

Rating Action: OGK-1, JSC

Moody's Assigns Ba3 Rating to OGK-1, Stable Outlook

Moscow, September 10, 2007 -- Moody's Investors Service has today assigned a Ba3 corporate family rating to JSC OGK-1 ("OGK-1", or "the company"), a Russian thermal electricity generator. The rating outlook is stable. At the same time, Moody's Interfax Rating Agency, which is majority owned by Moody's, assigned a Aa3.ru national scale credit rating ("NSR") to the company.

According to Moody's and Moody's Interfax ("Moody's"), the Ba3 global scale rating reflects the company's global default and loss expectation, while the Aa3.ru NSR reflects the standing of the company's credit quality relative to its domestic peers.

RATING RATIONALE

The company's ratings positively reflect: (i) OGK-1's sustainable solid market positions in the unified energy systems of Central Russia and Urals; (ii) a relatively conservative financial profile with some headroom to increase debt while remaining in the current rating category; (iii) potential benefits from the wholesale market liberalization that should positively influence the company's revenues and margins. These positive factors are underpinned by the favorable growth in demand for electricity, which is expected to grow ahead of capacity additions in the company's key markets.

Furthermore, although a part-privatization for OGK-1 is scheduled for the first half of 2008, the Ba3/Aa3.ru ratings continue to incorporate a modest degree of support from the state that results from the company still being part of RAO UES of Russia ("RAO UES"), the state-controlled integrated utility group, and beyond that also from the Russian government's active interest in the sector's investment strategies, being seen as key requirements for further economic growth of the country. Should such support weaken materially over the next couple of years without being replaced by support from a strong new strategic shareholder, OGK-1's ratings could at such a time become more aligned within the single-B rating category.

At the same time, the company's ratings are constrained by i) uncertainties associated with the Russian power sector restructuring process and timing of the company's privatization; (ii) limited ability to improve margins and hence cash generation in the upcoming few years when the wholesale power market liberalization is at its early stages; the ability to increase prices and shift demand to the competitive segment of the wholesale market needs to be demonstrated within an emerging regulatory environment that will need to balance the generators' needs for profitability and growth and their customers' needs for reliable, cheap power; (iii) OGK-1's business as a pure power generator with a lack of diversification down- and upstream; (iv) broadly rising gas prices driven by the company's key supplier Gazprom, which is also establishing shareholdings in the generation sector; (v) an ambitious investment programme with execution risks that could lead to a rapid increase in leverage and also depends on timely raising equity finance at a time when many generators may seek to access the markets; (vi) limited standalone track record.

Given that the company's rating positioning in the Ba3 category also benefits from some moderate shareholder and state support, OGK-1's ratings could come under downward pressure (mostly due to the transitional nature of its current financial profile, which may deteriorate as a consequence of its investment programme), if the company is unable to partly raise equity for the funding and at the same time improve cash generation.

Similar to other Russian thermal power generators that are currently part of RAO UES, the state-owned vertically integrated monopoly power business under restructuring, OGK-1 is in transition towards being an independent generator in the Russian market, with the state's indirect shareholding (through RAO UES or possibly a state-controlled successor) to be reduced, finally to a relatively immaterial level. Following RAO UES's liquidation in the middle of 2008 and OGK-1's potential equity raising in the first half of 2008, the company should be controlled by private shareholders. However, neither the ultimate timing nor shareholder structure are yet clear.

Clarity with the ownership structure and expected appearance of a strong strategic investor could be ratings-positive and help the company to balance the strain on its financials resulting from its investment programme and strengthen positions in its key markets, given on-going liberalization of the wholesale power market. Nevertheless, risks of a delay in the privatization (and possible negative implications for OGK-1's ability to finance its investment programme) would be mitigated at least in the short- and medium term by the state's indirect shareholding and importance of the company's business, given a rapidly growing demand for

electricity in OGK-1's target markets of the Moscow region of Central Russia and in the Urals and Tyumen regions.

OGK-1's 2007-2010 ambitious investment programme of Rbl54.1 billion includes three new construction projects and one major overhaul with introduction of fully new equipment at available premises. Given an emerging competitive segment of the wholesale power market, politically biased tariffs and developing contractual relationship with the dominant domestic gas supplier Gazprom, OGK-1's revenues are expected to remain largely regulated in the short- and medium-term and will be insufficient for the company to implement its investment programme without attracting external finance. OGK-1 is considering raising both equity and debt, with a cap on leverage at 3x Debt/EBITDA. Although OGK's current financial profile, with its Debt to EBITDA as low as 0.3x, is very conservative and leaves headroom to materially increase debt, the company's ability to implement the programme in line with the leverage target largely depends on success of its planned equity offering. A delay -- or lower proceeds - may materially increase OGK-1's needs for debt financing, which will need to be carefully managed from a liquidity perspective, should the company be unable to postpone and/or reschedule its investments.

Three of OGK-1's investment projects were regarded by RAO UES as priorities. This may limit the company's flexibility to reschedule, but at the same time should mean that RAO UES and/or the state may at least temporarily support the company, if there were a delay in its potential equity offering and/or below-expectation proceeds. While the company's liquidity situation historically has been exposed to short-term debt maturities which were only partially covered from internal sources, OGK-1's recent and expected progress in extending debt maturities and the company's established relationship with both Russian and foreign banks should support its liquidity. According to the company, as of mid-August 2007, it has access to unused bank facilities of around Rbl8.2 billion, including both committed and uncommitted credit lines.

The rating outlook remains stable as the company is well positioned to develop its business in accordance with its plans and it is expected to manage leverage in line with the current rating category provided that the forthcoming IPO is successful. In the case of a delayed privatization, state support should continue to provide some stability to the ratings.

The following factors could have a positive impact on the company's ratings: (i) successful equity offering, with a strategic investor stepping in; (ii) material improvements in the operating environment for the company driven by market liberalization and on-going sector restructuring; (iii) demonstrated sustainable increases in margins and cash flow generation ahead of projections; (iv) confirmed ability to manage investments while keeping tight control over leverage within the target of total debt to EBITDA ratio not exceeding 3x.

A negative pressure on the company's ratings could result from (i) absence of equity offering or its insufficient size, (ii) weakening state's support, (iii) a negative shift in the regulatory regime and (or leading to) deteriorating margins; (iv) inability to adjust the investment programme and schedule to control leverage, with total debt to EBITDA ratio increasing above 3x and RCF to Debt ratio falling materially below 25%.

COMPANY SUMMARY

Headquartered in Moscow, OGK-1 is the largest wholesale thermal generation company of six established as part of the restructuring of RAO UES of Russia, the Russian state-controlled dominant integrated electricity group. The company has six largely gas-fired plants with installed capacity of 9.5 GW located in Central Russia (Moscow region), in the Urals (Orenburg, Sverdlovsk, and Perm regions) and Western Siberia (Tyumen region), with two plants located in the Urals region accounting for more than 50% of the installed capacity. The company's 2006 sales were Rbl 30.0 billion, with 95% of sales from electricity output. Currently 92% owned by RAO UES, OGK-1 is expected to become a private generator in 2008-2009.

NATIONAL SCALE RATINGS

Moody's Interfax Rating Agency's National Scale Ratings (NSRs) are intended as relative measures of creditworthiness among debt issues and issuers within a country, enabling market participants to better differentiate relative risks. NSRs in Russia are designated by the ".ru" suffix. NSRs differ from global scale ratings, as assigned by Moody's Investors Service, in that they are not globally comparable to the full universe of Moody's rated entities, but only with other rated entities within the same country.

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