

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

**Consolidated Financial Statements**  
First quarter Ended March 31, 2010

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## CONTENTS

---

	<b>Page</b>
FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2010:	
Consolidated income statement	3
Consolidated balance sheet	4-5
Statement of changes in equity	6-7
Consolidated cash flow statement	8
Notes to the consolidated financial statements	9-31

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE QUARTER ENDED MARCH 31, 2010

	Notes	Quarter ended 31/03/2010 RUR'000	Quarter ended 31/03/2009 RUR'000	Year ended 31/12/2009 RUR'000
Revenue		3,311,841	3,597,876	14,487,134
Cost of sales	6	(1,671,169)	(1,690,112)	(7,917,621)
Gross profit		1,640,672	1,907,764	6,569,513
Marketing and distribution expenses	7	(1,027,503)	(973,043)	(3,785,739)
Administrative expenses	8	(313,647)	(477,297)	(1,299,609)
Inventory obsolescence expenses		(33,768)	(59,410)	(226,296)
Other operating income and expenses	9	1,683	18,866	(33,707)
Operating results before finance income and costs		267,437	416,880	1,224,162
Interest income		13,736	30,909	109,119
Interest expenses		(119,507)	(165,208)	(589,840)
Foreign exchange gain		20,920	(100,664)	(120,514)
Profit before income tax		182,586	181,917	622,927
Income tax expense	10	(33,973)	(42,510)	(208,204)
<b>Profit for the year</b>		<b>148,613</b>	<b>139,407</b>	<b>414,723</b>
Attributable to:				
Owners of the Company		149,397	139,228	412,859
Non-controlling interest		(784)	179	1,864
<b>Other comprehensive income</b>				
Foreign currency translation differences for foreign operations		(74,222)	(37,494)	16,553
Income tax on other comprehensive income		-	-	-
<b>Total comprehensive income for the year</b>		<b>74,391</b>	<b>101,913</b>	<b>431,276</b>
Attributable to:				
Owners of the Company		71,401	98,732	423,813
Non-controlling interest		2,990	3,181	7,463
<b>Earnings per share</b>				
Basic and diluted (rubles per share)	11	18	15	46

# OPEN JOINT STOCK COMPANY CONCERN "KALINA" AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT QUARTER ENDED MARCH 31, 2010

	Notes	Quarter ended 31/03/2010 RUR'000	Year ended 31/12/2009 RUR'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	2,113,761	2,222,586
Loans issued for property, plant and equipment		575,145	562,979
Goodwill	13	477,468	521,790
Other intangible assets	14	745,856	805,148
Long-term investments		24,701	24,554
Deferred tax assets	10	227,271	186,043
<b>Total non-current assets</b>		<b>4,164,202</b>	<b>4,323,100</b>
<b>Current assets</b>			
Inventories	15	2,148,761	2,280,467
Trade and other receivables	16	2,229,376	2,720,404
Advances paid to suppliers and prepaid expenses		186,674	471,988
Taxes recoverable	17	222,474	273,617
Cash and bank balances	18	158,296	555,444
Assets classified as held for sale	19	93,128	93,616
<b>Total current assets</b>		<b>5,038,709</b>	<b>6,395,536</b>
<b>TOTAL ASSETS</b>		<b>9,202,911</b>	<b>10,718,636</b>

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED) AS AT QUARTER ENDED MARCH 31, 2010

	Notes	Quarter ended 31/03/2010 RUR'000	Year ended 31/12/2009 RUR'000
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital		851,843	851,843
Share premium		679,439	679,439
Reserve for own shares		(723,086)	(723,086)
Translation reserve		(102,682)	(28,460)
Retained earnings		3,097,164	2,947,767
Equity attributable to Owners of the Company		3,802,678	3,727,503
Non-controlling interest		11,276	27,395
<b>Total equity</b>		<b>3,813,954</b>	<b>3,754,898</b>
<b>Non-current liabilities</b>			
Borrowings	20	1,822,042	704,422
Finance leases		675	738
Retirement benefit obligations	21	145,430	157,933
Deferred tax liabilities	10	307,893	359,434
<b>Total non-current liabilities</b>		<b>2,276,040</b>	<b>1,222,527</b>
<b>Current liabilities</b>			
Trade and other payables	22	1,268,805	2,353,650
Borrowings	20	1,685,774	3,059,678
Finance leases		572	215
Taxes payable	17	152,049	321,463
Liabilities classified as held for sale	19	5,717	6,205
<b>Total current liabilities</b>		<b>3,112,917</b>	<b>5,741,211</b>
<b>Total liabilities</b>		<b>5,388,957</b>	<b>6,963,738</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>9,202,911</b>	<b>10,718,636</b>

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

### STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE QUARTER ENDED MARCH 31, 2010

	Attributable to shareholders of the Company					Non-controlling interest	Total equity	
	Share capital	Share premium	Reserve for own shares	Translation reserve	Retained earnings			Total
Balance at 1 January 2009	851,843	664,507	(149,706)	(39,414)	2,632,452	3,959,682	67,815	4,027,497
<b>Total comprehensive income for the year</b>								
Profit for the year	-	-	-	-	412,859	412,859	1,864	414,723
<b>Other comprehensive income</b>								
Foreign currency translation differences	-	-	-	10,954	-	10,954	5,599	16,553
<b>Total other comprehensive income</b>	-	-	-	10,954	-	10,954	5,599	16,553
<b>Total comprehensive income for the year</b>	-	-	-	10,954	412,859	423,813	7,463	431,276
<b>Transactions with owners, recorded directly in equity</b>								
<b>Contributions by and distributions to owners</b>								
Dividends to equity holders	-	-	-	-	(47,405)	(47,405)	-	(47,405)
Own shares acquired	-	(3,129)	(591,022)	-	-	(594,151)	-	(594,151)
Own shares sold	-	18,061	17,642	-	-	35,703	-	35,703
Total contributions by and distributions to owners	-	14,932	(573,380)	-	(47,405)	(605,853)	-	(605,853)
<b>Changes in ownership interests in subsidiaries that do not result in a loss of control</b>								
Acquisition of minority interest	-	-	-	-	(50,139)	(50,139)	(47,883)	(98,022)
Total transactions with owners	-	14,932	(573,380)	-	(97,544)	(655,992)	(47,883)	(703,875)
<b>Balance at 31 December 2009</b>	<b>851,843</b>	<b>679,439</b>	<b>(723,086)</b>	<b>(28,460)</b>	<b>2,947,767</b>	<b>3,727,503</b>	<b>27,395</b>	<b>3,754,898</b>
Profit for the period	-	-	-	-	149,397	149,397	(784)	148,613
Foreign currency translation differences	-	-	-	(74,222)	-	(74,222)	(15,335)	(89,557)
<b>Balance at March 31, 2010</b>	<b>851,843</b>	<b>679,439</b>	<b>(723,086)</b>	<b>(102,682)</b>	<b>3,097,164</b>	<b>3,802,678</b>	<b>11,276</b>	<b>3,813,954</b>

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 20 to 31.

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE QUARTER ENDED MARCH 31, 2010

	Notes	Quarter ended 31/03/2010 RUR'000	Quarter ended 31/03/2009 RUR'000
<b>Cash flows from operating activities</b>			
Profit for the year before tax		182,586	181,917
Finance costs recognized in income statement		105,771	134,299
Unrealized forex gain / loss		55,916	(17,072)
Loss on disposal of property, plant and equipment		(780)	262
Depreciation and amortization of non-current assets		112,687	73,858
Operating cash flow before movements in working capital		456,180	373,264
Movements in working capital			
Decrease / Increase in trade and other receivables		777,671	(210,628)
Decrease / Increase inventories		131,708	(10,203)
Decrease / Increase in taxes receivable		51,143	46,019
Increase in trade accounts payables		(1,084,846)	(143,739)
Increase / Decrease in retirement benefits obligation		(12,502)	13,657
Increase / Decrease in taxes payable		(169,414)	14,297
Cash generated from operations		149,940	82,667
Interest paid		(112,492)	(160,721)
Income taxes paid		(104,143)	(16,175)
Net cash generated by/(used in) operating activities		(66,695)	(94,229)
<b>Cash flows from investing activities</b>			
Acquisition of Dr. Scheller		(83,095)	-
Purchase of short-term investments		-	2,373
Proceeds from disposal of short-term investments		-	(2,373)
Purchase of long-term investments		-	(976)
Payments for property, plant and equipment		(56,510)	(89,067)
Payments for intangibles		-	(18,461)
Proceeds from disposal of property, plant and equipment		966	210
Net cash used in investing activities		(138,639)	(108,294)
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		1,933,086	1,576,455
Repayment of borrowings		(2,123,629)	(1,510,948)
Repayment of capital lease obligations		(1,271)	(3,635)
Purchase of own shares		-	(2,419)
Net cash used in/(generated by) financing activities		(191,814)	59,453
Net increase in cash and cash equivalents		(397,148)	(143,070)
<b>Cash and cash equivalents at the beginning of the financial year</b>		<b>555,444</b>	<b>293,794</b>
<b>Cash and cash equivalents at the end of the financial year</b>	<b>18</b>	<b>158,296</b>	<b>150,724</b>

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2010

### 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
	31/03/2010	31/12/2009		
LLC Pallada Ukraina	100%	100%	Ukraine	Trading
Kalina Overseas Holding B.V.	100%	100%	Netherlands	Trading
Kalina International	100%	100%	Switzerland	Management
Dr. Scheller Cosmetics AG	100%	98%	Germany	Trading
Dr. Scheller DuroDont GmbH	100%	98%	Germany	Trading
Lady Manhattan Cosmetics GmbH	100%	98%	Germany	Trading
Apotheker Scheller Naturmittel GmbH	100%	98%	Germany	Brand
Premium Cosmetics GmbH	100%	98%	Germany	Trading
Lady Manhattan Cosmetics GmbH	100%	98%	Austria	Trading/Brand
Dr. Scheller Cosmetics Polska Sp. Z.o.o.	100%	98%	Poland	Trading
Lady Manhattan Ltd.	100%	98%	UK	Brand
Dr. Scheller Cosmetics d.o.o.	50%	49%	Slowenia	Trading
LLC Kalina Finance				Finance
LLC Glavskazka International	100%	100%	Russia	Trading activity
LLC Dr. Scheller Beauty Center	100%	100%	Russia	Retail cosmetic services



# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2010

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.

The shareholders of OJSC Concern “Kalina” as of March 31, 2010 is as follows:

Shareholders as nominees	31/03/2010		31/12/2009	
	Number of shares	Ownership interest	Number of shares	Ownership interest
Prego Holdings Limited	1,472,916	17.47%	-	-
UBS AG	-	-	1,488,203	17.65%
UniCredit Bank Austria AG	1,045,799	12.40%	1,045,448	12.40%
Lindsell Enterprises Limited	886,589	10.52%	627,074	7.44%
Greater Europe Deep Value Fund Limited	849,937	10.08%	850,402	10.09%
HSBC Bank PLC	690,000	8.18%	690,464	8.19%
Deutsche Bank Trust Company Americas	581,825	6.90%	582,213	6.91%
Other owners	2,903,462	34.45%	3,146,724	37.32%
<b>Total</b>	<b>8,430,528</b>	<b>100%</b>	<b>8,430,528</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.

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2010

---

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:

- Note 13 – Goodwill;
- Note 14 – Other intangible assets;
- Note 15 – Inventories;
- Note 16 – Trade and other receivables;
- Note 19 – Assets and liabilities classified as held for sale;
- Note 21 – 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

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2010

---

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.

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

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2010

---

when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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
Trade equipment	3

**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

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2010

---

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 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 12.

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 12.

**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 14, 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.

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2010

---

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.

***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.

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2010

---

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.

**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.

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2010

---

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 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



# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2010

---

foreign currency gains. Interest income is recognised as it accrues in the income statement, using the 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,

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2010

---

in which case the tax is also recognized directly in equity, or where they arise from the initial accounting for a business combination.

**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.

#### 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 QUARTER ENDED MARCH 31, 2010

### 5. OPERATING SEGMENTS

The Group’s reportable segments are geographical business units, Russia & CIS and Europe. They are managed separately because the Group is focused on management of own brands, under which the products are offered to the particular markets with different customer profiles and regulatory requirements. Therefore each segment requires different marketing and distribution strategies. In addition, the Group’s operations originally based in Russia and CIS. In 2005 the European operations were acquired as an individual unit, and the management at the time of the acquisition was retained. The information about these segments’ profit and loss, assets and liabilities is regularly provided to the Group’s chief operating decision maker.

	Russia & CIS		Europe		Total	
	Quarter ended 31/03/2010	Quarter ended 31/03/2009	Quarter ended 31/03/2010	Quarter ended 31/03/2009	Quarter ended 31/03/2010	Quarter ended 31/03/2009
	RUR’000	RUR’000	RUR’000	RUR’000	RUR’000	RUR’000
Total revenue for reportable segments	2,519,655	2,305,233	808,596	1,354,897	3,328,250	3,660,130
Elimination of intersegment revenue	(5,264)	(21,752)	(11,146)	(40,502)	(16,409)	(62,254)
Revenue from external customers	<u>2,514,391</u>	<u>2,283,481</u>	<u>797,450</u>	<u>1,314,395</u>	<u>3,311,841</u>	<u>3,597,876</u>
Interest income	12,138	29,247	1,598	5,499	13,736	30,909
Interest expense	113,317	143,079	6,190	22,129	119,507	165,208
Depreciation and amortization	93,114	37,904	19,573	35,954	112,687	73,858
Inventory obsolescence expense	33,768	39,956	-	19,454	33,768	59,410
Reportable segment profit before tax	175,365	142,130	7,221	39,787	182,586	181,917
Reportable segment income tax expense	29,887	30,663	4,086	11,847	33,973	42,510
Reportable segment profit after tax	<u>145,477</u>	<u>111,466</u>	<u>3,136</u>	<u>27,940</u>	<u>148,613</u>	<u>139,407</u>
Reportable segment assets	8,444,012	9,000,081	2,745,052	3,159,378	11,189,064	12,519,459
Capital expenditures	56,510	103,301	79	4,227	56,589	107,528
Liabilities	4,326,000	4,905,604	2,852,704	3,210,531	7,178,704	8,116,135

#### *Reconciliations of reportable segment revenues, assets and liabilities*

	Quarter ended 31/03/2010	Quarter ended 31/03/2009
	RUR’000	RUR’000
<b>Revenues</b>		
Total revenues for reportable segments	3,328,250	3,660,130
Elimination of intersegment revenue	(16,409)	(62,254)
	<u>3,311,841</u>	<u>3,597,876</u>
<b>Assets</b>		
Total assets for reportable segments	11,189,064	12,519,459
Elimination of intersegment receivables	(1,986,153)	(1,516,831)
	<u>9,202,911</u>	<u>11,002,628</u>
<b>Liabilities</b>		
Total liabilities for reportable segments	7,178,704	8,116,135
Elimination of intersegment payables	(1,789,747)	(1,258,942)
	<u>5,388,957</u>	<u>6,857,193</u>

# OPEN JOINT STOCK COMPANY CONCERN "KALINA" AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2010

### *Information about products*

	External sales		Gross profit	
	Quarter ended 31/03/2010	Quarter ended 31/03/2009	Quarter ended 31/03/2010	Quarter ended 31/03/2009
	RUR'000	RUR'000	RUR'000	RUR'000
Cosmetics	2,325,696	2,623,338	1,133,081	1,420,726
Oral care	248,363	383,939	172,399	150,007
Soap and household chemical goods	189,843	157,732	81,630	83,515
Other	547,939	432,867	253,562	253,516
	<b>3,311,841</b>	<b>3,597,876</b>	<b>1,640,672</b>	<b>1,907,764</b>

The Group's is less exposed to concentration of sales to individual customer. No single customer amounts for 10% or more of the Group's revenues.

## 6. COST OF SALES

	Quarter ended 31/03/2010	Quarter ended 31/03/2009
	RUR'000	RUR'000
Raw materials	1,557,067	1,469,160
Salary and related taxes	66,037	152,485
Repacking and remarking	14,920	1,871
Depreciation	12,894	23,607
Repair	8,861	22,235
Utilities	5,563	6,562
Other	5,827	14,192
<b>Total</b>	<b>1,671,169</b>	<b>1,690,112</b>

## 7. MARKETING AND DISTRIBUTION EXPENSES

	Quarter ended 31/03/2010	Quarter ended 31/03/2009
	RUR'000	RUR'000
Advertising expenses	590,679	559,238
Salary and related taxes	143,763	145,175
Transportation expenses	93,840	133,526
Warehouse expenses	45,186	81,767
Consulting expenses	41,389	38,705
Provision/ (release) of provision for bad debts	34,731	2,676
Depreciation and amortization	68,096	9,970
Other	9,819	1,986
<b>Total</b>	<b>1,027,503</b>	<b>973,043</b>

# OPEN JOINT STOCK COMPANY CONCERN "KALINA" AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2010

### 8. ADMINISTRATIVE EXPENSES

	<b>Quarter ended 31/03/2010 RUR'000</b>	<b>Quarter ended 31/03/2009 RUR'000</b>
Salaries and related taxes	183,519	287,577
Consulting expenses	27,828	10,786
Depreciation and amortization	31,697	40,281
Business trips	22,584	22,498
Municipal & economic charges, communication	13,060	27,344
Taxes, other than income tax	11,634	48,642
Repair and maintenance	8,550	22,012
Fines and penalties payable	1,044	2,129
Other	13,731	16,028
<b>Total</b>	<b><u>313,647</u></b>	<b><u>477,297</u></b>

### 9. OTHER INCOME AND EXPENSES

	<b>Quarter ended 31/03/2010 RUR'000</b>	<b>Quarter ended 31/03/2009 RUR'000</b>
Other income	2,463	37,909
Other expenses	(780)	(19,043)
<b>Other income, net</b>	<b><u>1,683</u></b>	<b><u>18,866</u></b>

### 10. INCOME TAX EXPENSE

*Income tax recognized in profit or loss*

	<b>Quarter ended 31/03/2010 RUR'000</b>	<b>Quarter ended 31/03/2009 RUR'000</b>
Current tax expense	114,567	4,201
Deferred tax expense	(80,594)	38,309
<b>Total tax expense</b>	<b><u>33,973</u></b>	<b><u>42,510</u></b>

# OPEN JOINT STOCK COMPANY CONCERN "KALINA" AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2010

### Reconciliation of effective tax rate:

	Quarter ended 31/03/2010		Year ended 31/12/2009	
	RUR'000	%	RUR'000	%
Profit before income tax	182,586	100	622,927	100
Income tax expense at the applicable tax rate	36,517	20	124,585	20
Effect of different tax rates of subsidiaries operating in other jurisdictions	(1,271)	(1)	6,480	1
Change in tax rate	-	-	-	-
Recognition of previously unrecognized tax losses	(1,521)	1	(3,429)	(1)
Non-deductible expenses	(11,318)	(6)	36,510	6
Current year losses for which no deferred tax asset was recognized	10,434	5	38,374	6
Over/ (under) provided in prior years	1,132	1	5,684	1
	<b>33,973</b>	<b>20</b>	<b>208,204</b>	<b>33</b>

### Deferred assets and liabilities

	Assets		Liabilities		Net	
	Quarter ended	Year ended	Quarter ended	Year ended	Quarter ended	Year ended
	31/03/2010	31/12/2009	31/03/2010	31/12/2009	31/03/2010	31/12/2009
	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000
Property, plant and equipment	9,649	5,549	(126,496)	(138,649)	(116,847)	(133,100)
Inventory	13,813	21,067	(4,132)	(12,676)	9,681	8,391
Trade and other receivables	66,052	70,633	-	(6,879)	66,052	63,754
Advances paid and prepaid expenses	72,936	12,980	-	(2,187)	72,936	10,793
Intangible assets	4,197	4,197	(175,637)	(195,856)	(171,440)	(191,659)
Investments	2,046	2,046	-	-	2,046	2,046
Trade and other payables	24,993	30,609	-	(1,408)	24,993	29,201
LT and ST finance liabilities	300	43	-	-	300	43
Assets held for sale	1,628	1,779	(1,628)	(1,779)	-	-
Tax loss carry-forwards	18,039	22,258	-	-	18,039	22,258
Pension liabilities	13,618	14,882	-	-	13,618	14,882
<b>Total</b>	<b>227,271</b>	<b>186,043</b>	<b>(307,893)</b>	<b>(359,434)</b>	<b>(80,622)</b>	<b>(173,391)</b>
Set off of tax	-	(21,698)	-	21,698	-	-
<b>Total</b>	<b>227,271</b>	<b>164,345</b>	<b>(307,893)</b>	<b>(337,736)</b>	<b>(80,622)</b>	<b>(173,391)</b>

### Movement in temporary differences during the year

	January 1, 2010	Recognised in income	Translation difference	March 31, 2010
Property, plant and equipment	(133,100)	13,008	3,245	(116,847)
Inventory	8,391	1,288	-	9,679
Trade and other receivables	63,754	2,298	-	66,052
Advances paid and prepaid expenses	10,793	62,144	-	72,937
Intangible assets	(191,659)	5,115	15,104	(171,440)
Investments	2,046	-	-	2,046
Trade and other payables	29,201	(4,208)	-	24,993
LT and ST finance liabilities	43	257	-	300
Tax loss carry-forwards	22,258	(4,732)	513	18,039
Pension liabilities	14,882	(1,264)	-	13,618
	<b>(173,391)</b>	<b>73,906</b>	<b>18,862</b>	<b>(80,623)</b>

# OPEN JOINT STOCK COMPANY CONCERN "KALINA" AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2010

### 11. EARNINGS PER SHARE

	Quarter ended 31/03/2010 RUR'000	Quarter ended 31/03/2009 RUR'000
Profit for the year	<u>148,613</u>	<u>139,407</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:

	Quarter ended 31/03/2010 RUR'000	Quarter ended 31/03/2009 RUR'000
Profit for the year attributable to Shareholders of the Company	<u>149,397</u>	<u>139,228</u>

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.

	Quarter ended 31/03/2010	Quarter ended 31/03/2009
<i>In thousands of shares</i>		
Issued shares at 1 January	8,430,528	9,543,551
Effect of own shares held	-	(12,100)
Weighted average number of shares	<u>8,430,528</u>	<u>9,531,451</u>

### 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
<i>Cost</i>						
<b>Balance at December 31, 2008</b>	121,986	17,288	1,615,149	2,491,668	375,829	4,621,920
Additions	14,289	2,877	-	95,461	52,325	164,952
Transfers	(124,306)	-	109,900	14,406	-	-
Transfer to assets held for sale	-	-	-	(72,538)	(2,392)	(74,930)
Disposals	-	-	(7,575)	(565,452)	(39,003)	(612,030)
Net foreign currency exchange differences	(16)	-	24,766	76,031	(294)	100,487
<b>Balance at December 31, 2009</b>	<u>11,953</u>	<u>20,165</u>	<u>1,742,240</u>	<u>2,039,576</u>	<u>386,465</u>	<u>4,200,399</u>
Additions	56,510	-	-	-	-	56,510
Transfers	(4,740)	-	-	1,964	2,776	-
Disposals	-	-	-	(1,133)	(81,682)	(82,815)
Net foreign currency exchange differences	-	-	(5,252)	(10,345)	(319)	(15,916)
<b>Balance at March 31, 2010</b>	<u>63,723</u>	<u>20,165</u>	<u>1,736,988</u>	<u>2,030,062</u>	<u>307,240</u>	<u>4,158,178</u>
<i>Accumulated depreciation and impairment loss</i>						
<b>Balance at December 31, 2008</b>	-	-	481,630	1,572,162	163,984	2,217,776

# OPEN JOINT STOCK COMPANY CONCERN "KALINA" AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2010

Charge for the year	-	-	30,566	220,699	54,638	305,903
Transfer to assets held for sale	-	-	-	(43,208)	(518)	(43,726)
Disposals	-	-	(5,051)	(548,505)	(25,022)	(578,578)
Net foreign currency exchange differences	-	-	12,377	64,061	-	76,438
<b>Balance at December 31, 2009</b>	<b>-</b>	<b>-</b>	<b>519,522</b>	<b>1,265,209</b>	<b>193,082</b>	<b>1,977,813</b>
Charge for the year	-	-	12,908	31,756	60,611	105,275
Disposals	-	-	-	(965)	(35,228)	(36,193)
Net foreign currency exchange differences	-	-	(2,279)	(190)	(9)	(2,478)
<b>Balance at March 31, 2010</b>	<b>-</b>	<b>-</b>	<b>530,151</b>	<b>1,295,810</b>	<b>218,456</b>	<b>2,044,417</b>

### Carrying amount

As at December 31, 2009	<b>11,953</b>	<b>20,165</b>	<b>1,222,718</b>	<b>774,367</b>	<b>193,383</b>	<b>2,222,586</b>
As at March 31, 2010	<b>63,723</b>	<b>20,165</b>	<b>1,206,837</b>	<b>734,252</b>	<b>88,784</b>	<b>2,113,761</b>

## 13. GOODWILL

	<b>Quarter ended 31/03/2010 RUR'000</b>	<b>Year ended 31/12/2009 RUR'000</b>
<i>Cost</i>		
Balance at the beginning of the period	521,790	498,373
Effects of foreign currency exchange differences	(44,322)	23,417
Balance at end of period	<b>477,468</b>	<b>521,790</b>
<i>Carrying amount</i>		
At the beginning of the period	521,790	498,373
At the end of the period	<b>477,468</b>	<b>521,790</b>

## 14. OTHER INTANGIBLE ASSETS

	<b>Trademarks and other intangible assets RUR'000</b>	<b>Licensed software RUR'000</b>	<b>Total RUR'000</b>
<i>Cost</i>			
<b>Balance at December 31, 2008</b>	640,017	86,398	726,415
Additions	1,459	93,917	95,376
Disposals	(3,354)	-	(3,354)
Net foreign currency exchange differences	30,033	-	30,033
<b>Balance at December 31, 2009</b>	<b>668,155</b>	<b>180,315</b>	<b>848,470</b>
Additions	80	-	80
Disposals	(397)	-	(397)
Net foreign currency exchange differences	(53,088)	-	(53,088)
<b>Balance at March 31, 2010</b>	<b>614,750</b>	<b>180,315</b>	<b>795,065</b>



# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2010

### *Accumulated amortization*

<b>Balance at December 31, 2008</b>	18,814	12,757	31,571
Charge for the year	3,795	10,433	14,228
Disposals	(3,354)	-	(3,354)
Net foreign currency exchange differences	877	-	877
<b>Balance at December 31, 2009</b>	<b>20,132</b>	<b>23,190</b>	<b>43,322</b>
Charge for the year	79	7,333	7,412
Disposals	(635)	-	(635)
Net foreign currency exchange differences	(890)	-	(890)
<b>Balance at March 31, 2010</b>	<b>18,686</b>	<b>30,523</b>	<b>49,209</b>

### *Carrying amount*

<b>As at December 31, 2009</b>	<b>648,023</b>	<b>157,125</b>	<b>805,148</b>
<b>As at March 31, 2010</b>	<b>596,064</b>	<b>149,792</b>	<b>745,856</b>

### *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.

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.

## 15. INVENTORIES

	<b>Quarter ended 31/03/2010 RUR'000</b>	<b>Year ended 31/12/2009 RUR'000</b>
Finished goods	1,504,010	1,410,308
Raw materials	813,431	1,047,540
Work in progress	8,442	24,709
Allowance for obsolescence	(177,122)	(202,090)
<b>Total</b>	<b>2,148,761</b>	<b>2,280,467</b>

# OPEN JOINT STOCK COMPANY CONCERN "KALINA" AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2010

### 16. TRADE AND OTHER RECEIVABLES

	<b>Quarter ended 31/03/2010</b>	<b>Year ended 31/12/2009</b>
	<b>RUR'000</b>	<b>RUR'000</b>
Trade receivables	1,707,910	2,190,706
Other receivables	564,750	578,112
Allowance for doubtful debts	(43,284)	(48,414)
<b>Total</b>	<b>2,229,376</b>	<b>2,720,404</b>

### 17. TAXES RECOVERABLE AND PAYABLE

Taxes recoverable:

	<b>Quarter ended 31/03/2010</b>	<b>Year ended 31/12/2009</b>
	<b>RUR'000</b>	<b>RUR'000</b>
Input VAT	173,270	235,035
Excise	22,838	21,847
Tax receivables	26,366	16,735
<b>Total</b>	<b>222,474</b>	<b>273,617</b>

Taxes payable:

	<b>Quarter ended 31/03/2010</b>	<b>Year ended 31/12/2009</b>
	<b>RUR'000</b>	<b>RUR'000</b>
VAT	3,755	157,515
Social charges tax	10,516	65,577
Property tax	7,410	7,655
Income taxes	115,302	89,396
Other taxes	15,066	1,320
<b>Total</b>	<b>152,049</b>	<b>321,463</b>

### 18. CASH AND BANK BALANCES

Cash consisted of the following at March 31, 2010 and December 31, 2009

	<b>Quarter ended 31/03/2010</b>	<b>Year ended 31/12/2009</b>
	<b>RUR'000</b>	<b>RUR'000</b>
Cash in bank – EUR accounts	67,941	283,864
Cash in bank – RUR accounts	35,764	48,993
Cash in bank –USD accounts	20,225	118,476
Cash in bank –UAH accounts	8,757	12,097
Cash in bank –PLN accounts	8,298	3,948
Cash in bank –BAM accounts	6,511	6,378
Cash in bank –CHF accounts	5,241	6,566
Cash in bank –HRK accounts	3,653	5,857

# OPEN JOINT STOCK COMPANY CONCERN "KALINA" AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2010

Cash on hand	1,112	1,641
Cash in bank – GBP accounts	754	824
Deposit – USD accounts	-	66,712
Other –AUD, CSD, SIT, KM accounts	40	88
<b>Total</b>	<b>158,296</b>	<b>555,444</b>

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

	<b>RUR'000</b>
Assets classified as held for sale as at 31 December 2009	93,616
Transaction costs	(488)
Assets classified as held for sale as at 31 March 2010	93,128
Liabilities classified as held for sale at 31 December 2009	6,205
Transaction costs	(488)
Liabilities classified as held for sale at 31 March 2010	5,715

### 20. BORROWINGS

	<b>Quarter ended 31/03/2010 RUR'000</b>	<b>Year ended 31/12/2009 RUR'000</b>
<i>Non-current liabilities</i>		
Secured bank loans	1,822,042	704,422
Unsecured bank loans	-	-
	<b>1,822,042</b>	<b>704,422</b>
<i>Current liabilities</i>		
Secured bank loans	385,377	1,226,562
Unsecured bank loans	1,300,397	1,833,116
	<b>1,685,774</b>	<b>3,059,678</b>

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2010

	Currency	Nominal interest rate	Year of maturity	Carrying amount	
				Quarter ended 31/03/2010 RUR'000	Year ended 31/12/2009 RUR'000
Secured bank loan	RUR	10.93%	2011 - 2013	903,504	-
	RUR	13.50%	2010 - 2011	634,260	479,931
	USD	LIBOR + 6,5%	2009 - 2012	334,922	338,957
	EUR	8.16%	2011 - 2013	318,454	347,650
	RUR	MOS PRIME 1m + 3%	2010	-	401,142
	CHF	0.99%	2010 - 2012	16,279	18,657
	EUR	15% - 16%	2011	-	195,248
	RUR	14% - 18%	2010	-	149,399
				<b>2,207,419</b>	<b>1,930,984</b>
Unsecured bank facility	RUR	MOS PRIME + 3-6.65%	2010	1,215,553	1,599,531
	EUR	EURIBOR + 1.85%	2010	79,207	86,430
	EUR	EONIA+1.5%	2010	5,637	-
	RUR	15% - 20%	2010	-	147,155
				<b>1,300,397</b>	<b>1,833,116</b>

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

As at 31 March 2010 long-term borrowings were collateralized by property, plant and equipment with a net book value of RUR 1,349,535 thousand.

## 21. 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, 2008 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:

# OPEN JOINT STOCK COMPANY CONCERN "KALINA" AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2010

	Quarter ended 31/03/2010 RUR'000	Year ended 31/12/2009 RUR'000
Current service cost	109	477
Interest cost	2,392	10,457
<b>Total</b>	<b>2,501</b>	<b>10,934</b>

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

	Quarter ended 31/03/2010 RUR'000	Year ended 31/12/2009 RUR'000
Present value of funded defined benefit obligation	183,586	200,626
Fair value of plan assets	(52,328)	(58,183)
Deficit in scheme	131,258	142,443
Unrecorded gain	14,172	15,490
<b>Liability recognized in the balance sheet</b>	<b>145,430</b>	<b>157,933</b>

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

	Quarter ended 31/03/2010 RUR'000	Year ended 31/12/2009 RUR'000
Opening defined benefit obligation	216,116	206,087
Service cost	109	477
Interest cost	2,392	10,457
Benefits paid	(2,501)	(10,587)
Effects of translation to presentation currency	10,215	9,682
<b>Closing defined benefit obligation</b>	<b>226,331</b>	<b>216,116</b>

Movement in fair value of plan assets is as follows:

	Quarter ended 31/03/2010 RUR'000	Year ended 31/12/2009 RUR'000
<b>At January 1, 2010</b>	<b>58,183</b>	57,189
Contribution to plan assets	-	-
Additional expense of reinsurance	-	-
Benefit payments made	(913)	(3,948)
Return on plan assets	-	2,256
Effect of translation to presentation currency	(4,942)	2,686
<b>At March 31, 2010</b>	<b>52,328</b>	<b>58,183</b>

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2010

### 22. TRADE AND OTHER PAYABLES

	<b>Quarter ended 31/03/2010</b>	<b>Year ended 31/12/2009</b>
	<b>RUR'000</b>	<b>RUR'000</b>
Trade payables	809,757	1,573,798
Payables to employees	64,201	120,655
Advances received	1,247	149
Accruals	377,415	562,398
Other payable	16,185	96,650
<b>Total</b>	<b><u>1,268,805</u></b>	<b><u>2,353,650</u></b>

### 23. RELATED PARTY TRANSACTIONS

Trading transactions the group has one party related by means of common ownership – LLC “Soyuzspezstroy”. Advances for construction to related parties as of March 31, 2010 and December 31, 2009 were as follows:

	<b>Purchases of services</b>		<b>Advances to related parties</b>		<b>Other receivables</b>	
	<b>Quarter ended</b>	<b>Year ended</b>	<b>Quarter ended</b>	<b>Year ended</b>	<b>Quarter ended</b>	<b>Year ended</b>
	<b>31/03/2010</b>	<b>31/12/2009</b>	<b>31/03/2010</b>	<b>31/12/2009</b>	<b>31/03/2010</b>	<b>31/12/2009</b>
	<b>RUR'000</b>	<b>RUR'000</b>	<b>RUR'000</b>	<b>RUR'000</b>	<b>RUR'000</b>	<b>RUR'000</b>
LLC “Soyuzspezstroy”	4,759	99,105	528,493	532,450	119,443	106,549
<b>Total</b>	<b><u>4,759</u></b>	<b><u>99,105</u></b>	<b><u>528,493</u></b>	<b><u>532,450</u></b>	<b><u>119,443</u></b>	<b><u>106,549</u></b>

### 24. 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.

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

### NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2010

---

*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.