



Fitch Rates OAO Novatek IDRs 'BBB-'; Outlooks Stable [Ratings](#)

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Fitch Ratings-London/Moscow-19 October 2009: Fitch Ratings has today assigned OAO Novatek (Novatek) Long-term foreign and local currency Issuer Default Ratings (IDRs) of 'BBB-', respectively, and assigned a Stable Outlook for both ratings.

The ratings reflect the company's unique position in the Russian natural gas market as an important incremental producer meeting the domestic natural gas supply gap. Additionally, Novatek benefits from the Russian government's natural gas price liberalization policy that is, together with the company's growing production, contributing to rising revenues and profitability. The ratings are further supported by the company's low cost base arising from the close proximity of its core producing fields to existing transportation routes. Novatek's ability to capitalise on development prospects in Yamal and its strong relationship with OAO Gazprom ('BBB'/Negative/'F3') as a 19.4% owner are viewed as contributing to Novatek's sound business profile.

Fitch used its "Corporate Rating Methodology" to analyse Novatek's corporate creditworthiness. Fitch also used its "Oil and Gas Exploration and Production Rating Methodology" to formulate its credit opinion for Novatek by assessing the company's potential reserve development and future production profile. The cost of finding and developing reserves as well as the cost of upstream production were also analysed and compared to peers. Finally, the criteria were applied to evaluate the company's profitability and future cash flow generating abilities on a barrel of equivalent oil basis.

The Stable Outlook reflects limited upgrade potential due to the company's scale of operations, concentrated business model and potential increase in capital intensity to achieve future business plan development. Fitch notes that improvement to the company's financial profile alone is not likely to result in an upgrade to the ratings. On the other hand, maintaining the current conservative financial profile is viewed as important to avoid a rating downgrade.

Other factors Fitch views as key rating drivers include the amount of capital expenditure Novatek will need to commit in the future to the Yamal LNG project, and how such investment would be financed. Lengthy delays to the natural gas price liberalization currently being undertaken by the Russian government as a result of difficult domestic economic conditions could slow Novatek's production development plan and negatively impact revenues and profitability. The ability to continue utilising transportation cost pass-through agreements with traders and to keep lifting costs low are central to Fitch's anticipated EBITDA margins for Novatek of around 40 - 45%. Finally, maintaining a "through-the-cycle" leverage ratio of around 1x and a high degree of financial flexibility through minimum cash balances and committed credit lines with creditworthy financial institutions are also viewed as important for the current ratings.

Novatek is the largest independent natural gas producer in Russia with 36.5 billion cubic meters (bcm) of annual production capacity as of 2008. The company has plans to increase annual production capacity to 45 bcm by 2010 and to 65 bcm by 2015. Novatek has been producing gas since 1998 from its three core gas fields in the Yamal-Nenets autonomous region located in western Siberia and currently supplies 5% of Russia's total natural gas output and approximately 8% of domestic demand.

Applicable criteria "Corporate Rating Methodology," dated 13 June 2006, and "Oil and Gas Exploration and

Production Rating Methodology," dated 16 October 2008, are available on www.fitchratings.com:

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