MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades ER-Telecom to B2, stable outlook

Global Credit Research - 17 Dec 2015

London, 17 December 2015 -- Moody's Investors Service has today upgraded the corporate family rating (CFR) of Russian telecoms company ER-Telecom Holding CJSC to B2 from B3 and its probability of default (PDR) rating to B2-PD from B3-PD, following substantive improvements to the company's financial metrics and operating performance. The outlook on the ratings is stable.

RATINGS RATIONALE

Today's upgrade reflects a material improvement in ER-Telecom's financial metrics and operating performance since the assignment of its first-time rating in 2011.

The B2 rating takes into account the company's (1) demonstrated ability to achieve geographic expansion and strong double-digit revenue growth over the past three years; (2) strong competitive position and brand recognition; (3) robust profitability and positive free cash flow generation in most of the markets in which it has operated for more than three years; (4) modern fixed-line network, which requires fairly low maintenance capex; and (5) solid liquidity and long-term debt maturity profile.

Moody's also positively notes that the company's shareholders remain closely involved in the company's financial and strategic management and have a track record of providing liquidity support to the company in the form of shareholder loans.

The rating agency notes that ER-Telecom's rating will remain constrained at the current level for the next 18-24 months due to (1) the company's small size on a global scale (a factor further negatively affected by the devaluation of the Russian rouble in 2014-15) and single-country concentration; (2) its ambitious growth strategy, which envisages an increase in leverage and negative free cash flow generation for the next 18-24 months; (3) limitations to growth resulting from the saturation of fixed-line broadband and the pay TV market in Russia, and declining dispensable incomes in the country; and (4) strong competition from integrated operators, such as the country's largest fixed-line national telecommunications operator Rostelecom OJSC (unrated), and satellite broadcasting.

RATIONALE FOR THE STABLE OUTLOOK

The stable outlook reflects Moody's view that the company's ratings are adequately positioned in the current rating category, given that the company contemplates an increase in its investment and M&A activity in the next 12 months.

WHAT COULD CHANGE THE RATINGS UP/DOWN

Moody's could consider an upgrade of ER-Telecom's ratings if the company were to sustainably (1) maintain debt/EBITDA of below 3.0x, and (EBITDA-capex)/interest above 2.0x; (2) demonstrate successful implementation of its growth strategy, including efficient and sustainable conversion of capex to cash flow; and (3) maintain adequate liquidity.

Conversely, negative pressure on the ratings would develop if ER-Telecom's (1) leverage rose above the currently anticipated levels of 4.0x and (EBITDA-capex)/interest fell below 1.0x for more than 12 months; (2) liquidity profile deteriorated, (3) competitive position weakened resulting in a sustained decline in profitability and a slowdown in revenue growth; (4) shareholder structure changed in a way that could lead to diminished shareholder support.

The principal methodology used in these ratings was Global Pay Television - Cable and Direct-to-Home Satellite Operators published in April 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

ER-Telecom Holding CJSC (ER-Telecom) is a telecommunications company providing cable TV, high-speed internet access and fixed-telephony services in Russia under the brand dom.ru. The company's network currently covers around 9.6 million households in 56 cities. ER-Telecom is 73% owned by the Perm Industrial and Financial Group (PFIG), 10% by Baring Vostok Capital Partners, 14.5% by management and 2.5% by other shareholders. In 2014 and first six months of 2015, ER-Telecom generated revenue of RUB22.0 billion and RUB 11.0 billion, respectively ($0.6 billion at the average exchange rate in 2014, and $192 million at the average exchange rate in the first six months of 2015), 62% of which was derived from internet services, 30% from cable TV and 8% from other services including telephony.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Julia Pribytkova
Vice President - Senior Analyst
Corporate Finance Group
Moody's Investors Service Limited, Russian Branch
7th floor, Four Winds Plaza
21 1st Tverskaya-Yamskaya St.
Moscow 125047
Russia
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Victoria Maisuradze
Associate Managing Director
Corporate Finance Group
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Releasing Office:
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454