

**Rating Action: Moody's confirms ratings of five subsidiaries of JSC ROSSETI, negative outlook**

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Global Credit Research - 25 Mar 2015

London, 25 March 2015 -- Moody's Investors Service has today confirmed the Ba2 corporate family rating (CFR) and Ba2-PD probability of default rating (PDR) of five electricity distribution grid subsidiaries of JSC ROSSETI (Rosseti) (Ba2 negative): MOESK, OJSC, Lenenergo, JSC, IDGC of Center and Volga Region, JSC, IDGC of Volga JSC and IDGC of Urals, 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.

**RATINGS RATIONALE**

The CFRs of all five distribution grids are based on a combination of the companies' standalone credit strength and a one-notch rating uplift for a degree of shareholder/state support available given their strategic role in the economy of their respective regions and their control by state owned shareholder Rosseti.

The rating confirmations reflect Moody's view that (1) the agency's assessment of probability of shareholder/state support to the companies via Rosseti remains appropriate; and (2) the companies' will be able to maintain adequate financial performance and liquidity by adjusting downward their capital expenditures programs in the next 12-18 months to match them both with the reduced demand for their services and with the government's tariff decisions, thus reducing the demand for new debt. However, Moody's notes that the financial metrics cushion that these companies have in excess of the agency's guidance for the current rating will narrow going forward due to deteriorating macroeconomic conditions in Russia. Moody's has reflected this likelihood in the negative outlook for the ratings.

**RATIONALE FOR NEGATIVE OUTLOOK**

The outlook on the ratings is negative, reflecting Moody's expectations that macroeconomic conditions in Russia will remain challenging over the next 12-18 month. This will weaken the domestic electricity market environment putting pressure on the demand for the companies' services and increase the risk that their financial metrics depart from Moody's guidance for the current Ba2 rating and their liquidity weaken.

**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 macroeconomic conditions in Russia were to stabilize, provided (1) there was no material deterioration in company-specific factors, including operating and financial performance and liquidity; (2) the support from companies shareholder -- Rosseti -- would remain unchanged.

Downward pressure on all rating will develop if (1) there were a severe deterioration of the operating environment resulting from a deeper and more protracted decline in economic activity in Russia than previously anticipated; (2) weakening support from state-related shareholder ROSSETI; (3) a negative shift in the developing regulatory and market framework; and (4) companies' failure to manage their investment programs in line with the tariff decisions resulting in a deterioration of their financial profile, margins and liquidity.

Downward pressure on the ratings of MOESK and Lenenergo could result from deterioration of their financial profiles, with FFO interest coverage falling materially and persistently below 3.5x and FFO/net debt falling below 20%. Downward pressure on the ratings of IDGC of Center and Volga Region, IDGC of Volga and IDGC of Urals could develop if their financial profiles weaken going forward with total FFO interest coverage falling materially and persistently below 4.0x and FFO/net debt below the mid-twenties in percentage terms. Inability to timely address liquidity needs could negatively influence the rating as well.

Confirmations:

..Issuer: IDGC of Center and Volga Region, JSC

.... Probability of Default Rating, Confirmed at Ba2-PD

... Corporate Family Rating (Foreign Currency), Confirmed at Ba2

... Corporate Family Rating (Local Currency), Confirmed at Ba2

..Issuer: IDGC of Urals, JSC

.... Probability of Default Rating, Confirmed at Ba2-PD

... Corporate Family Rating (Foreign Currency), Confirmed at Ba2

... Corporate Family Rating (Local Currency), Confirmed at Ba2

..Issuer: IDGC of Volga, JSC

.... Probability of Default Rating, Confirmed at Ba2-PD

... Corporate Family Rating (Foreign Currency), Confirmed at Ba2

... Corporate Family Rating (Local Currency), Confirmed at Ba2

..Issuer: Lenenergo, JSC

.... Probability of Default Rating, Confirmed at Ba2-PD

... Corporate Family Rating (Foreign Currency), Confirmed at Ba2

..Issuer: MOESK, OJSC

.... Probability of Default Rating, Confirmed at Ba2-PD

... Corporate Family Rating (Foreign Currency), Confirmed at Ba2

Outlook Actions:

..Issuer: IDGC of Center and Volga Region, JSC

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

..Issuer: IDGC of Urals, JSC

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

..Issuer: IDGC of Volga, JSC

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

..Issuer: Lenenergo, JSC

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

..Issuer: MOESK, OJSC

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

#### PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Regulated Electric and Gas Networks published in November 2014. Please see the Credit Policy page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

Headquartered in the city of Moscow, OJSC MOESK ("MOESK") is Russia's largest regional electricity distribution grid company servicing the Moscow region. Regulated revenues, including electricity transmission revenues and connection charges, accounted for around 99% of MOESK's 2013 total revenues of RUB129.1 billion (\$4.0 billion).

Headquartered in the city of St. Petersburg, JSC Lenenergo (Lenenergo) is one of Russia's major regional

electricity distribution grid companies, focused on the St. Petersburg region (including the city of St. Petersburg and the Leningrad oblast). Lenenergo is a regulated natural monopoly, whose electricity transmission revenues accounted for around 83.2% of its 2013 total revenues of RUB39.9 billion, or around \$1.3 billion (before normal technological losses).

Headquartered in the city of Nizhniy Novgorod, Russia, JSC IDGC of Center and Volga Region (IDGC of Center and Volga Region) is an interregional electricity distribution grid business, focused on nine regions in the European part of Russia. The company's service area is centered in the Nizhniy Novgorod region (B1 negative), including also regions located both to the east and northwest of the Nizhniy Novgorod region and those around the Moscow region. IDGC of Center and Volga Region's total revenues were RUB77.6 billion (around \$2.4 billion) in 2013.

Headquartered in the city of Saratov, Russia, JSC IDGC of Volga (IDGC of Volga) is an interregional electricity distribution company, focused on seven regions in the European part of Russia: the oblasts of Samara (Ba3 negative), Saratov, Ulyanovsk, Orenburg and Penza, the Republic of Chuvachia (Ba3 negative) and the Republic of Mordovia (B2 negative). IDGC of Volga's total revenues were RUB49.2 billion (around \$1.5 billion) in 2013.

Headquartered in the city of Yekaterinburg, Russia, JSC IDGC of Urals (IDGC of Urals) is an interregional electricity distribution grid business, focused on three regions in the Urals: Yekaterinburg, Chelyabinsk and Perm regions. The company's key regulated grid business accounts for around 79.3% (76.1% from electricity transportation and 3.2% from connection charges) of 2013 total revenues of RUB65.5 billion (\$2.1 billion). The rest of the company's revenue is derived mainly from electricity sales by the company's electricity sales subsidiary.

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