

Rating Action: Moody's concludes ratings reviews on 12 Russian utilities and infrastructure GRI and subsidiaries

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London, 27 April 2016 -- Moody's Investors Service (Moody's) has today confirmed the ratings of OAO AK Transneft (Transneft), Atomenergoprom, JSC (Atomenergoprom), FGC UES, JSC (FGC UES) at Ba1 with the negative outlook.

Concurrently, the agency has confirmed the ratings of Inter RAO PJSC (Inter RAO), RusHydro PJSC (RusHydro), ROSSETI, PJSC (ROSSETI) and subsidiaries of ROSSETI (MOESK, PJSC, Lenenergo, PJSC, IDGC of Center and Volga Region, PJSC, IDGC of Urals, JSC, IDGC of Volga, PJSC) at Ba2 with a stable outlook, and of Novorossiysk Commercial Sea Port, PJSC (NCSP) at Ba3 with a stable outlook.

At the same time, Moody's has raised Inter RAO's baseline credit assessment (BCA) to ba2 from ba3, whilst continuing to factor in the company's Ba2 rating strong probability of state support in the event of financial distress, as well as high default dependence between the company and the Russian government.

These actions follow Moody's confirmation of Russia's government bond rating at Ba1 with a negative outlook on 22 April 2016 and conclude the review for downgrade initiated by Moody's on 9 March 2016. For additional information, please refer to the related announcement: http://www.moody.com/viewresearchdoc.aspx?docid=PR_347453.

A full list of affected ratings is provided towards the end of this press release.

RATINGS RATIONALE

- CONFIRMATIONS

The confirmation of the ratings reflects Moody's opinion that (1) the credit risks for the 12 Russian utilities and infrastructure issuers affected by today's rating action remains manageable; and (2) the assumption of extraordinary state support embedded within the companies' ratings remains in place given that Russian government's credit strength remains sufficient.

The key drivers for the confirmation are (1) the Russian economy's resilience to the oil price shocks observed early in 2016 owing to an effective blend of macro policy responses; (2) the fiscal adjustment performed by the Russian authorities appears sufficient to reduce the 2016-18 deficits to a level that can be financed in the domestic capital markets and fiscal reserve drawdowns; and (3) the individual companies' operating and financial metrics are commensurate with Moody's requirements for companies' current ratings; and (4) the companies will maintain good liquidity positions given the companies' good access to Russian state-owned banks and the Russian rouble-bond market.

However, Moody's expects that the operating environment for these companies will remain challenging. This is the result of continuing weak domestic demand resulting from Russia's structurally weak growth potential, as well as the limited availability of favorably priced investment capital. Moreover, a set of policies that would address the economy's low growth potential have yet to emerge.

- RAISING OF INTER RAO'S BCA

The raise of Inter RAO's BCA reflects strong credit metrics of the company in financial year 2015 and the agency's expectations that the company's credit profile will continue strengthening in the next 12-24 months. This is underpinned by ongoing commissioning of new capacities built under capacity supply agreements (CSA) with the Russian state envisaging a stream of payments over the next 10 years if Inter RAO's plants are available that would enable the company to earn a predictable return on its recent investments. This new capacity will increment cash flow generation and enhance its stability in future years. The raise of BCA is also underpinned by a reduction of capex starting from 2017 to maintenance levels following the completion of the investment cycle. This moderation in capex will reduce the need of new debt. In the next 12-24 months Moody's expects Inter RAO to generate positive free cash flow, its FFO interest coverage ratio to stay above

7x and its FFO/debt to increase above 70%.

- OUTLOOKS

The negative outlook on Transneft's, Atomenergoprom's and FGC UES's ratings mirrors the negative outlook of Russia's sovereign rating and reflects the fact that these companies' ratings are positioned at the same level as the sovereign rating and the Russian foreign currency bond ceiling. Any downgrade of the Russian sovereign rating and/or foreign currency bond ceiling would result in a downgrade of these companies' ratings.

The stable outlook on the ratings of RusHydro, Inter RAO, NCSP, ROSSETI and its subsidiaries 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 even in a scenario where Russian sovereign rating is downgraded by one notch.

WHAT COULD CHANGE THE RATINGS UP/DOWN

There is a low probability of a positive pressure on all the ratings at present given the negative outlook on the sovereign rating of Russia and companies exposure to the weak domestic macroeconomic environment.

Moody's could change the outlook on the ratings of Transneft, Atomenergoprom and FGC UES to stable if it were to change the outlook on Russia's government bond rating to stable, provided there was no material deterioration in company-specific factors, including rating positioning, operating and financial performance, liquidity, and the rating agency's 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 some or all the ratings if Moody's were to (1) downgrade Russia's sovereign rating; and/or (2) the rating agency were to revised down the probability of the Russian government providing extraordinary support to 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 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 regulatory regime and significantly deteriorating margins; (2) company failure 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 regulatory and market framework, or if the company fails to limit financial profile deterioration, reflected in a debt-to-EBITDA ratio significantly above 3x and funds from operations interest coverage significantly below 5x and on a sustained basis. The company's inability to maintain adequate liquidity could also put pressure on the rating.

Downward pressure on Inter RAO's BCA could develop if the company is not able to strengthen its cash flow generation as planned and/or the company engages in debt-funded acquisitions or more ambitious capex programme resulting in an increase in leverage (measured as Debt/EBITDA) above 2.0x.

Downward pressure on ROSSETI's rating could result from (1) a negative shift in 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 programme 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%.

NCSP's rating is likely to be downgraded if (1) there is an increasing likelihood of transformational changes to NCSP's ownership and business structure with uncertain or negative consequences for NCSP's credit quality;

(2) NCSP's financial profile were to deteriorate, with FFO interest coverage and the ratio of FFO to debt trending towards below 3x and 15%, respectively; or if (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 regulatory and market framework; and (3) companies' failure to manage their investment programmes 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, 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 also negatively influence the rating.

LIST OF AFFECTED RATINGS

Confirmations:

Atomenergoprom, JSC

... Probability of Default Rating, Confirmed at Ba1-PD

... Corporate Family Rating, Confirmed at Ba1

Federal Grid Finance Limited

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

...Senior Unsecured Regular Bond/Debenture, Confirmed at Ba1

FGC UES, JSC

... Probability of Default Rating, Confirmed at Ba1-PD

... Corporate Family Rating, Confirmed at Ba1

IDGC of Center and Volga Region, PJSC

... Probability of Default Rating, Confirmed at Ba2-PD

... Corporate Family Rating, Confirmed at Ba2

IDGC of Urals, JSC

... Probability of Default Rating, Confirmed at Ba2-PD

... Corporate Family Rating, Confirmed at Ba2

IDGC of Volga, PJSC

... Probability of Default Rating, Confirmed at Ba2-PD

... Corporate Family Rating, Confirmed at Ba2

Inter RAO, PJSC

... Probability of Default Rating, Confirmed at Ba2-PD

... Corporate Family Rating, Confirmed at Ba2

Lenenergo, PJSC

... Probability of Default Rating, Confirmed at Ba2-PD

... Corporate Family Rating, Confirmed at Ba2

MOESK, PJSC

... Probability of Default Rating, Confirmed at Ba2-PD

... Corporate Family Rating, Confirmed at Ba2

Novorossiysk Commercial Sea Port, PJSC

... Probability of Default Rating, Confirmed at Ba3-PD

... Corporate Family Rating, Confirmed at Ba3

OAO AK Transneft

... Probability of Default Rating, Confirmed at Ba1-PD

... Corporate Family Rating, Confirmed at Ba1

ROSSETI, PJSC

... Probability of Default Rating, Confirmed at Ba2-PD

... Corporate Family Rating, Confirmed at Ba2

RusHydro, PJSC

... Probability of Default Rating, Confirmed at Ba2-PD

... Corporate Family Rating, Confirmed at Ba2

TransCapitalInvest Limited

...Senior Unsecured Regular Bond/Debenture, Confirmed at Ba1

Outlook Actions:

Atomenergoprom, JSC

Outlook: Changed To Negative From Rating Under Review

Federal Grid Finance Limited

Outlook: Changed To Negative From Rating Under Review

FGC UES, JSC

Outlook: Changed To Negative From Rating Under Review

IDGC of Center and Volga Region, PJSC

Outlook: Changed To Stable From Rating Under Review

IDGC of Urals, JSC

Outlook: Changed To Stable From Rating Under Review

IDGC of Volga, PJSC

Outlook: Changed To Stable From Rating Under Review

Inter RAO, PJSC

Outlook: Changed To Stable From Rating Under Review

Lenenergo, PJSC

Outlook: Changed To Stable From Rating Under Review

MOESK, PJSC

Outlook: Changed To Stable From Rating Under Review

Novorossiysk Commercial Sea Port, PJSC

Outlook: Changed To Stable From Rating Under Review

OAO AK Transneft

Outlook: Changed To Negative From Rating Under Review

ROSSETI, PJSC

Outlook: Changed To Stable From Rating Under Review

RusHydro, PJSC

Outlook: Changed To Stable From Rating Under Review

TransCapitalInvest Limited

Outlook: Changed To Negative From Rating Under Review

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 methodologies used in rating Novorossiysk Commercial Sea Port, PJSC were Privately Managed Port Companies published in May 2013, and Government-Related Issuers published in October 2014.

Please see the Ratings Methodologies page on www.moodys.com for a copy of these methodologies.

Fully controlled by the Russian government (the government owns 100% of its voting shares), OAO AK Transneft (Transneft) is the largest crude oil transportation company in the world. 2015 reported sales reached around RUB674.2 billion, or \$11 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. As of 31 December 2015, the group generated revenue of RUB657.1 billion (around \$10.7 billion). 100% of Atomenergoprom's voting shares are ultimately owned by the Russian government through the State Atomic Energy Corporation "Rosatom" (Rosatom) (94,349% of the issued shares of all categories) and the Ministry of Finance of the Russian Federation (5,651% of the issued shares of all categories)

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 31 December 2015) owned by the Russian government. As of end-2015, RusHydro generates revenue of RUB361.8 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 RUB805.3 billion (\$13.1 billion) in 2015. Inter RAO is controlled by the Russian government through several state-controlled entities (own over 50.00% of the company as of 31 December 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 RUB187 billion (around \$3.1 billion) in 2015 (other operating income of RUB4 billion, primarily from non-core activities, is not included). FGC is 80.13% owned by state-owned PJSC 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 31 December 2015 Russian government owns a 86.32% of ordinary shares and 7.01% of preferred shares in ROSSETI. As of December 31, 2015 the company generated revenue of around RUB766.8 billion (around \$12.5 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 2015, NCSP generated revenue of \$877.2 million.

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