Open Joint Stock Company Concern “Kalina” and subsidiaries

Consolidated Financial Statements
Year Ended December 31, 2008

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OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

The following statement, which should be read in conjunction with the independent auditors’ responsibilities stated in the independent auditors’ report set out on page 4, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of Open Joint Stock Company Concern “Kalina” and subsidiaries (the “Group”).

In preparing the consolidated financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- Preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Russian Federation;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Detecting and preventing fraud and other irregularities.

The consolidated financial statements for the year ended December 31, 2008 were approved on April 22, 2009 by:

On behalf of the Management Board:

____

Alexander Petrov
Chief Executive Officer

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Independent Auditors' Report

To the Board of Directors of OJSC Concern "Kalina"

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of OJSC Concern "Kalina" (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2008, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO KPMG
22 April 2009

OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2008

	Notes	Year ended 31/12/2008	Year ended 31/12/2007 As restated
		RUR’000	RUR’000
Revenue	5	12,028,752	10,120,845
Cost of sales	7	(6,088,457)	(5,305,544)
Gross profit		5,940,295	4,815,301
Marketing and distribution expenses	8	(3,196,874)	(2,228,631)
Administrative expenses	9	(1,747,445)	(1,555,708)
Inventory obsolescence expenses		(41,043)	(89,097)
Other income and expenses, net	11	13,471	(48,179)
Results before impairment loss related to disposal group		968,404	893,686
Impairment loss related to disposal group	22	(196,724)	-
Results before finance costs		771,680	893,686
Finance income	10	41,201	20,779
Finance expenses	10	(391,728)	(220,170)
Foreign exchange (loss) /gain		(74,243)	19,760
Profit before income tax		346,910	714,055
Income tax expense	12	(115,777)	(179,954)
Profit for the year		231,133	534,101
Attributable to:			
Shareholders of the Company		230,925	521,225
Minority interest		208	12,876
		231,133	534,101
Earnings per share			
Basic and diluted (rubles per share)	13	24	53

The consolidated income statement is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 43.

OPEN JOINT STOCK COMPANY CONCERN "KALINA" AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
FOR THE YEAR ENDED DECEMBER 31, 2008

	Notes	Year ended 31/12/08	Year ended 31/12/07 As restated
		RUR'000	RUR'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	3,208,602	2,819,489
Investment property	15	57,663	-
Goodwill	16	498,373	434,728
Other intangible assets	17	689,459	555,751
Long-term investments		23,993	23,993
Deferred tax assets	12	223,734	201,890
Total non-current assets		**4,701,824**	**4,035,851**
Current assets			
Inventories	18	2,181,771	2,521,430
Trade and other receivables	19	2,676,962	1,742,942
Advances paid to suppliers and prepaid expenses		268,410	341,693
Taxes recoverable	20	348,302	457,502
Cash and bank balances	21	293,794	189,009
Assets classified as held for sale	22	377,114	86,383
Total current assets		**6,146,353**	**5,338,959**
TOTAL ASSETS		**10,848,177**	**9,374,810**

The consolidated balance sheet is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 43.

CONSOLIDATED BALANCE SHEET (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2008

	Notes	Year ended 31/12/08 RUR'000	Year ended 31/12/07 As restated RUR'000
EQUITY AND LIABILITIES			
Share capital and reserves	23		
Share capital		851,843	851,843
Share premium		664,507	661,378
Reserve for own shares		(149,706)	-
Translation reserve		(39,414)	7,333
Retained earnings		2,632,452	2,599,500
Equity attributable to Shareholders of the Company		3,959,682	4,120,054
Minority interest		67,815	64,605
Total equity		**4,027,497**	**4,184,659**
Non-current liabilities			
Borrowings	24	545,051	541,415
Finance leases	25	919	19,100
Retirement benefit obligations	26	148,898	131,947
Deferred tax liabilities	12	375,707	298,126
Total non-current liabilities		**1,070,575**	**990,588**
Current liabilities			
Trade and other payables	27	2,353,100	1,927,889
Borrowings	24	3,202,008	2,197,791
Finance leases	25	3,826	20,165
Taxes payable	20	171,444	53,718
Liabilities classified as held for sale	22	19,727	-
Total current liabilities		**5,750,105**	**4,199,563**
Total liabilities		**6,820,680**	**5,190,151**
TOTAL EQUITY AND LIABILITIES		**10,848,177**	**9,374,810**

The consolidated balance sheet is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 43.

OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2008

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

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 43.

OPEN JOINT STOCK COMPANY CONCERN "KALINA" AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2008

'000 RUR	Attributable to shareholders of the Company						Minority interest	Total equity
	Share capital	Share premium	Reserve for own shares	Translation reserve	Retained earnings	Total		
Balance at January 1, 2008, as restated	**851,843**	**661,378**	**-**	**7,333**	**2,599,500**	**4,120,054**	**64,605**	**4,184,659**
Profit for the year	-	-	-	-	230,925	230,925	208	231,133
Foreign currency translation differences	-	-	-	(46,747)	-	(46,747)	3,002	(43,745)
Total recognised income and expense	-	-	-	-	-	184,178	3,210	187,388
Dividends to shareholders	-	-	-	-	(197,973)	(197,973)	-	(197,973)
Treasury shares, net	-	3,129	(149,706)	-	-	(146,577)	-	(146,577)
Balance at December 31, 2008	**851,843**	**664,507**	**(149,706)**	**(39,414)**	**2,632,452**	**3,959,682**	**67,815**	**4,027,497**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 43.

OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2008

	Notes	Year ended 31/12/08	Year ended 31/12/07 As restated
		RUR’000	RUR’000
Cash flows from operating activities			
Profit before income tax		346,910	714,055
Finance costs recognized in income statement		350,527	199,391
Unrealized forex gain/loss		(133,208)	211,436
Loss on disposal of property, plant and equipment		21,731	37,795
Loss on disposal of intangibles assets		3,068	55
Impairment loss on property, plant and equipment		173,209	-
Impairment loss on assets held for sale		-	13,092
Depreciation and amortization of non-current assets		347,859	293,940
Operating cash flow before movements in working capital		1,110,096	1,469,764
Movements in working capital			
Increase in trade and other receivables		(574,514)	(445,090)
Decrease/(increase) in advances issued		70,424	(180,131)
Decrease/(increase) inventories		339,659	(650,565)
Decrease/(increase) in taxes recoverable		109,200	(25,380)
Increase in trade accounts payables		421,836	356,127
Increase in retirement benefits obligation		16,951	3,952
Increase/(decrease) in taxes payable		122,541	(42,556)
Cash generated from operations		1,616,193	486,121
Interest paid		(382,697)	(158,953)
Income taxes paid		(88,991)	(242,625)
Net cash generated by operating activities		1,144,505	84,543
Cash flows from investing activities			
Proceeds from disposal of investments		-	122,220
Payments for additional shares in Dr. Scheller		-	(168,086)
Payments for property, plan and equipment		(1,116,375)	(467,079)
Payments for intangibles		(62,645)	(5,598)
Proceeds from disposal of property, plant and equipment		3,112	11,481
Net cash used in investing activities		(1,175,908)	(507,062)
Cash flows from financing activities			
Proceeds from borrowings		5,114,015	3,471,390
Repayment of borrowings		(4,278,354)	(2,787,010)
Repayment of capital lease obligations		(20,226)	(24,276)
Repurchase of own shares		(481,274)	-
Dividends		(197,973)	(206,651)
Net cash generated by financing activities		136,188	453,453
Net increase in cash and cash equivalents		104,785	30,934
Cash and cash equivalents at the beginning of the financial year		**189,009**	**158,075**
Cash and cash equivalents at the end of the financial year	**21**	**293,794**	**189,009**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 43.

1. BACKGROUND

Business environment

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

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

Organisation and operations

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

Operating subsidiary	**Share of ownership**		**Place of incorporation**	**Principal Activity**
	31/12/2008	**31/12/2007**		
LLC Pallada Ukraina	100%	100%	Ukraine	Trading
Kalina Overseas Holding B.V.	100%	100%	Netherlands	Trading
Kalina International	100%	100%	Switzerland	Management
Kalina Beauty	100%	100%	Switzerland	Management
Kosmetik und Rasierwaren Solingen GmbH	100%	100%	Germany	Trading
Dr. Scheller Cosmetics AG	93.64%	93.59%	Germany	Trading
Dr. Scheller DuroDont GmbH	93.64%	93.59%	Germany	Trading
Lady Manhattan Cosmetics GmbH	93.64%	93.59%	Germany	Trading
Apotheker Scheller Naturmittel GmbH	93.64%	93.59%	Germany	Brand
Premium Cosmetics GmbH	93.64%	93.59%	Germany	Trading
Lady Manhattan Cosmetics GmbH	93.64%	93.59%	Austria	Trading/Brand
Dr. Scheller Cosmetics Polska Sp. z.o.o.	93.64%	93.59%	Poland	Trading
Lady Manhattan Ltd.	93.64%	93.59%	UK	Brand
Dr. Scheller Cosmetics d.o.o.	46.82%	46.80%	Slovenia	Trading
Dr. Scheller Cosmetics d.o.o.	-	91.72%	Serbia	Trading
LLC Kalina Finance	100%	100%	Russia	Finance activity
LLC Glavskazka International	100%	100%	Russia	Trading
LLC Dr. Scheller Beauty Center	100%	100%	Russia	Retail cosmetic services

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

The shareholders of OJSC Concern "Kalina" as of December 31, 2008 is as follows:

Shareholders as nominees	31/12/2008		31/12/2007	
	Number of shares	Ownership interest	Number of shares	Ownership interest
Renaissance Securities (Cyprus) Limited	1,857,442	19.72%	-	-
UBS AG	1,487,227	15.79%	-	-
Citigroup Global Markets Limited	849,937	9.02%	-	-
Deutsche Bank Trust Company Americas	772,376	8.20%	955,015	9.79%
Lindsell Enterprises Limited	682,189	7.24%	658,289	6.75%
Tarlot Holdings Limited	-	-	2,435,799	24.98%
State Street Bank and Trust Company	-	-	641,625	6.58%
Other shareholders	3,771,140	40.03%	5,061,583	51.90%
Total	**9,420,311**	**100%**	**9,752,311**	**100%**

2. BASIS OF PREPARATION

Statement of compliance

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

Basis of measurement

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

Functional and presentation currency

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

Use of judgments, estimates and assumptions

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

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

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

- Note 16 –Goodwill;
- Note 17 – Other intangible assets;
- Note 18 – Inventories;
- Note 19 – Trade and other receivables;
- Note 22 – Assets and liabilities classified as held for sale;
- Note 26 – Retirement benefit obligations.

3. SIGNIFICANT ACCOUNTING POLICIES

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

During the current year the Group modified the presentation of certain items in balance sheet and income statement with the corresponding changes in comparatives. In addition, the Group restated its comparatives for 2007 due to certain errors as described in note 6.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Reclassification to assets held for sale **-** Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on *pro rata* basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Reclassification to investment property **-** When the use of a property changes from owner-occupied to investment property, the property is measured at cost less accumulated depreciation and impairment losses and reclassified as investment property. The fair value of investment property is disclosed in note 15.
Any gain arising on remeasurement is recognised in profit or loss to the extent the gain reverses a previous impairment loss on the specific property, with any remaining gain recognised in the revaluation reserve directly in equity. Any loss is recognised in the revaluation reserve directly in equity to the extent that an amount is included in equity relating to the specific property, with any remaining loss recognised immediately in profit or loss.

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

The overall useful economic lives of the buildings classified as investment property for depreciation purposes are 50 years. The fair value of investment property is disclosed in note 15.

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

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

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

Intangible assets

Intangible assets acquired separately – Intangible assets acquired separately are reported at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over their estimated useful lives of 10 years for trademarks and licensed software. As described in note 17, intangible assets include trademarks with indefinite useful life. Amortization of intangible assets is included into administrative expenses. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets acquired in a business combination – Intangible assets acquired in a business combination are identified and recognized separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets acquired separately.

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

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Share capital

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

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

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

For defined retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses that exceed 10 per cent of the greater of the present value of the Group's defined benefit obligation and the fair value of plan assets are amortized over the expected average remaining working lives of the participating employees. Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested.

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

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

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

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

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

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

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

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

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

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

Finance income and expenses **-** Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and foreign currency gains. Interest income is recognised as it accrues in the income statement, using the effective interest method. Dividend income is recognised in the income statement on the date that the Group's right to receive payment is established.

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

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

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

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

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

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

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

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

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

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

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

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

Early adoption of new Standards and Interpretations

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

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

New Standards and Interpretations not yet adopted

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

- Revised IAS 1 *Presentation of Financial Statements (2007)* which becomes mandatory for the Group's 2009 consolidated financial statements is expected to have a significant impact on the presentation of the consolidated financial statements. The Standard introduces the concept of total comprehensive income and requires presentation of all owner changes in equity in the statement of changes in equity, separately from non-owner changes in equity.

- Revised IAS 23 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Group's 2009 consolidated financial statements and will constitute a change in accounting policy for the Group. In accordance with the transitional provisions the Group will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date.

- Revised IFRS 3 *Business Combinations* (2008) and amended IAS 27 (2008) *Consolidated and Separate Financial Statements*, which come into effect on 1 July 2009 (i.e. become mandatory for the Group's 2010 consolidated financial statements). The revisions address, among others, accounting for step acquisitions, require acquisition-related costs to be recognised as expenses and remove exception for changes in contingent consideration to be accounted by adjusting goodwill. The revisions also address how non-controlling interests in subsidiaries should be measured upon acquisition and require to recognise the effects of transactions with non-controlling interest directly in equity.

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

4. DETERMINATION OF FAIR VALUES

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

Property, plant and equipment - The fair value of property, plant and equipment recognised as a result of a business combination is based on market values, when possible. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant, equipment, fixtures and fittings is based on quoted market prices for similar items.
When no quoted market prices are available, the fair value of property, plant and equipment is primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

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

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

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

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

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

5. OPERATING SEGMENTS

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

	Russia & CIS		Europe		Total	
	Year ended 31/12/08	Year ended 31/12/07	Year ended 31/12/08	Year ended 31/12/07	Year ended 31/12/08	Year ended 31/12/07
	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000
Total revenue for reportable segments	8,821,189	7,674,203	3,514,499	2,911,266	12,335,688	10,585,469
Elimination of intersegment revenue	(67,314)	(93,162)	(239,622)	(371,462)	(306,936)	(464,624)
Revenue from external customers	8,753,875	7,581,041	3,274,877	2,539,804	12,028,752	10,120,845
Interest income	29,247	2,168	11,954	18,611	41,201	20,779
Interest expense	294,780	141,317	96,948	69,114	391,728	210,431
Depreciation and amortization	146,790	123,543	201,069	170,397	347,859	293,940
Inventory obsolescence expense	85,229	80,690	(26,570)	8,407	58,659	89,097
Cost of restructuring	-	-	210,975	-	210,975	-
Reportable segment profit before tax	435,705	590,729	(88,795)	123,326	346,910	714,055
Reportable segment income tax expense	204,873	157,406	(89,096)	22,548	115,777	179,954
Reportable segment profit after tax	230,832	433,323	301	100,778	231,133	534,101
Reportable segment assets	9,000,081	7,962,804	3,159,378	2,842,833	12,159,459	10,805,637
Capital expenditures	1,081,958	391,379	97,062	123,760	1,179,020	515,139
Liabilities	4,905,604	3,847,945	3,210,531	2,727,817	8,116,135	6,575,762

Reconciliations of reportable segment revenues, assets and liabilities

	Year ended 31/12/08	Year ended 31/12/07
	RUR'000	RUR'000
Revenues		
Total revenues for reportable segments	12,335,688	10,585,469
Elimination of intersegment revenue	(306,936)	(464,624)
	12,028,752	10,120,845
Assets		
Total assets for reportable segments	12,159,459	10,805,637
Elimination of intersegment receivables	(1,311,282)	(1,430,827)
	10,848,177	9,374,810
Liabilities		
Total liabilities for reportable segments	8,116,135	6,575,762
Elimination of intersegment payables	(1,295,455)	(1,385,611)
	6,820,680	5,190,151

Information about products

	External sales		Gross profit	
	Year ended 31/12/08	Year ended 31/12/07	Year ended 31/12/08	Year ended 31/12/07
	RUR'000	RUR'000	RUR'000	RUR'000
Cosmetics	10,038,598	8,142,539	5,168,988	4,121,654
Tooth-paste	1,495,455	1,451,440	622,862	544,951
Household chemical goods	379,998	518,613	132,709	146,986
Other	114,701	8,253	15,736	1,710
	12,028,752	**10,120,845**	**5,940,295**	**4,815,301**

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

6. PRIOR PERIOD ADJUSTMENTS

In previous years the classification of identifiable assets acquired in a business combination, as well as the subsequent increase in their values as a result of acquisition of additional equity interest in the subsidiaries, between property, plant and equipment, goodwill and other intangible assets, deferred tax liability and minority interest was not properly stated in the consolidated financial statements. To account for the full effect of the reclassification comparative figures have been restated and opening balances of the corresponding items have been restated.

Accounting for the full effect of these reclassifications had the following effect:

		Year ended 31/12/2007			Year ended 31/12/2006		
	Notes	As previously stated	Adjustments	As restated	As previously stated	Adjustments	As restated
		RUR'000	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000
Consolidated balance sheet							
Property, plant and equipment	14	3,245,273	(425,784)	2,819,489	2,855,975	(195,688)	2,660,287
Goodwill	16	300,866	133,862	434,728	217,121	90,189	307,310
Other intangible assets	17	371,198	184,553	555,751	359,395	178,201	537,596
Total non-current assets		4,143,220	(107,369)	4,035,851	3,615,726	72,702	3,688,428
Total assets		**9,482,179**	**(107,369)**	**9,374,810**	**7,771,233**	**72,702**	**7,843,935**
Translation reserves		8,740	(1,407)	7,333	(48,335)	10,437	(37,898)
Retained earnings		2,631,248	(31,748)	2,599,500	2,297,761	(12,835)	2,284,926
Equity attributable to equity holders of the parent		4,153,209	(33,155)	4,120,054	3,762,647	(2,398)	3,760,249
Minority interest		64,687	(82)	64,605	18,472	81,623	100,095
Total equity		4,217,896	(33,237)	4,184,659	3,781,119	79,225	3,860,344
Deferred tax liabilities	12	372,258	(74,132)	298,126	338,198	(6,523)	331,675
Total non-current liabilities		1,064,720	(74,132)	990,588	950,919	(6,523)	944,396
Total liabilities		5,264,283	(74,132)	5,190,151	3,990,114	(6,523)	3,983,591
Total equity and liabilities		9,482,179	(107,369)	9,374,810	7,771,233	72,702	7,843,935
Consolidated income statement							
Foreign exchange gain		36,230	(16,470)	19,760			
Profit before tax		730,525	(16,470)	714,055			
Profit for the year		550,571	(16,470)	534,101			
Attributable to:							
Equity holders of the parent		540,138	(18,913)	521,225			
Minority interest		10,433	2,443	12,876			
		550,571	(16,470)	534,101			
EPS		55	(2)	53			
Consolidated statement of changes in equity							
Translation reserve		8,740	(1,407)	7,333	(48,335)	10,437	(37,898)
Retained earnings		2,631,248	(31,748)	2,599,500	2,297,761	(12,835)	2,284,926
Equity attributable to equity holders of the parent		4,153,209	(33,155)	4,120,054	3,762,647	(2,398)	3,760,249
Minority interest		64,687	(82)	64,605	18,472	81,623	100,095
Total equity		4,217,896	(33,237)	4,184,659	3,781,119	79,225	3,860,344

7. COST OF SALES

	Year ended 31/12/08 RUR'000	Year ended 31/12/07 RUR'000
Raw materials	5,191,169	4,387,214
Salary and related taxes	473,326	426,573
Depreciation and amortization	102,418	96,724
Repair	81,201	51,120
Repacking and remarking	76,576	189,772
Utilities	24,121	38,379
Other	139,646	115,762
Total	**6,088,457**	**5,305,544**

8. MARKETING AND DISTRIBUTION EXPENSES

	Year ended 31/12/08 RUR'000	Year ended 31/12/07 RUR'000
Advertising expenses	1,948,985	1,474,074
Transportation expenses	546,897	437,682
Warehouse expenses	394,091	114,804
Consulting expenses	80,675	78,187
Salary and related taxes	76,054	45,457
Expertise & certification	41,116	25,106
Depreciation and amortization	33,158	26,823
Provision/ (release) of provision for bad debts	10,086	(5,085)
Other	65,812	31,583
Total	**3,196,874**	**2,228,631**

9. ADMINISTRATIVE EXPENSES

	Year ended 31/12/08 RUR'000	Year ended 31/12/07 RUR'000
Salaries and related taxes	1,191,514	1,090,958
Depreciation and amortization	212,283	170,393
Taxes, other than income tax	93,758	118,461
Business trips	74,535	44,210
Repair and maintenance	63,736	43,091
Municipal & economic charges, communication	63,561	59,846
Fines and penalties payable	11,850	6,839
Other	36,208	21,910
Total	**1,747,445**	**1,555,708**

10. FINANCE INCOME AND EXPENSES

	Year ended 31/12/08 RUR'000	Year ended 31/12/07 RUR'000
Finance income		
Interest income	41,201	20,779
	41,201	20,779
Finance expenses		
Interest expense	391,728	210,431
Other	-	9,739
	391,728	220,170
Total	**350,527**	**199,391**

11. OTHER INCOME AND EXPENSES

	Year ended 31/12/08 RUR'000	Year ended 31/12/07 RUR'000
Other income		
Reversal of impairment provision of property, plant and equipment	23,515	-
Other income	14,755	2,763
	38,270	2,763
Other expenses		
Loss from disposal of property, plant and equipment	21,731	37,795
Loss from disposal of intangible assets	3,068	55
Impairment loss on assets held for sale	-	13,092
	24,799	50,942
Total	**13,471**	**(48,179)**

12. INCOME TAX EXPENSE

Income tax recognized in profit or loss

	Year ended 31/12/08 RUR'000	Year ended 31/12/07 As restated RUR'000
Current tax expense	84,178	230,814
Deferred tax expense /(income)	31,599	(50,860)
Total	**115,777**	**179,954**

The Group's applicable tax rate is the income tax rate of 24% for Russian companies, 25% for Ukrainian subsidiary, 28.4% for German subsidiaries (2007: 24%, 25%, 37.3% respectively). With effect from 1 January 2009, the income tax rate for Russian companies has been reduced to 20%. This rate has been used in the calculation of deferred tax assets and liabilities of the Russian subsidiaries of the Group.

Reconciliation of effective tax rate:

	Year ended 31/12/08		Year ended 31/12/07 As restated	
	RUR'000	%	RUR'000	%
Profit before tax	346,910	100	714,055	100
Income tax expense at the applicable tax rate	83,258	24	171,373	24
Effect of different tax rates of subsidiaries operating in other jurisdictions	(7,017)	(2)	(5,069)	(1)
Change in tax rate	(3,925)	(1)	(20,562)	(3)
Non-deductible expenses	106,079	30	90,922	13
Overprovided in prior years	(62,618)	(18)	(56,710)	(8)
	115,777	**33**	**179,954**	**25**

Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	Year ended 31/12/08	Year ended 31/12/07	Year ended 31/12/08	Year ended 31/12/07	Year ended 31/12/08	Year ended 31/12/07 As restated
	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000
Property, plant and equipment, net, as previously stated	2,317	-	110,705	234,168	(108,388)	(234,168)
Adjustment	-	-	-	(65,125)	-	65,125
Property, plant and equipment, net as restated	2,317	-	110,705	169,043	(108,388)	(169,043)
Intangible assets, as previously reported	4,762	5,959	172,208	127,278	(167,446)	(121,319)
Adjustment	-	-	-	(9,007)	-	9,007
Intangible assets, as restated	4,762	5,959	172,208	118,271	(167,446)	(112,312)
Investment	2,046	2,455	-	-	2,046	2,455
Inventories	19,987	42,110	10,319	6,050	9,668	36,060
Trade and other receivables	84,319	80,866	82,475	-	1,844	80,866
Borrowings	706	1,679	-	-	706	1,679
Retirement benefit obligation	13,800	-	-	-	13,800	-
Trade and other payables	40,183	68,821	-	4,762	40,183	64,059
Tax losses carried forward	55,614	-	-	-	55,614	-
Net of assets/(liabilities) as previously reported	223,734	201,890	375,707	372,258	(151,973)	(170,368)
Adjustment	-	-	-	(74,132)	-	74,132
Net of assets/(liabilities), as restated	223,734	201,890	375,707	298,126	(151,973)	(96,236)
Set off of tax	(117,995)	(65,026)	(117,995)	(65,026)	-	-
Net tax assets/(liabilities)	105,739	136,864	257,712	233,100	(151,973)	(96,236)

The amount of losses carried forward in its German subsidiary amounting to RUR 195,824 thousand (2007: nil) does not have an expiry date.

Movement in temporary differences during the year

	January 1, 2008, as restated	Recognised in income	Translation difference	December 31, 2008
Property, plant and equipment, net	(169,043)	62,344	(1,689)	(108,388)
Intangible assets	(112,312)	(31,544)	(23,590)	(167,446)
Investment	2,455	(409)	-	2,046
Inventories	36,060	(26,392)	-	9,668
Trade and other receivables	80,866	(80,163)	1,141	1,844
Borrowings	1,679	(973)	-	706
Retirement benefit obligation	-	13,800	-	13,800
Trade and other payables	64,059	(23,876)	-	40,183
Tax losses carried forward	-	55,614	-	55,614
	(96,236)	**(31,599)**	**(24,138)**	**(151,973)**

	January 1, 2007, as restated	Recognised in income	Translation difference	December 31, 2007, as restated
Property, plant and equipment, net	(227,031)	59,098	(1,110)	(169,043)
Intangible assets	(104,644)	-	(7,668)	(112,312)
Investment	38,608	(36,153)	-	2,455
Inventories	36,554	(494)	-	36,060
Trade and other receivables	82,141	(1,275)	-	80,866
Borrowings	-	1,679	-	1,679
Retirement benefit obligation	-	-	-	-
Trade and other payables	36,054	28,005	-	64,059
Tax losses carried forward	-	-	-	-
	(138,318)	**50,860**	**(8,778)**	**(96,236)**

13. EARNINGS PER SHARE

	Year ended 31/12/08	Year ended 31/12/07 As restated
	RUR'000	**RUR'000**
Profit for the year	**231,133**	**534,101**

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

	Year ended 31/12/08	Year ended 31/12/07 As restated
	RUR'000	**RUR'000**
Profit for the year attributable to Shareholders of the Company	230,925	521,225

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

In thousands of shares	Year ended 31/12/08	Year ended 31/12/07
Issued shares at 1 January	9,752,311	9,752,311
Effect of own shares held	(208,760)	-
Weighted average number of shares for the year ended December 31, 2008	9,543,551	9,752,311

14. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress	Land	Buildings	Machinery & Equipment	Fixtures & Fittings	Total
	RUR’000	RUR’000	RUR’000	RUR’000	RUR’000	RUR’000
Cost						
Balance at January 1, 2007	114,637	17,288	1,915,021	2,394,471	244,224	4,685,641
Additions as previously stated	35,807	-	260,129	287,782	142,907	726,625
Adjustment	-	-	(217,084)	-	-	(217,084)
Additions as restated	35,807	-	43,045	287,782	142,907	509,541
Disposals	(2,070)	-	(802)	(38,554)	(49,510)	(90,936)
As at December 31, 2007 as previously stated	148,374	17,288	2,174,348	2,643,699	337,621	5,321,330
Adjustment	-	-	(217,084)	-	-	(217,084)
Balance at December 31, 2007	148,374	17,288	1,957,264	2,643,699	337,621	5,104,246
Additions	1,116,375	-	-	-	-	1,116,375
Transfers	(338,305)	-	120,204	118,057	100,044	-
Disposals	-	-	(14,481)	(9,522)	(61,947)	(85,950)
Transfer from assets held for sale	-	-	-	84,587	-	84,587
Transfer to assets held for sale	-	-	(589,712)	(605,915)	-	(1,195,627)
Net foreign currency exchange differences	-	-	141,874	260,762	111	402,747
Balance at December 31, 2008	926,444	17,288	1,615,149	2,491,668	375,829	5,426,378
Accumulated depreciation and impairment losses						
As at January 1, 2007 as previously stated	-	-	326,174	1,388,443	115,049	1,829,666
Adjustment	-	-	211,822	(16,134)	-	195,688
As at January 1, 2007 as restated	-	-	537,996	1,372,309	115,049	2,025,354
Charge for the year	-	-	48,235	195,714	44,102	288,051
Disposals	-	-	(155)	(19,180)	(22,325)	(41,660)
Net foreign currency exchange differences as previously stated	-	-	-	-	-	-
Adjustment	-	-	7,535	5,477	-	13,012
Net foreign currency exchange differences as restated	-	-	7,535	5,477	-	13,012
As at December 31, 2007 as previously stated	-	-	374,254	1,564,977	136,826	2,076,057
Adjustment	-	-	219,357	(10,657)	-	208,700
Balance at December 31, 2007	-	-	593,611	1,554,320	136,826	2,284,757
Charge for the year	-	-	59,948	213,711	63,747	337,406
Impairment losses	-	-	196,724	(23,515)	-	173,209
Disposals	-	-	(11,017)	(13,501)	(36,589)	(61,107)
Transfer from assets held for sale	-	-	-	60,161	-	60,161
Transfer to assets held for sale	-	-	(418,895)	(404,840)	-	(823,735)
Net foreign currency exchange differences	-	-	61,259	185,826	-	247,085
Balance at December 31, 2008	-	-	481,630	1,572,162	163,984	2,217,776
Carrying amount						
As at January 1, 2007 as previously stated	114,637	17,288	1,588,847	1,006,028	129,175	2,855,975
Adjustment	-	-	(211,822)	16,134	-	(195,688)
As at January 1, 2007 as restated	114,637	17,288	1,377,025	1,022,162	129,175	2,660,287
As at December 31, 2007 as previously stated	148,374	17,288	1,800,094	1,078,722	200,795	3,245,273
Adjustment	-	-	(436,441)	10,657	-	(425,784)
As at December 31, 2007 as restated	148,374	17,288	1,363,653	1,089,379	200,795	2,819,489
As at December 31, 2008	926,444	17,288	1,133,519	919,506	211,845	3,208,602

The amount of construction in process includes advances paid to suppliers in amount of RUR 783,034 thousand (2007: RUR 26,494 thousand) for new production and distribution facilities.

The net book value of the Group's equipment held under finance leases as at 31 December 2008 amounted to RUR 11,097 thousand (2007: RUR 88,172 thousand).
Property with the carrying amount of RUR 966,612 thousand (2007: RUR 1,053,314 thousand) are pledged to secure credit lines opened by the Group in banks for the total amount of RUR 802,154 thousand (2007: RUR 738,246 thousand). As at 31 December 2008 the outstanding balance of the loans collateralized amounted to RUR 674,139 thousand (2007: RUR 639,156 thousand).

15. INVESTMENT PROPERTY

	Year ended 31/12/08 RUR'000	Year ended 31/12/07 RUR'000
Cost		
Reclassification from assets held for sale	71,652	-
Accumulated depreciation		
Reclassification from assets held for sale	(9,695)	-
Charge for the year	(4,294)	-
	57,663	**-**

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

16. GOODWILL

RUR'000	Year ended 31/12/08	Year ended 31/12/07 As restated	Adjustments	Year ended 31/12/07 As previously stated
Cost				
Balance at the beginning of the year	434,728	307,310	90,189	217,121
Increase in equity interest in Dr. Scheller	-	113,531	37,525	76,006
Effects of foreign currency exchange differences	63,645	13,887	6,148	7,739
Balance at end of year	498,373	434,728	133,862	300,866
Carrying amount				
At the beginning of the year	434,728	307,310	90,189	217,121
At the end of the year	**498,373**	**434,728**	**133,862**	**300,866**

The results of the annual test for impairment are summarized in note 17.

17. OTHER INTANGIBLE ASSETS

	Trademarks and other intangible assets RUR'000	Licensed software RUR'000	Total RUR'000
Cost			
Balance at January 1, 2007 as previously reported	354,707	20,878	375,585
Adjustment	178,201	-	178,201
Balance at January 1, 2007 as restated	532,908	20,878	553,786
Additions	3,016	2,582	5,598
Disposals	(55)	-	(55)
Net foreign currency exchange differences, as previously reported	15,598	-	15,598
Adjustment	6,352	-	6,352
Net foreign currency exchange differences, as restated	21,950	-	21,950
Balance at December 31, 2007, as previously reported	373,266	23,460	396,726
Adjustment	184,553	-	184,553
Balance at December 31, 2007, as restated	557,819	23,460	581,279
Additions	5,092	57,553	62,645
Disposals	(3,184)	-	(3,184)
Transfer to assets held for sale	(5,222)	-	(5,222)
Net foreign currency exchange differences	85,512	-	85,512
Balance at December 31, 2008	640,017	81,013	721,030
Accumulated amortization			
Balance at January 1, 2007	9,808	6,382	16,190
Amortization expense	4,390	1,499	5,889
Disposals	-	-	-
Net foreign currency exchange differences	3,449	-	3,449
Balance at December 31, 2007	17,647	7,881	25,528
Amortization expense	1,283	4,876	6,159
Disposals	(116)	-	(116)
Net foreign currency exchange differences	-	-	-
Balance at December 31, 2008	18,814	12,757	31,571
Carrying amount			
As at January 1, 2007 as previously reported	344,899	14,496	359,395
Adjustment	178,201	-	178,201
As at January 1, 2007 as restated	523,100	14,496	537,596
As at December 31, 2007 as previously reported	355,619	15,579	371,198
Adjustment	184,553	-	184,553
As at December 31, 2007 as restated	540,172	15,579	555,751
As at December 31, 2008	621,203	68,256	689,459

Annual Test for impairment

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

For impairment test purposes the intangible assets with indefinite useful lives and goodwill was allocated to Dr Scheller subsidiary only (cash-generating unit), the activities of which primarily relates to European segment.

The recoverable amount of this cash-generating unit is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by the Dr Scheller's management. The forecasted period includes the fiscal years from 2009 to 2011.

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

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

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

18. INVENTORIES

	Year ended 31/12/08	**Year ended 31/12/07**
	RUR'000	**RUR'000**
Finished goods	1,332,547	1,654,343
Raw materials	840,522	938,472
Work in progress	106,904	81,218
Allowance for obsolescence	(98,202)	(152,603)
Total	**2,181,771**	**2,521,430**

Movement in the obsolescence provision is as follows:

	Year ended 31/12/08	**Year ended 31/12/07**
	RUR'000	**RUR'000**
Balance at the beginning of the year	152,603	154,663
Impairment losses recognized on inventory	67,603	89,097
Amounts written off	(95,434)	(82,750)
Impairment loss reversed	(26,570)	(8,407)
Balance at the end of the year	**98,202**	**152,603**

19. TRADE AND OTHER RECEIVABLES

	Year ended 31/12/08 RUR'000	Year ended 31/12/07 RUR'000
Trade receivables	2,284,439	1,734,154
Other receivables	541,490	150,902
Allowance for doubtful debts	(148,967)	(142,114)
Total	**2,676,962**	**1,742,942**

Movement in the allowance for doubtful debt is as follows:

	Year ended 31/12/08 RUR'000	Year ended 31/12/07 RUR'000
Balance at the beginning of the year	142,114	147,428
Impairment losses recognized on receivables	10,086	-
Amounts written off as uncollectible	(3,233)	(229)
Amounts recovered during the year	-	(5,085)
Balance at the end of the year	**148,967**	**142,114**

20. TAXES RECOVERABLE AND PAYABLE

Taxes recoverable:

	Year ended 31/12/08 RUR'000	Year ended 31/12/07 RUR'000
Input VAT	269,914	325,692
Excise	33,165	36,988
Tax receivables	45,223	94,822
Total	**348,302**	**457,502**

Taxes payable:

	Year ended 31/12/08 RUR'000	Year ended 31/12/07 RUR'000
VAT	90,649	-
Social charges tax	53,477	23,133
Property tax	7,479	6,629
Income taxes	3,590	8,404
Other taxes	16,249	15,552
Total	**171,444**	**53,718**

21. CASH AND BANK BALANCES

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

	Year ended 31/12/08 RUR'000	Year ended 31/12/07 RUR'000
Cash in bank – EUR accounts	191,770	11,853
Cash in bank –USD accounts	23,456	4,995
Cash in bank – RUR accounts	20,319	23,418
Deposit – USD accounts	18,607	59,005
Cash in bank –PLN accounts	10,070	2,731
Cash in bank –KN accounts	9,490	6,684
Cash in bank –UAH accounts	6,714	8,121
Cash in bank – CHF accounts	6,092	9,594
Cash on hand	1,970	1,160
Other –CSD, SIT, KM accounts	5,306	3,975
	293,794	**131,536**
Restricted cash	-	57,473
Total	**293,794**	**189,009**

As at 31 December 2007 restricted cash referred to the funds accumulated at deposit account separately for the repayment of the loan from EBRD.

22. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

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

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

	RUR'000
Assets classified as held for sale as at 31 December 2007	86,383
Reclassification to property, plant and equipment	(24,426)
Reclassification to investment property	(61,957)
Reclassification from property, plant and equipment	371,892
Reclassification from other intangibles assets	5,222
Assets classified as held for sale as at 31 December 2008	377,114
Liabilities classified as held for sale	19,727

Immediately before classification as held for sale, the assets were remeasured at the lower of the carrying amount and fair value less cost to sell. Resulting impairment loss is as follows:

	Carrying amount at the end of the reporting period before classification as held for sale	Allocated impairment loss	Carrying amount as remeasured immediately before classification as held for sale
	RUR'000	RUR'000	RUR'000
Land and buildings (carried at cost)	367,541	(196,724)	170,817
Other property, plant and equipment (carried at cost)	201,075	-	201,075
Trademarks	5,222	-	5,222
Assets classified as held for sale	573,838	(196,724)	377,114
Liabilities classified as held for sale	(19,727)	-	(19,727)
	554,111	**(196,724)**	**357,387**

23. SHARE CAPITAL AND RESERVES

Share capital and share premium

As at 31 December 2008 the Group had 9,752,311 authorised and issued ordinary shares at par value of RUR 70 per share.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Reserve for own shares

The reserve for the Company's own shares comprises the cost of the Company's shares held by the Group. At 31 December 2008 the Group held 332 thousand of the Company's shares.

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Dividends

In accordance with Russian legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December 2008 the Company had retained earnings, including the profit for the current year, of RUR 3,435,123 thousand (2007: RUR 2,842,204 thousand).

At the balance sheet date dividends for the second half of 2007 and the first half of 2008 in the amounts of RUR 98,987 thousand and RUR 98,986 thousand respectively were declared and paid in full. Dividends for the second half of 2008 were not declared.

24. BORROWINGS

	Year ended 31/12/08 RUR'000	Year ended 31/12/07 RUR'000
Non-current liabilities		
Secured bank loans	462,500	427,726
Unsecured bank loans	82,551	113,689
	545,051	**541,415**
Current liabilities		
Current portion of secured bank loans	211,639	211,430
Current portion of unsecured bank loans	34,769	56,201
Unsecured bank loans	2,955,600	1,930,160
	3,202,008	**2,197,791**

	Currency	Nominal interest rate	Effective interest rate	Year of maturity	Carrying amount Year ended 31/12/08 RUR'000	Carrying amount Year ended 31/12/07 RUR'000
Secured bank loan	USD	LIBOR + 3.5%	6.57%	2008-2012	460,510	396,099
	EUR	4.15%-5.45%	4.91%	2009-2012	118,149	127,170
	EUR	5.65%-6.24%	5.98%	2009-2010	46,580	62,741
	CHF	1.4%	1.40%	2009-2012	48,900	53,146
					674,139	**639,156**
Unsecured bank facility	RUR	MOS PRIME + 2-3%	15.09%	2009	2,462,551	1,055,168
	RUR	7%-8.5%	8.00%	2008	-	50,000
	USD	LIBOR + 7.5%	8.00%	2009	493,050	600,980
	EUR	1,3 M EURIBOR + 0.7%-1.85%	5.74%	2008-2010	82,012	146,568
	EUR	4.44%-7.25%	4.86%	2008-2009	35,307	109,707
	EUR	Eonia + 0.75%-2%	4.86%	2008	-	137,627
					3,072,920	**2,100,050**

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

As at December 31,2008 the Group has undrawn credit line facility for the total amount of RUR 311,305 thousand (2007: nil).

As at 31 December 2008 long-term borrowings were collateralized by property, plant and equipment with a net book value of RUR 966,612 thousand (2007: RUR 1,053,314 thousand) (refer note 14).

25. FINANCE LEASES

	Year ended 31/12/08			Year ended 31/12/07		
	Present value of minimum lease payments	Interest	Future minimum lease payments	Present value of minimum lease payments	Interest	Future minimum lease payments
	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000
Less than one year	3,826	232	4,058	20,165	2,126	22,291
Between one and five years	919	1	920	19,100	2,013	21,113
More than five years						
	4,745	**233**	**4,978**	**39,265**	**4,139**	**43,404**

26. RETIREMENT BENEFIT OBLIGATIONS

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

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

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

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at December 31, 2008 by Kern Mauch & Kollegen GmbH (the Firm of actuaries, registered in Germany). The present value of the defined benefit obligation, the related current service cost and past service cost was measured using the projected unit credit method.

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

	Year ended 31/12/2008	Year ended 31/12/2007
	RUR'000	RUR'000
Current service cost	414	359
Interest cost	9,863	9,882
Total	**10,277**	**10,241**

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

	Year ended 31/12/2008 RUR'000	Year ended 31/12/2007 RUR'000
Present value of defined benefit obligation	187,148	177,043
Fair value of plan assets	(57,189)	(50,954)
Deficit in scheme	129,959	126,089
Unrecorded gain	18,939	5,858
Liability recognized in the balance sheet	**148,898**	**131,947**

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

	Year ended 31/12/2008 RUR'000	Year ended 31/12/2007 RUR'000
Opening defined benefit obligation	182,901	176,510
Service cost	414	359
Interest cost	9,863	9,882
Actuarial gain	18,939	5,858
Benefits paid	(15,126)	(9,882)
Effect of translation to presentation currency	9,096	174
Closing defined benefit obligation	**206,087**	**182,901**

Movement in fair value of plan assets is as follows:

	Year ended 31/12/2008 RUR'000	Year ended 31/12/2007 RUR'000
At January 1, 2008	50,954	48,263
Contribution to plan assets	-	-
Additional expense of reinsurance	332	-
Benefit payments made	(3,730)	(324)
Return on plan assets	1,823	1,294
Effect of translation to presentation currency	7,810	1,721
At December 31, 2008	**57,189**	**50,954**

Other than the defined benefit scheme liability outlined above, the Group was not liable for any supplementary pensions, post retirement health care, insurance benefits, or retirement indemnities to its current or former employees, as at December 31, 2008 and 2007.

27. TRADE AND OTHER PAYABLES

	Year ended 31/12/08	Year ended 31/12/07
	RUR'000	RUR'000
Trade payables	2,005,768	1,546,460
Payables to employees	121,197	165,406
Advances received	51,364	11,747
Accruals	31,495	43,910
Other payable	143,276	160,366
Total	**2,353,100**	**1,927,889**

28. 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 December 31, 2008 and 2007 were as follows:

	Purchases of services		Advances to related parties		Other receivables	
	Year ended 31/12/08	Year ended 31/12/07	Year ended 31/12/08	Year ended 31/12/07	Year ended 31/12/08	Year ended 31/12/07
	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000
LLC "Soyuzspezstroy"	232,005	89,678	769,023	22,344	25,836	-
Total	**232,005**	**89,678**	**769,023**	**22,344**	**25,836**	**-**

Compensation of key management personnel:

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

	Year ended 31/12/2008	Year ended 31/12/2007
	RUR'000	RUR'000
Short-term benefits	56,594	40,445
Total	**56,594**	**40,445**

29. CONTINGENCIES AND OPERATING ENVIRONMENT

Taxation contingencies

***Taxation contingencies in the Russian Federation* -** The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains

open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.
These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Taxation contingencies in Ukraine **-** The Group performs part of its operations in Ukraine and therefore within the jurisdiction of the Ukrainian tax authorities. The Ukrainian tax system can be characterized by numerous taxes and frequently changing legislation which may be applied retroactively, open to wide interpretation and in some cases are conflicting. Instances of inconsistent opinions between local, regional, and national tax authorities and between the Ministry of Finance and other state authorities are not unusual. Tax declarations are subject to review and investigation by a number of authorities that are enacted by law to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years, however under certain circumstances a tax year may remain open longer.
These facts create tax risks substantially more significant than typically found in countries with more developed systems. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

30. RISK MANAGEMENT POLICIES

Overview

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

The Group has exposure to the following risks from its use of financial instruments:

- market risk
- credit risk
- liquidity risk.

This note presents information about the Group’s exposure to each of the above risks, the Group’s objectives, policies and processes for measuring and managing risk, and the Group’s management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group’s risk management framework. The management of the Group is responsible for developing and monitoring the Group’s risk management policies. The Group’s risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group’s activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Capital risk management

The Group manages its capital to ensure that entities of the Group will be able to continue as a going concern while maximising the return to the equity holders through the optimisation of the debt and equity balance. The management of the Group reviews the capital structure on a regular basis. Based on the results of this review, the Group takes steps to manage its overall capital structure through the payment of dividends, as well as the issue of new debt or the redemption of existing debt.
There were no changes in the Group's approach to capital management during the year.

Market risks

Foreign currency risk

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

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

Currency	**Year ended 31/12/08**			**Year ended 31/12/07**		
	Financial assets	**Financial liabilities**	**Net position**	**Financial assets**	**Financial liabilities**	**Net position**
USD' 000	1,636	(32,915)	(31,279)	2,828	(19,033)	(16,205)
EUR' 000	17,692	(11,245)	6,447	13,506	(35,485)	(21,979)
CHF' 000	30,704	(4,268)	26,436	462	(2,179)	(1,717)
AUD' 000	63	-	63	1	-	1
GBR' 000	24	-	24	-	-	-
RUR' 000	**1,624,332**	**(1,549,911)**	**74,421**	**564,824**	**(1,789,753)**	**(1,224,929)**

The table below details the Group's sensitivity to weakening of the Russian Rouble against US Dollar, EURO, CHF and AUD by 30% (2007: by 10%). The analysis was applied to monetary items at the balance sheet dates denominated in respective currencies.

	Year ended 31/12/08	**Year ended 31/12/07**
	RUR'000	**RUR'000**
Profit/(loss)		
USD	(275,694)	19,889
EUR	80,148	39,488
CHF	217,176	1,871
AUD	384	1
GBR	312	-

A 30% strengthening of the RUR against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Interest rate risk

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

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments is disclosed in note 24.

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

	Interest rate float - impact	
	Year ended 31/12/08	**Year ended 31/12/07**
	RUR'000	**RUR'000**
Profit or loss	45,336	13,272

Credit risk

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

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

		Trade and other receivables				
	RUR' 000	**Less than 30 days**	**30 to 60 days**	**60 to 90 days**	**90 to 365 days**	**Over 1 year**
Trade and other receivables as of December 31,2008	2,825,929	1,944,371	493,923	211,396	17,331	158,908
Impairment as of December 31,2008	(148,967)	-	-	-	-	(148,967)
Trade and other receivables as of December 31,2007	1,885,056	1,470,220	203,979	40,211	6,217	164,429
Impairment as of December 31,2007	(142,114)	-	-	-	-	(142,114)

The movement in the allowance for impairment in respect of trade receivables during the year is presented in note 19.

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

Types of collateral	**Year ended December 31, 2008**	**Year ended December 31, 2007**
	RUR'000	**RUR'000**
Guarantees	136,790	140,765
Promissory notes	343,017	443,669
Other	329	296,261
Total	**480,136**	**880,695**

Liquidity risk

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

The summaries of maturity profile of the Group's financial liabilities as at December 31, 2008 and 2007 based on contractual payments are presented in the following table.

	Carrying amount	Contractual cash flows	0-1 mths	1-3 mths	3-12 mths	1-5 yrs
	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000
Non-derivative financial liabilities						
Borrowings	(3,747,059)	(4,124,596)	(372,540)	(700,659)	(2,408,069)	(643,328)
Obligations under finance lease	(4,745)	(4,978)	(232)	(493)	(3,333)	(920)
Trade and other payables	(2,353,100)	(2,353,100)	(993,993)	(1,359,107)	-	-
Total financial liabilities at 31 December 2008	(6,104,904)	(6,482,674)	(1,366,765)	(2,060,259)	(2,411,402)	(644,248)
Borrowings	(2,739,206)	(2,995,323)	(162,773)	(602,636)	(1,613,226)	(616,688)
Obligations under finance lease	(39,265)	(43,404)	(2,075)	(4,124)	(16,092)	(21,113)
Trade and other payables	(1,927,889)	(1,927,889)	(855,269)	(1,072,620)	-	-
Total financial liabilities at 31 December 2007	(4,706,360)	(4,966,616)	(1,020,117)	(1,679,380)	(1,629,318)	(637,801)

The Group plans to improve its short-term liquidity in a number of ways:

- the Company is currently negotiating a number of medium-term credit lines to optimise its debt structure, a USD 35 million 5 year loan with EBRD (European Bank for Reconstruction and Development) and similar smaller loans with other banks. The company expects to sign loan agreements and obtain financing in the near term. The financing will replace a significant part of the Company's short term loans;
- capital expenditure for 2009 has been reduced to a maintenance level;
- generated operating cash flow will be used to short term debt reduction;
- management expects to complete a sale of its German subsidiary assets in 2009 (refer note 22) and the proceeds will be also available to decrease short-term debt.

31. EVENTS SUBSEQUENT TO THE YEAR END

Subsequent to the reporting date Russian Rouble was devalued by approximately 12% against the US Dollar. Management of the Group has not completed its analysis of the effect on the Group's operations and financial position; however, the sensitivity analysis provided in note 30 shows the effects of reasonably possible changes in foreign exchange rates on the Group's financial assets and liabilities as at the reporting date.