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CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2016 AND INDEPENDENT AUDITOR'S REPORT

PAO SYNERGY
(SYNERGY GROUP)

MOSCOW 2016

CONTENTS

Information about the audited entity

Name: Synergy, Co (Public joint-stock company 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 RUSSIA

REPORT OF 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 2016 and the related consolidated interim condensed statements of profit or loss and other 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 for the six months ended 30 June 2016 are not prepared in all material respects, in accordance with IAS 34 “Interim Financial Reporting”.

30 August 2016

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 21606036232

Power of Attorney No. 01-10/16-8, dated 11.01.2016

Общество с ограниченной ответственностью «Бейкер Тилли Русаудит» ОГРН 1037700117949 Москва Baker Tilly Russaudit

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

CONSOLIDATED INTERIM CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	Six months ended 30 June	
		2016	**2015**
Sales		24 679	20 253
Excise duties		(8 573)	(7 231)
Net revenue	23	**16 106**	**13 022**
Cost of sales	14	(9 252)	(7 539)
Gross profit		**6 854**	**5 483**
General and administrative expenses	15	(1 152)	(1 238)
Distribution expenses	16	(4 552)	(3 551)
Other income/expenses	17	20	337
Operating profit		**1 170**	**1 031**
Share of income in associates	22	3	-
Net finance costs	18	(1 060)	(960)
Profit before tax		**113**	**71**
Current income tax	19	(20)	(112)
Deferred income tax		35	139
Net income and total comprehensive income for the period		**128**	**98**
Attributable to:			
Equity holders of the Company		99	70
Non-controlling interest		29	28
Basic and diluted earnings per share (RUB per share)	20	**5.77**	**4.07**

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

30 August 2016

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

CONSOLIDATED INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

	Note	30 June 2016	31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	6	6 598	6 724
Goodwill		235	235
Investment in associates	22	703	700
Intangible assets	7	7 722	7 228
Other long-term assets	6	29	102
Deferred tax assets		626	478
Total non-current assets		**15 913**	**15 467**
Current assets			
Inventories	8	8 415	7 137
Biological assets		317	281
Trade and other receivables	9	9 740	10 970
Prepayments		1 018	576
Income tax prepayment		63	61
Cash and cash equivalents	10	830	1 161
Total current assets		**20 383**	**20 186**
TOTAL ASSETS		**36 296**	**35 653**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Equity and reserves			
Share capital	11	2 495	2 495
Own shares repurchased from shareholders	11	(789)	(773)
Share premium	11	5 505	5 582
Retained earnings		11 367	11 268
Total equity attributable to shareholders of PAO Synergy		**18 578**	**18 572**
Non-controlling interest in subsidiaries		718	689
Total equity and reserves		**19 296**	**19 261**
Non-current liabilities			
Loans and bonds	12	6 333	5 647
Deferred tax liabilities		666	555
Total non-current liabilities		**6 999**	**6 202**
Current liabilities			
Loans and bonds	12	3 841	2 802
Trade and other payables	13	6 118	7 326
Income tax payable		42	62
Total current liabilities		**10 001**	**10 190**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**36 296**	**35 653**

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 ____________________

30 August 2016

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

CONSOLIDATED INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY

	Share capital	Own shares repurchased	Other reserves	Retained earnings	Total shareholders' equity	Non-controlling interest	Total
Balance at 31 December 2014	**2 495**	**(785)**	**5 572**	**11 127**	**18 409**	**735**	**19 144**
Other changes in non-controlling interest	-	-	-	-	-	24	24
Dividends accrued to non-controlling interest in subsidiaries	-	-	-	-	-	(15)	(15)
Sale of own shares	-	14	22	-	36	-	36
Total transactions with shareholders	**-**	**14**	**22**	**-**	**36**	**9**	**45**
Net income for the period	-	-	-	70	70	28	98
Balance at 30 June 2015	**2 495**	**(771)**	**5 594**	**11 197**	**18 515**	**772**	**19 287**

	Share capital	Own shares repurchased	Share premium	Retained earnings	Total shareholders' equity	Non-controlling interest	Total
Balance at 31 December 2015	**2 495**	**(773)**	**5 582**	**11 268**	**18 572**	**689**	**19 261**
Repurchase of own shares	-	(16)	(77)	-	(93)	-	(93)
Total transactions with shareholders	**-**	**(16)**	**(77)**	**-**	**(93)**	**-**	**(93)**
Net income for the period	-	-	-	99	99	29	128
Balance at 30 June 2016	**2 495**	**(789)**	**5 505**	**11 367**	**18 578**	**718**	**19 296**

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 ________________

30 August 2016

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

CONSOLIDATED INTERIM CONDENSED CASH FLOW STATEMENT

	Note	Six months ended 30 June	
		2016	**2015**
Cash flows from operating activities			
Operating profit		1 170	1 031
Adjustments:			
Depreciation and amortisation		396	387
(Gain) on disposal of property, plant and equipment		(103)	(327)
(Gain) on change in fair value of biological assets		(10)	(12)
Other non-cash transactions		31	(10)
Changes in working capital:			
(Increase) in inventories and biological assets		(1 278)	(274)
Decrease in accounts receivable and prepayments		743	2 752
(Decrease) in accounts payable		(1 240)	(1 237)
Cash flows from operating activities		**(291)**	**2 310**
Interest paid		(937)	(914)
Income tax paid		(38)	(69)
Net cash flow from operating activities		**(1 266)**	**1 327**
Cash flows from investing activities			
Investment in associates	22	-	(700)
Acquisition of property, plant and equipment and intangible assets		(710)	(198)
Disposal of property, plant and equipment and intangible assets		27	7
Net cash flow from investing activities		**(683)**	**(891)**
Cash flows from financing activities			
(Repurchase) / Sale of own shares	11	(93)	36
Dividends paid to non-controlling interest in subsidiaries		-	(7)
Loans received and bonds issued		17 474	13 404
Loans and bonds repaid		(15 763)	(13 920)
Net cash flow from financing activities		**1 618**	**(487)**
Net decrease in cash and cash equivalents		**(331)**	**(51)**
Cash and cash equivalents at beginning of the year	10	1 161	482
Cash and cash equivalents at end of the period	10	**830**	**431**

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 ______________________

30 August 2016

(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 2016 is provided below:

	30 June 2016		31 December 2015	
	Group's voting power, %	**Group's effective ownership, %**	**Group's voting power, %**	**Group's effective ownership, %**
Distilled spirit production plants				
Arkhangelsk Distillery	74%	74%	74%	74%
Habarovskiy Distillery AO	73%	69%	73%	69%
Mariinsk Distillery	98%	98%	98%	98%
URALALCO JSC	97%	97%	97%	97%
Ussuriysky Balsam OAO	79%	79%	79%	79%
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 AO	92%	92%	92%	92%
Ussuriysky Dairy Plant AO	92%	92%	92%	92%
Nahodkinsky meat-processing plant OAO	91%	84%	91%	84%
PPZ Tsarevschinbsky-2 AO	100%	92%	100%	92%
TD Rodstor OOO, distributing company in food segment	95%	95%	95%	95%
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.

NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS (continued)

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The consolidated interim condensed financial statements of the Group for the six months ended 30 June 2016 have been prepared in accordance with IAS 34 Interim Financial Reporting and Federal Low of the Russian Federation dd. 27 July 2010 No. 208 “About consolidated statements”.

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 2015.

The accounting policies and significant judgments and estimates applied therein are consistent with those of the Group’s consolidated financial statements for the year ended 31 December 2015.

3. 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 2016:

- Amendments to IAS 16 and IAS 41, Agriculture: Bearer plants;
- IFRS 14, Regulatory Deferral Accounts;
- Amendments to IFRS 11 – Accounting for Acquisitions of interests in Joint Operations;
- Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and
- Amortisation;
- Amendments to IAS 27, Equity Method in Separate Financial Statements;
- Annual Improvements to IFRSs 2014;
- Disclosure Initiative Amendments to IAS 1;
- Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28.

These amendments and improvements to standards did not have any impact or did not have a material impact on the Group’s consolidated condensed interim financial information.

A number of new standards, amendments to standards and interpretations are not yet effective as at 30 June 2016, and have not been early adopted:

- IFRS 9, Financial Instruments;
- IFRS 15, Revenue from Contracts with Customers and amendments to IFRS 15, Revenue from Contracts with Customers;
- Amendments to IFRS 10 and IAS 28 regarding the sale or contribution of assets between an investor and its associate or joint venture;
- IFRS 16, Leases;
- Amendments to IAS 12, Recognition of Deferred Tax Assets for Unrealised Losses;
- Amendments to IAS 7, Disclosure Initiative.

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.

4. 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 2015 the alcohol segment net revenue amounted to 41% out of annual revenue (in 2014 – 39%).

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

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

NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS (continued)

5. 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 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. As of 30 June 2016 the Group fair value of poultry exceeded its carrying value calculated under Russian standards of accounting by ₽144 mln (as of 31 December 2015 – by ₽134 mln).

Bonds are measured at amortised cost (Level 2 of the fair value measurement hierarchy) less amortised issue costs. Carrying value of bonds amounted to ₽1,970 mln as of 31 December 2015 and to ₽3,973 mln as of 30 June 2016 and approximate their fair values.

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.

Carrying value of loans at 30 June 2016 approximate their fair values.

6. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Machines and equipment	Vehicles	Furniture and office equipment	Assets under construction	Total
Cost						
At 31 December 2014	**6 185**	**2 918**	**240**	**378**	**434**	**10 155**
Additions	21	142	2	16	27	208
Transfers	41	36	-	1	(78)	-
Disposals	(12)	(35)	(4)	(13)	-	(64)
At 30 June 2015	**6 235**	**3 061**	**238**	**382**	**383**	**10 299**

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

NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS (continued)

	Land and buildings	Machines and equipment	Vehicles	Furniture and office equipment	Assets under construction	Total
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**

	Land and buildings	Machines and equipment	Vehicles	Furniture and office equipment	Assets under construction	Total
Cost						
At 31 December 2015	**6 258**	**3 050**	**239**	**383**	**378**	**10 308**
Additions	10	60	12	28	94	204
Transfers	8	27	-	1	(36)	-
Disposals	(53)	(30)	(8)	(14)	-	(105)
At 30 June 2016	**6 223**	**3 107**	**243**	**398**	**436**	**10 407**
Depreciation						
At 31 December 2015	**1 310**	**1 848**	**145**	**281**	**-**	**3 584**
Charge for the period	116	141	13	33	-	303
Disposals	(6)	(55)	(7)	(10)	-	(78)
At 30 June 2016	**1 420**	**1 934**	**151**	**304**	**-**	**3 809**
Carrying amount						
At 31 December 2015	**4 948**	**1 202**	**94**	**102**	**378**	**6 724**
At 30 June 2016	**4 803**	**1 173**	**92**	**94**	**436**	**6 598**

Carrying value of property, plant and equipment pledged as a security for bank loanss is disclosed in Note 12.

Cost of property, plant and equipment with zero carrying value at 30 June 2016 amounted to ₽1,346 mln (31 December 2015 – ₽1,283 mln).

Other long-term assets

Other long-term assets include prepayments given for acquisition of property, plant and equipment in amount of ₽29 mln (as of 31 December 2015 – prepayments given for acquisition of property, plant and equipment in amount of ₽93 mln and long-term security payment under lease of property in amount of ₽9 mln).

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

NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS (continued)

7. INTANGIBLE ASSETS

	Software, patents, licenses and others	Brands	Total
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	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**

	Software, patents, licenses and others	Brands	Total
Cost			
At 31 December 2015	**1 100**	**6 683**	**7 783**
Additions	152	439	591
Disposals	-	-	-
At 30 June 2016	**1 252**	**7 122**	**8 374**
Amortisation and impairment			
At 31 December 2015	**491**	**64**	**555**
Charge for the year	97	-	97
Disposals	-	-	-
At 30 June 2016	**588**	**64**	**652**
Net book value			
At 31 December 2015	**609**	**6 619**	**7 228**
At 30 June 2016	**664**	**7 058**	**7 722**

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 were not pledged as a security for bank loans as of 30 June 2016 and 31 December 2015.

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

NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS (continued)

8. INVENTORIES

	30 June 2016	31 December 2015
Finished product and goods	5 613	4 438
Raw materials	2 454	2 508
Work-in-progress	348	191
Total inventories	**8 415**	**7 137**

Inventories were not pledged as a security for bank loans as of 30 June 2016 and 31 December 2015.

9. TRADE AND OTHER RECEIVABLES

	30 June 2016	31 December 2015
Trade accounts receivable	7 144	8 751
Provision for impairment of debts	(190)	(127)
Total trade accounts receivable	**6 954**	**8 624**
Other accounts receivable, including VAT and other tax prepayments	2 826	2 408
Provision for impairment of debts	(40)	(62)
Total other accounts receivable	**2 786**	**2 346**
Total account receivable	**9 740**	**10 970**

10. CASH AND CASH EQUIVALENTS

	30 June 2016	31 December 2015
Cash in banks, nominated in RUB	241	319
Cash in banks, nominated in USD	197	721
Cash in banks, nominated in EUR	319	84
Cash equivalents	20	-
Cash in transit	38	24
Cash on hand	15	13
Total cash and cash equivalents	**830**	**1 161**

At 30 June 2016 and 31 December 2015, there are no effective restrictions on the use of cash.

11. SHARE CAPITAL AND SHARE PREMIUM

Share capital

Share capital is the authorised capital of the parent company.

As of 30 June 2016 and 31 December 2015 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".

Own shares

Own shares are recognized in the statement of financial position at nominal value ₽100 per share. The excess of the value of shares over the nominal value is recognized in the share premium.

As of 31 December 2015 quantity of own shares amounted to 7,728 thousand shares. During the first half of the year 2016 the Group repurchased 158 thousand shares at amount of ₽93 mln. Repurchased

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

NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS (continued)

shares were recognised in the statement of changes in equity as a change in own shares in amount of ₽16 mln and change in share premium in amount of ₽77 mln.

As of 30 June 2016 quantity of own shares amounted to 7,886 thousand shares.

Share premium

Share premium is recognised at IPO and SPOs. Share premium change as a result of sale or purchase of own shares in amount of excess of transaction price over nominal value of shares.

12. LOANS AND BONDS

	30 June 2016	31 December 2015
Unsecured non-current bank loans	2 230	565
Bonds	1 993	1 000
Secured non-current bank loans	2 110	4 082
Total non-current loans and bonds	**6 333**	**5 647**
Unsecured bank loans	220	1 042
Bonds	1 980	1 000
Secured bank loans	1 641	760
Total current loans and bonds	**3 841**	**2 802**
Total loans and bonds	**10 174**	**8 449**

For the end of the reporting period the corporate weighted average annual interest rate on bank loans and bonds was 13.24% (as of 31 December 2015 – 14.06%).

The maturity of loans and bonds is as follows:

	30 June 2016	31 December 2015
On demand or within one year	3 841	2 802
Between the first and second year	3 062	4 054
Between the second and fifth years	3 271	1 593
After five years	-	-
Total loans and bonds	**10 174**	**8 449**

As at 30 June 2016 the following banks had the highest weight in the Groups' credit portfolio: SberBank AAA (rus), Credit bank of Moscow AA- (rus) and Sviaz-Bank AA- (rus).

In June 2015 the Group placed two-year BO-04 bonds at amount of ₽2,000 mln, interest rate 14.5% p.a. The bond issue will be repaid in December 2016 (50% of the amount) and June 2017 (50% of the amount).

In May 2016 the Group placed BO-05 bonds at amount ₽2,000 mln, interest rate 12.9% p.a. The bond issue will be repaid in May 2018 (25% of the amount), May 2018 (25% of the amount) and April 2020 (50% of the amount). Bondholders have the right to demand early repayment of the bonds in the cases stipulated by the Federal Law "On securities market", as well as in the case of delisting of bonds, or excluding them from the quotation lists in accordance with the Resolution on bond issue.

At 30 June 2016, bank loans were secured on:

- Plant, property and equipment with a carrying value of ₽2,044 mln (at 31 December 2015 – ₽2,673 mln);
- Shares of subsidiary at amount of ₽910 mln (at 31 December 2015 not pledged).

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 ₽7,845 mln (at 31 December 2015 – ₽7,914 mln).

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

NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS (continued)

13. TRADE AND OTHER PAYABLES

	30 June 2016	31 December 2015
Excises, VAT and other taxes payable	3 041	3 263
Trade payables	2 064	2 977
Other payables	848	1 015
Advances received	165	71
Total trade and other payables	**6 118**	**7 326**

14. COST OF SALES

	Six months ended 30 June	
	2016	2015
Materials, supplies and goods	8 149	6 404
Wages and salaries	524	535
Depreciation and amortisation	241	225
Fuel and power	126	121
Repairs and maintenance	101	95
Rent	23	24
Other costs	88	135
Total cost of sales	**9 252**	**7 539**

15. GENERAL AND ADMINISTRATION EXPENSES

	Six months ended 30 June	
	2016	2015
Wages and salaries	771	865
Bank services, Information and consulting services, Insurance, Security	129	129
Depreciation and amortisation	49	58
Rent	80	79
Repairs and maintenance	24	23
Fuel and power	20	17
Sundry taxes	37	25
Other costs	42	42
Total general and administrative expenses	**1 152**	**1 238**

16. DISTRIBUTION EXPENSES

	Six months ended 30 June	
	2016	2015
Advertising, Promotion, Transportation	2 922	2 160
Wages and salaries	1 194	944
Rent	112	124
Depreciation and amortisation	106	105
Materials and supplies	47	38
Fuel and power	33	32
Other costs	138	148
Total distribution expenses	**4 552**	**3 551**

NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS (continued)

17. OTHER INCOME/EXPENSES

Other incomes for the six months ended 30 June 2016 amounted to ₽22 mln (for six months ended 30 June 2015 – ₽337 mln, including ₽327 mln income from disposal of non-current assets).

18. NET FINANCE COSTS

	Six months ended 30 June	
	2016	**2015**
Net interest on bank overdrafts and loans	622	681
Costs of arrangement of borrowings, including cost of bank guarantees	332	253
Net currency exchange differences loss	106	26
Total net finance costs	**1 060**	**960**

19. INCOME TAX

	Six months ended 30 June	
	2016	**2015**
Current income tax, (charge)	(36)	(130)
Prior periods adjustments for income tax	16	18
Total current income tax	**(20)**	**(112)**
Deferred income tax	35	139
Total income tax	**15**	**27**

Income tax rates applicable in the six months ended 30 June 2016 and 30 June 2015 were as follows: Russian Federation – 20%, Permsky Krai of Russian Federation – 15.5%, Cyprus – 12.5%.

Companies engaged in the production of poultry 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:

	Six months ended 30 June	
	2016	**2015**
Profit before tax	113	71
Tax calculated at 20%	**(23)**	**(14)**
Tax effect of items which are not deductible or assessable for taxation purposes		
Effect of income which is subject to tax at 0 rate	1	9
Effect of local tax rates different to 20%	41	48
Previous reporting period tax revised	16	18
Effect of expenses not deductible for tax purposes	(20)	(34)
Total income tax	**15**	**27**

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	
	2016	**2015**
Profit attributable to equity holders	99	70
Average number of ordinary shares in issue (thousands)	17 172	17 205
Basic and diluted earnings per share, RUB	**5.77**	**4.07**

NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS (continued)

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	
	2016	**2015**
Shares issued at 1 January	**24 954**	**24 954**
Effect of own shares held	(7 782)	(7 749)
Average number of outstanding shares (thousands)	**17 172**	**17 205**

21. BUSINESS COMBINATIONS

In the reporting period the Group has not conducted 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.

For the six months ended 30 June 2016 share of net income in amount of ₽3 mln is recognised in the statement of financial results and the carrying amount of the Group’s investment in associates as of 30 June 2016 amounted to ₽703 mln.

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 (continued)

Financial results of the Group by operational segments for the six months ended 30 June 2016:

Breakdown by segments	Alcohol	Food	Holding Companies	Total
Revenue, RAS	32 361	4 955	67	37 383
Revenue, IFRS including intersegment revenue	12 850	3 274	67	16 191
Revenue, IFRS net of intersegment revenue	**12 806**	**3 273**	**27**	**16 106**
Gross Profit, IFRS	6 100	765	41	6 906
Gross Profit, IFRS net of intersegment	**6 067**	**764**	**23**	**6 854**
Depreciation and amortisation	(289)	(105)	(2)	(396)
Capital expenditure on property, plant and equipment, intangible assets	672	23	-	695

Financial results of the Group by operational segments for the six months ended 30 June 2015:

Breakdown by segments	Alcohol	Food	Holding Companies	Total
Revenue, RAS	23 437	4 898	53	28 388
Revenue, IFRS including intersegment revenue	9 804	3 239	53	13 096
Revenue, IFRS net of intersegment revenue	**9 768**	**3 238**	**16**	**13 022**
Gross Profit, IFRS	4 745	763	29	5 537
Gross Profit, IFRS net of intersegment	**4 691**	**763**	**29**	**5 483**
Depreciation and amortisation	273	100	14	387
Capital expenditure on property, plant and equipment, intangible assets	394	43	-	437

Total assets by segments:

Breakdown by segments	Alcohol	Food	Holding Companies	Total
Assets, IFRS at 30 June 2016	29 650	4 827	1 819	36 296
Assets, IFRS at 31 December 2015	28 837	5 383	1 433	35 653

Segment revenue reconciliation to the Group's revenue for the six months ended 30 June 2016:

Breakdown by segments	Alcohol	Food	Holding Companies	Total
Revenue, RAS	**32 361**	**4 955**	**67**	**37 383**
Cut-off adjustment and reclassification	(90)	(62)	-	(152)
Elimination of intercompany transactions	(19 465)	(1 620)	(40)	(21 125)
Revenue, IFRS	**12 806**	**3 273**	**27**	**16 106**

Segment revenue reconciliation to the Group's revenue for the six months ended 30 June 2015:

Breakdown by segments	Alcohol	Food	Holding Companies	Total
Revenue, RAS	**23 437**	**4 898**	**53**	**28 388**
Cut-off adjustment and reclassification	(737)	(98)	-	(835)
Elimination of intercompany transactions	(13 633)	(1 659)	-	(15 292)
Other adjustments	701	97	(37)	761
Revenue, IFRS	**9 768**	**3 238**	**16**	**13 022**

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

NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS (continued)

24. RELATED PARTY TRANSACTIONS

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

Remuneration paid to the key management personnel for the six months ended 30 June 2016 was ₽127 mln (for the six months ended 30 June 2015 – ₽152 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	
	2016	**2015**
Sales of goods	811	714
Sales of services	28	29
Total sales of goods and services	**839**	**743**

Purchases of goods and services:

	Six months ended 30 June	
	2016	**2015**
Purchases of goods and services	208	120

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

	30 June 2016	**31 December 2015**
Trade and other receivables from related parties	2 016	1 462
Trade and other payables to related parties	39	82

25. INTEREST IN JOINT VENTURE

In July 2010 Synergy Group and Veda Group have signed mutual exclusive long term agreement for joint operations for distribution and production of Veda vodka. According to the agreement, Synergy produces Veda vodka at Mariinsky Distillery and distributes through Synergy’s federal distribution network.

Ownership interest of the Group held in jointly controlled assets and operations is 49%. The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses. Value of assets, liabilities and financial results are immaterial for the Group and cannot be disclosed in accordance with agreement on joint operations.

26. CONTINGENCIES AND COMMITMENTS

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.

NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS (continued)

Contractual commitments

As at 30 June 2016 the Group had no significant contractual commitments for the purchase of components for construction of Property, Plant and Equipment.

Leasing agreement

As at 30 June 2016 the Group had contractual commitments for long-term non-cancellable lease for ₽110 mln (at 31 December 2015 in amount of ₽164 mln).

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.

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.

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.

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.

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.

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.

NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS (continued)

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 2016 was ₽25,433 mln (31 December 2015 – ₽21,516 mln). Bank fees for the guarantees are included in net financial costs.

27. EVENTS AFTER THE BALANCE SHEET DATE

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.