

ACRA AFFIRMS ROSSETI LENENERGO PJSC AT AAA(RU), OUTLOOK STABLE, AND THE COMPANY'S BONDS AT AAA(RU)

DENIS KRASNOVSKIY

Expert, Corporate Ratings Group

+7 (495) 139 04 80, ext. 188
denis.krasnovskiy@acra-ratings.ru

EKATERINA MOZHAROVA

Senior Director, Head of Corporate Ratings
Group

+7 (495) 139 04 98
ekaterina.mozharova@acra-ratings.ru

The credit rating of **Rosseti Lenenergo PJSC** (hereinafter Rosseti Lenenergo, or the Company) is based on the strong market positions of the Company in the regions of its operation, moderately strong operating profile, high business profitability, low leverage, and strong liquidity. ACRA assesses that it is highly likely that **PJSC ROSSETI** (ACRA rating: AAA(RU), outlook Stable) will provide extraordinary support if necessary.

ACRA expects that the Company's key indicators will be somewhat impaired in 2022 against 2021 due to a decrease in the supply of electricity caused by an economic decline in the serviced regions on the back of sanctions. To maintain financial and technical stability, the Company is seeking ways both to reduce capital expenses and to replace sanctioned spare parts and equipment with available alternatives. ACRA expects that, at least until the end of 2022, the Company will be able to maintain operational stability and ensure the reliability of the regional energy system.

Rosseti Lenenergo is a regional electric grid company operating in St. Petersburg and the Leningrad Region.

KEY ASSESSMENT FACTORS

High likelihood of extraordinary support from PJSC ROSSETI. Rosseti Lenenergo is an infrastructure monopoly that supplies electric power to St. Petersburg, Russia's second largest economic center. For Rosseti Holding (hereinafter, Rosseti), which performs quasi-public energy supply functions, this is a key region in the country. The importance of the region for Rosseti was confirmed by its decisive role in securing RUB 48 bln worth of extraordinary state support and special-purpose investments in the form of a capital injection for the Company in 2015–2016. The Company is deeply integrated into the structure of Rosseti as it is a part of the single treasury system and the mechanism for providing operating liquidity to subsidiaries (in the form of loans or bonds).

Infrastructure monopoly with moderate sales risk. Rosseti Lenenergo occupies a dominant position in the electricity transmission market within the boundaries of interconnected networks in St. Petersburg and the Leningrad Region. Based on tariff and balance decisions, the Company's market share in terms of tariff revenue was about 88%. The share of overdue receivables is low at 3.3% of revenues for 2021.

Moderately strong operating profile. Prior to 2015, the tariff set for the Company for its electricity transmission services was lower than the gross revenue it required. Regulatory risk

has fallen due to the performance of resolutions to bring the Company's tariff to an economically reasonable level, which were adopted at a meeting with the President of the Russian Federation regarding the regulation of business and the Company's financial recovery. Increased indexation is associated with Rosseti Lenenergo's very high investment commitments, as it has one of the highest investment to revenue ratios (33%).

ACRA assesses the Company's corporate governance as adequate and in line with industry standards. The Company's risk management system minimizes all the major types of risk and Rosseti's control includes approval of the credit policy and the rules for placement of funds, which are unified for all subsidiaries.

ACRA notes that Rosseti's control over the Company substantially toughened after 2015. The Company's financial transparency is high.

Positive free cash flow. In 2021, the Company's FCF was positive (RUB 2 bln), while the year before it was negative (RUB -1.5 bln). This was mainly the result of an increase in the operating cash flow after the removal of pandemic restrictions. Therefore, ACRA expects the Company's FCF to remain positive in 2022 and thereafter.

The Company's FFO before interest and tax margin remained high at 46% in 2021 (44% in 2020). ACRA expects the margin to remain at this level in 2022–2024.

Low leverage. As of April 12, 2022, the Company's debt portfolio amounted to RUB 26.9 bln. More than 90% of the debt portfolio is made up of long-term ruble-denominated bank loans and fixed rate bonds. RUB 323 mln is subject to repayment in 2022. The Company's long-term obligations include bank loans and public borrowings (about 37%). As of December 31, 2021, the ratio of total debt, including pension obligations, to FFO before net interest was 0.8x (0.9x a year ago). ACRA expects that this ratio will remain at the same level in 2022.

The Company's strong liquidity position is due to a minimal amount of debt repayments in 2022. Funds held in the Company's accounts totaling RUB 12.2 bln as of April 12, 2022, as well as a significant amount of available credit lines many times exceeding the Company's total debt, provide additional support to liquidity.

KEY ASSUMPTIONS

- ~ Corporate capital investment program implemented in full and on time.
- ~ Dividend payments below 50% of IFRS or RAS net profit (whichever is higher), taking into account the actual utilization of depreciation provisions for investment purposes.

POTENTIAL OUTLOOK OR RATING CHANGE FACTORS

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

A negative rating action may be prompted by:

- ~ Rosseti's loss of control or looser integration between the Company and Rosseti;
- ~ Total debt growing above 2.0x of FFO before net interest amid deteriorating debt structure or interest coverage going below 5.0x;
- ~ FFO before interest and tax margin going below 25% at the same time as interest coverage going below 5.0x;
- ~ Substantially reduced access to external sources of liquidity.

RATING COMPONENTS

Standalone Creditworthiness Assessment (SCA): **aa-**.

Support: Group.

ISSUE RATINGS

Rosseti Lenenergo PJSC bonds (RU000A101DE8), maturity date: January 23, 2030, date of planned early redemption: January 29, 2025, issue volume: RUB 5 bln — **AAA(RU)**.

Rosseti Lenenergo PJSC bonds (RU000A101DF5), maturity date: January 23, 2030, date of planned early redemption: January 29, 2025, issue volume: RUB 5 bln — **AAA(RU)**.

Credit rating rationale. The issues represent senior unsecured debt of the Company. Due to the absence of either structural or contractual subordination of the issues, ACRA regards them as *pari passu* with other existing and future unsecured and unsubordinated debt obligations of the Company. According to ACRA's methodology, the credit ratings of the bond issues are equivalent to that of the Company — AAA(RU).

REGULATORY DISCLOSURE

The credit ratings have been assigned 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](#), the [Methodology for Analyzing Rated Entities Associated with a State or a Group](#), 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 for the Russian Federation](#) was also applied to assign the credit rating to the bond issues.

The credit rating of Rosseti Lenenergo PJSC was published by ACRA for the first time on April 11, 2018. The credit ratings of the bond issues (RU000A101DE8, RU000A101DF5) were first published on February 5, 2020. The credit rating of Rosseti Lenenergo PJSC and its outlook, as well as the credit ratings of the bonds issued by Rosseti Lenenergo PJSC (RU000A101DE8, RU000A101DF5) 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 Rosseti Lenenergo PJSC, information from publicly available sources, and ACRA's own databases. The credit ratings are solicited, and Rosseti Lenenergo PJSC participated in their assignment.

In assigning the credit ratings, ACRA used only information, the quality and reliability of which was, in ACRA's opinion, appropriate and sufficient to apply the methodologies.

ACRA provided no additional services to Rosseti Lenenergo PJSC. No conflicts of interest were identified in the course of credit rating assignment.

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75, Sadovnicheskaya embankment, Moscow, Russia
www.acra-ratings.ru

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