

Rating Action: Moody's assigns Baa3 rating to Novatek's notes; stable outlook

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London, 12 December 2012 -- Moody Investors Service has today assigned a definitive rating to the \$1.0 billion worth of 4.422% loan participation notes due 2022 to be issued by Novatek Finance Limited, an orphan special purpose vehicle incorporated as a limited liability company under the laws of Ireland (the "Issuer"), for the sole purpose of on-lending the proceeds to OAO Novatek ("Novatek", or the "Borrower") under loan agreements between the Borrower and the Issuer. The outlook on the rating is stable.

Novatek will use the proceeds of the loans to (1) finance the acquisition of a 49% equity stake in the Russian gas company Nortgas, and (2) for general corporate purposes.

RATINGS RATIONALE

The Baa3 rating assigned to the notes is in line with Novatek's Baa3 issuer rating, which reflects the following factors: (1) a track record of production growth to be supported by geographical, product and customer diversification; (2) strengthening domestic market positions due to acquisitions and new contracts; (3) low finding and development (F&D) costs and strong financial metrics; and (4) executions risks pertaining to the company's ambitious Yamal liquefied natural gas (LNG) project.

The acquisition of Nortgas is aligned with Novatek's long-term strategy of efficiently growing its reserves base, and will help to provide feedstock for Novatek's Purovsky gas processing plant and the new Ust-Luga gas fractionation facility. Moody's notes that on 21 November 2012 OJSC Gazprom (Gazprom, Baa1 stable) announced its intention to sell a further 1% of Nortgas to Novatek. This will decrease Gazprom's ownership of the asset to below 51%, however, the asset will be accounted for by Novatek on an equity basis.

WHAT COULD CHANGE THE RATING UP/DOWN

There is no immediate positive or negative pressure on the company's ratings. Novatek's credit profile and the ratings would benefit from the enhancement of the company's operating profile and scale of operations, through organic and inorganic production growth and the diversification of its sales and customer base, supported by a benign regulatory regime. Conversely, negative pressure could be exerted on the ratings if (1) Novatek's financial and liquidity profile were to weaken as a result of material debt-funded M&A activity, with leverage measured by debt/EBITDA increasing above 2.0x and cash flow coverage, measured by retained cash flow (RCF)/debt, falling below 30%; and (2) there were unfavourable trends in the company's logistical arrangements with Gazprom, as well as in Russia's regulation of the oil and gas sector.

STRUCTURAL CONSIDERATIONS

Novatek's obligations under the loan agreements with the issuer will rank at least pari passu with all its other unsecured and unsubordinated indebtedness. Note holders will be deemed to have accepted and agreed that they will be relying solely on the covenant to pay under the Loan Agreement and the credit and financial standing of Novatek in respect of the financial servicing of the Notes. The trust deed between the Issuer and Citicorp Trustee Company Limited (the "Trustee") relating to the issuance, will provide for a mechanism of note holders' recourse to the beneficiary of the notes, Novatek, in the event of default of the Issuer. The investors will benefit from certain covenants in the loan agreement including a negative pledge and restrictions on mergers and reorganisations.

PRINCIPAL METHODOLOGY

The principal methodology used in rating Novatek Finance Limited and OAO Novatek was the Global Independent Exploration and Production Industry Methodology published in December 2011. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

Headquartered in Moscow, OAO Novatek is Russia's largest independent gas producer. In the nine months ended 30 September 2012, Novatek reported revenue of RUB152 billion (approximately \$4.8 billion) and operating profit of RUB64 billion (approximately \$2.0 billion).

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For ratings issued on a program, series or category/class of debt, this announcement provides relevant regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides relevant regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides relevant regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moody.com.

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