

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

**Consolidated Financial Statements**  
First quarter Ended March 31, 2011

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

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# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE QUARTER ENDED MARCH 31, 2011

	Notes	Quarter ended 31/03/2011 RUB'000	Quarter ended 31/03/2010 RUB'000	Year ended 31/12/2010 RUB'000
Revenue		2,590,602	2,512,213	11,672,588
Cost of sales	6	<u>(1,218,604)</u>	<u>(1,190,074)</u>	<u>(5,457,162)</u>
Gross profit		1,371,998	1,322,139	6,215,426
Marketing and distribution expenses	7	(743,349)	(784,450)	(3,361,885)
Administrative expenses	8	(263,365)	(239,589)	(1,032,915)
Impairment losses on loans receivable		-	-	(190,000)
Inventory obsolescence expenses		(15,676)	(33,768)	(109,153)
Other operating income and expenses	9	<u>(69)</u>	<u>(477)</u>	<u>(12,763)</u>
Operating results before finance income and costs		349,539	263,855	1,508,710
Interest income		12,680	12,704	3,126
Interest expenses		(137,096)	(113,317)	(408,565)
Foreign exchange gain / (loss)		<u>(20,572)</u>	<u>17,124</u>	<u>207,934</u>
Profit before income tax		204,551	180,366	1,311,205
Income tax expense	10	<u>(35,479)</u>	<u>(29,887)</u>	<u>(340,165)</u>
Profit for the year from continuing operations		<u>169,072</u>	<u>150,479</u>	<u>971,040</u>
Gain /Loss for the year from discontinued operations	12	<u>70,519</u>	<u>(1,081)</u>	<u>4,307</u>
<b>Profit for the year</b>		<u>239,591</u>	<u>149,398</u>	<u>975,347</u>
Attributable to:				
Owners of the Company		239,591	149,398	974,060
Non-controlling interest		<u>-</u>	<u>-</u>	<u>1,287</u>
<b>Other comprehensive income</b>				
Foreign currency translation differences for foreign operations		29,347	(74,222)	(242,508)
Income tax on other comprehensive income		<u>-</u>	<u>-</u>	<u>-</u>
<b>Total comprehensive income for the year</b>		<b>268,938</b>	<b>75,176</b>	<b>732,839</b>
Attributable to:				
Shareholders of the Company		268,938	72,186	727,090
Non-controlling interest		<u>-</u>	<u>2,990</u>	<u>5,749</u>
<b>Earnings per share</b>				
Basic and diluted (rubles per share)	11	<u>39</u>	<u>18</u>	<u>133</u>

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

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT QUARTER ENDED MARCH 31, 2011

	Notes	Quarter ended 31/03/2011 <u>RUB'000</u>	Year ended 31/12/2010 <u>RUB'000</u>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment, net	13	1,785,494	2,090,978
Other intangible assets	14	159,527	163,877
Long-term investments		24,554	24,554
Deffered tax assets	10	<u>275,675</u>	<u>240,341</u>
<b>Total non-current assets</b>		<b><u>2,245,250</u></b>	<b><u>2,519,750</u></b>
<b>Current assets</b>			
Inventories	15	1,572,338	1,518,942
Trade and other receivables	16	2,163,936	2,937,638
Advances paid to suppliers and prepaid expenses		235,927	344,730
Loans receivable		374,199	342,376
Taxes recoverable	17	367,433	287,980
Cash and bank balances	18	814,395	758,678
Assets classified as held for sale	19	<u>291,345</u>	<u>2,284,648</u>
<b>Total current assets</b>		<b><u>5,819,573</u></b>	<b><u>8,474,992</u></b>
<b>TOTAL ASSETS</b>		<b><u>8,064,823</u></b>	<b><u>10,994,742</u></b>

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED) AS AT QUARTER ENDED MARCH 31, 2011

	Notes	Quarter ended 31/03/2011 RUB'000	Year ended 31/12/2010 RUB'000
<b>EQUITY AND LIABILITIES</b>			
<b>Share capital and reserves</b>			
Share capital		619,866	851,843
Share premium		-	679,336
Reserve for own shares		(296,734)	(1,664,072)
Translation reserve		88,172	(275,430)
Retained earnings		2,498,842	3,718,975
Equity attributable to Shareholders of the Company		2,910,146	3,310,652
Non-controlling interest		-	13,512
<b>Total equity</b>		<b>2,910,146</b>	<b>3,324,164</b>
<b>Non-current liabilities</b>			
Borrowings	20	2,695,751	2,958,782
Deffered tax liabilities	10	124,947	137,506
<b>Total non-current liabilities</b>		<b>2,820,698</b>	<b>3,096,288</b>
<b>Current liabilities</b>			
Trade and other payables	21	1,437,599	1,702,818
Borrowings	20	797,120	1,498,960
Taxes payable	17	99,260	155,606
Liabilities classified as held for sale	19	-	1,216,906
<b>Total current liabilities</b>		<b>2,333,979</b>	<b>4,574,290</b>
<b>Total liabilities</b>		<b>5,154,677</b>	<b>7,670,578</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>8,064,823</b>	<b>10,994,742</b>

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

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE QUARTER ENDED MARCH 31, 2011

RUB'000	Attributable to shareholders of the Company					Total	Non-controlling interest	Total equity
	Share capital	Share premium	Reserve for own shares	Translation reserve	Retained earnings			
Balance at January 1, 2010	851,843	679,439	(723,086)	(28,460)	2,947,767	3,727,503	27,395	3,754,898
<b>Total comprehensive income for the year</b>								
Profit for the year	-	-	-	-	974,060	974,060	1,287	975,347
<b>Other comprehensive income</b>								
Foreign currency translation differences	-	-	-	(246,970)	-	(246,970)	4,462	(242,508)
<b>Total other comprehensive income</b>	-	-	-	(246,970)	-	(246,970)	4,462	(242,508)
<b>Total comprehensive income for the year</b>	-	-	-	(246,970)	974,060	727,090	5,749	732,839
<b>Transactions with owners, recorded directly in equity</b>								
<b>Contributions by and distributions to shareholders</b>								
Dividends to equity holders	-	-	-	-	(179,678)	(179,678)	-	(179,678)
Own shares acquired	-	-	(942,897)	-	-	(942,897)	-	(942,897)
Own shares sold	-	(103)	1,911	-	-	1,808	-	1,808
Total contributions by and distributions to shareholders	-	(103)	(940,986)	-	(179,678)	(1,120,767)	-	(1,120,767)
<b>Changes in ownership interests in subsidiaries that do not result in a loss of control</b>								
Acquisition of non-controlling interest	-	-	-	-	(23,174)	(23,174)	(19,632)	(42,806)
Total transactions with shareholders	-	(103)	(940,986)	-	(202,852)	(1,143,941)	(19,632)	(1,163,573)
<b>Balance at December 31, 2010</b>	<b>851,843</b>	<b>679,336</b>	<b>(1,664,072)</b>	<b>(275,430)</b>	<b>3,718,975</b>	<b>3,310,652</b>	<b>13,512</b>	<b>3,324,164</b>

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 31.

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

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE QUARTER ENDED MARCH 31, 2011

RUB'000	Attributable to owners of the Company					Non-controlling interest	Total equity	
	Share capital	Share premium	Reserve for own shares	Translation reserve	Retained earnings			Total
Balance at 1 January 2011	851,843	679,336	(1,664,072)	(275,430)	3,718,975	3,310,652	13,512	3,324,164
<b>Comprehensive income for the year</b>								
Profit for the year from continuing operations	-	-	-	-	169,072	169,072	-	169,072
Gain for the year from discontinued operations	-	-	-	-	70,519	70,519	-	70,519
<b>Other comprehensive income</b>								
Foreign currency translation differences	-	-	-	29,347	-	29,347	-	29,347
Foreign currency translation reserve related to disposed subsidiary	-	-	-	334,255	-	334,255	-	334,255
<b>Total other comprehensive income</b>	-	-	-	363,602	-	363,602	-	363,602
<b>Total comprehensive income for the year</b>	-	-	-	363,602	239,591	603,193	-	603,193
<b>Transactions with owners, recorded directly in equity</b>								
<b>Contributions by and distributions to owners</b>								
Own shares acquired	(231,977)	(780,514)	(696,230)	-	(1,459,724)	(3,168,445)	-	(3,168,445)
Own shares sold	-	101,178	2,063,568	-	-	2,164,746	-	2,164,746
Total contributions by and distributions to owners	(231,977)	(679,336)	1,367,338	-	(1,459,724)	(1,003,699)	-	(1,003,699)
<b>Changes in ownership interests in subsidiaries that do not result in a loss of control</b>								
Disposal of subsidiary	-	-	-	-	-	-	(13,512)	(13,512)
Total transactions with owners	(231,977)	(679,336)	1,367,338	-	(1,459,724)	(1,003,699)	(13,512)	(1,017,211)
<b>Balance at March 31, 2011</b>	<b>619,866</b>	<b>-</b>	<b>(296,734)</b>	<b>88,172</b>	<b>2,498,842</b>	<b>2,910,146</b>	<b>-</b>	<b>2,910,146</b>

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 31.

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR QUARTER ENDED MARCH 31, 2011

	Notes	Quarter ended 31/03/2011 RUB'000	Quarter ended 31/03/2010 RUB'000
<b>Cash flows from operating activities</b>			
Profit for the year before tax including profit from discontinued operations		275,072	179,285
Net finance cost		124,416	100,613
Unrealized foreign currency exchange gain		(17,480)	19,517
(Gain)/loss on disposal of discontinued operation		(70,519)	1,081
Loss on disposal of property, plant and equipment		1,188	(780)
Depreciation and amortization of non-current assets		41,823	86,231
		<u>354,500</u>	<u>385,947</u>
Operating cash flow before movements in working capital		354,500	385,947
Movements in working capital			
Increase in trade and other receivables		850,682	1,006,200
Decrease/(increase) in inventories		(53,395)	612,150
Decrease/(increase) in taxes receivable		(79,453)	51,143
Decrease in trade accounts payables		(555,047)	(1,723,584)
Decrease in retirement benefits obligation		-	(12,502)
Decrease in taxes payable		(56,346)	(169,414)
		<u>460,941</u>	<u>149,940</u>
Cash generated from operations		460,941	149,940
Interest paid		(85,390)	(112,492)
Income taxes paid		(151,858)	(104,143)
		<u>223,693</u>	<u>(66,695)</u>
Net cash generated by/(used in) operating activities		223,693	(66,695)
<b>Cash flows from investing activities</b>			
Payment for additional shares in Dr. Scheller		-	(83,095)
Proceeds from disposal of investments		1,519,993	-
Payments for property plant and equipment		(33,585)	(56,510)
Proceeds from disposal of property, plant and equipment		2,030	966
<b>Net cash used in investing activities</b>		<u>1,488,438</u>	<u>(138,639)</u>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		574,263	1,933,086
Repayment of borrowings		(1,534,447)	(2,123,629)
Repayment of capital lease obligations		-	(1,271)
Purchase of own shares		(696,230)	-
		<u>(1,656,414)</u>	<u>(191,814)</u>
Net cash (used in) / generated by financing activities		(1,656,414)	(191,814)
Net increase in cash and cash equivalents		55,717	(397,148)
<b>Cash and cash equivalents at the beginning of the financial year</b>		<u>758,678</u>	<u>555,444</u>
<b>Cash and cash equivalents at the end of the financial year</b>	18	<u><u>814,395</u></u>	<u><u>158,296</u></u>



# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2011

### 1. BACKGROUND

#### Business environment

**Russian business environment** – The Group’s operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The consolidated financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

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

#### Organisation and operations

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

Operating subsidiary	Share of ownership		Place of incorporation	Principal Activity
	31/03/2011	31/12/2010		
LLC Pallada Ukraina	100%	100%	Ukraine	Trading
Kalina Overseas Holding B.V.	100%	100%	Netherlands	Trading
Kalina International	100%	100%	Switzerland	Management
Dr. Scheller Cosmetics AG	-	100%	Germany	Trading
Dr. Scheller DuroDont GmbH	-	100%	Germany	Trading
Lady Manhattan Cosmetics GmbH	-	100%	Germany	Trading
Apotheker Scheller Naturmittel GmbH	-	100%	Germany	Brand
DSN Cosmetics GmbH	100%	-	Germany	Trading
Lady Manhattan Cosmetics GmbH	-	100%	Austria	Trading/Brand
Dr. Scheller Cosmetics Polska Sp. Z.o.o.	-	100%	Poland	Trading
Lady Manhattan Ltd.	-	100%	UK	Brand
LLC Kalina Finance				Finance
	100%	100%	Russia	activity
LLC Glavskazka International	100%	100%	Russia	Trading
				Retail
				cosmetic
LLC Dr. Scheller Beauty Center	100%	100%	Russia	services

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2011

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

The shareholders of OJSC Concern “Kalina” as of March 31, 2011 is as follows:

Shareholders as nominees	31/03/2011		31/12/2010	
	Number of shares	Ownership interest	Number of shares	Ownership interest
Prego Holdings Limited	2,923,742	48.02%	-	-
Renaissance Securities (Cyprus) Limited	778,117	12.78%	821,580	11.22%
Deutsche Bank Trust Company Americas	632,859	10.40%	1,937,567	26.46%
UniCredit Bank Austria AG	-	-	1,045,799	14.28%
UniCredit Securities International LTD	-	-	849,937	11.61%
HSBC Bank PLC	-	-	690,000	9.42%
Other owners	1,753,535	28.80%	1,977,045	27.01%
<b>Total</b>	<b>6,088,253</b>	<b>100%</b>	<b>7,321,928</b>	<b>100%</b>

## 2. BASIS OF PREPARATION

### *Statement of compliance*

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

### *Basis of measurement*

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

### *Functional and presentation currency*

The national currency of the Russian Federation is the Russian Ruble (“RUB”), which is the Company’s functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in RUB 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:

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2011

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

### 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

Certain comparative amounts have been reclassified to conform with the current year’s presentation (see note 12).

***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.

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance

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

#### ***Business combinations***

##### *Acquisitions on or after 1 January 2008*

For acquisitions on or after 1 January 2008, the Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The Group elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognised amount of the identifiable net assets, at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

In respect of acquisitions prior to 1 January 2008, the Group measures goodwill as the difference between the Company’s interest in a subsidiary’s net identifiable assets on the date of transition and the cost of that interest.

***Additional equity interests in subsidiaries*** – Acquisitions of additional equity interest in entities that are already controlled are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognized as a result of such transactions.

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2011

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**Goodwill** – Goodwill arising on the acquisition of a subsidiary 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 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 (‘RUB’), which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

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

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

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

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

**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 and, for qualifying assets, borrowing costs capitalized in accordance with the Group’s accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2011

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

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

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

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

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

<b>Description</b>	<b>Useful Life (years)</b>
Buildings	50
Machinery and equipment	10-15
Fixtures and fittings	3-5

**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 and 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.

**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.

**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

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2011

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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 16, intangible assets include trademarks with indefinite useful life. The Group determined that the trademarks have an indefinite useful life based on the expected period of usage and the control, legal and other possible limits on the use of these intangible assets. 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 reporting 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

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2011

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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.

***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.

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2011

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*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 share premium.

**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 costs** - 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 statement of comprehensive income, using the effective interest method. Dividend income is recognised in the statement of comprehensive income on the date that the Group’s right to receive payment is established.

Finance costs 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 statement of comprehensive income using the effective interest method, unless they qualify for capitalization.



# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2011

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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 statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

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

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

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

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

*Current and deferred tax for the period* – Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognized directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer’s interest in the net fair value of the acquiree’s identifiable assets, liabilities and contingent liabilities over cost.

**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.

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2011

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**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, including revenues and expenses that relate to transactions with any of the Group’s other components. All operating segments’ operating results are reviewed regularly by the Group’s CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available (see note 5).

**Discontinued operations** – A discontinued operation is a component of the Group’s business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.

Inter-segment pricing is determined on an arm’s length basis.

### ***New Standards and Interpretations not yet adopted***

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at December 31, 2010, 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.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during the first half of 2011. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group’s consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.
- 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 purposes, will come into effect not earlier than 1 January 2011. 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

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

### NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2011

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items. When no quoted market prices are available, the fair value of property, plant and equipment is primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

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

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

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

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

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

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2011

### 5. OPERATING SEGMENTS

The Group has three primary reportable segment, which is manufacturing and sale of cosmetics, oral care and household products. The Group evaluates performance, makes investment and strategic decisions based upon a review of profitability of each segment. Sales are based on the geographical area in which the customer is located.

Production assets and the majority of assets and liabilities of the Group are located in the Russian Federation.

Performance results of the reportable segments are monitored on the gross profit level. Information with respect to assets, liabilities, other components of profit or loss of the operating segments are not provided to the chief operating decision maker.

	External sales		Gross profit	
	Quarter ended	Quarter ended	Quarter ended	Quarter ended
	31/03/2011	31/03/2010	31/03/2011	31/03/2010
	RUB‘000	RUB‘000	RUB‘000	RUB‘000
Cosmetics	2,000,685	1,998,597	1,061,202	1,032,352
Oral care	366,962	248,363	223,596	172,399
Soap and household chemical goods	128,038	189,843	37,447	81,630
Other	94,917	75,410	49,753	35,758
	<b>2,590,602</b>	<b>2,512,213</b>	<b>1,371,998</b>	<b>1,322,139</b>

### 6. COST OF SALES

	Quarter ended	Quarter ended
	31/03/2011	31/03/2010
	RUB‘000	RUB‘000
Raw materials	1,108,124	1,088,566
Salary and related taxes	63,918	59,286
Depreciation	17,043	12,197
Repair	13,951	13,246
Repacking and remarking	5,234	5,920
Utilities	6,209	5,564
Other	4,125	5,295
	<b>1,218,604</b>	<b>1,190,074</b>

# OPEN JOINT STOCK COMPANY CONCERN "KALINA" AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2011

### 7. MARKETING AND DISTRIBUTION EXPENSES

	<b>Quarter ended 31/03/2011</b>	<b>Quarter ended 31/03/2010</b>
	<b>RUB'000</b>	<b>RUB'000</b>
Advertising expenses	458,533	452,399
Salary and related taxes	105,610	92,144
Transportation expenses	105,600	93,830
Warehouse expenses	27,205	27,790
Consulting expenses	19,674	21,001
Provision for bad debts	11,873	34,731
Depreciation and amortization	6,729	54,643
Expertise and certification	6,570	3,830
Other	1,555	4,082
<b>Total</b>	<b>743,349</b>	<b>784,450</b>

### 8. ADMINISTRATIVE EXPENSES

	<b>Quarter ended 31/03/2011</b>	<b>Quarter ended 31/03/2010</b>
	<b>RUB'000</b>	<b>RUB'000</b>
Salaries and related taxes	163,947	154,478
Consulting expenses	30,724	19,424
Depreciation and amortization	18,051	19,391
Municipal & economic charges, communication	16,676	10,130
Taxes, other than income tax	10,602	11,634
Business trips	6,279	5,913
Repair and maintenance	3,227	6,733
Fines and penalties payable	1,695	1,044
Other	12,164	10,842
<b>Total</b>	<b>263,365</b>	<b>239,589</b>

### 9. OTHER INCOME AND EXPENSES

	<b>Quarter ended 31/03/2011</b>	<b>Quarter ended 31/03/2010</b>
	<b>RUB'000</b>	<b>RUB'000</b>
<i>Other expenses</i>		
Other expenses	69	477
	<b>69</b>	<b>477</b>

# OPEN JOINT STOCK COMPANY CONCERN "KALINA" AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2011

### 10. INCOME TAX EXPENSE

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

	Quarter ended 31/03/2011 RUB'000	Quarter ended 31/03/2010 RUB'000
Current tax expense	83,727	113,371
Deferred tax expense	(48,248)	(83,484)
<b>Total tax expense</b>	<b>35,479</b>	<b>29,887</b>

#### *Reconciliation of effective tax rate:*

	Quarter ended 31/03/2011		Year ended 31/12/2010	
	RUB'000	RUB'000	RUB'000	RUB'000
Profit before income tax	204,551	100	1,311,205	100
Income tax expense at the applicable tax rate	(40,910)	(20)	(262,241)	(20)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(3,704)	(2)	(14,680)	(1)
Non-deductible expenses/utilization tax loss	9,135	5	(46,121)	(4)
Current year losses for which no deferred tax asset was recognized	-	-	(17,123)	(1)
	<b>(35,479)</b>	<b>(17)</b>	<b>(340,165)</b>	<b>(26)</b>

#### *Deferred assets and liabilities*

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	Quarter ended 31/03/2011 RUB'000	Year ended 31/12/2010 RUB'000	Quarter ended 31/03/2011 RUB'000	Year ended 31/12/2010 RUB'000	Quarter ended 31/03/2011 RUB'000	Year ended 31/12/2010 RUB'000
Property, plant and equipment	14,447	7,747	(92,814)	(100,897)	(78,367)	(93,150)
Inventory	16,810	23,492	(8,335)	(30,387)	8,475	(6,895)
Trade and other receivables	77,679	70,176	-	-	77,679	70,176
Advances paid and prepaid expenses	66,350	68,781	(994)	(5,962)	65,356	62,819
Intangible assets	7,555	7,201	(22,226)	(22,226)	(14,671)	(15,025)
Investments	41,794	41,794	-	-	41,794	41,794
Trade and other payables	51,040	44,690	(578)	(1,574)	50,462	43,116
<b>Total</b>	<b>275,675</b>	<b>263,881</b>	<b>(124,947)</b>	<b>(161,046)</b>	<b>150,728</b>	<b>102,835</b>
Set off of tax	-	(23,540)	-	23,540	-	-
<b>Total</b>	<b>275,675</b>	<b>240,341</b>	<b>(124,947)</b>	<b>(137,506)</b>	<b>150,728</b>	<b>102,835</b>

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2011

### *Movement in temporary differences during the year*

	January 1, 2011	Recognized in income	Translation difference	March 31, 2011
Property, plant and equipment	(93,150)	14,783	-	(78,367)
Inventory	(6,895)	15,370	-	8,475
Trade and other receivables	70,176	7,503	-	77,679
Advances paid and prepaid expenses	62,819	2,537	-	65,356
Intangible assets	(15,025)	354	-	(14,671)
Investments	41,794	-	-	41,794
Trade and other payables	43,116	7,346	-	50,462
	<b>102,835</b>	<b>47,893</b>	<b>-</b>	<b>150,728</b>

## 11. EARNINGS PER SHARE

	Quarter ended 31/03/2011 RUB'000	Quarter ended 31/03/2010 RUB'000
Profit for the year	<b>239,591</b>	<b>149,398</b>

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

	Quarter ended 31/03/2011 RUB'000	Quarter ended 31/03/2010 RUB'000
Profit for the year attributable to Shareholders of the Company	<b>239,591</b>	<b>149,398</b>

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

	Quarter ended 31/03/2011	Quarter ended 31/03/2010
Weighted average number of shares	<b>6,088,253</b>	<b>8,430,528</b>

# OPEN JOINT STOCK COMPANY CONCERN "KALINA" AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2011

### 12. DISCONTINUED OPERATIONS

	Quarter ended 31/03/2011 RUB'000	Quarter ended 31/03/2010 RUB'000
<b>Results of discontinued operation</b>		
Revenue	-	799,628
Expenses	-	(797,408)
<b>Results from operating activities</b>	-	<b>2,220</b>
Income tax expense	-	(4,085)
<b>Results from operating activities, net of income tax</b>	-	<b>(1,865)</b>
Non-controlling interest	-	784
<b>Profit for the year</b>	-	<b>(1,081)</b>
<b>Basic earnings per share (RUB)</b>	-	<b>(1.28)</b>

### Effect of disposal on the financial position of the Group

	Quarter ended 31/03/2011 RUB'000
Property, plant and equipment	282,435
Goodwill	485,048
Intangible assets	563,843
Deferred tax assets	36,461
Inventories	460,120
Trade and other receivables	334,240
Taxes recoverable	4,074
Cash and bank balances	31,016
<b>Total assets related to discontinued operations and classified as held for sale</b>	<b>2,197,237</b>
Long-term obligations under finance lease	(726)
Retirement benefits liabilities	(140,722)
Deferred tax liabilities	(190,469)
Trade and other payables	(793,512)
Short-term borrowings	(75,665)
Taxes payables	(15,812)
<b>Total liabilities related to discontinued operations and classified as held for sale</b>	<b>(1,216,906)</b>
Net assets and liabilities	<b>980,331</b>
Foreign currency translation differences	334,255
Minority interest	(13,512)
<b>Total net assets and liabilities</b>	<b>1,301,074</b>
Selling price	1,551,009
Liabilities for property, plant and equipment	(80,666)
Fees	(32,975)
Provision	(102,236)
Purchase price adjustment	36,461
Gain for the year from discounted operations	<b>70,519</b>
Consideration received in cash and cash equivalents	1,551,009
Cash and cash equivalents disposed of	(31,016)
<b>Net cash inflow</b>	<b>1,519,993</b>



# OPEN JOINT STOCK COMPANY CONCERN "KALINA" AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2011

### 13. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress	Land	Buildings	Machinery & Equipment	Fixtures & Fittings	Total
	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000
<i>Cost</i>						
<b>Balance at December 31, 2009</b>	11,953	20,165	1,742,240	2,039,576	386,465	4,200,399
Additions	1,631	3,428	31,861	516,420	9,214	562,554
Transfers	(918)	-	-	918	-	-
Transfer to assets held for sale	-	-	-	(526,771)	(2,783)	(529,554)
Disposals	-	-	(46,755)	(448,571)	(45,112)	(540,438)
Net foreign currency exchange differences	3	-	(39,296)	(44,683)	1,348	(82,628)
<b>Balance at December 31, 2010</b>	<b>12,669</b>	<b>23,593</b>	<b>1,688,050</b>	<b>1,536,889</b>	<b>349,132</b>	<b>3,610,333</b>
Additions	6,905	-	-	-	9,027	15,932
Transfer to assets held for sale	-	-	(645,500)	-	(74,359)	(719,859)
Disposals	-	-	(457)	(158)	(3,318)	(3,933)
Net foreign currency exchange differences	-	-	(1,042)	-	-	(1,042)
<b>Balance at March 31, 2011</b>	<b>19,574</b>	<b>23,593</b>	<b>1,041,051</b>	<b>1,536,731</b>	<b>280,482</b>	<b>2,901,431</b>
<i>Accumulated depreciation and impairment loss</i>						
<b>Balance at December 31, 2009</b>	-	-	519,522	1,265,209	193,082	1,977,813
Charge for the year	-	-	79,751	173,827	113,534	367,112
Transfer to assets held for sale	-	-	-	(247,119)	-	(247,119)
Disposals	-	-	(40,149)	(432,814)	(26,109)	(499,072)
Net foreign currency exchange differences	-	-	(21,659)	(55,775)	(1,945)	(79,379)
<b>Balance at December 31, 2010</b>	<b>-</b>	<b>-</b>	<b>537,465</b>	<b>703,328</b>	<b>278,562</b>	<b>1,519,355</b>
Charge for the year	-	-	10,257	18,604	8,612	37,473
Transfer to assets held for sale	-	-	(371,894)	-	(66,035)	(437,929)
Disposals	-	-	(88)	(104)	(2,770)	(2,962)
<b>Balance at March 31, 2011</b>	<b>-</b>	<b>-</b>	<b>175,740</b>	<b>721,828</b>	<b>218,369</b>	<b>1,115,937</b>
<i>Carrying amount</i>						
As at December 31, 2010	<b>12,669</b>	<b>23,593</b>	<b>1,150,585</b>	<b>833,561</b>	<b>70,570</b>	<b>2,090,978</b>
As at March 31, 2011	<b>19,574</b>	<b>23,593</b>	<b>865,311</b>	<b>814,903</b>	<b>62,113</b>	<b>1,785,494</b>

# OPEN JOINT STOCK COMPANY CONCERN "KALINA" AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2011

### 14. OTHER INTANGIBLE ASSETS

	<b>Trademarks and other intangible assets</b>	<b>Licensed software</b>	<b>Total</b>
	<b>RUB'000</b>	<b>RUB'000</b>	<b>RUB'000</b>
<i>Cost</i>			
<b>Balance at December 31, 2009</b>	668,155	180,315	848,470
Additions	2,015	4,283	6,298
Disposals	(2,297)	-	(2,297)
Reclass between Licenses and Trademarks	14,870	(14,870)	-
Transfer to assets held for sale	(590,477)	-	(590,477)
Net foreign currency exchange differences	(46,882)	-	(46,882)
<b>Balance at December 31, 2010</b>	<b>45,384</b>	<b>169,728</b>	<b>215,112</b>
Additions	-	-	-
Disposals	-	-	-
<b>Balance at March 31, 2011</b>	<b>45,384</b>	<b>169,728</b>	<b>215,112</b>
<i>Accumulated amortization</i>			
<b>Balance at December 31, 2009</b>	20,132	23,190	43,322
Charge for the year	1,854	28,045	29,899
Disposals	(2,296)	-	(2,296)
Reclass between Licenses and Trademarks	3,677	(3,677)	-
Transfer to assets held for sale	(26,634)	-	(26,634)
Net foreign currency exchange differences	6,944	-	6,944
<b>Balance at December 31, 2010</b>	<b>3,677</b>	<b>47,558</b>	<b>51,235</b>
Charge for the year	291	4,059	4,350
Disposals	-	-	-
<b>Balance at March 31, 2011</b>	<b>3,968</b>	<b>51,617</b>	<b>55,585</b>
<i>Carrying amount</i>			
<b>As at December 31, 2010</b>	<b>41,707</b>	<b>122,170</b>	<b>163,877</b>
<b>As at March 31, 2011</b>	<b>41,416</b>	<b>118,111</b>	<b>159,527</b>

# OPEN JOINT STOCK COMPANY CONCERN "KALINA" AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2011

### 15. INVENTORIES

Inventories consisted of the following at March 31, 2011 and December 31, 2010:

	<b>Quarter ended 31/03/2011 RUB'000</b>	<b>Year ended 31/12/2010 RUB'000</b>
Finished goods	888,059	844,835
Raw materials	682,553	689,613
Work in progress	18,827	15,787
Allowance for obsolescence	(17,101)	(31,293)
<b>Total</b>	<b>1,572,338</b>	<b>1,518,942</b>

Movement in the obsolescence provision is as follows:

	<b>Quarter ended 31/03/2011 RUB'000</b>	<b>Year ended 31/12/2010 RUB'000</b>
<b>Balance at the beginning of the year</b>	31,293	202,090
Impairment losses recognized on inventory	15,676	109,153
Amounts written off	(29,868)	(279,950)
	<b>17,101</b>	<b>31,293</b>

### 16. TRADE AND OTHER RECEIVABLES

Trade and other receivables

	<b>Quarter ended 31/03/2011 RUB'000</b>	<b>Year ended 31/12/2010 RUB'000</b>
Trade receivables	2,084,287	2,820,727
Other receivables	201,760	235,742
Allowance for doubtful debts	(122,111)	(118,831)
<b>Total</b>	<b>2,163,936</b>	<b>2,937,638</b>

### 17. TAXES RECOVERABLE AND PAYABLE

Taxes recoverable:

	<b>Quarter ended 31/03/2011 RUB'000</b>	<b>Year ended 31/12/2010 RUB'000</b>
Input VAT	265,496	259,727
Income taxes	78,047	-
Excise	11,847	12,072
Other taxes	12,043	16,181
<b>Total</b>	<b>367,433</b>	<b>287,980</b>

# OPEN JOINT STOCK COMPANY CONCERN "KALINA" AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2011

Taxes payable:

	<b>Quarter ended 31/03/2011</b>	<b>Year ended 31/12/2010</b>
	<b>RUB'000</b>	<b>RUB'000</b>
VAT	50,900	106,762
Social charges tax	20,910	13,125
Property tax	15,479	7,294
Income taxes	9,784	23,479
Other taxes	2,187	4,946
<b>Total</b>	<b>99,260</b>	<b>155,606</b>

### 18. CASH AND BANK BALANCES

Cash consisted of the following at March 31, 2011 and December 31, 2010

	<b>Quarter ended 31/03/2011</b>	<b>Year ended 31/12/2010</b>
	<b>RUR'000</b>	<b>RUR'000</b>
Cash in bank - EUR accounts	38,725	2,184
Cash in bank - RUB accounts	31,882	20,159
Cash in bank - USD accounts	7,313	2,984
Cash in bank - UAH accounts	9,381	5,267
Cash on hand	728	693
Cash in bank - CHF accounts	244	191
Deposit - USD accounts	496,402	727,200
Deposit - RUB accounts	229,720	-
<b>Total</b>	<b>814,395</b>	<b>758,678</b>

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

	<b>Quarter ended 31/03/2011</b>	<b>Year ended 31/12/2010</b>
	<b>RUB'000</b>	<b>RUB'000</b>
<i>Assets classified as held for sale</i>		
At the beginning of the year	2,284,648	93,616
Assets reclassified to assets held for sale	281,930	2,197,237
Impairment	(80,560)	-
Disposal	(2,197,237)	(5,768)
Transaction costs	2,564	(437)
Balance at end of year	<b>291,345</b>	<b>2,284,648</b>

# OPEN JOINT STOCK COMPANY CONCERN "KALINA" AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2011

	<b>Quarter ended 31/03/2011 RUB'000</b>	<b>Year ended 31/12/2010 RUB'000</b>
<i>Liabilities classified as held for sale</i>		
At the beginning of the year	1,216,906	6,205
Liabilities of Dr. Scheller Cosmetics AG reclassified to assets held for sale	-	1,216,906
Disposal	(1,216,906)	(5,768)
Transaction costs	-	(437)
Balance at end of year	<b>-</b>	<b>1,216,906</b>

## 20. BORROWINGS

	<b>Quarter ended 31/03/2011 RUB'000</b>	<b>Year ended 31/12/2010 RUB'000</b>
<i>Non-current liabilities</i>		
Secured bank loans	2,695,751	2,958,782
Unsecured bank loans	-	-
	<b>2,695,751</b>	<b>2,958,782</b>
<i>Current liabilities</i>		
Secured bank loans	795,752	534,792
Unsecured bank loans	1,368	964,168
	<b>797,120</b>	<b>1,498,960</b>

				<b>Carrying amount</b>	
				<b>Quarter ended 31/03/2011 RUB'000</b>	<b>Year ended 31/12/2010 RUB'000</b>
<b>Currency</b>	<b>Nominal interest rate</b>	<b>Year of maturity</b>			
Secured bank loan	RUB	MOS PRIME 1m + 3.5%-3.92%	2011 - 2013	1,682,913	1,682,440
	RUB	MOS PRIME 3m + 4.5%	2011 - 2015	906,497	908,988
	RUB	Internal base rate + 5.5%	2011 - 2013	902,093	902,146
				<b>3,491,503</b>	<b>3,493,574</b>
Unsecured bank facility	RUB	Internal base rate + 5.5%	2011	1,307	4,017
		MOS PRIME 1m + 2.25% - 3%	2011	61	900,151
		5% - 7.15%	2011	-	60,000
				<b>1,368</b>	<b>964,168</b>

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2011

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### 21. TRADE AND OTHER PAYABLES

	<b>Quarter ended 31/03/2011 RUB'000</b>	<b>Year ended 31/12/2010 RUB'000</b>
Trade payables	998,161	1,533,125
Payables to employees	99,749	120,321
Accruals	40,308	4,148
Other payable	299,381	45,224
<b>Total</b>	<b>1,437,599</b>	<b>1,702,818</b>

### 22. RELATED PARTY TRANSACTIONS

The Group has one party related by means of significant influence exercised by key management personnel – LLC “Soyuzspezstroy”.

<b>'000 RUB</b>	<b>Transaction value March 31, 2011</b>	<b>Outstanding balance March 31, 2011</b>
Purchase of property, plant and equipment:		
Other related party	-	-
Loans receivable:		
Other related party	31,823	564,199
Impairment loss on loans receivable:		
Other related party	-	(190,000)
Other related party	-	103,758
Bad debt provision accrued:		
Other related party	-	(103,758)

# OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2011

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### 23. 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.

### 24. EVENTS SUBSEQUENT TO THE YEAR END

On May 17, 2011 The General Meeting of Shareholders took the decision to pay dividends for the second half of 2010 in amount of 38 rubles 83 kopecks per ordinary share in cash within 30 days after announcement at the meeting.

The Company completed charter capital decrease for 3,313,963 ordinary shares. The Company's charter capital after redemption comprises 6,438,348 ordinary shares.

On May 17, 2011 The General Meeting of Shareholders elected a new Board of Directors OJSC Concern «KALINA».