volga

Joint-stock company
Volga

2019 ANNUAL REPORT

ANNUAL REPORT
joint-stock company Volga for 2019

APPROVED BY:
annual General meeting of shareholders of the JSC Volga
13.07.2020 г., GOSA Protocol No. 63 for 14.07.2020 г.

PRE-APPROVED BY:
Board of Directors of JSC Volga for
10.06.2020 г., Protocol № 06/2020 dated 15.06.2020 г.

In this document, the JSC Volga and company refer to Volga joint stock company.

JSC Volga, as well as the pronoun «we» and its various forms, should be understood as a set of companies consisting of JSC Volga and its subsidiaries.

Address of the Director General

Dear shareholders!

2019 was a successful year for the Volga joint stock company in all respects. The company managed to achieve good operational and financial results, restore growth in a number of key indicators, and achieve the goals set at the beginning of the year.

According to the results of the company's work in 2019, the EBITDA indicator in acordance with IFRS amounted to RUB 2.2 billion. Revenue from sales of products increased to 9.4 billion rubles, net profit to 1.6 billion rubles.

Our sales strategy is based on the results of the implementation of a unique technology for producing paper from 100% thermomechanical material, a high-quality product that has already well-behaved in more than 80 countries around the world.

The company operates in a highly competitive market, which has been stagnating for quite a long time due to oversupply. There was a decrease in purchasing prices for newsprint due to the cyclical nature of the market in 2019. This decrease was offset by an increase in the company's sales volumes. Sales in our key newsprint segment showed positive dynamics During the accounting period largely due to growing demand in the Asian markets.

More than 70% of the products manufactured by JSC Volga were exported in 2019. Our largest consumers are India, China, Europe and Africa.

A large-scale work was launched to diversify the product portfolio with a focus on the segment of packaging materials for the production of corrugated packaging, paper sacks and bags in 2019. We have mastered the production of brown packaging paper weighing from 42 to 48 grams per square meter, which is intended for preparing flat layers of corrugated cardboard.

This work will continue in 2020. Our goal is to expand our product line through promising niche products. This will allow the company to develop steadily and dynamically, optimize its activities in terms of capacity utilization and the market situation.

As for production volumes, the company produced 262,536 tons of finished products in 2019. The current production finished the year with dignity, despite all the difficulties associated with the construction of a new facility under the investment program.

The newsprint production plan was exceeded by 5%. The share of JSC Volga in the volume of newsprint production in 2019 among Russian manufacturing companies was 17%.

The development of JSC Volga during 2019 was determined by a new Strategy, in accordance with which the company launched a major investment program to modernize existing ones, as well as create new production facilities and improve energy efficiency.

The key project in 2019 was the construction of a second line for the production of thermomechanical material (TMM) and a wood-sawing complex with an investment volume of more than 1.4 billion rubles. This investment project was included in the priority list by the Ministry of industry and trade of the Russian Federation.

This is the next step on the way to target productivity as part of the company's new development strategy aimed at increasing profits. Implementation of this project will allow JSC

Volga to annually produce more than 40 thousand tons of additional paper, as well as other products made of added-value processed wood.

Another significant event took place in the company In 2019.

We created our own sources of timber raw materials, having received the management of forest fund plots in the Nizhny Novgorod region with a total area of more than 100 thousand hectares in the Varnavinsky district of the Nizhny Novgorod region to provide new production facilities.

Thus, having completed the formation of a full cycle of production from raw material procurement to the implementation of finished products, JSC Volga became a vertically integrated timber company. And this is not the last investment project in the field of forest development: the company will continue to develop in this direction and increase the leased land to 1 million m3 per year.

In 2019, JSC Volga received a certificate confirming that the company has implemented a supply chain control system in accordance with the requirements of the international Forest Stewardship Council (Forest Stewardship Council®) standards.

Simultaneously with the construction of a new production shop for the production of thermomechanical material, we have started to modernize supporting facilities, including in the power complex (NiGRES), in order to increase electricity generation and provide capacity for growing production.

When developing investment programs for 2019, we paid special attention to the environmental aspect. The company's environmental policy allowed the company to recycle 96% of its waste and reuse it as a renewable energy source.

The company's products at the end of their life cycle are a source of raw materials for reuse. Currently, about 6% of secondary waste paper fiber is used in the technological process. Also, the company's strategy is to increase its share to 30%.

The company is focused on preserving the ecology of the region of its presence. The company strives to minimize its negative aspects in its activities by implementing environmental protection programs, implementing and using the best available technologies, optimizing production processes, as well as a system for monitoring and managing environmental protection and environmental safety, taking into account that any processing production has an impact on the environment. The company spent almost 145 million rubles on implementing environmental measures in 2019.

JSC Volga pays considerable attention to improving corporate governance as one of the key components of the company's business efficiency. The corporate governance standards adopted JSC by Volga provide shareholders and investors with confidence in the observance of their legal rights and interests, and allow them to improve the process of making management decisions aimed at preserving assets, maximizing profits and capitalization.

The safety and health of our employees remains our top priority. JSC Volga invests significant resources in safety measures, equipment upgrades, and improving working conditions and safety. These events have allowed us to develop a steady trend towards reducing industrial injuries in general.

Social programs of the JSC Volga are aimed at involving employees in activities that promote a healthy lifestyle, develop a culture of sport, develop youth movement, corporate volunteering, support large families, organize recreation for employees and their children, and support veterans of the company. Additionally, the company finances voluntary health insurance programs for key employees.

The company achieved a lot in 2019. JSC Volga entered the Nationwide rating «Leaders of industry in Russia-2019» and took the 11th place in the nomination «TOP 100: Leaders in labor productivity growth in Russia for the year» as a result of the work done by the company's staff and management.

Two types of products at once (newsprint made of 100% thermomechanical material and paper for corrugation) became the Winners of the Nationwide contest «100 Best Products of Russia».

JSC Volga was awarded an honorary award, the standard of the Governor of the Nizhny Novgorod region for high performance in the field of industrial production.

In conclusion, I would like to thank the shareholders for their trust and express confidence that the decisions taken by the management of JSC Volga will help to maintain the company's stability, despite the impact of the COVID-19 pandemic on the global economic situation. In 2020, we will do everything necessary to ensure that Volga JSC successfully copes with new challenges and becomes an even more efficient and modern company.

Sincerely,

Sergey Iosifovich Pondar
Director General of JSC Volga

Content

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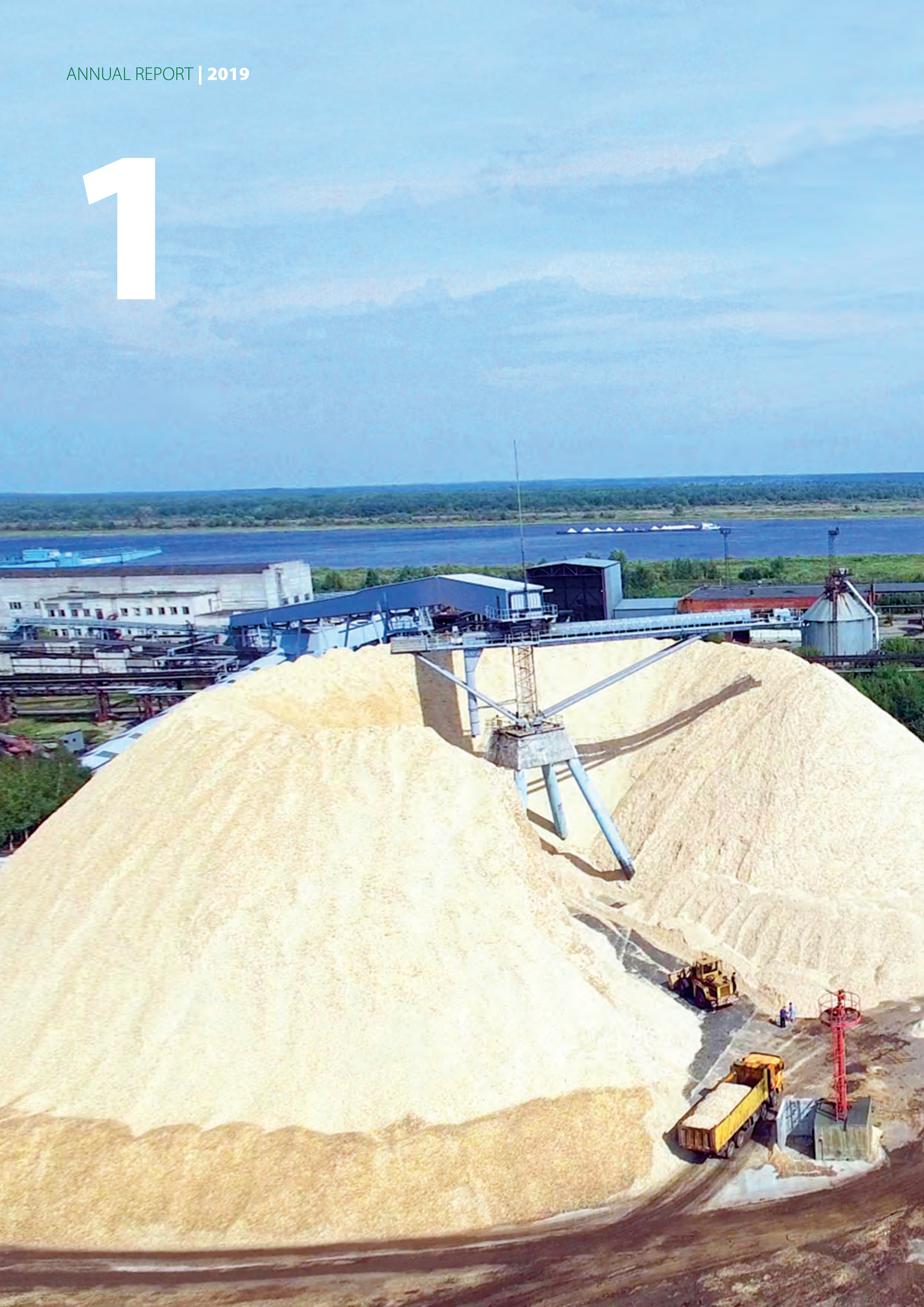
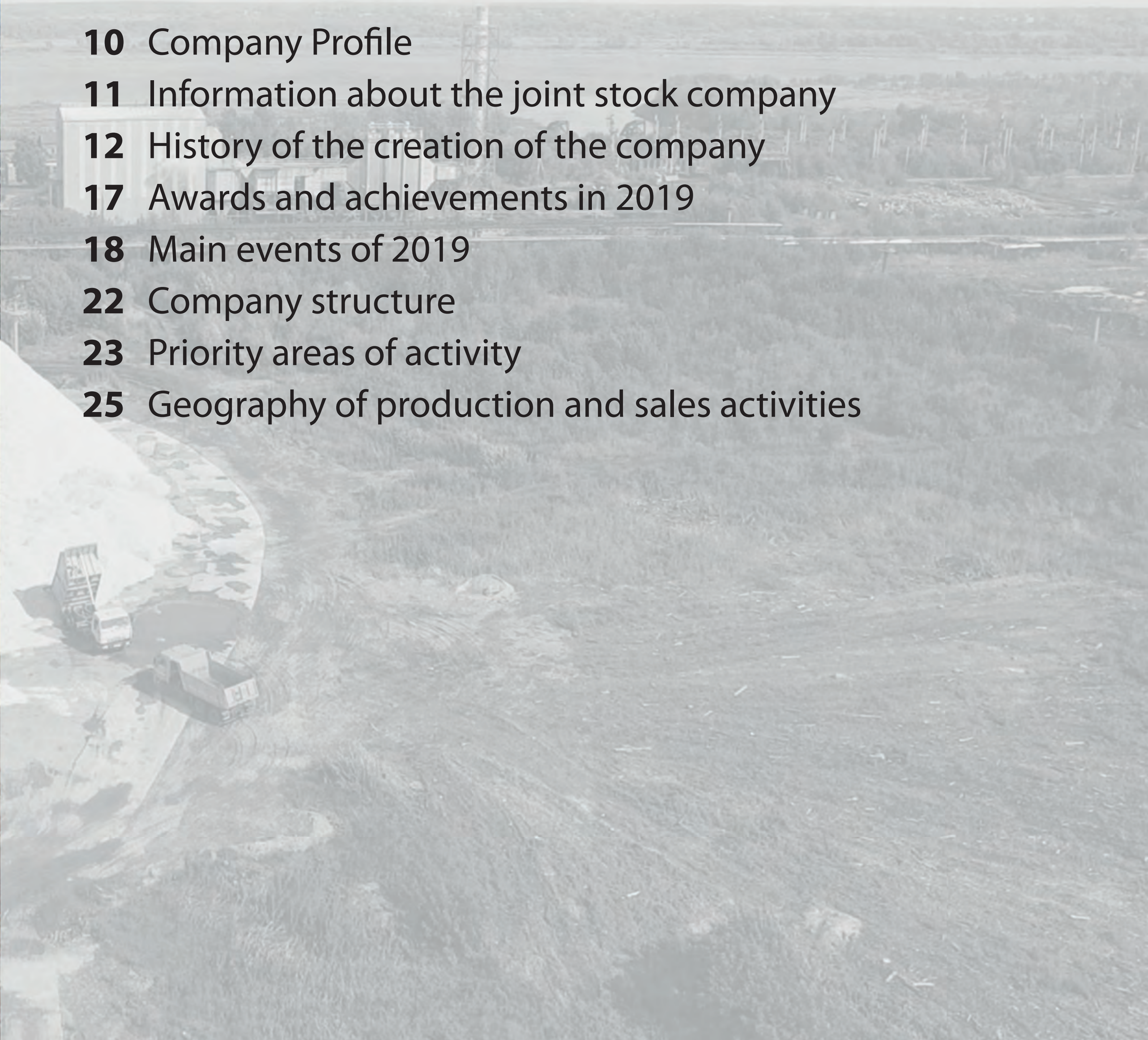


Company presentation



Company Profile

Volga JSC is a vertically integrated timber company. Main products:

- *premium newsprint made of 100% thermomechanical material*
- *paper for printing books and other products,*
- *corrugating paper.*

The company's production assets are located in the city of Balakhna, Nizhny Novgorod region (paper production), as well as in the village of Varnavino, Nizhny Novgorod region (land lease and logging).

JSC Volga is among the Top 50 largest timber companies in Russia, the top 100 largest companies in the Nizhny Novgorod region, and is included in the «Rating of the largest exporters of the Nizhny Novgorod region».

Products of JSC Volga (newsprint made of 100% thermomechanical material and paper for corrugation) are the Winners of the Nationwide competition of the «100 Best Products Of Russia» program.

JSC Volga has 3 subsidiary companies.

Average number of employees

1 646*

Production output

262 thousand tons

Tax paid

778 million rubles

Average monthly income

41 888** rubles

Product shipment

9 589 million rubles

Sales territory

80 countries

* 115 new jobs created in 2019

** the average salary in the Nizhny Novgorod region was 32,973 rubles in 2019 (fincan.ru)

Information about the joint stock company

1.1. Location and postal address: 1 Gorky street, city of Balakhna, Nizhny Novgorod region, 606407, Russian Federation.

1.2. Date of state registration of JSC Volga (hereinafter also referred to as the Company or Issuer): April 13, 1994, certificate No. 33/ 94, AOOT series, issued by the Administration of the Balakhna district of the Nizhny Novgorod region. The Company was registered by State registration chamber under the Ministry of economy of the Russian Federation on may 12, 1995, certificate no.P-5028.16 as a company with foreign investments. The company was registered in the Inspectorate of the Federal tax service of Russia for the Balakhna district of the Nizhny Novgorod region with the main state registration number 1025201418989, the date of entry was August 30, 2002.

The decision of the extraordinary General meeting of shareholders dated December 12, 2017 approved the new version of the Company's Articles of Association, registered in the Moscow regional tax service of Russia No. 15 for the Nizhny Novgorod region on December 27, 2017.

1.3. Taxpayer identification number: 5244009279.

1.4. The number of persons (personal accounts) registered in the company's register of shareholders as of September 24, 2019 is 787.

1.5. Registrar of the Company: Nezavisimaya registratorskaya kompaniya R.O.S.T. joint-stock company, License of the Central Bank of the Russian Federation No. 045-13976-000001 dated December 03, 2002, Legal address: 107076, Moscow, Stromynka str., 18, korp. 5B, OGRN: 1027739216757, date of assignment of OGRN: September 18, 2002, INN: 7726030449, KPP: 771801001.

1.6. Company's auditor:

KPMG joint-stock company (independent auditor of consolidated financial statements for 2019), a company incorporated under the Laws of the Russian Federation, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registration No. in the Unified State Register of Legal Entities 1027700125628.

Member of the Self-regulatory Organization of Auditors Association "Sodruzhestvo" (SRO AAS). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organisations: No. 12006020351.

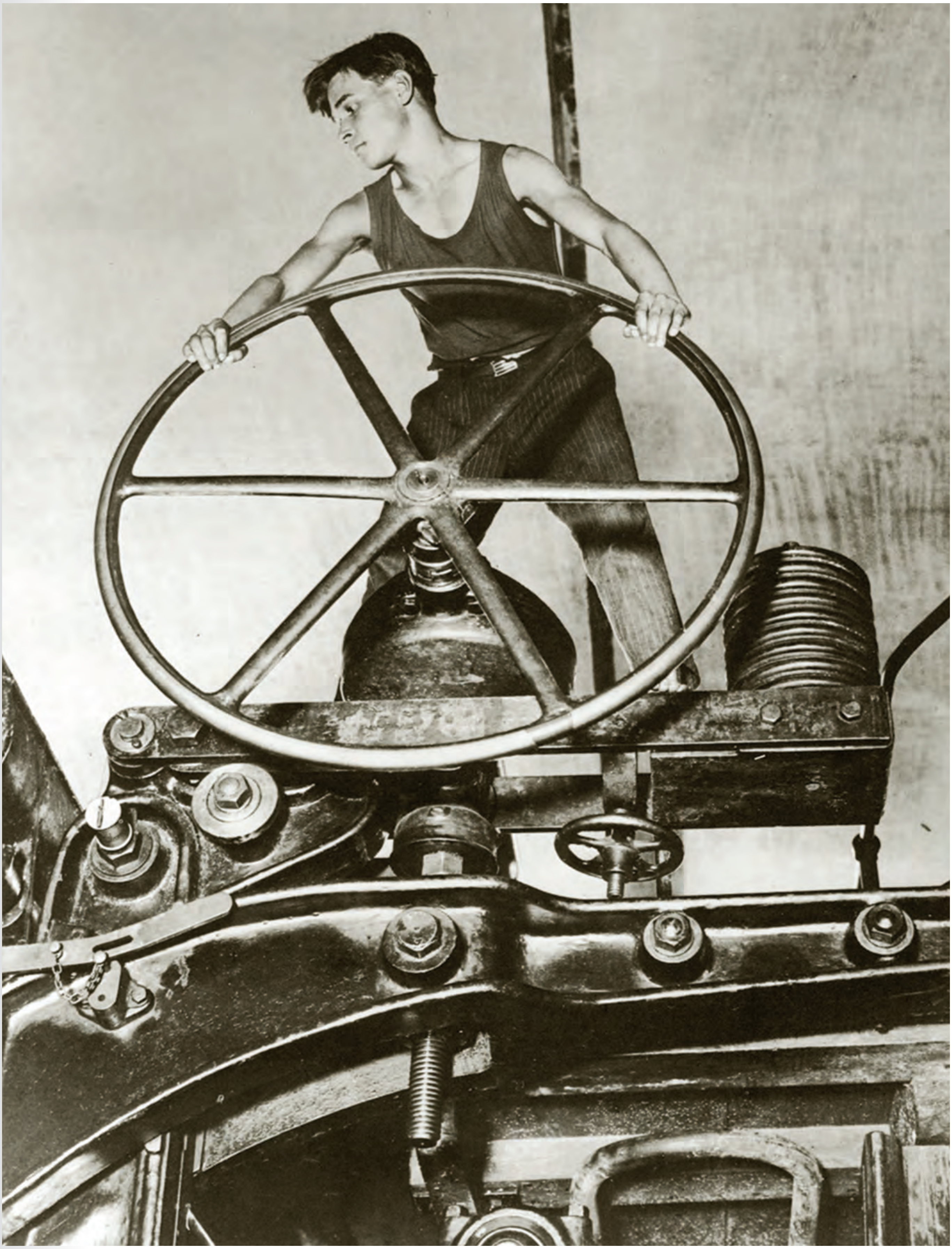
FIN-AUDIT limited liability company (auditor of the accounting reports compiled in accordance with RAS).

Member of the «Sodruzhestvo» Association , Self-Regulating Organization Of Auditors (SA SRO). The main registration number of the entry in the register of auditors and audit organizations is 12006020351.

1.7. The website of JSC Volga: http://www.volga-paper.ru.

1.8. JSC Volga discloses information about its activities in accordance with the requirements of the Central Bank of the Russian Federation at: http://www.e-disclosure.ru/portal/company.aspx?id=1711.

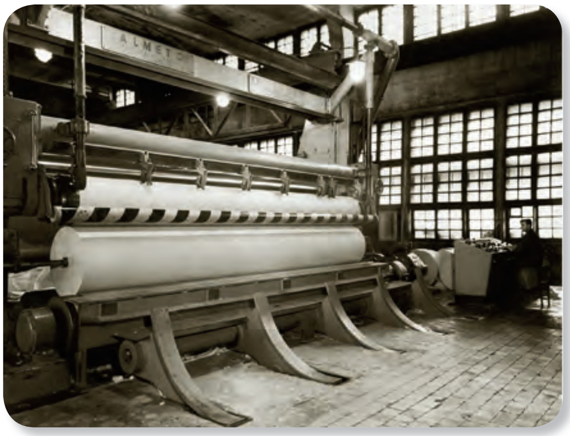
History of the creation of the company



1928

The history of the company began in 1928, when the first paper-making machine was launched at the Balakhna paper mill. In the first month of operation, it produced 700 tons of newsprint.

1930



In the 30s, three more paper making machines were put into operation. Since then, the Balakhna paper mill has been increasing its production capacity annually.

1940

In the 1940s «Pravda», «Krasnaya Zvezda» newspapers, dozens of army and divisional newspapers, and millions of leaflets were printed on Balakhna paper. The paper mill delivered 458 thousand tons of newsprint to the printing houses of the home and battle front during the Great Patriotic War.

1950

The annual production volume reached 250 thousand tons of manufactured goods by the end of the 1950s.

1960

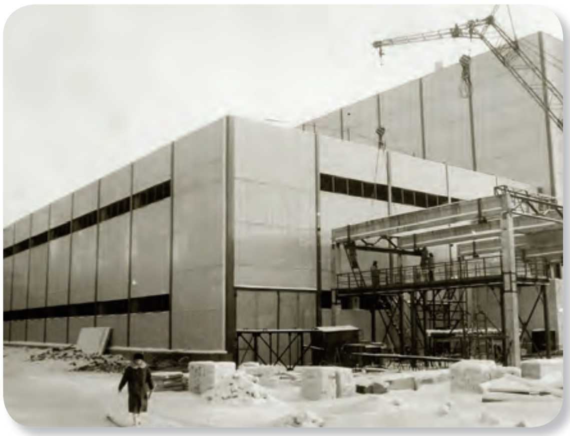
In 1960, the company began a radical reconstruction and expansion: complexes of the sixth and seventh paper machines, a new groundwood mill, a wet room and a warehouse of finished products were put into operation.

1976

Balakhna paper mill was awarded the order of the October revolution for great achievements in the development of industry in 1976.

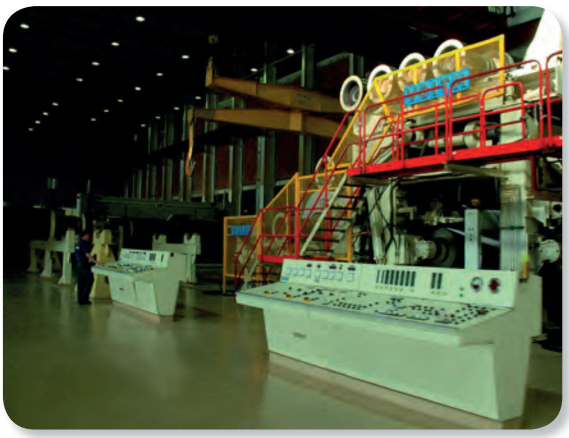
Balakhna paper was awarded the State Mark of Quality in 1977.

1991



An important milestone in the history of the company was January 1991, when it was decided to create an open joint-stock company Volga.

1994



In 1994, the Voith company (Germany) launched the highspeed papermaking machine No. 8, designed at the most modern technical level. Its operating speed is 1300 meters per minute, and its capacity is 250,000 tons of production per year.

1997

New wood preparation shop was put into operation, and the XTMM shop was modernized with the transfer to the production of thermomechanical material (TMM). The cellulose processing shop and associated acid and evaporation shops were finally stopped at the enterprise in the same year.

2002

Since 2002, JSC Volga accepts only forest products grown in compliance with environmental requirements for processing. The company is certified by the FSC Forest Stewardship Council (Forest Stewardship Council®). This certificate was issued by an independent auditor based on a strict annual inspection at the site of wood harvesting.

2006

The reconstruction of the wood pulp shop was completed In 2006, which allowed to increase the production of white wood pulp and improve its quality. The program of modernization of the main and auxiliary production continued in the following years.

2008

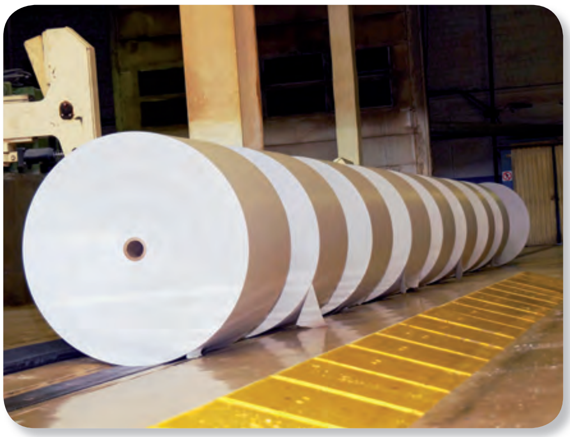
Since 2008, all bark and wood waste, together with sludge from treatment facilities, have been burned to obtain heat energy in a powerful boiler. The ash formed as a result of waste incineration is cooled and utilized without posing a threat of environmental pollution.

2015

In 2015 NiGRES named after A.V. Winter became a part of JSC Volga and became an energy complex that supplies the paper mill with electricity, and also provides heat and hot water to enterprises and organizations in the city of Balakhna.

Since 2015, JSC Volga has been producing newsprint using a new technology made from 100% thermomechanical material/

2017



The company mastered the production of low-weight newsprint (40 g/m^2) in 2017, which had not been previously produced by any Russian manufacturer. The advantage of these products is the increased area of the paper web in one roll, which allows to print more products from 1 ton of paper.

2018

JSC Volga launched paper making machine No. 4, which allowed not only to expand the sales markets for its products, but also to create new jobs. The company also started creating its own rolling stock fleet as part of the company's new development strategy.

2019

In 2019, a phased implementation of the investment project of JSC Volga in the field of forest development «Construction of the second line for the production of thermomechanical material (TMM)» began, which will allow the company to additionally produce more than 40 thousand tons of paper per year, as well as other products made of added-value processed wood.

Awards and achievements in 2019

JSC Volga entered the Nationwide rating **«Leaders of industry in Russia-2019»** and took the 11th place in the nomination «TOP 100: Leaders in labor productivity growth in Russia for the year» as a result of the work done by the company's staff and management.

Newsprint made of 100% thermomechanical material and paper for corrugation became Winners of the Nationwide competition **«100 Best Products Of Russia»**, as well as the first regional competition **«Nizhny Novgorod quality mark-2019»**.

JSC Volga was awarded an honorary **award, the standard of the Governor of the Nizhny Novgorod region** for high performance in the field of industrial production.

Main events of 2019

The company's priority areas in 2019 are sustainable development, modernization of the main and auxiliary production facilities, as well as implementation of a major investment project in the field of forest development for the construction of a new thermomechanical material shop. The most important events and achievements of the company over the past year are listed below:

1 The Volga paper mill entered the Nationwide rating «Industry Leaders of Russia-2019».

Joint Stock Company Volga took 11th place in the «TOP-100 nomination: Leaders in labor productivity growth in Russia for the year» of the Nationwide rating «Industry Leaders of Russia-2019».

This was announced by the Industrial Research Center of the Production Management Business Portal (Moscow), having published the results of the award in a special issue of the Production Management almanac. The achievement of these results was made possible by the launch of the project «Optimization of the technological process of newsprint production» in JSC Volga and the creation of a working group for its implementation. The goal of the project was the company's desire to increase labor productivity by implementing the best practices and techniques of lean production.

JSC Volga was included in the rating of the Top 50 largest timber companies in Russia.

2

JSC Volga was included in the rating «Top 50 Largest Timber Companies In Russia» as reported in the «Forest industry» industry magazine (issue No. 7-8 for July-August 2019).

The top ten fastest growing companies include three paper mills and seven wood processing companies. At the same time, there is only one paper company in the top five fastest growing companies, and it is the JSC Volga.

The project for the construction of a new line for the production of thermomechanical material of JSC Volga is included in the list of priorities in the field of forest development.

3

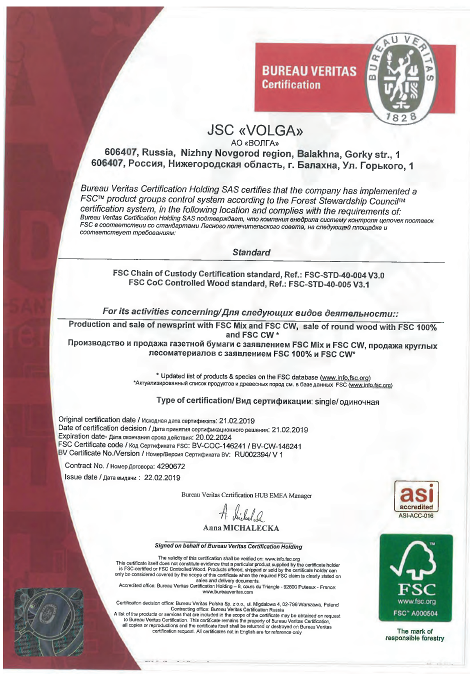
The investment project of the JSC Volga in the field of forest development «Construction of a second line for the production of thermomechanical material (TMM) and a sawmill» is included in the list of priority ones by order of the Ministry of Industry and Trade of the Russian Federation (No. 2317 dated June 28, 2019).

The document gives the paper mill Volga the right to enter into lease agreements for forest plots in the Nizhny Novgorod region with a total volume of 293.9 thousand m3 per year for the purpose of providing new production facilities with timber. The implementation of the project will allow the company to produce more than 40 thousand tons of paper per year, as well as other products made of added-value processed wood.

4 JSC Volga has acquired the innovative rail waggons for transporting raw materials.

The new generation of waggons allows you to transport 30% more raw materials and thus reduce the required number of units of the rolling stock fleet, reduce logistics costs and increase the efficiency of transportation as a result. Among the main advantages of this model of waggons can also be mentioned the increased load capacity up to 72.5 tons and the longer service life of the hard-alloy wheels. The company used rented waggons until that time.

5 JSC Volga has passed the certification of the supply chain and controlled wood according to FSC standards (FSC-C146241).



BUREAU VERITAS Certification

JSC «VOLGA»
АО «ВОЛГА»
606407, Russia, Nizhny Novgorod region, Balakhna, Gorky str., 1
606407, Россия, Нижегородская область, г. Балахна, Ул. Горького, 1

Bureau Veritas Certification Holding SAS certifies that the company has implemented a FSC™ product groups control system according to the Forest Stewardship Council™ certification system, in the following location and complies with the requirements of:
Bureau Veritas Certification Holding SAS подтверждает, что компания внедрила систему контроля цепочек поставок FSC в соответствии со стандартами Лесного попечительского совета, на следующей площадке и соответствует требованиям:

Standard

FSC Chain of Custody Certification standard, Ref.: FSC-STD-40-004 V3.0
FSC CoC Controlled Wood standard, Ref.: FSC-STD-40-005 V3.1

For its activities concerning/Для следующих видов деятельности::

Production and sale of newsprint with FSC Mix and FSC CW, sale of round wood with FSC 100% and FSC CW *
Производство и продажа газетной бумаги с заявлением FSC Mix и FSC CW, продажа круглых лесоматериалов с заявлением FSC 100% и FSC CW*

* Updated list of products & species on the FSC database (www.info.fsc.org)
*Актуализированный список продуктов и древесных пород см. в базе данных FSC (www.info.fsc.org)

Type of certification/ Вид сертификации: single/ одиночная

Original certification date / Исходная дата сертификата: 21.02.2019
Date of certification decision / Дата принятия сертификационного решения: 21.02.2019
Expiration date- Дата окончания срока действия: 20.02.2024
FSC Certificate code / Код Сертификата FSC: BV-COC-146241 / BV-CW-146241
BV Certificate No./Version / Номер/Версия Сертификата BV: RU002394/ V 1
Contract No. / Номер Договора: 4290672
Issue date / Дата выдачи : 22.02.2019

Bureau Veritas Certification HUB EMEA Manager

Anna MICHALECKA

Signed on behalf of Bureau Veritas Certification Holding

The validity of this certification shall be verified on: www.info.fsc.org
This certificate itself does not constitute evidence that a particular product supplied by the certificate holder is FSC-certified or FSC Controlled Wood. Products offered, shipped or sold by the certificate holder can only be considered covered by the scope of this certificate when the required FSC claim is clearly stated on sales and delivery documents.
Accredited office: Bureau Veritas Certification Holding – 8, cours du Triangle - 92800 Puteaux - France: www.bureauveritas.com

Certification decision office: Bureau Veritas Polska Sp. z o.o., ul. Migdalowa 4, 02-796 Warszawa, Poland
Contracting office: Bureau Veritas Certification Russia
A list of the products or services that are included in the scope of the certificate may be obtained on request to Bureau Veritas Certification. This certificate remains the property of Bureau Veritas Certification, all copies or reproductions and the certificate itself shall be returned or destroyed on Bureau Veritas certification request. All certificates not in English are for reference only

asi accredited ASI-ACC-016

FSC www.fsc.org FSC™ A000504
The mark of responsible forestry

The certificate issued by the certification body of JSC Bureau Veritas certification Rus (JSC» Bureau Veritas Certification RUS», Moscow) confirms that the company has implemented a supply chain control system in accordance with the requirements of the international standards of the Forest Stewardship Council®. The certificate is valid until February 2024.

JSC Volga was awarded an honorary award, the standard of the Governor of the Nizhny Novgorod region. 6

The honorary symbol was awarded to Balakhna paper mill Volga on March 26, 2019 during the final meeting of the Ministry of industry, trade and entrepreneurship of the Nizhny Novgorod region. The company received the award for outstanding results and high performance in the field of industrial production.

Newsprint made of 100% thermomechanical material and paper for corrugation are the Winners of the Nationwide competition of the «100 Best Products Of Russia» program. 7

Diplomas were awarded to representatives of the company on November 14, 2019 in Nizhny Novgorod. The received documents allow Balakhna paper mill Volga to place the logo of the program «100 Best Products Of Russia» on its products for the next two years.

Company structure

The structure of the Volga Group, the parent company of which is JSC Volga, includes the following enterprises:

volga

Joint-stock company
Volga

Service companies:

- **LLC Volga-UK ZhKKh**
- **LLC Volgaresurs**
  (joined the group
  on November 27, 2019)

Other companies:

- **LLC Agromir**

Priority areas of activity

One of the most important strategic objectives of JSC Volga is to increase the efficiency of the company's activities in conditions of high competition. The key method for achieving this goal is to ensure high product quality and provide the highest level of service at all stages of the production cycle.

The company provides high performance indicators by positioning products in a high price range with a concentration on priority sales markets, as well as by optimizing production and sales costs.

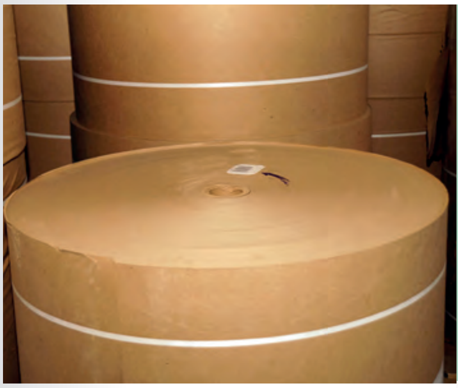
Over the past few years the company has implemented several major investment projects:

through the acquisition of the asset complex of the Nizhny Novgorod state regional power plant named after A.V. Vinter (NiGRES), which became a part of the company as its structural division since January 1, 2015.

the company mastered a new technology for the production of newsprint from 100% thermomechanical material, which significantly improved the quality characteristics of newsprint and used it on high-speed printing equipment in 2015. The company's newsprint made of 100% thermomechanical material has high mechanical characteristics and successfully competes with the products of European manufacturers There is no similar paper on the Russian market considering the composition of the paper (100% TMM).

in 2016, the company launched a new automated line for unloading and transporting wood raw materials, which consists of a receiving storage hopper and belt conveyors that feed commercial wood chips to cumulus storage, ensuring that they are mixed with the process wood chips produced in the company. This made it possible to improve the quality of raw materials entering the thermomechanical material shop.

the company mastered the production of low-weight newsprint (40 g/m2) in 2017, which became a Winner of the Nationwide competition «100 Best Products of Russia» in the nomination «Products for industrial and technical purposes» with the assignment of the status «New». The advantage of this type of product is the increased area of paper in one roll.

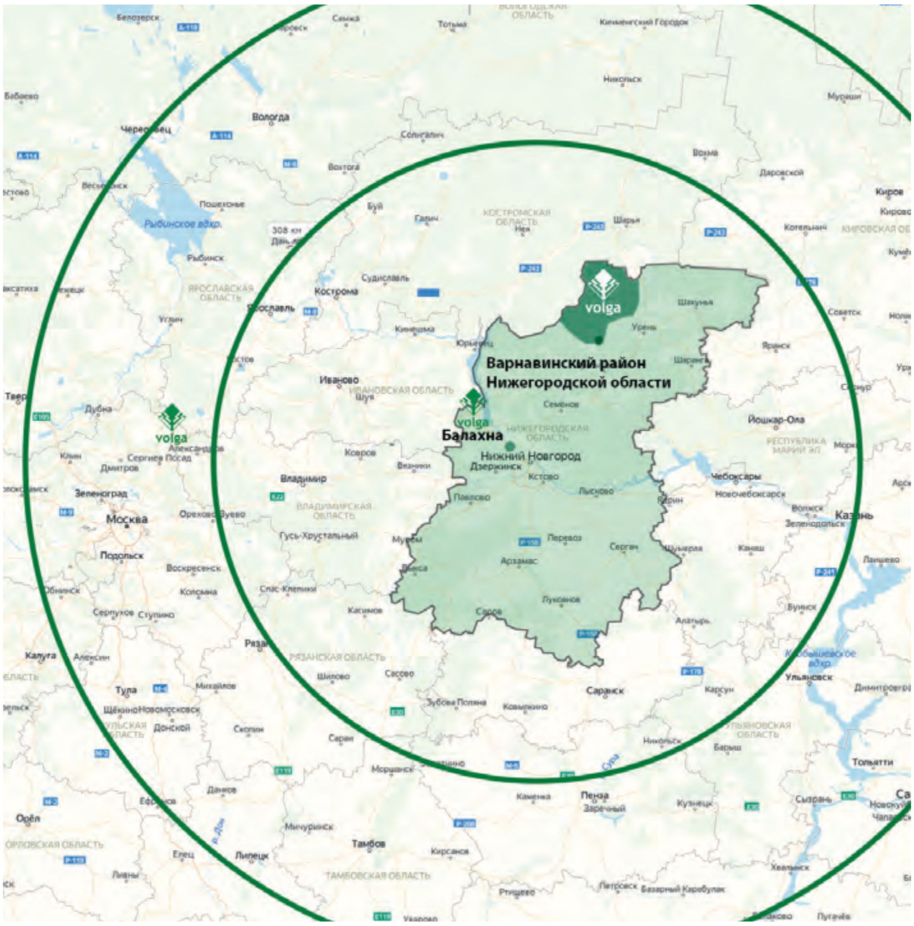


the company mastered the production of bulky paper for printing books, a product in demand on the market in 2018, the paper machine No. 4, which produces various types of packaging papers.

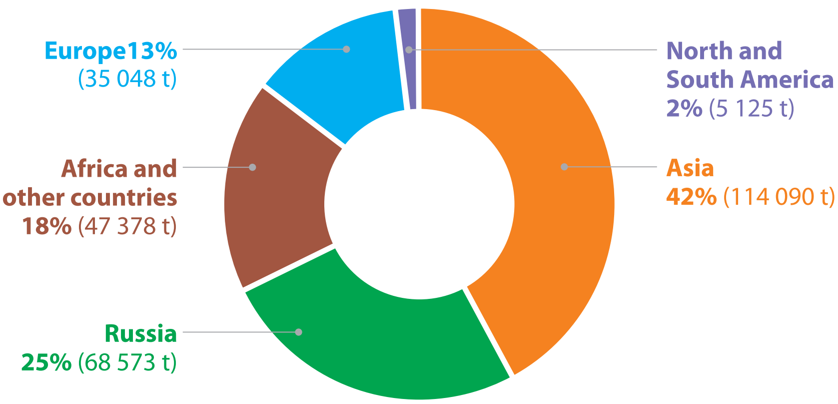
the company's production capacity and energy complex (Nigres) continued to be modernized in 2019, and in this connection, an agreement was signed on the implementation of a major investment project for the construction of a new thermomechanical material shop, which will increase the volume of export sales of newsprint and create new jobs. Currently implemented projects are aimed at increasing productivity and production volumes, as a result, increasing the company's financial security.

2.6. Geography of production and sales activities

All production assets of the company are located in the Nizhny Novgorod region (Balakhna city and Varnavino town settlement).



Sales activity (geography)



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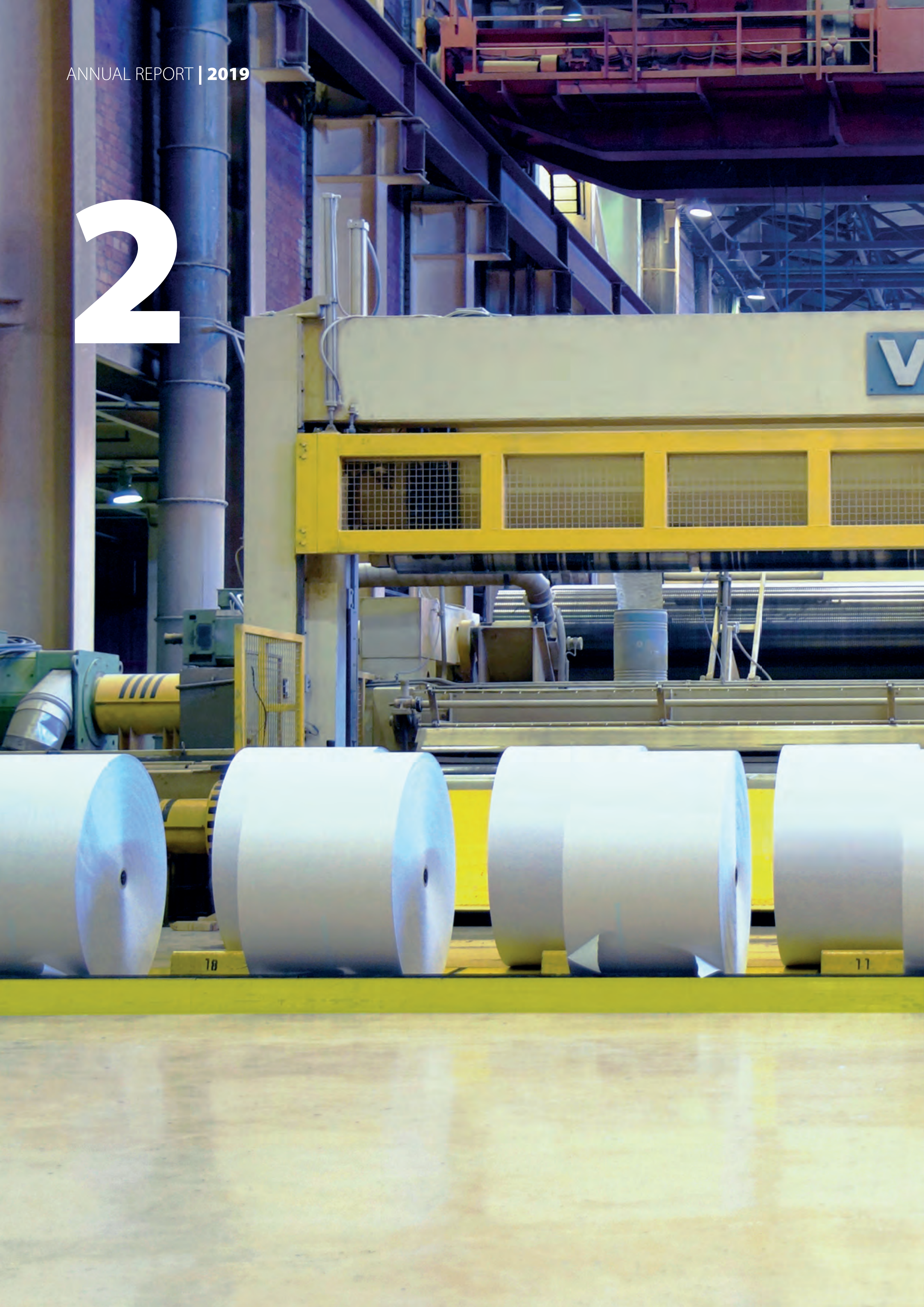
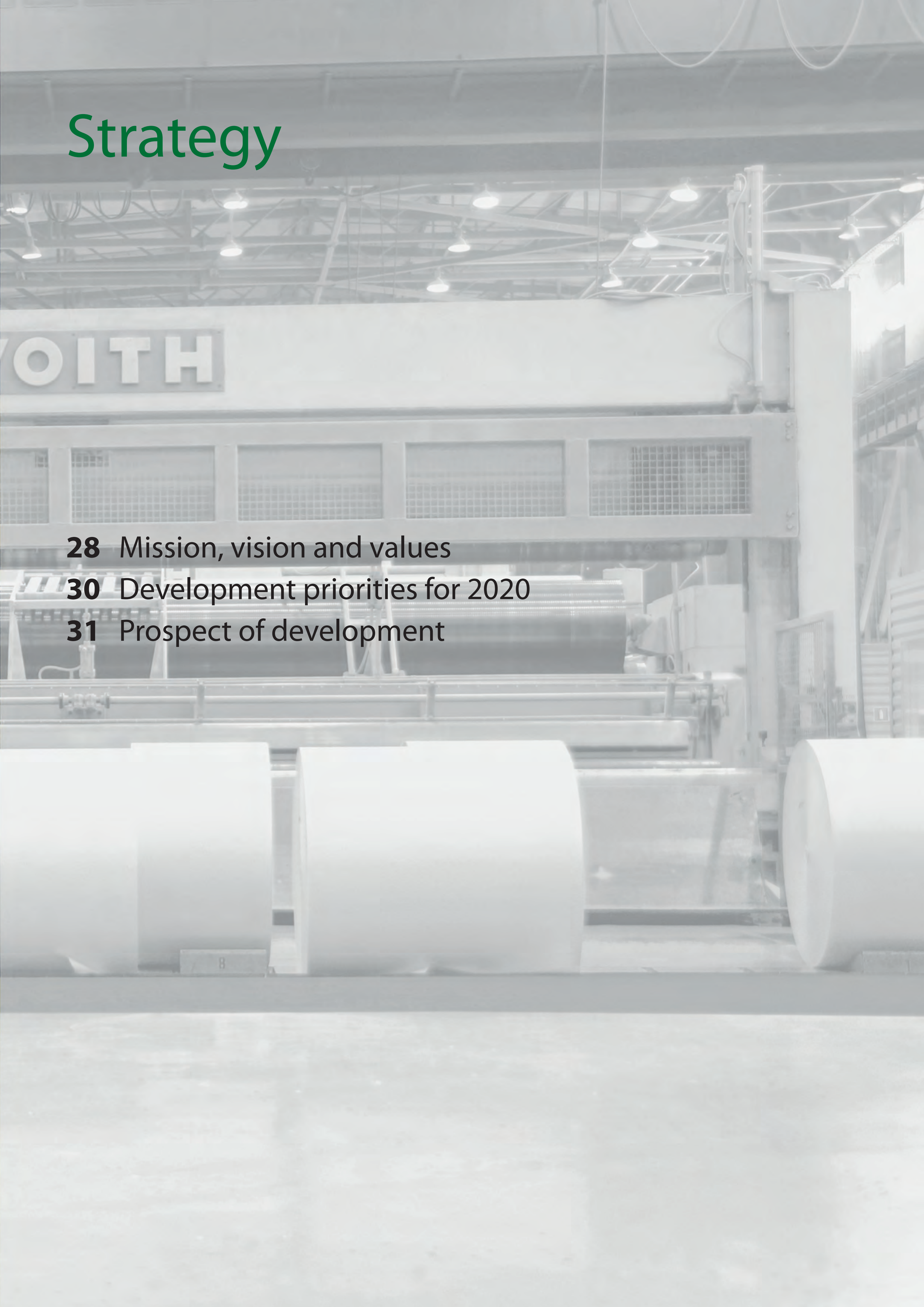




Strategy

Mission, vision and values

The corporate governance of JSC Volga reflects respect for traditions, reliability and openness of the company, values that are close and understandable to partners and consumers of products, and the desire to be one of the leading companies in the paper industry in Russia.

Company's mission:

To produce high-quality and high-demand paper for newspapers, books and other printing products, and thereby to promote the distribution of printed publications worldwide, as well as provide customers with cost-effective packaging solutions, from private to industrial products.

Corporate values of JSC Volga:

Leadership and continuous development. Desire to set trends in the development of the industry. The company develops new technologies for the production of newsprint based on the experience of many generations of paper manufacturers.

Reliability and high level of service. Focus on long-term relationships with clients based on trust and responsibility. The company's accumulated experience in logistics, innovative equipment, and high quality of finished products help to provide consistently high level of service.

Team work. The strength of the professional team of JSC Volga lies in mutual support. Employees are ready to commit themselves and compromise in order to achieve the best results.

Legal compliance and security. The company flawlessly fulfills all the requirements of work, industrial and fire safety, as well as environmental legislation in the course of its activities.

Social responsibility. The company's success is closely linked to the development of the region in which it operates and society as a whole, so JSC Volga conducts a socially responsible business. The company contributes to the development of the regional economy and the pulp and paper industry in Russia through its activities.

Development priorities for 2020

Production and raw materials support:

- Increasing production capacity
- Implementation of the investment program
- Reducing the impact on the environment
- Creating of own logging sites.

Product portfolio and interaction with clients:

- Development of new products and diversification of the product portfolio
- Improving the quality of products
- Improving the efficiency of sales and logistics supply chains

Finance and efficiency:

- Implementation of the plan for key financial indicators
- Strengthening and automating the company's business processes in all areas

Personnel:

- Development of personnel and organizational structure
- Talent management

Prospect of development

JSC Volga is the leader in the manufacture of paper made of 100% thermomechanical material in the Russian Federation.

Prospects for further development are determined by the company's strategic goals, priorities, and ongoing projects.

The development focus is on:

- development and implementation of plans to further increase production by eliminating bottlenecks in all areas: papermaking equipment, semi-finished product (TMM) production, power generation;
- achieving the maximum planned indicators for implemented and prospective investment projects;
- reducing costs and improving the efficiency of the equipment;
- improving the efficiency of operations and business processes.

The investment program provides for the development of three mainstays:

- Increasing capacity for the production of semi-finished products (TMM) for paper machines;
- Increasing the efficiency of electricity generation at the power complex (NiGRES);
- Creating of own logging sites.

The key project of the investment program is the construction of a new thermomechanical material shop:

- Investment amount – 1,4 billion;
- Production volume – extra 40 thousand tons of finished products.

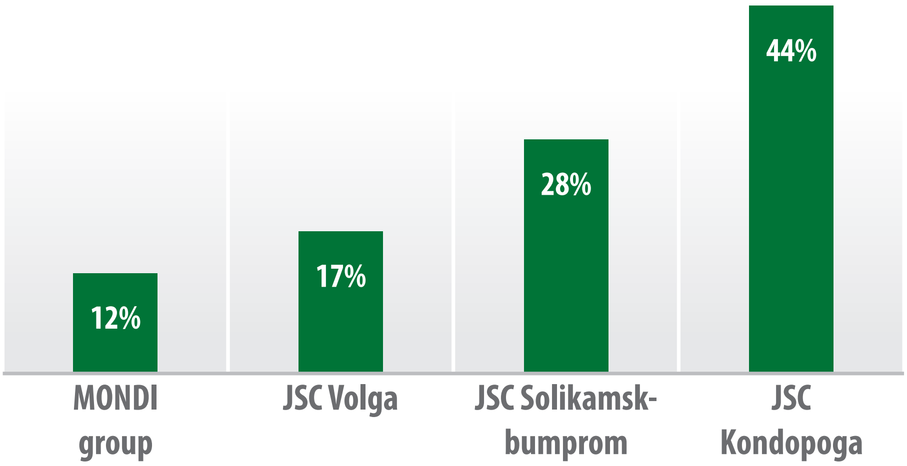
3

Development results in priority areas of activity

Position in the industry

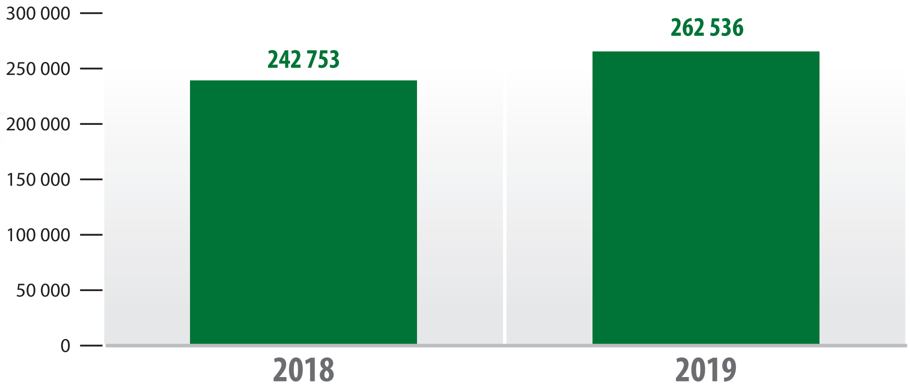
JSC Volga is one of the leaders in the Russian paper industry in terms of production volumes.

Share of companies in the volume of production, 2019 (thousand tons)*



* according to BUMPROM data

Production volumes of goods produced (thousand tons) **



** according to PEO data

Production volumes of goods produced by JSC Volga in 2019 (thousand tons)

Newsprint	217 028	82,6%
Bulky paper	23 525	9,0%
Casing paper	12 331	4,7%
Corrugating paper	7 426	2,8%
Brown paper	2 226	0,9%
Total	262 536	

Key financial and production indicators

Dynamics of production activity indicators
(by main types of products) (thousand tons)

2017

Newsprint	217 251	100%
Total	217 251	

2018

Newsprint	231 425	95,3%
Bulky paper	2 009	0,8%
Casing paper	8 896	3,7%
Corrugating paper	423	0,2%
Total	242 753	

2019

Newsprint	217 028	82,6%
Bulky paper	23 525	9,0%
Casing paper	12 331	4,7%
Corrugating paper	7 426	2,8%
Brown paper	2 226	0,9%
Total	262 536	

Dynamics of sales amount indicators
(by main types of products) (thousand tons)

2017

Newsprint	0	0%
Total	0	

2018

Newsprint	170 452	94,5%
Bulky paper	1 580	0,9%
Casing paper	8 286	4,6%
Total	180 318	

2019

Newsprint	224 777	83,3%
Bulky paper	24 537	9,1%
Casing paper	11 188	4,1%
Corrugating paper	7 256	2,7%
Brown paper	2 234	0,8%
Total	269 992	

The company didn't sell products in 2017. JSC Volga provided services for processing of raw materials during this period.

Dynamics of indicators of volume of sales proceeds
(by main types of products) (million rubles)

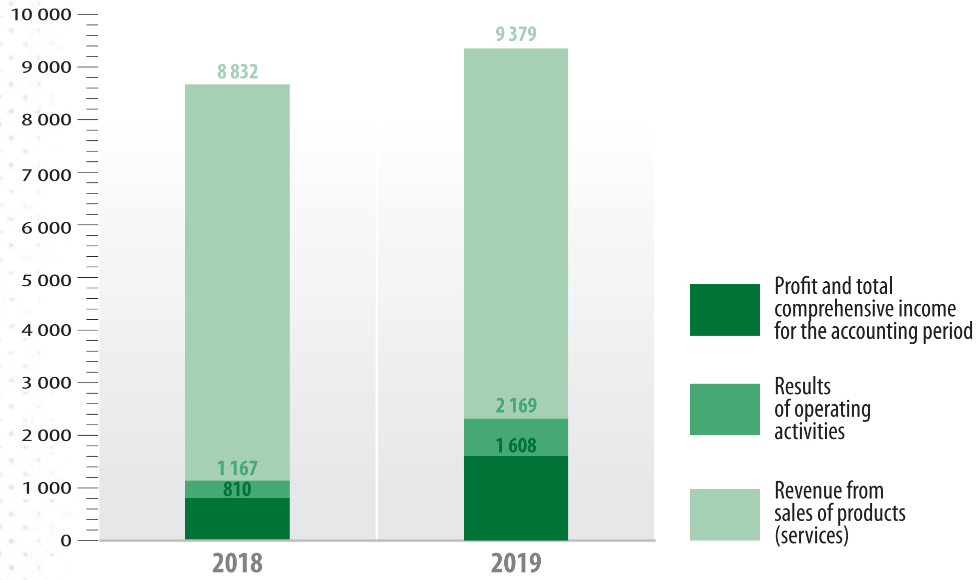
2018

Revenue from the sale of newsprint on the foreign market	5 515	62,4%
Revenue from the sale of newsprint on the domestic market	1 461	16,6%
Revenue from sales of services	859	9,7%
Other revenue	6	0,1%
Production on a give-and-take basis	992	11,2%
Total	8 833	

2019

Revenue from the sale of newsprint on the foreign market	6 530	69,6%
Revenue from the sale of newsprint on the domestic market	1 961	20,9%
Revenue from sales of services	835	8,9%
Other revenue	53	0,6%
Total	9 379	

Dynamics of results of financial and economic activities
(million rubles)



Information on the use of energy resources

Type of energy resource	Amount of consumption by volume	Unit of measure	Amount of consumption by value, thousand rubles
Atomic energy	0	-	0
Caloric energy	819 213	Gcal	801 498
Electric energy	807 305	MW*h	1 507 206
Electromagnetic energy	0	-	0
Oil	0	-	0
Motor gasoline	116 220	l	4 048
Diesel fuel	568	t	25 020
Furnace oil	197	t	1 735
Natural gas	383 617	thousand m^3	1 845 535
Coal	0	-	0
Oil shale	0	-	0
Peat	0	-	0
Other:			
- kerosene	28	t	1 472

Investment activity

The company's investment activities are focused on:

- increasing production volumes, in particular thermomechanical material production;
- continuing to build a vertically integrated timber company with a full cycle of logging and added-value wood processing;
- improving the efficiency of power generation;
- maintaining the reliability of existing equipment;
- developing plans for further evolvement of the company in order to increase the scale and efficiency of the business.

Key projects of 2019:

Currently, the long-term strategy of Volga JSC is being implemented and improved. The key directions are to increase the production capacity of the enterprise, as well as to diversify the existing product line, mainly by moving away from mono-raw materials. The following works were carriaed out as part of the strategy's implementation in 2019:

- *A significant amount of work was performed on the construction of a new thermomechanical material shop with a capacity of 180 tons/day. This project was successfully completed in 2020. The implementation of the project allowed to increase the production of finished products by 40 thousand tons annually, as well as to provide 84 new jobs;*
- *Logging production is organized on the sites near Varnavino town settlement. Logging on these sites was started by JSC Volga In January 2020 after completing the state expertise of projects in the field of forest development and submitting the first forest declaration. More than 100 thousand hectares of forest plots were transferred to Volga JSC for longterm lease. The estimated volume of the cutting area is up to 298 thousand cubic meters of wood annually;*

In addition to projects directly related to the implementation of the longterm strategy, the following projects were implemented:

- *Modernization of the R-32-130/12 turbine, as well as delivery and installation of a feed pump 380-185-5 with a turbo drive in the framework of measures to improve the energy efficiency of NiGRES. Modernization of the turbines will increase the power supply to the plant by 4.5-7 megawatts (depending on the time of year);*
- *Reconstruction of the waste paper sorting line for BDM-4. Installation and configuration of the equipment allowed cleaning of waste paper.*

Innovative activity

The company carries out innovative activities in accordance with the approved strategy, which includes improving production efficiency, developing new materials and products, and implementing digital technologies.

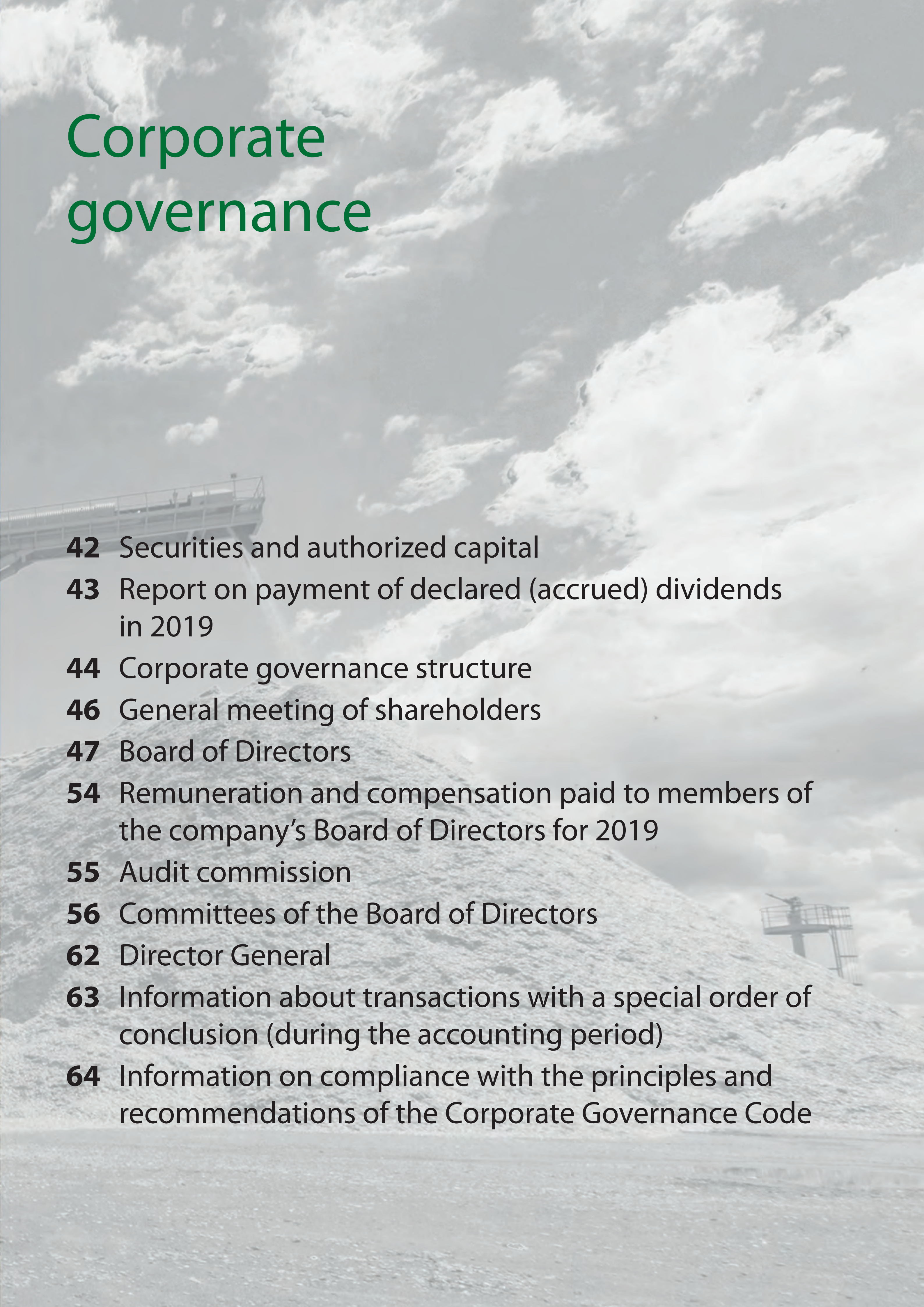
The company searches for projects that correspond to the innovation strategy through the use of open innovation tools (technology scouting, holding open competitions, working with startups). Works are carried out in close collaboration with external partners at the stages of development (R&D), scaling (pilot installations) and commercialization of products.

The company uses internal research divisions of the company located on the production site of JSC Volga to implement projects for improving production efficiency and developing new product brands.

Mainstays of the projects:

- *construction of a new shop TMM-180;*
- *assessment of the prospective expansion of TMM production to 400 tons/day;*
- *assessment of the prospective increase in paper recycling;*
- *development of technology for the production of new types of paper and packaging on our own semi-finished product base;*
- *mastering the technology of rotation of raw wood at storage sites.*

4



Corporate governance

Securities and authorized capital

THE AUTHORIZED CAPITAL

1 121 838 565

in the period from January 01 2019 to December 31 2019 was

RUBLES

THE COMPANY HAS PLACED

11 808 827

ORDINARY REGISTERED NON DOCUMENTARY SHARES

the nominal value of one share is

95

rubles

THE COMPANY IS ENTITLED TO PLACE

1 677 780

AUTHORIZED SHARES ADDITIONALLY

the nominal value of one share is

95

rubles

There were no changes in the authorized capital in the reporting year

Report on payment of declared (accrued) dividends in 2019

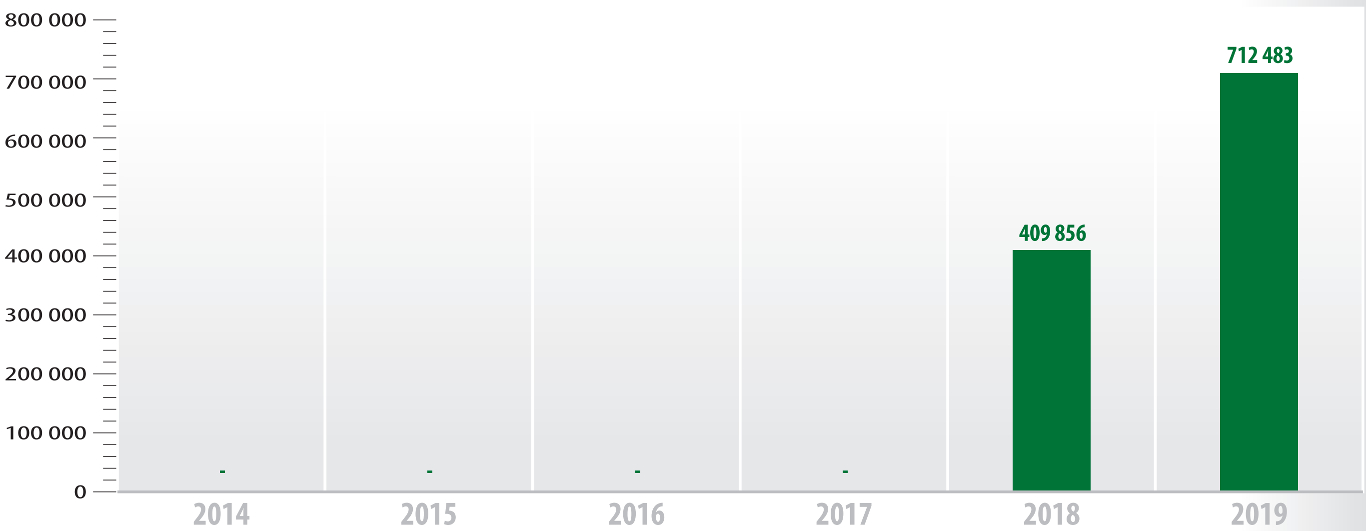
Period for which dividends were paid	Reason
2018	General meeting of shareholders dated May 29, 2019, Protocol No. 60 dated May 31, 2019: the decision was made to pay dividends in the amount of 212,558,886.00 rubles at the rate of 18.00 rubles per share.
1st quarter of 2019	General meeting of shareholders dated May 29, 2019, Protocol No. 60 dated May 31, 2019: the decision was made to pay dividends in the amount of 149,972,102.90 rubles at the rate of 12.70 rubles per share.
9 months of 2019	General meeting of shareholders dated November 18, 2019, Protocol No. 60 dated November 21, 2019: the decision was made to pay dividends in the amount of 350,012,505.96 rubles at the rate of 12.70 rubles per share.

Dividends based on the results of financial year 2019

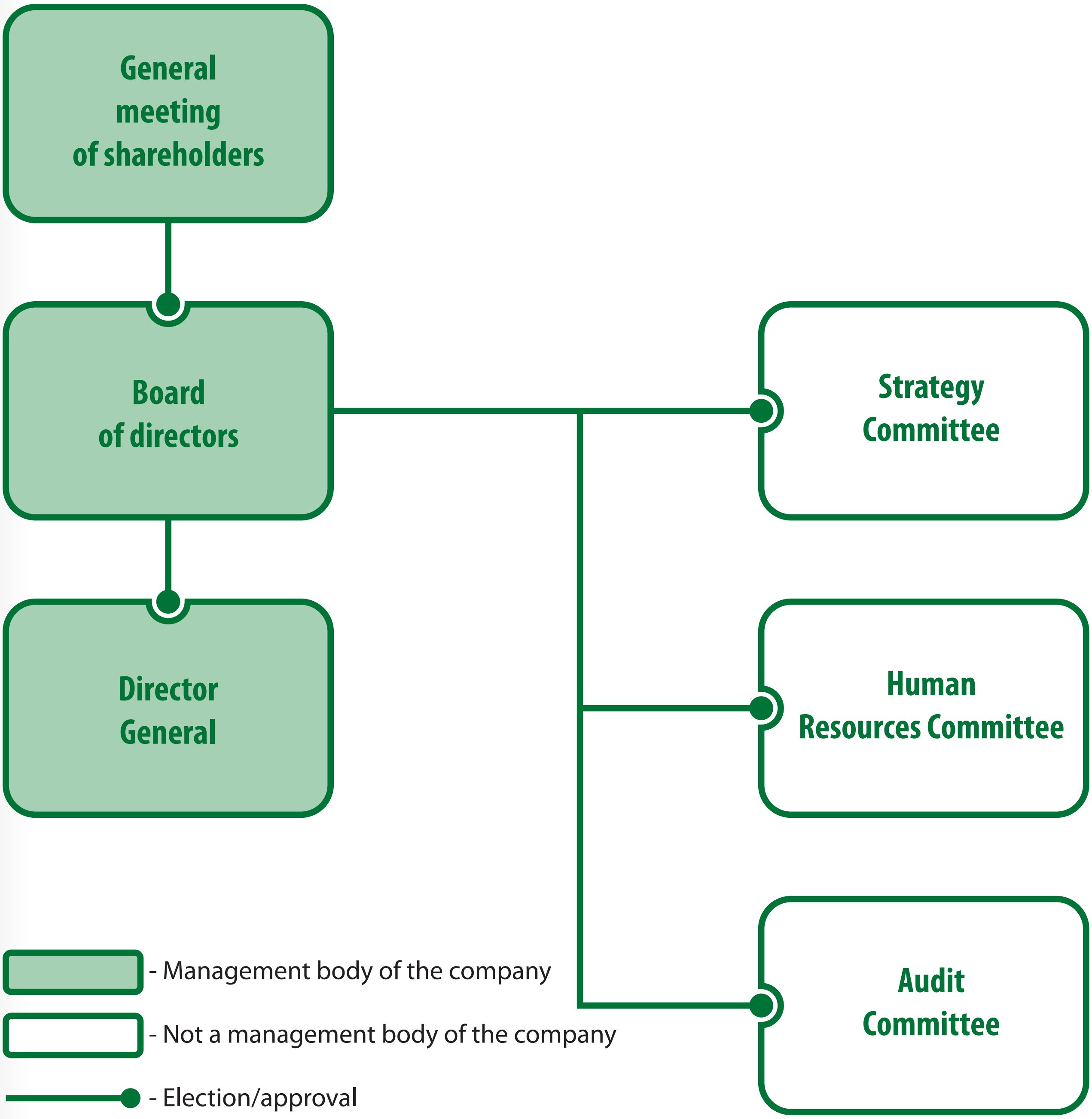
The company has not made a decision (or announced) to pay dividends based on the results of the financial year 2019.

The issue of payment of dividends based on the results of financial year 2019 is subject to consideration at the annual General meeting of shareholders in 2020.

Total amount of cash allocated for the payment of dividends for 2014-2019 (including interim dividends) (thousand rubles)



Corporate governance structure



JSC Volga pays considerable attention to improving corporate governance as one of the key components of the Company's business performance, despite the fact that the company had no obligation to approve the Corporate Governance Code in 2019.

The corporate governance standards adopted JSC by Volga provide shareholders and investors with confidence in the observance of their legal rights and interests, and allow them to improve the process of making management decisions aimed at preserving assets, maximizing profits and capitalization.

Corporate governance system of JSC Volga is based on the following principles:

- *equal and fair treatment of all shareholders of the company, observance and protection of their rights in accordance with current legislation;*
- *ensuring effective strategic and operational management;*
- *building an effective system of internal control, audit and risk management aimed at providing reasonable confidence in achieving the goals set by the company;*
- *ensuring information and financial transparency of the company for shareholders, investors and other interested parties;*
- *compliance with ethical business conduct standards;*
- *accountability of the company's Board of Directors to the company's shareholders;*
- *effective interaction with the company's employees in solving social issues and ensuring the necessary working conditions.*

Today, the fundamental internal regulatory documents of Volga JSC in the field of corporate management are:

- *Articles of association;*
- *Regulations on the General meeting of shareholders;*
- *Regulations on the Board of Directors;*
- *Regulations on the Audit Commission;*
- *Regulations on the Strategy Committee of the Board of Directors;*
- *Regulations on the Audit Committee of the Board of Directors;*
- *Regulations on the HR and Remuneration Committee of the Board of Directors.*

Electronic versions of these documents are available on the website of JSC Volga: http://www.volga-paper.ru

One of the most important principles of corporate governance of JSC Volga is transparency. JSC Volga discloses information about its activities in accordance with the requirements of the Central Bank of the Russian Federation.

JSC Volga follows the recommendations of the Corporate Covernance Code recommended by the Bank of Russia in the process of improving corporate governance practices.

General meeting of shareholders

Three General meetings of shareholders were held during the accounting year (including the annual General meeting of shareholders).

1

March 04, 2019

EXTRAORDINARY GENERAL MEETING OF SHAREHOLDERS

Agenda:
1. Early termination of the powers of members of the company's Board of Directors.
2. Election of the company's Board of Directors.
3. Approval of the new version of the Regulations on the company's Board of Directors.
4. Payment of remuneration to members of the company's Board of Directors.

The extraordinary General meeting of shareholders was held in the form of a meeting (joint presence of shareholders) with mandatory sending of ballots before the General meeting of shareholders (Protocol of the extraordinary General meeting of shareholders of JSC Volga No. 59 dated March 07, 2019).

2

May 29, 2019

ANNUAL GENERAL MEETING OF SHAREHOLDERS

Agenda:
1. Approval of the company's annual report for 2018, the company's annual accounting statements for 2018, including the company's profit and loss statement.
2. Distribution of the company's profit based on the results of 2018.
3. Distribution of the company's profit based on the results of the first quarter of 2019.
4. Approval of the company's Auditor.
5. Election of the company's Board of Directors.
6. Election of the company's Audit Commission.
7. The company's participation in the authorized capital of a limited liability company.

The annual General meeting of shareholders was held in the form of a meeting (joint presence of shareholders) with mandatory sending of ballots before the General meeting of shareholders (Protocol of the annual General meeting of shareholders of JSC Volga No. 60 dated May 31, 2019).

3

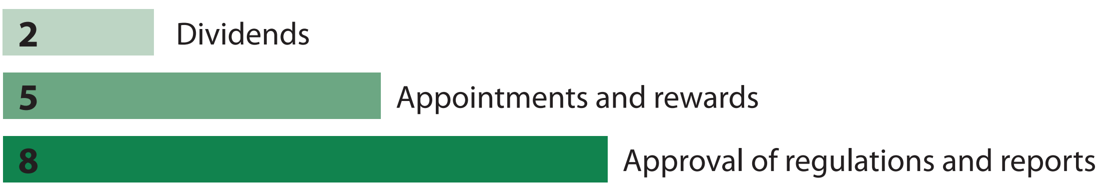
November 18, 2019

EXTRAORDINARY GENERAL MEETING OF SHAREHOLDERS

Agenda:
1. Early termination of the powers of members of the company's Board of Directors.
2. Election of the company's Board of Directors.
3. Distribution of part of the company's profit for the first nine months of 2019 by paying (declaring) dividends.

The extraordinary General meeting of shareholders was held in the form of a meeting (joint presence of shareholders) with mandatory sending of ballots before the General meeting of shareholders (Protocol of the extraordinary General meeting of shareholders of JSC Volga No. 61 dated November 21, 2019).

The General meeting of shareholders considered 14 issues in the following areas in 2019



Board of Directors

The Board of Directors is a key element of JSC Volga's corporate governance system. The Russian Federation legislation and internal documents of the company assign the Board of Directors the role of a body ensuring effective management of the company and its strategic development.

In 2019, the Board of Directors focused on the following issues:

- maintaining business stability against the background of a reduced capacity of the newsprint market and falling global demand for newsprint, rapid response to changes in the economic environment. The measures supported by the Board of Directors to reduce the negative impact of the macroeconomic situation still include further improvement of operational efficiency, cost reduction, development of own capacities in order to diversify the product portfolio, modernization of paper-making equipment in order to improve the quality of products and maintain a competitive advantage;
- strategic development of JSC Volga, the feasibility of investment in projects, capacity development, private logging and timber processing, increase the power of their own generation to provide electricity to the new thermomechanical material shop. The consolidated strategy of the Company has been updated, approaches to the development of a technical concept for the development of the Company have been agreed, the target vectors of segment strategies have been clarified, key tasks in the field of sales have been identified, taking into account the current situation in the markets, and the Marketing Service has been created. The investment projects "Separation of technological flows of paper machines BDM No. 5 and BDM No. 8", "Increasing the production capacity of the thermomechanical material shop TMM 180 (t/s) to TMM 400 (t/day)", "Creation of a logging enterprise in the structure of JSC Volga» have been approved;
- modernization of power complex capacities (NiGRES). The projects "Technical re-equipment of the feed pipelines scheme with the installation of a drive steam turbine and a feed pump", "Overhaul (modernization) of the PT-80/100-130/13 turbine" have been approved;
- environmental issues: approaches to the development of a strategy in the field of ecology and environmental protection have been agreed, the project «Technical re-equipment of the sludge dewatering site» has been approved, and a decision has been made to modernize the existing integrated line for the disposal of bark and sludge;
- personnel issues, assessment of the current state of personnel potential, turnover, recruitment and retention of staff. In particular, the strategy in the field of personnel management has been updated, the results of achieving the 2018 goals by key managers have been analyzed, a number of important personnel appointments have been made in the highest executive bodies, and the goals for 2019 have been agreed;
- issues related to the effectiveness of the internal audit system and regulation of the Internal Audit Service procedures;
- improving the efficiency of all business processes.

The work of the Board of Directors fully covered all issues within its competence. The efforts of the Board of Directors were aimed at increasing the responsibility of management for the decisions made.

Key issues discussed at the Board of Directors meetings in 2019:

Monitoring and reporting:

- decisions have been on corporate matters, including the convening of General meetings of shareholders;
- the General meeting of shareholders approved a new version of the Regulations on the Board of Directors of JSC Volga at the suggestion of the Board of Directors;
- management reports on the results and prospects of development in functional areas of activity have been considered;
- The report on the results of the internal audit Service has been reviewed and the work Plan of the internal audit Service for 2019 has been approved;
- the decision has been made to pay bonuses to key managers of JSC Volga based on the results of 2018;
- Regulations on remuneration and incentives for key managers of JSC Volga has been approved;
- key performance indicators of the Director General and Deputies for 2019 have been approved;
- Regulation on the categories of employees of JSC Volga have been approved;
- the new version of the Collective agreement of JSC Volga for 2020-2022 has been approved;
- the company's Borrowing Strategy for 2020 has been approved;
- the Work Plan of the Board of Directors for 2020 has been approved.

Approval of transactions:

- a contract for management consulting on the project «Assessment of development options of JSC Volga» has been approved;
- a Company Insurer has been approved;
- transactions to attract debt financing, finance lease (leasing) agreements, an insurance contract for accounts receivable have been approved;
- decisions have been made to provide charitable assistance;
- decisions have been made to grant consent to a number of interested-party transactions.

Annual budget and business plan:

- the company's budget for 2020 has been approved.

The Board of Directors of JSC Volga consists of 5 members. The Chairman of the Board of Directors of JSC Volga is Breus Shalva Petrovich.

The Board of Directors held 6 meetings in the form of joint presence and 16 in the form of absentee voting in 2019.

The Board of Directors works on a planned basis: the work schedule is approved for a year.

Information on changes in the composition of the Board of Directors during the accounting year 2019:

January 01, 2019 – March 04, 2019

1. Breus Shalva Petrovich	Chairman of the Board of Directors
2. Genin Aleksandr	Deputy Chairman of the Board of Directors
3. Kravtsov Konstantin Aleksandrovich	Member of the Board of Directors
4. Stollyar Valentin Aleksandrovich	Member of the Board of Directors
5. Tronova Natalia Vladimirovna	Member of the Board of Directors

March 03, 2019 – May 29, 2019

1. Breus Shalva Petrovich	Chairman of the Board of Directors
2. Genin Aleksandr	Member of the Board of Directors
3. Gordeeva Elena Olegovna	Member of the Board of Directors
4. Kravtsov Konstantin Aleksandrovich	Member of the Board of Directors
5. Sarayev Vladimir Aleksandrovich	Member of the Board of Directors

May 29, 2019 – November 18, 2019

1. Breus Shalva Petrovich	Chairman of the Board of Directors
2. Genin Aleksandr	Member of the Board of Directors
3. Gordeeva Elena Olegovna	Member of the Board of Directors
4. Sarayev Vladimir Aleksandrovich	Member of the Board of Directors
5. Tuzov Vladimir Olegovich	Member of the Board of Directors

November 18, 2019 – January 31, 2019

1. Breus Shalva Petrovich	Chairman of the Board of Directors
2. Genin Aleksandr	Member of the Board of Directors
3. Kravtsov Konstantin Aleksandrovich	Member of the Board of Directors
4. Sarayev Vladimir Aleksandrovich	Member of the Board of Directors
5. Tuzov Vladimir Olegovich	Member of the Board of Directors

Information on members of the Board of Directors:

Breus Shalva Petrovich

Year of birth: 1957

Education: higher, graduated from Moscow State University named after M.V. Lomonosov With a degree in Political Economy.

Over the past 5 years he has held the following positions:

Period		Name of the organization	Position
from	until		
2004	the present day	JSC Volga	Chairman of the Board of Directors
2007	the present day	BREUS FOUNDATION International Cultural Foundation	President

- *Participation in the authorized capital of the company/ordinary shares 98.9993%.*
- *Breus Shalva Petrovich has the right to direct independent disposal of the number of votes attributable to the voting shares constituting the Issuer's authorized capital in the amount of 11,690,652 ordinary shares of the Issuer, which corresponds to 98,9993% of the share in the Issuer's authorized capital as of December 31, 2019.*

Genin Aleksandr

Year of birth: 1969

Education: higher, graduated from the University of Massachusetts with a degree in Finance and Accounting; Harvard Business School with a degree In management for senior managers.

Over the past 5 years he has held the following positions:

Period		Name of the organization	Position
from	until		
2013	2016	RBS Global	Chairman of the Supervisory Board
2013	2015	LLC Bransvick Rail Management	Director General
2016	May 2017	GK Buket	Director General
June 2017	August 2017	GK Buket	Presidential adviser
September 2017	March 2019	JSC Volga	Deputy Chairman of the Board of Directors
January 2019	the present day	JSC VTB Capital holding	Deputy Director General
2011	the present day	JSC Volga	Member of the Board of Directors

- *Doesn't have a share in the company's authorized capital or ordinary shares.*
- *No transactions were made to acquire or dispose of the company's shares.*

Kravtsov Konstantin Aleksandrovich

Year of birth: 1980

Education: higher, graduated from the Financial Academy under the Government of the Russian Federation, a state educational institution of higher professional education, economist with a degree in Accounting, analysis and audit.

Over the past 5 years he has held the following positions:

Period		Name of the organization	Position
from	until		
2010	2017	LLC ROSINTER RESTAURANTS	Deputy Finance Manager for corporate reporting
2017	2017	LLC ROSINTER RESTAURANTS	Deputy Finance Manager
2018	the present day	LLC City Invest	Finance Manager
2018	the present day	JSC Volga	Member of the Board of Directors

- *Doesn't have a share in the company's authorized capital or ordinary shares.*
- *No transactions were made to acquire or dispose of the company's shares.*

Stollyar Valentin Aleksandrovich

Year of birth: 1985

Education: higher, graduated from the national research University «Higher school of Economics» with a Bachelor's degree in Economics, and a Master's degree in Finance from the University of Cambridge.

Over the past 5 years he has held the following positions:

Period		Name of the organization	Position
from	until		
2017	the present day	JSC Volga	Member of the Board of Directors
2017	the present day	LLC RT-Razvitie biznesa	Investment Manager
2016	2017	LLC PF-Capital	Deputy director general
2014	2016	Brunswick Rail	Deputy Director General for M&A
2011	2014	En+Group	Deputy Director General for strategy

- *Doesn't have a share in the company's authorized capital or ordinary shares.*
- *No transactions were made to acquire or dispose of the company's shares.*

Tronova Natalia Vladimirovna

Year of birth: 1985

Education: higher, graduated from the Moscow State Academy of Fine Chemical Technology named after M. V. Lomonosov, has a Master's degree in engineering and technology in the field of Chemical technology and biotechnology, as well as Moscow State University named after M.V. Lomonosov in the fielf of Jurisprudence (Bachelor's degree).

Over the past 5 years she has held the following positions:

Period		Name of the organization	Position
from	until		
2012	the present day	JSC Volga	Corporate Secretary
2017	the present day	LLC City Invest	Legal adviser to the Director General
January 2019	March 2019	JSC Volga	Member of the Board of Directors

- *Doesn't have a share in the company's authorized capital or ordinary shares.*
- *No transactions were made to acquire or dispose of the company's shares.*

Gordeeva Elena Olegovna

Year of birth: 1954

Education: higher, graduated from Tomsk State University named after V.V. Kuibyshev, economist with a degree in Industrial Planning

Over the past 5 years she has held the following positions:

Period		Name of the organization	Position
from	until		
January 2008	September 2014	JSC Volga	Deputy Chairman of the Board of Directors
May 2019	November 2019	JSC Volga	Member of the Board of Directors of JSC Volga

Sarayev Vladimir Aleksandrovich

Year of birth: 1986

Education: higher, graduated from Moscow State University named after M.V. Lomonosov with a degree in Economics.

Over the past 5 years he has held the following positions:

Period		Name of the organization	Position
from	until		
2015	2015	LLC Vikimart	Head of planning and economic department
2015	2016	IGOGO	Head of organisation
2016	2017	LLC Russlesgrupp	Deputy Manager for internal audit
2016	2017	LLC Rostovskiy Elektrometakkurgicheskiy Zavod	Deputy Chairman of the Audit Commission
2017	2018	LLC Rostovskiy Elektrometakkurgicheskiy Zavod	Director, economics and finance
2018	the present day	LLC Timber Invest Group	Director, business process optimization
March 2019	the present day	JSC Volga	Member of the Board of Directors

Tuzov Vladimir Olegovich

Year of birth: 1976

Education: higher, graduated from Moscow State University named after N. E. Bauman with a degree in Medical Systems Research Engineer; Ecole Centrale Paris, Master of Logistics, and Wharton Business School, University of Pennsylvania. Master in Business Administration (MBA) in Finance.

Positions for the last 5 years:

Period		Name of the organization	Position
from	until		
September 2013	August 2015	JSC Gruppa Ilim	Deputy Director General for strategic development and product management
2015	the present day	JSC SUEK (Siberian Coal Energy Company)	Strategy Manager
2019	the present day	JSC Volga	Member of the Board of Directors

Remuneration and compensation paid to members of the company's Board of Directors for 2019

Regulations on remuneration and compensation paid to members of the company's Board of Directors have been approved by the decision of the annual General meeting of shareholders of Volga JSC dated May 31, 2018 (Protocol No. 57 dated June 04, 18). The above Regulation provides for the payment of fixed amounts of remuneration to members of the Board of Directors during the performance of their duties. The regulation also provides for the possibility of paying remuneration to members of the Board of Directors based on the decision of the General meeting of shareholders and results of the company's work for the year.

Indicator	2019, thousand rubles
Renumeration	7,416
Wage	184,690
Bonus	0
Commission fee	0
Priviledges	0
Reimbursement for expenses	217
Other types of remuneration	107
TOTAL	192,430

Audit commission

The Audit Commission is provided by the company's Articles of Association. The decision on the election of the company's Audit Commission was not taken at the annual General meeting of shareholders on May 29, 2019 due to the lack of a quorum. Till May 31, 2019 The Audit Commission is formed of 3 people.

Kireyev Aleksey Aleksandrovich	Chairman of the Audit Commission
Mayorova Anastasia Yuryevna	Member of the Audit Commission
Mironova Dina Borisovna	Member of the Audit Commission

Committees of the Board of Directors

The Board of Directors has three Committees:

- ***Strategy Committee;***
- ***Audit Committee;***
- ***Remuneration and HR Committee.***

The Committees' activities are aimed at improving the efficiency and quality of decisions made by the Board of Directors.

The Corporate Secretary provides support for the work of the Board of Directors and Committees.

Strategy Committee

The Strategy Committee of the Board of Directors helps the Board of Directors make decisions aimed at improving the company's performance in the long term.

The following actions are performed with the direct participation of the Committee:

- *developing and implementing the company's consolidated development strategy and separate functional strategies;*
- *reviewing the strategic investment projects and programs;*
- *determining the company's production priorities and evaluating the operational effectiveness of management;*
- *improving key business processes.*

Personal composition of the strategy Committee as of December 31, 2019:

- *Breus Shalva Petrovich – Chairman; Genin Aleksandr;*
- *Sarayev Vladimir Aleksandrovich;*
- *Tuzov Vladimir Olegovich.*

The Commitee held 6 meetings in the form of joint presence and 1 in the form of absentee voting in 2019.

Key tasks set for the Strategy Committee in 2019:

- *the Committee focused on monitoring the prospects and trends of the paper products market and analyzing environmental factors that are significant for the company;*
- *an analysis of development options has been carried out, assistance has been provided to management in the development of a medium and long-term evolvement strategy aimed at diversifying products and increasing the value of the company;*
- *separate strategies for segments and directions have been revised, in particular, in the sphere of production, sales of finished products, transport and logistics, forest supply, and energy supply;*
- *tasks have been set for further improvement of business processes of sales, logistics, and forest supply;*
- *The Committee has been approved a number of strategic management initiatives, discussed in detail investment projects for the creation of a logging and timber processing enterprise in the structure of JSC Volga, technical re-equipment of the sludge dewatering site, modernization of the PT-80/100-130 turbine, separation of paper machine flows, and analyzed the feasibility of investing in the project to increase the production capacity of a new shop of thermomechanical material TMM 180 (t/day) to TMM 400 (t/day);*
- *the project for the construction of a new shop for thermomechanical material TMM (180 t/day), reconstruction of the waste paper sorting line BDM-4 has been monitored;*
- *approaches to the preparation, planning, implementation of investment projects and subsequent analysis of the results achieved have been developed under the guidance of the Committee;*
- *the key elements of the strategy in the field of ecology and environmental protection have been analyzed taking into account the relevance of environmental aspects, and priority directions for reducing the impact on the environment have been supported.*

Audit Committee

The Audit Committee of the Board of Directors assists the Board of Directors in exercising control over financial and economic activities through preliminary consideration of the following issues:

- *managing the preparation of management reports, regular analysis of the Company's performance;*
- *monitoring the implementation of budget planning policies, evaluating the effectiveness of the budgeting system;*
- *supervising the work of the Internal Audit Service, including quarterly analysis of audit results and annual analysis of the overall effectiveness of audit activities;*
- *evaluating of the results and effectiveness of the independent auditor's work.*

Personal composition of the Audit Committee as of December 31, 2019:

- *Genin Aleksandr – Chairman;*
- *Kravtsov Konstantin Aleksandrovich;*
- *Sarayev Vladimir Aleksandrovich.*

The Committee held 8 meetings in the form of joint presence in 2019.

Key tasks set for the Audit Committee in 2019:

- *The Committee paid attention to planned issues of preparation of financial statements, including monitoring the quality of financial statements under IFRS. The Committee assessed the audit risks and the amount of information disclosed in the reports. Regular issues related to evaluating the effectiveness of the external auditor, the amount of his remuneration, and the independence of the auditor have been considered;*
- *The Committee reviewed the internal procedure for checking the mechanism for determining the lower price limit for products for the corresponding period, and issued recommendations to the management on the formation of the Price Committee;*
- *the Committee reviewed reports of the Internal Audit Service on a quarterly basis and assessed the effectiveness of the Internal Audit Service as part of its main activities;*
- *the project management for the commissioning of a new shop of thermomechanical material TMM 180 (t/day) has been analyzed, the development of the investment budget of the project to create a logging enterprise in the structure of JSC Volga has been controled;*
- *the analysis of the budget of personnel costs for 2020 has been carried out;*
- *the tasks have been set to further optimize the procurement business processes.*
- *the strategy has been formed in the field of insurance protection of the company's assets;*
- *the assistance has been provided to the Board of Directors in developing a borrowing strategy for 2020;*
- *the supervision of the budget process for the year 2020 has been carried out.*

Remuneration and HR Committee

The Remuneration and HR Committee of the Board of Directors provides assistance to the Board of Directors in resolving HR, social and corporate governance issues, including:

- *preparing recommendations to the Board of Directors on HR strategy, appointments and remuneration;*
- *preliminary assessment of candidates to the post of Director General, his/her Deputies, prior approval of the early termination of powers of deputies and the terms of employment contracts with Director General and Deputy Director General;*
- *forming the remuneration policy that defines the principles and criteria for remuneration of members of the Board of Directors, Director General and his/her Deputies;*
- *preliminary consideration of drafts of internal documents of the Company regulating personnel policy, criteria for forming managerial personnel, requirements and approaches to systems, methods of motivation and stimulation of personnel.*

Personal composition of the Remuneration and HR Committee as of December 31, 2019:

- *Breus Shalva Petrovich – Chairman*
- *Kravtsov Konstantin Aleksandrovich;*
- *Sarayev Vladimir Aleksandrovich;*
- *Tuzov Vladimir Olegovich.*

The Remuneration and HR Committee held 3 meetings in the form of joint presence in 2019.

Key tasks set for the Remuneration and HR Committee in 2019:

- *the analysis of personnel management, the budget of personnel costs has been carried out, the Committee assessed the main approaches to the formation of an HR strategy, the implementation of tasks and supported the initiatives of management in matters of staffing, reducing turnover, attracting and retaining personnel;*
- *the management personnel motivation systems has been improved in order to ensure the most complete compliance of management efforts with the company's strategic goals under the guidance of the Committee, including the development of a new motivation system for the sales unit;*
- *the goals for senior managers have been set for 2019, a lot of work has been done to develop a motivation system for 2020. The responsibility of senior managers for the implementation of significant production projects, the development of the company's development strategy, the achievement of goals within the framework of the environmental project, control over business processes has been increased;*
- *the main approaches to the formation of the concept of long-term incentives have been considered;*
- *the draft Collective agreement of JSC Volga for 2020-2022 has been approved;*
- *The Chairman of the Remuneration and HR Committee and the members of the Committee made every effort to ensure that the Board of Directors and management had the necessary skills, knowledge, and experience to enable the company to achieve its strategic goals and add value to stakeholders.*

Director General

The powers of the Sole Executive body are exercised by the Director General, who is elected by the company's Board of Directors in accordance with the company's Articles of association. The Board of Directors is also responsible for setting the amount of remuneration and compensation of the Sole Executive body.

The collegial executive body isn't provided for by the company's Articles of association.

Remuneration of the Sole Executive body is defined as a fixed amount (monthly salary) in accordance with the employment contract, and additional remuneration may be paid for each month/quarter/year and for special achievements in accordance with the current Regulations on remuneration and incentives of the company. The amount of remuneration of the Sole Executive body isn't disclosed separately, taking into account the non-disclosure mode established in the company in relation to information about remuneration of the Sole Executive body.

The amount of compensation for expenses of the Sole Executive body isn't disclosed, taking into account the non-disclosure mode established in JSC Volga with relation to information about compensation for expenses of the Sole Executive body.

Information on the Sole Executive body.

The company's Director General is Sergey Pondar as of December 31, 2019. The Director General of JSC Volga was appointed by the decision of the ordinary meeting of the Board of Directors of JSC Volga No. 11/2019 dated July 4, 2019.
From 2019 until present day – Director General of JSC Volga; 2016-2017 – member of the Management Board. Vice President, Head of the Paper and Packaging Department at LLC Upravlyaywushchaya kompaniya Segezha Group;
2016-2016 – Vice President for production, member of the Management Board – LLC Upravlyaywushchaya kompaniya Segezha Group;
2014-2015 – Director for quality, ecology, labor protection and fire safety of ILIM GROUP JSC;
2014-2014 – Director for manufacturing excellence, quality, ecology, labor protection and fire safety of ILIM GROUP JSC;
S.I. Pondar has been the Director General since July 8, 2019. He doesn't own any shares of JSC Volga. JSC Volga didn't make any transactions for the acquisition or disposal of shares during 2019.

Information on the Sole Executive body as of July 06, 2019.

Starun Aleksey Vladimirovich – Director General

Year of birth: 1985

Education: higher

- Doesn't have a share in the company's authorized capital or ordinary shares.

- No transactions were made to acquire or dispose of the company's shares.

Information about transactions with a special order of conclusion (during the accounting period)

Transactions recognized as major transactions in accordance with the Federal law «On joint stock companies» require a decision to approve it.

Transactions recognized as major transactions in accordance with the Federal law «On joint stock companies» were not made in 2019.

The list of transactions made by the Company in the reporting year that are recognized as interested-party transactions in accordance with the Federal law «On joint stock companies».

The list of interested party transactions made by JSC Volga in 2019 is provided in Appendix 1 to this report.

Information on compliance with the principles and recommendations of the Corporate Governance Code

The company has not officially approved the Corporate Governance Code or any other similar document, but Volga JSC provides shareholders with all opportunities to participate in the company's management and get acquainted with information about the company's activities in accordance with the Federal Law «On joint stock companies», the Federal Law «On the securities market» and regulations of the Bank of Russia.

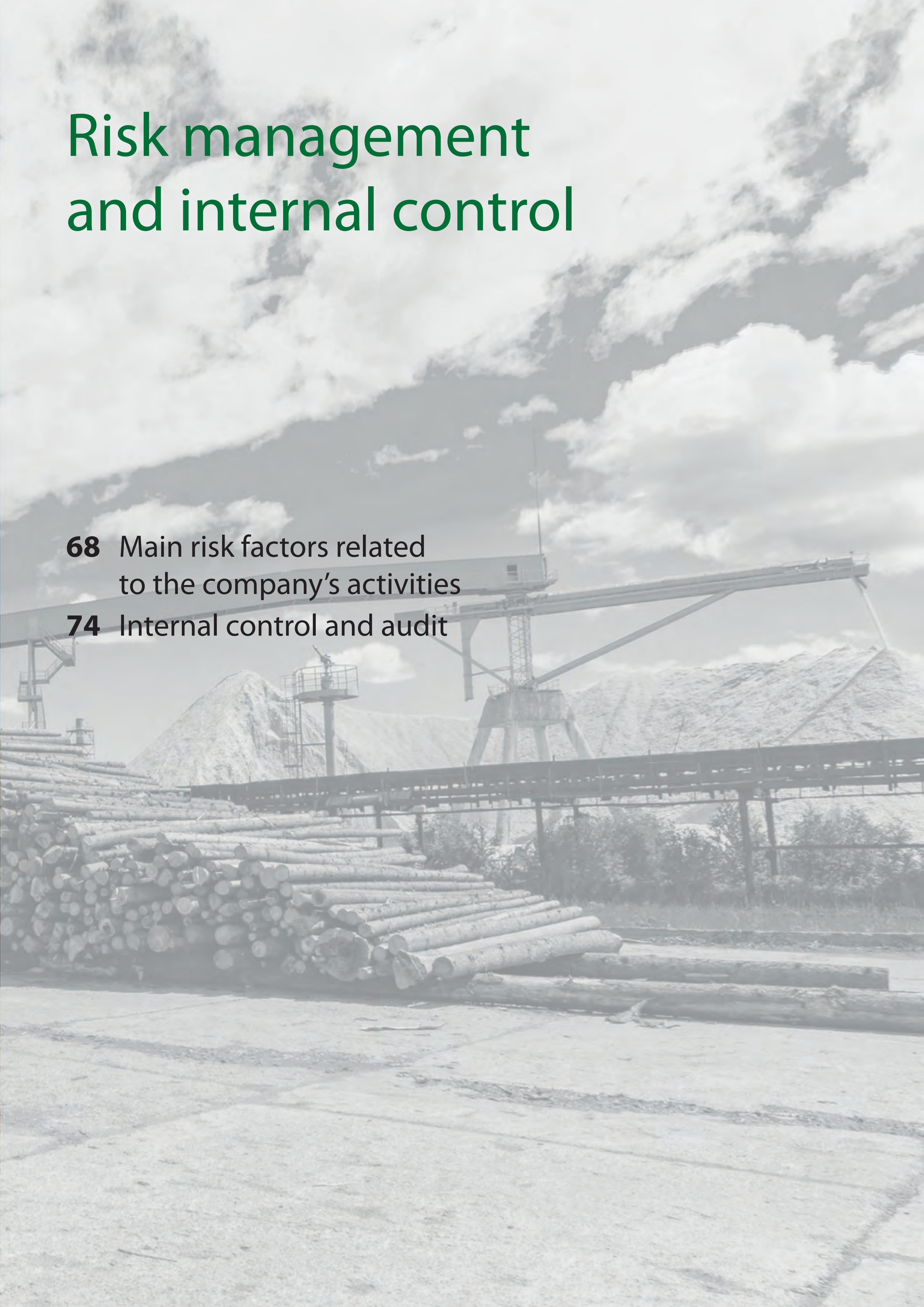
The main principle of the company's relations with shareholders and investors is a reasonable balance of interests of the company as an economic entity and as a joint stock company interested in protecting the rights and legitimate interests of its shareholders.

The company is guided by the following principles of the Corporate Governance Code approved by the Bank of Russia:

- • *equal and fair treatment of all shareholders when exercising their right to participate in the management of the company;*
- • *equal and fair opportunity for shareholders to participate in the company's profits by receiving dividends;*
- • *reliable and efficient ways of accounting for shareholders' rights to shares, as well as the possibility of free and easy alienation of their shares;*
- • *shareholders are entitled to regular and timely receipt of complete and reliable information about the activities of JSC Volga in accordance with the requirements and provisions of the Federal law «On joint stock companies»;*

JSC Volga carries out control over the use of confidential and proprietary information.

5



Risk management and internal control

Main risk factors related to the company's activities

The company, represented by its management, constantly monitors and assesses the risk factors associated with the company's activities, and does not currently consider the risks listed below as significant for the company's operations.

The company's risk management policy:

The Issuer has developed the Risk Management Policy for JSC Volga. The risk management policy of JSC Volga defines the main principles for organizing, implementing and controlling risk management processes in JSC Volga. The policy defines priority actions for building a risk management system, a risk management strategy, main risk management processes, architecture of the risk management system, and risk reporting. The Issuer's management bodies make maximum efforts to minimize the impact of risk factors on the current and future activities of the Issuer, responding adequately and timely to changes in the current and forecasted situation.

If one or more of the risks listed below arise, the Issuer will take all possible measures to limit their negative impact. Therefore, potential investors should carefully consider the following risk factors when making investment decisions.

Industry risk

Risks associated with product sales

JSC Volga is one of the largest producers of newsprint in the Russian Federation. The company's products are sold both on the domestic market and in Europe, South-East Asia and the CIS.

As a major exporter, the company bears the risks associated with changes in prices for its products, which may occur as a result of structural changes in supply/demand or economic downturn in the markets of its presence, as well as in the case of changes in exchange rates.

There was a decrease in purchasing prices for newsprint due to the cyclical nature of the market in 2019. This decrease was offset by an increase in sales amounts of the company's products, which, in general, did not significantly affect the company's financial results.

The company's management regularly reviews analytical materials prepared by external and internal analysts regarding the expected dynamics of the markets for products sold by the company. The company's management believes that in the medium term, the price of products will tend to increase.

Risks associated with compliance with legislation in the field of environmental protection

The company periodically evaluates its obligations in the field of environmental protection. The company has no significant obligations to compensate for environmental damage in the current practice of applying the current legislation of the Russian Federation.

However, there is a tendency to tighten the legislation of the Russian Federation in this area at the moment. The company discharges and emits harmful substances in the course of its operations, taking into account permissible standards.

Risks associated with the activities of monopoly suppliers.

The company uses materials and services (mainly gas supply) purchased from a wide range of suppliers in the course of business. The company has no control over the infrastructure of monopoly suppliers, the amount of tariffs charged and the pricing of these suppliers of raw materials and services.

Management believes that the risks in this area are at an acceptable level in terms of impact, which allows the company to ensure uninterrupted operations.

Country risk

Currently, the political situation in the country is relatively stable, but there is still uncertainty about possible access to capital sources, as well as the cost of capital for the company and its counterparties. Instability in the capital markets may lead to a deterioration of liquidity in the banking sector and a tightening of credit conditions in the Russian Federation.

In General, the company does not consider this risk to be significant, since the company has sufficient experience and a reliable business reputation that allows it to attract debt financing as necessary, within acceptable terms and on market conditions.

JSC Volga monitors the changes taking place both in the economy of the Russian Federation and in the world economy, and also takes them into account when making management decisions. The sensitivity of the company's forecast financial result is analyzed according to various macroeconomic parameters on a regular basis.

Financial risk

The company is exposed to credit risk, currency risk, interest rate risk and liquidity risk in the normal course of business. The goal of the company's overall financial risk management is to minimize the potential adverse impact of financial market volatility on the company's financial results.

The company does not use derivative financial instruments to hedge risks. The company has adopted a policy on credit and currency risk management.

The company has established procedures for control and assessment, risk analysis, as well as ongoing monitoring and disclosure of financial risks in reporting.

Credit risk

Credit risk is the risk that the company will incur a financial loss caused by a buyer or counterparty not fulfilling its contractual obligations to a financial instrument. The most significant credit risk for the company is the risk of non-fulfillment of obligations by contractors in terms of payment for delivered products. The company focuses on cooperation with counterparties that have a high credit rating to reduce this risk, uses receivables insurance, letters of credit and Bank guarantees, and in some cases requires pre-payment for delivered products.

The company applies credit policy to manage emerging sales risks to minimize the effects of credit risk. The company manages to maintain the amount of customer debt at an optimal level and prevent its growth thanks to a well-thought-out credit policy.

Another group of credit risks includes risks related to the activities of counterparty banks and possible reduction of their financial stability. The company constantly monitors the credit rating of counterparty banks to reduce these risks.

Currency risk

The company conducts operations using various currencies, mainly US Dollars and Euros with a large share of exports to South-East Asia, as well as Western and Eastern Europe. Also, some of the company's expenses, assets and liabilities are in foreign currency. Currency risk for the company is associated with fluctuations in the ruble exchange rate relative to the exchange rates of these foreign currencies.

The company constantly monitors changes in exchange rates to find a balance between incoming and outgoing cash flows, as well as assets and liabilities denominated in foreign currencies, in order to minimize the impact of currency risk.

Risk of changes in interest rates

The company's cash flows are exposed to no significant risk of changes in market interest rates, since most of the company's loans and borrowings are provided by financial institutions at a fixed interest rate.

Liquidity risk

Liquidity risk is the risk that the company will encounter difficulties in fulfilling its obligations related to financial liabilities that are settled by transferring cash or another financial asset. The company's approach to liquidity management is to ensure that there is always sufficient liquidity to meet its obligations on time, both under normal and stressful conditions as far as possible, without incurring unacceptable losses and without compromising the company's reputation.

In order to manage liquidity risk, the company makes monthly cash flow forecasts. All payments are checked against the financial plans and approved by the responsible persons before they are made.

Legal risk

The company operates in strict compliance with tax, customs and currency legislation. The company monitors and responds promptly to changes in legislation (including through the use of professional consultants), as well as strives for a constructive dialogue with regulatory authorities on the interpretation and application of legislation.

Risks associated with changes in tax legislation

The tax system of the Russian Federation continues to evolve and is characterized by frequent changes in legislation, official explanations and court decisions, which are sometimes contradictory, allowing for ambiguous interpretation by various tax authorities.

Checks and investigations into the correctness of tax calculation are carried out by several regulatory bodies that have the right to impose large fines and penalties. The correctness of tax calculation in the accounting period can be verified within three subsequent calendar years. Recently, the practice in the Russian Federation is that the tax authorities take a more stringent position in terms of interpretation and compliance with tax legislation.

The company's management believes that the accrual and settlement of tax liabilities fully complies with the legislation of the Russian Federation based on its understanding of applicable Russian tax legislation, official explanations and court decisions. However, the interpretation of these provisions by the tax and judicial authorities may be different especially in connection with the reform of the higher judicial bodies responsible for resolving tax disputes, if the tax authorities can prove the validity of their position.

Risks associated with changes in currency regulation

The company is an active participant in foreign economic relations. Some of the company's expenses, assets and liabilities are in foreign currency. The state mechanism of currency regulation affects the financial and economic activities of the company in this regard.

The company constantly monitors changes in the regulatory framework in the field of currency regulation and control, strictly follows the established rules and implements the recommendations of currency control agents.

Risks associated with changing the procedure for customs clearance and payment of customs duties

The company is exposed to risks related to changes in legislation in the field of state regulation of foreign trade activities, as well as customs legislation regulating relations on establishing the procedure for moving products across the customs border of the Russian Federation, establishing and applying customs regimes, as well as collecting customs payments.

There is a possibility of changing the rates of customs duties on certain goods in respect of which the company makes foreign trade transactions within this group of risks. The main negative consequence of this type of risk is an increase in costs and a decrease in export efficiency.

The company fulfills the requirements of customs control, timely prepares all documentation necessary for the implementation of export and import operations.

Operational risk

Risks associated with depreciation of fixed assets

The company is exposed to risks due to the presence of worn-out fixed assets, including equipment, buildings and technical structures. The risk factor is the conditions of aggressive environment (high temperature, humidity, vibration, etc.) for the operation of fixed assets.

The company implements preventive measures to reduce the risks associated with depreciation of fixed assets, which include an annual program for equipment modernization and reconstruction. The company implements large-scale investment projects involving the use of modern advanced technologies. In addition, the company has a property insurance policy.

Risks associated with production safety

The company is exposed to risks due to the use of dangerous equipment in its production activities. Possible accidents carry risks of significant losses and temporary suspension of operations. The company has developed measures to reduce the risk of accidents and fires. Automated security systems are being implemented as part of investment projects, and independent audits are being conducted to assess the risks of material losses and the reduction of production activities due to material losses. The company assesses this risk as manageable.

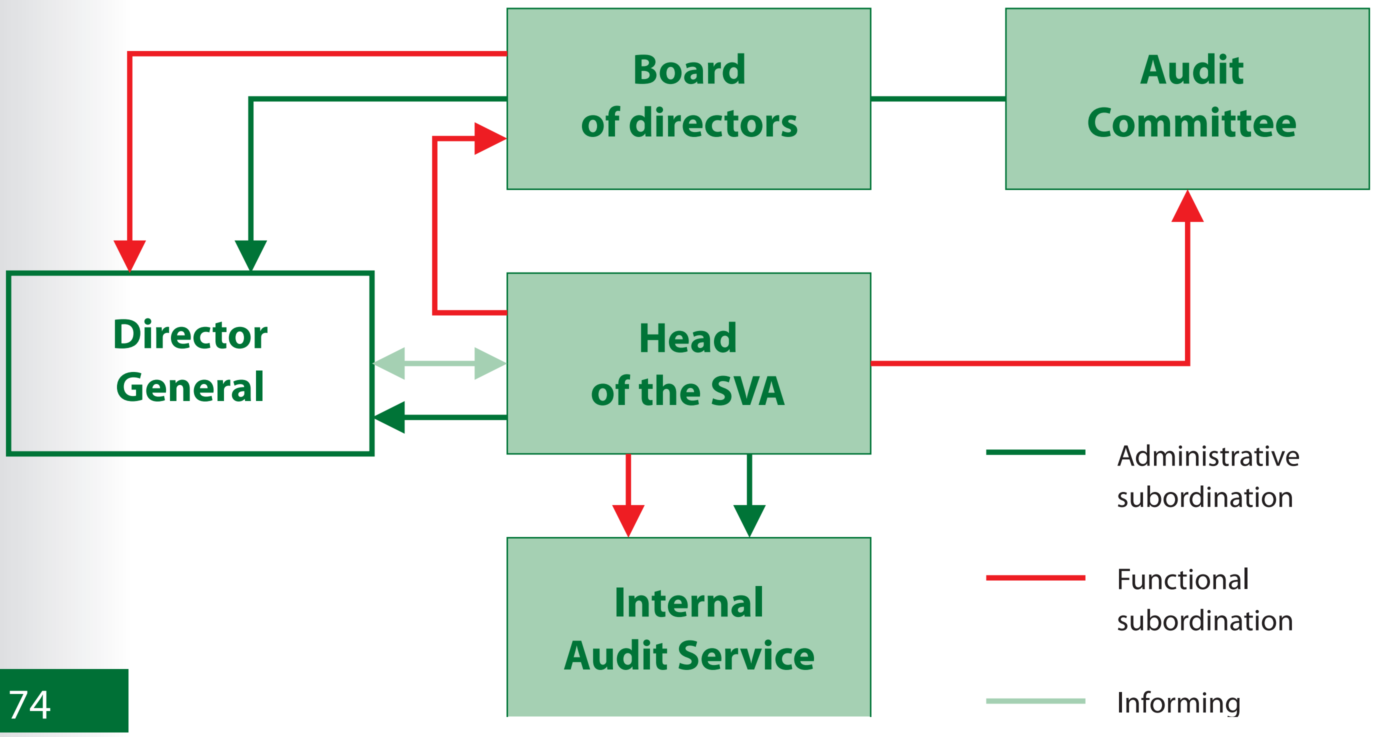
Internal control and audit

JSC Volga has an independent structural unit responsible for internal control and audit, the Internal Audit Service.

The purpose of the Internal Audit Service is to assist the Board of Directors and management bodies of the company in increasing the shareholder value of the business by conducting audits and control procedures aimed at improving the effectiveness of the internal control system, risk management and corporate governance.

The Internal Audit Service of JSC Volga is guided by the principles of independence, professionalism and objectivity in its activities, applies a systematic and risk-based approach when conducting audits and making recommendations to improve the efficiency of business processes, takes into account all existing International Standards Of Internal Audit and the Code Of Ethics Of Internal Auditors adopted by the International Institute of Internal Auditors, and is guided by local regulations on internal audit approved by JSC Volga.

Structure of the internal audit system of JSC Volga



Internal audit of JSC Volga is in a special functional and administrative reporting and accountability mode, which ensures the objectivity and independence of the auditors. The head of the internal audit service is functionally accountable to the Board of Directors of JSC Volga and the Audit Committee, and administratively to the Director General of JSC Volga.

The key activities of the Internal Audit Service are:

- *financial audit – inspection performed to provide the management of JSC Volga with reasonable confidence in the reliability of financial statements, as well as to prevent possible cases of manipulation of financial statements;*
- *operational audit – inspection aimed at improving the efficiency of JSC Volga's business processes, reliability of the internal control system, and prevention of possible cases of abuse and fraud;*
- *control function – monitoring of implemented investment projects, control of purchasing activities, contracting and performance discipline (including compliance with the requirements of regulatory documents of JSC Volga).*

Based on the results of audits conducted in 2019 It was established that the company complied with all applicable corporate governance obligations. No significant deficiencies were identified in the processes of internal control, risk management and corporate governance. Certain deviations/shortcomings in the company's activities were identified based on the results of inspections, recommendations were developed and sent to the company's management and individual structural divisions to eliminate the identified deviations/shortcomings and improve business processes and risk management and internal control processes. The results of audits based on the results of operations for 2019 were regularly submitted to the audit Committee and the Board of Directors of JSC Volga.

Main tasks of the Internal Audit Service for 2020:

- *executing annual approved audit and consultation plans;*
- *ensuring control over the implementation of decisions of the management bodies of JSC Volga and internal audit recommendations based on the results of previous audits;*
- *improving the regulatory and methodological framework in the field of internal audit;*
- *developing, executing and further envolving automated internal audit mechanisms.*

6

Corporate social responsibility

Personnel and social policy

The main goal of the personnel policy of JSC Volga is to create conditions for high-performance work and personnel development. The company employs highly qualified professionals in various areas of its activities, which is the basis for stability and continuous development and contributes to the growth of the competitiveness of JSC Volga in the market.

The company’s management has approved regulations and principles aimed at increasing the welfare of employees. Personnel involvement is ensured through their awareness of the goals and objectives of JSC Volga, which contributes to the growth of the efficiency of each employee and the company as a whole.

Volga JSC considers employees to be a key component of the company’s value, which requires investment to develop. The company is interested in professional growth and professional envolvement of its employees. Employees are trained together with educational organizations and on the basis of the training center of JSC Volga. JSC Volga as a socially responsible enterprise implements measures for professional training and additional professional education of citizens of pre-retirement age working at the enterprise within the framework of the Federal project «Older generation» of the national project «Demography». 22 employees of pre-retirement age were retrained under the program «Maintenance fitter» in 2019 — one of the most popular specialties in the company and the labor market today.

Students' internship was organized in order to attract young specialists to the company, and mentoring programs were created as a strategically significant element of the personnel development system.

The key objectives of the company's HR strategy are to manage personnel performance and develop the company's human resources in order to enable each employee to realize his/her potential, taking into account abilities, interests and experience, in accordance with the envolvement goals of JSC Volga. All this contributes to the formation of a pool of talented professionals and the economic development of the company as a result.

Volga JSC approves and applies the principles of corporate culture aimed at increasing the company's value and implementing its strategic goals. This is a culture of initiative and responsibility, focus on achieving results and high ethical standards, professionalism and cooperation.

The company participates in the implementation of the priority program «Improving labor productivity and employment support», approved by the Presidium of the Presidential Council for strategic development and priority projects, whose priority tasks are:

- *increasing productivity;*
- *reducing labor costs;*
- *improving the quality of manufactured products;*
- *improving the professional level of personnel;*
- *retenting young professionals and talented employees;*
- *improving the company's competitiveness;*
- *expanding product sales markets.*

Volga JSC supports modern methods of production organization, optimization of working equipment and processes, as well as compliance with high industry standards. Employees of the company are appointed to positions in accordance with their qualifications. Selection for the position is based on the results of work, education, experience and knowledge of modern technologies and business practices, as well as on personal qualities. Selection criteria are designed to ensure the attraction and retention of qualified employees who are result-oriented.

The company continues to work purposefully to implement professional standards. The company is guided by current professional standards as a basis for determining requirements for training, qualification and competence of employees and for systematizing the descriptions of job functions in the development and updating of job descriptions and work instructions.

JSC Volga has implemented the personnel performance management system based on key performance indicators (KPIs) aimed at achieving the company's strategic goals and developing employees. The goal of this system is to gradually cascade KPIs to all levels of management in the company to involve all categories of employees in the performance management process.

The company's personnel security is based on the principles of continuity through the creation of a personnel reserve and increasing the leadership potential of employees. The separate personnel reserve helps to increase the efficiency of personnel risk management.

JSC Volga operates in accordance with the current collective and labor agreements, the Labor code of the Russian Federation and other legal acts of the Russian Federation and its subjects (hereinafter reffered to as «current legislation»).

The company welcomes the participation of employees in the company's life, in socially-oriented and civil events, and also complies with current legislation regarding the creation of public organizations and recognizes the legal right of employees to freedom of association (including trade unions) and to conclude collective labor agreements. The company recognizes that the health and safety of employees are priorities and necessary conditions for the implementation of the company's goals.

The remuneration system in the company is regulated by the regulations on remuneration and bonuses for employees. Remuneration includes a fixed salary and may include a variable salary component. A fixed compensation is a remuneration for the performance of official duties and depends on the area of responsibility. The agreement between the employee and the

company regarding the amount of a fixed compensation is formalized in the employment contract. The employee's salary may be changed as a result of performance evaluation, qualification requirements, transfer to another position or in connection with the requirements of current legislation.

The company is introducing the system of motivation aimed at solving following problems:

- *achieving high performance of each employee;*
- *professional development of employees;*
- *increasing employee loyalty, prevent high personnel turnover;*
- *attracting highly qualified specialists;*
- *optimization of personnel costs.*

The company has separate compensation programs for different categories of employees.

The social package of benefits and compensation is guaranteed by local regulations approved by the company, collective and labor agreements in force, the Labor code of the Russian Federation, and other applicable legislation. Social programs of the JSC Volga are aimed at involving employees in activities that promote a healthy lifestyle, develop a culture of sport, develop youth movement, corporate volunteering, support large families, organize recreation for employees and their children, and support veterans of the company. Additionally, the company finances voluntary health insurance programs for key employees.

Work, fire and environmental safety

Work safety

The chief criterion of JSC Volga is the safety and health of employees. JSC Volga invests significant resources in safety measures, equipment upgrades, and improving working conditions and safety.

In 2019 a number of measures were implemented to improve work safety in JSC Volga in accordance with the:

- *plan of measures to improve the working conditions and safety of employees in 2019;*
- *schedule of administrative and public control on work safety and fire safety in JSC Volga for 2019;*
- *schedule of training on work safety in specialized organizations of managers and specialists of the company for 2019;*
- *schedule of work safety knowledge testing for managers and specialists of the enterprise in 2019;*
- *schedule of training on safety when working at height in 2019.*

The following documents have been redesigned and put into effect:

- *list of professions (positions) of employees of JSC Volga who are trained in work safety in training organizations that are allowed to provide services in the field of work safety;*
- *list of professions (positions) of employees who are trained in work safety in JSC Volga;*
- *list of professions of JSC Volga undergoing training in work safety;*
- *list of professions and positions of employees of JSC Volga, exempt from the primary instruction on work safety at the workplace;*
- *orders in the field of work safety, on the appointment of responsible persons and the organization of work;*
- *«HSEMS. Regulations on the work safety management system in JSC Volga»;*
- *«HSEMS. Regulations on the procedure for training on work safety and testing of knowledge of work safety requirements»;*
- *«HSEMS. Regulations on investigation, reporting and evaluation of microtraumas received by employees of JSC Volga in the course of production activities»;*

- *«The training program on safe methods and receptions of performance of works»;*
- *«Program of industrial training in safe methods and techniques of work performance».*

The company organized a collection of proposals from employees aimed at ensuring the safety and health of employees in 2019. Work on identifying and responding to all incidents continues (including prerequisites for accidents and microtraumas).

During 2019:

- *4 industrial accidents related to the light category were investigated. 2 acts of investigation of the incident on the territory of the enterprise with employees of contractors were drawn up.*

The following measures in the field of work safety was implemented:

- *instructions on labor protection for professions and types of activities were revised at the end of the validity period;*
- *employees have been trained in work safety when working at height;*
- *managers and specialists of the enterprise have been trained in labor protection in specialized organizations;*
- *employees of working professions have been trained in labor protection;*
- *the qualification of work safety specialists has been improved as «Mass training Instructor in first aid skills for victims»;*
- *21 employees of the enterprise who are engaged in work with harmful or dangerous working conditions were allocated vouchers to the sanatorium at the expense of JSC Volga;*
- *employees of the enterprise are provided with special clothing, shoes and other PPE, flushing and neutralizing agents, milk and other equivalent food products;*
- *an unscheduled special assessment of working conditions at 201 workplaces was carried out.*

Fire safety

JSC Volga carried out targeted work to ensure fire safety of production facilities and technological processes, and to increase the level of protection of personnel at the company's facilities. The company did not allow natural and man-made emergencies due to the clear and well-coordinated work of the concerned services during the reporting period.

The financial resources in the amount of 39.15 million rubles were used to improve the fire protection of JSC Volga facilities in 2019. This made it possible to implement planned projects on fire safety, including installation.

High-performance fire protection systems made in accordance with the current requirements of regulatory and technical documentation in the field of fire safety in the Russian Federation.

The modernization of automatic firefighting systems (AFS), automatic fire alarm systems (AFAS) and emergency voice alarm communication system (EVAC) continues.

Works have been carried out to improve the reliability and maintenance of fire safety equipment for buildings and structures of the company.

Work has begun to ensure fire safety of open storage areas of forest materials on the territory of the wood preparation shop, prepared for receiving additional volumes of wood.

The main efforts of JSC Volga on fire safety and preparedness to emergency situations involving fires, was aimed at improving the fire protection systems of technological processes and auxiliary plants, as well as for quality training of technical personnel for actions during fires and other emergencies, if they occur on the premises. Fire-technical minimum training was provided to employees who perform fire-hazardous work, including fire work (52 employees), officials (80 employees).

In order to work out the skills of actions in case of fire at the facilities, as well as to exclude the possibility of fire development, all employees of working professions of Volga JSC passed course training in accordance with the approved programs and passed the appropriate tests.

Environmental safety

Today, only a closed-loop economy model can ensure sustainable development of society, that is, it can meet the needs of the current generation, without compromising the ability of future generations to meet their needs.

The goal of building a closed-loop economy is to use resources as efficiently as possible for as many cycles or times as possible.

Efficient resource reuse is the cornerstone of a closed-loop economy.

The woodworking and pulp and paper industry is an example of a closed bioeconomy by its nature.

JSC Volga strives to develop and implement solutions within the framework of sustainable development based on renewable raw materials and taking into account reused resources that ensure an optimal balance between the company's business interests and the needs of society in order to preserve the environment.

Products are made from wood from forests that are managed in an environmentally and socially responsible manner, aimed at maintaining and improving the social and economic well-being of the local population, observing their rights, preserving biological diversity, water resources, soils, as well as unique ecosystems and landscapes, and preserving forests of high conservation value. Wood is harvested in certified forests and delivered according to the optimal logistics scheme.

The government of Nizhny Novgorod region approved the positive conclusion of state examination of the project in forest development provided for the purposes of timber harvesting in Varnavinsk district in Nizhny Novgorod region.

The FSC (Forest Stewardship Council®) certificate covers 100% of the raw materials used (30% FSC certified raw materials from our own logging site, 70% FSC-controlled raw materials) and confirms that JSC Volga conducts sustainable forest management.

A public statement in the form of a Declaration of compliance with FSC values is published on the company's website at:

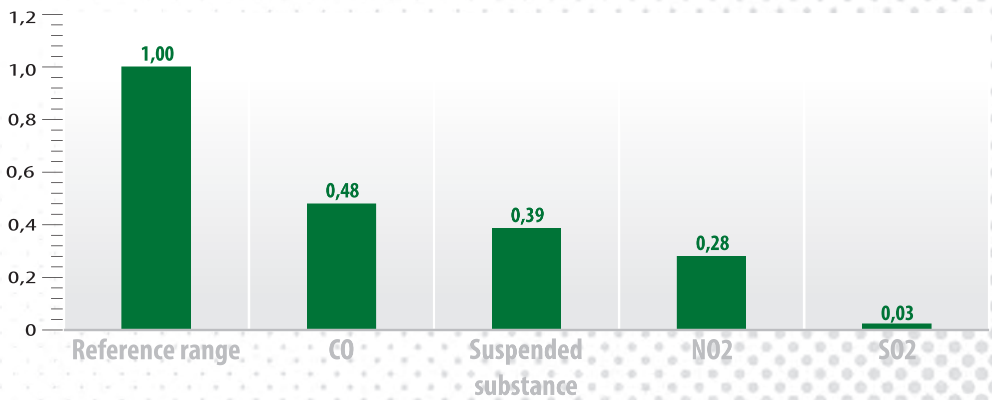
http://www.volga-paper.ru/products/certificates_and_diplomas/DeclFSC.pdf

More than 95% of wood is transformed into products. Production waste is used as a renewable energy source.

The company's products at the end of their life cycle are a source of raw materials for reuse. Currently, about 6% of secondary waste paper fiber is used in the technological process. Also, the company's strategy is to increase its share to 30%.

Gas-cleaning equipment used in the technological processes of the company provides a low index of atmospheric pollution in Balakhna.

The share of MCL in the atmospheric air of Balakhna in 2019*



* according to the Federal state budgetary institution "Verkhne-Volzhsk Territorial Administration for Hydrometeorological and Environmental Monitoring", the average annual concentration in the city is less than half of the maximum concentration limit (MCL).

Volga JSC has approved and implemented an «Environmental policy».

JSC Volga's environmental policy is based on the following principles:

- **compliance principle** – ensuring compliance with legal and other requirements in the field of environmental safety and protection;
- **principle of continuous improvement** – a system of actions to maintain a high level of environmental safety based on the use of the best available technologies;
- **negative impact prevention principle** – a system of preventive actions aimed at preventing dangerous environmental aspects of the impact on the environment;
- **preparedness principle** – a system of measures to maintain the constant readiness of the company's personnel to prevent and eliminate emergencies of a natural or man-made nature;
- **system approach principle** – integrated solution of environmental safety and protection issues based on modern methods of environmental risk analysis;
- **principle of openness** – the availability of environmental information, openness and effective information work of the company with the public.

JSC Volga is guided by the «3R rule» in its activities, namely:

- reduce the amount of waste (Reduce),
- return secondary material resources to production as raw materials (Reuse),
- recycle resources (Recycle).

This strategy allowed the company to:

- **send 96% of waste for recycling;**
- **reuse 88% of water;**
- **capture 84% of emissions in gas treatment plants;**
- **direct 100% of industrial wastewater to 5-stage biological treatment.**

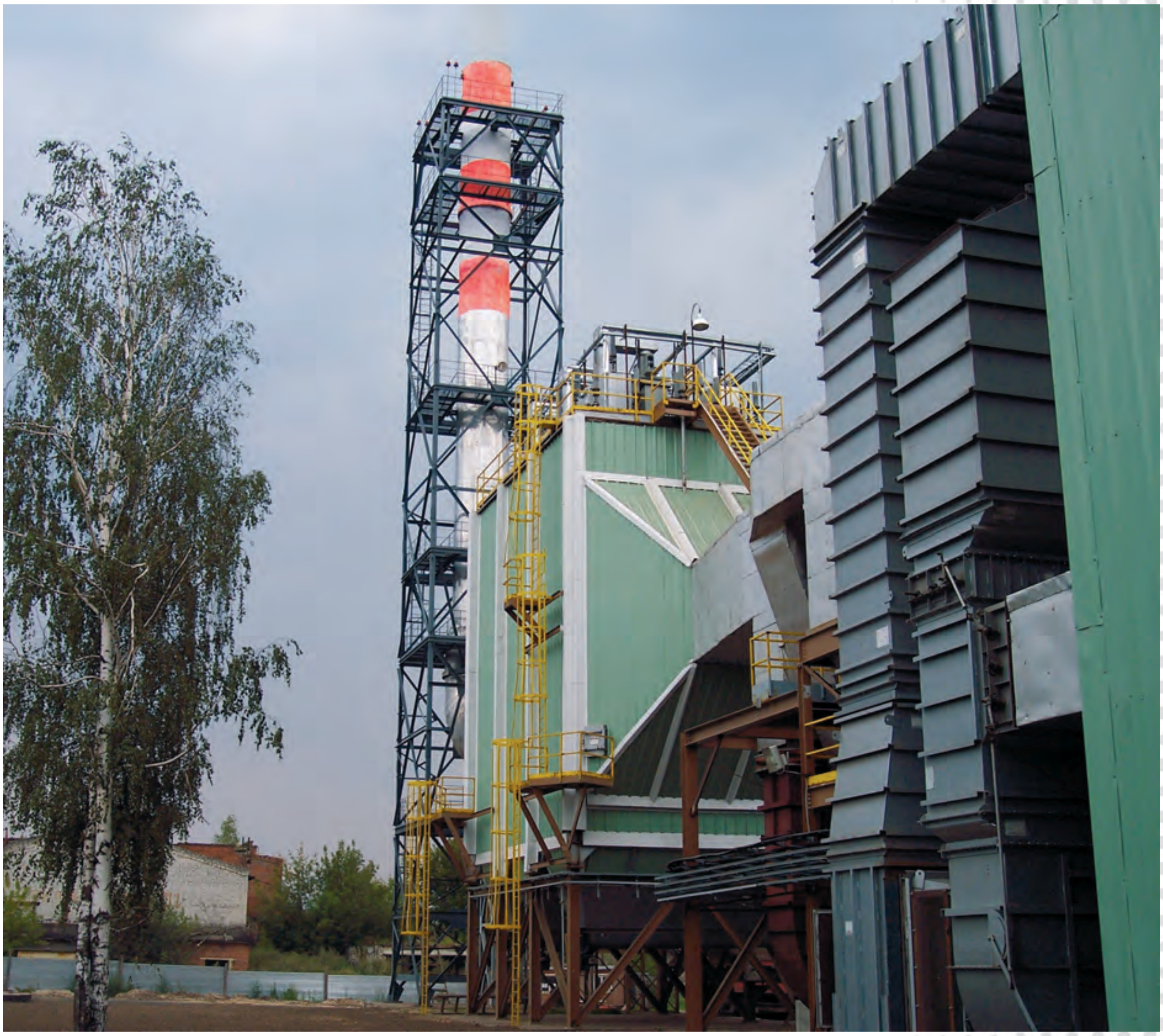
СВОБОДНО
ОТ
ХЛОРА

Chlorine, chlorine-containing oxidants, and organochlorine compounds are not used in the production of products.

This allowed the company to provide chlorine-free emissions and reuse water in technological processes.

The company is focused on preserving the ecology of the region of its presence. The company strives to minimize its negative aspects in its activities by implementing environmental protection programs, implementing and using the best available technologies, optimizing production processes, as well as a system for monitoring and managing environmental protection and environmental safety, taking into account that any processing production has an impact on the environment.

The company spent almost 145 million rubles on implementing environmental measures in 2019.



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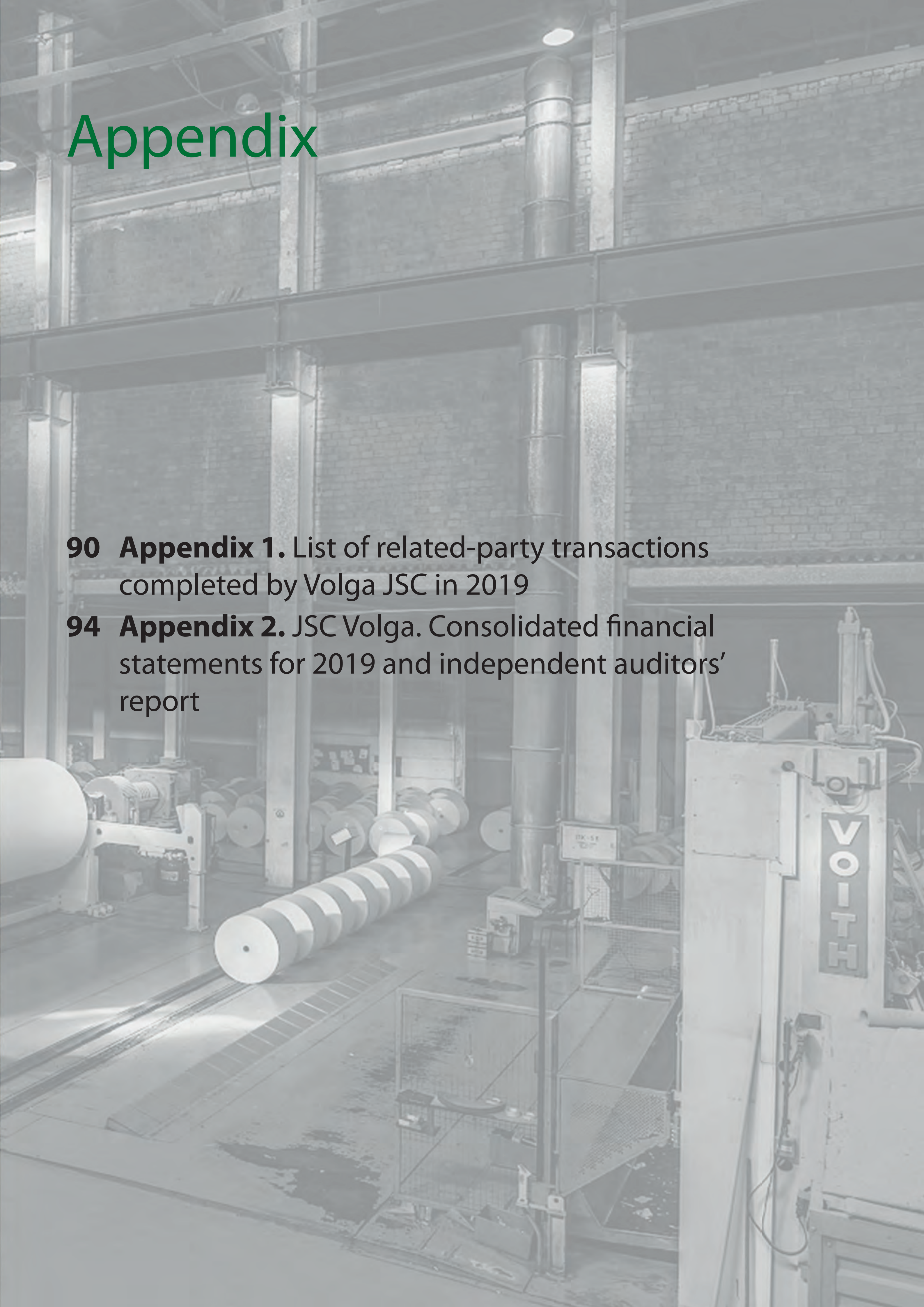
Appendix



Appendix 1

List of related-party transactions completed by Volga JSC in 2019

Date of the transaction	Date of the transaction approval	The company's authority that made the decision to approve the transaction	Information on the person(s) interested in making the transaction, the price and subject of the transaction and its essential terms
February 14, 2019	February 11, 2019	Board of directors	The amount of the donation under Agreement No. CF-58/19 between JSC Volga and the international Cultural Foundation «BREUS FOUNDATION» (hereinafter referred to as the Foundation) is 40,000,000 (forty million) rubles In accordance with clause 7 of article 83 of the Federal law «On joint-stock companies». Consent has been given to conclude a transaction in which there is an interest of a member of the Board of Directors of JSC Volga and the controlling person of the company, Breus Shalva Petrovich, who is also the Chairman of the Foundation, a transaction party, Donation Agreement No. KF-58/19 between JSC Volga and the BREUS FOUNDATION (hereinafter referred to as the Agreement) was concluded on the following key terms: • *The benefactor gives the Foundation free of charge funds in the amount of* 40 000 000 (forty million) *rubles as a donation for use in universally beneficial purposes and authorized activities of the Foundation.* • *The Foundation undertakes to accept the funds and use them in accordance with the purposes and conditions set out in the Agreement.* • *The benefactor transfers the funds specified in the Agreement to the Foundation's current account in full or in parts no later than December 31, 2019.* • *The terms of the Agreement are confidential and not subject to disclosure.*

Date of the transaction	Date of the transaction approval	The company's authority that made the decision to approve the transaction	Information on the person(s) interested in making the transaction, the price and subject of the transaction and its essential terms
April 24, 2019	April 23, 2019	Board of directors	Preliminary consent has been given to conclude the following additional agreements with LLC Volga-UK ZhKKh: 1. *Addendum to lease agreement No. 14/19-MOS;* 2. *Addendum to the agreement No. 14/19 (MOSV) for mechanical wastewater treatment dated January 01, 2019;* 3. *Addendum to the lease agreement No. 045/25/16/DA dated January 01, 2017;* 4. *Addendum to the lease agreement No. 045/17/16/DA dated January 01, 2016;* 5. *Addendum to the agreement No. 14/19 (waste disposal) for waste collection and disposal dated January 01.2019;* 6. *Addendum to the agreement No. T/2019 on the provision of services for the maintenance and operation of the MOS object dated January 01.2019;* 7. *Addendum to the agreement No. 1 on the provision of transport services;* 8. *Addendum to the agreement No. 2 on the vehicle rental (without team) dated December 31, 2014;* 9. *Addendum to the agency agreement No. 060/3 dated August 31, 2015;* 10. *Addendum to the lease agreement No. 03/58 dated September 15, 2014;* 11. *Addendum to the water disposal agreement No. 1/2015 dated January 01.2015;* 12. *Addendum to the agreement No. 14/19 (waste) on the collection, processing, and disposal of waste in which the controlling person of JSC Volga Breus Sh. P. has an interest, the basis of interest is the organization controlled by Breus Sh. P. LLC Volga UK ZhKKh, is a party to the above transactions under the following conditions:* - the price of each transaction is 0 (zero) RUB; - the subject and essential terms of each transaction, respectively: The parties came to a mutual agreement to terminate following agreements on May 31, 2019: lease agreement No. 14/19-MOC;

Date of the transaction	Date of the transaction approval	The company's authority that made the decision to approve the transaction	Information on the person(s) interested in making the transaction, the price and subject of the transaction and its essential terms
			agreement No. 14/19 (MOSV) for mechanical wastewater treatment dated January 01, 2019; lease agreement No. 045/25/16/DA dated January 01, 2017; lease agreement No. 045/17/16/DA dated January 01, 2016; agreement No. 14/19 (waste disposal) for waste collection and disposal dated January 01.2019; agreement No. T/2019 on the provision of services for the maintenance and operation of the MOS object dated January 01.2019; agreement No. 1 on the provision of transport services; agreement No. 2 on the vehicle rental (without team) dated December 31, 2014; agency agreement No. 060/3 dated August 31, 2015; to terminate lease agreement no. 03/58 dated September 15, 2014 on August 31, 2019: water disposal agreement no. 1/2015 dated January 01, 2015; agreement no. 14/19 (waste) on waste collection, treatment and disposal. JSC Volga and LLC Volga-UK ZhKKh act for their own benefit. There are no other beneficiaries.
Jule 25, 2019	Jule 25, 2019	Board of directors	Consent has been given to conclude an interested party transaction. Information on the terms of the transaction agreed upon by this decision, as well as on the person (persons) who are (are) its party (parties), beneficiary (beneficiaries)), do not disclose in accordance with clause 15.7 of the Regulations on the disclosure of information by issuers of equity securities, approved by the Bank of Russia on December 30, 2014 under No. 454-P.
September 16, 2019	September 13, 2019	Board of directors	Consent has been given to conclude an interested party transaction. Information on the terms of the transaction agreed upon by this decision, as well as on the person (persons) who are (are) its party (parties), beneficiary (beneficiaries)), do not disclose in accordance with clause 15.7 of the Regulations on the disclosure of information by issuers of equity securities, approved by the Bank of Russia on December 30, 2014 under No. 454-P.

Date of the transaction	Date of the transaction approval	The company's authority that made the decision to approve the transaction	Information on the person(s) interested in making the transaction, the price and subject of the transaction and its essential terms
December 11, 2019	December 06, 2019	Board of directors	The amount of the donation under Agreement between JSC Volga and the International Cultural Foundation «BREUS FOUNDATION» is *10 000 000 (ten million)* rubles In accordance with clause 7 of article 83 of the Federal law «On joint-stock companies». The consent has been given to conclude a transaction in which there is an interest of the member of the Board of Directors and the controlling person of the company Breus Shalva Petrovich, who is at the same time the controlling person of International Cultural Foundation «BREUS FOUNDATION», a party to the transaction, the Donation Agreement between JSC Volga and Foundation on the following key terms: • *The benefactor gives the Foundation free of charge funds in the amount of 10 000 000 (ten million) rubles as a donation for use in universally beneficial purposes and authorized activities of the Foundation.* • *The Foundation undertakes to accept the funds and use them in accordance with the purposes and conditions set out in the Agreement.* • *The benefactor transfers the funds specified in the Agreement to the Foundation's current account in full or in parts no later than December 31, 2019.* • *The terms of the Agreement are confidential and not subject to disclosure.*
December 26, 2019	December 23, 2019	Board of directors	The loan amount of 100,000,000 (one hundred million) is determined under the loan agreement No. 04/18 dated 03.12.2018, concluded between JSC Volga (Lender) and LLC City Invest (Borrower) rubles In accordance with clause 7 of article 83 of the Federal law «On joint stock companies». The consent has been given to conclude a transaction in which there is an interest of the member of the Board of Directors and the controlling person of the company Breus Shalva Petrovich, who is at the same time the controlling person of LLC City Invest, a party to the transaction, of supplementary agreement No. 3 to the loan agreement No. 04/18 dated December 03, 2018 between JSC Volga and LLC City Invest on the following basic conditions: 1. *The borrower undertakes to fully repay the loan amount to the Lender no later than June 30, 2020.* 2. *The rest of the agreement was left unchanged.*

JSC «Volga»

Consolidated Financial Statements for 2019 and independent Auditors' report

Contents

Independent Auditors' Report

To the Shareholders and Board of Directors of JSC "Volga"

Opinion

We have audited the consolidated financial statements of JSC "Volga" (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Emphasis of Matter

We draw attention to Note 25 to the consolidated financial statements which describes that the comparative information presented as at and for the year ended 31 December 2018 has been restated. Our opinion is not modified in respect of this matter.

Other Matter Relating to Comparative Information

The consolidated financial statements of the Group as at and for the year ended 31 December 2018, excluding the adjustments described in Note 25 to the consolidated financial statements were audited by other auditors who expressed an unmodified opinion on those financial statements on 30 April 2019.

As part of our audit of the consolidated financial statements as at and for the year ended 31 December 2019, we audited the adjustments described in Note 25 that were applied to restate the comparative information presented as at and for the year ended 31 December 2018. We were not engaged to audit, review, or apply any procedures to the consolidated financial statements for the year ended 31 December 2018, other than with respect to the adjustments described in Note 25 to the consolidated financial statements. Accordingly, we do not express an opinion or any other form of assurance on those respective financial statements taken as a whole. However, in our opinion, the adjustments described in Note 25 are appropriate and have been properly applied.

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 IFRS, 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.

Auditors' 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 auditors' 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 scepticism 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 auditors' 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 auditors' 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.

The engagement partner on the audit resulting in this independent auditors' report is:

Grichuk A.P.

JSC "KPMG"

Moscow, Russia

29 April 2020

'000 RUB	Note	31 December 2019	31 December 2018 Restated*
ASSETS			
Property, plant and equipment	11	3 767 459	2 396 750
Letter of credit for equipment	15	83 736	15 733
Restricted cash	15	40 956	393 703
Intangible assets		12 836	14 097
Deferred tax assets	9	-	54 688
Non-current assets		**3 904 987**	**2 874 971**
Inventories	12	936 064	902 314
Trade and other receivables	14	1 419 127	1 509 900
Cash and cash equivalents	15	335 062	225 225
Other current assets		-	278
Current assets		**2 690 253**	**2 637 717**
Total assets		**6 595 240**	**5 512 688**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	16	6 147 147	6 147 147
Additional paid-in capital		1 087 555	1 087 555
Reserves		171 912	171 912
Retained earnings		(3 605 803)	(4 435 487)
Equity attributable to owners of the Company		**3 800 811**	**2 971 127**
Non-controlling interests		(6 909)	(12 199)
Total equity		**3 793 902**	**2 958 928**
LIABILITIES			
Loans and borrowings	17	602 878	550 086
Deferred income	13	78 883	78 883
Deferred tax liabilities	9	47 269	-
Lease liabilities	17	420 176	140 417
Other non-current liabilities	19	426 025	485 244
Non-current liabilities		**1 575 231**	**1 254 630**
Loans and borrowings	17	318 648	144 891
Trade and other payables	18	517 102	805 713
Lease liabilities	17	227 297	52 910
Other current liabilities	19	163 060	295 616
Current liabilities		**1 226 107**	**1 229 130**
Total liabilities		**2 801 338**	**2 553 760**
TOTAL EQUITY AND LIABILITIES		**6 595 240**	**5 512 688**

* The Group initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. See Note 6. The comparative information is restated on account of correction of errors. See Note 25.

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 62.

'000 RUB	Note	2019	2018 Restated*
Revenue	7	9 379 095	8 831 926
Cost of sales	8(a)	(6 781 793)	(5 595 672)
Gross profit		**2 597 302**	**3 236 254**
Distribution expenses	8(b)	(130 224)	(78 585)
Administrative expenses	8(c)	(721 672)	(923 896)
Other income and expenses	8(d)	423 649	(1 066 970)
Results from operating activities		**2 169 055**	**1 166 803**
Finance income	8(e)	26 051	105 094
Finance costs	8(e)	(257 937)	(271 922)
Net finance costs		**(231 886)**	**(166 828)**
Profit before income tax		**1 937 169**	**999 975**
Income tax expense	9	(328 937)	(189 572)
Profit and other comprehensive income for the year		**1 608 232**	**810 403**
Profit and other comprehensive income attributable to:			
Owners of the Company		1 602 942	806 201
Non-controlling interests		5 290	4 202
Earnings per share			
Basic earnings per share (RUB)		0.14	0.07

* The Group initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. The comparative information is restated on account of correction of errors. See Note 25.

These consolidated financial statements were approved by management on 29 April 2020 and were signed on its behalf by:

Pondar S. I.
Chief Executive Officer

Lomakin S. S.
Chief Financial Officer

АКЦИОНЕРНОЕ ОБЩЕСТВО ОГРН 1025201335989 JOINT STOCK COMPANY "Волга" "Volga" NIZHEGORODSKIY REGION BALAKHNA НИЖЕГОРОДСКАЯ ОБЛАСТЬ г.БАЛАХНА

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 62.

’000 RUB	**Share capital**	**Additional paid-in capital**	**Reserves**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2018	6 147 147	1 087 555	171 912	(4 831 804)	2 574 810	(16 401)	2 558 409
Profit for the year (restated)	-	-	-	806 201	806 201	4 202	810 403
Total comprehensive income for the year (restated)	**-**	**-**	**-**	**806 201**	**806 201**	**4 202**	**810 403**
Transactions with owners of the Company (Dividends)	-	-	-	(409 884)	(409 884)	-	(409 884)
Total contributions and distributions	**-**	**-**	**-**	**(409 884)**	**(409 884)**	**-**	**(409 884)**
Balance at 31 December 2018 (restated)	**6 147 147**	**1 087 555**	**171 912**	**(4 435 487)**	**2 971 127**	**(12 199)**	**2 958 928**
Adjustment on initial application of IFRS 16, net of tax	-	-	-	(6 968)	(6 968)	-	(6 968)
Balance at 1 January 2019 (restated)	**6 147 147**	**1 087 555**	**171 912**	**(4 442 455)**	**2 964 159**	**(12 199)**	**2 951 960**
Profit for the year	-	-	-	1 602 942	1 602 942	5 290	1 608 232
Total comprehensive income for the year	**-**	**-**	**-**	**1 602 942**	**1 602 942**	**5 290**	**1 608 232**
Transactions with owners of the Company (Dividends)	-	-	-	(712 005)	(712 005)	-	(712 005)
Other contributions and distributions	-	-	-	(54 285)	(54 285)	-	(54 285)
Total contributions and distributions	**-**	**-**	**-**	**(766 290)**	**(766 290)**	**-**	**(766 290)**
Balance at 31 December 2019	**6 147 147**	**1 087 555**	**171 912**	**(3 605 803)**	**3 800 811**	**(6 909)**	**3 793 902**

The Group initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. The comparative information is restated on account of correction of errors. See Note 25.

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 62.

’000 RUB	**Note**	**2019**	**2018 Restated ***
Cash flows from operating activities			
Profit for the year		1 608 232	810 403
Adjustments for:			
Depreciation	11	277 424	221 812
Interest expense and discounting	8(e)	135 758	271 922
Foreign exchange differences	8(e)	122 179	(104 569)
(Reversal of provision)/ provision for expected credit losses	20b(i)	(251 923)	1 008 710
Impairment losses on property, plant and equipment	11	-	123 595
Other expenses		21 001	134 067
Income tax expense	9	328 937	189 572
		2 241 608	**2 655 512**
Changes in:			
Inventories		6 926	(570 010)
Trade and other receivables		267 254	(103 134)
Trade and other payables (including lease)		(369 099)	(80 331)
Provisions and employee benefits		(143 915)	173 606
Cash flows from operations before income taxes and interest paid		**2 002 774**	**2 075 643**
Income tax paid		(238 547)	(243 334)
Interest paid		(74 773)	(55 036)
Net cash from operating activities		**1 689 454**	**1 777 273**
Cash flows from investing activities			
Acquisition of property, plant and equipment		(598 836)	(607 101)
Loans to related parties		(65 000)	(35 000)
Interest received		26 051	525
Net cash used in investing activities		**(637 785)**	**(641 576)**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 62.

Cash flows from financing activities		
Proceeds from borrowings	3 392 002	1 834 194
Repayment of borrowings	(3 157 913)	(2 174 739)
Payment of lease liabilities	(272 537)	(76 247)
Dividends paid	(712 005)	(409 884)
Repayment of long-term payables	(106 428)	(238 723)
Other distributions to related parties (Charity)	(50 000)	-
Net cash used in financing activities	**(906 881)**	**(1 065 399)**
Net increase in cash and cash equivalents	**144 788**	**70 298**
Effect of movements in exchange rates on cash and cash equivalents	(34 951)	31 658
Cash and cash equivalents at 1 January	225 225	123 269
Cash and cash equivalents at 31 December	**335 062**	**225 225**

The Group initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application.
The Group has classified:
– cash payments for the principal portion of lease payments as financing activities;
– cash payments for the interest portion as operating activities consistent with the presentation of interest payments chosen by the Group.

* The comparative information is restated on account of correction of errors due to reclassification of dividends paid from investing activities to financing activities, and also classification of restricted cash flows as cash flow from investing activities.

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 62.

1 Reporting entity

(a) Business environment

The Group’s operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation, which display the characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which contribute together with other legal and fiscal impediments to the challenges faced by entities operating in the Russian Federation.

Starting in 2014, the United States of America, the European Union and some other countries have imposed and gradually expanded economic sanctions against a number of Russian individuals and legal entities. The imposition of the sanctions has led to increased economic uncertainty, including more volatile equity markets, a depreciation of the Russian rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. As a result, some Russian entities may experience difficulties accessing the international equity and debt markets and may become increasingly dependent on state support for their operations. The longer-term effects of the imposed and possible additional sanctions are difficult to determine.

The consolidated financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

(b) Organisation and operations

JSC “Volga” (the “Company”) and its subsidiaries (the “Group”) comprise russian companies as defined in the Civil Code of the Russian Federation. The Company was established as a state-owned enterprise in 1928. It was privatised as an open joint stock company on January 1991, as part of the Russian Federation’s privatisation program. Since 30 June 2016 the company act as a Joint Stock Company “Volga”.

The Company’s registered office is Russian Federation, 606407, Nizhegorodskaya oblast, Balakhna city, Gorkogo st, 1.

The Group’s principal activity is producing and sale of newsprint at the plant, located at Balakhna city. Newsprint is sold in Russian Federation and for export.

Additional activities of the company are: Producing of electricity on heating power plant; Production and distribution of steam and hot water.

The Group is ultimately controlled by a single individual Breus Shalva Petrovich (98.996% of shares) as at 31 December 2019 and 31 December 2018.

2 Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”).

This is the first set of the Group’s annual financial statements in which IFRS 16 Leases has been applied. The related changes to significant accounting policies are described in Note 6.

3 Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble (“RUB”), which is the Company’s functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in RUB has been rounded to the nearest thousand, except when otherwise indicated.

4 Use of estimates and judgements

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 26 (h) – useful lives of property, plant and equipment;
- Notes 14, 20 – expected credit losses (ECL) allowance for trade receivables;
- Note 19 – provision for site restoration;
- Note 6 – lease liability;
- Note 7 – revenue recognition: whether revenue from delivery services (as separate performance obligation) is recognised overtime or at a point in time.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year is included in the following notes:

- Note 20 – measurement of ECL allowance for trade receivables: key assumptions in determining the weighted-average loss rate.

5 Measurement of fair values

A number of the Group’s accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information is included in Note 20.

6 Changes in significant accounting policies

IFRS 16

The Group initially applied IFRS 16 Leases from 1 January 2019.

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining whether an Arrangement contains a Lease*. The Group now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 26(m).

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee

As a lessee, the Group leases vehicles (railway carriages for timber transportation), and, also land.

The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

Right-of-use assets which are not treated as investment property, classified as Property, plant and equipment. (see Note 11):

'000 RUB	**Land**	**Machinery and equipment**	**Total**
Balance at 1 January 2019	90 845	531 106	621 951
Depreciation charge for the year	(1 991)	(101 861)	(103 852)
Additions to right-of-use assets	-	444 858	444 858
Balance at 31 December 2019	**88 854**	**874 103**	**962 957**

Amounts recognised in profit or loss

’000 RUB	**2019**
2019 – Leases under IFRS 16	
Interest on lease liabilities	63 983
Depreciation	103 852

Amounts recognised in statement of cash flows

’000 RUB	**2019**
Total cash outflow for leases	(336 520)

Leases classified as operating leases under IAS 17

Previously, the Group classified a part of lease contracts (railway carriages for timber transportation) as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group’s incremental borrowing rate as at 1 January 2019 (except of land with liability calculation based on cadastral value) – see Note 26 (m).

Right-of-use assets are measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the Group’s incremental borrowing rate at the date of initial application.

The Group has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

Leases classified as finance leases under IAS 17

The Group leases mainly railway carriages for timber transportation. These leases not classified as operating lease were classified as finance leases under IAS 17. For these finance leases, the carrying amount of the right-of-use asset and the lease liability at 1 January 2019 were determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

Impact on financial statements

(i) Impact on transition

On transition to IFRS 16, the Group recognised additional right-of-use assets, and additional lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below.

’000 RUB	**1 January 2019**
Right-of-use assets, classified as Property, Plant and Equipment	327 892
Lease liability	(334 860)
Deffered tax assets	1 394
Retained earnings	(6 968)

* For the details of accounting policies under IFRS 16 and IAS 17, see Note 26 (m).

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 8.8 %. All contracts valid during established period of time. There are no options for prolongation of lease contracts.

’000 RUB	1 January 2019
Operating lease commitments at 31 December 2018 as disclosed under IAS 17 in the Group’s consolidated financial statements	799 561
Excluding lease agreements with liability calculation based on cadastral value (Land)	(144 609)
Discounted using the incremental borrowing rate at 1 January 2019	334 860
Finance lease liabilities recognised as at 31 December 2018	193 327
Lease liabilities recognised at 1 January 2019	**528 187**

7 Revenue

Revenue streams

The Group generates revenue primarily from the sale of newsprint and provision of heating and water supply services to its customers.

Performance obligations and revenue recognition policies

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a good or service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of product/ service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition policies
Revenue from sales of newsprint and wrapping paper to foreign and local customers	Delivery of newspint for export is performed under conditions of INCOTERMS 2010 according to delivery terms specified in the order. Customers obtain control of products when the goods are dispatched from the Group’s warehouse. Invoices are generated and revenue is recognised at that point in time. Invoices are usually payable within 30 days. No discounts are provided for standard paper products.	The Group according to terms of contracts for export have obligation to deliver production on the delivery terms specified in customer’s order (INCOTERMS 2010). Cost of transportation is included in total price. Generaly, control transferes to the customer before transportation has ended. Revenue from transportation is separate performance obligation and recognized overtime from the moment of control transfer up to the end of delivery. In case of FCA delivery term (Group’s warehouse, transportation by customer), full revenue is recognized at the moment of control transfer to the customer.
Revenue from provision of heating and electricity supply services	The Group is involved in heating and electricity supply services to the third and related parties. Invoices are usually payable within 30 days.	Revenue is recognized over time as the services are provided (based on factual data on counters).

’000 RUB	**2019**	**2018**
Revenue from newsprint sales for export *	6 529 996	5 514 599
Revenue from newsprint sales to local customers	1 961 002	1 460 804
Revenue from services	835 291	858 583
Other revenue	52 806	6 242
Revenue from production under tolling schemes **	-	991 698
Total revenue from contracts with customers	**9 379 095**	**8 831 926**

* Including revenue from transportation services to customers.
** Until April 2018 the Group provided newsprint production services under tolling agreements.

8 Income and expenses

(a) Cost of sales

’000 RUB	**2019**	**2018**
Materials	2 711 360	2 084 171
Electricity, fuels	2 018 813	2 065 261
Labour and wages (incl. taxes)	595 149	661 488
Depreciation of fixed assets	228 705	204 847
Third party’s services	380 514	228 607
Transportation expenses	721 057	449 158
Change in stock	111 966	(175 412)
Other expenses	14 229	77 552
Total cost of sales	**6 781 793**	**5 595 672**

(b) Distribution expenses

’000 RUB	**2019**	**2018**
Insurance of receivables	18 206	-
Other expenses	112 018	78 585
Total distribution expenses	**130 224**	**78 585**

(c) Administrative expenses

’000 RUB	2019	2018
Wages and salaries (incl. taxes)	543 109	713 793
Taxes (excl. income tax)	3 075	7 230
Third party’s services	116 569	119 154
Other expenses	58 919	83 719
Total Administrative expenses	**721 672**	**923 896**

(d) Other income and expenses, net

’000 RUB	Note	2019	2018
Income from reversal of / (expense for) allowance for expected credit losses		251 923	(1 008 710)
Government grants – compensation of transportation costs	13 (a)	223 406	5 000
Fines and penalties		2 918	122 834
Depreciation of fixed assets		(24 311)	(7 745)
Other income and expenses, net		(30 287)	(178 349)
Total other income/ (expenses), net		**423 649**	**(1 066 970)**

(e) Net finance costs

’000 RUB	2019	2018
Interest income on bank deposits and loans granted	26 051	525
Net foreign exchange gain	-	104 569
Total finance income	**26 051**	**105 094**
Financial liabilities measured at amortised cost – interest expense	(109 198)	(243 758)
Net foreign exchange loss	(122 179)	-
Unwind of discount on site restoration provision	(5 048)	(6 000)
Finance costs – other	(21 512)	(22 164)
Total finance cost	**(257 937)**	**(271 922)**
Net finance costs recognised in profit or loss	**(231 886)**	**(166 828)**

9 Income tax

(a) Income tax expense

The Group’s applicable tax rate is the income tax rate of 20% for Russian companies.

’000 RUB	**2019**	**2018**
Current tax expense		
Current year	(226 948)	(325 148)
Changes in estimates related to prior years	(31)	-
	(226 979)	**(325 148)**
Deferred tax expense		
Origination and reversal of temporary differences	(33 606)	135 576
Change in recognised deductible temporary differences (due to write-down of deferred tax assets)	(68 352)	-
Total tax expense	**(328 937)**	**(189 572)**

(b) Reconciliation of effective tax rate:

’000 RUB	**2019**	**2018**
Profit before tax	1 937 169	999 975
Tax using the Company’s domestic tax rate	(387 434)	(199 995)
Change in recognised deductible temporary differences (due to write-down of deferred tax assets)	68 352	-
Tax effect on (expenses)/income, not included in tax base	(9 855)	10 423
Income tax expense	**(328 937)**	**(189 572)**

(c) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
’000 RUB	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Property, plant and equipment	-	-	(99 881)	(80 697)	(99 881)	(80 697)
Inventories	10 970	11 815	-	-	10 970	11 815
Trade and other receivables	9 939	3 653	-	-	9 939	3 653
Other current assets	-	-	-	(2 256)	-	(2 256)
Other non-current assets	-	68 352	-	-	-	68 352
Lease liabilities	44 680	38 469	-	-	44 680	38 469
Long-term provisions and liabilities	-	-	(24 303)	(18 778)	(24 303)	(18 778)
Trade and other payables	-	16	-	-	-	16
Other current liabilities	11 326	34 721	-	-	11 326	34 721
Other non-current liabilities	-	-	-	(607)	-	(607)
Tax assets/(liabilities)	**76 915**	**157 026**	**(124 184)**	**(102 338)**	**(47 269)**	**54 688**
Set off of tax	(76 915)	(102 338)	76 915	102 338	-	-
Net tax assets/(liabilities)	**-**	**54 688**	**(47 269)**	**-**	**(47 269)**	**54 688**

Change of deferred tax balance for 2019 и 2018 is recognised through profit or loss.

10 Adjusted earnings before interest, tax, depreciation and amortisation (adjusted EBITDA)

The Management of the Group have presented the performance measure adjusted EBITDA as they monitor this performance measure at a consolidated level and they believe this measure is relevant to an understanding of the Group’s financial performance. Adjusted EBITDA is calculated by adjusting profit from continuing operations to exclude the impact of taxation, net finance costs, depreciation.

Adjusted EBITDA is not a defined performance measure in IFRS. The Group’s definition of adjusted EBITDA may not be comparable with similarly titled performance measures and disclosures by other entities.

Reconciliation of adjusted EBITDA to profit for reporting period

’000 RUB	**Note**	**2019**	**2018***
Profit for the year		1 608 232	810 403
Income tax expense		328 937	189 572
Profit before tax		**1 937 169**	**999 975**
Adjustments for:			
- Net finance costs	8(e)	231 886	166 828
- Depreciation and amortization		281 323	221 812
- Provision for bonuses based on KPI	19	29 691	173 606
- Income from reversal of / (expense for) allowance for expected credit losses	20b(i)	(251 923)	1 008 710
Adjusted EBITDA		**2 228 146**	**2 570 931**

* The Group initially applied IFRS 16 at 1 January 2019. In applying IFRS 16, in relation to the leases that were classified as operating leases, the Group recognises depreciation and interest costs, instead of operating lease expense. In relation to those leases, the Group recognised RUB 80 453 thousand of depreciation charges and RUB 25 815 thousand of additional interest expense from leases in 2019.

11 Property, plant and equipment

’000 RUB	**Land and buildings**	**Machinery and equipment**	**Other**	**Under construc-tion and prepay-ments**	**Total**
Cost or deemed cost					
Balance at 1 January 2018	3 407 198	6 348 998	817 087	327 956	10 901 239
Additions	-	-	-	608 763	608 763
Disposals	(21 481)	(5 510)	(4 729)	-	(31 720)
Impairment loss	(7 483)	(37 989)	(248)	(77 875)	(123 595)
Transfers	104 068	416 430	42 795	(563 293)	-
Balance at 31 December 2018	**3 482 302**	**6 721 929**	**854 905**	**295 551**	**11 354 687**
Balance at 1 January 2019	**3 482 302**	**6 721 929**	**854 905**	**295 551**	**11 354 687**
Recognition of right-of-use asset on initial application of IFRS 16	90 845	281 058	-	-	371 903
Adjusted balance at 1 January 2019	3 573 147	7 002 987	854 905	295 551	11 726 590
Additions	-	-	-	1 325 990	1 325 990
Disposals	(2 808)	(9 989)	(6 349)	-	(19 146)
Transfers to other assets	-	-	-	(1 707)	(1 707)
Transfers	56 374	577 458	38 985	(672 817)	-
Balance at 31 December 2019	**3 626 713**	**7 570 456**	**887 541**	**947 017**	**13 031 727**
Depreciation and impairment losses					
Balance at 1 January 2018	(2 196 093)	(5 821 022)	(747 968)	-	(8 765 083)
Depreciation for the year	(80 379)	(107 471)	(33 962)	-	(221 812)
Disposals	18 965	5 277	4 716	-	28 958
Balance at 31 December 2018	**(2 257 507)**	**(5 923 216)**	**(777 214)**		**(8 957 937)**
Balance at 1 January 2019	**(2 257 507)**	**(5 923 216)**	**(777 214)**	-	**(8 957 937)**
Recognition of right-of-use asset on initial application of IFRS 16	(7 147)	(36 865)	-	-	(44 012)
Adjusted balance at 1 January 2019	(2 264 654)	(5 960 081)	(777 214)	-	(9 001 949)
Depreciation for the year	(76 013)	(184 155)	(17 256)	-	(277 424)

’000 RUB	Land and buildings	Machinery and equipment	Other	Under construc-tion and prepay-ments	Total
Disposals	2 015	8 611	4 479	-	15 105
Balance at 31 December 2019	**(2 338 652)**	**(6 135 625)**	**(789 991)**	**-**	**(9 264 268)**

Carrying amounts					
At 1 January 2018	**1 211 105**	**527 976**	**69 118**	**327 956**	**2 136 155**
At 31 December 2018	**1 224 795**	**798 713**	**77 691**	**295 551**	**2 396 750**
At 31 December 2019	**1 288 061**	**1 434 831**	**97 550**	**947 017**	**3 767 459**

Security

At 31 December 2019 properties with a carrying amount of RUB 237 482 thousand (2018: RUB 258 168 thousand) were subject to a registered debenture to secure bank loans.

Change in estimates

In 2019, the Group revised the expected useful lives of property, plant and equipment upward. The reason for this was the data on the actual useful life of fixed assets, which significantly longer from those established in previous periods. Based on its professional judgment, management has determined that the useful lives established by Russian accounting standards provide more fair allocation of the cost of property, plant and equipment over the period of their operation. The impact of these changes on the amount of depreciation charges in the current and future reporting periods recognized in operating expenses is not material, since most of the expensive fixed assets related to Land and Buildings, Machinery and equipment were put into use and fully depreciated before the reporting period.

Property, plant and equipment under construction

Construction in progress includes capitalized costs of equipment and services related to the construction of a thermomechanical pulp workshop.

Imparement test

As at 31 December 2019 the Group carried out analyses of assets in order to identify indicators of imparement. As a result of analysis of external and internal data no indicators of imparement of Group’s Property, Plant and equipment were identified.

Capital commitments

As at 31 December 2019 the Group has RUB 243 551 thousand of capital commitments by unfulfilled contracts.

12 Inventories

’000 RUB	**2019**	**2018**
Raw materials and consumables	922 121	788 737
Work in progress	939	-
Finished goods and goods for resale	67 853	181 171
Provision for obsolete inventories	(54 849)	(67 594)
Total inventories	**936 064**	**902 314**

13 Government grants

The Group received following types of government grants:

(a) Compensation for transportation costs

In 2019, the amount of compensated costs was RUB 491 773 thousand, including RUB 268 367 thousand – compensation of costs incurred in 2019 year and classified in Cost of Sales net with transportation costs, and RUB 223 406 thousand – compensation of costs incurred in 2018 and classified in Other income. In 2018 the compensation of transportation costs amounted to RUB 103 690 thousand was classified in Cost of Sales net with transportation costs.

(b) Compensation of interest rate on the investment loan received

In 2018, the Group received a long-term loan from FGAU Russian Fund for Technological Development at a preferential rate of 1%. This loan was recorded in the financial statements at present value discounted at a market-related interest rate with the benefit included in deferred income. This deferred income in the amount of RUB 78,883 thousand was treated as a government grant and will reduce depreciation charges of fixed assets constructed using the loan.

14 Trade and other receivables

’000 RUB	**2019**	**2018**
Trade receivables	1 627 994	1 968 900
Other receivables	587 113	753 294
Allowance for expected credit losses on trade and other receivables	(1 345 231)	(1 553 205)
Total financial assets	**869 876**	**1 168 989**
VAT receivables	374 800	40 380
Prepayments given	171 790	295 327
Income tax receivable	2 661	5 204
Total non-financial assets	**549 251**	**340 911**
Total trade and other receivables	**1 419 127**	**1 509 900**

Other receivables include liabilities of LAMARIN TRADING LIMITED in the amount of RUB 327,662 thousand. This receivable is credit impaired and related allowance for expected credit losses is 100%.

Transfer of trade receivables

The Group transferred trade receivables to a bank for cash proceeds. The trade receivables have not been derecognised from the statement of financial position, because the Group retains substantially all of the risks and rewards, primarily credit risk. The amount received on transfer has been recognised as a secured bank loan (see Note 17).

The following table shows the carrying amount of trade receivables at the year-end that have been transferred but have not been derecognised.

’000 RUB	**2019**	**2018**
Carrying amount of trade receivables transferred to a bank	142 721	119 067
Carrying amount of associated liabilities	130 846	101 207

The Group’s exposure to currency and credit risk and credit losses related to trade and other receivables are disclosed in Note 20.

15 Cash and cash equivalents

'000 RUB	**2019**	**2018**
Petty cash	239	313
Bank balances	57 558	71 455
Call deposits	277 265	153 457
Cash and cash equivalents in the statement of financial position and in the statement of cash flows	**335 062**	**225 225**

Call deposits represent callable deposits with maturities of three months or less from the acquisition date.

As at 31 December 2019 the Group's cash in the amount of RUB 124 692 thousand (31 December 2018: RUB 409 436 thousand) are restricted to use and included in non-current assets. This cash represents cash received under a special purpose investment loan to finance the construction of a thermomechanical pulp workshop (31 December 2019: RUB 40 956 thousand, 31 December 2018: RUB 393 703 thousand), as well as cash placed as a letter of credit for the purchase of equipment for this workshop (31 December 2019: RUB 83,736 thousand, 31 December 2018: RUB 15 733 thousand).

Restricted cash flows (2019: payments to suppliers for the purchase of fixed assets in the amount of RUB 352,747 thousand; 2018: receiving from the Russian Fund for Technological Development FGAU in the amount of RUB 393,703 thousand) are considered as non-cash transactions and not reflected in the Consolidated statement of cash flows.

Sensitivity analysis for financial assets and liabilities are disclosed in Note 20 (b).

16 Capital and reserves

Share capital and additional paid-in capital

Number of shares unless otherwise stated	**Ordinary Shares**	
	2019	**2018**
In issue at 1 January	11 808 827	11 808 827
In issue at 31 December, fully paid	11 808 827	11 808 827

All ordinary shares rank equally with regard to the Company's residual assets.

Ordinary shares

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company.

Capital and reserves in this Consolidated financial statements are disclosed according to IAS 29 Financial Reporting in Hyperinflationary Economies as at 31 December 2002.

Dividends

The following dividends were declared and paid by the Company during the year ended 31 December 2019:

2018 year – RUB 212 559 thousand, which is 18 RUB per share.

1 quarter of 2019 – RUB 149 973 thousand, which is 12,7 RUB per share.

9 months 2019 - RUB 349 474 thousand, which is 29,6 руб RUB per share.

Capital management

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

The Group has no formal policy for capital management but management seeks to maintain a sufficient capital base for meeting the Group's operational and strategic needs, and to maintain confidence of market participants. This is achieved with efficient cash management, constant monitoring of Group's revenues and profit, and long-term investment plans mainly financed by the Group's operating cash flows. With these measures the Group aims for steady profits growth.

17 Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see Note 20.

'000 RUB	**2019**	**2018**
Non-current liabilities		
Secured bank loans	261 519	235 266
Secured borrowings	341 359	314 820
Total long-term loans and borrowings	**602 878**	**550 086**
Lease liabilities (2018: finance lease liabilities)	**420 176**	**140 417**
Current liabilities		
Current portion of secured bank loans	290 434	144 891
Unsecured bank loans	28 214	-
Total short-term loans and borrowings	**318 648**	**144 891**
Current portion of lease liabilities (2018: current portion of finance lease liabilities)	**227 297**	**52 910**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

’000 RUB	Currency	Nominal interest rate	Year of maturity	31 December 2019 года Carrying amount	31 December 2019 года Face value	31 December 2018 года Carrying amount	31 December 2018 года Face Value
Secured bank loans	RUB	Key Rate + 1% (7.25%)	2020 - 2021	161 000	161 000	125 942	125 942
Secured bank loans	EUR	2.4% - 3.4% (0.83% after start of CCEP)*	2021 – 2024	259 455	259 455	-	-
Secured bank loans	EUR	0.8%-1%	2020	130 846	130 846	101 207	101 207
Secured borrowings	RUB	1%**	2023 - 2024	341 359	393 703	314 820	393 703
Unsecured bank loans	RUB	Key Rate + 1% (7.25%)	2020	28 866	28 866	-	-
Secured bank loans	RUB	Key Rate + 1% (7.25%)	2019	-	-	43 684	43 684
Secured bank loans	EUR	EURIBOR + 2.9%	2020	-	-	109 324	109 324
Total interest-bearing liabilities				**921 526**	**973 870**	**694 977**	**773 860**

***** CCEP – grants for interest expenses within Corporate Competitiveness Enhancement Program of PJSC «Sberbank» (from March to May 2020).

****** Effective interest rate for this borrowing is 9.12%.

Bank loans are secured by the following:

- land and buildings with a carrying amount of RUB 237 482 thousand at 31 December 2019 (31 December 2018: RUB 258 168 thousand) (See Note 11);
- receivables with a carrying amount of RUB 142 721 thousand at 31 December 2019 (31 December 2018: RUB 119 067 thousand) (See Note 14);
- long-term borrowing is secured by bank guarantee from PJSC «Sberbank» in the amount of RUB 455 500 thousand.
- lease liabilities are secured by the leased assets.

As at 31 December 2019 the Group has the opportunity to raise RUB 1 977 796 thousand of additional loans at the expense of unused credit lines.

(d) Reconciliation of movements of liabilities to cash flows arising from financing activities:

'000 RUB	**Lease liabilities**	**Loans and borrowings**
31 December 2018	193 327	694 977
Changes from financing cash flows		
Proceeds from loans and borrowings	-	3 392 002
Repayment of loans and borrowings	(272 537)	(3 157 913)
Other changes		
Liability as at 1 January 2019 related to:		
applying IFRS 16	334 860	-
New leases	391 823	-
Interest expense	63 983	10 790
Interests paid	(63 983)	(10 790)
Unwinding of discount on loans and borrowings	-	26 539
Foreign exchange differences	-	(34 079)
31 December 2019	**647 473**	**921 526**

18 Trade and other payables

'000 RUB	**2019**	**2018**
Trade payables	254 990	277 292
Prepayments received	22 654	226 367
Income tax payable	58 329	62 259
Other taxes payable	43 866	111 380
Payables to employees	35 209	28 563
Payables to shareholders	17 558	16 907
Other payables	84 496	82 945
Total trade and other payables	**517 102**	**805 713**

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 20.

19 Other liabilities

‘000 RUB	31 December 2019	31 December 2018
Long-term account payables	357 011	418 426
Long-term provision for site restoration	69 014	66 818
Total other long-term liabilities	**426 025**	**485 244**

‘000 RUB	31 December 2019	31 December 2018
Short-term provision for bonuses to key management	29 691	173 606
Short-term provision for unused vacations	31 705	20 550
Current part of long-term payables	101 664	101 460
Total other short-term liabilities	**163 060**	**295 616**

Other liabilities include payable to “IDGC of Center and Volga Region”, PJSC for electricity supply services. According to the settlement agreements of December 26, 2017, the debt was restructured and is repaying by the Group by equal installments until June 2025. At the reporting date, the debt was discounted at a rate of 9.24%.

The amount of the long-term provision for site restoration is the best estimate of the amount required to meet the current obligation to remediate contaminated land, determined at the reporting date, taking into account the risks and uncertainties specific to the obligation. A provision has been created by the Group in respect of the obligation to clean up the sludge collectors. Due to the long-term nature of this obligation, there is uncertainty in estimating the amount of the provision related to the costs that will be incurred. At the moment, the outflow of economic benefits is expected during 2062, which corresponds to the date of completion of the lease agreement for the respective land plots. The discount rate was 7.62%.

20 Fair values and risk management

(a) Fair value

Fair value of cash and cash equivalents, trade and other receivables, trade and other payables, short-term loans and borrowings equal to their carrying amount mainly due to the short maturity of these financial instruments.

(b) Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group’s risk management framework.

The Group’s risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group’s activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group’s Audit Committee oversees how management monitors compliance with the Group’s risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group’s Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk (see Note 20 (b) (i))
- Liquidity risk (see Note 20 (b) (ii))
- Currency risk (see Note 20 (b) (iii))

(i) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The most significant credit risk for the Group is non-fulfillment of obligations by counterparties in terms of payment for delivered products. To mitigate this risk, the Group focuses on sales to counterparties with a high credit rating, uses insurance of accounts receivable, letters of credit and bank guarantees, in some cases requires prepayment for goods.

Another group of credit risks includes bank’s activities and possible decrease in their financial stability. To mitigate risks, the group carries out constant monitoring of the credit rating of banks.

The carrying amounts of financial assets represent the maximum credit exposure.

’000 RUB	**2019**	**2018**
Trade receivables	642 362	798 722
Other receivables	227 514	370 267
Cash and cash equivalents	335 062	225 225
Letter of credit for equipment	83 736	15 733
Restricted cash	40 956	393 703
	1 329 630	**1 803 650**

Trade and other receivables

The Group’s exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which customers operate.

At 31 December 2019, the exposure to credit risk for trade and other receivables by types of receivables was as follows:

Gross carrying amount, ‘000 RUB	**31 December 2019**	**31 December 2018**
Accounts receivable for paper products sold for export	1 087 358	1 264 209
Accounts receivable for paper products sold in the domestic market	18 596	22 332
Accounts receivable for services	1 109 153	1 435 653
Total trade and other accounts receivables	**2 215 107**	**2 722 194**

An analysis of the aging of receivables at the reporting date is presented below:

'000 RUB	2019	2018
Current (not past due)	702 862	897 424
0-30 days past due	88 757	120 366
31-60 days past due	17 306	15 458
61-90 days past due	997	42 418
91-180 days past due	4 719	140 180
181-360 days past due	15 793	277 862
360 days past due	1 384 673	1 228 486
Total gross amount of trade receivables	**2 215 107**	**2 722 194**

Expected credit loss assessment for individual customers as at 31 December 2019

The Group allocates each exposure to a credit risk grade based on data that is determined to be predictive of the risk of loss (including but not limited to external ratings, audited financial statements, management accounts and cash flow projections and available press information about customers) and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default and are aligned to external credit rating definitions from agency Moody’s.

The Group analyses customers on individual basis in case of significant different exposure to a credit risk compared with other population of receivables.

Risk category	Gross carrying amount	Impairment loss allowance	Credit-impaired (Yes/No)
Low risk	237 316	1 668	No
Fair risk	16 826	-	No
Substandard	11 297	607	Yes
Doubtful	927 054	886 677	Yes
Loss	440 305	440 305	Yes
Total	**1 632 798**	**1 329 257**	

The group defines low risk grade as follows:
Low risk - the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may not likely reduce the ability of the borrower to fulfil its contractual cash flow obligations.

Expected credit loss assessment for other customers

The Group uses an allowance matrix to measure the ECLs of trade receivables from other customers, which have similar credit rating and are not analysed on individual basis.

Loss rates are based on actual credit loss experience over the past three years. These rates if necessary are multiplied by scalar factors to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Group’s view of economic conditions over the expected lives of the receivables.

The tables below provide information on credit risk exposure and ECLs in respect of trade receivables from customers by groups as at 31 December 2019.

Expected credit loss calculation for export sales receivables

Period	Weighted-average loss rate	Gross carrying amount	Impairment loss allowance	Credit-impaired
Current (not past due)	**0%**	404 716	72	No
Less 30 days past due	**0%**	2 730	6	No
31-60 days past due	**2%**	-	-	-
61-90 days past due	**33%**	-	-	-
91-180 days past due	**34%**	-	-	-
181-360 days past due	**56%**	-	-	-
More 360 days past due	**67%**	134	89	Yes
Total		**407 580**	**168**	

Expected credit loss calculation for domestic sales receivables

Period	Weighted-average loss rate	Gross carrying amount	Impairment loss allowance	Credit-impaired
Current (not past due)	**0%**	4 729	10	No
Less 30 days past due	**0%**	12 281	34	No
31-60 days past due	**1%**	-	-	-
61-90 days past due	**15%**	-	-	-
91-180 days past due	**24%**	-	-	-
181-360 days past due	**31%**	-	-	-
More 360 days past due	**32%**	1 586	506	Yes
Total		**18 596**	**550**	

Expected credit loss calculation for receivables on services

Period	Weighted-average loss rate	Gross carrying amount	Impairment loss allowance	Credit-impaired
Current (not past due)	**1%**	60 964	809	No
Less 30 days past due	**5%**	6 145	283	No
31-60 days past due	**13%**	2 700	344	No
61-90 days past due	**14%**	1 254	176	No
91-180 days past due	**21%**	3 246	674	Yes
181-360 days past due	**44%**	14 408	6 367	Yes
More 360 days past due	**54%**	12 320	6 603	Yes
Total		**101 037**	**15 256**	

Not analyzed balance of other receivables at 31 December 2019 is RUB 55,096 thousand.

Movements in the allowance for ECLs in respect of trade and other receivables:

’000 RUB	2019	2018
Balance at 1 January	**(1 553 205)**	**(575 567)**
Increase in allowance	(3 125)	(1 008 710)
Acquisition of VolgaResource LLC	(52 055)	-
Movements of allowance of VolgaResource LLC	23 446	-
Reversal of allowance	231 602	-
Account receivable write-off using allowance	8 106	31 072
Balance at 31 December	**(1 345 231)**	**(1 553 205)**

Cash and cash equivalents

The Group held cash and cash equivalents of RUB 335 062 thousand at 31 December 2019 (31 December 2018: RUB 225 225 thousand), and restricted cash of RUB 124 692 thousand at 31 December 2019 (31 December 2018: RUB 409 436 thousand). The cash, cash equivalents and restricred cash are held in bank and financial institution, which are rated from AAA to BBB+ based on ACRA, from ruAAA to ruBBB- based on Expert RA ratings.

(ii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group’s reputation.

Exposure to liquidity risk

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include estimated interest payments and exclude the impact of netting agreements.

31 December 2019			**Contractual cash flows**			
’000 RUB	**Carrying amount**	**Nominal value**	**Less than 1 year**	**From 1 to 2 years**	**From 2 to 5 years**	**More than 5 years**
Non-derivative financial liabilities						
Loans and borrowings (include interest expences)	921 526	1 034 058	344 942	118 538	570 579	-
Lease liabilities	647 473	1 014 497	287 438	222 110	177 195	327 754
Trade and other payables	494 448	494 448	494 448	-	-	-
Other liabilities	589 085	646 349	167 824	106 428	319 284	52 813
	2 652 532	**3 189 352**	**1 294 652**	**447 076**	**1 067 058**	**380 567**

31 December 2018	**Contractual cash flows**					
’000 RUB	**Carrying amount**	**Nominal value**	**Less than 1 year**	**From 1 to 2 years**	**From 2 to 5 years**	**More than 5 years**
Non-derivative financial liabilities						
Loans and borrowings (include interest expences)	694 977	811 144	229 369	163 714	221 209	196 852
Lease liabilities	193 327	860 270	163 266	144 961	199 695	352 348
Trade and other payables	579 346	579 346	579 346	-	-	-
Other liabilities	780 860	885 537	300 584	106 428	319 284	159 241
	2 248 510	**3 136 297**	**1 272 565**	**415 103**	**740 188**	**708 441**

(iii) Currency risk

The Group is exposed to currency risk to the extent that there is a mismatch between currencies in which sales, purchases and borrowings are denominated and the respective functional currencies of Group entities. The functional currency of the Group is the Russian Rouble (RUB).

Exposure to currency risk

The Group’s exposure to foreign currency risk was as follows:

’000 RUB	**USD-denominated**	**EUR-denominated**	**USD-denominated**	**EUR-denominated**
	2019	**2019**	**2018**	**2018**
Lease liability	-	(48 715)	-	(94 479)
Cash and cash equivalents	79 567	93 597	16 323	33 216
Secured bank loans	-	(390 301)	-	(210 531)
Trade payables	(19 336)	(17 976)	(1 631)	(44 796)
Trade receivables	987 783	99 858	1 091 032	173 177
Net exposure	**1 048 014**	**(263 537)**	**1 105 724**	**(143 413)**

The following main foreign exchange rates were applied during the year:

’000 RUB	**Average rate**		**Reporting date spot rate**	
	2019	**2018**	**2019**	**2018**
1 USD	64,7362	62,7078	61,9057	69,4706
1 EUR	72,4101	73,9546	69,3406	79,4605

Sensityvity analysis

A reasonably possible strengthening (weakening) of the RUB, as indicated below, against all other currencies at 31 December would have affected the measurement of financial instruments denominated in a foreign currency and affected equity and profit or loss before taxes by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

’000 RUB	Strengthening		Weakening	
	Equity	Profit or loss	Equity	Profit or loss
31 December 2019				
USD (20% movements)	(209 603)	(209 603)	209 603	209 603
EUR (20% movements)	52 707	52 707	(52 707)	(52 707)
31 December 2018				
USD (20% movements)	(221 145)	(221 145)	221 145	221 145
EUR (20% movements)	28 683	28 683	(28 683)	(28 683)

21 Significant subsidiaries

Subsidiary	Country of incorporation	31 December 2019 Ownership/voting	31 December 2019 Ownership/voting
Volga UK - Housing and Communal Services LLC	Russian Federation	80%	80%
AgroMir LLC	Russian Federation	100%	100%
VolgaResource LLC	Russian Federation	100%	0%

(i) Acquisition of subsidiary

On 27 November 2019 the Group obtained control of VolgaResource LLC by acquiring of 100% share in charter capital of the company. As a result, the Group’s equity interest in VolgaResource LLC increased from 0% to 100%.

VolgaResource LLC provides services for the transmission and distribution of the steam and hot water produced by the Company to individuals and legal entities.

The consideration transferred under the acquisition was equaled to nominal value of charter capital – RUB 10 thousand.

Identifiable assets acquired and liabilities assumed

’000 RUB	Recognised fair values on acquisition
Non-current assets	**12 257**
Property, plant and equipment	12 257

’000 RUB	**Recognised fair values on acquisition**
Current assets	**175 295**
Inventories	27 932
Trade and other receivables	146 598
Cash and cash equivalents	765
Current liabilities	**(208 383)**
Trade and other payables	(208 383)
Total identifiable net assets	**(20 831)**

The trade receivables comprise gross contractual amounts due of RUB 198 654 thousand, of which RUB 52 056 thousand was expected to be uncollectable at the acquisition date.

From the date of acquisition to 31 December 2019 VolgaResource LLC contributed revenue of RUB 1 992 thousand and loss of RUB 286 thousand.

If acquisition of business had occurred on 1 January 2019, management estimates that consolidated revenue would have increased for RUB 178 540 thousand, and consolidated profit for the year would have decreased by RUB 3 398 thousand. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2019.

22 Taxation contingencies

Taxation contingencies in the Russian Federation

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities.

The tax authorities have the power to impose fines and penalties for tax arrears. A tax year is generally open for review by the tax authorities during three subsequent calendar years. Currently the tax authorities are taking a more assertive and substance-based approach to their interpretation and enforcement of tax legislation.

Management believes that it has provided adequately for the tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the tax authorities and courts could differ and the effect on these consolidated financial statements, if the tax authorities are successful in enforcing their interpretations, could be significant.

23 Related parties

Parent and ultimate controlling party

The Group doesn’t have immediate parent company. Ultimate controlling party is Breus Shalva Petrovich, holder of 98,9964 % shares of JSC “Volga”.

Transactions with key management personnel

Key management received the following remuneration during the year, which is included in employee benefit expenses.

’000 RUB	2019	2018
Salaries	108 165	107 190
Bonuses	25 640	224 149
Annual paid vacation	1 639	2 879
Other payments	3 321	2 476
Social security	20 477	51 790
	159 242	**388 484**

Other related party transactions

	Transaction value for the year ended 31 December		Outstanding balance as at 31 December	
	2019	**2018**	**2019**	**2018**
Sale of goods and services:				
VolgaResource LLC *	435 300	216 943	-	144 138
Purchase of goods and services:				
VolgaResource LLC *	(5 269)	(2 063)	-	-
Loans given:				
LLC City Invest	65 000	35 000	100 000	35 000
Nizhny Newsprint Holdings Limited	-	50 000	-	-
Others:				
International Cultural Foundation "BREUS FOUNDATION"	(50 000)	-	-	-

* 27 November 2019 VolgaResource LLC became subsidiary of the Group with share in charter capital of 100%.

24 Subsequent events

During the current reporting year, the implementation of the investment project of JSC “Volga” in the field of forest development continued. As part of the implementation of this project after the reporting date construction of the second line for the production of thermomechanical pulp was completed and on 31 March 2020 a trial launch was performed.

In December 2019, lease contracts for forest plots were signed for a period of 49 years with extension option. After the reporting date, a state examination of forest development projects was carried out, and a forest declaration was submitted. Timber harvesting has been started.

In April 2020, JSC "Volga" was included in the list of strategic enterprises of the Russian economy of the Ministry of Industry and Trade of the Russian Federation.

In the period from 1 January 2020, the Group received loans and borrowings under existing agreements in the amount of RUB 796,005 thousand. The Group repaid loans and borrowings in the amount of RUB 614,953 thousand.

COVID-19 outbreak

On 11 March 2020, the World Health Organization declared the coronavirus outbreak a pandemic. Responding to the potentially serious threat the COVID-19 presents to public health, the Russian government authorities have taken measures to contain the outbreak, including imposing restrictions on the cross-borders movement of people, entry restrictions for foreign visitors and instructing business community to transfer employees to working from home. During March 2020, regional authorities gradually introduced additional measures to enhance social distancing, including closing schools, universities, restaurants, cinemas, theaters and museums and sport facilities. In order to ensure the sanitary and epidemiological well-being of the population, the President of the Russian Federation declared paid non-working days from 30 March to 30 April 2020 for all employees except for medical and pharmacy organizations, emergency services, food and essential goods providers and continuous operating cycle entities.

Due to lockdown and business disruption in many countries, global oil demand has drastically decreased leading to oversupply and sharp fall in oil prices. On 12 April 2020, major global oil producers including Russia agreed to a record cut in crude oil production for stabilizing the oil market, which, however, has not been able to reverse the downward pressure on the oil market. Sharp decrease in oil prices and production volumes results in corresponding decrease of oil producers' income and payments to the budget, which is likely to have major economic and social consequences and unavoidably affect public sector spending.

These events will have wider adverse effects on the economy, including:

- Disruption to business operations and economic activity, with a negative impact on supply chains and breach of contracts;
- Significant disruption to businesses in certain sectors, both operating on domestic market and export-oriented businesses with high reliance on foreign markets. Mostly affected sectors include retail, travel and tourism, entertainment and hospitality sector, transportation, oil industry, construction, automotive, insurance and financial sector;
- Significant decrease in demand for non-essential goods and services;
- An increase in economic uncertainty, reflected in more volatile asset prices and currency exchange rates.

In March 2020, the Russian government announced a package of measures to support industries most heavily affected by the outbreak of COVID-19. The program includes, among other, deferral of tax and fee payments for small and medium-sized businesses, postponement of loans repayment, suspension of lease payments on federal and municipal property, state support on loans refinancing and restructuring for businesses in hard-hit industries. Besides, social contribution tax rate was lowered for all small and medium-sized businesses. The list of heavily affected industries is closely monitored and may be adjusted based on further developments.

The Group operates in the timber industry, which has not been significantly affected by the rapid spread of COVID-19. Over the past several weeks, the Group's sales have remained stable and its operations, including supplies, have not been interrupted. Based on publicly available information as at the date of approval of these consolidated financial statements, management has analyzed possible scenarios and expected impact on the Group and the economic environment in which the Group operates, including measures already taken by the Government of the Russian Federation and governments in other countries in which are the main business partners and clients of the Group are located.

In order to ensure normal operating activities and maintain the liquidity of the Group, a number of measures were implemented by the management, including:

- a confirmation was received from the Ministry of Industry and Trade of the Nizhny Novgorod Region that JSC “Volga” can operate during non-working days;
- a significant part of the employees of administrative functions, as well as employees of sales and procurement departments, were transferred to remote work;
- employees of the production department have been trained to observe strict precautions in the process of work, including social distancing;
- conducting stress tests and changing procurement process for the timely supply of raw materials and a smooth production process;
- transfer of investment projects to 2021 and to the 4th quarter of 2020, the repair program was reduced by 20%.

Taking into account the above measures and the current operating and financial results of the Group, as well as the currently available public information, management does not expect a material negative impact of the COVID-19 on the financial position and financial results of the Group in the short term. However, management cannot preclude the possibility that extended lockdown periods, an escalation in severity of such measures, or a consequential adverse impact of such measures on the economic environment will have an adverse effect on the Group's operations in the medium and long term. In addition, the Group analyzes possible negative scenarios for the development of the situation and is ready to adapt its operational plans accordingly. So, a stress test of the budget for 2020 was carried out using the macroeconomic data of the Ministry of Industry and Trade for stress tests of all strategic enterprises of the Russian Federation. As a result, EBITDA is expected to decrease by 30% compared to the baseline scenario. Management continues to closely monitor the development of the situation and will take the necessary measures to mitigate the consequences of possible negative events and circumstances as they arise.

The Group did not identify other material facts of business activities that occurred after 31 December 2019, which had or could have an impact on the financial position, cash flow or financial performance of the Company for 2019.

25 Correction of errors

During financial year ended 31 December 2019 the following was identified:

1. In the consolidated financial statements for the year ended 31 December 2018, the amount of the letter of credit issued for the future purchase of equipment and the amount of restricted cash were incorrectly classified. As a result, the Group's cash and cash equivalents were overstated and non-current assets were understated by RUB 409,436 thousand.

2. In the consolidated financial statements for the year ended 31 December 2018, the discounting of the loan received from the Russian Fund for Technological Development FGAU was incorrectly accounted. As a result, the amount of Equity attributable to owners of the Company was overstated, and the Group's long-term liabilities and finance costs were understated by RUB 78,883 thousand.

3. In the consolidated financial statements for the year ended 31 December 2018, the provision for the annual bonus for 2018 financial year was not accrued. As a result, the amount of Equity attributable to owners of the Company was overstated, and the amount of Other short-term liabilities and administrative expenses was understated by RUB 173,606 thousand.

4. In the consolidated financial statements for the year ended 31 December 2018, the part of the transportation expenses for which primary documents were issued after the reporting date was not accounted. As a result, Equity attributable to owners of the Company was overstated, while Trade and other payables and Cost of Sales were understated.

5. In the consolidated financial statements for the year ended 31 December 2018, the discounting of Long-term payables to "IDGC of Center and Volga Region", PJSC under the settlement agreements of December 26, 2017 was incorrectly calculated. As a result, Equity attributable to owners of the Company and Other short-term liabilities were understated, while Other long-term liabilities, Trade and other payables and finance costs were overstated.
6. In the consolidated financial statements for the year ended 31 December 2018, the depreciation of the waste processing unit was incorrectly calculated. As a result, the Group's Property, plant and equipment, as well as Equity attributable to owners of the Company, were overstated and the Cost of Sales was understated.
7. In the consolidated financial statements for the year ended 31 December 2018, a finance lease was incorrectly calculated. As a result, the Group's Property, plant and equipment, as well as Equity attributable to owners of the Company, were overstated, and Long-term and Short-term lease liabilities, Trade and other payables and Finance costs were understated.
8. In the consolidated financial statements for the year ended 31 December 2018, Long-term and Short-term loans and borrowings were incorrectly classified, as a result of Long-term loans and borrowings were understated, and Short-term loans and borrowings were overstated by RUB 233,995 thousand.
9. In the consolidated financial statements for the year ended 31 December 2018, transportation costs were incorrectly classified as Distribution expenses, as a result of the amount of Distribution expenses was overstated, and the Cost of sales was understated by RUB 449,158 thousand.
10. In the consolidated financial statements for the year ended 31 December 2018, the amounts of foreign exchange gain, other taxes, remuneration to members of the Board of directors and bank services were incorrectly classified, as a result of which the Cost of Sales, Finance income and Other expenses were understated, and Administrative costs were overstated.

The table below provides information on the impact of these changes on the Group's consolidated statement of financial position as at 31 December 2018:

'000 RUB	**Impact of correction of error**		
31 December 2018	**As previously reported**	**Adjustments**	**As restated**
Property, plant and equipment	2 428 119	(31 369)	2 396 750
Letter of credit for equipment	-	15 733	15 733
Restricted cash	-	393 703	393 703
Deferred tax assets	19 967	34 721	54 688
Non-current assets	**2 462 184**	**412 787**	**2 874 971**
Cash and cash equivalents	634 661	(409 436)	225 225
Current assets	**3 047 153**	**(409 436)**	**2 637 717**
Total assets	**5 509 337**	**3 351**	**5 512 688**
Retained earnings	(4 190 452)	(245 035)	(4 435 487)
Equity attributable to owners of the Company	**3 216 162**	**(245 035)**	**2 971 127**
Total equity	**3 203 963**	**(245 035)**	**2 958 928**
Deferred income	-	78 883	78 883
Long-term lease liabilities	140 373	44	140 417
Long-term loans and borrowings	316 091	233 995	550 086

’000 RUB	**Impact of correction of error**		
31 December 2018	**As previously reported**	**Adjustments**	**As restated**
Other non-current liabilities	518 206	(32 962)	485 244
Non-current liabilities	**974 670**	**279 960**	**1 254 630**
Trade and other payables	867 370	(61 657)	805 713
Short-term lease liabilities	51 973	937	52 910
Short-term loans and borrowings	378 886	(233 995)	144 891
Other current liabilities	32 475	263 141	295 616
Current liabilities	**1 330 704**	**(31 574)**	**1 299 130**
Total liabilities	**2 305 374**	**248 386**	**2 553 760**
Total equity and liabilities	**5 509 337**	**3 351**	**5 512 688**

The table below provides information about the impact of these changes on the consolidated statement of profit or loss and other comprehensive income for 2018:

	Impact of correction of error		
For the year ended 31 December 2018	**As previously reported**	**Adjustments**	**As restated**
Cost of sales	(5 082 255)	(513 417)	(5 595 672)
Gross profit	**3 749 671**	**(513 417)**	**3 236 254**
Distribution expenses	(527 743)	449 158	(78 585)
Administrative expenses	(766 834)	(157 062)	(923 896)
Other income and expenses	(991 014)	(75 956)	(1 066 970)
Results from operating activities	**1 464 080**	**(297 277)**	**1 166 803**
Finance income	525	104 569	105 094
Finance costs	(168 651)	(103 271)	(271 922)
Profit before income tax	**1 295 954**	**(295 979)**	**999 975**
Income tax expense	(240 515)	50 943	(189 572)
Profit and other comprehensive income for the year	**1 055 439**	**(245 036)**	**810 403**

There is no material impact on the Group’s basic earnings per share and no impact on the total operating, investing or financing cash flows for the years ended 31 December 2019 and 2018.

The statement of financial position as at the beginning of the prior period is not presented due to the fact that the identified errors do not have a significant effect on the financial information at that date.

26 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus
- If the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

(ii) Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree’s identifiable net assets at the acquisition date.

Changes in the Group’s interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(iii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The non-controlling interests at the reporting date represent the proportionate share of the fair value of the subsidiary's identifiable assets and liabilities at the acquisition date and of the change in net assets since the acquisition date. Acquisitions of non-controlling interests are accounted for as transactions with owners acting as owners and therefore no goodwill is recognized as a result of such transactions. The adjustments to the non-controlling interest are based on the proportionate amount of the net assets of the subsidiary.

(iv) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated.

(b) Revenue

Information about the Group's accounting policies relating to contracts with customers is provided in Note 7.

(c) Finance income and finance costs

The Group's finance income and finance costs include:

- interest income;
- interest expense;
- dividend income;
- the foreign currency gain or loss on financial assets and financial liabilities;
- impairment losses (and reversals) on investments in debt securities carried at amortised cost or FVOCI;

Interest income or expense is recognised using the effective interest method. Dividend income is recognised in profit or loss on the date on which the Group's right to receive payment is established.

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

(d) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences are generally recognised in profit or loss.

(e) Employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(f) Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

(i) Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from dividends.

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and

- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies. In addition, the tax base is determined separately for each of the Group's main activities and, therefore, tax losses and taxable profits related to different activities cannot be offset.

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

(g) Inventories

Inventories are recognized at the moment of transfer to the Group of significant risks and rewards associated with holding the inventories. This moment may not coincide with the date of transfer of ownership in the contract.

Upon initial recognition, the Company evaluates the inventories at the cost of purchase or manufacture, which is the sum of all costs incurred by the Company in connection with bringing the inventories to their current condition and location.

Cost of purchase includes:

- the amount paid in accordance with the contract to the supplier (minus trade discounts) - book value;
- amounts paid for information and consulting services related to the acquisition of inventory;
- fees paid to the intermediary for the purchasing of inventory;
- import customs duties;
- non-refundable taxes paid in connection with the purchase of inventory;

- costs of transport services for delivery to the place of use, loading / unloading;
- the cost of bringing the inventory to a condition in which they are suitable for use for the planned purposes;
- various costs directly related to the acquisition of inventory.

The cost of finished goods (excluding the cost of raw materials) is determined based on direct production costs, as well as systematically allocated fixed and variable production overheads arising from the processing of raw materials into finished goods.

The purchase price of raw materials nominated in a currency other than the functional currency is translated at the date of acquisition/ incurring costs.

Costs excluded from the cost of inventories and recognized as expenses in the period in which they are incurred are:

- abnormal amounts of wasted materials or other production costs;
- storage costs, unless those costs are necessary in the production process;
- administrative overheads that do not contribute to bringing inventories to their present location and condition;
- selling costs.

At the end of each reporting period the Group measures inventories at the lower of:

- Cost of inventories, or
- Net realisable value.

The cost of inventories may not be recoverable if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined.

If the actual cost of inventories exceeds their net realisable value, the Group creates provision for obsolete inventory. The provision is calculated based on the net realisable value of the inventory. The provision is estimated in relation to inventory balances based on aging and turnover analysis of inventory balances.

In the financial statements, the amount of the provision reduces the value of the inventory.

When determining whether inventories are impaired or not, the Group analyzes the following factors:

- physical condition of inventory;
- opportunity to use for the production and / or sale of goods, works, services or for administrative purposes;
- the level of market prices for identical / similar assets.

The calculation of the net realisable value of inventories is made by the Group based on the information available prior to the date the financial statements were approved for issue. In calculating the net realisable value of inventories, changes in the price or cost of inventories associated with events after the balance sheet date are taken into account to the extent that they confirm conditions that existed at the balance sheet date.

The impairment of inventories to net realisable value through the creation of a provision is recognized as an expense in profit or loss in the period in which a decrease in the value of inventories is detected.

The estimate of net realisable value at the end of each reporting month is revised.

If, in the reporting periods following the recognition of impairment of inventories, their net realisable value continues to decline, then the amount of provision related to these inventories adjusted for increase as an expense in profit or loss of current period.

If circumstances that previously caused the write-down of inventories below cost no longer exist, and the inventories have not yet been consumed, then the amount of write-down is reversed in the limit of the original write-down. The Group recognizes a decrease (increase) of the provision previously created. Reversal of inventories above the origin cost is impossible.

(h) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss. When revalued assets are sold, any related amount included in the revaluation reserve as revaluation surplus is transferred to retained earnings.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Depreciation is based on the cost of an asset less its estimated residual value.

Depreciation is generally recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the lower of lease term and useful life, except cases when the Group has reasonable assurance that ownership on these assets will transfer to the Group at the end of lease term. Land is not depreciated.

The estimated useful lives of significant items of property, plant and equipment for the current and comparative periods are as follows:

Depreciation group	Name of group	Useful lives 2018	Useful lives 2019
0	Land	Not depreciated	Not depreciated
1	Buildings	25 years	5-250 years
2	Equipment	10-20 years	3-100 years
3	Fixtures and fittings	5 years	1-20 years
4	Vehicles	5 years	3-30 years
5	Other PPE	5 years	1-40 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. Estimates in respect of items of plant and equipment were revised in 2019 (see Note 11).

(i) Intangible assets

Intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

(i) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the profit or loss as incurred.

(ii) Amortisation

Amortisation is based on the cost of the asset less its estimated residual value.

Amortisation is generally recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

Software 7 years;

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(j) Financial instruments

(i) Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest (SPPI criterion), the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;

- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial assets – Subsequent measurement and gains and losses:

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

The Group has fixed rate bank loans for which the banks have the option to revise the interest rate following the change of key rate set by the CBR. The Group have an option to either accept the revised rate or redeem the loan at par without penalty. The Group considers these loans as in essence floating rate loans.

(iii) Modification of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as 'substantial modification'), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

The Group performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Group assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired. In making this evaluation the Group analogizes to the guidance on the derecognition of financial liabilities.

The Group concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial asset;
- change in collateral or other credit enhancement;
- change of terms of financial asset that lead to non-compliance with SPPI criterion (e.g. inclusion of conversion feature).

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

Financial liabilities

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

If a modification (or exchange) does not result in the derecognition of the financial liability the Group applies accounting policy consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset, i.e. the Group recognises any adjustment to the amortised cost of the financial liability arising from such a modification (or exchange) in profit or loss at the date of the modification (or exchange).

Changes in cash flows on existing financial liabilities are not considered as modification, if they result from existing contractual terms, e.g. changes in fixed interest rates initiated by banks due to changes in the CBR key rate, if the loan contract entitles banks to do so and the Group have an option to either accept the revised rate or redeem the loan at par without penalty. The Group treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

Group performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. The Group concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial liability;
- change in collateral or other credit enhancement;
- inclusion of conversion option;
- change in the subordination of the financial liability.

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

(iv) Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(vi) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(k) Impairment

(i) Non-derivative financial assets

The Group recognises loss allowances for ECLs on financial assets measured at amortised cost.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs.

Loss allowances for other financial assets measured at amortised cost, measured at 12-month ECLs, if there is no significant increase of credit risk from the moment of recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group’s historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 180 days past due.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or

- the financial asset is more than 365 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganization.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Group has a policy of writing off the gross carrying amount when the financial asset is 360 days past due based on historical experience of recoveries of similar assets. For corporate customers, the Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Allowance for expected credit losses for trade receivables

The Group uses an allowance matrix to measure the ECLs of trade receivables. ECL rates are set based on the number of days overdue for different segments with similar credit risk characteristics:

- accounts receivable for export sales of paper products;
- accounts receivable from sales of paper products in the domestic market;
- accounts receivable for the sale of energy transmission services to legal entities;
- accounts receivable for the sale of energy transmission services to individuals.

Allowance matrix is initially based on observable historical defaults. The Company reasonably uses the information for the three previous periods and updates an allowance matrix annually, taking into account the forecast factors specific to counterparties and economic conditions, as well as adjustments for factors that were in the past and no longer exist.

Impairment losses for individually significant customers are analyzed on an individual basis and excluded from the allowance matrix.

Expected credit loss assessment for individual customers

ECL = EAD * PDt * LGD

Where:

EAD - amount at risk in case of default;
PDt - probability of default;
LGD - loss in case of default;
t - term to maturity.

The following formula is used to bring the probability of a default to the corresponding term of the receivable:

$$PD_t = 1 - (1 - PD_{12})^{t/365}$$

The probability of default during the life of a financial instrument is assessed by credit ratings based on data from rating agencies. In the event that a counterparty does not have a rating, the rating may be calculated based on the sovereign rating of the respective country, adjusted for the individual characteristics of the counterparty. Loss in case of default is estimated based on counterparty rating and credit rating agency statistics on unsecured bond claims.

Allowance for expected credit losses on bank account balances

The Group believes that bank account balances have low credit risk if banks' credit ratings meet the generally accepted definition of investment quality ratings. The Company considers it to be equal to ruA- or higher according to Expert RA estimates or A- (RU) or higher according to ACRA estimates (estimates on the national scale).

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine if there is any indication that they are impaired. If any such indication exists, the recoverable amount of the related asset is calculated.

At the end of each reporting year, the Group checks for any indications of assets impairment and, if identified, determines the recoverable amount of the assets. An asset is impaired if its carrying amount exceeds its recoverable amount.

Information obtained from both external and internal sources can be used as indicators of asset impairment.

External indicators of impairment:

- during the reporting period, the market value of the asset decreased by an amount significantly exceeding the decline in value expected as a result of its normal use;

- significant unfavorable changes have occurred during the reporting period or will occur in the near future in the technical, market, economic or legal environment in which the Group operates;

- the book value of the Company's net assets exceeds its market capitalization.

Internal indicators of impairment:

- obsolescence or physical damage;

- material changes that adversely affect the position of the Company, in the degree of use or the way of using the asset in the present or in the future. These changes include plans to discontinue or restructure the activity to which the asset belongs, or to sell or liquidate the asset before a certain date;

- there is evidence that indicates that the current or future economic results of using the asset are worse than expected.

The above indicators are not exhaustive . The conclusion about the need for an impairment test is made on the basis of an analysis of the entire set of factors that may indicate the existing of indicators of impairment.

If the recoverable amount of an asset for which there is an indication of impairment cannot be measured reliably, then the recoverable amount of the cash-generated unit (CGU) that contains the asset is estimated.

The recoverable amount of an asset or CGU is the higher of the asset's (unit's) value in use and its fair value less costs to sell. In calculating value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

Impairment losses are recognized in profit or loss for the period.

An impairment loss recognized in a prior period is reviewed at each reporting date to identify indications that the amount of the loss should be reduced or should no longer be recognized. Amounts written off for impairment losses are reversed if there has been a change in the estimates used to calculate the recoverable amount. An impairment loss is reversed only to the extent that the assets are restored to their carrying amount at which they would have been carried (less accumulated depreciation) if no impairment loss had been recognized.

(l) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Site restoration

The Group recognizes a provision for site restoration arising from the Group's business. Obligations to take measures to eliminate environmental pollution are recognized as soon as the corresponding pollution occurs and treated as expenses of the reporting period. The estimated liability is calculated on the expected cost of allotment/neutralization of pollution at current prices.

(m) Leases

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease.

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into, on or after 1 January 2019.

As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

– fixed payments, including in-substance fixed payments;

– variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

– amounts expected to be payable under a residual value guarantee; and

– the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group’s estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in ‘property, plant and equipment’ and lease liabilities separately as a part of non-current and current liabilities in the statement of financial position.

In accordance with IFRS 16 variable payments which do not depend on index or rate, e. g. which do not reflect changes in market rental rates, should not be included in the measurement of lease liability. In respect of municipal or federal land leases where lease payments are based on cadastral value of the land plot and do not change until the next revision of that value or the applicable rates (or both) by the authorities, the Group has determined that, under the current revision mechanism, the land lease payments cannot be considered as either variable that depend on index or rate or in-substance fixed, and therefore these payments are not included in the measurement of the lease liability.

As a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Group applies IFRS 15 to allocate the consideration in the contract.

The Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of ‘other revenue’.

Generally, the accounting policies applicable to the Group as a lessor in the comparative period were not different from IFRS 16 except for the classification of the sub-lease entered into during current reporting period that resulted in a finance lease classification.

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
– the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
– the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
– the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
– facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

As a lessee

In the comparative period, as a lessee the Group classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Group’s statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

As a lessor

When the Group acted as a lessor, it determined at lease inception whether each lease was a finance lease or an operating lease.

To classify each lease, the Group made an overall assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset. If this was the case, then the lease was a finance lease; if not, then it was an operating lease. As part of this assessment, the Group considered certain indicators such as whether the lease was for the major part of the economic life of the asset.

(n) Government grants

In accordance with the legislation of the Russian Federation, companies can receive certain government grants. Government grants are reflected in the financial statements of the Company only if there is reasonable assurance that all conditions necessary for their receipt are met and grants will be provided.

Most of these grants provide to the Group are related to compensation of expenses for transportation of finished goods for export. These grants are not provided systematically, and the Group reflects them in the financial statements only upon receipt. The Group accounted grants for reimbursement of transportation costs as a reduction in transportation costs in the period to which they relate, or as part of other income, if reporting periods of grants received and expenses incurred are differernt.

Certain government grants compensate the cost of paying interest. The Group accounts these grants as compensation for interest expenses during the period to which they relate.

The benefit received from the loan at a below-market rate of interest is treated as a government grant. The loan is recognized and measured in accordance with IFRS 9 Financial Instruments. The benefit from the use of below market rates is measured as the difference between the use of the carrying amount of the loan, in accordance with IFRS 9, and cash proceeds.

Government grants related to the acquisition of an asset treat as deferred income and included in profit or loss when the asset financed using loan is depreciated.

(o) Earnings per share

The Group presents basic earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

(p) New standards and interpretations not yet adopted

A number of new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements:

- Amendments to References to Conceptual Framework in IFRS Standards.
- Definition of a Business (Amendments to IFRS 3).
- Definition of Material (Amendments to IAS 1 and IAS 8).
- IFRS 17 Insurance Contracts.

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