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## Key rating assessment factors

## Key assumptions

# ACRA affirms PJSC “GAZPROM” at AAA(RU), outlook Stable, and bond issues at AAA(RU)

The credit rating of [PJSC “GAZPROM”](#) (hereinafter, Gazprom, the Company) is based on the Company’s very high systemic importance for the Russian economy and the high level of state influence on the Company, according to ACRA’s methodology. The Company’s standalone creditworthiness is determined by its very strong business profile, low industry risk, and strong financial profile. The standalone creditworthiness assessment (SCA) is limited by the Company’s weak free cash flow, which is the result of substantial capital expenditures and dividend payouts.

Gazprom is one of the largest integrated energy companies in the world. The Company boasts a 12% share in global gas production and a 69% share in total domestic output. The Company is one of the largest oil producers in Russia (through [Gazprom Neft PJSC \(AAA\(RU\), outlook Stable\)](#)). Gazprom owns major power generation assets through Gazprom Energoholding. The Company also owns a gas pipeline network with a total length of 172.6 thousand km.

**Gazprom is an integral part of the national economy.** The Company has a monopolistic right to export pipeline gas in the Russian Federation and it is one of the largest taxpayers and revenue sources for the federal budget. Gazprom also plays an important social role by acting as a large employer and implementing the gasification program and other socially focused projects in Russian regions. The Company is critically important for national energy security. Based on these factors, the systemic importance of Gazprom and the state’s influence on it are very high.

**Gazprom maintains high business profitability and low leverage.** Despite poor conditions in the gas market, ACRA expects the Company’s business profitability to remain high. Gazprom’s weighted average FFO before interest payments and taxes is estimated at 27.3% for 2017-2022 and 22-29% for the forecast period (2020-2022). ACRA estimates the Company’s weighted average leverage indicators (total debt to FFO before net interest payments and FFO before net interest payments to interest payments) at 2.1 and 10.5, respectively.

To assess liquidity, ACRA takes into account the Company’s ample capabilities in raising financing in the Russian and international markets.

**Negative free cash flow.** Despite reducing the investment program after the completion of major gas transport projects, free cash flow (adjusted for dividends) will remain negative due to the increase in the dividend payout ratio assumed by the new dividend policy. ACRA estimates the Company’s weighted average FCF profitability for 2017-2022 at -4.7%.

- Remaining the sole exporter of pipeline gas in the Russian Federation;
- Average annual USD/RUB exchange rate at 63.3 in 2020, 64.9 in 2021, and 65.3 in 2022;
- Average annual Brent crude oil price dropping to USD 59.6-62.6 per barrel in 2020–2022;
- Domestic prices for natural gas increasing by 3% each year in 2020-2022;
- 3.8-4.1% inflation and 2% annual indexation of gas transportation rates for independent producers in 2020-2022.

## Potential outlook or rating change factors

The **Stable outlook** assumes that the rating will most likely stay unchanged within the 12 to 18-month horizon.

### A negative rating action may be prompted by:

- Significant decline in the Company's systemic importance for the Russian economy;
- Loss of state control or substantial changes in industry legislation.

**The rating of PJSC "GAZPROM" is at the highest possible level under the national scale, and therefore, no factors prompting a positive rating action have been determined.**

## Rating components

**SCA:** aa+.

**Support:** on par with the RF.

## Issue ratings

[PJSC "GAZPROM," BO-01 series \(RU000A0ZYUV5\)](#), actual issuer: Gazprom capital LLC, maturity date: February 15, 2028, issue volume: RUB 5 bln — **AAA(RU)**.

[PJSC "GAZPROM," BO-02 series \(RU000A0ZYUW3\)](#), actual issuer: Gazprom capital LLC, maturity date: February 15, 2028, issue volume: RUB 5 bln — **AAA(RU)**.

[PJSC "GAZPROM," BO-03 series \(RU000A0ZYUY9\)](#), actual issuer: Gazprom capital LLC, maturity date: February 15, 2028, issue volume: RUB 10 bln — **AAA(RU)**.

[PJSC "GAZPROM," BO-04 series \(RU000A0ZYV04\)](#), actual issuer: Gazprom capital LLC, maturity date: February 15, 2028, issue volume: RUB 10 bln — **AAA(RU)**.

[PJSC "GAZPROM," BO-07 series \(RU000A0ZZER4\)](#), maturity date: July 12, 2033, issue volume: RUB 10 bln — **AAA(RU)**.

[PJSC "GAZPROM," BO-22 series \(RU000A0ZZES2\)](#), maturity date: June 23, 2048, issue volume: RUB 15 bln — **AAA(RU)**.

[PJSC "GAZPROM," BO-23 series \(RU000A0ZZET0\)](#), maturity date: June 23, 2048, issue volume: RUB 15 bln — **AAA(RU)**.

[PJSC "GAZPROM," BO-001P-01 \(RU000A100EX8\)](#), actual issuer: Gazprom capital LLC, maturity date: June 2, 2022, issue volume: RUB 15 bln — **AAA(RU)**.

[PJSC "GAZPROM," BO-001P-02 \(RU000A100LL8\)](#), actual issuer: Gazprom capital LLC, maturity date: July 11, 2024, issue volume: RUB 15 bln — **AAA(RU)**.

**Rationale.** In ACRA's opinion, the bonds listed above are senior unsecured debt instruments of PJSC "GAZPROM." Due to the absence of either structural or contractual subordination of the issues, ACRA regards them as equal to other existing and future unsecured and unsubordinated debt obligations of the Company in terms of priority. According to ACRA's methodology, and taking into account the high creditworthiness of the Company as well as the absence of any substantial secured debt obligations, the above bond issues are rated AAA(RU), which corresponds to the credit rating of [PJSC "GAZPROM."](#)

## Regulatory disclosure

The credit ratings were assigned to PJSC "GAZPROM" and the bonds (RU000A0ZYUV5, RU000A0ZYUW3, RU000A0ZYUY9, RU000A0ZYV04, RU000A0ZZER4, RU000A0ZZES2, RU000A0ZZET0, RU000A100EX8, RU000A100LL8) issued by PJSC "GAZPROM" under the national scale for the Russian Federation based on the [Methodology for Credit Ratings Assignment to Non-Financial Corporations under the National Scale for the Russian Federation](#), the [Methodology for Analyzing Relationships Between Rated Entities and the State](#), and the [Key Concepts Used by the Analytical Credit Rating Agency Within the Scope of Its Rating Activities](#). The Methodology for Assigning Credit Ratings to Individual Issues of Financial Instruments Under the National Scale for the Russian Federation was also applied to assign the credit rating to the above bond issues.

The credit rating of PJSC "GAZPROM" and the bonds (RU000A0ZYUV5, RU000A0ZYUW3, RU000A0ZYUY9, RU000A0ZYV04, RU000A0ZZER4, RU000A0ZZES2, RU000A0ZZET0, RU000A100EX8, RU000A100LL8) issued by PJSC "GAZPROM" were first published by ACRA on February 2, 2018, February 19, 2018, February 19, 2018, February 19, 2018, February 19, 2018, August 1, 2018, August 1, 2018, August 1, 2018, June 6, 2019, and July 17, 2019, respectively. The credit rating of PJSC "GAZPROM" and its outlook as well as the credit ratings of the above bonds are expected to be revised within one year following the publication date of this press release.

The assigned credit ratings are based on the data provided by PJSC "GAZPROM," information from publicly available sources, as well as ACRA's own databases. The credit ratings are solicited, and PJSC "GAZPROM" participated in their assignment.

No material discrepancies between the provided data and the data officially disclosed by PJSC "GAZPROM" in its financial statements have been discovered.

ACRA provided no additional services to PJSC "GAZPROM" or Gazprom capital LLC. No conflicts of interest were discovered in the course of credit rating assignment.

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