Group of companies «LenSpetsSMU»

Interim consolidated financial statements prepared under IFRS

for six months ended June 30, 2008

Contents

	Notes	As at June 30, 2008 '000 RR	As at December 31, 2007 '000 RR
Assets			
Non-current assets			
Fixed assets	4	2 513 888	2 200 446
Investment property	5	63 681	85 643
Intangible assets		4 368	3 594
Goodwill	2 b (i)	1 721 198	-
Investments in associated companies	2 b (ii)	32 923	27 100
Long-term financial assets	6	44 390	156 287
Accounts receivable (long-term)	7	713 700	199 617
Other long-term investments	6	613 248	-
Deferred tax assets	8	48 541	6 222
		5 755 937	**2 678 909**
Current assets			
Inventories	9	19 787 574	14 601 549
Financial assets (short-term)	10	2 202 140	623 113
Accounts receivable and advances (short-term)	11	3 965 488	3 050 561
Cash and cash equivalents	12	328 078	167 586
Other current assets	13	37 504	67 046
		26 320 784	**18 509 855**
Total assets		**32 076 721**	**21 188 764**
Equity			
Equity and reserves			
Share capital	14	1 237	1 237
Revaluation reserve		-	67 254
Retained earnings		2 710 521	1 714 554
		2 711 758	1 783 045
Minority interest		507 193	314 755
Total equity		**3 218 951**	**2 097 800**
Long-term liabilities			
Long-term borrowings	15	4 369 152	4 167 308
Advances received on principal activity (long-term)	16	542 209	161 303
Deferred tax liabilities	8	320 081	163 385
		5 231 442	**4 491 996**
Short-term liabilities			
Short-term borrowings	15	976 280	2 487 495
Advances received on principal activity (short-term)	16	19 251 931	10 163 240
Accounts payable and other liabilities (short-term)	17	3 398 117	1 948 233
		23 626 328	**14 598 968**
		32 076 721	**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 7–26.

General Director — Scherbina G. Ph.

Chief Accountant — Ignatyeva L. M.

October 10, 2008

	Notes	June 30, 2008 '000 RR	June 30, 2007 '000 RR
Revenue	18	4 614 686	5 714 387
Cost of sales	19	(2 798 603)	(3 601 792)
Gross profit		**1 816 083**	**2 112 595**
Selling expenses	20	(195 996)	(131 276)
General and administrative expenses	21	(453 700)	(257 858)
Taxes, other than income tax		(29 489)	(10 465)
Other operating income/(expenses)	22	445 557	(82 181)
Operating profit		**1 582 455**	**1 630 815**
Share in the results of activity of associated companies		9 170	8 313
Net finance income/(expenses)	23	62 349	31 359
Profit before income tax, minority interest		**1 653 974**	**1 670 487**
Income tax	24	(452 474)	(411 489)
Profit before minority interest		**1 201 500**	**1 258 998**
Minority interest		(205 533)	(206 163)
Net profit		**995 967**	**1 052 835**
Basic and diluted earnings per share		**995,97**	**1 052,84**

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 7–26.

General Director — Scherbina G. Ph.

Chief Accountant — Ignatyeva L. M.

October 10, 2008

Закрытое акционерное общество Строительно-монтажное Объединение "ЛенСпецСМУ" (Специнжиниринг) * Санкт-Петербург *

	June 30, 2008 '000 RR	June 30, 2007 '000 RR
OPERATING ACTIVITIES		
Profit before tax, minority interest:	1 653 974	1 670 487
Adjustments to reconcile profit before taxes to cash provided by operating activities	(415 299)	(13 183)
Depreciation	*62 678*	*34 940*
(Profit)/loss from assets sold	*(459 422)*	*(24 973)*
Foreign exchange gain/(loss)	*(194 144)*	*1 907*
Interest expense	*280 529*	*38 189*
Interest income	*(40 250)*	*(79 394)*
Income from participation in other organizations	*(9 170)*	*(8 313)*
Bad debt provision	*20 103*	*3 038*
Other income and expenses	*(75 623)*	*21 423*
Operating profit before changes in working capital	**1 238 675**	**1 657 304**
(Increase)/decrease in trade accounts receivables and advances	(3 451 379)	(1 275 046)
(Increase) decrease in inventories	(5 183 782)	(971 343)
Increase/(decrease) in trade payables and advances received	10 342 616	(1 323 087)
Changes in other assets and liabilities	29 542	(103 442)
Cash generated from (used in) operations	**2 975 672**	**(2 015 614)**
Income taxes paid	(193 001)	(132 899)
Net cash from (used in) operating activities	**2 782 671**	**(2 148 513)**
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment and intangible assets	(394 652)	(1 024 990)
Proceeds from sales of property, plant and equipment and intangible assets	3 923	1 176
Acquisition/sale of securities and other financial assets	(561 397)	(48 153)
Acquisition / repayment of deposits	(375 195)	882 520
Loans given	(19 404)	(8 390)
Repayments of loans given	-	2 916
Interest received	40 616	79 803
Interest received	2 502	4 383
Net cash from (used in) investing activities	**(1 303 607)**	**(110 735)**
FINANCING ACTIVITIES		
Amounts borrowed	4 135 606	3 968 128
Repayment of amounts borrowed	(5 097 207)	(1 350 505)
Interest paid	(336 916)	(148 057)
Dividends paid	(6 070)	(185 863)
Net cash from (used in) financing activities	**(1 304 587)**	**2 283 703**
Influence of foreign exchange difference	**(13 985)**	**5 128**
Net increase/(decrease) in cash and cash equivalents	**160 492**	**29 583**
Cash and cash equivalents at the beginning of the period	**167 586**	**83 550**
Cash and cash equivalents at the end of the period	**328 078**	**113 133**

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 7–26.

General Director Scherbina G. Ph.

Chief Accountant Ignatyeva L. M.

October 10, 2008

	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**
Dividends	-	(196 000)	-	(196 000)	(41 561)	(237 561)
Net profit for the period	-	1 052 835	-	1 052 835	206 163	1 258 998
Balance at June 30, 2007.	**1 237**	**1 860 141**	**-**	**1 861 378**	**227 825**	**2 089 203**
Balance at December 31, 2007.	**1 237**	**1 714 554**	**67 254**	**1 783 045**	**314 755**	**2 097 800**
Fair value measurement of investments available-for-sale	-		(67 254)	(67 254)	-	(67 254)
Dividends	-	-	-	-	(13 095)	(13 095)
Net profit for the period	-	995 967	-	995 967	205 533	1 201 500
Balance at June 30, 2008.	**1 237**	**2 710 521**	**-**	**2 711 758**	**507 193**	**3 218 951**

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 7–26.

General Director Scherbina G. Ph.

Chief Accountant Ignatyeva L. M.

October 10, 2008

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 18.1% of the whole building market of Saint-Petersburg. For six months of 2008 the Group has constructed buildings of total area of 820 900 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 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".
CJSC "Zatonskoye".

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

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 June 30, 2008 1 790 employees on average worked for the Company.

Russian business environment

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

2. Basis of preparation

(a) General principles

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

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

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

(b) Basis of consolidation

(i) Subsidiaries

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

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

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

All Group companies apply common accounting principals.

The consolidated financial statements include the following companies:

	Share	Total, assets	Equity	Net profit (loss) of the accounting period
CJSC "SPb MFTC"	61%	3 445 353	635 597	114 877
OJSC "SMU "Electronstroy"	88%	117 915	63 312	24 399
CJSC "AKTIV"	100%	1 113 178	705 347	84 833
CJSC "CUN"	40%	4 135 534	426 438	263 022
CJSC "Zatonskoye"	49,22%	756 993	(8 123)	-
Amounts excluded at consolidation		(4 865 250)	(1 291 390)	(225 535)
TOTAL		**4 703 723**	**531 181**	**261 596**

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.

The share of LenSpetsSMU in the authorized capital of the company CJSC "Zatonskoye" constitutes 49,22%, but the characteristics of relations between CJSC SSMO "LenSpetsSMU" and CJSC "Zatonskoye" allow considering strong control and, as a consequence, to include CJSC "Zatonskoye" 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

	Share	December 31, 2007 '000 RR Investments in associated companies	Investments adjustment	Share of net profit	Disposal of associated company	Dividends received	June 30, 2008 '000 RR Investments in associated companies
CJSC "LenSpetsSMU-Reconstruction"	25%	6 052	-	166	-	(2 750)	3 468
CJSC "Building materials factory "Etalon"	25%	19 481	-	8 675	-	-	28 156
LLC "ORGTECHREMSTROY"	20%	902	-	397	-	-	1 299
CJSC "LSO"	20%	665	-	(68)	(597)	-	-
TOTAL		**27 100**	-	**9 170**	**(597)**	**(2 750)**	**32 923**

(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.

The bargains make in roubles, when assets and obligation are expressed in foreign exchanges (or standard units), are reflected in the Company financial reporting the same as the bargains expressed in foreign exchanges.

As at June 30, 2007 the official exchange rate was USD 25,8162. As at December 31, 2007 the official exchange rate was USD 24,5462. As at June 30, 2008 the official exchange rate was USD 23,4573.

4. 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
Additions	17 089	308 776	102 786	7 214	7 169	10 044	453 078
Disposals	-	(2 506)	(34 979)	(2 133)	(5 129)	(29 963)	(74 710)
Impairment	(374)	(4 124)	(2 463)	(1 919)	(2 078)	-	(10 958)
At June 30, 2008	**1 403 066**	**811 771**	**554 142**	**40 121**	**35 538**	-	**2 844 638**
Depreciation							
At December 31, 2007	-	(69 878)	(168 957)	(15 236)	(22 711)	-	(276 782)
Depreciation charge for the period		(31 342)	(56 300)	(4 315)	(3 371)	-	(95 328)
Depreciation on disposals	-	3 592	27 933	1 922	5 023	-	38 470
Depreciation on impairment	-	741	770	638	741	-	2 890
At June 30, 2008		**(96 887)**	**(196 554)**	**(16 991)**	**(20 318)**	-	**(330 750)**
Net book value							
At December 31, 2007	**1 386 351**	**439 747**	**319 841**	**21 743**	**12 865**	**19 919**	**2 200 446**
At June 30, 2008	**1 403 066**	**714 884**	**357 588**	**23 130**	**15 220**	-	**2 513 888**

'000 RR	Land	Buildings and facilities	Machinery and equipment	Vehicles	Other FA	Construction in progress	Total
Cost							
At December 31, 2006	459 711	387 544	285 742	30 066	40 333	1	1 203 397
Additions	255 430	183 008	122 572	3 270	1 375	38 346	604 001
Disposals	(21 505)	(3 144)	(66 546)	(1 807)	(1 070)	(1)	(94 073)
Impairment	(374)	(3 800)	(1 274)	(1 017)	(762)	-	(7 227)
At June 30, 2007	**693 262**	**563 608**	**340 494**	**30 512**	**39 876**	**38 346**	**1 706 098**
Depreciation							
At December 31, 2006	-	(31 298)	(164 227)	(9 844)	(10 349)	-	(215 718)
Depreciation charge for the period	-	(19 711)	(37 025)	(3 723)	(1 534)	-	(61 993)
Depreciation on disposals	-	2 804	61 862	772	457	-	65 895
Depreciation on impairment	-	523	456	293	429	-	1 701
At June 30, 2007	-	**(47 682)**	**(138 934)**	(12 502)	**(10 997)**	-	**(210 115)**
Net book value							
At December 31, 2006	**459 711**	**356 246**	**121 515**	**20 222**	**29 984**	**1**	**987 679**
At June 30, 2007	**693 262**	**515 926**	**201 560**	**18 010**	**28 879**	**38 346**	**1 495 983**

5. Investment property

'000 RR	Land	Buildings and facilities	Machinery and equipment	Vehicles	Other FA	Construction in progress	Total
Cost	-	92 310	-	-	-	-	92 310
At December 31, 2007	-	-	-	-	-	-	-
Additions	-	(24 306)	-	-	-	-	(24 306)
Disposals							
At June 30, 2008	-	**68 004**	-	-	-	-	**68 004**
Depreciation							
At December 31, 2007	-	(6 667)	-	-	-	-	(6 667)
Depreciation charge for the period	-	(1 156)	-	-	-	-	(1 156)
Depreciation on disposals	-	3 500	-	-	-	-	3 500
At June 30, 2008	-	**(4 323)**	-	-	-	-	**(4 323)**
Net book value							
At December 31, 2007	-	**85 643**	-	-	-	-	**85 643**
At June 30, 2008	-	**63 681**	-	-	-	-	**63 681**

Cost							
At December 31, 2006	-	-	-	-	-	-	-
Additions	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-
At June 30, 2007	-	-	-	-	-	-	-
Depreciation							
At December 31, 2006	-	-	-	-	-	-	-
Depreciation charge for the period	-	-	-	-	-	-	-
Depreciation on disposals	-	-	-	-	-	-	-
At June 30, 2007	-	-	-	-	-	-	-
Net book value							
At December 31, 2006	-	-	-	-	-	-	-
At June 30, 2007	-	-	-	-	-	-	-

6. Long-term financial assets

	June 30, 2008 '000 RR	December 31, 2007 '000 RR
Loans given	34 765	45 629
Long-term investments in other companies	9 625	658
Investments available-for-sale	-	110 000
	44 390	156 287
Other long-term investments	613 248	-
Total Long-term financial assets	**657 638**	**156 287**

Loans given to legal entities are denominated in Russian rubles and are stated at amortized cost. The effective interest rate was 11,5% as at December 31, 2007 and 12,8% as at June 30, 2008.

Other long-term investments of total amount of RR'000 613 248 are represented by bill of exchange which CJSC "Zatonskoye" was given by a 3-d party.

7. Long-term accounts receivable and advances

	June 30, 2008 '000 RR	December 31, 2007 '000 RR
Trade accounts receivable	137 326	171 094
Advances to suppliers for the principal activities	576 374	28 523
Total long-term accounts receivable and advances	**713 700**	**199 617**

8. 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:

	June 30, 2008 '000 RR
Deferred tax asset at the beginning of the period	6 222
Deferred tax liability at the beginning of the period	(163 385)
Net deferred tax at the beginning of the period	(157 163)
Tax included in the Statement of Income (note 24)	(135 616)
Tax charged to equity	21 239
Net deferred tax at the end of the period	(271 540)
including:	
Deferred tax asset	**48 541**
Deferred tax liability	**(320 081)**

9. Inventories

	June 30, 2008 '000 RR	December 31, 2007 '000 RR
Construction in progress of apartment building objects	13 379 516	9 905 177
Construction in progress of garage building objects	1 252 951	981 078
Total construction in progress	**14 632 467**	**10 886 255**
Own apartments	4 636 331	3 220 750
Built-in premises (non-residential)	404 546	393 829
Secondary market apartments	22 518	8 393
Concrete and reinforced concrete items	10 015	7 495
Food products	249	119
Other	3 427	3 474
Total Finished products and goods for re-sale	**5 077 086**	**3 634 060**
Metal-roll (armature, angle bars, metal bars, etc.)	2 598	998
Materials for inside furnishing	3 222	5 969
Wood Boards, Low density wood boards	2	267
Special clothing	478	476
Fence slabs	234	-
Instruments	412	503
Inventories and utilities	2 368	8 272
Cement	1 989	1 751
Sand	32	79
Concrete and reinforced concrete items	1 110	623
Auxiliary materials for the basic production	12 592	55 854
Reserve for impairment of materials	(6 550)	(8 473)
Fuel	1 225	775
Tare and tare materials	2	1
Spare parts	414	1 390
Construction materials	56 102	10 887
Other inventories	1 791	1 862
Total raw materials	**78 021**	**81 234**
Total inventories	**19 787 574**	**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 14 632 467 thousand roubles have following structure:

'000 RR	June 30, 2008 '000 RR			December 31, 2007 '000 RR		
	Housing construction objects	Garage building objects	Total:	Housing construction objects	Garage building objects	Total:
Morskoy Fasad, Morskoy Kaskad	18 780	-	18 780	21 739	-	21 739
Zhivoy Rodnik (1, 2, 3 turn, infrastructure objects)	-	-	-	1 385	-	1 385
Grazhdanka-CITY	210 539	-	210 539	105 836	-	105 836
V. O. Birzhevaya linia, 12	15 498	-	15 498	25 160	-	25 160
House in Serebrystiy	1 574	-	1 574	1 978	-	1 978
House in Ozerki	-	-	-	335	-	335
Zhivoy Ruchey	1 125 568	-	1 125 568	573 671	-	573 671
Zolotaya Gavan	1 189 231	108 064	1 297 295	1 300 403	114 562	1 414 965
Olminskogo Str.	-	-	-	802	-	802
House in Avangardnaya Str.	-	-	-	3 145	-	3 145
Zh.K. Polezhaevskiy	630 336	122 738	753 074	369 041	110 621	479 662
House in Rudneva Str	51 670	-	51 670	310 658	-	310 658
Housing Complex "Yuzhniy"	3 540 699	187 632	3 728 331	1 780 927	125 093	1 906 020
House in Bryanceva str	48 560	-	48 560	41 237	-	41 237
Novoye Sozvezdiye	1 566 529	209 277	1 775 806	1 900 789	165 249	2 066 038
Novaya Grazhdanka	-	-	-	637	-	637
Yubileinyi Kvartal	3 270 562	624 973	3 895 535	1 181 317	368 748	1 550 065
Petrogradskij Etalon	95 879	-	95 879	673 323	96 575	769 898
Smolenka	245 569	-	245 569	100 207	-	100 207
House of the stock-exchange	814 808	45	814 853	-	-	-
Infrastructure objects	308 740	-	308 740	591 309	-	591 309
Other	244 974	222	245 196	921 278	230	921 508
Total	**13 379 516**	**1 252 951**	**14 632 467**	**9 905 177**	**981 078**	**10 886 255**

Object comparison shows that the largest non-completed objects for 6 months period of 2008 had become Housing Complex "Yuzhniy" and "Yubileinyi Kvartal".

10. Financial assets

	June 30, 2008 '000 RR	December 31, 2007 '000 RR
Deposits	882 000	506 805
Available-for-sale financial assets	1 271 039	106 215
Loans given to legal entities	49 101	10 093
Total financial assets	**2 202 140**	**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 was 9,45% as at June 30, 2008.

11. Accounts receivable and advances

	June 30, 2008 '000 RR	December 31, 2007 '000 RR
Trade accounts receivable	671 801	161 489
Accounts receivable accompanied by promissory notes	271 574	392 153
Advances to suppliers for the principal activities	2 536 733	2 010 682
Other advances given	3 400	-
VAT recoverable	277 969	167 395
Other taxes recoverable	67 862	171 473
Other receivables	224 431	216 804
Finance lease receivables	1 561	-
Bad debt provision	(89 843)	(69 435)
Total accounts receivable and advances	**3 965 488**	**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 "Saint-Petersburg electricity networks", CJSC «TGK-1», "TEK Spb", «Boiler-house Zolotaya Gavan» LLC - settlements for electricity, advances for technical opportunity providing of connection to electrical networks, and also for cable system of energy supply construction; CJSC "Promenergokomplekt", LLC "Glawpartner", LLC "Energo-Alians», LLC "Energokomplekt" - settlements for raw materials and equipment.

12. Cash and cash equivalents

	June 30, 2008 '000 RR	December 31, 2007 '000 RR
Cash in hand	3 524	2 793
Cash in bank — RR accounts	255 050	108 441
Cash in bank — FCY accounts	11 749	651
Other cash and cash equivalents	57 755	55 701
Total cash and cash equivalents	**328 078**	**167 586**

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:

	June 30, 2008 '000 RR	December 31, 2007 '000 RR
Advertising	22 421	42 618
Other	15 083	24 428
Total other current assets	**37 504**	**67 046**

14. Share capital

As at June 30, 2008 share capital of the Company consisted of 1 000 shares of nominal value of 200 rubles per share.

The shareholders of the Company as at As at June 30, 2008 are listed below:

'000 RR

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

In the 6 months period 2008 the dividends were not declared and paid by parent company on the results of the year 2007.

15. Borrowings

	June 30, 2008 '000 RR	December 31, 2007 '000 RR
Long-term borrowings		
Bank borrowings (principal amount)	2 844 783	2 618 334
Corporate borrowings (principal amount)	1 524 369	1 548 974
	4 369 152	**4 167 308**
Short-term borrowings		
Bank borrowings (principal amount)	856 014	1 744 419
Bank borrowings (interest accrued)	48 776	48 569
Corporate borrowings (principal amount)	-	609 085
Corporate borrowings (interest accrued)	71 490	85 422
	976 280	**2 487 495**
	5 345 432	**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 2 345 730 at historical cost (long-term amortized cost RR'000 2 327 961), a bank loan obtained from Amsterdam Trade Bank amounting to RR'000 143 746 at historical cost (long-term amortized cost RR'000 88 385), Loans are transferred by OJSC "Alfa-Bank". And a bank loan obtained from "Severnaya stolitsa" branch of ZAO Raiffeisenbank amounting to RR'000 469 146 at historical cost (long-term amortized cost RR'000 428 437).

Short-term bank loans comprise a bank loan from Amsterdam Trade Bank in amount of RR'000 105 380, a bank loan from "Rosbank" in amount of RR'000 703 719, a bank loan from "Alfa-Bank" in amount of RR'000 46 915.

(a) Bank borrowings

	June 30, 2008 '000 RR
Balance at the beginning of the period (principal amount), transient	**4 322 218**
Received (principal amount)	4 179 169
-including foreign exchange difference	43 563
Repaid (principal amount)	(4 737 427)
- including foreign exchange difference	(249 305)
Balance at the end of the period (principal amount)	**3 763 960**
Balance at the beginning of the period (interest)	**48 569**
Charging of an expense (interest)	234 298
Interest paid	(234 091)
- including foreign exchange difference	(2 552)
Balance at the end of the period (interest)	**48 776**
Balance at the end of the period (principal amount) in the following currencies	**3 763 960**
- Russian rubles borrowings	-
- US dollars borrowings	3 763 960
Total, borrowings (principal amount) at the end of period at cost	**3 763 960**
Payables within 12 months after the balance sheet date (principal amount) at the end of the period	856 014
Payables within 2 years after the balance sheet date (principal amount) at the end of the period	21 221
Payables within 3 years after the balance sheet date (principal amount) at the end of the period	526 663
Payables within 4 years after the balance sheet date (principal amount) at the end of the period	14 332
Payables within 5 years after the balance sheet date (principal amount) at the end of the period	2 345 730
Total, borrowings (interest) at the end of the period	**48 776**
Payables within 12 months after the balance sheet date (interest) at the end of the period	48 776
Total, payables (principal amount) at the end of the period at the amortized (balance) cost	**3 812 736**
Total, payables (balance and interest) at the end of the period at the amortized cost	**3 749 573**
Including interest	48 776

Corporate borrowings comprise 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 1 571 490 at historical cost (long-term amortized cost RR'000 1 524 369).

(b) Corporate borrowings

	June 30, 2008 '000 RR	investment borrowings '000 RR
Balance at the beginning of the period (principal amount)	2 109 085	2 109 085
Received (principal amount)	-	-
Repaid (principal amount)	(609 085)	(609 085)
Balance at the end of the period (principal amount)	1 500 000	1 500 000
Balance at the beginning of the period (interest), transient	85 422	85 422
Balance at the beginning of the period (interest)	85 422	85 422
Charged to expenses (interest)	46 233	46 233
Capitalized (interest)	45 380	45 380
Paid up (interest)	(105 545)	(105 545)
Balance at the end of the period (interest)	71 490	71 490
Balance at the end of the period (principal amount) in the following currencies	1 500 000	1 500 000
Russian rubles borrowings	1 500 000	1 500 000
US dollars borrowings	-	-
Total, balance at the end of the period (principal amount and interest) at initial cost	**1 571 490**	**1 571 490**
Payables within 12 months after the balance sheet date (principal amount) at the end of the period	-	-
Payables within 12 months after the balance sheet date (interest) at the end of the period	71 490	71 490
Payables within 2 years after the balance sheet date at the end of the period	-	-
Payables within 3 years after the balance sheet date at the end of the period	1 500 000	1 500 000
Total, payables (principal amount and interest) at the end of the period at the amortized (balance) cost	**1 595 859**	**1 595 859**
Including interest	71 490	71 490

16. 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.

17. Accounts payable and other liabilities

	June 30, 2008 '000 RR	December 31, 2007 '000 RR
Accounts payable — trade	1 434 534	991 336
Salary payable	22 055	33 357
Taxes payable	98 204	63 489
Accrued reserves	913 078	561 148
Other payables	930 246	298 903
Total accounts payable and other liabilities	**3 398 117**	**1 948 233**

Accrued reserves in amount '000 RR 913 078 are represented by reserves for carried over works.

Short – term trade accounts payable in amount of '000 RR 1 434 534 include settlements with suppliers for raw materials, inventories and construction services.

18. Revenues

	June 30, 2008 '000 RR	June 30, 2007 '000 RR
Commissioning of construction objects	794 552	2 542 224
Own flats	2 941 135	2 349 054
Built-in premises	254 185	155 443
Flats of the secondary market	-	10 413
Building and assembly works	106 879	335 236
Rent	169 222	113 973
Agent services	22 667	51 159
Concrete production	110 855	79 526
Auto services sales	13 508	4 015
Other products, goods, materials	2 002	6 759
Sales of other works and services	27 740	8 777
Machinery services sales	46 618	-
Ferroconcrete production	125 323	57 808
Total revenues	**4 614 686**	**5 714 387**

19. Cost of sales

	June 30, 2008 '000 RR	June 30, 2007 '000 RR
Commissioning of objects of building	888 808	1 825 078
Own flats	1 268 802	1 124 513
Built-in premises	171 669	92 039
Flats of the secondary market	-	3 789
Building and assembly works	83 276	322 144
Other products, goods, materials	220 035	107 190
Salary and other personnel expenses	66 253	60 314
Depreciation	58 330	32 489
Maintenance expenses	2 203	7 859
Repair and maintenance	6 612	6 637
Other	32 615	19 740
Total cost of sales	**2 798 603**	**3 601 792**

20. Selling expenses

	June 30, 2008 '000 RR	June 30, 2007 '000 RR
Advertisement and marketing	106 586	107 907
Agent services	87 961	23 185
Other	1 449	184
Total selling expenses	**195 996**	**131 276**

21. General and administrative expenses

	June 30, 2008 '000 RR	June 30, 2007 '000 RR
Wages and other payments to personnel	278 495	133 068
Maintenance expenses	3 815	14 908
Depreciation	4 348	2 451
Informational services (subscription, satellite TV and other)	356	352
Management services	118 068	71 512
Other	48 618	35 567
Total general and administrative expenses	**453 700**	**257 858**

22. Other operating income / (expenses)

	June 30, 2008 '000 RR	June 30, 2007 '000 RR
Income/(expenses) from sale of financial assets	25 501	26 750
Reserves for long-service bonus	-	(606)
Bad debt reserve	(20 103)	(3 038)
Inventory impairment reserve	1 923	(2 133)
Current legislation cases reserve	121	1 571
Income from participation in other organizations	-	-
Services of social nature	(3 519)	(2 097)
Expenses for social field support	(1 188)	(6 040)
Fees, fines, forfeits receivable	2 618	1 212
Fees, fines, forfeits payable	(3 619)	(13 596)
Income / (expenses) from sales and other disposals of assets	(58 624)	(1 071)
Income / (expenses) from accounts payable / receivable write-off	28	2 578
Bank commissions	(23 883)	(16 670)
SPA settlements after commissioning of the house by State commission	70 994	8 227
Impairment of fixed assets	(17 143)	(9 855)
Social expenses	(11 790)	(12 510)
Losses of the previous years	(3 608)	(2 855)
Warranty	(35 718)	(11 498)
Compensation of other operations costs	40 968	327
Long-term investment expenses	488 491	-
Other income / (expenses)	(5 892)	(40 877)
Total Other operating income / (expenses)	**445 557**	**(82 181)**

23. Net financial income

	June 30, 2008 '000 RR	June 30, 2007 '000 RR
Interest expense	(280 529)	(38 189)
Interest income	40 250	79 394
Foreign exchange gain/(loss)	194 144	(9 252)
Income/(expense) from change of fair value of long-term borrowings and loans	105 229	(594)
Financial lease income	3 255	-
Total net financial income	**62 349**	**31 359**

24. Income tax expense

	June 30, 2008 '000 RR	June 30, 2007 '000 RR
Current tax expense	316 858	260 726
Deferred assets/(liabilities) relating to the origination and reversal of temporary differences	135 616	150 763
Total income tax expense	**452 474**	**411 489**

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%.

25. Related-party transactions

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

(a)

	June 30, 2008 '000 RR	June 30, 2007 '000 RR
Key management personnel	41 029	9 812

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

(b)

	June 30, 2008 '000 RR	June 30, 2007 '000 RR
Long-term loans given	64 745	42 296
Short-term loans given	1 080	-
Short-term accounts receivable for principal activities	118 935	612 916
Short-term other accounts receivable-PN received	264 058	4 800
Short-term other accounts receivable - other	276 968	374 314
Short-term accounts receivable advances given for principal activities	405 033	28 995
Short-term accounts receivable – sale of shares	-	6 662
Accounts payable — advances received	7 859	-
Other accounts payable	42 915	79 046
Trade accounts payable	957 919	638 238

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

	June 30, 2008 '000 RR	June 30, 2007 '000 RR
Revenues	336 268	277 685
Cost of sales	(272 830)	(242 948)
Other income	106 276	5 576
Other expenses	(3 913)	(999)

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

26. 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 June 30, 2008 there were guarantees of liabilities issued by the entities related to the Group of companies "LenSpetsSMU" in total amount of '000 RR 1 584 874 .

27. Events subsequent to the balance sheet date

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