

Atomic Energy Power Corporation (JSC)

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Atomic Energy Power Corporation (JSC)

Major Rating Factors

Strengths:

- "Very high" assumed likelihood of support from the Russian government in case of financial distress.
- Strong ongoing government support in the form of asset transfers, large capital injections, and political support, including for foreign projects.
- Vertically integrated business model, with full nuclear cycle possession and a monopoly in Russia.
- Continued favorable nuclear industry growth outlook.

Weaknesses:

- Very complex and evolving structure with short track record, due to AtomEnergoProm's establishment as holding company only in July 2007.
- Limited transparency due to lack of consolidated IFRS reporting.
- High operational and construction-related contingent exposures.
- Ambitious capital-expenditure program, although partially state-financed with capital injections.

Corporate Credit Rating

BBB-/Stable/A-3

Russia National Scale Rating
ruAAA/--/--

Rationale

The ratings on Atomic Energy Power Corporation (JSC) (AtomEnergoProm) reflect our expectations of a "very high" likelihood of timely and sufficient extraordinary support to AtomEnergoProm from the Russian government in the event of financial distress. Ongoing capital injections from the government also bolster those expectations. The company has a vertically integrated business model with full nuclear cycle possession, as well as a secure monopoly of the nuclear segment in the Russian Federation (foreign currency BBB/Negative/A-3; local currency BBB+/Negative/A-2; Russia national scale 'ruAAA').

However, in our view, the company has weak corporate governance: AtomEnergoProm's transparency and predictability are limited given the company's short track record and evolving corporate structure and the company does not yet consolidate accounts under International Financial Reporting Standards (IFRS).

AtomEnergoProm was created in 2007 following the government-led restructuring of the Russian nuclear industry. It is a state-owned civil nuclear assets holding company incorporating about 70 different enterprises, some of which are also holding companies. Rosenergoatom (not rated), an electricity producer that owns nuclear power stations, is its largest subsidiary. Other subsidiaries include uranium enrichers, nuclear fuel producers, engineering companies, and nuclear equipment producers.

In accordance with our criteria for rating government-related entities (GREs), our view of a "very high" likelihood of extraordinary government support is based on our assessment of AtomEnergoProm's:

- "Very important" role for the government. We base this opinion on the government's track record of support to AtomEnergoProm in the form of recurring capital injections, and planned (as stated in the government program) capital injections at least until 2015. AtomEnergoProm is one of the most important Russian government GREs

and is very important for the Russian economy because it manages civil nuclear industry assets, including nuclear power station operations (providing 16% of all electricity output in Russia) and construction, uranium extraction (9%-12% of the global market according to different estimates), enrichment (about 45% globally), and fuel production (17% globally) for the full cycle with certain limitations on private activities. AtomEnergProm employs about 177,000 people. Furthermore, the company implements several important contracts for foreign customers (fuel supplies and enrichment) and thus is an important tool of Russian foreign policy. There are very modest dividend requirements for AtomEnergProm.

- "Very strong" link with the Russian government. As specified in legislation, the Russian government wholly owns AtomEnergProm through Rosatom (not rated), a state corporation. Privatization of major nuclear assets is not on the agenda, and would require legislative amendments. AtomEnergProm's activities are tightly monitored by the government and to a large extent are directed by Rosatom and the government. By law, Rosatom is responsible for managing the Russian nuclear industry and will guarantee AtomEnergProm's planned bond issue.

We assess AtomEnergProm's stand-alone credit profile at 'BB-'. The company has a vertically integrated business model with full nuclear cycle possession, as well as a secure monopoly of the nuclear segment in Russia. The government provides strong ongoing support in the form of equity injections, tax and interest rate subsidies, and benign dividend policies. AtomEnergProm's electricity generation profitability is higher than that of its Russian peers, and Standard & Poor's expects it to benefit from market liberalization. Moreover, the company has a solid market position in the uranium extraction, conversion, enrichment, and fuel assembly production segments compared with its international peers. All this is enhanced by the favorable growth outlook for the nuclear industry worldwide.

However, the company still has a weak corporate structure and a short history of control over its subsidiaries. The company's transparency and predictability are limited, given its short track record and evolving corporate structure, as it was established less than two years ago. Moreover, we consider the lack of consolidated IFRS accounts presents high information risk. Furthermore, AtomEnergProm is highly exposed to operational, engineering, and construction-related contingencies.

AtomEnergProm has an ambitious capital-expenditure program, which is likely to result in some debt accumulation in 2009-2010. However, the company expects the state to finance approximately 40% of its capital expenditures in 2009-2015 through capital injections, as outlined in the government program to create AtomEnergProm.

Liquidity

AtomEnergProm had relatively weak liquidity for the rating level as of Nov. 19, before the placement of the bond. As of Nov. 19, 2009, AtomEnergProm reported Russian ruble (RUR) 73 billion (\$2.5 billion) in cash and deposits against 86 billion of debt, to a large extent short term.

It also enjoys a few committed lines for about RUR50 billion, mainly from JSC VTB Bank (BBB/Negative/A-3; Russia national scale 'ruAAA'), Sberbank (not rated), and Gazprombank (BB/Stable/B; Russia national scale 'ruAA'). Most expire in 2010. The largest line, for RUR17 billion, expires in June 2010.

Given the existing maturities of the company's debt, these liquidity sources amply covered all of AtomEnergProm's debt maturing before midyear 2010.

We expect AtomEnergProm's liquidity position to improve materially to adequate levels following the placement of the first portion (RUR50 billion) of its RUR195 billion medium-term bond in November 2009. This will result in accelerated repayment of a large portion of the short-term debt by year-end 2009 and will improve the debt profile.

The significant amounts of uncommitted credit lines show that the company benefits from well-established relationships with state-owned Russian banks. However, we do not view these lines as readily available liquidity sources.

Rosatom is introducing centralized treasury management at its subsidiaries (including AtomEnergProm). The goal is to have it operational by year-end 2010, which will further enhance AtomEnergProm's liquidity position.

Outlook

The stable outlook reflects our expectations that the Russian government will continue to provide substantial ongoing support to AtomEnergProm. Furthermore, we do not expect any changes in the policy or regulatory framework that would challenge our expectations of a "very high" probability of support to AtomEnergProm from the government in case of financial distress, or challenge the strong ongoing support over the next several years.

A negative rating action on the sovereign would not necessarily result in a similar action on AtomEnergProm, provided that we do not revise our estimation of the likelihood of extraordinary state support.

Ratings upside could result if the company significantly reduces the level of information risk that we incorporate into the ratings by implementing IFRS reporting (expected in 2010). Improving transparency and visibility and completing the restructuring process, with stronger corporate governance and accountability of subsidiaries, and centralized liquidity and investment management, could also be positive for the ratings.

If AtomEnergProm fails to improve its debt maturity profile, its liquidity position deteriorates, and/or it accumulates debt more aggressively than we now expect, the stand-alone credit profile might come under pressure, which might consequently lead us to lower the ratings. A change in our view of AtomEnergProm's expectations of extraordinary government support including, but not limited to, further industry restructuring diminishing AtomEnergProm's importance and role for the government, could also put downward pressure on the ratings.

State Ownership And Rating Methodology

We consider AtomEnergProm to be a GRE enjoying a "very high" likelihood of timely and sufficient extraordinary support from the Russian government. We view AtomEnergProm as a "very important" company with a "very strong" link to the Russian government.

A "very important" company

AtomEnergProm is a holding company--one of the most important Russian government GREs--and very important for the Russian economy (see also "Business Description" section). It manages civil nuclear industry assets, including:

- The operation of nuclear power stations (16% of all electricity output in Russia and up to 35%-40% in some Russian macro regions, such as the northwestern European part of Russia);
- Construction of nuclear power stations; and

- Uranium extraction (9% of world market), enrichment (45% of world market), and fuel production (17% of world market) for the full cycle with certain limitations on private activities in the sector.

The holding and all AtomEnergProm subsidiaries together employ about 177,000 people—or about 0.25% of Russia's total workforce.

AtomEnergProm's government-mandated role is to implement state policy in the civil nuclear sector. Nuclear technologies were touted as a top government priority in its efforts to restructure Russia's economy, as stated in the June 2009 "Program of Anti-Crisis Measures for 2009," as well as the recent statement by the presidential commission on economic development and modernization.

AtomEnergProm's main goals (amongst those the government has set for its owner, Rosatom) are:

- Security of energy supplies;
- Nuclear security; and
- Innovative development of Russia's civil atomic industry.

These goals indicate that the government expects nuclear electricity production to expand by 45% by 2015 (compared with 2008 production levels). Moreover, to support economic growth and diversify away from gas-fired generation, the overall share of atomic electricity production in Russia's total electricity production is to increase to 18.6% by 2015, and to 25%-30% by 2030, from the current 16%.

AtomEnergProm (through some subsidiaries) is an important Russian foreign policy tool, with projects in China, India, and other Asian customers, and Eastern Europe, as well as some important supply contracts in Western Europe and the U.S. (mostly under international agreements). Consequently, the reputational aspect of AtomEnergProm's operations is very important for the Russian government, because all foreign contracts of both AtomEnergProm and Rosatom for construction of power stations, as well as long-term fuel supply contracts, might risk being cancelled in case of nonpayments on debt. In addition, foreign-based assets controlled by AtomEnergProm and/or Rosatom subsidiaries (such as large uranium deposits in Kazakhstan, Canada, and elsewhere purchased recently) might be seized in case of nonpayment on debts, which makes Rosatom's expected guarantee on the planned bond even more important.

Very strong link to the government

A presidential decree outlining the consolidation of all civil nuclear assets provided for AtomEnergProm's creation in July 2007. AtomEnergProm's owner, Rosatom, is the legal successor of the abrogated Federal Agency on Nuclear Energy and was created by a federal law. The government fully owns Rosatom. Profit is not the primary goal of this entity. Rosatom enjoys a special bankruptcy regime (bankruptcy possible only under a special law to be approved by the State Duma {federal parliament}) and is a government policy tool in the nuclear sector as a whole (for example for military applications). Rosatom also controls other important and valuable energy assets such as InterRAO. Rosatom is the only state corporation that legally implements government functions.

Throughout 2008, ownership of designated subsidiaries was transferred from Rosatom to AtomEnergProm as equity injections. The consolidation process is nearly complete, although several immaterial subsidiaries have yet to be transferred, and the consolidated corporate governance system is still evolving.

The Russian government tightly supervises the sector and any private activity with nuclear-related technologies requires government approval. A presidential decree presents an exhaustive list of entities that are allowed to possess

nuclear materials and assets. All nuclear activities, except those implemented by the defense ministry, are also subject to licensing by Rosatom. The special bankruptcy regime, which to our knowledge has not been tested practically, is supposed to be applied to all nuclear-sector-related enterprises to secure full state control over nuclear-related assets. In a bankruptcy, the government has the preferential right to buy and any deal that leads to the transfer of nuclear materials or assets to an entity not on the presidential list would be legally null and void. Privatization of AtomEnergProm is not expected in the short to medium term, and would require a presidential decree to be legal.

The government tightly monitors AtomEnergProm, directly and through Rosatom

AtomEnergProm's board consists of four Rosatom representatives (including Rosatom's head, Sergei Kiriyenko (who was Russia's prime minister in the late 1990s)) and AtomEnergProm's CEO. The Russian president appoints Rosatom's head, and the appointment of other Rosatom managers is also under full government control. Legislation gives the head of Rosatom the right to attend all government meetings.

In addition to other reporting, AtomEnergProm submits weekly financial reports to Rosatom, which tightly monitors AtomEnergProm's financial position (cash, debt, payables, etc.) and financial policies.

Strong Ongoing State Support

AtomEnergProm enjoys very strong ongoing state support in various forms, and we expect this support to continue in the medium term.

AtomEnergProm is included in the government's list of "strategic enterprises". Being on the list facilitates access to various forms of state support.

Capital injections

Capital injections for nuclear-related civil activities remain among the government's top spending priorities for the medium term. The state has approved a 2009-2015 program for Rosatom's energy activities, which sets strategic goals for the corporation. It foresees budget capital investments of RUR819 billion (to be adjusted by inflation and not fully legally binding), which are subject to budget approval every year. Most of these are pass-throughs to AtomEnergProm (see table 1).

Table 1

Government Capital Injections For Rosatom Activities Under The 2009-2015 Program							
(Bil. RUR)	2009	2010	2011	2012	2013	2014	2015
Safety investments	12.2	13.2	13.7	14.4	15	15.8	16.5
New construction of power stations	87.4	96.8	113	118.8	90.8	58.8	40
Innovation (research and development)	5.7	3.7	3.6	3.9	3.9	4	4.1

RUR--Russian ruble.

AtomEnergProm's portion of the state capital injections to Rosatom is decided by Rosatom's supervisory board, which consists of several government officials. Because of the nature of its operations, AtomEnergProm is eligible for the entire amount earmarked for construction of new power stations.

We expect that the government will meet the program requirements, as confirmed by the 2008-2009 policies. In 2008 AtomEnergProm's current subsidiaries received RUR56.9 billion. For 2009, however, the state has initially

budgeted RUR73.3 billion of capital injections for Rosenergoatom's capital program (to construct new power stations), which was slightly less than provided for in the 2009-2015 program. The state increased that amount by an additional RUR15 billion in September 2009 when the additional 2009 budget spending was distributed among recipients.

The state (through Rosatom) has also committed to provide RUR50 billion to Atomredmetzoloto (ARMZ; uranium extraction subsidiary; not rated) directly, with the full amount to be transferred by year-end 2009. In September 2009, the state increased this amount by another RUR15 billion to RUR75 billion. Future injections are still subject to annual budget decisions, but the program seems to be one of the government's top priorities, as confirmed by the increased amounts over the course of 2009.

Investment tax privileges

AtomEnergProm enjoys special profit tax benefits to finance its investments in safety systems, asset retirement, and development of nuclear stations. AtomEnergProm estimates the total amount of profit tax benefits in 2009 at more than RUR12.7 billion, mostly provided to Rosenergoatom (12.2 billion privileges on profit tax accrued on its capital-investment reserves).

Subsidies

The government subsidizes AtomEnergProm to compensate for unfavorable tariff regulation in some remote areas, for example Chukotka, for which the company received RUR985 million in 2009.

Interest subsidies for exporters are provided in the frames of the government's strategy for economic diversification: AtomEnergProm's subsidiaries received about RUR1.3 billion in 2009.

Debt policy support

AtomEnergProm enjoys very good access to financing from state banks.

The planned ruble bond issue of up to RUR195 billion to be issued over five years will be guaranteed by Rosatom. This guarantee is very important for the government, because Rosatom controls important assets outside the nuclear sector, such as InterRAO, an energy exporter, and assets outside Russia (such as uranium deposits purchased recently by ARMZ). The need to meet the guarantee or Rosatom's default on the guarantee could result in the loss of those assets, which might be very embarrassing and politically painful for the government.

Minimal dividend requirements

So far the government's strategy is to support AtomEnergProm through minimal dividend requirements. Profits are to be the source of re-investment in AtomEnergProm's assets and financing of investment programs as required by government policies.

The state has no stipulated long-term dividend policy, but so far dividend requirements are supportive for AtomEnergProm from the creditworthiness point of view; the company paid only RUR1.1 billion in dividends in 2008 and is expected to pay only about RUR3 billion in 2009. So far all AtomEnergProm subsidiaries are required to pay about 25% of their profits as dividends, and AtomEnergProm shares those with Rosatom, mostly to finance administrative costs. AtomEnergProm is not considered to be a source of financing for other Rosatom activities.

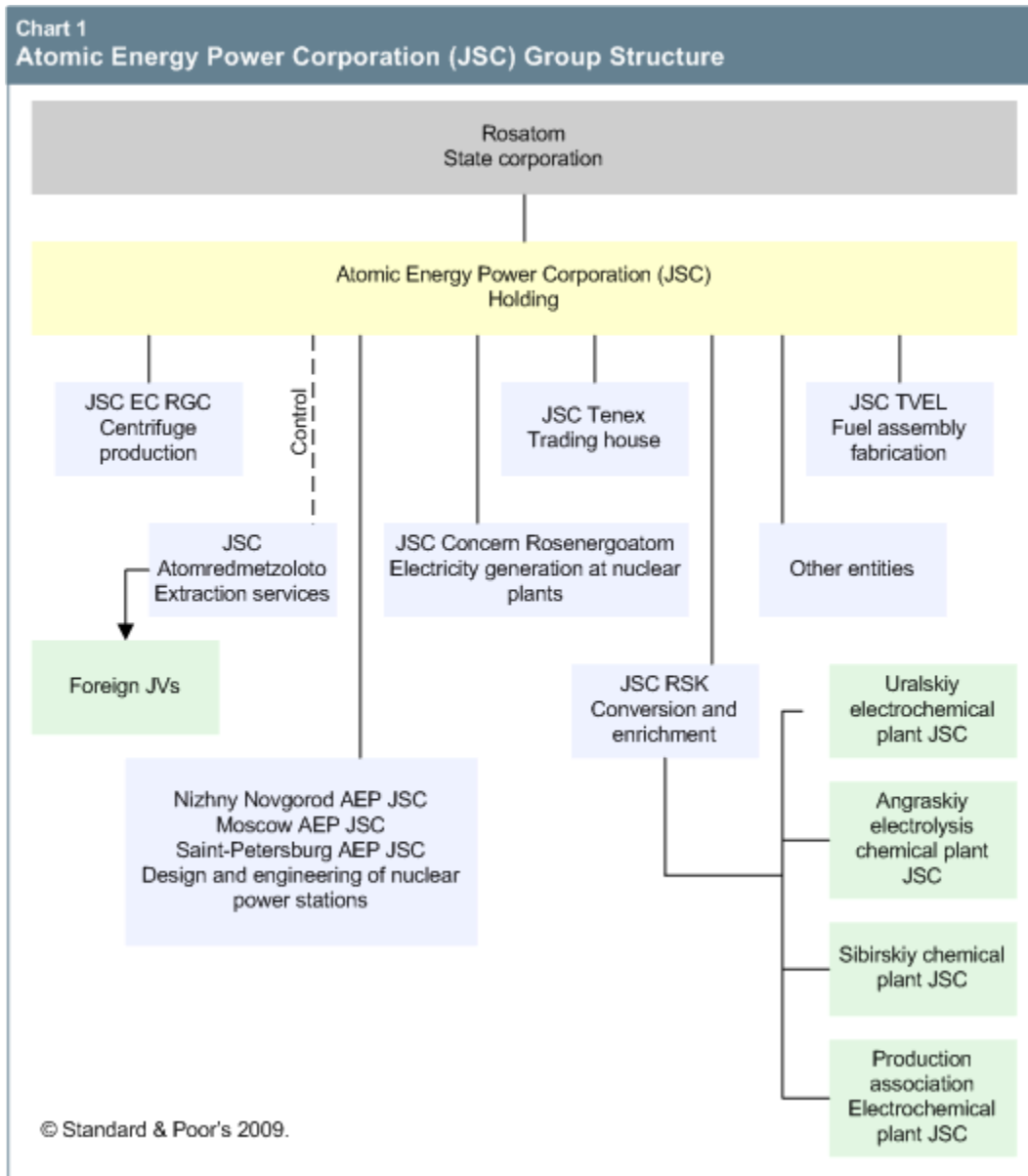
Business Description

AtomEnergyProm is a holding company and 100% subsidiary of state corporation Rosatom. A vertically integrated group of companies, AtomEnergyProm consolidates the nonmilitary part of the Russian nuclear industry, covering all the technical stages of the nuclear cycle, from the extraction of uranium to the generation of electricity via nuclear power plants.

AtomEnergyProm manages Russia's civil nuclear industry assets, including:

- The operation of nuclear power stations (23.2 gigawatts of total generating capacity; 16% of all electricity output in Russia and up to 35%-40% in some Russian macro regions, such as the northwestern European part of Russia);
- Construction of nuclear power stations; and
- Uranium extraction (9%-12% of the global market according to different estimates), enrichment (45% of the global market), and fuel production (17% of the global market) for the full cycle with certain limitations on private activities in the sector.

All AtomEnergyProm subsidiaries together employ about 177,000 people, or about 0.25% of Russia's total workforce.



Business Risk Profile: Satisfactory, Thanks To Vertically Integrated Nuclear Activities, But Exposed To High Engineering And Construction Risks

AtomEnergProm benefits from having a vertically integrated business model, with full nuclear cycle possession and a monopoly position in Russia. Moreover, the nuclear industry continues to enjoy favorable growth prospects.

Table 2

Atomic Energy Power Corporation (JSC) 2008 Management Accounts Information						
(Mil. RUR)	Conversion and enrichment	Fuel assembly production	Electricity generation	Other	Inter-segment eliminations	Total
Revenues	90,494	60,099	151,636	74,174	(85,917)	290,486

Table 2

Atomic Energy Power Corporation (JSC) 2008 Management Accounts Information (cont.)						
EBITDA	28,407	13,689	70,806	9,341	(13,003)	109,241
Capital expenditures	11,549	8,382	118,918	4,831	N.A.	143,680
EBITDA margin (%)	31.39	22.78	46.69	12.59	N.A.	37.61

Source: Atomic Energy Power Corporation (JSC) management accounts. RUR--Russian ruble. N.A.--Not available.

In 2008 the government approved the "General Scheme for the Placement of Electricity Facilities until 2020", which describes general development principles for the sector and a top-tier action plan. In accordance with the scheme, the share in electricity production of hydroelectric and nuclear power plants should increase at the expense of thermal stations' share.

A key risk factor is any negative impact ensuing from a nuclear accident.

Nuclear mining segment is an important part of the value chain

AtomEnergProm controls--but does not legally own--ARMZ, which consolidates uranium extraction assets in Russia and Kazakhstan and has a number of joint ventures in Canada, Armenia, and Namibia. The AtomEnergProm Group utilized all production of Russia-based fields, although the company intends to have external sales from 2010 onward when consolidating the stakes in its foreign acquisitions.

Key strengths of AtomEnergProm's mining division are:

- Its good position as the world's second-largest uranium mining company by resource base and the fifth-largest global producer in terms of uranium output;
- Favorable outlooks on uranium spot prices and uranium consumption; and
- A monopoly position in Russia.

These strengths might be challenged by:

- Massive investment needs and long-term payback of investments; and
- Above-average development costs of Russian mining sites compared with peers' sites in other countries.

Enrichment: Advanced technology creates a competitive advantage, despite trade barriers

Key strengths of the enrichment activity include:

- Extremely high barriers to entry, given restricted access to technology (AtomEnergProm is one of only three companies in the world with access to low-cost centrifugal technology);
- A strong market position in the oligopolistic and mature nuclear enrichment industry, with an estimated 45% global market share (including enrichment of peers' tails); and
- A long-term contract portfolio, with a large portion contracted up to 2020.

These strengths might be challenged by:

- Existing trade barriers for AtomEnergProm. The company's direct access to Western European markets is currently restricted to a 25% market share. An antidumping agreement limits AtomEnergProm's presence in the U.S. market by the deliveries under the HEU-LEU (highly-enriched uranium-low-enriched uranium) agreement; and

- Insufficient development of the nuclear transportation segment, thus creating the exposure to third party services.

Fuel assembly fabrication: Good market position in Russian-type reactor segment, although the threat from rivals is increases

This AtomEnergProm division benefits from the following advantages:

- Each reactor type generally has historically required a certain fuel assembly type, thus creating an entry barrier for rivals. AtomEnergProm currently enjoys a monopoly position on the VVER (Russian name for the pressurized water reactor) and RBMK (Russian name for the high-power channel reactor) markets (17% of the global nuclear fuel assembly fabrication), servicing reactors in Czech Republic, China, Bulgaria, Hungary, Slovakia, Armenia, Ukraine, and India.
- Good contract visibility stemming from the long-term nature of nuclear fuel deliveries; and
- A good growth outlook in the medium term because AtomEnergProm's (owned by Rosatom), AtomStroiExport (not rated), has been constructing five nuclear generating units abroad, thus enhancing AtomEnergProm's future client base. Another nine stations are now being constructed in Russia.

These advantages could be impaired by the following weaknesses:

- Existing trade barriers for AtomEnergProm, imposed by international agreements;
- The choice of nuclear fuel provider might be determined based on an intention to diversify suppliers or for political reasons, threatening AtomEnergProm's market share; and
- Existing obligations for timely deliveries and associated contract risk.

Electricity generation: Excellent profitability in the generating sector, despite the huge investment program

Key strengths of AtomEnergProm's electricity generating segment are:

- Strong ongoing government support in the form of cash injections and tax subsidies. The company expects injections from the state will cover about 40% of its capital-expenditure budget in 2009-2015;
- Leading capacity utilization position compared with that of peers, because the output of a nuclear power plant cannot be adjusted quickly;
- Expected higher-than-average benefits from electricity market deregulation due to historically low tariffs benefit;
- A positive nuclear electricity generation outlook based on the government's intention to increase the share of nuclear electricity generation in the total electricity output. This strategy is formulated in the "General Scheme for the Placement of Electricity Facilities until 2020", which defines the overall development principles for constructing new generating capacities in the medium term;
- Higher profitability because of lower-than-industry-average operating costs; and
- A diversified customer base.

These strengths could be challenged by:

- The implementation of a substantial investment program, stipulating spending of RUR1.430 trillion by this AtomEnergProm division in 2009-2015. The largest part (RUR1.154 trillion) is for the construction of new nuclear electricity generating capacity, with the goal of increasing the output by 145%, to 234 billion kilowatt-hours per year in 2015;
- The inherent operational risks of nuclear power generation; and
- The risk of a quasi-regulatory regime imposed on AtomEnergProm by the authorities in the electricity segment,

despite the ongoing deregulation of electricity prices.

Profitability: Strong overall, stemming from a low-cost generation segment and supported by other segments

AtomEnergProm enjoys strong profitability compared with its peers, thanks to:

- The lower costs of generating electricity at nuclear power plants; and
- The use of centrifugal technologies for uranium enrichment, because it is 40x-50x less energy-intensive than gaseous diffusion technologies.

AtomEnergProm's electricity generation segment produces about 65% of the group's EBITDA. Based on Russian statutory financial statements, this segment had an EBITDA margin of 47%, which is substantially higher than that of AtomEnergProm's peers. As the electricity market deregulation continues, AtomEnergProm's profitability will continue to improve due to historically low tariffs, although there is a risk of the authorities' imposing a quasi-regulatory regime on AtomEnergProm to control the growth of electricity prices.

At the same time, results reported under IFRS might differ significantly from statutory accounts, which is reflected in the accounting section of this report.

Financial Risk Profile: Aggressive Due To High Information Risk And Only Developing Corporate Governance

The main weaknesses of AtomEnergProm's financial risk profile are the lack of both consolidated IFRS financial statements and an explicit unified financial policy, as well as an evolving corporate structure with only a short track record of operations and a still-developing controls system in place.

Accounting

In our analysis, we have used AtomEnergProm's statutory consolidated financial statements prepared under Russian generally accepted accounting principles (GAAP). A lack of audited consolidated financial statements under IFRS creates above-average information risk, which also contributes to the company's overall aggressive financial risk profile.

AtomEnergProm plans to prepare audited IFRS financial statements for 2009, which could alleviate information risk.

In our analysis, we have made several adjustments to the company's reported figures under Russian GAAP:

- We excluded capital-expenditure cash outflow of RUR91.7 billion from operating cash flows and added it to capital expenditures;
- We reclassified the equity contribution from Rosatom in the amount of RUR458 billion from the accounts payable as of the balance sheet date to shareholders' equity;
- We reversed the accrued expense on development reserve of RUR48.4 billion because we view this item to be virtual, as actual expenses related will be incurred in later periods;
- We reclassified RUR8.0 billion of depreciation from cost of sales to depletion, depreciation, and amortization; and
- We added RUR85.5 billion of asset retirement obligation liabilities based on the management's estimates.

We also use EBITDA as a proxy for AtomEnergProm's cash flow, because we consider them to be more reliable

than cash flow measures based on reported cash flow figures to illustrate the company's cash flow generation capacity.

Corporate governance/Risk tolerance/Financial policies

We view AtomEnergProm's management's risk policies as weak based on the following:

- AtomEnergProm was established in 2007 and therefore has a rather limited track record of operations as a holding company;
- There is no explicit unified group financial policy in place; and
- The corporate structure and control systems are evolving, due to the ongoing restructuring process. AtomEnergProm still has to consolidate 11 entities into the perimeter.

The management team announced a medium-term action plan to mitigate those risks, including developing control procedures, establishing a unified financial policy throughout the group, and finalizing the group structure. Once materialized, these steps might improve AtomEnergProm's financial risk profile.

Cash flow adequacy: Strong cash flow protection, although will likely weaken as debt increases

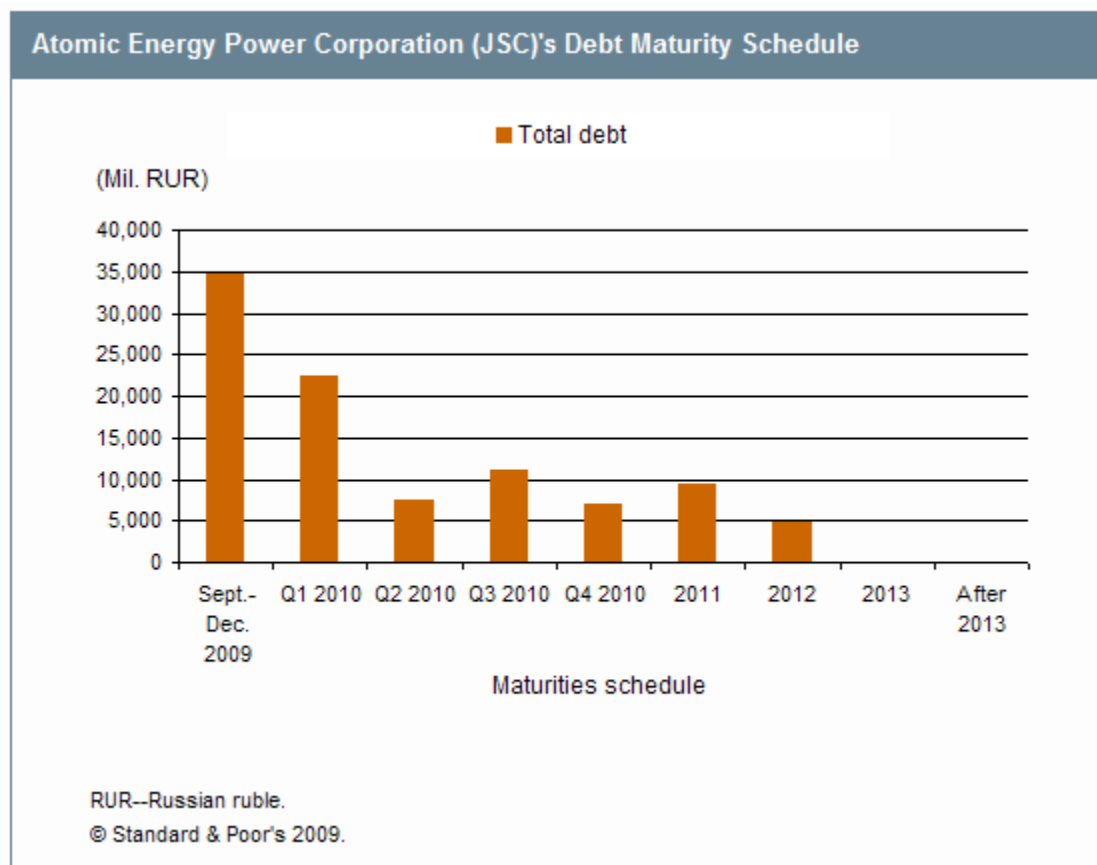
We expect AtomEnergProm's free operating cash flows (FOCF) to be strongly negative in 2010-2015 due to implementation of the large investment program, even though the company plans for about 40% of the program to be financed through injections from the state. To cover this negative FOCF and refinance short-term debt falling due, AtomEnergProm plans to place bonds on the Russian market in 2009-2010 in an amount up to RUR195 billion.

The ratings assume that AtomEnergProm's cash flow protection will weaken in 2009-2010 as a result of increased investments and disclosure of additional debt and debt-like liabilities after preparation of the audited, consolidated IFRS report. However, cash flow protection will likely remain adequate for the ratings and adjusted debt to EBITDA should remain less than 2.5x.

Capital structure/Asset protection: Modest leverage and a positive net debt liquidity position, but significant short-term debt to be refinanced

AtomEnergProm has modest leverage at the moment compared with its revenues and EBITDA: on Sept. 1, 2009, the total amount of debt was RUR97 billion. The net debt liquidity position was positive, although the majority of committed credit lines are short term and expire in 2010.

However, 78% of total debt also matures within next 12 months and has to be refinanced.



We expect that the short-term debt will be refinanced by the proceeds from the planned bond issue in 2009. We do expect the debt level to increase, but we estimate that leverage will be adequate for the ratings and will not exceed 28% in 2009-2012.

Foreign currency exposure is significant: 46% of total debt is expressed in U.S. dollars. We understand from AtomEnergProm management that their foreign currency risk is mitigated only by incoming U.S. dollar-denominated revenues and existing RUR25 billion (\$775 million) U.S. dollar-denominated confirmed credit lines, and that there are no financial hedges in place at the moment.

There is no variable interest exposure, as all debt interest rates are fixed.

Table 3

Atomic Energy Power Corporation (JSC) Peer Comparison*					
	Atomic Energy Power Corporation (JSC)	AREVA	Urenco Ltd.	RusHydro (OJSC)	OJSC Oil Company Rosneft
Rating as of Nov. 30, 2009	BBB-/Stable/A-3	A/Stable/A-1	A-/Stable/A-2	BBB-/Watch Neg/A-3	BBB-/Stable/--
(Mil. \$)	--Fiscal year ended Dec. 31, 2008--				
Revenues	9,822.5	18,393.7	1,575.2	3,640.7	46,985.0
Net income from cont. oper.	2,184.5	821.2	354.3	(674.8)	11,120.0
Funds from operations (FFO)	3,477.5	1,046.2	706.7	819.4	12,441.6

Table 3

Atomic Energy Power Corporation (JSC) Peer Comparison* (cont.)					
Capital expenditures	4,856.7	2,334.6	1,123.3	857.3	8,453.0
Debt	5,806.7	11,208.6	2,787.6	1,366.1	23,744.2
Equity	19,930.1	9,727.2	911.3	11,602.1	39,598.0
Oper. income (bef. D&A)/revenues (%)	36.9	7.1	58.3	31.1	36.5
EBIT interest coverage (x)	14.6	1.7	6.2	8.8	8.8
EBITDA interest coverage (x)	18.0	2.7	8.6	12.3	11.4
Return on capital (%)	11.3	4.3	18.8	6.7	19.9
FFO/debt (%)	59.9	9.3	25.3	60.0	52.4
Debt/EBITDA (x)	1.6	8.5	3.0	1.2	1.4

*Fully adjusted (including postretirement benefit obligations, capitalized operating leases, excess cash, and other items, as appropriate); detailed accounting information can be found in each company's full report--article type "Analyses"--on RatingsDirect.

Table 4

Atomic Energy Power Corporation (JSC) Financial Summary*	
(Mil. RUR)	--Fiscal year ended Dec. 31--
	2008
Revenues	290,486.0
Net income from continuing operations	64,604.0
Funds from operations (FFO)	102,842.0
Capital expenditures	143,630.0
Cash and short-term investments	35,593.0
Debt	171,724.0
Preferred stock	0.0
Equity	589,403.0
Debt and equity	761,127.0
EBIT interest coverage (x)	14.6
FFO int. cov. (x)	17.2
FFO/debt (%)	59.9
Discretionary cash flow/debt (%)	(23.8)
Net cash flow/capital expenditures (%)	71.6
Debt/debt and equity (%)	22.6
Return on common equity (%)	11.2
Common dividend payout ratio (un-adj.) (%)	0.0

*Fully adjusted. RUR--Russian ruble. N.M.--Not meaningful.

Ratings Detail (As Of November 30, 2009)*

Atomic Energy Power Corporation (JSC)

Corporate Credit Rating	BBB-/Stable/A-3
<i>Russia National Scale Rating</i>	ruAAA/--/--

Corporate Credit Ratings History

15-Oct-2009	BBB-/Stable/A-3
15-Oct-2009 <i>Russia National Scale Rating</i>	ruAAA/--/--

Ratings Detail (As Of November 30, 2009)* (cont.)	
Business Risk Profile	Satisfactory
Financial Risk Profile	Aggressive

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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