



**INVESTMENT PROJECT OF TIMBER
INDUSTRY COMPLEX DEVELOPMENT
ON THE BASIS OF TIC "ALMAS"
WITH THE PURPOSE OF ATTRACTING
CREDIT FUNDS**

Moscow, 2019

BRIEF DESCRIPTION OF THE INVESTMENT PROJECT

Project CV

Project name	Timber Industry Complex Development on the basis of LPK ALMAS LLC.
Project initiator	LPK ALMAS LLC.
Investment project purpose	<p>Purpose of the Project — increasing production efficiency, increasing volumes, nomenclature and improving product quality. The implementation of the investment project involves the achievement of the following tasks:</p> <ul style="list-style-type: none"> • Increased sales of lumber and wood products up to 279 thous m³ per year in 2032 (internal market and export)¹ • Earning additional income through the disposal of waste by processing into pellets (the planned production volume in 2032 will be 155 thous tons, pellet sales planned for export)
Project Implementation Positive Effect	<p>The implementation of the project will promote:</p> <ul style="list-style-type: none"> • increase the profitability of production • creation of new jobs • release of new products (pellets), disposal of waste, reducing the cost of lumber • income increase (increase in the taxable base)
Project Financing	Attracting investors, attracting credit funds, including the collaboration with Far East Development Fund
Investments	<p>Capital investment in 2020-2032: 5,310 million rubles, including own funds of 270 million rubles, credit - 5,040 million rubles.</p> <p>The financial model of the project provides for attraction of credit funds on the following conditions:</p> <ul style="list-style-type: none"> - in rubles at the rate of up to 13.5% per annum - in foreign currency at the rate of up to 6.5% per annum.

KEY PROJECT PERFORMANCE INDICATORS

Indicator	Without ASEZ	With ASEZ
Net present value (NPV) for the forecast value	(437 265) thous rub	487 466 thous rub
Conclusion	Negative NPV indicates the inappropriate investments	Positive NPV indicates the appropriate investments
Internal rate of return (IRR) for the forecasting period	10,9%	28,8%
Conclusion	The project is not attractive for investments because the IRR of the project does not exceed the weighted average cost of capital during forecast period (18,8%)	The project is attractive for investments because the IRR of the project exceeds the value of the weighted average cost of capital during the forecast period (18,9%)
Payback period (PBP)	10,3 years Discount payback period (DPBP) over the analyzed forecast period (over 13,0 years)	6,3 years Discount payback period (DPBP): 9,1 years
Conclusion	DPBP of the Project is beyond the forecast period	PBP и DPBP of the Project are not beyond the forecast period
Profitability Index (PI)	0,80	1,23
Conclusion	The Project is not economically feasible for implementation, since cash flows do not exceed the investments invested in the project.	The Project is economically feasible for implementation, since cash flows exceed the investments invested in the project.

¹ Excluding the implementation of logs and firewood

² Indicators calculated for the forecast period 2019-2032 yy. excluding terminal cost

CURRENT COMPANY STATUS

LLC TIC "ALMAS"

Authorized capital	211 mln rub
Legal address	Housing 4/A, bld. 86, st. 50 let Sovetskoy Armii, Yakutsk, Sakha Republic (Yakutia), 677004
TIN	1435329709
PSRN	1181447002109
Registration Date	14.02.2018

ACTIVITY CHARACTERISTIC

LLC TIC Almas is one of the largest forestry enterprises of the Republic of Sakha (Yakutia).
LLC TIC Almas sells softwood to both enterprises and the public for construction and repair.

PRODUCTION



Harvesting of wood is concentrated in the Vitim private subsidiary farm (PSF). It is also engaged in lumbering.



Yakutsk Timber Processing Plant (TPP) is engaged in sawmilling and wood processing

In addition to lumber, LLC TIC Almas produces a wide range of woodworking products:

- sheet pile (floor, ceiling)
- wall panel
- sheathing
- dried board
- terrace board
- glued beam
- MHM panels

In addition to woodworking, the company is engaged in the construction of wooden houses for the domestic market.

LENSKI DISTRICT

"Almas" leases¹ land plot with an area of 53,761 hectares near the village of Vitim.

Wood stock²: 8 647,410 thous m³

Annual harvesting: 100 thous m³

Rental period: until December 23th 2049



larch
(70%)



pine
(30%)



{ **Forest territories**
49 555 ha }

{ **Non-forest territories**
4 206 ha }

COMPANY FACTORIES



Vitimsky forestry enterprise

number of stuff:
102 people

harvesting volumes:
67,1 thous m³

actual productivity:
up to 30 thous m³ round wood per
year



Vitim— Yakutsk 1 246 km
alongside the Lena river

Canned plant



Olekminsky sawmill



Yakutsk sawmill plant

number of stuff:
115 people

actual productivity:
40 thous m³ per year

project capacity:
120 thous m³ round wood per year

CURRENT COMPANY PROBLEMS

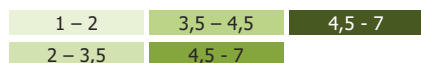
- the place of timber harvesting at Vitim and the processing center of Yakutsk are at a great distance from each other: the Company is forced to bear significant costs for transporting timber;
- the only way of transportation is river transport;
- year-round transportation of logs and lumber to Yakutsk is impossible: transportation is possible in a limited time interval from the end of the second quarter till the beginning of the fourth quarter of the year;
- waste in the form of wood residues of production can potentially be processed and used, but at the moment they are not going into production

INDUSTRY PROBLEMS

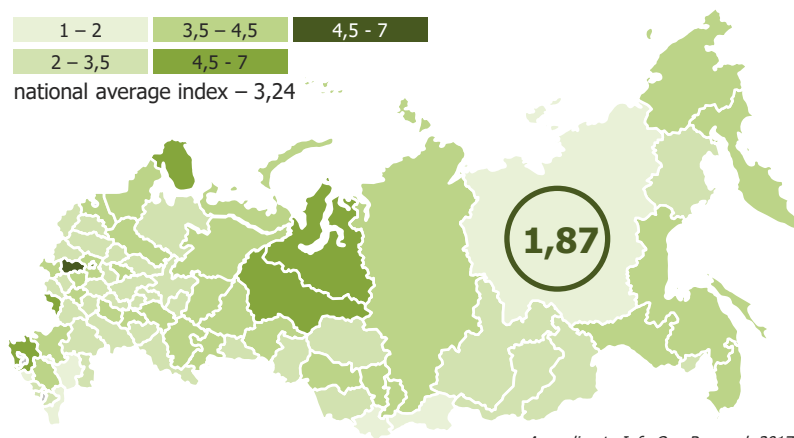
TRANSPORT INFRASTRUCTURE

Yakutia has the lowest (1.87) index in the country for the development of the transport sector. This is due to the largest region in the country - 18% of the entire territory, a relatively small number of inhabitants (963 thousand people) and a low density of automobile network and railways. Currently, the railway network is actively developing, transportation and electricity tariffs are being reduced.

Regional Transport Infrastructure Development Index in the Russian Federation



national average index – 3,24



According to InfraOne Research 2017 y.

Weak staffing of workers with specialties

20% lack of qualified personnel in the timber industry



According to IA "SeverPress"

High depreciation of fixed assets

High degree of physical deterioration of equipment of enterprises

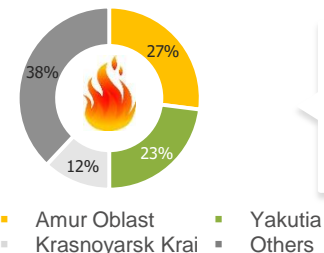


FORESTRY

Depletion of the forest resource base is due to the fact that:

- basic forestry operations, such as thinning, are practically not carried out;
- there is no objective and reliable information about the forest fund, most of the data and the methodology for calculating the cutting area are outdated;
- the extreme vulnerability of forest stands and the difficulty of restoration in harsh climates;
- according to the "Strategy for the development of the forest complex of the Russian Federation for the period until 2030", the estimated cutting area throughout the country is overestimated by about 2 times

FOREST FIRE AREAS FOR 2018 IN THE RUSSIAN FEDERATION



Enormous past and current losses due to forest fires: the Republic of Sakha (Yakutia) in 2017 was in first place in terms of fires, in 2018 it fell to second place.

PERSPECTIVES

Currently, the investment climate of the forest complex of Yakutia is significantly increasing due to the significant depletion of forest raw materials bases in the Irkutsk region, Krasnoyarsk and Khabarovsk territories. The interest of local authorities in the rational use of forest resources is increasing.

"Strategy-2032" is aimed at developing investment sites (including ASEZ), increasing production in sectors focused more on exporting goods to the markets of the Russian Federation and the Asia-Pacific region (including logging and timber processing), stimulating the development of forestry complex and meeting labor requirements economics.

BRIEF DESCRIPTION OF THE INVESTMENT PROJECT



TASKS WITHIN THE PROJECT

Increased commercial wood harvesting in order to increase sales volumes

Launch of two new production lines in Vitim for sawmilling (in 2021 and 2024) and woodworking (in 2023 and 2028)

What for?

→ logging, sawing and wood processing are localized in one place → there is no need to transport logs and sawn timber for further processing in Yakutsk → reduce transportation costs
→ cost reduction



Launch of a pellet production plant (1st line in 2021, 2nd line in 2025)

What for?

→ use of production waste as a source of additional income



Increase in timber reserves by increasing the leased area of forest plots



The tasks are supposed to be solved within the framework of the creation of ASEZ (Advanced Social Economic Zone)

ADVANTAGES OF ASEZ

- tax benefits (income tax, property tax, land tax);
- reduced premium rates;
- the possibility of importing expensive imported machinery and equipment without customs duties (the organization of a customs post is necessary)

100%

security of LLC TIC ALMAS with its own raw materials necessary for the manufacture of lumber and pellets in the framework of the current Project

93%

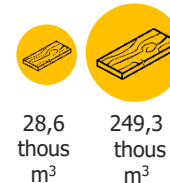
of all harvested wood remains for own needs within the framework of the current Project

STRUCTURE OF IMPLEMENTATION OF CUTTING SAWING MATERIAL AND PELLET FOR 2019-2032

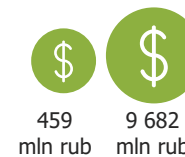
Sales markets	Lumber	Pellets
Domestic market	27%	—
Sakha Republic (Yakutia)	81%	—
Outward Sakha Republic (Yakutia)	19%	—
Export	73%	100%
Europe (Germany, Belgium, Austria)	25%	20%
Asian-Pacific area (China, Japan, Korea)	75%	80%

MAIN CHARACTERISTICS 2019/2032

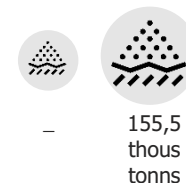
Lumber production



Revenue



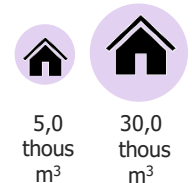
Pellets production



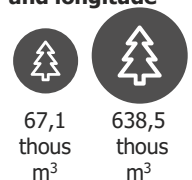
Stuff



Production of woodworking products and walls MNM

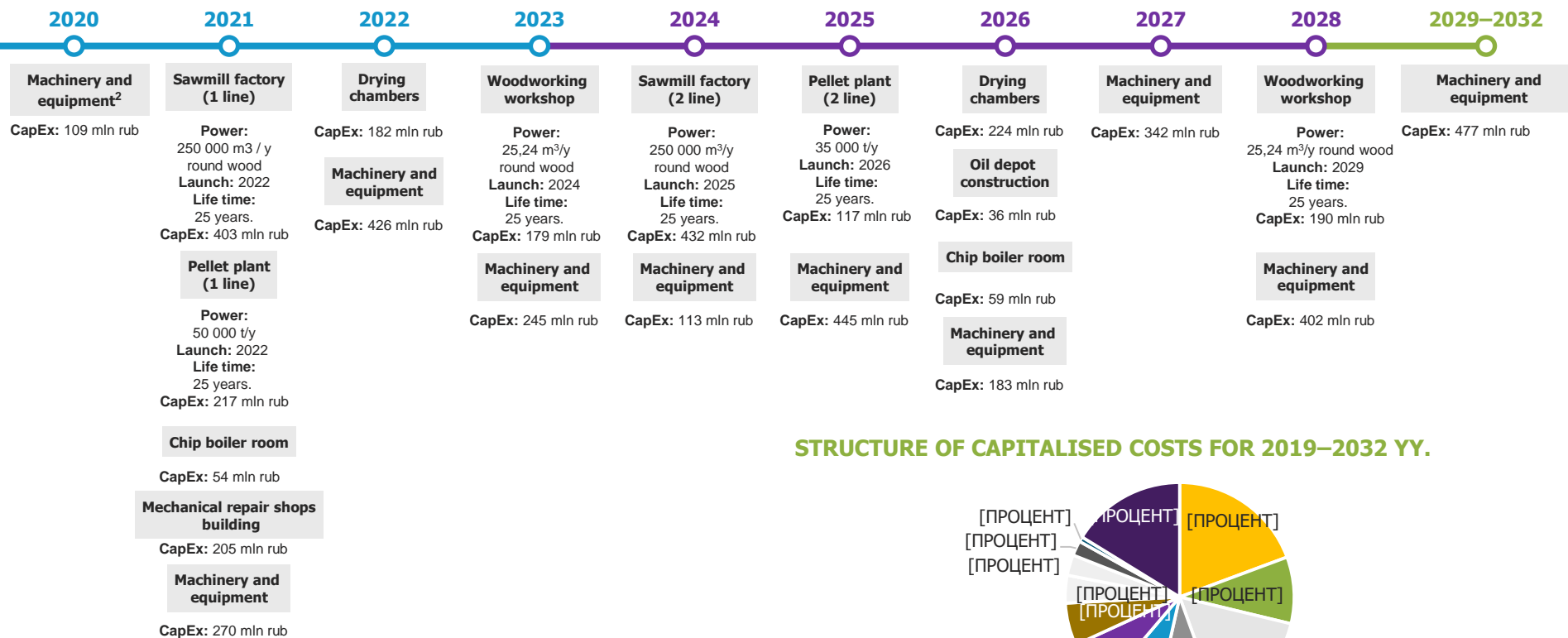


Annual harvesting of commercial forest and longitude



189	891	Edged lumber for the domestic market
134	4 044	Edged Lumber for Export
89	1 017	Woodworking products
23	159	Loseware (unedged boards, domestic market)
6	261	Sawlog
—	3 280	Pellets
9	16	Firewood
9	14	Services

CAPITALISED INVESTMENTS¹



1-st stage capitalised costs: 2 290 mln rub

— 1-st stage

2-nd stage capitalised costs: 2 543 mln rub

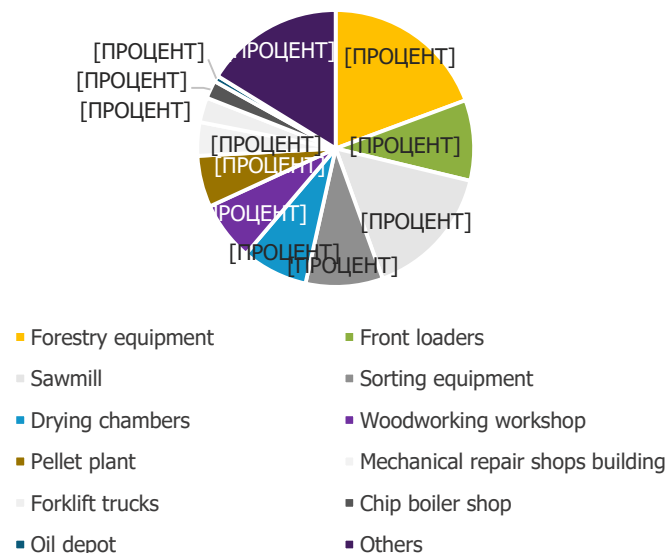
— 2-nd stage

Total capitalised expenditures for 2020–2032.: 5 310 mln rub

Equipment costs for 2019–2032 yy.²

- For own procurement: 2 085 mln rub
- For side procurement: 69 mln rub

STRUCTURE OF CAPITALISED COSTS FOR 2019–2032 YY.



¹ — Capital investments are indicated in nominal terms with VAT

^{*} — Machinery is understood as logging and assortment machinery, front and fork loaders

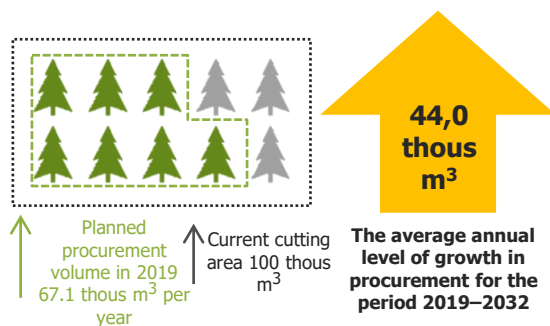
² — This includes the acquisition of forestry equipment and forklifts, buses, machinery, etc.

PRODUCTION ACTIVITY

The production program of LLC LPK ALMAS plans to achieve the following targets:

COMMERCIAL FOREST, THOUS M³

Indicator	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2019-2024	2019-2032
The volume of harvesting of commercial forest and longitude of the current year	67,1	108,2	174,2	252,2	330,1	349,6	422,1	476,2	566,0	584,4	584,4	638,5	638,5	638,5	1 281,4	5 830,1
The volume of harvesting of commercial forest and longitude, taking into account the carry-over in the upper and lower warehouses, including	75,1	136,4	174,2	252,2	330,1	349,6	422,1	476,2	566,0	584,0	584,4	638,5	638,5	638,5	1 317,6	5 866,3
— commercial forest sales	2,5	—	21,0	—	10,0	—	15,0	30,0	55,0	60,0	60,0	60,0	60,0	60,0	33,5	433,5
— domestic consumption	72,6	136,4	153,2	252,2	320,1	349,6	407,1	446,2	511,0	524,4	524,4	578,5	578,5	578,5	1 284,1	5 432,8



The planned increase in the volume of harvesting implies the need for an increase in the lease area of the forest;
Potential forest areas are located in the Vitimsky forestry area

Vitim district forestry

Forest plot

Area = 214 122 ha
Total reserve = 37,456 thous m³
Coniferous stock = 36,237 thous m³
Estimated cutting area = 391.6 thous m³

The site is located in the basin of the Peledui river, near the village of Peledui.

Non-forest plot

Area = 1 727 634 ha
Total reserve = 923 878 thous m³
Coniferous stock = 892 826 thous m³
Estimated cutting area = 3 357,2 thous m³




The data should be clarified, since the indicated values are presented as of 1986.

WOOD PROCESSING PRODUCTS

Indicator	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2019-2024	2019-2032
The volume of lumber production, thous m ³	36,9	67,9	74,2	123,5	156,4	171,2	198,8	217,3	248,0	254,4	254,4	280,9	280,9	280,9	630,1	2 645,6
The volume of woodworking products production, thous m ³	5,5	5,5	5,5	5,5	5,5	10,1	18,2	18,2	20,3	20,3	25,3	25,3	30,4	30,4	37,5	226,0
The volume of pellet production, thous t	—	—	—	50,0	86,5	94,7	110,0	120,3	137,3	140,8	140,8	155,5	155,5	155,5	231,3	1 346,8

ASEZ BENEFITS AND PROJECT FINANCIAL RESULTS

KEY FINANCIAL INDICATORS FOR 2019-2032, MLN RUB

Indicator				without ASEZ	with ASEZ
Profit				70 474	70 474
Operating expenses				(54 177)	(53 367)
EBITDA				14 891	15 868
Net profit				10 140	8 661
Bankroll((by the end of 2032)				6 094	4 765
NPV				(437)	487
PROFIT TAX	WITHOUT BENEFITS		FOR ASEZ RESIDENTS		
		Federal budget	3%	0%	Within 5 years from the date of gaining the first profit
		Regional budget	17%	10%	After 5 years from the date of gaining the first profit
INSURANCE FEE RATES		Compulsory pension insurance ¹	22%	6%	1. Within 10 years from the date of obtaining ASEZ resident status
		Compulsory social insurance ²	2,9%	1,5%	2. Only in relation to individuals employed in new jobs
		Compulsory health insurance ³	5,1%	0,1%	3. The volume of investments is at least 0.5 million rubles.
PROPERTY TAX		Regional budget	2,2%	0%	Within 5 years from the date of gaining the first profit
LAND TAX		Installed by the local municipality	0,5%	0%	Within 5 years since the date of obtaining the ASEZ resident status ⁴ (the rate is valid only on the territory of the municipality "city of Yakutsk")

BUDGET INCOME FOR 2019-2032, MLN RUB

Indicator	without ASEZ	with ASEZ
Corporate income tax	473	2 571
Federal budget	71	386
Republican budget	402	2 184
Property tax	1 364	1 196
Republican budget	1 364	1 196
VAT	45	45
Federal budget	45	45
Insurance premiums	4 246	3 348
Extrabudgetary fund contributions	4 246	3 348
Personal income tax	1 763	1 763
Republican budget	1 498	1 498
Local budget (municipality budget)	264	264
Land tax	6	4
Local budget (municipality budget)	6	4
Transport tax	50	50
Republican budget	50	50
TOTAL BCF¹, including	7 946	8 976
Federal budget	116	431
Republican budget	3 314	4 929
Local budget (municipality)	270	268
Extrabudgetary fund contributions	4 246	3 348
DBCF²	3 890	4 321

¹ BCF — budget cash flow

² DBCF — discounted budget cash flow

Cash at the end of the year, mln rub

