

Rating Action: Moody's takes rating actions on 16 Russian non-financial corporates following downgrade of Russia

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London, 25 February 2015 -- Moody's Investors Service has today downgraded to Ba1 from Baa3 the ratings of 14 Russian non-financial corporates and their supported subsidiaries, and converted the companies' long-term issuer ratings into corporate family ratings (CFRs), in line with the rating agency's practice for corporates with ratings in the Ba rating category and below. Concurrently, Moody's has assigned a Ba1-PD probability of default rating (PDR) to these corporates.

Moody's also downgraded the CFR and PDR of Russian Helicopters JSC to Ba3/Ba3-PD from Ba2/Ba2-PD, respectively, following the downgrade of the ratings of its support provider (the government of Russia), within the framework of Moody's methodology for Government Related Issuers (GRIs).

At the same time, Moody's confirmed the Ba1 rating of one non-financial corporate, Severstal OAO with a Ba1-PD PDR.

The rating agency assigned a negative outlook to all the affected corporates' ratings, except those of Russian Railways Joint Stock Company, Federal Passenger Company OJSC and Mobile TeleSystems OJSC, which remain on review for further downgrade.

A full list of ratings affected by this action is provided in the attached table

http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_179284

This rating action concludes the review for downgrade on the 16 affected Russian non-financial corporates, which commenced on 23 December 2014 and 20 January 2015. The review for downgrade on other rating continues.

Today's actions reflect the weakening of Russia's macroeconomic and financial climate, as captured by Moody's downgrade of Russia's government bond rating to Ba1/Not Prime (NP) from Baa3/Prime-3 (P-3) on Friday 20 February, with negative outlook. Concurrently, Moody's lowered Russia's country ceilings for foreign currency debt to Ba1/NP from Baa3/P-3; its country ceilings for local currency debt and deposits to Baa3 from Baa2; and its country ceiling for foreign currency bank deposits to Ba2/NP from Ba1/NP. 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_318857.

RATINGS RATIONALE

The weakening of Russia's credit profile, as captured by Moody's downgrade of the sovereign and Russia's country ceilings to Ba1 from Baa3 with negative outlook, has prompted the rating actions on 16 non-financial corporates as they face an increasingly challenging domestic operating environment.

Moody's believes that, even for corporates without material medium-term foreign currency refinancing needs, the likely continued severe deterioration of the operating environment might lead to a substantial weakening in their credit profiles.

The resilience of Russian non-financial corporates to the increased risk arising from the prevailing negative operating conditions in the domestic market is likely to be limited, as reflected by the alignment of the country ceiling for foreign currency debt with the sovereign rating.

Moody's believes that the Russian government's willingness to provide support to corporates, in the event of need, remains fairly strong. However, there are increasing risks that the government's supportive stance towards a particular corporate may be reduced should the government face calls for support from many entities and sectors, due to pressures developing at the sovereign level. The rating agency notes that access by Russian entities to the international capital markets, by and large, remains closed.

RATIONALE FOR NEGATIVE OUTLOOK

The negative outlook assigned to 13 of the affected non-financial corporates is in line with the negative outlook for the sovereign rating and reflects the fact that a potential further downgrade of Russia's sovereign rating may result in the further lowering of Russia's foreign and/or local currency bond country ceiling and, as a result, additional Russian corporate rating downgrades. In addition to considerations related to the sovereign rating, Moody's will also be monitoring each company's ability to address increasing country and foreign exchange risks.

The ratings of Russian Railways Joint Stock Company, Federal Passenger Company OJSC and Mobile TeleSystems OJSC 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.

WHAT COULD CHANGE RATINGS DOWN/UP

The companies' ratings will be impacted by further developments at the sovereign level. The ratings are likely to be downgraded if there is (1) a further downgrade of Russia's sovereign rating and/or a lowering of the foreign-currency bond country ceiling, or (2) a revision downwards of Moody's assessment of the probability of the Russian government providing extraordinary support to the GRIs in the event of financial distress.

Conversely, positive pressure could be exerted on the ratings if Moody's were to raise Russia's foreign-currency bond country ceiling, provided there is no material deterioration in company-specific factors, including their operating and financial performance, market positions and liquidity.

The principal methodology used in rating NLMK, Steel Funding Limited, Severstal OAO and Steel Capital S.A. was Global Steel Industry published in October 2012. Other methodologies used include Loss Given Default for Speculative-Grade Non-Financial Companies in the U.S., Canada and EMEA published in June 2009.

The principal methodology used in rating OJSC Gazprom, Gaz Capital S.A., OOO Gazprom Capital, OJSC Oil Company Rosneft and Rosneft International Finance Limited was Global Integrated Oil & Gas Industry published in April 2014. Other methodologies used include 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 methodology used in rating Gazprom Neft JSC, GPN Capital S.A., Rosneft International Holdings Limited, Rosneft Finance S.A., OAO LUKOIL and LUKOIL International Finance B.V. was Global Integrated Oil & Gas Industry published in April 2014. Other methodologies used include Loss Given Default for Speculative-Grade Non-Financial Companies in the U.S., Canada and EMEA published in June 2009.

The principal methodology used in rating OAO Novatek and Novatek Finance Limited was Global Independent Exploration and Production Industry published in December 2011. Other methodologies used include Loss Given Default for Speculative-Grade Non-Financial Companies in the U.S., Canada and EMEA published in June 2009.

The principal methodology used in rating Federal Passenger Company OJSC was Global Passenger Railway Companies published in March 2013.

The principal methodology used in rating MegaFon OJSC was Global Telecommunications Industry published in December 2010.

The principal methodology used in rating Mobile TeleSystems OJSC and MTS International Funding Limited was Global Telecommunications Industry published in December 2010. Other methodologies used include Loss Given Default for Speculative-Grade Non-Financial Companies in the U.S., Canada and EMEA published in June 2009.

The principal methodology used in rating Russian Railways Joint Stock Company and RZD Capital PLC was Global Surface Transportation and Logistics Companies published in April 2013. Other methodologies used include 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 methodology used in rating OJSC Uralkali, Uralkali Finance Limited, OJSC PhosAgro and PhosAgro Bond Funding Limited was Global Chemical Industry Rating Methodology published in December 2013. Other methodologies used include Loss Given Default for Speculative-Grade Non-Financial Companies in the U.S., Canada and EMEA published in June 2009.

The principal methodology used in rating OJSC MMC Norilsk Nickel and MMC Finance Limited was Global Mining

Industry published in August 2014. Other methodologies used include Loss Given Default for Speculative-Grade Non-Financial Companies in the U.S., Canada and EMEA published in June 2009.

The principal methodology used in rating Russian Helicopters JSC was Global Aerospace and Defense Industry published in April 2014. Other methodologies used include Government-Related Issuers published in October 2014.

The principal methodology used in rating Gazprom ECP S.A. was Moody's Global Short-Term Ratings published in October 2012.

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

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