Group of companies "LenSpetsSMU"

Interim consolidated financial statements prepared under IFRS

for 9 months ended September 30, 2008
with Report of independent auditors

Contents

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Independent auditors report

To shareholders of the Group of companies "LenSpetsSMU"

We have audited the accompanying interim consolidated financial statements of JSC "LenSpetsSMU" and its subsidiaries (the Group), which comprise the interim consolidated balance sheet as at September 30, 2008, and interim consolidated income statement, interim statement of changes in equity and interim cash flow statement for 9 months ended September 30, 2008, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

Opinion

In our opinion, the accompanying interim consolidated financial statements give a true and present fairly, in all material respects the financial position of the Group as at September 30, 2008, and of its financial performance and its cash flows for six months ended September 30, 2008 in accordance with International Financial Reporting Standards.

"Международный консультативно-правовой центр по налогообложению" "ICLC" Москва

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Moscow, Russian Federation
January, 30 2009

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	Notes	As at September 30, 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	1 030 156	873 361	2 200 446
Investment property	6	74 143	85 643	85 643
Intangible assets		5 268	3 594	3 594
Investments in associated companies	2 b (ii)	1 762 285	27 100	27 100
Long-term financial investments	7	44 713	46 287	156 287
Accounts receivable and advances (long-term)	8	983 809	199 617	199 617
Deferred tax assets	9	199 472	118 119	6 222
		4 099 846	**1 353 721**	**2 678 909**
Current assets				
Inventories	10	22 904 063	15 717 610	14 601 549
Financial assets (short-term)	11	1 656 681	622 583	623 113
Accounts receivable and advances (short-term)	12	4 166 919	3 050 561	3 050 561
Cash and cash equivalents	13	526 793	167 603	167 586
Other current assets	14	22 502	67 046	67 046
		29 276 958	**19 625 403**	**18 509 855**
Total assets		**33 376 804**	**20 979 124**	**21 188 764**
Equity				
Equity and reserves				
Share capital	15	1 237	1 237	1 237
Revaluation reserve		-	-	67 254
Retained earnings		2 817 804	1 739 854	1 714 554
		2 819 041	1 741 091	1 783 045
Minority interest		693 400	312 346	314 755
Total equity		**3 512 441**	**2 053 437**	**2 097 800**
Long-term liabilities				
Long-term borrowings	16	3 202 909	4 167 308	4 167 308
Advances received on principal activity (long-term)	17	-	161 303	161 303
Accounts payable and other liabilities (long-term)	18	389 381	-	-
Deferred tax liabilities	9	485 714	114 281	163 385
		4 078 004	**4 442 892**	**4 491 996**
Short-term liabilities				
Short-term borrowings	16	3 218 602	2 487 495	2 487 495
Advances received on principal activity (short-term)	17	19 008 284	10 163 240	10 163 240
Accounts payable and other liabilities (short-term)	18	3 559 473	1 832 060	1 948 233
		25 786 359	**14 482 795**	**14 598 968**
		33 376 804	**20 979 124**	**21 188 764**

The interim consolidated balance sheet is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 8–27.

General Director Scherbina G. Ph.

Chief Accountant Ignatyeva L. M.

January, 30 2009

	Notes	September 30, 2008 '000 RR	September 30, 2007 '000 RR
Revenue	19	9 070 030	7 015 401
Cost of sales	20	(5 384 884)	(4 489 157)
Gross profit		**3 685 146**	**2 526 244**
Selling expenses	21	(445 902)	(176 274)
General and administrative expenses	22	(714 740)	(410 043)
Taxes, other than income tax		(67 843)	(63 466)
Other operating income/(expenses)	23	(30 760)	(60 908)
Operating profit		**2 425 901**	**1 815 553**
Share in the results of activity of associated companies		21 435	5 363
Net finance expenses	24	(456 701)	(20 066)
Profit before income tax, minority interest		**1 990 635**	**1 800 850**
Income tax	25	(522 661)	(438 563)
Profit before minority interest		**1 467 974**	**1 362 287**
Minority interest		(390 024)	(234 143)
Net profit		**1 077 950**	**1 128 144**
Basic and diluted earnings per share		**1 077 ,95**	**1 128,14**

The interim consolidated income statement is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 8–27.

General Director Scherbina G. Ph.

Chief Accountant Ignatyeva L. M.

January, 30 2009

	September 30, 2008 '000 RR	September 30, 2007 '000 RR
OPERATING ACTIVITIES		
Profit before tax, minority interest:	1 990 635	1 800 850
Adjustments to reconcile profit before taxes to cash provided by operating activities	**641 708**	**(94 094)**
Depreciation	*92 195*	*62 380*
(Profit)/loss from assets sold	*(67 888)*	*(853)*
Foreign exchange gain/(loss)	*184 285*	*(103 349)*
Interest expense	*421 922*	*77 187*
Interest income	*(63 816)*	*(88 185)*
Income from participation in other organizations	*(21 969)*	*(6 100)*
Bad debt provision	*16 220*	*(18 425)*
Other income and expenses	*80 759*	*(16 749)*
Operating profit before changes in working capital	**2 632 343**	**1 706 756**
(Increase)/decrease in trade accounts receivables and advances	(782 749)	(706 889)
(Increase) decrease in inventories	(7 204 498)	(4 892 148)
Increase/(decrease) in trade payables and advances received	6 480 567	(234 999)
Changes in other assets and liabilities	44 544	10 994
Cash generated from (used in) operations	**1 170 207**	**(4 116 286)**
Income taxes paid	(370 409)	(548 781)
Net cash from (used in) operating activities	**799 798**	**(4 665 067)**
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment and intangible assets	(271 280)	(330 322)
Proceeds from sales of property, plant and equipment and intangible assets	7 834	1 473
Acquisition/sale of securities and other financial assets	322 649	338 889
Acquisition / repayment of deposits	226 145	1 680 344
Loans given	(21 154)	(15 630)
Repayments of loans given	2 084	12 201
Interest received	57 034	62 668
Dividends received	6 747	4 528
Net cash from (used in) investing activities	**330 059**	**1 754 151**
FINANCING ACTIVITIES		
Amounts borrowed	6 907 678	5 840 697
Repayment of amounts borrowed	(7 166 260)	(2 530 843)
Interest paid	(490 640)	(45 153)
Dividends paid	(8 163)	(332 424)
Net cash from (used in) financing activities	**(757 385)**	**2 932 277**
Influence of foreign exchange difference	(13 282)	(5 000)
Net increase/(decrease) in cash and cash equivalents	**359 190**	**16 361**
Cash and cash equivalents at the beginning of the period	**167 603**	**83 550**
Cash and cash equivalents at the end of the period	**526 793**	**99 911**

The interim consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 8–27.

General Director Scherbina G. Ph.

Chief Accountant Ignatyeva L. M.

January, 30 2009

	Share capital	Retained earnings	Investments available-for-sale revaluation reserve	Total	Minority interest	Total equity
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 changed	**1 237**	**978 486**	**-**	**979 723**	**60 837**	**1 040 560**
Dividends	-	(316 000)	-	(316 000)	(60 670)	(376 670)
Net profit for the period	-	1 128 144	-	1 128 144	234 143	1 362 287
Balance at September 30, 2007	**1 237**	**1 790 630**	**-**	**1 791 867**	**234 310**	**2 026 177**
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 changed	**1 237**	**1 739 854**	**-**	**1 741 091**	**312 346**	**2 053 437**
Dividends	-	-	-	-	(8 970)	(8 970)
Net profit for the period	-	1 077 950	-	1 077 950	390 024	1 467 974
Balance at September 30, 2008.	**1 237**	**2 817 804**	**-**	**2 819 041**	**693 400**	**3 512 441**

The interim consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 8–27.

General Director Scherbina G. Ph.

Chief Accountant Ignatyeva L. M.

January, 30 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 15.8% of the whole building market of Saint-Petersburg. For 9 months of 2008 the Group has constructed buildings of total area of 163 635.2 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", LLC "Orgtehremstroy" and CJSC "Zatonskoye".

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

As at September 30, 2008 1 611 employees on average worked for the Company.

Russian business environment

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

2. Basis of preparation

(a) General principles

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

Preparation of the financial statements requires from the head body certain estimates and assumptions in respect of amounts stated in the statements. Such estimates are based on the information known at the date of the financial statements. Actual results, therefore, may differ from such estimates.

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

(b) Basis of consolidation

(i) Subsidiaries

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

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

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

All Group companies apply common accounting principles.

The consolidated financial statements include the following companies:

	Share	Total, assets	Equity	Net profit (loss) of the accounting period
CJSC "SPb MFTC"	61%	3 119 653	951 836	437 293
OJSC "SMU "Electronstroy"	88%	123 090	77 414	38 501
CJSC "AKTIV"	100%	1 100 211	698 937	78 423
CJSC "CUN"	40%	3 117 003	521 542	358 126
LLC "Kamenka"	100%	107 458	105 824	(597)
LLC "Wertikal"	100%	9 000	9 000	-
Amounts excluded at consolidation		(5 298 501)	(1506 639)	(243 795)
TOTAL		**2 277 914**	**857 914**	**667 951**

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 9 months 2008 '000 RR				September 30, 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	-	8 130	-	(2 750)	11 432
CJSC "Building materials factory "Etalon"	25%	19 481	-	14 348	-	(3 750)	30 079
CJSC "Zatonskoye"	49%	-	1 721 175	(1 292)	-	-	1 719 883
LLC "ORGTECHREM STROY"	20%	902	-	318		(329)	891
CJSC "LSO"	20%	665	-	(69)	(596)	-	-
ИТОГО		**27 100**	**1 721 175**	**21 435**	**(596)**	**(6 829)**	**1 762 285**

(c) Financial Reporting in Hyperinflationary Economies

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

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

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

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

(d) Going concern

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

(e) Using 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". This standard is used due to the inappropriateness of applying IAS 11 "Construction Contracts".

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

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

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

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

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

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

(e) Accounts receivable and advances

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

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

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

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

(f) Cash and cash equivalents

Cash and cash equivalents are stated at fair value of cash inflows. Cash and cash equivalents include cash on 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 September 30, 2008 the official exchange rate was USD 25,2464 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 Kamenka LLC 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;
- 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 increased 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 as at 31 December 2007 the inventories were decreased by RUR 119 449 thousand;
- net profit 2006 (before accounting for impact 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 correction 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 1 327 268 thousands.

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	488 798	36 959	35 576	19 919	1 150 143
Additions	28	97 084	125 095	11 056	7 736	112 821	353 820
Disposals	-	(17 836)	(40 596)	(3 013)	(6 733)	(29 963)	(98 141)
Impairment		(5 575)	-	(652)	(733)	-	(6 960)
At September 30, 2008	**59 294**	**583 298**	**573 297**	**44 350**	**35 846**	**102 777**	**1 398 862**
Depreciation							
At December 31, 2007	-	(69 878)	(168 957)	(15 236)	(22 711)	-	(276 782)
Depreciation charge for the period	-	(43 757)	(86 019)	(6 135)	(4 427)	-	(140 338)
Depreciation on disposals	-	5 045	33 048	2 807	6 535	-	47 435
Depreciation on impairment	-	246	61	349	323	-	979
At September 30, 2008	-	**(108 344)**	**(221 867)**	**(18 215)**	**(20 280)**	-	**(368 706)**
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**	**319 841**	**21 723**	**12 865**	**19 919**	**873 361**
At September 30, 2008	**59 294**	**474 954**	**351 430**	**26 135**	**15 566**	**102 777**	**1 030 156**

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	65 146	216 431	181 568	4 837	2 199	38 346	508 527
Disposals	(287 772)	(1 804)	(66 067)	(813)	(3 829)	(18 103)	(378 388)
Impairment	(374)	(3 800)	(1 528)	(1 017)	(1 186)	-	(7 905)
At September 30, 2007	**59 245**	**597 932**	**400 137**	**33 074**	**37 538**	**20 244**	**1 148 170**
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	-	(33 842)	(46 294)	(5 516)	(19 187)	-	(104 839)
Depreciation on disposals	-	1 220	64 469	949	3 221	-	69 859
Depreciation on impairment	-	576	495	293	516	-	1 880
At September 30, 2007	-	**(62 905)**	**(145 979)**	**(14 119)**	**(25 820)**	-	**(248 823)**
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 September 30, 2007	**59 245**	**535 027**	**254 158**	**18 955**	**11 718**	**20 244**	**899 347**

6. Investment property

'000 RR	As at 30 September, 2008 000' RR	As at 30 September 2007 000' RR
Cost		
At the beginning of accounting period	**92 310**	-
Additions	13 687	-
Disposals	(25 443)	-
At the end of accounting period	**80 554**	-
Depreciation		
At the beginning of the accounting period	**(6 667)**	-
Depreciation charge for the period	(3 431)	-
Depreciation on disposals	3 687	-
At the end of the accounting period	**(6 411)**	-
Net book value at the beginning of accounting period	**85 643**	-
Net book value at the end of accounting period	**74 143**	-

7. Long-term financial investments

	As at September 30, 2008 '000 RR	As at December 31, 2007 '000 RR (revised)	As at December 31, 2007 '000 RR
Loans given	29 979	45 629	45 629
Long-term investments in other companies	565	658	658
Available-for-sale investments	14 549	-	110 000
Impairment reserve for financial investments	(380)	-	-
Total Long-term financial investments	**44 713**	**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 September 30, 2008 was 9,45% correspondingly.

8. Long-term accounts receivable and advances

	As at September 30, 2008 '000 RR	As at December 31, 2007 '000 RR (revised)	As at December 31, 2007 '000 RR
Trade accounts receivable	59 864	171 094	171 094
Advances to suppliers for the principal activities	787 589	28 523	28 523
Other accounts receivable	136 356	-	-
Total long-term accounts receivable and advances	**983 809**	**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 September 30, 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)	(290 080)
Net deferred tax at the end of the period	(286 242)
including:	
Deferred tax asset	**199 472**
Deferred tax liability	**(485 714)**

10. Inventories

	As at September 30, 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	17 784 503	11 021 238	9 905 177
Construction in progress of garage building objects	1 389 199	981 078	981 078
Total construction in progress	**19 173 702**	**12 002 316**	**10 886 255**
Own apartments	3 278 779	3 220 750	3 220 750
Built-in premises (non-residential)	352 291	393 829	393 829
Secondary market apartments	22 518	8 393	8 393
Concrete and reinforced concrete items	8 395	7 495	7 495
Food products	209	119	119
Other	3 427	3 474	3 474
Total Finished products and goods for re-sale	**3 665 619**	**3 634 060**	**3 634 060**
Metal-roll (armature, angle bars, metal bars, etc.)	3 324	998	998
Materials for inside furnishing	2 256	5 969	5 969
Wood Boards, Low density wood boards	2	267	267
Special clothing	511	476	476
Fence slabs	234	-	-
Instruments	339	503	503
Inventories and utilities	2 070	8 272	8 272
Cement	1 652	1 751	1 751
Sand	36	79	79
Concrete and reinforced concrete items	1 014	623	623
Building materials	38 597	10 887	10 887
Auxiliary materials for the basic production	18 442	55 854	55 854
Fuel	745	775	775
Tare and tare materials	2	1	1
Spare parts	392	1 390	1 390
Other inventories	2 148	1 862	1 862
Reserve for impairment of materials	(7 022)	(8 473)	(8 473)
Total raw materials	**64 742**	**81 234**	**81 234**
Total inventories	**22 904 063**	**15 717 610**	**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 17 784 503 thousand roubles have following structure:

Рубли'000	As at September 30, 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	13 138	-	13 138	21 739	-	21 739	21 739	-	21 739
Zhivoy Rodnik (1, 2, 3 turn, infrastructure objects)				1 385	-	1 385	1 385	-	1 385
Grazhdanka -CITY	209 119	-	209 119	105 836	-	105 836	105 836	-	105 836
V. O. Birzhevaya linia, 12	11 295	-	11 295	25 160	-	25 160	25 160	-	25 160
House in Serebrystiy	1 574	-	1 574	1 978	-	1 978	1 978	-	1 978
House in Ozerki	-	-	-	335	-	335	335	-	335
Zhivoy Ruchey	1 343 123	-	1 343 123	573 671	-	573 671	573 671	-	573 671
Zolotaya Gavan	1 377 164	127 199	1 504 363	1 300 403	114 562	1 414 965	1 300 403	114 562	1 414 965
Olminskogo Str				802	-	802	802	-	802
House in Avangardnaya Str				3 145	-	3 145	3 145	-	3 145
Zh.K. Polezhaevskiy	79 226	-	79 226	369 041	110 621	479 662	369 041	110 621	479 662
House in Rudneva Str	54 863	-	54 863	310 658	-	310 658	310 658	-	310 658
Housing Complex "Yuzhniy"	4 324 041	208 201	4 532 242	1 780 927	125 093	1 906 020	1 780 927	125 093	1 906 020
House in Bryanceva str	38 671	-	38 671	41 237	-	41 237	41 237	-	41 237
Novoye Sozvezdiye	1 814 591	222 511	2 037 102	1 900 789	165 249	2 066 038	1 900 789	165 249	2 066 038
Novaya Grazhdanka	-	-	-	637	-	637	637	-	637
Yubileinyi Kvartal	5 680 628	830 902	6 511 530	1 603 545	368 748	1 972 293	1 181 317	368 748	1 550 065
Petrogradskij Etalon	122 007	-	122 007	673 323	96 575	769 898	673 323	96 575	769 898
Smolenka	357 101	-	357 101	100 207	-	100 207	100 207	-	100 207
Infrastructure objects	1 333 942	45	1 333 987	1 285 407	-	1 285 407	591 309	-	591 309
Other	1 024 020	341	1 024 361	921 013	230	921 243	921 278	230	921 508
Total	**17 784 503**	**1 389 199**	**19 173 702**	**11 021 238**	**981 078**	**12 002 316**	**9 905 177**	**981 078**	**10 886 255**

Object comparison shows that the largest non-completed objects for 9 months period of 2008 have become Housing Complex "Yuzhniy" and "Yubileinyi Kvartal".

11. Financial assets

	As at September 30, 2008 '000 RR	As at December 31, 2007 '000 RR (revised)	As at December 31, 2007 '000 RR
Deposits	280 660	506 805	506 805
Financial assets held-for-trading	1 329 910	106 215	106 215
Loans given to legal entities	46 111	9 563	10 093
Total financial assets	**1 656 681**	**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 September 30, 2008 was 9,45% 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 September 30, 2008 '000 RR	As at December 31, 2007 '000 RR (revised)	As at December 31, 2007 '000 RR
Trade accounts receivable	202 278	161 489	161 489
Accounts receivable accompanied by promissory notes	191 242	392 153	392 153
Advances to suppliers for the principal activities	2 899 478	2 010 682	2 010 682
Other advances given	329	-	-
VAT recoverable	350 810	167 395	167 395
Income tax recoverable	307 282	168 197	168 197
Other taxes recoverable	3 407	3 276	3 276
Other receivables	279 575	216 804	216 804
Finance lease receivables	18 173	-	-
Bad debt provision	(85 655)	(69 435)	(69 435)
Total accounts receivable and advances	**4 166 919**	**3 050 561**	**3 050 561**

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 "Kotelnaya Giwoy rodnik", LLC "Kotelnaya Zolotaya gavan», LLC "Kotelnaya Krasnoselskogo rayona" - settlements for electricity, advances for technical opportunity providing of connection to electrical networks, and also for cable system of energy supply construction; LLC "Energokomplect", LLC "OTIS Lift", LLC "Compleksnye energeticheskie resheniya" - settlements for raw materials and equipment.

13. Cash and cash equivalents

	As at September 30, 2008 '000 RR	As at December 31, 2007 '000 RR (revised)	As at December 31, 2007 '000 RR
Cash in hand	1 820	2 793	2 793
Cash in bank — RR accounts	266 949	108 458	108 441
Cash in bank — FCY accounts	14 546	651	651
Deposits	221 200	-	-
Other cash and cash equivalents	22 278	55 701	55 701
Total cash and cash equivalents	**526 793**	**167 603**	**167 586**

14. 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 September 30, 2008 '000 RR	As at December 31, 2007 '000 RR (revised)	As at December 31, 2007 '000 RR
Advertising	20 753	42 618	42 618
Other	1 749	24 428	24 428
Total other current assets	**22 502**	**67 046**	**67 046**

15. Share capital

As at September 30, 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 September 30, 2008 are listed below:

Рубли'000

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 9 month period 2008 and 9 month period 2007 the dividends were not declared and paid by parent company.

16. Borrowings

	As at September 30, 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)	2 632 975	2 618 334	2 618 334
Corporate borrowings (principal amount)	569 934	1 548 974	1 548 974
	3 202 909	**4 167 308**	**4 167 308**
Short-term borrowings			
Bank borrowings (principal amount)	3 030 166	1 744 419	1 744 419
Bank borrowings (interest accrued)	119 067	48 569	48 569
Corporate borrowings (principal amount)	56 652	609 085	609 085
Corporate borrowings (interest accrued)	12 717	85 422	85 422
	3 218 602	**2 487 495**	**2 487 495**
Total:	**6 421 511**	**6 654 803**	**6 654 803**

Long-term bank loans comprise a bank loan provided by the company "Golden Ring Finance S.A." (Luxemburg) amounting to RR'000 2 391 206 at historical cost (long-term amortized cost RR'000 2 348 159), a bank loan obtained from Amsterdam Trade Bank amounting to RR'000 84 726 at historical cost (long-term amortized cost RR'000 83 636), Loans are transferred by OJSC "Alfa-Bank", and a bank loan obtained from "Severnaya stolitsa" branch of ZAO Raiffeisenbank amounting to RR'000 199 644 at historical cost (long-term amortized cost RR'000 201 180).

Short-term bank loans comprise a bank loan from Amsterdam Trade Bank in amount of RR'000 448 680, a bank loan from "Rosbank" in amount of RR'000 1 249 044, a bank loan from "WTB" in amount of RR'000 883 624, a bank loan from "Alfa-Bank" in amount of RR'000 50 493, a bank loan obtained from "Severnaya stolitsa" branch of ZAO Raiffeisenbank amounting to RR'000 264 891, a bank loan from Golden Ring Finance S.A. in amount of RR'000 133 434.

(a) Bank borrowings

	As at September 30, 2008 '000 RR
Balance at the beginning of the period (principal amount), transient	**4 322 218**
Received (principal amount)	7 271 478
-including foreign exchange difference	420 452
Repaid (principal amount)	(5 887 954)
- including foreign exchange difference	(250 832)
Balance at the end of the period (principal amount)	**5 705 742**
Balance at the beginning of the period (interest)	**48 569**
Charging of an expense (interest)	375 047
including foreign exchange difference	3 188
Interest paid	(304 549)
- including foreign exchange difference	(2 592)
Balance at the end of the period (interest)	**119 067**
Balance at the end of the period (principal amount) in the following currencies	**5 705 742**
- Russian rubles borrowings	165 975
- US dollars borrowings	5 539 767
Total, borrowings (principal amount) at the end of period at initial cost	**5 705 742**
Payables within 12 months after the balance sheet date (principal amount) at the end of the period	3 030 166
Payables within 2 years after the balance sheet date (principal amount) at the end of the period	253 468
Payables within 3 years after the balance sheet date (principal amount) at the end of the period	30 902
Payables within 4 years after the balance sheet date (principal amount) at the end of the period	2 391 206
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	**119 067**
Payables within 12 months after the balance sheet date (interest) at the end of the period	119 067
Total, payables (principal amount and interest) at the end of the period at initial cost	**5 824 809**
Total, payables (balance and interest) at the end of the period at the amortized cost	**5 782 208**
Including interest	119 067

Corporate borrowings comprise a short-term loan to LCC "LSS-story" in amount of RR'000 56 652 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 (569 934 – long-term amortized cost RR'000).

(b) **Corporate borrowings**

	As at September 30, 2008 '000 RR	investment borrowings '000 RR
Balance at the beginning of the period (principal amount) at initial cost, transient	2 109 085	2 109 085
Received (principal amount)	56 652	56 652
Repaid (principal amount)	(1 529 138)	(1 529 138)
Balance at the end of the period (principal amount)	636 599	636 599
Balance at the beginning of the period (interest), transient	85 422	85 422
Charged to expenses (interest)	54 592	54 592
Capitalized (interest)	61 718	61 718
Paid up (interest)	(189 015)	(189 015)
- including taxes	(332)	(332)
Balance at the end of the period (interest)	12 717	12 717
Balance at the end of the period (principal amount) in the following currencies	636 599	636 599
Russian rubles borrowings	636 599	636 599
US dollars borrowings	-	-
Total, balance at the end of the period (principal amount and interest) at initial cost	**649 316**	**649 316**
Payables within 12 months after the balance sheet date (principal amount) at the end of the period	56 652	56 652
Payables within 12 months after the balance sheet date (interest) at the end of the period	12 717	12 717
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	**639 303**	**639 303**

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 September 30, 2008 '000 RR	As at December 31, 2007 '000 RR (revised)	As at December 31, 2007 '000 RR
Long-term liabilities			
Accounts payable — trade	389 381	-	-
	389 381	-	-
Short-term liabilities			
Accounts payable — trade	2 369 020	878 255	991 336
Salary payable	31 353	33 357	33 357
VAT payable	128 201	42 360	42 360
Income tax payable	7 109	3 663	3 663
Other taxes payable	14 812	17 715	17 466
Accrued reserves	823 754	557 807	561 148
Other payables	185 224	298 903	298 903
	3 559 473	**1 832 060**	**1 948 233**

Accrued reserves in amount '000 RR 823 754 are represented by reserves for carried over works – '000 RR 803 538 and reserves for long-service bonus '000 RR – 20 216

Long – term trade accounts payable in amount of '000 RR 389 381 include settlements with suppliers for raw materials, inventories and construction services.

Short – term trade accounts payable in amount of '000 RR 2 369 020 includes settlements with suppliers for raw materials, inventories and construction services.

19. Revenues

	September 30, 2008 '000 RR	September 30, 2007 '000 RR
Own flats	6 594 901	2 581 936
Commissioning of construction objects	1 005 357	3 247 335
Built-in premises	463 863	144 908
Rent	244 488	184 801
Building and assembly works	192 008	469 182
Ferroconcrete production	199 201	111 013
Concrete production	183 311	121 997
Auto services sales	112 557	8 345
Sales of other works and services	40 810	23 295
Agent services	30 581	105 870
Flats of the secondary market	-	15 730
Other products, goods, materials	2 953	989
Total revenues	**9 070 030**	**7 015 401**

20. Cost of sales

	September 30, 2008 '000 RR	September 30, 2007 '000 RR
Own flats	(3 082 110)	(1 199 376)
Commissioning of objects of building	(1 240 860)	(2 336 380)
Other products, goods, materials	(337 993)	(196 836)
Built-in premises	(304 588)	(90 932)
Building and assembly works	(161 979)	(480 278)
Salary and other personnel expenses	(102 316)	(74 369)
Depreciation of fixed assets	(83 257)	(56 234)
Depreciation of investment property	(1 768)	-
Depreciation of intangible assets	(160)	(74)
Repair and maintenance	(15 715)	(11 591)
Maintenance expenses	(14 150)	(9 878)
Flats of the secondary market	-	(7 180)
Other	(39 988)	(26 029)
Total cost of sales	**(5 384 884)**	**(4 489 157)**

21. Selling expenses

	September 30, 2008 '000 RR	September 30, 2007 '000 RR
Agent services	(277 635)	(58 978)
Advertisement and marketing	(165 611)	(115 614)
Other	(2 656)	(1 682)
Total selling expenses	**(445 902)**	**(176 274)**

22. General and administrative expenses

	September 30, 2008 '000 RR	September 30, 2007 '000 RR
Wages and other payments to personnel	(439 164)	(210 959)
Management services	(178 314)	(135 838)
Auto services expenses	(30 843)	(14 995)
Consulting, legal, audit services	(16 332)	(9 418)
Maintenance services	(4 641)	(9 212)
Depreciation of fixed assets	(5 164)	(5 384)
Depreciation of intangible assets	(1 846)	(688)
Business trips expenses	(2 676)	(4 121)
Information services	(275)	(486)
Other	(35 485)	(18 942)
Total general and administrative expenses	**(714 740)**	**(410 043)**

23. Other operating income / (expenses)

	September 30, 2008 '000 RR	September 30, 2007 '000 RR
Income/(expenses) from sale of financial assets	67 110	32 696
Compensation of other operations costs	41 854	(43 401)
Income / (expenses) from sales and other disposals of assets	12 850	(285)
Income from participation in other organizations	534	737
Income / (expenses) from accounts payable / receivable write-off	28	2 657
Inventory impairment reserve	1 451	(6 116)
Current legislation cases reserve	121	1 571
Bad debt reserve	(16 220)	18 425
Reserve for financial investments impairment	(380)	-
Reserves for long-service bonus	-	(3 228)
Expenses on social objects maintenance	(3 230)	(8 384)
Fees, fines, forfeits receivable	5 729	3 226
Fees, fines, forfeits payable	(4 234)	(14 924)
Warranties	(42 162)	(18 925)
Bank commissions	(32 631)	(36 931)
Social expenses	(22 484)	(15 906)
Impairment of fixed assets	(15 462)	(11 003)
SPA settlements after commissioning of the house by State commission	(7 396)	63 576
Charity	(6 894)	(6 968)
Losses of the previous years	(4 210)	(4 904)
Other income / (expenses)	(5 134)	(12 821)
Total other operating income / (expenses)	**(30 760)**	**(60 908)**

24. Net financial expenses

	September 30, 2008 '000 RR	September 30, 2007 '000 RR
Interest expense	(421 922)	(77 187)
Interest income	56 662	88 185
Foreign exchange gain/(loss)	(184 285)	103 349
Income/(expense) from change of fair value of long-term borrowings and loans	85 690	(134 413)
Interest from financial leasing	7 154	-
Total net financial expenses	**(456 701)**	**(20 066)**

25. Income tax expense

	September 30, 2008 '000 RR	September 30, 2007 '000 RR
Current tax expense	(232 581)	(453 467)
Deferred assets/(liabilities) relating to the origination and reversal of temporary differences	(290 080)	14 904
Total income tax expense	**(522 661)**	**(438 563)**

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

26. Related-party transactions

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

(a)

	September 30, 2008 '000 RR	September 30, 2007 '000 RR
Key management personnel	67 141	14 233

As at September 30, 2008 the Group had the following balances on operations with related parties:

(b)

	September 30, 2008 '000 RR	September 30, 2007 '000 RR
Long-term loans given	64 745	42 296
Short-term accounts receivable for principal activities	154 335	612 916
Short-term other accounts receivable-PN received	193 151	4 800
Short-term other accounts receivable - other	14 820	374 314
Short-term accounts receivable advances given for principal activities	560 186	28 995
Long-term accounts receivable advances given for principal activities	18 645	-
Short-term accounts receivable – sale of shares	-	6 662
Other accounts payable	16 796	79 046
Trade accounts payable	1 106 353	638 238
Accounts payable – advances received	21 190	-

As at September 30, 2008 Group provided the following operations with related parties

	September 30, 2008 '000 RR	September 30, 2007 '000 RR
Revenues	672 574	473 483
Cost of sales	238 737	368 051
Other income	12 081	188 832
Other expenses	8 387	5 203

27. 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 September 30, 2008 there were guarantees of liabilities issued by the entities related to the Group of companies "LenSpetsSMU" in total amount of '000 RR 1 589 478.

28. Events subsequent to the balance sheet date

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