

Rating Action: Moody's takes rating actions on six Russian utility and infrastructure GRIs; assigns negative outlook

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Actions follow weakening of sovereign creditworthiness

London, 25 February 2015 -- Moody's Investors Service has today downgraded five Russian utility and infrastructure government-related issuers (GRIs) -- OAO AK Transneft; Atomenergoprom JSC; RusHydro JSC; Inter RAO JSC; and ROSSETI JSC -- and confirmed the ratings of a sixth, FGC UES JSC. The outlook on all the ratings is negative. The actions conclude the review for downgrade for these companies initiated by Moody's on 23 December 2014.

The rating actions reflect the weakening of the macroeconomic and financial climate in Russia, as reflected by Moody's downgrade of Russia's government bond rating and the Russian foreign currency bond ceiling to Ba1/Not Prime (negative outlook) from Baa3/Prime 3 (review for downgrade) on Friday 20 February.

For additional information, please refer to the related announcement https://www.moodys.com/research/--PR_318857

The ratings of OJSC MOESK, JSC Lenenergo, JSC IDGC of Urals, JSC IDGC of Center and Volga Region, IDGC of Volga, PJSC Novorossiysk Commercial Sea Port and OJSC Enel Russia remain on review for downgrade as Moody's continues to assess these companies' resilience to the increased risks arising from the prevailing negative operating conditions.

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

RATINGS RATIONALE

The weakening of Russia's credit profile, as captured by Moody's downgrade of the sovereign and the foreign currency bond ceiling to Ba1 from Baa3, has prompted the rating actions (detailed below) on the affected companies as they face an increasingly challenging operating environment.

RATIONALE FOR DOWNGRADES OF TRANSNEFT, ATOMENERGOPROM, RUSHYDRO, INTER RAO AND ROSSETI

OAO AK Transneft: Transneft's issuer rating has been downgraded to Ba1 from Baa3 and converted into a corporate family rating (CFR) in line with the rating agency's practice for corporates with non-investment-grade ratings. Concurrently, Moody's has assigned a Ba1-PD probability of default rating (PDR) to Transneft.

At the same time, Moody's downgraded to Ba1 from Baa3 the senior unsecured rating of the outstanding \$1.05 billion loan participation notes issued by TransCapitalInvest Limited, Transneft's special purpose financing vehicle.

The baseline credit assessment (BCA) has been lowered to ba1. The outlook for the ratings is negative.

Transneft's downgrade reflects the stressed domestic operating environment in Russia. Transneft's rating is capped by the Russian foreign currency bond ceiling. Absent this constraint Moody's would see Transneft as having a credit profile captured by a rating higher than Ba1.

Atomenergoprom JSC: Atomenergoprom's issuer rating has been downgraded to Ba1 from Baa3 and converted into a CFR. Concurrently, Moody's has assigned a Ba1-PD probability of default rating (PDR) to Atomenergoprom. The BCA remains unchanged at ba2. The outlook for the ratings is negative.

RusHydro JSC: RusHydro's CFR and PDR have been downgraded to Ba2 and Ba2-PD from Ba1 and Ba1-PD, respectively. Concurrently, Moody's downgraded RusHydro's senior unsecured rating of its RUB20 billion (around \$500 million) loan participation notes to Ba2 from Ba1. The BCA remains unchanged at ba3. The outlook for the ratings is negative.

Inter RAO JSC: Inter RAO's CFR and PDR have been downgraded to Ba2 and Ba2-PD from Ba1 and Ba1-PD respectively. The BCA remains unchanged at ba3. The outlook for the ratings is negative.

ROSSETI JSC: Rosseti's CFR and PDR have been downgraded to Ba2 and Ba2-PD from Ba1 and Ba1-PD respectively. The BCA remains unchanged at ba3. The outlook for the ratings are negative.

The downgrades of Atomenergoprom, RusHydro, Inter RAO and ROSSETI reflect their strong linkages with the Russian sovereign, the significant level of potential extraordinary support embedded within their ratings, and their consequent high sensitivity to changes in sovereign creditworthiness. The amount of government support has been reduced to one notch from their BCAs to reflect the weaker sovereign creditworthiness.

RATIONALE FOR CONFIRMATION OF THE RATING OF FGC UES

FGC UES JSC: FGC's issuer rating has been confirmed at Ba1 and converted it into a CFR. Concurrently, Moody's has confirmed the (P)Ba1 senior unsecured rating of FGC's RUB100 billion (around \$1.5 billion) loan participation note programme, and the Ba1 senior unsecured rating of the first series of RUB17.5 billion (around \$270 million) worth of notes issued by Federal Grid Finance Limited, an FGC special purpose financing vehicle. The BCA remains unchanged in the ba range. The outlook for the ratings is negative. The confirmation of FGC's ratings reflects Moody's view that the existing strong probability of government support embedded within FGC's ratings remains appropriate.

RATIONALE FOR NEGATIVE OUTLOOK

The negative outlook on Transneft's ratings reflects the fact that the ratings are capped at the Russian foreign currency bond ceiling, and any downgrade of the foreign currency bond ceiling would result in a downgrade of Transneft's ratings.

The negative outlook on the ratings of Atomenergoprom, RusHydro, InterRAO and ROSSETI, reflects the fact that their ratings incorporate an element of extraordinary government support, which may reduce in the event of a further downgrade of Russia's sovereign rating.

WHAT COULD CHANGE THE RATINGS UP/DOWN

Upward pressure on all the ratings is unlikely at present, given the negative outlook on the ratings. Moody's could change the outlook on the ratings 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 operating and financial performance and liquidity.

Moody's would downgrade some or all of Transneft's, Atomenergoprom's FGC UES's, Inter RAO's RusHydro's and ROSSETI's ratings, if it were to (1) further downgrade the rating of the Russian government; or (2), for Atomenergoprom, FGC UES, Inter RAO, RusHydro and ROSSETI, revise downwards its assessment of the probability of the Russian government providing extraordinary support to the companies 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 deterioration in the operating environment in Russia were to lead to (1) a significantly weaker financial profile (i.e., retained cash flow (RCF)/net debt below 15%, funds from operations (FFO) net interest coverage below 4.0x and FFO/net debt below 25%); and (2) 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, FFO interest coverage below 5.0x and RCF/debt below 25% materially on a continued basis. In addition, the lack of adequate liquidity could put pressure on its ratings, 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 which resulted in 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.

Moody's could also downgrade RusHydro's ratings 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 a debt-to-EBITDA ratio above 3x and FFO interest coverage below 5.0x significantly (i.e. by 10%-15%, and on a permanent basis). The company's inability to maintain adequate liquidity could also pressure the rating.

Downward pressure on Inter RAO's rating 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.

Negative 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 margins; (2) pressured liquidity; (3) a failure of ROSSETI to manage its investment programme in line with the tariff regulation and contain deterioration of its financial profile, with FFO interest coverage and FFO/net debt falling materially and persistently below 3.0x and 20% respectively.

RATINGS AFFECTED BY TODAY'S ACTIONS

Downgrades:

..Issuer: Inter RAO, JSC

.... Probability of Default Rating, Downgraded to Ba2-PD from Ba1-PD

.... Corporate Family Rating (Foreign Currency), Downgraded to Ba2 from Ba1

.... Corporate Family Rating (Local Currency), Downgraded to Ba2 from Ba1

..Issuer: ROSSETI, JSC

.... Probability of Default Rating, Downgraded to Ba2-PD from Ba1-PD

.... Corporate Family Rating (Foreign Currency), Downgraded to Ba2 from Ba1

..Issuer: RusHydro, JSC

.... Probability of Default Rating, Downgraded to Ba2-PD from Ba1-PD

.... Corporate Family Rating (Foreign Currency), Downgraded to Ba2 from Ba1

....Senior Unsecured Regular Bond/Debenture (Local Currency) Oct 28, 2015, Downgraded to Ba2 from Ba1

..Issuer: TransCapitalInvest Limited

....Senior Unsecured Regular Bond/Debenture (Foreign Currency) Aug 7, 2018, Downgraded to Ba1 from Baa3

Assignments:

..Issuer: Atomenergoprom, JSC

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

.... Corporate Family Rating, Assigned Ba1

..Issuer: Federal Grid Finance Limited

....Senior Unsecured Regular Bond/Debenture (Foreign Currency) Mar 13, 2019, Assigned a range of LGD4, 50 %

..Issuer: FGC UES, JSC

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

.... Corporate Family Rating, Assigned Ba1

..Issuer: OAO AK Transneft

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

.... Corporate Family Rating, Assigned Ba1

..Issuer: TransCapitalInvest Limited

....Senior Unsecured Regular Bond/Debenture (Foreign Currency) Aug 7, 2018, Assigned a range of LGD4, 50 %

Outlook Actions:

..Issuer: Atomenergoprom, JSC

....Outlook, Changed To Negative From Rating Under Review

..Issuer: Federal Grid Finance Limited

....Outlook, Changed To Negative From Rating Under Review

..Issuer: FGC UES, JSC

....Outlook, Changed To Negative From Rating Under Review

..Issuer: Inter RAO, JSC

....Outlook, Changed To Negative From Rating Under Review

..Issuer: OAO AK Transneft

....Outlook, Changed To Negative From Rating Under Review

..Issuer: ROSSETI, JSC

....Outlook, Changed To Negative From Rating Under Review

..Issuer: RusHydro, JSC

....Outlook, Changed To Negative From Rating Under Review

..Issuer: TransCapitalInvest Limited

....Outlook, Changed To Negative From Rating Under Review

Confirmations:

..Issuer: Federal Grid Finance Limited

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

....Senior Unsecured Regular Bond/Debenture (Foreign Currency) Mar 13, 2019, Confirmed at Ba1

Withdrawals:

..Issuer: Atomenergoprom, JSC

.... Issuer Rating (Foreign Currency), Withdrawn , previously rated Baa3

.... Issuer Rating (Local Currency), Withdrawn , previously rated Baa3

..Issuer: FGC UES, JSC

.... Issuer Rating (Foreign Currency), Withdrawn , previously rated Ba1

..Issuer: OAO AK Transneft

... Issuer Rating (Foreign Currency), Withdrawn , previously rated Baa3

... Issuer Rating (Local Currency), Withdrawn , previously rated Baa3

PRINCIPAL METHODOLOGIES

The principal methodologies used in rating Transcapitalinvest Limited, Federal Grid Finance Limited, OAO AK Transneft, and FGC UES, JSC were Regulated Electric and Gas Networks published in November 2014, Loss Given Default for Speculative-Grade Non-Financial Companies in the U.S., Canada and EMEA published in June 2009 and Government-Related Issuers published in October 2014.

The principal methodologies used in rating Atomenergoprom, JSC and Inter RAO, JSC 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 RusHydro, JSC were Unregulated Utilities and Unregulated Power Companies published in October 2014, Loss Given Default for Speculative-Grade Non-Financial Companies in the U.S., Canada and EMEA published in June 2009, and Government-Related Issuers published in October 2014.

The principal methodologies used in rating ROSSETI, JSC were Regulated Electric and Gas Networks published in November 2014, 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. 2013 reported sales reached around RUB596.8 billion, or \$18.7 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 Atomenergoprom group of companies covers the whole nuclear cycle from uranium mining and enrichment to nuclear fuel production, production of electricity at nuclear power plants and construction of nuclear power units/plants both in Russia and abroad. The group generated revenue of RUB436.1 billion (around \$13.6 billion) in 2013. Atomenergoprom is 100% owned by the Russian government through the State Atomic Energy Corporation Rosatom (Rosatom).

JSC 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% at end-2014) owned by the Russian government. In 2011, following the acquisition of RAO Energy System of East, RusHydro acquired exposure to thermal power generation. As of end-2013, RusHydro Group generates revenue of RUB327 billion (around \$10 billion).

JSC 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 RUB662.3 billion (\$20.8 billion) in 2013. Inter RAO is controlled by the Russian government through several state-controlled entities (own 51,12% of the company as of 27 October 2014).

JSC ROSSETI (ROSSETI) is the holding company for FGC UES, the national transmission grid, and 15 distribution grid subsidiaries (including IDGC of Center and Volga Region, IDGC of Urals, IDGC of Volga, Lenenergo and MOESK, all five of which are rated Ba2 review for downgrade). Russian government owns a 85.31% stake (including 86.32% of ordinary shares and 7.01% of preferred shares) in ROSSETI. As of the end-2013 the company generates revenue of around RUB760 billion (around \$23 billion).

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 RUB158.0 billion (around \$4.9 billion) in 2013 (other operating income of RUB6.2 billion, primarily from non-core activities, is not included). FGC is 80.13% owned by 85.3%-state-owned JSC ROSSETI.

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