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 AUDITOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

PAO SYNERGY
(SYNERGY GROUP)

MOSCOW 2017

CONTENTS

Information about the audited entity

Name: Public Joint-Stock Company “Synergy” (PAO Synergy)

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

Basic state registration number: 1047796969450

Information about the independent auditor

Name: “Baker Tilly Russaudit” Limited

Address: Bl 8, 5a, Novodmitrovskaya Street, Moscow 127015 Russia

Telephone: (495) 783-88-00

Fax: (495) 783-88-94

Principal state registration number: 1037700117949

Self-regulated auditing organization: Self-regulatory organization of auditors Association “Sodruzhestvo”

Principal Number of Registration Entry: 11606048583

An independent member of Baker Tilly International

BAKER TILLY RUSSIA

AUDITOR'S REPORT

To the Shareholders and the Board of Directors of Synergy PAO (SYNERGY GROUP)

Introduction

We have audited the accompanying consolidated financial statements of financial position of Synergy PAO and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2016, consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for 2016, and notes, comprising a summary of significant accounting policies and other explanatory information.

Audited Entity's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on the fair presentation of these consolidated financial statements based on our audit. We conducted our audit in accordance with Federal Auditing Standards 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 consolidated financial statements are free from material misstatement.

An audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The selected procedures are subject matter of auditor's judgment based on the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, we considered internal control relevant to the entity's preparation and fair presentation of the consolidated 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 included 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 consolidated financial statements.

We believe that the audit evidence we have obtained provides a sufficient basis to express an opinion on the fair presentation of these consolidated financial statements.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Synergy PAO and its subsidiaries as at 31 December 2016, and its financial performance and its cash flows for 2016 in accordance with International Financial Reporting Standards.

3 April 2017

M.B. Pavlova

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

Auditor's Qualification Certificate
No. 02-000067, dated 08.02.2012
Basic Registration Number
21606036232

Power of Attorney No. 08-10/17-8,
dated 09.01.2017

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	2016	2015
Revenue	30	35 903	30 706
Cost of sales	19	(21 385)	(18 033)
Gross profit		**14 518**	**12 673**
General and administrative expenses	20	(2 478)	(2 582)
Distribution expenses	21	(9 346)	(8 260)
Other income/(expense)	22	(208)	278
Operating profit		**2 486**	**2 109**
Share of income in associates	28	6	–
Net finance costs	23	(2 039)	(1 737)
Profit before tax		**453**	**372**
Income tax	24	(178)	(131)
Net income and total comprehensive income for the period		**275**	**241**
Attributable to			
Equity holders of the Company		237	210
Non-controlling interest		38	31
Basic and diluted earnings per share	26	**13.79**	**12.21**
(RUB per share)			

Notes to the consolidated financial statements on pages 9 through 34 shall be part and parcel of these Financial Statements

Mechetin A.A., Chairman of Management Board ____________________

3 April 2017

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31 December 2016	31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	7	6 579	6 724
Goodwill	10	230	235
Investment in associates	28	706	700
Intangible assets	9	8 653	7 228
Other long-term assets	8	115	102
Deferred tax assets	25	610	478
Total non-current assets		**16 893**	**15 467**
Current assets			
Inventories	11	8 789	7 137
Biological assets	12	274	281
Trade and other receivables	13	10 252	10 970
Prepayments		509	576
Income tax prepayment		25	61
Assets held for sale	14	241	–
Cash and cash equivalents	15	1 010	1 161
Total current assets		**21 100**	**20 186**
TOTAL ASSETS		**37 993**	**35 653**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Equity and reserves			
Share capital	16	2 495	2 495
Own shares repurchased from shareholders	16	(770)	(773)
Share premium	16	5 532	5 582
Retained earnings		11 505	11 268
Total equity attributable to shareholders of PAO Synergy		**18 762**	**18 572**
Non-controlling interest		691	689
Total equity and reserves		**19 453**	**19 261**
Non-current liabilities			
Loans and bonds	17	6 123	5 647
Deferred tax liabilities	25	845	555
Total non-current liabilities		**6 968**	**6 202**
Current liabilities			
Loans and bonds	17	2 930	2 802
Trade and other payables	18	8 423	7 326
Income tax payable		219	62
Total current liabilities		**11 572**	**10 190**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**37 993**	**35 653**

Notes to the consolidated financial statements on pages 9 through 34 shall be part and parcel of these Financial Statements

Mechetin A.A., Chairman of Management Board ______________________

3 April 2017

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Own shares	Share premium	Retained earnings	Total shareholders' equity	Non–controlling interest	Total
Balance at 31 December 2014	**2 495**	**(785)**	**5 572**	**11 127**	**18 409**	**735**	**19 144**
Other changes in non–controlling interest	–	–	–	–	–	(57)	(57)
Dividends accrued to non-controlling interest in subsidiaries	–	–	–	–	–	(20)	(20)
Separation of other consolidation reserves from share premium into retained earnings	–	–	69	(69)	–	–	–
Share based benefits (Note 16)	–	27	103	–	130	–	130
Repurchase of own shares	–	(15)	(162)	–	(177)	–	(177)
Total changes, not recorded into net profit	**–**	**12**	**10**	**(69)**	**(47)**	**(77)**	**(124)**
Total comprehensive income for the period	–	–	–	210	210	31	241
Balance at 31 December 2015	**2 495**	**(773)**	**5 582**	**11 268**	**18 572**	**689**	**19 261**
Other changes in non–controlling interest	–	–	–	–	–	(30)	(30)
Business combinations (Note 27)	–	–	–	–	–	(6)	(6)
Share based benefits (Note 16)	–	33	99	–	132	–	132
Repurchase of own shares	–	(30)	(149)	–	(179)	–	(179)
Total changes, not recorded into net profit	**–**	**3**	**(50)**	**–**	**(47)**	**(36)**	**(83)**
Total comprehensive income for the period	–	–	–	237	237	38	275
Balance at 31 December 2016	**2 495**	**(770)**	**5 532**	**11 505**	**18 762**	**691**	**19 453**

Notes to the consolidated financial statements on pages 9 through 34 shall be part and parcel of these Financial Statements

Mechetin A.A., Chairman of Management Board ____________________

3 April 2017

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

CONSOLIDATED CASH FLOW STATEMENT

	Note	2016	2015
Cash flows from operating activities			
Profit before income tax and finance costs		2 486	2 109
Adjustments:			
Depreciation and amortisation		726	776
(Gain)/loss on disposal of property, plant and equipment		8	(363)
Share based benefits	16	132	130
Goodwill impairment		5	–
Loss on change in fair value of biological assets	12	15	13
Other non-cash transactions		23	97
Changes in working capital:			
(Increase)/decrease in inventories and biological assets		(1 643)	(1 773)
(Increase)/decrease in accounts receivable		775	2 035
Increase/(decrease) in accounts payable		(363)	1 070
Cash flows from operating activities		**2 164**	**4 094**
Interest paid		(2 004)	(1 918)
Income tax paid		(63)	(109)
Net cash flow from operating activities		**97**	**2 067**
Cash flows from investing activities			
Acquisition of subsidiaries and associates	27, 28	16	(700)
Acquisition of property, plant and equipment and intangible assets		(579)	(639)
Disposal of property, plant and equipment and intangible assets		79	394
Net cash flow from investing activities		**(484)**	**(945)**
Cash flows from financing activities			
Repurchase of own shares		(179)	(177)
Dividends paid to non-controlling interest		–	(21)
Loans received and bonds issued		37 532	30 351
Loans and bonds repaid		(37 117)	(30 596)
Net cash flow from financing activities		**236**	**(443)**
Net increase/(decrease) in cash and cash equivalents		**(151)**	**679**
Cash and cash equivalents at beginning of the year	15	1 161	482
Cash and cash equivalents at end of the year	15	**1 010**	**1 161**

Notes to the consolidated financial statements on pages 9 through 34 shall be part and parcel of these Financial Statements

Mechetin A.A., Chairman of Management Board ____________________

3 April 2017

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. REPORTING ENTITY

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

The consolidated financial statements 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 business thereof.

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

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

	31 December 2016		31 December 2015	
	Group's voting power, %	**Group's effective ownership, %**	**Group's voting power, %**	**Group's effective ownership, %**
Distilled spirit production plants				
Arkhangelsk distillery	74%	74%	74%	74%
Habarovskiy Distillery AO	73%	71%	73%	69%
Mariinsk Distillery	99%	99%	98%	98%
URALALCO JSC (renamed to Bastion JSC in 2017)	98%	98%	97%	97%
Ussuriysky Balsam OAO	89%	89%	79%	79%
Tradition for Quality LLC (renamed to Georgievsky LLC in 2017)	100%	100%	100%	100%
Distributing companies				
Synergy Market Arkhangelsk, ZAO	100%	100%	100%	100%
Synergy Market Vostok OOO	100%	100%	100%	100%
Synergy Market DV, LLC	100%	100%	100%	100%
LLC "Synergy Import"	100%	100%	100%	100%
Synergy Market Khabarovsk, LLC	100%	100%	100%	100%
Synergy Market Nizhny Novgorod, LLC	100%	100%	100%	100%
Synergy Market Vladivostok, LLC	100%	100%	100%	100%
Synergy Market Perm, LLC	100%	100%	100%	100%
Trading house Synergy Market LLC	100%	100%	100%	100%
Beluga Vodka International Limited	100%	100%	100%	100%
Food production plants				
DAKGOMZ	97%	97%	97%	97%
Mikhailovskaya Poultry Plant AO	96%	96%	92%	92%
Ussuriysky Dairy Plant AO	92%	92%	92%	92%
Nahodkinsky meat-processing plant OAO	95%	92%	91%	84%
PPZ Tsarevschinsky-2 AO	100%	96%	100%	92%
TD Rodstor OOO, distributing company in food segment	95%	95%	95%	95%
Holding companies				
Synergy, Co	parent company of the Group			
JSC PentAgro	100%	100%	100%	100%
Synergy capital	100%	100%	100%	100%
Synergy-East, Co	100%	100%	100%	100%

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-FZ "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.

Goodwill arising on acquisitions of subsidiaries through transaction with shareholders of the Group is recognised 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. Fair value of chicken is measured based on market price of chicken with similar age, value and genetic merit. Market price is based on market prices applicable in the region.

3.9. Assets held for sale

The Group classifies long-term assets (of disposal group of assets or disposal subsidiaries) as held for sale in case agreement to sell the assets is concluded up to the date of issue of the consolidated financial statements or the Group officially announced by media or by own web-site to sell assets within 12 months after the reporting date and has a clear plan to execute the sale.

Non-current assets held for sale are classified as short-term assets in the Statement of Financial Position and measured at the lower of carrying amount and fair value less costs to sell.

3.10. 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 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.

3.11. 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.

3.12. 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.

3.13. 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.

3.14. 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.

Own shares accounted at nominal value separately from share capital. Differences between purchase price and nominal value arising at acquisition or sale of own shares are accounted as changes in share premium in the shareholder's equity.

3.15. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3.16. Trade accounts payable

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

3.17. 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.

3.18. 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 own 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.

3.19. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3.20. Revenue recognition

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

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

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

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

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

3.21. 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.

3.22. 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.

3.23. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

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

The following amendments and improvements to standards became effective for the reporting periods beginning on or after 1 January 2016:

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2016, and have not been early adopted:

- IFRS 9, Financial Instruments;
- IFRS 15, Revenue from Contracts with Customers and associated amendments to various other standards;
- Amendments to IFRS 10 and IAS 28 regarding the sale or contribution of assets between an investor and its associate or joint venture;
- IFRS 16, Leases. The Group is currently assessing the impact of the standard on its consolidated financial statements;
- Amendments to IAS 12, Recognition of Deferred Tax Assets for Unrealised Losses;
- Amendments to IAS 7, Disclosure Initiative;
- Amendments to IFRS 2, Share-based Payment;
- Amendments to IFRS 4, Applying IFRS 9 Financial instruments with IFRS 4, Insurance contracts;
- Annual Improvements to IFRSs 2014-2016;
- IFRIC 22, Foreign Currency Transactions and Advance Consideration;
- Amendments to IAS 40, Transfers of Investment property.

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

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 12). 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 2016 the Group fair value of poultry exceeded its carrying value calculated under Russian standards of accounting by ₽119 mln (as of 31 December 2015 – by ₽134 mln).

Bonds are measured at amortised cost (Level 2 of the fair value measurement hierarchy) less amortised issue costs. Carrying value of bonds amounted to ₽2,000 mln as of 31 December 2015 and to ₽2,984 mln as of 31 December 2016 and approximate their fair values.

Other long-term assets (Note 8) include interest free long-term accounts receivable discounted to net present value based on Group's weighted average cost of financing (Note 17) as of the end of the reporting period.

Long-term accounts receivable including security payment under lease of property:

	Gross	Discounting	Carrying value
31 December 2016	95	(36)	59
31 December 2015	9	–	9

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 assets carried at amortised cost

The carrying amounts of trade receivables approximate their fair values (Note 13). Their fair values are within level 3 of the fair value hierarchy.

Liabilities carried at amortised cost

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

Carrying value of loans and issued bonds at 31 December 2016 and 31 December 2015 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 2014	**6 185**	**2 918**	**240**	**378**	**434**	**10 155**
Additions	127	255	7	23	156	568
Reclassification	151	57	–	4	(212)	–
Disposals	(205)	(180)	(8)	(22)	–	(415)
31 December 2015	**6 258**	**3 050**	**239**	**383**	**378**	**10 308**
Additions within subsidiaries (Note 27)	180	16	–	37	–	233
Additions	111	86	7	47	148	399
Reclassification	13	89	–	2	(104)	–
Disposals	(206)	(114)	(2)	(28)	–	(350)
31 December 2016	**6 356**	**3 127**	**244**	**441**	**422**	**10 590**
Depreciation						
31 December 2014	**1 105**	**1 653**	**126**	**250**	**–**	**3 134**
Charge for the period	252	295	26	47	–	620
Disposals	(47)	(100)	(7)	(16)	–	(170)
31 December 2015	**1 310**	**1 848**	**145**	**281**	**–**	**3 584**
Additions within subsidiaries (Note 27)	8	8	–	17	–	33
Charge for the period	189	288	26	53	–	556
Disposals	(24)	(107)	(9)	(22)	–	(162)
31 December 2016	**1 483**	**2 037**	**162**	**329**	**–**	**4 011**
Carrying amount						
31 December 2014	**5 080**	**1 265**	**114**	**128**	**434**	**7 021**
31 December 2015	**4 948**	**1 202**	**94**	**102**	**378**	**6 724**
31 December 2016	**4 873**	**1 090**	**82**	**112**	**422**	**6 579**

Carrying value of property, plant and equipment pledged as a security for bank loans is disclosed in Note 17.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Cost of property, plant and equipment with zero carrying value at 31 December 2016 amounted to ₽1,447mln (31 December 2015 – ₽1,283mln).

8. OTHER LONG-TERM ASSETS

Other long-term assets include prepayments given for acquisition of property, plant and equipment in amount ₽56mln and long-term accounts receivable in amount ₽59mln including security payment under lease of property (as of 31 December 2015 – ₽93mln and ₽9mln).

9. INTANGIBLE ASSETS

	Software, patents, licenses, other	**Brands**	**Total**
Cost			
31 December 2014	**942**	**6 456**	**7 398**
Acquisition	168	227	395
Disposals	(10)	–	(10)
31 December 2015	**1 100**	**6 683**	**7 783**
Acquisition within subsidiaries (Note 27)	1	340	341
Acquisition	215	1 045	1 260
Disposals	–	–	–
31 December 2016	**1 316**	**8 068**	**9 384**
Amortisation and impairment			
31 December 2014	**332**	**64**	**396**
Charge for the year	160	–	160
Disposals	(1)	–	(1)
31 December 2015	**491**	**64**	**555**
Charge for the year	176	–	176
Disposals	–	–	–
31 December 2016	**667**	**64**	**731**
Net book value			
31 December 2014	**610**	**6 392**	**7 002**
31 December 2015	**609**	**6 619**	**7 228**
31 December 2016	**649**	**8 004**	**8 653**

Principal vodka brands are: Beluga, Myagkov, Belenkaya, Russian Ice, Tsar (Gosudarev Zakaz), Arkhangelskaya. Principal brandy brands are Zolotoy Rezerv, Staraya Gvardia, Kamenniy Lev. Principal bitter brands are Doctor August and Captain’s.

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.

10. GOODWILL

Goodwill arising on consolidation relates to acquisition of subsidiaries. Net book value amounted to ₽230mln as of 31 December 2016 and ₽235mln as of 31 December 2015.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 2016	31 December 2015
Habarovskiy Distillery OAO	89	89
URALALCO OAO	41	41
Ussuriysky Balsam OAO	32	32
Mariinsk Distillery OAO	28	28
Synergy Market Perm, LLC	22	22
Arkhangelsk distillery	14	14
PPZ Tsarevschinsky-2 AO	–	5
Ussuriysky Dairy Plant AO	3	3
Total goodwill	**230**	**235**

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

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

	2016	2015
Growth rate beyond five years	3.0%	3.0%
Discount rate	18.5%	18.5%

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.

Under goodwill impairment test as of 31 December 2016 a loss in amount of ₽5 mln was recognised in the other expense (Note 22) for PPZ Tsarevschinsky-2 AO.

11. INVENTORIES

	31 December 2016	31 December 2015
Finished goods	5 955	4 438
Raw materials	2 474	2 508
Work-in-progress	360	191
Total inventories	**8 789**	**7 137**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. BIOLOGICAL ASSETS

	Total biological assets, ₽ mln	Pedigree egg-production chicken, heads	Broiler chicken, heads
1 January 2015	**290**	**94 270**	**1 096 339**
Net purchases	4	(1 772)	(176 297)
(Loss) on change in fair value	(13)	–	–
31 December 2015	**281**	**92 498**	**920 042**
Net purchases	8	(161)	(33 827)
Loss on change in fair value	(15)	–	–
31 December 2016	**274**	**92 337**	**886 215**

Loss on change in fair value of biological assets is recognised in the other expense (Note 22).

13. TRADE AND OTHER RECEIVABLES

	31 December 2016	31 December 2015
Trade accounts receivable	8 902	8 751
Provision for impairment of trade accounts receivable	(140)	(127)
Total trade accounts receivable	**8 762**	**8 624**
Other accounts receivable, including VAT and excises recoverable	1 540	2 408
Provision for impairment of other accounts receivable	(50)	(62)
Total other accounts receivable	**1 490**	**2 346**
Total account receivable	**10 252**	**10 970**

5 largest customers contributed 8% of consolidated revenue of the Group for the year ended 31 December 2016 and debt of 5 larges debtors amounted to 6% of accounts receivable as of 31 December 2016 (9% and 7% respectively in the year 2015).

14. ASSETS HELD FOR SALE

Assets held for sale include land and warehouse in Tobolsk city in amount of ₽12 mln. and office premises in Vladivostok city in amount of ₽229 mln.

In February 2017 the Group concluded an agreement to sell office building with land plot located in Vladivostok city. Due to this fact the value of item was recognized in the Statement of Financial Position as of 31 December 2016 as Assets held for sale. The Group plans to close the deal in April 2017. Carrying value of the building and land plot corresponds to its sale price.

15. CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
Cash in banks, nominated in RUB	606	319
Cash in banks, nominated in USD	205	721
Cash in banks, nominated in EUR	173	84
Cash equivalents	10	–
Cash in transit	5	24
Cash on hand	11	13
Total cash and cash equivalents	**1 010**	**1 161**

As of 31 December 2016 the Group had ₽14mln restricted in use. As of 31 December 2015 there were no effective restrictions on the use of cash.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. EQUITY AND RESERVES

Share capital

Share capital is the authorised capital of the parent company.

As of 31 December 2016 and 31 December 2015 Synergy PAO issued 24 954 049 ordinary shares of ₽100 each at par. The Company's common shares are admitted to trading on the Moscow Exchange (MOEX) under the ticker symbol "SYNG".

Own shares

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

During the year 2015:

- 150 thousand shares were repurchased from the market at amount of ₽177 mln. Change in value of own shares in amount of ₽15 mln. and change in share premium in amount of ₽162 mln. were recognised in the statement of changes in equity.
- 267 thousand shares were sold to staff members at cost of ₽1 per share within the frame of employee remuneration option plan. Based on quoted prices as of the date of shares transfer, the Group recognised increase in equity in amount of ₽130 mln. and employee benefit expense in amount of ₽130 mln. recognised in general and administrative expenses in the statements of of profit or loss and other comprehensive income.

As of 31 December 2015 quantity of own shares amounted to 7,728 thousand shares.

During the year 2016:

- 301 thousand shares were repurchased from the market at amount of ₽179 mln. Change in value of own shares in amount of ₽30 mln. and change in share premium in amount of ₽149 mln. were recognised in the statement of changes in equity.
- 333 thousand shares were sold to staff members at cost of ₽1 per share within option remuneration plan started in 2013 and finishing in the year 2017. Based on quoted prices as of the date of shares transfer, the Group recognised increase in equity in amount of ₽132 mln. and employee benefit expense in amount of ₽132 mln. recognised in general and administrative expenses in the statements of profit or loss and other comprehensive income.

As of 31 December 2016 quantity of own shares amounted to 7,696 thousand shares.

Share premium

Share premium reserve was recognised at IPO and SPOs. Share premium changes as a result of sale or purchase of own shares in amount of excess of transaction price over nominal value of share in amount of ₽100 per share.

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

17. LOANS AND BONDS

	31 December 2016	31 December 2015
Unsecured non-current loans	1 175	565
Bonds	1 994	1 000
Secured non-current bank loans	2 954	4 082
Total non-current loans and bonds	**6 123**	**5 647**
Unsecured loans and borrowings	509	1 042
Bonds	990	1 000
Secured bank loans	1 431	760
Total current loans and bonds	**2 930**	**2 802**
Total loans and bonds	**9 053**	**8 449**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the end of the reporting period the corporate weighted average annual interest rate on bank loans and bonds was 12.53% (for the end of the year 2015 – 14.06%).

The maturity of loans and bonds is as follows:

	31 December 2016	31 December 2015
On demand or within one year	2 930	2 802
Between the first and second year	2 371	4 054
Between the second and fifth years	3 752	1 593
Total loans and bonds	**9 053**	**8 449**

All loans and bonds are nominated, received and repaid in Russian Roubles.

In June 2015 the Group issued bonds BO-04 at amount of ₽2,000 mln with 14.5% coupon rate. Bonds mature at 28 June 2020 but the Group made repayment in amount of ₽1,000 mln in 2016 (50% prescheduled repayment was set in the offering memorandum) and intends to repay ₽1,000 mln in June 2017 (put option is set in the offering).

In May 2016 the Group placed BO-05 bonds at amount ₽2,000 mln, interest rate 12.9% p.a. The bond issue will be repaid in May 2018 (25% of the amount), May 2018 (25% of the amount) and April 2020 (50% of the amount).

Bonds are stated in the statement of financial position under initial amount less amortised costs of issue.

Bondholders have the right to demand early repayment of the bonds in the cases stipulated by the Federal Law 39-FZ "On securities market", as well as in the case of delisting of bonds, or excluding them from the quotation lists in accordance with the Resolution on bond issue.

Under the terms of the loan agreements, the Group is required to comply with a number of covenants and restrictions, including the maintenance of certain financial ratios and financial indebtedness and crossdefault provisions. The Group was in compliance with covenants at 31 December 2016 and 31 December 2015.

As at 31 December 2016 the following banks had the highest weight in the Groups' credit portfolio: SberBank (BBB-), Credit bank of Moscow (BB) and SviazBank (BB).

At 31 December 2016, bank bonds were secured by:

- Plant, property and equipment with a carrying value of ₽2,545mln (at 31 December 2015 – 2,673 mln);
- Shares of subsidiary at amount of ₽917 mln (at 31 December 2015 – ₽895 mln).

Synergy has been assigned a Long-term Issuer Default Rating (IDR) of "B+" by Fitch ratings agency. Outlook is Stable.

Unutilised credit facilities as at 31 December 2016 amounted to ₽7,739mln (at 31 December 2015 – ₽7,914 mln).

18. TRADE AND OTHER PAYABLES

	31 December 2016	31 December 2015
Excises, VAT and other taxes payable	4 074	3 263
Trade payables	3 130	2 977
Other payables	1 083	1 015
Advances obtained	136	71
Total trade and other payables	**8 423**	**7 326**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. COST OF SALES

	2016	2015
Materials and supplies	19 160	15 872
Wages and salaries	1 147	1 117
Depreciation and amortisation	402	406
Fuel and power	266	216
Repairs and maintenance	113	148
Rent	55	26
Other costs	242	248
Total cost of sales	**21 385**	**18 033**

20. GENERAL AND ADMINISTRATION EXPENSES

	2016	2015
Wages and salaries	1 700	1 824
Bank services, Information and consulting services, Insurance, Security	259	271
Depreciation and amortisation	109	134
Rent	128	103
Sundry taxes	107	79
Repairs and maintenance	50	51
Fuel and power	31	35
Other expenses	94	85
Total general and administrative expenses	**2 478**	**2 582**

21. DISTRIBUTION EXPENSES

	2016	2015
Advertising, promotion, transportation	5 915	5 358
Wages and salaries	2 361	1 975
Rent	340	294
Depreciation and amortisation	216	236
Materials and packaging	129	80
Repairs and maintenance	100	83
Fuel and power	68	61
Other expenses	217	173
Total distribution expenses	**9 346**	**8 260**

22. OTHER INCOME AND EXPENSES

	2016	2015
Impairment of accounts receivable	(88)	(76)
Impairment of goodwill	(5)	
Write-off of accounts payable	16	30
Gain/(loss) on change in fair value of biological assets	(15)	(13)
Income/(loss) on disposal of materials	(50)	(13)
Income/(loss) on disposal of fixed assets	(8)	363
Other expense	(58)	(13)
Total other income / (expenses)	**(208)**	**278**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

23. NET FINANCE COSTS

	2016	2015
Net interest on bank o loans and bonds	1 544	1 309
Costs of arrangement of bonds, including cost of bank guarantees	439	636
Net currency exchange differences	56	(208)
Total net finance costs	**2 039**	**1 737**

24. INCOME TAX

	2016	2015
Current income tax, charge	(277)	(130)
Prior periods adjustments for income tax	24	-
Total current income tax	**(253)**	**(130)**
Deferred income tax	75	(1)
Total income tax	**(178)**	**(131)**

Income tax rates applicable in the year ended 31 December 2016 and 31 December 2014 were as follows: Russian Federation – 20%, Permsky Krai of Russian Federation – 17%, Cyprus – 12.5%.

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

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

	2016	2015
Profit before tax	453	372
Tax calculated at 20%	**(91)**	**(74)**
Tax effect of items which are not deductible or assessable for taxation purposes		
Effect of income which is subject to tax at 0 rate	(3)	10
Effect of local tax rates different to 20%	42	63
Prior period tax adjustments	24	–
Effect of expenses not deductible for tax purposes	(150)	(130)
Total income tax	**(178)**	**(131)**

25. 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 2016	Credited/ (charged) to profit/ loss	Acquisition or disposal of subsidiaries	31 December 2016
Property, plant and equipment	85	9	–	94
Intangible assets	1	(1)	–	–
Inventories	116	78	1	195
Accounts receivable	95	106	1	202
Accounts payable	19	26	–	45
Other assets and liabilities	162	(88)	–	74
Deferred tax assets	**478**	**130**	**2**	**610**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

	1 January 2016	Credited/ (charged) to profit/ loss	Acquisition or disposal of subsidiaries	31 December 2016
Property, plant and equipment	(146)	20	(235)	(361)
Intangible assets	(144)	(1)	–	(145)
Inventories	(55)	10	–	(45)
Accounts receivable	(194)	(72)	–	(266)
Accounts payable	(12)	(15)	–	(27)
Other assets and liabilities	(4)	3	–	(1)
Deferred tax liabilities	**(555)**	**(55)**	**(235)**	**(845)**
Net deferred tax liability	**(77)**	**75**	**(233)**	**(235)**

	1 January 2015	Credited/ (charged) to profit/ loss	Acquisition or disposal of subsidiaries	31 December 2015
Property, plant and equipment	79	6	–	85
Intangible assets	1	–	–	1
Inventories	100	16	–	116
Accounts receivable	159	(64)	–	95
Accounts payable	18	1	–	19
Other assets and liabilities	99	63	–	162
Deferred tax assets	**456**	**22**	**–**	**478**
Property, plant and equipment	(150)	4	–	(146)
Intangible assets	(166)	22	–	(144)
Inventories	(37)	(18)	–	(55)
Accounts receivable	(158)	(36)	–	(194)
Accounts payable	(17)	5	–	(12)
Other assets and liabilities	(4)	–	–	(4)
Deferred tax liabilities	**(532)**	**(23)**	**–**	**(555)**
Net deferred tax liability	**(76)**	**(1)**	**–**	**(77)**

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 of subsidiaries (IFRS 3, Business combinations), impairment of receivables, and inventories write offs down to net realisable value.

26. 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.

	2016	2015
Profit attributable to equity holders	237	210
Weighted average number of ordinary shares in issue (thousand)	17 188	17 203
Basic earnings per share, ₽	**13.79**	**12.21**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

	2016	2015
Shares issued at 1 January, thousands	**24 954**	**24 954**
Effect of own shares held	(7 766)	(7 751)
Weighted average number of outstanding shares (thousands)	**17 188**	**17 203**

27. BUSINESS COMBINATIONS

In December 2016 the Group acquired several entities (100% shares) registered in Republic of Cyprus for ₽0.12 mln. The Group considers this arrangement as acquisition of assets and the cost of acquisition equal to accounts payable of the acquired entities was allocated to acquired assets. Value of acquired assets approximates their fair value. In 2017 acquired assets will be transferred to the companies of the Group, and the acquired entities liquidated.

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
Property, plant and equipment	200
Intangible assets	341
Deferred tax assets	2
Inventories	1
Other receivables, net of impairment provision in amount of ₽7 mln	56
Prepayments	4
Assets held for sale	229
Cash and cash equivalents	16
Loans	(161)
Deferred tax liabilities	(235)
Other payables	(495)
Non-controlling interest	6
Net assets acquired	**–**
Purchase consideration	0.12
Result arising on acquisition, accounted as Goodwill	**–**
Purchase consideration settled in cash	0.12
Cash and cash equivalents acquired	16
Cash inflow on acquisition	**16**

In 2015 the Group acquired Union Negoce, SAS (Simplified Joint Stock Company), registered in Bordeaux, France for ₽0.1 mln. The company does not hold its own trading activity and intended to support wine import from France to Russian Federation.

28. INVESTMENTS IN ASSOCIATES

In June 2015 the Group acquired 30% in Winelab AO ₽700 mln. The company owns and operates retail chain of specialized alcohol shops. Investments are recognised in accordance with IAS 28 “Investments in associates” by equity method.

Share in incomes of the associate in amount of ₽6 mln. is recognized in the statement of profit or loss and other comprehensive income for the year ended 31 December 2016. Carrying value of the investment as of 31 December 2016 amounted to ₽706 mln.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

29. 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 was 49% and has not changed until 31 December 2016. Financial result of the joint-venture is non-significant for the results of the Group for the year ended 31 December 2016 and for the year ended 31 December 2015.

30. SEGMENT REPORTING

The Group operates in two principal business segments, namely: Alcohol and Food production. The third segment is named "Management 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 who is responsible for the allocating resources and assessing performance of the operating segments, and who has been identified as the Chief Financial Officer of the Group. The following criteria have been used for determining the operating segments and assigning the Group's subsidiaries to particular segment:

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

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

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.

Financial results of the Group by operational segments for the year ended 31 December 2016:

Breakdown by segments	Alcohol	Food	Management Companies	Total
Sales, including excise	50 719	6 609	49	57 377
Revenue, IFRS net of intersegment revenue	**29 245**	**6 609**	**49**	**35 903**
Revenue, IFRS including intersegment revenue	29 330	6 614	136	36 080
Gross Profit, IFRS	13 070	1 490	68	14 628
Gross Profit, IFRS net of intersegment	13 010	1 485	23	14 518
Depreciation and amortisation	(520)	(154)	(52)	(726)
Capital expenditure on property, plant and equipment, intangible assets	533	91	–	624

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Financial results of the Group by operational segments for the year ended 31 December 2015:

Breakdown by segments	Alcohol	Food	Management Companies	Total
Sales, including excise	40 656	6 900	35	47 591
Revenue, IFRS net of intersegment revenue	**23 771**	**6 900**	**35**	**30 706**
Revenue, IFRS including intersegment revenue	23 846	6 924	111	30 881
Gross Profit, IFRS	10 889	1 840	61	12 790
Gross Profit, IFRS net of intersegment	10 840	1 821	12	12 673
Depreciation and amortisation	(537)	(214)	(25)	(776)
Capital expenditure on property, plant and equipment, intangible assets	836	116	4	956

Total assets by segments:

Breakdown by segments	Alcohol	Food	Management Companies	Total
Assets, IFRS at 31 December 2016	31 277	3 596	3 120	37 993
Assets, IFRS at 31 December 2015	28 837	5 383	1 433	35 653

31. 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.

31.1. Market risk

i) Foreign exchange risk

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

At 31 December 2016 the Group net exposure to currency risk was ₽426mln (accounts receivable nominated in US Dollars and EUR in amount of ₽409mln, cash in amount of ₽457mln and accounts payable in amount of ₽440mln).

At 31 December 2015 the Group net exposure to currency risk was ₽705mln (accounts receivable nominated in USD and EUR in amount of ₽600mln, cash in amount of ₽805mln and accounts payable in amount of ₽701mln).

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 ₽79 mln (in 2015 – ₽129 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 17.

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.

31.2. 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 less impairment. The maximum exposure to credit risk at the reporting date was:

	31 December 2016	31 December 2015
Trade and other accounts receivable	10 252	10 970
Cash and cash equivalents	1 010	1 161
Total assets with exposure to credit risk	**11 262**	**12 131**

At the end of the reporting 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.

31.3. Liquidity risk

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

The Group's financial policy implies in maintenance of liquidity includes attracting long-term borrowings, decreasing share of short-term borrowings, issuing bonds, maintenance of sufficient unutilised credit facilities (amount is disclosed in Note 17) and regularly review the current and future liquidity requirements.

Contractual maturities of financial liabilities as at 31 December 2016 are as follows:

	Carrying amount	12 months or less	1 – 2 years	More than two years
Loans and bonds	9 053	2 930	2 371	3 752
Trade and other payables	8 423	8 423	–	–
Total loans and bonds and payables	**17 476**	**11 353**	**2 371**	**3 752**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Contractual maturities of financial liabilities as at 31 December 2015 are as follows:

	Carrying amount	12 months or less	1 – 2 years	More than two years
Loans and bonds	8 449	2 802	4 054	1 593
Trade and other payables	7 326	7 326	–	–
Total loans and bonds and payables	**15 775**	**10 128**	**4 054**	**1 593**

31.4. 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 2016	31 December 2015
Loans and bonds	9 053	8 449
Less: cash and cash equivalents	(1 010)	(1 161)
Net financial debt	**8 043**	**7 288**
Total equity and reserves	19 453	19 261
Gearing ratio	**0.413**	**0.378**

32. 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 2016 was ₽358 mln. (₽488 mln reported in 2015).

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

	2016	2015
Sales of goods	2 727	1 641
Sales of services	63	64
Total sales of goods and services	**2 790**	**1 705**

Purchases of goods and services

	2016	2015
Purchases of goods and services	535	409

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

	31 December 2016	31 December 2015
Trade and other receivables	1 915	1 462
Trade and other payables	34	82

33. CONTINGENCIES AND COMMITMENTS

33.1. 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.

33.2. Contractual commitments

As at 31 December 2016 the Group had no significant contractual commitments for the purchase of components for construction of Property, Plant and Equipment.

33.3. Leasing agreement

As at 31 December 2016 the Group had contractual commitments for non-cancellable lease for ₽105mln (at 31 December 2015 in amount of ₽164mln).

33.4. 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.

33.5. 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.

The Group includes companies incorporated outside of Russian Federation. 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. It is possible that with the evolution of the interpretations 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.

The Group considers existence of medium level risks on some taxes including additional accrual of income tax on employee bonuses at several companies. Impact of such risk is considered to be non significant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

33.6. 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.

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

33.7. 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 2016 was ₽26,049 mln (31 December 2015 – ₽21,516mln). Bank fees for the guarantees are included in net financial costs.

34. 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.