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Ukraine Crisis Wipes Billions Off Gazprom's Q1 Profits

By The Moscow Times

September 11, 2014



Russia's Gazprom reported a 41 percent fall in first-quarter net profit after cutting prices for gas deliveries to Ukraine, and the gas producer faces more pain this year due to its unresolved dispute with Kiev.

Ukraine's "doubtful" trade accounts, a reference to either the non- or slow payment of debts by state gas producer Naftogaz in the first quarter, had forced Gazprom to write off 71.3 billion rubles ($1.9 billion), Gazprom said.

Russia's largest gas producer says Ukraine now owes it $5.4 billion for supplies, a debt that will hurt profits further into the year.

With little sign of any resolution to the pricing dispute with Ukraine, the impact of Russia's decision to turn off the taps to its neighbor may be felt much longer, analysts said.

"It doesn't mean all the write-offs are over. Ukraine's debt is $5.4 billion -- they could write

off the whole debt, though it looks unlikely," Alexei Kokin of brokerage Uralsib said.

"I think in the third or fourth quarter it will become clearer that they will have to write off more."

He said that excluding write-offs and other extraordinary items, Gazprom's core earnings were in line with his expectations.

Gazprom's shares were down 0.6 percent at 138.37 rubles by 2.15 p.m. In Moscow. The broader market in Moscow was up 0.12 percent.

The pricing dispute, part of a standoff over a conflict in eastern Ukraine, was triggered when Russia raised the price of gas by 80 percent from April after pro-Moscow then-president Viktor Yanukovych, who had brokered a much cheaper price by turning his back on the European Union, fled street protests.

Moscow cut off Ukraine's supplies in June, blaming the dispute over pricing and unpaid bills. The move also pressured Kiev, which had launched a military operation to seize back swathes of land taken by pro-Russian rebels in its east.

The dispute has unnerved markets in Europe, where Gazprom covers a third of gas needs, while half of Russian gas exports to Europe go via Ukraine. On Wednesday, gas operators in Poland, Slovakia and Germany said they had registered a decline in Russian gas supplies.

The company said first-quarter net profit fell to 223 billion rubles ($6 billion). Analysts polled by Reuters had expected first-quarter net income to fall to 263.6 billion rubles.

Gazprom said its losses from a weaker ruble were 172 billion rubles in the first quarter, up from 22.6 billion rubles in the same period last year, while the provision from trade with Ukraine had resulted in an increase in operational expenses in the first quarter.

January-March sales rose to 1.56 trillion rubles from 1.46 trillion rubles in the year-earlier period, while the net debt balance decreased by 13 percent to 969.9 billion rubles.

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