

## ACRA AFFIRMS AAA(RU) TO PJSC “GAZPROM”, OUTLOOK STABLE, AND AAA(RU) TO BOND ISSUES

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The credit rating of PJSC “GAZPROM” (hereinafter, Gazprom, or the Company) is based on the very high assessment of the Company’s support from the state. 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) has been upgraded to aaa due to the improvement of the Company’s leverage.

Gazprom is one of the largest integrated energy companies in the world. The Company boasts an 11% share in global gas production and a 66% share in total domestic output. The Company is one of the largest oil producers in Russia (through Gazprom Neft PJSC, ACRA rating AAA(RU), outlook Stable). Gazprom owns major power generation assets via Gazprom Energoholding. The Company also owns a gas pipeline network with a total length of 176,800 km.

### KEY ASSESSMENT FACTORS

**The very high assessment of state support** is based on very high assessments of the following sub-factors: Barriers and Restrictions, Exclusivity of Implemented Functions, Ownership, Control, and Regulation, Role in the Economy and Reputational Risks, and Social Role. 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.

**Favorable market situation.** Increased global demand for gas amid limited production, low reserves, and favorable weather conditions resulted in a sharp increase in natural gas prices in European and global markets in 2021. According to ACRA’s assessments, the favorable price situation, as well as growth in exports and domestic sales helped Gazprom’s EBITDA grow by more than 2.5x in 2021 compared to 2020. The Agency expects high prices to be maintained in 2022, while a return to average cyclical levels should take place no earlier than 2023. According to ACRA’s expectations, the average price of gas exported by Gazprom to non-former Soviet Union countries (including China) will be USD 350 per cubic meter in 2022 and then decline to USD 250 per cubic meter in 2024. The Agency also expects gas exports to non-former Soviet Union countries (including China) to grow to 196 bln cubic meters in 2022 and then to 230 bln cubic meters in 2024.

**Low leverage and high interest payment coverage.** ACRA assesses the weighted average ratio of total debt to FFO before net interest payments at 2x in the period from 2019 to 2024. When calculating this indicator, the Agency took into account the Company’s perpetual bonds as part of its leverage. The Agency assesses the weighted average ratio of FFO before net interest payments to interest payments at 11.9x.

**Average cash flow assessment.** ACRA expects the Company's annual capital expenditures to remain stable at around RUB 2 tln in 2022–2024. 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 50% of adjusted profits. The Agency expects weighted average FCF profitability for 2019–2024 (taking into account dividends) to amount to -0.1% and FCF after payment of dividends to be negative in 2023–2024. However, in ACRA's opinion, the payment of dividends coupled with low leverage and high coverage does not bear additional risks for the Company's creditworthiness. As a result, the cash flow assessment is average. The Agency also takes into account the fact that the dividend policy allows the Company to reduce the size of dividends if the ratio of net debt to EBITDA exceeds 2.5x.

## KEY ASSUMPTIONS

- Remaining the sole exporter of pipeline gas in the Russian Federation;
- Average annual USD/RUB exchange rate at 72–73 in 2022–2024;
- Average annual Brent oil price at USD 75/bbl in 2022, followed by a decline to USD 65/bbl in 2024;
- Average annual gas export price for non-former Soviet Union countries at USD 350 per cubic meter in 2022, followed by a decline to USD 250 per cubic meter in 2024;
- Exports of pipeline gas to non-former Soviet Union countries, including China, to grow to 230 bln cubic meters in 2024.

## 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.

## RATING COMPONENTS

SCA: **aaa**.

Support: on par with the RF.

## ISSUE RATINGS

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).

**Rationale.** 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 PJSC "GAZPROM" in terms of priority. According to ACRA's methodology, the above bond issues are rated AAA(RU), which corresponds to the credit rating of PJSC "GAZPROM".

## REGULATORY DISCLOSURE

The credit ratings have been assigned to PJSC “GAZPROM” and the bonds (RU000A0ZZER4, RU000A0ZZES2, RU000A0ZZET0) 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](#), [Methodology for Analyzing Rated Entities Associated with a State or a Group](#), 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 on 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 (RU000A0ZZER4, RU000A0ZZES2, RU000A0ZZET0) were published by ACRA for the first time on February 2, 2018 and August 1, 2018, respectively. The credit rating of PJSC “GAZPROM” and its outlook as well as the credit ratings of the bonds (RU000A0ZZER4, RU000A0ZZES2, RU000A0ZZET0) are expected to be revised within one year following the publication date of this press release.

The credit ratings were assigned based on data provided by PJSC “GAZPROM,” information from publicly available sources, and ACRA’s own databases. The credit ratings are solicited, and PJSC “GAZPROM” participated in their assignment.

In assigning the credit ratings, ACRA used only information, the quality and reliability of which was, in ACRA’s opinion, appropriate and sufficient to apply the methodologies.

ACRA provided no additional services to PJSC “GAZPROM”. No conflicts of interest were discovered in the course of credit rating assignment.

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