Group of Companies Segezha LLC and Subsidiaries

Consolidated Financial Statements and Independent Auditor’s Report For the Year Ended 31 December 2019

GROUP OF COMPANIES SEGEZHA LLC AND SUBSIDIARIES

TABLE OF CONTENTS

GROUP OF COMPANIES SEGEZHA LLC AND SUBSIDIARIES

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Group of Companies Segezha LLC and its subsidiaries (the "Group") as at 31 December 2019, and the results of its operations, cash flows and changes in equity for the year then ended in compliance with the 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 IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and 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; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2019 were approved by management on 6 April 2020.

On behalf of the Management

Mikhail Valeryevich Shamolin
President

Rovshan Beilyarovich Aliyev
Vice-President for Finance and Investment

6 April 2020

AO Deloitte & Touche CIS
5 Lesnaya Street
Moscow, 125047,
Russia

Tel: +7 (495) 787 06 00
Fax: +7 (495) 787 06 01
deloitte.ru

INDEPENDENT AUDITOR'S REPORT

To the Participants and Board of Directors of Group of Companies Segezha LLC

Opinion

We have audited the accompanying consolidated financial statements of Group of Companies Segezha LLC and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at 31 December 2019 and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year ended, and 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 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). 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 Company 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, and we do not provide 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
Recoverability of non-current assets On an annual basis the Group's management assesses whether there is any indication that non-current assets or cash generating units (CGU) may be impaired. If impairment indicators are identified, the Group's management compares recoverable amount of non-current assets or cash generating units to their carrying value in order to determine whether it is necessary to recognize any impairment loss. As of 31 December 2019, the Group's management identified CGU impairment indicators in relation to Lesosibirsky LDK No.1 and analyzed its recoverable amount. As a result, no impairment was identified. The recoverable amount was determined as the value in use according to the discounted cash flows model, where such cash flows were based on the management's forward-looking information. We believe that this matter is key to our audit because reviewing for impairment indicators, determining of CGU and assessing of CGU recoverable amount require the management to make judgments and estimates including with regard to key assumptions (such as discount rates and forecast prices for finished goods) taken when assessing the recoverable amount. Non-current assets and relevant impairment tests are disclosed in Note 12.	We obtained an understanding of the Group's procedures and controls related to identification of impairment indicators and calculation of recoverable amount of non-current assets. Our substantive audit procedures included the following: • assessment of asset grouping and CGU carrying value determination performed by the management; • evaluation of completeness for non-current assets and CGU impairment indicators determined by the management; • evaluation of the methodology and models adopted by the management for the determination of CGU recoverable amount; • analysis of the main assumptions used in the models in comparison with published macroeconomic indicators and forecast data; • reconciliation of key inputs and assumptions used in calculations to accounting records, budgets and assumptions, used in preparing forecasts in previous periods and in other valuation models; • assessment of the discount rate applied in the valuation; • testing the mathematical accuracy of the models used for valuation. Our internal valuation specialists assessed the calculations of the non-current asset recoverable amount performed by the Group's management. We also assessed whether the disclosure in the consolidated financial statements is complete and in compliance with IFRS requirements.

Other information

Management is responsible for the other information. The other information comprises the information included in the annual and quarterly reports of the issuer, but does not include the consolidated financial statements and our auditor's report thereon. The annual and quarterly reports are expected to 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 and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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 IFRS, 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 ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA, we exercise professional judgement and maintain professional skepticism 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 controls.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal 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 assumption 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal 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 and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period, and are therefore the key audit matters. We describe 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 Igorevich Galeev,
Engagement Partner

6 April 2020

The Entity: Group of Companies Segezha LLC

State Registration Certificate 77 No.016030550 issued by Interdistrict Inspectorate of the Federal Tax Service No.46 for Moscow on 26 December 2013.

Primary State Registration Number: 5137746232839

Certificate of registration in the Unified State Register of Legal Entities: Certificate of registration in the Unified State Register No. 2167747611271, issued by Interdistrict Inspectorate of the Federal Tax Service No. 46 for Moscow on 13 May 2016.

Address:
10 Presnenskaya Naberezhnaya, Moscow

Audit Firm: AO "Deloitte & Touche CIS"

Certificate of State Registration No. 018.482 issued by Moscow Registration Chamber on 30 October 1992.

Primary State Registration Number: 1027700425444

Certificate of registration in the Unified State Register of Legal Entities:
No. 77 004840299 issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation No. 39 on 13 November 2002.

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

GROUP OF COMPANIES SEGEZHA LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands of Russian Rubles)

	Notes	2019	2018
Revenue	4	58 494 635	57 890 264
Cost of sales	7	(39 423 999)	(37 724 350)
Gross profit		**19 070 636**	**20 165 914**
Selling and administrative expenses	8	(12 548 477)	(12 353 411)
Other operating income, net	9	1 470 133	751 044
Operating profit		**7 992 292**	**8 563 547**
Interest income		73 991	70 996
Interest expense		(3 626 961)	(3 627 052)
Foreign exchange difference, net		2 404 415	(4 337 206)
Other expenses	10	(863)	(304 847)
Profit before tax		**6 842 874**	**365 438**
Income tax expense	11	(2 091 912)	(353 229)
Net profit for the reporting period		**4 750 962**	**12 209**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of defined benefit pension obligations	21	(81 769)	7 567
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		(243 574)	644 447
Other comprehensive (loss)/income		**(325 343)**	**652 014**
Total comprehensive income for the reporting period		**4 425 619**	**664 223**
Net profit/(loss) attributable to:			
Participants of Group of Companies Segezha LLC		4 787 419	(20 483)
Non-controlling interest		(36 457)	32 692
		4 750 962	**12 209**
Total comprehensive income/(loss) attributable to:			
Participants of Group of Companies Segezha LLC		4 462 076	631 531
Non-controlling interest		(36 457)	32 692
		4 425 619	**664 223**

Mikhail Valeryevich Shamolin
President

Rovshan Beilyarovich Aliyev
Vice-President for Finance and Investment

6 April 2020

GROUP OF COMPANIES SEGEZHA LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019
(in thousands of Russian Rubles)

	Notes	31 December 2019	31 December 2018*	1 January 2018*
ASSETS				
NON-CURRENT ASSETS:				
Property, plant and equipment	12	38 256 065	37 404 797	35 012 521
Right-of-use assets	27	12 017 386	11 372 345	10 058 645
Goodwill		423 136	423 136	423 136
Investments in associates		199 760	204 643	137 333
Deferred tax assets	11	658 941	542 101	134 539
Prepayments for non-current assets, net	12	1 789 897	750 022	972 964
Other non-current assets	13	812 888	448 756	578 360
Total non-current assets		**54 158 073**	**51 145 800**	**47 317 498**
CURRENT ASSETS:				
Inventories, net	14	10 651 706	10 480 502	8 013 013
Trade and other receivables, net	15	5 378 830	6 401 838	4 549 178
Taxes receivable and other current assets	17	3 157 702	2 824 911	4 057 022
Cash and cash equivalents	16	3 214 409	3 006 868	4 755 636
Total current assets		**22 402 647**	**22 714 119**	**21 374 849**
TOTAL ASSETS		**76 560 720**	**73 859 919**	**68 692 347**
EQUITY AND LIABILITIES				
EQUITY:				
Charter capital	18	12	12	12
Additional paid-in capital	18	7 517 593	7 648 354	7 517 593
Retained earnings		5 581 246	4 734 314	6 479 100
Accumulated other comprehensive income		616 948	942 291	290 277
Equity attributable to participants of the Group		13 715 799	13 324 971	14 286 982
Non-controlling interest		132 709	170 300	(144 522)
Total equity		**13 848 508**	**13 495 271**	**14 142 460**
NON-CURRENT LIABILITIES:				
Loans and borrowings	19	29 969 945	32 708 060	21 078 574
Lease liabilities	27	7 573 098	6 334 982	5 753 987
Pension obligations	21	754 587	806 981	782 567
Deferred tax liabilities	11	2 048 249	1 836 877	1 434 751
Other non-current liabilities		14 342	35 525	63 171
Total non-current liabilities		**40 360 221**	**41 722 425**	**29 113 050**
CURRENT LIABILITIES:				
Loans and borrowings	19	12 572 249	8 823 662	17 086 292
Trade and other payables	20	7 079 386	6 547 012	5 890 644
Lease liabilities	27	887 632	841 620	729 241
Provisions	23	392 611	772 297	328 227
Advances received, other liabilities and taxes payable		1 420 113	1 657 632	1 402 433
Total current liabilities		**22 351 991**	**18 642 223**	**25 436 837**
TOTAL EQUITY AND LIABILITIES		**76 560 720**	**73 859 919**	**68 692 347**

* Restated (Note 6).

Mikhail Valeryevich Shamolin
President

Rovshan Beilyarovich Aliyev
Vice-President for Finance and Investment

6 April 2020

GROUP OF COMPANIES SEGEZHA LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands of Russian Rubles)

					Accumulated other comprehensive income				
	Notes	**Charter capital**	**Additional paid-in capital**	**Retained earnings**	**Translation to presentation currency**	**Other**	**Equity attributable to participants of Group of Companies Segezha LLC**	**Non-controlling interest**	**Total equity**
31 December 2017		**12**	**7 517 593**	**6 507 615**	**298 870**	**(8 593)**	**14 315 497**	**(144 522)**	**14 170 975**
Effect of initial application of IFRS 9		-	-	(28 515)	-	-	(28 515)	-	(28 515)
1 January 2018 including effect of IFRS 9		**12**	**7 517 593**	**6 479 100**	**298 870**	**(8 593)**	**14 286 982**	**(144 522)**	**14 142 460**
Net (loss)/profit for the reporting period		-	-	(20 483)	-	-	(20 483)	32 692	12 209
Other comprehensive income for the year, net of income tax		-	-	-	644 447	7 567	652 014	-	652 014
Total comprehensive (loss)/income for the year		-	-	(20 483)	644 447	7 567	631 531	32 692	664 223
Share-based payments	22	-	130 761	-	-	-	130 761	-	130 761
Buy out of the stake of non-controlling shareholders of Onegales PJSC and Onega Sawmills JSC		-	-	(86 442)	-	-	(86 442)	65 937	(20 505)
Deemed dividends	18	-	-	(137 861)	-	-	(137 861)	-	(137 861)
Declared dividends	18	-	-	(1 500 000)	-	-	(1 500 000)	-	(1 500 000)
Purchase of the controlling stake in Voloma-Invest Group of companies	5	-	-	-	-	-	-	216 193	216 193
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	22	-	(130 761)	-	-	-	(130 761)	-	(130 761)
Buy out of non-controlling interest		-	-	-	-	-	-	(1 134)	(1 134)
Deemed dividends	18	-	-	(140 487)	-	-	(140 487)	-	(140 487)
Declared dividends	18	-	-	(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**

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands of Russian Rubles)

	Notes	2019	2018
Cash flows from operating activities:			
Net profit for the reporting period		4 750 962	12 209
Adjustments for:			
Depreciation and amortization of property, plant and equipment and intangible assets		4 954 133	4 203 028
Amortization of right-of-use assets	27	1 047 685	423 058
Interest income recognized in profit or loss		(73 991)	(70 996)
Interest expense recognized in profit or loss		3 626 961	3 627 052
Income tax expense recognized in profit or loss	11	2 091 912	353 229
Allowances for expected credit losses	8	7 408	147 657
Loss on write-off of inventories	9	7 755	161 562
Allowance for inventory impairment		(14 356)	(5 976)
Loss/(gain) on disposal of property, plant and equipment		25 429	(24 181)
Foreign exchange differences		(2 404 415)	4 337 206
Reversal of impairment of property, plant and equipment	9	(478 887)	-
Loss on disposal of a Group company	10	-	248 345
Share in net profit of associates recognized using equity method	9	-	(140 535)
Revaluation of previously held interest in acquiree to fair value	9	-	(306 246)
Other non-monetary operating expenses and other expenses, net		(118 996)	(8 168)
		13 421 600	**12 957 244**
Movements in working capital:			
Increase in trade and other receivables		(236 646)	(1 367 506)
Increase in inventories		(650 668)	(2 850 258)
(Increase)/decrease in other assets		(708 065)	1 124 271
Increase in trade and other payables		596 103	726 392
Decrease/(increase) in other liabilities		(678 318)	847 361
Cash generated from operating activities		**11 744 006**	**11 437 504**
Interest paid		(2 649 048)	(2 420 233)
Income tax paid		(1 680 242)	(519 761)
Net cash from operating activities		**7 414 716**	**8 497 510**

GROUP OF COMPANIES SEGEZHA LLC AND SUBSIDIARIES

CONSOLIDATES STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)
(in thousands of Russian Rubles)

	Notes	2019	2018
Cash flows from investing activities:			
Payments for property, plant and equipment and intangible assets		(6 226 118)	(6 468 603)
Proceeds from sale of property, plant and equipment		174 112	309 717
Interest received		73 991	70 996
Proceeds from disposal of Karelia DSP JSC		-	8 135
Dividends received		54 036	16 483
Net cash outflow on acquisition of Group companies	5	(139 588)	(544 464)
Deemed dividends paid	18	(138 987)	(169 942)
Buy out of the stake of non-controlling shareholders of Group companies		-	(20 665)
Net cash used in investing activities		**(6 202 554)**	**(6 798 343)**
Cash flows from financing activities:			
Proceeds from loans and borrowings	19	19 982 604	37 291 058
Repayment of principal of loans and borrowings	19	(15 892 885)	(38 630 197)
Proceeds from return of short-term investments		940	254
Dividends paid	18	(3 800 000)	(1 500 000)
Lease liability payments	27	(1 119 117)	(945 760)
Share-based payments	18	(130 761)	-
Net cash used in financing activities		**(959 219)**	**(3 784 645)**
Net increase/(decrease) in cash and cash equivalents		252 943	(2 085 478)
Cash and cash equivalents, beginning of the year	**16**	**3 006 868**	**4 755 636**
Effect of exchange rate changes on cash held in foreign currencies		(45 402)	336 710
Cash and cash equivalents, end of the year	**16**	**3 214 409**	**3 006 868**

Non-monetary transactions on financial and investment activity are disclosed in Notes 12, 19 and 27.

(in thousands of Russian Rubles, unless otherwise indicated)

1. GENERAL INFORMATION

Group of Companies Segezha LLC (the "Company" or jointly with its subsidiaries – "Segezha Group" or the "Group") is the timber industry holding with a vertically integrated structure and a full-cycle of harvesting and timber processing. The Group includes both Russian and European timber, woodworking, pulp and paper industry enterprises, as well as paper packaging production enterprises.

Group of Companies Segezha LLC was registered in the Russian Federation ("RF") in 2013. The registered office of the Company is located at 10 Presnenskaya Naberezhnaya, Moscow.

As at 31 December 2019 and 2018 the key participants in the Company are Sistema PJSFC (14.57%) and its subsidiary Sistema Telecom Assets LLC (83.67%). The ultimate controlling shareholder of Sistema PJSFC (the "Parent") is Mr. Vladimir Petrovich Evtushenkov.

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

Significant entities	Country	31 December 2019	31 December 2018
Pulp and paper industry			
Segezha Pulp and Paper Mill JSC	RF	100%	100%
Sokol Pulp and Paper Mill PJSC	RF	92,60%	92,60%
Packaging production			
Segezha Packaging LLC	RF	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 wood particle board production			
Vyatsky Plywood Mill LLC	RF	100%	100%
Woodworking			
Lesosibirsky LDK No.1 JSC	RF	100%	100%
Segezha Sawmills LLC	RF	100%	100%
Onega Sawmills JSC	RF	100%	100%
Sokol Timber Company JSC	RF	100%	100%
Ksilotek-Siberia LLC	RF	100%	100%
Timber harvesting			
Muezerskiy LPH PJSC	RF	100%	100%
Lenderskiy Lespromhoz PJSC	RF	100%	100%
Medvezhyegorskiy LPH LLC	RF	100%	100%
LPK Kipelovo JSC	RF	100%	100%
PLO Onegales LLC	RF	100%	100%
Onegales PJSC	RF	100%	100%
Techprom LLC	RF	100%	100%
Volomsky KLPH Leskarel OJSC	RF	75,61%	74,99%
Ledmozerskoye LZH OJSC	RF	87,25%	87,25%
Severlesprom LLC	RF	100%	-
Energy			
Vologda Bumazhnaya Manufactura LLC	RF	100%	100%
Onega-Energy JSC	RF	75%	75%
Other			
Management Company Segezha Group LLC	RF	100%	100%
Voloma-Invest LLC	RF	100%	100%

In June 2019, the Company acquired a 100% stake in Severlesprom LLC engaged in timber harvesting on the leased forest areas (Note 5).

As at 31 December 2019, the Group pledged shares/interest in its subsidiary Onega Sawmills JSC (31 December 2018: shares/interest in its subsidiaries Onega Sawmill JSC, Lesosibirsky LDK No.1 OJSC, Ksilotek-Siberia LLC) as collateral to secure performance under loan and overdraft agreements (Note 19).

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") on the historical cost basis except for measurement of property, plant and equipment as at 1 January 2015 (the date of the first adoption of IFRS), which were accounted for at fair value amounts at the date of the first adoption of IFRS, except for the items fully impaired at the same date (Note 12).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 ordinary 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, accounting and 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 individual entities were adjusted to ensure that the consolidated financial statements are presented in accordance with IFRS.

Described below and in the relevant notes is the summary of significant accounting policies applied in the preparation of these consolidated financial statements. These accounting policies have been consistently applied to all years presented in these statements, except when otherwise indicated.

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 functional currency of the Company is the Russian Ruble. The presentation currency of the consolidated financial statements is the Russian Ruble. All values are rounded to the nearest thousand Rubles, except when otherwise indicated.

In preparing the financial statements of each individual Group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized 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 measured at historical cost in a foreign currency are not recalculated.

Exchange differences on monetary items are recognized 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 exchange differences are recognized initially in other comprehensive income and reclassified from equity to profit or loss on repayment 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 the assets and liabilities (both monetary and non-monetary ones) - are translated at the appropriate exchange rates prevailing at the end of the reporting periods;
- All the income and expense items are translated at the average exchange rates for the reporting period;
- Equity components are translated at the historic exchange rates;
- Arising exchange differences are recognized in a separate item *Exchange differences on translating foreign operations* as other comprehensive income; the accumulated effect is recognized in equity (and attributed to non-controlling interest as appropriate);
- Cash flows are translated at the average exchange rates for the reporting period. Arising exchange differences are recognized in 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 2019	31 December 2018
RUB/USD	61,9057	69,4706
RUB/EUR	69,3406	79,4605

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

	2019	2018
RUB/USD	64,7362	62,7078
RUB/EUR	72,5021	73,9546

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 the loss of control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interest and is not recognized in profit or loss.

Offsetting financial instruments. Financial assets and liabilities are netted off and the net amount is reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognized amounts, and there is an intention to either settle on a net basis, or to realize the asset and settle the liability simultaneously. Such a right of 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 include 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 to the risks 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 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 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 the other vote holders to determine if it has substantive power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of 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 when control is lost.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless costs cannot be recovered. The Company and all of its subsidiaries use 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 interest. 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 purchase 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. The voting rights in such entities vary from 20 to 50 percent, as a rule. Investments in associates are accounted for using the equity method and initially recognized 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 relevant investments. Other changes in the Group's interest in net assets of the associates arising after the acquisition are recognized as follows:

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

But, when the Group's interest in the associates' losses equals or exceeds its interest in the associate, including any unsecured accounts receivable, the Group derecognizes further losses, except if the Group undertook obligations or made payments on behalf of that associate.

Unrealized gains on transactions between the Group and its associates are eliminated pro rata to the Group's interest in those associates; unrealized losses are also eliminated unless the transaction provides evidence of a transferred asset impairment.

Disposal of subsidiaries and associates. When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purpose of subsequent accounting for the retained interest in an associate or financial asset. In addition, any amounts previously recognized 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 recognized in other comprehensive income are transferred 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 recognized 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 recognized at a transaction price. Transaction price represents a consideration to which the Group expects to become entitled to in exchange for transferring the control over the promised goods or services to the customer, excluding any amounts received on behalf of third parties. Revenue is recognized net of the discounts, VAT, export duties, excise and other similar mandatory payments.

The Group's revenue comprises sales of goods (paper and package, sawn timber, plywood, boards and other goods) and provision of services related to delivery of finished goods to customers after the transfer of control over goods. Sales are recognized upon transferring the control over products, 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 when (i) the products have been delivered to a specific location, (iii) control over the products has passed to the customer, (iv) the customer has accepted the products under the contract and (v) 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 recognized upon product delivery because a 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 recognized in the consolidated financial statements and the carrying amounts of assets and liabilities within the next financial year. Accounting estimates and judgements are continually evaluated and are based on the management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving accounting estimates, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognized in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

- Assessment of lease liabilities (Note 27);
- Useful lives of property, plant and equipment (Note 12);
- Tax legislation (Note 28);
- Deferred tax assets recoverability (Note 11);
- Provisions and contingent liabilities (Notes 23 and 28);
- Fair value measurement (Notes 5, 6, 12 and 25);
- Impairment of financial and non-current assets (Note 15).

Going concern assumption

Management prepared these consolidated financial statements on a going concern basis. This judgment has been made by the 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 future operations of the Group.

3. NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Below are the revised standards that have become obligatory for the Group as from 1 January 2019 but have not had significant impact on its operations:

- IFRIC 23 *Uncertainty over Income Tax Treatments* (issued on 7 June 2017, effective for annual periods beginning on or after 1 January 2019).
- Prepayment features with negative compensation — Amendments to IFRS 9 (issued on 12 October 2017, effective for annual periods beginning on or after 1 January 2019).
- Long-term interests in associates and joint ventures — Amendments to IAS 28 (issued on 12 October 2017, effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 Cycle – Amendments to IFRS 3, IFRS 11, IAS 12, and IAS 23 (issued on 12 December 2017, effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement* (issued on 7 February 2018, effective for annual periods beginning on or after 1 January 2019).

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2020, and which the Group has not early adopted. The Group does not expect that these standards will have a material effect on its consolidated financial statements, unless otherwise stated below.

Amendment to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (issued on 11 September 2014, effective for annual periods beginning on or after a date to be determined by the IASB). These amendments eliminate inconsistences between IFRS 10 and IAS 28 with regard to sale or contribution of assets to an associate or a joint venture by an investor. A key implication of applying these amendments is that profit or loss is recognized in full if a transaction impacts the business. If the assets do not constitute the business or even if they are owned by a subsidiary, only a part of profit or loss is recognized.

IFRS 17 Insurance contracts (issued on 18 May 2017 and effective for the annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4 that allowed entities to continue using the existing practices of accounting for insurance contracts, which made it difficult for investors to compare financial results of insurance companies that were similar in other indicators. IFRS 17 is a single principle-based standard for recognition of all types of insurance contracts, including the insurer's reinsurance contracts. According to this standard, groups of insurance contracts must be recognized and measured at (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all available information about the fulfilment cash flows in a way that is consistent with observable market information, to which its is added (if the cost is an obligation) or from which it is deducted (if the cost is an asset), (ii) the amount of retained earnings for the group of contracts (the contractual service margin). Insurers will recognize profit from a group of insurance contracts over the period they provide insurance coverage, and as at release from risk. If a group of contracts is or becomes onerous, an entity recognizes the loss immediately.

Amendments to Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for the annual periods beginning on or after 1 January 2020). The revised Conceptual Framework includes a new chapter on measurement, guidance on reporting financial performance; improved definitions of liabilities, and guidance supporting these definitions, as well as clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Definition of Materiality — Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for the annual periods beginning on or after 1 January 2020). These amendments clarify the definition of 'materiality' and its application by including relevant guidance that was previously incorporated in other IFRS standards. The explanations accompanying this definition were also improved. The amendments also align the definition of 'materiality' used in all the IFRS standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

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 new standard applies a system allowing to determine the presence of an input and a substantive process, including to the companies that are in the initial development phase and have no outputs yet.

If there are no outputs, the presence of an organized workforce is required for an entity to be considered a business. The definitions of outputs are narrowed by focusing on goods and services provided to customers, by making an investment and other income, and by removing the reference to an 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. These amendments will be applicable to business acquisitions as from 1 January 2020. The Group will assess their impact during the preparation of 2020 financial statements.

4. SEGMENT INFORMATION

Operating segments are components engaged in business activities and that are able to generate revenue or that may be related to expenses. Operating results of the segments are regularly analyzed by a chief operating decision maker; discrete financial information is available for operating segments. The Management Board led by the Group's President acts as the chief decision maker.

The Group's segments are strategic business units based on the goods they produce and the services they provide, focusing on distinctive groups of clients. The Group is organized on the basis of three main operating segments:

- ***Paper and packaging*** segment is engaged in the production and sale of sack kraft paper and artificial parchment produced from unbleached craft pulp manufactured from the wood of Northern coniferous species, as well as the entire range of brown sack paper.
- ***Timber resources and woodworking*** segment is engaged in production of high-quality coniferous woods sawn timber and industrial woodchips. 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 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 manufacturing of doors, wall coverings and floorings, moldings and furniture.

No operating segments have been aggregated for the purpose of presentation of the above reporting segments. The *Other* group includes companies that are not operating segments, i.e. the management and holding companies. It also includes the Group's companies engaged in sales of glued timber structures and glued-beam houses which are not material for the Group at the moment and therefore do not comprise a separate reporting segment.

The operating decision makers analyze the IFRS financial information adjusted for the internal reporting requirements. Segment operation results are assessed based on the revenue and OIBDA indicators. The revenue includes revenue from both third parties and between the segments. OIBDA is calculated as operating profit or loss before depreciation. Assets and liabilities broken down by segments are neither analyzed nor submitted to the Group's management on a regular basis.

Transaction prices between the operating segments are set on an arm's length basis (similarly to third party transactions).

(in thousands of Russian Rubles, unless otherwise indicated)

The Group's financial transactions (including finance costs, finance income, foreign exchange differences and other expenses) and income taxes are taken into account with regard to the whole Group and are not allocated to the operating segments.

Segment information for the year ended 31 December 2019 comprised the following:

	Paper and packaging	**Timber resources and wood working**	**Plywood and boards**	**Other**	**Total segments**
Segment revenue analyzed by the management	33 366 684	20 325 835	6 556 574	6 303 000	**66 552 094**
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**

Segment information for the year ended 31 December 2018 comprised the following:

	Paper and packaging	**Timber resources and wood working**	**Plywood and boards**	**Other**	**Total segments**
Segment revenue analyzed by the management	32 785 050	19 972 445	5 634 244	9 459 158	67 850 896
Elimination of intersegment transaction revenue	(335 922)	(4 426 153)	(22 163)	(5 176 393)	(9 960 631)
Total revenue reported in the consolidated statement of profit or loss and other comprehensive income	**32 449 128**	**15 546 292**	**5 612 081**	**4 282 764**	**57 890 264**
OIBDA	**9 440 091**	**3 115 634**	**1 769 364**	**(1 122 886)**	**13 202 203**

Below is the reconciliation of segment OIBDA and consolidated operating profit of the Group:

	For the year ended	
	31 December 2019	**31 December 2018**
OIBDA	**14 019 066**	**13 202 203**
Depreciation and amortization expense	(6 001 819)	(4 626 086)
Elimination of intersegment transactions	(24 955)	(12 570)
Operating profit	**7 992 292**	**8 563 547**

Despite the fact that the activity of some subsidiaries of the Group and their financial results were historically exposed to certain seasonal trends, different in the first and the second half of the year, the consolidated financial results of the Group historically were not exposed to material seasonal fluctuations.

(in thousands of Russian Rubles, unless otherwise indicated)

Geographic information

Revenue broken down by each country is recognized separately (provided it is material) as follows (the analysis is based on the client location):

	For the year ended 31 December 2019	For the year ended 31 December 2018
Russia	15 762 224	15 817 146
China	7 236 633	5 268 038
Germany	3 811 585	3 295 061
Egypt	2 814 874	4 185 854
Indonesia	1 856 735	1 318 086
Netherlands	1 720 871	2 000 249
Denmark	1 534 771	1 167 317
France	1 496 329	2 226 596
Italy	1 408 245	1 329 485
USA	1 379 233	1 177 551
United Kingdom	1 226 195	1 491 982
Mexico	1 175 302	1 021 641
Kazakhstan	1 010 649	1 037 208
Saudi Arabia	840 972	1 742 358
Turkey	830 644	775 666
Romania	762 368	614 140
Belgium	661 888	776 094
Finland	639 191	619 720
Pakistan	575 767	918 285
Other	11 750 159	11 107 787
Total external revenue	**58 494 635**	**57 890 264**

Non-current assets broken down by each country are recognized separately (provided they are material) as follows (the analysis is based on the asset location):

	For the year ended 31 December 2019	For the year ended 31 December 2018
Russia	51 516 365	48 232 507
Germany	518 633	563 116
Denmark	412 359	394 557
Netherlands	407 322	518 547
Other	644 453	894 972
Total non-current assets	**53 499 132**	**50 603 699**

5. ACQUISITION OF SUBSIDIARIES

The acquisition method of accounting is used to account for acquisition of subsidiaries. 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 interest that represents present ownership interests and entitles 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 interest that is not present ownership interests is measured at fair value.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognized in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

(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 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 for issuing equity instruments are deducted from equity; transaction costs incurred for issuing 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 Company 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 recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

Acquisition of Severlesprom LLC

In June 2019, the Group acquired 100% stake in Severlesprom LLC engaged in timber harvesting for RUB 140,000 thousand.

Severlesprom LLC was acquired as part of the program to further expand timber harvesting services of the Group in order to improve efficiency of timber harvesting operations of the Group, self-sufficiency of wood supply of the Group’s current business, reduce average raw material purchase prices for the Group's production assets, increase raw material base to further expand and upgrade the Group’s production assets.

As at the acquisition date, the assets and liabilities of the acquired subsidiary comprised the following:

	Fair value
Assets and liabilities	
Right-of-use assets	219 400
Inventories	12 152
Trade and other receivables	10 343
Cash	412
Trade and other payables	(14 171)
Lease liability	(55 320)
Deferred tax liabilities	(32 816)
Total identifiable net assets	**140 000**
Total acquisition value	**140 000**
Settled in the form of:	
Cash consideration	140 000

In order to determine the fair value of right-of-use assets with respect to forest areas, the acquisition cost was decreased by the net amount of other identifiable assets and liabilities. Thus, the fair value of right-of-use assets with respect to forest areas recognized in the right-of-use assets was assessed based on their acquisition cost.

Relative financial data representing the Group's financial results as if the acquisition took place on 1 January 2019 had not been provided because the impact of this transaction is not material for the consolidated financial results of the Group.

Acquisition of Voloma-Invest group of companies

In June 2018, the Company acquired a 100% stake in Voloma-Invest group of companies (Voloma-Invest LLC and its subsidiaries Volomsky KLPH Leskarel OJSC (74,993%) and Ledmozerskoye LZH OJSC (51%, effective interest held by the Group – 38,25%)) engaged in timber harvesting services. The acquisition of Ledmozerskoe LZH OJSC was conducted as a phased acquisition as at the date of the acquisition of Voloma-Invest LLC the Group was already holding a 49% interest in the company. The effective interest held by the Group in Ledmozerskoe LZH OJSC after the acquisition was 87,25%.

(in thousands of Russian Rubles, unless otherwise indicated)

The acquisition of Voloma-Invest group was performed as part of the program to further expand timber harvesting services of the Group in order to improve efficiency of timber harvesting operations for the Group, self-sufficiency of wood supply of the Group's current business, reduce average raw material purchase prices for Segezha Pulp and Paper Mill, increase raw material base to further expand and upgrade the Group's production assets.

During six months ended 30 June 2019 the Group assessed the acquisition cost of Voloma-Invest group of companies and allocated it to the fair value of acquired assets and liabilities.

The preliminary and final estimates of the fair value of acquired assets and assumed liabilities at the acquisition date and the adjustments of the measurement period comprised the following:

	Fair value (preliminary estimate)	Adjustments	Fair value (final estimate)
Assets and liabilities			
Right-of-use assets	916 568	521 285	1 437 853
Property, plant and equipment	290 265	991	291 256
Cash	104 596	-	104 596
Inventories	78 141	-	78 141
Trade and other receivables	55 372	279	55 651
Other current assets	6 130	8 087	14 217
Lease liability	(344 872)	-	(344 872)
Net deferred tax assets and liabilities	(167 422)	(110 492)	(277 914)
Trade and other payables	(93 633)	-	(93 633)
Total identifiable net assets	**845 145**	**420 150**	**1 265 295**
Goodwill	305 583	(305 583)	-
Non-controlling interest	(174 249)	(41 944)	(216 193)
Total acquisition cost	**976 479**	**72 623**	**1 049 102**
Settled in the form of:			
Cash consideration	646 310	2 909	649 219
Historical cost of previously held interest in acquiree	93 638	-	93 638
Revaluation of previously held interest in acquiree to fair value	236 531	69 714	306 245
	976 479	**72 623**	**1 049 102**

Adjustments of the measurement period with regard to the fair value of assets and liabilities of Voloma-Invest group of companies are related to the reassessment of the market value of the right-of-use assets with respect to forest areas based on the acquisition cost of the Group and the revaluation of the relevant deferred income tax liabilities.

Trade receivables are recognized at fair value of RUB 55,651 thousand and represented the best estimate of contractual cash flows receivable at the acquisition date.

Non-controlling interest representing ownership interest and entitling their holders to a proportionate share of the entity's net assets in the event of liquidation was measured in proportion to the non-controlling interest share in the recognized amounts of the identifiable net assets acquired.

During the period from the acquisition date until 31 December 2018, the Group's revenue and profit before tax included RUB 406 160 thousand and RUB 20 631 thousand, respectively, attributable to the acquirees. Had this business combination been effected at 1 January 2018, the revenue of the Group attributable to the acquirees would have been RUB 852 793 thousand, and the Group's loss before tax attributable to the acquirees would have been RUB 94 334 thousand.

(in thousands of Russian Rubles, unless otherwise indicated)

6. RESTATEMENT FOR PRIOR PERIODS

In 2016, the Group acquired 99.97% stake in Lesosibirsky LDK No. 1 group of companies that is a woodworking company with vertically-integrated structure, located in the Krasnoyarsk Region. It is one of the largest Russian producers of sawn timber and it also produces fibreboards, square-sawn timber and wooden furniture.

As at 31 December 2016, the Group completed allocation of the acquisition cost to the fair value of the acquired assets and liabilities of Lesosibirsky LDK No.1 JSC. The allocation was performed based on the fair value of the assets and liabilities identified at the acquisition date defined by the Group's management with the support of independent appraisers. Goodwill of RUB 3 187 824 thousand was recognized.

In 2019, the Group's management analyzed the acquisition cost allocation and concluded that not all of the acquired identifiable assets were identified as at the acquisition date. Thus, as part of the transaction the Group acquired right-of-use assets with respect to leased forest areas for timber harvesting. In accordance with *IFRS 3 Business combinations* intangible assets that arose from contractual or other legal rights and the fair value of which can be determined should be recognized separately from goodwill.

The Group contracted an independent appraiser in order to determine the fair value (as at the acquisition date) of intangible right-of-use assets with respect to the leased forest areas. The fair value was determined based on the anticipated use method, provided that total term of forest area lease agreements comprised 39-48 years and 15.76% discount rate was applied, and it amounted to RUB 3 455 860 thousand.

After the allocated acquisition cost was adjusted the amount of recognized goodwill decreased to RUB 423 136 thousand. This goodwill relates to a group of two CGUs: Timber sawing (sawn timber production facility) and timber harvesting (leased forest areas of acquired companies). Both CGUs are included in the Timber resources and woodworking segment. As at 31 December 2019, the Group performed an impairment test of goodwill related to these CGUs and identified no impairment.

After the allocated acquisition cost was adjusted the Group also restated its financial statements for prior periods as follows:

	1 January 2018			31 December 2018		
	As reported	**Restatement**	**Restated amount**	**As reported**	**Restatement**	**Restated amount**
NON-CURRENT ASSETS:						
Right-of-use assets	6 602 785	3 455 860	10 058 645	7 916 485	3 455 860	11 372 345
Goodwill	3 187 824	(2 764 688)	423 136	3 187 824	(2 764 688)	423 136
NON-CURRENT LIABILITIES:						
Deferred tax liabilities	743 579	691 172	1 434 751	1 145 705	691 172	1 836 877
NET ASSETS	**14 142 460**	**-**	**14 142 460**	**13 495 271**	**-**	**13 495 271**

This restatement did not have any material impact on the consolidated statement of profit or loss. Therefore, no changes were made to that statement.

(in thousands of Russian Rubles, unless otherwise indicated)

7. COST OF SALES

Below is the analysis of the cost of sales of products and services for the years ended 31 December 2019 and 2018:

	2019	2018
Raw materials and supplies	18 854 679	19 100 200
Employee benefits	8 087 295	7 483 122
Supplier and contractor services	7 735 117	7 323 272
Depreciation and amortization expense	5 327 478	4 145 070
Other expenses	120 513	240 686
Net change in inventories	(701 082)	(568 000)
	39 423 999	**37 724 350**

8. SELLING AND ADMINISTRATIVE EXPENSES

Below is the analysis of selling and administrative expenses for the years ended 31 December 2019 and 2018:

	2019	2018
Finished goods transportation and other selling expenses	6 783 815	6 199 816
Employee benefits	3 379 624	3 735 244
Supplier and contractor services	897 107	1 082 157
Depreciation and amortization expense	559 183	382 236
Taxes, other than income tax	221 776	278 263
Raw materials and supplies	140 989	126 659
Increase in allowance for expected credit losses, net	7 408	147 657
Other expenses, net	558 575	401 379
	12 548 477	**12 353 411**

9. OTHER OPERATING INCOME

Below is the analysis of other operating income and expenses for the years ended 31 December 2019 and 2018:

	2019	2018
Income from government grants	1 147 346	738 461
Reversal of previously accrued impairment for property, plant and equipment (Note 12)	478 887	-
Revaluation of previously held interest in acquiree to fair value (Note 5)	-	306 245
Share in net profit of associates recognized using equity method	-	140 535
Depreciation and amortization expenses	(115 157)	(98 779)
Loss on write-off of inventories	(4 457)	(161 562)
Other	(36 486)	(173 856)
Other operating income, net	**1 470 133**	**751 044**

Government grants represent government support 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 such types of government support which cannot be reasonably estimated or such transactions with the governments which cannot be distinguished from regular market transactions of the Group.

Government grants are not recognized until there is a reasonable degree of certainty that the Group will comply with the grants' conditions and that the grants will be received.

Government grants that are receivable as reimbursement of the expenses already incurred, particularly transportation costs related to the Group's export sales, are recognized in profit or loss in the period in which there is a reasonable degree of certainty that these grants will be received.

(in thousands of Russian Rubles, unless otherwise indicated)

In 2019 and 2018, the Group received grants to reimburse costs attributable to the transportation of finished goods and expenses related to the increase in coal and fuel oil prices in accordance with Resolution of the Russian Government No. 496 *On Provision of Subsidies from the Federal Budget to the Russian Organizations Including Automobile Production, Agricultural Machine-Building, Transport Machine-Building, and Energy-Related Machine-Building Entities to Compensate Part of Costs for the Transportation of Products* dated 26 April 2017 and Resolution of the Government of the Republic of Karelia No. 489-П *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* dated 24 December 2018.

10. OTHER EXPENSES

Below is the analysis of other expenses for the years ended 31 December 2019 and 2018:

	2019	**2018**
Loss on disposal of Karelia DSP JSC	-	248 345
Other	863	56 502
Other expenses	**863**	**304 847**

11. INCOME TAX

Income taxes are recognized in the consolidated financial statements in accordance with laws enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognized in profit or loss for the year except for the tax recognized in other comprehensive income or directly in equity because it relates to transactions that are recognized, in the same or a different period in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to the tax authorities (or recovered from budget) in respect of taxable profits or losses for the current and prior periods.

Deferred income tax is accrued using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.
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, which 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, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilized.

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 utilized.

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 tax 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 off only within the individual entities of the Group.

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

(in thousands of Russian Rubles, unless otherwise indicated)

The tax rate used for the reconciliations below is the corporate tax rate of 20% payable by the Company in the Russian Federation on taxable profits under tax law in this jurisdiction. Taxes for other jurisdictions are calculated using rates prevailing in the respective jurisdictions.

Uncertain tax positions. The Group's uncertain tax positions are reassessed by the management 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 recognized based on management's best estimate of the expenditure required to settle the obligations at the reporting date. Adjustments of uncertain income tax positions, except for fines and penalties, are recognized as income tax expenses. Adjustments of uncertain income tax positions related to fines and penalties are recognized net as finance expenses and other profit / (loss) respectively.

11.1. Income tax recognized in profit or loss

	2019	2018
Current income tax	2 032 875	615 372
Deferred income tax	59 037	(262 143)
Total income tax expense recognized in the current year relating to continuing operations	**2 091 912**	**353 229**

The effective income tax rate reconciliation for 2019 and 2018 is presented as follows:

	2019	2018
Profit before tax from continuing operations	**6 842 874**	**365 438**
Theoretical income tax expense at 20%	1 368 575	73 088
Non-deductible expenses, net	1 372 915	475 435
Reversal of previously unrecognized assets for unutilized tax losses and offsets	(192 158)	(192 038)
Effect of tax rate, different from the rate of 20% (subsidiaries operating in other jurisdictions)	(457 420)	(3 256)
Total income tax expense recognized in the current year relating to continuing operations	**2 091 912**	**353 229**

11.2. Deferred taxes

As at 31 December 2019 and 2018, deferred tax assets and liabilities recognized by the Group in the consolidated statement of financial position comprised the following:

	31 December 2019	31 December 2018
Deferred tax assets	658 941	542 101
Deferred tax liabilities	(2 048 249)	(1 836 877)
	(1 389 308)	**(1 294 776)**

(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, by item:	**31 December 2018**	**Recorded in profit and loss**	**Recorded in other comprehensive income**	**Acquisition / disposal of companies**	**31 December 2019**
PPE and right-of-use assets	(2 171 006)	(213 177)	-	(32 816)	(2 416 999)
Inventories	(150 490)	(46 811)	-	-	(197 301)
Trade and other receivables	220 851	120 934	-	(2 082)	339 703
Trade and other payables	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)/assets, net	**(1 294 776)**	**(59 037)**	**-**	**(35 495)**	**(1 389 308)**

Deferred tax (liabilities)/assets, by item:	**31 December 2017**	**Recorded in profit and loss**	**Recorded in other comprehensive income**	**Acquisition / disposal of companies**	**31 December 2018**
PPE and right-of-use assets	(1 650 902)	(250 432)	-	(269 672)	(2 171 006)
Inventories	(211 154)	58 664	-	2 000	(150 490)
Trade and other receivables	215 816	5 035	-		220 851
Trade and other payables	(93 283)	107 683	-	-	14 400
Provisions	34 606	8 566	-	(1 023)	42 149
Tax losses carried forward	339 464	381 801	-	11 988	733 253
Other	65 241	(49 174)	-	-	16 067
Deferred tax (liabilities)/assets, net	**(1 300 212)**	**262 143**	**-**	**(256 707)**	**(1 294 776)**

Given the Group’s current structure, tax losses and current tax assets of different companies may not be offset against 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 recognized 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 utilized. Unrecognized deferred tax assets related to tax losses are reviewed at each reporting date.

Federal Law of the Russian Federation No. 401-FZ dated 30 November 2016 provided for a transfer of losses of prior tax periods for an indefinite period; earlier, the period was limited to 10 years. The law also provided that in 2017-2020 the tax base cannot be reduced by the amount of losses of prior tax periods by more than 50%.

The Group does not recognize deferred tax assets related to tax losses of the subsidiaries with losses in prior periods. Such losses may not be offset against taxable income within the Group. If previously unprofitable subsidiaries have been profitable within the last years and previously accumulated tax losses could be recovered in the foreseeable future based on the tax forecasts, the Group reversed such previously unrecognized tax assets.

The movement in unrecognized deferred tax assets comprised the following:

	2019	**2018**
Opening balance	1 496 990	1 689 028
Increase in unrecognized deferred tax assets on unutilized tax loss	205 916	496 126
Recognition of previously unrecognized deferred tax asset on unutilized tax losses	(379 047)	(605 689)
Other	(19 027)	(82 475)
Closing balance	**1 304 832**	**1 496 990**

(in thousands of Russian Rubles, unless otherwise indicated)

The Group has not recognized deferred tax liabilities with respect to temporary differences in the amount of RUB 1 123 119 thousand (2018: RUB 620 753 thousand) related to the 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.

12. PROPERTY, PLANT AND EQUIPMENT

Land, buildings and structures, equipment and other property, plant and equipment are recognized at the acquisition cost less accumulated depreciation and impairment losses (freehold land is not depreciated). Construction in progress is carried at cost, less any recognized impairment losses. When completed or ready for intended use, construction in progress is classified to the appropriate category of property, plant and equipment.

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 the 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 structures	20-55 years
Machinery and equipment	5-20 years
Other property, plant and equipment	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 change in market conditions.

An item of property, plant and equipment is derecognized 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, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss. An impairment loss is recognized 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 capitalization. All other borrowing costs are recognized in profit or loss when incurred.

(in thousands of Russian Rubles, unless otherwise indicated)

As at 31 December 2019 and 2018, property, plant and equipment comprised the following:

	Land and natural assets	Buildings and construc-tions	Machinery and equipment	Other property, plant and equipment	Construc-tion-in-progress	Total
1 January 2018 (restated)						
Deemed / historical cost	**824 380**	**10 951 799**	**20 823 554**	**2 683 907**	**8 406 727**	**43 690 367**
Acquisitions	-	-	-	-	6 310 929	**6 310 929**
Internal transfers	5	3 081 046	5 428 797	355 466	(8 865 314)	**-**
Reclassification between groups	3 045	8 724	(11 769)	-	-	**-**
Disposals	(17 370)	(53 182)	(99 194)	(76 965)	(32 319)	**(279 030)**
Disposal on sale of the Group's company	(99 758)	(2 329)	(27 328)	(25 773)	(859)	**(156 047)**
Additions from business combinations (Note 5)	76 279	103 378	72 001	38 607	-	**290 265**
Translation to presentation currency	269	194 784	173 532	763	54 451	**423 799**
31 December 2018 (restated)						
Deemed / historical cost	**786 850**	**14 284 220**	**26 359 593**	**2 976 005**	**5 873 615**	**50 280 283**
Acquisitions	-	-	-	-	5 751 319	**5 751 319**
Internal transfers	20 601	1 926 827	5 745 266	704 461	(8 397 155)	**-**
Disposals	(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						
Deemed / historical cost	**776 217**	**15 847 572**	**31 634 880**	**3 552 323**	**3 166 843**	**54 977 835**

(in thousands of Russian Rubles, unless otherwise indicated)

	Land and natural assets	Buildings and facilities	Machinery and equipment	Other property, plant and equipment	Construc-tion-in-progress	Total
Accumulated depreciation and impairment						
1 January 2018 (restated)						
Accumulated depreciation	**-**	**1 809 377**	**5 405 207**	**984 375**	**-**	**8 198 959**
Accumulated impairment	**-**	**-**	**-**	**-**	**478 887**	**478 887**
	-	**1 809 377**	**5 405 207**	**984 375**	**478 887**	**8 677 846**
Depreciation charge	-	1 163 284	2 591 467	415 384	-	**4 170 135**
Disposals	-	(21 330)	(114 924)	(72 115)	-	**(208 369)**
Disposal on sale of the Group's company	-	(265)	(10 325)	(7 673)	-	**(18 263)**
Impairment accrued	-	-	65 000	2 604	2 409	**70 013**
Translation to presentation currency	-	25 218	156 770	2 136	-	**184 124**
31 December 2018 (restated)						
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 previously accrued 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**
Net book value as at						
31 December 2018	**786 850**	**11 307 936**	**18 266 398**	**1 651 294**	**5 392 319**	**37 404 797**
31 December 2019	**776 217**	**11 738 675**	**20 730 531**	**1 846 208**	**3 164 434**	**38 256 065**

As at the end of each reporting period, the management assesses whether there are any indicators of possible impairment of property, plant and equipment. Should any such indicators be identified, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs of disposal and its value in use. If the impairment of an asset is identified, the carrying amount is reduced to the recoverable amount and the impairment loss is recognized in profit or loss for the year. Asset impairment loss recognized in prior reporting periods is reversed (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 1 January 2018, historical cost of construction-in-progress included detailed design documentation and basic engineering results with respect to construction of new production facilities at Segezha Pulp and Paper Mill JSC site in total amount of RUB 478,887 thousand, as well as 100% accumulated impairment related to this documents. Impairment was accrued due to project freezing caused by the lack of financing.

(in thousands of Russian Rubles, unless otherwise indicated)

In 2019, the Group decided to proceed with the project and reverse the full amount of previously accrued impairment based on the following:

- Previously developed detailed design documentation is up to date and technologically feasible;
- The Group's management approved the start of the Segezha West project based on this detailed design documentation;
- The Group has access to financial resources sufficient to complete the project as scheduled.

In 2019, the Group identified a number of impairment indicators with regard to timber production facility of Lesosibirsky LDK No.1 JSC. 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 the discount rate of 12.6% per annum. No impairment was identified based on the test.

In 2018, the Group identified a number of impairment indicators at Segezha Packaging S.p.A. plant engaged in paper packaging production in Italy. As a result, the Group assessed the recoverable amount of the plant and relevant equipment. An impairment loss of RUB 70 013 thousand was recognized as a result. The impairment was assessed based on the value in use and the discount rate of 9.52% per annum.

As at 31 December 2019, the Group had fully depreciated property, plant and equipment with the total initial cost of RUB 4 783 707 thousand on the balance sheet (31 December 2018: 3 015 729 thousand).

As at 31 December 2019, the Group pledged property, plant and equipment with the carrying value of RUB 11 561 877 thousand (31 December 2018: RUB 5 343 450 thousand) as collateral to secure its obligations under loan and overdraft agreements.

In 2019, the Group capitalized interest expenses of RUB 47 762 thousand (2018: RUB 212 029 thousand).

As at 31 December 2019, advances paid for long-term assets included advances to suppliers as regards the purchase of property, plant and equipment in the amount of RUB 1 789 897 thousand (31 December 2018: RUB 750 022 thousand).

As at 31 December 2019, payables for property, plant and equipment were RUB 1 560 210 thousand (31 December 2018: RUB 1 090 006 thousand).

As at 31 December 2019, the Group had contractual obligations to suppliers of machinery and equipment as regards the purchase of assets in the total amount of RUB 6 788 758 thousand (31 December 2018: RUB 1 831 877 thousand).

13. OTHER NON-CURRENT ASSETS

	31 December 2019	**31 December 2018**
Intangible assets	559 324	185 700
Strategic stock of spare parts for property, plant and equipment	243 710	248 773
Other	9 854	14 283
Total other non-current assets	**812 888**	**448 756**

Intangible assets increased mainly due to software acquisition, including expenses of RUB 259 177 thousand for improvement, implementation and launch of an SAP enterprise management system, including capitalized expenses for the project team. The enterprise management system is expected to be launched into operation on 1 July 2020.

(in thousands of Russian Rubles, unless otherwise indicated)

14. INVENTORIES

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

Carrying value of inventories has been decreased by the amount of the allowance for inventory impairment. If inventories are not used, their cost shall be written off from the allowance account. Previously written off amounts are subject to subsequent recovery through the allowance account. Changes in the carrying value of the allowance account are recognized in profit or loss.

Below is the analysis of inventories as at 31 December 2019 and 2018:

	31 December 2019	31 December 2018
Raw materials, supplies and spare parts	6 694 293	6 820 724
Work-in-progress	853 560	1 025 032
Finished goods	3 248 817	2 794 066
Less: allowance for inventory impairment	(144 964)	(159 320)
Total inventories	**10 651 706**	**10 480 502**

The cost of inventories recognized as an expense during the year in respect of continuing operations was RUB 18 995 668 thousand (2018: RUB 19 226 859 thousand).

The cost of inventories recognized as an expense includes RUB 33 866 thousand (2018: RUB 187 360 thousand) in respect of write-downs of inventories to net realizable value and has been reduced by RUB 40 467 thousand (2018: RUB 31 774 thousand) in respect of the reversal of such write-downs. Previous write-downs have been reversed as a result of increased sales prices in certain markets.

As at 31 December 2019, the Group pledged inventories with the carrying amount of RUB 1 292 609 thousand (31 December 2018: RUB 1 346 331 thousand) as collateral to secure loan and overdraft agreements.

15. TRADE AND OTHER RECEIVABLES

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

Below is the analysis of trade and other receivables as at 31 December 2019 and 2018:

	31 December 2019	31 December 2018
Trade and other receivables	6 045 395	7,112,947
Allowance for expected credit losses	(666 565)	(711 109)
Total trade and other receivables, net	**5 378 830**	**6 401 838**

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

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

Trade receivables were grouped based on similar credit risk characteristics and the past due period in order to measure ECL.

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

(in thousands of Russian Rubles, unless otherwise indicated)

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

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

The Group recognized an allowance for losses of 100% against all receivables past due beyond 365 days because historical experience has been that such receivables are not recoverable.

No change in measurement techniques or significant assumptions occurred during the reporting period.

The Group derecognizes trade receivables provided that there is evidence that a borrower experiences considerable financial difficulties and that such trade receivables are unlikely to be collected (for example, if a borrower is in the process of liquidation or bankruptcy, or if trade receivables are older than three years (depending on which event took place earlier). The Group did not apply any enforcement activities to trade accounts receivable written off. The maximum exposure to credit risk as at the reporting date equals to the carrying amount of each class of financial assets detailed in Note 24. The Group has no property pledged to secure a receivable due to it.

The Group did not apply the above general rules as regards to consumer receivables for heat energy generated by the Group's entities and made a separate allowance for such receivables. Considering the collectability statistics of past due receivables for previous years the Group's management assesses expectations of recoverability of past due receivables at the end of each period and calculates the necessary allowance.

Change in the allowance for expected credit losses comprised the following:

	2019	**2018**
Opening balance	**(711 109)**	**(766 148)**
Allowance accrued	(118 578)	(350 926)
Write-off of uncollectible debts	65 513	261 958
Recovery of credit losses	111 170	187 096
Acquisition of the Group's company	-	(37 112)
Translation to presentation currency	(13 561)	(5 977)
Closing balance	**(666 565)**	**(711 109)**

The analysis of aging of trade and other receivables and allowance for expected credit losses as at 31 December 2019 comprised the following:

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

(in thousands of Russian Rubles, unless otherwise indicated)

The analysis of aging of trade and other receivables and allowance for expected credit losses as at 31 December 2018 comprised the following:

Trade and other receivables	Weighted average level of loss	Gross carrying amount	Lifetime ECL
Not past due	2%	4 287 333	(102 684)
Overdue by 1-30 days	3%	913 173	(25 609)
Overdue by 31-90 days	6%	1 107 142	(62 034)
Overdue by 91-180 days	18%	224 408	(39 487)
Overdue by 181-365 days	55%	221 623	(122 027)
Overdue by more than 365 days	100%	359 268	(359 268)
Total	**10%**	**7 112 947**	**(711 109)**

The Group does not have concentration risk because major debtors are changing every year and receivables of 10 major customers as at 31 December 2019 were RUB 2 164 003 thousand (31 December 2018: RUB 2 032 612 thousand).

As at 31 December 2019, the Group pledged receivables in the total amount of RUB 607 412 thousand (31 December 2018: RUB 826 213 thousand) as collateral to secure its obligations under loan and overdraft agreements.

16. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are recognized at amortized cost because (i) they are held to collect contractual cash flows which 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 2019	31 December 2018
Cash on hand	2 361	2 360
Cash on settlement accounts	2 701 965	2 273 418
Bank deposits with original maturity of less than three months (0.01%-10%)	510 083	731 090
Total cash and cash equivalents	**3 214 409**	**3 006 868**

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

	RUB equivalent	
	31 December 2019	31 December 2018
Russian Ruble (RUB)	1 961 431	1 448 070
Euro (EUR)	804 217	938 270
Chinese yuan (CNY)	230 052	52 174
Pound sterling (GBP)	99 693	134 701
United States dollar (USD)	85 755	398 931
Other cash amounts denominated in other currencies	33 261	34 722
	3 214 409	**3 006 868**

(in thousands of Russian Rubles, unless otherwise indicated)

17. TAXES RECEIVABLE AND OTHER CURRENT ASSETS

	31 December 2019	31 December 2018
VAT receivable	1 987 758	1 865 342
Advances paid	963 428	542 924
Income tax receivable	206 504	205 454
Other taxes receivable	-	161 767
Other current assets	12	49 424
Total current taxes receivable and other current assets	**3 157 702**	**2 824 911**

18. CHARTER CAPITAL AND ADDITIONAL PAID-IN CAPITAL

As at 31 December 2019 and 2018, the Company's charter capital amounted to RUB 12 thousand.

As at 31 December 2019 and 2018, the Company's ownership structure comprised the following:

	Registered stakes of the participants	
	31 December 2019	31 December 2018
Sistema Telecom Aktivy LLC	83,67%	83,67%
Sistema PJSFC	14,57%	16,18%
Region JSC	0,08%	0,08%
M.V. Shamolin	1,45%	-
A.M. Uzdenov	0,22%	0,07%
	100%	**100%**

In accordance with the Long-Term Incentive Program for the President of the Group, the President was paid a bonus of RUB 130 761 thousand based on the Group's KPIs for 2018 (Note 22). The above amount was used to acquire 1.45% stake in the Company's equity.

The Group of companies Segezha is a Russian limited liability company. Each participant in a limited liability company has voting rights that are based on a portion of ownership in the share capital of the Company.

In accordance with the Russian legislation, participants in a limited liability company may at any time require the company to buy back their portion in the share capital, subject to certain rules, by paying a consideration equivalent to the interest attributable to a participant in the company's net assets defined in accordance with the Russian Accounting Standards (RAS).

Profit distributable by the Company is defined based on the RAS financial statements. As at 31 December 2019, the Company's retained earnings calculated in accordance with RAS were RUB 5 125 678 thousand (31 December 2018: RUB 3 896 308 thousand), the Company's additional paid-in capital was RUB 7 741 887 thousand as at both of the reporting dates (unaudited).

In 2019, the Company paid dividends to its stakeholders totaling RUB 3 800 000 thousand (2018: RUB 1 500 000 thousand).

Deemed dividends

During 2019 the Group made a cash contribution to additional paid-in capital without change in ownership share of the associate under common control with the Group's stakeholders Okhotoved LLC (the Group holds a 30% ownership) of RUB 39 986 thousand (2018: RUB 39 506 thousand).

During 2019 the Group made a cash contribution to additional paid-in capital without change in ownership share of the associate under common control with the Group's stakeholders Serebryany Bor LLC (the Group holds a 2,62% ownership) of RUB 100 501 thousand (2018: RUB 130 436 thousand).

(in thousands of Russian Rubles, unless otherwise indicated)

The result of both transactions was recognized in equity, as the transactions involved businesses under common control.

19. LOANS AND BORROWINGS

All loans and borrowings refer to financial instruments initially recorded at fair value, net of direct issue costs. Subsequently, loans and borrowings are stated at amortized cost using the effective interest rate method. The effective interest method is a method of calculating the amortized cost of a financial liability and allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments (including all fees 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 net carrying value of the financial liability.

As at 31 December 2019 and 2018, loans and borrowings comprised the following:

		31 December 2019		31 December 2018	
	Currency	**Effective interest rate**	**Carrying value**	**Effective interest rate**	**Carrying value**
Short-term loans and borrowings					
Collateralized loans					
Short-term bank loans	RUB	CBR Key rate + 2%	75 833	13%	708 747
Short-term bank loans	USD		-	7%-9%	626 978
Other			161 736		167 766
			237 569		**1 503 491**
Non-collateralized loans					
Short-term bank loans	RUB	CBR Key rate + 1% – 10,25%	11 888 700	9,09%-10,11%	6 820 000
Short-term bank loans	EUR	4,13%	445 980	4,13%	500 171
			12 334 680		**7 320 171**
Non-current loans and borrowings					
Collateralized loans					
Long-term bank loans	EUR	3,00% – 3,92%	19 420 146	3,25% – 3,92%	15 935 049
Long-term bank loans	RUB	CBR Key rate + 2% – 10,92%	7 011 259	CBR Key rate +2%-13%	7 845 189
Long-term bank loans	USD		-	7%-9%	4 481 905
			26 431 405		**28 262 143**
Non-collateralized loans					
Long-term bank loans	EUR	4,13%	3 433 450	4,13%	4 445 613
Other			105 090		304
			3 538 540		**4 445 917**
Total loans and borrowings			**42 542 194**		**41 531 722**

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

				Non-monetary changes			
	31 December 2018	**Loans and borrowings received**	**Loans and borrowings repaid**	**Loss on early repayment**	**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

(in thousands of Russian Rubles, unless otherwise indicated)

				Non-monetary changes			
	1 January 2018	Loans and borrowings received	Loans and borrowings repaid	Loss on early repayment	Disposal of subsidiary	Foreign exchange differences*	31 December 2018
Loans and borrowings	38 164 866	37 291 058	(38 630 197)	349 088	(18 265)	4 375 172	41 531 722

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

Assets pledged as collateral

As at 31 December 2019, the Group pledged the following as collateral to secure its obligations under loan agreements: property, plant and equipment with a carrying value 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 JSC.

As at 31 December 2018, the Group pledged the following as collateral to secure its obligations under loan agreements: property, plant and equipment with a carrying value of RUB 5 343 450 thousand; inventories with a carrying amount of RUB 1 346 331 thousand; receivables of RUB 826 213 thousand; lease rights to forest areas of 869 255 ha in the Krasnoyarsk region; shares/interest in the subsidiaries Onega Sawmill JSC, Lesosibirsky LDK No.1 JSC, Ksilotek-Siberia LLC.

Covenants – As part of loan agreements, the Companies of the Group are subject to certain covenants, including debt to EBITDA ratio (profit before interest, tax and depreciation which is equivalent to adjusted OIBDA detailed in Note 24), compliance with the ownership requirements in respect of the Group's ultimate shareholder, with forestry regulations, as well as with requirements for maintenance of licenses and restrictions on new borrowings (in excess of the set debt to EBITDA ratio), providing loans, guarantees, sureties to third parties, disposing of assets (disposing of material assets) and with limits on increasing in collateral.

Should the Companies breach the covenants, the creditors have a right to request immediate repayment of debt. Certain loan agreements have cross default clauses.

As at 31 December 2019 and 31 December 2018, the Group had no breaches of covenants that had not been previously waived by the banks.

20. TRADE AND OTHER PAYABLES

Trade payables are accrued when the counterparty performs its contractual obligations and are initially recognized at fair value and then carried at amortized cost using the effective interest method.

Below is the analysis of trade and other payables as at 31 December 2019 and 2018:

	31 December 2019	31 December 2018
Trade accounts payable	4 462 464	4 065 732
Wages and salaries payable	803 971	883 719
Interest payable	47 550	78 225
Other payables	1 765 401	1 519 336
Total trade and other payables	**7 079 386**	**6 547 012**

The Group has financial risk management policies in place to ensure that all payables are paid within credit terms set forth by counterparties.

In 2019, the court ruling approved amicable agreements between Segezha Pulp and Paper Mill JSC and Magnit LLC on the claims on collecting payables of RUB 962 107 thousand from Segezha Pulp and Paper Mill JSC for the performed scope of contracted work.

(in thousands of Russian Rubles, unless otherwise indicated)

Based on the approved amicable agreements RUB 636 359 thousand shall be payable to Magnit LLC. The Group recorded its accounts payable for the disputed scope of work to Magnit LLC of RUB 682 067 thousand in the consolidated financial statements for 2018. As at 31 December 2018, no provisions were recognized by the Group with respect to this claim.

21. PENSION OBLIGATIONS

Some entities in the Group have defined benefits pension plans. Defined benefits pension plans 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 recognized immediately in the statement of financial position, with income or expense recognized in other comprehensive income for the reporting period. Cost of services rendered during prior periods is recognized in the statement of profit or loss for the period when changes in the pension plan occurred. Net interest income/ (expense) is calculated by applying the discount rate at the beginning of the period to net liability of the pension plan at this date. Expense categories for defined benefit pension plan include the following:

- Service cost (including service cost of the current and prior periods, and also profit or loss arising from curtailment and redemption of pension plans);
- Net interest income/(expense); and
- Remeasurement.

Pension obligations are recognized in the statement of financial position at actual deficiency or surplus of the defined benefit pension plan. The surplus is limited by the present value of economic benefits in the form of the return of funds from the pension plan or deductions from future contributions under the pension plan.

Pension scheme in Germany

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

Pension scheme in Italy

Pension obligations of the Group in Italy are defined in line with the TFR, an Italian pension system established under Act No. 297 of 29 May 1982. This mainly includes amounts payable to the employee as agreed under an employment contract between a private company and an employee. Such amounts are paid to the employee upon employment termination. This is similar to a severance payment or a deferred wage/salary and applies to all private sector employees.

Collective agreements in Russia – Segezha Pulp and Paper Mill JSC and Segezha Packaging LLC

Employee benefit obligations in Segezha Pulp and Paper Mill JSC and Segezha Packaging LLC are determined in accordance with Collective agreements. These obligations cover both the existing and retired employees.

As at 31 December 2019 and 2018 the Group had total employee benefit obligations as follows:

	31 December 2019	**31 December 2018**
Pension scheme in Germany	583 075	657 572
Collective agreements in Russia – Segezha Pulp and Paper Mill JSC	141 339	114 960
Pension scheme in Italy	15 585	21 511
Collective agreements in Russia – Segezha Packaging LLC	14 588	12 938
	754 587	**806 981**

(in thousands of Russian Rubles, unless otherwise indicated)

Below are the key actuarial assumptions:

	Estimated as at 31 December 2019	Estimated as at 31 December 2018
Discount rate		
Germany	0,75%	1,70%
Italy	0,17%	1,15%
Russian Federation	6,50%	8,50%
Expected salary growth rate		
Germany	1,25%	1,25%
Italy	1,50%	1,50%
Russian Federation	5,60%	5,60%
Expected payments growth rate		
Germany	0,50%	0,50%
Italy	3,50%	1,50%
Russian Federation	4,10%	4,10%

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

	Pension scheme in Germany	Collective agreements in Russia – Segezha Pulp and Paper Mill JSC	Pension scheme in Italy	Collective agreements in Russia – Segezha Packaging LLC	Total
31 December 2017	**(635 896)**	**(103 008)**	**(20 617)**	**(23 046)**	**(782 567)**
Contributions for the current year	(1 348)	(5 561)	-	(1 066)	(7 975)
Interest expense	(9 832)	(6 973)	(195)	(1 488)	(18 488)
Gain/(loss) on liability revaluation	26 212	(26 217)	(230)	7 802	7 567
Cost of past services, including curtailments	-	6 741	-	2 938	9 679
Scheme payments	55 835	20 057	2 085	1 922	79 899
Translation to presentation currency	(92 542)	-	(2 554)	-	(95 096)
31 December 2018	**(657 571)**	**(114 961)**	**(21 511)**	**(12 938)**	**(806 981)**
Contributions for the current year	(576)	(6 100)	-	(938)	(7 614)
Interest expense	(9 770)	(8 978)	(298)	(1 041)	(20 087)
Gain/(loss) on liability revaluation	(53 662)	(29 962)	(143)	(1 057)	(84 824)
Cost of past services, including curtailments	-	-	-	-	-
Scheme payments	54 337	18 661	3 487	1 386	77 871
Translation to presentation currency	84 168	-	2 880	-	87 048
31 December 2019	**(583 074)**	**(141 340)**	**(15 585)**	**(14 588)**	**(754 587)**

Management of the Group has analyzed key risk exposures inherent in the pension schemes and post-employment benefits. Given the characteristics for these schemes, the management believes that key risk exposures include the following:

- Present pension obligations towards the participants who have not reached their retirement age are calculated on the basis of their future salaries. An increase in the salaries of participants leads to an increase in liabilities.
- All of the pension schemes of the Group provide for lifetime employee benefits. Any increase in life expectancy will result in increased liabilities under pension scheme.

The cost of services for the reporting year and net interest expense for the year are included in payroll and financial expenses, respectively, in profit or loss. Effect of net pension scheme liabilities revaluation and relevant effect of translation to the presentation currency are included in other comprehensive income.

Payments for the year ending 31 December 2020 under the pension schemes in Germany, Italy and Russia are expected to be EUR 747 thousand (RUB 54 159 thousand), EUR 46 thousand (RUB 3 358 thousand) and RUB 31 463 thousand, respectively.

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

22. EMPLOYEE BENEFIT EXPENSES

Employee benefit expenses comprise salaries, bonuses, long-term incentive programs and social contributions. Employee benefit expenses included in the cost of sales, selling and administrative expenses for 2019 and 2018 were RUB 11 466 919 thousand and RUB 11 218 366 thousand, respectively.

The Group recognizes its liabilities for employee benefits related to salary, vacation, payment of sick leaves in the period when respective service was rendered, in the amount of benefit which the Group is planning to pay without considering the discount effect.

Long-term incentive programs ("Programs") – in 2018, the Company's Board of Directors established three-year incentive programs for senior management (Long-Term Incentive Program for the President of the Group and Long-Term Incentive Program for the Management). Upon fulfilment of certain performance conditions and subject to continuing employment with the Group, participants of the programs are granted equity share 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 does not include the effect of non-market 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 equity instruments that will eventually vest. At each reporting date, the Group revises its estimate of the number of equity instruments expected to vest to include the effect of non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognized 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 Program for the President of the Group

In accordance with the Long-Term Incentive Program for the President of the Group ("President Program"), the President of the Group is granted the share-based compensation of a 5% equity share in the Group, subject to the fulfillment of one of the following conditions:

- Payable in three annual tranches, 1,67% equity share 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. If KPIs for the reporting year are not achieved, while the following year's KPIs are achieved, the President is granted shares for the reporting year and the previous one;
- Payable in the amount of a 5% equity share in the Group: upon the occurrence of a liquidity event stipulated by the Program (i.e. IPO of ordinary shares or depositary receipts; cash sale of an interest in the Company's equity under certain conditions; receipt of a legally binding offer from the buyer to purchase a share in the Company's equity on acceptable business terms and at a certain price).

A mandatory condition of the President Program is the transfer of the entire amount of bonus granted for the acquisition of the equity share in Company within three days.

The vesting date of the first tranche was in 2018 when the Board of Directors established KPIs for 2018. The compensation was recognized within selling and administrative expenses in the statement of profit or loss for 2018 and recognized in the Group's equity based on the Group's fair value as at the date of the tranche. As in 2018 the Group achieved the KPIs established by the Board of Directors, the President was granted a compensation of RUB 130 761 thousand. In May 2019, the President spent the compensation to acquire 1.45% share in the Company's equity.

Since the Group had not met 2019 KPIs and the Board of Directors had not established the KPIs for 2020, the vesting conditions for second and third tranches did not occur as at 31 December 2019.

The fair value of the compensation was determined based on the fair value of a 100% equity share in the Company in accordance with the compensation formula stipulated by the Program. The fair value measurement of the Company was performed by a professional appraiser using the income approach and the following key assumptions:

- Forecast period was set at 8 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 forecast period was set at 18,4%;
- Capital expenditure in the terminal period was set at 6,3%.

Long-Term Incentive Program for the Management

In accordance with the Long-Term Incentive Program for the Management (the "Management Program"), employees included in the approved list of Management Program participants are granted the right to a compensation in the event of one of the liquidity events, namely, IPO of ordinary shares or depositary receipts; cash sale of an equity share in the company under certain conditions. The amount of compensation payable to each of the participants is calculated upon a liquidity event based on the time worked by the employee during the Management Program period and the increase in the Group's value over the period of the Management Program.

For the implementation of the Management Program, the Group approved a distribution of shares equal to 4.545% of the increase in the Group's value. The share of a participant ranges from 0,275% to 0,63% of the increase in the Group's value depending on the position of the participant.

Since the Management Program provides for the payment of compensation only upon the occurrence of a liquidity event, with such events depending, among other things, on a range of external factors, the Group does not recognize the respective provision in the financial statements.

23. PROVISIONS

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event where 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 recognized 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 settling 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 adverse outcome and the possibility for making reliable estimates of related damages or costs.

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

(in thousands of Russian Rubles, unless otherwise indicated)

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 2019 and 2018, short-term provisions comprised the following:

	Reforestation	Legal claims	Remuneration	Other	Total
Balance at 31 December 2017	**56 076**	**38 181**	**224 298**	**9 672**	**328 227**
Provisions	42 770	53 970	647 154	25 088	768 982
Use of provisions during the year	(56 880)	(35 477)	(224 298)	(8 257)	(324 912)
Balance at 31 December 2018	**41 966**	**56 674**	**647 154**	**26 503**	**772 297**
Provision	52 328	9 437	302 923	26 320	391 008
Use of provisions during the year	(41 966)	(56 674)	(647 153)	(24 901)	(770 694)
Balance at 31 December 2019	**52 328**	**9 437**	**302 924**	**27 992**	**392 611**

24. 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 maximizing the return to stakeholders through optimizing the debt to equity ratio. The capital structure of the Group consists of net debt (borrowings as detailed in Note 19, less cash and cash equivalents) and equity comprising issued capital, additional paid-in capital, reserves, retained earnings and non-controlling interest as detailed in Note 18.

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 manages its capital structure and adjusts its accounting policies in accordance with economic conditions. 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 net debt to operating income before depreciation of non-current assets (OIBDA). As IFRS do not provide guidance for these indicators, the meaning of OIBDA and net debt as used by the Group may differ from other companies. Below is the analysis of the net debt to OIBDA ratio of the Group:

	2019	2018
Total net debt	39 327 785	38 524 854
OIBDA	14 019 066	13 202 203
Net debt to OIBDA ratio	**2.81**	**2.92**
Lease expenses under IFRS 16	(1 127 410)	(866 471)
OIBDA adjusted for lease expenses under IFRS 16	12 891 596	12 335 732
Net debt to adjusted OIBDA	**3.05**	**3.12**

(in thousands of Russian Rubles, unless otherwise indicated)

Below is the reconciliation of OIBDA and net debt:

	Notes	2019	2018
Operating profit		7 992 292	8 563 547
Depreciation and amortization expense	7,8,9	6 001 818	4 626 086
Allowance for investment impairment		24 956	12 570
OIBDA		**14 019 066**	**13 202 203**
Loans and borrowings	19	42 542 194	41 531 722
Cash	16	(3 214 409)	(3 006 868)
Total net debt		**39 327 785**	**38 524 854**

The Group is subject to certain external regulations and capital restrictions that are taken into account when managing the Group's capital.
There are no mandatory minimum capital requirements for the Group.

Financial risk management

The Group's Corporate Treasury function co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze 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, competitiveness and flexibility of the Group.

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.

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. 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.

The carrying amounts of the Group's financial instruments denominated in foreign currencies are presented in the table below:

	EUR	USD	CNY	GBP
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**
31 December 2018				
Trade and other receivables	848 779	1 695 310	576 045	181 771
Cash	596 797	398 931	52 174	134 701
Trade and other payables	(673 159)	(73 983)	-	-
Loans and borrowings	(20 852 410)	(5 108 883)	-	-
Net currency position	**(20 079 993)**	**(3 088 625)**	**628 219**	**316 472**

The Group has a significant amount of export revenue denominated in USD and EUR. This enables the Group to reduce the risk related to open currency position.

(in thousands of Russian Rubles, unless otherwise indicated)

The following table details the Group's sensitivity to a 30% decrease (2018: 15%) in the RUB exchange rates against the relevant foreign currencies. A 30% (2018: 15%) sensitivity rate is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis addresses only balances related to monetary items denominated in foreign currency and adjusts their translation at the period end for a relevant change in foreign currency rates.

	2019		**2018**	
	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%	(6 938 439)	+15%	(3 012 881)
USD	+30%	134 859	+15%	(476 592)
GBP	+30%	36 004	+15%	47 471
CNY	+30%	72 027	+15%	94 233

A 30% (2018: 15%) increase in RUB exchange rate against the above currencies will result in the opposite effect on profit or loss before tax as the one specified in the table above.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk because the year end exposure does not reflect the exposure during the year.

Interest rate risk – the Group borrows funds at both fixed and floating interest rates. In 2019, the Group borrowed funds at a floating rate. Expenses on borrowings made at floating interest rates were RUB 427 282 thousand for the year ended 31 December 2019 (for the year ended 31 December 2018: RUB 1 728 868 thousand).

The Group's management does not expect future increase in the interest rate with regard to these borrowings, as the Central Bank of Russia (the "CBR") was gradually lowering the key rate from 7.75% down to 6.25% in 2019. In February 2020, the key rate was lowered one more time down to 6.00%. As at the date of signing these financial statements, the CBR did not announce any changes to its credit policy. The risk of increasing the interest rate by 1% p.a. will not result in additional material expenses on the existing loans and borrowing balances, as the total amount of borrowings with floating interest rates does not exceed 20% of total loan portfolio of the Group. For floating rate loans and borrowings, the analysis is prepared assuming the amount of the payables outstanding during the reporting period did not change and equaled to the amount outstanding as at the reporting date.

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

Trade receivables are represented by amounts due from a large number of customers across various geographical areas. The Group has in place regular monitoring of the financial position of debtors and the timeliness of debt repayment. The Group does not hold any collateral or other pledges to mitigate its credit risks associated with its financial assets.

The Group is not exposed to concentration risk because major debtors are changing every year and receivables of 10 major customers as at 31 December 2019 were RUB 2 164 003 thousand (31 December 2018: RUB 2 032 612 thousand).

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

(in thousands of Russian Rubles, unless otherwise indicated)

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

Rating agency	International rating assigned	31 December 2019	31 December 2018
Fitch rating	B	2 131 875	970 233
Moody's	Not Prime	257 174	684 237
Standard&Poor's	A	190 143	-
Standard&Poor's	B	177 342	-
Fitch rating	F-2	151 763	-
Fitch rating	F-3	136 286	1 211 438
Moody's	P-3	85	61 862
	Other	167 379	76 738
		3 212 047	**3 004 508**

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 is the risk of the Group facing difficulties to settle its financial liabilities as they fall due.

The Group manages liquidity risk by maintaining adequate reserves, available loans and borrowings facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. The Group also concentrates on balancing its short-term, middle-term and long-term borrowings with a target of short-term borrowings not exceeding 15% of the Group's credit portfolio.

Represented below is the maturity analysis of the Group's financial liabilities:

31 December 2019	0 - 30 days	31 - 365 days	1 – 5 years	More than 5 years	Total amount including 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**

31 December 2018	0 – 30 days	31 - 365 days	1 – 5 years	More than 5 years	Total amount including financial expenses	Carrying value
Loans and borrowings	775 230	10 466 012	21 559 947	20 034 963	**52 836 152**	**41 531 722**
Trade and other payables	5 231 098	1 294 556	21 358	-	**6 547 012**	**6 547 012**
Lease liability	70 887	942 673	3 948 588	20 528 041	**25 490 189**	**7 176 602**
Provisions	-	714 208	-	-	**714 208**	**714 208**
	6 077 215	**13 417 449**	**25 529 893**	**40 563 004**	**85 587 561**	**55 969 544**

As at 31 December 2019, unused credit line facilities were RUB 4 211 300 thousand and EUR 146 146 thousand (31 December 2018: RUB 2 742 000 thousand). In the future, the Group expects to use operating cash flows and obtain long-term financing, including by placing commercial bonds, for settling its liabilities (Note 29).

(in thousands of Russian Rubles, unless otherwise indicated)

25. FAIR VALUE

Fair value measurements are analyzed by level in the fair value hierarchy as follows:

- ***Level 1*** includes estimates on quoted market prices (unadjusted) in active markets for similar assets or liabilities,
- ***Level 2*** includes estimates obtained using valuation techniques in which all significant inputs used are observable for the asset or liability directly (i.e., for example, prices) or indirectly (i.e., for example, derivatives from prices),
- ***Level 3*** includes estimates, which are not based on observable market data (i.e., based on non-observable inputs).

The management applies judgements in categorizing financial instruments using the fair value hierarchy. If a fair value measurement uses observable data that require significant adjustment, that is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

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

As at 31 December 2019 and 2018, the Group had no financial instruments reported at fair value.

Below is the reconciliation between fair and carrying values of material financial assets and liabilities:

	Carrying value	Fair value
Balance at 31 December 2019		
Financial assets		
Trade and other receivables	5 378 830	5 378 830
Cash	3 214 409	3 214 409
Financial liabilities		
Long-term loans and borrowings	29 969 945	30 745 160
Short-term loans and borrowings, including interest	12 619 799	12 619 799
Trade and other payables	7 031 836	7 031 836
Other liabilities	392 611	392 611
Balance at 31 December 2018		
Financial assets		
Trade and other receivables	6 401 838	6 401 838
Cash	3 006 868	3 006 868
Financial liabilities		
Long-term loans and borrowings	32 708 060	32 834 347
Short-term loans and borrowings, including interest	8 901 887	8 901 887
Trade and other payables	6 468 787	6 468 787
Other liabilities	714 208	714 208

26. RELATED PARTY TRANSACTIONS

Balances and transactions between the Company and its subsidiaries have been eliminated upon consolidation and are not disclosed in this Note. Information on transactions between the Group and its related parties, which also includes the shareholders of the Group, the parties related to the shareholders of the Group, as well as the members of the board of directors and key management personnel is given below.

(in thousands of Russian Rubles, unless otherwise indicated)

In 2019 and 2018, the companies of the Group made the following transactions related to principal activity with the related parties. As at 31 December 2019 and 2018, the companies of the Group have the following balances with the related parties recognized in the consolidated statement of financial position:

		For the year		As at the date	
		Sale of goods, services	Purchase of goods, services	Accounts receivable from related parties	Accounts payable to related parties
Sistema PJSFC	2019	-	1 818	-	336
	2018	121	1 259	-	165
Sistema PJSFC subsidiaries	2019	196 150	1 956 552	41 152	326 307
	2018	58 028	411 483	131 019	43 553
Other related parties	2019	31 299	57 437	1 091	1 341
	2018	251 885	420 856	48 862	41 274

Transactions with other related parties mainly comprise transactions with the Group's associates. Purchases of goods and services from Sistema PJSFC subsidiaries mainly include purchases of electric power from MTS Energo LLC.

The Group places cash in settlement accounts and as deposits for the period up to 3 months with MTS Bank PJSC.

		Finance income for the year	Cash as at 31 December
Deposits (up to 3 months)	2019	13 316	165 310
	2018	13 861	172 190
Cash on current accounts	2019	-	235 307
	2018	-	119 601

Remuneration paid to members of the Board of Directors in 2019 was RUB 15 500 thousand (2018: RUB 17 100 thousand). Remuneration paid to key management in 2019 was RUB 689 001 thousand (2018: RUB 293 939 thousand). Following the application of a three-year incentive program for senior management in 2018, the Group recognized the respective expenses of RUB 130 761 thousand (Note 22).

27. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Group as a lessee

The Group rents forest plots owned by the Russian Federation under operational lease agreements for the period of 49 years without the right of purchase after expiration of the lease term. All agreements contain provisions for the rights and obligations of the lessee and lessor, for the revision of the rent payments and responsibilities in accordance with the Forest Code of the Russian Federation. The Group is responsible for reforestation of the felled plots.

The Group has also entered into operating lease agreements for rent of offices, automobiles, machines and equipment with the average lease terms from 2 to 5 years without extension. There are no limits for the Group to enter into such lease agreements.

(in thousands of Russian Rubles, unless otherwise indicated)

In accordance with IFRS 16 the Group recognizes 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 recognized at cost less accumulated depreciation and impairment losses, if any, and adjusted for any remeasurement of the lease liability. The cost of a right-of-use asset includes the amount of initial measurement of the lease liability, initial direct costs incurred by the lessee and lease payments at inception date or prior to such 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 recognizes 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 terminal 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’s exercising an option to terminate the lease.

In measuring the lease term and discounting rate, the Group uses the assumption 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 that options, and the early termination options that the Group reasonably certain to not exercise. In considering such options, the Group takes into account the residual useful lives of leasehold improvements, the Group’s investment strategy and the length of time until the respective 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 increased by the interest increment amount and decreased by the lease payment amount. 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**	**2019**	**2018**
Timber harvesting companies and divisions in the RF	RF	11,50%	11,50%
Arka Merchants Limited	Ireland	5,00%	5,00%
Segezha Packaging GmbH	Germany	9,32%	9,32%
Segezha Packaging A/S	Denmark	2,33%	2,33%
Segezha Packaging S.p.A.	Italy	3,03%	3,03%
Segezha Packaging B.V.	Netherlands	4,74%	4,74%
Segezha Ambalaj Sanayi ve ticaret Anonim Sirketi	Turkey	3,65%	3,65%
Segezha Packaging SRL	Romania	4,61%	4,61%

(in thousands of Russian Rubles, unless otherwise indicated)

As at 31 December 2019 and 2018, right-of-use assets comprised the following:

	Forest plots	Other	Total right-of-use assets
1 January 2018 (restated)	**8 604 969**	**1 453 676**	**10 058 645**
Acquisition of Group entities (Note 5)	1 442 217	1 105	**1 443 322**
Additions of right-of-use assets for the year	166 105	211 050	**377 155**
Depreciation of right-of-use assets	(207 730)	(215 328)	**(423 058)**
Disposals of Group entities	-	(5 385)	**(5 385)**
Disposals of right-of-use assets for the year	-	(124 254)	**(124 254)**
Translation to presentation currency	-	45 920	**45 920**
31 December 2018 (restated)	**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**

The table below shows expenses recognized in the statement of profit or loss for 2019 and 2018:

	2019	2018
Amortization of right-of-use assets	1 047 685	423 058
Short-term lease expenses	21 541	25 933
Interest on lease liabilities	888 528	774 118
	1 957 754	**1 223 109**

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

			Non-monetary changes				
	Opening balance	Lease liability payments	Conclusion/ (disposal) and modify-cation of lease agree-ments	Financial expenses	Acquisition of Group entities	Exchange differences on translation	Closing balance
Lease liability — 2019	7 176 603	(1 119 117)	1 445 183	888 528	55 320	14 213	**8 460 730**
Lease liability — 2018	6 656 020	(945 760)	293 166	774 118	344 872	54 186	**7 176 602**

(in thousands of Russian Rubles, unless otherwise indicated)

As at 31 December 2019 and 2018, lease liabilities comprised the following:

	31 December 2019	31 December 2018
Minimum lease payments due under lease liabilities were as follows:		
Up to 1 year	1 165 826	1 013 560
From 1 year to 5 years	4 986 782	3 948 588
Over 5 years	21 829 571	20 528 042
Total minimum lease payments	**27 982 179**	**25 490 190**
Less the effect of discounting	(19 521 449)	(18 313 587)
Present value of net minimum lease payments, including:		
Up to 1 year	887 632	841 620
From 1 year to 5 years	3 116 309	2 492 119
Over 5 years	4 456 789	3 842 864
Total lease liability as per the Group statement of financial position	**8 460 730**	**7 176 603**
Long-term	7 573 098	6 334 983
Short-term	887 632	841 620

28. COMMITMENTS AND CONTINGENCIES

Taxation

Russian tax and customs legislation which 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 longer periods may be also reviewed.

Russian transfer pricing rules are generally consistent with international transfer pricing principles developed by the OECD with certain distinctions. According to transfer pricing rules, additional tax charges may be imposed with respect to controlled transactions (related party transactions and some types of unrelated party transactions) if the transaction price is not arm's length. The Company's management has implemented the internal control system in order to comply with the requirements of the current transfer pricing legislation.

Tax liabilities arising from controlled transactions are determined using actual transaction prices. As the practices in the use of transfer pricing rules continue to evolve such transfer prices may be challenged. While the impact of any such challenge cannot be estimated reliably enough, it may be significant as regards the financial position and/or the overall operations.

The Group includes entities incorporated outside of the Russian Federation. The tax liabilities of the Group are determined on the assumption that in accordance with the Russian legislation these entities are not subject to profit tax because they do not have a permanent establishment in Russia. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently. However, it may be significant to the financial position and/or the overall operations of the Group. According to the 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. CFC profit tax rate is 20%. Therefore, the Group’s management assessed the tax risks and concluded that no additional current or deferred tax should be accrued in the consolidated financial statements.

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such legislation that affect the overall taxes of the Group. While management currently believes that its tax positions and interpretations are reliably sustainable, there is a risk that the Group may incur additional expenses should its tax positions and interpretations be challenged by the tax authorities. While the impact of any such challenge cannot be estimated reliably enough, it may be significant as regards the financial position and/or the overall operations of the Group. The management of the Group believes that, based on its understanding of the tax legislation, possible tax liabilities should not exceed 0,6% of the Group's revenue for 2019.

Operating environment

The economy of the Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. In March 2020, oil prices dropped by more than 40%, which immediately resulted in depreciation of the Russian Ruble against major foreign currencies.
As long as the Group's operations are mainly focused on exports (73% of the Group’s revenue is denominated in foreign currency) the Group expects that the weaker Russian Ruble could have a positive impact on its financial performance. As at the signing date of these financial statements the CBR rates were as follows: USD 1 = RUB 77.7325 and EUR 1 = RUB 85.7389.

Russian legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. Persistent political instability across the region as well as international sanctions imposed on certain Russian companies and citizens still have a negative effect on the Russian economy. Oil price stability, low unemployment and salary growth contributed to moderate economic growth in 2019. This business environment has a significant effect on the Group’s operations and financial position. Management is taking necessary measures to ensure sustainability of the Group’s operations. However, the future effects of the current economic situation are difficult to predict and management’s current expectations and estimates could differ from actual results.

Starting from 2014, the USA and the EU imposed sanctions on a number of Russian officials, businessmen, and organizations. The above-mentioned event impeded access of Russian businesses to the international capital markets, led to the growth of inflation, economic slowdown and other negative economic consequences. The impact of further economic developments on the Group’s future operations and financial position is difficult to determine at this stage.

In addition, at the beginning of 2020 the world saw an outbreak of COVID-19, which resulted in the World Health Organization (WHO) announcing a pandemic in March 2020. COVID-19 prevention efforts taken by many countries lead to significant operating constrains for many businesses and have a significant impact on international financial markets. The rapid spread of COVID-19 can 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, decrease in demand and funding issues. COVID-19 may also affect the Group more seriously due to its negative impact on the global economy and major financial markets. The effect of COVID-19 on the Group’s operations is largely dependent on the duration of the pandemic and its impact on the global and Russian economies.

29. EVENTS AFTER THE REPORTING PERIOD

On 14 January 2020, the Group obtained control over Karelian Wood Company LLC, a timber harvesting and wood processing company, for agreed cash consideration of RUB 950 000 thousand maximum, provided that annual permitted volume of logging operations comprised 206 000 cubic metres. The Group’s management expects that integration with Karelian Wood Company will have a significant synergy effect. It will allow increasing raw material security of the whole Group and wood supply efficiency of Karelian assets of the Group through the optimization of raw timber flows. Forest plots of Karelian Wood Company are located in close proximity to the main forest plots of the Group in Karelia. As at the signing date of these financial statements, the Group did not disclose fair value of acquired assets and liabilities, as their measurement and acquisition cost allocation were not completed.

On 30 January 2020, the Group placed uncertificated interest-bearing non-convertible bonds of 001P-01R series totaling RUB 10 bln (7.1% coupon) on the Moscow Exchange.

In March 2020, the Group entered into cross-currency swap agreements with respect to previously placed listed bonds. Total amounts of the agreements were RUB 5 bln and RUB 2.5 bln (annual EUR interest rates were 1.48% and 1.25% respectively; spot rates were RUB 76 and RUB 84.5 per EUR 1 respectively). Both principal and half-year interest payments are swapped.

In March 2020, the Group obtained project financing from banks to construct a plywood mill in the city of Galich, the Kostroma Region. According to the Corporate Governance Agreement, signed between the Group and the bank, both parties thereto equally control operating and investing activities under the project (unanimous approval of an annual business plan and relevant progress reports). The Group therefore looses control over its 100% subsidiaries GalichLes LLC and Galichsky Plywood Mill LLC (jointly referred to as the "Companies"). As from the signing date of the agreement, the Companies will be reported as joint ventures with 100% interest. As at 31 December 2019, net assets of the companies were RUB 6 040 thousand and their aggregated net loss in 2019 was RUB 5 629 thousand.