GAZPROM
MARKETING & TRADING

2009

Annual Report and Consolidated Financial Statements

Directors' report

The Directors present the Annual Report and Financial Statements of Gazprom Marketing & Trading Limited ("GM&T") for the year ended 31 December 2009.

Principal activity

The principal activity during the year was the marketing and trading of energy products including natural gas, LNG, power, oil and carbon emissions allowances in the UK, continental Europe, the United States and other markets.

Review of the business

Introduction

We are pleased to present to you for the first time, the consolidated financial statements of the GM&T group of companies ("the GM&T Group").

As described in last year's Director's report, GM&T has, over the past five years, invested in the development of its global marketing and trading activities and the network of companies which facilitate this international reach. The consolidated financial statements of the GM&T Group have been compiled to demonstrate the fact that it now comprises 11 individual legal entities covering the UK, continental Europe, North America and the Far East.

Financial results

The GM&T Group's financial results have once again exceeded those of the previous year, with a consolidated Net Profit after Tax of £114.8m (2008: £50.8m). The GM&T Group has increased its Total Equity to £258.9m (2008: £157.4m) and GM&T Group Revenues were up 34% to £9.2bn (2008: £6.9bn).

The key financial performance indicator, Net Profit after Tax, has now seen seven straight years of increase. These profits have largely been retained within the GM&T Group enabling it to demonstrate strong and reliable balance sheet growth. In addition it was in a position to pay a first dividend to its immediate parent company, Gazprom Germania GmbH, of £14,038,150 during 2009, representing 20% of net profit after tax of GM&T the Company in 2008.

Key developments

Our vision is to become the leading marketing and trading company in global energy markets.

During 2009 GM&T Group took several critical steps towards this goal, with further expansion of its international reach and operational capability.

GM&T Group restructured its reporting lines to better reflect the growth in its commercial activities and its global expansion. Its structure now comprises five Global Business Units: Trading & Portfolio, LNG, Carbon, Retail, and Gas and Power Origination. The heads of these Business Units reside in the UK companies with responsibility for those activities around the world, enabling us to provide a consistent and coordinated global approach.

GM&T Group attaches particular emphasis to pan-European markets where it has existing long-term relationships and expertise. In recognition of this, Gazprom Marketing & Trading Germania GmbH ("GM&T Germania") was incorporated in February 2009. This company will spearhead origination activities in Central and South Eastern Europe and will complement well established trading activities in more liquid European locations.

In April 2009, Gazprom Global LNG Ltd ("GGLNG"), the GM&T Group company responsible for trading and marketing Gazprom LNG volumes globally, concluded a major LNG offtake contract with the Sakhalin Energy Investment Company, securing a 25-year supply of LNG from the Sakhalin II project. In addition, GM&T Group contracted for regasification capacity on the western seaboard of North America, enabling long term LNG supplies to be marketed to the Southern California market. GGLNG traded a total of 22 cargoes during 2009 (2008: eight cargoes), demonstrating a commitment to this major new business stream and that GGLNG is becoming a major player in LNG markets.

Gazprom Marketing & Trading USA Inc ("GM&T USA") commenced its commercial activities in September 2009, providing trading access to North American natural gas markets and a route to market for Gazprom's LNG projects. In addition, GM&T USA established a Carbon desk developing a presence in a continent which may play a crucial part in climate change legislation for the future.

In October 2009, Gazprom Marketing & Trading Singapore PTE ("GM&T Singapore") was established to provide the Company with greater access to Asian markets. GM&T Singapore is developing capability to trade in various key commodities including LNG and carbon emissions. It will begin delivering LNG cargoes to destinations in Asia during 2010.

Directors' report continued

Gazprom Group

GM&T highly values its position in the Gazprom Group. It has always played a key role within that group, having commenced its activities in 1999 by managing the stake in the Bacton-Zeebrugge Interconnector belonging to its ultimate parent company, OAO Gazprom.

In the following ten years we have steadily increased the role which we play within the Gazprom Group and now add value in Europe by helping to manage a significant part of its gas supplies in that continent. In addition, we have worked on several joint projects with the Gazprom Group during the past year and contributed to the development of the Bergermeer Storage facility in the Netherlands, in association with OOO Gazprom Export.

The LNG division continues to cooperate closely with the Gazprom Group on its various projects, and as noted above, GGLNG became party to the Sakhalin II project during 2009. It is also working with Gazprom on the development of the marketing of volumes from the Shtokman LNG Project. This major gas and condensate field, being developed by Gazprom in conjunction with Total and Statoil, envisages the production of around 24bcm per annum of natural gas, with the commencement of LNG supply currently scheduled for 2017.

GM&T Group will continue to position itself as a crucial part of the Gazprom Group in recognition of the importance of marketing and trading operations to upstream production companies, and in alignment with Gazprom's strategic goal of becoming a leader among global energy companies.

GM&T Group is developing a method for presenting net revenues within the consolidated financial statements of its shareholders and may, in future, consider aligning its presentation with that of the Gazprom Group.

Key Performance Indicators (KPIs)	2009 Group	2008 Group	KPI Definitions
Growth in sales volumes (%)	54%	55%	Year-on-year sales volume growth expressed as a percentage.
Return On Equity (%)	44%	32%	Return On Equity is calculated as annual Net Profit divided by closing Net Assets expressed as a percentage.
Total number of products	7	7	Total number of products refers to the number of commodity products that the GM&T Group trades with counterparties.
Total number of locations	67	52	Total number of locations refers to the annual number of primary locations that the GM&T Group trades in.
Turnover (£000)	9,198,044	6,867,271	Revenue refers to annual GM&T Group revenue net of discounts, rebates, VAT and other sales taxes or duty, expressed in thousands of pounds sterling.
Gross margin (£000)	238,693	124,738	Gross margin is revenue less cost of goods sold, expressed in thousands of pounds sterling.
EBITDA (£000)	166,219	73,896	EBITDA (Earnings before Interest, Tax, Depreciation and Amortisation) expressed in thousands of pounds Sterling.
Net profit (£000)	114,757	50,772	Annual Net profit expressed in thousands of pounds Sterling.

Principal risks facing the Group

Risk management is an essential component of the GM&T Group's operations. Whilst we continue to pursue an ambitious strategy, we ensure that there is effective risk control and management in place. This is particularly relevant in the energy sector which can be one of the most volatile of commodity markets.

The principal risks that the GM&T Group faces can be categorised as Financial Risk (such as commodity price risk, credit risk, foreign exchange risk and liquidity risk) or Operational Risk.

In 2007 the Board of Directors approved a revised Governing Policy for Energy Risk Management that defines the scope, objectives, policy and strategies for the management of Financial and Operational Risks within GM&T. One of the key features reinforced in the revised policy is GM&T's Risk Oversight Committee ("ROC") which was established by the Board in 2004 to supervise the development, implementation and operation of the Risk Management framework.

The GM&T Group's management of Financial Risks is described in note 20.

Operational Risk mainly refers to uncertainties arising in the areas of human resources, technology, and the regulatory environment. Each of these risks is manageable and is the subject of continual monitoring within the GM&T Group.

Directors' report continued

Summary and future developments

The year 2009 saw the GM&T Group complete a full reassessment of its long-term strategy and goals. As a result of this process, it expects its future prospects to develop significantly, based around the following key elements:

- Offering a material contribution to the financial performance of Gazprom Group;
- Presence in all energy commodities;
- Positioning in all continents; and
- Investments in its people, its systems and its processes.

The Company has demonstrated significant growth in the past ten years and expects that with its new strategy it will continue to deliver world-class service to its customers and shareholders.

Charitable donations

The Group donated the sum of £56,140 (2008: £33,876) to local charities serving the communities in which it operates.

Directors and their interests

The Directors during the year were as follows:

H.–J. Gornig
Y. A. Komarov
A. V. Kruglov (appointed 8 August 2009)
A. I. Medvedev
A. V. Mikhalev
V. V. Vasiliev

There are no Directors' interests requiring disclosure under the Companies Act 2006.

Statement of going concern

The GM&T Group's business activities, together with the factors likely to affect its future development, performance and position are set out above. The financial position of the GM&T Group is set out in the financial statements. The liquidity position and borrowing facilities of the GM&T Group are set out in note 20 to the financial statements. Having considered the GM&T Group's financial position, including the amounts payable to other OAO Gazprom Group companies and the GM&T Group's forecasts and projections, the Directors believe that the GM&T Group is well placed to manage its business risks successfully despite the current uncertain economic outlook, and have a reasonable expectation that the GM&T Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the accounts.

Auditors

A resolution for the re-appointment of Deloitte LLP will be proposed at the forthcoming Annual General Meeting.

The Board of Directors in accordance with Section 418 of the Companies Act 2006 have confirmed the following statement, that in respect of the audit of Gazprom Marketing & Trading Limited and its subsidiaries for the period from 1 January 2009 to 31 December 2009:

- All relevant audit information has been made available to the Group's auditors; and
- As Directors we have taken all appropriate steps to make ourselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Approved by the Board of Directors

A V Mikhalev	**V V Vasiliev**
Director	Director
12 March 2010	12 March 2010

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditors' report to the members of Gazprom Marketing & Trading Limited

We have audited the financial statements of Gazprom Marketing & Trading Limited for the year ended 31 December 2009 which comprise the Group and parent company income statements, the Group and parent company balance sheets, the Group and parent company statements of comprehensive income, the Group and parent company statements of changes in equity, the Group and parent company cash flow statements and the related notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent company's affairs as at 31 December 2009 and of the Group's and the parent company's profit for the year then ended;
- the financial statements have been properly prepared in accordance with IFRS as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Carl D. Hughes (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom
12 March 2010

Income statement
Year ended 31 December 2009

		Group		Company	
	Notes	2009 £000	2008 £000	2009 £000	2008 £000
Continuing operations					
Revenue	5	9,198,044	6,867,271	8,872,325	6,693,087
Cost of sales		(8,959,351)	(6,742,533)	(8,709,719)	(6,548,394)
Gross profit		238,693	124,738	162,606	144,693
Administrative expenses	6	(76,054)	(54,097)	(56,663)	(47,709)
Operating profit		162,639	70,641	105,943	96,984
Investment revenue	7	1,055	3,260	778	3,063
Finance costs	8	(1,689)	(661)	(1,348)	(515)
Profit before tax		162,005	73,240	105,373	99,532
Tax	10	(47,248)	(22,468)	(30,623)	(29,341)
Profit for the financial year		114,757	50,772	74,750	70,191
Profit attributable to:					
Owners of the parent		115,025	51,000	74,750	70,191
Minority interest		(268)	(228)	–	–
		114,757	50,772	74,750	70,191

Balance sheet
31 December 2009

		Group		Company	
	Notes	2009 £000	2008 £000	2009 £000	2008 £000
Assets					
Non-current assets					
Intangible assets	12	4,307	4,471	1,181	1,096
Property, plant and equipment	13	14,075	12,706	11,435	11,137
Derivative financial instruments	21	140,021	183,978	143,443	194,490
Investments in subsidiaries	14	–	–	14,506	5,152
Deferred tax asset	19	7,556	9,154	–	2,625
		165,959	210,309	170,565	214,500
Current assets					
Inventories	15	85,905	47,675	85,659	47,605
Trade and other receivables	16	590,744	949,504	538,391	941,680
Derivative financial instruments	21	603,818	1,173,804	624,601	1,205,958
Cash and cash equivalents	17	112,451	64,052	54,726	58,763
		1,392,918	2,235,035	1,303,377	2,254,006
Total assets		1,558,877	2,445,344	1,473,942	2,468,506
Liabilities					
Current liabilities					
Trade and other payables	18	626,459	940,459	561,558	934,615
Derivative financial instruments	21	535,021	1,198,453	538,955	1,203,933
Current tax liabilities		25,526	23,376	19,524	21,503
		1,187,006	2,162,288	1,120,037	2,160,051
Net current assets		205,912	72,747	183,340	93,955
Non-current liabilities					
Trade and other payables	18	357	274	–	–
Derivative financial instruments	21	112,616	125,345	112,626	138,281
Deferred tax liabilities	19	19	–	81	–
		112,992	125,619	112,707	138,281
Total liabilities		1,299,998	2,287,907	1,232,744	2,298,332
Net assets		258,879	157,437	241,198	170,174
Equity					
Ordinary share capital	22	20,000	20,000	20,000	20,000
Cash flow hedge reserve		(8,194)	(10,312)	–	(10,312)
Foreign currency translation reserve		(1,610)	(215)	–	–
Minority interest		(496)	(228)	–	–
Retained earnings		249,179	148,192	221,198	160,486
Total equity		258,879	157,437	241,198	170,174

These financial statements of GM&T (registered number 3768276) were approved by the Board of Directors and authorised for issue on 12 March 2010.

Signed on behalf of the Board

A. V. Mikhalev
Director

V. V. Vasiliev
Director

Statement of comprehensive income
31 December 2009

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Profit for the year	114,757	50,772	74,750	70,191
Cash flow hedges:				
Losses arising during the period	(11,381)	(15,340)	–	(15,340)
Loss on foreign currency translation	(1,395)	(114)	–	–
Tax on items taken directly to equity	3,187	4,295	–	4,295
Net profit recognised directly in equity	105,168	39,613	74,750	59,146
Transfers				
Transferred to profit or loss on cash flow hedges	14,322	1,041	14,322	1,041
Tax on items transferred from equity	(4,010)	(292)	(4,010)	(292)
Total comprehensive income for the year	115,480	40,362	85,062	59,895

Statement of changes in equity

31 December 2009

Group	Share capital £000	Cash flow hedge reserve £000	Retained earnings £000	Minority interest £000	Foreign currency translating reserve £000	Total £000
Balance at 1 January 2008	20,000	(16)	97,192	–	(101)	117,075
Gain in fair value hedging derivatives transferred to income	–	1,041	–	–	–	1,041
Deferred tax related to gain transferred to income	–	(292)	–	–	–	(292)
Loss in fair value hedging derivatives	–	(15,340)	–	–	–	(15,340)
Deferred tax related to loss recognised in equity	–	4,295	–	–	–	4,295
Loss attributable to minority interest	–	–	228	(228)	–	–
Loss on foreign currency translation	–	–	–	–	(114)	(114)
Profit for the year	–	–	50,772	–	–	50,772
Balance at 1 January 2009	20,000	(10,312)	148,192	(228)	(215)	157,437
Loss in fair value hedging derivatives transferred to income	–	14,322	–	–	–	14,322
Deferred tax related to loss transferred to income	–	(4,010)	–	–	–	(4,010)
Loss in fair value hedging derivatives	–	(11,381)	–	–	–	(11,381)
Deferred tax related to loss recognised in equity	–	3,187	–	–	–	3,187
Loss on foreign currency translation	–	–	–	–	(1,395)	(1,395)
Dividends paid	–	–	(14,038)	–	–	(14,038)
Loss attributable to minority interest	–	–	268	(268)	–	–
Profit for the year	–	–	114,757	–	–	114,757
Balance at 31 December 2009	20,000	(8,194)	249,179	(496)	(1,610)	258,879

Statement of changes in equity
31 December 2009

Company	Share capital £000	Cash flow hedge reserve £000	Retained earnings £000	Total £000
Balance at 1 January 2008	20,000	(16)	90,295	110,279
Gain in fair value hedging derivatives transferred to income	–	1,041	–	1,041
Deferred tax related to gain transferred to income	–	(292)	–	(292)
Loss in fair value hedging derivatives	–	(15,340)	–	(15,340)
Deferred tax related to loss recognised in equity	–	4,295	–	4,295
Profit for the year	–	–	70,191	70,191
Balance at 1 January 2009	20,000	(10,312)	160,486	170,174
Loss in fair value hedging derivatives transferred to income	–	14,322	–	14,322
Deferred tax related to loss transferred to income	–	(4,010)	–	(4,010)
Dividends paid	–	–	(14,038)	(14,038)
Profit for the year	–	–	74,750	74,750
Balance at 31 December 2009	20,000	–	221,198	241,198

Cash flow statement

Year ended 31 December 2009

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Operating activities				
Operating profit	162,639	70,641	105,943	96,984
Depreciation of property, plant and equipment	1,449	1,255	930	838
Amortisation of intangibles	2,131	2,000	1,500	1,400
Unrealised fair value movements on derivatives	(31,184)	(8,003)	(13,217)	(40,006)
Increase in provisions	112	64	–	–
Loss on disposal of property, plant and equipment	15	303	–	438
Operating cash flows before movements in working capital	135,162	66,260	95,156	59,654
Increase in inventories	(38,230)	(498)	(38,054)	(940)
(Increase)/decrease in receivables	358,760	(519,163)	403,289	(503,167)
Increase/(decrease) in payables	(314,000)	489,189	(373,057)	484,586
Increase in derivative financial instruments	(29,488)	9,840	(30,690)	2,143
Cash generated from operations	112,204	45,628	56,644	42,276
Interest paid	(1,689)	(661)	(1,348)	(515)
Income taxes paid	(44,303)	(19,704)	(33,906)	(18,605)
Net cash from operating activities	66,212	25,263	21,390	23,156
Investing activities				
Interest received	1,055	3,260	778	3,063
Purchases of property, plant and equipment	(2,826)	(1,602)	(1,228)	(947)
Purchases of intangible assets	(1,974)	(1,357)	(1,585)	(892)
Investment in subsidiaries	–	(419)	(9,354)	(520)
Net cash (used in)/from investing activities	(3,745)	(118)	(11,389)	704
Financing activities				
Repayment of obligations under hire purchase agreements	(5)	(58)	–	(58)
Increase/(repayment) of loans	(25)	(25)	–	–
Dividend paid	(14,038)	–	(14,038)	–
Net cash used in financing activities	(14,068)	(83)	(14,038)	(58)
Net increase/(decrease) in cash and cash equivalents	48,399	25,062	(4,037)	23,802
Cash and cash equivalents at the beginning of the year	64,052	38,990	58,763	34,961
Cash and cash equivalents at the end of the year	112,451	64,052	54,726	58,763

Notes to the financial statements
Year ended 31 December 2009

1. General information

Gazprom Marketing & Trading Group (the "Group") is a group registered in England and Wales under the Companies Act 2006. The address of the registered office is given on page 1.

The principal activities of the Group are referred to in the Directors' report.

2. Adoption of new and revised standards

During the current year, the Group adopted the following Standards:

In 2009, two new standards and three revisions of standards became effective. These are IFRS 8 "Operating segments", IAS 23 "Borrowing costs", IFRS 7 "Financial instruments – Disclosures" (amendment), IFRS 2 "Share-based payment" (amendment) and IAS 1 "Presentation of financial statements" revision. The Group is exempt from the disclosure requirements of IFRS 8 as its shares are not traded in a public market. The adoption of the remaining standards has not had a material impact on the financial statements of the Group with the exception of IFRS 7 "Financial instruments – Disclosures" (amendment) which requires additional disclosure of fair value measurements.

At the date of authorisation of these financial statements, the following standards and relevant interpretations, which have not been applied in these financial statements, were in issue but not yet effective (and some of which were pending endorsement by the EU):

- IFRIC 18 "Transfers of assets from customers" – effective for accounting periods beginning on or after 1 July 2009;
- IAS 39 "Financial instruments: recognition and measurement – eligible hedged items" – revision applies retrospectively for accounting periods beginning on or after 1 July 2009;
- IFRIC 17 "Distribution of non-cash assets to owners" – effective for accounting periods beginning on or after 1 July 2009;
- IAS 27 (revised) "Consolidated and separate financial statements" – revision effective for accounting periods beginning on or after 1 July 2009;
- IFRS 3 (revised) "Business combinations" – revision effective for business combinations after 1 July 2009;
- IAS 38 (amendment) "Intangible assets" – amendment effective for accounting periods beginning on or after 1 July 2009;
- IFRS 5 (amendment) "Non-current assets held for sale and discontinued operations" – effective for accounting periods beginning on or after 1 January 2010;
- IAS 1 (amendment) "Presentation of financial statements" – effective for accounting periods beginning on or after 1 January 2010;
- IFRS 2 (amendment) "Share-based payment" – revision effective for accounting periods beginning on or after 1 January 2010.

The adoption of these standards in future periods is not expected to have a material impact on the financial statements of the Group with the exception of IFRS 3 "Business Combinations". Under IFRS 3 any future acquisition costs will be expensed in the income statement.

3. Accounting policies

Basis of accounting

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations endorsed by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments and on the going concern basis as disclosed in the Directors' statement of going concern as set out in the Directors' report.

Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Notes to the financial statements
Year ended 31 December 2009

3. Accounting policies continued

Consolidation continued

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable for the sale of gas, LNG, power, oil, carbon emissions allowances and capacity in the normal course of business, net of discounts, rebates, VAT and other sales taxes or duty. Realised profits on derivatives as well as unrealised profits and losses on open physical and derivative contracts are also included in revenue. Revenue is attributable to the Group's principal activity.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

Intangible assets

Externally acquired and internally generated intangible assets are recognised at cost less accumulated amortisation and impairment charges. Amortisation is provided on cost in equal annual instalments over the estimated useful lives of the assets. The amortisation rates are as follows:

Software and software licences	– 3 years

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes costs directly attributable to making the asset capable of operating as intended.

Depreciation is provided on all property, plant and equipment, at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life as follows:

Long leasehold property	– 40 years
Leasehold improvements	– over the term of the lease
Motor vehicles	– 4 years
Fixtures, fittings and equipment	– 3 years
Freehold property	– 50 years

Property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Impairment of tangible and intangible assets

At each balance sheet date, management assesses whether there is any indication that the recoverable value of the Group's assets has declined below their carrying value. When such a decline is identified, the carrying amount is reduced to the estimated recoverable amount. The amount of the reduction is recorded in the income statement in the period in which the reduction is identified. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

Notes to the financial statements
Year ended 31 December 2009

3. Accounting policies continued

Inventory

Gas held in storage, and carbon dioxide emissions allowances (such as "EUAs") kept in national carbon registries, are measured at fair value less costs to sell. The fair value is measured at the day-ahead price of gas and EUAs at the reporting date. Movements in the fair value of inventory between reporting dates are recognised directly in the income statement.

Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents comprise short-term investments which are readily convertible to cash and have an original maturity of three months or less.

Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Leases

Leases are classified into finance or operating leases and treated accordingly.

(a) Finance leases

A lease is classified as a finance lease where the Group obtains substantially all the risks and rewards of ownership of the related asset. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property, plant and equipment and the present value of minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant periodic rate of interest on the remaining balance of the liability for each period. The corresponding rental obligations, net of finance charges, are included in other long-term borrowings. The interest element of the finance cost is charged to the income statement over the lease period.

(b) Operating leases

A lease is classified as an operating lease where a significant portion of the risks and rewards of ownership are retained by the lessor. Payments made under operating leases, net of lease incentives or premiums, are charged in the income statement on a straight-line basis over the period of the lease.

Foreign currency

(a) Functional and presentation currency

The Group's and Company's financial statements are presented in Sterling, which is also the Group's and Company's functional currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement except where hedging criteria are met.

Taxation including deferred tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method. Deferred tax assets and liabilities are recorded for all temporary differences arising between the tax basis of assets and liabilities and their carrying value for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deferred tax asset will be realised or if it can be offset against existing deferred tax liabilities. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Such assets are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Notes to the financial statements
Year ended 31 December 2009

3. Accounting policies continued

Taxation including deferred tax continued

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Employee benefit costs

The Group makes payments into defined contribution personal pension plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions to a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Contributions to defined contribution schemes are recognised in the income statement in the period in which they become payable.

Financial assets

Financial assets within the scope of IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39") are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or as available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end. Regular purchases and sales of financial assets are recognised on the trade date – the date on which the Group commits to purchase or sell the asset. When financial assets are recognised initially, they are measured at fair value, being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

At the close of business on the balance sheet date the fair value of financial assets traded on an active market is determined by reference to the mid prices where there are liabilities with offsetting risks. The bid price is applied to any net open financial asset positions and the ask price is applied to any net open financial liability positions. Where there is no active market, fair value is determined using valuation techniques. These include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis and option pricing models.

Energy contracts

The Group routinely enters into energy sale and purchase transactions in line with the Group's expected physical usage requirements and to optimise the performance of its portfolio. Transactions which are not physically settled or are capable of net settlement and are not entered into (or continue to be held) for the purpose of receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements are within the scope of IAS 39. Such transactions are treated as financial assets at fair value through profit or loss where the fair value is positive and financial liabilities at fair value through profit or loss where the fair value is negative. Movements on the fair value of such assets and liabilities are recognised directly in the income statement.

Where such transactions are settled through receipt or delivery of the physical position these transactions are outside the scope of IAS 39 and are, therefore, recorded on an accruals basis.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest rate method. Gains or losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Notes to the financial statements
Year ended 31 December 2009

3. Accounting policies continued

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss include financial assets and liabilities held for trading. Financial assets and liabilities are classified as held for trading if they are acquired for sale in the short term. Derivatives are also classified as held for trading unless they are designated as hedging instruments. Financial assets and liabilities are carried in the balance sheet at fair value with gains or losses on financial assets at fair value through profit or loss recognised in the income statement.

Investment in subsidiaries

Investments in subsidiaries are carried in the parent company financial statements at cost less provision for impairment.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments and hedging

The Group uses derivative financial instruments to hedge exposures to financial risks, such as commodity price risks and foreign exchange arising in the normal course of business. The accounting treatment of derivative contracts differs depending on whether the contract is for trading or hedging purposes. All derivative instruments are measured at fair value upon initial recognition and re-measured to fair value at each subsequent reporting date. Movements in the fair value of derivative instruments are recognised within the income statement unless the instrument qualifies for hedge accounting. Where there is no active market for a derivative financial instrument, fair value is determined using valuation techniques. These include using recent arm's length market transactions, reference to the current market value of another instrument which is substantially the same, discounted cash flow analysis and pricing models. Where one or more inputs into a valuation technique are based on data that is not from an observable market, no gain or loss is recognised on initial recognition in respect of that financial instrument, except to the extent that it arises from a change in a factor that market participants would consider in setting a price. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

For those derivatives designated as hedges and for which hedge accounting is desired, the hedging relationship is documented at its inception. This documentation identifies the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how effectiveness will be measured throughout its duration. Such hedges are expected at inception to be highly effective.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability; or
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

The treatment of gains and losses arising from revaluing derivatives designated as hedging instruments depends on the nature of the hedging relationship.

Hedge accounting

The Group designates certain hedging instruments, which include derivatives as cash flow hedges. At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Note 21 sets out details of the fair values of the derivative instruments used for hedging purposes. Movements in the hedging reserve in equity are detailed in the Group Statement of changes in equity.

Notes to the financial statements
Year ended 31 December 2009

3. Accounting policies continued

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedged item that is attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the line of the income statement relating to the hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the “Revenue” line of the income statement, along with all other derivative fair value movements.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the income statement as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

4. Critical accounting judgements and key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. As described in note 21, the Group uses certain self-developed models to estimate the fair value of embedded call and written call options. The models require estimates of sensitive inputs such as implied volatilities and long-term price assumptions which have a significant impact on the resulting valuations.

5. Revenue

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Revenue per income statement	9,198,044	6,867,271	8,872,325	6,693,087
Investment revenue	1,055	3,260	778	3,063
	9,199,099	6,870,531	8,873,103	6,696,150

A fair value movement on derivatives of £29,789,000 and foreign exchange revaluation of £66,163,000 have been included within Group Revenue (2008: £7,889,000 and £27,118,000).

For the Company, a fair value movement on derivatives of £13,217,000 and foreign exchange revaluation of £67,494,000 have been included within Revenue (2008: £40,006,000 and £25,378,000).

Notes to the financial statements
Year ended 31 December 2009

6. Operating profit is stated after charging

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Administrative expenses				
Depreciation				
– owned assets	1,444	1,244	930	831
– leased assets	5	11	–	7
– amortisation	2,131	2,000	1,500	1,400
Staff costs (refer to note 9)	45,354	31,321	32,015	26,878
Other personnel expenses	3,336	2,435	2,981	1,846
Marketing and agency expenses	404	1,991	3,861	5,577
Consultancy (excluding auditors' remuneration)	12,584	6,035	8,265	4,359
Auditors' remuneration	987	672	855	625
Travel expenses	4,857	2,970	3,045	3,299
Rentals under operating leases	1,180	988	379	325
Loss on disposal of tangible and intangible fixed assets	15	438	–	438
Other administrative expenses	3,757	3,992	2,832	2,124
	76,054	54,097	56,663	47,709

The analysis of the auditors' remuneration is as follows:

	Group	
	2009 £000	2008 £000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	270	230
Fees payable to the Company's auditors for other services to the Group		
The audit of the Company's subsidiaries pursuant to legislation	66	47
Total audit fees	336	277
– tax services	156	222
– other services	495	173
Total non-audit fees	651	395

7. Investment revenue

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Interest income, including interest earned on bank deposits and loans	1,055	3,260	778	3,063

8. Finance costs

	2009 £000	2008 £000	2009 £000	2008 £000
Interest costs, including bank interest and charges	1,689	661	1,348	515

Notes to the financial statements
Year ended 31 December 2009

9. Directors' and employees' emoluments

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Directors' remuneration	4,301	3,211	3,981	3,161

The remuneration of the highest paid Director is £2,205,000 (2008: £1,623,000).

Contributions of £2,167 (2008: £13,000) were made to personal pension plans in respect of one of the Directors.

	Group		Company	
Staff costs during the year	2009 £000	2008 £000	2009 £000	2008 £000
Wages and salaries	38,781	26,817	27,293	23,093
Social security costs	4,883	3,098	3,710	3,065
Pensions	1,690	1,406	1,012	720
	45,354	31,321	32,015	26,878

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Average number of persons employed	258	148	171	138

The Group makes payments into defined contribution personal pension plans. It pays fixed contributions into separate funds. The total payments into these schemes for 2009 were £1.43m (2008: £0.93m).

10. Tax

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
UK corporation tax	45,402	31,818	31,927	29,540
Overseas taxes	1,052	215	–	–
Deferred taxation	794	(9,565)	(1,304)	(199)
Tax expense in the income statement	47,248	22,468	30,623	29,341

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Profit before tax	160,005	73,240	105,373	99,532
Tax charge for year based on statutory rate of 28% (2008: 28.5%)	45,361	20,874	29,504	28,366
Effects of:				
Expenses not deductible for tax purposes	896	935	884	935
Prior year under provision	390	62	241	36
Overseas tax rates	(807)	(74)	–	–
Deferred tax assets not recognised	1,433	731	–	–
Other tax impacts	(25)	(58)	(7)	4
Actual charge for the year	47,248	22,468	30,623	29,341

Notes to the financial statements
Year ended 31 December 2009

11. Dividends paid

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Amounts recognised as distributions to equity holders in the period:				
Final dividend for the year ended 31 December 2008 of 70.2p per share (2008: nil)	14,038	–	14,038	–
Total dividends for the year	14,038	–	14,038	–

12. Intangible fixed assets

Group	Software £000	Goodwill £000	Others £000	Total £000
Cost				
At 1 January 2008	2,625	1,467	2,989	7,081
Additions	906	450	–	1,357
Disposal	(110)	–	–	(110)
At 1 January 2009	3,421	1,917	2,989	8,327
Additions	1,964	9	–	1,973
Disposal	(11)	–	–	(11)
At 31 December 2009	**5,374**	**1,926**	**2,989**	**10,289**
Accumulated depreciation				
At 1 January 2008	961	–	946	1,908
Amortisation expense for the year	1,402	–	598	2,000
Disposal	(52)	–	–	(52)
At 1 January 2009	2,311	–	1,544	3,855
Amortisation expense for the year	1,533	–	598	2,131
Disposal	(4)	–	–	(4)
At 31 December 2009	**3,840**	**–**	**2,142**	**5,982**
Net book value				
At 31 December 2009	**1,534**	**1,926**	**847**	**4,307**
At 31 December 2008	1,110	1,917	1,445	4,471

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

During the year the Group acquired two subsidiaries, Gazprom Marketing & Trading Mexico S.de R.L.de C.V. and Gazprom Marketing & Trading Germania GmbH. Both acquisitions were not material.

Notes to the financial statements
Year ended 31 December 2009

12. Intangible fixed assets continued

Company	Software 2009 £000	Software 2008 £000
Cost		
At 1 January	3,405	2,623
Additions	1,585	892
Disposal	–	(110)
At 31 December	4,990	3,405
Accumulated depreciation		
At 1 January	2,309	961
Amortisation expense for the year	1,500	1,400
Disposal	–	(52)
At 31 December	3,809	2,309
Net book value		
At 31 December	1,181	1,096

13. Property plant and equipment

Group	Long leasehold property £000	Leasehold improvements £000	Fixtures, fittings and equipment £000	Motor vehicles £000	Freehold property £000	Total £000
Cost						
At 1 January 2008	7,651	2,776	3,748	183	852	15,210
Additions	197	7	1,398	–	–	1,602
Disposals	(240)	–	(137)	(140)	–	(517)
At 1 January 2009	7,608	2,783	5,009	43	852	16,295
Additions	39	100	2,687	–	–	2,826
Disposals	–	–	(22)	–	–	(22)
At 31 December 2009	**7,647**	**2,883**	**7,674**	**43**	**852**	**19,099**
Accumulated depreciation						
At 1 January 2008	456	77	1,951	121	1	2,606
Charge for the year	91	183	947	14	20	1,255
Disposals	(23)	–	(148)	(101)	–	(272)
At 1 January 2009	524	260	2,750	34	21	3,589
Charge for the year	99	237	1,086	7	20	1,449
Disposals	–	–	(14)	–	–	(14)
At 31 December 2009	**623**	**497**	**3,822**	**41**	**41**	**5,024**
Net book value						
At 31 December 2009	**7,024**	**2,386**	**3,852**	**2**	**811**	**14,075**
At 31 December 2008	7,084	2,523	2,259	9	831	12,706

The Group holds fixed assets under finance leases of £8,000 (2008: £10,000).

Notes to the financial statements
Year ended 31 December 2009

13. Property plant and equipment continued

Company	Long leasehold property £000	Leasehold improvements £000	Fixtures, fittings and equipment £000	Motor vehicles £000	Freehold property £000	Total £000
Cost						
At 1 January 2008	7,292	2,546	3,015	183	852	13,888
Additions	177	7	762	–	1	947
Disposals	–	–	(341)	(140)	–	(481)
At 1 January 2009	7,469	2,553	3,436	43	853	14,354
Additions	–	–	1,228	–	–	1,228
At 31 December 2009	**7,469**	**2,553**	**4,664**	**43**	**853**	**15,582**
Accumulated depreciation						
At 1 January 2008	432	77	1,849	121	1	2,480
Charge for the year	65	183	556	14	20	838
Disposals	–	–	–	(101)	–	(101)
At 1 January 2009	497	260	2,405	34	21	3,217
Charge for the year	66	183	654	7	20	930
At 31 December 2009	**563**	**443**	**3,059**	**41**	**41**	**4,147**
Net book value						
At 31 December 2009	**6,906**	**2,110**	**1,605**	**2**	**812**	**11,435**
At 31 December 2008	6,972	2,293	1,031	9	832	11,137

14. Investments in subsidiaries

Details of the Company's subsidiaries at 31 December 2009 are as follows:

Name of subsidiary	Place of incorporation and operation	Proportion of ownership interest	Proportion of voting power
Gazprom Global LNG Ltd	UK	100%	100%
Gazprom Marketing & Trading Retail Ltd	UK	100%	100%
TruRead Ltd	UK	30%	50%
Gazprom Mex (UK)1 Ltd	UK	100%	100%
Gazprom Mex (UK)2 Ltd	UK	100%	100%
Gazprom Marketing & Trading France SAS	France	100%	100%
Gazprom Marketing & Trading USA, Inc.	USA	100%	100%
Gazprom Marketing & Trading Singapore Pte Ltd	Singapore	100%	100%
Gazprom Marketing & Trading Germania GmbH	Germany	100%	100%
Gazprom Marketing & Trading Mexico S.de R.L.de C.V.	Mexico	100%	100%

Notes to the financial statements
Year ended 31 December 2009

14. Investments in subsidiaries continued

Movements in the investments in subsidiaries during the year are as follows:

	Company	
	2009 £000	2008 £000
Balance at 1 January	5,152	4,632
Investments during the year	9,354	520
Balance at 31 December	14,506	5,152

Five additional subsidiaries were added to the GM&T Group in 2009. They were Gazprom Marketing & Trading Singapore Pte Ltd, Gazprom Marketing & Trading Germania GmbH, Gazprom Mex (UK)1 Ltd, Gazprom Mex (UK)2 Ltd and Gazprom Marketing & Trading Mexico S. de. R.L. de C.V.

The share capital of Gazprom Marketing & Trading USA Inc was increased by £9.2m during 2009.

On 5 March 2008 the Group entered into a transaction with TruRead Ltd to purchase 43 shares of TruRead Ltd for a consideration of £263,000 and an option to purchase the remaining ordinary shares of TruRead Ltd at any time up to 4 March 2012. This option must be exercised if and when the cumulative net profits to date less retained losses as at 1 December 2006 exceed £2,150,000. The purchase price of the outstanding shares will be £2,700,000.

The option gives the Group control of TruRead Ltd and therefore it is classified as a subsidiary of the Group at the balance sheet date. The option is not fair valued at each balance sheet date as the option is an unquoted equity derivative and therefore fair value cannot be reliably ascertained.

15. Inventories

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Gas in storage	81,671	47,094	81,671	47,094
Emission allowances	3,988	511	3,988	511
Other inventories	246	70	–	–
	85,905	47,675	85,659	47,605

16. Trade and other receivables

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Amounts receivable for sale of commodities	561,828	925,064	454,521	881,021
Amounts receivable from Group companies	21,696	20,456	79,931	58,410
Prepayments and other debtors	7,220	3,984	3,939	2,249
	590,744	949,504	538,391	941,680

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The estimated fair value of all classes of receivables is the same as their carrying amounts.

Notes to the financial statements
Year ended 31 December 2009

17. Cash and cash equivalents

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Cash and cash equivalents	112,251	64,052	54,726	58,763

The estimated fair value of all classes of cash and cash equivalents is the same as their carrying amounts. The maximum exposure to credit risk at the reporting date is the fair value of cash and cash equivalents mentioned above. The estimated fair value of all cash and cash equivalents is the same as their carrying amounts.

18. Trade and other payables

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Due within one year				
Amounts payable for the purchase of commodities	389,229	646,609	363,415	647,058
Amounts owed to group companies	170,391	195,892	161,616	240,253
Accruals and other payables	66,839	97,958	36,527	47,304
	626,459	940,459	561,558	934,615

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Due after more than one year				
Other long-term provisions	176	64	–	–
Finance lease liabilities	6	10	–	–
Non-current loans	175	200	–	–
	357	274	–	–

The estimated fair value of all classes of payables is the same as their carrying amounts.

Notes to the financial statements
Year ended 31 December 2009

19. Deferred tax

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Deferred tax asset/(liability) at 1 January	9,154	(4,414)	2,625	(1,577)
Credit/(charge) to the income statement	(794)	9,565	1,304	199
Credit/(charge) to equity – cash flow hedge reserve	(823)	4,003	(4,010)	4,003
Deferred asset/(liability) at 31 December	7,537	9,154	(81)	2,625

The deferred tax asset/(liability) consists of the following amounts:

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Capital allowances in excess of depreciation	(294)	(665)	(229)	(232)
Transitional adjustments relating to IFRS conversion	(1,027)	(1,198)	(1,027)	(1,198)
Amounts taken to equity – cash flow hedge reserve	3,187	4,010	–	4,010
Other temporary differences	5,671	7,007	1,175	45
Net deferred tax asset/(liability)	7,537	9,154	(81)	2,625

Other temporary differences primarily relate to differences between the accounting and tax treatment of short-term provisions and mark to market gains and losses. There are losses carried forward in Group companies totalling £4,307,000 and other temporary differences totalling £2,561,000 for which a deferred tax asset has not been recognised.

20. Financial risk management objectives and policies

The Group enters into derivative transactions, including principally commodity forwards, swaps, options and futures contracts, and forward foreign exchange contracts, the primary purpose of which is to manage the commodity price and currency risks arising from the Group's operations.

The Group's Risk Oversight Committee ("ROC") is responsible for overseeing the risks arising from GM&T's trading activities. The ROC is charged with the creation and administration of the "Governing Policy for Energy Risk Management" and separate subsidiary "Risk Management Procedures Manuals" ("Subsidiary Documentation") for each main group of activities or subsidiary/affiliate to the Group.

The Group holds some unhedged positions, subject to certain Board approved limits.

The primary market risks within the business are the unhedged exposures to commodity prices and foreign exchange rates. Value-at-Risk ("VaR") is the primary mechanism for measuring and managing market risk.

The Group's principal financial instruments, other than derivatives, comprise balances with related parties (see note 25), finance leases and cash and cash equivalents. The Group has various other financial assets and liabilities such as trade and other receivables and trade and other payables, which arise directly from its operations.

Capital risk management

The Group manages its capital to ensure it will be able to continue as a going concern. The capital structure of the Group consists of cash and cash equivalents and equity comprising share capital and reserves. The Group is not subject to externally imposed capital requirements.

Foreign exchange risk

The majority of the Group's trading is denominated in Sterling, Euros and US dollars. When currency exposure arises as a result of purchase and sale commitments the Group seeks to use forward foreign exchange transactions to hedge the exposure.

Notes to the financial statements
Year ended 31 December 2009

20. Financial risk management objectives and policies continued

Liquidity risk

Through the use of borrowings, finance leases, and loans from related parties, the Group manages its liquidity to ensure that sufficient cash is available to meet all contractual commitments as they fall due and also to ensure that there is sufficient funding to withstand stressed market conditions or an extreme event.

The Group expects to have access to certain committed banking facilities of its parent company GAZPROM Germania GmbH.

The Group's liquid resources include amounts placed under cash pooling arrangements with GAZPROM Germania GmbH (see note 25).

Commodity price risk

The Group uses a daily VaR measure as the primary mechanism for short-term market risk control. The ROC has approved VaR limits for all trading activities and regularly reviews the limits and monitors performance against these limits. It is recognised that VaR cannot be relied upon solely to predict the size of potential losses and additional techniques are employed to monitor market risk such as stress testing and sensitivity analysis.

At 31 December 2009, the 1-day, 97.5% VaR related to financial instruments in the Group's portfolio including:

- price risk (power, gas, oil, emissions); and
- foreign exchange risk was £0.97m (2008: £1.9m). This VaR value is within the limits set by the Group's management.

The VaR calculation is an estimate of the maximum possible loss the portfolio can incur during the specified holding period at the specified confidence level under normal market conditions. The Group uses a EWMA Parametric VaR model. This approach places a higher weight to the more recent market observations making the model more sensitive to changes in market conditions than the historical approach.

Under this approach the following assumptions are made:

- All price exposures are linear, i.e. P&L is a linear function of the underlying price.
- Correlated price returns follow a multivariate normal distribution.

The linear approximation is prudent as the Group's stated risk policy prevents the holding of short uncovered option positions. Hence the linear approximation can only lead towards an overestimation of risk.

Credit risk

The Group's exposure to credit risk arises from the potential default of counterparties to derivative contracts and non-collectability of receivables, cash and cash equivalent balances. The Group's exposure is predominantly with highly graded energy companies, utilities, financial institutions and other trading companies.

The Group has implemented a robust credit risk management policy which is overseen by the ROC. This policy is based on two main processes: the assignment of counterparty credit limits and reporting of aggregate Credit Value at Risk ("CVaR").

- Counterparty credit limits are approved by the ROC based on external ratings where available and an ROC approved assessment methodology in other cases. The credit exposure to each counterparty, including potential forward exposure, is then monitored on a daily basis to ensure those limits are not exceeded.
- CVaR reporting is produced by analysing credit exposures against externally calibrated default probabilities. The default probabilities are regularly monitored and, when appropriate, amended to reflect impaired economic circumstances.

The Group also actively manages its portfolio to avoid concentrations of credit risk.

The Group trades under agreements which include payment netting (to reduce settlement exposure in the normal course of business) and close-out netting (to reduce pre-settlement credit exposure by netting offsetting payments to and from the defaulting party in insolvency situations), material adverse change and default provisions. The Group also obtains credit support such as letters of credit, bank guarantees and parent company guarantees against exposures where appropriate.

Notes to the financial statements
Year ended 31 December 2009

20. Financial risk management objectives and policies continued

Economic Capital

During 2008, the Group implemented an Economic Capital framework to ensure that the total level of commodity risk to which it is exposed can be supported by its balance sheet on a standalone basis. This is achieved by comparing the Economic Capital requirements based on annualised MVaR and CVaR measures, plus a proxy Operational Risk figure, to the available Economic Capital in the form of the Group's Tangible Net Worth. The Economic Capital requirements and availability are calculated and reported on a daily basis as the overarching risk control approach for the Group.

The table below analyses the contractual undiscounted cash flows arising from the Group's financial assets into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

31 December 2009	Within 1 month £000	2–12 months £000	1–2 years £000	2–3 years £000	3–4 years £000	4–5 years £000	Over 5 years £000
Derivatives	997,782	4,722,928	1,476,521	539,594	–	–	–
Cash and cash equivalent	112,451	–	–	–	–	–	–
Trade receivables	581,870	8,874	–	–	–	–	–
Total	1,692,103	4,731,802	1,476,521	539,596	–	–	–

31 December 2008	Within 1 month £000	2–12 months £000	1–2 years £000	2–3 years £000	3–4 years £000	4–5 years £000	Over 5 years £000
Derivatives	1,103,568	5,073,289	843,341	154,729	–	–	–
Cash and cash equivalent	64,052	–	–	–	–	–	–
Trade receivables	931,234	18,270	–	–	–	–	–
Total	2,098,854	5,091,559	843,341	154,729	–	–	–

The table below analyses the contractual undiscounted cash flows arising from the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

31 December 2009	Within 1 month £000	2–12 months £000	1–2 years £000	2–3 years £000	3–4 years £000	4–5 years £000	Over 5 years £000
Derivatives	2,597,014	4,460,621	1,598,162	854,552	–	–	71,442
Payables	558,424	68,035	–	–	–	–	–
Loans	4	50	54	54	27	–	–
Total	3,155,442	4,528,706	1,598,216	854,606	27	–	71,442

31 December 2008	Within 1 month £000	2–12 months £000	1–2 years £000	2–3 years £000	3–4 years £000	4–5 years £000	Over 5 years £000
Derivatives	713,269	2,652,956	292,322	33,161	–	–	–
Payables	891,954	48,505	–	–	–	–	–
Loans	–	27	54	54	54	27	–
Total	1,605,223	2,701,488	292,376	33,215	54	27	–

Notes to the financial statements
Year ended 31 December 2009

20. Financial risk management objectives and policies continued

The table below analyses the contractual undiscounted cash flows arising from the Company's financial assets into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

Company

31 December 2009	Within 1 month £000	2–12 months £000	1–2 years £000	2–3 years £000	3–4 years £000	4–5 years £000	Over 5 years £000
Derivatives	1,062,970	4338,387	1,194,993	208,343	–	–	–
Cash and cash equivalent	54,726	–	–	–	–	–	–
Trade receivables	531,093	7,298	–	–	–	–	–
Total	1,062,970	4,338,387	1,194,993	208,343	–	–	–

31 December 2008	Within 1 month £000	2–12 months £000	1–2 years £000	2–3 years £000	3–4 years £000	4–5 years £000	Over 5 years £000
Derivatives	1,103,568	5,073,289	843,341	154,729	–	–	–
Cash and cash equivalent	58,763	–	–	–	–	–	–
Trade receivables	883,600	57,683	–	–	–	–	–
Total	2,045,931	5,130,972	843,738	154,729	–	–	–

The table below analyses the contractual undiscounted cash flows arising from the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

31 December 2009	Within 1 month £000	2–12 months £000	1–2 years £000	2–3 years £000	3–4 years £000	4––5 years £000	Over 5 years £000
Derivatives	2,256,047	4,148,391	1,311,227	854,552	–	–	71,442
Payables	509,723	51,835	–	–	–	–	–
Total	2,526,047	4,148,391	1,311,227	854,552	–	–	71,442

31 December 2008	Within 1 month £000	2–12 months £000	1–2 years £000	2–3 years £000	3–4 years £000	4–5 years £000	Over 5 years £000
Derivatives	713,269	2,652,956	292,322	33,161	–	–	–
Payables	892,229	42,386	–	–	–	–	–
Total	1,605,498	2,695,342	292,322	33,161	–	–	–

Notes to the financial statements
Year ended 31 December 2009

21. Derivative financial instruments

Derivative financial instruments that are currently used by the Group include forward foreign exchange contracts, commodity futures, and commodity trading contracts. The Group also has derivatives embedded in certain host contracts which are separated and carried at fair value in accordance with IAS 39. The fair value of derivative financial instruments at the balance sheet date is as follows:

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Current assets				
Commodity trading contracts	569,703	972,902	590,211	1,005,055
Emission allowances	2,276	2,392	2,337	2,393
Forward foreign exchange contracts	14,499	110,205	14,713	110,205
Commodity options	17,340	88,305	17,340	88,305
	603,818	1,173,804	624,601	1,205,958
Non-current assets				
Commodity trading contracts	89,343	141,154	92,758	151,666
Emission allowances	39,590	12,461	39,597	12,461
Forward foreign exchange contracts	493	30,042	493	30,042
Commodity options	10,595	321	10,595	321
	140,021	183,978	143,443	194,490
Current liabilities				
Commodity trading contracts	525,808	1,111,814	529,534	1,117,294
Emission allowances	6,451	2,382	6,467	2,382
Forward foreign exchange contracts	2,762	3,360	2,954	3,360
Commodity options	–	80,897	–	80,897
	535,021	1,198,453	538,955	1,203,933
Non-current liabilities				
Commodity trading contracts	76,855	110,964	76,837	123,900
Emission allowances	35,087	10,344	35,115	10,344
Forward foreign exchange contracts	674	4,037	674	4,037
	112,616	125,345	112,626	138,281

Notes to the financial statements
Year ended 31 December 2009

21. Derivative financial instruments continued

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Group			
2009	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Derivative financial assets	11,727	729,793	2,319	743,839
Derivative financial liabilities	26,187	621,450	–	647,637

	Company			
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Derivative financial assets	11,727	756,317	–	768,044
Derivative financial liabilities	26,187	625,395	–	651,582

The balance on Level 3 represents a gain of £2.3m on a financial asset, measured at fair value using a Level 3 fair value measurement basis, and is recognised in the income statement.

	Group			
2008	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Derivative financial assets	38,728	1,319,054	–	1,357,782
Derivative financial liabilities	218,625	1,105,173	–	1,323,798

	Company			
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Derivative financial assets	38,728	1,361,720	–	1,400,448
Derivative financial liabilities	218,625	1,123,589	–	1,342,214

Notes to the financial statements
Year ended 31 December 2009

21. Derivative financial instruments continued

(a) Commodity price risk

Commodity options

The fair value of commodity options is determined using company developed option pricing models which include inputs of implied volatility, market commodity price forward curve data, strike prices and contractual volumes.

The total amount recognised within the income statement, within revenue during the year in relation to the change in fair value of the options was a gain of £19.99m (2008: loss of £2.15m).

Energy trading contracts, commodity futures and commodity swaps

Quoted market values have been used to determine the fair value of commodity trading contracts, commodity futures, and commodity swaps at the balance sheet date. The total net amount recognised within the income statement, within revenue, during the year in relation to the change in fair value of commodity trading contracts was a loss of £150.5m (2008: gain of £37.9m.)

(b) Foreign exchange risk

Quoted market values have been used to determine the fair value of forward foreign exchange contracts at the balance sheet date.

(c) Interest rate risk management

The Group is not subject to significant interest rate risk as balances with Group companies carry interest calculated based on market interest rates and other interest bearing financial instruments balances are immaterial.

(d) Credit risk

The Group monitors possible credit risk impact on its fair value calculations. If material it is included in fair value calculations. The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the balance sheet.

Cash flow hedges

Hedge of end user retail gas contracts

The Group introduced hedge accounting on end user retail contracts during 2009. The mark to market movements on the sales contracts to end user customers, from date of implementation of hedge accounting to 31 December 2009, have been transferred to the hedge reserve account.

The mark to market losses on the date of implementation of hedge accounting will unwind to the income statement in 2010: £8,707,000, 2011: £2,353,000 and 2012: £321,000.

The prior year's hedge reserve which fully unwound during 2009 related to hedging the price of forecasted oil-linked gas supplies in France.

The Group prepared the documentation required by IAS 39 defining the hedging strategy, hedging instrument, hedged item and hedge effectiveness testing methodology used for each of these hedging strategies.

The total fair value of outstanding forward contracts deferred in equity is as follows:

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Effective portion of hedging instrument fair value	(11,381)	(14,321)	–	(14,321)

The ineffective portion recognised in the income statement that arises from cash flow hedges amounts to £nil (2008: £nil).

All equity movements related to cash flow hedges are presented in the Statement of changes in equity.

Notes to the financial statements
Year ended 31 December 2009

22. Share capital

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Authorised share capital				
20,000,000 (2008: 20,000,000) ordinary shares of £1 each	20,000	20,000	20,000	20,000
Called up, allotted and fully paid				
Ordinary shares of £1 each				
At 31 December	20,000	20,000	20,000	20,000

The balance classified as share capital includes the total nominal proceeds on issue of the Group's equity share capital, comprising £1 ordinary shares.

23. Lease commitments

The lease commitment in 2009 is primarily made up of an office lease relating to Gazprom Marketing & Trading France SAS.

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Not later than one year	633	676	73	87
Later than one year and not later than five years	1,946	2,367	15	88
	2,579	3,043	88	175

24. Ultimate parent group and controlling party

The ultimate parent company and controlling party is OAO Gazprom, a company incorporated in Russia. The parent undertaking of the smallest group which includes the Group and for which consolidated accounts are prepared, is GAZPROM Germania GmbH (formerly named ZGG GmbH), a company incorporated in Germany. Copies of the consolidated financial statements of GAZPROM Germania GmbH are available from Amtsgericht Charlottenburg, Amtsgerichtsplatz 1, 14057 Berlin, Germany. Copies of the consolidated financial statements of OAO Gazprom are available from Nametkina str., 16 V-420, GSP-7, 117997, Moscow, Russia. The Group's immediate controlling party was ZMB GmbH, a company incorporated in Germany. However, on 13 August 2009, ZMB GmbH merged with GAZPROM Germania GmbH. The merger was effective from 1 January 2009. Subsequent to this date, the controlling parent is GAZPROM Germania GmbH.

Notes to the financial statements
Year ended 31 December 2009

25. Related party transactions

Trading transactions

During the year, the Group entered into transactions with related parties as follows:

Group	Sales to related party £000	Purchases from related party £000	Amounts owed by related party £000	Amounts owed to related party £000
Related Party				
Parent				
2009	515	326,504	36,709	79,490
2008	1,950	283,617	13,880	30,334
Other entities with significant influence over the Group				
2009	133,312	1,324,230	11,919	303,895
2008	49,906	1,149,178	6,577	197,863
Other related parties				
2009	102,352	2,908	10,002	83
2008	–	325	–	–

Company	Sales to related party £000	Purchases from related party £000	Amounts owed by related party £000	Amounts owed to related party £000
Related Party				
Parent				
2009	–	325,485	36,702	106,241
2008	1,950	283,617	13,880	30,334
Other entities with significant influence over the Group				
2009	109,816	1,250,456	7,688	251,186
2008	49,906	1,149,178	6,577	197,863
Subsidiaries				
2009	326,009	53,883	145,927	46,614
2008	98,516	15,305	37,952	12,057
Other related parties				
2009	102,341	913	9,766	34
2008	–	325	–	–

The Group has entered into an agreement to participate in a central cash management system, the balance at the end of the year being £38.52m (2008: £13.83m). The master account holder is GAZPROM Germania GmbH, the Group's immediate controlling entity. Interest is receivable based on market interest rates.

Notes to the financial statements
Year ended 31 December 2009

25. Related party transactions continued

Terms and conditions of transactions with related parties

Sales and purchases with related parties are in the ordinary course of business and are on substantially the same terms as for comparable transactions with third-party counterparties reflecting the level of service provided to related parties.

The Group has not provided or benefited from any guarantees for any related party receivables or payables. During the year ended 31 December 2009, the Group has not made any provision for doubtful debts relating to amounts owed by related parties (2008: nil).

Compensation of key management personnel

The remuneration of Directors and other key management during the year was as follows:

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Short-term benefits	7,484	5,934	4,321	4,220
Post-employment benefits	71	70	2	28

Key management personnel includes the Directors of the Company and its subsidiaries and members of the advisory committee.

Directors' transactions

There were no transactions involving Directors during the year, other than in respect of remuneration (2008: £nil).

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In this publication, the expression "Group", is sometimes used for convenience where references are made to companies within the Gazprom Marketing & Trading Limited group of companies or to the Gazprom group in general. Likewise, the words "we", "us" and "our" are also used to refer to Gazprom companies in general or those who work for them.

These expressions are also used where no useful purpose is served by identifying specific companies.