

Original in the Russian language

CJSC SSMO “LenSpecSMU”

financial statements

As at 31 of December, 2005 together with Report of independent auditors

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REPORT OF INDEPENDENT AUDITORS

To shareholders of the company CJSC SSMO "LenSpecSMU"

We have audited the accompanying balance sheet of the company CJSC SSMO "LenSpecSMU" (hereinafter – "Company") as at 31 of December, 2005 as well as the related statements of income, changes in equity and cash flows for the accounting year then ended. These financial statements are the responsibility of the governing body of the Company. Our responsibility is to express an opinion on these financial statements based on the audit conducted.

We conducted our audit in accordance with the International Standards on Auditing. Those Standards require that we plan and perform the audit in order to obtain reasonable assurance about whether the financial statements are free of material misstatement. The audit includes examining on a test basis, evidence supporting the amounts contained in the financial statements and the information disclosed therein. Besides that the audit includes the analysis of accounting principles used and essential estimates made by the governing body as well as the analysis of general presentation of the financial statements. We believe that the audit check conducted provides a reasonable basis for our opinion.

In our opinion, the above mentioned financial statements, in all material respects, provide true and fair view of the financial position of the Company as at 31 of December, 2005, of the results of its activity and of its cash flows in accordance with the International Financial Reporting Standards published by the International Reporting Standards Board.

26 of July, 2006

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Company CJSC SSMO "LenSpecSMU"

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BALANCE SHEET

(Thousand Russian rubles)

	Notes	2004	2005
Total, assets		6 033 266	8 426 874
Total, current assets		3 870 251	6 977 452
Cash and cash equivalents	4	24 101	4 351
Available-for-sale financial investments (AFS) (short-term)	5	279 806	15
Loans given	5	15 138	18 005
Accounts receivable (short-term)	6	591 400	1 144 457
VAT on purchases	6	14 866	13 088
Inventories	7	2 849 274	5 781 564
<i>including housing construction objects and garage building objects</i>		2 370 181	3 863 630
	7, 10	0	836 265
Other current assets	8	95 666	15 972
Total, non-current assets		2 163 015	1 449 422
Accounts receivable (long-term)	6	1 129 715	528 930
Property, Plant and Equipment, construction in progress and intangible assets	9	55 087	498 982
Property, Plant and Equipment and construction in progress		54 558	498 440
Intangible assets		529	542
Long-term investments	10	366 807	366 913
Available-for-sale financial assets (AFS) (long-term)	10	582 224	7
Loans given	10	2 642	11 838
Deferred tax assets	12	26 540	42 752
Total, equity and liabilities		6 033 266	8 426 874
Total, liabilities		5 726 998	7 898 955
Total, short-term liabilities		2 746 149	4 532 268
Short-term borrowings	11	360	10 623
Accounts payable	11	878 610	2 011 832
Deferred income	11	1 867 179	2 509 813
Total, long-term liabilities		2 980 849	3 366 687
Long-term borrowings	13	2 040	530 268
Long-term liabilities for purpose financing	11	2 977 499	2 810 970
Deferred tax liabilities	12	1 310	25 450
Total, equity		306 268	527 919
Share capital, total		200	200
Additional paid-in-capital		72 063	72 063
Retained earnings		234 005	455 656
Retained earnings		234 005	234 005
Net profit for the year	14-17		221 651

Signed by the Board of Directors of the Company

General director

Chief accountant

26 of July, 2006

The accompanying notes are the essential part of these financial statements

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INCOME STATEMENT

(Thousand Russian rubles)

		2004	2005
Revenue	14	5 965 260	3 525 767
Cost of sales	15	(5 678 421)	(3 240 458)
Gross profit		286 839	285 309
Selling expenses	16	(117 949)	(36 204)
General and administrative expenses	16	(31 796)	(35 320)
Taxes, other than income tax		(7 458)	(625)
Other operating income/(expenses)	17	118 741	185 840
Operating profit		248 378	399 000
Interest income		998	1 373
Interest expense		(4 319)	(33 504)
Profit before income tax and minority interest		245 057	366 869
Income tax		(51 817)	(105 218)
Profit before minority interest		193 240	261 651
Undistributed profit		193 240	261 651
Dividends		(3 000)	(40 000)
Net profit		190 240	221 651

The accompanying notes are the essential part of these financial statements.

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STATEMENT OF CHANGES IN EQUITY For the period ended 31 December 2005

(Thousand Russian rubles)

<u>000 RR</u>	<u>Share capital</u>	<u>Share premium</u>	<u>Retained earnings</u>	<u>Total</u>
Balance at December 31, 2003	200	72 063	43 765	116 028
Net profit/(loss) for the period	-	-	193 240	193 240
Dividends	-	-	(3 000)	(3 000)
Balance at December 31, 2004	200	72 063	234 005	306 268
Net profit/(loss) for the period	-	-	261 651	261 651
Dividends	-	-	(40 000)	(40 000)
Balance at December 31, 2005	200	72 063	455 656	527 919

The accompanying notes are the essential part of these financial statements.

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STATEMENT OF CASH FLOWS

(Thousand Russian rubles)

	2004	2005
Cash flows from operating activities	551 399	(976 159)
Profit before income taxes and minority interest	245 057	366 869
Adjustments for profit:	(17 272)	34 797
Changes in Accounts receivable	(83 288)	(4 103)
Changes in Inventories	(426 560)	(2 928 891)
Changes in Other assets	(79 803)	76 847
Changes in Liabilities	956 329	1 559 915
Changes in Other liabilities	(3 502)	0
Interest paid	(4 250)	(33 544)
Income tax paid	(35 311)	(48 049)
Net cash flows from (used in) operating activities	(2 944)	(39 328)
Dividend paid to shareholders	(2 944)	(39 328)
Net cash flows from (used in) investment activity	(583 064)	1 012 281
Property, Plant and Equipment purchase	(73 642)	(467 510)
Proceeds from sale of Property, Plant and Equipment	1 980	13 644
Accounts receivable adjustment for advances for equipment and capital construction	(5 210)	44 224
Long-term investments purchase	(444 014)	(562 273)
Long-term investments sale	354 031	11 538
Other investments purchase	(423 699)	(1 207 473)
Other investments sale	1 760	465 120
Proceeds from borrowings	2 846	1 621 873
Repayment of borrowings	1 904	1 093 262
Loans given	(83 017)	(439 611)
Repayment of loans given	84 118	427 273
Interest received	45	1 071
Dividends received	(1 082)	11 143
Currency exchange change influence on cash and cash equivalents	916	(16 544)
Cash and cash equivalents at the beginning of the period	55 766	24 101
Cash and cash equivalents at the end of the period	24 101	4 351
Net increase/(decrease) in cash and cash equivalents	(31 665)	(19 750)

The accompanying notes are the essential part of these financial statements.

NOTES TO FINANCIAL STATEMENTS
As at 31 of December, 2005

(Thousand Russian rubles)

1. Principal activities

The company CJSC SSMO "LenSpecSMU" 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 constructed by the Company constitutes around 11.6% of the whole building market of Saint-Petersburg. In 2005 CJSC SSMO "LenSpecSMU" constructed building of total area of 263 806 sq. m.

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

The company CJSC 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 the Articles of Association was registered by the Resolution of the Registration chamber of Saint-Petersburg dated 25.06.2006.

CJSC SSMO "LenSpecSMU" has the following licenses:

- Licenses to carry out activity on building construction.
- License to carry out realty activity.
- License to carry out activity on operation of underground constructions.
- License to carry out activity on projecting of underground constructions.
- License to carry out design of buildings.

Shareholders of the Company are individuals, citizens of the RF. The main office is located in Saint-Petersburg at the following address: Bogatyrskiy prospect, 2.

In 2005 474 employees on average worked for the Company.

NOTES TO FINANCIAL STATEMENTS
As at 31 of December, 2005

(Thousand Russian rubles)

2. Basis of preparation

General

The accompanying financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") and is 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 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.

Acceptance of IFRS 1 "First time Adoption of IFRS"

In 2003 the Company for the first time started using IFRS for preparing financial statements. In accordance with IFRS 1, an entity's first IFRS financial statements are the first annual financial statements in which the entity declares following IFRS by clear and unconditional declaration of following IFRS which assumes the use of principle of comparability of information with the previous accounting period.

In 2004 the Company continued using IFRS for preparation of financial statements. Due to the fact that the opening balance of these financial statements (i.e. financial statements as at 31.12.2004) can be acknowledged as fully complying with IFRS 1, the financial statements prepared for the period ended 31.12.2005 can be acknowledged as fully complying with IFRS 1.

Inflation accounting

Under 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 following 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.

NOTES TO FINANCIAL STATEMENTS
As at 31 of December, 2005

(Thousand Russian rubles)

3. Significant accounting policies

Cash and cash equivalents

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

Accounts receivable

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

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

Taxes recoverable

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

Inventories

For accounting of construction in progress the company CJSC SSMO "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 LenSpecSMU are those of investor and customer-builder. The Company invests in and organizes construction and operation of typical housing. The Company does 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.

Short-term investments

Investments are accounted for in accordance with IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement". The Company determines the corresponding classification of investments at initial recognition and re-evaluates this designation at every reporting date if it is required under IAS.

Short-term investments comprise bills of exchange of banks and legal entities purchased for short-term financial investments and recognized at fair value. Changes in the fair value of short-term investments are recognized in the income statement.

NOTES TO FINANCIAL STATEMENTS
As at 31 of December, 2005

(Thousand Russian rubles)

3. Significant accounting policies (continued)
Long-term investments

Long-term investments comprise long-term bills of exchange, investments in other companies' shares, interests in garage-building cooperatives as well as loans given to legal entities. Investments in shares and interests which do not have an active market are stated at cost. In case of permanent diminution of long-term investments value, the carrying amount of such investments is adjusted accordingly.

Property, Plant and Equipment

Property, Plant and Equipment are stated at historical cost less accumulated depreciation and impairment losses..

At each reporting date the Company's management assesses whether there is any indication that any asset of Property, Plant and Equipment may be impaired. If any such indications exist, the Company estimates the recoverable amount of the asset which is the higher of its net realizable value and value in use. Depreciation of assets under construction and assets not commissioned for operation starts from the date when such assets are put into operation. Depreciation is calculated using a straight line method based on the following estimated useful lives:

	<u>Years</u>
Land	Not applicable
Buildings	25-30
Machinery and equipment	3-5
Other FA	5

The carrying amount of assets included in Property, Plant and Equipment is reviewed at each reporting date in order to estimate whether their carrying amount is higher than their recoverable amount. In this case the carrying amount is reduced to its recoverable amount. The impairment loss is recognized in the income statement of the current accounting period within administrative and operating expenses.

Repair and reconstruction costs incurred for items of Property, Plant and Equipment are recognized in the income statement as incurred within other administrative and operating expenses in case when they are not capitalized in the structure of corresponding fixed asset value.

Obligations, liabilities, deferred income

In 2005 in Russian Federation there was adopted the Federal Law "On participation in share Company in building apartment houses and other real estate objects".

This law reinforces control over building and sales of houses under scheme of executing share participation agreements. Enterprises engaged in the field of construction and using share participation agreements, starting from April, 2005 must:

- register each share participation agreement;
- define with high degree of accuracy the price of agreement and the order of its payment, warranty term of share building, amounts of forfeit for breach of obligations by the parties etc;

Such conditions complicate execution of new share participation agreements.

Therefore, starting from April, 2005, LenSpecSMU started using new scheme for attracting finance for housing construction – execution of preliminary sale agreements. For agreements executed before 01.04.2005 the former scheme of share participation agreements is used.

In accordance with the agreement LenSpecSMU engages its subsidiary CJSC "CUN" as an agent responsible for attraction of buyers and preliminary sale agreements execution.

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At finishing construction LenSpecSMU acquires ownership right over the building constructed and, the buyer having contributed 100% of prepayment, within 30 days executes sales agreement with such buyer and actually passes over the objects constructed to him.

In accordance with the share participation agreements and preliminary sales agreements investors (shareholders, future housing owners) invest in LenSpecSMU paying advances intended for housing building. As building and assembly works are performed and commissioned by the customer-builder (LenSpecSMU) the advances received from legal entities and individuals are attributed to the deferred income and included into the structure of short-term liabilities.

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

NOTES TO FINANCIAL STATEMENTS
As at 31 of December, 2005

(Thousand Russian rubles)

3. Significant accounting policies (continued)

Deferred taxes

Deferred taxes are calculated using the balance sheet liability method which is based on the concept of temporary differences. Temporary differences are differences between carrying amounts of assets and liabilities recognized in balance sheet and the amounts used for taxation purposes. In accordance with this method deferred taxes are recognized for all temporary differences except for some particular cases. The amount of deferred tax assets and deferred tax liabilities 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.

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.

Ordinary dividends are recognized in equity in the period in which they are declared. Dividends declared after the balance sheet date are disclosed in the section "Post-Balance sheet events" according to IAS 10 "Events after the Balance sheet date".

Incidental expenses

Incidental expenses are recognized in financial reporting only at occurrence of circumstances in which there may be needed assets to regulate liabilities the amount of which can be evaluated with sufficient reliability. Incidental income is not recognized in financial reporting but is disclosed when there appears probability of economical benefit receipt.

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.

Non-operating income and expenses

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

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(Thousand Russian rubles)

4. Cash and cash equivalents

As at 31 of December 2005 cash and cash equivalents consist of the following items:

	2004	2005
Cash	15 470	3 251
Cash on hand	562	822
Current and settlement accounts	14 908	2 429
Cash equivalents	8 631	1 100
Deposit certificates	5 011	0
Others	3 620	1 100
TOTAL	24 101	4 351

5. Financial assets (short-term)

As at 31 of December, 2005 short-term financial assets include other items:

	2004	2005
Available-for-sale financial assets (AFS)	279 806	15
Other bills of exchange (except for bills of exchange of banks)	279 790	0
Other investments	1	0
Other financial investments	15	15
Loans given to legal entities	15 138	18 005
Loans given to affiliated companies	15 105	16 507
Loans given to other companies	33	1 498
TOTAL	294 901	18 020

Other bills of exchange for the amount of **279 790** thousand rubles are bills of exchange of individuals and legal entities issued to LenSpecSMU in return for flats and shares in garage-building cooperatives were paid off in 2005.

Loans given to legal entities consist of the loan given to its related party CJSC "Managing company "Etalon" (in the amount of 16 507 thousand rubles) and loans given to other companies.

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Notes to financial statements

NOTES TO FINANCIAL STATEMENTS As at 31 of December, 2005

(Thousand Russian rubles)

6. Accounts receivable

As at 31 of December, 2005 accounts receivable of the Company consist of the following items:

	2004	2005
Accounts receivable (short-term)	591 400	1 144 457
Accounts receivable for the principal activities	132173	271244
Accounts receivable for the principal activities	129 445	268 748
Accounts receivable accompanied by bills of exchange	2 728	2 496
Advances paid	105 475	105 348
Advances to suppliers for the principal activities	61 251	105 348
Advances for purchase of equipment and capital construction	44 224	0
Other accounts receivable and advances given	363 495	784 858
Other accounts receivable and advances given	363 495	784 858
Susceptible debt provision (-)	(9 744)	(16 993)
Accounts receivable (long-term)	1 129 715	528 930
TOTAL	1 721 115	1 673 387

Short-term accounts receivable have the following structure:

- Accounts receivable under investment agreements – 271 244 thousand rubles,
- Accounts receivable under other agreements – 890 206 thousand rubles.

The major debtors for advances given are LenEnergO (settlements for electricity), Petroprofile, Mechtrest, Atrium, architecture workshops – settlements for building and assembly and architecture and planning works.

Other accounts receivable and advances given include settlements under lease agreements, settlements for flats redeemed from individuals, settlements for shares in garage building cooperatives (GBC) and other settlements.

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NOTES TO FINANCIAL STATEMENTS As at 31 of December, 2005

(Thousand Russian rubles)

Considerable part of accounts receivable of CJSC SSMO LenSpecSMU falls on settlements with affiliated companies:

	2004	2005
Accounts receivable (short-term)	15 774	108 588
Accounts receivable for principal activities	6 973	2 052
CJSC "SPb MFTC"	838	1 631
CJSC "LenSpecSMU – Reconstruction"	172	11
LLC "ORGTECHREMSTROY"	0	47
CJSC "Energy company "Teplogarant"	91	54
OJSC "SMU "Elektronstroy"	232	232
CJSC "Building materials factory "Etalon"	1 447	0
CJSC "Etalon-PozhStandart"	77	77
CJSC "AKTIV"	4 116	0
Advances given	5 001	5 767
CJSC "Energy company "Teplogarant"	4 876	5 642
CJSC "Etalon-PozhStandart"	125	125
Other accounts receivable and advances given	1 665	100 769
CJSC "CUN"	0	79 097
CJSC "LenSpecSMU – Reconstruction"	454	90
CJSC "SPb MFTC"	0	139
CJSC "Energy company "Teplogarant"	1 004	18 680
OJSC "SMU "Elektronstroy"	58	365
CJSC "AKTIV"	149	2 398
Dividends receivable	2 135	0
CJSC "SPb MFTC"	2 135	0
Accounts receivable (long-term)	1 129 715	458 818
Other accounts receivable and advances given	1 129 715	458 818
CJSC "SPb MFTC"	1 129 715	458 818
CJSC "Etalon-PozhStandart"	0	0
TOTAL	1 145 489	567 406

Long-term accounts receivable in the amount of 458 818 thousand rubles are settlements with CJSC "SPb MFTC" for building of "Birzhevoy passage", "Morskoy fasad" and "Morskoy kaskad", etc.

VAT and taxes recoverable constitute 13 088 thousand rubles:

	2004	2005
VAT	13 265	13 088
Taxes recoverable (other than VAT)	1 601	0
TOTAL	14 866	13 088

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(Thousand Russian rubles)

7. Inventories

As at 31 of December the inventories of the Company included the following items:

	2004	2005
Raw materials	20 974	20 690
Construction	10 183	8 936
Scrap metal	121	121
Metal-roll (armature, angle bars, metal bars, etc.)	120	151
Wood Boards, Low density wood boards	150	113
Special clothing	54	73
Instruments	1 343	0
Inventories and utilities	6 336	6 454
Cement	1 942	1 907
Sand	107	107
Concrete and reinforced concrete items	10	10
Others	5 287	6 626
Fuel	1 300	991
Tare and tare materials	1 179	1 130
Spare parts	2 612	2 594
Other raw materials	413	413
Finished products and goods for re-sale	458 119	1 060 979
Secondary market flats	10 387	16 445
Own flats	332 573	809 533
Built-in premises	111 081	231 169
Others	4 077	3 832
Construction in progress	2 370 181	4 699 895
Flats and built-in premises	2 370 181	3 863 630
Garages	0	836 265
TOTAL	2 849 274	5 781 564

While the structure and cost of raw materials in 2005 remained at the level of 2004, the number of flats being sold on the housing market considerably increased.

Also, in 2005 the volume of construction in progress considerably increased and there was a detached segment of garage building (see Long-term financial assets).

Therefore, comparison of inventories for two accounting periods showed almost doubling of construction volumes.

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(Thousand Russian rubles)

The construction in progress objects for total sum of **3 863 630** thousand rubles are situated at the following addresses:

	2004	2005
Lansky block	17 920	17 921
Zhivoy rodnik (1, 2, 3 turn, infrastructure objects)	369 052	31 995
Grazhdanka-City	0	395 575
V. O. Birzhevoy passage, 12	683 427	1 025 365
Infrastructure objects	66 968	95 803
House in Ozerki	0	7 156
Tkachey, 5	93 049	-
Zolotaya Gavan'	361 675	1 515 931
Ol'minskogo st.	195 401	8 101
House on Avangardnaya st.	47 426	252 672
House on Serebrystiy	421 275	5 368
Housing complex "Yuzhniy"	0	88 597
Novoye sozvezdie	0	147 217
Other objects	113 988	266 560
TOTAL	2 370 181	3 863 630

Object comparison for 2004 and 2005 shows that the largest objects of building during two years were objects: "Birzhevoy passage" and "Zolotaya gavan".

Flats redeemed for further re-sale (in particular – at the secondary market) for the amount of 16 445 thousand rubles as well as built at Company's own account or at account of saved assets of depositors for the amount of 809 533 thousand rubles are included in the structure of finished production and goods for re-sale reserves.

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(Thousand Russian rubles)

8. Other current assets

	2004	2005
Other current assets	83 220	6 375
Prepaid expenses	12 446	9 597
TOTAL Other assets, liabilities	95 666	15 972

Prepaid expenses in the structure of other current assets have the following structure:

	2004	2005
Prepaid expenses	12 446	9 597
Prepaid expenses as advances given	12 224	9 597
Subscription	135	134
Insurance	10	1 074
Staff training	265	265
Licenses	0	27
Others	11 814	8 097
Other prepaid expenses	222	0

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NOTES TO FINANCIAL STATEMENTS

As at 31 of December, 2005

(Thousand Russian rubles)

9. Property, Plant and Equipment, intangible assets and capital construction in progress objects

Property, Plant and Equipment flows during 2005 is as follows:

	TOTAL	Land plots	Buildings and constructions	Machines and equipment	Vehicles	Devices and installations	Other FA	Construction in progress
Cost as at 31 of December, 2004	63 647		39 592	6 328	4 029	6 403	6 014	1 281
Total, debit	6 467 282	443 733	688	22 094	7 736	11 832	214	5 980 985
Putting into operation	449 860	428 365	280	6 687	2 569	11 745	214	
Building using economical method	5 044 259							5 044 259
Assets purchase	467 307							467 307
Other debit circulations	505 856	15 368	408	15 407	5 167	87		469 419
Total, credit	6 013 549		6 761	10 532	11 253	3 867	764	5 980 372
Cost as at 31 of December, 2004	517 380	443 733	33 519	17 890	512	14 368	5 464	1 894
Accumulated depreciation at the beginning of the period	9 089		1 077	3 996	59	838	3 119	
Total, credit	11 046		334	3 737	0	6 975		
Actual depreciation	11 046		334	3 737		6 975		
Total, debit	1 195		1 195					
Accumulated depreciation as at 31 of December, 2005	18 940		216	7 733	59	7 813	3 119	
Net book value as at 31 of December, 2004	54 558	0	38 515	2 332	3 970	5 565	2 895	1 281
Net book value as at 31 of December, 2005	498 440	443 733	33 303	10 157	453	6 555	2 345	1 894

NOTES TO FINANCIAL STATEMENTS
As at 31 of December, 2005

(Thousand Russian rubles)

9. Property, Plant and Equipment, intangible assets and capital construction in progress objects (continued)

Net book value of the Property, Plant and Equipment of the Company constitutes **498 440** thousand rubles.

In 2005, LenSpecSMU purchased 2 land plots having area of 223 thousand square meters and 149 square meters. The plots are located at the following address: Saint-Petersburg, Prigorodniy, Kamenka and are private property of CJSC SSMO "LenSpecSMU". The value of the plots purchased – **443 733** thousand rubles.

In order to purchase the plots LenSpecSMU opened a credit line with Sbergatelniiy Bank of RF (see "Borrowings" section).

In 2005 no construction was performed on the above plots.

During restatement of financial statements it was resolved to re-classify construction in progress of the Company from the structure of construction in progress to the structure of goods in process due to resolution to use IAS 18 "Revenue" instead of using IAS 11 "Construction contracts" for accounting of the principal activities of the above-mentioned companies.

The amount of re-classification constituted **3 861 048** thousand rubles.

Intangible assets of the company constitute **542** thousand rubles and include licenses for carrying out of different types of building works. Licenses were not impaired.

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Company CJSC SSMO "LenSpecSMU"

Notes to financial statements

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10. Financial assets (long-term)

As at 31 of December, 2005 financial assets are represented by long-term investments:

	2004	2005
Long-term financial investments	951 673	378 758
Long-term investments	366 807	366 913
Available-for-sale financial investments (AFS)	582 224	7
Loans given to legal entities	2 642	11 838

Long-term investments are investments in the following subsidiaries and affiliates:

	2005
Long-term investments	
CJSC "SPb MFTC"	2 617
CJSC "CUN"	40
CJSC "LenSpecSMU – Reconstruction"	3
CJSC "LSO"	3
LLC "ORGTECHREMSTROY"	2
OJCS "SMU" "Elektronstroy"	1 725
CJSC "Building materials factory "Etalon"	75
CJSC "Etalon – PozhStandart"	20
CJSC "AKTIV"	362 431
TOTAL	366 913

Change of structure and contents of long-term financial investments in 2005 as compared with 2004 is due to re-classification of investments of LenSpecSMU in garage-building cooperatives (GBC and SGBC) organized at the main construction objects, from the structure of available for sale (AFS) financial investments to the structure of construction in progress.

The total amount of re-classification constituted 836 265 thousand rubles and has the following structure:

GBC "Avangard"	17 911
GBC "Zolotaya gavan"	132 256
SGBC "Birzhevoy"	146 577
SGBC "Morskoy kaskad-2"	156 824
SGBC "Morskoy fasad-3"	55 146
SGBC "Garazh Na Baikonurskoi"	13 216
SGBC "Zhivoy rodnik"	29 900
SGBC "Morskoy kaskad-1"	141 906
SGBC "Morskoy fasad-1"	19 670
SGBC "Morskoy fasad-2"	80 304
SGBC "Garazh na Lanskom"	4 340
SGBC "Garazh na Grazhdanskom"	38 215
Total	836 265

The resolution on re-classification was approved based on results of garage building cooperative financing scheme analysis.

CJSC SSMO "LenSpecSMU" is a founder of a range of garage building cooperatives (GBC and SGBC). Being the founder of garage cooperatives LenSpecSMU acquires necessary number of shares in such cooperatives. Construction financing is performed either by the founder itself or at the account of selling the shares to legal entities and individuals.

According to the charter of GBC and SGBC one property share corresponds to one car place.

Original in the Russian language

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(Thousand Russian rubles)

Therefore, the amount of investment of LenSpecSMU in garage building cooperatives equals the cost of building the same number of car places.

Such conclusions led to the necessity to re-classify investments in garage building cooperatives into the structure of construction in progress.

Long-term loans issued by CJSC SSMO "LenSpecSMU" for the amount of 11 838 include the loan issued to CJSC "Russkaya skazka" – 9 022 thousand rubles as well as loans issued to affiliated companies for the amount of 2 816 thousand rubles.

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Company CJSC SSMO "LenSpecSMU"

Notes to financial statements

NOTES TO FINANCIAL STATEMENTS As at 31 of December, 2005

(Thousand Russian rubles)

11. Liabilities

	2004	2005
Short-term liabilities, including	2 745 789	4 521 645
Payables to suppliers and contractors	624 852	812 816
Liabilities accompanied by bills of exchange	8 836	0
Advances received	197 013	0
Other short-term liabilities, including	47 909	1 199 016
Deferred income	1 867 179	2 509 813
Long-term liabilities under purpose financing	2 977 499	2 810 970
TOTAL	5 723 288	7 332 615

Short-term liabilities in the amount of 812 816 thousand rubles include settlements for building and assembly works with affiliated companies (for the amount of 124 844 thousand rubles), settlements with Saint-Petersburg construction corporation "Vozrozhdenie" for the amount of 102 920 thousand rubles, with "Novator" company (building and assembly works at objects "Lanskoy quarter", "Invigorating spring" and others) for the amount of 111 031 thousand rubles as well as other settlements on building and assembly and other works performance and services provision related with constructing houses and premises, for the amount of 474 021 thousand rubles.

	2004	2005
Other short-term liabilities, including	47 909	1 199 016
Payables to personnel and accompanying liabilities	5 349	10 756
Short-term liability for taxes payable	32 032	77 511
Dividends payable	56	728
Other liabilities and accrual expenses	10 472	1 110 021

Other short-term liabilities in the amount of 1 110 021 thousand rubles include settlements with affiliated company CJSC "CUN" for the amount of 936 595 thousand rubles.

In 2006 CJSC SSMO "LenSpecSMU" switched to a new scheme of selling housing and premises construction - through preliminary sale agreements execution. In accordance with the new scheme CJSC "CUN" performs search for and attraction of potential purchasers as well as executes on behalf and at account of CJSC SSMO "LenSpecSMU" preliminary sale (PS) agreements.

Assets received by CJSC "CUN" from purchasers of future flats under PS agreements represent liabilities of CJSC SSMO "LenSpecSMU". The liabilities are discharged as housing being constructed and passed over to its owners.

	Short-term liabilities, including				
	Liabilities, total, including	Liabilities for settlements with suppliers and contractors	Advances received	Other short- term liabilities	Purpose financing
CJSC "SPb MFTC"	213 825	37 879	0	0	175 946
CJSC "CUN"	936 595	0	0	936 595	0
CJSC "LenSpecSMU – Reconstruction"	85 481	85 481	0	0	0
CJSC "LenSpecSMU – Reconstruction"	41	41	0	0	0
LLC "ORGTECHREMSTROY"	585	585	0	0	0
CJSC "Energy company "Teplogaran"	18 649	0	0	0	18 649
OJCS "SMU" "Elektronstroy"	155	155	0	0	0
CJSC "AKTIV"	2 431	703	1 728	0	0
ИТОГО	1 257 762	124 844	1 728	936 595	194 595

NOTES TO FINANCIAL STATEMENTS
As at 31 of December, 2005

(Thousand Russian rubles)

11. Liabilities (continued)

In the structure of other long-term liabilities for purpose financing are included settlements with CJSC "SPb MFTC" as a shareholder for objects of building of the Company LenSpecSMU for the amount of 175 946 thousand rubles as well as settlements with CJSC "Teplogarant".

Along with preliminary sale agreements the Company uses the scheme of housing sales under share participation agreements.

Funds received by the Company from shareholders under share Company agreements (SHA) as at 31 of December, 2005 constitute **5 320 783** thousand rubles.

Funds invested by shareholders are included in the structure of deferred income in accordance with actually performed volume of construction. The amount included in deferred income equals to the volume of construction and assembly works performed by contractors and accepted by LenSpecSMU in accordance with acts of works performed and VAT at corresponding rate. In 2005 the rate of VAT was 18%.

As construction and assembly works are performed and commissioned by customer-builder (Company) according to the act of works performed, the funds invested by shareholders are included in deferred income.

	2004	2005
Deferred income	1 867 179	2 509 813
Long-term liabilities under purpose financing	2 977 499	2 810 970
TOTAL funds invested by shareholders under share participation agreements	4 844 678	5 320 783

Writing-off of deferred income and long-term liabilities is performed as the object is commissioned by the state commission and the ownership rights of shareholders are registered.

The increase in funds attracted in 2005 compared with 2004 is due to the increase of volume of construction in 2005. Also, during this year the amount of construction and assembly works and corresponding VAT considerably increased (2 509 813 thousand rubles in 2005 compared with 1 867 179 thousand rubles in 2004).

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Notes to financial statements

NOTES TO FINANCIAL STATEMENTS As at 31 of December, 2005

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12. Taxation

Income tax expenses of the Company consist of the following items:

	2004	2005
Current income tax	(52 916)	(97 290)
Deferred income tax	1 099	(7 928)
TOTAL income tax	(51 817)	(105 218)

The Company files tax returns for different taxes including income tax. The applicable rate of corporate income tax for Russian companies constitutes 24%.

As at 31 of December the deferred tax assets and liabilities consist of the following items:

	2004	Flow	2005
Deferred tax assets	26 540	16 212	42 752
Financial investments	395	0	395
Accounts receivable less doubtful debts reserve	9 277	(6 016)	3 261
Reserves	0	16 758	16 758
Prepaid expenses	6 352	6 311	12 663
Property, Plant and Equipment and construction in progress	2 297	119	2 416
Intangible assets	0	95	95
Liabilities	0	0	0
Borrowings	0	256	256
Others	8 219	(1 311)	6 908
Deferred tax liabilities	1 310	24 140	25 450
Cash and cash equivalents	395	0	395
Accounts receivable less doubtful debts reserve	0	9 250	9 250
Reserves	0	15 645	15 645
Liabilities	401	0	401
Others	514	(755)	(241)
Total, net deferred assets (liabilities)	25 230	(7 928)	17 302

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Company CJSC SSMO "LenSpecSMU"

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NOTES TO FINANCIAL STATEMENTS As at 31 of December, 2005

(Thousand Russian rubles)

13. Borrowings

As at 31 of December, 2005 borrowings are represented as follows:

	Total, Borrowings	Investment borrowings	Overdrafts
Balance at the beginning of the period (principal amount), transient	2 331	2 331	0
Balance at the beginning of the period (principal amount)	2 331	2 331	0
Received (principal amount)	1 696 475	1 621 873	74 602
Adjustment (principal amount)	9 920	9 920	0
Repaid (principal amount)	1 167 864	1 093 262	74 602
Balance at the end of the period (principal amount)	540 862	540 862	0
Balance at the beginning of the period (interest), transient	69	69	0
Balance at the beginning of the period (interest)	69	69	0
Charge for the period (interest)	33 504	32 764	740
Paid up (interest)	33 544	32 804	740
Balance at the end of the period (interest)	29	29	0
Balance at the end of the period (principal amount) in the following currencies	540 862	540 862	
Russian rubles borrowings	10 594	10 594	
US dollars borrowings	530 268	530 268	
Total, borrowings (principal amount) at the end of period	540 862	540 862	
Payables within 12 months after the balance sheet date (principal amount) at the end of the period	10 594	10 594	
Payables within 2 years after the balance sheet date (principal amount) at the end of the period	212 138	212 138	
Payables within 3 years after the balance sheet date (principal amount) at the end of the period	318 130	318 130	
Total, borrowings (interest) at the end of the period	29	29	
Payables within 12 months after the balance sheet date (interest) at the end of the period	29	29	

Short-term borrowings are the borrowings from Saint-Petersburg Bank and BaltOneksimBank.

Long-term borrowings are represented by credit line with Sberbank of RF for the amount of 318 130 thousand rubles and borrowings from Saint-Petersburg Bank for the amount of 212 138 thousand rubles as well borrowings from BaltOneksimBank for the amount of 705 thousand rubles.

The unrenewed credit line with Sberbank of RF was opened for the purposes of financing costs in purchasing and development of land plots in Saint-Petersburg.

The loan given by Sberbank of RF is secured by mortgage of land plots owned by CJSC SSMO "LenSpecSMU", shares of CJSC SSMO "LenSpecSMU" and guarantee of CJSC "CUN".

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Company CJSC SSMO "LenSpecSMU"

Notes to financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As at 31 of December, 2005

(Thousand Russian rubles)

14. Revenue

	2004	2005
Proceeds from sales	5 965 260	3 525 767
Construction	5 963 898	3 525 767
Customer functions	5 771 642	3 084 342
Commissioning of objects of building (houses)	0	261 668
Flats of the secondary market	4 443	2 038
Own flats	70 458	99 623
Built-in premises	7 677	846
Building and assembly works	10 069	23 364
Other sales	99 609	53 886
Other production, goods, services	1 362	0

15. Cost of sales

	2004	2005
Cost of sales	5 678 421	3 240 458
Objects of building commissioning (houses)	5 537 473	3 103 153
Materials for inside furnishing	14 135	14 000
Instruments	722	700
Utilities	14 199	12 723
Building materials and materials for inside furnishing	1 678	1 700
Energy (electricity and heat)	1 316	994
Water	296	428
Wages and other payments to personnel	25 991	20 143
Depreciation	6 414	1 265
Goods for re-sale written-off to cost	72 031	79 308
Other costs	4 166	6 044

In 2005, as compared with 2004, the absolute value of proceeds and corresponding cost of sales decreased. At the same time the gross profit in 2005 remained almost at the level of 2004.

		2004	2005
Proceeds from sales	14	5 965 260	3 525 767
Cost of sales	15	(5 678 421)	(3 240 458)
Gross profit		286 839	285 309

This fact evidences that in 2005 the profitability of objects commissioned was higher than in 2004.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at 31 of December, 2005**

(Thousand Russian rubles)

16. Selling and administrative expenses

Selling and administrative and operating expenses for 2005 included the following items:

	2004	2005
Selling expenses	117 949	36 204
Advertisement and marketing	117 553	35 889
Other	396	315
General and administrative expenses	31 796	35 320
Wages and other payments to personnel	19 454	20 502
Office and polygraph expenses	101	60
Materials expenses	154	
Business-trip expenses	50	193
Advisory, legal, audit and other professional services	6 964	12 233
Informational (subscription, satellite TV and other)	47	58
Insurance expenses	285	765
Communication services	1 037	316
Transport	1 331	1 017
Office and computer hardware maintenance	980	1
Guarding services	195	96
Representative expenses	5	3
Other	1 193	76
Total selling and administrative expenses	149 745	71 524

The charges on advertising dropped in 2005 almost 3 times in comparison with 2004. On a background of a stable parameter of total gross profit, the amount of operating profit has risen.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(Thousand Russian rubles)

17. Other operating income and expenses

	2004	2005
Other operating income (expenses)	118 741	185 840
Income (expenses) from sale of assets	29 865	15 254
<i>From sales of Property, Plant and Equipment and objects of construction in progress</i>	774	1 456
<i>From sales of financial assets</i>	28 986	13 882
<i>From sales of inventory</i>	105	(84)
Reserves recovery/creation	(3 320)	(7 249)
<i>Doubtful debts reserves</i>	(3 320)	(7 249)
<i>Reserves for impairment of inventories</i>	0	
Income from participation in other organizations	1 053	9 008
Services of social nature	(1 809)	(2 662)
Fees, fines, forfeits	(171)	651
Legal costs		(1)
Liquidation and write-off of assets	(1 507)	(1 870)
Write off of accounts payable/accounts receivable	(4 752)	(2 247)
Revaluation of foreign currency	916	(16 544)
Other income	98 466	191 500

Other income for the amount of 191 500 thousand rubles occurred due to write off to income statement of unused reserves.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As at 31 of December, 2005

(Thousand Russian rubles)

18. Related party transactions

Company performs production operations with the following subsidiaries:

	Share of CJSC SSMO "LenSpecSMU"
CJSC "SPb MFTC"	71%
OJSC "SMU" "Elektronstroy"	88%
CJSC "AKTIV"	100%
CJSC "YurStroy"	50,05%
CJSC "CUN"	40%
TOTAL	

In April, 2005 LenSpecSMU switched to a new scheme for housing construction investing – through executing preliminary sales agreements. As an agent responsible for new investors attracting LenSpecSMU appointed CJSC "CUN". 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 as a subsidiary.

Also, in 2005 CJSC SSMO "LenSpecSMU" was a guarantor for bonded loan (01 series) issued by CJSC "CUN". Total number of securities allocated – 1 million pieces, one bond nominal value is 1000 rubles.

The Company also performs operations with the following associated companies:

	Share of CJSC SSMO "LenSpecSMU"
CJSC "LenSpecSMU – Reconstruction"	25%
CJSC "Building materials factory "Etalon"	25%
CJSC "ART-LS"	25%

19. Events after the Balance sheet date

In 2006 CJSC "CUN" is planning to allocate the second bonded loan, and the planned number of securities to be allocated will constitute 1.5 million pieces, with nominal value 1000 rubles each, for the total amount of 1.5 billion rubles. CJSC SSMO "LenSpecSMU" will be a guarantor for this bonded loan.