MOODY'S
INVESTORS SERVICE

# Rating Action: Moody's upgrades Sibur Holding to Ba1; outlook stable

Global Credit Research - 10 Sep 2012

London, 10 September 2012 -- Moody's Investors Service has today upgraded to Ba1 from Ba2 the corporate family rating (CFR) and probability of default rating (PDR) of OJSC Sibur Holding (Sibur), Russia's largest petrochemical company. The outlook on the ratings is stable.

RATINGS RATIONALE

"Today's rating action was driven by Sibur's ability to maintain strong credit metrics following the change in its ownership, which had been accompanied by a step-up in debt, and our understanding is that the new shareholders have endorsed and will support the company's strategy and conservative financial policies," says Sergei Grishunin, Moody's Assistant Vice President -- Analyst and lead analyst for Sibur. The upgrade to Ba1 was also driven by (1) Sibur's robust historical financial performance through the cycle, which demonstrated the company's resilience to downturns; and (2) Moody's expectation that the company will continue to demonstrate strong financial metrics in the next 12-18 months.

As a result of several transactions between December 2010 and November 2011, a group of shareholders led by Mr. Leonid Mikhelson purchased 100% of Sibur's share capital. The company's beneficial ownership structure is now as follows: Mr. Leonid Mikhelson -- 57.5%; Mr. Gennady Timchenko -- 37.5%; and a group of current and former Sibur senior managers -- 5%. The acquisition debt was pushed down to the Sibur level and, as of end-2011, the company repaid most of it (approximately USD2.3 billion) using mainly USD1.8 billion in cash proceeds from the sale of non-core assets. This repayment, coupled with record-high revenue growth and profitability in 2011 and the absence of substantial shareholder distributions (contrary to previous Moody's expectations), helped the company to maintain conservative financial metrics as of end-2011. These metrics include low adjusted leverage (measured as debt/EBITDA) of 1.2x (2010: 1.2x) and high adjusted interest coverage (EBITDA/interest) of 17.8x (2010: 12.8x). Moody's understands that the new shareholders have endorsed the company's existing strategy, dividend policy and conservative financial policy, which includes net debt/EBITDA through the cycle of below 2.5x and EBITDA/interest expense of above 7.0x.

Historically, Sibur has demonstrated high profitability through the cycle (with a five-year average adjusted EBITDA margin of more than 30%), above that of many of its European peers. This is underpinned by Sibur's competitive cost position, which in turn is driven by the company's (1) access to low-cost-associated petroleum gas and competitively priced liquid hydrocarbon feedstock in Western Siberia; and (2) diversification into the less profit-volatile business of selling natural gas, liquefied petroleum gas (LPG), napthta and other related products and fuel additives. In Moody's view, Sibur's competitive cost position, coupled with a historically conservative financial profile (with a five-year average adjusted debt/EBITDA ratio of 1.4x) and adjusted retained cash flow (RCF)/debt of above 50%), provides the company with a degree of resilience to down cycles. Moreover, despite challenging global economic conditions and Sibur's substantial ongoing capital expenditures, the rating agency expects that the company will sustain its low cost position and continue to demonstrate strong financial metrics in the next 12-18 months, in line with its stated financial policy.

Moody's notes that Sibur's major investment projects -- including its largest, the USD2 billion Tobolsk Polymer plant, to be launched in first half 2013 -- are on schedule for completion in 2013/14. The Tobolsk plant will double Sibur's polymer production and improve its vertical integration, underlying profitability and cash flow generation.

Moody's understands that Sibur is currently considering a future expansion of its polymer capacities in Tobolsk, beyond the scheduled completion of the Tobolsk Polymer plant in 2013-14, with a final decision expected no earlier than in 2013. It is currently difficult to estimate the effect of such an expansion on Sibur's financial profile. However, to prevent its financial and liquidity profile coming under material pressure and as a result deviating from its stated financial policy, Moody's would expect Sibur to either postpone this capacity expansion or find an alternative way of financing it (including equity) in the event of a deterioration in the operating environment and/or weaker-than-expected cash flow generation.

Sibur's ratings remain constrained by (1) its exposure to the inherent risks of the petrochemical industry, i.e., price volatility and cyclicality of demand; and; (2) the geographical concentration of the company's operations in the

Russian Federation, where the political, business, legal and regulatory risks exceed the global average.

The stable outlook reflects Moody's expectation that Sibur will continue to adhere to its strategy of organic growth while maintaining solid financial metrics in line with its stated financial policy, and a strong liquidity position. The outlook also assumes that Sibur will continue to implement its investment projects as scheduled and on budget and return to positive free cash flow generation in the next 12-18 months.

WHAT COULD CHANGE THE RATINGS UP/DOWN

Positive rating pressure could develop if Sibur were to build a track record of operating under the new shareholding structure while adhering to its stated financial policies, capital structure and capital usage. A rating upgrade would also require the company to undertake further operational improvements and capacity expansion, resulting in enhanced scale and product diversification and/or a portfolio mix that is weighted towards higher value-added output. In addition, an upgrade would require that Sibur generates positive free cash flow on a sustainable basis.

Downward pressure on the ratings would be likely to develop if (1) weaker than than-anticipated conditions in Sibur's key markets were to result in its leverage (measured of adjusted debt/EBITDA) increasing to, and remaining, above 2.0x, its adjusted EBITDA margins declining to, and remaining, below the mid-20s in percentage terms, and its cash flow generation deteriorating, with RCF/net debt falling below 20%; or (2) material debt-financed expansion projects and/or acquisitions, or debt-financed dividend payouts to shareholders or other shareholder initiatives, were to lead to the company materially deviating from its stated financial policies or above mentioned financial thresholds.

PRINCIPAL METHODOLOGY

The principal methodology used in rating Sibur Holding was the Global Chemical Industry Methodology published in December 2009. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

OJSC Sibur Holding is the largest integrated petrochemical company in Russia, the Commonwealth of Independent States (CIS) and Central and Eastern Europe (CEE) in terms of revenue. The company operates in two business segments: feedstock &energy and petrochemical. As of end-2011, Sibur reported revenue of approximately USD8.5 billion (excluding the results of the company's mineral fertiliser and tyre businesses, which it divested in December 2011) and adjusted EBITDA of around USD3 billion.

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