

**Rating Action: Moody's changes outlook to stable on 4 Russian utility companies and their affiliates following Russian outlook change to stable; affirms ratings**

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London, 21 February 2017 -- Moody's Investors Service has today changed to stable from negative the outlook on the ratings of (1) Atomenergoprom, JSC (Ba1), (2) Inter RAO, PJSC (Ba1), (3) Transneft, PJSC (Ba1) and its affiliate TransCapitalInvest DAC (Ba1), and (4) FGC UES, JSC (Ba1) and its affiliate Federal Grid Finance Limited (Ba1). Concurrently, Moody's has affirmed these ratings.

Today's action follows Moody's affirmation of Russia's Ba1/Not Prime government bond ratings and change of the outlook on these ratings to stable from negative on 17th February 2017. Russia's foreign currency bond country ceiling remains unchanged at Ba1/Not Prime. For additional information, please refer to the related press-release: [https://www.moody.com/research/--PR\\_361387](https://www.moody.com/research/--PR_361387)

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

**RATINGS RATIONALE**

The change of the outlook on the ratings of four Russian utilities to stable from negative reflects that these ratings are positioned at the same level as Russia's sovereign. Moody's does not currently envision that these ratings could be higher than that of the sovereign. This is underpinned by (1) the companies' strong domestic focus; (2) the companies' ownership by the Russian government; and (3), for Atomenergoprom and FGC UES, the one notch uplift incorporated in their ratings to reflect the likelihood that the Russian government would step in with timely support to avoid a payment default if necessary. At the same time, the stabilisation of the outlook on the sovereign rating removes the potential downward pressure on the ratings of these four companies.

Consequently, the affirmation of ratings of the four Russian utilities reflects Moody's expectations that 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. In particular:

- Transneft, PJSC

Transneft, PJSC's Ba1 rating is capped by Russia's sovereign rating and continues to factor in (1) the company's monopoly position as the main oil pipeline operator in Russia; (2) the recovery of investments through appropriate tariff decisions which, however, may in the future be challenged by tariff-growth-capped regulation and indirectly affected by the challenges in the global oil market and weak domestic economic conditions; (3) the company's solid financial profile with funds flow from operations (FFO)/interest at 7.3x and FFO/net debt at 35.4% in 2015 and; (4) Moody's expectation that the company's financial profile and liquidity will remain strong within the next 12-24 months. Transneft's rating remains constrained by the (1) challenging macroeconomic environment in Russia; and (2) the relatively immature regulatory framework for the Russian utility sector with above average risks of political interference.

- Inter RAO, PJSC

Inter RAO, PJSC's rating of Ba1 continues to reflect the company's strong credit metrics, which we expect to improve further, driven by ongoing commissioning of new power generation capacities, built under capacity supply agreements with the Russian state, which will generate additional cash flow and enhance cash flow stability in future years. It is also driven by (1) the reduction in capital expenditure starting from 2017 to maintenance levels which decreases the need for new debt; and (2) the recent steps taken by management to improve operating efficiency. Inter RAO's rating also factors in the company's strong position in Russia's power market and its diversified business profile. Nevertheless, Inter RAO's rating remains constrained by the challenging economic environment in Russia expected in the next 12-24 months; and the relatively immature regulatory framework for the Russian utility sector with above average risks of political interference.

- Atomenergoprom, JSC

Atomenergoprom, JSC's Ba1 rating continues to reflect (1) its monopoly position as the operator of domestic nuclear power plants; (2) a good degree of vertical integration in all stages of the nuclear process and low cost production; (3) its strong position in international markets in various aspects of the nuclear business (new unit construction, uranium mining and enrichment, nuclear fuel supply); and (4) a solid financial profile with funds flow from operations (FFO)/ interest coverage of 7.9x, retained cash flow (RCF)/debt of 47% and debt/EBITDA at 1.4x in 2015, together with Moody's expectations that the company's financial metrics will remain within the guidance for the current rating. At the same time, the rating is constrained by (1) the challenging operating environment expected for Russian companies in the next 12-24 months; (2) the relatively immature regulatory framework for the Russian utility sector (contributing around 40% of the company's revenue and EBITDA in 2015); and (3) execution and political risks arising from Atomenergoprom's growing nuclear unit construction business overseas.

#### - FGC UES, JSC

FGC UES, JSC's rating of Ba1 continues to factor in the company's (1) strategic role in the Russian electricity market as the national electricity transmission grid operator; (2) solid profitability with an EBITDA margin of around 60%; and (3) a robust financial profile with funds from operations(FFO)/net debt at 32.1% and debt/EBITDA at 2.6x in 2015, together with Moody's expectations that the company's financial metrics will remain within the guidance for the current rating. At the same time, the rating is constrained by (1) the challenging operating environment expected for Russian companies in the next 12-24 months; and (2) the relatively immature regulatory framework for the Russian utility sector with above average risks of political interference.

#### RATIONALE FOR STABLE OUTLOOK

The stable outlook on the ratings of the above four Russian utilities mirrors the stable outlook of Russia's sovereign rating and reflects that these ratings are positioned at the same level as the Russian Government rating. It also reflects Moody's assumption that the credit profiles of these companies will remain commensurate with their current ratings on a sustainable basis.

#### WHAT COULD CHANGE THE RATINGS UP/DOWN

##### - Transneft, PJSC

Moody's does not expect positive pressure on Transneft's ratings in the near terms owing to the stable outlook on the sovereign rating of Russia. However, Transneft's ratings are likely to be raised if Moody's were to raise Russia's sovereign rating, provided there was no material deterioration in company-specific factors, including operating and financial performance and liquidity.

Conversely, negative pressure would be exerted on Transneft's ratings if there were a downgrade or a change of the outlook to negative on Russia's sovereign rating. We could also 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.

##### - Inter RAO, PJSC

Moody's does not expect positive pressure on Inter RAO ratings in the near term, given the stable outlook on the sovereign rating of Russia and the company's exposure to the weak domestic macroeconomic environment. However, positive pressure could be exerted on Inter RAO's ratings if Moody's were to raise Russia's sovereign rating and the domestic macroeconomic environment were to improve.

Conversely, negative pressure would be exerted on Inter RAO's ratings if there were a downgrade or a change of the outlook to negative on Russia's sovereign rating. Downward pressure on Inter RAO's ratings could also 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 capital expenditure leading to a significantly weaker financial profile.

##### - Atomenergoprom, JSC

Positive pressure on Atomenergoprom's ratings is unlikely at the moment, given the stable outlook on the sovereign rating of Russia and the company's exposure to the weak domestic macroeconomic environment. However, positive pressure could be exerted on Atomenergoprom's rating if (1) Moody's were to raise Russia's

sovereign rating, and (2) the domestic macroeconomic environment were to improve leading to a material strengthening of Atomenergoprom's stand-alone credit profile.

Conversely, negative pressure would be exerted on Atomenergoprom's ratings if there were a downgrade or a change of the outlook to negative on Russia's sovereign rating. Atomenergoprom's ratings could also be downgraded if the company's financial profile deteriorates materially, 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% on a continued basis. In addition, the lack of adequate liquidity could put pressure on the company's ratings.

#### FGC UES, JSC

Positive pressure on FGC UES's ratings is unlikely at the moment, given the stable outlook on the sovereign rating of Russia and the company's exposure to the weak domestic macroeconomic environment. However, positive pressure could be exerted on FGC UES's ratings if Moody's were to raise Russia's sovereign rating and the domestic macroeconomic environment were to improve leading to a material strengthening of FGC UES's stand-alone credit profile.

Negative pressure would be exerted on FGC UES's ratings if there were a downgrade or a change of the outlook to negative on Russia's sovereign rating. Negative pressure on FGC UES's ratings could also result from (1) a sustainable negative shift in the developing regulatory regime; (2) a failure of the company to manage its investment programme in line with the tariff regulation which resulted in a deterioration of its financial profile, with funds from operations (FFO) interest coverage and FFO/net debt falling materially and persistently below 3.5x and 25%, respectively; or (3) pressured liquidity.

#### LIST OF AFFECTED RATINGS

##### Affirmations:

..Issuer: Transneft, PJSC

.... Corporate Family Rating, Affirmed at Ba1

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

..Issuer: TransCapitalInvest DAC

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

..Issuer: Inter RAO, PJSC

.... Corporate Family Rating, Affirmed at Ba1

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

..Issuer: Atomenergoprom, JSC

.... Corporate Family Rating, Affirmed at Ba1

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

..Issuer: FGC UES, JSC

.... Corporate Family Rating, Affirmed at Ba1

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

..Issuer: Federal Grid Finance Limited

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

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

##### Outlook Actions:

..Issuer: Transneft, PJSC

...Outlook, Changed To Stable From Negative

..Issuer: TransCapitalInvest DAC

...Outlook, Changed To Stable From Negative

..Issuer: Inter RAO, PJSC

...Outlook, Changed To Stable From Negative

..Issuer: Atomenergoprom, JSC

...Outlook, Changed To Stable From Negative

..Issuer: FGC UES, JSC

...Outlook, Changed To Stable From Negative

..Issuer: Federal Grid Finance Limited

...Outlook, Changed To Stable From Negative

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

Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of these methodologies.

Fully controlled by the Russian government (the latter owns 100% of its voting shares), Transneft, PJSC is the largest crude oil transportation company in the world. 2015 reported sales reached around RUB674.2 billion, or \$11.1 billion (net of revenues from crude oil supplies to China, which are mirrored by the oil purchase costs, under a 2009-dated \$10 billion, 20-year loan-for-oil deal).

Atomenergoprom, JSC is the holding company for numerous subsidiaries which represent the civil Russian nuclear industry. The group generated revenue of RUB657.1 billion (around \$10.9 billion) in 2015. 100% of Atomenergoprom's voting shares are owned by the Russian government through the State Atomic Energy Corporation Rosatom.

Inter RAO, PJSC 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 who own over 50% of the company.

Federal Grid Company of Unified Energy System, JSC (FGC UES) 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. FGC UES is 80.13% owned by Russia's state-owned JSC ROSSETI.

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