

Gazprom in 2022: production and exports down, profits up

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At the end of December, Gazprom summed up the company's preliminary results for 2022. According to the information provided, the company produced over 20% less gas last year than in 2021, that is, 412.6 bcm compared to 514.8 bcm, with steep declines in the second half of the year (see Table 1). Russia's total gas production volume last year was 672 bcm, 12% down on the previous year. Gazprom supplied around 243 bcm of gas onto the domestic market (compared to 257.8 bcm in 2021). In addition, it accumulated a record volume of gas in domestic storage facilities (72.6 bcm). Meanwhile, Gazprom's exports to the so-called far-abroad countries (European customers excluding the Baltic republics, as well as Turkey and China) fell by 45% to approximately 101 bcm last year (compared to c. 185 bcm in 2021). Deliveries to virtually all customers other than China – including Turkey – fell. Only gas exports to the Chinese market rose. According to the relevant agreements, 15 bcm of gas should have gone to China via the Power of Siberia pipeline in 2022 (compared to 10 bcm in 2021). However, Gazprom has reported that it managed to exceed the contracted volumes, although it has not stated by how much precisely (estimates suggest that shipments could have exceeded 18 bcm).

Despite the decline in production and exports, the group's financial performance last year was very strong. Thanks mainly to high gas prices in Europe in the first half of 2022 (an average of more than \$785 per 1000 m³), the figures were more than 3.5 times higher than in the corresponding period of 2021. In the first six months of last year, Gazprom made a record net profit of more than 2.5 trillion roubles (about \$37 billion at current exchange rates), more than the profit it had made in the previous two years combined. As a result, the gas giant decided to pay out dividends for the first half of the year (the first time it has done so; previously, it had paid them out once a year) and allocated 1.2 trillion roubles for this purpose (half of the amount went to the federal budget). The company thus emerged as the largest contributor to the Russian budget in 2022, and injected a total of five trillion roubles (about \$75 billion) into state finances (compared to 3.31 trillion roubles in 2021). The Kremlin has exempted Gazprom (like other state-owned companies) from the obligation to publish its financial data due to the sanctions. So far, it has not reported its profits for the second half of the year, but analysts estimate that they may have been close to zero.

Commentary

- Despite the decline in production and exports, the company's managers are trying to project optimism. They are painting scenarios for the company's healthy future development based on increased gas exports to China and higher supplies to the domestic market. In the next few years, the PRC is expected to become a key importer of

Russian gas. Currently, Russian fields in eastern Siberia are only connected to the Chinese market via the Power of Siberia 1 pipeline, which is scheduled to transport 22 bcm of gas in 2023, although this volume is likely to be exceeded thanks to ongoing investments in the expansion of transmission infrastructure and fields. The pipeline is not expected to reach its design capacity of 38 bcm per year until 2025. In addition, China has reached an agreement with Russia to receive gas supplies from Sakhalin via the Power of Siberia 3 pipeline, which is expected to reach its design capacity of 10 bcm in 2026. This will mean that in 2026 Russia will be able to export a total of 48 bcm of gas to China via pipelines (the EU bought 155 bcm of gas from Russia in 2021, originating from western Siberian fields). For the time being, however, China is cautious about Russia's Power of Siberia 2 project, which would allow Moscow to increase its gas exports by 50 bcm. At the same time, Gazprom is continuing to invest in the gasification of Russian regions, but the profitability of supply, especially to individual consumers in Russia, is relatively low (the company bears the entire cost of connecting to the infrastructure). For this reason, Gazprom has consistently delayed the implementation of such projects in recent years. In the current situation, however, an increase in supplies to the domestic market is expected, as this will allow it to reduce the decline in production.

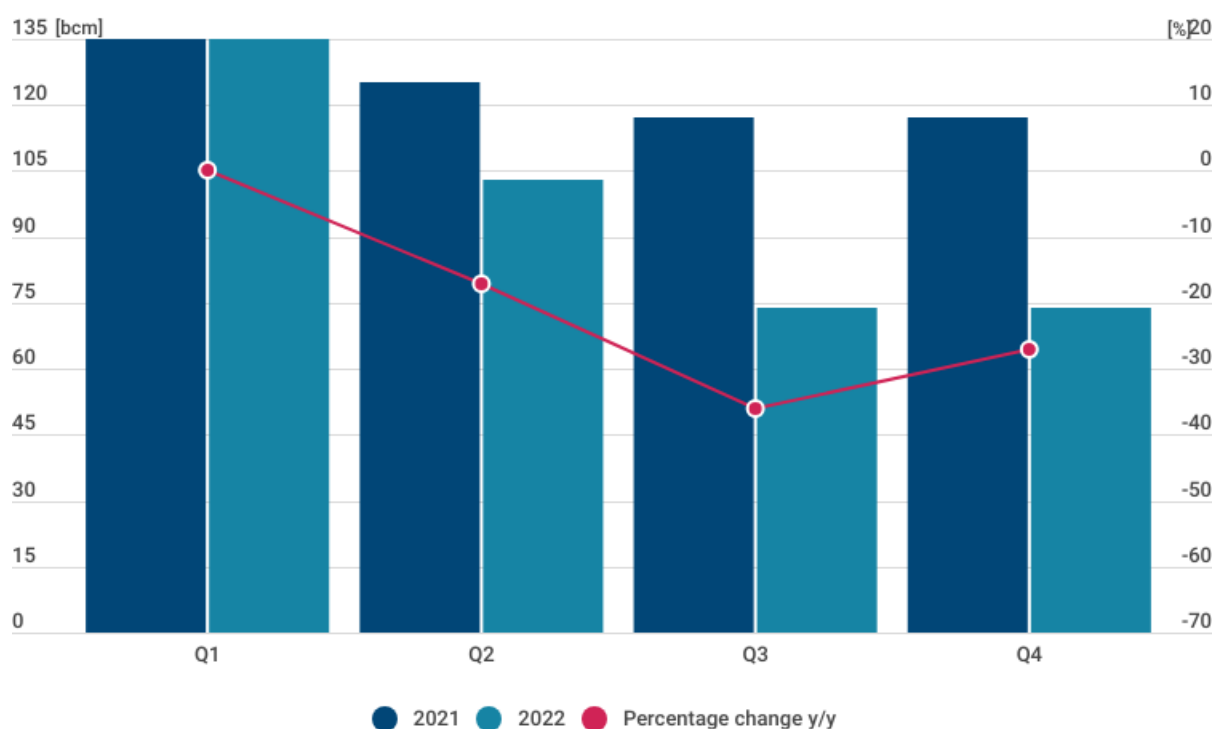
- Gazprom also plans to return to the European market via Turkey. To this end, Moscow is holding talks with Ankara on the creation of a gas hub. While the Turkish authorities are open to strengthening their position in the European gas market, it is doubtful that EU gas importers would find such an arrangement attractive, as they already have the existing pipelines available to them.
- The Kremlin has deprived Gazprom of the profitable EU market thanks to its decisions, and is now exploiting the company even more heavily so it can balance the Russian budget. Consequently, it is increasing the tax burden imposed on the gas giant. In 2022, the government forced the company to pay an additional one-off extraction tax worth a total of 1.2 trillion roubles. As a result, the company transferred the entire profit made in 2021 to the budget, forgoing the payment of dividends to shareholders for that period. In addition, the company will pay an additional 1.8 trillion roubles (50 billion roubles a month) in extraction tax over the next three years. In 2022, the Kremlin stripped Gazprom of its high profits from the last two years, but it is uncertain whether gas prices will remain high in the years to come, which would allow Gazprom to compensate for the losses resulting from falling sales volumes.

Table 1. Gazprom's gas production and exports (in bcm)

	Production			Exports to the so-called far-abroad countries		
	2021	2022	Percentage change y/y	2021	2022	Percentage change y/y
Q1	135.0	135.0	0.0	52.8	38.5	-27.1
Q2	125.8	103.4	-17.8	47.1	30.4	-35.5
Q3	117.3	74.9	-36.1	45.9	18.0	-60.8
Q4	136.7	99.3	-27.4	39.3	14.0	-64.4
- October	44.7	30.7	-31.3	13.0	4.3	-66.9
- November	44.9	32.9	-26.7	12.7	4.0	-68.5
- December	47.1	35.7	-24.2	13.6	5.7	-58.1
Total	514.8	412.6	-19.9	185.1	100.9	-45.5

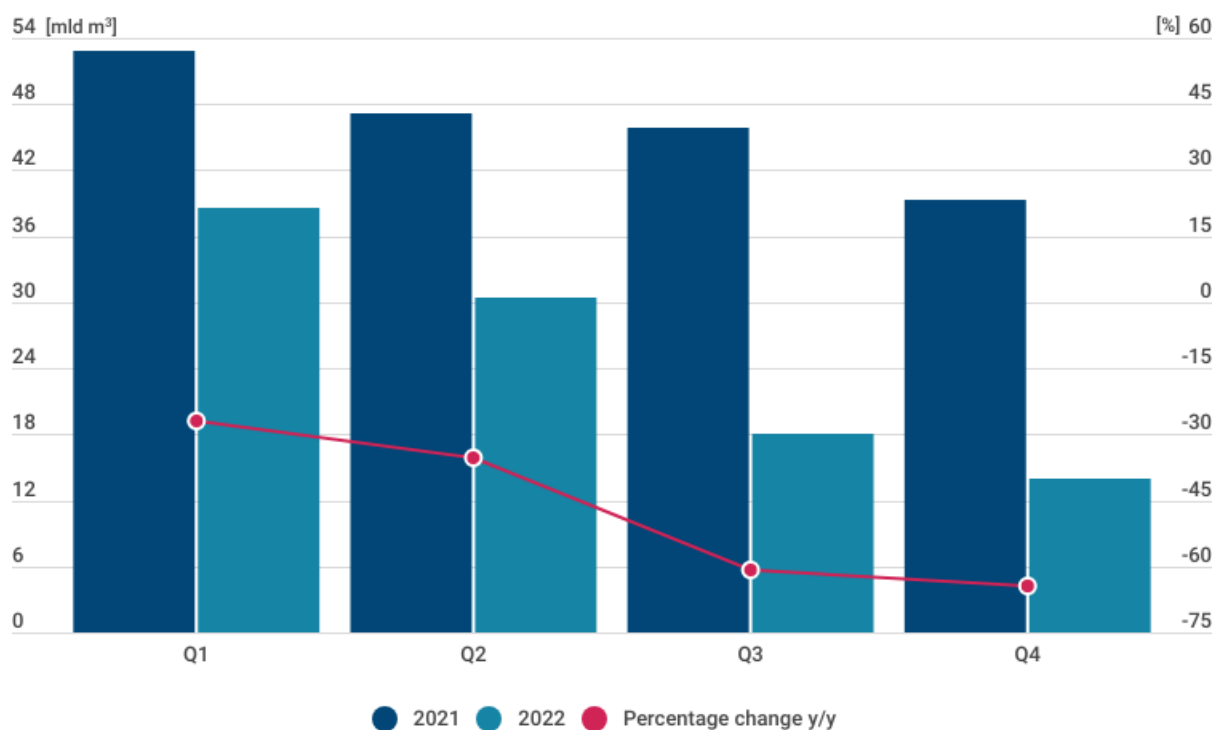
Source: Gazprom.

Chart 1. Gazprom's production in 2021–2022



Source: Gazprom.

Chart 2. Gazprom's exports to the so-called far-abroad countries in 2021–2022



Source: Gazprom.