



SOVLINK

YOUR FIRST CALL – FOR THE SECOND TIER

August 15, 2006

Norilsk Nickel

**FLASH
NOTE**

Sound IFRS results expected

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Norilsk Nickel 1H06 RSA results, \$ mn

| 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 (\$) | - |

| | 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

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

| | 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

Norilsk Nickel 1H05 IFRS results, \$ mn

| 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 |

| | 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

GMKN RELATIVE PERFORMANCE



Source: RTS, Sovlink Securities

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.

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.

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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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