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CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2015 AND INDEPENDENT AUDITOR'S REPORT

PAO SYNERGY
(SYNERGY GROUP)

MOSCOW 2015

CONTENTS

Information about the audited entity

Name: PAO Synergy.

Address: 12A, Svyazistov str., Krasnoznamensk, Moscow Region, 143090.

Basic state registration number 1047796969450.

Information about the independent auditor

Name: “Baker Tilly Russaudit”, Ltd.

Address: Bl. 8, 5a, Novodmitrivskaya str., Moscow 127015.

Telephone: (495) 783-88-00.

Fax: (495) 783-88-94.

Basic state registration number: 1037700117949.

Self-regulated auditing organization: NP Institute of Professional Chartered Accountants.

Number in the register of auditors and auditing organizations: 10402000018.

An independent member of Baker Tilly International.

BAKER TILLY
RUSSAUDIT

REPORT OF INDEPENDENT AUDITOR ON REVIEW OF CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

Attn: Shareholders and The Board of Directors of Synergy PAO (SYNERGY GROUP)

Introduction

We have reviewed the accompanying consolidated interim condensed statement of financial position of Synergy PAO and its subsidiaries as of 30 June 2015 and the related consolidated interim condensed statements of comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes to the consolidated interim condensed financial statements. Management is responsible for the preparation and presentation of these consolidated interim condensed financial statements in accordance with IAS 34, Interim financial reporting. Our responsibility is to express a conclusion on these consolidated interim condensed financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of consolidated interim condensed financial statements consists in making inquiries, primarily to persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be indentified of an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim condensed financial statements are not prepared in all material respects, in accordance with IAS 34 "Interim Financial Reporting".

31 August 2015

Partner,
Deputy General Director
"Baker Tilly Russaudit", Ltd

M.B. Pavlova

Auditor's Qualification Certificate
No. 02-000067, dated 08.02.2012
Basic Registration Number
29602000361

Power of Attorney No. 01-10/15-8,
dated 12.01.2015

(All amounts in Russian Ruble million, unless stated otherwise)

CONSOLIDATED INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME

	Note	Six months ended 30 June	
		2015	**2014**
Sales		20 253	17 584
Excise duties		(7 231)	(6 552)
Net revenue	23	**13 022**	**11 032**
Cost of sales	15	(7 539)	(6 168)
Gross profit		**5 483**	**4 864**
General and administrative expenses	16	(1 238)	(1 153)
Distribution expenses	17	(3 551)	(2 750)
Other income/expenses	18	337	(16)
Operating profit		**1 031**	**945**
Net finance costs	19	(960)	(710)
Profit before tax		**71**	**235**
Current income tax		(112)	(108)
Deferred income tax		139	148
Total comprehensive income for the period		**98**	**275**
Attributable to			
Equity holders of the Company		70	294
Non-controlling interest		28	(19)
Basic and diluted earnings per share	20	**4.07**	**17.01**
(RUB per share)			

Notes to the Consolidated Interim Condensed Financial Statements on pages 9 through 22 shall be part and parcel of these Consolidated Interim Condensed Financial Statements

Mechetin A.A., Chairman of Management Board ________________

Kim E.S., Chief Accountant ________________

31 August 2015

ПУБЛИЧНОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО * МОСКОВСКАЯ ОБЛАСТЬ, г.КРАСНОЗНАМЕНСК * SY СИНЕРГИЯ

(All amounts in Russian Ruble million, unless stated otherwise)

CONSOLIDATED INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

	Note	30 June 2015	31 December 2014
ASSETS			
Non-current assets			
Property, plant and equipment	7	6 905	7 021
Goodwill		235	235
Investment in associates	22	700	–
Intangible assets	8	7 093	7 002
Other long-term assets	7	85	122
Deferred tax assets		658	456
Total non-current assets		**15 676**	**14 836**
Current assets			
Inventories	9	5 607	5 355
Biological assets		319	290
Trade and other receivables	10	10 653	13 153
Prepayments		619	571
Income tax overpaid		78	32
Cash and cash equivalents	11	431	482
Total current assets		**17 707**	**19 883**
TOTAL ASSETS		**33 383**	**34 719**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Equity and reserves			
Share capital	12	2 495	2 495
Treasury Shares		(771)	(785)
Retained earnings		11 197	11 127
Other reserves	12	5 594	5 572
		18 515	**18 409**
Non-controlling interest		772	735
Total equity and reserves		**19 287**	**19 144**
Non-current liabilities			
Loans and borrowings	13	6 670	5 544
Deferred tax liabilities		607	532
Total non-current liabilities		**7 277**	**6 076**
Current liabilities			
Loans and borrowings	13	1 493	3 164
Trade and other payables	14	5 220	6 153
Income tax payable		106	182
Total current liabilities		**6 819**	**9 499**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**33 383**	**34 719**

Notes to the Consolidated Interim Condensed Financial Statements on pages 9 through 22 shall be part and parcel of these Consolidated Interim Condensed Financial Statements

Mechetin A.A., Chairman of Management Board
Kim E.S., Chief Accountant
31 August 2015

ПУБЛИЧНОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО * МОСКОВСКАЯ ОБЛАСТЬ, г.КРАСНОЗНАМЕНСК * SY СИНЕРГИЯ

(All amounts in Russian Ruble million, unless stated otherwise)

CONSOLIDATED INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY

	Share capital	Treasury Shares	Retained earnings	Other reserves	Total shareholders' equity	Non-controlling interest	Total
Balance at 31 December 2013	**2 495**	**(733)**	**10 062**	**5 829**	**17 653**	**716**	**18 369**
Other changes in non-controlling interest	–	–	–	–	–	(7)	(7)
Repurchase of own shares	–	(59)	–	(289)	(348)	–	(348)
Total changes, not recorded into net profit	**–**	**(59)**	**–**	**(289)**	**(348)**	**(7)**	**(355)**
Net profit for the period	–	–	294	–	294	(19)	275
Balance at 30 June 2014	**2 495**	**(792)**	**10 356**	**5 540**	**17 599**	**690**	**18 289**
Balance at 31 December 2014	**2 495**	**(785)**	**11 127**	**5 572**	**18 409**	**735**	**19 144**
Other changes in non-controlling interest	–	–	–	–	–	24	24
Dividends accrued to non-controlling interest in subsidiaries	–	–	–	–	–	(15)	(15)
Sale / (Repurchase) of own shares	–	14	–	22	36	–	36
Total changes, not recorded into net profit	**–**	**14**	**–**	**22**	**36**	**9**	**45**
Total comprehensive income for the period	–	–	70	–	70	28	98
Balance at 30 June 2015	**2 495**	**(771)**	**11 197**	**5 594**	**18 515**	**772**	**19 287**

Notes to the Consolidated Interim Condensed Financial Statements on pages 9 through 22 shall be part and parcel of these Consolidated Interim Condensed Financial Statements

Mechetin A.A., Chairman of Management Board
Kim E.S., Chief Accountant
31 August 2015

ПУБЛИЧНОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО * МОСКОВСКАЯ ОБЛАСТЬ, г.КРАСНОЗНАМЕНСК * SY СИНЕРГИЯ

(All amounts in Russian Ruble million, unless stated otherwise)

CONSOLIDATED INTERIM CONDENSED CASH FLOW STATEMENT

	Note	Six months ended 30 June	
		2015	**2014**
Cash flows from operating activities			
Profit before income tax and finance costs		1 031	945
Adjustments for			
Depreciation and amortisation		387	356
(Gain)/loss on disposal of property, plant and equipment		(327)	(3)
(Gain)/loss on change in fair value of biological assets		(12)	(35)
Other non-cash transactions		(10)	52
Changes in working capital			
(Increase)/decrease in inventories and biological assets		(274)	1 281
(Increase)/decrease in accounts receivable		2 752	2 336
Increase/(decrease) in accounts payable		(1 237)	(4 367)
Cash flows from operating activities		**2 310**	**565**
Interest paid		(914)	(661)
Income tax paid		(69)	(298)
Net cash flow from operating activities		**1 327**	**(394)**
Cash flows from investing activities			
Acquisition of subsidiaries and associates	22	(700)	–
Acquisition of property, plant and equipment and intangible assets		(198)	(428)
Disposal of property, plant and equipment and intangible assets		7	76
Net cash flow from investing activities		**(891)**	**(352)**
Cash flows from financing activities			
Sale / (Repurchase) of own shares		36	(348)
Dividends paid to non-controlling interest in subsidiaries		(7)	–
Loans received		13 404	13 462
Loans repaid		(13 920)	(12 412)
Net cash flow from financing activities		**(487)**	**702**
Net increase/(decrease) in cash and cash equivalents		**(51)**	**(44)**
Cash and cash equivalents at beginning of the year	11	482	467
Cash and cash equivalents at end of the period	11	**431**	**423**

Notes to the Consolidated Interim Condensed Financial Statements on pages 9 through 22 shall be part and parcel of these Consolidated Interim Condensed Financial Statements

Mechetin A.A., Chairman of Management Board
Kim E.S., Chief Accountant
31 August 2015

ПУБЛИЧНОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО * МОСКОВСКАЯ ОБЛАСТЬ, г.КРАСНОЗНАМЕНСК * SY СИНЕРГИЯ

(All amounts in Russian Ruble million, unless stated otherwise)

NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

1. REPORTING ENTITY

“Synergy” PAO (hereinafter referred to as the “Company”) is domiciled in Russia as an Public Joint-Stock Company under the laws of the Russian Federation. The address of the Company’s office is 30/1, Obrucheva street, bldg. 1, 117485 Moscow, Russia.

The Company has changed its name from Open Joint-Stock Company “Synergy” (OAO) to Public Joint-Stock Company “Synergy” (PAO) in July 2015 to comply with changes in Civil Code of the Russian Federation.

The consolidated financial statements of the Company as shown herewith comprise the Company and its subsidiaries (together referred to as the “Group”).

The Group primarily is involved in the production of distilled alcohol and food products and operation of wholesale and retail business thereof.

The Group's production of distilled alcohol and food products are located wholly in the Russian Federation.

Information about the Group’s main subsidiaries as of 30 June 2015 is provided below:

	30 June 2015		**31 December 2014**	
	Group's voting power, %	**Group's effective ownership, %**	**Group's voting power, %**	**Group's effective ownership, %**
Distilled spirit production plants				
ROOM JSC	100%	100%	100%	100%
Arkhangelsk Distillery	74%	74%	74%	74%
Habarovskiy Distillery AO	73%	69%	73%	70%
Mariinsk Distillery	98%	98%	98%	98%
URALALCO JSC	97%	97%	97%	97%
Ussuriysky Balsam OAO	79%	79%	84%	83%
Tradition for Quality LLC	100%	100%	100%	100%
Distributing companies				
Synergy Market Arkhangelsk, ZAO	100%	100%	100%	100%
Synergy Market Vostok OOO	100%	100%	100%	100%
Synergy Market DV, LLC	100%	100%	100%	100%
LLC "Synergy Import"	100%	100%	100%	100%
Synergy Market Khabarovsk, LLC	100%	100%	100%	100%
Synergy Market Nizhny Novgorod, LLC	100%	100%	100%	100%
Synergy Market Vladivostok, LLC	100%	100%	100%	100%
Synergy Market Perm, LLC	100%	100%	100%	100%
Trading house Synergy Market LLC	100%	100%	100%	100%
Beluga Vodka International Ltd	100%	100%	100%	100%
Food production plants				
DAKGOMZ	97%	97%	97%	97%
Mikhailovskaya Poultry Plant OAO	92%	92%	92%	92%
Ussuriysky Dairy Plant OAO	92%	92%	92%	92%
Nahodkinsky meat-processing plant OAO	91%	84%	91%	84%
PPZ Tsarevschinbsky-2 OAO	100%	92%	100%	92%
Rodstor AO, distributing company in food segment	100%	100%	100%	100%

(All amounts in Russian Ruble million, unless stated otherwise)

NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

	30 June 2015		31 December 2014	
	Group's voting power, %	**Group's effective ownership, %**	**Group's voting power, %**	**Group's effective ownership, %**
Holding companies				
Synergy, Co	parent company of the Group			
JSC PentAgro	100%	100%	100%	100%
Synergy capital	100%	100%	100%	100%
Synergy-East, Co	100%	100%	100%	100%

All companies listed in the table above are registered in Russian Federation except Beluga Vodka International Limited registered in the Republic of Cyprus

2. BASIS OF PREPARATION

The consolidated interim condensed financial statements of the Group for the six months ended 30 June 2015 have been prepared in accordance with IAS 34 Interim Financial Reporting.

The consolidated interim condensed financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as of 31 December 2014.

3. ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the condensed interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2014.

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

A number of new IFRS standards and interpretation became effective for the periods beginning on or after 1 January 2015:

- Amendments to IAS 19 – Defined benefit plans: Employee contribution (issued in November 2013, effective for annual periods beginning on or after 1 July 2014);
- Improvements to International Financial Reporting Standards 2012 and 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).

A number of new standards, amendments to standards and interpretations are not yet effective as at 30 June 2015, and have not been early adopted:

- IFRS 9, Financial Instruments: Classification and Measurement (issued in July 2014 and effective for annual periods beginning on or after 1 January 2018);
- IFRS 14, Regulatory Deferral Accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016);
- Amendments to IFRS 11 – Accounting for Acquisitions of interests in Joint Operations (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016);
- Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016);
- IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2017). The Group is currently assessing the impact of the standard on its consolidated financial statements;
- Amendments to IAS 16 and IAS 41, Agriculture: Bearer plants (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016);
- Amendments to IAS 27, Equity Method in Separate Financial Statements (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016);
- Amendments to IFRS 10 and IAS 28 regarding the sale or contribution of assets between an investor and its associate or joint venture (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016);

NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

- Annual Improvements to IFRS 5, IFRS 7, IAS 19, IAS 34 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016);
- Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016);
- Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016).

Unless otherwise described above, the new standards, amendments to standards and interpretations are not expected to significantly affect the Group's consolidated interim condensed financial information.

5. SEASONALITY

The sales of distilled spirits are a subject to seasonal fluctuations. In general approximately 40% of annual sales fall for the first half of the year and around 60% of sales – to second half of the year. The highest peak in sales of distilled spirits falls the fourth quarter (in particular for November – December) of the year and the lowest peak in sales falls for first quarter. For reference in first half of the year 2014 the alcohol segment net revenue amounted to 38% out of annual revenue (in 2013 – 39%).

Seasonal factor in sales of milk, meat and poultry products is insignificant.

6. FAIR VALUE

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation.

The different levels of fair value hierarchy have been defined as follows:

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

Biological assets (poultry) are measured at fair value (Level 2 of the fair value measurement hierarchy) less estimated point-of-sale cost. A gain or loss arising from change in fair value less point-of-sale costs of a biological asset is recognised in the Statement of Comprehensive Income in the year in which it arises. As of 30 June 2015 fair value of poultry exceeded its carrying value by ₽159 mln (by ₽145 mln as of 31 December 2014).

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. Management has used all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value

Cash and cash equivalents are carried at amortised cost which approximates their current fair value.

Financial assets carried at amortised cost

The carrying amounts of trade receivables and originated loans approximate their fair values. Their fair values are within level 2 of the fair value hierarchy.

Liabilities carried at amortised cost

The fair value is based on quoted market prices, if available. The estimated fair values of fixed interest rate instruments with a stated maturity, for which quoted market prices were not available, were estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risks and remaining maturities. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Strong volatility of Russian rouble exchange rate and bank interest rates in the end of the year 2014 and in the 1st half of the year 2015 makes calculation of loans and bonds fair value as of 31 December 2014 and 30 June 2015 to be impracticable.

(All amounts in Russian Ruble million, unless stated otherwise)

NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

7. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Machines and equipment	Vehicles	Furniture and office equipment	Assets under construction	Total
Cost						
At 31 December 2013	**5 300**	**2 632**	**206**	**345**	**570**	**9 053**
Additions	242	223	34	31	107	637
Reclassification	38	26	–	–	(64)	–
Disposals	(32)	(58)	(16)	(9)	–	(115)
At 30 June 2014	**5 548**	**2 823**	**224**	**367**	**613**	**9 575**
Depreciation						
At 31 December 2013	**911**	**1 462**	**114**	**239**	**–**	**2 726**
Charge for the period	100	135	13	20	–	268
Disposals	(1)	(46)	(10)	(7)	–	(64)
At 30 June 2014	**1 010**	**1 551**	**117**	**252**	**–**	**2 930**
Carrying amount						
At 31 December 2013	**4 389**	**1 170**	**92**	**106**	**570**	**6 327**
At 30 June 2014	**4 538**	**1 272**	**107**	**115**	**613**	**6 645**
Cost						
At 31 December 2014	**6 185**	**2 918**	**240**	**378**	**434**	**10 155**
Additions	21	142	2	16	27	208
Reclassification	41	36	–	1	(78)	–
Disposals	(12)	(35)	(4)	(13)	–	(64)
At 30 June 2015	**6 235**	**3 061**	**238**	**382**	**383**	**10 299**
Depreciation						
At 31 December 2014	**1 105**	**1 653**	**126**	**250**	**–**	**3 134**
Charge for the period	125	141	13	29	–	308
Disposals	(2)	(31)	(4)	(11)	–	(48)
At 30 June 2015	**1 228**	**1 763**	**135**	**268**	**–**	**3 394**
Carrying amount						
At 31 December 2014	**5 080**	**1 265**	**114**	**128**	**434**	**7 021**
At 30 June 2015	**5 007**	**1 298**	**103**	**114**	**383**	**6 905**

Carrying value of property, plant and equipment pledged as a security for bank borrowings is disclosed in Note 13.

Cost of property, plant and equipment with zero carrying value at 30 June 2015 amounted to ₽1,172 mln (31 December 2013 – ₽1,098 mln).

Other long-term assets

Other long-term assets include prepayments given for acquisition of property, plant and equipment in amount ₽66 mln and long-term security payment under lease of property in amount ₽19 mln (as of 31 December 2014 – ₽116 mln and ₽6 mln).

(All amounts in Russian Ruble million, unless stated otherwise)

NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

8. INTANGIBLE ASSETS

	Software, patents, licenses and others	Brands	Total
Cost			
At 31 December 2013	**880**	**6 048**	**6 928**
Additions	6	174	180
Disposals	–	–	–
At 30 June 2014	**886**	**6 222**	**7 108**
Amortisation and impairment			
At 31 December 2013	**172**	**63**	**235**
Charge for the year and impairment	84	–	84
Disposals	–	–	–
At 30 June 2014	**256**	**63**	**319**
Net book value			
At 31 December 2013	**708**	**5 985**	**6 693**
At 30 June 2014	**630**	**6 159**	**6 789**
Cost			
At 31 December 2014	**942**	**6 456**	**7 398**
Additions	60	126	186
Disposals	(10)	–	(10)
At 30 June 2015	**992**	**6 582**	**7 574**
Amortisation and impairment			
At 31 December 2014	**332**	**64**	**396**
Charge for the year and impairment	85	–	85
Disposals	–	–	–
At 30 June 2015	**417**	**64**	**481**
Net book value			
At 31 December 2014	**610**	**6 392**	**7 002**
At 30 June 2015	**575**	**6 518**	**7 093**

The principal vodka brands are: Beluga, Myagkov, Belenkaya, Russkiy Lyod and Gosudarev Zakaz. The principal brandy brand is Zolotoy Rezerv.

Acquired brands are stated at fair value at the acquisition date. Internally generated brands are not capitalised within the statement of financial position in accordance with the group stated accounting policies.

Intangible assets are not pledged as a security for bank borrowings as of 30 June 2015 and 31 December 2014.

9. INVENTORIES

	30 June 2015	31 December 2014
Finished goods	3 406	3 045
Raw materials	1 918	2 014
Work-in-progress	283	296
Total inventories	**5 607**	**5 355**

Value of inventories pledged as a security for bank borrowings is disclosed in Note 13.

NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

10. TRADE AND OTHER RECEIVABLES

	30 June 2015	31 December 2014
Trade accounts receivable	7 754	10 546
Provision for impairment of debts	(143)	(127)
Total trade accounts receivable	**7 611**	**10 419**
Other accounts receivable, including VAT and excises recoverable	3 105	2 812
Provision for impairment of debts	(63)	(78)
Total other accounts receivable	**3 042**	**2 734**
Total account receivable	**10 653**	**13 153**

11. CASH AND CASH EQUIVALENTS

	30 June 2015	31 December 2014
Cash in banks	393	454
Cash in transit	25	14
Cash on hand	13	14
Total cash and cash equivalents	**431**	**482**

At 30 June 2015 and 31 December 2014, there are no effective restrictions on the use of cash.

12. SHARE CAPITAL AND SHARE PREMIUM

Share capital

Share capital is the authorised capital of the parent company.

As of 30 June 2015 and 31 December 2014 Synergy OAO issued 24 954 049 ordinary shares of ₽100 each at par. The Company’s common shares are admitted to trading on the Moscow Exchange (MOEX) under the ticker symbol “SYNG”.

Treasury shares

Quantity of treasury shares as of 30 June 2015 amounted to 7,707 thousand shares (31 December 2014 – 7,845 shares). The excess of the value of shares over the nominal value is recognized in the other reserves.

Other reserves

Other reserves include consolidation reserve in amount of ₽ (454) mln, recognised at first adoption of IFRS as of 1 January 2005 and share premium reserve in amount of ₽6,048 mln recognised at IPO and SPO. Other reserves change as a result of sale or purchase of treasury shares in amount of excess of transaction price over nominal value of shares.

13. LOANS AND BORROWINGS

	30 June 2015	31 December 2014
Unsecured non-current loans and borrowings	3 802	2 500
Secured non-current loans and borrowings	2 868	3 044
Total non-current loans and borrowings	**6 670**	**5 544**
Unsecured loans and borrowings	905	1 692
Secured loans and borrowings	588	1 472
Total current loans and borrowings	**1 493**	**3 164**
Total loans and borrowings	**8 163**	**8 708**

(All amounts in Russian Ruble million, unless stated otherwise)

NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

For the end of the reporting period the corporate weighted average annual interest rate on bank loans was 14.82% (as of 31 December 2014 – 11.74%).

The maturity of loans and borrowings is as follows:

	30 June 2015	31 December 2014
On demand or within one year	1 493	3 164
Between the first and second year	4 310	1 848
Between the second and fifth years	2 360	3 696
After five years	–	–
Total loans and borrowings	**8 163**	**8 708**

As at 30 June 2015 the following banks had the highest weight in the Groups' credit portfolio: SberBank AAA (rus), SviazBank AA- (rus).

In June 2015 the Group placed two-year bond issue at amount of ₽2,000 mln, interest rate 14.5% p.a.

At 30 June 2015, bank borrowings were secured on:

- Plant, property and equipment with a carrying value of ₽1,517 mln (at 31 December 2014 – ₽2,900 mln);
- Inventories with a carrying value of ₽156 mln (at 31 December 2014 – ₽156 mln).

Synergy has been assigned a Long-term Issuer Default Rating (IDR) of "B+" and a National Long-term Rating of "A-" (rus) by Fitch ratings agency.

Unutilised credit facilities as at 30 June 2015 amounted to ₽6,984 mln (at 31 December 2014 – ₽6,640 mln).

14. TRADE AND OTHER PAYABLES

	30 June 2015	31 December 2014
Excises, VAT and other taxes payable	2 513	3 366
Trade payables	1 529	1 991
Other payables	1 048	672
Advances received	130	124
Total trade and other payables	**5 220**	**6 153**

15. COST OF SALES

	Six months ended 30 June	
	2015	2014
Materials and supplies	6 404	4 998
Wages and salaries	535	565
Depreciation and amortisation	225	194
Fuel and power	121	121
Repairs and maintenance	95	74
Rent	24	23
Other costs	135	193
Total cost of sales	**7 539**	**6 168**

NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

16. GENERAL AND ADMINISTRATION EXPENSES

	Six months ended 30 June	
	2015	**2014**
Wages and salaries	865	784
Bank services, Information and consulting services, Insurance, Security	129	119
Depreciation and amortisation	58	62
Rent	79	62
Repairs and maintenance	23	28
Fuel and power	17	22
Sundry taxes	25	37
Other costs	42	39
Total general and administrative expenses	**1 238**	**1 153**

17. DISTRIBUTION EXPENSES

	Six months ended 30 June	
	2015	**2014**
Advertising, Promotion, Transportation	2 160	1 433
Wages and salaries	944	875
Rent	124	141
Depreciation and amortisation	105	100
Materials and supplies	38	33
Fuel and power	32	33
Other costs	148	135
Total distribution expenses	**3 551**	**2 750**

18. OTHER INCOME/EXPENSES

Other incomes for the six months ended 30 June 2015 amounted to ₽337 mln (for six months ended 30 June 2014 – ₽16 mln), including ₽327 mln income from disposal of non-current assets.

19. NET FINANCE COSTS

	Six months ended 30 June	
	2015	**2014**
Net interest on bank overdrafts and loans	681	440
Costs of arrangement of borrowings	253	215
Net currency exchange differences (gain)/loss	26	55
Total net finance costs	**960**	**710**

20. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit or loss attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the period.

	Six months ended 30 June	
	2015	**2014**
Profit attributable to equity holders	70	294
Average number of ordinary shares in issue (thousands)	17 205	17 288
Basic and diluted earnings per share, RUB	**4.07**	**17,01**

NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

All shares are ordinary shares and there are no dilutive potential ordinary shares. Thus, the Group does not provide diluted earnings per share calculation.

	Six months ended 30 June	
	2015	**2014**
Shares issued at 1 January	**24 954**	**24 954**
Effect of own shares held	(7 749)	(7 666)
Average number of outstanding shares (thousands)	**17 205**	**17 288**

21. BUSINESS COMBINATIONS

In the reporting period the Group did not make business combinations or subsidiary disposals.

22. INVESTMENTS IN ASSOCIATES

In June 2015 the Group invested ₽700 mln into capital increase of Winlab AO. New shares were issued to the Group constituting 30% of the share capital.

Winelab AO owns and operates retail chain of specialized alcohol shops located in different regions of the Russian Federation.

The Group recognizes investments in Winlab AO in accordance with IAS 28 “Investments in associates” and applies equity method. The Group is performing the valuation of the fair value of the associate’s identifiable assets and liabilities and intends to finalise the fair value measurement within 12 months of the acquisition date.

23. SEGMENT REPORTING

The Group operates in two principal business segments, namely: Alcohol and Food production. The third segment is named “Holding companies” and does not carry operating activities.

Management has determined the operating segments based on the management reports, which are primarily derived from statutory records and regularly reconciled to IFRS financial statements. The management reports are reviewed by the chief operating decision-maker that are used to make strategic decision. The chief operating decision-maker, who is responsible for the allocating resources and assessing performance of the operating segments, has been identified as the Chief Financial Officer of the Group. The following criteria have been used for determining the operating segments and assigning the Group’s subsidiaries to particular segment:

- Business activities of the companies;
- Nature of production processes;
- Manufactured and sold products;
- Specific characteristic of buyers/customers.

Sales between segments are carried out at the arm’s length. The revenue from external parties reported to management is measured in a manner consistent with that in Statement of Comprehensive Income and Expense.

Management assesses the performance of operating segments based on certain measures, which are presented to chief operating decision maker. This includes the financial information on the Groups operating reportable segments presented in accordance with Russian Accounting Standards (RAS). The information comprises measures of revenues, depreciation and amortisation, interest income, interest expense, income tax expense and total assets. The other measures used by chief operating maker include income tax charge which is calculated and presented in accordance with International Financial Reporting Standards. For these purposes assets are calculated as total assets less investments in subsidiaries and inter-company loans.

(All amounts in Russian Ruble million, unless stated otherwise)

NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

The financial results of the Group by operational segments are the following:

Disclosures by segments	Alcohol products	Food products	Holding Companies	Total	Intersegment elimination	Consolidated for the 6 months ended 30 June 2015
Revenue, RAS	23 437	4 898	53	28 388	(74)	28 314
Revenue, IFRS including intersegment revenue	9 804	3 239	53	13 096	(74)	13 022
Revenue, IFRS net of intersegment revenue	9 768	3 238	16	13 022	–	13 022
Gross Profit, IFRS	4 691	763	29	5 483	–	5 483

Disclosures by segments	Alcohol products	Food products	Holding Companies	Total	Intersegment elimination	Consolidated for the 6 months ended 30 June 2014
Revenue, RAS	22 140	3 955	34	26 129	(62)	26 067
Revenue, IFRS including intersegment revenue	8 478	2 582	34	11 094	(62)	11 032
Revenue, IFRS net of intersegment revenue	8 455	2 577	–	11 032	–	11 032
Gross Profit, IFRS	4 305	573	33	4 911	(47)	4 864

Disclosures by segments	Alcohol products	Food products	Holding Companies	Total	Intersegment elimination	Consolidated for the 6 months ended 30 June 2014
Assets, IFRS at 30 June 2015	25 994	5 075	2 314	33 383	–	33 383
Assets, IFRS at 31 December 2014	28 702	4 849	1 168	34 719	–	34 719

Presentation of assets as of 31 December 2014 is changed comparing to the consolidated financial statements for the year ended 31 December 2014. In the current statements the amount is presented net of intersegment balances.

Reportable segment revenue is reconciled to the Group's revenue as follows:

Disclosures by segments	Alcohol products	Food products	Holding Companies	Total	Intersegment elimination	Consolidated for the 6 months ended 30 June 2015
Revenue, RAS	**24 174**	**4 996**	**53**	**29 223**	**(74)**	**29 149**
Cut-off adjustments and reclassification	(737)	(98)	–	(835)	–	(835)
Elimination of intercompany transactions	(13 633)	(1 659)	–	(15 292)	–	(15 292)
Revenue, IFRS	**9 804**	**3 239**	**53**	**13 096**	**(74)**	**13 022**

(All amounts in Russian Ruble million, unless stated otherwise)

NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

Disclosures by segments	Alcohol products	Food products	Holding Companies	Total	Intersegment elimination	Consolidated for the 6 months ended 30 June 2014
Revenue, RAS	**22 140**	**3 955**	**34**	**26 129**	**(62)**	**26 067**
Cut-off adjustment	(95)	–	–	(95)	–	(95)
Reclass from other income/expense	(118)	(20)	–	(138)	–	(138)
Elimination of intercompany transactions	(13 449)	(1 353)	–	(14 802)	–	(14 802)
Revenue, IFRS	**8 478**	**2 582**	**34**	**11 094**	**(62)**	**11 032**

24. RELATED PARTY TRANSACTIONS

The majority shareholder of the Group is A.A. Mechetin.

Remuneration paid to the key management personnel for the six months ended 30 June 2015 was ₽152 mln (for the six months ended 30 June 2014 – ₽136 mln).

The remuneration of directors and key executives is determined by labour contracts. Since the number of key management personnel, or their related parties, holds positions in other entities that results in them having control or significant influence over the financial or operating policies of these entities.

A number of these entities held transactions with the Group in the reporting period.

The aggregate value of transactions and outstanding balances relating to related parties over which they have control or significant influence were as follows:

Sales of goods and services:

	Six months ended 30 June	
	2015	**2014**
Sales of goods	714	770
Sales of services	29	13
Total sales of goods and services	**743**	**783**

Purchases of goods and services:

	Six months ended 30 June	
	2015	**2014**
Purchases of goods	97	121
Purchases of services	23	50
Total purchases of goods and services	**120**	**171**

Receivables and payables arising from sales and purchases of goods and services:

	30 June 2015	31 December 2014
Trade and other receivables from related parties	1 991	1 261
Trade and other payables to related parties	7	77

NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

25. INTEREST IN JOINT VENTURE

In July 2010 Synergy Group and Veda Group have signed mutual exclusive long term agreement for distribution and production of Veda vodka, one of the leading premium vodka brands in Russia. According to the agreement, Synergy produces Veda vodka at Mariinsky Distillery, the designated premium quality spirits production plant located in Siberia. The brand is being distributed through Synergy's federal distribution network.

The Group entered into joint-venture in February 2011. Ownership interest of the Group held in jointly controlled assets and operations is 49%.

Assets and liabilities, incomes and expenses of the joint venture are recognised by a method of proportional consolidation.

26. CONTINGENCIES AND COMMITMENTS

1. Legal proceeding

During the year the group was involved in a number of legal disputes (both as plaintiff and defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been recorded or disclosed in these consolidated financial statements.

2. Contractual commitments

As at 30 June 2015 the Group had no significant contractual commitments for the purchase of components for construction of Property, Plant and Equipment.

3. Leasing agreement

As at 30 June 2015 the Group had contractual commitments for long-term non-cancellable lease for ₽250 mln (at 31 December 2014 in amount of ₽159 mln).

4. Insurance policies

Part of the Group's production facilities are adequately covered by insurance. The Group has not adequately insured business interruption, third party liability for damage to property and environment resulting from accidents involving the Group's property or connected with its operations. Until the Group ensures adequate insurance coverage there is a risk that losses incurred or property damage inflicted by the Group may have a significant effect on the Group's financial position and operations.

5. Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group companies may be challenged by the state authorities.

The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged.

As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%.

Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions.

NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

Tax liabilities arising from intercompany transactions are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could potentially be challenged in the future. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

The Group includes companies incorporated outside of Russia. Tax liabilities of the Group are determined on the assumptions that these companies are not subject to Russian profits tax because they do not have a permanent establishment in Russia. Russian tax laws do not provide detailed rules on taxation of foreign companies. It is possible that with the evolution of the interpretation of these rules and the changes in the approach of the Russian tax authorities, the non-taxable status of some or all of the foreign companies of the Group in Russia may be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

Russian tax legislation does not provide definitive guidance in certain areas. From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices; the impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

6. Operating environment

The Group’s operations are primarily located in the Russian Federation. Its economy displays characteristics of an emerging market and is particularly sensitive to oil and gas prices. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation.

The recent political and economic turmoil witnessed in the region, in particular the developments in Ukraine, have had and may continue to have a negative impact on the Russian economy. In 2015 and 2014, the Russian economy was impacted by a significant drop in crude oil prices and a significant devaluation of the Russian ruble, as well as by sanctions imposed on Russia by several countries. In December 2014, the ruble interest rates have increased significantly after the Central Bank of Russia raised its key rate to 17% (11% from 3 August 2015).The combination of the above resulted in a higher cost of capital, increased inflation and uncertainty regarding further economic growth, which could negatively affect the Company 's future financial position, results of operations and business prospects.

Management believes it is taking all necessary measures to support the sustainability of development of the Group’s business in the current business and economic environment.

7. Excise payments and bank guarantees

In 2011 the Federal Law dd. 27 November 2010 No. 306-FZ “On introduction of changes in Part One and Part Two of the Tax Code of the Russian Federation, and Law of the Russian Federation, “On the tax authorities of the Russian Federation” changed the procedure of excise payments for alcohol producers. Effected from 01.07.2011 the advance payment of excise was introduced. This applies in alcohol producers to pay excise tax in advance when acquiring ethanol.

The law permits alternative procedure of excise payment – replace advance payment with bank guarantee to secure future payment of excise tax and to pay the tax when finished goods are shipped to the customer (25 days after the end of the month where the products were shipped).

Since 1 July 2011 the Group applies the alternative procedure of excise payment and acquire bank guarantees to secure excise payments.

Amount of all effective bank guarantees as of 30 June 2015 was ₽16,652mln (31 December 2014 – ₽27,419mln). Bank fees for the guarantees are included in net financial costs.

NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

27. EVENTS AFTER THE BALANCE SHEET DATE

After the balance sheet date the Group signed 3-year revolving credit facility agreement at amount up to ₽3,000 mln with Sberbank of Russia.

The Group signed an exclusive long-term agreement with Sazerac Company. Under the agreement, Synergy will exclusively present in Russia American whiskeys Buffalo Trace and Benchmanrk.

Group management is not aware of any other significant events after the balance sheet date that would require recognition in the financial statements or disclosure in the notes.