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NEITHER SUPER-RICH, NOR BANKRUPT GAZPROM'S FINANCIAL CONDITION

Szymon Kardaś

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CENTRE FOR EASTERN STUDIES

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CONTENT EDITOR

Adam Eberhardt, Marek Menkiszak

EDITOR

Halina Kowalczyk

CO-OPERATION

Małgorzata Zarębska, Anna Łabuszewska

TRANSLATION

OSW

CO-OPERATION

Jim Todd

GRAPHIC DESIGN

PARA-BUCH

PHOTOGRAPH ON COVER

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ul. Koszykowa 6a, Warsaw, Poland

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Fax: + 48 /22/ 525 80 40

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SUMMARY

- The analysis of Gazprom's financial condition is hindered by the way in which it prepares its reports. Gazprom's financial reports have been drawn up for the entire Gazprom Group, in which two Gazprom-controlled companies, Gazpromneft and the electricity holding Gazprom Energoholding, make a significant contribution to the Group's high sales figures (in 2017 they accounted for 37% of the Group's turnover and around 42% of its gross revenues).
- An analysis of the Russian gas giant's fundamental indices shows that Gazprom is in a relatively stable financial condition. The company's balance sheet is fundamentally positive; its non-current assets are fully covered by its equity and non-current liabilities. The company has been regularly reporting increasing turnover (sales), and its net cash from operating activities is positive.
- On the other hand, however, the dynamics of some important parameters are unfavourable for Gazprom. Its non-current liabilities have been rising faster than its equity. While turnover has been growing, the cost of goods sold (operating expenses) has also been increasing. A clearly unfavourable tendency is visible in the company's cash flows. Liquidity and profitability indexes have been falling. The net cash from (used in) financing activities was negative in the period 2012–16, and its rise in 2017 was due to Gazprom obtaining new loans and credits (whose share in the investment budget exceeded 30% for the first time in the company's history as a result).
- The worsening financial performance is a consequence, on the one hand, of developments on external markets, and on the other, the fact that Gazprom is being used instrumentally in the pursuit of Russia's foreign policy objectives. However, unless special circumstances arise, such as a new global financial crisis, a substantial toughening of the sanctions imposed on Gazprom by the United States (which is very unlikely to happen) and the European Union (which is practically impossible), the company's financial situation will remain stable in the coming years.
- Even if the unfavourable dynamic of the company's key financial indexes persists, this will have only a limited impact on the implementation of its strategic investment projects, particularly the export gas pipelines. The activities of Gazprom as a state-owned gas company are oriented primarily

towards the achievement of the state's economic and political interests, but this also means that the company can count on financial and administrative support from the Russian government, which private companies operating on purely market terms would never be offered.

INTRODUCTION

In 2018 Gazprom, Russia's biggest state-controlled gas company, adopted the largest investment programme in its history. The year before, it had reported its highest ever revenue from the sale of gas and other goods and services. At the same time, however, in the period between 2007 and 2017, the company's capitalisation fell to less than a sixth, and in 2017 its total debt reached a record level of US\$55.2 billion. It is therefore worth taking a closer look at the financial condition of Russia's largest gas company, which remains a major gas supplier to Europe, accounting for 34% of the EU market in 2017.

The purpose of the present report is to examine Gazprom's financial condition by looking at its balance sheet, i.e. by analysing the structure of its assets and capital (changes in assets and liabilities), its income statement-profit and loss account, and its cash flows. The report also discusses the company's rising debt and falling capitalisation. Finally, it offers an assessment of the consequences of Gazprom's financial condition for the implementation of its infrastructure projects and an attempt at a forecast.

I. GROUP STATISTICS: THE SPECIAL NATURE OF GAZPROM'S FINANCIAL REPORTING

The assessment of Gazprom's financial condition presented in this paper is based on estimates, because analysing the company's official figures presents some objective difficulties. Gazprom does regularly publish quarterly and annual financial reports drawn up in keeping with the International Financial Reporting Standards (IFRS), financial reports complying with the Russian Financial Reporting Standards (RSBU), as well as annual reports of its activities. However, the figures in those reports concern the so-called Gazprom Group, i.e. a body of companies which includes Gazprom as well as all its subsidiaries and associated companies. Two of them are particularly important: Gazpromneft, a subsidiary which is primarily active in the oil sector (production, processing and sale of oil & petroleum products) and Gazprom Energoholding, an energy holding comprising four subsidiaries dealing primarily with the generation, transmission and trade of heat and electricity.

While the gas sector remains the principal area of Gazprom Group's operations, the importance of other sectors has increased considerably in recent years, as illustrated by the figures on Gazpromneft's and Gazprom Energoholding's share in the company's turnover and profits. Back in 2011, the two companies accounted for 31% of Gazprom Group's turnover, but by 2017 their share exceeded 37%. Their share in the Group's net profit increased from less than 14% in 2011 to more than 41% in 2017. The same tendency is visible in the figures on the contribution to its overall revenues of the different categories of goods and services provided by Gazprom Group to its Russian customers. The share of revenues from gas sales in the Group's total revenues has fallen in recent years, from 61% in 2011 to 51% in 2017. Meanwhile, the share of petroleum products in total sale revenues rose from z 21% in 2011 to 26% in 2017, reaching as high as 29% in 2014, while the share of oil and condensate rose from 5% in 2011 to 8% in 2017.

For these reasons, the present report will analyse Gazprom's financial situation based on figures for Gazprom Group excluding Gazpromneft and Gazprom Energoholding, which will allow us to make estimates about the financial condition of Russia's largest gas company.

II. GAZPROM'S POSITIVE BALANCE SHEET

Gazprom's balance sheet, reflecting the changes in its assets and capital structure, has been relatively healthy for the last seven years. It has complied with the so-called **silver balance-sheet principle**, which means that non-current assets should be covered by fixed capital (equity plus non-current liabilities).¹ However, the fixed capital to non-current assets ratio has been systematically falling in recent years, declining from 1.2 in 2015 to a mere 1.1 in 2017. Moreover, the share of non-current assets in total assets oscillated around 80% in the period 2011-17 (it dropped to around 75-79% in 2013-15 alone). It should be noted that those proportions have not changed considerably over the last 18 years (non-current assets accounted for 79.9% in 2000, for 77.3% in 2004, and for 78% in 2008), which is a positive factor in the company's financial condition.

However, Gazprom has not been complying with the so-called **golden balance-sheet principle**, which means that non-current assets should be covered by equity. Moreover, the non-current assets-to-equity ratio has been regularly falling in recent years: in 2013 it was 0.97, and in 2017 it was only 0.88. At the same time, Gazprom's non-current liabilities have been growing more dynamically than its equity.²

Gazprom's current ratio of liquidity (current assets to current liabilities) has remained at a good level, although in recent years it has shown a negative trend. Gazprom's current ratio was around 3.1 in 2010, 3.86 in 2013, and a mere 1.92 in 2017. Interestingly, the current ratio looks much worse when it is calculated for the entire Gazprom Group.³

Gazprom's profitability indexes have also shown a worrying trend. Its return on equity (which shows how much net income the company's equity generates) fell from 16.7% in 2011 to 0.4% in 2014; in 2017 it was around 4.4%. When

¹ All figures analysed in the text come from annual reports published by Gazprom on the occasion of the company's General Meeting of Shareholders, its financial reports are drawn up in accordance with International Financial Reporting Standards (IFRS), and the aggregated datasets published on Gazprom's official website.

² The balance sheet indexes do not change substantially if the assets and liabilities of Gazpromneft and Gazprom Energoholding are included in the calculations.

³ In 2010, Gazprom Group's current ratio was 1.85; in 2013 it increased to 2.06, and in 2017 it declined to 1.34. An unfavourable dynamic is also visible in Gazprom's quick ratio. It was 2.35 in 2010; 1.65 in 2013; but it dropped to a mere 1.04 in 2017.

calculated for the entire Gazprom Group, this index is slightly higher, 20% in 2011 and 7% in 2017. An unfavourable trend is also visible in Gazprom's return on sales, which dropped from 36% in 2011 to 0.9% in 2014 and 10.9% in 2017, and its return on assets, which declined from 12.9% in 2011 to 0.3% in 2014 and reached 3.1% in 2017. Return on assets is slightly higher when calculated for the entire Gazprom Group: 14% in 2011 and 4% in 2017.

The decline in profitability indexes has mainly been caused by falling prices on the oil and gas markets, an increase in fiscal burdens, and a growing number of trade operations with low profit margins due to the consolidation of Gazprom's trade activities in Europe. The increase in the share of long-term commitments in the company's liabilities and their rising volume in recent years indicates that Gazprom Group is still capable of obtaining external financing for its activities. In part, this is because the Russian gas giant has only been affected to a limited extent by the sanctions imposed on Russia by Western states.⁴ See Annex 1 for full information on the company's balance sheet.

⁴ The EU did not impose individual financial or technological sanctions on Gazprom as a concern, which is significant as Europe remains a key market for the Russian gas giant. The fact that Gazprom was put on the US sanctions list is less significant because the Russian company has only limited ties to US businesses. Gazpromneft (a company operating mainly in the oil sector and 100% controlled by Gazprom) as well as Gazprombank (a bank owned by Gazprom) have been put on all the sanctions lists. Sanctions have also been imposed on the Gazprom-owned Yuzhno-Kirinskoye gas field in Sakhalin.

III. THE DETERIORATING INCOME STATEMENT (PROFIT AND LOSS ACCOUNT)

Gazprom's situation is less optimistic when it comes to the income statement (profit and loss account). While the company has reported rising turnover (sales) in its statements covering the entire Gazprom Group, which has increased from around 3.5 trillion roubles in 2010 to more than 6.5 trillion roubles, i.e. by around 82% in the period 2010–17, Gazpromneft and Gazprom Energoholding accounted for a substantial proportion of that increase. If the figures for these two companies are excluded, the turnover (sales) of Gazprom and its remaining subsidiaries and associated companies has risen from 3.2 trillion to 4.1 trillion roubles, i.e. by around 28%. Moreover, the increase in revenues from sales was accompanied by an increase in operating expenses which exceeded the record level of 5.7 trillion roubles in 2017 for the entire Group, with Gazprom's share in the whole Group's prime cost rising from less than 59% in 2011 to 65.7% in 2016 and 64% in 2017. The hike in the company's operating expenses is due primarily to increased spending on purchases of oil and gas, which Gazprom needed to make to meet its contractual commitments (the value of such purchases doubled in the years 2010–17, rising from 605 billion roubles in 2010 to 1.25 trillion roubles in 2017).⁵ The substantial increase of the extraction tax (NDPI) has been another important component in the increased operating costs. The tax rate was 147 roubles per 1000 m³ of extracted gas in 2010, which accounted for less than 28% of the cost of producing 1000 m³ of gas, but by 2017 the basic rate had risen to 1110 roubles per 1000 m³ of gas, now accounting for nearly 57% of the overall production cost.⁶ Because of the above factors, Gazprom's gross profit (operating profit) has declined systematically, dropping from 1.4 trillion roubles in 2011 to just over 450 million roubles in 2016 (in 2017 it rose slightly to 500 million roubles). Moreover, whereas Gazprom accounted for around 86% of Gazprom Group's total profit in 2011, its contribution had decreased to 58% by 2017, which once again demonstrates the growing role of Gazpromneft and Gazprom Energoholding in generating the Group's profits.

The final shape of Gazprom's profit and loss account has also been influenced substantially by changes on the energy resource markets and currency exchange rate fluctuations. Figures on gas sales offer a good illustration of this

⁵ Gazprom Group buys gas, oil and petroleum products in order to deliver on some of its contractual commitments on the Russian and external markets.

⁶ While Gazprom demanded a freezing of the tax rate at 602 roubles per 1000 m³ in the period 2014–16, those demands were not met.

impact. Despite an increase in the volume of gas sold in the countries of the so-called Far Abroad (mostly European buyers, excluding the Baltic states) in the period 2014–17, the falling prices caused revenues in US dollars to decline, from US\$45.4 billion in 2014 to US\$32 billion in 2016 (in 2017 revenues rose again, as a result of rising oil prices and the increase in gas prices pegged to the price of oil). At the same time, due to the devaluation of the rouble, revenues in that currency rose from 2.98 trillion roubles in 2014 to 3.34 trillion roubles in 2017.⁷

The devaluation of the rouble in relation to the US dollar contributed to the increase in the Russian gas giant's net profit in 2014–16. Gains from currency exchange rate fluctuations amounted to around 570 billion roubles in 2014, and to 282 billion roubles in 2015. Gazprom's pure profit for shareholders rose from around 40.6 billion roubles in 2014 to 664.4 billion roubles in 2015 and 724.6 billion roubles in 2016; nearly half of the 2016 figure was attributable to the rising exchange rate of the rouble, which generated a decrease in foreign currency debt as converted to the Russian currency (without this mechanism, the net profit in 2016 would have fallen by 37% compared to 2015). In 2017, profit dropped again to 414.1 billion roubles. See Annex 2 for full information on the profit and loss account.

⁷ For the sale of gas to former Soviet countries (including the Baltic states), the decline in revenues was mainly due to a substantial decrease in the volume of exports, and partly also declining prices. On the Russian market, the growth in sales revenues, despite a decline in the volumes sold, was a consequence of rising prices: in 2014 the price of gas was 3500 roubles per 1000 m³, and by 2017 it had reached 3800 roubles per 1000 m³.

IV. NEGATIVE TENDENCY IN CASH FLOWS

A clearly negative tendency can be observed in Gazprom's cash flows.

While the net cash flow from operating activities is positive, its value has been dropping steadily in the period 2015–17. Gazprom's investment spending had been rising, but in 2017 its value dropped below the value of net cash flows from operating activities for the first time. This was related to the company's record investment plans for the years 2018–20 (Nord Stream 2, TurkStream, Power of Siberia, the Amur gas processing plant in the city of Svobodny, Amur region).

The company has been performing worst in terms of net cash from (used in) financing activities. Negative results in the years 2012–16 indicate that Gazprom was focused on repaying its liabilities in that period. The positive result reported in 2017 is a consequence of Gazprom contracting sizeable new loans and credits. See Annex 3 and 5 for a detailed list.

The declining exchange rate of the rouble in relation to the dollar has not had a negative impact on Gazprom's investment programme because the Russian company covers more than 70% of its spending in roubles. Moreover, in the first eight months of 2018 the US dollar's exchange rate was below the value predicted in the company's 2018 budget.⁸

⁸ В. Петлевой, Г. Старинская, '«Газпром» планирует рекордные инвестиции', *Ведомости*, 5 September 2018, <https://www.vedomosti.ru/business/articles/2018/09/05/780018-gazprom-planiruet>

V. MOUNTING DEBT

Gazprom Group's total debt rose considerably in the period 2011–17, but it does not for now pose a risk to the company's financial condition. Gazprom Group's total debt was worth 1536.8 billion roubles in 2011, compared to 3266.5 billion roubles in late 2017, wherein the net debt had risen from 1028.2 billion roubles to 2397.5 billion roubles. This tendency is also visible in the figures for the first half of 2018, with the total debt rising to 3367.3 billion roubles and the net debt to 2433.3 billion roubles. Gazprom and the smaller companies it controls account for most of the debt (around 75.6%); while Gazpromneft accounts for less than 21%, and Gazprom Energoholding the remainder.

Based on the latest IFRS financial report for the first half of 2018, Gazprom Group's debt including bonds, long-term loans and credits is worth around US\$48.4 billion.⁹ Credits and bonds in US dollars account for nearly 32.5% of that total, debt in euro accounts for 36.3%, debt in roubles for around 17.5%, and the remainder is debt in other currencies, Swiss francs and the pound sterling. In connection with its investment plans, Gazprom plans to invest 427 billion roubles as long-term financial investments (which will provide around 28.5% of the investment budget). In September 2018 it was decided that the volume of external financial borrowings would also rise to around 518 billion roubles, in connection with the expansion of the investment programme.¹⁰

While Gazprom has not experienced problems with raising funds in recent years, either in Russia or abroad, political factors and the litigations in which it has been involved have already started to make things more difficult. The sanctions against Russia and Russian businesses imposed by the United States and the European Union have not affected Gazprom's financial situation to any significant degree. Figures for the period from March 2014 to June 2018 show that the company has not generally experienced difficulties in obtaining credits and loans from foreign funding sources to finance its activities. Indeed, Gazprom has issued bonds in foreign currencies and contracted credits from foreign banks (see Annex 5 for details).

However, the impact of the sanctions and the litigations in which it has been involved have made it impossible for Gazprom to implement its key infrastructure

⁹ If not for the decline in the rouble's exchange rate in August 2018, the company's debt in US dollars would have amounted to US\$56.7 billion.

¹⁰ В. Петлевой, Г. Старинская, *op. cit.*

projects in line with the initially planned model (the so-called project financing). Such a mechanism could not be applied either to Nord Stream 2,¹¹ Turk-Stream or the Amur Gas Processing Plant. Previously, the project financing model had allowed Gazprom to successfully carry out such projects as Nord Stream 1 (with total external funding of around €6.4 billion), Sakhalin 2 (total external funding US\$6.7 billion) and the development of the Yuzhno-Russkoye field (€1.1 billion). Alternative solutions may prove costly for the Russian company, as demonstrated by its efforts to raise funds for the implementation of the Nord Stream 2 project. Western partners have extended loans to the Gazprom-controlled Nord Stream 2 AG company, the rouble-denominated value of which increased from 115 billion to 171 billion roubles over several months, due to changing interest rates but also the hike of the euro's exchange rate in August 2018 (from less than 70 to 79 roubles). Another factor impeding the raising of funds on European markets concerns the enforcement lawsuits brought by Ukraine's Naftohaz in the aftermath of the award by the Arbitration Court in Stockholm.¹² While it is not entirely clear if and which Gazprom assets were frozen at the request of the Ukrainian side,¹³ statements by Gazprom officials suggest that Naftohaz's activities were the immediate reason why the issue of Gazprom's sterling-denominated Eurobonds planned for the summer of 2018 was cancelled.

In the coming years Gazprom will face the additional challenge of having to repay its previously contracted loans. The maturity dates of the biggest items in the company's accounts payable fall in the years 2018 to 2023, including US\$12 billion in 2018, US\$6.9 billion in 2019 and US\$4.3 billion in 2020. In recent years, the company's net debt to EBITDA ratio¹⁴ has risen from 0.51 in 2012

¹¹ In the case of Nord Stream 2, the main obstacle concerned the anti-trust lawsuit initiated by Poland's Office of Competition and Consumer Protection, which stopped the creation of a consortium made up of Gazprom and Western European companies for the purposes of carrying out the project, and prevented the creation of a financing mechanism.

¹² Naftohaz has been demanding that Gazprom repay its US\$2.6 billion debt stemming from the Russian gas giant's violation of the terms and conditions of the gas transit contract concluded between the two parties in January 2009.

¹³ According to media reports, in enforcement proceedings brought by Naftohaz to courts in the United Kingdom, Switzerland and the Netherlands, Gazprom assets including its shares in Nord Stream AG and Nord Stream 2 AG, Blue Stream Pipeline B.V. (the operator of the sea section of TurkStream) Gazprom's shares in several British companies were at least temporarily frozen.

¹⁴ EBITDA (earnings before interest, taxes, depreciation and amortisation) is a measure of a company's ability to repay its debt from operating profit, in other words, it is a way of estimating how many years a company would need to fully repay its debt from operating profit.

to 1.7 in 2017, but it is still only at half the value which would signal excessive debt (a company is deemed to be in excessive debt with a ratio of 3–3.5). Most of Gazprom’s debt has maturity dates which fall within the next five years; liabilities with maturity dates beyond five years account for only 25% of the total.

VI. CAPITALISATION AND DIVIDENDS

Gazprom's market capitalisation in US dollars has fell to one-sixth of its value between 2007 and 2017. In late 2007, it stood at a record level of US\$330 billion; it had dropped to US\$150 billion by December 2010, and to US\$53.5 billion by December 2017. In September 2018, the company's capitalisation was lower than the market capitalisation of Novatek, Russia's largest private-owned gas producer, for the first time ever.¹⁵

The dividend per share remained stable at 7.2–8.04 roubles in the period 2013–17. However, while Gazprom does regularly pay out **dividends** to its shareholders, the rate is much lower than the applicable governmental directive would require. As per this directive, the company should be paying out 50% of its net profit calculated in accordance with the IFRS¹⁶ (this has been the Finance Ministry's demand in recent years). However, Gazprom has successfully sought derogations from the rule, and in recent years it has paid out between 20% and 30% of net profit as dividends (in 2016 it paid out 190.33 billion roubles in dividends, which corresponded to 20% of net profit as per the IFRS; in 2017, it paid 190 billion roubles, which corresponded to 26.7% of net profit). At the same time, Gazprom remains one of the biggest contributors to the state budget, with a total contribution of around 1.3 trillion roubles in 2016. The increase of the NDPI tax rate was a way for the government to compensate for lower budget revenues from the dividends; this mechanism has also been good for Gazprom because it allows it to avoid paying higher dividends to minority shareholders.¹⁷

¹⁵ Ю. Барсуков, 'НОВАТЭК обогнал «Газпром» по капитализации', *Коммерсантъ*, 6 September 2018, <https://www.kommersant.ru/doc/3733194>

¹⁶ Pure profit calculated on the basis of reports drawn up in accordance with the Russian Financial Reporting Standards (RSBU) is lower than calculated as per the IFRS.

¹⁷ Ю. Барсуков, 'Дивиденды последней надежды', *Коммерсантъ*, 3 September 2018, <https://www.kommersant.ru/doc/3731081>

Table 1. Value of Gazprom's dividends per share (in roubles)

	2010	2011	2012	2013	2014	2015	2016	2017
Dividends per share (roubles)	3.85	8.97	5.99	7.2	7.2	7.89	8.04	8.04
Proportion of pure profit paid out as dividends (%)	9.41	16.25	11.58	14.96	107.2	23.73	20	26.65

Source: *Kommersant*, based on figures published by Gazprom

VII. RECORD-BREAKING INVESTMENT PROGRAMME, COSTLY INFRASTRUCTURE PROJECTS

In recent years, Gazprom has systematically expanded its investment programme, which will be worth a record-breaking 1.5 trillion roubles in 2018. It has also been the company's consistent policy to increase investment spending and exceed the volume planned for the given calendar year. For example, in 2011 the final value of the investment programme was 56.4% higher than originally planned; in 2013 it was 45.5% higher, and in the years 2017 and 2018 the original plans were exceeded by 23.9% and 17% respectively. See Table 2 for details.

Table 2. Gazprom's investment programmes in the period 2009–18: plans and actual execution (billions of roubles)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Plans	603	802	816	776	705	806	804	842	911	1279
Final value	762	905	1277	974	1026	1026	1043	853	1129	1496
Increase (%)	26.4	12.8	56.4	25.5	45.5	27.3	29.7	1.3	23.9	17

Source: *Vedomosti*, on the basis of figures published by Gazprom

The main financial burden in the investment programmes comes from infrastructural projects, in particular the construction of new export pipelines (infrastructure spending has increased by as much as 23% in the expanded investment programme). In its annual report, Gazprom has highlighted four infrastructure investments that will be treated as a priority in the coming years, including: (1) Nord Stream 2; (2) the expansion of the gas pipeline network in North-Western Russia, especially the Ukhta-Torzhok, Gryazovets-Slavianskaya and Bovanenkovo-Ukhta pipelines; (3) Power of Siberia (the gas pipeline for exporting Russian gas from the fields in Eastern Siberia to China); (4) the TurkStream gas pipeline, designed to export Russian gas to the Turkish market (the first branch) and Southern Europe (the second branch). Investments in infrastructure development were also the main item in Gazprom's investment spending in the period from 2010 to 2017. They accounted for around 38% of total investment spending; by way of comparison, gas extraction projects accounted for 18% of the total, and oil and condensate extraction for 17% of the total.

Most of the infrastructure investments currently underway are unnecessary from the point of view of the Russian gas giant's current needs, but such investments play a role in Russia's foreign policy, and provide sources of revenue for contractors and subcontractors. For one, the new gas pipelines to Europe (Nord Stream 2, TurkStream) are not indispensable, given the capacity of the existing infrastructure, particularly the Ukrainian transit route (in 2017, 94 billion m³ of Russian gas was transmitted via Ukraine, while its total capacity is estimated at 130-150 billion m³). Secondly, while the Power of Siberia gas pipeline fits in with Gazprom's strategy to diversify exports, it is extremely expensive (the total cost is around US\$55 billion) and, with the estimated low price of gas in the contract, questions remain over the undertaking's economic viability.¹⁸ Thirdly, even Russian experts have expressed doubts about the future profitability of the investments Gazprom is implementing, as demonstrated by the report by Sberbank analysts disclosed in June 2018 by Alexei Navalny, which shows that Gazprom's investments will cost a total of US\$110 billion over the next five years, but only 40% of that spending is economically justified.

¹⁸ Questions regarding the project's profitability were first raised upon the signature of the so-called Shanghai Contract between Gazprom and China's CNPC in May 2014. For more information, see S. Kardaś, 'The eastern "partnership" of gas. Gazprom and CNPC strike a deal on gas supplies to China', *OSW Commentary*, 16 June 2014, <https://www.osw.waw.pl/en/publikacje/osw-commentary/2014-06-16/eastern-partnership-gas-gazprom-and-cnpc-strike-a-deal-gas>

VIII. PROSPECTS

Despite the systematic deterioration of many aspects of Gazprom's financial performance, no major threats to the company's financial condition should be expected to arise in the coming years. The Russian gas giant's budget is based on fairly conservative assumptions. The 2018 budget predicts an average oil price of US\$43.8 per barrel (currently the price exceeds US\$80) and a US dollar exchange rate of 64.2 roubles (the average annual exchange rate is unlikely to exceed this value). Moreover, in the coming years Gazprom will probably manage to keep exports at the current level of 180-200 billion m³ of gas a year, which will ensure stable revenues from sales given a favourable pricing situation. Furthermore, Gazprom officials have announced that once the 2018-20 investment programme is implemented, the annual investment budgets will not exceed 1 trillion roubles in the following years, i.e. to 2035.¹⁹ Finally, the Russian gas giant will surely be able to count on administrative and financial support from the state in the basic areas of its activity, and especially in the implementation of infrastructure projects of crucial importance for the state.

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¹⁹ 'Объем инвестпрограммы "Газпрома" до 2035 г в среднем составит не более 1 трлн руб в год', 6 February 2018, <https://lprime.ru/energy/20180206/828423151.html>

Annex 1. Gazprom Group's balance sheet in 2011–2017 (billions of roubles)

			2011	2012	2013	2014	2015	2016	2017
Assets (billions of roubles)	current	Gazprom Group	2240.29	2420.80	2862.67	3461.16	3993.72	3234.35	3469.27
		Gazprom	1810.34	1915.41	2301.04	2828.82	3315.30	2651.55	2852.12
	non-current	Gazprom Group	8660.40	9536.03	10,573.57	11,716.31	13,058.32	13,684.59	14,769.50
		Gazprom	7210.92	7973.82	8722.15	9366.48	10,352.97	10,792.90	11,519.71
Liabilities (billions of roubles)	current	Gazprom Group	1309.25	1492.07	1391.46	1855.95	2124.7	1921.81	2589.52
		Gazprom	629.48	759	596.42	1037.08	1207.86	1042.69	1480.43
	non-current	Gazprom Group	1830.45	1984.82	2410.42	3201.5	4012.72	3555.29	3633.77
		Gazprom	1494.80	1645.63	1944.53	2370.35	2959.59	2552.48	2688.12
	equity	Gazprom Group	7760.99	8479.94	9634.36	10,120.02	10,914.62	11,441.84	12,015.48
		Gazprom	6944.18	7525.14	8527.64	8787.64	9500.52	9848.77	10,202.59
Non-current assets	to equity	Gazprom Group	0.89	0.89	0.91	0.86	0.84	0.84	0.81
		Gazprom	0.96	0.94	0.98	0.94	0.92	0.91	0.88
	to fixed capital	Gazprom Group	1.11	1.1	1.14	1.14	1.14	1.1	1.06
		Gazprom	1.17	1.15	1.20	1.19	1.20	1.15	1.12
Current ratio	Gazprom Group	1.71	1.62	2.06	1.86	1.88	1.68	1.34	
	Gazprom	2.87	2.52	3.86	2.73	2.74	2.54	1.92	

Author's own analysis, based on figures published in Gazprom's annual reports and IFRS-compliant financial statements for the years 2011–17

Annex 2. Profit and loss account in the years 2011–17 (billions of roubles)

		2011	2012	2013	2014	2015	2016	2017
Revenue (sales)*	Gazprom Group	4637.09	4766.495	5249.965	5589.811	6073.318	6111.051	6546.143
	Gazprom	3190.325	3116.799	3546.701	3734.203	4143.822	4025.993	4119.184
Cost of goods sold (operating expenses)	Gazprom Group	2942.18	3421.847	3600.908	3943.669	4635.502	5244.983	5714.090
	Gazprom	1754.469	2006.172	2130.673	2298.6	2943.65	3447.501	3658.135
Operating profit (gross profit)	Gazprom Group	1656.84	1350.68	1587.21	1310.42	1228.3	725.58	870.62
	Gazprom	1424.842	1144.161	1344.344	1095.599	1004.104	446.037	503.336
Profit before profit tax	Gazprom Group	1679.94	1557.74	1486.08	306.82	925.24	1285.14	1018.01
	Gazprom	1453.131	1347.662	1244.083	165.772	764.701	993.912	641.537
Net income for shareholders	Gazprom Group	1307.02	1224.47	1139.26	159.00	787.06	951.64	714.30
	Gazprom	1136.201	1061.576	946.969	40.595	664.418	724.631	414.162
Total net profit	Gazprom Group	1342.44	1252.41	1165.70	157.19	805.20	997.10	766.88
	Gazprom	1162.614	1081.15	964.179	34.174	676.99	760.588	450.511

Author's own analysis, based on figures published in Gazprom's annual reports and IFRS-compliant financial statements for the years 2011–17

* After deduction of duties and excises

Annex 3. Gazprom Group's cash flow in the years 2011-17
(billions of roubles)

Year	Net cash flows						Cash at end of the reporting year	
	From operating activities		Used in investing activities		From (used in) financing activities			
	Gazprom Group	Gazprom	Gazprom Group	Gazprom	Gazprom Group	Gazprom	Gazprom Group	Gazprom
2011	1637.45	1415.119	-1605.24	-1389.398	31.81	47.28	501.34	437.419
2012	1472.78	1178.252	-1287.22	-1018.314	-253.87	-1080.227	425.72	328.452
2013	1741.80	1411.81	-1466.51	-1143.575	-33.26	-27.266	689.13	586.707
2014	1915.77	1581.308	-1441.30	-1025.99	-262.59	-294.173	1038.19	952.732
2015	2030.93	1684.556	-1664.16	-1275.217	-138.30	-223.103	1359.09	1223.155
2016	1571.32	1162.721	-1445.96	-1055.557	-460.48	-372.077	896.73	840.892
2017	1187.02	662.608	-1368.13	-1006.765	149.94	240.101	869.01	741.52

Author's own analysis, based on figures published in Gazprom's annual reports and IFRS-compliant financial statements for the years 2011-17

Annex 4. Debt of Gazprom Group – currency, form of debt and origin of capital

Currency	Amount (billions of roubles)	Form of debt	Share in total debt (%)	Origin of capital
US dollar	871.106	bonds	26.5	-
	106.722	credit	3.2	foreign banks
	87.873	credit	2.7	Russian banks
Euro	492.76	bonds	15	-
	442.508	credit	13.4	foreign banks
	171.244	loan	5.2	foreign companies
	67.383	credit	2.0	Russian banks
Rouble	204.051	bonds	6.2	-
	48.667	credit	1.5	Russian banks
Swiss franc	179.203	bonds	5.4	-
Pound sterling	115.738	bonds	3.5	-
Other debt	504.695	various forms	15.4	no data available

Author's own compilation, based on figures published by Gazprom

Annex 5. Debt financing obtained by Gazprom in external markets in the years 2014–18

Type of financing	Date	Amount	Interest rate	Maturity date
Credit agreement with a consortium of banks. Banking agent: Kommerzbank AG	September 2014	€500 million	EURIBOR +0.9%	2016
Bond issue	November 2014	US\$0.7 billion	4.3%	2015
Loan from Unicredit Bank Austria AG	December 2014	€390 million	EURIBOR +2.75%	2015
Credit agreement with the Italian bank Intesa Sanpaolo S.p.A.	January 2015	€350 million	EURIBOR +2.75%	2016
Loan from J.P. Morgan Europe Ltd. also involving Asian banks	April 2015	US\$500 million	LIBOR +3.25%	2018
Loan from a consortium of Chinese banks. Banking agent: China Construction Bank Corporation (Beijing branch)	August 2015	US\$1.5 billion	LIBOR +3.5%	2020
Eurobonds	October 2015	€1 billion	4.625%	2018
Opening of a credit line by Bank of China	March 2016	€2 billion	EURIBOR +3.5%	2021
Eurobonds	March 2016	500 million Swiss francs	3.375%	2018
Eurobonds	November 2016	€1 billion	3.125%	2023
Eurobonds	November 2016	500 million Swiss francs	2.75%	2021
Loan from Mizuho, SMBC and J.P. Morgan	December 2016	€800 million	EURIBOR +2.6%	2020
Loan from a consortium of banks. Banking agent: J.P. Morgan Europe Ltd.	February 2017	€800 million	EURIBOR +2.6%	2020
Loan from Credit Agricole	March 2017	€700 million	EURIBOR +2.5%	2022

Type of financing	Date	Amount	Interest rate	Maturity date
Bonds	April 2017	£850 million	4.25%	2024
Bonds	July 2017	500 million Swiss francs	2.25%	2022
Loans from companies involved in the Nord Stream 2 project	July 2017	Total: €1.62 billion	-	2035
Eurobonds	November 2017	€750 million	2.25%	2024
Loan from bank Unicredit S.p.A.	November 2017	€700 million	EURIBOR +1.95%	2022
Loan from a consortium of banks. Banking agent: J.P. Morgan Europe Ltd.	November 2017	€1 billion	EURIBOR +1.85%	2022
Loan from Unicredit S.p.A.	January 2018	€300 million	EURIBOR +1.95%	2026
Loans from companies involved in the Nord Stream 2 project	March 2018	Total: €404 million	-	2019
Loan from Credit Agricole	May 2018	€600 million	EURIBOR +1.6%	2023
Loan from Sberbank	May 2018	€485 million	EURIBOR +1.77%	2023

Author's own compilation, based on figures published by Gazprom