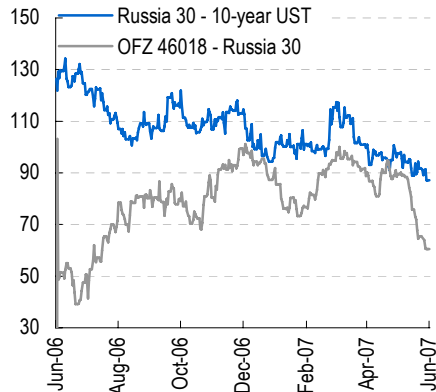
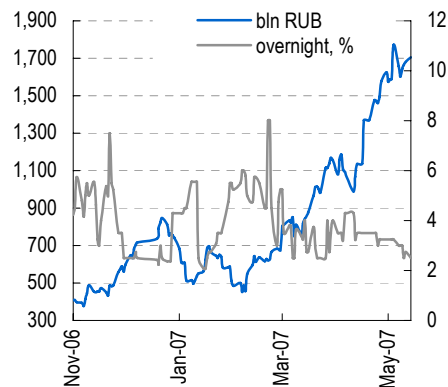


Monday, June 04, 2007

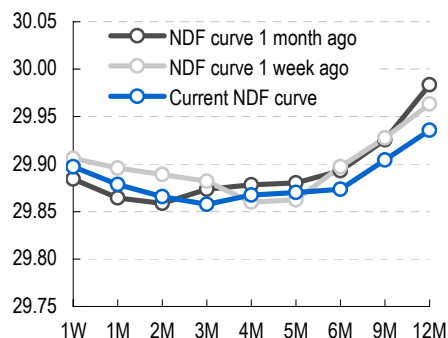
Russia 30-UST and OFZ-Russia 30 spreads, bp



Rouble liquidity available at banks, overnight



NDF on a basket of 0.55 USD+0.45 EUR (in RUR)



EVENT CALENDAR

4-Jun	New issue: RUB bonds Magadan-31002
5-Jun	New issue: RUB bonds Rubezh Plus-1
6-Jun	New issue: RUB bonds Konditer-Kursk-1
6-Jun	New issue: RUB bonds UTK-5
7-Jun	New issue: RUB bonds Maheev-1
7-Jun	New issue: RUB bonds Bank Spurt-2
7-Jun	New issue: RUB bonds TGK4-1
8-Jun	New issue: RUB bonds NPO Saturn-3

NEWS AND COMMENTS

■ **Brief: Nizhnekamskneftekhim (B1/NR/B+)** reported solid 2006 and 1Q 2007 financial results according to Russian Accounting Standards. Given the fact that the company doesn't have large subsidiaries, its unconsolidated RAS numbers give a good understanding of its financial profile. NKNK showed strong growth in top line (+13% in 2006 and +30% in 1Q 07, all y-o-y), and improvements in EBITDA margins (14% in 1Q 07 vs 11% in 2005). As we understand this has been achieved largely due to the launch of polypropylene production in the end of 2006 (capex program starts to pay off) as well as generally better pricing environment for NKNK's key products. The company's debt position has reduced, which resulted into a major improvement of "Debt/EBITDA annualized" ratio (from 3x in 2005 to 1.5x in 1Q07). A table with numbers can be seen on page 2 of this document. NKNK's 2006 IFRS report, which is due to be released within the next 2-3 weeks, will likely confirm the abovementioned trends. In our view, uncertainty with regard to the announced USD5bn long-term capex program (mainly new construction of additional capacity) represents the key risk now for NKNK from a credit perspective. The company told us that the program now is being developed in detail and the actual spending won't start earlier than in 2008. The USD1bn additional share issue which shareholders approved late last year, has been blocked by the regulator. We don't know whether NKNK will give it another try, but at least the company told us it understands that USD5bn capex program cannot be just debt-financed. We are neutral with regard to NKNCRU 15_10 (8.15%) issue at current levels. On a relative value basis we like more the KZOSRU 11 (8.80%) issue. Kazanorgsintez is part of the same TAIF group along with NKNK.

■ **Brief: ALROSA (Ba2/BB-)** reportedly has been proposed to buy a large stake in a gold-mining company Polus-Gold. The stake in question is valued at around USD4bn. The proposal is related to the asset split between the two principal shareholders of Interros Group. We think that a deal like that is unlikely. The federal government hasn't yet completed the federalization process with regard to ALROSA, which is aimed at increasing federal stake in the company to over 50% (currently 47.7%). Completion of this process will take at least 6-9 months from now as it involves a large set of time-consuming corporate actions. Before federalization is complete, we think that ALROSA will unlikely be involved in any major M&A as it may further delay the process. AT the same time, the deal cannot be completely ruled out. If it goes through, we will perhaps see soaring leverage at ALROSA. However, the ALROSA 14 spreads will be reluctant to widen by more than 15-20bp as the issue is trading based on a quasi-sovereign status of ALROSA and high level of state support.

MARKET COLOR

■ **Eurobonds:** Demand seen in TMENRU issues following successful placement of LUKOIL (Baa2/BBB-). A couple of new deals have been announced including a 3-year Eurobond from RenCap (bank, not brokerage) and a CLN from Technosila retailer. **Ruble bonds** flat and quiet.

KEY MARKET INDICATORS

	Close	Change		
		1 day	1 month	1 year
UST 10 Year Yield, %	4.95	+0.06	+0.31	+0.25
EMBI+ Spread, bp	149	-4	-13	-20
EMBI+ Russia Spread, bp	84	-3	-15	-12
Russia 30 Yield, %	5.83	+0.03	+0.21	+0.18
OFZ 46018 Yield, %	6.43	+0.02	-0.10	-0.09
Cash accounts at CBR, bln RUB	439.4	-12.1	-13.3	-226.7
Deposits at CBR, bln RUB	1266.3	+36.7	+582.8	+1151.6
Due from (to) CBR, bln RUB	53.2	-	-	-
MOSPRIME O/N RUB, %	3.22	-0.26	-	-
RUB/Bi-currency basket	29.91	0	0	+0.23
Crude oil (Brent), USD/barrel	69.1	+1.1	+3.8	+8.4
RTSI	1830	+50	-100	-80

NKNK's key financials					
Million RUB	2005 IFRS	2006 IFRS (our estimate)	2005 Russian accounts	2006 Russian accounts	1Q 2007 Russian accounts
Sales	45 703	49 676	42 062	47 527	14 243
EBITDA	5 066	6 099	4 505	6 041	1 993
Net income	925	2 309	2 151	3 324	1 237
Financial debt	15 734	10 192	15 069	12 987	11 795
Equity	21 031	23 356	22 141	25 141	26 377
Key ratios					
EBITDA margin (%)	11%	12%	11%	13%	14%
Net income margin (%)	2%	5%	5%	7%	9%
Debt/EBITDA (x)	3.1	1.7	3.3	2.1	1.5
Debt/Equity (x)	0.7	0.4	0.7	0.5	0.4

Source: company data, MDM estimates



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