

Fitch Revises Watch On Gazprom From Evolving To Positive [Ratings](#)
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Fitch Ratings-London/Moscow-18 November 2004: Fitch Ratings, the international rating agency, has today revised OAO Gazprom's ("Gazprom") 'BB' Senior Unsecured foreign currency and local currency ratings to Rating Watch Positive from Rating Watch Evolving, following the upgrade of Russia's sovereign rating to 'BBB-' from 'BB+' today.

The Rating Watch revision reflects the increased likelihood of an upgrade for Gazprom due to its strategic linkage to the state and synergies to be gained from an increase of state ownership following its merger with Rosneft, which is still pending regulatory approval. At the same time, a downgrade seems less likely as a result of the Rosneft merger. Instead, any negative news associated with this event would likely lead Fitch to affirm the rating at its current level and maintain a two-notch difference with the Sovereign rating.

"Although the merger is still pending and the merger-related leverage issues have yet to be resolved to Fitch's satisfaction, the increased rating differential between Gazprom and the Sovereign has led to the decision to revise the Rating Watch," says Jeffery Woodruff, Director for Fitch's Energy team.

Fitch has previously outlined Gazprom's strategic importance to the state and has factored in a degree of state support into the current ratings. In September, Fitch placed the company on Rating Watch Evolving following the announcement of the proposed merger with Rosneft. At that time the agency outlined how increased state ownership could possibly lead to an upgrade as it could positively affect how Gazprom determines its domestic pricing and increase the group's influence over legislation. Increased state ownership would also strengthen management control, and improve production licensing and financial planning of the business. Furthermore, it would increase the government's vested interest in keeping Gazprom as a going concern. The acquisition would also help Gazprom increase its international presence and rival major western oil companies in assets. It would also provide Gazprom with greater political influence to negotiate future business deals with foreign partners.

At the same time, Fitch has expressed concern that the acquisition could lead to a significant increase in consolidated leverage, especially short-term debt. Additionally, Rosneft has approximately USD2.0 billion in existing net debt that will need to be serviced or refinanced by Gazprom upon formation of the new corporate entity.

The state now holds a 38% direct stake in Gazprom and another 17% indirectly in subsidiaries; after the Rosneft acquisition, the state's stake will likely increase to 50% plus one share.

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