



2009 marks 10 years since Gazprom Marketing & Trading was founded in the UK. Following another year of record financial results in 2008, the company's executive team discusses Gazprom's expansion into a leading global cross-commodity marketing and trading company

## GAZPROM MARKETING & TRADING ENERGETIC EXPANSION

Gazprom Marketing & Trading (GM&T), a wholly owned subsidiary of the world's largest natural gas producer OAO Gazprom, was originally conceived as a small commercial operation in Europe's liberalising energy markets. In 1999 OAO Gazprom took a 10% equity share in the interconnector gas pipeline between the UK and Belgium, and GM&T was established in London to optimise the company's position around the pipeline's capacity.

Since those relatively modest beginnings, over the past 10 years GM&T has grown into a cross-commodity marketing and trading company with a presence across the global energy markets, from oil products and natural gas to power, carbon and liquefied natural gas (LNG). GM&T has also made the leap from the wholesale markets into the retail space, now supplying energy to over 14,000 sites in all segments of the UK.

With nearly 250 employees across offices in London, Manchester, Paris, Houston and Berlin, GM&T had another remarkable year in 2008, further expanding its activities and increasing its revenue by 158% to £6.7 billion and net profit by 49% to £70 million.

GM&T's chief executive officer, Vitaly Vasiliev; commercial director, Keith Martin; and president and managing director of Gazprom Global LNG, Frédéric Barnaud, discuss the company's progress and plans for the year ahead.



**Vitaly Vasiliev**

**What do you think of GM&T's progress over the past 10 years?**

**Vitaly Vasiliev (VV):** Between 1999 and 2004 we made modest progress in developing the first sales of Russian gas in the UK market but, at the start of 2004, our ambitions became much greater. We decided to use the strong platform we had built here as a foundation for the marketing and trading arm of OAO Gazprom, which would not only cover the UK but all liberalised energy markets across Europe. Since then we have expanded from the UK to surrounding countries like France, Belgium and the Netherlands to now having a pan-European presence – along with Asia and North America – in 2009. So we've gone from the small, UK-based company of 1999 to a global cross-commodity player.

The progress we have made in the last 10 years gives us a good foundation on which to keep growing. It's important to note that throughout that time we have not only been growing our cross-commodity capabilities and geographical coverage but also breaking down some of the stereotypes associated with Gazprom. People may think we're only an upstream player present in exploration and production, but we are now present in the midstream and downstream. Also, we're no longer just a gas player, we have a broad portfolio of products. We have also shown that we can deal directly with end customers, so we are now seen as a real global energy company

**Are you satisfied with GM&T's performance in 2008?**

**VV:** It's important that, as we continue to grow across geographic and commodity markets, our profitability grows in parallel to that expansion. It is about finding the right balance between developing strong financial performance while still investing in the future of the company.

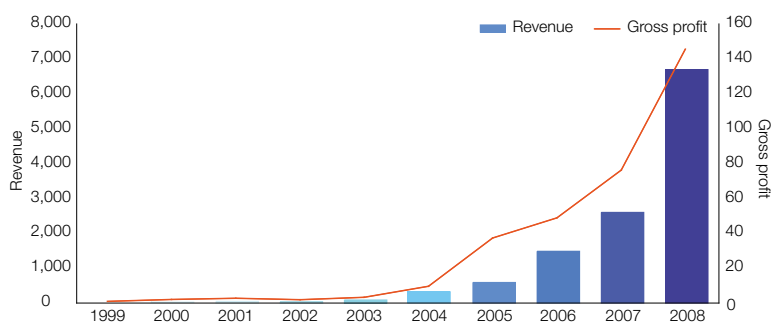
Despite the global economic crisis and turmoil in the financial markets, I can proudly say our 2008 performance was exceptional and a record high for GM&T, which puts us in a good position for an even stronger 2009.

There's no chance we are going to stop at the top. We're building a diversified portfolio and we have come a long way, but our vision is to become the leading marketing and trading company in the world, so a lot still needs to be done across the business, in front, middle and back office – it's a continuous expansion.

We have invested in each of our business lines over a different period of time, and some are more mature than others. The Trading and Portfolio, and Origination units are well established, whilst we are still in the process of building our retail operations, which we began in 2006, and our LNG operation.

**Keith Martin (KM):** In recent months our customer base has grown significantly. Particularly in the current uncertain trading conditions,

Revenue versus gross profit (£m)



counterparties want to deal with a company that has a strong commitment to the market. Gazprom has more than 100 years of gas reserves, which is a clear indicator of our long-term presence. We've therefore increased our counterparty base substantially in both the retail and wholesale businesses, and we have been able to offer route to market services for companies who don't have their own trading facilities, which is a complement to our operations. In the past year we have grown our wholesale counterparts from 100 to 140, while we now have approximately 14,000 retail customers.

#### What were the key developments for your retail business in 2008?

**KM:** In March 2008 we took an equity stake in TruRead Ltd, an automated meter-reading (AMR) supplier. AMR offers our customers real-time tracking of energy consumption, which reduces not only emissions but also energy costs.

We offered our retail customers carbon-neutral gas, and we've recently received a licence to supply electricity to UK retail customers; we will start contracting our first power retail customers during 2009.

The power retail system that we are using was acquired from an independent power supplier, so it's proven to be scalable and robust with a fantastic e-commerce interface, ensuring we have a superb platform for entering the market.

This fully bundled gas, power and carbon package has been very effective in making our retail offering attractive for environmentally friendly businesses. Our customers are aware of the importance of reducing carbon emissions and, even at this difficult financial time, companies remain focused on their environmental obligations.

#### Why are you expanding into the electricity retail sector?

**VV:** It's a logical next step that brings us a new challenge. Our wholesale business is already present in the electricity market so the move to start marketing electricity makes sense economically – the feedback from our gas and carbon customers has also been overwhelmingly positive.

We are looking to create and grow a sustainable power retail business and to develop organically. We're not trying to rival the big six utilities but, at the same time, we give electricity consumers additional choice, which they appreciate.

#### Looking at your wholesale business – how have your carbon trading activities grown?

**KM:** Our carbon business was founded in 2007 but, despite its young age, it's a strong business and a truly global enterprise. Our carbon staff are already sealing some very important deals and contributing significantly to the overall performance of the company.

We can transact any volume anywhere in the world. For example, last year, we sealed a deal with Japanese trading company Marubeni that allows us to take carbon credits – certified emissions reductions or emissions reduction units – that are produced and sell them into the most favourably priced markets in Europe or Asia. We can also offer those credits directly to compliance buyers. We offer services in parallel to Gazprom's gas flows into the liberalised energy markets, along the pipeline to the EU's major consumers in industrial and power sector installations that need to balance their commodity portfolio and comply with the EU Emissions Trading Scheme (EU ETS). GM&T can help them to do both.

In the past year we've completed emissions deals in China and Mexico, among other countries. The Gazprom brand name carries weight across the globe, and that helps us to originate business.

In recent months we have seen counterparties withdraw from the carbon markets, but we've been able to expand our operations; we see this market as a long-term commitment. Cap and trade emissions trading does reduce emissions and it is clearly the way forward. The EU ETS and Clean Development Mechanism have really encouraged the development of emissions reduction projects that would not have otherwise happened. Climate change is a problem that we cannot ignore, and market-based mechanisms are the best way to solve it.

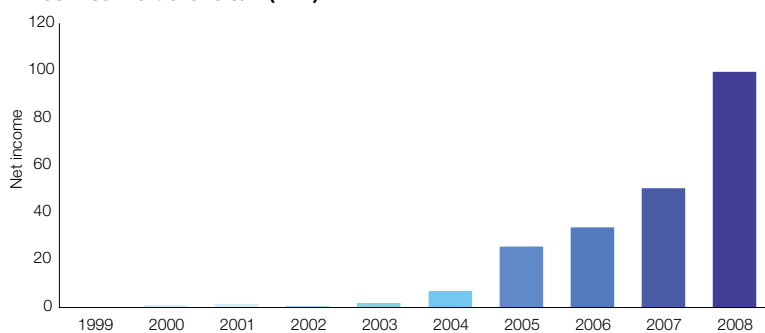
#### You spun out your global LNG activities as a separate business in 2008. Why?

**Frédéric Barnaud:** Before the launch of Gazprom Global LNG in July 2008, GM&T had been active in the LNG spot market from 2005. We saw growing momentum building in the global LNG market, and room for expansion for our activities, so we decided to reorganise our team to take advantage of it, and set up Gazprom Global LNG as a separate company.



Keith Martin

#### Net income before tax (£m)



We had some long-term views on the role that we would play in the LNG market. Our parent company, OAO Gazprom, is developing the giant Shtokman gas field in Siberia, and we will act as an aggregator for that project. It's a huge field, one of the largest in the world, and it will be developed in multiple phases, with the first phase supplying more than 20 billion cubic metres equally split between gas and LNG. However, as that field will only begin producing in 2014, we decided to accelerate our development before then. In 2008 we focused on setting up our best-in-class LNG trading capabilities, allowing us to have physical operational excellence. We did 13 deals – mainly buying directly from producers – in a very complex LNG market environment.

In the long term, LNG is vital for the monetisation of Gazprom's huge gas reserves at the Shtokman and Sakhalin fields. Sakhalin began producing LNG in April, and we can trade around the excess cargoes; that gives us a natural footprint in the LNG market.

We always knew LNG was not going to be a stand-alone market, and we see it as a key part of Gazprom's global gas portfolio. LNG enables the linkage of various markets around the world. Gazprom already has the strength in conventional pipeline gas markets so the addition of LNG to that is a natural fit. There are not many companies in the world that can trade

both pipeline gas and LNG across so many different geographical markets, and Gazprom has a unique position in both the Asian and Atlantic basins.

In the year ahead we plan to expand our operations in key LNG markets like Spain and North America. We plan to grow in North America by not only taking regasification capacity but also growing our ability to market the gas beyond the terminal.

#### Why has GM&T been so consistently successful?

VV: The key element when investing for the future is people. We don't have physical assets like a utility company and, unlike our parent company, we don't have a huge resource base. As a marketing and trading company we rely on the people, systems and company culture to generate success. Even at this difficult time, when many companies are reducing their headcount, we are still hiring to ensure that our team is the best in its class.

We have managed to create the right company culture and we encourage our employees to be as entrepreneurial as possible; we give people the incentive to be innovative.

With the growing diversity of our market presence we have the ability to attract talent from a wide range of companies such as oil and gas majors, banks and utilities, and, out of our 250 employees, there are around 30 nationalities. That gives us the ideal mix of experience and perspective.



Frédéric Barnaud

#### What are the key challenges that lie ahead for GM&T?

VV: Currently the commodity market and global economic environments are very challenging. But, as a marketing and trading company, we serve our customers regardless of the market fundamentals or whether prices are rising or falling. Delivering value for our shareholders in the difficult market conditions of 2008 was a big test, which, as our results show, we passed with flying colours. I therefore believe we will be even more successful in 2009.

It is important for us to keep strengthening our trading and risk management systems, and maintain best-in-class status that has proved so strong during the turmoil in the credit markets. While I'm confident our risk management system is robust, we are not going to sit back and relax – we're constantly improving our practices and internal procedures. As we're looking to become the world's top marketer and trader, we need not only the best people but the best IT and risk management systems, combined with confidence that the reporting and analysis procedures are effective. We are constantly investing in those.

At the same time, we will continue to support and invest in our younger businesses while still demanding growth and good financial results from them. Across the business we will maintain the balance of strong financial performance with continued long-term investment.

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