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Key rating assessment factors

## ACRA assigns AAA(RU) to Yamalo-Nenets Autonomous Okrug, outlook Stable, and AAA(RU) to bond issues

The credit rating has been assigned to the [Yamalo-Nenets Autonomous Okrug](#) (hereinafter, YaNAO or Region) based on high indicators of the regional economy, high self-sufficiency and high liquidity of the budget, and the minimal debt load risk.

YaNAO is a part of the Urals Federal District and borders with four regions of the Russian Federation. The Region has the status of Far North territory, and more than a half of its area is within the Arctic Circle.

YaNAO is an administrative subject of the Russian Federation and, on the other hand, is a part of the Tyumen Region ([AAA\(RU\), outlook Stable](#)). The Tyumen Region boundaries were established by the Decree of the Presidium of the USSR Supreme Soviet dated August 14, 1944, according to which the Tyumen Region includes the following national regions: KhMAO-Yugra ([AAA\(RU\), outlook Stable](#)) и YaNAO. The public authorities of YaNAO, the Tyumen Region and KhMAO-Yugra concluded an agreement (effective date: January 01, 2005; term: five years; prolongation option: five years by mutual consent; current expiration date: December 31, 2025; such agreement was concluded in line with part 4 Article 66 of the RF Constitution) that regulates, among others, regional social, infrastructure and investment programs for the benefit of all residents of the Tyumen Region (including YaNAO and KhMAO-Yugra). In accordance with the agreement, 29.5% of profit taxes collected in YaNAO and KhMAO-Yugra are consolidated in the budget of the Tyumen Region, following which they are applied to implement the above programs.

**The Region produces 92.4% of natural gas and 6.4% of oil in Russia.** The industrial structure of the gross regional product (GRP) is quite stable, and the average GRP share of mining of natural resources exceeded 53% in 2005–2016. YaNAO ranks second among Russian regions in terms of per capita GRP and per capita income. The unemployment rate (according to ILO methodology) is significantly lower than the average Russian indicator.

YaNAO is one of the main donor regions of the federal budget system. In 2015–2017, about 83.7% of taxes and fees collected in the Region were transferred to the federal budget and only 16.3% were transferred to the consolidated budget of the Region. In 2017, YaNAO's contribution to the Russian budget in terms of the mineral extraction tax amounted to 18.8% (2<sup>nd</sup> among Russian regions). The regional enterprises are large VAT payers: 4.8% of the total Russian VAT in 2017 (5<sup>th</sup> among Russian regions).

**High self-sufficiency and sufficient balance of the budget.** In the period from 2015 to 2017, the share of tax and non-tax revenues (TNTR) averaged 98.5% of the aggregate revenues (excluding subventions). In 2017, the budget was executed with a surplus of 9.9%, and the budget surplus accumulated in 2014–2017 amounted to RUB 16.88 bln.

Over the past eight years, the TNTR structure has changed significantly in terms of major types of tax revenues. In 2010–2012, the TNTR included 46.3% of profit tax revenues and 31.1% of property tax revenues. In 2015–2017, the proportions changed: profit tax revenues equaled to 29.3% of the TNTR and the property tax revenues grew up to 42.7% of the TNTR. Property tax revenues are more resilient to market changes, and therefore their growth contributes to the stability of the budget revenue side.

In 2015–2017, the share of capital expenditures (development budget) averaged 21.2%, which corresponds, according to the ACRA methodology, to a sufficient degree of budget's operating balance. In 2011–2014, the YaNAO budget received substantial gratuitous transfers from local enterprises (in 2013–2014, this figure exceeded 17% of total budget revenues). The funds were applied, among other things, to the

development of regional infrastructure and, since the Region used those funds in full, no refund obligations arose.

**The Region's debt load corresponds to minimum risk.** YaNAO's debt portfolio comprises 83.4% of bonds (RUB 20.999 bln) and 16.6% of issued state guarantees (RUB 4.275 bln). Bonds will mature up to 2024, inclusive.

The Region has the ability to place temporarily free budget funds in deposit accounts (currently, such funds are placed in the Federal Treasury). As of January 01, 2018, balance amounts exceeded the aggregate direct debt of the Region and were comparable with budget expenditures for a two-month period.

## Key assumptions

- The Region will maintain the current degree of the operating balance;
- The Region will upkeep the high budget liquidity.

## 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:

- Higher social spending not supported by higher revenues;
- A significant change in the inter-budget relations in Russia.

## Issue ratings

**Credit rating rationale.** In ACRA's opinion, the below bonds issued by YaNAO are senior unsecured debt instruments, and their credit rating is equal to the rating assigned to YaNAO.

### Key issue properties

1) RegS / ISIN: **RU35002YML0 / RU000A0JX0Z8**

Issue volume / outstanding	<b>RUB 20 bln / RUB 20 bln</b>
Issue date / Maturity date	<b>December 07, 2016 / December 06, 2023</b>

2) RegS / ISIN: **RU35003YML0 / RU000A0ZYD55**

Issue volume / outstanding	<b>RUB 1 bln / RUB 1 bln</b>
Issue date / Maturity date	<b>December 22, 2017 / October 18, 2022</b>

3) RegS / ISIN: **RU35004YML0 / RU000A0ZYM47**

Issue volume / outstanding	<b>RUB 5.5 bln / RUB 116,000</b>
Issue date / Maturity date	<b>December 27, 2017 / December 25, 2024</b>

## Regulatory disclosure

The credit ratings have been assigned to YaNAO and to bonds issued by YaNAO (ISIN RU35002YML0, ISIN RU35003YML0, ISIN RU35004YML0) under the national scale for the Russian Federation based on the [Methodology for Credit Ratings Assignment to Regional and Municipal Authorities of the Russian Federation](#) 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.

ACRA has assigned credit ratings to YaNAO and to bond issues of YaNAO (ISIN RU35002YML0, ISIN RU35003YML0, ISIN RU35004YML0) for the first time. The credit rating of YaNAO and its outlook as well as the credit ratings of bond issues of YaNAO (ISIN RU35002YML0, ISIN RU35003YML0, ISIN RU35004YML0) are expected to be revised within 182 days after the rating action date (June 25, 2018) in accordance with the [2018 calendar of planned sovereign credit rating revisions and publications](#).

The credit rating was assigned based on the data provided by YaNAO, information from publicly available sources (the RF Ministry of Finance, the Federal State Statistics Service, and the Federal Tax Service), as well as ACRA's own databases. The credit rating is solicited, and the Government of YaNAO participated in its assignment.

No material discrepancies between the data provided and the data officially disclosed by YaNAO in its financial report have been discovered.

ACRA provided no additional services to the Government of YaNAO. No conflicts of interest were discovered in the course of credit rating assignment.

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