

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, the Company, or the Group) is based on the very high assessment of the Company’s support from the state. The Company’s standalone creditworthiness is determined taking into account its very strong business profile, low industry risk, and strong financial profile.

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 Group 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 178,200 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 function 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.

Lower exports and higher tax burden. Exports of pipeline gas to non-former Soviet Union countries decreased to 100.9 bln cubic meters in 2022 compared to 185.1 bln cubic meters in 2021, and the Company’s gas production decreased from 514.8 bln cubic meters in 2021 to 412.6 bln cubic meters. At the same time, growth of export prices more than compensated for declining exports. In 2023, the Agency expects exports of gas to non-former Soviet Union countries (including China) to fall to 81 bln cubic meters due to limitations of transport capacity resulting from sanctions and sabotage on pipelines. In 2024–2025, the Agency projects that exports of pipeline gas to non-CIS countries (excluding China) will remain at around 60 bln cubic meters, while gas deliveries to China via the Power of Siberia pipeline will continue to grow.

Additional tax charges were introduced from September 1, 2022 until November 30, 2022, by increasing the mineral extraction tax (MET) by RUB 416 bln per month. From January 1, 2023 to December 31, 2025, additional MET charges in the amount of RUB 50 bln monthly have been set.

Low leverage and medium interest payment coverage. ACRA assesses the weighted average ratio of total debt to FFO before net interest payments at 2.1x in the period from 2020 to 2025. 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 8.5x.

Weak cash flow assessment. ACRA assumes that in 2023, the Company's capital expenditures will be RUB 2.3 tln, while in 2024–2025 they will be RUB 1.5–2.0 tln annually. Dividend payments and a higher tax burden will have a significant impact on the cash flow assessment. The Agency expects weighted average FCF profitability for 2020–2025 (taking into account dividends) to amount to -3.1%. ACRA also takes into account the fact that as per the dividend policy, the Company may decide 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 72–76 in 2023–2025;
- Average annual Urals oil price at USD 68–75/bbl in 2023–2025;
- Average annual gas export price for non-former Soviet Union countries at USD 500–700 per thousand cubic meters in 2023–2025;
- Exports of pipeline gas to non-former Soviet Union countries, including China, at 81 bln cubic meters in 2023.

POTENTIAL OUTLOOK OR RATING CHANGE FACTORS

The **Stable outlook** assumes that the rating will highly 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

Standalone creditworthiness assessment (SCA): **aa**.

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 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) of 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 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 (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 and 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 were, 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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