



JOINT-STOCK FINANCIAL CORPORATION  
**SISTEMA**

SMARTSPACE

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# Acquisition of forestry and pulp & paper assets

April 2014



## Disclaimer

Certain statements in this presentation may contain assumptions or forecasts in respect to forthcoming events within Sistema JSFC. The words “expect”, “estimate”, “intend”, “will”, “could” and similar expressions identify forward-looking statements. We wish to caution you that these statements are only predictions and that actual events or results may differ materially. We do not intend to update these statements to reflect events and circumstances occurring after the above-mentioned date or to reflect the occurrence of unanticipated events. Many factors could cause the actual Sistema’s results to differ materially from those contained in our projections or forward-looking statements, including, among others, deteriorating economic and credit conditions, our competitive environment, risks associated with operating in Russia, rapid technological and market change in our industries, as well as many other risks specifically related to Sistema and its operations.

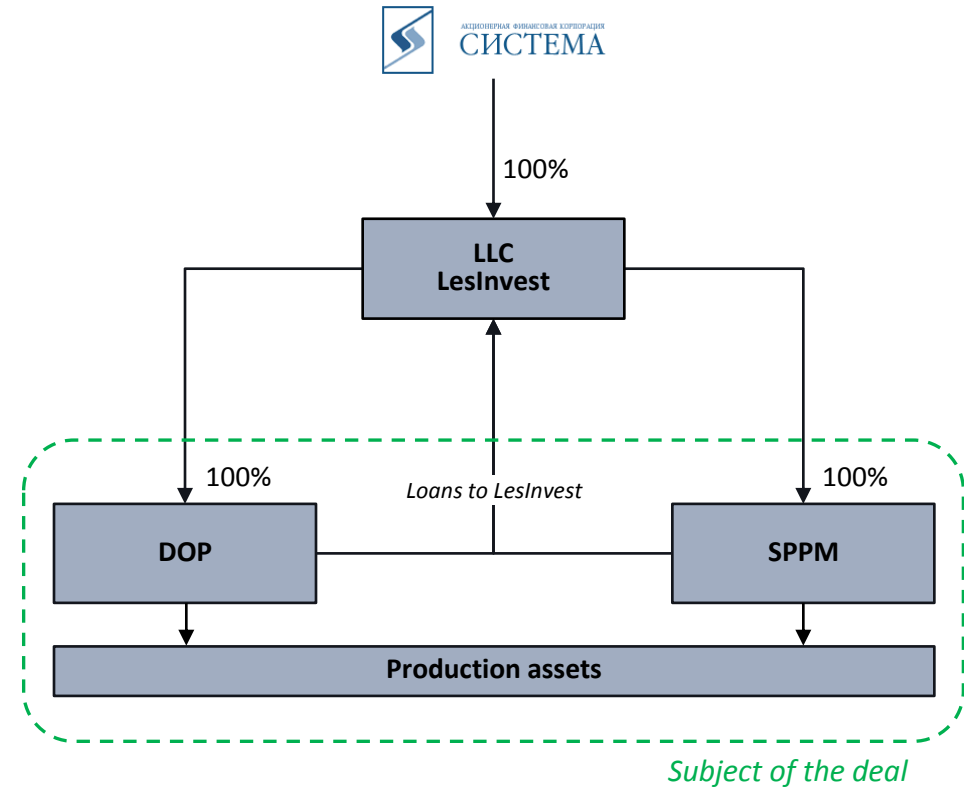


# Deal Structure

## KEY DEAL TERMS

- > **Subject of the transaction:**
  - > 100% of Derevoobrabotka-Proyekt (“**DOP**”),
  - > 100% of Segezha Pulp and Paper Mill (“**SPPM**”)
  - > Loans to DOP and SPPM and their subsidiaries from Bank of Moscow
- > **Buyer:** specially established LLC LesInvest, 100% owned by Sistema
- > **Seller:** The Bank of Moscow
- > **LBO structure:** Up to 50% of the deal price to be funded through debt attracted to DOP and SPPM
- > **Conditions precedent:** Antitrust in Russia, Europe and Turkey

## THE TARGET STRUCTURE



**Sistema has agreed to acquire 100% of Derevoobrabotka-Proyekt, 100% of Segezha Pulp and Paper Mill on a debt-free cash-free basis**



# Deal Rationale

<b>The Group is a leading player on the relevant markets</b>	<ul style="list-style-type: none"><li>&gt; The Group is the largest vertically-integrated export-oriented forestry holding in Russia:<ul style="list-style-type: none"><li>&gt; Russia's largest producer of sack paper and paper sacks</li><li>&gt; Europe's second largest producer of paper sacks</li><li>&gt; One of the largest producers and exporters of wood boards and timber products</li></ul></li></ul>
<b>Stable business with leverage potential</b>	<ul style="list-style-type: none"><li>&gt; Key 2013E financials:<ul style="list-style-type: none"><li>&gt; Revenue RUB 20.9bn</li><li>&gt; EBITDA RUB 2.4bn (11.3%)</li></ul></li><li>&gt; Share of export revenue is 54%</li><li>&gt; Additional borrowing capacity: up to 3.0x EBITDA</li></ul>
<b>Solid market fundamentals</b>	<ul style="list-style-type: none"><li>&gt; Strong demand for paper sacks in Russia and in key export markets</li><li>&gt; Growing exports of plywood, wood boards and timber products from Russia</li><li>&gt; Market consolidation opportunities particularly in plywood and timber products where market is fragmented</li></ul>
<b>Platform for future development in the sector</b>	<ul style="list-style-type: none"><li>&gt; Optimisation of business processes and equipment modernisation in wood sourcing segment will enable to increase EBITDA margin to a par with that of global leaders: 14-15%</li><li>&gt; New investment potential projects under consideration can further increase the Group's profitability and equity value</li></ul>

**Leading market position with stable cashflow, low leverage and solid market fundamentals**

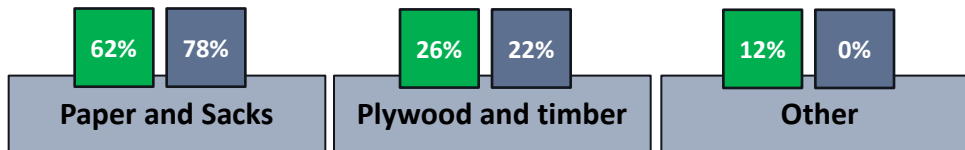


# The Group Overview

## BUSINESS OVERVIEW

- > Largest vertically-integrated export-oriented forest holding in Russia, focused on paper sacks, sack paper and plywood production
- > The largest forest user in European Russia with annual allowable cut of 4.5 mln m<sup>3</sup>
- > All the companies of the holding are FSC certified (forest management and supply chains)

Share in revenue / Share in export revenue



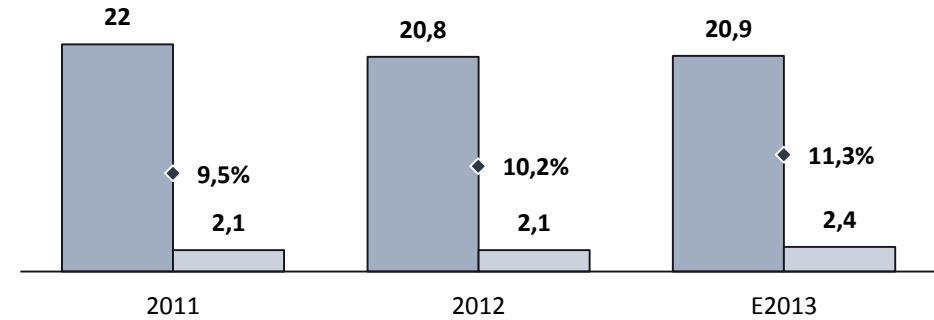
- Paper and Sacks**
- > Paper sacks
  - > Sack paper
  - > Parchment paper

- Plywood and timber**
- > Timber products and plywood
  - > Particle boards
  - > Fiber boards
  - > Laminated beams
  - > House-building sets

- Other**
- > Heat energy
  - > Raw wood
  - > Resin industry
  - > Other

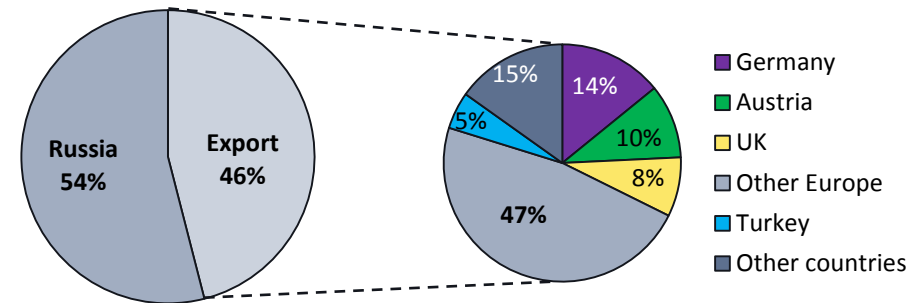
## KEY FINANCIALS\*

in RUB bln



■ Revenue □ EBITDA ◆ EBITDA margin

## Revenue structure in 2012

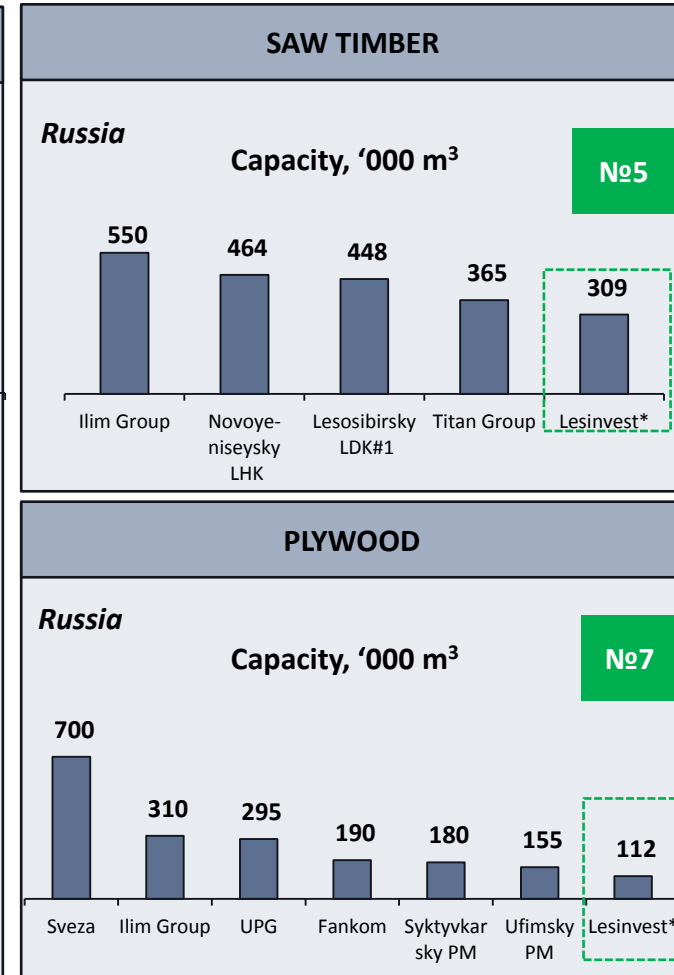
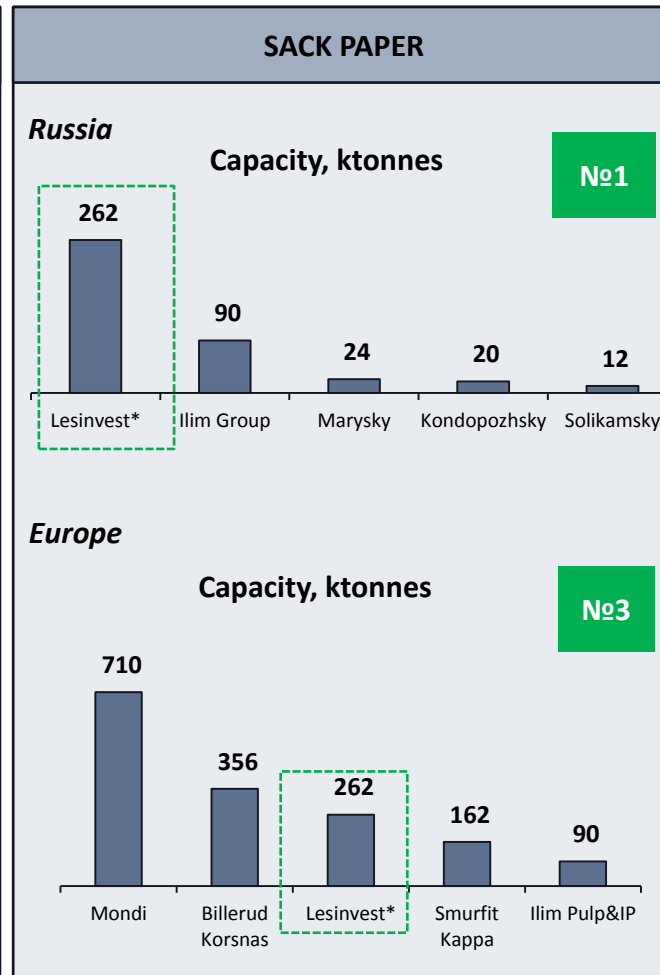
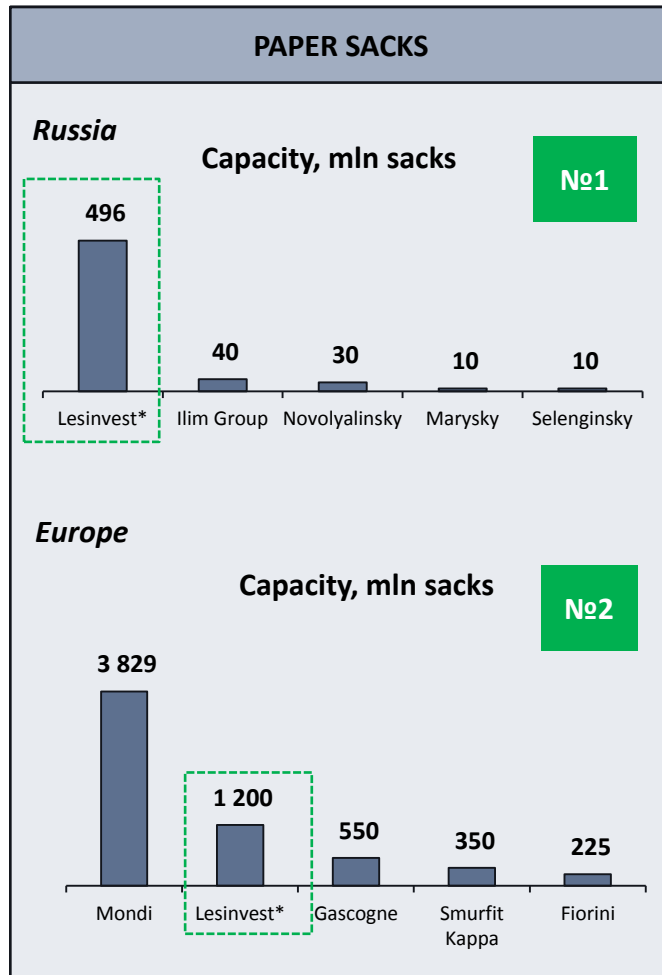


**The Group is a major export-oriented holding focused on sales of paper sacks, sack paper and timber products**

\* Source: management accounts and company's forecasts



# Business Position in Paper Sacks and Sacks Paper Production



Leading positions in key areas of presence: largest producer of paper sacks and sack paper in Russia, second position in Europe by paper sack production capacity

\* Lesinvest after the deal

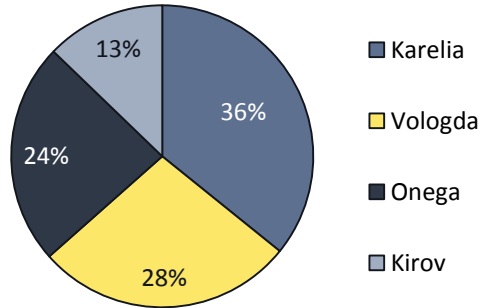
Source: Company data, Pöyry



# Key Producing Assets and Products

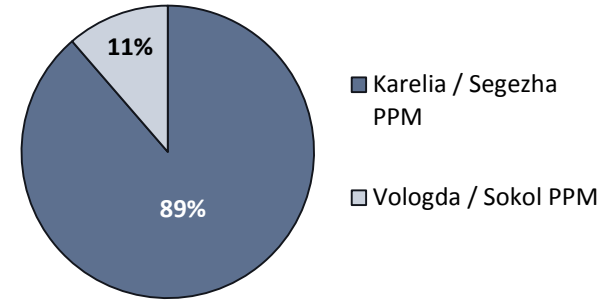
## ALLOWABLE CUT

Total annual allowable cut: 4.5 mln m<sup>3</sup>



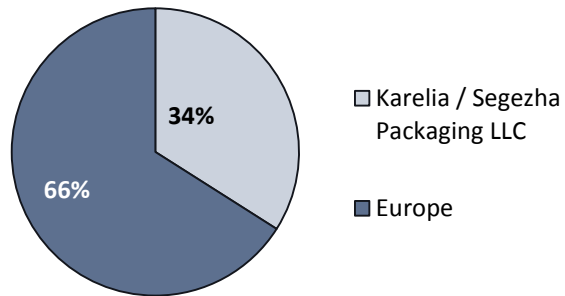
## PAPER

Total sales: 141k tonnes



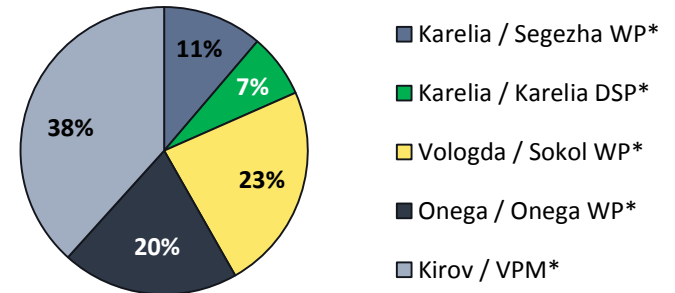
## PAPER SACKS

Total sales: 1.2 bln sacks



## PLYWOOD, TIMBER PRODUCTS AND WOOD BOARDS

Total sales: 783k m<sup>3</sup>



\*Segezha WP, Sokol WP and Onega WP produce timber products, Karelia DSP - particleboards, VPM - plywood and fiberboards



# Development Strategy

Segment	Current Situation	Near-term strategy	Long-term projects
<b>Forest Harvesting</b>	<ul style="list-style-type: none"> <li>&gt; High wear of machinery and equipment</li> <li>&gt; High repair costs</li> <li>&gt; Low labour productivity</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Replacement of logging, carrying and auxiliary equipment in Karelia, Vologda and Onega</li> <li>&gt; Optimisation of business processes</li> <li>&gt; Estimated CAPEX in 2014 at RUB 1 bln</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Potential acquisition of forest resources</li> </ul>
<b>Paper and Sacks</b>	<ul style="list-style-type: none"> <li>&gt; Under investment in equipment creating quality and competitiveness risks</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Modernisation and renewal of worn equipment at Segezha Mill</li> <li>&gt; Increase maintenance CAPEX at Segezha Mill</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Segezha P&amp;P Mill reconstruction / Polar Bear project</li> <li>&gt; Increase sacks production in Russia</li> <li>&gt; expand into new markets: Indonesia, Egypt, Malaysia, and India</li> </ul>
<b>Plywood and sawn wood</b>	<ul style="list-style-type: none"> <li>&gt; Sokol Woodworking Plant, Karelia DSP, and Vyatka Plywood Mill do not require significant capital expenditure</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Keeping maintenance CAPEX steady</li> </ul>	<ul style="list-style-type: none"> <li>&gt; New 2 plywood mills in Kirov and Sokol</li> </ul>
<b>Other</b>			<ul style="list-style-type: none"> <li>&gt; Establish pellet production plant in Sokol as to utilise additional product</li> </ul>

## Key tasks for the next 2 years:

- > Increase profitability to world's sector average (c. 14%)
- > Modernise equipment and preserve competitiveness – financed by existing cashflows and debt
- > Increase operating efficiency and strengthen expertise with strong management team
- > Prepare the platform for growth, including entering new export markets

**Twin strategy focused on “quick wins” restructuring and optimisation followed by selective production and resource expansion**

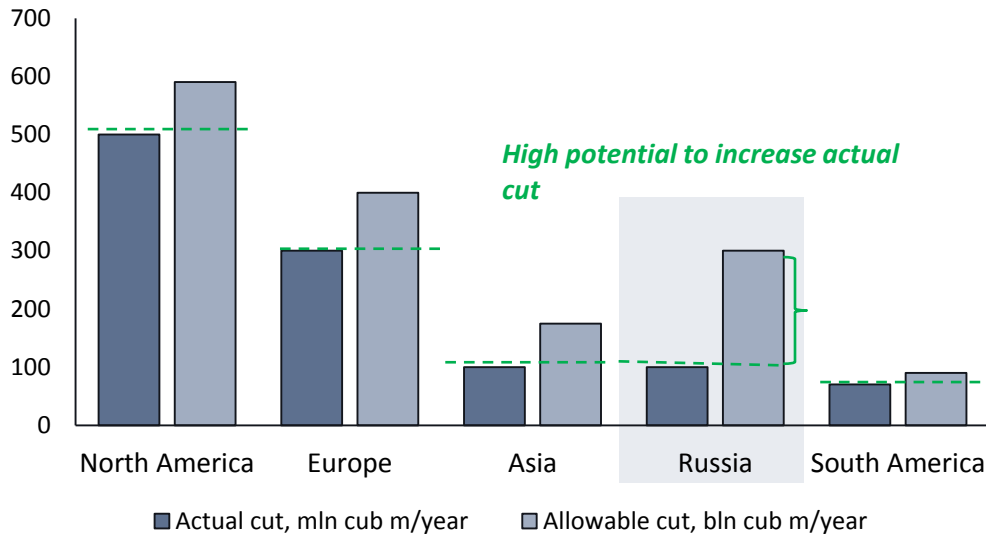




# Russian Market Competiveness

## RESOURCES IN RUSSIA – CONIFEROUS WOOD

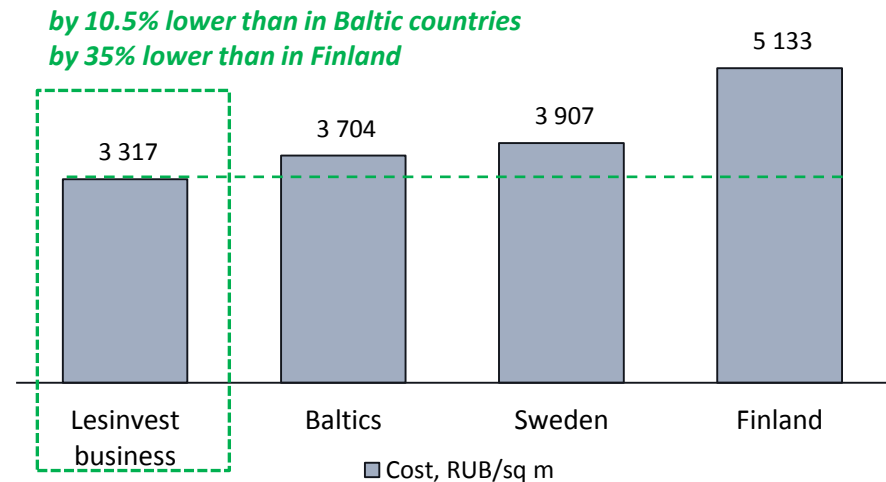
- > Coniferous wood is the best feedstock for production of high quality paper



- > Coniferous wood increase quality and sale price of products
- > Allowable cut in Russia significantly exceeds actual cut, providing opportunities to increase production volumes

## LOW WOOD PRODUCTION COST

- > Key business competitors have high wood production costs



- > Cost of production per unit in Lesinvest is lower by 25% on average than in the countries of competitors
- > While quality and wood stock are significantly higher

Low wood cost production and high quality feedstock are key advantages of Russian producers



# Paper Sacks and Timber Products Markets: Prospects

## KEY MARKET GROWTH DRIVERS

### Paper sacks

- > Growth of the Russian cement industry by 60% by 2020 (+6% per year) is expected to create sustainable demand for paper sacks in Russia
- > The highest growth of foreign demand for paper sacks is expected in the USA (+6% per year) and Asia (+4% per year)
- > European paper sack consumption volumes are expected to remain steady until 2020

### Plywood and wood boards

- > Over 50% of the plywood produced in Russia is exported; growth of plywood consumption in the USA backed by an overall economic recovery is expected to support growth of exports from Russia (c. 6% per year)

### Timber products

- > Steady growth in demand from China, which accounts for over 30% of Russia's timber products exported

## MARKET CONSOLIDATION OPPORTUNITIES

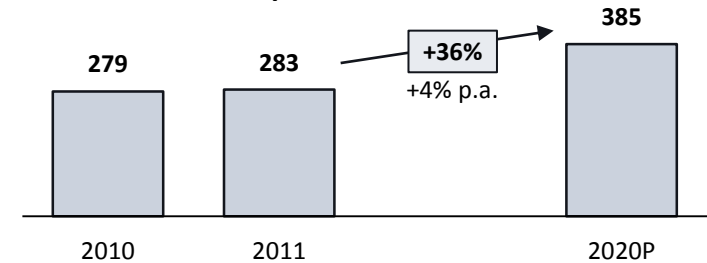
### Paper sacks

- > The industry is highly concentrated: top 5 producers account for 75% of the market in Europe and 84% of the market in Russia

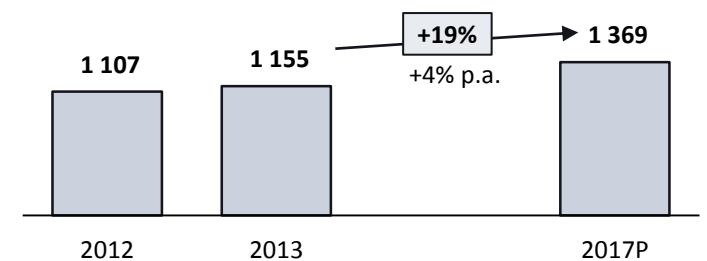
### Plywood and timber products

- > Fragmented market: top 5 players account for 10% of the market in Europe and 7% of the market in Russia. The market may be consolidated through acquisition of other players or construction of new plants

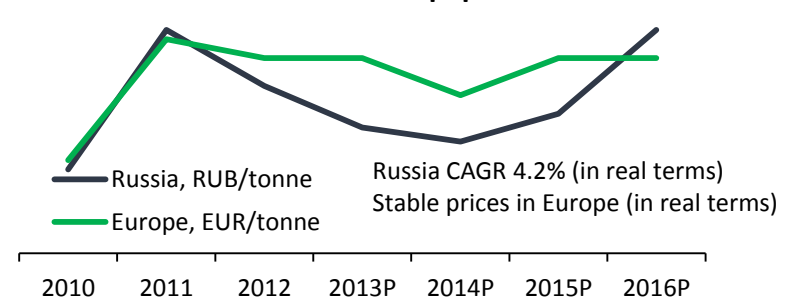
Global timber products market, mln m<sup>3</sup>



CIS paper sacks market, mln



Prices for sack paper



**Demand for paper sacks, plywood, and timber products from key consumers will on average grow at ca. 4% per year**

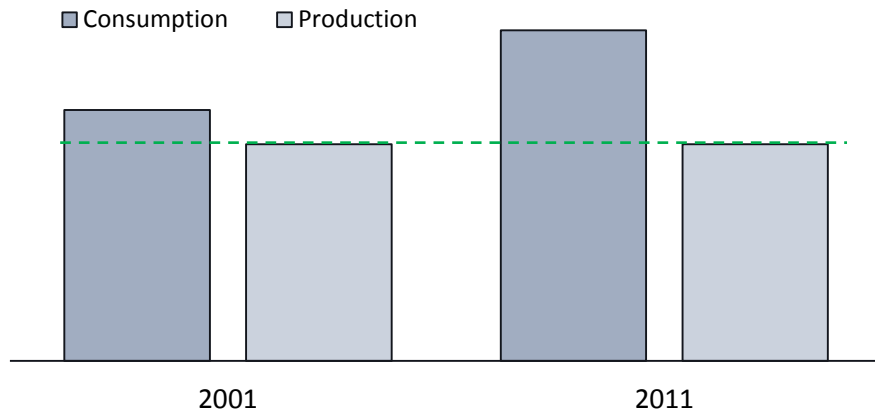


# Export Markets – Expansion Opportunities

- > Lesinvest has good growth potential through expansion to new export markets, especially Asia
- > Asian market demonstrates the highest demand and growing imports for plywood and coniferous wood
- > Countries with the largest demand are Indonesia, China, Pakistan and Vietnam
- > Stable European and CIS markets provide support for smooth diversification of export geography

## PERSPECTIVE EXPORT MARKETS

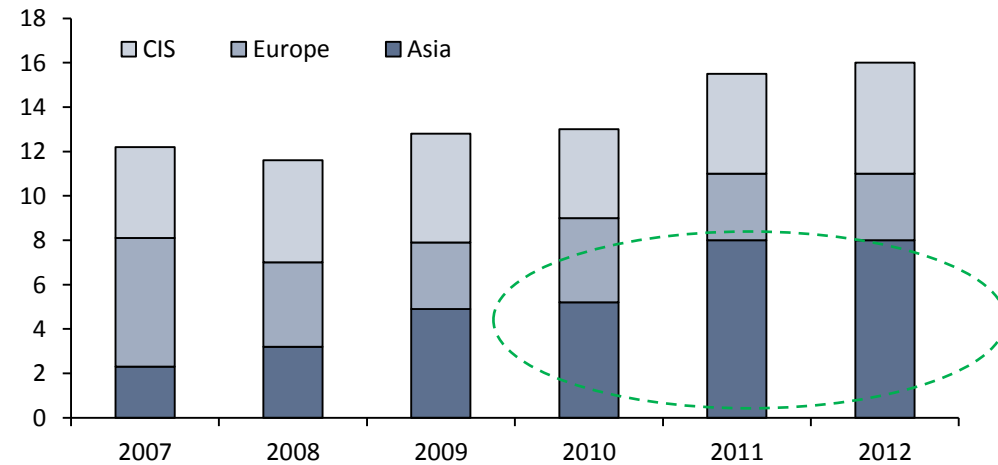
### Demand for plywood, paper sacks and paper in Asia



- > Asia – most perspective export direction
- > Demand exceeds supply in Asia – import is expected to grow

## BUILT EXPORT INFRASTRUCTURE

### Exports of plywood and coniferous wood paper from Russia



- > Increasing export to Asia from Russia
- > Share of Europe remains stable
- > Export to CIS demonstrates smooth growth



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