

Czech University of Life Sciences Prague

Faculty of Economics and Management

Department of Trade and Finance



Bachelor Thesis

**Assessment of the Financial Position and Performance of
a Chosen Russian Company**

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BACHELOR THESIS TOPIC

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Objectives of thesis: The aim of this bachelor thesis is to assess the financial position and performance of a chosen Russian company by analysing the company's financial statements with focus on the reported assets, liabilities, expenses and revenues for a chosen period and to identify the potential financial problems and the most significant factors influencing the profit.

Methodology: Methodology for the literature overview is based on data collection from the relevant legal framework, specialized publications and other written or online sources. The practical part of the thesis will be based on the information gained from the published annual reports of the chosen company. Vertical and horizontal analysis and ratio analysis of the financial statements will be used to assess the financial position and performance of the company and to prepare the practical part of the thesis. The methods of analysis, synthesis, comparison and deduction will be used to formulate the conclusions of the thesis.

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Recommended information sources:

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Declaration

I declare that I have worked on my bachelor thesis titled "Assessment of the Financial Position and Performance of a chosen Russian company" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the bachelor thesis, I declare that the thesis does not break copyrights of any their person.

In Prague on 27.11.2020_____

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Assessment of the Financial Position and Performance of a Chosen Russian Company

Abstract

This bachelor thesis deals with the assessment of financial position and performance of a chosen Russian company, NOVATEK, which produces natural gas. The theoretical background of the thesis monitors the accounting framework in Russia and the presentation of financial statements for big companies which has to prepare their financial statements according to the international financial reporting standards IAS/IFRS. The literary review also deals with the characteristics of selected ratios of financial analysis and the industry specifics of oil and gas production in Russia. The practical part analyses the financial position (represented by the Balance sheet) and the financial performance (represented by the Statement of profit or loss) of the company by using vertical and horizontal analysis of these statements covering financial years 2015-2019 with the focus on the representation and changes of the reported assets, liabilities, expenses, revenues and profit for the chosen period in order to identify the potential financial problems and the most significant factors influencing the profit.

Keywords: financial statements, financial analysis, financial position, balance sheet, assets, liabilities, equity, financial performance, Income statement, expenses, revenues, profit

Zhodnocení finanční situace a výkonnosti vybrané společnosti v Rusku

Abstrakt

Tato bakalářská práce se zabývá zhodnocením finanční pozice a výkonnosti vybrané ruské společnosti NOVATEK, která produkuje a distribuuje přírodní plyn. Teoretická část práce se zaměřuje na účetní systém v Rusku a na prezentaci finančních výkazů velkých společností, které musí sestavovat jejich účetní závěrku podle mezinárodních standardů finančního výkaznictví IAS/IFRS. Teoretická část práce se také zabývá charakteristikou vybraných ukazatelů finanční analýzy a charakteristikou odvětví produkce plynu v Rusku. Praktická část práce analyzuje finanční situaci použitím dat rozvahy a finanční výkonnost použitím dat výkazu zisku a ztráty pomocí vertikální a horizontální analýzy těchto účetních výkazů za období 2015 – 2019 se zaměřením na složení a vývoj vykazovaných aktiv, závazků, nákladů, výnosů a zisku za sledované období za účelem identifikace potenciálních finančních problémů a nejvýznamnějších faktorů ovlivňujících zisk.

Klíčová slova: účetní výkazy, finanční analýza, finanční pozice, rozvaha, aktiva, závazky, vlastní kapitál, finanční výkonnost, Výkaz zisku a ztráty, náklady, výnosy, zisk

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List of abbreviations

PBU- Polozhenia po Bukhgalterskomu Uchetu

IFRS- International Financial Reporting Standards

GAAP- Generally Accepted Accounting Principles

NOFA-National organization for financial accounting

CBR-Central bank of the Russian Federation

MoF-Ministry of finance

ROE-Return on equity

E&P-Exploration and producing

LNG-Liquefied natural gas plant

RAS – Russian accounting standards

1 Introduction

The oil and gas industry is the biggest sector in the world economy in terms of money. For many countries, it plays a big role in the growth domestic product and brings billions of dollars every year all around the world. So, oil and gas industry is a big and important part of global economy. The world's dependence on petroleum products expand from year to year. Also, the oil and gas industry is very important for the world economy, because it generates millions of job places all around the world.

Hydrocarbons make up crude oil and natural gas, which are normally found in rock in the Earth's crust. Hydrocarbons are usually mined by drilling through the rock right into reservoir. If the reservoir is rich of hydrocarbons then construction for pumping oil or natural gas can be built. If during process of drilling there would be not enough quantities of hydrocarbons, then this place named as dry hole and started to be abandoned.

The oil and gas industry is divided in 3 sectors, upstream, midstream, downstream.

Upstream is that company which are doing exploration and producing of oil and gas. These companies are looking for the world reservoirs to drill them and extract raw material on the surface. That type of companies are known as E&P that is mean exploration and production. This segment of business is highly risky, required high investment and takes long time for build construction for drilling and extracting raw materials. Also, very important for company to be well developed in technological field. E&P companies are usually reports their oil and gas reserves that is still in the ground. Reserves are usually using for evaluation company and predict future revenue. For upstream companies important always do exploration of new areas, founding new reservoirs because if company stops exploring, they will run out of their amount of oil and gas and their revenue slowly starts to decrease.

Midstream companies are focused on transporting of the oil and gas. These companies are responsible for transporting all raw materials which were extracted to the manufactories for processing. Main activities are shipping, trucking, transfer through pipelines and storing of raw materials. This type of business less risky and required less investment, and the success highly depends on the upstream company's outcome.

Downstream are the companies which is considered as last stage, it is facilities in which one processing the oil and gas and converted to the goods for general use, like petroleum, jet fuel, plastic, heating oil, asphalt.

Companies which producing oil and gas not always using their own drilling equipment, it is normal thing for them to hire some company which will drill for them. Revenue of companies which do drilling for other company, depends on the amount of time that they work, and not related with amount of oil and gas that they extract from the ground. (Furman, K.C., El-Bakry, A.S. and Song, J.H., 2017.)

2 Objectives and Methodology

2.1 Objectives

The aim of this bachelor thesis is to assess the financial position and performance of a chosen Russian company by analysing the company's financial statements with focus on the reported assets, liabilities, expenses and revenues for a chosen period and to identify the potential financial problems and the most significant factors influencing the profit.

2.2 Methodology

Methodology for the literature overview is based on data collection from the relevant legal framework, specialized publications and other written or online sources. The practical part of the thesis will be based on the information gained from the published annual reports of the chosen company.

Vertical and horizontal analysis of the financial statements will be used to assess the financial position and performance of the company and to prepare the practical part of the thesis. Selected ratios of financial analysis will be calculated. The methods of analysis, synthesis, comparison and deduction will be used to formulate the conclusions of the thesis.

The analysed company is a Russian company NOVATEK, which produces natural gas. The Balance sheet of the company will be analysed for the assessment of the financial position and the Income statement (Statement of profit and loss) for the assessment of the financial performance. The analysis covers the financial years 2015-2019. Data are obtained from the annual reports of the company. The results of the horizontal analysis will be in % and each item will be compared with the immediately preceding same item from the previous year (i.e. no base year).

The definitions of the vertical and horizontal analysis as well as the formulas of the selected ratios of the financial analysis are included in the literary review of this thesis.

3 Literature Review

The literature review is a theoretical background for the thesis and focuses on the characteristics of the selected financial statements according to the Russian and international accounting standards. The literature review also deals with selected methods of financial analysis as a base for the practical part of the thesis and outlines the characteristics of the oil and gas industry in Russia.

3.1 Accounting legislation framework in Russia

The main source of accounting regulation in Russia is the Federal Law “On Accounting” No. 402-ФЗ dated December 6, 2011, (amended on November 28, 2017, and on 26.07.2019), issued by the Ministry of Finance of the Russian Federation. This Law establishes a uniform legal methodological framework for accounting and the preparation of financial statements in the Russian Federation. According to this law, the main task of accounting is to provide users of financial statements with complete information necessary to monitor compliance with Russian legislation in the process of conducting business transactions. The main purpose of this Law is to establish uniform requirements for accounting and preparation of financial statements, as well as the formation of a legal mechanism for their regulation (Kondrakov, 2018) According to clause 1 of article 3 of the Federal Law of 06.12.2011 N 402-ФЗ (as amended on 11/28/2018) "On Accounting", financial reporting is information on the financial position of an economic entity at the reporting date, the financial result of its activities and cash flow for the reporting period, systematized in accordance with the requirements established by this Federal Law.

Other accounting regulation include the Russian accounting standards (PBU- “Polozhenia po Bukhgalterskomu Uchetu”), issued by the Ministry of Finance. and the order of the Ministry of Finance of Russia "On forms of financial statements of organizations" dated 02.07.2010 No. 66n, also the PBU 4/99 - accounting statements of the organization (Соцкая, 2018)

3.2 Financial statements in Russia

The Order of the Ministry of Finance of Russia "On forms of financial statements of organizations" dated 02.07.2010 No. 66n and the Order of the Ministry of Finance dated April 19, 2019 No. 61n. Financial statements in Russia are the

- Balance Sheet, (used to be called Form 1)
- Income Statement (Statement of financial results) (used to be called Form 2)

- and an appendix including the statement of changes in equity; cash flow statement; and explanations to the balance sheet and the statement of financial results.

For each Financial Statement must be given at least data for two years, current and previous one, except if it is first year of company. The accounting period is a calendar year from 1 January to 31 December. From 2019 only in thousands of Rubles is possible to present the amounts in the financial statements (not in millions). Each legal entity registered in Russia must prepare standalone statutory financial statements in compliance with the Russian accounting standards for each fiscal (calendar) year ending 31 December. Every component of Financial Statement should consist following information: name of the component part, reporting date or reporting period for which the Financial Statement prepared, official name of the company, format for the presentation of numerical indicators. Annual report should be given in Russian language, all numerical information should be given in Russian roubles and should be signed by CEO of the company and main accountant. (Antipova, 2017)

Companies whose shares are traded on the Moscow Stock Exchange publish reports of two types: according to Russian accounting standards (RAS) and according to international financial reporting standards (IFRS). Reporting under IFRS (aka IAS) is intended for investors and reporting under RAS is intended to disclose information to the tax authorities. (Antipova, 2017)

Since 2020, in accordance with the changes introduced by Federal Law No. 444-FZ of 28.11.2018 “On Amendments to the Federal Law “On Accounting”, the Federal Tax Service of Russia has been entrusted with the functions of forming and maintaining the state information resource of accounting (financial) statements.

3.2.1 The statement of financial position – the Balance sheet in Russia

The balance sheet in Russia is prepared in a horizontal format including the total assets and total equity and liabilities which has to be equal. Assets and liabilities are divided into non-current (long-term) and current (short-term) categories. Assets are presented from the least liquid assets (fixed assets) to the most liquid ones (cash). Assets in the Balance sheet are presented in net amounts, after value adjustments, i.e. fixed assets and intangible assets are shown after deduction of depreciation, inventories are shown after impairment and receivables are shown after deducting bad debt allowances for doubtful accounts. The equity part of the balance sheet include retained earnings (or uncovered losses). (Antipova, 2017)

3.2.2 The statement of financial performance – the Income statement in Russia

The Income statement in Russia presents the operating expenses by nature, i.e. cost of sales (costs of goods sold), selling and administrative expenses. Extraordinary expenses are not reported individually. Cost of

sales is the amount of expenses for ordinary activities, for example, costs associated with the manufacture of products, the purchase of goods, the performance of work, the provision of services (clauses 9, 21 PBU 10/99 "Organization costs"). Selling expenses are various expenses associated with the sale of goods, works, services (clauses 5, 7, 21 PBU 10/99). Administrative expenses are the costs of managing the organization, if the accounting policy does not provide for their inclusion in the cost price.

In the law "On Accounting" dated November 21, 1996, No. 129-FZ, in force until 2013, this form was called the Profit and Loss Statement, and in the law that replaced it, dated December 6, 2011 No. 402-FZ, the Financial Results Report. At the same time, the form itself began to bear such a name quite recently: "Profit and Loss Statement" was officially renamed into the Statement of Financial Results only on 05/17/2015, when the order of the Ministry of Finance of Russia dated 04/06/2015 No. 57n entered into force. (СИВОВА, 2020)

3.3 The application of International accounting standards IFRS in Russia

Russia already adopted IFRS standards for their accounting legislation at the end of 2011th and became mandatory from the beginning of 2012th according to the Federal Law. IFRS standards are mandatory for consolidated Financial Statements. Other separate company Financial Statements must be prepared according to the Russian accounting standards. Company which is not a part of some group but recognized by the Federal Law 208-FZ as consolidated Financial Statements for example: some listed companies, banks, insurance companies, must be prepared according to IFRS standards. All Russian companies which is domestic and publicly traded are required to use IFRS standards in their Financial Statements except of the banks with basic license which do not have any subsidiaries and are required to do Financial Statements according to the Russian Central Bank rules, which are similar to the IFRS standards. For companies which are publicly traded but in Financial Statements represented as single company, unconsolidated Financial Statements are not required to be prepared according to IFRS standards. For foreign companies operating in Russia, situation is almost the same. If a company is publicly traded and using consolidated Financial Statements then it required to be prepared according to IFRS standards. If foreign company use US GAAP, Japan GAAP or other globally recognized standards, then it is allowed to be used by the Russian Federation. Nowadays IFRS standards are the part of the Russian accounting system that is written in the Federal Laws 208-FZ on consolidated Financial Statements and 402-FZ on accounting. All endorsement or adaptation of new IFRS rules are going through two stages. First one, is the process of technical assessment of the IFRS standards made by NOFA. NOFA is national organization for accounting and reporting standards which is independent organization created by the Ministry of Finance. The final decision of the endorsement of the

new IFRS standards for Russia are taking based on the report of NOAF. The second stage, is an administrative stage. The Russian government publishes endorsements of the new IFRS standards approved by the Ministry of Finances together with the Central Bank of Russia and the Russian Ministry of Justice. (Deloitte, 2016 and ERNST & YOUNG, 2016)

3.3.1 Financial statements according to IFRS

IAS 1 Presentation of Financial Statements sets out the overall requirements for financial statements, including how they should be structured, the minimum requirements for their content. A complete set of financial statements to comprise a statement of financial position, a statement of profit or loss and other comprehensive income, a statement of changes in equity and a statement of cash flows. IAS 1 does not prescribe the format of the statement of financial position. Assets can be presented current then non-current, or vice versa, and liabilities and equity can be presented current then non-current then equity, or vice versa. A net asset presentation (assets minus liabilities) is allowed. In the statement of financial performance, expenses should be analysed either by nature (raw materials, staffing costs, depreciation, etc.) or by function (cost of sales, selling, administrative, etc). (IAS 1.99) If an entity categorises by function, then additional information on the nature of expenses – at a minimum depreciation, amortisation and employee benefits expense – must be disclosed. (IAS 1.104).

The minimum items required to be presented in the Balance sheet and Income statement are presented in the Appendix No 6,7. (IAS 1)

3.4 Similarities and differences between RAS (PBU) and IFRS

According to the Russian accounting standards annual report should be include balance sheet, statement of financial results and explanatory notes to the all statements when according to IFRS standards annual report should be included statement of financial position, statement of profit and loss, also statement of comprehensive income, statement of cash flow and explanatory notes to the all statements. In RAP changes in shareholder’s equity required to be shown in the notes to the balance sheet while according to IFRS changes in shareholder’s equity should be given as a separate statement.

Table 1 Comparison of Russian Accounting Standards and IFRS

	IFRS	RAS
Financial periods	Comparative information should be given for one previous year for the all Financial Statements.	Comparative information should be given for two previous year for balance sheet and for one previous year for the rest of the Financial Statements.

Required layout for balance sheet and income statement	According to IFRS standards there is no any standards for the layout of balance sheet and income statement, but there are requirements for the minimum number of items.	In the PBU 4/99 “The Accounting Reports of an Organization” and in Order No. 66n “Financial Reporting Forms of Organizations” describe all requirements for the layout of balance sheet and income statement.
Classification of deferred tax assets and liabilities	Classified as non-current in the balance sheet.	Classified as non-current in the balance sheet.
Classification of expenses	According to IFRS standards, company could present expenses neither by function or by nature. But if was chosen by function, then about the nature of the expenses should be given in the notes.	According to the Russian accounting standards all expenses must be classified by function in the financial statement and described by nature in the explanatory notes.
Extraordinary items in the income statement	Not allowed to be in the income statement	Extraordinary items should be presented as part of other income or other expenses in the statement of financial results and may be presented in the notes to the financial statements of financial results if they are material.
Third balance sheet	A third balance sheet is required as the early comparative period or if company applying a new policy or doing some reclassification that effect on the statements then it is required to have the third balance sheet. Notes to that third balance sheet are not required.	A third balance sheet is always have to be represented in the financial statements of financial results as a comparative data to the prior year.

Source: IFRS, US GAAP and RAP. Comparison and basics, 2016, p. 3-5, own processing.

3.5 Selected ratios of Financial analysis

Financial analysis is used to evaluate economic trends, set financial policy, build long-term plans for business activity, and identify projects or companies for investment. This is done through the synthesis of financial numbers and data. One of the most common ways to analyze financial data is to calculate ratios from the data in the financial statements to compare against those of other companies or against the company's own historical performance. (Palepu, Healy, Wright, Bradbury and Coulton, 2020) The three primary financial statements used to evaluate the financial performance of the company are the Balance sheet, the Income statement and the Cash-flow statement. A significant limitation of the financial statements are that they present historical results (Alexander, 2018).

Vertical analysis is used for a proportional analysis of financial statements of particular items from the total, to tell their importance. It is useful for seeing proportion balance and changes in proportions in compare with other year. (Kourtis, Kourtis and Curtis, 2019.)

Horizontal analysis also known as trend analysis. This method shows a historical data and giving opportunity to compare it. In this method can be used as a base year one of the chosen year or can be taken as a base year the previous one and always compare two years and see how particular item changing from year to year. (Kourtis, Kourtis, and Curtis, 2019.)

There are several financial analysis ratios related to the areas of asset utilization measurements, operating performance measurements, etc. (Bragg, 2012). For the purposes of the thesis, the following ratios will be used:

- Cash ratio
- ROE (return on equity)
- Operating margin

The cash ratio is an estimation of company's liquidity it's proportional of all money and money reciprocals to its present liabilities. By cash ratio we can compute a company's capacity to reimburse its obligation with cash or cash equivalents. This information is important to know for lenders who choose how much of cash they will be ready to loan to specific company. (Will, 2020)

Figure 1 Cash ratio formula

$$\text{Cash ratio} = \frac{\text{Cash \& cash equivalents}}{\text{Current liabilities}}$$

Source: <https://www.investopedia.com/terms/c/cash-ratio.asp> and (BRAGG,2012)

When we are talking about cash ratio, we can say that it's company's value indicator in the worst condition which could happened. That shows to all investors and creditors the worth of current assets which could be easily convert to cash or cash equivalent.

Return on equity (ROE) is indicator of financial performance calculated by these formula

Figure 2 ROE formula

$$\text{Return on Equity} = \frac{\text{Net Income}}{\text{Average Shareholders' Equity}}$$

Source: <https://www.investopedia.com/terms/r/returnonequity.asp>

ROE is considered as indicator of how good going management in firm which able to use company's assets for creating profit.

ROE is always shown as percentages and it could be calculated just in that case if net income and equity are positive. (Jason, 2020)

Figure 3 Operating margin formula

$$\text{Operating Margin} = \frac{\text{Operating Earnings}}{\text{Revenue}}$$

Source: <https://www.investopedia.com/terms/o/operatingmargin.asp>

Operating margin indicates the percentage of profit received from every Russian rouble earned from the sales revenue. Example: if operating margin ratio is 30% then for each one Russian rouble earned by NOVATEK from its operations, it receives 0,3 Russian roubles. (Will, 2020)

Operating margin is calculated by dividing operating earnings by revenue (here it means sale revenue). In the case of NOVATEK's financial statements, operating earnings can be found in income statement under the name- profit from operating activity (operating profit). Also, revenue (sales revenue) can be found in the income statement as a name total revenues. (Operating margin = Operating profit / Total Revenues)

3.6 Oil and gas industry in Russia

The oil and gas industry is the biggest sector in the world economy in terms of money. For many countries, it plays a big role in the growth domestic product and brings billions of dollars every year all around the world. So, oil and gas industry is a big and important part of global economy. The world's dependence on petroleum products expand from year to year. Also, the oil and gas industry is very important for the world economy, because it generates millions of job places all around the world. The world's top production, consumption, export and import of oil including crude oil is shown in the appendix No 2,3

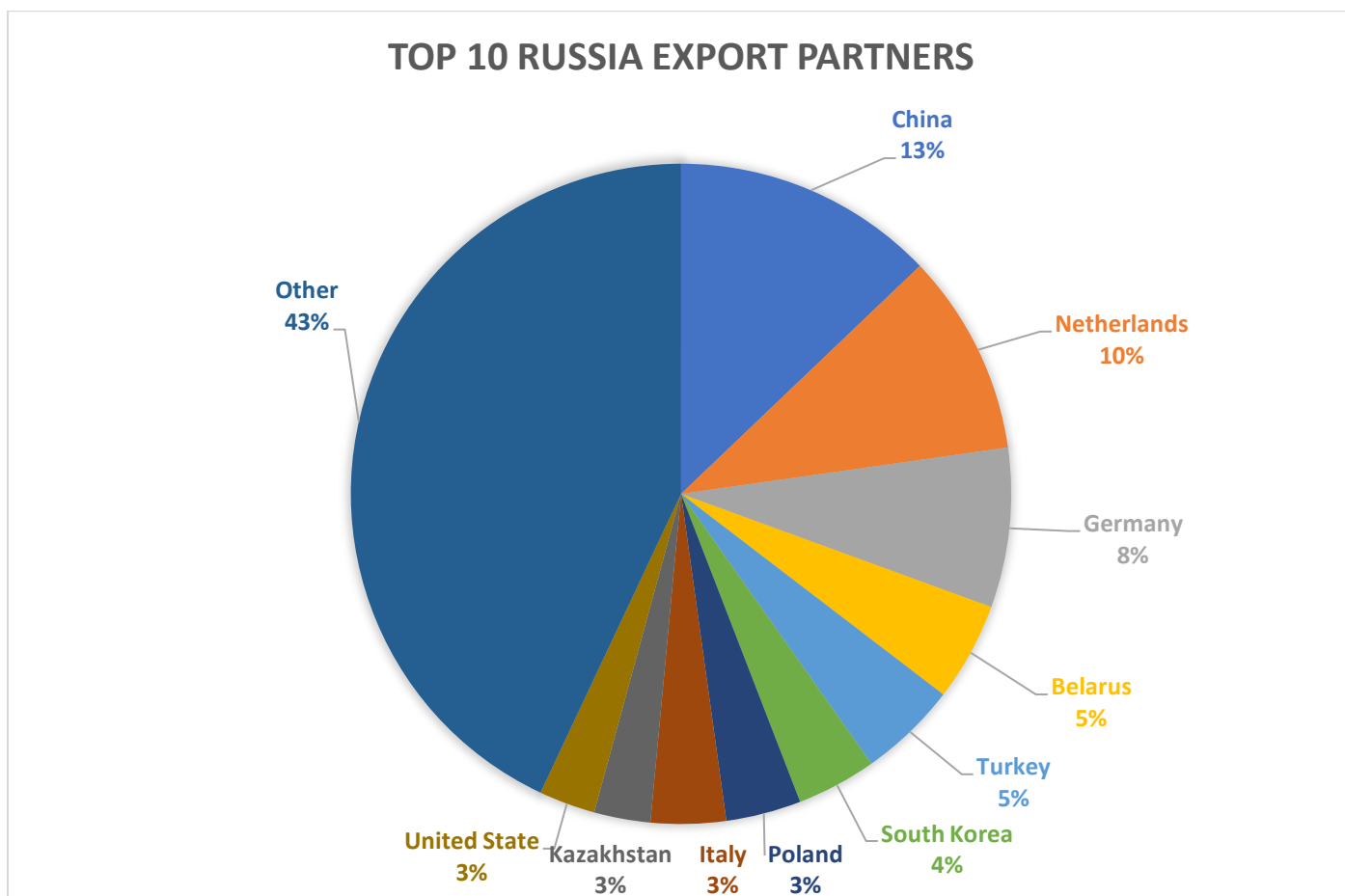
There is a dependence between production and exports, consuming and imports. Even if a country produces a lot of oil but consumes more, then it needs to import like the United States which took first place in oil production in 2018th, the amount that they produced not enough for all their needs. It also shows even if the United States imports a lot of oil, it still does exports and is in the top 10 of exports. On the example of Russia which is third in oil production and consumes much less and took fifth place in consuming, so Russia has a surplus for doing an export and is second in exports in 2018th. Because of a big surplus of oil in Russia, they do not need to do imports. The same situation in China like in the United States. China took fourth place in production in 2018th but also second place in consuming. But in production China took just 5% of the world production and 14% of consuming. So, China is first in importing of oil and has zero percentage share of world in exporting. See appendix No 2,3,4,5.

Oil and natural gas play a big role for Russian economic growth and it is one of the main industries in a country which is rich in natural resources. Russia takes third place in the global oil production with over 11% of

the global share and second in the oil export with over 11,4% of the global share. (Workman, 2020.) The most concentrated areas with rich oil and gas production in Western Siberia and Volga-Ural region. In Russia located one of the biggest worldwide oil producing companies like Rosneft and Lukoil. Rosneft is a leader on Russian market whose controlling stakes belong to Rosneftegaz, a company fully owned by Russian government. Gazprom Neft is a subsidiary of the Russian energy giant Gazprom. Most of the Russian oil producing companies and especially that one which takes the bigger share of market are state-owned. Also, some of the big Russian oil producers have influence in other industry by buying shares of other companies and taking control of their financial and operation activities. For example, Surgutneftgaz has shares in the private holding Nation Media Group that operates television channels, movie studio, print media and advertising agencies.

Gazprom is the Russian and world biggest natural gas producing company. More than half of Gazprom's shares are owned by Russian government. Company focused on geological exploration, oil and gas production, transporting, storage and processing. NOVATEK is the biggest Russian's independent oil and gas producer and second largest oil company in Russia. NOVATEK also doing geological exploration, producing and processing of oil and natural gas. Rosneft is the third biggest company and leader of Russian's petroleum market and is in the top world public traded oil and gas company. Government holds more that 50% of the Rosneft's shares.

Table 2 Top Russian export partners



Source: https://www.exportgenius.in/export-import-trade-data/russia-export.php?gclid=CjwKCAiA44LzBRB-EiwA-jJipKd0GN0l-itzeXX94NcZNjJEUEcFkK89-lkG-csWRFLgONEY2ZpdIhoCVMUQAvD_BwE, own proceeding

In the chart shows top 10 Russia export partners in 2018th with following numbers. China (US\$ 56 billion), Netherlands (US\$ 43 billion), Germany (US\$ 34 billion), Belarus (US\$ 21 billion), Turkey (US\$ 21 billion), South Korea (US\$ 17 billion), Poland (US\$ 16 billion), Italy (US\$ 16 billion), Kazakhstan (US\$ 12 billion), United State (US\$ 12 billion). The total from top 10 is US\$ 248 billion, which is 57% of the total Russian export which is US\$ 435,09 billion.

For Russia in the long-term overview for the oil industry does not seen growth in the future, since there was forecast of decreasing of the price for the Urals crude oil by 2036. But Russian oil production are expected to slightly grow in the next ten years.

4 Practical Part

The practical part of this bachelor thesis analyses the financial position (represented by the Balance sheet) and financial performance (represented by the Statement of profit or loss) in a chosen Russian company, NOVATEK, by using vertical and horizontal analysis of the selected financial statements of the company and calculating selected ratios of financial analysis.

4.1 General information about NOVATEK – Introduction of the company

NOVATEK is the second largest and the biggest independent Russian's company which produce natural gas. It was found in 1994 in Novokuybyshevsk Samara region. The company is essentially dealing with exploration, producing and marketing of natural gas and fluid hydrocarbons. The main areas of activities of NOVATEK company, are located in the Yamala-Nenets Autonomous Region in western Siberia, which is the richest region of natural gas in Russia. In these areas contains approximately 80% of the all Russia's gas production and around 16% of the world production.

In the end of 2019th total reserves including the company's proportionate share in joint ventures contains 16,265 million barrels of oil equivalent, in which we can count 2,234 billion cubic meters of natural gas and 193 million metric tons of fluid hydrocarbons. The company's reserves were increasing because of positively affected by effective investigation at the Geofizicheskoye, Utrenneye and Kharbeyskoye fields, creation drilling at the Urengoyeskoye, East-Urengoyeskoye, North-Esetinskoye, East-Tazavskoye, North-Russkoye and South-Tambeyskoye fields.

As of the end of 2019, NOVATEK and its subsidiaries had 15,445 employees, 35.4% of whom work in exploration and production, 23.7% in LNGproduction, 8.8% in processing, 13.2% in marketing, 4.5% in transportation, 6.4% in power supply, 6.2% are administrative personnel and 1.8% engaged in ancillary services. (Annual report NOVATEK 2019)

Table 3 NOVATEK's gas and liquids reserves

Natural gas reserves, bcm		2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Proved	SEC	2,234	2,177	2,098	1,848	1,775	1,751	1,740	1,758	1,321	1,144
Proved plus Probable	PRMS	3,901	4,021	3,879	3,218	3,152	3,131	3,125	3,106	2,108	1,840

Liquids reserves, mmt		2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Proved	SEC	193	181	164	154	143	140	134	106	91	73
Proved plus Probable	PRMS	373	387	366	322	298	310	314	247	199	166

Total reserves, mmboe		2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Proved	SEC	16,265	15,789	15,120	13,402	12,817	12,643	12,537	12,394	9,393	8,088
Proved plus Probable	PRMS	28,725	29,619	28,471	23,469	23,117	23,069	23,085	22,355	15,409	13,386

Source: Company material <http://www.novatek.ru/ru/about/company/>

The company also produce hydrocarbon, so in 2019 total production of hydrocarbon was 590,1 million barrels of oil equivalent which are 74,70 billion cubic meters of natural gas and 12,148 thousand tons of gas condensate and crude oil. In comparison with previous year 2018, total production was increased by 7,5%. In 2019th NOVATEK sold 6,981 thousand tons of petroleum products in which one includes 4,511 thousand tons of naphtha, 1,068 thousand tons of jet fuel and 1,402 thousand tons of fuel oil and gasoil. Also, the sold 4,834 thousand ton of crude oil and 1,739 thousand tons of stable gas condensate.

Table 4 NOVATEK's hydrocarbons production

NOVATEK's hydrocarbon production including share in production of joint ventures			
	2019	2018	Change, %
Natural gas, bcm	74.70	68.81	8.6%
Liquids, thousand tons	12,148	11,800	2.9%
Total hydrocarbons, mln boe	590.1	549.1	7.5%
Total hydrocarbons, mln boe per day	1.62	1.50	7.5%

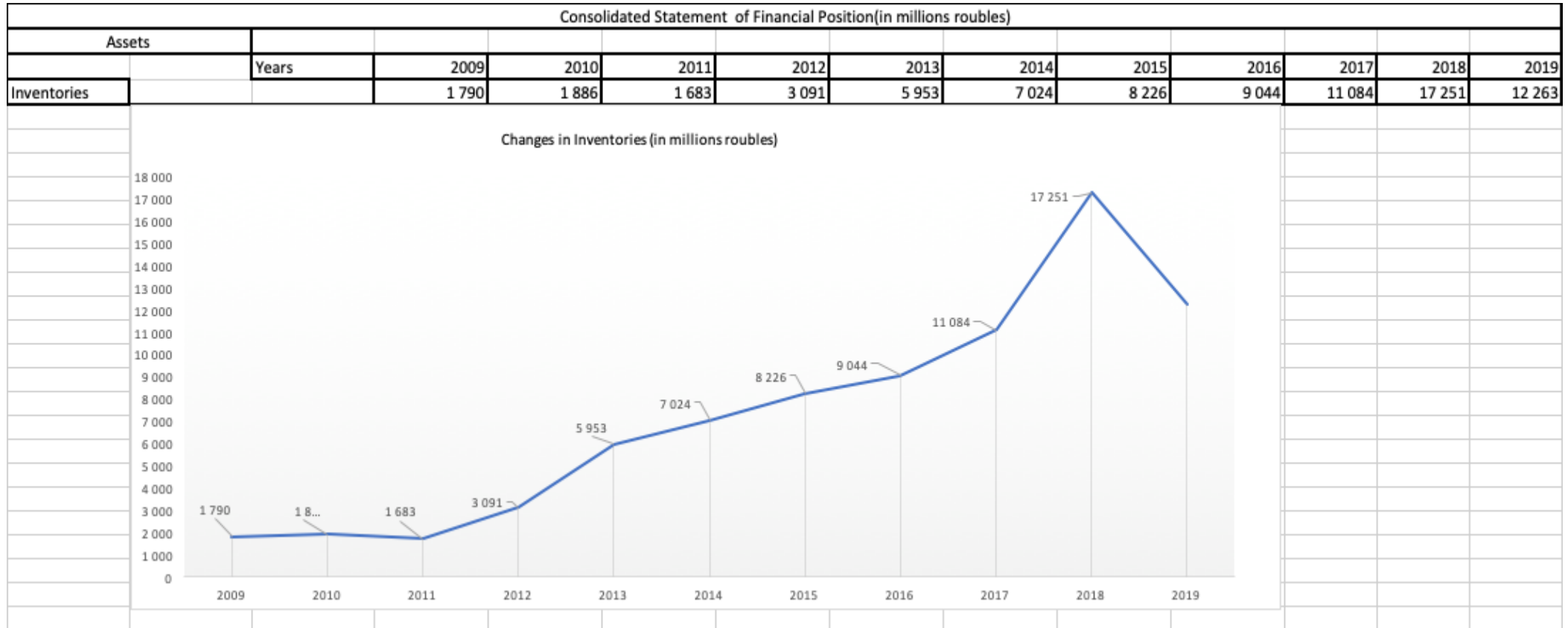
Source: Company material <http://www.novatek.ru/ru/about/company/>

NOVATEK has different subsidiaries and joint ventures which produce wet gas. Wet gas is a mix of natural gas and gas condensate. After some process, wet gas turned into unstable gas and then transfer by a network of condensate pipelines which ones are the company's property at Pourovsky Plant in YNAO (Yamala-Nenets Autonomous Region).

The main source of revenue is coming from selling natural gas and stable gas condensate, also from sales of liquid hydrocarbons. In 2018 total revenue was 832 billions RUB.

4.2 Development of Inventories and Sales in the company

Table 5 Changes in inventories



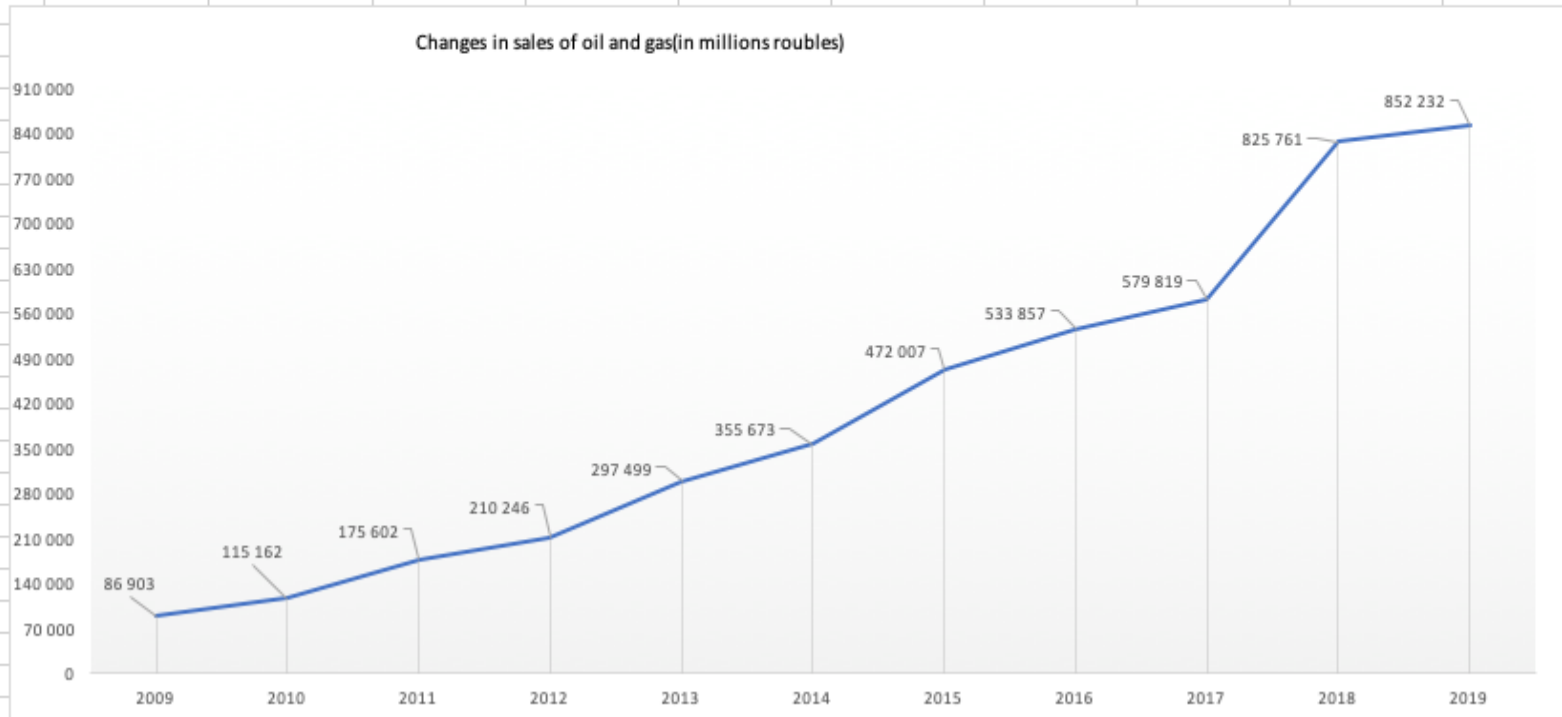
Source: Own proceeding based on the Consolidated Statement of Financial Position of NOVATEK FY 2009-2019

Inventories in natural gas producing company comprise of natural gas, gas condensate and crude oil. In the cost of inventory includes sub-items like direct cost of materials which is the cost involved into the production process and recognized as a part of variable cost, another sub-item of inventory is direct operating cost(same) that is include all expenditures which needed to operating and maintaining on every day base, and other related production overhead costs are under sub-items.

In the Table 5, changes in inventory of NOVATEK during a period of eleven years can be observed. We can notice that inventory extremely increased during these eleven years which resulted in almost an upward sloping graph. NOVATEK has existed for 26 years in the natural gas industry. The company is progressively growing and year by year they are expanding their facilities and drilling areas to harvest more and more natural gas which stands as the main reason of increasing inventory and maintaining the same in larger units. From 2009 to 2012 there were a minor change flat graph, then in the period of 2013-2016 slightly increased because of the expanding of drilling areas and joining ventures companies and in 2017-2018 there was extremely increased resulting in a standing curve, according to the notes to accounts there was a minor change in materials and supplies (includes a provision of four million Russian rubles) and more significant grow was in natural gas and liquid hydrocarbons. In the last accountant year of 2019 were decreasing by almost five million Russian rubles, that showing ability of company not to converting inventory into cash as successful as before. No inventories were used as security for the Group's borrowings or payables.

Table 6 Changes in oil and gas sales

Consolidated Statement of Income												
Revenues	Years	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Oil and gas sales		86 903	115 162	175 602	210 246	297 499	355 673	472 007	533 857	579 819	825 761	852 232



Source: Own proceeding based on the Annual reports and Consolidated Statements of Income of NOVATEK FY 2009-2019.

From the Consolidated Statement of Income, we can see that the main part of the company's revenue gets from selling gas and oil. Taking the year 2009 as a base year, Table 6 shows that from year 2009 till 2019 oil and gas sales were increased by 850%. For eleven years growing it is a huge positive change in the part of revenue. The reasons of these changes are different. First of all company is growing and they increase their amount of natural gas production. Every year the group is continuing investing money into joint ventures and buying new one these they increase their weight on the domestic and global market. The more the company has abilities to produce, the more they spend on resources for finding new areas for drilling and harvesting, the bigger inventory they have as the result, more they sale. Also, nowadays NOVATEK is one of the biggest crude oil producer in Russia, and takes a big part of global market in this business. Last, but not least, NOVATEK working on their brand name, brand recognition, and loyalty of the customers, better relations with customers and clients also has a good affect on the company's selling.

4.3 Analysis of financial position – the balance sheet

Analysis of financial position of the company include the vertical and horizontal analysis of items of Balance sheet: assets, liabilities and equity, with the aim to identify the most significant items (by vertical analysis) and the changes over the years (by horizontal analysis).

4.3.1 Vertical analysis of the Balance sheet items

Vertical analysis is used for a proportional analysis of financial statements of particular items from the total, to tell their importance. It is useful for seeing proportion balance and changes in proportions in compare with other year. It is clearly shows if particular item is growing or falling in percentage of total and how it is affect on the total. But in decreasing of percentage of some item does not really says losing of the money value in term of the total, it might mean the more significant changing of other item in term of total.

Table 7 Vertical analysis of Assets

Consolidated Statement of Financial Position(in millions roubles)											
Assets		2015		2016		2017		2018		2019	
			%		%		%		%		%
Non-current assets											
Property, plant and equipment		331 712	37,69%	331 795	34,42%	360 051	34,48%	408 201	33,56%	556 798	27,66%
Investments in joint ventures		154 725	17,58%	259 650	26,94%	285 326	27,33%	244 500	20,10%	585 340	29,08%
Long-term loans and receivables		230 799	26,23%	209 145	21,70%	211 901	20,29%	232 922	19,15%	231 898	11,52%
Other non-current assets		34 316	3,90%	30 484	3,16%	33 448	3,20%	37 427	3,08%	142 335	7,07%
Total non-current assets		751 552	85,40%	831 074	86,23%	890 726	85,31%	923 050	75,89%	1 516 371	75,33%
Current assets											
Inventories		8 226	0,93%	9 044	0,94%	11 084	1,06%	17 251	1,42%	12 263	0,61%
Current income tax prepayments		84	0,01%	581	0,06%	43	0,004%	1 311	0,11%	3 819	0,19%
Trade and other receivables		37 564	4,27%	41 586	4,31%	44 503	4,26%	54 433	4,48%	229 581	11,41%
Prepayments and other current assets		45 424	5,16%	33 248	3,45%	31 863	3,05%	89 645	7,37%	113 841	5,66%
Short-term bank deposits with original maturity more than three month					0,00%		0,00%	27 788	2,28%	83 752	4,16%
Cash and cash equivalents		29 187	3,32%	48 301	5,01%	65 943	6,32%	41 427	3,41%	53 240	2,64%
Assets held for sale		7 987	0,91%		0,00%		0,00%	61 420	5,05%	0	0,00%
Total current assets		128 472	14,60%	132 760	13,77%	153 436	14,69%	293 320	24,11%	496 496	24,67%
Total assets		880 024	100%	963 834	100%	1 044 162	100%	1 216 370	100%	2 012 867	100%

Source: Own processing based on the Consolidated Statement of Financial Position of NOVATEK FY 2015-2019.

In the Table 7 NOVATEK's Consolidated Statement of Financial Position clearly shows the changes in proportion of items from year to year. These changes can be observed in items like property, plant and equipment which include buildings, processing facilities, machinery and equipment. Also, in this item includes the right of exploring and producing natural gas in particular area that means, company does not has that land as a property, but has a right of using it with a rule to return that areas to the pre use conditions. Organization has to, to remove all drilling constructions after ending of their harvesting. Accumulated depreciation, depletion, amortization and impairment are sub-items which are adjusted in property, plant and equipment which are recorded at historical cost of acquisition/construction. Among this

particular item, direct materials or direct employee related cost, depreciation of the materials used in the construction and other overhead costs are also included. Unit-of production method is used to calculate depreciation and other related amortization costs. On the other side, this method does not estimate the useful life and consumption oil and gas asset. So, these items are depreciated on straight basis.

From the Table 7 we can see that property, plant and equipment are take the biggest percentages from the non-current assets and all assets in total. In 2015th it took 37,69% of total assets, in the year 2016 it slightly decreased and took 34,42%. In real value, it actually increased but because of bigger increased in other items like in investments in joint ventures which increase from 17,58% in 2015th to 26,94% in 2016 cause of that decreasing in property, plant and equipment. During five years we can see that there is not big changes in property, plant and equipment in case of proportion, but if we have a look on real value we can see that from year to year company increasing these item but again because of more intensive growing of other items, proportion of property, plant and equipment stays on the almost same level.

Since 2016 the item investments in joint ventures is taken as second most voluble asset for the company. In 2015th the group that includes Nortgas, Yamal Development, Yamal LNG, Artic Russia and Terneftegas are under control of NOVATEK, on the basis of the agreement. NOVATEK take control on strategic and the most important decisions of financial, operating and capital. It gave to company 154 725 mill Russian roubles which takes 17,58% of the total assets in 2015th. In 2016th the list of controlled joint ventures are the same, but there were changes in shares that company holds, so in this year the group contains 259 650 mill Russian rouble, that extremely increased the percentages to 26,94%. That number shows for NOVATEK the importance of joints ventures for the company. In 2018th the list of controlled company was Arcticgas, Yamal LNG, Nortgas, Cryogas-Vysotsk, Terneftegas and Rostock LNG GmbH. It takes 244 500 mill Russian rouble and 20,10% of the total assets that is lower by 7,23% than in previous 2017th year 285 326 mill Russian roubles which is 27,33%. But investments in joints ventures is still one of the most important item of assets and company continuously improving this way of their business that shows previous 2019th. In this year investments in joints ventures represent as the biggest item on the company's balance with 585 340 mill Russian roubles, that gives a 29,08% of the total assets. Company starts to have their interest in OOO Artic LNG 2, that gives additional 247 450 mill Russian roubles. In

march of 2019th the group is selling 10% of the participation interest in OOO Artic LNG 2, in July of the same year they selling 30% to the CNPC, CNOOC Limited and Japan Artic LNG B.V. After all manipulation with shares, group still owning 60% of the that venture company, that gives a right of running and controlling all activities and making decisions.

Table 8 Vertical analysis of Liabilities and Equity

Consolidated Statement of Financial Position (in millions roubles)											
Liabilities and equity	2015	%	2016	%	2017	%	2018	%	2019	%	
Non-current liabilities											
Long-term debt	252 050	28,64%	161 296	16,73%	141 448	13,55%	170 043	13,98%	139 852	6,95%	
Long-term lease liabilities		0%		0%		0%	7 473	0,61%	7 516	0,37%	
Deferred income tax liabilities	23 706	2,69%	24 656	2,56%	5 776	0,55%	29 927	2,46%	62 146	3,09%	
Assets retirement obligations	4 149	0,47%	7 605	0,79%	26 167	2,51%	8 730	0,72%	12 372	0,61%	
Other non-current liabilities	2 273	0,26%	3 766	0,39%	7 303	0,70%	6 579	0,54%	6 792	0,34%	
Total non-current liabilities	282 178	32,06%	197 323	20,47%	180 694	17,31%	222 752	18,31%	228 678	11,36%	
Current liabilities											
Short-term debt and current portion of long-term debt	106 655	12,12%	55 469	5,76%	14 302	1,37%	2 120	0,17%	12 246	0,61%	
Current portion of long-term lease		0%		0%	1 520	0,15%	2 325	0,19%	2 947	0,15%	
Trade payables and accrued liabilities	48 535	5,52%	38 462	3,99%	49 001	4,69%	79 241	6,51%	86 728	4,31%	
Current income tax payable	3 165	0,3596%	747	0,08%	2 846	0,27%	1 633	0,13%	2 140	0,11%	
Other taxes payable	11 320	1,29%	14 113	1,46%	16 289	1,56%	16 823	1,38%	13 052	0,65%	
Liabilities associated with assets held		0%		0%		0%	4 881	0,40%	0	0,00%	
Total current liabilities	169 675	19,28%	108 791	11,29%	83 958	8,04%	107 023	8,80%	117 113	5,82%	
Total liabilities	451 853	51,35%	306 114	31,76%	268 503	25,71%	329 775	27,11%	345 791	17,18%	
Equity attributable to OAO NOVATEK											
Ordinary share capital	393	0,04%	393	0,04%	393	0,04%	393	0,03%	393	0,02%	
Treasury shares	-5 997	-0,68%	-6 913	-0,72%	-8 353	-0,80%	-10 445	-0,86%	-12 308	-0,61%	
Additional paid-in capital	31 297	3,56%	31 297	3,25%	31 297	3,00%	31 297	2,57%	31 297	1,55%	
Currency translation differences	-5 092	-0,58%	-724	-0,08%	-3 283	-0,31%	-1 702	-0,14%	3 814	0,19%	
Asset revaluation surplus on	5 617	0,64%	5 617	0,58%	5 617	0,54%	5 617	0,46%	5 617	0,28%	
Retained earnings	399 861	45,44%	618 680	64,19%	732 168	70,12%	843 094	69,31%	1 618 696	80,42%	
Total equity attributable to OAO	426 079	48,42%	648 350	67,27%	757 839	72,58%	868 254	71,38%	1 647 509	81,85%	
Non-controlling interest	2 092	0,24%	9 370	0,97%	17 820	1,71%	18 341	1,51%	19 567	0,97%	
Total equity	428 171	48,65%	657 720	68,24%	775 659	74,29%	886 595	72,89%	1 667 076	82,82%	
Total liabilities and equity	880 024	100%	963 834	100%	1 044 162	100%	1 216 370	100%	2 012 867	100%	

Source: Own processing based on the Consolidated Statement of Financial Position of NOVATEK FY 2015-2019.

Table 8 represent vertical analysis of liabilities and equity. In the items which are under non-current liabilities the biggest part of total non-current liabilities takes a long-term debt. In

2015th NOVATEK had a big debt in amount of 252 050 mill Russian roubles which takes 28,64% of total proportion of liabilities and equity. The long term debt was decreasing over the monitored years, as it can be seen in Table 8, Table 9 and Table 10.

Table 9 Long-term debt in 2015

Long-term debt(amounts in millions Russian roubles)	2015
Corporate bonds	
Eurobonds-Ten-Year Tenor(par value USD 1 billion, repayable in 2022)	72 662
Eurobonds-Ten-Year Tenor(par value USD 650 million, repayable in 2021)	47 207
Eurobonds-Five-Year Tenor(par value USD 600 million, repayable in 2016)	43 725
Eurobonds-Four-Year Tenor(par value RR 14 billion, repayable in 2017)	13 997
Bank loans	
Syndicated term credit line facility	83 861
Other borrowings	
Loan from Silk Road Fund	48 619
Other loans	19 268
Total	329 319
Current portion of long-term debt	-77 269
Total long-term debt	252 050

Source: Own processing based on the Notes of NOVATEK FY 2015.

As it says in the notes of annual financial report of NOVATEK, “a corporate bond is an investment in debt that is issued by a company and sold to an investor. The company gets the cash it needs and in return the investor is paid a pre-established number of interest payments. When the bond expires, or "reaches maturity," the payments cease and the original investment is returned.”

In Table 9 which is taken from official annual report shows what kind of long debt company has and when it should be fully paid. Because company not paying all amount of their debt in the end, they have to pay them annually, the table above show how NOVATEK decrease their debts from year to year. In 2016th the amount of the long-term debt is just 161 296 mill Russian rouble and from the all proportion it takes just 16,73% which is still their biggest non-current liabilities, but it is already much less than in 2015th.

Table 10 Long-term debt in 2018

Long-term debt(amounts in millions Russian roubles)	2018
Corporate bonds	
Eurobonds-Ten-Year Tenor(par value USD 1 billion, repayable in 2022)	69 359
Eurobonds-Ten-Year Tenor(par value USD 650 million, repayable in 2021)	45 094
Bank loans	
Syndicated term credit line facility	-
Other bank loans	8 953
Other borrowings	
Loan from Silk Road Fund	48 757
Other loans	-
Total	172 163
Current portion of long-term debt	-2 120
Total long-term debt	170 043

Source: Own processing based on the Notes of NOVATEK FY 2018.

Table 10 shows that NOVATEK paid already almost all their corporate bonds and their debt contains 170 043 mill Russian roubles that is slightly bigger than in two previous years, but still it is just 13,98% from the all proportion. It is also much less than in our base year which

is 2015. After overlooking of these four years can say that company decreasing their long-term debt and does not taking such a big loan like they did before. (Tables 9, 10 and 11).

Table 11 Long-term debt in 2019

Long-term debt (amounts in millions Russian roubles)	2019
Corporate bonds	
Eurobonds-Ten-Year Tenor (par value USD 1 billion, repayable in 2022)	61 833
Eurobonds-Ten-Year Tenor (par value USD 650 million, repayable in 2021)	40 209
Bank loans	
Syndicated term credit line facility	-
Other bank loans	7 941
Other borrowings	
Loan from Silk Road Fund	42 115
Other loans	-
Total	152 098
Current portion of long-term debt	-12 246
Total long-term debt	139 852

Source: Own processing based on the Notes of NOVATEK FY 2019.

In 2019th NOVATEK continue repay their debts, thus from 2018th to 2019th they decrease amount of debts on 17,75%. In close few years they need to repay more than half of their debts, because of the Eurobonds should be paid in 2021 and other one in 2022. Also, in the 2020th has to be repaid bank loan which was obtain in 2016th for amount of 100 million EUR.

In compared to long-term debt we can take a short-term debt and current portion of long-term debt which is recognize as current liabilities. These are loans with original maturity three month or less. As we can see short-term debt takes the biggest percentages from total

current liabilities, in 2015 it was 106 655 mill Russian roubles which is 12,12%. In 2016th it was 5,76%, in 2017 1,37%, in 2018 0,17% and in 2019th 0,61%. Table 8 shows that during all these years, NOVATEK actively cutting their loans and from the table which shows a tiny percentage in 2018th that says as bigger company become, the less loans they need, because the richer they became and have more free resources for realization all their activities. In 2019th and 2018th the group had open a credit line where possible to get loans with a maturity if three mounts that shows an increase and gave to short-term debts 0,61% from the total proportion of liabilities, this credit line was secured by the company's money from contract of hydrocarbons export. In 2018th and 2019th all these loans were paid.

In equity as it is shown in Table 8 Retained earnings are the biggest percentage in three years except of 2015th it takes more than half of total liabilities and equity. Retained earnings is a quantity of net income that stays in company after paid out dividends to shareholder or re-investing money back into the company for developing their business. In 2015th it took 45,44% from over all percentage that is clearly shows us that company has enough money for doing freely there financial and operating activities and able to pay their debt and other obligation. In the next year retained earnings started occupied more than half of total liabilities and equity 64,19%. In the next two years it was around 70,12% and in 2018th 69,31%. In 2019th it takes 80,42%

of the total which is 1 618 696 million Russian roubles, which is extremely higher than in all other years. The overall picture can provide information that company growing and doing good management because their long-term debt is decreasing from year to year and retained earnings growing and company has more free money for doing their activities and investments.

4.3.2 Horizontal analysis of the Balance sheet items

Horizontal analysis also known as trend analysis. This method shows a historical data and giving opportunity to compare it. In this method can be used as a base year one of the chosen year or can be taken as a base year the previous one and always compare two years and see how particular item changing from year to year. I decided to choose to do it as a chain, so do compare current year with the previous one. Based on this analysis easily can be described how particular items changed during time and how it affects the growth of company, their activities and how it affects the revenues.

Table 12 Horizontal analysis of Assets

Consolidated Statement of Financial Position(in millions roubles)										
Assets	2015	%	2016	%	2017	%	2018	%	2019	
Non-current assets										
Property, plant and equipment	331 712	▲ 0,03%	331 795	▲ 8,52%	360 051	▲ 13,37%	408 201	▲ 36,40%	556 798	
Investments in joint ventures	154 725	▲ 67,81%	259 650	▲ 9,89%	285 326	▼ -14,31%	244 500	▲ 139,40%	585 340	
Long-term loans and receivables	230 799	▼ -9,38%	209 145	▲ 1,32%	211 901	▲ 9,92%	232 922	▼ -0,44%	231 898	
Other non-current assets	34 316	▼ -11,17%	30 484	▲ 9,72%	33 448	▲ 11,90%	37 427	▲ 280,30%	142 335	
Total non-current assets	751 552	▲ 10,58%	831 074	▲ 7,18%	890 726	▲ 3,63%	923 050	▲ 64,28%	1 516 371	
Current assets										
Inventories	8 226	▲ 9,94%	9 044	▲ 22,56%	11 084	▲ 55,64%	17 251	▼ -28,91%	12 263	
Current income tax prepayments	84	▲ 591,67%	581	▼ -92,60%	43	▲ 2948,84%	1 311	▲ 191,30%	3 819	
Trade and other receivables	37 564	▲ 10,71%	41 586	▲ 7,01%	44 503	▲ 22,31%	54 433	▲ 321,77%	229 581	
Prepayments and other current assets	45 424	▼ -26,81%	33 248	▼ -4,17%	31 863	▲ 181,35%	89 645	▲ 26,99%	113 841	
Short-term bank deposits with original maturity more than three month							27 788	▲ 201,40%	83 752	
Cash and cash equivalents	29 187	▲ 65,49%	48 301	▲ 36,53%	65 943	▼ -37,18%	41 427	▲ 28,52%	53 240	
Assets held for sale	7 987	▼ -100%	0		0	▲ 100%	61 420	▼ -100,00%	0	
Total current assets	128 472	▲ 3,34%	132 760	▲ 15,57%	153 436	▲ 91,17%	293 320	▲ 69,27%	496 496	
Total assets	880 024	▲ 9,52%	963 834	▲ 8,33%	1 044 162	▲ 16,49%	1 216 370	▲ 65,48%	2 012 867	

Source: Own processing based on the Consolidated Statement of Financial Position of NOVATEK FY 2015-2019.

Table 12 shows the vertical analysis of assets, like property, plant and equipment and changes of their shares from the overall proportion and the significance of this item for the company. Table 12 shows the changes in one line for five years (2015 – 2019). From year 2015th to 2016th were positive growth just in 0,03% its mean that in 2016th NOVATEK does not really expand their machinery and facilities but spend more money on their investments. So, in investments in joint ventures in 2016 were increased by 67,81% from the previous

year. But in next year shows that investments item grew just for 9,89% which is still positive change but much less than in 2016th and property, plant and equipment were grow for 8,52% in 2017th that is more significant change than in the year before and increasing by 13,37% in 2018th, that telling about growing of production that shows in changes in inventory which is mainly contains natural gas, gas condensate and crude oil. During last four years inventory increased by 9,94% in 2016th, by 22,56% in 2017th in 2018th this growth was almost twice bigger then the last year, by 55,64%. In 2019th there have been decreasing in inventory by 28,91% it is shows that NOVATEK did worse converting inventory into money as in the previous year. After working just on few items, we already can see the tendency and reasons growing of revenue which will be analysed later.

4.3.3 Horizontal analysis of Liabilities and equity

Table 13 shows the horizontal analysis of Liabilities and Equity. Retirement obligation of assets include the retirement of tangible and long-term asset that depends on the future activities of obligated company. It is an accounting legislation which oblige company to count the cost of returning a part of property which is company using to it original condition, for example some construction which carries out activities in some area. So, after life cycle of these facility, company oblige to return the land to it original condition. Legal or contractual asset retirement obligations related to gas and gas condensate processing planta activities and processing facilities can not be easily estimated and life circle of these particular assets are almost impossible to determine. Hence, lack of clear legal requirements makes it hard to record.

Table 13 Horizontal analysis of Liabilities and Equity

Consolidated Statement of Financial Position (in millions roubles)										
Liabilities and equity	2015	%	2016	%	2017	%	2018	%	2019	
Non-current liabilities										
Long-term debt	252 050	▼ -36,01%	161 296	▼ -12,31%	141 448	▲ 20,22%	170 043	▼ -17,75%	139 852	
Long-term lease liabilities			0	▲ 100%	5 776	▲ 29,38%	7 473	▲ 0,58%	7 516	
Deferred income tax liabilities	23 706	▲ 4,01%	24 656	▲ 6,13%	26 167	▲ 14,37%	29 927	▲ 107,66%	62 146	
Assets retirement obligations	4 149	▲ 83,30%	7 605	▼ -3,97%	7 303	▲ 19,54%	8 730	▲ 41,72%	12 372	
Other non-current liabilities	2 273	▲ 65,68%	3 766	▲ 2,26%	3 851	▲ 70,84%	6 579	▲ 3,24%	6 792	
Total non-current liabilities	282 178	▼ -30,07%	197 323	▼ -6,48%	184 545	▲ 20,70%	222 752	▲ 2,66%	228 678	
Current liabilities										
Short-term debt and current portion of long-term debt	106 655	▼ -47,99%	55 469	▼ -74,22%	14 302	▼ -85,18%	2 120	▲ 477,64%	12 246	
Current portion of long-term lease liabilities	0		0	▲ 100%	1 520	▲ 52,96%	2 325	▲ 26,75%	2 947	
Trade payables and accrued liabilities	48 535	▼ -20,75%	38 462	▲ 27,40%	49 001	▲ 61,71%	79 241	▲ 9,45%	86 728	
Current income tax payable	3 165	▼ -76,40%	747	▲ 280,99%	2 846	▼ -42,62%	1 633	▲ 31,05%	2 140	
Other taxes payable	11 320	▲ 24,67%	14 113	▲ 15,42%	16 289	▲ 3,28%	16 823	▼ -22,42%	13 052	
Liabilities associated with assets held for sale	0		0		0	▲ 100%	4 881	▼ -100%	0	
Total current liabilities	169 675	▼ -35,88%	108 791	▼ -22,83%	83 958	▲ 27,47%	107 023	▲ 9,43%	117 113	
Total liabilities	451 853	▼ -32,25%	306 114	▼ -12,29%	268 503	▲ 22,82%	329 775	▲ 4,86%	345 791	
Equity attributable to OAO NOVATEK shareholders										
Ordinary share capital	393	— 0%	393	— 0%	393	— 0%	393	— 0%	393	
Treasury shares	-5 997	▲ 15,27%	-6 913	▲ 20,83%	-8 353	▲ 25,04%	-10 445	▲ 17,84%	-12 308	
Additional paid-in capital	31 297	— 0%	31 297	— 0%	31 297	— 0%	31 297	— 0%	31 297	
Currency translation differences	-5 092	▼ -85,78%	-724	▲ 353,45%	-3 283	▼ -48,16%	-1 702	▼ -324,09%	3 814	
Asset revaluation surplus on acquisitions	5 617	— 0%	5 617	— 0%	5 617	— 0%	5 617	— 0%	5 617	
Retained earnings	399 861	▲ 54,72%	618 680	▲ 18,34%	732 168	▲ 15,15%	843 094	▲ 91,99%	1 618 696	
Total equity attributable to OAO NOVATEK shareholders	426 079	▲ 52,17%	648 350	▲ 16,89%	757 839	▲ 14,57%	868 254	▲ 89,75%	1 647 509	
Non-controlling interest	2 092	▲ 347,90%	9 370	▲ 90,18%	17 820	▲ 2,92%	18 341	▲ 6,68%	19 567	
Total equity	428 171	▲ 53,61%	657 720	▲ 17,93%	775 659	▲ 14,30%	886 595	▲ 88,03%	1 667 076	
Total liabilities and equity	880 024	▲ 9,52%	963 834	▲ 8,33%	1 044 162	▲ 16,49%	1 216 370	▲ 65,48%	2 012 867	

Source: Own processing based on the Consolidated Statement of Financial Position of NOVATEK FY 2015-2019.

Table 13 shows that from 2015th to 2016th the assets retirement obligation increased by 83,30% from 4 149 mill Russian roubles to 7 605. In 2017th it slightly decreased by 3,97% but it is not really significant changes, so it is stayed almost on the same level. But in 2018 it increased by 19,54%, in 2019th by 41,72% There is could be different reasons for these changing. As I mentioned before, for calculating assets retirement obligation, you need to know the life cycle of the assent and inflation rate. Analyze four accounting year, we see that there is trend to grow, it is rather because of inflation or because company is growing and started to use more land for their operations. One of the reason of the huge grow in amount of assets retirement obligation in 2016th could be the extremely high inflation rate which one was 7,04%. Between 2017th and 2018th the growth was 19,54% which is not really high but still bigger, in this case it is more positive thing for the company, because inflation rate in 2017th was 3,68% and in 2018th 2,88%, so the inflation was not that high, that is mean company just started building new facilities and using more land for their activities.

Table 13 also shows the current portion of long-term lease liabilities. Lease is a contract where the right of controlling, using of identified assets is passing to (in my case) company for a period of time. The cost of right-of-use assets comprises of initial measurement of the lease liability, any lease payments made before or at the commencement date and initial direct costs. In accordance with IFRS 16, the Group elected not to apply accounting requirements under this standard to short-term leases. From the table we can see that NOVATEK started using lease just from 2017th and expand their lease in 2018th by 52,96% and by 26,75% in 2019th. There are few reasons why NOVATEK started to use it. First of all, lease required less investment, that means company spends less money on some assets by paying them monthly, than purchase them. Secondly, using lease gives opportunity to assets paying that amount by itself. Depends on which kind of lease company use, it gives also some tax benefit.

4.4 Analysis of financial performance

Analysis of financial performance of the company include the vertical and horizontal analysis of items of the Statement of profit and loss: expenses and revenues, with the aim to identify the most significant items (by vertical analysis) and the changes over the years (by horizontal analysis).

4.4.1 Horizontal analysis of Income statement

Table 14 Horizontal analysis of Consolidated Statement of Income

Consolidated Statement of Income(in millions roubles)										
	2015	%	2016	%	2017	%	2018	%	2019	
Revenues										
Oil and gas sales	472 007	▲ 13,10%	533 857	▲ 8,61%	579 819	▲ 42,42%	825 761	▲ 3,21%	852 232	
Other revenues	3 318	▲ 8,95%	3 615	▼ -6,86%	3 367	▲ 78,11%	5 997	▲ 76,27%	10 571	
Total revenues	475 325	▲ 13,07%	537 472	▲ 8,51%	583 186	▲ 42,62%	831 758	▲ 3,73%	862 803	
Operating expenses										
Transportation expenses	-130 229	▲ 2,48%	-133 462	▲ 2,79%	-137 192	▲ 6,18%	-145 664	▲ 4,11%	-151 651	
Purchases of natural gas and liquid hydrocarbons	-120 504	▲ 11,42%	-134 268	▲ 20,24%	-161 443	▲ 98,21%	-319 990	▲ 3,38%	-330 818	
Taxes other than income tax	-36 630	▲ 20,26%	-44 053	▲ 12,35%	-49 494	▲ 18,74%	-58 768	▲ 5,47%	-61 981	
Depreciation, depletion and amortization	-19 980	▲ 73,33%	-34 631	▼ -0,31%	-34 523	▼ -4,14%	-33 094	▼ -2,61%	-32 230	
General and administrative expenses	-15 163	▲ 19,54%	-18 126	▼ -5,27%	-17 170	▲ 29,77%	-22 282	▲ 10,26%	-24 568	
Materials, services and other	-14 086	▲ 35,83%	-19 133	▲ 8,55%	-20 768	▲ 9,18%	-22 675	▲ 11,06%	-25 183	
Exploration expenses	-767	▲ 172,10%	-2 087	▼ -12,84%	-1 819	▲ 285,49%	-7 012	▲ 19,59%	-8 386	
Impairment (expenses) resersals, net	204	▼ -187,25%	-178	▼ -70,79%	-52	▲ 451,92%	-287	▼ -43,55%	-162	
Change in natural gas, liquid hydrocarbons and work-in-progress	2 113	▼ -79,22%	439	▲ 492,71%	2 602	▲ 125,21%	5 860	▼ -193,58%	-5 484	
Total operating expenses	-335 042	▲ 15,06%	-385 499	▲ 8,91%	-419 859	▲ 43,84%	-603 912	▲ 6,05%	-640 463	
Net gain on disposal of interests in joint ventures	989	▲ 7288,47%	73 072	▼ -100%	0	▲ 100%	1 645	▲ 41403,53%	682 733	
Other operating income (loss)	-542	▼ -140,77%	221	▲ 91,86%	424	▼ -644,10%	-2 307	▲ 1438,10%	-35 484	
Profit from operating	140 730	▲ 60,07%	225 266	▼ -27,31%	163 751	▲ 38,74%	227 184	▲ 282,77%	869 589	
Finance income (expense)										
Interest expense	-8 792	▲ 31,60%	-11 570	▼ -33,34%	-7 712	▼ -38,46%	-4 746	▼ -5,37%	-4 491	
Interest income	12 622	▲ 48,41%	18 732	▼ -15,27%	15 872	▼ -11,78%	14 003	▲ 47,82%	20 699	
Change in fair value of non-commodity financial instruments	-10 505	▼ -198,88%	10 387	▼ -169,11%	-7 178	▼ -148,65%	3 492	▲ 267,33%	12 827	
Foreign exchange gain (loss), net	-9 507	▲ 168,12%	-25 490	▼ -153,65%	13 676	▲ 89,08%	25 859	▼ -273,04%	-44 747	
Total finance income (expense)	-16 182	▼ -50,93%	-7 941	▼ -284,59%	14 658	▲ 163,39%	38 608	▼ -140,70%	-15 712	
Share of profit (loss) of joint ventures, net of income tax	-31 607	▼ -387,40%	90 839	▼ -75,31%	22 430	▼ -266,11%	-37 258	▼ -500,55%	149 238	
Profit before income tax	92 941	▲ 231,57%	308 164	▼ -34,83%	200 839	▲ 13,79%	228 534	▲ 338,93%	1 003 115	
Income tax expense										
Current income tax expense	-22 780	▲ 56,18%	-35 577	▼ -0,98%	-35 227	▲ 26,45%	-44 543	▲ 119,63%	-97 832	
Deferred income tax benefit (expense), net	3 958	▼ -289,84%	-7 514	▼ -111,42%	858	▼ -221,68%	-1 044	▲ 1990,23%	-21 822	
Total income tax expense	-18 822	▲ 128,94%	-43 091	▼ -20,24%	-34 369	▲ 32,64%	-45 587	▲ 162,47%	-119 654	
Profit	74 119	▲ 257,63%	265 073	▼ -37,20%	166 470	▲ 9,90%	182 947	▲ 382,91%	883 461	

Source: Own processing based on the Consolidated Statement of Income of NOVATEK FY 2015-2019.

Table 14 shows how the profit changed from 2015th to 2019th and what components influenced it. For assessing the increase or decrease of the profit the analysis of few totals from the income statement is necessary. As to the total revenues, Table 14 shows that revenues were growing during all these five year, for example in 2016th it grew by 13,07%, in 2017 by 8,51%, in 2018th by 42,62% and in 2019 by 3,73%. Even if in 2019th revenue was just slightly changed, until it is a positive change it is a good factor. A more detailed view of revenues on the items of oil and gas sales (which include sales of natural gas, naphtha, crude oil, other gas and gas condensate refined products, liquefied petroleum gas, stable gas condensate) and other revenues, and see that the most significant item for the total revenues is oil and gas sales and the main changes in total depends on it. For example, in 2016th oil and gas sales grew for 13,10% and in 2017th by 8,61% but if we will look at other revenues we can see that in 2017th it decreased by 6,86% but it did not affect the total revenues because of the not big amount in compare to oil and gas sales. But in 2018th we see big increasing by 42,62%, which is good positive changes just for one year. The reason was in increasing in oil and gas sales by 42,42% which is huge change. In 2019th it was just 3,73%, in notes shows that in 2019th were sold natural gas, naphtha and crude oil slightly more than in 2018th and some products like, liquefied petroleum gas and stable gas condensate were sold even less than in 2018th. Other revenues also increased by 78,11% but in case that other revenues take just 0,72% out of total revenues, so even changes by 78,11% did not really impact the total. So, total revenues were more or less growing for all these five year and especially in the financial reported year of 2018th and 2019th.

But not just revenues were growing, operating expenses also were growing for these years. Between 2015th and 2016th this growth was 15,06% in 2017th 8,91%, in 2018th 43,84% and in 2019th just by 6,05%, if we will look at two most significant item from total operating expenses which are transportation expenses and purchases of natural gas and liquid hydrocarbons, we can see how they affected the total. But at first, we need to figure out what does that items means. In transportation expenses includes natural gas transportation by trunk and low-pressure pipelines, stable gas condensate and liquefied petroleum gas transportation by rail, crude oil transportation by trunk pipelines, gas condensate refined products, stable gas condensate and crude oil transportation by tankers. About purchase of natural gas and liquid hydrocarbons, NOVATEK buying some amount of natural gas which was produced by joint venture companies. In 2015th the biggest operating expense were transportation expenses which are slightly increased in 2016th by 2,48%, in 2017 by 2,79%,

by 6,18% in 2018 and by 4,11% in 2019th. In 2016th the biggest operating expense were already not transportation expenses but still significant for income statement, biggest expense was purchases of natural gas and liquid hydrocarbons which increased by 20,24% in 2017th, by 98,21% in 2018th and by 3,38% in 2019th.

In 2016th NOVATEK increased their profit from operating by 60,07% but fell by 27,31% in 2017th.

Table 14 shows that in total financial income (expense) the company has loss in these items, which one decreased by 50,93% in 2016 and decreased by 284,59% in 2017th that brings to company positive value in 14 658 mill Russian roubles which increased by 163,39% in 2018th and decreased again in 2019th by 140,70% that brings back company to a negative value in 15 712 mill Russian roubles.

From over all we can analyse profit and what was the reason of decreasing in 2016th. In 2016th NOVATEK sold part of shares in subsidiary company and difference in currency rate. Then, some parts of debts were buying in US dollars and in euros for one rate and in 2017th because of the big difference in currency rate they paid more, because all earnings of company are in Russian roubles.

4.4.2 Vertical analysis of the Income statement

Table 15 Vertical analysis of Revenues

Consolidated Statement of Income(in millions roubles)											
	2015	%	2016	%	2017	%	2018	%	2019	%	
Revenues											
Oil and gas sales	472 007	99,30%	533 857	99,33%	579 819	99,42%	825 761	99,28%	852 232	98,77%	
Other revenues	3 318	0,70%	3 615	0,67%	3 367	0,58%	5 997	0,72%	10 571	1,23%	
Total revenues	475 325	100%	537 472	100%	583 186	100%	831 758	100%	862 803	100%	

Source: Own processing based on the Consolidated Statement of Income of NOVATEK FY 2015-2019.

Table 15 shows that under revenues, NOVATEK has only two items and as it was already described in analysing of the revenue the biggest part takes oil and gas sales. During five years of analysing, in four of them oil and gas sales took more than 99% and in the last year i.e. 2019 it constitutes 98,77%. The change in other revenues does not really affect total revenues as other revenues accounts for a really small percentage of total revenues.

Table 16 Vertical analysis of operating expenses in million Rubles

	2015	%	2016	%	2017	%	2018	%	2019	%
Operating expenses										
Transportation expenses	-130 229	38,87%	-133 462	34,62%	-137 192	32,68%	-145 664	24,12%	-151 651	23,68%
Purchases of natural gas and liquid hydrocarbons	-120 504	35,97%	-134 268	34,83%	-161 443	38,45%	-319 990	52,99%	-330 818	51,65%
Taxes other than income tax	-36 630	10,93%	-44 053	11,43%	-49 494	11,79%	-58 768	9,73%	-61 981	9,68%
Depreciation, depletion and amortization	-19 980	5,96%	-34 631	8,98%	-34 523	8,22%	-33 094	5,48%	-32 230	5,03%
General and administrative expenses	-15 163	4,53%	-18 126	4,70%	-17 170	4,09%	-22 282	3,69%	-24 568	3,84%
Materials, services and other	-14 086	4,20%	-19 133	4,96%	-20 768	4,95%	-22 675	3,75%	-25 183	3,93%
Exploration expenses	-767	0,23%	-2 087	0,54%	-1 819	0,43%	-7 012	1,16%	-8 386	1,31%
Impairment (expenses) reversals, net	204	-0,06%	-178	0,05%	-52	0,01%	-287	0,05%	-162	0,03%
Change in natural gas, liquid hydrocarbons and work-in-progress	2 113	-0,63%	439	-0,11%	2 602	-0,62%	5 860	-0,97%	-5 484	0,86%
Total operating expenses	-335 042	100%	-385 499	100%	-419 859	100%	-603 912	100%	-640 463	100%

Source: Own processing based on the Consolidated Statement of Income of NOVATEK FY 2015-2019.

Table 16 shows that in the year 2015, transportation expenses have the biggest share of percentage from total operating expenses. The reason behind this is that a company in the filed natural gas and petroleum must use special equipment to avoid leakage of asset and related theft to it. According to the notes provided in company's financial report, NOVATEK uses transportation of natural gas by trunk and low pressure special pipelines which has the biggest share in transportation expenses. The company also uses rail and tankers to transport stable gas condensate and other related liquefied petroleum products which also accounts for huge share in transportation expenses. Table 16 shows that in upcoming years the amount spent on transportation expenses increased but the percentage share from total expenses decreased due to the rise in the share of purchase of natural gas and liquid hydrocarbons which we will discuss further. In all the years analysed, purchased of natural gas and liquid hydrocarbons holds the first place in the biggest share of total operating expenses except the year 2015. The company has been using its profits to by further petroleum reserves. According to the Notes from the annual financial reports of the company this item has generally four sub-items: natural gas, unstable gas condensate, other liquid hydrocarbons and reverse excise. The first three are what the name indicates itself while reverse excise is a net result from the operations of accruing and claiming the excise tax on raw oil starting in

the year 2019 in the month of January. Other items have a share of ten percent or less which does not make a huge difference on total operating expense.

Table 17 Vertical analysis of Financial results, expenses in million Rubles

	2015	%	2016	%	2017	%	2018	%	2019	%
Finance income (expens)										
Interest expense	-8 792	54,33%	-11 570	145,70%	-7 712	-52,61%	-4 746	-12,29%	-4 491	28,58%
Interest income	12 622	-78,00%	18 732	-235,89%	15 872	108,28%	14 003	36,27%	20 699	-131,74%
Change in fair value of non-commodity	-10 505	64,92%	10 387	-130,80%	-7 178	-48,97%	3 492	9,04%	12 827	-81,64%
Foreign exchange gain (loss), net	-9 507	58,75%	-25 490	320,99%	13 676	93,30%	25 859	66,98%	-44 747	284,80%
Total finance income (expense)	-16 182	100%	-7 941	100%	14 658	100%	38 608	100%	-15 712	100%

Source: Own processing based on the Consolidated Statement of Income of NOVATEK FY 2015-2019,

Financial results influence the total profit of the company. Interest expenses are related to the borrowings which had been decreasing over the years 2016 – 2019 (both long-term and short-term borrowings). Change in fair value of the valuation and foreign exchange gains or losses has changed over the years, but this cannot be controlled by the company.

4.5 Selected ratios of financial analysis

The cash ratio, ROE and the operating profit margin were calculated for the company, covering years 2015 – 2019.

Cash ratio

Table 18 Cash Ratio in million Rubles

Year	2015	2016	2017	2018	2019
Cash and cash equivalents	29 187	48 301	65 943	41 427	53 240
Current liabilities	169 675	108 791	83 958	107 023	117 113
cash ratio	0,172	0,444	0,785	0,387	0,455

Source: Own proceeding

Table 18 shows the cash ratio and the amounts used for the calculation. In case of the chosen company NOVATEK, in the year 2015th the cash ratio was 0,172 so from its data we can see that the firm in that year were not in a good position if something would happen and the company needed to quiet the business and pay out their debt. In 2016 that indicator was 0,444 which is much better and closer to <normal> parameters, so it's might looks more safety for creditors. In the year 2017th the cash ratio was 0,785 and in 2018 was 0,574. We can see that company developing and increasing their cash and current liability which could be easily converted to cash.

ROE

Table 19 ROE calculation in million Rubles

Year	2015	2016	2017	2018	2019
Net income	74 119	265 073	166 470	182 947	883 461
Shareholder's equity	426 079	648 350	757 839	868 254	1 647 509
ROE	17%	41%	22%	21%	54%

Source: Own proceeding

Table 19 shows the calculated ROE. The usual level of ROE is always different in different field of business, so its always necessary to compare the company's results of this indicator from the same field. For example, NOVATEK and its ROE in 2019 was 54% when the market average in that field is 6,35%. (Aswath, 2020) So, the results show that its really high level of ROE in the market because for example in the year 2016th it was 41% which is also extremely high that's means every invested 1\$ would return as 0,41\$. In 2018th it was 21% which still high level of return on equity in compare with other company which are even bigger than NOVATEK. So, for investors who would like to maximize their profit from their portfolio will be more preferable to invest to NOVATEK because of the ROE value.

Operating profit margin

Table 20 Operating profit margin calculation in million Rubles

operating profit margin					
Year	2015	2016	2017	2018	2019
Profit from operating	140 730	225 266	163 751	227 184	869 589
Revenues	475 325	537 472	583 186	831 758	862 803
Operating profit margin	29,61%	41,9%	28,1%	27,3%	100,8%

Source: Own processing.

Table 20 shows the calculated operating profit margin. In the years 2015, 2017 and 2018, operating profit margin ratio is approximately 28%-29%. As mentioned in literature review, these percentages show that for each ruble earned from sales, 0,28-0,29 ruble is returned as profit. This ratio was higher in the year 2016 because profit from operating activities increased, however, revenues from sales did not increase with the same rate making the return higher.

In the year 2019, the operating margin ratio is more than 100% because operating profit includes net gain on disposal of interests in joint ventures. NOVATEK bought a huge share of natural gas already produced by its joint ventures, which accounts for its operating activity as well.

5 Results and Discussion

Assessment of the company's financial position and performance is based on the practical part of the thesis. The assessment of the financial position of the company is based on data from the balance sheet, the financial performance is based on the Income statement. Factors influencing the profit can be internal (revenues and expenses of the company) and external (for example law regulations or exchange rate changes in the national currency)

5.1 Assessment of the financial position of the company

The financial position of the company was analysed by vertical and horizontal analysis of the Balance sheet.

The vertical analysis showed that the most significant assets in the company are the non-current assets of Property, plant and equipment, which are nearly 40 % of total assets, followed by financial assets (about 26 %) which consist of long-term loans and receivables. The most significant assets in the company are non-current assets (around 85 %), (see Table 7). The most significant sources of financing are long-term debts within liabilities and retained earnings within the equity (see Table 8). Retained earnings are cumulated net profits less paid out dividends.

The horizontal analysis showed that the biggest changes in assets were in current assets, like Inventories or current income tax prepayments, cash and cash equivalents (see Table 12). But the vertical analysis showed that these amounts are not as significant in the total assets. Within the liabilities, the most important item is a long-term debt which is decreasing and in 2018 increasing again. The biggest change is in short-term debt and current portion of long-term debt, also in current liabilities the Trade payables. As to the changes in Equity (see Table 13), share capital has not changed over the years. Retained earnings (the most significant item in Equity) has been increasing over the years. The treasury stock (own shares bought back by the company from the shareholders) has been increasing (this item is represented in the Balance sheet, within Equity with minus). Currency translation differences has changed the most significantly, but these differences are not controlled by the company (as it is a result of the consolidation of different subsidiaries with different currency).

The horizontal analysis proved there were big changes in some items during the analysed years, but these items were not significant on the total assets or total liability or equity amounts. The only significant amount where changes happened is the long-term debt. Long-term debt was steadily decreasing over the monitored years.

As the company has a high amount of long-term and short-term liabilities, problems can be related to the increase in interest rates. Interest rates on some of the loans may be linked to floating international and Russian base rates.

5.2 Assessment of the financial performance of the company

The financial performance of the company was analysed by vertical and horizontal analysis of the Statement of profit or loss.

The vertical analysis showed that the most important operating expenses are Transportation expenses (around 38-32 %) and Purchases of natural gas and liquid (35-38 %) of the total Expenses, followed by taxes (other than income tax, see Table 16). The company uses transportation of natural gas by trunk and low pressure special pipelines which has the biggest share in transportation expenses. The company also uses rail and tankers to transport stable gas condensate and other related liquefied petroleum products which also accounts for huge share in transportation expenses. NOVATEK depends on monopoly suppliers of transport services (such as Gazprom, RZD, and Transneft) and the company has no influence on the capacity of transport facilities and rates established by a Federal body.

The horizontal analysis showed that the biggest changes happened at the Exploration expenses (see Table 14), but they are not significant amounts. Changes in fair value of financial instruments and foreign exchange gains (losses) are the item where the biggest changes happened, but the amounts are not significant and the company can not control the change of these items. Volatile exchange rates of the national currency and unstable lending conditions, drop in hydrocarbon prices, precarious financial position of contractors and oil and gas equipment suppliers may affect the performance of the company, as it is reported in the annual report of the company.

Part of NOVATEK's liabilities is in foreign currencies, which may lead to losses in the event of Russian rouble exchange rate changes. Part of the revenues are also in foreign currencies, which may lead to losses in the event of Russian rouble appreciation.

5.3 Factors influencing the profit

The company achieved profit in all years of its existence. Factors influencing the profit can be internal and/or external. It is important to take into account the industry specifics as well. The company operates in a highly competitive environment related to areas like obtaining subsoil licenses and acquisition of companies holding subsoil licenses, selling gas in the Russian and global markets, access to transportation infrastructure, which has technological limitations, influence of the state regulation of gas prices, environmental and safety regulations related to the industry.

The profit is affected by the development of revenues and expenses. The revenues of the company are primarily gained from selling gas and oil. Between years 2009 and 2019, the oil and gas sales increased by 850% (see Table 6). The increase of revenues from sales are a result of the company investing into joint ventures and acquiring new ones and spending resources on finding new areas for drilling and harvesting and thus was able to produce and sell more natural gas. The main factors influencing the increased revenues from sales of the company and are a competitive advantage are the size and structure of its hydrocarbon resource base; the close proximity of existing infrastructure to core producing fields; a well-developed customer base for natural gas sales; natural gas liquefaction capacity and facilities for gas condensate processing and product exports. Natural gas as a motor fuel represents significant growth potential in the context of environmental standards. Compared to diesel, LNG provides for a significant reduction of emissions of nitrogen oxides, carbon dioxide and almost complete elimination of particulate matter emissions.

The most significant expenses influencing the profit are transportation expenses and purchases of natural gas and liquid. The company is using a special equipment to avoid leakage of petroleum and related theft to it, which is expensive and the depreciation affects the expenses but it is necessary as it can mitigate future losses and enhance profits. The purchases of natural gas and liquid are from the joint companies in the group.

NOVATEK had overall expenses on environment protection and sustainable nature management amounted to RR 2.20 bln in 2019. Also, because of the business activity of the company directly involves operation of facilities exposed to fire and explosion risks, expenses are involved with the fire safety system compliant with the Russian law.

As an independent natural gas producer, NOVATEK is not subject to state regulation of natural gas prices, but the company's prices are strongly influenced by the prices established

by a Federal body and the state regulation of gas prices significantly reduces the risk of price volatility on the Russian gas market.

5.4 The main possible problem areas

There are some possible problem areas which may affect the company's performance.

- long-term debts from borrowings – the risk is related to the possible increase of interest rates and credit risk
- exchange rate losses – the risk is related to the exchange rate changes of the national currency
- transportation – the risk is related to the dependence on monopoly of suppliers of transport services
- country specific – the risk is related to the change in national laws, including tax laws, licensing requirements, environmental and safety requirements, influence of the state on gas prices, sanctions from other countries

6 Conclusion

The aim of this bachelor thesis was to assess the financial position and performance of a chosen Russian company by analyzing the company's financial statements with focus on the representation and changes of the reported assets, liabilities, expenses and revenues for a chosen period and to identify the potential financial problems and the most significant factors influencing the profit.

The financial position of the company can be assessed by analyzing the company's balance sheet, the financial performance by analyzing the company's income statement. The balance sheet reports the company's assets, equity and liabilities at a given date. The income statement (statement of profit or loss) reports the company's expenses, revenues and profit for a given period of time.

The thesis deals with an important Russian natural gas producer company, NOVATEK. The published annual reports of the company were used for the practical part and the conclusions of the thesis. The thesis analysed the accounting periods of 2015 – 2019.

The analysis of the financial position of the company showed that the most significant assets are the non-current assets, mainly the Plant, property and equipment item. The most significant liabilities are long-term debts and the most significant equity item is retained earnings which is a cumulated net profit of the company less paid out dividends. The company achieved profit in the monitored years. Long-term debts were gradually decreasing.

The analysis of the financial performance of the company showed that the most significant expenses are the transportation expenses and purchases of natural gas and liquid. Transportation expenses are influenced by the monopoly of suppliers. Exchange rate losses or gains also influence the performance of the company.

The profit of the company is affected by the development of revenues and expenses within the company and also by the country-specific and industry specific regulations. The most significant factors influencing the profit are transportation access expenses, changes in exchange rate of the national currency and state limitations on the natural gas prices. As an independent natural gas producer, NOVATEK is not subject to state regulation of natural gas prices, but the company's prices are strongly influenced by the prices established by a Federal body. State regulations regarding licenses and environmental and safety measures are also affecting the profit as well as tax regulations.

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8 Appendix

Appendix 1 - IAS 1 – Presentation of the Financial Statements (IFRS)

The line items to be included on the face of the **statement of financial position** are: [IAS 1.54]

- (a) property, plant and equipment
- (b) investment property
- (c) intangible assets
- (d) financial assets (excluding amounts shown under (e), (h), and (i))
- (e) investments accounted for using the equity method
- (f) biological assets
- (g) inventories
- (h) trade and other receivables
- (i) cash and cash equivalents
- (j) assets held for sale
- (k) trade and other payables
- (l) provisions
- (m) financial liabilities (excluding amounts shown under (k) and (l))
- (n) current tax liabilities and current tax assets, as defined in IAS 12
- (o) deferred tax liabilities and deferred tax assets, as defined in IAS 12
- (p) liabilities included in disposal groups
- (q) non-controlling interests, presented within equity
- (r) issued capital and reserves attributable to owners of the parent.

Additional line items, headings and subtotals may be needed to fairly present the entity's financial position. [IAS 1.55]

Profit or loss statement

The following minimum line items must be presented in the profit or loss section (or separate statement of profit or loss, if presented): [IAS 1.82-82A]

revenue gains and losses from the derecognition of financial assets measured at amortised cost finance costs share of the profit or loss of associates and joint ventures accounted for

using the equity method certain gains or losses associated with the reclassification of financial assets tax expense a single amount for the total of discontinued items

Appendix 2 Top 10 oil producers and share of total world oil production

Top 10 oil producers and share of total world oil production in 2018		
Country	Million barrels per day	Share of world total
United States	17,94	18%
Saudi Arabian	12,42	12%
Russia	11,42	11%
Canada	5,38	5%
China	4,81	5%
Iraq	4,62	5%
Iran	4,46	4%
United Arab Emirates	3,79	4%
Brazil	3,43	3%
Kuwait	2,91	3%
Total top 10	71,18	71%
World total	100,89	100%

Source: <https://www.eia.gov/tools/faqs/faq.php?id=709&t=6>, own proceeding.

Appendix 3 Top 10 oil consumers and share of total world oil consumption

Top 10 oil consumers and share of total world oil consumption in 2018		
Country	Million barrels per day	Share of world total
United States	19,96	20%
China	13,57	14%
India	4,34	4%
Japan	3,92	4%
Russia	3,69	4%
Saudi Arabia	3,33	3%
Brazil	3,03	3%
South Korea	2,63	3%
Germany	2,45	2%
Canada	2,42	2%
Total top 10	59,34	60%
World total	98,76	100%

Source: <https://www.eia.gov/tools/faqs/faq.php?id=709&t=6>, own proceeding.

Appendix 4 Top 10 oil exported countries and share of total world oil exports

Top 10 oil exported countries and share of total world oil exports in 2018		
Country	Amount in billion US dollar	Share of world total
Saudi Arabia	182,5	16,1%
Russia	129	11,4%
Iraq	91,7	8,1%
Canada	66,9	5,9%
United Arab Emirates	58,4	5,2%
Kuwait	51,7	4,6%
Iran	50,8	4,5%
United States	48,3	4,3%
Nigeria	43,6	3,9%
Kazakhstan	37,8	3,3%
Total top 10	760,7	67,2%
World total	1132	100%

Source: <http://www.worldstopexports.com/worlds-top-oil-exports-country/>, own proceeding.

Appendix 5 Top 10 oil imported countries and share of total world imports

Top 10 oil imported countries and share of total world oil imports in 2018		
Country	Amount in billion US dollar	Share of world total
China	239,2	20,2%
United States	163,1	13,8%
India	114,5	9,7%
Japan	80,6	6,8%
South Korea	80,4	6,8%
Netherlands	48,8	4,1%
Germany	45,1	3,8%
Spain	34,2	2,9%
Italy	32,6	2,8%
France	28,5	2,4%
Total top 10	867	73,3%
World total	1182,7	100%

Source: <http://www.worldstopexports.com/crude-oil-imports-by-country/>, own proceeding.

Appendix 6 Consolidated Statements of Financial Position at 31 December 2019

PAO NOVATEK			
Consolidated Statement of Financial Position			
(in millions of Russian roubles)			
	Notes	At 31 December 2019	At 31 December 2018
ASSETS			
Non-current assets			
Property, plant and equipment	5	556,798	408,201
Investments in joint ventures	6	585,340	244,500
Long-term loans and receivables	7	231,898	232,922
Other non-current assets	8	142,335	37,427
Total non-current assets		1,516,371	923,050
Current assets			
Inventories	9	12,263	17,251
Current income tax prepayments		3,819	1,311
Trade and other receivables	10	229,581	54,433
Prepayments and other current assets	11	113,841	89,645
Short-term bank deposits			
with original maturity more than three months		83,752	27,788
Cash and cash equivalents	12	53,240	41,472
Assets held for sale	4	-	61,420
Total current assets		496,496	293,320
Total assets		2,012,867	1,216,370
LIABILITIES AND EQUITY			
Non-current liabilities			
Long-term debt	13	139,852	170,043
Long-term lease liabilities	26	7,516	7,473
Deferred income tax liabilities	25	62,146	29,927
Asset retirement obligations		12,372	8,730
Other non-current liabilities		6,792	6,579
Total non-current liabilities		228,678	222,752
Current liabilities			
Short-term debt and current portion of long-term debt	14	12,246	2,120
Current portion of long-term lease liabilities	26	2,947	2,325
Trade payables and accrued liabilities	16	86,728	79,241
Current income tax payable		2,140	1,633
Other taxes payable		13,052	16,823
Liabilities associated with assets held for sale	4	-	4,881
Total current liabilities		117,113	107,023
Total liabilities		345,791	329,775
Equity attributable to PAO NOVATEK shareholders			
Ordinary share capital		393	393
Treasury shares		(12,308)	(10,445)
Additional paid-in capital		31,297	31,297
Currency translation differences		3,814	(1,702)
Asset revaluation surplus on acquisitions		5,617	5,617
Retained earnings		1,618,696	843,094
Total equity attributable to PAO NOVATEK shareholders	17	1,647,509	868,254
Non-controlling interest		19,567	18,341
Total equity		1,667,076	886,595
Total liabilities and equity		2,012,867	1,216,370

The accompanying notes are an integral part of these consolidated financial statements.


 L. Mikhelson
 Chairman of the Management Committee

18 February 2020


 M. Gyetvay
 Chief Financial Officer

Appendix 7 Consolidated Statement of Income at 31 December 2019

PAO NOVATEK

Consolidated Statement of Income

(in millions of Russian roubles, except for share and per share amounts)

	Notes	Year ended 31 December:	
		2019	2018
Revenues			
Oil and gas sales	18	852,232	825,761
Other revenues		10,571	5,997
Total revenues		862,803	831,758
Operating expenses			
Purchases of natural gas and liquid hydrocarbons	19	(330,818)	(319,990)
Transportation expenses	20	(151,651)	(145,664)
Taxes other than income tax	21	(61,981)	(58,768)
Depreciation, depletion and amortization	5	(32,230)	(33,094)
Materials, services and other	22	(25,183)	(22,675)
General and administrative expenses	23	(24,568)	(22,282)
Exploration expenses	5	(8,386)	(7,012)
Impairment (expenses) reversals, net		(162)	(287)
Changes in natural gas, liquid hydrocarbons and work-in-progress		(5,484)	5,860
Total operating expenses		(640,463)	(603,912)
Gain on disposal of interests in subsidiaries and joint ventures, net	4	682,733	1,645
Other operating income (loss), net	26	(35,484)	(2,307)
Profit from operations		869,589	227,184
Finance income (expense)			
Interest expense	24	(4,491)	(4,746)
Interest income	24	20,699	14,003
Change in fair value of non-commodity financial instruments	26	12,827	3,492
Foreign exchange gain (loss), net	24	(44,747)	25,859
Total finance income (expense)		(15,712)	38,608
Share of profit (loss) of joint ventures, net of income tax	6	149,238	(37,258)
Profit before income tax		1,003,115	228,534
Income tax expense			
Current income tax expense		(97,832)	(44,543)
Deferred income tax benefit (expense), net		(21,822)	(1,044)
Total income tax expense	25	(119,654)	(45,587)
Profit		883,461	182,947
Profit attributable to:			
Non-controlling interest		17,984	19,205
Shareholders of PAO NOVATEK		865,477	163,742
Basic and diluted earnings per share (in Russian roubles)		287.39	54.33
Weighted average number of shares outstanding (in millions)		3,011.5	3,013.8


The accompanying notes are an integral part of these consolidated financial statements.

ПАО «НОВАТЭК»**Консолидированный отчет о финансовом положении**

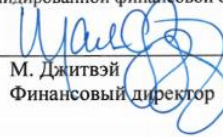
(в миллионах рублей)

	Прим.	На 31 декабря 2019 г.	На 31 декабря 2018 г.
АКТИВЫ			
Долгосрочные активы			
Основные средства	5	556'798	408'201
Инвестиции в совместные предприятия	6	585'340	244'500
Долгосрочные займы выданные и дебиторская задолженность	7	231'898	232'922
Прочие долгосрочные активы	8	142'335	37'427
Итого долгосрочные активы		1'516'371	923'050
Текущие активы			
Товарно-материальные запасы	9	12'263	17'251
Предоплаты по текущему налогу на прибыль		3'819	1'311
Торговая и прочая дебиторская задолженность	10	229'581	54'433
Предоплаты и прочие текущие активы	11	113'841	89'645
Краткосрочные банковские депозиты со сроком размещения более трех месяцев		83'752	27'788
Денежные средства и их эквиваленты	12	53'240	41'472
Активы, предназначенные для продажи	4	-	61'420
Итого текущие активы		496'496	293'320
Итого активы		2'012'867	1'216'370
ОБЯЗАТЕЛЬСТВА И КАПИТАЛ			
Долгосрочные обязательства			
Долгосрочные заемные средства	13	139'852	170'043
Долгосрочные обязательства по аренде	26	7'516	7'473
Обязательства по отложенному налогу на прибыль	25	62'146	29'927
Обязательства по ликвидации активов		12'372	8'730
Прочие долгосрочные обязательства		6'792	6'579
Итого долгосрочные обязательства		228'678	222'752
Текущие обязательства			
Краткосрочные заемные средства и текущая часть долгосрочных заемных средств	14	12'246	2'120
Текущая часть долгосрочных обязательств по аренде	26	2'947	2'325
Кредиторская задолженность и начисленные обязательства	16	86'728	79'241
Задолженность по текущему налогу на прибыль		2'140	1'633
Задолженность по налогам, кроме налога на прибыль		13'052	16'823
Обязательства, относящиеся к активам, предназначенным для продажи	4	-	4'881
Итого текущие обязательства		117'113	107'023
Итого обязательства		345'791	329'775
Капитал, относящийся к акционерам ПАО «НОВАТЭК»			
Уставный капитал – обыкновенные акции		393	393
Выкупленные собственные акции		(12'308)	(10'445)
Добавочный капитал		31'297	31'297
Накопленные разницы от пересчета в валюту представления отчетности		3'814	(1'702)
Доход от переоценки активов в результате приобретений		5'617	5'617
Нераспределенная прибыль		1'618'696	843'094
Итого капитал, относящийся к акционерам ПАО «НОВАТЭК»	17	1'647'509	868'254
Доля неконтролирующих акционеров дочерних обществ		19'567	18'341
Итого капитал		1'667'076	886'595
Итого обязательства и капитал		2'012'867	1'216'370

Прилагаемые примечания составляют неотъемлемую часть настоящей консолидированной финансовой отчетности.


 Л. Михельсон
 Председатель Правления

18 февраля 2020 года


 М. Джитвэй
 Финансовый директор

Appendix 9 Consolidated Statement of Income (in Russian) at 31 December 2019

ПАО «НОВАТЭК»			
Консолидированный отчет о прибылях и убытках			
(в миллионах рублей, кроме количества акций и сумм в расчете на акцию)			
	Прим.	За год, закончившийся 31 декабря:	
		2019	2018
Выручка от реализации			
Выручка от реализации нефти и газа	18	852'232	825'761
Прочая выручка		10'571	5'997
Итого выручка от реализации		862'803	831'758
Операционные расходы			
Покупка природного газа и жидких углеводородов	19	(330'818)	(319'990)
Транспортные расходы	20	(151'651)	(145'664)
Налоги, кроме налога на прибыль	21	(61'981)	(58'768)
Износ, истощение и амортизация	5	(32'230)	(33'094)
Материалы, услуги и прочие расходы	22	(25'183)	(22'675)
Общехозяйственные и управленческие расходы	23	(24'568)	(22'282)
Расходы на геологоразведку	5	(8'386)	(7'012)
Сторнирование расходов (расходы) по обесценению активов, нетто		(162)	(287)
Изменения остатков природного газа, жидких углеводородов и незавершенного производства		(5'484)	5'860
Итого операционные расходы		(640'463)	(603'912)
Прибыль от выбытия долей владения в дочерних обществах и совместных предприятиях, нетто	4	682'733	1'645
Прочие операционные прибыли (убытки), нетто	26	(35'484)	(2'307)
Прибыль от операционной деятельности		869'589	227'184
Доходы (расходы) от финансовой деятельности			
Расходы в виде процентов	24	(4'491)	(4'746)
Доходы в виде процентов	24	20'699	14'003
Эффект от изменения справедливой стоимости нетоварных финансовых инструментов	26	12'827	3'492
Положительные (отрицательные) курсовые разницы, нетто	24	(44'747)	25'859
Итого доходы (расходы) от финансовой деятельности		(15'712)	38'608
Доля в прибыли (убытке) совместных предприятий за вычетом налога на прибыль	6	149'238	(37'258)
Прибыль до налога на прибыль		1'003'115	228'534
Расходы по налогу на прибыль			
Расходы по текущему налогу на прибыль		(97'832)	(44'543)
Экономия (расходы) по отложенному налогу на прибыль, нетто		(21'822)	(1'044)
Итого расходы по налогу на прибыль	25	(119'654)	(45'587)
Прибыль		883'461	182'947
Прибыль, относящаяся к:			
Неконтролирующим акционерам дочерних обществ		17'984	19'205
Акционерам ПАО «НОВАТЭК»		865'477	163'742
Прибыль на акцию базовая и разводненная (в рублях)		287,39	54,33
Средневзвешенное количество акций в обращении (млн шт.)		3'011,5	3'013,8

Прилагаемые примечания составляют неотъемлемую часть настоящей консолидированной финансовой отчетности.