

Rating Action: Moody's confirms Sibur's Ba1 rating; assigned negative outlook

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London, 31 March 2015 -- Moody's Investors Service has today confirmed the Ba1 corporate family rating (CFR) and the Ba1-PD probability of default rating (PDR) of Sibur Holding, PJSC (Sibur), a Russian vertically integrated gas processing and petrochemicals company. At the same time, Moody's confirmed the Ba1 rating of \$1 billion notes issued by Sibur Securities Limited, a wholly owned subsidiary of Sibur. The rating agency assigned a negative outlook to all the ratings.

The action concludes the review for downgrade of Sibur's and its notes' rating, which was part of the review for downgrade of ratings of 45 Russian non-financial corporates launched by Moody's on 23 December 2014. The review was prompted by the severe and rapid deterioration in the operating environment in Russia and the heightened risk of a more prolonged and acute economic downturn than originally expected.

RATINGS RATIONALE

The confirmation of Sibur's rating reflects Moody's view that Sibur's business is sufficiently resilient to the weakening of Russia's economic and financial environment, as captured by Moody's downgrade of Russia's sovereign rating and country ceiling to Ba1 from Baa3 with negative outlook on 20 February 2015.

Moody's expects that Sibur will decrease its leverage over the next 18 months to around 2.0x debt/EBITDA, while maintaining EBITDA margins of around 25% and the ratio of retained cash flow (RCF) to net debt above 20% (the metrics include Moody's standard adjustments). This expectation factors in (1) Sibur's sizeable export operations generating 50% of total revenue and strong position as a leading petrochemicals business in the domestic market; (2) long-term contractual access to attractively priced feedstock translating into low costs, securing high margins through the cycle; (3) high flexibility with the implementation of ZapSibNeftekhim investment project valued at \$9.5 billion as of September 2014; (4) good liquidity benefitting from sizeable cash reserves and availabilities under long-term committed facilities; (5) shareholders-approved commitment to the conservative financial policy, with unadjusted net debt/EBITDA and EBITDA interest cover to remain below 2.5x and above 7x, respectively. Moody's sees Sibur's end-2014 leverage of 4.2x debt/EBITDA (including Moody's standard adjustments) as temporary, reflecting a few one-off developments.

At the same time, Sibur's rating remains constrained by (1) its exposure to the weakening of Russia's credit profile; (2) potentially reduced capex flexibility at later stages of ZapSibNeftekhim project implementation leading to growth in negative free cash flow and debt funding needs; (3) exposure to the risks inherent to the petrochemicals industry, such as price volatility and cyclical demand; (4) moderate size compared to that of global chemicals businesses.

RATIONALE FOR NEGATIVE OUTLOOK

The outlook on Sibur's rating is negative, reflecting Sibur's exposure to the deteriorating Russian operating environment, which is also captured by the negative outlook on Russia's government bond rating. The negative outlook also takes into account potential erosion of Sibur's capex flexibility as the company progresses with ZapSibNeftekhim investment project implementation. Moody's will also be monitoring the company's ability to address increasing country and foreign exchange risks.

WHAT COULD CHANGE THE RATING DOWN/UP

The rating is likely to be downgraded if (1) the Russian operating environment deteriorates further resulting in further downgrade of the sovereign rating and/or lowering the sovereign ceiling; (2) in Moody's view, Sibur's EBITDA margins are likely to decline to below 25% and/or the company is unable to deleverage over the next 18 months towards around 2.0x adjusted debt/EBITDA and maintain adjusted RCF/net debt at above 20%; and/or (3) Sibur's liquidity deteriorates.

Given the deteriorating operating environment in Russia and pressure on the sovereign credit quality, upward pressure on Sibur's rating is unlikely at present.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was Global Chemical Industry Rating Methodology published in December 2013. Other methodologies used include Loss Given Default for Speculative-Grade Non-Financial Companies in the U.S., Canada and EMEA published in June 2009. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

Sibur Holding, PJSC (Sibur) is a Russian vertically integrated gas processing and petrochemicals company. As of end-September-2014, Mr. Mikhelson was the major shareholder with 50.2% of the shares, followed by Mr. Shamalov (21.3%) and Mr. Timchenko (15.3%). The company's current and former management (excluding Mr. Shamalov) holds the remaining 13.2%. In 2014, Sibur generated revenue and adjusted EBIT of \$9.6 billion and \$1.3 billion, respectively.

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