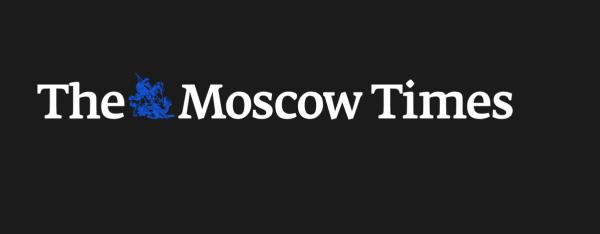


Gazprom Reports Negative Cash Flow for Q3

By The Moscow Times

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Gazprom reported negative free cash flow in the third quarter, increasing analysts' concerns about its heavy spending and long-term prospects, even while revenue grew and net income doubled.

The gas giant, which supplies a quarter of Europe's gas, said Thursday that it had raised capital spending about 10 percent from the previous quarter to 376.4 billion rubles (\$12.4 billion) in the July-September quarter.

Its January-September operating cash flow fell almost 8 percent to 983 billion rubles.

"Our focus is on cash flow, which was zero in the third quarter," said Stanislav Kondratiyev, of brokerage Uralsib.

Though Gazprom's Moscow-traded shares rose slightly during the day Thursday, they have

fallen 18 percent over the past 12 months as the company has struggled with cost overruns and reduced demand in Europe.

"The market is not paying big attention to the third-quarter results of the company, which are outdated. The profit was a 'paper' one, from a foreign-exchange gain," said Sergei Vakhrameyev, of brokerage Metropol.

"The main fear is that the company could end up with a negative free cash flow for the year," he added.

Gazprom has directed the bulk of investment toward development of major fields, such as Bovanenkovo, in new regions such as the Yamal Peninsula, in the Arctic, as it seeks to stem a decline in gas output.

Gazprom plans to pump as much as 115 billion cubic meters of gas from Bovanenkovo by 2017 and 140 bcm in 2018, up from the 46 bcm expected this year. It would send most of that gas via pipelines to Europe.

"Gazprom may even borrow money to pay dividends," Vakhrameyev said, adding that the company aims to pay at least 25 percent of its income as dividends, or as much as \$7 billion for the year.

Its July-September 2012 net profit attributable to shareholders rose to 305.1 billion rubles from 152 billion in the year-earlier period, above the 287 billion forecast in a poll of analysts.

The profit figure included a gain of 92.7 billion rubles from changes in the ruble exchange rate against the dollar and euro.

Gazprom is rated BBB with a stable outlook by both Fitch and Standard & Poor's.

In the third quarter, gas sales to Europe rose 14 percent to 404.7 billion rubles versus the same period a year ago, Gazprom reported.

The company did not provide figures on volume sales for the quarter. For the nine months, sales to Europe declined to 111.4 bcm from 114.8 bcm in the same period of 2011, it said.

Total revenues for the quarter rose 16 percent to 1.1 trillion rubles, beating analysts' expectations of 971.5 billion.

Gazprom has agreed to adjust long-term deals with key European customers, who have said Russian gas prices are too high.

The company said its retroactive payments amounted to 133.2 billion rubles for the first nine months of the year, unchanged from the first half, meaning that Gazprom did not make any such payments in the third quarter.

Gazprom expects to get 30.4 billion rubles (\$1 billion) in profit tax back from the government as part of the revision of the gas giant's export contracts, most likely this year, director of Gazprom's consolidated reporting department Mikhail Roseyev said during a conference call

Thursday, Interfax reported.

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