

Rating Action: Moody's changes to stable outlook on 22 Russian non-financial corporates following stabilisation of outlook on sovereign rating

Global Credit Research - 21 Feb 2017

Subsequent outlook stabilisation on Tatarstan's rating drives outlook stabilisation on SINEK's rating

London, 21 February 2017 -- Moody's Investors Service (Moody's) has today changed to stable from negative the outlook on (1) the Ba1 corporate family ratings (CFRs) and the Ba1-PD probability of default ratings (PDRs) of 20 Russian non-financial corporates and their family entities' ratings; (2) the Ba2 CFR and Ba2-PD PDR of Svyazinvestneftekhim JSC (SINEK); and (3) the B1 CFR and B1-PD PDR of KAMAZ PTC. Moody's outlook on IRKUT Corporation, JSC's (Irkut) Ba3 CFR and Ba3-PD PDR remains negative. Concurrently, Moody's has affirmed all these ratings. For all affected government-related issuers, their respective baseline credit assessments, support and dependence assumptions remain unchanged as a result of this rating action.

The negative outlook on the Ba1 CFR and Ba1-PD PDR of Polyus Gold International Limited (Polyus Gold) is unchanged and these ratings are not affected by today's rating actions. The negative outlook continues to reflect (1) the risk of capex overruns at Polyus Gold's development projects and heightened shareholder distributions, which could drive its free cash flow to a negative territory, so that its Moody's-adjusted debt/EBITDA remained sustainably above 3.5x; and (2) the lack of track record of the company adhering to the anticipated balanced financial policy, following the debt-financed share buyback in 2016.

Today's actions follow Moody's change of the outlook on Russia's Ba1 government bond rating to stable from negative on 17 February 2017, reflecting the government's enactment of a medium-term fiscal consolidation strategy and the beginning of economic recovery after a nearly two-year-long recession. These two factors combined have eased the downside risks the rating agency had identified last year when it assigned the negative outlook.

Russia's country ceilings remain unchanged at Ba1/NP (foreign currency bonds), Ba2/NP (foreign currency bank deposits) and Baa3 (long-term local currency debt and deposits). 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 http://www.moodys.com/research/--PR_361387

Please click on this link http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_194470 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

RATINGS RATIONALE

Moody's expects that the operating environment for Russian non-financial corporates will gradually improve over the next 12-18 months. This is the result of (1) nascent, although mild, economic recovery translating into stronger domestic demand; (2) diminished vulnerability to external shocks, driven by the ongoing recovery in commodity prices; (3) healthy fiscal and external positions of the domestic economy; (4) the shock-absorbing effect of the floating exchange rate, which continues to cushion the deterioration in the terms of trade; and (5) reduced inflation rate and borrowing costs due to increasing exchange rate stability and tight monetary policy.

However, Moody's believes that Russia's growth potential remains relatively subdued due to the absence of structural reforms, while geopolitical risks and institutional weakness result in heightened business uncertainty and remain a deterrent for investment in the country.

RATIONALE FOR RATINGS OUTLOOK

The stable outlook on the affected non-financial corporates is in line with the stable outlook for the sovereign rating and reflects Moody's expectation that each company's specific credit factors, including their operating and financial performance, market position and liquidity, will remain commensurate with their ratings on a sustainable basis.

The negative outlook on Irkut's rating reflects the risk of weakening standalone financial profile as a result of

large debt-funded capex and earnings volatility.

PRINCIPAL METHODOLOGIES

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

The principal methodology used in rating Bashneft PJSOC, Gaz Capital S.A., Gazprom ECP S.A., Gazprom, PJSC, OOO Gazprom Capital, PJSC Oil Company Rosneft, Rosneft Finance S.A., Rosneft International Finance Limited, Rosneft International Holdings Limited and Tatneft PJSC was Global Integrated Oil & Gas Industry published in October 2016. Other methodologies used include the Government-Related Issuers methodology published in October 2014.

The principal methodology used in rating KAMAZ PTC was Global Manufacturing Companies published in July 2014. Other methodologies used include the Government-Related Issuers methodology published in October 2014.

The principal methodology used in rating ALROSA PJSC and Alrosa Finance S.A. was Global Mining Industry published in August 2014. Other methodologies used include the Government-Related Issuers methodology published in October 2014.

The principal methodology used in rating Svyazinvestneftekhim JSC was Investment Holding Companies and Conglomerates published in December 2015. Other methodologies used include the Government-Related Issuers methodology published in October 2014.

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 the Government-Related Issuers methodology published in October 2014.

The principal methodology used in rating Sovcomflot PAO and SCF Capital Limited was Global Shipping Industry published in February 2014. Other methodologies used include the Government-Related Issuers methodology published in October 2014.

The principal methodology used in rating PAO Novatek and Novatek Finance Limited was Global Independent Exploration and Production Industry published in December 2011.

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

The principal methodology used in rating MMC Norilsk Nickel, PJSC and MMC Finance Limited 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 March 2013.

The principal methodology used in rating Magnitogorsk Iron & Steel Works, NLMK, PAO Severstal, Steel Capital S.A. and Steel Funding Limited was Global Steel Industry published in October 2012.

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 principal methodology used in rating PJSC PhosAgro, PhosAgro Bond Funding Limited, Sibur Holding, PJSC and Sibur Securities Limited was Global Chemical Industry Rating Methodology published in December 2013.

Please see the Rating Methodologies page on www.moody's.com for a copy of these methodologies.

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