Open Joint Stock Company Concern "Kalina" and subsidiaries

Consolidated Financial Statements
Year Ended December 31, 2010

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, 2010

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, 2010 were approved on March 18, 2011 by:

On behalf of the Management Board:

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

ZAO KPMG
10 Presnenskaya Naberezhnaya
Moscow, Russia 123317

Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

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 2010, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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, and forsuch internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from 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 policies 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 audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO KPMG

ZAO KPMG
18 March 2011

OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2010

	Notes	Year ended 31/12/2010 RUB’000	Year ended 31/12/2009 RUB’000
Revenue	5	11 672 588	10 175 129
Cost of sales	6	(5 457 162)	(5 195 187)
Gross profit		6 215 426	4 979 942
Marketing and distribution expenses	7	(3 361 885)	(2 790 631)
Administrative expenses	8	(1 032 915)	(898 403)
Impairment losses on loans receivable	14	(190 000)	-
Inventory obsolescence expenses		(109 153)	(147 477)
Other operating income and expenses	9	(12 763)	(33 110)
Operating results before finance income and costs		1 508 710	1 110 321
Interest income		3 126	95 879
Interest expense		(408 565)	(537 147)
Foreign exchange gain		207 934	(83 972)
Profit before income tax		1 311 205	585 081
Income tax expense	10	(340 165)	(199 096)
Profit for the year from continuing operations		**971 040**	**385 985**
Profit from discontinued operations (net of income tax)	12	4 307	28 738
Profit for the year		**975 347**	**414 723**
Attributable to:			
Shareholders of the Company		974 060	412 859
Non-controlling interest		1 287	1 864
Other comprehensive income			
Foreign currency translation differences for foreign operations (net of income tax)		(242 508)	16 553
Total comprehensive income for the year		**732 839**	**431 276**
Attributable to:			
Shareholders of the Company		727 090	423 813
Non-controlling interest		5 749	7 463
Earnings per share			
Basic and diluted (rubles per share)	11	**133**	**46**
Continuing operations			
Basic and diluted (rubles per share)	11	**133**	**43**

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 42.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2010

	Notes	31/12/2010	31/12/2009
		RUB'000	RUB'000
ASSETS			
Non-current assets			
Property, plant and equipment, net	13	2 090 978	2 222 586
Loans issued for property, plant and equipment	14	-	562 979
Goodwill	15	-	521 790
Other intangible assets	16	163 877	805 148
Long-term investments		24 554	24 554
Deferred tax assets	10	240 341	164 345
Total non-current assets		**2 519 750**	**4 301 402**
Current assets			
Inventories	17	1 518 942	2 280 467
Trade and other receivables	18	2 937 638	2 720 404
Advances paid to suppliers and prepaid expenses		344 730	471 988
Loans receivable	14	342 376	-
Taxes recoverable	19	287 980	273 617
Cash and bank balances	20	758 678	555 444
Assets classified as held for sale	21	2 284 648	93 616
Total current assets		**8 474 992**	**6 395 536**
TOTAL ASSETS		**10 994 742**	**10 696 938**

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 42.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2010

	Notes	31/12/2010	31/12/2009
		RUB’000	RUB’000
EQUITY AND LIABILITIES			
Share capital and reserves	22		
Share capital		851 843	851 843
Share premium		679 336	679 439
Reserve for own shares		(1 664 072)	(723 086)
Translation reserve		(275 430)	(28 460)
Retained earnings		3 718 975	2 947 767
Equity attributable to shareholders of the Company		3 310 652	3 727 503
Non-controlling interest		13 512	27 395
Total equity		**3 324 164**	**3 754 898**
Non-current liabilities			
Borrowings	23	2 958 782	704 422
Finance leases		-	738
Retirement benefit obligations		-	157 933
Deferred tax liabilities	10	137 506	337 736
Total non-current liabilities		**3 096 288**	**1 200 829**
Current liabilities			
Trade and other payables	24	1 702 818	2 353 650
Borrowings	23	1 498 960	3 059 678
Finance leases		-	215
Taxes payable	19	155 606	321 463
Liabilities classified as held for sale	21	1 216 906	6 205
Total current liabilities		**4 574 290**	**5 741 211**
Total liabilities		**7 670 578**	**6 942 040**
TOTAL EQUITY AND LIABILITIES		**10 994 742**	**10 696 938**

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 42.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2010

RUB’000	Attributable to shareholders of the Company						Non-controlling interest	Total equity
	Share capital	Share premium	Reserve for own shares	Translation reserve	Retained earnings	Total		
Balance at January 1, 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 shareholders								
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 shareholders	-	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 non-controlling interest	-	-	-	-	(50 139)	(50 139)	(47 883)	(98 022)
Total transactions with shareholders	-	14 932	(573 380)	-	(97 544)	(655 992)	(47 883)	(703 875)
Balance at December 31, 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 42.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2010

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

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 42.

OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010

	Notes	Year ended 31/12/2010	Year ended 31/12/2009
		RUB’000	RUB’000
Cash flows from operating activities			
Profit for the year before tax including profit from discontinued operations		1 317 040	622 928
Net finance cost		405 439	480 721
Unrealized foreign currency exchange gain		(176 368)	(11 190)
Impairment loss on trade and other receivables		129 792	19 169
(Gain)/loss on disposal of property, plant and equipment		(3 554)	31 516
Impairment loss on advances given		190 000	-
Depreciation and amortisation of non-current assets		397 011	321 587
Cash from operating activities before changes in working capital		**2 259 360**	**1 464 731**
Movements in working capital			
Increase in trade and other receivables		(678 142)	(302 772)
Decrease/(increase) in advances issued		127 258	(197 400)
Decrease in inventories		301 405	281 921
(Increase)/decrease in taxes recoverable		(18 437)	74 685
Increase/(decrease) in trade and other accounts payable		142 680	(8 998)
(Decrease)/increase in retirement benefits obligation		(17 211)	9 035
(Decrease)/increase in taxes payable		(115 435)	86 025
Cash flows from operations before income taxes and interest paid		**2 001 478**	**1 407 227**
Interest paid		(448 022)	(598 780)
Income taxes paid		(498 523)	(129 025)
Net cash from operating activities		**1 054 933**	**679 422**
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		(531 951)	(55 052)
Loans returned for property, plant and equipment		-	120 042
Payments for intangibles		(6 298)	(95 376)
Proceeds from disposal of property, plant and equipment		44 920	1 936
Net cash used in investing activities		**(493 329)**	**(16 519)**
Cash flows from financing activities			
Proceeds from borrowings		12 656 325	6 771 982
Repayment of borrowings		(11 819 879)	(6 811 236)
Repayment of capital lease obligations		(227)	(3 793)
Payment for additional shares in Dr. Scheller		(42 806)	(98 022)
Proceeds of own shares sold		1 808	40 220
Repurchase of own shares		(942 897)	(256 594)
Dividends paid		(179 678)	(43 810)
Net cash used in financing activities		**(327 354)**	**(401 253)**
Net increase in cash and cash equivalents		234 250	261 650
Cash and cash equivalents reclassified to assets held for sale		(31 016)	-
Cash and cash equivalents at January, 1		**555 444**	**293 794**
Cash and cash equivalents at December, 31	20	**758 678**	**555 444**

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 42.

1. BACKGROUND

Business environment

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

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

Organisation and operations

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

Operating subsidiary	**Share of ownership**		**Place of**	**Principal**
	31/12/2010	**31/12/2009**	**incorporation**	**activity**
LLC Pallada Ukraina	100%	100%	Ukraine	Trading
Kalina Overseas Holding B.V.	100%	100%	Netherlands	Trading
Kalina International	100%	100%	Switzerland	Management
Dr. Scheller Cosmetics AG	100%	98%	Germany	Trading
Dr. Scheller DuroDont GmbH	100%	98%	Germany	Trading
Lady Manhattan Cosmetics GmbH	100%	98%	Germany	Trading
Apotheker Scheller Naturmittel GmbH	100%	98%	Germany	Brand
Premium Cosmetics GmbH	-	98%	Germany	Trading
Lady Manhattan Cosmetics GmbH	100%	98%	Austria	Trading/Brand
Dr. Scheller Cosmetics Polska Sp. Z.o.o.	100%	98%	Poland	Trading
Lady Manhattan Ltd.	100%	98%	UK	Brand
LLC Kalina Finance	100%	100%	Russia	Finance activity
LLC Glavskazka International	100%	100%	Russia	Trading
LLC Dr. Scheller Beauty Center	100%	100%	Russia	Retail cosmetic services

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

The shareholders of OJSC Concern "Kalina" as of December 31, 2010 is as follows:

Shareholders as nominees	**31/12/2010**		**31/12/2009**	
	Number of shares	**Ownership interest**	**Number of shares**	**Ownership interest**
Deutsche Bank Trust Company Americas	1 937 567	26.46%	582 213	6.91%
UniCredit Bank Austria AG	1 045 799	14.28%	1 045 448	12.40%
UniCredit Securities International LTD	849 937	11.61%	-	-
Renaissance Securities (Cyprus) Limited	821 580	11.22%	-	-
HSBC Bank PLC	690 000	9.42%	690 464	8.19%
Greater Europe Deep Value Fund Limited	-	-	850 402	10.09%
Lindsell Enterprises Limited	-	-	627 074	7.44%
UBS AG	-	-	1 488 203	17.65%
Other owners	1 977 045	27.01%	3 146 724	37.32%
	7 321 928	**100%**	**8 430 528**	**100%**

2. BASIS OF PREPARATION

Statement of compliance

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

Basis of measurement

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

Functional and presentation currency

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

Use of judgments, estimates and assumptions

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

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

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

- Note 14 – Loans receivable;
- Note 15 – Goodwill;
- Note 16 – Other intangible assets;

- Note 17 – Inventories;
- Note 18 – Trade and other receivables;
- Note 21 – Assets and liabilities classified as held for sale.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

Business combinations

Acquisitions on or after 1 January 2008

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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	3-5

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

***Reclassification to investment property* -** When the use of a property changes from owner-occupied to investment property, the property is measured at cost less accumulated depreciation and impairment losses and reclassified as investment property.

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

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

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

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

Intangible assets

Intangible assets acquired separately – Intangible assets acquired separately are reported at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over their estimated useful lives of 10 years for trademarks and licensed software. As described in note 16, intangible assets include trademarks with indefinite useful life. The Group determined that the trademarks have an indefinite useful life based on the expected period of usage and the control, legal and other possible limits on the use of these intangible assets. Amortization of intangible assets is included into administrative expenses. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognised on financial assets. All borrowing costs are recognised in the statement of comprehensive income using the effective interest method, unless they qualify for capitalization.

Foreign currency gains and losses are reported on a net basis.

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

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

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

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

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

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

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

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

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

Segment reporting – An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available (see note 5).

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

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

New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at December 31, 2010**,** and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

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

- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2011. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4. DETERMINATION OF FAIR VALUES

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

Property, plant and equipment **-** The fair value of property, plant and equipment recognised as a result of a business combination is based on market values, when possible. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant, equipment, fixtures and fittings is based on quoted market prices for similar 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 has three primary reportable segment, which is manufacturing and sale of cosmetics, oral care and household products. The Group evaluates performance, makes investment and strategic decisions based upon a review of profitability of each segment. Sales are based on the geographical area in which the customer is located. Previously Group’s sales were divided on sales to Russia & CIS and Europe. With classification of Dr. Scheller Cosmetics AG operations as discontinued operations (refer note 12) Group’s sales are mostly carried out in Russia & CIS region. Sales to different CIS countries are individually not significant for separate disclosure.

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

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

	External sales		**Gross profit**	
	Year ended 31/12/2010	**Year ended 31/12/2009**	**Year ended 31/12/2010**	**Year ended 31/12/2009**
	RUB’000	**RUB’000**	**RUB’000**	**RUB’000**
Cosmetics	9 406 811	8 488 419	5 039 152	4278 860
Oral care	1 568 836	1 053 234	924 430	523 160
Soap and household chemical goods	398 775	360 365	102 304	78 466
Other	298 166	273 111	149 540	99 456
	11 672 588	**10 175 129**	**6 215 426**	**4 979 942**

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

6. COST OF SALES

	Year ended 31/12/2010	**Year ended 31/12/2009**
	RUB’000	**RUB’000**
Raw materials	4 966 318	4 733 838
Salary and related taxes	280 014	247 010
Depreciation	60 495	58 431
Repair	51 886	46 485
Repacking and remarking	47 274	57 959
Utilities	30 415	28 720
Other	20 760	22 744
	5 457 162	**5 195 187**

7. MARKETING AND DISTRIBUTION EXPENSES

	Year ended 31/12/2010 RUB’000	Year ended 31/12/2009 RUB’000
Advertising expenses	1 885 951	1 632 648
Salary and related taxes	445 694	335 697
Transportation expenses	502 975	501 104
Depreciation and amortization	128 301	75 741
Warehouse expenses	120 938	143 763
Consulting expenses	116 220	63 343
Provision for bad debts	129 792	4 782
Expertise and certification	27 089	24 185
Other	4 925	9 368
	3 361 885	**2 790 631**

8. ADMINISTRATIVE EXPENSES

	Year ended 31/12/2010 RUB’000	Year ended 31/12/2009 RUB’000
Salaries and related taxes	599 901	570 944
Consulting expenses	144 218	50 865
Depreciation and amortization	88 210	64 345
Municipal and economic charges, communication	55 832	50 528
Taxes, other than income tax	46 581	78 511
Business trips	30 882	28 619
Repair and maintenance	26 560	38 860
Fines and penalties payable	13 249	14 584
Other	27 482	1 147
	1 032 915	**898 403**

9. OTHER INCOME AND EXPENSES

	Year ended 31/12/2010 RUB’000	Year ended 31/12/2009 RUB’000
Other income		
Income from sale of property, plant and equipment	3 554	-
Other income	-	-
	3 554	-
Other expenses		
Loss from disposal of property, plant and equipment	-	27 744
Other expenses	16 317	5 366
	16 317	33 110
	(12 763)	**(33 110)**

10. INCOME TAX EXPENSE

Income tax recognized in profit or loss

	Year ended 31/12/2010 RUB'000	Year ended 31/12/20009 RUB'000
Current tax expense	451 370	172 283
Under provided in prior years	-	5 962
Deferred tax (benefit) / expense	(111 205)	20 851
Total tax expense	**340 165**	**199 096**

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 (2009: 20%, 25%, 28.4% respectively). Respective tax rates have been used in the calculation of deferred tax assets and liabilities of the subsidiaries of the Group.

Reconciliation of effective tax rate:

	Year ended 31/12/2010		Year ended 31/12/2009	
	RUB'000	%	RUB'000	%
Profit before income tax	1 311 205	100	585 081	100
Income tax expense at the applicable tax rate	(262 241)	(20)	(117 016)	(20)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(14 680)	(1)	(3 532)	(1)
Recognition of previously unrecognized tax losses	-	-	2 149	-
Non-deductible expenses	(46 121)	(4)	(36 361)	(6)
Current year losses for which no deferred tax asset was recognized	(17 123)	(1)	(38 374)	(7)
Under provided in prior years	-	-	(5 962)	(1)
	(340 165)	**(26)**	**(199 096)**	**(35)**

Total income tax expense for 2010 accounted for RUB 341 693 thousand (2009: RUB 208 205 thousand) including income tax expense related to discontinued operation of RUB 1 528 thousand for 2010 and RUB 9 109 thousand for 2009.

As at December 31, 2010 deferred tax assets have not been recognized in respect of tax loss carry-forwards of RUB 85 615 thousand (2009: 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 assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	31/12/2010	**31/12/2009**	**31/12/2010**	**31/12/2009**	**31/12/2010**	**31/12/2009**
	RUB’000	**RUB’000**	**RUB’000**	**RUB’000**	**RUB’000**	**RUB’000**
Property, plant and equipment	7 747	5 549	(100 897)	(138 649)	(93 150)	(133 100)
Inventory	23 492	21 067	(30 387)	(12 676)	(6 895)	8 391
Trade and other receivables	70 176	70 633	-	(6 879)	70 176	63 754
Advances paid and prepaid expenses	68 781	12 980	(5 962)	(2 187)	62 819	10 793
Intangible assets	7 201	4 197	(22 226)	(195 856)	(15 025)	(191 659)
Investments	41 794	2 046	-	-	41 794	2 046
Trade and other payables	44 690	30 609	(1 574)	(1 408)	43 116	29 201
LT and ST finance liabilities	-	43	-	-	-	43
Assets held for sale	-	1 779	-	(1 779)	-	-
Tax loss carry-forwards	-	22 258	-	-	-	22 258
Pension liabilities	-	14 882	-	-	-	14 882
Total	**263 881**	**186 043**	**(161 046)**	**(359 434)**	**102 835**	**(173 391)**
Set off of tax	(23 540)	(21 698)	23 540	21 698	-	-
	240 341	**164 345**	**(137 506)**	**(337 736)**	**102 835**	**(173 391)**

Movement in temporary differences during the year

	January 1, 2010	**Recognized in continuing operations**	**Recognized in discontinued operations**	**Transferred to assets held for sale**	**Transferred to liabilities held for sale**	**Translation difference**	**December 31, 2010**
	RUB’000	**RUB’000**	**RUB’000**	**RUB’000**	**RUB’000**	**RUB’000**	**RUB’000**
Property, plant and equipment	(133 100)	11 999	2 616	(2 944)	26 315	1 964	(93 150)
Inventory	8 391	(13 290)	686	(2 541)	-	(141)	(6 895)
Trade and other receivables	63 754	9 374	(847)	(1 412)	-	(693)	70 176
Advances paid and prepaid expenses	10 793	52 026	-	-	-	-	62 819
Intangible assets	(191 659)	(2 526)	1 300	-	165 244	12 616	(15 025)
Investments	2 046	39 748	-	-	-	-	41 794
Trade and other payables	29 201	13 917	-	-	(1 090)	1 088	43 116
LT and ST finance liabilities	43	(43)	-	-	-	-	-
Tax loss carry-forwards	22 258	-	(2 783)	(17 908)	-	(1 567)	-
Pension liabilities	14 882	-	(2 178)	(11 656)	-	(1 048)	-
	(173 391)	**111 205**	**(1 206)**	**(36 461)**	**190 469**	**12 219**	**102 835**

	January 1, 2009	Recognized in continuing operations	Recognized in discontinued operations	Translation difference	December 31, 2009
	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000
Property, plant and equipment	(108 388)	(28 916)	4 422	(218)	(133 100)
Inventory	9 668	(2 070)	793	-	8 391
Trade and other receivables	(17 281)	40 231	40 804	-	63 754
Advances paid and prepaid expenses	19 125	(8 332)	-	-	10 793
Intangible assets	(167 446)	(17 264)	1 162	(8 111)	(191 659)
Investments	2 046	-	-		2 046
Trade and other payables	40 183	(3 837)	(7 145)	-	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
	(151 973)	**(20 851)**	**7 308**	**(7 875)**	**(173 391)**

11. EARNINGS PER SHARE

	Year ended 31/12/2010	Year ended 31/12/2009
	RUB'000	RUB'000
Profit for the year	975 347	414 723

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 31/12/2010	Year ended 31/12/2009
	RUB'000	RUB'000
Profit for the year attributable to Shareholders of the Company	974 060	412 859

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 31/12/2010	Year ended 31/12/2009
Issued shares at 1 January	8 430 528	9 420 311
Effect of own shares held	(1 113 833)	(534 729)
Weighted average number of shares	**7 316 695**	**8 885 582**

12. DISCONTINUED OPERATIONS

On November 11, 2010 the Group entered into agreement with Coty Inc. to sell its 100% subsidiary Dr. Scheller Cosmetics AG, which previously represented Group's European operations segment. Management committed to a plan to sell this entity in accordance with the Group's strategy on abandonment of operations with decorative cosmetics and concentrating on more profitable skin care market. The deal was completed on January 3, 2011.

The comparative statement of comprehensive income has been re-presented to show the discontinued operation separately from continuing operations.

	Year ended 31/12/2010	Year ended 31/12/2009
	RUB'000	RUB'000
Results of discontinued operation		
Revenue	3 151 264	4 312 005
Expenses	(3 145 429)	(4 274 158)
Results from operating activities	**5 835**	**37 847**
Income tax expense	(1 528)	(9 109)
Results from operating activities, net of income tax	**4 307**	**28 738**
Non-controlling interest	(1 287)	(1 864)
Profit for the year	**3 020**	**26 874**
Basic earnings per share (RUB)	**0.41**	**3.02**

Effect of disposal on the financial position of the Group

	31/12/2010
	RUB'000
Property, plant and equipment	282 435
Goodwill	485 048
Intangible assets	563 843
Deferred tax assets	36 461
Inventories	460 120
Trade and other receivables	334 240
Taxes recoverable	4 074
Cash and bank balances	31 016
Total assets related to discontinued operations and classified as held for sale	**2 197 237**
Long-term obligations under finance lease	(726)
Retirement benefits liabilities	(140 722)
Deferred tax liabilities	(190 469)
Trade and other payables	(793 512)
Short-term borrowings	(75 665)
Taxes payables	(15 812)
Total liabilities related to discontinued operations and classified as held for sale	**(1 216 906)**
Net assets	**980 331**

The selling price for the Dr. Scheller Cosmetics received by the Group on January 3, 2011 amounted to EUR 38 455 thousand, or RUB 1 551 009 thousand, which is greater than net assets and liabilities disposed. Therefore no impairment test was conducted by the Group in respect of goodwill and intangible assets with indefinite useful life.

'000 RUB	**Year ended 31/12/2010**	**Year ended 31/12/2009**
Cash flows (used in)/from discontinued operation		
Net cash (used in)/from operating activities	(8 503)	510 405
Net cash used in investing activities	(255 126)	(82 744)
Net cash used in financing activities	(92 121)	(246 554)
Net cash (used in)/from discontinued operation	(355 750)	181 107

After the disposal the Group retained the rights on skincare brands "Dr. Scheller" and "Phyto Solution" as well as remained an owner of some real estate in Germany.

As part of the deal to dispose of Dr. Scheller Cosmetics AG OJSC Conern "Kalina" received a loan in the amount of EUR 5 400 thousand, or RUB 217 799 thousand from Dr. Scheller Cosmetics AG. Pursuant to the conditions of the sale agreement this loan is not going to be repaid after deal is closed. The amount of this loan outstanding as at December 31, 2010 is not a part of the net assets of discontinued operations presented above.

As at December 31, 2010 as part of the deal on disposal of Dr. Scheller Cosmetcis AG the Group issued guarantees to Coty Inc. and ING Bank to cover losses that might be incurred by Coty Inc. against possible future claims that could be received by Dr. Scheller Cosmetics AG. The maximum amount of losses that could be covered by issued guarantees equals to EUR 17 382 thousand, or RUB 701 070 thousand.

13. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress	Land	Buildings	Machinery and equipment	Fixtures and fittings	Total
	RUB’000	RUB’000	RUB’000	RUB’000	RUB’000	RUB’000
Cost						
Balance at January 1, 2009	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**
Additions	1 631	3 428	31 861	516 420	9 214	562 554
Transfers	(918)	-	-	918	-	-
Transfers to assets held for sale	-	-	-	(526 771)	(2 783)	(529 554)
Disposals		-	(46 755)	(448 571)	(45 112)	(540 438)
Net foreign currency exchange differences	3	-	(39 296)	(44 683)	1 348	(82 628)
Balance at December 31, 2010	**12 669**	**23 593**	**1 688 050**	**1 536 889**	**349 132**	**3 610 333**
Accumulated depreciation and impairment loss						
Balance at January 1, 2009	-	-	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**
Charge for the year	-	-	79 751	173 827	113 534	367 112
Transfer to assets held for sale	-	-	-	(247 119)	-	(247 119)
Disposals	-	-	(40 149)	(432 814)	(26 109)	(499 072)
Net foreign currency exchange differences	-	-	(21 659)	(55 775)	(1 945)	(79 379)
Balance at December 31, 2010	**-**	**-**	**537 465**	**703 328**	**278 562**	**1 519 355**
Carrying amount						
As at January 1, 2009	**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**
As at December 31, 2010	**12 669**	**23 593**	**1 150 585**	**833 561**	**70 570**	**2 090 978**

In 2009 the Group financed the construction of the warehouse complex though its related party, the amount of the loans issued for this purpose amounted to RUB 562 979 thousand. In 2010 the construction was frozen, and loans issued were reclassified from loans issued for property plant and equipment to loans receivables and impairment loss was recognized (see note 14).

As at December 31, 2010 the Group does not have equipment held under finance leases (2009: RUB 5 017 thousand).

In 2010 the Group conducted an operational efficiency review, which resulted in changes in the expected usage of certain items of property, plant and equipment. As a result, the expected useful lives of these assets was reduced and this resulted in increase of depreciation charge by RUB 66 975 thousand recognised in the marketing and distribution expenses for the year ended December 31, 2010. The effect of this change in future periods is expected to be the same for 2 – 3 years, and then depreciation charge shall be lower than it would be before the change.

Property, plant and equipment with the carrying amount of RUB 914 311 thousand (2009: RUB 1 349 535 thousand) are pledged to secure credit lines opened by the Group in banks for the total amount of RUB 3 600 000 thousand (2009: 2 054 564 thousand). As at December 31, 2010 the outstanding balance of loans collateralized amounted to RUB 3 493 574 thousand (2009: 686 773 thousand).

14. LOANS ISSUED FOR PROPERTY, PLANT AND EQUIPMENT

	31/12/2010	31/12/2009
	RUB'000	RUB'000
Loans issued for property, plant and equipment	562 979	562 979
Transfers to construction in progress	(30 603)	-
Transfer to loans receivable	(342 376)	-
Impairment losses on loans receivable	(190 000)	-
	-	**562 979**

15. GOODWILL

	31/12/2010	31/12/2009
	RUB'000	RUB'000
Cost		
Balance at the beginning of the year	521 790	498 373
Transfer to assets held for sale	(485 048)	-
Net foreign currency exchange differences	(36 742)	23 417
Balance at end of year	-	521 790
Carrying amount		
At the beginning of the year	**521 790**	**498 373**
At the end of the year	**-**	**521 790**

16. OTHER INTANGIBLE ASSETS

	Trademarks and other intangible assets	Licensed software	Total
	RUB’000	RUB’000	RUB’000
Cost			
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**
Additions	2 015	4 283	6 298
Disposals	(2 297)	-	(2 297)
Reclass between Licenses and Trademarks	14 870	(14 870)	-
Transfer to assets held for sale	(590 477)	-	(590 477)
Net foreign currency exchange differences	(46 882)	-	(46 882)
Balance at December 31, 2010	**45 384**	**169 728**	**215 112**
Accumulated amortization			
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**
Charge for the year	1 854	28 045	29 899
Disposals	(2 296)	-	(2 296)
Reclass between Licenses and Trademarks	3 677	(3 677)	-
Transfer to assets held for sale	(26 634)	-	(26 634)
Net foreign currency exchange differences	6 944	-	6 944
Balance at December 31, 2010	**3 677**	**47 558**	**51 235**
Carrying amount			
As at December 31, 2008	**621 203**	**73 641**	**694 844**
As at December 31, 2009	**648 023**	**157 125**	**805 148**
As at December 31, 2010	**41 707**	**122 170**	**163 877**

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 was assessed by reference to selling price of the discontinued operation to which intangible assets and goodwill relate (see note 12).

17. INVENTORIES

Inventories consisted of the following at December 31, 2010 and December 31, 2009:

	31/12/2010 RUB'000	31/12/2009 RUB'000
Finished goods	844 835	1 410 308
Raw materials	689 613	1 047 540
Work in progress	15 787	24 709
Allowance for obsolescence	(31 293)	(202 090)
	1 518 942	**2 280 467**

As at December 31, 2010 no inventories (2009: RUB 460 524 thousand) are pledged to secure credit lines opened by the Group in banks.

Movement in the obsolescence provision is as follows:

	31/12/2010 RUB'000	31/12/2009 RUB'000
Balance at the beginning of the year	202 090	98 202
Impairment losses recognized on inventory	109 153	226 296
Amounts written off	(279 950)	(122 408)
	31 293	**202 090**

18. TRADE AND OTHER RECEIVABLES

	31/12/2010 RUB'000	31/12/2009 RUB'000
Trade receivables	2 820 727	2 190 706
Other receivables	235 742	578 112
Allowance for doubtful debts	(118 831)	(48 414)
	2 937 638	**2 720 404**

Movement in the allowance for doubtful debt is as follows:

	31/12/2010 RUB'000	31/12/2009 RUB'000
Balance at the beginning of the year	48 414	148 967
Impairment losses recognized in receivables	129 792	19 169
Amounts written off	(59 375)	(119 722)
	118 831	**48 414**

19. TAXES RECOVERABLE AND PAYABLE

Taxes recoverable:

	31/12/2010 RUB’000	31/12/2009 RUB’000
Input VAT	259 727	235 035
Excise	12 072	21 847
Other taxes	16 181	16 735
	287 980	**273 617**

Taxes payable:

	31/12/2010 RUB’000	31/12/2009 RUB’000
VAT	106 762	157 515
Social charges tax	13 125	65 577
Property tax	7 294	7 655
Income taxes	23 479	89 396
Other taxes	4 946	1 320
	155 606	**321 463**

20. CASH AND BANK BALANCES

Cash consisted of the following at December 31, 2010 and 2009:

	31/12/2010 RUB’000	31/12/2009 RUB’000
Deposit - USD accounts	727 200	66 712
Cash in bank - RUB accounts	20 159	48 993
Cash in bank – UAH accounts	5 267	12 097
Cash in bank - USD accounts	2 984	118 476
Cash in bank - EUR accounts	2 184	283 864
Cash on hand	693	1 641
Cash in bank - CHF accounts	191	6 566
Cash in bank - BAM accounts	-	6 378
Cash in bank - PLN accounts	-	3 948
Cash in bank - HRK accounts	-	5 857
Cash in bank - GBP accounts	-	824
Other - CSD, SIT, KM accounts	-	88
	758 678	**555 444**

21. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

On November 11, 2010 the Group entered into agreement with Coty Inc. to sell its 100% subsidiary Dr. Scheller Cosmetics AG. The Group reclassified assets and liabilities subject to divestment into assets and liabilities held for sale (see note 12).

As at December 31, 2010 the Group management was in negotiations with a buyer to dispose off its Omsk detergents plant with carrying value of respective assets equalling to RUB 87 411 thousand. These negotiations are in the final stage to conclude the sell agreement. As at December 31, 2010 the fair value of the plant assets approximates their carrying values.

	RUB'000	RUB'000
Assets classified as held for sale		
At the beginning of the year	93 616	377 114
Assets of Dr. Scheller Cosmetics AG reclassified to assets held for sale	2 197 237	56 207
Reclassification from property, plant and equipment	-	31 204
Disposal	(5 768)	(395 290)
Transaction costs	(437)	24 381
At the end of the year	**2 284 648**	**93 616**
Liabilities classified as held for sale		
At the beginning of the year	6 205	19 727
Liabilities of Dr. Scheller Cosmetics AG reclassified to assets held for sale	1 216 906	-
Disposal	(5 768)	(14 673)
Transaction costs	(437)	1 151
At the end of the year	**1 216 906**	**6 205**

22. SHARE CAPITAL AND RESERVES

Share capital and share premium

As at December 31, 2010 the Group had 9 752 311 authorised and issued ordinary shares at par value of RUB 70 per share.

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

Reserve for own shares

The reserve for the Company's own shares comprises the cost of the Company's shares held by the Group. At December 31, 2010 the Group held 2 430 thousand (2009: 1 322 thousand) of the Company's shares.

Translation reserve

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

Dividends

In accordance with Russian legislation the Company’s distributable reserves are limited to the balance of retained earnings as recorded in the Company’s statutory financial statements prepared in accordance with Russian Accounting Principles. As at December 31, 2010 the Company had retained earnings, including the profit for the current year, of RUB 6 442 429 thousand (2009: RUB 4 142 493 thousand).

At the reporting date dividends for the second half of 2009 in the amount of RUB 103 960 thousand (RUB 10.66 per share) and for the first half of 2010 in the amounts of RUB 103 960 thousand (RUB 10.66 per share) were declared and paid in full. The above amounts included dividends attributable to treasury shares in the amount of RUB 28 242 thousand. Dividends for the second half of 2010 were not declared.

23. BORROWINGS

	31/12/2010	31/12/2009
	RUB’000	RUB’000
Non-current liabilities		
Secured bank loans	2 958 782	704 422
	2 958 782	**704 422**
Current liabilities		
Secured bank loans	534 792	1 226 562
Unsecured bank loans	964 168	1 833 116
	1 498 960	**3 059 678**

	Currency	Nominal interest rate	Effective interest rate	Year of maturity	Carrying amount 31/12/2010 RUB’000	Carrying amount 31/12/2009 RUB’000
Secured bank loans	RUB	MOS PRIME 1m + 3.5%-3.92%	7.11%	2011 - 2013	1 682 440	-
	RUB	MOS PRIME 3m + 4.5%	8.25%	2011 - 2015	908 988	-
	RUB	Internal bank rate + 3.75% - 5.5%	9.04%	2011 - 2013	902 146	-
	RUB	13.50%	13.48%	2010 - 2011	-	479 931
	RUB	MOS PRIME 1m +4.5%	9.77%	2010	-	401 142
	EUR	7.36% - 8.16%	8.12%	2011 - 2013	-	347 650
	USD	LIBOR + 6.5%	7.12%	2009 - 2012	-	338 957
	EUR	15% -16%	13.40%	2011	-	195 248
	RUB	17% -18%	17.00%	2010	-	134 772
	CHF	0.99%	0.99%	2009 - 2012	-	18 657
	RUB	14% - 17%	10.00%	2010	-	14 627
					3 493 574	**1 930 984**

	Currency	Nominal interest rate	Effective interest rate	Year of maturity	Carrying amount 31/12/2010	Carrying amount 31/12/2009
Unsecured bank facilities	RUB	MOS PRIME 1m + 2.25% - 7,15%	8.24%	2010 - 2011	900 151	1 599 531
	RUB	5%-7,5%	6.51%	2011	60 000	-
	RUB	Internal base rate + 5.5%	4.59%	2011	4 017	-
	RUB	15% -20%	4.80%	2010	-	147 155
	EUR	Euribor + 1.85%	5.74%	2009 - 2010	-	86 430
					964 168	**1 833 116**

As at December 31, 2010 the Group has undrawn credit line facility for the total amount of RUB 2 624 890 thousand (2009: RUB 1,633,368 thousand).

As at December 31, 2010 the borrowings were collateralized by property, plant and equipment with a carrying amount of RUB 914 311 thousand (2009: RUB 1 349 535 thousand) (refer to note 13).

24. TRADE AND OTHER PAYABLES

	31/12/2010 RUB’000	31/12/2009 RUB’000
Trade payables	1 533 125	2 090 248
Payables to employees	120 321	120 655
Accruals	4 148	45 948
Other payable	45 224	96 799
	1 702 818	**2 353 650**

25. RELATED PARTY TRANSACTIONS

The Group has one party related be means of significant influence exercised by key management personnel – LLC “Soyuzspezstroy”. Historically this company provided the Group with construction services. As at December 31, 2009 the Group issued loans for construction of warehouse complex, but in 2010 the construction was cancelled and loans issued were reclassified to loans receivable and impairment loss was recognised on the amount of interest receivable as at December 31, 2010 and part of debt principal (refer to note 14).

’000 RUB	Transaction value 2010	Transaction value 2009	Outstanding balance 2010	Outstanding balance 2009
Purchase of property, plant and equipment:				
Other related party	-	104 837	-	538 854
Loans receivable:				
Other related party	-	-	532 376	-
Impairment loss on loans receivable:				
Other related party	190 000	-	(190 000)	-
Expenses				
Other related party	15 421	14 286	-	-
Interest income				
Other related party	-	80 713	103 758	106 549
Bad debt provision accrued:				
Other related party	103 758	-	(103 758)	-

None of the outstanding balances with related party are secured. Maturity of loans receivable is December 31, 2010. Loans are granted at interest rate of 9-12% p.a.

Compensation of key management personnel:

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

	Year ended 31/12/2010 RUB’000	Year ended 31/12/2009 RUB’000
Short-term benefits	87 712	72 969
	87 712	**72 969**

In 2008 the Company established a share option (equity settled) program that entitles key management personnel to purchase 316 950 shares in the Company. In accordance with this program options are exercisable at market price of the shares at the grant date. The options outstanding as at December 31, 2010 have an exercise price of RUB 953. The grant date fair value of the share-based payment amounted to RUB 27 089 thousand, which was measured based on the Black-Scholes formula. The expense arising in 2010 from this share option program amounts to RUB 32 231 thousand (2009: RUB 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 RUB 1 276 thousand. At the December 31, 2010 the carrying amount of liability for the cash-settled arrangement accounts for RUB 10 633 thousand (2009: RUB 5 948 thousand) and the expense arising from it is RUB 4 706 thousand (2009: RUB 5 948 thousand). The fair values were measured based on the Black-Scholes formula.

26. CONTINGENCIES AND OPERATING ENVIRONMENT

Taxation contingencies

Taxation contingencies in the Russian Federation – The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Taxation contingencies in Ukraine – The Group performs part of its operations in Ukraine and therefore within the jurisdiction of the Ukrainian tax authorities. The Ukrainian tax system can be characterized by numerous taxes and frequently changing legislation which may be applied retroactively, open to wide interpretation and in some cases are conflicting. Instances of inconsistent opinions between local, regional, and national tax authorities and between the Ministry of Finance and other state authorities are not unusual. Tax declarations are subject to review and investigation by a number of authorities that are enacted by law to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years, however under certain circumstances a tax year may remain open longer.

These facts create tax risks substantially more significant than typically found in countries with more developed systems. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

The Group has various transactions within the Group. The pricing policy could give rise to transfer pricing risks, where the pricing applied could be challenged by the tax authorities. In management's opinion, the Group is in substantial compliance with the tax laws of the Russian Federation and other jurisdictions where the Group companies operate. However, relevant authorities could take different positions with regard to interpretive issues or court practice could develop adversely in relation to positions taken by the Group and the effect on the financial statements of the Group could be material.

27. RISK MANAGEMENT POLICIES

Overview

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

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

- market risk
- credit risk
- liquidity risk.

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

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

Capital risk management

The Group manages its capital to ensure that entities of the Group will be able to continue as a going concern while maximising the return to the equity holders through the optimisation of the debt and equity balance. The management of the Group reviews the capital structure on a regular basis. Based on the results of this review, the Group takes steps to manage its overall capital structure through the payment of dividends, as well as the issue of new debt or the redemption of existing debt.

There were no changes in the Group's approach to capital management during the year.

Market risks

Foreign currency risk

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The Group undertakes certain transactions denominated in foreign currencies. The Group does not use any derivatives to manage foreign currency risk exposure, at the same time the management of the Group is trying to mitigate such risk by 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:

	31/12/2010			**31/12/2009**		
	Financial assets	**Financial liabilities**	**Net position**	**Financial assets**	**Financial liabilities**	**Net position**
Currency						
In USD' 000	37 989	(159)	37 830	3 189	(14 016)	(10 827)
In EUR' 000	5 774	(8 152)	(2 378)	15 133	(24 077)	(8 944)
In CHF' 000	-	-	-	32 571	(34 660)	(2 089)
In RUB' 000	-	(848 954)	(848 954)	-	(696 764)	(696 764)
Other currencies	-	-	-	394	-	394
RUB' 000	**1 390 670**	**(1 182 596)**	**208 074**	**1 737 947**	**(3 195 179)**	**(1 457 232)**

A strengthening or weakening of the RUB by 5%, against US Dollars, EUR, CHF and UAH at December 31, 2010 would have increased (decreased) equity and profit or loss by the amounts shown below. The analysis was applied to monetary items at the reporting dates denominated in respective currencies.

	Year ended 31/12/2010	**Year ended 31/12/2009**
	RUB’000	**RUB’000**
USD’000	57 647	(16 373)
EUR’000	(4 796)	(19 402)
CHF’000	-	(3 043)
RUB’000	42 448	34 838

A 5% strengthening of the RUB 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%. 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 31/12/2010	**Year ended 31/12/2009**
	RUB’000	**RUB’000**
Profit or loss	**43 977**	**27 736**

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).

December 31, 2010

RUB'000		Trade and other receivables				
	Carrying amount	**Less than 30 days**	**30 to 60 days**	**60 to 90 days**	**90 to 365 days**	**Over 1 year**
Loans receivable	532 376	532 376	-	-	-	-
Trade and other receivables	3 056 469	2 691 646	136 358	93 912	17 417	117 136
Impairment	**(308 831)**	**(190 000)**	**-**	**-**	**(2 491)**	**(116 340)**

December 31, 2009

RUB'000		Trade and other receivables				
	Carrying amount	**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	2 768 818	2 618 092	45 781	2 169	81 814	20 962
Impairment	**(48 414)**	**(23 646)**	**(10 514)**	**-**	**(8 320)**	**(5 934)**

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	**31/12/2010**	**31/12/2009**
	RUB'000	**RUB'000**
Guarantees	269 279	196 552
Promissory notes	-	116 758
Other	-	6 040
	269 279	**319 350**

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 as at December 31, 2010 and 2009 based on contractual payments are presented in the following table.

December 31, 2010	**Carrying amount**	**Contractual cash flows**	**0-1 mths**	**1-3 mths**	**3-12 mths**	**1-5 yrs**
	RUB'000	**RUB'000**	**RUB'000**	**RUB'000**	**RUB'000**	**RUB'000**
Non-derivative financial liabilities						
Borrowings	4 457 742	5 022 092	272 195	223 369	1 259 252	3 267 276
Trade and other payables	1 702 818	1 702 818	1 063 629	569 644	69 545	-
Total financial liabilities	**6,160,560**	**6,724,910**	**1,335,824**	**793,013**	**1,328,797**	**3,267,276**

December 31, 2009	Carrying amount	Contractual cash flows	0-1 mths	1-3 mths	3-12 mths	1-5 yrs
	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'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	**6 118 554**	**6 276 985**	**2 230 815**	**844 678**	**2 437 995**	**763 497**

28. EVENTS SUBSEQUENT TO THE REPORTING DATE

On January 3, 2011 The Group successfully closed the deal on sale of its 100% subsidiary Dr. Scheller Cosmetics AG to Coty Inc.

On January 11, 2011 the shareholders of the Company approved reduction of Company's share capital for the total amount of RUB 231 977 thousand through acquisition of 3 313 963 ordinary shares at the price of RUB 746 per share.