

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

**Consolidated Financial Statements**  
First quarter Ended March 31, 2008

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

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# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## INCOME STATEMENT FOR THE QUARTER ENDED MARCH 31, 2008

	Notes	Quarter ended 31/03/08 RUB'000	Quarter ended 31/03/07 RUB'000	Year ended 31/12/07 RUB'000
Revenue		3,028,320	2,540,691	10,120,845
Cost of sales		(1,412,640)	(1,235,888)	(5,305,544)
Gross profit		1,615,680	1,304,803	4,815,301
Distribution expenses	3	(300,642)	(105,113)	(685,122)
Marketing expenses	3	(563,469)	(387,067)	(1,597,638)
Administration expenses	3	(439,602)	(490,663)	(1,641,618)
Finance costs, net	4	(69,088)	(56,859)	(199,391)
Foreign exchange gain/(loss)		65,289	(1,331)	36,230
Other gain and losses, net		(284)	119	2,763
Profit before tax		307,884	263,888	730,525
Income tax expense	5	(95,652)	(64,661)	(179,954)
Profit for the year from continuing operations		212,232	199,227	550,571
<b>Discontinued operations</b>				
Income/(loss) for the year from discontinued operations		-	-	-
<b>Profit for the year</b>		<b>212,232</b>	<b>199,227</b>	<b>550,571</b>
Attributable to:				
Equity holders of the parent		210,536	195,176	540,138
Minority interest		1,696	4,051	10,433
		212,232	199,227	550,571
<b>Earnings per share</b>				
From continuing and discontinued operations:				
Basic and diluted (rubles per share)	6	22	20	55
From continuing operations:				
Basic and diluted (rubles per share)		22	20	55

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## BALANCE SHEET FOR THE QUARTER ENDED MARCH 31, 2008

	Notes	Quarter ended 31/03/08 RUB'000	Year ended 31/12/07 RUB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	8	3,165,940	3,218,779
Goodwill	10	302,037	300,866
Other intangible assets	9	379,894	371,198
Long-term investments		38,548	23,993
Deferred tax assets	5	277,398	201,890
<b>Total non-current assets</b>		<b>4,163,817</b>	<b>4,116,726</b>
<b>Current assets</b>			
Inventories	12	2,393,991	2,521,430
Trade and other receivables	13	1,716,568	1,742,942
Advances paid to suppliers and prepaid expenses, net		573,244	368,187
Taxes recoverable	11	349,678	457,502
Cash and bank balances	18	171,320	189,009
		5,204,801	5,279,070
Assets classified as held for sale	7	86,383	86,383
<b>Total current assets</b>		<b>5,291,184</b>	<b>5,365,453</b>
<b>TOTAL ASSETS</b>		<b>9,455,001</b>	<b>9,482,179</b>

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## BALANCE SHEET (CONTINUED) FOR THE QUARTER ENDED MARCH 31, 2008

	Notes	Quarter ended 31/03/08 RUB'000	Year ended 31/12/07 RUB'000
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Issued capital		851,843	851,843
Additional paid in capital		661,378	661,378
Translation reserve		(49,566)	8,740
Retained earnings		2,841,784	2,631,248
Equity attributable to equity holders of the parent		4,305,439	4,153,209
Minority interest		67,985	64,687
<b>Total equity</b>		<b>4,373,424</b>	<b>4,217,896</b>
<b>Non-current liabilities</b>			
Borrowings	14	652,961	541,415
Long-term obligations under finance lease	16	17,597	19,100
Retirement benefit obligation		126,290	131,947
Deferred tax liabilities	5	373,050	372,258
<b>Total non-current liabilities</b>		<b>1,169,898</b>	<b>1,064,720</b>
Liabilities directly associated with non-current assets classified as held for sale		-	-
<b>Current liabilities</b>			
Trade and other payables	15	1,660,218	1,938,259
Borrowings	14	2,149,743	2,187,421
Short-term obligations under finance lease	16	17,109	20,165
Taxes payable	11	84,609	53,718
<b>Total current liabilities</b>		<b>3,911,679</b>	<b>4,199,563</b>
<b>Total liabilities</b>		<b>5,081,577</b>	<b>5,264,283</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>9,455,001</b>	<b>9,482,179</b>

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE QUARTER ENDED MARCH 31, 2008

	Share Capital RUB'000	Additional Paid in Capital RUB'000	Translation reserve RUB'000	Retained earnings RUB'000	Total RUB'000
<b>Balance at January 1, 2007</b>	<b>851,843</b>	<b>661,378</b>	<b>(48,335)</b>	<b>2,297,761</b>	<b>3,762,647</b>
Exchange differences arising on translation of foreign operations	-	-	1,207	-	1,207
Profit for the year	-	-	-	195,176	195,176
Payment of dividends*	-	-	-	-	-
<b>Balance at March 31, 2007</b>	<b>851,843</b>	<b>661,378</b>	<b>(47,128)</b>	<b>2,492,937</b>	<b>3,959,030</b>
Exchange differences arising on translation of foreign operations	-	-	55,868	-	55,868
Profit for the year	-	-	-	344,962	344,962
Payment of dividends*	-	-	-	(206,651)	(206,651)
<b>Balance at January 1, 2008</b>	<b>851,843</b>	<b>661,378</b>	<b>8,740</b>	<b>2,631,248</b>	<b>4,153,209</b>
Exchange differences arising on translation of foreign operations	-	-	(58,306)	-	(58,306)
Profit for the year	-	-	-	210,536	210,536
Payment of dividends*	-	-	-	-	-
<b>Balance at March 31, 2008</b>	<b>851,843</b>	<b>661,378</b>	<b>(49,566)</b>	<b>2,841,784</b>	<b>4,305,439</b>

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## STATEMENT OF CASH FLOWS FOR THE QUARTER ENDED MARCH 31, 2008

	Notes	Quarter ended 31/03/08 RUB'000	Quarter ended 31/03/07 RUB'000
<b>Cash flows from operating activities</b>			
Profit for the year before tax		307,885	263,888
Finance costs recognized in income statement		69,088	56,859
Loss on disposal of property, plant and equipment		(1,019)	4,321
Depreciation and amortization of non-current assets		90,165	81,970
Operating cash flow before movements in working capital		466,119	407,039
Movements in working capital			
Increase in trade and other receivables		(178,684)	(78,153)
Decrease/(increase) inventories		127,439	(139,001)
Decrease/(increase) in taxes receivable		23,357	22,840
Increase/(decrease) in trade accounts payables		(278,041)	(53,783)
Decrease in retirement benefits obligation		(8,713)	(559)
Increase in taxes payable		30,891	(1,855)
Cash generated from operations		182,368	156,527
Interest paid		(91,631)	(56,859)
Income taxes paid		(95,652)	(64,661)
Net cash generated by/(used in) operating activities		(4,916)	35,007
<b>Cash flows from investing activities</b>			
Purchase of short-term investments		4,071	4,885
Proceeds from disposal of short-term investments, net		(4,071)	(4,885)
Acquisition of Dr. Scheller, net of cash acquired		(1,862)	(96,614)
Payments for property, plant and equipment		(5,499)	(46,149)
Proceeds from disposal of property, plant and equipment		1,509	1,720
Net cash used in investing activities		(5,852)	(141,043)
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		721,867	641,741
Repayment of borrowings		(667,926)	(475,163)
Repayment of capital lease obligations		(6,882)	(6,229)
Net cash used in/(generated by) financing activities		46,878	160,349
Net increase in cash and cash equivalents		(17,690)	7,185
<b>Cash and cash equivalents at the beginning of the financial year</b>		<b>189,009</b>	<b>158,075</b>
Effects of exchange rate changes on the balance of cash held in foreign currencies		(53,800)	(47,128)
<b>Cash and cash equivalents at the end of the financial year</b>	<b>18</b>	<b>171,320</b>	<b>165,259</b>

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2008

### 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”).

<b>Operating subsidiary</b>	<b>Share of ownership</b>	<b>Place of incorporation</b>	<b>Principal Activity</b>
LLC Pallada Ukraina	100%	Ukraine	Trading
Kalina Overseas Holding B.V.	100%	Netherlands	Trading
Kalina International	100%	Switzerland	Management
Kalina Beauty	100%	Switzerland	Management
Kosmetik und Rasierwaren Solingen GmbH	100%	Germany	Trading
Dr. Scheller Cosmetics AG	93.64%	Germany	Trading
Dr. Scheller DuroDont GmbH	93.64%	Germany	Trading
Lady Manhattan Cosmetics GmbH	93.64%	Germany	Trading
Apotheker Scheller Naturmittel GmbH	93.64%	Germany	Trading
Premium Cosmetics GmbH	93.64%	Germany	Trading
Lady Manhattan Cosmetics GmbH	93.64%	Austria	Trading
Dr. Scheller Cosmetics Polska Sp. zo.o.	93.64%	Poland	Trading
Lady Manhattan Ltd.	93.64%	UK	Trading
Dr. Scheller Cosmetics d.o.o.	91.77%	Slowenia	Trading
Dr. Scheller Cosmetics d.o.o.	46.82%	Serbia	Trading
LLC Kalina Finance	100%	Russia	Finance activity
LLC Glavskazka International	100%	Russia	Trading
LLC Dr. Scheller Beauty Center	100%	Russia	Retail cosmetic services

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

### 2. 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.



# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2008

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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.

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2008

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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 fair value less costs to sell.

**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.

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2008

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**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

# OPEN JOINT STOCK COMPANY CONCERN "KALINA" AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2008

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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.

**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.

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2008

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*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:

<b>Description</b>	<b>Useful Life (years)</b>
Buildings	50
Machinery and equipment	10-15
Fixtures and fittings	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 15, 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.

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2008

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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

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2008

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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.

### **Reclassification**

In previous reporting periods, advertising materials were presented as raw materials in inventories. In the current year management has chosen to present this balance as prepaid expenses in the consolidated balance sheet in order to more fairly represent the nature of these items. Accordingly, the prior year accounts have been revised as follows:

## 3. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	<b>Quarter ended 31/03/08 RUB'000</b>	<b>Quarter ended 31/03/07 RUB'000</b>
Advertising expenses	561,381	384,215
Salaries and related taxes	305,074	276,107
Transportation expenses	203,897	94,984
Depreciation charge	65,196	44,172
Raw materials obsolescence expenses	31,740	121,484
Taxes, other than income tax	26,399	20,809
Warehouse expenses	65,005	10,129
Repair and maintenance	11,906	9,722
Consulting expenses	2,088	2,852
Municipal & economic charges, connection	11,458	8,213
Other	19,569	10,155
<b>Total</b>	<b>1,303,713</b>	<b>982,842</b>

# OPEN JOINT STOCK COMPANY CONCERN "KALINA" AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2008

### 4. FINANCE COSTS

	Quarter ended 31/03/08 RUB'000	Quarter ended 31/03/07 RUB'000
Interest expense	91,631	58,715
Interest income	(22,543)	(1,856)
<b>Total</b>	<b>69,088</b>	<b>56,859</b>

### 5. INCOME TAXES

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

	Quarter ended 31/03/08 RUB'000	Quarter ended 31/03/07 RUB'000
Tax expense/(income) comprises:		
Current tax expense/(income)	112,933	47,897
Deferred tax income	(17,281)	16,764
<b>Total tax expense</b>	<b>95,652</b>	<b>64,661</b>

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

	Quarter ended 31/03/08 RUB'000	Year ended 31/12/07 RUB'000
Non-current deferred tax assets:		
Accrued expenses	277,398	201,890
Valuation of investments	-	-
<b>Deferred tax assets</b>	<b>277,398</b>	<b>201,890</b>
Non-current deferred tax liability:		
Valuation of non-current assets	(284,634)	(288,224)
Depreciation of PPE	(88,416)	(84,034)
<b>Deferred tax liabilities</b>	<b>(373,050)</b>	<b>(372,258)</b>



# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2008

### 6. EARNINGS PER SHARE

	<u>Quarter ended</u> <u>31/03/08</u> <u>RUB'000</u>	<u>Quarter ended</u> <u>31/03/07</u> <u>RUB'000</u>
<b>Basic and diluted earnings per share</b>		
From continuing operations	212,232	199,227
From discontinued operations	-	-
<b>Profit for the year</b>	<u><u>212,232</u></u>	<u><u>199,227</u></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:

	<u>Quaretr ended</u> <u>31/03/08</u> <u>RUB'000</u>	<u>Quarter ended</u> <u>31/03/07</u> <u>RUB'000</u>
Profit for the year attributable to equity holders of the parent	<u><u>210,536</u></u>	<u><u>195,176</u></u>

  

	<u>Quarter ended</u> <u>31/03/08</u> <u>Shares</u>	<u>Quarter ended</u> <u>31/03/07</u> <u>Shares</u>
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share (all measures)	<u><u>9,752,311</u></u>	<u><u>9,752,311</u></u>

### 7. 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 86.383 thousand are separately disclosed as “Held For Sale” at March 31, 2008.

	<u>Quarter ended</u> <u>31/03/08</u> <u>RUB'000</u>	<u>Year ended</u> <u>31/12/07</u> <u>RUB'000</u>
Property, plant and equipment	86,383	86,383
Inventories	-	-
<b>Assets classified as held for sale</b>	<b>86,383</b>	<b>86,383</b>
Accounts payable	-	-
Short-term debt	-	-
<b>Liabilities classified as held for sale</b>	<b>-</b>	<b>-</b>
<b>Net assets/(liabilities) classified as held for sale</b>	<b>86,383</b>	<b>86,383</b>

# OPEN JOINT STOCK COMPANY CONCERN "KALINA" AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2008

### 8. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress RUB'000	Land RUB'000	Buildings RUB'000	Machinery & Equipment RUB'000	Fixtures & Fittings RUB'000	Total RUB'000
<i>Cost</i>						
<b>Balance at January 1, 2007</b>	74,822	17,288	1,915,021	2,394,471	244,224	4,645,826
Additions to CIP	33,471	-	-	35,919	10,229	79,620
Disposals	-	-	(790)	(11,746)	(1,884)	(14,420)
<b>Balance at March 31, 2007</b>	<b>108,293</b>	<b>17,288</b>	<b>1,914,231</b>	<b>2,418,644</b>	<b>252,569</b>	<b>4,711,025</b>
<i>Accumulated depreciation</i>						
<b>Balance at January 1, 2007</b>	-	-	326,174	1,388,443	115,049	1,829,666
Charge for the year	-	-	13,060	53,980	11,604	78,644
Disposals	-	-	(154)	(8,494)	(1,451)	(10,099)
<b>Balance at March 31, 2007</b>	-	-	<b>339,080</b>	<b>1,433,929</b>	<b>125,202</b>	<b>1,898,211</b>
<i>Carrying amount</i>						
<b>As at January 1, 2007</b>	<b>74,822</b>	<b>17,288</b>	<b>1,588,847</b>	<b>1,006,028</b>	<b>129,175</b>	<b>2,816,160</b>
<b>As at March 31, 2007</b>	<b>108,293</b>	<b>17,288</b>	<b>1,575,151</b>	<b>984,715</b>	<b>127,367</b>	<b>2,812,814</b>

	Construction in progress RUB'000	Land RUB'000	Buildings RUB'000	Machinery & Equipment RUB'000	Fixtures & Fittings RUB'000	Total RUB'000
<i>Cost</i>						
<b>Balance at January 1, 2008</b>	121,880	17,288	2,174,348	2,643,699	337,621	5,294,836
Additions to CIP	36,226	-	-	-	-	36,226
Transfers from CIP	(67,248)	-	7,033	30,122	30,093	-
Disposals	-	-	-	(1,038)	(2,992)	(4,030)
<b>Balance at March 31, 2008</b>	<b>90,858</b>	<b>17,288</b>	<b>2,181,381</b>	<b>2,672,783</b>	<b>364,722</b>	<b>5,327,032</b>
<i>Accumulated depreciation</i>						
<b>Balance at January 1, 2008</b>	-	-	374,254	1,564,977	136,826	2,076,057
Charge for the year	-	-	14,000	57,450	17,057	88,507
Disposals	-	-	-	(581)	(2,891)	(3,472)
<b>Balance at March 31, 2008</b>	-	-	<b>388,254</b>	<b>1,621,846</b>	<b>150,992</b>	<b>2,161,092</b>
<i>Carrying amount</i>						
<b>As at January 1, 2008</b>	<b>121,880</b>	<b>17,288</b>	<b>1,800,094</b>	<b>1,078,722</b>	<b>200,795</b>	<b>3,218,779</b>
<b>As at March 31, 2008</b>	<b>90,858</b>	<b>17,288</b>	<b>1,793,127</b>	<b>1,050,937</b>	<b>213,730</b>	<b>3,165,940</b>

# OPEN JOINT STOCK COMPANY CONCERN "KALINA" AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2008

### 9. OTHER INTANGIBLE ASSETS

	<b>Trademarks and other intangible assets RUB'000</b>	<b>Licensed software RUB'000</b>	<b>Total RUB'000</b>
<i>Cost</i>			
<b>Balance at January 1, 2007</b>	<b>360,402</b>	<b>15,183</b>	<b>375,585</b>
Additions	520	-	520
Disposals	-	-	-
<b>Balance at March 31, 2007</b>	<b>360,922</b>	<b>15,183</b>	<b>376,105</b>
<i>Accumulated amortization</i>			
<b>Balance at January 1, 2007</b>	<b>9,808</b>	<b>6,382</b>	<b>16,190</b>
Amortization expense	2,946	380	3,326
Disposals	-	-	-
<b>Balance at March 31, 2007</b>	<b>12,754</b>	<b>6,762</b>	<b>19,516</b>
<i>Carrying amount</i>			
<b>As at 1 January 2007</b>	<b>350,594</b>	<b>8,801</b>	<b>359,395</b>
<b>As at 31 March 2007</b>	<b>348,168</b>	<b>8,421</b>	<b>356,589</b>
	<b>Trademarks and other intangible assets RUB'000</b>	<b>Licensed software RUB'000</b>	<b>Total RUB'000</b>
<i>Cost</i>			
<b>Balance at January 1, 2008</b>	<b>381,147</b>	<b>15,579</b>	<b>396,726</b>
Additions	10,354	-	10,354
Disposals	-	-	-
<b>Balance at March 31, 2008</b>	<b>391,501</b>	<b>15,579</b>	<b>407,080</b>
<i>Accumulated amortization</i>			
<b>Balance at January 1, 2008</b>	<b>17,647</b>	<b>7,881</b>	<b>25,528</b>
Amortization expense	1,268	390	1,658
Disposals	-	-	-
<b>Balance at March 31, 2008</b>	<b>18,915</b>	<b>8,271</b>	<b>27,186</b>
<i>Carrying amount</i>			
<b>As at 1 January 2008</b>	<b>363,500</b>	<b>7,698</b>	<b>371,198</b>
<b>As at 31 March 2008</b>	<b>372,586</b>	<b>7,308</b>	<b>379,894</b>

# OPEN JOINT STOCK COMPANY CONCERN "KALINA" AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2008

### 10. GOODWILL

	<b>Quarter ended 31/03/08</b>	<b>Year ended 31/12/07</b>
	<b>RUB'000</b>	<b>RUB'000</b>
Balance at beginning of year	300,866	217,121
Increase in equity interest in Dr. Scheller	1,171	83,745
<b>At the end of the year</b>	<b><u>302,037</u></b>	<b><u>300,866</u></b>

### 11. TAXES RECOVERABLE AND PAYABLE

Taxes recoverable consisted of the following at March 31, 2008 and 2007:

	<b>Quarter ended 31/03/08</b>	<b>Year ended 31/12/07</b>
	<b>RUB'000</b>	<b>RUB'000</b>
Value Added Tax ("VAT")	286,455	411,257
Other taxes	<u>63,223</u>	<u>46,245</u>
<b>Total</b>	<b><u>349,678</u></b>	<b><u>457,502</u></b>

Taxes payable consisted of the following at March 31, 2008 and 2007:

	<b>Quarter ended 31/03/08</b>	<b>Year ended 31/12/07</b>
	<b>RUB'000</b>	<b>RUB'000</b>
Income taxes	32,159	-
VAT	7,488	39,815
Other taxes	<u>44,962</u>	<u>13,903</u>
<b>Total</b>	<b><u>84,609</u></b>	<b><u>53,718</u></b>

### 12. INVENTORIES

Inventories consisted of the following at March 31, 2008 and December 31, 2007:

	<b>Quarter ended 31/03/08</b>	<b>Year ended 31/12/07</b>
	<b>RUB'000</b>	<b>RUB'000</b>
Finished goods	1,745,875	1,654,343
Raw materials	701,033	938,472
Work in progress	92,945	81,218
Allowance for obsolescence	<u>(145,862)</u>	<u>(152,603)</u>
<b>Total</b>	<b><u>2,393,991</u></b>	<b><u>2,521,430</u></b>

# OPEN JOINT STOCK COMPANY CONCERN "KALINA" AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2008

### 13. TRADE AND OTHER RECEIVABLES

	Quarter ended 31/03/08 RUB'000	Year ended 31/12/07 RUB'000
Trade receivables	1,857,261	1,885,056
Allowance for doubtful debts	(140,693)	(142,114)
<b>Total</b>	<b>1,716,568</b>	<b>1,742,942</b>

### 14. BORROWINGS

	Annual interest rate	Current		Non-current	
		Quarter ended 31/03/08 RUB'000	Year ended 31/12/07 RUB'000	Quarter ended 31/03/08 RUB'000	Year ended 31/12/07 RUB'000
<i>Long-term loans</i>					
EBRD (USD)	LIBOR*+3.50%	60,398	126,091	-	-
Black Sea Trade and Development bank (USD)	LIBOR*+4.0%	104,514	30,001	365,798	240,007
Baden-Wuerttembergische bank (EUR)	3.49-5.00%	-	-	124,548	137,229
West LB (EUR)	Euribor+1.8%	-	-	74,135	71,867
Postbank (EUR)	5.45%	-	-	55,601	57,494
Other loans (EUR)	5.65-5.79%	-	-	32,879	34,818
<b>Total</b>		<b>164,912</b>	<b>156,092</b>	<b>652,961</b>	<b>541,415</b>
<i>Short-term loans</i>					
UniCredit Bank (RUB)	7.4-9.6%	888,000	951,000	-	-
Raiffeisenbank Austria (USD)	LIBOR*+4%	561,784	599,784	-	-
Dresdner Bank Göppingen	EONIA+0.75%	153,534	-	-	-
Baden-Wuerttembergische bank (EUR)	3.49-5.00%	85,997	84,407	-	-
Uralsib (RUB)	12.5%	-	50,000	-	-
Citibank (USD)	8.3 -8.8%	60,000	95,000	-	-
HSBC (USD)	8.75%	49,000	-	-	-
Deutsche bank (EUR)	5.65-5.69%	14,308	13,871	-	-
International Bodensee Bank (EUR)	EONIA+2%	23,946	37,335	-	-
Other loans	5.25-5.45%	148,262	199,932	-	-
<b>Total</b>		<b>1,984,831</b>	<b>2,031,329</b>	<b>-</b>	<b>-</b>

\* LIBOR = London Interbank Offered Rate

\*\* EONIA = Euro Overnight Index Average.

### 15. TRADE AND OTHER PAYABLES

	Quarter ended 31/03/2008 RUB'000	Year ended 31/12/2007 RUB'000
Trade payables	1,053,899	1,269,271
Other payable	602,282	661,993
Accrued interest	4,037	6,995
<b>Total</b>	<b>1,660,218</b>	<b>1,938,259</b>

# OPEN JOINT STOCK COMPANY CONCERN "KALINA" AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2008

### 16. OBLIGATIONS UNDER FINANCE LEASES

#### *Finance lease liabilities*

	Minimum lease payments		Present value of minimum lease payments	
	Quarter ended 31/03/08	Year ended 31/12/07	Quarter ended 31/03/08	Year ended 31/12/07
	RUB'000	RUB'000	RUB'000	RUB'000
No later than 1 year	21,640	22,291	17,109	20,165
Later than 1 year and not later than 5 years	16,228	21,113	17,597	19,100
Later than five years	-	-	-	-
<b>Present value of minimum lease payments</b>	<b>37,868</b>	<b>43,404</b>	<b>34,706</b>	<b>39,265</b>
Included in the financial statements as:				
Current borrowings			17,109	20,165
Non-current borrowings			17,597	19,100
<b>Total</b>			<b>34,706</b>	<b>39,265</b>

### 17. 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, 2008 and 2007 were as follows:

	Purchases of services		Advances to related parties	
	Quarter ended 31/03/08	Year ended 31/12/07	Quarter ended 31/03/08	Year ended 31/12/07
	RUB'000	RUB'000	RUB'000	RUB'000
LLC "Soyuzspezstroy"	12,110	89,678	43,024	22,344
<b>Total</b>	<b>12,110</b>	<b>89,678</b>	<b>43,024</b>	<b>22,344</b>

### 18. CASH AND CASH EQUIVALENTS

Cash consisted of the following at March 31, 2008 and 2007

	Quarter ended 31/03/2008	Year ended 31/12/2007
	RUB'000	RUB'000
Cash on hand – RUB	975	1,160
Cash in bank – RUB accounts	24,163	23,418
Cash in bank – EUR accounts	26,800	11,853
Cash in bank – CHF accounts	25,947	9,594
Cash in bank –USD accounts	6,969	4,995
Cash in bank –PLN accounts	6,635	2,731
Cash in bank –KN accounts	4,411	6,684

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2008

Cash in bank –UAH accounts	11,097	8,121
Short-term investments	43,269	59,005
Restricted cash – USD accounts	20,873	57,473
Other –CSD, SIT, KM accounts	181	3,975
<b>Total</b>	<b>171,320</b>	<b>189,009</b>

### 19. 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.

### 20. RISK MANAGEMENT POLICIES

Management of risk is an essential element of the Group’s operations. The main risks inherent to the Group’s operations are those related to credit risk exposures, market movements in interest rates and foreign exchange rates. A description of the Group’s risk management policies in relation to those risks follows.

**Credit risk** – The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one customer, or groups of customers. In addition, the ageing of receivables is monitored periodically by Management.

**Currency risk** – Currency risk is that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The Group is exposed to currency risk in respect of its loans outstanding, which are denominated in several currencies.

**Interest rate risk** – The Group is exposed to some interest rate risk since some of its borrowings and bonds provide for variable interest calculations.