

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

**Consolidated Financial Statements and
Independent Auditor's Report
For the Year Ended 31 December 2022**

SEGEZHA GROUP PJSC

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SEGEZHA GROUP PJSC

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2022

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Segezha Group PJSC and its subsidiaries (hereinafter, collectively referred to as the "Group") as of 31 December 2022, 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 2022 were approved by management on 30 March 2023.

On behalf of management:



Mikhail Shamolin
President



Vladimir Travkov
Vice-President for Finance and Investment

30 March 2023

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of Group of Companies "Segezha" Public Joint Stock Company and its subsidiaries (hereinafter, collectively referred to as the "Group") which comprise the consolidated statement of financial position as at 31 December 2022 and the consolidated statements of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for 2022, 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 2022, and its consolidated financial performance and its consolidated cash flows for 2022 in accordance with International Financial Reporting Standards ("IFRSs").

Basis for opinion

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

Key audit matter

Key audit matter is the matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. This matter was 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 this matter.

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

Fair value measurement of LLC “Inter Forest Rus” and its subsidiaries’ acquired assets

On 28 December 2021 the Group has acquired from a third party a 100% stake in share capital of Inter Forest Rus LLC and its 24 subsidiaries, including four sawmills, a plywood mill, pellets production, as well as forestry management facilities. As at 31 December 2022 the Group engaging an independent valuation specialist has completed purchase price allocation to the fair value of identifiable assets acquired and liabilities assumed, thus completing the final purchase price allocation in the consolidated financial statements for the year ended 31 December 2022, and restated comparative information for 2021. Fair value of right-of-use assets amounted to 43 687 millions of Russian rubles, including 39 862 millions of Russian rubles of right-of-use assets represented by long-term lease agreements for forest plots, fair value of which was determined through discounted cash flow approach.

We focused on this area as a key audit matter because fair value determination of right-of-use assets, represented by lease agreements for forest plots, involves a high degree of subjectivity and judgement in selecting appropriate assumptions. In particular, calculation is sensitive to changes in significant assumptions, including forecasted sales prices and discount rate.

We obtained an understanding of the process and tested the effectiveness of controls over the Group’s process over determination of fair value of assets acquired and liabilities assumed, in particular, lease agreements for forest plots.

We performed the following audit procedures in respect to the fair value determination performed by the Group’s management with the involvement of independent valuation specialists:

- Verified that the input data used in the models is consistent with accounting data and, where applicable, with the approved budgets and forecasts;
- With the assistance of our internal valuation specialists analyzed the valuation methodology, and also challenged reasonableness of key assumptions used in the valuations, with reference to historical data and, where applicable, external / independent sources, noting that the assumptions used fell within an acceptable independently determined range;
- Tested the accuracy of the calculation and sensitivity analysis of the valuation to changes in significant assumptions.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual report, but does not include the consolidated financial statements and our auditor’s report thereon. The Annual report is 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 and, in doing so, 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 report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

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

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

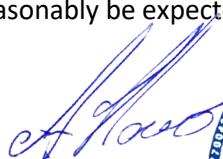
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of 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 control.
- 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 control.
- Evaluate the appropriateness of 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 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.

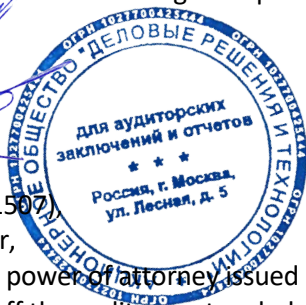
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate 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.


Anton Kochetkov
(ORNZ № 21906101507)
Engagement partner,

Acting based on the power of attorney issued by the General Director on 16.03.2023 authorizing to sign off the audit report on behalf of AO "Business Solutions and Technologies" (ORNZ № 12006020384)



30 March 2023

SEGEZHA GROUP PJSC

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022 (in millions of Russian Rubles)

	Notes	2022	2021
Revenue	4	106,766	92,442
Operating expenses:			
Cost of goods sold	7	(74,062)	(53,016)
Selling and administrative expenses	8	(28,216)	(20,000)
Gain on business acquisition	5	-	3,822
Other operating income/(expenses), net	9	5,623	(898)
Operating profit		10,111	22,350
Interest income	10	1,627	772
Interest expense	10	(11,626)	(3,911)
Other finance income	10, 27	2,892	380
Foreign exchange differences, net		4,467	760
Other (expenses)/income		(14)	1
Profit before tax		7,457	20,352
Income tax expense	11	(1,405)	(5,115)
Net profit for the reporting year		6,052	15,237
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit pension obligations		-	73
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		147	67
Other comprehensive income		147	140
Total comprehensive income for the year		6,199	15,377
Net profit attributable to:			
Shareholders of Segezha Group PJSC		6,035	15,270
Non-controlling interests		17	(33)
		6,052	15,237
Total comprehensive income attributable to:			
Shareholders of Segezha Group PJSC		6,182	15,410
Non-controlling interests		17	(33)
		6,199	15,377
Earnings per share (in RUB)	20	0.38	1.06



Mikhail Shamolin

President

30 March 2023



Vladimir Travkov

Vice-President for Finance and Investments

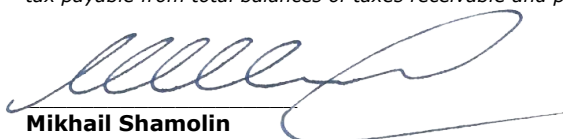
The accompanying notes on pages 11-49 are an integral part of these consolidated financial statements.

SEGEZHA GROUP PJSC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2022 (in millions of Russian Rubles)

	Notes	31 December 2021	31 December 2022 (Restated)*
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	12	82,213	73,862
Right-of-use assets	29	60,591	64,061
Intangible assets	13	5,442	5,427
Goodwill		444	444
Investments in joint ventures and associates	6	386	593
Deferred tax assets	11	1,215	803
Prepayments for non-current assets	12	4,039	5,280
Loans issued to related parties	28	7,978	8,266
Other non-current assets		1,154	629
Total non-current assets		163,462	159,365
CURRENT ASSETS:			
Inventories	14	24,613	21,806
Contract assets		1,281	1,186
Trade and other receivables	15	8,522	7,477
VAT receivable and taxes receivable	17	2,573	5,611
Income tax receivable		928	1,787
Advances and other current assets	18	3,832	4,082
Cash and cash equivalents	16	22,879	12,634
Total current assets		64,628	54,583
TOTAL ASSETS		228,090	213,948
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	19	1,569	1,569
Additional paid-in capital	19	35,129	35,129
Retained earnings		3,451	7,758
Accumulated other comprehensive income		1,856	1,709
Equity attributable to the shareholders of Segezha Group PJSC		42,005	46,165
Non-controlling interest		49	27
Total equity		42,054	46,192
NON-CURRENT LIABILITIES:			
Loans and borrowings	21	86,584	52,362
Lease liabilities	29	19,562	21,271
Other financial liabilities	27	-	974
Pension obligations		559	737
Deferred tax liabilities	11	7,775	8,258
Consideration payable for business acquisition	5	-	3,715
Other non-current liabilities	5	1,430	3,472
Total non-current liabilities		115,910	90,789
CURRENT LIABILITIES:			
Loans and borrowings	21	37,257	21,408
Trade and other payables	22	21,110	16,779
Lease liabilities	29	3,953	3,903
Provisions	24	2,070	1,553
Taxes payable	23	2,864	2,644
Income tax payable		856	1,096
Consideration payable for business acquisition	5	-	17,466
Dividends payable	19	229	6,590
Advances received		1,787	5,528
Total current liabilities		70,126	76,967
TOTAL EQUITY AND LIABILITIES		228,090	213,948

* Comparative information for the year ended 31 December 2021 has been retrospectively adjusted for the completion of the allocation of the purchase price of business acquired in 2021 (Note 5) and also reclassification of income tax receivable and income tax payable from total balances of taxes receivable and payable.


Mikhail Shamolin
President


Vladimir Travkov
Vice-President for Finance and Investments

30 March 2023

The accompanying notes on pages 11-49 are an integral part of these consolidated financial statements.

SEGEZHA GROUP PJSC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2022 (in millions of Russian Rubles)

	Notes	Share capital	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income		Equity attributable to shareholders of Segezha Group PJSC	Non-controlling interests	Total equity
					Translation to presentation currency	Other			
At 31 December 2020		1,194	6,324	(345)	1,704	(135)	8,742	127	8,869
Net profit/(loss) for the year		-	-	15,270	-	-	15,270	(33)	15,237
Other comprehensive income for the year		-	-	-	67	73	140	-	140
Total comprehensive income for the year		-	-	15,270	67	73	15,410	(33)	15,377
Issue of shares through public offering		375	29,625	-	-	-	30,000	-	30,000
Share issue transactions costs net of current and deferred income tax	19	-	(820)	-	-	-	(820)	-	(820)
Buy-back of non-controlling interest		-	-	67	-	-	67	(67)	-
Distribution to companies under common control	19	-	-	(644)	-	-	(644)	-	(644)
Dividends to the shareholders	19	-	-	(6,590)	-	-	(6,590)	-	(6,590)
At 31 December 2021		1,569	35,129	7,758	1,771	(62)	46,165	27	46,192
Net profit for the year		-	-	6,035	-	-	6,035	17	6,052
Other comprehensive income for the year		-	-	-	147	-	147	-	147
Total comprehensive income for the year		-	-	6,035	147	-	6,182	17	6,199
Distribution to companies under common control	19	-	-	(295)	-	-	(295)	-	(295)
Dividends to the shareholders	19	-	-	(10,042)	-	-	(10,042)	-	(10,042)
Other movements		-	-	(5)	-	-	(5)	5	-
At 31 December 2022		1,569	35,129	3,451	1,918	(62)	42,005	49	42,054

The accompanying notes on pages 11-49 are an integral part of these consolidated financial statements.

SEGEZHA GROUP PJSC

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2022 (in millions of Russian Rubles)

	Notes	2022	2021
Cash flows from operating activities:			
Net profit for the year		6,052	15,237
<i>Adjustments for:</i>			
Depreciation and amortisation		10,963	5,786
Depreciation of right-of-use assets	29	3,588	1,116
Interest income recognised in profit or loss	10	(1,627)	(772)
Interest expense recognised in profit or loss	10	11,626	3,911
Other finance income	10,27	(2,892)	(380)
Partial discharge of deferred payment on business acquisition	5, 9	(3,386)	-
Gain on business acquisition	5	-	(3,822)
Income tax expense recognised in profit or loss	11	1,405	5,115
Allowance for expected credit losses	8	(61)	339
Loss on write-off of inventories	9	117	45
Allowance for inventory impairment	9	(179)	649
Gain on disposal of property, plant and equipment		(37)	(185)
Foreign exchange differences, net		(4,467)	(759)
Impairment loss on property, plant and equipment	12	13	907
Other		25	178
		21,140	27,365
Movements in working capital:			
Increase in trade and other receivables		(4,212)	(1,429)
Increase in inventories		(3,060)	(5,573)
Decrease/(increase) in other assets		4,451	(4,817)
(Decrease)/increase in trade and other payables		(618)	1,584
(Decrease)/increase in other liabilities		(5,505)	4,592
Cash generated from operating activities		12,196	21,722
Interest paid		(8,258)	(2,548)
Income taxes paid		(1,679)	(6,106)
Net cash from operating activities		2,259	13,068

The accompanying notes on pages 11-49 are an integral part of these consolidated financial statements.

SEGEZHA GROUP JSC

CONSOLIDATES STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED) (in millions of Russian Rubles)

	Notes	2022	2021
Cash flows from investing activities			
Payments for property, plant and equipment		(9,958)	(20,238)
Payments for intangible assets		(223)	(2,878)
Proceeds on disposal of property, plant and equipment		439	451
Loans issued to joint ventures	28	(3,052)	(6,968)
Repayment of loans issued to joint ventures	28	-	50
Interest received		648	447
Investments in joint ventures	6	(1,578)	(536)
Distribution to companies under common control	19	(295)	(644)
Net cash outflow on acquisition of subsidiaries of the Group	5	(18,390)	(20,161)
Other movements		42	4
Net cash used in investing activities		(32,367)	(50,473)
Cash flows from financing activities			
Proceeds from issue of shares through public offering	19	-	30,000
Share issue transactions costs	19	-	(1,025)
Proceeds from loans and borrowings	21	54,704	21,242
Proceeds from bonds	21	46,399	20,000
Repayment of principal of loans and borrowings	21	(44,472)	(22,637)
Proceeds from cross-currency interest-rate swaps	27	1,579	411
Dividends paid	19	(16,385)	-
Lease liability payments	29	(4,143)	(1,710)
Share-based payments		-	(127)
Net cash generated from financing activities		37,682	46,154
Net increase in cash and cash equivalents		7,574	8,749
Cash and cash equivalents, beginning of the year	16	12,634	3,670
Effect of exchange rate changes on cash held in foreign currencies		2,671	215
Cash and cash equivalents, end of the year	16	22,879	12,634

The accompanying notes on pages 11-49 are an integral part of these consolidated financial statements.

SEGEZHA GROUP PJSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2022 (in millions of Russian Rubles, unless otherwise indicated)

1. GENERAL INFORMATION

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

Group of Companies «Segezha» Public Joint Stock Company (hereinafter – PJSC “Segezha Group” or the Company) was incorporated in the Russian Federation (“RF”) in 2013 (before 7 April 2021 Group of Companies “Segezha” Joint Stock Company). The Company has a registered office 15, level 45, at 10 Presnenskaya Naberezhnaya, Moscow.

As at 31 December 2022 and 2021 Sistema, PJSC (0.53%) and its subsidiary Sistema Telecom Assets, LLC (61.57%) were the key shareholders of the Company. 25% of the Company’s ordinary shares are traded in a public market (Note 19). As at 31 December 2022 and 2021 Yevtushenkov V.P. held 49.2% and 59.2% of Sistema’s issued shares, in 2022 he transferred 10% of his shares and thus ceased to be a majority shareholder of Sistema. 50.8% and 40.8% of Sistema’s shares were held by a significant number of shareholders as at 31 December 2022 and 2021, respectively.

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

Significant entities	Country	31 December 2022	31 December 2021
Pulp and paper			
Segezha Pulp and Paper Mill, JSC	Russia	100%	100%
Sokol Pulp and Paper Mill, JSC	Russia	89.13%	99.13%
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	Türkiye	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%
Krasfan, LLC	Russia	100%	100%
Woodworking			
Lesosibirsky LDK No.1, JSC	Russia	100%	100%
Novoyeniseiskiy Wood-Chemical Complex, JSC	Russia	100%	100%
Segezha Sawmills, LLC	Russia	- ¹	100%
Onega Sawmills, JSC	Russia	100%	100%
Sokol Timber Company, JSC	Russia	100%	100%
Ksilotek-Siberia, LLC	Russia	100%	100%
Karelian Wood Company, LLC	Russia	100%	100%
LDK Igirma, JSC	Russia	100%	100%
Igirma-Tairiku Lumber Mill, LLC	Russia	100%	100%
Priangarue TM, LLC	Russia	100%	100%
Trans-Siberian Forest Company Ltd ²	Russia	100%	100%
Forestry management			
Lenderskiy LPH, JSC	Russia	100%	100%
LPH Kipelovo, JSC	Russia	100%	100%
Volomsky KLPH Leskarel, JSC	Russia	- ³	98.91%
Ledmozerskoye LZH, JSC	Russia	99.31%	99.44%
Les Proekt, LLC	Russia	100%	100%
LesTorgService, LLC	Russia	100%	100%
Baikal forest company, LLC	Russia	100%	100%
LesPromService, LLC	Russia	100%	100%

¹ Segezha Sawmills LLC - self-liquidated

² Renamed to Verkhnelenskiy Timber Mill LLC on 21 March 2023

³ Volomsky KLPH Leskarel JSC as a result of reorganization merged with Ledmozerskoye LZH JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2022
(in millions of Russian Rubles, unless otherwise indicated)

Significant entities	Country	31 December 2022	31 December 2021
Other			
Segezha Group Management Company, LLC	Russia	¹	100%
Segezha Digital Solutions, LLC	Russia	100%	-
Segezha Group – SSC, LLC	Russia	100%	100%
Verkhnelenskoe Rechnoe Parokhodstvo, LTD	Russia	100%	100%
Onega-Energy, JSC	Russia	75%	75%
Inter Forest Rus, LLC	Russia	100%	100%

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

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

As at 31 December 2022 and 2021 the Group has pledged interests in a number of its subsidiaries to secure performance under the loan agreements (Note 21).

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

¹ Segezha Group Management Company LLC as a result of reorganization merged with Segezha Group PJSC

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

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

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

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

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

	31 December 2022	31 December 2021
RUB/USD	70.3375	74.2926
RUB/EUR	75.6553	84.0695
RUB/CNY	9.8949	11.6503

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

	2022	2021
RUB/USD	68.5494	73.6541
RUB/EUR	72.5259	87.1877
RUB/CNY	10.2916	11.4134

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

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

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

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

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

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

Intragroup transactions, balances and unrealised gains on transactions between companies in the Group are eliminated. Unrealised losses are also eliminated. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

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

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

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

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

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

Revenue comprises sales of goods (paper and package products, sawn timber, plywood, boards and other goods), as well as services related to the delivery of finished goods to customers after the transfer of control over goods. Sales are recognised as control passes to the customer, i.e. when (i) products have been delivered to the customer under Incoterms 2010, (ii) the customer obtains control over 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 Group has objective evidence that all the acceptance terms and conditions have been satisfied.

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

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

Critical judgements

The Group makes accounting estimates and assumptions that affect the amounts recognised in the consolidated financial statements and the carrying amounts of assets and liabilities. Accounting estimates and judgements are reviewed regularly and are based on the management's previous experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In applying the accounting policies, management also makes professional judgements other than accounting estimates.

Professional judgements with the most significant effect on accounting estimates and the amounts recognised in the consolidated financial statements, which may result in a significant adjustment to the carrying amount of assets and liabilities within the next financial year, include:

- measurement of right-of-use assets and lease liabilities (Note 29);
- useful lives of property, plant and equipment (Note 12);
- fair value measurement, including valuation of the businesses acquired (Notes 5 and 27);
- impairment of financial and non-current assets (Note 15);
- control over the Segezha West Group and compliance of the Segezha West Group with the definition of a business (Note 6).

Going concern assumption

Management has prepared these consolidated financial statements on a going concern basis. This judgment has been made by management based on the Group's financial position, current plans, profitability of operations and availability of financial resources, as well as the impact of recent macroeconomic changes on the future operations of the Group (Note 31).

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3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The following amended standards became effective from 1 January 2022, but did not have any material impact on the Group:

- Amendments to IFRS 3 *Reference to the Conceptual Framework*;
- Amendments to IAS 16 *Property, Plant and Equipment—Proceeds before Intended Use*;
- Amendments to IAS 37 *Onerous Contracts—Cost of Fulfilling a Contract*;
- *Annual improvements to IFRS Accounting Standards 2018-2020 Cycle* – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41.

New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2023, 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.

- Amendments 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 and effective for annual periods beginning on or after a date to be determined by the IASB). The directors of the Company anticipate that the application of these amendments may have an impact on the Group's consolidated financial statements in future periods should such transactions arise;
- Amendments to IFRS 16 – *Lease Liability in a Sale and Leaseback* (issued on 27 September 2022 and effective for annual periods beginning on or after 1 January 2024);
- 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);
- Amendments to IAS 1 – *Classification of liabilities as current or non-current, deferral of effective date* – (issued on 15 July 2020 and effective for annual periods beginning on or after 1 January 2024);
- Amendments to IAS 1 and IFRS Practice Statement 2: *Disclosure of Accounting policies* (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023);
- Amendments to IAS 1 – *Non-current Liabilities with Covenants* (issued on 2 November 2022 and effective for annual periods beginning on or after 1 January 2024);
- Amendments to IAS 8: *Definition of Accounting Estimates* (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023);
- Amendments to IAS 12 – *Deferred tax related to assets and liabilities arising from a single transaction* (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023).

4. OPERATING SEGMENTS

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

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

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

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- **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. The segment includes JSC "Novoyeniseiskiy Wood-Chemical Complex" and forestry management facilities and sawmills assets of LLC "Inter Forest Rus" and its subsidiaries acquired during 2021 (Note 5);
- **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. The segment includes plywood mills of LLC "Inter Forest Rus" and its subsidiaries acquired during 2021 (Note 5);
- **Laminated wood products** segment is engaged in the production of glued laminated timber, glulam-based home kits and cross-laminated timber (CLT panels) that are used in the construction of wooden houses and multi-story buildings over 10 stories in height.

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

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

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

The following is an analysis of reportable segments for the year ended 31 December 2022:

	Paper and packaging	Forestry management and wood working	Plywood and boards	Laminated wood products	Other	Total segments
Segment revenue	40,690	56,938	10,345	5,927	6,067	119,967
Elimination of intersegment revenue	(6)	(7,146)	(37)	(207)	(5,805)	(13,201)
Total revenue from external customers	40,684	49,792	10,308	5,720	262	106,766
OIBDA	11,248	9,047	2,968	2,037	(638)	24,662

OIBDA of the 'Other' group includes income from partial discharge of deferred payment on acquisition of Inter Forest Rus LLC and its subsidiaries in the amount of RUB 3,386 million (Notes 5 and 9).

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

	Paper and packaging	Forestry management and wood working	Plywood and boards	Laminated wood products	Other	Total segments
Segment revenue	39,731	33,862	12,541	6,404	11,455	103,993
Elimination of intersegment revenue	(10)	(4,899)	-	(213)	(6,429)	(11,551)
Total revenue from external customers	39,721	28,963	12,541	6,191	5,026	92,442
OIBDA	8,444	16,387	6,362	3,350	(5,291)	29,252

OIBDA of the Forestry management and wood working segment includes gain from acquisition of Novoyeniseiskiy Wood-Chemical Complex, JSC in the total amount of RUB 3,822 million (Note 5).

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OIBDA of the 'Other' group includes management remuneration in the total amount of RUB 1,983 million (including relevant taxes and social contributions) payable as a result of a liquidity event, the Group's IPO (Note 25).

Below is the reconciliation of segment OIBDA and consolidated operating profit and also with net profit before tax of the Group for the years ended 31 December 2022 and 2021:

	2022	2021
OIBDA	24,662	29,252
Depreciation and amortisation	(14,551)	(6,902)
Operating profit	10,111	22,350
Interest income	1,627	772
Interest expense	(11,626)	(3,911)
Other finance income	2,892	380
Foreign exchange differences, net	4,467	760
Other income	(14)	1
Profit before tax	7,457	20,352

Geographical information

The geographical distribution of the Group's revenue for the years ended 31 December 2022 and 2021 is detailed below (based on location of the client):

	2022	2021
China	34,261	11,478
Russia	29,734	23,613
Egypt	5,199	6,531
Germany	4,563	5,541
Türkiye	3,179	2,443
Denmark	2,474	2,035
Republic of Korea	1,802	988
Netherlands	1,756	2,365
Lebanon	1,579	287
Kazakhstan	1,557	1,354
France	1,424	2,628
Italy	1,352	2,932
Romania	1,268	1,244
USA	1,234	3,282
Finland	906	2,838
Belgium	764	1,283
United Kingdom	410	3,248
Ghana	114	1,082
Other countries, by regions*:		
Europe	5,469	6,792
Asia	5,342	6,712
Africa	1,391	1,260
Americas	988	2,380
Oceania	-	126
Total revenue from external customers	106,766	92,442

* Individually less than RUB 1,000 million.

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

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

	31 December 2022	31 December 2021
Russia	150,309	145,866
Netherlands	1,310	1,504
Denmark	1,022	502
Romania	991	1,058
Germany	470	799
Other	167	567
Total	154,269	150,296

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5. BUSINESS COMBINATIONS

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

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

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

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

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

Acquisition of LLC "Inter Forest Rus" and its subsidiaries

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

Purchase price includes cash settlement in the total amount of USD 528 million (equivalent to RUB 38,748 million at the exchange rate effective on the acquisition date), with USD 230 millions (equivalent to RUB 16,925 millions at the exchange rates effective on the day of each payment) paid during 2021, RUB 18,390 million the Group paid in January-March 2022.

As at 31 December 2021, included in consideration payable for business acquisition are deferred payments in the total amount of USD 50 million (equivalent to RUB 3,715 million at the exchange rates effective on 31 December 2021) payable in equal amounts after 2 and 4 years from the date of signing of the acquisition agreement. Deferred consideration is not discounted as it is used as collateral for the possible damage to the Group due to decisions and actions of the previous owners. The collateral covers, among other things the risk of property loss, accrual of additional taxes, fees and penalties, alienation of annual allowable cuts. On 29 December 2022, the Group got notice regarding partial discharge of deferred payment in the amount of USD 47.5 million (equivalent to RUB 3,386 million at the exchange rates effective on the agreement date) recognized as '*Other operating income/(expenses)*' in the consolidated statement of profit or loss and other comprehensive income (Note 9).

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As at 31 December 2022 the Group employing an independent valuation specialist has completed purchase price allocation of the fair value of identifiable assets acquired and liabilities assumed, thus completing the final purchase price allocation in the consolidated financial statements for the year ended 31 December 2022, and restated comparative information for 2021.

Final fair value of the acquired assets and assumed liabilities at the acquisition date comprises:

	Preliminary valuation	Adjustments	Final valuation
Assets and liabilities			
Property, plant and equipment	23,490	(7,526)	15,964
Right-of-use assets	28,731	14,956	43,687
Intangible assets	557	(541)	16
Deferred tax assets	771	(514)	257
Cash and cash equivalents	310	-	310
Inventories	8,031	(1,664)	6,367
Trade and other accounts receivable	2,229	(748)	1,481
Other current assets	2,835	675	3,510
Lease liabilities	(8,270)	(2,734)	(11,004)
Deferred tax liabilities	(7,068)	297	(6,771)
Loans and borrowings	(4,308)	(44)	(4,352)
Provisions	(5)	(291)	(296)
Other non-current liabilities	(4,281)	825	(3,456)
Trade and other payables	(4,274)	1,836	(2,438)
Other current liabilities	-	(4,527)	(4,527)
Total identifiable net assets	38,748	-	38,748
Purchase price	38,748	-	38,748
Settled in the form of:			
Cash consideration	16,951	(26)	16,925
Cash consideration payable (as at date of acquisition)	21,797	26	21,823
	38,748	-	38,748

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

Property, plant and equipment

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

Right-of-use assets

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

Deferred tax assets

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

Lease liabilities

In accordance with IFRS 16 *Leases* discounted future cash payments under lease contracts for the full duration of the lease contracts adjusted for the Group's intention to extend the lease terms 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.

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Trade and other receivables and payables

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

Consolidation of JSC "Novoyeniseiskiy Wood-Chemical Complex"

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

The auctioned lot included the bank's rights of claim for NLHK loans payable and other payables totaling RUB 11.5 billion denominated in various currencies, and also rights to conclude call option for 71% of shares in NLHK exercisable upon the termination of arbitration proceedings under the bankruptcy procedure in respect of NLHK. The Group acquired the lot for a cash consideration amounting to RUB 2,306 million paid in February 2021.

On 20 May 2021, the Group concluded a purchase agreement for a minority stake of 29% shares in share capital of NLHK. The purchase was completed on 27 July 2021 with share ownership transferred to JSC Lesosibirsky LDK No.1, a subsidiary of the Group. The total purchase price of USD 17 million is payable in two installments: RUB 620 million paid on 8 June 2021, and the residual amount (RUB 601 million) was settled on 19 August 2021 after the transfer of ownership.

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

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

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

	Fair value
Assets and liabilities	
Property, plant and equipment	4,058
Right-of-use assets	4,923
Deferred tax assets	929
Cash and cash equivalents	162
Inventories	1,250
Trade and other accounts receivable	114
Other current assets	470
Lease liabilities	(1,837)
Deferred tax liabilities	(1,224)
Trade and other payables	(1,315)
Total identifiable net assets	7,530
Gain on business acquisition	(3,822)
Total acquisition value	3,708
Settled in the form of:	
Cash consideration	3,708

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The Group recorded an income from acquisition of NLHK in the total amount of RUB 3,822 million, which was included in 'Gain on business acquisition' in the consolidated statement of profit or loss and other comprehensive income. The income received is mainly due to the bankruptcy procedure initiated as a result of the corporate conflict among the former owners of the company. Due to the conflict NLHK failed to match its potential in respect of the logging operations and sawn timber production volumes. In 2021 the Group terminated the bankruptcy procedures and provided the adequate level of working capital thus increasing logging operations volume, as well as sawn timber production volume and the company's operating profit; no additional capital investment was required to achieve that.

6. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

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

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

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

As at 31 December 2022 and 31 December 2021, joint ventures and associates comprised:

	Principal activities	Type	Country	Book value		Effective shares of ownership, %	
				31 December 2022	31 December 2021	31 December 2022	31 December 2021
GalichLes LLC, GPM LLC (Galich Plywood Mill) Group Segezha West	Forestry management Plywood and boards	Joint ventures	Russia	-	-	85%	85%
LHC	Pulp and paper	Joint ventures	Russia	-	410	-	100%
Karellesprom, JSC	Forestry management	Associates	Russia	87	87	43.88%	43.88%
Segezha Nord, LLC	Hotel management	Joint ventures	Russia	277	76	50%	50%
Other				22	20	-	-
Total				386	593		

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

	2022	2021
Balance, beginning of the year	593	458
Investment in joint ventures and associates	1,578	189
Group's share of the associate and joint ventures' losses (net)	-	(54)
Consolidation of Group Segezha West	(1,785)	-
Balance, end of the year	386	593

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GalichLes LLC and GPM LLC

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

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

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

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

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

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

The summarised financial information below represents amounts in joint ventures' financial statements prepared in accordance with IFRS Standards as at 31 December 2022 and 2021 and for the years then ended:

	31 December 2022	31 December 2021
Current assets	1,261	2,413
<i>inc. Cash and cash equivalents</i>	330	295
Non-current assets	18,205	14,225
Total assets	19,466	16,638
Current liabilities:		
Trade and other payables	(1,086)	(974)
Loans and borrowings	-	(372)
Other current liabilities	(78)	(20)
Non-current liabilities:		
Loans and borrowings	(9,010)	(8,098)
Loans received from the Group, including interest accrued (Note 28)	(8,934)	(5,928)
Lease liabilities	(1,874)	(1,522)
Other non-current liabilities	(472)	(268)
Total liabilities	(21,454)	(17,182)
Net liabilities	(1,988)	(544)
	2022	2021
Revenue	1,013	39
Depreciation and amortisation	(492)	(44)
Interest expense	(426)	(173)
Income tax expense	(195)	(68)
Net loss and total comprehensive loss	(1,444)	(444)

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

	For the year, ended 31 December 2022	For the year, ended 31 December 2021
Net liabilities as at beginning of the year	(544)	(100)
Loss for the year, net	(1,444)	(444)
Net liabilities as at end of the year	(1,988)	(544)
Effective shares of ownership, %	85%	85%
Group's share in the Net assets of the joint ventures	-	-
Book value as at the end of the year	-	-

Group Segezha West

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

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

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

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

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

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

As at 31 December 2022 the Group assessed the factors of control over the companies of the Group Segezha West. Management considered the existence of substantive rights and the practical possibility of exercising them, in particular, the existence of any barriers to the exercise of rights, the need for the consent of several parties and the existence of economic benefits in the exercise of rights, the price of their exercise, as well as the likelihood of exercising options on withdrawal of financial partners from the project. Based on the results of the assessment, management concluded that the Group has the practical ability to exercise its rights and, therefore, the Group exercises control over the Segezha West Group. In March 2023, the options to buy back the shares belonging to the financial partners have been exercised.

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In addition, the Group performed an analysis of the compliance of the Group Segezha West with the requirements for recognition as a business in accordance with IFRS 3, including a concentration test on assets, as a result of which it was concluded that the acquisition of control should be accounted for as an acquisition of assets and associated liabilities. Main assets and liabilities of Group Segezha West as at 31 December 2022 are property, plant and equipment in the amount of RUB 6,453 million (mainly properties in the course of construction in the form of detailed design documentation).

7. COST OF GOODS SOLD

Below is the analysis of the cost goods sold for the years ended 31 December 2022 and 2021:

	2022	2021
Raw materials and supplies	25,178	26,605
Employee benefits, including social funds contributions	18,532	11,276
Supplier and contractor services	18,029	10,705
Depreciation and amortisation	13,579	6,178
Other expenses	1,061	671
Net change in inventories, finished goods and work in progress	(2,317)	(2,419)
Total cost of goods sold	74,062	53,016

8. SELLING AND ADMINISTRATIVE EXPENSES

Below is the analysis of selling and administrative expenses for the years ended 31 December 2022 and 2021:

	2022	2021
Finished goods transportation and other selling expenses	16,356	8,364
Employee benefits, including social funds contributions	7,591	7,508
Supplier and contractor services	1,904	1,612
Depreciation and amortisation	879	641
Raw materials and supplies	298	252
Taxes, other than income tax	119	159
(Decrease)/increase in allowance for expected credit losses, net	(61)	339
Other expenses	1,130	1,125
Total selling and administrative expenses	28,216	20,000

9. OTHER OPERATING INCOME/(EXPENSES), NET

Below is the analysis of other operating income and expenses for the years ended 31 December 2022 and 2021:

	2022	2021
Partial discharge of deferred payment on business acquisition (Note 5)	3,386	-
Income from government grants	2,147	771
Gain on disposal of property, plant and equipment and intangible assets	174	205
Allowance for inventory impairment	179	(649)
Depreciation and amortisation	(93)	(83)
Loss on write-off of inventories	(117)	(45)
Impairment for property, plant and equipment and properties in the course of construction (Note 12)	(13)	(907)
Other	(40)	(190)
Other operating income/(expenses), net	5,623	(898)

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.

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

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

In 2021 the Group received grants to compensate costs attributable to (i) the transportation of products (in accordance with Russian Government Resolution No. 496 of 26 April 2017 *On the provision of subsidies from the federal government to Russian civilian industry organisations, as a partial compensation for product transportation costs*); (ii) certification of products for export markets (in accordance with Russian Government Resolution No. 687 of 30 April 2021 *On the subsidies from the government to organisations as a partial compensation for certification of products, including medical products and products of pharmaceutical industry, on export markets*), (iii) transportation of products (in accordance with Russian Government Resolution No. 1347 of 28 July 2022 *On the provision of subsidies from the federal government to Russian industry organisations, as a partial compensation for product transportation costs*).

10. FINANCE INCOME AND EXPENSES, NET

	2022	2021
Interest expense on loans and borrowings	(9,353)	(2,765)
Interest expense on lease liabilities	(2,273)	(1,146)
Interest income	1,627	772
Income from cross-currency interest-rate swap transaction (Note 26)	2,553	380
Income from long-term payables discounting	339	-
Finance expenses, net	(7,107)	(2,759)

11. 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.

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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.

Income tax recognised in profit or loss

	2022	2021
Current income tax expense	2,297	5,192
Deferred tax	(892)	(77)
Total income tax expense recognised in the current year	1,405	5,115

The effective tax rate reconciliation for the years ended 31 December 2022 and 2021 is presented below:

	2022	2021
Profit before tax	7,457	20,352
Theoretical income tax expense/(income) at the rate of 20%	1,491	4,070
Non-deductible expenses, net	185	186
Tax effect of restructuring of intercompany settlements	-	1,164
Prior period adjustments	13	387
Non-taxable gain on the business acquisition	-	(764)
Accrual/(recovery) of the allowance for unutilised tax losses and offsets		
not recognised as deferred tax assets	(112)	50
Effect of tax rate other than the rate of 20%	(172)	22
Total income tax expense recognised in the current year	1,405	5,115

Deferred tax

As at 31 December 2022 and 2021, deferred tax assets and liabilities recognised by the Group in the consolidated statement of financial position comprised:

	31 December 2022	31 December 2021
Deferred tax assets	1,215	803
Deferred tax liabilities	(7,775)	(8,258)
	(6,560)	(7,455)

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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 2021	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2022
Property, plant and equipment, intangible assets and right-of-use assets	(12,733)	1,124	3	(11,606)
Inventories and contract assets	299	(379)	-	(80)
Trade and other receivables	572	15	-	587
Trade and other payables, lease liabilities	2,496	(1,003)	-	1,493
Other financial liabilities	154	(154)	-	-
Provisions	339	487	-	826
Tax losses carried forward	1,258	1,089	-	2,347
Other	160	(287)	-	(127)
Deferred tax liabilities, net	(7,455)	892	3	(6,560)

Deferred tax (liabilities)/assets	31 December 2020	Recognised in profit or loss	Acquisition/disposal of companies	31 December 2021
Property, plant and equipment, intangible assets and right-of-use assets	(2,512)	(504)	(9,717)	(12,733)
Inventories and contract assets	(45)	146	198	299
Trade and other receivables	410	13	149	572
Trade and other payables, lease liabilities	181	482	1,833	2,496
Other financial liabilities	189	(35)	-	154
Provisions	185	93	61	339
Tax losses carried forward	771	(231)	718	1,258
Other	118	113	(71)	160
Deferred tax liabilities, net	(703)	77	(6,829)	(7,455)

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:

	2022	2021
Balance, beginning of the year	1,107	1,057
Increase in unrecognised deferred tax assets	337	363
Recognition of previously unrecognised deferred tax assets	(449)	(313)
Balance, end of the year	995	1,107

The Group did not recognise deferred tax liabilities of RUB 1,768 million (2021: RUB 2,196 million) 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.

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12. 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 2022 and 2021, property, plant and equipment comprised:

	Land and natural assets	Buildings and facilities	Machinery and equipment	Other fixed assets	Properties in the course of construction	Total
Historical cost						
At 31 December 2020	863	17,982	34,113	4,632	6,056	63,646
Additions	100	-	-	-	18,544	18,644
Internal transfers	1	1,574	6,837	1,672	(10,084)	-
Reclassification between groups	-	58	53	(124)	-	(13)
Disposals	(5)	(58)	(389)	(618)	(37)	(1,107)
Additions from business combinations (Note 5)	267	5,861	7,066	5,703	1,125	20,022
Translation to presentation currency	(27)	(100)	120	(5)	(357)	(369)
At 31 December 2021	1,199	25,317	47,800	11,260	15,247	100,823
Additions	-	-	-	-	13,341	13,341
Internal transfers	290	4,238	6,852	1,670	(13,050)	-
Reclassification between groups	-	5	419	(424)	-	-
Disposals	-	(261)	(366)	(510)	(542)	(1,679)
Consolidation of Group Segezha West assets (Note 6)	-	-	-	24	6,429	6,453
Translation to presentation currency	(20)	(128)	(365)	(5)	(12)	(530)
At 31 December 2022	1,469	29,171	54,340	12,015	21,413	118,408

SEGEZHA GROUP PJSC

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	Land and natural assets	Buildings and facilities	Machinery and equipment	Other fixed assets	Properties in the course of construction	Total
Accumulated depreciation	-	5,466	13,642	2,154	-	21,262
Accumulated impairment	-	-	63	3	2	68
Total at 31 December 2020	-	5,466	13,705	2,157	2	21,330
Depreciation charge	-	1,403	3,540	691	-	5,634
Reclassification between groups	-	52	(2)	(63)	-	(13)
Disposals	-	(41)	(364)	(366)	-	(771)
Impairment	-	71	57	1	778	907
Translation to presentation currency	-	(30)	(93)	(3)	-	(126)
Accumulated depreciation	-	6,850	16,723	2,413	-	25,986
Accumulated impairment	-	71	120	4	780	975
Total at 31 December 2021	-	6,921	16,843	2,417	780	26,961
Depreciation charge	-	1,928	4,921	3,862	-	10,711
Reclassification between groups	-	-	28	(28)	-	-
Disposals	-	(155)	(304)	(238)	-	(697)
Impairment	-	(20)	(57)	(1)	(538)	(616)
Translation to presentation currency	-	(43)	(118)	(3)	-	(164)
Accumulated depreciation	-	8,580	21,250	6,006	-	35,836
Accumulated impairment	-	51	63	3	242	359
Total at 31 December 2022	-	8,631	21,313	6,009	242	36,195
Net book value						
At 31 December 2021	1,199	18,396	30,957	8,843	14,467	73,862
At 31 December 2022	1,469	20,540	33,027	6,006	21,171	82,213

During November-December 2021, as part of the strategic project of a powerful Siberian cluster of full cycle added-value wood processing (Segezha East) the Group has acquired detailed design documentation for the construction of a new pulp and paper mill with production capacity of 0.9 million tons of cellulose per year in the town of Lesosibirsk, Krasnoyarsk region, for the total amount of RUB 1,911 million. The Group has also acquired a Priority Investment Project (PIP) relating to the above construction of a new pulp and paper mill for the total amount of RUB 2,405 million that provides the Group with a priority right to conclude lease agreements for forest plots with a total annual allowable cut up to 4.3 cubic metres. The detailed design documentation is accounted for as Properties in the course of construction and PIP is accounted for as Intangible assets (Note 13).

In 2022 additions to Properties in the course of construction related mainly to the projects of modernization of Sokol Pulp and Paper Mill, Lesosibirsky LDK No.1 and consolidation of the Group Segezha West assets (detailed design documentation for construction of Pulp and Paper Mill in Segezha, Republic of Karelia (Note 6). In 2021 additions to Properties in the course of construction related mainly to the projects of modernization of Segezha Pulp and Paper Mill, acquisition of new consumer packaging production lines, acquisition of a new paper-making machine on Sokol Pulp and Paper Mill, as well as acquisition of forestry management equipment.

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

In 2022 the Group assessed whether there were any indicators of the possible impairment of certain production assets and performed valuation of recoverable value for production facilities of 'Forestry management and wood working' segment, located in the northwest of the European part of Russia, as well as 'Plywood and boards' and 'Laminated wood products' segments as separate CGUs. Valuation has been performed on value in use basis using discount rate of 14.3% p.a. As a result of the performed impairment test, no impairment was identified. No impairment indicators were identified in relation of other CGUs, fixed assets and properties in the course of construction.

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In 2021 the Group assessed whether there were any indicators of the possible impairment of fixed assets and properties in the course of construction. The Group identified impairment in the total amount of RUB 130 million relating to Buildings and facilities, Machinery and equipment and other fixed assets of Segezha Sawmills LLC due to production closure. The Group has also accrued impairment in the total amount of RUB 777 million relating to the detailed design documentation and other capitalized costs of White Bear and Lesbiotech projects due to revised and updated technical parameters of the projects. In 2022 certain previously impaired properties in the course of construction were written-off with corresponding disposal of accumulated impairment.

As at 31 December 2022, the Group had fully depreciated property, plant and equipment with a historical cost totalling RUB 11,156 million (31 December 2021: RUB 7,068 million).

As at 31 December 2022, the Group had property, plant and equipment with a carrying amount of RUB 3,692 million (31 December 2021: RUB 3,906 million) pledged as collateral to secure performance under loan and overdraft agreements.

In 2022, the Group capitalised interest expenses of RUB 7 million (2021: RUB 92 million).

As at 31 December 2022, advances paid for non-current assets included advances to suppliers for the purchase of property, plant and equipment of RUB 4,039 million (31 December 2021: RUB 5,280 million).

As at 31 December 2022, payables for property, plant and equipment were RUB 3,159 million (31 December 2021: RUB 1,875 million).

As at 31 December 2022, the Group had contractual obligations to machinery and equipment suppliers for the purchase of assets of RUB 12,044 million (31 December 2021: RUB 17,522 million).

13. INTANGIBLE ASSETS

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

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

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

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

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

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As at 31 December 2022 and 2021, intangible assets comprised:

	SAP	Other capitalized software	Other Intangible assets	Priority Investment Project (PIP)	Intangible assets in progress	Total
Historical cost						
At 31 December 2020	4	551	12	-	1,487	2,054
Additions	-	-	1	2,405	1,378	3,784
Internal transfers	1,867	109	4	-	(1,980)	-
Disposals	-	(96)	-	-	-	(96)
Additions from business combinations (Note 5)	-	16	-	-	-	16
At 31 December 2021	1,871	580	17	2,405	885	5,758
Additions	-	-	-	-	400	400
Internal transfers	202	229	9	-	(440)	-
Disposals	(96)	(3)	-	-	-	(99)
At 31 December 2022	1,977	806	26	2,405	845	6,059
Accumulated amortisation						
At 31 December 2020	4	224	4	-	-	232
Amortisation charge	64	130	1	-	-	195
Disposals	-	(96)	-	-	-	(96)
At 31 December 2021	68	258	5	-	-	331
Amortisation charge	136	151	2	-	-	289
Disposals	-	(3)	-	-	-	(3)
At 31 December 2022	204	406	7	-	-	617
Net book value						
At 31 December 2021	1,803	322	12	2,405	885	5,427
At 31 December 2022	1,773	400	19	2,405	845	5,442

14. 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 2022 and 2021:

	31 December 2022	31 December 2021
Raw materials, supplies and spare parts	16,116	11,620
Work-in-progress	3,511	5,327
Finished goods	5,702	5,755
Less: allowance for inventory impairment	(716)	(896)
Total inventories	24,613	21,806

The cost of inventories recognised as an expense was RUB 25,476 million (2021: RUB 26,857 million).

As at 31 December 2022, the Group had inventories with a carrying amount of RUB 1,164 million (31 December 2021: RUB 917 million) pledged as collateral to secure performance under loan and overdraft agreements.

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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 2022 and 2021:

	31 December 2021	31 December 2021
Trade and other receivables	9,349	8,399
Allowance for expected credit losses	(827)	(922)
Total trade and other receivables	8,522	7,477

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

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

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

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

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

- The nature of the relationship with the debtor (trade accounts receivables, accounts receivables for heat and other accounts receivable);
- Currency risks for accounts receivable denominated in USD, EUR and CNY;
- 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 26. 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.

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

	2022	2021
Balance, beginning of the year	(922)	(736)
Allowance	(118)	(315)
Amounts written off	31	75
Amounts recovered	180	34
Translation to presentation currency	2	20
Balance, end of the year	(827)	(922)

The aging analysis of trade and other receivables and the allowance for expected credit losses as at 31 December 2022 is presented as follows:

Trade and other receivables	Gross carrying amount	Lifetime ECL
Not past due	5,743	0.0%
Overdue 1-30 days	1,471	0.0-0.2%
Overdue 31-90 days	859	0.0-0.6%
Overdue 91-180 days	377	0.0-1.7%
Overdue 181-365 days	507	14.4-55.9%
Overdue more than 365 days	392	100%
Total	9,349	

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

Trade and other receivables	Gross carrying amount	Lifetime ECL
Not past due	5,808	0.0-0.2%
Overdue 1-30 days	814	0.0-0.2%
Overdue 31-90 days	745	0.0-1.5%
Overdue 91-180 days	204	0.0-4.6%
Overdue 181-365 days	420	14.4-45.5%
Overdue more than 365 days	408	100%
Total	8,399	

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 2022 were RUB 865 million (31 December 2021: RUB 1,292 million).

As at 31 December 2022, receivables of RUB 872 million (31 December 2021: RUB 944 million) 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 solely payments of principal and interest on the principal amounts outstanding, and (ii) they are not designated at fair value through profit or loss.

	31 December 2022	31 December 2021
Cash on hand	5	3
Cash in current accounts	4,794	2,619
Bank deposits with original maturity of less than three months (interest rate 0.01%- 10%)	18,080	10,011
Total cash and cash equivalents	22,879	12,634

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As at the reporting dates, cash and cash equivalents were denominated in the following currencies (foreign currencies balances are represented by RUB equivalents):

	31 December 2022	31 December 2021
RUB	15,330	11,209
CNY	5,876	161
USD	899	365
EUR	697	673
Other cash amounts denominated in other currencies	77	226
	22,879	12,634

17. VAT REIMBURSABLE AND TAXES RECEIVABLE

	31 December 2022	31 December 2021
VAT reimbursable	2,094	5,171
Other taxes receivable	479	440
Total VAT reimbursable and taxes receivable	2,573	5,611

18. ADVANCES AND OTHER CURRENT ASSETS

	31 December 2022	31 December 2021
Advances issued	2,212	2,448
Less: allowance for advances paid	(77)	(10)
	2,135	2,438
Other current assets	1,697	1,644
Total advances and other current assets	3,832	4,082

19. SHARE CAPITAL AND ADDITIONAL PAID-IN CAPITAL

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

On 28 April 2021, Segezha Group PJSC made initial public offering of 3.75 billion shares on Moscow Exchange. Each share has a par value of RUB 0.1, the indicative price range per one ordinary share was RUB 7.75-11, with the Offer Price was RUB 8.00 per one ordinary share. As a result of the initial public offering the Group raised RUB 30,000 million. Transactions costs directly relating to the share issue and initial public offering amounted to RUB 1,025 million accounted for directly in equity in the total amount of RUB 820 million net of the relevant current and deferred income tax at 20%. This transaction costs is payable in the second half of 2021 and is to be presented as 'Share issue transactions costs' as cash flows from financing activities in the consolidated statement of cash flows.

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

As at 31 December 2022 and 2021 Company's authorised and issued share capital amounted to RUB 1,569 million (31 December 2021: RUB 1,569 million) and consisted of 15,689,999,142 shares (31 December 2021: 15,690,000,000 shares) with a par value of RUB 0.1. All issued ordinary shares were fully paid. Ordinary shares provide voting rights but do not guarantee dividend returns.

Upon completion of the share issue and public placement transactions 25% of the Company's issued ordinary shares are traded in a public market.

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Profit distributable by the Company is defined on the basis of financial statements prepared in accordance with Russian Accounting Standards. As at 31 December 2022, the Company's retained earnings calculated in accordance with RAS were RUB 7,728 million (31 December 2021: RUB 11,337 million) (unaudited). The Company's additional paid-in capital as at 31 December 2022 was RUB 36,173 million (31 December 2021: RUB 36,173 million) (unaudited).

During the year ended 31 December 2022, the Company distributed dividends to its shareholders in the total amount of RUB 10,042 million (2021: RUB 6,590 million) based on the financial results for 2021. The dividends have been paid in June 2022, unpaid portion has been recognized within 'Dividends payable' in the consolidated statement of financial position. Additionally, in January 2022 the Company paid dividends to its shareholders in the total amount of RUB 6,590 million, distributed based on the financial results for 9 months of 2021.

Distributions to entities under common control

In 2022, the Group made a contribution of RUB 295 million (2021: RUB 644 million), without change in the ownership share, to the additional paid-in capital of entities under common control with the Group's stakeholders.

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

20. EARNINGS PER SHARE

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

Earnings per share for the years ended 31 December 2022 and 2021 is presented below:

	2022	2021
Net profit attributable to shareholders of Segezha Group PJSC	6,035	15,270
Weighted average number of ordinary shares in circulation (million shares)	15,690	14,426
Earnings per share attributable (in RUB)	0.38	1.06

21. LOANS AND BORROWINGS

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

As at 31 December 2022 and 2021, loans and borrowings comprised:

		31 December 2022		31 December 2021	
	Currency	Effective interest rate	Carrying amount	Effective interest rate	Carrying amount
Short-term loans and borrowings					
Secured loans					
Short-term bank loans	RUB	9.35%	1,152	9.18%	4,307
Short-term bank loans	EUR	4.78%	14	2.45%	25
Other			210		292
			1,376		4,624
Unsecured loans					
Short-term bank loans	RUB	10.50%	14,285	9.67%	7,132
Short-term bank loans	EUR	3.91%	2,903	1.27%	9,652
Short-term bank loans	CNY	3.50%	495		-
			17,683		16,784

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	Currency	31 December 2022		31 December 2021	
		Effective interest rate	Carrying amount	Effective interest rate	Carrying amount
Short-term portion of long-term corporate bonds	RUB	9.05%	18,198		-
Long-term loans and borrowings					
Secured loans and borrowings	RUB	9.14%	2,131		-
Unsecured loans					
Long-term bank loans	RUB	10.34%	25,622	9.16%	5,154
Long-term bank loans	EUR	0.55%	128	3.22%	17,188
Other		3.19%	97		112
			25,847		22,454
Long-term corporate bonds					
Long-term corporate bonds	RUB	10.62%	53,659	9.34%	29,908
Long-term corporate bonds	CNY	4.15%	4,947		-
			58,606		29,908
Total loans and borrowings			123,841		73,770

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

	2022	2021
Balance, beginning of the year	73,770	52,252
Loans and borrowings received	101,102	41,242
Loans and borrowings repaid	(44,472)	(22,637)
Non-cash changes, including:		
Fair value adjustments	(212)	(36)
Additions from business combinations (Note 5)	-	4,352
Foreign exchange differences*	(6,347)	(2,403)
Balance, end of the year	123,841	73,770

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

Assets pledged as security

As at 31 December 2022 and 2021, the carrying value of assets pledged to secure obligations under loan agreements and overdrafts are as follows:

	31 December 2022	31 December 2021
Property, plant and equipment	3,692	3,906
Inventories	1,164	917
Receivables	872	944

In addition, as at December 2022 and 2021, the Group pledged all of its stakes in:

- Verkhnelenskoe Rechnoe Parokhodstvo LTD;
- Tairiku-Igirma Group LLC;
- Igirma-Tairiku Lumber Mill LLC;
- Priangarue TM LLC;
- Kodinskaya PB LLC;
- Kodinskaya LPK LLC;
- Inter Forest LLC.

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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, taxes and depreciation and amortisation, adjusted for lease payments, which is equivalent to OIBDA adjusted for IFRS 16 lease payments as detailed in Note 26), compliance with the limits to ownership interest by the Group's ultimate shareholder, with forestry regulations, and with the requirements for the maintenance of licenses and restrictions on making new borrowings (in excess of the set consolidated net debt to the adjusted consolidated EBITDA ratio), providing loans, guarantees, sureties to third parties, assets management (disposing of material assets), increasing of collateral.

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

As at 31 December 2022 the Group has reclassified RUB 2,337 million of Long-term loans and borrowings to Short-term loans and borrowings due to the breach a covenant. As of the date of the issue of these financial statements the bank has not exercised their rights to impose penalties or to demand immediate repayment of the loan. The Group has no other breaches of covenants under bank credit agreements, for which there are no waivers from the banks confirming lack of intention for early debt collection.

As at 31 December 2021 the Group has reclassified a total of RUB 2,770 million of Long-term loans and borrowings to Short-term loans and borrowings due to the breach of several covenants. The liability relates to Priangarue TM, LLC and Verkhnelenskoe Rechnoe Parokhodstvo, LTD control over which was received by the Group on 28 December 2021 (Note 5). The Group had no other breaches of covenants.

22. TRADE AND OTHER PAYABLES

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

Below is the breakdown of trade and other payables as at 31 December 2022 and 2021:

	31 December 2022	31 December 2021
Trade payables	10,144	7,828
Wages and salaries	1,955	1,582
Interest payable	1,628	561
Other payables	7,383	6,808
Total trade and other payables	21,110	16,779

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

23. TAXES PAYABLE

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

	31 December 2022	31 December 2021
Payments to social funds	1,771	736
VAT	782	1,442
Personal income tax	161	275
Other taxes	150	191
Total taxes payable	2,864	2,644

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24. PROVISIONS

Provisions are presented as follows:

	Reforesta- tion	Legal claims	Employee benefits	Other	Total
At 31 December 2020	96	69	381	14	560
Accrued	248	322	649	30	1,249
Additions from business combinations (Note 5)	293	-	-	3	296
Utilised	(96)	(62)	(381)	(13)	(552)
At 31 December 2021	541	329	649	34	1,553
Accrued	798	89	908	30	1,825
Utilised	(541)	(84)	(649)	(34)	(1,308)
At 31 December 2022	798	334	908	30	2,070

25. EMPLOYEE BENEFIT EXPENSES

Employee benefit expenses comprise salary, bonuses, long-term incentive plans and social contributions. Employee benefit expenses included in cost of goods sold, selling and administrative expenses for the years ended 31 December 2022 and 2021 were RUB 26,123 million and RUB 18,784 million respectively.

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

During the year ended 31 December 2021, payments under long-term incentive plans amounted to RUB 2,110 million. No payments were performed during the year ended 31 December 2022.

26. 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 a going concern 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 21, 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:

	2022	2021
Total consolidated net debt	100,962	61,136
OIBDA	24,662	29,252
Net debt-to-OIBDA ratio	4.09	2.09
Lease payments under IFRS 16 (Note 29)	(4,143)	(1,710)
OIBDA adjusted for lease payments under IFRS 16	20,519	27,542
Net debt to adjusted OIBDA	4.92	2.22

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Below is the reconciliation of OIBDA and net debt:

	Notes	2022	2021
Operating profit		10,111	22,350
Depreciation and amortisation	7,8,9	14,551	6,902
OIBDA		24,662	29,252
Loans and borrowings	21	123,841	73,770
Cash and cash equivalents	16	(22,879)	(12,634)
Total consolidated net debt		100,962	61,136

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 management 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 may use 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. Therefore, the Group is exposed to currency risks. The Group is exposed to fluctuations in foreign currency rates, with a major exposure coming from EUR/RUB, USD/RUB and CNY/RUB exchange rates.

Below are the carrying amounts of the Group's financial instruments denominated in foreign currencies (RUB equivalents using spot rate at the reporting date):

	EUR	USD	CNY
31 December 2022			
Trade and other receivables	1,358	1,582	2,023
Cash	697	899	5,876
Trade and other payables	(1,775)	(265)	(2)
Loans and borrowings	(3,045)	-	(5,442)
Net currency position	(2,765)	2,216	2,455
31 December 2021			
Trade and other receivables	1,017	1,527	314
Cash	673	365	161
Trade and other payables	(1,768)	(1,783)	-
Loans and borrowings	(26,865)	-	-
Net currency position	(26,943)	109	475

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The following table details the Group's sensitivity to a 40% decrease (2021: 40%) in the RUB exchange rates against the relevant foreign currencies. A sensitivity rate of 40% (2021: 40%) 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.

	2022		2021	
	Movements in RUB exchange rate against	Impact on profit or loss before tax	Movements in RUB exchange rate against	Impact on profit or loss before tax
EUR	+40%	(1,106)	+40%	(10,777)
USD	+40%	886	+40%	44
CNY	+40%	982	+40%	190

An increase by 40% (2021: 40%) in the RUB exchange rate against the above currencies will result in a decrease of profit or loss before tax.

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

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

Interest rate risk – the Group borrows funds at both fixed and floating interest rates. In 2022, the Group borrowed funds at a floating rate. Expenses on borrowings at floating interest rates were RUB 1,435 million for the year ended 31 December 2022 (2021: RUB 263 million).

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

In February 2022 the Central Bank of Russia has increased the key rate up to 20% with the subsequent step-by-step decrease up to 7.5%. The impact of the possible future changes in the economic environment and Central Bank's of Russia actions on the future results of the Group's operations and its financial standing is difficult to assess.

The interest rate increasing by 1% p.a. will not result in extra material expenses under the existing loans and borrowing liabilities as 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. An analysis of expected credit losses is presented in Note 15.

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 2022 were RUB 865 million (31 December 2021: RUB 1,292 million).

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As at 31 December 2022, cash and cash equivalents were placed with the banks that had the following credit ratings:

Rating agency	National rating assigned	31 December 2022
RAEX	ruA-	12,768
RAEX	ruAAA	5,395
RAEX	ruAA+	2,036
RAEX	ruA+	1,221
RAEX	ruAA	634
Acra	ruAAA	240
	Other	580
		22,874

As at 31 December 2021, cash and cash equivalents were placed with the banks that had the following credit ratings:

Rating agency	International rating assigned	31 December 2021
Fitch rating	BBB	11,569
Fitch rating	B	533
Moody's	B2	117
Fitch rating	F-3	81
Moody's	A3	80
Fitch rating	F-2	15
	Other	236
		12,631

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:

	0 - 30 days	31 - 365 days	1 year - 5 years	Over 5 years	Total amount including repayments related to interest expenses	Carrying value
At 31 December 2022						
Loans and borrowings*	11,710	32,518	104,590	978	149,796	123,841
Trade and other payables	13,770	7,340	-	-	21,110	21,110
Lease liability	216	3,837	10,961	62,106	77,120	23,515
Other non-current liabilities	-	-	1,583	-	1,583	1,430
	25,696	43,695	117,134	63,084	249,609	169,896
At 31 December 2021						
Loans and borrowings*	1,091	24,665	54,432	7,400	87,588	73,770
Trade and other payables	4,739	12,040	-	-	16,779	16,779
Lease liability	225	3,961	11,583	56,550	72,319	25,174
Other non-current liabilities	-	-	-	3,472	3,472	3,472
	6,054	40,666	66,015	67,422	180,158	119,195

* Maturity profile for loans and borrowings does not include reclassification to short-term liabilities disclosed in Note 21 due to the absence of the demand of early repayment from banks as of the date of these financial statements.

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As at 31 December 2021, unused credit line facilities were RUB 22,132 million, EUR 1 million and DKK 3 million (31 December 2021: 10,668 million, EUR 43 million and DKK 37 million). In the future, the Group expects to settle its liabilities with operating cash flows and long-term financing.

27. 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.

Fair value of long-term loans and borrowings is generally measured using discounted cash flows (Level 3 of the fair value hierarchy).

Fair value of long-term corporate bonds is measured using market quotations (Level 1 of the fair value hierarchy).

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
At 31 December 2022		
Long-term corporate bonds (Level 1)	58,606	59,232
Long-term loans and borrowings (Level 3)	27,978	27,589
At 31 December 2021		
Long-term corporate bonds (Level 1)	29,908	29,874
Long-term loans and borrowings (Level 3)	22,454	23,364

Fair value of long-term loans and borrowings was measured using discounted cash flows applying historical interest rates for the funds borrowed close to the reporting date. As at 31 December 2022, the Group used discount rate of 10.8% p.a. (31 December 2021: 9.7% p.a.) for valuation of loans and borrowing nominated in Russian rubles, the rate does not include subsidies' effect. The higher the rates used to calculate borrowings, the lower their fair value.

In 2020 and 2021, the Group entered into cross-currency interest-rate swap agreements with respect to previously issued corporate bonds. Both principal and half-year interest payments are swapped.

In 2022 these cross-currency interest rate swaps were closed. Swaps are recognised in the financial statements at fair value through profit or loss (presented in '*Other finance income/(expenses)*'). The fair value of swaps is determined using discounted future cash flows. Future cash flows are estimated using spot exchange rates (at the reporting date), contract and forward exchange rates, discounted at the interest rates applicable to similar financial transactions at each reporting date (Level 3).

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Changes in cross-currency interest rate swaps for the years ended 31 December 2022 and 31 December 2021, are presented below:

	2022	2021
Fair value, beginning of the year	(974)	(943)
Income from interest swap transaction	1,579	411
Cash received	(1,579)	(411)
Fair value revaluation	974	(31)
Fair value, end of the year	-	(974)

28. RELATED PARTY TRANSACTIONS

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

In 2022 and 2021, 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 2022 and 2021:

		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	2022	-	2	-	-
	2021	-	2,002	-	35
Sistema's subsidiaries	2022	41	2,316	21	532
	2021	362	2,318	30	4,281
Other related parties	2022	208	114	50	318
	2021	32	837	422	70

Transactions with other related parties are represented by transactions with associates of the Group. Purchases of goods and services from Sistema subsidiaries mainly include purchases of electric power from MTS Energo, LLC. Purchase of goods and services from Sistema, PJSFC during the year ended 31 December 2021 includes acquisition of the detailed design documentation with respect to construction of a new pulp and paper mill and land plots for the total amount of RUB 2,000 million.

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

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

		Interest income for the year	Cash as at 31 December
Deposits maturing within to 3 months	2022	555	11,711
	2021	344	10,011
Cash in current accounts	2022	-	1,057
	2021	-	266

As at 31 December 2022, the Group had outstanding balances of loans issued to Galich Plywood Mill LLC and GalichLes LLC (31 December 2021: Galich Plywood Mill LLC, GalichLes LLC and Segezha West JSC) as a part of joint ventures financing.

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The change in the loans issued for the years ended 31 December 2022 and 2021 are as follows:

	2022	2021
Balance, beginning of the year	8,266	1,348
Loans issued to joint venture	3,052	6,968
Repayment of loans issued to joint venture	-	(50)
Disposed on consolidation of Group Segezha West	(3,340)	-
Balance, end of the year	7,978	8,266

For the 12 months ended December 31, 2021 the Group received interest income on these loans in the amount of RUB 886 million (for the 12 months ended December 31, 2021: RUB 282 million). As at 31 December 2022, interest receivable is RUB 956 million (31 December 2021: 400 million).

In 2022, remuneration to the members of the Board of Directors was RUB 25 million (2021: RUB 29 million). In 2022, remuneration to key management was RUB 469 million (2021: RUB 1,797 million).

29. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Group as lessee

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

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

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

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

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

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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	2022	2021
Timber harvesting companies and divisions in Russia	Russia	10.83%	9.70%
Arka Merchants Limited	Ireland	5.00%	5.00%
Segezha Packaging GmbH	Germany	2.95%	2.95%
Segezha Packaging A/S	Denmark	2.95%	5.00%
Segezha Packaging S.p.A.	Italy	3.03%	2.03%
Segezha Packaging B.V.	Netherlands	3.30%	2.75%
Segezha Ambalaj Sanayi ve ticaret Anonim Sirketi	Türkiye	3.95%	3.65%
Segezha Packaging SRL	Romania	4.61%	2.50%
Segezha Packaging A.B	Sweden	9.32%	9.32%
Segezha Packaging France SA	France	2.95%	2.95%
Segezha Packaging SRO	Czech Republic	4.00%	4.00%

As at 31 December 2022 and 2021, right-of-use assets comprised:

	Forest plots	Buildings and facilities	Machinery and equipment	Transport	Land	Other	Total
At 31 December 2020	12,028	1,521	337	60	335	368	14,649
Additions from business combinations (Note 5)	44,708	305	1,341	1,466	790	-	48,610
Additions of right-of-use assets/modification of lease agreements	1,705	141	111	15	91	(1)	2,062
Depreciation of right-of-use assets	(710)	(260)	(51)	(33)	(25)	(37)	(1,116)
Disposals of right-of-use assets	-	(6)	-	-	(6)	-	(12)
Translation to presentation currency	-	(82)	(49)	2	-	(3)	(132)
At 31 December 2021	57,731	1,619	1,689	1,510	1,185	327	64,061
Consolidation of Group Segezha West	-	10	-	-	41	-	51
Additions of right-of-use assets/modification of lease agreements	381	297	(237)	(97)	30	3	377
Depreciation of right-of-use assets	(2,254)	(404)	(332)	(384)	(188)	(26)	(3,588)
Disposals of right-of-use assets	(66)	-	(55)	(17)	(36)	-	(174)
Translation to presentation currency	-	(98)	(33)	(4)	-	(1)	(136)
At 31 December 2022	55,792	1,424	1,032	1,008	1,032	303	60,591

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The table below shows expenses recognised in the consolidated statement of profit or loss and other comprehensive income for the years ended 31 December 2022 and 2021:

	2022	2021
Depreciation of right-of-use assets	3,588	1,116
Short-term lease expenses	88	98
Interest on lease liabilities	2,273	1,146
	5,949	2,360

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

	2022	2021
Balance, beginning of the year	25,174	10,954
Lease liability payments	(4,143)	(1,710)
Non-cash changes, including:		
Conclusion/(disposal) and modification of lease agreements	228	2,043
Interest expense	2,273	1,146
Additions from business combinations (Note 5)	-	12,841
Consolidation of Group Segezha West liabilities	59	-
Foreign exchange differences*	(76)	(100)
Balance, end of the year	23,515	25,174

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

As at 31 December 2022 and 2021, lease liabilities comprised:

	31 December 2022	31 December 2021
Lease payments due under lease liabilities were as follows:		
Up to 1 year	4,053	4,186
From 1 year to 5 years	10,961	11,583
Over 5 years	62,106	56,550
Total lease payments	77,120	72,319
Less the effect of discounting	(53,605)	(47,145)
Present value of net lease payments, including:		
Up to 1 year	3,953	3,903
From 1 year to 5 years	8,717	9,002
Over 5 years	10,845	12,269
Total lease liability as per the Group's consolidated statement of financial position	23,515	25,174
Long-term liability	19,562	21,271
Short-term liability	3,953	3,903

30. CONTINGENT ASSETS AND LIABILITIES

Taxation

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

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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.

Potential adverse effect of economic volatility and sanctions in Russia – In February 2022, the EU, US and UK and certain other countries have imposed significant new sanctions and export control on Russian and Belarus persons and entities. These sanctions resulted in reduced access of the Russian business to international capital and some export markets, volatility of the Russian Ruble, rise of inflation, decline in capital markets, restrictions targeting several major Russian financial institution and Central Bank of Russian Federation, a number of companies and individuals, technology export controls and other negative economic consequences.

On 28 February 2022, trading on Moscow Exchange in all securities was suspended (including the Company's ordinary shares), with the suspensions later extended to 28 March 2022.

Developments related to these matters are highly unpredictable, occur swiftly and often with short notice and are mostly outside the control of the Group, and the risk that any Group member, or individuals holding positions within the Group as well its counterparties, may be affected by future sanctions designations cannot be excluded.

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In 2022 foreign policy tensions have disrupted supply chains for both: goods supplied by the Group and certain components, spare parts and auxiliary raw materials and supplies, as well as have increased logistics rates. An increased to 20% key rate resulted in a more expensive debt financing, which was partially reversed by a gradual decrease of the key rate to 8% in July 2022. Moreover, due to the Group's focus on exports (72% of the Group's revenue denominated in foreign currency) the stronger Russian Ruble starting April 2022 supported by the foreign policy tensions had a negative impact on financial performance of the Group.

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

31. EVENTS AFTER THE REPORTING PERIOD

Disposal of Arka Merchants Limited and its subsidiaries

On 22 February 2023, the Group entered into agreement to sell 100% stake in share capital of Arka Merchants Limited and its subsidiaries (7 Segezha Packaging plants located in Europe and Türkiye with a total capacity of 704 million of paper sacks p.a.). Management of the Group does not expect this transaction to have a significant impact on the financial results of the Group.

Revenue and net profit for the year ended 31 December 2022 for Arka Merchants Limited and its subsidiaries included in 'Paper and packaging' segment results are RUB 13,747 million and RUB 384 million, respectively.

Repayment and issue of corporate bonds

On 26 January 2023, the Company settled corporate bonds with nominal value of RUB 10,000 million.

On 3 February 2023, the Company issued corporate bond with nominal value of RUB 6,000 million and coupon rate of 10.6% p.a. and offer date in May 2025.