



Seventh Continent

Half-yearly report 2006



Management report

According to management accounts for 2006 1st half-year, prepared in accordance with International Financial Reporting Standards, net profit totaled USD 31.8 mn., which is 46% higher than similar indicator for 2005. Net sales of Seventh Continent increased by 37% to USD 450.6 mn., EBITDA increased by 68% and amounted to USD 53.8 mn.

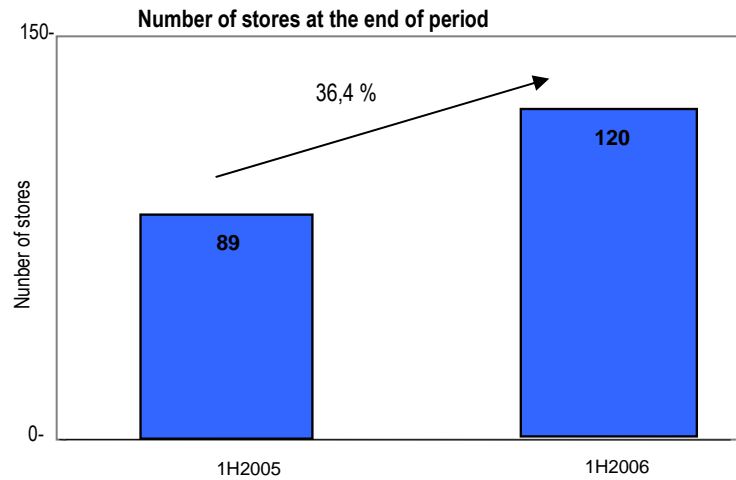
Number of customers increased by 44%. Thus, the number of customers visited the Seventh Continent supermarkets and “Our Hypermarket” stores in Moscow, Moscow Region and in Kaliningrad region reached 44.2 mn. by the end of 2006 1st half-year.

In 2006 1st half-year Seventh Continent opened 9 new stores, now totaling 120 stores. Furthermore, the second hypermarket in Moscow was opened in January 2006 on Bibirevskaya str. and the third hypermarket was opened in St. Petersburg in May 2006.

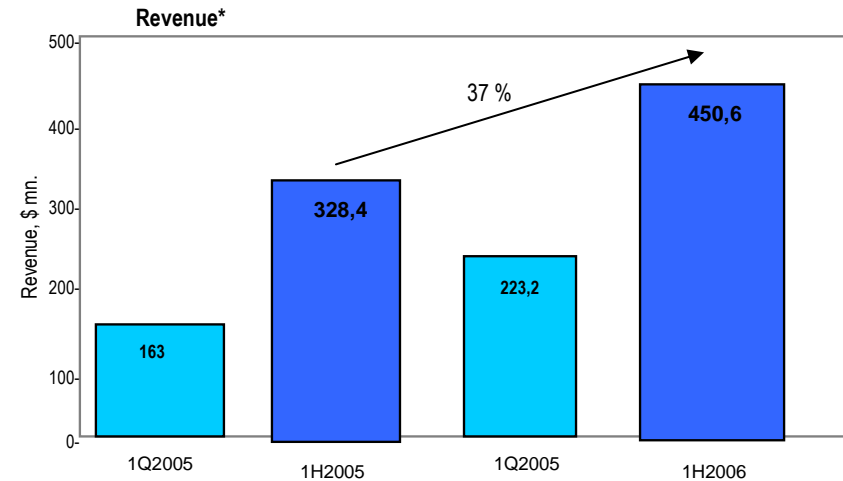
In 2006 1st half-year revenue increase for like-for-like stores amounted to 4.9% if compared to 2005 1st half-year , number of tickets increased by 1.1%, average ticket increased by 3.7%.



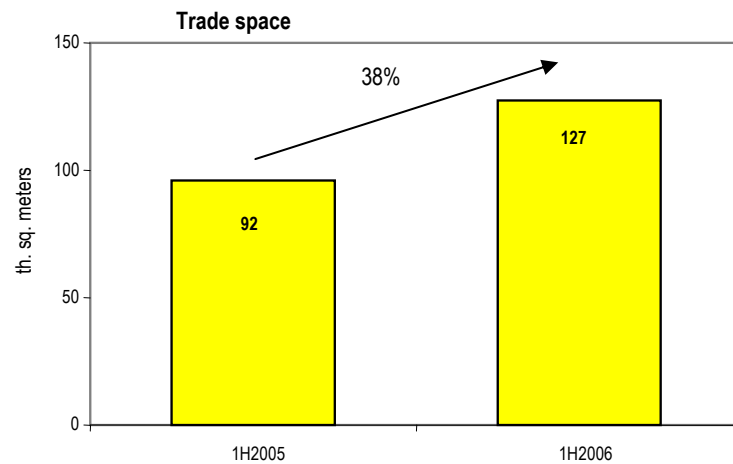
Key performance indicators



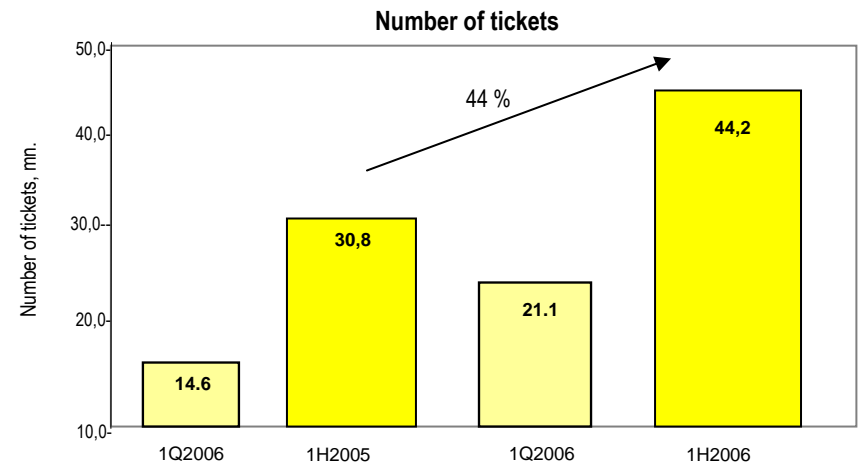
Growth rate: 36,4%
100



Growth rate: 37%



Growth rate: 38%







Growth rate: 44%

* In accordance with IFRS



Two established store formats

Supermarkets

	 Supermarkets	 5 Stars	 Universam	 Next-Door
<ul style="list-style-type: none"> 117 stores as of June 2006 32% gross margin in 1H2006* 91% of revenues in 1H2006 23,000 SKU 	<ul style="list-style-type: none"> 27 stores as of June 2006 36% gross margin in 1H2006 * 29% of revenues in 1H2006 23,000 SKU 	<ul style="list-style-type: none"> 60 stores as of June 2006 30% gross margin in 1H2006 * 49% of revenues in 1H2006 20,000 SKU 	<ul style="list-style-type: none"> 30 stores as of June 2006 27% gross margin in 1H2006 * 13% of revenues in 1H2006 15,000 SKU 	
<ul style="list-style-type: none"> Targeted all income levels 	<ul style="list-style-type: none"> Above-average income level Wealthy customers Located in central areas and upper-end residential districts Individual service approach 	<ul style="list-style-type: none"> Average income level Family purchases account for larger share of revenue Located close to major transport junctions or underground stations 	<ul style="list-style-type: none"> All income levels Occasional purchases Located in densely populated districts of Moscow Positioned as stores located close to customers 	

Hypermarkets

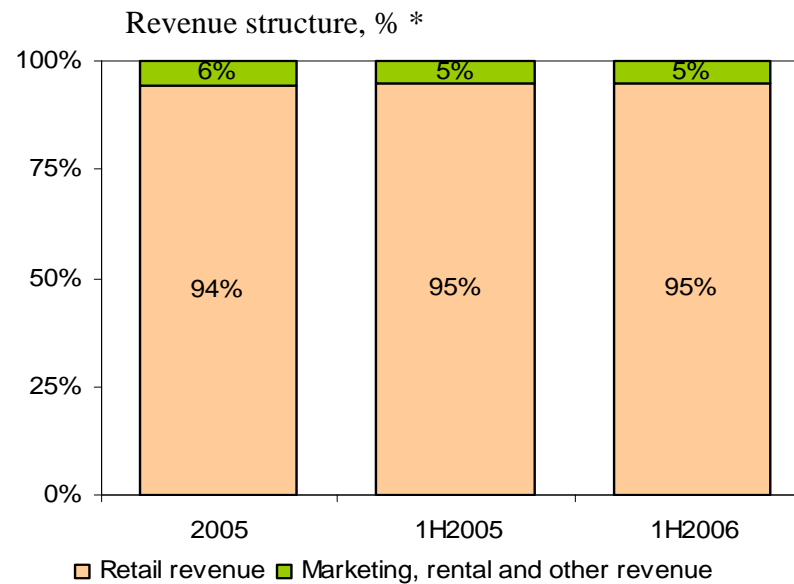
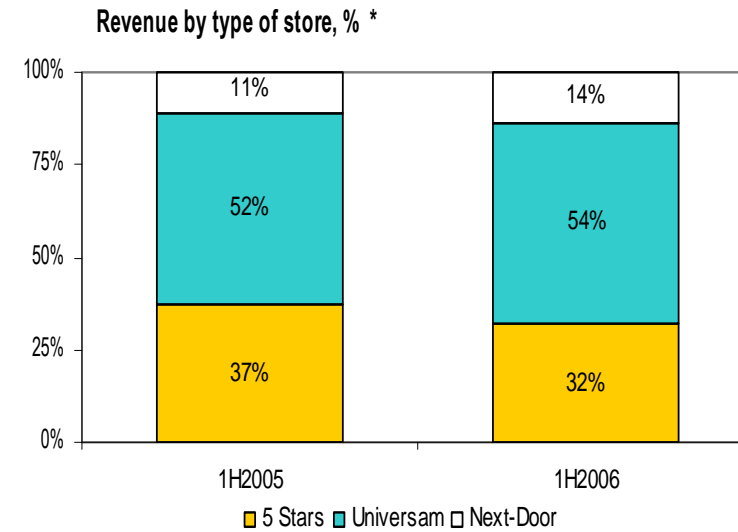
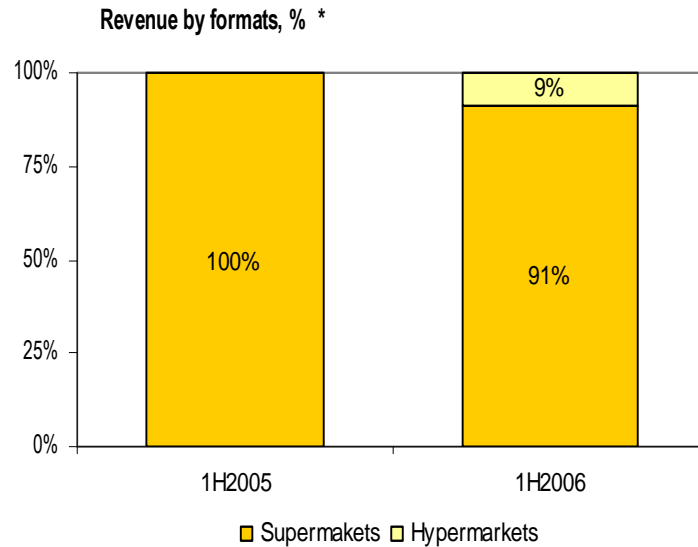
	 Hypermarkets
<ul style="list-style-type: none"> 3 hypermarkets as of June 2006 26% gross margin in 1H2006 * 9% of revenues in 1h2006 40,000 SKU 	<ul style="list-style-type: none"> Targeted large purchase size

Coverage of key market segments



* - including marketing, rent and other revenues

Store types comparison

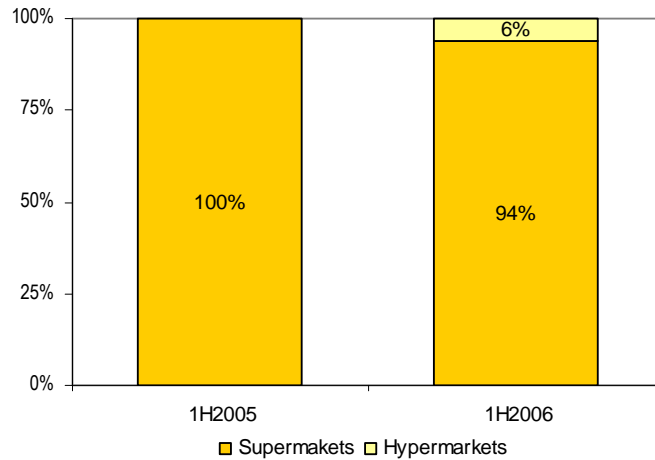


* In accordance with management accounts

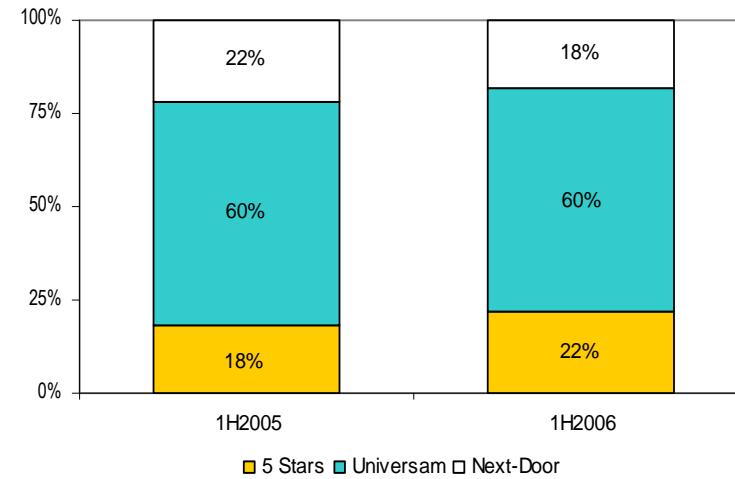
** In accordance with management accounts, including VAT

Store types comparison

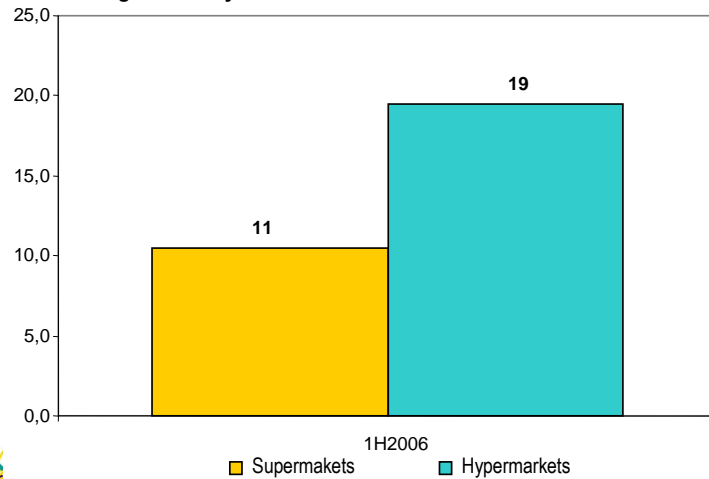
Number of tickets by formats, % *



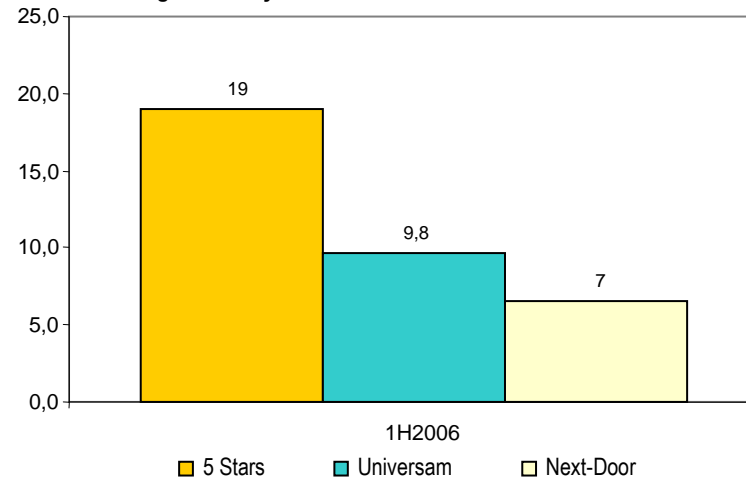
Number of tickets by type of stores, % *



Average ticket by formats **



Average ticket by subformats **



Number of stores

	Stores opened by July 1, 2005	Stores opened by January 1, 2006	Stores opened by July 1, 2006
Supermarkets, including:	88	110	117
5 Stars	20	27	27
Universam	26	41	60
Next-Door	31	42	30
Our Hypermarket	1	1	3
Total	89	111	120

Title	Stores opened by July 1, 2005	Stores opened by January 1, 2006	Stores opened by July 1, 2006
Own	6	24	29
Rented	83	87	91
Total	89	111	120



High margin products and services

Non-food products

- Share of 14% in supermarkets' revenue and up to 28% in hypermarkets' sales in 1st half-year of 2006
- Hypermarkets will boost the share of non-food in total revenues to 30-40% depending on volume of selling spaces
- Higher margins than on foodstuffs: on average 31.4% compared to 26.8 % on food products

Private label

- Sales started in July 2005:
 - “Our product” brand
 - More than 535 SKUs in 1st half-year of 2006
 - 20 product categories
 - In «Our Hypermarket», «Next-Door» stores and «Universam»
 - Selling price is at 10% lower than equivalent branded goods

In-store production

Bakeries

- 28 bakeries located in Supermarkets
- Over 130 types of product, including diet types of bread and traditional pastries

Meat products

- Sale of meat production production in most our retail chain stores
- Over 430 types of products, including marinade and meat convenience foods

Other services

- Direct delivery
- Outlets for mobile telephony service providers
- Dry-cleaning service providers
- Currency exchanges
- Photo laboratories
- Pharmacies
- Gift shops
- Retail banking services and discount programs

Focus on further increasing the share of high margin goods and services in revenue



2006 outlook

We plan to develop our retail chain in supermarket and hypermarket formats - we expect to increase the number of stores in Russian regions and to retain our leading position in Moscow supermarket segment thanks to carrying out our investment program.

We plan to open hypermarkets in Ryazan and Chelyabinsk

We continue construction of hypermarkets in Kaliningrad, Ufa, Krasnoyarsk, Reutov, Perm

We plan to open more than 15 supermarkets additionally in 2006

As a result we expect to continue sustainable sales growth and strong operating and financial results in 2006.



We plan to invest approximately \$300 mn to finance our organic growth in 2006

Estimated hypermarket store openings



Period	Region	Format	Title
Opened 01.2006	Moscow (Bibirevo)	Hypermarket	property
Opened 05. 2006	St. Petersburg	Hypermarket	property
2006	Ryazan	Hypermarket	property
2006	Chelyabinsk	Hypermarket	property
2007	Krasnoyarsk	Hypermarket	property
2007	Ufa	Hypermarket	property
2007	Kaliningrad	Hypermarket	property
2007	Reutov	Hypermarket	leasing
2007	Perm	Hypermarket	property
2008	Yaroslavl	Hypermarket	property
2008	Rostov na Donu	Hypermarket	property
2008	Tomsk	Hypermarket	property
2009	Ivanovo	Hypermarket	property

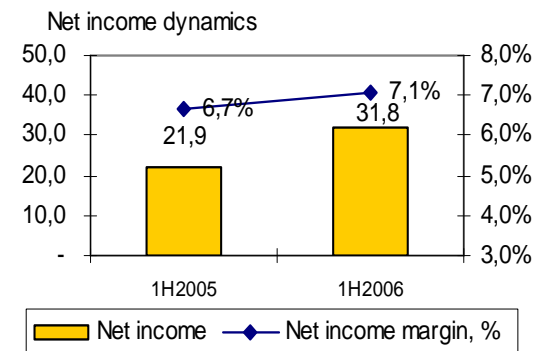
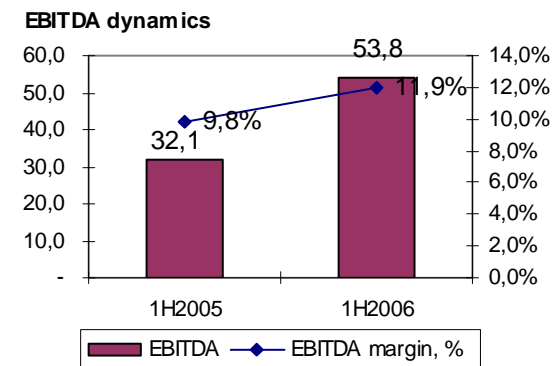
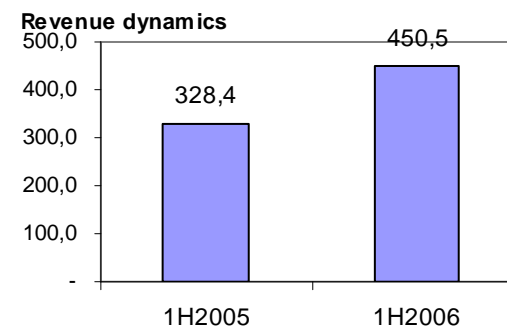
2008 – 2009 – additional objects in work

Total 15 objects in work



Income Statement *

\$ mn	2005	1H2005	1H2006	Growth rate
Net sales	712,8	328,4	450,5	37%
Cost of sales	(483,6)	(222,4)	(309,9)	
Gross profit	229,2	106,0	140,6	33%
<i>Gross margin, %</i>	<i>32,2%</i>	<i>32,3%</i>	<i>31,2%</i>	
General, selling and distribution expenses	(168,1)	(80,8)	(101,9)	26%
Other operating income and expenses (net)	0,1	0,1	1,5	
EBITDA	74,7	32,1	53,8	68%
<i>EBITDA margin, %</i>	<i>10,5%</i>	<i>9,8%</i>	<i>11,9%</i>	
EBIT	61,2	25,2	40,2	59%
<i>EBIT margin, %</i>	<i>8,6%</i>	<i>7,7%</i>	<i>8,9%</i>	
Interest expense	(1,7)	(0,0)	(3,3)	
Interest income	4,4	2,6	5,8	
Other non-operating income / expenses, net	0,1	0,2	1,2	
Income tax expense	9,5	16,9	11,6	
Net income	47,1	21,9	31,8	46%
<i>Net income margin, %</i>	<i>6,6%</i>	<i>6,7%</i>	<i>7,1%</i>	

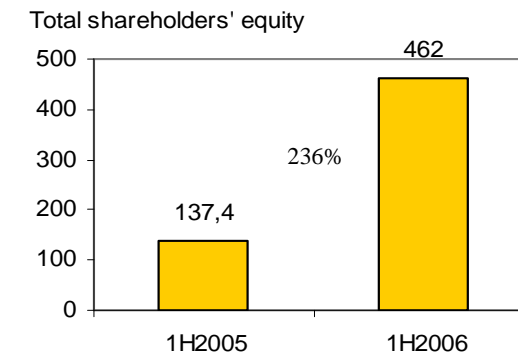
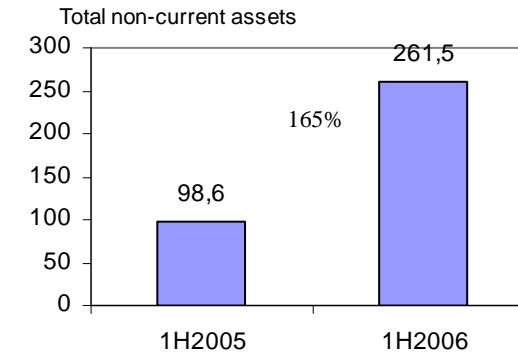


* In accordance with IFRS

Balance Sheet *

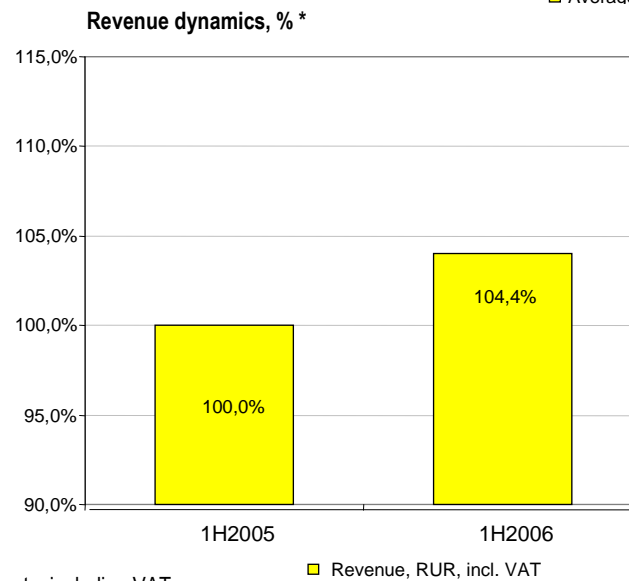
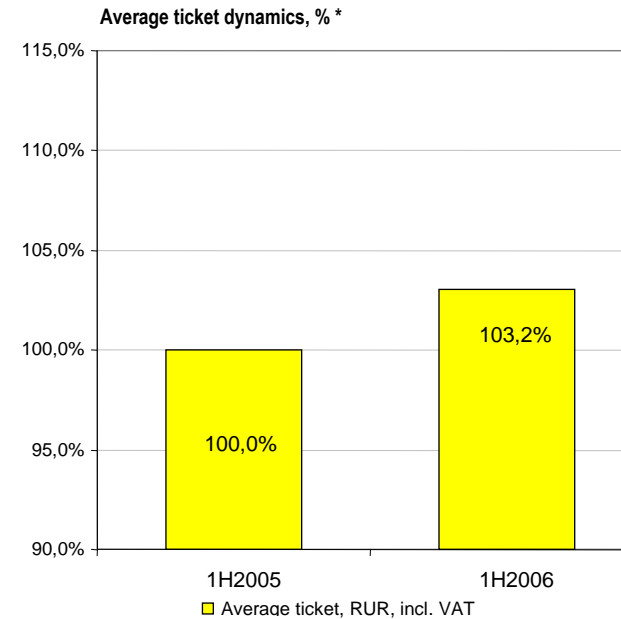
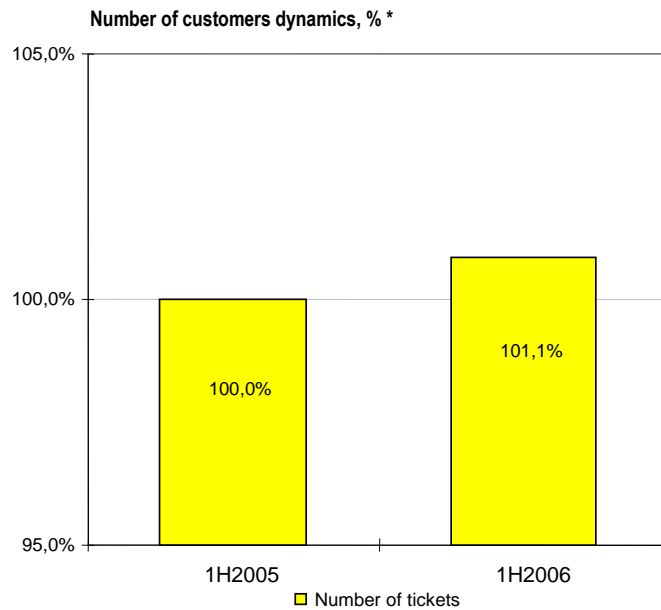
\$ mn	2005	1H2005	1H2006	Growth
Cash and cash equivalents	65,6	55,2	243,9	
Short-term Investments	2,3	4,1	64,4	
Accounts receivable and prepayments	29,1	19,2	38,1	
Inventories	54,8	30,4	42,7	
Total current assets	151,8	108,8	389,1	280,3
Total non-current assets	223,7	98,6	261,5	162,9
Total assets	375,5	207,4	650,6	443,2

\$ mn	2005	1H2005	1H2006	Growth rate
Accounts payable	97,5	58,4	67,4	
Borrowings	91,7	0	91,7	
Other	24,4	11,6	29,5	
Total liabilities	213,6	70	188,6	118,6
Total shareholders' equity	161,9	137,4	462	324,6
Total liabilities	375,5	207,4	650,6	443,2



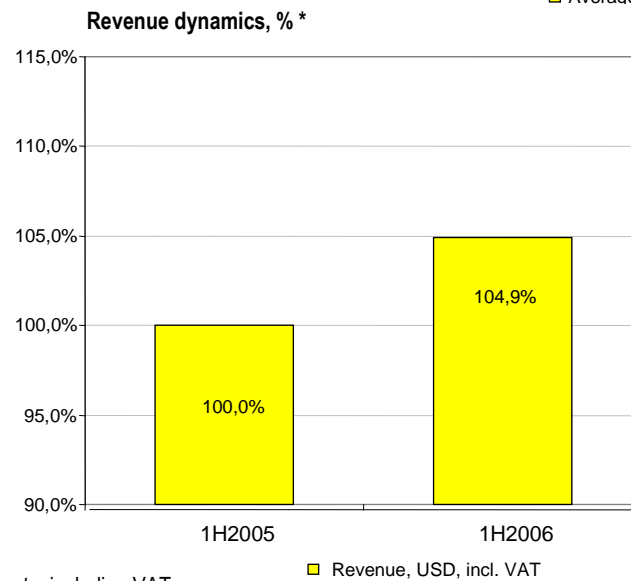
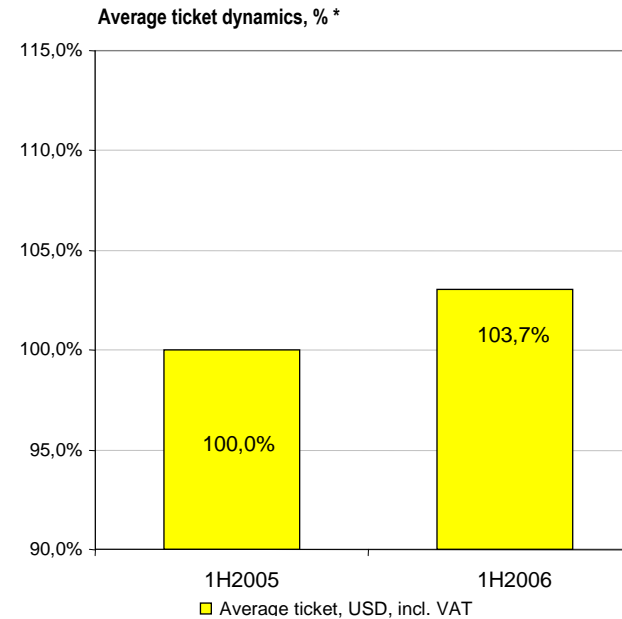
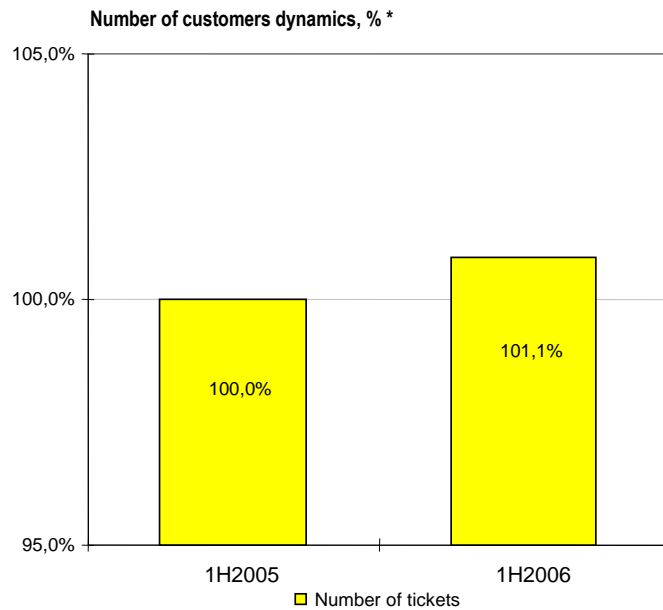
* In accordance with IFRS

Same store analysis for 1H2005 / 1H2006*



* In accordance with management accounts, including VAT

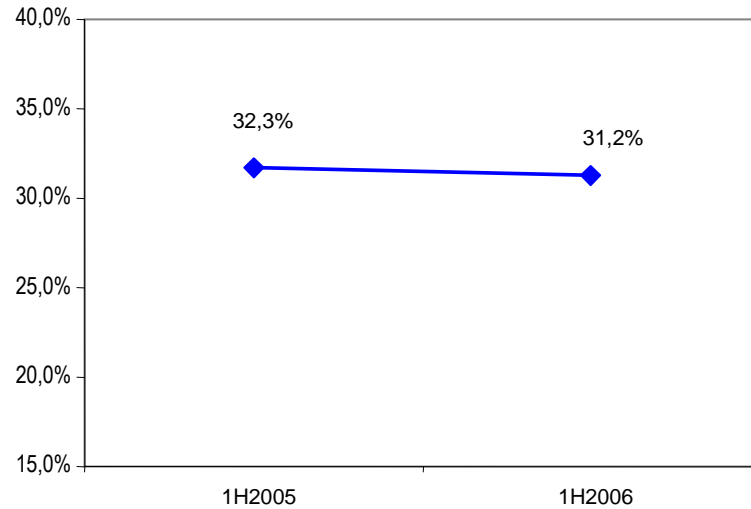
Same store analysis for 1H2005 / 1H2006*



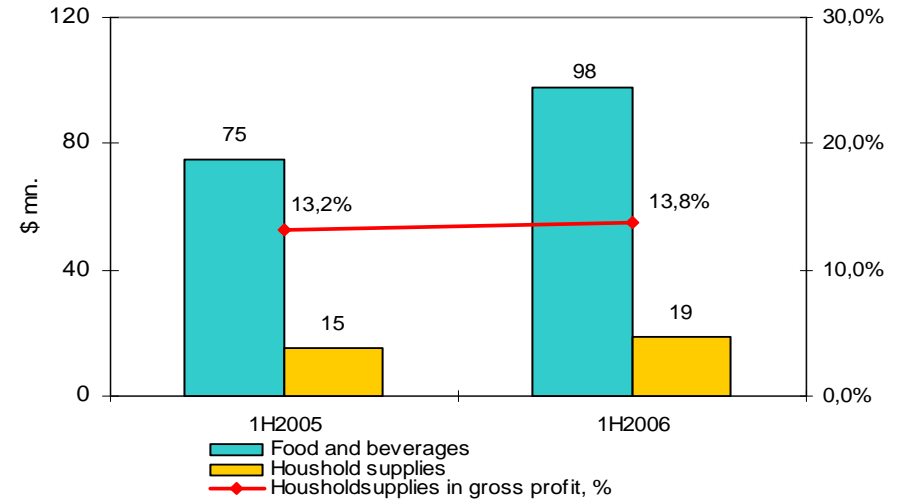
* In accordance with management accounts, including VAT

Gross profit structure

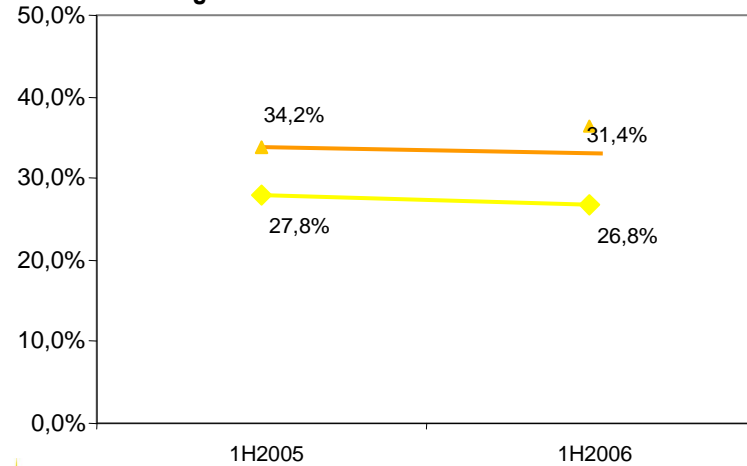
Gross margin dynamics*



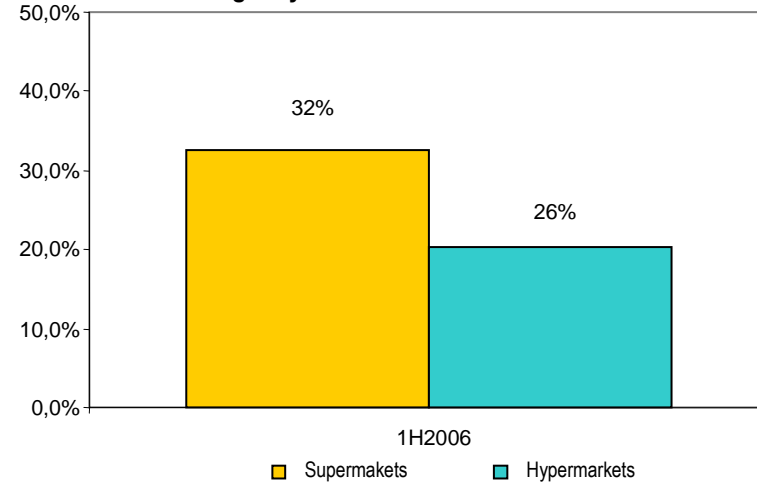
Gross profit structure *



Gross margin structure*



Gross margin by formats **



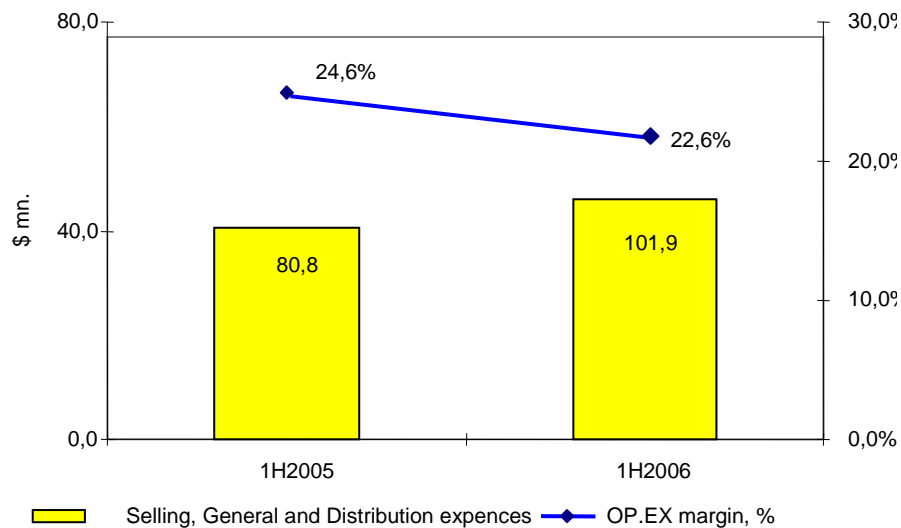
◆ Food and beverages ◆ Household supplies

* In accordance with IFRS

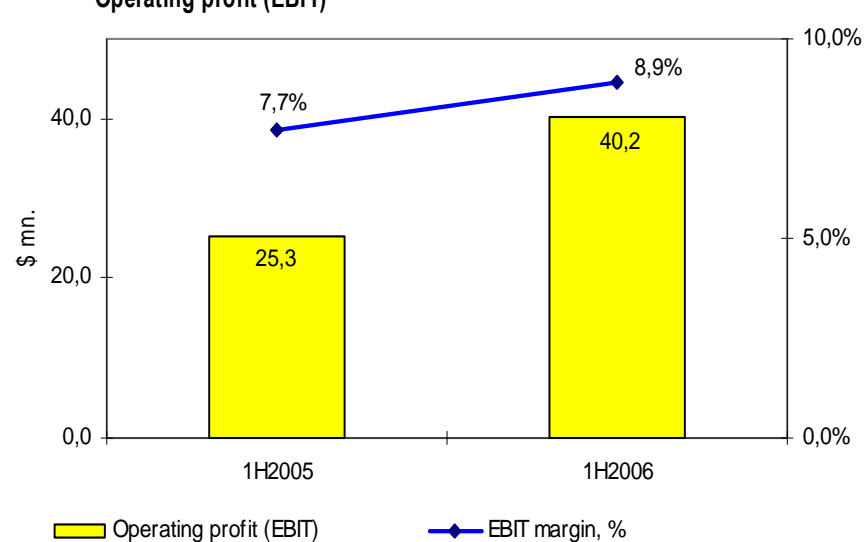
** - including rental and marketing revenue and VAT, in accordance with management accounts.

Operating profit (EBIT)

Operating expenses dynamics *



Operating profit (EBIT) *



	2005	1H2005	1H2006
Labour costs	44%	45,49%	43,27%
Operating leases	25%	24,36%	21,32%
Depreciation and amortization	8%	8,51%	13,34%
Materials and supplies	6%	7,92%	4,47%
Utilities	4%	3,76%	4,36%
Repairs & maintenance	3%	3,32%	4,09%
Security expenses	3%	2,49%	2,90%
Advertising expenses	2%	0,92%	1,22%
Bank commissions	1%	1,12%	1,13%
Taxes (other than income tax)	1%	0,69%	1,69%
Insurance expenses	0%	0,30%	0,39%
Other	4%	1,13%	1,83%
Total	100,00%	100,00%	100,00%

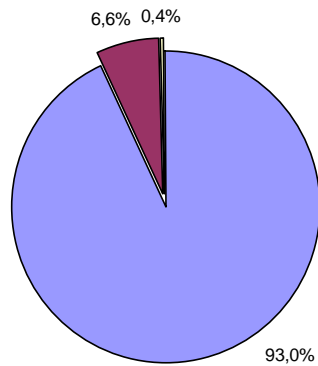
	2005	1H2005	1H2006
Labour costs	10,30%	11,20%	9,80%
Operating leases	5,80%	6,00%	4,80%
Depreciation and amortization	1,90%	2,10%	3,00%
Materials and supplies	1,40%	1,90%	1,00%
Utilities	1,00%	0,90%	1,00%
Repairs & maintenance	0,70%	0,80%	0,90%
Security expenses	0,60%	0,60%	0,70%
Advertising expenses	0,50%	0,20%	0,30%
Bank commissions	0,30%	0,30%	0,30%
Taxes (other than income tax)	0,20%	0,20%	0,40%
Insurance expenses	0,10%	0,10%	0,10%
Other	0,80%	0,30%	0,40%
Total	23,60%	24,60%	22,60%



* In accordance with IFRS

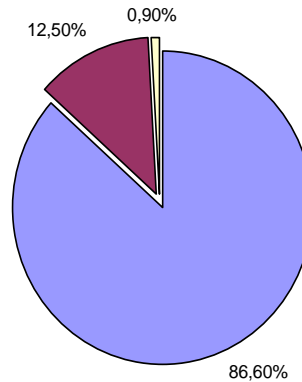
Store performance by regions *

Revenue



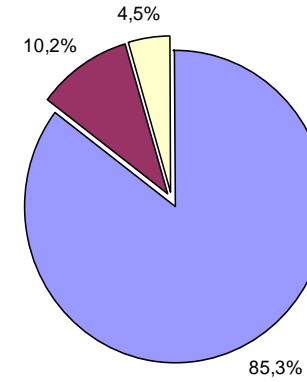
■ Moscow and Moscow region
■ Kaliningrad Region
□ St. Petersburg

Number of tickets



■ Moscow and Moscow Region
■ Kaliningrad Region
□ St. Petersburg

Trade spaces



■ Moscow and Moscow Region
■ Kaliningrad Region
□ St. Petersburg



* In accordance with management accounts

Hypermarket format introduction

Our hypermarkets operate under "Nash Gipermarket" ("Our Hypermarket") brand. They are:

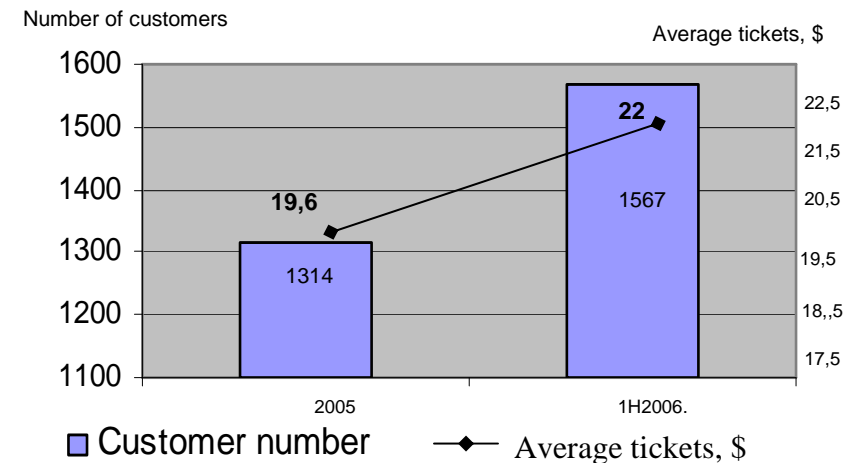
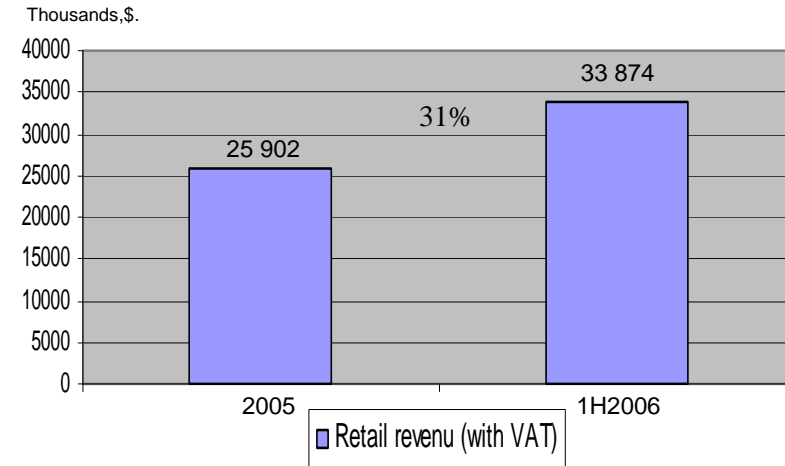
- located close to major transport routes;
- aimed at daily visits as well as multi-purchase occasional store visits during the week-end

"Our Hypermarket" format offers customers the advantage of low prices, broad assortment of both food and non-food products as well as extended presence of our own "private label" product line compared to our supermarkets. The targeted share of non-food products in hypermarket is higher – 30-40% depending on space. The Company's first "Our Hypermarket" store was opened in July 2005.

- 3% of our retail revenues in 2005, 6,8% in 1H2006;
- 1,3 million of customers in the 2005, 1,6 mln in 1H2006;
- \$19,6 average ticket in 2005 and \$22 in the 1-st half of 2006
- 28% share of non-food goods.

We opened our second hypermarket in January 2006 and our third hypermarket in May 2006
Hypermarket share in the 1-st half of 2006 turnover – 9%.

Our first hypermarket performance



First Hypermarket Average ticket Growth – 12%

