JSC Seventh Continent

Consolidated financial statements, prepared in accordance with International Financial Reporting Standards (IFRS) as at 31 December 2005

BDO Unicon
Auditors and Consultants

Closed joint-stock company

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Independent auditors' report

To the Shareholders of JSC Seventh Continent

We have audited the accompanying consolidated balance sheets of JSC Seventh Continent (the "Company") and its subsidiaries (together, the "Group") as at 31 December 2005, and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended (hereinafter the "consolidated financial statements") prepared under the International Financial Reporting Standards (IFRS). These consolidated financial statements are the responsibility of the Group's management. 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 plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements for the year ended 31 December 2005 are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2005, and the results of its operations and its cash flows for the year ended 31 December 2005 in accordance with International Financial Reporting Standards.

Andrey Balyakin
Audit Engagement Partner
BDO Unicon Inc.

6 March 2006
Moscow, Russian Federation

(in thousands of Russian Roubles unless otherwise stated)

	Note	31 December 2005	31 December 2004
ASSETS			
Current assets:			
Cash and cash equivalents	5	1 886 902	2 174 042
Loans given		66 987	75 878
Accounts receivable and prepayments	6	838 439	621 617
Inventories	7	1 576 319	979 755
Total current assets		4 368 647	3 851 292
Non-current assets			
Property, plant and equipment	8	6 082 756	2 047 403
Investments in associates	4	5 699	5 718
Long-term prepayments and other non-current receivables	9	343 451	43 524
Other non-current assets		7 621	6 049
Deferred tax asset	18	-	6 597
Total non-current assets		6 439 527	2 109 291
Total assets		**10 808 174**	**5 960 583**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Trade payables		2 805 966	2 139 499
Other payables	11	463 493	209 978
Taxes payable	10	215 266	216 800
Loans	12	2 640 507	-
Total current liabilities		6 125 232	2 566 277
Non-current liabilities:			
Deferred tax liability	18	23 897	-
Total non-current liabilities		23 897	-
Total liabilities		**6 149 129**	**2 566 277**
Shareholders' equity:			
Share capital	13	96 929	96 929
Share premium	13	2 389 121	2 392 257
Fair value reserve		496	396
Retained earnings		2 172 499	904 724
Total shareholders' equity		4 659 045	3 394 306
Total liabilities and shareholders' equity		**10 808 174**	**5 960 583**

General Director Galina Ilyashenko

6 March 2006

The accompanying notes on pages 5 to 20 are an integral part of these consolidated financial statements

(in Russian Roubles thousands unless otherwise stated)

	Note	2005	2004
Sales	14	20 157 629	14 686 912
Cost of goods sold	15	(13 676 110)	(10 121 064)
Gross profit		6 481 519	4 565 848
General, selling and distribution expenses	16	(4 752 470)	(3 533 615)
Other operating income and expenses (net)	17	1 825	10 088
Operating income		1 730 874	1 042 321
Interest expense		(47 192)	(7 345)
Interest income		125 456	26 891
Other non-operating income (expenses), net		2 230	(1 765)
Investment income		17	553
Income before taxation		1 811 385	1 060 655
Income tax expense	18	(478 992)	(273 196)
Income after taxation		1 332 393	787 459
Net income		**1 332 393**	**787 459**
Earnings per share (expressed in Russian Roubles per share)			
- basic and diluted	19	20.65	13.86

Change in previously reported Sales and Other Income for the year ended 31 December 2004 is explained by reclassification of marketing services and sublease in the amount of RR 394 116 for comparison purposes with the year ended 31 December 2005 (see Note 3 for details).

General Director — Galina Ilyashenko

6 March 2006

JSC Seventh Continent

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

(in thousands of Russian Roubles unless otherwise stated)

	2005	2004
Cash flow from operating activities		
Income before taxation	1 811 385	1 060 655
Adjustments for:		
Depreciation and amortisation	380 800	190 967
Change in provision for impairment of receivables and receivable write-off	(1 609)	4 974
Derecognition of accounts payable	(2 547)	(665)
Loss/(gain) on disposal of property, plant and equipment	1 738	(9 181)
Gain on disposal of available-for-sale investments	-	(178)
Interest expenses	47 192	7 345
Share of profit from associates	-	(41)
Interest income	(125 456)	(26 891)
Dividend income	(17)	(553)
Net loss related to subsidiary	-	1 806
Operating cash flows before working capital changes	**2 111 486**	**1 228 238**
Increase in accounts receivable and prepayments	(216 822)	(300 087)
Increase in inventories	(596 564)	(329 498)
Increase in non-current prepayments and other receivables	(299 927)	(43 524)
Increase in accounts payable and accruals	666 467	583 947
(Decrease)/increase in taxes payable (other than income)	20 267	38 916
Increase in other payables	346 652	120 083
Cash generated from operations	**2 031 559**	**1 298 075**
Income taxes paid	(437 194)	(268 075)
Interest paid	(12 672)	(9 145)
Interest received	127 058	25 309
Net cash generated from operating activities	**1 708 751**	**1 046 164**
Cash flow from investing activities		
Purchase of property, plant and equipment and intangible assets	(4 516 090)	(1 355 437)
Proceeds from sale of property, plant and equipment	16 966	282 733
Decrease/(increase) in loans given	8 891	(71 199)
Cash flow from other investing activities	15	7 309
Net cash used in investing activities	**(4 490 218)**	**(1 136 594)**
Cash flow from financing activities		
Proceeds from issuance of ordinary shares, net	-	2 259 491
Dividends paid	(64 519)	-
Payments of costs incurred related to initial public offering	(3 136)	(22 982)
Proceeds from borrowings	7 499 266	60 000
Repayment of borrowings	(4 937 284)	(73 600)
Repayment of bonds issued	-	(50 546)
Net cash generated from financing activities	**2 494 327**	**2 172 363**
Net (decrease)/increase in cash and cash equivalents	**(287 140)**	**2 081 933**
Cash and cash equivalents at the beginning of the year	2 174 042	92 109
Cash and cash equivalents at the end of the year	**1 886 902**	**2 174 042**

General Director Galina Ilyashenko

6 March 2006

The accompanying notes on pages 5 to 20 are an integral part of these consolidated financial statements

(in thousands of Russian Roubles unless otherwise stated)

	Share capital	Share premium	Fair value reserve	Retained earnings	Total shareholders' equity
Balance as at 1 January 2004	92 721	134 825	5 077	118 805	351 428
Issue of share capital	4 208	2 310 075	-	-	2 314 283
Costs of issuing shares (net of tax of RR 16 624)	-	(52 643)	-	-	(52 643)
Investment disposal (net of tax of RR 1 604)	-	-	(5 077)	-	(5 077)
Fair value gain (net of tax of RR 125)	-	-	396	-	396
Distributed to shareholders	-	-	-	(1 540)	(1 540)
Net income for the year	-	-	-	787 459	787 459
Balance as at 31 December 2004	96 929	2 392 257	396	904 724	3 394 306
Costs of issuing shares (net of tax RR 990)	-	(3 135)	-	-	(3 135)
Fair value gain (net of tax RR 31)	-	-	100	-	100
Dividends	-	-	-	(64 619)	(64 619)
Net income for the year	-	-	-	1 332 393	1 332 393
Balance as at 31 December 2005	96 929	2 389 122	496	2 172 498	4 659 045

General Director Galina Ilyashenko

6 March 2006

(in thousands of Russian Roubles unless otherwise stated)

1 GENERAL INFORMATION

Organisation. JSC Seventh Continent (the "Company") and its subsidiaries (the "Group" or "Seventh Continent Retail Management Group") operate in the retail sales business. The Company was incorporated in the Russian Federation as a closed joint stock company in 1994 and re-registered with the Moscow Registration Chamber as an open joint stock company on 22 September 2000. The Company's office is located at 8 Festivalnaya, building 1, Moscow, 125581. The Company has approximately 10 000 employees at the balance sheet date.

At 31 December 2005 the Company was 86.96 per cent owned by JSC 7C invest-holding (Russian Federation), which is ultimately controlled by individuals.

Prior to 2005 the Group carried out its activities only in Moscow and Moscow region. In July 2005, the Company's activities expanded to regional markets by acquisition of 12 stores in Kaliningrad region. In 2004 the Company acquired trade marks "Seventh Continent", "Seventh Continent Seven Steps", "Seventh Continent - Five Stars", which had been previously used under the licensing agreement with the parent company, JSC 7C invest-holding. In addition in October 2004, the Company also purchased the newly registered trade mark, "Nash Gipermarket" from JSC 7C invest-holding and created (registered) a new brand name "Nash Produkt". The Company operates in the retail sales business under these brand names (see Note 4).

At 31 December 2005 the Group operated 111 stores, (at 31 December 2004 – 77). The Seventh Continent Retail Management Group is part of the Seventh Continent Group and accounts for considerable portion of key operations of the Group. In particular, the Company rents the majority of its stores (90 out of 118 outlets rented as at 31 December 2005, including 7, which have not commenced operations). The main lessor is JSC Stolichnye Gastronomy (60 stores), controlled by ultimate shareholders. The Group owns 27 stores as at 31 December 2005 (2004: 6 stores).

The Group. As at 31 December 2005 and 2004 the Group consists of the following subsidiaries:

Entity	Activity	31 December 2005, % of voting rights	31 December 2004, % of voting rights
LLC The Seventh Continent – NW	Retail trade	99,9	-
7C-delivery Ltd	Home delivery	100	99,9
LLC 7C Development & Services	Maintenance service	100	99,9
LLC The Seventh Continent –R	Retail trade	100	99,9
ZAO Seventh Continent-RT	Managerial services	100	99,9

All companies of the Group are incorporated under the Laws of the Russian Federation.

In February – April 2005 the Company additionally acquired shares of all its subsidiaries mentioned above from JSC 7C invest-holding. As a result of these transactions the Company's share in subsidiaries' authorised capital stock as at 31 December 2005 was 100%. The Company spent 210 Russian Roubles to buy shares. The Group neither made a profit nor borne losses from the purchase of additional shares. In 2005, LLC The Seventh Continent-R established LLC The Seventh Continent – NW, with ownership of 99.99 %.

2 BASIS OF PRESENTATION

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

The Group companies maintain their accounting records in Russian Roubles ("RR") and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation ("RAR"). These consolidated financial statements are based on the statutory records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, available-for-sale investments are shown at fair value.

Management Estimates. The preparation of financial statements requires management of the Company to make estimates and assumptions that affects the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Changes in Accounting Policies. The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted those new/revised standards mandatory for financial years beginning on or after 1 January 2005.

The changes in accounting policies mainly result from adoption of the following new or revised standards:

- IFRS 3 "Business Combinations", IAS 36 (revised) "Impairment of Assets" and IAS 38 (revised) "Intangible Assets";
- IAS 1 (revised) "Presentation of Financial Statements";
- IAS 2 (revised) "Inventories";
- IAS 8 (revised) "Accounting Policies, Changes in Accounting Estimates and Errors";
- IAS 10 (revised) "Events after the Balance Sheet Date";
- IAS 16 (revised) "Property, Plant and Equipment";
- IAS 17 (revised) "Leases";
- IAS 24 (revised) "Related Party Disclosures";
- IAS 27 (revised) "Consolidated and Separate Financial Statements";
- IAS 28 (revised) "Investments in Associates";
- IAS 33 (revised) "Earnings per Share".

The principal effects of these changes in policies are discussed below.

IFRS 3 "Business Combinations", IAS 36 "Impairment of Assets" and IAS 38 "Intangible Assets". IFRS 3 applies to accounting for business combinations for which the agreement date is on or after 31 March 2004. The effect of the adoption of IFRS 3 upon the Group's accounting policies has impacted the recognition of restructuring provisions arising upon an acquisition. The Group is now only permitted to recognise an existing liability contained in the acquiree's financial statements on acquisition. Previously this type of restructuring provision could be recognised by acquirer regardless of whether the acquiree had recognised this type of liability.

Additionally, the adoption of IFRS 3 and IAS 36 has resulted in the Group ceasing annual goodwill amortisation. Starting 1 January 2005 the Group commenced impairment testing at the cash generating unit level annually (unless an event occurs during the year, which indicates that goodwill may be impaired, thus requiring goodwill to be tested more frequently). As at 31 December 2005 there were no impairment indications.

IAS 1 (revised) "Presentation of Financial Statements" and IAS 27 "Consolidated and Separate Financial Statements". Minority interests in net assets of the Group's subsidiaries are presented within equity, separately from parent shareholders' equity. Previously, minority interests were presented separately from liabilities and equity in the Group's consolidated balance sheet.

IAS 39 "Financial Instruments: Recognition and Measurement" (amended 2004). The gains and losses on re-measurement of financial assets available-for-sale to fair value are recognized as a separate component of equity. A gain or loss on an available-for-sale financial asset shall be recognised directly in equity (including reversal of impairment losses for equity instruments), through the statement of changes in equity, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in equity shall be recognised in profit or loss. However, interest calculated using the effective interest method is recognised in profit or loss. Dividends on an available-for-sale equity instrument are recognised in profit or loss when the entity's right to receive payment is established.

IFRSs and IFRIC Interpretations not yet effective. The Group has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

- IAS 19 (amended 2004) "Employee Benefits";
- IAS 39 (amended 2005) "Financial Instruments: Recognition and Measurement";
- IFRS 7 "Financial Instruments: Disclosures";
- IFRIC 4 "Determining whether an Arrangement contains a Lease".

The Group expects that the adoption of the pronouncements listed above will have no significant impact on the Group's financial statements in the period of initial application.

3 SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

Subsidiary undertakings, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over the operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the Group's share of the fair value of the identifiable net assets of the subsidiary acquired is recorded as goodwill. Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Increases in Ownership Interests in Subsidiaries

The differences between the carrying values of net assets attributable to interests in subsidiaries acquired and the consideration given for such increases are charged or credited to retained earnings.

Investments in Associates

Investments in associates are accounted for by the equity method of accounting. The associates are initially recognised at cost and the Group's shares of post-acquisition profit or a loss is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in its reserves. These are undertakings over which the Group generally has between 20% and 50% of the voting rights, or otherwise the Group has significant influence, but which it does not control. Unrealised gains on transactions between the Group and its associated undertakings are eliminated to the extent of the Group's interest in the associated undertakings; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Group's investment in associated undertakings includes goodwill (net of accumulated amortisation) on acquisition. Equity accounting is discontinued when the carrying amount of the investment in an associated undertaking reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated undertaking.

Cash and Cash Equivalents

Cash comprise cash on hand and deposits held at call with banks and credit card receivables.

Trade and Other Receivables

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables and includes VAT. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

Value Added Tax

Value Added Tax Payable. VAT is payable to tax authorities upon collection of receivables from customers. VAT on purchases, which have been settled at the balance sheet date, is deducted from the amount payable. In addition, VAT related to sales which have not been collected at the balance sheet date (VAT deferred) is also included in the balance of VAT payable. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT. The related VAT deferred liability is maintained until the debtor is written off for tax purposes.

Value Added Tax Recoverable. VAT recoverable relates to purchases, which have not been settled at the balance sheet date. VAT recoverable is reclaimable against VAT related to sales upon payment for the purchases.

Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the FIFO basis. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Suppliers' allowances

Volume rebates received from suppliers effectively reduce cost of goods purchases and are recognised as a reduction to cost of goods sold.

Property, Plant and Equipment

Property, plant and equipment are recorded at purchase or construction cost excluding the costs of day-to-day servicing, less accumulated depreciation and accu,ulated impairment in value. At each reporting date the management assess whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's net selling price and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the income statement. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the assets recoverable amount.

Depreciation is calculated on the restated amounts of property, plant and equipment on a straight-line basis. The depreciation periods, which approximate to the estimated useful economic lives of the respective assets, are as follows:

	Number of years
Buildings	25-40
Retail fittings	3-8
Other	3-8

Additions are recorded at cost. Subsequent renewal and improvement expenditures related to an item of property, plant and equipment are added to its carrying amount only when they improve the condition of the asset beyond its originally assessed standard of performance. Expenditure on repairs or maintenance of property, plant and equipment is usually recognised as an expense when incurred. Major renewals and improvements are capitalised, and the assets replaced are retired.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

Prepayments for the construction of stores and acquisition of fixed assets are included in assets under construction.

Items of property, plant and equipment are written off on their disposal or when the decision is made to withdraw such assets from use and no future economic benefit is expected from their disposal. Gains or losses arising on disposal or retirement are defined as the difference between the proceeds and the carrying amount of the asset and are included in the income statement as incurred.

Intangible Assets

Intangible assets acquired trademarks are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Trademarks are amortised at a straight line basis over the useful economic lives of 20 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Loans and Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, loans and borrowings are measured at amortised cost using the effective interest method; any difference between the fair value of the consideration received (net of transaction costs) and the redemption amount is recognised as an adjustment to interest expense over the period of borrowings.

Deferred Income Taxes

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Foreign Currency Transactions

The consolidated financial statements are presented in the national currency of the Russian Federation, Russian Rouble (RR), which is the functional currency of the Group. Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All resulting differences are taken to the consolidated statement of operations. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

At 31 December 2005 the official rate of exchange, as determined by the Central Bank of the Russian Federation, was RR 28.78 to USD 1 (at 31 December 2004: RR 27.75 = USD 1). Exchange restrictions and currency controls exist relating to converting the Russian Rouble into other currencies. The Russian Rouble is not freely convertible in most countries outside the Russian Federation.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

Equity

Share Capital. Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as a share premium.

Dividends. Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow and the revenue can be reliably measured. Revenues from sales of goods are recognised at point of sales; revenue from rendering of services is recognised in the period when the services are provided.

In prior periods, income from marketing services provided to the suppliers and sublease services were included into Other Income. In 2005, as a result of business expansion the scope and amount of such services significantly increased. These operations occurred in the course of the Company ordinary activities. Based on factors mentioned above, in

(in thousands of Russian Roubles unless otherwise stated)

2005 the Company started to recognises income from the marketing services and sublease as Sales (see Note 15). Certain reclassifications of prior year amounts have been made to conform with the current year presentation.

Marketing and advertising revenues include primarily revenue from placing advertising on shop displays and in brochures, fee for promotion actions in the shops, and payments for market study for the suppliers performed by the Company. Such revenues are recognised as services are provided.

Rental revenue is recognised on an accrual basis in the same period in which it is earned and to which it relates.

Commission margin is considered earned when the related services are provided and goods are sold.

Revenues are measured at the fair value of the consideration received or receivable. When the fair value of consideration received cannot be measured reliably, the revenue is measured at the fair value of the goods sold or services provided. Sales are shown net of VAT, rebates and discounts, and after eliminating sales within the Group.

Employee Benefits

Pension Costs. In the normal course of business the Group contributes to the Russian Federation state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred.

Social costs. The Group incurs employee costs related to the provision of benefits such as health services. These amounts principally represent an implicit cost of employing supermarket staff and, accordingly, have been charged to general, selling and distribution expenses.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Reclassifications

Certain reclassifications of prior year amounts have been made to conform with the current year presentation.

4 BALANCES AND TRANSACTIONS WITH RELATED PARTIES

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The nature of the related party relationships for those related parties with whom the Company entered into significant transactions or had significant balances outstanding at 31 December 2005 are detailed below.

Rent of stores. A fellow subsidiary, JSC Stolichnye Gastronomy, is controlled by the Company's ultimate shareholders. This fellow subsidiary owns the property in Moscow and Moscow region in which the Seventh Continent retail stores are located. The Company rents the stores for its retail and administrative activities on operating lease terms from this fellow subsidiary. Lease contracts are concluded for different periods ranging from eleven months to 49 years. Contracts can be cancelled at any time in accordance with the legislation by mutual agreement of the Company and JSC Stolichnye Gastronomy, or ultimately at the discretion of their owners.

At 31 December 2005, the number of stores leased from JSC Stolichnye Gastronomy and the corresponding duration of lease contracts in respect of these outlets are summarized as follows:

Number of outlets	Period (years)
3	Up to 1
57	Above 5

As the Company and JSC Stolichnye Gastronomy are controlled by the same ultimate shareholders, the terms of these contracts are amended regardless of the contract period. At 31 December 2005 prices for rent of trade space ranged from USD 34.31 to USD 887.53 per square meter per year.

(in thousands of Russian Roubles unless otherwise stated)

The operating lease expense is included in general, selling and distribution expenses. The total operating lease expense relating to the agreements with JSC Stolichnye Gastronomy and its subsidiary for 2005 was RR 794 858, for 2004 was RR 902 685.

Commencing from April 2004 the Company reimburses utility expenses incurred by JSC Stolichnye Gastronomy, such expenses totalling RR 130 031 for the year ended 31 December 2005 (RR 65 575 for the year ended 31 December 2004).

Brand names. Prior to October 2004 the brand name "Seventh Continent" was owned by JSC 7C invest-holding, the Company's parent. The Group paid for the use of the brand name according to a license agreement valid till June 2014. The related expense amounted to RR 2 470 for 2004.

In 2004, the Group entered into additional contracts with JSC 7C invest-holding for two newly registered brand names for their supermarkets: "Seventh Continent Seven steps" and "Seventh Continent - Five Stars" which differentiate various stores. The contracts were signed for the period from July 2004 through to June 2013. In 2004, rental for the period preceding 18 October 2004 amounted to RR 856 for each brand name.

During October 2004 the Company entered into agreements for purchase of the brand names "Seventh Continent", "Seventh Continent Seven Steps" and "Seventh Continent - Five Stars" from JSC 7C invest-holding. In addition, in 2004 the Company entered into agreements for purchase of one newly registered brand name- "Nash Gipermarket"- from JSC 7C invest-holding.

During 2004 the Company registered in its name the brand names "Seventh Continent", "Seventh Continent Seven Steps", "Seventh Continent - Five Stars" and "Nash Gipermarket" and paid RR 6 000 including VAT to acquire the four brands (RR 1 500 for each brand name). The purchase was made from a related party and was not an arm's length transaction.

Investments in Associates (RAMACO Limited). In 2004 and 2005 RAMACO Limited acted as a nominee shareholder for JSC Stolichnye Gastronomy and JSC Seventh Continent under agreements with the shareholders of these companies. In September 2004 the Company sold a 38% share in RAMACO Limited (out of which 19% was sold to the parent company, JSC 7C invest-holding, on the same terms and conditions as to the other acquirer of shares). The result of that transaction was recognized as a net loss of RR 1 806 related to subsidiary. Effective from the date of disposal the results of RAMACO Limited operations are accounted for as an associate by the equity method. The Company's remaining interest in RAMACO Limited as at 31 December 2005 and 2004 was 22%. Total shareholders equity of RAMACO Limited amounted to RR 25 904 and RR 25 992 as at 31 December 2005 and 2004, respectively. Share of the associate's net loss totaled RR 19 during 2005, and share in the associate net income totaled in and RR 41 during 2004.

As at 31 December 2005 the Group's held 0.03% of shares in JSC Stolichnye Gastronomy. These shares were accounted for at fair value and the fair value adjustment was credited directly to equity.

Directors' compensation. During the year, 25 people held a directorship position in the Company. As at 31 December 2005 and 31 December 2004, the Board of Directors included 5 people. There was no compensation for the Company's Board of Directors, for the years ended 31 December 2005 and 2004. Payments to the members of the Board for the fulfillment of their employment duties, not related to the participation in the Companies' governing bodies, amount to RR 972 in 2005 and RR 2 596 in 2004.

Other transactions and balances with related parties:

Income (net)

Profit and loss item	Year ended 31 December 2005	Year ended 31 December 2004
Sales		
Lease income from retail outlets, equipment and brand names	3 492	2 809
General, selling and distribution expenses		
Operating lease	794 858	902 685
Utilities	130 031	65 565
Security expenses	124 067	90 153
Other	3 501	14 478

(in thousands of Russian Roubles unless otherwise stated)

Balances

Balance sheet item	31 December 2005	31 December 2004
Loans issued	-	45 822
Accounts receivable	16 518	131 835
Accounts payable on operating activity	17 845	67 439

5 CASH AND CASH EQUIVALENTS

	31 December 2005	31 December 2004
Cash in hand (RR)	434 070	202 582
Rouble denominated balances with banks	77 604	1 947 507
Foreign currency denominated balances with banks	1 295 216	-
Cash in transit (RR)	80 012	23 953
	1 886 902	2 174 042

Cash in transit represents credit card slips from customers.

6 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 December 2005	31 December 2004
Trade receivables	277 906	50 119
VAT recoverable	453 107	351 464
Prepayments and other receivables (net of provision for impairment of RR 9 751 and RR 9 420 as at 31 December 2005 and 2004, respectively)	107 426	220 034
	838 439	621 617

VAT recoverable represents input Value Added Tax (VAT) incurred on purchases and is available for offset against future output VAT following the payment for these purchases.

Prepayments to third parties were primarily made for advertising, goods and supplies.

7 INVENTORIES

Inventories consist of the following:

	31 December 2005	31 December 2004
Goods for resale	1 517 176	947 806
Consumable materials	59 143	31 949
	1 576 319	979 755

The goods for resale consist mostly of foods and beverages and other consumer goods. Consumable materials include tags and other supplies necessary for retail operations. The amount of write-down of inventories recognised as an expense is RR 276 105 (2004: RR 283 685). This expense is included in the general, selling and distribution expenses, which is disclosed in Note 16.

(in thousands of Russian Roubles unless otherwise stated)

8 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment and related accumulated depreciation consist of the following:

	Buildings	Retail fittings	Other	Assets under construction	Total
Cost					
Balance at 31 December 2003	**58 114**	**682 687**	**10 216**	**173 142**	**924 159**
Additions	551 222	591 078	248 040	434 344	1 824 684
Transfers	17 844	7 312	-	(25 156)	-
Disposals	(276 378)	(4 633)	(259)	-	(281 270)
Balance at 31 December 2004	**350 802**	**1 276 444**	**257 997**	**582 330**	**2 467 573**
Additions	1 803 324	461 945	207 128	1 960 929	4 433 326
Transfers	77 253	-	5 036	(82 289)	-
Disposals	(15 863)	(15 731)	(166)	-	(31 760)
Balance at 31 December 2005	**2 215 516**	**1 722 658**	**469 995**	**2 460 970**	**6 869 139**
Accumulated Depreciation					
Balance at 31 December 2003	**488**	**232 211**	**4 264**	**-**	**236 963**
Depreciation charge	5 868	153 915	31 142		190 925
Disposals	(6 356)	(1 333)	(29)		(7 718)
Balance at 31 December 2004	**-**	**384 793**	**35 377**	**-**	**420 170**
Depreciation charge	24 419	290 432	64 271	-	379 122
Disposals	-	(12 909)	-	-	(12 909)
Balance at 31 December 2005	**24 419**	**662 316**	**99 648**	**-**	**786 383**
Net Book Value					
Balance at 31 December 2003	**57 626**	**450 476**	**5 952**	**173 142**	**687 196**
Balance at 31 December 2004	**350 802**	**891 651**	**222 620**	**582 330**	**2 047 403**
Balance at 31 December 2005	**2 191 097**	**1 060 342**	**370 347**	**2 460 970**	**6 082 756**

Included in the "Other" category are the acquisitions of security systems, air conditioning equipment, leasehold improvements.

Assets under construction. During 2004 and 2005 the Group completed a number of agreements for future acquisition of stores. In accordance to these agreements the Group must finance the construction process in advance. At 31 December 2005, amounts of advances to constructors included in assets under construction were RR 2 460 970 During the year ended 31 December 2005 the Group capitalised interest on loans and borrowings in the amount of RR 19 957. After obtaining the property rights registration certificate, these outlets are transferred to buildings.

(in thousands of Russian Roubles unless otherwise stated)

9 LONG-TERM PREPAYMENTS AND OTHER NON-CURRENT RECEIVABLES

	31 December 2005	31 December 2004
Loans given	202 869	-
Prepayment for rent	140 582	37 389
Other	-	6 135
	343 451	43 524

The item Loans given mainly consists of a loan to a third party, for the total amount of USD 7 million. Under the terms of the agreement loan is payable in April 2008. The interest rate for the period till January 2006 was set at 6% per annum. For the period from January 2006 till April 2008 the interest rate was increased up to 8% per annum. The loan is denominated in US dollars. As at 31 December 2005 the balance receivable amounted to RUR 202 869 (USD 7 million), including interest charged. Under the terms and conditions of the above mentioned agreement property and land plot were pledged as collateral.

Under the terms of the rent agreements the Company has paid lessors deposit for each store (the number of these rent agreements is 25). The deposit is to be settled against the last payments in accordance with the rent agreements. A corresponding amount of 140 582 and 37 389 at 31 December 2005 and at 31 December 2004, respectively, was included in non-current prepayments and other receivables.

10 TAXES PAYABLE

Current taxes payable are comprised of the following:

	31 December 2005	31 December 2004
Income tax	90 981	72 248
VAT	46 448	85 843
Payables to Pension fund	35 925	32 309
Property tax	23 177	5 517
Personal income tax	18 668	16 114
Other payables to the budget	67	4 769
	215 266	216 800

11 OTHER PAYABLES

	31 December 2005	31 December 2004
Payables to employees	130 254	109 236
Advances from customers	159 374	91 091
Other liabilities	173 865	9 651
	463 493	209 978

12 LOANS

On 27 September 2005 the Group concluded a loan agreement with Dresdner Bank AG, London branch for the total amount of USD 90 million with the interest rate of 7.25% per annum. The loan matures in two years from the agreement date (September 2007) and provides for semiannual interest payments. The agreement has a call option of earlier redemption in September 2006 by the lenders whose share in the outstanding loan aggregates 66.2/3% or more. Therefore, the loan and accrued interest in the total amount of RR 2 590 425 and RR 50 082, respectively, were included into current borrowings in the accompanying balance sheet as at 31 December 2005. In accordance with the loan agreement the Company has the right of earlier repayment of the loan. The Group does not have pledges or guarantees under this agreement. Funds received from the loan were used for the Group investment activity.

(in thousands of Russian Roubles unless otherwise stated)

13 SHAREHOLDERS' EQUITY

Share capital and Share premium. At 31 December 2005 and 2004 the number of authorized shares totaled 9 645 974, the outstanding number of issued ordinary shares totaled 64 519 397. The total number of outstanding shares comprises:

	Number of outstanding shares	Share capital	Share premium
At 31 December 2003	56 103 824	92 721	134 825
Issue of share capital	8 415 573	4 208	2 310 075
Costs of issuing shares	-	-	(52 643)
At 31 December 2004	64 519 397	96 929	2 392 257
Issue of share capital	-	-	-
Costs of issuing shares	-	-	(3 136)
At 31 December 2005	64 519 397	96 929	2 389 121

All issued shares are fully paid. Shares issued in 1998 and 1999 were at premium of RR 134 825.

The issued share capital at 31 December 2003 is RR 28 052 consisting of 56 103 824 ordinary shares with the par value 0.5 (expressed in Russian Rubles per share). An additional RR 64 669 arises from restating these shares for the effect of inflation since original contributions were paid in.

On 12 November 2004 the Company placed through an offering to the public under an open subscription 8 415 573 new ordinary shares (Russian Rubles 0.5 par value) at 275 Russian Rubles per share. The issuance of the shares was registered by the Russian Federal Service for the Financial Markets ("FSFM") on 24 August 2004.

Corresponding external costs directly attributable to the share issues are shown as a deduction from equity as follows:

	31 December 2004
Costs withheld from share issue proceeds	46 285
Costs paid by the Company	22 982
Total costs	69 267
Applicable tax effect at 24%	(16 624)
Net costs	52 643

Net cash proceeds received from the share issue included:

	31 December 2005	31 December 2004
Cash proceeds from share issue	-	2 259 492
Less: cost of related services	(3 136)	(342)
	(3 136)	2 259 150

Dividends. A dividend of RR 1 per ordinary share was declared in 2005 in respect of 2004 to holders of ordinary shares. No dividend was declared in 2004.

The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the net profit as the basis of distribution. For 2005, the net statutory profit for the Company as reported in the published annual statutory reporting forms was RR 1 251 916. The potential corporate income tax is withheld by the Company from the payments of dividends at the following rates: 9% for Russian entities and 15% - for foreign entities; personal income tax is withheld by the Company from the payment of dividends at the following rates:

(in thousands of Russian Roubles unless otherwise stated)

9% for Russian residents and 30% - for non-Russian residents. However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable reserves in these financial statements.

14 SALES

	2005	2004
Food and drinks	16 332 068	11 982 880
Household supplies	2 643 070	1 931 867
Marketing and advertising	846 509	532 781
Lease income from retail outlets, equipment and brand names	268 589	174 399
Other	67 393	64 985
	20 157 629	14 686 912

15 COST OF GOODS SOLD

	2005	2004
Food and drinks	11 888 337	8 795 567
Household supplies	1 784 618	1 298 878
Other	3 155	26 619
	13 676 110	10 121 064

16 GENERAL, SELLING AND DISTRIBUTION EXPENSES

General, selling and administrative expenses comprise:

	2005	2004
Labour costs	2 083 638	1 416 090
Operating leases	1 166 348	1 061 251
Depreciation and amortization	380 800	190 967
Materials and supplies	276 105	283 685
Utilities	194 540	99 978
Repairs & maintenance	133 676	170 747
Security expenses	125 443	90 153
Advertising expenses	96 013	91 379
Bank commissions	66 371	49 688
Taxes (other than income tax)	49 114	22 754
Insurance expenses	13 658	24 811
Other	166 764	32 112
	4 752 470	3 533 615

Operating leases, repairs and maintenance, utilities and security are primarily provided by related parties (see Note 4). Operating leases represent the rental costs of stores.

(in thousands of Russian Roubles unless otherwise stated)

17 OTHER OPERATING INCOME AND EXPENSES

The components of other operating income/(expenses) were as follows:

	2005	2004
Gain on disposal of property, plant and equipment	1 738	9 181
Charity expenses	(1 757)	(6 610)
Impairment of accounts receivable	1 609	(4 974)
Income from maintenance activity	-	16 352
Other (net)	235	(3 861)
	1 825	10 088

18 INCOME TAX EXPENSE

	2005	2004
Income tax expense/(credit) – current	448 529	310 893
Deferred tax expense/(income) – origination and reversal of temporary differences	30 463	(37 697)
	478 992	273 196

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate applicable to profits of the consolidated companies as follows:

	2005	2004
Profit before tax	1 811 385	1 060 655
Theoretical tax charge at statutory rate of 24%	434 732	254 557
Tax effect of items which are not deductible or assessable for taxation purposes:		
Expenses not deductible for tax purposes	38 823	19 529
Other non-temporary differences	5 437	(890)
Income tax expense	478 992	273 196

(in thousands of Russian Roubles unless otherwise stated)

All companies of the Group are subject to tax rates of 24% on taxable profits for 2005 and 2004. Deferred tax assets/ (liabilities) are measured at the rate of 24%. The movement in deferred tax assets and liabilities during the year is as follows:

	31 December 2003	Differences recognition and reversals	31 December 2004	Differences recognition and reversals	31 December 2005
Tax effects of deductible temporary differences:					
Provision for impairment of receivables	1 067	495	1 562	(390)	1 172
Accounts payable	12 390	1 349	13 739	621	14 360
Inventories (supplier bonuses cut-off)	2 582	5 828	8 410	4 123	12 533
Tax effects of taxable temporary differences:					
Property, plant and equipment	(3 422)	(13 567)	(16 989)	(34 661)	(51 650)
Long term investments	-	-	-	(156)	(156)
Accounts receivable	(6 519)	6 519	-	-	-
Accounts payable (supplier bonuses cut-off)	(37 073)	37 073	-	-	-
Income statement charge		37 697		(30 463)	
Tax charged to equity (revaluation of available-for-sale investments)	(1 604)	1 479	(125)	(31)	(156)
Net tax effect of temporary differences		**39 176**		**(30 494)**	
Total net deferred tax (liability)/asset	**(32 579)**		**6 597**		**(23 897)**

In the context of the Group's current structure, tax losses and current tax assets of the different companies may not be set off against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, deferred tax asset of one company of the Group is not offset against deferred tax liability of another company.

19 EARNINGS PER SHARE

Earnings per share is calculated by dividing the net income attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period.

The Group has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal basic earnings per share.

	31 December 2005	31 December 2004
Weighted average number of ordinary shares outstanding (thousands)	64 519	56 805
Profit for the year attributable to equity holders	1 332 393	787 459
Basic earnings per share (expressed in Russian Roubles per share)	20.65	13.86

(in thousands of Russian Roubles unless otherwise stated)

20 CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

Commitments

Operating leases - related parties

The future minimum lease payments to a related party under operating leases of property are as follows:

	31 December 2005	31 December 2004
Not later than 1 year	811 601	759 590
Later than 1 year and not later than 5 years	3 249 756	3 024 411
Later than 5 years	5 538 690	5 823 586
	9 600 047	9 607 587

Operating leases - third parties

As at 31 December 2005 the Company has lease contracts with third parties for lease of thirty stores.

The respective lease payments are set in USD per annum for each retail outlet. The future minimum lease payments under operating leases of property described above are as follows:

	31 December 2005	31 December 2004
Not later than 1 year	400 051	143 653
Later than 1 year and not later than 5 years	1 200 303	574 613
Later than 5 years	1 327 421	783 385
	2 927 775	1 501 651

Under the terms of the lease the lease contracts can be cancelled by mutual agreement.

Capital commitments

As at 31 December 2005 the Group had contractual commitments (on the basis of preliminary agreements) to number of constructors for the construction of stores of approximately RR 6 046 917 (USD 210 090) (2004: RR 473 036 or USD 17 031).

Amounts advanced to constructors of RR 2 460 970 are included in assets under construction (see Note 8). Remaining purchase commitments at 31 December 2005 amounted to RR 3 585 948 (USD 124 588).

Operating Environment of the Group. The Russian economy while deemed to be of market status continues to display certain characteristics consistent with that of a market in transition. These characteristics include, but are not limited to, relatively high inflation and the existence of currency controls which cause the national currency to be illiquid outside of Russia. The stability of the Russian economy will be significantly impacted by the government's policies and actions with regards to supervisory, legal, and economic reforms.

Taxation. Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Recently, the Constitutional Court of the Russian Federation issued a resolution allowing tax authorities to disregard the limitation period for imposing penalties and fines with regard to underpaid taxes in the circumstances when the extent of cooperation of the taxpayer with the tax authorities is considered insufficient. As "insufficient cooperation" has no legal definition, this resolution allows Russia tax authorities to ignore the limitation period in conducting tax investigations.

The Tax Code of the Russian Federation contains special provisions in respect of transactions between related parties: the tax authorities may challenge the deductibility of expenses incurred in the course of such transactions, including the recovery of related VAT, if they are able to prove that the prices in the transactions differ significantly from the market prices. Payments under the rent agreements of the Group with JSC Stolichnye Gastronomy may be subject to such challenge. Management believes that the risk of successful challenge by tax authorities is not probable.

(in thousands of Russian Roubles unless otherwise stated)

Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these financial statements. As at 31 December 2005 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained.

Insurance policies. The Group holds insurance policies covering business interruption risks for the three month period and risks related to assets such as property, equipment, average inventory balances held throughout the year and cash and cash equivalents.

Legal proceedings. During the year, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of the Group management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

21 FINANCIAL RISK MANAGEMENT

Credit risk. Financial assets, which potentially subject Group entities to credit risk, consist principally of cash and cash equivalents and receivables. The Group is not economically dependent on limited number of customers.

The Group places cash and cash equivalents with banks, which at the time of deposit are considered to have a minimum risk of default.

Foreign exchange risk. The Group does not have direct export or import activities and foreign currency denominated assets, liabilities or commitments; therefore, it is not exposed to significant foreign exchange risk.

Interest rate risk. The Group's income and operating cash flows are substantially independent of changes in market interest rates.

Fair values of financial instruments. Set out below is the comparison by category of carrying amounts and fair values of all of the Group's financial instruments that are carried in the consolidated balance sheet:

	Carrying amount		Fair value	
	31 December 2005	31 December 2004	31 December 2005	31 December 2004
Financial assets				
Available-for-sale investments	487	485	1 137	1 006
Trade and other receivables	1 181 890	665 141	1 181 890	665 141
Cash and cash equivalents	1 886 902	2 174 042	1 886 902	2 174 042
Financial liabilities				
Borrowings	2 640 507	-	2 640 507	-
Trade and other payables	3 484 725	2 566 277	3 484 725	2 566 277

The fair values of borrowings, trade and other payables is based on cash flows discounted using the market interest rates. Fair values of cash and cash equivalents, trade and other receivables and trade and other payables approximate their carrying amounts due to their short maturity.

22 POST BALANCE SHEET EVENTS

Share capital

The extraordinary shareholders' meeting of JSC Seventh Continent held on 18 January 2006 decided to increase the Share capital by additional issue of 10 480 603 common shares with the par value 0.5 (expressed in Russian Rubles per share). The placement is expected to be in April 2006.

Business expansion

In 2006 the Group continued business expansion under its brand name "Nash Gipermarket" in Moscow and other. On 26 January 2006 the second hypermarket was opened in Moscow.

In February 2006 the Group opened three "Supermarket" format stores in Kaliningrad and Kaliningrad region.

SUPPLEMENTAL INFORMATION UNAUDITED
(In thousands of US dollars)

In the table below selected financial information is presented in thousands of US dollars.

Amounts as at 31 December 2005 were calculated by dividing the consolidated financial statements of JSC Seventh Continent, prepared under International Financial Reporting Standards, measured in Russian Roubles, by the official rate of exchange at that date of RUR 28.78 to US dollar 1 for balance sheet and by the average official rate of exchange during the year ended 31 December 2005 of RUR 28.28 for income statement and cash flow. All amounts as at 31 December 2004 were calculated by dividing the consolidated financial statements of JSC Seventh Continent, prepared under International Financial Reporting Standards, measured in Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2004, by the official rate of exchange at that date of RUR 27.75 to US dollar 1 for balance sheet and by the average official rate of exchange during 2004 of RUR 28.82 for income statement and cash flow. Translation gain/ (loss) resulting from application of different exchange rates is shown as a separate item in the Balance Sheet.

	31 December 2005	31 December 2004
Consolidated Balance Sheet		
Total non-current assets	223 750	76 014
Total current assets	151 795	138 792
Total assets	**375 545**	**214 806**
Total non-current liabilities	830	-
Total current liabilities	212 829	92 483
Total shareholders' equity	161 069	122 372
Translation gain (loss)	816	(49)
Total liabilities and shareholders' equity	**375 545**	**214 806**

	2005	2004
Consolidated Statement of Income		
Sales	712 787	509 608
Cost of goods sold	(483 597)	(351 182)
Gross profit	**229 191**	**158 426**
General, selling and distribution expenses	(168 051)	(122 603)
Other operating income, net	65	350
Operating income	**61 205**	**36 173**
Interest expense	(1 669)	(255)
Interest income	4 436	933
Other non-operating income and expenses	79	(61)
Investment income	-	19
Income before taxation	**64 052**	**36 809**
Income tax expense	(16 937)	(9 481)
Income after taxation	**47 114**	**27 328**
Net income	**47 114**	**27 328**

	2005	2004
Consolidated Statement of Cash Flows		
Net cash generated from operating activities	60 423	36 306
Net cash used in investing activities	(158 777)	(39 445)
Net cash generated from financing activities	88 201	75 391
Net decrease in cash and cash equivalents	(10 153)	72 252