GAZPROM
MARKETING & TRADING

10TH ANNUAL REPORT 2008

CONTENTS

DIRECTORS' REPORT

The Directors present the annual report and financial statements of Gazprom Marketing & Trading Limited ("GM&T") for the year ended 31 December 2008.

Principal activity

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

During 2008 GM&T continued both its commercial success and the development of its global corporate structure.

Gazprom Global LNG Ltd ("GGLNG") was created in August 2008, as a wholly owned UK subsidiary of GM&T, with the objective of marketing and trading worldwide LNG volumes produced by OAO Gazprom and sourced from third parties. An expanding team of ten people based in the Kingston office are assigned to these activities and the development of this important new business stream which will add significant value to GM&T and the Gazprom Group.

The subsidiary responsible for gas retail activities in the UK, Gazprom Marketing & Trading Retail Ltd ("GMTR"), made further steps in developing its market share and providing a customer-focused reliable partner to the UK SME and Industrial segments. During the year it increased the volume of gas supplied to end users by eight times, moved to new offices in central Manchester and strengthened its staff base to ensure its reputation for customer service and support the expansion of its activities. In addition, GMTR widened its retail offering with products such as carbon neutral gas supply (synergising with GM&T's upstream carbon activities) and made inroads into the power retail market with the intention to commence operations in 2009.

Gazprom Marketing & Trading France SAS, the French gas retail arm, also expanded its footprint in that market, marketing 0.5 bcm of gas to large industrial users in France and developing capability in the SME and carbon segments. Gazprom Marketing & Trading USA Inc ("GMTUSA") made progress in the development of marketing and trading operations in the North American market as part of the Company's integrated global trading strategy and in support of GGLNG's downstream requirements.

The growth of the Company is reflected in another year of strong sales and profitability. Sales revenues were higher by 158% at £6,693 million (2007: £2,598 million) and net profit was £70.19 million (2007: £34.34 million). The total equity of the Company at 31 December 2008 was £170.17 million (2007: £110.28 million).

Highlights of its commercial expansion during the year include:

- Growth in traded natural gas volumes of 52% to 25.08 bcm (2007: 16.48 bcm);
- Three LNG cargoes sourced and traded during the year and development of LNG shipping capability (eight including those sourced and traded by GGLNG);
- Increasing the volume of natural gas supplied to UK retail customers through its subsidiary Gazprom Marketing & Trading Retail Ltd to 2 bcm (2007: 0.25bcm), delivered at over 10,000 sites (2007: 5,627);
- Developing capability in the area of UK power retailing;
- Beginning operations on the IFA interconnector;
- Commencing trading of additional products at further locations across Europe including Swiss Power and Levy Exemption Certificates;
- Supplying gas for the first time to the Dutch retail market;
- Signing of major route-to-market agreements in the carbon emissions market;
- Commencing trading on various new European exchanges including Nordpool Carbon and Powernext Gas;
- Acquiring an equity stake in TruRead Ltd, a UK based smart metering company;
- Opening of new and expanded offices in Manchester and Kingston upon Thames.

DIRECTORS' REPORT CONTINUED

The achievements in 2008 were supported by the development of committed and professional workforces in the UK, France and the USA. In all the markets in which it operates, the Company and its staff remain dedicated to creating reliable and long-lasting relationships with their commercial counterparties, underpinned by its driving values of integrity and transparency.

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

Key Performance Indicators (KPIs)	2008	2007	KPIs Definitions
Growth in sales volumes (%)	**52%**	101%	Year on year sales volume growth expressed as a percentage.
Return On Equity (%)	**50%**	36%	Return On Equity is calculated as annual Net Profit divided by Net Assets expressed as a percentage.
Total number of products	**7**	5	Total number of products refers to the number of commodity products that GM&T trades with counterparties.
Total number of locations	**36**	21	Total number of locations refers to the annual number of primary locations that GM&T trades in.
Turnover (£000)	**6,693,087**	2,597,836	Turnover 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 (£000)	**144,693**	75,355	Gross margin is revenue less cost of goods sold, expressed in thousands of pounds Sterling.
EBITDA (£000)	**99,223**	48,458	EBITDA (Earnings before Interest, Tax, Depreciation and Amortisation) expressed in thousands of pounds Sterling.
Net profit (£000)	**70,191**	34,335	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 20.

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

Future developments

During 2009, the Company's tenth year of trading, GM&T will extend the scope and profitability of its trading and marketing activities whilst consolidating its global corporate structure. Specific activities will include:

- Establishment of Global Business Units to support and control the growth of core commercial activities;
- Significant expansion of LNG operations across the whole value chain and entry into key downstream markets;
- Expanding its product and market footprint in gas, power and carbon to optimise value for OAO Gazprom Group;
- Reinforcement of key Finance and Risk Management functions, and associated technology platforms, in support of GM&T's strategic objectives.

Summary

Last year saw the achievement of the Company's first decade of trading. These ten years were a period marked by demonstrable growth and profitability and the creation of a stable and robust platform for the future. Even during the recent turmoil on global markets, we achieved our most successful year to date.

2009 sees the beginning of the second phase of the Company's history in which the Company can capitalise on its wide market reach and established human capital to further its strategic aims.

Charitable donations

The Company donated the sum of £33,822 (2007: £30,791) to local charities serving the communities in which the Company 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.

Statement of going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out above. The financial position of the Company is set out in the financial statements. The liquidity position and borrowing facilities of the Company are set out in note 20 to the financial statements. Having considered the Company's financial position, including the amounts payable to other Group companies and the Company's forecasts and projections, the Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook, and have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the accounts.

Auditors

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

The Board of Directors in accordance with Section 234ZA of the Companies Act 1985 have confirmed the following statement, that in respect of the audit of Gazprom Marketing &Trading Limited for the period from 1 January 2008 to 31 December 2008:

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	**V. Vasiliev** Director
9th March 2009	9th March 2009

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") as adopted by the European Union. 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 IFRS. 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;
- 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; and
- make assessment of the Company's ability to continue as a going concern.

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 ("the financial statements") for the year ended 31 December 2008 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 26. 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 judgements 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 2008 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 LLP
Chartered Accountants and Registered Auditors

London, United Kingdom

9th March 2009

INCOME STATEMENT

for the year ended 31 December 2008

	Note	2008 £000	2007 £000
Continuing operations			
Revenue	5	**6,693,087**	2,597,836
Cost of sales		**(6,548,394)**	(2,522,481)
Gross profit		**144,693**	75,355
Administrative expenses	7	**(47,709)**	(28,722)
Operating profit	6	**96,984**	46,633
Investment revenue	8	**3,063**	4,073
Finance costs	9	**(515)**	(458)
Profit before tax		**99,532**	50,248
Tax	11	**(29,341)**	(15,913)
Profit for the financial year		**70,191**	34,335

BALANCE SHEET

As at 31 December 2008

	Note	2008 £000	2007 £000
ASSETS			
Non-current assets			
Intangible assets	12	**1,096**	1,662
Property, plant and equipment	13	**11,137**	11,408
Derivative financial instruments	21	**194,490**	99,218
Investments in subsidiaries	14	**5,152**	4,632
Deferred tax asset	19	**2,625**	–
		214,500	116,920
Current assets			
Inventories	15	**47,605**	46,665
Trade and other receivables	16	**941,680**	438,513
Derivative financial instruments	21	**1,205,958**	354,401
Cash and cash equivalents	17	**58,763**	34,961
		2,254,006	874,540
TOTAL ASSETS		**2,468,506**	991,460
LIABILITIES			
Current liabilities			
Trade and other payables	18	**934,615**	450,028
Derivative financial instruments	21	**1,203,933**	315,639
Obligations under hire purchase agreements		**–**	58
Current tax liabilities		**21,503**	10,604
		2,160,051	776,329
NET CURRENT ASSETS		**93,955**	98,211
Non-current liabilities			
Derivative financial instruments	21	**138,281**	103,275
Deferred tax liabilities	19	**–**	1,577
		138,281	104,852
TOTAL LIABILITIES		**2,298,332**	881,181
NET ASSETS		**170,174**	110,279
EQUITY			
Ordinary share capital	22	**20,000**	20,000
Cash flow hedge reserve	23	**(10,312)**	(16)
Retained earnings	23	**160,486**	90,295
TOTAL EQUITY		**170,174**	110,279

These financial statements were approved by the Board of Directors and authorised for issue on 9th March 2009.

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 2008

	Note	2008 £000	2007 £000
Losses on cash flow hedges	23	**(15,340)**	(23)
Tax on items taken directly to equity	23	**4,295**	7
Net loss recognised directly in equity		**(11,045)**	(16)
Transfers			
Transferred to profit or loss on cash flow hedges	23	**1,041**	(3,103)
Tax on items transferred from equity	23	**(292)**	931
Profit for the year	23	**70,191**	34,335
Total recognised income and expense for the year		**59,895**	32,147

CASH FLOW STATEMENT

For the year ended 31 December 2008

	Note	2008 £000	2007 £000
Operating activities			
Operating profit		**96,984**	46,633
Depreciation of property, plant and equipment		**838**	951
Amortisation of intangibles		**1,400**	874
Loss on disposal of property, plant and equipment		**438**	–
Operating cash flows before movements in working capital		**99,660**	48,458
Increase in stocks		**(940)**	(38,152)
Increase in receivables		**(503,167)**	(168,645)
Increase in payables		**484,586**	199,248
Increase in derivative financial instruments		**(37,863)**	(6,932)
Cash generated from operations		**42,276**	33,977
Interest paid		**(515)**	(458)
Income taxes paid		**(18,605)**	(15,163)
Net cash from operating activities		**23,156**	18,356
Investing activities			
Interest received		**3,063**	4,073
Purchases of property, plant and equipment		**(947)**	(5,259)
Purchases of intangible assets		**(892)**	(1,387)
Investment in subsidiaries		**(520)**	(3,654)
Net cash from/(used in) investing activities		**704**	(6,277)
Finance activities			
Repayment of obligations under hire purchase agreements		**(58)**	(21)
Net cash used in financing activities		**(58)**	(21)
Net increase in cash and cash equivalents		**23,802**	12,108
Cash and cash equivalents at the beginning of the year		**34,961**	22,853
Cash and cash equivalents at the end of the year	17	**58,763**	34,961

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

1. 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.

2. Adoption of new and revised standards

During the current year, the Company adopted the following interpretations:

International Financial Reporting Interpretations Committee (IFRIC)		Effective date
IFRIC 11	Company 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 adoption of these interpretations has not led to any change in the Company's accounting policies.

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
IFRS 1 (amended)/IAS 27 (amended)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	1 January 2009
IFRS 2 (amended)	Share-based Payment – Vesting Conditions and Cancellations	1 January 2009
IFRS 3 (revised 2008)	Business Combinations	1 July 2009
IFRS 8	Operating Segments	1 January 2009
IAS 1 (revised 2007)	Presentation of Financial Statements	1 January 2009
IAS 23 (revised 2007)	Borrowing Costs	1 January 2009
IAS 27 (revised 2008)	Consolidated and Separate Financial Statements	1 January 2009
IAS 32 (amended)/IAS 1 (amended)	Puttable Financial Instruments and Obligations Arising on Liquidation	1 January 2009
IFRIC 15	Agreements for the Construction of Real Estate	1 January 2009
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	1 October 2008
Improvements to IFRSs (May 2008)		1 January 2009

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.

3. Accounting policies

Basis of accounting

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 financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments and on the going concern basis as disclosed in the Directors' statement of going concern as set out in the Directors' report.

Consolidation

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 of the 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 parent company, 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. 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

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3. 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 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.

3 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 CONTINUED

3 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.

Investment in subsidiaries

Investments in subsidiaries are carried at cost less provision for impairment.

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.

3 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 are based on data that is not from an observable market, no gain or loss is recognised on initial recognition in respect of that financial instrument, except to the extent that it arises from a change in a factor that market participants would consider in setting a price. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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

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

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

4. Critical accounting judgements and key sources of estimation uncertainty

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

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The 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 21, 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.

5. Revenue

	2008 £000	2007 £000
Revenue per income statement	**6,693,087**	2,597,836
Investment revenue	**3,063**	4,073
	6,696,150	2,601,909

A fair value gain on derivatives and foreign exchange revaluation of £40,006,000 has been included within total revenue (2007: £464,000 net fair value and foreign exchange loss).

Mark to market gains for the year ended 31 December 2007 on forward foreign currency contracts of £11,670,000 (2008: £86,864,000) and on foreign exchange revaluation of £264,000 (2008: £25,398,000) have been reclassified from Investment revenue and Administrative expenses respectively to Revenue as these result from the trading activities of the Company.

6. Operating profit is stated after charging

	2008 £000	2007 £000
Depreciation:		
– owned assets	**831**	917
– leased assets	**7**	34
Amortisation	**1,400**	874
Loss on disposal of tangible and intangible assets	**438**	–
Rentals under operating leases	**325**	253
Auditors' remuneration:		
– Company audit fees	**230**	243
– other services relating to taxation	**222**	297
– other services	**173**	–
Exchange loss/(gain)	**(25,378)**	(265)
Staff costs (refer to note 10)	**26,878**	15,414

7. Administrative expenses

	2008 £000	2007 £000
Other administrative expenses	**2,562**	1,617
Fixed asset depreciation and amortisation	**2,238**	1,824
Travel expenses	**3,623**	2,369
Consultancy	**4,357**	3,086
Professional services	**627**	640
Marketing and agency expenses	**5,577**	2,771
Personnel expenses	**28,725**	16,415
	47,709	28,722

8. Investment revenue

	2008 £000	2007 £000
Other interest income	**3,063**	4,073

9. Finance costs

	2008 £000	2007 £000
Other interest income	**515**	458

10. Directors' and employees' emoluments

	2008 £000	2007 £000
Directors' remuneration	**3,161**	1,797

The remuneration of the highest paid Director is £1,623,000 (2007: £984,000).

Contributions of £13,000 (2007: £12,000) were made to personal pension plans in respect of one of the Directors.

Staff costs during the year

	2008 £000	2007 £000
Wages and salaries	**23,093**	13,342
Social security costs	**3,065**	1,657
Pension costs	**720**	415
	26,878	15,414

	2008	2007
Average number of persons employed	**138**	98
Analysed as follows:		
Front office	**49**	34
Mid office	**32**	16
Back office	**19**	23
Support office	**38**	25
	138	98

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 2008 were £720,000 (2007: £415,000).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

11. Tax

	2008 £000	2007 £000
UK corporation tax	**29,540**	16,060
Deferred tax credit	**(199)**	(146)
Tax expense in the income statement	**29,341**	15,914

	2008 %	2007 %
Applicable tax rate for year as a percentage of profits	**28.50**	30.00
Effects of:		
Expenses not deductible for tax purposes	**0.94**	1.00
Prior year under provision	**0.00**	0.66
Other tax impacts	**0.04**	–
Effective tax rate for the year as a percentage of profits	**29.48**	31.66

12. Intangible assets

	2008 £000	2007 £000
Cost		
At 1 January	**2,623**	1,236
Additions	**892**	1,387
Disposal	**(110)**	–
At 31 December	**3,405**	2,643
Accumulated depreciation		
At 1 January	**961**	87
Amortisation expense for the year	**1,400**	874
Disposal	**(52)**	–
At 31 December	**2,309**	961
Net book value		
At 31 December	**1,096**	1,662

All intangible assets relate to computer software.

13. 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 2008	7,292	2,546	3,015	183	852	13,888
Additions	177	7	762	–	1	947
Disposals	–	–	(341)	(140)	–	(481)
At 31 December 2008	**7,469**	**2,553**	**3,436**	**43**	**853**	**14,354**
Accumulated depreciation						
At 1 January 2008	432	77	1,849	121	1	2,480
Charge for the year	65	183	556	14	20	838
Disposals	–	–	–	(101)	–	(101)
At 31 December 2008	**497**	**260**	**2,405**	**34**	**21**	**3,217**
Net book value						
At 31 December 2008	**6,972**	**2,293**	**1,031**	**9**	**832**	**11,137**

	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	6,860	2,469	1,166	62	851	11,408

The Company holds no fixed assets under finance leases (2007: £44,000).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

14. Investments in subsidiaries

Details of the Company's subsidiaries at 31 December 2008 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%
Gazprom Global LNG Ltd	UK	100%	100%
TruRead Ltd	UK	30%	50%

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

	2008 £000	2007 £000
Balance at 1 January	**4,632**	978
Investments during the year	**520**	3,654
Balance at 31 December	**5,152**	4,632

Gazprom Global LNG Ltd was incorporated in August 2008 with a share capital of £100,000.

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

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

15. Inventories

	2008 £000	2007 £000
Gas in storage	**47,094**	46,665
Emission allowances	**511**	–
	47,605	46,665

16. Trade and other receivables

	2008 £000	2007 £000
Amounts receivable for sale of commodities	**881,021**	416,988
Amounts receivable from Group companies	**58,410**	20,105
Prepayments and other debtors	**2,249**	1,420
	941,680	438,513

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.

17. Cash and cash equivalents

	2008 £000	2007 £000
Cash and cash equivalents	**58,763**	34,961

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

18. Trade and other payables

	2008 £000	2007 £000
Amounts payable for the purchase of commodities	**647,058**	284,266
Amounts owed to Group companies	**240,253**	136,021
Accruals and other payables	**47,304**	29,741
	934,615	450,028

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

19. Deferred tax

	2008 £000	2007 £000
Deferred tax liability at 1 January	**(1,577)**	(2,661)
Credit to the income statement	**199**	146
Credit/(charge) to equity – cash flow hedge reserve	**4,003**	938
Deferred asset/(liability) at 31 December	**2,625**	(1,577)
The deferred tax asset/(liability) consists of the following amounts:		
Capital allowances less than/(in excess of) depreciation	**(232)**	(260)
Transitional adjustments relating to IFRS conversion	**(1,198)**	(1,372)
Amounts taken to equity – cash flow hedge reserve	**4,010**	7
Other temporary differences	**45**	48
Net deferred tax asset/(liability)	**2,625**	(1,577)

On 1 April 2008, the Government enacted legislation to reduce the corporation tax in the United Kingdom from 30% to 28%. Accordingly, the carrying value of the Company's deferred tax balances has been adjusted in these Financial Statements to be valued at 28%.

20. 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 Risk Oversight Committee ("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 to the 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 unhedged 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.

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.

20. Financial risk management objectives and policies (continued)

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 expects to have access to certain committed banking facilities of its parent company GAZPROM Germania GmbH. In addition, at 31 December 2008, the Company had uncommitted bank facilities of £45 million (2007: £35 million), US$215 million (2007: US$50 million) and €40 million (2007: €40 million), the total of which was less than one fifth utilised.

The Company's liquid resources include amounts placed under cash pooling arrangements with GAZPROM Germania GmbH (see note 26).

Commodity price risk

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

At 31 December 2008, the 1-day, 97.5% VaR related to financial instruments in the Company's portfolio including:

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

was £1,890,948 (2007: £2,249,820). 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 a EWMA Parametric VaR model. This approach places a higher weight to the more recent market observations making the model more sensitive to changes in market conditions than the historical approach.

Under this approach the following assumptions are made:

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

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

Credit risk

The 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. This policy is based on two main processes: the assignment of counterparty credit limits and reporting of aggregate Credit Value at Risk ("CVaR").

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

The Company also 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

20. Financial risk management objectives and policies (continued)

Economic Capital

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

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

31 December 2008	**Within 1 month £000**	**2–12 months £000**	**1–2 year £000**	**2–3 year £000**	**3–4 year £000**	**4–5 year £000**	**Over 5 years £000**
Derivatives	**1,103,568**	**5,073,289**	**843,341**	**154,729**	–	–	–
Cash and cash equivalent	**58,763**	–	–	–	–	–	–
Trade receivables	**884,113**	**57,683**	**397**	–	–	–	–
Total	**2,046,444**	**5,130,972**	**843,739**	**154,729**	–	–	–

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

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

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

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

21. 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 the balance sheet date is as follows:

	2008 £000	2007 £000
Current assets		
Commodity trading contracts	**1,005,055**	333,900
Emission allowances	**2,393**	–
Forward foreign exchange contracts	**110,205**	7,767
Commodity options	**88,305**	12,735
	1,205,958	354,402
Non-current assets		
Commodity trading contracts	**151,666**	91,206
Emission allowances	**12,461**	–
Forward foreign exchange contracts	**30,042**	8,012
Commodity options	**321**	–
	194,490	99,218
Current liabilities		
Commodity trading contracts	**1,117,294**	304,162
Emission allowances	**2,382**	–
Forward foreign exchange contracts	**3,360**	4,583
Commodity options	**80,897**	6,894
	1,203,933	315,639
Non-current liabilities		
Commodity trading contracts	**123,900**	103,158
Emission allowances	**10,344**	–
Forward foreign exchange contracts	**4,037**	117
	138,281	103,275

a) Commodity price risk

Commodity options

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

The total amount recognised within the income statement, within revenue during the year in relation to the change in fair value of the options was a loss of £2,147,807 (2007: profit of £1,889,699).

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 gain of 37,858,359 (2007: loss of £1,055,862).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21. Derivative financial instruments (continued)

b) Foreign exchange risk

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

c) Interest rate risk management

The 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.

Cash flow hedges

Hedge of forecast gas supplies

The Company decided to hedge the price of forecast oil-linked gas supplies in France during the 12 months following the balance sheet date. By hedging the price of volumes, GM&T effectively secured a future appropriate level of expenses and removed volatility of future cash flows. As a result of the proposed strategy GM&T hedged the position by selling gas at Zeebrugge Hub and buying oil and Euros (using entirely forward contracts).

Hedge of margin on gas supplies

The Company's margin is linked to market prices and therefore price risk associated with these volumes cause volatility in earnings. As a result the Company decided to hedge some of its most significant exposures using forward exchange contracts. By hedging this volume the Company effectively secured future revenues and removed volatility in future cash flows. The delivery period started in October 2008 and ends in September 2009.

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

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

	2008 **£000**	2007 £000
Effective portion of hedging instrument fair value	**(14,321)**	(23)

The ineffective portion recognised in the income statement that arises from cash flow hedges amounts to £nil (2007: £nil).

All equity movements related to cash flow hedges are presented in note 23.

22. Share capital

	2008 **£000**	2007 £000
Authorised share capital		
20,000,000 (2007: 20,000,000) ordinary shares of £1 each	**20,000**	20,000
Called up allotted and fully paid		
Ordinary shares of £1 each		
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.

23. Statement of changes in equity

	Share capital £000	Cash flow hedge reserve £000	Retained earnings £000	Total £000
Balance at 1 January 2007	20,000	2,172	55,960	78,132
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)	–	(23)
Deferred tax related to loss recognised in equity	–	7	–	7
Profit for the year	–	–	34,335	34,335
Balance at 1 January 2008	**20,000**	**(16)**	**90,295**	**110,279**
Loss in fair value hedging derivatives transferred to income	–	1,041	–	1,041
Deferred tax related to loss transferred to income	–	(292)	–	(292)
Loss in fair value hedging derivatives	–	(15,340)	–	(15,340)
Deferred tax related to loss recognised in equity	–	4,295	–	4,295
Profit for the year	–	–	70,191	70,191
Balance at 31 December 2008	**20,000**	**(10,312)**	**160,486**	**170,174**

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 2008 amounted to £1,041,000 (2007: (£3,103,000)).

24. Lease commitments

The Company entered into a lease agreement for the utilisation of an aircraft with a related party (included within Other related parties in note 26). The lease term is three years, which includes a one-year renewal option. This lease expired in 2008. Future minimum lease rentals relate to vehicles contracted under operating lease contracts. Total future minimum rentals payable under non-cancellable operating leases are as follows:

	2008 £000	2007 £000
Not later than one year	**87**	280
Later than one year and not later than five years	**88**	–
	175	280

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

26. Related party transactions

Trading transactions

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

Related party	Sales to related party £000	Purchases from related party £000	Amounts owned by related party £000	Amounts owed to related party £000
Parent				
2008	**1,950**	**283,617**	**13,880**	**30,334**
2007	2,180	213,120	13,414	23,918
Other entities with significant influence over the Company				
2008	**49,906**	**1,149,178**	**6,577**	**197,863**
2007	21,407	562,260	769	106,828
Subsidiaries				
2008	**98,516**	**13,305**	**37,952**	**12,057**
2007	21,635	24,984	5,922	5,312
Other related parties				
2008	**–**	**325**	**–**	**–**
2007	–	253	–	–

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 £13,825,000 (2007: £13,275,000). 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 with related parties are in the ordinary course of business and are on substantially the same terms as for comparable transactions with third-party counterparties reflecting the level of service provided to related parties.

The Company has not provided or benefited from any guarantees for any related party receivables or payables. During the year ended 31 December 2008, the Company has not made any provision for doubtful debts relating to amounts owed by related parties (2007: nil).

Compensation of key management personnel

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

	2008 £000	2007 £000
Short-term benefits	**4,220**	2,783
Post-employment benefits	**28**	26

Directors' transactions

There were no transactions involving Directors during the year, other than in respect of remuneration (2007 – nil).

COMPANY INFORMATION AND ADVISORS

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Officers and professional advisors

Directors

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

Secretary

Abogado Nominees Limited

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Deloitte LLP
Chartered Accountants
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