

JSC The Seventh Continent

Interim Consolidated Financial Statements
prepared in accordance with International
Financial Reporting Standards (IFRS)
as at June 30, 2008 and Independent
Auditor's Review Report

Исх. № 3499 от 29.09.2008



BDO Unicon
Auditors and Consultants



Report on Review of Interim Consolidated Financial Statements of JSC The Seventh Continent

To the Shareholders of JSC The Seventh Continent

We have reviewed the accompanying interim consolidated balance sheet of JSC The Seventh Continent and its subsidiaries (hereinafter – the Group) as at June 30, 2008, and the related interim consolidated statements of income, cash flows and changes in equity for the six months then ended and other explanatory notes. Management is responsible for the preparation and fair presentation of these interim consolidated financial statements in accordance with International Financial Reporting Standards. Our responsibility is to express a conclusion on these interim consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity.” A review of interim consolidated financial statements consists of making inquiries, primarily of the Group’s persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial statements do not present fairly, in all material respects, the financial position of the Group as at June 30, 2008, and of its financial performance and its cash flows for the six months then ended in accordance with International Financial Reporting Standards.

Irina Smirnova
Partner

August 18, 2008

BDO Unicon CJSC

Section 11, Build. 1, 125 Warshavskoye Shosse, Moscow, Russian Federation

*JSC The Seventh Continent***INTERIM CONSOLIDATED BALANCE SHEET AS AT JUNE 30, 2008***(in thousands of Russian Roubles unless otherwise stated)*

	Note	June 30, 2008	December 31, 2007
ASSETS			
Non-current assets			
Property, plant and equipment	11	16,442,968	12,716,192
Goodwill	3	181,419	176,433
Long-term loans issued	9	3,932,378	2,434,232
Long-term prepayments and other non-current receivables	10	5,234,346	6,851,938
Other non-current assets	12	44,306	158,462
Deferred tax asset	16	102,428	48,482
Total non-current assets		25,937,845	22,385,739
Current assets			
Inventory	8	2,685,218	2,476,286
Short-term receivables and prepayments	7	2,395,170	1,137,012
Short-term loans issued	5	1,156,633	2,728,424
Short-term financial investments	6	3,211,964	4,259,914
Cash and cash equivalents	4	1,060,330	1,450,320
Total current assets		10,509,315	12,051,956
Total assets		36,447,160	34,437,695
LIABILITIES AND EQUITY			
Equity attributable to the parent company shareholders			
Share capital	17	102,169	102,169
Share premium	17	8,972,256	8,972,256
Fair value reserve for available-for-sale investments		-	(2,050)
Retained earnings		7,067,038	6,021,960
Translation loss		(29,170)	(22,138)
Total equity attributable to the parent company shareholders		16,112,293	15,072,197
Minority interest	18	638,227	669,518
Total equity		16,750,520	15,741,715
Non-current liabilities			
Long-term loans and other borrowings	13	1,879,623	9,175,106
Other long-term liability		15,102	26,855
Deferred tax liability	16	788,513	715,319
Total non-current liabilities		2,683,238	9,917,280
Current liabilities			
Trade payables		3,881,554	4,788,412
Taxes payable	15	332,385	391,065
Short-term loans and other borrowings	13	11,317,796	2,788,147
Other accounts payable	14	1,481,667	811,076
Total current liabilities		17,013,402	8,778,700
Total liabilities		19,696,640	18,695,980
Total liabilities and equity		36,447,160	34,437,695
General Director			Stepan Kovalchuk
August 15, 2008			

The accompanying notes on pages 8 to 37 are an integral part of these interim consolidated financial statements

JSC The Seventh Continent
INTERIM CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED JUNE 30, 2008
(in thousands of Russian Roubles unless otherwise stated)

	Note	Six months ended June 30, 2008	Six months ended June 30, 2007
Revenue	19	18,948,688	15,467,046
Cost of goods sold	20	(13,501,481)	(10,867,595)
Gross profit		5,447,207	4,599,451
General, selling and distribution expenses	21	(4,138,956)	(3,333,740)
Other operating expenses from non-banking activities, net	22	(63,802)	(13,087)
Operating and financial income from banking activities	24	707,014	431,145
Operating and financial expenses from banking activities	25	(850,229)	(379,677)
Operating income		1,101,234	1,304,092
Interest income from non-banking activities	23	267,340	120,735
Interest expense from non-banking activities	23	(287,567)	(45,166)
Other non-operating income from non-banking activities, net	26	207,100	360,381
Profit before income tax		1,288,107	1,740,042
Income tax expense	16	(274,320)	(373,434)
Profit for the period		1,013,787	1,366,608
Profit attributable to the parent company shareholders		1,045,078	1,335,406
Profit attributable to minority interest	18	(31,291)	31,202
Profit for the period		1,013,787	1,366,608
Earnings per share (expressed in Russian Roubles per share) – basic and diluted		13.93	17.81

General Director



Stepan Kovalchuk

August 15, 2008

The accompanying notes on pages 8 to 37 are an integral part of these interim consolidated financial statements

JSC The Seventh Continent
INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2008

(in thousands of Russian Roubles unless otherwise stated)

	Six months ended June 30, 2008	Six months ended June 30, 2007
Cash flows from operating activities		
Profit before tax and minority interest	1,288,107	1,740,042
Adjustments for:		
Expenses for creation of provision for impairment of receivables and provision for possible losses	865,968	142,989
Depreciation and amortization	554,881	420,800
Interest expenses	432,030	45,166
Loss on disposal of property, plant and equipment and other assets	60,361	13,093
Loss (gain) on resale of securities	13,062	(184,335)
Interest income	(852,151)	(192,571)
Recovery of provision for possible losses	(578,373)	(52,117)
Excess of the Group's share in the fair value of net assets over the cost of acquisition	(218,979)	(399,042)
Exchange difference	(78,018)	15,812
Group's share in the associates' profits	(3,258)	(5,115)
Other non-cash items	(1,808)	39,899
Operating cash flows before working capital changes	1,481,822	1,584,621
Decrease / (Increase) in accounts receivable and prepayments	(492,995)	151,254
Decrease in inventory	325,765	303,856
Decrease in long-term prepayments and other non-current receivables	83,540	106,364
Decrease in accounts payable and accruals	(344,545)	(859,354)
(Decrease) / Increase in taxes payable	49,796	(33,398)
Increase in other payables	386,310	16,827
Cash generated from operations	1,489,693	1,270,170
Income taxes paid	(474,172)	(488,180)
Interest paid	(494,074)	(54,067)
Interest received	539,826	130,001
Net cash generated from operating activities	1,061,273	857,924
Cash flows from investing activities		
Net cash outflow on acquisition of subsidiaries	(7,007)	(104,546)
Cash acquired on purchase of subsidiary	83,467	11,048
Purchase of property, plant and equipment, intangible assets and prepayments for property, plant and equipment	(3,371,633)	(1,876,716)
Proceeds from sale of property, plant and equipment	105,147	40
Purchase of investment securities available for sale	(382,608)	(9,902,120)
Proceeds from sale of investment securities	1,098,279	10,167,326
Loans issued	(9,124,184)	(6,673,683)
Repayment of loans issued	8,846,299	2,179,315
Bank deposits	(8,089,801)	-
Bank deposits withdrawal	8,465,069	-
Net cash used in investing activities	(2,376,972)	(6,199,336)

The accompanying notes on pages 8 to 37 are an integral part of these interim consolidated financial statements

JSC The Seventh Continent

**INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2008**

(in thousands of Russian Roubles unless otherwise stated)

	Six months ended June 30, 2008	Six months ended June 30, 2007
Cash flows from financing activities		
Proceeds from borrowings	11,883,476	4,005,042
Repayment of borrowings	(10,924,812)	(3,995,020)
Dividends paid	-	(299,404)
Bonds	-	6,983,330
Net cash generated from financing activities	958,664	6,693,948
Net (decrease)/ increase in cash and cash equivalents	(357,035)	1,352,536
Cash and cash equivalents at the beginning of the period	1,450,320	1,348,500
Effect of exchange rate changes on cash and cash equivalents	(32,955)	-
Cash and cash equivalents at the end of the period	1,060,330	2,701,036

General Director



Stepan Kovalchuk

August 15, 2008

The accompanying notes on pages 8 to 37 are an integral part of these interim consolidated financial statements

**INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2008**

(in thousands of Russian Roubles unless otherwise stated)

	Equity attributable to the Group					Total equity attributable to the parent company shareholders	Minority interest	Total equity
	Share capital	Share premium	Fair value reserve for investments available for sale	Retained earnings	Translation loss			
Six months ended June 30, 2007								
Balance as at December 31, 2006	102,169	8,972,256	-	3,860,650	(42)	12,935,033	651,498	13,586,531
Dividends	-	-	-	(375,000)	-	(375,000)	-	(375,000)
Net profit for the six months ended June 30, 2007	-	-	-	1,335,406	-	1,335,406	31,202	1,366,608
Translation loss	-	-	-	-	(6,336)	(6,336)	-	(6,336)
Balance as at June 30, 2007	102,169	8,972,256	-	4,821,056	(6,378)	13,889,103	682,700	14,571,803
Six months ended June 30, 2008								
Balance as at December 31, 2007	102,169	8,972,256	(2,050)	6,021,960	(22,138)	15,072,197	669,518	15,741,715
Net profit for the six months ended June 30, 2008	-	-	-	1,045,078	-	1,045,078	(31,291)	1,013,787
Surplus from revaluation of investments available for sale	-	-	2,050	-	-	2,050	-	2,050
Translation loss	-	-	-	-	(7,032)	(7,032)	-	(7,032)
Balance as at June 30, 2008	102,169	8,972,256	-	7,067,038	(29,170)	16,112,293	638,227	16,750,520

General Director
August 15, 2008



Stepan Kovalchuk

The accompanying notes on pages 8 to 37 are an integral part of these interim consolidated financial statements