



Independent Auditor's Report

To the Shareholders of JSC The Seventh Continent

We have audited the accompanying consolidated financial statements of JSC The Seventh Continent and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Irina B. Smirnova

Partner

March 15, 2008

BDO Unicon Inc.

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

	Note	December 31, 2007	December 31, 2006
ASSETS			
Non-current assets			
Property, plant and equipment	12	12,716,192	6,168,485
Goodwill	4	176,433	176,433
Long-term loans issued	10	2,434,232	812,652
Long-term prepayments and other non-current receivables	11	6,851,938	6,064,240
Other non-current assets	13	158,462	30,704
Deferred income tax asset	17	48,482	31,213
Total non-current assets		22,385,739	13,283,727
Current assets			
Inventory	9	2,476,286	2,100,986
Short-term receivables and prepayments	8	1,137,012	1,396,195
Short-term loans and loans issued	6	2,728,424	499,855
Short-term financial investments	7	4,259,914	884,760
Cash and cash equivalents	5	1,450,320	1,348,500
Total current assets		12,051,956	6,230,296
Total assets		34,437,695	19,514,023
LIABILITIES AND EQUITY			
Equity			
Share capital	18	102,169	102,169
Share premium	16	8,972,256	8,972,256
Fair value reserve		(2,050)	-
Retained earnings		6,021,960	3,860,650
Translation loss		(22,138)	(42)
Total parent company shareholders funds		15,072,197	12,935,033
Minority interest	19	669,518	651,498
Total equity		15,741,715	13,586,531
Non-current liabilities			
Long-term loans, borrowings and other attracted funds	14	10,419,061	406,514
Other long-term liability		26,855	-
Deferred income tax liability	17	715,319	25,673
Total non-current liabilities		11,161,235	432,187
Current liabilities			
Trade payables		4,788,412	3,753,594
Taxes payable	16	391,065	294,180
Short-term loans, borrowings and other attracted funds	14	1,544,192	927,429
Other accounts payable	15	811,076	520,102
Total current liabilities		7,534,745	5,495,305
Total liabilities		18,695,980	5,927,492
Total liabilities and equity		34,437,695	19,514,023

General Director
March 14, 2008



Galina Ilyashenko

JSC The Seventh Continent
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31,
(RUB'000 unless otherwise stated)

	Note	2007	2006
Revenue	20	32,558,001	26,034,263
Cost of goods sold	21	(22,374,212)	(17,935,311)
Gross profit		10,183,789	8,098,952
General, selling and distribution expenses	22	(7,246,165)	(5,872,234)
Other operating expenses from non-banking activities, net	23	(30,272)	(22,917)
Operating income and financial income from banking activities	25	2,105,109	406,482
Operating expense and financial expense from banking activities	26	(2,110,492)	(398,515)
Operating income		2,901,969	2,211,768
Interest income from non-banking activities	24	460,154	403,076
Interest expense from non-banking activities	24	(363,602)	(149,900)
Other non-operating income from non-banking activities, net	27	406,961	46,734
Profit before income tax		3,405,481	2,511,676
Income tax expense	17	(851,151)	(674,817)
Profit after income tax		2,554,330	1,836,859
Minority interest	19	(18,020)	1,293
Net profit		2,536,310	1,838,152
Earnings per share (expressed in Russian roubles per share) – basic and diluted	28	34.04	25.49

General Director
 March 14, 2008



Galina Ilyashenko

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31,

(RUB'000 unless otherwise stated)

	2007	2006
Cash flows from operating activities		
Profit before taxation and minority interest	3,405,481	2,511,676
Adjustments for:		
Change in provision for impairment of receivables and receivable write-off	954,480	116,228
Depreciation and amortization	876,114	714,213
Interest expenses	424,279	149,900
Loss on disposal of property, plant and equipment	17,703	19,334
Interest income	(859,978)	(457,756)
Derecognition of accounts payable	(606,467)	(96,299)
Gain on resale of securities	(436,431)	(175,756)
Excess recognized of the acquirer's share in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of the business combination	(399,042)	-
Exchange difference	(18,724)	(43,865)
Other non-cash items	12,909	4,174
Operating cash flows before working capital changes	3,370,324	2,741,975
Increase in accounts receivable and prepayments	(204,404)	(103,304)
Decrease in long-term prepayments and other non-current receivables	1,702	1,865,579
Increase in accounts payable and accruals	1,261,395	890,144
Increase in other payables	278,078	139,781
Increase in inventory	(375,301)	(435,805)
Increase in taxes payable	77,584	68,315
Cash generated from operations	4,409,378	5,166,685
Income taxes paid	(874,696)	(520,467)
Interest paid	(417,214)	(186,458)
Interest received	601,612	127,575
Net cash generated from operating activities	3,719,080	4,587,335
Cash flows from investing activities		
Acquisition of subsidiaries	(105,975)	(4,732,311)
Cash obtained upon subsidiary's acquisition	11,048	-
Purchase of property, plant and equipment and intangible assets	(6,359,811)	(4,294,523)
Proceeds from sale of property, plant and equipment	458	938
Purchase of securities and other financial assets	(19,250,948)	(8,528,454)
Proceeds from sale of securities	18,883,937	8,519,655
Increase in loans given	(3,888,397)	(579,783)
Bank deposits	(8,872,065)	(700,000)
Bank deposits withdrawal	6,205,000	-
Dividends received	387	-
Cash flows from other investing activities	-	27
Net cash used in investing activities	(13,376,366)	(10,314,451)

*JSC The Seventh Continent***CONSOLIDATED STATEMENT OF CASH FLOWS****FOR THE YEAR ENDED DECEMBER 31,***(RUB'000 unless otherwise stated)*

	2007	2006
Cash flows from financing activities		
Proceeds from issuance of ordinary shares, net	-	6,595,458
Expense to purchase its own shares	(1,357,733)	-
Income from the sale of own shares purchased	1,358,769	-
Dividends paid	(375,000)	(150,000)
Payments of costs incurred related to initial public offering	-	(12,059)
Bonds	6,983,330	-
Proceeds from borrowings	10,577,207	2,686,418
Repayment of borrowings	(7,413,038)	(3,790,929)
Net cash generated from financing activities	9,773,535	5,328,888
Net increase (decrease) in cash and cash equivalents	116,249	(398,228)
Cash and cash equivalents at the beginning of the year	1,348,500	1,886,902
Effect of exchange rate changes on cash and cash equivalents	(14,429)	(140,174)
Cash and cash equivalents at the end of the year	1,450,320	1,348,500

General Director

March 14, 2008



Galina Ilyashenko

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31,

(RUB'000 unless otherwise stated)

	Attributable to equity holders of the Group							Minority interest	Total equity
	Share capital	Own shares purchased	Share premium	Fair value reserve	Retained earnings	Translation loss	Total parent company shareholders funds		
Balance as at December 31, 2005	96,929	-	2,389,122	496	2,172,498	-	4,659,045	-	4,659,045
Costs of issuing shares (net of income tax of 2 894)	-	-	(9,165)	-	-	-	(9,165)	-	(9,165)
Issue of share capital	5,240	-	6,592,299	-	-	-	6,597,539	-	6,597,539
Acquisition of subsidiary	-	-	-	-	-	-	-	651,498	651,498
Equity investments disposal (net of income tax of 154)	-	-	-	(496)	-	-	(496)	-	(496)
Net profit for 2006	-	-	-	-	1,838,152	-	1,838,152	-	1,838,152
Translation gain/loss	-	-	-	-	-	(42)	(42)	-	(42)
Dividends	-	-	-	-	(150,000)	-	(150,000)	-	(150,000)
Balance as at December 31, 2006	102,169	-	8,972,256	-	3,860,650	(42)	12,935,033	651,498	13,586,531
Purchase of own shares	-	(1,357,733)	-	-	-	-	(1,357,733)	-	(1,357,733)
Sale of own shares purchased	-	1,357,733	-	-	-	-	1,357,733	-	1,357,733
Net profit for 2007	-	-	-	-	2,536,310	-	2,536,310	18,020	2,554,330
Translation loss	-	-	-	-	-	(22,096)	(22,096)	-	(22,096)
Dividends	-	-	-	-	(375,000)	-	(375,000)	-	(375,000)
Fair value reserve	-	-	-	(2,050)	-	-	(2,050)	-	(2,050)
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

General Director

March 14, 2008



Galina Ilyashenko