

Rating Action: Moody's assigns (P)Baa3 rating to Novatek's debut eurobond issue

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Moscow, January 18, 2011 -- Moody's Investors Service has today assigned a provisional (P)Baa3 rating to the upcoming debut eurobond to be issued in the form of loan participation notes ("notes") by Novatek Finance Limited for the purpose of financing loans to OAO Novatek. The outlook is stable.

The proceeds of the notes will be on-lent to Novatek and will constitute general unsecured and unsubordinated obligations of Novatek. These will rank senior to all present and future subordinated obligations of the company and equal in right of payment to all its present and future unsecured and unsubordinated obligations. Therefore, the noteholders are relying solely on Novatek's credit quality to service and repay the debt. It is anticipated that the maturity of the notes will not exceed ten years. The proceeds are expected to be used by Novatek to finance its M&A activity, namely the acquisition of a 25.5% stake in OOO SeverEnergiya and a 51% stake in OAO Sibneftegas, previously commented on by Moody's (please see Moody's press release dated 6 December 2010).

Upon a conclusive review of the transaction and associated documentation, Moody's will endeavour to assign a definitive rating to the notes issue. A definitive rating may differ from a provisional rating.

RATINGS RATIONALE

Novatek's Baa3 issuer rating is supported by the company's historically robust operational and financial performance. The rating agency has factored some flexibility into the ratings and would expect RCF after maintenance capex/total debt to remain above 30% and leverage (Debt/Ebitda) not to exceed 2.0x at any given point in time (to reflect short-term hikes driven by M&A activity), while trending towards 1.0x as a general guidance, consistent with the company's financial policy. Moody's would also expect the percentage of secured debt in the company's total debt structure to remain below 15%.

Ratings could come under pressure if Novatek experiences: (i) any difficulty or suffers interruptions in accessing Gazprom's pipeline; and/or (ii) production reductions as a result of unfavourable treatment by Gazprom, to the extent that it causes material deterioration to its operational and financial performance. A substantial weakening of Novatek's operating cash flow (with RCF/net debt trending towards 30%), leading to pressure being exerted on its ratings, could also result from (i) a change in the company's financial policies, with an adverse impact on key cash flow and leverage parameters; or (ii) a reversal of the government gas price liberalisation reform (including a delay or substantial slowdown in its implementation). However, the ratings allow for limited flexibility to increase investments or for higher shareholder returns, provided that they are adopted in the context of the above-mentioned financial parameters set by Moody's. In addition, should the company fail to place the notes or secure any alternative financing in order to fund the second instalment under the acquisitions of SeverEnergiya and Sibneftegas and to refinance the USD600 million bridge loan, a potential liquidity pressure may cause the downward pressure on the rating. However, Moody's believes Novatek is comfortably positioned to timely address the liquidity issues taking into account its significant capex flexibility as well as strong relationship with the Russian state-owned banks.

Moody's previous rating action for Novatek was implemented on 1 August 2007, when the company's rating was upgraded to Baa3 from Ba2 with a stable outlook.

The principal methodology used in this rating was Independent Exploration and Production (E&P) Industry published in December 2008.

OAO Novatek ("Novatek"), rated Baa3 with a stable outlook, is the largest global independent gas producer and Russia's second-largest gas company after state-controlled OJSC Gazprom ("Gazprom", Baa1/stable), with total 2009 annual production of 215 million barrel of oil equivalent (boe). In 2009 the company generated total revenues of USD 2.8 billion.

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Information sources used to prepare the credit rating are the following: parties involved in the ratings, public information and confidential and proprietary Moody's Investors Service information.

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The rating has been disclosed to the rated entity or its designated agents and issued with no amendment resulting from that disclosure.

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Moscow
Victoria Maisuradze

VP - Senior Credit Officer
Corporate Finance Group
Moody's Eastern Europe LLC
Telephone: +7 495 228 6060
Facsimile: +7 495 228 6091

London
David G. Staples
MD - Corporate Finance
Corporate Finance Group
Moody's Investors Service Ltd.
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Moody's Eastern Europe LLC
7th floor, Four Winds Plaza
21 1st Tverskaya-Yamskaya St.
Moscow 125047
Russia
Telephone: +7 495 228 6060
Facsimile: +7 495 228 6091



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