Fitch Rates OJSC Sibur Holding 'BB'

Ratings Endorsement Policy

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Fitch Ratings-London/Moscow-23 January 2007: Fitch Ratings has today assigned Russia-based petrochemicals producer OJSC Sibur Holding ("Sibur") an Issuer Default rating of 'BB' with Stable Outlook and a Short-term 'B' rating.

The ratings reflect Sibur's position as the largest vertically integrated petrochemicals producer in Russia, leading market position in most of its products and natural feedstock advantage as a Russia-based company.

Sibur has achieved a significant operational and financial turnaround since 2002, with the support of its sole shareholder, Gazprom group ('BBB-' (BBB minus)). Fitch acknowledges Gazprom's historical support for, and its current business ties, with Sibur, which range from Gazprom supplying some of Sibur's feedstock to managing all of Sibur's export business. However, Fitch views Sibur as a largely independent credit given Gazprom's uncertain strategy regarding the subsidiary and Sibur's lack of integration into, and its limited strategic importance to, the Gazprom group.

The ratings are underpinned by Sibur's solid financial profile and considerable debt reduction through a debt-for-equity swap. In FY05 the group swapped USD1.5 billion of financial liabilities to Gazprom into Sibur shares. The ratings are further supported by Sibur's considerably improved operational profitability and positive free cash flow generation since FY05. The group is well diversified with more than 100 products while its exposure to individual customers remains moderate.

The ratings are challenged by Sibur's high sales concentration in the Russian market, resulting in limited geographical diversification and dependence on domestic demand. While Sibur continues to engineer its operational turnaround by investing in new capacity and the modernisation of existing facilities, its profit margins still somewhat lag behind that of some major Eastern European competitors. Compared to its international peers, Sibur has low production efficiency and above-average production costs due to out-dated production technologies at some of its ageing facilities. Fitch also notes that the capital expenditure programme involves some execution risk.

In FY05, Sibur reported sales of RUB106.6bn (USD3.9bn), up 26% y-o-y largely due to growing domestic demand. It reported strong EBITDAR margins at 25.8% in the first nine months of FY06 ("9MFY06"), compared with an already high 21.2% in FY05. Sibur's major credit ratios are comfortable for the rating level with net debt/EBITDA of 0.4x at FY05 and 0.1x at 9MFY06. Sibur expects its total debt/EBITDA to be under 1x in the foreseeable future.

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