Original in Russian language

Group of companies "LenSpetsSMU"

Consolidated financial statements prepared under IFRS

for 12 months ended December 31, 2008
including independent auditor's report

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Independent auditor's report

To the shareholders of the Group of companies "LenSpetsSMU"

We have audited the accompanying consolidated financial statements of CJSC SSMO "LenSpetsSMU" and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Groups management, as well as evaluating the overall presentation of the consolidated financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects the financial position of the Group as of December 31, 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

General Director

D. Vinokurov

Moscow, Russian Federation
May, 29 2009

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Group of companies "LenSpetsSMU"

Consolidated balance sheet as at December 31, 2008

	Notes	As at December 31, 2008 '000 RR	As at December 31, 2007 '000 RR (revised)	As at December 31, 2007 '000 RR
ASSETS				
Non-current assets				
Fixed assets	5	1 071 364	880 793	2 200 446
Investment property	6	121 234	85 643	85 643
Intangible assets		4 797	3 594	3 594
Investments in associates	2 b (ii)	1 765 114	27 100	27 100
Long-term financial investments	7	31 188	46 287	156 287
Accounts receivable and advances (long -term)	8	951 972	199 617	199 617
Deferred tax assets	9	176 827	118 119	6 222
		4 122 496	**1 361 153**	**2 678 909**
Current assets				
Inventories	10	26 248 827	15 710 177	14 601 549
Short-term investments	11	2 713 305	622 583	623 113
Accounts receivable and advances	12	2 655 081	2 882 364	2 882 364
Income tax receivable		172 733	168 197	168 197
Other current assets	13	7 846	67 046	67 046
Cash and cash equivalents	14	134 832	167 603	167 586
		31 932 624	**19 617 970**	**18 509 855**
Total assets		**36 055 120**	**20 979 123**	**21 188 764**
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the Company				
Share capital	15	1 237	1 237	1 237
Revaluation reserve		-	-	67 254
Retained earnings		3 046 809	1 739 854	1 714 554
		3 048 046	1 741 091	1 783 045
Minority interests		835 685	312 346	314 755
Total equity		**3 883 731**	**2 053 437**	**2 097 800**
Non-current liabilities				
Long-term borrowings	16	2 936 118	4 167 308	4 167 308
Advances received on principal activity	17	-	161 303	161 303
Accounts payable and other liabilities	18	229 391	-	-
Deferred tax liabilities	9	363 884	114 281	163 385
		3 529 393	**4 442 892**	**4 491 996**
Current liabilities				
Short-term borrowings	16	3 683 321	2 487 495	2 487 495
Advances received on principal activity	17	20 078 920	10 163 240	10 163 240
Accounts payable and other liabilities	18	4 868 368	1 828 396	1 944 570
Income tax payable		11 387	3 663	3 663
		28 641 996	**14 482 794**	**14 598 968**
Total equity and liabilities		**36 055 120**	**20 979 123**	**21 188 764**

The consolidated balance sheet is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 8–30.

General Director Scherbina G. Ph.

Chief Accountant Ignatyeva L. M.

May, 29 2009

Original in Russian language

Group of companies "LenSpetsSMU"

Consolidated income statement for 12 months ended December 31, 2008

	Notes	2008 '000 RR	2007 '000 RR (revised)	2007 '000 RR
Revenue	19	13 023 577	8 903 190	8 903 190
Cost of sales	20	(8 783 477)	(5 874 969)	(5 712 349)
Gross profit		**4 240 100**	**3 028 221**	**3 190 841**
Selling expenses	21	(99 137)	(166 128)	(326 840)
General and administrative expenses	22	(499 582)	(586 019)	(586 347)
Taxes, other than income tax		(72 421)	(71 973)	(71 369)
Other operating income/(expenses) - net	23	99 884	(226 779)	(147 919)
Operating profit		**3 668 844**	**1 977 322**	**2 058 366**
Share in profit of associates		25 166	11 932	11 932
Net finance expenses	24	(1 235 939)	(90 888)	(90 858)
Profit before income tax		**2 458 071**	**1 898 366**	**1 979 440**
Income tax	25	(618 807)	(508 819)	(639 990)
Net profit for the year		**1 839 264**	**1 389 547**	**1 339 450**
Attributable to:				
Equity holders of the Company		**1 306 955**	**1 077 368**	**1 027 248**
Minority interests		**532 309**	**312 179**	**312 202**
		1 839 264	**1 389 547**	**1 339 450**
Basic and diluted earnings per share		**1 306,96**	**1 077,37**	**1 027,25**

The consolidated income statement is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 8–30.

General Director Scherbina G. Ph.

Chief Accountant Ignatyeva L. M.

May, 29 2009

Group of companies "LenSpetsSMU"

Consolidated statement of cash flows for 12 months ended December 31, 2008

	2008 '000 RR	2007 '000 RR (revised)	2007 '000 RR
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:	2 458 071	1 898 366	1 979 440
Adjustments for:	**1 320 793**	**94 763**	**119 256**
Depreciation and amortization	*122 129*	*88 758*	*87 002*
Profit from sale of financial assets	*(160 561)*	*(40 252)*	*(42 874)*
Foreign exchange loss	*1 013 683*	*(173 834)*	*(173 864)*
Interest expense	*577 441*	*315 625*	*315 625*
Interest income	*(82 681)*	*(92 214)*	*(92 214)*
Income from participation in other organizations	*(25 967)*	*(11 932)*	*(11 932)*
Bad debts provision	*25 023*	*(23 249)*	*(23 249)*
Other income and expenses	*(148 274)*	*31 861*	*60 762*
Operating profit before changes in working capital	**3 778 864**	**1 993 129**	**2 098 696**
Increase in trade accounts receivables and advances	(292 984)	(1 095 044)	(548 020)
Increase in inventories	(10 490 091)	(6 176 262)	(6 507 748)
Increase in trade payables and advances received	9 454 308	2 421 868	2 419 070
Changes in other assets and liabilities	59 200	7 549	(7 242)
Cash generated from/(used in) operations	**2 509 297**	**(2 848 760)**	**(2 545 244)**
Income taxes paid	(424 071)	(721 295)	(721 295)
Net cash from/(used in) operating activities	**2 085 226**	**(3 570 055)**	**(3 266 539)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of fixed and intangible assets	(371 723)	(1 487 791)	(1 335 555)
Proceeds from sale of fixed and intangible assets	8 263	2 946	3 172
(Purchase)/sale of securities and other financial assets	(46 310)	329 420	(63 625)
(Investing in) / repayment of deposits	(687 110)	1 434 665	1 316 200
Loans given	(24 824)	(50 406)	(37 166)
Repayments of loans given	7 935	22 781	51 526
Interest received	68 564	90 438	89 923
Dividends received	6 747	6 030	6 030
Net cash (used in)/from investing activities	**(1 038 458)**	**348 083**	**30 505**
CASH FLOWS FROM FINANCING ACTIVITIES			
Amounts borrowed	7 104 145	6 697 752	6 697 752
Repayment of amounts borrowed	(7 502 657)	(2 575 939)	(2 575 939)
Interest paid	(715 331)	(464 209)	(464 209)
Dividends paid	(8 163)	(344 813)	(337 534)
Net cash (used in)/ from financing activities	**(1 122 006)**	**3 312 791**	**3 320 070**
Effect of exchange rate changes on cash and cash equivalents	42 467	(6 766)	-
Net increase/(decrease) in cash and cash equivalents	**(32 771)**	**84 053**	**84 036**
Cash and cash equivalents at the beginning of the period	**167 603**	**83 550**	**83 550**
Cash and cash equivalents at the end of the period	**134 832**	**167 603**	**167 586**

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 8–30.

General Director Scherbina G. Ph.

Chief Accountant Ignatyeva L. M.

May, 29 2009

	Share capital	Retained earnings	Available-for-sale investments revaluation reserve	Total	Minority interests	Total equity
	'000 RR	'000 RR	'000 RR	'000 RR	'000 RR	'000 RR
Balance at December 31, 2006.	1 237	1 003 306	-	1 004 543	63 223	1 067 766
Restatement of opening balance (Note 4)		(24 820)	-	(24 820)	(2 386)	(27 206)
Balance at December 31, 2006 (revised)	**1 237**	**978 486**	**-**	**979 723**	**60 837**	**1 040 560**
Dividends	-	(316 000)	-	(316 000)	(60 670)	(376 670)
Revaluation of available-for-sale investments		-	67 254	67 254	-	67 254
Net profit for the year	-	1 027 248	-	1 027 248	312 202	1 339 450
Balance at December 31, 2007	1 237	1 714 554	67 254	1 783 045	314 755	2 097 800
Restatement of opening balance (Note 4)		25 300	(67 254)	(41 954)	(2 409)	(44 363)
Balance at December 31, 2007 (revised)	**1 237**	**1 739 854**	**-**	**1 741 091**	**312 346**	**2 053 437**
Dividends	-	-	-	-	(8 970)	(8 970)
Net profit for the year	-	1 306 955	-	1 306 955	532 309	1 839 264
Balance at December 31, 2008.	**1 237**	**3 046 809**	**-**	**3 048 046**	**835 685**	**3 883 731**

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 8–30.

General Director Scherbina G. Ph.

Chief Accountant Ignatyeva L. M.

May, 29 2009

1. Principal activities

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

At present the share of the building market falling on the objects erected by the holding "LenSpetsSMU" constitutes around 12.8% of the whole building market of Saint-Petersburg. For 12 months of 2008 the Group has constructed buildings of total area of 411 877.9 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 "LenSpetsSMU" was registered under the Resolution of the Registration chamber of Saint-Petersburg dated 28.12.1995. The last edition of Charter was registered on 28.12.2007.

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

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

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

Main associated companies are CJSC "LenSpetsSMU-Reconstruciton", CJSC "Building materials factory "Etalon" and CJSC "Zatonskoye".

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

As at December 31, 2008 1 380 employees on average worked for the Company.

Russian business environment

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

2. Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards («IFRS»), and Interpretations, promulgated by the International Accounting Standards Board («IASB») and the International Financial Reporting Interpretations Committee (the «IFRIC»).

The Group maintains its accounting records in accordance with the legislative requirements of the Russian Federation. The accompanying consolidated financial statements have been prepared from those accounting records and adjusted as necessary to comply with the requirements of IFRS.

Adoption of new and revised Standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the IASB and the IFRIC of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2008.

At the date of authorization of these financial statements, the following Standards and Interpretations were issued but not yet effective:

Standard/Interpretation	Effective for annual periods
IFRS 8 Operating segments	beginning on or after 1 January 2009
IAS 23 (amendment) Borrowing costs	beginning on or after 1 January 2009
IAS 1 (revised 2007) Presentation of financial statements	beginning on or after 1 September 2009
IFRS 3 (revision) Business combinations and IAS 27 (revision) Consolidated and Separate Financial Statements	beginning on or after 1 July 2009
IFRS 1 (amendment) First-time adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements.	beginning on or after 1 January 2009
IAS 32 (amendment) Financial Instruments: Presentation and IAS 1 (amendment) Presentation of Financial Statements – redeemable financial instruments and liabilities arising on liquidation.	beginning on or after 1 January 2009
IAS 39 (amendment) Financial Instruments: Recognition and Measurement – hedging items.	beginning on or after 1 July 2009
IFRIC 13 Customer Loyalty programs	beginning on or after 1 July 2008
IFRIC 15 Agreements for the Construction of Real Estate.	beginning on or after 1 January 2009
IFRIC 16 Hedges of a Net Investment in a Foreign Operation.	beginning on or after 1 October 2008

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the Group.

(b) Basis of consolidation

(i) Subsidiaries

Subsidiaries are the entities (including special purpose entities), where the Company has the power to govern the financial and operating policies (to control) as a result of:
- power over more than one-half of the voting rights of the other entity, or
- power to cast the majority of votes at meetings of the board of directors or equivalent governing body of the subsidiary, or,
- power to govern the financial and operating policies of the other entity under other reasons.

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

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

All Group companies apply common accounting principles.

The consolidated financial statements include the following companies:

	Share	Total, assets	Equity	Net profit (loss) of the accounting period
CJSC "SPb MFTC"	61%	3 039 783	1 287 966	773 422
OJSC "SMU "Electronstroy"	88%	147 231	85 002	46 089
CJSC "AKTIV"	100%	1 107 214	711 377	90 864
CJSC "CUN"	40%	3 423 583	538 686	375 270
LLC "Kamenka"	100%	107 422	105 537	(884)
LLC "Wertikal"	100%	9 006	8 978	(22)
Amounts excluded at consolidation		(5 983 022)	(1 558 363)	(318 252)
TOTAL		**1 851 217**	**1 179 183**	**966 487**

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

(ii) ***Investments in associates***

An associate is an entity (including special purpose entities) over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture as a result of:
- power over 20-50 percent of the voting rights of the other entity, or
- representation at meetings of the board of directors or equivalent governing body of the subsidiary, or,
- power to influence the financial and operating policies of the other entity under other reasons

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

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

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

All Group companies apply common accounting principles.

Associated companies accounted using equity method

		December 31, 2007 '000 RR		For 12 months 2008 '000 RR			December 31, 2008 '000 RR
	Share	Investments in associated companies	Acquisition	Share of net profit	Disposal of associated company	Dividends received	Investments in associated companies
CJSC "LenSpetsSMU-Reconstruction"	25%	6 052	-	6 761	-	(2 750)	10 063
CJSC "Building materials factory "Etalon"	25%	19 481	-	16 905	-	(3 750)	32 636
CJSC "Zatonskoye"	49%	-	1 721 175	1 240	-	-	1 722 415
LLC "ORGTECHREMSTROY"	20%	902	-	329	(902)	(329)	-
CJSC "LSO"	20%	665	-	(69)	(596)	-	-
TOTAL		**27 100**	**1 721 175**	**25 166**	**(1 498)**	**(6 829)**	**1 765 114**

(c) **Functional and presentation currency**

The individual financial statements of each group entity are prepared in the currency of the primary economic environment in which the entity operates - its functional currency. The functional currency of the Group's companies is the national currency of the Russian Federation - the Russian rouble («RR»). Transactions in other currencies are accounted for as foreign currency transactions.

The consolidated financial statements are presented in thousand of Russian roubles rounded to the nearest thousand.

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

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

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

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

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

(e) **Going concern**

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

(f) **Use of estimates**

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

3. Significant accounting policies

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

(a) **Intangible assets**

Intangible assets include software, trade marks and licenses.

(i) **Software**

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

(ii) **Licenses**

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

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

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

(v) **Useful life and amortization of intangible assets**
Intangible assets are amortized during their estimated useful lives and analysed for impairment if there are any. For the purposes of consolidated financial statements the following estimated useful lives are used:

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

(b) **Fixed assets**

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

(i) **Own assets**

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

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

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

(ii) **Subsequent expenditure**

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

(iii) **Depreciation**

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

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

(iv) Investment property

Investment property comprises objects of real estate which are held to earn rentals. Investment property is measured initially at it's cost less any accumulated depreciation and impairment losses. The cost of self-constructed investment property is composed of cost of materials, labour and other expenses related directly to the object of investment property.

Residual value and useful lives are revised and adjusted at each reporting date. When the carrying amount of an asset exceeds its recoverable amount the carrying value is reduced to that recoverable amount and the difference is recognized as an impairment loss in the income statement in the same period.

(c) Investments

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

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

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

(d) Inventories

For accounting of construction in progress the Group of companies "LenSpetsSMU" applies IAS 2 "Inventories".

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 books as inventories within "Production in process".

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

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

Administrative expenses that do not contribute to bringing the inventories to their present condition as well as selling costs are not included in the cost of the inventories.

(e) Accounts receivable and advances

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

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

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

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

(f) Cash and cash equivalents

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

(g) Share capital

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

(h) Dividends

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

(i) Advances received on principal activity and accounts payable

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

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

Accounts payable are stated at cost.

(j) Loans and borrowings

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

(k) Income tax

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

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, initial recognition of assets or liabilities that affect neither accounting nor taxable profit and investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and that it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

(l) Recognition of operating income/expenses

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

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

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

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

(n) **Foreign currency transactions**

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

In case assets and liabilities are denominated in foreign currency (or standard units), transactions made in roubles are stated in the Company's financial statements in the same way as transactions denominated in foreign currency.

As at December 31, 2007 the official exchange rate was USD 24,5462 rubles. As at December 31, 2008 the official exchange rate was USD 29,3804 rubles.

4. **Restatement of opening balances**

The Group's management decided to adjust the opening balances as at 1 January 2008 due to cancellation of its previous decision to sell its subsidiary LLC "Kamenka" and correction of errors related to the prior financial statements.

In the Group's financial statements 2007 the investments in LLC "Kamenka" were accounted within non-current financial investments at fair value with revaluation recognized in equity. As the result of cancellation of the decision to sell the subsidiary and consolidation of its items in the Group's consolidated financial statements as at 1 January 2008, some items of the Group's consolidated financial statements have been changed, in particular:

- Long term investments decreased by RUR 110 000 thousand;
- Available-for-sale investments revaluation reserve decreased by RUR 67 254 thousand;
- Deferred tax liabilities decreased by RUR 21 238 thousand;
- Fixed assets increased by RUR 21 505 thousand;
- Deferred tax assets increased by RUR 183 thousand;
- Cash and cash equivalents increased by RUR 17 thousand;
- Accounts payable and other liabilities increased by RUR 249 thousand;
- Net profit for 2007 decreased by RUR 579 thousand.

As a result of writing off capitalized expenses related to construction of electrical supply lines considered as part of previously disposed living houses

- carrying value of the Group's Inventories as at 31 December 2006 was decreased by RUR 35 798 thousand, and the inventories as at 31 December 2007 were decreased by RUR 119 449 thousand;
- net profit 2006 (before accounting for effects of deferred taxation) was decreased by RUR 35 798 thousand, and net profit 2007 was decreased by RUR 80 310 thousand;
- the amount of provision accrued as at 31 December 2007 was decreased by RUR 3 341 thousand;
- tax effect of posted adjustment resulted in reduction of net deferred tax liability as at 31 December 2006 by RUR 8 591 thousand, and the reduction of net deferred tax liability as at 31 December 2007 by RUR 27 866 thousand.

As a result of cession of the Group's share in construction of "Smolniy kvartal" project as at 31 December 2007, the carrying amount of Group's Inventories and Trade accounts payable was decreased by RUR 113 081 thousand.

Recognition of deferred tax asset arising from elimination of the Group's unrealized profit resulted in deferred tax asset as at 31 December 2007 being increased by RUR 111 714 thousand.

Reclassification of land plots (which include the items of construction in progress) to Inventories resulted in decreased Fixed assets carrying value by RUR 1 348 590 thousand.
In addition, reclassification of work in progress, particularly the construction of water-, heat- and power-supply for auxiliary needs resulted in increase of carrying amount of property, plant and equipment by RUR 7 432 thousand.

5. Fixed assets

'000 RR	Land	Buildings and facilities	Machinery and equipment	Vehicles	Other FA	Construction in progress	Total
Cost							
At December 31, 2007	1 386 351	509 625	488 798	36 959	35 576	19 919	2 477 228
At December 31, 2007 (revised)	**59 266**	**509 625**	**496 230**	**36 959**	**35 576**	**19 919**	**1 157 575**
Additions	20 726	315 191	295 775	13 320	10 242	238 223	893 477
Disposals	-	(68 730)	(195 502)	(3 259)	(9 935)	(254 532)	(531 958)
Impairment	(374)	(33 452)	(1 755)	(1 920)	(2 052)	-	(39 553)
At December 31, 2008	**79 618**	**722 634**	**594 748**	**45 100**	33 831	3 610	**1 479 541**
Depreciation							
At December 31, 2007	-	(69 878)	(168 957)	(15 236)	(22 711)	-	(276 782)
Depreciation charge for the period	-	(60 220)	(118 973)	(8 957)	(6 378)	-	(194 528)
Depreciation on disposals	-	9 327	37 673	2 973	9 482	-	59 455
Depreciation on impairment	-	1 051	700	942	985	-	3 678
At December 31, 2008	-	**(119 720)**	**(249 557)**	**(20 278)**	**(18 622)**	-	**(408 177)**
Net book value							
At December 31, 2007	**1 386 351**	**439 747**	**319 841**	**21 723**	**12 865**	**19 919**	**2 200 446**
At December 31, 2007 changed	**59 266**	**439 747**	**327 273**	**21 723**	**12 865**	**19 919**	**880 793**
At December 31, 2008	**79 618**	**602 914**	**345 191**	**24 822**	**15 209**	**3 610**	**1 071 364**
Cost							
At December 31, 2006	459 711	387 544	285 742	30 066	40 333	1	1 203 397
At December 31, 2006 (revised)	282 245	387 105	286 164	30 067	40 354	1	1 025 936
Additions	65 167	129 230	281 917	9 700	4 391	41 085	531 490
Disposals	(287 772)	(2 586)	(69 462)	(1 541)	(7 802)	(21 167)	(390 330)
Impairment	(374)	(4 124)	(2 389)	(1 267)	(1 367)	-	(9 521)
At December 31, 2007	**59 266**	**509 625**	**496 230**	**36 959**	**35 576**	**19 919**	**1 157 575**
Depreciation							
At December 31, 2006	-	(31 298)	(164 227)	(9 844)	(10 349)	-	(215 718)
At December 31, 2006 (revised)	-	(30 859)	(164 649)	(9 845)	(10 370)	-	(215 723)
Depreciation charge for the period	-	(47 393)	(72 554)	(7 066)	(13 393)	-	(140 406)
Depreciation on disposals	-	7 744	67 674	1 234	506	-	77 158
Depreciation on impairment	-	630	572	441	546	-	2 189
At December 31, 2007	-	**(69 878)**	**(168 957)**	**(15 236)**	**(22 711)**	-	**(276 782)**
Net book value							
At December 31, 2006	**459 711**	**356 246**	**121 515**	**20 222**	**29 984**	**1**	**987 679**
At December 31, 2006 (revised)	**282 245**	**356 246**	**121 515**	**20 222**	**29 984**	**1**	**810 213**
At December 31, 2007 (revised)	59 266	439 747	327 273	21 723	12 865	19 919	880 793

6. Investment property

'000 RR	As at 31 December, 2008 000' RR	As at 31 December 2007 000' RR
Cost		
At the beginning of accounting period	92 310	-
Additions	60 092	92 310
Disposals	(23 495)	-
At the end of accounting period	128 907	92 310
Depreciation		
At the beginning of the accounting period	(6 667)	-
Depreciation charge for the period	(4 318)	(6 667)
Depreciation on disposals	3 312	-
At the end of the accounting period	(7 673)	(6 667)
Net book value at the beginning of accounting period	85 643	-
Net book value at the end of accounting period	121 234	85 643

7. Long-term financial investments

	As at December 31, 2008 '000 RR	As at December 31, 2007 '000 RR (revised)	As at December 31, 2007 '000 RR
Loans given	18 953	45 629	45 629
Long-term investments in other companies	566	658	658
Investments available-for-sale	-	-	110 000
Held-to-maturity investments	12 049	-	-
Impairment provision for financial investments	(380)	-	-
Total Long-term financial investments	**31 188**	**46 287**	**156 287**

Loans given to legal entities are denominated in Russian rubles and are stated at amortized cost. The effective interest rate as at December 31, 2007 was 11,5% and as at December 31, 2008 was 9,02% correspondingly.

8. Long-term accounts receivable and advances

	As at December 31, 2008 '000 RR	As at December 31, 2007 '000 RR (revised)	As at December 31, 2007 '000 RR
Trade accounts receivable	111 016	171 094	171 094
Advances to suppliers for the principal activities	714 327	28 523	28 523
Other accounts receivable	126 629	-	-
Total long-term accounts receivable and advances	**951 972**	**199 617**	**199 617**

9. Deferred taxation

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

	As at December 31, 2008 '000 RR
Deferred tax asset at the beginning of the period	6 222
Deferred tax asset at the beginning of the period (revised)	**118 119**
Deferred tax liability at the beginning of the period	(163 385)
Deferred tax liability at the beginning of the period (revised)	**(114 281)**
Net deferred tax at the beginning of the period	(157 163)
Net deferred tax at the beginning of the period (revised)	**3 838**
Tax included in the Statement of Income (note 25)	(190 895)
Net deferred tax at the end of the period	(187 057)
including:	
Deferred tax asset	**176 827**
Deferred tax liability	**(363 884)**

The analysis of deferred tax assets and liabilities:

	2008 '000 RR	2007 '000 RR
Deferred tax asset:	**1 351 592**	**523 801**
Fixed assets and intangible assets	35 930	9 145
Financial assets	70 482	-
Loans given	3 240	68 255
Bank and corporate borrowings	-	10 822
Inventories	1 128 888	393 661
Trade accounts receivable	18 393	20 473
VAT recoverable	6 746	2 271
Prepaid expenses	87 786	15 365
Other	127	3 809
Deferred tax liability:	**(1 538 649)**	**(519 963)**
Fixed assets and intangible assets	(14)	(185)
Inventories	(1 778)	(65 243)
Trade accounts receivable	(68 387)	(85 483)
Bank and corporate borrowings	(121 177)	-
Accounts payable — trade	(105 765)	(27 139)
Advances received	(1 216 997)	(341 107)
Reserves	(2 229)	(802)
Other	(22 302)	(4)
Net deferred tax at the end of the period	**(187 057)**	**3 838**

10. Inventories

	As at December 31, 2008 '000 RR	As at December 31, 2007 '000 RR (revised)	As at December 31, 2007 '000 RR
Construction in progress of apartment building objects	15 947 713	10 739 807	9 905 177
Construction in progress of garage building objects	1 015 101	981 078	981 078
Total construction in progress	**16 962 814**	**11 720 885**	**10 886 255**
Own apartments	8 470 780	3 469 813	3 220 750
Built-in premises (non-residential)	737 193	418 688	393 829
Secondary market apartments	22 805	8 469	8 393
Concrete and reinforced concrete items	13 754	7 495	7 495
Food products	119	119	119
Other	3 450	3 474	3 474
Provision for impairment of goods	(11 829)	-	-
Total Finished products and goods for re-sale	**9 236 272**	**3 908 058**	**3 634 060**
Metal-roll (armature, angle bars, metal bars, etc.)	1 236	998	998
Materials for inside furnishing	1 642	5 969	5 969
Wood Boards, Low density wood boards	2	267	267
Special clothing	850	476	476
Fence slabs	626	-	-
Instruments	254	503	503
Inventories and utilities	3 196	8 272	8 272
Cement	177	1 751	1 751
Sand	66	79	79
Concrete and reinforced concrete items	23 871	623	623
Building materials	9 010	10 887	10 887
Auxiliary materials for the basic production	11 735	55 854	55 854
Fuel	1 141	775	775
Tare and tare materials	-	1	1
Spare parts	329	1 390	1 390
Other inventories	292	1 862	1 862
Provision for impairment of materials	(4 686)	(8 473)	(8 473)
Total raw materials	**49 741**	**81 234**	**81 234**
Total inventories	**26 248 827**	**15 710 177**	**14 601 549**

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

Objects of construction in progress in total amount of 16 962 814 thousand roubles have following structure:

'000 RR	As at December 31, 2008 '000 RR			As at December 31, 2007 '000 RR (revised)			As at December 31, 2007 '000 RR		
	Housing construction objects	Garage building objects	Total:	Housing construction objects	Garage building objects	Total:	Housing construction objects	Garage building objects	Total:
Morskoy Fasad, Morskoy Kaskad	-	-	-	26 601	-	26 601	21 739	-	21 739
Zhivoy Rodnik (1, 2, 3 turn, infrastructure objects)	-	-	-	29 560	-	29 560	1 385	-	1 385
Grazhdanka -CITY	8 909	-	8 909	171 352	-	171 352	105 836	-	105 836
V. O. Birzhevaya linia, 12				25 160	-	25 160	25 160	-	25 160
House in Serebrystiy				1 978	-	1 978	1 978	-	1 978
House in Ozerki				7 491	-	7 491	335	-	335
Zhivoy Ruchey	614	-	614	580 062	-	580 062	573 671	-	573 671
Zolotaya Gavan	739	-	739	1 395 696	114 562	1 510 258	1 300 403	114 562	1 414 965
Olminskogo Str				802	-	802	802	-	802
House in Avangardnaya Str.				13 280	-	13 280	3 145	-	3 145
Zh.K. Polezhaevskiy	498	-	498	377 065	110 621	487 686	369 041	110 621	479 662
House in Rudneva Str	112	-	112	326 369	-	326 369	310 658	-	310 658
Housing Complex "Yuzhniy "Raduga"	4 463 392	211 574	4 674 966	1 860 465	125 093	1 985 558	1 780 927	125 093	1 906 020
House in Bryanceva str	1 627	-	1 627	41 237	-	41 237	41 237	-	41 237
Novoye Sozvezdiye	10 100	-	10 100	1 933 060	165 249	2 098 309	1 900 789	165 249	2 066 038
Novaya Grazhdanka	-	-	-	23 779	-	23 779	637	-	637
Yubileinyi Kvartal	6 211 578	787 625	6 999 203	1 618 734	368 748	1 987 482	1 181 317	368 748	1 550 065
Petrogradskij Etalon	78 221	-	78 221	744 535	96 575	841 110	673 323	96 575	769 898
Smolenka	577 830	-	577 830	100 364	-	100 364	100 207	-	100 207
Orbita (HC Academicheskie vysoty)	1 244 124	15 790	1 259 914	-	-	-	-	-	-
Infrastructure objects	2 574 447	-	2 574 447	217 259	-	217 259	591 309	-	591 309
Other	775 522	112	775 634	1 244 958	230	1 245 188	921 278	230	921 508
Total	**15 947 713**	**1 015 101**	**16 962 814**	**10 739 807**	**981 078**	**11 720 885**	**9 905 177**	**981 078**	**10 886 255**

Object comparison shows that the largest non-completed objects for 12 months period of 2008 have become Housing Complex "Yuzhniy "Raduga" and "Yubileinyi Kvartal".

11. Short-term investments

	As at December 31, 2008 '000 RR	As at December 31, 2007 '000 RR (revised)	As at December 31, 2007 '000 RR
Deposits	1 264 672	506 805	506 805
Financial assets at fair value through profit or loss	1 387 129	106 215	106 215
Loans given to legal entities	61 504	9 563	10 093
Total short-term investments	**2 713 305**	**622 583**	**623 113**

As to management's judgment short-term bank deposits does not incur fair value change risk and will be repaid within 12 months after balance sheet date. The effective interest rate as at December 31, 2008 was 9,02% and as at December 31, 2007 the effective interest rate was 9,5%.

Property shares in garage-building cooperatives are booked within financial statements as financial assets held-for-trading. These shares are stated at cost as their fair value is not identifiable.

12. Accounts receivable and advances

	As at December 31, 2008 '000 RR	As at December 31, 2007 '000 RR (revised)	As at December 31, 2007 '000 RR
Trade accounts receivable	258 562	161 489	161 489
Accounts receivable accompanied by promissory notes	395 555	392 153	392 153
Advances to suppliers for the principal activities	1 319 616	2 010 682	2 010 682
Other advances given	1 230	-	-
VAT recoverable	462 949	167 395	167 395
Other taxes recoverable	6 541	3 276	3 276
Other receivables	241 538	216 804	216 804
Finance lease receivables	19 435	-	-
Provision for bad debts	(50 345)	(69 435)	(69 435)
Total accounts receivable and advances	**2 655 081**	**2 882 364**	**2 882 364**

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

The major debtors for advances given are CJSC "LenEnergo", CJSC "Sankt-Petersburg electricheskie seti", LLC "TGK-1", LLC "Energo-Alyans" - settlements for electricity, advances for technical opportunity providing of connection to electrical networks, and also for cable system of energy supply construction; LLC "Glavpartner", LLC "SSMK №526", LLC "BIT-TM" - settlements for raw materials and equipment.

13. Other current assets

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

Prepaid expenses have the following structure:

	As at December 31, 2008 '000 RR	As at December 31, 2007 '000 RR (revised)	As at December 31, 2007 '000 RR
Advertising	6 430	42 618	42 618
Other	1 416	24 428	24 428
Total other current assets	**7 846**	**67 046**	**67 046**

14. Cash and cash equivalents

	As at December 31, 2008 '000 RR	As at December 31, 2007 '000 RR (revised)	As at December 31, 2007 '000 RR
Cash in hand	1 747	2 793	2 793
Cash in bank — RR accounts	95 154	108 458	108 441
Cash in bank — FCY accounts	4 631	651	651
Other cash and cash equivalents	33 300	55 701	55 701
Total cash and cash equivalents	**134 832**	**167 603**	**167 586**

15. Share capital

As at December 31, 2008 share capital of the Company consisted of 1 000 shares of nominal value of 200 roubles per share.

The shareholders of the Company as at As at December 31, 2008 are listed below:

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

Dividends

On the results of the 12 month period 2008 and 12 month period 2007 the dividends were not declared and paid by parent company.

16. Borrowings

	As at December 31, 2008 '000 RR	As at December 31, 2007 '000 RR (revised)	As at December 31, 2007 '000 RR
Long-term borrowings			
Bank borrowings (principal amount)	2 407 065	2 618 334	2 618 334
Corporate borrowings (principal amount)	529 053	1 548 974	1 548 974
	2 936 118	**4 167 308**	**4 167 308**
Short-term borrowings			
Bank borrowings (principal amount)	3 517 764	1 744 419	1 744 419
Bank borrowings (interest accrued)	69 705	48 569	48 569
Corporate borrowings (principal amount)	65 957	609 085	609 085
Corporate borrowings (interest accrued)	29 895	85 422	85 422
	3 683 321	**2 487 495**	**2 487 495**
Total:	**6 619 439**	**6 654 803**	**6 654 803**

Long-term bank borrowings comprise a loan provided by "Golden Ring Finance S.A." (Luxemburg) initially recognized at RR'000 2 719 668 (amortized cost RR'000 2 542 414), a bank loan obtained from Amsterdam Trade Bank initially recognized at RR'000 82 730 (amortized cost RR'000 79 170), funds are transferred by OJSC "Alfa-Bank", and a bank loan obtained from "Severnaya stolitsa" branch of ZAO Raiffeisenbank initially recognized at RR'000 171 311 (amortized cost RR'000 166 526).

Short-term bank loans comprise a bank loan from Amsterdam Trade Bank in amount of RR'000 520 009, a bank loan from "Rosbank" in amount of RR'000 1 426 394, a bank loan from "WTB" in amount of RR'000 1 028 314, a bank loan from "Alfa-Bank" in amount of RR'000 58 761, a bank loan obtained from "Severnaya stolitsa" branch of ZAO Raiffeisenbank amounting to RR'000 298 775, a bank loan from Golden Ring Finance S.A. in amount of RR'000 218 372.

The Company has set off long-term and short-term liabilities to the banks (principal amount) for redeemed obligations (bonds of Golden Ring Finance S. A.) in amount of 000'RUR 381 045 and 000' RUR 32 861 respectively.

(a) Bank borrowings

	As at December 31, 2008 '000 RR
Balance at the beginning of the period (principal amount), based on undiscounted payments	**4 322 218**
Received (principal amount)	8 370 328
-including foreign exchange difference	*1 323 735*
Repaid (principal amount)	(6 168 212)
- including foreign exchange difference	*(251 345)*
Offset of a portion of loan obtained from Golden Ring against repurchased debt	(413 906)
Balance at the end of the period (principal amount)	**6 110 428**
Balance at the beginning of the period (interest)	**48 569**
Charging of an expense (interest)	550 375
- including foreign exchange difference	5 391
Interest paid	(529 239)
- including foreign exchange difference	(2 591)
Balance at the end of the period (interest)	**69 705**
Balance at the end of the period (principal amount) in the following currencies	**6 110 428**
- Russian rubles borrowings	165 975
- US dollars borrowings	5 944 453
Total, borrowings (principal amount) at the end of period based on undiscounted payments	**6 110 428**
Payables within 12 months after the balance sheet date (principal amount) at the end of the period	3 517 764
Payables within 2 years after the balance sheet date (principal amount) at the end of the period	204 098
Payables within 3 years after the balance sheet date (principal amount) at the end of the period	14 163
Payables within 4 years after the balance sheet date (principal amount) at the end of the period	2 374 403
Payables within 5 years after the balance sheet date (principal amount) at the end of the period	-
Total, borrowings (interest) at the end of the period	**69 705**
Payables within 12 months after the balance sheet date (interest) at the end of the period	69 705
Total, payables (principal amount and interest) at the end of the period based on undiscounted payments	**6 180 133**
Total, payables (principal amount and interest) at the end of the period at the amortized cost	**5 994 534**
Including interest	69 705

Corporate borrowings comprise a short-term loan to LCC "Sirana" in amount of RR'000 900 and of bond issues supported by JSC "Bank of Moscow" acting as an underwriter. At the end of the reporting period indebtness due to pay is in amount of RR'000 579 947 at initial cost (594 110 – long-term amortized cost RR'000).

(b) **Corporate borrowings**

	As at December 31, 2008 '000 RR	investment borrowings '000 RR
Balance at the beginning of the period (principal amount) based on undiscounted payments	**2 109 085**	**2 109 085**
Received (principal amount)	57 552	-
Repaid (principal amount)	(1 585 790)	(1 529 138)
Balance at the end of the period (principal amount)	**580 847**	**579 947**
Balance at the beginning of the period (interest), transient	**85 422**	**85 422**
Charged to expenses (interest)	55 141	55 141
Capitalized (interest)	78 347	78 347
Paid up (interest)	(189 015)	(189 015)
- *including taxes*	(332)	(332)
Balance at the end of the period (interest)	**29 895**	**29 895**
Balance at the end of the period (principal amount) in the following currencies	**580 847**	**579 947**
Russian rubles borrowings	580 847	579 947
US dollars borrowings	-	-
Total, balance at the end of the period (principal amount and interest) based on undiscounted payments	**610 742**	**609 842**
Payables within 12 months after the balance sheet date (principal amount) at the end of the period	900	-
Payables within 12 months after the balance sheet date (interest) at the end of the period	29 895	29 895
Payables within 2 years after the balance sheet date at the end of the period	579 947	579 947
Payables within 3 years after the balance sheet date at the end of the period	-	-
Total, payables (principal amount and interest) at the end of the period at the amortized (balance) cost	**624 905**	**624 005**

17. Advances received from the principal activities

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

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

18. Accounts payable and other liabilities

	As at December 31, 2008 '000 RR	As at December 31, 2007 '000 RR (revised)	As at December 31, 2007 '000 RR
Non-current liabilities			
Accounts payable — trade	229 391	-	-
	229 391	-	-
Current liabilities			
Accounts payable — trade	2 780 566	878 255	991 336
Salary payable	24 948	33 357	33 357
VAT payable	51 075	42 360	42 360
Other taxes payable	13 053	17 715	17 466
Accrued provisions	1 847 219	557 807	561 148
Other payables	151 507	298 902	298 903
	4 868 368	**1 828 396**	**1 944 570**

Accrued provisions in amount of '000 RR 1 847 219 comprise of provision for carried over works of '000 RR 1 847 179 and provision for ongoing court litigations of '000 RR 40

Long – term trade accounts payable in amount of '000 RR 229 391 include settlements with suppliers for raw materials, inventories and construction services.

Short – term trade accounts payable in amount of '000 RR 2 780 566 includes settlements with suppliers for raw materials, inventories and construction services.

19. Revenues

	12 months 2008 '000 RR	12 months 2007 '000 RR
Own flats	8 675 095	3 806 178
Commissioning of construction objects	2 172 236	3 387 810
Built-in premises	543 847	251 783
Rent	308 358	270 275
Building and assembly works	570 440	639 060
Ferroconcrete production	246 134	168 012
Concrete production	241 371	191 753
Auto services sales	34 295	14 478
Sales of other works and services	189 214	33 370
Agent services	38 848	123 351
Flats of the secondary market	990	15 730
Other products, goods, materials	2 749	1 390
Total revenues	**13 023 577**	**8 903 190**

20. Cost of sales

	12 months 2008 '000 RR	12 months 2007 '000 RR (revised)	12 months 2007 '000 RR
Commissioning of objects of building	2 050 249	2 437 719	2 437 719
Own flats	4 981 596	2 038 052	1 882 763
Built-in premises	387 925	187 671	180 597
Flats of the secondary market	1 208	7 439	7 180
Building and assembly works	442 810	632 749	632 749
Other products, goods, materials	580 343	304 740	304 740
Salary and other personnel expenses	134 089	110 057	110 057
Depreciation of fixed assets	115 118	80 515	80 515
Depreciation of investment property	2 953	-	-
Depreciation of intangible assets	215	135	135
Repair and maintenance	19 808	17 758	17 758
Maintenance expenses	18 942	14 062	58 136
Other	48 221	44 072	-
Total cost of sales	**8 783 477**	**5 874 969**	**5 712 349**

21. Selling expenses

	12 months 2008 '000 RR	12 months 2007 '000 RR (revised)	12 months 2007 '000 RR
Agency services	2 253	702	104 265
Advertisement and marketing	94 081	165 424	165 424
Other	2 803	2	57 151
Total selling expenses	**99 137**	**166 128**	**326 840**

22. General and administrative expenses

	12 months 2008 '000 RR	12 months 2007 '000 RR (revised)	12 months 2007 '000 RR
Wages and other payments to personnel	266 581	305 010	305 010
Management services	150 159	181 814	181 814
Auto services expenses	42 562	24 642	24 642
Consulting, legal, audit services	9 807	10 188	10 188
Maintenance services	4 186	23 239	23 492
Depreciation of fixed assets	1 439	6 961	5 205
Depreciation of intangible assets	2 404	1 147	1 147
Information services	588	769	769
Other	21 856	32 249	34 080
Total general and administrative expenses	**499 582**	**586 019**	**586 347**

23. Other operating income / (expenses) - net

	12 months 2008 '000 RR	12 months 2007 '000 RR (revised)	12 months 2007 '000 RR
Income from sale of financial assets	161 739	39 161	39 161
Compensation of other operations costs	10 000	(144 539)	(64 614)
Income from sales and other disposals of assets	48 521	2 928	2 928
Income from participation in other organizations	801	2 238	2 238
Expenses from accounts receivable write-off	(892)	(3 221)	(3 221)
Provision for impairment of materials	3 787	(5 453)	(5 453)
Provision for ongoing court litigations	81	1 450	1 450
Change in bad debts provision	(25 023)	23 249	23 249
Provision for impairment of financial investments	(380)	-	-
Provision for long-service bonus	-	(3 080)	(3 080)
Provision for impairment of goods	(11 829)	-	-
Expenses on social objects maintenance	(3 998)	(19 765)	(19 765)
Fees, fines, forfeits receivable	18 776	4 689	4 689
Fees, fines, forfeits payable	(4 409)	(15 291)	(15 171)
Warranties	(47 702)	(34 832)	(34 832)
Bank commissions	(47 590)	(49 668)	(49 664)
Social expenses	(24 972)	(14 126)	(14 126)
Impairment of fixed assets	(14 867)	(21 054)	(21 054)
SPA settlements after commissioning of the house by State commission	(4 181)	33 812	33 888
Losses of the previous years	(26 728)	(39 650)	(39 650)
Charity	(9 405)	(3 376)	(3 376)
Unused provisions written off	82 458	3 720	3 720
Other income / (expenses)	(4 303)	16 029	14 764
Total other operating income / (expenses)	**99 884**	**(226 779)**	**(147 919)**

24. Net financial expenses

	12 months 2008 '000 RR	12 months 2007 '000 RR (revised)	12 months 2007 '000 RR
Interest expense	(577 441)	(315 625)	(315 625)
Interest income	69 549	92 214	92 214
Accumulated coupon income receivable	716	-	-
Foreign exchange gain/(loss)	(1 013 683)	173 834	173 864
Income/(expense) from change of fair value of long-term borrowings and loans	272 504	(41 311)	(41 311)
Interest from financial leasing	12 416	-	-
Total net financial expenses	**(1 235 939)**	**(90 888)**	**(90 858)**

25. Income tax

The parent company, subsidiaries and associates are to hand in separate tax returns. The Group's applicable income tax rate was 24% before the 1st of January 2009. Starting January 1, 2009 the income tax rate in the Russian Federation was reduced from 24% to 20%.

(a) Income tax expense

	12 months 2008 '000 RR	12 months 2007 '000 RR (revised)	12 months 2007 '000 RR
Current income tax expense	427 912	492 952	492 952
Expenses from origination and reversal of temporary differences	228 306	15 867	147 038
Income from reduction in the income tax rate	(37 411)	-	-
Total income tax expense	**618 807**	**508 819**	**639 990**

(b) Reconciliation of accounting profit before income tax to income tax expense

	12 months 2008 '000 RR	12 months 2007 '000 RR (revised)
Profit berore income tax	2 458 071	1 898 366
Theoretical tax charge at the applicable statutory rate of 24%	589 937	455 608
Adjustments for items of income and expenses which are not assessable or deductible for taxation purposes	66 281	53 211
Tax effect from recalculation of deferred tax assets and deferred tax liabilities at rate of 20%	(37 411)	-
Total income tax expense	**618 807**	**508 819**

26. Related-party transactions

There were benefits to key management personnel imposed at a rate of 13%.

(a)

	12 months 2008 '000 RR	12 months 2007 '000 RR
Key management personnel	88 551	67 177

As at December 31, 2008 the Group had the following balances on operations with related parties:

(b)

	Associated companies		Jointly controlled entities	
	December 31, 2008 '000 RR	December 31, 2007 '000 RR	December 31, 2008 '000 RR	December 31, 2007 '000 RR
Long-term loans given				
Loans given (the main debt)	-	-	64 745	42 296
Loans given (interest)	-	-	1 966	-
Long-term accounts receivable and advances given				
Advances given for principal activities	-	-	254 257	-
Short-term accounts receivable and advances given				
Trade accounts receivable	26 076	59 479	139 522	553 437

Accounts receivable accompanied by promissory notes	-	-	191 474	4 800
Advances to suppliers for the principal activities	281 145	-	51 865	28 995
Other advances given	11 541	-	2 460	-
Other receivables	5 327	30 275	8 053	282 352
Short-term accounts payable				
Advances received	-	-	20 732	-
Trade accounts payable	444 593	189 624	1 526 338	440 441
Other accounts payable	-	-	168	79 046

As at December 31, 2008 Group provided the following operations with related parties

	Associated companies		Jointly controlled entities	
	12 months 2008 '000 RR	12 months 2007 '000 RR	12 months 2008 '000 RR	12 months 2007 '000 RR
Revenues	100 957	423 549	776 719	398 487
Cost of sales	(171 660)	(196 387)	(713 640)	(790 566)
Other income	191	108	21 560	219 312
Other expenses	(2 484)	(403)	(12 613)	(15 347)

27. Financial risk management

The Group's principal financial liabilities include bank loans and borrowings and trade payables. The major purpose of these liabilities is to raise finance for the Group's operations. The Group's principal financial assets, such as cash, short-term investments and trade receivables arise directly from the operations.

The Group's activities expose it to credit risk, liquidity risk, foreign currency risk and interest rate risk. The risk management policies employed by the Group to manage these risks are discussed below.

Credit risk

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets at the balance sheet date. The Group has no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of financial assets in the consolidated balance sheet.

Credit risk is monitored on continuous basis and reflected in accounting for bad and doubtful debts provision. Though the repayment of accounts receivable depends on various economic factors, the management of the Group considers bad and doubtful debt provision is adequate for compensation of prospective losses resulting from doubtful debts repayment failure.

The Group generally does not require collateral in respect of its financial assets. Investments are allowed only in liquid securities and only with counter-parties that have a credit rating equal to or better than the Group. Given their high credit ratings, the management does not expect any counter-party to fail to meet its obligations.

Liquidity risk

Liquidity risk is the risk that arises when the maturity of financial assets and liabilities does not match. An unmatched position could potentially enhance profitability but could also lead to losses. The Group manages its exposure to liquidity risk to minimize risks of losses by maintaining certain level of cash and other highly liquid assets and ensuring of timely access to facilities.

The table below summarizes the maturity profile of the Group's financial liabilities at the reporting date based on contractual undiscounted payments.

31 December 2008 '000 RUR	Less than 1 year	From 1 to 5 years	More than 5 years	Total
Loans and borrowings	3 618 264	3 172 611	-	6 790 875
Trade and other payables	4 804 240	229 391	-	5 033 631
	8 422 504	**3 402 002**	**-**	**11 824 506**

31 December 2007 '000 RUR	Less than 1 year	From 1 to 5 years	More than 5 years	Total
Loans and borrowings	2 487 495	4 077 799	-	6 565 294
Trade and other payables	1 768 321	-	-	1 768 321
	4 255 816	**4 077 799**	**-**	**8 333 615**

Foreign currency risk

Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognized assets and liabilities are denominated in currency that is different from functional currency.

The Group's exposure to foreign exchange risk primarily relates to United States dollar. The Group's management monitors the exchange rate fluctuations on a continuous basis and corrects the Group's exposure accordingly. In light of weakening of Russian rouble against US dollar the Group repurchases part of its debt instruments nominated in US dollars.

At 31 December 2008, if the Russian rouble weakened against US dollar by 15% with all other variables held constant, the Group's profit before taxation would reduce at 596 046 '000 RUR, mainly due to foreign exchange differences arising on loans, borrowings and investments nominated in US dollars.

The major portion of costs and investments of the Group is nominated in Russian roubles and therefore not exposed to foreign currency risk. The Group does not export its production. Import of equipment and fixtures is relatively insignificant being compared to the total purchases. The Group determines prices for its production in standard units which correlate to US dollar/Rouble exchange rate. The exchange rate has a fixed lower limit to secure the Group against abrupt reduction in the exchange rate of US dollar.

Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Group monitors the movements in interest rates on a continuous basis and ensures that its exposure to changes in interest rates is minimized by borrowing and lending at fixed interest rates. As a result the Group's exposure to interest rate risk is reduced to minimum.

Capital risk management

The Group's objectives when managing its capital are to safeguard the Group's ability to continue as a going concern while maximising the return to stakeholders and other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group's management reviews the capital structure on a ongoing basis. As a part of this review, the management considers the cost of capital and the risks associated with each class of capital. The Group balances its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

The Group monitors capital on the basis of gearing ratio which is calculated as net debt divided by the sum of total equity capital and net debt.

28. Industry risk management

The Group is a member of the holding Closed Joint Stock Company "Management Company of Etalon-LenSpetsSMU Holding Company" (hereinafter – Holding "Etalon-LenSpetsSMU") and operates in St. Petersburg real estate market. The core business of the Group is rendering construction services, which include implementing all stages of the investment and construction process. Industry risks of the Group include the following:

- The risk of reduction of demand in the real estate market. The Group is engaged in real estate development and manages its investment and construction projects in the real estate market of St. Petersburg. As a result of the global economic crisis the demand for both commercial and living premises in St. Petersburg has been continuously falling. To minimize the risk the Group monitors the changes in both the current structure of the demand and its forecasts in the real estate market in order to reflect the changes in its plans to construct new objects and enhance its advertisement activities. The decrease in purchase demand is to some extent compensated by obtaining loans and borrowings denominated in Russian roubles and optimization of both production and finance activities;
- The risk of reduction in market prices for real estate. The risk of reduction in prices may negatively impact the profitability of the Group's core business. To minimize the existing risk the Group attempts to compensate the negative effects to profit by reducing its costs, increase in volumes of production and establishing a whole production cycle being performed within Construction Holding "Etalon LenSpesSMU";
- The risk of change in purchase prices for construction materials used by the Group in its activities. The Group is a part of Construction Holding "Etalon LenSpetsSMU" which produces construction materials (brick earth mining with subsequent brick production, concrete production, etc.). Performance of effectively the whole production cycle by its own production facilities allows the Group to avoid both abrupt change in purchase prices and lack of supply in construction materials.

29. Contingencies

Taxation

The taxation system in the Russian Federation is relatively new and is characterized by numerous taxes and frequently changing legislation, which is often unclear, contradictory, and subject to interpretation. Often, different interpretations exist among numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges. These facts may create tax risks in Russia substantially more significant than in other countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have different interpretations and the effects could be significant.

Guarantees of liabilities issued

As at December 31, 2008 the Group's companies issued guarantees amounting to '000 RR 1 551 543.

30. Events subsequent to the balance sheet date

In March 2009 the Group exercised novation of loan finance obtained from Golden Ring Finance S.A. in amount of USD'000 100 000. The amendments provide for:
- the right of the creditor to request for early repayment of the loan in April 2009 is cancelled;
- the requirement for compliance with financial covenants is softened;
- the borrower obtains the right to early repay the loan as from 20.08.2009;
- one-off settlement of loan in April 2012 is replaced by the amortization schedule providing for six equal quarterly repayments in the period from 20.05.2009 to 20.08.2010;
- increase in the interest rate from 9,75% to 12%;
- interest repayment period is reduced from 180 days to 90 days.