30/1, Obrucheva street, bldg. 1, Moscow, Russia, 117485
Tel.: +7 (495) 775-30-50, Fax: +7 (495) 775-30-52
http://www.sygroup.ru
e-mail: info@sygroup.ru

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2014

OAO SYNERGY
(SYNERGY GROUP)

MOSCOW 2015

CONTENTS

Information about the audited entity

Name: OAO Synergy

Address: 28A, Lenin Street, Zvenigorod, Moscow Region, 143180

Basic state registration number 1047796969450

Information about the independent auditor

Name: “Baker Tilly Russaudit”, Ltd

Address: Bl. 1, 15, Zubarev Pereulok, Moscow 129164

Telephone: (495) 783-88-00

Fax: (495) 783-88-94

Basic state registration number: 1037700117949

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

Number in the register of auditors and auditing organizations: 10402000018

An independent member of Baker Tilly International

BAKER TILLY RUSSAUDIT

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of OAO Synergy and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2014, 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 OAO Synergy 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 Russian Federal Standards on Auditing and 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 a sufficient and appropriate basis for an audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of OAO Synergy and its subsidiaries as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

6 April 2015

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

M.B. Pavlova

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

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	2014	2013
Sales		46 814	44 594
Excise duties		(18 651)	(18 216)
Net revenue	27	**28 163**	**26 378**
Cost of sales	17	(16 135)	(15 098)
Gross profit		**12 028**	**11 280**
General and administrative expenses	18	(2 411)	(2 053)
Distribution expenses	19	(7 389)	(5 871)
Other income/(expense)	20	46	(229)
Operating profit		**2 274**	**3 127**
Net finance costs	21	(945)	(1 202)
Profit before tax		**1 329**	**1 925**
Income tax	22	(239)	(384)
Total comprehensive income for the period		**1 090**	**1 541**
Attributable to			
Equity holders of the Company		1 065	1 486
Non-controlling interest		25	55
Basic earnings per share	24	**61.73**	**82.32**
(expressed in Russian Rubles per share)			

Notes to the financial statements on pages 9 through 36 shall be part and parcel of these Financial Statements

Mechetin A.A., Chaiman of Management Board ______________________
Kim E.S., Chief Accountant ____________________
6 April 2015

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 2014	31 December 2013
ASSETS			
Non-current assets			
Property, plant and equipment	7	7 021	6 327
Goodwill	9	235	213
Intangible assets	8	7 002	6 693
Other long-term assets	7	122	254
Deferred tax assets	23	456	506
Total non-current assets		**14 836**	**13 993**
Current assets			
Inventories	10	5 355	7 096
Biological assets	11	290	163
Trade and other receivables	12	13 153	12 162
Prepayments		571	383
Income tax overpaid		32	18
Cash and cash equivalents	13	482	467
Total current assets		**19 883**	**20 289**
TOTAL ASSETS		**34 719**	**34 282**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Equity and reserves			
Share capital	14	2 495	2 495
Treasury Shares	14	(785)	(733)
Retained earnings		11 127	10 062
Other reserves	14	5 572	5 829
Total equity attributable to shareholders of OAO Synergy		**18 409**	**17 653**
Non-controlling interest		735	716
Total equity and reserves		**19 144**	**18 369**
Non-current liabilities			
Loans and borrowings	15	5 544	5 804
Deferred tax liabilities	23	532	543
Total non-current liabilities		**6 076**	**6 347**
Current liabilities			
Loans and borrowings	15	3 164	875
Trade and other payables	16	6 153	8 377
Income tax payable		182	314
Total current liabilities		**9 499**	**9 566**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**34 719**	**34 282**

Notes to the financial statements on pages 9 through 36 shall be part and parcel of these Financial Statements

Mechetin A.A., Chaiman of Management Board ____________________
Kim E.S., Chief Accountant ____________________
6 April 2015

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Treasury Shares	Retained earnings	Other reserves	Total shareholders' equity	Non–controlling interest	Total
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)**
Total comprehensive income 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**
Other changes in non–controlling interest	–	–	–	–	–	1	1
Dividends accrued to non–controlling interest	–	–	–	–	–	(7)	(7)
Share based benefits (Note 14)	–	20	–	89	109	–	109
Repurchase of own shares	–	(72)	–	(346)	(418)	–	(418)
Total changes, not recorded into net profit	**–**	**(52)**	**–**	**(257)**	**(309)**	**(6)**	**(315)**
Total comprehensive income for the period	–	–	1 065	–	1 065	25	1 090
Balance at 31 December 2014	**2 495**	**(785)**	**11 127**	**5 572**	**18 409**	**735**	**19 144**

Notes to the financial statements on pages 9 through 36 shall be part and parcel of these Financial Statements

Mechetin A.A., Chairman of Management Board ______________________
Kim E.S., Chief Accountant ______________________
6 April 2015

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

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

CONSOLIDATED CASH FLOW STATEMENT

	Note	2014	2013
Cash flows from operating activities			
Profit before income tax and finance costs		2 274	3 127
Adjustments to reconcile profit to cash generated from operations			
Depreciation and amortisation		699	547
(Gain)/loss on disposal of property, plant and equipment		(10)	66
Share based benefits	14	109	–
(Gain) on change in fair value of biological assets	11	(87)	(12)
Other non-cash transactions		78	(47)
Changes in working capital:			
(Increase)/decrease in inventories and biological assets		1 826	(288)
(Increase)/decrease in accounts receivable		(1 288)	(2 553)
Increase/(decrease) in accounts payable		(2 854)	1 765
Cash flows from operating activities		**747**	**2 605**
Interest paid		(1 265)	(1 276)
Income tax paid		(360)	(319)
Net cash flow from operating activities		**(878)**	**1 010**
Cash flows from investing activities			
Acquisition of subsidiaries	25	11	44
Acquisition of property, plant and equipment and intangible assets		(790)	(1 147)
Disposal of property, plant and equipment		96	450
Net cash flow from investing activities		**(683)**	**(653)**
Cash flows from financing activities			
Repurchase of own shares		(418)	(535)
Dividends paid to non-controlling interest		(16)	–
Loans received		30 926	22 813
Loans repaid		(28 916)	(22 875)
Net cash flow from financing activities		**1 576**	**(597)**
Net increase/(decrease) in cash and cash equivalents		**15**	**(240)**
Cash and cash equivalents at beginning of the year	13	467	707
Cash and cash equivalents at end of the year	13	**482**	**467**

Notes to the financial statements on pages 9 through 36 shall be part and parcel of these Financial Statements

Mechetin A.A., Chairman of Management Board ____________________

Kim E.S., Chief Accountant ____________________

6 April 2015

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 2014		31 December 2013	
	Group's voting power, %	**Group's effective ownership, %**	**Group's voting power, %**	**Group's effective ownership, %**
Distilled spirit production plants				
ROOM ZAO	100%	100%	100%	100%
Alviz OAO	74%	74%	74%	74%
Habarovskiy Distillery OAO	73%	70%	73%	70%
Mariinsk Distillery OAO	98%	98%	98%	98%
URALALCO OAO	97%	97%	97%	97%
Ussuriysky Balsam OAO	84%	83%	84%	83%
Tradition for Quality LLC	100%	100%	100%	100%
Distributing companies				
Synergy Market Arkhangelsk, ZAO	100%	100%	100%	100%
Synergy Market Vostok, LLC	100%	100%	100%	100%
Synergy Market DV, LLC	100%	100%	100%	100%
Synergy Import, LLC	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%	0%	0%
Trading House Synergy Market LLC	100%	100%	100%	100%
Beluga Vodka International Limited	100%	100%	100%	100%
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%	84%	91%	91%
PPZ Tsarevschinbsky-2 OAO	100%	92%	100%	92%
Rodstor JSC, distributing company in food segment	100%	100%	100%	100%
Holding companies				
Synergy, OAO	parent company of the Group			
Penta Agrogroup, ZAO	100%	100%	100%	100%
Synergy capital, OAO	100%	100%	100%	100%
Synergy-East, OAO	100%	100%	100%	100%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

2. BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards (‘IFRSs”) and Federal Low of the Russian Federation dd. 27 July 2010 No. 208 “About consolidated statements”.

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 entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations, Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The Group measures non-controlling interest on a transaction-by-transaction basis, either at: (a) fair value, or (b) the non-controlling interest’s proportionate share of net assets of the acquiree.

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

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of the Group's equity

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 residual value of an asset is the estimated amount that the Group would currently obtain from disposing of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Gains and losses on disposals are determined by company as the proceeds less the carrying amount and are recognised within other income/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 recognized at the date of acquisition 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

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.

Acquired brands are stated at fair value at the acquisition date. Internally generated brands are not capitalised within the statement of financial position.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

3.7. 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.

3.8. 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.

3.9. 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.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and its recoverable amount that is the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. For other assets the recoverable amount is the greater of the fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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.

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. Financial liabilities

Financial liabilities are classified as either financial liabilities ‘at fair value through profit or loss’ (FVTPL) or ‘other financial liabilities’.

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized in the income statement.

3.13. 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.

Treasury shares accounted at nominal value separately from share capital. Differences between purchase price and nominal value arising at acquisition or sale of treasury shares are accounted as changes in other reserves in the shareholder’s equity.

3.14. 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.

3.15. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3.16. 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.

3.17. 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.

Sale of treasury shares to staff members at a price below quoted price is recognized as employee benefit. The sale is recognized as increase in shareholder's equity in amount of transferred shares quoted price with simultaneous recognition of expense in the statement of comprehensive income in amount of difference between quoted price and consideration received from employees.

3.18. 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.

3.19. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

3.20. 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.

3.21. Finance costs

Finance costs are charged to the statement of comprehensive income over the period during which those occurred. Borrowing costs on loans specifically for the purchase or construction of a qualifying asset are capitalized as a part of the cost of the asset they are financing.

Costs of arrangement of borrowings include bank commissions for arrangement of borrowings and costs of bank guarantees.

3.22. 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:

Impairment of assets

The Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets are impaired.

The discounted cash flow model requires numerous estimates and assumptions regarding the future rates of market growth, market demand for the products in different price segments and the future margin in sales of different brands.

Due to their subjective nature, these estimates will likely differ from future actual results of operations and cash flows, and it is possible that these differences could be material.

Useful economic life of property, plant and equipment

The Group's property, plant and equipment are depreciated using the straight-line method over their estimated useful lives which are determined based on the Group's management business plans and operational estimates, related to those assets.

The Group's management periodically reviews the appropriateness of the useful economic lives.

The review is based on the current condition of the assets, the estimated period during which they will continue to bring economic benefit to the Group, historic information on similar assets and industry trends.

Tax legislation

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 interpretations issued by the International Accounting Standards Board (IASB) became effective for the periods beginning on or after 1 January 2014:

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

The Group has applied the amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities for the first time in the current year. The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

The amendments have been applied retrospectively. The Group has assessed whether certain of its financial assets and financial liabilities qualify for offset based on the criteria set out in the amendments and concluded that the application of amendments has had no impact on the amounts recognised in the Group's consolidated financial statements.

Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets

The Group has applied the amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets for the first time in the current year. The amendment to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less cost of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 Fair Value Measurements.

The application of these amendments has had no material impact on the disclosures in the Group's consolidated financial statements.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting

The Group has applied the amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting for the first time in the current year. The amendments to IAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness.

As the Group does not have any derivatives that are subject to novation, the application of these amendments has had no impact on disclosures or on the amounts recognised in the Group's consolidated financial statements.

IFRIC 21 Levies

The Group has applied IFRIC 21 Levies for the first time in the current year. IFRIC 21 adresses the issue as to when to recognise a liability to pay a levy imposed by a government. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in future period.

The amendments have been applied retrospectively. The application of this Interpretation has had no material impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2014, and have not been early adopted:

	Effective for annual periods beginning on or after
IFRS 9, Financial instruments	1 January 2018
IFRS 15, Revenue from Contracts with Customers	1 January 2017
Amendments to IFRS 11, Accounting for Acquisition of Interest in Joint Operations	1 January 2016
Amendments to IAS 16 and IAS 38, Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to IAS 16 and IAS 41, Agriculture: Bearer Plants	1 January 2016
IFRS 14, Regulatory Deferral Accounts	1 January 2016
Amendments to IAS 19, Defined Benefit Plans: Employee Contribution	1 July 2014
Amendments to IFRSs, Annual Improvements to IFRSs 2010-2012 Cycle	1 July 2014
Amendments to IFRSs, Annual Improvements to IFRSs 2011-2013 Cycle	1 July 2014

IFRS 9 Financial Instruments. The final version of IFRS 9 Financial Instruments replaces most of the guidance in IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard incorporates the final requirements on all three phases of the financial instruments projects – classification and measurement, impairment, and hedge accounting.

IFRS 15 Revenue from Contracts with Customers is a converged standard for revenue recognition. It supersedes IAS 18 Revenue, IAS 11 Construction Contracts and related Interpretations. The objective of IFRS 15 is to clarify the principles of revenue recognition. This includes removing inconsistencies and perceived weaknesses and improving the comparability of revenue recognition practices across companies, industries and capital markets.

The Group recognises that the new standard IFRS 9 and IFRS 15 introduce significant changes to the accounting for financial instruments and revenue. The Group is currently assessing the impact of the new standard on its consolidated financial statements;

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. 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 (Note 11). 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 31 December 2014 fair value of poultry exceeded its carrying value by ₽145 mln (by ₽60 mln as of 31 December 2013).

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

Financial instruments carried at fair value

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

Financial assets carried at amortised cost

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

Liabilities carried at amortised cost

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

Strong volatility of Russian rouble exchange rate and bank interest rates in the end of the year 2014 and in the beginning of 2015 makes calculation of loans and bonds fair value to be impracticable.

Carrying value of loans and issued bonds at 31 December 2013 approximate their fair values.

7. PROPERTY, PLANT AND EQUIPMENT

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

	Land and buildings	Machines and equipment	Vehicles	Furniture and office equipment	Assets under construction	Total
Acquisition within subsidiaries	163	13	–	2	–	178
Additions	387	324	53	67	363	1 194
Reclassification	454	42	1	1	(498)	–
Disposals	(118)	(94)	(20)	(38)	–	(270)
31 December 2014	**6 185**	**2 918**	**240**	**378**	**434**	**10 155**
Depreciation						
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**
Acquisition within subsidiaries	1	1	–	–	–	2
Charge for the period	202	268	26	45	–	541
Disposals	(9)	(78)	(14)	(34)	–	(135)
31 December 2014	**1 105**	**1 653**	**126**	**250**	**–**	**3 134**
Carrying amount						
31 December 2012	**3 806**	**1 285**	**98**	**95**	**660**	**5 944**
31 December 2013	**4 388**	**1 171**	**92**	**107**	**569**	**6 327**
31 December 2014	**5 080**	**1 265**	**114**	**128**	**434**	**7 021**

Carrying value of property, plant and equipment pledged as a security for bank borrowings is disclosed in Note 15.

Cost of property, plant and equipment with zero carrying value at 31 December 2014 amounted to ₽1,098mln (31 December 2013 – ₽960mln).

Other long-term assets

Other long-term assets include prepayments given for acquisition of property, plant and equipment in amount ₽117mln and long-term security payment under lease of property in amount ₽6mln (as of 31 December 2013 – ₽235mln and ₽19mln).

8. INTANGIBLE ASSETS

	Software, patents, licenses and others	Brands	Total
Cost			
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**
Acquisition within subsidiaries	40	–	40
Acquisition	21	407	428
Disposals	–	–	–
31 December 2014	**942**	**6 456**	**7 398**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

	Software, patents, licenses and others	Brands	Total
Amortisation and impairment			
31 December 2012	**127**	**66**	**193**
Charge for the year	45	–	45
Disposals	–	(1)	(1)
31 December 2013	**172**	**65**	**237**
Charge for the year	160	–	160
Disposals	–	(1)	(1)
31 December 2014	**332**	**64**	**396**
Net book value			
31 December 2012	**73**	**5 665**	**5 738**
31 December 2013	**709**	**5 984**	**6 693**
31 December 2014	**610**	**6 392**	**7 002**

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 statement of financial position in accordance with the group stated accounting policies.

Intangible assets are not pledged as a security for bank borrowings as of 31 December 2014 and 31 December 2013.

9. GOODWILL

Goodwill arising on consolidation relates to acquisition of subsidiaries. Net book value amounted to ₽235mln as of 31 December 2014 and ₽213mln as of 31 December 2013. Increase in goodwill in the year ended 31 December 2014 is related to acquisition of a subsidiary (Note 25).

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:

	31 December 2014	31 December 2013
Habarovskiy Distillery OAO	89	89
URALALCO OAO	41	41
Ussuriysky Balsam OAO	32	32
Mariinsk Distillery OAO	28	28
Synergy Market Perm, LLC	22	–
Other	23	23
Total goodwill	**235**	**213**

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

	2014	2013
Growth rate beyond five years	3.0%	4.0%
Pre-tax discount rate	18.5%	15.3%

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.

10. INVENTORIES

	31 December 2014	31 December 2013
Finished goods	3 045	5 440
Raw materials	2 014	1 467
Work-in-progress	296	189
Total inventories	**5 355**	**7 096**

Value of inventories pledged as a security for bank borrowings is disclosed in Note 15.

11. BIOLOGICAL ASSETS

	Animals (chicken)	Crops	Total biological assets
1 January 2013	**163**	**38**	**201**
Net (sales)	(12)	(38)	(50)
Gain on change in fair value	12	–	12
Reclassification of the harvest to inventories	–	–	–
31 December 2013	**163**	**–**	**163**
1 January 2014	**163**	**–**	**163**
Net purchases	40	–	40
Gain on change in fair value	87	–	87
31 December 2014	**290**	**–**	**290**

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

12. TRADE AND OTHER RECEIVABLES

	31 December 2014	31 December 2013
Trade accounts receivable	10 546	9 323
Provision for impairment of trade accounts receivable	(127)	(124)
Total trade accounts receivable	**10 419**	**9 199**
Other accounts receivable, including VAT and excises recoverable	2 812	3 037
Provision for impairment of other accounts receivable	(78)	(74)
Total other accounts receivable	**2 734**	**2 963**
Total account receivable	**13 153**	**12 162**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5 largest customers contributed 9% of consolidated revenue of the Group for the year ended 31 December 2014 and debt of 5 larges debtors amounted to 10% of accounts receivable as of 31 December 2014 (10% and 10% respectively in the year 2013).

13. CASH AND CASH EQUIVALENTS

	31 December 2014	31 December 2013
Cash in banks	454	444
Cash in transit	14	8
Cash on hand	14	15
Total cash and cash equivalents	**482**	**467**

At 31 December 2014 and 31 December 2013 there are no effective restrictions on the use of cash.

14. SHARE CAPITAL AND OTHER RESERVES

Share capital

Share capital is the authorised capital of the parent company.

As of 31 December 2013 and 31 December 2014 Synergy OAO issued 24 954 049 ordinary shares of ₽100 each at par. The Company’s common shares are admitted to trading on the Moscow Exchange (MOEX) under the ticker symbol “SYNG”.

Treasury shares

As of 1 January 2013 the Group held 7,041 thousands treasury shares.

During the year 2013:

– 716 thousand shares were transferred into decrease of share capital and cancelled.

– 1,003 thousand shares were repurchased from the market at amount of ₽535 mln. Change in value of treasury shares in amount of ₽101 mln. (1,003 thousand shares at nominal value of ₽100) and change in other reserves in amount of ₽434 mln. were recognised in the statement of changes in equity.

As of 31 December 2013 quantity of treasury shares amounted to 7,328 thousand shares.

During the year 2014:

– 720 thousand shares were repurchased from the market at amount of ₽418 mln. Change in value of treasury shares in amount of ₽72 mln. and change in other reserves in amount of ₽346 mln. were recognised in the statement of changes in equity.

– 202 thousand shares were sold to staff members at cost of ₽1 per share. Based on quoted prices as of the date of shares transfer, the Group recognised increase in equity in amount of ₽109 mln. and employee benefit expense in amount of ₽109 mln. recognised in general and administrative expenses in the statements of comprehensive income.

As of 31 December 2014 quantity of treasury shares amounted to 7,845 thousand shares.

Other reserves

Other reserves include consolidation reserve in amount of ₽ (454) mln., recognised at first adoption of IFRS as of 1 January 2005 and share premium reserve recognised at IPO and SPO. Other reserves change as a result of sale or purchase of treasury shares in amount of excess of transaction price over nominal value of share in amount of ₽100 per share.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. LOANS

	31 December 2014	31 December 2013
Unsecured non-current loans	2 500	3 750
Secured non-current loans	3 044	2 054
Total non-current loans	**5 544**	**5 804**
Unsecured loans and borrowings	1 692	399
Secured bank loans	1 472	476
Total current loans	**3 164**	**875**
Total loans	**8 708**	**6 679**

For the end of the reporting period the corporate weighted average annual interest rate on bank loans was 11.74% (for the end of the year 2013 the corporate weighted average annual interest rate on bank loans was 10.81%).

The maturity of loans and borrowings is as follows:

	31 December 2014	31 December 2013
On demand or within one year	3 164	875
Between the first and second year	1 848	3 475
Between the second and fifth years	3 696	2 284
After five years	-	45
Total loans and borrowings	**8 708**	**6 679**

As at 31 December 2014 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 2014, bank borrowings were secured by:

- Plant, property and equipment with a carrying value of ₽2,900mln (at 31 December 2013 – ₽2,801mln);
- Inventories with a carrying value of ₽156mln (at 31 December 2013 – ₽153mln).

As of 31 December 2013 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.

In December 2014 Fitch agency has upgraded Synergy's Long-term foreign and local currency Issuer Default Ratings (IDRs) to 'B+' from 'B' and a National Long-term Rating from "BBB+" (rus) to "A-" (rus) The Outlook is Stable.

Unutilised credit facilities as at 31 December 2014 amounted to ₽6,640mln (at 31 December 2013 – ₽7,671mln).

16. TRADE AND OTHER PAYABLES

	31 December 2014	31 December 2013
Excises, VAT and other taxes payable	3 366	5 529
Trade payables	1 991	1 538
Other payables	672	1 171
Advances obtained	124	139
Total trade and other payables	**6 153**	**8 377**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. COST OF SALES

	2014	2013
Materials and supplies	13 821	12 985
Wages and salaries	1 212	1 036
Depreciation and amortisation	368	354
Fuel and power	226	200
Repairs and maintenance	144	132
Rent	52	35
Other costs	312	356
Total cost of sales	**16 135**	**15 098**

18. GENERAL AND ADMINISTRATION EXPENSES

	2014	2013
Wages and salaries	1 629	1 359
Bank services, Information and consulting services, Insurance, Security	278	212
Depreciation and amortisation	107	130
Rent	113	80
Repairs and maintenance	77	65
Sundry taxes	75	60
Fuel and power	33	60
Other expenses	99	87
Total general and administrative expenses	**2 411**	**2 053**

19. DISTRIBUTION EXPENSES

	2014	2013
Advertising, promotion, transportation	4 602	3 749
Wages and salaries	1 879	1 395
Rent	288	258
Depreciation and amortisation	224	63
Materials and supplies	70	75
Fuel and power	69	59
Other expenses	257	272
Total distribution expenses	**7 389**	**5 871**

20. OTHER INCOME/EXPENSES

	2014	2013
Impairment of accounts receivable	(36)	(53)
Write-off of accounts payable	14	6
Gain/(loss) on change in fair value of biological assets	87	12
Income/(loss) on disposal of materials	(3)	(100)
Income/(loss) on disposal of fixed assets	10	(66)
Other income/(expense)	(26)	(28)
Total other income / (expenses)	**46**	**(229)**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. NET FINANCE COSTS

	2014	2013
Net interest on bank overdrafts and loans	832	697
Costs of arrangement of borrowings, including cost of bank guarantees	458	471
Net foreign exchange differences (income) / expense	(345)	34
Total net finance costs	**945**	**1 202**

22. INCOME TAX

	2014	2013
Current income tax, (charge)	(277)	(494)
Previous reporting period tax revised	68	18
Deferred income tax income	(30)	92
Total income tax, (charge)	**(239)**	**(384)**

Income tax rates applicable in the year ended 31 December 2014 were as follows: Russian Federation – 20%, Permsky Krai of Russian Federation – 15.5%, Cyprus – 12.5% (in 2013: Russian Federation – 20%, Permsky Krai of Russian Federation – 15.5%, Cyprus – 10%).

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:

	2014	2013
Profit before tax	1 329	1 925
Tax calculated at 20%	**(266)**	**(385)**
Tax effect of items which are not deductible or assessable for taxation purposes		
Effect of income which is subject to tax at 0 rate	27	48
Effect of local tax rates different to 20%	66	81
Prior period tax adjustments	68	18
Effect of expenses not deductible for tax purposes	(134)	(146)
Total income tax (charge)	**(239)**	**(384)**

23. 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 2014	Credited/ (charged) to profit/ loss	Acquisition of subsidiaries	31 December 2014
Property, plant and equipment	80	(1)	–	79
Intangible assets	1	–	–	1
Inventories	210	(110)	–	100
Accounts receivable	76	83	–	159
Accounts payable	95	(77)	–	18
Other assets and liabilities	44	55	–	99
Deferred tax assets	**506**	**(50)**	**–**	**456**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

	1 January 2014	Credited/ (charged) to profit/ loss	Acquisition of subsidiaries	31 December 2014
Property, plant and equipment	(146)	(2)	(2)	(150)
Intangible assets	(186)	26	(6)	(166)
Inventories	(18)	(19)	–	(37)
Accounts receivable	(126)	(31)	(1)	(158)
Accounts payable	(29)	12	–	(17)
Other assets and liabilities	(38)	34	–	(4)
Deferred tax liabilities	**(543)**	**20**	**(9)**	**(532)**
Net deferred tax liability	**(37)**	**(30)**	**(9)**	**(76)**

	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)**

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 (IFRS 3); impairment of receivables; and provisions to write inventories down to net realisable value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

24. 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.

	2014	2013
Profit attributable to equity holders	1 065	1 486
Weighted average number of ordinary shares in issue (thousand)	17 252	18 050
Basic earnings per share, ₽	**61.73**	**82.32**

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

	2014	2013
Shares issued at 1 January	**24 954**	**25 670**
Effect of shares cancellation (from 10 July 2013)	–	(343)
Effect of own shares held	(7 702)	(7 277)
Weighted average number of outstanding shares	**17 252**	**18 050**

25. BUSINESS COMBINATIONS

In December 2014 the Group acquired Primtehpromsnab ZAO for ₽11mln. The acquired company does not carry activity and is an owner of distributing company Krasnoe i Beloe OOO. The coincidence of name with well known retail chain Krasnoe I Beloe is accidental. The distributing company renamed to Synergy Market Perm OOO.

From the date of acquisition the acquired companies did not contribute revenue as the acquisition was made close to the year end.

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

	Attributable fair value
Cash and cash equivalents	11
Intangible assets	40
Property, plant and equipment	176
Inventories	128
Trade and other receivables	706
Net deferred tax liability	(9)
Trade and other payables	(1 063)
Net assets acquired	**(11)**
Purchase consideration	11
Result arising on acquisition, accounted as Goodwill	**22**
Purchase consideration settled in cash	–
Cash and cash equivalents acquired	11
Cash inflow on acquisition	**11**

Comparative information for the year ended 31 December 2013.

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

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**

26. 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%.

27. 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 2014
Revenue, RAS	58 710	8 751	39	67 500	(123)	67 377
Revenue, IFRS including intersegment revenue	22 525	5 722	39	28 286	(123)	28 163
Revenue, IFRS net of intersegment revenue	**22 441**	**5 722**	**–**	**28 163**	**–**	**28 163**
Gross Profit, IFRS	10 779	1 369	(16)	12 132	(104)	12 028
Assets, IFRS	33 298	13 318	4 658	51 274	(16 555)	34 719

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
Assets, IFRS	30 422	7 958	8 761	47 141	(12 859)	34 282

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 2014
Revenue, RAS	**58 710**	**8 751**	**39**	**67 500**	**(123)**	**67 377**
Cut-off adjustment	(379)	–	-	(379)		(379)
Reclassification	(170)	(81)	-	(251)		(251)
Elimination of intercompany transactions	(35 665)	(2 948)	-	(38 613)		(38 613)
Other adjustments	29	–	-	29		29
Revenue, IFRS	**22 525**	**5 722**	**39**	**28 286**	**(123)**	**28 163**

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**

28. 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.

28.1. 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 ₽382mln (trade export accounts receivable nominated in US Dollars and EUR in amount of ₽343mln and cash nominated in US Dollars and EUR in amount of ₽39mln).

At 31 December 2014 the Group net exposure to currency risk was ₽153mln (trade export accounts receivable nominated in US Dollars and EUR in amount of ₽140mln and cash nominated in US Dollars and EUR in amount of ₽13mln).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The effect of a 20% strengthening of US Dollars and EUR against Russian Rouble at the reporting date would, all other variables held constant, have resulted in an increase in post-tax profit for the year and increase of net assets in amount of ₽67 mln (in 2013 – ₽27 mln). A 20% weakening in the exchange rate would, on the same basis, have resulted in negative result in the same amount.

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 15.

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.

28.2. 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.

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 2014	31 December 2013
Trade and other accounts receivable	13 153	12 162
Cash and cash equivalents	482	467
Maximum exposure to credit risk	**13 635**	**12 629**

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 4% of the total receivables.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

	As at 31 December 2014		As at 31 December 2013	
	Gross	**Provision**	**Gross**	**Provision**
Current	12 713	–	11 657	–
Past due 90 – 180 days	408	8	485	17
Past due more than 180 days	237	197	218	181
Total accounts receivable	**13 358**	**205**	**12 360**	**198**

28.3. 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 disclosed in Note 15) and regularly review the current and future liquidity requirements.

Contractual maturities of financial liabilities as at 31 December 2014 are as follows:

	Carrying amount	12 months or less	1 – 2 years	More than two years
Loans and borrowings	8 708	3 164	1 848	3 696
Trade and other payables	6 153	6 153	–	–
Total loans and borrowings and payables	**14 861**	**9 317**	**1 848**	**3 696**

Contractual maturities of financial liabilities as at 31 December 2013 is 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**

28.4. 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 2014	31 December 2013
Loans and borrowings	8 708	6 679
Less: cash and cash equivalents	(482)	(467)
Net financial debt	**8 226**	**6 212**
Total equity and reserves	19 144	18 369
Gearing ratio	**0.430**	**0.338**

29. RELATED PARTY TRANSACTIONS

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

Compensation to key management personnel

Remuneration to key management personnel for the year 2014 was ₽304mln. (₽211mln reported in 2013).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

	2014	2013
Sales of goods	2 013	1 491
Sales of services	49	49
Total sales of goods and services	**2 062**	**1 540**

Purchases of goods and services

	2014	2013
Purchases of goods	291	346
Purchases of services	48	55
Total purchases of goods and services	**339**	**401**

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

	31 December 2014	31 December 2013
Trade and other receivables from related parties	1 261	1 865
Trade and other payables to related parties	77	175

30. CONTINGENCIES AND COMMITMENTS

30.1. 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.

30.2. Contractual commitments

As at 31 December 2014 the Group had no significant contractual commitments for the purchase of components for construction of Property, Plant and Equipment.

30.3. Leasing agreement

As at 31 December 2014 the Group had contractual commitments for non-cancellable lease for ₽159mln (at 31 December 2013 in amount of ₽66mln).

30.4. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30.5. 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.

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.

30.6. Operating environment

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30.7. Excise payments and bank guarantees

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

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

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

Amount of all effective bank guarantees as of 31 December 2014 was ₽27,419mln (31 December 2013 – ₽27,236mln). Bank fees for the guarantees are included in net financial costs.

31. 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.