# Open Joint Stock Company Concern “Kalina” and subsidiaries

**Consolidated Financial Statements**
Year Ended December 31, 2007

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

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## INCOME STATEMENT
## FOR THE YEAR ENDED DECEMBER 31, 2007

| | Notes | Year ended 31/12/07 RUB'000 | Year ended 31/12/06 RUB'000 |
|---|---|---|---|
| Revenue | 5 | 10,120,845 | 9,338,700 |
| Cost of sales | 6 | (5,305,544) | (5,135,979) |
| Gross profit | | 4,815,301 | 4,202,721 |
| Distribution expenses | 7 | (596,025) | (543,907) |
| Marketing expenses | 8 | (1,597,638) | (1,391,612) |
| Administration expenses | 9 | (1,641,618) | (1,388,369) |
| Finance costs, net | 10 | (199,391) | (141,209) |
| Gain on disposal of LLC Novoplast | | - | 27,441 |
| Restructuring costs of Dr. Scheller | | - | (85,086) |
| Inventory obsolescence expenses | | (89,097) | (154,663) |
| Foreign exchange gain | | 36,230 | 17,920 |
| Other gains and losses, net | | 2,763 | (779) |
| Profit before tax | | 730,525 | 542,456 |
| Income tax expense | 11 | (179,954) | (157,726) |
| Profit for the year from continuing operations | | 550,571 | 384,730 |
| **Discontinued operations** | | | |
| Income for the year from discontinued operations | | - | 32,463 |
| **Profit for the year** | | 550,571 | 417,193 |
| Attributable to: | | | |
| Equity holders of the parent | | 540,138 | 417,193 |
| Minority interest | | 10,433 | - |
| | | 550,571 | 417,193 |
| **Earnings per share** | | | |
| From continuing and discontinued operations: | | | |
| Basic and diluted (rubles per share) | 12 | 55 | 43 |
| From continuing operations: | | | |
| Basic and diluted (rubles per share) | | 55 | 39 |

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

### BALANCE SHEET
### FOR THE YEAR ENDED DECEMBER 31, 2007

| | Notes | Year ended 31/12/07 RUB’000 | Year ended 31/12/06 RUB’000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 13 | 3,218,779 | 2,816,160 |
| Goodwill | 14 | 300,866 | 217,121 |
| Other intangible assets | 15 | 371,198 | 359,395 |
| Long-term investments | | 23,993 | 29,012 |
| Deferred tax assets | 11 | 201,890 | 193,357 |
| **Total non-current assets** | | **4,116,726** | **3,615,045** |
| **Non-current assets classified as held for sale** | 16 | **86,383** | **153,335** |
| **Current assets** | | | |
| Inventories | 17 | 2,521,430 | 1,817,005 |
| Trade and other receivables | 18 | 1,742,942 | 1,394,274 |
| Advances paid to suppliers and prepaid expenses, net | 19 | 368,187 | 201,377 |
| Current tax assets | 20 | 38,662 | - |
| Other taxes recoverable | 20 | 418,840 | 432,122 |
| Cash and bank balances | 21 | 189,009 | 158,075 |
| **Total current assets** | | **5,279,070** | **4,002,853** |
| **TOTAL ASSETS** | | **9,482,179** | **7,771,233** |

## BALANCE SHEET (CONTINUED)
## FOR THE YEAR ENDED DECEMBER 31, 2007

| | Notes | Year ended 31/12/07 RUB’000 | Year ended 31/12/06 RUB’000 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Capital and reserves** | | | |
| Issued capital | | 851,843 | 851,843 |
| Additional paid in capital | | 661,378 | 661,378 |
| Translation reserve | | 8,740 | (48,335) |
| Retained earnings | | 2,631,248 | 2,297,761 |
| Equity attributable to equity holders of the parent | | 4,153,209 | 3,762,647 |
| Minority interest | | 64,687 | 18,472 |
| **Total equity** | | **4,217,896** | **3,781,119** |
| **Non-current liabilities** | | | |
| Long-term borrowings | 22 | 541,415 | 455,106 |
| Long-term obligations under finance lease | 23 | 19,100 | 29,620 |
| Retirement benefit obligation | 24 | 131,947 | 127,995 |
| Deferred tax liabilities | 11 | 372,258 | 338,198 |
| **Total non-current liabilities** | | **1,064,720** | **950,919** |
| **Liabilities directly associated with non-current assets classified as held for sale** | | **-** | **-** |
| **Current liabilities** | | | |
| Trade and other payables | 25 | 1,938,259 | 1,440,297 |
| Short-term borrowings | 26 | 2,187,421 | 1,464,770 |
| Short-term obligations under finance lease | 23 | 20,165 | 26,043 |
| Current tax liabilities | 20 | 8,404 | 20,215 |
| Other taxes payable | 20 | 45,314 | 87,870 |
| **Total current liabilities** | | **4,199,563** | **3,039,195** |
| **Total liabilities** | | **5,264,283** | **3,990,114** |
| **TOTAL EQUITY AND LIABILITIES** | | **9,482,179** | **7,771,233** |

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
## FOR THE YEAR ENDED DECEMBER 31, 2007

| | Share Capital | Additional Paid in Capital | Translation reserve | Retained earnings | Total |
|---|---|---|---|---|---|
| | RUB'000 | RUB'000 | RUB'000 | RUB'000 | RUB'000 |
| **Balance at January 1, 2006** | **851,843** | **661,378** | **(49,588)** | **2,090,633** | **3,554,266** |
| Exchange differences arising on translation of foreign operations | - | - | 1,253 | - | 1,253 |
| Profit for the year | - | - | - | 417,193 | 417,193 |
| Payment of dividends* | - | - | - | (210,065) | (210,065) |
| **Balance at December 31, 2006** | **851,843** | **661,378** | **(48,335)** | **2,297,761** | **3,762,647** |
| Exchange differences arising on translation of foreign operations | - | - | 57,075 | - | 57,075 |
| Profit for the year | - | - | - | 540,138 | 540,138 |
| Payment of dividends* | - | - | - | (206,651) | (206,651) |
| **Balance at December 31, 2007** | **851,843** | **661,378** | **8,740** | **2,631,248** | **4,153,209** |

* In May 2007, a dividend of 21 rubles per share (22 rubles per share in 2006) was paid to holders of fully paid ordinary shares.

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

### STATEMENT OF CASH FLOWS
### FOR THE YEAR ENDED DECEMBER 31, 2007

| | Notes | Year ended 31/12/07 RUB’000 | Year ended 31/12/06 RUB’000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit for the year before tax | | 730, 525 | 542,456 |
| Finance costs recognized in income statement | | 199,391 | 141,209 |
| Gain on disposal of long-term investment | | - | (87,076) |
| Loss on disposal of property, plant and equipment | | (37,795) | 1,476 |
| Depreciation and amortization of non-current assets | | 293,940 | 306,524 |
| Operating cash flow before movements in working capital | | 1,186,061 | 904,589 |
| Movements in working capital | | | |
| Increase in trade and other receivables | | (515,478) | (184,370) |
| Decrease/(increase) inventories | | (704,425) | 548,789 |
| Decrease/(increase) in taxes receivable | | 13,282 | 12,348 |
| Increase/(decrease) in trade accounts payables | | 497,962 | (51,476) |
| Increase/(decrease) in retirement benefits obligation | | 3,951 | (45,699) |
| Increase/(decrease) in taxes payable | | (54,367) | 4,605 |
| Cash generated from operations | | 426,987 | 1,188,786 |
| Interest paid | | (158,953) | (139,905) |
| Income taxes paid | | (173,904) | (157,726) |
| Net cash generated by/(used in) operating activities | | 94,130 | 891,155 |
| **Cash flows from investing activities** | | | |
| Payments for additional shares in Dr. Scheller | | (168,086) | (446,187) |
| Proceeds from part disposal of investment in Kit-Capital | | 72,239 | 27,140 |
| Proceeds from part disposal of investment in Novoplast | | 49,981 | - |
| Payments for property, plant and equipment | | (467,079) | (434,188) |
| Proceeds from disposal of property, plant and equipment | | 11,481 | 1,969 |
| Net cash used in investing activities | | (501,464) | (851,266) |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | 3,471,390 | 2,274,001 |
| Repayment of borrowings | | (2,787,010) | (2,049,556) |
| Repayment of capital lease obligations | | (24,276) | (41,223) |
| Dividends | | (206,651) | (210,065) |
| Net cash used in/(generated by) financing activities | | 453,453 | (26,843) |
| Net increase in cash and cash equivalents | | 30,934 | (35,290) |
| **Cash and cash equivalents at the beginning of the financial year** | | **158,075** | **193,365** |
| ffects of exchange rate changes on the balance of cash held in foreign currencies | | (15,184) | (48,336) |
| **Cash and cash equivalents at the end of the financial year** | **21** | **189,009** | **158,075** |

## 1. GENERAL INFORMATION

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** |
|---|---|---|---|---|
| | **31/12/2007** | **31/12/2006** | | |
| 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% | 100% | Switzerland | Management |
| Kosmetik und Rasierwaren Solingen GmbH | 100% | 100% | Germany | Trading |
| Dr. Scheller Cosmetics AG | 93.59% | 87.55% | Germany | Trading |
| Dr. Scheller DuroDont GmbH | 93.59% | 87.55% | Germany | Trading |
| Lady Manhattan Cosmetics GmbH | 93.59% | 87.55% | Germany | Trading |
| Apotheker Scheller Naturmittel GmbH | 93.59% | 87.55% | Germany | Trading |
| Premium Cosmetics GmbH | 93.59% | 87.55% | Germany | Trading |
| Lady Manhattan Cosmetics GmbH | 93.59% | 87.55% | Austria | Trading |
| Dr. Scheller Cosmetics Polska Sp. zo.o. | 93.59% | 87.55% | Poland | Trading |
| Lady Manhattan Ltd. | 93.59% | 87.55% | UK | Trading |
| Dr. Scheller Cosmetics d.o.o. | 91.72% | - | Slovenia | Trading |

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.

As discussed in Note 28, the Group continued the acquisition of the interest in Dr. Scheller Cosmetics AG Group (Dr. Scheller), a German perfume manufacturer and distributor. During 2007 and 2006 the Group purchased 392,472 and 1,894,840 of 6,500,000 outstanding ordinary shares of that company, respectively. At December 31, 2007 and 2006, the Group owned 93.59% and 87.55% of Dr Scheller's ordinary shares, respectively.

During January 2007, the Group acquired the 98% share in Dr. Scheller Cosmetics d.o.o. (Slovenia) for a purchase price of RUB 6,037 thousand in non-cash transaction (Note 28).

In December 2006 the Group management decided to dispose of its detergents manufacturing plant in Omsk (Russian Federation). The Manufacturing plant ceased production in June 2006. Net assets related to the Omsk manufacturing plant, property and equipment with a carrying value of RUB 99,141 thousand are separately disclosed as "Held For Sale" at December 31, 2007 (Note 16).

The shareholders of OJSC Concern "Kalina" with the share of 5% or more as of December 31, 2007 and 2006 are as follows:

| | 31/12/2007 | | 31/12/2006 | |
|---|---|---|---|---|
| **Shareholder** | **Number of shares** | **Ownership interest** | **Number of shares** | **Ownership interest** |
| Tarlot Holdings Limited | 2,435,799 | 24,98% | 2,435,799 | 24,98% |
| Deutsche Bank Trust Company | 955,015 | 9,79% | 1,261,193 | 12,93% |
| Lindsell Enterprises Limited | 657,289 | 6,74% | 657,289 | 6,74% |
| State Street Bank and Trust Company | 641,625 | 6,58% | 646,511 | 6,63% |
| Timur Rafkatovich Goryaev * | 3,201 | 0,03% | 3,201 | 0,03% |
| Other shareholders, less than 5% | 5,059,382 | 51,88% | 4,748,318 | 48,69% |
| **Total assets** | **9,752,311** | **100%** | **9,752,311** | **100%** |

* Timur Rafkatovich Goryaev (General Director of OJSC Concern 'Kalina") sold 29.97% share in the Company to third parties in December 2006.

## 2. ADOPTION OF NEW AND REVISED STANDARDS

***Standards and interpretations effective in current period***

In the current year, the Group has adopted all new International Financial Reporting Standards (the "IFRS") and interpretations issued by International Financial Interpretation Reporting Interpretation Committee (the "IFRIC") that are mandatory for adoption in the annual periods beginning on or after 1 January 2007. Adoption of these standards and interpretations did not have any effect on the financial performance or position of the Group; however give rise to additional disclosures.

The principles effects of these changes are as follows:

*IAS 1* Presentation of Financial Statements (amendment)

This amendment requires the Group to provide new disclosures to enable users of the financial statements to evaluate the Group's principle objectives; policies and procedures for managing capital.

*IFRS 7* Financial Instruments: Disclosures

This standard introduces new disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extend if risks arising from those financial instruments. The new or expended disclosures are included throughout the financial statements.

The remaining three interpretations issued by IFRIC are also effective for the current period. These are: IFRIC 8 *Scope of IFRS 2;* IFRIC 9 *Reassessment of Embedded Derivatives;* and IFRIC 10 *Interim Financial Reporting and Impairment*. The adoption of these interpretations has not led to any changes in the Group's accounting policies or disclosures provided in the financial statements.

***Standards and interpretations in issue but not yet adopted***

At the date of authorisation of these consolidated financial statements, the following Standards and Interpretations were in issue but not yet effective:

| **Standards and Interpretations** | **Effective for annual periods beginning on or after** |
|---|---|
| IAS 23 Borrowing Costs (amendment) | 1 January 2009 |

| | |
|---|---|
| IFRS 8 Operating Segments | 1 January 2009 |
| IFRIC 11 Group and Treasury Share Transactions | 1 March 2007 |
| IFRIC 12 Service Concession Arrangements | 1 January 2008 |
| IFRIC 13 Customer Loyalty Programmes | 1 July 2008 |
| IFRIC 14 IAS 19 – The Limit on a Benefit Asset, Minimum Funding Requirements and their Interaction | 1 January 2008 |

The impact of adoption of these standards and interpretations in the preparation of the consolidated financial statements in future periods is currently being assessed by management; however no material effect on the Group's accounting policies is anticipated.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards. The financial statements have been prepared on the historical cost basis. The principal accounting policies are set out below.

***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.

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.

***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 fr value less costs to sell

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***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 for the sum of the customer bonuses.

***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.

***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 ('RUB'), 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.

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 RUB 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.

***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 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 applied to Dr Scheller Cosmetics, which primarily operates in Germany.

***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. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer’s interest in the net fair value of the acquiree’s identifiable assets, liabilities and contingent liabilities over cost.

***Property, plant and equipment*** – Properties, plant and equipment are carried at cost, less any recognized impairment loss. Cost includes delivery costs, transportation, cost of brought to location, professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group’s accounting policy. 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 |
| Office equipment and other assets | 5 |

***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 11, intangible assets include trademarks with indefinite useful life. Amortization of intangible assets is included into other 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.

***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.

***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.

***Financial assets*** – Investments are recognized and derecognized on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

***Financial liabilities and equity instruments issued by the Group***

*Classification as debt or equity* – Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

*Equity instruments* – An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

*Other financial liabilities* – Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

***Impairment of goodwill*** - Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. See note 14 for details of impairment test and assumptions used in calculation of recoverable amount.

***Allowance for doubtful debts*** **–** Receivables are stated net of allowance for doubtful debts. Management of the Group regularly reviews the need to provide for doubtful accounts based on the aging and the knowledge of the recoverability of the amount

***Inventories –*** Inventories are stated at the lower of cost or net realizable value. Cost comprises the direct cost of goods, transportation and handling costs. Cost is calculated using the weighted average method. Net realizable value represents the estimated selling price less all estimated costs to be incurred in marketing, selling and distribution.

Management of the Group regularly reviews the need to provide for merchandise obsolescence taking into account the high turnover of its merchandise. The Group estimates the amount of losses due to shortages based on physical counts.

***The retirement benefit obligation -*** 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.

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS

***Business segments***

*Products and services within each business segment* – For management purposes, the Group is organized into four major operating divisions – cosmetics, tooth-paste, household chemical goods and other. These divisions are the basis on which the Group reports its primary segment information.

Segment revenues

| | **External sales** | | **Inter-segment** | | **Total** | |
|---|---|---|---|---|---|---|
| | **Year ended 31/12/07** | **Year ended 31/12/06** | **Year ended 31/12/07** | **Year ended 31/12/06** | **Year ended 31/12/07** | **Year ended 31/12/06** |
| | **RUB'000** | **RUB'000** | **RUB'000** | **RUB'000** | **RUB'000** | **RUB'000** |
| Cosmetics | 8,880,160 | 7,551,793 | 757,634 | 431,319 | 9,637,794 | 7,983,112 |
| Tooth-paste | 847,818 | 892,327 | 32,166 | 22,623 | 879,983 | 914,950 |
| Household chemical goods | 330,526 | 822,676 | 395,244 | 277,993 | 725,770 | 1,100,669 |
| Other | 62,341 | 71,904 | 22,309 | 8,148 | 84,651 | 80,052 |
| **Total of all segments** | **10,120,845** | **9,338,700** | **1,207,353** | **740,083** | **11,328,198** | **10,078,783** |

Segment result

| | **Year ended 31/12/07** | **Year ended 31/12/06** |
|---|---|---|
| | **RUB'000** | **RUB'000** |
| **Continuing operations** | | |
| Cosmetics | 4,550,644 | 3,707,335 |
| Tooth-paste | 51,151 | 462,403 |
| Household chemical goods | 80,976 | 114,839 |
| Other | 180,268 | 104,751 |
| Unallocated central overheads | (4,138,564) | (3,846,872) |

| | | |
|---|---|---|
| Profit before tax | 730,525 | 542,456 |
| Income tax expense | (179,954) | (157,726) |
| **Profit for the year from continuing operations** | **550,571** | **384,730** |

Segment assets

| | Segment assets | | Acquisition of segment assets | |
|---|---|---|---|---|
| | Year ended 31/12/07 | Year ended 31/12/06 | Year ended 31/12/07 | Year ended 31/12/06 |
| | RUB'000 | RUB'000 | RUB'000 | RUB'000 |
| Cosmetics | 6,831,605 | 5,353,682 | 416,998 | 343,665 |
| Tooth-paste | 798,692 | 696,336 | 30,443 | 25,089 |
| Household chemical goods | 183,723 | 217,477 | 9,508 | 7,836 |
| Other | 305,830 | 340,422 | 14,883 | 12,266 |
| Total of all segments | 8,119,850 | 6,607,917 | 471,832 | 388,856 |
| Unallocated assets | 1,362,329 | 1,163,316 | 50,859 | 41,915 |
| **Consolidated** | **9,482,179** | **7,771,233** | **522,691** | **430,771** |

***Geographical segments*** – The Group's divisions operate in two principal geographical areas – CIS and Europe (primarily Germany).

The Group's revenue from external customers and information about its segment assets by geographical location are detailed below:

| | Revenue from external customers | | Segment Assets | | Acquisition of segment assets | |
|---|---|---|---|---|---|---|
| | Year ended 31/12/07 | Year ended 31/12/06 | Year ended 31/12/07 | Year ended 31/12/06 | Year ended 31/12/07 | Year ended 31/12/06 |
| | RUB'000 | RUB'000 | RUB'000 | RUB'000 | RUB'000 | RUB'000 |
| CIS | 7,888,982 | 7,138,069 | 7,350,215 | 6,014,193 | 339,749 | 280,001 |
| Europe (primarily Germany) | 2,231,863 | 2,200,631 | 2,131,964 | 1,757,040 | 182,942 | 150,770 |
| **Total** | **10,120,845** | **9,338,700** | **9,482,179** | **7,771,233** | **522,691** | **430,771** |

## 6. COST OF SALES

Cost of sales includes salary and related taxes expenses of RUB 862,829 thousands (2006: RUB 748,199 thousands) and raw materials of RUB 4,271,312 thousands (2006: RUB 4,116,027 thousands).

## 7. DISTRIBUTION EXPENSES

| | Year ended 31/12/07 | Year ended 31/12/06 |
|---|---|---|
| | RUB'000 | RUB'000 |
| Transportation expenses | 437,682 | 430,009 |
| Warehouse expenses | 114,804 | 77,004 |

| | | |
|---|---|---|
| Salaries and related taxes | 36,384 | 31,221 |
| Depreciation charge | 7,155 | 5,673 |
| **Total** | **596,025** | **543,907** |

## 8. MARKETING EXPENSES

| | Year ended 31/12/07 RUB'000 | Year ended 31/12/06 RUB'000 |
|---|---|---|
| Advertising expenses | 1,474,074 | 1,349,066 |
| Consulting expenses | 78,187 | 18,676 |
| Salaries and related taxes | 11,563 | 5,164 |
| Depreciation charge | 33,814 | 18,706 |
| **Total** | **1,597,638** | **1,391,612** |

## 9. ADMINISTRATION EXPENSES

| | Year ended 31/12/07 RUB'000 | Year ended 31/12/06 RUB'000 |
|---|---|---|
| Salaries and related taxes | 1,139,410 | 993,226 |
| Depreciation charge | 172,460 | 179,671 |
| Taxes, other than income tax | 118,461 | 141,691 |
| Loss on disposal of fixed assets | 15,333 | 1,476 |
| Other | 195,954 | 72,305 |
| **Total** | **1,641,618** | **1,388,369** |

## 10. FINANCE COSTS

| | Year ended 31/12/07 RUB'000 | Year ended 31/12/06 RUB'000 |
|---|---|---|
| Interest expense | 210,431 | 139,905 |
| Interest income | (20,779) | (2,270) |
| Other | 9,739 | 3,574 |
| **Total** | **199,391** | **141,209** |

## 11. INCOME TAXES

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

| | Year ended 31/12/07 RUB'000 | Year ended 31/12/06 RUB'000 |
|---|---|---|
| Tax expense/(income) comprises: | | |

| | | |
|---|---|---|
| Current tax expense | 230,814 | 188,599 |
| Deferred tax income | (50,860) | (30,873) |
| **Total tax expense** | **179,954** | **157,726** |

The total charge for the year can be reconciled to the accounting profit as follows:

| | Year ended 31/12/07 RUB'000 | Year ended 31/12/06 RUB'000 |
|---|---|---|
| Income tax expense at the Company's statutory rates | 162,658 | 121,110 |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | (5,069) | (3,120) |
| Other permanent differences | 22,365 | 39,736 |
| **Income tax expense recognized in profit or loss** | **179,954** | **157,726** |

The Group provides for current taxes based on statutory financial statements maintained and prepared in local currencies and in accordance with local statutory regulations which differ significantly from IFRS. The Group was subject to a tax rate of 24% in Russia, 25% in Ukraine, and 30% in Germany in 2007 and 2006.

***Deferred tax balances*** – Deferred tax balances are presented in the balance sheet as follows:

| | Year ended 31/12/07 RUB'000 | Year ended 31/12/06 RUB'000 |
|---|---|---|
| Non-current deferred tax assets: | | |
| Accrued expenses | 201,890 | 154,749 |
| Valuation of investments | - | 38,608 |
| **Deferred tax assets** | **201,890** | **193,357** |
| Non-current deferred tax liability: | | |
| Valuation of non-current assets | (288,224) | (233,577) |
| Depreciation of PPE | (84,034) | (104,621) |
| **Deferred tax liabilities** | **(372,258)** | **(338,198)** |

## 12. EARNINGS PER SHARE

| | Year ended 31/12/07 RUB'000 | Year ended 31/12/06 RUB'000 |
|---|---|---|
| **Basic and diluted earnings per share** | | |
| From continuing operations | 550,571 | 384,730 |
| From discontinued operations | - | 32,463 |
| **Profit for the year** | **550,571** | **417,193** |

***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:

| | Year ended 31/12/07 RUB'000 | Year ended 31/12/06 RUB'000 |
|---|---|---|
| Profit for the year attributable to equity holders of the parent | 540,138 | 417,193 |

| | Year ended 31/12/07 Shares | Year ended 31/12/06 Shares |
|---|---|---|
| Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share (all measures) | 9,752,311 | 9,752,311 |

## 13. PROPERTY, PLANT AND EQUIPMENT

| | Construction in progress | Land | Buildings | Machinery & Equipment | Fixtures & Fittings | Total |
|---|---|---|---|---|---|---|
| | RUB'000 | RUB'000 | RUB'000 | RUB'000 | RUB'000 | RUB'000 |
| *Cost* | | | | | | |
| **Balance at January 1, 2006** | **90,144** | **17,288** | **1,803,542** | **2,144,820** | **171,366** | **4,227,160** |
| Additions | - | - | 111,616 | 257,694 | 76,783 | 430,771 |
| Disposals | (15,322) | - | (137) | (8,043) | (3,925) | (12,105) |
| **Balance at January 1, 2007** | **74,822** | **17,288** | **1,915,021** | **2,394,471** | **244,224** | **4,645,826** |
| Additions | 49,128 | - | 260,129 | 287,782 | 142,907 | 739,946 |
| Disposals | (2,070) | - | (802) | (38,554) | (49,510) | (90,936) |
| **Balance at December 31, 2007** | **121,880** | **17,288** | **2,174,348** | **2,643,699** | **337,621** | **5,294,836** |

### *Accumulated depreciation*

| | Construction in progress | Land | Buildings | Machinery & Equipment | Fixtures & Fittings | Total |
|---|---|---|---|---|---|---|
| | RUB'000 | RUB'000 | RUB'000 | RUB'000 | RUB'000 | RUB'000 |
| **Balance at January 1, 2006** | **-** | **-** | **276,406** | **1,189,150** | **69,224** | **1,534,780** |
| Eliminated on disposals of assets | - | - | (19) | (8,043) | (3,576) | (11,638) |
| Depreciation expense | - | - | 49,787 | 207,336 | 49,401 | 306,524 |
| **Balance at January 1, 2007** | **-** | **-** | **326,174** | **1,388,443** | **115,049** | **1,829,666** |
| Eliminated on disposals of assets | - | - | (155) | (19,180) | (22,324) | (41,660) |
| Depreciation expense | - | - | 48,235 | 195,714 | 44,102 | 288,052 |
| **Balance at December 31, 2007** | **-** | **-** | **374,254** | **1,564,977** | **136,827** | **2,076,058** |
| *Carrying amount* | | | | | | |
| **As at December 31, 2006** | **74,822** | **17,288** | **1,588,847** | **1,006,028** | **129,175** | **2,816,160** |
| **As at December 31, 2007** | **121,880** | **17,288** | **1,800,094** | **1,078,722** | **200,794** | **3,218,779** |

The net book value of the Group's equipment held under finance leases at December 31, 2007 and December 31, 2006 amounted to RUB 41,860 thousand and RUB 56,420 thousand, respectively.

At December 31, 2007 and December 31, 2006, property, plant and equipment with a net book value of RUB 197,411 thousand and RUB 213,296 thousand, respectively, were pledged as collateral for long-term loans obtained by the Group (See Note 22).

## 14. GOODWILL

| | Year ended 31/12/07 RUB'000 | Year ended 31/12/06 RUB'000 |
|---|---|---|
| **Cost** | | |
| Balance at the beginning of the year | 217,121 | 71,062 |
| Increase in equity interest in Dr. Scheller | 76,006 | 148,739 |
| Effects of foreign currency exchange differences | 7,739 | (2,680) |
| Balance at end of year | 300,866 | 217,121 |
| **Accumulated impairment loss** | | |
| Balance at the beginning of the year | - | - |
| Impairment loss recognized in the year | - | - |
| Balance at end of year | - | - |
| **Carrying amount** | | |
| At the beginning of the year | **217,121** | **71,062** |
| At the end of the year | **300,866** | **217,121** |

Total goodwill held by the Group at 31 December 2007 amounted to RUB 300,866 thousand (2006: RUB 217,121 thousand.

***Annual Test for impairment***

During the financial year, the Group assessed the recoverable amount of 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 8.7% per annum (2006: 8% per annum) was applied in the value in use model.

For impairment test purposes the 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 6,5%;
2) Cost of sales compound annual growth rate of 5,1%;
3) Marketing and selling expenses compound annual growth rate of 6,1%;

4) General and administration expenses compound annual growth rate of 1%;
5) Earnings beyond that five 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. OTHER INTANGIBLE ASSETS

| | Trademarks and other intangible assets | Licensed software | Total |
|---|---|---|---|
| | RUB'000 | RUB'000 | RUB'000 |
| *Cost* | | | |
| **Balance at January 1, 2006** | **354,909** | **15,183** | **370,092** |
| Additions | 5,496 | - | 5,496 |
| Disposals | (3) | - | (3) |
| Net foreign currency exchange differences | - | - | - |
| **Balance at January 1, 2007** | **360,402** | **15,183** | **375,585** |
| Additions | 5,202 | 396 | 5,598 |
| Disposals | (55) | | (55) |
| Net foreign currency exchange differences | 15,598 | | 15,598 |
| **Balance at December 31, 2007** | **381,147** | **15,579** | **396,726** |
| *Accumulated amortization* | | | |
| **Balance at January 1, 2006** | **1,582** | **4,864** | **6,446** |
| Amortization expense | 8,226 | 1,518 | 9,744 |
| Disposals | - | - | - |
| Net foreign currency exchange differences | | | |
| **Balance at January 1, 2007** | **9,808** | **6,382** | **16,190** |
| Amortization expense | 4,390 | 1,499 | 5,889 |
| Disposals | | | |
| Net foreign currency exchange differences | 3,449 | - | 3,449 |
| **Balance at December 31, 2007** | **17,647** | **7,881** | **25,528** |
| *Carrying amount* | | | |
| **Balance at January 1, 2007** | **350,594** | **8,801** | **359,395** |
| **Balance at December 31, 2007** | **363,499** | **7,698** | **371,198** |

## 16. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

In December 2006 the Group management decided to dispose of its detergents manufacturing plant in Omsk (Russian Federation). The Manufacturing plant ceased production in June 2006. Net assets related to the Omsk manufacturing plant, property and equipment and inventory with a carrying value of RUB 99,141 thousand and RUB 153,335 are separately disclosed as "Held For Sale" at December 31, 2007 and 2006, respectively. Despite the fact that the plant was not sold within the year 2007 the management intention is to sell it within the year 2008.

| | Year ended 31/12/07 RUB'000 | Year ended 31/12/06 RUB'000 |
|---|---|---|
| Property, plant and equipment | 86,383 | 99,475 |
| Inventories | - | 53,860 |
| Trade and other receivables | - | - |
| Cash and cash equivalents | - | - |
| **Assets classified as held for sale** | **86,383** | **153,335** |
| Accounts payable | - | - |
| Short-term debt | - | - |
| **Liabilities classified as held for sale** | **-** | **-** |
| **Net assets classified as held for sale** | **86,383** | **153,335** |

## 17. INVENTORIES

Inventories consisted of the following at December 31, 2007 and 2006:

| | Year ended 31/12/07 RUB'000 | Year ended 31/12/06 RUB'000 |
|---|---|---|
| Finished goods | 1,654,343 | 1,084,008 |
| Raw materials | 938,472 | 820,416 |
| Work in progress | 81,218 | 67,244 |
| Allowance for obsolescence | (152,603) | (154,663) |
| **Total** | **2,521,430** | **1,817,005** |

## 18. TRADE AND OTHER RECEIVABLES

Trade and other receivables consisted of the following at December 31, 2007 and 2006:

| | Year ended 31/12/07 RUB'000 | Year ended 31/12/06 RUB'000 |
|---|---|---|
| Trade receivables | 1,885,056 | 1,541,702 |
| Allowance for doubtful debts | (142,114) | (147,428) |
| **Total** | **1,742,942** | **1,394,274** |

The average credit period on sales of goods is 30 days. No interest is charged on the trade receivables for the first 90 days from the date of the invoice. Thereafter, interest is charged at 36.5% per annum on the outstanding balance. The Group has provided fully for all receivables over 360 days because historical experience is such that receivables that are past due beyond 360 days are generally not recoverable. Trade receivables between 360 days and 180 days are provided for 50% allowance, trade receivables between 180 days and 90 days are provided for 10% based on estimated irrecoverable amounts from the trade receivables balances, determined by reference to past default experience.

See the note 30 for the Group's collateral over these balances.

Included in the Group's trade receivable balance are debtors with a carrying amount of RUB 244,190 thousand (2006: 240,814) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable.

| **Ageing of past due, but not impaired** | **Year ended 31/12/07** | **Year ended 31/12/06** |
|---|---|---|
| | **RUB'000** | **RUB'000** |
| 30-60 days | 203,979 | 190,431 |
| 60-90 days | 40,211 | 50,383 |
| **Total** | **244,190** | **240,814** |

The movements in the allowance for doubtful debt for trade receivables were as follows at December 31, 2007 and 2006:

| **Movement in the allowance for doubtful debt** | **Year ended 31/12/07** | **Year ended 31/12/06** |
|---|---|---|
| | **RUB'000** | **RUB'000** |
| **Balance at the beginning of the year** | **147,428** | **121,706** |
| Impairment losses recognized on receivables | | 33,525 |
| Amounts written-off as uncollectible | (229) | (7,803) |
| Amounts recovered during the year | (5,085) | - |
| Impairment losses reversed | - | - |
| **Balance at end of the year** | **142,114** | **147,428** |

## 19. ADVANCES PAID AND PREPAID EXPENSES

Advances paid and prepaid expenses consisted of the following at December 31, 2007 and 2006:

| | **Year ended 31/12/07** | **Year ended 31/12/06** |
|---|---|---|
| | **RUB'000** | **RUB'000** |
| Advances paid | 260,671 | 306,813 |
| Allowance for doubtful debts for advances paid | (45,593) | (166,899) |
| Prepaid expenses | 153,109 | 61,463 |
| **Total** | **368,187** | **201,377** |

The movements in the allowance for doubtful debt for advances paid were as follows at December 31, 2007 and 2006:

| **Movement in the allowance for doubtful debt** | **Year ended 31/12/07** | **Year ended 31/12/06** |
|---|---|---|
| | **RUB'000** | **RUB'000** |
| **Balance at the beginning of the year** | **166,899** | **142,403** |
| Impairment losses recognized on advances paid | | 48,447 |
| Amounts written-off as uncollectible | (114,945) | (23,951) |
| Amounts recovered during the year | (6,361) | - |
| Impairment losses reversed | - | - |

| | | |
|---|---|---|
| **Balance at end of the year** | **45,593** | **166,899** |

## 20. TAXES RECOVERABLE AND PAYABLE

Taxes recoverable consisted of the following at December 31, 2007 and 2006:

| | Year ended 31/12/07 RUB'000 | Year ended 31/12/06 RUB'000 |
|---|---|---|
| Value Added Tax ("VAT") | 411,257 | 436,557 |
| Allowance for non-recoverable VAT | - | (43,745) |
| Current tax assets | 38,662 | - |
| Other taxes | 7,583 | 39,310 |
| **Total** | **457,502** | **432,122** |

Taxes payable consisted of the following at December 31, 2007 and 2006:

| | Year ended 31/12/07 RUB'000 | Year ended 31/12/06 RUB'000 |
|---|---|---|
| VAT | 39,815 | 36,750 |
| Current tax liabilities | 8,404 | 20,215 |
| Other taxes | 5,499 | 51,120 |
| **Total** | **53,718** | **108,085** |

## 21. CASH AND CASH EQUIVALENTS

Cash consisted of the following at December 31, 2007 and 2006:

| | Year ended 31/12/2007 RUB'000 | Year ended 31/12/2006 RUB'000 |
|---|---|---|
| Cash on hand – RUB | 24,578 | 890 |
| Cash in bank – RUB accounts | 47,953 | 37,885 |
| Cash in bank – EUR accounts | 40,105 | 50 |
| Cash in bank – CHF accounts | 17,430 | 10 |
| Cash in bank – USD accounts | - | 52,065 |
| Other – UAH accounts | 1,470 | 44 |
| | **131,536** | **90,944** |
| **Restricted cash – USD accounts** | **57,473** | **67,131** |
| **Total** | **189,009** | **158,075** |

Restricted cash refers to the funds accumulated at deposit account separately for repayment of loan from EBRD.

## 22. LONG-TERM BORROWINGS

Long-term borrowings at December 31, 2007 and December 31, 2006 consisted of the following:

| Loans from: | Currency | Annual interest rate | Year ended 31/12/07 RUB'000 | Year ended 31/12/06 RUB'000 |
|---|---|---|---|---|
| EBRD | USD | LIBOR*+4.75% | - | 135,260 |
| Black Sea Trade and Development bank | USD | LIBOR*+4.5% | 240,007 | 157,987 |
| Badden-Wurttembergische bank | EUR | 3.9-4.4% | 137,229 | 161,859 |
| West LB | EUR | Euribor+1.8% | 71,867 | - |
| Postbank | EUR | 5.45% | 57,494 | - |
| Other loans | EUR | LIBOR*+5% | 34,818 | - |
| **Total** | | | **541,415** | **455,106** |

* LIBOR = London Interbank Offered Rate

At December 31, 2007 and December 31, 2006 long-term borrowings were collateralized by property, plant and equipment with the net book value of RUB 197,411 thousand and RUB 213,296 thousand, respectively (See note 13).

## 23. OBLIGATIONS UNDER FINANCE LEASES

### *Finance lease liabilities*

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | **Year ended 31/12/07 RUB'000** | **Year ended 31/12/06 RUB'000** | **Year ended 31/12/07 RUB'000** | **Year ended 31/12/06 RUB'000** |
| No later than 1 year | 20,165 | 26,043 | 20,134 | 23,408 |
| Later than 1 year and not later than 5 years | 19,100 | 29,620 | 19,692 | 28,116 |
| Later than five years | | - | | - |
| **Present value of minimum lease payments** | **39,265** | **55,663** | **39,826** | **51,524** |
| Included in the financial statements as: | | | | |
| Current borrowings | | | 20,165 | 26,043 |
| Non-current borrowings | | | 19,100 | 29,620 |
| **Total** | | | **39,265** | **55,663** |

## 24. 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:

| | **Year ended 31/12/2007 RUB'000** | **Year ended 31/12/2006 RUB'000** |
|---|---|---|
| Current service cost | 359 | 2,325 |
| Interest cost | 9,882 | 7,182 |

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

| | Year ended 31/12/2007 RUB'000 | Year ended 31/12/2006 RUB'000 |
|---|---|---|
| Present value of funded defined benefit obligation | 177,043 | 175,529 |
| Fair value of plan assets | (50,954) | (48,263) |
| Deficit in scheme | 126,089 | 127,266 |
| Unrecorded gain | 5,858 | 729 |
| **Liability recognized in the balance sheet** | **131,947** | **127,995** |

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

| | Year ended 31/12/2007 RUB'000 | Year ended 31/12/2006 RUB'000 |
|---|---|---|
| Opening defined benefit obligation | 127,266 | 181,105 |
| Service cost | 359 | 2,325 |
| Interest cost | 9,882 | 7,182 |
| Actuarial loss | 5,858 | 729 |
| Benefits paid | (9,882) | (9,542) |
| Fair value of plan assets | (50,954) | (48,263) |
| Effect of translation to presentation currency | (565) | (6,270) |
| **Closing defined benefit obligation** | **81,964** | **127,266** |

Movement in fair value of plan assets is as follows:

| | Year ended 31/12/2007 RUB'000 | Year ended 31/12/2006 RUB'000 |
|---|---|---|
| **At January 1, 2007** | **48,263** | **-** |
| Contribution to plan assets | - | 48,749 |
| Additional expense of reinsurance | - | (486) |
| Benefit payments made | (324) | - |
| Return on plan assets | 1,294 | - |
| Effect of translation to presentation currency | 1,721 | - |
| **At December 31, 2007** | **50,954** | **48,263** |

Other than the defined benefit scheme liability outlined above, the Group was not liable for any supplementary pensions, post retirement health care, insurance benefits, or retirement indemnities to its current or former employees, as at December 31, 2007 and 2006.

## 25. TRADE AND OTHER PAYABLES

| | Year ended 31/12/2007 RUB'000 | Year ended 31/12/2006 RUB'000 |
|---|---|---|
| Trade payables | 1,269,271 | 908,961 |
| Other payables | 489,018 | 353,673 |
| Payables to employees | 156,069 | 152,289 |
| Advances received | 11,747 | 10,303 |
| Accrued interest | 6,995 | 12,399 |
| Payables to shareholders | 5,159 | 2,672 |
| **Total** | **1,938,259** | **1,440,297** |

## 26. SHORT-TERM BORROWINGS

Short-term loans as of December 31, 2007 and 2006 are repayable as follows:

| Loans from: | Currency | Annual interest rate | Year ended 31/12/07 RUB'000 | Year ended 31/12/06 RUB'000 |
|---|---|---|---|---|
| Raiffeisenbank Austria | USD | LIBOR*+4% | 599,784 | 372,916 |
| MMB | RUB | 7-9.5% | 951,000 | 341,000 |
| Citibank | USD | 7% | 95,000 | 105,000 |
| Dresdner Bank Göppingen | EUR | EONIA**+0.75 % | - | 157,730 |
| Deutsche bank | EUR | 3,85% | 13,871 | 69,394 |
| Uralsib | USD | 7% | 50,000 | - |
| Badden-Wurttembergische bank | EUR | 4.10-4.44% | 84,407 | - |
| Internationale Bodensee Bank | EUR | 4.9% | 37,335 | - |
| Other loans | | 19-23% | 199,932 | 283,470 |
| | | | **2,031,329** | **1,329,510** |
| **Current portion of long-term borrowings:** | | | | |
| EBRD | USD | LIBOR*+4.75% | 126,091 | 135,260 |
| Black Sea Trade and Development | USD | LIBOR*+4.5% | 30,001 | - |
| | | | **156,092** | **135,260** |
| **Total** | | | **2,187,421** | **1,464,770** |

* LIBOR = London Interbank Offered Rate
** EONIA = Euro Overnight Index Average

At December 31, 2007 and December 31, 2006 short-term borrowings are unsecured.

## 27. RELATED PARTY TRANSACTIONS

The group has one party related by means of common ownership – LLC "Soyuzspezstroy". The entity is the general contractor for the capital construction work required by the Group. Additionally it carries out monitoring of the construction work performed by sub-contractors. Advances for construction to related party as of December 31, 2007 and 2006 were as follows:

| | Purchases of services | | Advances to related parties | |
|---|---|---|---|---|
| | Year ended 31/12/07 | Year ended 31/12/06 | Year ended 31/12/07 | Year ended 31/12/06 |

| | RUB’000 | RUB’000 | RUB’000 | RUB’000 |
|---|---|---|---|---|
| LLC “Soyuzspezstroy” | 89,678 | 103,752 | 22,344 | 27,875 |
| **Total** | **89,678** | **103,752** | **22,344** | **27,875** |

***Compensation of key management personnel:***

The remuneration of directors and other members of key management during the year was as follows:

| | Year ended 31/12/07 | Year ended 31/12/06 |
|---|---|---|
| | RUB’000 | RUB’000 |
| Short-term benefits | 40,445 | 48,041 |
| **Total** | **40,445** | **48,041** |

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

## 28. BUSINESS COMBINATION

***(i) Acquisition of Dr Scheller***

During the year 2007, the Group acquired additional 392,472 shares of Dr. Scheller Cosmetics AG (Scheller), 6.03% for a combined purchase price of RUB 168,086 thousand in cash. During the year 2006, the Group acquired 1,894,840 shares (26%) for a combined purchase price of RUB 446,187 thousand in cash. In both years the transactions were accounted for under the purchase accounting method.

As at December 31, 2007 the fair value of Scheller net assets was RUB 1,517,100 thousand and additional goodwill recognized on 6.03% share acquired was RUB 76,483 thousand.

The total number of shares of Dr. Scheller outstanding at December 31, 2007 and 2006 was 6,500,000. The total number of shares owned by the Group was 6,083,052 and 5,690,580 at December 31, 2007 and 2006, respectively.

***(ii) Acquisition of Dr Scheller Cosmetics D.O.O.***

During January 2007, the Group acquired the 98%-share in Dr. Scheller Cosmetics d.o.o. (Slovenia) for a purchase price of RUB 6,037 thousand in non-cash transaction. Dr. Scheller Cosmetics d.o.o. is a trading distributor.

| | Book value | Fair value |
|---|---|---|
| | RUB’000 | RUB’000 |
| **Net assets acquired:** | | |
| Current assets | 34,003 | 34,003 |
| Purchased plant and equipment | 1,908 | 1,908 |
| Intangible assets | 104 | 104 |
| Deferred tax liability | - | - |
| Current liabilities | 24,565 | 24,565 |

| | | |
|---|---|---|
| Non-current liabilities | 2,880 | 2,880 |
| | **8,570** | **8,570** |
| Goodwill | | - |
| Minority interest | | 2,533 |
| Total consideration given | | 6,037 |
| Net cash outflow arising on acquisition: | | |
| Cash consideration | | - |
| Cash and cash equivalents acquired | | 5,933 |
| **Total consideration net of cash acquired** | | **104** |

The transaction was accounted for under the purchase accounting method:

The fair value of Dr. Scheller Cosmetics d.o.o's net assets and fair value of the consideration given for the shares acquired was RUB 8,570 thousand and accordingly no goodwill was recognized at the date of the acquisition.

The minority interest in the acquired entity recognized amounted to RUB 2,533 thousand.

## 29. CONTINGENCIES AND OPERATING ENVIRONMENT

***Operating environment*** – The Group's principal business activities are within the Russian Federation, CIS, and Germany. Laws and regulations affecting businesses operating in the Russian Federation and CIS countries are subject to rapid changes and the Group's assets and operations could be at risk due to negative changes in the political and business environment.

***Taxation*** – Tax laws in Russia are subject to frequent changes and varying interpretations. Management's interpretation of such legislation in applying it to business transactions of the Group may be challenged by the relevant regional and federal authorities enabled by law to impose fines and penalties. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and as a result, it is possible that the transactions that have not been challenged in the past may be challenged. Fiscal periods remain open to review by the tax authorities in respect of taxes for the three calendar years preceding the year of tax review. Under certain circumstances reviews may cover longer periods. While the Group believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation, the above facts may create additional financial risks for the Group.

## 30. RISK MANAGEMENT POLICIES

***Capital risk management***

The Group manages its capital to ensure that entities of the Group will be able to continue as a going concern while maximising the return to the equity holders through the optimisation of the debt and equity balance. The management of the Group reviews the capital structure on a regular basis. Based on the results of this review, the Group takes steps to manage its overall capital structure through the payment of dividends, as well as the issue of new debt or the redemption of existing debt During the year 2007 the Group sought to maintain the debt-to-equity ratio of 1:1.3 in line with the covenant of the loan agreement with Black Sea Trade and Development Bank.

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***Major categories of financial instruments***

The Group's principle financial liabilities comprise loans and borrowings, financial lease, trade payables and provisions and accruals. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables, cash and cash equivalents.

The main risks arising from the Group's financial instruments are foreign currency, interest rate, credit and liquidity risks.

***Foreign currency risk***

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The Group undertakes certain transactions denominated in foreign currencies. The Group does not use any derivatives to manage foreign currency risk exposure, at the same time the management of the Group is trying to mitigate such risk by managing monetary assets and liabilities in foreign currency at the same (more or less stable) level.

The carrying amount of the Group's foreign currency denominated monetary assets and liabilities as at the reporting date are as follows:

| | **Year ended 31/12/07** | | | **Year ended 31/12/06** | | |
|---|---|---|---|---|---|---|
| **Currency** | **Financial assets** | **Financial liabilities** | **Net position** | **Financial assets** | **Financial liabilities** | **Net position** |
| | | | | | | |
| USD'000 | 2,828 | (19,033) | (16,205) | 3,602 | (18,327) | (14,725) |
| EUR'000 | 13,506 | (35,485) | (21,979) | 6,640 | (34,301) | (27,761) |
| CHF'000 | 462 | (2,179) | (1,717) | 419 | (2,886) | (2,467) |
| | | | | | | |
| **RUB'000** | **564,824** | **(1,789,753)** | **(1,224,929)** | **334,385** | **(1,735,050)** | **(1,400,665)** |

The table below details the Group's sensitivity to strengthening and weakening of the Russian Rouble against US Dollar, EURO, and CHF by 10%. The analysis was applied to monetary items at the balance sheet dates denominated in respective currencies.

| | **Year ended 31/12/07** | **Year ended 31/12/06** |
|---|---|---|
| | RUB'000 | RUB'000 |
| USD | 39,777 | 38,772 |
| EUR | 78,975 | 95,978 |
| CHF | 3,742 | 5,321 |

***Interest rate risk***

Interest rate risk is the risk that changes in floating interest rates will adversely impact the financial results of the Group. The Group does not use any derivatives to manage interest rate risk exposure, at the same time the considerable amount of the Group's financial assets and liabilities are at floating rates and thus risk is significant.

The table below details the Group's sensitivity to increase or decrease of floating rate by 1.2%. The analysis was applied to loans and borrowings (financial liabilities) based on the assumptions that amount of liability outstanding as at the balance sheet date was outstanding for the whole year.

| | Interest rate float – impact | |
|---|---|---|
| | **31/12/2007** | **31/12/2006** |
| Profit or loss | 13,272 | 8,028 |

***Credit risk***

Credit risk is the risk that a customer may default or not meet its obligations to the Group on a timely basis, leading to financial losses to the Group.

Before accepting of any new customer, the Group uses an internal credit system to assess the potential customer's credit quality and defines credit limits separately for each individual customer. Credit limits attributable to customer is regularly reviewed at least on the annual basis. The Group analyzes trade and other receivables and controls the overdue balances (see the following table).

| **Assets** | **NBV RUB '000** | **Trade and other receivables (less bad debt allowance)** | | | | |
|---|---|---|---|---|---|---|
| | | **Less than 30** | **30 to 90** | **90 to 180** | **180 to 360** | **Over 360** |
| Trade and other receivables as of December 31, 2007 | 1,742,941 | 1,482,591 | 244,190 | 9,252 | 6,908 | - |
| Trade and other receivables as of December 31, 2006 | 1,394,274 | 1,145,920 | 240,814 | 4,260 | 3,280 | - |

As it mentioned in Note 18, included in the Group's trade receivable balance are debtors with a carrying amount of RUB 244,190 thousand (2006: 240,814) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable.

Except for the collaterals provided in the following table, the maximum exposure to the credit risk of the trade and other receivables equals to the carrying value of these instruments.

| **Types of collateral** | **NBV of collateral as of December 31, 2007** | **NBV of collateral as of December 31, 2006** |
|---|---|---|
| | **RUB '000** | **RUB '000** |
| Guarantees | 140,765 | 103,880 |
| Promissory notes | 12,929 | 22,361 |
| Deposits | 58,735 | 12,489 |
| Other | 90,000 | 40,000 |
| **Total** | **302,429** | **178,730** |

***Liquidity risk***

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they are due.
The Group's liquidity position is carefully monitored and managed. The Group has in place a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations.

The summaries of maturity profile of the Group's financial liabilities as at December 31, 2007 and 2006 based on contractual payments are presented in the following table.

| RUB '000 | Within 1 month | 1 month to 3 months | 3 months to 12 months | 12 months to 5 years | Total |
|---|---|---|---|---|---|
| Total finance lease obligations | 2,272 | 3,215 | 14,678 | 19,100 | 39,265 |
| Total liabilities under loans and borrowings | 144,945 | 573,799 | 1,468,677 | 541,415 | 2,728,836 |
| **Total future financial liabilities as of December 31, 2007** | **147,217** | **577,014** | **1,483,355** | **560,515** | **2,768,101** |
| Total finance lease obligations | 2,075 | 4,124 | 19,844 | 29,620 | 55,663 |
| Total liabilities under loans and borrowings | 177,326 | 376,926 | 910,518 | 455,106 | 1,919,876 |
| **Total future financial liabilities as of December 31, 2006** | **179,401** | **381,050** | **930,362** | **484,726** | **1,975,539** |

As can be seen from the above table, the Group is reliant on short term borrowings to finance its working capital and has a significant amount of short term borrowings which it is obliged to repay in the period from April to December 2008. The Group`s management believes it is more advantageous to take advantage of the lower financing costs of such short term borrowings as opposed to the higher finance costs on long term borrowings. While there might be some uncertainty over all the banks renewing these borrowings on the same terms and conditions as before and the Group is highly reliant on the renewal of such borrowings to finance its ongoing business and operations, the Group`s management is taking steps to renew such short term borrowing facilities with its lenders. As at 18 March 2008, the Group`s management had entered into agreements with its lenders to renew borrowings falling due in the period for the amount of RUR 1,484,492 thousand (or 101 % of its total current borrowings).

## 31. EVENTS AFTER THE BALANCE SHEET DATE

As noted in note 31 above, the Group has extended its existed credit lines for the year 2008. In addition, a new credit line agreement was concluded with Bank HSBC for the year 2008 to provide financing for the amount of USD 20,000 thousand.

In March 2008, the Group raised a legal action against Arbat-Prestige for the recovery of a trade receivable. The total amount outstanding from Arbat-Prestige as of December 31, 2007 is RUB 47,628 thousand.