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Key rating assessment
factors

ACRA affirms AAA(RU) to PJSC “GAZPROM”, outlook Stable, and AAA(RU) to its bond issues and to the bond issues of Gazprom capital LLC

The credit rating of [PJSC “GAZPROM”](#) (hereinafter, Gazprom, or the Company) is based on the Company’s very high systemic importance for the Russian economy and the very 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 (FCF), 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 68% 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 175,200 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 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.

2020 results and expectations for 2021–2023. In 2020, the Company’s credit metrics deteriorated slightly amid falling demand for gas in Europe and, as a result, lower prices. According to ACRA, the average price for gas exported beyond the former Soviet Union in 2020 was USD 134 per thousand cubic meters, compared to USD 211 in 2019. These exports (excluding LNG and China) declined from 199 bln cubic meters in 2019 to 175 bln cubic meters in 2020. Domestic sales declined from 236 bln cubic meters in 2019 to 220 bln cubic meters in 2020.

Despite this fall in demand and prices, ACRA assumes this negative trend is only temporary and expects the Company’s main operating indicators to recover within the next 12 to 18 months. A recovery in gas prices in the European market has been underway since September 2020. In January 2021, spot prices for gas in Europe exceeded USD 250 per thousand cubic meters. ACRA expects Gazprom’s average European market export price to amount to USD 182 per thousand cubic meters in 2021 and reach USD 200 per thousand cubic meters in 2023. ACRA expects exports to non-former Soviet Union countries to grow to 192 bln cubic meters in 2021 (excluding China and LNG deliveries) and then recover to 200 bln cubic meters in 2023. At the same time, along with the restoration of exports to Europe, gas exports to China are expected to grow to 10 bln cubic meters in 2021 and to 21 bln cubic meters in 2023. According to ACRA, domestic market gas sales will grow to 225 bln cubic meters in 2021 and return to their 2019 level in 2023.

Gazprom maintains high business profitability. According to ACRA’s estimates, the Company’s FFO profitability before interest payments and taxes declined to 26% in 2020. ACRA expects this indicator to recover to 32–34% in the forecast period. Gazprom’s weighted average FFO before interest payments and taxes is assessed at 30% for 2018–2023.

Weak cash flow assessment. ACRA expects the Company's annual capital expenditures to remain stable at around RUB 1.5 tln in 2021–2023. Dividend payments will have a significant impact on the cash flow assessment. According to its dividend policy, the Company plans to pay out dividends amounting to 40% of adjusted profits for 2020 and begin paying dividends at 50% of adjusted profit in 2021. In addition, the policy allows the Company to reduce the size of dividends if the ratio of net debt to EBITDA exceeds 2.5x. Despite the fact that, according to the Agency, the aforementioned indicator should exceed 2.5x for 2020, ACRA expects payments to be made in full, since the projected FCF for 2021 allows payments to be made without increasing leverage. ACRA assesses the Company's weighted average FCF profitability for 2018–2023 (after dividend payments) at -2.6%.

Low leverage and high interest payment coverage. According to ACRA's assessments, the Company's total debt increased from RUB 4.1 tln as of the end of 2019 to more than RUB 5 tln as of the end of 2020. This growth was mainly due to the revaluation of foreign currency debt, as well as negative FCF (taking into account dividends). The Agency expects total debt to stabilize at around RUB 5 tln in the forecast period. ACRA assesses the weighted average ratio of total debt to FFO before net interest payments at 2.6x in the period from 2018 to 2023. ACRA expects the weighted average ratio of FFO before net interest payments to interest payments to stand at 11.5x.

Key assumptions

- Remaining the sole exporter of pipeline gas in the Russian Federation;
- Average annual USD/RUB exchange rate at 71.0 in 2021, 69.5 in 2022, and 69.2 in 2023;
- Average annual Brent crude oil price recovering to USD 50 per barrel in 2021 and USD 55 and 60 per barrel in 2022 and 2023, respectively;
- Prices for gas exported by the Company to the European market recovering to USD 182 per thousand cubic meters in 2021 and to USD 200 per thousand cubic meters in 2023;
- Exports of pipeline gas to non-former Soviet Union countries, including China, to grow to 221 bln cubic meters in 2023;
- Domestic prices for natural gas increasing by 3% each year in 2021–2023;
- 3.4–3.8% inflation in 2021–2023.

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

Rationale. The bonds listed below 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."](#)

Key issue properties

[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 series \(RU000A100EX8\)](#), actual issuer: Gazprom capital LLC, maturity date: June 2, 2022, issue volume: RUB 15 bln — **AAA(RU)**.

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

[PJSC "GAZPROM", BO-001R-03 series \(RU000A101QM3\)](#), actual issuer: Gazprom capital LLC, maturity date: May 27, 2025, issue volume: RUB 15 bln — **AAA(RU)**.

[PJSC "GAZPROM", BO-001R-04 series \(RU000A101QN1\)](#), actual issuer: Gazprom capital LLC, maturity date: May 25, 2027, issue volume: RUB 15 bln — **AAA(RU)**.

Regulatory disclosure

The credit ratings have been assigned to PJSC "GAZPROM" and the bonds (RU000A0ZYUV5, RU000A0ZYUW3, RU000A0ZYUY9, RU000A0ZYV04, RU000A0ZZER4, RU000A0ZZES2, RU000A0ZZET0, RU000A100EX8, RU000A100LL8, RU000A101QM3, RU000A101QN1) 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 credit ratings to the above issues.

The credit rating of PJSC "GAZPROM" and the credit ratings of the bonds (RU000A0ZYUV5, RU000A0ZYUW3, RU000A0ZYUY9, RU000A0ZYV04, RU000A0ZZER4, RU000A0ZZES2, RU000A0ZZET0, RU000A100EX8, RU000A100LL8, RU000A101QM3, RU000A101QN1) were published by ACRA for the first time 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, July 17, 2019, June 2, 2020, June 2, 2020, and June 2, 2020, respectively. The credit rating of PJSC "GAZPROM" and its outlook as well as the credit ratings of the bonds (RU000A0ZYUV5, RU000A0ZYUW3, RU000A0ZYUY9,

RU000A0ZYV04, RU000A0ZZER4, RU000A0ZZES2, RU000A0ZZET0, RU000A100EX8, RU000A100LL8, RU000A101QM3, RU000A101QN1) are expected to be revised within one year following the publication date of this press release.

The credit ratings were assigned 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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