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ÚSTAV STROJÍRENSKÉ TECHNOLOGIE
FACULTY OF MECHANICAL ENGINEERING
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HODNOCENÍ FINANČNÍ SITUACE PODNIKU

THE EVALUATION OF FINANCIAL SITUATION OF THE FIRM

DIPLOMOVÁ PRÁCE
MASTER'S THESIS

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ZADÁNÍ DIPLOMOVÉ PRÁCE

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Reditel ústavu Vám v souladu se zákonem c.111/1998 o vysokých školách a se Studijním a zkušebním rádem VUT v Brne urcuje následující téma diplomové práce:

Hodnocení financní situace podniku

v anglickém jazyce:

The Evaluation the Financial Situation of the Firm

Strucná charakteristika problematiky úkolu:
Na základe úcetních výkazu zhodnotit s využitím nástroju financní analýzy stav ve firme anavrhnout postupy ke zlepšení.

Cíle diplomové práce:

Vypracovat souhrn konkrétních postupu, které umožní zlepšit podnikatelskému subjektu jehofinancní situaci. Zamerit se na eliminaci nevyhovujících financních ukazatelu.

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Termín odevzdání diplomové práce je stanoven casovým plánem roku 2011/2012.

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ABSTRAKT

Diplomová práce se zaměřuje na hodnocení finanční situace konkrétní společnosti a na rozbor vnějšího a vnitřního okolí firmy, která ovlivňují výkonnost společnosti. Cílem je navržení opatření na základě zjištěných skutečností tak, aby se posílila finanční stabilita a celková výkonnost společnosti.

Klíčová slova

Finanční analýza, finanční zdraví, finanční stabilita, finanční ukazatele, výkonnost firmy, účetní výkazy, ziskovost, kritická analýza.

ABSTRACT

This master's thesis focuses on evaluation of financial situation of given company and analyses external and internal company's surroundings, which influence company's performance and productivity. The objective is suggestions the concrete recommendations on the basis of detected facts in order to improve financial stability and performance this company.

Key words

Financial analysis, financial health, financial indexes, productivity of company, financial statements, profitability, critical analysis.

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Serebriakov, V. *Hodnocení finanční situace podniku*. Brno 2012. Diplomová práce. Vysoké učení technické v Brně, Fakulta strojního inženýrství, Ústav strojírenské technologie. 55 s. příloh. Vedoucí práce. Ing. Jiří Luňáček, Ph.D., MBA

PROHLÁŠENÍ

Prohlašuji, že jsem diplomovou práci na téma **Hodnocení finanční situace podniku** vypracoval(a) samostatně s použitím odborné literatury a pramenů, uvedených na seznamu, který tvoří přílohu této práce.

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Datum Bc. Vladimir Sereriakov

PODĚKOVÁNÍ

V této sekci můžete poděkovat komukoli, kdo vám významným způsobem napomohl v řešení vaší závěrečné práce jako například vedoucímu práce, ale také případným konzultantům, firmám, rodině a dalším. Poděkování může vypadat například takto.

Děkuji tímto panu Ing. Jiří Luňáčeku, Ph.D., MBA za cenné připomínky a rady při vypracování diplomové práce.

OBSAH

INTRODUCTION

Financial stability and performance of the company, both financial as well as business, is one of the most important spheres, in which the company must pay the utmost attention, whatever that company deals with. So, in order to the financial analysis to be effective, it must be evaluated both with the analysis of internal and external business environment.

My thesis is the evaluation of the financial situation of the firm Gazprom which works in the Russian market for many years and recently faced with the financial crisis. The main activities of that company are primarily natural gas production, supplying, pipeline transportation.

Each business owner should lead and motivate their staff well in order to achieve corporate goals, such as profit gaining, customer satisfaction, maximizing the market value of the firm etc. The financial analysis shows how efficiently or inefficiently company manages with their finances.

Regular assessment of the financial situation of the firm makes a contribution to effective management, which allows identifying the problems and its causes. Evaluation of the financial situation helps to prevent many problems or find a way to improve the financial situation, so that to maintain profitability, liquidity and overall financial stability.

PROBLEM, DEFENITIONS AND OBJECTIVES OF WORK

The aim of my thesis is the analysis of Gazprom, which deals with natural gas production, supplying, pipeline transportation and other activities. First of all, the critical analysis of the company is fulfilled, i.e. analysis of its internal and external business environment and market analysis. It also includes the analysis of the firm's financial situation over the period from 2006 to 2010. Finally, based on the established facts, I suggest specific proposals to improve the financial situation and performance of the entire company.

The first part of my work is devoted to theoretical points - characteristic of the most important financial indicators and their importance for financial analysis. My work includes summaries of the most important changes in accounting and a brief look at the resources and information for financial analysis.

The second part is devoted to a specific analysis of this company. It is the analysis of the company in whole. I mention also the company's history, the most important contracts and define the organizational structure. In the next section I analyze the markets, internal and external business environments that affect the company. All the results from a critical analysis have been assessed by means of a SWOT analysis (analysis of strong and weak sides, threats and evaluation of occasion for the company).

The third part of my thesis is related to the financial analysis of the most important financial indicators. This is an analysis of the entries, balance sheets, statements of profits and losses. The company cash flow is prepared for all analyzed period. The calculated parameters must be evaluated and then it'd be determined the causes for deviations from the recommended values.

The last, fourth part, proposes the measures based on findings from the financial and critical analysis to improve financial and business performance.

1 THEORITICAL PART OF THE WORK

The first chapter is devoted to the theoretical aspects of this work. This section will be focused mainly on the characteristics of financial analysis and the methods which I'm going to use in the practical part of my work.

1.1 An overview of the financial analysis

This part of my work describes financial analysis as part of a whole system of financial management, which belongs to the "Corporate Finance" department of the company**.**

1.1.1 Corporate finance, financial management and financial analysis

Finance can be considered as a source of financing of business activities; it could include monetary resources, capital and financial resources. Successful realization of these business activities assumes the option of managing its finances (financial management)

1.1.2 Financial analysis

Financial analysis, as a part of financial management, evaluates the financial health of company and do not normally based on available information, primarily from the accounting records from which the financial system through the methodical analysis of the obtained information to another, otherwise unavailable.

The Basic financial analysis approaches can be subdivided into two parts:

- Technical financial analysis, where the input data is usually precisely specified and submitted by accurate data. (and accurately presented)
- Fundamental financial analysis, based on perfect knowledge of the situation in a given company with given business context, submitted by accurate data of experienced expert. [7]

The goal of financial analysis consists in complex assessment of the current financial and economic situation of the firm with a prediction for future development.

It covers the following areas:
- evaluation of assets and capital structure of the firm and also evaluation of cost and revenue structure,
- diagnosis of financial situation of the firm using coefficients, pyramidal decompositions, creditworthy and default models,
- detection of possible failures and shortage of value indicators,
- finding out the strong and weak sides of the financial situation of the firm,
- review of the past development of financial management of the enterprise,
- cause of negative or positive trends,
- reserves in operational and investment activities of the company. [13]

The financial analysis procedures can specify up to four practically applicable sub-steps that can be defined as:
- environmental characteristics and data collection,
- selection of methods and basic data processing,
- advanced (special) data processing,
- project ways to reach its desired state. [2]

Users of financial analysis, according to the literature lists, in fact, are every interested group that has at least the minimum qualifications. Among the most important of the group it is possible to classify:

- investors - who expect to return their invested funds or investment plan with a favorable assessment of its capital,
- managers - who use the outputs of the financial analysis for operative and long-term management of their enterprise, or, conversely, help to reveal the financial position of other companies (competitors, suppliers, customers),
- trading partners - suppliers and business customers who are interested in the prosperity,

the solvency and liquidity in the short run and stability of business in the long run,
• employees - who have a real interest in the prosperity of the firm and who are motivated by economic results in terms of job security, wages and social perspectives,
• banks and lenders - requiring as much information about the debtor's financial situation as possible, especially in decisions regarding whether to grant credit and how much,
• State and its institutions - are interested in financial data for control, taxation, statistics and formulation of economic policy. [13]

The shortcomings in financial analysis - the system of financial analysis is not codified and governed by law or generally accepted standards such as the uniform financial accounting and tax issues. This complicates the implementation of financial analysis, causing disunity of terminology and procedures, ambiguity of defenition, interpretation and comparison of its results. Either the same terms assigned to different content or, conversely, different terms are associated with the image of the same content. [2]

Methodological financial analysis apparatus consists of the following methodological approaches, which are now already standardized:

- analysis of the status indicators,
- analysis of financial ratios,
- analysis of differential indicators,
- analysis of flow indicators,
- analysis of systems indicators.

1.2 Basic information and input data

1.2.1 Sources of basic information and input data

It’s difficult to describe the whole set of initial information sources used for the financial situation analyze.

The basic parts may include:
- financial accounting,
- indicators,
- inputs from fundamental analysis,
- details of financial or capital market.

Other sources of information include the non-financial information that can be divided into the first quantified set (business statistics, business plans, pricing, cost calculations and other business records) and the second qualified set (auditors, managers, comments, press, independent assessments and forecasts). [7]

1.2.2 Basic financial statements

Financial statements are accounting documents which show the financial situation and financial performance of the company. Annually, at the end of the year, enterprises are required to submit certain financial reports - financial statements.

The basic financial statements include:

- balance sheet (balance),
- profit and loss statement,
- Cash flow,
- notes to the financial statements,
- an overview of changes in equity.

Balance Sheet (balance)

It is a financial statement that gives an overview of business assets and liabilities in terms of money to a fixed date and shows the financial position of the company for a given moment.

Balance must meet the basic balance equation: sum of assets = sum of liabilities.

Balance sheet structure divides assets into: long term, current and other assets:

- fixed assets (fixed assets, intangible assets, financial investments)
- current assets (stocks, short-term and long-term receivables, financial assets),
- Other assets (estimated receivables and prepayments).

Balance sheet structure divides liabilities into:

- equity (share capital, equity, retained earnings, profit)
- liabilities (reserves, short-term and long-term liabilities, bank overdrafts and loans)
- other liabilities (estimated payables and accruals).

Profit and loss

This financial report provides an overview of financial performance, ie. how the company runs during the reporting period and in the past. It gives an overview of the costs, revenues and operating results, which are arranged according to the operational, financial and special activities. These include the size of revenues, the amount of profits, labor costs, depreciation, etc. It's made at least once a year.

Statement of Cash Flows (Cash flow)

The flow of cash shows cash flows in the company. It shows how changes in values affect the balance sheet and income funds of the company. They are divided into operating, investing and financing activities of the company. It focuses on the solvency of the firm. Manages cash flow timing and content discrepancy between:

- costs and expenses,
- revenues and income
- gain and state of available funds. [7]

1.3 Analysis of the status indicators

The analysis examines the status and displays items using horizontal and vertical analysis of financial statements. Both methods allow you to see the development in time or its structure in relation to a total quantity.

1.3.1 Horizontal analysis

Horizontal analysis is a financial and analytical technique. Basically it is the development of financial indicators over time. Usually, output is a time trend, which can be used to predict the future development of the analyzed indicators. [7]

So, if we want (in the appropriate way) to quantify the annual change, there is the possibility of identifying these changes by percent (index) or absolute change (difference) that show how much a given item has changed in comparison with the previous period.

Mathematically, the index value can be expressed as:

$$I^{i}_{t/(t-1)} = \frac{B_i(t) - B_i(t-1)}{B_i(t-1)}$$, [8, page 10]

kde: *Bi* (t) .... value of the item and at time t,
Bi (t-1) .... value of the item and at time t-1,
t .... time.

If, in the previous period, the items had zero or negative value, it's possible to use the following table, which is saying if an item in a given year is positive or negative. Symbol abs (x) means the absolute value of x.

Tab.1 Horizontal analysis – indexes [8, page 10]

Previous year	Current year	Solution
+	+	classic index
–	–	positive index indicates an increase in losses
+	–	loss turned into a profit $\frac{[abs(c.y.) + abs(p.y.)]}{abs(p.y.)}$
-	+	profit turned into loss

		$=\frac{[abs(c.y.)+abs(p.y.)]}{abs(p.y.)}$

If you are unable to calculate the index, in such cases it is recommended to use an absolute indicator of changes that can be mathematically expressed as follows:

$$D_{i/(t-1)} = B_i(t) - B_i(t-1)\text{, [8, page 11]}$$

where: *Dt,t-1* .... change from previous period,
t .... time,
Bt .... value of balance sheet item i.

1.3.2 Vertical analysis

Vertical Analysis analyzes the individual items of financial statements in relation to some value. If balance is the percentage of total assets (or their subdivisions) of individual items, the profit and loss is based on total revenues.

Vertical analysis assesses the structure of assets, capital, cost-benefit and change their structure over time.

Mathematically, it can be expressed as:

$$P_i = \frac{B_i}{\sum B_i} * 100\,\%\text{, [8, page 13]}$$

where: P_i ..... ratio of total assets to a specific item,
B_i ..... size of the entries balance,
$\sum B_i$ ..... sum of the values of balance.

1.4 Analysis of ratios

Ratio analysis is intended to put items to proportion in order to to see the financial situation in other contexts. In order to run in long-term outlook, the business needs to be profitable, but also liquid and moderately indebted. [8]

1.4.1 Indicators of profitability

The indicators measure the profitability of business gainings and business resources, which have been used to achieve it. This includes the following indicators:

- return on investment (ROI)
- return on assets (ROA),

- return on capital employed (ROCE)
- return on equity (ROE)
- return on sales (ROS),
- leverage.

The **return on assets** (ROA) percentage shows how profitable a company's assets are in generating revenue.

ROA can be computed as:

$$ROA = \frac{Net\ \ Income}{Total\ \ Assets}, \text{ [7, page 14]}$$

Return On Capital Employed – ROCE

$$ROCE = \frac{NOPAT}{Capital\ \ Emloyed}, \text{ [7, page 141]}$$

ROCE compares earnings with capital invested in the company. Return on the capital employed should be measured in after tax terms could be calculated as NOPAT is equal to EBIT * (1 - tax).

Return On Investment – ROI

ROI is the ratio of money gained or lost (whether realized or unrealized) on an investment relative to the amount of money invested. ROI is usually expressed as a percentage. ROI > 0,15 very good; 0,12 – 0,15 good.

$$ROI = \frac{Net\ \ Benefits}{Costs} * 100\%, \text{ [14]}$$

Return on equity (**ROE**) measures the rate of return on the ownership interest (shareholders' equity) of the common stock owners. It measures a firm's efficiency at generating profits from every unit of shareholders' equity (also known as net assets or assets minus liabilities). ROE shows how well a company uses investment funds to generate earnings growth. ROE should be more than ROA

$$ROE = \frac{Net\ \ Income\ (After\ \ Tax)}{Own\ Capital}, \text{ [8, page 30]}$$

Return On Sales – ROS

Return on sales **(ROS)** — is the ratio of operating income divided by revenues, usually presented in percent.

$$ROS = \frac{Operating\ income}{\mathrm{Re}venue}$$, [8, page 31]

Financial Leverage

In finance, **leverage** is a general term for any technique to multiply gains and losses. Common ways to attain leverage are borrowing money, buying fixed assets and using derivatives. Financial leverage tries to estimate the percentage change in net income for a one percent change in operating income.

Financial leverage is usually defined as:

$$Financial\ leverage = \frac{Total\ assets}{Own\ Capital}$$, [8, page 31]

1.4.2 Debt indicators

Debt indicators measure ratio between loan and own capital. High value of an indicator does not indicate a negative characteristic of the company. On the other hand, if the company is working correctly, high financial leverage could positively affect to the profitability of equity. It is therefore necessary to determine the amount of assets acquired through leasing, its value does not appear in the balance sheet, but only as an expense in the profit and loss account. [8]

The debt indicators are:

- total debt,
- self-financing,
- interest coverage ratio,
- period of repayment of debt.

Debt Ratio

Debt Ratio is a financial ratio that indicates the percentage of a company's assets that are provided via debt. It is the ratio of total debt (the sum of current liabilities and long-term liabilities) and total assets (the sum of current assets, fixed assets, and other assets such as 'goodwill').

$$Debt\ ratio = \frac{Borrowed\ \mathrm{Re}sources}{Total\ Liabilities}$$, [8, page 33]

Equity Ratio

The **equity ratio** is a financial ratio indicating the relative proportion of equity used to finance a company's assets. The two components are often taken from the firm's balance sheet or statement of financial position (so-called book value), but the ratio may also be calculated using market values for both, if the company's equities are publicly traded.

$$Equuity\ Ratio = \frac{Own\ Capital}{Total\ Liabilities}$$ **, [**8, page 33]

Times-interest-earned ratio

Times interest earned or interest coverage ratio is the ratio of earnings before interest and tax (EBIT) of a business to its interest expense during a period. It is a solvency ratio measuring the long term viability of a business to pay off its debts.

$$Times - Interst - Earned\ Ratio = \frac{EBIT + Interest\ Changes}{Interest\ Charges}$$, [8, page 33]

1.4.3 Assets indicators

Analysis of indicators of assets tells how the company uses its assets. It evaluates the ability of enterprise to generate cash. This is the highest turnover, but turnover time must be minimized (money in stocks, receivables and payables should be in the company as soon as possible). The turnover is expressed in units (momentum per year) and the turnover time - in days.

These include the following indicators:

- turnover of total assets
- turnover of fixed assets
- inventory turnover,
- debtor collection,
- creditor payment period.

Asset turnover

Asset turnover is a financial ratio that measures the efficiency of a company's use of its assets in generating sales revenue or sales income to the company. Recommended values are from 1,6 – 3.

$$Assets\ Turnover = \frac{Revenue}{Total\ Assets}$$, [8, page 32]

Fixed-asset turnover

Fixed-asset turnover is the ratio of revenues (on the profit and loss account) to the value of fixed assets (on the balance sheet). It indicates how well the business is using its fixed assets to generate sales.

$$Fixed\ \ Assets\ Turnover = \frac{\mathrm{Re}venues}{Fixed\ \ assets}$$, [8, page 32]

Inventory turnover

The Inventory turnover is a measure of the number of times inventory is sold or used in a time period such as a year. The equation for inventory turnover equals the cost of goods sold divided by the average inventory. Inventory turnover is also known as inventory turns, stockturn, stock turns, turns, and stock turnover.

$$Inventory\ Turnover = \frac{Cost\ of\ \ Goods\ Sold}{Average\ Inventory}$$, [8, page 32]

Debtor Collection

The Debtor Collection Period indicates the average time taken to collect trade debts. In other words, a reducing period of time is an indicator of increasing efficiency. It enables the enterprise to compare the real collection period with the granted/theoretical credit period.

$$Debtor\ \ Collection\ Period\ = \frac{Accounts\ \ recievables}{Credit\ \ Sales}$$, [8, page 32]

1.4.4 Liquidity indicators

Liquidity is the ability of the company to convert assets into cash, which can be used for repaying debts. The liquidity analysis examines the firm's ability to repay short-term obligations.

The indicators can be divided into:

- Cash Ratio liquidity
- Quick Ratio liquidity
- Current Ratio liquidity

Cash Ratio liquidity

Cash ratio measure the ability of a business to meet short term obligations. It measures to the extent which current obligations can be paid from cash or near cash assets. Recommended values are between 0,2 to 0,5

$$Cash\ ratio = \frac{Cash\ and\ Cash\ equivalents}{Current\ Liabilities}$$, [7, page 142]

Quick Ratio

Quick ratio also known as Liquidity Ratio or Acid Test, it measures the ability of a company to pay off its short-term obligations from current assets, excluding inventories. Recommended values are between 1 to 1,5.

$$Quick\ ratio = \frac{Cash + Marketable\ securities + Accounts\ receivable}{Current\ liabilities}$$, [7, page 142]

Current Ratio liquidity

Current ratio measures the company's ability to pay its short-term liabilities from short-term assets. Recommended values are between 1,5 to 3.

$$Current\ ration = \frac{Current\ assets}{Current\ liabilities}$$, [7, page 143]

1.4.5 Operating indicators

The operating indicators shows the development of basic activities of the company. They are based mainly on the cost, which is governed by the economical use of different types of costs, to achieve greater effect.

Labour productivity

Indexes of labor productivity belong to the business performance indicators that capture relationship to the cost of employee. When analyzing produktitity work is also based horizontal analysis of the income (line personnel costs, value added).

In this relationship are calculated Indicators of:

Wage demands for added value *= labor costs / value added*

Labour productivity from value added *= added value / number of workers*

Labour productivity of sales *= sales / number of workers*

The average wage *= annual labor costs / number of workers* [8, page 35]

Wage productivity

The indicator shows how big a share of sales accounted for monetary unit of wage costs. Growth of indicators in time scales is positive. If the index increases (increasing productivity), then the share labor costs in value added will be lower. If the share of wage costs in value added, wage increases productivity.

Wage productivity is calculated using the following formulas:

1. First Wage Productivity *= value added / labor costs*
2. Second Wage Productivity *= revenues / labor costs* [8]

1.4.6 Indicators based on cash flow

Indicators of profitability of CF

Indicator measures the value of cash flow before applying of the financial costs to the company assets. If profitability is lower than the average interest rate, which is paid to banks for credits, it means that the company assets are not able to generate as much gain as required for the credits repayment – thus, they become insecure for the company. If profitability is high, it is normal to have as many credits as needed. [10]

Total capital CF = *cash flow from operations / total capital*
Return on assets CF = *cash flow from operating activities / total assets*
Return on sales CF = *cash flow from operating activities / sales* [6, str. 142]

Debt indicators of CF

This indicator shows rationality in the enterprise. Grade of indebtedness shows a link between loan capital and ability of a company to meet liabilities from its own resources. The recommended value of indebtedness is between 20 to 30%. If the indicator decreases, the financial instability increases. [12]

Degree of debt = cash flow from operating activities / borrowed capital [12, page 63]

1.5 Differential indicators

When analyzing the financial situation of the firm, the differential indicators makes a difference between the sum of certain items of short-term assets and the sum of certain items of short-term liabilities. These indicators are based on the assumption that the enterprise part of current assets finances by long-term foreign resources.

They are financial funds as:

- net working capital,
- net cash flow,
- net cash assets.

1.5.1 Net working capital

Net working capital is one of the classic measures of a company's liquidity. Net working capital is a pure balance sheet measure, as such it can be calculated at any time without worrying about annualizing the calculation as is necessary when calculating ratios that use both the income statement and balance sheet together - such as accounts receivable turnover.

Net working capital = Current assets - Current liabilities, [9, page 28]

1.5.2 Net Cash Flow

Net Cash Flow is the profits of the business plus non-cash expenses. Net Cash Flow, or many times referred to as simply Cash Flow, is not the same as Net Profit because non-cash items lower the amount of Net Profit but do not reduce cash flow. To calculate Net Cash Flow an analyst needs to add the non-cash expenses back to net profit.

1.6 Analysis of flow indicators

Flow indicators deal with income statement items and cash flow. In terms of profit and loss, main items of income are analyzed (sales development, shares of total sales, value added shares in sales), analyzed further cost items (proportion of labor costs per worker) and items of development profit. Cash Flow Analysis is based the cash-flow management and analyzes the development of CF from operating, investing and financing activities in the given period.

1.7 Analysis of system parameters

There are a number of indicators by which we can accurately determine the exact causes of financial problems, and then we can determine the critical development. Using these indicators, we can also evaluate the creditworthiness of companies whose results are subsequently used in the assessment of risk, such as lending. These information is important not only for banks but also for potential investors, owners and management companies.

The simplest procedures include different pointer system of allocating points.

In my work I will focus primarily on the following indicators:

- Quick Test
- Altman index
- Index IN05,
- Tavler's bankruptcy model. [8]

1.7.1 Altman confidence index

This index is one of the leading indicators of bankruptcy models. This model includes so-called discriminant analysis, which results in the equation and uses financial indicators; on the basis of the financial indicators it's made an evaluation of prosperity or bankruptcy of the firm in the future. [8]

The Altman's formula for bankruptcy is:

Z = 0,717* X1 + 0,847* X2 + 3,107* X3 + 0,420* X4 + 0,998 *X5 [7, page 152]

X1 **=** Net working capital / Total assets
X2 **=** Retained earnings from previous periods **/** Total assets
X3 **=** EBIT / Total assets
X4 **=** Own capital / Total debts
X5 = Revenues / Total assets

If Z> 2,9 - it is a strong and financially healthy company, if 1,2 <Z <2,9 - the company has financial difficulties, but an immediate interference is not needed. If Z <1,2 enterprise has serious problems, the crisis of funding and towards bankruptcy. [7]

1.7.2 Q-test

This model is based on a group of four indicators, and their values are assigned us points. There are an indicator of own capital, the period of repayment of debt, return on sales and return on assets.

The indicators are calculated by the following formulas [12, page 81]

$$R1 = \frac{own\ capital}{total\ assets}$$

$$R2 = \frac{loan\ prceeds - cash - bank\ accounts}{operating\ CF}$$

$$R3 = \frac{operating\ CF}{revenues}$$

$$R4 = \frac{EBIT}{total\ assets}$$

Based on the resulting values of these indicators, the points are assigned to the company and put in the following table and the final grade is assigned as the simple arithmetic average of points for each indicator. [8]

Recommended value is above 3, it indicates a well- functioning firm, gray area corresponds to values of 1-3, below 1 presents – it's a company, which has problems in the company's financial management. [12]

Tab.2 Q-test [8, page 75**]**

Indicator	Excellent	Very good	Good	Bad	Threat
	4	3	2	1	0
Loan capital quota	> 30%	> 20%	> 10%	> 0%	Negative
The period of repayment of debt from CF	< 3 years	< 5 years	< 12 years	> 12 years	> 30 years
CF in revenues (sales)	> 10%	> 8%	> 5%	> 0%	Negative
ROA	> 15%	> 12%	> 8%	> 0%	Negative

1.7.3 Index IN05

The Index IN05 is the current version of Mr. Inka and Ivan Neumarovi that has been developed in 2004. The Index IN05 is based on mathematical statistics and shows the bankruptcy situation, company creditworthiness and business value creation as an indicator of EVA.

$$IN01 = 0{,}13 * X1 + 0{,}04 * X2 + 3{,}92 * X3 + 0{,}21 * X4 + 0{,}09 * X5$$ [7, page 152]

X1 = assets / borrowed recourses
X2 = EBIT / interest expense
X3 = EBIT / total assets
X4 = revenues / asstes
X5 = current assets / short-term debts

The resulting values indicate the following: if we get values greater than 1,6, it means a healthy and financially strong company. Values from 0,9 to 1,6 mean "gray zone" where a business doesn't operate propely, but it's not a bankrupt. When the values are smaller than 0,9, it is very unstable and threatens to bankrupt company. [7]

1.7.4 Tafleruv's bankruptcy model

This model is known since 1977 and defined by four ratios, which are also related to the discriminant function.

The equation is:

$$Z = 0{,}53 * R1 + 0{,}13 * R2 + 0{,}18 * R3 + 0{,}16 * R4$$ [7, page 154]

R1 = profit before tax / short-term liabilities
R2 = current assets / borrowed capital
R3 = short-term liabilities / total assets
R4 = total sales (revenue) / total assets

Recommended values of bankruptcy model shows that the firm, with the value Z greater than 0,3, has a small probability of bankruptcy and, with the value Z lower than 0,2, has a higher probability of bankruptcy. [7]

2 ANALYSIS OF THE PROBLEM AND CURRENT SITUATION

2.1 Analysis of the current state of enterprise

In next part of my thesis, I will analyze the current situation Gazprom in terms of basic information and data of this company and the perspective of its most important contracts and the organizational structure.

2.1.1 Basic information about the company

Open Joint Stock Company Gazprom is the largest extractor of natural gas in the world and the largest Russian company. Its headquarters are in Cheryomushki District, South-Western Administrative Okrug, Moscow. Gazprom was created in 1989 when the Ministry of Gas Industry of the Soviet Union transformed itself into a corporation, keeping all its assets intact. The company was later privatized in part, but currently the Russian government holds a controlling stake.

2.1.2 Activities of the company

Gazprom operates in the following major areas: production, transportation, geological exploration, storage, processing and selling of hydrocarbons as well as generation and marketing of heat and electric power.

Gazprom’s mission is to ensure a safe, efficient, and balanced supply of natural gas, other types of energy resources, and refined products to consumers

2.1.3 Important purchases

In September 2005, Gazprom bought 72,633% of the oil company Sibneft for $13,01 billion, aided by a $12 billion loan, which consolidated Gazprom's position as a global energy giant and Russia's biggest company. [15]

In December 2006, Gazprom signed an agreement with Royal Dutch Shell, Mitsui and Mitsubishi, taking over a half plus one share in Sakhalin Energy. [4]

In June 2007, TNK-BP, a subsidiary of BP plc agreed to sell its stake in Kovykta field in Siberia to Gazprom after the Russian authorities questioned BP's right to export the gas to markets outside Russia. [1]

On 23 June 2007, the governments of Russia and Italy signed a memorandum of understanding to cooperate on a joint venture between Gazprom and Eni SpA to construct a 558-mile (900 km) long gas pipeline to carry 1,05 trillion cubic feet (30 km^3) of gas per year from Russia to Europe. The South Stream pipeline would extend under the Black Sea to Bulgaria with a south fork extending to Italy and a north fork to Hungary. [5]

2.1.4 Management

Information about strucute of management of Gazprom i took from the official website. [3]

Shareholders Meeting

The supreme body of Gazprom Open Joint Stock Company is the General Shareholders Meeting held on an annual basis. The General Shareholders Meeting also convenes for extraordinary meetings. The holders of ordinary shares have the right to vote at the General Shareholders Meeting. Any shareholder is entitled to take part in the Meeting personally or by proxy. The Meeting is considered legally convened if over half of the voting shares are represented. The General Shareholders Meeting is competent to introduce changes in the Company’s Charter, approve the annual report and the auditor, distribute profits, elect the Board of Directors and the Audit Commission, and take decisions upon restructuring or dissolution of the Company as well as on increasing or decreasing its equity capital.

Board of Directors

The Board of Directors carries out the general management of the Company except for the issues falling under the General Shareholders Meeting competence. The Board of Directors Members are elected by the General Shareholders Meeting for a period until the next annual General Shareholders Meeting. Among other issues, the Board of Directors defines prioritized areas of the Company’s activities, approves the annual budget and investment programs, adopts decisions on convocation of General Shareholders Meetings and on formation of Gazprom’s executive bodies as well as recommends on dividend amount per share.

Executive Bodies

The Management Committee Chairman (sole executive body) and the Management Committee (collective executive body) manage the current activities of Gazprom. They ensure observance of the decisions taken by the General Shareholders Meeting and the Board of Directors, and are accountable to them. Chairman and Members of the Management Committee are elected by the Board of Directors for a five-year term. In particular, the Management Committee elaborates the annual budget, investment programs, long-term and short-term plans, prepares reports, arranges gas flow management and exerts control over Russia’s Unified Gas Supply System operation.

Fig.1 Management of the company

2.2 Critical analysis of the company

The following critical analysis includes a complete analysis of OAO Gazprom in terms of markets, sales development, internal and external environment of firms that affect society. Based on that analyze, there will be performed by a summary SWOT analysis, determining the strengths and weaknesses of the company, its opportunities and threats for the future.

2.2.1 Market analysis

Market analysis can be considered from two points of view: region aspect and offered services.

Region aspect

Domestic aspect

Gazprom owns the world's largest gas transmission system, which is continuously able to transport gas over long distances to the consumers of the Russian Federation. The length of the gas pipelines of Gazprom is around 159,5 thousand km. For the maintenance of 165 associated, gas-distributing companies it's used 445,3 thousand km of gas pipelines, which transport 196,8 billion cubic meters of natural gas.

By the order of the Russian government, the Gazprom is the coordinator for the program realization of making an unified system of gas production, transportation and supplement in Eastern Siberia and the Far East, with the possibility of exporting gas to China and other Asia-Pacific countries (Eastern Program). In the East, there will be set up gas processing and gas chemical industry, whose development will enable efficiently using of helium reserves and other valuable components contained in the East Siberian gas.

International aspect

One of the strategic objectives of Gazprom is to increase the reliability of gas supplies to European consumers. For this purpose, Gazprom has initiated the realization of new transportation projects, "Nord Stream" and "South Stream", which will allow not only diversifying export routes for Russian gas, but also providing additional opportunities for increasing exports. Preparation for the project of the Shtokman field in the Barents Sea is still in progress. It will become a resource base for Russian gas exports to Europe through the "Nord Stream". Gazprom diversify supply routes to strengthen energy security in Europe.

<u>**The offered services aspect**</u>

Gazprom exports gas in the near abroad and foreign countries, keeps strengthening its positions on he conventional international markets. Pipeline gas exports to the foreign countries in 2011 was 116,768 billion cubic meters, in the near abroad – 65,675 billion cubic meters.

Gazprom realizes step-by-step strategy to expand its presence in the market of liquefied natural gas (LNG). That allows to expand the activities of the company. In 2005, Gazprom has carried out the first deliveries of LNG to the U.S., in 2006 - in the UK, Japan and South Korea. Gazprom engaged in the project "Sakhalin-2", what gave a strong impulse for the completion of large-scale project in the field of energy resource supply in the Asia-Pacific countries and North America. In February 2009, the first Russian LNG plant begun to work in Sakhalin.

Development of the Artic shelf field is one of the priorities of Gazprom. Development of the oil business and competitive presence in the power industry sector are the strategic objectives of Gazprom on the way to becoming a leader among global energy companies.

Oil business development strategy conceders an increase in annual oil production up to 90-100 million tons by 2020. It is planned to achieve this level due to the phased development of all explored fields of Gazprom oil and other Gazprom groups, as well as acquiring new licenses. In electric industry, there are the next strategic goals: to diversify tariff regulation risks, optimization of fuel balance and achieving of double effects from the combination of gas and energy businesses.

2.2.2 Analysis of the external environment "S.L.E.P.T.E."

The external environment is the environment outside the firm. To analyze the external environment I chose S.L.E.P.T.E. analysis, which includes social, legislative, economic, political, technological and ecological factors.

S – social and behavior factor

The scale of Gazprom activity has a significant strategic importance for the Russian's economy development and affects the interest of the huge number of people. The most important principles in the activities of Gazprom are: to pay attention carefully to the interests of society, to contribute to the socio-economic development of Russian regions, creating a favorable business climate, maintaining decent working conditions, social and spiritual well-being.

Gazprom persistently follows the principles of social responsibility, which are: gasification of regions of the country, creating new job places, realization of the social programs for the staff, sponsorship and philanthropy, organizing environmental and educational actions, paying taxes, etc.

Year after year, Gazprom increases an involvement in projects, aimed at increasing social support, creating new jobs and helping the poor and low-income groups, soldiers, veterans and invalids of the World War 2, realizing programs of social support for the peoples of the Far North, investing in the construction of the industrial and social infrastructure in the regions of the Russian Federation. Particular attention is still paid for support of disabled children, orphans and orphanages. The company annually allocates funds for the construction of houses, kindergartens, clinics, etc.

L – legislation

Laws are continually being updated in a wide range of areas, such us consumer protection law, environmental law, health and safety and labor law, etc. The company needs to pay attention in order to be ahead of these changes, rather than hurriedly making alterations to products and processes in a reactive way.

There were accepted following changes:

Decree of the President of Russian Federation № 889 of 04. 06. 2008 "Improving of methods of energy and environmental efficiency of the Russian economy»

Order of the Government of the Russian Federation № 1225 dated August 31, 2002 “Ensure compliance with all standards in the field of environmental protection of the legislation of the Russian Federation and international legislation”

Resolution of the Ministry of Labor of Russia № 14 of 08. 02. 2000 “Recommendations for work safety in the service of the organization”

Resolution of the Russian Federation Government of April 4, 2000 № 294 "On approval of payment for electricity, heat and natural gas"

E – economical factors

Economic changes are closely related to social ones. The economy goes through a series of fluctuations associated with general booms and slumps in economic activity. In a boom nearly all businesses benefit and in a slump most lose out. Other economic changes that affect business include changes in the interest rate, wage rates, and the rate of inflation (i.e. general level of increase in prices). Businesses will be more encouraged to expand and take risks when economic conditions are right, e.g. low interest rates and rising demand.

Gazprom in 2010 increased production up to 10% - around 508,6 billion cubic meters; exports remained unchanged - 140 billion cubic meters. Ministry of Economic Development made a prediction for 2012, considering that the production will be around 697 billion.

In 2013, the Ministry of Economic Development expects production around 725 billion cubic meters in the main scenario and 706 billion cubic meters - in the negative one, in 2014 - 741 billion and 716 billion cubic meters respectively. However, the Ministry has significantly reduced the forecast for the export of gas in 2012 - up to 211,8 billion cubic meters in the main scenario and 200.2 billion cubic meters in the negative.

P – political factors

Gazprom is under careful control of the country's leadership. The Board of Directors consists of ministers of the Russian government, and the head of the board of directors in 2000-2008 was the First Deputy Prime Minister and now the Russian President Dmitry Medvedev. Decisions in Gazprom accepted by the political leadership, and they are not always commercially justified.

T – technological factor

Changes in technology have also become particularly significant nowadays. Modern communication technologies play an important role. If a company wants to be successful, it must constantly innovate and upgrade everything in the company. Modernization brings greater efficiency and activities in the firm are becoming cheaper. The aim is to always be one step ahead. Such technologies include advanced computer technology, modern machinery and equipment within the building and transport sectors, more modern processes and procedures within the company, etc.

E – ecological factor

Gazprom large-scale gas production and transmission projects are implemented in the regions with a highly fragile ecosystem requiring a very careful approach. The company is fully aware of its responsibility for the environmental impact with regard to the present and future generations.

In its business operations Gazprom pursues an environmental policy focused on resource saving, maximum mitigation of the environmental impact and conservation of the climate.

All information on Gazprom's environmental activities is available in special environmental reports and environmental services' bulletins.

As part of its environmental activities Gazprom focuses, inter alia, on energy saving, namely, on efficient utilization of natural gas, electric and thermal power, diesel and boiler-furnace fuel in all of its production activities.

Utilization of natural gas, an environmentally friendly product, as a vehicle fuel is one of Gazprom's environmental priorities. A relatively low cost and eco-friendliness make natural gas a fuel of choice.

2.2.3 SWOT analysis

SWOT analysis is a strategic planning, used for evaluation of the Strengths, Weaknesses, Opportunities and Threats sides of the company. Setting the objective should be done after the SWOT analysis has been performed. This would allow achievable goals or objectives to be set for the organization.

Strengths: characteristics of the business, or project team that give it an advantage over others.

Weaknesses: are characteristics that place the team at a disadvantage relative to others.

Opportunities: *external* chances to improve performance (e.g. make greater profits) in the environment.

Threats: *external* elements in the environment that could cause trouble for the business or project.

Tab. 3 SWOT analysis of Gazprom – Strength and Weaknesses

Corporation's strength	Corporation’s weaknesses
•The world leader in natural gas reserves	•Low growth rates in gas production
•Dictate its will to other market participants	•High dependence of state control
•The nation lobbies interests of the company on an international level	•Problem in developing new fields
•Lower taxes	•Set of none-core assets doesn’t generate gains
•The company has an access to gas of independent producers	•Low level of efficiency and control of costs

Tab. 4 SWOT analysis of Gazprom – Opportunities and Threats

Opportunities	Threats
•Growth of administered prices positively affects the company's income	• Change of political situation, taxing
•LNG market entry and new pipeline contraction will enlarge export potential	• Loss of costs controls
•Capital formation due to partnership with big west companies	• Risks, associated with the transit countries
•Growth in gas demand in Europe will lead to strengthen the Gazprom market position	• Increase in debt load due to high investment needs of the company
	• Deterioration of conjuncture on the world's hydrocarbons market can lead to decrease the export gains

3 EVALUATION OF FINANCIAL SITUATION

In next part of my thesis, I deal with financial analysis. I analyze the financial health of the company for 5 years (2006 - 2010) which includes an analysis of profit and loss statements, assets and liabilities, profitability, debts ratios, liquidity, state of bankruptcy and prediction analysis. As a base of the financial research I took annual financial reports, located on the web page of the company. [3]

3.1 Horizontal analysis of profit and loss statement of Gazprom

Profit and loss statement describes the financial performance of the organization during the reporting period. In the profit and loss statement data of revenues, expenditures and financial results are presented as calculated amount from the beginning of the year to reporting date.

The purpose of the profit and loss statement and attached notes is to provide information to external users: both performance of the organization and sources of profit (causes of loss).

These data are used to evaluate the performance of the organization during the given period and to predict future profitability of its operations. Prediction of future performance is an important indicator. For investors, it means the ability to receive dividends in the future, and the amount of the dividend could be crucial factor in deciding whether to invest or not. For creditors future profitability means that the company could cover the amount of debt and, in addition, interest on the loan. If performance is going to be unprofitable, this situation can be considered as a threat of non-repayment of debt and the inability to pay interest.

Tab. 5 Horizontal analysis of profit and loss statement

Indicator	2006	2007	2008	2009	2010
Sales proceeds	1632652981	774979437	2507009504	2486940 618	2879390342
Cost of goods sold	578525891	723781021	938425860	1236490907	1250746262
Gross margin	1054127090	1051198416	1568583644	1250449711	1628644080
Selling expenses	518675487	54917840	639679363	658893296	759227657
Management expenses	17555687	23678150	33278171	38287506	47059362
Sales profit	517895916	486602426	895626110	553268909	822357061
Interest receivable	3446856	13046491	13735849	9499731	6116580
Interest payable	40113371	53551252	57968559	79988279	69261443
Participation capital	30916289	44696539	39441008	96044474	41380250
Other income	1510000738	2105342710	2533202525	2893297875	2302482271
Other costs	1526822946	2075739210	3129453 838	2630407372	2577901278
EBT	495323482	520397704	294583095	841715338	525173441
Income tax	131915177	196893	329668	119828768	189568220
Net profit	343680067	360449550	173021630	624613273	364577256

As is clear form the table, there was a growth of all indicators of profit and loss statement during the analyzed period. Essential growth of sales proceeds over growth of cost of goods sold, during analyzed period, led to increasing of gross margin up to 54.5 % and an increase in efficiency of selling and management expenses and a decrease of their role in sales proceeds what resulted to sales profit increasing up to 58.7 %. In 2007 and 2008 there was decreasing of participation capital, growth of other income was lower than proceeds growth and growth of other costs was bigger. All of that led to decreasing of EBT value up to 43.39 % and net profit value – 52 %.
Last 5 years shows that the management of Gazprom led correct company policy what resulted to significant increasing of all profit and loss statement indicators.

3.2 Vertical analysis of profit and loss statement

Tab.6 Vertical analysis of profit and loss statement

Indicator	2006-2007	2007-2008	2008-2009	2009-2010
	abs.	abs.	abs.	abs.
Sales proceeds	0,00%	0,00%	0,00%	0,00%
Cost of goods sold	5,34%	-3,34%	12,28%	-6.27%
Gross margin	-5,34%	3,34%	-12,28%	6,28%
Selling expenses	-1,29%	-4,96%	0,97%	-0,12%

Management expenses	0,25%	-0,01%	0,20%	0,10%
Sales profit	-4,31%	8,31%	-13,47%	6,32%
Interest receivable	0,52%	-0,19%	-0,16%	-0,16%
Interest payable	0,56%	-0,70%	0,90%	-0,80%
Participation capital	0,62%	-0,94%	2,29%	-2,43%
Other income	26,12%	-17,57%	15,29%	-36,36%
Other costs	23,42%	7,88%	- 19,06%	- 16,23%
EBT	-1,01%	-17,57%	22,09%	-15,60%
Income tax	-1,17%	1,36%	-3,44%	-1,77%
Net profit	-0,74%	-13,41%	18,21%	-12,44%

Analyzing these data, we can come to the conclusion, that significant growth of sales proceeds over value of cost of goods sold led to the growth of gross margin in 2010 up to 6,28 % compared with 2009, and increasing of efficiency of selling and management expenses and reduce their share in the revenue resulted to growth of sales profit up to 6,32 %. However, during the analyzed period there were a decrease in effectiveness of non-sale transactions, a significant decrease of participation capital, growth of other income was lower than sales profit and growth of other costs. All that led to decrease in the value of EBT up to 15,60% and value of net profit – up to 12,44%.Thus, with the efficiency of production activity of the main problems are in the inefficient organization of non-sale transactions. Also, as is clear from the table such indicators as interest receivable and payable, EBT, income tax and net profit decreased, what could be explained due to negative market situation and results of world's crisis.

3.3 Prediction analysis of Gazprom

It's possible to apply statistic method for prediction and figure out if it is useful or not. Let's consider four indicators: sales proceeds, gross margin, sales profit and net profit.

Let's draw a diagram and then make trend lines: linear and polynomial models. Value of approximation statistical confidence for sales proceeds is around 91%, which is very good result because it indicates accuracy of data and could be applied for further research. Analysis of the other indicators showed unsatisfactory results: 59,7% for gross margin, 31,8% for sales profit and 34,1% for net profit what could be explained because of uncertainty or lack of available information.

Tab.7 Prediction analysis

Indicator	2006	2007	2008	2009	2010
Sales proceeds	1,63E+09	1,77E+09	2,51E+09	2,49E+09	2,88E+09
Gross margin	1,05E+09	1,05E+09	1,57E+09	1,25E+09	1,63E+09

Sales profit	5,18E+08	4,87E+08	8,96E+08	5,53E+08	8,22E+08
Net profit	3,44E+08	3,6E+08	1,73E+08	6,25E+08	3,65E+08

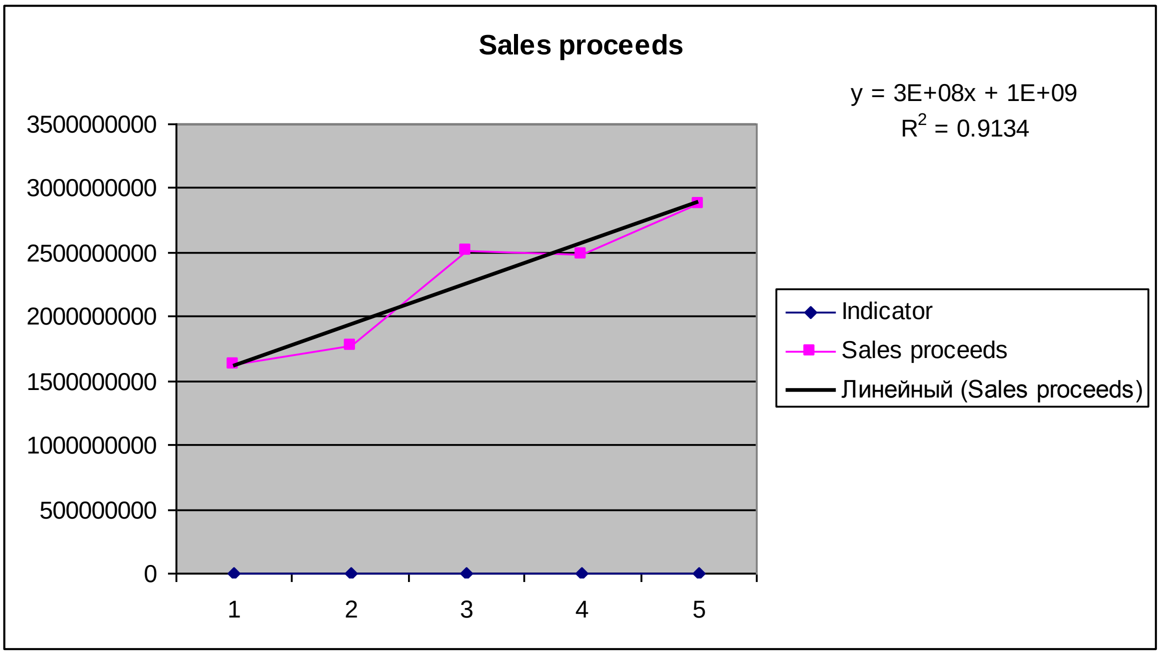

Fig.2 Sales proceeds

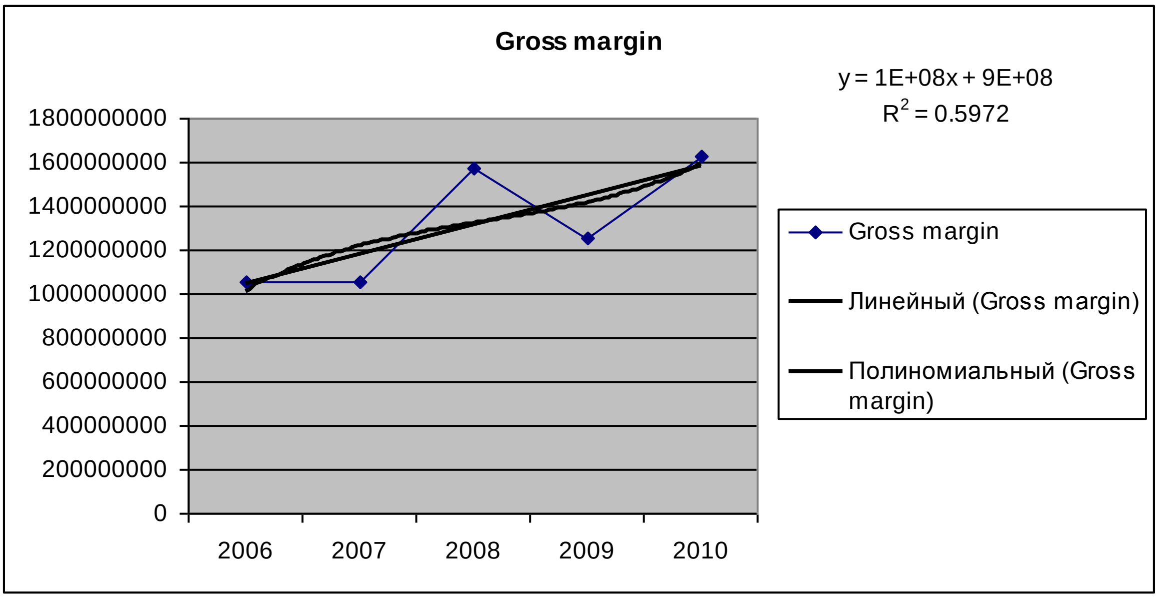

Fig.3 Gross margin

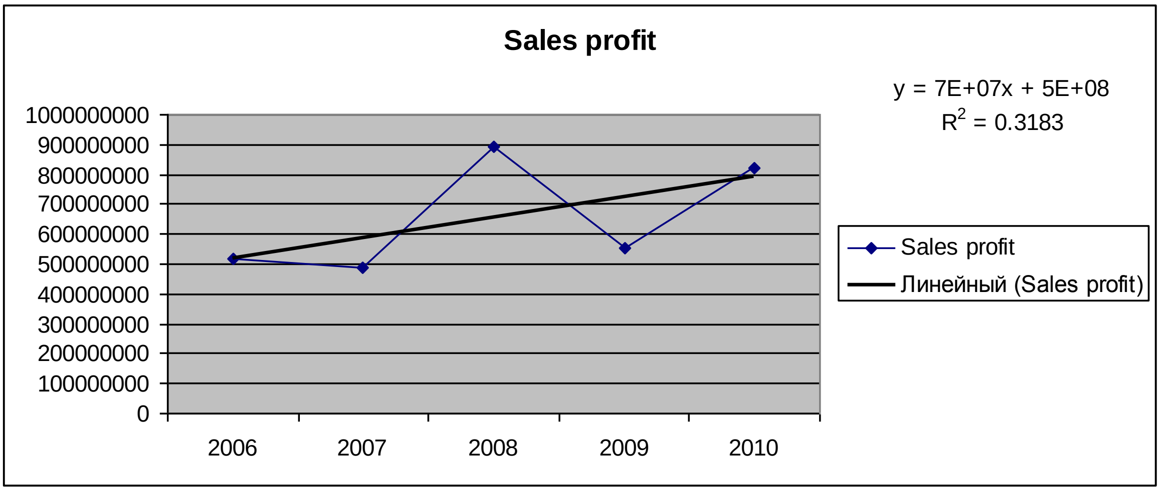

Fig.4 Sales profit

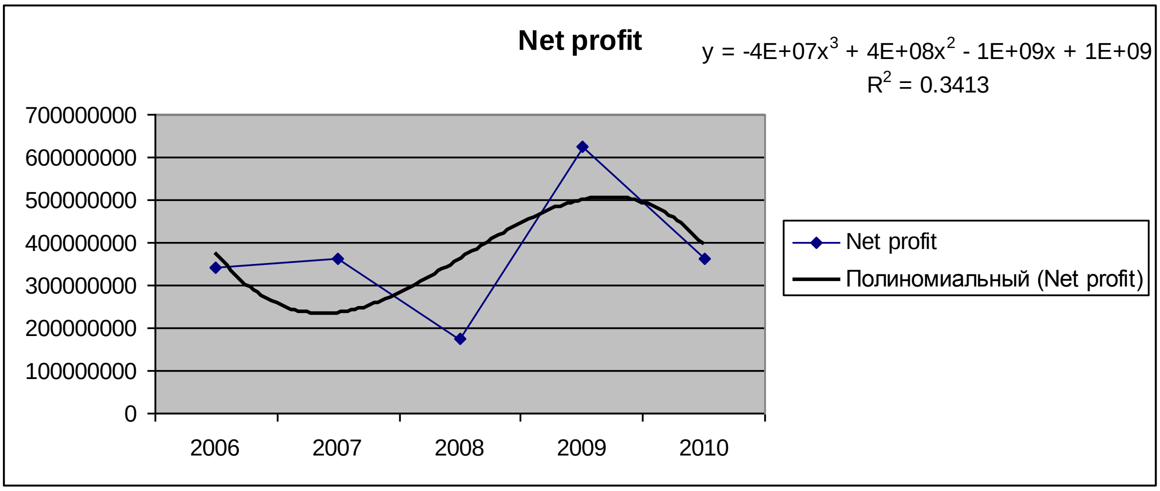

Fig.5 Net profit

3.4 Analysis of assets and liabilities

Assets and liabilities of the company are subject of accounting. Asset is a resource controlled by the company as a result of past events, and it is expected to lead to the economic benefits in the future. Assets are classified according to structure and placement and functional involvement in the activity. Liabilities are sources of the economic resources (assets). The sources are divided into: their own and borrowed.

Tab.8 Structure of assets

Name of index	2006	2007	2008	2009	2010
Σ assets in thousand of rub. Among them:	4553244241	5221417160	6181534689	6950737357	7827957711
Intangible assets	684	49795	214359	233375	176976

Fixed assets	262994466	2678629547	3349540798	3292919128	3621565477
Long term financial investments	769097147	157188792	946662260	1627870581	1517264033
Other noncurrent assets	5281042	13638077	24780433	46826982	51906244
Inventory	124428581	153153969	203165676	206879907	255445169
Accounts receivable	549657235	757266257	962068712	864494248	1148339055
Short term financial investments	17248532	69945934	50797174	58695234	20198059
Other current asset	290	360	686	2 681	21 672

Assets. The following table shows the development of assets in the last six years. Values of assets have changed slightly fluctuating up and down throughout the analyzed period. It is necessary to note an increase of accounts receivable in 2008 and inventory. Also it must be said that the company significantly increased its share in long term investments and reduced the values in short term investments

The following diagram shows the value of assets items and their development in 2006 – 2010

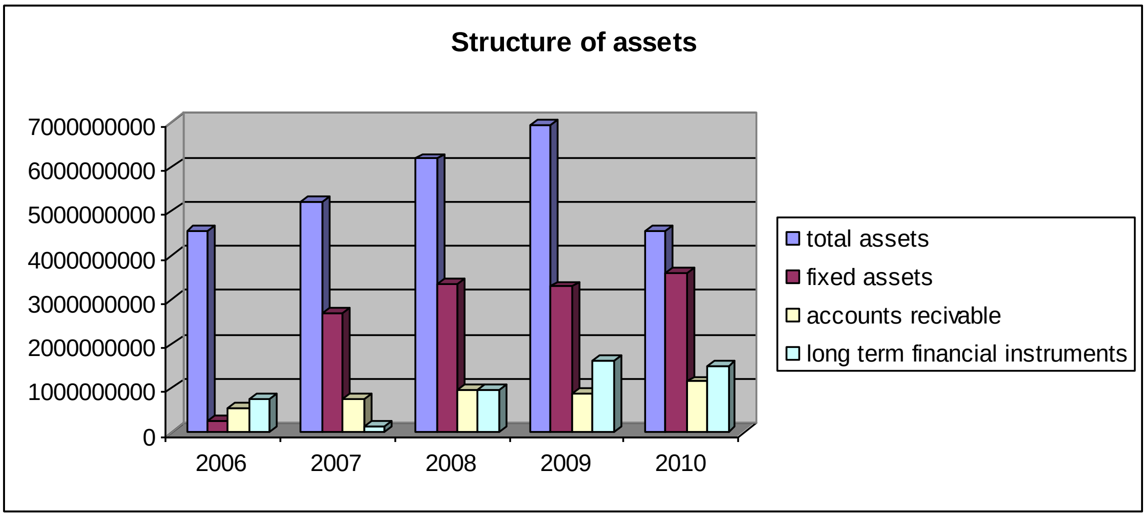

Fig.6 Structure of assets

Liabilities. The following table shows the development of liabilities indicators for the years of 2006-2010. The values have changed slightly up from year to year. There was an increase in long term liabilities (in 1,59 times), in short tem liabilities (in 2,37 times) and surplus capital (in 2,42 times).

Tab. 9 Structure of liabilities in 2006 - 2010

Name of index	2006	2007	2008	2009	2010
Σ liablities in thousand of rub. Among them:	4553244241	5221417160	6181534689	6950737357	7827957711
Authorized capital	118367564	118367564	118367564	118367564	118367564
Surplus capital	2582467620	2581019372	3291511791	3288669802	3769181002
Surplus earnings	945937462	1247498500	1355005242	1983016052	2292965777
Long term liabilities	630589992	886224871	928679016	1071208718	1003898769
Short term liabilities	267245602	379670852	479335075	480839220	634908598

The following diagram shows the development of liabilities in the years 2006 - 2010. As is clear from the diagram, the company gradually increased its liabilities.

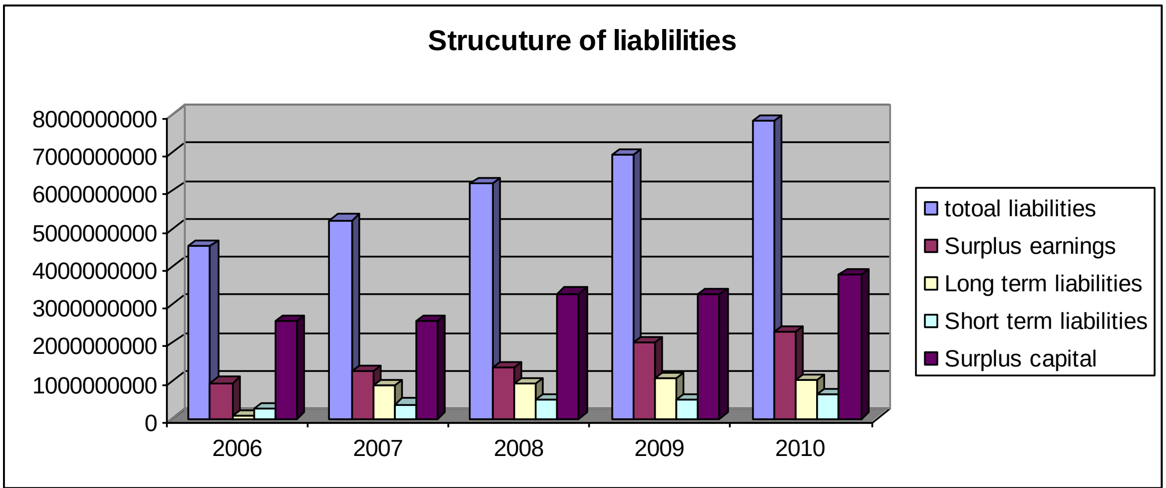

Fig. 7 Structure of liabilities in 2006 - 2010

3.5 Analysis of profitability

Profitability indicators show how the company makes profit using invested capital and how it is able to generate new resources. The following table shows the calculations of ratability indicators for the period analyzed.

Tab. 10 Profitability indicators in 2006 - 2010

Indicator		2006	2007	2008	2009	2010
Return on assets	ROA	7,54	6,90	2,79	8,98	4,69
Return on equity	ROE	18,31	15,26	15,12	13,81	10,01
Return on sales	ROS	36,62	29,36	35,81	28,37	25,3

Return on invest.	ROI	5,06	9,65	3,03	7,44	8,01
Return on capital employed	ROCE	7,30	13,01	5,10	10,70	11,5
Financial leverage		18,31	15,26	15,12	13,81	12,23

Return on assets (ROA) shows the number of monetary units of net profit brings each unit of assets available of the company, copies the value of ROI, but it is counted in the profit after tax. The indicator was positive during all analyzed period but its value dramatically decreased in 2007 and 2008 because of the decrease in operational profit.

Return on equity (ROE) was positive all the time from 2006 to 2010 due to the fact that the company created profit. ROE indicates the amount of profit on equity, and it means that since 2006 the company had 19-10 of profit per invested rubles by the owner, which is a good result. But it must be said that the amount of profit decreases during analyzed period. This could be because of ineffective policy of the company's management.

Return on sales (ROS) is very strong. It was positive during all analyzed period. And that means that the company got essential return. The biggest values were in 2006 and 2008. Its value started decreasing after 2008 because of reduction in revenues.

Return on investments (ROI) in the analyzed period was positive but not big; it indicates satisfactory viability. This means that the company operated efficiently and made enough EBIT.

Return on capital employed (ROCE) is profit of organization, expressed as a percentage from invested capital. It allows comparing the performance of one industry and giving an opportunity to investor for comparison of profitability of various industries. During analyzed period it was positive and indicated the effectiveness of operating of organization's capital.

Financial leverage during the analyzed period decreased, it means that debt of the enterprise decreased too. The values show that financial leverage is positive, i.e. ROE > ROA throughout all analyzed years is positive too.

Generally, the profitability indicators tell about the strong company. Of course, because of the World's crisis some indicators decreased after 2008. The smallest values if indicators showed ROA, where it would be positive to think about cost reduction.

The following diagram shows the development of printability indicators in 2006 - 2010.

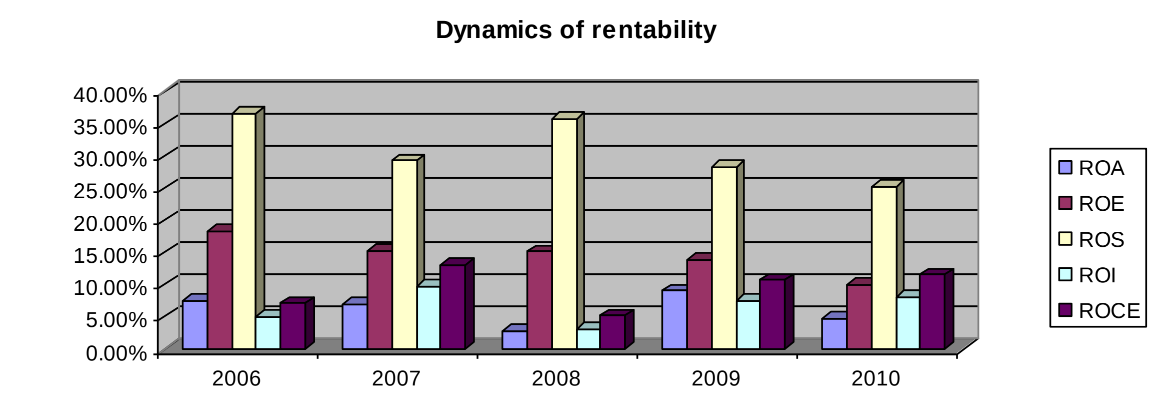

Fig. 8 Dynamics of profitability

3.6 Analysis of liquidity

The liquidity of any company is the ability to repay quickly its debts. Liquidity is determined by the value of debt and liquid funds available at the company. Liquid are those funds that can be used for debt repayment (cash on hand, deposits placed in the accounts of banks etc.).

Tab. 11 Liquidity indicators

Indicator	2006	2007	2008	2009	2010	Recommended value
Cash Ratio	0,22	0,16	0,14	0,12	0,32	0,2 – 0,5
Quick Ratio	2,28	2,15	2,15	1,92	2,13	1 – 1,5
Current Ratio	3,43	3,14	3,34	3.76	3,71	1,5 – 3

Cash ratio shows perfect values within recommended range and indicates about excellent solvency of the company. The higher its value, the greater the guarantee of repayment of debts, as for this group of assets, practically, there is no danger of losing value in a case of liquidation of the company and there is no time lag to convert them into means of payment.

Quick ratio indicates how much of the short-term liabilities of the company can immediately be repaid from the funds in various accounts, short-term securities, as well as income from settlements with debtors. The more value of indicator the better solvency of the company. Recommended value for quick ratio is from 1 to 1,5. For analyzed period we got value more than 1,5, what indicates about unsustainable capital structure due to the slow turnover of funds invested in stocks and increasing of accounts receivable.

Current ratio shows the company's ability to repay the current (short-term) liabilities by current assets only. The more value of indicator the better solvency of the company. It characterizes the solvency of the company, not only at the given moment, but in case of emergency. Normal value of the coefficient is considered to be from 1,5 to 3, depending on the industry. Current ratio for the analyzed period is more than 3. This tells about an unsustainable capital structure.

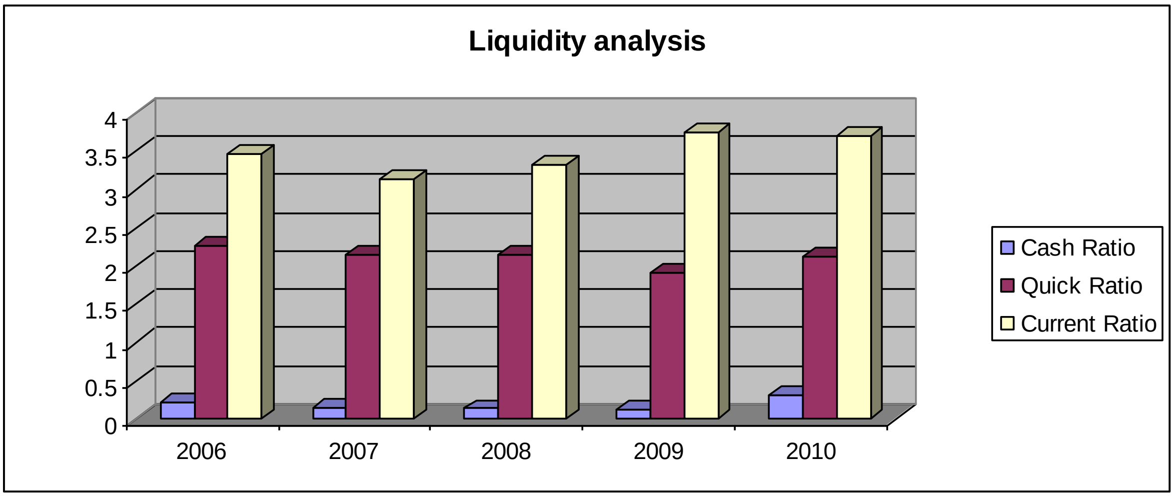

Fig. 9 Liquidity indicators

3.7 Analysis of debts

Debt ratios express how the firm finances its assets from loan capital. The following table summarizes the most important indicators.

Tab. 12 Debt indicators

Indicator	2006	2007	2008	2009	2010	Recommended value
Debt ratio	0,197	0,242	0,227	0,223	0,209	
Equity ratio	0,802	0,757	0,772	0,776	0,790	0,5 – 0,7
Times-interest-earned ratio	12,34	9,71	5,08	10,52	7,58	More than 3

Debt ratio shows the company's debt. As is clear from the table it's not too big. In the period of the World's crisis it was around 23 %. In 2010 the debt ratio decreased what is very positive for the company.

Equity ratio characterizes the independence of the company from borrowed funds and shows the share of own funds in the total value of all assets of the company. The higher the value of this ratio, the more financially stable and more independent the company from external creditors. Equity ratio for analyzed period is more than recommended value, what indicates a raise of risk and decrease in financial stability.

Times-interest-earned ratio gives an idea how many times the profits of the enterprise exceeds the interest due for payment. The values during analyzed period are more than recommended, what indicates that the company has enough fund to cover interests.

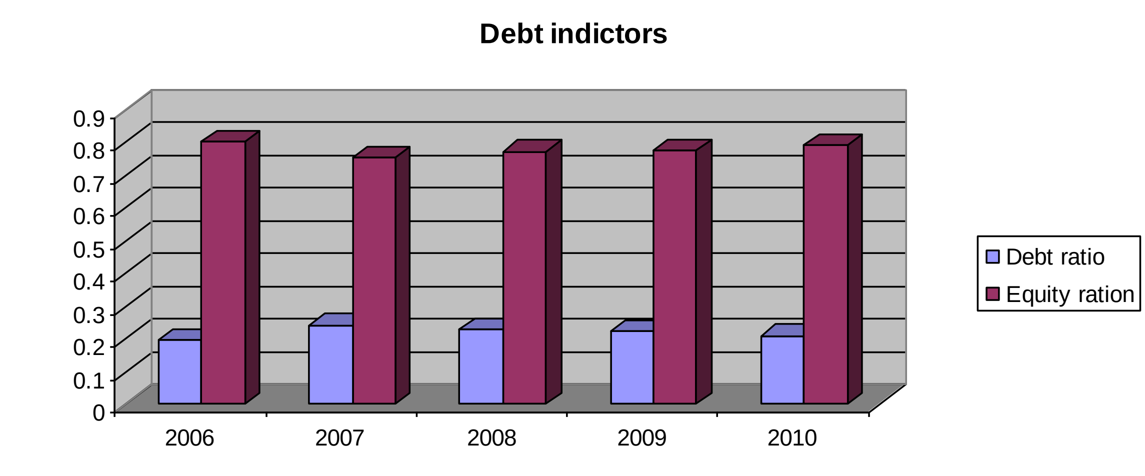

Fig 10 Debts indicators

3.8 Analysis of assets indicators

Tab. 13 Assets indicators

Indicator	2006	2007	2008	2009	2010
Asset turnover	2,63	2,79	2,48	3,37	2,62
Fixed asset turnover	4,76	7,21	5,37	12.93	779
Inventory turnover	0,25	0,21	1,60	0,21	0,91
Debtor collection	32,11	38,23	43,42	20,31	30,83
Credit payment period	28,48	56,79	52,73	58,99	42,04

Company has got strong policy in the assents treatment.

3.9 Analysis of bankruptcy

In this chapter I'll evaluate financial health of the company and do bankruptcy analysis.

3.9.1 The Altman's indicator

Tab. 14 The Altman's indicator for analyzed period

Name of index	2006	2007	2008	2009	2010
X1 = Net working capital / Total assets	0,14	0,15	0,18	0,19	0,21
X2 = Retained earnings from previous periods / Total assets	0,2	0,23	0,21	0,28	0,29
X3 = EBIT / Total assets	0,10	0,09	0,08	0,12	0,06

X4 = Own capital / Total debts	0,74	0,75	0,77	0,77	0,79
X5 = Revenues / Total assets	2,70	2,00	2,22	1,38	1,14
Total coefficient	3,78	3,00	3,09	2,44	2,05
Values	strong	strong	strong	difficalties	difficalies

The table shows the calculations of the financial health of the company from 2006 to 2010. During the analyzed period there was excellent situation and the company was not about to get bankrupt. The biggest values of the indicator were in 2006. After the World's economical crisis the situation deteriorated a little and indicator showed smaller values.

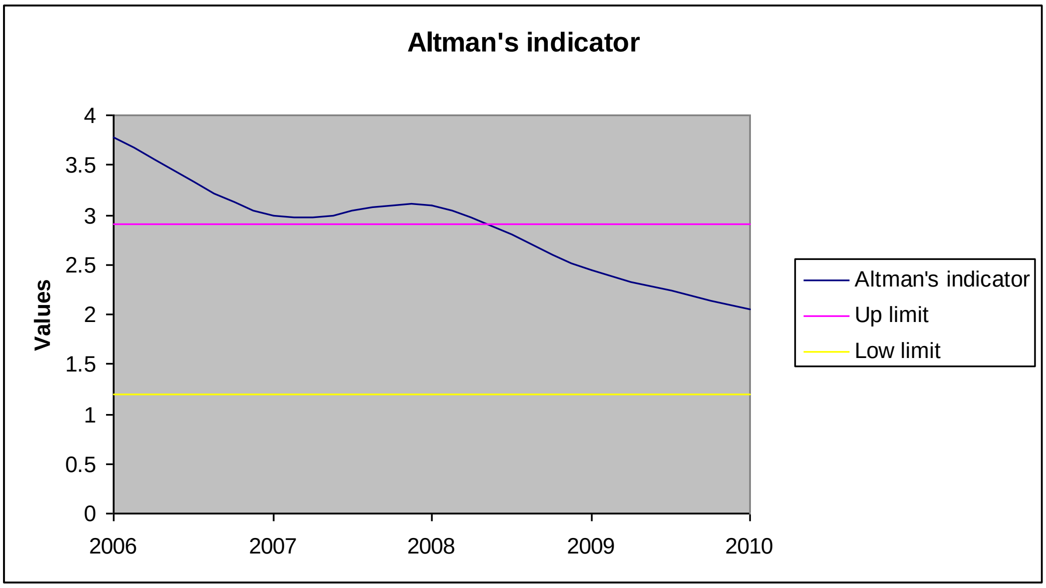

Fig. 11 The Altman's indicator

The diagram shows the situation in the company from 2006 to 2010. During first period of analysis, the indicator was higher than up limit and only from 2008 decreased in the medium zone because of the crisis.

3.9.2 Index IN05

Tab. 15 Index IN05

Name of index	2006	2007	2008	2009	2010
X1	0,16	0,21	0,23	0,19	0,24
X2	12,34	9,71	10,52	5,08	12,34
X3	0,10	0,15	0,13	0,12	0,06
X4	2,70	2,00	2,22	1,38	1,14
X5	3,43	3,14	3,34	3,76	3,43
Indicators value	1,78	1,70	1,72	1,54	1,3
Total value	strong	strong	strong	difficulties	difficulties

The table indicates the calculations of the financial health of the company from 2006 to 2010. As it was in case of the Altman's indicator, index IN05, during the analyzed period, showed excellent results and the company was not about to get bankrupt. After the World's economical crisis the situation deteriorated a little and indicator showed smaller values.

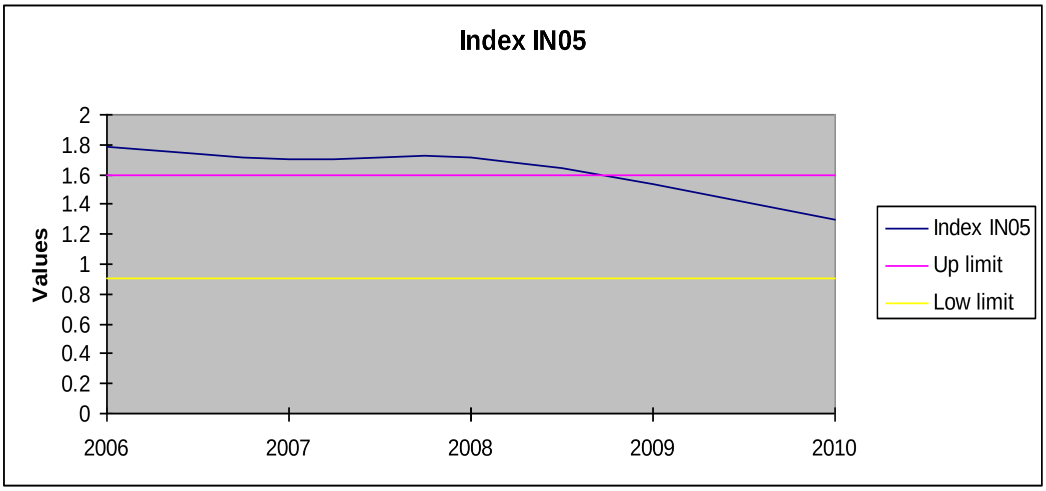

Fig. 13 Index IN05

3.10 Evaluation of financial analysis

Based on financial analysis according to the financial statements from 2006 at 2010, I came to the following conclusions concerning the financial position of the (stability), development of the financial situation and the financial behavior as well as the performance of Gazprom. The assessment is provided in subsequent questions and answers.

How is the company running during 2006 – 2010?

According to the financial analysis it's necessary to say that the business performance of the company is very good even in spite of some problems it had during the World economical crisis in 2008.

Does the company use its assets effectively?

ROA indicates that the company from 2006 to 2010 shows positive values, which means that all its assets has been used efficiently. Also, it must be said that in 2008 there was a significant decrease of ROA during the crisis period because of reducing of net income of the company.

Is there an adequate control of operating costs?

As it was mentioned above, ROS has positive value during all analyzed period. And that means that the company got essential return. The biggest values were in 2006 and 2008. Its value started decreasing after 2008 because of reduction in revenues.

Is the company able to pay current liabilities?

In the overall view of liquidity it can be summarized that the company does not have serious liquidity problems. The company is able to make a repayment of all its debts. Quick ratio and current ratio for analyzed period are more than recommended value what indicates an unsustainable capital structure due to the slow turnover of funds invested in stocks and increasing of accounts receivable. But the company seems to have good solvency.

Does Gazprom have enough capital for effective operation of the company?

Yes, the company has enough capital for effective operation. Here it’s necessary to take into consideration working capital. Net working capital in 2006 – 2010 had positive values. Current liabilities of the company were much lower than current assets. Working capital of the organization is resumed regularly to ensure current activities. Working capital turns at least once a year.

How high is the risk that the company is unable to pay interest to creditors?

The values of times-interest-earned ration are more than recommended, what indicates that the company has enough fund to cover interests. The company is strong enough to pay off its debts in the long term.

How are assets used in order to generate revenues?

Indicators of turnover of total assets in all years analyzed within the recommended values. It’s necessary to point out the indicator did not change a lot for 5 years. In 2010 reached the lowest value 2,62 and in 2009 – highest value 3,37

4 PROPOSALS ANS SOLUTIONS

The main problems, which hampers the Gazprom development are:

4.1 Shortage of gas

Nowadays, the shortage of gas at the comany could be named as hypothetical, which is explained by the fact, that at that moment it’s profitable to export gas and this could lead to limitation in supply of major industrial gas consumers in Russia, at the current rates of production growth. Howerver, in case of gas production decreasing on the main gas-fields and without exporation of new fields, the problem of shortage can gradually turn from the category of hypothetical to major.

“Gazprom” does not virtually have new big fields in the traditional region of production. It means that before the industrial gas production on the Yamal Peninsula, the gas monopoly has no serious resources to compensate reducing level of production in the giant-fields, which have been operating since the Soviet era. The last major field in the Nadym-Purtazovskom area, "Gazprom" started bringing into production several years ago. And now, the monopoly has got only hard-recoverable resources, which require special technology, extra costs and additional infrastructure for cleaning.

4.2 State of uniform gas transmission system (GTS)

Currently, the gas system resources have been depleted. Deterioration of most major gas transmission lines exceeds 60%. On the one hand it is very negative, because it prevents the development of Gazprom and Russia's domestic gas market, greatly limiting the possibilities of independent producers. On the other hand, lack of pipeline capacity increases the possibility of Gazprom to make a pressure on the independent producers in terms of reducing the price of gas purchased from them. They do not have any alternative, so they're forced to sell gas to the monopoly at a set price. It is clear that Gazprom will always seek to minimize the purchase price, the difference between buying and selling prices is a good tool for the company, which allows increasing the monopoly's gains.

To my mind, energy safety of the modern global economy is directly related to the development and stable operation of the transmission systems of oil and gas, which ensure supply of hydrocarbons to consumers.

Current piping systems and facilities are running under the complex environmental conditions. They include a risk to personnel, population and biological environment and, at the same time, they are very vulnerable, and in a case of long-term using subject to aging and got even more vulnerable to anthropogenic and natural impacts. Economically efficient maintenance of required reliability of gas pipelines is the basic goal for GTS technical condition of integrity management systems. Such systems are based on the integrated set of organizational, research, technological, operational (in terms of diagnosis and repair of GTS facilities) and regulatory processes, which are united and supported by a single information environment.

The researched-based policy of implementation of innovative technical solutions, materials, equipment and technologies for construction, reconstruction and operation of gas pipelines has a crucial meaning for the efficient development of pipeline transmission. Up-to-date science-intensive technologies provide highly reliable and safe operation of GTS throughout all gas pipeline life cycle.

Reconstruction, technical re-equipment, diagnostics and repair of gas transmission facilities have a significant importance in providing the required technical condition of GTS and ensuring reliable gas supplies to both domestic and foreign consumers. Reconstruction, a strategically important area of the Company's activity, ensures stable reliable operation and best development of GTS including objective external and internal conditions along with new construction and workover. Perhaps, the situation will be better in the medium-term.

4.3 Reducing of gas production profitability

Assessing the possible levels of oil and gas production by Gazprom in the future, it's necessary to keep in mind the current trend of deterioration in the qualitative structure of explored reserves. That happens due to increasing of hard-to reach reserves. Generally, it is typical for all oil and gas industry and in the natural gas industry, in particular, where over next 15-20 years gas production in major producing fields will decline because of reserves exhaustion at 75-80%. Development of new gas-fields, located in extreme climatic conditions, requires multiple investments growth, increasing the cost of production and transportation. Thus, the resource potential of Gazprom fields will soon be insufficient to reproduce as much gas as needed and could reduce cash flow of the company.

According to the plans of the state concern, gas production will reach 650 billin cubic meters by 2020, and in ten years – up to 725 billion cubic meters. The share of gas produced in the Yamal Peninsula, will be at least 350 billion cubic meters. Gazprom, certainly, has very ambitious plans, but most experts doubt that Europe will continue to import Russian gas. The thing is that the USA increased the production of shale gas in the recent time, which costs only $ 200-250 per thousand cubic meters. Currently, several European countries already hold negotiations to buy gas in the US. The competition could lead to the customer loss and provoke loss of income.

4.4 Competition. Shale gas

4.4.1 Pospects of development of completion in the gas industry of Russia

Structure of "Gazprom" in conjunction with its broad specialization may contribute to the development of optimal management system of the member enterprises. In the gas sector of Russia, there are companies which work at the national and international markets, and enterprises of the urban and regional importance. The competition for these enterprises is harmful and can cause to collapse. According to a widespread point of view, the competition could lead to the "natural selection", that is the ruin of loss-making enterprises and the strengthening of the strong, and in relation to the recourses industry - the ruin of businesses operating in economically unpromising fields. However, in this case, I can not agree with such a view. High volumes of gas production in some regions of Russia could be explained due to the fact that they have unique hydrocarbon reserves.

Subdivision of gas-producing companies of the "Gazprom" into separate competing companies could have a negative impact on economic and social situation in Russia and could lead to bankruptcy of promising enterprises by international standards. Such a division contradicts the internal logic of development of industries and companies.

However, I believe that it’s incorrectly to think that the development of a competitive environment is absolutely contra-indicated to the Russian gas complex. Emerging of the new gas production companies in Russia (in the end twenty century) and gradual increasing of their role in gas production can be assessed as very positive. Of course, nowadays in the gas industry there are forming elements of the competitive environment, despite of the fact that so far no one of these firms could really compete with "Gazprom". So, if in 1992, virtually only one oil company "Rosneft" produced gas, in twenty first there were already nine companies ("Surgutneftegas", "Rosneft", "Lukoil", TNK-BP, "Yukos" " Sibneft "," Slavneft "," Tatneft "," Bashneft").

In my point of view, the emergence of these companies in the industry can be evaluated as positive for the following reasons:

- They appeared as a result of the internal development of the Russian gas complex and have not been artificially separated from the structure of "Gazprom";

- According to analyst’s predictions, the lack of sufficient funds, technical, financial and other problems will not allow "Gazprom" to keep increasing production of natural gas, including development of new fields.

As the uniform system of gas supply in Russia belongs to "Gazprom" and it’s not available to "third parties", the increase in the number of companies involved in gas production will not automatically lead to the development of a competitive environment. The gas industry will be protected from the "shock therapy" - an abrupt change from monopoly to competition in short term and get some time for the evolutionary development in the context of oligopoly or monopoly. Although abrupt, radical changes in short periods of time could lead to positive results for the Russian gas market is preferable to have a gradual, evolutionary development.

Thus, I believe that the formation of the competitive environment in the Russian gas industry will have a positive impact on the domestic gas market and the economy in whole only in case if there will be found new companies and the structure of "Gazprom" will remain undivided.

4.4.2 Shale gas

According to the plans of the state concern, gas production will reach 650 billin cubic meters by 2020. The share of gas produced in the Yamal Peninsula, will be at least 350 billion cubic meters. Gazprom, certainly, has very ambitious plans, but most experts doubt that Europe will continue to import Russian gas. The thing is that the USA increased the production of shale gas in the recent time, which costs only $ 200-250 per thousand cubic meters. Currently, several European countries already hold negotiations to buy gas in the US. The competition could lead to the customer loss and provoke loss of income.

It’s too earlier to talk about the global consequences of what happened in the US. Optimists predict a complete revolution in the energy business. It has been estimated that the U.S. has more than 2,000 trillion cubic feet of shale gas. This would be enough for more than 100 years. For comparison - the conventional gas reserves in Russia are estimated in 1529 trillion cubic feet.

The payback price of gas produced by certain categories of shale decreased to $ 2,50 per thousand cubic feet (less than $ 90 per thousand cubic meters). For comparison - this is lower then domestic price of gas for industrial consumers of Russia scheduled in the 4th quarter of 2010. China, India, Australia are going to produce the shale gas. British BG has invested 1,3 billion dollars in the Texas’s fields.

However, according to evaluation of experts, the profitability of shale companies is not as high as the government declares and they suppose that the agiotage has been made artificially. The real profitability remains still unknown.

Also the experts pay attention to the environmental aspect of the use of new technology. The main barrier for gas corporations in Europe might not be financial and technical factors, but a strict European environmental legislation.

4.5 Export problems

More than 95% of Russian gas supplied to consumers through the territory of other countries and two thirds of the trade - through three or more countries. When exporting Russian natural gas, the pipelines go through 14 states. These are, practically, the biggest rates among suppliers of the European gas market. Transit of gas, as is clear from the international experience, becomes an independent business that requires quality-assessment: the calculation of transit fees and taxes, accurate and coordinated mechanisms of their formation, development of universally recognized by world practice rules for transit of supplies. Recent problems with Belarus, Ukraine over gas pipelines confirm that the lack of clear, fixed contracts generally accepted rules, which regulate transit relationships. That creates serious problems for Gazprom and increases its risks for gas delivering. And I strongly believe that nowadays, that problem expresses a need in diversification of gas delivery path through the construction of new pipelines.

In order to make a diversification of gas delivery and escape any problems and misunderstandings with transit countries, there were set up two projects, called "Nord stream" and "South stream".

4.5.1 "Nord stream" project

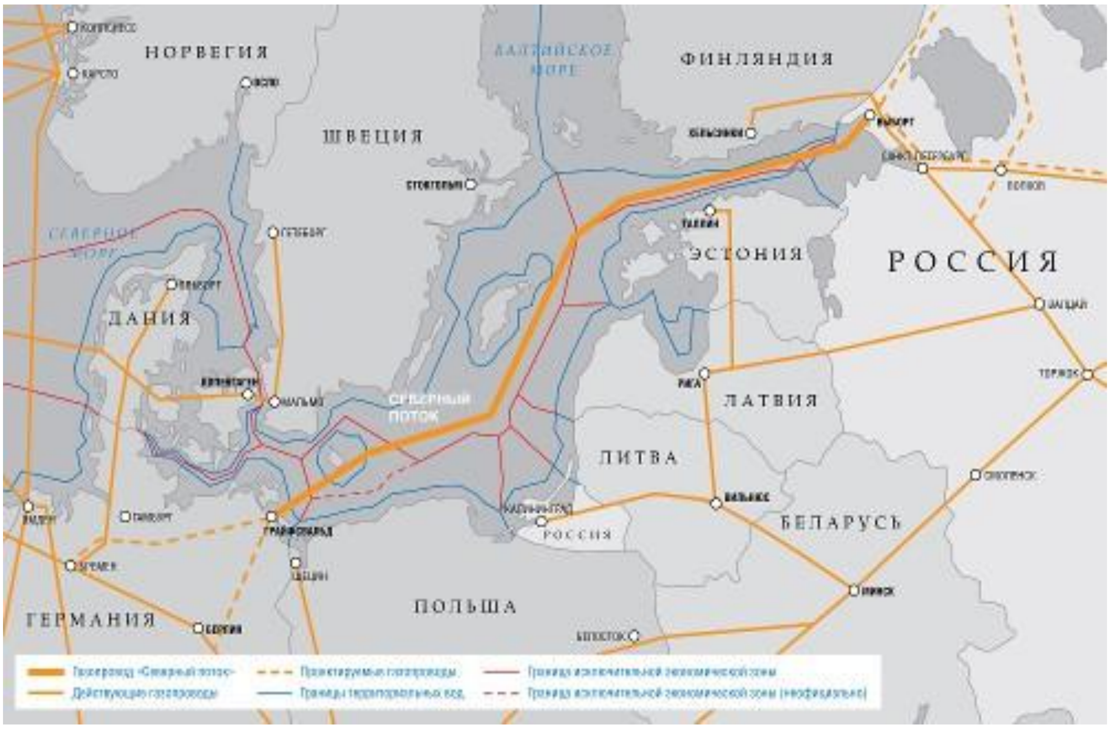

Fig.14 "Nord stream" project

The "Nord stream" gas pipelines is a very new route of gas export from Russia to Europe. It's going to supply gas to Germany, Great Britain, Netherlands, France, Denmark and other countries.

New gas pipeline has significant importance for meeting the growing needs of the European market in the natural gas. According to prediction, gas imports to the EU in the next decade will increase up to 200 billion cubic meters, or more than 50%. Owing to the direct connection of the world's largest natural gas reserves, located in Russia, with the European gas transmission system, "Nord Stream" will meet about 25% of this additional demand in imported gas.

"Nord Stream" does not go through the transit countries, thus reducing the cost of transporting of Russian gas and avoid possible political risks. "Nord Stream" will provide the most reliable supply of gas to consumers to Western Europe.

Based on complicated analysis of technical, environmental, economic aspects and factors of security of energy supply in Europe, the sea route is an optimal solution for the construction of a new pipeline to transport gas to the EU.

4.5.2 “South stream” project

Fig. 15 “South stream” project

The project "South Stream" is aimed at strengthening of Europe's energy security. This is another real step in the implementation of the strategy of "Gazprom" to diversify routes of Russian natural gas supplies. The new gas pipeline system meets up-to-date environmental and technological requirements and greatly enhances security of supply of entire European continent.

Gas pipline is supposed to go through the Black Sea bottom from the compressor station named "Russian" on the Russian coast to coast of Bulgaria. The total length of the Black Sea section is about 900 km, maximum depth - more than two kilometers, the design capacity - 63 billion of cm. There are two possible routes for the land section From Bulgaria's side - a north-west, another one is southwest.

4.6 Political factor

Gazprom is one of the most powerful and effective tools of the state. The company is under very careful control of the country's leadership. The ministers of the Russian government are in the Board of Directors and ex-president of Russia Dmitry Medvedev was the head of that board in previous time. From my point of view, Gazprom is not in a pure form of business organization, it is very politically loaded organization. Decisions in Gazprom are accepted by the political leadership, and they are not always commercially justified. The West depends on Russian energy very much. President Putin wants to integrate Russia into Europe, but he wants to see Europe more independent from the United States. Therefore he uses energy as an important factor to get in the European politics.

4.7 Alternative approach

In modern market, equity capital of the company is considered to be the main source of the development enterprise. Effectiveness of using of equity capital could be analyzed with the help of ROE, which might be calculated as:

$$ROE = \frac{Net\ Income}{Own\ Capital}$$

ROE shows how much profit brings every ruble of invested capital by ownership. Traditional approach includes total value of assets which transform equation of profitability into two-factor model which defines ROE as product of assets printability and financial leverage. This method of calculation of ROE indicates direct relation between ROE and profitability of assets, correlated on multiplicator (financial leverage). Next step of traditional approach takes into consideration influence of revenues upon assets profitability: thus we get three-factor model, which states that growth of sales profitability, assets turnover speeding up and increasing of assets share per one rubble of own capital lead to increasing of ROE. This method of analysis of ROE currently is said to be the most widespread.

Minuses of the traditional approach could be described as:

Assets profitability evaluates profit which includes sales profit, interest charges and value of assets. Coefficient of financial leverage does not take into account that cash assets and short-term financial investments represent so called “negative debt”. Concept of acceptance of cash assets and its equivalents as a “negative debt” is stipulated by the financial analysis agreement, which states that operating activities of the company leads to increasing of its cost. Therefore, all assets and liabilities of the company are subdivided into operating and financial. The operating assets and liabilities characterize company’s activity in ordinary terms in point of suppliers and customers, while financial assets and liabilities in the issue of business with shareholders and loan capital formation. Thus, traditional balance sheet is converted into a balance which determines net operating assets, net financial obligations and capital.

I'd like recommend an innovative approach to ROE. This approach takes into consideration subdivision of assets and liabilities into operational and financial. The method says that net income divides into net operating profit after taxation and interest expenses with a glance of income tax. That division of net income allows determining operational profit generated by operational assets and interest expenses with respect to financial obligations.

Therefore, ROE could be described with next equation:

$$ROE = \mathrm{Re}\mathit{turn\ on\ Operating\ \ Assets} + \mathit{Financial\ \ Leverage} \times \left(\mathrm{Re}\mathit{turn\ on\ Operating\ \ Assets} - ETR\right)$$

Term "Return on Operating Assets - ETR" is called Spread. It defines a saving rate from loan capital got by the company for financing of its activity. If spread is negative that means the firm does not have enough operational profit for covering interest expenses. If spread is positive – the company operates the loan capital effectively.

There is also another alternative way of calculating ROE. This method is an adjustment of traditional approach and deals with five factors which impacts ROE: tax effect, interest effect, return on sales, return of assets and financial leverage. Innovative approach is based on adding extra indicators to the traditional three-factor model: before tax income and sales profit. Ratio between net income and before tax income makes an indicator of tax effect which characterizes ETR (effective tax rate) of the company. Moreover, ETR calculated as ratio between before tax income and sales profit determines a result of company's performance which differs from routine calculation; theoretically, most of the difference between sales profit and before tax profit makes the interest expenses of debt instruments of the company.

CONCLUSION

The topic of my thesis was an evaluation of financial situation of the company for the period 2006 – 2010. In analysis I used financial statements, received at the company's department; also I used financial reports located at the official website of the company. In order to carry out it correctly, it was important to evaluate both internal and external factors which influence business.

I have made an evaluation of "Gazprom". The company operates in the following major areas: production, transportation, geological exploration, storage, processing and selling of hydrocarbons as well as generation and marketing of heat and electric power. Gazprom's mission is to ensure a safe, efficient, and balanced supply of natural gas, other types of energy resources, and refined products to consumers.

Generally speaking, according to the results of the financial analysis it is possible to say that Gazprom is a very strong company and the management led correct policy of the company development. Significant growth of sales proceeds over growth of cost of goods sold led to increasing of gross margin and an increase in efficiently of selling and management expenses and a decrease of their role in sales proceeds what resulted to sales profit increasing. However, during the analyzed period there were a decrease in effectiveness of non-sale transactions, a significant decrease of participation capital, growth of other income was lower than sales profit and growth of other costs. All that led to reduction in the value of EBT and value of net profit. Thus, with the efficiency of production activity of the main problems are in the inefficient organization of non-sale transactions. Also it's necessary to say that the World's economic crisis in 2008 – 2009 made a negative situation on the market for the company.

Profitability indicators showed that the company was strong enough to make profit using invested capital and generate new resources. Also I put down my ideas about how it is possible to improve analysis of ROE. In my opinion, in analysis of ROE we could take into account subdivision of assets and liabilities into operational and financial. The net income divides into net operating profit after taxation and interest expenses with a glance of income tax – that would help to define operational profit generated by operational assets and interest expenses with respect to financial obligations. Also it is possible to use another alternative approach which is based on adding extra indicators to the traditional three-factor model: before tax income and sales profit.

The liquidity analysis showed an excellent solvency of the company and ability to repay quickly its debts. Quick ratio indicates about unsustainable capital structure due to the slow turnover of funds invested in stocks and increasing of accounts receivable. Analysis of debts shows that in the period of economic crisis there was a raise of risk and decrease in financial stability.

Also, I did analysis of external environment of the company. Here it must be said that Gazprom has a number of problems.

There is a hypothetical problem of gas shortage. In case of gas production decreasing on the main gas-fields and without exploration of new fields, the problem of shortage can gradually turn from the category of hypothetical to major.

Nowadays, the gas system resources have been depleted. Deterioration of most major gas transmission lines exceeds 60%. Current piping systems and facilities are running under the complex environmental conditions. They include a risk to personnel, population and biological environment and, at the same time, they are very vulnerable, and in a case of long-term using subject to aging and got even more vulnerable to anthropogenic and natural impacts.

Development of new gas-fields, located in extreme climatic conditions, requires multiple investments growth, increasing the cost of production and transportation. Thus, the resource potential of Gazprom fields will soon be insufficient to reproduce as much gas as needed and could reduce cash flow of the company. Assessing the possible levels of oil and gas production by Gazprom in the future, it's necessary to keep in mind the current trend of deterioration in the qualitative structure of explored reserves. That happens due to increasing of hard-to reach reserves.

According to the plans of the state concern, gas production will reach 650 billion cubic meters by 2020. But the thing is that most experts doubt that Europe will continue to import Russian gas. The thing is that the USA increased the production of shale gas in the recent time, which costs much chipper. In 2011 several European countries already held negotiations to buy gas in the US. The competition could lead to the customer loss and provoke loss of income in Gazprom. However, according to evaluation of experts, the profitability of shale companies is not as high as the government declares and they suppose that the agiotage has been made artificially.

More than 95% of Russian gas supplied to consumers through the territory of other countries and two thirds of the trade - through three or more countries. Problems with Belarus, Ukraine over gas pipelines confirm that the lack of clear, fixed contracts generally accepted rules, which regulate transit relationships. In order to make a diversification of gas delivery and escape any problems and misunderstandings with transit countries, it's offered to set up two projects, called "Nord stream" and "South stream".

Also, it's necessary to take into account the political factor. Decisions in Gazprom are accepted by the political leadership, and they are not always commercially justified. That means that the company can hold a policy which could negatively influence the domestic market.

Summarizing the results of my thesis, I want to emphasize that nowadays Gazprom is one of the major participants in world energy markets. Based on internal analysis, the company is turned out to be very strong what says about the correct and effective policy being held by the management. But analysis of external environment reveals a number of serious problems which must be solved as soon as possible in order to prevent irreversible consequences in near future.

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