NEW GLOBAL CHALLENGES FOR RUSSIAN SAWN TIMBER PRODUCERS

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1. SEGEZHA GROUP: full processing production cycle

Broad geographical sales range, a leading sawn timber producer in Russia

**TIMBER RESOURCES DIVISION**
- Resource Security

**TIMBER RESOURCES**
- Annual allowable cut: 12.7 Mln m³/year
- Total harvesting volume: 7.3 Mln m³/year

**WOOD WORKING DIVISION**
- Sawn timber: 1.9 mln m³/year
- Glued wooden components: 70 th. m³/year
- Woden buildings: 30 th. m³/year
- CLT: 50 th. m³/year
- Pellets: 220 th. m³/year

**PAPER AND PACKAGING DIVISION**
- Cellulose: 400 th. tones/year
- Kraft Sack Paper: 409 th. tones/year
- Paper sacks: 1.4 bn pcs/year

**PLYWOOD AND BOARDS DIVISION**
- Plywood: 192 th. m³/year
- Glued wooden components: 70 th. m³/year
- Woden buildings: 30 th. m³/year
- CLT: 50 th. m³/year
- Pellets: 220 th. m³/year
2. SAWN TIMBER SHORTAGE, VERY HIGH DEMAND GROWTH RATE AND HIGH PRICES ARE OVER

US LUMBER FUTURES PRICE

TWO DIFFERENT MARKETS IN ONE YEAR

H1 2021:
- Demand growth rate exceeds offer.
- Reasons: high demand for housing construction, house renovation, high DIY consumption.
- Global sawn timber shortage.
- Record-low volume of stocks throughout the supply chain.
- State support as a resource for development of the construction industry.
- Unprecedented deficit of trucks. Logistical restrictions at ports due to COVID. Growing logistics costs.

H2 2021:
- Seasonal decline in construction rates, postponement of construction projects until 2022 due to fast growing of prices.
- Restoration of the “supply-demand” balance, stock increase, change in pricing trend (USA – decrease by almost 3 times, price adjustment in China, Europe, MENA).
- High prices for raw materials and logistics services, unchanged since H1.

Sawmills in Russia – in Siberia and North-West part – are remote from big cities. During the COVID period, they worked with minimal restrictions.

Despite the price increase, Russia has reduced its exports for the second year in a row (due to a lack of raw materials and production capacity). Opportunities to increase the rate of production are limited.

High export prices were the reason of lack of sawn timber on the market. Russian government has imposed duties on construction materials (metal, green sawn timber).

Prices for raw materials increased (by 2-2.5 times y/y). Logistics costs reduced earnings from higher market prices. Profitability of sawmills, which don’t have the own harvesting, is low.

### PRODUCTION GEOGRAPHY, 2021

- **Siberia**: 43%
- **North-West**: 30%
- **Far East**: 9%
- **Other**: 18%

### EXPORT GEOGRAPHY, 2021

- **China**: 56%
- **Former Republics**: 17%
- **Europe**: 12%
- **MENA**: 5%
- **Other**: 10%

### PROJECTED OUTPUT/EXPORTS, MLN m³

- **2019**: 31.5
- **2020**: 30.4
- **2021**: 29.2
- **2022**: 30.4

Sources: Federal Statistics Service, Federal Customs Service of Russia, FAOStat, SG estimates
CHINA:

- Border-crossing points. The problem with train transportation (INNER China) will remain until the end of 2021.
- Growth in freight rates to China. For NW sawmills – up to +40% y/y.
- Shortage of vessels in Russian NW port.

MENA:

- Port of Novorossiysk: almost no vessels available, regardless of existing high freight rates.
- Freight rates grow by 100%.

ALL MARKETS:

- Intense competition for cargo vessels with suppliers of various cargoes (metals, fertilisers, grain).
- High freight rates +60-70% y/y.
5. CHINA – A STRATEGIC MARKET FOR RUSSIA

Forecast: Russia will continue to expand its presence in the region

RUSSIAN IMPORT TRENDS, MLN M³

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021 (f)</th>
<th>2022</th>
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<tr>
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<td>16.0</td>
<td>17.3</td>
<td>19.2</td>
<td>17.1</td>
<td>15.4</td>
<td>17.1</td>
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</tbody>
</table>

COMMENTS ON THE MARKET

- Most of NW producers moved their volumes to Europe.
- Suppliers have rerouted traffic to Europe. Siberian companies have faced restrictions when shipping via border crossings. High stocks at the China ports. Low stocks at sawmills. Max prices were in June.

FORECAST – FAVOURABLE, IMPORT VOLUME TO GROW BY +10% Y/Y.
- By the end of the year, the import volume spread y/y will decrease to 7-10%.
- Fair market price will be set.
- Facility relocation to new industrial zones has finished, demand will recover. Large-scale infrastructural projects will be launched.
- New price range – +40% compared to the pre-COVID level.

Sources: National Bureau of Statistics of China, Russian Customs, China Bulletin
6. EUROPE – A STRATEGIC MARKET

Forecast: there are limits to total sales growth, so increase in niche segment sales is expected

**TRENDS IN SALES FROM RUSSIA TO EUROPE, THOUSAND M³**

- 3,203 in 2017
- 3,348 in 2018
- 3,304 in 2019
- 3,611 in 2020, +30%
- 4,734 in 2021, +15%
- 3,900 in 2022, -17%

**RUSSIAN IMPORTS TO EUROPE BY COUNTRY, THOUSAND M³**

- Finland: 558 in 2019, 565 in 2020, 684 in 2021 (f)
- Germany: 329 in 2019, 310 in 2020, 485 in 2021 (f)
- UK: 277 in 2019, 282 in 2020, 728 in 2021 (f)

**CONSTRUCTION SECTOR FORECAST (Y/Y)**

- Construction output, %
  - 2018: 3%
  - 2019: 3%
  - 2020: -2%
  - 2021: -5%
  - 2022: -2%
- Consumption of sawn timber, %
  - 2018: 2%
  - 2019: 3%
  - 2020: 4%
  - 2021: 3%
  - 2022: 2%

**COMMENTS ON THE MARKET**

- Product outflow to the USA, supply deficit has allowed Russian producers to increase exports to Europe (due to the decline in China).
- Consumers were not ready for the price growth, construction project budgets exceeded estimates; projects have been postponed until 2022.
- Top prices remained till September. Price reduction started after reduction in China.

**FORECAST – DEMAND AND SUPPLY WILL BALANCE OUT, A NEW PRICE RANGE IS EXPECTED, DECLINE IN IMPORTS FROM RUSSIA (-17% Y/Y; +8% TO 2020)**

Source: FaoStat, Euroconstruct
7. EGYPT MARKET
Forecast: reduction in sales and in market share

IMPORT FROM RUSSIA TO EGYPT, THOUSAND M³

SAWN TIMBER SUPPLIERS TO EGYPT, THOUSAND M³

CONSTRUCTION SECTOR FORECAST (Y/Y)

COMMENTS ON THE MARKET
- Forecast – demand will be normalised after local sales recovery. Importers will resolve their liquidity problems and will be ready for new purchases at a new market prices.
- There are no risks that consumption will drop (~4 mln m³ is the usual average level).

FORECAST FOR 2022: IMPLEMENTATION OF ACID MAY TEMPORARILY RESULT IN A DECLINE IN SUPPLIES FROM RUSSIA. MANY RUSSIAN EXPORTERS WILL NEED TIME TO ADAPT TO THE NEW RULES.
8. SUMMARY

CHINA:
1. Growth in the supply rate from Russia in 2022 (compared to the low base of 2021).
2. Solving of logistics problems at railway border-crossing points.
3. Stable growth in demand will be restored amid the completion of construction of new industrial zones focused on timber processing.

EUROPE:
1. Realization of new construction projects will be continued.
2. European market will remain dependent on US prices. In case of growth in prices, Europe will continue shipping high volumes to the USA, freeing up the market for Russian supplies. In case of low prices, European volumes will remain in Europe. This is negative scenario on the market.
3. Prices will be set in a new range.

EGYPT:
1. Current problems in Russian Black Sea Port will be solved.
2. Logistical matters will become easier to forecast.
3. Liquidity problems will be resolved thanks to new product volumes at fair market prices.
4. Russian suppliers may face the risk of a decline in supplies due to the adoption of new regulation (ACID).
THANK YOU FOR YOUR ATTENTION!

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