GROUP OF COMPANIES «SEGEZHA» JOINT STOCK COMPANY

Consolidated Financial Statements and
Independent Auditor's Report
For the Year Ended 31 December 2020

SEGEZHA GROUP JSC

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SEGEZHA GROUP JSC

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2020

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Segezha Group JSC and its subsidiaries (hereinafter, collectively referred to as the "Group") as of 31 December 2020, and the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and consolidated financial performance;
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in accordance with the legislation and accounting standards of the countries where the Group operates;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group;
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2020 were approved by management on 15 March 2021.

On behalf of management:

Mikhail Shamolin
President

Rovshan Aliyev
Vice-President for Finance and Investment

15 March 2021

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Russia

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INDEPENDENT AUDITOR'S REPORT

To the shareholders and the Board of Directors of Group of Companies "Segezha" Joint Stock Company.

Opinion

We have audited the accompanying consolidated financial statements of Group of Companies "Segezha" Joint Stock Company and its subsidiaries (hereinafter, collectively referred to as the "Group") which comprise the consolidated statement of financial position as at 31 December 2020 and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year ended 31 December 2020, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

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 ("IFRSs").

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon. Therefore, we do not express a separate opinion on these matters.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Gain on acquisition of Karelian Wood Company LLC In January 2020, the Group closed the deal to acquire 100% in Karelian Wood Company LLC in exchange for RUB 950,000 thousand. As a result of the acquisition, the Group recognised a gain of RUB 988,745 thousand, representing an excess of the fair value of the net identifiable assets acquired over the cost of acquisition (please see Note 5). We believe that this is a key audit matter since the acquisition of Karelian Wood Company required the Group to make professional judgments to determine whether the acquiree is a business, as well as to identify and measure the fair value of assets acquired and assess the completeness and determine the values of liabilities assumed.	We obtained an understanding of the procedures and controls used by the Group to measure fair value and allocate the acquisition cost related to Karelian Wood Company, including the use of management experts, and the procedures applied by management to verify completeness and determine fair value of assets acquired and liabilities assumed. Our substantive audit procedures, performed with the assistance of the internal fair value specialists, included: • analysis of management assessment of the reasonableness of the bargain purchase gain, including analysis of the circumstances of the acquisitions, appropriateness of methods used to determine fair values of assets and liabilities of the acquiree and procedures performed by management to verify their completeness. • evaluation of management analysis of whether the acquired set of activities constitute a business in accordance with IFRS 3 *Business Combinations*, including analysing the operations, personnel, other inputs, processes and performance of the acquiree; • evaluation of methods and models used by management to determine fair values of identifiable assets and liabilities assumed, as well as verification of the arithmetic accuracy of the related calculations; • comparison of key assumptions used in the fair value measurement models (cost of capital, wood prices and harvesting costs, growth rates) to forecast data and publicly available macroeconomic indicators, including, where applicable, reconciliations between financial records and the budgets approved;

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
	• assessment of the reasonableness of fair values of the right-of-use assets (forest plots) by comparing their fair value against the similar assets previously acquired by the Group; • involvement of the internal tax experts to assess the valuation of tax assets acquired and completeness of tax liabilities assumed by the Group as part of the acquisition of Karelian Wood Company LLC. We also assessed the completeness and evaluated compliance of disclosures in the consolidated financial statements with the requirements of IFRS.
Loss of control (deconsolidation) of GalichLes LLC and Galich Plywood Mill LLC In March 2020, the Group entered into a credit facility agreement and a corporate governance agreement (hereinafter, the "Agreement") with a bank with respect to GalichLes LLC and Galich Plywood Mill LLC, its 100% subsidiaries (hereinafter, collectively as the "Galich Entities"), to obtain project financing to build a plywood mill in the city of Galich in the Kostroma Region. Both parties under the Agreement are equally entitled to direct relevant activities of the investee (please see Note 6). Based on the Agreement, management have concluded that the Group ceased to have control over the Galich Entities from 27 March 2020. We believe that the deal above is a key audit matter since the deconsolidation of the Galich Entities required the Group to make complex professional judgments to determine what constitutes relevant activities of the Galich Entities, as well as to identify which party to the Agreement is entitled to direct relevant activities. This required more audit procedures and complex professional judgements.	We have obtained and analysed all contracts entered into as part of the deal under consideration. Our procedures related to the loss of control over the Galich Entities included: • evaluation of whether management's assessment of the relevant activities is consistent with the requirements of IFRS 10 *Consolidated Financial Statements;* • analysis of the rights of the Group and the financing bank under the Agreement and assessment of whether the conclusion made by management in identifying the Galich Entities as joint ventures is consistent with the requirements of IFRS 11 *Joint Arrangements;* • evaluation of fair values of the Galich Entities at the date of deconsolidation as determined by management; • evaluation of compliance of disclosures in the consolidated financial statements with the requirements of IFRS.

Other information

Management is responsible for the other information. The other information comprises disclosures in the annual and quarterly reports of the issuer but does not include the consolidated financial statements and our auditor's report thereon. We expect that the annual and quarterly reports will be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information. Therefore, we do not express any form of assurance thereon.

As part of our audit of the consolidated financial statements, it is our responsibility to read other information when it is made available to us.
In doing so, we consider whether such other information is materially consistent with the consolidated financial statements or our knowledge obtained in the audit or whether it is free from material misstatements.

When we read the annual and quarterly reports, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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 IFRSs, and for such internal controls 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.

Auditor's 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 auditor's 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 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 judgement 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 controls 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 controls;
- Evaluate the appropriateness of the 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 auditor's 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 auditor's 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 present 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 our 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 controls that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, as well as communicate all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Based on the matters communicated to those charged with governance, we determine matters that are key to the audit of the consolidated financial statements for the period, and, therefore, are the key audit matters. We include these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Sharif Galeev
Engagement Partner

15 March 2021

Company: Segezha Group JSC

Primary state registration number: 1207700498279

Date of entry in the Unified State Register: 28.12.2020

Registration authority name: Interdistrict Inspectorate of the Federal Tax Service No.46 for Moscow

Address:
10 Presnenskaya Naberezhnaya, Moscow

Independent Auditor: AO Deloitte & Touche CIS

Certificate of state registration No. 018.482, issued by the Moscow Registration Chamber on 30 October 1992.

Primary state registration number: 1027700425444.

Certificate of registration in the Unified State Register series 77 No. 004840299 issued by Interregional Inspectorate for Taxes and Levies No. 39 for Moscow on 13 November 2002.

Member of Self-Regulated Organization of Auditors "Sodruzhestvo" (Association), ORNZ 12006020384.

SEGEZHA GROUP JSC

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020
(in thousands of Russian Rubles)

	Notes	2020	2019
Revenue	4	68,986,649	58,494,635
Cost of sales	7	(45,477,189)	(39,423,999)
Gross profit		**23,509,460**	**19,070,636**
Selling and administrative expenses	8	(14,545,143)	(12,548,477)
Other operating income, net	9	2,202,110	1,470,133
Operating profit		**11,166,427**	**7,992,292**
Interest income		176,415	73,991
Interest expense		(3,402,662)	(3,626,961)
Other finance expenses	26	(782,639)	-
Foreign exchange differences, net		(7,674,875)	2,404,415
Other income/(expenses)		18,243	(863)
(Loss)/profit before tax		**(499,091)**	**6,842,874**
Income tax expense	10	(848,792)	(2,091,912)
Net (loss)/profit for the reporting period		**(1,347,883)**	**4,750,962**
Other comprehensive income/(loss)			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit pension obligations	22	(52,420)	(81,769)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		1,004,488	(243,574)
Other comprehensive income/(loss)		**952,068**	**(325,343)**
Total comprehensive (loss)/income for the year		**(395,815)**	**4,425,619**
Net (loss)/profit attributable to:			
Shareholders/participants of Segezha Group JSC		(1,346,726)	4,787,419
Non-controlling interests		(1,157)	(36,457)
		(1,347,883)	**4,750,962**
Total comprehensive (loss)/income attributable to:			
Shareholders/participants of Segezha Group JSC		(394,658)	4,462,076
Non-controlling interests		(1,157)	(36,457)
		(395,815)	**4,425,619**

Mikhail Shamolin
President

Rovshan Aliyev
Vice-President for Finance and Investments

15 March 2021

The accompanying notes on pages 13-51 are an integral part of these consolidated financial statements.

SEGEZHA GROUP JSC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020
(in thousands of Russian Rubles)

	Notes	31 December 2020	31 December 2019
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	11	42,315,222	38,256,065
Right-of-use assets	28	14,649,041	12,017,386
Intangible assets	12	1,822,070	559,324
Goodwill		443,838	423,136
Investments in joint ventures and associates		458,192	199,760
Deferred tax assets	10	1,132,567	658,941
Prepayments for non-current assets, net	11	2,482,463	1,789,897
Loans issued to related parties	27	1,347,870	-
Other non-current assets		230,470	253,564
Total non-current assets		**64,881,733**	**54,158,073**
CURRENT ASSETS:			
Inventories, net	13	9,432,609	9,344,329
Contract assets	14	1,290,658	1,307,377
Trade and other receivables, net	15	5,862,900	5,378,830
Taxes receivable	17	3,057,269	2,194,262
Advances and other current assets	18	1,222,277	963,440
Cash and cash equivalents	16	3,670,197	3,214,409
Total current assets		**24,535,910**	**22,402,647**
TOTAL ASSETS		**89,417,643**	**76,560,720**
EQUITY AND LIABILITIES			
EQUITY:			
Share/charter capital	19	1,194,000	12
Additional paid-in capital	19	6,323,605	7,517,593
Retained earnings		(345,035)	5,581,246
Accumulated other comprehensive income		1,569,016	616,948
Equity attributable to the shareholders/participants of Segezha Group JSC		8,741,586	13,715,799
Non-controlling interest		126,630	132,709
Total equity		**8,868,216**	**13,848,508**
NON-CURRENT LIABILITIES:			
Loans and borrowings	20	50,758,014	29,969,945
Lease liabilities	28	9,573,338	7,573,098
Other financial liabilities	26	943,358	-
Pension obligations	22	917,435	754,587
Deferred tax liabilities	10	1,835,476	2,048,249
Other non-current liabilities		5,931	14,342
Total non-current liabilities		**64,033,552**	**40 360,221**
CURRENT LIABILITIES:			
Loans and borrowings	20	2,494,023	12,572,249
Trade and other payables	21	9,612,693	7,079,386
Lease liabilities	28	1,380,598	887,632
Provisions	24	559,758	392,611
Taxes payable		1,210,363	937,479
Advances received and other liabilities		1,258,440	482,634
Total current liabilities		**16,515,875**	**22,351,991**
TOTAL EQUITY AND LIABILITIES		**89,417,643**	**76,560,720**

Mikhail Shamolin
President

Rovshan Aliyev
Vice-President for Finance and Investments

15 March 2021

The accompanying notes on pages 13-51 are an integral part of these consolidated financial statements.

SEGEZHA GROUP JSC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020
(in thousands of Russian Rubles)

	Notes	Share/ charter capital	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income: Translation to presentation currency	Accumulated other comprehensive income: Other	Equity attributable to sharehol-ders/partici-pants of Segezha Group JSC	Non-controlling interests	Total equity
31 December 2018		**12**	**7,648,354**	**4,734,314**	**943,317**	**(1,026)**	**13,324,971**	**170,300**	**13,495,271**
Net profit/(loss) for the reporting period		-	-	4,787,419	-	-	4,787,419	(36,457)	4,750,962
Other comprehensive loss for the year		-	-	-	(243,574)	(81,769)	(325,343)	-	(325,343)
Total comprehensive income/(loss) for the year		-	-	4,787,419	(243,574)	(81,769)	4,462,076	(36,457)	4,425,619
Share-based payments	23	-	(130,761)	-	-	-	(130,761)	-	(130,761)
Buy-back of non-controlling interests		-	-	-	-	-	-	(1,134)	(1,134)
Distribution to companies under common control	19	-	-	(140,487)	-	-	(140,487)	-	(140,487)
Dividends to the participants	19	-	-	(3,800,000)	-	-	(3,800,000)	-	(3,800,000)
31 December 2019		**12**	**7,517,593**	**5,581,246**	**699,743**	**(82,795)**	**13,715,799**	**132,709**	**13,848,508**
Net loss for the reporting period		-	-	(1,346,726)	-	-	(1,346,726)	(1,157)	(1,347,883)
Other comprehensive income/(loss) for the year		-	-	-	1,004,488	(52,420)	952,068	-	952,068
Total comprehensive loss for the year		-	-	(1,346,726)	1,004,488	(52,420)	(394,658)	(1,157)	(395,815)
Increase the share capital	19	1,193,988	(1,193,988)	-	-	-	-	-	-
Dividends to the participants	19	-	-	(4,500,000)	-	-	(4,500,000)	-	(4,500,000)
Distribution to companies under common control	19	-	-	(79,599)	-	-	(79,599)	-	(79,599)
Other movements		-	-	44	-	-	44	(4,922)	(4,878)
31 December 2020		**1,194,000**	**6,323,605**	(345,035)	**1,704,231**	**(135,215)**	**8,741,586**	**126,630**	**8,868,216**

The accompanying notes on pages 13-51 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020
(in thousands of Russian Rubles)

	Notes	2020	2019
Cash flows from operating activities:			
Net (loss)/profit for the reporting period		(1,347,883)	4,750,962
Adjustments for:			
Depreciation and amortisation		5,357,137	4,954,133
Depreciation of right-of-use assets	28	915,559	1,047,685
Interest income recognised in profit or loss		(176,415)	(73,991)
Interest expense recognised in profit or loss		3,402,662	3,626,961
Other finance expenses	26	782,639	-
Gain on business acquisition	5	(988,745)	-
Income tax expense recognised in profit or loss	10	848,792	2,091,912
Allowance for expected credit losses	8	98,826	7,408
Loss on write-off of inventories	9	66,149	7,755
Allowance for inventory impairment		(445)	(14,356)
(Gain)/loss on disposal of property, plant and equipment		(341,304)	25,429
Foreign exchange differences, net		7,674,875	(2,404,415)
Reversal of impairment loss on property, plant and equipment	11	-	(478,887)
Gain on deconsolidation of Group companies	6	(18,243)	-
Other non-monetary operating expenses/(income) and other expenses/(income), net		168,329	(118,996)
		16,441,933	**13,421,600**
Movements in working capital:			
Decrease/(increase) in trade and other receivables		96,085	(236,646)
Decrease/(increase) in inventories		1,031,276	(445,016)
Increase in other assets		(345,682)	(1,743,511)
Increase in trade and other payables		213,705	1,631,549
Increase/(decrease) in other liabilities		1,075,664	(678,318)
Cash generated from operating activities		**18,512,981**	**11,949,658**
Interest paid		(2,099,438)	(2,649,048)
Income taxes paid		(1,679,085)	(1,680,242)
Net cash from operating activities		**14,734,458**	**7,620,368**

The accompanying notes on pages 13-51 are an integral part of these consolidated financial statements.

CONSOLIDATES STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)
(in thousands of Russian Rubles)

	Notes	2020	2019
Cash flows from investing activities			
Payments for property, plant and equipment and intangible assets		(11,839,256)	(6,431,770)
Proceeds on disposal of property, plant and equipment		205,023	174,112
Loans issued to joint venture	27	(1,490,010)	-
Repayment of loans issued to joint venture	27	1,319,540	-
Interest received		176,415	73,991
Cash outflow from deconsolidation of Group companies		(44,657)	-
Investment in joint venture		(297,178)	-
Imputed dividends paid	19	(55,600)	(138,987)
Net cash outflow on acquisition of Group companies	5	(901,963)	(139,588)
Other movements		3,157	54,036
Net cash used in investing activities		**(12,924,529)**	**(6,408,206)**
Cash flows from financing activities			
Proceeds from loans and borrowings	20	22,431,413	19,982,604
Repayment of principal of loans and borrowings	20	(18,122,246)	(15,892,885)
Proceeds from return of short-term investments		-	940
Other finance income		160,719	-
Dividends paid	19	(4,500,000)	(3,800,000)
Lease liability payments	28	(1,462,324)	(1,119,117)
Share-based payments	23	(130,761)	(130,761)
Net cash used in financing activities		**(1,623,199)**	**(959,219)**
Net increase in cash and cash equivalents		186,730	252,943
Cash and cash equivalents, beginning of the year	16	**3,214,409**	**3,006,868**
Effect of exchange rate changes on cash held in foreign currencies		269,058	(45,402)
Cash and cash equivalents, end of the year	16	**3,670,197**	**3,214,409**

(in thousands of Russian Rubles, unless otherwise indicated)

1. GENERAL INFORMATION

Group of Companies «Segezha» Joint Stock Company (before 28 December 2020 Group of Companies Segezha LLC, hereinafter, the "Company" or jointly with its subsidiaries – «Segezha Group» or the «Group») is a vertically integrated timber holding company with full-cycle logging and value-added wood conversion. The Group operates both Russian and European timber, woodworking, pulp and paper companies, as well as paper packaging producers.

On 28 December 2020 Group of companies Segezha Limited Liability Company was reorganised into Group of Companies «Segezha» Joint Stock Company.

The Company has a registered office at 10 Presnenskaya Naberezhnaya, Moscow.

Below are the Group's significant entities, shares of ownership, locations and principal activities:

Significant entities	**Country**	**31 December 2020**	**31 December 2019**
Pulp and paper			
Segezha Pulp and Paper Mill, JSC	Russia	100%	100%
Sokol Pulp and Paper Mill, PJSC	Russia	99.13%	92.60%
Packaging			
Segezha Packaging, LLC	Russia	100%	100%
Arka Merchants Limited	Ireland	100%	100%
Segezha Packaging GmbH	Germany	100%	100%
Segezha Packaging A/S	Denmark	100%	100%
Segezha Packaging S.p.A.	Italy	100%	100%
Segezha Packaging B.V.	Netherlands	100%	100%
Segezha Ambalaj Sanayi ve ticaret Anonim Sirketi	Turkey	100%	100%
Segezha Packaging Pazarlama Anonim Sirketi	Turkey	100%	100%
Segezha Packaging s.r.o.	Czech Republic	100%	100%
Segezha Packaging SRL	Romania	100%	100%
Plywood and boards			
Vyatsky Plywood Mill, LLC	Russia	100%	100%
Woodworking			
Lesosibirsky LDK No.1, JSC	Russia	100%	100%
Segezha Sawmills, LLC	Russia	100%	100%
Onega Sawmills, JSC	Russia	100%	100%
Sokol Timber Company, JSC	Russia	100%	100%
Ksilotek-Siberia, LLC	Russia	100%	100%
Forestry management			
Muezerskiy LPH, PJSC	Russia	-[1]	100%
Karelian Wood Company LLC	Russia	100%	-
Lenderskiy Lespromhoz, PJSC	Russia	100%	100%
Medvezhyegorskiy LPH, LLC	Russia	-[1]	100%
LPH Kipelovo, JSC	Russia	100%	100%
PLO Onegales, LLC	Russia	-[2]	100%
Onegales, PJSC	Russia	-[2]	100%
Techprom, LLC	Russia	-[3]	100%
Volomsky KLPH Leskarel, OJSC	Russia	76.23%	75.61%
Ledmozerskoye LZH, OJSC	Russia	87.25%	87.25%
Severlesprom, LLC	Russia	-[1]	100%
Energy			
Vologda Bumazhnaya Manufactura, LLC	Russia	100%	100%
Onega-Energy, JSC	Russia	75%	75%
Other			
Segezha Group Management Company, LLC	Russia	100%	100%
Voloma-Invest, LLC	Russia	-[1]	100%

[1] Muezerskiy LPH, PJSC, Medvezhyegorskiy LPH, LLC, LLC Severlesprom, Voloma-Invest, LLC as a result of reorganization merged with JSC Lendersky Lespromkhoz
[2] PLO Onegales, LLC, Onegales, PJSC as a result of reorganization merged with Onega Sawmills, JSC
[3] Techprom, LLC as a result of reorganization merged with LPH Kipelovo, JSC

As at 31 December 2020 and 2019, Sistema, PJSFC (14.57%) and its subsidiary Sistema Telecom Assets, LLC (83.67%) were the key shareholders/participants in the Company. Vladimir Yevtushenkov is the ultimate controlling shareholder of Sistema, PJSFC (the "Parent"). The ownership structure is presented in the Note 19.

On 14 January 2020, the Company acquired 100% in Karelian Wood Company, LLC, a forestry management and woodworking company (Note 5).

On 3 June 2019, the Company acquired 100% in Severlesprom, LLC, a forestry management company operating leased forest plots.

As at 31 December 2020, the Group had no pledged shares/interests in subsidiaries to secure performance under the loan and overdraft agreements. As at 31 December 2019, the Group pledged shares/interests in the subsidiary Onega Sawmills to secure performance under the loan and overdraft agreements (Note 20).

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") on a historical cost basis, except for property, plant and equipment recognised at fair value as at 1 January 2015 (the date of the first adoption of IFRS). Historical cost is generally based on the fair value of the consideration given in exchange for acquired assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

The entities of the Group maintain their accounting records in accordance with the laws and accounting/reporting regulations of the jurisdictions in which they are incorporated.
The accounting principles in these jurisdictions may differ substantially from IFRS. Accordingly, individual financial statements of the entities were adjusted to ensure that the consolidated financial statements are presented in accordance with IFRS.

The principal accounting policies applied to prepare these consolidated financial statements are set out below and in related Notes. These accounting policies have been consistently applied to all years presented in these statements, except where indicated otherwise.

Functional and presentation currency. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Russian Ruble is the functional currency of the Company. These consolidated financial statements are presented in Russian Rubles. All values are rounded to the nearest thousand Rubles, except as indicated otherwise.

Transactions in currencies other than the subsidiary's functional currency are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items reported at historical cost denominated in a foreign currency are not retranslated.

Foreign exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for exchange differences on monetary items receivable from or payable to the subsidiaries of the Group, representing foreign operations, for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation). Such foreign exchange differences are recognised initially in other comprehensive income and reclassified from equity to profit or loss on settlement of the monetary items.

(in thousands of Russian Rubles, unless otherwise indicated)

For the purposes of presenting these consolidated financial statements, the financial information on the Group's foreign operations is translated from the functional currency into Russian Rubles as follows:

- All assets and liabilities, both monetary and non-monetary, are translated at the exchange rates prevailing at the end of reporting periods;
- All income and expense items are translated at the average exchange rates for the reporting period;
- Equity components are translated at the historic rate;
- Exchange differences are presented as a separate item (*Foreign exchange differences on translation of foreign operations*) in the consolidated statement of profit or loss and other comprehensive income, with the accumulated effect recognised in equity and attributed to non-controlling interest as appropriate;
- Cash flows are translated at the average exchange rates for the reporting period unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences are recognised as a separate item (*Effect of exchange rate changes on cash held in foreign currencies*).

Below are exchange rates as at year-end, which were used by the Group for the purpose of these consolidated financial statements:

	31 December 2020	**31 December 2019**
RUB/USD	73.8757	61.9057
RUB/EUR	90.6824	69.3406

Below are average exchange rates for the year, which were used by the Group for the purpose of these consolidated financial statements:

	2020	**2019**
RUB/USD	72.1464	64.7362
RUB/EUR	82.4488	72.5021

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to participants of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal that does not result in losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interest and are not recognised in profit or loss.

Offsetting financial instruments. Financial assets and liabilities are netted and the net amount is reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. The right to offset (1) must not be contingent on a future event and (2) must be legally enforceable in all of the following circumstances: (a) in the normal course of business, (b) the event of default and (c) the event of insolvency or bankruptcy.

Basis of consolidation. These consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control over an entity (an investee) is achieved where the Group:

- has power to direct relevant activities of the investees that significantly affect their returns;
- is exposed, or has rights to, variable returns from its involvement with an investee; and
- has the ability to use its power over the investees to affect the amount of investor's returns.

The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have the practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than a majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of other vote holders to determine if it has de-facto power over the investee. The protective rights of other investors, such as those that relate to fundamental changes of an investee’s activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee.

Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

Intragroup transactions, balances and unrealised gains on transactions between companies in the Group are eliminated. Unrealised losses are also eliminated unless costs cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group’s policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Group. Non-controlling interest forms a separate component of the Group’s equity.

Purchases and sales of non-controlling interests. The Group applies the economic entity model to account for transactions with owners of non-controlling interest provided such transactions do not result in loss of control. Any difference between the consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity.

Associates. Associates are entities significantly influenced, directly or indirectly, but not controlled by the Group. Generally, the voting rights in such entities vary from 20% to 50%. Investments in associates are accounted for using the equity method and initially recognised at historical cost. The carrying amount of the investments is then increased or decreased based on the investor’s interest in the profit or loss of the associate after the acquisition date. Dividends from associates decrease the carrying amount of investments in the same associates. Other changes in the Group’s share of net assets of the associates arising after the acquisition are recognised as follows:

- The Group’s share in profit or loss of the associates is included in consolidated profit or loss for the year as a share of their financial results;
- The Group’s share of other comprehensive income is stated as a separate line within other comprehensive income;
- All other changes in the Group’s share of the carrying amount of the associates’ net assets are included in profit or loss as a share of their financial results.

However, when the Group’s share of the associate losses is equal or greater than its interest in the associate, including any unsecured accounts receivable, the Group derecognises further losses, except where the Group has assumed obligations or made payments on behalf of that associate.

Unrealised gains on transactions between the Group and its associates are eliminated in proportion to the Group's interest in those associates; unrealised losses are also eliminated unless the transaction has an indication that the transferred asset has been impaired.

Deconsolidation of subsidiaries and associates. When the Group ceases to have control or significant influence, any interest retained in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purpose of subsequent accounting for the interest retained in an associate or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity, are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

Revenue. Revenue represents income arising in the normal course of business of the Group. Revenue is recognised at a transaction price. Transaction price represents a consideration to which the Group expects to become entitled in exchange for transferring control over promised goods or services to a customer, excluding any amounts received on behalf of third parties. Revenue is recognised net of discounts, VAT, export duties, excise and other similar mandatory payments.

Revenue comprises sales of goods (paper and package products, sawn timber, plywood, boards and other goods), as well as services related to the delivery of finished goods to customers after the transfer of control over goods. Sales are recognised as control passes to the customer, i.e. when (i) products have been delivered to the customer under Incoterms 2010, (ii) the customer is free to dispose of the products delivered and (iii) there is no outstanding obligation that may affect the acceptance of the products by the customer. The delivery of products is considered completed where (i) the products have been delivered to a specific location, (ii) control over the products has passed to the customer, (iii) the customer has accepted the products under the contract and (iv) the acceptance terms and conditions have expired or the Group has objective evidence that all the acceptance terms and conditions have been satisfied.

Receivables are recognised upon product delivery because the right to consideration becomes unconditional due to the fact that consideration is only contingent on the passage of time.

If the Group transfers control over the service over the time (such as delivery of finished goods to the customer after having transferred the control) and, therefore, a performance obligation is satisfied over time, the sales revenue is included in the reporting period when the services were provided.

Critical judgements

The Group makes accounting estimates and assumptions that affect the amounts recognised in the consolidated financial statements and the carrying amounts of assets and liabilities. Accounting estimates and judgements are reviewed regularly and based on the management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In applying the accounting policies, management also makes judgements other than accounting estimates. Professional judgements with the most significant effect on accounting estimates and the amounts recognised in the consolidated financial statements, which may result in a significant adjustment to the carrying amount of assets and liabilities within the next financial year, include:

- Loss of control (deconsolidation) in subsidiaries (Note 6);
- Assessment of lease liabilities (Note 28);
- Useful lives of property, plant and equipment (Note 11);
- Deferred tax assets recoverability (Note 10);
- Fair value measurement (Notes 5, 11 and 26);
- Impairment of financial and non-current assets (Note 15).

Going concern assumption

Management has prepared these consolidated financial statements on a going concern basis. This judgment has been made by management based on the Group's financial position, current plans, profitability of operations and availability of financial resources, as well as the impact of recent macroeconomic changes on the future operations of the Group.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Below are the revised standards that have become obligatory for the Group as of 1 January 2020 but have not had any material impact on its operations:

- COVID-19-Related Rent Concessions Amendment to IFRS 16 (issued on 28 May 2020 and effective for annual periods beginning on or after 1 June 2020).
- Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for the annual periods beginning on or after 1 January 2020).
- Definition of a Business — Amendments to IFRS 3 (issued on 22 October 2018 and effective for the annual periods beginning on or after 1 January 2020). These amendments introduce changes to definition of a business. A business includes an input and a substantive process that together significantly contribute to the ability to create outputs. The updated guidelines provide a system that allows for the presence of an input and a substantive process to be determined, including for companies that are in the initial development phase and have no outputs yet. If there are no outputs, the presence of an organised workforce is required for an entity to be considered a business. The definition of outputs is narrowed by focusing on goods and services provided to customers, by making an investment and other income, and by removing the reference to the ability to reduce costs and receive other economic benefits. There is also no need to assess the ability of market participants to substitute missing elements or integrate an acquired set of activities and assets. An entity may apply a concentration test. An acquired set of activities and assets is not a business if substantially all the fair value of the gross assets acquired is concentrated in a single asset (or group of similar assets).
- Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).
- Interest rate benchmark reform - Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020).

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2021, and which the Group has not early adopted. The Group does not expect that these standards will have a material impact on its consolidated financial statements, unless otherwise stated below.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014. The effective date of the amendments has yet to be set by the Board; however, earlier application of the amendments is permitted). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary.

IFRS 17 «Insurance Contracts» (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023); ***Amendments to IFRS 17 and an amendment to IFRS 4*** (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The amendments include a number of clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and transition.

Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022).These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance. The Group is currently assessing the impact of the amendments on its financial statements.

Amendments to IAS 37 – Onerous Contracts—Cost of Fulfilling a Contract The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. Comparatives are not restated. Instead, the entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

The amendments are effective for annual periods beginning on or after 1 January 2022, with early application permitted.

4. OPERATING SEGMENTS

Operating segments are components that engage in business activities from which they may earn revenues and incur expenses. The Chief Operating Decision Maker (CODM) is responsible for the regular analysis of segment performance, with financial information provided for operating segments. The CODM function is the responsibility of the Management Board, led by the President of the Group.

The Group's segments are strategic business units defined based on the goods and services they produce with a focus on certain customer categories. The Group has three operating segments:

- ***Paper and packaging*** segment is engaged in the production and sale of sack kraft paper and artificial parchment produced from northern unbleached softwood kraft. The segment also offers the whole range of brown sack paper, as well as industrial paper sacks for a wide range of industries, such as cement, building, food, agriculture and chemicals, and retail paper bags;
- ***Forestry management and wood working*** segment is engaged in the production of high-quality northern softwood sawn timber and wood chips. Sawn timber is used in construction, manufacturing of furniture blanks, glued timber structures, as well as wooden containers and packaging;
- ***Plywood and boards*** segment is engaged in the production of high-tech birch plywood of various types, dry process wood fibreboards ("fibreboards") and RUF fuel briquettes. Plywood is then used in construction, furniture manufacturing, transportation and packaging. Fibreboards are used in the manufacture of doors, wall coverings and floorings, moldings and furniture.

For the purpose of presentation, operating segments are reported without aggregation. The *Other* group includes companies that are not operating segments, i.e. management and holding companies. It also includes the Group's companies engaged in sales of glued timber structures and prefabricated houses made of laminated veneer lumber, which are not material for the Group at the moment and, therefore, not regarded as a separate reporting segment.

(in thousands of Russian Rubles, unless otherwise indicated)

The CODM analyses IFRS financial information, adjusted based on the internal reporting requirements. Segment operation results are assessed based on OIBDA (operating income before depreciation and amortization) indicators. OIBDA is calculated as operating profit or loss before depreciation and amortisation. Assets and liabilities by segment are not reported to the CODM on a regular basis.

Transaction prices between operating segments are set on an arm's length basis.

The Group's financial transactions (including finance costs, finance income, and other income) and income taxes are treated with regards to the Group as a whole, without allocation to operating segments.

The following is an analysis of reportable segments for the year ended 31 December 2020:

	Paper and packaging	Forestry manage-ment and wood working[(1)]	Plywood and boards	Other	Total segments
Segment revenue	35,667,634	23,908,660	7,666,319	9,392,914	**76,635,527**
Elimination of intersegment transaction revenue	(7,290)	(4,749,649)	(121)	(2,891,818)	**(7,648,878)**
Total revenue reported in the consolidated statement of profit or loss and other comprehensive income	**35,660,344**	**19,159,011**	**7,666,198**	**6,501,096**	**68,986,649**
OIBDA	**10,016,858**	**5,830,514**	**2,914,492**	**(1,302,912)**	**17,458,952**

(1) In previous years, the segment was referred to "Timber resources and woodworking." There have been no changes to the composition of the segment.

OIBDA of the Forestry management and wood working segment includes income from acquisition of Karelian Wood Company LLC in the total amount of RUB 988,745 thousand
The following is an analysis of reportable segments for the year ended 31 December 2019:

	Paper and packaging	Forestry manage-ment and wood working	Plywood and boards	Other	Total segments
Segment revenue	33,366,684	20,325,835	6,556,574	6,303,000	**66,552,093**
Elimination of intersegment transaction revenue	(7,570)	(5,352,639)	(281)	(2,696,968)	**(8,057,458)**
Total revenue reported in the consolidated statement of profit or loss and other comprehensive income	**33,359,114**	**14,973,196**	**6,556,293**	**3,606,032**	**58,494,635**
OIBDA	**10,604,900**	**2,927,003**	**1,660,163**	**(1,173,000)**	**14,019,066**

Below is the reconciliation of segment OIBDA and consolidated net (loss)/profit before tax of the Group:

	For the year ended	
	31 December 2020	31 December 2019
OIBDA	**17,458,952**	**14,019,066**
Depreciation and amortisation expense	(6,272,696)	(6,001,819)
Other	(19,829)	(24,955)
Operating profit	**11,166,427**	**7,992,292**
Interest income	176,415	73,991
Interest expense and other finance expenses	(4,185,301)	(3,626,961)
Foreign exchange differences, net	(7,674,875)	2,404,415
Other income/(expenses)	18,243	(863)
(Loss)/profit before tax	**(499,091)**	**6,842,874**

(in thousands of Russian Rubles, unless otherwise indicated)

Geographical information

Revenue is presented by country and based on client location:

	For the year ended	
	31 December 2020	31 December 2019
Russia	19,291,643	15,762,224
China	10,340,730	7,236,633
Germany	4,204,359	3,811,585
Egypt	3,493,523	2,814,874
Finland	2,517,623	639,191
Netherlands	1,877,771	1,720,871
Denmark	1,847,312	1,534,771
Turkey	1,658,365	830,644
Italy	1,580,927	1,408,245
France	1,541,095	1,496,329
Saudi Arabia	1,471,609	840,972
USA	1,455,488	1,379,233
United Kingdom	1,399,683	1,226,195
Romania	1,150,547	762,368
Kazakhstan	1,133,512	1,010,649
Czech republic	945,023	393,140
Mexico	897,215	1,175,302
Korea, republic	869,754	484,961
Ghana	798,018	482,162
Other	10,512,452	13,484,286
Total third-party revenue	**68,986,649**	**58,494,635**

Non-current assets are reported by country, based on geographic location:

	For the year ended	
	31 December 2020	31 December 2019
Russia	60,562,299	51,516,365
Netherlands	1,057,642	407,322
Germany	811,987	518,633
Denmark	537,369	412,359
Other	779,869	644,453
Total non-current assets	**63,749,166**	**53,499,132**

5. BUSINESS COMBINATIONS

All business combinations are accounted for using the acquisition method. Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interests that represent ownership interests and entitle the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not ownership interests are measured at fair value.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of (i) the consideration transferred for the acquiree, (ii) the amount of non-controlling interest in the acquiree and (iii) the fair value of an interest in the acquiree held immediately before the acquisition date. Income from acquisition is not recognised in profit or loss until management has made reassessments to see whether it has (i) identified all the assets acquired and all liabilities and contingent liabilities assumed and (ii) reviewed related measurements.

(in thousands of Russian Rubles, unless otherwise indicated)

The consideration transferred for the acquiree is measured at the fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed, including the fair value of assets or liabilities from contingent consideration arrangements, but excludes acquisition-related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred to issue equity instruments are deducted from equity; transaction costs incurred to issue debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Acquisition of Karelian Wood Company

On 14 January 2020, the Group acquired a 100% stake in Karelian Wood Company LLC, a forestry management, timber harvesting and woodworking company with annual permitted volume of logging operations of 206,000 cubic meters, for agreed cash consideration of RUB 950,000 thousand. The Group’s management expects synergetic effect from the acquisition, strengthening raw material security of the Group through Karelian’s timber supply rights. Forest plots of the Karelian Wood Company are located in close proximity to the Group's main forest area in Karelia.

As at 31 December 2020 the Group engaging an independent valuation specialist has completed purchase price allocation to the fair value of identifiable assets acquired and liabilities assumed.

The estimate of the fair value of the acquired assets and assumed liabilities at the acquisition date comprise:

	Fair value as at the acquisition date
Assets and liabilities	
Property, plant and equipment	703,539
Right-of-use assets	1,084,110
Deferred tax assets	349,667
Cash and cash equivalents	930
Inventories	410,073
Trade and other accounts receivable	215,012
Other current assets	85,978
Lease liabilities	(427,051)
Deferred tax liabilities	(196,606)
Provisions	(33,865)
Other liabilities	(14,654)
Trade and other payables	(238,388)
Total identifiable net assets	**1,938,745**
Gain on business acquisition	(988,745)
Total acquisition value	**950,000**
Settled in the form of:	
Cash consideration	829,115
Cash consideration payable	120,885

Cash consideration payable is an additional amount for the agreed upon level of working capital acquired.

The estimates of the fair value of the acquired assets and assumed liabilities at the acquisition date were based on the following:

Property, plant and equipment
Fair value of production assets was based on the cost approach using current market value of replacement assets. At the same time, potential economic impairment was assessed through discounted cash flow approach. Land, apartments and vehicles, for which an active secondary/resale market exists, were valued using market approach.

Right-of-use assets
Right-of-use assets are long-term lease agreements for forest plots, fair value of which was assessed through discounted cash flow approach.

Deferred tax assets
Deferred tax assets are tax losses carried forward, fair value of which was assessed through discounted cash flow approach, taking into account projected taxable profits and legal limitations regulating the maximum amount of losses carried forward to be offset against taxable profit in each tax period.

Lease liabilities
In accordance with IFRS 16 *Leases* discounted future cash payments under lease contracts for the full duration of the lease contracts are reported as lease liabilities.

Deferred tax liabilities
Adjustments to deferred tax liabilities include the tax effect of the fair value adjustments for property, plant and equipment and right-of-use assets.

Trade and other receivables and payables are reported at fair value. Fair value estimate represents the best estimate of contractual cash flows receivable and payable at the acquisition date.

The Group recorded gain on acquisition of Karelian Wood Company in the total amount of RUB 988,745 thousand as other operating income in its consolidated statement of profit or loss. The gain received is due to the fact that there were limited number of potential acquirers able to perform the acquisition. Previous owners of Karelian Wood Company failed to reach maximum permitted logging operations volume, to utilize maximum production capacity, and to maximize returns for geographic diversification of sales that represented additional interest for the Group. In 2020 the Group increased logging operations volume, as well as sawn timber production volume, thus increasing the company’s operating profit; no additional capital investment was required to achieve that.

From the date of acquisition, Karelian Wood Company LLC contributed RUB 1,424,607 thousand of revenue and RUB 43,822 thousand of profit before tax of the Group. The Group does not provide information on the revenue and profit before tax from 1 January 2020 to the acquisition date due to immateriality.

Acquisition of other companies

On 13 January 2020, the Group acquired control over Giprobum CJSC (75.02%), an engineering company located in St. Petersburg engaged in designing of pulp and paper production facilities, for a cash consideration of RUB 8,000 thousand. The Group plans to utilize Giprobum’s engineering and project management capabilities to enhance the efficiency of the Group’s existing production facilities, as well as to construct new production facilities.

On 1 April 2020, the Group acquired 100% stake in Land-10 LLC engaged in timber harvesting with annual permitted volume of logging operations of 35,000 cubic meters, for the consideration of RUB 65,899 thousand. The transaction was concluded as a part of increasing the raw material base for the Group's companies; the forest plots are located in close proximity to the Group's main forest area in Karelia.

(in thousands of Russian Rubles, unless otherwise indicated)

The fair value estimates of the acquired assets and assumed liabilities at the acquisition date comprise:

	Fair value
Assets and liabilities	
Property, plant and equipment	445
Right-of-use assets	184,661
Cash and cash equivalents	121
Trade and other accounts receivable	3,076
Other current assets	778
Lease liabilities	(91,335)
Deferred tax liabilities	(16,974)
Trade and other payables	(31,805)
Total identifiable net assets	**48,967**
Goodwill	20,702
Non-controlling interest	4,230
Total acquisition value	**73,899**
Settled in the form of:	
Cash consideration	**73,899**

6. DECONSOLIDATION OF SUBSIDIARIES

Galich Plywood Mill LLC was organized for the purposes of birch plywood production. In order to start the construction of a plywood mill in the city of Galich, the Kostroma Region, in March 2020 the Group organized project financing based on the Group's 100% subsidiaries GalichLes LLC and Galich Plywood Mill LLC (jointly referred to as the "Galich entities") and signed the Corporate Governance Agreement.

The Corporate Governance Agreement provides both parties with equal rights to govern significant activities of the Galich entities, including:

- approval of significant transactions over RUB 100 million;
- approval of the annual business plan and (or) budget, and reports on budget execution, introduction of amendments and additions to the approved annual business plan and (or) budget.

In addition, the bank monitors the construction progress and controls payments.

Given the rights provided to the bank by the Corporate Governance Agreement, management has concluded that starting from 27 March 2020 the Group loses control over its 100% subsidiaries and recognizes them as joint ventures with a 100% interest as the *Investments in joint ventures and associates*. Additionally, the parties agreed on the terms for the bank to purchase a 15% stake in the project.

The net assets of the Galich entities as at the date of deconsolidation as well as the gain on deconsolidation, are given below:

	As at the deconsolidation date
Assets and liabilities	
Property, plant and equipment (construction-in-progress)	130,212
Prepayments for non-current assets	2,515,709
Cash and cash equivalents	44,657
Bank loans received	(1,482,750)
Loans received from Group companies	(1,177,400)
Other assets and liabilities, net	(48,671)
Total net assets	**(18,243)**
Gain on deconsolidation	**18,243**

(in thousands of Russian Rubles, unless otherwise indicated)

7. COST OF SALES

Below is the analysis of the cost of products and services for the year ended 31 December 2020 and 2019:

	2020	2019
Raw materials and supplies	21,214,793	18,854,679
Employee benefits	9,023,977	8,087,295
Supplier and contractor services	8,945,979	7,735,117
Depreciation and amortisation expense	5,584,603	5,327,478
Other expenses	421,319	120,513
Net change in inventories, finished goods and work in progress	286,518	(701,083)
	45,477,189	**39,423,999**

8. SELLING AND ADMINISTRATIVE EXPENSES

Below is the analysis of selling and administrative expenses for the years ended 31 December 2020 and 2019:

	2020	2019
Finished goods transportation and other selling expenses	7,491,573	6,783,815
Employee benefits	4,424,103	3,379,624
Supplier and contractor services	1,066,265	897,107
Depreciation and amortisation expense	602,706	559,183
Raw materials and supplies	131,273	140,989
Taxes, other than income tax	128,864	221,776
Increase in allowance for expected credit losses, net	98,826	7,408
Other expenses	601,533	558,575
	14,545,143	**12,548,477**

9. OTHER OPERATING INCOME, NET

Below is the analysis of other operating income and expenses for the years ended 31 December 2020 and 2019:

	2020	2019
Income from government grants	1,086,326	1,147,346
Gain on business acquisition (Note 5)	988,745	-
Gain/(loss) on disposal of property, plant and equipment	358,451	(11,243)
Reversal of previously accrued impairment for property, plant and equipment (Note 11)	-	478,887
Depreciation and amortisation	(85,387)	(115,157)
Loss on write-off of inventories	(64,696)	(4,457)
Other	(81,329)	(25,243)
Other operating income, net	**2,202,110**	**1,470,133**

Government grants represent government assistance provided to the Group subject to compliance with certain conditions, in the past or in the future, related to the Group's operating activities. Government grants do not include types of government assistance that cannot be reasonably estimated or transactions with governments that cannot be distinguished from regular market transactions of the Group.

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attached to them and that the grants will be received.

Government grants that are receivable as compensation for expenses already incurred, particularly transportation costs related to goods sold by the Group for export, are recognised in profit or loss in the period in which the compensated expenses are incurred, providing that there is a reasonable assurance that these grants will be received.

In 2020 and 2019, the Group received grants to compensate costs attributable to the transportation of products and cover expenses related to the increase in coal and fuel oil prices in accordance with Russian Government Resolution No. 496 of 26 April 2017 *On the provision of subsidies from the federal government to Russian organisations, including organisations in the car-making, agricultural machine-building, transport machine-building, and energy-related machine-building industries, as a partial compensation for product transportation costs* and Resolution No. 489-P of 24 December 2018 by the Government of the Republic of Karelia *On the approval of the procedure for granting subsidies from the budget of the Republic of Karelia to legal entities (other than subsidies to state (municipal) institutions), individual entrepreneurs and individuals – producers of goods, work, services for the compensation of expenses related to the increase in coal and fuel oil prices,* as well as Russian Government Resolution No. 1007 of 8 July 2020 *On the subsidies from the government to organisations as a partial compensation for certification and homologation costs of product on export markets*.

10. INCOME TAX

Income taxes are recognised in the consolidated financial statements in accordance with laws enacted or substantively enacted by the end of the reporting period. Income tax expense comprises current tax and deferred tax and is recognised in profit or loss for the year, except where it must be recognised in other comprehensive income or directly in equity as related to transactions that are recognised in other comprehensive income or directly in equity in the same or a different period.

Current tax is the amount expected to be payable or recoverable in respect of taxable profits or losses for the current and prior periods.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill that is not deductible for tax purposes.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period that are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that temporary differences will be recovered and sufficient taxable profit will be available against which deductible temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred tax assets and liabilities are netted only within the individual entities of the Group.

The Group controls reversal of temporary differences relating to taxes payable on dividends from subsidiaries or on gains on their disposal. The Group does not recognise deferred tax liabilities on such temporary differences except to the extent that management expects temporary differences to reverse in the foreseeable future.

The tax rate used for the reconciliations below is the corporate tax rate of 20% payable by the Company and its subsidiaries incorporated in the Russian Federation on taxable profits under the tax laws in the jurisdiction. Taxes for other jurisdictions are calculated at the rates prevailing in the respective jurisdictions.

(in thousands of Russian Rubles, unless otherwise indicated)

Uncertain tax positions. Management reassesses uncertain tax positions at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues.

Liabilities for penalties, interest and taxes other than income tax are recognised based on management's best estimate of the expenditure required to settle the liabilities at the reporting date. Adjustments of uncertain income tax positions, except for fines and penalties, are recognised as income tax expenses. Adjustments of uncertain income tax positions related to fines and penalties are recognised net as finance expenses and other profit/(loss) respectively.

10.1. Income tax recognised in profit or loss

	2020	**2019**
Current income tax expense	1,400,394	2,032,875
Deferred tax	(551,602)	59,037
Total income tax expense recognised in the current year relating to continuing operations	**848,792**	**2,091,912**

The effective tax rate reconciliation for 2020 and 2019 is presented below:

	2020	**2019**
(Loss)/profit before tax from continuing operations	**(499,091)**	**6,842,874**
Theoretical income tax (income)/expense at the rate of 20%	(99,818)	1,368,575
Non-deductible expenses, net	123,028	421,174
Tax effect of restructuring of intercompany settlements	1,343,344	572,531
Prior period adjustments	(70,332)	379,210
Non-taxable gain on the business acquisition	(197,749)	-
Recovery of unutilised tax losses and offsets not recognised as deferred tax assets	(247,871)	(192,158)
Effect of tax rate other than the rate of 20%	(1,810)	(457,420)
Total income tax expense recognised in the current year for continuing operations	**848,792**	**2,091,912**

10.2. Deferred tax

As at 31 December 2020 and 2019, deferred tax assets and liabilities recognised by the Group in the consolidated statement of financial position comprised:

	31 December 2020	**31 December 2019**
Deferred tax assets	1,132,567	658,941
Deferred tax liabilities	(1,835,476)	(2,048,249)
	(702,909)	**(1,389,308)**

(in thousands of Russian Rubles, unless otherwise indicated)

The following is the analysis of deferred tax assets and liabilities presented in the consolidated statement of financial position:

Deferred tax (liabilities)/assets	**31 December 2019**	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**Acquisition/ disposal of companies**	**31 December 2020**
Property, plant and equipment, intangible assets and right-of-use assets	(2,416,999)	30,301	-	(124,667)	(2,511,365)
Inventories and contract assets	(197,301)	152,731	-	-	(44,570)
Trade and other receivables	339,703	70,655	-	-	410,358
Trade and other payables, lease liabilities	118,418	62,235	-	-	180,653
Other financial liabilities	-	188,672	-	-	188,672
Provisions	124,215	61,046	-	(2)	185,259
Tax losses carried forward	592,261	(77,971)	-	256,535	770,825
Other	50,395	63,933	-	2,931	117,259
Deferred tax (liabilities)/assets, net	**(1,389,308)**	**551,602**	**-**	**134,797**	**(702,909)**

Deferred tax (liabilities)/assets	**31 December 2018**	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**Acquisition/ disposal of companies**	**31 December 2019**
Property, plant and equipment, intangible assets and right-of-use assets	(2,171,006)	(213,177)	-	(32,816)	(2,416,999)
Inventories and contract assets	(150,490)	(46,811)	-	-	(197,301)
Trade and other receivables	220,851	120,934	-	(2,082)	339,703
Trade and other payables, lease liabilities	14,400	104,018	-	-	118,418
Provisions	42,149	81,247	-	819	124,215
Tax losses carried forward	733,253	(139,576)	-	(1,416)	592,261
Other	16,067	34,328	-	-	50,395
Deferred tax liabilities, net	**(1,294,776)**	**(59,037)**	**-**	**(35,495)**	**(1,389,308)**

In the context of the Group's existing structure, tax losses and current tax assets of different companies may not be offset against the current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even if there is a net consolidated tax loss.

Deferred tax assets are recognised for tax loss carry-forwards to the extent that the Group's subsidiaries have sufficient taxable temporary differences or there is objective evidence that sufficient taxable profit will be available against which tax losses can be utilised. Unrecognised deferred tax assets related to tax losses are reviewed at each reporting date.

Federal Law No. 401-FZ of 30 November 2016 enables loss carry-forwards for an indefinite period. The carry-forward period was previously limited to 10 years. Federal Law No. 401-FZ also stipulates that losses from prior tax periods may not reduce the tax base for 2017-2021 by more than 50%.

The Group does not recognise deferred tax assets related to the tax losses of subsidiaries with losses in prior periods. Such losses may not be offset against taxable income within the Group. The Group reverses such previously unrecognised tax assets where previously unprofitable subsidiaries have been profitable within the last five years and previously accumulated tax losses could be recovered in the foreseeable future in accordance with the tax planning results.

(in thousands of Russian Rubles, unless otherwise indicated)

The movement in unrecognised deferred tax assets comprised:

	2020	2019
Balance, beginning of the year	1,304,832	1,496,990
Increase in unrecognised deferred tax assets on tax losses	176,955	205,916
Recognition of previously unrecognised deferred tax assets on tax losses	(424,479)	(379,047)
Other	(347)	(19,027)
Balance, end of the year	**1,056,961**	**1,304,832**

The Group did not recognise deferred tax liabilities of RUB 913,706 thousand (2019: RUB 1,123,119 thousand) with respect to temporary differences related to investments in subsidiaries because the Group is able to monitor the recovery timelines for these temporary differences and does not plan to recover them in the foreseeable future.

11. PROPERTY, PLANT AND EQUIPMENT

Land, buildings and structures, equipment and other property are recognised at the acquisition cost less accumulated depreciation and impairment losses (freehold land is not depreciated). Properties in the course of construction are carried at cost, less any recognised impairment loss. Such construction in progress is classified to the appropriate categories of property, plant and equipment as they are completed and ready for intended use.

Depreciation is calculated using the straight-line method over their estimated useful lives and commences when the assets are ready for their intended use, i.e. comply with technical specifications and can be used in the manner intended by management.

The estimated useful lives, carrying amount and depreciation method are reviewed at the end of each reporting period for reasonableness and compliance with the plans and expectations of management, with the effect that any changes in estimates are accounted for on a prospective basis using relevant annual rates according to the following useful lives:

Buildings and other real estate	20-55 years
Plant and machinery	5-20 years
Other fixed assets	3-20 years

Estimates of expected useful lives are based on the following: (a) estimated useful life of an asset; (b) expected physical wear and tear of equipment determined by operating characteristics and technical maintenance requirements; and (c) technological and commercial obsolescence due to changes in market conditions.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss. An impairment loss is recognised immediately in profit or loss.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(in thousands of Russian Rubles, unless otherwise indicated)

As at 31 December 2020 and 2019, property, plant and equipment comprised:

	Land and natural assets	Buildings and facilities	Machinery and equipment	Other fixed assets	Properties in the course of construc-tion	Total
31 December 2018						
Historical cost	**786,850**	**14,284,220**	**26,359,593**	**2,976,005**	**5 873,615**	**50,280,283**
Additions	-	-	-	-	5,751,319	**5,751,319**
Internal transfers	20,601	1,926,827	5,745,266	704,461	(8,397,155)	**-**
Disposals of assets	(5,325)	(199,544)	(262,647)	(122,648)	(49,521)	**(639,685)**
Other movements	-	-	7,522	(311)	(527)	**6,684**
Translation to presentation currency	(25,909)	(163,931)	(214,854)	(5,184)	(10,888)	**(420,766)**
31 December 2019						
Historical cost	**776,217**	**15,847,572**	**31,634,880**	**3,552,323**	**3,166,843**	**54,977,835**
Additions	-	-	-	-	8,389,904	**8,389,904**
Internal transfers	3,391	1,449,651	2,897,601	1,036,437	(5,387,080)	-
Reclassification between groups	149	(4,272)	(186,446)	190,569	-	-
Disposals of assets	(2,923)	(46,844)	(846,793)	(239,980)	(143,006)	**(1,279,546)**
Additions from business combinations	53,945	385,356	178,971	85,134	579	**703,985**
Other movements	-	-	(18,392)	(165)	(4,003)	**(22,560)**
Translation to presentation currency	32,218	350,734	453,162	8,064	32,625	**876,803**
31 December 2020						
Historical cost	**862,997**	**17,982,197**	**34,112,983**	**4,632,382**	**6,055,862**	**63,646,421**
Accumulated depreciation and impairment						
31 December 2018						
Accumulated depreciation		**2,976,284**	**8,028,195**	**1,322,107**	**-**	**12,326 586**
Accumulated impairment	**-**	**-**	**65,000**	**2,604**	**481,296**	**548,900**
	-	**2,976,284**	**8,093,195**	**1,324,711**	**481,296**	**12,875,486**
Depreciation charge	-	1,266 602	3,130,401	486,157	-	**4,883,160**
Reversal of impairment	-	-	-	-	(478,887)	**(478,887)**
Disposals	-	(105,197)	(174,184)	(102,296)	-	**(381,677)**
Other movements	-	4,996	(10,996)	205	-	**(5,795)**
Translation to presentation currency	-	(33,788)	(134,067)	(2,662)	-	**(170,517)**
31 December 2019						
Accumulated depreciation	-	**4,108,897**	**10,839,349**	**1,703,511**	**-**	**16,651,757**
Accumulated impairment	**-**	**-**	**65,000**	**2,604**	**2,409**	**70,013**
	-	**4,108,897**	**10,904 349**	**1,706,115**	**2,409**	**16,721,770**
Depreciation charge	-	1,251,957	3,460,859	536,905	-	**5,249,721**
Reclassification between groups	-	44,485	(170,493)	126,008	-	-
Disposals	-	(32,365)	(794,168)	(216,210)	-	**(1,042,743)**
Other movements	-	-	(1,973)	(96)	-	**(2,069)**
Translation to presentation currency	-	93,226	304,913	6,381	-	**404,520**
31 December 2020						
Accumulated depreciation	**-**	**5,466,200**	**13,640,460**	**2,156,595**	**-**	**21,263,255**
Accumulated impairment	**-**	**-**	**63,027**	**2,508**	**2,409**	**67,944**
	-	**5,466,200**	**13,703,487**	**2,159,103**	**2,409**	**21,331,199**
Net book value as at						
31 December 2019	**776,217**	**11,738,675**	**20,730,531**	**1,846,208**	**3,164,434**	**38,256,065**
31 December 2020	**862,997**	**12,515,997**	**20,409,496**	**2,473,279**	**6,053,453**	**42,315,222**

At each reporting date, the Group reviews property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is determined as the higher of (i) an asset's fair value less costs of disposal and (ii) its value in use. If asset impairment exists, the carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. Asset impairment loss recognised in prior reporting periods is recovered (if necessary) provided that accounting estimates used to determine the asset's value in use or its fair value net of disposal cost have been changed.

As at 31 December 2018, the historical cost of properties in the course of construction included design documents and basic engineering results related to the construction of new production facilities at Segezha Pulp and Paper Mill site, totalling RUB 478,887 thousand, including 100% accumulated impairment related to these documents. Impairment was accrued due to the project being put on hold because of a lack of financing.

In 2019, the Group decided that it was reasonable to continue with the project and recover previously accrued impairment in full based on the following:

- Previously developed design documents are still up to date and technically feasible;
- The Group's management decided to launch the Segezha West project based on these design documents;
- The Group has access to sufficient financial resources to implement the project in full and in a timely manner.

In 2020, the Group assessed whether there were any indicators of the possible impairment of the production assets. As no indicators had been identified, the Group did not perform the impairment test regards to production assets.

In 2019, the Group identified a number of impairment indicators with regards to a timber production facility of Lesosibirsky LDK No.1. As a result, the Group assessed the recoverable amount of that production facility as a single CGU. The assessment was based on the value in use and a discount rate of 12.6% per annum. No impairment was identified based on the impairment test.

As at 31 December 2020, the Group had fully depreciated property, plant and equipment with a historical cost totalling RUB 5,572,963 thousand (31 December 2019: RUB 4,783,703 thousand).

As at 31 December 2020, the Group had property, plant and equipment with a carrying amount of RUB 16,686,955 thousand (31 December 2019: RUB 11,561,877 thousand) pledged as collateral to secure performance under loan and overdraft agreements.

In 2020, the Group capitalised interest expenses of RUB 155,435 thousand (2019: RUB 47,762 thousand).

As at 31 December 2020, advances paid for long-term assets included advances to suppliers for the purchase of property, plant and equipment of RUB 2,482,463 thousand (31 December 2019: RUB 1,789,897 thousand).

As at 31 December 2020, payables for property, plant and equipment were RUB 2,456,456 thousand (31 December 2019: RUB 1,560,210 thousand).

As at 31 December 2020, the Group had contractual obligations to machinery and equipment suppliers for the purchase of assets of RUB 5,746,568 thousand (31 December 2019: RUB 6,788,758 thousand).

12. INTANGIBLE ASSETS

Intangible assets increased mainly due to software acquired, including expenses of RUB 1,437,874 thousand (2019: RUB 259,177 thousand) incurred to adapt, implement and launch an SAP enterprise management system, including capitalised expenses for the project team totalling RUB 353,252 thousand (2019: RUB 62,995 thousand). The system is planned to be launched by 31 May 2021.

(in thousands of Russian Rubles, unless otherwise indicated)

13. INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Net realisable value represents an estimated selling price for inventories less all estimated completion and selling costs. The cost of inventory is determined by the weighted average method.

The carrying amount of inventories has been decreased by the allowance for inventory impairment. The cost of inventories that are not used is written off against the allowance. Subsequent reversals of previous write-downs are performed using the allowance account. Changes in the carrying amount of the allowance are recognised in profit or loss.

Below is the analysis of inventories as at 31 December 2020 and 2019:

	31 December 2020	31 December 2019
Raw materials, supplies and spare parts	6,872,459	6,694,293
Work-in-progress	958,471	853,560
Finished goods	1,746,198	1,941,440
Less: allowance for inventory impairment	(144,519)	(144,964)
Total inventories	**9,432,609**	**9,344,329**

The cost of inventories recognised as an expense for continuing operations was RUB 21,604,539 thousand (2019: RUB 18,995,668 thousand).

The cost of inventories recognised as an expense includes RUB 169,310 thousand (2019: RUB 33,866 thousand) in respect of write-downs of inventories to net realisable value, and has been reduced by RUB 103,606 thousand (2019: RUB 40,467 thousand) due to the reversal of such write-downs. Previous write-downs have been reversed due to increased sales prices in certain markets.

As at 31 December 2020, the Group had inventories with a carrying amount of RUB 850,317 thousand (31 December 2019: RUB 1,292,609 thousand) pledged as collateral to secure performance under loan and overdraft agreements.

14. CONTRACT ASSETS

The Group reports as contract assets at the end of the reporting period industrial paper sacks and retail paper bags in stock, produced to a unique specification from customers, thus having no alternative use. Moreover, customer contracts provide for customers’ obligation to purchase the full volume of goods produced, or to compensate 100% of cost of goods produced but not purchased. Contract assets have been presented as a separate line item in the consolidated statement of financial position beginning as at 31 December 2020. This presentation resulted in a decrease of a comparative data for Inventories as at 31 December 2019 in amount of RUB 1,307,377 thousands.

15. TRADE AND OTHER RECEIVABLES

Accounts receivable comprise amounts due from customers to the Group. Accounts receivable are recognised at the nominal value net of the allowance for expected credit losses (ECL).

Below is the analysis of trade and other receivables as at 31 December 2020 and 2019:

	31 December 2020	31 December 2019
Trade and other receivables	6,599,316	6,045,395
Allowance for expected credit losses	(736,416)	(666,565)
Total trade and other receivables, net	**5,862,900**	**5,378,830**

The average credit period on sales of goods is 60 days.

(in thousands of Russian Rubles, unless otherwise indicated)

The Group applies the simplified approach specified in IFRS 9 to measure ECL using the allowance for lifetime ECL with respect to all trade receivables.

To measure ECL, the Group aggregated trade receivables based on similar credit risk characteristics and days past due.

ECL levels are based on customer characteristics for 36 months prior to each reporting date and similar historic credit losses incurred for that period. Losses for prior periods are adjusted based on the current and forecast macroeconomic data affecting customers' ability to repay receivables.

The expected credit losses on trade accounts receivable are estimated using a provision matrix with reference to past default experience and analysis of:

- The nature of the relationship with the debtor (trade accounts receivables, accounts receivables for heat and other accounts receivable);
- Currency risks for accounts receivable denominated in RUB, USD, EUR and CYN;
- Country risks;
- The debtor's current financial position adjusted for factors that are specific to the debtor, general economic conditions, and an assessment of both the current and forecast direction of conditions at the reporting date.

The Group has recognised a loss allowance of 100% against all receivables over 365 days past due because historical experience has indicated that these receivables are generally not recoverable.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over three years past due, whichever occurs earlier. None of the trade receivables that have been written off is subject to enforcement activities. The maximum exposure to credit risk as at the reporting date is equal to the carrying amount of each class of financial assets detailed in Note 25. The Group has no property pledged to secure receivables.

The Group did not apply the above general rules with regards to consumer debts for heat energy generated by the Group's entities and made a separate allowance for such debts. The Group relied on the experience of recovering past due debts from previous years to assess expectations of recoverability of past due debts at the end of each period and calculate the necessary allowance.

The change in the allowance for expected credit losses is presented as follows:

	2020	**2019**
Balance, beginning of the year	**(666,565)**	**(711,109)**
Allowance	(204,559)	(118,578)
Amounts written off	53,062	65,513
Amounts recovered	105,733	111,170
Translation to presentation currency	(24,087)	(13,561)
Balance, end of the year	**(736,416)**	**(666,565)**

(in thousands of Russian Rubles, unless otherwise indicated)

The aging analysis of trade and other receivables and the allowance for expected credit losses as at 31 December 2020 is presented as follows:

Trade and other receivables	Weighted average level of loss	Gross carrying amount	Lifetime ECL
Not past due	1%	4,537,610	(59,421)
Overdue 1-30 days	3%	892,165	(27,030)
Overdue 31-90 days	17%	331,719	(55,149)
Overdue 91-180 days	19%	164,535	(30,572)
Overdue 181-365 days	58%	261,999	(152,956)
Overdue more than 365 days	100%	411,288	(411,288)
Total	**11%**	**6,599,316**	**(736,416)**

The aging analysis of trade and other receivables and allowance for expected credit losses as at 31 December 2019 is presented as follows:

Trade and other receivables	Weighted average level of loss	Gross carrying amount	Lifetime ECL
Not past due	2%	4,261,687	(71,140)
Overdue 1-30 days	3%	793,195	(24,284)
Overdue 31-90 days	5%	320,209	(17,034)
Overdue 91-180 days	24%	61,685	(14,604)
Overdue 181-365 days	76%	286,870	(217,751)
Overdue more than 365 days	100%	321,749	(321,752)
Total	**11%**	**6,045,395**	**(666,565)**

The Group is not exposed to concentration risk because major debtors change every year and the receivables due from 10 major customers as at 31 December 2020 were RUB 1,254,891 thousand (31 December 2019: RUB 2,164,003 thousand).

As at 31 December 2020, receivables of RUB 804,569 thousand (31 December 2019: RUB 607,412 thousand) were pledged to secure obligations under loan and overdraft agreements.

16. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, call deposits with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are recognised at amortised cost because (i) they are held to collect contractual cash flows that are expected to generate cash flows that are solely payments of principal and interest on the principal amounts outstanding, and (ii) designated at fair value through profit or loss.

	31 December 2020	31 December 2019
Cash on hand	2,210	2,361
Cash in current accounts	3,509,687	2,701,965
Bank deposits with original maturity of less than three months (0.01%- 10%)	158,300	510,083
Total cash and cash equivalents	**3,670,197**	**3,214,409**

As at the reporting dates, cash and cash equivalents were denominated in the following currencies:

	In Russian Rubles	
	31 December 2020	31 December 2019
RUB	2,431,359	1,961,431
EUR	562,652	804,217
CNY	340,108	230,052
USD	264,941	85,755
GBP	7,521	99,693
Other cash amounts denominated in other currencies	63,616	33,261
	3,670,197	**3,214,409**

(in thousands of Russian Rubles, unless otherwise indicated)

17. TAXES RECEIVABLE

	31 December 2020	31 December 2019
VAT receivable	2,076,655	1,987,758
Income tax receivable	980,614	206,504
Total taxes receivable	**3,057,269**	**2,194,262**

18. ADVANCES AND OTHER CURRENT ASSETS

	31 December 2020	31 December 2019
Advances issued	918,502	751,928
Other current assets	303,775	211,512
Total advances and other current assets	**1,222,277**	**963,440**

19. SHARE CAPITAL AND ADDITIONAL PAID-IN CAPITAL

On 28 December 2020 Group of companies Segezha Limited Liability Company was reorganised into Group of Companies «Segezha» Joint Stock Company.

As at 31 December 2020 Company’s authorised and issued share capital amounted to RUB 1,194,000 thousand and consisted of 11,940,000,000 shares with a par value of RUB 0.1. All issued ordinary shares were fully paid. Ordinary shares provide voting rights but do not guarantee dividend returns.

As at 31 December 2019 the Company was a Limited Liability Company with a charter capital amounting to RUB 12 thousand. Charter capital was fully paid. Each participant in Segezha Group had voting rights based on a share of the charter capital of the Company.

As at 31 December 2020 and 2019, the Company’s ownership structure comprised:

	Registered stakes of the shareholders/participants	
	31 December 2020	**31 December 2019**
Sistema Telecom Aktivy, LLC	83.67%	83.67%
Sistema, PJSFC	14.57%	14.57%
Region, JSC	0.08%	0.08%
M.V. Shamolin	1.45%	1.45%
A.M. Uzdenov	0.22%	0.22%
	100%	**100%**

Profit distributable by the Company is defined on the basis of financial statements prepared in accordance with Russian Accounting Standards. As at 31 December 2020, the Company’s retained earnings calculated in accordance with RAS were RUB 3,064,225 thousand (31 December 2019: RUB 5,125,678 thousand) (unaudited). The Company's additional paid-in capital as at 31 December 2020 was RUB 6,555,296 thousand (31 December 2019: RUB 7,741,887 thousand) (unaudited).

In 2020, the Company paid dividends totalling RUB 4,500,000 thousand (2019: RUB 3,800,000 thousand).

Distributions to entities under common control

In 2020, the Group made a contribution of RUB 79,599 thousand (2019: RUB 140,487 thousand), without change in the ownership share, to the additional paid-in capital of associates under common control with the Group’s stakeholders.
These transactions were recognised in equity as involving businesses under common control.

(in thousands of Russian Rubles, unless otherwise indicated)

20. LOANS AND BORROWINGS

All borrowings represent financial instruments initially recorded at fair value, net of direct issue costs. Subsequently, borrowings are stated at amortised cost using the effective interest rate method. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

As at 31 December 2020 and 2019, loans and borrowings comprised:

		31 December 2020		31 December 2019	
	Currency	Effective interest rate	Carrying amount	Effective interest rate	Carrying amount
Short-term loans and borrowings					
Secured loans					
Short-term bank loans	RUB	7.80%	457,599	8.25%	75,833
Short-term bank loans	EUR	3.05%	662,044	2.65%	27,196
Other			83,377		134,540
			1,203,020		**237,569**
Unsecured loans					
Short-term bank loans	RUB	6.88%	603,251	8.86%	11,888,700
Short-term bank loans	EUR	4.10%	687,752	4.13%	445,980
			1,291,003		**12,334,680**
Long-term loans and borrowings					
Secured loans					
Long-term bank loans	EUR	3.05%	26,937,458	3.66%	19,420,146
Long-term bank loans	RUB	8.94%	6,553,659	10.51%	7,011,259
			33,491,117		**26,431,405**
Unsecured loans					
Long-term bank loans	EUR	2.45%	7,183,126	4.13%	3,433,450
Other			106,497		105,090
			7,289,623		**3,538,540**
Long-term corporate bonds	RUB	7.45%	**9,977,274**		-
Total loans and borrowings			**53,252,037**		**42,542,194**

The table below details changes in the liabilities arising from financial activities, including changes related to cash flows and other changes:

				Non-cash changes			
	31 December 2019	Loans and borrowings received	Loans and borrowings repaid	Fair value adjust-ments	Disposal of subsidiary	Foreign exchange differences *	31 December 2020
Loans and borrowings	42,542,194	22,431,413	(18,122,246)	(29,886)	(1,482,750)	7,913,312	53,252,037

				Non-cash changes			
	31 December 2018	Loans and borrowings received	Loans and borrowings repaid	Fair value adjust-ments	Disposal of subsidiary	Foreign exchange differences *	31 December 2019
Loans and borrowings	41,531,722	19,982,604	(15,892,885)	80,711	-	(3,159,958)	42,542,194

* *Foreign exchange differences include differences on translation to the presentation currency*

(in thousands of Russian Rubles, unless otherwise indicated)

Assets pledged as security

As at 31 December 2020, the Group pledged the following assets to secure obligations under loan agreements: property, plant and equipment with a carrying amount of RUB 16,686,955 thousand; inventories with a carrying amount of RUB 850,317 thousand; receivables of RUB 804,569 thousand.

As at 31 December 2019, the Group pledged the following assets to secure obligations under loan agreements: property, plant and equipment with a carrying amount of RUB 11,561,877 thousand; inventories with a carrying amount of RUB 1,292,609 thousand; receivables of RUB 607,412 thousand; shares/interest in the subsidiary Onega Sawmill.

Covenants – As part of loan agreements, the Companies in the Group are subject to certain restrictive covenants, including the consolidated net debt to adjusted consolidated EBITDA ratio (profit before interest, foreign exchange differences, rental expenses, income taxes and depreciation and amortisation, which is equivalent to OIBDA adjusted for IFRS 16 lease expenses as detailed in Note 25), compliance with the limits to ownership interest by the Group's ultimate shareholder, with forestry regulations, as well as with requirements for the maintenance of licenses and restrictions on making new borrowings (in excess of the set consolidated net debt to adjusted for IFRS 16 lease expenses EBITDA ratio), providing loans, guarantees, sureties to third parties, disposing of assets (disposing of material assets) and with limits on increasing collateral.

If the Group fail to meet these covenants, creditors may request that debt become immediately due and payable. Certain loan agreements also impose controls with respect to cross defaults by the Group.

As at 31 December 2020 and 31 December 2019, the Group had no breaches of covenants.

21. TRADE AND OTHER PAYABLES

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. Trade payables and accruals are initially recognised at fair value and then carried at amortised cost using the effective interest method.

Below is the analysis of trade and other payables as at 31 December 2020 and 2019:

	31 December 2020	31 December 2019
Trade payables	5,312,078	4,462,464
Wages and salaries	1,007,636	803,971
Interest payable	320,429	47,550
Other payables	2,972,550	1,765,401
Total trade and other payables	**9,612,693**	**7,079,386**

Other payables mainly consist of payables to suppliers and contractor for capital construction projects.

(in thousands of Russian Rubles, unless otherwise indicated)

22. PENSION OBLIGATIONS

The Group sponsors defined benefit plans. Defined benefit plan expenses are measured using the projected unit credit method. Actuarial valuation is performed at the end of each annual reporting period. Revaluation involving changes in actuarial assumptions is recognised immediately in the statement of financial position, with income or expense recognised in other comprehensive income for the reporting period. Past service cost is recognised in profit or loss for the period in which the plan amendment occurs. Net interest is calculated by applying a discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expense or income; and
- remeasurements.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

Retirement benefit plan in Germany

The Group's pension liabilities under the German retirement benefit plan represent a benefit scheme that continued from 1959 until 1979. The German retirement benefit plan is a private pension scheme. Pension obligations are calculated based on the methodology in which rights (obligations) are recognised based on various factors, including years served and average annual wage/salary.

Collective agreements in Russia – Segezha Pulp and Paper Mill

Employee benefit obligations at Segezha Pulp and Paper Mill are determined as required by collective bargaining agreements. These obligations cover both existing and retired employees.

As at 31 December 2020 and 2019, the Group's total employee benefit obligations comprised:

	31 December 2020	31 December 2019
Retirement benefit plan in Germany	732,589	583,075
Collective agreements in Russia – Segezha Pulp and Paper Mill	150,023	141,339
Other retirement plans	34,823	30,173
	917,435	**754,587**

Below are the principal actuarial assumptions:

	Estimated as at:	
	31 December 2020	31 December 2019
Discount rate		
Germany	0.30%	0.75%
Russia	5.90%	6.50%
Expected rate of salary increase		
Germany	1.25%	1.25%
Russia	5.50%	5.60%
Expected growth rate for payments		
Germany	0.50%	0.50%
Russia	4.00%	4.10%

(in thousands of Russian Rubles, unless otherwise indicated)

Below is the analysis of costs related to post-employment employee payments and benefits recognised in the statement of profit or loss and other comprehensive income, as well as changes in the present value of retirement benefit plan liabilities and amounts recognised for each retirement benefit plan in the statement of financial position:

	Retirement benefit plan in Germany	Collective agreements in Russia – Segezha Pulp and Paper Mill	Other retirement plans	Total
31 December 2018	**(657,571)**	**(114,961)**	**(34,449)**	**(806,981)**
Contribution for the current year	(576)	(6,100)	(938)	(7,614)
Interest expense	(9,770)	(8,978)	(1,339)	(20,087)
Gain/(loss) on liability revaluation	(53,662)	(29,962)	(1,200)	(84,824)
Cost of past services, including curtailments	-	-	-	-
Plan payments	54,337	18,661	4,873	77,871
Translation to presentation currency	84,168	-	2,880	87,048
31 December 2019	**(583,074)**	**(141,340)**	**(30,173)**	**(754,587)**
Contribution for the current year	(12)	(7,853)	(1,284)	(9,149)
Interest expense	(4,988)	(8,376)	(867)	(14,231)
Gain/(loss) on liability revaluation	(27,459)	(19,711)	(4,614)	(51,784)
Cost of past services, including curtailments	-	-	-	-
Plan payments	59,974	27,257	6,600	93,831
Translation to presentation currency	(177,030)	-	(4,485)	(181,515)
31 December 2020	**(732,589)**	**(150,023)**	**(34,823)**	**(917,435)**

The Group's management has analysed the key exposures inherent in retirement benefit plans and post-employment benefits. Given the characteristics of these plans, management believes that key exposures include:

- Present retirement benefit plan obligations towards participants who have not reached their retirement age are calculated on the basis of their future salaries. An increase in the salaries of participants will lead to an increase in obligations;
- All of the Group's retirement benefit plans provide for lifetime employee benefits. Any increase in life expectancy will result in increased liabilities under a retirement benefit plan.

The current service cost and the net interest expense for the year are included in the employee benefit expense in profit or loss. The effect of net retirement benefit plan liabilities revaluation and the effect of translation to the presentation currency are included in other comprehensive income.

The Group expects the following payments for the year ending 31 December 2021: under the retirement benefit plans in Germany - EUR 708 thousand (RUB 58,374 thousand), under collective agreement in Segezha Pulp and Paper Mill Russia - RUB 27,345 thousand, under other plans - RUB 4,376 thousand.

The Group reviews assumptions on a regular basis. As the sensitivity of assumptions to changes in financial performance is negligibly low, it can only result in some insignificant changes in the consolidated financial statements.

23. EMPLOYEE BENEFIT EXPENSE

Employee benefit expenses comprise salary, bonuses, long-term incentive plans and social contributions. Employee benefit expenses included in cost of sales, selling and administrative expenses for 2020 and 2019 were RUB 13,448,080 thousand and RUB 11,466,919 thousand respectively.

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Long-term Incentive Plans ("LTIPs") – In 2018 the Company's Board of Directors adopted three-year incentive plans for senior and mid-level management: the Long-Term Incentive Plan for the President of the Group and the Long-Term Incentive Plan for Management). Subject to certain performance indicators and continuing employment with the Group, participants in the plans are granted equity interest in the Company.

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date.

The fair value excludes the effect of non-market-based vesting conditions. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of equity instruments that will eventually vest. At each reporting date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

Long-Term Incentive Plan for the President of the Group

In accordance with the Long-Term Incentive Plan for the President of the Group (the "President LTIP"), the President of the Group is eligible for a share-based payment of a 5% equity share in the Group, subject to one of the following conditions:

- Payable in three annual tranches, up to 1.67% each: upon the achievement of the Group's key performance indicators (KPIs) for 2018, 2019 and 2020, as set by the Board of Directors for each respective year. Where KPIs are achieved in the reporting year following the year in which KPIs were not achieved, the President is granted shares for both the reporting year and the previous year;
- Payable in the amount of a 5% equity share in the Group: upon the occurrence of a liquidity event envisaged by the President LTIP (i.e. IPO of ordinary shares or depositary receipts; cash sale of an interest in the Company, subject to certain conditions; receipt of a legally binding offer from the buyer to purchase an interest in the Company at a certain price, subject acceptable business terms).

The President LTIP also sets out a mandatory condition requiring that the full amount of the bonus received be transferred within three days to acquire a related equity share in the Company.

The vesting date of the first tranche of compensation was in 2018 when the Board of Directors established KPIs for 2018. This amount was recognised within selling and administrative expenses in the statement of profit or loss for 2018 and recognised in the Group's equity based on the Group's fair value as at the date of the tranche.

Based on the Group's results for 2020 the Board of Directors granted the President a remuneration of RUB 130,761 thousand that will be subsequently used to acquire an interest of 1.45% in the Company.

The fair value of the remuneration granted was determined based on the fair value of a 100% equity share in the Company in accordance with the remuneration formula envisaged by the President LTIP. The fair value measurement of the Company was performed by a professional appraiser using the income approach based on the following key assumptions:

- Forecast period was set at eight years;
- Discount rate was set at 16.4% as at 30 June 2018
- Long-term growth rate was set at 4.0%;
- EBITDA margin for the last forecasted period was set at 18.4%;
- Capital expenditure in the terminal period was set at 6.3%.

(in thousands of Russian Rubles, unless otherwise indicated)

Long-Term Incentive Plan for Management

In accordance with the Long-Term Incentive Plan for Management (the "Management LTIP"), participants in the Management LTIP are entitled to compensation subject to one of the following liquidity events: IPO of ordinary shares or depositary receipts; cash sale of an equity share in the Company, subject to certain conditions. The compensation payable to each of the participants is calculated upon a liquidity event based on the time worked during the Management LTIP and the increase in the Group's value over the period of the Management LTIP.

For the purpose of the Management LTIP, the Group has approved a distribution of shares equal to 4.545% of the increase in the Group's value. Depending on a participant's position, the share may vary from 0.275% to 0.63% of the increase in the Group's value.

The payment of compensation under the Management LTIP is subject to the occurrence of a liquidity event, which may also depend on multiple external factors beyond the control of management. Therefore, the Group does not recognise a related provision in the financial statements.

24. PROVISIONS

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

From time to time, the Group companies may become a party to legal proceedings; a provision is made if the probability of a liability arising from a claim (or a potential claim) against the company is high. Among other assumptions, management makes assumptions about the likelihood of an adverse outcome and the possibility for making reliable estimates of related damages or costs.

Unexpected events or changes in assumptions may require the Group increase or decrease the existing allowance or create an allowance for events that have been previously considered to have remote probability.

Provisions for bonuses and other employee compensations that depend on individual performance and financial performance of the Group are also subject to uncertainty.

As at 31 December 2020 and 2019, short-term provisions comprised:

	Reforestation	**Legal claims**	**Employee benefits**	**Other**	**Total**
31 December 2018	**41,966**	**56,674**	**647,154**	**26,503**	**772,297**
Provisions	52,328	9,437	302,923	26,320	391,008
Provisions utilised during the year	(41,966)	(56,674)	(647,153)	(24,901)	(770,694)
31 December 2019	**52,328**	**9,437**	**302,924**	**27,922**	**392,611**
Provisions	85,619	44,984	380,849	14,441	525,893
Additions from business combinations	10,155	23,710	-	-	33,865
Provisions utilised during the year	(52,328)	(9,437)	(302,924)	(27,922)	(392,611)
31 December 2020	**95,774**	**68,694**	**380,849**	**14,441**	**559,758**

(in thousands of Russian Rubles, unless otherwise indicated)

25. CAPITAL AND FINANCIAL RISK MANAGEMENT

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt to equity ratio. The capital structure of the Group consists of net debt (borrowings as detailed in Note 20, less cash and cash equivalents) and equity comprising issued capital, additional paid-in capital, reserves, retained earnings and non-controlling interests as detailed in Note 19.

The Group's policy is to maintain a high level of capital that is sufficient to preserve the confidence of investors, lenders and the market for the future development of the Group's operations. The Group may sell assets to reduce its loans and borrowings payable, maintain or adjust the capital structure.

The Board of Directors monitors the ratio of consolidated net debt to operating income before depreciation and amortisation of non-current assets (OIBDA). As IFRS do not provide for these indicators, the meaning of OIBDA and consolidated net debt as used by the Group may differ from those of other companies. Below is the analysis of the ratio of net consolidated debt to OIBDA:

	2020	2019
Total consolidated net debt	49,581,840	39,327,785
OIBDA	17,458,952	14,019,066
Net debt-to-OIBDA ratio	**2.84**	**2.81**
Lease expenses under IFRS 16	(1,444,566)	(1,127,410)
OIBDA adjusted for lease expenses under IFRS 16	16,014,386	12,891,596
Net debt to adjusted OIBDA	**3.10**	**3.05**

Below is the reconciliation of OIBDA and net debt:

	Notes	2020	2019
Operating profit		11,166,427	7,992,292
Depreciation and amortisation expense	7,8,9	6,272,696	6,001,818
Other		19,829	24,956
OIBDA		**17,458,952**	**14,019,066**
Loans and borrowings	20	53,252,037	42,542,194
Cash	16	(3,670,197)	(3,214,409)
Total consolidated net debt		**49,581,840**	**39,327,785**

The Group is subject to certain external regulations and capital restrictions that are taken into account when managing the Group's capital. The Group is not subject to mandatory minimum capital requirements.

Financial risk management

The Group's Corporate Treasury function co-ordinates access to domestic and international financial markets, monitors and manages financial risks through internal risk reports that analyse exposures by degree and magnitude of risks. These financial risks include market risks, credit risks and liquidity risks. The Group's management ensures policies that are aimed at reducing these risks without affecting, to the extent possible, the Group's competitiveness and flexibility.

Market risk is the risk of fluctuations in foreign exchange and interest rates.
The Group does not enter into any derivative financial instruments to manage its exposure to foreign currency risk and interest rate risk.

(in thousands of Russian Rubles, unless otherwise indicated)

Currency risk is the risk of fluctuations in foreign exchange rates. Fluctuations in foreign exchange rates have a significant impact on financial performance of the Group as it exports goods produced in Russia to other countries and sells products manufactured by its operations in Europe for foreign currency. Moreover, the Group has a substantial loans and borrowings denominated in foreign currencies. The Group has also entered into cross-currency interest-rate swap agreements (detailed information provided in Note 26). Therefore, the Group is exposed to currency risks. The Group is exposed to fluctuations in foreign currency rates, with a major exposure coming from USD/RUB and EUR/RUB exchange rates.

Below are the carrying amounts of the Group's financial instruments denominated in foreign currencies:

	EUR	USD	CNY	GBP
31 December 2020				
Trade and other receivables	987,180	560,674	367,366	112,339
Cash	416,336	264,941	340,108	7,521
Trade and other payables	(1,171,733)	(97,053)	(103,919)	(1)
Loans and borrowings	(35,479,787)	-	-	-
Net currency position	**(35,248,004)**	**728,562**	**603,555**	**119,859**
31 December 2019				
Trade and other receivables	1,026,373	1,414,563	701,114	91,025
Cash	433,363	85,755	230,052	99,693
Trade and other payables	(1,203,124)	(1,050,789)	(691,077)	(70,705)
Loans and borrowings	(23,384,740)	-	-	-
Net currency position	**(23,128,128)**	**449,529**	**240,089**	**120,013**

Due to the significant amount of export revenue denominated in USD and EUR, the Group is able to reduce the risk related to the open currency position.

The following table details the Group's sensitivity to a 30% decrease (2019: 30%) in the RUB exchange rates against the relevant foreign currencies. A sensitivity rate of 30% (2019: 30%) is applied to report foreign currency risk internally to key management personnel. It reflects management's assessment of reasonably possible change in foreign exchange rates. The sensitivity analysis only includes outstanding foreign currency denominated monetary items and adjusts their year-end translation change only where there are changes in foreign currency rates.

	2020		**2019**	
	Movements in RUB exchange rate against	**Impact on profit or loss before tax**	**Movements in RUB exchange rate against**	**Impact on profit or loss before tax**
EUR	+30%	(10,574,401)	+30%	(6,938,439)
USD	+30%	218 569	+30%	134,859
CNY	+30%	181,067	+30%	72,027
GBP	+30%	35,958	+30%	36,004

An increase by 30% (2019: 30%) in the RUB exchange rate against the above currencies will result in a decrease of profit or loss before tax.

In management's opinion, the sensitivity analysis is not fully representative of the inherent foreign exchange risk as the year-end exposure does not reflect exposure during the year.

Interest rate risk – the Group borrows funds at both fixed and floating interest rates. In 2020, the Group borrowed funds at a floating rate. Expenses on borrowings at floating interest rates were RUB 327,308 thousand for the year ended 31 December 2020 (for the year ended 31 December 2019: RUB 427,282 thousand).

(in thousands of Russian Rubles, unless otherwise indicated)

Due to the soft monetary policy of the Central Bank of Russia (the "CBR"), gradually lowering the key rate from 6.25% to 4.25% in 2020, the Group's management does not expect a future increase in the interest rate with regards to these borrowings. On 12 February the CBR confirmed the key rate of 4.25% at its board of directors meeting. It has also announced a gradual transition from a stimulating monetary policy to a neutral one.

The interest rate increasing by 1% p.a. will not result in extra material expenses under the existing loans and borrowing liabilities because total borrowings with floating interest rates do not exceed 20% of the total loan portfolio of the Group. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the reporting date was outstanding for the whole year.

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss for the Group. The Group has adopted a policy of only dealing with creditworthy counterparties.

Trade receivables are represented by a large number of customers across various geographical areas. The Group reviews the financial position of debtors on a regular basis and monitors whether debt is repaid in a timely manner. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

The Group is not exposed to concentration risk because major debtors change every year and the receivables due from 10 major customers as at 31 December 2020 were RUB 1,254,891 thousand (31 December 2019: RUB 2,164,003 thousand).

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international rating agencies.

As at the reporting dates, cash and cash equivalents were placed with the banks that had the following credit ratings:

Rating agency	**International rating assigned**	**31 December 2020**	**31 December 2019**
Fitch rating	B	2,143,603	2,131,875
Fitch rating	F-2	610,176	151,763
Standard&Poor's	A	274,836	190,143
Standard&Poor's	B	256,334	177,342
Moody's	Not Prime	118,740	257,174
Fitch rating	F-3	811	136,286
Moody's	P-3	66	85
	Other	263,421	167,379
		3,667,987	**3,212,047**

Liquidity risk is the risk that arises as the Group manages working capital, financial expenses and repayment of the principal amounts due under debt instruments. This risk may arise if the Group faces difficulties with regards to settling its financial liabilities as they fall due.

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. The Group maintains a balance between short-, middle- and long-term borrowings to ensure that the target value of short-term borrowings is below 15% of the Group's credit portfolio.

(in thousands of Russian Rubles, unless otherwise indicated)

Below is the maturity analysis of the Group's financial liabilities:

31 December 2020	**0 - 30 days**	**31 - 365 days**	**1 year – 5 years**	**Over 5 years**	**Total amount including repayments related to financial expenses**	**Carrying value**
Loans and borrowings	505,933	4,263,258	44,978,788	12,132,259	**61,880,238**	**53,252,037**
Trade and other payables	7,071,879	2,540,615	199	-	**9,612,693**	**9,612,693**
Lease liability	53,624	1,519,382	5,212,294	24,654,701	**31,440,001**	**10,953,936**
Provisions	-	559,758	-	-	**559,758**	**559,758**
	7,631,436	**8,883,013**	**50,191,281**	**36,786,960**	**103,492,690**	**74,378,424**

31 December 2019	**0 - 30 days**	**31 - 365 days**	**1 year – 5 years**	**Over 5 years**	**Total amount including repayments related to financial expenses**	**Carrying value**
Loans and borrowings	429,659	14,368,508	22,535,229	13,988,969	**51,322,365**	**42,542,194**
Trade and other payables	5,626,236	1,429,297	23,853	-	**7,079,386**	**7,079,386**
Lease liability	116,061	1,049,765	4,986,782	21,829,571	**27,982,179**	**8,460,730**
Provisions	-	392,611	-	-	**392,611**	**392,611**
	6,171,956	**17,240,181**	**27,545,864**	**35,818,540**	**86,776,541**	**58,474,921**

As at 31 December 2020, unused credit line facilities were RUB 15,502,600 thousand and EUR 84,776 thousand (31 December 2019: RUB 4,211,300 thousand and EUR 146,146 thousand). In the future, the Group expects to settle its liabilities with operating cash flows and long-term financing.

26. FAIR VALUE

Fair value measurements are analysed by levels in the fair value hierarchy as follows:

- ***Level 1*** fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- ***Level 2*** fair value measurements are those derived from models based on significant inputs for the asset or liability, which are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- ***Level 3*** fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Management applies judgements to place financial instruments within the fair value hierarchy. If a fair value measurement uses observable data that require significant adjustment, that measurement is a Level 3 measurement. The significance of the inputs to a fair value measurement is assessed against the fair value measurement in its entirety.

Long-term loans and borrowings for which the carrying amount is generally measured using discounted cash flows are classified within Level 3 of the fair value hierarchy above.

The carrying amount of the Group's main financial assets and liabilities approximates their fair values, except for the following financial liabilities:

	Carrying amount	**Fair value**
31 December 2020		
Long-term loans and borrowings	50 758 014	51 396 869
31 December 2019		
Long-term loans and borrowings	29,969,945	30,745,160

(in thousands of Russian Rubles, unless otherwise indicated)

The change in the fair value of long-term loans and borrowings is primarily due to a change in the discount rate used for ruble-denominated borrowings from 10.60% as at 31 December 2019 to 7.22% as at 31 December 2020. As at 31 December 2020, the yield on issued corporate bonds is used.

In March 2020, the Group entered into cross-currency interest-rate swap agreements with respect to previously issued corporate bonds. Both principal and half-year interest payments are swapped. The main parameters of the concluded cross-currency interest rate swaps are presented below:

	SWAP 1	SWAP 2	SWAP 3
31 December 2020			
Transaction date	06.03.2020	06.03.2020	12.03.2020
Par value, RUB 'thousand	2,500,000	2,500,000	2,500,000
Transaction currency	RUB/Euro	RUB/Euro	RUB/Euro
Exchange rate as at the transaction date	76.00	76.00	84.50
Interest rate (RUB)	7.10%	7.10%	7.10%
Interest rate (EUR)	1.48%	1.48%	1.25%
Spot exchange rate as at the reporting date	90.68	90.68	90.68
Fair value of liability (RUB thousand)	**(410,819)**	**(451,429)**	**(81,110)**

These cross-currency interest rate swaps are recognized in the financial statements at fair value through profit or loss (presented in *Other finance expenses*). The fair value of swaps is determined using discounted future cash flows. Future cash flows are estimated using spot exchange rates (at the reporting date), contract and forward exchange rates, discounted at the interest rates applicable to similar financial transactions at each reporting date.

As at 31 December 2020 an expense of RUB 782,639 thousand relating to the cross-currency interest rate swaps was recognised in *Other finance expenses.*

	2020
Fair value, beginning of the year	-
Income from interest swap transaction	160 719
Income from interest swap transaction received	(160 719)
Fair value revaluation	(943 358)
Fair value, end of the year	**(943 358)**

As at 31 December 2019 the Group had no financial instruments reported at fair value.

27. RELATED PARTY TRANSACTIONS

Information on transactions between the Group and its related parties, which also includes shareholders of the Group, parties related to shareholders of the Group, joint ventures and associates of the Group, as well as members of the Board of Directors and key management personnel is given below.

In 2020 and 2019, the companies in the Group entered into the following related party transactions as part of operating activities, with the following balances recognised in the consolidated statement of financial position as at 31 December 2020 and 2019:

		For the year		As at 31 December	
		Sale of goods and services	Purchase of goods and services	Accounts receivable from related parties	Accounts payable to related parties
Sistema, PJSFC	2020	-	1,538	-	168
	2019	-	1,818	-	336
Sistema subsidiaries	2020	6,235	2,107,030	37,843	400,094
	2019	196,150	1,956,552	41,152	326,307
Other related parties	2020	32,701	503,631	2,294	57,661
	2019	31,299	57,437	1,091	1,341

(in thousands of Russian Rubles, unless otherwise indicated)

Transactions with other related parties mainly consist of transactions with the PAO LHK Karellesprom, an associate of the Group, for purchases of goods and services including purchases of pulpwood and softwood sawlogs. Purchases of goods and services from Sistema subsidiaries mainly include purchases of electric power from MTS Energo, LLC.

All related party balances are unsecured and will be settled in cash under normal commercial credit terms. No guarantees have been given or received in relation to any related party balance.

The Group keeps cash in current accounts and as deposits maturing within 3 months with MTS Bank, PJSC, subsidiary of the Sistema, PJSFC.

		Finance income for the year	**Cash as at 31 December**
Deposits maturing within to 3 months	2020	16,444	135,700
	2019	13,316	165,310
Cash in current accounts	2020	-	554,122
	2019	-	235,307

As at 31 December 2020, the Group had outstanding balances of loans issued to Galich Plywood Mill LLC and GalichLes LLC as a part of joint venture financing. The change in the loans issued for the 12 months ended 31 December 2020 is presented as follows:

	2020
Balance, beginning of the year	-
Reclassified from intercompany loans on deconsolidation of Group companies	1,177,400
Loans issued to joint venture	1,490,010
Repayment of loans issued to joint venture	(1,319,540)
Balance, end of the year	**1,347,870**

For the 12 months ended 31 December 2020 the Group received interest income on these loans in the amount of RUB 72,804 thousand.

In 2020, remuneration to the members of the Board of Directors was RUB 20,527 thousand (2019: RUB 15,500 thousand). In 2020, remuneration to key management was RUB 593,583 thousand (2019: RUB 689,001 thousand).

28. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Group as lessee

The group leases land for the purpose of timber harvesting. All of the land leased for this purpose is owned by the Russian Federation in accordance with Russian regulations, including of the Forest Code of the Russian Federation. The leases specify that the purpose of the leased land is for timber harvesting and restricts the use of the land for any other purpose. As specified in the lease agreements, the Group holds the timber harvesting rights to a defined area for up to 49 years. The Group is not involved in any agricultural activity as it relates to the timber, such as managing the biological transformation process as defined in IAS 41 «Agriculture», given that the Group is only engaged in the process of harvesting the trees from unmanaged sources, and therefore accounts for the right-of-use assets in respect of the timber harvesting land rights in accordance with IFRS 16 «Leases». As trees are harvested, they are recorded as raw materials within inventories. After processing, the trees are recorded as work-in-progress or finished goods. The Group is responsible for the reforestation of cleared plots.

(in thousands of Russian Rubles, unless otherwise indicated)

The Group has also entered into operating leases for cars, machines and equipment, as well as offices with an average lease term from two to five years without a renewal option.
The Group is not subject to any limitations as regards entering into such leases.

Under IFRS 16, the Group recognises the right-of-use asset at the lease inception date (the date when the respective asset is ready for its intended use). The right-of-use asset is recognised at cost less accumulated depreciation and impairment losses, if any, and adjusted for any remeasurement of the lease liability. The cost of the right-of-use asset includes the initial measurement of the lease liability, initial direct costs incurred by the lessee and lease payments made at or before the inception date, less any lease incentives received. If there is no certainty that the Group will obtain control over the asset by the end of the lease term, the right-of-use asset is depreciated over the shorter of the lease term and its useful life.
At the lease inception date, the Group recognises the lease liability at the present value of future lease payments over the lease term. Lease payments include fixed payments (including in-substance fixed payments), less any lease incentives receivable; variable lease payments that depend on an index or a rate; and amounts expected to be payable by the Group under residual value guarantees.

Lease payments also include the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and payments of penalties for terminating the lease if the lease term reflects the Group exercising an option to terminate the lease.

In measuring the lease term and discounting rate, the Group assumes that:

- The lease term is equal to the non-cancellable agreement term unless the Group has an extension option. The Group takes into account the extension options where it is reasonably certain that the Group will exercise those options, and the early termination options that the Group is reasonably certain not to exercise. In considering such options, the Group takes into account the residual useful lives of leasehold improvements, the Group’s investment strategy and relevant decisions made, as well as time remaining until the exercise of extension or termination option;
- In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease inception date if the rate implicit in the lease cannot be readily determined.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability and by reducing the carrying amount to reflect the lease payments made. Additionally, the carrying amount of the liability is remeasured to reflect any lease modifications, changes in lease arrangements, revised in-substance fixed lease payments or changes in the option to purchase the underlying asset.

The Group used the following weighted average rates to calculate the present value of lease payments:

Group entity	Country	2020	2019
Timber harvesting companies and divisions in Russia	Russia	9.18%	11.50%
Arka Merchants Limited	Ireland	5.00%	5.00%
Segezha Packaging GmbH	Germany	8.93%	9.32%
Segezha Packaging A/S	Denmark	2.63%	2.33%
Segezha Packaging S.p.A.	Italy	3.03%	3.03%
Segezha Packaging B.V.	Netherlands	4.44%	4.74%
Segezha Ambalaj Sanayi ve ticaret Anonim Sirketi	Turkey	6.24%	3.65%
Segezha Packaging SRL	Romania	4.61%	4.61%

(in thousands of Russian Rubles, unless otherwise indicated)

As at 31 December 2020 and 2019, right-of-use assets comprised:

	Forest plots	Other	Total right-of-use assets
31 December 2018	**10,005,561**	**1,366,784**	**11,372,345**
Acquisition of Group entities (Note 5)	219,400	-	**219,400**
Additions of right-of-use assets for the year	705,340	1,145,016	**1,850,356**
Depreciation of right-of-use assets	(746,218)	(301,467)	**(1,047,685)**
Disposals of right-of-use assets for the year	-	(336,877)	**(336,877)**
Translation to presentation currency	-	(40,153)	**(40,153)**
31 December 2019	**10,184,083**	**1,833,303**	**12,017,386**
Acquisition of Group entities (Note 5)	1,251,713	17,058	**1,268,771**
Additions of right-of-use assets for the year	1,149,045	1,028,414	**2,177,459**
Depreciation of right-of-use assets	(557,143)	(358,416)	**(915,559)**
Disposal of Group entity	-	(1,376)	**(1,376)**
Disposals of right-of-use assets for the year	-	(66,654)	**(66,654)**
Translation to presentation currency	-	169,014	**169,014**
31 December 2020	**12,027,698**	**2,621,343**	**14,649,041**

The table below shows expenses recognised in the statement of profit or loss for 2020 and 2019:

	2020	2019
Depreciation of right-of-use assets	915,559	1,047,685
Short-term lease expenses	61,527	21,541
Interest on lease liabilities	972,393	888,528
	1,949,479	**1,957,754**

The table below details changes in the liabilities arising from financial activities, including changes related to cash flows and other changes:

			Non-cash changes				
	Opening balance	Lease liability payments	Conclusion/ (disposal) and modification of lease agreements	Financial expenses	Acquisition of Group entities	Exchange differences on translation	Closing balance
Lease liability — 2020	8,460,730	(1,462,324)	2,095,243	972,393	518,386	369,508	**10,953,936**
Lease liability — 2019	7,176,603	(1,119,117)	1,445,183	888,528	55,320	14,213	**8,460,730**

As at 31 December 2020 and 2019, lease liabilities comprised:

	31 December 2020	31 December 2019
Minimum lease payments due under lease liabilities were as follows:		
Up to 1 year	1,573,006	1,165,826
From 1 year to 5 years	5,212,294	4,986,782
Over 5 years	24,654,700	21,829,571
Total minimum lease payments	**31,440,000**	**27,982,179**
Less the effect of discounting	(20,486,064)	(19,521,449)
Present value of net minimum lease payments, including:		
Up to 1 year	1,380,598	887,632
From 1 year to 5 years	4,016,796	3,116,309
Over 5 years	5,556,542	4,456,789
Total lease liability as per the Group's statement of financial position	**10,953,936**	**8,460,730**
Long-term liability	9,573,338	7,573,098
Short-term liability	1,380,598	887,632

29. CONTINGENT ASSETS AND LIABILITIES

Taxation

Russian tax, trade and customs legislation that was enacted or substantively enacted at the end of the reporting period is subject to varying interpretations when being applied to the transactions and activities of the Group. Therefore, the tax position taken by management and the formal documentation supporting the tax position may be challenged by the tax authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Tax audit may cover three calendar years preceding the year in which the decisions to conduct tax audits are taken. Under certain circumstances, reviews may cover longer periods.

Russian transfer pricing rules are generally consistent with international transfer pricing principles developed by the OECD subject to certain distinctions. Under transfer pricing rules, the tax authorities may assess additional tax with respect to controlled transactions (transactions with related parties and certain transactions with unrelated parties) if the transaction price is not at arm's length. Management has implemented the internal control system to comply with the current transfer pricing legislation.

Tax liabilities arising from controlled transactions are determined using actual transaction prices. Such transfer prices could be challenged as the interpretation of transfer pricing rules continues to evolve. The impact from these developments cannot be reliably estimated. However, it may be significant for financial position and/or business activities.

The Group operates entities incorporated outside the Russian Federation. The tax liabilities of the Group are determined on the assumption that, in accordance with Russian legislation, these entities are not subject to profit tax because they do not have a permanent establishment in Russia. This interpretation may be challenged but the impact of any such challenge cannot be reliably estimated. However, the effect may be significant to the financial position and/or the overall operations of the Group. According to controlled foreign corporation (CFC) laws, profit generated by foreign companies and unincorporated foreign entities (including funds) controlled by Russian tax residents (controlling parties) is subject to Russian profit tax. The CFC profit tax rate is 20%. Based on the analysis of tax risks, management has concluded that no further current or deferred taxes should be additionally recognised in the consolidated financial statements.

Russian tax legislation does not offer definitive guidance on certain issues. As a result, the Group may from time to time adopt interpretations that can reduce taxes of the Group as a whole. According to management, the tax positions and interpretations adopted are more likely to be recognised. However, there is also a risk that the Group may incur additional expenses should its tax positions and interpretations be challenged by the tax authorities. The impact of any such challenge cannot be reliably estimated but may be significant to the financial position of the Group and/or the results of its operations.

Operating environment

Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment. Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. In March 2020 oil prices dropped for more than 40%, which resulted in immediate weakening of Russian Ruble against major currencies.

The Group’s operations have a focus on exports, with 72% of revenue denominated in foreign currency. Therefore, the weaker Russian Ruble has a positive impact on financial performance of the Group.

The impact of further economic and political developments on future operations and financial position of the Group might be significant.

In early 2020, the world saw an outbreak of a novel coronavirus (COVID-19), and in March 2020, the World Health Organization (WHO) declared it a pandemic. COVID-19 prevention efforts taken by many countries have lead to significant operating restraints for many businesses and have had a significant impact on international financial markets. COVID-19 may continue to significantly affect many businesses operating in various industries, including, but not limited to, disruption of operations due to production interruptions/shutdowns, supply chain disruptions, staff quarantine, lower demand and more difficult access to finance. COVID-19 also affects the global economy and major financial markets.

The Group's management monitors the situation closely. The main priority of the Group remains the safety of its employees, clients and the population in the regions where the Group operates at the same time maintaining a normal level of business activity. All the companies of the Group strictly follow the official guidelines effective in the countries where the Group's assets are present; all the facilities comply with all health and safety standards and recommendations for social distancing and personal hygiene. During the government-imposed lockdowns throughout 2020, all production sites of the Group were able to operate as planned with 100% utilization.

The Group has analyzed the economic situation, the demand for the Group's products, supply chain, available bank financing, and the possible impact on its cash flows and liquidity, including compliance with debt covenants. The management also reviewed the key assumptions used in determining the fair value of production assets, including the weighted average cost of capital, prices for finished goods and the RUB/EUR/USD exchange rates, which are the most significant assumptions in the production assets fair value model. Based on the detailed analysis of various scenarios, the Group has concluded that as at 31 December 2020 and the date of signing these consolidated financial statements, there are no indicators of potential impairment of the Group's production assets.

The management has taken into consideration events and conditions that may lead to material uncertainty regarding the Group's ability to continue as a going concern. Based on the analysis performed, the management believes that there are no uncertainties regarding the Group's ability to operate in the foreseeable future.

30. EVENTS AFTER THE REPORTING PERIOD

On 15 February 2021 the Group applied to participate in an auction for assets related to JSC "Novoyeniseiskiy Wood-Chemical Complex" (NLHK) organised by Trust Bank PJSC, a financial institution entrusted with government over non-financial assets. NLHK is one of the leading full-cycle sawmills in Russia. It is located in Lesosibirsk, Krasnoyarsk region and its main products are: coniferous woods sawn timber, fibreboards, wood pellets and other timber products used for construction of private and industrial structures.

The auctioned lot includes (i) the bank's rights of claim for NLHK loans payable and other payables totaling RUB 11.5 billion denominated in various currencies, (ii) rights to conclude call option for 71% of shares in NLHK. The Group acquired the lot for a cash consideration amounting to RUB 2,305,818 thousands paid in February 2021. This transaction did not result in the Group's acquiring control over NLHK.