



My Credit Profile

Table of Contents

[Rationale](#)

[Outlook](#)

[Ratings List](#)

[Analyst E-Mail Addresses](#)

Research Update: OAO Gazprom

Publication date:

06-Dec-2002

Credit Analyst:

Eric Tanguy, Paris (33) 1-4420-6666; Elena Anankina, Moscow (7) 095-787-4573; Emmanuel Dubois-Pelerin, Paris (33) 1-4420-6673

Rationale

On Dec. 6, 2002, Standard & Poor's Ratings Services revised its outlook to positive from stable on Russian gas giant OAO Gazprom, principally as a result of the improving economic and fiscal climate in the Russian Federation (local currency: BB+/Stable/B; foreign currency: BB/Stable/B). At the same time, the 'B+' long-term corporate credit rating on the company was affirmed.

The rating reflects Gazprom's role as the owner and operator of essentially all exploration, production, processing, transportation, and export assets in Russia's natural-gas sector, as well as its privileged position as a supplier to the large and growing Western European market.

Generating some 8% of Russia's GDP, Gazprom accounts for about one-quarter of Russia's budget income and one-fifth of the country's foreign exchange revenues. Gazprom's credit quality benefits from massive natural-gas reserves (28 trillion cubic meters at year-end 2001) and production capabilities (512 billion cubic meters of gas in 2001). Gazprom's reserves and production are equivalent to about one-fifth of the global total and represented 88% of Russia's gas production in 2001.

Other key factors supporting the rating include the company's considerable U.S.-dollar-denominated export sales contracted on a multi-year basis, with mostly creditworthy customers (\$14.5 billion in 2001, representing 70% of consolidated revenues); IAS-compliant financial reporting; and strong operating performance in 2000 and 2001 (2001 operating cash flow of \$4.3 billion).

Also taken into account is the significant influence of Gazprom's largest single shareholder, the Russian Federation, over the company's operations.

The rating remains constrained, however, by:

- The continuation of a strongly adverse domestic pricing regime, despite the country's improving economic conditions. The current state-regulated domestic price for natural gas is 4x less than the average domestic price for crude oil and 7x less than international gas prices;
- Vulnerability to the price volatility of European oil products, to which most of Gazprom's export prices are indexed with a six-month lag;
- Gazprom's high financial leverage, with \$14.9 billion of on-balance-sheet debt at end-June 2002 and \$2.5 billion of outstanding financial guarantees;
- A heavy, though diminishing, dependency on Ukraine for access to export markets;
- Continued non-cash settlements (8% of sales in first-half 2002) and the doubtful quality of some receivables (\$1.3 billion in overdue

receivables from Russian customers and \$2.2 billion from other CIS customers);

- High tax payments (a 2001 effective income tax rate of 41% and tax payables reduced by some \$2.5 billion last year);
- Major capital-expenditure requirements in the near future to maintain production and keep the export-pipeline infrastructure in good operating condition; and
- Uncertainty over the financial impact of some investments, such as Gazprom-media and Sibur, and of existing relations with Gazprom's main competitor, Florida-based Itera.

Liquidity.

Gazprom's liquidity is tight, with \$7.9 billion of debt maturing in less than one year. The company also uses a very significant proportion of its export-contract revenues as collateral to back its bank debt. High proportions of short-term and secured debt could represent significant risks for the company in case of financial stress in Russia.

Outlook

The positive outlook reflects Standard & Poor's expectations that Gazprom will withstand pressures to divest parts of either its production or transmission operations and that its debt level will stabilize, despite sustained capital spending. The outlook also takes into account the fact that, in an improving fiscal and economic environment (partly reflected by the recent upgrade of the Russian Federation), increases in domestic prices for natural gas should be easier to accommodate.

Any future ratings upgrade will depend on improvements in domestic price conditions and the company's efforts to spread out debt maturities and reduce its short-term financial obligations.

Ratings List

	To	From
Corporate credit rating	B+/Positive/--	B+/Stable/--

NB: This list does not include all ratings affected.

Complete ratings information is available to subscribers of RatingsDirect, Standard & Poor's Web-based credit analysis system, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; under Fixed Income in the left navigation bar, select Credit Ratings Actions. Alternatively, call one of the Standard & Poor's Ratings Desks: London (44) 20-7847-7400; Paris (33) 1-4420-6705; Frankfurt (49) 69-33-999-223; Stockholm (46) 8-440-5916.

Analyst E-Mail Addresses

eric_tanguy@standardandpoors.com
elena_anankina@standardandpoors.com
emmanuel_dubois-pelerin@standardandpoors.com
CorporateFinanceEurope@standardandpoors.com