

**Rating Action: Moody's takes rating actions on 26 Russian non-financial corporates**

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**Follows Russia's country ceiling for foreign currency debt rising to Baa3/P-3 and the outlook on Russia's long-term issuer Ba1 rating changing to positive from stable**

London, 29 January 2018 -- Moody's Investors Service ("Moody's") has today assigned Baa3 long-term issuer ratings to 13 Russian non-financial corporates and their family entities, while concurrently withdrawing their Ba1 corporate family ratings (CFRs) and Ba1-PD probability of default ratings (PDRs). The outlooks for these entities have been changed to positive from stable. Baseline credit assessments (BCA) for all of the government-related issuers (GRIs) in this cohort were upgraded to baa3 from ba1, while support and dependence assumptions remain unchanged.

Moody's has also assigned Baa3 long-term issuer ratings with a stable outlook to six Russian non-financial corporates and their family entities, concurrently withdrawing their Ba1 CFRs and Ba1-PD PDRs. BCAs for all of the GRIs in this cohort were upgraded to baa3 from ba1, while support and dependence assumptions remain unchanged.

Moody's has affirmed the Ba1 CFRs and the Ba1-PD PDRs of six Russian non-financial corporates and their family entities and changed the outlook to positive from stable on these ratings. For all the affected GRIs in this cohort, their respective BCAs, support and dependence assumptions remain unchanged except for Atomenergoprom, JSC, for which the BCA was upgraded to ba1 from ba2.

Finally, Moody's has affirmed the Ba2 CFR and the Ba2-PD PDR of Svyazinvestneftekhim JSC and changed the outlook to positive from stable on its ratings. Svyazinvestneftekhim JSC's BCA, support and dependence assumptions remain unchanged.

Today's actions follow a sovereign rating action on the government of Russia which took place on 25 January 2018, during which Moody's changed the outlook on Russia's Ba1 long-term issuer and senior unsecured debt ratings to positive from stable. Concurrently, Moody's affirmed Russia's long-term ratings at Ba1 and its short-term rating at Not Prime (NP). The change in the outlook on Russia's Ba1 ratings was driven by the following rating factors:

- Growing evidence of institutional strength. Russia's macroeconomic framework coped well with the oil price shock and with the impact of sanctions imposed to date, and enhancements have been made to the government's rule-based fiscal framework; and
- Relatedly, increased evidence of economic and fiscal resiliency that has reduced Russia's vulnerability to further external shocks arising from geopolitical tensions or from renewed declines in oil prices.

In a related decision, Moody's has raised Russia's country ceilings for foreign currency debt to Baa3/P-3 from Ba1/NP to reflect diminished concerns that the government might impose capital controls or otherwise ration foreign exchange reserves.

Moody's also raised the country risk ceilings for local currency-denominated debt and deposits to Baa2 from Baa3. A country ceiling generally indicates the highest rating level that any issuer domiciled in that country can attain for instruments of that type and currency denomination. For additional information, please refer to the related announcement [https://www.moodys.com/research/--PR\\_378221](https://www.moodys.com/research/--PR_378221).

Please click on this link [http://www.moodys.com/viewresearchdoc.aspx?docid=PBC\\_198352](http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_198352) for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

**RATINGS RATIONALE**

"The raising of Russia's country ceilings for foreign currency debt to Baa3/P-3 from Ba1/NP has resulted in a decoupling of the ratings of some of the strongest Russian corporates from Russia's long-term issuer rating,

which remains at Ba1, and led to the assignment of the Baa3 long-term issuer ratings to 19 Russian companies in the oil and gas, steel, mining, infrastructure, utilities and chemical sectors," says Victoria Maisuradze, Moody's Associate Managing Director. "These companies possess a number of characteristics, which give them a degree of resilience against sovereign or macroeconomic stress."

Out of these corporates, 15 companies in the oil and gas, steel, mining and chemical sectors (for which Ba1 CFRs were withdrawn and the long-term issuer rating of Baa3 with varying outlooks was assigned) exhibit particularly strong credit metrics with a substantial share of foreign currency revenue and strong liquidity profiles, which gives them a degree of resilience at times of sovereign stress. All of these entities have robust business models, are cost leaders in their sectors and visible players both in the domestic market and abroad, factors that merited a modest rating differentiation relative to Russia's Ba1 long-term issuer and senior unsecured debt rating and factoring in the sovereign ceiling for foreign currency debt being raised to Baa3/P3 from Ba1/NP. Foreign currency revenue stream, combined with costs bases and capital spending that are largely in roubles, provides the strongest Russian companies in these sectors with a degree of insulation from local market stress and helps cushion the effects of foreign-currency debt revaluations on their leverage metrics.

The credit profiles of Russian power and utilities, telecommunications and infrastructure companies are more sensitive to the domestic macroeconomic environment. These companies operate in the same economic and financial environment as exporters. However, they lack revenue diversification and are therefore more vulnerable to macroeconomic stresses. That explains why the majority of the companies in this cohort continue to be rated at Ba1 with varying outlooks, reflecting the degree of interlinkage with the sovereign and their differing credit profiles, which remain fairly strong. Lack of clarity on the magnitude of potential capital spending related to the regulatory requirements on data storage served as a constraining factor for Ba1 rated Russia's strongest telecommunication providers.

Nevertheless, some of these companies may demonstrate a degree of resilience to the domestic macroeconomic and financial disruption in the event of sovereign distress due to their fundamentally strong credit profiles. Russian Railways Joint Stock Company (Baa3 positive) and its subsidiary Federal Passenger Company OJSC (Baa3 positive), Transneft, PJSC (Baa3 positive) and Inter RAO, PJSC (Baa3 stable) have fundamentally strong credit quality due to their resilient business models and market positioning (including monopoly status for some of them), diversified customer bases (albeit predominantly domestic), as well as modest levels of debt and strong liquidity profiles - factors that merited modest rating differentiation relative to Russia's sovereign rating factoring in the sovereign ceiling for foreign currency debt being raised to Baa3/P3 from Ba1/NP. As a result, Ba1 CFRs were withdrawn for these companies and the long-term issuer rating of Baa3 with positive or stable outlooks was assigned.

For some GRIs where ratings are now higher than the sovereign rating, our ratings assume a continuation of their strong stand alone credit profiles, and a continuation of their operations without negative government interference that could otherwise be a constraining factor to their ratings.

Some of the companies on which the rating action was taken are subject to US/EU sanctions. They have less diversified sources of funding and greater reliance on state controlled banks and local capital markets. However, they also demonstrated their ability to adapt to these new conditions since the sanctions were imposed in 2014 with these companies' vulnerability to such events somewhat receding.

#### RATIONALE FOR RATINGS OUTLOOK

Differing (positive or stable) outlooks assigned to 26 Russian non-financial corporates reflect the differentiation of their credit profiles and Moody's view on their potential further rating migration if Russia's long-term rating is upgraded or Russia's country ceilings for foreign currency debt are raised, provided that this is merited by their stand alone credit profiles at the time.

These multiple outlooks assigned to the affected non-financial corporates also reflect Moody's expectation that each company's specific credit factors, including their operating and financial performance, market position, financial leverage and liquidity will remain commensurate with their ratings on a sustainable basis. In some cases the ratings remain constrained by the sovereign ceiling, while in other cases the ratings and outlooks reflect the underlying credit strength of the companies and are no longer constrained by the sovereign ceiling.

The positive outlook on the Ba2 rating of Svyazinvestneftekhim JSC is in line with the outlook on the rating of the Republic of Tatarstan (Ba2 positive) and reflects the company's strong linkages with the government of the Republic of Tatarstan as a 100% government-owned entity and manager of the Republic of Tatarstan's key

assets, as well as the improved credit profile of the company via its growing dividend stream from one of its key portfolio companies -- Tatneft PJSC.

#### PRINCIPAL METHODOLOGIES

The principal methodology used in rating PJSC PhosAgro, PhosAgro Bond Funding DAC, Sibur Holding, PJSC and Sibur Securities DAC was Chemical Industry published in January 2018.

The principal methodology used in rating Gazprom Neft PJSC, GPN Capital S.A., Lukoil, PJSC and LUKOIL International Finance B.V. was Global Integrated Oil & Gas Industry published in October 2016.

The principal methodology used in rating MMC Norilsk Nickel, PJSC and MMC Finance DAC was Global Mining Industry published in August 2014.

The principal methodology used in rating Federal Passenger Company OJSC was Global Passenger Railway Companies published in June 2017.

The principal methodology used in rating PAO Novatek and Novatek Finance Limited was Independent Exploration and Production Industry published in May 2017.

The principal methodology used in rating Magnitogorsk Iron & Steel Works, NLMK, Steel Funding D.A.C., PAO Severstal and Steel Capital S.A. was Steel Industry published in September 2017.

The principal methodology used in rating MegaFon PJSC, Mobile TeleSystems PJSC and MTS International Funding Limited was Telecommunications Service Providers published in January 2017.

The methodologies used in rating Bashneft PJSC, Gazprom, PJSC, Gaz Capital S.A., Gazprom ECP S.A., OOO Gazprom Capital, PJSC Oil Company Rosneft, Rosneft International Finance Limited, Rosneft International Holdings Limited, Rosneft Finance S.A. and Tatneft PJSC were Global Integrated Oil & Gas Industry published in October 2016, and Government-Related Issuers published in August 2017.

The methodologies used in rating ALROSA PJSC and Alrosa Finance S.A. were Global Mining Industry published in August 2014, and Government-Related Issuers published in August 2017.

The methodologies used in rating Russian Railways Joint Stock Company and RZD Capital PLC were Global Surface Transportation and Logistics Companies published in May 2017, and Government-Related Issuers published in August 2017.

The methodologies used in rating Svyazinvestneftekhim JSC were Investment Holding Companies and Conglomerates published in December 2015, and Government-Related Issuers published in August 2017.

The methodologies used in rating FGC UES, PJSC, Federal Grid Finance Limited, ROSSETI, PJSC, Transneft, PJSC and TransCapitalInvest DAC were Regulated Electric and Gas Networks published in March 2017, and Government-Related Issuers published in August 2017.

The methodologies used in rating Atomenergoprom, JSC, Inter RAO, PJSC, RusHydro, PJSC and RusHydro Capital Markets DAC were Unregulated Utilities and Unregulated Power Companies published in May 2017, and Government-Related Issuers published in August 2017.

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

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