OVERVIEW OF GM&T 2005/2004

Краткие сведения о GM&T 2005/2004

	2005	2004
Revenue (million £) Годовой доход (млн. £)	593.5	324.1
Operating profit (million £) Операционная прибыль (млн. £)	28.0	8.2
Profit for the year (million £) Прибыль отчетного года (млн. £)	17.8	8.0
Total assets (million £) Сумма баланса (млн. £)	332.5	79.1
Net assets (million £) Чистая сумма активов (млн. £)	43.4	17.1
Ordinary share capital (million £) Уставной капитал (млн. £)	11.0	6.0
Natural gas sales by GM&T (TWh) Объем сбыта компанией GM&T (млрд. кВт-ч)	42.2	38.7

ANNUAL REPORT 2005

Отчет о деятельности 2005

GAZPROM
MARKETING & TRADING

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By the river Pur in Western Siberia

На реке Пур в Западной Сибири

Gazprom Marketing & Trading experienced a successful year in 2005 with a substantial expansion in business activity and increase in profitability. The company added to its staff of experienced professionals, laying the foundation for greater levels of efficiency and growth. The company is well on its way to achieving its stated mission: to be the leading energy marketing and trading company in liberalised markets in Western Europe.

The Company has laid out ambitious plans for 2006. Its core philosophy – to create for itself substantial competitive advantages in the delivery of innovative energy products and services – will serve as the company's guidepost throughout the coming year. Continual improvements in its ability to rapidly identify marketplace opportunities, and the speed with which it responds to that intelligence, are the focus of the 2006 management's plans.

The Board of Directors of Gazprom Marketing & Trading supports the Company's efforts to simultaneously expand its core business activities in the wholesale UK gas market while searching for opportunities for strategic expansion into new segments of the energy market.

Gazprom Marketing & Trading has reached a critical juncture in its corporate history. It has progressed from the start-up phase to that of a mature, growing, profitable company. Given its internal resources, its innovative and aggressive approach to its target markets, and the support of GAZPROM, the Company is looking forward to a highly successful year in 2006.

Alexander I. Medvedev

2005 год стал для Gazprom Marketing & Trading успешным годом, в течение которого компании удалось достичь существенного развития бизнеса и роста прибыли. Пополнив свой состав опытными специалистами, компания создала надежную базу для достижения более высокого уровня эффективности и роста. GM&T твердо держит курс по направлению к своей цели: занять позицию ведущей маркетинговой и торговой компании на либерализированном энергетическом рынке Западной Европы.

На 2006 год компания строит большие планы. Основное направление работы компании в этом году будет заключаться в создании ряда преимуществ в отношении поставок новой продукции и услуг в секторе энергетической промышленности. Разработанный менеджментом компании план деятельности на 2006 год сфокусирован на постоянном улучшении своевременного и точного определения рыночных возможностей, а также на выработке быстрой реакции при сборе и анализе данных.

Совет Директоров Gazprom Marketing & Trading поддерживает компанию в работе по расширению ее основной деловой деятельности на великобританском газовом рынке оптовых продаж, одновременно помогая в поиске дальнейших возможностей для стратегического развития в новых секторах энергетического рынка.

Компания Gazprom Marketing & Trading достигла переломного момента в истории своего развития. Из начинающей она превратилась в зрелую, постоянно растущую и крепнущую, приносящую прибыль компанию. Принимая во внимание имеющиеся ресурсы компании, ее абсолютно новый и решительный подход в достижении целей и полную поддержку со стороны Газпрома, можно с уверенностью сказать, что для Gazprom Marketing & Trading текущий 2006 год станет чрезвычайно успешным годом.

Александр И. Медведев

Dear Reader!

It is my pleasure to present the 2005 Annual Report for Gazprom Marketing & Trading.

Our company has had a remarkable year. We moved aggressively on several fronts to establish a top quality organisation in order to achieve our goal, as stated in last year's Annual Report, of building a well-respected UK business. I am pleased to report that we succeeded in significantly expanding our operations and we are now a recognised player not only in the UK, but also in the vital energy markets of Germany, the Netherlands, France and Belgium. Most importantly, the company had a net operating profit for the year, which is particularly noteworthy given the young age of our company. While achieving these important goals, we also set the stage for diversification of the company, an essential step in our plans to grow GM&T into the leading energy marketing and trading company in liberalised markets in Western Europe.

One of the key ingredients in this progress was the addition of a number of energy industry veterans as members of our management team. Our marketing, risk management and back office operations are now well established, with strong leadership poised to take the company into a long term growth mode. Another factor in our achievements is the continued support of GAZPROM, the largest and most reliable provider of natural gas in the world. Our role as a representative of GAZPROM forms one of the principal competitive advantages of GM&T; we intend to capitalise on this resource as we move into the year ahead.

One cannot review our 2005 results without appreciating the promise that the future holds for our company. By establishing a strongly profitable base of trading and marketing operations within the UK, and by carefully recruiting the best staff the industry has to offer, Gazprom Marketing & Trading has created for itself an engine to carry it into more diverse market segments. Our vision for GM&T includes a much-expanded set of operations in the upcoming year, both in terms of products offered and in terms of geographical areas.

We have moved decisively one year closer to our goal of establishing a profitable, diversified industry leader that also takes care of its employees, customers and the communities in which we operate. Personally, I am looking forward to the challenges and rewards as the new year unfolds.

Vitaly V. Vasiliev

Дорогие читатели!

Я рад предложить Вашему вниманию Годовой отчет 2005 компании Gazprom Marketing & Trading.

Этот год стал знаменательным для нашей компании. Мы энергично продвигались в различных направлениях, чтобы создать высококачественную структуру, которая бы способствовала достижению нашей цели, изложенной в предыдущем Годовом отчете, а именно – формирование высоко респектабельной компании в Великобритании. С большим удовольствием хочу сообщить, что нам удалось значительно расширить деятельность, и на сегодня наша компания является признанным участником не только на великобританском энергетическом рынке, но и на важных рынках Германии, Нидерландов, Франции и Бельгии. В особенности хотелось бы заметить, что чистая прибыль от основной деятельности компании достигла уровня, который заслуживает внимания, когда речь идет о такой молодой компании как наша. Работая над достижением наших целей, мы параллельно подготавливаем почву для диверсификации компании – это важный этап в нашем плане, предусматривающем развитие GM&T в ведущую маркетинговую и торговую компанию на либерализированных рынках Западной Европы.

Одной из главных составляющих частей в этом процессе стало пополнение нашего руководящего состава профессионалами, обладающими большим опытом в области энергетической промышленности. Благодаря умелому руководству наш маркетинг, менеджмент риска и финансовые операции в настоящее время стали базисом для долгосрочного роста компании. Другим фактором нашего успешного развития является постоянная поддержка со стороны компании Газпром, крупнейшего в мире и надежного поставщика природного газа. Являясь представителем Газпрома, GM&T имеет одно из принципиальных конкурентных преимуществ, мы намерены воспользоваться этим ресурсом и в будущем году.

Анализируя свои результаты за 2005 год, мы уверены в том, что у нашей компании многообещающее будущее. Закладывая высокорентабельный фундамент для торговых и маркетинговых операций на территории Великобритании и тщательно подбирая лучших специалистов в этой области, компания Gazprom Marketing & Trading создала платформу для завоевания самых разнообразных сегментов рынка. В следующем году наша фирменная концепция включит в себя широкий спектр деятельности как в отношении продукции, так и в отношении географических регионов.

По истечении этого года мы значительно приблизились к нашей цели – стать гибким и успешным промышленным лидером, который также учитывает интересы своих сотрудников, клиентов и кругов, с которыми он имеет дело. Что касается меня, то я рад новым задачам и результатам, которые принесет нам грядущий год.

Виталий В. Васильев

Typical forest area in Western Siberia

Характерный для Западной Сибири лесной регион

Gazprom Marketing & Trading Ltd. (GM&T) was established in 1999 as GAZPROM's UK marketing arm. GM&T manages GAZPROM's gas supply and trading activities in the UK market and is aiming to further develop its business in France, the Netherlands, Belgium and Ireland in 2006. The Russian company has been active in Britain for the past five years as a market trader and as a partner of the INTERCONNECTOR pipeline taking North Sea gas from Bacton, England, to Zeebrugge, Belgium. Since the launch of GM&T, its goal has been to become one of the top energy marketing and trading companies within the UK and Europe, particularly in light of the decline in UK's North Sea Production and its forecasted increasing dependence on gas imports.

The year 2005 saw dramatic changes in the company's growth and integration into the UK gas market.

GM&T reported substantial growth in 2005, with turnover of 594 million compared to £ 324 million in 2004. Operating profit came to £ 28.0 million compared with £ 8.2 million the previous year. The company traded gas at NBP, Zeebrugge Hub, TTF and other points in North West Europe. It gained more than 30 customers, mainly energy wholesales, large industrials and power generators compared to 19 in 2004. Gas sales in 2005 rose to 4.1 bcm compared to 3.5 bcm in 2004. GM&T is registered on the Dutch TTF. Furthermore GM&T applied for and successfully received a French trading licence. GM&T's net assets increased from 17.1 million in 2004 to 43.4 million in 2005.

With about 50 staff, most of them experienced specialists in the UK and Western-European gas industry GM&T has begun to influence the British gas market. As an example, at a time of widespread unhappiness about the level of gas prices, GM&T managed to offer innovative terms to industrial buyers. Taking a true radical approach, GM&T is prepared to offer fixed price gas as well as oil, electricity, coal and weather escalation, in addition to the conventional NBP escalation. This pricing flexibility has been well received by customers.

As publicly stated in 2004, the company is planning to reach a 10 % share of the UK gas market by 2010 – equivalent to 13 bcm/yr. GAZPROM aims to supply 10 – 12 bcm of gas to UK annually by 2010. GM&T is planning to sell 70 % of the gas wholesale and 30 % to end customers.

As previously noted, GM&T currently manages a 10 % stake in the INTERCONNECTOR UK, giving GAZPROM a pro-rata share in the pipeline's 20 bcm/yr forward and 8.5 bcm/yr reverse flow capacity. GAZPROM's share in the IUK reverse capacity has increased to 2.2 bcm from December 2005, following the second phase of the planned expansion. GM&T is planning further investments in pipeline and storage facilities.

GM&T has access to multiple UK entry points, including NBP, Belgium, Dutch BBL (through its 35 % participation in German Wingas) and is using all available market instruments – long term and spot sales, hedging, future and forward sales, swaps, etc.

Providing a direct link between the natural gas reserves in Russia and the energy markets in the UK and Europe, and taking into account the decline in the North Sea gas volumes, GM&T is poised to cover the needs of European customers.

MAJOR PROJECTS

Considering the above-mentioned development and the knowledge that within the next three years, the UK will become a net gas importer, GAZPROM is further exploiting opportunities in the UK energy market.

Humbly Grove

In August 2005 with a significant assistance from GM&T a deal was signed between Gazexport, the export arm of GAZPROM, and Vitol SA to purchase 53 million therms (143 bcm) of capacity in the UK's newest gas storage facility at Humbly Grove. This 5-year deal gives GAZPROM access to approximately half of the facility's total storage capacity. The capacity will be managed by GM&T to provide its UK and Northwest-European downstream and wholesale customers with more flexible and tailored gas service products. Together with its increasing INTERCONNECTOR capacity position and large upstream GAZPROM gas reserves, GM&T is now ideally positioned to supply the UK market with an industry-leading product offering. Humbly Grove gas storage is the first step in terms of ensuring long-term supply to the UK and Northwest European customers.

APX

In September 2005 GM&T joined APX Gas NL and its Belgian APX Gas ZEE services bringing membership up to 15 and 8 respectively.

France

In November 2005 GM&T became active at the French virtual hub PEG Nord. GM&T targets to sell over 5 bcm next year on a spot basis in the UK, Belgium and the Netherlands. With liquidity still developing at the French hub, the hub is primarily used for the optimisation of physical positions rather than for speculative trading.

LNG

In August 2005 GM&T executed agreements with Shell Western LNG BV and BG Group PLC for its first LNG cargo transaction for delivery to the United States. The LNG purchased from BG was delivered to Shell in the beginning of September 2005 at the Cove Point receiving terminal in Maryland, USA. The tanker carried the equivalent of 85 million standard cubic meters of natural gas. Shell marketed the LNG via Coral Energy Holding, L.P., its trader in the North American market. Shell owns one third of the capacity at the Cove Point regasification plant. This first LNG cargo delivery into the USA was GAZPROM's first step towards becoming a leading LNG supply, shipping and marketing company.

In November 2005 an agreement to swap pipeline gas for LNG was successfully concluded and executed between GM&T and Gaz de France. Under this transaction, GAZPROM delivered additional pipeline gas to Gaz de France in Europe and in return purchased an LNG cargo from Med LNG & Gas, which is a joint company of Gaz de France and Sonatrach. The LNG cargo was sold to Shell Western LNG for delivery to the Cove Point import terminal in Maryland, USA, in early December 2005. The quantity delivered was approximately equal to 80 million standard cubic meters of natural gas.

GAZPROM is now focusing on its goal to expand its LNG marketing and trading activities in preparation for the first availability of Russian-produced LNG in a few years time. Several opportunities are being pursued including mid-term structured transactions involving the swap of pipeline gas in Europe for multiple LNG cargoes.

The LNG trading activity shall not be necessarily limited to US destinations but will look at the whole spectrum of opportunities both in the Atlantic and Pacific basin in order to maximise the profits of each transaction.

Компания Gazprom Marketing & Trading Ltd (GM&T) была учреждена в 1999 году как маркетинговое ответвление компании Газпром ЮК. Компания GM&T осуществляет коммерческие операции по поставкам природного газа, принадлежащего компании Газпром, и торговле им на рынке Великобритании, и стремится к дальнейшему развитию своего бизнеса во Франции, Нидерландах, Бельгии и Ирландии в 2006 году. Последние пять лет российская компания работала на британском рынке в качестве коммерсанта и партнера по эксплуатации газопровода ИНТЕРКОННЕКТОР, поставляя газ, добываемый в Северном море, из терминала Бэктон, Англия, в терминал Зеебрюгге, Бельгия. С начала своей деятельности компания GM&T стремилась стать одной из ведущих маркетинговых и торговых компаний в энергетическом секторе на территории Великобритании и в Европе, учитывая, в частности, снижение производства газа Великобританией в Северном море и её прогнозируемую растущую зависимость от импорта газа.

2005 год стал годом значительных перемен в развитии компании и в интеграции на британском газовом рынке.

В 2005 году по отчетам компании GM&T наблюдался значительный прирост товарооборота в размере £594 млн. по сравнению с £324 млн. в 2004 году. Операционная прибыль достигла £28,0 млн. по сравнению с £8,2 млн. в предыдущем году. Компания продавала газ на Национальном Балансировочном Пункте (NBP), на хабе Зеебрюгге, в TTF и в других пунктах торговли Северо-Западной Европы. Было привлечено более 30 покупателей (для ср. 19 в 2004 году), в основном это оптовые покупатели энергоносителей, крупные промышленные предприятия и производители электроэнергии. Продажа газа в 2005 году увеличилась и достигла 4,1 млрд. куб.м. по сравнению с 3,5 млрд. куб.м. в 2004 году. Компания GM&T зарегистрирована в Датской Организации по передаче прав собственности. Кроме того, компания GM&T подала заявление о предоставлении разрешения на занятие торговой деятельностью во Франции и получила её. Чистые активы компании GM&T увеличились с 17,1 млн. в 2004 году до 43,4 млн. в 2005 г.

Имея 50 сотрудников, большинство из которых опытные специалисты в области газовой промышленности Великобритании и Западной Европы, компания GM&T приобретает влияние на британском газовом рынке. К примеру, в то время, как распространяется недовольство уровнем цен на газ, компания GM&T предлагает промышленным покупателям инновативные условия. GM&T стремится развивать новые формы и методы торговли и готова предложить как твердые цены на газ, так и торговые сделки по нефти, электроэнергии, уголю и эмиссии в дополнение к традиционным сделкам на НБП. Такое гибкое ценообразование было позитивно воспринято покупателями.

Как было открыто заявлено в 2004 году, к 2010 году компания планирует достичь 10%-й доли на газовом рынке Великобритании, что соответствует 13 млрд. куб.м. в год. К 2010 году Газпром намерен поставлять в Великобританию 10–12 млрд. куб.м. газа в год и продавать 70% газа оптом, а 30% конечным потребителям.

Как уже было сказано выше, в настоящее время компания GM&T имеет 10%-ю долю в британском газопроводе ИНТЕРКОННЕКТОР (IUK), обеспечивая Газпром долей, соответствующей 20 млрд. куб.м. прямого и 8,5 млрд. куб.м. обратного потока в год. В соответствии со вторым этапом запланированного развития, с декабря 2005 года доля компании Газпром в оборотных мощностях компании IUK возросла до 4,9 млрд. куб.м. GM&T планирует дополнительные инвестиции в газопровод и газохранилища.

Компания GM&T имеет доступ ко многим входным пунктам Великобритании, включая Национальный Балансировочный Пункт (NBP), Бельгию, Dutch BBL (через свое 35%-е долевое участие в немецкой фирме Вингаз) и использует все доступные рыночные инструменты – долгосрочные сделки и сделки за наличный расчет, хеджирование, фьючерсы, свопы и т.д.

Обеспечивая прямое сообщение между запасами природного газа в России и энергетическими рынками в Великобритании и Европе, и принимая во внимание уменьшение объемов газа в Северном море, компания GM&T готова обеспечивать потребности европейских потребителей.

ОСНОВНЫЕ ПРОЕКТЫ

Опираясь на вышеописанное и осознавая тот факт, что в течение следующих трех лет Великобритания станет нетто-импортером природного газа, Газпром и далее использует в своих интересах возможности британского энергетического рынка.

Хамбли Гроув

В августе 2005 г., благодаря существенному содействию со стороны GM&T, был подписан договор между экспортным отделом Газпрома, компанией Газэкспорт, и компанией Vitol SA, о закупке 53 млн. термов (143 млн. куб.м.) мощностей на британском новейшем газохранилище в Хамбли Гроув. Эта сделка, рассчитанная на 5 лет, открывает Газпрому доступ примерно к половине общих емкостей хранения. Этими емкостями будет управлять компания GM&T, что позволит предоставлять ее британским и североевропейским оптовым покупателям и покупателям в транспортно-дистрибьютерском секторе более гибкий и соответствующий их запросам сервис в области газовой продукции. Учитывая растущие мощности газопровода ИНТЕРКОННЕКТОР и большие запасы газа, принадлежащие компании Газпром, компания GM&T в настоящее время превосходно подготовлена предлагать ведущую в этой отрасли продукцию на рынке Великобритании. Газохранилище Хамбли Гроув является первым этапом в обеспечении долгосрочных поставок в Великобританию и Северную Европу.

APX

В сентябре 2005 г. Компания GM&T объединилась с компаниями APX Gas NL и Belgian APX Gas ZEE services, увеличив состав участников до 15 и 8 соответственно.

Франция

В ноябре 2005 г. компания GM&T активизировалась на французском виртуальном хабе PEG Nord. Целью компании GM&T является спотовая продажа свыше 5 млрд. куб.м. в Великобританию, Бельгию и Нидерланды в следующем году. При продолжающемся развитии ликвидности французского хаба, он в основном используется скорее для оптимизации наличного рынка, чем для спекулятивных сделок.

СПГ

В августе 2005 г. компания GM&T заключила соглашения с компаниями Shell Western LNG BV и BG Group PLC о первой сделке по поставке сжиженного природного газа в США. СПГ, купленный у компании BG, был поставлен компании Shell в начале сентября 2005 г. на приемный терминал Cove Point в Мэрилэнде, США. Танкер транспортировал груз, эквивалентный 85 млн. стандартных куб.м. природного газа. Компания Shell продавала СПГ через своего трейдера в Северной Америке, компанию Coral Energy Holding, L.P. Shell является владельцем одной трети мощности станции регазификации Cove Point. Поставка СПГ в США стала первым шагом в становлении компании Газпром как ведущей компании по поставке, транспортировке и маркетингу СПГ.

В ноябре 2005 г. было успешно принято и оформлено соглашение между компаниями GM&T и Gaz de France об обмене трубопроводного газа на СПГ. В рамках этой сделки Газпром произвел дополнительную поставку газа из магистральных трубопроводов компании Gaz de France в Европу и в обмен приобрел СПГ у компании Med LNG & Gas, являющейся совместным предприятием с Gaz de France и Sonatrach. В начале декабря 2005 г. СПГ был продан компании Shell Western LNG для поставки на приемный терминал Cove Point в Мэрилэнде, США. Объем поставки соответствовал примерно 80 млн. стандартных куб.м. природного газа.

В настоящее время усилия Газпрома сосредоточены на расширении маркетинга СПГ и развитии коммерческой деятельности, направленной на обеспечение первого доступа к добытому в России СПГ через несколько лет. Используются различные возможности, в том числе среднесрочные сделки по обмену трубопроводного газа в Европе на многократные поставки СПГ.

Торговые операции с СПГ не должны ограничиваться только поставками в США, будет учитываться весь спектр возможностей в бассейнах Атлантического и Тихого океанов для достижения максимальной прибыли с каждой сделки.

Idyllic landscape of Western Siberia

Ландшафтные красоты Западной Сибири

The information on pages 20–53 contains the audited financial statements of GM&T Ltd. The information on all other pages was not subject to audit.

The Directors present their annual report and the audited financial statements of Gazprom Marketing & Trading Limited (GM&T) for the year ended 31 December 2005.

PRINCIPAL ACTIVITY

The Company's principal activity during the year was the marketing and trading of gas in the UK and Northwest Europe.

REVIEW OF THE BUSINESS

GM&T's ultimate parent, OAO GAZPROM, is the world's largest producer and reliable supplier of natural gas to Europe. OAO GAZPROM's strategy is to become a global energy company which will be achieved via expansion into new markets and new products. To execute this strategy OAO GAZPROM's export arm, OOO Gazexport, has relaunched its UK business as GM&T. GM&T is a supplier, gas trader and market entry vehicle with customers made up mainly of energy wholesalers, large industrial users and power generators. GM&T has established strong relationships with all the major market players and gas buyers in UK, Belgium, France and The Netherlands.

FUTURE DEVELOPMENTS

At the beginning of the year, Gazprom Marketing and Trading concluded a comprehensive strategic planning process that will enable the Company to realise its stated vision:

"To be the leading energy marketing and trading company in liberalised markets in Western Europe". Given a number of inherent advantages, such as its relationship with an asset-rich parent company as well as its own internal human talent and managerial resources, it is clear that market leadership is achievable by the Company in the near future.

Over the past two years, the Company has moved very quickly to put into place a strong foundation of basic corporate capabilities – back office processes and procedures, mid-office analytical capabilities, and a front office that is poised to rapidly expand its trading operations. This infrastructure is now not only operational but profitable as well. The corporate planning process yielded an aggressive agenda to provide for the rapid leveraging of this newly-created infrastructure into an expanded geographic footprint and product and service portfolio in response to developing market opportunities.

The Company's plans emphasise the development of its overall competitive advantage. The drive to establish competitive advantage involves the continual improvement of four principal areas of company operations:

1. Financial performance
2. Marketing and customer management
3. Organisation and growth
4. Improved business process performance

For each of these areas, the Company has identified specific improvements, the resources needed to achieve those improvements, and the respective benefits to the Company of each area of endeavour.

Additionally, the plan addresses a number of organisational planning and management improvements that make more efficient use of its resources, allowing both faster response times in changing market conditions as well as improvements to the bottom line. The planning process reinforces the Company's policy of continually improving the management of a number of critical operational areas such as risk management, human resources, and back office functions.

In summary, the Company has developed a comprehensive assessment of the steps needed to realise the Company's full potential. These steps will lay the groundwork for achieving an optimal rate of growth while simultaneously preserving ambitious profit targets for the foreseeable future. Implementation of the operational improvements is already underway.

CHARITABLE DONATIONS

The Company donated the sum of £ 122,976 (2004: nil), for the restoration of the Church of the Advent in the village of Pervomaisky, Moscow.

DIRECTORS AND THEIR INTERESTS

The Directors during the year were as follows:

H.-J. Gornig
Y. A. Komarov
A. I. 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.

Approved by the Board of Directors

A. V. Mikhalev	V. V. Vasiliev
Director	Director
8 May 2006	8 May 2006

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, the Companies Act 1985 and Article 4 of the IAS Regulation.

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 IFRSs 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 improving 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.

We have audited the financial statements of Gazprom Marketing & Trading Limited for the year ended 31 December 2005 which comprise the income statement, the balance sheet, the cash flow statement, the statement of recognised income and expense and the related notes 1 to 22. 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 (IFRSs) as adopted for use in the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom 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 in accordance with the relevant financial reporting framework and are properly prepared in accordance with the Companies Act 1985 of the IAS Regulation. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if 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 other information contained in the directors' report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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 circumstances of the company, 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 those IFRSs as adopted for use in the European Union, of the state of the company's affairs as at 31 December 2005 and of its profit for the year then ended; and

- the financial statements have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Reading

10 May 2006

INCOME STATEMENT

For the year ended 31 December 2005

	Note	Year ended 2005 £	Year ended 2004 £
CONTINUING OPERATIONS			
REVENUE	1	593,543,163	324,130,372
Cost of sales		(557,072,701)	(313,250,896)
Administrative expenses		(8,514,796)	(2,719,777)
OPERATING PROFIT	2	27,955,666	8,159,699
Bank interest received		784,005	366,494
Finance costs	3	(3,135,141)	3,021,084
PROFIT BEFORE TAX		25,604,530	11,547,277
Tax	5	(7,841,152)	(3,525,161)
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS		17,763,378	8,022,116

As at 31 December 2005

	Note	2005 £	2004 £
ASSETS			
Non-current assets			
Intangible assets	6	220,550	22,589
Property, plant and equipment	7	6,461,144	5,703,671
Derivative financial instruments	14	6,324,606	1,668,690
		13,006,300	7,394,950
Current assets			
Inventories	9	10,279,013	–
Trade and other receivables	8	156,785,392	44,656,632
Derivative financial instruments	14	145,444,174	24,523,607
Cash and cash equivalents	10	6,999,029	2,572,802
		319,507,608	71,753,041
TOTAL ASSETS		332,513,908	79,147,991
LIABILITIES			
Current liabilities			
Trade and other payables	12	144,896,505	39,078,776
Derivative financial instruments	14	127,571,681	19,117,745
Obligations under hire purchase agreements		158,146	24,540
Current tax liabilities		5,732,979	1,105,207
		278,359,311	59,326,268
NET CURRENT ASSETS		41,148,297	12,426,773
Non-current liabilities			
Derivative financial instruments	14	6,874,226	960,215
Deferred tax liabilities	11	3,855,561	1,741,065
		10,729,787	2,701,280
TOTAL LIABILITIES		289,089,098	62,027,548
NET ASSETS		43,424,810	17,120,443
EQUITY			
Ordinary share capital	15	11,000,000	6,000,000
Cashflow hedge reserve	16	–	(3,540,989)
Retained earnings	16	32,424,810	14,661,432
TOTAL EQUITY		43,424,810	17,120,443

These financial statements were approved by the Board of Directors and authorised for issue on 8 May 2006.
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 2005

	Note	Year ended 2005 £	Year ended 2004 £
Losses on cash flow hedges	16	–	(5,058,556)
Tax on items taken directly to equity	5	–	1,517,567
Net income recognised directly in equity		–	(3,540,989)
Transfers		–	–
Transferred to profit or loss on cash flow hedges	16	5,058,556	–
Tax on items transferred from equity	5	(1,517,567)	–
Profit for the year	16	17,763,378	8,022,116
Total recognised income and expense for the year		21,304,367	4,481,127
Attributable to equity holders of the parent		21,304,367	4,481,127

For the year ended 31 December 2005

	Note	2005 £	2004 £
Operating activities			
Operating profit		27,955,666	8,159,699
Depreciation of property, plant and equipment		568,027	81,552
Amortisation of intangibles		20,925	623
Profit on disposal of property, plant and equipment		(10,183)	–
Operating cash flows before movements in working capital		28,534,435	8,241,874
Increase in stocks		(10,279,013)	–
Increase in receivables		(126,342,933)	(23,074,136)
Increase in payables		110,863,913	18,841,262
Cash generated from operations		2,776,402	4,009,000
Interest paid		(129,505)	(2,472)
Income taxes paid		(2,470,473)	(1,497,018)
Net cash from operating activities		176,424	2,509,510
Investing activities			
Interest received		784,005	366,494
Purchases of property, plant and equipment		(1,329,616)	(5,687,525)
Proceeds from sale of property, plant and equipment		14,300	–
Purchases of intangible assets		(218,886)	(22,412)
Net cash used in investing activities		(750,197)	(5,343,443)
Financing activities			
Proceeds on issue of shares		5,000,000	5,000,000
Net cash from financing activities		5,000,000	5,000,000
Net increase in cash and cash equivalents		4,426,227	2,166,067
Cash and cash equivalents at the beginning of the year		2,572,802	406,735
Cash and cash equivalents at the end of the year	10	6,999,029	2,572,802

GENERAL INFORMATION

Gazprom Marketing & Trading Limited (the "Company") is a company incorporated 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.

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

1. ACCOUNTING POLICIES

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.

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.

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:

As described in note 14, the Company uses certain self-developed models to estimate the fair value of INTERCONNECTOR capacity, 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.

First-time adoption of IFRS

This is the first year in which the Company has prepared its financial statements under IFRS and the comparatives have been restated from UK Generally Accepted Accounting Practice (UK GAAP) to comply with IFRS.

1. ACCOUNTING POLICIES (CONTINUED)

In preparing these financial statements, the Company has started from an opening balance sheet as at 1 January 2004, the Company's date of transition to IFRS, and made those changes in accounting policies and other restatements required by IFRS 1 for the first time adoption of IFRS. On transition to IFRS, the Company recognised all assets and liabilities as required by IFRS and derecognised all assets and liabilities not permitted by IFRS. Assets and liabilities were all measured in accordance with IFRS.

The impact of transition to IFRS on the Company's shareholders' equity as at 1 January 2004, and 31 December 2004, and the Company's income statement for the period ended 31 December 2004 is discussed in note 22.

No exemptions, as allowed by IFRS 1 *First Time Adoption* have been utilised.

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 in the normal course of business, net of discounts, rebates, VAT and other sales taxes or duty. Revenue is attributable to the Company's principal activity.

Intangible assets

Externally acquired 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 is 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

Property, plant and equipment acquired under finance leases is 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.

1. ACCOUNTING POLICIES (CONTINUED)

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 is measured at fair value less costs to sell. The fair value is measured at the spot price of gas 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 tested to determine whether the lease is a finance or operating lease and treated accordingly. Property leases comprising a lease of land and a lease of buildings within a single contract are split into their component parts before testing.

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.

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

Functional and presentation currency
The Company's financial statements are presented in UK Sterling, which is also the company's functional currency.

1. ACCOUNTING POLICIES (CONTINUED)

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 asset 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 in the period in which they become payable.

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. 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. 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 gas sale and purchase transactions in line with the Company’s expected physical usage requirements. Where such transactions are settled through receipt or delivery of the physical position these transactions are deemed to be outside the scope of IAS 39 and are, therefore, carried at amortised cost.

Transactions which are not physically settled or are capable of net settlement and are not entered into and 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. Purchases and sales of financial assets are recognised on the trade date, being the date that the Company commits to purchase or sell an asset.

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 income 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.

1. ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments and hedging

The Company uses derivative financial instruments to hedge exposures to financial risks, such as foreign exchange and commodity price risks 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.

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 profit or loss. 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. If the related transaction is not expected to occur, the amount is taken to profit or loss.

1. ACCOUNTING POLICIES (CONTINUED)

New standards and interpretations not applied

During the year, the IASB and IFRIC have issued the following standards and interpretations with an effective date after the date of these financial statements:

International Financial Reporting Standards		Effective date
IFRS 1	Amendment relating to IFRS 6	1 January 2006
IFRS 4	Insurance Contracts (Amendment to IAS 39 and IFRS 4 – Financial Guarantee Contracts)	1 January 2006
IFRS 6	Exploration for and Evaluation of Mineral Assets	1 January 2006
IFRS 6	Amendment relating to IFRS 6	1 January 2006
IFRS 7	Financial Instruments: Disclosures	1 January 2007
IAS 1	Amendment – Presentation of Financial Statements: Capital Disclosures	1 January 2007
IAS 19	Amendment – Actuarial Gains and Losses, Group Plans and Disclosures	
IAS 21	Amendment – The effects of change in foreign exchange rates: Net Investment in a Foreign Operation	1 January 2006
IAS 39	Fair Value Option	1 January 2006
IAS 39	Cash Flow Hedge Accounting	1 January 2006
IAS 39	Amendment to IAS 39 and IFRS 4 – Financial Guarantee Contracts	1 January 2006

International Financial Reporting Interpretations Committee (IFRIC)		Effective date
IFRIC 4	Determining whether an arrangement contains a lease	1 January 2006
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1 January 2006
IFRIC 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment	1 December 2005
IFRIC 7	Applying the Restatement Approach under IAS 29 – Financial Reporting in Hyperinflationary Economies	1 March 2006
IFRIC 8	Scope of IFRS 2	1 May 2006
IFRIC 9	Reassessment of Embedded Derivatives	1 June 2006

Upon adoption of IFRS 7, the Company will have to disclose additional information about its financial instruments, their significance and the nature and extent of risks that they give rise to. More specifically the Company will need to disclose the fair value of its financial instruments and its risk exposure in greater detail. There will be no effect on reported income or net assets.

The Company do no anticipate that the adoption of the other standards and interpretations listed above will have a material impact on the company's financial statements in the period of initial application.

2. OPERATING PROFIT

	2005	2004
	£	£
Operating profit is stated after charging/(crediting):		
Depreciation		
– owned assets	586,524	74,642
– leased assets	2,427	7,533
Exchange gain	(423,549)	(95,332)
Fair value gains on derivative instuments	(9,155,618)	(2,070,039)
Rentals under operating leases – land and buildings	54,374	66,880
Auditors' remuneration		
– company audit fees	105,000	51,350
– other services	412,555	77,918
Staff welfare	200,019	166,638
Other staff costs	4,281,863	925,870
Travel expenses	296,143	179,438
Consultancy and professional fees	2,354,647	384,944

3. FINANCE COSTS

	2005	2004
	£	£
Other interest	129,505	2,472
Fair value loss/(gain) of forward foreign exchange contracts	3,005,636	(3,023,556)
Finance costs	3,135,141	(3,021,084)

4. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	2005	2004
	£	£
Directors' remuneration	652,658	223,941

The remuneration of the highest paid director is £357,685 (2004: £122,734).

Contributions of £12,000 (2004: £12,000) were made to personal pension plans in respect of one of the Directors (2004: one).

4. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONTINUED)

	2005	2004
	£	£
Staff costs during the year (including Directors)		
Wages and salaries	3,720,149	791,290
Social security costs	425,555	86,450
Pension costs	136,159	48,130
	4,281,863	925,870

	No.	No.
Average number of persons employed	**39**	15

	2005	2004
	No.	No.
Analysed as follows:		
Front office	14	4
Mid office	6	1
Back Office	9	5
Support office	10	5
	39	15

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 2005 were £ 136,159 (2004: £ 48,130).

5. TAX EXPENSE

	2005	2004
	£	£
UK corporation tax at 30 %	5,726,656	2,086,218
Current income tax expense	5,726,656	2,086,218
Deferred income tax expense	2,114,496	1,438,943
Tax expense in the income statement	**7,841,152**	3,525,161

5. TAX EXPENSE (CONTINUED)

	2005	2004
	£	£
Deferred or current income tax related to items charged or credited directly to equity		
Net gain/(loss) on revaluation of cash flow hedges	5,058,556	(5,058,556)
Total deferred income tax (charge)/credit to equity	(1,517,567)	1,517,567

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:

	2005	2004
	%	%
Applicable tax rate for year as a percentage of profits	30	30
Effects of:		
Expenses not deductible for tax purposes	1	1
Effective tax rate for the year as a percentage of profits	**31**	31

6. INTANGIBLE ASSETS

	2005	2004
	£	£
Cost		
At 1 January	23,212	800
Additions	218,886	22,412
At 31 December	242,098	23,212
Accumulated depreciation		
At 1 January	623	–
Amortisation expense for the year	20,925	623
At 31 December	21,548	623
Net book value	**220,550**	22,589

All intangible assets relate to computer software.

7. PROPERTY PLANT AND EQUIPMENT

	Long leasehold property	Leasehold improvements	Fixtures, fittings and equipment	Motor vehicles	Total
	£	£	£	£	£
Cost					
At 1 January 2005	5,301,296	30,480	468,771	96,500	5,897,047
Additions	–	–	1,134,349	195,268	1,329,617
Disposals	–	–	(1,650)	(38,394)	(40,044)
At 31 December 2005	5,301,296	30,480	1,601,470	253,374	7,186,620
Accumulated depreciation					
At 1 January 2005	21,437	24,183	101,506	46,250	193,376
Charge for the year	132,532	2,427	385,715	47,352	568,026
Disposals	–	–	(1,650)	(34,276)	(35,926)
At 31 December 2005	153,969	26,610	485,571	59,326	725,476
Net book value					
At 31 December 2005	5,147,327	3,870	1,115,899	194,048	6,461,144
At 31 December 2004	5,279,859	6,297	367,265	50,250	5,703,671
Cost					
At 1 January 2004	–	24,147	102,575	82,800	209,522
Additions	5,301,296	6,333	366,196	13,700	5,687,525
At 31 December 2004	5,301,296	30,480	468,771	96,500	5,897,047
Accumulated depreciation					
At 1 January 2004	–	16,650	64,289	30,885	111,824
Charge for the year	21,437	7,533	37,217	15,365	81,552
At 31 December 2004	21,437	24,183	101,506	46,250	193,376
Net book value					
At 31 December 2004	5,279,859	6,297	367,265	50,250	5,703,671
At 31 December 2003	–	7,497	38,286	51,915	97,698

The net book value of tangible fixed assets includes an amount of £168,531 (2004: £29,271) in respect of assets held under finance leases. Obligations under finance leases are secured by the related assets.

8. TRADE AND OTHER RECEIVABLES

	2005	2004
	£	£
Amounts receivable for sale of goods	132,855,499	42,855,311
Amounts receivable from group companies	18,100,555	461,806
Prepayments and other debtors	5,829,338	1,339,515
	156,785,392	44,656,632

9. INVENTORY

	2005	2004
	£	£
Gas in storage	10,279,013	–

Gas in storage is valued at fair value less costs to sell.

10. CASH AND CASH EQUIVALENTS

	2005	2004
	£	£
Cash and cash equivalents	6,999,029	2,572,802

Cash and cash equivalents (presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less.

The Company has no committed and undrawn borrowing facilities at the year end.

11. DEFERRED TAX

	2005 £	2004 £
Deferred liability at 1 January	(1,741,065)	(1,819,689)
Charge to the income statement	(2,114,496)	(1,438,943)
Taken to equity – cashflow hedge reserve	–	1,517,567
Deferred liability at 31 December	(3,855,561)	(1,741,065)
The deferred tax liability consists of the following amounts:		
Capital allowances in excess of depreciation	(24,170)	(2,349)
Temporary timing differences on stock revaluation	(1,084,109)	–
Transitional adjustments	–	95,587
Temporary timing differences on derivative financial instruments:		
Transitional adjustments	(1,834,302)	(1,834,303)
Elements that fall within the disregard regulations	(912,980)	–
Net deferred tax liability	**(3,855,561)**	(1,741,065)

12. TRADE AND OTHER PAYABLES

	2005 £	2004 £
Amounts payable for the sale of goods	70,771,559	12,704,158
Amounts owed to group companies	59,920,164	25,981,251
Accruals and other payables	14,204,782	393,367
	144,896,505	39,078,776

13. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company enters into derivative transactions, including principally commodity 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 Risk Oversight Committee (ROC) has been formed to provide executive management oversight for the risks associated with the Company's marketing and trading activities. The ROC is charged with the creation, amendment and administration of the Risk Management Procedures Manual; and ensuring that all activities of the Company are in accordance with the Governing Policy and this Procedures Manual.

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 gas positions, subject to certain board approved limits.

The Company leases INTERCONNECTOR capacity for use in the Company's gas marketing and trading operations. The contract enables the Company to transport gas in both directions between the Zeebrugge and UK NBP transit locations.

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

Commodity price risk

The Company uses a daily VaR measure as the primary mechanism for market risk control. The Company's Risk Oversight Committee 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 UK 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.

13. 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 Risk Oversight Committee and, to date, has not suffered any credit loss.

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 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 ZGG GmbH. In addition, at 31 December 2005, the Company had an uncommitted bank facility of 50 million US Dollars which was no more than two thirds utilised.

The Company's liquid resources include amounts placed under cash pooling arrangements with ZGG GmbH (see note 19).

14. 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:

	2005 £	2004 £
Current assets		
Commodity trading contracts	140,529,742	20,420,809
Commodity futures	154,664	–
INTERCONNECTOR capacity	1,621,010	–
Forward foreign exchange contracts	–	3,005,637
Embedded commodity call option	2,022,497	–
Written commodity call option	1,116,261	–
Commodity gas swaps	–	1,097,161
	145,444,174	24,523,607
Non-current assets		
Commodity trading contracts	6,324,606	1,668,690
Current liabilities		
Commodity trading contracts	124,265,276	11,237,567
Commodity futures	66,348	–
INTERCONNECTOR capacity	3,240,057	1,724,462
Commodity gas swaps	–	6,155,716
	127,571,681	19,117,745
Non-current liabilities		
Commodity trading contracts	6,874,226	960,215

14. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Fair value of financial assets and financial liabilities

There is no material difference between the fair value and actual value of financial assets and liabilities. The fair values of certain derivative contracts and embedded derivatives are estimated using option model techniques:

INTERCONNECTOR capacity

The Company has entered into an annual INTERCONNECTOR capacity forward purchase contract. The contract enables the Company to transport gas in both directions between the Zeebrugge and UK NBP transit locations. Part of the capacity is net settled and is therefore accounted for as a financial instrument. The fair value of the INTERCONNECTOR capacity is determined by use of a Company developed option pricing model which comprises both market derived and company estimated inputs. Market observable inputs include spot natural gas spreads between ZBH and NBP and an interest rate based on LIBOR. Company derived estimated inputs include INTERCONNECTOR activity and operating costs, implied volatility, implied correlation between ZBH and NBP prices and time to maturity of the contract.

The model used to determine the fair value of the INTERCONNECTOR capacity uses a conservative estimate of correlation between ZBH and NBP prices. At 31 December 2005, holding all other inputs constant, a 1 % decrease in the implied correlation increases the fair value of the INTERCONNECTOR capacity by approximately 60 %. Subsequent incremental decreases in the assumed implied correlation increase the valuation to a lesser degree.

These impacts result from changing the assumptions used to determine the fair value of the INTERCONNECTOR capacity to other reasonably possible assumptions at the balance sheet date. These impacts only relate to the fair value of INTERCONNECTOR capacity 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 derivative contract was £ 105,415 (2004: (£ 2,025,631)).

Embedded call and written call options

The fair value of options embedded in gas supply contracts 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 2005, holding all other inputs constant, a decrease in implied volatility decreases the option valuation by more than the 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 embedded call and written call options to reasonably possible assumptions at the balance sheet date. These impacts only relate to the fair value of embedded call and written call 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 £ 3,138,758 (2004: nil).

14. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Commodity price risk

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 gas swaps at the balance sheet date. The total amount recognised within the income statement, within revenue during the year in relation to the change in fair value of the commodity trading contracts was £5,823,130 (2004: £4,095,671). The total amount recognised within the income statement, within revenue during the year in relation to the change in fair value of the commodity futures was £88,316 (2004: nil). See (f) below for further disclosures relating to commodity gas swaps.

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 finance cost during the year in relation to the change in fair value of the forward foreign exchange contracts was £3,005,637 (2004: loss of £3,023,556).

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.

Credit risk

The Company has no significant concentrations of credit risk.

Hedging activity

Cash flow hedges

The Company uses swaps to manage its exposure to commodity price movements on forecast sales to customers to whom the Company have firm commitments. This is achieved by swapping a proportion of commodity contracts from fixed price rates to floating price rates.

The total notional amount of outstanding swap contracts to which the Company is committed are as follows:

	2005 £	2004 £
Pay variable receive fixed	–	–
Within one year	–	A total of 791,000 therms per day for the period 1 January to 30 September

The cash flow hedges were assessed to be highly effective and an unrealised loss of £3,540,989, net of a deferred tax charge of £1,517,567 relating to the hedging instrument was included in equity.

15. SHAREHOLDERS' EQUITY

	2005 £	2004 £
Authorised share capital		
11,000,000 (2004: 6,000,000) ordinary shares of £1 each	11,000,000	6,000,000
Called up, allotted and fully paid		
Ordinary shares of £1 each		
At 1 January	6,000,000	1,000,000
Issue of shares	5,000,000	5,000,000
At 31 December	11,000,000	6,000,000

Share Capital
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 2005, the Company increased its authorised and issued share capital through the issue of 5,000,000 fully paid up ordinary shares at par, for cash (2004: 5,000,000 fully paid up ordinary shares at par, for cash).

16. RESERVES

	Cash flow Hedge Reserve £	Retained Earnings £	Total £
Balance at 1 January 2004	–	6,639,316	6,639,316
Decrease in fair value of hedging derivatives	(5,058,556)	–	(5,058,556)
Deferred tax asset arising on fair value movement of hedging derivatives	1,517,567	–	1,517,567
Profit for the year	–	8,022,116	8,022,116
Balance at 1 January 2005	(3,540,989)	14,661,432	11,120,443
Increase in fair value of hedging derivatives	5,058,556	–	5,058,556
Current tax liability arising on fair value movement of hedging derivatives	(1,517,567)	–	(1,517,567)
Profit for the year	–	17,763,378	17,763,378
At 31 December 2005	–	32,424,810	32,424,810

16. RESERVES (CONTINUED)

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.

17. LEASE COMMITMENTS

Operating lease agreements where the Company is lessee

The Company had entered into commercial leases on buildings, which came to an end in 2005.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2005	2004
	£	£
Not later than one year	–	52,734
	–	52,734

18. 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 ZGG GmbH, a company incorporated in Germany. Copies of the group financial statements of ZGG GmbH are available from 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.

19. RELATED PARTY TRANSACTIONS

Trading transactions

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

	Sales to related party £	Purchases from related party £	Amounts owed by related party £	Amounts owed to related party £
RELATED PARTY				
Parent				
2005	10,923	142,201,505	17,364,296	19,737,267
2004	297,499	85,687,187	–	9,607,535
Entities with significant influence over the Company				
2005	1,011,364	198,558,790	627,642	40,182,932
2004	–	90,698,948	436	10,833,037

During 2004, ZMB GmbH transferred their beneficial interest in a leasehold property to the Company for the consideration of £760,000.

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 £17,364,296 (2004: £442,412). The master account holder is ZMB GmbH, the Company's immediate controlling entity. Interest is receivable based on market interest rates.

Terms and conditions of transactions with related parties

Sales and purchases between related parties are made at standard market terms.

The Company has not provided or benefited from any guarantees for any related party receivables or payables. During the year ended 31 December 2005, the Company has not made any provision for doubtful debts relating to amounts owed by related parties (2004: nil).

Compensation of key management personnel

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

	2005 £	2004 £
Short-term benefits	1,016,663	362,237
Post-employment benefits	24,750	23,160

19. RELATED PARTY TRANSACTIONS (CONTINUED)

Directors' transactions

Other debtors (note 8) include a loan to a director, V. Vasiliev. The loan of £ 13,177 (2004: £ 19,497) is for a term of three years, with capital and interest due to be repaid on 1 December 2007. The maximum amount outstanding during the year was £ 19,497 (2004:20,000) and interest is charged at the HM Revenue and Customs "Official Interest Rate".

20. CONTINGENCIES AND COMMITMENTS

Capital commitments

At 31 December 2005, amounts contracted for but not provided for in the financial statements for the acquisition of property, plant and equipment amounted to £ nil (2004: 178,381).

Long-term gas purchase commitments

The Company has long-term gas purchase commitments for the period to 2016 under a take or pay contract. Cash commitments under the contract are based on contracted volumes at floating quoted market price.

21. POST BALANCE SHEET EVENT

On 31 March 2006, the Company increased its authorised and issued share capital through the issue of £ 9,000,000 fully paid up ordinary shares at par, for cash.

22. RECONCILIATION OF NET ASSETS AND PROFIT UNDER UK GAAP TO IFRS

The Company reported under UK GAAP in its previously published financial statements for the year ended 31 December 2004. The analysis below shows a reconciliation of profit and net assets as reported under UK GAAP as at 31 December 2004 to the revised profit and net assets under IFRS as reported in these financial statements. In addition, there is a reconciliation of net assets under UK GAAP to IFRS at the transition date for the Company, being 1 January 2004.

22. RECONCILIATION OF NET ASSETS AND PROFIT UNDER UK GAAP TO IFRS (CONTINUED)

Reconciliation of equity at 1 January 2004 (date of transition to IFRS)

	Notes	UK GAAP	Transition adjustment to IFRS	Opening IFRS Balance Sheet
		GBP £	GBP £	GBP £
Non-current assets				
Intangible assets	3	–	800	800
Short leasehold improvements		7,497	–	7,497
Fixtures fittings and equipment		38,286	–	38,286
Motor vehicles		51,915	–	51,915
Deferred tax asset		8,822	(8,822)	–
Total non current assets		106,520	(8,022)	98,498
Cash owed by group companies		4,441,513	–	4,441,513
Other amounts owed by group companies		15,802	–	15,802
Fair value of derivative debtors	1	–	39,982,856	39,982,856
Marketable securities receivable – forward contracts	1	–	119,194	119,194
Other debtors		518,790	–	518,790
Prepayments and accrued income		17,158,864	–	17,158,864
Cash at bank and in hand		406,735	–	406,735
Total current assets		22,541,704	40,102,050	62,643,754
Total assets		22,648,224	40,094,028	62,742,252
Obligations under finance leases and hire purchase contracts		31,333	–	31,333
Trade creditors	3	52,704	(14,939)	37,765
Amounts owed to group companies		15,524,173	–	15,524,173
Fair value of derivative creditors	1	–	33,885,640	33,885,640
Marketable securities payable – forward contracts	1	–	137,113	137,113
Taxation and social security		2,734,065	–	2,734,065
Deferred tax liability		–	1,819,688	1,819,688
Accruals and deferred income		933,159	–	933,159
Total liabilities		19,275,434	35,827,502	55,102,936
Net assets		3,372,790	4,266,526	7,639,316
Called up share capital		1,000,000	–	1,000,000
Profit and loss account	1, 2, 3	2,372,790	4,266,526	6,639,316
Total equity		3,372,790	4,266,526	7,639,316

22. RECONCILIATION OF NET ASSETS AND PROFIT UNDER UK GAAP TO IFRS (CONTINUED)

Reconciliation of equity at 31 December 2004

	Notes	UK GAAP	Transition adjustment to IFRS	Opening IFRS Balance Sheet
		GBP £	GBP £	GBP £
Non-current assets				
Intangible assets	3	–	22,589	22,589
Long leasehold property		5,279,859	–	5,279,859
Short leasehold improvements		6,297	–	6,297
Fixtures, fittings and equipment		367,265	–	367,265
Motor vehicles		50,250	–	50,250
Total non current assets		**5,703,671**	**22,589**	**5,726,260**
Cash owed by group companies		442,412	–	442,412
Other amounts owed by group companies		19,394	–	19,394
Fair value of derivative debtors	1	–	22,089,500	22,089,500
Cash flow hedge-debtors	1	–	1,097,162	1,097,162
Marketable securities receivable – forward contracts	1	–	3,005,636	3,005,636
Other debtors		1,339,515	–	1,339,515
Prepayments and accrued income		42,855,311	–	42,855,311
Cash at bank and in hand		2,572,802	–	2,572,802
Total current assets		47,229,434	26,192,298	73,421,732
Total assets		**52,933,105**	**26,214,887**	**79,147,992**
Obligations under finance leases and hire purchase contracts		24,540	–	24,540
Trade creditors	2	260,962	341,207	602,169
Amounts owed to group companies	1	25,981,252	–	25,981,252
Fair value of derivative creditors	1	–	13,922,244	13,922,244
Cash flow hedge – creditors	1	–	6,155,716	6,155,716
Taxation and social security		1,105,207	–	1,105,207
Deferred tax liability		2,349	1,738,716	1,741,065
Accruals and deferred income		12,495,356	–	12,495,356
Total liabilities		39,869,666	22,157,883	62,027,549
Net assets		**13,063,439**	**4,057,004**	**17,120,443**
Called up share capital		6,000,000	–	6,000,000
Cash flow hedge reserve	1	–	(3,540,989)	(3,540,989)
Profit and loss account	1, 2, 3	7,063,439	7,597,993	14,661,432
Total equity		**13,063,439**	**4,057,004**	**17,120,443**

22. RECONCILIATION OF NET ASSETS AND PROFIT UNDER UK GAAP TO IFRS (CONTINUED)

Reconciliation of equity at 31 December 2004 (continued)

		For the twelve months to 31 December 2004		
	Notes	UK GAAP	Transition adjustment to IFRS	IFRS
REVENUE	1	322,060,333	2,070,039	324,130,372
Cost of sales		(313,250,896)	–	(313,250,896)
Gross profit		8,809,437	2,070,039	10,879,476
Administrative expenses	2, 3	(2,385,420)	(334,357)	(2,719,777)
OPERATING PROFIT		6,424,017	1,735,682	8,159,699
Interest receivable and similar income		366,494	–	366,494
Interest payable and similar charges	1	(2,472)	3,023,556	3,021,084
PROFIT BEFORE TAX		6,788,039	4,759,238	11,547,277
Tax on profit on ordinary activities		(2,097,390)	(1,427,771)	(3,525,161)
PROFIT FOR THE YEAR		4,690,649	3,331,467	8,022,116

Fair value of derivatives

Under UK GAAP, gains and losses from derivative financial instruments used for hedging purposes are not recognised in earnings or as adjustments to carrying amounts until the underlying hedged transaction matures or occurs. IAS 39 requires all derivatives to be recognised at fair value in the balance sheet. Consequently, forward foreign exchange contracts with a positive fair value of £119,194, and forward foreign exchange contracts with a negative fair value of £137,113 have been recognised in the Company balance sheet as at 1 January 2004 with a related net deferred tax asset of £5,376.

At 31 December 2004, forward foreign exchange contracts with a positive fair value of £3,005,636, commodity swaps with a positive fair value of £1,097,161, and commodity swaps with a negative fair value of £6,155,716 have been recognised in the Company balance sheet with a related net deferred tax asset of £615,875.

22. RECONCILIATION OF NET ASSETS AND PROFIT UNDER UK GAAP TO IFRS (CONTINUED)

Fair value of derivatives (continued)

IAS 39 excludes from its scope own use contracts and such contracts are accounted for using the accrual method. However, the definition of own use is highly restrictive meaning that many commodity contracts entered into by the Company are scoped within IAS 39 and must be fair valued with gains and losses on fair value movements being recognised directly within earnings. An adjustment has been made to recognise commodity contract financial assets of £ 39,982,856 and commodity contract financial liabilities of £ 33,885,640 in the Company balance sheet as at 1 January 2004 with a related net deferred tax liability of £ 1,829,165. Adjustments have been made to recognise commodity contract financial assets and liabilities of £ 22,089,500 and £ 13,922,244 within the Company balance sheet as at 31 December 2004 with a related net deferred tax liability of £ 2,450,177.

The Company also takes advantage of pricing opportunities by entering into contracts with embedded optionality. If this optionality is embedded in a non-derivative host contract, IAS 39 requires this optionality to be accounted for separately from the host contract and to be measured at fair value. Fair value movements are recognised directly in earnings.

The fair value of derivative instruments under IFRS provide the same eventual impact on the financial statements as under UK GAAP. However, the timing of the accounting entries differ resulting in volatility in the income statement during the period of the contract.

Foreign exchange adjustments

UK GAAP allowed transactions in foreign currencies which were agreed at a fixed or forward exchange rate to be recognised at that agreed rate or spot rate. IAS 21, *The Effects of Changes in Foreign Exchange Rates*, requires that all foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions i.e. Spot rate. An adjustment of £ 14,939 has been made to recognise foreign exchange transactions at spot rate as at 1 January 2004 with a related deferred tax liability of £ 4,482, and adjustment of £ 341,207 as at 31 December 2004 with a related deferred tax asset of £ 102,362.

Intangible assets

An adjustment has been made to equity to recognise £ 21,789 of software development expenditure which meets the capitalisation criteria of IAS 38 as at 31 December 2004, with a related deferred tax asset of £ 6,537.

Restatement of cash flow statement from UK GAAP to IFRS

The transition from UK GAAP to IFRS has no effect upon reported cash flows generated by the Group. The IFRS cash flow statement is presented in a different format from that required under UK GAAP with cash flows split into three categories of activities – operating activities, investing activities and financing activities. The reconciling items between the UK GAAP presentation and the IFRS presentation have no net impact on the cash flows generated.

In preparing the cash flow statement under IFRS, cash and cash equivalents include cash at bank and in hand and highly liquid interest bearing securities with original maturities of three months or less where applicable. Under UK GAAP highly liquid interest bearing securities were not classified as cash equivalents.

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