

**Open Joint Stock  
Company Concern  
“Kalina” and  
subsidiaries**

**Consolidated Financial Statements**  
9 Months Ended September 30, 2009

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

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# OPEN JOINT STOCK COMPANY CONCERN "KALINA" AND SUBSIDIARIES

## INCOME STATEMENT FOR THE 9 MONTHS ENDED SEPTEMBER 30, 2009

	Notes	3 months ended 30/09/2009 RUR'000	9 months ended 30/09/2009 RUR'000	3 months ended 30/09/2008 RUR'000	9 months ended 30/09/2008 RUR'000
Revenue		3,651,209	10,444,008	2,886,343	8,351,163
Cost of sales	5	<u>(1,987,270)</u>	<u>(5,551,840)</u>	<u>(1,555,885)</u>	<u>(4,164,527)</u>
Gross profit		1,663,939	4,892,168	1,330,458	4,186,636
Marketing and distribution expenses	6	(979,898)	(2,404,158)	(703,784)	(1,986,502)
Administrative expenses	7	(380,835)	(1,371,129)	(424,740)	(1,374,308)
Inventory obsolescence expenses		(45,673)	(134,852)	(6,777)	(73,306)
Other income and expenses	8	<u>1</u>	<u>(18)</u>	<u>(307)</u>	<u>(195)</u>
Results before impairment loss related to disposal group		257,534	982,011	194,850	752,325
Impairment loss related to disposal group		<u>8,826</u>	<u>(4,443)</u>	<u>-</u>	<u>-</u>
Results before finance costs		266,360	977,568	194,850	752,325
Finance costs	9	(76,082)	(328,885)	(71,408)	(210,389)
Foreign exchange (loss) / gain		<u>43,154</u>	<u>(78,089)</u>	<u>(19,763)</u>	<u>28,440</u>
Profit before income tax		233,432	570,594	103,679	570,376
Income tax expense	10	<u>(72,923)</u>	<u>(151,473)</u>	<u>(10,696)</u>	<u>(151,868)</u>
<b>Profit for the year</b>		<u>160,509</u>	<u>419,121</u>	<u>92,983</u>	<u>418,508</u>
Attributable to:					
Shareholders of the Company		162,061	418,973	92,630	414,274
Minority interest		<u>(1,552)</u>	<u>148</u>	<u>353</u>	<u>4,234</u>
<b>Earnings per share</b>		<u>160,509</u>	<u>419,121</u>	<u>92,983</u>	<u>418,508</u>
Basic and diluted (rubles per share)	11	<u>17</u>	<u>43</u>	<u>9</u>	<u>42</u>

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## BALANCE SHEET FOR THE 9 MONTHS ENDED SEPTEMBER 30, 2009

	Notes	9 months ended 30/09/2009 RUR'000	Year ended 31/12/2008 RUR'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	3,004,021	3,208,602
Investment property	13	54,441	57,663
Goodwill	14	495,090	498,373
Other intangible assets	15	726,239	689,459
Long-term investments		24,270	23,993
Deferred tax assets	10	121,623	223,734
<b>Total non-current assets</b>		<b>4,425,684</b>	<b>4,701,824</b>
<b>Current assets</b>			
Inventories	16	2,281,366	2,181,771
Trade and other receivables	17	3,087,884	2,676,962
Advances paid to suppliers and prepaid expenses		73,852	268,410
Taxes recoverable	18	298,936	348,302
Cash and bank balances	19	425,001	293,794
Assets classified as held for sale	20	20,947	377,114
<b>Total current assets</b>		<b>6,187,986</b>	<b>6,146,353</b>
<b>TOTAL ASSETS</b>		<b>10,613,670</b>	<b>10,848,177</b>

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## BALANCE SHEET (CONTINUED) FOR THE 9 MONTHS ENDED SEPTEMBER 30, 2009

	Notes	9 months ended 30/09/2009 RUR'000	Year ended 31/12/2008 RUR'000
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital		851,843	851,843
Share premium		679,035	664,507
Reserve for own shares		(685,566)	(149,706)
Translation reserve		(99,085)	(39,414)
Retained earnings		3,051,425	2,632,452
Equity attributable to Shareholders of the Company		3,797,652	3,959,682
Minority interest		71,962	67,815
<b>Total equity</b>		<b>3,869,614</b>	<b>4,027,497</b>
<b>Non-current liabilities</b>			
Borrowings	21	793,324	545,051
Finance leases		1,452	919
Retirement benefit obligation	22	161,153	148,898
Deferred tax liabilities	10	323,142	375,707
<b>Total non-current liabilities</b>		<b>1,279,071</b>	<b>1,070,575</b>
<b>Current liabilities</b>			
Trade and other payables	23	2,426,226	2,353,100
Borrowings	21	2,768,870	3,202,008
Finance leases		995	3,826
Taxes payable	18	242,555	171,444
Liabilities classified as held for sale	20	26,339	19,727
<b>Total current liabilities</b>		<b>5,464,985</b>	<b>5,750,105</b>
<b>Total liabilities</b>		<b>6,744,056</b>	<b>6,820,680</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>10,613,670</b>	<b>10,848,177</b>

## OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

### STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE 9 MONTHS ENDED SEPTEMBER 30, 2009

'000 RUR	Attributable to shareholders of the Company				Minority interest	Total equity	
	Share capital	Share premium	Translation reserve	Retained earnings			Total
<b>Balance at 1 January 2007 as previously reported</b>	<b>851,843</b>	<b>661,378</b>	<b>(48,335)</b>	<b>2,297,761</b>	<b>3,762,647</b>	<b>18,472</b>	<b>3,781,119</b>
Adjustment	-	-	10,437	(12,835)	(2,398)	81,623	79,225
<b>Balance at 1 January 2007 (as restated)</b>	<b>851,843</b>	<b>661,378</b>	<b>(37,898)</b>	<b>2,284,926</b>	<b>3,760,249</b>	<b>100,095</b>	<b>3,860,344</b>
Profit for the year as previously reported	-	-	-	540,138	540,138	10,433	550,571
Adjustment	-	-	-	(18,913)	(18,913)	2,443	(16,470)
Profit for the year as restated	-	-	-	521,225	521,225	12,876	534,101
Foreign currency translation differences as previously reported	-	-	57,075	-	57,075	-	57,075
Adjustment	-	-	(11,844)	-	(11,844)	-	(11,844)
Foreign currency translation differences as restated	-	-	45,231	-	45,231	-	45,231
Total recognised income and expense	-	-	-	-	566,456	12,876	579,332
Dividends to shareholders	-	-	-	(206,651)	(206,651)	-	(206,651)
Acquisition of minority interest, as previously reported	-	-	-	-	-	35,782	35,782
Adjustment	-	-	-	-	-	(84,148)	(84,148)
Acquisition of minority interest, as restated	-	-	-	-	-	(48,366)	(48,366)
<b>Balance at December 31, 2007 as previously reported</b>	<b>851,843</b>	<b>661,378</b>	<b>8,740</b>	<b>2,631,248</b>	<b>4,153,209</b>	<b>64,687</b>	<b>4,217,896</b>
Adjustment	-	-	(1,407)	(31,748)	(33,155)	(82)	(33,237)
<b>Balance at December 31, 2007 as restated</b>	<b>851,843</b>	<b>661,378</b>	<b>7,333</b>	<b>2,599,500</b>	<b>4,120,054</b>	<b>64,605</b>	<b>4,184,659</b>

## OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

### STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE 9 MONTHS ENDED SEPTEMBER 30, 2009

'000 RUR	Attributable to shareholders of the Company					Total	Minority interest	Total equity
	Share capital	Share premium	Reserve for own shares	Translation reserve	Retained earnings			
<b>Balance at January 1, 2008, as restated</b>	<b>851,843</b>	<b>661,378</b>	-	<b>7,333</b>	<b>2,599,500</b>	<b>4,120,054</b>	<b>64,605</b>	<b>4,184,659</b>
Profit for the year	-	-	-	-	230,925	230,925	208	231,133
Foreign currency translation differences	-	-	-	(46,747)	-	(46,747)	3,002	(43,745)
Total recognised income and expense	-	-	-	-	-	184,178	3,210	187,388
Dividends to shareholders	-	-	-	-	(197,973)	(197,973)	-	(197,973)
Treasury shares, net	-	3,129	(149,706)	-	-	(146,577)	-	(146,577)
<b>Balance at December 31, 2008</b>	<b>851,843</b>	<b>664,507</b>	<b>(149,706)</b>	<b>(39,414)</b>	<b>2,632,452</b>	<b>3,959,682</b>	<b>67,815</b>	<b>4,027,497</b>
Profit for the period	-	-	-	-	418,973	418,973	148	419,121
Foreign currency translation differences	-	-	-	(59,671)	-	(59,671)	3,999	(55,672)
Treasury shares, net	-	14,528	(535,860)	-	-	(521,332)	-	(521,332)
<b>Balance at September 30, 2009</b>	<b>851,843</b>	<b>679,035</b>	<b>(685,566)</b>	<b>(99,085)</b>	<b>3,051,425</b>	<b>3,797,652</b>	<b>71,962</b>	<b>3,869,614</b>

# OPEN JOINT STOCK COMPANY CONCERN "KALINA" AND SUBSIDIARIES

## STATEMENT OF CASH FLOWS FOR THE 9 MONTHS ENDED SEPTEMBER 30, 2009

	Notes	9 months ended 30/09/2009 RUR'000	9 months ended 30/09/2008 RUR'000
<b>Cash flows from operating activities</b>			
Profit for the year before tax		570,594	570,376
Finance costs recognized in income statement		328,885	210,389
Unrealized forex gain/loss		15,013	16,682
Loss on disposal of property, plant and equipment		3,721	(1,879)
Impairment loss on assets held for sale		4,443	-
Depreciation and amortization of non-current assets		225,362	259,448
		<u>1,148,018</u>	<u>1,055,016</u>
Operating cash flow before movements in working capital			
Movements in working capital			
Increase in trade and other receivables		(216,364)	(261,338)
Decrease/(increase) inventories		(99,595)	69,501
Decrease/(increase) in taxes receivable		49,366	27,280
Increase/(decrease) in trade accounts payables		73,126	(256,150)
Decrease in retirement benefits obligation		12,255	(6,397)
Increase in taxes payable		71,110	53,717
		<u>1,037,916</u>	<u>681,629</u>
Cash generated from operations			
Interest paid		(469,715)	(197,810)
Income taxes paid		(118,183)	(125,572)
		<u>450,018</u>	<u>358,247</u>
Net cash generated by/(used in) operating activities			
<b>Cash flows from investing activities</b>			
Purchase of short-term investments		(2,373)	(400,771)
Proceeds from disposal of short-term investments		2,373	6,821
Purchase of long-term investments		(976)	-
Payments for additional shares in Dr. Scheller		(89,090)	(1,862)
Payments for intangibles		(39,528)	-
Payments for property, plant and equipment		(233,889)	(230,991)
Return of advances		234,765	-
Proceeds from disposal of property, plant and equipment		3,200	2,527
		<u>(125,518)</u>	<u>(624,276)</u>
Net cash used in investing activities			
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		4,584,723	3,892,126
Repayment of borrowings		(4,714,445)	(3,081,166)
Repayment of capital lease obligations		(2,759)	(16,640)
Dividends		-	(197,973)
Reserves		-	(433,807)
Purchase of own shares		(60,812)	-
		<u>(193,293)</u>	<u>162,540</u>
Net cash used in/(generated by) financing activities			
Net increase in cash and cash equivalents		131,207	(103,489)
<b>Cash and cash equivalents at the beginning of the financial year</b>		<b>293,794</b>	<b>189,009</b>
<b>Cash and cash equivalents at the end of the financial year</b>	<b>19</b>	<b>425,001</b>	<b>85,520</b>

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 9 MONTHS ENDED SEPTEMBER 30, 2009

### 1. BACKGROUND

#### Business environment

**Russian business environment** - The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. In addition, the recent contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment. The consolidated financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

**Ukrainian business environment** - Ukraine has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in Ukraine involve risks that typically do not exist in other markets. In addition, the recent contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment. These financial statements reflect management’s current assessment of the impact of the Ukrainian business environment on the operations and the financial position of the . The future business environment may differ from management’s assessment.

#### Organisation and operations

OJSC Concern “Kalina” (hereinafter the “Company”), a Russian Open Joint Stock Company, was incorporated on December 12, 1992 as OJSC “Uralskiye Samotsveti” under the laws of the Russian Federation and renamed OAO Concern “Kalina” on November 30, 1999. The consolidated financial statements presented herein include the financial statements of the Company and its subsidiaries (hereinafter referred to jointly as “Operating Subsidiaries” or separately as “Operating Subsidiary” and, together with the Company, the “Group”).

Operating subsidiary	Share of ownership		Place of incorporation	Principal Activity
	30/09/2009	31/12/2008		
LLC Pallada Ukraina	100%	100%	Ukraine	Trading
Kalina Overseas Holding B.V.	100%	100%	Netherlands	Trading
Kalina International	100%	100%	Switzerland	Management
Kalina Beauty	-	100%	Switzerland	Management
Kosmetik und Rasierwaren Solingen GmbH	-	100%	Germany	Trading
Dr. Scheller Cosmetics AG	97.01%	93.64%	Germany	Trading
Dr. Scheller DuroDont GmbH	97.01%	93.64%	Germany	Trading
Lady Manhattan Cosmetics GmbH	97.01%	93.64%	Germany	Trading
Apotheker Scheller Naturmittel GmbH	97.01%	93.64%	Germany	Brand
Premium Cosmetics GmbH	-	93.64%	Germany	Trading
Lady Manhattan Cosmetics GmbH	97.01%	93.64%	Austria	Trading/Brand
Dr. Scheller Cosmetics Polska Sp. z.o.o.	97.01%	93.64%	Poland	Trading
Lady Manhattan Ltd.	97.01%	93.64%	UK	Brand
Dr. Scheller Cosmetics d.o.o.	48.51%	46.82%	Slovenia	Trading
LLC Kalina Finance	100%	100%	Russia	Finance activity
LLC Glavskazka International	100%	100%	Russia	Trading
LLC Dr. Scheller Beauty Center	100%	100%	Russia	Retail cosmetic services

The Company and its operating subsidiaries (collectively referred to as the “Group”) manufacture and sell a wide range of perfume, cosmetics and household products, primarily for the countries forming part of the Commonwealth of Independent States (“CIS”), and Germany.

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 9 MONTHS ENDED SEPTEMBER 30, 2009

The shareholders of OJSC Concern “Kalina” is as follows:

	30/09/2009		31/12/2008	
	Number of shares	Ownership interest	Number of shares	Ownership interest
Renaissance Securities (Cyprus) Limited	-	-	1,857,442	19.72%
UBS AG	1,487,799	17.49%	1,487,227	15.79%
Citigroup Global Markets Limited	-	-	849,937	9.02%
Deutsche Bank Trust Company Americas	581,825	6.84%	772,376	8.20%
Lindsell Enterprises Limited	627,220	7.37%	682,189	7.24%
UniCredit Bank Austria AG	1,045,799	12.29%	-	-
HSBC BANK PLC	690,000	8.11%	-	-
GREATER EUROPE DEEP VALUE FUND LIMITED	849,937	9.99%	-	-
Other shareholders	3,223,988	37.91%	3,771,140	40.03%
<b>Total</b>	<b>8,506,568</b>	<b>100%</b>	<b>9,420,311</b>	<b>100%</b>

## 2. BASIS OF PREPARATION

### *Statement of compliance*

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”).

### *Basis of measurement*

The consolidated financial statements are prepared on the historical cost basis except that financial investments classified as available-for-sale are stated at fair value.

### *Functional and presentation currency*

The national currency of the Russian Federation is the Russian Ruble (“RUR”), which is the Company’s functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in RUR has been rounded to the nearest thousand.

### *Use of judgments, estimates and assumptions*

Management has made a number of judgments, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRSs. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 9 MONTHS ENDED SEPTEMBER 30, 2009

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- Note 14 – Goodwill;
- Note 15 – Other intangible assets;
- Note 16 – Inventories;
- Note 17 – Trade and other receivables;
- Note 20 – Assets and liabilities classified as held for sale;
- Note 22 – Retirement benefit obligations.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of the consolidated financial statements are described below. These accounting policies have been consistently applied.

***Basis of consolidation*** – The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Minority interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group’s equity therein. Minority interests consist of the amount of those interests at the date of the original business combination (see below) and the minority’s share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority’s interest in the subsidiary’s equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

***Business combinations*** – Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree’s identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognized at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognized and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If, after reassessment, the Group’s interest in the net fair value of the acquiree’s identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized immediately in profit or loss.

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 9 MONTHS ENDED SEPTEMBER 30, 2009

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The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognized.

***Additional equity interests in subsidiaries*** – Acquisitions of additional equity interest in entities that are already controlled are accounted for using the purchase method. At each date when additional equity interest is acquired, the cost of the shares acquired is measured as the cumulative aggregate of the fair values (at the date(s) of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for additional equity shares of subsidiary, plus any costs directly attributable to the transaction.

At the date of each purchase, the Group recognizes increase\decrease in the value of the subsidiary's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations attributable to additional equity interest acquired and based on the fair values of these assets and liabilities as of the date of the transaction, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognized and measured at fair value less costs to sell.

The difference between the excess of the cost of consideration paid over the Group's additional interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of subsidiary's recognized as goodwill.

***Goodwill*** – Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognized at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

***Foreign currencies*** – The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Russian Rubles ('RUR'), which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 9 MONTHS ENDED SEPTEMBER 30, 2009

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Exchange differences are recognized in profit or loss in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognized in the foreign currency translation reserve and recognized in profit or loss on disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in RUR using exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such exchange differences are recognized in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

**Property, plant and equipment** – Property, plant and equipment are carried at cost, less any recognized impairment loss. Cost includes delivery costs, transportation, cost of brought to location and professional fees. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Fixtures and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

The overall useful economic lives of the assets for depreciation purposes are as follows:

Description	Useful Life (years)
Buildings	50
Machinery and equipment	10-15
Fixtures and fittings	5

**Reclassification to assets held for sale** - Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on *pro rata* basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 9 MONTHS ENDED SEPTEMBER 30, 2009

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remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

**Reclassification to investment property** - When the use of a property changes from owner-occupied to investment property, the property is measured at cost less accumulated depreciation and impairment losses and reclassified as investment property. The fair value of investment property is disclosed in note 13.

Any gain arising on remeasurement is recognised in profit or loss to the extent the gain reverses a previous impairment loss on the specific property, with any remaining gain recognised in the revaluation reserve directly in equity. Any loss is recognised in the revaluation reserve directly in equity to the extent that an amount is included in equity relating to the specific property, with any remaining loss recognised immediately in profit or loss.

**Investment property** - Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost less accumulated depreciation and impairment losses.

The overall useful economic lives of the buildings classified as investment property for depreciation purposes are 50 years. The fair value of investment property is disclosed in note 13.

**Leasing** – Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

*The Group as lessee* – Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized. Contingent rentals are recognized as expenses in the periods in which they are incurred.

### **Intangible assets**

*Intangible assets acquired separately* – Intangible assets acquired separately are reported at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over their estimated useful lives of 10 years for trademarks and licensed software. As described in note 15, intangible assets include trademarks with indefinite useful life. Amortization of intangible assets is included into administrative expenses. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

*Intangible assets acquired in a business combination* – Intangible assets acquired in a business combination are identified and recognized 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 amortization and accumulated impairment losses, on the same basis as intangible assets acquired separately.

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 9 MONTHS ENDED SEPTEMBER 30, 2009

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***Impairment of tangible and intangible assets excluding goodwill*** – At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs 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 which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

***Inventories*** – Inventories are stated at the lower of cost and net realizable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories held by the method most appropriate to the particular class of inventory, with the majority being valued on a first-in-first-out basis. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

***Advertising materials*** – In the ordinary course of business, the Group produces advertising materials whose treatment is as follows:

***Testers*** – representing goods which are given for free to customers. These are recorded in “Advances paid to suppliers and prepaid expenses” and are expensed in “marketing expenses” as advertising expenses.

***Shelves*** – these are provided to customers for displaying, the Group’s products and are included in “Fixture and Fittings”, and amortized over a period of not more than 5 years.

***Non-current assets held for sale*** – Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 9 MONTHS ENDED SEPTEMBER 30, 2009

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***Reclassification as held for use*** – Non-current assets and disposal groups are reclassified from held for sale to held for use if they no longer meet the criteria to be classified as held for sale. Upon reclassification as held for use or as investment property, a non-current asset is remeasured at the lower of its recoverable amount and the carrying amount that would have been recognized had the asset never been classified as held for sale. The calculation of this carrying amount should include any depreciation that would have been recognized had the asset not been classified as held for sale.

***Non-derivative financial instruments*** – Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, including cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise cash balances and call deposits.

***Held-to-maturity investments*** - If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

***Available-for-sale financial assets*** - The Group’s investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, and foreign currency differences on available-for-sale monetary items, are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

***Financial assets at fair value through profit or loss*** - An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group’s documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

***Other*** - Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

### ***Share capital***

***Ordinary shares*** - Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

***Repurchase of share capital (treasury shares)*** - When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is net of any tax effects, and is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to / from retained earnings.

***Retirement benefit costs*** – Contributions to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

For defined retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. Actuarial

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE 9 MONTHS ENDED SEPTEMBER 30, 2009

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gains and losses that exceed 10 per cent of the greater of the present value of the Group’s defined benefit obligation and the fair value of plan assets are amortized over the expected average remaining working lives of the participating employees. Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses and unrecognized past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognized actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

The defined retirement benefit plan applies to Dr Scheller Cosmetics, which primarily operates in Germany.

**Provisions** – Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

**Revenue recognition** – Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates, customer bonuses and other similar allowances.

Sale of goods – revenue from the sale of goods is recognized when all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the entity; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset’s net carrying amount.

**Customer bonuses** – Bonuses to customers are recalculated based on the actual quantity of inventory sold. Revenue is reduced by the amount of the customer bonuses.

**Finance income and expenses** - Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and foreign currency gains. Interest income is recognised as it accrues in the income statement, using the

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 9 MONTHS ENDED SEPTEMBER 30, 2009

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effective interest method. Dividend income is recognised in the income statement on the date that the Group’s right to receive payment is established.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognised on financial assets. All borrowing costs are recognised in the income statement using the effective interest method. Foreign currency gains and losses are reported on a net basis.

**Taxation** – Income tax expense represents the sum of the tax currently payable and deferred tax.

*Current tax* – The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

*Deferred tax* – Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

*Current and deferred tax for the period* – Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognized directly in equity, or where they arise from the initial accounting for a business combination.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE 9 MONTHS ENDED SEPTEMBER 30, 2009

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**Earnings per share** - The Group presents basic and diluted earnings per share (“EPS”) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. The Company does not have dilutive instruments.

**Segment reporting** – An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Group’s chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Information about profit and loss, assets and liabilities of a reportable segment include items directly attributable to the segment. Segment capital expenditure is the cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

### **Early adoption of new Standards and Interpretations**

The following new Standard, which is not mandatory for periods ending on 31 December 2008, has been adopted early and applied in preparing these consolidated financial statements.

- IFRS 8 *Operating Segments* introduces the “management approach” to segment reporting. IFRS 8 *Operating Segments*, which becomes mandatory for the Group’s 2009 consolidated financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group’s Chief Operating Decision Maker in order to assess each segment’s performance and to allocate resources to them.

### **New Standards and Interpretations not yet adopted**

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2008, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group’s operations. The Group plans to adopt these pronouncements when they become effective.

- Revised IAS 1 *Presentation of Financial Statements (2007)* which becomes mandatory for the Group’s 2009 consolidated financial statements is expected to have a significant impact on the presentation of the consolidated financial statements. The Standard introduces the concept of total comprehensive income and requires presentation of all owner changes in equity in the statement of changes in equity, separately from non-owner changes in equity.
- Revised IAS 23 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Group’s 2009 consolidated financial statements and will constitute a change in accounting policy for the Group. In accordance with the transitional provisions the Group will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date.
- Revised IFRS 3 *Business Combinations (2008)* and amended IAS 27 (2008) *Consolidated and Separate Financial Statements*, which come into effect on 1 July 2009 (i.e. become mandatory for the Group’s 2010 consolidated financial statements). The revisions address, among others, accounting for step acquisitions, require acquisition-related costs to be recognised as expenses and remove exception for changes in contingent consideration to be accounted by adjusting goodwill. The revisions also address how non-controlling interests in subsidiaries should be

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 9 MONTHS ENDED SEPTEMBER 30, 2009

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measured upon acquisition and require to recognise the effects of transactions with non-controlling interest directly in equity.

- Various Improvements to IFRSs have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purpose, will come into effect not earlier than 1 January 2009. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

#### 4. DETERMINATION OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

***Property, plant and equipment*** - The fair value of property, plant and equipment recognised as a result of a business combination is based on market values, when possible. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant, equipment, fixtures and fittings is based on quoted market prices for similar items.

When no quoted market prices are available, the fair value of property, plant and equipment is primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

***Intangible assets*** - The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark being owned. The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows.

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

***Inventories*** - The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

***Investments in equity and debt securities*** - The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted closing bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

***Trade and other receivables*** - The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

***Non-derivative financial liabilities*** - Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

# OPEN JOINT STOCK COMPANY CONCERN "KALINA" AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 9 MONTHS ENDED SEPTEMBER 30, 2009

### 5. COST OF SALES

	<b>9 months ended 30/09/2009 RUR'000</b>	<b>9 months ended 30/09/2008 RUR'000</b>
Raw materials	5,097,718	3,527,180
Salary and related taxes	308,884	327,123
Repair	61,129	80,368
Depreciation	35,793	81,321
Utilities	19,470	22,526
Repacking and remarking	6,234	69,608
Other	22,612	56,401
<b>Total</b>	<b><u>5,551,840</u></b>	<b><u>4,164,527</u></b>

### 6. MARKETING AND DISTRIBUTION EXPENSES

	<b>9 months ended 30/09/2009 RUR'000</b>	<b>9 months ended 30/09/2008 RUR'000</b>
Advertising expenses	1,461,993	1,225,654
Transportation expenses	386,379	395,026
Warehouse expenses	213,787	236,225
Salary and related taxes	199,839	68,868
Consulting expenses	47,834	10,711
Depreciation and amortization	49,913	27,809
Provision/ (release) of provision for bad debts	40,851	20,057
Other	3,562	2,152
<b>Total</b>	<b><u>2,404,158</u></b>	<b><u>1,986,502</u></b>

### 7. ADMINISTRATIVE EXPENSES

	<b>9 months ended 30/09/2009 RUR'000</b>	<b>9 months ended 30/09/2008 RUR'000</b>
Salaries and related taxes	922,109	864,796
Depreciation and amortization	139,656	144,575
Taxes, other than income tax	61,631	65,084
Consulting expenses	55,876	45,580
Municipal & economic charges, communication	52,797	50,377
Business trips	49,653	52,260
Repair and maintenance	41,655	61,448
Expertise & certification	27,185	29,552
Fines and penalties payable	4,599	8,141
Other	15,968	52,495
<b>Total</b>	<b><u>1,371,129</u></b>	<b><u>1,374,308</u></b>

# OPEN JOINT STOCK COMPANY CONCERN "KALINA" AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 9 MONTHS ENDED SEPTEMBER 30, 2009

### 8. OTHER INCOME AND EXPENSES

	<u>9 months ended</u> <u>30/09/2009</u> <u>RUR'000</u>	<u>9 months ended</u> <u>30/09/2008</u> <u>RUR'000</u>
Other income	4	37,737
Other expenses	(22)	(37,932)
<b>Other income, net</b>	<b>(18)</b>	<b>(195)</b>

### 9. FINANCE COSTS

	<u>9 months ended</u> <u>30/09/2009</u> <u>RUR'000</u>	<u>9 months ended</u> <u>30/09/2008</u> <u>RUR'000</u>
Interest expense	(475,516)	(263,497)
Interest income	146,631	53,108
<b>Total</b>	<b>328,885</b>	<b>210,389</b>

### 10. INCOME TAX EXPENSE

#### *Income tax recognized in profit or loss*

	<u>9 months ended</u> <u>30/09/2009</u> <u>RUR'000</u>	<u>9 months ended</u> <u>30/09/2008</u> <u>RUR'000</u>
Current tax expense	160,582	78,026
Deferred tax expense /(income)	(9,109)	73,842
<b>Total tax expense</b>	<b>151,473</b>	<b>151,868</b>

#### *Reconciliation of effective tax rate:*

	<u>9 months ended</u> <u>30/09/2009</u>		<u>Year ended</u> <u>31/12/2008</u>	
	<u>RUR'000</u>	<u>%</u>	<u>RUR'000</u>	<u>%</u>
Profit before tax	570,594	100	346,910	100
Income tax expense at the applicable tax rate	114,119	20	83,258	24
Effect of different tax rates of subsidiaries operating in other jurisdictions	-	0	(7,017)	(2)
Change in tax rate	-	0	(3,925)	(1)
Non-deductible expenses	37,354	7	106,079	30
Overprovided in prior years	-	0	(62,618)	(18)
	<b>151,473</b>	<b>27</b>	<b>115,777</b>	<b>33</b>

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 9 MONTHS ENDED SEPTEMBER 30, 2009

### *Deferred assets and liabilities*

	Assets		Liabilities		Net	
	9 months ended	Year ended	9 months ended	Year ended	9 months ended	Year ended
	30/09/2009	31/12/2008	30/09/2009	31/12/2008	30/09/2009	31/12/2008
	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000
Property, plant and equipment	193	2,317	133,207	110,705	(133,014)	(108,388)
Intangible assets	4,549	4,762	175,000	172,208	(170,451)	(167,446)
Investment	2,046	2,046	-	-	2,046	2,046
Inventories	9,513	19,987	6,838	10,319	2,675	9,668
Trade and other receivables	18,189	84,319	704	82,475	17,485	1,844
Borrowings	135	706	-	-	135	706
Retirement benefit obligation	19,957	13,800	-	-	19,957	13,800
Trade and other payables	33,068	40,183	1,452	-	31,616	40,183
Tax losses carried forward	28,032	55,614	-	-	28,032	55,614
Assets и liabilities of disposal group classified as held for sale	5,941	-	5,941	-	-	-
Net of assets/(liabilities)	121,623	223,734	323,142	375,707	(201,519)	(151,973)
Set off of tax	-	(117,995)	-	(117,995)	-	-
Net tax assets/(liabilities)	121,623	105,739	323,142	257,712	(201,519)	(151,973)

### *Movement in temporary differences during the year*

	January 1, 2009	Recognised in income	Translation difference	September 30, 2009
Property, plant and equipment, net	(108,388)	(23,609)	(1,018)	(133,015)
Intangible assets	(167,446)	(2,686)	(319)	(170,451)
Investment	2,046	-	-	2,046
Inventories	9,668	(6,992)	-	2,676
Trade and other receivables	1,844	15,641	-	17,485
Borrowings	706	(571)	-	135
Retirement benefit obligation	13,800	6,157	-	19,957
Trade and other payables	40,183	(7,115)	-	33,068
Tax loss carried forward	55,614	(29,034)	-	26,580
Assets и liabilities of disposal group classified as held for sale	-	-	-	-
	<u>(151,973)</u>	<u>(48,209)</u>	<u>(1,337)</u>	<u>(201,519)</u>

## 11. EARNINGS PER SHARE

	9 months ended 30/09/2009 RUR'000	9 months ended 30/09/2008 RUR'000
Profit for the year	<u>419,121</u>	<u>418,508</u>

*Basic and diluted earnings per share* – The earnings and weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share are as follows:

# OPEN JOINT STOCK COMPANY CONCERN "KALINA" AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 9 MONTHS ENDED SEPTEMBER 30, 2009

	9 months ended 30/09/2009 RUR'000	9 months ended 30/09/2008 RUR'000
Profit for the year attributable to Shareholders of the Company	418,973	414,274

The calculation of earnings per share is based upon the profit for the year and the weighted average number of ordinary shares outstanding during the year, calculated as shown below. The Company has no dilutive potential ordinary shares.

	9 months ended 30/09/2009	9 months ended 30/09/2008
Weighted average number of shares	8,506,568	9,752,311

## 12. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress RUR'000	Land RUR'000	Buildings RUR'000	Machinery & Equipment RUR'000	Fixtures & Fittings RUR'000	Total RUR'000
<b>AS PREVIOUSLY STATED</b>						
Cost						
<b>Balance at January 1, 2007</b>	114,637	17,288	1,915,021	2,394,471	244,224	4,685,641
Additions as previously stated	35,807	-	260,129	287,782	142,907	726,625
Adjustment	-	-	(217,084)	-	-	(217,084)
Additions as restated	35,807	-	43,045	287,782	142,907	509,541
Disposals	(2,070)	-	(802)	(38,554)	(49,510)	(90,936)
<b>As at December 31, 2007 as previously stated</b>	<u>148,374</u>	<u>17,288</u>	<u>2,174,348</u>	<u>2,643,699</u>	<u>337,621</u>	<u>5,321,330</u>
Adjustment	-	-	(217,084)	-	-	(217,084)
<b>Balance at December 31, 2007</b>	<u>148,374</u>	<u>17,288</u>	<u>1,957,264</u>	<u>2,643,699</u>	<u>337,621</u>	<u>5,104,246</u>
Additions to CIP	1,116,375	-	-	-	-	1,116,375
Transfers from CIP	(338,305)	-	120,204	118,057	100,044	-
Disposals	-	-	(14,481)	(9,522)	(61,947)	(85,950)
Transfer from assets held for sale	-	-	-	84,587	-	84,587
Transfer to assets held for sale	-	-	(589,712)	(605,915)	-	(1,195,627)
Net foreign currency exchange differences	-	-	141,874	260,762	111	402,747
<b>Balance at December 31, 2008</b>	<u>926,444</u>	<u>17,288</u>	<u>1,615,149</u>	<u>2,491,668</u>	<u>375,829</u>	<u>5,426,378</u>
Additions to CIP	233,888	-	-	-	-	233,888
Transfers from CIP	(244,164)	2,862	109,900	96,445	34,957	-
Disposals	-	-	(7,562)	(129,664)	(30,309)	(167,535)
Net foreign currency exchange differences	-	-	29,575	97,019	35	126,629
Return of advances	(234,765)	-	-	-	-	(234,765)
<b>Balance at September 30, 2009</b>	<u>681,403</u>	<u>20,150</u>	<u>1,747,062</u>	<u>2,555,468</u>	<u>380,512</u>	<u>5,384,595</u>
<i>Accumulated depreciation and impairment loss</i>						
<b>As at January 1, 2007 as previously stated</b>	-	-	326,174	1,388,443	115,049	1,829,666
Adjustment	-	-	211,822	(16,134)	-	195,688

# OPEN JOINT STOCK COMPANY CONCERN "KALINA" AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 9 MONTHS ENDED SEPTEMBER 30, 2009

<b>As at January 1, 2007 as restated</b>	-	-	537,996	1,372,309	115,049	2,025,354
Charge for the year	-	-	48,235	195,714	44,102	288,051
Disposals	-	-	(155)	(19,180)	(22,325)	(41,660)
Net foreign currency exchange differences as previously stated	-	-	-	-	-	-
Adjustment	-	-	7,535	5,477	-	13,012
Net foreign currency exchange differences as restated	-	-	7,535	5,477	-	13,012
<b>As at December 31, 2007 as previously stated</b>	-	-	374,254	1,564,977	136,826	2,076,057
Adjustment	-	-	219,357	(10,657)	-	208,700
<b>Balance at December 31, 2007</b>	-	-	593,611	1,554,320	136,826	2,284,757
Charge for the year	-	-	59,948	213,711	63,747	337,406
Impairment loss	-	-	196,724	(23,515)	-	173,209
Disposals	-	-	(11,017)	(13,501)	(36,589)	(61,107)
Transfer from assets held for sale	-	-	-	60,161	-	60,161
Transfer to assets held for sale	-	-	(418,895)	(404,840)	-	(823,735)
Net foreign currency exchange differences	-	-	61,259	185,826	-	247,085
<b>Balance at December 31, 2008</b>	-	-	481,630	1,572,162	163,984	2,217,776
Charge for the year	-	-	42,121	120,082	49,442	211,645
Disposals	-	-	(5,044)	(112,932)	(19,957)	(137,933)
Net foreign currency exchange differences	-	-	15,446	73,640	-	89,086
<b>Balance at September 30, 2009</b>	-	-	<b>534,153</b>	<b>1,652,952</b>	<b>193,469</b>	<b>2,380,574</b>
<i>Carrying amount</i>						
<b>As at January 1, 2007 as previously stated</b>	114,637	17,288	1,588,847	1,006,028	129,175	2,855,975
Adjustment	-	-	(211,822)	16,134	-	(195,688)
<b>As at January 1, 2007 as restated</b>	114,637	17,288	1,377,025	1,022,162	129,175	2,660,287
<b>As at December 31, 2007 as previously stated</b>	148,374	17,288	1,800,094	1,078,722	200,795	3,245,273
Adjustment	-	-	(436,441)	10,657	-	(425,784)
<b>As at December 31, 2007 as restated</b>	148,374	17,288	1,363,653	1,089,379	200,795	2,819,489
<b>As at December 31, 2008</b>	926,444	17,288	1,133,519	919,506	211,845	3,208,602
<b>As at September 30, 2009</b>	681,403	20,150	1,212,909	902,516	187,043	3,004,021

### 13. INVESTMENT PROPERTY

	<b>9 months ended 30/09/2009 RUR'000</b>	<b>Year ended 31/12/2008 RUR'000</b>
<i>Cost</i>		
Reclassification from assets held for sale	57,663	71,652
<i>Accumulated depreciation</i>		
Reclassification from assets held for sale	-	(9,695)
Charge for the year	(3,222)	(4,294)
	<b>54,441</b>	<b>57,663</b>

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 9 MONTHS ENDED SEPTEMBER 30, 2009

Fair value of property, plant and equipment (immovables) at the reportable date is 165,154 RUR'000. World financial and economic turmoil as well as consequent substantial worsening of economic conditions in Russia, Omsk region and the city of Omsk being its part in particular, affected the position of the management with regards to efficiency and economic reasonability of its “Omsk detergent plant” distant structural division tangible assets usage as well as its classification within the IFRS 5 standard. Due to the both sharp reduction of demand for commercial real estate at the city of Omsk as well as drop of the industrial capacities, cutting of the investment plans within the majority of the business enterprises in Russia, judgment on inability of selling the respective assets at reasonable price can be made. In opinion of the Group management, leasing of the “Omsk detergent plant” assets consequently resulting in its classification would be the most effective way of usage under the present circumstances. At the current moment Manufacturing and Warehouse complex building of the “Omsk detergent plant” is already being leased. Management of the Group is to put certain steps in order to search for leasers with regards to other sites.

### 14. GOODWILL

	<b>9 months ended 30/09/2009</b>	<b>Year ended 31/12/2008</b>
	<b>RUR'000</b>	<b>RUR'000</b>
<i>Cost</i>		
Balance at the beginning of the period	498,373	434,728
Effects of foreign currency exchange differences	(3,283)	63,645
Balance at end of period	<u>495,090</u>	<u>498,373</u>
<i>Carrying amount</i>		
At the beginning of the period	<u>498,373</u>	<u>434,728</u>
At the end of the period	<u>495,090</u>	<u>498,373</u>

### 15. OTHER INTANGIBLE ASSETS

	<b>Trademarks and other intangible assets</b>	<b>Licensed software</b>	<b>Total</b>
	<b>RUR'000</b>	<b>RUR'000</b>	<b>RUR'000</b>
<i>Cost</i>			
<b>Balance at January 1, 2007 as previously reported</b>	354,707	20,878	375,585
Adjustment	178,201	-	178,201
<b>Balance at January 1, 2007 as restated</b>	<u>532,908</u>	<u>20,878</u>	<u>553,786</u>
Additions	3,016	2,582	5,598
Disposals	(55)	-	(55)
Net foreign currency exchange differences, as previously reported	15,598	-	15,598
Adjustment	6,352	-	6,352
Net foreign currency exchange differences, as restated	<u>21,950</u>	<u>-</u>	<u>21,950</u>

# OPEN JOINT STOCK COMPANY CONCERN "KALINA" AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 9 MONTHS ENDED SEPTEMBER 30, 2009

<b>Balance at December 31, 2007, as previously reported</b>	<u>373,266</u>	<u>23,460</u>	<u>396,726</u>
Adjustment	<u>184,553</u>	<u>-</u>	<u>184,553</u>
<b>Balance at December 31, 2007, as restated</b>	<u>557,819</u>	<u>23,460</u>	<u>581,279</u>
Additions	5,092	57,553	62,645
Disposals	(3,184)	-	(3,184)
Transfer to assets held for sale	(5,222)	-	(5,222)
Net foreign currency exchange differences	85,512	-	85,512
<b>Balance at December 31, 2008</b>	<u>640,017</u>	<u>81,013</u>	<u>721,030</u>
Additions	536	38,992	39,528
Disposals	(1,950)	-	(1,950)
Net foreign currency exchange differences	11,305	-	11,305
<b>Balance at September 30, 2009</b>	<u>649,908</u>	<u>120,005</u>	<u>769,913</u>
<i>Accumulated amortization</i>			
<b>Balance at January 1, 2007</b>	9,808	6,382	16,190
Amortization expense	4,390	1,499	5,889
Disposals	-	-	-
Net foreign currency exchange differences	<u>3,449</u>	<u>-</u>	<u>3,449</u>
<b>Balance at December 31, 2007</b>	<u>17,647</u>	<u>7,881</u>	<u>25,528</u>
Amortization expense	1,283	4,876	6,159
Disposals	(116)	-	(116)
Net foreign currency exchange differences	<u>-</u>	<u>-</u>	<u>-</u>
<b>Balance at December 31, 2008</b>	<u>18,814</u>	<u>12,757</u>	<u>31,571</u>
Amortization expense	3,181	7,314	10,495
Disposals	(1,950)	-	(1,950)
Net foreign currency exchange differences	<u>3,558</u>	<u>-</u>	<u>3,558</u>
<b>Balance at September 30, 2009</b>	<u>23,603</u>	<u>20,071</u>	<u>43,674</u>
<i>Carrying amount</i>			
<b>As at January 1, 2007 as previously reported</b>	<u>344,899</u>	<u>14,496</u>	<u>359,395</u>
Adjustment	<u>178,201</u>	<u>-</u>	<u>178,201</u>
<b>As at January 1, 2007 as restated</b>	<u>523,100</u>	<u>14,496</u>	<u>537,596</u>
<b>As at December 31, 2007 as previously reported</b>	<u>355,619</u>	<u>15,579</u>	<u>371,198</u>
Adjustment	<u>184,553</u>	<u>-</u>	<u>184,553</u>
<b>As at December 31, 2007 as restated</b>	<u>540,172</u>	<u>15,579</u>	<u>555,751</u>
<b>As at December 31, 2008</b>	<u>621,203</u>	<u>68,256</u>	<u>689,459</u>
<b>As at September 30, 2009</b>	<u>626,305</u>	<u>99,934</u>	<u>726,239</u>

### *Annual Test for impairment*

During the financial year, the Group assessed the recoverable amount of intangible assets with indefinite useful lives and goodwill, and determined that it was not impaired. The recoverable amount of the relevant cash-generating unit was assessed by reference to value in use. A discount factor of 9% per annum (2007: 8.7% per annum) was applied in the value in use model.

For impairment test purposes the intangible assets with indefinite useful lives and goodwill was allocated to Dr Scheller subsidiary only (cash-generating unit), as it was expected, that Dr Scheller would benefit from the increase of its sales in Russia.

# OPEN JOINT STOCK COMPANY CONCERN "KALINA" AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 9 MONTHS ENDED SEPTEMBER 30, 2009

The recoverable amount of this cash-generating unit is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by the Dr Scheller's management. The forecasted period includes the fiscal years from 2008 to 2012.

Cash flow projections during the budget period were based on the following assumptions:

- 1) Net trade sales compound annual growth rate of 5.6%;
- 2) Cost of sales compound annual growth rate of 2.6%;
- 3) Marketing and selling expenses compound annual growth rate of 5.7%;
- 4) General and administration expenses compound annual growth rate of 0.5%;
- 5) Earnings beyond that three year period compound annual growth rate of 1%.

The management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit.

### 16. INVENTORIES

	<b>9 months ended 30/09/2009 RUR'000</b>	<b>Year ended 31/12/2008 RUR'000</b>
Finished goods	1,438,988	1,332,547
Raw materials	933,538	840,522
Work in progress	68,465	106,904
Allowance for obsolescence	(159,625)	(98,202)
<b>Total</b>	<b><u>2,281,366</u></b>	<b><u>2,181,771</u></b>

### 17. TRADE AND OTHER RECEIVABLES

	<b>9 months ended 30/09/2009 RUR'000</b>	<b>Year ended 31/12/2008 RUR'000</b>
Trade receivables	2,438,251	2,284,439
Other receivables	698,900	541,490
Allowance for doubtful debts	(49,267)	(148,967)
<b>Total</b>	<b><u>3,087,884</u></b>	<b><u>2,676,962</u></b>

### 18. TAXES RECOVERABLE AND PAYABLE

Taxes recoverable:

	<b>9 months ended 30/09/2009 RUR'000</b>	<b>Year ended 31/12/2008 RUR'000</b>
Input VAT	224,969	269,914
Excise	39,245	33,165
Tax receivables	34,722	45,223
<b>Total</b>	<b><u>298,936</u></b>	<b><u>348,302</u></b>

# OPEN JOINT STOCK COMPANY CONCERN "KALINA" AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 9 MONTHS ENDED SEPTEMBER 30, 2009

Taxes payable:

	<b>9 months ended 30/09/2009</b>	<b>Year ended 31/12/2008</b>
	<b>RUR'000</b>	<b>RUR'000</b>
VAT	149,966	90,649
Social charges tax	39,205	53,477
Property tax	7,582	7,479
Income taxes	43,675	3,590
Other taxes	2,127	16,249
<b>Total</b>	<b>242,555</b>	<b>171,444</b>

### 19. CASH AND BANK BALANCES

Cash consisted of the following at September 30, 2009 and December 31, 2008

	<b>9 months ended 30/09/2009</b>	<b>Year ended 31/12/2008</b>
	<b>RUR'000</b>	<b>RUR'000</b>
Cash in bank – EUR accounts	244,317	191,770
Cash in bank –USD accounts	117,917	23,456
Cash in bank – RUR accounts	36,710	20,319
Cash in bank – HRK accounts	6,161	-
Cash in bank – BAM accounts	5,105	-
Cash in bank –PLN accounts	4,665	10,070
Cash in bank – CHF accounts	3,829	6,092
Cash in bank –UAH accounts	2,909	6,714
Deposit – USD accounts	1,452	18,607
Cash in bank –GBR accounts	1,012	-
Cash on hand	793	1,970
Cash in bank –KN accounts	-	9,490
Other –AUD, KM accounts	131	5,306
<b>Total</b>	<b>425,001</b>	<b>293,794</b>

### 20. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

In line with the strategy to develop and focus on marketing its brands in the European countries, the Company has decided to outsource the production of cosmetics products produced by its German subsidiary, Dr Scheller Cosmetics AG. As a part of this the Company, as at December 31, 2008, has concluded a sale contract to divest certain assets of this subsidiary. In accordance with the agreement the buyer will be producing the cosmetics products exclusively for the Group for further distribution in the market. Under this arrangement the Group will continue own all the brands, under which these cosmetics products are produced and sold. The management of the Group expects to complete this sale transaction in 2009.

The Company reclassified the group of assets subject to the divestment and related liabilities into assets and liabilities held for sale. The details of the reclassification are as follows:

# OPEN JOINT STOCK COMPANY CONCERN "KALINA" AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 9 MONTHS ENDED SEPTEMBER 30, 2009

	<u>RUR'000</u>
Assets classified as held for sale as at 31 December 2007	86,383
Reclassification to property, plant and equipment	(24,426)
Reclassification to investment property	(61,957)
Reclassification from property, plant and equipment	371,892
Reclassification from other intangibles assets	5,222
Assets classified as held for sale as at 31 December 2008	377,114
Transaction costs	(356,167)
Assets classified as held for sale as at 30 September 2009	<u>20,947</u>
Liabilities classified as held for sale at 31 December 2008	19,727
Transaction costs	6,612
Liabilities classified as held for sale at 30 September 2009	<u>26,339</u>

## 21. BORROWINGS

	<u>9 months ended 30/09/2009 RUR'000</u>	<u>Year ended 31/12/2008 RUR'000</u>
<i>Non-current liabilities</i>		
Secured bank loans	793,324	462,500
Unsecured bank loans	-	82,551
	<u>793,324</u>	<u>545,051</u>
<i>Current liabilities</i>		
Current portion of secured bank loans	185,966	211,639
Current portion of unsecured bank loans	87,527	34,769
Secured bank loans	689,159	-
Unsecured bank loans	1,806,218	2,955,600
	<u>2,768,870</u>	<u>3,202,008</u>

	Currency	Nominal interest rate	Year of maturity	Carrying amount	
				<u>9 months ended 30/09/2009 RUR'000</u>	<u>Year ended 31/12/2008 RUR'000</u>
Secured bank loan	RUR	15.75% - 19%	2010	603,180	-
	USD	LIBOR+3.5%	2009 - 2012	413,348	460,510
	EUR	7.36% - 8.12%	2013	352,480	-
	EUR	16.50%	2010	110,836	-
	EUR	14.75% -16%	2009 -2010	85,977	-
	EUR	1.90% - 5.45%	2010 - 2012	70,018	118,149
	CHF	1.10%	2009 - 2012	32,610	48,900
	EUR	5.65% - 6.24%	2009 - 2010	-	46,580
				<u>1,668,449</u>	<u>674,139</u>
Unsecured bank facility	RUR	MOS PRIME + 4.5% -6.65%	2009 - 2010	1,806,218	2,462,551
	EUR	1, 3 M EURIBOR + 0.70% -1.50%	2009 - 2010	-	82,012
	EUR	Euribor + 1.85%	2010	87,527	-
	USD	7.80%	2009	-	493,050
	EUR	4.44%	2009 - 2010	-	35,307
				<u>1,893,745</u>	<u>3,072,920</u>

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 9 MONTHS ENDED SEPTEMBER 30, 2009

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The Group’s loans are measured at amortized cost. Carrying amounts are equal to their face value.

As at 30 September 2009 long-term borrowings were collateralized by property, plant and equipment with a net book value of RUR 927,896 thousand (2008: RUR 966,612 thousand) and finished goods with a net book value of RUR 909,644 thousand .

## 22. RETIREMENT BENEFIT OBLIGATIONS

Employees of the Group in Russia, Ukraine are generally beneficiaries of state-administered defined contribution pension programs. The Group remits a required percentage of the aggregate employees’ salaries to the statutory pension Funds. The granting of a pension requires the fulfillment of a waiting period of 15 years of pensionable time of service.

Dr. Scheller maintains a defined benefit plan and utilizes actuarial methods to account for the related pension obligations. Inherent in the application of these actuarial methods are the following key assumptions:

Discount rate	5% per annum
Expected rate of salary increases	1.5% per annum
Pension increase	1.5% per annum
Return on plan assets	3.2% per annum

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at December 31, 2007 by Kern Mauch & Kollegen GmbH (the Firm of actuaries, registered in Germany). The present value of the defined benefit obligation, the related current service cost and past service cost was measured using the projected unit credit method.

Amounts recognized in income in respect of these defined benefit schemes are as follows:

	<b>9 months ended 30/09/2009</b>	<b>Year ended 31/12/2008</b>
	<b>RUR’000</b>	<b>RUR’000</b>
Current service cost	363	414
Interest cost	7,954	9,863
<b>Total</b>	<b>8,317</b>	<b>10,277</b>

The amount included in the balance sheet arising from the entity’s obligation in respect of its defined benefit plans is as follows:

	<b>9 months ended 30/09/2009</b>	<b>Year ended 31/12/2008</b>
	<b>RUR’000</b>	<b>RUR’000</b>
Present value of funded defined benefit obligation	198,735	187,148
Fair value of plan assets	(57,693)	(57,189)

# OPEN JOINT STOCK COMPANY CONCERN "KALINA" AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 9 MONTHS ENDED SEPTEMBER 30, 2009

Deficit in scheme	141,042	129,959
Unrecorded gain	<u>20,111</u>	<u>18,939</u>
<b>Liability recognized in the balance sheet</b>	<b><u>161,153</u></b>	<b><u>148,898</u></b>

Movements in the present value of the defined benefit obligations in the current period were as follows:

	<b>9 months ended 30/09/2009 RUR'000</b>	<b>Year ended 31/12/2008 RUR'000</b>
Opening defined benefit obligation	206,087	182,901
Service cost	363	414
Interest cost	7,954	9,863
Actuarial loss		18,939
Benefits paid	(8,317)	(15,126)
Fair value of plan assets		
Effect of translation to presentation currency	<u>11,825</u>	<u>9,096</u>
<b>Closing defined benefit obligation</b>	<b><u>217,912</u></b>	<b><u>206,087</u></b>

Movement in fair value of plan assets is as follows:

	<b>9 months ended 30/09/2009 RUR'000</b>	<b>Year ended 31/12/2008 RUR'000</b>
<b>At January 1, 2008</b>	57,189	50,954
Contribution to plan assets	-	-
Additional expense of reinsurance	-	332
Benefit payments made	(3,829)	(3,730)
Return on plan assets	792	1,823
Effect of translation to presentation currency	<u>3,541</u>	<u>7,810</u>
<b>At September 30, 2009</b>	<b><u>57,693</u></b>	<b><u>57,189</u></b>

### 23. TRADE AND OTHER PAYABLES

	<b>9 months ended 30/09/2009 RUR'000</b>	<b>Year ended 31/12/2008 RUR'000</b>
Trade payables	2,123,126	2,005,768
Payables to employees	167,008	121,197
Advances received	21,067	51,364
Accruals	6,029	31,495
Other payable	<u>108,996</u>	<u>143,276</u>
<b>Total</b>	<b><u>2,426,226</u></b>	<b><u>2,353,100</u></b>

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 9 MONTHS ENDED SEPTEMBER 30, 2009

### 24. RELATED PARTY TRANSACTIONS

Trading transactions the group has one party related by means of common ownership – LLC “Soyuzspezstroy”.

	Purchases of services		Advances to related parties		Other receivables	
	9 months ended 30/09/2009	Year ended 31/12/2008	9 months ended 30/09/2009	Year ended 31/12/2008	9 months ended 30/09/2009	Year ended 31/12/2008
	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000
LLC “Soyuzspezstroy”	117,051	232,005	555,220	769,023	87,853	25,836
<b>Total</b>	<b>117,051</b>	<b>232,005</b>	<b>555,220</b>	<b>769,023</b>	<b>87,853</b>	<b>25,836</b>

### 25. CONTINGENCIES AND OPERATING ENVIRONMENT

#### *Taxation contingencies*

***Taxation contingencies in the Russian Federation*** - The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

***Taxation contingencies in Ukraine*** - The Group performs part of its operations in Ukraine and therefore within the jurisdiction of the Ukrainian tax authorities. The Ukrainian tax system can be characterized by numerous taxes and frequently changing legislation which may be applied retroactively, open to wide interpretation and in some cases are conflicting. Instances of inconsistent opinions between local, regional, and national tax authorities and between the Ministry of Finance and other state authorities are not unusual. Tax declarations are subject to review and investigation by a number of authorities that are enacted by law to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years, however under certain circumstances a tax year may remain open longer.

These facts create tax risks substantially more significant than typically found in countries with more developed systems. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.