STANDARD
&POOR'S

Global Credit Portal
RatingsDirect®

June 11, 2010

Summary:

CJSC SSMO LenSpecSMU

Primary Credit Analyst:
Andrey Nikolaev, CFA, Moscow (7) 495-783-4131; andrey_nikolaev@standardandpoors.com

Secondary Credit Analyst:
Izabela Listowska, Frankfurt (49) 69-33-999-127; izabela_listowska@standardandpoors.com

Table Of Contents

Rationale

Outlook

Summary:

CJSC SSMO LenSpecSMU

Credit Rating: B/Stable/B

Rationale

The ratings on Russia-based property developer CJSC SSMO LenSpecSMU (LSS) reflect Standard & Poor's Ratings Services' view of the company's business risk profile as "weak" and its financial risk profile as "aggressive". LSS' business risk profile is constrained by the inherent volatility of the property development industry; still weak, albeit gradually improving, demand for residential property in the Russian Federation (foreign currency BBB/Stable/A-3; local currency BBB+/Stable/A-2); the country's lack of administrative transparency and predictability, in our view; and LSS' dependence on property development in a single region of Russia. These risks are moderated, however, by LSS' leading and recently expanded position in its core market of St. Petersburg and the surrounding region, established track record of completing projects and effectively addressing key administrative and legal risks, and brand recognition. We also believe that LSS' control of all the stages of a project's evolution should allow it to manage quality and costs adequately.

LSS' financial risk profile is constrained by relatively high leverage, still less than adequate liquidity, and volatile cash flows. We also note the analytical complexity associated with the company's completed-contract method of accounting, which reduces the visibility of current operating trends. The financial risk profile is supported, however, by demonstrated proactive treasury management, cash and cash equivalents of about Russian ruble (RUB) 1.5 billion (about $50 million) as of May 31, 2010, that the company maintains to enhance financial flexibility, reduced foreign exchange exposure, and historically good access to Russia's loan and corporate bond market.

Key business and profitability developments

A downturn in local housing markets since late 2008 continues to hamper LSS' operations. We factor into the rating that housing demand and pricing in 2010 will remain substantially below the levels of 2007 and the first half of 2008, albeit potentially above the weak 2009 levels, owing to sluggish economic dynamics and low consumer confidence.

We anticipate that after the period of relatively low construction activity in the first quarter of 2010, explained we believe by seasonality, low market visibility, and limited funding, the company will likely increase its investments in construction during the remainder of 2010. We understand from management that cash inflows from customers are also picking up following a relatively weak first quarter. However, customer orders remain vulnerable to potential new economic shocks, in our view.

We estimate that LSS' profitability in 2010 will be below the record levels achieved before the downturn because of continuously weak housing prices, although this should be partly offset by lower building material prices and cost-cutting initiatives.

LSS' revenue for 2009 increased by 40% to RUB18.2 billion, and the operating margin reached 32.5% from 29.2% in 2008. We note, however, that LSS uses the completed-contract method of accounting, so the revenues and profits booked in 2009 largely relate to projects sold and partly constructed before the downturn, which reduces the

analytical relevance of these measures.

Key cash flow and capital-structure developments

Like many of its peers, LSS entered the housing downturn with a leveraged balance sheet, but was able to reduce its debt in 2009. As of Dec. 31, 2009, LSS' gross debt was RUB6 billion versus RUB2.2 billion of cash. We also note that the company also had about RUB 1.8 billion of guarantees, which it provided for its customers, in favor of banks. Since then, the gross debt figure has slightly decreased as the company used its cash balances for repayments. Because LSS' net debt has remained broadly flat, we believe its free operating cash flow (FOCF) for the first five months of 2010 was close to neutral as inflows from customers covered outflows for construction works, taxes, interest expenses, investments, and working capital outflows.

We believe that LSS' FOCF may turn negative and debt could increase if cash outflows to finance new construction are not matched with inflows from customers, which we believe is the key risk. The company, in our view, managed its activities quite prudently through 2009, however. We note also that following LSS' ruble bond placements in December 2009 and May 2010, the proportion of dollar-denominated debt decreased to about 30%, which decreases the company's exposure to foreign exchange risk.

Liquidity

In our view, LSS' liquidity has improved. We now consider it to be less than adequate, however. As of March 30, 2010, LSS' short-term debt of $80 million was offset by cash and cash equivalents of $41 million and available committed lines of $49 million. This position improved further after a RUB2 billion (about $65 million) bond placement in May. Nevertheless, in our opinion, the need to invest in new development projects as well as substantial refinancing requirements in the second quarter of 2011 and the first quarter of 2012 ($56 million) will likely strain LSS' liquidity. We believe an inflow of new customer deposits and advances remains an essential component to LSS' financial flexibility to finance its ongoing operations and, in part, debt maturities.

The restructuring of credit-linked note obligations in 2009 eliminated maintenance covenants and left the company subject only to incurrence financial covenants. We understand that there are currently no financial covenants in LSS' other bank and bond documentation.

Recovery analysis

The RUB2 billion (about $65 million) Series 1 and RUB2 billion Series 2 unsecured notes issued by LSS, are rated 'B', the same level as the corporate credit rating on LSS. The bonds also carry a Russia national scale rating of 'ruA'. The recovery rating is '4', indicating our expectation of average (30%-50%) recovery in the event of a payment default.

The $100 million ($8.1 million currently outstanding) credit-linked notes issued by Golden Ring Finance S.A. and guaranteed by LSS, are rated 'B', the same level as the corporate credit rating on LSS. The recovery rating is '4', indicating our expectation of average (30%-50%) recovery in the event of a payment default.

For further information see "CJSC SSMO LenSpecSMU's Recovery Rating Profile," published on Dec. 11, 2009, on RatingsDirect.

803744 | 300920734

Outlook

The stable outlook reflects our view that, despite the difficult prevailing operating conditions, LSS should be able to generate neutral or only moderately negative FOCF in 2010. Furthermore, we factor in our rating an assumption that LSS' management will stick to its financial discipline and what we see as its prudent approach to a new development schedule in light of weak demand, two factors that we consider essential for maintaining a credit profile commensurate with the current ratings.

Downward rating pressure could stem from LSS abandoning its cautious strategy toward debt management and new developments. We could also lower the rating if LSS' cash flows from customers do not recover in the second half of 2010 and 2011. Adverse developments in Russia's transitional regulatory and administrative environment could also trigger negative rating actions. Ratings upside is unlikely in the near term, given the dismal real estate market and uncertain outlook for recovery.

Additional Contact:
Industrial Ratings Europe; CorporateFinanceEurope@standardandpoors.com

Additional Contact:
Industrial Ratings Europe; CorporateFinanceEurope@standardandpoors.com

Copyright (c) 2010 by Standard & Poor's Financial Services LLC (S&P), a subsidiary of The McGraw-Hill Companies, Inc. All rights reserved.
No content (including ratings, credit-related analyses and data, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P. The Content shall not be used for any unlawful or unauthorized purposes. S&P, its affiliates, and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.
Credit-related analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P's opinions and analyses do not address the suitability of any security. S&P does not act as a fiduciary or an investment advisor. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.
S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.
S&P may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

The McGraw-Hill Companies