

STANDARD & POOR'S

Russia-Based Construction Company CJSC SSMO LenSpecSMU Assigned 'B' Ratings; Outlook Stable

S&P Rates Construction Co CJSC SSMO LenSpecSMU 'B'; Otlk Stbl

Contacts

Primary Credit Analyst: Lorenzo Sliusarev
Secondary Credit Analyst: Izabela Listowska
Additional Contact:
GroupE-MailAddress@standardandpoors.com

MOSCOW (Standard & Poor's) Dec. 22, 2006--Standard & Poor's Ratings Services said today it assigned its 'B' long-term and 'B' short-term corporate credit ratings to CJSC SSMO LenSpecSMU (LSS), a leading St. Petersburg-based Russian construction and development company. The outlook is stable.

At the same time, Standard & Poor's assigned its 'ruA-' Russia national scale rating to the company. The senior unsecured Russian ruble bonds previously issued by guaranteed subsidiary CJSC CUN LenSpecSMU were rated 'ruA-' on the Russia national scale.

The ratings are constrained by LSS' aggressive growth appetite; the evolving and fairly complex regulatory environment in which it operates; the lack of administrative transparency and predictability in Russia; and the company's limited market diversification and size. A further constraining factor is the cyclical nature of the construction and development industry, which is exposed to fluctuating economic dynamics and uncertainty regarding Russia's evolving political, legal, and business climate.

These risks are moderated by robust industry growth in Russia combined with LSS' vertically integrated, competitive business model; sizable market position; established operating track record; and management's effectiveness in controlling costs and maintaining effective administrative relationships.

A moderate debt burden and adequate liquidity also benefit the credit profile.

"Standard & Poor's expects that LSS' competitive, vertically integrated business should continue to sustain credit quality in the medium term," said Standard & Poor's credit analyst Lorenzo Sliusarev.

We expect the business risk profile to remain supported by sound market fundamentals and industry demand, combined with management's proven operating track record and demonstrated commitment to a manageable financial policy and cost control.

"Rating upside would require further strengthening of the company's business profile through the careful expansion and diversification of its operations, with persisting commitment to weighted financial policy," Mr. Sliusarev added. "This would need to be combined with favorable industry dynamics and the positive evolution of the regulatory and administrative climate."

Conversely, the ratings could come under pressure as a result of materially increased business risk due to aggressive expansion into new, untested markets or adverse regulatory changes; increased administrative uncertainty; or the pronounced deterioration of the company's operating performance combined with a material increase in financial risk.