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INDEPENDENT AUDITOR'S REPORT AND INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

OAO SYNERGY
(SYNERGY GROUP)

MOSCOW 2014

CONTENTS

BAKER TILLY
RUSSAUDIT

REPORT OF INDEPENDENT AUDITORS ON REVIEW OF INTERIM FINANCIAL INFORMATION

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

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Synergy OAO and its subsidiaries (hereinafter referred to as the "Group") as of 30 June 2014 and the related interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34, Interim financial reporting. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

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

Conclusion

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

29 August 2014

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

M.B. Pavlova

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

Power of Attorney No. 01-10/14-8,
dated 09.01.2014

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Six months ended 30 June	
		2014	**2013**
Sales		17 584	17 349
Excise duties		(6 552)	(6 586)
Net revenue	23	**11 032**	**10 763**
Cost of sales	15	(6 168)	(6 172)
Gross profit		**4 864**	**4 591**
General and administrative expenses	16	(1 153)	(977)
Distribution expenses	17	(2 750)	(2 371)
Other income/expenses	18	(16)	(139)
Operating profit		**945**	**1 104**
Net finance costs	19	(710)	(630)
Profit before tax		**235**	**474**
Income tax	20	40	(56)
Net income		**275**	**418**
Attributable to			
Equity holders of the Company		294	422
Non-controlling interest		(19)	(5)
Basic and diluted earnings per share (RUB per share)	21	**17.01**	**23.08**

Notes to the Interim Condensed Consolidated Financial Statements on pages 8 through 21 shall be part and parcel of these Interim Condensed Consolidated Financial Statements

Mechetin A.A., Chairman of Management Board ______________________
Kim E.S., Chief Accountant ______________________
29 August 2014

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 June 2014	31 December 2013
ASSETS			
Non-current assets			
Property, plant and equipment	7	6 645	6 327
Goodwill		213	213
Intangible assets	8	6 789	6 693
Other long-term assets	7	162	254
Deferred tax assets		525	506
Total non-current assets		**14 334**	**13 993**
Current assets			
Inventories	9	5 771	7 096
Biological assets		214	163
Trade and other receivables	10	9 613	12 162
Prepayments		572	383
Income tax overpaid		48	18
Cash and cash equivalents	11	423	467
Total current assets		**16 641**	**20 289**
TOTAL ASSETS		**30 975**	**34 282**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Equity and reserves			
Share capital	12	2 495	2 495
Treasury Shares		(792)	(733)
Retained earnings		10 356	10 062
Other reserves		5 540	5 829
Non-controlling interest		690	716
Total equity and reserves		**18 289**	**18 369**
Non-current liabilities			
Loans and borrowings	13	4 907	5 804
Deferred tax liabilities		486	543
Total non-current liabilities		**5 393**	**6 347**
Current liabilities			
Loans and borrowings	13	2 824	875
Trade and other payables	14	4 386	8 377
Income tax payable		83	314
Total current liabilities		**7 293**	**9 566**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**30 975**	**34 282**

Notes to the Interim Condensed Consolidated Financial Statements on pages 8 through 21 shall be part and parcel of these Interim Condensed Consolidated Financial Statements

Mechetin A.A., Chairman of Management Board ____________________

Kim E.S., Chief Accountant ____________________

29 August 2014

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

INTERIM CONDENSED 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**
Repurchase of own shares	-	(70)	-	(283)	(353)	-	(353)
Cancellation of shares	(72)	71	-	1	-	1	1
Total changes, not recorded into net profit	**(72)**	**1**	**-**	**(282)**	**(353)**	**1**	**(352)**
Net profit for the period	-	-	422	-	422	(5)	417
Balance at 30 June 2013	**2 495**	**(703)**	**8 998**	**5 981**	**16 771**	**665**	**17 436**
Balance at 31 December 2013	**2 495**	**(733)**	**10 062**	**5 829**	**17 653**	**716**	**18 369**
Other changes in non-controlling interest	-	-	-	-	-	(7)	(7)
Repurchase of own shares	-	(59)	-	(289)	(348)	-	(348)
Total changes, not recorded into net profit	**-**	**(59)**	**-**	**(289)**	**(348)**	**(7)**	**(355)**
Net profit for the period	-	-	294	-	294	(19)	275
Balance at 30 June 2014	**2 495**	**(792)**	**10 356**	**5 540**	**17 599**	**690**	**18 289**

Notes to the Interim Condensed Consolidated Financial Statements on pages 8 through 21 shall be part and parcel of these Interim Condensed Consolidated Financial Statements

Mechetin A.A., Chairman of Management Board ____________________

Kim E.S., Chief Accountant ____________________

29 August 2014

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

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Note	Six months ended 30 June	
		2014	**2013**
Cash flows from operating activities			
Profit before income tax and finance costs		945	1 103
Adjustments for			
Depreciation and amortisation		356	280
(Gain)/loss on disposal of property, plant and equipment		(3)	(12)
(Gain)/loss on disposal of materials		28	20
(Gain)/loss on disposal of accounts payable		(3)	(1)
(Gain)/loss on change in fair value of biological assets		(35)	-
Reserves and accruals		28	(44)
Other non-cash transactions		(1)	(11)
Changes in working capital			
(Increase)/decrease in inventories and biological assets		1 281	468
(Increase)/decrease in accounts receivable		2 336	1 936
Increase/(decrease) in accounts payable		(4 367)	(2 233)
Cash flows from operating activities		**565**	**1 506**
Interest paid		(661)	(603)
Income tax paid		(298)	(236)
Net cash flow from operating activities		**(394)**	**667**
Cash flows from investing activities			
Acquisition of subsidiaries	22	-	7
Acquisition of property, plant and equipment and intangible assets		(428)	(407)
Disposal of property, plant and equipment and intangible assets		76	2
Net cash flow from investing activities		**(352)**	**(398)**
Cash flows from financing activities			
Repurchase of own shares		(348)	(353)
Loans received		13 462	8 901
Loans repaid		(12 412)	(8 870)
Net cash flow from financing activities		**702**	**(322)**
Net increase/(decrease) in cash and cash equivalents		**(44)**	**(53)**
Cash and cash equivalents at beginning of the year	11	467	707
Cash and cash equivalents at end of the period	11	**423**	**654**

Notes to the Interim Condensed Consolidated Financial Statements on pages 8 through 21 shall be part and parcel of these Interim Condensed Consolidated Financial Statements

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

Mechetin A.A., Chairman of Management Board ____________________

Kim E.S., Chief Accountant ____________________

29 August 2014

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. REPORTING ENTITY

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

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

Information about the Group's main subsidiaries as of 30 June 2014 is provided below:

	30 June 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 JSC	100	100	100	100
Alviz OAO	74	74	74	74
Habarovskiy Distillery OAO	73	70	73	70
Mariinsk Distillery OJSC	98	98	98	98
URALALCO OJSC	97	97	97	97
Ussuriysky Balsam OAO	84	83	84	83
Tradition for Quality LLC	100	100	100	100
Distrbuting companies				
Alviz-Rosalko ZAO	100	100	100	100
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
Trading house Synergy Market LLC	100	100	100	100
Ussuriysky Balsam Trade Network, LLC	100	97	100	97
Food production plants				
DAKGOMZ JSC	97	97	97	97
Mikhailovskaya Poultry Plant OAO	92	92	92	92
Ussuriysky Dairy Plant OAO	92	92	92	92
Nahodkinsky meat-processing plant OAO	91	84	91	91
PPZ Tsarevschinbsky-2 OAO	100	92	100	92
Russkiy gektar JSC	100	100	100	100
Russian gektar Urojay JSC	100	100	100	100
Holding companies				
Synergy, Co	parent company of the Group			
Penta Agrogroup ZAO	100	100	100	100
Synergy capital	100	100	100	100
Synergy-East, Co	100	100	100	100

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

2. BASIS OF PREPARATION

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2014 have been prepared in accordance with IAS 34 Interim Financial Reporting.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as of 31 December 2013.

3. ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013.

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

A number of new IFRS standards and interpretation became effective for the periods beginning on or after 1 January 2014:

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

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

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

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

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

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

A number of new standards, amendments to standards and interpretations are not yet effective as at 30 June 2014, and have not been early adopted:

IFRS 9, Financial Instruments Part 1: Classification and Measurement (issued in November 2009, and amended in October 2010, December 2011 and November 2013. The amendments made to IFRS 9 in November 2013 removed its mandatory effective date, thus making application of the standard voluntary);

Amendments to IAS 19 – Defined benefit plans: Employee contribution (issued in November 2013, effective for annual periods beginning on or after 1 July 2014);

IFRS 14, Regulatory Deferral Accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016);

Improvements to International Financial Reporting Standards (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014);

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Amendments to IFRS 11 – Accounting for Acquisitions of interests in Joint Operations (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016);

Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016);

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2017).

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

5. SEASONALITY

The sales of distilled spirits are a subject to seasonal fluctuations. In general approximately 40% of annual sales fall for the first half of the year and around 60% of sales – to second half of the year. The highest peak in sales of distilled spirits falls the fourth quarter (in particular for November – December) of the year and the lowest peak in sales falls for first quarter. For reference the alcohol segment net sales in the six months ended 30 June 2013, represented 39% of the annual sales for the year ended 31 December 2013 (in the six months ended 30 June 2012 sales represented 43% of annual sales for the year 2012).

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

6. FAIR VALUE

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

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

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

Biological assets (poultry) are measured at fair value (Level 2 of the fair value measurement hierarchy) less estimated point-of-sale costs. A gain or loss arising from change in fair value less point-of-sale costs of a biological asset is recognised in the Statement of Comprehensive Income in the year in which it arises. As of 30 June 2014 fair value of poultry exceeded its carrying value by ₽95 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.

30 June 2014	Value	Interest payable	Amortised transaction costs	Provision for impairment	Carrying amount
Trade and other receivables	9 828	-	-	(215)	9 613
Cash and cash equivalents	423	-	-	-	423
Loans and borrowings	(7 718)	(31)	18	-	(7 731)
Trade and other payables	(4 386)	-	-	-	(4 386)
Total financial assets and (liabilities)	**(1 853)**	**(31)**	**18**	**(215)**	**(2 081)**

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2013	Value	Interest payable	Amortised transaction costs	Provision for impairment	Carrying amount
Trade and other receivables	12 360	-	-	(198)	12 162
Cash and cash equivalents	467	-	-	-	467
Loans and borrowings	(6 677)	(28)	26	-	(6 679)
Trade and other payables	(8 377)	-	-	-	(8 377)
Total financial assets and (liabilities)	**(2 227)**	**(28)**	**26**	**(198)**	**(2 427)**

Financial instruments carried at fair value

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

Financial assets carried at amortised cost

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

Liabilities carried at amortised cost

The fair value is based on quoted market prices, if available. The estimated fair values of fixed interest rate instruments with a stated maturity, for which quoted market prices were not available, were estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risks and remaining maturities. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Carrying value of bank loans and issued bonds at 30 June 2014 and 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						
At 31 December 2012	**4 535**	**2 715**	**216**	**304**	**660**	**8 430**
Additions within acquired subsidiary	2	5	1	5	-	13
Additions	1	63	14	7	136	221
Reclassification	233	9	6	1	(248)	1
Disposals	(8)	(96)	(11)	(13)	-	(128)
At 30 June 2013	**4 763**	**2 696**	**226**	**304**	**548**	**8 537**
Depreciation						
At 31 December 2012	**731**	**1 430**	**117**	**208**	**-**	**2 486**
Additions within acquired subsidiary	1	2	-	2	-	5
Charge for the period	84	138	13	21	-	256
Disposals	(1)	(57)	(4)	(9)	-	(71)
At 30 June 2013	**815**	**1 513**	**126**	**222**	**-**	**2 676**
Carrying amount						
At 31 December 2012	**3 804**	**1 285**	**99**	**96**	**660**	**5 944**
At 30 June 2013	**3 948**	**1 183**	**100**	**82**	**548**	**5 861**

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

	Land and buildings	Machines and equipment	Vehicles	Furniture and office equipment	Assets under construction	Total
Cost						
At 31 December 2013	**5 300**	**2 632**	**206**	**345**	**570**	**9 053**
Additions	242	223	34	31	107	637
Reclassification	38	26	-	-	(64)	-
Disposals	(32)	(58)	(16)	(9)	-	(115)
At 30 June 2014	**5 548**	**2 823**	**224**	**367**	**613**	**9 575**
Depreciation						
At 31 December 2013	**911**	**1 462**	**114**	**239**	**-**	**2 726**
Charge for the period	100	135	13	20	-	268
Disposals	(1)	(46)	(10)	(7)	-	(64)
At 30 June 2014	**1 010**	**1 551**	**117**	**252**	**-**	**2 930**
Carrying amount						
At 31 December 2013	**4 389**	**1 170**	**92**	**106**	**570**	**6 327**
At 30 June 2014	**4 538**	**1 272**	**107**	**115**	**613**	**6 645**

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

Cost of property, plant and equipment with zero carrying value at 30 June 2014 amounted to ₽1,031 mln (31 December 2013 – ₽960 mln).

Other long-term assets

Other long-term assets include prepayments given for acquisition of property, plant and equipment in amount ₽143 mln and long-term security payment under lease of property in amount ₽19 mln (as of 31 December 2013 – ₽235 mln and ₽19 mln).

8. INTANGIBLE ASSETS

	Software, patents, licenses and others	Brands	Total
Cost			
At 31 December 2012	**199**	**5 731**	**5 930**
Additions	1	157	158
Additions within acquired subsidiary	48	-	48
Disposals	-	-	-
At 30 June 2013	**248**	**5 888**	**6 136**
Amortisation and impairment			
At 31 December 2012	**127**	**65**	**192**
Charge for the year and impairment	16	-	16
Disposals	-	-	-
At 30 June 2013	**143**	**65**	**208**
Net book value			
At 31 December 2012	**72**	**5 666**	**5 738**
At 30 June 2013	**105**	**5 823**	**5 928**

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

	Software, patents, licenses and others	Brands	Total
Cost			
At 31 December 2013	**880**	**6 048**	**6 928**
Additions	6	174	180
Disposals	-	-	-
At 30 June 2014	**886**	**6 222**	**7 108**
Amortisation and impairment			
At 31 December 2013	**172**	**63**	**235**
Charge for the year and impairment	84	-	84
Disposals	-	-	-
At 30 June 2014	**256**	**63**	**319**
Net book value			
At 31 December 2013	**708**	**5 985**	**6 693**
At 30 June 2014	**630**	**6 159**	**6 789**

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

9. INVENTORIES

	30 June 2014	31 December 2013
Finished goods	3 578	5 440
Raw materials	1 913	1 467
Work-in-progress	280	189
Total inventories	**5 771**	**7 096**

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

10. TRADE AND OTHER RECEIVABLES

	30 June 2014	31 December 2013
Trade accounts receivable	6 943	9 323
Provision for impairment of debts	(131)	(124)
Total trade accounts receivable	**6 812**	**9 199**
Other accounts receivable, including VAT and excises recoverable	2 885	3 037
Provision for impairment of debts	(84)	(74)
Total other accounts receivable	**2 801**	**2 963**
Total account receivable	**9 613**	**12 162**

11. CASH AND CASH EQUIVALENTS

	30 June 2014	31 December 2013
Cash in banks	360	435
Cash equivalents	29	9
Cash in transit	18	8
Cash on hand	16	15
Total cash and cash equivalents	**423**	**467**

At 30 June 2014 and 31 December 2013, there are no effective restrictions on the use of cash.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. SHARE CAPITAL

Share capital is the authorised capital of the parent company.

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".

13. LOANS AND BORROWINGS

	30 June 2014	31 December 2013
Unsecured non-current loans and borrowings	2 232	3 750
Secured non-current loans	2 675	2 054
Total non-current loans and borrowings	**4 907**	**5 804**
Unsecured loans and borrowings	1 613	399
Secured bank loans	1 211	476
Total current loans and borrowings	**2 824**	**875**
Total loans and borrowings	**7 731**	**6 679**

For the reporting period the Group's weighted average annual interest rate on bank loans was 10.9% (for the first half 2013 – 10.8%).

The maturity of loans and borrowings is as follows:

	30 June 2014	31 December 2013
On demand or within one year	2 824	875
Between the first and second year	1 331	3 475
Between the second and fifth years	3 516	2 284
After five years	60	45
Total loans and borrowings	**7 731**	**6 679**

As at 30 June 2014 the following banks had the highest weight in the Groups' credit portfolio: SberBank AAA (rus), VTB Bank AAA (rus), SviazBank AA- (rus).

At 30 June 2014, bank borrowings were secured on:

– Plant, property and equipment with a carrying value of ₽2,739 mln (at 31 December 2013 – ₽2,801 mln);

– Inventories with a carrying value of ₽155 mln (at 31 December 2013 – ₽153 mln).

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

Unutilised credit facilities as at 30 June 2014 amounted to ₽7,242 mln, including long-term credit facilities in amount of ₽4,968 mln (at 31 December 2013 – ₽7,671 mln and ₽6,011 mln respectively).

14. TRADE AND OTHER PAYABLES

	30 June 2014	31 December 2013
Excises, VAT and other taxes payable	2 519	5 529
Trade payables	1 196	1 538
Other payables	550	1 171
Advances received	121	139
Total trade and other payables	**4 386**	**8 377**

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. COST OF SALES

	Six months ended 30 June	
	2014	**2013**
Materials and supplies	4 998	5 312
Wages and salaries	565	456
Depreciation, amortisation and impairment	194	176
Fuel and power	121	86
Repairs and maintenance	74	47
Rent	23	15
Other costs	193	80
Total cost of sales	**6 168**	**6 172**

16. GENERAL AND ADMINISTRATION EXPENSES

	Six months ended 30 June	
	2014	**2013**
Wages and salaries	784	620
Bank services, Information and consulting services, Insurance, Security	119	110
Depreciation, amortisation and impairment	62	76
Rent	62	63
Repairs and maintenance	28	18
Fuel and power	22	26
Sundry taxes	37	33
Other costs	39	31
Total general and administrative expenses	**1 153**	**977**

17. DISTRIBUTION EXPENSES

	Six months ended 30 June	
	2014	**2013**
Advertising, Promotion, Transportation	1 433	1 449
Wages and salaries	875	642
Rent	141	127
Materials and supplies	33	25
Depreciation, amortisation and impairment	100	28
Fuel and power	33	17
Other costs	135	83
Total distribution expenses	**2 750**	**2 371**

18. OTHER INCOME/EXPENSES

Other income and expenses consist of the following: net gain/(loss) on disposal of property, plant and equipment, net gain/(loss) on disposal of sundry inventories, impairment on obsolete stocks, net gain/(loss) on disposal of financial assets, prior year losses, accounts receivable write offs and impairment, accounts payable write offs, sundry reserves and accruals, donations and other income and expenses which are not classified as revenue, general and administrative or distribution expenses.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. NET FINANCE COSTS

	Six months ended 30 June	
	2014	**2013**
Net interest on bank overdrafts and loans	440	404
Costs of arrangement of borrowings	215	206
Net currency exchange differences (gain)/loss	55	20
Total net finance costs	**710**	**630**

20. INCOME TAX

	Six months ended 30 June	
	2014	**2013**
Current income tax (charge)	(108)	(120)
Previous reporting period tax revised	72	18
Deferred income tax income	76	46
Total income tax (charge)	**40**	**(56)**

Income tax rates applicable for the six months ended 30 June 2014 and 30 June 2013 were as follows: Russian Federation – 20%, Permsky Krai of Russian Federation – 16%, Cyprus – 12.5% (in the year 2013 – 10%).

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

21. 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.

	Six months ended 30 June	
	2014	**2013**
Profit attributable to equity holders	294	422
Average number of ordinary shares in issue (thousands)	17 288	18 285
Basic and diluted earnings per share, RUB	**17.01**	**23.08**

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

	Six months ended 30 June	
	2014	**2013**
Shares issued at 1 January	**24 954**	**25 670**
Effect of own shares held	(7 666)	(7 385)
Average number of outstanding shares (thousands)	**17 288**	**18 285**

22. BUSINESS COMBINATIONS

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

Comparative information

In June 2013, the Group acquired 100% of interest in Akruks OOO for ₽20.5 mln. The acquired company is a distributing company in Nizhnii Novgorod and Nizhnii Novgorod region and after acquisition renamed to Synergy Market Nizhnii Novgorod OOO.

The acquired company 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

	Attributable fair value
Cash and cash equivalents	7
Intangible assets	48
Property, plant and equipment	8
Inventories	65
Trade and other receivables	149
Net deferred tax assets	(6)
Trade and other payables	(270)
Net assets acquired	**1**
Purchase consideration	20.5
Result arising on acquisition, accounted as	
Goodwill recognised as expense	**19.5**
Purchase consideration settled in cash	-
Cash and cash equivalents acquired	7
Cash inflow on acquisition	**7**

23. SEGMENT REPORTING

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

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

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

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

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Disclosures by segments	Alcohol products	Food products	Holding Companies	Total	Intersegment elimination	Consolidated for the 6 months ended 30 June 2014
Revenue, RAS	22 140	3 955	34	26 129	(62)	26 067
Revenue, IFRS including intersegment revenue	8 478	2 582	34	11 094	(62)	11 032
Revenue, IFRS net of intersegment revenue	8 455	2 577	-	11 032	-	11 032
Gross Profit, IFRS	4 305	573	33	4 911	(47)	4 864
Assets, IFRS at 30 June 2014	27 682	8 251	9 162	45 095	(14 120)	30 975

Disclosures by segments	Alcohol products	Food products	Holding Companies	Total	Intersegment elimination	Consolidated for the 6 months ended 30 June 2013
Revenue, RAS	18 171	3 768	31	21 970	(52)	21 918
Revenue, IFRS including intersegment revenue	8 315	2 472	28	10 815	(52)	10 763
Revenue, IFRS net of intersegment revenue	8 297	2 466	-	10 763	-	10 763
Gross Profit, IFRS	3 897	705	26	4 628	(37)	4 591
Assets, IFRS at 31 December 2013	30 424	7 958	8 761	47 143	(12 861)	34 282

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

Disclosures by segments	Alcohol products	Food products	Holding Companies	Total	Intersegment elimination	Consolidated for the 6 months ended 30 June 2014
Revenue, RAS	**22 140**	**3 955**	**34**	**26 129**	**(62)**	**26 067**
Cut-off adjustment	(95)	-	-	(95)		(95)
Reclass from other income/expense	(117)	(19)	-	(137)		(137)
Elimination of intercompany transactions	(13 449)	(1 353)	-	(14 803)		(14 803)
Revenue, IFRS	**8 479**	**2 583**	**34**	**11 094**	**(62)**	**11 032**

Disclosures by segments	Alcohol products	Food products	Holding Companies	Total	Intersegment elimination	Consolidated for the 6 months ended 30 June 2013
Revenue, RAS	**18 171**	**3 768**	**31**	**21 970**	**(52)**	**21 918**
Cut-off adjustment	25	-	-	25		25
Reclass from other income/expense	15	2	-	17		17
Elimination of intercompany transactions	(10 168)	(1 298)	(3)	(11 469)		(11 469)
Other adjustments	272	-	-	272		272
Revenue, IFRS	**8 315**	**2 472**	**28**	**10 815**	**(52)**	**10 763**

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

24. RELATED PARTY TRANSACTIONS

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

Remuneration paid to the key management personnel for the six months ended 30 June 2014 was ₽136 mln (for the six months ended 30 June 2013 – ₽89 mln).

The remuneration of directors and key executives is determined by labour contracts. A number of key management personnel, or their related parties, hold 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 transacted with the Group in the reporting period.

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

Sales of goods and services:

	Six months ended 30 June	
	2014	**2013**
Sales of goods	770	697
Sales of services	13	15
Total sales of goods and services	**783**	**712**

Purchases of goods and services:

	Six months ended 30 June	
	2014	**2013**
Purchases of goods	121	125
Purchases of services	50	21
Total purchases of goods and services	**171**	**146**

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

	30 June 2014	**31 December 2013**
Trade and other receivables from related parties	2 218	1 865
Trade and other payables to related parties	47	175

25. INTEREST IN JOINT VENTURE

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

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

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

26. CONTINGENCIES AND COMMITMENTS

26.1. Legal proceeding

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

26.2. Contractual commitments

As of 30 June 2014 and 31 December 2013 the Group had no significant contractual commitments for the purchase of components for construction of Property, Plant and Equipment.

26.3. 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.

26.4. Tax legislation

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

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

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

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

26.5. Excise payments and bank guarantees

In 2011 the Federal Law dd. 27.11.2010 No 306-FZ changed the procedure of excise payments for alcohol producers. Effected from 01.07.2011 the advance payment of excise was introduced. This applies in alcohol producers to pay excise tax in advance when acquiring ethanol.

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

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

Amount of all effective bank guarantees as of 30 June 2014 was ₽26,553 mln (31 December 2013 – ₽27,236 mln). Bank fees for the guarantees are included in net financial costs.

27. EVENTS AFTER THE BALANCE SHEET DATE

In July 2014 The Group signed an exclusive 5-year distributing agreement with Barcelo Export Import S.R.L. company. Under the agreement, Synergy will exclusively present in Russia globally famous Ron Barcelo brand.

In the first half 2014 the Group signed several agreements with foreign companies for supplies of wine products. After the reporting date and before the current interim condensed consolidated financial statements were authorized for issue, the Company started new operating sub-segment – wine distribution. It is planned that scale of the activity to the end of the current financial year would be significant for the financial results of the Group. Information on the risks arising in the new sub-segment would be disclosed in the Notes to the consolidated financial statements of the Group for the year ending 31 December 2014.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

List of suppliers is being constantly increased and includes:

- Italy: Casa Vinicola Natale Verga S.P.A., Fratelli Martini Secondo Luigi S.P.A., Pasqua Vigneti E Cantine Spa In Sigla P.V. S.P.A;
- France: Les Grands Chais De France Sas, Lmv Domaines Et Chateaux;
- Spain: Araex Rioja Alavesa S.L, Criadores De Rioja S.L, Cherubino Valsangiacomo, S.A;
- Republic of South Africa: Distell Ltd;

In August the Group's subsidiary Alviz-Rosalko ZAO was renamed to Synergy Market Arkhangelsk ZAO.

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.