

**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 Operating  
in the Natural Gas Industry**

**Roman Mak**

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# **BACHELOR THESIS ASSIGNMENT**

Roman Mak

Business Administration

Thesis title

**Assessment of the financial position and performance of a chosen Russian company operating in the natural gas industry**

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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 operating in the natural gas industry by analyzing the company's financial statements with focus on the representation and changes of the reported assets, liabilities, expenses, revenues, profit and cash-flow for a chosen period and to identify the potential financial problems and the most significant factors influencing the profit from the company and industry point of view.

## **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.

## The proposed extent of the thesis

40-50

## Keywords

financial statements, financial analysis, financial position, balance sheet, assets, liabilities, equity, financial performance, Income statement, expenses, revenues, profit, cash-flow, natural gas industry

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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 Operating in the Natural Gas Industry" 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 any copyrights.

In Prague on 15.03.2023

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## **Acknowledgement**

I would like to thank Ing. Enikő Lőrinczová, Ph.D. and all other persons, for their advice and support during my work on this thesis.

# **Assessment of financial position and performance of a chosen Russian company**

## **Abstract**

The purpose of the following bachelor thesis is to evaluate the financial position and performance of a Russian company known as Gazprom that operates internationally in the oil and gas industry. This will be accomplished by reviewing the financial statements that a company has provided for a particular chosen time period in order to evaluate and identify changes that have occurred in the company's assets, liabilities, expenses, revenues, and equity. Along with the most significant components and causes that influenced the organization's profit, possible financial concerns that may arise in the future will also be highlighted at some point. The author uses primarily quantitative methods to approach the question of financial situation of Gazprom such as financial ratio analysis, horizontal analysis of financial statements, vertical analysis of financial statement and analysis of market capitalization.

Consequently, the author reaches the conclusion that despite the growing number of external challenges and the company's dependence on Russian foreign policy, the company is performing quite well, and it shows good results in terms of its financial position and financial performance. This is despite the fact that the company is economically dependent on Russian foreign policy. The situation with the company's cashflow is also satisfying, especially considering that the operational cashflow has been positive for the last three years. As it turns out after doing a study of the investment cash flow, the corporation is also investing, in addition to the aforementioned activities. The company is concluded to be possessing enough amount of liquid assets, to be solvent and profitable.

**Keywords:** financial statements, financial analysis, financial position, balance sheet, assets, liabilities, equity, financial performance, Income statement, expenses, revenues, profit, cash-flow, natural gas industry

# Analýza finanční situace a výkonnosti vybrané ruské společnosti

## Abstrakt

Cílem následující bakalářské práce je zhodnotit finanční situaci a výkonnost ruské společnosti známé jako Gazprom, která působí mezinárodně v ropném a plynárenském průmyslu. Toho bude dosaženo přezkoumáním účetní závěrky, kterou společnost poskytla za konkrétní zvolené časové období, aby bylo možné vyhodnotit a identifikovat změny, ke kterým došlo v aktivech společnosti, pasivech, výdajích, výnosech a vlastním kapitálu. Spolu s nejvýznamnějšími složkami a příčinami, které ovlivnily zisk organizace, budou v určitém okamžiku také zdůrazněny možné finanční obavy, které mohou v budoucnu nastat. Autor používá především kvantitativní metody pro přístup k otázce finanční situace Gazpromu, jako je analýza finančních poměrů, horizontální analýza finančních výkazů, vertikální analýza finančních výkazů a analýza tržní kapitalizace.

V důsledku toho autor dospěl k závěru, že navzdory rostoucímu počtu vnějších výzev a závislosti společnosti na ruské zahraniční politice si společnost vede docela dobře a vykazuje dobré výsledky z hlediska své finanční situace a finanční výkonnosti. A to navzdory skutečnosti, že společnost je ekonomicky závislá na ruské zahraniční politice. Situace s cash flow společnosti je také uspokojivá, zejména s ohledem na to, že provozní cashflow byl v posledních třech letech pozitivní. Jak se ukázalo po provedení studie investičního peněžního toku, společnost kromě výše uvedených činností také investuje. Společnost se dospěla k závěru, že má dostatečné množství likvidních aktiv, být solventní a ziskový

**Klíčová slova:** finanční výkazy, finanční analýza, finanční situace, rozvaha, aktiva, pasiva, vlastní kapitál, finanční výkonnost, statment příjmů, výdaje, výnosy, zisk, cash-flow, průmysl zemního plynu

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## List of abbreviations

**EPS** – Earnings per share

**ASEAN** – Association of Southeast Asian Nations

**CEO** – Central executive officer

**P** – Russian ruble

# 1 Introduction

The environment in which people live today is constantly changing, and some businesses are struggling while others are thriving and will continue to do so for many years to come. Despite this, there are several subfields of economics that are expected to expand as a result of their increasing significance in the contemporary world. For instance, one of the industries that will always see expansion is the petroleum and gas business since, bluntly speaking, the foundation of the whole globe rests on this sector, and practically everyone uses goods that were first derived from oil at some time or another.

Despite this, it is reasonable to conclude that the development of businesses closely associated with the oil industry is in a positive association with the expanding significance of the sector that comes after it. In the course of his investigation, the author intends to investigate the economic performance of one of the world's most important oil and gas corporations, such as Gazprom, for example.

It is possible to make conclusions about whether a specific firm will deliver good and hopeful financial results and whether the vector of development will be upward sloping by evaluating the financial situation and performance. After performing the financial analysis, which includes some of the most fundamental techniques involving financial ratios covering the company's liquidity, solvency, and profitability, it is also possible to identify financial problems that the corporation is experiencing. This can be done after the analysis has been completed.

Evidently, one cannot arrive at a decision by relying exclusively on one's own subjective point of view. As a result, the significance of continuing to follow research should not be undervalued, as long as it contributes to offering an objective point of view on the current financial state of, roughly speaking, the most significant Russian firm operating in the global community.

To conclude, it is important to note that this company is significant not only for the people living in the country where it is operating, but also for almost half of the countries that make up Europe because it is the source of their supply of gas. As a result, its

significance and potential for prosperity lie within the interests of many different groups and nationalities.

## **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 operating in the natural gas industry by analyzing the company's financial statements with focus on the representation and changes of the reported assets, liabilities, expenses, revenues, profit and cash-flow for a chosen period and to identify the potential financial problems and the most significant factors influencing the profit from the company and industry point of view..

### **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 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.

## **3 Literature Review**

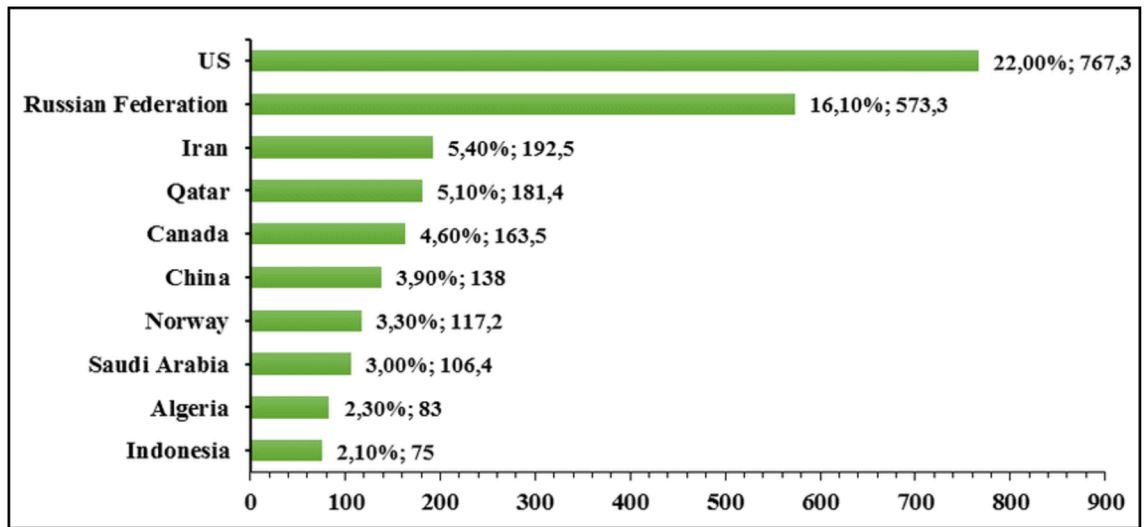
### **3.1 Gas Industry**

#### **3.1.1 Gas Industry in the World**

In order to start focusing on Gazprom, Russia's biggest domestic supplier of gas, it is wise to take a look at the gas industry as a whole and mention the other important companies that operate in the same segment as Gazprom. Undoubtedly, when talking about the gas industry that usually includes the exploration, extraction, transportation, etc., it is essential to understand that there is a special trait that makes this industry unique. Compared to other business domains as finance and retail, for instance, companies extracting gas cannot be established anywhere on the globe, since there is a very important condition – the country where the company would be based has to have national reserve of gas. In addition to this, there is also a very important aspect needed to be mentioned: gas companies are often subjects to the nationalization, i.e., government tend to seize such companies to their own property or they have the controlling share in those companies. Clearly, it is often done due to the relative importance that the following industry have for entire countries (Koivumaeki, 2015).

Nevertheless, the biggest gas companies are unsurprisingly located in countries that have the greatest gas reserves and the biggest rate of gas extraction. The following figure indicates the countries, whose are extremely keen on producing and selling gas and related commodities.

**Figure 1, world natural gas production by ten countries**



Source: Aktemur, 2017

As it can clearly be seen, the market is primarily split between just a few key countries specializing in the gas production. Yet, it is also visible that the rates of gas production of the United States and Russia are beyond the reach of any other country, having 22% and 16.1% of the world’s gas production, respectively.

The main consequence of this partial monopsony is that those key countries tend to supply the gas to their regions. Hence, the United States primarily supplies gas to countries situated nearby and to Latin America. Russia supplies gas to Europe and other countries in its vicinity. Clearly, this definitely has negative consequences, however, those consequences are faced by countries who have a relatively short supply of domestic gas, so they are fully dependent on their gas abundant neighbour (Halser, 2022).

### 3.1.2 Gas Industry in Russia

In order to understand the way how Gazprom exactly generates its profit, it is essential to take a look at the scope of the company’s activities. The following table contain the list of the main activities done by Gazprom.

**Table 1, activities conducted by Gazprom**

Exploration
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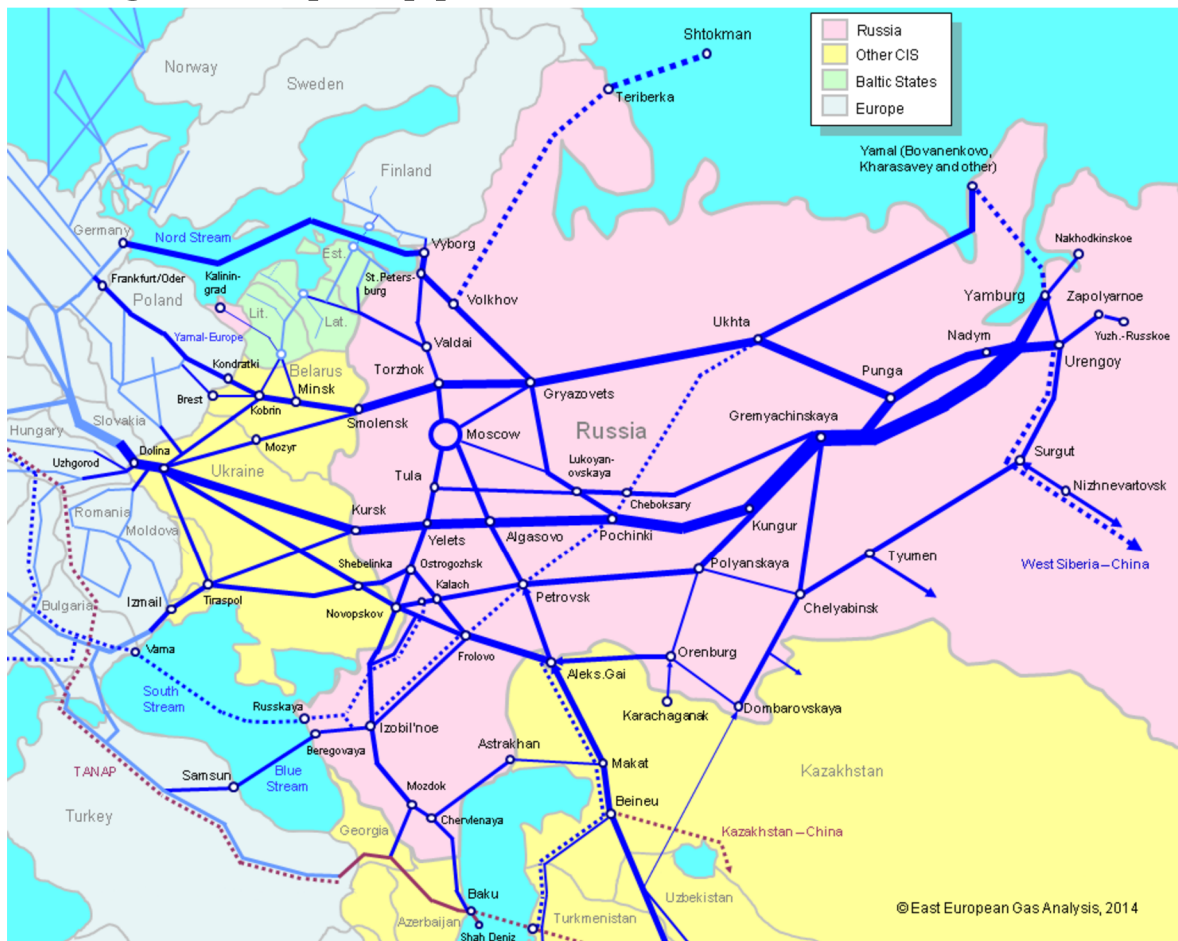
Extraction of gas and oil
Transportation of gas and oil
Storing
Refining of gas and oil
Storing
Processing of gas and oil
Production of petrol
Production and sale of gas

Source: Gazprom, 2022

As it can be observed in the table above, Gazprom narrowed its span of activity to almost everything related to the exploration, extraction, storing, processing and production of energy primarily from gas. Undoubtedly, the main revenue comes from the production of petrol, production and transportation of gas through their pipelines, whose scheme is available in the following figure .



**Figure 2, Gazprom pipelines**



Source: East European Gas Analysis, 2014

### 3.2 Accounting Framework in Russia

When it comes to the accounting framework in Russia, the country where the company is based, it is fair to claim that initially, after the collapse of the Soviet Union, the country inherited the system used in the Union. Given the iron curtain and partial isolation of the USSR, it is wise to claim that the overwhelming majority of accounting practice differed significantly from the international standards adopted by the IFRS. However, right after the collapse of the Union, Russia started gradually transforming its accounting system in such a way that the financial statements of their leading companies, e.g. Gazprom, Rosneft, Sberbank, etc. will be somewhat similar to the ones published in accordance with the IFRS regulation standards. Hence, by looking at Gazprom and other major Russian companies' statements now, it will be quite clear that the main framework for creating those statements

is almost identical to the IFRS. All in all, it is essential to mention the most important pieces of legislation regulating the accounting métier in Russia.

The main piece of legislation controlling the bookkeeping in accounting was published by the Ministry of Finance on the 31<sup>st</sup> of October in 2000 under the number 94n. Yet, the biggest step towards the harmonization of accounting with the international standards happened in 2010, when the law number 208-FZ finally introduced the IFRS into Russian legislation. Since then, the growing presence of IFRS standard started to be noticed more and more (Antipova, 2013).

When it comes to individual characteristics of accounting in Russia, it is important to mention that the fiscal year starts on the 1<sup>st</sup> of January and ends on the 31<sup>st</sup> of December, as in almost every corner of the civilized world. As for the mandatory statements in Russia, it is mandatory to report the following list of statements: balance sheet, income statement, statement of changes in equity, cash flows and notes to the financial statements.

As for another important side of accounting in Russia, i.e., taxes, the individual tax rate in Russia is flat with only 13% and it is subject to various deductions. The corporate tax rate in Russia is 15%, but this percentage can be lowered to 7.5% if the company has a large importance for the country. Clearly, it is the case of Gazprom (Generalova, 2016).

The list of bodies controlling accounting practices in Russia is vast: Audit Chamber of Russia, Institute of Professional Accountants of Russia, Institute of Professional Auditors, Federal Treasury, Ministry of Finance, Russian Union of Auditors and National Organization for Financial Accounting and Reporting Standards.

As for the process of audit in Russia, since 17.01.2017, all companies have to comply with the mandatory audit that is performed in full complies with the international standards on auditing (Akhmetshin, 2018).

### 3.3 Financial Statements

#### 3.3.1 Statement of the Financial Position

As it was mentioned in the previous chapter, there are a few financial statements that are mandatory for publishing in Russia. Among them, there is one called balance sheet that also goes by the name the statement of financial position and it reflects the company's position in terms of assets, equity and liabilities. The specificity of this statement lies in the equation that has to be followed whenever this statement is being created. The following figure reflects the given equation (Lessambo, 2018).

**Figure 3, balance sheet equation**

Assets	Liabilities
	Equity

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

Source: Lessambo, 2018

In other words, the value on the left, the assets, always has to be equal to the value on the right, the sum of liabilities and equities. Assets represent the goods and property earned by the company and assets are primarily classified as:

*Current Assets, or assets which are expected to be used within a year of their purchase, the so-called liquid assets that can be sold in order to cover debts of the company.*

In current assets, the following elements are frequently encountered:

*Cash and cash equivalents (physical money earned by the company)*

*Receivables (the amounts due from individuals and companies)*

*Inventory (products, material, merchandise)*

*Deferred income taxes (amount of income tax payable in future periods)*

*Prepaid expenses (expenses paid in advance are considered as assets)*

*Securities (stocks owned by the company)*

*Short-term investments*

Then, the second classification of assets is the following

*Long-term assets or assets which are expected to be used with a span of over one year from their purchase. Long-term assets are divided into tangible and intangible assets, where tangible assets are subject to depreciation (permanent value-decreasing adjustment)*

In long-term assets, the following elements are frequently encountered:

*Long-term investments*

*Property, plant and equipment (buildings, machines, etc. which are subjects to depreciation. However, land is **never** depreciated.) This element can be divided into two categories – gross (before subtracting value adjustments) and net (after subtracting value adjustments)*

*Goodwill (brand recognition)*

The amount of total assets is summed up from the total of current assets and non-current assets.

Now, it is the time to take a look at the other part of the balance sheet equation – liabilities and equities. These two are believed to be the main sources of the company financing the purchase of assets. First, liabilities or the company's obligations towards other parties, e.g. to deliver services, to pay, etc.

The same as assets, liabilities are divided into two categories:

Short-term liabilities or liabilities that are expected to be paid within a short period of time with the following elements:

*Debts maturing in one year*

*Accounts payable and accrued liabilities*

*Dividends payable*

*Accrued taxes*

Then, the long-term liabilities with the following list of frequently encountered elements:

*Long-term debt*

Finally, the equity that represents the capital owned by the business with the following elements:

*Treasury stocks (stocks bought back by the company)*

*Capital (the initial amount invested)*

*Retained earnings (firm's cumulative net earnings after subtracting dividends)*

By analyzing the following statement, it is possible to draw conclusions about the financial position of the company.

### **3.3.2 Statement of the Financial Performance**

Another important financial statement that will be used in the practical part is the income statement, or also known as the statement of the financial performance or the profit and loss account. This statement sheds a brighter light on the financial performance of the company, breaks down its expenses and revenues and also indicates the earnings per share along with the net income.

The statement itself can be either by function or by nature. Statements by functions classify expenses by their function including the costs of goods sold (the expense related to the production of goods), administrative expenses (expenses related to the organization as a whole, like accounting expenses, wage of executives, etc.) and distribution expenses (expenses related to the sale of goods as packaging). When it comes to the statement by nature, it involves other accounts such as change in own production. When it comes to Gazprom, it reports the following statement by function, so the author will focus on this type of the statement (Bartov, 2014).

The following table contains the breakdown of the statement's structure.

**Table 2, structure of income statement**

<i>Sales/Revenues</i>	<i>The total value of goods and services sold to customers.</i>
<i>COGS</i>	<i>Costs of goods sold, or the expense related to the production of goods.</i>
<i>Gross Profit</i>	<i>Sales – COGS, this shows the gross profit of the organization.</i>
<i>Operating expenses</i>	<i>Expenses related to the operations of the company – administrative and distribution.</i>
<i>EBIT</i>	<i>Earnings before interest and taxes.</i>
<i>Non-operating or financial expenses</i>	<i>Expenses related to financial domain including interest.</i>
<i>EBT</i>	<i>Earnings before taxes.</i>
<i>Tax expense</i>	<i>The current tax expense.</i>
<i>Net income</i>	<i>The final profit of the company.</i>
<i>Total number of shares outstanding</i>	<i>This element is not always present, but it is used for the calculation of the EPS</i>
<i>Earnings per share</i>	<i>Net income/total number of shares outstanding, this reflects the amount that investors earn per owning one share of the company</i>

Source: Bartov, 2014

This statement is extremely helpful in order to understand if the company is generating any revenue or not, and this statement is extremely helpful for investors assessing their potential investment into the company.

### 3.3.3 Cash-flow Statement

Finally, the final statement that will be analyzed by the author in relation to Gazprom is the cash-flow statement. This statement shows data regarding cash flow inflows and outflows of the company. For instance, whenever a company is spending money on buying assets, it is considered to be a cash outflow. In contrast, whenever a company is borrowing or selling its shares in order to finance their future purchases, this is considered as a cash inflow. Interestingly, depreciation is not considered to be a cash outflow despite being an expense, so depreciation is often used for the tax deduction purposes.

The statement itself is split into three equally important segments each indicating an important domain of the company's activity:

*Operating cash flow. This section is made up of the cash generated by company's business activities. If the operating cashflow is positive, it means that the company can generate sufficient amounts of cash to maintain its daily operations. If this cashflow is negative, it means that the company is in trouble.*

*Investing cash flow. This section is made up of the cash generated by company's investing activity. Whenever the cashflow is negative, it means that the company is actively investing and it is a good aspect, as it can help the company to generate profit in the future. If the cashflow is positive, it means that the company's liquid assets are increasing. All in all, this cashflow can either be positive or negative, without any repercussions for the company.*

*Financing cash flow. This cash flow is made up of all cash inflows and outflows related to funding of the company – equity and debt financing. If the cashflow is positive, it means that the company has recently borrowed funds. If it is negative, it means that the company repaid back a part of the debt.*

The ultimate number that is calculated after summing all three segments up should match the value of cash in the balance sheet (Sayari, 2013).

### 3.4 Financial analysis

Finally, the very last tool that will be used for the financial analysis of Gazprom are financial ratios. Ratios are split into three categories:

*Liquidity ratios or ratios indicating the company's ability to quickly sell its assets to cover debts.*

*Solvency ratios or ratios indicating the company's ability to stay afloat.*

*Profitability ratios or ratios indicating the company's ability to generate profit* (Beaver, 1966).

In his thesis, the author will use the following liquidity ratios:

**Current ratio** - the ability to pay short-term obligations. If the value is greater than 1, it means that the company is capable of paying its short-term obligations.

**Figure 4, current ratio formula**

$$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Source: Beaver, 1966

**Quick ratio** - the value of company's quick assets that can be easily converted to cash in order to cover obligations. If the value is above 1, the company is doing well.



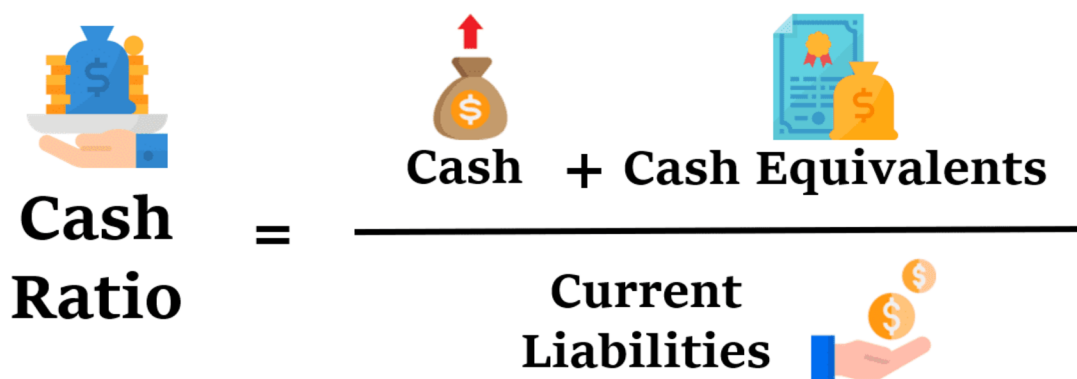
Figure 5, quick ratio formula

$$\text{Quick Ratio} = \frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$$

Source: Beaver, 1966

**Cash ratio** – the degree to which the company will be left with liquid assets if short-term obligations are paid.

Figure 6, cash ratio formula



The diagram illustrates the cash ratio formula. On the left, the text "Cash Ratio" is written in a large, bold font. To its right is an equals sign. The numerator of the fraction is "Cash + Cash Equivalents", with "Cash" and "Cash Equivalents" in bold. Above "Cash" is an icon of a money bag with a red arrow pointing up, and above "Cash Equivalents" is an icon of a document with a red ribbon and a money bag. The denominator of the fraction is "Current Liabilities", with "Current" and "Liabilities" in bold. To the right of "Liabilities" is an icon of a hand holding three coins.

$$\text{Cash Ratio} = \frac{\text{Cash} + \text{Cash Equivalents}}{\text{Current Liabilities}}$$

Source: Beaver, 1966

As for the profitability ratios, the author will use the following once for his analysis:

**Gross profit margin** – the share of gross profit out of the total value of revenues. it is a sign that the company is doing good.

**Figure 7, gross margin formula**

$$\text{Gross Margin} = \frac{\text{Revenue} - \text{COGS}}{\text{Revenue}}$$

Source: Beaver, 1966

**Operating profit margin** – the margin of operating profit out of the total value of revenues. it is a sign that the company is doing good.

**Figure 8, operating profit formula**

$$\text{Operating Profit Margin} = \frac{\text{Operating Income}}{\text{Revenue}} \times 100$$

Source: Beaver, 1966

**Net profit margin** – the share of net income in the total value of revenues. If it is positive, it is a sign that the company is doing good.

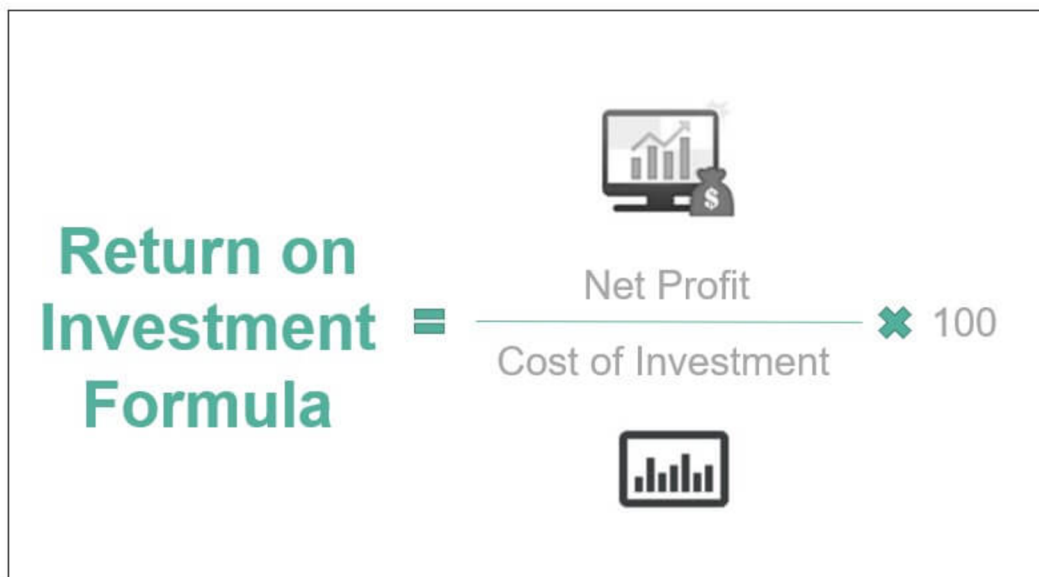
**Figure 9, net margin formula**

$$\text{Net Profit Margin} = \frac{\text{Revenue} - \text{Cost}}{\text{Revenue}}$$

Source: Beaver, 1966

**Return on investment** – percentual return on the total value of investment. If the value is greater than 0 it means that the company has earned money from its investment and not lost it.

**Figure 10, return on investment formula**

The diagram shows the Return on Investment formula. On the left, the text "Return on Investment Formula" is written in a teal color. To its right is an equals sign, followed by a fraction. The numerator of the fraction is "Net Profit" and the denominator is "Cost of Investment". To the right of the fraction is a teal "x" symbol followed by the number "100". Above the fraction is an icon of a computer monitor displaying a bar chart with an upward arrow and a dollar sign. Below the fraction is an icon of a bar chart.

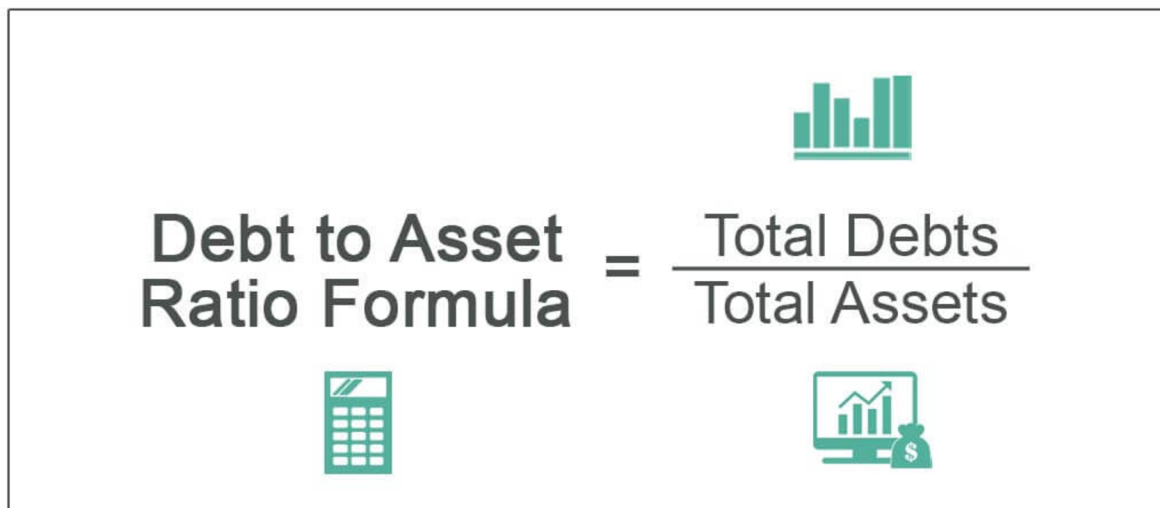
**Return on Investment Formula** =  $\frac{\text{Net Profit}}{\text{Cost of Investment}} \times 100$

Source: Beaver, 1966

Finally, the author will use the following list of solvency ratios:

**Debt to assets** – the share of debt from the total amount of the company’s assets. The value has to be kept to minimum and be less than 1.

**Figure 11, debt to assets formula**



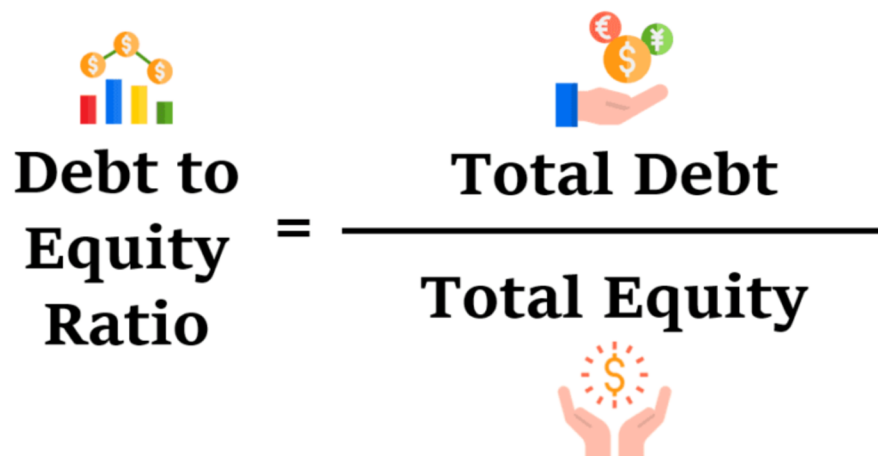
The graphic displays the formula for the Debt to Asset Ratio. On the left, the text "Debt to Asset Ratio Formula" is written in a bold, dark grey font. Below this text is a teal icon of a calculator. To the right of the text is an equals sign, followed by a fraction. The numerator of the fraction is "Total Debts" and the denominator is "Total Assets". Above the fraction is a teal bar chart icon with four bars of increasing height. Below the fraction is a teal icon of a computer monitor displaying a bar chart and a dollar sign.

$$\text{Debt to Asset Ratio Formula} = \frac{\text{Total Debts}}{\text{Total Assets}}$$

Source: Beaver, 1966

**Debt to equity** – the share of debt from the total amount of the company’s equity. The value has to be kept to minimum and be less than 1.

**Figure 12, debt to equity formula**



The graphic displays the formula for the Debt to Equity Ratio. On the left, the text "Debt to Equity Ratio" is written in a bold, black font. Above this text is a colorful bar chart icon with four bars of increasing height, with dollar signs above each bar. To the right of the text is an equals sign, followed by a fraction. The numerator of the fraction is "Total Debt" and the denominator is "Total Equity". Above the fraction is a hand icon holding several coins with different currency symbols (Euro, Dollar, Yen). Below the fraction is a hand icon holding a glowing dollar sign.

$$\text{Debt to Equity Ratio} = \frac{\text{Total Debt}}{\text{Total Equity}}$$



Source: Beaver, 1966

**Equity ratio** – this ratio indicates if the company uses the equity financing approach or debt financing approach. If the value is greater than 1, it means that the company uses an equity financing.

**Figure 13, equity ratio formula**

**Equity Ratio**

$$\text{Equity Ratio} = \frac{\text{Shareholder's Equity}}{\text{Total Asset}}$$

Source: Beaver, 1966

Now, the author will proceed to the financial analysis of Gazprom's financial statements in his practical part (Barnes, 1987).

## 4 Practical Part

### 4.1 Gazprom

In order to proceed to the financial analysis, the main objective of the following thesis, it is firstly essential to take an insight into the corporation and describe the way how it works and in which segment exactly it specializes.

**Figure 14, Gazprom logo**



Source: Gazprom, 2022

Gazprom in the form that it is known today saw the light of the day in 1990. Before that, the company was a government institution specializing in energy all over the Soviet Union. Of course, the collapse of the giant led to the fact that Gazprom lost a part of its property in former Soviet Republics, where this property was nationalized or privatized. Nevertheless, the time went on and with the emergence of the Russian Federation, a completely new state, there came a question of Gazprom – what to do with the company? Given the growing tendency of privatization that was taking place in Russia back in the 90s, it was projected that Gazprom will also be concentrated in the hands of private businessmen, but despite the fact that the government transformed the company into the joint stock company, Russia was still the biggest and the most important shareholder, who had the right to choose the CEO (Rosner, 2006).

All in all, the company went successfully through the troubled economic period of Russian history and was not really suffering from any problems due to the active support of the Russian government and various taxes easements also including tax holidays.

As of 2021, the company was among the biggest ones in Russia taking the second spot and following Sberbank. Regardless of the second place in the market capitalization, Gazprom is believed to be the most important Russian company because compared to Sberbank, it does not only specialize on the domestic market as Sberbank does, but it is building bridges between countries experiencing shortage of energy and the Russian Federation (Gupta, 2016).

In addition to this, it would be quite sensible to mention a couple of major events that were taking place in Gazprom. In 2000, a new CEO of Gazprom, Alexei Miller was appointed by the new president of Russia, Vladimir Putin and he is still currently the person in charge. Apart from countless administrative changes that were taking place in Gazprom, the Crimea issue played a huge role on Gazprom, as the company drastically lost its market capitalization due to the twofold increase of exchange rate between dollar and rouble. Among issues that Gazprom was facing, there is one that is being brought up countless times but seems to have no effect on the company – the problem of Russia's gasification (Paniouchkine, 2008). To the surprise of many, the country actively supplying its gas to leading European nations has not yet been fully equipped with gas. The following map contains the scheme of Russia's gasification, where it is visible that some parts of Russia still do not have access to daily supplies of gas (Romanova, 2019).

**Figure 15, gasification of Russia**



Source: Gazprom, 2021

Finally, another important but rather a positive occurrence took place in 2019, when the corporation was finally able to finish the construction of its main headquarter in Saint-Peterburg – Lakhta Centre.

**Figure 16, Lakhta Center**





Source: Gazprom, 2019

In addition, the most recent occurrence related to Gazprom that took place is the final shutdown of the construction of the new pipeline Nordstream 2, which was called off after the start of the conflict in Ukraine

## 4.2 Characteristics of the Company

In order to understand the importance of Gazprom in the context of Russian and International markets, the most valuable piece of statistics that can be used are market capitalization of the company throughout the years, share of the company in Russian stock market, and the number of countries actively engaged in business with Gazprom. By doing as described, the author can provide a piece of valuable statistics related to the evolution of the company.

Thus, the first thing on the author's agenda will be observing the market capitalization of Gazprom over last four years (2019, 2020, 2021 and 2022). As for the year 2022, it is quite evident that there is no way to get the value by the end of 2022, so the author will use the value of market capitalization on the 18<sup>th</sup> of August. The following figure contains the development of the market capitalization of Gazprom along with the percentual change of the given indicator.

**Figure 17, market capitalization of Gazprom**

Year	Market cap, billion USD	Change
2022	\$ <b>72,07</b>	<b>-34%</b>
2021	\$ <b>108,64</b>	<b>61%</b>
2020	\$ <b>67,38</b>	<b>-31%</b>
2019	\$ <b>97,82</b>	-

Source: Own research based on Yahoo Finance

Clearly, as it can be observed, the market capitalization of Gazprom was gradually decreasing under the influence of external factors, which will be discussed in more detail in the fifth chapter of the thesis. Yet, it is quite clear that the current development of the company capitalization cannot anyhow be categorized as optimistic or reassuring, as it keeps devaluating.

Then, another equally importing piece of statistics that will be demonstrated here is the share of Gazprom in the Russian stock market. This can shed a brighter light on the development of the company in terms of the domestic market.

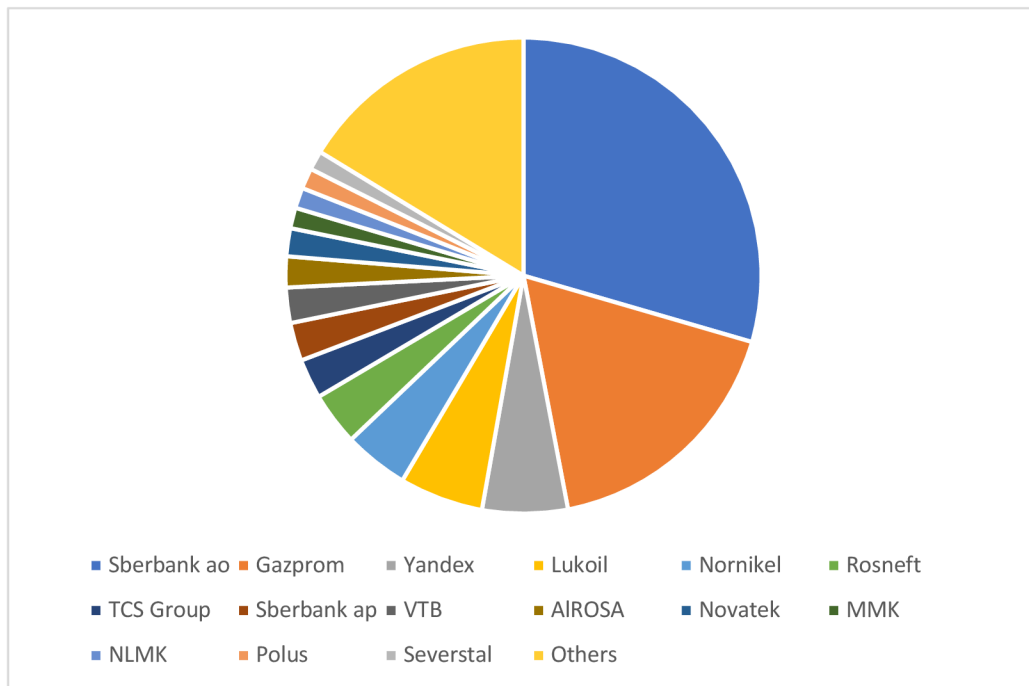
**Figure 18, share of each company**

<b>Name</b>	<b>Share</b>
<i>Sberbank ao</i>	<b>29,5%</b>
<i>Gazprom</i>	<b>17,5%</b>
<i>Yandex</i>	<b>5,8%</b>
<i>Lukoil</i>	<b>5,7%</b>
<i>Nornikel</i>	<b>4,4%</b>
<i>Rosneft</i>	<b>3,6%</b>
<i>TCS Group</i>	<b>2,7%</b>
<i>Sberbank ap</i>	<b>2,6%</b>
<i>VTB</i>	<b>2,4%</b>
<i>AIROSA</i>	<b>2,1%</b>
<i>Novatek</i>	<b>1,9%</b>
<i>MMK</i>	<b>1,4%</b>
<i>NLMK</i>	<b>1,4%</b>
<i>Polus</i>	<b>1,4%</b>
<i>Severstal</i>	<b>1,3%</b>
<i>Others</i>	<b>16,3%</b>

Source: Own research based on Moscow Stock Market, 2022

As it can be observed, Gazprom is not the largest company from Russia residing on the second place, while the most important company is Sberbank. At the same time, it is still possible to claim that the Russian market is currently split between two huge players – Sberbank and Yandex because the gap between these two and other companies is simply too vast to claim otherwise.

**Figure 19, chart reflecting shares**

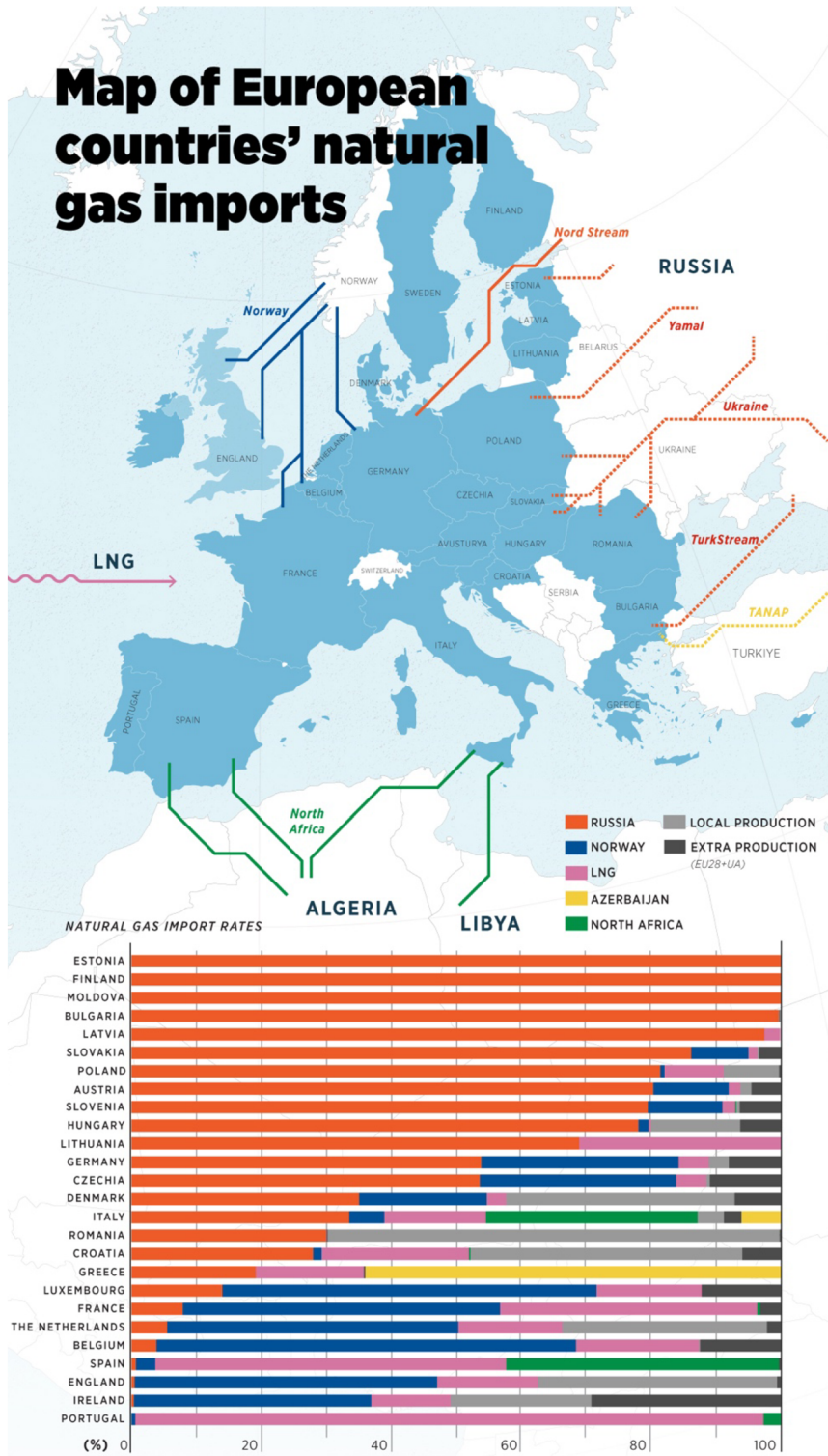


Source: Own research

In Figure 3, it is even more visible when taking a look at the visual representation of the shares on Moscow exchange market.

Finally, in order to understand the context of international development of Gazprom, it will be wise to track the number of European countries, who are primary customers of Gazprom, engaged in business relations with the company. The following figure contains the scheme of gas transportation including the breakdown of each country's source of gas. As it was mentioned in the literature review, Gazprom is the monopolist in Russia, so whenever a country is buying gas from Russia, it does inevitably buy it from Gazprom (Schaffer, 2008).

Figure 20, breakdown of gas transportation



Source: Zachmann, 2021

As it becomes obvious after looking at the map, the relative significance of Gazprom to individual European states is quite huge, as the overwhelming majority of European countries rely on Russia as the main source of energy. Hence, despite the problem with the

decreasing market capitalization and devaluation of the company, it still plays a huge role on the international arena, as it is one of few bridges left that connect Russia and Europe.

### **4.3 Financial position of the company**

#### **4.3.1 Horizontal analysis**

##### **4.3.1.1 Balance sheet**

All data is manually collected by the author based on the overview financial statements published by Gazprom published in The Wall Street Journal (Wall Street Journal, 2022).

After assessing the overall performance and presence of the company in the previous chapter, it is finally possible to take a detailed insight into the way how the company was developing throughout the years. The very first financial statement of the company that will be taken into consideration is balance sheet, as it will shed a light on the overall breakdown of the company's assets, liabilities and equity. What is more, the horizontal approach will help the author to follow the pattern of the development over the course of three years - 2019, 2020 and 2021. Yet, not the entire balance sheet will be discussed, but only the most important parts of it and the total values of separate parts, such as the total current assets, total non-current assets, etc. The following table contains the most important information about the development of Gazprom's assets over the mentioned period of time.

**Table 3, horizontal analysis of assets in the balance sheet**

<i>Element/Year</i>	<b>2021</b>	<b>2020</b>	<b>2019</b>
<i>Cash/Short-term investments</i>	2 040 026 P	1 064 677 P	729 701 P
<i>Receivables</i>	1 924 182 P	1 357 205 P	1 130 967 P
<i>Inventories</i>	1 009 323 P	971 789 P	946 361 P
<i>Other current</i>	1 240 752 P	380 618 P	1 021 124 P
<b>Total current assets</b>	<b>6 214 283 P</b>	<b>3 774 289 P</b>	<b>3 828 153 P</b>
<i>Property, plant and equipment GROSS</i>	26 319 375 P	24 733 436 P	22 654 712 P
<i>Accumulated depreciation</i>	- 9 419 517 P	- 8 435 028 P	- 7 584 020 P
<i>Total investments</i>	2 181 593 P	1 769 958 P	1 640 191 P
<i>Long-term note receivable</i>	418 435 P	325 336 P	338 419 P
<i>Intangible Assets</i>	213 273 P	199 894 P	194 408 P
<i>Other non-current</i>	1 119 788 P	984 300 P	810 485 P
<b>Total non-current assets</b>	<b>20 832 947 P</b>	<b>19 577 896 P</b>	<b>18 054 195 P</b>
<b>Total Assets</b>	<b>27 193 319 P</b>	<b>23 672 059 P</b>	<b>22 067 457 P</b>
Change			
<i>Element/Year</i>	<b>2021</b>	<b>2020</b>	
<i>Cash/Short-term investments</i>	92%	46%	
<i>Receivables</i>	42%	20%	
<i>Inventories</i>	4%	3%	
<i>Other current</i>	226%	-63%	
<b>Total current assets</b>	<b>65%</b>	<b>-1%</b>	
<i>Property, plant and equipment GROSS</i>	6%	9%	
<i>Accumulated depreciation</i>	12%	11%	
<i>Total investments</i>	23%	8%	
<i>Long-term note receivable</i>	29%	-4%	
<i>Intangible Assets</i>	7%	3%	
<i>Other non-current</i>	14%	21%	
<b>Total non-current assets</b>	<b>6%</b>	<b>8%</b>	
<b>Total Assets</b>	<b>15%</b>	<b>7%</b>	

Source: Own research based on the financial statements

In Table 3, the output of the horizontal analysis can be seen. The very first thing that comes to the mind is the fact that despite the pandemic happening in 2020, the overall situation with assets did not really change, as there was a decrease of just 1% in the amount of total current assets. All in all, there is a gradual increase in almost all sections of assets including both current and non-current assets, so it might rather be a good sign. However, on the other hand, there is a logical question of the financing behind those assets, as companies often rely either on debt financing or equity financing. In the following table, it will be possible to observe the development of liabilities and equities, the other part of the balance sheet equation.

**Table 4, horizontal analysis of liabilities in the balance sheet**

<i>Element/Year</i>	<b>2021</b>	<b>2020</b>	<b>2019</b>
<i>Short-term debt</i>	750 125 P	734 986 P	816 222 P
<i>Payables</i>	1 113 471 P	509 013 P	498 181 P
<i>Income Tax</i>	112 705 P	14 402 P	39 709 P
<i>Other current liabilities</i>	2 046 644 P	1 368 563 P	1 173 364 P
<b>Total current liabilities</b>	<b>4 022 945 P</b>	<b>2 626 964 P</b>	<b>2 527 476 P</b>
<i>Long-term debt</i>	4 715 976 P	4 616 318 P	3 295 195 P
<i>Provisions for Risks and Charges</i>	577 863 P	688 333 P	606 783 P
<i>Deferred taxes</i>	875 099 P	667 724 P	768 448 P
<i>Other liabilities</i>	287 458 P	138 864 P	68 759 P
<b>Total non-current liabilities</b>	<b>6 456 396 P</b>	<b>6 111 239 P</b>	<b>4 739 185 P</b>
<b>Total liabilities</b>	<b>10 625 430 P</b>	<b>9 058 077 P</b>	<b>7 451 770 P</b>
Change			
<i>Element/Year</i>	<b>2021</b>	<b>2020</b>	
<i>Short-term debt</i>	2%	-10%	
<i>Payables</i>	119%	2%	
<i>Income Tax</i>	683%	-64%	
<i>Other current liabilities</i>	50%	17%	
<b>Total current liabilities</b>	<b>53%</b>	<b>4%</b>	
<i>Long-term debt</i>	2%	40%	
<i>Provisions for Risks and Charges</i>	-16%	13%	
<i>Deferred taxes</i>	31%	-13%	
<i>Other liabilities</i>	107%	102%	
<b>Total non-current liabilities</b>	<b>6%</b>	<b>29%</b>	
<b>Total liabilities</b>	<b>17%</b>	<b>22%</b>	

Source: Own research based on the financial statements

When looking at the detailed breakdown of the development of Gazprom's liabilities, it will be possible to notice that the amount of liabilities was also primarily rising throughout the years, so it can be concluded that the company primarily focused on borrowing in order to finance the purchase of assets. To be more particular, it can be observed that in 2020, the amount of short-term debt decreased by 10% while the amount of long-term debt increased by 40%, so it serves as a piece of partial evidence for the author's assumption. In addition to this, it is visible that another element whose value decreased significantly is the income tax, but it is explained by the fact that during the pandemic, the company started to earn less, as it will be indicated in the next chapter, so the amount of income tax decreased respectively.

The final piece of information about the company's financial position is the amount of total equity. The breakdown is available in Table 5.

**Table 5, horizontal analysis of equity in the balance sheet**

<i>Element/Year</i>	2021	2020	2019
<i>Other equity</i>	1 253 532 P	1 294 388 P	997 078 P
<i>Retained earnings</i>	14 699 297 P	12 752 805 P	13 107 755 P
<b><i>Total shareholders' equity</i></b>	<b>15 952 829 P</b>	<b>14 047 193 P</b>	<b>14 104 833 P</b>
<i>Accumulated minority interest</i>	615 060 P	566 789 P	510 854 P
<b><i>Total equity</i></b>	<b>16 567 889 P</b>	<b>14 613 982 P</b>	<b>14 615 687 P</b>
Change			
<i>Element/Year</i>	2021	2020	
<i>Common equity</i>	-3%	30%	
<i>Retained earnings</i>	15%	-3%	
<b><i>Total shareholders' equity</i></b>	<b>14%</b>	<b>0%</b>	
<i>Accumulated minority interest</i>	9%	11%	
<b><i>Total equity</i></b>	<b>13,4%</b>	<b>-0,01%</b>	

Source: Own research based on the financial statements

As it can be seen above, the amount of total equity was gradually rising with a minor contrepemps in 2020 due to the pandemic. Still, the amount of total equity kept rising over the period of 3 years. In addition to this, it is visible that the main catalysator behind this rise were retained earnings of the company, which firstly dropped in 2020 and reversed back in 2021 with a 15% increase in the value. Still, the author believes that the company primarily relied on the debt financing rather than on the equity financing.

#### 4.3.1.2 Income statement

After analysing the statement of financial position, it is wise to take a look at the statement reflecting the financial performance of the company, which is also known as the income statement.



**Table 6, horizontal analysis of the income statement**

<b>Element/Year</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
Sales	10 241 353 P	6 321 559 P	7 659 623 P
COGS	5 512 818 P	4 352 684 P	4 716 815 P
<b>Gross Income</b>	<b>4 728 535 P</b>	<b>1 968 875 P</b>	<b>2 942 808 P</b>
SG and A expense	221 875 P	225 587 P	289 057 P
Other operating expenses	1 540 153 P	1 236 829 P	1 414 191 P
<b>EBIT</b>	<b>2 966 507 P</b>	<b>506 459 P</b>	<b>1 239 560 P</b>
Unusual expense	<b>393 678 P</b>	<b>69 919 P</b>	<b>9 506 P</b>
Non-operating income	- 21 624 P	- 426 499 P	175 384 P
Non-operating interest income	70 984 P	60 137 P	90 926 P
Interest expense	94 871 P	73 445 P	76 426 P
<b>Pretax Income</b>	<b>2 527 318 P</b>	<b>- 3 267 P</b>	<b>1 419 938 P</b>
Income Tax	610 428 P	- 28 938 P	357 548 P
Equity in affiliates	242 196 P	136 736 P	207 127 P
Other after tax income	- 10 587 P	- 1 507 P	-
Consolidated net income	2 148 499 P	160 900 P	1 269 517 P
Minority interest expense	66 015 P	27 066 P	66 630 P
<b>Net Income</b>	<b>2 082 484 P</b>	<b>133 834 P</b>	<b>1 202 887 P</b>
<b>Net margin</b>	<b>20,33%</b>	<b>2,12%</b>	<b>15,70%</b>
Number of shares outstanding	23 645	23 645	22 500
<b>EPS</b>	<b>88,07 P</b>	<b>5,66 P</b>	<b>53,46 P</b>
<b>Change</b>			
<b>Element/Year</b>	<b>2021</b>	<b>2020</b>	
Sales	62%	-17%	
COGS	27%	-8%	
<b>Gross Income</b>	<b>140%</b>	<b>-33%</b>	
SG and A expense	-2%	-22%	
Other operating expenses	25%	-13%	
<b>EBIT</b>	<b>486%</b>	<b>-59%</b>	
Unusual expense	463%	636%	
Non-operating income	-95%	-343%	
Non-operating interest income	18%	-34%	
Interest expense	29%	-4%	
<b>Pretax Income</b>			
Income Tax			
Equity in affiliates	77%	-34%	
Other after tax income	603%	-	
Consolidated net income	1235%	-87%	
Minority interest expense	144%	-59%	
<b>Net Income</b>	<b>1456%</b>	<b>-89%</b>	
<b>Net margin</b>	<b>860%</b>	<b>-87%</b>	
<b>EPS</b>	<b>1456%</b>	<b>-89%</b>	

Source: Own research based on the financial statements

After looking at the change in the values occurred in 2020, the picture becomes quite pessimistic, as the values of sales, interest income and other non-operating income were decreasing much more radically than the values of expenses which, undoubtedly, decreased consequently. Still, the company was able to recover in 2021, when almost all indicators

started increasing once again. In 2021, for instance, the value of net income bounced back and showed an increase of 1456% compared to 2020. As for the earnings per share, the value also increased by the same percentage thus shifting from 5.66 RUB per share to 88.07 RUB per share in 2021. At the same time, it is visible that the total number of shares outstanding remained the same, so the return to the value of 2019 and even surpassing the value in 2021 is a sign that the company is on the right track.

#### 4.3.1.3 Cash flow statement

Finally, the very last financial statement to which the horizontal analysis will be applied is the cash-flow statement. The result of the analysis is available in Table 5.

**Table 7, horizontal analysis of the cash flow statement**

<i>Element/Year</i>	2021	2020	2019
<i>Net operating cash flow</i>	2 890 068 P	1 807 737 P	1 621 523 P
<i>Net investing cash flow</i>	- 1 736 223 P	- 1 474 357 P	- 1 898 552 P
<i>Net financing cash flow</i>	- 147 823 P	- 66 512 P	200 679 P
<i>Cash flow</i>	956 302 P	285 172 P	- 154 400 P
Change			
<i>Element/Year</i>	2021	2020	
<i>Net operating cash flow</i>	60%	11%	
<i>Net investing cash flow</i>	18%	-22%	
<i>Net financing cash flow</i>	122%	-133%	
<i>Cash flow</i>	235%	-285%	

Source: Own research based on the financial statements

To begin with, it is worth mentioning that the operating cashflow remained positive throughout the period of observation, so it is definitely a good sign indicating that Gazprom is doing good for keeping itself buoyant. Then, another important aspect is the investing cashflow with remained negative on the whole period. This leads to the intermediate conclusion that Gazprom was investing and investing quite actively, even despite the pandemic. Still, the company was not able to reach the same volume of investment in 2021 as in 2019. As for the financial cashflow, it is not a surprise that the value is negative since, as it was discovered in one of the previous chapters, Gazprom was trying to cover gaps by an active borrowing, so they must have repaid one of their debts.

## 4.3.2 Vertical analysis

### 4.3.2.1 Balance sheet

After finishing the horizontal analysis, it is sensible to start looking at figures in the other direction – the vertical one. In Table 6, the vertical breakdown of assets is available.

**Table 8, vertical analysis of assets in the balance sheet**

<i>Element/Year</i>	<b>2021</b>	<b>2020</b>	<b>2019</b>
<i>Cash/Short-term investments</i>	2 040 026 ₱	1 064 677 ₱	729 701 ₱
<i>Percentage</i>	33%	28%	19%
<i>Receivables</i>	1 924 182 ₱	1 357 205 ₱	1 130 967 ₱
<i>Percentage</i>	31%	36%	30%
<i>Inventories</i>	1 009 323 ₱	971 789 ₱	946 361 ₱
<i>Percentage</i>	16%	26%	25%
<i>Other current</i>	1 240 752 ₱	380 618 ₱	1 021 124 ₱
<i>Percentage</i>	20%	10%	27%
<b>Total current assets</b>	<b>6 214 283 ₱</b>	<b>3 774 289 ₱</b>	<b>3 828 153 ₱</b>
<i>Property, plant and equipment GROSS</i>	26 319 375 ₱	24 733 436 ₱	22 654 712 ₱
<i>Accumulated depreciation</i>	- 9 419 517 ₱	- 8 435 028 ₱	- 7 584 020 ₱
<i>Percentage from property</i>	36%	34%	33%
<i>Total investments</i>	2 181 593 ₱	1 769 958 ₱	1 640 191 ₱
<i>Percentage</i>	10%	9%	9%
<i>Long-term note receivable</i>	418 435 ₱	325 336 ₱	338 419 ₱
<i>Percentage</i>	2%	2%	2%
<i>Intangible Assets</i>	213 273 ₱	199 894 ₱	194 408 ₱
<i>Percentage</i>	1%	1%	1%
<i>Other non-current</i>	1 119 788 ₱	984 300 ₱	810 485 ₱
<i>Percentage</i>	5%	5%	4%
<b>Total non-current assets</b>	<b>20 832 947 ₱</b>	<b>19 577 896 ₱</b>	<b>18 054 195 ₱</b>
<b>Total Assets</b>	<b>27 193 319 ₱</b>	<b>23 672 059 ₱</b>	<b>22 067 457 ₱</b>

Source: Own research based on the financial statements

The first part of the balance sheet that will be taken into consideration is the left part of the equation – assets. When it comes to current assets, cash and short-term investments followed by receivables represent the biggest shares, 33% and 31% respectively in 2021. This is a good sign as the company has cash and the proportion of the cash to the total current assets kept increasing from 2019 to 2021 – 19%, 28% and 33%, It means that the company was consequently increasing the share of cash in the amount of total assets. At the same time, the share of receivables was initially increasing in 2020 and then started decreasing again in 2021. This can be explained by the fact that debtors could have not been able to pay their debt during the pandemic, so the company was not able to get all payments in time.

Then, by looking at the share of accumulated depreciation out of the gross property, plant and equipment element, it will be possible to see if the company is experiencing a problem with old and depreciating inventory. The share of accumulated depreciation in 2019 was just 33%, while in 2020 it increased to 34% and 36% in 2021. This serves as a piece of evidence for the fact that Gazprom faces a problem where their inventory is rapidly depreciating with each year, so they have to renew it, what they actually might have been doing for quite a while given their intensive borrowing and increase in assets. Yet, the share is rising for 3 years and it is likely that this gradual increase of the proportion will persist in the nearest future. All in all, the company has more non-current assets than current for every year.

**Table 9, vertical analysis of liabilities in the balance sheet**

<i>Element/Year</i>	<b>2021</b>	<b>2020</b>	<b>2019</b>
<i>Short-term debt</i>	750 125 P	734 986 P	816 222 P
<i>Percentage</i>	19%	28%	32%
<i>Payables</i>	1 113 471 P	509 013 P	498 181 P
<i>Percentage</i>	28%	19%	20%
<i>Income Tax</i>	112 705 P	14 402 P	39 709 P
<i>Percentage</i>	3%	1%	2%
<i>Other current liabilities</i>	2 046 644 P	1 368 563 P	1 173 364 P
<i>Percentage</i>	51%	52%	46%
<b>Total current liabilities</b>	<b>4 022 945 P</b>	<b>2 626 964 P</b>	<b>2 527 477 P</b>
<i>Long-term debt</i>	4 715 976 P	4 616 318 P	3 295 195 P
<i>Percentage</i>	73%	76%	70%
<i>Provisions for Risks and Charges</i>	577 863 P	688 333 P	606 783 P
<i>Percentage</i>	9%	11%	13%
<i>Deferred taxes</i>	875 099 P	667 724 P	768 448 P
<i>Percentage</i>	14%	11%	16%
<i>Other liabilities</i>	287 458 P	138 864 P	68 759 P
<i>Percentage</i>	4%	2%	1%
<b>Total non-current liabilities</b>	<b>6 456 397 P</b>	<b>6 111 240 P</b>	<b>4 739 186 P</b>
<b>Total liabilities</b>	<b>10 625 430 P</b>	<b>9 058 077 P</b>	<b>7 451 770 P</b>

Source: Own research based on the financial statements

When it comes to the vertical analysis of liabilities, the first thing that can be noticed is the gradual increase of payables' share out of the total current liabilities and the gradual decrease of the share of short-term debt out of the total current liabilities.

As for the total non-current liabilities, it is visible that the long-term debt has the biggest importance, since it is totalling for more than 70% of the total non-current liabilities

per year. All in all, the amount of non-current liabilities is bigger than the total current liabilities reaching almost 60% out of the total liabilities.

Finally, the last but not the least, it is essential to take a look at the shares in equity.

**Table 10, vertical analysis of equity in the balance sheet**

<i>Element/Year</i>	<b>2021</b>	<b>2020</b>	<b>2019</b>
<i>Other equity</i>	1 253 532 P	1 294 388 P	997 078 P
<i>Percentage</i>	7,57%	8,86%	6,82%
<i>Retained earnings</i>	14 699 297 P	12 752 805 P	13 107 755 P
<i>Percentage</i>	88,72%	87,26%	89,68%
<b>Total shareholders' equity</b>	<b>15 952 829 P</b>	<b>14 047 193 P</b>	<b>14 104 833 P</b>
<i>Accumulated minority interest</i>	615 060 P	566 789 P	510 854 P
<i>Percentage</i>	3,71%	3,88%	3,50%
<b>Total equity</b>	<b>16 567 889 P</b>	<b>14 613 982 P</b>	<b>14 615 687 P</b>

Source: Own research based on the financial statements

The most important element of the total equity was retained earnings whose share was reaching almost 90% for every single year observed.

#### **4.3.2.2 Income statement**

**Table 11, vertical analysis of the income statement**

<i>Element/Year</i>	<b>2021</b>	<b>2020</b>	<b>2019</b>
<i>Sales</i>	10 241 353 P	6 321 559 P	7 659 623 P
<i>COGS</i>	5 512 818 P	4 352 684 P	4 716 815 P
<i>Percentage</i>	54%	69%	62%
<b><i>Gross Income</i></b>	<b>4 728 535 P</b>	<b>1 968 875 P</b>	<b>2 942 808 P</b>
<b><i>Gross margin</i></b>	<b>46%</b>	<b>31%</b>	<b>38%</b>
<i>SG and A expense</i>	221 875 P	225 587 P	289 057 P
<i>Other operating expenses</i>	1 540 153 P	1 236 829 P	1 414 191 P
<b><i>EBIT</i></b>	<b>2 966 507 P</b>	<b>506 459 P</b>	<b>1 239 560 P</b>
<i>Unusual expense</i>	<b>393 678 P</b>	<b>69 919 P</b>	<b>9 506 P</b>
<i>Non-operating income</i>	- 21 624 P	- 426 499 P	175 384 P
<i>Non-operating interest income</i>	70 984 P	60 137 P	90 926 P
<i>Interest expense</i>	94 871 P	73 445 P	76 426 P
<b><i>Pretax income</i></b>	<b>2 527 318 P</b>	<b>- 3 267 P</b>	<b>1 419 938 P</b>
<i>Income Tax</i>	610 428 P	- 28 938 P	357 548 P
<i>Equity in affiliates</i>	242 196 P	136 736 P	207 127 P
<i>Other after tax income</i>	- 10 587 P	- 1 507 P	-
<i>Consolidated net income</i>	2 148 499 P	160 900 P	1 269 517 P
<i>Minority interest expense</i>	66 015 P	27 066 P	66 630 P
<b><i>Net income</i></b>	<b>2 082 484 P</b>	<b>133 834 P</b>	<b>1 202 887 P</b>
<b><i>Net margin</i></b>	<b>20,33%</b>	<b>2,12%</b>	<b>15,70%</b>
<i>Number of shares outstanding</i>	23 645	23 645	22 500
<b><i>EPS</i></b>	<b>88,07 P</b>	<b>5,66 P</b>	<b>53,46 P</b>

Source: Own research based on financial statements

Given the fact that the company is reporting an income statement by function, it is essential to see the share of costs of goods sold out of the total volume of sales. This share was firstly increasing in 2020 and then decreased to the value even less than the pre-pandemic one – 54%. This is a good sign indicating that the company started earning more. Another indicator proving that the company started earning more in terms of the gross income is the gross margin – share of gross income out of sales. The value decreased in 2020 and increased in 46%, helping the author to claim that the company improved its profitability compared to even the pre-pandemic era.

Another indicator belonging to the vertical analysis is the net margin, indicating the share of net income in sales. This value reached the bottom in 2020 and bounced back in 2021 with 20.33% percent. Given that all those values are positive, it is possible to say that the company is doing great so far in terms of the financial performance.

## 4.4 Ratio Analysis

### 4.4.1 Liquidity

Table 12, liquidity ratios

<b>Liquidity ratios</b>	<b>Years</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
<b>Current ratio</b>	1,54	1,44	1,51
<b>Quick ratio</b>	1,29	1,07	1,14
<b>Cash ratio</b>	0,51	0,41	0,29
<b>Profitability</b>			
<b>Gross profit margin</b>	46%	31%	38%
<b>Operating profit margin</b>	29%	8%	16%
<b>Net profit margin</b>	20%	2%	16%
<b>Return on investment</b>	95%	8%	73%
<b>Solvency</b>			
<b>Debt to assets</b>	0,20	0,23	0,19
<b>Debt to equity</b>	0,33	0,37	0,28
<b>Equity ratio</b>	0,59	0,59	1,56

Source: Own research based on the financial statements

As it was discussed in the literature review, ratios are a powerful tool offering quick insights on the three different characteristics of companies – liquidity, profitability and solvency. The first domain that will be analyzed by the author is liquidity, starting with the current ratio. As it can be seen in Table 10, the company had a current ratio greater than 1 indicating that Gazprom were capable of meeting their short-term obligations.

Then, the quick ratio was also above 1, so it indicates that Gazprom had enough of liquid assets to cover all of their debts. Yet, the figure in 2020 was just 1.07, so the company was on the verge of falling under the peaceful value of 1.

The final ratio belonging to the category of liquidity ratios is cash ratio. The value was always less than 1 indicating that Gazprom had less cash than current liabilities, so they

won't have any cash remaining if all of their short-term debt will be covered. This is a bad sign for the company.

#### 4.4.2 Profitability

**Table 13, profitability ratios**

<b>Liquidity ratios</b>	<b>Years</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
<b>Current ratio</b>	1,54	1,44	1,51
<b>Quick ratio</b>	1,29	1,07	1,14
<b>Cash ratio</b>	0,51	0,41	0,29
<b>Profitability</b>			
<b>Gross profit margin</b>	46%	31%	38%
<b>Operating profit margin</b>	29%	8%	16%
<b>Net profit margin</b>	20%	2%	16%
<b>Return on investment</b>	95%	8%	73%
<b>Solvency</b>			
<b>Debt to assets</b>	0,20	0,23	0,19
<b>Debt to equity</b>	0,33	0,37	0,28
<b>Equity ratio</b>	0,59	0,59	1,56

Source: Own research based on the financial statements

Gross and net profit margins were already discussed by the author in the previous chapter, so it will be sensible to focus on the last one – the return on investment. The value of ROI is equal to 73%, 8% and 95% for 2019, 2020 and 2021, respectively. Given the fact that the return is positive and fairly high, it means that the company is good in making proper investments, as they keep earning and earning from that.



#### 4.4.3 Solvency

**Table 14, solvency ratio**

<b>Liquidity ratios</b>	<b>Years</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
<b>Current ratio</b>	1,54	1,44	1,51
<b>Quick ratio</b>	1,29	1,07	1,14
<b>Cash ratio</b>	0,51	0,41	0,29
<b>Profitability</b>			
<b>Gross profit margin</b>	46%	31%	38%
<b>Operating profit margin</b>	29%	8%	16%
<b>Net profit margin</b>	20%	2%	16%
<b>Return on investment</b>	95%	8%	73%
<b>Solvency</b>			
<b>Debt to assets</b>	0,20	0,23	0,19
<b>Debt to equity</b>	0,33	0,37	0,28
<b>Equity ratio</b>	0,59	0,59	1,56

Source: Own research based on the financial statements

When it comes to the first ratio on the list, the debt to assets ratio, the value of this ratio over the course of 3 years was less than 1, so it indicates that Gazprom had more assets than debts and it is a good sign.

Then, the second ratio, the debt to equity one also has a value lower than 1, so the company has more equity than debt and it is a good sign also.

However, the situation with the final ratio – the equity ratio is ambivalent. In 2019, the value was greater than 1 and it can be concluded that Gazprom was primarily influencing its assets through equity, but the situation is changed in 2020 and 2021, when the value dropped below 1 proving the assumption of the author that the company was primarily focusing on the debt financing rather than the equity financing.

## **5 Results and Discussion**

### **5.1 Assessment of the financial position of the company**

The author is able to reach the conclusion, after conducting an analysis of Gazprom's financial position, that the company's financial position did not in any way deteriorate despite the problem with the pandemic and the economic recession that was caused by the pandemic. This finding is based on the analysis that was performed. In addition, it was feasible to determine, based on the growth of the business's current assets, that the quantity of the company's liquid assets was progressively rising. Because of this, it was clear that the firm did not need to sell any of its assets in order to pay off its obligations. Therefore, it is reasonable to assert that the firm is performing well in terms of ensuring that it will continue to exist.

On the other hand, the situation with the fixed long-term assets is not so positive, as the proportion of cumulative depreciation out of the element's gross value is close to 35%. This indicates that the value of the element has decreased significantly over time. This is an indication that the corporation has to become more involved in the process of purchasing new equipment. Nevertheless, on the other hand, this may be the evidence that the corporation is adopting an accelerated depreciation and yearly renewing its equipment. This is because the quantity of long-term assets was significantly expanding over the course of the three years that were evaluated.

During the course of the investigation, it was discovered that the corporation has a preference for borrowing money over longer periods of time as opposed to shorter ones. This relates to the obligations. In addition, it was discovered after looking at the equity ratio that the company had initially practiced equity financing; however, as of the year 2020, Gazprom was financing the purchase of their assets primarily through borrowing, as the ratio was less than one. This was something that was discovered after looking at the equity ratio.

Last but not least, when it comes to the company's equity, the retained profits account for roughly 90 percent of the total shareholders' equity. This makes retained earnings the largest component of the company's equity.

## **5.2 Assessment of the financial performance of the company**

When the findings of the evaluation of the company's current financial condition have been compiled, it is imperative that attention be directed toward the evaluation of the company's current level of financial performance. When looking at the horizontal and vertical analysis of the income statement, the first significant conclusion that can be drawn is that the coronavirus had a significant impact on Gazprom, as the company's income dropped by extremely high percentages, and the percentual drop in income is significantly higher than the drop in expenses, which resulted in the company starting to earn significantly less. This is the first important conclusion that can be drawn after looking at the income statement. For example, the decline in net income in the year 2020 was nearly 89 percent. However, the firm was able to effectively recover and increase its financial performance, as shown by the fact that the value of net income even surpassed the level it had reached before the epidemic.

The firm has a net margin of 20% in 2021, which indicates that 20% of their total sales are converted into pure profit for the company. This information is gleaned from the ratios of profitability. In other words, Gazprom achieved a clean profit for one out of every five sales that it made in the year 2021. As for the gross margin, which is another indication that is connected to the company's financial success, the value has been moving over the course of three years, and it has finally settled at a level that is slightly near to 50%, which is also a reasonably decent outcome.

The value of earnings per share in 2021 is over 88 roubles, but in the pivotal year of 2020, this value was just 5 roubles. This is the last point, but it certainly isn't the least important one. It is safe to conclude that the company's initiative to repurchase its own shares was the driving force behind such a significant rise in EPS, as this was the case. However, it is clear from both the treasury stock component and the total number of shares that are outstanding that the corporation was not involved in the practice of buying back its own shares in order to artificially enhance the profits per share. Due to the fact that the increase

in net income resulted in such a significant increase in profits per share, this feature contributes to the overall attractiveness of the firm to potential investors.

### **5.3 Factors influencing the profit of the organisation**

When it comes to the profitability of the company, there is one last factor that must be discussed, and that is the rate of exchange between the organization's primary currency and the one it operates in. Gazprom is a Russian company, but it is primarily engaged in the trade with international companies or even government institutions of other countries. As a result, the company is billed in dollars, and its financial performance along with the profit generated depends also on the exchange rate of dollars to roubles and vice versa. Despite the fact that Gazprom is a Russian company, it is primarily engaged in the trade with international companies or even government institutions of other countries.

In addition, there is a further component that plays a significant role in determining the amount of money that is made by the company. This aspect is not directly connected to the atmosphere that exists inside the business itself. Given the size of Gazprom and the role it plays for the Russian government, any potential diplomatic deterioration of relationship between Russia and any geopolitical block such as the European Union, ASEAN, etc. will inevitably lead to the fact that the number of customers willing to buy Russian gas will decrease. This is because of the scale of Gazprom and the role it plays for the Russian government. Regrettably, the author's research and the time constraints will not allow the author to cover the year 2022, but it would definitely be interesting to see how the geopolitical tensions between the EU and Europe caused by the conflict in Ukraine will influence the company's profit, since a couple of countries stopped cooperating with Gazprom and Russia, such as Poland, Estonia, and Finland, while other countries started paying in roubles, so the foreign exchange rate was their problem and not Gazprom's.

### **5.4 Identified potential problems and Risks**

Gazprom's most significant challenge is a rising proportion of accumulated depreciation, as well as a high annual expenditure related to depreciation, as the author pointed out on several occasions. In addition to this, the cash ratio analysis showed

that if the company were to experience an unfavorable circumstance in which it would be required to sell all of its current assets and cover short-term debt, the company would be left with only a small amount of cash and its equivalents. This amount is obviously insufficient and would put the company in jeopardy.

In addition to all of this, Gazprom's dependence on Russia's foreign policy is definitely not a positive factor. As Russia itself becomes more unpredictable, it starts engaging in activities without looking back at the domestic business, which starts suffering more and more. This makes the dependence of Gazprom on Russia's foreign policy a factor that is definitely not good (Fjaertoft, 2015). After the year 2014, when Russia was extremely active on the international arena and caused the Crimea issue, the market capitalization of domestic companies not only stopped increasing, but it simply slumped as the exchange rate of dollar to rouble doubled. Of course, it is still too early to discuss the consequences of the conflict in Ukraine and their effect on domestic companies. However, after the year 2014, when Russia was extremely active on the international arena and caused the Crimea issue.

Alongside the original list of risks, there can be further risk identified, according to the author and also according to the company:

- Facilities risks
- Credit risks (default of counterparties).
- Environmental risks (gas leaks during the transit process and extraction)
- Sanctions risks and political risks (in more particular, European gas market is the one affected).
- Exchange rate risks

Overall, the author is of the opinion that the future success of the company is currently dependent on other businesses that are involved in the trade of energy with Russia. If these other businesses are unable to discover an alternative source of energy or refuse to continue making payments in roubles, the author believes that the days of Gazprom are numbered, as Europe is most likely the only market that might be interested in Russian energy.

## 6 Conclusion

The aim of the thesis was to assess the financial position and financial performance of the company, as well as to identify whether the company has acceptable ratios of liquidity, solvency and profitability, and how company tackles ongoing operating problems.

Overall, despite the growing number of external challenges and the company's dependence on Russian foreign policy, the company is performing quite well and it shows good results in terms of its financial position and financial performance. This is despite the fact that the company is economically dependent on Russian foreign policy. The fact that there are three different types of cashflow is both beneficial and encouraging, especially considering that the operational cashflow has been positive for the last three years. As it turns out after doing a study of the investment cash flow, the corporation is also investing, in addition to the aforementioned activities.

In terms of the company's liquidity, it is possible to come to the conclusion that the company has a sufficient amount of liquid assets to cover both its short-term and long-term obligations. However, in the event that the company anticipates the need to meet these obligations, they will be left with an amount of cash that is dangerously low; this is probably the only significant issue that Gazprom has in terms of their liquidity.

Concerning the firm's capacity to turn a profit, a positive trend can be seen in both the gross margin and the gross margin of the company. Additionally, the return on investment seems to be rather satisfactory and high, indicating that the organization has a sound strategy for investing.

The firm does not have an excessive number of debts, and as a result, it is in a sound financial position. After the pandemic, the firm moved its attention from the stock financing that it had been concentrating on to the debt financing that it had been focused on via active borrowing. With regard to the form of financing, the company had originally been concentrating on the equity financing.

In conclusion, the author is of the opinion that Gazprom is performing well and that the company is appealing to investors due to the fact that the EPS continues growing.

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## 8 Appendix

Figure 21, calculations of ratios

=(750125+4715976)/27193319

B	C	D	E	F	G	H
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Liquidity ratios	Years		
	2021	2020	2019
Current ratio	1.54	1.44	1.51
Quick ratio	1.29	1.07	1.14
Cash ratio	0.51	0.41	0.29
Profitability			
Gross profit margin	46%	31%	38%
Operating profit margin	29%	8%	16%
Net profit margin	20%	2%	16%
Return on investment	95%	8%	73%
Solvency			
Debt to assets	0.20	0.23	0.19
Debt to equity	0.33	0.37	0.28
Equity ratio	0.59	0.59	1.56

Source: Own research

Figure 22, part of Gazprom balance sheet

Assets						
Fiscal year is January-December. All values RUB Millions.						
	2021	2020	2019	2018	2017	5-year trend
Cash & Short Term Investments	2,040,026	1,064,677	729,701	876,278	903,007	
Cash Only	2,013,923	1,034,919	696,057	849,419	871,950	
Cash & Short Term Investments Growth	91.61%	45.91%	-16.73%	-2.96%	-	
Cash & ST Investments / Total Assets	7.50%	4.50%	3.31%	4.19%	4.95%	
Total Accounts Receivable	1,924,182	1,357,205	1,130,967	1,292,919	1,170,584	
Accounts Receivables, Net	1,609,862	871,948	780,673	912,109	758,150	
Accounts Receivables, Gross	2,685,493	1,904,653	1,664,813	2,052,382	1,540,128	
Bad Debt/Doubtful Accounts	(1,075,631)	(1,032,705)	(884,140)	(1,140,273)	(781,978)	
Other Receivables	314,320	485,257	350,294	380,810	412,434	
Accounts Receivable Growth	41.78%	20.00%	-12.53%	10.45%	-	
Accounts Receivable Turnover	5.32	4.66	6.77	6.36	5.45	
Inventories	1,009,323	971,789	946,361	909,677	772,314	
Finished Goods	315,400	248,091	189,365	240,632	139,733	
Work in Progress	491,829	524,419	561,927	502,051	-	
Raw Materials	202,094	199,279	195,069	166,994	632,581	
Other Current Assets	1,240,752	380,618	1,021,124	1,133,356	623,361	
Prepaid Expenses	376,996	217,622	201,867	205,566	150,511	

Source: The Wall Street Journal, 2022

**Figure 23, part of Gazprom income statement**

	2021	2020	2019	2018	2017	5-year trend
Fiscal year is January-December. All values RUB Millions.						
Sales/Revenue	10,241,353	6,321,559	7,659,623	8,224,177	6,384,003	
Sales Growth	62.01%	-17.47%	-6.86%	28.82%	-	
Cost of Goods Sold (COGS) incl. D&A	5,512,818	4,352,684	4,716,815	4,089,670	3,778,433	
COGS excluding D&A	4,684,791	3,554,248	4,001,586	3,441,677	3,165,273	
Depreciation & Amortization Expense	828,027	798,436	715,229	647,993	613,160	
COGS Growth	26.65%	-7.72%	15.33%	8.24%	-	
Gross Income	4,728,535	1,968,875	2,942,808	4,134,507	2,605,570	
Gross Income Growth	140.16%	-33.10%	-28.82%	58.68%	-	
Gross Profit Margin	46.17%	-	-	-	-	
SG&A Expense	221,875	225,587	289,057	300,661	73,593	
Research & Development	23,767	18,075	19,226	13,591	16,175	
Other SG&A	198,108	207,512	269,831	287,070	57,418	
SGA Growth	-1.65%	-21.96%	-3.86%	308.55%	-	
Other Operating Expense	1,540,153	1,236,829	1,414,191	1,498,613	1,084,692	
EBIT	2,966,507	506,459	1,239,560	2,335,233	1,447,285	
Unusual Expense	393,678	69,919	9,506	23,257	(24,684)	

Source: The Wall Street Journal, 2022

Figure 24, income statement in Russian

Отчет о финансовых результатах  
за 2020 год

Пояснения	Наименование показателя	Код строки	За 2020 год	За 2019 год
П-14	<b>Выручка, в т.ч.:</b>	2110	4 061 444 118	4 758 711 459
	продажа газа	2111	2 635 465 416	3 311 117 094
	предоставление имущества в аренду	2112	801 610 263	779 702 026
	продажа продуктов нефтегазопереработки	2113	258 923 667	290 064 899
	предоставление услуг по организации транспортировки газа	2114	243 635 662	241 297 625
	продажа газового конденсата	2115	100 927 468	123 174 241
	продажа других товаров, продукции, работ и услуг	2116	16 784 284	11 436 458
	предоставление услуг по организации хранения газа	2117	4 097 358	1 919 116
6,П-15	<b>Себестоимость продаж</b>	2120	(2 488 200 192)	(2 657 654 354)
	продажа газа	2121	(1 121 429 019)	(1 287 313 401)
	предоставление имущества в аренду	2122	(789 984 086)	(777 305 913)
	продажа продуктов нефтегазопереработки	2123	(212 082 335)	(225 120 955)
	предоставление услуг по организации транспортировки газа	2124	(251 741 930)	(252 381 302)
	продажа газового конденсата	2125	(83 765 302)	(97 001 430)
	продажа других товаров, продукции, работ и услуг	2126	(28 686 272)	(17 681 800)
	предоставление услуг по организации хранения газа	2127	(511 248)	(849 553)
	<b>Валовая прибыль (убыток)</b>	2100	1 573 243 926	2 101 057 105
6,П-15	Коммерческие расходы	2210	(1 450 860 856)	(1 363 851 113)
6	Управленческие расходы	2220	(111 347 165)	(108 092 194)
	<b>Прибыль (убыток) от продаж</b>	2200	11 035 905	629 113 798
	Доходы от участия в других организациях	2310	311 965 992	316 324 238
	Проценты к получению	2320	43 234 670	61 250 281
	Проценты к уплате	2330	(115 261 363)	(107 234 097)

Форма по ОКУД	Коды
Дата (число, месяц, год)	0710002
по ОКПО	31/12/2020
ИНН	00040778
по ОКВЭД 2	7736050003
	46.71
по ОКФС/ОКФС	12247/41
по ОКЕИ	384

Source: Gazprom, 2022

## Figure 25, Gazprom balance sheet

Бухгалтерский баланс  
на 31 декабря 2020 года

Форма 0710001 с. 2

Показатель	Наименование показателя	Код строки	на 31 декабря 2020 г.	на 31 декабря 2019 г.	на 31 декабря 2018 г.
<b>Актив</b>					
<b>II. Оборотные активы</b>					
4	Запасы, в т.ч.	1210	570 823 149	669 198 423	515 373 228
	сырье, материалы и другие аналогичные ценности	1211	5 647 999	6 364 880	10 855 567
	затраты в незавершенном производстве	1213	329 970 892	359 139 968	283 018 154
	готовая продукция и товары для перепродажи	1214	229 969 097	297 329 275	215 189 424
	товары отгруженные	1215	5 235 161	6 364 284	6 309 990
	Налог на добавленную стоимость по приобретенным ценностям	1220	75 632 590	61 218 137	50 573 798
5; П-8	Дебиторская задолженность, в т.ч.	1230	2 174 060 202	1 876 595 634	2 120 688 193
	Дебиторская задолженность (платежи по которой ожидаются более чем через 12 месяцев после отчетной даты), в т.ч.	1231	522 399 531	777 410 093	578 237 266
	покупатели и заказчики	1232	1 056 765	2 245 027	5 217 521
	авансы выданные	1233	1 514 832	2 968 033	54 183
	прочие дебиторы	1234	519 827 934	772 197 033	572 965 562
	Дебиторская задолженность (платежи по которой ожидаются в течение 12 месяцев после отчетной даты), в т.ч.	1235	1 651 660 671	1 099 185 541	1 542 450 927
	покупатели и заказчики	1236	579 447 708	540 643 114	779 789 157
	авансы выданные	1238	247 261 366	110 794 388	106 398 208
	прочие дебиторы	1239	824 951 597	447 748 039	656 263 562
3; П-6	Финансовые вложения (за исключением денежных эквивалентов), в т.ч.	1240	262 692 226	512 578 733	792 588 971
	займы, предоставленные на срок менее 12 мес.	1241	262 688 713	49 130 347	142 839 066
П-9	Денежные средства и денежные эквиваленты, в т.ч.	1250	648 397 537	302 506 804	349 740 207
	касса	1251	25 717	23 070	27 362
	расчетные счета	1252	210 145 651	267 210 278	147 944 053
	валютные счета	1253	248 157 997	32 113 655	199 361 562
	прочие денежные средства и их эквиваленты	1259	190 068 172	3 159 801	2 407 230
	Прочие оборотные активы	1260	3 084 381	1 991 227	1 958 690
	<b>Итого по разделу II</b>	1200	3 734 690 085	3 424 068 958	3 830 923 087
	<b>Баланс</b>	1600	15 715 456 272	15 939 746 746	15 754 454 572

Source: Gazprom, 2022