Open Joint Stock Company Concern “Kalina” and subsidiaries

Consolidated Financial Statements
First quarter Ended March 31, 2007

OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

CONTENTS

OPEN JOINT STOCK COMPANY CONCERN "KALINA" AND SUBSIDIARIES

INCOME STATEMENT
FOR THE QUARTER ENDED MARCH 31, 2007

	Notes	Quarter ended 31/03/07 RUB'000	Quarter ended 31/03/06 RUB'000
Revenue Выручка		2,540,691	2,369,290
Cost of sales Себестоимость		(1,235,888)	(1,179,387)
Gross profit Валовая прибыль		1,304,803	1,189,902
Distribution expenses Расходы на сбыт	3	(105,113)	(87,168)
Marketing expenses Маркетинговые расходы	3	(387,067)	(461,167)
Administration expenses Административные	3	(490,663)	(359,956)
Finance costs, net Расходы по финансовым оперциям	4	(56,859)	(39,768)
Foreign exchange gain/(loss) Курсовые разницы		(1,331)	18,700
Other losses, net Прочие расходы		119	(5,347)
Profit before tax Прибыль до налогообложения		263,888	255,196
Income tax expense Расходы по налогу	5	(64,661)	(61,675)
Profit for the year from continuing operations Прибыль за год от продолжающихся операций		199,227	193,521
Discontinued operations Прекращаемая деятельность			
Income/(loss) for the year from discontinued operations		-	-
Profit for the year Прибыль за год		199,227	193,521
Attributable to: Относящаяся к:			
Equity holders of the parent Акционерам материнской компании		195,176	191,969
Minority interest Миноритарным акционерам		4,051	1,552
		199,227	193,521
Earnings per share Прибыль приходящаяся на одну акцию			
From continuing and discontinued operations: От продолжаемой и прекращаемой деятельности			
Basic and diluted (rubles per share)	6	20	20
Базовая разводненная (рублей на акцию)			
From continuing operations: От продолжаемой деятельности			
Basic and diluted (rubles per share) Базовая разводненная (рублей на акцию)		20	20

OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

BALANCE SHEET
FOR THE QUARTER ENDED MARCH 31, 2007

	Notes	Quarter ended 31/03/07 RUB’000	Quarter ended 31/03/06 RUB’000
ASSETS АКТИВЫ			
Non-current assets Внеоборотные активы			
Property, plant and equipment Основные средства	8	2,812,814	2,713,977
Goodwill Гудвил	10	225,929	71,062
Other intangible assets Прочие материальные активы	9	356,589	355,748
Lon-term investments Долгосрочные инвестиции		100,595	88,972
Deferred tax assets Отложенные налоговые активы	5	212,918	133,770
Total non-current assets Итого внеоборотные активы		**3,708,846**	**3,363,529**
Non-current assets classified as held for sale (Омск) Внеоборотные активы, классифицирумые как предназн для продажи	**7**	**153,335**	**143,991**
Current assets Оборотные активы			
Inventories Запасы	13	1,973,189	2,161,853
Trade and other receivables Торговая и прочая дебиторская задолженность	14	1,198,637	976,739
Advances paid to suppliers and prepaid expenses, net Авансы пост и расч буд периодов		273,790	686,458
Taxes recoverable Налоги к возмещению НДС	12	409,282	426,358
Short-term investments Краткосрочные инвестиции		1,334	-
Cash and bank balances Денежные средства	19	165,259	144,951
Total current assets Итого оборотные активы		**4,021,491**	**4,396,358**
TOTAL ASSETS ИТОГО АКТИВЫ		**7,883,672**	**7,903,878**

BALANCE SHEET (CONTINUED)
FOR THE QUARTER ENDED MARCH 31, 2007

	Notes	Quarter ended 31/03/07 RUB'000	Quarter ended 31/03/06 RUB'000
EQUITY AND LIABILITIES Обязательства			
Capital and reserves Капитал и резервы			
Issued capital Выпущенный капитал		851,843	851,843
Additional paid in capital Добавочный капитал		661,378	661,378
Translation reserve Резерв курсовых разниц		(47,128)	(43,164)
Retained earnings Нераспределенная прибыль		2,492,937	2,282,602
Equity attributable to equity holders of the parent Собственный капитал, принадлежащий акционерам материнской компании		3,959,030	3,752,659
Minority interest Доле миноритарных акционеров		27,559	347,124
Total equity Итого собственный капитал		**3,986,588**	**4,099,783**
Non-current liabilities Долгосрочные обязательства			
Borrowings Кредиты и займы	15	374,281	410,058
Long-term obligations under finance leaseДолгосрочные обязательства по финансовой аренде	17	25,283	34,875
Retirement benefit obligation Пенсионные обязательства		127,437	171,819
Deferred tax liabilities Отложенные налоговые обязательства	5	374,562	310,140
Total non-current liabilities Итого долгосрочные обязательства		**901,563**	**926,892**
Current liabilities Текущие обязательства			
Trade and other payables Торговая и прочая кредиторская задолженность	16	1,386,514	1,120,050
Borrowings Кредиты и займы	15	1,538,586	1,274,927
Short-term obligations under finance lease Краткосрочные обязательства по финансовой аренде	17	25,886	26,955
Taxes payable Налоги к уплате	12	44,535	131,103
Liabilities directli associated with non-current assaets classified as held for sale		-	324,169
Total current liabilities Итого текущие обязательства		**2,995,520**	**2,553,035**
Total liabilities Итого обязательства		**3,897,084**	**3,804,096**
TOTAL EQUITY AND LIABILITIES ИТОГО СОБСТВЕННЫЙ КАПИТАЛ И ОБЯЗАТЕЛЬСТВА		**7,883,672**	**7,903,878**

STATEMENT OF CHANGES IN SHAREHOLDERS’ EQUITY
FOR THE QUARTER ENDED MARCH 31, 2007

	Share Capital Акционерны капитал	Additional Paid in Capital Добавочный	Translation reserve Резерв курсовых	Retained earnings Нераспределенная прибыль	Total Итого
	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 Курсовые разници,возникающие при пересчете операций в иностранной валюте	-	-	6,424	-	6,424
Profit for the year Прибыль за год	-	-	-	191,969	191,969
Payment of dividends* Выплата дивидендов	-	-	-	-	-
Balance at March 31, 2006	**851,843**	**661,378**	**(43,164)**	**2,280,602**	**3,752,659**
Exchange differences arising on translation of foreign operations	-	-	(5,171)	-	(5,171)
Profit for the year	-	-	-	225,224	225,224
Payment of dividends*	-	-	-	(210,065)	(210,065)
Balance at January 1, 2007	**851,843**	**661,378**	**(48,335)**	**2,297,761**	**3,762,647**
Exchange differences arising on translation of foreign operations	-	-	1,207		1,207
Profit for the year	-	-		195,176	195,176
Payment of dividends*	-	-		-	-
Balance at March 31, 2007	**851,843**	**661,378**	**(47,128)**	**2,492,937**	**3,959,030**

* In May and September 2006, a dividend of 22 rubles per share (15 rubles per share in 2005) was paid to holders of fully paid ordinary shares.

STATEMENT OF CASH FLOWS ОТЧЕТ О ДВИЖЕНИИ ДЕНЕЖНЫХ СРЕДСТ
FOR THE QUARTER ENDED MARCH 31, 2007

	Notes	Quarter ended 31/03/07 RUB’000	Quarter ended 31/03/06 RUB’000
Cash flows from operating activities			
Денежные средства от операционной деятельности			
Profit for the year before tax Прибыль за год до налогообложения		263,888	255,196
Finance costs recognized in income statement Расходы по финансовым операциям, отраженные в отчете о прибылях и убытках		56,859	30,656
Loss on disposal of property, plant and equipment Выбытие ОС		4,321	5,327
Depreciation and amortization of non-current assets Амортизация и износ внеоборотных активов		81,970	69,792
Operating cash flow before movements in working capital Денежные средства от операционной деятельности до изменения в оборотном капитале		407,039	360,881
Movements in working capital Изменения в оборотном капитале			
Increase in trade and other receivables Увеличение торговой и прочей дебиторской задолженности		(78,153)	(129,338)
Decrease/(increase) inventories Уменьшение (увеличение) товарно-материальных запасов		(139,001)	248,461
Decrease/(increase) in taxes receivable Уменьшение (увеличение) налогов к возмещению		22,840	(118,055)
Increase/(decrease) in trade accounts payables Увеличение (уменьшение) кредиторской задолженности по основной деятельности		(53,783)	(259,031)
Decrease in retirement benefits obligation Уменьшение пенсионных обязательств		(559)	(1,875)
Increase in taxes payable Увеличение налоговых обязательств		(1,855)	27,623
Cash generated from operations Денежные средства, полученные от операционной деятельности		156,527	128,675
Interest paid Проценты уплаченные		(56,859)	(8,385)
Income taxes paid Налог на прибыль уплаченный		(64,661)	(24,029)
Net cash generated by/(used in) operating activities Чистые денежные средства, полученные от операционной деятельности		35,007	96,261
Cash flows from investing activities			
Денежные средства от инвестиционной деятельности			
Purchase of short-term investments Поступления от реализации краткосрочных финансовых вложений		4,885	(509)
Proceeds from disposal of short-term investments, net		(4,885)	-
Acquisition of Dr. Scheller, net of cash acquired Приобретение of Dr. Scheller за искл ден средств приобрет компании	11	(96,614)	(15,638)
Purchase of investments in Kalina Internetional		-	(2,134)
Payments for property, plant and equipment Оплата ОС		(46,149)	(46,947)
Proceeds from disposal of property, plant and equipment Поступления от реализации ОС		1,720	441

	Note		
Net cash used in investing activities Чистые денежные средства, использованные (полученные от) инвестицинной деятельности		(141,043)	(64,787)
Cash flows from financing activities **Денежные средства от финансовой деятельности**			
Proceeds from borrowings Поступления от кредитов и займов		641,741	364,773
Repayment of borrowings Погашение займов		(475,163)	(394,183)
Repayment of capital lease obligations Погашение обязательств по финансовой аренде		(6,229)	(7,314)
Net cash used in/(generated by) financing activities Чистые денежные средства, использованные (полученные от) финансовой деятельности		160,349	(36,724)
Net increase in cash and cash equivalents Чистое увеличение денежных средств и их эквивалентов		7,185	(48,414)
Cash and cash equivalents at the beginning of the financial year **Денежные средства и их эквиваленты на начало финансового года**		**158,075**	**193,365**
Effects of exchange rate changes on the balance of cash held in foreign currencies Влияние изменений валютных курсов на остатки денежных средств в иностранной валюте		(47,128)	(43,164)
Cash and cash equivalents at the end of the financial year **Денежные средства и их эквиваленты на конец финансового года**	**19**	**165,259**	**144,951**

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
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	88.71%	Germany	Trading
Dr. Scheller DuroDont GmbH	88.71%	Germany	Trading
Lady Manhattan Cosmetics GmbH	88.71%	Germany	Trading
Apotheker Scheller Naturmittel GmbH	88.71%	Germany	Trading
Premium Cosmetics GmbH	88.71%	Germany	Trading
Lady Manhattan Cosmetics GmbH	88.71%	Austria	Trading
Dr. Scheller Cosmetics Polska Sp. zo.o.	88.71%	Poland	Trading
Lady Manhattan Ltd.	88.71%	UK	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 13, the Group completed in April 2005 the acquisition of a controlling interest in Dr. Scheller Cosmetics AG Group (Dr. Scheller), a German perfume manufacturer and distributor. In June 2006, December 2006 and March 2007 the Group further purchased 1,209,416; 685,424 and 75,480 of 6,500,000 outstanding ordinary shares of that company respectively. At March 31, 2007, the Group owned 88.71% of Dr Scheller's ordinary shares.

In October 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 153,335 thousand are separately disclosed as "Held For Sale" at March, 31 2007 (Note 7).

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 (including special purpose 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 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 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.

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 benefit 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.

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 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.

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.

3. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Quarter ended 31/03/07	Quarter ended 31/03/06
	RUB'000	RUB'000
Advertising expenses	384,215	457,897
Salaries and related taxes	276,107	204,345
Transportation expenses	94,984	76,524
Depreciation charge	44,172	13,324
Raw materials obsolescence expenses	139,419	111,331
Taxes, other than income tax	20,809	22,968
Warehouse expenses	10,129	10,644
Consulting expenses	2,852	3,270
Other	10,155	7,988
Total	**982,842**	**908,291**

4. FINANCE COSTS

	Quarter ended 31/03/07	Quarter ended 31/03/06
	RUB'000	RUB'000
Interest expense Процентные расходы	58,715	40,883
Interest income Процентные доходы	(1,856)	(1,115)
Total	**56,859**	**39,768**

5. INCOME TAXES

Income tax recognized in profit or loss

	Quarter ended 31/03/07	Quarter ended 31/03/06
	RUB’000	RUB’000
Tax expense/(income) comprises:		
Current tax expense/(income) Текущий налог на прибыль	47,897	74,008
Deferred tax income Отложенный налог на прибыль	16,764	(12,333)
Total tax expense	**64,661**	**61,675**

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

	Quarter ended 31/03/07	Quarter ended 31/03/06
	RUB’000	RUB’000
Non-current deferred tax assets:		
Accrued expenses	175,716	99,948
Valuation of investments	37,202	33,822
Deferred tax assets	**212,918**	**133,770**
Non-current deferred tax liability:		
Valuation of non-current assets	(217,808)	(180,644)
Depreciation of PPE	(156,754)	(129,496)
Deferred tax liabilities	**(374,562)**	**(310,140)**

6. EARNINGS PER SHARE

	Quarter ended 31/03/07	Quarter ended 31/03/06
	RUB’000	RUB’000
Basic and diluted earnings per share		
From continuing operations	199,227	193,521
From discontinued operations	-	-
Profit for the year	**199,227**	**193,521**

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:

	Quaretr ended 31/03/07	Quarter ended 31/03/06
	RUB’000	RUB’000
Profit for the year attributable to equity holders of the parent	195,176	191,969

	Quarter ended 31/03/07	Quarter ended 31/03/06
	Shares	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

7. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

In October 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 153,335 thousand are separately disclosed as "Held For Sale" at March 31, 2007.

As of March 31, 2006 LLC Pallada Vostok, which was disposed in 2006, is separately disclosed as discontinued operations with net liabilities of RUB 180,178 thousand.

	Quarter ended 31/03/07	Quarter ended 31/03/06
	RUB'000	RUB'000
Property, plant and equipment	99,475	97,444
Inventories	53,860	39,321
Trade and other receivables	-	6,203
Cash and cash equivalents	-	1,023
Assets classified as held for sale	**153,335**	**143,991**
Accounts payable	-	(303,770)
Short-term debt	-	(20,399)
Liabilities classified as held for sale	**-**	**(324,169)**
Net assets/(liabilities) classified as held for sale	**153,335**	**(180,178)**

8. 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 to CIP	49,486	-	-	-	46,947	96,433
Disposals	-	-	(50)	(4,999)	(187)	(5,236)
Balance at March 31, 2006	**139,630**	**17,288**	**1,803,492**	**2,139,821**	**218,126**	**4,318,357**
Accumulated depreciation						
Balance at January 1, 2006	**-**	**-**	**276,406**	**1,189,150**	**69,224**	**1,534,780**
Charge for the year	-	-	12,069	51,220	6,503	69,792
Disposals			(5)	(32)	(156)	(193)
Balance at March 31, 2006	**-**	**-**	**288,470**	**1,240,338**	**75,571**	**1,604,379**
Carrying amount						
As at January 1, 2006	**90,144**	**17,288**	**1,527,136**	**955,670**	**102,142**	**2,692,380**
As at March 31, 2006	**139,630**	**17,288**	**1,515,022**	**899,483**	**142,555**	**2,713,978**

	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, 2007	**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)
Balance at March 31, 2006	**108,293**	**17,288**	**1,914,231**	**2,418,644**	**252,569**	**4,711,025**
Accumulated depreciation						
Balance at January 1, 2006	**-**	**-**	**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)
Balance at March 31, 2006	**-**	**-**	**339,080**	**1,433,929**	**125,202**	**1,898,211**
Carrying amount						
As at January 1, 2006	**74,822**	**17,288**	**1,588,847**	**1,006,028**	**129,175**	**2,816,160**
As at March 31, 2006	**108,293**	**17,288**	**1,575,151**	**984,715**	**127,367**	**2,812,814**

9. OTHER INTANGIBLE ASSETS

	Trademarks and other intangible assets RUB'000	Licensed software RUB'000	Total RUB'000
Cost			
Balance at January 1, 2006	**354,909**	**15,183**	**370,092**
Additions	-	-	-
Disposals	(2,538)	-	(2,538)
Balance at March 31, 2006	**352,371**	**15,183**	**367,554**
Accumulated amortization			
Balance at January 1, 2006	**1,582**	**4,864**	**6,446**
Amortization expense	4,987	373	5,360
Disposals	-	-	-
Balance at March 31, 2006	**6,569**	**5,237**	**11,806**
Carrying amount			
As at 1 January 2006	**353,327**	**10,319**	**363,646**
As at 31 March 2006	**345,802**	**9,946**	**355,748**

	Trademarks and other intangible assets RUB'000	Licensed software RUB'000	Total RUB'000
Cost			
Balance at January 1, 2007	**360,402**	**15,183**	**375,585**
Additions	520	-	520
Disposals	-	-	-
Balance at March 31, 2007	**360,922**	**15,183**	**376,105**
Accumulated amortization			
Balance at January 1, 2007	**9,808**	**6,382**	**16,190**
Amortization expense	2,946	380	3,326
Disposals	-	-	-
Balance at March 31, 2006	**12,754**	**6,762**	**19,516**
Carrying amount			
As at 1 January 2007	**350,594**	**8,801**	**359,395**
As at 31 March 2007	**348,168**	**8,421**	**356,589**

The useful life for Dr. Scheller trademarks (carrying value of trademarks "Manhattan" as of March 31, 2007 is RUB 324,763 thousands) is currently assessed as indefinite, and the carrying amount of trademarks is subject to annual impairment review.

10. GOODWILL

	Quarter ended 31/03/07	Quarter ended 31/03/06
	RUB'000	RUB'000
Balance at beginning of year	217,121	71,062
Increase in equity interest in Dr. Scheller	8,808	-
At the end of the year	**225,929**	**71,062**

11. ACQUISITION OF DR. SCHELLER

During April 2005, the Group completed the acquisition of 61% of the outstanding shares of Dr. Scheller Cosmetics AG (Dr. Scheller) for a purchase price of RUB 609,428 thousand in cash. Dr. Scheller is a German perfume manufacturer and distributor.

	Book value	Fair value adjustments	Fair value
	'000 RUB	'000 RUB	'000 RUB
Net assets acquired			
Current assets	756,028	-	756,028
Purchased plant and equipment	1,056,750	259,558	1,316,308
Intangible assets	24,067	318,535	342,602
Deferred tax liability	(24,134)	(215,629)	(239,763)
Current liabilities	(625,015)	-	(625,015)
Non-current liabilities	(672,962)	-	(672,962)
	514,734	**362,464**	**877,198**
Goodwill			71,062
Total consideration satisfied by cash			609,428
Net cash outflow arising on acquisition:			
Cash consideration			609,428
Cash and cash equivalents acquired			(136,119)
Total consideration net of cash acquired			**473,309**

During June and December 2006, the Group acquired additional 1,894,840 shares of Dr. Scheller Cosmetics AG (Scheller), 26% for a combined purchase price of RUB 446,187 thousand in cash. The acquisition took place as follows:

- in June 2006 the Group acquired 1,209,416 shares for a purchase price of RUB 285,461 thousand in cash;
- in December 2006 the Group acquired 685,424 shares for a purchase price of RUB 160,726 thousand in cash.

The transaction was accounted for under the purchase accounting method:

- in June 2006 fair value of Scheller net assets was RUB 1,021,124 thousand and additional goodwill recognized RUB 95,467 thousand;

- in December 2006 fair value of Scheller net assets was RUB 1,019,000 thousand and additional goodwill recognized RUB 53,273 thousand.

In March 2007 the Group acquired additional 75,480 shares of Dr. Scheller Cosmetics AG (Scheller), 1,16% for a purchase price of RUB 20,814 thousand in cash.

In March 2007 fair value of Scheller net assets was RUB 1,033,974 thousand and additional goodwill recognized RUB 8,809 thousand.

The Group has capitalized RUB 75,800 thousand fees related to acquisition of additional Dr Scheller shares.

The total number of shares of Dr. Scheller outstanding at March 31, 2007 was 6,500,000.

The total number of shares owned by the Group was 5,766,060 at March 31, 2007.

12. TAXES RECOVERABLE AND PAYABLE

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

	Quarter ended 31/03/07 RUB'000	Quarter ended 31/03/06 RUB'000
Value Added Tax ("VAT")	399,933	408,007
Allowance for non-recoverable VAT	(43,745)	(8,830)
Other taxes	53,094	27,181
Total	**409,282**	**426,358**

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

	Quarter ended 31/03/07 RUB'000	Quarter ended 31/03/06 RUB'000
VAT	1,256	54,931
Other taxes	43,279	76,172
Total	**44,535**	**131,103**

13. INVENTORIES

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

	Quarter ended 31/03/07	Quarter ended 31/03/06
	RUB’000	RUB’000
Finished goods	1,186,329	1,457,846
Raw materials	844,936	787,630
Work in progress	81,343	27,708
Allowance for obsolescence	(139,419)	(111,331)
Total	**1,973,189**	**2,161,853**

14. TRADE AND OTHER RECEIVABLES

	Quarter ended 31/03/07	Quarter ended 31/03/06
	RUB’000	RUB’000
Trade receivables	1,346,212	1,095,704
Allowance for doubtful debts	(147,575)	(118,965)
Total	**1,198,637**	**976,739**

15. BORROWINGS

	Annual interest rate	Current		Non-current	
		Quarter ended 31/03/07	Quarter ended 31/03/06	Quarter ended 31/03/07	Quarter ended 31/03/06
		RUB’000	RUB’000	RUB’000	RUB’000
Long-term loans					
EBRD loan (USD)	LIBOR*+4.75 %	133,618	178,179	66,809	267,269
Black Sea Trade bank loan (USD)	LIBOR*+4.5 %	-	-	156,068	-
Badden-Wurttembergische bank loan (EUR)	3.9-4.4%	-	-	151,404	142,789
Total		**133,618**	**178,179**	**374,281**	**410,058**
Short-term loans					
Raiffeisenbank Austria loan (USD)	LIBOR*+4%	425,916	300,000	-	-
MMB loan (RUR)	7-9.5%	443,000	435,000	-	-
Citibank loan (USD)	7%	30,000	-	-	-
Dresdner Bank Göppingen	EONIA**+0.75%	161,950	153,911	-	-
Deutsche bank – Money market loan	3,85%	76,101	34,980	-	-
Other loans in RUB, USD, EUR, UAH	19-23%	268,001	172,857	-	-
Total		**1,404,968**	**1,096,748**	**-**	**-**

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

16. TRADE AND OTHER PAYABLES

	Quarter ended 31/03/2007	Quarter ended 31/03/2006
	RUB'000	RUB'000
Trade payables	876,515	616,746
Other payable	502,122	488,910
Accrued interest	7,877	14,394
Total	**1,386,514**	**1,120,050**

17. OBLIGATIONS UNDER FINANCE LEASES

Finance lease liabilities

	Minimum lease payments		Present value of minimum lease payments	
	Quarter ended 31/03/07	Quarter ended 31/03/06	Quarter ended 31/03/07	Quarter ended 31/03/06
	RUB'000	RUB'000	RUB'000	RUB'000
No later than 1 year	25,886	26,955	25,163	27,379
Later than 1 year and not later than 5 years	25,283	34,875	25,568	34,875
Later than five years	-	-	-	-
Present value of minimum lease payments	**51,169**	**61,830**	**50,731**	**62,254**
Included in the financial statements as:				
Current borrowings			25,886	26,955
Non-current borrowings			25,283	34,875
Total			**51,169**	**61,830**

18. 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, 2007 and 2006 were as follows:

	Purchases of services		Advances to related parties	
	Quarter ended 31/03/07	Quarter ended 31/03/06	Quarter ended 31/03/07	Quarter ended 31/03/06
	RUB'000	RUB'000	RUB'000	RUB'000
LLC "Soyuzspezstroy"	23	8,350	69,501	44,003
Total	**23**	**8,350**	**69,501**	**44,003**

19. CASH AND CASH EQUIVALENTS

Cash consisted of the following at March 31, 2007 and 2006

	Quarter ended 31/03/2007	Quarter ended 31/03/2006
	RUB'000	RUB'000
Cash on hand – RUB	1,002	298
Cash in bank – RUB accounts	14,831	59,192
Cash in bank – USD accounts	124,066	55,979
Restricted cash – USD accounts	25,360	29,482
Other – EUR, UAH accounts	-	-
Total	**165,259**	**144,951**

20. 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.

21. 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.