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Lead analysts:

Vasilii Tanurcov, Director  
+7 (495) 139-0344  
vasilii.tanurcov@acra-ratings.ru

Ekaterina Mozharova, Senior Director  
+7 (495) 139-0498  
ekaterina.mozharova@acra-ratings.ru

**Key rating assessment factors**

## ACRA assigns AAA(RU) to Zarubezhneft JSC, outlook Stable

The credit rating of [Zarubezhneft JSC](#) (hereinafter, Zarubezhneft JSC or the Company) is based on its strong operational risk profile, very high profitability, very low leverage, very high interest coverage, strong liquidity, and the Company's medium systemic importance for the Russian economy and very high state influence according to ACRA's methodology. The Company's standalone creditworthiness assessment (SCA) is constrained by the Company's medium size and medium cash flow indicators.

Zarubezhneft is an oil and gas company that successfully carries out projects in Vietnam, Egypt, Bosnia and Herzegovina, Uzbekistan, Cuba, and Russia. The Company operates in the areas of geological exploration, production of hydrocarbons, oil refining and sales, as well as oilfield services. The Company's hydrocarbon production amounted to 4.8 mln tons of oil equivalent in 2019.

**Medium systemic importance and very high state influence.** The Russian Federation is the sole shareholder of the Company. Zarubezhneft promotes the interests of Russia in the fuel and energy complex internationally, in particular, in strategically important countries such as Vietnam and Cuba. A number of the Company's projects are subject to preferential taxation under intergovernmental agreements. The state exerts influence on the Company's activities via its participation in the board of directors and by determining its strategic priorities.

**The Company's strong operational risk profile** is based on very high geographical diversification in terms of sales and the regions of presence of mining and refining assets, the low risk of concentration on a single field, low production costs (lifting cost + E&D amounts to less than USD 15 per barrel of oil equivalent) and high sufficiency of the resource base (around 24.5 years at the current rate of production). The level of corporate governance is determined by the strong assessments of the strategy and risk management, but limited by the medium assessments of financial transparency and group structure. In addition, the operational risk profile assessment is constrained by the medium assessment of the Company's market position (it is a competitive player in the fragmented market for oil, gas, petroleum products and oilfield services) and low refining volumes.

**The Company's very high profitability** is largely due to the tax benefits granted to a number of its extractive assets. When assessing the Company's financial indicators, ACRA took into account the financial indicators of joint ventures using the proportional consolidation method. According to the Agency's assessment, the Company's weighted average FFO profitability before interest payments and taxes for 2018 to 2023 amounts to 33.9%.

**Very low leverage.** According to ACRA, the weighted average ratio of total debt to FFO before net interest payments is 0.64x for 2018 to 2023 (taking into account the financial indicators of joint ventures using the proportional consolidation method).

**Strong liquidity and medium cash flow assessment.** In the next few years the Company plans to buy new projects and increase capital investments in existing ones. At the same time, the Agency notes that cash accumulated in the Company's accounts and the accounts of its joint ventures, as well as liquid financial are sufficient to fully cover dividend payments, capital expenditures and debt repayment for the Company's liabilities investments if necessary. In connection with this, the Agency has adjusted the cash flow assessment to medium.

**Key assumptions**

- Continued very high state influence;
- Average annual USD/RUB exchange rate at 71.0 in 2021, 69.5 in 2022, and 69.2 in 2023;
- Recovery of average annual Brent oil prices to USD 55/bbl in 2021 and USD 63/bbl in 2023;
- Production growing to 6.3 mln tons of oil equivalent by 2023;
- Inflation within 3.4–3.8% 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:**

- Lower systemic importance of the Company for the Russian economy;
- Loss of control by the state or substantial change in industry legislation;
- Weighted average ratio of total debt to FFO before net interest payments exceeding 1x.

**Rating components**

**SCA:** aa-.

**Support:** state, +3 notches.

**Issue ratings**

There are no outstanding issues.

**Regulatory disclosure**

The credit rating has been assigned to Zarubezhneft JSC 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 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](#).

A credit rating has been assigned to Zarubezhneft JSC for the first time. The credit rating and its outlook are expected to be revised within one year following the publication date of this press release.

The credit rating was assigned based on the data provided by Zarubezhneft JSC, information from publicly available sources, and ACRA's own databases. The credit rating is solicited, and Zarubezhneft JSC participated in its assignment.

No material discrepancies between the provided data and the data officially disclosed by Zarubezhneft JSC in its financial statements have been discovered.

The cash flow indicator was assessed with a deviation from the methodology: funds in the Company's accounts and the accounts of its joint ventures, as well as liquid financial investments are sufficient to fully finance dividend payments, capital expenditures and debt repayment for the Company's liabilities, and due to this the cash flow assessment was adjusted by the Agency to medium.

ACRA provided no additional services to Zarubezhneft JSC. No conflicts of interest were discovered in the course of credit rating assignment.

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Analytical Credit Rating Agency (Joint-Stock Company), ACRA (JSC)

75, Sadovnicheskaya embankment, Moscow, Russia

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