

**Rating Action: Moody's takes rating actions on 16 Russian non-financial corporates**

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**Follows Russia's sovereign rating upgrade to Baa3 from Ba1 and country ceilings for foreign currency debt rising to Baa2/P-2 from Baa3/P-3**

London, 12 February 2019 -- Moody's Investors Service ("Moody's") has today upgraded long-term issuer ratings of 12 Russian non-financial corporates to Baa2 from Baa3. The outlooks on all these ratings have been changed to stable from positive. Baseline credit assessments (BCAs) for all of the government-related issuers (GRIs) in this cohort were upgraded to baa2 from baa3, while their respective support and dependence assumptions remain unchanged.

Moody's has also assigned Baa3 long-term issuer ratings to four Russian non-financial corporates in the utilities and infrastructure sector, while concurrently withdrawing their Ba1 corporate family ratings (CFRs) and Ba1-PD probability of default ratings (PDRs). The outlooks on these ratings have been changed to stable from positive. For these issuers, all of which are GRIs, their ba1 BCAs and respective support and dependence assumptions remain unchanged.

Today's actions follow a sovereign rating action on the government of Russia which took place on 8 February 2019, during which Moody's upgraded Russia's long-term issuer and senior unsecured debt ratings to Baa3 from Ba1 and changed the outlook on these ratings to stable from positive. The upgrade of Russia's ratings reflects the positive impact of policies enacted in recent years to strengthen Russia's already robust public finance and external metrics and reduce the country's vulnerability to external shocks including fresh sanctions.

In a related decision, Moody's raised Russia's country ceilings for foreign-currency debt to Baa2/P-2 from Baa3/P-3. Moody's also raised the country ceilings for local currency-denominated debt and deposits to Baa1 from Baa2. 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\\_394165](https://www.moodys.com/research/--PR_394165).

Please click on this link [http://www.moodys.com/viewresearchdoc.aspx?docid=PBC\\_202606](http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_202606) for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

**RATINGS RATIONALE**

Out of the affected corporates, nine companies in the oil and gas, steel and mining sectors (for which long-term issuer ratings were upgraded to Baa2 from Baa3) 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, have low costs for their sectors and are visible players both in the domestic market and outside, factors that merited a one-notch rating differentiation relative to Russia's Baa3 long-term issuer and senior unsecured debt rating and factoring in the country ceiling for foreign-currency debt being raised to Baa2/P-2 from Baa3/P-3. Foreign-currency revenue stream, combined with cost 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 ratings of four state-controlled Russian power and utilities, and infrastructure companies were upgraded in line with the sovereign bond rating to Baa3 with a stable outlook, reflecting the degree of interlinkage with the sovereign and their differing credit profiles, which remain fairly strong. The credit profiles of these companies are more sensitive to the domestic macroeconomic environment. These companies operate in the same economic and financial environment as exporters, but they lack revenue diversification and are therefore more vulnerable to macroeconomic stresses.

Despite the higher sensitivity to the domestic macroeconomic environment compared with exporters, as well as generally closer credit linkages with the government through the ownership, the regulated tariff regime and

funding of strategic projects (for some of them), some of Russian infrastructure companies will likely 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, its subsidiary Federal Passenger Company OJSC, and Transneft, PJSC have fundamentally strong credit quality due to their resilient business models and market positioning including monopoly status, diversified customer bases (albeit predominantly domestic), as well as moderate levels of debt and strong liquidity profiles - factors that merited a one-notch rating differentiation relative to Russia's sovereign rating factoring in the country ceiling for foreign-currency debt being raised to Baa2/P-2 from Baa3/P-3. As a result, the long-term issuer ratings of these companies were upgraded to Baa2, one notch above the sovereign rating, with stable outlook.

#### RATIONALE FOR RATINGS OUTLOOK

The stable outlooks of the affected 16 non-financial corporates are in line with the stable outlook on the sovereign rating and 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 the case of GRIs, the stable outlook also assumes no material negative government interference which could translate into negative pressure at BCA level, and/or reduction in state support.

#### PRINCIPAL METHODOLOGIES

The principal methodologies used in rating ALROSA PJSC and Alrosa Finance S.A. were Mining published in September 2018 and Government-Related Issuers published in June 2018. The principal methodologies used in rating Atomenergoprom, JSC, RusHydro, PJSC and RusHydro Capital Markets DAC were Unregulated Utilities and Unregulated Power Companies published in May 2017 and Government-Related Issuers published in June 2018. The principal methodologies used in rating ROSSETI, PJSC, FGC UES, PJSC and Federal Grid Finance D.A.C. were Regulated Electric and Gas Networks published in March 2017 and Government-Related Issuers published in June 2018. 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 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 methodologies used in rating Gazprom, PJSC, Gaz Capital S.A. and Gazprom ECP S.A. were Global Integrated Oil & Gas Industry published in October 2016 and Government-Related Issuers published in June 2018. 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 MMC Norilsk Nickel, PJSC and MMC Finance DAC was Mining published in September 2018. The principal methodology used in rating PAO Novatek and Novatek Finance Limited was Independent Exploration and Production Industry published in May 2017. The principal 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 June 2018. The principal methodologies used in rating Transneft, PJSC were Regulated Electric and Gas Networks published in March 2017 and Government-Related Issuers published in June 2018. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of these methodologies.

#### REGULATORY DISCLOSURES

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