

November 28, 2017

Lead analysts:

Natalia Porokhova, Director  
+7 (495) 139-0490  
natalia.porokhova@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 PJSC FGC UES, outlook Stable

The credit rating assigned to [PJSC FGC UES](#) (the Company) is on par with the financial obligations of the Russian Government, which is caused by the very high systemic importance of the Company for the Russian economy and the very high influence of the state on the Company.

The Company's standalone creditworthiness assessment (SCA) at 'aa' is based on the monopolistic control over the strategic electric power infrastructure, very high business profitability, low leverage, and very high liquidity. The SCA is restricted by the negative cash flow caused by substantial capital expenses.

The Company is the monopolistic operator of the Unified National Electrical Grid of Russia that transmits electric power through high-voltage power transmission lines and provides connections to electrical grids. The Company is a natural monopoly, and its tariffs are subject to state regulation. Key consumers of the Company's power transmission services include power distribution and sales companies and large industrial enterprises, while grid connection revenues mainly come from power generation companies. 80.13% shares in the Company are owned by PJSC Rosseti, 19.28% by minority shareholders, and 0.59% by the Federal Agency for State Property Management of the Russian Federation.

**Strategic importance for the nation and state control over the Company.** The Company is a key element of the national electric infrastructure, a failure of which will lead to outages in vast areas. The Company has provided power infrastructure for the key strategic projects (the Olympic Games in Sochi, the Baikal-Amur Mainline, the Trans-Siberian Railway, etc.). The state has repeatedly provided financial support to such projects (through contributions to authorized capital, tariffs, infrastructure bond issues and their repurchase by VEB). In accordance with Federal Law dated March 26, 2003 No. 35-FZ "On Electric Power Industry," the state's direct or indirect share in the Company may not be less than 50% plus 1 share. The state exercises shareholding and operational control over the Company.

**Infrastructure monopoly with moderate regulatory risk.** Regulatory risk for the Company is offset by a small share of its services in electricity prices (6%), a high current tariff ensuring an average FFO margin before fixed charges and taxes of 61% (in 2014–2016), and a slowing down inflation in Russia, which reduces negative effects in the case tariffs are frozen. Sales risks relate to non-payments: receivables overdue for more than one year are moderate: 3.5% of revenues. The investment program is very extensive, as the Company spends 40% of its revenues on the investment program. The past years have demonstrated a relative flexibility of the investment program under adverse conditions: the investment program was cut down by 40% in 2014–2015.

**Moderate leverage.** According to ACRA estimates, in 2017, the ratio of debt to FFO before net interest will be 2.0, and in 2018–2019, the ratio will drop to 1.8 (the peak value of 3.3 was in 2013). 82% of debt obligations have maturities of five or more years, of which 60% have maturities of more than 30 years. 60% of the debt obligations are inflation-linked floating rate, which decreases the effective rate of the portfolio down to 6.5% (as of September 30, 2017). The floating interest rate risk is leveled by a very high coverage of interest payments by the cash flow. According to ACRA estimates, in 2017, the ratio of FFO before net interest to interest will be 7.5. The inflation's slide to 4.5% in 2018–2019 (in the base case scenario of ACRA) will increase the coverage of interest payments to 9.4x.

**Very weak cash flow.** According to ACRA estimates, the Company's cash flow will be negative in 2017-2018. ACRA expects that the cash flow may become positive in 2019. The key factor causing the negative cash flow is high capital expenses. Expiration of the Power Supply Contracts Program ("DPM") and the new governmental priorities in promoting the upgrade of aging facilities should help the Company to stabilize capital expenses and transit to a positive cash flow. ACRA assesses the Company's liquidity as very high: repayments will be moderate in the next few years (8.8% and 7.6% of the portfolio in 2018 and 2019, respectively). The Company has a wide access to external sources of liquidity, as undrawn credit lines amount to RUB 152.5 billion.

## Key assumptions

- In 2018–2019, the average tariff indexation rate to remain at 4%, the average inflation at 4.5%;
- In 2018–2019, the Company to successfully implement its capital investment program with annual investments of RUB 103–113 billion;
- Dividend payments at 50% of the IFRS net profit less investment needs.

## 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:

- A loss of control of the state over the Company, in particular, a breach of the shareholders' agreement with PJSC Rosseti;
- A significant decline in the systemic importance of the Company for the Russian economy;
- A substantial decrease in the financial support from the state and an increase of payments (dividends etc.) in favor of PJSC Rosseti.

## Rating components

**SCA:** aa.

**Support:** on par with RF.

## Issue ratings

No outstanding issues have been rated.

## Regulatory disclosure

The credit rating has been assigned under the national scale for the Russian Federation are 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](#), the [Methodology for Analyzing Member Company Relationships Within Corporate Groups](#) 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 PJSC FGC UES for the first time. The credit rating and its outlook are expected to be revised within one year following the rating action date (November 27, 2017).

The assigned credit rating is based on the data provided by PJSC FGC UES, information from publicly available sources, as well as ACRA's own databases. The rating analysis was performed using IFRS consolidated financial statements of PJSC FGC UES. The credit rating is solicited, and PJSC FGC UES participated in its assignment.

No material discrepancies between the provided data and the data officially disclosed by PJSC FGC UES in its financial statements have been discovered.

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

(C) 2017

Analytical Credit Rating Agency (Joint-Stock Company), ACRA (JSC)  
75, Sadovnicheskaya embankment, Moscow, Russia  
[www.acra-ratings.com](http://www.acra-ratings.com)

Analytical Credit Rating Agency (ACRA) was founded in 2015, with its 27 shareholders representing major Russian corporate and financial institutions and its authorized capital exceeding RUB 3 bn. ACRA's main objective is to provide the Russian financial market with high-quality rating products. Methodologies and internal documents of ACRA are developed in compliance with the Russian legislation and with regard to global rating industry best practices.

The provided information, including, without limitation, credit and non-credit ratings, rating assessment factors, detailed credit analysis results, methodologies, models, forecasts, analytical reviews and materials, as well as other information placed on the ACRA website (further referred to as Information), coupled with the ACRA website software and other applications, are intended for information purposes only. Information must not be modified, reproduced or distributed by any means, in any way or form, either in whole, or in part, in marketing materials, as part of public relations events, in news bulletins, in commercial materials or reports without a prior written consent from, and reference to, ACRA. Any use of Information in violation of these requirements or the law is prohibited.

ACRA credit ratings reflect ACRA's opinion about the ability of a rated entity to meet its financial obligations or about the credit risk of individual financial obligations and instruments of a rated entity at the time of publication of the relevant Information.

Non-credit ratings reflect ACRA's opinion about certain non-credit risks assumed by interested parties interacting with a rated entity.

The assigned credit and non-credit ratings reflect all material information pertaining to a rated entity and known by ACRA (including the information received from third parties), the quality and reliability of which ACRA considers appropriate. ACRA shall not be responsible for the accuracy of information provided by clients or relevant third parties. ACRA does not audit or otherwise verify the provided data and shall not be held responsible for their accuracy and completeness. ACRA conducts rating analysis of information provided by customers using its own methodologies, with the texts thereof available on ACRA's website – [www.acra-ratings.com/criteria](http://www.acra-ratings.com/criteria).

The only source that reflects the latest Information, including the one about credit and non-credit ratings assigned by ACRA, is ACRA's official website – [www.acra-ratings.com](http://www.acra-ratings.com). Information is provided on an "as is" basis.

Information shall be considered by users exclusively as ACRA's statement of opinion and must not be regarded as advice, recommendation or suggestion to buy, hold or sell securities or other financial instruments of any kind, nor shall it be viewed as an offer or advertisement.

Neither ACRA, nor its employees and persons affiliated with ACRA (further referred to as the ACRA Parties) provide any direct or implied guarantee expressed in any form or by any means regarding the accuracy, timeliness, completeness or applicability of Information for making investment and other decisions. ACRA does not act as a fiduciary, auditor, investment or financial advisor. Information must be regarded solely as one of the factors affecting an investment decision or any other business decision made by any person who uses ACRA's information. It is essential that each of such persons conduct their own research and evaluation of a financial market participant, as well as an issuer and its debt obligations that may be regarded as an object of purchase, sale or possession. Users of Information shall make decisions on their own, involving their own independent advisors, if they deem it necessary.

ACRA Parties shall not be responsible for any action taken by users based on Information provided by ACRA. ACRA Parties shall under no circumstances be responsible for any direct, indirect or consequential damages or losses resulting from interpretations, conclusions, recommendations and other actions taken by third parties and directly or indirectly connected with such information.

Information provided by ACRA is valid only as of the date of preparation and publication of materials and may be amended by ACRA in the future. ACRA shall not be obliged to update, modify or supplement Information or inform anyone about such actions, unless the latter was recorded separately in a written agreement or is required by the legislation of the Russian Federation.

ACRA does not provide advisory services. ACRA may provide additional services, if this does not create a conflict of interest with rating activities.

ACRA and its employees take all reasonable measures to protect all confidential and/or material non-public information in their possession from fraud, theft, unlawful use or inadvertent disclosure. ACRA provides protection of confidential information obtained in the course of its business activities as required by the legislation of the Russian Federation.