

Russian Pipeline Operator OAO AK Transneft Outlook To Stable On Sovereign Outlook Revision; 'BBB' Rating Affirmed

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- Standard & Poor's has revised its outlook on The Russian Federation, the 100% voting-shares owner of Russian pipeline operator OAO AK Transneft, to stable from negative.
- The ratings on Transneft are currently primarily influenced by those on the Russian Federation.
- We are therefore revising our outlook on Transneft to stable from negative. The 'BBB' ratings are affirmed.

FRANKFURT (Standard & Poor's) Dec. 22, 2009—Standard & Poor's Ratings Services said today it revised its outlook on Russian pipeline operator OAO AK Transneft to stable from negative. The 'BBB' long-term corporate credit rating was affirmed.

“The outlook revision reflects the outlook revision on Transneft's owner the Russian Federation (foreign currency BBB/Stable/A-3, local currency BBB+/Stable/A-2),” said Standard & Poor's credit analyst Andrey Nikolaev. “We also note Transneft's solid financial and operating performance in 2009.”

The rating reflects Standard & Poor's opinion that there is an “extremely high” likelihood that the government would provide timely and sufficient extraordinary support to Transneft in the event of financial distress. We assess Transneft's stand-alone credit profile (SACP) at 'BBB-':

Our estimation of the Russian government's considerable ability to support companies is reflected in our investment-grade ratings on the country and, in particular, by the country's very sizable liquidity reserves and substantially reduced debt levels.

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We consider Transneft's leverage to be moderate, demonstrated by adjusted debt to EBITDA of 1.5x as of June 30, 2009, adequate liquidity, and historically cautious financial management, in our opinion.

"We expect that Transneft will maintain its role as the delivery network for 90% of the country's crude oil production and close ties with the government and, consequently, will continue to benefit from 'extremely high' likelihood of extraordinary government support," said Mr. Nikolaev.

Downward pressure on the rating could appear if the government decided to decrease its share in the company, started to implement important oil pipeline projects beyond Transneft's scope, or becomes less involved in determining its strategy, which we currently don't expect. The rating could also come under pressure in the event of a negative rating action on the Russian Federation because we believe that the ability of the government and of state-owned banks to provide extraordinary support to the company would diminish in a scenario of deteriorating sovereign credit quality.

Alternatively, if the rating on the Russian Federation was raised we would be likely to raise the rating on Transneft given our view of an "extremely high" likelihood of extraordinary government support.

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