

## **The Segezhabumprom project - a background**

### June 1996

AssiDomän acquires 50% of Stratton Paper Company, owner of 57.3% interest in Segezhabumprom, a Karelian pulp, sack paper and sack manufacturing mill with a practical capacity of 250,000 tonnes of sack paper. The investment follows a similar partnership between AssiDomän and the Stratton Group in Sepap in the Czech Republic.

Stratton Paper Company enters into discussions with the multilateral agencies, including the EBRD and IFC, to raise external funding of up to USD 100 million to fund a three year investment programme to solve environmental problems and to increase productivity and product quality at the mill.

### January 1997

AssiDomän assumes operational control of Segezhabumprom and appoints a General Director. Work begins on a plan to restructure the mill's substantial tax arrears and operational difficulties, and to solve environmental and other permits related to the operations.

### March 1997

Segezhabumprom's management suspends production at the mill due to significant unresolved economic, environmental and social issues which are blocking further progress on the attraction of additional finance. Stratton Paper Company has already injected USD 10 million working capital into the mill.

### April 1997

Meeting takes place between representatives of AssiDomän and Segezhabumprom, Viktor Stepanov, President of Karelia, and Anatoly Chubais, First Deputy Prime Minister of the Russian Federation in order to resolve the mill's problems.

The regional Anti-monopoly committee in Karelia institutes proceedings about infringements of the anti-monopoly legislation.

### July 1997

At the request of EBRD and IFC negotiations commence regarding the alteration of the shareholding structure of Stratton Paper so that the latter can meet its proportion of the new capital required.

Following resolution of most of the company's operational problems with the federal and regional authorities and the purchase by AssiDomän of the remaining 50% stake in Stratton Paper, production is resumed after four months.

<u>November 1997</u>	The Public Prosecutor of the Republic of Karelia initiates an investigation into AssiDomän's ownership and management of the mill.
<u>December 1997</u>	The Moscow Arbitration Court declares the Anti-Monopoly Committee's original consent to the acquisition of the Segezhabumprom shares by Stratton Paper Company to be illegal. During President Boris Yeltsin's visit to Stockholm, Segezha is offered a "state guarantee" in order to ensure the long term future of the mill. Boris Nemtsov, First Deputy Prime Minister of the Federation, is given responsibility for the ongoing discussions.
	AssiDomän appeals to Boris Nemtsov to assist in the provision of short term finance of up to USD 60 million, in solving remaining tax and operational problems at the mill and the anti-monopoly issues.
	AssiDomän's Board of Directors decides to cease supplying working capital to Segezha, following the increased difficulties to attract external financing or contributions from the other shareholders. Since the mill was restarted, AssiDomän has been forced to supply working capital monthly in the form of guarantees for loans to Segezha.
<u>January 1998</u>	Segezha's management ceases production at the mill given the lack of working capital and the continuation of the blocking of its bank accounts due to the absence of a tax restructuring deal.
	Representatives of AssiDomän and Segezha meet with Boris Nemtsov and other senior government officials to discuss the situation at the mill. The Government agrees to examine the possibility of providing a financial guarantee on condition that the Republic of Karelia provides a counter-guarantee, that Segezha submits a new business plan and that the remaining tax issues are resolved - issues driven and negotiated by the Segezha management for more than a year without success - and ownership questions cleared.
<u>February 1998</u>	AssiDomän announces the withdrawal of management and the write-down of its investment in the mill.