

Rating Action: Moody's downgrades ratings of two Russian cities and three Russian government-related entities

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Actions follow downgrade of Russia's government bond rating to Baa2

London, 21 October 2014 -- Moody's Investors Service has today downgraded the ratings of two Russian cities and three government-related issuers, following the downgrade of Russia's sovereign bond rating to Baa2 from Baa1 with a negative outlook on 17 October 2014. For additional information, please refer to the related announcement: https://www.moody.com/research/--PR_310632.

Specifically, Moody's has downgraded the cities of Moscow and St. Petersburg to Baa2 from Baa1, SUE Vodokanal and OOO Vodokanal Finace to Baa3 from Baa2 and OJSC "Western High-Speed Diameter" to Ba1 from Baa3. The rating outlook for these five issuers remains negative.

Concurrently, Moody's affirmed the ratings of 17 Russian regional and local governments (RLGs). Twelve had their outlooks changed to negative from stable, namely Republic of Bashkortostan, Republic of Tatarstan, Autonomous-Okrug (region) of Khanty-Mansiysk, Samara Oblast, Chuvashia Republic, Krasnoyarsk krai, Komi republic, Oblast of Omsk, Oblast of Nizhniy Novgorod, City of Krasnodar, City of Omsk, and the City of Volgograd. Another three, namely Krasnodar Krai, Belgorod Oblast and Vologda Oblast, continue to have negative outlooks, while the remaining two, Moscow Oblast and the Mordovia Republic, continue to have stable outlooks.

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

RATINGS RATIONALE

-- RATIONALE FOR DOWNGRADES OF THE CITY OF MOSCOW, CITY OF ST. PETERSBURG, SUE VODOKANAL OF ST. PETERSBURG, VODOKANAL FINANCE, AND WESTERN HIGH-SPEED DIAMETER

The downgrades of the ratings on the cities of Moscow and St. Peterburg reflect their strong institutional links with the federal government and their lack of special status, which prevents them from being rated above the sovereign. Both cities are exposed to market risks and on-going deterioration in the operating environment.

The downgrade of the issuer ratings of SUE Vodokanal of St. Petersburg, the senior unsecured rating of OOO Vodokanal Finance, and senior unsecured rating of OJSC Western High-Speed Diameter reflects their status as government-related issuers that are fully owned by the St. Petersburg government.

The downgrade of OJSC Western High-Speed Diameter's bond rating reflects its link with the City of St. Petersburg and the guarantee that the Russian government provides on its bond principal payments. This guarantee covers overall principal payments (including put options) and principal acceleration.

-- RATIONALE FOR ASSIGNING NEGATIVE OUTLOOKS ON THESE ENTITIES

The negative outlooks on the ratings of the cities of Moscow and St. Petersburg reflect the cities' institutional and macroeconomic linkages with the national government and mirror the negative outlook on the sovereign bond rating.

The negative outlooks on the ratings of SUE Vodokanal of St. Petersburg reflect its strong institutional, financial and operational linkages with the city of St. Petersburg.

The negative outlook on the rating of OJSC Western High-Speed Diameter mirrors the negative outlook on the City of St. Petersburg and the sovereign government bond rating.

--RATIONALE FOR AFFIRMATION OF 17 RLGs

Moody's affirmation of the ratings of 17 RLGs (please see end of the press release for details) reflect these entities' capacity to withstand moderate systemic pressure. Moody's notes that Russian regions usually

demonstrate adequate capacity to manage short term refinancing risks during periods of greater systemic risk, aided both by the national government's liquidity access mechanism for RLGs (which helps to offset immediate liquidity pressures) and by ongoing lending from state-owned banks. The RLGs' debt structure, which is almost free of foreign currency risk, and the lengthening of maturities on local currency borrowings also help mitigate refinancing risks.

-- RATIONALE FOR OUTLOOK CHANGE TO NEGATIVE FOR 12 RLGs

Moody's changed the outlook to negative from stable on the ratings of the Republic of Bashkortostan, the Republic of Tatarstan, and the Autonomous-Okrug Khanty-Mansiysk, reflecting their exposure to rising systemic pressures. In addition, these issuers have weaker intrinsic strength relative to Moscow and St. Petersburg.

The changed outlook to negative from stable on the ratings of another nine RLGs (Samara Oblast, Krasnoyarsk Krai, Komi republic, Chuvashia Republic, Oblast of Omsk, Oblast of Nizhniy Novgorod, City of Krasnodar, City of Omsk, and City of Volgograd) takes into account the inherent weaknesses in their performances, which undermine their ability to resist a possible deterioration in the macroeconomic environment. Each region is vulnerable to this systemic deterioration through one or a combination of the following factors: (1) moderate or low operating balances, translating into moderate or weak flexibility of financial performance, (2) substantial refinancing risk and/or usually a high or rapidly growing debt burden; (3) modest liquidity; and 4) in many cases, substantial vulnerability of local economies to domestic cycles, which implies earnings volatility.

-- RATIONALE FOR MAINTAINING NEGATIVE OUTLOOKS FOR 3 RLGs AND STABLE OUTLOOKS ON 2 RLGs

The ratings of Krasnodar Krai, Belgorod Oblast and Vologda Oblast continue to carry negative outlooks, which reflect the current and expected deterioration of their intrinsic strengths (please see details on the individual issuers on www.moody.com).

The stable outlook on Moscow Oblast reflects (1) solid financial fundamentals; and (2) a moderate probability of support from the Russian government.

The stable outlook on the Mordovia Republic reflects the significant detachment of its rating from the sovereign level, which provides a certain tolerance buffer if the sovereign's creditworthiness were to mildly deteriorate.

WHAT COULD CHANGE THE RATINGS UP/DOWN

--RATINGS WITH A NEGATIVE OUTLOOK

Further deterioration in the sovereign's credit quality could exert downward pressure on these sub-sovereigns. In turn, if systemic pressures abate, the negative outlook will likely be changed to stable, provided there is no deterioration in their budget performance.

For Krasnodar Krai, Belgorod Oblast and Vologda Oblast, a failure to adjust their financial performance and improve debt metrics in the short-to-medium term could lead to a downgrade. On the other hand, structural improvements in their financial performance and debt and liquidity metrics could lead to an outlook stabilisation.

--RATINGS WITH A STABLE OUTLOOK

Downward pressure on Russian sub-sovereign ratings with a stable outlook may materialise following a rapid deterioration in their financial metrics. Further substantial increase in systemic risk, as reflected in a further weakening of the sovereign credit profile, may also adversely impact these sub-sovereigns' ratings.

In contrast, upward rating pressure on Russian RLGs could result from improving individual financial profiles, through a significant debt reduction and/or structurally balanced budgets and improving liquidity profiles.

-- RATINGS AFFECTED

-- THE RATINGS OF THE FOLLOWING FIVE ISSUERS WERE DOWNGRADED

Moscow, City of: the foreign and local-currency issuer ratings and foreign-currency senior unsecured rating downgraded to Baa2 from Baa1, outlook negative.

St. Petersburg, City of: the foreign- and local-currency issuer ratings and local-currency senior unsecured rating downgraded to Baa2 from Baa1, outlook negative.

SUE Vodokanal of St. Petersburg: the foreign- and local-currency issuer ratings downgraded to Baa3 from Baa2, outlook negative.

OOO Vodokanal Finance: the senior unsecured rating downgraded to Baa3 from Baa2, outlook negative.

OJSC Western High-Speed Diameter: the senior unsecured rating downgraded to Ba1 from Baa3, outlook negative.

-- THE RATINGS OF THE FOLLOWING 2 ISSUERS WERE AFFIRMED WITH STABLE OUTLOOKS

Moscow, Oblast of: issuer rating of Ba2 affirmed, stable outlook maintained.

Mordovia, Republic of: issuer and debt ratings of B1 affirmed, stable outlook maintained.

-- THE RATINGS OF THE FOLLOWING 15 ISSUERS WERE AFFIRMED WITH NEGATIVE OUTLOOKS

Bashkortostan, Republic of: issuer rating of Baa3 affirmed, outlook changed to negative from stable.

Tatarstan, Republic of: issuer rating of Baa3 affirmed, outlook changed to negative from stable.

Khanty-Mansiysk AO: issuer rating of Baa3 affirmed, outlook changed to negative from stable.

Samara, Oblast of: issuer rating of Ba1 affirmed, outlook changed to negative from stable.

Krasnodar, Krai of: issuer and debt ratings of Ba1 affirmed, negative outlook maintained.

Komi, Republic of: issuer rating of Ba2 affirmed, outlook changed to negative from stable.

Krasnoyarsk, Krai of: issuer rating of Ba2 affirmed, outlook changed to negative from stable.

Chuvashia, Republic of: Ba2 issuer and debt ratings affirmed, outlook changed to negative from stable.

Omsk, Oblast of: issuer rating of Ba2 affirmed, outlook changed to negative from stable.

Nizhniy Novgorod, Oblast of: issuer rating of Ba2 affirmed, outlook changed to negative from stable.

Belgorod, Oblast of: issuer and debt ratings of Ba2 affirmed, negative outlook maintained.

Krasnodar, City of: issuer rating of Ba2 affirmed, outlook changed to negative from stable.

Vologda, Oblast of: issuer rating of Ba3 affirmed, negative outlook maintained.

Omsk, City of: issuer rating of Ba3 affirmed, outlook changed to negative from stable.

Volgograd, City of: issuer rating of Ba3 affirmed, outlook changed to negative from stable.

The sovereign action required the publication of this credit rating action on a date that deviates from the previously scheduled release date in the sovereign release calendar, published on www.moody.com.

Specific economic indicators as required by EU regulation are not applicable for these entities.

On 17 October 2014, a rating committee was called to discuss the ratings of Russian sub-sovereign entities. The main points raised during the discussion were: The systemic risk in which the issuers operate has materially increased.

The principal methodology used in rating Russia RLGs was Regional and Local Governments published in January 2013. The principal methodology used in rating Russia GRIs was Government-Related Issuers: Methodology Update published in July 2010. Please see the Credit Policy page on www.moody.com for a copy of these methodologies

The weighting of all rating factors is described in the methodology used in this rating action, if applicable.

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