

November 27, 2018

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Key rating assessment
factors

ACRA affirms AAA(RU) to PJSC FGC UES, outlook Stable, and AAA(RU) to bonds issued by PJSC FGC UES

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 may 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 58% (in 2015–2018), which reduces negative effects in the case tariffs are frozen. Sales risks relate to non-payments: receivables overdue for more than one year are low: 1.5% 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 2018, the ratio of total debt to FFO before net interest will be 2.1, and in 2019–2020, the ratio will be about 2.2–2.3 (the peak value of 3.3 was in 2013). 64.6% of debt obligations have maturities of five or more years, of which 53% have maturities of 25+ years. As of November 01, 2018, the effective rate of the Company's portfolio was 5.6%, which is lower than in 2017 (6.5%); the decline is caused by the repayment of certain debt obligations. The floating interest rate risk on long-term bonds is leveled by a very high coverage of interest payments by the cash flow. According to ACRA estimates, the ratio of FFO before net interest to interest will be 8.4 in 2018 and 6.6–7.5 in 2019–2020.

Very weak cash flow. According to ACRA estimates, the Company's cash flow will be negative in 2018–2020. ACRA expects that the cash flow may become positive in 2021. 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 make cash flow positive. ACRA assesses the Company's liquidity as very high, as repayments are expected to be moderate in the next few years (7.9% and 11.4% of the portfolio in 2019 and 2020, respectively). The Company has a wide access to external sources of liquidity, as undrawn credit lines amount to RUB 187.5 billion.

Key assumptions

- In 2019–2020, the average tariff indexation rate to remain at 3.6%, the average inflation at 4.3%;
- In 2019–2021, the Company to successfully implement its capital investment program with annual investments of RUB 105–115 billion w/o VAT;
- 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

[Certified exchange-traded interest-bearing unregistered bond issued by PJSC FGC UES \(RU000A0ZYJ91\)](#), maturity date: 23.10.2052, issue volume: RUB 10 bln, — AAA(RU).

[Exchange-traded bond issued by PJSC FGC UES, series 001P-01R \(RU000A0ZZQN7\)](#), maturity date: 19.10.2023, issue volume: RUB 10 bln, — AAA(RU).

Regulatory disclosure

The credit ratings were assigned to PJSC FGC UES and bonds (ISIN RU000A0ZYJ9, ISIN RU000A0ZZQN7) issued by PJSC FGC UES under the national scale for the Russian Federation and 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](#). The Methodology for Assigning Credit Ratings to Individual Issues of Financial Instruments under the National Scale of the Russian Federation was also applied to assign credit ratings to the above issues.

The credit rating assigned to PJSC FGC UES and credit ratings assigned to bonds (ISIN RU000A0ZYJ9, ISIN RU000A0ZZQN7) issued by PJSC FGC UES were first published by ACRA on November 28, 2017, December 12, 2017, and October 25, 2018, respectively.

The credit rating and credit rating outlook of PJSC FGC UES and the credit ratings assigned to bonds (ISIN RU000A0ZYJ9, ISIN RU000A0ZZQN7) issued by PJSC FGC UES are expected to be revised within one year following the rating action date (November 26, 2018).

The assigned credit ratings are 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 ratings are solicited, and PJSC FGC UES participated in the rating process.

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.

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