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INDEPENDENT AUDITOR'S REPORT AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

OAO SYNERGY
(SYNERGY GROUP)

MOSCOW 2014

CONTENTS

BAKER TILLY
RUSSAUDIT

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
and Shareholders of Synergy OAO (Synergy Group)

We have audited the accompanying consolidated financial statements of Synergy OAO and its subsidiaries (hereinafter referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management of Synergy OAO and its subsidiaries is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Synergy OAO and its subsidiaries as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

7 April 2014

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. 01-10/14-8,
dated 09.01.2014

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	2013	2012
Sales		44 594	41 547
Excise duties		(18 216)	(14 883)
Net revenue	26	**26 378**	**26 664**
Cost of sales	16	(15 098)	(15 652)
Gross profit		**11 280**	**11 012**
General and administrative expenses	17	(2 053)	(2 090)
Distribution expenses	18	(5 871)	(5 416)
Other income/(expense)	19	(229)	(383)
Operating profit		**3 127**	**3 123**
Net finance costs	20	(1 202)	(993)
Profit before tax		**1 925**	**2 130**
Income tax	21	(384)	(428)
Net Income		**1 541**	**1 702**
Attributable to:			
Equity holders of the Company		1 486	1 642
Non-controlling interest		55	60
Basic earnings per share	23	**82.32**	**84.87**
(expressed in Russian Rubles per share)			

Notes to the financial statements on pages 8 through 31 shall be part and parcel of these Financial Statements

Mechetin A.A., Chairman of Management Board ____________________

Kim E.S., Chief Accountant ____________________

7 April 2014

ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО * МОСКОВСКАЯ ОБЛАСТЬ г. ЗВЕНИГОРОД * SY СИНЕРГИЯ

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31 December 2013	31 December 2012
ASSETS			
Non-current assets			
Property, plant and equipment	6	6 327	5 944
Goodwill	8	213	213
Intangible assets	7	6 693	5 738
Other long-term assets	6	254	120
Deferred tax assets	22	506	402
Total non-current assets		**13 993**	**12 417**
Current assets			
Inventories	9	7 096	4 932
Biological assets	10	163	201
Trade and other receivables	11	12 162	11 956
Prepayments		383	518
Income tax overpaid		18	25
Cash and cash equivalents	12	467	707
Total current assets		**20 289**	**18 339**
TOTAL ASSETS		**34 282**	**30 756**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Equity and reserves			
Share capital	13	2 495	2 567
Treasury Shares	13	(733)	(704)
Retained earnings		10 062	8 576
Other reserves		5 829	6 263
Non-controlling interest		716	669
Total equity and reserves		**18 369**	**17 371**
Non-current liabilities			
Loans and borrowings	14	5 804	4 963
Deferred tax liabilities	22	543	712
Total non-current liabilities		**6 347**	**5 675**
Current liabilities			
Loans and borrowings	14	875	1 663
Trade and other payables	15	8 377	5 884
Income tax payable		314	163
Total current liabilities		**9 566**	**7 710**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**34 282**	**30 756**

Notes to the financial statements on pages 8 through 31 shall be part and parcel of these Financial Statements

ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО * МОСКОВСКАЯ ОБЛАСТЬ г. ЗВЕНИГОРОД * SY СИНЕРГИЯ

Mechetin A.A., Chairman of Management Board ____________________

Kim E.S., Chief Accountant ____________________

7 April 2014

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital (Note 13)	**Treasury Shares** (Note 13)	**Retained earnings**	**Other reserves**	**Total shareholders' equity**	**Non-controlling interest**	**Total**
Balance at 31 December 2011	**2 567**	**(513)**	**6 934**	**7 093**	**16 080**	**611**	**16 692**
Changes in non-controlling interest	–	–	–	–	–	(2)	(2)
Repurchase of shares	–	(191)	–	(829)	(1 020)	–	(1 020)
Total changes, not recorded into net profit	**–**	**(191)**	**–**	**(829)**	**(1 020)**	**(2)**	**(1 022)**
Net profit for the period	–	–	1 642	–	1 642	60	1 702
Balance at 31 December 2012	**2 567**	**(704)**	**8 576**	**6 263**	**16 702**	**669**	**17 371**
Other changes in non-controlling interest	–	–	–	–	–	1	1
Dividends accrued to non-controlling interest	–	–	–	–	–	(9)	(9)
Repurchase of own shares	–	(101)	–	(434)	(535)	–	(535)
Cancellation of shares	(72)	72	–	–	–	–	–
Total changes, not recorded into net profit	**(72)**	**(29)**	**–**	**(434)**	**(535)**	**(8)**	**(543)**
Net profit for the period	–	–	1 486	–	1 486	55	1 541
Balance at 31 December 2013	**2 495**	**(733)**	**10 062**	**5 829**	**17 653**	**716**	**18 369**

Notes to the financial statements on pages 8 through 31 shall be part and parcel of these Financial Statements

ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО * СИНЕРГИЯ * МОСКОВСКАЯ ОБЛАСТЬ г. ЗВЕНИГОРОД

Mechetin A.A., Chairman of Management Board ____________________

Kim E.S., Chief Accountant ____________________

7 April 2014

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

CONSOLIDATED CASH FLOW STATEMENT

	Note	2013	2012
Cash flows from operating activities			
Profit before income tax and finance costs		3 127	3 123
Adjustments for			
Depreciation and amortisation		547	470
(Gain)/loss on disposal of property, plant and equipment		66	8
(Gain)/loss on disposal of materials		100	61
(Gain)/loss on write-off of accounts payable		(6)	(11)
(Gain)/loss on change in fair value of biological assets		(12)	62
Provisions and accruals		74	218
(Gain)/loss on disposal of financial assets		–	26
Other non-cash transactions		(215)	(99)
Changes in working capital:			
(Increase)/decrease in inventories and biological assets		(288)	25
(Increase)/decrease in accounts receivable		(2 553)	(1 403)
Increase/(decrease) in accounts payable		1 765	974
Cash flows from operating activities		**2 605**	**3 454**
Interest paid		(1 276)	(1 077)
Income tax paid		(319)	(523)
Net cash flow from operating activities		**1 010**	**1 854**
Cash flows from investing activities			
Acquisition of subsidiaries	24	44	–
Acquisition of property, plant and equipment and intangible assets		(1 147)	(1 924)
Disposal of property, plant and equipment and intangible assets		450	16
Net cash flow from investing activities		**(653)**	**(1 908)**
Cash flows from financing activities			
Repurchase of own shares		(535)	(1 020)
Loans received		22 813	23 061
Loans repaid		(22 875)	(21 996)
Net cash flow from financing activities		**(597)**	**45**
Net increase/(decrease) in cash and cash equivalents		**(240)**	**(10)**
Cash and cash equivalents at beginning of the year	12	707	718
Cash and cash equivalents at end of the year	12	**467**	**707**

Notes to the financial statements on pages 8 through 31 shall be part and parcel of these Financial Statements

Mechetin A.A., Chairman of Management Board ____________________

Kim E.S., Chief Accountant ____________________

7 April 2014

ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО * МОСКОВСКАЯ ОБЛАСТЬ г. ЗВЕНИГОРОД * SY СИНЕРГИЯ

(All amounts in Russian Rubles (₽) million, unless stated otherwise)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. REPORTING ENTITY

OAO Synergy (hereinafter referred to as the “Company”) is domiciled in Russia as an open 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 consolidated financial statements of the Company as shown herewith comprise the Company and its subsidiaries (together referred to as the “Group”).

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

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

Information about the Group’s main subsidiaries is provided below:

	31 December 2013		31 December 2012	
	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%
Alviz OAO	74%	74%	74%	74%
Habarovskiy Distillery OAO	73%	70%	73%	70%
Mariinsk Distillery OJSC	98%	98%	98%	98%
URALALCO OJSC	97%	97%	97%	97%
Ussuriysky Balsam OAO	84%	83%	84%	83%
Tradition for Quality LLC	100%	100%	100%	100%
Distrbuting companies				
Alviz-Rosalko ZAO	100%	100%	100%	100%
Trading house Mariinskiy suvenir OOO	100%	100%	–	–
Synergy Market DV, LLC	100%	100%	–	–
LLC Synergy Import	100%	100%	–	–
Synergy Market Khabarovsk, LLC	100%	100%	100%	100%
Synergy Market Nizhny Novgorod, LLC	100%	100%	–	–
Synergy Market Vladivostok, LLC	100%	100%	–	–
Trading house Synergy Market LLC	100%	100%	100%	100%
Ussuriysky Balsam Trade Network OOO	100%	97%	100%	97%
Food production plants				
DAKGOMZ JSC	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%	91%	91%	91%
PPZ Tsarevschinbsky-2 OAO	100%	92%	100%	92%
Russkiy gektar	100%	100%	100%	100%
Russian gektar Urojay JSC	100%	100%	100%	100%
Holding companies				
Synergy, Co			parent company of the Group	
Penta Agrogroup ZAO	100%	100%	100%	100%
Synergy capital	100%	100%	100%	100%
Synergy-East, Co	100%	100%	100%	100%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Group holds less then 50% of shares in its three subsidiaries but it determines operating and financial policies of the entities and receives substantially all benefits related to its operations and net assets based on the terms of agreements with shareholders. Therefore the Group consolidates these entities.

The Group holds more then 50% of shares in one company but does not determine operating and financial policies of the entities based on the terms of agreements with shareholders. Therefore the Group does not consolidate these entities.

2. BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards (‘IFRSs”). The consolidated financial statements have been prepared under the historical cost convention except for biological assets, which are measured at fair value less point-of-sale costs.

Group companies maintain their accounting records and prepare statutory financial statements in accordance with Russian Accounting Standards (“RAS”) and legal and statutory regulations effective in Russian Federation. As such, the accounting policies and reporting procedures adopted may differ from those generally accepted under IFRS. Accordingly, the accompanying financial statements, which have been prepared from the Group’s statutory based accounting records, reflect adjustments and reclassifications necessary for the financial statements to be presented in accordance with IFRS.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Going Concern

The management of the Group has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Principles of consolidation

Subsidiaries are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to exercise control over their operations.

Subsidiaries are consolidated from the date at which control is transferred to the Group and are no longer consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Where there are differences between the accounting policies of the subsidiaries and the Group, an adjustment is made to align the subsidiary accounting policy with that of the Group.

The consolidated financial statements include the financial statements of the Company and the controlled companies (subsidiaries) at 31 December of each reporting year. The Group exercises control when it may govern the financial and operating policies of the investee to obtain benefits from its operations.

The purchase method of accounting is used for the acquisition of a subsidiary. The subsidiary’s assets, liabilities and contingent liabilities are measured at fair value thereof at the acquisition date. If acquired identifiable net assets are in excess of fair value thereof, such difference is recorded as goodwill. Any amount in excess of fair value of acquired identifiable net assets over cost of the acquisition is directly recorded in the statement of comprehensive income in the period of such acquisition. Share of minority shareholders is recorded as non-controlling interest in the fair value of recognised assets and liabilities. Subsequently, losses related to the minority shareholders in excess of non-controlling interest are recorded in owners’ equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Group applies a policy of treating transactions with non-controlling interest as transactions with parties external to the Group. Disposals to non-controlling interest result in gains and losses for the Group that are recorded in the statement of comprehensive income.

3.2. Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional currency of the Company and Group's entities are Russian Rubles. The presentation currency of these consolidated financial statements is Russian Rubles rounded to the nearest million.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are revalued. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

3.3. Property, plant and equipment

Land and buildings comprise mainly factories, warehouses and offices. Items of property, plant and equipment are carried at historic cost less depreciation and accumulated impairment losses.

Historic cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying value or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying value of replaced parts is derecognised.

All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Land is not depreciated. Depreciation on all other assets is calculated using the straight-line method in order to allocate their cost over their estimated useful lives, as follows:

Group of property, plant and equipment	Useful life
Buildings and constructions	10 – 50 years
Machinery and equipment	2 – 15 years
Vehicles	3 – 10 years
Tools and fixtures	2 – 10 years
Furniture and office equipment	2 – 15 years

The assets' residual values and useful lives are reviewed and adjusted if appropriate at each balance sheet date.

Gains and losses on disposals are determined by company as the proceeds less the carrying amount and are recognised within other income or other expenses in the statement of comprehensive income.

3.4. Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated statement of financial position. Goodwill is carried at cost less accumulated impairment losses, if any.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired.

Goodwill is allocated to the acquirer's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than a segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Group recognises goodwill on acquisitions of subsidiaries through transaction with shareholders of the Group directly in equity.

3.5. Brands and other intangible assets

Intangible assets acquired separately

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation of intangible assets with the finite useful lives is charged on a straight-line basis over their estimated useful lives.

Group of intangible assets	Useful life
Software	2 – 10 years
Patents, licenses and other intangible assets, excluding brands	2 – 10 years

Useful lives of intangible assets are reviewed and adjusted, if required, at each balance sheet date.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Brands

Capitalised brands are regarded as having indefinite useful lives. These brands are protected by trademarks, which are renewable indefinitely. There are not believed to be any legal, regulatory or contractual provisions that limit the useful life of these brands.

Intangible assets with indefinite useful lives are tested at least annually for impairment and, if necessary, written down to the extent impaired.

Internally-generated intangible assets – research and development expenditure

Research expenditure in respect of drink and food products and package design is written off in the period in which it is incurred.

Any subsequent development expenditure in the period leading up to a product launch that meets the necessary recognition criteria set in the relevant standard is capitalised.

3.6. Impairment of non-financial assets

At each balance sheet date, the Group tests the carrying amount of tangible and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If there are indications of such impairment, the recoverable amount of a respective asset is assessed. If the asset generates no cash flows independently of other assets, the Group measures the recoverable amount of the cash-generating unit, which includes such asset.

Intangible assets that have an indefinite useful life are annually tested for impairment.

The recoverable amount is the higher of an asset’s fair value less costs to sell and its value in use. For the purposes of assessing value in use, projected future cash flows are adjusted to reflect present value by using an interest rate, which reflects current assessments of time value of money and risks associated with the asset for which future cash flows were not adjusted.

If carrying amount is in excess of the asset’s recoverable amount, asset’s carrying amount is decreased to its recoverable amount. Impairment losses are recognised as expenses in the period when impairment occurred.

If impairment loss is later reversed, asset’s (cash generating unit’s) carrying value is increased to the revised estimate of recoverable amount so that the increased carrying amount is less than the carrying amount at which the respective asset (cash generating unit) would have been recorded had no impairment loss been recognised.

Reversal of the impairment loss is immediately recognised as income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3.7. Financial assets

The group classifies its financial assets in the following categories: held for trading, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets are classified as held for trading if it was acquired principally for the purpose of selling in the short-term.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The group's loans and receivables comprise 'trade and other receivables' and cash and cash equivalents in the balance sheet.

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

If investments are classified as held-for-trading, then income and expenses from changes in fair value are stated in net profit or loss for the period. For available-for-sale financial assets gains and losses resulting from changes in fair value are directly recognised in equity up to disposal or impairment of investment, at which point accumulated gains or losses recognised in equity are included in net profit or loss for the period.

3.8. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, if applicable, direct labour and other general costs borne to bring inventories to their current condition and location. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) and excludes borrowing costs. Cost is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less estimated expenses to complete the works and applicable selling expenses.

3.9. Biological assets

Biological assets, which include poultry and winter wheat, are measured at fair value less estimated point-of-sale costs.

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.

3.10. Trade accounts receivable

Trade receivables due within 12 months after the balance sheet date are recognised and recorded in the financial statements at the amounts specified in the respective invoices.

Trade receivables due in more than 12 months after the balance sheet date are measured at amortised cost using the effective interest method.

A provision for impairment of trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3.11. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

3.12. Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

3.13. Loans and borrowings

Borrowings are initially recognised at cost, which is fair value of proceeds net of transaction costs.

Borrowings are subsequently stated at amortised cost using the effective interest method: any difference between fair value of the proceeds (net of transaction costs) and the redemption value is recognised as interest expenses within the borrowing period.

Borrowings are classified as short-term, unless the Group has a pre-emptive right to delay any liability repayment for the term not less than 12 months from the balance sheet date.

3.14. Trade accounts payable

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

3.15. Income tax (current and deferred income tax)

Income tax is stated in the financial statements in accordance with the effective legislation. Income tax expenses in the profit and loss statement for the period comprise current and deferred income tax. Current income tax is calculated on the basis of taxable profit for the period, using the tax rates in effect at the balance sheet date. Deferred income tax is calculated on the basis of the balance sheet method.

Deferred income tax assets are recognised with allowance for all temporary differences that decrease the tax base, and unused tax assets and liabilities are carried forward to the extent that it is probable that future taxable profit will be available against which the temporary differences that decrease the tax base, or unrealised tax assets and unsettled liabilities to be carried forward to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. However, if the deferred asset in respect of income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for.

The carrying amount of income tax deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Deferred income tax assets and liabilities are determined using tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax liabilities are recognised for all taxable temporary differences with the exception of the cases when the term of utilisation of temporary differences could be controlled, and, with high degree of probability, temporary differences would not be utilised in the foreseeable future.

Deferred tax is charged or credited in the Statement of Comprehensive Income, unless otherwise it relates to items charged or credited directly to equity, in which case the deferred tax is also recognised in equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3.16. Employee benefits

Group companies operate defined contribution plans. The companies of the Group pay contributions to pension funds on the mandatory basis. The companies have no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. The Group has no other obligations in respect of employees' pensions or termination benefits.

3.17. Provisions

Provisions are recognised when a company has a legal or constructive obligation at the balance sheet date as a result of past events and when it is more likely than not that an outflow of resources, embodying economic benefits will be required to settle the obligation; and the amount has been reliably estimated. Provisions are reviewed on every balance sheet date and are adjusted to show the current, most sound estimates.

Where there are a number of similar obligations, the likelihood that an outflow of economic benefits will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be little.

3.18. Revenue recognition

Revenue is recognised at fair value of contribution received or receivable, and represents amounts receivable for the goods and services sold in the course of normal operations, net of value added tax, excise duties, rebates and discounts and after eliminating intra-group operations.

Sales of goods are recognised when a Group company delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

Sales of services are recognised in the accounting period when the respective services were rendered, upon completion of a respective transaction measured against a share of the respective service in the total volume of all services to be rendered.

Interest income is recognised on a time-proportion basis using the effective interest method.

Dividend income is recognised when the right to receive payment is established for the shareholder.

3.19. Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

3.20. Finance costs

All finance costs are charged to the profit and loss statement over the period during which those occurred.

3.21. Dividend distribution

Dividend distribution to the Group's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the company's shareholders.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations and changes occur frequently.

The interpretation of tax legislation by tax authorities as applied to the transactions and activities of the Group's entities may not coincide with that of management.

As a result, tax authorities may challenge transactions and the Group's entities may be assessed additional taxes, penalties and interest.

The periods remain open to review by the tax authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances review may cover larger periods.

Deferred income tax asset recognition

The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded on the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future management makes judgments and applies estimation based on last three years taxable profits and expectations of future income that are believed to be reasonable under the circumstances.

Related party transactions

In the normal course of business the Group enters into transactions with its related parties. Related parties may enter into transactions, which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. Judgment is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analyses.

Provision for impairment of receivables

Management estimate impairments against recoverable amounts of receivables based on the ageing of receivables. Individual receivables are written off when management believes that the amounts will not be recoverable. Recoverable amount of accounts receivable from related parties is always equal to its initial value, thus provision is not created for such amounts.

5. 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 2013:

IFRS 10, Consolidated Financial Statements (issued in May 2011, effective for annual periods beginning on or after 1 January 2013);

IFRS 11, Joint Arrangements (issued in May 2011, effective for annual periods beginning on or after 1 January 2013);

IFRS 12, Disclosure of Interests in Other Entities (issued in May 2011, effective for annual periods beginning on or after 1 January 2013);

IFRS 13, Fair Value Measurement (issued in May 2011, effective for annual periods beginning on or after 1 January 2013);

IAS 27, Separate Financial Statements (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013);

IAS 28, Investments in Associates and Joint Ventures (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013);

Amendments to IAS 1, **Presentation of financial statements** (issued June 2011, effective for annual periods beginning on or after 1 July 2012). The amended standard has changed the presentation of the

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Group's consolidated financial statements, but had no impact on the measurement of transactions and balances;

Stripping costs in the Production Phase of a surface Mine, IFRIC 20 (issued in October 2011 and effective for annual periods beginning on or after 1 January 2013);

Amended IAS 19, Employee benefits (issued June 2011, effective for periods beginning on or after 1 January 2013);

Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013);

Amendments to IFRS 1, First-time adoption of International Financial Reporting Standards − Government loans (issued in March 2012 and effective for periods beginning on or after 1 January 2013);

Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning on or after 1 January 2013);

Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued on 28 June 2012 and effective for annual periods beginning on or after 1 January 2013).

The Group has applied these standards while preparing these Consolidated Financial Statements. The standards have no significant impact on the Group's Consolidated Financial Statements.

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2013, and have not been early adopted:

IFRS 9, Financial Instruments Part 1: **Classification and Measurement** (issued in November 2009, effective for annual periods beginning on or after 1 January 2015, with earlier application permitted). The Group is currently assessing the impact of the standard on its consolidated financial statements;

Offsetting Financial Assets and Financial Liabilities – **Amendments to IAS 32** (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014);

Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities (issued on 31 October 2012 and effective for annual periods beginning on or after 1 January 2014);

IFRIC 21 − Levies (issued on 20 May 2013 and effective for annual periods beginning on or after 1 January 2014);

Amendments to IAS 36 − Recoverable amount disclosures for non-financial assets (issued on 29 May 2013 and effective for annual periods beginning on or after 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period);

Amendments to IAS 39 – **Novation of Derivatives and Continuation of Hedge Accounting** (issued on 27 June 2013 and effective for annual periods beginning on or after 1 January 2014);

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 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).

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

(All amounts in Russian Rubles (₽) million, unless stated otherwise)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Machines and equipment	Vehicles	Furniture and office equipment	Assets under construction	Total
Cost						
31 December 2011	**3 564**	**2 201**	**195**	**285**	**476**	**6 721**
Additions	923	480	34	29	342	1 808
Reclassification	87	68	-	2	(158)	(1)
Disposals	(37)	(34)	(14)	(12)	-	(97)
31 December 2012	**4 537**	**2 715**	**215**	**304**	**660**	**8 431**
Acquisition within subsidiaries	427	21	8	16	1	473
Additions	327	241	29	49	402	1 048
Reclassification	457	25	8	4	(494)	-
Disposals	(449)	(369)	(54)	(27)	-	(899)
31 December 2013	**5 299**	**2 633**	**206**	**346**	**569**	**9 053**
Depreciation						
31 December 2011	**612**	**1 203**	**102**	**177**	**-**	**2 094**
Charge for the period	125	250	23	42	-	440
Disposals	(6)	(23)	(8)	(10)	-	(47)
31 December 2012	**731**	**1 430**	**117**	**209**	**-**	**2 487**
Acquisition within subsidiaries	30	4	1	6	-	41
Charge for the period	163	270	28	41	-	502
Disposals	(13)	(242)	(32)	(17)	-	(304)
31 December 2013	**911**	**1 462**	**114**	**239**	**-**	**2 726**
Carrying amount						
31 December 2011	**2 952**	**998**	**93**	**108**	**476**	**4 627**
31 December 2012	**3 806**	**1 285**	**98**	**95**	**660**	**5 944**
31 December 2013	**4 388**	**1 171**	**92**	**107**	**569**	**6 327**

Carrying value of property, plant and equipment pledged as a security for bank borrowings is disclosed in Note 14.

Cost of property, plant and equipment with zero carrying value at 31 December 2013 amounted to ₽960mln (31 December 2012 – ₽879mln).

Other long-term assets

Other long-term assets include prepayments given for acquisition of property, plant and equipment in amount ₽235mln and long-term security payment under lease of property in amount ₽19mln (as of 31 December 2012 – ₽120mln and ₽0mln).

Non-current assets impairment test: Due to impairment indicators occurred in 2013 impairment test was performed for certain cash generating units (CGU's).

The recoverable amount of each CGU was determined on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering five year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates.

Based on the results of these calculations the group concluded that no impairment charge was required. Assumptions used for value-in-use calculations to which the recoverable amount is most sensitive were:

	2013	2012
Growth rate beyond five years	4%	5.6%
Pre-tax discount rate	15.3%	15.6%

(All amounts in Russian Rubles (₽) million, unless stated otherwise)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Management determined budgeted gross margin based on past performance and its market expectations. The weighted average growth rates used are consistent with the forecasts included in management reports.

The discount rates used are pre-tax reflect specific risks relating to the relevant CGU's.

7. INTANGIBLE ASSETS

	Software, patents, licenses and others	Brands	Total
Cost			
31 December 2011	**197**	**5 423**	**5 620**
Acquisition	3	312	315
Disposals	-	(4)	(4)
31 December 2012	**200**	**5 731**	**5 931**
Acquisition within subsidiaries	648	-	648
Acquisition	33	326	359
Disposals	-	(8)	(8)
31 December 2013	**881**	**6 049**	**6 930**
Amortisation and impairment			
31 December 2011	**95**	**68**	**163**
Charge for the year and impairment	32	-	32
Disposals	-	(2)	(2)
31 December 2012	**127**	**66**	**193**
Charge for the year and impairment	45	-	45
Disposals	-	(1)	(1)
31 December 2013	**172**	**65**	**237**
Net book value			
31 December 2011	**102**	**5 355**	**5 457**
31 December 2012	**73**	**5 665**	**5 738**
31 December 2013	**709**	**5 984**	**6 693**

The principal vodka brands are: Beluga, Myagkov, Belenkaya, Russkiy Lyod, 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 balance sheet in accordance with the group stated accounting policies.

Intangible assets are not pledged as a security for bank borrowings as of 31 December 2013 and 31 December 2012.

Intangible assets impairment test: Due to impairment indicators occurred in 2013 impairment test was performed for certain cash generating units (CGU's).

The recoverable amount of each CGU was determined on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates.

Based on the results of these calculations the Group concluded that no impairment charge arose in the years ended 31 December 2013 and 31 December 2012.

Assumptions used for value-in-use calculations to which the recoverable amount is most sensitive were:

	2013	2012
Growth rate beyond five years	4%	4%
Pre-tax discount rate	15.3%	15.3%

(All amounts in Russian Rubles (₽) million, unless stated otherwise)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Management determined budgeted gross margin based on past performance and its market expectations. The weighted average growth rates used are consistent with the forecasts included in management reports.

The discount rates used are pre-tax reflect specific risks relating to the relevant CGU's.

8. GOODWILL

Goodwill arising on consolidation relates to the acquisitions of subsidiaries. Net book value amounts to ₽213mln and did not change in the years ended 31 December 2013 and 31 December 2012.

Goodwill impairment test: Goodwill is allocated to cash generating units (CGU), which represent the lowest within the group at which the goodwill is monitored by management and which are not larger than a segment for segment reporting.

The recoverable amount of each CGU was determined on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates.

Assumptions used for values for value-in-use calculations to which the recoverable amount is most sensitive were:

	2013	2012
Growth rate beyond five years	4%	3%
Pre-tax discount rate	15.3%	11.8%-12%

Management determined budgeted gross margin based on past performance and its market expectations. The weighted average growth rates used are consistent with the forecasts included in management reports.

The discount rates used are pre tax and reflect specific risks relating to the relevant CGUs.

9. INVENTORIES

	31 December 2013	31 December 2012
Finished goods	5 440	2 993
Raw materials	1 467	1 730
Work-in-progress	189	209
Total inventories	**7 096**	**4 932**

Value of inventories pledged as a security for bank borrowings is disclosed in Note 14.

10. BIOLOGICAL ASSETS

	Animals (chicken)	Crops	Total biological assets
1 January 2012	154	63	217
Net purchases/(sales)	23	283	306
Gain/(loss) on change in fair value	(14)	(48)	(62)
Reclassification of the harvest to inventories	-	(260)	(260)
31 December 2012	**163**	**38**	**201**
1 January 2013	163	38	201
Net purchases/(sales)	(12)	(38)	(50)
Gain/(loss) on change in fair value	12	-	12
Reclassification of the harvest to inventories	-	-	-
31 December 2013	**163**	**-**	**163**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Gain on change in fair value of biological assets is recognised in the Statement of Comprehensive Income in the Other income/(expense).

11. TRADE AND OTHER RECEIVABLES

	31 December 2013	31 December 2012
Trade accounts receivable	9 323	9 890
Provision for impairment of trade accounts receivable	(124)	(174)
Total trade accounts receivable	**9 199**	**9 716**
Other accounts receivable, including VAT and excises recoverable	3 037	2 310
Provision for impairment of other accounts receivable	(74)	(70)
Total other accounts receivable	**2 963**	**2 240**
Total account receivable	**12 162**	**11 956**

12. CASH AND CASH EQUIVALENTS

	31 December 2013	31 December 2012
Cash in banks	435	631
Cash equivalents	9	42
Cash in transit	8	22
Cash on hand	15	12
Total cash and cash equivalents	**467**	**707**

At 31 December 2013 and 31 December 2012, there are no effective restrictions on the use of cash.

13. SHARE CAPITAL

Share capital is the authorised capital of the parent company.

As of 31 December 2012 Synergy OAO issued 25 670 000 ordinary shares of ₽100 each at par of which 715 951 shares were cancelled in the year 2013.

	Number of ordinary shares (thousands)	Treasury shares (thousands)	Total outstanding shares (thousands)
As at 1 January 2012	**25 670**	**(5 131)**	**20 539**
Repurchase of own shares	-	(1 910)	(1 910)
As at 31 December 2012	**25 670**	**(7 041)**	**18 629**
As at 1 January 2013	**25 670**	**(7 041)**	**18 629**
Cancellation of shares	(716)	716	-
Repurchase of own shares	-	(1 003)	(1 003)
As at 31 December 2013	**24 954**	**(7 328)**	**17 626**

The Company's common shares are admitted to trading on the Moscow Exchange (MOEX) under the ticker symbol "SYNG".

14. LOANS AND BORROWINGS

	31 December 2013	31 December 2012
Unsecured non-current loans and borrowings	3 750	2 687
Secured non-current loans	2 054	2 276
Total non-current loans and borrowings	**5 804**	**4 963**

(All amounts in Russian Rubles (₽) million, unless stated otherwise)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

	31 December 2013	31 December 2012
Unsecured loans and borrowings	399	762
Secured bank loans	476	901
Total current loans and borrowings	**875**	**1 663**
Total loans and borrowings	**6 679**	**6 626**

For the reporting period the corporate weighted average annual interest rate on bank loans was 10.81% (in 2012 the corporate weighted average annual interest rate on bank loans was 10.80%).

The maturity of loans and borrowings is as follows:

	31 December 2013	31 December 2012
On demand or within one year	875	1 663
Between the first and second year	3 475	4 213
Between the second and fifth years	2 284	605
After five years	45	145
Total loans and borrowings	**6 679**	**6 626**

As at 31 December 2013 the following banks had the highest weight in the Groups' credit portfolio: SberBank AAA (rus), VTB Bank AAA (rus), SviazBank AA-(rus), Nordea bank AAA (rus).

At 31 December 2013, bank borrowings were secured by:

- Plant, property and equipment with a carrying value of ₽2,801mln (at 31 December 2012 – ₽2,548mln);
- Inventories with a carrying value of ₽153mln (at 31 December 2012 – ₽58mln);
- No subsidiaries' shares were pledged as of 31 December 2013 (31 December 2012 – shares of Habarovskiy Distillery OAO with net assets of ₽530mln).

Synergy has been assigned a Long-term Issuer Default Rating (IDR) of "B" and a National Long-term Rating of "BBB+" (rus) by Fitch ratings agency. The outlook for the ratings is stable.

Unutilised credit facilities as at 31 December 2013 amounted to ₽7,671mln (at 31 December 2012 – ₽6,865mln).

15. TRADE AND OTHER PAYABLES

	31 December 2013	31 December 2012
Excises, VAT and other taxes payable	5 529	4 135
Trade payables	1 538	1 141
Other payables	1 171	561
Advances obtained	139	47
Total trade and other payables	**8 377**	**5 884**

16. COST OF SALES

	2013	2012
Materials and supplies	12 985	13 512
Wages and salaries	1 036	1 100
Depreciation, amortisation and impairment	354	293
Fuel and power	200	278
Repairs and maintenance	132	150
Rent	35	41
Other costs	356	278
Total cost of sales	**15 098**	**15 652**

(All amounts in Russian Rubles (₽) million, unless stated otherwise)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. GENERAL AND ADMINISTRATION EXPENSES

	2013	2012
Wages and salaries	1 359	1 285
Bank services, Information and consulting services, Insurance, Security	212	257
Depreciation, amortisation and impairment	130	124
Rent	80	119
Repairs and maintenance	65	44
Fuel and power	60	59
Sundry taxes	60	120
Other costs	87	82
Total general and administrative expenses	**2 053**	**2 090**

18. DISTRIBUTION EXPENSES

	2013	2012
Advertising, promotion, transportation	3 749	3 377
Wages and salaries	1 395	1 393
Rent	258	282
Materials and supplies	75	85
Depreciation, amortisation and impairment	63	53
Fuel and power	59	59
Other expenses	272	167
Total distribution expenses	**5 871**	**5 416**

19. OTHER INCOME/EXPENSES

	2013	2012
Impairment of accounts receivable	(53)	(214)
Write-off of accounts payable	6	11
Gain/(loss) on change in fair value of biological assets	12	(62)
Income/(loss) on disposal of materials	(100)	(48)
Income/(loss) on disposal of fixed assets	(66)	(13)
Other income/(expense)	(28)	(57)
Total other income / (expenses)	**(229)**	**(383)**

20. NET FINANCE COSTS

	2013	2012
Net interest on bank overdrafts and loans	697	609
Costs of arrangement of borrowings, including cost of bank guarantees	471	460
Net foreign exchange differences (income) / expense	34	(76)
Total net finance costs	**1 202**	**993**

21. INCOME TAX

	2013	2012
Current income tax charge	476	568
Deferred income tax/(income)	(92)	(140)
Total income tax	**384**	**428**

(All amounts in Russian Rubles (₽) million, unless stated otherwise)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Income tax rates applicable in the year ended 31 December 2013 were as follows: Russian Federation – 20%, Permsky Krai of Russian Federation – 15.5%, Cyprus – 10% (in 2012: Russian Federation – 20%, Permsky Krai of Russian Federation – 15.5%, Cyprus – 10%).

Companies engaged in the production of poultry and crops are liable to profit tax at 0% rate.

The tax on the Group's Profit before tax differs from the theoretical amount that would arise using the tax rates applicable to profits of the consolidated entities as follows:

	2013	2012
Profit before tax	1 925	2 130
Tax calculated at 20%	**385**	**426**
Tax effect of items which are not deductible or assessable for taxation purposes		
Effect of income which is subject to tax at 0 rate	(48)	(60)
Effect of local tax rates different to 20%	(81)	(62)
Prior period tax adjustments	(18)	-
Effect of expenses not deductible for tax purposes	146	124
Total income tax charge	**384**	**428**

22. DEFERRED TAX

Stated below are main deferred tax assets and liabilities recognised by the Group and the respective changes over the reporting period.

	1 January 2013	Credited/ (charged) to profit/ loss	Acquisition of subsidiaries	Credited/ (charged) to other income	31 December 2013
Property, plant and equipment	66	14	–	–	80
Intangible assets	1	–	–	–	1
Inventories	161	29	20	–	210
Accounts receivable	53	17	6	–	76
Accounts payable	77	16	2	–	95
Other assets and liabilities	44	(1)	1	–	44
Deferred tax assets	**402**	**75**	**29**	**–**	**506**
Property, plant and equipment	(133)	7	(20)	–	(146)
Intangible assets	(366)	4	(130)	306	(186)
Inventories	(12)	(6)	–	–	(18)
Accounts receivable	(134)	12	(4)	–	(126)
Accounts payable	(28)	(1)	–	–	(29)
Other assets and liabilities	(39)	1	–	–	(38)
Deferred tax liabilities	**(712)**	**17**	**(154)**	**306**	**(543)**
Net deferred tax liability	**(310)**	**92**	**(125)**	**306**	**(37)**

	1 January 2012	Credited/ (charged) to profit/ loss	Credited/ (charged) to other income	31 December 2012
Property, plant and equipment	43	23	–	66
Intangible assets	7	(6)	–	1
Inventories	73	88	–	161
Accounts receivable	12	41	–	53
Accounts payable	59	18	–	77
Other assets and liabilities	59	(15)	–	44
Deferred tax assets	**253**	**149**	**–**	**402**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

	1 January 2012	Credited/ (charged) to profit/ loss	Credited/ (charged) to other income	31 December 2012
Property, plant and equipment	(132)	(1)	–	(133)
Intangible assets	(552)	2	184	(366)
Inventories	(15)	3	–	(12)
Accounts receivable	(129)	(5)	–	(134)
Accounts payable	(28)	–	–	(28)
Other assets and liabilities	(31)	(8)	–	(39)
Deferred tax liabilities	**(887)**	**(9)**	**184**	**(712)**
Net deferred tax liability	**(634)**	**140**	**184**	**(310)**

The recognition and reversals of temporary differences, as presented in the tables above, primarily relate to the revaluation of property, plant and equipment and intangible assets (brands) for the purposes of acquisitions; impairment of receivables; and provisions to write inventories down to net realisable value.

23. 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 period.

	2013	2012
Profit attributable to equity holders	1 486	1 642
Weighted average number of ordinary shares in issue (thousand)	18 050	19 346
Basic earnings per share, (₽)	**82.32**	**84.87**

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

	2013	2012
Shares issued at 1 January	**25 670**	**25 670**
Effect of shares cancellation (from July 10, 2013)	(343)	–
Effect of own shares held	(7 277)	(6 324)
Weighted average number of outstanding shares	**18 050**	**19 346**

24. BUSINESS COMBINATIONS

In June 2013, the Group acquired 100% of interest in OOO Akruks for ₽21mln. The acquired company is a distributing company in Nizhnii Novgorod and Nizhnii Novgorod region.

From the date of acquisition the acquired company contributed revenue in amount ₽589mln and net loss in amount ₽3mln. After acquisition the company was renamed to Synergy Market Nizhny Novgorod, LLC.

In December 2013, the Group acquired 100% of interest in Miscellano Investments Ltd, owner of 4 distributing companies in alcohol segment, for ₽28mln.

The acquired companies did not contribute revenue and net income from the date of acquisition as the company was acquired close to the end of the reporting period.

(All amounts in Russian Rubles (₽) million, unless stated otherwise)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The assets and liabilities as of acquisition date are as follows:

	OOO Akruks	Miscellano Investments Ltd and subsidiaries	Total
Cash and cash equivalents	7	37	44
Intangible assets	48	600	648
Property, plant and equipment	8	424	432
Inventories	65	1 860	1 925
Trade and other receivables	149	1 954	2 103
Net deferred tax assets	(6)	(119)	(125)
Loans and borrowings	-	(200)	(200)
Trade and other payables	(271)	(4 528)	(4 799)
Net assets acquired	**-**	**28**	**28**
Purchase consideration	21	28	49
Result arising on acquisition, accounted as			
Goodwill recognised as expense	**21**	**-**	**21**
Purchase consideration settled in cash	-	-	
Cash and cash equivalents acquired	7	37	44
Cash inflow on acquisition	**7**	**37**	**44**

Comparative information:

In the year ended 31 December 2012 the Group did not undertake business combinations.

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 will be 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. 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.

(All amounts in Russian Rubles (₽) million, unless stated otherwise)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

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

Breakdown by segments	Alcohol	Food	Holding Companies	Total	Intersegment elimination	Consolidated for the year ended 31 December 2013
Revenue, RAS	48 296	7 741	62	56 099	(118)	55 981
Revenue, IFRS including intersegment revenue	21 194	5 240	62	26 496	(118)	26 378
Revenue, IFRS net of intersegment revenue	21 150	5 228	-	26 378	-	26 378
Gross Profit, IFRS	10 253	1 066	45	11 364	(84)	11 280
Amortisation and depreciation, IFRS	(322)	(191)	(34)	(547)	-	(547)
Assets, IFRS	30 422	7 958	8 761	47 141	(12 859)	34 282

Breakdown by segments	Alcohol	Food	Holding Companies	Total	Intersegment elimination	Consolidated for the year ended 31 December 2012
Revenue, RAS	44 575	7 855	63	52 493	(646)	51 847
Revenue, IFRS including intersegment revenue	22 206	5 047	57	27 310	(646)	26 664
Revenue, IFRS net of intersegment revenue	21 628	5 036	-	26 664	-	26 664
Gross Profit, IFRS	9 744	1 294	53	11 091	(79)	11 012
Amortisation and depreciation, IFRS	(268)	(172)	(30)	(470)	-	(470)
Assets, IFRS	30 010	5 867	7 957	43 834	(13 078)	30 756

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

Breakdown by segments	Alcohol	Food	Holding Companies	Total	Intersegment elimination	Consolidated for the year ended 31 December 2013
Revenue, RAS	**48 296**	**7 741**	**62**	**56 099**	**(118)**	**55 981**
Cut-off adjustment	(149)	-	-	(149)		(149)
Reclassification	752	92	-	844		844
Elimination of intercompany transactions	(27 709)	(2 593)	-	(30 302)		(30 302)
Other adjustments	4	-	-	4		4
Revenue, IFRS	**21 194**	**5 240**	**62**	**26 496**	**(118)**	**26 378**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Breakdown by segments	Alcohol	Food	Holding Companies	Total	Intersegment elimination	Consolidated for the year ended 31 December 2012
Revenue, RAS	**44 575**	**7 855**	**63**	**52 493**	**(646)**	**51 847**
Cut-off adjustment	(20)	-	-	(20)		(20)
Reclassification	316	(34)	-	282		282
Elimination of intercompany transactions	(22 770)	(2 728)	(6)	(25 504)		(25 504)
Other adjustments	105	(46)	-	59		59
Revenue, IFRS	**22 206**	**5 047**	**57**	**27 310**	**(646)**	**26 664**

27. FINANCIAL RISK MANAGEMENT

The Group's operations are subject to certain financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects of the Group's financial performance. Risk management is carried out by the Group's finance department.

27.1. Market risk

i) Foreign exchange risk

The Group has no significant current or future commercial transactions exposed to foreign exchange risk.

At 31 December 2013 the Group net exposure to currency risk was ₽13mln. (cash nominated in US Dollars and EUR in amount of ₽13mln.).

At 31 December 2012 the Group net exposure to currency risk was ₽10mln. (cash nominated in US Dollars and EUR in amount of ₽10mln.).

ii) Price risk

The Group is not exposed to equity securities price risk as it does not hold in assets any quoted equity securities. The Group is not exposed to commodity price risk because both its finished goods and products and purchased raw materials are not traded on a public market.

iii) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flow of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk of fluctuations in value of financial instruments caused by changes in market interest rates.

Borrowing at variable rates provides the Group with exposure to cash flow interest rate risk. Lending at fixed rates or the purchase of debt instruments at fixed rates gives exposure to the Group to fair value interest rate risk.

The Group constantly reviews its debt portfolio and monitors the changes in the interest rate environment to ensure that interest payments are within acceptable levels. Information relating to interest rates on the Group's borrowings is disclosed in Note 14.

Interest rate sensitivity on financial assets and liabilities is determined by analysis of the financial markets. Interest rates on principal financial items remain fixed throughout the term of the contract. The average term of a credit agreement is three years.

The Group's surplus funds are placed with reputable banks as fixed deposits, which generate interest income for the Group. The Group's policy is to obtain the most favourable interest rates available.

27.2. Credit risk

The Group's primary exposure to credit risk arises through its trade receivables. The Group's financial policy implies entering into transactions with creditworthy customers to mitigate any significant credit risk. The Group has procedures in place to control credit risk and the exposure to such risks is monitored on an ongoing basis. The Group has made provision for potential losses on receivables.

(All amounts in Russian Rubles (₽) million, unless stated otherwise)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Group enters into transactions only with well recognised, creditworthy and highly reputable third parties. It is Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that Group exposure to bad debts is not significant.

Other financial assets of the Group with exposure to credit risk include cash and cash equivalents. Cash and cash equivalents are placed with reputable banks. Thus, management does not expect any of its counterparties to fail in meeting their obligations.

The Group's maximum exposure to credit risk in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the balance sheet.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	31 December 2013	31 December 2012
Trade and other accounts receivable	12 162	11 956
Cash and cash equivalents	467	707
Maximum exposure to credit risk	**12 629**	**12 663**

At the end of the financial period, there was no significant concentration of credit risk to the Group as none of the Group's debtors has the share more than 2% of the total receivables.

The ageing of trade and other accounts receivable is as follows:

	As at 31 December 2013		As at 31 December 2012	
	Gross	Provision	Gross	Provision
Current	11 657	-	11 840	-
Past due 90 - 180 days	485	17	196	111
Past due more than 180 days	218	181	165	133
Total accounts receivable	**12 360**	**198**	**12 201**	**244**

27.3. Liquidity risk

Liquidity risk management is aimed at ensuring sufficient amounts of cash and cash equivalents and marketable securities and availability of credit fundraising.

The Group's financial policy implies in maintenance of liquidity includes acquiring long-term loans, decreasing share of short-term loans, issuing bonds, maintenance of sufficient unutilised credit facilities (amount is disclose in Note 14) and regularly review the current and future liquidity requirements.

Contractual maturities of financial liabilities as at 31 December 2013 are as follows:

	Carrying amount	12 months or less	1 – 2 years	More than two years
Loans and borrowings	6 679	875	3 475	2 329
Trade and other payables	8 377	8 377	-	-
Total loans and borrowings and payables	**15 056**	**9 252**	**3 475**	**2 329**

Contractual maturities of financial liabilities as at 31 December 2012 is as follows:

	Carrying amount	12 months or less	1 – 2 years	More than two years
Loans and borrowings	6 626	1 663	4 213	750
Trade and other payables	5 884	5 884	-	-
Total loans and borrowings and payables	**12 510**	**7 547**	**4 213**	**750**

(All amounts in Russian Rubles (₽) million, unless stated otherwise)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

27.4. Capital risk management

The Group seeks to maintain an optimal capital structure. The Group monitors its capital structure on the basis of its gearing ratio, interest cover and the ratio of net debt to EBITDA.

	31 December 2013	31 December 2012
Loans and borrowings	6 679	6 626
Less: cash and cash equivalents	(467)	(707)
Net financial debt	**6 212**	**5 919**
Total equity	18 369	17 371
Gearing ratio	**0.338**	**0.341**

28. RELATED PARTY TRANSACTIONS

The major stakeholder of the Group is A.A. Mechetin.

Compensation to key management personnel

Remuneration paid to key management personnel for the year 2013 was ₽211mln. (₽194mln. reported in 2012).

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

	2013	2012
Sales of goods	1 491	1 418
Sales of services	49	35
Total sales of goods and services	**1 540**	**1 453**

Purchases of goods and services

	2013	2012
Purchases of goods	346	382
Purchases of services	55	8
Total purchases of goods and services	**401**	**391**

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

	31 December 2013	31 December 2012
Trade and other receivables from related parties	1 865	1 488
Trade and other payables to related parties	175	30

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

29. CONTINGENCIES AND COMMITMENTS

29.1. 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.

29.2. Contractual commitments

As at 31 December 2013 the Group had no significant contractual commitments for the purchase of components for construction of Property, Plant and Equipment.

29.3. Leasing agreement

As at 31 December 2013 the Group had contractual commitments for non-cancellable lease for ₽66mln. (at 31 December 2012 in amount ₽290mln.).

29.4. 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.

29.5. 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

Excise payments and bank guarantees

In 2011 the Federal Law dd. 27.11.2010 No 306-FZ 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 July 1, 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 31 December 2013 was ₽27,236mln (31 December 2012 – ₽23,154mln). Bank fees for the guarantees are included in net financial costs.

30. EVENTS AFTER THE BALANCE SHEET DATE

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