Gazprom Marketing & Trading Limited

Annual Report and Financial Statements

31 December 2007

Registered in England: No. 3768267

ANNUAL REPORT AND FINANCIAL STATEMENTS 2007

REGISTERED OFFICE

Gazprom House
60, Marina Place
Hampton Wick
Kingston upon Thames
KT1 4BH

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS
H -J Gornig
Y A Komarov
A Medvedev
A V Mikhalev
V V Vasiliev

SECRETARY
Abogado Nominees Limited

BANKERS
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SOLICITORS
Baker & McKenzie LLP
100 New Bridge Street
London, EC4V 6JA

Hunton & Williams LLP
30 St Mary Axe
London, EC3A 8EP

AUDITORS
Deloitte & Touche LLP
Chartered Accountants
London

DIRECTORS' REPORT

The Directors present the annual report and financial statements of Gazprom Marketing & Trading Limited ("GM&T") for the year ended 31 December 2007

PRINCIPAL ACTIVITY

The Company's principal activity during the year was the marketing and trading of energy products including gas, power, oil and carbon emissions allowances in the UK, continental Europe and other markets

REVIEW OF THE BUSINESS

GM&T's ultimate parent, OAO Gazprom is the world's largest producer of natural gas and is developing as a global, vertically integrated energy company GM&T, a wholly owned subsidiary of OAO Gazprom, was established in 1999 and has the aim of becoming a leading global energy marketing and trading company

GM&T took significant steps towards realising this aim and saw another year of solid growth in 2007 The results show a pre-tax profit of £50 2 million (2006 £33 7 million), net profit of £34 3 million (2006 £23 5 million) and revenue of £2,585 9 million (2006 £1,485 5 million) In addition, the total equity of the Company at 31 December 2007 stood at £110 3 million (2006 £78 1 million)

In 2007, the Company further extended its geographical reach, market presence and range of commodities traded The following highlights illustrate the extent of this success

- Commenced trading on the French, German and Dutch power exchanges of Powernext, EEX and APX,
- Joined various European power grids and began trading European cross border power capacity,
- Acquired a 100% stake in Natural Gas Shipping Services Ltd (renamed Gazprom Marketing & Trading Retail Ltd),
- Increased its UK retail gas portfolio by over 400% and introduced several new products including smart metering, carbon neutral gas and carbon offsets,
- More than doubled the volume of wholesale gas sold, and
- Acquired Carbon Emission Reduction credits under the Kyoto Clean Development Mechanism

Consistent with GM&T's core values, the Company prides itself on developing relationships with customers that demonstrate its integrity and transparency GM&T believes that this will further enhance its reliable reputation in both the wholesale and retail markets in which it operates The Company appreciates that this is only achieved with the support of both its employees, who are encouraged to adopt an interdependent approach, and the communities with which it actively engages

The following Key Performance Indicators ("KPIs") illustrate the Company's performance over the past year

KPIs	2007	2006	KPIs Definitions
Growth in gas sales volumes (%)	101%	60%	Year on year sales volume growth expressed as a percentage
Return On Equity (%)	31%	30%	Return On Equity is calculated as annual Net Profit divided by Net Assets expressed as a percentage
Total number of products	5	5	Total number of products refers to the number of commodity products that GM&T trades with counterparties
Total number of locations	21	19	Total number of locations refers to the annual number of primary locations that GM&T trades in
Revenue (£ '000s)	2,585,901	1,485,525	Revenue refers to annual GM&T revenue net of discounts, rebates, VAT and other sales taxes or duty, expressed in thousands of pounds sterling
Gross margin (£ '000s)	63,420	48,040	Gross margin is revenue less cost of goods sold, expressed in thousands of pounds sterling
EBITDA (£ '000s)	48,458	32,298	EBITDA (Earnings before Interest, Tax, Depreciation and Amortisation) expressed in thousands of pounds sterling
Net profit (£ '000s)	34,335	23,535	Annual Net profit expressed in thousands of pounds sterling

PRINCIPAL RISKS FACING THE COMPANY

Risk management is an essential component of GM&T's operations Whilst the Company continues to pursue an ambitious strategy, it ensures 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 GM&T 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 Company's management of Financial Risks is described in Note 14

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 GM&T

FUTURE DEVELOPMENTS

In 2008, GM&T intends to increase its profitability whilst continuing to shift to a more diverse business model In particular, the Company plans to achieve the following

- Progress its ambition to become a leading multi-commodity, multi-sector, multi-market trader and marketer,
- Diversify its portfolio of assets,
- Further develop its risk management capability,
- Continue to work closely with its parent companies in Germany and Russia,
- Develop through both organic growth and possible acquisitions of energy assets in various geographic markets, and
- Continue to attract and retain the best people

SUMMARY

During the year, GM&T continued to make progress towards realising its stated vision

> "To be a leading global energy marketing and trading company"

The Company has demonstrated its ability to build on previous years' achievements and to deliver consistent growth, both financially and in terms of its market position With its clear strategic direction, strong management, entrepreneurial people and robust risk management the prospects for the achievement of GM&T's vision look extremely positive

CHARITABLE DONATIONS

The Company donated the sum of £30,791 (2006 £2,950) to local charities serving the communities in which the group operates

DIRECTORS AND THEIR INTERESTS

The Directors during the year were as follows

H–J Gornig
Y A Komarov
A Medvedev
A V Mikhalev
V V Vasiliev

There are no Directors' interests requiring disclosure under the Companies Act 1985

AUDITORS

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

The Board of Directors in accordance with Section 234ZA of the Companies Act have confirmed the following statement, that in respect of the audit of Gazprom Marketing &Trading Limited for the period from 1 January 2007 to 31 December 2007

a) All relevant audit information has been made available to the Company's auditors, and

b) As Directors we have taken all appropriate steps to make ourselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Approved by the Board of Directors

A V Mikhalev
Director
14 March 2008

V V Vasiliev
Director
14 March 2008

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements The Directors have elected to prepare financial statements for the Company in accordance with International Financial Reporting Standards ("IFRS") Company law requires the Directors to prepare such financial statements in accordance with IFRS and the Companies Act 1985

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements' In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards Directors are also required to

- properly select and apply accounting policies,

- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information, and

- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance

After making enquiries, the Directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future For this reason the Directors continue to adopt the going concern basis in preparing the financial statements

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report which complies with the requirements of the Companies Act 1985

The Directors are responsible for the maintenance and integrity of the Company 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 2007 which comprise the Income Statement, the Balance Sheet, the Statement of Recognised Income and Expense, the Cash Flow Statement and the related notes 1 to 21 These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985 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

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited financial statements We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements Our responsibilities do not extend to any further information outside the Annual Report

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Company's affairs as at 31 December 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London, United Kingdom
14 March 2008

INCOME STATEMENT
For the year ended 31 December 2007

	Note	2007 £ '000s	2006 £ '000s
CONTINUING OPERATIONS			
REVENUE	1	2,585,901	1,485,525
Cost of sales		(2,522,481)	(1,437,485)
GROSS PROFIT		63,420	48,040
Administrative expenses		(28,457)	(16,056)
OPERATING PROFIT	2	34,963	31,984
Investment revenue	3	15,744	2,386
Finance costs	3	(458)	(676)
PROFIT BEFORE TAX		50,249	33,694
Tax	5	(15,914)	(10,159)
PROFIT FOR THE FINANCIAL YEAR		34,335	23,535

BALANCE SHEET
As at 31 December 2007

	Note	2007 £'000s	2006 £'000s
ASSETS			
Non-current assets			
Intangible assets	6	1,662	1,149
Property, plant and equipment	7	11,408	7,100
Derivative financial instruments	15	99,218	14,921
Investments in subsidiaries	8	4,632	978
		116,920	24,148
Current assets			
Inventories	10	46,665	8,513
Trade and other receivables	9	438,513	269,867
Derivative financial instruments	15	354,401	356,943
Cash and cash equivalents	11	34,961	22,853
		874,540	658,176
TOTAL ASSETS		991,460	682,324
LIABILITIES			
Current liabilities			
Trade and other payables	13	450,028	250,780
Derivative financial instruments	15	315,639	328,348
Obligations under hire purchase agreements		58	78
Current tax liabilities		10,604	9,708
		776,329	588,914
NET CURRENT ASSETS		98,211	69,262
Non-current liabilities			
Derivative financial instruments	15	103,275	12,617
Deferred tax liabilities	12	1,577	2,661
		104,852	15,278
TOTAL LIABILITIES		881,181	604,192
NET ASSETS		110,279	78,132
EQUITY			
Ordinary share capital	16	20,000	20,000
Cashflow hedge reserve	17	(16)	2,172
Retained earnings	17	90,295	55,960
TOTAL EQUITY		110,279	78,132

These financial statements were approved by the Board of Directors and authorised for issue on 14 March 2008

Signed on behalf of the Board

A V Mikhalev
Director

V V Vasiliev
Director

STATEMENT OF RECOGNISED INCOME AND EXPENSE
For the year ended 31 December 2007

	Note	2007 £ '000s	2006 £ '000s
Gains/(losses) on cash flow hedges	17	(23)	3,103
Tax on items taken directly to equity	5	7	(931)
Net income recognised directly in equity		(16)	2,172
Transfers			
Transferred to profit or loss on cash flow hedges	17	(3,103)	-
Tax on items transferred from equity	5	931	-
Profit for the year	17	34,335	23,535
Total recognised income and expense for the year		32,147	25,707

CASH FLOW STATEMENT
For the year ended 31 December 2007

	Note	2007 £ '000s	2006 £ '000s
Operating activities			
Operating profit		34,963	31,984
Depreciation of property, plant and equipment		951	840
Amortisation of intangibles		874	65
Profit on disposal of property, plant and equipment		-	(6)
Fair value gains/(losses) on forward foreign exchange contracts		11,670	(591)
Operating cash flows before movements in working capital		48,458	32,292
Decrease/(increase) in stocks		(38,152)	1,766
Increase in receivables		(168,645)	(113,081)
Increase in payables		199,248	105,884
Increase in derivative financial instruments		(6,932)	(10,473)
Cash generated from operations		33,977	16,388
Interest paid		(458)	(85)
Income taxes paid		(15,163)	(8,310)
Net cash from operating activities		18,356	7,993
Investing activities			
Interest received		4,073	2,386
Purchases of property, plant and equipment		(5,259)	(1,520)
Proceeds from sale of property, plant and equipment		-	14
Purchases of intangible assets		(1,387)	(994)
Investment in subsidiaries		(3,654)	(978)
Net cash used in investing activities		(6,227)	(1,092)
Financing activities			
Proceeds on issue of shares		-	9,000
Repayment of obligations under hire purchase agreements		(21)	(47)
Net cash from financing activities		(21)	8,953
Net increase in cash and cash equivalents		12,108	15,854
Cash and cash equivalents at the beginning of the year		22,853	6,999
Cash and cash equivalents at the end of the year	11	34,961	22,853

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2007

GENERAL INFORMATION

Gazprom Marketing & Trading Limited (the 'Company') is a company registered in England and Wales under the Companies Act 1985 The address of the registered office is given on page 1

STATEMENT OF COMPLIANCE WITH IFRS

The Company'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 1985 applicable to companies reporting under IFRS

1. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below

Basis of preparation
The financial statements of the Company are prepared under the historical cost convention except as described within the summary of the entity's significant accounting policies as set out below These policies have been consistently applied

In the current year, the Company has adopted IFRS 7 'Financial Instruments Disclosures' which is effective for annual reporting periods beginning on or after 1 January 2007, and the related amendment to IAS 1 'Presentation of Financial Statements' The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Company's financial instruments and management of capital

The preparation of financial information in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial information and the reported amounts of revenues and expenses during the reporting period It also requires management to exercise its judgement in the process of applying the Company's accounting policies The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are discussed below The best estimate of the Directors may differ from the actual result

Consolidation
These separate financial statements contain information about Gazprom Marketing & Trading Limited as an individual company and do not contain consolidated financial information as the parent of a group The Company has taken advantage of the exemption under IAS 27, 'Consolidated and Separate Financial Statements', and S 228 Companies Act 1985 from the requirement to prepare consolidated financial statements as it and its subsidiaries are included in the consolidated financial statements of its immediate parent, GAZPROM Germania GmbH, incorporated in Germany

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment Transaction costs directly attributable to the investment have been capitalised as part of the cost of the investment

Revenue
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company 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, power, oil, carbon emissions allowances and capacity in the normal course of business, net of discounts, rebates, VAT and other sales taxes or duty With the exception of gains and losses on foreign exchange contracts, 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 Company's principal activity

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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2007

1. ACCOUNTING POLICIES (CONTINUED)

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 Company'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

Inventory
Gas held in storage and carbon dioxide emissions allowances ("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 Company 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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2007

1 ACCOUNTING POLICIES (CONTINUED)

Foreign currency

(a) Functional and presentation currency

The Company's financial statements are presented in Sterling, which is also the 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

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 Company makes payments into a defined contribution personal pension plan A defined contribution plan is a pension plan under which the Company pays fixed contributions to a separate entity The Company 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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2007

1 ACCOUNTING POLICIES (CONTINUED)

Financial assets
Financial assets in 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 Company 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 Company 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 Company routinely enters into energy sale and purchase transactions in line with the Company'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 Company'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

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

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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2007

1. ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments and hedging
The Company 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 is 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 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

Fair value hedges
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk The Company also applies fair value hedge accounting for unrecognised firm commitments (supply contracts being non-financial items) The gain or loss relating to the effective portion of hedging instruments is recognised in the income statement

Cash flow hedges
For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in the income statement Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when a forecast sale or purchase occurs Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability If a forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to profit or loss If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs and are transferred to the income statement or to the initial carrying amount of a non-financial asset or liability as above

Significant accounting judgements and estimates
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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2007

1. ACCOUNTING POLICIES (Continued)

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques The Company 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 15, the Company 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 which have a significant impact on the resulting valuations

Standards and Interpretations issued but not yet effective

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective

International Financial Reporting Standards		*Effective date*
IAS 23 (revised)	Borrowing Costs	1 January 2009
IFRS 8	Operating Segments	1 January 2009

International Financial Reporting Interpretations Committee (IFRIC)		*Effective date*
IFRIC 11	Group and Treasury Share Transactions	1 January 2008
IFRIC 12	Service Concession Arrangements	1 January 2008
IFRIC 13	Customer Loyalty Programmes	1 July 2008
IFRIC 14	The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2008

The Company does not anticipate that the adoption of the Standards and Interpretations listed above will have a material impact on the Company's financial statements in the period of initial application

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2007

2. OPERATING PROFIT

2a. Total revenue

	2007 £ '000s	2006 £ '000s
Revenue per income statement	2,585,901	1,485,525
Investment revenue	15,744	2,386
	2,601,645	1,487,911

A net fair value loss on derivatives of £12,134,000 has been netted within total revenue (2006 £9,789,000 net fair value gains)

2b. Operating profit is stated after charging/ (crediting).

	2007 £ '000s	2006 £ '000s
Depreciation		
- owned assets	917	790
- leased assets	34	50
Amortisation	874	65
Exchange loss/(gain)	(265)	428
Rentals under operating leases	253	234
Auditors' remuneration		
- company audit fees	243	248
- other services relating to taxation	297	212
Staff costs (refer to note 4)	15,414	8,808

3. INVESTMENT REVENUE AND FINANCE COSTS

3a. Investment Revenue

	2007 £ '000s	2006 £ '000s
Fair value gain on forward foreign exchange contracts	11,670	-
Other interest income	4,074	2,386
	15,744	2,386

3b. Finance Costs

	2007 £ '000s	2006 £ '000s
Other interest	458	85
Fair value loss on forward foreign exchange contracts	-	591
	458	676

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2007

4. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	2007 £ '000s	2006 £ '000s
Directors' remuneration	1,797	822

The remuneration of the highest paid Director is £984,000 (2006 £389,000)

Contributions of £12,000 (2006 £12,000) were made to personal pension plans in respect of one of the Directors (2006 one)

	2007 000s	2006 000s
Staff costs during the year (including Directors)		
Wages and salaries	13,342	7,535
Social security costs	1,657	1,082
Pension costs	415	191
	15,414	8,808

	2007	2006
Average number of persons employed	98	63
Analysed as follows		
Front office	34	24
Mid office	16	11
Back office	23	17
Support office	25	11
	98	63

The Company makes payments into a defined contribution, Group personal pension plan It pays fixed contributions into a separate fund The total payments into this scheme for 2007 were £415,000 (2006 £191,000)

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2007

5. TAX

	2007 £ '000s	2006 £ '000s
UK corporation tax at 30%		
Current income tax expense	16,060	12,285
Deferred tax credit	(146)	(2,126)
Tax expense in the income statement	15,914	10,159

Deferred or current income tax related to items charged or credited directly to equity

	£ '000s	£ '000s
Net gain / (loss) on revaluation of cash flow hedges	(3,126)	3,103
Total deferred income tax (charge)/credit to equity	938	(931)

The standard rate of tax for the current year and the previous year, based on the UK standard rate of corporation tax, is 30% The actual tax charge for the current and previous year is different from the standard rate for the reasons set out in the following reconciliation

	2007 %	2006 %
Applicable tax rate for year as a percentage of profits	30	30
Effects of		
Expenses not deductible for tax purposes	1	-
Prior year underprovision	1	-
Effective tax rate for the year as a percentage of profits	32	30

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2007

6. INTANGIBLE ASSETS

	2007 £ '000s	2006 £ '000s
Cost		
At 1 January	1,236	242
Additions	1,387	994
At 31 December	2,623	1,236
Accumulated depreciation		
At 1 January	87	22
Amortisation expense for the year	874	65
At 31 December	961	87
Net book value		
At 31 December	1,662	1,149

All intangible assets relate to computer software

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2007

7. PROPERTY PLANT AND EQUIPMENT

	Long leasehold property £'000	Leasehold improvements £'000	Fixtures, fittings and equipment £'000	Motor vehicles £'000	Freehold Property £'000	Total £'000
Cost						
At 1 January 2007	5,301	959	2,193	177	-	8,629
Additions	1,992	1,587	822	6	852	5,259
At 31 December 2007	7,293	2,546	3,015	183	852	13,888
Accumulated depreciation						
At 1 January 2007	287	38	1,124	80	-	1,529
Charge for the year	145	39	725	41	1	951
At 31 December 2007	432	77	1,849	121	1	2,480
Net book value						
At 31 December 2007	6,861	2,469	1,166	62	851	11,408
At 31 December 2006	5,015	920	1,068	97	-	7,100

	Long leasehold property £'000	Leasehold improvements £'000	Fixtures, fittings and equipment £'000	Motor vehicles £'000	Freehold Property £'000	Total £'000
Cost						
At 1 January 2006	5,301	30	1,601	253	-	7,185
Additions	-	928	591	0	-	1,519
Disposals	-	-	-	(77)	-	(77)
At 31 December 2006	5,301	959	2,193	177	-	8,629
Accumulated depreciation						
At 1 January 2006	154	28	486	59	-	727
Charge for the year	133	12	639	56	-	840
Disposals	-	-	-	(36)	-	(36)
At 31 December 2006	287	38	1,124	80	-	1,530
Net book value						
At 31 December 2006	5,015	920	1 068	97	-	7,100
At 31 December 2005	5 147	4	1 116	194	-	6,461

The net book value of tangible fixed assets includes an amount of £44,000 (2006 £78,000) in respect of assets held under finance leases Obligations under finance leases are secured by the related assets

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2007

8 INVESTMENTS IN SUBSIDIARIES

Details of the Company's subsidiaries at 31 December 2007 are as follows

Name of subsidiary	Place of incorporation and operation	Proportion of ownership interest	Proportion of voting power held
Gazprom Marketing & Trading France SAS	France	100%	100%
Gazprom Marketing & Trading USA, Inc	USA	100%	100%
Gazprom Marketing & Trading Retail Ltd	UK	100%	100%

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

	£ '000s
Balance at 31 December 2006	978
Investments during the year	3,654
Balance at 31 December 2007	4,632

At the year-end Gazprom Marketing & Trading France SAS had an aggregate of share capital and reserves of £280,000 and profit for the year of £207,000 At the year-end Gazprom Marketing & Trading USA Inc had an aggregate of share capital and reserves of £97,000 and profit for the year of £47,000

On 4 July 2007 the Company exercised its option to acquire a 99 9% stake in Natural Gas Shipping Services Limited ("NGSS") for a consideration of £3,527,000 based on the fair value of NGSS's net assets plus net profits made subsequent to the Company obtaining control in 2006 Internal costs directly attributable to the final acquisition amount to £126,587, and these were duly capitalised in the balance sheet of the Company

NGSS changed its name by special resolution to Gazprom Marketing & Trading Retail Ltd on 17 September 2007

At the year-end Gazprom Marketing & Trading Retail Ltd had an aggregate of share capital and reserves of £2,596,000 (2006 £1,516,000) and profit for the year of £1,055,000 (2006 £535,000), on a UK GAAP basis

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2007

9. TRADE AND OTHER RECEIVABLES

	2007	2006
	£ '000s	£ '000s
Amounts receivable for sale of goods	416,988	222,732
Amounts receivable from group companies	20,105	44,642
Prepayments and other debtors	1,420	2,493
	438,513	269,867

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

10. INVENTORIES

	£ '000s	£ '000s
Gas in storage	46,665	8,513

There were no material emissions allowances held within inventory at the year end

11. CASH AND CASH EQUIVALENTS

	2007	2006
	£ '000s	£ '000s
Cash and cash equivalents	34,961	22,853

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 each class of cash and cash equivalents mentioned above The estimated fair value of all cash and cash equivalents is the same as their carrying amounts

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2007

12. DEFERRED TAX

	2007 £ '000s	2006 £ '000s
Deferred tax liability at 1 January	(2,661)	(3,856)
Credit to the income statement	146	2,126
Credit/(charge) to equity - cashflow hedge reserve	938	(931)
Deferred liability at 31 December	(1,577)	(2,661)
The deferred tax liability consists of the following amounts		
Capital allowances less than/(in excess of) depreciation	(260)	53
Temporary timing differences on stock revaluation	-	-
Temporary timing differences on derivative financial instruments		
Transitional adjustments	(1,372)	(1,651)
Elements that fall within the disregard regulations	-	(132)
Amounts taken to equity - cashflow hedge reserve	7	(931)
Other temporary differences	48	-
Net deferred tax liability	(1,577)	(2,661)

The rate of Corporation tax will reduce from 30% to 28% with effect from 1 April 2008 The calculation of the deferred tax liability takes into account this change

The effect of the change is to reduce the deferred tax liability by £113,323

13 TRADE AND OTHER PAYABLES

	2007 £ '000s	2006 £ '000s
Amounts payable for the sale of goods	284,266	132,342
Amounts owed to group companies	136,021	95,555
Accruals and other payables	29,741	22,883
	450,028	250,780

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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2007

14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The Company formed the ROC to oversee the risks associated with trading activities The ROC is charged with the creation and administration of the "Governing Policy for Energy Risk Management", and then separate subsidiary "Risk Management Procedures Manuals" ("Subsidiary Documentation") for each main group of activities or subsidiary/affiliate company

The Company's principal financial instruments, other than derivatives, comprise balances with related parties, finance leases, and cash and cash equivalents The main purpose of these financial instruments is to raise finance for the Company's operations The Company has various other financial assets and liabilities such as trade and other receivables and trade and other payables, which arise directly from its operations

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

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

Capital risk management

The Company manages its capital to ensure it will be able to continue as a going concern The capital structure of the Company consists of cash and cash equivalents and equity comprising share capital and reserves The Company considers raising debt only as a result of the analysis of specific investment projects The company is not subject to externally imposed capital requirements

Commodity price risk

The Company uses a daily VaR measure as the primary mechanism for 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

Foreign exchange risk

The majority of the Company's trading is denominated in Sterling The Company also transacts in other currencies, such as Euros and US dollars When currency exposure arises as a result of purchase and sale commitments in non-Sterling currencies, the Company seeks to use forward foreign exchange transactions to hedge the exposure

At 31 December 2007 1-day, 97 5% VaR related to financial instruments in Company's portfolio including

- price risk (power, gas, oil, emissions)
- foreign exchange risk

was £2,249,820 (2006 £ 1,606,895) This VaR value is within the limits set by the Company'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 Company uses an 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 for GM&T as its stated risk policy prevents the holding of short uncovered option positions Hence the linear approximation can only lead towards an overestimation of risk

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2007

14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk

The Company'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 Company's exposure is predominantly with European energy companies, utilities, financial institutions and other trading companies

The Company has implemented a robust credit risk management policy which is overseen by the ROC The Company actively manages its portfolio to avoid concentrations of credit risk

The Company 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 Company also obtains credit support such as letters of credit, bank guarantees and parent company guarantees against exposures where appropriate

Liquidity risk

Through the use of borrowings, finance leases, and loans from related parties, the Company 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 Company has access to certain committed banking facilities of its parent company GAZPROM Germania GmbH In addition, at 31 December 2007, the Company had uncommitted bank facilities of £35 million (2006 £nil), US$50 million (2006 US$50 million) and €40 million (2006 €40 million), the total of which was less than one quarter utilised

The Company's liquid resources include amounts placed under cash pooling arrangements with GAZPROM Germania GmbH (see note 20)

The table below analyses the Company's financial assets which will be settled on a gross and net basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date The amounts disclosed in the table are the contractual undiscounted cash flows

31 December 2007 £'000s	**Within 1 month**	**2-12 months**	**1-2 year**	**2-3 year**	**3-4 year**	**4-5 year**	**over 5 years**
Derivatives	387,776	1,958,902	534,225	107,597	14,702	110,239	0
Cash and cash equivalents	34,961	0	0	0	0	0	0
Trade receivables	429,261	9,252	0	0	0	0	0
Total	**851,998**	**1,968,154**	**534,225**	**107,597**	**14,702**	**110,239**	**0**

31 December 2006 £'000s	**Within 1 month**	**2-12 months**	**1-2 year**	**2-3 year**	**3-4 year**	**4-5 year**	**over 5 years**
Derivatives	369,808	950,381	135,807	52,076	44,618	11,988	0
Cash and cash equivalents	22,853	0	0	0	0	0	0
Trade receivables	267,939	1,928	0	0	0	0	0
Total	**660,600**	**952,309**	**135,807**	**52,076**	**44,618**	**11,988**	**0**

The table below analyses the Company's financial liabilities which will be settled on a gross and net basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date The amounts disclosed in the table are the contractual undiscounted cash flows

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2007

14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

31 December 2007 £'000s	Within 1 month	2-12 months	1-2 year	2-3 year	3-4 year	4-5 year	over 5 years
Derivatives	403,491	1,637,915	379,239	37,060	110,397	31,961	0
Payables	410,925	39,103	0	0	0	0	0
Total	**814,416**	**1,677,018**	**379,239**	**37,060**	**110,397**	**31,961**	**0**

31 December 2006 £'000s	Within 1 month	2-12 months	1-2 year	2-3 year	3-4 year	4-5 year	over 5 years
Derivatives	364,871	1,150,730	169,511	56,733	47,003	23,677	0
Payables	249,682	1,098	0	0	0	0	0
Total	**614,553**	**1,151,828**	**169,511**	**56,733**	**47,003**	**23,677**	**0**

15. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments that are currently used by the Company include forward foreign exchange contracts, commodity futures, and commodity trading contracts The Company 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 balance sheet date is as follows

	2007 £ '000s	2006 £ '000s
Current assets		
Commodity trading contracts	333,900	354,276
Interconnector capacity	-	1,329
Forward foreign exchange contracts	7,767	21
Commodity options	12,735	1,317
	354,401	**356,943**
Non-current assets		
Commodity trading contracts	91,206	14,830
Interconnector capacity	-	69
Forward foreign exchange contracts	8,012	22
	99,218	**14,921**
Current liabilities		
Commodity trading contracts	304,162	322,851
Interconnector capacity	-	4,863
Forward foreign exchange contracts	4,583	634
Commodity options	6,894	-
	315,639	**328,348**
Non-current liabilities		
Commodity trading contracts	103,158	12,617
Forward foreign exchange contracts	117	-
	103,275	**12,617**

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

A non-linear relationship between option valuation and implied volatility is observed in the portfolio At 31 December 2007 holding all other inputs constant, a decrease in implied volatility decreases the option valuation by more than the

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2007

15. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

corresponding percentage movement However, successive incremental decreases in the assumed implied volatility decrease the valuation to a lesser degree

These impacts result from changing the assumptions used for fair valuing the commodity options to reasonably possible assumptions at the balance sheet date These impacts only relate to the fair value of commodity options and should not be interpreted as a measure of the Company's overall exposure to cash flow risk

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 profit of £ 1,889,699 (2006 loss of £3,098,000)

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 £12,726,310 (2006 profit £14,732,000)

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 The total amount recognised within the income statement, within investment revenues or finance costs, as applicable, during the year in relation to the change in fair value of the forward foreign exchange contracts was a profit of £11,670,248 (2006 loss of £591,000)

c) Interest rate risk management

The Company 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 Company 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

e) Hedging activity

Fair value hedges

The Company decided to hedge price risk related to some of the gas supply contracts with deliveries in winter 2007/2008 using gas forwards Despite meeting the definition of a derivative as per IAS39 9, the contracts are not within the scope of IAS39 As a result they are not recognised in the balance sheet at fair value and remain non-financial items To avoid increased profit & loss mismatch, the Company decided to apply a fair value hedge of 'unrecognised firm commitment' as stated in IAS 39 86

The Company prepared the documentation required by IAS 39 defining the hedge strategy, hedge instrument, hedged item and hedge effectiveness testing methodology used Profit and loss on the strategy is recognised in revenue and cost of sales as it refers to physical gas contracts

	2007 £ '000s	2006 £ '000s
Fair value of hedge item	27 535	-
Fair value of hedging instrument	(19 300)	-

Cash flow hedges

The Company's margin is linked to market prices and therefore the price risk associated with these volumes cause volatility to the earnings As the result the Company decided to hedge some of its most relevant exposures using

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2007

15. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

forward sales contracts By hedging this volume the Company effectively secured future revenues and removed the volatility of future cash-flows The delivery period started in January 2007 and ends in March 2008 The Company prepared the documentation required by IAS 39 defining the hedge strategy, hedge instrument, hedged item and hedge effectiveness testing methodology used

The total fair value of outstanding forward contracts to which the Company is committed is as follows

	2007 £ '000s	2006 £ '000s
Effective portion of hedging instrument fair value	(23)	3,103

The ineffective portion recognised in the income statement that arises from cash flow hedges amounts to £ nil (2006 £ nil)

All equity movements related to cash flow hedge are presented in Note 17

16. SHARE CAPITAL

	2007 £ '000s	2006 £ '000s
Authorised share capital		
20,000,000 (2006 20,000,000) ordinary shares of £1 each	20,000	20,000
Called up, allotted and fully paid		
Ordinary shares of £1 each		
At 1 January	20,000	11,000
Issue of shares	-	9,000
At 31 December	20,000	20,000

The balance classified as share capital includes the total nominal proceeds on issue of the Company's equity share capital, comprising £1 ordinary shares During 2007, the Company did not increase its authorised and issued share capital, (2006 9,000,000 fully paid up ordinary shares at par, for cash to fund the growth of the business)

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2007

17. RESERVES

	Cash Flow Hedge Reserve £ '000s	Retained Earnings £ '000s	Total £ '000s
Balance at 1 January 2006	-	32,425	32,425
Gain in fair value hedging derivatives	3,103	-	3,103
Deferred tax related to gain recognised in equity	(931)	-	(931)
Profit for the year	-	23,535	23,535
Balance at 1 January 2007	2,172	55,960	58,132
Prior year adjustments		(23)	(23)
Gain in fair value hedging derivatives transferred to income	(3,103)	-	(3,103)
Deferred tax related to gain transferred to income	931	-	931
Loss in fair value hedging derivatives	(23)		
Deferred tax related to losses recognised in equity	7		
Profit for the year		34,335	34,335
Balance at 31 December 2007	(16)	90,272	90,256

Cash flow hedge reserve

The cash flow hedge reserve records the portion of the gain or loss deferred in equity on a hedging instrument in a cash flow hedge that is determined to be an effective hedge Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when a forecast sale or purchase occurs The portion of cash flow hedge reserve transferred to/ (from) profit or loss in 2007 amounted to (£3,103,000) (2006 £ nil)

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2007

18 LEASE COMMITMENTS

The Company has entered into a lease agreement for the utilisation of an aircraft with a related party (included within Other related parties in note 20) The lease term is three years, which includes a one-year renewal option Total future minimum rentals payable under non-cancellable operating leases are as follows

	2007 £ '000s	2006 £ '000s
Not later than one year	280	234
Later than one year and not later than five years	-	234
	280	468

19. ULTIMATE PARENT COMPANY 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 Company and for which group accounts are prepared, is GAZPROM Germania GmbH (formerly named ZGG GmbH), a company incorporated in Germany Copies of the group financial statements of GAZPROM Germania GmbH are available from Amtsgericht Charlottenburg, Amtsgerichtsplatz 1, 14057 Berlin, Germany Copies of the group financial statements of OAO Gazprom are available from Nametkina str , 16 V-420, GSP-7, 117997, Moscow, Russia The Company's immediate controlling party is ZMB GmbH, a company incorporated in Germany

20. RELATED PARTY TRANSACTIONS

Trading transactions

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

Related Party	Sales to related party £ '000s	Purchases from related party £ '000s	Amounts owed by related party £ '000s	Amounts owed to related party £ '000s
Parent				
2007	2,180	213,120	13,414	23,918
2006	1,997	228,170	34,271	26,865
Entities with significant influence over the Company				
2007	21,407	562,260	769	106,828
2006	28,260	411,450	8,081	66,895
Subsidiaries				
2007	21,635	24,984	5,922	5,312
2006	9,813	4,089	2,290	1,788
Other related parties				
2007	-	253	-	-
2006	-	234	-	7

The Company has entered into an agreement to participate in a group central cash management system, the balance at the end of the year being £13,275,000 (2006 £33,999,000) The master account holder is ZMB GmbH, the Company s immediate controlling entity Interest is receivable based on market interest rates

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2007

20. RELATED PARTY TRANSACTIONS (CONTINUED)

In December 2007 the Company purchased freehold property from ZMB GmbH for £850,000 The contract rate was 4% above the National Westminster Bank PLC base rate

Terms and conditions of transactions with related parties

Sales and purchases between 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 Company has not provided or benefited from any guarantees for any related party receivables or payables During the year ended 31 December 2007, the Company has not made any provision for doubtful debts relating to amounts owed by related parties (2006 nil)

Compensation of key management personnel

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

	2007 £ '000s	2006 £ '000s
Short-term benefits	2,783	1,489
Post-employment benefits	26	27

Directors' transactions

Other debtors (note 9) at 31 December 2006 included a loan to a Director, V V Vasiliev for £7,000 for a term of three years This loan, including interest, was repaid on 1 December 2007 The maximum amount outstanding during the year was £6,000 (2006 £13,000) and interest was charged at the HM Revenue and Customs 'Official Interest Rate'

21 CONTINGENCIES

The Company has no contingencies