ACRA

PROJECT FINANCE

STRUCTURED NOTES

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ACRA AFFIRMS THE CREDIT RATINGS OF THE SENIOR AND MEZZANINE TRANCHES OF STRUCTURED COLLATERALIZED NOTES[1] ISSUED BY SPV RUSOL 1 LLC

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PRESS RELEASE

In this project finance transaction (hereinafter, the PFT), two rated tranches (class A, class B) and one unrated tranche (class C) were issued.

- The credit rating of the senior tranche of the structured collateralized notes reached A+(RU) due to the credit enhancement provided to the tranche by two subordinated (junior) tranches, as well as the structural features of the transaction.
- The credit rating of the mezzanine tranche of the structured collateralized notes reached BBB+(RU) due to the structural features of the transaction and high recovery rates in the event of default.

RATINGS

ACRA assigned an **A+(RU) credit rating** to the class A structured collateralized notes with coupon payment at a rate linked to the LGO[2] index calculated by the Trading System Administrator when determining the tariff for capacity. Maturity date: **February 15, 2031**, current balance: RUB 3.16 bln.

ACRA assigned a **BBB+(RU) credit rating** to the class B structured collateralized notes with coupon payment at a rate according to the LGO index calculated by the Trading System Administrator when determining the tariff for capacity. Maturity date: **February 15, 2031**, current balance: RUB 0.6 bln.

SFO RuSol 1 LLC (hereinafter, the Issuer) issued the notes in order to refinance bank loans issued for the construction of two solar power plants (SPPs) in the Astrakhan Region (Project Company No. 1 and Project Company No. 2, hereinafter, the Project Companies) as part of Government Ordinance No. 449 dated May 28, 2013 (as amended on March 5, 2021) "On stimulating renewable energy sources in the wholesale market of electric energy and capacity".

TRANSACTION

The Issuer issued three tranches of notes with a total volume of RUB 5.7 bln in order to provide the Project Companies with loans collateralized by the following assets:

- 100% of the Project Companies' authorized capital;
- Receivables under power purchase agreements (hereinafter, Power Purchase Agreements, or PPAs);
- Pledged receivables under bank account agreements of the Project Companies (that revenues of the Project Companies are credited to);

[1] The complete name specified in the Notes Issue Resolution is: structured registered interest-bearing non-convertible bearer notes collateralized by receivables subject to mandatory centralized custody.

[2] LGO is the average yield of long-term government obligations used in calculating the price of capacity for power suppliers.

- Pledged movable property of the Project Companies;
- Pledged receivables under operating service agreements;
- Pledged receivables under property insurance agreements of the Project Companies covering the SPPs' book value with the appointment of the Issuer as the beneficiary, as well as pledged receivables under these agreements in favor of the Issuer.

As part of the PFT, the Issuer, Project Companies, and operator entered into a direct agreement stipulating that the operator will continue to provide operational services according to the terms of the current contract. The notes are collateralized by the Issuer with (1) pledged receivables with respect to accounts assigned by the Project Companies to the Issuer as part of its loans and (2) property of the Project Companies provided to the Issuer under loan agreements, as well as (3) pledged receivables under the Issuer's bank account agreement.

The Issuer uses cash flow from proceeds under the loan agreements for coupon payment and repayment of the nominal value of the issued notes.

The key risk of this PFT is the non-performance of contractual obligations under the loan agreements between the Issuer and Project Companies. ACRA based its rating analysis on a wide range of quantitative and qualitative factors, including those listed below.

KEY ASSESSMENT FACTORS

The assets are not exposed to construction phase risks. The production assets consist of a fully constructed and operational solar park in the Astrakhan Region, which is distributed between the two companies and has a total installed capacity of 30 MW:

- Project Company No. 1 — Zavodskaya SPP, installed capacity of 15 MW (commercial operation began in September 2017);
- Project Company No. 2 — Promstroimaterial SPP, installed capacity of 15 MW (commercial operation began in May 2018).

All permits and certificates required by legislation for the sale of electricity and capacity in the wholesale market for electricity and capacity (WMEC) as a generating facility operating based on renewable energy sources (RES) have been obtained.

Regulatory support in the form of a set regulated electric capacity tariff (more than 90% of total revenues) as part of the state RES support program.

The predictability of incoming cash flow in this PFT is guaranteed by signed PPAs (qualified generating facilities operating based on RES). These PPAs are long-term contracts with residual maturities of more than ten years concluded between the power generator and the major players of the WMEC for the purchase of power at a state-regulated tariff. The tariff is formed in such a way that during the term of the contract investors are fully reimbursed the amount of invested capital at the established rate of return. This takes into account the compensation of the Project Companies' operating costs and reimbursement of property and profit taxes.

Independent long-term PPAs for each Project Company valid until November 30, 2030.

According to the project documentation, if one of the Project Companies defaults, a cross-default occurs under the loan agreements, which may represent a default event on the transaction. However, the second Project Company will continue to operate and may therefore be a source of recovery.

Diversified pool of buyers with high credit quality.

The Project Companies produce electricity and capacity for organizations operating in the first price zone of the WMEC (more than 250 major consumers of electricity in Russia, including enterprises in the Astrakhan Region, for example Astrakhan Power Company PJSC, and other regions in the European part of the country and the Urals). In addition, each buyer in the wholesale market, as part of its

obligations to purchase power, must enter into a contract for the purchase of a certain share of RES power proportional to the volume of its peak electricity demand[3].

All electricity and capacity generated is supplied to Russia's Unified Energy System, where buyers consume the necessary volume. Therefore, payment obligations on electricity and capacity generated by the SPPs are distributed among the buyers of the first price zone.

The power sold under PPAs is paid for by consumers in priority order, which eliminates the possibility of generated power not being sold. This minimizes the market risks of the Project Companies, as well as demonstrates their strong competitive position throughout the amortization period of the rated debt. Moreover, the Project Companies should be able to maintain their stable positions in the long term (PPAs cover the notes' maturity).

The operation period of the production assets significantly exceeds the life of the PFT (ten years).

According to the technical advisor's opinion, the probability of the solar modules failing within the established warranty period of 25 years is minimal provided the manufacturer's requirements on the operating conditions are met.

Reliability and approval of the technologies and equipment in use.

The technologies and equipment are widely used in the construction and operation of SPPs around the world. According to ACRA, this significantly minimizes the risk of the Project Companies failing to meet the power generation (output) objectives and the subsequent decrease in cash flow in this PFT.

Interest risk is partially reduced as the coupon payment is linked to the LGO index, which is one of the components in the electric power price.

In its rating analysis, ACRA conducted a number of stress tests to assess the level of the discrepancy between the Issuer's assets and liabilities.

The interests of the noteholders are protected through the use of the following mechanisms in the structure of the PFT:

(1) Pledge of all production assets and rights under all contracts within the project;

(2) Restrictions on attracting financing that would lead to increased debt for the Project Companies, as well as on dividend payments;

(3) Debt service reserves at the special purpose vehicle (SPV) level, as well as a mechanism to retain excess profits at the Project Company level, ensuring that the debt service coverage ratio (DSCR) is above 1.2x in ACRA's base case scenario.

Moderate value of the main financial indicators of the Project Companies.

In ACRA's base case scenario, the minimum annual average DSCR is 1.2x. Despite the fact that according to the Methodology for Assigning Credit Ratings to Project Finance Issuers, Instruments and Obligations on the National Scale for the Russian Federation this figure is considered low (which ACRA accounted for when determining the assessment score for this factor), ACRA believes that the high level of cash flow predictability, the technical advisor's opinion confirming the reliability of the technological solutions used and the ability of Project Companies to comply with the requirements of PPAs, and the availability of a backup operator significantly reduce the level of financial risk.

Moderate assessment of covenant package quality.

The Project Companies have to adhere to the financial metrics specified below.

Net debt/EBITDA of no higher than 5x. There are no limitations on maintaining a minimum DSCR (according to ACRA's methodology, the standard level of this covenant should exceed 1.05x). In ACRA's opinion, a total absence of this trigger is usually associated with projects of a relatively low credit

[3] http://documents.worldbank.org/curated/en/662001486664090923/pdf/110538-RUSSIAN-Energy-Support-Scheme-Rus-PUBLIC.pdf.

quality. The Agency took this factor into account when modeling the transaction, which was then taken into account when setting the assessment score for this sub-factor.

Relatively stringent output requirements provide for a reduction in the price of power in the case of non-compliance with established standards (if the ICUF[4] deviates by 25% or more from the 14% threshold for the SPPs, which ACRA views as unlikely in the base case scenario), **and also a regime of deductions and fines that is burdensome for the Project Companies** (if insufficient power is supplied under the PPAs, the Project Companies are required to pay a fine equal to 25% of the cost of the power that they failed to supply). The Agency took this into account when setting the assessment score for these sub-factors.

Instead of being concluded for the entire life of the PFT, the contract with the operator is automatically extended on an annual basis. ACRA considers that contracts with key counterparties are more reliable when they are concluded for the entire project life, and that these PFTs enjoy a higher degree of financial stability should stress scenarios materialize. Nevertheless, ACRA believes this risk is partially mitigated by the contract with a backup operator that is valid until November 30, 2030.

It is not possible to make buyers cover higher operating costs by increasing power supply tariffs as the terms of the PPAs stipulate that operating costs may only be indexed at the rate of inflation. The Agency took this into account when setting the assessment score for this sub-factor.

Limited statistics on SPV defaults in the Russian market and the absence of debt recovery precedents (as per legal opinion) mean that the legal environment would be uncertain in the event of Issuer default.

Payments for the class A and B notes are formed according to a fixed repayment schedule. However, obligations under the class B notes are repaid using the cash flow remaining after the repayment of obligations under the class A notes. **A default will not occur if the size of regular payments of part of the nominal of the class B notes is at least 80% of the estimated value of the payment for any coupon period. Regardless of this, ACRA assigned the rating based on the condition that 100% of the nominal of the class B notes is repaid no later than the date of complete redemption of the notes.**

ISSUER

The Issuer is a bankruptcy-remote SPV operating in accordance with the Federal Law No. 379-FZ dated December 21, 2013 “On amending certain legislative acts of the Russian Federation”.

RATING COMPONENTS

The credit ratings reflect ACRA’s opinion on the potential expected losses for investors by the notes’ legal maturity. ACRA carried out the analysis in two stages as per the Methodology for Assigning Credit Ratings to Project Finance Issuers, Instruments and Obligations on the National Scale for the Russian Federation. In the first stage, ACRA analyzed the credit quality of the Project Companies[5]. In the second stage, the results of the analysis were used as inputs to model the structure of the Issuer’s obligations and determine expected losses for the rated notes. This took into account the influence of credit quality enhancement mechanisms, projected loss recovery, and other factors that influence the distribution of cash flows in the PFT.

[4] The installed capacity utilization factor is the most important characteristic of the efficiency of the SPP; it is calculated as the ratio of the average power to the installed power of the electrical installation for a certain time interval.

[5] According to Clause 2.2 of the Notes Issue Resolution, any bankruptcy proceedings with respect to the Project Companies would result in a Write-Off Event, i.e. the noteholders’ right to claim the principal under the notes depends on the occurrence or non-occurrence of default on the project (the complete definition of default is set out in the Key Concepts Used by the Analytical Credit Rating Agency Within the Scope of Its Rating Activities).

ISSUE STRUCTURE

In this PFT, two rated tranches of notes (class A and class B) and one unrated tranche (class C) were issued.

- The issue structure employs a subordination mechanism where the priority of fulfilment of obligations under the class A notes is determined by their seniority compared to the Issuer's obligations under its class B and class C notes, which are subordinated in relation to the class A notes.
- A uniform procedure for distributing funds (waterfall payment) for the payment of coupons and the nominal value of notes was established.
- Payments for the class A notes are formed taking into account the repayment schedule, while payments for the class B notes are formed in accordance with available funds (but no less than 80% of the issue volume).
- Despite the lack of separate waterfall payments, the seniority of the class A notes stems from the fact that the payment of coupons and the nominal for class A notes is higher priority than the payment of coupons and the nominal for the class B and C notes.
- The class C notes are not fully subordinate to the class B notes due to the waterfall payment's inclusion of coupon payments for the class C notes, which are scheduled for the period between coupon and nominal payments for the class B notes.
- An event of default under the PFT means (1) the Project Companies are adjudged bankrupt and liquidated, which, according to the PFT terms, will result in the write-off event[6], and (2) a failure to fulfill the following obligations:
  - Coupon and nominal payments for the class A notes;
  - Payment of the coupon and no less than 80% of the estimated nominal value of the class B notes. However, this will only be considered a default on the class B notes.
- In the event of a default, investors must make a decision (via the representatives of the noteholders) on whether to sell the pledged assets in favor of the SPV.
- Additional credit enhancement is provided to the notes by a debt service reserve fund (DSRF) created by the Issuer and held on its pledge account at PJSC Sovcombank (ACRA rating AA (RU), Outlook Stable), which matches the size of coupon payments for the class A and B notes and is subject to subsequent amortization by the Issuer throughout the life of the PFT.
- The DSRF can be used if income from the loan agreements signed with the Project Companies is insufficient to cover all the Issuer's expenses at all stages of the waterfall payment. The DSRF is not intended to finance the expenses of the Project Companies.
- When simulating cash flows for the PFT, ACRA predicted the value (in percent) of the spending of the reserve fund in each settlement period.
- As part of the rating analysis of this PFT, ACRA took into account, along with the form of the issues as structured notes, the risk structure and sources impacting the probability of default and recovery rates on the notes.
- The dependence of noteholders' right for the principal/outstanding principal on the judgement for the borrowers' bankruptcy fully complies with the common definition of an event of default set out in the Key Concepts Used by the Analytical Credit Rating Agency Within the Scope of Its Rating Activities, as it actually reflects the bankruptcy risks of Borrowers.

POTENTIAL RATING CHANGE FACTORS

A positive or negative rating action may be prompted by the following events:

[6] See Clause 9.2.2 of the Notes Issue Resolution.

- Changes in DCSR and other PFT's financial metrics listed in the Methodology for Assigning Credit Ratings to Project Finance Issuers, Instruments and Obligations on the National Scale for the Russian Federation;
- Changes to macroeconomic conditions not envisaged by the stress scenarios used in the rating analysis;
- Legislative amendments that may significantly impact the transaction;
- Changes to the credit quality of the long-term creditworthiness of key PFT counterparties that cannot be replaced.

REGULATORY DISCLOSURE

The credit ratings have been assigned under the national scale for the Russian Federation based on the Methodology for Assigning Credit Ratings to Project Finance Issuers, Instruments and Obligations on the National Scale for the Russian Federation and the Key Concepts Used by the Analytical Credit Rating Agency within the Scope of Its Rating Activities.

The credit ratings of the structured collateralized notes issued by SPV RuSol 1 LLC were published by ACRA for the first time on February 28, 2020. The credit ratings 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 SPV RuSol 1 LLC, information from publicly available sources, and ACRA's own databases.

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. The credit ratings are solicited and SPV RuSol 1 LLC participated in their assignment.

Disclosure of deviations from approved methodologies: a deviation from the Methodology for Assigning Credit Ratings to Project Finance Issuers, Instruments and Obligations on the National Scale for the Russian Federation. The weight of the JV Credit Profile sub-factor was changed due to a change in the analytical judgment with respect to its significance.

ACRA provided no additional services to SPV RuSol 1 LLC. No conflicts of interest were discovered in the course of credit rating assignment.

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