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Key rating assessment factors

Key assumptions

Potential outlook or rating change factors

ACRA affirms Orenburg Region's credit rating at A(RU), outlook Stable, and affirms bond issues credit rating

The credit rating assigned to the [Orenburg Region](#) (hereinafter, the Region) is based on a safe level of debt load versus the operating balance amid moderate economic development as compared to the national average figures and significant dependence of economic and fiscal indicators on the dominant industry (hydrocarbon production) as well as on high self-sufficiency of the budget with a substantial share of mandatory spending.

The Orenburg Region is located in the Volga Federal District at the crossroads of two continents, Europe and Asia. The Region borders five regions of Russia, and Kazakhstan. 1.3% of the Russian population live in the Region; it accounts for 1.2% of the total GRP of Russia. The Region produces around 3% of the Russian crude oil and gas annually.

Maintaining high-level budget self-sustainability amid continuing growth of mandatory expenses and decline in capital expenses. The share of own revenues of the Region's budget equals 83% of the revenues excluding subventions in 2017. In 2018, own revenues will be at least 80%. The share of income tax in the structure of tax proceeds continued to decline, and it will amount to 40% as of end-2018 (vs 47% in 2017). At the same time, the share of property tax increased, and it will reach 20% as of end-2018 (vs 15% in 2014). Mandatory expenses persisted to grow and will reach 78% by the end of this year (vs 73% in 2014). As a result, the regional operating balance will remain the same as in 2017 (approximately 20-22%). Capital expenses are expected to decline to 12% in 2018 (averaged 14% in 2014-2017) due to insufficient relevant financing from the federal budget.

Relatively low debt load and soft debt repayment schedule minimize refinancing risks. The operating balance less interest expense to debt repayment amount ratio (excluding intra-year utilization of credit lines and loans granted by the Federal Treasury Department) equaled 2.54 (moderate risk level) as of the end-2017. The above ratio expected for the end-2018 equals 4.9. Debt repayment planned for 2018-2019 will amount to RUB 4.9 bln (19% of total debt). In 2018, the Region's debt servicing expenses will amount to 10% of the operating balance, and in 2019, they will be 13% at maximum. The Agency projects that debt load indicators would be stable (not decline) in 2018-2020.

- The conservative debt policy is maintained;
- Maintaining significant federal support of the Region's agribusiness;
- Transfer amounts in 2019 and 2020 are comparable to those received in 2017 and planned for 2018;
- Mandatory budget spending of the Region does not exceed 75%.

The **Stable outlook** assumes that the rating will most likely stay unchanged within the 12 to 18-month horizon.

A positive rating action may be prompted by:

- Growing share of products with high value added and outperforming GRP growth;
- Increasing number of manufacturing enterprises with high wages, which would drive higher average income per capita and tax revenues of the budget;
- Increased own liquidity of the budget.

A negative rating action may be prompted by:

- Changes in debt policy to substantially increase public debt level;
- Substantial reduction of support of agricultural enterprises by the federal budget, or changes in the share of subsidies provided by the federal and regional budgets;
- Underperforming salary growth in the Region (lagging behind average growth rates in Russia).

Issue ratings

[Orenburg Region Government Bond, 35001 \(ISIN RU000A0JTZK1\)](#); maturity date — June 19, 2019, issue volume — RUB 5 bln — A(RU).

[Orenburg Region Government Bond, 35002 \(ISIN RU000A0JUPE3\)](#); maturity date — June 14, 2021, issue volume — RUB 6 bln — A(RU).

[Orenburg Region Government Bond, 35003 \(ISIN RU000A0JVM81\)](#); maturity date — July 3, 2025, issue volume — RUB 5 bln — A(RU).

[Orenburg Region Government Bond, 35004 \(ISIN RU000A0ZYKH5\)](#); maturity date — December 2, 2027, issue volume — RUB 4 bln — A(RU).

Credit rating rationale. In ACRA's opinion, the bonds issued by the Orenburg Region are senior unsecured debt instruments, and their credit rating is equal to the rating assigned to the [Orenburg Region](#).

Regulatory disclosure

The credit ratings of the Orenburg Region and bonds issued by the Orenburg Region (RU000A0JTZK1, RU000A0JUPE3, RU000A0JVM81, RU000A0ZYKH5) under the national scale for the Russian Federation were assigned and affirmed based on the [Methodology for Credit Ratings Assignment to Regional and Municipal Authorities of the Russian Federation](#), and the [Key Concepts Used by Analytical Credit Rating Agency within the Scope of Its Rating Activities](#). In the course of assigning a credit rating to the bond issues above, the Methodology for Assigning Credit Ratings to Individual Issues of Financial Instruments under the National Scale of the Russian Federation was also used.

The credit rating of the Orenburg Region and the credit ratings of the government bonds (RU000A0JTZK1, RU000A0JUPE3, RU000A0JVM81, RU000A0ZYKH5) issued by the Orenburg Region were first published by ACRA on January 31, 2018. The credit rating of the Orenburg Region and its outlook, as well as the credit ratings of the government bonds (RU000A0JTZK1, RU000A0JUPE3, RU000A0JVM81, RU000A0ZYKH5) issued by the Orenburg Region are expected to be revised within 182 days following the rating action date (July 26, 2018) as per the [2018 Calendar of planned sovereign credit rating revisions and publications](#).

The credit ratings were assigned based on the data provided by the Orenburg Region, information from publicly available sources (the Ministry of Finance, the Federal State Statistics Service, and the Federal Tax Service), as well as ACRA's own databases. The credit ratings are solicited, and the Government of the Orenburg Region participated in the rating process.

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

ACRA provided no additional services to the Government of the Orenburg Region. No conflicts of interest were discovered in the course of credit rating process.

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