Open Joint Stock Company Concern “Kalina” and subsidiaries

Consolidated Financial Statements
Half-Year Ended June 30, 2007

OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

CONTENTS

OPEN JOINT STOCK COMPANY CONCERN "KALINA" AND SUBSIDIARIES

INCOME STATEMENT
FOR THE HALF-YEAR ENDED JUNE 30, 2007

	Notes	Half-Year ended 30/06/07 RUB'000	Half-Year ended 30/06/06 RUB'000
Revenue		4,901,297	4,977,169
Cost of sales		(2,524,593)	(2,795,261)
Gross profit		2,376,704	2,181,908
Distribution expenses	3	(251,924)	(206,181)
Marketing expenses	3	(771,003)	(766,696)
Administration expenses	3	(793,145)	(663,517)
Finance costs, net	4	(83,828)	(60,713)
Gain on disposal of LLC Novoplast		-	-
Restructuring costs of Dr. Scheller		-	-
Foreign exchange gain/(loss)		10,672	16,929
Other losses, net		1,472	(63,837)
Profit before tax		488,948	437,893
Income tax expense	5	(126,651)	(60,960)
Profit for the year from continuing operations		362,297	376,933
Discontinued operations			
Income/(loss) for the year from discontinued operations		-	41,628
Profit for the year		362,297	418,561
Attributable to:			
Equity holders of the parent		357,944	419,817
Minority interest		4,353	(1,256)
		362,297	418,561
Earnings per share			
From continuing and discontinued operations:			
Basic and diluted (rubles per share)	6	37	43
From continuing operations:			
Basic and diluted (rubles per share)		37	39

BALANCE SHEET
FOR THE HALF-YEAR ENDED JUNE 30, 2007

	Notes	Half-Year ended 30/06/07	Half-Year ended 30/06/06
		RUB’000	RUB’000
ASSETS			
Non-current assets			
Property, plant and equipment	8	2,857,741	2,787,454
Goodwill	10	273,434	175,773
Other intangible assets	9	354,700	358,830
Lon-term investments		68,222	95,591
Deferred tax assets	5	235,073	136,148
Total non-current assets		**3,789,170**	**3,553,796**
Non-current assets classified as held for sale	**7**	**153,335**	**-**
Current assets			
Inventories	13	2,100,416	1,833,194
Trade and other receivables	14	1,194,583	1,272,563
Advances paid to suppliers and prepaid expenses, net		384,349	363,237
Taxes recoverable	12	385,224	434,113
Short-term investments		59,632	-
Cash and bank balances	20	156,413	189,414
Total current assets		**4,280,617**	**4,092,521**
TOTAL ASSETS		**8,223,122**	**7,646,317**

BALANCE SHEET (CONTINUED)
FOR THE HALF-YEAR ENDED JUNE 30, 2007

	Notes	Half-Year ended 30/06/07 RUB'000	Half-Year ended 30/06/06 RUB'000
EQUITY AND LIABILITIES			
Capital and reserves			
Issued capital		851,843	851,843
Additional paid in capital		661,378	661,378
Translation reserve		(67,093)	(56,179)
Retained earnings		2,547,942	2,390,498
Equity attributable to equity holders of the parent		3,994,070	3,847,540
Minority interest		26,688	208,077
Total equity		**4,020,759**	**4,055,617**
Non-current liabilities			
Borrowings	15	393,877	342,422
Long-term obligations under finance lease	17	20,418	30,952
Retirement benefit obligation	18	127,821	176,131
Deferred tax liabilities	5	395,291	287,780
Total non-current liabilities		**937,407**	**837,285**
Liabilities directly associated with non-current assets classified as held for sale		**-**	**-**
Current liabilities			
Trade and other payables	16	1,294,532	983,563
Borrowings	15	1,886,178	1,645,240
Short-term obligations under finance lease	17	23,658	14,651
Taxes payable	12	60,589	109,961
Total current liabilities		**3,264,957**	**2,753,415**
Total liabilities		**4,204,364**	**3,590,700**
TOTAL EQUITY AND LIABILITIES		**8,223,122**	**7,646,317**

STATEMENT OF CHANGES IN SHAREHOLDERS’ EQUITY
FOR THE HALF-YEAR ENDED JUNE 30, 2007

	Share Capital	Additional Paid in Capital	Translation reserve	Retained earnings	Total
	RUB’000	RUB’000	RUB’000	RUB’000	RUB’000
Balance at January 1, 2006	**851,843**	**661,378**	**(49,588)**	**2,090,633**	**3,554,266**
Exchange differences arising on translation of foreign operations	-	-	6,424	-	6,424
Profit for the year	-	-	-	191,969	191,969
Payment of dividends	-	-	-	-	-
Balance at March 31, 2006	**851,843**	**661,378**	**(43,164)**	**2,282,602**	**3,752,659**
Exchange differences arising on translation of foreign operations	-	-	(13,015)	-	(13,015)
Profit for the year	-	-	-	227,849	227,849
Payment of dividends*	-	-	-	(119,953)	(119,953)
Balance at June 30, 2006	**851,843**	**661,378**	**(56,179)**	**2,390,498**	**3,847,540**
Exchange differences arising on translation of foreign operations	-	-	7,844	-	7,844
Profit for the year	-	-	-	(2,625)	(2,625)
Payment of dividends*	-	-	-	(90,112)	(90,112)
Balance at January 1, 2007	**851,843**	**661,378**	**(48,335)**	**2,297,761**	**3,762,647**
Exchange differences arising on translation of foreign operations	-	-	1,207	-	1,207
Profit for the year	-	-	-	195,176	195,176
Payment of dividends	-	-	-	-	-
Balance at March 31, 2007	**851,843**	**661,378**	**(47,128)**	**2,492,937**	**3,959,030**
Exchange differences arising on translation of foreign operations	-	-	(19,965)	-	(19,965)
Profit for the year	-	-	-	162,768	162,768
Payment of dividends	-	-	-	(107,763)*	(107,763)
Balance at June 30, 2007	**851,843**	**661,378**	**(67,093)**	**2,547,942**	**3,994,070**

*In June 2007, a dividend of 11 rubles per share (22 rubles per share in 2006) was paid to holders of fully paid ordinary shares.

OPEN JOINT STOCK COMPANY CONCERN “KALINA” AND SUBSIDIARIES

STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED JUNE 30, 2007

	Notes	Half-Year ended 30/06/07 RUB’000	Half-Year ended 30/06/06 RUB’000
Cash flows from operating activities			
Profit for the year before tax		488,947	437,893
Finance costs recognized in income statement		83,828	60,714
Gain on disposal of long-term investment		-	-
Loss on disposal of property, plant and equipment		3,251	8,490
Depreciation and amortization of non-current assets		155,768	134,558
Operating cash flow before movements in working capital		731,794	641,655
Movements in working capital			
Increase in trade and other receivables		(464)	(92,924)
Decrease/(increase) inventories		(266,228)	577,120
Decrease/(increase) in taxes receivable		46,898	81,884
Increase/(decrease) in trade accounts payables		(145,764)	(495,286)
Decrease in retirement benefits obligation		(175)	1,835
Increase in taxes payable		(47,496)	6,481
Cash generated from operations		318,565	720,765
Interest paid		(76,448)	(58,378)
Income taxes paid		(126,651)	(152,202)
Net cash generated by/(used in) operating activities		115,466	510,185
Cash flows from investing activities			
Purchase of short-term investments		4,885	(2,059)
Proceeds from sale of short-term investments, net		(4,885)	2,059
Acquisition of Dr. Scheller, net of cash acquired		(132,057)	(234,495)
Purchase of investments in Kalina Internetional		-	(2,134)
Payments for property, plant and equipment		(126,967)	(52,400)
Proceeds from disposal of property, plant and equipment		3,604	831
Net cash used in investing activities		(255,420)	(288,198)
Cash flows from financing activities			
Proceeds from borrowings		1,422,080	771,287
Repayment of borrowings		(1,097,348)	(876,092)
Repayment of capital lease obligations		(11,584)	(1,180)
Dividends		(107,763)	(119,953)
Net cash used in/(generated by) financing activities		205,385	(225,938)
Net decrease in cash and cash equivalents		(1,662)	(3,951)
Cash and cash equivalents at the beginning of the financial year		**158,075**	**193,365**
Effects of exchange rate changes on the balance of cash held in foreign currencies		(67,093)	
Cash and cash equivalents at the end of the financial year	**20**	**156,413**	**189,414**

1. GENERAL INFORMATION

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

Operating subsidiary	Share of ownership	Place of incorporation	Principal Activity
LLC Pallada Ukraina	100%	Ukraine	Trading
Kalina Overseas Holding B.V.	100%	Netherlands	Trading
Kalina International	100%	Switzerland	Management
Kalina Beauty	100%	Switzerland	Management
Kosmetik und Rasierwaren Solingen GmbH	100%	Germany	Trading
Dr. Scheller Cosmetics AG	90.91%	Germany	Trading
Dr. Scheller DuroDont GmbH	90.91%	Germany	Trading
Lady Manhattan Cosmetics GmbH	90.91%	Germany	Trading
Apotheker Scheller Naturmittel GmbH	90.91%	Germany	Trading
Premium Cosmetics GmbH	90.91%	Germany	Trading
Lady Manhattan Cosmetics GmbH	90.91%	Austria	Trading
Dr. Scheller Cosmetics Polska Sp. zo.o.	90.91%	Poland	Trading
Lady Manhattan Ltd.	90.91%	UK	Trading
LLC Kalina Finance	100%	Russia	Finance activity
LLC Glavskazka	100%	Russia	Trading

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

As discussed in Note 11, the Group completed in April 2005 the acquisition of a controlling interest in Dr. Scheller Cosmetics AG Group (Dr. Scheller), a German perfume manufacturer and distributor. The Group further purchased: in June 2006 – 1,209,416, in December 2006 – 685,424, in March 2007 – 80,226, in the second quarter 2007 – 138, 381 of 6,500,000 outstanding ordinary shares of that company respectively. At June 30, 2007, the Group owned 90.91% of Dr Scheller's ordinary shares.

In December 2006 the Group management decided to dispose of its detergents manufacturing plant in Omsk (Russian Federation). The Manufacturing plant ceased production in June 2006. Net assets related to the Omsk manufacturing plant, property and equipment and inventory with a carrying value of RUB 153,335 thousand are separately disclosed as "Held For Sale" at June, 30 2007 (Note 7).

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards. The financial statements have been prepared on the historical cost basis. The principal accounting policies are set out below.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Description	**Useful Life (years)**
Buildings	50
Machinery and equipment	10-15
Office equipment and other assets	5

Intangible assets

Intangible assets acquired separately – Intangible assets acquired separately are reported at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over their estimated useful lives of 10 years for trademarks and licensed software. As described in note 11, intangible assets include trademarks with indefinite useful life. Amortization of intangible assets is included into other administrative expenses. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

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

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

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

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

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

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

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

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

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

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

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

Financial assets – Investments are recognized and derecognized on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial liabilities and equity instruments issued by the Group

Classification as debt or equity – Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments – An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

Other financial liabilities – Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

3. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Half-Year ended 30/06/07 RUB'000	Half-Year ended 30/06/06 RUB'000
Advertising expenses	712,993	677,772
Salaries and related taxes	562,624	466,112
Transportation expenses	194,020	152,114
Depreciation charge	96,114	87,810
Raw materials obsolescence expenses	25,007	21,597
Taxes, other than income tax	36,281	46,859
Warehouse expenses	32,897	32,470
Consulting expenses	58,010	88,924
Other	98,126	62,735
Total	**1,816,072**	**1,636,394**

4. FINANCE COSTS

	Half-Year ended 30/06/07 RUB'000	Half-Year ended 30/06/06 RUB'000
Interest expense	93,024	66,939
Interest income	(9,196)	(6,226)
Total	**83,828**	**60,713**

5. INCOME TAXES

Income tax recognized in profit or loss

	Half-Year ended 30/06/07 RUB'000	Half-Year ended 30/06/06 RUB'000
Tax expense/(income) comprises:		
Current tax expense/(income)	111,419	119,447
Deferred tax income	15,232	(58,487)
Total tax expense	**126,651**	**60,960**

The Group provides for current taxes based on statutory financial statements maintained and prepared in local currencies and in accordance with local statutory regulations which differ significantly from IFRS. The Group was subject to a tax rate of 24% in Russia, 25% in Ukraine, and 38% in Germany in 2007 and 2006.

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

	Half-Year ended 30/06/07 RUB'000	Half-Year ended 30/06/06 RUB'000
Non-current deferred tax assets:		
Accrued expenses	178,712	118,903
Other	56,361	17,245
Deferred tax assets	**235,073**	**136,148**
Non-current deferred tax liability:		
Valuation of non-current assets	(229,233)	(205,134)
Depreciation of PPE	(166,058)	(82,646)
Deferred tax liabilities	**(395,291)**	**(287,780)**

6. EARNINGS PER SHARE

	Half-Year ended 30/06/07 RUB'000	Half-Year ended 30/06/06 RUB'000
Basic and diluted earnings per share		
From continuing operations	362,297	376,933
From discontinued operations	-	41,628
Profit for the year	**362,297**	**418,561**

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:

	Half-Year ended 30/06/07 RUB'000	Half-Year ended 30/06/06 RUB'000
Profit for the year attributable to equity holders of the parent	357,944	419,817

	Half-Year ended 30/06/07 Shares	Half-Year ended 30/06/06 Shares
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share (all measures)	9,752,311	9,752,311

7. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

In December 2006 the Group management decided to dispose of its detergents manufacturing plant in Omsk (Russian Federation). The Manufacturing plant ceased production in June 2006. Net assets related to the Omsk manufacturing plant, property and equipment and inventory with a carrying value of RUB 153,335 thousand are separately disclosed as “Held For Sale” at June 30, 2007.

	Half-Year ended 30/06/07	
	RUB’000	
Property, plant and equipment	99,475	
Inventories	53,860	
Trade and other receivables	-	
Cash and cash equivalents	-	
Assets classified as held for sale	**153,335**	
Accounts payable	-	
Short-term debt	-	
Liabilities classified as held for sale	**-**	
Net assets/(liabilities) classified as held for sale	**153,335**	

8. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress	Land	Buildings	Machinery & Equipment	Fixtures & Fittings	Total
	RUB’000	RUB’000	RUB’000	RUB’000	RUB’000	RUB’000
Cost						
Balance at January 1, 2006	**90,144**	**17,288**	**1,803,542**	**2,144,820**	**171,366**	**4,227,160**
Additions to CIP	52,400	-				52,400
Transfers from CIP	(52,400)	-	26,570	167,469	40,870	182,509
Disposals	-	-	(137)	(5,800)	(2,553)	(8,490)
Balance at June 30, 2006	**90,144**	**17,288**	**1,829,975**	**2,306,489**	**209,683**	**4,453,579**
Accumulated depreciation						
Balance at January 1, 2006	**-**	**-**	**276,406**	**1,189,150**	**69,224**	**1,534,780**
Charge for the year	-	-	36,040	86,575	11,943	134,558
Disposals			(19)	(715)	(2,480)	(3,214)
Balance at June 30, 2006	**-**	**-**	**312,427**	**1,275,010**	**78,687**	**1,666,124**
Carrying amount						
As at January 1, 2006	**90,144**	**17,288**	**1,527,136**	**955,670**	**102,142**	**2,692,380**
As at at June 30, 2006	**90,144**	**17,288**	**1,517,548**	**1,031,479**	**130,996**	**2,787,454**

	Construction in progress	Land	Buildings	Machinery & Equipment	Fixtures & Fittings	Total
	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000
Cost						
Balance at January 1, 2007	**74,822**	**17,288**	**1,915,021**	**2,394,471**	**244,224**	**4,645,826**
Additions to CIP	68,999					68,999
Transfers from CIP	-	-	2,140	71,101	57,874	131,115
Disposals	-	-	(790)	(20,390)	(2,635)	(23,815)
Balance at June 30, 2007	**143,821**	**17,288**	**1,916,371**	**2,445,182**	**299,463**	**4,822,125**
Accumulated depreciation						
Balance at January 1, 2007	**-**	**-**	**326,174**	**1,388,443**	**115,049**	**1,829,666**
Charge for the year	-	-	25,746	104,099	20,603	150,448
Disposals			(154)	(13,430)	(2,145)	(15,729)
Balance at June 30, 2007	**-**	**-**	**351,765**	**1,479,112**	**133,507**	**1,964,384**
Carrying amount						
As at January 1, 2007	**74,822**	**17,288**	**1,588,847**	**1,006,028**	**129,175**	**2,816,160**
As at June 30, 2007	**143,821**	**17,288**	**1,564,605**	**966,070**	**165,956**	**2,857,741**

9. OTHER INTANGIBLE ASSETS

	Trademarks and other intangible assets	Licensed software	Total
	RUB'000	RUB'000	RUB'000
Cost			
Balance at January 1, 2006	**354,909**	**15,183**	**370,092**
Additions	204	708	912
Disposals			
Balance at June 30, 2006	**355,113**	**15,891**	**371,004**
Accumulated amortization			
Balance at January 1, 2006	**1,582**	**4,864**	**6,446**
Amortization expense	4,982	746	5,728
Disposals	-	-	-
Balance at June 30, 2006	**6,564**	**5,610**	**12,174**
Carrying amount			
As at 1 January 2006	**353,327**	**10,319**	**363,646**
As at 30 June 2006	**348,549**	**10,281**	**358,830**

	Trademarks and other intangible assets RUB'000	Licensed software RUB'000	Total RUB'000
Cost			
Balance at January 1, 2007	**360,402**	**15,183**	**375,585**
Additions	625	-	625
Disposals	-	-	-
Balance at June 30, 2007	**361,027**	**15,183**	**376,210**
Accumulated amortization			
Balance at January 1, 2007	**9,808**	**6,382**	**16,190**
Amortization expense	4,561	759	5,320
Disposals	-	-	-
Balance at June 30, 2007	**14,369**	**7,141**	**21,510**
Carrying amount			
As at 1 January 2007	**350,594**	**8,801**	**359,395**
As at 30 June 2007	**346,658**	**8042**	**354,700**

The useful life for Dr. Scheller trademarks (carrying value of trademarks "Mankhattan" as of June 30, 2007 is RUB 324,763 thousands) is currently assessed as indefinite, and the carrying amount of trademarks is subject to annual impairment review.

10. GOODWILL

	Half-Year ended 30/06/07 RUB'000	Half-Year ended 30/06/06 RUB'000
Balance at beginning of year	217,121	71,062
Increase in equity interest in Dr. Scheller	56,313	104,711
Effect of foreign currency exchange differences		-
At the end of the year	**273,434**	**175,773**

11. ACQUISITION OF DR. SCHELLER

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

	Book value '000 RUB	Fair value adjustments '000 RUB	Fair value '000 RUB
Net assets acquired			
Current assets	756,028	-	756,028
Purchased plant and equipment	1,056,750	259,558	1,316,308
Intangible assets	24,067	318,535	342,602
Deferred tax liability	(24,134)	(215,629)	(239,763)
Current liabilities	(625,015)	-	(625,015)

Non-current liabilities	(672,962)	-	(672,962)
	514,734	**362,464**	**877,198**
Goodwill			71,062
Total consideration satisfied by cash			609,428
Net cash outflow arising on acquisition:			
Cash consideration			609,428
Cash and cash equivalents acquired			(136,119)
Total consideration net of cash acquired			**473,309**

During June and December 2006, the Group acquired additional 1,894,840 shares of Dr. Scheller Cosmetics AG (Scheller), 26% for a combined purchase price of RUB 446,187 thousand in cash. In 2007 Group acquired additional 218,607 shares of Dr. Scheller Cosmetics AG (Scheller), 3,36% for a combined purchase price of RUB 91,210 thousand in cash.
The acquisition took place as follows:

- in June 2006 the Group acquired 1,209,416 shares for a purchase price of RUB 285,461 thousand in cash;
- in December 2006 the Group acquired 685,424 shares for a purchase price of RUB 160,726 thousand in cash;
- in March 2007 the Group acquired 80,226 shares for a purchase price of RUB 34,303 thousand in cash;
- in the second quarter 2007 the Group acquired 138,381 shares for a purchase price of RUB 56,907 thousand in cash.

The transaction was accounted for under the purchase accounting method.

The total number of shares of Dr. Scheller outstanding at June 30, 2007 was 6,500,000.

The total number of shares owned by the Group was 5,909,187 at June 30, 2007.

12. TAXES RECOVERABLE AND PAYABLE

Taxes recoverable consisted of the following at June 30, 2007 and 2006:

	Half-Year ended 30/06/07	Half-Year ended 30/06/06
	RUB’000	RUB’000
Value Added Tax (“VAT”)	356,771	333,115
Allowance for non-recoverable VAT	(43,745)	(8,830)
Other taxes	72,198	109,828
Total	**385,224**	**434,113**

Taxes payable consisted of the following at June 30, 2007 and 2006:

	Half-Year ended 30/06/07 RUB’000	Half-Year ended 30/06/06 RUB’000
VAT	13,226	82,766
Other taxes	47,363	27,195
Total	**60,589**	**109,961**

13. INVENTORIES

Inventories consisted of the following at June 30, 2007 and 2006:

	Half-Year ended 30/06/07 RUB’000	Half-Year ended 30/06/06 RUB’000
Finished goods	1,216,670	1,013,186
Raw materials	957,913	795,526
Work in progress	70,053	94,999
Allowance for obsolescence	(144,220)	(70,517)
Total	**2,100,416**	**1,833,194**

14. TRADE AND OTHER RECEIVABLES

	Half-Year ended 30/06/07 RUB’000	Half-Year ended 30/06/06 RUB’000
Trade receivables	1,327,628	1,435,815
Allowance for doubtful debts	(133,045)	(163,252)
Total	**1,194,583**	**1,272,563**

15. BORROWINGS

	Annual interest rate	Current		Non-current	
		Half-Year ended 30/06/07	Half-Year ended 30/06/06	Half-Year ended 30/06/07	Half-Year ended 30/06/06
		RUB’000	RUB’000	RUB’000	RUB’000
Long-term loans					
EBRD loan (USD)	LIBOR*+3.5%	132,615	170,917	66,308	179,834
Black Sea Trade bank loan (USD)	LIBOR*+3%	-	-	154,897	-
Badden-Wurttembergische bank loan (EUR)	3.9-4.4%	-	34,010	172,672	160,060
Loan Kalina International					2,528
Total		**132,615**	**204,927**	**393,877**	**342,422**
Short-term loans					
Raiffeisenbank Austria loan (USD)	LIBOR*+4%	429,000	427,443	-	-
MMB loan (RUR)	7.0-8.4%	759,000	420,316	-	-
Citibank loan (USD)	7.9%	80,000	-	-	-
Dresdner Bank Göppingen	EONIA**+0.75%	146,115	231,342	-	-
Deutsche bank – Money market loan	4.99-5.65%	82,830	110,626	-	-
Other loans in RUB, USD, EUR		256,618	250,587	-	-
including					
Badden-Wurttembergische bank	4.50%	6,735	90,987		
Badden-Wurttembergische bank	4,15%	6,075			
Badden-Wurttembergische bank	4,30%	4,409			
Badden-Wurttembergische bank	4,44%	40,512			
Badden-Wurttembergische bank	4,10%	2,222			
Badden-Wurttembergische bank CHF	2,78%	3,090			
Badden-Wurttembergische bank CHF	3,40%	45,997			
Internationale Bodensee Bank	3M-Euribor+1.5%	11,560			
Internationale Bodensee Bank	1M-Euribor+0.75 %	23,363			
KSK Goppingen	5.61%	34,715	81,542		
Hypovereinsbank	5.14%	69,430	78,043		
OJSC URSA	12%	8,510	15		
Total		**1,753,563**	**1,440,313**	**-**	**-**

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

16. TRADE AND OTHER PAYABLES

	Half-Year ended 30/06/2007	Half-Year ended 30/06/2006
	RUB’000	RUB’000
Trade payables	755,749	506,129
Other payable	523,368	477,434
Accrued interest	15,415	-
Total	**1,294,532**	**983,563**

17. OBLIGATIONS UNDER FINANCE LEASES

Finance lease liabilities

	Minimum lease payments		Present value of minimum lease payments	
	Half-Year ended 30/06/07	Half-Year ended 30/06/06	Half-Year ended 30/06/07	Half-Year ended 30/06/06
	RUB’000	RUB’000	RUB’000	RUB’000
No later than 1 year	23,658	14,651	22,414	14,651
Later than 1 year and not later than 5 years	20,418	30,952	20,418	30,952
Later than five years	-	-	-	-
Present value of minimum lease payments	**44,076**	**45,603**	**42,832**	**45,603**
Included in the financial statements as:				
Current borrowings			23,658	14,651
Non-current borrowings			20,418	30,952
Total			**44,076**	**45,603**

18. RETIREMENT BENEFIT OBLIGATIONS

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

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

Discount rate	4.5% per annum
Expected rate of salary increases	1.5% per annum
Pension increase	1.5% per annum
Return on plan assets	3.2% per annum

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at December 31, 2006 by Kern Mauch & Kollegen GmbH (the Firm of actuaries, registered in Germany). The present value of the defined benefit obligation, the related current service cost and past service cost was measured using the projected unit credit method.

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

	Half-Year ended 30/06/2007	Half-Year ended 30/06/2006
	RUB’000	RUB’000
Current service cost	1,111	-
Interest cost	3,714	7,033

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

	Half-Year ended 30/06/2007 RUB'000	Half-Year ended 30/06/2006 RUB'000
Present value of funded defined benefit obligation	176,353	180,004
Fair value of plan assets	(49,087)	-
Deficit in scheme	127,265	180,004
Unrecorded gain/(loss)	555	(3,873)
Liability recognized in the balance sheet	**127,821**	**176,131**

Movement in fair value of plan assets is as follows:

	Half-Year ended 30/06/2007 RUB'000
At January 1, 2007	48,263
Effect of exchange rate movements	26
Expected return on plan assets	798
At June 30, 2007	49,087

Other than the defined benefit scheme liability outlined above, the Group was not liable for any supplementary pensions, post retirement health care, insurance benefits, or retirement indemnities to its current or former employees, as at June 30, 2007 and 2006.

19. RELATED PARTY TRANSACTIONS

Trading transactions The group has one party related by means of common ownership – LLC "Soyuzspezstroy". Advances for construction to related parties as of June 30, 2007 and 2006 were as follows:

	Purchases of services		Advances to related parties	
	Half-Year ended 30/06/07 RUB'000	Half-Year ended 30/06/06 RUB'000	Half-Year ended 30/06/07 RUB'000	Half-Year ended 30/06/06 RUB'000
LLC "Soyuzspezstroy"	22,155	40,440	99,325	48,662
Total	**22,155**	**40,440**	**99,325**	**48,662**

20. CASH AND CASH EQUIVALENTS

Cash consisted of the following at June 30, 2007 and 2006

	Half-Year ended 30/06/2007 RUB'000	Half-Year ended 30/06/2006 RUB'000
Cash on hand – RUB	592	583
Cash in bank – RUB accounts	31,540	71,685
Cash in bank – USD accounts	61,232	45,438
Restricted cash – USD accounts	63,049	71,708
Total	**156,413**	**189,414**

21. CONTINGENCIES AND OPERATING ENVIRONMENT

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

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

22. RISK MANAGEMENT POLICIES

Management of risk is an essential element of the Group's operations. The main risks inherent to the Group's operations are those related to credit risk exposures, market movements in interest rates and foreign exchange rates. A description of the Group's risk management policies in relation to those risks follows.

Credit risk – The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one customer, or groups of customers. In addition, the ageing of receivables is monitored periodically by Management.

Currency risk – Currency risk is that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The Group is exposed to currency risk in respect of its loans outstanding, which are denominated in several currencies.

Interest rate risk – The Group is exposed to some interest rate risk since some of its borrowings and bonds provide for variable interest calculations.