

Gazprom Q1 Profit At Record \$10.6Bln

By [The Moscow Times](#)

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Gazprom tripled first-quarter profit to a record after cold weather boosted demand at home and in Europe, and the ruble appreciated against the dollar, the world's biggest gas producer said Thursday.

Net income climbed to 325 billion rubles (\$10.6 billion) from 103.7 billion rubles a year earlier, the company said. That beat the average estimate of 316.4 billion rubles in a Bloomberg survey of six analysts.

Gas sales, hurt by the economic crisis last year, were supported by low temperatures at home and in Europe this year. Export monopoly Gazprom boosted sales volumes 21 percent to 162.2 billion cubic meters in the first quarter, it said.

The company's shares closed up 0.5 percent on the MICEX, in line with the broader market.

"The most interesting thing for Gazprom this year will be how the situation with the mineral extraction tax on gas is resolved," said Alexei Kokin, an analyst at Metropol.

The Finance Ministry is seeking to boost oil and gas taxes after Russia had its first budget deficit in a decade last year. The gap may reach 2.4 trillion rubles this year, or 5.4 percent of gross domestic product.

Sales rose 14 percent to 956.8 billion rubles and operating profit gained 20 percent to 339.3 billion rubles, Gazprom said. Earnings before interest, taxes, depreciation and amortization rose 21 percent to 407 billion rubles, Kokin said.

Gazprom had a net foreign exchange gain of 59.3 billion rubles in the first quarter against a loss of 140 billion rubles a year earlier. Net debt fell 29 percent to 977.3 billion rubles in the first quarter.

The company plans to continue lowering its debt burden this year, after cutting total debt 15 percent in the first quarter, chief financial officer Andrei Kruglov said.

Total debt may fall to 1.3 trillion rubles at year-end from 1.4 trillion rubles (\$46 billion) at the end of March, he said on a conference call. The company's net debt fell 29 percent in the quarter to 977 billion rubles.

Total debt-to-EBITDA may fall to 1 or "slightly higher" at the end of the year from 1.2 at the end of March, Kruglov said. The ratio was 1.5 at the end of last year.

Gas prices climbed 34 percent in Russia, Gazprom's biggest market by volume, while falling 27 percent in Europe. Russia is gradually raising rates, aiming to make domestic sales as profitable as European exports. This boosted revenue at home 47 percent, compared with a 22 percent drop in Europe, Gazprom said.

Gazprom received 9.5 billion rubles as its share of earnings from the Sakhalin Energy Investment, which started the country's first liquefied natural gas shipments last year, becoming profitable. Gazprom bought a 50 percent stake plus one share from Royal Dutch Shell, Mitsubishi and Mitsui in 2007.

But the company lowered its European gas sales forecast for this year even after exports rose in the first seven months of the year because of the "complex" market and customer delays in buying contracted volumes.

"In our most profitable market, Europe, we expect sales volumes to be at the same level as last year," Kruglov said during a conference call. Exports rose 11 percent in January to July, he said.

European demand will probably reach the pre-crisis level in 2012, Kruglov said. He reiterated Gazprom's forecast of an average price of \$308 per 1,000 cubic meters of gas this year.

Last winter, Gazprom offered some European clients a spot-pricing element in their contracts to stimulate volumes, but the company said it recently stopped offering them.

"We believe the results should alleviate some of the market's existing concerns over the sustainability and profitability of Gazprom's exports into Europe," Renaissance Capital said in a note.

In the first quarter, "Gazprom's European sales recovered 91 percent, quarter on quarter, to

366 billion rubles, with volumes up 45 percent," the bank said.

Gazprom has denied that it faces more contract revisions.

This is the first quarter for which Gazprom used a new methodology, reporting net trading activity, as it did for its full-year 2009 report. Gazprom is the last of Russia's major oil and gas companies that reports under international standards to publish first-quarter results.

(Bloomberg, Reuters)

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