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Research Update:

CJSC SSMO LenSpecSMU Outlook Revised To Positive; Russia National Scale Rating Lifted To 'ruA'

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Rationale

On Dec. 12, 2007, Standard & Poor's Ratings Services revised its outlook on Russia-based construction and development group CJSC SSMO LenSpecSMU (LSS) to positive from stable. The 'B' long-term and 'B' short-term corporate credit ratings were affirmed. At the same time we raised the Russia national scale rating on LSS to 'ruA' from 'ruA-.

The national scale rating upgrade reflects the group's improved operating performance, which helped sustain solid financial metrics, despite higher financial leverage, and management's commitment to sustain these metrics over the medium term, which could lead to a future upgrade of the global scale rating. Dynamic trading activity in the St. Petersburg real-estate market, which supported strong price appreciation for residential units, together with management's increasingly focused approach to managing risks and expanding economies of scale, has helped the company improve its operating performance. As a result, the EBITDA margin is expected to be 25%-30% for the full year 2007, from 10% in 2006. We believe LSS's solid pipeline of projects, still healthy demand, and less rapid price appreciation than in 2006 should sustain operating performance in the near to medium term.

Fueled by favorable economic and market dynamics in Russia, the company has pursued an aggressive growth strategy with increased capital requirements. As a result, total debt increased to Russian ruble (RUB) 6.5 billion at Nov. 1, 2007, from RUB2.6 billion at Dec. 31, 2006. This, however, has been offset by solid growth in current and likely future revenue and EBITDA. Total debt to EBITDA and asset coverage (total assets to total debt) are both expected to be about 3.0x in the full year 2007 compared with 3.5x and 5.3x, respectively, in 2006.

The ratings are constrained by the company's ambitious expansion plans; the industry's cyclical nature, with heightened sensitivity to economic dynamics and uncertainty associated with Russia's evolving political and business climate; and the country's lack of administrative transparency and predictability. Other negative rating factors are: the group's dependence on property development in a single region of Russia; the property development industry's risky profile, including high competition, volume, and price cyclicality; property investors' penchant for speculation; and heavy working-capital needs.

These risks are moderated by the group's leading market position in its core market of North-western Russia, combined with an established track record and brand recognition. LSS' control of all steps of a project's evolution allows it to manage quality and cost effectively. Furthermore, management is committed to prudent development, marketing, and financial risk policies, including careful liquidity management. The company is also able to effectively address key administrative and legal risks.

Liquidity
The company's current liquidity is adequate. At Nov. 1, 2007, LSS had RUB7.6 billion availability of untapped credit facilities, of which RUB4.7 billion were short term. LSS's proposed second credit linked notes (CLN) issue of minimum $100 million, if placed, would be used to repay short-term debt maturities of RUB1.7 billion. Should the placement be unsuccessful, short-term debt maturities could be well covered by existing undrawn credit facilities. Although the company's near-term investment requirements should not require material usage of debt, financial flexibility relies on external funding from customer advances.

Outlook

The positive outlook reflects that the ratings could potentially be raised one notch if LSS can maintain its prudent financial policy of keeping debt to EBITDA at or below 3.5x, while successfully managing its work in process-to-cash conversion cycle in the context of rapid growth. Conversely, the company's outlook or ratings could come under pressure as a result of unexpected deterioration of the company's operating profitability, market or overly aggressive expansion into new markets or businesses, or adverse changes in the evolving regulatory and administrative environment, which is yet to mature.

Ratings List

	To	From
Corporate credit rating		
	B/Positive/B	B/Stable/B
Russia national scale rating		
	ruA	ruA-

NB. This list does not include all ratings affected.

Additional Contact:
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Ratings information is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com. It can also be found on Standard & Poor's public Web site at www.standardandpoors.com; select your preferred country or region, then Ratings in the left navigation bar, followed by Credit Ratings Search. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office Hotline (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225;

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