

Rating Action: Moody's changes outlook to stable on 12 Russian utility and infrastructure GRIs and subsidiaries following Russian outlook change to stable

Global Credit Research - 07 Dec 2015

London, 07 December 2015 -- Moody's Investors Service changed to stable from negative the outlook on the ratings of 12 Russian utility and infrastructure companies government-related issuers (GRIs) and their subsidiaries. Concurrently, Moody's has affirmed these ratings.

The full list of affected issuers and credit ratings can be found at the end of this press release.

Today's actions follow Moody's change of the outlook on Russia's government Ba1/Not Prime (NP) bond rating to stable from negative on 3 December 2015, reflecting the stabilisation of Russia's external finances and the diminished likelihood of the Russian economy or finances facing a further shock in the next 12-18 months. For additional information, please refer to the related announcement https://www.moody's.com/research/--PR_339462.

RATINGS RATIONALE

Credit risks for the 12 Russian utilities and infrastructure issuers affected by today's rating actions have somewhat decreased, as a result of (1) the stabilisation of Russia's external finances, resulting from a macroeconomic adjustment that has helped to mitigate the effect of the fall in oil prices on Russia's FX reserves; and (2) the diminished likelihood of the Russian economy or finances facing a further shock in the next 12-18 months, such as from additional rounds of international sanctions on Russia given some easing of the conflict in eastern Ukraine.

However, Moody's expects that the operating environment for these companies will remain challenging, although less than previously expected, over the next 12-18 months. This is a result of continuing weak domestic demand resulting from Russia's structurally weak growth potential, as well as the limited availability of favourably priced investment capital.

RATIONALE FOR THE STABLE OUTLOOKS

The stable outlook on the ratings of the 12 affected utility and infrastructure issuers is in line with the stable outlook for the sovereign rating and reflects Moody's expectation that (1) each company's specific credit factors, including their operating and financial performance, market positions and liquidity, will remain commensurate with their ratings on a sustainable basis; and (2) the probability of the Russian government providing extraordinary support to the companies will remain unchanged.

WHAT COULD CHANGE THE RATINGS UP/DOWN

Moody's does not expect positive pressure to be exerted on the all ratings in near term, owing to sovereign-related factors, and the stable outlook on the sovereign rating of Russia.

However, positive pressure could be exerted on the ratings if Moody's were to raise Russia's sovereign rating, depending on companies' specific credit factors, including their rating positioning, operating and financial performance, liquidity, and our assessment of the probability of the Russian government providing extraordinary support to the issuers in the event of financial distress.

Conversely, negative pressure would be exerted on all the ratings if (1) there is a downgrade or a change of the outlook to negative on Russia's sovereign rating and/or a lowering of the foreign-currency bond country ceiling; and/or (2) there are negative changes in the probability of the Russian government providing extraordinary support to the issuers in the event of financial distress.

In addition, downward pressure on individual companies' ratings could develop for the following reasons:

The rating agency could downgrade Transneft's ratings if the challenging operating environment in Russia were to lead to a significantly weaker financial profile and increasing constraints on liquidity.

Negative pressure on Atomenergoprom's ratings could develop if the company's financial profile deteriorates, reflected in a debt/EBITDA ratio above 3x, Funds From Operations (FFO) interest coverage below 5.0x and Retained Cash Flow (RCF)/debt below 25% materially on a continued basis. In addition, the lack of adequate liquidity could put pressure on the company's rating, and downward pressure could also develop if the company's key subsidiaries see their share of external debt materially exceeding 20% of total debt on a permanent basis.

Negative pressure on FGC's rating could result from (1) a sustainable negative shift in the developing regulatory regime and significantly deteriorating margins; (2) a failure of the company to manage its investment programme in line with the tariff regulation and contain a deterioration of its financial profile, with FFO interest coverage and FFO/net debt falling materially and persistently below 3.5x and 25%, respectively; and (3) pressured liquidity.

Downward pressure on RusHydro's ratings could rise if there is a negative shift in the evolving regulatory and market framework or if the company fails to limit a deterioration of its financial profile, reflected in a debt-to-EBITDA ratio significantly above 3x and funds from operations interest coverage significantly below 5x and on sustained basis. The company's inability to maintain adequate liquidity could also pressure the rating.

Downward pressure on Inter RAO's ratings could develop if there were a negative shift in the evolving regulatory and market framework and the company failed to limit a deterioration of its financial profile, reflected in FFO interest coverage below 5.0x, RCF/debt below 30% and debt/EBITDA above 3x significantly and on a permanent basis. Furthermore, negative pressure could be exerted on the rating if the company were unable to proactively address its liquidity needs and maintain reasonable headroom under the financial covenants of its bank agreements.

Downward pressure on ROSSETI's rating could result from (1) a negative shift in the developing regulatory regime without compensatory measures by the state leading to significantly deteriorating EBITA margin to below 10%; (2) pressured liquidity; and/or (3) a failure to manage its investment program in line with the tariff regulation and contain deterioration of its financial profiles, with FFO interest coverage and FFO/net debt falling materially and persistently below 3.0x and 20%.

The rating of NCSP is likely to be downgraded if (1) there is the increasing likelihood of transformational changes to ownership and business structure of NCSP with uncertain or negative consequences for NCSP's credit quality; (2) NCSP's financial profile were to deteriorate, with FFO interest cover and the ratio of FFO to debt trending towards below 3x and 15%, respectively; (3) NCSP's liquidity were to deteriorate.

Downward pressure on the ratings of MOESK's, Lenenergo's, IDGC of Center and Volga Region's, IDGC of Urals', IDGC of Volga's could result from (1) weakening support from state-related shareholder ROSSETI; (2) a negative shift in the developing regulatory and market framework; and (3) companies' failure to manage their investment programs in line with the tariff decisions resulting in a deterioration of their financial profile, margins and liquidity.

Downgrade pressure on MOESK and Lenenergo's rating could also result from deterioration of their financial profiles, with FFO interest coverage falling materially and persistently below 3.5x and FFO/net debt falling below 20%.

Downward pressure on the ratings of IDGC of Center and Volga Region, IDGC of Volga and IDGC of Urals could develop if their financial profiles weaken going forward with total FFO interest coverage falling materially and persistently below 4.0x and FFO/net debt below the mid-twenties in percentage terms. Inability to timely address liquidity needs could negatively influence the rating as well.

RATINGS AFFECTED BY TODAY'S ACTIONS

Atomenergoprom, JSC

.... Probability of Default Rating, Affirmed Ba1-PD

.... Corporate Family Rating, Affirmed Ba1

.... Outlook, Changed To Stable From Negative

Federal Grid Finance Limited

.... Senior Unsecured Medium-Term Note Program, Affirmed (P)Ba1

...Senior Unsecured Regular Bond/Debenture, Affirmed Ba1

...Outlook, Changed To Stable From Negative

FGC UES, JSC

... Probability of Default Rating, Affirmed Ba1-PD

... Corporate Family Rating, Affirmed Ba1

...Outlook, Changed To Stable From Negative

IDGC of Center and Volga Region, PJSC

... Probability of Default Rating, Affirmed Ba2-PD

... Corporate Family Rating, Affirmed Ba2

...Outlook, Changed To Stable From Negative

IDGC of Urals, JSC

... Probability of Default Rating, Affirmed Ba2-PD

... Corporate Family Rating, Affirmed Ba2

...Outlook, Changed To Stable From Negative

IDGC of Volga, PJSC

... Probability of Default Rating, Affirmed Ba2-PD

... Corporate Family Rating, Affirmed Ba2

...Outlook, Changed To Stable From Negative

Inter RAO, PJSC

... Probability of Default Rating, Affirmed Ba2-PD

... Corporate Family Rating, Affirmed Ba2

...Outlook, Changed To Stable From Negative

Lenenergo, PJSC

... Probability of Default Rating, Affirmed Ba2-PD

... Corporate Family Rating, Affirmed Ba2

...Outlook, Changed To Stable From Negative

MOESK, PJSC

... Probability of Default Rating, Affirmed Ba2-PD

... Corporate Family Rating, Affirmed Ba2

...Outlook, Changed To Stable From Negative

Novorossiysk Commercial Sea Port, PJSC

... Probability of Default Rating, Affirmed Ba3-PD

... Corporate Family Rating, Affirmed Ba3

...Outlook, Changed To Stable From Negative

OAO AK Transneft

... Probability of Default Rating, Affirmed Ba1-PD

... Corporate Family Rating, Affirmed Ba1

...Outlook, Changed To Stable From Negative

ROSSETI, PJSC

... Probability of Default Rating, Affirmed Ba2-PD

... Corporate Family Rating, Affirmed Ba2

...Outlook, Changed To Stable From Negative

RusHydro, PJSC

... Probability of Default Rating, Affirmed Ba2-PD

... Corporate Family Rating, Affirmed Ba2

...Outlook, Changed To Stable From Negative

TransCapitalInvest Limited

...Senior Unsecured Regular Bond/Debenture, Affirmed Ba1

...Outlook, Changed To Stable From Negative

The principal methodologies used in rating OAO AK Transneft; ROSSETI, PJSC; FGC UES JSC; Transcapitalinvest Limited and Federal Grid Finance Limited were Regulated Electric and Gas Networks published in November 2014, and Government-Related Issuers published in October 2014.

The principal methodology used in rating MOESK, PJSC; Lenenergo, PJSC; IDGC of Urals, JSC; IDGC of Volga, PJSC; IDGC of Center and Volga Region, PJSC was Regulated Electric and Gas Networks published in November 2014.

The principal methodologies used in rating Atomenergoprom, JSC; RusHydro, PJSC; and Inter RAO, PJSC were Unregulated Utilities and Unregulated Power Companies published in October 2014, and Government-Related Issuers published in October 2014.

The principal methodology used in rating Novorossiysk Commercial Sea Port, PJSC was Privately Managed Port Companies published in May 2013, and Government-Related Issuers published in October 2014.

Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

Fully controlled by the Russian government (the latter owns 100% of its voting shares), OAO AK Transneft (Transneft) is the largest crude oil transportation company in the world. 2014 reported sales reached around RUB611.3 billion, or \$10.9 billion (net of revenues from crude oil supplies to China, which are mirrored by the oil purchase costs, under 2009-dated \$10 billion, 20-year loan-for-oil deal).

JSC Atomenergoprom (Atomenergoprom) is the holding company for numerous subsidiaries which represent the civil Russian nuclear industry. The group generated revenue of RUB498.9 billion (around \$8.9 billion) in 2014. 100% of Atomenergoprom's voting shares are owned by the Russian government through the State Atomic Energy Corporation Rosatom (Rosatom).

PJSC RusHydro (RusHydro) is Russia's largest and a world major hydropower business, accounting for around a half of hydropower output in Russia, majority (66.84% as of 30 June 2015) owned by the Russian government. As of end-2014, RusHydro generates revenue of RUB329.6 billion (around \$5.9 billion).

PJSC Inter RAO (Inter RAO) is a Russian major electric utility engaged in thermal electricity generation and retail electricity sales in Russia, cross-border electricity trading and electric utility operations abroad. Inter RAO

generated revenue of RUB741.1 billion (\$13.3 billion) in 2014. Inter RAO is controlled by the Russian government through several state-controlled entities (own over 50.00% of the company as of 30 June 2015).

JSC Federal Grid Company of Unified Energy System (FGC UES, or FGC) is the monopoly electricity transmission system operator in the Russian Federation. The company's revenues, amounted to RUB173.4 billion (around \$3.1 billion) in 2014 (other operating income of RUB8.2 billion, primarily from non-core activities, is not included). FGC is 80.13% owned by state-owned JSC ROSSETI.

PJSC ROSSETI (ROSSETI) is the holding company for the national transmission grid (FGC UES) and 15 distribution grid subsidiaries (including MOESK, PJSC; Lenenergo, PJSC; IDGC of Urals, JSC; IDGC of Volga, PJSC; IDGC of Center and Volga Region, PJSC). As of 30 June 2015 Russian government owns a 86.32% of ordinary shares and 7.01% of preferred shares in ROSSETI. As of the end-2014 the company generates revenue of around RUB759.6 billion (around \$13.5 billion).

PJSC Novorossiysk Commercial Sea Port (NCSP) and its subsidiaries represent Russia's largest stevedore. NCSP is 50.1%-owned by Novoport Holding Ltd. The Russian government owns a 20% stake in NCSP and the "golden share". In 2014, NCSP generated revenue of \$955.6 million.

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