

Report No. TAS-2021-00045/D on the market value of one (1) ordinary share in the 100% stake in Segezha Group PJSC as at 30 June 2021

Strictly Confidential

1 October 2021





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Mr. Salavat Asgatovich Mirsaev,
Vice President for Legal and Corporate Governance

1 October 2021

Market value of one (1) ordinary share in the 100% stake in Segezha Group PJSC as at 30 June 2021

Dear Salavat Asgatovich,

Pursuant to Consulting Services Agreement TAS-2021-00045 dated 21 January 2021 (hereinafter referred to as the "Agreement") and Appendix D dated 29 September 2021, entered into between Segezha Group PJSC (hereinafter referred to as the "Client") and Ernst & Young Valuation and Advisory Services LLC (hereinafter referred to as the "Contractor", "we"), we have assessed the market value of one (1) ordinary share in the 100% stake of Segezha Group PJSC (hereinafter referred to as the "Valuation Object", "Group", "Company") as at 30 June 2021 (hereinafter referred to as the "Valuation Date").

The valuation was performed according to the scope of work set out in Appendix D to the Agreement—"Statement of Work".

Purpose of this Valuation and restrictions on use

- ▶ The purpose of the valuation is to determine the market value of the Valuation Object. The valuation results are intended to be used for the purposes of corporate procedures in accordance with Article 75 of Federal Law No. 208-FZ dated 26 December 1995 "On Joint-Stock Companies" (as amended as of the Valuation Date).
- ▶ The valuation results are made available to the Client for the specified purposes only and shall not be used for any other purpose. The Report may not be made available to third parties and is not subject to discussion with them without our prior written consent.
- ▶ Despite the provisions of Clause A.12 of Appendix A to the Agreement, the Client may provide this letter and the opinion on the value to the Client's affiliated parties and their professional advisers who need to know the contents of this letter to provide advice to the Client in connection with the Agreement, provided that such persons keep this letter confidential and that the Client informs those persons that the Contractor does not assume any duties or responsibilities in relation to those persons, including the responsibility of a consultant. The Client has the right to make the Valuation Report available to third parties in the cases provided for by the applicable laws.



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Nature and scope of services

The nature and scope of our services, including the information underlying it, and the limitations are set out in detail in the Agreement.

When performing our work, we were guided by the requirements contained in:

1. Federal Valuation Standards (FVSs) mandatory for use by appraisers, approved by Orders of the Ministry of Economic Development of the Russian Federation:

- ▶ Federal Valuation Standard "General Valuation Concepts, Valuation Approaches and Requirements (FVS No. 1)". Approved by Order of the Ministry of Economic Development of Russia No. 297 dated 20 May 2015;
- ▶ Federal Valuation Standard "Purpose of Valuation and Types of Value (FVS No. 2)". Approved by Order of the Ministry of Economic Development of Russia No. 298 dated 20 May 2015;
- ▶ Federal Valuation Standard "Requirements for the Valuation Report (FVS No. 3)". Approved by Order of the Ministry of Economic Development of Russia No. 299 dated 20 May 2015;
- ▶ Federal Valuation Standard "Business Valuation (FVS No. 8)". Approved by Order of the Ministry of Economic Development of Russia No. 326 of 1 June 2015;

2. Federal Law No. 135-FZ dated 29 July 1998 "On Valuation Activities in the Russian Federation", as amended on 31 July 2020;

3. Code of Standards and Rules for Valuation Activities (CSRVA RSA 2020) insofar as it does not contradict the FVSs.

For valuation purposes, the market value is determined according to the definition contained in Federal Law No. 135-F3 dated 29 July 1998 "On Valuation Activities in the Russian Federation":

"The market value of a valuation object is the most probable price at which the valuation object can be sold on the date of valuation in a competitive market where the parties have acted reasonably and with all necessary information, and the transaction price is not affected by any extraordinary circumstances, i.e. when:

- ▶ *one party to the transaction is not obliged to dispose of the valuation object, and the other party is not obliged to accept the performance;*
- ▶ *the parties to the transaction are well aware of the subject of the transaction and act in their own interests;*
- ▶ *the valuation object is presented in the open market by means of a public offer, typical of similar valuation objects;*
- ▶ *the cost of the transaction represents reasonable consideration for the valuation object, and there was no coercion of the parties to the transaction on anyone's part;*
- ▶ *the payment for the valuation object is expressed in monetary terms".*



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In conducting our analysis, we relied on information provided by the Segezha Group PJSC management in written and verbal form and data in electronic format regarding the structure, operations and financial performance of Segezha Group PJSC. We have received confirmation that the information provided to us is correct and accurate, and the management is duly authorised to provide us with such information.

Methodology

A conclusion on the market value of one (1) ordinary share in the 100% stake of Segezha Group PJSC was obtained using the Discounted Cash Flow Method under the Income Approach.

The Comparative Approach was used to verify the valuation results obtained under the Income Approach. The rationale for not applying the Cost Approach is presented in the relevant section of the Report.

Key assumptions

We used a number of assumptions in the Valuation process, the most significant of which include the following:

- ▶ In forecasting cash flows under the Income Approach, we based our cash flow projections on the management accounts and Management's strategic financial model as of June 2021, as well as on unaudited IFRS consolidated financial statements of the Group as of 30 June 2021.
- ▶ The Contractor analysed the impact of the coronavirus pandemic on global commodity markets and has seen abnormal price increases since the end of the third actual and budgeted financial performance of the Group. Due to unforeseen circumstances in Q 2020, which have had a direct positive impact on the Group's financial and business performance in Q1 2021 and the planned performance in Q2 2021. In future price forecasts, the Contractor assumes that the global economy in general, and the construction and logistics sectors in particular, will stabilise in 2022, leading to a rebalancing of supply and demand in global commodity markets and, consequently, to a price reduction for the Group's products in 2022 to levels comparable to those of the pre-crisis period.
- ▶ The expansionary and sustaining capital expenditures within the forecast were assumed based on the Management's data, adjusted for the forecast of changes in consumer prices in dependence and exchange rates.
- ▶ The production and sales volumes were assumed by the Contractor based on the Management's data and took into account the anticipated expansion of the estimated logging area, the increase in paper production at the SPPM sites, and the change in the product portfolio structure at the Sokol Timber Company site.
- ▶ The forecast for Arka Merchants Limited, through which the products of the Homebuilding, Woodworking, Plywood and Boards divisions are sold, was made based on the ratio of revenue and expenses of the merchant house to the total revenue of the divisions' operating companies, determined on the basis of budget data for 2021.



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- ▶ The Contractor envisaged the ability of Segezha Group PJSC to service its current external debt in the future, as well as to raise additional funding to complete ongoing projects and to finance ongoing operations. Thus, due to uncertainties about the achievement of planned operational targets given the market volatility, we applied a specific risk premium of 1% in determining the market value of 1 ordinary share of Segezha Group PJSC in calculating the discount rate. Thus, as at June 30, 2021, a discount rate (WACC) of 13.55% was assumed to determine the market value of 1 ordinary share of Segezha Group PJSC.
- ▶ When analysing the market value of the Valuation Object, the Contractor considered separately the value of the existing business and the net present value (NPV) of the following investment projects:
 - ▶ Construction of a plywood mill in Galich (investment: RUB 11.1 billion, excluding VAT, start of production: Q4 2021);
 - ▶ Expansion of SPPM production (investment: RUB 12.1 billion, excluding VAT, start of production: Q1 2023);
 - ▶ Purchase of 4 consumer packaging lines (Triumph bags) (investment: RUB 594 million, excluding VAT, start of production: 2021);
 - ▶ Expansion of pellet production from forest products at SWWP (investment: RUB 1.1 billion, excluding VAT, start of production: 2021);
 - ▶ Development of Segezha Packaging in Europe (investment: RUB 2.8 million, excluding VAT, start of production: 2022);
 - ▶ Expansion of Vyatsky Plywood Mill (investment: RUB 5.0 billion, excluding VAT, start of production: Q4 2022);
 - ▶ Modernisation of Onega LDK (investment: RUB 9.9 billion, excluding VAT, start of production: Q2 2023);
 - ▶ Modernisation of Lesosibirsky LDK (investment: RUB 4.3 million, excluding VAT, start of production: 2022);
 - ▶ Development of converting in the Russian Federation (investment: RUB 2.4 million, excluding VAT, start of production: 2023);
 - ▶ Modernisation of PM 9 at SPPM (investment: RUB 11.9 billion, excluding VAT, start of production: 2023).
- ▶ The valuation perimeter includes NTCC CJSC, which was not legally part of the Group as at the Valuation Date. In February 2021, Lesosibirsky LDK acquired rights of claim on loans and other liabilities, as well as an option to acquire 71% of NTCC CJSC shares. In May 2021, the Group signed an agreement to acquire a minority stake of 29%. According to the Management's comments, at the Valuation Date, there was a high probability of acquiring 100% of NTCC CJSC shares and incorporating the Company into the Segezha Group's perimeter.
- ▶ The Management expects the modernisation of NTCC CJSC to cost RUB 2 billion. As of the Valuation Date, there is no detailed plan and budget for the modernisation of production necessary to achieve the assumed optimum production capacity. Accordingly, the value of NTCC CJSC was determined using the net asset method, based on the accounts as at the Valuation Date.



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- ▶ The investment in Segezha West Group, owned 50% by Segezha Group, was accounted for at book value because the income approach could not be applied due to insufficient project development, lack of project documentation and construction permits.
- ▶ The GLTP in Karelia project was not included in the valuation perimeter due to insufficient project design, an ambiguous probability of project implementation within the planned timeframe and a high probability of changes in project parameters.
- ▶ The Wood Chemistry at SPPM project, which is planned to be implemented together with Orgkhim Holding, was not included in the valuation perimeter due to insufficient project development, ambiguous probability of implementation within the planned time frame and lack of a registered joint venture with a strategic partner for project implementation as of the Valuation Date.
- ▶ In connection with the implementation of the Modernisation of Onega LDK investment project, according to the Management's comments, the current timber production at Onega LDK will be completely stopped in 2023.
- ▶ In connection with the implementation of the Modernisation of Lesosibirsky LDK investment project and the increase in pellet production at the site, according to comments made by the Management, the production of fibreboard at Lesosibirsky LDK will be completely stopped in 2024.
- ▶ The Management expects that it is highly likely that the Onega LDK modernisation project will be included as a resident of the Arctic Zone of the Russian Federation from 2022 and will receive tax benefits: a 5% income tax rate and a 0.1% property tax rate for 5 years, a 10% income tax rate and a 1.1% property tax rate for the next 5 years.
- ▶ The Management expects that it is very likely that the Modernisation of SPPM project will be included among the PIPs of the Vologda Region in 2023, which will reduce the income tax rate to 16.5% for 7 years.
- ▶ As part of the calculation of the net present value of the projects, the discount rate was calculated individually for each project, taking into account the stage of implementation, the degree of maturity and the prospects for starting production.
- ▶ Maintenance capital expenditure in the investment projects was determined by the Contractor on the basis of the ratio of capital expenditure to the revenues of the operating companies of the respective production profile. The terminal period capital expenditure was calculated based on the values of the last forecast period.
- ▶ The forecast of working capital requirements for investment projects was calculated based on the ratio of NWC/Revenues of Segezha Group's current business.
- ▶ The investment in GalichLes LLC was valued based on 100% ownership of the company, based on a high probability of redeeming 15% of the shares from the bank as a result of two option agreements with the bank. The 15% share buy-back costs were accounted for as an adjustment to the cost of equity of GalichLes LLC.



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Results and conclusions

According to the analysis results, the market value of one (1) ordinary share in the 100% stake of Segezha Group PJSC as at 30 June 2021 is (in round numbers):

eight rubles ninety kopecks (RUB 8.90)

The opinion on the market value of the Valuation Object is valid subject to the general and special assumptions and covenants contained in the enclosed Report.

The value opinion set out in this Report is only valid as at the Valuation Date specified in this Report. Changes in market conditions can lead to significant changes in the value. The Contractor shall not be responsible for changes in market conditions.

Thank you for giving us the opportunity to provide Segezha Group PJSC with our services. Please contact us at any time if you have any questions about this assignment or require additional services.

Sincerely,

*/Signature: LIMITED LIABILITY COMPANY * OGRN **ILLEGIBLE** * MOSCOW **

Ernst & Young

Valuation and Advisory

Services/ /Signature/

Anna Guseva

Partner, appraiser