GAZPROM
MARKETING & TRADING

2011 ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

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£439.1m

Net income increased by 4% from £422.2 million.

£232.2m

Net profit after tax increased by 9% from £212.2 million.

£21.7 bn

Total gross revenue increased by 94% from £11.2 billion.

84,717m m^3

Gas sales volume increased by 39% from 60,794 million cubic metres.

93.1 TWh

Electricity sales volume increased by 166% from 35.0 terawatt hours.

3,120m m^3

LNG sales volumes increased by 24% from 2,512 million cubic metres.

DIRECTORS' REPORT

The Directors present the Annual Report and the audited financial statements of Gazprom Marketing & Trading Limited ('GM&T' or 'the Company') and its subsidiary undertakings (collectively referred to as 'the Group') for the year ended 31 December 2011.

Principal activity

The Group's principal activity is the marketing and trading of energy products including natural gas, liquefied natural gas ('LNG'), liquefied petroleum gas ('LPG'), electricity, oil and carbon emissions allowances in the UK, Europe, the United States, Asia and other world energy markets. Alongside marketing and trading of energy products the Group also engages in the charter and sub-charter of vessels as part of the Group's shipping and logistics activities. There have been no significant changes in the Group's principal activities in the year and no significant change in the Group's principal business is expected.

The ultimate parent undertaking and controlling entity is OAO Gazprom, a company incorporated in Russia, which together with the Group and OAO Gazprom's other subsidiary undertakings, form the 'Gazprom group'.

In addition to maintaining subsidiaries across the globe, the Company operates branches in the Czech Republic, Romania, Slovak Republic, Norway and Spain.

Review of the business

Introduction

The Directors are pleased to present the consolidated financial statements of the Group for the year ended 31 December 2011.

The Group has continued to expand its operations in 2011 through investment in its global marketing and trading activities and in the network of companies which facilitate its international reach. The consolidated financial statements of the Group comprise the consolidated results of 13 individual legal entities covering the UK, continental Europe, North America and Asia.

Financial results

The Group has delivered strong financial results for the year ended 31 December 2011 with a consolidated net profit after tax of £232.2 million (2010: £212.2 million (restated)), an increase of 9%. The Group increased its total equity to £513.3 million (2010: £397.4 million (restated)). These results have been delivered in an extremely challenging environment for GM&T's core European gas trading business, where the Group's ability to generate trading margins has been reduced by lower than expected wholesale prices and price volatility.

One of the Group's key performance indicators, net profit after tax, has risen consistently in recent years. This profit has largely been retained within the Group, enabling it to demonstrate strong and reliable balance sheet growth. During the year the Company declared and paid a final dividend of £61.0 million to its immediate parent company Gazprom Germania GmbH ('GPG'), representing 29% of the net profit after tax for the year ended 31 December 2010 (restated). Since the reporting date, no further dividends were paid or proposed.

Key developments

The Group's vision is to become the leading marketing and trading group in global energy markets. A key objective of this vision is to become the commercial heart of the Gazprom group, assisting Gazprom to become a leader among global energy companies. The Group will achieve this by developing new markets, diversifying Gazprom business activities and securing the reliability of supply for the Gazprom group, building a unique environment of excellence and providing the world with energy solutions that are second to none.

During 2011, the economic conditions within the energy business continued to be challenging, dominated by a significant increase in energy prices throughout Asia, coupled with stable or falling gas prices in Europe and North America. The dramatic events in Japan in March 2011 resulted in a significant realignment of Japanese electricity production from nuclear to fossil fuels. In particular, Asian LNG imports rose 35% against 2010. This had knock-on effects on both the Asia Pacific region and European energy markets. Political instability in the Middle East also caused uncertainty around sources and security of supply to end users, both industrial and domestic. This uncertainty and wide intercontinental pricing spreads for energy products is expected to persist into 2012.

Due to the rapid growth of the Group's geographic and commercial scope, as well as the increase in the number of commodities and financial products traded by the Group, a major review of its governance structure and risk framework was undertaken in 2011. Management, both of the Group and its parent entities, continue to review both the governance and business structures of the Group with the joint aims of ensuring that the Group is able to meet its strategic objectives and maximise the value of its operations to shareholders.

Business activities

As described in last year's Directors' report, the Group restructured its reporting lines to reflect more accurately its commercial activities and global scope. These strategic business units are:

1. Gas, Power & Downstream;
2. LNG, Shipping & Logistics, Clean Energy; and
3. Oil, LPG & FX.

Gas, Power & Downstream

The Gas and Power trading activities of the Group remain core to its ongoing success, and it continues to generate significant shareholder value from its portfolio and optimisation operations. The Group derives significant value from the optimisation and marketing of gas supplied by OOO Gazprom export and its affiliates. Lower than expected volatility and converging prices in European energy markets have in some instances restricted trading opportunities; however, the Group continues to explore the potential for trading in parts of Europe where it believes that value for shareholders can be derived and examines operational and regulatory feasibility for these new geographies.

Gazprom Marketing & Trading USA, Inc ('GM&T USA') continued to build on its predominantly gas trading activities, which were initiated in October 2009. It has built a profitable trading operation in only 26 months despite challenging market conditions and delivered its first positive net profit after tax ('NPAT') of $1.3 million in 2011. GM&T USA's strategy is to build a portfolio of gas supply and sales contracts and supplement this with storage and transportation contracts in order to develop a sustainable business model. It signed a significant long-term contract during 2011 that will ensure flow for the near future and is currently investigating several other material contract opportunities. As it moves forward, opportunities for greater integration into the wider Gazprom group strategy will be evaluated.

During 2011 the Group progressed discussions with other Gazprom group companies and selected third parties in relation to cooperation on gas-to-power generation projects in Europe. This activity is paramount to the strategy of the Gazprom group and GM&T is investing significant resources in fulfilling a primary role in this strategy for the benefit of the Gazprom group.

The Group's retail business rebranded itself as Gazprom Energy during the year. It also made a landmark entry into the German market through the successful acquisition of Envacom Service GmbH, a German-based supplier of electricity to domestic customers. Gazprom Energy intends to grow rapidly both organically and through further acquisition as it seeks opportunities to expand into new markets for supply of gas and electricity products.

Gazprom Global Energy Solutions Ltd ('GGES') signed the largest smart metering technology deal in the UK non-domestic sector with the global security company G4S plc, and continued to expand into new markets, including Europe and North America, as well as China and the Asia Pacific region. It also took on a service partner, CCS Installations, to install its gas data logging technology.

LNG, Shipping & Logistics, Clean Energy

The Group's LNG business produced an exceptionally strong performance, delivering significant returns to shareholders by benefiting from the optionality in its portfolio and higher LNG prices in the Asia Pacific region. As described above, Asian energy markets in 2011 were significantly affected by the events in Japan. Despite the much altered and uncertain market conditions across the Asia Pacific region, the Group, and in particular its subsidiary, Gazprom Marketing & Trading Singapore Pte Ltd ('GMTS'), remains committed to developing strong strategic partnerships in the LNG market especially in the promising Indian LNG market. The position of one of the Group's key sources of LNG supply at Sakhalin in Eastern Russia, close to both Japan and the Asia Pacific region, has further assisted in this strategy. Gazprom Global LNG Limited ('GGLNG') has traded extensively during the year with a variety of counterparties and in a number of locations worldwide as the Group continues to grow its non-Russian supply volumes.

The Shipping & Logistics business managed more than two million tonnes of liquid cargoes (primarily LNG, but also LPG and petroleum products) in 2011, including the 100th cargo of LNG for the Group. The core operation was around a fleet of six LNG and LPG vessels the Group had on time charter in 2011 which sailed more than 300,000 nautical miles and made more than 100 port calls – all accomplished with zero injuries and no environmental incidents. In addition to this, the Group signed its first long-term time charters of LNG vessels that will be built in Korea in 2013-14, enabling the Group to further expand its LNG trading operations and marketing activities. Shipping & Logistics expanded its activities into land-based operations and started to manage the first rail and truck deliveries of liquid cargoes for the Group.

The Clean Energy business has delivered strong results for the year despite extremely challenging market conditions, with European Union Emission Allowance prices for delivery in December 2012 falling by 50% during the year. The Group achieved this profitability through effective risk management, reducing market price exposure and producing accurate volume forecasting models. Market prices were extremely volatile in the second half of 2011 and this price volatility is expected to continue into 2012. These market conditions are expected to present excellent trading opportunities and hence value for the Group in 2012.

Oil, LPG & FX

The Group's fledgling business unit made some significant achievements during the year whilst focusing on business development activities. The Group, through GMTS, signed its first term agreement for the supply of LPG, delivering its first volumes in the year. Since the year end, the Group signed its first contracts to offtake liquid helium from OOO Gazprom export, which has been successfully marketed to multiple counterparties in Central Europe.

The Group believes that these are product markets where it can develop a competitive advantage and generate value for shareholders. It will achieve this both by trading of products directly related or sourced from the Gazprom group of companies and products in related markets with other counterparties.

Infrastructure

In 2011 the Group continued to assess and upgrade its IT infrastructure. It concluded the implementation of SAP, its new enterprise management system. Implementation of Openlink Endur for European gas trading was also completed during the year and further elements will become operational during 2012. The Group's LNG trading and risk management system, LTRM, was also upgraded during the year. The Group has recently begun the implementation of an integrated operations system to support its future growth plans for Shipping & Logistics. This system was operational as at 31 December 2011 and will become fully integrated in 2012.

These integrated systems will enable more effective data and risk management and improve the quality of information available to external stakeholders. The Group will continue to review its requirements and capabilities and invest further in IT infrastructure where it believes significant value will be derived from such investments.

Gazprom group

Recognising the importance of marketing and trading operations to the upstream production companies, the Group continues to position itself as a crucial part of GPG and the wider Gazprom group. It remains closely aligned with the strategic goals of the Gazprom group, which in turn fully supports the Group in its own ambitions.

Part of the Group's strategy involves integration with the Gazprom group in terms of developing creative ideas for the portfolio and building demand for Gazprom gas. In 2011, the Group worked on several projects with the Gazprom group including the development of the Shtokman LNG project and multiple early stage gas-to-power generation projects.

The future

GM&T has grown at a remarkable pace and 2011 saw the Group undertake a reassessment of its five-year strategy and goals. There is a strong focus on efficiency of the Group's operations with regard to managing growth. The Group expects its future prospects to develop significantly, based around the following key elements:

- Delivering a material contribution to the financial performance of the Gazprom group;
- Presence in all energy commodities;
- Positioning in all geographies; and
- Investment in people, systems and processes.

With the structure in place to facilitate growth, the Group expects to continue delivering world class service to its customers and shareholders from its balanced portfolio of businesses.

Principal risks and uncertainties facing the Group

Risk is an inherent part of the Group's business activities within the increasingly volatile global energy sector. The Directors are committed to ensuring the Group operates a robust and effective risk management process that seeks to identify, assess and manage each of the various risks involved in its activities in accordance with defined policies and procedures.

The principal risks that the Group faces can be categorised as financial risk (such as commodity price risk, credit risk, foreign exchange risk and liquidity risk) and operational risk.

In 2011 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 to supervise the development, implementation and operation of the risk management framework.

The Group's management of financial risks is described in Note 20 to the consolidated financial statements.

The main operational risks faced by the Group and the actions taken by the Group to mitigate these risks are described below.

	Risk	Mitigating action
Regulation	Energy markets in many countries are subject to significant and changing regulatory requirements. The Group is exposed to increased costs of complying with such regulation, the risk of penalties (financial and non-financial) for non-compliance and the cost of directly imposed financial obligations (taxes or levies).	The Group has a specialist regulatory risk team which maintains awareness of regulatory requirements and actively engages with regulatory authorities to shape those requirements. Significant controls exist within the Group to ensure that regulatory requirements are adhered to.
Markets dependent on legislative environments	Certain markets in which the Group operates, as well as the demand for, and supply of, products in which the Group deals, are directly dependent on the status and progress of various national and international legislative initiatives. The most notable ones at present are the future of the European Union Emissions Trading Scheme ('EU ETS') and the proposed US Cap and Trade scheme.	Each business unit maintains a high level of awareness of the impact of legislation (actual and potential) on the markets in which it operates, and this awareness continues to inform its ongoing strategy. Furthermore the Group seeks to diversify its geographical portfolio wherever possible. Although this is primarily in order to further its strategic aims, such diversification also serves to minimise its exposure to adverse legislative developments within individual markets.
Human resources	The Group is highly dependent on its employees' knowledge and abilities to generate revenues and achieve its aims. The loss of key employees could impact the Group's ability to continue trading profitably.	The Group invests in training for its employees and seeks to maintain a competitive remuneration structure to both recruit and retain key staff. Furthermore the Group places considerable value on the involvement of its employees and continues to keep them informed on matters relevant to the Group's performance and to involve them in decision making.
Technology	The Group relies on a number of IT systems and programs to maintain its ongoing operating activities as well as its supporting functions. The failure, even temporary, of these systems could result in significant financial and reputational cost to the Group, as well as affecting its abilities to operate in its chosen markets, and meet the requirements of regulators, employees and other stakeholders.	The Group invests in appropriate systems and continually reviews its systems in use to ensure that they are fit for purpose. The performance of these systems is continuously and vigorously monitored. The Group implemented OpenLink Endur for trading, and SAP for its finance processes. Further upgrades and investment in systems are planned for 2012.

Key performance indicators

The Group, along with its parent companies, has identified a series of key performance indicators ('KPIs') it believes are useful in assessing the Group's performance against its strategic aims. They encompass both financial and non-financial measures and are set out below.

Indicator type	Key performance indicator	2011	2010 (restated)*	Change
Profitability	**Net income (£ million)**	**439.1**	422.2	**4%**
Profitability	**EBITDA**	**283.3**	298.0	**-5%**
	EBITDA is defined as Earnings before Interest, Tax, Depreciation and Amortisation.			
Profitability	**Net profit after tax (£ million)**	**232.2**	212.2	**9%**
Profitability	**Return on equity**	**51%**	72%	**–21% points**
	Return on equity is calculated as annual net profit after tax divided by average equity expressed as a percentage.			
Efficiency	**Net profit after tax/Net income**	**53%**	50%	**+3% points**
Liquidity	**Dividends paid (£ million)**	**61.0**	28.7	**113%**
Liquidity	**Current ratio**	**1.17**	1.21	**(3)%**
Non-financial	**Gas sales volume (million m³)**	**84,717**	60,794	**39%**
Non-financial	**LNG sales volumes (million m³)**	**3,120**	2,512	**24%**
Non-financial	**Electricity sales volumes (TWh)**	**93.1**	35.0	**166%**

*Restated following changes to the accounting approach adopted for physical LNG positions (see Note 26).

Directors and their interests
The Directors who served during the year, and up to the date of this report, were as follows:

H-J Gornig
Y A Komarov (resigned 1 September 2011)
A V Kruglov
A I Medvedev
A V Mikhalev
P Oderov (appointed 1 September 2011)
V V Vasiliev

There are no Directors' interests in the share capital of the Company as at the date of the financial statements 2011 requiring disclosure under the Companies Act 2006.

Employees
The Directors continue to place significant value on the Company's investment in its employees and continue to keep employees informed on matters affecting them, while encouraging all employees to contribute their views on the Company's strategy and performance to management. The Company also operates a compensation policy that allows employees to participate in the ongoing success of the business.

Disabled applicants and existing disabled employees of the Company are treated fairly and on terms comparable with those of other employees. Equally, employees who become disabled during their employment receive training, where necessary, in order to promote their ongoing career development.

Directors' liability insurance
Directors' and officers' liability insurance is taken out by GM&T for the benefit of the Directors of the Group.

Qualifying third party indemnity provisions
Qualifying third party indemnity provisions, as defined in the Companies Act 2006 were in force during the during the period and up to the date of the Directors' report for the benefit of all Directors of the Group.

Political and charitable donations
During the year the Group made various donations to a number of charities totalling £334k (2010: £62k). The charities are primarily located in Russia and are selected to support the charitable work of the wider Gazprom group. The Group made no political donations during the year (2010: £nil).

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

Auditors
The Directors in accordance with Section 418 of the Companies Act 2006 have confirmed the following statement, that in respect of the audit of the Group and parent company financial statements of Gazprom Marketing & Trading Limited for the year ended 31 December 2011:

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

Approved by and signed on behalf of the Board of Directors

A V Mikhalev
Director
17 March 2012

V V Vasiliev
Director
17 March 2012

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GAZPROM MARKETING & TRADING LIMITED

We have audited the Group and parent company financial statements (the 'financial statements') of Gazprom Marketing & Trading Limited for the year ended 31 December 2011 which comprise the Group and parent company income statements, the Group and parent company statements of comprehensive income, the Group and parent company statements of financial position, the Group and parent company statements of changes in equity, the Group and parent company cash flow statements and the related Notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union.

Respective responsibilities of directors and auditors
As explained more fully in the statement of Directors' responsibilities set out on page 7, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

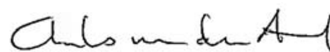
Opinion on financial statements
In our opinion the financial statements:

- give a true and fair view of the state of the Group's and parent company's affairs as at 31 December 2011 and of the Group's and Company's profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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



Charles van den Arend (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom
17 March 2012

INCOME STATEMENT YEAR ENDED 31 DECEMBER 2011

		Group		Company	
	Notes	**2011 £'000s**	2010 (restated)* £'000s	**2011 £'000s**	2010 £'000s
Continuing operations					
Trading activities:					
Net trading income		**220,754**	259,174	**183,406**	160,862
Non-trading activities:					
Revenue		**1,664,247**	912,667	**–**	–
Cost of sales		**(1,445,891)**	(749,691)	**–**	–
Gross profit from non-trading activities:		**218,356**	162,976	**–**	–
Net income		**439,110**	422,150	**183,406**	160,862
Administrative expenses	5	**(164,062)**	(130,285)	**(110,997)**	(89,416)
Operating profit	5	**275,048**	291,865	**72,409**	71,446
Investment revenue	6	**362**	747	**39,928**	9,968
Finance costs	7	**(11,993)**	(6,469)	**(10,288)**	(6,109)
Profit before tax		**263,417**	286,143	**102,049**	75,305
Tax	9	**(31,256)**	(73,901)	**(18,561)**	(19,656)
Profit for the financial year		**232,161**	212,242	**83,488**	55,649
Profit attributable to:					
Owners of the parent		**232,161**	212,263	**83,488**	55,649
Non-controlling interests		**–**	(21)	**–**	–

*Restated following changes to the accounting approach adopted for physical LNG positions (see Note 26).

STATEMENT OF COMPREHENSIVE INCOME YEAR ENDED 31 DECEMBER 2011

	Group		Company	
	2011 £'000s	2010 (restated)* £'000s	**2011 £'000s**	2010 £'000s
Profit for the financial year	**232,161**	212,242	**83,488**	55,649
Cash flow hedges:				
(Losses)/gains arising during the period	**(50,031)**	29,082	**–**	–
Gains/(losses) on foreign currency translation	**3,525**	(1,344)	**–**	–
Tax on items taken directly to equity	**12,508**	(7,852)	**–**	–
Net profit recognised directly in equity	**198,163**	232,128	**83,488**	55,649
Transfers				
Transferred to profit or loss on cash flow hedges	**(29,082)**	11,381	**–**	–
Tax on items transferred from equity	**7,852**	(3,187)	**–**	–
Total comprehensive income for the year	**176,933**	240,322	**83,488**	55,649
Total comprehensive income attributable to:				
Owners of the parent	**176,933**	240,343	**83,488**	55,649
Non-controlling interests	**–**	(21)	**–**	–
	176,933	240,322	**83,488**	55,649

*Restated following changes to the accounting approach adopted for physical LNG positions (see Note 26).

STATEMENT OF FINANCIAL POSITION 31 DECEMBER 2011

	Notes	Group 2011 £'000s	Group 2010 (restated)* £'000s	Company 2011 £'000s	Company 2010 £'000s
Assets					
Non-current assets					
Intangible assets	11	**42,698**	18,552	**32,355**	15,577
Property, plant and equipment	12	**37,758**	28,239	**31,019**	25,144
Derivative financial instruments	21	**319,030**	219,338	**365,258**	213,409
Investments in subsidiaries	13	**–**	–	**19,280**	19,210
Deferred tax asset	19	**19,913**	10,319	**2,538**	–
Trade and other receivables	15	**32,198**	23,432	**34,833**	30,228
		451,597	299,880	**485,283**	303,568
Current assets					
Inventories	14	**214,938**	94,842	**198,211**	87,385
Trade and other receivables	15	**804,857**	601,880	**763,271**	500,774
Derivative financial instruments	21	**1,388,895**	710,784	**1,458,547**	716,408
Cash and cash equivalents	16	**224,162**	298,020	**80,401**	153,295
Cash equivalents receivable with related parties	16	**31,006**	–	**13,596**	–
		2,663,858	1,705,526	**2,514,026**	1,457,862
Total assets		**3,115,455**	2,005,406	**2,999,309**	1,761,430
Liabilities					
Current liabilities					
Trade and other payables	17	**826,997**	566,956	**686,520**	467,367
Derivative financial instruments	21	**1,291,905**	678,705	**1,334,481**	698,978
Current tax liabilities		**19,809**	29,574	**6,802**	8,865
Loans and overdrafts	18	**130,000**	133,397	**287,183**	132,173
		2,268,711	1,408,632	**2,314,986**	1,307,383
Net current assets		**395,147**	296,894	**199,040**	150,479
Non-current liabilities					
Trade and other payables	17	**34,974**	24,074	**34,571**	23,669
Derivative financial instruments	21	**296,233**	165,265	**356,967**	161,497
Deferred tax liabilities	19	**2,193**	10,060	**2,102**	723
		333,400	199,399	**393,640**	185,889
Total liabilities		**2,602,111**	1,608,031	**2,708,626**	1,493,272
Net assets		**513,344**	397,375	**290,683**	268,158
Equity					
Ordinary share capital	22	**20,000**	20,000	**20,000**	20,000
Cash flow hedge reserve		**(37,523)**	21,230	**–**	–
Foreign currency translation reserve		**3,115**	(410)	**–**	–
Retained earnings		**527,752**	356,555	**270,683**	248,158
Equity attributable to:					
Owners of the parent		**513,344**	397,375	**290,683**	268,158
Total equity		**513,344**	397,375	**290,683**	268,158

*Restated following changes to the accounting approach adopted for physical LNG positions (see Note 26).

These consolidated financial statements of Gazprom Marketing & Trading Limited (registered number 3768267) and of the Company were approved by the Board of Directors and authorised for issue on 17 March 2012.

Signed on behalf of the Board

A V Mikhalev
Director

V V Vasiliev
Director

STATEMENT OF CHANGES IN EQUITY 31 DECEMBER 2011

Group	Notes	Share capital £'000s	Cash flow hedge reserve £'000s	Foreign currency translation reserve* £'000s	Non-controlling interests £'000s	Retained earnings* £'000s	Total equity* £'000s
Balance at 1 January 2010 (restated)*		20,000	(8,194)	(1,610)	(496)	249,179	258,879
Change in accounting approach adopted for physical LNG positions*	26	–	–	2,544	–	(72,941)	(70,397)
Balance at 1 January 2010 (restated)*		20,000	(8,194)	934	(496)	176,238	188,482
Profit for the year		–	–	–	–	212,242	212,242
Other comprehensive income:							
Gain in cash flow hedge derivatives transferred to income		–	11,381	–	–	–	11,381
Deferred tax related to loss in cash flow hedge derivatives transferred to income		–	(3,187)	–	–	–	(3,187)
Fair value gain on cash flow hedge derivatives		–	29,082	–	–	–	29,082
Deferred tax related to fair value gain on hedging derivatives recognised in equity		–	(7,852)	–	–	–	(7,852)
Loss on foreign currency translation		–	–	(1,344)	–	–	(1,344)
Transactions with owners:							
Dividends paid	10	–	–	–	–	(28,689)	(28,689)
Loss attributable to non-controlling interests		–	–	–	(21)	21	–
Movement in respect of equity transactions		–	–	–	517	(3,257)	(2,740)
Balance at 1 January 2011 (restated)*		**20,000**	**21,230**	**(410)**	**–**	**356,555**	**397,375**
Profit for the year		–	–	–	–	232,161	232,161
Other comprehensive income:							
Loss in fair value hedging derivatives transferred to income		–	(29,082)	–	–	–	(29,082)
Deferred tax related to loss in fair value hedging derivatives transferred to income		–	7,852	–	–	–	7,852
Fair value loss on hedging derivatives		–	(50,031)	–	–	–	(50,031)
Deferred tax related to fair value gain on hedging derivatives recognised in equity		–	12,508	–	–	–	12,508
Gain on foreign currency translation		–	–	3,525	–	–	3,525
Transactions with owners:							
Dividends paid	10	–	–	–	–	(60,964)	(60,964)
Balance at 31 December 2011		**20,000**	**(37,523)**	**3,115**	**–**	**527,752**	**513,344**

*Restated following changes to the accounting approach adopted for physical LNG positions (see Note 26).

Company	Notes	Share capital £'000s	Retained earnings £'000s	Total £'000s
Balance at 1 January 2010		20,000	221,198	241,198
Dividends paid	10	–	(28,689)	(28,689)
Profit for the year		–	55,649	55,649
Balance at 1 January 2011		**20,000**	**248,158**	**268,158**
Dividends paid	10	–	(60,964)	(60,964)
Profit for the year		–	83,489	83,489
Balance at 31 December 2011		**20,000**	**270,683**	**290,683**

CASH FLOW STATEMENT YEAR ENDED 31 DECEMBER 2011

	Notes	Group		Company	
		2011 £'000s	2010 (restated)* £'000s	**2011 £'000s**	2010 £'000s
Operating activities					
Operating profit		**275,048**	291,865	**72,409**	71,446
Depreciation of tangible fixed assets	12	**4,193**	2,137	**3,597**	1,431
Amortisation of intangible assets	11	**4,082**	2,025	**2,466**	847
Unrealised derivative fair value movements		**(123,704)**	(68,411)	**(75,754)**	30,347
Other unrealised movements		**19,947**	(45,950)	**17,160**	(46,497)
Operating cash flows before movements in working capital		**179,566**	181,666	**19,878**	57,574
(Increase)/decrease in inventories	14	**(132,470)**	38,412	**(120,240)**	45,435
(Increase)/decrease in receivables	15	**(220,676)**	13,421	**(279,548)**	82,912
Increase/(decrease) in payables	17	**265,417**	(37,192)	**263,797**	(92,865)
Decrease/(increase) in derivative financial instruments		**10,155**	16,964	**(19,621)**	16,776
Cash generated from/(used in) operations		**101,992**	213,271	**(135,734)**	109,832
Interest and banking charges paid		**(12,206)**	(6,312)	**(9,696)**	(5,891)
Income taxes paid		**(36,573)**	(46,206)	**(21,784)**	(29,673)
Net cash inflow/(outflow) from operating activities		**53,213**	160,753	**(167,214)**	74,268
Investing activities					
Investment income received		**333**	807	**40,051**	9,821
Purchases of property, plant and equipment	12	**(13,624)**	(16,957)	**(9,472)**	(15,140)
Purchases of intangible assets	11	**(20,575)**	(15,631)	**(19,244)**	(15,243)
Net cash inflow/(outflow) on investment	13	**939**	(1,540)	**(70)**	(4,704)
Net cash (outflow)/inflow investing activities		**(32,927)**	(33,321)	**11,265**	(25,266)
Financing activities					
(Repayment)/drawdown of loans		**(1,859)**	85,172	**157,615**	78,256
Dividend paid	10	**(60,964)**	(28,689)	**(60,964)**	(28,689)
Net cash (outflow)/inflow from financing activities		**(62,823)**	56,483	**96,651**	49,567
Net (decrease)/increase in cash and cash equivalents		**(42,537)**	183,915	**(59,298)**	98,569
Exchange (loss)/gain on cash and cash equivalents		**(315)**	1,654	**–**	–
Cash and cash equivalents at the beginning of the year	16	**298,020**	112,451	**153,295**	54,726
Cash and cash equivalents at the end of the year	16	**255,168**	298,020	**93,997**	153,295

*Restated following changes to the accounting approach adopted for physical LNG positions (see Note 26).

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2011

1 CORPORATE INFORMATION

Gazprom Marketing & Trading Limited is incorporated and domiciled in England and Wales at 20 Triton Street, London NW1 3BF.

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

2 BASIS OF PREPARATION

Statement of compliance
The Group's financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') issued by the International Accounting Standards Board ('IASB') as adopted by the European Union ('EU') and interpretations issued by the IFRS Interpretations Committee ('IFRIC') and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The primary statement in this Annual Report and financial statements are presented in accordance with International Accounting Standards ('IAS') 1 '*Presentation of financial statements*'.

Basis of measurement
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.

New standards and interpretations adopted during the year
The following accounting standards and interpretations, issued by the IASB or IFRIC, are effective for the first time in the current financial year and have been adopted by the Group. Except where otherwise stated, these standards and interpretations are not expected to have a material impact on the Group's financial statements:

- IAS 24 *'Related Party Disclosures (Amendment)'* – effective for accounting periods beginning on or after 1 January 2011;
- IAS 32 *'Financial Instruments: Presentation – Classification of Rights Issues (Amendment)'* – effective for accounting periods beginning on or after 1 February 2010;
- IFRIC 14 *'Prepayments of a Minimum Funding Requirement (Amendment)'* – effective for accounting periods beginning on or after 1 January 2011;
- IFRIC 19 *'Extinguishing Financial Liabilities with Equity Instruments'* – effective for accounting periods beginning on or after 1 July 2010; and
- As part of the May 2010 improvements to IFRSs, the IASB made amendments to the following standards that are relevant to the Group's operations: IFRS 3 *'Business combinations'* and IAS 27 *'Consolidated and separate financial statements'* (for application in annual periods beginning on or after 1 July 2010), and IFRS 7 *'Financial instruments: Disclosures'* and IAS 1 *'Presentation of financial statements'* (for application in annual periods beginning on or after 1 January 2011). The improvements were endorsed by the EU in February 2011.

New standards and interpretations not yet adopted
At the date of authorisation of these financial statements, the following standards and interpretations relevant to the Group's operations, were issued by the IASB but were not yet mandatory. Except where otherwise stated, these standards and interpretations are not expected to have a material impact on the Group's financial statements.

- IFRS 7 *'Financial Instruments: Disclosures (Multiple Amendment)'* – effective for accounting periods beginning on or after 1 July 2011, 1 January 2013 and 1 January 2015;
- IFRS 9 *'Financial Instruments – Classification and Measurement'* – effective for accounting periods beginning on or after 1 January 2015. Although there are expected to be significant changes as a result of the application of IFRS 9, the impact on net assets is not currently considered to be significant;
- IFRS 10 *'Consolidated Financial Statements'* – effective for accounting periods beginning on or after 1 January 2013;
- IFRS 11 *'Joint Arrangements'* – effective for accounting periods beginning on or after 1 January 2013;
- IFRS 12 *'Disclosure of Interests in Other Entities'* – effective for accounting periods beginning on or after 1 January 2013;
- IFRS 13 *'Fair Value Measurement'* – effective for accounting periods beginning on or after 1 January 2013;
- IAS 1 *'Presentation of Financial Statements – Amendments to IAS 1'* – effective for accounting periods beginning on or after 1 July 2012;
- IAS 12 *'Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets'* – effective for accounting periods beginning on or after 1 January 2012;
- IAS 19 *'Employee Benefits (Revised)'* – effective for accounting periods beginning on or after 1 January 2013;
- IAS 27 *'Separate Financial Statements'* – effective for accounting periods beginning on or after 1 January 2013;
- IAS 28 *'Investments in Associates and Joint Ventures'* – effective for accounting periods beginning on or after 1 January 2013; and
- IAS 32 *'Financial Instruments: Presentation (Amendment)'* – effective for accounting periods beginning on or ending after 1 January 2014.

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated Income Statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries

2 BASIS OF PREPARATION continued

to bring the accounting policies used into line with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation. The financial statements of overseas subsidiaries are translated into Sterling as described below in the foreign currency accounting policy.

3 ACCOUNTING POLICIES

Revised treatment of physical LNG contracts
Following an assessment of contracts within the scope of IAS 39, it has been determined that where contracts exist for the physical delivery or purchase of LNG, such contracts are outside the scope of IAS 39. Such contracts existed and were on the statement of financial position as financial assets or financial liabilities within the scope of IAS 39 as at 31 December 2009 and 31 December 2010 with gains and losses on these contracts taken to the Income Statement. Accordingly the results for these two periods have been restated in accordance with IAS 8. Revenue and cost of sales from LNG activities are now presented in the respective lines within non-trading income.

The impact of these changes as at 31 December 2009 is laid out in Note 26 to the financial statements.

The impact of these changes as at 31 December 2010 was to decrease the value of derivative assets by £34.7 million, decrease retained earnings by £35.5 million, decrease net trading income by £58.3 million and increase non-trading revenue and cost of sales by £547.5 million and £397.7 million respectively.

The Group is outside the scope of IAS 33 and is not required to present Earnings per Share figures. Therefore no restatement of these figures has been presented.

Non-trading revenue recognition
Non-trading revenues consist of revenues received in relation to the Group's retail gas and electricity supply contracts, as well as physical LNG and LPG activities and revenues received in relation to sub-chartering of vessels. Revenue from non-trading activities is recognised on an accruals basis as the resources or services are supplied and are recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Revenue is measured at the fair value of the consideration received or receivable for the sale of LNG, LPG, gas and electricity in the normal course of business, net of discounts, rebates, VAT and other sales taxes or duty.

Revenue for energy supply activities in retail contracts includes an assessment of energy supplied to customers between the date of the last meter reading and the year end (unread). Unread gas and electricity is estimated using historical consumption patterns.

Non-trading costs of sales
Cost of sales of non-trading activities includes the cost of LNG, LPG, gas and electricity purchased during the period and related transportation, distribution costs, balancing charges, bought-in materials and services.

Net trading income recognition
The Group undertakes significant activities which, for the purposes of disclosure in the financial statements of the Group, have been typified as 'trading'. Whilst the definition of trading income is not precise, the Group has identified key characteristics of these activities that provide the basis for this categorisation. These trading activities include the undertaking of contracts, by the Group, for the purchase or sale of energy products, or financial instruments that have been entered into for the purpose of generating a profit from market price fluctuations, arbitrage or dealer margin.

Revenue from trading activities is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable for the sale of energy products in the normal course of business, net of discounts, rebates, VAT and other sales taxes or duty.

Realised profits on commodity derivatives as well as unrealised profits and losses on open physical and derivative contracts are also included in net trading income, with the exception of LNG and LPG. Net trading income is attributable to the Group's principal activity.

Gas and other energy product storage and transportation capacity revenues and costs related to underlying trading activities are recognised on an accruals basis within net trading income. Energy purchase and sale transactions entered into to optimise the performance of the storage facilities are also presented within net trading income.

Intangible assets
Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess consideration paid over the Group's interest in net fair value of the net identifiable assets, liabilities of the acquiree. On an ongoing basis, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is tested for impairment annually, or more frequently if events or circumstances change which indicate that the carrying value may be impaired.

3 ACCOUNTING POLICIES continued

Externally acquired and internally generated intangible assets with finite useful lives are recognised at cost less accumulated amortisation and impairment charges. Amortisation is recorded with 'Administrative expenses' in the Income Statement on a straight-line basis over the estimated useful lives of the assets as follows:

Software and software licences – 5 years
Intellectual property – 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 on a straight-line basis over its expected useful life as follows:

Long leasehold property – 40 years
Freehold property – 50 years
Fixtures, fittings and equipment – 3 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.

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

Impairment of financial assets
At each reporting date, an assessment is made as to whether there is objective evidence of impairment in the value of financial assets classified as trade receivables. Impairment losses recognised when an event has occurred which will adversely affect the expected future cash flows of an asset and the impact on the future cash flows can be reliably estimated.

Trade receivables are carried at amortised cost and any impairment losses are measured as the difference between the carrying amount and the present value of the estimated future cash flows, discounted using the effective interest rate. Any impairment losses, and any subsequent reversals, are recognised in the Income Statement within 'Administrative expenses' and are reflected in the carrying amount of the impaired asset on the statement of financial position.

Reversals of impairment losses occur when the amount of the estimated impairment loss decreases because of a specific event. These reversals are limited to the extent that the value of the asset cannot exceed the original amortised cost at the time of the original impairment.

Inventory
Gas held in storage, and carbon dioxide emissions allowances, such as 'EUAs' kept in national carbon registries, are measured at fair value less costs to sell. The fair value is measured at the price for the soonest available delivery of gas and emission allowances at the reporting date. Movements in the fair value of inventory between reporting dates are recognised directly in the Income Statement.

Bunker fuel and LNG heel for chartered vessels are recorded at cost on a first-in, first-out basis.

Cash and cash equivalents
Cash comprises cash in hand and demand deposits, including cash not required as margin held with brokers. Cash equivalents comprise short-term investments which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in fair value and have an original maturity of three months or less.

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

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

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

(b) Operating leases
A lease is classified as an operating lease when 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 Group and Company financial statements are presented in Sterling, which is also the Company's functional currency.

All currency amounts in the financial statements are rounded to the nearest thousand Sterling.

(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 reporting 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 statement of comprehensive income except where hedging criteria are met.

(c) Translation of subsidiaries' results

Subsidiaries of the Company have been consolidated into the Group financial statements using the average rate for the year for items presented in the Income Statement and the closing rate for items presented on the statement of financial position. Translation differences arising from the net investments in the foreign operations are taken to the foreign currency translation reserve.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, that can be measured reliably, and it is probable that economic benefits will be required from the Group to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material. Where discounting is used, the increase in the provision due to the passage of time is recognised in the Income Statement within interest expense.

Onerous contract provisions are recognised where the unavoidable costs of meeting the obligations under a contract exceed the economic benefits expected to be received under it. Contracts to purchase or sell energy are reviewed on a portfolio basis given the fungible nature of energy, whereby it is assumed that the highest priced purchase contract supplies the highest priced sales contract and the lowest priced sales contract is supplied by the lowest priced purchase contract.

Netting of balances

Financial assets and financial liabilities are reported on a net basis only where there is a legal right of offset and the intention to settle on a net basis.

Taxation including deferred tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the Income Statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for the deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settled the balances on a net basis.

Employee benefit costs

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

Contributions to defined contribution schemes are recognised in the Income Statement in the period in which they become payable.

3 ACCOUNTING POLICIES continued

Financial instruments
Financial assets and financial liabilities are recognised in the Group statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Financial assets are de-recognised when the Group no longer has the rights to cash flows, the risks and rewards of ownership or control of the asset. Financial liabilities are de-recognised when the obligation under the liability is discharged, cancelled or expires.

Financial assets within the scope of IAS 39 Financial Instruments: Recognition and Measurement ('IAS 39') are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or as available-for-sale financial assets, as appropriate. Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, or other financial liabilities.

The Group determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end. Regular purchases and sales of financial assets or financial liabilities are recognised on the trade date – the date on which the Group commits to purchase or sell the asset. When financial assets and financial liabilities are recognised initially, they are either measured at fair value, usually being the transaction price plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, directly attributable transaction costs.

At the close of business on the reporting date the fair value of financial assets traded in an active market is determined by reference to the mid-market prices where there are financial 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 the financial instrument is not traded in an active market, fair value is determined using valuation techniques. These include using recent arm's length market transactions, reference to the current market value of another instrument which is substantially the same, discounted cash flow analysis and option pricing models.

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

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 de-recognised 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 statement of financial position at fair value with gains or losses on financial assets at fair value through profit or loss recognised in the Income Statement.

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

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

Derivative financial instruments and hedging
The Group uses derivative financial instruments to hedge exposures to financial risks, such as commodity price risks and foreign exchange 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 is designated in an effective hedge relationship. 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 option pricing models. Where one or more significant inputs into a valuation technique are based on inputs that are not observable, no gain or loss is recognised on initial recognition in respect of that financial instrument. Gains and losses are recognised after initial recognition 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.

3 ACCOUNTING POLICIES continued

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 revaluation of derivatives designated as hedging instruments depends on the nature of the hedging relationship.

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

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

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

Cash flow hedges
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. For activities of a non-trading nature, the ineffective portion of the gain or loss is included in non-trading revenues or cost of sales depending on the nature of the underlying hedged item (i.e. a purchase or a sale). For activities that are deemed trading in nature, the ineffective portion of the gain or loss is recognised in net trading income.

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

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

Treatment of 'day-one' gains and losses
In the normal course of its business the Group may acquire financial instruments where the fair value of the contractual cash flows over the course of the financial instruments' lives differ from the transaction cost, which is normally taken to be the best estimate of the financial instruments fair value on initial recognition, giving rise to 'day one' gains or losses. Where these arise from the use of valuation techniques and calculations reliant on non-observable market data, the gains or losses are deferred and recognised in the Income Statement on a straight-line or other appropriate basis.

Embedded derivatives
Derivatives embedded in other financial instruments or other non financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value, with gains or losses reported in the Income Statement. The closely related nature of embedded derivatives is reassessed when there is a change in the terms of the contract which significantly modifies the future cash flows under the contract. Where a contract contains one or more embedded derivatives, and providing that the embedded derivative significantly modifies the cash flows under the contract, the option to fair value the entire contract may be taken and the contract will be recognised at fair value with changes in fair value recognised in the Income Statement.

4 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the financial statements requires the Group to make judgements, estimates and assumptions regarding various matters that affect the financial statements and related disclosures. The Group believes that the estimates used in preparing the financial statements are reasonable, relevant and reliable. Actual results could differ from these estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting 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.

(a) Financial instruments not traded in active markets
The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each reporting date. As described in Note 21, the Group uses certain self-developed models to estimate the fair value of embedded call and written call options, along with non-guaranteed volume forward contracts. The models require estimates of sensitive inputs such as implied volatilities, correlation, yields and long-term price assumptions which have a significant impact on the resulting valuations. Major transactions and contracts subject to these sensitivities are described on page 20.

4 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY continued

(b) LNG accounting

The Group has entered into long-term contracts for the purchase and supply of LNG. Due to the absence of active markets for LNG, pricing is linked to underlying natural gas indices such as Henry Hub, NBP and SoCal. These contracts are deemed to be entered into and continue to be held for the purpose of receipt or delivery of LNG in accordance with the Group's expected purchase, sale or usage requirements. As a result, the contracts are accounted for as executory contracts and recorded on an accruals basis.

These physical LNG contracts afford the Group significant flexibility and optionality with regards to timing and location of deliveries. These contractual terms are common amongst physical LNG transactions and do not give rise to embedded derivatives that require separation in accordance with IAS 39: Financial Instruments – Recognition and Measurement.

(c) Revenue recognition of uncertain carbon emission reduction certificate volumes

Carbon emission reduction certificate off-take agreements are treated as derivative financial instruments within the scope of IAS 39 as they are deemed to be net settled as the Group has a practice of taking delivery of and selling the certificates within a short period after delivery for the purpose of generating a profit from short-term price fluctuations or dealer's margin.

Volumes of certificates to be received under these contracts are often uncertain and depend on the performance of each individual project. Expected volumes to be input into the fair value measurement are calculated using, where available, observable market based data and statistics. In some cases there is significant sensitivity in the valuation model to uncertain volumes that are not based on observable market data. Where this is the case, the Group applies the 'day one' gains and losses rules described in Note 3.

(d) Recognition of unregistered clean development mechanism ('CDM') project volumes

Along with its portfolio of carbon credit off take contracts receivable from CDM registered projects, the Group has entered into Emission Reduction Purchase Agreement ('ERPA') contracts for the acquisition of carbon credits generating from as yet unregistered CDM projects. In the ERPA valuation as of 31 December 2011, volumes are not recognised for projects expected to be registered after 31 December 2012 as the credits generated are deemed highly unlikely to be eligible for compliance in the EU Emissions Trading Scheme.

For all types and tenors of carbon credits, the fair value of the contracts deemed to generate EU ETS eligible credits are determined using reference prices obtained from ECX, market reported transactions or broker quotes.

Changes in the risk adjustment assumptions and the cash flow discount rate assumptions used within the ERPA valuation model together with the market price for carbon credits will affect the reported fair value of the ERPA contracts at each period end.

5 OPERATING PROFIT

Total revenue for the Group was £21.7 billion (2010: £11.2 billion), and for the Company £19.4 billion (2010: £9.6 billion).

A fair value movement on derivatives, classified as financial assets and liabilities held for trading, of £110.1 million and foreign exchange revaluation gain of £2.5 million have been included within the net trading income of the Group (2010: £43.0 million and loss of £4.9 million).

For the Company, a fair value movement on derivatives, classified as financial assets and liabilities held for trading, of £108.9 million and foreign exchange revaluation loss of £2.2 million have been included within net trading income (2010: £7.1 million and loss of £5.0 million).

Operating profit is stated after charging:

	Group		Company	
	2011 £'000s	2010 £'000s	**2011 £'000s**	2010 £'000s
Administrative expenses				
Depreciation (refer to Note 12)				
owned assets	**4,193**	2,133	**3,597**	1,431
leased assets	**–**	4	**–**	–
Amortisation (refer to Note 11)	**4,082**	2,025	**2,466**	847
Impairment losses	**2,085**	–	**1,305**	–
Staff costs (refer to Note 8)	**87,328**	70,747	**55,874**	49,919
Marketing and agency expenses	**10,242**	8,373	**1,304**	2,096
Consultancy (excluding auditor's remuneration)	**20,251**	17,318	**15,023**	13,502
Auditor's remuneration (see below)	**1,081**	1,397	**649**	868
Travel expenses	**8,572**	8,692	**4,441**	5,313
Rentals under operating leases	**11,353**	2,294	**8,034**	1,120
Loss on disposal of tangible and intangible fixed assets	**14**	–	**–**	–
Other administrative expenses	**14,861**	17,302	**18,304**	14,320
	164,062	130,285	**110,997**	89,416

5 OPERATING PROFIT continued

The analysis of the auditor's remuneration is as follows:

	Group		Company	
	2011 £'000s	2010 £'000s	**2011 £'000s**	2010 £'000s
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**330**	262	**330**	262
Fees payable for the audit of the Company's subsidiaries pursuant to legislation				
Fees payable to the Company's auditor	**282**	257	**–**	16
Fees payable to auditors other than the Company's	**21**	37	**–**	–
Total audit fees	**633**	556	**330**	278
Audit related services	**126**	112	**78**	100
Tax services	**119**	275	**38**	208
IT services	**66**	311	**66**	175
Other services	**137**	143	**137**	107
Total non-audit fees	**448**	841	**319**	590
Total auditor's remuneration	**1,081**	1,397	**649**	868

6 INVESTMENT REVENUE

	Group		Company	
	2011 £'000s	2010 £'000s	**2011 £'000s**	2010 £'000s
Interest income	**362**	747	**382**	731
Dividend income	**–**	–	**39,546**	9,237
	362	747	**39,928**	9,968

Dividend income received by the Company in 2011 represented distributions from Gazprom Marketing & Trading Singapore Pte. Ltd and Gazprom Global LNG Limited of £32.1 million (2010: £nil) and £7.5 million (2010: £9.2 million) respectively.

7 FINANCE COSTS

	Group		Company	
	2011 £'000s	2010 £'000s	**2011 £'000s**	2010 £'000s
Interest costs, including bank interest and charges	**11,993**	6,469	**10,288**	6,109

8 DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	Group		Company	
	2011 £'000s	2010 £'000s	**2011 £'000s**	2010 £'000s
Directors' remuneration	**6,366**	4,973	**6,266**	4,877

The remuneration of the highest paid Director is £3,414k (2010: £2,739k).

No contributions were made to personal pension plans in respect of any of the Directors (2010: £nil).

	Group		Company	
	2011 £'000s	2010 £'000s	**2011 £'000s**	2010 £'000s
Staff costs during the year				
Wages and salaries	**79,211**	61,163	**51,968**	43,373
Social security costs	**4,411**	6,943	**2,123**	5,182
Pension costs	**3,706**	2,641	**1,783**	1,364
	87,328	70,747	**55,874**	49,919

8 DIRECTORS' AND EMPLOYEES' EMOLUMENTS continued

	Group		Company	
	2011	2010	**2011**	2010
Average number of persons employed	**598**	413	**335**	227

9 TAX

	Group		Company	
	2011	2010 (restated)	**2011**	2010
	£'000s	£'000s	**£'000s**	£'000s
UK corporation tax – current year	**17,630**	43,391	**19,381**	19,258
UK corporation tax – prior year	**(30)**	(21)	**(31)**	(244)
Overseas taxes	**8,006**	7,297	**370**	–
Deferred taxation – current year (Note 19)	**6,092**	23,286	**(1,075)**	–
Deferred taxation – prior year (Note 19)	**(442)**	(52)	**(84)**	642
Tax expense in the Income Statement	**31,256**	73,901	**18,561**	19,656

	Group		Company	
	2011	2010 (restated)	**2011**	2010
	£'000s	£'000s	**£'000s**	£'000s
Profit before tax	**263,417**	286,143	**102,049**	75,305
Tax charge for year based on statutory rate of 26.5% (2010: 28%)	**69,806**	80,120	**27,043**	21,085
Effects of:				
Expenses not deductible for tax purposes	**2,473**	1,151	**1,851**	1,188
Prior year (over)/under provision	**(778)**	64	**(116)**	(120)
Non taxable income	**–**	–	**(10,480)**	(2,586)
Overseas tax rates	**(32,144)**	(18,211)	**–**	–
Deferred tax assets not recognised	**(67)**	1,644	**–**	–
Exchange differences	**–**	–	**–**	–
Deferred tax rate change	**(45)**	287	**14**	(27)
Other tax impacts	**(7,989)**	8,846	**249**	116
Actual charge for the year	**31,256**	73,901	**18,561**	19,656

Factors that may affect the Group's future tax charge include the spread of profits earned by the subsidiary companies which is in turn partly driven by global energy prices, changes in tax legislation and tax rates in the jurisdictions where the Group's companies operate.

The Group is potentially subject to audit by tax authorities in the territories in which it operates. Provisions are held in respect of potential tax liabilities that may arise, however the amount ultimately paid may differ amount accrued and could therefore impact our overall profitability and cash flows in future periods.

10 DIVIDENDS PAID

	Group		Company	
	2011	2010	**2011**	2010
	£'000s	£'000s	**£'000s**	£'000s
Amounts recognised as distributions to equity holders in the period:				
Final dividend for the year ended 31 December 2010 of 304.8p per share	**60,964**	–	**60,964**	–
Final dividend for the year ended 31 December 2009 of 143.4p per share	**–**	28,689	**–**	28,689
Total dividends paid	**60,964**	28,689	**60,964**	28,689

11 INTANGIBLE ASSETS

Group	Software £'000s	Goodwill £'000s	Others £'000s	Total £'000s
Cost				
At 1 January 2010	5,374	1,926	2,989	10,289
Additions	15,521	–	110	15,631
Currency translation	267	–	127	394
At 1 January 2011	21,162	1,926	3,226	26,314
Additions	20,414	3,552	4,275	28,241
Currency translation	(9)	–	2	(7)
At 31 December 2011	**41,567**	**5,478**	**7,503**	**54,548**
Accumulated amortisation				
At 1 January 2010	3,840	–	2,142	5,982
Amortisation expense for the year	1,402	–	623	2,025
Currency translation	(161)	–	(84)	(245)
At 1 January 2011	5,081	–	2,681	7,762
Amortisation expense for the year	3,745	–	337	4,082
Currency translation	2	–	4	6
At 31 December 2011	**8,828**	**–**	**3,022**	**11,850**
Net book value				
At 31 December 2011	**32,739**	**5,478**	**4,481**	**42,698**
At 31 December 2010	16,081	1,926	545	18,552

Impairment testing of goodwill
Goodwill generated as a result of the Group's business activities in 2011 and is not considered a significant component of any business unit's net assets and has therefore not been allocated to any individual cash generating unit. The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

There was no impairment of goodwill recognised in 2011 as a result of the Group's impairment testing review (2010: £nil).

	Software	
Company	**2011 £'000s**	2010 £'000s
Cost		
At 1 January	**20,233**	4,990
Additions	**19,244**	15,243
At 31 December	**39,477**	20,233
Accumulated amortisation		
At 1 January	**4,656**	3,809
Amortisation expense for the year	**2,466**	847
At 31 December	**7,122**	4,656
Net book value		
At 31 December	**32,355**	15,577

12 PROPERTY, PLANT AND EQUIPMENT

Group	Freehold property £'000	Leasehold property £'000	Fixtures, fittings and equipment £'000	Total £'000
Cost				
At 1 January 2010	853	10,167	8,511	19,531
Additions	–	403	16,554	16,957
Disposals	–	–	(15)	(15)
Currency translation	–	–	(342)	(342)
At 1 January 2011	853	10,570	24,708	36,131
Additions	–	2,083	11,587	13,670
Disposals	–	–	(76)	(76)
Currency translation	–	74	(18)	56
At 31 December 2011	**853**	**12,727**	**36,201**	**49,781**
Accumulated depreciation				
At 1 January 2010	40	1,121	4,295	5,456
Charge for the year	20	178	1,939	2,137
Disposals	–	–	(7)	(7)
Currency translation	–	–	306	306
At 1 January 2011	60	1,299	6,533	7,892
Charge for the year	20	517	3,656	4,193
Disposals	–	–	(57)	(57)
Currency translation	–	9	(14)	(5)
At 31 December 2011	**80**	**1,825**	**10,118**	**12,023**
Net book value				
At 31 December 2011	**773**	**10,902**	**26,083**	**37,758**
At 31 December 2010	793	9,271	18,175	28,239

Company	Freehold property £'000	Leasehold property £'000	Fixtures, fittings and equipment £'000	Total £'000
Cost				
At 1 January 2010	853	10,022	4,707	15,582
Additions	–	547	14,593	15,140
At 1 January 2011	853	10,569	19,300	30,722
Additions	–	–	9,472	9,472
At 31 December 2011	**853**	**10,569**	**28,772**	**40,194**
Accumulated depreciation				
At 1 January 2010	40	1,007	3,100	4,147
Charge for the year	20	293	1,118	1,431
At 1 January 2011	60	1,300	4,218	5,578
Charge for the year	20	254	3,323	3,597
At 31 December 2011	**80**	**1,554**	**7,541**	**9,175**
Net book value				
At 31 December 2011	**773**	**9,015**	**21,231**	**31,019**
At 31 December 2010	793	9,269	15,082	25,144

13 INVESTMENTS IN SUBSIDIARIES

Details of the Company's subsidiaries at 31 December 2011 are as follows:

Name of subsidiary	Place of incorporation and operation	Business activity	Ordinary shares owned	Proportion of voting power
Gazprom Global LNG Limited	United Kingdom	Energy trading	100%	100%
Gazprom Marketing & Trading Retail Limited	United Kingdom	Energy supply	100%	100%
Gazprom Global Energy Solutions Limited	United Kingdom	Ancillary energy services	100%	100%
Gazprom Mex (UK)1 Ltd	United Kingdom	Holding company	100%	100%
Gazprom Mex (UK)2 Ltd	United Kingdom	Holding company	100%	100%
Gazprom Marketing & Trading France SAS	France	Energy supply	100%	100%
Gazprom Marketing & Trading USA, Inc.	USA	Energy trading	100%	100%
Gazprom Marketing & Trading Singapore Pte Ltd	Singapore	Energy trading	100%	100%
Gazprom Marketing & Trading Germania GmbH	Germany	Energy supply	100%	100%
Gazprom Marketing & Trading Mexico S. de R.L. de C.V.	Mexico	Energy trading	100%	100%
Gazprom Marketing & Trading Retail Germania GmbH (formerly Envacom GmbH)	Germany	Energy supply	100%	100%
Gazprom Marketing & Trading Switzerland AG	Switzerland	Energy trading	100%	100%

All investments were held directly by the Company, except for the investment in Gazprom Marketing & Trading Mexico S. de R.L. de C.V. of whose equity Gazprom Mex (UK)1 Ltd holds 99.99% and Gazprom Mex (UK)2 Ltd holds 0.01%.

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

	Company	
	2011 £'000s	2010 £'000s
Balance at 1 January	**19,210**	14,506
Investments during the year	**70**	4,704
Balance at 31 December	**19,280**	19,210

Investments during the year consisted of €1 for 100% of the issued share capital of Envacom GmbH, and the establishment of Gazprom Marketing & Trading Switzerland AG with initial share capital of CHF100,000.

14 INVENTORIES

	Group		Company	
	2011 £'000s	2010 £'000s	**2011 £'000s**	2010 £'000s
Gas in storage	**200,717**	87,514	**191,456**	82,206
Emission allowances	**8,578**	6,607	**6,755**	5,179
Other inventories	**5,643**	721	**–**	–
	214,938	94,842	**198,211**	87,385

The Group's cost of inventory sold during the year was £20,284 million (2010: £10,560 million), and the Company's cost of inventory sold was £18,491 million (2010: £9,258 million).

15 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2011 £'000s	2010 £'000s	**2011 £'000s**	2010 £'000s
Due within one year				
Amounts receivable from sale of commodities:				
from third parties	**637,286**	507,170	**566,368**	360,155
from subsidiary companies	**–**	–	**107,497**	86,499
from affiliated companies	**5,365**	22,583	**4,101**	22,170
Prepayments and other debtors	**162,206**	72,127	**85,305**	31,950
	804,857	601,880	**763,271**	500,774
Due after one year				
Prepayments	**32,198**	23,432	**34,833**	30,228

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.

16 CASH AND CASH EQUIVALENTS

	Group		Company	
	2011 £'000s	2010 £'000s	**2011 £'000s**	2010 £'000s
Cash in hand and at bank	**214,440**	294,231	**74,746**	149,854
Broker free margin accounts	**9,722**	3,789	**5,655**	3,441
Cash equivalents with related parties	**31,006**	–	**13,596**	–
Total cash and cash equivalents	**255,168**	298,020	**93,997**	153,295

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.

17 TRADE AND OTHER PAYABLES

	Group		Company	
	2011 £'000s	2010 £'000s	**2011 £'000s**	2010 £'000s
Due within one year				
Amounts owed for purchase of commodities:				
to third parties	**485,078**	295,920	**414,074**	239,830
to subsidiaries	**–**	–	**–**	19,319
to affiliated companies	**175,935**	165,008	**165,584**	157,930
Accruals and other payables	**165,984**	106,028	**106,862**	50,288
	826,997	566,956	**686,520**	467,367
Due after more than one year				
Deferred income	**31,241**	23,885	**31,247**	23,669
Other long-term payables	**409**	189	**–**	–
Accrual for rent-free provision	**3,324**	–	**3,324**	–
	34,974	24,074	**34,571**	23,669

18 LOANS AND OVERDRAFTS

	Group		Company	
	2011 **£'000s**	2010 £'000s	**2011** **£'000s**	2010 £'000s
Amounts owed:				
to parent under cash pooling arrangements	**–**	132,173	**–**	132,173
to third parties	**130,000**	1,224	**129,885**	–
to subsidiaries	**–**	–	**157,298**	–
	130,000	133,397	**287,183**	132,173

As at 31 December 2011 the Group had access to various uncommitted and committed credit facilities. The Group's liquid resources also include amounts placed under cash pooling arrangements with Gazprom Germania GmbH (see Note 20).

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

19 DEFERRED TAX

	Group		Company	
	2011 **£'000s**	2010 (restated) £'000s	**2011** **£'000s**	2010 £'000s
Deferred tax asset/(liability) at 1 January	**260**	32,664	**(723)**	(81)
(Charge)/credit to the Income Statement	**(4,555)**	(22,282)	**1,174**	(669)
Credit to the Income Statement – tax rate change	**45**	(287)	**(15)**	27
Charge to equity – cash flow hedge reserve	**20,361**	(11,040)	**–**	–
Deferred tax on initial recognition	**1,814**	–	**–**	–
Translation differences	**(205)**	1,205	**–**	–
Deferred tax asset at 31 December	**19,913**	10,319	**2,538**	–
Deferred tax liability at 31 December	**(2,193)**	(10,060)	**(2,102)**	(723)
Net deferred tax asset/(liability)	**17,720**	259	**436**	(723)

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

	Group		Company	
	2011 **£'000s**	2010 (restated) £'000s	**2011** **£'000s**	2010 £'000s
Capital allowances in excess of depreciation	**(1,472)**	(1,060)	**(1,489)**	(1,031)
Transitional adjustments relating to IFRS conversion	**(611)**	(825)	**(611)**	(825)
Disregard profit/(loss)	**997**	8,595	**–**	–
Amounts taken to equity – cash flow hedge reserve	**12,508**	(7,853)	**–**	–
Deferred tax on initial recognition	**1,908**	–	**–**	–
Other temporary differences	**4,390**	1,402	**2,536**	1,133
Net deferred tax asset/(liability)	**17,720**	259	**436**	(723)

Other temporary differences primarily relate to differences between the accounting and tax treatment of short-term provisions. There are losses carried forward in Group companies totalling £3,663k in respect of which a deferred tax asset has not been recognised due to uncertainty of when such asset would unwind.

During the year, as a result of the changes in the UK main corporation tax rate to 26% that were substantively enacted on 29 March 2011 and that were effective from 1 April 2011, and to 25% that was substantively enacted on 5 July 2011 and that was effective from 1 April 2012, the relevant deferred tax balances have been re-measured. The effect of the changes to the UK headline corporation tax rate from 26% to 25% is £45k as reflected above.

The proposed further reduction of the main rate of corporation tax by 1% per year to 23% by 1 April 2014 is expected to be enacted separately each year. The overall effect of the further changes from 25% to 23%, if these applied to the deferred tax balance at 31 December 2011, would be to decrease the deferred tax asset by £1,147k, being £574k recognised each year 2013 and 2014.

The prior period restatement to the deferred tax opening balance is primarily due to a change in the accounting treatment in GGLNG whereby physical commodity transactions are now accounted for on an accruals basis. However, associated financial hedging transactions are still within the scope of IAS 39 and accounted for on a fair value basis through the profit and loss account.

As hedge accounting does not apply, but as there is a clear hedging intention, these fair value movements have been disregarded for current income tax purposes until the underlying physical transaction is realised. This gives rise to significant deferred tax movements between the periods.

20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's normal operating and financing activities expose it to a variety of financial risks. The primary financial risks are market risk (including commodity price risk, foreign currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management process is designed to identify, manage and mitigate business risk which includes, among others, financial risk.

The Group's Risk Oversight Committee ('ROC') is responsible for overseeing the risks arising from the Group's trading activities. The ROC is charged with the creation and administration of the 'Governing Policy for Energy Risk Management' and separate subsidiary 'Risk Management Procedures Manuals' for each main group of activities or subsidiary/affiliate to the Group. The ROC performs these responsibilities according to objectives, targets and policies set by the Board of Directors.

Treasury risk management, including management of currency risk, interest rate risk and liquidity risk is carried out by a Group treasury function.

Market risk

Market risk is the risk of loss that results from changes in market prices (e.g. commodity prices, foreign currency exchange rates, interest rates) or changes in other market factors (e.g. volumetric changes). The Group's exposure to market risk is variable and is dependent on current market conditions, expectations of future prices or volatility and the current composition of the Group's assets and liabilities.

The Group maintains a relatively low level of exposure to market risk primarily by entering into offsetting derivative contracts whereby the commercial terms are broadly matched. The Group however does hold some unhedged positions, subject to certain limits approved by the Board of Directors, largely in relation to its proprietary energy trading business. The proprietary energy trading business exposes the Group to commodity price risk and foreign currency risk.

The Group uses Value-at-Risk ('VaR') to measure, monitor and review its exposure to short-term market risk. VaR is an estimate of the potential loss on a given position or portfolio of positions over a specific holding period, based on normal market conditions and within a given statistical confidence interval. The Group uses a 97.5% confidence interval and uses a EWMA Parametric VaR model based on historic volatilities, except for its proprietary options portfolio where market implied volatilities are used. The EWMA 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. Holding periods are specific to the types of positions being measured and are determined based on the size of the position or portfolios, market liquidity, tenor and other factors. 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, with the exception of the proprietary options portfolio, which is treated separately; and
- correlated price returns follow a multivariate normal distribution.

In 2011 the Group implemented new VaR models which take into account the non-linearity in options to facilitate proprietary options trading.

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.

Based upon VaR, taking into account approved limits and other risk management techniques, the Group's senior management will determine the need to adjust the Group's market risk profile. The 97.5% trading VaR during the period was:

	2011		2010 (restated)	
Group	**Average £'000s**	**Period end £'000s**	Average £'000s	Period end £'000s
Trading VaR	**2,927**	**2,211**	2,205	3,321

These VaR values are within the limits set by the Group's management. The Company does not have formal VaR reporting or associated limits as all market risk is monitored and managed at a Group level.

(i) Commodity price risk

The Group's cash flows and profitability are sensitive to natural gas, electricity, LNG, oil and carbon credit prices (and related price spreads) which are dependent on a number of factors and on global supply and demand. The Group's portfolio and trading business optimises the purchase contract portfolio by procuring gas, LNG and electricity at optimal cost and making use of volume and location flexibility in order to realise a margin. The Group is exposed to commodity price risk in the portfolio and trading business because the cost of portfolio gas and electricity varies with wholesale commodity prices.

The risk is primarily that market prices for commodities will fluctuate between the time that sales prices are fixed or made determinable and the time at which the corresponding procurement cost is fixed, thereby potentially reducing or eliminating expected margins. The Group is also exposed to volumetric risk in sales contracts agreed in the retail business in the form of an uncertain consumption profile arising from a range of factors, including weather, and in the trading business where there is uncertain demand from counterparties when volumetric optionality exists within the contracts.

20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Forward contracts, swaps, options and futures are used to mitigate price risk specific to each commodity. The overwhelming majority of both physical and financial commodity contracts are treated as derivative financial instruments under IAS 39. These contracts are carried at fair value with changes in fair value recorded in the Income Statement unless designated as hedging instruments in an effective hedge relationship. Certain retail energy supply contracts and physical LNG/LPG contracts are not financial instruments under IAS 39 and are accounted for as executory contracts. Changes in fair value of these contracts do not immediately impact profit or equity and as such, the contracts are not exposed to commodity price risk as defined by IFRS 7: Financial Instruments – Disclosure. The carrying value of energy contracts at 31 December 2011 is disclosed in Note 21.

(ii) Foreign currency risk

The Group is exposed to currency risk on foreign currency denominated forecast transactions, firm commitments, monetary assets and liabilities (transactional exposure) and on its net investments in foreign operations (translational exposure). The majority of the Group's trading is denominated in Sterling, Euros and US Dollars. When currency exposure arises as a result of purchase and sale commitments the Group seeks to use forward foreign exchange transactions to hedge the exposure.

(a) Transactional currency risk

The Group is exposed to transactional currency risk on transactions denominated in currencies other than the underlying functional currency of the transacting entity. The Group's primary functional currencies are Sterling in GM&T Limited, GM&T Retail and GGES and US Dollars in GGLNG, GMT USA and GMTS. Transactional risk is the risk that the functional currency value of cash flows will vary as a result of movements in exchange rates.

Transactional exposure primarily arises from two sources: firstly, from the operating activities of GM&T Limited where a proportion of transactions are denominated in Euros and US Dollars; secondly from the operating activities of GGLNG and GM&T Singapore, where a proportion of transactions are denominated in Euros and Sterling.

The Group has no formal hedging policy for transactional foreign currency risk; however material transactional exposures are hedged using derivative contracts to fix the functional currency value of non-functional currency cash flows. Currency risk is monitored and managed as part of the Group's VaR analysis. The ROC sets currency restrictions on the level of open positions allowed.

(b) Translational currency risk

The Group is exposed to translational currency risk as a result of its net investments in US Dollars and EUR functional currency subsidiaries. Translational risk is the risk that the Sterling value of the net assets of foreign operations will decrease with changes in foreign exchange rates. The Group does not have a formal hedging policy to protect the Sterling asset value of its net investments in foreign operations; however, budgeted exchange rates are set and Group performance against budgeted exchange rates is monitored by management.

(iii) Interest rate risk

The Group is exposed to a minimal amount of interest rate risk as the cash flows associated with floating rate borrowings will fluctuate with changes in interest rates. This interest rate risk is not significant as borrowings and interest bearing asset balances accrue interest at floating market interest rates and other interest bearing financial instrument balances are immaterial.

Credit risk

The Group's exposure to credit risk takes the form of any potential loss associated with a counterparty's failure or inability to meet their payment or performance obligations. These risks may arise in all forms of commercial agreements and in certain agreements relating to amounts owed for physical product sales, the use of derivative instruments, and the investment of surplus cash balances.

Counterparty credit exposures are monitored by individual counterparty and by category of credit rating, and are subject to approved limits. Counterparty credit limits are approved by the ROC and by certain individuals to whom authority has been delegated by the ROC. All counterparties are assigned a grading based on external ratings where available and an ROC approved assessment methodology in other cases, with this used to set the maximum exposure that would be considered against any particular counterparty. The credit exposure to each counterparty, including potential forward exposure, is then monitored on a daily basis to ensure those limits are not exceeded.

The majority of significant exposures through trading activities are with investment grade counterparties. The Group incorporates counterparty credit risk in determining the fair value of financial instruments maximising the use of observable market data where available.

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

In the Group's retail business, credit risk is managed by checking a customer's creditworthiness and financial strength both before commencing trade and during the business relationship. Creditworthiness is ascertained before commencing trade by reviewing an appropriate mix of internal and external information to determine limits, contract types and payment mechanisms required to reduce credit risk to an acceptable level.

20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

The Group's maximum exposure to credit risk on financial assets held at fair value through profit or loss is £1,707.9 million (2010: £930.1 million (restated)) and on financial assets held at amortised cost is £899.3 million (2010: £827.8 million (restated)). The Group also actively manages its portfolio to avoid concentrations of credit risk.

The Company's maximum exposure to credit risk on financial assets held at fair value through profit or loss is £1,823.8 million (2010: £929.8 million) and on financial assets held at amortised cost is £776.2 million (2010: £622.1 million).

The Group and the Company do not have any significant exposure arising from items not recognised in the statement of financial position.

The Group's credit risk from physical and financial instruments as of 31 December 2011 is represented by the positive fair value of these instruments after consideration of netting and collateral in the form of counterparty margin or letters of credit. Credit risk disclosures presented here relate to the net losses that would be recognised if all counterparts failed to perform their obligations in their entirety. Written options do not expose the Group to credit risk. Exchange traded futures and options are not deemed to have significant credit exposure as the exchanges guarantee the credit risk on a daily basis by acting as a central counterparty to the transactions.

(i) Credit quality of financial assets neither past due nor impaired

The following table approximates the counterparty credit quality and exposure, expressed as a percentage of total net replacement value, as determined by ratings agencies or by internal models intended to approximate rating agency determinations.

	Group		Company	
	2011	2010 (restated)	**2011**	2010
AAA to AA	**1%**	2%	**1%**	8%
AA- to A-	**45%**	44%	**47%**	41%
BBB+ to BB	**45%**	39%	**42%**	48%
BB- and below	**9%**	15%	**10%**	3%
	100%	100%	**100%**	100%

(ii) Financial assets past due but not impaired

The Group's gross amount of financial assets past due but not impaired was £6.6 million (Company: £0.3 million) of trade and other receivables (2010: £5.3 million (Company: £0.3 million)). The majority of these financial assets were retail receivables past due by less than three months.

(iii) Financial assets impaired

The Group and Company did not have any financial assets that were impaired at the reporting date (2010: £nil).

Liquidity risk

Through maintaining adequate reserves, the use of banking facilities and loans from related parties, the Group manages its liquidity to ensure that sufficient cash is available to meet all contractual commitments as they fall due and also to ensure that there is sufficient funding to withstand stressed market conditions or extreme or unplanned events.

Liquidity risk is managed by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and financial liabilities. Included in Note 20 is a description of undrawn facilities that the Group has at its disposal to further reduce liquidity risk.

The Group expects to meet its other obligations from operating cash flows and proceeds from settlement of financial assets. The Group also has access to committed facilities of €250 million and US$100 million with its parent company Gazprom Germania GmbH and a US$500 million committed banking facility from a syndicate of banks.

The Group had £30.0 million of cash equivalents outstanding at 31 December 2011, which relate to a cash pool receivable with Gazprom Germania GmbH, the Group's immediate controlling entity. Interest is payable or receivable based on market interest rates. These balances are managed centrally by the Group's treasury function as part of the other Group funds and investments, and monitored at a Group level.

The following tables detail the Group's liquidity analysis for its trading and non-trading financial instruments. The tables have been drawn up based on the undiscounted gross cash inflows and outflows. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected settlement amounts based on commodity price curves and other relevant market data at the reporting date.

The table opposite analyses the contractual undiscounted cash flows arising from the Group's financial assets into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date.

20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Group	Within 1 month £'000	2-12 months £'000	1-2 years £'000	3-5 years £'000	Over 5 years £'000	Total £'000
Financial assets						
31 December 2011						
Derivatives	2,280,102	10,407,690	1,853,426	784,220	54,718	15,380,156
Cash and cash equivalents	255,168	–	–	–	–	255,168
Trade and other receivables	604,342	137,985	231	–	603	743,161
Total	**3,139,612**	**10,545,675**	**1,853,657**	**784,220**	**55,321**	**16,378,485**
31 December 2010 (restated)						
Derivatives	1,183,933	6,125,952	1,446,711	395,784	16,810	9,169,190
Cash and cash equivalents	298,020	–	–	–	–	298,020
Trade and other receivables	514,432	52,675	–	–	153	567,260
Total	**1,996,385**	**6,178,627**	**1,446,711**	**395,784**	**16,963**	**10,034,470**
Financial liabilities						
31 December 2011						
Derivatives	1,706,386	9,892,193	2,420,255	632,213	62,855	14,713,902
Trade and other payables	624,359	135,002	–	23	–	759,384
Loans and overdrafts	–	130,000	–	–	–	130,000
Total	**2,330,745**	**10,157,195**	**2,420,255**	**632,236**	**62,855**	**15,603,286**
31 December 2010 (restated)						
Derivatives	1,143,379	6,514,565	1,691,430	1,000,516	114,912	10,464,802
Trade and other payables	546,590	10,635	24,074	–	–	581,299
Loans and overdrafts	133,397	–	–	–	–	133,397
Total	**1,823,366**	**6,525,200**	**1,715,504**	**1,000,516**	**114,912**	**11,179,498**

Company	Within 1 month £'000	2-12 months £'000	1-2 years £'000	3-5 years £'000	Over 5 years £'000	Total £'000
Financial assets						
31 December 2011						
Derivatives	2,423,726	11,035,381	2,129,581	936,988	50,322	16,575,998
Cash and cash equivalents	93,997	–	–	–	–	93,997
Trade and other receivables	594,319	161,892	–	–	–	756,211
Total	**3,112,042**	**11,197,273**	**2,129,581**	**936,988**	**50,322**	**17,426,206**
31 December 2010						
Derivatives	1,149,372	6,120,853	1,434,899	382,775	11,772	9,099,671
Cash and cash equivalents	153,295	–	–	–	–	153,295
Trade and other receivables	467,136	30,480	6,949	–	–	504,565
Total	**1,769,803**	**6,151,333**	**1,441,848**	**382,775**	**11,772**	**9,757,531**
Financial liabilities						
31 December 2011						
Derivatives	1,752,275	9,907,677	2,438,109	710,729	62,610	14,871,400
Trade and other payables	573,228	116,973	–	–	–	690,201
Loans and overdrafts	–	287,183	–	–	–	287,183
Total	**2,325,503**	**10,311,833**	**2,438,109**	**710,729**	**62,610**	**15,848,784**
31 December 2010						
Derivatives	1,187,656	6,518,921	1,711,513	1,007,052	114,911	10,540,053
Trade and other payables	455,905	1,729	23,669	–	–	481,303
Loans and overdrafts	132,173	–	–	–	–	132,173
Total	**1,775,734**	**6,520,650**	**1,735,182**	**1,007,052**	**114,911**	**11,153,529**

20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Economic capital

The Group employs an economic capital framework to ensure that the total level of commodity risk to which it is exposed can be supported by its statement of financial position on a stand-alone basis. This is achieved by comparing the economic capital requirements based on annualised market and credit risk measures, plus a proxy operational risk figure, to the available economic capital in the form of the Group's tangible net worth. The economic capital requirements and availability are calculated and reported on a weekly basis as the overarching risk control approach for the Group.

21 DERIVATIVE FINANCIAL INSTRUMENTS

As part of its business operations, the Group uses derivative financial instruments ('derivatives') in order to manage exposure to fluctuations in commodity prices and foreign exchange rates. The Group enters into currency derivatives to hedge certain foreign currency cash flows and to adjust the currency composition of its assets and liabilities. The Group's policy is to enter into currency derivatives only where these are matched by an underlying asset, liability or forecast transaction.

Within the ordinary course of business the Group routinely enters into sale and purchase transactions for commodities. The majority of these transactions are within the scope of IAS 39 due to the trading nature of the Group's activities. As a result, these physical contracts are treated as derivatives in accordance with IAS 39. These contracts include pricing terms that are based on a variety of commodities and indices. They are recognised in the statement of financial position at fair value with movements in fair value recognised in the Income Statement.

The Group also uses various commodity based derivative instruments to manage some of the risks arising from its normal operating activities that give rise to commodity price exposures. Such instruments include financial or net-settled forwards, futures, swaps and options.

Where these derivatives have been designated as cash flow hedges of underlying commodity price exposures, certain gains and losses attributable to these instruments are deferred in equity and subsequently recognised in the Income Statement when the underlying hedged transaction affects profit or loss. All commodity derivatives that are not part of a hedging relationship are recognised in the statement of financial position at fair value with movements in fair value recognised in the Income Statement.

For the Group and the Company, all derivatives are classified as held-for-trading instruments and no financial instruments have been designated at fair value through profit or loss in accordance with the fair value option available within IAS 39 (2010: £nil).

Embedded derivatives

The Group, through the parent company, has an embedded derivative that required separation from the host contract in accordance with IAS 39 relating to a purchased option embedded in a carbon brokerage agreement. The fair value of the embedded derivative was an asset of £nil at 31 December 2011 (2010: £2.0 million).

The embedded derivative has been valued using inputs that include a price curve created from recent market transactions. The time value of the option is deemed to be zero as a result of the absence of volatility data for the underlying security and inability to infer volatility from observable data for similar securities. As a result, this instrument has been classified as level 3 in the fair value hierarchy.

Held-for-trading derivatives

Derivative contracts may be entered into for risk management purposes, to satisfy supply requirements or for proprietary trading. Contracts are classified as held for trading, regardless of their original business objective, and are recognised at fair value with changes in fair value recognised in the Income Statement. Trading activities are undertaken sometimes using a range of contract types in combination to create incremental gains by arbitraging prices between markets, locations and time periods. The net of these exposures is monitored using VaR techniques as described in Note 20. The following tables show further information on the fair value of held-for-trading derivatives.

21 DERIVATIVE FINANCIAL INSTRUMENTS continued

	Group		Company	
	2011 £'000s	2010 (restated) £'000s	**2011 £'000s**	2010 £'000s
Current assets				
Commodity trading contracts	**1,215,434**	685,237	**1,240,899**	693,109
Emission allowances	**152,375**	14,999	**205,893**	14,584
Forward foreign exchange contracts	**21,086**	10,548	**11,755**	8,715
	1,388,895	710,784	**1,458,547**	716,408
Non-current assets				
Commodity trading contracts	**246,672**	161,847	**268,634**	170,423
Emission allowances	**71,228**	55,527	**95,494**	40,269
Forward foreign exchange contracts	**1,130**	1,964	**1,130**	2,717
	319,030	219,338	**365,258**	213,409
Current liabilities				
Commodity trading contracts	**1,153,900**	664,508	**1,152,396**	687,470
Emission allowances	**128,357**	5,770	**181,810**	5,827
Forward foreign exchange contracts	**9,648**	8,427	**275**	5,681
	1,291,905	678,705	**1,334,481**	698,978
Non-current liabilities				
Commodity trading contracts	**252,850**	139,615	**251,779**	133,930
Emission allowances	**43,383**	23,682	**105,188**	25,171
Forward foreign exchange contracts	**–**	1,968	**–**	2,396
	296,233	165,265	**356,967**	161,497

Fair value measurement

In determining the fair value of financial assets and financial liabilities, the Group utilises market data or assumptions that market participants would use in setting a price for the asset or liability. Where quoted market prices are not available, the Group uses valuation techniques to determine the fair values of these instruments. Inputs to the valuation technique can be observable and readily obtainable, market corroborated or generally unobservable. The Group endeavours to use the best available information by utilising valuation techniques that maximise the use of observable inputs and minimise the use of unobservable inputs.

If at inception of a contract, the fair value cannot be supported solely by observable market data, any gain or loss determined by the valuation methodology is not recognised in the Income Statement but is deferred. These amounts are commonly known as 'day-one' gains and losses. This deferred gain or loss is recognised in the Income Statement over the life of the contract on a straight-line or otherwise appropriate basis until substantially all of the remaining contract term can be valued using observable market data. At this point, any remaining deferred gain or loss is recognised in the Income Statement. Changes in the fair value of derivatives from this initial fair value are recognised in the Income Statement in the period in which they occur.

21 DERIVATIVE FINANCIAL INSTRUMENTS continued

The following table shows the changes in the day-one gains and losses deferred:

	Group	
	2011 **£'000s**	2010 (restated) £'000s
Day-one gains and losses		
Fair value of contracts not recognised through the Income Statement at 1 January	**617**	898
Initial fair value of new contracts not recognised in the Income Statement	**11,322**	325
Fair value recognised in the Income Statement during the year	**(5,660)**	(606)
Fair value of contracts not recognised through the Income Statement at 31 December	**6,279**	617

	Company	
	2011 **£'000s**	2010 £'000s
Day-one gains and losses		
Fair value of contracts not recognised through the Income Statement at 1 January	**617**	898
Initial fair value of new contracts not recognised in the Income Statement	**2,639**	325
Fair value recognised in the Income Statement during the year	**(2,434)**	(606)
Fair value of contracts not recognised through the Income Statement at 31 December	**822**	617

Fair value hierarchy

Based on the observability of inputs to the valuation techniques employed, the Group is able to classify all financial assets and financial liabilities carried at fair value. The determination of the classification gives the highest priority to unadjusted quoted prices in active exchange markets for identical assets or liabilities (level 1 measurement) and the lowest priority to those fair values determined with reference to significant unobservable inputs (level 3 measurement). The three levels of the fair value hierarchy are as follows:

Level 1 – Quoted prices are available in active exchange markets for identical assets and liabilities as of the reporting date. Active exchange markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 instruments are primarily exchange traded derivatives.

Level 2 – Quoted prices are not available; however, pricing inputs are either directly or indirectly observable at the reporting date. Level 2 instruments include those valued using industry standard models and valuation techniques. These inputs include quoted forward prices for commodities, time value, volatility factors, current market prices, contractual prices and expected volumes of the underlying instruments. Substantially all of these inputs or assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are supported by observable transaction prices executed in the marketplace. Level 2 instruments include non-exchange traded derivatives such as forward contracts, swaps and options.

Level 3 – Valuation techniques or models include significant inputs that are generally less observable. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value. Level 3 instruments include those that may be more structured or individually tailored. At each reporting date, the Group performs an analysis of all assets and liabilities at fair value and includes in level 3 of those whose fair value is derived using significant unobservable inputs.

The following tables show, according to their level within the fair value hierarchy, the Group's assets and liabilities that were accounted for at fair value at the reporting date. It should be noted that no non-derivative financial instruments are carried at fair value (2010: £nil). Assets and liabilities are classified in their entirety based on the lowest level input that is significant to the fair value measurement as a whole. The Group's assessment of the significance of a particular input to the fair value measurement requires judgement, and may affect the valuation of financial assets and financial liabilities and their placement within the fair value hierarchy.

21 DERIVATIVE FINANCIAL INSTRUMENTS continued

Derivative financial assets

	Group			
2011	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Commodity trading contracts	**22,710**	**1,437,268**	**2,128**	**1,462,106**
Emission allowances	**1,399**	**205,225**	**16,979**	**223,603**
Forward foreign exchange contracts	**9,647**	**12,569**	**–**	**22,216**
	33,756	**1,655,062**	**19,107**	**1,707,925**
2010 (restated)				
Commodity trading contracts	4,316	833,912	8,857	847,085
Emission allowances	(1,569)	30,348	41,746	70,525
Forward foreign exchange contracts	–	12,512	–	12,512
	2,747	876,772	50,603	930,122

Derivative financial liabilities

	Group			
2011	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Commodity trading contracts	**20,313**	**1,383,320**	**3,116**	**1,406,749**
Emission allowances	**12,384**	**147,393**	**11,539**	**171,316**
Forward foreign exchange contracts	**10,073**	**–**	**–**	**10,073**
	42,770	**1,530,713**	**14,655**	**1,588,138**
2010 (restated)				
Commodity trading contracts	8,420	778,876	16,827	804,123
Emission allowances	–	27,691	1,761	29,452
Forward foreign exchange contracts	3,340	7,055	–	10,395
	11,760	813,622	18,588	843,970

21 DERIVATIVE FINANCIAL INSTRUMENTS continued

Derivative financial assets

	Company			
2011	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Commodity trading contracts	**13,567**	**1,494,701**	**1,266**	**1,509,534**
Emission allowances	**1,399**	**287,224**	**12,763**	**301,386**
Forward foreign exchange contracts	**–**	**12,885**	**–**	**12,885**
	14,966	**1,794,810**	**14,029**	**1,823,805**
2010				
Commodity trading contracts	1,917	852,759	8,857	863,533
Emission allowances	(1,569)	29,710	26,711	54,852
Forward foreign exchange contracts	–	11,432	–	11,432
	348	893,901	35,568	929,817

Derivative financial liabilities

	Company			
2011	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Commodity trading contracts	**17,095**	**1,384,213**	**2,867**	**1,404,175**
Emission allowances	**12,384**	**264,845**	**10,195**	**287,424**
Forward foreign exchange contracts	**–**	**(151)**	**–**	**(151)**
	29,479	**1,648,907**	**13,062**	**1,691,448**
2010				
Commodity trading contracts	5,581	815,819	–	821,400
Emission allowances	–	29,883	1,115	30,998
Forward foreign exchange contracts	–	8,077	–	8,077
	5,581	853,779	1,115	860,475

The following table shows a reconciliation of changes in the fair value of financial instruments classified as level 3 in the fair value hierarchy:

	Group £'000s	Company £'000s
Fair value at 1 January 2010 (restated)	–	–
Total gains and losses recognised in the Income Statement	–	–
Purchases	37,643	34,453
Sales	–	–
Fair value at 31 December 2010 (restated)	37,643	34,453
Total gains and losses recognised in the Income Statement	(28,202)	(28,497)
Purchases	(1,029)	(1,029)
Sales	–	–
Settlements	(3,961)	(3,961)
Fair value at 31 December 2011	**4,451**	**966**

21 DERIVATIVE FINANCIAL INSTRUMENTS continued

Changing one or more of the less observable inputs within a valuation model is not expected to materially change the fair value of the instruments as reported.

The carrying amounts of financial assets and financial liabilities measured at amortised cost in the financial statements are approximately equal to their fair values.

Hedge accounting

For the purpose of hedge accounting under IAS 39, hedges are classified as either cash flow hedges, fair value hedges or hedges of net investments in foreign operations. Note 3 details the Group's accounting policies in relation to derivatives qualifying for hedge accounting. At the reporting date, the Group does not have any hedges classified as fair value hedges or hedges of net investments in foreign operations.

Cash flow hedges

The Group's cash flow hedges consist of gas and electricity purchase contracts treated as derivatives that are used to protect against the variability in future cash flows associated with the highly probable supply of gas and electricity to retail customers due to movements in market commodity prices. Gains and losses are initially recognised in the cash flow hedging reserve in other comprehensive income to the extent that the hedges are effective, and are transferred to the Income Statement when the forecast cash flows affect the Income Statement.

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

All movements in equity related to cash flow hedges are recognised in the cash flow hedge reserve presented in the statement of changes in equity.

The total fair value of outstanding derivative contracts designated in hedge relationships was as follows:

	Group		Company	
	2011 £'000s	2010 £'000s	**2011 £'000s**	2010 £'000s
Cash flow hedges	**(44,374)**	18,988	**–**	–

The ineffective portion of gains and losses on derivative instruments designated in cash flow hedges that was recognised in the Income Statement was immaterial (2010: £131k). The Group monitors the ineffective portion of gains and losses on a monthly basis.

22 EQUITY

	Group		Company	
Ordinary share capital	**2011 £'000s**	2010 £'000s	**2011 £'000s**	2010 £'000s
Called up, allotted and fully paid Ordinary shares of £1 each				
At 31 December	**20,000**	20,000	**20,000**	20,000

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

The holders of the ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholder meetings. All shares rank equally with regard to the Company's residual assets.

Reserves

Cash flow hedge reserve

The 'cash flow hedge reserve' represents the cumulative portion of gains and losses arising on changes in fair value of hedging instruments entered into for cash flow hedges. The amounts held in reserve will be reclassified to profit or loss only when the hedged transaction affects profit or loss, consistent with the Group's accounting policies.

Foreign currency translation reserve

The 'Foreign currency translation reserve' includes all foreign exchange differences arising from the translation of the total assets less total liabilities of foreign operations.

23 LEASE COMMITMENTS

The Group has entered into non-cancellable leases relating to long-term lease contracts for regasification and pipeline capacity of the Gazprom Marketing & Trading Mexico S. de R.L. de C.V., and LNG tankers chartered by GGLNG. Lease payments under non-cancellable operating leases recognised as an expense in the year are as follows:

	Group		Company	
	2011 £'000s	2010 £'000s	**2011 £'000s**	2010 £'000s
Not later than one year	**44,571**	38,891	**3,452**	122
Later than one year and not later than five years	**312,231**	106,925	**20,864**	17,204
Later than five years	**304,664**	285,756	**16,406**	18,700
	661,466	431,572	**40,722**	36,026

24 RELATED PARTY TRANSACTIONS

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

Group	Sales to related party £'000s	Purchases from related party £'000s	Amounts owed by related party £'000s	Amounts owed to related party £'000s
Related party				
Parent				
2011	**15,762**	**21,574**	**20,600**	**2,148**
2010 (restated)	79	2,162	1,589	133,440
Other entities with significant influence over the Group				
2011	**225,125**	**1,665,409**	**683,774**	**866,807**
2010 (restated)	748,667	1,367,605	303,626	242,225
Other related parties				
2011	**94,200**	**17,254**	**39,418**	**38,482**
2010 (restated)	110,457	21,929	12,960	1,861

Company	Sales to related party £'000s	Purchases from related party £'000s	Amounts owed by related party £'000s	Amounts owed to related party £'000s
Related party				
Parent				
2011	**15,758**	**20,855**	**13,596**	**2,148**
2010 (restated)	79	1,863	–	133,149
Other entities with significant influence over the Group				
2011	**217,867**	**1,664,916**	**682,511**	**850,496**
2010 (restated)	684,703	1,333,583	278,889	226,788
Subsidiaries				
2011	**1,083,269**	**334,986**	**372,666**	**331,026**
2010 (restated)	647,759	354,711	172,704	112,689
Other related parties				
2011	**94,200**	**17,254**	**39,418**	**38,482**
2010 (restated)	110,457	21,929	12,960	1,861

The Group has entered into an agreement to participate in a central cash management system, the balance receivable at 31 December 2011 being £30.1 million (2010: £132.2 million payable). The master account holder is Gazprom Germania GmbH, the Group's immediate controlling entity. Interest is payable or receivable based on market interest rates.

24 RELATED PARTY TRANSACTIONS continued

Terms and conditions of transactions with related parties

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

The Group receives a guarantee from Gazprom Germania GmbH to GMT USA for $100 million. As at 31 December 2011 the Company had provided £127.2 million of guarantees to its subsidiaries. During the year ended 31 December 2010, the Group has not made any provision for doubtful debts relating to amounts owed by related parties (2010: £nil).

Compensation of key management personnel

Key management personnel ('KMP') are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group. The KMP of the Group are limited to the Board of Directors.

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

	Group		Company	
	2011 £'000s	2010 £'000s	**2011 £'000s**	2010 £'000s
Short-term benefits	**6,366**	4,973	**6,266**	4,877
Post-employment benefits	**–**	–	**–**	–
Other long-term employee benefits	**–**	–	**–**	–
Termination benefits	**–**	–	**–**	–
	6,366	4,973	**6,266**	4,877

Directors' transactions

There were no transactions involving Directors during the year, other than in respect of remuneration (2010: £nil).

25 BUSINESS COMBINATIONS

Subsidiaries acquired

On 10 November 2011, the Group acquired 100% of the ordinary share capital of Envacom Service GmbH ('Envacom'), an energy provider based in Germany purchased with the intention of expanding the Group's retail business into the German market. Since acquisition, Envacom has been renamed Gazprom Marketing & Trading Retail Germania GmbH.

Consideration was €1 in cash. Details of consideration given and amounts recognised at the acquisition date for the assets acquired and the liabilities at assumed are as follows:

	At 10 November 2011 £'000s
Consideration	
Cash	–
Equity instruments	–
Contingent consideration	–
Recognised amounts of identifiable assets acquired and liabilities assumed	
Non-current assets	
Property, plant and equipment	28
Intangible assets	240
Current assets	
Receivables	2,059
Other assets	1,432
Cash and cash equivalents	1,009
Total assets	4,768
Liabilities	
Payables	5,062
Other liabilities	9,012
Total liabilities	14,074
Net liabilities acquired	9,306
Assets arising on acquisition	
Intangible assets in respect of customer lists	3,870
Deferred tax arising on intangible asset	1,884
Goodwill	3,552

Receivables are stated net of a £6.0 million provision for bad and doubtful debts.

An intangible asset of £3.8 million arising on the acquisition represents the value obtainable from access to Envacom's retail customer base with a useful economic life of five years over which period the asset will be amortised. The tax amortisation benefit on this asset is £1.9 million under the existing tax regulations and has been recognised in the statement of financial position as a deferred tax asset.

Goodwill of £3.6 million arose on the acquisition. Opportunities for future development of the business and expertise of staff that are not separable and thus valuable under IFRS 3 represent much of the assessed value that supports this goodwill.

The fair value of the receivables acquired is all expected to be collectible.

Acquisition related costs of £0.7 million have been included in 'Administrative expenses' within the consolidated Income Statement.

Since the acquisition date, the purchase of Envacom has resulted in a loss for the Group in the period to 31 December 2011 of £0.2 million, had the business combination been completed at 1 January 2011, the net profit of the Group would have been decreased by £7.6 million to £224.6 million, and net income increased by £67.0 million to £506.1 million.

26 RESTATEMENT OF 2010 FINANCIAL STATEMENTS

The financial information for the Group for the year ended 31 December 2010 has been restated due to a change in the basis of accounting for the Group's physical LNG transactions from fair value accounting to an accruals basis of accounting. This restatement affects transactions dating back to May 2009 within GGLNG and GMTS.

26 RESTATEMENT OF 2010 FINANCIAL STATEMENTS continued

Such a change in the accounting treatment of physical LNG contracts as adopted by GM&T is judgemental; nevertheless it constitutes a prior period accounting error in accordance with IAS 8 and therefore should be accounted for retrospectively from the inception of the contract. Such an error shall be corrected retrospectively from the inception of the contract in the first set of financial statements authorised for issue after their discovery by restating the opening balance of assets, liabilities and equity for the earliest prior period presented. Therefore GMTS and GGLNG's statutory and GM&T's consolidated financial statements will be required to be restated.

The change in basis of accounting requires the Group to restate the amount of the correction for each line item affected. The effect of this is to eliminate fair value movements from the Income Statement and fair value assets and liabilities from the statement of financial position in relation to the activities which are now deemed to be outside the scope of IAS 39: Financial Instruments: Recognition and Measurement. An additional restated statement of financial position of the Group is presented below as at 1 January 2010. The Company financial position and performance is not affected.

Group	Sub-notes	1 January 2010 (as previously reported) £'000s	Change due to restatement £'000s	1 January 2010 (restated) £'000s
Assets				
Non-current assets				
Intangible assets		4,307	–	4,307
Property, plant and equipment		14,075	–	14,075
Derivative financial instruments	1	140,021	(2,303)	137,718
Investments in subsidiaries		–	–	–
Deferred tax asset	2	7,556	25,127	32,683
Trade and other receivables		–	–	–
		165,959	22,824	188,783
Current assets				
Inventories		85,905	–	85,905
Trade and other receivables		590,744	–	590,744
Derivative financial instruments	1	603,818	(5,200)	598,618
Cash and cash equivalents		112,451	–	112,451
		1,392,918	(5,200)	1,387,718
Total assets		**1,558,877**	**17,624**	**1,576,501**
Liabilities				
Current liabilities				
Trade and other payables		578,407	–	578,407
Derivative financial instruments	1	535,021	23,896	558,917
Current tax liabilities	2	25,526	(2,204)	23,322
Loans and overdrafts		48,052	–	48,052
		1,187,006	21,692	1,208,698
Net current assets		**205,912**	**(26,892)**	**179,020**
Non-current liabilities				
Trade and other payables		357	–	357
Derivative financial instruments	1	112,616	66,329	178,945
Deferred tax liabilities	2	19	–	19
		112,992	66,329	179,321
Total liabilities		**1,299,998**	**88,021**	**1,388,019**
Net assets		**258,879**	**(70,397)**	**188,482**
Equity				
Ordinary share capital		20,000	–	20,000
Cash flow hedge reserve		(8,194)	–	(8,194)
Foreign currency translation reserve	3	(1,610)	2,544	934
Retained earnings	3	248,683	(72,941)	175,742
Equity attributable to:				
Owners of the parent		259,375	(70,397)	188,978
Non-controlling interest		(496)	–	(496)
Total equity		**258,879**	**(70,397)**	**188,482**

26 RESTATEMENT OF 2010 FINANCIAL STATEMENTS continued

Sub-notes

1. Movements in derivative financial instruments were as follows:

	Level 1	Level 2	Level 3
Non-current derivative assets			
Reduction of asset in respect of term deals			
Commodity trading contracts	–	–	(2,303)
Emission allowances	–	–	–
Forward foreign exchange contracts	–	–	–
Current derivative assets			
Reduction of asset in respect of sale and purchase of cargoes			
Commodity trading contracts	–	(5,200)	–
Emission allowances	–	–	–
Forward foreign exchange contracts	–	–	–
Current derivative liabilities			
Reduction of liability in respect of sale and purchase of cargoes			
Commodity trading contracts	–	(4,824)	–
Emission allowances	–	–	–
Forward foreign exchange contracts	–	–	–
Increase in liability in respect of term deals			
Commodity trading contracts	–	23,896	–
Emission allowances	–	–	–
Forward foreign exchange contracts	–	–	–
Non-current derivative liabilities			
Increase in liability in respect of term deals			
Commodity trading contracts	–	66,329	–
Emission allowances	–	–	–
Forward foreign exchange contracts	–	–	–

Movements in respect of sale and purchase of cargoes relate to situations where the Group had undertaken a contract which was extant as at 31 December 2009 to purchase or deliver LNG to a specified location at a following date, typically within one or two months.

Where forward price information was available at that location for the delivery date and terms as specified by the contract, the cargo would be marked to that price as with a derivative asset or liability arising on the statement of financial position, with the resulting gain or loss taken to P&L as at 31 December 2009.

These contracts were treated as level 2 instruments for the purposes of disclosure in the financial statements.

Following the decision that these contracts were outside the scope of IAS 39, these gains or losses have been removed and the entries made in respect of these cargoes reversed.

Movements in respect of term deals related to long-term contracts held by the Group for the purchase and sale of LNG. The term deals also contained, in some cases, elements that were financial in nature and did not require the purchase or sale of LNG. Where these financial and physical commitments were directly related the value of the contracts was presented net.

These contracts were measured at fair value using derived price information as fully observable price information was not available at the statement of financial position date for the full period of the contract. As such these contracts were treated as level 3 instruments for the purposes of disclosure in the financial statements. Those instruments that were financial in nature were related to the purchase and sale of physical cargoes and as such the contracts were presented net.

Following the decision that the elements of these contracts regarding the purchase and sale of LNG were outside the scope of IAS 39 the elements of the contracts relating to physical sale and purchase of cargoes have been removed from the valuation of the term deals. The elements of the term deals that were financial in nature continue to form part of the statement of financial position as at 31 December 2009, and have been classed as level 2 financial instruments.

26 RESTATEMENT OF 2010 FINANCIAL STATEMENTS continued

2. Movements in current and deferred tax were as follows:

	At 1 January 2010 £'000s
Deferred tax asset	
Increase in asset in respect of long-term contracts	25,127
Current tax liabilities	
Decrease in liability in respect of sale and purchase of cargoes	(2,204)

Current tax arises on the movements in respect of sale and purchase of cargoes, and current elements of the term deals as described in Sub-note 1 above. Where such restatements affect the taxable profit the tax asset or liability and related tax charge have been restated in accordance with the relevant tax rates and provisions.

The prior period restatement to the deferred tax opening balance is primarily due to a change in the accounting treatment in GGLNG whereby physical commodity transactions are now accounted for on an accruals basis. However, associated financial hedging transactions are still within the scope of IAS 39 and accounted for on a fair value basis through the profit and loss account. As hedge accounting does not apply, but as there is a clear hedging intention, these fair value movements have been disregarded for current income tax purposes until the underlying physical transaction is realised. This gives rise to significant deferred tax movements between the periods.

3. Movements in equity were as follows:

	At 1 January 2010 £'000s
Foreign currency translation reserve	
Exchange difference on adjustment	2,544
Retained earnings	
Retained earnings effect of adjustment	(72,941)

27 ULTIMATE PARENT GROUP AND CONTROLLING PARTY

The ultimate parent company and controlling party is OAO Gazprom, a company incorporated in Russia. The parent undertaking of the smallest Group which includes the Group and for which consolidated accounts are prepared, is Gazprom Germania GmbH, a company incorporated in Germany. Copies of the consolidated financial statements of Gazprom Germania GmbH are available from Gazprom Germania GmbH, Markgrafenstraße 23, D-10117 Berlin, Germany. Copies of the consolidated financial statements of OAO Gazprom are available from Nametkina str., 16 V-420, GSP-7, 117997, Moscow, Russia.

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

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

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