ***Level 1*** includes estimates on quoted market prices (unadjusted) in active markets for similar assets or liabilities,
- ***Level 2*** includes estimates obtained using valuation techniques in which all significant inputs used are observable for the asset or liability directly (i.e., for example, prices) or indirectly (i.e., for example, derivatives from prices),
- ***Level 3*** includes estimates, which are not based on observable market data (i.e., based on non-observable inputs).

The management applies judgements in categorizing financial instruments using the fair value hierarchy. If a fair value measurement uses observable data that require significant adjustment, that is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

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

As at 31 December 2019 and 2018, the Group had no financial instruments reported at fair value.

Below is the reconciliation between fair and carrying values of material financial assets and liabilities:

	Carrying value	Fair value
Balance at 31 December 2019		
Financial assets		
Trade and other receivables	5 378 830	5 378 830
Cash	3 214 409	3 214 409
Financial liabilities		
Long-term loans and borrowings	29 969 945	30 745 160
Short-term loans and borrowings, including interest	12 619 799	12 619 799
Trade and other payables	7 031 836	7 031 836
Other liabilities	392 611	392 611
Balance at 31 December 2018		
Financial assets		
Trade and other receivables	6 401 838	6 401 838
Cash	3 006 868	3 006 868
Financial liabilities		
Long-term loans and borrowings	32 708 060	32 834 347
Short-term loans and borrowings, including interest	8 901 887	8 901 887
Trade and other payables	6 468 787	6 468 787
Other liabilities	714 208	714 208

26. RELATED PARTY TRANSACTIONS

Balances and transactions between the Company and its subsidiaries have been eliminated upon consolidation and are not disclosed in this Note. Information on transactions between the Group and its related parties, which also includes the shareholders of the Group, the parties related to the shareholders of the Group, as well as the members of the board of directors and key management personnel is given below.

In 2019 and 2018, the companies of the Group made the following transactions related to principal activity with the related parties. As at 31 December 2019 and 2018, the companies of the Group have the following balances with the related parties recognized in the consolidated statement of financial position:

		For the year		As at the date	
		Sale of goods, services	**Purchase of goods, services**	**Accounts receivable from related parties**	**Accounts payable to related parties**
Sistema PJSFC	2019	-	1 818	-	336
	2018	121	1 259	-	165
Sistema PJSFC subsidiaries	2019	196 150	1 956 552	41 152	326 307
	2018	58 028	411 483	131 019	43 553
Other related parties	2019	31 299	57 437	1 091	1 341
	2018	251 885	420 856	48 862	41 274

Transactions with other related parties mainly comprise transactions with the Group's associates. Purchases of goods and services from Sistema PJSFC subsidiaries mainly include purchases of electric power from MTS Energo LLC.

The Group places cash in settlement accounts and as deposits for the period up to 3 months with MTS Bank PJSC.

		Finance income for the year	**Cash as at 31 December**
Deposits (up to 3 months)	2019	13 316	165 310
	2018	13 861	172 190
Cash on current accounts	2019	-	235 307
	2018	-	119 601

Remuneration paid to members of the Board of Directors in 2019 was RUB 15 500 thousand (2018: RUB 17 100 thousand). Remuneration paid to key management in 2019 was RUB 689 001 thousand (2018: RUB 293 939 thousand). Following the application of a three-year incentive program for senior management in 2018, the Group recognized the respective expenses of RUB 130 761 thousand (Note 22).

27. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Group as a lessee

The Group rents forest plots owned by the Russian Federation under operational lease agreements for the period of 49 years without the right of purchase after expiration of the lease term. All agreements contain provisions for the rights and obligations of the lessee and lessor, for the revision of the rent payments and responsibilities in accordance with the Forest Code of the Russian Federation. The Group is responsible for reforestation of the felled plots.

The Group has also entered into operating lease agreements for rent of offices, automobiles, machines and equipment with the average lease terms from 2 to 5 years without extension. There are no limits for the Group to enter into such lease agreements.

In accordance with IFRS 16 the Group recognizes 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 recognized at cost less accumulated depreciation and impairment losses, if any, and adjusted for any remeasurement of the lease liability. The cost of a right-of-use asset includes the amount of initial measurement of the lease liability, initial direct costs incurred by the lessee and lease payments at inception date or prior to such 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 recognizes 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 terminal 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's exercising an option to terminate the lease.

In measuring the lease term and discounting rate, the Group uses the assumption 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 that options, and the early termination options that the Group reasonably certain to not exercise. In considering such options, the Group takes into account the residual useful lives of leasehold improvements, the Group's investment strategy and the length of time until the respective 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 increased by the interest increment amount and decreased by the lease payment amount. 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.

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

Group entity	**Country**	**2019**	**2018**
Timber harvesting companies and divisions in the RF	RF	11,50%	11,50%
Arka Merchants Limited	Ireland	5,00%	5,00%
Segezha Packaging GmbH	Germany	9,32%	9,32%
Segezha Packaging A/S	Denmark	2,33%	2,33%
Segezha Packaging S.p.A.	Italy	3,03%	3,03%
Segezha Packaging B.V.	Netherlands	4,74%	4,74%
Segezha Ambalaj Sanayi ve ticaret Anonim Sirketi	Turkey	3,65%	3,65%
Segezha Packaging SRL	Romania	4,61%	4,61%

As at 31 December 2019 and 2018, right-of-use assets comprised the following:

	Forest plots	Other	Total right-of-use assets
1 January 2018 (restated)	**8 604 969**	**1 453 676**	**10 058 645**
Acquisition of Group entities (Note 5)	1 442 217	1 105	**1 443 322**
Additions of right-of-use assets for the year	166 105	211 050	**377 155**
Depreciation of right-of-use assets	(207 730)	(215 328)	**(423 058)**
Disposals of Group entities	-	(5 385)	**(5 385)**
Disposals of right-of-use assets for the year	-	(124 254)	**(124 254)**
Translation to presentation currency	-	45 920	**45 920**
31 December 2018 (restated)	**10 005 561**	**1 366 784**	**11 372 345**
Acquisition of Group entities (Note 5)	219 400	-	**219 400**
Additions of right-of-use assets for the year	705 340	1 145 016	**1 850 356**
Depreciation of right-of-use assets	(746 218)	(301 467)	**(1 047 685)**
Disposals of right-of-use assets for the year	-	(336 877)	**(336 877)**
Translation to presentation currency	-	(40 153)	**(40 153)**
31 December 2019	**10 184 083**	**1 833 303**	**12 017 386**

The table below shows expenses recognized in the statement of profit or loss for 2019 and 2018:

	2019	2018
Amortization of right-of-use assets	1 047 685	423 058
Short-term lease expenses	21 541	25 933
Interest on lease liabilities	888 528	774 118
	1 957 754	**1 223 109**

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

			Non-monetary changes				
	Opening balance	Lease liability payments	Conclusion/ (disposal) and modify-cation of lease agree-ments	Financial expenses	Acquisition of Group entities	Exchange differences on translation	Closing balance
Lease liability — 2019	7 176 603	(1 119 117)	1 445 183	888 528	55 320	14 213	**8 460 730**
Lease liability — 2018	6 656 020	(945 760)	293 166	774 118	344 872	54 186	**7 176 602**

As at 31 December 2019 and 2018, lease liabilities comprised the following:

	31 December 2019	31 December 2018
Minimum lease payments due under lease liabilities were as follows:		
Up to 1 year	1 165 826	1 013 560
From 1 year to 5 years	4 986 782	3 948 588
Over 5 years	21 829 571	20 528 042
Total minimum lease payments	**27 982 179**	**25 490 190**
Less the effect of discounting	(19 521 449)	(18 313 587)
Present value of net minimum lease payments, including:		
Up to 1 year	887 632	841 620
From 1 year to 5 years	3 116 309	2 492 119
Over 5 years	4 456 789	3 842 864
Total lease liability as per the Group statement of financial position	**8 460 730**	**7 176 603**
Long-term	7 573 098	6 334 983
Short-term	887 632	841 620

28. COMMITMENTS AND CONTINGENCIES

Taxation

Russian tax and customs legislation which 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 incompliant counterparties. Tax audit may cover three calendar years preceding the year in which the decisions to conduct tax audits are taken. Under certain circumstances longer periods may be also reviewed.

Russian transfer pricing rules are generally consistent with international transfer pricing principles developed by the OECD with certain distinctions. According to transfer pricing rules, additional tax charges may be imposed with respect to controlled transactions (related party transactions and some types of unrelated party transactions) if the transaction price is not arm's length. The Company's management has implemented the internal control system in order to comply with the requirements of the current transfer pricing legislation.

Tax liabilities arising from controlled transactions are determined using actual transaction prices. As the practices in the use of transfer pricing rules continue to evolve such transfer prices may be challenged. While the impact of any such challenge cannot be estimated reliably enough, it may be significant as regards the financial position and/or the overall operations.

The Group includes entities incorporated outside of the Russian Federation. The tax liabilities of the Group are determined on the assumption that in accordance with the Russian legislation these entities are not subject to profit tax because they do not have a permanent establishment in Russia. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently. However, it may be significant to the financial position and/or the overall operations of the Group. According to the 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. CFC profit tax rate is 20%. Therefore, the Group's management assessed the tax risks and concluded that no additional current or deferred tax should be accrued in the consolidated financial statements.

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such legislation that affect the overall taxes of the Group. While management currently believes that its tax positions and interpretations are reliably sustainable, there is a risk that the Group may incur additional expenses should its tax positions and interpretations be challenged by the tax authorities. While the impact of any such challenge cannot be estimated reliably enough, it may be significant as regards the financial position and/or the overall operations of the Group. The management of the Group believes that, based on its understanding of the tax legislation, possible tax liabilities should not exceed 0,6% of the Group's revenue for 2019.

Operating environment

The economy of the Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. In March 2020, oil prices dropped by more than 40%, which immediately resulted in depreciation of the Russian Ruble against major foreign currencies.
As long as the Group's operations are mainly focused on exports (73% of the Group’s revenue is denominated in foreign currency) the Group expects that the weaker Russian Ruble could have a positive impact on its financial performance. As at the signing date of these financial statements the CBR rates were as follows: USD 1 = RUB 77.7325 and EUR 1 = RUB 85.7389.

Russian legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. Persistent political instability across the region as well as international sanctions imposed on certain Russian companies and citizens still have a negative effect on the Russian economy. Oil price stability, low unemployment and salary growth contributed to moderate economic growth in 2019. This business environment has a significant effect on the Group’s operations and financial position. Management is taking necessary measures to ensure sustainability of the Group’s operations. However, the future effects of the current economic situation are difficult to predict and management’s current expectations and estimates could differ from actual results.

Starting from 2014, the USA and the EU imposed sanctions on a number of Russian officials, businessmen, and organizations. The above-mentioned event impeded access of Russian businesses to the international capital markets, led to the growth of inflation, economic slowdown and other negative economic consequences. The impact of further economic developments on the Group’s future operations and financial position is difficult to determine at this stage.

In addition, at the beginning of 2020 the world saw an outbreak of COVID-19, which resulted in the World Health Organization (WHO) announcing a pandemic in March 2020. COVID-19 prevention efforts taken by many countries lead to significant operating constrains for many businesses and have a significant impact on international financial markets. The rapid spread of COVID-19 can significantly affect many businesses operating in various industries, including, but not limited to, disruption of operations due to production interruptions/shutdowns, supply chain disruptions, staff quarantine, decrease in demand and funding issues. COVID-19 may also affect the Group more seriously due to its negative impact on the global economy and major financial markets. The effect of COVID-19 on the Group’s operations is largely dependent on the duration of the pandemic and its impact on the global and Russian economies.

29. EVENTS AFTER THE REPORTING PERIOD

On 14 January 2020, the Group obtained control over Karelian Wood Company LLC, a timber harvesting and wood processing company, for agreed cash consideration of RUB 950 000 thousand maximum, provided that annual permitted volume of logging operations comprised 206 000 cubic metres. The Group’s management expects that integration with Karelian Wood Company will have a significant synergy effect. It will allow increasing raw material security of the whole Group and wood supply efficiency of Karelian assets of the Group through the optimization of raw timber flows. Forest plots of Karelian Wood Company are located in close proximity to the main forest plots of the Group in Karelia. As at the signing date of these financial statements, the Group did not disclose fair value of acquired assets and liabilities, as their measurement and acquisition cost allocation were not completed.

On 30 January 2020, the Group placed uncertificated interest-bearing non-convertible bonds of 001P-01R series totaling RUB 10 bln (7.1% coupon) on the Moscow Exchange.

In March 2020, the Group entered into cross-currency swap agreements with respect to previously placed listed bonds. Total amounts of the agreements were RUB 5 bln and RUB 2.5 bln (annual EUR interest rates were 1.48% and 1.25% respectively; spot rates were RUB 76 and RUB 84.5 per EUR 1 respectively). Both principal and half-year interest payments are swapped.

In March 2020, the Group obtained project financing from banks to construct a plywood mill in the city of Galich, the Kostroma Region. According to the Corporate Governance Agreement, signed between the Group and the bank, both parties thereto equally control operating and investing activities under the project (unanimous approval of an annual business plan and relevant progress reports). The Group therefore looses control over its 100% subsidiaries GalichLes LLC and Galichsky Plywood Mill LLC (jointly referred to as the "Companies"). As from the signing date of the agreement, the Companies will be reported as joint ventures with 100% interest. As at 31 December 2019, net assets of the companies were RUB 6 040 thousand and their aggregated net loss in 2019 was RUB 5 629 thousand.

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