Joint-stock company
Volga

ANNUAL REPORT 2020

Based on the past, create the future!

ANNUAL REPORT

joint-stock company Volga for 2020

APPROVED BY:
Annual General Meeting of Shareholders of JSC Volga
on 17.06.2021 AGM Minutes №65
dated 18.06.2021

PRE-APPROVED BY:
Board of Directors of JSC Volga
on 14.05.2021, Minutes №05/2021
dated 14.05.2021

In this document, JSC Volga, the Company refer to Volga Joint Stock Company.

JSC Volga, as well as the pronoun 'we' and its various forms, should be understood as the group of companies consisting of JSC Volga and its subsidiaries.

CONTENT

Director General Statement

Dear Shareholders!

2020 was a year of serious challenges and a test of resistance for our Company and its employees.

In the context of an unprecedented drop in prices in world markets by 30-50 percent and severe restrictions associated with the spread of the COVID-19 pandemic, the management was solving the most important task - to ensure a safe working environment for the Company's personnel and production stability.

To accomplish this task, an operational headquarters was created in the Company to quickly and efficiently respond to changes in the situation with COVID-19, which made it possible to ensure the sustainable functioning of business processes in the Company in the context of the global crisis. We have also implemented a very serious cost reduction program.

Despite the fact that the past year was financially difficult, according to the results of the Company's work in 2020, EBITDA under IFRS amounted to RUB 1.5 billion. Revenue from product sales amounted to RUB 9.4 billion, and net profit to RUB 0.9 billion.

Based on the results of 2020, JSC Volga increased its production to 276,099 tons. Including more than 126 thousand tons of new products, which is paper for corrugated packaging weighing from 42 to 100 grams per square meter. This became an absolute record for the Company in product development since 2015. The share of JSC Volga in the volume of production among Russian paper manufacturing companies increased in 2020 to 21%.

The global lockdown caused by the COVID-19 pandemic demanded from us flexibility and the ability to quickly transform the business: before the pandemic, JSC Volga was a manufacturer of a single product - newsprint, but thanks to a new diversification strategy and management efforts, by the third quarter of 2020, the Company managed to significantly increase the product line by mastering the production of niche products, such as an interliner (paper for middle layers of five-layer cardboard), internal paper sizing, bulky paper for printing book.The main consumers of new products are Chinese companies, but other countries have also begun to pick up the trend of reducing the weight and cost of packaging. By the end of 2020, over 50% of our product portfolio was packaging paper.

Looking back, I am sure that we have survived the global lockdown quite successfully, thanks to the fact that we looked closely at new, trendy types of paper in time.

We currently export about 70% of our products to more than 75 countries around the world. We see great opportunities for the supply of our products to Africa, as well as to Southeast Asia.

Another our priority is to expand our presence in Europe, not only with the newsprint, but also with the new types of packaging products. With the increase in the share of packaging paper production, we also consider China as one of the most important countries for the development of export supplies. India is a traditional market for newsprint. JSC Volga has been present on this market for a long time, and we will support this trend in the future.

The Company's development strategy, which we began to implement in stages in 2020, has allowed us to not only halt production and retain staff, but also to make a significant step forward.

We have completed a number of ambitious and strategically important investment projects, such as the expansion of the production of thermomechanical pulp with a capacity of 180 tons of semi-finished product per day and the reconstruction of the PT-80 turbine generator in the power complex (NiGRES), which made it possible to provide production of our own electricity by 100%. Another investment project for the separation of the flows of paper-making machines No. 5 and No. 8 expanded the technological capabilities of the Company and made it possible to use 100% of the paper-making equipment and produce products ranging from 42 grams to 100 grams, with or without internal paper sizing. The volume of investments in these projects exceeded RUB 2 billion.

The staff is the most valuable and a key asset of our Company, and the main objective of the personnel policy of JSC Volga is the creation of better conditions for highly productive labor and personnel development. Since 2020, JSC Volga has been implementing a new program to improve the personnel motivation system, which is aimed at introducing best practices for motivation, recognition of the achievements and contribution of employees to the development of the Company. The social policy of the Company includes programs and activities aimed at solving the most urgent tasks of social development of the team, improving working conditions, ensuring social protection of employees, organizing their rest and medical care.

In 2020, JSC Volga carried out charitable and sponsorship activities, providing assistance to medical and educational organizations, children's institutions, and creative teams in the region of its presence.

In terms of sustainable development of the Company in 2020, we managed to achieve a lot.

JSC Volga successfully passed the voluntary certification procedure and received a certificate of compliance with the requirements of the international standard ISO 9001: 2015. Compliance with this standard is a confirmation of the high quality of enterprise management and a significant advantage of the Company in the eyes of customers.

The Expert RA rating agency has assigned a credit rating to JSC Volga at the ruBBB + level. Rating outlook - stable. The agency notes a moderately high level of strategic planning, as well as a moderately high detail of the forecast financial model.

The company moved up to the second place in the «Rating of the most informationally open companies in the wood industry in Russia» and entered the top ten of the Rating « Top 100: Russia's leaders in labor productivity growth in three years», which demonstrates the systematic work of the Company's management to improve its efficiency and transparency, despite serious external challenges and market fluctuations.

Three types of products of JSC Volga were included in the list of «100 best goods of Russia»: reduced-weight newsprint became the winner, and paper for flat layers of corrugated cardboard and paper plump uncoated became the winners of the All-Russian competition.

JSC Volga was included by the Ministry of Industry and Trade of Russia in the list of strategic (socially significant) companies of Russian Federation and for high performance in the field of industrial production was awarded an honorary award-the passing standard of the Governor of the Nizhny Novgorod region.

In order to continue to withstand serious competition in world markets during the crisis, we need to continue to develop, investing in the modernization and renewal of production facilities.

In the field of energy, work will continue to increase the efficiency of existing generating equipment to reduce production costs, increase the productivity of existing paper machines, and we also plan to modernize paper machine No. 6 in the next 3 years. After modernization, this machine will produce packaging paper, which will allow the Company to increase the production of this type of product as part of the production diversification program.

The large-scale environmental program of JSC Volga, designed for the next 5 years, will optimize technological processes and reduce the impact on the environment.

The investment component of the strategic environmental program of JSC Volga is formed as a set of supporting (currently operating capacities) and compensatory measures (development projects) for the long-term growth of the Company's production capacities. In 2020, the Company allocated about RUB 370.5 million of investments to implement the action plan with an environmental effect.

One of the main priorities for the Company is effective forest management and reforestation. To provide growing production with raw materials, JSC Volga needs to increase its own logging and increase the volume of reforestation work.

Following the results of 2020 JSC Volga has become the largest carrier of forest products by rail in Nizhny Novgorod region. Having passed the audit for compliance with all the principles and criteria of the Forest Stewardship Council, the Company received the FSC-certificate for forest management, which contributes to entering the world markets for the sale of products.

For 2021, a large-scale program of measures is planned related to the continuation of the implementation of the Company's strategic projects aimed at the development of the enterprise, which as we expect will provide a significant increase in the production of competitive products.

In conclusion, I would like to thank the shareholders and the staff of JSC Volga for their trust and express confidence that together we will adequately overcome the new challenges of 2021.

Best regards,

Pondar
Sergey Iosifovich
CEO of JSC Volga

About JSC Volga

1.1. About JSC Volga

Location and mailing address: Russian Federation, 606407, Nizhny Novgorod region, Balakhninsky district, Balakhna, Gorky street, house 1.

The date of state registration of JSC Volga is April 13, 1994, certificate No. 33/94, series of OJSC, issued by the Administration of the Balakhninsky district of the Nizhny Novgorod region. The company is registered with the Inspectorate of the Federal Tax Service of Russia for the Balakhninsky District of the Nizhny Novgorod Region under the main state registration number 1025201418989, the date of entry is August 30, 2002.

By the decision of the annual general meeting of shareholders dated July 13, 2020, a new version of the charter of JSC Volga was approved, registered in the interdistrict IFTS of Russia No. 15 for the Nizhny Novgorod region on July 30, 2020 for GRN 2205200578218.

Taxpayer Identification Number: 5244009279.

Auditor of the Company:

Joint Stock Company KPMG, a company incorporated under the laws of the Russian Federation. Included in the Unified State Register of Legal Entities under No. 1027700125628.

Member of the Self-Regulatory Organization of Auditors of the Association «Sodruzhestvo» (SRO AAS). The main registration number of the entry in the register of auditors and audit organizations 12006020351.

JSC Volga website on the Internet: http://www.volga-paper.ru.

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

The average number of employees
1,710

Sales volume
277.9 thousand tons

Taxes paid
631 million rubles

Revenue *
9,177 million rubles

Geography
77 countries

* Revenue under IFRS amounted to RUB 9,395 million.

1.2. History of the Company

1928

The history of the enterprise began in 1928, when the first paper-making machine was launched at the Balakhna paper mill. In a month of work, it produced 700 tons of newsprint. And already in the 30s, three more paper machines were put into operation. Since then, the Balakhna paper mill has begun to increase its production capacity annually.

1940

In the 1940s, the newspapers «Pravda» and «Krasnaya Zvezda», dozens of army and divisional newspapers, and millions of leaflets were printed on our paper. During the years of the Great Patriotic War, the paper mill delivered 458 thousand tons of newsprint to the rear and front printing houses, and by the end of the 1950s the annual production volume reached 250 thousand tons of finished products.

1960

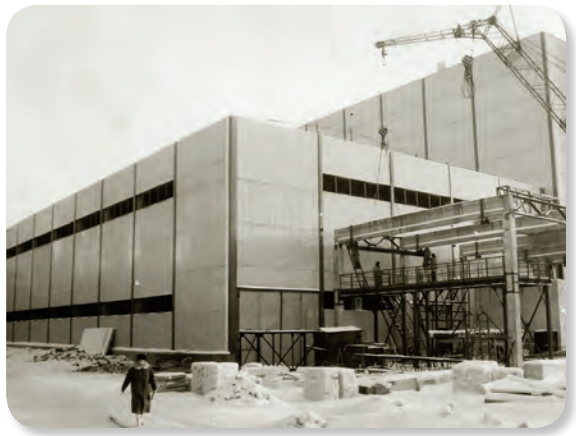
In 1960, a radical reconstruction and expansion of the enterprise began: complexes of the sixth and seventh paper machines, a new wood-mass plant and a warehouse for finished products were put into operation.

1970

In 1976, for great achievements in the development of industry, the Balakhna paper mill was awarded the Order of the October Revolution.

In 1977, Balakhna paper was awarded the State Quality Mark.

1991



An important milestone in the history of the enterprise was January 1991, when a decision was made to establish the open joint-stock company Volga.

1994

In 1994, a high-speed paper machine No. 8 from Voith (Germany), designed at the most modern technical level, was put into operation. The speed of its operation is 1300 meters per minute, the productivity is 250,000 tons of products per year.

1997

In 1997, an updated wood-preparation shop was put into operation, the modernization of the TMP shop was carried out with a transfer to the production of thermomechanical pulp (TMP). In the same year, the pulp production (cellulose workshop and associated acid and evaporation shops) was finally stopped at the enterprise.

2002

Since 2002, JSC Volga has been accepting for processing only timber products grown in compliance with environmental requirements. The company is certified by the Forest Stewardship Council FSC (Forest Stewardship Council®), which is issued by an independent auditor based on a rigorous annual inspection at the timber harvesting sites.

2006

In 2006, the reconstruction of the wood-pulp shop was completed, which made it possible to increase the production of wood pulp and improve its quality.

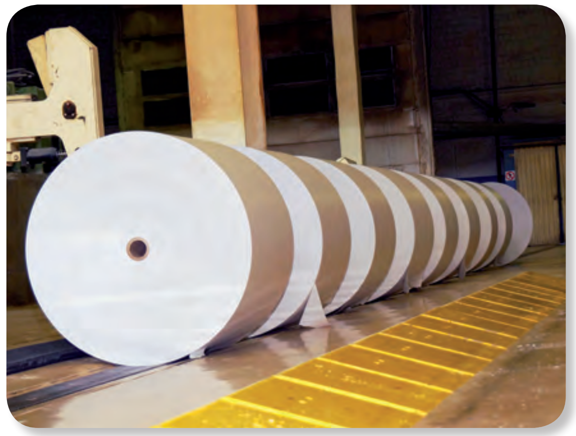
2008

Since 2008, all bark and wood waste together with sewage treatment plant sludge is incinerated to generate heat in a powerful boiler, and the ash generated as a result of waste incineration is cooled and disposed of, without posing a threat to environmental pollution.

2015

In 2015, the Nizhny Novgorod State District Power Plant 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 for enterprises and organizations in Balakhna.
Since 2015, JSC Volga has been producing newsprint using a new technology from 100% thermomechanical mass.

2017



In 2017, JSC Volga mastered the production of newsprint of a new format - 40 g/m2. The advantage of low-weight paper is the increased area of paper in one roll, which, accordingly, allows printers to print more products from 1 ton of paper.

2018

In 2018, JSC Volga re-launched paper machine No. 4, which allowed not only to expand the sales markets for finished products, but also to create new jobs, and also began to create its own fleet of railway rolling stock as part of the Company's new development strategy.

In August 2018, the Company celebrated the 90th anniversary of the launch of its first finished product.

2019

In 2019, a phased implementation of the JSC Volga investment project in the field of forest development «Expansion of the production of thermomechanical pulp (TMP)» began, which will allow the company to additionally produce up to 63 thousand tons of paper in annual terms, as well as other products from deep-processed wood.

In 2020, within the framework of the project in the field of forest development, the process of harvesting raw wood to ensure the production capacity of JSC Volga on logging sites with a total area of more than 100 thousand hectares in the Varnavinsky district of the Nizhny Novgorod region began. Thus, the Company has completed the formation of a full production cycle: from the procurement of raw materials to the sale of finished products, becoming a vertically integrated timber company.

2020

In 2020, JSC Volga completed the implementation of the largest investment project in recent years in the field of forest development «Expansion of the production of thermomechanical pulp (TMP)»

1.3. Awards, events, and achievements in 2020

PRODUCTION

Expansion of the production of thermomechanical pulp within the framework of the investment project included in the list of priorities by the Order of the Ministry of Industry and Trade of the Russian Federation, and the completion of the formation of a full production cycle: from the procurement of raw materials to the sale of finished products.

The priority investment project in the field of forest development has become one of the largest projects of the Company's investment program over the past 5 years. Its implementation will increase the volume of thermomechanical mass that can be used for paper production by 63,000 tons annually, increase the amount of tax deductions to the federal and regional budgets, and create new jobs.

Since January 2020, the process of harvesting raw timber to ensure the production capacity of JSC Volga on logging sites with a total area of more than 100 thousand hectares in the Varnavinsky district of the Nizhny Novgorod Region has begun.

Implementation of the project to separate the process flow of PM No. 5 into an independent line, which allowed 100% loading of paper-making equipment and starting to produce products in the range from 42 to 100 g/m², with or without intramass sizing.

Modernization of the turbine generator PT-80 / 100-130 / 13 st. No. 3 in the energy complex (NiGRES) of JSC Volga.

The actual output of equipment power is increased by 4.5-7.0 MW (depending on the season). The flow part of the turbo generator was restored and upgraded, which resulted in an increase in the output power due to an increase in efficiency by 6-8%, depending on the load (with the same steam and gas consumption).

SUSTAINABLE DEVELOPMENT

The rating agency «Expert RA» assigned JSC Volga a credit rating at the level of ruBBB+.

The rating outlook is stable. The Agency notes a moderately high level of strategic planning, as well as a moderately high level of detail of the forecast financial model. All the necessary elements of the organization of the risk management system are present in the Company.

JSC Volga moved up to the 2nd place in the «Rating of the most informationally open companies in the timber industry in Russia».

The company, which previously occupied the third line of the rating, scored 44 points (+2 points) for high information transparency. Compared to last year, JSC Volga began to share its investment plans for the coming years and to provide detailed biographical data of top management. Information transparency of the companies participating in the Rating is the basis of corporate governance and affects their investment attractiveness.

JSC Volga is included by the Ministry of Industry and Trade of Russia in the list of strategic (socially significant) companies of Russian Federation.

In April 2020, the representation of Russian timber industry companies was expanded in the federal register: 41 additional companies were added to the list of the Ministry of Industry and Trade, and the total number of strategic companies of Russian Federation in the industry reached 51.

JSC Volga entered the top ten of the Top-100: Russia's Leaders in Labor Productivity Growth in Three Years.

Productivity growth in one year is a significant indicator of enterprise performance. But the growth over 3 years is even more indicative - it demonstrates the systematic work of the Company's management to improve its efficiency, from year to year, despite serious external challenges and market fluctuations.

ACHIEVEMENTS AND AWARDS

Three types of products of JSC Volga were included in the list of «100 best goods of Russia» in 2020.

According to the results of the federal stage of the All-Russian competition «100 best goods of Russia», low-weight newsprint (TU 17.12.11-003-00279278-2004) under the brand of JSC Volga became the winner of the award. Two more types of products of JSC Volga for the first time became winners of the competition: paper for flat layers of corrugated cardboard (TU 17.12.72-011-00279278-2020) and bulky uncoated paper used for printing and other graphic purposes (TU 17.12.14-010-00279278- 2020).

JSC Volga was awarded the Honorary Standard of the Governor of the Nizhny Novgorod Region.

JSC Volga, which makes a significant contribution to the development of the industry of the Nizhny Novgorod region, became the leading enterprise of the timber industry in the region in 2020.

1.4. Group structure

The Volga Group, of which JSC Volga is the parent company, consists of the following companies:

JOINT-STOCK COMPANY
VOLGA

SERVICE COMPANIES:

- LLC «Volga-UK» Housing and Communal Services»
- LLC «VolgaResurs»

OTHER COMPANIES:

- LLC «AgroMir»

1.5. Key areas

One of the most important strategic objectives of the Company is to increase the efficiency of the enterprise in a competitive environment and increase the volume of production. The main mechanism for achieving this goal is to ensure high product quality, diversify the product portfolio and provide the highest level of service at all stages of the production cycle.

The achievement of high efficiency indicators is ensured by increasing productivity on existing equipment, increasing the share of packaging paper production in the product portfolio to 60%, increasing the volume of own wood supply, increasing the efficiency of the existing generating equipment of the energy complex to reduce the cost of production, as well as optimizing the costs of production and sales of products.

Currently implemented strategic projects are aimed at increasing productivity and production volumes, as a result, increasing the financial security of the Company:

1. **Increasing the share of paper output of packaging grades** is a key aspect of the Company's sustainable development program.

2. **Further increase in the capacity of the new TMP line.**

3. **Increase the volume of own wood supply to ensure the growing production volumes**

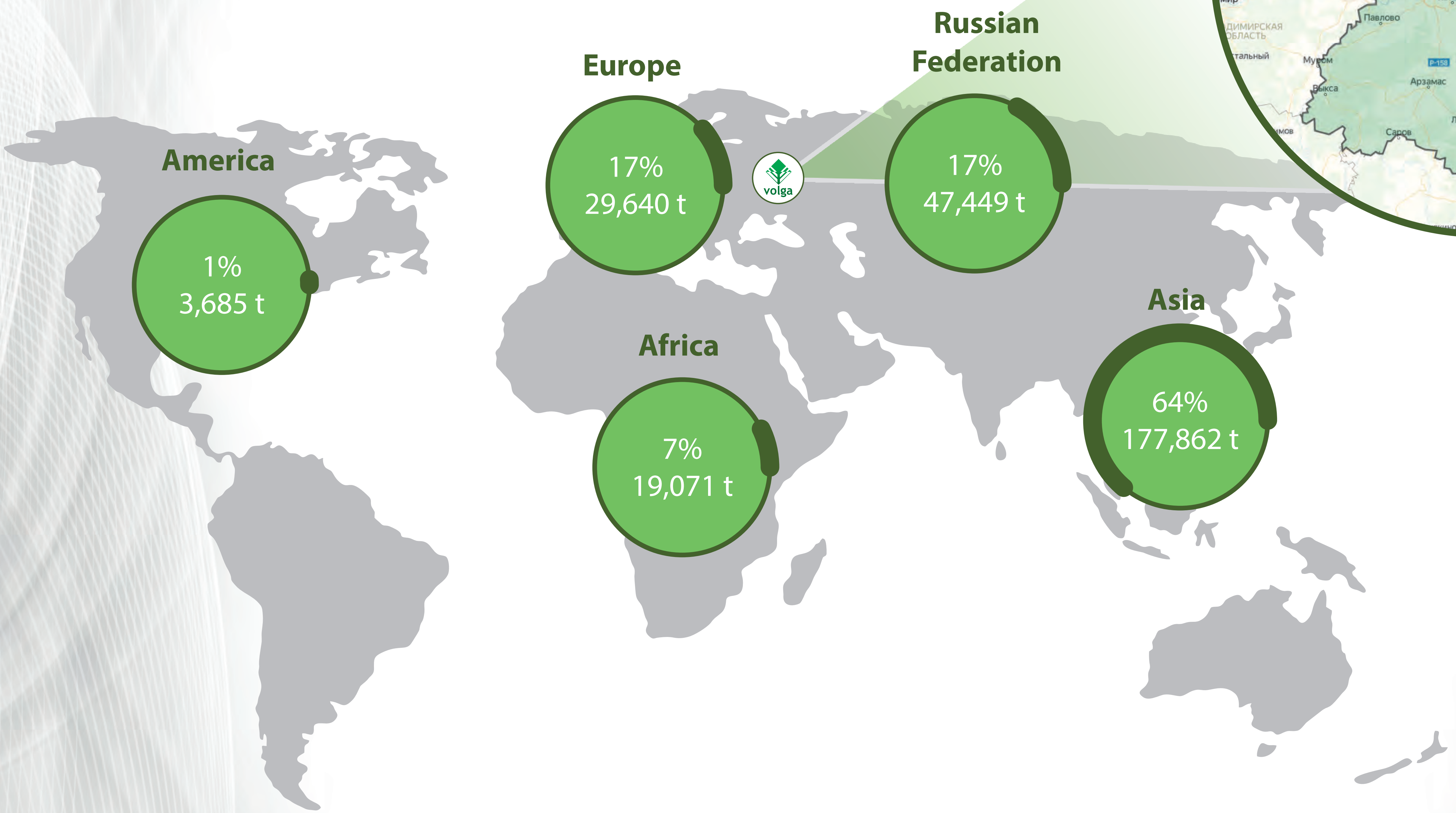
4. **Increasing the efficiency of existing generating equipment** in the energy complex (NiGRES) to reduce the cost of production, increase the productivity of existing paper machines.

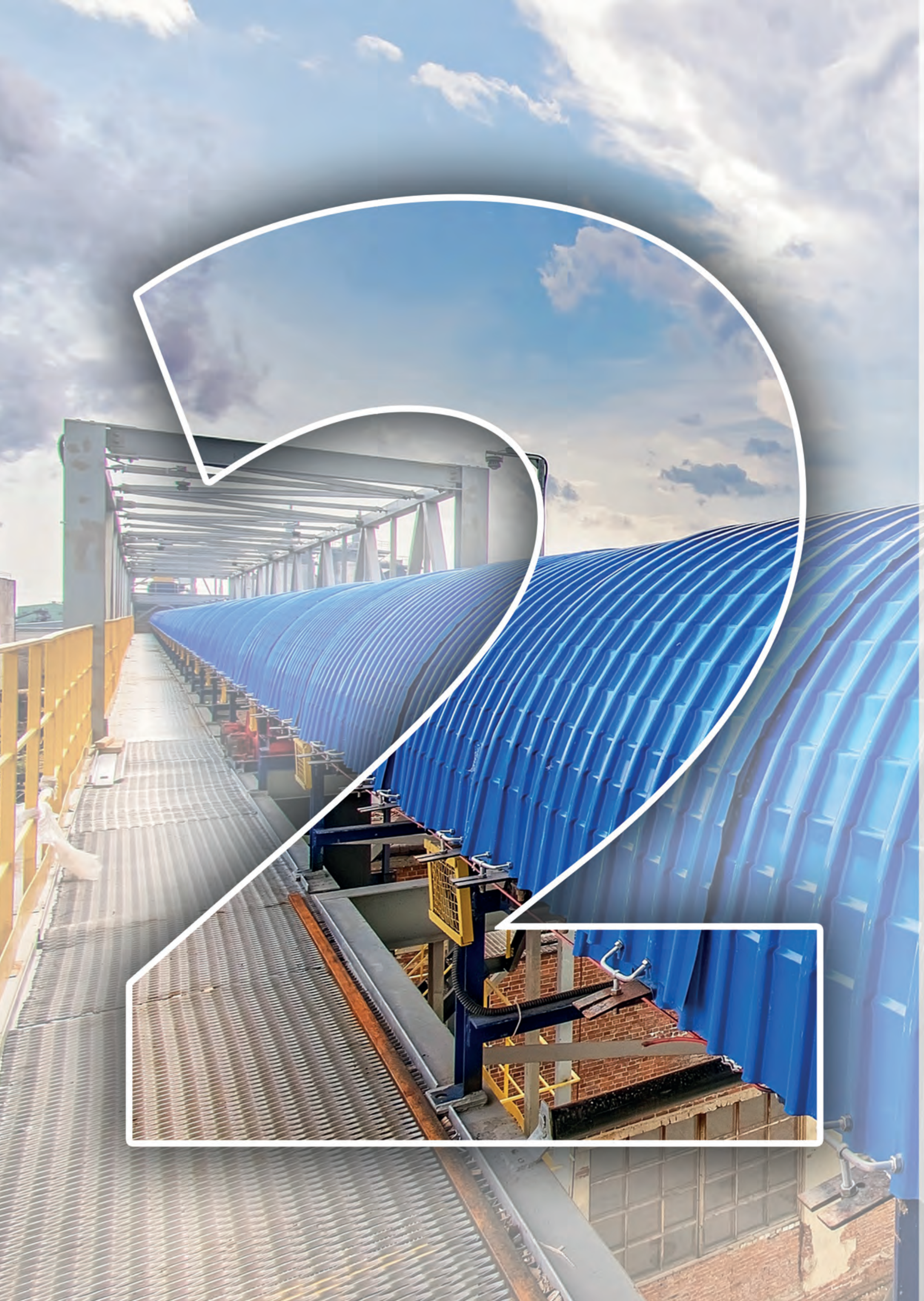
5. **Improvement of paper machine No. 8 and modernization of paper machine No. 6** After the modernization, PM No. 6 will produce packaging paper, which will allow the Company to increase the production of this type of product as part of the production diversification program.

6. **Implementation of the Environmental Program,** which includes: improvement of the wastewater treatment system, including ensuring the smooth operation of socially significant facilities and objects of the military-industrial complex of Balakhna; organization of reliable operation of the municipal wastewater disposal infrastructure complex. An important objective of this Program is to reduce waste generation, maximize the involvement of technological waste and by-products in the production cycle.

1.6. Production and sales geography

All of the Company's production assets are located in the Nizhny Novgorod region (Balakhna and the village of Varnavino).





Strategy

2.1. Mission, vision, values

The corporate style of JSC Volga reflects respect for traditions, reliability and openness of our Company. It also reflects the values that are close and understandable to our clients, the desire to be one of the leading Companies in the pulp and paper industry in Russia.

Mission of our company:

Using renewable forest resources and modern technologies, we produce paper for corrugated packaging, printing newspapers, books and textbooks to meet the growing needs of the e-commerce industry and the education system worldwide.

Corporate values of JSC Volga:

Leadership and continuous development.
We strive to always set trends in the development of the industry. Based on the experience of many generations of wallets, the Company develops new technologies for the production of paper products.

Reliability and high customer service.
We are focused on long-term customer relationships based on trust and responsibility. The accumulated experience in logistics, innovative equipment, as well as high quality of finished products help us to provide a consistently high service.

Teamwork.
The strength of our team of professionals lies in mutual support. To achieve the best results, we are committed to dedication and compromise.

Legal compliance and security.
In the course of our activities, we perfectly comply with all the requirements of labor protection, industrial and fire safety, as well as environmental legislation.

Social responsibility.
We believe that the success of the Company is closely linked to the development of the region in which it operates, and society as a whole, so we conduct a socially responsible business. Through its activities, our Company contributes to the development of the regional economy and the pulp and paper industry in Russia.

2.2. Development areas

Production and raw materials supply:

- increase in productivity;
- execution of the investment program;
- reducing the impact on the environment.

Development prospects:

JSC Volga is the leader in the production of paper from 100% thermomechanical pulp in the Russian Federation.
Prospects for further development are determined by the strategic goals, priorities of the Company and ongoing projects.

The development focus is on:

- development and implementation of plans to further increase production through:
  - launch of new production facilities;
  - elimination of «bottlenecks» in all areas: paper-making equipment, production of semi-finished products (TMP), electricity generation, raw materials supply;
- achieving the maximum planned indicators for implemented and prospective investment projects;
- reduce costs and increase equipment efficiency;
- improving the efficiency of operational activities and business processes.

The investment program provides for the development of five main areas:

- modernization of existing paper machines;
- increasing the capacity for the production of semi-finished products for paper machines based on TMP and OCC;
- increase in electricity generation due to the construction of a new turbine and increase the efficiency of electricity generation of the energy complex (NiGRES);
- implementation of measures aimed at reducing the impact on the environment;
- development of own logging sites.

The key projects of the investment program are the projects of the company's strategic development related to:

- modernization of paper machine No. 6;
- construction of a new OCC line;
- construction of a new turbine.

Investment activity

The key focus of the investment activity of JSC Volga is aimed at:

- increase in production volumes, in particular of thermomechanical mass;
- continuing to build a vertically integrated timber company with a full cycle of logging and deep processing of wood;
- improving the efficiency of electricity generation;
- maintaining the reliability of existing equipment;
- development of plans for further development of the Company in order to increase the scale and increase the efficiency of the business.

Development priorities for 2021:

Production and raw materials supply:

- increasing production capacity;
- implementation of the investment program;
- reducing environmental impact;
- development of own logging sites.

Product portfolio and customer engagement:

- mastering the release of new products and diversifying the product portfolio;
- improving product quality;
- 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.

2.3. Implementation of the strategy

During 2020, JSC Volga developed strategy, the priorities of which were to increase the productivity of the enterprise, realize the potential of existing production, and improve operational efficiency.

The horizon of the development strategy until 2028 was expanded, and key trends in the next decade were identified, including maintaining global trends in the pulp and paper industry.

The Company's strategic vision is to diversify its product portfolio and raw materials.

The strategy includes the modernization of the entire enterprise, starting with production facilities and ending with logistics and IT infrastructure. One of the main directions is to maintain a competitive position in the cost price due to the full provision of the enterprise with its own electricity at the current moment and in the future.

All newly created and modernized facilities will meet the most modern requirements in accordance with the best available technologies.

As part of the implementation of the strategy, an additional environmental program will be implemented to reduce the impact on the environment.

The strategic development concept provides for the selection of various scenarios, the development of possible measures to manage risks and opportunities that affect the Company's activities.

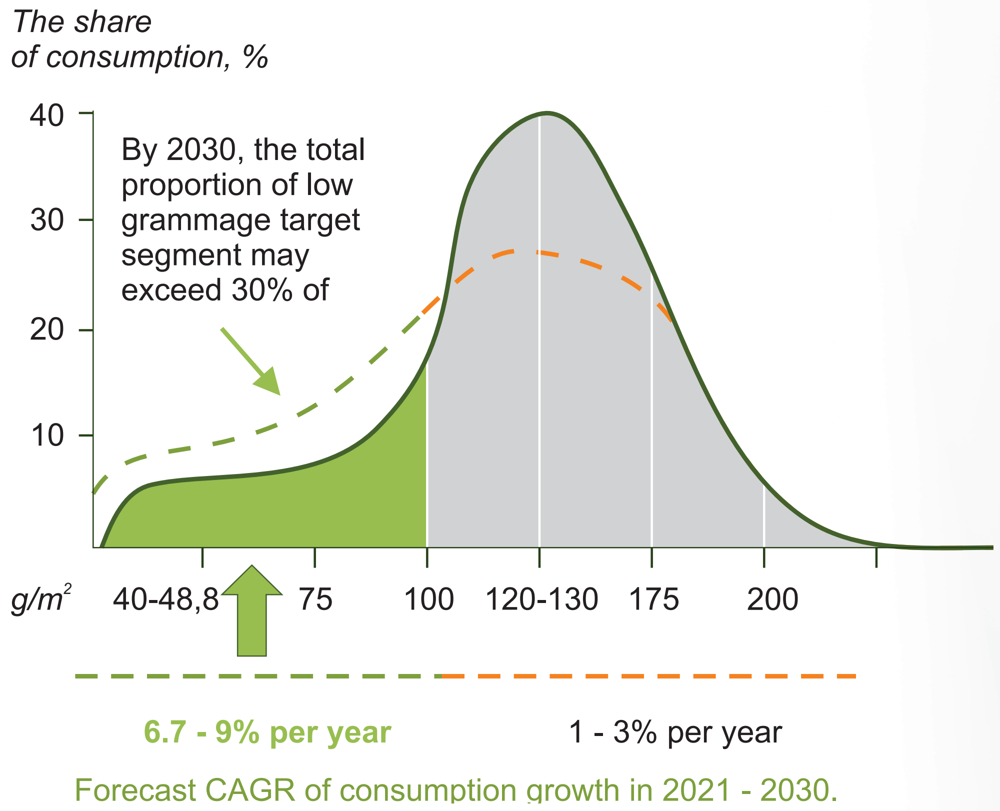
Product portfolio

The global demand for newsprint is declining due to the decline in the advertising market in newspapers and magazines. At the same time, the demand for packaging types of paper is growing, including under the influence of e-commerce. At the same time, the Company expects that the growth rate of waste paper types will exceed the growth rate of pulp types.

As a strategic initiative, the Company considers the expansion of the line of packaging types of papers and specialties. The strategy of JSC Volga is to produce liners as the basis of corrugated production and other types of packaging, focus on light and ultra-light types of paper, the interest in which is formed by changing consumer habits, the rapid growth of cross-border trade and the development of logistics. Already, more than half of the company's products are packaging types of paper, which are increasingly in demand in the Russian market.

The implemented strategy provides a balance between high growth rates and maintaining the Company's stable position.

Structure of packaging paper global consumption by grammage (schematical estimate)



Geographic priorities

One of the main activities of the Company is to provide the domestic market. The growth of e-commerce leads to an increase in the number of new types of packaging paper, a significant part of which is directed by the development strategy.

Also, in order to maintain a balance of capacity, the Company is considering an increase in product exports to its key markets in China, Europe, India, Africa and Southeast Asia, trends for lighter securities are intensifying under the influence of ESG and e-commerce.

Distribution

The company uses a balanced approach between direct sales and sales through professional traders. At the same time, working with the end user is a key success factor. In this regard, JSC Volga plans to develop the direction in the field of customer service support.

Production capacity

The Company's strategic goals until 2028 are to increase productivity to 550 thousand tons per year by upgrading existing paper machines, thermomechanical mass preparation lines, and expanding the use of waste paper raw materials. At the same time, the Company also implements projects in the field of technical re-equipment of the turbine department to increase energy supply and increase energy efficiency and increase self-sufficiency in wood raw materials.

To effectively implement the productivity program, the strategy involves the implementation of a number of functional projects in the field of:

- logistics;
- ecology;
- timber supply;
- information technologies.

Strategy implementation in 2020

As part of the implementation of the development strategy, JSC Volga prepared a concept of a development strategy in various areas of activity, including a development strategy in the field of marketing and sales.

Key areas of activity were identified, plans for promising products and markets, as well as the distribution chain were formed. The results of 2020 confirmed the correctness of the decision to increase the share of packaging paper types in the sales portfolio.

In 2020, a comprehensive survey of the enterprise was carried out by independent experts and a technical development concept was prepared, as well as environmental audits were performed. Also, design studies were carried out to develop strategic activities, and negotiations are currently underway to select suppliers of technology and main equipment for the implementation of the strategy.

In accordance with this, a marketing plan was developed that structurally defines the growth points in emerging markets and segments. In addition, a strategy in the field of forest supply was prepared.

It should be noted that as part of the implementation of the strategy, there have already been significant changes in both productivity and diversification due to the implementation:

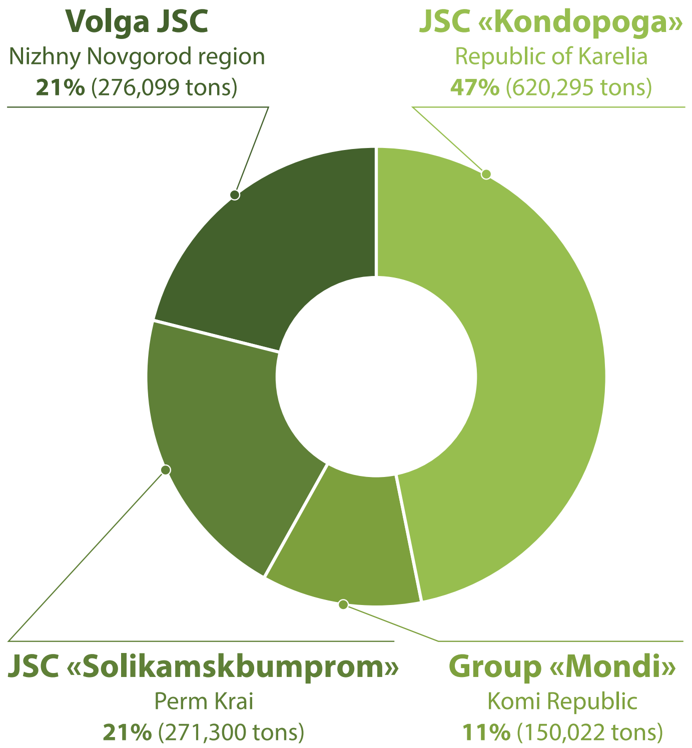
- a project for the construction of a new thermomechanical pulp workshop, which will increase the productivity of the enterprise by 63 thousand tons of finished products in annual terms;
- projects in the field of electricity to provide newly created production facilities;
- projects in the field of modernization of production, which made it possible to produce packaging types of paper.

Performance review

3.1. Market overview

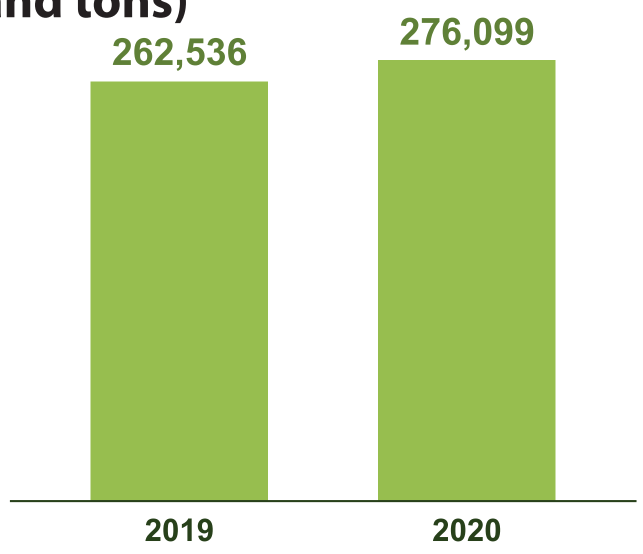
JSC Volga is one of the leaders of the Russian paper industry in terms of production volumes.

Share of companies in the volume of production, 2020*



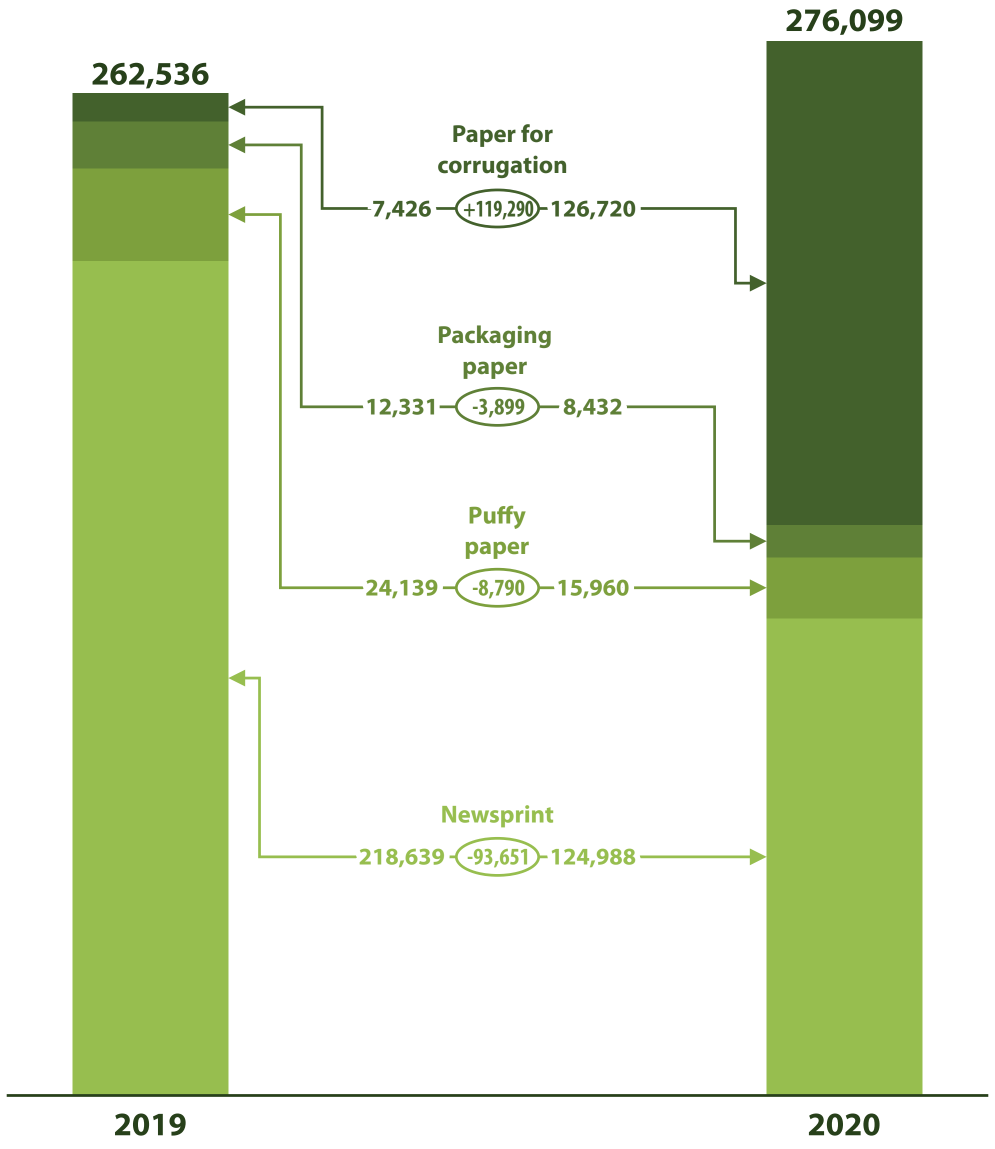
* Source: Statistics of RAO «Bumprom»

Production volumes (thousand tons)

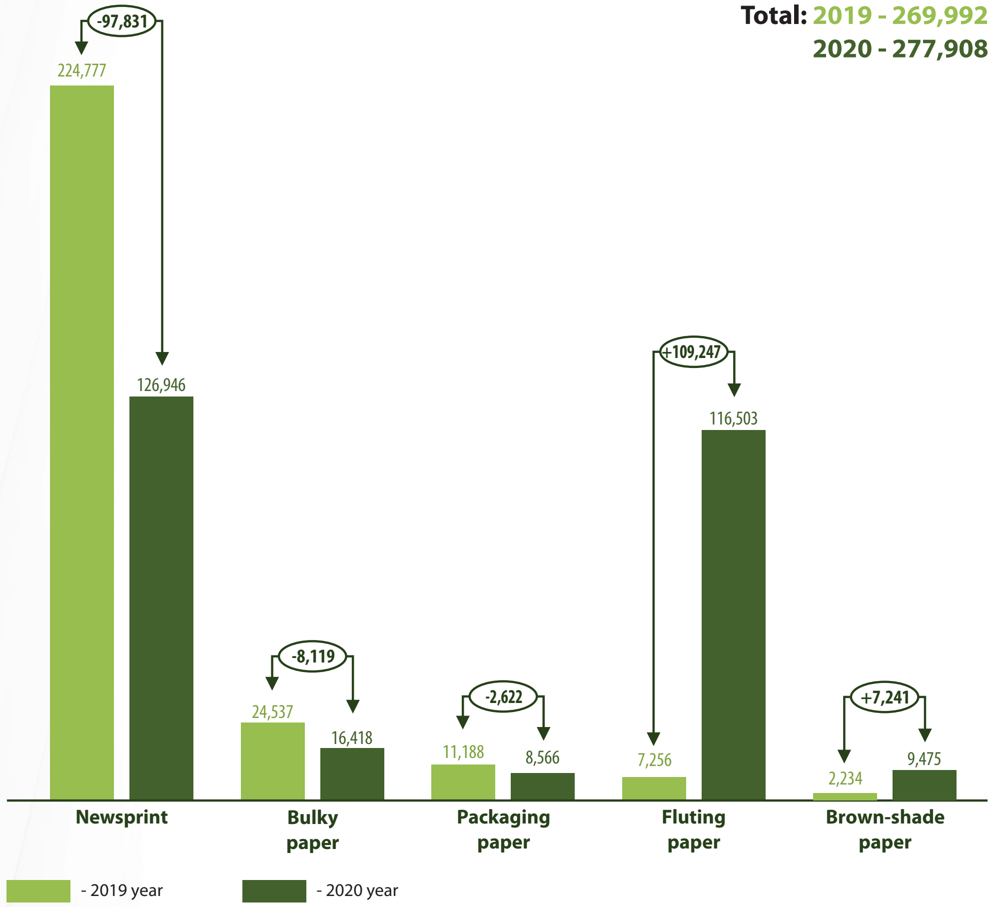


3.2. Key financial and operational indicators

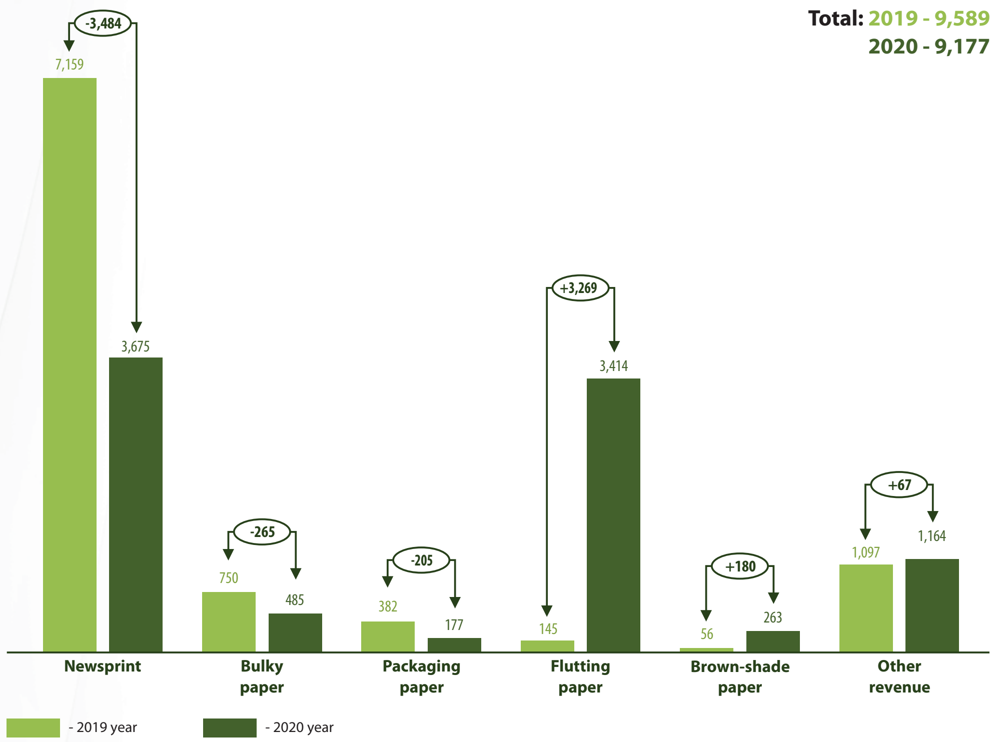
Production volume of paper for corrugation, newsprint and other types of paper fact for 2019-2020 tons



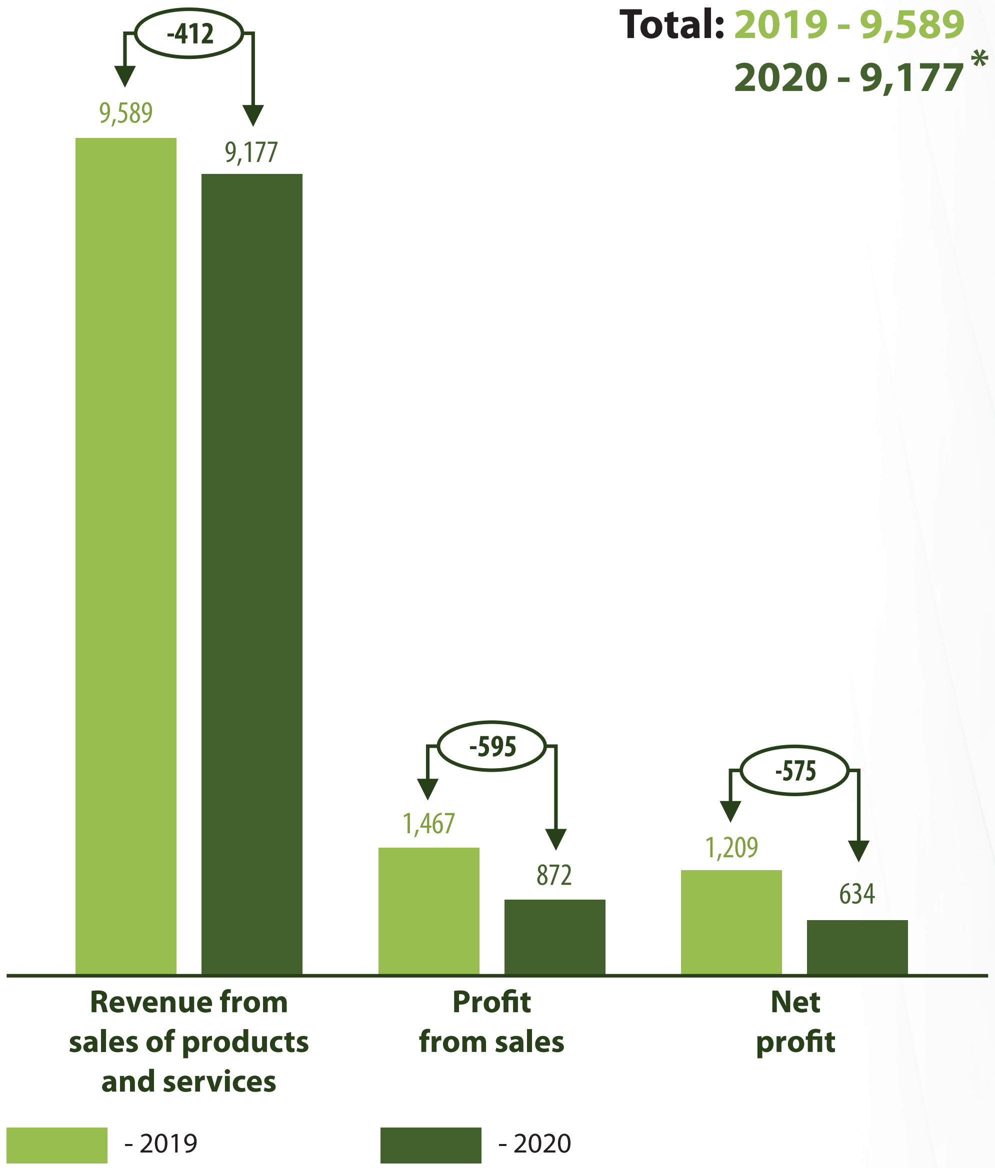
Sales volume
(by main types of products) (tons)



Sales revenue
(by main types of products)
(million rubles)



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



* Revenue in accordance with IFRS for 2020 amounted to RUB 9,395 million. (for 2019: RUB 9,379 million)

- Profit from sales in accordance with IFRS for 2020 amounted to RUB 1,375 million. (for 2019: RUB 2,169 million)
- Net profit under IFRS for 2020 amounted to RUB 920 million. (for 2019: RUB 1,608 million)

3.3. Information about the use of energy resources

Type of energy resource	Unit of measure	Volume of consumption in physical terms	Consumption volume, thousands rubles
Atomic Energy	–	0	0
Thermal energy	Gcal	806,119	808,267
Electric Energy	MWh	810,815	884,221
Electromagnetic energy	–	0	0
Oil		0	0
Automobile gasoline	l	161,674	6,056
Diesel fuel	t	657	28,795
Heating oil	t	197	1,746
Natural gas	TCM	363 554	1,788,186
Coal	–	0	0
Oil shale	–	0	0
Peat	–	0	0
Other:	–	0	0
- kerosene	t	38	1,784

3.4. Wood supply

In 2020, one of the Company's largest investment priority projects in the field of forest development was implemented with the expansion of the production of thermomechanical mass. Within the framework of this project, JSC Volga has become a vertically integrated timber industry Company-the formation of a full production cycle from harvesting to deep processing of wood has been completed. Paper Mill has been granted long-term lease 9 of forest plots with a total area of 101 thousand. Hectares for conducting procurement activities, with an annual allowable logging area 293 TCM. These plots are located in the Varnavinsky district of the Nizhny Novgorod region, in this area a separate production was organized and a logging site was created, with its own 50 staff units. On January 25, 2020, logging activities began at the new site of JSC Volga, at the moment there are five modern imported timber harvesting complexes, completely excluding manual labor, which, in turn, ensures labor safety, which is in the first place in our production.

As part of the investment program, 6 units of our own log trucks were purchased for hauling timber products, and a full staff of drivers was staffed. In addition to our own equipment, up to 20 units of contract vehicles work for the haulage of timber, which also provides work for local entrepreneurs and residents.

An unloading railway terminal was built with a daily turnover of up to 20 wagons; by the end of 2020, JSC Volga became the largest carrier of timber products using railway transport in the Nizhny Novgorod Region, which was not left unnoticed by the Gorky Railway, and following the results of the «Startup 2020» competition the winner was JSC Volga for the implementation of a project to increase the volume of shipments of timber products by rail from the Company's shipping terminal at Lapshanga station.

On the site, work is organized on the arrangement of the shift site, residential trailers are purchased, a hangar for the repair of equipment. Work is underway on the objects of forest infrastructure (roads, forest warehouses, etc.)

All the obligations of the Company in terms of forestry, reforestation, and fire prevention measures were fulfilled and accepted by the regulatory authorities of the Forestry Department.

3.5. Investments in 2020

Key areas of investment activity in 2020:

- maintaining the reliability of existing equipment;
- development of investment activity of business processes;
- continuation of building a vertically integrated forestry company with a full cycle of logging and deep wood processing;
- reducing the cost of production;
- ensuring diversification of production by type of paper in order to respond to changing market conditions.

At the moment, the implementation and improvement of the long-term strategy of JSC Volga is underway. The main areas are increasing the production capacity of the enterprise, as well as the diversification of the existing product range, mainly due to rejecting the use of mono-materials. As part of the implementation of the strategy during 2020:

- the project of expansion of production of thermomechanical mass line with a capacity of 180 tons/day has been completed;
- logging production on the plots in the area of the village Varnavino was organized. More than 100 thousand hectares of forest plots were obtained for long-term lease, which allows to harvest up to 293 thousand m^3 of timber annually. Within the framework of this project, 50 new jobs have been created. Procurement at the sites has been carried out by JSC Volga since January 2020;
- a project was implemented to separate the flows of paper machines, which ensured the possibility of independent production of finished products at PM No. 5 (white or brown papers) without the risk of contamination of technological streams of PM No. 8;
- modernization of the PT-80 / 100-130 turbine and installation of a feed pump was carried out, which made it possible to increase the amount of electricity supplied by the power complex (NIGRES) to the enterprise.

3.6. Innovations in 2020

The Company carries out innovative activities in accordance with the approved strategy, in a complex of scientific, technological, organizational, financial and commercial measures aimed at the commercialization of accumulated knowledge, technologies and equipment. The result of innovation activity is new or additional goods/services or goods / services with new qualities and increased production efficiency, the development of new materials and products, the introduction of digital technologies.

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

To implement projects to increase production efficiency and develop new types of products, the Company uses:

1. internal research divisions of the Company located at the production site of JSC Volga;
2. external research organizations Russian (industry) and foreign - world leaders in the pulp and paper industry.

Main directions of projects:

Development and research of the composition of paper pulp, including those containing waste paper raw materials to achieve quality targets.

- assessment of the prospective expansion of TMP production up to 400 tons / day;
- assessment of the prospective increase in the processing of waste paper, including mixed paper using the latest dissolution technologies;
- development of technology for the production of paper and packaging of new types on our own semi-finished base;
- technical re-equipment of the OS sludge dewatering site.

The main result of the Company's innovative activities in 2020 was the launch of a new TMP-180 line.

Construction and commissioning of TMP-180

Technical characteristics of the new line TMP-180

Supplier of equipment

ANDRITZ AG (Austria)

Line performance

180 tons / day, **63,000** tons / year

Staff

up to **282** people

The new TMP production line with a capacity of 180 t/day (63,000 t/year) is designed with a possible further increase in capacity to 400 t/day (140,000 t/year).

The complexity and uniqueness of the project consisted in the need to rebuild the existing line of sorting wood pulp at JSC Volga into a line for the production of thermomechanical pulp with the introduction of new equipment.

The constructed building for receiving, washing and preparing wood chips for grinding is located in the immediate vicinity of the existing equipment that is used in the technological process of the new line.

When designing the TMP line, advanced technologies were used, and the installed equipment is characterized by high energy efficiency. The new workshop produced the first tons of thermomechanical pulp in April 2020. It is noteworthy that this is one of the first projects not only in Russia, but also in the world, in the implementation of which commissioning and optimization of equipment were carried out remotely.

The warranty tests carried out confirmed the compliance of the quality indicators provided for in the contract.

Corporate governance

4.1. Securities and share capital

The number of persons (personal accounts) registered in the register of shareholders of the Company as of 09.01.2021. - 785.

Registrar of the Company: Joint-Stock Company «Independent Registrar Company R. O. S. T.», License of the Central Bank of the Russian Federation No. 045-13976-000001 dated 03.12.2002, Legal address: 107076, Moscow, Stromynka str., 18, bldg. 5B, OGRN: 1027739216757, Date of assignment of OGRN: 18.09.2002, TIN: 7726030449, KPP: 771801001.

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

Authorized capital of the Company
as of 31.12.2020

1,121,839 thousand rubles

The Company has placed shares *

11,808,827 shares — Nominal value **95 rubles**

The Company has the right to place additional shares in addition to the placed shares

1,677,780 shares — Nominal value **95 rubles**

JSC Volga did not acquire, for any reason, the shares placed by the Company.

*ordinary registered non-documentary shares

4.2. Report on the payment of declared (accrued) dividends

Data on declared (accrued) and paid dividends on the Company's shares:

Dividends based on the results of the 2016 financial year.

The Annual General Meeting of Shareholders of JSC Volga, held on 24.05.2017, decided not to distribute the profit for 2016, and not to pay dividends on the Company's ordinary shares for 2016. (Minutes No. 53 of 29.05.2017)

Dividends based on the results of the 2017 financial year.

The Annual General Meeting of Shareholders of JSC Volga, held on 31.05.2017, decided not to distribute the profit for 2017, and not to pay dividends on the Company's ordinary shares for 2017. (Minutes No. 57 of 04.06.2018)

Distribution of the Company's profits of previous years by paying (declaring) dividends.

Indicator name	The value of the indicator for the corresponding reporting period - 2011, full year
Category of shares, for preferred shares - type	ordinary
The management body of the Company that made the decision to declare dividends, the date of making such a decision, the date of drawing up and the number of the minutes of the meeting (meeting) of the management body of the Company at which such a decision was made	General Meeting of Shareholders of 31.05.2018, Minutes No. 57 of 04.06.2018
Amount of declared dividends per share, RUB.	4.23
The amount of declared dividends in aggregate for all shares of this category(type), RUB.	49,951,338.21
The date on which the persons who have (had) the right to receive dividends are determined (determined)	19.06.2018 г.
The reporting period (year, quarter) for which (based on the results of which) the declared dividends are (were) paid	2011 full year
Term (date) of payment of declared dividends	no later than 23.07.2018 (to the nominee holder no later than 29.06.2018)
Form of payment of declared dividends (cash, other property)	cash
Source of payment of declared dividends (net profit of the reporting year, retained net profit of previous years, special fund)	retained earnings of previous years
Share of declared dividends in the net profit of the reporting year,%	34.83
Total amount of paid dividends on shares of this category (type), RUB.	49,832,627.31 (including refunds from 2018 to 2020)
Share of paid dividends in the total amount of declared dividends on shares of this category (type),%	99.76 (including refunds from 2018 to 2020)
If the declared dividends have not been paid or have not been paid by the Company in full - the reasons for non-payment of the declared dividends	Incomplete data of the recipient, the refund occurred due to: unclaimed
Other information about declared and (or) paid dividends, indicated by the Company at its sole discretion	The Company plans to pay the declared dividends to persons to whom they were not paid for reasons beyond the control of the Company: incomplete data of the recipient, lack of demand for money transfer

Dividends based on the results of 9 months of the 2018 financial year.

Indicator name	The value of the indicator for the corresponding reporting period - 2018, 9 months.
Category of shares, for preferred shares - type	ordinary
The governing body of the Company that made the decision to declare dividends, the date of such a decision, the date of drawing up and the number of the minutes of the meeting (session) of the governing body of the Company, at which such a decision was made	General Meeting of Shareholders dated 18.11.2018, Minutes No. 58 dated 20.11.2018
Amount of declared dividends per share, rubles	30.48
Amount of declared dividends in aggregate for all shares of this category (type), rubles	359,933,046.96
The date on which the persons who have (had) the right to receive dividends are determined	27.11.2018
The reporting period (year, quarter) for which (based on the results of which) the declared dividends are (were) paid	2018, 9 months
Term (date) of payment of declared dividends	no later than 29.12.2018 (to the nominee holder no later than 10.12.2018)
Form of payment of declared dividends (cash, other property)	cash
Source of payment of declared dividends (net profit of the reporting year, retained net profit of previous years, special fund)	net profit 9 months of 2018
The share of declared dividends in the net profit of the reporting year, %	26.32
Total amount of dividends paid on shares of this category(type), RUB.	359,351,524.12
The share of paid dividends in the total amount of declared dividends on shares of this category (type), %	99.84
If the declared dividends are not paid or are not paid in full by the Company – the reasons for non-payment of the declared dividends	Incomplete data of the recipient, the refund occurred for the following reason: unclaimed
Other information on declared and (or) paid dividends specified by the Company at its sole discretion	The Company plans to pay the declared dividends to persons to whom they were not paid for reasons beyond the Company's control: incomplete data of the recipient, non-demand of the money transfer

Dividends based on the results of the 2018 financial year.

Indicator name	The value of the indicator for the corresponding reporting period - 2018, full year
Category of shares, for preferred shares-type	ordinary
The management body of the Company that made the decision to declare dividends, the date of making such a decision, the date of drawing up and the number of the minutes of the meeting (meeting) of the management body of the Company at which such a decision was made	General Meeting of Shareholders of 29.05.2019, Minutes No. 60 of 31.05.2019
The amount of declared dividends per share, RUB.	18.00
The amount of declared dividends in aggregate for all shares of this category(type), RUB.	212,558,886.00
The date on which the persons entitled to receive dividends are determined (were determined)	17.06.2019
The reporting period (year, quarter) for which (based on the results of which) the declared dividends are paid (were paid)	2018, full year
Term (date) of payment of declared dividends	19.07.2019
Form of payment of declared dividends (cash, other property)	cash
Source of payment of declared dividends (net profit of the reporting year, retained net profit of previous years, special fund)	net profit 2018
The share of declared dividends in the net profit of the reporting year, %	17
Total amount of dividends paid on shares of this category(type), RUB.	212,202,777.00
The share of paid dividends in the total amount of declared dividends on shares of this category (type), %	99.83 (including refunds in 2019 and 2020)
If the declared dividends are not paid or are not paid in full by the Company – the reasons for non-payment of the declared dividends	Incomplete data of the recipient, the refund occurred for the following reason: unclaimed
Other information on declared and (or) paid dividends specified by the Company at its sole discretion	The Company plans to pay the declared dividends to persons to whom they were not paid for reasons beyond the Company's control: incomplete data of the recipient, non-demand of the money transfer

Dividends based on the results of the 1st quarter of fiscal year 2019.

Indicator name	The value of the indicator for the corresponding reporting period - 2019, 3 months.
Category of shares, for preferred shares-type	ordinary
The management body of the Company that made the decision to declare dividends, the date of making such a decision, the date of drawing up and the number of the minutes of the meeting (meeting) of the management body of the Company at which such a decision was made	General Meeting of Shareholders of 29.05.2019, Minutes No. 60 of 31.05.2019
Amount of declared dividends per share, RUB.	12.70
The amount of declared dividends in aggregate for all shares of this category(type), RUB.	149,972,102.90
The date on which the persons entitled to receive dividends are determined (were determined)	17.06.2019
The reporting period (year, quarter) for which (based on the results of which) the declared dividends are paid (were paid)	2019, 3 months.
Term (date) of payment of declared dividends	19.07.2019
Form of payment of declared dividends (cash, other property)	cash
Source of payment of declared dividends (net profit of the reporting year, retained net profit of previous years, special fund)	net profit 3 months 2019
The share of declared dividends in the net profit of the reporting year, %	25.1
Total amount of dividends paid on shares of this category(type), RUB.	149,723,172.32
The share of paid dividends in the total amount of declared dividends on shares of this category (type), %	99.83 (including refunds in 2019 and 2020)
If the declared dividends are not paid or are not paid in full by the Company – the reasons for non-payment of the declared dividends	Incomplete data of the recipient, the refund occurred for the following reason: unclaimed
Other information on declared and (or) paid dividends specified by the Company at its sole discretion	The Company plans to pay the declared dividends to persons to whom they were not paid for reasons beyond the Company's control: incomplete data of the recipient, non-demand of the money transfer

Dividends for the first 9 months of fiscal year 2019.

Indicator name	The value of the indicator for the corresponding reporting period - 2019, 9 months.
Category of shares, for preferred shares-type	ordinary
The management body of the Company that made the decision to declare dividends, the date of making such a decision, the date of drawing up and the number of the minutes of the meeting (meeting) of the management body of the Company at which such a decision was made	General Meeting of Shareholders of 18.11.2019, Minutes No. 61 of 21.11.2019.
The amount of declared dividends per share, RUB.	29.64
The amount of declared dividends in aggregate for all shares of this category(type), RUB.	350,013,632.28
The date on which the persons entitled to receive dividends are determined (were determined)	November 29, 2019
The reporting period (year, quarter) for which (based on the results of which) the declared dividends are paid (were paid)	2019, 9 months.
Term (date) of payment of declared dividends	December 19, 2019
Form of payment of declared dividends (cash, other property)	cash
Source of payment of declared dividends (net profit of the reporting year, retained net profit of previous years, special fund)	net profit for 9 months of 2019
The share of declared dividends in the net profit of the reporting year, %	47.21
Total amount of dividends paid on shares of this category(type), RUB.	349,479,366.34
The share of paid dividends in the total amount of declared dividends on shares of this category (type), %	99.85
If the declared dividends are not paid or are not paid in full by the Company – the reasons for non-payment of the declared dividends	incomplete recipient data
Other information on declared and (or) paid dividends specified by the Company at its sole discretion	The Company plans to pay the declared dividends to persons who were not paid to them for reasons beyond the Company's control: incomplete data of the buyer

Dividends based on the results of the 2019 financial year.

Indicator name	The value of the indicator for the corresponding reporting period - 2019.
Category of shares, for preferred shares-type	ordinary
The management body of the Company that made the decision to declare dividends, the date of making such a decision, the date of drawing up and the number of the minutes of the meeting (meeting) of the management body of the Company at which such a decision was made	General Meeting of Shareholders of 13.07.2020, Minutes No. 63 of 14.07.2020
Amount of declared dividends per share, RUB.	17.00
The amount of declared dividends in aggregate for all shares of this category(type), RUB.	200,750,059.00
The date on which the persons entitled to receive dividends are determined (were determined)	24.07.2020
The reporting period (year, quarter) for which (based on the results of which) the declared dividends are paid (were paid)	2019
Term (date) of payment of declared dividends	August 14, 2020
Form of payment of declared dividends (cash, other property)	cash
Source of payment of declared dividends (net profit of the reporting year, retained net profit of previous years, special fund)	2019 net income
The share of declared dividends in the net profit of the reporting year, %	14.97
Total amount of dividends paid on shares of this category(type), RUB.	200,412,059.33
The share of paid dividends in the total amount of declared dividends on shares of this category (type), %	99.83
If the declared dividends are not paid or are not paid in full by the Company – the reasons for non-payment of the declared dividends	incomplete recipient data
Other information on declared and (or) paid dividends specified by the Company at its sole discretion	The Company plans to pay the declared dividends to persons who were not paid to them for reasons beyond the Company's control: incomplete data of the buyer

Dividends based on the results of the 2020 financial year.

The Company did not make a decision (did not announce) on the payment of dividends on shares based on the results of the 2020 financial year.

The issue of payment of dividends on shares based on the results of the 2020 financial year is subject to consideration at the annual general Meeting of shareholders on 17.06.2021.

4.3. Corporate governance

JSC Volga pays considerable attention to the improvement of corporate governance as one of the key components of the Company's business efficiency.

Corporate governance standards, adopted by JSC Volga, provide shareholders and investors with confidence in the observance of their legitimate rights and interests, allow to improve the process of management decisions aimed at the preservation of assets, maximization of profits and capitalization of the Company.

The system of corporate management of JSC Volga is based on the following principles:

- equal and fair treatment of all shareholders of the Society, respect and protection of their rights in accordance with the legislation in force;
- ensuring effective strategic and operational management, an effective internal control and audit system and mechanisms;
- to ensure information and financial transparency for shareholders, investors and other interested persons;
- compliance with ethical business conduct;
- accountability of the Board of Directors to the Company's shareholders;
- effective cooperation with the employees of the Society in solving social issues and ensuring necessary working conditions.

Today the fundamental internal normative documents of JSC Volga in the field of corporate governance are:

- charter;
- regulation on the General Meeting of Shareholders;
- statute of the Board of Directors;
- statute of the Audit Commission;
- the Board of Directors Strategy Committee Regulation;
- regulation on the Audit Committee of the Board of Directors;
- regulation on the Personnel and Compensation Committee of the Board of Directors.

Electronic versions of the above documents are presented on the site of JSC Volga: http://www.volga-paper.ru.

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

Despite the fact that JSC Volga is a non-public Company, the Board of Directors ensures that the Company adheres to the best practices of public disclosure and corporate governance for the benefit of all interested parties.

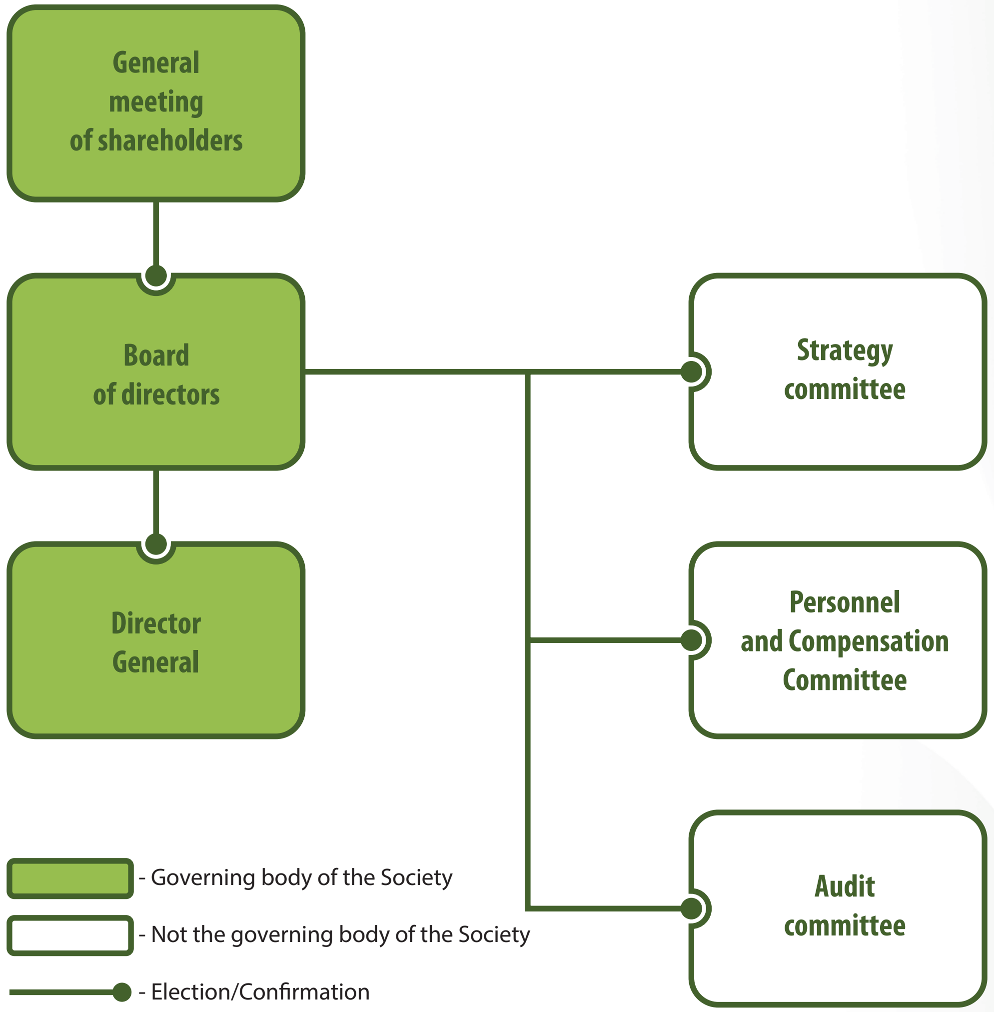
In the process of improvement of corporate governance practice JSC Volga follows the recommendations of the Corporate Governance Code recommended for application by the Bank of Russia.

JSC Volga

According to the Federal Law «On Joint-Stock Companies» and the Charter of JSC Volga the Company's administrative bodies are:

- the highest body is the General Meeting of Shareholders;
- collegiate Management - Board of Directors;
- the Company's sole executive body is the Director-General.

Corporate governance structure



4.3.1. General meeting of shareholders

1 **An extraordinary general meeting of shareholders was held on 27 April 2020, with the following agenda:**

1. Determination of the size of the Board of Directors of the Society.

The extraordinary general meeting of shareholders was held in the form of a vote in absentia, with mandatory ballots being sent prior to the general meeting of shareholders (Minutes of the extraordinary general meeting of shareholders of JSC Volga #62 of 29 April 2020).

2 **The annual general meeting of shareholders was held on 13 July 2020, with the following agenda:**

1. Approval of the Annual Report on the Results of the Activities of the Company for 2019, the Annual Financial Statement of the Company for 2019, including the Statement of Profit and Loss of the Company.
2. Distribution of the profits of the Company according to the results of 2019.
3. Approval of the Company's Auditor.
4. Election of the Board of Directors of the Company.
5. Election of the Company's Revisory Commission.
6. Approval of the new version of the Company's Charter.

The annual general meeting of shareholders was held in the form of a vote in absentia, with mandatory ballots being sent before the general meeting of shareholders (Minutes of the annual general meeting of shareholders of the JSC Volga №63 of July 14, 2020).

4.3.2. Board of Directors

The Board of Directors is the key link of the system of corporate management of JSC Volga.

The Board of Directors of JSC Volga is responsible for a wide range of issues which are of strategic importance for the sustainable development of the Company, as well as issues related to the protection of rights and interests of shareholders, Interaction with management and compliance with corporate governance standards.

JSC Volga strives for maximum efficiency of the activities of the Board of Directors. This is ensured by the high qualifications of its members, the personal responsibility of each Director and the responsibility of the Board as a whole for its decisions. The work of the Board of Directors fully covers all matters within its competence.

In 2020, the Board of Directors focused on:

- maintaining business stability while reducing the size of the newsprint market and global demand for newsprint, and responding quickly to changes in the economic environment during the crisis caused by the COVID-19 pandemic. Among the measures supported by the Board of Directors to reduce the negative impact of the macroeconomic situation were the diversification of the product portfolio and the cost-saving programme;

- questions of strategic development of JSC Volga, finalization of the unified development strategy of JSC Volga in the medium term (until 2023) and long term (until 2028). The objectives of the Company's main functional strategies were adjusted and the main investment projects were implemented: «Separation of process flows of paper machines PM 5» and PM 8», «Expansion of production of TMP with capacity of 180 tons per day», «Reconstruction of turbine PT-80 energy complex (NiGREC)»; The preliminary work of strategic projects has been approved: «Waste paper line for the packaging paper grades production», «Replacement of packing line for PM 5, «Improvement of PM 8 operation», «Reconstruction of PM 6», Turbine installation in energy complex (NiGRES) to provide power to new facilities;
- the Board of Directors together with the management of the Company paid special attention to the projects allowing to increase the production of high-quality and competitive products, meeting the customers' demands, the decisions on expansion of presence in strategically important regions have been taken. Increased presence in the segment of uultra-light and light liners and flutings, and mastered the production of niche products such as interliner (paper for the middle layers of five-layer cardboard), paper with internal sizing, bulky paper;
- development strategy in the field of forest supply, efficient management of own logging, logging expansion;
- environmental issues - taking into account the emphasis on sustainable development, the Company consistently implements initiatives in the field of pollution reduction and prevention, conformity with the best available technologies and international practices. In 2020, the Board of Directors, together with management, focused on the development of technology projects with environmental impact and projects of the Environmental Programme;
- IT-strategy, issues of ensuring an acceptable level of process automation, achieving a sufficient level of Company control, cross-cutting integration and planning of Company processes;
- human resources - The Motivational Framework for Key Managers was regularly reviewed at Board meetings to ensure effective implementation of the strategy. Thus, the Board of Directors continued to work on improving the motivation system for senior management, focusing on the needs of stakeholders;
- issues related to the effectiveness of the internal audit system and the regulation of the procedures of the Internal Audit Service;
- improving the efficiency of business processes.

Stable financial results of the Company show that the chosen strategy JSC Volga has proved to be stable to global challenges.

Planning and other issues considered by the Board of Directors in 2020:

- decisions have been taken on corporate matters, including the convening of general meetings of shareholders;
- in accordance with the changing legislative requirements, a number of internal documents have been updated, including, on the proposal of the Board of Directors, the new version of the Charter of JSC Volga approved by the general meeting of shareholders;

- management reports on results and development prospects by functional area of activity were considered;
- reviewed the report of the Internal Audit and approved the Internal Audit workplan for 2020;
- adoption of key performance indicators for the Director-General and Deputy Directors-General for 2020 and 2021;
- the Company's Insurer was approved;
- analysis of the performance of key managers in achieving the 2019 goals. The decision was taken to pay bonuses to key managers of JSC Volga on the results of 2019;
- approved loan financing transactions and financial lease (leasing) contracts for vehicles as part of an investment programme for the organization of a logging site; Production line leasing contract for additional dehydration of mechanical/biological sludge, freight forwarding contracts;
- a contract for consultancy services for the finalization and maintenance of the development strategy of JSC Volga was approved;
- a contract for the supply of equipment has been approved for the modernization of the existing automated process control system of the TMP;
- a contract for the supply of equipment to maintain the quality of products produced on PM 8 has been approved;
- a decision has been taken on the revision of the Regulation on Procurement of Products for the Needs of JSC Volga in order to improve the efficiency of procurement procedures;
- decisions have been taken on the provision of charitable assistance;
- decisions have been taken to consent to a number of transactions in which there is an interest;
- the Credit Policy of the Sales Process of JSC Volga approved;
- the Environmental Policy of JSC Volga approved;
- the Company's budget for 2021 approved;
- the Company's Borrowing Strategy for 2021 approved;
- the Board of Directors' Work Plan for 2021 approved;

Under the legislation of the Russian Federation and internal documents of the company, the Board of Directors is assigned the role of a body ensuring the effective management of the Company, its strategic development.

The Board of Directors has three committees:

- strategy committee;
- audit committee;
- personnel and compensation committee.

The committees aim to improve the efficiency and quality of decisions taken by the Board of Directors.

Corporate Secretary Tronova Natalia Vladimirovna provides support for the work of the Board of Directors and Committees.

The Board of Directors of JSC Volga consists of 6 people.

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

In 2020, the Board of Directors held 6 meetings in the form of joint attendance and 7 in the form of absentee voting.

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

Changes in the composition of the Board of Directors during the reference year 2020:

01.01.2020 – 13.07.2020	
1. Breus Shalva Petrovich	Chairman of the Board of Directors
2. Genin Alexander	Board member
3. Kravtsov Konstantin Alexandrovich	Board member
4. Sarayev Vladimir Alexandrovich	Board member

13.07.2020 – 31.12.2020	
1. Breus Shalva Petrovich	Chairman of the Board of Directors
2. Genin Alexander	Board member
3. Kravtsov Konstantin Alexandrovich	Board member
4. Sarayev Vladimir Alexandrovich	Board member

Membership of the Board of Directors:

1. Breus Shalva Petrovich

Year of birth: 1957

Education: Higher Education, M.V. Lomonosov Moscow State University, 1981, Specialization «Political economy»

Positions in the last five years:

Period		Name of organization	Post
with	on		
2004	present	JSC Volga	Chairman of the Board of Directors
2007	present	International Cultural Foundation «BREUS FONDATION»	President

- Share in the Company's charter/equity 99.0035%.
- Breus Shalva Petrovich as of 31.12.2020 has the right to direct independent control of the number of votes for voting shares that make up the authorized capital of the issuer in the amount of 11,691,155 common shares of the issuer, corresponding to 99.0035% of the issuer's authorized capital.

2. Genin Alexander

Year of birth: 1969

Education: Higher Education, University of Massachusetts, 1992. Specialization «Finance and Accounting»; Harvard University Business School, 2003

Positions in the last five years:

Period		Name of organization	Post
with	on		
2013	12.2016	RBS Global	Chairman of the Observatory
2016	05.2017	GC Bouquet	Director general
06.2017	08.2017	GC Bouquet	Presidential adviser
09.2017	03.2019	JSC Volga	Deputy Chairman of the Board of Directors
01.2019	present	JSC VTB Capital Holding	Deputy Director General
2019	present	RTK LLC	Vice President of Finance

- Does not have a share in the Company's charter/equity.
- There have been no acquisitions or disposal of shares.

3. Kravtsov Konstantin Alexandrovich

Date of birth: 1980

Education: Higher education, Financial Academy under the Government of the Russian Federation - State educational institution of higher professional education, 2003. Economist in specialty «Accounting, analysis and audit».

Positions in the last five years:

Period		Name of organization	Post
with	on		
2010	2017	LLC «ROSNTER RESTAURANT»	Deputy Financial Director, Corporate Reporting
2017	2017	LLC «ROSNTER RESTAURANT»	Deputy CFO
2018	present	LLC «City Investment»	Finance director

- Does not have a share in the Company's charter/equity.
- There have been no acquisitions or disposal of shares.

4. Sarayev Vladimir Alexandrovich

Date of birth: 1986

Education: Higher education, M.V. Lomonosov Moscow State University, 2007, Economics.

Positions in the last five years:

Period		Name of organization	Post
with	on		
2016	2017	LLC Russlesgrup	Deputy Director, Internal Audit
2016	2017	LLC «Rostov Electrometallurgical Plant»	Deputy Chairman of the Audit Commission
2017	2018	LLC «Rostov Electrometallurgical Plant»	Director of Economics and Finance
2018	present	LLC «Timber Invest Group»	Director of Business Process Optimization

- Does not have a share in the Company's charter/equity.
- There have been no acquisitions or disposal of shares.

Fees and compensation paid to members of the company's Board of Directors for the year 2020.

By the decision of the annual general meeting of shareholders of JSC Volga dated 31 May 2018 (Minutes No. 57 of 04 June 2018) the Regulation on Remuneration and Compensation paid to members of the Board of Directors of the Company was approved. The above-mentioned Regulation establishes the amount and manner of payment of remuneration and compensation to the members of the Board of Directors of the Company related to the performance of their duties as members of the Board of Directors during the performance of their duties.

The remuneration of the members of the Board of Directors of the Company takes the form of remuneration for the performance of the duties of a member of the Board of Directors, a member of the Board of Directors and remuneration for the results of the work of the Company. Compensation is paid in the amount of the actual costs incurred.

In 2020, total remuneration of the Board of Directors, (including the salaries of the members of the management bodies of the joint-stock company who were its employees, including those who were part-time employees, bonuses, commissions, remuneration separately paid for participation in the work of the respective management body, as well as other types of remuneration paid by the joint-stock company during the reporting year) amounted to RUB 110,626,000 (without deduction of personal income tax).

In 2020, the total amount of compensation to members of the Board of Directors was RUB 244,000.

4.3.3. Boards of Directors

The Strategy Committee of the Board of Directors promotes the adoption by the Board of Directors of decisions aimed at improving the long-term performance of the Company.

With the direct involvement of the Committee, management initiatives are reviewed, associated risks are assessed and recommendations are made to the Board of Directors for important decisions in the following areas:

- determination of the Company's priorities and evaluation of the operational effectiveness of management;
- development and implementation of the Company's overall development strategy and selected functional strategies;
- review of strategic investment projects and programmes;
- improving key business processes.

Membership of the Strategy Committee at 31.12.2020:

- Breus Shalva Petrovich - Chairman;
- Genin Alexander;
- Saraev Vladimir Alexandrovich;

In 2020, the Committee held 6 meetings in the form of a joint presence.

The main issues addressed by the Strategy Committee in 2020 were:

- in the current macroeconomic situation, in 2020 the Strategy Committee, together with management, focused on crisis management and sustainable development of the Company, increased operational efficiency and development to offset the economic crisis caused by the COVID-19 pandemic;
- the strategy for the development of the product portfolio, taking into account market forecasts over the long term in conjunction with projects of strategic interest to the Company aimed at increasing production, maintaining and expanding presence on strategic and margin markets for JSC Volga;
- the Committee closely followed the progress of the main investment projects: «Expansion of production of thermomechanic pulp production (TMP)», «Separation of process flows of paper-making machines PM 5 and PM 8», «Reconstruction of the turbine PT-80 EC ecology complex (NiGRES)»;

- analysis of development options, promotion of management in the formulation of medium- and long-term development strategies, revision of individual strategies by segments and directions;
- analysis of the key components of the forest supply strategy, consideration of the concept of a priority forest investment project, potential M&A projects in the timber sector;
- the issues of ensuring the production of electricity and increasing the efficiency of the Energy Production business process were considered, the scenarios of the development of the power supply were analyzed, in particular the design of the turbine installation was considered;
- taking into account the relevance of environmental aspects, the technological projects with environmental impact and the projects of the Five-Year Environmental Program were analysed;
- management initiatives regarding the development of IT-strategy of the Company are considered.

The Audit Committee of the Board of Directors assists the Board of Directors in exercising control over financial and business activities by giving preliminary consideration to:

- overseeing the work of the Internal Audit, including a quarterly review of audit results and an annual review of overall audit performance;
- managing the preparation of management reports, regular analysis of the Company's performance;
- monitoring the implementation of the budget planning policy, evaluating the effectiveness of the budgeting system;
- evaluation of the results and effectiveness of the independent auditor's work.

Personal composition of the Audit Committee as of 31.12.2020:

- Alexander Genin-Chairman;
- Kravtsov Konstantin Aleksandrovich;
- Saraev Vladimir Aleksandrovich;

In 2020, the Committee held 10 meetings in the form of a joint presence.

Key issues considered before the Audit Committee in 2020:

- the annual agenda of the Committee was supplemented with issues related to a detailed analysis of the measures of the anti-crisis program of JSC Volga;
- the sales margin analysis was evaluated, and the Committee expressed satisfaction with the joint work of management and the Internal Audit Service;
- in 2020, the Committee paid great attention to improving the efficiency of business processes in the field of logistics of finished products, energy supply of production, procurement;
- tasks are set to further improve the process of concluding contracts for the sale of finished products;
- results of audit of subsidiaries are considered;

- the assessment is given to the approaches developed by management to capitalization and provisioning, programs of the second stage of the process of rapid closing of accounting and automation of tax accounting and reporting, tools for planning a five-year investment program. The Committee noted and supported important initiatives taken by management to create a five-year investment program for the Company;
- the analysis of the capabilities of the current ERP system and proposed measures to improve and implement CRM based on the existing system for the purpose of effective planning and management of the production order portfolio are carried out;
- the Committee considered planned issues related to the preparation of financial statements (IFRS, RAS), as well as regular issues related to the assessment of the effectiveness of the external auditor, the amount of its remuneration, and the independence of the auditor;
- a number of initiatives have been developed to improve the Annual Report. The Committee approved the updated structure of the Company's Annual Report;
- as part of its core business, the Committee reviewed reports of the Internal Audit on a quarterly basis and evaluated the effectiveness of the Internal Audit;
- a strategy in the field of insurance protection of the Company's assets has been formed;
- the Board of Directors was assisted in developing a borrowing strategy, options for financing key investment projects, and government support measures were considered.;
- monitoring of the budget process for 2021 was carried out. In order to ensure a transparent and consistent approach to the budgeting process, the Committee supported the proposed concept for reviewing budget versions and developed criteria in the checklist format.

The HR and Remuneration 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 for the position of General Director, deputy General Directors, preliminary approval of early termination of the powers of deputy General Directors, as well as the terms of employment contracts with the General Director and deputy General Directors;
- formation of a remuneration policy that defines the principles and criteria for remuneration of members of the Board of Directors, the General Director, and Deputy General Directors;
- preliminary review of draft internal documents of the Company regulating HR policy, criteria for forming managerial personnel, requirements and approaches to systems and methods of staff motivation and incentive.

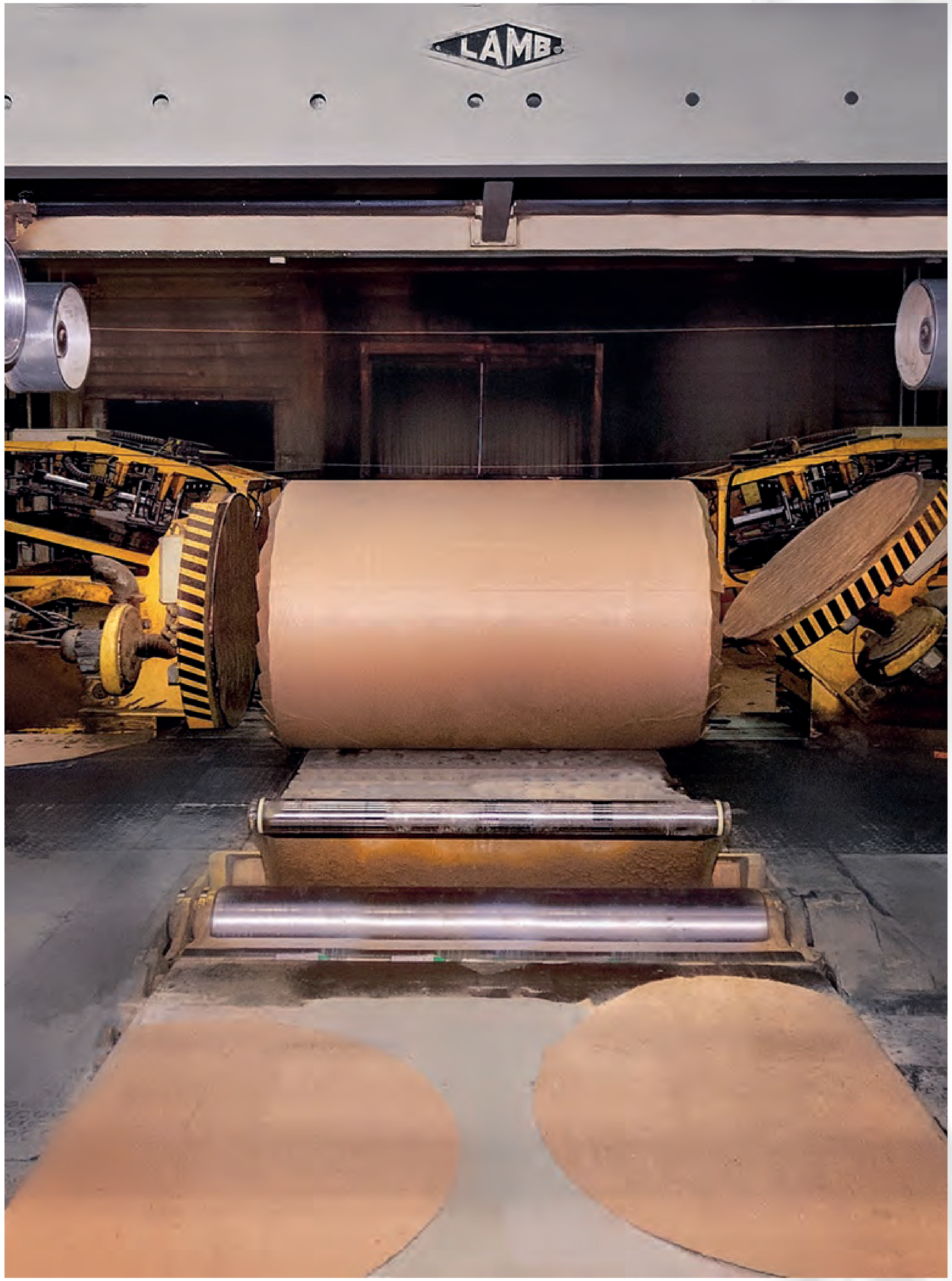
Personal composition of the HR and Remuneration Committee as of 31.12.2020:

- Breus Shalva Petrovich-Chairman;
- Kravtsov Konstantin Aleksandrovich;
- Saraev Vladimir Aleksandrovich;

In 2020, the HR and Remuneration Committee held 3 meetings in the form of a joint presence.

Key issues considered by the HR and Remuneration Committee in 2020:

- the analysis of personnel management, the budget of personnel costs was carried out, the draft HR strategy for 2020-2024, the main programs and initiatives aimed at attracting and securing personnel, the development of the management team and the reserve were considered;
- under the leadership of the Committee, the motivation system was improved to ensure that the management's efforts were most fully aligned with the Company's strategic goals;
- the Committee summed up the results of managers ' achievement of goals for 2019 and agreed on goals for 2020 and 2021, and strengthened the responsibility of senior managers for the implementation of important tasks and projects;
- priorities for the development of long-term motivation of management, application of the principles of material interest and responsibility of management in the long term for the results of work are identified.;
- the question is raised about the need to strengthen the management team in order to implement the development strategy of JSC Volga;
- the Chairman of the HR and Remuneration 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 achieve the Company's strategic goals and increase value for stakeholders.



4.3.4. Director General

In accordance with the Company's Charter, the powers of the sole executive body are exercised by the General Director, who is elected by the Company's Board of Directors. The Board of Directors is also responsible for determining the amount of remuneration and compensation for the sole executive body.

The Company's Charter does not provide for a collegial executive body. 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 the results of each (month/quarter/year) and for special achievements in accordance with the current Regulations on Remuneration and Incentive of the Company's work. Separately, the amount of remuneration of the sole executive body is not disclosed, taking into account the confidentiality regime established in the Company with respect to information on remuneration of the sole executive body.

The amount of compensation for expenses of the sole executive body is not disclosed, taking into account the confidentiality regime established in the JSC with respect to information on compensation for expenses of the sole executive body

Information about the sole executive body as of 31.12.2020

General manager

Pondar Sergey Iosifovich
Year of birth: 1965
Education: higher

Positions for the last 5 years:

Period		Name of the organization	Position
with	for		
03.02.2014 01.09.2014	01.09.2014	JSC "Ilim Group"	Director of Production Excellence, Quality, Ecology, Labor Protection and Fire Safety
02.09.2014	19.02.2015	JSC "Ilim Group"	Director for Quality, Ecology, Labor Protection and Fire Safety
19.02.2016	15.11.2016	LP Management LLC was renamed to LLC from 12.05.2016	Vice President for Production, Member of the Management Board
16.11.2016	29.11.2017	"Segezha Group Management Company" (LLC "Segezha Group Management Company»)	Member of the Management Board-Vice President, Head of the Paper and Packaging Division.
08.07.2019	present	JSC Volga	Director General

- Has no equity interest in the Company/ordinary shares.
- No transactions were made on the acquisition or disposal of the Company's shares.

4.4. List of transactions made in 2020 that require disclosure in the annual report

4.4.1. List of transactions made by the Company in the reporting year that are recognized as major transactions in accordance with the Federal Law «On Joint-Stock Companies», which requires a decision on consent to its execution or its subsequent approval.

The Company did not make any major transactions in the specified period.

4.4.2. List of transactions made by the joint-stock company in the reporting year that are recognized as interested-party transactions in accordance with the Federal Law «On Joint-Stock Companies», which requires a decision on consent to its execution or its subsequent approval:

Transaction date	Transaction Approval Date	The company's body that made the decision to approve the transaction	Information about the person (s) interested in the transaction, price and subject of the transaction and its essential terms
23.03.2020	23.03.2020	Board of Directors	In accordance with clause 7 of Article 83 of the Federal Law «On Joint-Stock Companies», the amount of donations in 2020 under the Donation Agreement concluded between JSC Volga and the BREUS FOUNDATION International Cultural Foundation is determined to be 45,000,000 (forty-five million) rubles. Submitted consent to a transaction in which there is an interest of a member of the Board of Directors of JSC Volga and a shareholder (owner of 98.9993% of the authorized capital of JSC Volga) Breus Shalva Petrovich, who is also the President of the BREUS FOUNDATION International Cultural Foundation, a party to the transaction (the basis of interest is a person who performs the functions of a member of the collective management body of JSC Volga, holds a position in the management bodies of a legal entity that is a party to the transaction), – A donation agreement concluded between JSC Volga and the BREUS FOUNDATION International Cultural Foundation on the following terms: the following basic conditions apply:: The benefactor transfers to the Foundation free of charge funds in the amount of 45,000,000 (forty-five million) rubles as a donation, for use for general purposes, the authorized activities of the Foundation. The Fund undertakes to accept the funds and use them in accordance with the goals 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 installments no later than 31.12.2020. The terms of the Agreement are confidential and are not subject to disclosure.
06.07.2020	06.07.2020	Board of Directors	Consent has been granted to conclude a transaction in which City Invest LLC is interested (the basis of interest is the person controlling JSC Volga, which is also the person controlling City Invest LLC – - supplementary Agreement No. 4 to loan agreement No. 04/18 between JSC Volga and City Invest LLC on the following basic conditions: The Borrower undertakes to fully repay the loan amount received under this Agreement to the Lender no later than 31.12.2020, and leave the rest of the agreement unchanged.
11.01.2021	25.12.2020	Board of Directors	Pursuant to clauses 37.39 of Article 11.7 of the Company's Charter, consent was granted to conclude a transaction in which City Invest LLC has an interest (the basis of interest is that the person controlling JSC Volga is also the person controlling City Invest LLC – - Supplementary Agreement No. 5 to loan agreement No. 04/18 between JSC Volga and City Invest LLC on the following basic terms: 1. *Clause 1.5. of the Agreement should read as follows: «The Borrower undertakes to fully repay the loan amount received under this Agreement to the Lender no later than 30.06.2021.»* 2. *Leave the rest of the agreement unchanged.* 3. *The supplementary agreement comes into force from the moment of signing and is valid until the parties fully fulfill their obligations.*

The Company did not enter into any related-party transactions amounting to 10% or more of the book value of its assets in the reporting year.

4.5. 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 JSC Volga 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 regulatory acts of the Bank of Russia.

The main principle of building relationships 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 disposal of their shares;
- shareholders have the right to receive regular and timely 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 controls the use of confidential and proprietary information.

4.6. Key risk factors related to the Company's operations

The Company, represented by its management, constantly monitors and evaluates risk factors related to the Company's activities, and does not currently consider the following risks as significant for the Company's activities. The Risk Management Policy at JSC Volga defines the main principles of organization, implementation and control of risk management processes at JSC Volga. The policy defines priority actions for building the risk management system, the risk management strategy, the main risk management processes, the architecture of the risk management system, and risk reporting. The Company's management bodies make maximum efforts to minimize the impact of risk factors on the Company's current and future operations, responding adequately and in a timely manner to changes in the current and projected situation. If one or more of the following risks arise, the Company 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 risks

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, Southeast Asia and the CIS. As a major exporter, the Company bears risks associated with changes in prices for its products, which may occur as a result of structural changes in supply / demand or an economic downturn in the markets of its presence, as well as in the event of changes in exchange rates.

Risks associated with the sale of products

In 2020, the Company faced market restrictions due to the COVID-19 coronavirus pandemic, which led to:

- **a sharp decline in the demand for printing papers in general and for newsprint in particular.**

  Management has successfully managed this risk by implementing product and geographical diversification programs. As a result, the Company successfully completed two investment projects («Construction of the second line for the production of thermomechanical mass (TMP)», «Modernization of the PT-80/100-130 turbine») and increased the volume of production and sales of products by more than 20 thousand tons.

- **a sharp drop in prices for all types of securities.**

  Management has successfully mitigated this risk by implementing a comprehensive cost reduction program. As a result, the Company ended the year with a net profit.

The Company's management regularly reviews analytical materials prepared by external and internal analysts regarding the expected dynamics of the development 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 the activities of monopoly suppliers.

In the course of its business activities, the Company uses materials and services (mainly gas supply) purchased from a wide range of suppliers. 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 their impact, which allows us to ensure the smooth operation of the Company.

Country risks

Currently, the political situation in the country is relatively stable, but there is still uncertainty about the possible access to sources of capital, 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, as the Company has sufficient experience and a reliable business reputation, which allows it to attract debt financing as needed, at an acceptable time and on market conditions. JSC Volga monitors changes occurring both in the economy of the Russian Federation and in the global economy, and also takes them into account when making management decisions. On a regular basis, the sensitivity analysis of the Company's forecast financial result is carried out for various macroeconomic parameters.

Financial risks

Credit risk

Credit risk is the risk that the Group will incur a financial loss caused by a buyer or counterparty to a financial instrument failing to meet its contractual obligations. The most significant credit risk for the Group is the risk that counterparties fail to meet their obligations to pay for delivered products. To reduce this risk, the Group focuses on cooperation with counterparties with a high credit rating, uses receivables insurance, letters of credit and bank guarantees, and in some cases requires advance payment for the delivered products.

To minimize the effects of credit risk, the Company applies a credit policy to manage emerging sales risks. Thanks to a well-thought-out credit policy, the Company manages to maintain the amount of customers ' debt at an optimal level and prevent its growth.

Another group of credit risks includes risks related to the activities of counterparty banks and possible deterioration of their financial stability. To mitigate these risks, the Company continuously monitors the credit rating of counterparty banks.

In 2020, changes were made to the Company's credit policy, and procedures were developed to make decisions on granting deferred payment, which in turn should be justified in terms of market conditions and not have a negative impact on the Company's assets and interests.

Currency risk

With a large share of exports to South-East Asia, as well as Western and Eastern Europe, the Company conducts operations using various currencies, mainly US Dollars and Euros. Also, some of the Company's expenses, assets and liabilities are denominated 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 foreign exchange rates to find a balance between incoming and outgoing cash flows, as well as assets and liabilities, in order to minimize the impact of currency risk.

Interest rate risk

The Company's cash flows are not exposed to a 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 have difficulties in meeting its obligations related to financial liabilities that are settled through the transfer of cash or other financial assets. The Company's approach to liquidity management is to ensure that, as far as possible, it has sufficient liquidity to meet its obligations on time, both under normal and stressful conditions, 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 risks

Legal risks, including risks associated with:

- changes in the requirements for licensing the Company's core business or licensing rights to use objects that are restricted in circulation (including natural resources): The Company's core business is not subject to mandatory licensing. In its activities, the Company does not use objects that are restricted in circulation (including natural resources);
- changes in court practice on issues related to the Company's activities (including licensing issues) that may negatively affect the results of its activities, as well as the results of ongoing legal proceedings in which the Company participates;
- changes in judicial practice (including licensing issues): The Company assesses them as relevant.

Being aware of the risks listed above, the Company makes every effort in its power to minimize the potential impact of risks and to reduce the likelihood of their implementation.

Operational risks

Risks associated with depreciation of fixed assets

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

The Company implements preventive measures to reduce the risks associated with depreciation of fixed assets, which include an annual program for the modernization and reconstruction of equipment. The company implements large-scale investment projects involving the use of modern advanced technologies. In 2020, audits of the technological equipment of the TMP and PM shop No. 8 were carried out.

Production safety risks

The Company is exposed to risks associated with the use of hazardous 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. Within the framework of investment projects, automated security systems are implemented, independent audits are conducted to assess the risks of material losses and reduce production activities due to material losses. The Company assesses this risk as manageable. In addition, the Company has a property insurance policy.

4.7. Revisory Committee

The Audit Commission is provided for in the Company's Charter. At the annual general meeting of shareholders on July 13, 2020, due to the lack of a quorum, a decision on the election of the Company's revisory commission was not made.

Due to the absence of an elected revisory commission, the accuracy of the data contained in the annual report was not confirmed by the Company's Revisory Committee.

The Company's Internal Audit evaluates the reliability of data contained in the annual report and financial statements on a regular annual basis.

4.8. Internal control and audit

Internal control

Internal control is carried out by authorized structural divisions of JSC Volga, the heads of which are:

- participate in the organization of an effective control environment for relevant business processes;
- provide regulation and updating of relevant business processes;
- responsible for the high-quality implementation of the established internal control procedures;
- responsible for achieving the goals of their respective business processes.

The General Director of the Company is generally responsible for the organization of internal control in the Company.

The Company has not set up a separate internal control division. The Internal Audit evaluates the effectiveness of the Company's internal control system and develops recommendations based on the evaluation results.

Internal audit

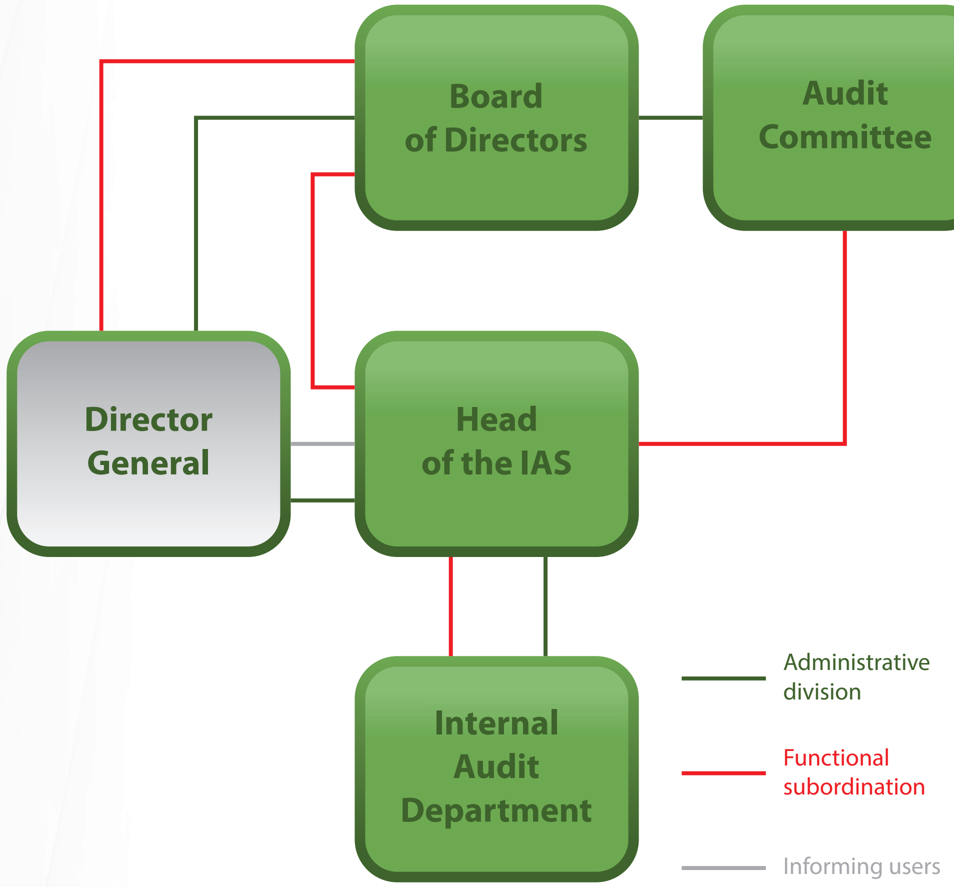
JSC Volga has an independent structural unit responsible for internal audit – the Internal Audit Service.

The purpose of the Internal Audit 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.

In its activities, the Internal Audit of JSC Volga is guided by the Regulations on the Internal Audit of JSC Volga, the Regulations on the Audit Committee of the Board of Directors of JSC Volga, decisions of the General Meeting of Shareholders and the Board of Directors of the Company, the legislation of the Russian Federation, internal regulatory documents of the Company, the standards of internal auditors ' activities defined by the International Professional Standards of Internal Audit.

The Internal Audit of JSC Volga is functionally subordinate to the Board of Directors of JSC Volga and the Audit Committee of the Board of Directors, and administratively – to the General Director of the Company. The Head of the Internal Audit is appointed and dismissed by the General Director of the Company on the basis of a decision of the Board of Directors.

Structure of the internal audit system of JSC Volga



The key areas of activity of the Internal Audit are:

- financial audit – audits performed to provide the management of JSC Volga with reasonable assurance about the reliability of the financial statements, as well as to prevent possible cases of manipulation of the financial statements;
- operational audit – checks aimed at improving the efficiency of Volga's business processes, the reliability of internal control, risk management, and corporate governance systems, and preventing possible cases of fraud;
- control function-monitoring of investment projects being implemented, control of procurement activities, contracting and performance discipline (including compliance with the requirements of regulatory documents of JSC Volga).

The Audit Committee of the Company's Board of Directors evaluates the effectiveness of the internal audit function on a quarterly basis and considers whether there are significant restrictions and threats to the independence of the internal audit function. The Company's Board of Directors annually reviews a report on the results of the Internal Audit activities.

Audits of the Company's internal Audit in 2020 were carried out in accordance with the Internal Audit Service's 2020 Work Plan approved by the Company's Board of Directors in the following main areas:

- assessment of the effectiveness of the internal control and risk management system;
- corporate governance assessment;
- evaluating the effectiveness of the budgeting system;
- analysis of the effectiveness of management of subsidiaries;
- other areas of financial and economic activity.

Based on the results of audits, recommendations were issued to improve the Company's business processes, eliminate existing shortcomings and comments. Implementation of recommendations was continuously monitored.

4.9. External audit

The auditor is selected based on the recommendations of the Audit Committee of the Board of Directors and approved at the General Meeting of Shareholders annually in accordance with Russian legislation. The amount of fee for the auditor's services is determined by the Board of Directors. In July 2020, the Annual General Meeting of Shareholders approved KPMG JSC as the auditor of the accounting(financial) statements under RAS for 2020 and the consolidated financial statements under IFRS for 2020.

The Audit Committee under the Board of Directors of JSC Volga evaluates the auditor's report for compliance with the requirements of Federal Law No. 307-FZ of 30.12.2008 «On Auditing» and current auditing standards. The audit reports on the accounting (financial) statements of JSC Volga for 2020 under RAS and the consolidated financial statements of JSC Volga for 2020 under IFRS were reviewed in April 2021 and recognized by the Audit Committee as meeting the requirements established by International Standards on Auditing in force in the Russian Federation.

Sustainable development

Sustainable development

JSC Volga's activities in the field of sustainable development and corporate social responsibility are based on best practices, international and Russian standards and principles. The Company has implemented a quality management system that meets the international standard ISO 9001: 2015. In 2020, the Certification Audit was successfully completed.

Quality control

Multi-stage control. Includes:

- assessment of the quality of raw materials, fibrous materials, and chemicals;
- assessment of the quality of manufactured products.

Quality control of production processes

Quality control of products and technological processes is carried out at each stage of production using automated control systems and high-tech tools, scanners.

Product quality control – continuous control (visual). Laboratory control in accordance with the requirements of the technological regulations for paper production of JSC Volga.

Control of purchased products-the entrance control of raw materials, fibrous materials, chemicals is organized to determine their compliance with GOST, TU.

The Company has developed a system of internal corporate codes and policies that govern the most important issues in the field of sustainable development. Current key documents:

- the company's development strategy until 2028;
- environmental policy;
- occupational Health and Fire Safety Policy;
- anti-corruption policy;
- social policy;
- personnel policy.

5.1. Responsible supply chain

The main purpose of the procurement activity of JSC Volga is to acquire material and technical resources, perform works, and provide services for the needs of production in the appropriate quantity and quality in the required time under optimal conditions.

Basic principles of conducting procurement activities

- **Ensuring competition**
  Organization of procurement procedures aimed at developing an optimal level of competition.
- **Equal rights**
  Ensuring equal competitive opportunities at all stages of procurement activities while ensuring optimal economic feasibility.
- **Economic feasibility**
  Assessment of the need and analysis of economic feasibility at any stage of the purchase.
- **Openness**
  The priority form of procurement is to conduct open competitive procurement procedures.
- **Transparency**
  Monitoring and control of procurement activities at all stages of procurement and after its completion.

The total number of competitive procurement procedures exceeded 90%.

The economic effect of the procedures carried out was about 3%.

In order to optimize storage standards and improve the turnover of goods, the Company has organized a process of centralizing inventory since 2020.

Development plans:

- development and implementation of category strategies in key areas;
- centralizing inventory storage;
- improving inventory planning and management;
- transforming the organizational structure of procurement;
- further development of the internal ITsystem;
- professional development of employees.

5.2. Human resources and social policy

The personnel of JSC Volga is the most valuable and key component of the Company's value, and the main goal of the Company's personnel policy is to create conditions for high-performance work and personnel development.

In 2020, as part of the Development Strategy of JSC Volga, a HR Strategy was developed aimed at achieving the Company's ambitious goals of implementing a large-scale investment program that will not only significantly increase production and ensure the competitiveness of JSC Volga in the domestic and global markets, but also create an additional 200 jobs. HR goals Strategies: ensuring human resource security through staffing with qualified personnel; reducing turnover: outstripping productivity growth against headcount growth; implementing an organizational structure that meets the best practices in the industry; creating a management team that will ensure the achievement of Development Strategy targets; implementing talent management projects and developing the talent pool.

In parallel with the development of the Company's Development Strategy in 2020, the development of a long-term recruitment program 2021-2025 began, aimed at minimizing risks and timely staffing with qualified personnel. The program provides for the implementation of projects on career guidance, attracting young professionals, training and development in the workplace, training in popular professions at the expense of

2020 ANNUAL REPORT

the employer in the framework of cooperation with higher education institutions.

One of the tools for attracting young professionals – graduates of specialized universities-is the implementation of the Volga NEXT long-term internship program. In order to attract young specialists to the Company, in 2020 JSC Volga took part in a large-scale online project of the Nizhny Novgorod region «Career Navigator», aimed at promoting youth employment, developing new mechanisms for interaction between educational institutions and employers, as well as introducing modern methods of informing and motivating young specialists. One of the tasks of participation in the forum was to familiarize the student audience with the conditions of the program of long-term internships during the year with the possibility of subsequent employment.

In order to create comfortable conditions for new employees entering the Company, an adaptation procedure has been introduced to effectively include newly hired employees in the labor process, familiarize them with the norms and rules of corporate culture, establish informal relationships in the team, and introduce a culture of effective communication in the form of feedback.

Since 2019, JSC Volga has implemented a personnel performance management system based on key performance indicators (KPIs) – the «Efficiency Roadmap», aimed at achieving the Company's strategic goals, developing employees and forming a personnel reserve. The goal of this system is to gradually cascade KPIs to all levels of management in the Company in order to involve all categories of employees in the goal management process. In 2020, the KPIs of management teams are cascaded into the next two levels of management. In 2021, the KPIS system will cover 100% of middle managers.

HR risk management is also aimed at creating a succession system – a layered personnel reserve, which provides both the formation of a team for urgent replacement of managers, and a layered reserve for managerial positions. In 2020, the process of evaluating reservists by level began to develop individual development plans and include them in the leadership development program.

Since 2020, the Company has been implementing a program to improve the motivation system, which provides for both material and non-material components. The program is aimed at introducing the best motivation practices in the Company, the main goal of which is to recognize the achievements and contribution of employees to the development of the Company.

The vector of the program of measures on improving the methods of non-material motivation of personnel is aimed at improving the organizational climate in the Company. The program's mission is to create a company that is attractive for qualified and young professionals who want to work at a modern, dynamically developing enterprise, as well as encourage the best employees, emphasize their importance for JSC Volga. One of the main activities of the program is the introduction of a new initiative - the BRAVO program, which allows, on a competitive basis, to identify and encourage employees and entire divisions - winners in the categories: «Best Employee of a Structural Division», «Best Company Division», «Best Company Employee», «Best Industrial Dynasty».

Another important component of the non-material motivation program is the revival of innovation practice, which has deep roots in JSC Volga. The Company's management plans to encourage those who make suggestions for improving production processes, upgrading and mechanizing equipment, and promote the introduction of non-price improvements.

In 2020, work began on digitalization of HR management business processes based on Power BI. This is a promising area that will allow us to create a predictive analytics system in the future, which will help increase the effectiveness of management decisions in the field of personnel management.

The company's social policy includes programs and activities aimed at solving the most pressing problems of social development of the collective, improving working conditions, ensuring social protection of employees, organizing their recreation and medical care. All social activities are aimed at the most important target groups for the Company, including not only employees, but also retired veterans of the company, children and family members of employees.

Social benefits and payments to employees of JSC Volga are of a permanent nature and are of particular importance in the total income of employees and veterans of the enterprise. Financial assistance to employees and veterans is provided through the permanent Commission on Social Issues.

Health care is an important component of social protection of employees of the enterprise, especially since working conditions require special attention. During the year, any employee of the company can take advantage of the benefit of partial compensation for the cost of sanatorium treatment. Also, free vouchers are allocated to employees who have occupational diseases or are engaged in work with harmful and/or dangerous industrial factors,

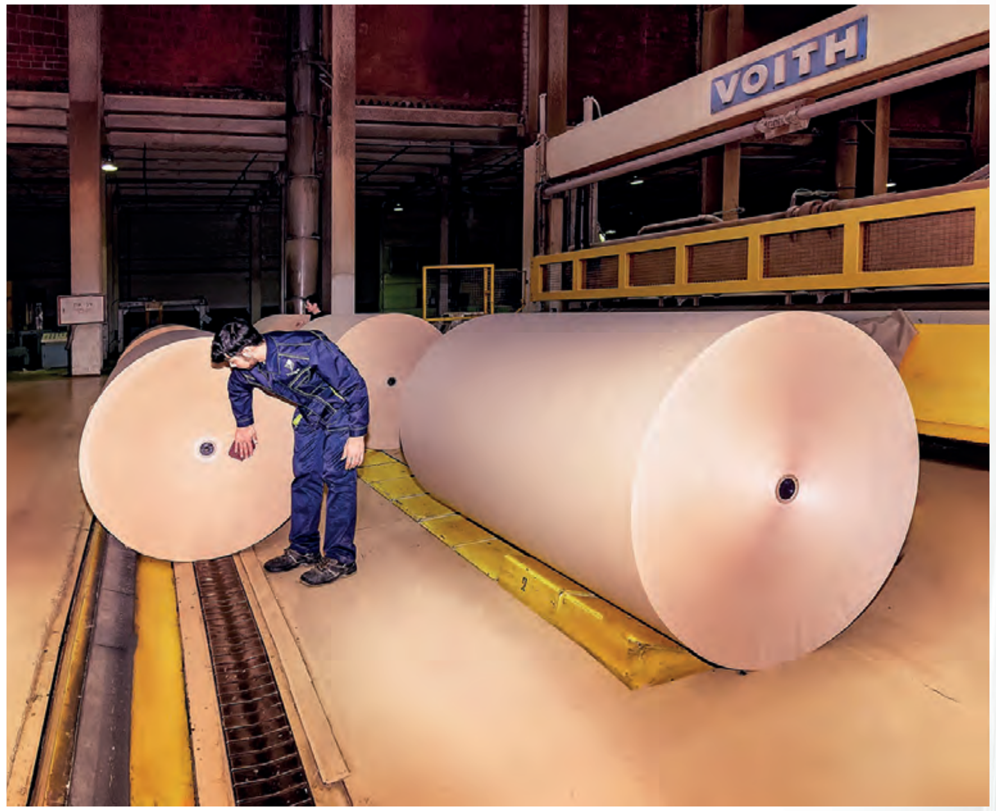
as well as employees of retirement and pre-retirement age. JSC Volga has an annual program for allocating subsidies for employees' meals, and its size is indexed and increased annually. Employees of the Company have the opportunity to visit the sports and recreation complex with a swimming pool and gym for free.

The sports complex annually hosts a sports contest in 13 sports among employees of the enterprise, sports and recreation events for veterans and family competitions for employees and their children.

Caring for veterans and the younger generation is an important area of corporate social policy. To ensure full-fledged recreation and employment, children of employees have the opportunity to relax in health centers and sanatoriums of the Nizhny Novgorod region. Considerable funds are allocated for social support of veterans to provide them with material assistance, compensation for visits to a sports and recreation complex, and support in difficult life situations. The Youth policy implementation center is the Youth Council of JSC Volga. It was volunteers from among the Council's activists who supported retired veterans during the pandemic.

JSC Volga conducts charitable and sponsorship activities, providing assistance to educational institutions, creative and sports teams. Traditional charity events are held in the New Year, the Day of the Elderly, the Decade of Disabled People, aimed at caring for employees with disabilities and drawing public attention to their problems.

JSC Volga operates in accordance with the current Collective and labor agreements, the Labor Code of the Russian Federation and other regulatory legal acts of the Russian Federation. In 2020, the Collective Agreement of JSC Volga for 2020 - 2022 was prolonged, which regulates social and labor relations between the employer and the employees of the Company.



5.3. Occupational health, fire and industrial safety

Labor protection of JSC Volga in 2020

The main criterion of JSC Volga is the safety and health of its employees.

JSC Volga invests significant resources in safety measures, equipment modernization, improvement of working conditions and improvement of labor safety.

In 2020, a number of measures were implemented to improve labor safety at JSC Volga in accordance with the:

- action plan to improve the working conditions of employees and reduce risks;
- schedule of administrative and public control on labor protection and fire safety in JSC Volga»;
- schedule of training on labor protection in specialized organizations of managers and specialists of the enterprise;
- schedule for testing the knowledge on labor protection of managers and specialists of the enterprise;
- schedule of training on occupational safety at work at height;
- a plan for conducting a special assessment of working conditions for compliance with standards and for analyzing occupational risks;
- a plan for the reconstruction of artificial lighting, heating and ventilation systems in order to create a comfortable microclimate in the working areas.

Revised and put into operation:

- list of professions (positions) of employees of JSC Volga who are trained in labor protection in training organizations and are allowed to provide services in the field of labor protection;
- list of professions (positions) of employees undergoing occupational safety training in JSC Volga»;
- list of JSC Volga professions undergoing occupational safety training;
- list of professions and positions of employees of JSC Volga who are exempt from passing the initial training on labor protection at the workplace;
- orders in the field of labor protection on the appointment of responsible persons and organization of work.

Work continues to identify and respond to all incidents, including the prerequisites for accidents and microtraumas.
During the year, 3 accidents at work related to the light category and 1 microtrauma were investigated. 1 act of investigation of the incident on the territory of the enterprise with employees of contractors was drawn up.

Occupational safety measures implemented by JSC Volga represent planned production activities that are aimed at achieving the set goals in the field of occupational safety and health.

Activities are implemented on an ongoing basis:

- revision of occupational health and safety instructions for professions and activities;
- training on labor protection of employees, including in specialized organizations;
- vouchers to the sanatorium were allocated at the expense of JSC Volga to 47 employees of the enterprise engaged in work with harmful or dangerous working conditions;
- providing employees at the expense of the employer's funds in accordance with the standards established by the Collective Agreement with special clothing, safety shoes and other PPE, washing and neutralizing agents, milk and other equivalent food products;
- an unscheduled special assessment of working conditions at 49 workplaces was carried out.

Restrictions related to COVID-19 were added to the measures for occupational health, safety and health of employees in 2020. In this regard, additional funds were purchased to protect employees (disposable masks – 133,700 pcs. and gloves 36,775 pcs.).

JSC Volga Fire safety in 2020

In 2020, JSC Volga carried out targeted work to ensure fire safety of production facilities and technological processes, and increase the level of security of the Company's personnel.

During the reporting period, due to the clear and well-coordinated work of the concerned services, the company did not allow natural and man-made emergencies.

During the reporting period, due to the clear and well-coordinated work of the concerned services, the company did not allow natural and man-made emergencies.

In 2020, RUB 35.90 million were spent on improving the fire protection of JSC Volga's facilities. This made it possible to implement planned projects on fire safety, including the installation of highly efficient 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.

Modernization of automatic fire extinguishing systems (AUPTS), automatic fire alarm systems (AUPTS), and fire warning and evacuation management systems (ESMS) continues at the facilities of JSC Volga.

The work to improve the reliability and maintenance of fire safety equipment, buildings and structures of the enterprise has been implemented.

The work to ensure the fire safety of the open storage areas of forest materials on the territory of the wood preparation shop, prepared for receiving an additional volume of wood is carried out.

Existing sources of fire-fighting water supply are maintained in working order. These are 135 fire hydrants, 738 fire cranes, 26 hydraulic monitors, 33 dry pipes, 35 automatic fire extinguishing installations (stations), 24 air-foam devices (VPA) for extinguishing fires with air-mechanical foam.

Much attention is paid to maintaining in good condition the equipment for ensuring fire safety of external fire ladders, automatic fire alarm systems, warning systems and management of evacuation of people in case of fire. Triggering signals from these systems are displayed at the communication point 22 of the fire and rescue unit.

All production and auxiliary divisions of the enterprise are provided with manual and mobile carbon dioxide and powder fire extinguishers.

JSC Volga has the opportunity to form a team consisting of professionals, ready to perform tasks of any complexity. To ensure fire safety and emergency preparedness, fire-technical minimum training was provided to employees performing fire-hazardous work, including fire work – 52 people, officials-80 people. In order to practice the skills of actions in case of fires at objects, as well as to exclude the possibility of developing fires, all employees of working professions of JSC Volga completed course training according to approved programs and passed the corresponding tests.

Industrial safety of JSC Volga in 2020

JSC Volga's activities in the field of industrial safety are carried out in compliance with the following basic principles:

- priority of people's life and health in relation to the result of production activities;
- leading role of managers at all levels of JSC Volga in ensuring safe working conditions;
- responsibility of each employee of JSC Volga and contractors for their own safety and the safety of people around them, as well as the right to intervene in situations when work is not performed safely;
- involvement of all employees of JSC Volga in activities aimed at reducing occupational injuries, risks of accidents, and diseases of people;
- priority of preventive measures over measures aimed at localizing and eliminating the consequences of accidents.

In accordance with its obligations and strategic goals, JSC Volga sets itself the following tasks:

- develop a safety culture and leadership skills of managers at all levels to ensure industrial safety and labor protection;
- identify and evaluate the actual and potential impact of JSC Volga's activities on people's lives and health, including through high-quality preparation of project documentation and conducting the necessary expert examinations;
- on an ongoing basis, identify and assess the risks of dangerous events that may have a negative impact on the life and health of people, the reliability of technological processes and the integrity of hazardous production facilities of JSC Volga and effectively manage professional risks;
- ensure a fast and effective response to all accidents and accidents that have occurred as a result of the activities of JSC Volga, in cooperation with specialized organizations and authorized state bodies;
- implement and apply advanced technologies that contribute to the prevention of occupational injuries, occupational diseases and accidents;
- ensure that employees of JSC Volga are informed about working conditions at the workplace, established technological process modes and applicable requirements in the field of industrial safety;
- ensure the necessary level of competence of employees in the field of industrial safety through a system of briefings and training;
- develop, implement and apply a safe work motivation system;
- establish and control responsibility for the safe conduct of work at production facilities for all employees of JSC Volga, employees of contractors and other persons associated with the activities of JSC Volga;

- ensure systematic monitoring of the technical condition of hazardous production facilities of JSC Volga and compliance with the requirements in the field of industrial safety, including in relation to the technical devices, tools, materials and personal protective equipment used;
- organize effective cooperation with government agencies, research organizations, the public and other interested parties in order to exchange experience and inform each other about activities related to industrial safety, as well as the development and implementation of progressive standards and regulations;
- analyze and evaluate the results of JSC Volga's activities in the field of industrial safety in order to further improve the management system;
- involve employees and the trade union committee in active participation in all elements of industrial safety.

5.4. Environmental safety

Today, the woodworking and pulp and paper industry is essentially an example of a closed bioeconomy.

The closed-loop economy aims to change the linear classical model of production, focusing on minimizing the generation of waste and other types of pollution in the production process.

The basic principles of a closed-loop economy are based on the recovery of resources, recycling of secondary raw materials, and the transition from fossil fuels to the use of renewable energy sources.

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

The products are made from wood from forests where environmentally and socially responsible management is carried out, aimed at maintaining and improving the socio-economic well-being of the local population, respecting their rights, preserving biological diversity, water resources, soils, as well as unique ecosystems and landscapes, and preserving forests of high environmental value. Wood is harvested in certified forests and delivered according to the optimal logistics scheme.

In 2020, the government of the Nizhny Novgorod Region approved the positive conclusion of the state expert examination of the project in the field of forest development, provided for the purpose of harvesting wood in the Varnavinsky district of the Nizhny Novgorod region.

The FSC certificate of Forest Stewardship and Supply Chain FSC (Forest Stewardship Council™) covers 100% of the raw materials used (30% of FSC-certified raw materials – own cutting area, 70% of FSC-controlled raw materials) and confirms that JSC Volga conducts sustainable forest management on all lease plots.

A public statement in the form of a Declaration of Compliance with FSC Values is published on the Company's website at:

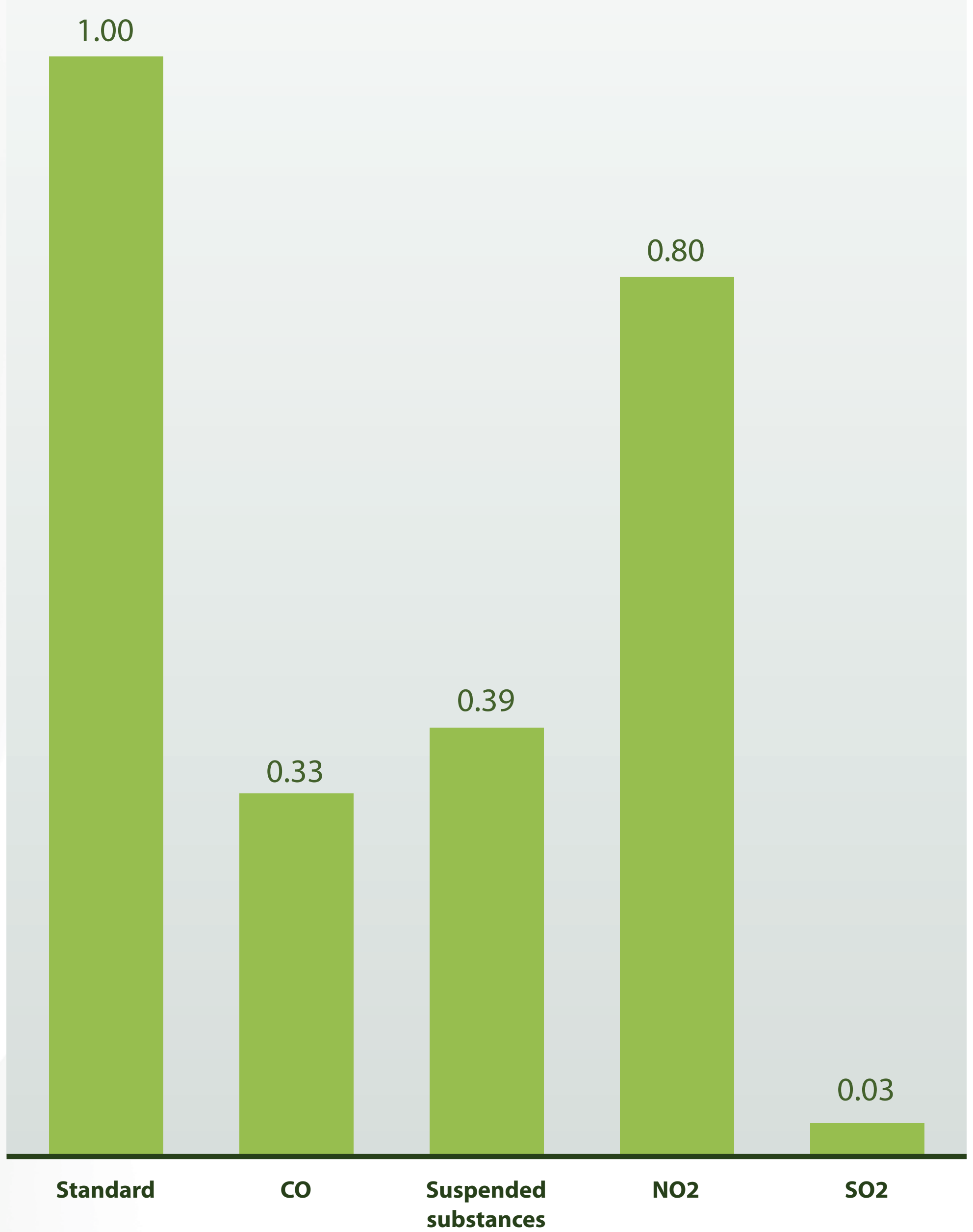
http://www.volga-paper.ru/products/certificates_and_diplomas/DeclFSC.pdf

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

The Company's end-of-life products are a source of raw materials for reuse. Currently, about 5.5% of recycled waste paper fiber is used in the technological process. At the same time, the Company's strategy is to increase its share to 28%.

The gas cleaning equipment used in the company's technological processes ensures a low index of atmospheric pollution in Balakhna.

MPC share in the atmospheric air of Balakhna in 2019*



* According to the Federal State Budgetary Institution «Verkhne-Volzhskoe UGMS», average annual concentrations in the city are below half of the maximum permissible concentration (MPC).

JSC Volga has approved and implemented an Environmental Policy.

The environmental policy of JSC Volga is based on the following principles:

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

In its activities, JSC Volga is guided by the «Rule 3R», namely:

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

This strategy allowed the Company to:

- **send 86% of the waste to recycling;**
- **66% of waters can be reused;**
- **capture 98% of emissions in gas treatment plants;**
- **100% of the industrial storm water should be used for 5-step biological treatment.**

No chlorine, chlorine-containing oxidizing agents, or organochlorine compounds are used in the production process.

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

The company aims to preserve the ecology of the region of its presence. Taking into account that any processing plant has an impact on the environment, 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 of monitoring and management of environmental protection and environmental safety.

In 2020 alone, the Company's total operating costs for environmental protection amounted to about RUB 48 million*, while investments for the implementation of the environmental impact action plan amounted to about RUB 370.5 million.

Promising areas:

In 2020, a technical and environmental audit of the industrial site of JSC Volga was conducted, on the basis of which a plan was developed to increase the efficiency of investments and long-term development of the Company, and a strategic environmental program was formed. The implementation of the environmental program is designed for five years.

The program will allow you to:

- optimize technological processes;
- reduce the impact on the environment.

The key objectives of the program are:

- reduction of waste generation;
- maximum involvement of technological waste and by-products in the production cycle;
- reducing the load on wastewater treatment plants.

* - including payments for environmental services.

5.5. Anti-corruption policy

In 2020, an Anti-Corruption Policy was developed and implemented.

The policy establishes the management and organizational basis for preventing corruption (corruption actions), measures to minimize and / or eliminate the consequences of corruption offenses, its participants, tasks, functions, powers and responsibilities, including in relations with third parties, including individuals, legal entities, state and municipal authorities and their representatives.

The Policy is designed to identify, prevent and minimize cases of illegal, unethical and corrupt behavior of the Company's employees. The Policy is aimed at forming a uniform understanding among all employees and managers of the Company of the essence of corruption actions that, including potentially, may violate the requirements of the Russian anti-corruption legislation and other applicable norms of international law.

The Company has established a «Hotline» - a secure and confidential information channel designed to provide employees of the Company and other third parties, including counterparties, with information about intentions or facts of committing corruption actions against the Company and/or its employees, counterparties, allowing, among other things, to transmit information anonymously.

5.6. Responsible forest management

At the beginning of 2020, the Forestry Department of the Nizhny Novgorod Region approved the positive conclusions of the state expert examination of the project in the field of forest development on plots in the Varnavinsky district leased for use for timber harvesting by JSC Volga.

The main goal of JSC Volga is to preserve and create highly productive, high-quality, biologically sustainable forests and forest fauna in the assigned lease territories that meet the high ecological, social and economic needs of society and the state.

In 2020, JSC Volga actively prepared for forest management and supply chain certification to meet the requirements and criteria of the Forest Stewardship Council - the main elements of environmentally acceptable, socially and economically beneficial forest management.

In 2020, representatives of the Varnavinsky District administration took part in the first laying of forest crops in the territory of the Varnavinsky District forestry of the Nizhny Novgorod region together with employees of JSC Volga.

Participants of the ecological campaign for reforestation planted more than 750 pine saplings on the site of the Lapshangsky district forestry leased by JSC Volga.

Results of reforestation activities in 2020:

- artificial reforestation - 39.6 ha;
- preparation of soil for forest crops - 81.1 ha;
- agrotechnical care - 39.6 ha;
- young growth care - 77.5 ha;
- construction and reconstruction of forest roads-42 km;
- arrangement and arrangement of new recreation areas-29 km;

On April 9, 2021, following an audit for compliance with all the principles and criteria of the Forest Stewardship Council, the Company received the FSC certificate for Forest management.

The FSC mark on wood harvested from rental plots in the Varnavinsky district of the Nizhny Novgorod Region is an indicator that the Company's products come from a forest that is economically efficient and at the same time environmentally and socially responsible forestry:

- the activity is aimed at maintaining and improving the socio-economic well-being of the local population, respecting their rights;
- conservation of biological diversity, water resources, soils, and unique ecosystems and landscapes;
- conservation of high conservation value forests.

The FSCcertificate is an indicator of the Company's image and the ability to enter new global sales markets.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Preferred by Nature

FSC

Preferred by Nature - NEPCon OÜ hereby confirms that the Forest Management and Chain of Custody system of

Volga JSC

Gorkogo 1
Balahna, Nizhny Novgorod oblast, Balakhninsky rayon 606407
Russian Federation

has been assessed and certified as meeting the requirements of
FSC-STD-RUS-V6-1-2012 Russia Natural and Plantations; NEPCon CoC Standard for FME 12 Sept 19

The certificate is valid from 09-04-2021 to 08-04-2026
Certificate version date: 09-04-2021

Scope of certificate
Certificate type: Multiple FMU (Several groups of like FMUs) Forest Management and Chain of Custody

Certificate registration code
NC-FM/COC-031831

FSC License Code
FSC-C159981

Justinas Janulaitis
Management board member
Filosoofi 31, Tartu
Estonia

Specific information regarding products and sites is listed in the appendix(es) of this certificate. The validity and exact scope covered by this certificate shall always be verified at www.info.fsc.org.

FSC™ A000535 | The mark of responsible forestry | www.ic.fsc.org

This certificate itself does not constitute evidence that 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 invoices and shipping documents. The physical printed certificate remains the property of NEPCon OÜ and shall be returned upon request.

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Annex A: Scope of Volga JSC FSC™ Forest Management and Chain of Custody Certificate
NC-FM/COC-031831
(The list below shows products handled by the network of Participating Sites)

Product Type	Trade Name	Output FSC Claims
W1.1	Roundwood	FSC 100%
W1.2	Fuel wood	FSC 100%

This certificate itself does not constitute evidence that 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 invoices and shipping documents. The physical printed certificate remains the property of NEPCon OÜ and shall be returned upon request.

Certificate version date: 09-04-2021 Page 2 of 2

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Annexes

6.1. Annex1. Consolidated financial statements for 2020 and independent auditors report

JSC “Volga”

Consolidated Financial Statements for 2020 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 2020, 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 2020, 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 Ethics Standards Board for Accountants 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.

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

14 April 2021

'000 RUB	Note	31 December 2020	31 December 2019
ASSETS			
Property, plant and equipment	11	4 790 779	3 767 459
Letter of credit for equipment	15	-	83 736
Restricted cash	15	-	40 956
Intangible assets		12 085	12 836
Non-current assets		**4 802 864**	**3 904 987**
Inventories	12	1 142 289	936 064
Trade and other receivables	14	1 802 759	1 345 434
Cash and cash equivalents	15	987 662	335 062
Current assets		**3 932 710**	**2 616 560**
TOTAL ASSETS		**8 735 574**	**6 521 547**
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		(2 982 264)	(3 664 757)
Equity attributable to owners of the Company		**4 424 350**	**3 741 857**
Non-controlling interests		(4 463)	(6 909)
Total equity		**4 419 887**	**3 734 948**
LIABILITIES			
Loans and borrowings	17	996 741	544 999
Deferred income	13	77 130	78 883
Deferred tax liabilities	9	338 875	32 530
Lease liabilities	17	429 785	420 176
Other non-current liabilities	19	364 451	426 025
Non-current liabilities		**2 206 984**	**1 502 613**
Loans and borrowings	17	626 165	376 527
Trade and other payables	18	1 040 953	517 102
Lease liabilities	17	283 323	227 297
Other current liabilities	19	158 264	163 060
Current liabilities		**2 108 703**	**1 283 986**
Total liabilities		**4 315 687**	**2 786 599**
TOTAL EQUITY AND LIABILITIES		**8 735 574**	**6 521 547**

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 11 to 54.

'000 RUB	Note	2020	2019
Revenue	7	9 394 773	9 379 095
Cost of sales	8(a)	(7 382 253)	(6 781 793)
Gross profit		**2 012 520**	**2 597 302**
Distribution expenses	8(b)	(156 629)	(130 224)
Administrative expenses	8(c)	(872 874)	(721 672)
Other income, net	8(d)	392 237	423 649
Results from operating activities		**1 375 254**	**2 169 055**
Finance income	8(e)	56 686	26 051
Finance costs	8(e)	(155 193)	(257 937)
Net finance costs		**(98 507)**	**(231 886)**
Profit before income tax		**1 276 747**	**1 937 169**
Income tax expense	9	(357 058)	(328 937)
Profit and other comprehensive income for the year		**919 689**	**1 608 232**
Profit and other comprehensive income attributable to:			
Owners of the Company		917 243	1 602 942
Non-controlling interests		2 446	5 290
Earnings per share			
Basic earnings per share (kRUB)		0.08	0.14

These consolidated financial statements were approved by management on 14 April 2021 and were signed on its behalf by:

Pondar S. I.

Chief Executive Officer

Lomakin S. S.

Deputy Chief Executive Officer –

Chief Financial Officer

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 11 to 54.

'000 RUB		**Equity attributable to owners of the Company**						
		Share capital	**Additional paid-in capital**	**Reserves**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2019		**6 147 147**	**1 087 555**	**171 912**	**(4 501 409)**	**2 905 205**	**(12 199)**	**2 893 006**
Profit for 2019		-	-	-	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)
Transactions recognised directly in equity		-	-	-	(54 285)	(54 285)	-	(54 285)
Total transactions with owners of the Company		**-**	**-**	**-**	**(766 290)**	**(766 290)**	**-**	**(766 290)**
Balance at 31 December 2019		**6 147 147**	**1 087 555**	**171 912**	**(3 664 757)**	**3 741 857**	**(6 909)**	**3 734 948**
Balance at 1 January 2020		**6 147 147**	**1 087 555**	**171 912**	**(3 664 757)**	**3 741 857**	**(6 909)**	**3 734 948**
Profit for 2020		-	-	-	917 243	917 243	2 446	919 689
Total comprehensive income for the year		**-**	**-**	**-**	**917 243**	**917 243**	**2 446**	**919 689**
Transactions with owners of the Company (Dividends)	16	-	-	-	(200 750)	(200 750)	-	(200 750)
Transactions recognised directly in equity	16	-	-	-	(34 000)	(34 000)	-	(34 000)
Total transactions with owners of the Company		**-**	**-**	**-**	**(234 750)**	**(234 750)**	**-**	**(234 750)**
Balance at 31 December 2020		**6 147 147**	**1 087 555**	**171 912**	**(2 982 664)**	**4 424 350**	**(4 463)**	**4 419 887**

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 11 to 54.

'000 RUB	**Note**	**2020**	**2019**
Cash flows from operating activities			
Profit for the year		919 689	1 608 232
Adjustments for:			
Depreciation	11	354 184	277 424
Interest expense and discounting	8(e)	155 193	135 758
Foreign exchange differences	8(e)	(47 040)	122 179
Reversal of allowance for expected credit losses	20b(i)	(249 297)	(251 923)
Other expenses		32 720	21 001
Income tax expense	9	357 058	328 937
		1 522 507	**2 241 608**
Changes in:			
Inventories		(138 058)	6 926
Trade and other receivables		(20 952)	267 254
Trade and other payables (including lease liabilities)		519 017	(369 099)
Provisions and employee benefits		(61 395)	(143 915)
Cash flows from operations before income taxes and interest paid		**1 821 119**	**2 002 774**
Income tax paid		(142 255)	(238 547)
Interest paid		(92 558)	(74 773)
Net cash from operating activities		**1 586 306**	**1 689 454**
Cash flows from investing activities			
Acquisition of property, plant and equipment		(806 200)	(598 836)
Loans to related parties		-	(65 000)
Interest received		7 893	26 051
Net cash used in investing activities		**(798 307)**	**(637 785)**
Cash flows from financing activities			
Proceeds from borrowings		3 517 563	3 392 002
Repayment of borrowings		(3 010 340)	(3 157 913)
Payment of lease liabilities		(374 370)	(272 537)

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 11 to 54.

Dividends paid	(200 750)	(712 005)
Repayment of long-term payables	(106 428)	(106 428)
Other distributions to related parties (Charity)	(34 000)	(50 000)
Net cash used in financing activities	**(208 325)**	**(906 881)**
Net increase in cash and cash equivalents	**579 674**	**144 788**
Net effect of movements in exchange rates	72 926	(34 951)
Cash and cash equivalents at 1 January	335 062	225 225
Cash and cash equivalents at 31 December	**987 662**	**335 062**

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 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 11 to 54.

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, and are subject to frequent changes accordingly.

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 coronavirus infection pandemic also increases the level of uncertainty in the business environment.

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 legal entities registered under the laws 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 1 Gorkogo Street, Balakhna city, Nizhny Novgorod region, the Russian Federation, 606407.

The Group's principal activity is producing and sale of newsprint at the plant located in Balakhna city, Nizhny Novgorod region. The produced newsprint is sold in the Russian Federation and for export.

Additional activities of the Company are: Production of electricity on heating power plants, including activities to ensure the operating capacity of power plants; Production, transmission and distribution of steam and hot water, sale of forest products.

As at 31 December 2020, 99.0035% of shares (as at 31 December 2019: 98.996% of shares) belong to the shareholder Breus Shalva Petrovich.

2 Statement of compliance

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

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) (iii) – useful lives of property, plant and equipment;
- Notes 14, 20 – measurement of expected credit losses (ECL) allowance for trade receivables;
- Note 19 – provision for site restoration;
- Note 17 – lease liability;
- Note 7 – revenue recognition: whether revenue from products delivery services (as a separate performance obligation under contracts for paper products supply) is recognised over time 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 note:

- Note 20 – measurement of ECL allowance for receivables, key assumptions in determining the loss.

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

Changes to existing standards effective from 1 January 2020 do not have a significant impact on the Group's consolidated financial statements.

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 under IFRS 15
Revenue from sales of newsprint and wrapping paper to foreign and local customers	Newsprint for export is delivered under conditions of Incoterms 2010 according to delivery terms specified in the order. Customers obtain control of standard paper 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.	According to terms of concluded contracts for export of paper products, the Group delivers production to customers on different Incoterms. The cost of transportation is included in the total price. Generally, control transfers to the customer before transportation has completed. Revenue from transportation is a separate performance obligation and is recognised over time from the moment of control transfer up to the end of delivery. In case if contracts with customers stipulate the sale of finished goods under FCA delivery terms (Group's warehouse, transportation by customer), full revenue from the sale of finished goods is recognised 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 issued at the end of the month and paid within 30 days.	Revenue from provision of heating and electricity supply services is recognised over time as the services are provided (based on factual data on counters).

Revenue from sales of forest products	Customers obtain control at the time of acceptance of the products at the Group's warehouse.	Revenue from sales of forest products is recognised when the product is accepted by the Customer.

'000 RUB	**2020**	**2019**
Revenue from newsprint sales for export *	6 774 729	6 529 996
Revenue from newsprint sales to local customers	1 238 777	1 961 002
Revenue from services	961 486	835 291
Revenue from sales of forest products	353 464	-
Other revenue	66 317	52 806
Total revenue from contracts with customers	**9 394 773**	**9 379 095**

* Including revenue from transportation services to customers.

8 Income and expenses

(a) Cost of sales

'000 RUB	**2020**	**2019**
Raw materials and consumables	2 592 771	2 711 360
Electricity, fuels	2 194 607	2 018 813
Salaries and payroll taxes	720 856	595 149
Depreciation	301 775	228 705
Third-party services	425 992	380 514
Transportation expenses	1 203 190	721 057
Change in stock	(81 646)	111 966
Other expenses	24 708	14 229
Total cost of sales	**7 382 253**	**6 781 793**

(b) Distribution expenses

'000 RUB	**2020**	**2019**
Insurance of receivables	17 858	18 206
Other expenses	138 771	112 018
Total distribution expenses	**156 629**	**130 224**

(c) Administrative expenses

’000 RUB	2020	2019
Wages and salaries (incl. taxes)	596 972	543 109
Taxes and levies (excl. income tax)	6 867	3 075
Purchased services	228 383	116 569
Other expenses	40 652	58 919
Total administrative expenses	**872 874**	**721 672**

(d) Net other income

’000 RUB	Note	2020	2019
Income from reversal of allowance for expected credit losses		249 297	251 923
Government grants – compensation of transportation costs	13 (a)	169 911	223 406
Income from reversal of provision for impairment of inventory		35 841	12 745
Fines and penalties		12 912	2 918
Depreciation		(37 728)	(24 311)
Other income and expenses, net		(37 996)	(43 032)
Total other income/ (expenses), net		**392 236**	**423 649**

(e) Net finance costs

’000 RUB	2020	2019
Net foreign exchange gain	47 040	-
Interest income on bank deposits and loans granted	7 893	26 051
Income from government funding	1 753	-
Total finance income	**56 686**	**26 051**
Financial liabilities measured at amortised cost – interest expense	(108 692)	(109 198)
Net foreign exchange loss	-	(122 179)
Unwind of discount on site restoration provision	(5 462)	(5 048)
Finance costs – other	(41 039)	(21 512)
Total finance costs	**(155 193)**	**(257 937)**
Net finance costs	**(98 507)**	**(231 886)**

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	**2020**	**2019**
Current income tax		
Current year	(50 713)	(226 948)
Changes in estimates related to prior years	-	(31)
	(50 713)	**(226 979)**
Deferred income tax		
Origination and reversal of temporary differences	(374 697)	(33 606)
Change in recognised deductible temporary differences (due to write-down of deferred tax assets)	68 352	(68 352)
Total income tax expense	**(357 058)**	**(328 937)**

(b) Reconciliation of effective tax rate:

’000 RUB	**2020**	**2019**
Profit before tax	1 276 747	1 937 169
Tax using the Company’s domestic tax rate	(255 349)	(387 434)
Change in recognised deductible temporary differences (due to write-down of deferred tax assets)	(68 352)	68 352
Tax effect on (expenses)/income, not included in tax base	(33 357)	(9 855)
Income tax expense	**(357 058)**	**(328 937)**

(c) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
’000 RUB	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Property, plant and equipment	-	-	(429 294)	(99 881)	(429 294)	(99 881)
Inventories	9 703	10 970	(19 756)	-	(10 053)	10 970
Trade and other receivables	10 145	24 678	-	-	10 145	24 676
Lease liabilities	93 155	44 680	-	-	93 155	44 680
Long-term provisions and liabilities	-	-	(17 724)	(24 303)	(17 724)	(24 303)
Other current liabilities	14 896	11 326	-	-	14 896	11 326
Tax assets/(liabilities)	**127 899**	**91 654**	**(466 774)**	**(124 184)**	**(338 875)**	**(32 530)**
Set off of tax	(127 899)	(91 654)	127 899	91 654	-	-
Net tax assets/(liabilities)	**-**	**-**	**(338 877)**	**(32 530)**	**(338 875)**	**(32 530)**

Change of deferred tax balance for 2020 and 2019 is recognised in profit or loss.

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

The Group’s Management has 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**	**2020**	**2019**
Profit for the year		919 689	1 608 232
Income tax expense		357 058	328 937
Profit before tax		**1 276 747**	**1 937 169**
Adjustments for:			
- Net finance costs	8(e)	98 507	231 886
- Depreciation and amortisation	11, 8(a), 8(d)	358 701	281 323
- Provision for bonuses based on KPI	19	25 000	29 691
- Income from reversal of allowance for expected credit losses	8(d) 20b(i)	(249 297)	(251 923)
Adjusted EBITDA		**1 509 658**	**2 228 146**

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 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**
Balance at 1 January 2020	3 626 713	7 570 456	887 541	947 017	13 031 727
Additions	66 265	224 247	-	1 056 524	1 347 036
Change in the cost as a result of modification	-	58 241	-	-	58 241
Disposals	(12 018)	(22 994)	(19 002)	(22)	(54 036)
Transfers to other assets	-	-	-	(11 464)	(11 464)
Transfers	613 050	1 036 831	130 728	(1 780 609)	-
Balance at 31 December 2020	**4 294 010**	**8 866 781**	**999 267**	**211 445**	**14 371 503**
Depreciation and impairment losses					
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)
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)**
Balance at 1 January 2020	(2 338 652)	(6 135 625)	(789 991)	-	(9 264 268)
Depreciation for the year	(97 928)	(237 720)	(18 537)	-	(354 184)
Disposals	11 478	10 161	16 089	-	37 728
Balance at 31 December 2020	**(2 425 102)**	**(6 363 184)**	**(792 439)**	**-**	**(9 580 725)**
Carrying amounts					
At 1 January 2019	**1 308 493**	**1 042 906**	**77 691**	**295 551**	**2 724 641**
At 31 December 2019	**1 288 061**	**1 434 831**	**97 550**	**947 017**	**3 767 459**
At 31 December 2020	**1 868 908**	**2 503 597**	**206 828**	**211 446**	**4 790 779**

Security

At 31 December 2020 properties with a carrying amount of RUB 821 445 thousand (2019: RUB 237 482 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 recognised 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

As at 31 December 2019, construction in progress includes capitalised costs of equipment and services related to the construction of a thermomechanical pulp production facility.

In September 2020, the thermomechanic pulp production facility was put into operation.

Impairment test

As at 31 December 2020 the Group analysed assets for indicators of impairment. As a result of analysis of external and internal data, no indicators of impairment of the Group’s Property, plant and equipment were identified.

Capital commitments

As at 31 December 2020 the Group has RUB 90 632 thousand of capital commitments under unfulfilled contracts (31 December 2019: RUB 243 551 thousand).

12 Inventories

’000 RUB	**2020**	**2019**
Raw materials and consumables	961 658	922 121
Work in progress	3 828	939
Finished goods and goods for resale	151 280	67 853
Others	44 531	-
Allowance for obsolete inventories (impairment of inventories)	(19 008)	(54 849)
Total inventories	**1 142 289**	**936 064**

13 Government grants

The Group received the following types of government grants:

(a) Compensation for transportation costs

In 2020, the amount of compensated costs was RUB 375 000 thousand, including RUB 205 089 thousand – compensation of costs incurred in 2020 year and classified in Cost of Sales net with transportation costs, and RUB 169 911 thousand – compensation of costs incurred in 2019 and classified in Other income. 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.

(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		**2020**	**2019**
Trade receivables		1 860 654	1 627 994
Other receivables		229 814	587 113
Allowance for expected credit losses on trade and other receivables	20(b)(i)	(939 242)	(1 418 924)
Total financial assets		**1 151 226**	**796 183**
VAT receivables		232 919	374 800
Prepayments given		374 422	171 790
Income tax receivable		44 192	2 661
Total non-financial assets		**651 533**	**549 251**
Total trade and other receivables		**1 802 759**	**1 345 434**

At 31 December 2019 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%. At 31 December 2020 liabilities of LAMARIN TRADING LIMITED in the amount of RUB 327 662 thousand fully repaid, the reversal of provision was recognised in other income.

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	**2020**	**2019**
Carrying amount of trade receivables transferred to a bank	15 928	142 721
Carrying amount of associated liabilities	13 538	130 846

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

15 Cash and cash equivalents

’000 RUB	**2020**	**2019**
Petty cash	128	239
Bank balances	295 093	57 558
Call deposits	692 441	277 265
Cash and cash equivalents in the statement of financial position and in the statement of cash flows	**987 662**	**335 062**

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

As at 31 December 2020 the Group’s cash is not restricted to use. As at 31 December 2019 the Group’s cash in the amount of RUB 124 692 thousand is 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 in the amount of RUB 40 956 thousand, as well as cash placed as a letter of credit for the purchase of equipment for this workshop in the amount of RUB 83 736 thousand as at 31 December 2019.

Sensitivity analyses 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**	
	2020	**2019**
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 indicators in these financial statements are disclosed according to IAS 29 *Financial Reporting in Hyperinflationary Economies* as at 31 December 2002.

Dividends

During the 12 months ended 31 December 2020 the Company announced and paid dividends for 2019 in the amount of RUB 200 750 thousand, which is 17 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 foreign currency and liquidity risk, see Note 20.

'000 RUB	**2020**	**2019**
Non-current liabilities		
Secured bank loans	628 165	203 640
Secured borrowings	368 576	341 359
Total long-term loans and borrowings	**996 741**	**544 999**
Lease liabilities	**429 785**	**420 176**
Current liabilities		
Current portion of secured bank loans	204 911	348 312
Unsecured bank loans	421 254	28 215
Total short-term loans and borrowings	**626 165**	**376 527**
Current portion of lease liabilities	**283 323**	**227 297**

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2020		31 December 2019	
’000 RUB	**Currency**	**Nominal interest rate**	**Year of maturity**	**Carrying amount**	**Face value**	**Carrying amount**	**Face Value**
Secured bank loans	RUB	6.51%	2021 - 2025	153 929	153 929	161 000	161 000
Secured bank loans	EUR	Variable rate at 2.4% - 3.4%	2021 – 2024	665 609	665 609	259 455	259 455
Secured bank loans	EUR	0.7%-0.8%	2020-2022	13 538	13 538	130 846	130 846
Unsecured bank loans	EUR	0.01%	2024	386 254	386 254	-	-
Secured borrowings	RUB	1%*	2023 - 2024	368 576	392 432	341 359	393 703
Unsecured bank loans	RUB	Key rate + 1.55%	2021	35 000	35 000	28 866	28 866
Total liabilities				**1 622 906**	**1 646 762**	**921 526**	**973 870**

***** As at 1 December 2019 the effective interest rate for this borrowing is 9.12%. Note 13(b).

Bank loans are secured by the following:

- land and buildings with a carrying amount of RUB 821 445 thousand at 31 December 2020 (31 December 2019: RUB 237 482 thousand) (See Note 11);
- receivables with a carrying amount of RUB 15 928 thousand at 31 December 2020 (31 December 2019: RUB 142 721 thousand) (See Note 14);
- lease liabilities are secured by the leased assets.

As at 31 December 2020 the Group has the opportunity to raise RUB 1 236 738 thousand of additional loans at the expense of unused credit lines.

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

’000 RUB	Lease liabilities	Loans and borrowings
31 December 2019	647 473	921 526
Changes from financing cash flows		
Proceeds from loans and borrowings	-	3 517 563
Repayment of loans and borrowings	(300 429)	(3 010 340)
Other changes		
New leases	290 512	-
Interest expense	69 278	23 928
Interests paid	(69 278)	(23 280)
Unwinding of discount on loans and borrowings	-	28 489
Foreign exchange differences	-	166 803
Other changes	75 552	(1 783)
31 December 2020	**713 108**	**1 622 906**

18 Trade and other payables

’000 RUB	31 December 2020	31 December 2019
Trade payables	693 907	254 990
Prepayments received	141 100	22 654
Income tax payable	4 677	58 329
Other taxes and levies payable, excluding income tax payable	25 920	43 866
Payables to employees	39 298	35 209
Payables to shareholders	18 639	17 558
Other payables	117 412	84 496
Total trade and other payables	**1 040 953**	**517 102**

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 2020	31 December 2019
Long-term account payables	289 975	357 011
Long-term provision for site restoration	74 476	69 014
Total other non-current liabilities	**364 451**	**426 025**

‘000 RUB	31 December 2020	31 December 2019
Short-term provision for bonuses to key management	25 000	29 691
Short-term provision for unused vacations	31 577	31 705
Current part of long-term payables	101 687	101 664
Total other current liabilities	**158 264**	**163 060**

Other liabilities include payable to “IDGC of Centre 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 instalments until June 2025. The discount rate was 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 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 (planned) and ad hoc reviews of internal 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-fulfilment 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 these risks, the Group constantly monitors the credit rating of banks.

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

'000 RUB	**2020**	**2019**
Trade receivables	967 346	642 362
Other receivables	183 880	153 821
Cash and cash equivalents	987 662	335 062
Letter of credit for equipment	-	83 736
Restricted cash	-	40 956
	2 138 888	**1 255 937**

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 2020, the exposure to credit risk for trade and other receivables by types of receivables was as follows:

Gross carrying amount, ‘000 RUB	31 December 2020	31 December 2019
Accounts receivable for paper products sold for export	1 506 124	1 087 358
Accounts receivable for paper products sold in the domestic market	23 640	18 596
Accounts receivable for services	560 704	1 109 153
Total trade and other accounts receivables	**2 090 468**	**2 215 107**

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

'000 RUB	2020	2019
Current (not past due)	966 228	702 862
0-30 days past due	41 315	88 757
31-60 days past due	16 340	17 306
61-90 days past due	232	997
91-180 days past due	46 827	4 719
181-360 days past due	3 143	15 793
360 days past due	1 016 383	1 384 673
Total gross amount of trade receivables	**2 090 468**	**2 215 107**

Expected credit loss assessment for individual customers as at 31 December 2020

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 significantly different exposure to a credit risk compared with other population of receivables.

Risk category	Gross carrying amount, '000 RUB	Impairment loss allowance, '000 RUB	Credit-impaired (Yes/No)
Low risk	247 271	5 846	No
Fair risk	37 827	-	
Substandard	32 661	32 661	Yes
Doubtful	906 308	884 504	Yes
Loss	-	-	Yes
Total	**1 224 067**	**923 011**	

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 2020.

Expected credit loss calculation for export sales receivables

Period	Weighted-average loss rate	Gross carrying amount, '000 RUB	Impairment loss allowance, '000 RUB	Credit-impaired
Current (not past due)	**0%**	685 936	92	No
Less 30 days past due	**0%**	1 493	2	No
31-60 days past due	**1%**	-	-	
61-90 days past due	**25%**	-	-	
91-180 days past due	**25%**	-	-	
181-360 days past due	**42%**	-	-	
More 360 days past due	**50%**	175	88	Yes
Total		**687 604**	**182**	

Expected credit loss calculation for domestic sales receivables

Period	Weighted-average loss rate	Gross carrying amount, '000 RUB	Impairment loss allowance, '000 RUB	Credit-impaired
Current (not past due)	**0%**	11 318	18	No
Less 30 days past due	**0%**	12 322	26	No
31-60 days past due	**1%**	-	-	
61-90 days past due	**11%**	-	-	
91-180 days past due	**18%**	-	-	
181-360 days past due	**23%**	-	-	
More 360 days past due	**24%**	-	-	
Total		**23 640**	**44**	

Expected credit loss calculation for receivables on services

Period	Weighted-average loss rate	Gross carrying amount, '000 RUB	Impairment loss allowance, '000 RUB	Credit-impaired
Current (not past due)	**3%**	50 343	1 660	No
Less 30 days past due	**5%**	4 409	408	No
31-60 days past due	**11%**	832	134	No
61-90 days past due	**16%**	166	34	No
91-180 days past due	**21%**	707	100	Yes
181-360 days past due	**37%**	1 290	509	Yes
More 360 days past due	**66%**	19 699	13 160	Yes
Total		**77 446**	**16 005**	

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

’000 RUB	**2020**	**2019**
Balance at 1 January	**(1 418 924)**	**(1 626 898)**
Increase in allowance	(45 755)	(55 180)
Reversal of allowance	295 063	255 048
Account receivable write-off using allowance	230 374	8 106
Balance at 31 December	**(939 242)**	**(1 418 924)**

Cash and cash equivalents

The Group held cash and cash equivalents of RUB 987 662 thousand at 31 December 2020 (31 December 2019: RUB 335 062 thousand), and restricted cash of RUB 0 thousand at 31 December 2020 (31 December 2019: RUB 124 692 thousand). The cash, cash equivalents and restricted cash are held in banks and financial institutions, 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 2020		**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 expenses)	1 622 906	1 708 549	653 823	450 029	604 697	-
Lease liabilities	713 108	1 045 491	330 366	223 613	180 147	311 365
Trade and other payables	1 022 313	1 022 313	1 022 313	-	-	-
Other liabilities	522 714	478 525	106 428	106 428	265 669	-
	3 881 041	**4 254 878**	**2 112 930**	**780 070**	**1 050 513**	**311 365**

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 expenses)	921 526	1 034 059	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	**3 189 353**	**1 294 652**	**447 076**	**1 067 058**	**380 567**

(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**
	2020	**2020**	**2019**	**2019**
Lease liability	-	(21 968)	-	(48 715)
Cash and cash equivalents	594 748	23 962	79 567	93 597
Secured bank loans	-	(1 065 401)	-	(390 301)
Trade payables	(16 536)	(58 045)	(19 336)	(17 976)
Trade receivables	1 404 777	118 815	987 783	99 858
Net exposure	**1 982 989**	**(1 002 637)**	**1 048 014**	**(263 537)**

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

RUB	**Average rate**		**Reporting date spot rate**	
	2020	**2019**	**2020**	**2019**
1 USD	72.3230	64.7362	73.8757	61.9057
1 EUR	82.8358	72.4101	90.6824	69.3406

Sensitivity 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 revenue and purchases.

’000 RUB	**Strengthening**		**Weakening**	
	Equity	**Profit or loss**	**Equity**	**Profit or loss**
31 December 2020				
USD (20% movements)	(396 598)	(396 598)	396 598	396 598
EUR (20% movements)	200 527	200 527	(200 527)	(200 527)
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)

21 Subsidiaries

Subsidiary	Country of incorporation	31 December 2020 Ownership/voting	31 December 2019 Ownership/voting
VolgaResource LLC	Russian Federation	100%	100%
AgroMir LLC	Russian Federation	100%	100%
Volga UK - Housing and Communal Services LLC	Russian Federation	80%	80%

22 Leases

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

Information about leases for which the Group is a lessee is presented below.

i) Right-of-use assets

Right-of-use assets related to leased properties that do not meet the definition of investment property are presented as property, plant and equipment (See Note 11).

‘000 RUB	Land	Machinery and equipment	Total
Balance at 1 January 2020	88 854	874 103	962 957
Change in the original price of the asset due to the contract modification	-	58 241	58 241
Depreciation charge for the year	(14 613)	(137 013)	(151 626)
Additions to right-of-use assets	66 265	224 247	290 512
Balance at 31 December 2020	**140 506**	**1 019 578**	**1 160 084**

ii) *Amounts recognised in profit or loss*

’000 RUB	**2020**
Interest on lease liabilities	69 278
Depreciation	151 626

iii) Amounts recognised in the statement of cash flows

’000 RUB	**2020**
Total cash outflow for leases	(369 707)

(i) iv) Extension options

Some property leases contain extension options exercisable by the Group up to one year before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

v) Enforceability and penalties

The determination of the lease term for lease contracts in which the Group is a lessee is based on the period for which the contract is enforceable. The enforceability of the lease is established not only by the written contract in combination with applicable legislation related to renewal or termination rights, but also by economic disincentives for the lessee and/or the lessor that might create a 'penalty' in a broader meaning. The Group has applied judgement to identify which lease contracts are renewable so that establishing the terms and conditions under which a lease will continue after the date on which both parties can terminate the lease.

This might result in the lease enforceability period going beyond the boundaries of the written renewable contract because of inclusion of additional period which lasts until the moment when the 'penalty' becomes insignificant for both parties. Contrary, in non-renewable lease contracts the penalties do not create additional lease enforceability beyond contractual end date and any subsequent usage in the periods beyond the boundaries of the written non-renewable contract is accounted for as a new lease or a modification of the existing lease.

As at 31 December 2020 the Group has not identified revolving leases as agreements establishing conditions under which the lease will continue beyond the date on which both parties can terminate the lease.

23 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.

Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. 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.

24 Related parties

Parent and ultimate controlling party

The Group does not have a parent company. The ultimate controlling party is Breus Shalva Petrovich, holder of 99.0035 % 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	**2020**	**2019**
Salaries	165 188	108 165
Bonuses to management personnel	21 707	25 640
Annual paid vacation	27 999	1 639
Other payments	2 633	3 321
Social security contributions	28 754	20 477
	246 281	**159 242**

Other related party transactions

	Transaction value for the year ended 31 December		Outstanding balance as at 31 December	
	2020	**2019**	**2020**	**2019**
Sale of goods and services:				
VolgaResource LLC *	-	435 300	-	-
Purchase of goods and services:				
VolgaResource LLC *	-	(5 269)	-	-
Others:				
International Cultural Foundation "BREUS FOUNDATION"	(34 000)	(50 000)	-	

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

25 Subsequent events

In 2021 the Group concludes with PJSC Sberbank a pledge agreement in the amount of RUB 259 606 thousand and a mortgage agreement in the amount of RUB 13 103 thousand to secure non-revolving credit lines.

In the period from 1 January 2021 the Group received loans and borrowings under existing agreements in the amount of RUB 350 932 thousand. The Group repaid loans and borrowings in the amount of RUB 623 885 thousand.

On March 26, 2021, the Company placed funds in the amount of RUB 877 907 thousand (USD 11 525 thousand) on the deposit account of PJSC Sberbank for a period of 31 days. The interest rate is 0.13% per annum.

In 2021 dividends were paid for 2014 in the amount of RUB 327 489 thousand.

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 the 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 acquiree; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and the 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 for the period.

(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 recognised 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 arising from the translation 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 transactions 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 recognised 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 Group evaluates the inventories at the cost of purchase or manufacture, which is the sum of all costs incurred by the Group in connection with bringing the inventories to their current condition and location.

Cost of purchase includes:

- amounts 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 recognised 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 actual cost of inventories may be higher than their net realisable value if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined in case of change in market conditions.

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

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

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

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

The net realisable value of inventories is calculated 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 an allowance is recognised 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 allowance related to these inventories shall be 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 recognises a decrease (reversal) of the allowance 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 property, plant and equipment for the reporting period are as follows:

Name of group	**Useful lives in 2020**
Land	Not depreciated
Buildings	5-50 years
Equipment	3-30 years
Fixtures and fittings	1-20 years
Vehicles	3-30 years
Other PPE	1-20 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 of intangible assets 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: policy

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 for the period.
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 has an option to 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 analogises 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 has an option to 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 reorganisation.

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 Group 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 analysed on an individual basis and excluded from the allowance matrix.

Allowance for expected credit losses on trade and other receivables on an individual basis

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 a 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 Group 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 unfavourable 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 Group's net assets exceeds its market capitalisation.

Internal indicators of impairment:

- there are indicators of obsolescence of an asset;
- material changes that adversely affect the position of the Group 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 recognised in profit or loss for the period.

An impairment loss recognised 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 recognised. 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 recognised.

(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.

Provision for site restoration and remediation of contaminated land

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

(m) Leases

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 consolidated 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.

(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 Group only if there is reasonable assurance that all conditions necessary for their receipt are met and grants will be provided.

Most of these grants provided to the Group are government grants 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 grants received in the reporting period relate to compensation of expenses incurred in prior reporting periods.

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 provided by the government at a below-market rate of interest is treated as a government grant. The loan is recognised 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 initial carrying amount of the loan, in accordance with IFRS 9, and cash proceeds.

Government grants related to the acquisition of an asset are treated as deferred income and included in profit or loss for the period when the respective asset 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.

(p) New standards and interpretations not yet adopted

Two new standards are effective for annual periods beginning after 1 January 2020 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:

- *COVID-19-Related Rent Concessions* (Amendment to IFRS 16).
- *Property, Plant and Equipment: Proceeds before Intended Use* (Amendments to IAS 16 *Property, Plant and Equipment*).
- *Reference to Conceptual Framework* (Amendments to IFRS 3)
- *Classification of Liabilities as Current or Non-current* (Amendments to IAS 1).
- *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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