

**Group of companies “LenSpecSMU”**

**Interim consolidated financial statements  
prepared under IFRS**

for six months ended June 30, 2007  
with Report of independent auditors



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## Independent auditors report

To shareholders of the Group of companies "LenSpecSMU"

We have audited the accompanying interim consolidated financial statements of JSC "LenSpecSMU" and its subsidiaries (the Group), which comprise the interim consolidated balance sheet as at June 30, 2007, and interim consolidated income statement, interim statement of changes in equity and interim cash flow statement for six months ended June 30, 2007, and a summary of significant accounting policies and other explanatory notes.

### *Management's Responsibility for the Financial Statements*

Groups management is responsible for the preparation and fair presentation of these interim 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 interim 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 interim 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 interim consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the interim 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 interim 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 Groups management, as well as evaluating the overall presentation of the interim 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 accompanying interim consolidated financial statements give a true and present fairly, in all material respects the financial position of the Group as at June 30, 2007, and of its financial performance and its cash flows for six months ended June 30, 2007 in accordance with International Financial Reporting Standards.

General Director

Auditor in Charge

Moscow, Russian Federation  
September, 28 2007



D. Vinokurov

T. Demina

**Group of companies "LenSpecSMU"**  
Interim consolidated balance sheet as at June 30, 2007

	Notes	As at June 30, 2007 '000 RR	As at December 31, 2006 '000 RR
<b>Assets</b>			
<b>Non-current assets</b>			
Fixed assets	4	1 495 983	987 679
Intangible assets		1 625	752
Investments in associated companies	2 b (ii)	24 249	19 941
Long-term financial assets	5	37 376	24 846
Accounts receivable (long-term)	6	219 311	166 170
Deferred tax assets	7	3 288	41 574
		<b>1 781 832</b>	<b>1 240 962</b>
<b>Current assets</b>			
Inventories	8	9 087 546	8 099 254
Financial assets (short-term)	9	1 039 880	2 182 119
Accounts receivable and advances (short-term)	10	3 167 985	1 905 018
Cash and cash equivalents	11	113 133	83 550
Other current assets	12	54 070	74 288
		<b>13 462 614</b>	<b>12 344 229</b>
<b>Total assets</b>		<b>15 244 446</b>	<b>13 585 191</b>
<b>Equity</b>			
<b>Equity and reserves</b>			
Share capital	13	1 237	1 237
Retained earnings		1 860 141	1 003 306
		1 861 378	1 004 543
<b>Minority interest</b>		<b>227 825</b>	<b>63 223</b>
<b>Total equity</b>		<b>2 089 203</b>	<b>1 067 766</b>
<b>Long-term liabilities</b>			
Long-term borrowings	14	4 129 471	2 350 994
Advances received on principal activity (long-term)	15	2 091 450	2 439 362
Accounts payable (long-term)	16	605 351	754 232
Deferred tax liabilities	7	142 937	30 460
		<b>6 969 209</b>	<b>5 575 048</b>
<b>Short-term liabilities</b>			
Short-term borrowings	14	297 901	254 574
Advances received on principal activity (short-term)	15	3 317 655	5 212 429
Accounts payable and other liabilities (short-term)	16	2 570 478	1 475 374
		<b>6 186 034</b>	<b>6 942 377</b>
<b>Total equity and liabilities</b>		<b>15 244 446</b>	<b>13 585 191</b>

The interim consolidated balance sheet is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 8–25.

General Director

Scherbina G. Ph.

Chief Accountant

Ignatyeva L. M.

September 23, 2007

**Group of companies "LenSpecSMU"**  
Interim consolidated income statement for six months ended June 30, 2007

	Notes	June 30, 2007 <u>'000 RR</u>	June 30, 2006 <u>'000 RR</u>
<b>Revenue</b>	17	5 714 387	3 214 508
Cost of sales	18	<u>(3 750 001)</u>	<u>(2 786 533)</u>
<b>Gross profit</b>		<b>1 964 386</b>	<b>427 975</b>
Selling expenses	19	(108 089)	(28 083)
General and administrative expenses	20	(133 442)	(12 835)
Taxes, other than income tax		(10 465)	(9 746)
Other operating income/(expenses)	21	<u>(88 920)</u>	<u>(58 590)</u>
<b>Operating profit</b>		<b>1 623 470</b>	<b>318 721</b>
Share in the results of activity of associated companies		8 313	3 001
Net finance income	22	<u>38 704</u>	<u>3 736</u>
<b>Profit before income tax, minority interest</b>		<b>1 670 487</b>	<b>325 458</b>
Income tax	23	<u>(411 489)</u>	<u>(120 019)</u>
<b>Profit before minority interest</b>		<b>1 258 998</b>	<b>205 439</b>
Minority interest		<u>(206 163)</u>	<u>(12 630)</u>
<b>Net profit</b>		<b><u>1 052 835</u></b>	<b><u>192 809</u></b>
Basic and diluted earnings per share		<b>1 052,84</b>	<b>192,81</b>

The interim consolidated income statement is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 8–25.

General Director

Scherbina G. Ph.

Chief Accountant

Ignatyeva L. M.



**Group of companies "LenSpecSMU"**

Interim consolidated statement of cash flows for six months ended June 30, 2007

	June 30, 2007 '000 RR	June 30, 2006 '000 RR
<b>OPERATING ACTIVITIES</b>		
<b>Profit before tax, minority interest:</b>	1 670 487	325 458
Adjustments to reconcile profit before taxes to cash provided by operating activities	(13 183)	70 197
<i>Depreciation</i>	34 940	18 296
<i>(Profit)/loss from assets sold</i>	(24 973)	(23 229)
<i>Foreign exchange gain/(loss)</i>	1 907	(25 250)
<i>Interest expense</i>	38 189	37 065
<i>Interest income</i>	(79 394)	(21 341)
<i>Income from participation in other organizations</i>	(8 313)	(3 001)
<i>Bad debt provision</i>	3 038	67 373
<i>Other income and expenses</i>	21 423	20 284
<b>Operating profit before changes in working capital</b>	<b>1 657 304</b>	<b>395 655</b>
(Increase)/decrease in trade accounts receivables and advances	(1 275 046)	(221 719)
(Increase) decrease in inventories	(971 343)	(336 655)
Increase/(decrease) in trade payables and advances received	(1 323 087)	1 596 913
Changes in other assets and liabilities	(103 442)	(72 966)
<b>Cash generated from (used in) operations</b>	<b>(2 015 614)</b>	<b>1 361 228</b>
Income taxes paid	(132 899)	(150 628)
<b>Net cash from (used in) operating activities</b>	<b>(2 148 513)</b>	<b>1 210 600</b>
<b>INVESTING ACTIVITIES</b>		
Acquisition of property, plant and equipment and intangible assets	(1 024 990)	(28 317)
Proceeds from sales of property, plant and equipment and intangible assets	1 176	220
Acquisition/sale of securities and other financial assets	(48 153)	(203 939)
Acquisition / repayment of deposits	882 520	(458 908)
Loans given	(8 390)	-
Repayments of loans given	2 916	-
Interest received	79 803	17 268
Dividends received	4 383	888
<b>Net cash from (used in) investing activities</b>	<b>(110 735)</b>	<b>(672 788)</b>
<b>FINANCING ACTIVITIES</b>		
Amounts borrowed	3 968 128	578 648
Repayment of amounts borrowed	(1 350 505)	(1 088 902)
Interest paid	(148 057)	(105 899)
Dividends paid	(185 863)	(5 688)
<b>Net cash from (used in) financing activities</b>	<b>2 283 703</b>	<b>(621 841)</b>
Influence of foreign exchange difference	5 128	759
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>29 583</b>	<b>(83 270)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>83 550</b>	<b>242 160</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>113 133</b>	<b>158 890</b>

The interim consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 8-25.

General Director

Scherbina G. Ph.

Chief Accountant

Ignatyeva L. M.

September 28, 2007

**Group of companies "LenSpecSMU"**

*Interim consolidated statement of changes in equity as at June 30, 2007*

	Share capital	Retained earnings	Total	Minority interest	Total equity
<b>Balance at January 1, 2005</b>	<b>1 237</b>	<b>610 411</b>	<b>611 648</b>	<b>41 920</b>	<b>653 568</b>
Dividends	-	-	-	(5 850)	(5 850)
Net profit for the period	-	192 809	192 809	12 630	205 439
<b>Balance at June 30, 2006</b>	<b>1 237</b>	<b>803 220</b>	<b>804 457</b>	<b>48 700</b>	<b>853 157</b>
<b>Balance at December 31, 2006</b>	<b>1 237</b>	<b>1 003 306</b>	<b>1 004 543</b>	<b>63 223</b>	<b>1 067 766</b>
Dividends	-	(196 000)	(196 000)	(41 561)	(237 561)
Net profit for the period	-	1 052 835	1 052 835	206 163	1 258 998
<b>Balance at June 30, 2007</b>	<b>1 237</b>	<b>1 860 141</b>	<b>1 861 378</b>	<b>227 825</b>	<b>2 089 203</b>

The interim consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 8-25.

General Director

Scherbina G. Ph.

Chief Accountant

Ignatyeva L. M.

September 28, 2007



**1. Principal activities**

One of the largest building and industrial holdings of Saint-Petersburg – LenSpecSMU – was founded in 1987 as a private building company. The Holding specializes in mass house building under brick and monolith technology in the field of higher comfort and business-class housing.

At present the share of the building market falling on the objects erected by the holding "LenSpecSMU" constitutes around 13,2% of the whole building market of Saint-Petersburg. During the six months of 2007 the Group constructed buildings of total area of 134 530 sq.m.

The Company performs the whole cycle of investment and building process – from projecting of real estate to its operation.

The parent company – Closed joint stock company Specialized Building and Assembly Association "LenSpecSMU" was registered under the Resolution of the Registration chamber of Saint-Petersburg dated 28.12.1995. The last edition of Charter was registered on 16.03.2007.

CJSC Specialized Building and Assembly Association "LenSpecSMU" as well as its subsidiaries included into the Group of companies "LenSpecSMU" have the following licenses:

1. Licenses for carrying out activity on building of edifices and constructions.
2. Licenses for carrying out realty activity.
3. Licenses for carrying out activity on operation of underground constructions.
4. License for carrying out activity on projecting of underground constructions.
5. License carrying out activity on projecting of edifices and constructions.
6. License for carrying out loads transportation.

Main subsidiaries are: CJSC "AKTIV", CJSC "SPb MFTC", OJSC "SMU "Electronstroy" and CJSC "CUN" and LLC "Kamenka".

Main associated companies are CJSC "LenSpecSMU-Reconstruciton", CJSC "Building materials factory "Etalon", CJSC "Energy company "Teplogarant", LLC "Orgtehremstroy", CJSC "LSO".

The parent company and the subsidiaries are named hereinafter "Companies", "Group", "Group of companies", "Holding", "LenSpecSMU". Shareholders of the head company are legal entity and individual, citizen of the RF. The head office is located in Saint-Petersburg at the following address: Bogatyrskiy prospect, 2.

As at June 30, 2007 1 681 employees on average worked for the Company.

**Russian business environment**

The Russian Federation has been experiencing political and economic change which has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks which do not typically exist in other markets. The accompanying consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment. The impact of such differences on the operations and the financial position of the Group may be significant.

**2. Basis of preparation**

**(a) General principles**

The accompanying consolidated interim financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") and are represented in thousand Russian rubles ("thousand rubles"). The Russian ruble is utilized as measurement currency as the majority of the Company's operations are expressed, measured or paid in Russian rubles. Operations in other currencies are treated as transactions in foreign currencies.

Preparation of the financial statements requires from the head body certain estimates and assumptions in



respect of amounts stated in the statements. Such estimates are based on the information known at the date of the financial statements. Actual results, therefore, may differ from such estimates.

The Company must maintain accounting records and prepare financial statements for the purposes of regulating bodies in Russian rubles in accordance with the Russian Accounting Standards (RAS). The accompanying consolidated interim financial statements have been prepared on the basis of official accounting registers with the necessary adjustments and re-classifications of particular items to comply with the requirements of IFRS.

**(b) Basis of consolidation**

**(i) Subsidiaries**

Subsidiaries are the entities (including special purpose entities), where the Company has the power to govern the financial and operating policies (to control) as a result of:

- power over more than one-half of the voting rights of the other entity, or
- power to cast the majority of votes at meetings of the board of directors or equivalent governing body of the subsidiary, or,
- power to govern the financial and operating policies of the other entity under other reasons.

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

The purchase method of accounting is used to account for the acquisition of subsidiaries of the Group. According to this method the financial statements of the Company and its subsidiaries are combined line by line by adding together like items of assets, liabilities, equity, income and expenses. The carrying amount of the Company's investment in each subsidiary and the Company's portion of equity of each subsidiary are then eliminated. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

The cost of an acquisition is measured as the fair value of the assets purchased, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

All Group companies apply common accounting principals.

***The consolidated financial statements include the following companies:***

	Share	Total, assets	Equity	Net profit (loss) of the accounting period
CJSC "SPb MFTC"	61%	2 073 044	509 283	465 530
OJSC "SMU "Electronstroy"	88%	44 790	13 491	1 438
CJSC "AKTIV"	100%	696 913	379 406	12 421
CJSC "CUN"	40%	3 855 369	72 222	40 723
LLC "Kamenka"	100%	107 021	106 742	(258)
Amounts excluded at consolidation		(4 536 985)	(475 646)	(58 307)
<b>TOTAL</b>		<b>2 240 152</b>	<b>605 498</b>	<b>461 547</b>

The share of LenSpecSMU in the authorized capital of the company constitutes 40%, but the characteristics of relations between CJSC SSMO "LenSpecSMU" and CJSC "CUN" allows considering strong control and, as a consequence, to include CJSC "CUN" in the group of subsidiaries.

**(ii) Investments in associates**

An associate is an entity (including special purpose entities) over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture as a result of:

- power over 20-50 percent of the voting rights of the other entity, or
- representation at meetings of the board of directors or equivalent governing body of the subsidiary, or,
- power to influence the financial and operating policies of the other entity under other reasons.

The accounting of associates acquired or disposed of during the year is performed from the effective date of acquisition of ability of influence or up to the effective date of disposal of such influence, as appropriate.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting under which investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual.

Losses of an associate in excess of the Group's interest in that are not recognised, unless the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

All Group companies apply common accounting principals.

**Associated companies accounted using equity method**

	Share	December 31, 2006	Share of net profit	Dividends received	June 30, 2007
		Investments associated companies	in		Investments in associated companies
CJSC "LenSpecSMU-Reconstruction"	25%	9 332	5 739	(2 875)	12 196
CJSC "Building materials factory "Etalon"	25%	7 614	4 850	(1 130)	11 334
CJSC "Energy company "Teplogarant"	30%	1 734	(1 089)	-	645
LLC "ORGTECHREMSTROY"	20%	702	(702)	-	-
CJSC "LSO"	20%	559	(485)	-	74
<b>TOTAL</b>		<b>19 941</b>	<b>8 313</b>	<b>(4 005)</b>	<b>24 249</b>

**(c) Financial Reporting in Hyperinflationary Economies**

In the period starting from beginning of 90-ties till 31 December 2002 the Russian Federation met the criteria of the country with hyperinflationary economy in accordance with IAS 29 «Financial Reporting in Hyperinflationary Economies». The inflation rate published by the State Committee of Statistic of the Russian Federation in 2002 was 15,1% (in 2001 and in 2000 – 18,8% and 20,2% respectively). Notwithstanding that the cumulative inflation rate over three years by the end of the year 2002 was less than 100%, it is recognized that the economy of the Russian Federation had conditions of the hyperinflationary economy till 31 December 2002.

In accordance with IAS 29 the financial statements of an enterprise that reports in the currency of a hyperinflationary economy, whether they are based on a historical cost approach or a current cost approach, should be stated in terms of the measuring unit current at the balance sheet date. The Group applied IAS 29 by applying a general price index of the Russian Federation.

In accordance with the resolution of international bodies regulating accounting and financial reporting, from 1 of January, 2003 the Russian Federation does not meet the criteria of hyperinflationary economy, stated by IAS 29 "Financial Reporting in Hyperinflationary Economies".

Starting from 2003 and during the subsequent years the Company did not apply IAS 29 to the current accounting periods and content itself with representation of the aggregate influence of indexation on hyperinflation till 31 of December, 2002 on non-monetary items of the financial statements. Monetary items and the results of its activity will be recognized in the amounts of actual nominal amounts.

**(d) Going concern**

The accompanying consolidated financial statements have been prepared on a going concern basis,

which contemplates that the Group has neither intention nor the obligation to cease or significantly curtail its business in the foreseeable future. The recoverability of the Group's assets, as well as the future operations of the Group, may be significantly affected by the current and future economic environment. The accompanying consolidated financial statements do not include any adjustments should the Group be unable to continue as a going concern.

(e) **Use of estimates**

Management of the Group has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRS. Actual results could differ from those estimates.

3. **Significant accounting policies**

The following significant accounting policies have been consistently applied by the Group in the preparation of the financial statements and are consistent with those used in the prior year.

(a) **Intangible assets**

Intangible assets include software, trade marks and licenses

(i) **Software**

Software is capitalized expenses for acquisition and putting into operation of software less accumulated amortization and accumulated impairment losses.

(ii) **Licenses**

Cost of licenses is expenses incurred for acquisition of licenses and payments to government for their receipt. Amortisation is charged on a straight-line basis over their estimated useful lives starting from the date of the begging of operations. After initial recognition licenses are shown at cost less accumulated amortization and accumulated impairment losses.

(iii) **Other intangible assets**

Other intangible assets acquired by the company are shown at cost less accumulated amortization and accumulated impairment losses.

(iv) **Subsequent expenditure**

Other subsequent expenditure related to capitalize intangible assets is capitalized only when it increases the future economic benefits embodied in the item. All other expenditure is recognized in the consolidated income statement as an expense as incurred.

(v) **Useful life and amortization of intangible assets**

Intangible assets are amortized during their estimated useful lives and analysed for impairment if there are any. For the purposes of consolidated financial statements the following estimated useful lives are used:

Licenses	1-18 years
Software	1-10 years
Trade marks	10 years

(b) **Fixed assets**

Property, plant and equipment comprise mainly land, building and construction, equipment, vehicles, and other equipment such as office equipment and furniture.

(i) **Own assets**

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labor and an appropriate proportion of production overheads.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Recoverable amount is the higher of fair value less costs to sell and value

in use. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss as other expense.

(ii) **Subsequent expenditure**

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalized with the carrying amount of the component being written off. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognized in the income statement as an expense as incurred.

(iii) **Depreciation**

Depreciation is charged to the consolidated income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. For the purposes of consolidated financial statements the following estimated useful lives are used:

Building and construction	25-30 years
Machinery and equipment	3-5 years
Vehicles	5 years
Other assets	3-5 years

(c) **Investments**

Investments held-for-trading are classified as current assets and are stated at fair value, with any resultant gain or loss recognized in the consolidated income statement. Where the Group has the positive intent and ability to hold investments to maturity, they are stated at amortized cost less impairment losses. Other investments held by the Group are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss being recognized directly to equity.

Investments in equity instruments that do not have a quoted market price are measured at cost. The fair value of investments held-for-trading and investments available-for-sale is their quoted bid price at the balance sheet date.

Investments held-for-trading and available-for-sale investments are recognized/derecognized by the Group on the date it commits to purchase/sell the investments. Investments held-to-maturity are recognized/derecognized on the day they are transferred to/by the Group.

(d) **Inventories**

For accounting of construction in progress the Group of companies "LenSpecSMU" applies IAS 2 "Inventories". This standard is used due to the inappropriateness of applying IAS 11 "Construction Contracts".

Rejection to apply IAS 11 is caused by the fact that the principal activities of the companies consolidated into the Group are those of investor and customer-builder. Companies of the Group invest in and organize construction and operation of typical housing but do not perform construction works under construction contracts.

Sales of construction objects are performed through execution of share participation agreements (SPA) with future owners of housing (shareholders) or through executing agreements of preliminary sale (PSA).

Notwithstanding considerable differences in two schemes, risks associated with buildings being constructed are transferred to shareholders (buyers) after commissioning of a house by the State commission and registration of ownership rights over the housing being purchased by co-investors and shareholders. Till such moment housing and premises (including garages) under construction are accounted in LenSpecSMU books as inventories within "Production in process".

Inventories are evaluated at the lower of cost and net realizable value.

The cost of inventories comprises all costs of purchase, production costs and other related cost included in cost of finished goods.

Administrative expenses that do not contribute to bringing the inventories to their present condition as

well as selling costs are not included in the cost of the inventories.

**(e) Accounts receivable and advances**

Accounts receivable are stated at cost less provision for impairment. The amount of provision is recognized directly in the income statement.

Accounts receivable represent amounts due from individuals and legal entities to the Company under settlements for not redeemed flats.

Other accounts receivable include settlements under rent agreements, settlements for shares in garage-building cooperatives and other settlements.

Taxes recoverable comprise incoming value added tax (hereinafter – VAT) as well as debit balance for other taxes.

**(f) Cash and cash equivalents**

Cash and cash equivalents are stated at fair value of cash inflows. Cash and cash equivalents include cash on hand, cash in banks and highly liquid investments with maturity date up to ninety days from the date of issue not charged with any agreed liabilities.

**(g) Share capital**

Share capital is stated at historical cost. Contributions to share capital in the form of assets other than cash are recognized at fair value on the date of contribution. Profits and losses from sales of shares redeemed from shareholders are attributed to or written-off from the additional paid-in capital account.

**(h) Dividends**

Dividends are recognised as a liability in the period in which they are declared.

**(i) Advances received on principal activity and accounts payable**

In accordance with the share participation agreements investors-share holders invest in Holding LenSpecSMU paying advances intended for housing building.

At construction finishing, objects of building commissioning by the state commission, registration of ownership rights for housing by the share holders and passing over the objects of building to the respective owners there performed writing-off of advances received to the financial result for each object.

Accounts payable are stated at cost.

**(j) Loans and borrowings**

Loans and borrowings are recognized initially at cost, net of any transaction costs incurred. Subsequently to initial recognition, loans and borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the consolidated income statement over the period of the borrowings. When borrowings are settled before maturity, any difference between the amount repaid and the carrying amount is recognized immediately in the consolidated income statement.

**(k) Income tax**

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the consolidated income statement except to the extent that it relates to items recognized directly to equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not

deductible for tax purposes, initial recognition of assets or liabilities that affect neither accounting nor taxable profit and investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and that it is probable that the temporary difference will not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

**(l) Recognition of operating income/expenses**

The proceeds from sales of built housing and other operating income and expenses are recognized in the same period. In accordance with IFRS 18 "Revenue" the revenue is recognized when substantially all risks are transferred to customer; the amount of revenue can be measured reliably; the amount of related costs can be measured reliably; it is probable that economic benefits will flow to the company.

All income received and expenses incurred are shown in these financial statements separately net of VAT.

**(m) Net finance income/ (costs )**

Interest income and interest expense are recognized using accrual concept and are calculated using effective interest rate method.

**(n) Foreign currency transactions**

Assets and liabilities of Company denominated in foreign currencies were translated into Russian roubles using the official exchange rate of Central Bank of Russian Federation (CBR) prevailing at the balance sheet date. Income and expenses denominated in foreign currencies were translated at official exchange rates at the dates of the transactions. Decrease or increase in assets and liabilities denominated in foreign currencies caused by changes in official exchange rate after date of transaction are recognised in profit or loss as foreign exchange gain or loss.

As at June 30, 2007 the official exchange rate was USD 25,8162. As at December 31, 2006 the official exchange rate was USD 26,3311.

## 4. Fixed assets

'000 RR	Buildings and facilities		Machinery and equipment		Vehicles	Other FA	Construction in progress	Total
	Land							
<i>Cost</i>								
At December 31, 2006	459 711	387 544	285 742	30 066	30 066	40 333	1	1 203 397
Additions	233 925	303 377	155 340	9 039	9 039	941	38 346	740 968
Disposals	-	(123 513)	(99 314)	(7 576)	(7 576)	(636)	(1)	(231 040)
Impairment	(374)	(3 800)	(1 274)	(1 017)	(1 017)	(762)	-	(7 227)
<b>At June 30, 2007</b>	<b>693 262</b>	<b>563 608</b>	<b>340 494</b>	<b>30 512</b>	<b>30 512</b>	<b>39 876</b>	<b>38 346</b>	<b>1 706 098</b>
<i>Depreciation</i>								
At December 31, 2006	-	(31 298)	(164 227)	(9 844)	(9 844)	(10 349)	-	(215 718)
Depreciation charge for the period	-	(31 272)	(46 711)	(4 153)	(4 153)	(1 604)	-	(83 740)
Depreciation on disposals	-	14 365	71 548	1 202	1 202	527	-	87 642
Depreciation on impairment	-	523	456	293	293	429	-	1 701
<b>At June 30, 2007</b>	<b>-</b>	<b>(47 682)</b>	<b>(138 934)</b>	<b>(12 502)</b>	<b>(12 502)</b>	<b>(10 997)</b>	<b>-</b>	<b>(210 115)</b>
<i>Net book value</i>								
At December 31, 2006	459 711	356 246	121 515	20 222	20 222	29 984	1	987 679
<b>At June 30, 2007</b>	<b>693 262</b>	<b>515 926</b>	<b>201 560</b>	<b>18 010</b>	<b>18 010</b>	<b>28 879</b>	<b>38 346</b>	<b>1 496 983</b>

<i>Cost</i>								
At December 31, 2005	459 337	300 753	177 630	20 872	20 872	33 012	6 381	997 985
Additions	374	52 649	36 247	15 972	15 972	5 944	-	111 186
Disposals	-	(501)	(8 879)	(9 144)	(9 144)	(2 219)	(6 225)	(26 968)
<b>At June 30, 2006</b>	<b>459 711</b>	<b>352 901</b>	<b>204 998</b>	<b>27 700</b>	<b>27 700</b>	<b>36 737</b>	<b>156</b>	<b>1 082 203</b>
<i>Depreciation</i>								
At December 31, 2005	-	(18 324)	(131 798)	(8 559)	(8 559)	(8 246)	-	(166 927)
Depreciation charge for the period	-	(4 789)	(21 149)	(2 306)	(2 306)	(1 925)	-	(30 169)
Depreciation on disposals	-	106	2 641	3 457	3 457	15	-	6 219
<b>At June 30, 2006</b>	<b>-</b>	<b>(23 007)</b>	<b>(150 306)</b>	<b>(7 408)</b>	<b>(7 408)</b>	<b>(10 156)</b>	<b>-</b>	<b>(190 877)</b>
<i>Net book value</i>								
At December 31, 2005	459 337	282 429	45 832	12 313	12 313	24 766	6 381	831 058
<b>At June 30, 2006</b>	<b>459 711</b>	<b>329 894</b>	<b>54 692</b>	<b>20 292</b>	<b>20 292</b>	<b>26 581</b>	<b>156</b>	<b>891 326</b>

## 5. Financial assets

	As at June 30, 2007 '000 RR	As at December 31, 2006 '000 RR
Loans given	32 144	20 034
Long-term investments in other companies	5 232	433
Financial investments available for sale	-	4 379
<b>TOTAL LONG-TERM FINANCIAL ASSETS</b>	<b>37 376</b>	<b>24 846</b>

Loans given to legal entities are denominated in Russian rubles and are stated at amortized cost. The effective interest rate was 11,7% as at June 30, 2007 and December 31, 2006 .

**6. Long-term accounts receivable and advances**

	As at June 30, 2007 '000 RR	As at December 31, 2006 '000 RR
Trade accounts receivable	188 477	110 709
Advances to suppliers for the principal activities	28 675	51 801
Other accounts receivable	<u>2 159</u>	<u>3 660</u>
<b>Total long-term accounts receivable and advances</b>	<b><u>219 311</u></b>	<b><u>166 170</u></b>

**7. Deferred taxation**

Deferred corporate income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred corporate income taxes relate to the same fiscal authority. The gross movement on the deferred corporate income tax account is as follows:

	As at June 30, 2007 '000 RR
Deferred tax asset at the beginning of the period	41 574
Deferred tax liability at the beginning of the period	<u>(30 460)</u>
Net deferred tax at the beginning of the period	11 114
Tax included in the Statement of Income (note 23)	<u>(150 763)</u>
Net deferred tax at the end of the period	(139 649)
including:	
<b>Deferred tax asset</b>	<b><u>3 288</u></b>
<b>Deferred tax liability</b>	<b><u>(142 937)</u></b>



## 8. Inventories

	As at June 30, 2007 '000 RR	As at December 31, 2006 '000 RR
Construction in progress of apartment building objects	6 343 999	5 733 014
Construction in progress of garage building objects	522 814	357 988
<b>Total construction in progress</b>	<b>6 866 813</b>	<b>6 091 002</b>
Own apartments	1 814 290	1 522 410
Built-in premises (non-residential)	315 938	424 303
Secondary market apartments	11 784	10 504
Concrete and reinforced concrete items	3 789	4 406
Food products	164	80
Other	3 670	3 731
<b>Total Finished products and goods for re-sale</b>	<b>2 149 635</b>	<b>1 965 434</b>
Metal-roll (armature, angle bars, metal bars, etc.)	2 431	2 203
Materials for inside furnishing	2 259	2 402
Wood Boards, Low density wood boards	23	12
Special clothing	797	193
Instruments	408	177
Inventories and utilities	5 812	6260
Cement	1 726	655
Sand	298	207
Concrete and reinforced concrete items	472	1 360
Other	60 080	29 011
Reserve for depreciation of materials	(4 917)	(3 020)
Fuel	199	4
Tare and tare materials	1	1
Spare parts	1 325	1 263
Other inventories	184	2 090
<b>Total raw materials</b>	<b>71 098</b>	<b>42 818</b>
<b>Total inventories</b>	<b>9 087 546</b>	<b>8 099 254</b>

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The construction in progress includes apartments under construction, infrastructure objects and producers' goods.

Objects of construction in progress in total amount of 6 866 813 thousand rubles are located in following addresses:

'000 RR	June 30, 2007 r.			December 31, 2006 r.		
	Housing construction objects	Garage building objects	Total:	Housing construction objects	Garage building objects	Total:
Morskoy Fasad, Morskoy Kaskad	15 891	-	15 891	52 602	-	52 602
Lanskoy Block	18 842	-	18 842	18 649	-	18 649
Zhivoy Rodnik (1, 2, 3 turn, infrastructure objects)	13 599	-	13 599	36 831	-	36 831
Grazhdanka-CITY V. O.	779 668	21 740	801 408	1 091 065	111 579	1 202 644
Birzhevaya linia, 12	103 030	-	103 030	64 774	-	64 774
House on Serebrystiy	1 857	-	1 857	1 556	-	1 556
House in Ozerki	7 740	-	7 740	7 710	-	7 710
Zhivoy Ruchey	260 852	-	260 852	114 616	-	114 616
Zolotaya Gavan Olminkogo Str.	1 329 104	150 753	1 479 857	1 788 531	163 481	1 952 012
House in Avangardnaya Str.	-	-	-	2 635	-	2 635
Zh.K. Polezhaevskiy	-	-	-	12 300	-	12 300
House in Rudneva Str	205 402	94 718	300 120	115 491	35 353	150 844
Shuvalovsky Block	131 696	-	131 696	68 097	-	68 097
Housing Complex "Yuzhniy"	463 971	125 851	589 822	62 057	-	62 057
House on Bryanceva str	939 593	42 697	982 290	312 630	988	313 618
Novoye Sozvezdiye	31 829	-	31 829	20 770	-	20 770
Infrastructure objects	1 263 866	87 006	1 350 872	641 283	42 889	684 172
Other	226 182	-	226 182	346 678	-	346 678
<b>Total</b>	<b>6 343 999</b>	<b>522 814</b>	<b>6 866 813</b>	<b>5 733 014</b>	<b>357 988</b>	<b>6 091 002</b>

Object comparison shows that the largest objects under construction of as at June 30, 2007 were "Zolotaya Gavan" and "Novoye Sozvezdiye".

**9. Financial assets**

	As at June 30, 2007 '000 RP	As at December 31, 2006 '000 RR
Deposits	815 782	1 941 470
Available-for-sale financial assets	211 009	220 135
Loans given to legal entities	13 089	20 514
<b>Total financial assets</b>	<b>1 039 880</b>	<b>2 182 119</b>

As to management's judgment short-term bank deposits does not incur fair value change risk and will be repaid within 12 months after balance sheet date. The effective interest rate was 8,6% as at June 30, 2007

**10. Accounts receivable and advances**

	As at June 30, 2007 <u>'000 RR</u>	As at December 31, 2006 <u>'000 RR</u>
Trade accounts receivable	295 985	198 856
Accounts receivable accompanied by promissory notes	316 061	353 103
Advances to suppliers for the principal activities	2 304 956	1 063 849
Other advances given	1 229	3 115
VAT recoverable	61 198	48 143
Other taxes recoverable	6 539	17 652
Other receivables	277 086	312 984
Bad debt provision	<u>(95 069)</u>	<u>(92 684)</u>
<b>Total accounts receivable and advances</b>	<b><u>3 167 985</u></b>	<b><u>1 905 018</u></b>

Accounts receivable for the principal activities occur in sales of flats built and works performed.

The major debtors for advances given are LenEnergO, Saint-Petersburg electricity networks Energogarant and also «Boiler-house Zhivoy Rodnik» LLC, «Boiler-house Zolotaya Gavan» LLC, «Boiler-houses of Krasnoselsky region» LLC - settlements for electricity, advances for technical opportunity providing of connection to electrical networks, and also for cable system of energy supply construction; LLC "PROMIS", LLC "OTIS Lift", LLC "TD MAKON" – settlements for raw materials and equipment.

**11. Cash and cash equivalents**

	As at June 30, 2007 <u>'000 RR</u>	As at December 31, 2006 <u>'000 RR</u>
Cash in hand	1 860	6 741
Cash in bank — RR accounts	86 566	64 336
Cash in bank — FCY accounts	757	-
Other cash and cash equivalents	<u>23 950</u>	<u>12 473</u>
<b>Total cash and cash equivalents</b>	<b><u>113 133</u></b>	<b><u>83 550</u></b>

**12. Other current assets**

Other current assets include prepaid expenses. Prepaid expenses constitute advances paid in the current period which relate to future periods and include the following: insurance, subscription, advertising and other expenses.

Prepaid expenses have the following structure:

	As at June 30, 2007 <u>'000 RR</u>	As at December 31, 2006 <u>'000 RR</u>
Advertising	52 084	71 252
Insurance	1 984	2 660
Subscription	<u>2</u>	<u>376</u>
<b>Total other current assets</b>	<b><u>54 070</u></b>	<b><u>74 288</u></b>

**13. Share capital**

As at June 30, 2007 share capital of the Company consisted of 1 000 shares of nominal value of 200 rubles per share.

The shareholders of the Company as at June 30, 2007 are listed below:

Shareholder	Amount of shares	Share, %	Nominal value	'000 RR Sum, adjusted to inflation
CJSC " Managerial company- Construction holding "Etalon- LenSpecSMU"	985	98,5%	197	1 218
Other	15	1,5%	3	19
	<b>1 000</b>	<b>100%</b>	<b>200</b>	<b>1 237</b>

**Dividends**

In the first half of 2007 the dividends were declared and paid in the amount of '000 RR 196 000 for the results of 2006 year end.

**14. Borrowings**

	As at June 30, 2007 '000 RR	As at December 31, 2006 '000 RR
<i>Long-term borrowings</i>		
Bank borrowings	1 849 299	111 698
Corporate borrowings	2 280 172	2 239 296
	<b>4 129 471</b>	<b>2 350 994</b>
<i>Short-term borrowings</i>		
Bank borrowings (principal amount)	229 739	186 898
Bank borrowings (interest accrued)	486	-
Corporate borrowings	67 676	67 676
	<b>297 901</b>	<b>254 574</b>
	<b>4 427 372</b>	<b>2 605 568</b>

Borrowings are stated at amortized cost. The effective interest rate was 9,8% as at June 30, 2007 and December 31, 2006 (for USD nominated borrowings) and 11,7% (for RR nominated borrowings).

As at June 30, 2007 borrowings received by Group can be presented as following:

Bank loans comprise of a loan obtained from Amsterdam Trade Bank amounting to RR'000 356 290 at historical cost (long-term amortized cost RR'000 104 111) and a loan provided by Golden Ring Finance S.A.(Luxemburg) amounting to RR'000 2 581 620 at historical cost (long-term amortized cost RR'000 1 745 188).

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(a)	As at June 30, 2007 '000 RR	investment borrowings '000 RR
Balance at the beginning of the period (principal amount), transient	315 973	315 973
Received (principal amount)	3 995 547	3 995 547
-including foreign exchange difference	27 419	27 419
Repaid (principal amount)	(1 373 610)	(1 373 610)
- including foreign exchange difference	(23 105)	(23 105)
Exchange difference	-	-
Balance at the end of the period (principal amount)	2 937 910	2 937 910
Balance at the beginning of the period (interest), transient	-	-
Balance at the beginning of the period (interest)	-	-
Charged to expenses (interest)	21 457	21 457
Paid up (interest)	(20 971)	(20 971)
Balance at the end of the period (interest)	486	486
Balance at the end of the period (principal amount) in the following currencies	2 937 910	2 937 910
- Russian rubles borrowings	-	-
- US dollars borrowings	2 937 910	2 937 910
<b>Total, borrowings (principal amount) at the end of period at cost</b>	<b>2 937 910</b>	<b>2 937 910</b>
Payables within 12 months after the balance sheet date (principal amount) at the end of the period	229 739	229 739
Payables within 2 years after the balance sheet date (principal amount) at the end of the period	63 301	63 301
Payables within 3 years after the balance sheet date (principal amount) at the end of the period	63 250	63 250
Payables within 4 years after the balance sheet date (principal amount) at the end of the period	-	-
Payables within 5 years after the balance sheet date (principal amount) at the end of the period	2 581 620	2 581 620
Total, borrowings (interest) at the end of the period	486	486
Payables within 12 months after the balance sheet date (interest) at the end of the period	486	486
<b>Total, payables (principal amount) at the end of the period at the amortized (balance) cost</b>	<b>2 079 524</b>	<b>2 079 524</b>

Corporate borrowings comprise of two bonds issues supported by JSC Bank of Moscow acting as an underwriter. At the reporting year end the balance amounted to RR'000 2 264 132 at historical cost (long-term amortized cost RR'000 2 280 172).

(b)	As at June 30, 2007 '000 RR	investment borrowings <u>          </u> '000 RR
Balance at the beginning of the period (principal amount)	2 176 761	2 176 761
Received (principal amount)	-	-
Repaid (principal amount)	-	-
Balance at the end of the period (principal amount)	2 176 761	2 176 761
Balance at the beginning of the period (interest), transient	90 281	90 281
Balance at the beginning of the period (interest)	90 281	90 281
Charged to expenses (interest)	16 414	16 414
Capitalized (interest)	107 762	107 762
Paid up (interest)	(127 086)	(127 086)
Balance at the end of the period (interest)	87 371	87 371
Balance at the end of the period (principal amount) in the following currencies	2 176 761	2 176 761
Russian rubles borrowings	2 176 761	2 176 761
US dollars borrowings	-	-
<b>Total, balance at the end of the period (principal amount and interest) at cost</b>	<b>2 264 132</b>	<b>2 264 132</b>
Payables within 12 months after the balance sheet date (principal amount) at the end of the period	67 676	67 676
Payables within 2 years after the balance sheet date at the end of the period	101 514	101 514
Payables within 3 years after the balance sheet date at the end of the period	304 542	304 542
Payables within 4 years after the balance sheet date at the end of the period	1 790 400	1 790 400
<b>Total, payables (principal amount and interest) at the end of the period at the amortized (balance) cost</b>	<b>2 347 848</b>	<b>2 347 848</b>

#### 15. Advances received from the principal activities

Advances received are represented by the prepayment received by the Group of companies from buyers of construction objects.

Write-off to financial result of advances received from principal activities is made as the construction objects are presented to the state commission, and under the following conditions of revenue recognition: transfer to the buyer the significant risks and rewards, the amount of revenue and related cost can be measured reliably, the probability that the economic benefits associated with the transaction will flow to the Group is very high.

#### 16. Accounts payable and other liabilities

	As at June 30, 2007 '000 RR	As at December 31, 2006 '000 RR
<i>Long-term liabilities</i>		
Accrued reserves	605 351	754 232
	<b>605 351</b>	<b>754 232</b>
<i>Short-term liabilities</i>		
Accounts payable — trade	2 053 010	599 086
Salary payable	19 079	12 754
Advances received - other	-	552 658
Taxes payable	295 410	76 972
Dividends payable	29 524	-
Other payables	173 455	233 904
	<b>2 570 478</b>	<b>1 475 374</b>
<b>Total accounts payable and other liabilities</b>	<b>3 175 829</b>	<b>2 229 606</b>

Accrued reserves in amount '000 RR 605 351 тыс. руб. are represented by reserves for carried over works '000 RR 595 123 and reserves for long-service bonus in amount of '000 RR 10 228.

Short – term trade accounts payable in amount of '000 RR 2 053 010 include settlements with suppliers for raw materials, inventories and construction services.

#### 17. Revenues

	June 30, 2007 '000 RR	June 30, 2006 '000 RR
Commissioning of construction objects	2 542 224	2 634 038
Own flats	2 349 054	295 222
Built-in premises	155 443	105 448
Flats of the secondary market	10 413	4 246
Building and assembly works	335 236	11 077
Rent	113 973	62 294
Agent services	51 159	43 368
Concrete production	79 526	-
Auto services sales	4 015	2 234
Other products, goods, materials	64 567	42 588
Sales of other works and services	8 777	13 993
<b>Total revenues</b>	<b>5 714 387</b>	<b>3 214 508</b>

#### 18. Cost of sales

	June 30, 2007 '000 RR	June 30, 2006 '000 RR
Commissioning of objects of building	1 886 764	2 319 453
Own flats	1 124 513	174 222
Built-in premises	92 039	64 414
Flats of the secondary market	3 789	3 936
Building and assembly works	322 194	13 102
Other products, goods, materials	107 267	34 841
Salary and other personnel expenses	109 602	111 530
Depreciation	33 115	17 898
Maintenance expenses	8 182	9 321
Repair and maintenance	6 750	8 665
Other	55 786	29 151
<b>Total cost of sales</b>	<b>3 750 001</b>	<b>2 786 533</b>

#### 19. Selling expenses

	June 30, 2007 '000 RR	June 30, 2006 '000 RR
Advertisement and marketing	107 907	28 083
Other	182	-
<b>Total selling expenses</b>	<b>108 089</b>	<b>28 083</b>

20. General and administrative expenses	June 30, 2007 '000 RR	June 30, 2006 '000 RR
Wages and other payments to personnel	83 780	8 949
Maintenance expenses	28 131	48
Depreciation	1 825	398
Informational services (subscription, satellite TV and other)	80	88
Other	19 626	3 352
<b>Total general and administrative expenses</b>	<b>133 442</b>	<b>12 835</b>
21. Other operating income / (expenses)	June 30, 2007 '000 RR	June 30, 2006 '000 RR
Income/(expenses) from sale of financial assets	26 750	28 959
Bad debt reserve	(3 038)	(67 373)
Inventory impairment reserve	(2 133)	(3 400)
Current legislation cases reserve	1 571	(3 082)
Income from participation in other organizations	-	228
Services of social nature	(2 097)	(14 728)
Expenses for social field support	(18 550)	(9 693)
Fees, fines, forfeits	(12 384)	8
Income / (expenses) from sales and other disposals of assets	(1 071)	311
Income / (expenses) from accounts payable / receivable write-off	2 578	(27)
Bank commissions	(9 145)	(11 701)
SPA settlements after commissioning of the house by State commission	8 227	20 481
Income/(expenses) from sale of other financial assets	-	238
Other expenses	(79 628)	1 189
<b>Total Other operating income / (expenses)</b>	<b>(88 920)</b>	<b>(58 590)</b>
22. Net financial income	June 30, 2007 '000 RR	June 30, 2006 '000 RR
Interest expense	(38 189)	(37 065)
Interest income	79 394	21 341
Foreign exchange gain/(loss)	(1 907)	25 250
Income/(expense) from change of fair value of long-term borrowings and loans	(594)	(5 790)
<b>Total net financial income</b>	<b>38 704</b>	<b>3 736</b>
23. Income tax expense	June 30, 2007 '000 RR	June 30, 2006 '000 RR
Current tax expense	260 726	125 180
Deferred assets/(liabilities) relating to the origination and reversal of temporary differences	150 763	(5 161)
<b>Total income tax charged to the income statement</b>	<b>411 489</b>	<b>120 019</b>

The parent company, subsidiaries and associates are to hand in separate tax returns. The Group's applicable tax rate is the corporate income tax rate of 24%



**24. Related-party transactions**

As at June 30, 2007 the Group had the following balances on operations with related parties:

	As at June 30, 2007 <u>'000 RR</u>	As at December 31, 2006 <u>'000 RR</u>
Long-term loans given	21 263	59
Short-term loans given	11 055	-
Short-term accounts receivable for principal activities	430 658	12 866
Short-term other accounts receivable-PN received	4 800	-
Short-term other accounts receivable-	305 084	600
Short-term accounts receivable advances given for principal activities	58 336	15 308
Long-term accounts receivable advances given for principal activities	-	14 549
Trade accounts payable	412 830	10 199
Other accounts payable	188 165	84 391
Accounts payable-advances given	3 419	-
Dividends	26 818	-

As at June 30, 2007 Group provided the following operations with related parties:

	June 30, 2007 <u>'000 RR</u>	June 30, 2006 <u>'000 RR</u>
Revenues	277 685	29 530
Cost of sales	242 948	-
Other income	5 576	1
Other expenses	999	(138)

The increase of operations with related parties was due to growth of amount of related companies under common control.

**25. Events subsequent to the balance sheet date**

There have been no material events subsequent to the balance sheet date which require disclosure.