

## Expert RA assigns 'ruAAA' rating to GAZPROM

Moscow, June 18, 2021

The Expert RA rating agency has assigned the non-financial company credit rating of 'ruAAA' to GAZPROM. The outlook for the rating is 'stable'.

The Gazprom Group (hereinafter the 'Group') is one of the world's largest energy companies and the biggest global producer of natural gas. The Group's head company is PJSC Gazprom. The Group is controlled by the government, is listed as one of the strategic enterprises and entities responsible for the implementation of the unified state policy across the sectors of the economy, and is one of the top taxpayers in the Russian Federation. PJSC Gazprom has the status of a natural monopoly for pipeline transportation of gas in the domestic market and is the exclusive exporter of pipeline gas. All of the above, coupled with evidence of government support in the past, allows the agency to apply a strong government support ratio to the rating level.

The agency assesses the Group's resilience to external shocks in the industry as moderate. This stems from stable demand for hydrocarbons, low cost of gas production, the Company's vertically integrated business model, and the specifics of pricing during gas sales making it possible to hedge price volatility to some extent. Natural hedging during changes in the market conditions is also partly aided by the specifics of production taxation. The agency assesses the barriers to the Group's entry into the industry as high.

The Group is primarily a gas producer diversified into the oil production and refining business (PJSC Gazprom Neft) and integrated into pipeline transportation and processing (Gazprom Pererabotka LLC), and power generation (Gazprom Energoholding LLC). About 47% of the gas marketed in 2020 was sold in the domestic market with stable prices regulated by the FAS. About 45% of the gas was sold in foreign markets beyond the former Soviet Union. The long-term contracts for gas supplies to Europe contain take-or-pay clauses providing for the utilization of pipeline capacities and the required volumes of gas to be sold, and the pricing makes it possible to achieve lower volatility and a more predictable average price compared to the spot market. Due to increased liquidity at gas hubs in Europe, the share of contracts with pricing linked to the benchmarks of gas hubs has grown substantially over the last years. The share of oil-indexed contracts was just 13% for Europe in 2020. More than 30% of contracted volumes are priced on the basis of forward prices for gas with a maturity from one quarter to a year. The amount of gas sold to the fast-growing Chinese market via the Power of Siberia pipeline, which has the throughput of 38 bcma (8% of the amount sold in 2020), was approximately 4 bcm in 2020.

The Group's competitiveness is assessed as strong thanks to the large scope of its activities and its vast reserves with low cost of production. The Group accounts for some 68% of gas production in Russia and 12% worldwide. The amount of hydrocarbons produced by the Group in 2020 stood at around 3.4 bboe. The Group's proven reserves under PRMS are sufficient for some 36 years of gas production at this level. The Company accounts for about 56% of European imports and 32% of total gas consumption, and has a strategic goal of diversifying supplies to Asian markets. The agency believes that gas sales in Europe will remain stable despite the intensifying competition with LNG in the European market, as the sales will be supported by the natural decline in gas extraction by European producers, the gradual phase-out of coal, and the need for guaranteed pipeline gas supplies for European consumers. The expansion of the environmental agenda is also conducive to increasing gas sales, the share of which in the global consumption is poised to continue growing.

As for the business concentration ratio, the agency notes the diversified structure of the Group's client base and its lack of dependence on hard-to-replace suppliers and specific production projects. The Nadym-Pur-Taz region has traditionally held the biggest share in the Company's production structure, and the natural decline in production from this region will be offset by the rising production in the Yamal Peninsula.

The agency assesses the Group's liquidity as strong. According to the agency's estimates, the projected operating cash flow in the year starting March 31, 2021 (hereinafter the 'reporting date') taking into account the balance and the deposits is going to cover all liquidity applications. The strong assessment of liquidity results from the convenient repayment schedule for the debt portfolio and its highly diverse creditors. A major portion of the Group's debt as of the reporting date is represented by Eurobond issues. The agency is not expecting a substantial increase in the Group's investment program compared to 2020.

The Group's debt burden is assessed as moderately positive. As of the reporting date, the adjusted net debt to EBITDA ratio was estimated at 2.7x (against 2.4x year-on-year). The debt assessment includes the discounted liabilities related to the disposal of assets and environmental restoration, as well as the discounted pension liabilities without which the metric for the reporting date would stand at 2.3x. The debt assessment also took into account part of the guarantees issued by the Group in the amount of less than 0.1x EBITDA as of the reporting date. The Group's performance in 2020 was undermined by the drop in hydrocarbon prices caused by the pandemic. Also a factor was the decline in sales due to, among other things, abnormally warm weather in Europe. Although by May 2020 the spot prices for gas dropped more than fourfold compared to the levels observed at the start of the year, these levels were again exceeded as early as October. Later on in Q1 2021, the upward trend in export prices for gas in Europe accelerated to 20% YoY on the back of cold winter, and supplies grew by 25% YoY. The anti-crisis measures taken by the Group to reduce operating expenditures by 20% and capital costs by 26%, coupled with the market dynamics described above, have allowed the Company to maintain its debt burden at moderate levels. The agency is expecting that the positive developments in the gas and oil markets throughout 2021 will help the Group bring its adjusted net debt to EBITDA ratio back to the comfortable range between 1x and 2x.

The agency assesses the Group's interest coverage ratio as low due to the fact that the Company's overall debt burden is moderate and 78% of its debt portfolio is denominated in foreign currency. Among the elements of the Group's anti-crisis strategy was the placement of an issue of perpetual Eurobonds worth USD 1.4 bln and EUR 1 bln in October 2020. According to the terms of this issue, the Group may at its own discretion postpone coupon payments any number of times, which allows the agency to classify these liabilities as equity and exclude them from the debt metrics as interpreted in the IFRS statements. In this baseline scenario, the agency expects the Group to make coupon payments for these bonds, which means that they are included in the assessment of the interest coverage ratio. In June 2021, the Group plans to place a debut issue of perpetual ruble bonds worth at least RUB 30 bln with a view to providing financing for gas infrastructure expansion in Russian regions. The liabilities for this issue may also be classified as equity in the IFRS statements. In connection with this issue, a mechanism of compensation for investors' lost income will be established in line with Russian Government Directive No. 2337 dated December 29, 2020. The perpetual ruble bond issue program will have a total par value of RUB 150 bln.

The agency cites the Group's strong profitability sustained by the high EBITDA margin, which stood at 24% in the reporting period. This factor is under some pressure from the free cash flow (FCF) profitability of the Group constrained by a relatively high scope of maintenance costs, including infrastructure-related costs. However, the agency expects that, in the one-year horizon starting from the reporting date, this metric will be quite high under the methodology benchmarks thanks to improving market conditions. The Group's currency risks are assessed as moderately low, considering the balance of proceeds from export revenues and volumes of foreign currency debt.

Among the corporate factors, the agency notes the high quality of governance at the Group and the high levels of information transparency and risk management.

In 2020, the Group's revenues totaled RUB 6.3 trln according to the consolidated IFRS financial statements. The Company's assets stood at RUB 23.3 trln and capital at RUB 14.8 trln as of December 31, 2020.

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The credit rating was assigned to PJSC Gazprom for the first time ever.

The credit rating was assigned for the long term under the Russian national scale. The rating and the outlook are expected to be revised no later than one year from the date of this press release.

The credit rating was assigned using the methodology for assigning credit ratings to non-financial companies: <https://raexpert.ru/ratings/methods/current> (came into effect on June 3, 2021).

The rating and the corresponding outlook reflect all essential information about the rated entity available to Expert RA, which it believes to be reliable and of high quality. The key sources of information used in the rating analysis were data from the Bank of Russia, PJSC Gazprom, and Expert RA. The agency was provided with sufficient information to apply the methodology in the rating analysis.

The credit rating is unsolicited; PJSC Gazprom, as well as entities controlling or having a material impact on the Company, participated in the rating process.

The number of the rating committee participants was sufficient to reach the required quorum. The leading rating analyst outlined the factors affecting the rating to the members of the rating committee, and the committee members voiced their opinions and proposals. The rating committee chairman opened the floor for each member of the rating committee to make comments before the voting.

Expert RA has not provided PJSC Gazprom with any additional services in the last 12 months.

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