Open Joint Stock Company Concern “Kalina” and subsidiaries

Consolidated Financial Statements
Year Ended December 31, 2009

OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

CONTENTS

OPEN JOINT STOCK COMPANY CONCERN "KALINA" AND SUBSIDIARIES

STATEMENT OF MANAGEMENT'S RESPONSOBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

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, 2009 were approved on March 22, 2010 by:

On behalf of the Management Board:

Alexander Petrov	**Oleg Lunin**
Chief Executive Officer	Chief Financial Officer

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Independent Auditors' Report

To the Board of Directors of OJSC Concern "Kalina"

We have audited the accompanying consolidated financial statements of OJSC Concern "Kalina" (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2009 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated 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 consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 2009, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO KPMG

ZAO KPMG
22 March 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2009

	Notes	Year ended 31/12/2009 RUR’000	Year ended 31/12/2008 RUR’000
Revenue		14,487,134	12,028,752
Cost of sales	7	(7,917,621)	(6,088,457)
Gross profit		6,569,513	5,940,295
Marketing and distribution expenses	8	(3,785,739)	(3,791,566)
Administrative expenses	9	(1,299,609)	(1,152,753)
Inventory obsolescence expenses	17	(226,296)	(41,043)
Other operating income and expenses	10	(33,707)	13,471
Operating results before impairment loss related to disposal group		1,224,162	968,404
Impairment loss related to disposal group		-	(196,724)
Operating results before finance income and costs		1,224,162	771,680
Interest income		109,119	41,201
Interest expenses		(589,840)	(391,728)
Foreign exchange loss		(120,514)	(74,243)
Profit before income tax		622,927	346,910
Income tax expense	11	(208,204)	(115,777)
Profit for the year		414,723	231,133
Attributable to:			
Owners of the Company		412,859	230,925
Non-controlling interest		1,864	208
Other comprehensive income			
Foreign currency translation differences for foreign operations		16,553	(43,745)
Income tax on other comprehensive income		-	-
Total comprehensive income for the year		431,276	187,388
Attributable to:			
Owners of the Company		423,813	184,178
Non-controlling interest		7,463	3,210
Earnings per share			
Basic and diluted (rubles per share)	12	46	24

The consolidated statement of comprehensive income 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 STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2009

	Notes	Year ended 31/12/2009 RUR’000	Year ended 31/12/2008 RUR’000
ASSETS			
Non-current assets			
Property, plant and equipment	13	2,222,586	2,404,144
Loans issued for property, plant and equipment	13	562,979	792,895
Investment property	14	-	57,663
Goodwill	15	521,790	498,373
Other intangible assets	16	805,148	694,844
Long-term investments		24,554	23,993
Deferred tax assets	11	186,043	223,734
Total non-current assets		**4,323,100**	**4,695,646**
Current assets			
Inventories	17	2,280,467	2,181,771
Trade and other receivables	18	2,720,404	2,676,962
Advances paid to suppliers and prepaid expenses		471,988	274,588
Taxes recoverable	19	273,617	348,302
Cash and bank balances	20	555,444	293,794
Assets classified as held for sale	21	93,616	377,114
Total current assets		**6,395,536**	**6,152,531**
TOTAL ASSETS		**10,718,636**	**10,848,177**

The consolidated statement of financial position 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 STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT DECEMBER 31, 2009

	Notes	Year ended 31/12/2009 RUR'000	Year ended 31/12/2008 RUR'000
EQUITY AND LIABILITIES			
Share capital and reserves	22		
Share capital		851,843	851,843
Share premium		679,439	664,507
Reserve for own shares		(723,086)	(149,706)
Translation reserve		(28,460)	(39,414)
Retained earnings		2,947,767	2,632,452
Equity attributable to Owners of the Company		3,727,503	3,959,682
Non-controlling interest		27,395	67,815
Total equity		**3,754,898**	**4,027,497**
Non-current liabilities			
Borrowings	23	704,422	545,051
Finance leases		738	919
Retirement benefit obligations	24	157,933	148,898
Deferred tax liabilities	11	359,434	375,707
Total non-current liabilities		**1,222,527**	**1,070,575**
Current liabilities			
Trade and other payables	25	2,353,650	2,353,100
Borrowings	23	3,059,678	3,202,008
Finance leases		215	3,826
Taxes payable	19	321,463	171,444
Liabilities classified as held for sale	21	6,205	19,727
Total current liabilities		**5,741,211**	**5,750,105**
Total liabilities		**6,963,738**	**6,820,680**
TOTAL EQUITY AND LIABILITIES		**10,718,636**	**10,848,177**

The consolidated statement of financial position 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, 2009

RUR'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 2008	851,843	661,378	-	7,333	2,599,500	4,120,054	64,605	4,184,659
Total comprehensive income for the year								
Profit for the year	-	-	-	-	230,925	230,925	208	231,133
Other comprehensive income								
Foreign currency translation differences	-	-	-	(46,747)	-	(46,747)	3,002	(43,745)
Total other comprehensive income	-	-	-	(46,747)	-	(46,747)	3,002	(43,745)
Total comprehensive income for the year	-	-	-	(46,747)	230,925	184,178	3,210	187,388
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Dividends to equity holders	-	-	-	-	(197,973)	(197,973)	-	(197,973)
Own shares acquired	-	-	(481,005)	-	-	(481,005)	-	(481,005)
Own shares sold	-	3,129	331,299	-	-	334,428	-	334,428
Total contributions by and distributions to owners	-	3,129	(149,706)	-	(197,973)	(344,550)	-	(344,550)
Total transactions with owners	-	3,129	(149,706)	-	(197,973)	(344,550)	-	(344,550)
Balance at 31 December 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 CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2009

RUR’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 2009	851,843	664,507	(149,706)	(39,414)	2,632,452	3,959,682	67,815	4,027,497
Total comprehensive income for the year								
Profit for the year	-	-	-	-	412,859	412,859	1,864	414,723
Other comprehensive income								
Foreign currency translation differences	-	-	-	10,954	-	10,954	5,599	16,553
Total other comprehensive income	-	-	-	10,954	-	10,954	5,599	16,553
Total comprehensive income for the year	-	-	-	10,954	412,859	423,813	7,463	431,276
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Dividends to equity holders	-	-	-	-	(47,405)	(47,405)	-	(47,405)
Own shares acquired	-	(3,129)	(591,022)	-	-	(594,151)	-	(594,151)
Own shares sold	-	18,061	17,642	-	-	35,703	-	35,703
Total contributions by and distributions to owners	-	14,932	(573,380)	-	(47,405)	(605,853)	-	(605,853)
Changes in ownership interests in subsidiaries that do not result in a loss of control								
Acquisition of minority interest	-	-	-	-	(50,139)	(50,139)	(47,883)	(98,022)
Total transactions with owners	-	14,932	(573,380)	-	(97,544)	(655,992)	(47,883)	(703,875)
Balance at 31 December 2009	**851,843**	**679,439**	**(723,086)**	**(28,460)**	**2,947,767**	**3,727,503**	**27,395**	**3,754,898**

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.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2009

	Notes	Year ended 31/12/2009 RUR’000	Year ended 31/12/2008 RUR’000
Cash flows from operating activities			
Profit before income tax		622,927	346,910
Net finance costs recognized in statement of comprehensive income		480,721	350,527
Unrealized foreign currency exchange gain		(11,189)	(133,208)
Loss on disposal of property, plant and equipment		31,516	21,731
Loss on disposal of intangible assets		-	3,068
Impairment loss on property, plant and equipment		-	173,209
Depreciation and amortization of non-current assets		321,587	347,859
Operating cash flow before movements in working capital		1,445,562	1,110,096
Movements in working capital			
Increase in trade and other receivables		(283,603)	(574,514)
(Increase)/decrease in advances issued		(197,400)	70,424
Decrease in inventories		281,921	339,659
Decrease in taxes recoverable		74,685	109,200
(Decrease)/increase in trade accounts payables		(8,998)	421,836
Increase in retirement benefits obligation		9,035	16,951
Increase in taxes payable		86,025	122,541
Cash generated from operations		1,407,227	1,616,193
Interest paid		(598,780)	(382,697)
Income taxes paid		(129,025)	(88,991)
Net cash generated by operating activities		679,422	1,144,505
Cash flows from investing activities			
Purchase of long-term investments		(300)	-
Purchase of short-term investments		(16,199)	-
Interest income received		28,430	
Payments for property, plant and equipment		(55,052)	(361,560)
Loans returned/(issued) for property, plant and equipment		120,042	(754,815)
Payments for intangibles		(95,376)	(62,645)
Proceeds from disposal of property, plant and equipment		1,936	3,112
Net cash used in investing activities		(16,519)	(1,175,908)
Cash flows from financing activities			
Proceeds from borrowings		6,771,982	5,114,015
Repayment of borrowings		(6,811,236)	(4,278,354)
Repayment of capital lease obligations		(3,793)	(20,226)
Payment for additional shares in Dr. Scheller		(98,022)	-
Proceeds from sale of own shares		40,220	-
Repurchase of own shares		(256,594)	(481,274)
Dividends paid		(43,810)	(197,973)
Net cash (used in)/generated by financing activities		(401,253)	136,188
Net increase in cash and cash equivalents		261,650	104,785
Cash and bank balances at the beginning of the financial year		**293,794**	**189,009**
Cash and bank balances at the end of the financial year	**20**	**555,444**	**293,794**

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 as 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**
	31/12/2009	**31/12/2008**		
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	98%	93.64%	Germany	Trading
Dr. Scheller DuroDont GmbH	98%	93.64%	Germany	Trading
Lady Manhattan Cosmetics GmbH	98%	93.64%	Germany	Trading
Apotheker Scheller Naturmittel GmbH	98%	93.64%	Germany	Brand
Premium Cosmetics GmbH	98%	93.64%	Germany	Trading
Lady Manhattan Cosmetics GmbH	98%	93.64%	Austria	Trading/Brand
Dr. Scheller Cosmetics Polska Sp. z.o.o.	98%	93.64%	Poland	Trading
Lady Manhattan Ltd.	98%	93.64%	UK	Brand
Dr. Scheller Cosmetics d.o.o.	49%	46.82%	Slowenia	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 owners of OJSC Concern "Kalina" as of December 31, 2009 is as follows:

Owners as nominees	**31/12/2009**		**31/12/2008**	
	Number of shares	**Number of shares**	**Number of shares**	**Ownership interest**
UBS AG	1,488,203	17.65%	1,487,227	15.79%
UniCredit Bank Austria AG	1,045,448	12.40%	-	-
Greater Europe Deep Value Fund Limited	850,402	10.09%	-	-
HSBC Bank PLC	690,464	8.19%	-	-
Lindsell Enterprises Limited	627,074	7.44%	682,189	7.24%
Deutsche Bank Trust Company Americas	582,213	6.91%	772,376	8.20%
Renaissance Securities (Cyprus) Limited	-	-	1,857,442	19.72%
Citigroup Global Markets Limited	-	-	849,937	9.02%
Other owners	3,146,724	37.32%	3,771,140	40.03%
Total	**8,430,528**	**100%**	**9,420,311**	**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 Rouble ("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 15 – Goodwill;
- Note 16 – Other intangible assets;
- Note 17 – Inventories;
- Note 18 – Trade and other receivables;
- Note 24 – Retirement benefit obligations.

Changes in accounting policies and presentation

With effect from 1 January 2009, the Group changed its accounting policies in the following areas:

- accounting for business combination;
- accounting for acquisitions of non-controlling interests;
- accounting for borrowing costs;
- presentation of financial statements.

Accounting for business combinations – The Group has adopted early IFRS 3 *Business Combinations* (2008) and IAS 27 *Consolidated and Separate Financial Statements* (2008) for all business combinations occurring in the financial year starting 1 January 2009. All business combinations occurring on or after 1 January 2009 are accounted for by applying the acquisition method. The change in accounting policy is applied prospectively and had no material impact on earnings per share.

A contingent liability of the acquiree is assumed in a business combination only if such a liability represents a present obligation and arises from a past event, and its fair value can be measured reliably.

The Group measures any non-controlling interest at its proportionate interest in the identifiable net assets of the acquiree.
Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees are expensed as incurred.

Accounting for acquisitions of non-controlling interests – The Group has adopted early IFRS 3 *Business Combinations* (2008) and IAS 27 *Consolidated and Separate Financial Statements* (2008) for acquisitions of non-controlling interests occurring in the financial year starting 1 January 2009. The Group has applied IAS 27 (2008) for the acquisition of non-controlling interests as explained in note 6.

Under the new accounting policy, acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result of such transactions. Previously, goodwill was recognised arising on the acquisition of a non-controlling interest in a subsidiary; and that represented the excess of the cost of the additional investment over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired at the date of exchange.

The change in accounting policy was applied prospectively and had no material impact on earnings per share.

Accounting for borrowing costs – In respect of borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009, the Group capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Previously the Group immediately recognised all borrowing costs as an expense. This change in accounting policy was due to the adoption of IAS 23 Borrowing Costs (2007) in accordance with the transitional provisions of such standard; comparative figures have not been restated. The change in accounting policy had no material impact on earnings per share.

Presentation of financial statements – The Group applies revised IAS 1 Presentation of Financial Statements (2007), which became effective as at 1 January 2009. The revised standard requires a presentation of all owner changes in equity to be presented in the statement of changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

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, except as explained in note 2, which addresses changes in accounting policies.

Certain comparative amounts have been reclassified to conform with the current year's presentation (see note 9).

Basis of consolidation – The Group has changed its accounting policy with respect to accounting for business combinations. See note 2 for further details.

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.

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Investments in associates and jointly controlled entities are accounted for using the equity method (equity accounted investees) and are recognised initially at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

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 – Properties, plant and equipment are carried at cost, less any recognized impairment loss. Cost includes delivery costs, transportation, cost of brought to location, professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

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

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

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

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

Description	**Useful Life (years)**
Buildings	50
Machinery and equipment	10-15
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 and biological assets, 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 14.

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 14.

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 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 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:

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 share premium.

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 AG, 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 except for costs attributable to qualifying assets. 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. 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. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

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).

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 31 December 2009, 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.

- Amendments to IFRS 5 Non-current Assets held for Sale and Discontinued Operations which came into effect on 1 July 2009. The amendment clarifies the classification of assets and liabilities on disposal of a subsidiary. The amendment is not expected to have an impact on Group's consolidated financial statements.
- 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 several phases and is intended to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. 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.
- 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 2010. 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 31/12/2009	Year ended 31/12/2008	Year ended 31/12/2009	Year ended 31/12/2008	Year ended 31/12/2009	Year ended 31/12/2008
	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000
Total revenue for reportable segments	10,232,427	8,821,189	4,452,477	3,514,499	14,684,904	12,335,688
Elimination of intersegment revenue	(57,298)	(67,314)	(140,472)	(239,622)	(197,770)	(306,936)
Revenue from external customers	10,175,129	8,753,875	4,312,005	3,274,877	14,487,134	12,028,752
Interest income	94,281	29,247	14,838	11,954	109,119	41,201
Interest expense	537,146	294,780	52,694	96,948	589,840	391,728
Depreciation and amortization	198,278	146,790	123,309	201,069	321,587	347,859
Inventory obsolescence expense	147,476	67,613	78,820	(26,570)	226,296	41,043
Impairment loss related to disposal group	-	-	-	196,724	-	196,724
Reportable segment profit before tax	620,885	435,705	2,042	(88,795)	622,927	346,910
Reportable segment income tax expense	199,095	204,873	9,109	(89,096)	208,204	115,777
Reportable segment result	421,790	230,832	(7,067)	301	414,723	231,133
Reportable segment assets	9,773,739	9,000,081	2,886,692	3,159,378	12,660,431	12,159,459
Capital expenditures	176,418	277,500	83,910	97,062	260,328	374,562
Liabilities	5,791,776	4,905,604	2,842,242	3,210,531	8,634,018	8,116,135

Reconciliations of reportable segment revenues, assets and liabilities

	Year ended 31/12/2009	Year ended 31/12/2008
	RUR'000	RUR'000
Revenues		
Total revenues for reportable segments	14,684,904	12,335,688
Elimination of intersegment revenue	(197,770)	(306,936)
	14,487,134	12,028,752
Assets		
Total assets for reportable segments	12,660,431	12,159,459
Elimination of intersegment receivables	(1,941,795)	(1,311,282)
	10,718,636	10,848,177
Liabilities		
Total liabilities for reportable segments	8,634,018	8,116,135
Elimination of intersegment payables	(1,670,280)	(1,295,455)
	6,963,738	6,820,680

Information about products

	External sales		Gross profit	
	Year ended 31/12/2009	Year ended 31/12/2008	Year ended 31/12/2009	Year ended 31/12/2008
	RUR'000	RUR'000	RUR'000	RUR'000
Cosmetics	12,040,169	10,038,598	5,921,953	5,168,988
Tooth-paste	1,303,384	1,495,455	533,453	622,862
Soap and household chemical goods	346,545	379,998	79,096	132,709
Materials	515,329	-	(26,126)	-
Other	281,707	114,701	61,137	15,736
	14,487,134	**12,028,752**	**6,569,513**	**5,940,295**

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. ACQUISITION OF NON-CONTROLLING INTEREST

In August 2009 the Group acquired an additional 4% interest in Dr Scheller Cosmetics AG for RUR 98,022 thousand in cash, increasing its ownership from 93.64% to 98%. The carrying amount of Dr Scheller Cosmetics AG’s net assets in the consolidated financial statements on the date of the acquisition was RUR 1,110,396 thousand. The Group recognised a decrease in non-controlling interest of RUR 47,883 thousand and a decrease in retained earnings of RUR 50,139 thousand.

The following summarises the effect of changes in the Company’s ownership interest in Dr Scheller Cosmetics AG:

	RUR'000
Company’s ownership interest at beginning of the year	992,149
Effect of increase in Company’s ownership interest	47,883
Share of comprehensive income	24,112
Company’s ownership interest at end of the year	1,064,144

7. COST OF SALES

	Year ended 31/12/2009	Year ended 31/12/2008
	RUR'000	RUR'000
Raw materials	7,284,881	5,191,169
Salary and related taxes	384,634	473,326
Depreciation and amortization	61,241	102,418
Repair	67,325	81,201
Repacking and remarking	57,959	76,576
Utilities	28,720	24,121
Other	32,861	139,646
	7,917,621	**6,088,457**

8. MARKETING AND DISTRIBUTION EXPENSES

	Year ended 31/12/2009	Year ended 31/12/2008
	RUR'000	RUR'000
Advertising expenses	2,123,816	1,948,985
Salary and related taxes	627,565	550,727
Transportation expenses	508,616	546,897
Warehouse expenses	225,245	394,091
Depreciation and amortization	161,086	153,177
Consulting expenses	63,343	80,675
Expertise and certification	39,676	41,116
Provision for bad debts	19,169	10,086
Other	17,223	65,812
	3,785,739	**3,791,566**

9. ADMINISTRATIVE EXPENSES

	Year ended 31/12/2009	Year ended 31/12/2008
	RUR'000	RUR'000
Salaries and related taxes	790,572	704,789
Consulting expenses	99,278	12,052
Depreciation and amortization	99,260	92,264
Taxes, other than income tax	78,511	93,758
Municipal & economic charges, communication	75,698	63,561
Business trips	69,088	74,535
Repair and maintenance	58,763	63,736
Fines and penalties payable	14,584	11,850
Other	13,855	36,208
	1,299,609	**1,152,753**

In presenting its statement of comprehensive income in 2009, the Group reclassified the depreciation and amortisation expense on certain office premises and salary and related taxes of employees utilising the office premises from administrative expenses to marketing and distribution expenses. The management believes that this presentation more approximately presents the economic substance of the utilisation of the office premises. The comparative amounts have been reclassified to conform with the current year presentation, resulting in RUR 120,019 thousand and RUR 474,673 thousand of depreciation and amortisation expenses and salary and related taxes expenses respectively being reclassified from administrative expenses to marketing and distribution expenses.

10. OTHER INCOME AND EXPENSES

	Year ended 31/12/2009 RUR'000	Year ended 31/12/2008 RUR'000
Other income		
Reversal of impairment provision of property, plant and equipment	-	23,515
Other income	-	14,755
	-	38,270
Other expenses		
Loss from disposal of property, plant and equipment	31,516	21,731
Loss from disposal of intangible assets	-	3,068
Other expenses	2,191	-
	33,707	24,799
	(33,707)	**13,471**

11. INCOME TAX EXPENSE

Income tax recognized in profit or loss

	Year ended 31/12/2009 RUR'000	Year ended 31/12/2008 RUR'000
Current income tax expense	194,661	84,178
Deferred tax expense	13,543	31,599
	208,204	**115,777**

The Group's applicable tax rate is the income tax rate of 20% for Russian companies, 25% for Ukrainian subsidiary, 28.4% for German subsidiaries (2008: 24%, 25%, 28.4% respectively). With effect from 1 January 2009, the income tax rate for Russian companies was 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 31/12/2009		Year ended 31/12/008	
	RUR'000	%	RUR'000	%
Profit before income tax	622,927	100	346,910	100
Income tax expense at the applicable tax rate	124,585	20	83,258	24
Effect of different tax rates of subsidiaries operating in other jurisdictions	6,480	1	(7,017)	(2)
Change in tax rate	-	-	(3,925)	(1)
Recognition of previously unrecognized tax losses	(3,429)	(1)	-	-
Non-deductible expenses	36,510	6	106,079	30
Current year losses for which no deferred tax asset was recognized	38,374	6	-	-
Over/(under) provided in prior years	5,684	1	(62,618)	(18)
	208,204	**33**	**115,777**	**33**

Deferred tax assets have not been recognised in respect of tax loss carry-forwards of RUR 191,870 thousand, because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	Year ended 31/12/2009	Year ended 31/12/2008	Year ended 31/12/2009	Year ended 31/12/2008	Year ended 31/12/2009	Year ended 31/12/2008
	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000
Property, plant and equipment	5,549	2,317	(138,649)	(110,705)	(133,100)	(108,388)
Inventory	21,067	19,987	(12,676)	(10,319)	8,391	9,668
Trade and other receivables	70,633	65,194	(6,879)	(82,475)	63,754	(17,281)
Advances paid and prepaid expenses	12,980	19,125	(2,187)	-	10,793	19,125
Intangible assets	4,197	4,762	(195,856)	(172,208)	(191,659)	(167,446)
Investments	2,046	2,046	-	-	2,046	2,046
Trade and other payables	30,609	40,183	(1,408)	-	29,201	40,183
LT and ST finance liabilities	43	706	-	-	43	706
Assets held for sale	1,779	-	(1,779)	-	-	-
Tax loss carry-forwards	22,258	55,614	-	-	22,258	55,614
Pension liabilities	14,882	13,800	-	-	14,882	13,800
Total	**186,043**	**223,734**	**(359,434)**	**(375,707)**	**(173,391)**	**(151,973)**
Set off of tax	(21,698)	(117,995)	21,698	117,995	-	-
Total	**164,345**	**105,739**	**(337,736)**	**(257,712)**	**(173,391)**	**(151,973)**

The amount of losses carry-forwards in its German subsidiary amounting to RUR 78,373 thousand (2008: RUR 195,824 thousand) does not have an expiry date.

Movement in temporary differences during the year

	January 1, 2009	Recognised in income	Translation difference	December 31, 2009
Property, plant and equipment	(108,388)	(24,494)	(218)	(133,100)
Inventory	9,668	(1,277)	-	8,391
Trade and other receivables	(17,281)	81,035	-	63,754
Advances paid and prepaid expenses	19,125	(8,332)	-	10,793
Intangible assets	(167,446)	(16,102)	(8,111)	(191,659)
Investments	2,046	-	-	2,046
Trade and other payables	40,183	(10,982)	-	29,201
LT and ST finance liabilities	706	(663)	-	43
Tax loss carry-forwards	55,614	(33,810)	454	22,258
Pension liabilities	13,800	1,082	-	14,882
Total	**(151,973)**	**(13,543)**	**(7,875)**	**(173,391)**

	January 1, 2008	Recognised in income	Translation difference	December 31, 2008
Property, plant and equipment	(169,043)	62,344	(1,689)	(108,388)
Intangible assets	(112,312)	(31,544)	(23,590)	(167,446)
Investments	2,455	(409)	-	2,046
Inventory	36,060	(26,392)	-	9,668
Trade and other receivables	80,866	(80,163)	1,141	1,844
LT and ST finance liabilities	1,679	(973)	-	706
Pension liabilities	-	13,800	-	13,800
Trade and other payables	64,059	(23,876)	-	40,183
Tax loss carry-forwards	-	55,614	-	55,614
	(96,236)	**(31,599)**	**(24,138)**	**(151,973)**

12. EARNINGS PER SHARE

	Year ended 31/12/2009	Year ended 31/12/2008
	RUR'000	**RUR'000**
Profit for the year	**414,723**	**231,133**

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 31/12/2009	Year ended 31/12/2008
	RUR'000	**RUR'000**
Profit for the year attributable to owners of the Company	412,859	230,925

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 31/12/2009	Year ended 31/12/2008
Issued shares at 1 January	9,420,311	9,752,311
Effect of own shares held	(534,729)	(208,760)
Weighted average number of shares for the year ended December 31,2009	8,885,582	9,543,551

13. 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, 2008	148,374	17,288	1,957,264	2,643,699	337,621	5,104,246
Additions	93,816	-	-	118,057	100,044	311,917
Transfers	(120,204)	-	120,204	-	-	-
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	121,986	17,288	1,615,149	2,491,668	375,829	4,621,920
Additions	14,289	2,877	-	95,461	52,325	164,952
Transfers	(124,306)	-	109,900	14,406	-	-
Transfer to assets held for sale	-	-	-	(72,538)	(2,392)	(74,930)
Disposals	-	-	(7,575)	(565,452)	(39,003)	(612,030)
Net foreign currency exchange differences	(16)	-	24,766	76,031	(294)	100,487
Balance at December 31, 2009	11,953	20,165	1,742,240	2,039,576	386,465	4,200,399
Accumulated depreciation and impairment losses						
Balance at January 1, 2008	-	-	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
Charge for the year	-	-	30,566	220,699	54,638	305,903
Transfer to assets held for sale	-	-	-	(43,208)	(518)	(43,726)
Disposals	-	-	(5,051)	(548,505)	(25,022)	(578,578)
Net foreign currency exchange differences	-	-	12,377	64,061	-	76,438
Balance at December 31, 2009	-	-	519,522	1,265,209	193,082	1,977,813
Carrying amount						
As at January 1, 2008	**148,374**	**17,288**	**1,363,653**	**1,089,379**	**200,795**	**2,819,489**
As at December 31, 2008	**121,986**	**17,288**	**1,133,519**	**919,506**	**211,845**	**2,404,144**
As at December 31, 2009	**11,953**	**20,165**	**1,222,718**	**774,367**	**193,383**	**2,222,586**

The Group is financing the construction of the warehouse complex through its related party. As at December 31, 2009 the amount of the loan issued for this purpose is RUR 562,979 thousand (2008: RUR 792,895 thousand).

The net book value of the Group's equipment held under finance leases as at 31 December 2009 amounted to RUR 5,017 thousand (2008: RUR 11,097 thousand).

Property, plant and equipment with the carrying amount of RUR 1,349,535 thousand (2008: RUR 966,612 thousand) are pledged to secure credit lines opened by the Group in banks for the total amount of RUR 2,054,564 thousand (2008: RUR 802,154 thousand). As at December 31, 2009 the outstanding balance of loans collateralised amounted to RUR 686,773 thousand (2008: RUR 674,139 thousand).

Subsequent to the reporting date, the pledge agreement for property, plant and equipment with the carrying amount of RUR 579,193 thousand to secure a credit line facility of RUR 907,326 thousand, which was undrawn as at December 31, 2009 (refer note 23), was cancelled to pledge to secure another bank loan received in 2010 (refer note 30).

14. INVESTMENT PROPERTY

	Year ended 31/12/09 RUB'000	**Year ended 31/12/08 RUB'000**
Cost		
At the beginning of the year	71,652	-
Reclassification from assets held for sale	-	71,652
Reclassification to assets held for sale	(71,652)	-
At the end of the year	-	71,652
Accumulated depreciation		
At the beginning of the year	13,989	-
Reclassification from assets held for sale	-	9,695
Charge for the year	1,456	4,294
Reclassification to assets held for sale	(15,445)	-
At the end of the year	-	13,989
Carrying amount	-	57,663

15. GOODWILL

	Year ended 31/12/2009 RUR'000	**Year ended 31/12/2008 RUR'000**
Cost		
Balance at the beginning of the year	498,373	434,728
Effects of foreign currency exchange differences	23,417	63,645
Balance at end of year	521,790	498,373
Carrying amount		
At the beginning of the year	**498,373**	434,728
At the end of the year	**521,790**	**498,373**

The results of annual test for impairment is summarised in note 16.

16. OTHER INTANGIBLE ASSETS

	Trademarks and other intangible assets	Licensed software	Total
	RUR'000	RUR'000	RUR'000
Cost			
Balance at January 1, 2008	557,819	28,845	586,664
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	86,398	726,415
Additions	1,459	93,917	95,376
Disposals	(3,354)	-	(3,354)
Net foreign currency exchange differences	30,033	-	30,033
Balance at December 31, 2009	**668,155**	**180,315**	**848,470**
Accumulated amortization			
Balance at January 1, 2008	17,647	7,881	25,528
Charge for the year	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
Charge for the year	3,795	10,433	14,228
Disposals	(3,354)	-	(3,354)
Net foreign currency exchange differences	877	-	877
Balance at December 31, 2009	**20,132**	**23,190**	**43,322**
Carrying amount			
As at January 1, 2008	540,172	20,964	561,136
As at December 31, 2008	621,203	73,641	694,844
As at December 31, 2009	648,023	157,125	805,148

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 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 2010 to 2012.

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

1) Net trade sales compound annual growth rate of 8.5%;
2) Cost of sales compound annual growth rate of 2.0%;

3) Marketing and selling expenses compound annual growth rate of 15.8%;
4) General and administration expenses compound annual growth rate of 4.2%;
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.

17. INVENTORIES

Inventories consisted of the following at December 31, 2009 and December 31, 2008:

	Year ended 31/12/2009	Year ended 31/12/2008
	RUB’000	RUB’000
Finished goods	1,410,308	1,332,547
Raw materials	1,047,540	840,522
Work in progress	24,709	106,904
Allowance for obsolescence	(202,090)	(98,202)
Total	**2,280,467**	**2,181,771**

As at 31 December 2009 inventories with a carrying value of RUR 999,562 thousand are pledged to secure credit lines opened by the Group in banks for the total amount of RUR 995,248 thousand. As at 31 December 2009 the outstanding balance of loans collateralised amounted to RUR 611,012 thousand.

Movement in the obsolescence provision is as follows:

	Year ended 31/12/2009	Year ended 31/12/2008
	RUR’000	RUR’000
Balance at the beginning of the year	98,202	152,603
Impairment losses recognized on inventory	226,296	67,603
Amounts written off	(122,408)	(95,444)
Impairment loss reversed	-	(26,560)
Balance at the end of the year	**202,090**	**98,202**

18. TRADE AND OTHER RECEIVABLES

	Year ended 31/12/2009	Year ended 31/12/2008
	RUR’000	RUR’000
Trade receivables	2,190,706	2,284,439
Other receivables	578,112	541,490
Allowance for doubtful debts	(48,414)	(148,967)
Total	**2,720,404**	**2,676,962**

As at 31 December 2009 trade accounts receivable with a carrying value of RUR 159,281 thousand are pledged to secure credit facility received from a bank under factoring agreement. As at December 31, 2009 the outstanding balance of loan collateralised amounted to RUR 134,772 thousand.

Movement in the allowance for doubtful debt is as follows:

	Year ended 31/12/2009 RUR'000	Year ended 31/12/2008 RUR'000
Balance at the beginning of the year	148,967	142,114
Impairment losses recognized on receivables	19,169	10,086
Amounts written off as uncollectible	(119,722)	(3,233)
Balance at the end of the year	**48,414**	**148,967**

19. TAXES RECOVERABLE AND PAYABLE

Taxes recoverable:

	Year ended 31/12/2009 RUB'000	Year ended 31/12/2008 RUB'000
Input VAT	235,035	269,914
Excise	21,847	33,165
Other taxes	16,735	45,223
	273,617	**348,302**

Taxes payable:

	Year ended 31/12/2009 RUB'000	Year ended 31/12/2008 RUB'000
VAT	157,515	90,649
Social charges tax	65,577	53,477
Property tax	7,655	7,479
Income taxes	89,396	3,590
Other taxes	1,320	16,249
	321,463	**171,444**

20. CASH AND BANK BALANCES

Cash consisted of the following at December 31, 2009 and 2008

	Year ended 31/12/2009 RUB'000	Year ended 31/12/2008 RUB'000
Cash in bank – EUR accounts	283,864	191,770
Cash in bank –USD accounts	118,476	23,456
Deposit – USD accounts	66,712	18,607
Cash in bank – RUB accounts	48,993	20,319
Cash in bank –UAH accounts	12,097	6,714
Cash in bank – CHF accounts	6,566	6,092
Cash in bank –BAM accounts	6,378	-
Cash in bank –HRK accounts	5,857	-
Cash in bank –PLN accounts	3,948	10,070
Cash on hand	1,641	1,970
Cash in bank –GBR accounts	824	-
Cash in bank –KN accounts	-	9,490
Other –CSD, SIT, KM accounts	88	5,306
	555,444	**293,794**

21. 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, in 2008 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 in 2008 the Company has concluded a sale contract to divest certain assets of this subsidiary. However, based on the agreement the buyer committed to produce the cosmetics products for the Group for further distribution in the market. The Group continued own all the brands, under which these cosmetics products are produced and sold. As at December 31, 2009 this sale transaction was completed. However, leased property, plant and equipment with a carrying amount of RUR 6,205 thousand will be transferred to the buyer in mid 2010 after the completion of the lease agreement.

As at December 31, 2009 the Group management was in negotiations with a buyer to dispose of its Omsk detergents plant. These negotiations are in the final stage to conclude the sell arrangement. As at December 31, 2009 fair value of the plant's assets is RUR 218,562 thousand that is higher their carrying amount at the date.

The Group 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:

	Year ended 31/12/2009 RUB'000	Year ended 31/12/2008 RUB'000
Assets classified as held for sale		
At the beginning of the year	377,114	86,383
Reclassification to property, plant and equipment	-	(24,426)
Reclassification to investment property	-	(61,957)
Reclassification from property, plant and equipment	31,204	371,892
Reclassification from other intangibles assets	-	5,222
Reclassification from investment property	56,207	-
Disposal	(395,290)	-
Net foreign currency exchange difference	24,381	-
At the end of the year	93,616	377,114
Liabilities classified as held for sale		
At the beginning of the year	19,727	-
Reclassification from accounts payable	-	19,727
Disposal	(14,673)	-
Net foreign currency exchange difference	1,151	-
At the end of the year	6,205	19,727

22. SHARE CAPITAL AND RESERVES

Share capital and share premium

As at 31 December 2009 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.

As at 31 December 2009 the Group pledged 1,200,000 own shares with par value of RUR 70 to secure credit line opened by the Group in bank for the total amount of RUR 640,000 thousand. As at 31 December 2009 the outstanding balance of loan collateralised amounted to RUR 479,931 thousand.

Reserve for own shares

Included in treasury shares of RUR 573,380 thousand as at 31 December 2009, RUR 334,428 thousand represents a result of a non-cash transaction entered into and recorded as other receivables by the Company in 2008 and reversed in 2009.

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 2009 the Company had retained earnings, including the profit for the current year, of RUR 4,142,493 thousand (2007: RUR 3,435,123 thousand).

At the balance sheet date dividends for the first half of 2009 in the amounts of RUR 47,405 thousand were declared and paid in full. Dividends for the second half of 2009 were not declared.

23. BORROWINGS

	Year ended 31/12/02009 RUB’000	**Year ended 31/12/2008 RUB’000**
Non-current liabilities		
Secured bank loans	704,422	462,500
Unsecured bank loans	-	82,551
	704,422	**545,051**
Current liabilities		
Secured bank loans	1,226,562	211,639
Unsecured bank loans	1,833,116	2,990,369
	3,059,678	**3,202,008**

	Currency	Nominal interest rate	Effective interest rate	Year of maturity	Carrying amount Year ended 31/12/2009	Year ended 31/12/2008
					RUR'000	RUR'000
Secured bank loan	RUR	13.50%	13.50%	2010-2011	479,931	-
	RUR	MOS PRIME 1m + 4.5%	11.58%	2010	401,142	-
	EUR	7.36%-8.16%	8%	2011-2013	347,650	-
	USD	LIBOR +6.5%	7.11%	2009-2012	338,957	460,510
	EUR	15%-16%	15.63%	2011	195,248	-
	RUR	17-18%	17%	2010	134,772	-
	CHF	0.99%	0.99%	2009-2012	18,657	48,900
	RUR	14-17%	15.2%	2010	14,627	-
	EUR	4.15%-5.45%	4.91%	2009-2012	-	118,149
	EUR	5.65%-6.24%	5.98%	2009-2010	-	46,580
					1,930,984	**674,139**
Unsecured bank facility	RUR	MOS PRIME 1m + 3-7.15%	16.2%	2010	1,599,531	2,462,551
	RUR	15%-20%	18.88%	2010	147,155	-
	EUR	EURIBOR + 1.85%%	5.74%	2009-2010	86,430	82,012
	USD	LIBOR + 7.5%	8.00%	2009	-	493,050
	EUR	4.44%-7.25%	4.86%	2008-2009	-	35,307
					1,833,116	**3,072,920**

As at 31 December 2009 the Group has undrawn credit line facilities for the total amount of RUR 1,933,368 thousand (2008: RUR 311,305 thousand).

As at 31 December 2009 the borrowings and undrawn credit line facilities were collateralized by property, plant and equipment with a carrying amount of RUR 1,349,535 thousand (2008: RUR 966,612 thousand) (refer note 13), inventory with a carrying value of RUR 999,562 thousand (refer note 17), trade accounts receivable with a carrying value of RUR 159,281 thousand (refer note 18) and 1,200,000 own shares with par value of RUR 70 (refer note 22).

In 2009 the Group received a loan from a bank repayable in the year 2013. As at December 31, 2009, one of the covenants under this loan requirement was breached. Under the loan agreement, in the event that such covenant is breached, the loan becomes payable on demand. The loan is classified as short-term, since at the balance sheet date the Group does not have unconditional right to defer its settlement for this loan.

24. RETIREMENT BENEFIT OBLIGATIONS

Employees of the Group in Russia, Ukraine are generally beneficiaries of state-administered defined contribution pension programs. The Group remits a required percentage of the aggregate employees' salaries to the statutory pension Funds. The granting of a pension requires the 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, 2007 by Kern Mauch & Kollegen GmbH (the Firm of actuaries, registered in Germany). The present value of the defined benefit obligation, the related current service cost and past service cost was measured using the projected unit credit method.

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

	Year ended 31/12/2009	**Year ended 31/12/2008**
	RUB’000	**RUB’000**
Current service cost	477	414
Interest cost	10,457	9,863
Total	**10,934**	**10,277**

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 31/12/2009	**Year ended 31/12/2008**
	RUB’000	**RUB’000**
Present value of funded defined benefit obligation	200,626	187,148
Fair value of plan assets	(58,183)	(57,189)
Deficit in scheme	142,443	129,959
Unrecorded gain	15,490	18,939
Liability recognized in the balance sheet	**157,933**	**148,898**

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

	Year ended 31/12/2009	**Year ended 31/12/2008**
	RUB’000	**RUB’000**
Opening defined benefit obligation	206,087	182,901
Service cost	477	414
Interest cost	10,457	9,863
Benefits paid	(10,587)	(15,126)
Effect of translation to presentation currency	9,682	28,035
Closing defined benefit obligation	**216,116**	**206,087**

Movement in fair value of plan assets is as follows:

	Year ended 31/12/2008	**Year ended 31/12/2008**
	RUB’000	**RUB’000**
At January 1, 2009	57,189	50,954
Contribution to plan assets	-	-
Additional expense of reinsurance	-	332
Benefit payments made	(3,948)	(3,730)
Return on plan assets	2,256	1,823
Effect of translation to presentation currency	2,686	7,810
At December 31, 2009	**58,183**	**57,189**

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, 2009 and 2008.

25. TRADE AND OTHER PAYABLES

	Year ended 31/12/2009 RUB'000	Year ended 31/12/2008 RUB'000
Trade payables	2,090,248	2,005,768
Payables to employees	120,655	121,197
Advances received	149	51,364
Accruals	45,948	31,495
Other payable	96,650	143,276
	2,353,650	**2,353,100**

26. RELATED PARTY TRANSACTIONS

'000 RUR	**Transaction value 2009**	**Transaction value 2008**	**Outstanding balance 2009**	**Outstanding balance 2008**
Purchase of property, plant and equipment:				
Other related party	104,837	232,005	538,854	769,023
Expenses				
Other related party	14,286	-	-	-
Interest income				
Other related party	80,713	25,836	106,549	25,836

In 2009 the Company acquired own shares from the related parties for the total amount of RUR 173,951 thousand.

Compensation of key management personnel:

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

	Year ended 31/12/2009 RUB'000	Year ended 31/12/2008 RUB'000
Short-term benefits	72,969	56,594
Total	**72,969**	**56,594**

The Company established a share option (equity-settled) programme that entitles key management personnel to purchase 365,712 shares in the Company. In accordance with this programme options are exercisable at the market price of the shares at the date of grant. The options outstanding as at December 31, 2009 have an exercise price of RUR 953. The grant date fair value of the share-based payment amounted to RUR 27,089 thousand, which was measured based on the Black-Scholes formula. The expense arising in 2009 from this share option amounts to RUR 24,831 thousand.

The Company granted share appreciation right to an employee that entitles the employee to a cash payment. The amount of the cash payment is determined based on the increase in the share price of the Company between the grant date and vesting date. The grant date fair value of the cash-settled share-based payment was based on 20,000 shares and amounted to RUR 1,276 thousand. At the December 31, 2009 the carrying amount of liability for the cash-settled arrangement and the expense arising from it is RUR 5,948 thousand. The fair values were measured based on the Black-Scholes formula.

27. CAPITAL COMMITMENTS

During the year ended 31 December 2009 the Group entered into contracts to purchase property, plant and equipment for RUR 180,756 thousand (2008: nil).

28. CONTINGENCIES AND OPERATING ENVIRONMENT

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

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

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.

29. 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 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 matching liabilities in foreign currency with projected cash flows in the same currency.

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 31/12/2009**			**Year ended 31/12/2008**		
	Financial assets	**Financial liabilities**	**Net position**	**Financial assets**	**Financial liabilities**	**Net position**
USD' 000	3,189	(14,016)	(10,827)	1,636	(32,915)	(31,279)
EUR' 000	15,133	(24,077)	(8,944)	17,692	(11,245)	6,447
CHF' 000	32,571	(34,660)	(2,089)	30,704	(33,443)	(2,739)
RUR' 000	-	(696,764)	(696,764)	-	(554,498)	(554,498)
Other currencies	394	-	394	87	-	87
RUR' 000	**1,737,947**	**(3,195,179)**	**(1,457,232)**	**1,801,102**	**(1,549,998)**	**251,104**

A strengthening or weakening of the RUR by 5% (2008: by 30%), against US Dollars, EURO, CHF and UAH at 31 December 2009 would have increased (decreased) equity and profit or loss by the amounts shown below. The analysis was applied to monetary items at the balance sheet dates denominated in respective currencies.

	Year ended 31/12/2009 RUB’000	Year ended 31/12/2008 RUB’000
USD	(16,373)	(275,694)
EUR	(19,402)	80,148
CHF	(3,043)	(22,500)
RUR	34,838	166,350

A 5% 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 23.

The table below details the Group’s sensitivity to increase or decrease of floating rate by 1% (2008: 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 31/12/2009 RUB’000	Year ended 31/12/2008 RUB’000
Profit or loss	27,736	45,336

Fair values versus carrying amounts

At December 31, 2009 and 2008 the carrying values of the Group’s financial assets and financial liabilities approximated their fair values. The basis for determining fair values is disclosed in note 4.

Credit risk

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

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

		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
Loans issued for property, plant and equipment	562,979	-	-	-	-	562,979
Trade and other receivables as of December 31,2009	2,768,818	2,618,092	45,781	2,169	81,814	20,962
Impairment as of December 31,2009	(48,414)	(23,646)	(10,514)	-	(8,320)	(5,934)
Loans issued for property, plant and equipment	792,895	-	-	-	-	792,895
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)

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, 2009**	**Year ended December 31, 2008**
	RUB'000	**RUB'000**
Guarantees	196,552	136,790
Promissory notes	116,758	343,017
Other	6,040	329
Total	**319,350**	**480,136**

The Company has guaranteed a bank loan obtained by a related party, which amounts to RUR 40,000 thousand as at December 31, 2009.

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 group maintains enough unused credit lines to be able to refinance its short term debt and pays attention to have a balanced structure of short-, mid- and long term loans.

The summaries of maturity profile of the Group's financial liabilities including interest as at December 31, 2009 and 2008 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	3,764,100	3,922,527	529,731	280,578	2,349,459	762,759
Obligations under finance lease	953	957	84	129	6	738
Trade and other payables	2,353,501	2,353,501	1,701,000	563,971	88,530	-
Total financial liabilities at 31 December 2009	6,118,554	6,276,985	2,230,815	844,678	2,437,995	763,497
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	2,301,736	2,301,736	942,629	1,359,107	-	-
Total financial liabilities at 31 December 2008	6,153,540	6,431,310	1,315,401	2,060,259	2,411,402	644,248

The loan obtained by a related party, which is guaranteed by the Group (refer note 29 (Credit risk)), is to be repayable on 10 June 2010.

30. EVENTS SUBSEQUENT TO THE YEAR END

In March 2010 the Company completed an acquisition of the remaining 2% of interest in Dr. Scheller Cosmetics AG’s share capital within the framework of a squeeze-out procedure, which is obligatory under the German legislation. 134,382 shares were acquired from minority shareholders at a price determined by the independent appraiser of EUR 7.91 per share.

In March 2010 the Company entered into the credit facility agreement with a bank for the total amount of RUR 900,000 thousand with a maturity of 3 years. The interest rate is to be determined based on the bank’s internal base rate plus a margin of 5.5%. To secure this credit facility, the Company pledged its property, plant and equipment with the carrying amount of RUR 574,234 thousand (refer note 13).

In March the Company’s Board of Directors recommended to the Annual general meeting of shareholders to pay dividends for the second half of 2009 in amount of RUR 10.66 per one ordinary share in cash to be settled in Russian Rubles or foreign currency at the exchange rate of the Central bank of Russia at the payment date within 30 days from the moment of announcing at the meeting.