

Global Credit Research - 28 Jun 2006

Moody's Investors Service notes that Gazprom has announced that it has reached preliminary agreement to acquire up to 19.9% in domestic Russian gas producer OAO Novatek. Gazprom is rated Baa1 by Moody's, and Novatek is rated Ba2, both with stable outlooks.

While broadly neutral for Gazprom, Moody's views the transaction as moderately positive for Novatek, as it strengthens the relationship between both companies, and reduces some of the risk for Novatek in relation to pipeline access and competition with Gazprom. Moody's also understands that the transaction will be executed at market prices and that Gazprom will agree not to increase its stake beyond 19.9%.

In Moody's view, a strong and constructive relationship with Gazprom is a significant factor in Novatek's credit assessment, given Novatek's reliance on Gazprom for pipeline access and transportation tariffs. While any immediate upside from the transaction for Novatek's ratings is limited, it is indeed supportive of Novatek's credit quality and, together with sustained strong financial and operating performance, could present a case for positive rating pressure over the medium term.

OAO Novatek, based in Moscow, is Russia's second largest gas company after state-controlled Gazprom, and the largest of the country's independent gas producers.

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