

Original in the Russian language

Group of companies “LenSpecSMU”

Consolidated financial statements

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

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Consolidated financial statements of the Group of companies “LenSpecSMU”

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REPORT OF INDEPENDENT AUDITORS

To shareholders of the Group of companies "LenSpecSMU"

We have audited the accompanying consolidated balance sheet of "LenSpecSMU" company and its affiliates (hereinafter – "Group of companies") as at 31 of December, 2005 as well as the related statements of income, changes in equity and cash flow for the accounting year then ended. These consolidated financial statements are the responsibility of the governing body of the Group of companies. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements, in all material respects, provides true and fair view of the financial position of the Company as at 31 of December, 2005, of the consolidated results of its activity and of its consolidated cash flow in accordance with the International Financial Reporting Standards published by the International Reporting Standards Board.

Horwath ICLC

July, 26 2006



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Group of companies "LenSpecSMU"

Consolidated financial statements

CONSOLIDATED BALANCE SHEET

(Thousand Russian rubles)

	Notes	2004	2005
Cash and cash equivalents	4	34 895	242 160
Available-for-sale financial investments (AFS) (short-term)	5	272 699	15
Loans given	5	28 542	18 519
Accounts receivable (short-term)	6	691 285	1 369 922
VAT on purchases	6	18 702	23 660
Inventories	7	4 419 115	6 916 107
	<i>7</i>	<i>3 916 037</i>	<i>4 924 074</i>
	<i>//</i>	<i>0</i>	<i>836 265</i>
Other current assets	<i>8</i>	<i>111 444</i>	<i>38 417</i>
Total, current assets		5 576 681	8 608 800
Accounts receivable (long-term)	6	0	129 127
Fixed assets, construction in progress objects and intangible assets	9	216 922	640 477
		<i>216 393</i>	<i>639 948</i>
		<i>529</i>	<i>529</i>
Property for lease	10	199 086	191 110
Long-term investments	3	0	0
Investments in associated companies	3	20 678	24 213
Available-for-sale financial assets (AFS) (long-term)	11	582 224	7 296
Loans given	11	16 084	31 549
Deferred tax assets	13	65 944	133 875
Other non-current assets	8	7 455	3 287
Total, non-current assets		1 108 393	1 160 934
Total, assets		6 685 074	9 769 734
Short-term borrowings	14	265 628	38 223
Accounts payable (short-term)	12	1 026 454	1 614 471
Deferred income	12	1 867 208	3 102 682
Other short-term liabilities	8	2 041	0
Total, short-term liabilities		3 161 331	4 755 376
Long-term borrowings	14	2 040	1 530 268
Long-term liabilities for purpose financing	12	3 106 597	2 672 053
Accounts payable (long-term)	12	67 776	49 367
Net deferred tax liabilities	13	10 676	94 793
Total, long-term liabilities		3 187 089	4 346 481
Total, liabilities		6 348 421	9 101 857
Minority interest		9 563	41 920
Share capital, total		200	200
Share premium		72 373	72 373
Retained earnings	15-18	113 966	412 833
Other equity		140 552	140 552
Total, equity		327 091	625 958
Total, equity and liabilities		6 685 074	9 769 735

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 consolidated financial statements

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CONSOLIDATED INCOME STATEMENT

(Thousand Russian rubles)

	Notes	2004	2005
Revenue	15	6 145 168	5 629 222
Cost of sales	16	(5 880 899)	(5 295 042)
Gross profit		264 269	334 180
Selling expenses	17	(117 949)	(36 204)
General and administrative expenses	17	(34 942)	(24 931)
Taxes, other than income tax		(13 909)	(8 231)
Other operating income/(expenses)	18	41 860	228 991
Operating profit		139 329	493 805
Share in the results of activity of associated companies		17 236	3 535
Interest income		1 052	18 530
Interest expense		(5 572)	(37 778)
Profit before income tax, minority interest		152 045	478 092
Income tax	13	(40 382)	(142 757)
Profit before minority interest and extraordinary profits/losses		111 663	335 335
Minority interest		(6 820)	(32 257)
Net profit		104 844	303 078
Dividends		(6 500)	(40 000)
Undistributed profit		98 344	263 078

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

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

(Thousand Russian rubles)

<u>000 RR</u>	Share capital	Share premium	Revaluation reserve	Retained earnings	Total
Balance at December 31, 2003	200	72 373	46 711	15 622	134 906
Net profit/(loss) for the period	-	-	-	104 844	104 844
Dividends	-	-	-	(6 500)	(6 500)
Revaluation	-	-	93 841	-	93 841
Balance at December 31, 2004	200	72 373	140 552	113 966	327 091
Errors of past periods	-	-	-	35 789	35 789
Restated balance	200	72 373	140 552	149 755	362 880
Net profit/(loss) for the period	-	-	-	303 078	303 078
Dividends	-	-	-	(40 000)	(40 000)
Balance at December 31, 2005	200	72 373	140 552	412 833	625 958

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

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CONSOLIDATED STATEMENT OF CASH FLOWS

(Thousand Russian rubles)

	2004	2005
Cash flows from (used in) operating activities	164 692	(1 536 519)
Profit before income tax and minority interest	152 045	478 092
Adjustments for net profit	27 777	(3 398)
Changes in Accounts receivable	(296 208)	(734 924)
Changes in Inventories	(454 310)	(2 507 541)
Net growth of equipment purchased for leasing	(166 163)	(10 916)
Changes in Other assets	(94 819)	87 743
Changes in Accounts payable	977 265	1 171 192
Changes in Other liabilities	19 105	(16 767)
Net cash flows from (used in) operating activities	97 921	(40 693)
Loans and borrowings receipt	179 159	74 602
Loans and borrowings repayment	(179 159)	(74 602)
Assets received from shares allocation (shares sale)	103 000	0
Dividend paid to shareholders	(5 079)	(40 693)
Net cash flows from (used in) investment activity	(304 814)	1 801 036
Intangible assets, Property, plant & equipment purchase and investments in construction in progress	(371 936)	(524 612)
Long-term investments purchase, sale	(127 530)	1 903 904
Proceeds from borrowings	138 025	2 640 897
Repayment of borrowings	(68 670)	(1 686 319)
Loans given	(73 207)	(446 394)
Repayment of loans given	59 957	429 897
Interest received	154	1 071
Dividends received/paid	1 053	(82 238)
Currency exchange rate change influence on cash and cash equivalents	(127)	(16 559)
Net increase/(decrease) in cash and cash equivalents	(42 328)	207 265
Cash and cash equivalents at the beginning of the period	77 223	34 895
Cash and cash equivalents at the end of the period	34 895	242 160

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

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

(Thousand Russian rubles)

1. Principal activities

One of the largest building and industrial holdings of Saint-Petersburg – LenSpecSMU – was founded in 1987 as a little 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 15.8% of the whole building market of Saint-Petersburg. In 2005 the Group constructed building of total area of 359 698 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 the Articles of Association was registered by the Resolution of the Registration chamber of Saint-Petersburg dated 25.06.2002.

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

- Licenses for carrying out activity on building of edifices and constructions.
- Licenses for carrying out realty activity.
- Licenses for carrying out activity on operation of underground constructions.
- License for carrying out activity on projecting of underground constructions.
- License carrying out activity on projecting of edifices and constructions.
- License for carrying out loads transportation.

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

Main associated companies are CJSC "LenSpecSMU-Reconstruciton", CJSC "ART-LS" and CJSC "Building materials factory "Etalon".

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

In 2005 1235 employees on average worked for the Company.

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

(Thousand Russian rubles)

2. Basis of preparation

General

The accompanying consolidated 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.

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

(Thousand Russian rubles)

2. Basis of preparation (continued)

General principles (continued)

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 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.

Consolidated subsidiaries

The consolidated financial statements include the following companies:

	Share	Total, assets	Equity	Net profit (loss) of the accounting year
CJSC "SPb MFTC"	61%	1 523 681	47 976	38 134
OJSC "SMU "Electronstroy"	88%	55 821	2 636	1 592
CJSC "AKTIV"	100%	424 452	364 575	2 281
CJSC "YurStroy"	50,05%	0	0	0
CJSC "CUN"	40%	1 561 720	65 546	64 444
Amounts excluded at consolidation		(2 222 815)	(381 593)	(29 238)
TOTAL		1 342 859	99 140	77 213

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

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.

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 ruble.

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 dependencies.

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

(Thousand Russian rubles)

2. Basis of preparation (continued)

Associated companies accounted based on equity method

The companies recognized in accounting basing on equity method are listed below:

		2004		2005
	Equity of the company	Investments in associated companies	Including the share of net profit for 2005	Investments in associated companies
CJSC "CUN"	40%	14 310	-	14 310
CJSC "LenSpecSMU-Reconstruction"	25%	1 695	952	2 647
CJSC "Building materials factory "Etalon"	25%	3 505	1 635	5 140
CJSC "ART-LS"	25%	-	-	-
CJSC "Energy company "Teplogaran"	30%	461	442	903
LLC "ORGTECHREMSTROY"	20%	406	103	509
CJSC "LSO"	20%	301	403	704
Total		20 678	3 535	24 213

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

(Thousand Russian rubles)

2. Basis of preparation (continued)

Below are the main provisions of accounting policy in accordance with which these financial statements of the Company were prepared:

Acceptance of IFRS 1 "First time adoption of IFRS"

In 2003 the Company for the first time started using IFRS for preparing consolidated 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 periods.

In 2004 and 2005 the Company continued using IFRS for preparation of consolidated 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.

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 CONSOLIDATED 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, 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 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.

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 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 Holding are those of investor and customer-builder. Companies of the Holding 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.

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 CONSOLIDATED 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.

In performed consolidation long-term investments of CJSC SSMO "LenSpecSMU" in the authorized capitals of subsidiary and associated companies are eliminated in accordance with the requirements of IAS 27 "Consolidated financial statements and accounting of investments in subsidiaries".

Property, Plant and Equipment

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

At each reporting date the Holding'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.

Stated above accounting policy provisions for the item "Property, Plant and Equipment " are extended on the Property, Plant and Equipment of CJSC "AKTIV" received from CJSC SSMO "LenSpecSMU" as a contribution to the authorized capital which CJSC "AKTIV" then passes over on rent conditions to the parent company as well as to other companies included into the "LenSpecSMU" group.

Increase of the value of Property, Plant and Equipment passed over to CJSC "AKTIV" following their revaluation was recognized in the structure of capital surplus in accordance with the requirements of IAS 16 "Property, Plant and Equipment" and IAS 36 "Impairment of Assets".

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(Thousand Russian rubles)

3. Significant accounting policies (continued)

Liabilities, accounts payable, deferred income

In 2005 in RF there was adopted the Federal Law "On participation in share holding 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 financing 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.

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 investors-share holders invest in Holding LenSpecSMU paying advances intended for housing building. As building and assembly works are performed and commissioned by the customer-builder (Holding) the advances received from shareholders 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 share holders 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 CONSOLIDATED 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 statements only at occurrence of circumstances in which there may be assets needed to regulate liabilities the amount of which can be evaluated with sufficient reliability. Incidental income is not recognized in financial statements but is disclosed when there appears probability of economic 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 cash and cash equivalents consist of the following items:

	2004	2005
Cash	26 264	24 375
Cash on hand	1 537	1 406
Current and settlement accounts	24 727	22 969
Cash equivalents	8 631	217 785
Deposit certificates	5 011	203 385
Other cash equivalents	3 620	14 400
TOTAL	34 895	242 160

5. Financial assets (short-term)

As at 31 of December the financial assets are recognized as financial investments available for sale as well as loans given:

	2004	2005
Available-for-sale financial assets (AFS) (short-term)	272 699	15
Other bills of exchange (except for bills of exchange of banks)	272 683	0
Deposits (deposit certificates)	0	0
Other financial investments	16	15
Loans given	28 542	18 519
Loans given to legal entities	28 509	18 519
Loans given to personnel	33	0
TOTAL	301 241	18 534

Other bills of exchange 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 during 2005.

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

(Thousand Russian rubles)

6. Accounts receivable, VAT and taxes recoverable

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

	2004	2005
Accounts receivable (short-term)	691 285	1 369 922
Accounts receivable for the principal activities	156 569	350 032
Accounts receivable for the principal activities	153 841	343 036
Accounts receivable accompanied by bills of exchange	2 728	6 996
Advances paid	170 499	214 181
Advances to suppliers for the principal activities	126 275	181 682
Advances for purchase of equipment and capital construction	44 224	32 499
Other accounts receivable and advances given	373 960	822 702
Bad debt reserve (-)	(9 743)	(16 993)
Accounts receivable (long-term)	0	129 127
Principal activities accounts receivable	0	17 024
Other accounts receivable	0	112 103
TOTAL	691 285	1 499 049

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

Other accounts receivable include settlements under rent agreements, settlements for flats redeemed from individuals, settlements for shares in GBC and other settlements.

Short-term accounts receivable have the following structure:

- Accounts receivable under investment agreements – 350 032 thousand rubles,
- Accounts receivable under other agreements – 1 036 883 thousand rubles.

Accounts receivable under other agreements includes advances given for the amount of 214 181 thousand rubles and other accounts receivable.

The major debtors for advances are LenEnergO (settlements for electricity), Petroprofil, Mekhtrest, Atrium, architectural workshops – settlements for building and assembly and architectural and planning works.

Other accounts receivable for the amount of 822 702 thousand rubles include settlements under rent agreements, settlements for shares in GBC and other settlements.

VAT and taxes recoverable:

	2004	2005
VAT	16 698	18 002
Recoverable taxes (other than VAT)	2 004	5 658
VAT and recoverable taxes	18 702	23 660

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

(Thousand Russian rubles)

7. Inventories

As at 31 of December 2005 the inventories of the Company included the following items:

	2004	2005
Raw materials	42 747	47 304
Total, inventory	42 747	47 304
Under approved nomenclature	29 894	33 804
Scrap metal	121	8 998
Metal-roll (armature, angle bars, metal bars, etc.)	12 096	10 836
Materials for inside furnishing	4	166
Wood Boards, Low density wood boards	161	957
Special clothing	192	172
Instruments	5 961	166
Inventories and utilities	9 114	7 011
Cement	2 045	2 735
Sand	173	114
Concrete and reinforced concrete items	27	2 648
Other	5 737	7 663
Fuel	1 734	1 051
Tare and tare materials	1 179	1 130
Spare parts	3 032	2 719
Other raw materials	1 171	939
Goods in process	3 916 037	5 760 339
including construction in progress and garage building objects	3 916 037 0	4 924 074 836 265
Finished products and goods for re-sale	460 331	1 108 464
Total, inventory	460 331	1 108 464
Under approved nomenclature	460 331	1 108 464
Food products (thousand tons)	55	0
Secondary market flats	10 387	16 445
Own flats	332 573	853 170
Built-in premises	111 081	232 678
Inventories and utilities		2 500
Concrete and reinforced concrete items	2 158	671
Other	4 077	3 000
TOTAL	4 419 115	6 916 107

While the structure and cost of raw stuff and materials in 2005 did not considerably exceed the level of 2004, the reserves of finished products have considerably grown due to growth of volumes of own flats intended for sale on the housing market.

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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The construction in progress includes flats in progress, infrastructure objects and objects of production purpose.

	2004	2005
Morskoy fasad, Morskoy Kaskad	1 508 974	1 060 445
Lanskoy block	17 920	17 921
Zhivoy rodnik (1, 2, 3 turn, infrastructure objects)	369 052	31 995
Grazhdanka-CITY	0	395 575
V. O. Birzhevaya linia, 12	683 427	1 025 365
House on Serebrystiy	-	5 368
Infrastructure objects	66 968	95 803
House in Ozerki	0	7 156
Tkachey Street, 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 boulevard	421 275	5 368
Housing complex "Yuzhniy"	0	88 597
Novoye sozvezdiye	0	147 217
Others	150 870	266 560
TOTAL	3 916 037	4 924 074

Object comparison for 2004 and 2005 shows that the largest objects of building during two years were objects "Zolotaya Gavan'" and "Birzhevaya linia".

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 Holding's own account or at account of saved assets of depositors for the amount of 853 170 thousand rubles are included in the structure of finished production and goods for re-sale reserves.

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8. Other assets, liabilities

	2004	2005
Other current assets	111 444	38 417
Other current assets	91 240	30 752
Prepaid expenses	20 204	7 665
Other non-current assets	7 455	3 287
Other short-term liabilities	2 041	0
TOTAL Other assets, liabilities	116 858	41 704

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

The movement of Property, Plant and Equipment during 2005 were as follows:

	Property, plant and equipment and construction in progress	Land plots	Buildings	Machinery and equipment	Vehicles	Devices and installations	Other FA	Construction in progress
Cost as at 31 of December, 2004	253 391		167 978	53 993	4 162	6 403	8 651	12 204
Total, debit	10 698 089	459 337	4 511	101 174	27 498	13 620	2 390	10 089 559
Putting into operation (additions of Property, Plant and Equipment)	486 104	443 969	997	23 675	3 759	11 745	1 959	
Under construction	6 017 057							6 017 057
Assets acquisition	513 800			-		-	108	513 917
Bank interest amount	2 445							2 445
Other	3 678 683	15 368	3 514	77 499	23 739	1 983	440	3 556 140
Total, credit	10 253 270		58 892	62 655	28 696	5 757	1 888	10 095 382
Sold (passed over free of charge)	39 480		1 427	16 862	11 769	1 068	857	7 497
Putting into operation	500 349							500 349
Transfer into other assets structure	2 632 270							2 632 270
Liquidation, writing-off	10 971			2 069	4 786		722	3 394
Other	7 070 200		57 465	43 724	12 141	4 689	309	6 951 872
Cost as at 31 of December, 2005	698 210	459 337	113 597	92 512	2 964	14 266	9 153	6 381
Accumulated depreciation as at 31 of December, 2004	36 998		3 404	28 409	114	869	4 202	
Total, credit	53 734		4 473	40 955	238	7 360	708	
Total, debit	32 470		1 166	31 213	57		34	
Accumulated depreciation as at 31 of December, 2005	58 262		6 711	38 151	295	8 229	4 876	
Net book value as at 31 of December, 2004	216 393		164 574	25 584	4 048	5 534	4 449	12 204
Net book value as at 31 of December, 2005	639 948	459 337	106 886	54 361	2 669	6 037	4 277	6 381

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9. Property, plant & equipment and capital construction in progress objects (continued)

Net book value of Company's Property, Plant and Equipment constitutes **639 948** thousand rubles.

In 2005, LenSpecSMU purchased 2 land plots having area 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 is **443 969** 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 companies CJSC SSMO "LenSpecSMU" and CJSC "SPb MFTC" 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 4 979 905 thousand rubles.

Intangible assets as at 31 of December, 2005 constitute **529** thousand rubles and include licenses for performance of different construction works.

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10. Property for lease

Property for lease represents Property, Plant and Equipment contributed by CJSC SSMO "LenSpecSMU" to the authorized capital of CJSC "AKTIV". Since in essence it is redistribution of assets within group companies, the requirements of IAS 17 "Leases" were not applied to the affiliated companies.

Settlements for lease as well as lease payments in the structure of profits and losses account were adjusted for the amount of unearned profit formed within group companies.

As at 31 of December, 2005 the residual value of assets for lease constituted **191 110** thousand rubles. Mainly, CJSC "AKTIV" and CJSC "SPb MFTC" provide assets for lease at these assets for lease by CJSC "AKTIV" cover 98% of the total amount of assets for lease. The largest ratio is taken by item "Buildings and constructions". Mainly it is letting by CJSC "AKTIV" of office premises to affiliated companies for the total amount of 143 699 thousand rubles.

The second by value is item "Machines and equipment" representing mainly letting decking for lease. As at 31 of December, 2005 the amount constituted 32 348 thousand rubles.

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11. Financial assets (long-term)

As at 31 of December, 2005 financial assets are recognized by financial investments available for sale as well as loans given:

	2004	2005
Long-term investments	0	0
Investments in affiliated companies	20 678	24 213
Financial investments available for sale (AFS) (long-term)	582 224	7 296
Loans given	16 084	31 549
TOTAL LONG-TERM FINANCIAL INVESTMENTS	618 986	63 058

Change of structure and contents of long-term financial investments in 2005 as compared with 2004 is related with 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 «Na Lanskom»	4 340
SGBC «Na Grazhdanke»	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.

Therefore, the amount of investment of LenSpecSMU in garage building cooperative 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 given include the loan given to CJSC "Russkaya skazka" in the amount of 9 022 thousand rubles and other loans given.

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12. Liabilities

	2004	2005
Short-term liabilities	2 893 662	4 717 153
Payables to suppliers and contractors	746 717	1 000 055
Advances received	197 051	30 162
Liabilities accompanied by bills of exchange	8 836	0
Other short-term liabilities	34 056	489 868
Deferred income	1 867 208	3 102 682
Short-term liability for taxes payable	39 794	94 386
Long-term liabilities	3 174 373	2 721 420
Long-term liabilities under purpose financing	3 106 597	2 672 053
Other long-term liabilities	67 776	49 367
TOTAL	6 068 035	7 438 573

Short-term liabilities in the amount of 1 000 055 includes settlements with suppliers and contractors for raw stuff, materials, services of building nature.

Received advances in the amount of 30 162 thousand rubles are advances received by the Holding from flats purchasers under sales and purchase agreements.

In the structure of other short-term liabilities the following sections are included:

	2004	2005
Payables to personnel and accompanying liabilities	7 086	25 095
Dividend payable	1 421	728
Other liabilities and accrued expenses	25 549	464 045
TOTAL, Other short-term liabilities	34 056	489 868

Funds received by the Holding from shareholders under share participation agreements (SHA) as at 31 of December, 2005 amounted to **5 774 735** thousand rubles.

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

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%.

	2004	2005
Deferred income	1 867 208	3 102 682
Long-term liabilities under purpose financing	3 106 597	2 672 053
TOTAL funds invested by shareholders under share participation agreements	4 973 805	5 774 735

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.

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13. Taxation

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

	2004	2005
Current income tax	(61 432)	(126 571)
Deferred income tax	21 050	(16 186)
TOTAL income tax	(40 382)	(142 757)

Parent company as well as its subsidiaries and affiliated companies files separate tax returns. The applicable rate for Russian companies of corporate income tax constitutes 24%.

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

	2004	Net movement	2005
Deferred tax assets	65 944	67 931	133 875
Total, deferred tax liabilities (tax effect of items decreasing taxation base in the future)	65 944	67 931	133 875
Cash and cash equivalents	0	7 439	7 439
Financial investments	395	33 180	33 575
Accounts receivable less bad debts reserve	3 261	0	3 261
Reserves	8 127	8 730	16 857
Deferred expenses	6 352	6 311	12 663
Property, plant and equipment and construction in progress	30 307	936	31 243
Intangible assets	95	0	95
Liabilities	0	0	0
Borrowings received	0	256	256
Deferred income	0	0	0
Debt and conditional liabilities	0	0	0
Other	17 407	11 079	28 486
Deferred tax liabilities	10 676	84 117	94 793
Total, deferred tax liabilities (tax effect of items decreasing taxation base in the future)	10 676	84 117	94 793
Cash and cash equivalents	395	25 062	25 457
Financial investments	0	9 046	9 046
Accounts receivable less doubtful debts reserve	19	9 288	9 307
Reserves	13	15 717	15 730
Deferred charges	0	478	478
Property, plant & equipment and construction in progress	6 024	946	6 970
Liabilities	529	0	529
Other	3 696	23 580	27 276
Total, net deferred assets (liabilities)	55 268	(16 186)	39 082

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14. Borrowings

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

	Loans	Borrowings	TOTAL
Short-term, including	27 600	10 623	38 223
Principal amount	0	10 594	10 594
Interest payable	27 600	29	27 629
Long-term, including	1 000 000	530 268	1 530 268
Principal amount	1 000 000	530 268	1 530 268
Interest payable	0	0	0
TOTAL	1 027 600	540 891	1 568 491

Short-term borrowings of LenSpecSMU are represented by loans from Saint-Petersburg Bank and BaltOneksimBank for the total amount of 10 594 thousand rubles.

Long-term borrowings are represented by credit line with Sberbank of RF for the amount of 318 130 thousand rubles, loan of Saint-Petersburg Bank for the amount of 212 138 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".

	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
Charged 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	

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

The bonded loan as well as other loans can be represented as follows:

	Total borrowings
Balance at the beginning of the period (principle amount)	
Received (principle amount)	1 323 555
Repaid (principal amount)	323 555
Balance at the end of the period (principle amount)	1 000 000
Charged for the period (interest)	1 900
Capitalized (interest)	102 990
Paid up (interest)	77 290
Balance at the end of the period (interest)	27 600
Balance at the end of the period (principal amount) in the following currencies:	1 000 000
Russian rubles	1 000 000
Balance at the end of the period (principal amount)	1 000 000
Payable within 5 years after the balance sheet date (principal amount) at the end of the period	1 000 000

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15. Revenue

	2004	2005
Commissioning of construction objects	5 771 642	5 187 797
Flats of the secondary market	4 443	261 668
Own flats	70 458	2 038
Built-in premises	7 677	99 623
Concrete production	9 131	846
Rent	122 043	23 364
Car transportation services provision	336	53 886
Building and assembly works and other services	82 322	0
Other production, goods	77 116	0
TOTAL proceeds from sales	6 145 168	5 629 222

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	6 145 168	5 629 222
Cost of sales	(5 880 899)	(5 295 042)

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

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16. Cost of sales

	2004	2005
Cost of production	5 662 081	5 098 285
Materials (brick, metal roll, concrete and r/concrete items, utilities, etc.)	85 130	0
Commissioning of objects of building	5 494 020	5 085 431
Own flats	0	0
Rent	33 200	0
Other costs (works, services)	392	0
Other material costs	49 339	12 854
Energy (electric and heat)	3 917	5 692
Water	296	637
Wages and other payments to personnel	80 420	158 737
Depreciation	48 463	44 768
Taxes	611	807
Insurance	278	794
Other expenses	60 122	33 000
Rent services	10 729	1 300
Transportation services	1 590	0
Advisory, legal, audit and other professional services	70	18 826
Storage services	517	0
Documents registration	264	0
Repair and maintenance	6 384	3 681
Personnel expenses (staff recruitment expenses, insuring personnel, training personnel, food)	13	0
Office and computer hardware maintenance	51	0
Office and poligraph expenses	20	0
Operating expenses	145	0
Other	40 338	9 193
Goods for re-sale written-off to cost	72 031	79 334
Adjustment of inner cost	(47 320)	(127 012)
TOTAL cost of sales:	5 880 899	5 295 042

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17. 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	(34 942)	(24 931)
Wages and other payments to personnel	(19 454)	(14 736)
Amortization	0	(204)
Office and polygraph expenses	(105)	(76)
Business-trip expenses	(76)	(60)
Personnel expenses (staff recruitment expenses, insuring personnel, training personnel, food)	(158)	(99)
Advisory, legal, audit and other professional services	(4 337)	(783)
Informational (subscription, satellite TV and other)	(86)	(382)
Insurance expenses	(285)	0
Communication services	(1 037)	(1)
Transport	(1 361)	(96)
Office and computer hardware maintenance	(1 072)	(3)
Guarding services	(195)	(7 398)
Representative expenses	(5)	0
Other	(6 771)	(1 093)

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.

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18. Other operating income and expenses

	2004	2005
Total, operating income/expenses	41 860	228 991
Income/expenses from sale of assets	25 224	84 113
Reserves recovery/creation	(3 316)	(7 249)
Income from participation in other organizations	1 053	9 008
Services of social nature	(2 332)	(3 161)
Expenses for social field support	(1 151)	(1 751)
Fees, fines, forfeits	(468)	(646)
Legal costs	0	(1)
Liquidation and written-off assets related expenses	(2 108)	(1 899)
Write-off of liabilities/accounts receivable	(4 752)	(2 245)
Revaluation of foreign currency	(126)	(16 559)
Other income	29 836	169 381
Total, operating income/expenses	41 860	228 991

Other income for the amount of 169 381 thousand rubles occurred due to write-off to income statement of unused reserves.

19. Related party transactions

Considerable operations other than those mentioned in the financial statements with related parties during 2005 were not performed.

20. 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 with nominal value 1000 rubles each. The guarantor of the Issuer will be CJSC SSMO "LenSpecSMU".