

Fitch Changes Gazprom's Outlook to Positive; Affirms IDR at 'BBB-' [Ratings](#)
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Fitch Ratings-London/Moscow-05 December 2006: Fitch Ratings today changed OAO Gazprom's Outlook to Positive from Stable. Its local and foreign currency Issuer Default ratings and senior unsecured ratings are affirmed at 'BBB-' (BBB minus).

The revised Outlook is based on government support for a plan proposed by the industry and energy ministry to liberalize the country's power and gas prices by 2011 in a bid to raise energy efficiency. The domestic gas price, currently regulated by the government, will gradually increase during the next five years to equal the export price in terms of margin by 2011. Domestic gas prices would be based on an average export price although, without export duties and transportation expenses, this would still be around 40% less than the end price for exports.

The Positive Outlook foresees improving prospects for the company's business profile, capitalizing on strengthening financial results that should materialize from more liberalized domestic gas prices from 2008. Any upgrade to the company's ratings, however, will largely depend on factors such as demonstrated integration and improved performance of recently acquired oil assets; reduced reliance on Central Asia to meet gas balance needs; successful completion and cost containment of large upstream projects; a reversal of declining free cash flow; and improved cash collection through a reduction in long-term accounts receivable.

The government's proposed gas price increase is expected to significantly improve Gazprom's earnings profile from domestic gas sales, where the company has traditionally operated at a loss. Approximately 60% of its gas sales by volume are on the domestic market, 15% of which are to households and are expected to remain subsidized for the time being. Nonetheless, Fitch estimates that revised domestic price guidance from the government could allow Gazprom to increase top line revenue by as much as USD43 billion and EBITDAR by as much as USD15bn during the next five years, relative to previous domestic price expectations, if oil prices remain near USD50 - 60 per barrel. In a lower oil price environment of USD40 per barrel by 2010 - 2011, Fitch would still expect Gazprom's top line revenues to rise by USD29bn and EBITDAR by USD10bn during the next five years under the proposed plan.

The revised pricing plan for domestic market sales follows on the back of recently increased prices to former Soviet Union ('FSU') countries, which has also added to Gazprom's upward earnings momentum. This was one of the factors cited by Fitch when the company's IDR and senior unsecured ratings were upgraded in July 2006.

Gazprom is Russia's largest company, producing 86% of the country's natural gas (547.9 bcm in 2005) and controlling 25% of the world's gas reserves. The company makes up approximately 7% of Russian GDP and around 11% of federal budget revenues.

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