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CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

BELUGA GROUP

MOSCOW 2017

CONTENTS

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REPORT ON REVIEW OF CONSOLIDATED INTERIM CONDENCED FINANCIAL STATEMENT

To the Shareholders and Board of Directors of Beluga Group PAO

Introduction

We have reviewed the accompanying consolidated interim condensed statement of financial position of Beluga Group PAO (before 5 July 2017 – PAO "Synergy") and its subsidiaries (hereinafter referred to as the "Group") as at 30 June 2017, and the related consolidated interim condensed statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes, comprising a summary of significant accounting policies and other explanatory information (the "consolidated interim condensed financial statements"). Management is responsible for the preparation and fair presentation of these consolidated interim condensed financial statements in accordance with IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on these consolidated interim condensed financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of consolidated interim condensed financial statements consists of making inquiries, primarily of 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 identified in 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 consolidated interim condensed financial statements do not present fairly, in all material respects, the financial position of the Group as at 30 June 2017, and its financial performance and its cash flows for the six-month period then ended in accordance with IAS 34 *Interim Financial Reporting*.

30 August 2017

Partner,
Deputy General Director
"Crowe Russaudit" LLC

M.B. Pavlova

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

Power of Attorney No. 01-10/17-8,
dated 10.08.2017

Общество с ограниченной ответственностью «Кроу Русаудит» * Crowe Russaudit * Москва * 1037700117949

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INFORMATION ABOUT THE AUDITED ENTITY

Name: "Beluga Group" PAO (Public joint-stock company Beluga Group) (to 5 July 2017 "Synergy" PAO (Public joint-stock company Synergy)).

Address: 40A, Proletarskaya str., Zvenigorod, Russia, 143180.

Basic state registration number 1047796969450.

INFORMATION ABOUT THE INDEPENDENT AUDITOR

Name: "Crowe Russaudit", LLC (to 9 August 2017 "Baker Tilly Rusaudit", Ltd.).

Address: Bl. 8, 5a, Novodmitrivskaya str., Moscow 127015.

Telephone: (495) 783-88-00.

Fax: (495) 783-88-94.

Basic state registration number: 1037700117949.

Self-regulated auditing organization: Self-regulatory organization of auditors Association "Sodruzhestvo".

Number in the register of auditors and auditing organizations: 11606048583.

An independent member of Crowe Horwath International (to 31 July 2017 a member of Baker Tilly International).

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

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

	Note	Six months ended 30 June	
		2017	**2016**
Net revenue	23	15 735	16 106
Cost of sales	15	(9 657)	(9 252)
Gross profit		**6 078**	**6 854**
General and administrative expenses	16	(1 291)	(1 152)
Distribution expenses	17	(3 435)	(4 552)
Other income/expenses	18	(131)	20
Operating profit		**1 221**	**1 170**
Share of income in associates	22	4	3
Net finance costs	19	(924)	(1 060)
Profit before tax		**301**	**113**
Income tax	20	(72)	15
Net income and total comprehensive income for the period		**229**	**128**
Attributable to:			
Equity holders of the Company		200	99
Non-controlling interest		29	29
Basic and diluted earnings per share (RUB per share)	21	**11.49**	**5.77**

Notes to the Consolidated Interim Condensed Financial Statements on pages 9 through 21 shall be part and parcel of these Consolidated Interim Condensed Financial Statements

Mechetin A.A., Chairman of Management Board ______________________

30 August 2017

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

CONSOLIDATED INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

	Note	30 June 2017	31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	6	6 401	6 579
Goodwill		230	230
Investment in associates	22	1 090	706
Intangible assets	8	8 624	8 653
Other long-term assets	7	245	115
Deferred tax assets		782	610
Total non-current assets		**17 372**	**16 893**
Current assets			
Inventories	9	9 465	8 789
Biological assets		285	274
Trade and other receivables	10	8 933	10 252
Prepayments		596	509
Income tax prepayment		20	25
Assets held for sale		98	241
Cash and cash equivalents	11	583	1 010
Total current assets		**19 980**	**21 100**
TOTAL ASSETS		**37 352**	**37 993**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Equity and reserves			
Share capital	12	2 495	2 495
Own shares repurchased from shareholders	12	(794)	(770)
Share premium	12	5 415	5 532
Retained earnings		11 705	11 505
Total equity attributable to shareholders of PAO Beluga Group		**18 821**	**18 762**
Non-controlling interest in subsidiaries		719	691
Total equity and reserves		**19 540**	**19 453**
Long-term liabilities			
Loans and bonds	13	9 548	6 123
Deferred tax liabilities		875	845
Total long-term liabilities		**10 423**	**6 968**
Current liabilities			
Loans and bonds	13	771	2 930
Trade and other payables	14	6 375	8 423
Income tax payable		243	219
Total current liabilities		**7 389**	**11 572**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**37 352**	**37 993**

Notes to the Consolidated Interim Condensed Financial Statements on pages 9 through 21 shall be part and parcel of these Consolidated Interim Condensed Financial Statements

Mechetin A.A., Chairman of Management Board ____________________

30 August 2017

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

CONSOLIDATED INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY

	Share capital	Own shares	Share premium	Retained earnings	Total shareholders' equity	Non–controlling interest	Total
Balance at 1 January 2016	**2 495**	**(773)**	**5 582**	**11 268**	**18 572**	**689**	**19 261**
Repurchase of own shares	–	(16)	(77)	–	(93)	–	(93)
Total transactions with shareholders	–	(16)	(77)	–	(93)	–	(93)
Total comprehensive income for the period	–	–	–	99	99	29	128
Balance at 30 June 2016	**2 495**	**(789)**	**5 505**	**11 367**	**18 578**	**718**	**19 296**
Balance at 1 January 2017	**2 495**	**(770)**	**5 532**	**11 505**	**18 762**	**691**	**19 453**
Other changes in non–controlling interest	–	–	–	–	–	4	4
Dividends accrued to non-controlling interest in subsidiaries	–	–	–	–	–	(5)	(5)
Repurchase of own shares	–	(24)	(117)	–	(141)	–	(141)
Total transactions with shareholders	–	(24)	(117)	–	(141)	(1)	(142)
Total comprehensive income for the period	–	–	–	200	200	29	229
Balance at 30 June 2017	**2 495**	**(794)**	**5 415**	**11 705**	**18 821**	**719**	**19 540**

Notes to the Consolidated Interim Condensed Financial Statements on pages 9 through 21 shall be part and parcel of these Consolidated Interim Condensed Financial Statements

Mechetin A.A., Chairman of Management Board ______________________

30 August 2017

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

CONSOLIDATED INTERIM CONDENSED CASH FLOW STATEMENT

	Note	Six months ended 30 June	
		2017	**2016**
Cash flows from operating activities			
Operating profit		1 221	1 170
Adjustments:			
Depreciation and amortisation		379	396
(Gain) on disposal of property, plant and equipment		(10)	(103)
(Gain) on change in fair value of biological assets		(1)	(10)
Other non-cash transactions		39	31
Changes in working capital:			
(Increase) in inventories and biological assets		(678)	(1 278)
Decrease in accounts receivable and prepayments		1 227	743
(Decrease) in accounts payable		(2 068)	(1 240)
Cash flows from operating activities		**109**	**(291)**
Interest paid		(940)	(937)
Income tax paid		(187)	(38)
Net cash flow from operating activities		**(1 018)**	**(1 266)**
Cash flows from investing activities			
Investment in associates	22	(380)	–
Acquisition of property, plant and equipment and intangible assets		(411)	(710)
Disposal of property, plant and equipment and intangible assets		277	27
Net cash flow from investing activities		**(514)**	**(683)**
Cash flows from financing activities			
Repurchase of own shares	12	(141)	(93)
Loans received and bonds issued		20 654	17 474
Loans and bonds repaid		(19 408)	(15 763)
Net cash flow from financing activities		**1 105**	**1 618**
Net decrease in cash and cash equivalents		**(427)**	**(331)**
Cash and cash equivalents at beginning of the year	11	1 010	1 161
Cash and cash equivalents at end of the period	11	**583**	**830**

Notes to the Consolidated Interim Condensed Financial Statements on pages 9 through 21 shall be part and parcel of these Consolidated Interim Condensed Financial Statements

Mechetin A.A., Chairman of Management Board ____________________

30 August 2017

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

NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

1. REPORTING ENTITY

“Beluga Group” 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 4, Yakimanskaya quay, bldg. 1, Moscow, Russia, 119180, legal address: 40A, Proletarskaya str., Zvenigorod, Russia, 143180.

The Company has changed its name from Public Joint-Stock Company “Synergy” to Public Joint-Stock Company “Beluga Group” (PAO) in July 2017.

The consolidated interim condensed financial statements 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 2017 is provided below:

	30 June 2017		31 December 2016	
	Group's voting power, %	Group's effective ownership, %	Group's voting power, %	Group's effective ownership, %
Distilled spirit production plants				
Arkhangelsk distillery AO	74%	74%	74%	74%
Habarovskiy Distillery AO	73%	71%	73%	71%
Mariinsk Distillery AO	99%	99%	99%	99%
Bastion AO	98%	98%	98%	98%
Ussuriysky Balsam OAO	89%	89%	89%	89%
Georgievsky LLC	100%	100%	100%	100%
Distributing companies				
Beluga Market Arkhangelsk ZAO	100%	100%	100%	100%
Beluga Market Vostok OOO	100%	95%	100%	100%
Synergy Market DV OOO	100%	95%	100%	100%
Synergy Import OOO	100%	100%	100%	100%
Beluga Market Khabarovsk OOO	100%	95%	100%	100%
Synergy Market Nizhny Novgorod OOO	100%	100%	100%	100%
Beluga Market Vladivostok OOO	100%	97%	100%	100%
Synergy Market Perm OOO	100%	100%	100%	100%
Beluga Market OOO	100%	100%	100%	100%
Beluga Vodka International Limited	100%	100%	100%	100%
Food production plants				
Dakgomz AO	97%	97%	97%	97%
Mikhailovskaya Poultry Plant AO	96%	96%	96%	96%
Ussuriysky Dairy Plant AO	92%	92%	92%	92%
Nahodkinsky meat-processing plant OAO	95%	92%	95%	92%
PPZ Tsarevschinsky-2 AO	100%	96%	100%	96%
TD Rodstor OOO, distributing company in food segment	95%	95%	95%	95%
Holding companies				
PentAgro AO	100%	100%	100%	100%
Synergy capital AO	100%	100%	100%	100%
Synergy-East AO	100%	100%	100%	100%

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

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

NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS (continued)

During and after the reporting period several companies changed their names:

Actual name	Previous name
Beluga Market Arkhangelsk ZAO	Synergy Market Arkhangelsk ZAO
Beluga Market Vostok OOO	Synergy Market Vostok OOO
Beluga Market Khabarovsk OOO	Synergy Market Khabarovsk OOO
Beluga Market Vladivostok OOO	Synergy Market Vladivostok OOO
Beluga Market OOO	Trading house Synergy Market OOO
Bastion AO	Uralalco AO
Georgievsky LLC	Tradition for Quality OOO

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The consolidated interim condensed financial statements of the Group for the six months ended 30 June 2017 have been prepared in accordance with IAS 34 Interim Financial Reporting and Federal Law of the Russian Federation dd. 27 July 2010 No. 208 “About consolidated statements”.

The consolidated interim condensed financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s consolidated financial statements for the year ended 31 December 2016.

The accounting policies and significant judgments and estimates applied therein are consistent with those of the Group’s consolidated financial statements for the year ended 31 December 2016.

3. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

A number of new standards and interpretation became effective for the periods beginning on or after 1 January 2017:

- Amendments to IAS 12, Recognition of Deferred Tax Assets for Unrealised Losses;
- Annual Improvements to IFRSs 2014-2016 cycle;
- Amendments to IAS 7, Disclosure Initiative.

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

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

- IFRS 9, Financial Instruments;
- IFRS 15, Revenue from Contracts with Customers and associated amendments to various other standards, Revenue from Contracts with Customers;
- Amendments to IFRS 10 and IAS 28 regarding the sale or contribution of assets between an investor and its associate or joint venture;
- IFRS 16, Leases;
- Amendments to IFRS 2, Share-based Payment;
- Amendments to IFRS 4, Applying IFRS 9 Financial instruments with IFRS 4, Insurance contracts;
- IFRIC 22, Foreign Currency Transactions and Advance Consideration;
- Amendments to IAS 40, Transfers of Investment property;
- IFRS 17, Insurance contracts;
- IFRIC 23, Uncertainty over Income Tax Treatments.

The new standards, amendments to standards and interpretations are not expected to significantly affect the Group’s consolidated interim condensed financial information.

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

NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS (continued)

4. SEASONALITY

The sales of distilled spirits are a subject to seasonal fluctuations. In general approximately 40% of annual sales fall for the first half of the year and around 60% of sales – to second half of the year. The highest peak in sales of distilled spirits falls the fourth quarter (in particular for November – December) of the year and the lowest peak in sales falls for first quarter.

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

5. FAIR VALUE

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

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

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

Biological assets (poultry) are measured at fair value (Level 2 of the fair value measurement hierarchy) less estimated point-of-sale costs. A gain or loss arising from change in fair value less point-of-sale costs of a biological asset is recognised in the Statement of Profit or Loss in the year in which it arises. As of 30 June 2017 the Group fair value of poultry exceeded its carrying value calculated under Russian standards of accounting by ₽120 mln (as of 31 December 2016 – by ₽119 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 ₽6,059 mln as of 30 June 2017 and to ₽2,984 mln as of 31 December 2016 and approximate their fair values.

Other long-term assets (Note 7) include interest free long-term accounts receivable discounted to net present value based on Group's weighted average cost of financing (Note 13) as of the end of the reporting period.

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

	Gross	Discounting	Carrying value
30 June 2017	38	(19)	19
31 December 2016	95	(36)	59

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 10). 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 30 June 2017 and 30 June 2016 approximate their fair values.

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

NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS (continued)

6. PROPERTY, PLANT AND EQUIPMENT

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

	Land and buildings	Machines and equipment	Vehicles	Furniture and office equipment	Assets under construction	Total
Cost						
1 January 2017	**6 356**	**3 127**	**244**	**441**	**422**	**10 590**
Additions	28	140	24	24	44	260
Transfers	156	18	–	–	(174)	–
Disposals	(240)	(63)	(10)	(27)	–	(340)
30 June 2017	**6 300**	**3 222**	**258**	**438**	**292**	**10 510**
Depreciation						
1 January 2017	**1 483**	**2 037**	**162**	**329**	–	**4 011**
Charge for the period	93	149	12	24	–	278
Disposals	(105)	(49)	(11)	(15)	–	(180)
30 June 2017	**1 471**	**2 137**	**163**	**338**	**–**	**4 109**
Carrying amount						
1 January 2017	**4 873**	**1 090**	**82**	**112**	**422**	**6 579**
30 June 2017	**4 829**	**1 085**	**95**	**100**	**292**	**6 401**

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

Cost of property, plant and equipment with zero carrying value at 30 June 2017 amounted to ₽1,506 mln (31 December 2016 – ₽1,447 mln).

7. OTHER LONG-TERM ASSETS

Other long-term assets include prepayments given for acquisition of property, plant and equipment in amount ₽226mln and long-term security payment under lease of property in amount ₽19mln (as of 31 December 2016 - ₽56mln and ₽59mln).

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

NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS (continued)

8. INTANGIBLE ASSETS

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

	Software, patents, licenses and others	Brands	Total
Cost			
1 January 2017	**1 316**	**8 068**	**9 384**
Additions	13	56	69
Disposals	(10)	(10)	(20)
30 June 2017	**1 319**	**8 114**	**9 433**
Amortisation and impairment			
1 January 2017	**667**	**64**	**731**
Charge for the year	100	-	100
Disposals	(12)	(10)	(22)
30 June 2017	**755**	**54**	**809**
Net book value			
1 January 2017	**649**	**8 004**	**8 653**
30 June 2017	**564**	**8 060**	**8 624**

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.

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

NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS (continued)

9. INVENTORIES

	30 June 2017	31 December 2016
Finished product and goods	6 148	5 955
Raw materials	2 790	2 474
Work-in-progress	527	360
Total inventories	**9 465**	**8 789**

10. TRADE AND OTHER RECEIVABLES

	30 June 2017	31 December 2016
Trade accounts receivable	6 989	8 902
Provision for impairment of debts	(210)	(140)
Total trade accounts receivable	**6 779**	**8 762**
Other accounts receivable, including VAT and other tax prepayments	2 204	1 540
Provision for impairment of debts	(50)	(50)
Total other accounts receivable	**2 154**	**1 490**
Total account receivable	**8 933**	**10 252**

11. CASH AND CASH EQUIVALENTS

	30 June 2017	31 December 2016
Cash in banks, nominated in RUB	269	606
Cash in banks, nominated in USD	255	205
Cash in banks, nominated in EUR	41	173
Cash equivalents	–	10
Cash in transit	5	5
Cash on hand	13	11
Total cash and cash equivalents	**583**	**1 010**

12. SHARE CAPITAL AND SHARE PREMIUM

Share capital

Share capital is the authorised capital of the parent company.

As of 30 June 2017 and 31 December 2016 the Company 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 BELU (previously – "SYNG").

Own shares

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

As of 31 December 2016 quantity of own shares repurchased from shareholders amounted to 7,696 thousand shares. During the first half of the year 2017 the Group repurchased 248 thousand shares at amount of ₽141 mln. Repurchased shares were recognised in the statement of changes in equity as a change in own shares in amount of ₽24 mln and change in share premium in amount of ₽117 mln.

As of 30 June 2017 quantity of own shares amounted to 7,944 thousand shares.

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

NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS (continued)

Share premium

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.

13. LOANS AND BONDS

	30 June 2017	31 December 2016
Unsecured long-term bank loans	3 230	1 175
Bonds	6 006	1 994
Secured long-term bank loans	312	2 954
Total long-term loans and bonds	**9 548**	**6 123**
Unsecured bank loans	–	509
Bonds	53	990
Secured bank loans	718	1 431
Total short-term loans and bonds	**771**	**2 930**
Total loans and bonds	**10 319**	**9 053**

As of the end of the reporting period the corporate weighted average annual interest rate on bank loans and bonds was 9.8% (as of 31 December 2016 – 12.53%).

The maturity of loans and bonds is as follows:

	30 June 2017	31 December 2016
On demand or within one year	771	2 930
Between the first and second year	483	2 371
Between the second and fifth year	9 065	3 752
Total loans and bonds	**10 319**	**9 053**

As of 30 June 2017 three bond issues were placed:

BO-04 issued in June 2015 at amount of ₽2,000 mln with 14.5% coupon rate, maturity date – 28 May 2020. In December 2016 the Group made repayment 50% of the bond issue. Coupon rate for outstanding ₽1,000 mln bonds was set in June 2017 at 9.75%.

BO-05 issued in May 2016 at amount of ₽2,000 mln with 12.9% coupon rate. 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). In the reporting period the Group repurchased bonds with nominal value of ₽1,789 mln. Nominal value of outstanding bonds is ₽211 mln.

BO-P01 issued in June 2017 at amount of ₽5,000 with 9,5% coupon rate. The bond issue will be repaid in June 2020 (25% of the amount), June 2021 (25% of the amount) and June 2022 (50% of the amount).

At 30 June 2017, bank loans were secured by:

- Plant, property and equipment with a carrying value of ₽851 mln (at 31 December 2016 – ₽2,545 mln);
- Shares of subsidiary at amount of ₽971 mln (at 31 December 2016 – ₽917 mln).

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 30 June 2017 and 31 December 2016.

The Company has been assigned a Long-term Issuer Default Rating (IDR) of "B+" by Fitch ratings agency.

Unutilised credit facilities as at 30 June 2017 amounted to ₽10,630 mln (at 31 December 2016 – ₽7,739 mln).

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

NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS (continued)

14. TRADE AND OTHER PAYABLES

	30 June 2017	31 December 2016
Excises, VAT and other taxes payable	2 995	4 074
Trade payables	2 172	3 130
Other payables	1 127	1 083
Advances received	81	136
Total trade and other payables	**6 375**	**8 423**

15. COST OF SALES

	Six months ended 30 June	
	2017	2016
Materials, supplies and goods	8 558	8 149
Wages and salaries	581	524
Depreciation and amortisation	212	241
Fuel and power	127	126
Repairs and maintenance	78	101
Rent	12	23
Other costs	89	88
Total cost of sales	**9 657**	**9 252**

16. GENERAL AND ADMINISTRATION EXPENSES

	Six months ended 30 June	
	2017	2016
Wages and salaries	787	771
Bank services, information and consulting services, insurance, security	156	129
Rent	117	80
Sundry taxes	75	37
Depreciation and amortisation	41	49
Personnel training	23	2
Repairs and maintenance	19	24
Fuel and power	19	20
Other expenses	54	40
Total general and administrative expenses	**1 291**	**1 152**

17. DISTRIBUTION EXPENSES

	Six months ended 30 June	
	2017	2016
Advertising, promotion, transportation	1 535	2 922
Wages and salaries	1 352	1 194
Rent	151	112
Depreciation and amortisation	126	106
Materials and packaging	61	47
Repairs and maintenance	55	36
Fuel and power	41	33
Other expenses	114	102
Total distribution expenses	**3 435**	**4 552**

NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS (continued)

18. OTHER INCOME/EXPENSES

Other expenses for the six months ended 30 June 2017 amounted to ₽131 mln, including gain on change in fair value of biological assets ₽1 mln, income on disposal of fixed assets and intangible assets ₽10 mln, loss on impairment of accounts receivable ₽48 mln (for six months ended 30 June 2016 – ₽20 mln, including gain on change in fair value of biological assets ₽10 mln).

19. NET FINANCE COSTS

	Six months ended 30 June	
	2017	**2016**
Net interest on bank overdrafts and loans	649	622
Costs of arrangement of borrowings, including cost of bank guarantees	259	332
Net currency exchange differences loss	16	106
Total net finance costs	**924**	**1 060**

20. INCOME TAX

	Six months ended 30 June	
	2017	**2016**
Current income tax, charge	(185)	(36)
Prior periods adjustments	(29)	16
Total current income tax	**(214)**	**(20)**
Deferred income tax	142	35
Total income tax	**(72)**	**15**

Income tax rates applicable during the six months ended 30 June 2017 and 30 June 2016 were as follows: Russian Federation – 20%, Permsky Krai of Russian Federation – 19.5%, Cyprus – 12.5%.

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

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

	Six months ended 30 June	
	2017	**2016**
Profit before tax	301	113
Tax calculated at 20%	**(60)**	**(23)**
Effect of income which is subject to tax at 0% rate	–	1
Effect of local tax rates different to 20%	58	41
Previous reporting period tax revised	(29)	16
Effect of expenses not deductible for tax purposes	(41)	(20)
Total income tax	**(72)**	**15**

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 the period.

	Six months ended 30 June	
	2017	**2016**
Profit attributable to equity holders	200	99
Average number of ordinary shares in issue (thousands)	17 406	17 172
Basic earnings per share, RUB	**11.49**	**5.77**

NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS (continued)

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

	Six months ended 30 June	
	2017	**2016**
Shares issued at 1 January	**24 954**	**24 954**
Effect of own shares held	(7 548)	(7 782)
Average number of outstanding shares (thousands)	**17 406**	**17 172**

22. INVESTMENTS IN ASSOCIATES

As of 31 December 2016 the Group owned 30% in Winelab AO. The company owns and operates retail chain of specialized alcohol shops. Carrying amount of the investment amounted to ₽706 mln. In January 2017 the Group acquired additional 19% for ₽380 mln. Investments are accounted for in accordance with IAS 28 “Investments in associates” by equity method.

For the six months ended 30 June 2017 share of net income in amount of ₽4 mln is recognised in the statement of profit or loss and the carrying amount of the Group’s investment in associates as of 30 June 2016 amounted to ₽1,090 mln.

23. 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 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 Profit or Loss.

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. For these purposes assets are calculated as total assets less investments in subsidiaries and inter-company loans.

Financial results of the Group by operating segments for the six months ended 30 June 2017:

Breakdown by segments	Alcohol	Food	Management Companies	Total
Revenue, IFRS including intersegment revenue	12 394	3 314	144	15 852
Revenue, IFRS net of intersegment revenue	**12 353**	**3 304**	**78**	**15 735**
Gross Profit, IFRS	5 319	765	68	6 152
Gross Profit, IFRS net of intersegment	**5 289**	**755**	**34**	**6 078**
Depreciation and amortisation	(274)	(88)	(17)	(379)
Capital expenditure on property, plant and equipment, intangible assets	353	48	10	411

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

NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS (continued)

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

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

Total assets by segments:

Breakdown by segments	Alcohol	Food	Management Companies	Total
Assets, IFRS at 30 June 2017	31 737	3 206	2 409	37 352
Assets, IFRS at 31 December 2016	31 277	3 596	3 120	37 993

24. RELATED PARTY TRANSACTIONS

The ultimate controlling shareholder of the Group is Mechetin A.A.

Remuneration paid to key management personnel for the six months ended 30 June 2017 was ₽133 mln (for the six months ended 30 June 2016 – ₽127 mln).

The remuneration of directors and key executives is determined by labour contracts. Since the number of key management personnel, or their related parties, holds positions in other entities that results in them having control or significant influence over the financial or operating policies of these entities.

A number of these entities held transactions with the Group in the reporting period.

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

Sales of goods and services:

	Six months ended 30 June	
	2017	**2016**
Sales of goods	1 707	811
Sales of services	76	28
Total sales of goods and services	**1 783**	**839**

Purchases of goods and services:

	Six months ended 30 June	
	2017	**2016**
Purchases of goods and services	131	208

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

	30 June 2017	31 December 2016
Trade and other receivables from related parties	2 694	1 915
Trade and other payables to related parties	143	34

NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS (continued)

25. INTEREST IN JOINT VENTURE

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

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

26. CONTINGENCIES AND COMMITMENTS

Legal proceeding

During the reporting period 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 interim condensed financial statements.

Contractual commitments

As at 30 June 2017 the Group had no significant contractual commitments for the purchase of components for construction of Property, Plant and Equipment.

Leasing agreement

As at 30 June 2017 the Group had contractual commitments for long-term non-cancellable lease for ₽18 mln (at 31 December 2016 in amount of ₽105 mln).

Insurance policies

Part of the Group’s production facilities are adequately covered by insurance. The Group has not adequately insured business interruption, third party liability for damage to property and environment resulting from accidents involving the Group’s property or connected with its operations. Until the Group ensures adequate insurance coverage there is a risk that losses incurred or property damage inflicted by the Group may have a significant effect on the Group’s financial position and operations.

Tax legislation

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

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

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

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

Russian tax legislation does not provide definitive guidance in certain areas. From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices; the impact of any challenge by the tax authorities

NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS (continued)

cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

Operating environment

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

The recent political and economic turmoil witnessed in the region, in particular the developments in Ukraine, have had and may continue to have a negative impact on the Russian economy.

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

Excise payments and bank guarantees

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

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

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

Amount of all effective bank guarantees as of 30 June 2017 was ₽29,366 mln (31 December 2016 – ₽26,049 mln). Bank fees for the guarantees are included in net financial costs.

27. EVENTS AFTER THE BALANCE SHEET DATE

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