

FITCH REVISES NOVATEK'S OUTLOOK TO STABLE; AFFIRMS AT 'BBB-'

Fitch Ratings-London/Moscow-27 October 2011: Fitch Ratings has revised OAO Novatek's (Novatek) Long-term rating Outlooks to Stable from Negative. This follows a review of the company's financial performance in the 12 months since the announcement of the company's plans to acquire a 25.5% stake in SeverEnergiya and a 51% stake in Sibneftegas. Novatek's Long-term foreign and local currency Issuer Default Ratings (IDR) have been affirmed at 'BBB-', its National Long-term rating at 'AA+(rus)', foreign and local currency senior unsecured ratings at 'BBB-', and National senior unsecured rating at 'AA+(rus)'. Novatek Finance Limited's senior unsecured rating has also been affirmed at 'BBB-'.

Fitch views the additional borrowings undertaken by Novatek to complete two debt-financed transactions in 2010 as not having materially impacted the financial risk profile beyond a level commensurate with the current credit ratings. The agency had previously anticipated that the company's financial risk profile could be negatively impacted and subsequently revised the company's Outlooks to Negative from Stable in November 2010 to reflect that view.

Fitch notes that the assets acquired in the transaction improve Novatek's business profile by enhancing the company's strategic position in the Yamal region. In addition, the acquired assets fit into the company's existing business operations in the region and Sibneftegas' existing production contributes to the company's free cash flow. Novatek's large reserve base in excess of 7bn barrels of oil equivalent (boe) on an SEC basis and low total debt to proved reserves ratio of approximately USD0.4 per boe as of H111 also support the company's investment grade ratings.

Novatek would need to maintain a mid-cycle funds from operations (FFO) interest coverage ratio above 10x and FFO adjusted leverage of less than 2x to retain investment grade ratings. Fitch anticipates that Novatek will be able to maintain mid-cycle FFO leverage and coverage ratios commensurate with the current rating level despite the additional debt incurred for the SeverEnergiya and Sibneftegas acquisitions last year. This is reflected in the Outlooks change.

Fitch notes that Novatek has consistently delivered year-on-year production increases in 2011 and anticipates further output growth in 2012, but at a lower level than 2011. Q311 gross natural gas production increased by 4.95 billion cubic meters, or by 58.2%, and gross liquids production increased by 109 thousand tons, or by 12.3%, as compared with the corresponding gross production in Q310. The continued production progress is supportive of the company's business profile and investment grade ratings.

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Additional information is available at www.fitchratings.com.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable criteria, 'Corporate Ratings Methodology', dated 12 August 2011 are available at www.fitchratings.com.

Applicable Criteria and Related Research:

Corporate Rating Methodology

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=647229

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