SOVLINK

YOUR FIRST CALL – FOR THE SECOND TIER

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Norilsk Nickel

FLASH NOTE

Sound IFRS results expected

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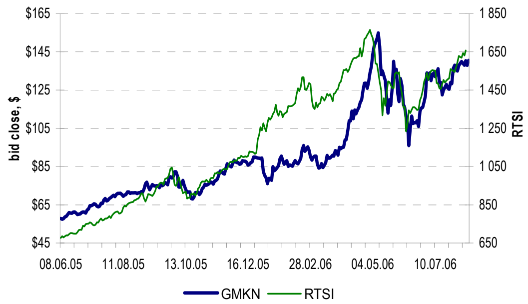
STOCK DATA			
Ticker	GMKN	MCap ($ mn)	27,152
Shares Ords	190,627,747	Free Float, %	20.2
Shares Pref	-	Free Float ($ mn)	5,485
Bid Ords ($)	140.4	Offer Ords ($)	142
Bid Prefs ($)	-	Offer Prefs ($)	-

MARKET PERFORMANCE		1 month	6 months
Absolute	Ords	10%	64%
	Prefs		
Relative to RTSI	Ords	-1%	37%
	Prefs		
Price range (US$)			
High	Ords	142	155
Low		122	84
High	Prefs		
Low			

PERFORMANCE 2005			
Revenue ($ mn)	7,170	P/S	3.78
EBITDA($ mn)	3,704	EV/EBITDA	7.86
Net Income ($ mn)	2,355	P/E	11.55

GMKN RELATIVE PERFOMANCE



Source: RTS, Sovlink Securities

Norilsk Nickel's 1H06 RSA results demonstrate the increasing effectiveness of the company's business, such as the simultaneous increase of sales and reduction of COGS. We consider that the announced 90% decrease in net profit should not be taken into consideration, as it suffered from an extraordinary item: expenses from a share buyback.

Norilsk Nickel 1H06 RSA results, $ mn

	1H06	1H05	% chg.
Revenues	3,572	3,059	16.8%
COGS	991	1,062	-6.7%
Gross profit	2,582	1,996	29.3%
Operating profit	2,394	1,795	33.3%

Source: Company data, Sovlink estimates

Norilsk Nickel 1H05 RSA results, $ mn

	1H05	1H04	% chg.
Sales	2,949	2,575	14.5%
COGS	1,024	1,116	-8.3%
Gross profit	1,925	1,447	33.0%
Operating profit	1,731	1,211	43.0%

Source: Company data, Sovlink estimations

We note that Norilsk Nickel achieved better first-half RSA financial results in 2006 than in 2005. The company not only increased sales but managed to reduce its production costs. The increase in gross and operating profit surpassed the increase in sales. As a result, the company demonstrates an increasing EBITDA margin and return on operating profit. At the same time, we observe that the sales increase and COGS reduction in last year's RSA results precluded an improvement in the company's IFRS results.

Norilsk Nickel 1H05 IFRS results, $ mn

	1H05	1H06	% chg.
Sales	3,442	3,286	4.7%
COGS	1,501	1,568	-4.3%
Gross profit	1,941	1,718	13.0%
Operating profit	1,437	1,193	20.5%

Source: Company data, Sovlink estimates

Given the previous divergences between Norilsk Nickel's RSA and IFRS results, as well as the company's demonstrated ability to increase its EBITDA and net margins (due to the reduction of production costs), we expect the company will have sound 1H06 IFRS results. We emphasize that the drop in RSA profit is explained by the share buyback, and note that the buyback price was $65 per share (less than half the current price). According to RSA, the buyback amount of $700 mn was charged to extraordinary items, but under IFRS, the company should reflect the difference between the market price and the buyback price. As Norilsk Nickel has only gained from this buyback, we would expect a strong increase in the company's net profit under IFRS.

STOCK RATING POLICY

STRONG BUY:	Target price offers upside of over 100%; confidence level – high
STRONG BUY (SPEC):	Target price offers upside of over 100%; confidence level – low
BUY:	Target price offers upside of between 25% and 100%; confidence level – high
BUY (SPEC):	Target price offers upside of between 25% and 100%; confidence level – low
HOLD:	Target price offers upside of less than 25%
SELL:	Target price at or below current price levels

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