



*Annual report preliminary approved
on the meeting of the Board of Directors
dated 24.04.2017.
Minutes № 5*

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**Address by Chairman
of the Board of Directors,
Arkhangelsk PPM,
Dr. Heinz Zinner**

Dear Shareholders, Partners, Friends,

We, the shareholders of Arkhangelsk Pulp and Paper Mill, would like to see the Company as an advanced, highly efficient plant that continually improves the quality of the products, implements new technologies, minimizes the negative impact on the environment, and works for the good of the region and the people in general. A more specific production target that we have set for the Company's team is increasing the pulping to over 1 million tons per annum. In order to meet all these objectives, a number of consistent steps are required for modernization and upgrade of the plant that have been started during the previous years and should be continued in the years to come.



On behalf of the shareholders of Arkhangelsk Pulp and Paper Mill, I will stress upon the importance of commitment to consistency and development. It is essential that we see the ultimate goal and move towards it in a steadfast and confident way.

I would like to express firm belief that by working together we will accomplish all our goals and strengthen Arkhangelsk PPM positions among the leaders of European pulp and paper industry.

*Chairman of the Board of Directors
Arkhangelsk PPM
Dr. Heinz Zinner*

**Address
by General Director
of Arkhangelsk PPM,
Dmitry Zylev**



Dear colleagues, dear friends,

2016 was not an easy year in terms of the situation on domestic and foreign markets, competition and a drop in prices for pulp and paper products across the globe. However, our modernization efforts have allowed us to strengthen our competitive ability and provide a basis for further growth. Arkhangelsk PPM is consistently among the industry's leaders: we have completed the year by accomplishing the production and financial targets.

Over the 77-year long history, Arkhangelsk PPM has acquired unique experience which allows us today to work confidently and build our future. 2016 was in many ways a milestone for the Company. Last year, we successfully completed the first stage of the high-priority investment project for forest management, called «Cardboard Production Reconstruction», and commenced the second stage.

In 2017 we will continue implementing the strategy, improving all production and management processes, and therefore will strengthen our position on the market. All of this will ultimately provide a secure future for the Company's team and veterans, and stable social and economic development for Novodvinsk and the region in general.

As Russia's northernmost pulp and paper mill, we acknowledge our mission in protecting the environ-

ment in the Near-Arctic area of Russia. Over many years of our activities we have always been committed to maintaining high standards in ecology: this includes the long-term program to reduce greenhouse gas emissions, our cooperation with the environmental organizations to preserve the northern virgin forests, our modernization policy where every step is aimed at reducing emissions and discharges. This is our deliberate choice, our responsibility and an essential component of our development strategy.

Despite all the challenges, Arkhangelsk PPM has an enormous potential to set and accomplish even higher goals and implement new strategic projects. Our main assets are the highly professional team, extensive experience and expertise gained over the past years, and the best available technologies used by the Company today.

We would like to thank all our shareholders, clients and partners for their trust. We are confident that Arkhangelsk PPM will successfully accomplish all the goals and objectives.

*General Director,
Arkhangelsk PPM
Dmitry Zylev*

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1. ABOUT THE COMPANY

Full name

Joint-Stock Company «Arkhangelsk Pulp-and-Paper Mill»
Abbreviated name: JSC «Arkhangelsk PPM»

Registered location and postal address

164900, Russia, Arkhangelsk region, Novodvinsk, Melnikov Str., 1.
Telephone: (818 52) 63202, Fax: (818 52) 63231

Details of state registration

<i>Date of state registration:</i>	25.12.1992
<i>Registration number:</i>	8/189
<i>State registration authority:</i>	Administration of the city of Novodvinsk
<i>Date of state registration of Company after 1 July 2002:</i>	01.08.2002
<i>Certificate of Record in Uniform State Register of Juridical Persons registered before 1 July 2002:</i>	series 29 no. 000312037

<i>Main state registration number:</i>	1022901003070
<i>State registration authority:</i>	Interdistrict Inspectorate of RF Ministry of Taxes and Duties no.3 in Arkhangelsk region (Taxpayers Services Department no. 1)
	JSC «Arkhangelsk PPM» was established pursuant to RF President Decree «On organizational measures for conversion of state enterprises, voluntary associations of state enterprises to joint-stock companies» as of 01.07.1992 no. 721
<i>Time in existence since state registration:</i>	24 years
<i>Purpose of incorporation:</i>	generation of profit, efficient performance and strong contribution to the region and country's economy, and responsible attitude toward the personnel, society and the environment.

Number of employees

The average number of staff in 2016 is 3869

Key activities

<i>The Company's activities include:</i>	<ul style="list-style-type: none">• manufacturing of pulp and paper products and associated work and services;• wood processing;• international economic activity;• construction, installation and repairs;• transportation services;• initial professional training;• other activities which are not prohibited by law.
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License details

Pulp and paper production and the other key activities do not require licenses. However, the Company has a whole range of licenses that are not related to the Company's key activities.

Authorized capital

The authorized capital comprises 2,000,000 uncertificated registered ordinary shares with nominal value 16 rubles per 1 share and is 32,000,000 rubles.

On 07 December 2016, the Northwest Directorate of the Central Bank of the Russian Federation registered the Decision on Additional Issue of Securities by JSC "Arkhangelsk PPM" in the amount of 1,219,775 uncertificated registered ordinary shares with nominal value of 16.00 rubles per 1 share.

On 13 February 2017, the Northwest Directorate of the Central Bank of the Russian Federation registered the Report on the Results of Additional Issue of Securities by JSC "Arkhangelsk PPM" in the amount of 1,219,775 uncertificated registered ordinary shares with nominal value of 16.00 rubles per 1 share.

Information on Issuer's securities:

Security type	Security category	Nominal value	State reg.no. of securities issue	Date of state reg.no. of securities issue	Number of securities outstanding
Share	registered ordinary	16.00	1-02-00008-A	02.10.2013	780 225
Share	registered ordinary	16.00	1-02-00008-A-001D	07.12.2016	1 219 775
TOTAL:					2 000 000

Shareholders list and structure

As of 31 December 2016, the Company's sole shareholder is Pulp Mill Holding GmbH (Reichsratstrasse 11/3B, A-1010, Vienna, Austria), which owns 2,000,000 shares:

- 780,255 uncertificated registered ordinary shares, issue 1-02-00008-A
- 1,219,775 uncertificated registered ordinary shares, issue 1-02-00008-A-0010,

which is 100.0% of the Authorized Capital.

Auditor details

By the Sole Shareholder's decision as of 09.06.2016 (Decision no. 65), JSC "BDO Unicorn" was approved as the Company's auditor.

<i>Location:</i>	Russia, 117587, Moscow, Varshavskoe shosse, 125, str.1, section 11
<i>Postal address:</i>	Russia, 107061, Moscow, Preobrazhenskaya ploschad, 8, BC "Preo-8"
<i>Tel.:</i>	(495) 797 5665
<i>Fax:</i>	(495) 797 5660
<i>E-mail:</i>	reception@bdo.ru

Auditor license details

The auditor has no license and is a member of a self-regulatory organization of auditors.

SRO membership

<i>Name:</i>	Register of Auditors and Auditor Organizations of Self-regulatory Organization of Auditors Non-commercial Partnership «Russian Chamber of Auditors»
<i>Main registration number</i>	10201018307
<i>Auditor's Professional Liability Insurance Policy</i>	№ 433-035027/16

Registrar details

<i>Name:</i>	Joint-Stock Company «Independent Registrar Company» / JSC «Independent Registrar Company»
<i>Location:</i>	107076, Moscow, Stromynka str., 18 korp.5Б
<i>Postal address:</i>	107076, Moscow, Stromynka str., 18 korp.5Б
<i>Tel.:</i>	(495) 926-81-60
<i>E-mail:</i>	info@nrcreg.ru
<i>License number:</i>	№ 045-13954-000001
<i>Date of issue:</i>	06.09.2002
<i>Expiry:</i>	indefinite
<i>Licensing authority:</i>	Russian Federal Securities Commission
<i>The Register of Issuer's registered securities is maintained by this Registrar starting from:</i>	08.07.2014

Board of Directors

The Company's Board of Directors was approved on 9 June 2016 by decision of the Sole Shareholder:

Chairman

Doctor Zinner, Heinz



Year of birth: 1941
Education background: *Vienna Commercial University, Doctor degree in 1965*
Employer: *Pulp Mill Holding GmbH*
Primary employment position: *Director*
Interest in the Company's authorized capital, %: 0.00
The Company's ordinary shares owned, %: 0.00
Elected to the Board of Directors annually since 1996.

Members of the Board of Directors:

Basko, Vitaly Aleksandrovich



Year of birth: 1960
Education background: *Ordzhonikidze Air Defense Force Anti-air Missile Command School graduate in 1981, Lenin Military Political Academy in 1993.*
Employer: *ChAO «Kiev KBK»*
Primary employment position: *General Director*
Interest in the Company's authorized capital, %: 0.00
The Company's ordinary shares owned, %: 0.00
Elected to the Board of Directors annually since 2012.

Vroldsen, Vrold Emil



Year of birth: 1954
Education background: *1981 University of Lausanne graduate*
Employer: *Jacob Jürgensen Papier und Zellstoff GmbH*
Primary employment position: *Managing Director*
Interest in the Company's authorized capital, %: 0.00
The Company's ordinary shares owned, %: 0.00
Elected to the Board of Directors annually from 2003 to 2017.
Board membership ceased on 18 February 2017 due to death.

Zylev, Dmitry Igorevich



Year of birth: 1970
Education background: *Lomonosov Pomor International Pedagogical University graduate in 1994, received professional training at the Lomonosov Pomor State University Institute of Management, Law and Qualification Development in 1998*
Employer: *JSC «Arkhangelsk PPM»*
Primary employment position: *General Director*
Interest in the Company's authorized capital, %: 0.00
The Company's ordinary shares owned, %: 0.00
Elected to the Board of Directors annually since 2013.



Kudryavtsev, Valery Anatolyevich

Year of birth: 1965

Education background: *Leningrad Makarov Engineering Naval School graduate in 1987, Russian Extramural Institute of Finance and Economics in 2000*

Employer: *JSC «Arkhangelsk PPM»*

Primary employment position: *Adviser to General Director*

Interest in the Company's authorized capital, %: 0.00

The Company's ordinary shares owned, %: 0.00

Elected to the Board of Directors annually since 2009.



Sokolov, Timur Valentinovich

Year of birth: 1972

Education background: *Lomonosov Pomor International Pedagogical University graduate in 1989, Lomonosov Pomor State University graduate in 1997*

Employer: *Pulp Mill Holding GmbH*

Primary employment position: *Director*

Interest in the Company's authorized capital, %: 0.00

The Company's ordinary shares owned, %: 0.00

Elected to the Board of Directors annually since 2003.



Solovyov, Pavel Vladimirovich

Year of birth: 1969

Education background: *Moscow Institute of Radio, Electronics and Automation graduate in 1994, RF Government Academy of Finance graduate 2001*

Employer: *AO UniCreditBank*

Primary employment position: *Manager for «Pulp and Paper Industry, Wood Processing, and Machine Engineering»*

Interest in the Company's authorized capital, %: 0.00

The Company's ordinary shares owned, %: 0.00

Elected to the Board of Directors annually since 2011

Prior to the approval of the Board of Directors by annual decision of the Sole Shareholder as of 09.06.2016, the list of Board members remained unchanged in 2016. No transactions with the Company's shares were made by members of the Board of Directors in 2016.

Executive bodies

According to the Company's Charter, General Director has the authority of the sole executive body. The Company has a collective executive body, the Management Board.

General Director:

Zylev, Dmitry Igorevich

(position held since 23 February 2013).

Year of birth: 1970

Education background: Lomonosov Pomor International Pedagogical University graduate in 1994, received professional training at the Lomonosov Pomor State University Institute of Management, Law and Qualification Development in 1998

Employer: AO «Arkhangelsk PPM»

Primary employment position: General Director

Interest in the Company's authorized capital, %: 0.00

The Company's ordinary shares owned, %: 0.00

Members of the collective executive body:

Chairman

Zylev, Dmitry Igorevich

Year of birth: 1970

Education background: Lomonosov Pomor International Pedagogical University graduate in 1994, received professional training at the Lomonosov Pomor State University Institute of Management, Law and Qualification Development in 1998

Employer: AO «Arkhangelsk PPM»

Primary employment position: General Director

Interest in the Company's authorized capital, %: 0.00

The Company's ordinary shares owned, %: 0.00

Gubin, Oleg Vladislavovich

Year of birth: 1971

Education background: Arkhangelsk Institute of Forestry graduate 1994

Employer: AO «Arkhangelsk PPM»

Primary employment position: Director of Finance

Interest in the Company's authorized capital, %: 0.00

The Company's ordinary shares owned, %: 0.00

Zhitnukhin, Viktor Mikhaylovich

Year of birth: 1963

Education background: Arkhangelsk Institute of Forestry graduate 1985

Employer: JSC «Arkhangelsk PPM»

Primary employment position: Chief Engineer

Interest in the Company's authorized capital, %: 0.00

The Company's ordinary shares owned, %: 0.00

Artyugina, Olga Borisovna

Year of birth: 1956

Education background: Zhdanov Leningrad State University graduate 1986

Employer: JSC «Arkhangelsk PPM»

Primary employment position: Manager of Legal Affairs

Interest in the Company's authorized capital, %: 0.00

The Company's ordinary shares owned, %: 0.00

Shushkova, Nadezhda Vladimirovna

Year of birth: 1973

Education background: *Arkhangelsk Institute of Forestry graduate 1995, Russian Extramural Institute of Finance and Economics graduate 1997*

Employer: *JSC «Arkhangelsk PPM»*

Primary employment position: *Chief Accounting Officer*

Interest in the Company's authorized capital, %: 0.00

The Company's ordinary shares owned, %: 0.00

Kostogorov, Nikolay Mikhaylovich

Year of birth: 1956

Education background: *Arkhangelsk Kuybyshev Institute of Forestry graduate 1978*

Employer: *JSC «Arkhangelsk PPM»*

Primary employment position: *First Vice General Director / Director of Production*

Interest in the Company's authorized capital, %: 0.00

The Company's ordinary shares owned, %: 0.00

Yelkina, Natalya Aleksandrovna

Year of birth: 1955

Education background: *Leningrad Technological Institute of Pulp and Paper Industry graduate 1977*

Employer: *JSC «Arkhangelsk PPM»*

Primary employment position: *Dairector of Economy*

Interest in the Company's authorized capital, %: 0.00

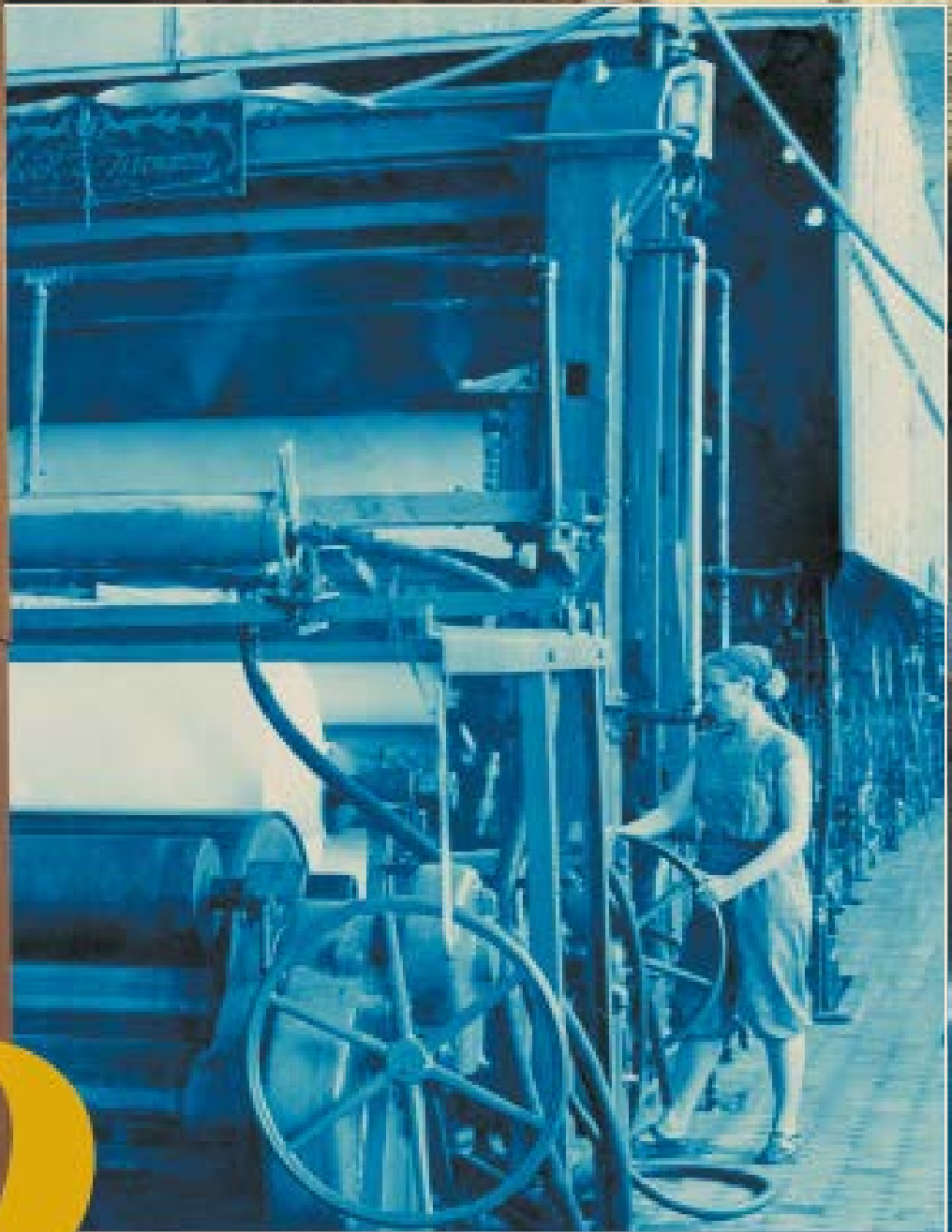
The Company's ordinary shares owned, %: 0.00

No transactions with the Company's shares were made by the members of the Company's executive bodies in 2016.

Management rewards

In 2016, the total amount of rewards paid to all members of the management bodies i.e. members of the Board of Directors, members of the Management Board, and the Sole Executive Body for their respective duties was 85 million rubles (including members of the Board of Directors – 29.1 million rubles), including the individual income tax. The amount of rewards for members of the

Board of Directors is approved by the annual General Meeting of Shareholders. Rewards for executive body members are determined by the provisions of employment contracts. Information in this section of the Annual Report is provided in accordance with the requirements for compliance with the laws on personal data.



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2.

THE COMPANY'S MISSION, VISION, AND STRATEGIC OBJECTIVES

Mission

The mission is to achieve an efficient performance and make a strong contribution to the region and country's economy, while maintaining responsible attitude toward the personnel and society.

Vision

Building upon the current market position, Arkhangelsk PPM will upgrade the range of products and manufacturing capacity in order to maintain independence and strengthen the standing among Russian and global producers

Strategic objectives

- increase pulping capacity to 1 million tons per annum
- increase presence on domestic and international markets
- accomplishment of the Company's strategic objectives will be facilitated by supporting organizational strategies:

Financial:

- strengthening the Company's financial stability and independence through optimization of cash flow management

Marketing:

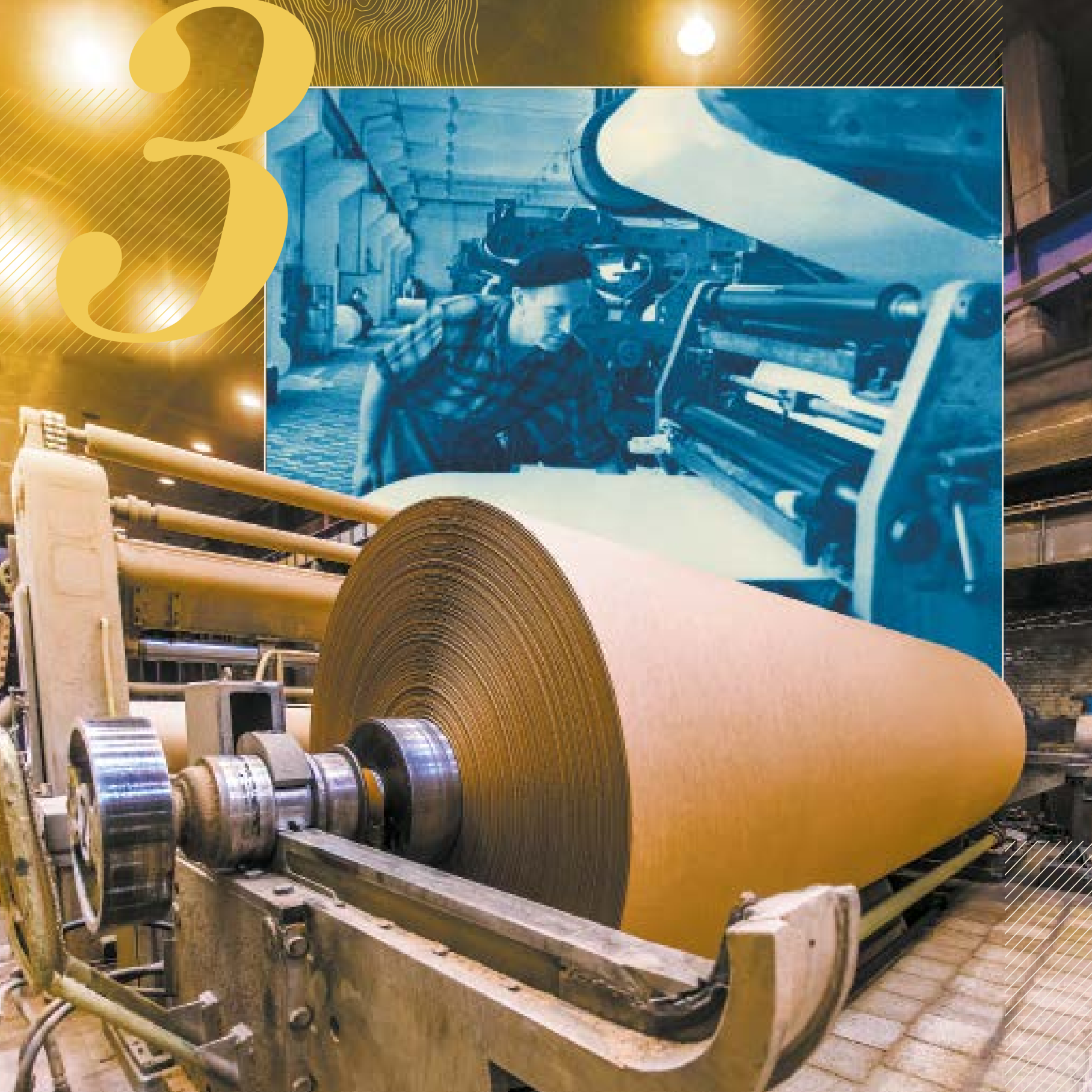
- maximum satisfaction of customers' demand;
- retaining the Company's domestic market share in beneficial competitive conditions on the pulp and container-board markets;
- high quality of products and increased yield of high grade products.

Production:

- maintain stable and highly productive operation of all process trains;
- reduce production costs and use resources efficiently to increase the competitive ability of the products;
- introduce new technology to improve the environmental situation;
- improve the quality management system and production process management;
- improve and introduce new modules of the SAP R-3 integrated system at different stages of the production process;
- develop and implement investment projects to revamp power facilities and develop Cardboard and Pulp manufacturing in order to increase the Company's pulp production capacity to 1.0 million tons of high-grade pulp per annum (cooking capacity).

Personnel management:

- improve labor productivity e.g. by using advanced processes;
- improve the employee incentive system and personnel qualification development;
- introduce social programs and benefits for the Company's employees and their families.



3. MAIN EVENTS IN THE REPORTED PERIOD

Business calendar

- Valmet Corporation is awarded the tender for an upgrade of the Causticizing and Lime Regeneration plant (CLR-3) for pulp production
- Arkhangelsk PPM and Valmet sign contract for the supply of equipment for an upgrade of Board Machine-2
- Arkhangelsk PPM and Valmet Corporation start construction of a new evaporation train using the Best Available Technology
- Arkhangelsk PPM was the first among Russian companies to have calculated the carbon intensity (carbon footprint) of the company's finished products and services according to GOST R 56276-2014/ISO/TS 14067:2013 «Greenhouse gases. Carbon footprint of products. Requirements and guidelines for quantification and communication». This included greenhouse gas (GHG) emissions on the mill site, emissions upstream in the supply chain related to extraction, production and delivery of feedstock, materials, fuel and energy to Arkhangelsk PPM.

Certification

- Arkhangelsk PPM has conducted a re-certification audit of the supply chain in compliance with the requirements of the Forest Stewardship Council®. The inspecting expert's conclusion was that the system maintained by Arkhangelsk PPM (trademark license code FSC-C002853) conforms to the requirements of the FSC supply chain certification and controlled wood standards.
- Arkhangelsk PPM's greenhouse gas emission statements for 2015 have successfully passed verification for conformity with the requirements of GOST R ISO 14064-1 — 2007 GREENHOUSE GASES — Part 1: Specification with guidance at the organization level for quantification and reporting of greenhouse gas emissions and removals. As part of the verification, Bureau Veritas Certification experts verified the emission statements for the production sites of both Arkhangelsk PPM and their subsidiaries.

Awards

- Arkhangelsk PPM won the Russian-wide competition held by the Russian Union of Industrialists and Entrepreneurs: “Russian Business Leaders: Dynamics and Responsibility 2015” in nomination “Environmental Responsibility”.
- Arkhangelsk PPM won the sixth annual Russian-wide competition held by the RF Pension Fund: “Best Insurant 2015” in nomination “Best Insurant with over 500 Staff”.
- Arkhangelsk PPM won the Russian-wide competition for best work organization in reducing greenhouse gas emissions, “Climate and Responsibility 2015”, in nomination “Best organization in greenhouse gas emission reduction among manufacturing organizations emitting over 150,000 tons of CO₂ eq. per annum”
- In 2016, Arkhangelsk PPM once again proved their leadership in climate responsibility among Russian companies by occupying the top spot of the corporate climate rating according to the CDP (The Carbon Disclosure Project, an international project for disclosure of data on greenhouse gas emissions).
- Arkhangelsk PPM is the absolute winner of the federal competition program “Russia’s Best 100 Products”. In the “Consumer Goods” nomination, 18-sheet school exercise books claimed a routine

laureateship (the golden diploma), and the 12-sheet school exercise books were the runner-up (silver diploma).

- In the “Producer Goods” nomination, the “Russia’s Best 100 Products” program was won by UNILINER multi-purpose cardboard and bleached sulphate pulp produced from a hardwood mixture. Liner cardboard, fluting paper, and bleached softwood sulphate pulp were runners-up.
- The decoration for “High Achievements in Quality” was awarded to First Vice General Director, Director of Production at Arkhangelsk PPM, Nikolay Mikhaylovich Kostogorov. The badge of honor for “Excellence in Quality” was awarded to Cardboard and Paper Plant Manager, Sergey Misiyantsev.

Rankings

- Arkhangelsk PPM was included in the RBC-500 Top Companies of Russia rating. The Company is 367-th in the list, and holds the 111-th place in terms of profit and 272-nd place in asset value.
- Arkhangelsk PPM is in the “Russia’s Top Product Sales Companies” (RAEX-600) ranking prepared for “Б” by RAEX Agency (“Expert RA”). The Mill occupied the 364-th place among Russia’s top companies in terms of product sales volume in 2015 (453-rd in 2014).



CDP Congratulates

Arkhangelsk PPM

for achieving the

CDP RUSSIA 2014 HIGHEST DISCLOSURE SCORE

26 November 2014

Shirley Li

See Howie's
Co-Chief Operating Officer
CDP

СВИДЕТЕЛЬСТВО

РАС

РЕЙТИНГ

АО «Архангельский ЦБК»

A+

Очень высокие
уровни
кредитоспособности

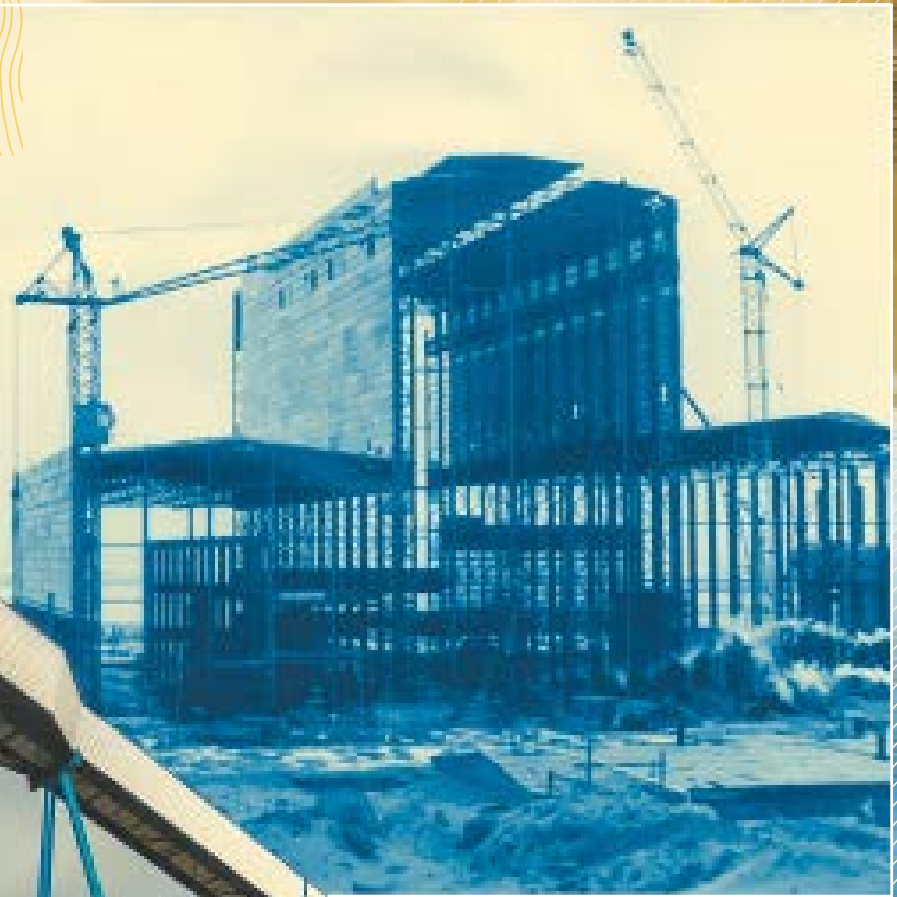
Срок действия с 01.01.2015 по 31.12.2015



111

 -th place by
profit in 500
Top Russian
Companies list

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4.

ANALYSIS OF PULP-AND-PAPER INDUSTRY DEVELOPMENT, COMPANY'S POSITION IN THE INDUSTRY

The index of pulp and paper production, publishing and printing in 2016 versus 2015 was 100.8%. A year earlier this indicator was 93.7%.

The index of wood pulp production is 104.2%, all types of paper – 102.3%, cardboard – 106.9% (including

kraft liner – 105.2%), school exercise books – 119.6%.

Pulp cooking and groundwood production in Russia has been on the rise for the fourth year in a row, reaching 8,203,740 tons in 2016, a growth of 4.5% (4.4% in 2015).

Pulp

Top pulp producers in Russia (cooking), thousand tons

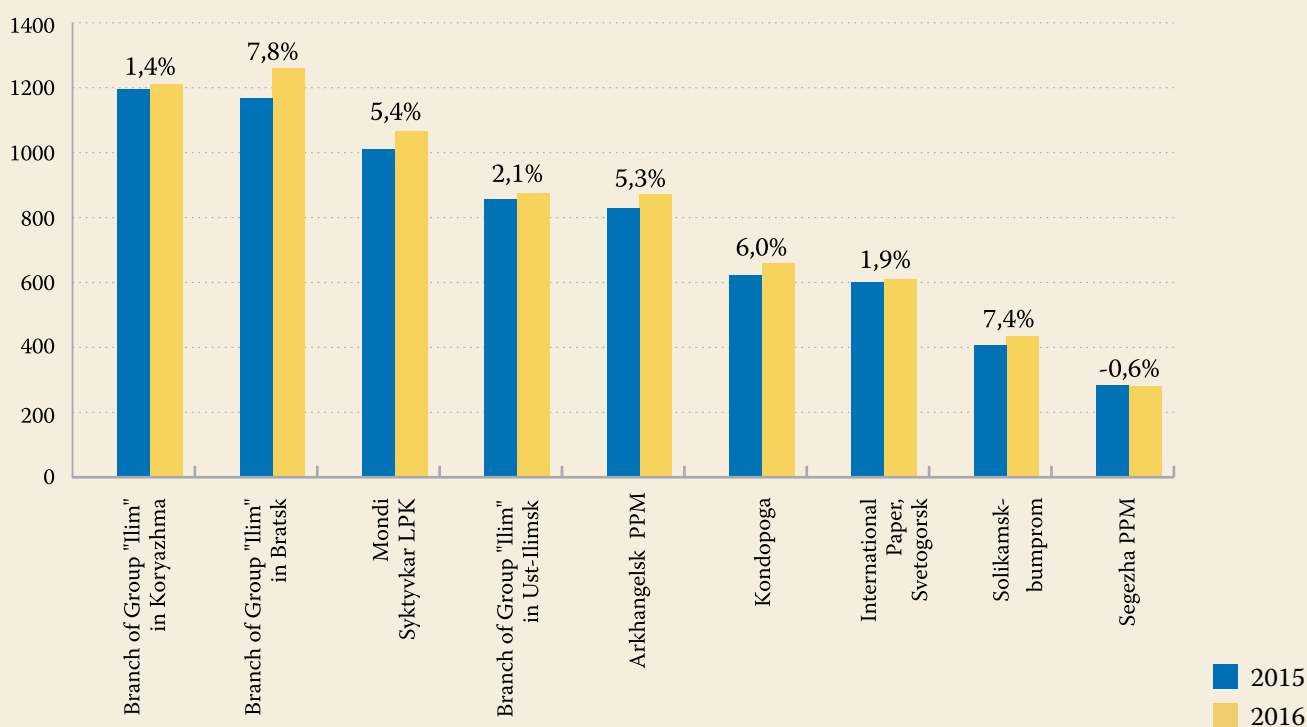
Producers	2015	2016	Difference (2016 vs. 2015)	
			thousand tons	%
Ilim Group subsidiary in Koryazhma	1 194,3	1 211,2	16,9	1,4%
Ilim Group subsidiary in Bratsk	1 167,4	1 258,8	91,4	7,8%
Mondi Syktyvkar LPK	1 010,8	1 065,3	54,5	5,4%
Ilim Group subsidiary in Ust-Ilimsk	857,9	875,7	17,8	2,1%
Arkhangelsk PPM	827,2	870,8	43,6	5,3%
Kondopoga	621,0	658,2	37,2	6,0%
International Paper, Svetogorsk	600,2	611,4	11,2	1,9%
Solikamskumprom	405,9	435,8	29,8	7,4%
Segezhsy PPM	283,0	281,2	-1,8	-0,6%
Other	882,1	935,3	53,2	6,0%
Total	7 849,8	8 203,7	353,9	4,5%

Similar to a year earlier, the largest contribution to the increase in pulp cooking production in the RF is made by the Ilim Group mills. The Bratsk subsidiary of Ilim Group in 2016 increased pulping by 7.8% to 1,258,800 tons and topped the former industry leader in terms of this indicator, which was Ilim Group's subsidiary in Koryazhma. The Koryazhma subsidiary also increased pulping in 2016, but at a lower rate of 1.4% to 1,211,300

tons. The group's third company, the Ust Ilimsk subsidiary, showed a growth of 2.1% in pulping in 2016 reaching 875,700 tons.

Arkhangelsk PPM is Russia's fifth in pulping (including groundwood), but in terms of absolute growth in production in 2016 (+ 43,500 tons) it is surpassed only by Ilim Group's subsidiary in Bratsk and Mondi Syktyvkar LPK.

Top pulp producers (cooking) in 2015-2016, thousand tons



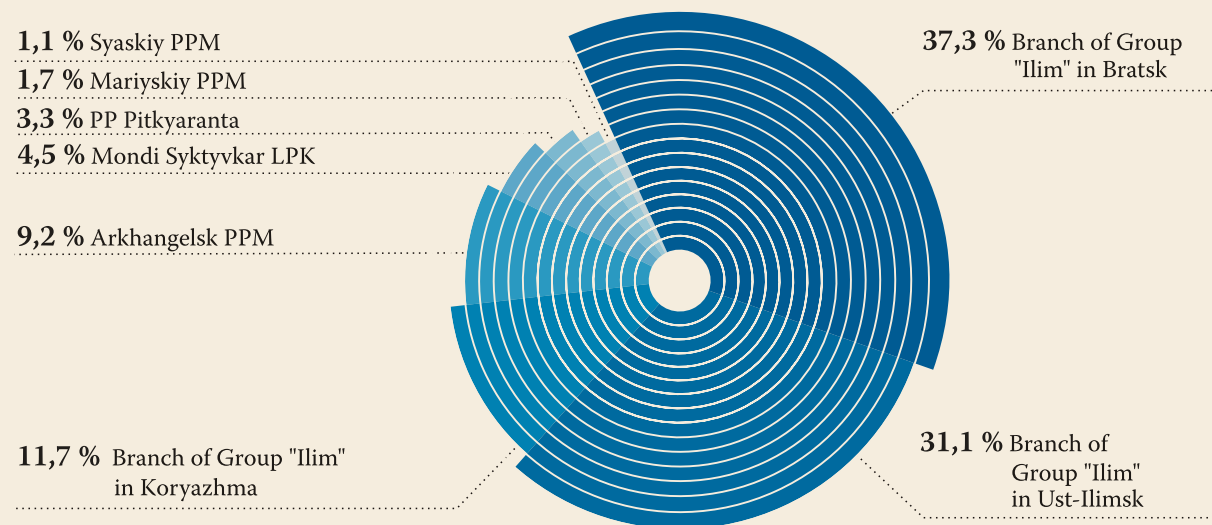
Market pulp production in the RF in 2016 was 2,610,400 tons. (The data includes bleached and unbleached softwood and hardwood sulphate pulp as well as sulfite pulp). Compared to the preceding year, production grew by 116,700 tons or 4.7%. A year earlier, production had increased by 235,200 tons or 10.4%.

The increase in production was supported by the market pulp output of ILIM Group subsidiary in Bratsk growing by 78,200 tons in 2016 and 152,500 tons in 2015. Other Ilim Group mills also showed a notable growth: Koryazhma subsidiary – by 17,300 tons (6.0%), Ust-Ilimsk subsidiary by 15,800 tons (2.0%).

Pulp manufacturers in the RF in 2015-2016, thousand tons

Producers	2015	2016	Difference (2016 vs. 2015)	
			thousand tons	%
Ilim Group subsidiary in Bratsk	895,7	973,9	78,2	8,7%
Ilim Group subsidiary in Ust-Ilimsk	795,5	811,3	15,8	2,0%
Ilim Group subsidiary in Koryazhma	288,9	306,3	17,3	6,0%
JSC "Arkhangelsk PPM"	235,1	239,6	4,5	1,9%
Mondi Syktyvkar LPK	114,0	117,8	3,8	3,4%
Pitkaranta Pulp Mill	73,9	86,5	12,7	17,2%
Mariyskiy PPM	51,5	45,2	-6,3	-12,3%
Syassky PPM	39,1	29,8	-9,3	-23,8%
Total	2 493,7	2 610,4	116,7	4,7%

In total, Ilim Group mills produce 2,091,500 tons of market pulp or 80% of total production in Russia. Arkhangelsk PPM holds the 4-th place in the industry and produced 9.2% of Russia's total output in 2016.



In 2016, 84.5% of market pulp produced in Russia (approx. 2,206,000 tons) was exported.

The import of bleached sulphate market pulp, other than fluff pulp, in 2016 was estimated to be 47,400 tons.

Thus, the domestic market of bleached market pulp in 2016 was approx. 451,500 tons, including

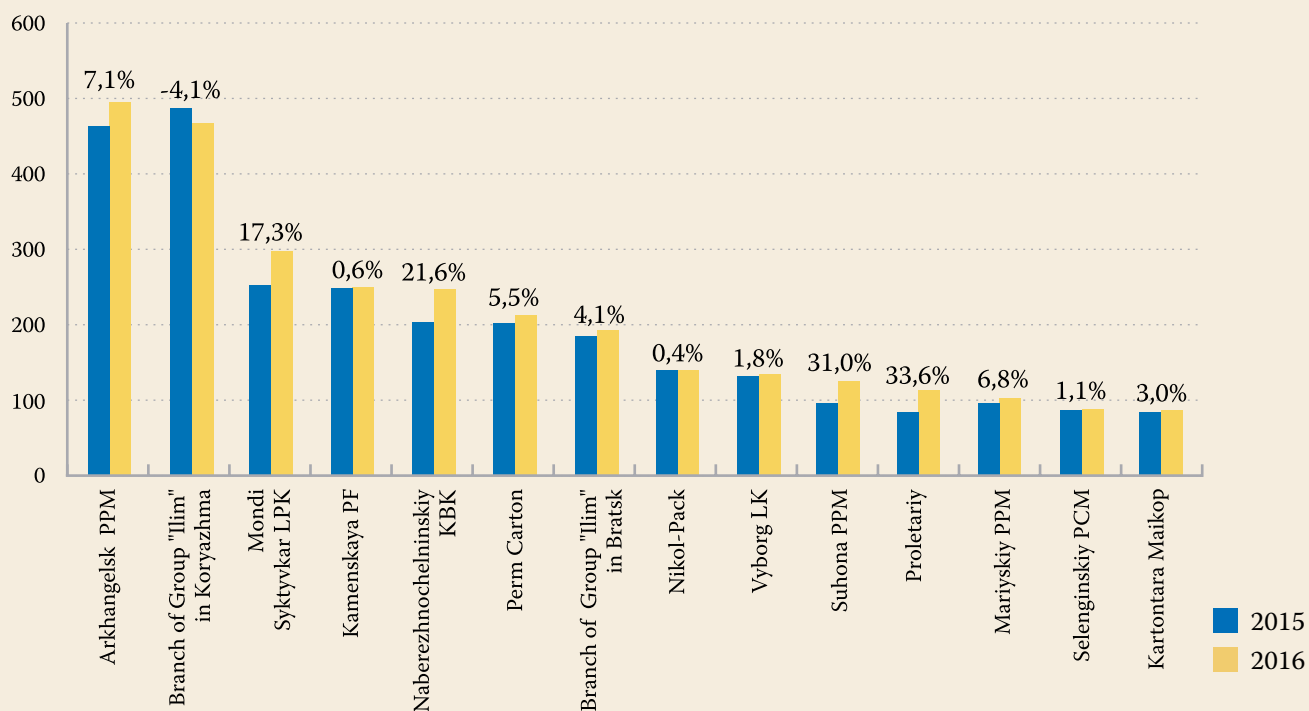
47,500 tons of import.

Market pulp sales by Arkhangelsk PPM on Russia's domestic market in 2016 were 136,500 tons (130,200 tons in 2015), Arkhangelsk PPM's share of Russia's domestic market in 2016 was 30.3% (28.5 % in 2015, 32.3% in 2014).

Containerboard

In 2016 the output of containerboard in Russia grew by 9.4% to 3,709,700 tons.

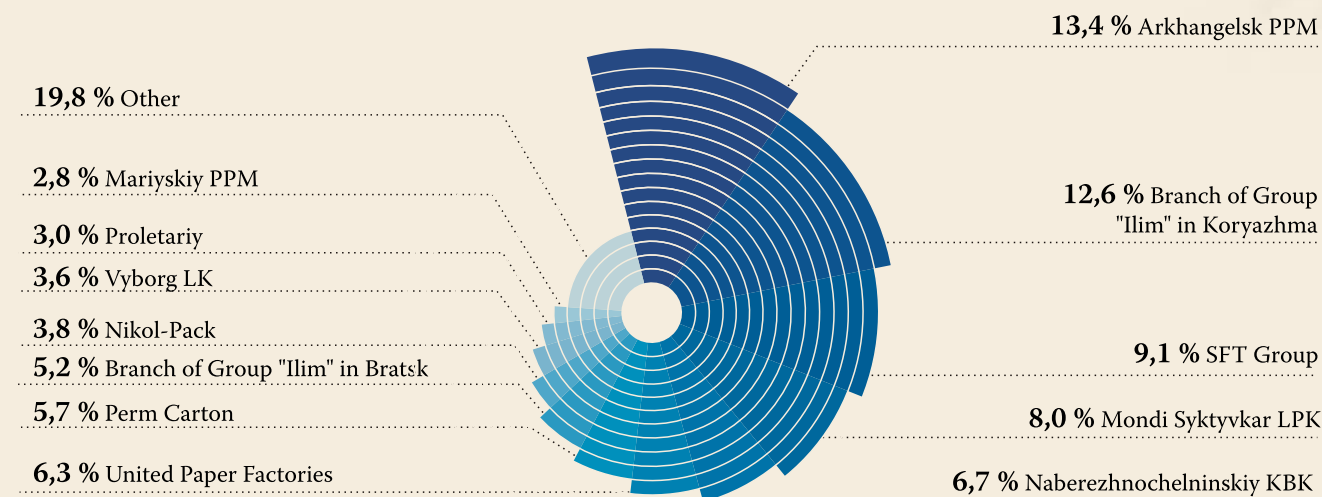
Top containerboard producers in the RF in 2015-2016, thousand tons



Arkhangelsk PPM reinforced the top position in containerboard output in the RF in 2016. With an increase of 32,300 tons in production relative to 2015, Arkhangelsk PPM produced 495,700 tons, while the key competitor, Ilim Group's subsidiary in

Koryazhma, reduced the output by 19,700 tons vs 2015 and was relegated to the second spot again.

Russia's top producers also include Mondi Syktyvkar LPK, Naberezhnochelninsky KBK and others.



About 21% of containerboard produced in Russia (776,400 tons) was exported in 2016 (23% in 2015). Compared to 2015, export in physical terms dropped by 5,900 tons (whereas 2015 saw a significant rise in export by 270,000 tons).

Following a tripling of containerboard export in 2015 (by 188,000 tons relative to 2014), Arkhangelsk PPM decreased export by 10,100 tons in 2016.

95% of containerboard exports from the RF is attributed to virgin pulp containerboards and only 5%

is recycled containerboards.

Containerboard imports to the RF in 2016 dropped by 11,800 tons or 15.0 % vs 2015. 99.7% of import are recycled containerboard grades. The main importer is still PAO «Rubezhansky KTK» (74% of all imports in 2016). The decrease in imports to the RF is mainly attributed to the Rubezhansky Mill and stems from the customs duties imposed starting from 2016 on products from Ukraine.

Calculated containerboard market capacity in the RF in 2015-2016, thousand tons

Indicator	2015	2016	Difference
Containerboard output	3 391,8	3 709,7	317,9
Containerboard export	712,8	735,8	+23,0
Containerboard import	78,9	67,1	-11,8
Containerboard consumption	2 757,8	3 040,9	283,1

Consumption of containerboards in the RF grew in 2016 by 283,100 tons or 10.3%.

In 2016 Arkhangelsk PPM expanded sales in the RF by 43,000 tons (from 255,400 tons to 298,400 tons), or 16.8%. Arkhangelsk PPM's share in total consumption grew from 9.5% in 2015 to 10.1% in 2016.

Paper

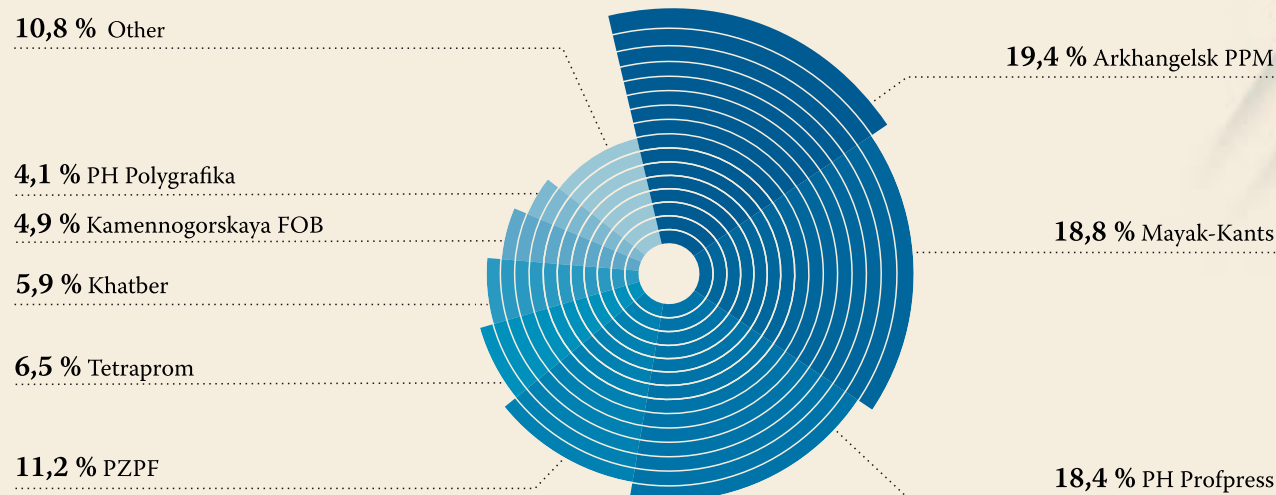
Mondi Syktyvkar LPK and Ilim Group's Koryazhma subsidiary remain the top producers among Russian manufacturers of offset paper (including writing paper). Their combined share of output in the RF is over 72%. Arkhangelsk PPM's share in 2016 was 14.0%.

Stationery

Russia's total output of school exercise books (12, 18, 24 sheet) in 2016 was 923.2 million (as 12-sheet exercise books), which was 19.6% more than in 2015. Arkhangelsk PPM has retained the leader position in the Russian school exercise book segment: the Company's share in 2016 was 19.4%. Arkhangelsk PPM's key competitors are LLC Mayak-Kants, PZBF, ID Proff-Press (Rostov region), LLC Hatber, LLC Tetraprom.

495 700 tons –
Arkhangelsk PPM confirmed
leadership in containerboard
production in Russia in 2016

Distribution between school exercise book manufacturers in 2016

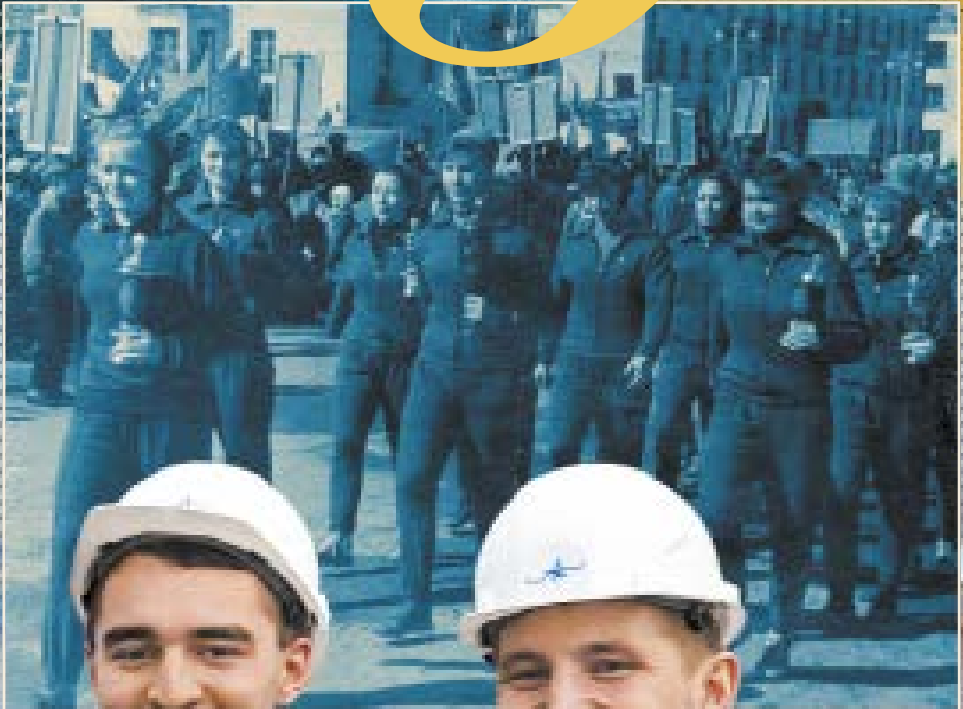


The output of general-purpose exercise books in Russia in 2016 grew 27.1% to 238.4 million (2015 saw a drop of 2.2%). Market leaders in this segment are LLC Hatber, PZBF, LLC Tetraprom, LLC Alt. Arkhangelsk PPM is no longer present in the general-purpose exercise book segment due to the decommissioning of the exercise book ruling train PVT-84 (in 2015 APPM's share in the RF was 1.6%)

On the whole, the production trends in the pulp and paper industry show that, with the exception

of certain segments, the industry is in a state of stagnation/weak growth. Any market niches that have not yet been penetrated or unused production capacities are extremely hard to find, the competition is growing more intense.

The Company is Russia's top producer of containerboard and fifth in pulping. Arkhangelsk PPM also remains the leader in the production of school exercise books. The Company enjoys a high share of loyal clients and holds a stable market share.



5. COMPANY'S OPERATION MANAGEMENT ANALYSIS

5.1. Key metrics

Indicator	Unit	2016
Production		
Pulp cooking	t	870 755,0
Bleached sulphate pulp	t	265 512,0
Containerboard, incl. fluted paper	t	495 671,0
Paper total	t	82 267,0
Sales		
hardwood pulp	t	200 514,0
softwood pulp	t	34 274,0
linerboard	t	287 418,0
multi-purpose cardboard and fluted paper	t	208 252,0
Sales revenues	million rubles	26 525,5
Return on sales	%	29
Profit		
EBITDA	million rubles	8894,5
Net profit	million rubles	5603,8
Personnel		
Average number of staff	persons	3 869
Average monthly paycheck, total	rubles	44 235,0
Output per 1 employee (pulp cooking)	t	225,1

Property		
Assets	million rubles	24 838,2
Return on assets	%	21,3
Share capital	million rubles	13 212,2
Share capital per share	rubles	6 893,1
Share capital ratio	%	53,2
ROE (based on NP)	%	40,6
ROCE (based on NP)	%	33,5
Investment activity		
Capital investments (utilized)	million rubles	1458,3
New fixed assets	million rubles	720,6
Cash flow		
Cash flow from operations	million rubles	6 922,0
Cash flow from investing	million rubles	778,0
Cash flow from financing	million rubles	-7 596,1
Free cash flow	million rubles	7 700,0
Business activity		
Raw material inventory turnover	days	47

5.2. Production

Description	Unit	2016
Pulp cooking, total	tons	870 755
Sulfate pulp	tons	265 512
including market pulp	tons	239 617
of which export	%	41.9
Paper	tons	82 267
including market paper	tons	76 489
of which export	%	21.5
Cardboard	tons	288 844
	million sq.m	2 128.9
including market cardboard	tons	286 630
of which export	%	56.3
Fluted paper and multi-purpose cardboard	tons	206 828
	million sq.m	1 639.5
including market	tons	206 737
of which export	%	15.9
Exercise books (incl. 48-sheet exercise books)	thousand pcs	179 078

5.3. Procurement

The primary objectives of procurement include: timely delivery; consistency with specified requirements and demands; ensuring the raw material inventory turnover periods required by the Company; accurate and timely payments to vendors.

Timber

The amount of timber raw materials (without waste wood for combustion) supplied to the Mill in 2016 was 3,432,100 cubic meters

Products manufactured from legally harvested timber based on responsible forest management principles are finding an ever growing demand on the pulp and paper product market. Compliance with these principles is guaranteed by international certification with the Forest Stewardship Council® system.

The general supplier of timber materials for Arkhangelsk PPM is LLC PKP Titan which gained FSC certification in 2005 and were re-certified in 2010. In 2006, Arkhangelsk PPM (FSC trademark license code FSC-C002853) obtained FSC certification for the chain of custody from manufacturer to consumer and were the first among the Russian pulp and paper companies to launch finished products under the FSC trademark on the market.

Since completion of the certification process, the Company's experts have been working to expand the scope of the certificate in order to gain the ability to produce even more FSC-certified products. In 2009, as a result of a regular audit inspection, the scope of certification was expanded to the production of FSC-certified bleached sulphate softwood pulp. In 2011, Arkhangelsk PPM were successfully re-certified and, in addition to the Chain of Custody Certificate, obtained the FSC Certificate for Controlled Wood. In early 2013, during an audit inspection, the scope of certification was expanded to the manufacturing of FSC-certified finished cardboard and paper products.

The Company intends to further increase the processing of FSC-certified timber and expand the production of FSC-certified finished products. This should be facilitated by further development of voluntary forest certification in Russia.

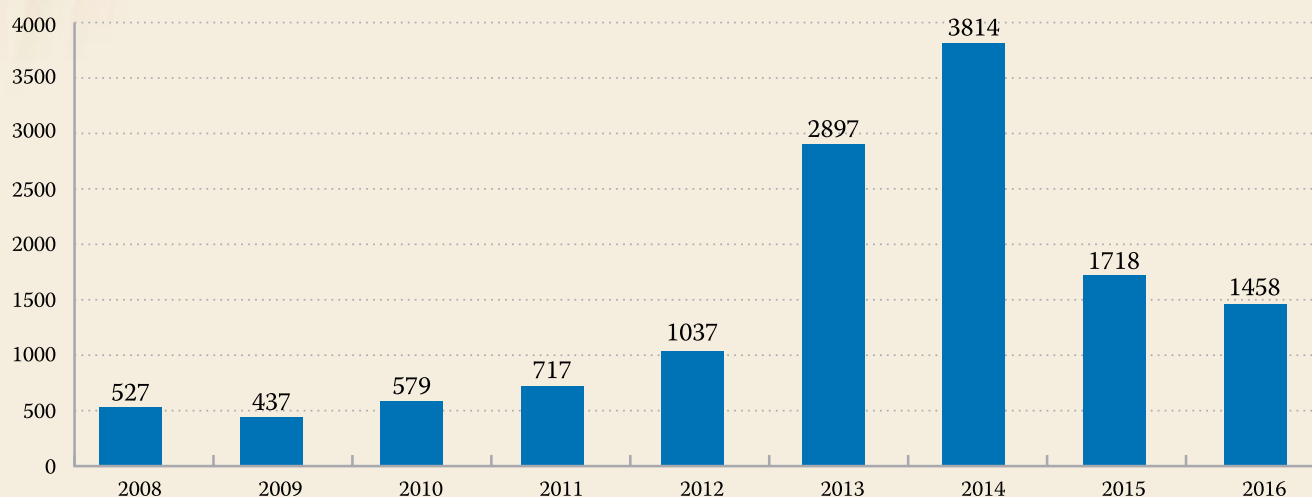
The analysis of timber supply trends in terms of certification status shows an increase in the share of "FSC-certified" timber (by 10.9 points). In 2015-2016 all purchased raw materials without exception had the "FSC-certified" and "FSC-controlled" status, which is fully consistent with the above trends in the Company's development.

3,432,100 m³ –
of timber raw materials
were supplied to Arkhangelsk PPM
in 2016

5.4. Capital investments

The Company makes significant investments in the upgrade of fixed assets and production development.

Capital investment dynamics by year, mln. rub.



The total capital investment in fixed assets in 2016 was 1,458.3 million rubles (\$24 million), in 2014 - 1,718.5 million rubles.

Completed Construction of raw material incoming inspection (weighing) area. Cost 24.0 million rubles.

Completed Reconstruction of railroad tracks nos.17, 103, 121, 534, 738. Cost 7.9 million rubles.

Completed Phase 2 of Station Site Track no.8 Extension project. Cost 21.7 million rubles.

Completed Phase 3 of project Upgrade compressed process air and dried air generation and distribution system. Cost 47.8 million rubles.

Completed Replacement of Transformer TC DTGA no.5 AT. Cost 121.1 million rubles.

The above activities will allow to stabilize the Mill's operation, reduce unscheduled downtime and operating costs, replace obsolete and worn-out equipment.

Capital investment structure in 2016, thousand rubles ex VAT

Group	2016	%
I – action prescribed by oversight/environmental/etc. authorities	126 419	8,7
II – action required to maintain fixed assets	564 011	38,7
III – investment projects to revamp fixed assets and new construction	767 915	52,6
TOTAL	1 458 345	100,0

The structure of capital investments made in the reported year shows that most funds (52.6%) were invested in projects designed to revamp the fixed assets and in new construction. Completion of these projects will increase the output and improve the quality of finished products, reduce the production cost and this will in turn allow to maintain the leading positions among cardboard and pulp manufacturers. Investments in activities required to maintain the fixed assets in 2016 accounted for 38.7 % of the total investments. This allows to re-

duce the depreciation of fixed assets and ensure stable operation and manufacturing of the main products meeting the market requirements. Also in the reported year action was taken to comply with prescriptions issued by oversight and environmental authorities, accounting for 8.7 % of total investments.

In 2016, new fixed assets decreased by 5,100.3 million rubles versus 2015 to 706.4 million rubles. Together with non-productive fixed assets, new assets were worth 720.6 million rubles.

Characteristic of fixed assets

The fixed asset renewal rate (new fixed assets) in 2016 was 3.5%, which is 25.3 points lower than the level in the preceding year. The depreciation rate in 2016 was 46.7 %, which is 3.9 points higher than the preceding year.


Indicator	2016	2015	2014	2013	2012	2011	2010
FA value, million rubles	20 735,6	20 155,4	14 533,6	12 697,9	12 152,4	11 652,3	11 179,4
Depreciated book value of FA, million rubles	11 045,1	11 530,8	6 504,7	5 255,9	5 249,0	5 285,0	5 253,9
New FA, million rubles	720,6	5 806,7	1 903,8	773,4	568,3	633,5	368,8
FA retirement, million rubles	140,5	184,9	68,1	227,9	68,2	160,6	81,5
Renewal rate	3,5	28,8	13,1	6,1	4,7	5,4	3,30
Retirement rate	0,7	1,3	0,5	1,9	0,6	1,4	0,7
Depreciation rate	46,7	42,8	55,2	58,6	56,8	54,6	53,0

Worn-out fixed assets were replaced in 2016. This item cost 351.8 million rubles.

The key activities of the Company's upgrade program for 2017 include construction of a new coal-fired boiler (project cost 1,690,000 rubles), an upgrade of Causticizing & Lime Regeneration Plant 3 (project cost 3,935,800 rubles), continuing the investment program «Cardboard Production Reconstruction». 4,698.2 million rubles has been spent since the project start, 526.8 million rubles was spent in 2016. Construction of Evaporation Train

will commence and the Upgrade of Board Machine 2 project will be continued as part of this project in 2017.

The key objectives of Arkhangelsk PPM's development strategy until 2021 include reduction of expenses and production cost while increasing the output through efficient consumption of raw materials, energy independence as a result of the introduction of Best Available Technologies (cooking process and energy and water-saving technology), improving productivity by modernizing and revamping existing capacities.



The key objectives of APPM development strategy till 2021 include reduction of expenses and production cost while increasing the output through efficient consumption of raw materials and energy independence resulting from introduction of Best Available Technologies (cooking process and energy and water-saving technology), improving productivity by modernizing and revamping existing capacities.

5.5. Social responsibility

Arkhangelsk PPM's social responsibility in the present context reflects a wide range of relations. A crucial component of social responsibility is the Company contribution to the economy. In addition to that, the interaction between the Company and the community is reflected in the attitude toward the employees, support for education and science institutions which provide human resources for the Company; control of the Company's impact on the environment.

Social projects are an integral part of the Arkhangelsk PPM's mission and development strategy. Arkhangelsk PPM has not only claimed to, but has always pursued and accomplished a socially-oriented policy. The Company pays special attention to environmental activity, maintains a Collective Bargaining Agreement that provides social programs and benefits for the Company's employees, their children, and veterans.

5.5.1. Environment protection

As a large business, Arkhangelsk PPM considers the environmental issues to be essential and requiring particular attention of the top management. The key objectives in environment protection include:

- efficient use of natural resources, including forest resources, developing the business while safeguarding and protecting the forests;
- implementing measures to minimize negative environmental impact and making sure that production is in conformity with current international and national standards.

The Company will continue its efforts to minimize the environmental impact and create favorable conditions for an efficient business activity.

Arkhangelsk PPM is an incumbent member of the Russian Association of Environmentally Responsible Timber Producers and engages in a meaningful dialog with International Organization «Greenpeace», the World Wildlife Fund, addresses the issues of forest certification in the Arkhangelsk region, takes action to implement the principles of sustainable forest management.

Arkhangelsk PPM has developed and is successfully implementing a long-term program to minimize negative environmental impact and bring about a

beneficial setup for high business performance and create advantageous work conditions for the people.

In 2016, Arkhangelsk PPM's greenhouse gas emission statements for 2015 successfully passed verification for conformity with the requirements of GOST R ISO 14064-1 – 2007 GREENHOUSE GASES – Part 1: Specification with guidance at the organization level for quantification and reporting of greenhouse gas emissions and removals.

As part of the verification, Bureau Veritas Certification experts verified the emission statements for the production sites of both Arkhangelsk PPM and their subsidiaries.

Arkhangelsk PPM have once again proved their



credibility as a company that treats the environment with care and responsibility, and have shown the effectiveness of the comprehensive measures that have been implemented by the Company in a consistent and systematic manner over many years to minimize negative impact on the environment as a whole and reduce greenhouse gas emissions to atmosphere in particular.

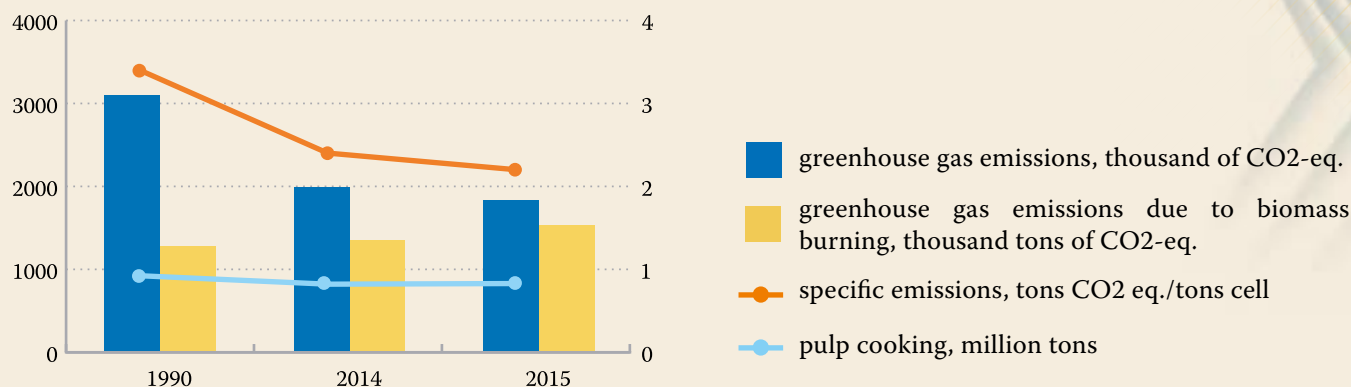
According to the Report on GHG emissions for 2015, Arkhangelsk PPM's GHG emissions (including all affiliates and subsidiaries) totaled 1,832,253 tons of CO₂ eq., which is 1,271,168 tons of CO₂ eq., or 41.0%, lower than in the reference level of 1990, and 16.7% lower than the GHG emission limit of 2,200,000 tons of CO₂ eq. per annum, which has been put in place as a voluntary restraint by the organization for the period until 2020. In comparison with the preceding year 2014, greenhouse gas emissions went down by 164,254 tons of CO₂ eq. or 8.2%, and specific emissions (carbon intensity) were down 9.1%.

The main factors which contributed to the decrease in GHG emissions by Arkhangelsk PPM in 2015 compared to the 1990 benchmark include: an increase in the biomass share in the fuel balance from 28.1% to 45.9%; reduction in energy consumed for production (heat by 35.5%, electricity by 15.1%); a decrease in pulp cooking by 10.2% from 921,500 tons to 827,245 tons.

The key factors which led to the decrease in GHG emissions by Arkhangelsk PPM in 2015 versus the preceding 2014 are: reduction in the share of coal in APPM's fuel balance from 53.0% to 47.4% due to an increase in the share of bark and wood wastes and wastewater sludge from to 9.9 to 15.3%. Liquors included, the total percentage of biomass in the fuel balance increased from 40.8% to 45.9%; a decrease in energy consumption for production by Arkhangelsk PPM in Novodvinsk (electricity by 2.8%, heat by 2.0%).

According to the climate strategy adopted until 2020, Arkhangelsk PPM is consistently implementing or planning to implement a number of projects

Greenhouse Gas Emission of Arkhangelsk PPM



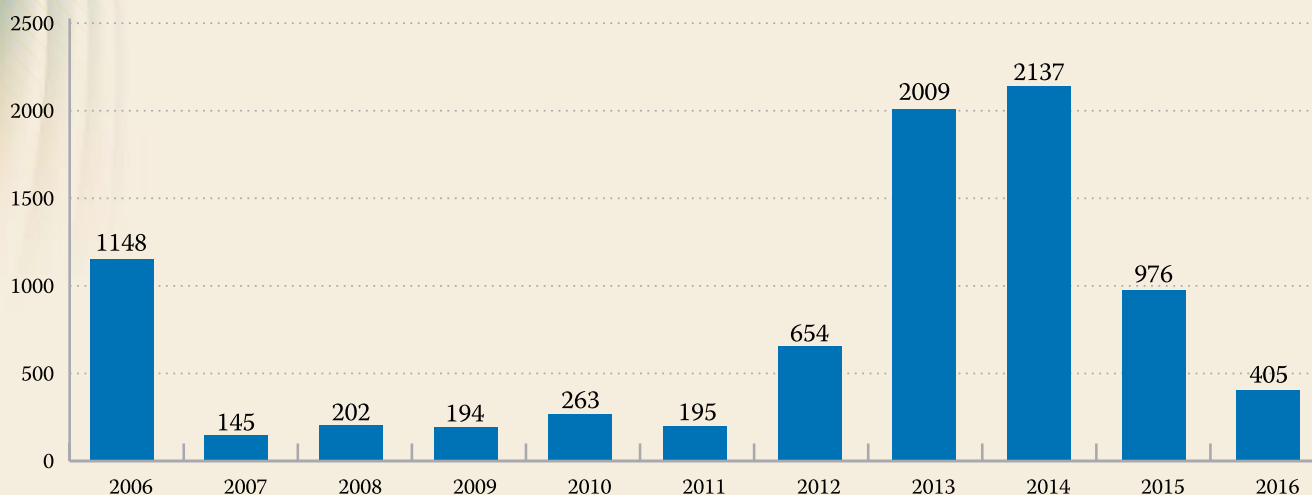
designed to reduce greenhouse gas emissions at the production site in Novodvinsk. The key carbon projects are the biomass waste recovery project for APPM's CHP Plant 3, implemented under Article 6 of the Kyoto Protocol, and the multifuel boiler construction project for APPM's CHP Plant 1. In 2015, overall reduction of greenhouse gas emissions resulting from implementation of the carbon projects was 265,000 tons of CO₂ eq.

In 2016, for the third year in a row, Arkhangelsk PPM participated in the Carbon Disclosure Project (CDP) - an international project for greenhouse gas emissions disclosure. As reported for 2016, APPM confirmed their leadership among Russian companies in the climate domain, showing performance at an average global level. This occurred despite the CDP tightening their approach to the evaluation of companies' climatic activity (criteria applied, procedure for determining the points scored and the overall rating), following the adoption of the Paris Agreement in 2015, which contained new, much more ambitious goals and objectives in the climate sphere for the 21st century. On the whole, the move toward a tougher evaluation system has (quite predictably) resulted

in most companies getting lower climate ratings, although at the same time this led to a leveling of the companies' performance. Nevertheless, just as in the previous years, Arkhangelsk PPM found themselves at the top of the corporate climate rating, having out-ranked most of the other Russian companies.

In 2016, Arkhangelsk PPM was the first among Russian companies to have calculated the carbon intensity (carbon footprint) of the company's finished products and services according to GOST R 56276-2014/ISO/TS 14067:2013 «Greenhouse gases. Carbon footprint of products. Requirements and guidelines for quantification and communication». As a result, emissions were determined with high precision upstream in the supply chain for 28 types of raw materials, chemicals, fuel and energy used by the Mill, movement of various resources was traced through process chains, including semi-processed products and by-products produced by the Mill itself, and this was used to calculate the carbon intensity (carbon footprint) for APPM's 10 main commercial product types, 13 other commercial product types, as well as for 64 intermediate product types.

Cost of Environmental plan implementation, million rubles



Arkhangelsk PPM spent 405.7 million rubles in 2016 on implementation of the Environmental Action Plan, including introduction of Best Available Technologies (BAT).

The following actions were taken in 2016 by the Company as part of the upgrade program to minimize negative environmental impact and ensure sustainable use of natural resources:

- upgrade of Board Machine 2 (KDM-2) by replacing water ring pumps with turbo blowers in order to reduce water consumption.
- construction of evaporation train for cardboard production plant. This will reduce emissions of fetid gases and pollutant discharge. The best available technology involving combustion of fetid gases in a special incinerator will be used for the new evaporation train in order to reduce the emissions of malodorous gases from sources in the new evaporation train, unbleached pulp and semichemical pulp cooking plants.
- upgrade of Boiler Turbine Plant for CHP Plant 1: a coal-fired boiler will be installed at boiler units no.7 - no.9 with high-performance gas treatment equipment, which will reduce coal ash emissions to the environment.
- reconstruction of cinder dump section IV. This will prevent land contamination with production and consumption waste.

(The above activities are in progress)

- an upgrade of the water collecting system for secondary settling sump no.11 has been completed for wastewater bio-treatment plant (BTP).

A close-up photograph of a hand holding a small, young evergreen tree branch. The branch is green and has many small needles. The background is a soft-focus landscape of trees and a bright sky. The image has a warm, golden-yellow tint. In the bottom right corner, there is a semi-transparent yellow box containing text.

405,7 million rubles
were spent by Arkhangelsk PPM
on Environment Action Plan
in 2016

The Company's current (operating) costs for environment protection in 2016 were 390.9 million rubles.

In 2016, the Company completed the entire scope of environmental monitoring operations according to the approved Programs, including:

- monitoring the Company's compliance with normative limits of pollutant discharge and emissions to the environment and bacteriological indicators of wastewater;
- monitoring the impact produced by waste disposal sites on ground and surface water, ambient air, soil, determination of noise level;
- control of pollutant contents of ambient air and noise level at the boundary of the buffer zone;
- regular observations of water bodies and related water protection areas.

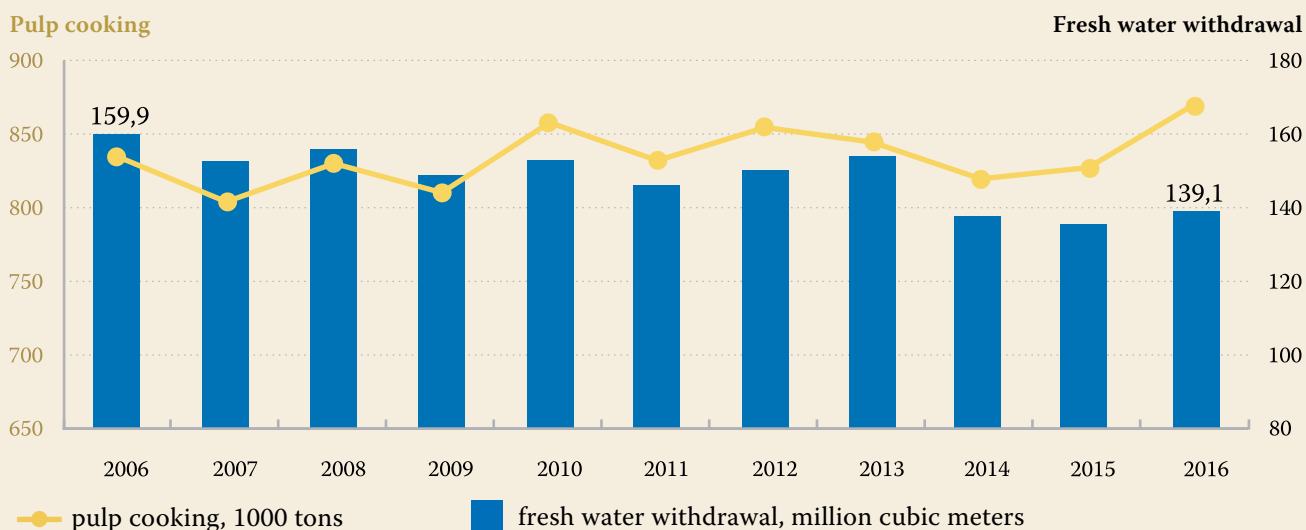
In 2016, Arkhangelsk PPM complied with the Water Use Agreement for allowable withdrawal (extraction) of water resources from a water body and Permitted limits for substance discharge to water bodies / pollutant discharge to the water body.

Water consumption by Arkhangelsk PPM in 2016 versus 2015 increased by 0.4 % or 0.7 million cubic meters and was 164.5 million cubic meters. At the

same time, pulp cooking production grew 5.3% or 43,510 tons.

Fresh water withdrawal from water body went up 2.7% or 3.6 million cubic meters and was 139.1 million cubic meters; consumption of water re-used after turbine condenser cooling at CHP Plant 1 was down 10.2 % or 2.9 million cubic meters to 25.4 million cubic meters.

Fresh water withdrawal from water body



Waste water discharge to the water body in 2016 versus 2015 increased in proportion to the increase in pulp cooking, by 5.3%.

The amount of waste disposed of (buried) at the Company's landfill site and cinder dump went down 23%.

In 2016, no fines or claims were put forward against the Company for failure to comply with the environmental laws.

The reduction of negative impact on the environment and improvement of the ecological standards of production is an organic part of

5.5.2. Health and safety

Arkhangelsk PPM continually strives to improve the level of occupational safety and health of the Company's employees, create comfortable working conditions, and reduce the risk of accidents and occupational diseases.

A total of 112.1 million rubles were spent on the implementation of the Plan to improve working conditions and occupational safety.

The workers are provided with PPE in accordance with the business unit-specific «PPE provision rates in accordance with working conditions» and «Regulations on providing workers with personal and collective protection equipment». The PPE provision rates established by the Company are considerably higher than those specified in the typical industry standards. All the PPE items issued have the necessary certificates of conformity with occupational safety standards. Any PPE that gets worn out early without the worker's fault is promptly replaced.

A total of 38.6 million rubles were spent in 2016 on PPE provision for the Company's employees.

2.8 million rubles were spent in 2016 to provide the employees with washing and de-greasing agents.

The Company provides working clothes washing, cleaning and repair services for employees. The cost of these services was 3.2 million rubles.

Arkhangelsk PPM's business strategy. This work aims to improve the production and financial performance in the interests of the Company's shareholder, partners, employees, as well as the entire region in general.

All Arkhangelsk PPM reports on environmental activities can be found at www.appm.ru/documents/ecology/

Periodic medical examinations of employees engaged in heavy works and works with harmful and/or hazardous conditions are carried out on the basis of the existing employee groups and name lists. In 2016, 10.3 million rubles were spent on preliminary and periodic medical examinations.

0.6 million rubles was spent in 2016 on special assessment of work place conditions carried out at cardboard production facility, paper production facility, woodyard, heat and power plant No.1, instrumentation shop.

For the purpose of in-process monitoring of working conditions at work places of production units, we have developed «Plans of in-process monitoring of work area air.» An accredited laboratory performs the monitoring. In 2016, 5.0 million rubles were spent on monitoring in accordance with the plans.

A total of 51.7 million rubles were spent in the reporting year on occupational and industrial safety training for managers, specialists and workers, on repairs of amenity rooms, and on activities intended to ensure proper sanitary and hygienic labor conditions in the reporting year.

The Quality Management System of Arkhangelsk PPM conforms to the requirements of GOST R 54934-2012/OHSAS 18001:2007.

5.5.3. Personnel and social programs

Arkhangelsk PPM considers highly-skilled human resources to be the key advantage and places a high priority on performance quality and high motivation of employees.

One of the objectives in HR management is to raise the employees' professional level. In pursuing this, Arkhangelsk PPM's management provides the employees with various opportunities for personal growth and professional training.

Advanced technical level of production, improved processes, manufacturing of high quality products requires new knowledge, skills and expertise from all of the Company employees. The main objective of qualification development for the Company managers and personnel was to gain additional knowledge in production management, including various quality management programs, introduction of advanced technologies, economics, finance and accounting, product standardization and certification. The Company's approaches to personnel training and re-training allow managing the employees' knowledge and create human resources capable of reaching the goals of strategic development.

In 2016, a total of 2764 people or 71.4% of the average number of staff were trained (including all kinds and forms of training). 1796 workers received training in 2016. 10 employees were trained for the first time, 255 employees were trained in an adjacent field (secondary profession), 195 completed a qualification upgrade, 339 employees completed re-training, 43 employees attended special training courses, 513 attended courses in Operating Procedures, 263 employees completed pre-certification training and were certified for the knowledge of Rostekhnadzor rules (Federal Environmental, Technical and Nuclear Supervision Service of Russia), 117 employees received mandatory training (in occupational safety, fire safety, etc.), 61 employees were trained in environmental safety for hazardous waste manage-

ment. 968 managers and engineers received training, including: 541 employees were certified for the knowledge of Rostekhnadzor rules, 132 employees completed mandatory training, 149 attended qualification upgrade courses, 146 employees completed seminars, trainings and webinars.

12.6 million rubles was spent in the reported year on personnel training, education and qualification development.

Arkhangelsk PPM contributes to one of the key national projects, the education. The Company operates a subsidiary of the Pulp and Paper Technology Department of the Northern Arctic Federal University (NARFU). The idea behind the department was to apply new approaches to the training process allowing the graduates to be truly knowledgeable of the production process, have the ability to work with people and be in high demand. It was also backed by the Company's commercial interest in having human resources trained specially for the Company.

The Company's social policy is part and parcel of the human resource management policy and is directed at motivating the employees for long-term effective work. Arkhangelsk PPM's employee motivation program seeks to attract and retain qualified personnel, increase the employees' interest in the results of their labor. The payroll systems used by the Company include position-based salaries and rates which account for qualification and proficiency, bonuses for employees' performance, extra payments and premiums depending on work conditions and scope of work, as well as rewards based on the Company's operating results in the year.

Social welfare of employees takes the form of benefits, guarantees and compensations, medical and health resort services, different types of personal insurance, creation of optimal and safe working conditions.



276,2 million rubles
paid on social programs
and benefits in 2016



Collective Agreement payments, social policy and charity expenses, million rubles.


Description	2016
Payments under Collective Agreement	156,8
including:	
all kinds of rewards for anniversary and holiday events, all kinds of financial aid for employees, payment for special leave in relation to death of close relative, additional leaves for harmful work conditions, compensation for costs related to moving to a new place of residence	34,2
payment for travel on leave	29,4
contributions to non-state pension fund	13,9
payments to non-working retirees	10,1
payment for therapeutical dietary meals, dairy products and mineral water for employees engaged in harmful work conditions	11,0
arrangements for children's summer holidays	8,8
health improvement services for employees under optional health insurance agreements	49,4
financing for resort and spa treatment services for employees	-
Social policy and charitable activities	119,4
including:	
financing of mass sports events aimed to improve employees' health	25,8
financing of cultural events and entertainment for employees and their children	8,5
financing of social cultural facilities	19,4
financing of social programs, charity and sponsorship activities	22,4
financing of social programs (Youth Council and Social Committee)	0,2
personnel training costs	16,8
financing of medical services, payments for preliminary and annual medical examinations	20,0
provision of meals for employees	3,6
recreation holidays for children financed by regional budget funding	3,0
Total	276,2

An important part of the social policy is the Regulation on Non-State Pension Provision of Arkhangelsk PPM Employees introduced in 2012, according to which the non-state pension provision program (corporate pension plan) is implemented. For this purpose, a non-state pension agreement no. /02-01-001/20 dated 14.12.2011 was made with VTB Non-State Pension Fund.

The incentive system includes not only a salary

and bonuses, but opportunities for personal and professional advancement, confidence in the future, social security for the employees and their families.

In 2016, the amount of investments in social programs and benefits was 276.2 million rubles, 30.0 million rubles short of the last year's amount. Collective agreement payments decreased by 43.6 million rubles, social policy and charity costs increased by 13.6 million rubles.



In 2016, Arkhangelsk PPM met all the obligations and commitments related to welfare and social benefits and guarantees for employees as provided for in the Collective Agreement, the Labor Code, and the Company's Action Plan.

6



6. COMPANY'S DEVELOPMENT PROSPECTS

The Company has the following plans for the short-term perspective:

1. Utilization of production capacities:

- ensure full utilization of production capacity while maintaining the maximum pulp cooking performance, which will allow the company to optimize the profit indicators by distributing the fixed costs and ensure the availability of current assets.

2. Sales of finished products:

- make sure the sales strategy is focused on securing maximum profit from product sales by quickly responding to the changing conditions at the domestic and foreign markets and re-distributing the sales between these, improving client payment discipline, assuring maximum guarantees of payment by clients through the use of bank instruments (factoring, guarantees) and insurance instruments;
- make best efforts to keep the existing clients and expand the sales for them;
- continue searching for new clients;
- provide constant monitoring of user satisfaction at the domestic and foreign market in terms of identifying new requests or requirements to the quality and range of products that the mill is capable of satisfying;
- strengthen the competitive advantages of the products.

3. Procurement system:

- continuously monitor and optimize the raw material and supplies procurement process by reducing the balance of raw materials and supplies and accelerating their turnover
- keep working on improving the efficiency of raw materials and supplies procurement system, tender-based selection of suppliers, optimization of transportation and internal logistics, price reduction for all types of raw materials and supplies and on the search for new alternative suppliers focusing on manufacturers or their official representatives (distributors) in order to limit the impact of the growing prices for raw materials and supplies on the company's financial results
- continuously monitor and adjust the procurement of materials and supplies as required to ensure the most efficient utilization of the company's working assets

4. Operations:

- work on reduction and optimization of consumption rates of raw stock and materials used in the production process considering the results achieved, also through identifying alternative suppliers of raw stock and materials that will be more cost-effective in the production cycle
- continue working on reducing the internal costs by lowering the raw stock consumption, by document control automation using advanced records management technologies, etc., and by maximizing the efficiency of SAP R/3 system capacity utilization following the introduction of new modules

5. Personnel and social policies:

- create conditions for high labor efficiency and personnel development
- continue with the implementation of HR technologies in order to get the personnel involved into the Company's business and to improve the team cohesiveness;
- assist the collegial bodies for social policy management, which were formed with the participation of both employee and employer representatives;
- contribute to the formation of positive public opinion and company's reputation as a reliable and attractive employer;
- continue the implementation of corporate non-state pension program as an effective stimulus for workers to help achieve the company's goals, and a means to ensure an optimum level of personnel's social security.

6. Investment activities:

- complete and continue (within the framework of long-term investment programs) upgrading the production facilities in accordance with the adopted Retrofitting Program for 2016 in order to minimize the costs, reduce the negative impact of the Mill's production facilities on the environment.

7. Environmental policy:

- reduce the negative impact on the environment by implementing projects to optimize the existing technology, introduce the best available technologies to reduce pollutant generation in the process cycle in accordance with the strategic investment program adopted by Arkhangelsk PPM. One of such projects that should be noted specifically is reconstruction of the cardboard production facility.

8. Voluntary forest certification and sustainable forest management:

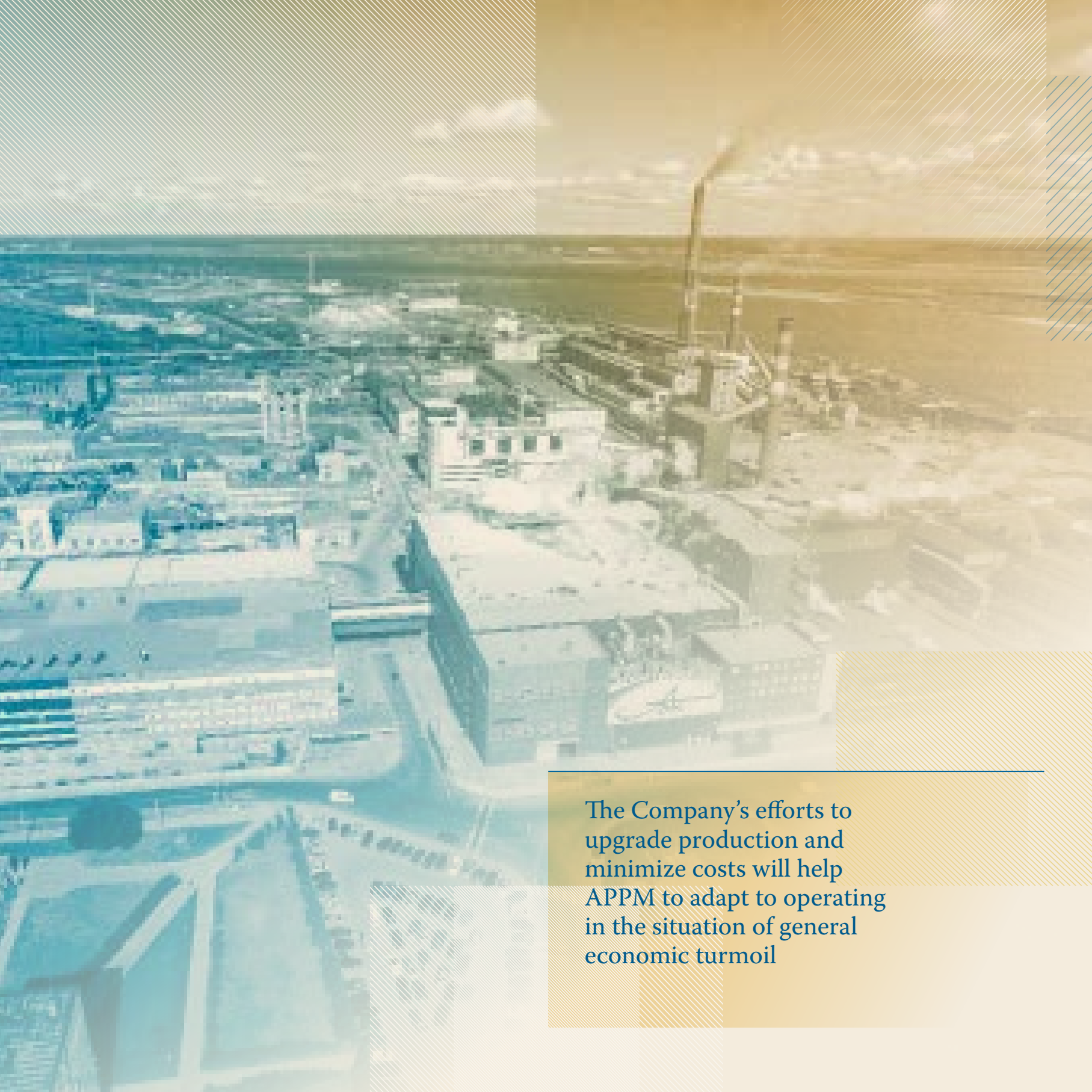
- increase the volume of processed FSC-certified raw wood and, respectively, increase the output, expand the range of certified finished products, which will allow the mill to enter environmentally sensitive markets that impose high requirements to both the assurance of stable high quality of finished products, and the transparency of wood origin that was used to manufacture such products.

9. Credit policy and funding:

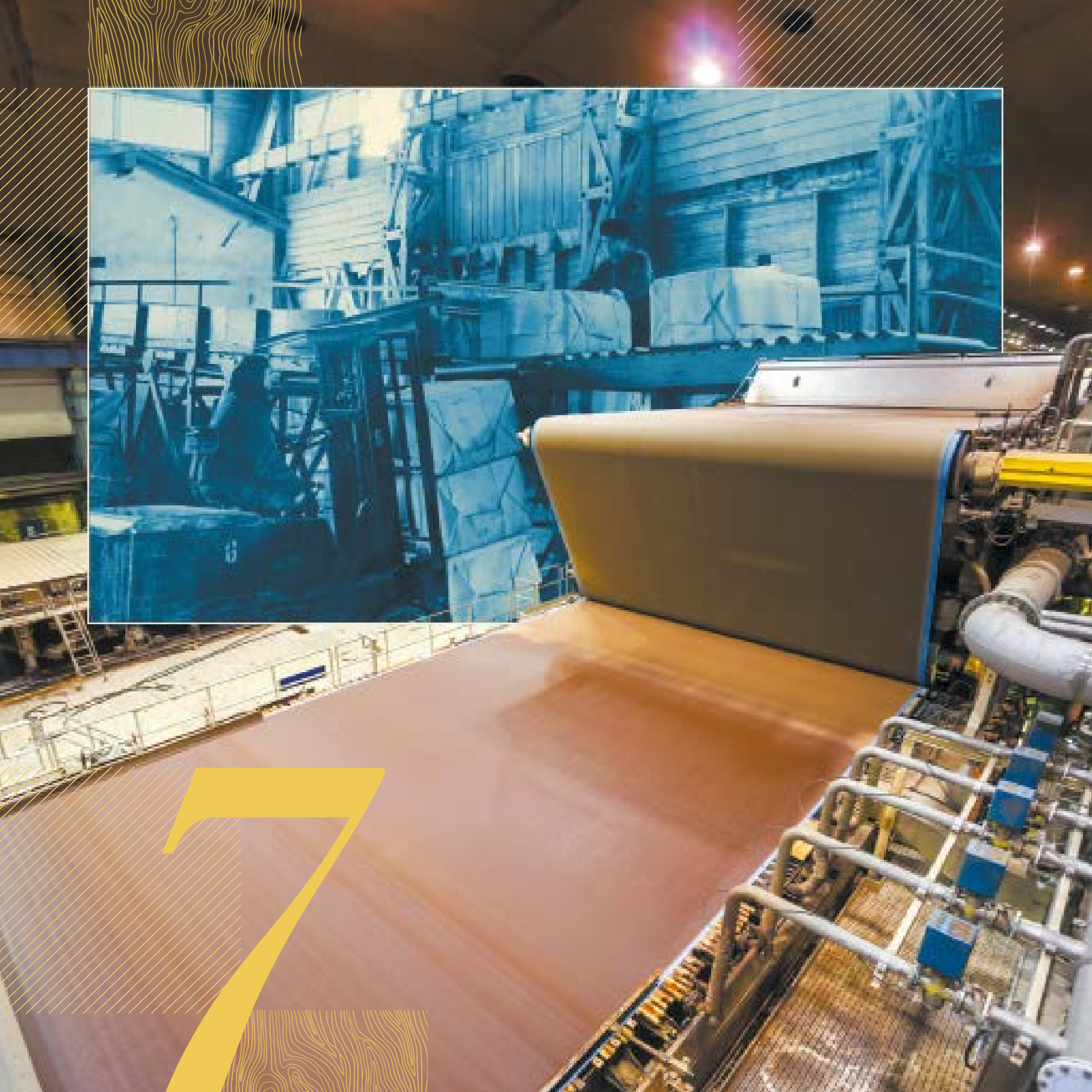
- optimize the loan portfolio to maintain the ratio of internal funds and loan capital required to ensure proper levels of liquidity and financial solvency
- reach an optimum ratio of liabilities in foreign currency and rubles (RUR) to avoid any impact of currency exchange rate differences on the company's financial results;
- search for and select financial institutions willing to provide the Company with the long-term credit resources necessary to prepare for large-scale projects as per the strategic development program;
- continue optimizing the working capital management process in order to create an effective asset structure which will allow to attract additional funds and achieve a significant cumulative positive effect that will enable the Company to improve its results.
- maintain the Company's credit rating at or above the BBB level on the international scale and at the A+ level on the Russian scale.

Key metrics forecast for 2017

Indicator	Unit	2017
Production		
Pulp cooking	thousand tons	878,0
Bleached sulphate pulp	thousand tons	268,7
Containerboard, incl. fluted paper	thousand tons	499,1
Paper total	thousand tons	80,3
Sales		
Sales revenues	million rubles	27 300,0
Return on sales	%	26,8
Profit		
EBITDA	million rubles	8 413,2
EBIT	million rubles	7 107,4
Net profit	million rubles	5 287,8
Property		
Assets	million rubles	32 307,1
Share capital	million rubles	17 300,0
Return on assets	%	18,5
Interest liabilities	million rubles	11 117,2
Investments		
Amount of investments	million rubles	8 286,5
New fixed assets	million rubles	3 210,7
Business activity		
Current assets turnover	days	104
Inventory turnover	days	45
Leverage		
Return on sales/Liabilities	%	61,2
Liabilities/Revenues	%	43,8
Liabilities/Share capital	%	78,3
Financial stability and liquidity		
Financial stability index		0.854
Current liquidity ratio		1.798



The Company's efforts to upgrade production and minimize costs will help APPM to adapt to operating in the situation of general economic turmoil



7.

CORPORATE ACTIONS

7.1. Information about the Company's compliance with Corporate Code of Conduct

The Company has no officially approved Corporate Code of Conduct or another similar document, however Arkhangelsk PPM enables the Shareholder in every possible way to engage in the Company's management and review information about the Company's operations in compliance with the Federal Act «On corporations», Federal Act «On securities market», and other laws and regulations.

The basic principle for the Company in building its relations with the Shareholder and investors is to maintain a reasonable balance between

the Company's interests as a business and as a corporation interested in protecting the rights and legal interests of its shareholder.

In complying with the legislative requirements, Arkhangelsk PPM has made an agreement for disclosure of information with Interfax Information Agency whose website is used to make public information required by the Regulation on Disclosure of Information by Issuers of Securities, approved by the RF Central Bank under no.454-P as of December 30, 2014.

In order to secure the Shareholder's rights, General Meetings of Shareholders have approved internal documents which regulate the activities of Arkhangelsk PPM's management and control bodies:

- Regulation on the General Meeting of Shareholders of Arkhangelsk PPM;
- Regulation on the Board of Directors of Arkhangelsk PPM;
- Regulation on the Collective Executive Body (the Management Board) of Arkhangelsk PPM;
- Regulation on the General Director of Arkhangelsk PPM;
- Regulation on the Audit Commission of Arkhangelsk PPM.

7.2. Information about Extraordinary General Meetings and their principal decisions

In 2016, the Sole Shareholder made 6 extraordinary decisions.

January 15, 2016 (Decision no.63):

Items reviewed:

Approval of Arkhangelsk PPM's participation in the Association «Innovative Local Timber Industry Cluster of Arkhangelsk Region», «PomorInnovaLes».

May 5, 2016 (Decision no.64):

Items reviewed:

1. Approval of a related-party transaction by Company.
2. Approval of a large transaction to be made by the Company for property worth over 50 percent of the book value of the Company's assets.

June 28, 2016 (Decision no.66):

Items reviewed:

1. Increase in the Company's Authorized Capital.
2. Amendments to the Company's Charter.

August 8, 2016 (Decision no.67):

Items reviewed:

Payment (announcement) of interim dividends for the 1-st half of 2016.

September 20, 2016 (Decision no.68):

Items reviewed:

Item reviewed: Amendments and supplements to the decision on item 1 of the Sole Shareholder's Decision no.66 as of 28.06.2016.

December 5, 2016 (Decision no.69):

Items reviewed:

Approval of a related-party transaction by Company.

7.3. Report on activities of the Board of Directors

The Federal Act «On corporations» defines the Board of Directors as having the essential role in securing the shareholders' rights, forming and implementing the Company's development strategy, and ensuring successful financial activity and business operations.

The Board of Directors met 22 times in 2016, of which 3 meetings were attended in person and 19 were held by means of communications. 57 items were reviewed, with the average quorum of the meetings being 94%

The following major decisions were made that had a notable impact on the Company's operations in the reported year:

№	Objectives	Number of items reviewed		
		total	including in person	by commu- nication
1.	Drafting and review of long-term development strategy matters	4	3	1
2.	Approval/revision of the Company's action plan, cost cap, limits, prices, and rates	3	3	-
3.	Control of management activities, reports on plan implementation, reports from the sole and collective executive bodies on the Company's operations	7	7	-
4.	Rewards and appointments, approval of collective executive body members	3	1	2
5.	Control of transactions, including large transactions, related-party transactions, securities transactions, other transactions which are to be controlled by the Board of Directors pursuant to the Company's Charter	18	3	15
6.	Matters related to preparing for and holding General Meetings of Shareholders, meetings of the Board of Directors	16	6	10
7.	Matters related to the activities of Arkhangelsk PPM's affiliated and associated companies	6	3	3
	Total	57	26	31

In the reported year the Board of Directors was focused on the issues related to control of the Company's activities, including the plan for operations, finance, and investments.

In addition, the Board of Directors was largely focused on issues related to controlling the progress made on the Company's upgrade program, and the operations of Arkhangelsk PPM's affiliated companies (Arkbum, LLC Arkbum Tissue Group).

General Director



D.I. Zylev

Chief Accounting Officer

Шушкова

N.V. Shushkova

24 Mar. 2017