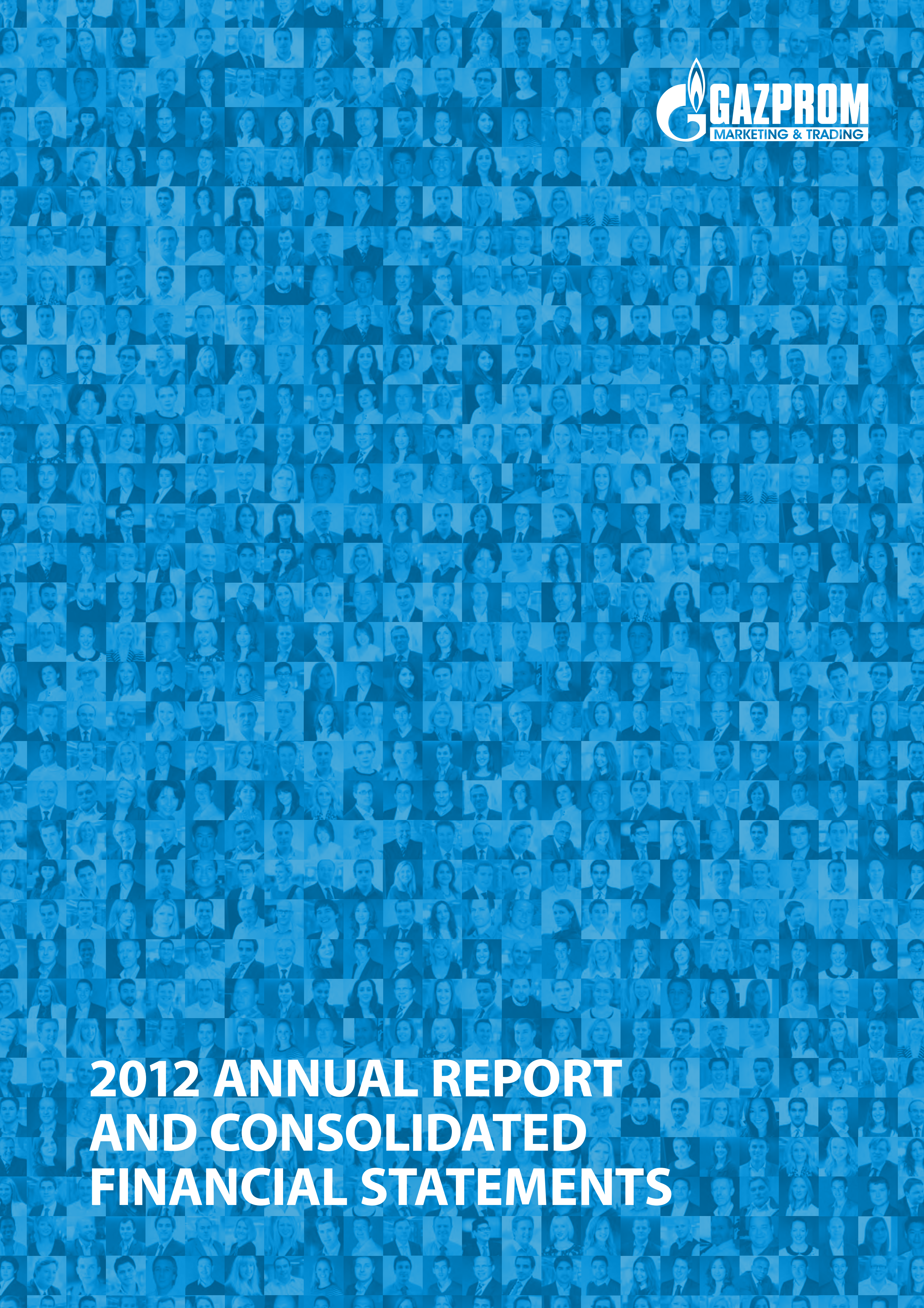

GAZPROM
MARKETING & TRADING

2012 ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

Contents

DIRECTORS' REPORT

The Directors present the Annual Report and the audited consolidated financial statements of Gazprom Marketing & Trading Ltd ('GM&T' or 'the Company') and its subsidiary undertakings (collectively referred to as 'the Group') for the year ended 31 December 2012.

Principal activity

The Group and Company's principal activity is the marketing and trading of energy products including natural gas, electricity, liquefied natural gas ('LNG'), liquefied petroleum gas ('LPG'), helium, oil and carbon emissions allowances in the UK, Continental 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 and Norway, with Gazprom Marketing & Trading Retail ('GM&T Retail') now operating a branch in the Netherlands.

Review of the business

Introduction

During the year, the Group has continued to seek opportunities to develop and expand its global marketing and trading activities. The international reach of the Group is reflected in the consolidated financial statements of the Group, which comprise the consolidated results of 12 individual legal entities covering the UK, Continental Europe, North America, Asia and branch activities across Europe.

The Group's aim is to secure the significant growth experienced by the Group during the last five years, while identifying and exploring new opportunities within the global energy markets.

Financial results

The consolidated Statements of comprehensive income for the year are set out on page 08. The Group's profit for the financial year was £155.8m (2011: £232.2m), a decrease of 33%. The Group increased its total equity to £563.8m (2011: £513.3m), an increase of 10% when compared to 31 December 2011.

While the Group's profit for the financial year has decreased in 2012 compared to the prior year, following a period of strong growth during the past decade, the Group continues to be profitable and has achieved growth in both volumes and capability. While the prevailing market conditions in which the Group operates continue to be challenging, the Group's core European gas businesses have reported improved performance compared to 2011. The decline in profitability is largely the result of reduced income from activities in Asian energy markets, when compared to 2011. In these markets the Group reported exceptional prior year results as demand for gas increased significantly throughout Asia. The performance of specific business units is considered in further detail below.

The Group has maintained a stable financial position, both through strong liquidity and risk management and the retention of profits in prior years. As a result of the Group's financial position and its ongoing business development activities, the Group believes it is well placed to exploit future growth opportunities and deliver strong profitability in 2013 and beyond.

During the year the Company declared and paid a final dividend of £105.3m to its immediate parent company Gazprom Germania GmbH ('GPG'), representing 45% of the net profit after tax for the year ended 31 December 2011. Since the reporting date, no further dividends were paid or proposed.

Business activities

The Group's strategic business units and reporting lines are structured in alignment with its commercial activities and global scope. These strategic business units are 1) Gas, Power & Derivatives, 2) LNG, Shipping & Logistics and Clean Energy; 3) Global Oil & LPG; and 4) Global Business Development & Downstream.

Gas, Power & Derivatives ('GPD')

GPD has had a successful 2012 reporting a 23% increase in net income compared to 2011 and accounting for approximately 50% of the Group's total net income in the year. This increase in performance has been achieved despite challenging market conditions in Europe and the USA, the Group's key markets.

GPD trading activities are core to the Group, particularly in Europe where the Group derives significant value from the optimisation and marketing of gas supplied by OOO Gazprom Export and its affiliates, which included gas delivered via the Nord Stream pipeline for the first time in 2012. Trading conditions in European gas markets continued to be negatively impacted by the macroeconomic environment, resulting in weak demand for gas and low volatility. In response, the Group continues to explore the potential for trading in parts of Europe outside of the Group's traditional trading locations, in order to derive additional value for shareholders. This approach, coupled with successful trading strategies, has ensured GPD has continued to grow in 2012 and the Group remains well placed to take advantage of opportunities in these markets.

Gazprom Marketing & Trading USA Inc ('GMTUSA') faced a challenging year in 2012. While the Group has built a significant presence and stable trading platform in the region, market dynamics have changed significantly. These changes have resulted in over-supply, causing very low market volatility and diminished location spreads limiting the Group's trading opportunities throughout 2012.

LNG, Shipping & Logistics, Clean Energy ('CELLS')

CELLS has reported lower net income during 2012 compared to 2011. However, CELLS continues to be strategically important for the Group and a key source of revenues, accounting for 39% of net income in 2012. The reduction in performance during 2012 can primarily be explained by the one-off nature of events in 2011, which resulted in the LNG business achieving an exceptionally strong performance, particularly in satisfying increased demand in the Asia-Pacific region. While demand and margins for LNG remain high in Asia and throughout the world, the Group has not been able to match the performance of 2011, largely due to international spot supply and shipping constraints.

Despite reporting reduced net income, the Group has had a very successful year in executing its long term strategy for LNG. As described in the Directors' report in 2011, the Group, and in particular its subsidiary Gazprom Marketing & Trading Singapore Pte Ltd ('GMTS'), is committed to developing long term strategic partnerships in the LNG market. During 2012, the Group has developed a robust portfolio through executing long and mid term sales and purchase agreements which are anticipated to generate margins in future periods. One such deal is the signing of a 20 year supply contract with GAIL (India) Limited, the largest gas transmission and marketing company in India. All deals signed in 2012 are in addition to the existing long term LNG purchases from Sakhalin in Eastern Russia, which is located in close proximity to the Group's key strategic markets in Asia and creates a portfolio with excellent long term opportunities for the Group.

Shipping & Logistics operated six LNG and LPG vessels during 2012 which the Group had secured on time charters in 2011. This allowed the Group to benefit from the historically high shipping rates in the market when sub-chartering to both GM&T Group businesses and third parties during 2012. These favourable conditions resulted in a 52% increase in net income compared to 2011. Furthermore, the Group has signed long term time charters of LNG vessels that will be built in South Korea in 2013-14, enabling it to further support its LNG trading operations and marketing activities.

The Clean Energy business has continued to be profitable in extremely challenging market conditions, where the ongoing lack of firm European policy and over-supply in the market have caused prices to fall to record lows. Low prices and low volatility have limited trading opportunities and significantly reduced profit margins on structured trading. While market conditions have been unfavourable, the Clean Energy business remains well positioned to exploit future opportunities in the carbon markets, including the EU emissions trading system ('EU ETS') through to 2020 and the ongoing development of emerging markets in the USA, New Zealand and Asia.

Global Oil & LPG

Global Oil & LPG has had a successful year growing the physical business and implementing long term strategies to achieve future goals. While still a new business for the Group, the business unit has seen numerous benefits from its business development activities in 2011. As a result of these activities, the Group has developed a helium business which has delivered 39 cargoes during 2012 and continues to grow an LPG portfolio based on medium term sales and purchase contracts that have driven positive results in 2012 and will continue to do so in future periods.

Global Business Development & Downstream ('GBD&D')

GBD&D was formed in 2012, to provide GM&T with an increased focus on long term business development either through sustainable growth of the existing business or entry into new products and markets, including working with other departments in the Gazprom group to deliver key strategic projects, the development of gas-to-power projects in Western and Eastern Europe and the development of the Group's existing retail activities.

In relation to co-operation on gas-to-power projects, advanced negotiations are taking place with other Gazprom group companies and selected third parties on target assets with the Group's newly established Mergers and Acquisition ('M&A') team assisting with both these activities. This activity is a key component of the downstream strategy of the Gazprom group and GM&T is investing significant resources to support the delivery of this strategy. It is anticipated that Gazprom will bring into operation its first gas-fired power generation project outside of Russia into operation in future periods.

In the retail business, the current year has been challenging but the Group has made significant progress stabilising IT systems and functions in existing markets, developing its core UK gas business and increasing management of the business on a portfolio basis. As a result, the business has increased both volumes and its customer base during the year, achieving absolute customer increases (excluding Germany) of 32% and 12% in gas and power respectively. As disclosed in 2011, entry into the German market was achieved through the acquisition of Gazprom Marketing & Trading Retail Germania GmbH ('GMTRG') (formerly Envacom Service GmbH), a German based supplier of electricity to domestic customers. The retail business has been working on marketing and increasing capabilities in Germany throughout 2012 and added approximately 60,000 customers to the business in the latter part of the year. The Group will see increased revenues from these additional customers and locations in 2013. Furthermore, the business is now operationally ready to sell gas and power in the Netherlands which is also expected to deliver additional growth in 2013.

On 11 October 2012, the Group disposed of Gazprom Global Energy Solutions Ltd ('GGES') to Energy Assets Limited ('EAL'), the largest independent provider of gas metering services in the UK, for an enterprise value of £13.5m. Going forward, the Group and EAL will work in partnership to provide both automatic meter reader ('AMR') services and site works to Gazprom Energy's current UK portfolio of new and existing customers.

Infrastructure

In the prior year, the Group implemented new systems including: OpenLink Endur to support the Group's European gas trading, an operations system to support Shipping & Logistics and the enterprise management system, SAP. Enhancement of these systems, including upgrades and supporting processes, have been implemented in 2012 to fully integrate these systems into the Group's IT infrastructure.

The Group is committed to continually review, monitor and improve systems that support its growing and increasingly complex business and will invest further in systems that will improve the controls around data, risk management and the provision of and quality of information available to external stakeholders. In line with this policy a second phase of SAP implementation will be undertaken during 2013 that will build on the successful implementation phase and provide a solid platform to support future growth with enhanced control, automation and efficiency.

Gazprom group

The Group recognises the importance of marketing and trading operations to the upstream production companies and the Group continues to position itself as a crucial interface to the market for 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 to optimise the portfolio and build demand for Gazprom gas. In 2012, the Group's increased integration has been demonstrated by participating in certain European M&A activities on behalf the Gazprom group. Throughout the year, the Group has been engaged in indentifying acquisition targets that will benefit the interests of the wider Gazprom group, including identifying opportunities in new markets and broadening the Group's business activities, such as developing power generation capability in Western Europe.

The Group will continue to work closely with entities across the Gazprom group during 2013, both in closing ongoing projects but also in identifying new opportunities for growth.

The future

The Group will maintain a strong focus on efficiency and control of its operations. This focus will allow the Group to control and risk manage its current level of business, while providing a platform for managing future 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;
- Focusing on the Group's core energy commodities;
- Investment in people, systems and processes ; and
- Operational efficiency.

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 challenging 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.

The Group maintains and operates the '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 of this policy is GM&T's Risk Oversight Committee ('ROC') which supervises the development, implementation and operation of the risk management framework and has a direct reporting line to the Group's senior management and Board of Directors.

The Group's management of financial risks is described in Note 19 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). Certain proposed changes within the financial services industry are envisaged to impact commodity trading organisations such as GM&T in 2013 and 2014. These changes include reform of the over-the-counter ('OTC') derivatives markets, such as mandated exchange trading and clearing, position limits and margin requirements.	The Group has a specialist regulatory risk team which maintains awareness of regulatory requirements and actively engages with regulatory authorities to shape those requirements. As appropriate, the regulatory risk team ensure sufficient planning and action is taken to prepare the Group for significant changes to its regulatory environment in any of the locations in which the Group operates. 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 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 programmes 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 has a Business Continuity Plan ('BCP') which established an infrastructure that enables the Group to continue trading if the primary working environment is compromised. BCP includes a robust set of procedures that gives clarity to how the Group operates, in the event of a major issue or crisis.

Key performance indicators

The Group, along with its parent company, have 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	2012	2011	Change
Profitability	**Net income (£ million)**	**373.9**	439.1	**-15%**
Profitability	**EBITDA (£ million)**	**203.1**	283.3	**-28%**
	EBITDA is defined as Earnings before Interest, Tax, Depreciation and Amortisation			
Profitability	**Net profit after tax (£ million)**	**155.8**	232.2	**-33%**
Profitability	**Return on equity**	**29%**	51%	**-22% 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**	**42%**	53%	**-11% points**
Liquidity	**Dividends paid (£ million)**	**105.3**	61.0	**73%**
Liquidity	**Current ratio**	**1.18**	1.17	**1%**
Non-financial	**Gas delivered (million m^3)**	**109,990**	84,717	**30%**
Non-financial	**LNG delivered (million m^3)**	**1,953**	3,120	**-37%**
Non-financial	**Electricity delivered (TWh)**	**127.1**	93.1	**37%**

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 (resigned 30 June 2012)
I Y Kochevrin (appointed 11 July 2012)
A V Kruglov
V V Krupenkov (appointed 1 July 2012)
A I Medvedev
A V Mikhalev
P V Oderov
V V Vasiliev

There are no Directors' interests in the share capital of the Company as at the date of the financial statements 2012 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 year and up to the date of the Directors' report for the benefit of all Directors of the Group.

Political and charitable contributions
During the year the Group made various donations to a number of charities totalling £0.3m (2011: £0.3m). 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 (2011: £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 19 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.

Events after the reporting date
There have been no significant events since the reporting date.

Audit Committee
The Group has an Audit Committee which assists the Boards of the Company and selected Group companies in ensuring they are operating an effective internal control environment and in meeting the various compliance and external reporting requirements of the selected companies. The Audit Committee meets on a periodic basis and reports to the relevant Boards on an annual basis.

Independent auditors
The Directors in accordance with Section 418 of the Companies Act 2006 have confirmed the following statement, that in respect of the audit the Group and parent company financial statements of Gazprom Marketing & Trading Limited for the year ended 31 December 2012:

- 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
15 March 2013

V V Vasiliev
Director
15 March 2013

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 ('IFRS') 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 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 IFRS as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 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 Company financial statements of Gazprom Marketing & Trading Limited for the year ended 31 December 2012 which comprise the Group and Company Statements of Comprehensive Income, the Group and Company Statements of Financial Position, the Group and Company Statements of Changes in Equity, the Group and Company Statements of Cash Flow 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 ('IFRS') as adopted by the European Union.

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 06, 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 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 Company's affairs as at 31 December 2012 and of the Group's and Company's profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters 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 Joseland (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom
15 March 2013

STATEMENTS OF COMPREHENSIVE INCOME YEAR ENDED 31 DECEMBER 2012

		Group		Company	
	Notes	2012 £'000s	2011 £'000s	2012 £'000s	2011 £'000s
Trading activities:					
Net trading income		**175,831**	220,754	**189,971**	183,406
Non-trading activities:					
Revenue		**2,688,160**	1,664,247	**67,180**	–
Cost of sales		**(2,490,083)**	(1,445,891)	**(65,869)**	–
Gross profit from non-trading activities		**198,077**	218,356	**1,311**	–
Net income		**373,908**	439,110	**191,282**	183,406
Administrative expenses	5	**(193,939)**	(164,062)	**(126,705)**	(110,997)
Operating profit		**179,969**	275,048	**64,577**	72,409
Interest income		**525**	362	**561**	382
Interest expense		**(10,656)**	(11,993)	**(11,616)**	(10,288)
Income from subsidiaries		**–**	–	**103,955**	39,546
Gain on sale of property, plant and equipment	10	**69**	–	**69**	–
Gain on disposal of subsidiary	26	**6,884**	–	**2,800**	–
Profit before tax		**176,791**	263,417	**160,346**	102,049
Tax	7	**(20,968)**	(31,256)	**(22,558)**	(18,561)
Profit for the financial year		**155,823**	232,161	**137,788**	83,488
Cash flow hedges:					
Fair value losses recognised during the year		**(35,045)**	(50,031)	**–**	–
Tax on items taken directly to equity		**7,847**	12,508	**–**	–
Transferred to/(from) profit or loss on cash flow hedges		**50,031**	(29,082)	**–**	–
Tax on items transferred from equity		**(12,508)**	7,852	**–**	–
(Losses)/gains on foreign currency translation		**(10,402)**	3,524	**–**	–
Total other comprehensive income		**(77)**	(55,229)	**–**	–
Total comprehensive income		**155,746**	176,932	**137,788**	83,488
Total comprehensive income attributable to:					
Equity owners of the parent		**155,746**	176,932	**137,788**	83,488

All operations were continuing in the current and prior year.

The notes on pages 12 to 43 form an integral part of the financial statements.

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2012

	Notes	Group 2012 £'000s	Group 2011* £'000s	Company 2012 £'000s	Company 2011 £'000s
Assets					
Non-current assets					
Intangible assets	9	**68,082**	49,056	**52,115**	32,355
Property, plant and equipment	10	**26,010**	37,758	**22,441**	31,019
Derivative financial instruments	20	**181,911**	319,030	**331,607**	365,258
Investments in subsidiaries	11	**–**	–	**16,120**	19,280
Deferred tax assets	17	**16,384**	18,690	**1,226**	2,538
Trade and other receivables	13	**693**	32,198	**2,030**	34,833
		293,080	456,732	**425,539**	485,283
Current assets					
Inventories	12	**251,593**	214,938	**178,344**	198,211
Trade and other receivables	13	**1,282,450**	804,507	**1,207,407**	763,271
Derivative financial instruments	20	**1,233,640**	1,388,895	**1,445,035**	1,458,547
Cash equivalents receivable with related parties	14	**4,844**	31,006	**4,844**	13,596
Cash and cash equivalents	14	**177,111**	224,162	**107,197**	80,401
		2,949,638	2,663,508	**2,942,827**	2,514,026
Total assets		**3,242,718**	3,120,240	**3,368,366**	2,999,309
Liabilities					
Current liabilities					
Trade and other payables	15	**1,185,289**	831,782	**1,049,136**	686,520
Derivative financial instruments	20	**1,098,067**	1,291,905	**1,281,886**	1,334,481
Provisions	18	**1,493**	–	**1,326**	–
Current tax liabilities		**11,706**	19,809	**8,043**	6,802
Loans and overdrafts	16	**206,796**	130,000	**359,398**	287,183
		2,503,351	2,273,496	**2,699,789**	2,314,986
Non-current liabilities					
Trade and other payables	15	**3,613**	34,974	**3,116**	34,571
Derivative financial instruments	20	**171,983**	296,233	**342,309**	356,967
Deferred tax liabilities	17	**–**	2,193	**–**	2,102
		175,596	333,400	**345,425**	393,640
Total liabilities		**2,678,947**	2,606,896	**3,045,214**	2,708,626
Net assets		**563,771**	513,344	**323,152**	290,683
Equity					
Ordinary share capital	21	**20,000**	20,000	**20,000**	20,000
Cash flow hedge reserve		**(27,198)**	(37,523)	**–**	–
Foreign currency translation reserve		**(7,288)**	3,114	**–**	–
Retained earnings		**578,257**	527,753	**303,152**	270,683
Equity attributable to:					
Owners of the parent		**563,771**	513,344	**323,152**	290,683
Total equity		**563,771**	513,344	**323,152**	290,683

*Adjusted for changes to provisional values booked on acquisition of Gazprom Marketing & Trading Retail Germania GmbH ('GMTRG') (see Note 25)

The notes on pages 12 to 43 form an integral part of the financial statements.

These consolidated financial statements of Gazprom Marketing & Trading Ltd (registered number 3768267) and of the Company were approved by the Board of Directors and authorised for issue on 15 March 2013.

Signed on behalf of the Board

A V Mikhalev
Director

V V Vasiliev
Director

STATEMENTS OF CHANGES IN EQUITY YEAR ENDED 31 DECEMBER 2012

Group	Notes	Ordinary share capital £'000s	Cash flow hedge reserve £'000s	Foreign currency translation reserve £'000s	Retained earnings £'000s	Total equity £'000s
Balance at 1 January 2011		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		–	–	3,524	–	3,524
Total comprehensive (expense)/income		–	(58,753)	3,524	232,161	176,932
Transactions with owners:						
Dividends paid	8	–	–	–	(60,963)	(60,963)
Balance at 1 January 2012		**20,000**	**(37,523)**	**3,114**	**527,753**	**513,344**
Profit for the year		–	–	–	155,823	155,823
Other comprehensive income:						
Loss in fair value hedging derivatives transferred to income		–	50,031	–	–	50,031
Deferred tax related to loss in fair value hedging derivatives transferred to income		–	(12,508)	–	–	(12,508)
Fair value loss on hedging derivatives		–	(35,045)	–	–	(35,045)
Deferred tax related to fair value loss on hedging derivatives recognised in equity		–	7,847	–	–	7,847
Loss on foreign currency translation		–	–	(10,402)	–	(10,402)
Total comprehensive income/(expense)		–	10,325	(10,402)	155,823	155,746
Transactions with owners:						
Dividends paid	8	–	–	–	(105,319)	(105,319)
Balance at 31 December 2012		**20,000**	**(27,198)**	**(7,288)**	**578,257**	**563,771**

Company	Notes	Ordinary share capital £'000s	Retained earnings £'000s	Total £'000s
Balance at 1 January 2011		20,000	248,158	268,158
Dividends paid	8	–	(60,963)	(60,963)
Profit for the year and total comprehensive income		–	83,488	83,488
Balance at 1 January 2012		**20,000**	**270,683**	**290,683**
Dividends paid	8	–	(105,319)	(105,319)
Profit for the year and total comprehensive income		–	137,788	137,788
Balance at 31 December 2012		**20,000**	**303,152**	**323,152**

The notes on pages 12 to 43 form an integral part of the financial statements.

STATEMENTS OF CASH FLOWS YEAR ENDED 31 DECEMBER 2012

		Group		Company	
	Notes	**2012 £'000s**	2011 £'000s	**2012 £'000s**	2011 £'000s
Operating activities					
Operating profit		**179,969**	275,048	**64,577**	72,409
Depreciation of tangible fixed assets	10	**13,753**	4,193	**12,368**	3,597
Amortisation of intangible assets	9	**2,420**	4,082	**1,358**	2,466
Unrealised derivative fair value movements		**(10,821)**	(123,704)	**(19,576)**	(75,754)
Other unrealised movements		**(21,073)**	19,947	**(12,703)**	17,160
Provisions charged in the year	18	**1,493**	–	**1,326**	–
Operating cash flows before movements in working capital		**165,741**	179,566	**47,350**	19,878
(Decrease)/increase in inventories		**(19,538)**	(132,470)	**29,337**	(120,240)
Increase in receivables		**(465,403)**	(220,676)	**(391,094)**	(279,548)
Increase in payables		**341,133**	265,417	**337,621**	263,797
(Increase)/decrease in derivative financial instruments		**(2,469)**	10,155	**(635)**	(19,621)
Cash generated from/(used in) operations		**19,464**	101,992	**22,579**	(135,734)
Interest and banking charges paid		**(10,097)**	(12,206)	**(11,344)**	(9,696)
Income taxes paid		**(31,713)**	(36,573)	**(22,092)**	(21,784)
Net cash (outflow)/inflow from operating activities		**(22,346)**	53,213	**(10,857)**	(167,214)
Investing activities					
Investment income received		**20**	333	**81,941**	40,051
Purchases of property, plant and equipment	10	**(6,139)**	(13,624)	**(4,563)**	(9,472)
Proceeds on sale of property, plant and equipment	10	**842**	–	**842**	–
Purchases of intangible assets	9	**(23,148)**	(20,575)	**(21,942)**	(19,244)
Proceeds on sale of intangible assets	9	**1,687**	–	**824**	–
Proceeds on sale of subsidiary	26	**5,833**	–	**5,833**	–
Acquisition of subsidiaries, net of cash acquired	11	**–**	939	**–**	(70)
Net cash (outflow)/inflow investing activities		**(20,905)**	(32,927)	**62,935**	11,265
Financing activities					
Drawdown/(repayment) of loan from parent undertakings	16	**44,625**	(1,859)	**44,625**	–
Drawdown of loan from third parties	16	**32,171**	–	**32,286**	–
(Repayment)/drawdown of loan from subsidiaries	16	**–**	–	**(4,696)**	157,614
Dividend paid	8	**(105,319)**	(60,963)	**(105,319)**	(60,963)
Net cash (outflow)/inflow from financing activities		**(28,523)**	(62,822)	**(33,104)**	96,651
Net (decrease)/increase in cash and cash equivalents		**(71,774)**	(42,536)	**18,974**	(59,298)
Exchange loss on cash and cash equivalents		**(1,439)**	(316)	**(930)**	–
Cash and cash equivalents at the beginning of the year	14	**255,168**	298,020	**93,997**	153,295
Cash and cash equivalents at the end of the year	14	**181,955**	255,168	**112,041**	93,997

The notes on pages 12 to 43 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2012

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 and Company are referred to in the Directors' report.

2 BASIS OF PREPARATION

Statement of compliance
The Group's annual financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') 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 and IFRS interpretations. The primary statements 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, modified by certain financial instruments measured at fair value, 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. These standards and interpretations are not expected to have a material impact on the Group's financial statements:

- IAS 12 *'Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets'* – effective for accounting periods beginning on or after 1 January 2012;
- An amendment to IFRS 7 *'Financial instruments: Disclosures – transfers of financial assets'* was issued by the IASB in October 2010 for prospective application in annual periods beginning on or after 1 July 2011. The amendment was endorsed by the EU in November 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 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'* – effective for accounting periods beginning on or after 1 July 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 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 Statements of comprehensive income 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 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 in Note 3 in the foreign currency accounting policy.

2 BASIS OF PREPARATION continued

Business combinations
The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interests in the acquiree either at fair value or at the non-controlling interests' proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interests in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the Statements of comprehensive income.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, LPG and helium 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 classified as 'trading'. To define trading income, the Group uses the net gains and losses generated from financial instruments, and certain non-financial instruments, classified as held for trading per IAS 39 *Financial Instruments: Recognition and Measurement* ('IAS 39') as the basis for this categorisation.

Net 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.

'Net trading income' is attributable to the Group's principal activity.

In addition to net gains and losses from items classified as held for trading within the scope of IAS 39, 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 and contingent liabilities of the acquiree. On an ongoing basis, goodwill is measured at cost less any accumulated impairment losses.

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

Internally developed and purchased software	–	5 years
Others	–	3 years

Development costs are capitalised if a newly developed product or process can be clearly defined, is technically feasible and it is the Group's intention to either use the product or process itself or market it. Furthermore, asset recognition requires that there be a sufficient level of certainty that the development costs lead to future economic benefits. Capitalised development costs are amortised over the time period during which the products are expected to be sold or used. Research expenditures are recognised as expenses in the period in which they are incurred.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Property, plant and equipment
Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes costs directly attributable to making the asset capable of operating as intended.

For property held under operating leases, a reinstatement provision is recognised for the estimated cost of returning the property to its agreed condition at the end of the lease term. When the provision for reinstatement is recognised within 'Provisions' in the Statements of financial position, an equivalent asset is recognised and included in the cost of the leasehold improvements at the present value of any reinstatement obligations. The reinstatement asset is depreciated over the useful economic life of the relevant leasehold improvement asset.

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:

Freehold property	–	50 years
Leasehold property	–	shorter of remaining lease term and 40 years
Leasehold improvements, including reinstatement assets	–	shorter of remaining lease term and 10 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 Statements of comprehensive income 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.

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

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 are 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 Statements of comprehensive income within 'Administrative expenses' and are reflected in the carrying amount of the impaired asset on the Statements 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
The valuation approach for Group's inventory is based on the Group's specific activities in relation to each product. Physical commodities principally acquired for the purpose of selling in the near future and generating a profit from fluctuations in price or broker-traders' margin are held at fair value less costs to sell. Movements in the fair value of inventory between reporting dates are recognised directly in the Statements of comprehensive income.

All other physical commodities are held at the lower of cost and net realisable value. Net realisable value is the price at which inventory can be sold in the ordinary course of business after allowing for the estimated costs of sale. Gas held in storage is 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.

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, excluding cash 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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 Statements of comprehensive income 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 Statements of comprehensive income on a straight line basis over the period of the lease.

Foreign currency

(a) Functional and presentation currency

The Group and Company's 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 Statements 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 on the Statements of comprehensive income and the closing rate for items presented on the Statements 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 Statements of comprehensive income 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.

Offsetting of balances

Financial assets and financial liabilities are reported on a net basis only where there is a currently enforceable 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 as a current year expense, 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 reporting 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 reporting 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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 operates a defined contribution plan and a mandatory government defined benefit plan in France.

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 Statements of comprehensive income in the period in which they become payable.

The Group operates an unfunded defined benefit plan for which the relevant obligations are measured on an annual basis by a qualified independent actuary. All service costs and actuarial movements relating to these defined benefits are recognised immediately as an expense in the Statements of comprehensive income.

Financial instruments
Financial assets and financial liabilities are recognised in the Statements 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 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.

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 or financial liabilities classified as held for trading, including all derivatives, are recognised on trade date at fair value (as described in more detail below), usually being the transaction price excluding transactions costs. These transaction costs are included within 'Net trading income' in the Statements of comprehensive income.

Held for trading financial assets and liabilities are carried in the Statements of financial position at fair value with gains or losses recognised in the Statements of comprehensive income within 'Net trading income', except for derivatives designated as hedging instruments. The determination of fair value and the treatment of derivatives designated as hedging instruments is described below within the 'Derivative financial instruments' policy.

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 Statements of comprehensive income within 'Net trading income'.

Loans and receivables
Financial assets and financial liabilities classified as loans and receivables are initially recognised on settlement date at fair value and subsequently measured at amortised cost, using the effective interest rate method, less any identified impairments. Interest is recognised in the Statements of comprehensive income within 'Interest income' or 'Interest expense' as appropriate. The fair value on initial recognition includes directly attributable transaction costs.

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Fair value

Movements in the fair value of financial assets and liabilities at fair value through profit or loss, primarily derivative instruments held by the Group, are recognised within 'Net trading income' unless the instrument is designated in an effective hedge relationship. 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. 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.

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. All derivative instruments are measured at fair value upon initial recognition and re-measured to fair value at each subsequent reporting date.

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

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

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

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

IAS 39 stipulates the conditions for the recognition of hedging relationships. Amongst other things, the hedging relationship must be documented in detail and be effective. According to IAS 39, a hedging relationship is effective when the changes in the fair value of the hedging instrument are within 80% to 125%, both prospectively and retrospectively, of the opposite change in the fair value of the hedged item. Only the effective portion of a hedge is recognised in accordance with the preceding rules. The ineffective portion is recognised immediately in the Statements of comprehensive income with an effect on income.

Note 20 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 Statements of changes in equity.

Cash flow hedges

Cash flow hedges are used to hedge the risk of variability in cash flows related to an asset or liability carried on the Statements of financial position or related to a highly probable forecast transaction.

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. 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 income in the periods when the hedged item is recognised in profit or loss, in the same line of the Statements of comprehensive income 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 as described above.

Treatment of 'day-one' gains and losses

In the normal course of its business, the Group will acquire financial instruments where the fair value on initial recognition is the transaction price, being the fair value of the consideration given or received. However, for certain transactions the fair value on initial recognition will be based on other observable market data for the same instrument or calculated using a valuation technique, where all input variables are based on observable market data. When evidence of observable data exists, the Group recognises a 'day-one' gain or loss on inception of the transaction within 'Net trading income'.

When significant unobservable market data is used to determine the fair value at the inception of the transaction, the initial change in fair value calculated using valuation techniques as at the transaction date is not recognised immediately. These 'day-one' gains or losses are deferred and recognised in 'Net trading income' on a straight line or other appropriate basis, as observable market data becomes available.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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 'Net trading income'. 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 'Net trading income'.

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 20, 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.

(b) LNG accounting

The Group has entered into long term contracts for the purchase and supply of LNG. Due to the absence of a transparent long term pricing mechanism for LNG, pricing is linked to underlying natural gas and oil indices such as Brent crude, 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*.

5 ADMINISTRATIVE EXPENSES

Operating profit is stated after charging:

	Group		Company	
	2012 £'000s	2011 £'000s	**2012 £'000s**	2011 £'000s
Administrative expenses				
Staff costs (refer to Note 6)	**101,420**	87,328	**59,115**	55,874
Other employee costs	**15,321**	11,628	**12,247**	5,132
Occupancy costs	**9,085**	8,505	**5,210**	5,452
Rentals under operating leases	**7,265**	11,353	**5,152**	8,034
Travel expenses	**7,552**	8,572	**3,953**	4,441
Consultancy (excluding auditor's remuneration)	**10,756**	20,251	**8,678**	15,023
Auditor's remuneration (see below)	**1,278**	1,081	**824**	649
Depreciation (refer to Note 10)	**13,753**	4,193	**12,368**	3,597
Amortisation (refer to Note 9)	**2,420**	4,082	**1,358**	2,466
Impairment losses (refer to Note 19)	**9,720**	2,085	**7,267**	1,305
Other administrative expenses	**15,369**	4,984	**10,533**	9,024
	193,939	164,062	**126,705**	110,997

5 ADMINISTRATIVE EXPENSES continued

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

	Group		Company	
	2012 £'000s	2011 £'000s	**2012 £'000s**	2011 £'000s
Fees payable to the Company's auditors for the audit of the Company's annual financial statements	**400**	330	**400**	330
Fees payable for the audit of the Company's subsidiaries pursuant to legislation				
Fees payable to the Company's auditors	**312**	282	**–**	–
Fees payable to auditors other than the Company's	**–**	21	**–**	–
Total audit fees	**712**	633	**400**	330
Audit related services	**329**	126	**188**	78
Tax services	**53**	119	**53**	38
IT services	**100**	66	**100**	66
Other services	**84**	137	**83**	137
Total non-audit fees	**566**	448	**424**	319
Total auditor's remuneration	**1,278**	1,081	**824**	649

6 DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	Group		Company	
Directors	**2012 £'000s**	2011 £'000s	**2012 £'000s**	2011 £'000s
Directors' remuneration	**4,676**	6,366	**4,576**	6,266

The remuneration of the highest paid Director is £2.4m (2011: £3.4m).

No contributions were made to personal pension plans in respect of any of the Directors (2011: £nil).

	Group		Company	
Employees	**2012 £'000s**	2011 £'000s	**2012 £'000s**	2011 £'000s
Staff costs during the year				
Wages and salaries	**83,705**	79,211	**47,599**	51,968
Social security costs	**12,395**	4,411	**8,295**	2,123
Other pension costs	**5,320**	3,706	**3,221**	1,783
	101,420	87,328	**59,115**	55,874

The average number of employees of the Group and the Company including the Directors, excluding contractors and temporary staff, is shown below:

	Group		Company	
	2012	2011	**2012**	2011
Average number of persons employed	**791**	610	**419**	345

7 TAX

	Group		Company	
	2012 **£'000s**	2011 £'000s	**2012** **£'000s**	2011 £'000s
UK corporation tax – current year	**20,474**	17,630	**23,351**	19,381
UK corporation tax – prior year	**(1,653)**	(30)	**(4)**	(31)
Overseas taxes – current year	**7,343**	9,381	**–**	370
Overseas taxes – prior year	**(523)**	(306)	**–**	–
Overseas deferred taxes – current year (Note 17)	**(1,173)**	(1,069)	**–**	–
Deferred taxation – current year (Note 17)	**(5,007)**	6,092	**(2,342)**	(1,075)
Deferred taxation – prior year (Note 17)	**1,507**	(442)	**1,553**	(84)
Tax expense in the Statements of comprehensive income	**20,968**	31,256	**22,558**	18,561

	Group		Company	
	2012 **£'000s**	2011 £'000s	**2012** **£'000s**	2011 £'000s
Profit before tax	**176,791**	263,417	**160,346**	102,049
Tax charge for year based on statutory rate of 24.5% (2011: 26.5%)	**43,314**	69,806	**39,285**	27,043
Effects of:				
Expenses not deductible for tax purposes	**1,426**	2,473	**1,477**	1,851
Prior year (over)/under provision	**(669)**	(778)	**1,549**	(116)
Non taxable income	**–**	–	**(20,076)**	(10,480)
Overseas tax rates	**(25,385)**	(32,144)	**–**	–
Deferred tax assets not recognised	**1,717**	(67)	**–**	–
Deferred tax rate change	**432**	(45)	**123**	14
Other tax impacts	**133**	(7,989)	**200**	249
Actual charge for the year	**20,968**	31,256	**22,558**	18,561

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 from the amount accrued and could therefore impact our overall profitability and cash flows in future periods.

8 DIVIDENDS PAID

	Group		Company	
	2012 **£'000s**	2011 £'000s	**2012** **£'000s**	2011 £'000s
Amounts recognised as distributions to equity holders in the year:				
Final dividend for the year ended 31 December 2011 of 526.6p per share	**105,319**	–	**105,319**	–
Final dividend for the year ended 31 December 2010 of 304.8p per share	**–**	60,963	**–**	60,963
Total dividends paid	**105,319**	60,963	**105,319**	60,963

9 INTANGIBLE ASSETS

Group	Internally developed software £'000s	Software £'000s	Goodwill £'000s	Others £'000s	Total £'000s
Cost					
At 1 January 2011	–	21,162	1,926	3,226	26,314
Additions*	–	20,414	12,196	1,989	34,599
Currency translation	–	(9)	–	2	(7)
At 1 January 2012*	–	41,567	14,122	5,217	60,906
Reclassification	11,323	(12,153)	–	830	–
Additions	11,716	9,872	–	1,560	23,148
Disposals	–	(79)	(451)	(1,512)	(2,042)
Currency translation	–	(29)	–	(5)	(34)
At 31 December 2012	**23,039**	**39,178**	**13,671**	**6,090**	**81,978**
Accumulated amortisation					
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 1 January 2012	–	8,828	–	3,022	11,850
Reclassification	1,979	(2,024)	–	45	–
Amortisation expense for the year	339	1,291	–	790	2,420
Disposals	–	(47)	–	(308)	(355)
Currency translation	–	(18)	–	(1)	(19)
At 31 December 2012	**2,318**	**8,030**	**–**	**3,548**	**13,896**
Net book value					
At 31 December 2012	**20,721**	**31,148**	**13,671**	**2,542**	**68,082**
At 31 December 2011	–	32,739	14,122	2,195	49,056

*Adjusted for changes to provisional values booked on acquisition of GMTRG (see Note 25)

Included within the Group's intangible assets is £28.9m (2011: £24.0m) relating to software assets under construction.

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated for impairment testing to two cash generating units ('CGUs') as follows:

– Retail
– Other

The carrying amount of goodwill allocated to the CGUs is as follows:

CGU	**2012 £'000s**	2011* £'000s
Retail	**13,401**	13,852
Other	**270**	270
	13,671	14,122

*Adjusted for changes to provisional values booked on acquisition of GMTRG (see Note 25)

There was no impairment of goodwill recognised in 2012 (2011: £nil) as a result of the Group's impairment testing review.

9 INTANGIBLE ASSETS continued

Key assumptions used in value in use calculation
The recoverable amount of the CGUs has been determined based on a value in use calculation, using cash flow projections based on financial budgets approved by senior management covering a five year period.

The calculation of the value in use for both CGUs is most sensitive to the following assumptions:

– Number of customers and margins
– Discount rates

Cash flow forecasts
The cash flow forecasts used in the value in use calculation are based on the five year business plan. The plan is drawn up using inputs derived from the business units past experience of the relevant markets, a considered view of the future trading and economic environment and is checked for consistency with appropriate external sources of information.

Discount rates
Discount rates reflect management's estimate of the risks of the CGU, and are based on the weighted average costs of capital of the relevant business unit.

Sensitivity to changes in assumptions
Management believe that no reasonably possible change in any assumptions would cause the carrying value of the CGUs to exceed their recoverable amount.

Company	Internally developed software £'000s	Software £'000s	Others £'000s	Total £'000s
Cost				
At 1 January 2011	–	20,233	–	20,233
Additions	–	19,244	–	19,244
At 1 January 2012	–	39,477	–	39,477
Reclassification	11,323	(12,153)	830	–
Additions	11,716	9,333	893	21,942
Disposals	–	–	(824)	(824)
At 31 December 2012	**23,039**	**36,657**	**899**	**60,595**
Accumulated amortisation				
At 1 January 2011	–	4,656	–	4,656
Amortisation expense for the year	–	2,466	–	2,466
At 1 January 2012	–	7,122	–	7,122
Reclassification	1,979	(1,979)	–	–
Amortisation expense for the year	339	881	138	1,358
At 31 December 2012	**2,318**	**6,024**	**138**	**8,480**
Net book value				
At 31 December 2012	**20,721**	**30,633**	**761**	**52,115**
At 31 December 2011	–	32,355	–	32,355

Included within the Company's intangible assets is £28.9m (2011: £24.0m) relating to software assets under construction.

10 PROPERTY, PLANT AND EQUIPMENT

Group	Freehold property £'000s	Leasehold improvements £'000s	Leasehold property £'000s	Fixtures, fittings and equipment £'000s	Total £'000s
Cost					
At 1 January 2011	853	3,259	7,311	24,708	36,131
Additions	–	361	1,722	11,587	13,670
Disposals	–	–	–	(76)	(76)
Currency translation	–	–	74	(18)	56
At 1 January 2012	853	3,620	9,107	36,201	49,781
Additions	–	1,167	316	4,656	6,139
Disposal of fixed assets	(853)	–	–	–	(853)
Disposal of subsidiary	–	–	–	(4,145)	(4,145)
Reclassification	–	–	7,161	(7,161)	–
Currency translation	–	–	(101)	(179)	(280)
At 31 December 2012	**–**	**4,787**	**16,483**	**29,372**	**50,642**
Accumulated depreciation					
At 1 January 2011	60	317	982	6,533	7,892
Charge for the year	20	249	268	3,656	4,193
Disposals	–	–	–	(57)	(57)
Currency translation	–	–	9	(14)	(5)
At 1 January 2012	80	566	1,259	10,118	12,023
Charge for the year	–	152	1,301	12,300	13,753
Disposal of fixed assets	(80)	–	–	–	(80)
Disposal of subsidiary	–	–	–	(1,010)	(1,010)
Reclassification	–	–	537	(537)	–
Currency translation	–	–	(13)	(41)	(54)
At 31 December 2012	**–**	**718**	**3,084**	**20,830**	**24,632**
Net book value					
At 31 December 2012	**–**	**4,069**	**13,399**	**8,542**	**26,010**
At 31 December 2011	773	3,054	7,848	26,083	37,758

Company	Freehold property £'000s	Leasehold improvements £'000s	Leasehold property £'000s	Fixtures, fittings and equipment £'000s	Total £'000s
Cost					
At 1 January 2011	853	3,258	7,311	19,300	30,722
Additions	–	–	–	9,472	9,472
At 1 January 2012	853	3,258	7,311	28,772	40,194
Additions	–	1,000	24	3,539	4,563
Disposals	(853)	–	–	–	(853)
Reclassification	–	–	7,161	(7,161)	–
At 31 December 2012	**–**	**4,258**	**14,496**	**25,150**	**43,904**
Accumulated depreciation					
At 1 January 2011	60	317	983	4,218	5,578
Charge for the year	20	80	174	3,323	3,597
At 1 January 2012	80	397	1,157	7,541	9,175
Charge for the year	–	80	1,034	11,254	12,368
Disposal	(80)	–	–	–	(80)
Reclassification	–	–	537	(537)	–
At 31 December 2012	**–**	**477**	**2,728**	**18,258**	**21,463**
Net book value					
At 31 December 2012	**–**	**3,781**	**11,768**	**6,892**	**22,441**
At 31 December 2011	773	2,861	6,154	21,231	31,019

10 PROPERTY, PLANT AND EQUIPMENT continued

In the cash flow statements, proceeds from the sale of property, plant and equipment comprise:

	Group		Company	
	2012 £'000s	2011 £'000s	**2012 £'000s**	2011 £'000s
Net book value	**773**	76	**773**	–
Profit on disposal of property, plant and equipment	**69**	–	**69**	–
Proceeds from sale of property, plant and equipment	**842**	76	**842**	–

11 INVESTMENTS IN SUBSIDIARIES

Details of the Company's subsidiaries at 31 December 2012 are as follows:

Name of subsidiary	Place of incorporation and operation	Business activity	Ordinary shares owned	Proportion of voting power
Gazprom Global LNG Ltd ('GGLNG')	United Kingdom	Energy trading	100%	100%
Gazprom Marketing & Trading Retail Limited ('GM&T Retail')	United Kingdom	Energy supply	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. ('GMTUSA')	USA	Energy trading	100%	100%
Gazprom Marketing & Trading Singapore Pte Ltd ('GMTS')	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 ('GMTRG')	Germany	Energy supply	100%	100%
Gazprom Marketing & Trading Switzerland AG ('GMTCH')	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%.

Dividend income received by the Company in 2012 represented distributions from GMTS and GGLNG of £66.8m (2011: £32.1m) and £15.1m (2011: £7.5m) respectively.

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

	Company	
	2012 £'000s	2011 £'000s
Balance at 1 January	**19,280**	19,210
Disposals during the year	**(3,160)**	–
Acquisitions during the year	**–**	70
Balance at 31 December	**16,120**	19,280

During the year the Company sold Gazprom Global Energy Services Limited ('GGES'). There were no other transactions in the year. Details of this transaction are in Note 26.

12 INVENTORIES

	Group		Company	
	2012 £'000s	2011 £'000s	**2012 £'000s**	2011 £'000s
Gas in storage	**158,634**	200,717	**126,296**	191,456
Emission allowances	**57,580**	8,578	**52,048**	6,755
LNG inventories	**23,331**	–	**–**	–
Other inventories	**12,048**	5,643	**–**	–
	251,593	214,938	**178,344**	198,211

13 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2012 £'000s	2011* £'000s	**2012 £'000s**	2011 £'000s
Due within one year				
Amounts receivable from sale of commodities:				
from third parties	**1,038,548**	636,936	**835,470**	566,368
from subsidiary companies	**–**	–	**163,615**	107,497
from affiliated companies	**29,239**	5,365	**28,951**	4,101
Prepayments and other debtors	**214,663**	162,206	**179,371**	85,305
	1,282,450	804,507	**1,207,407**	763,271
Due after one year				
Other long term receivables	**693**	32,198	**2,030**	34,833

*Adjusted for changes to provisional values booked on acquisition of GMTRG (see Note 25)

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.

14 CASH AND CASH EQUIVALENTS

	Group		Company	
	2012 £'000s	2011 £'000s	**2012 £'000s**	2011 £'000s
Cash in hand and at bank	**177,111**	224,162	**107,197**	80,401
Cash equivalents with parent company	**4,844**	31,006	**4,844**	13,596
Total cash and cash equivalents	**181,955**	255,168	**112,041**	93,997

Cash equivalents with parent company comprise balance held with Gazprom Germania GmbH under cash pooling agreements.

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.

15 TRADE AND OTHER PAYABLES

	Group		Company	
	2012	2011*	**2012**	2011
	£'000s	£'000s	**£'000s**	£'000s
Due within one year				
Amounts owed for purchase of commodities:				
to third parties	**763,342**	489,863	**704,077**	414,074
to subsidiaries	**–**	–	**80,543**	–
to affiliated companies	**233,025**	175,935	**183,828**	165,584
Accruals and other payables	**188,922**	165,984	**80,688**	106,862
	1,185,289	831,782	**1,049,136**	686,520
Due after more than one year				
Deferred income	**–**	31,241	**–**	31,247
Other long term payables	**3,613**	409	**3,116**	–
Accrual for rent free provision	**–**	3,324	**–**	3,324
	3,613	34,974	**3,116**	34,571

*Adjusted for changes to provisional values booked on acquisition of GMTRG (see Note 25)

16 LOANS AND OVERDRAFTS

	Group		Company	
	2012	2011	**2012**	2011
	£'000s	£'000s	**£'000s**	£'000s
Amounts owed:				
to parent	**44,625**	–	**44,625**	–
to third parties	**162,171**	130,000	**162,171**	129,885
to subsidiaries	**–**	–	**152,602**	157,298
	206,796	130,000	**359,398**	287,183

As at 31 December 2012 the Group had access to various uncommitted and committed credit facilities. Details of the facilities of the Group are discussed in the liquidity risk section of Note 19.

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

17 DEFERRED TAX

	Group		Company	
	2012 £'000s	2011* £'000s	**2012 £'000s**	2011 £'000s
Deferred tax asset/(liability) at 1 January	**16,497**	260	**436**	(723)
Credit/(charge) to the Statements of comprehensive income	**5,105**	(4,555)	**913**	1,173
(Charge)/credit to the Statements of comprehensive income – tax rate change	**(432)**	45	**(123)**	(14)
(Charge)/credit to equity – cash flow hedge reserve	**(4,661)**	20,361	**–**	–
Net deferred tax on business combination	**–**	661	**–**	–
Translation differences	**(125)**	(275)	**–**	–
Deferred tax asset at 31 December	**16,384**	18,690	**1,226**	2,538
Deferred tax liability at 31 December	**–**	(2,193)	**–**	(2,102)
Net deferred tax asset	**16,384**	16,497	**1,226**	436

*Adjusted for changes to provisional values booked on acquisition of GMTRG (see Note 25)

The deferred tax asset consists of the following amounts:

	Group		Company	
	2012 £'000s	2011* £'000s	**2012 £'000s**	2011 £'000s
Capital allowances in excess of depreciation	**(217)**	(1,472)	**(257)**	(1,489)
Unwind of transitional adjustments relating to IFRS conversion	**(422)**	(611)	**(422)**	(611)
Disregard loss	**3,956**	997	**–**	–
Amounts taken to equity – cash flow hedge reserve	**7,847**	12,508	**–**	–
Net deferred tax on business combination	**784**	661	**–**	–
Other temporary differences	**4,436**	4,414	**1,905**	2,536
Net deferred tax asset	**16,384**	16,497	**1,226**	436

*Adjusted for changes to provisional values booked on acquisition of GMTRG (see Note 25)

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 £3,234,000 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 24% that was enacted on 17 July 2012 and that was effective from 1 April 2012, and to 23% that was enacted on 17 July 2012 and that will be effective from 1 April 2013, the relevant deferred tax balances have been remeasured. The effect of the changes to the UK headline corporation tax rate from 25% to 23% is £432,000 as reflected above.

The proposed further reduction of the main rate of corporation tax by 2% to 21% by 1 April 2014 is expected to be enacted in 2013. The overall effect of the further changes from 23% to 21%, if these were applied to the deferred tax balance at 31 December 2012, would be to decrease the deferred tax asset by £472,000 all recognised in 2013.

18 PROVISIONS

The Group's and the Company's provisions relate to property and represent the expected net present value of the future costs of reinstating leasehold improvements at the end of the lease term. These provisions will be released when the reinstatement obligations have been fulfilled. These provisions give rise to related assets which are included in 'Leasehold improvements' within Note 10, 'Property, plant and equipment'.

19 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 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 an Exponential Weighted Moving Average ('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.

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 year was:

	2012		2011	
Group	**Average £'000s**	**Year End £'000s**	Average £'000s	Year End £'000s
Trading VaR	**3,270**	**2,334**	2,927	2,211

These VaR values are within the limits set by the Group's management.

VaR is used to measure, monitor and review market risk on a Group-wide basis, but with consideration of the business and specific risk of each individual entity which make up the Group. As a result, a standalone Company VaR calculation is not reported separately.

19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

(i) Commodity price risk

The Group's cash flows and profitability are sensitive to the underlying price of a number of commodities, including 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.

Forward contracts, swaps, options and futures are used to mitigate price risk specific to each commodity. As described in Note 3, the Group trades both physical and financial commodity contracts that are treated as derivative financial instruments within the scope of IAS 39. These contracts are carried at fair value with changes in fair value recorded in the Statements of comprehensive income 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 2012 is disclosed in Note 20.

(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 and GM&T Retail and US Dollars in GGLNG, GMTUSA, GMTS and GMTCH. 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 GMTS, 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 has foreign currency exposure arising from its foreign operations. 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. The table below details the Group's foreign currency exposure, by foreign currency, and calculates the impact on total comprehensive income of a reasonable possible parallel shift of the foreign currency against Sterling.

	2012 Sensitivity analysis			2011 Sensitivity analysis		
	Net assets £000s	**Percentage change applied**	**Total comprehensive income £'000s**	Net assets £000s	Percentage change applied	Total comprehensive income £'000s
Euro	**(13,879)**	**3.05%**	**(423)**	(7,245)	3.18%	(230)
US Dollar	**259,420**	**4.91%**	**12,738**	257,966	4.30%	11,092
	245,541		**12,315**	250,721		10,862

The percentage change applied for the foreign currency rate against Sterling has been calculated based on the greatest annual percentage change over a two year period from 1 January 2011 to 31 December 2012, and is therefore not necessarily the same percentage change in each foreign currency exchange rate in the current year.

(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. The application of a parallel shift in interest rates of 50 basis points would, depending on the direction of the parallel shift, result in an income or expense of approximately £1.0m as at 31 December 2012, compared to an income or expense of £0.6m as at 31 December 2011 on drawn loan balances extant at those dates.

19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

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.

The Group's maximum exposure to credit risk on financial assets held at fair value through profit or loss is £1,415.6m (2011: £1,707.7m) and on financial assets held at amortised cost is £1,249.7m (2011: £899.3m). 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 £1,776.6m (2011: £1,823.8m), of which £392.3m was related to transactions within the Group, and on financial assets held at amortised cost is £1,140.1m (2011: £776.2m).

Guarantees and letters of credit not recognised on the Statements of financial position are £795.9m (2011: £742.5m) for the Group and Company. This exposure is measured at the maximum amount the Group or Company could have to pay under these instruments, which may be greater than the amount that would be recognised as a liability. All guarantees and letters of credit are issued on behalf of the Company or its subsidiaries.

The Group's credit risk from physical and financial instruments as of 31 December 2012 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	
	2012	2011	**2012**	2011
AAA to AA	**2%**	1%	**2%**	1%
AA- to A-	**48%**	45%	**48%**	47%
BBB+ to BB	**45%**	45%	**44%**	42%
BB- and below	**5%**	9%	**6%**	10%
	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 £33.9m (Company: £14.4m) classified as trade and other receivables (2011: £6.6m (Company: £0.3m)).

(iii) Financial assets impaired

At the reporting date the Group had trade receivables impaired of £31.2m (2011: £nil) which primarily relate to doubtful debts. The Company had a trade receivable impaired of £28.8m (2011: £nil).

19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Liquidity risk

Through maintaining adequate reserves and utilising committed 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.

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 €250m with its parent company Gazprom Germania GmbH and a US$600m committed banking facility from a syndicate of banks.

The Group has £4.8m (2011: £31m) of cash equivalents outstanding at 31 December 2012, 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 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 below analyses the contractual undiscounted cash flows arising from the Group's financial assets into relevant maturity groupings based on the remaining period at the Statements of financial position date to the contractual maturity date.

Group

31 December 2012	Within 1 month £'000s	2-12 months £'000s	1-2 years £'000s	2-5 years £'000s	Over 5 years £'000s	Total £'000s
Financial assets						
Derivatives	460,917	14,531,441	3,159,634	840,257	2,600	18,994,849
Cash and cash equivalents	181,955	–	–	–	–	181,955
Trade and other receivables	1,095,207	6,784	693	–	–	1,102,684
Total	**1,738,079**	**14,538,225**	**3,160,327**	**840,257**	**2,600**	**20,279,488**
Financial liabilities						
Derivatives	614,305	13,714,481	3,239,713	748,153	52,172	18,368,824
Trade and other payables	1,062,678	46,761	995	997	1,621	1,113,052
Loans and overdrafts	206,796	–	–	–	–	206,796
Total	**1,883,779**	**13,761,242**	**3,240,708**	**749,150**	**53,793**	**19,688,672**

31 December 2011	Within 1 month £'000s	2-12 months £'000s	1-2 years £'000s	2-5 years £'000s	Over 5 years £'000s	Total £'000s
Financial assets						
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**
Financial liabilities						
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**

19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Company

31 December 2012	Within 1 month £'000s	2-12 months £'000s	1-2 years £'000s	2-5 years £'000s	Over 5 years £'000s	Total £'000s
Financial assets						
Derivatives	480,816	15,170,175	3,495,963	1,054,071	157	20,201,182
Cash and cash equivalents	112,041	–	–	–	–	112,041
Trade and other receivables	1,123,744	45,043	2,029	–	–	1,170,816
Total	**1,716,601**	**15,215,218**	**3,497,992**	**1,054,071**	**157**	**21,484,039**
Financial liabilities						
Derivatives	503,400	14,076,760	3,434,772	828,614	51,861	18,895,407
Trade and other payables	1,009,792	7,852	499	997	1,621	1,020,761
Loans and overdrafts	206,796	152,602	–	–	–	359,398
Total	**1,719,988**	**14,237,214**	**3,435,271**	**829,611**	**53,482**	**20,275,566**

31 December 2011	Within 1 month £'000s	2-12 months £'000s	1-2 years £'000s	2-5 years £'000s	Over 5 years £'000s	Total £'000s
Financial assets						
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**
Financial liabilities						
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**

Economic capital

The Group employs an economic capital framework to ensure that the total exposure to liquidity risk can be supported by its Statements of financial position on a standalone basis.

This is achieved by modelling the economic capital requirements of the Group based on market, credit and operational risk measures and comparing the requirement to 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. The Group manages any shortfall in the tangible net worth to its capital requirement through its agreed credit facilities.

20 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. 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 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 Statements of financial position at fair value with movements in fair value recognised in the Statements of comprehensive income.

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 Statements of comprehensive income when the underlying hedged transaction affects profit or loss. All commodity derivatives that are not part of a hedging relationship are recognised in the Statements of financial position at fair value with movements in fair value recognised in the Statements of comprehensive income.

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 (2011: £nil).

Held-for-trading derivatives

Derivative contracts may be entered into for proprietary trading, risk management purposes or to satisfy supply requirements. 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 Statements of comprehensive income. The net of these exposures is monitored using VaR techniques as described in Note 19. The following tables show further information on the fair value of held-for-trading derivatives.

	Group		Company	
	2012 £'000s	2011 £'000s	**2012 £'000s**	2011 £'000s
Non-current assets				
Commodity trading contracts	**153,290**	246,672	**248,183**	268,634
Emission allowances	**25,901**	71,228	**78,631**	95,494
Forward foreign exchange contracts	**2,720**	1,130	**4,793**	1,130
	181,911	319,030	**331,607**	365,258
Current assets				
Commodity trading contracts	**1,136,846**	1,215,434	**1,331,748**	1,240,899
Emission allowances	**84,593**	152,375	**99,382**	205,893
Forward foreign exchange contracts	**12,201**	21,086	**13,905**	11,755
	1,233,640	1,388,895	**1,445,035**	1,458,547
Current liabilities				
Commodity trading contracts	**1,064,314**	1,153,900	**1,227,398**	1,152,396
Emission allowances	**27,264**	128,357	**47,680**	181,810
Forward foreign exchange contracts	**6,489**	9,648	**6,808**	275
	1,098,067	1,291,905	**1,281,886**	1,334,481
Non-current liabilities				
Commodity trading contracts	**166,707**	252,850	**246,459**	251,779
Emission allowances	**3,236**	43,383	**93,810**	105,188
Forward foreign exchange contracts	**2,040**	–	**2,040**	–
	171,983	296,233	**342,309**	356,967

20 DERIVATIVE FINANCIAL INSTRUMENTS continued

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 Statements of comprehensive income but is deferred. These amounts are commonly known as 'day-one' gains and losses. This deferred gain or loss is recognised in the Statements of comprehensive income 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 Statements of comprehensive income. Changes in the fair value of derivatives from this initial fair value are recognised in the Statements of comprehensive income in the period in which they occur. The following table shows the changes in the day-one gains and losses deferred:

	Group	
	2012 £'000s	2011 £'000s
Day-one gains and losses		
Fair value of contracts not recognised through the Statements of comprehensive income at 1 January	**6,279**	617
Initial fair value of new contracts not recognised in the Statements of comprehensive income	**6,368**	11,322
Fair value recognised in the Statements of comprehensive income during the year	**(6,041)**	(5,660)
Fair value of contracts not recognised through the Statements of comprehensive income at 31 December	**6,606**	6,279

	Company	
	2012 £'000s	2011 £'000s
Day-one gains and losses		
Fair value of contracts not recognised through the Statements of comprehensive income at 1 January	**822**	617
Initial fair value of new contracts not recognised in the Statements of comprehensive income	**6,368**	2,639
Fair value recognised in the Statements of comprehensive income during the year	**(5,706)**	(2,434)
Fair value of contracts not recognised through the Statements of comprehensive income at 31 December	**1,484**	822

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.

20 DERIVATIVE FINANCIAL INSTRUMENTS continued

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 (2011: £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.

	Group			
2012	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Derivative financial assets				
Commodity trading contracts	**26,460**	**1,252,225**	**11,451**	**1,290,136**
Emission allowances	**11,644**	**98,680**	**170**	**110,494**
Forward foreign exchange contracts	**–**	**14,921**	**–**	**14,921**
	38,104	**1,365,826**	**11,621**	**1,415,551**
Derivative financial liabilities				
Commodity trading contracts	**18,121**	**1,207,757**	**5,143**	**1,231,021**
Emission allowances	**4,108**	**20,769**	**5,623**	**30,500**
Forward foreign exchange contracts	**695**	**7,834**	**–**	**8,529**
	22,924	**1,236,360**	**10,766**	**1,270,050**

	Group			
2011	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Derivative financial assets				
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
Derivative financial liabilities				
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

20 DERIVATIVE FINANCIAL INSTRUMENTS continued

	Company			
2012	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Derivative financial assets				
Commodity trading contracts	**3,946**	**1,565,006**	**10,979**	**1,579,931**
Emission allowances	**11,081**	**164,784**	**2,148**	**178,013**
Forward foreign exchange contracts	**–**	**18,698**	**–**	**18,698**
	15,027	**1,748,488**	**13,127**	**1,776,642**
Derivative financial liabilities				
Commodity trading contracts	**6,520**	**1,462,194**	**5,143**	**1,473,857**
Emission allowances	**4,108**	**131,759**	**5,623**	**141,490**
Forward foreign exchange contracts	**–**	**8,848**	**–**	**8,848**
	10,628	**1,602,801**	**10,766**	**1,624,195**

	Company			
2011	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Derivative financial assets				
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
Derivative financial liabilities				
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

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 2011	37,643	34,453
Net gains and losses recognised in the Statements of comprehensive income	(28,202)	(28,497)
Purchases	(1,029)	(1,029)
Sales	–	–
Settlements	(3,960)	(3,960)
Fair value at 31 December 2011 & 1 January 2012	4,452	967
Net gains and losses recognised in the Statements of comprehensive income	(9,216)	(4,329)
Purchases	613	577
Sales	4,573	4,573
Settlements	433	573
Fair value at 31 December 2012	**855**	**2,361**

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.

20 DERIVATIVE FINANCIAL INSTRUMENTS continued

Significant transfers between Level 1, Level 2 and Level 3 of the fair value hierarchy:
There were no significant transfers between Level 1 and Level 2 (2011: £nil) or between Level 2 and Level 3 (2011: £nil) of the fair value hierarchy in the current year.

Sensitivity of fair values to changing significant assumptions to reasonably possible alternatives:
All derivatives are valued in accordance with the techniques outlined in the fair value hierarchy disclosure above. The impact of varying the unobservable parameters as at 31 December 2012 and at 31 December 2011 is immaterial.

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 are in place to protect against volatility in the Group's retail, LNG and LPG businesses. These hedges consist of 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 and the unrecognised firm commitments for the purchase and sale of LNG and LPG, due to movements in market commodity prices. Gains and losses are initially recognised in the cash flow hedging reserve to the extent that the hedges are effective, and are transferred to the Statements of comprehensive income when the forecast cash flows affect the Statements of comprehensive income.

The Group has 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 Statements of changes in equity. The total fair value of outstanding derivative contracts designated in hedge relationships was as follows:

	Group		Company	
	2012 £'000s	2011 £'000s	**2012 £'000s**	2011 £'000s
Cash flow hedges	**(35,045)**	(44,374)	**–**	–

The ineffective portion of gains and losses on derivative instruments designated in cash flow hedges that was recognised in the Statements of comprehensive income was £239k (2011: £nil). The Group monitors the ineffective portion of gains and losses on a monthly basis.

21 EQUITY

Ordinary share capital	Group 2012 £'000s	Group 2011 £'000s	Company 2012 £'000s	Company 2011 £'000s
Called up, allotted and fully paid				
20,000,000 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.

22 COMMITMENTS AND CONTINGENCIES

Lease commitments

The Group has entered into non-cancellable leases relating to long term lease contracts for regasification and pipeline capacity of Gazprom Marketing & Trading Mexico, S. de R.L. de C.V., and LNG tankers chartered by GGLNG.

Future lease payments under non-cancellable operating leases are as follows:

	Group 2012 £'000s	Group 2011 £'000s	Company 2012 £'000s	Company 2011 £'000s
Not later than one year	**97,332**	44,571	**5,291**	3,452
Later than one year and not later than five years	**349,896**	312,231	**20,853**	20,864
Later than five years	**279,954**	304,664	**11,701**	16,406
	727,182	661,466	**37,845**	40,722

Contingent liabilities

In the normal course of business, the Group and the Company incur certain contingent liabilities arising from guarantees provided to third parties. No material losses are anticipated as a result of these guarantees.

The following contingent liabilities have not been provided for in the financial statements, as it is not anticipated that any material liabilities will arise from these contingencies.

	2012 £'000s	2011 £'000s
Letters of credit and bank guarantees	**272,094**	319,886
Parent company guarantees	**523,763**	422,614
	795,857	742,500

Other commitments

The Group's LNG business has entered into agreements which give rise to a future capital commitment of £830m in relation to finance leases, which will commence in late 2013 - early 2014. As such, these leases have not been recognised in the current financial year.

23 RETIREMENT BENEFITS

Defined contribution plans

The Group and the Company operate a defined contribution plan, which require the Group and the Company to make annual contributions which are held in trust, separate from the assets of the Group. The defined contribution pension charge recognised within 'Staff costs' (see Note 6) in 'Administration expenses' in the Statements of comprehensive income was £5.1m (2011: £3.7m) for the Group and £3.2m (2011: £1.8m) for the Company.

Defined benefit plans

In France, the Group contributes to a mandatory government post-retirement scheme which takes the form of a defined benefit plan. Pursuant to applicable French law, specifically Indemnités de fin de carrier ('IFC'), a lump-sum payment is made to employees upon retirement. The amount of the lump sum is dependant on the length of service on the date the employee reaches retirement age. If the employee ceases to work for the Group prior to his or her retirement age, the Group has no obligation to make any payments under the IFC.

Actuarial evaluations for the French schemes are performed annually as at 31 December. All service costs and actuarial movements relating to these defined benefits are recognised immediately as an expense in the Statements of comprehensive income.

During the year, the Group recognised an expense of £0.2m (2011: £nil) in respect of defined benefits arising under the IFC and the related defined benefit obligation recognised in the Statements of financial position as at 31 December 2012 is £0.2m (2011: £nil). The liability arising from IFC are lump-sum payments made to employees upon their retirement, local IFC regulations do not provide for any obligation to fund these liabilities and the Group currently does not hold plan assets to offset the expected defined benefit liabilities.

24 RELATED PARTY TRANSACTIONS

Trading transactions

During the year, the Group entered into various transactions with related parties as shown in the table below. The amounts owed by and owed to related parties include open derivative transactions carried at fair value through profit or loss.

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				
2012	**127,119**	**75,772**	**67,433**	**74,116**
2011	15,672	21,574	20,600	2,148
Other entities with significant influence over the Group				
2012	**250,540**	**977,754**	**1,093,481**	**1,013,754**
2011	225,125	1,665,409	683,774	866,807
Other related parties				
2012	**417,621**	**779,411**	**235,994**	**258,357**
2011	94,200	17,254	39,418	38,482

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				
2012	**127,112**	**75,772**	**67,385**	**74,177**
2011	15,758	20,855	13,596	2,148
Other entities with significant influence over the Group				
2012	**250,540**	**773,110**	**1,093,481**	**980,969**
2011	217,867	1,664,916	682,511	850,496
Subsidiaries				
2012	**1,254,639**	**408,775**	**773,858**	**644,676**
2011	1,083,269	334,986	372,666	331,026
Other related parties				
2012	**410,264**	**718,534**	**235,437**	**240,461**
2011	94,200	17,254	39,418	38,482

24 RELATED PARTY TRANSACTIONS continued

The Group has entered into an agreement to participate in a central cash management system, the balance receivable at 31 December 2012 being £4.8m receivable (2011: £31.0m receivable). The master account holder is Gazprom Germania GmbH, the Group's immediate controlling entity. Interest is payable or receivable based on market interest rates.

The Company had a loan of £44.6m from Gazprom Germania GmbH outstanding as at 31 December 2012.

Terms and conditions of transactions with related parties
Sales and purchases with related parties are in the ordinary course of business and support for the arm's length nature of related party transactions is sought from comparable third party transactions which are on substantially the same terms.As at 31 December 2012 the Company had provided £523.8m of parental guarantees on behalf of its subsidiaries (2011: £422.6m). During the year ended 31 December 2012, the Group has not made any provision for doubtful debts relating to amounts owed by related parties (2011: £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	
	2012 £'000s	2011 £'000s	**2012 £'000s**	2011 £'000s
Short term benefits	**4,676**	6,366	**4,576**	6,266
Post-employment benefits	**–**	–	**–**	–
Other long term employee benefits	**–**	–	**–**	–
Termination benefits	**–**	–	**–**	–
	4,676	6,366	**4,576**	6,266

Directors' transactions
During the year A V Mikhalev purchased freehold property from the Company for a total of £842,000. There were no other transactions involving Directors during the year, other than in respect of remuneration (2011: £nil).

25 BUSINESS COMBINATIONS

Subsidiaries acquired

As disclosed in 2011, on 10 November 2011, the Group acquired 100% of the ordinary share capital of Envacom Service GmbH, an energy provider based in Germany, which was subsequently renamed Gazprom Marketing & Trading Retail Germania GmbH.

At the end of the previous reporting period, the initial accounting for this business combination was incomplete resulting in the Group disclosing provisional amounts for the assets and liabilities acquired as part of this transaction. During 2012 and within the measurement period detailed in IFRS 3 '*Business Combinations*', the Group finalised the acquisition Statements of financial position, including the valuation of intangibles. This process has resulted in the recognition of additional assets and liabilities, for which the Group has adjusted its comparatives as if the business combination accounting had been completed at the acquisition date.

Based on the provisional Statements of financial position at acquisition, an intangible asset of £3.8m and goodwill of £3.6m arose on the purchase of Envacom Service GmbH. Having finalised the acquisition assets and liabilities, the Group has increased goodwill by £8.5m to £12.0m and reduced intangibles by £2.1m to £1.7m.

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

	At 10 November 2011 £'000s	Adjustments to provisional values £'000s	Adjusted 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	–	28
Intangible assets	240	–	240
Current assets			
Receivables	2,059	–	2,059
Other assets	1,432	(350)	1,082
Cash and cash equivalents	1,009	–	1,009
Total assets	4,768	(350)	4,418
Liabilities			
Payables	5,062	–	5,062
Other liabilities	9,012	4,785	13,797
Total liabilities	14,074	4,785	18,859
Net liabilities acquired	9,306	5,135	14,441
Assets arising on acquisition			
Intangible assets in respect of customer lists	3,870	(2,286)	1,584
Net deferred tax on business combination	1,884	(1,223)	661
Goodwill	3,552	8,644	12,196

26 DISPOSAL OF SUBSIDIARY

On 11 October 2012 the Group disposed of its controlling interest in GGES. The carrying value of the net assets of GGES at the date of disposal were as follows:

	At 11 October 2012 £'000s
Assets	
Non-current assets	
Intangible assets	412
Property, plant and equipment	3,135
	3,547
Current assets	
Inventories	636
Trade and other receivables	1,023
Cash and cash equivalents	127
	1,786
Total assets	**5,333**
Liabilities	
Current liabilities	
Trade and other payables	2,168
	2,168
Net current liabilities	**(382)**
Non-current liabilities	
Loans from parent company	4,540
	4,540
Total liabilities	6,708
Net liabilities	(1,375)
Equity	
Ordinary share capital	–
Share premium	263
Retained earnings	(1,638)
	(1,375)

	2012 £'000s
Equity attributable to:	
Owners of the parent	(1,375)
Total equity	**(1,375)**
Total consideration received in cash	10,500
Less intercompany loans settled at disposal	(4,540)
Less cash and cash equivalents disposed	(127)
Net cash inflow arising on disposal	5,833

Contingent consideration totalling £3m in three tranches of £1m each is receivable subject to the satisfaction of performance conditions relating to the installation of data loggers, giving a total possible consideration of £13.5m up to 1 December 2014.

As at 31 December 2012 none of the criteria had been met, nor were any virtually certain to be met; therefore none of the contingent consideration has been recognised.

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 financial statements 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.

OFFICERS AND PROFESSIONAL ADVISERS

Directors
I Y Kochevrin
A V Kruglov
V V Krupenkov
A I Medvedev
A V Mikhalev
P V Oderov
V V Vasiliev

Secretary
Abogado Nominees Limited

Registered office
20 Triton Street
London
United Kingdom
NW1 3BF

Bankers
ABN AMRO Bank N.V.
Barclays Bank PLC
BNP Paribas
Citigroup Inc.
ING Bank NV
Natixis
Rabobank Bank International AG
Royal Bank of Scotland plc

Solicitors
Baker & McKenzie LLP
Allen & Overy LLP
Norton Rose LLP
Herbert Smith Freehills LLP

Auditor
PricewaterhouseCoopers LLP
1 Embankment Place
London
WC2N 6RH

Registered in England No. 3768267

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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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**For general enquiries,
please contact our headquarters:**
Gazprom Marketing & Trading Limited
20 Triton Street
London NW1 3BF
England

T: +44 (0) 20 7756 0000
F: +44 (0) 20 7756 9740
E: enquiries@gazprom-mt.com

www.gazprom-mt.com

**For details of our regional offices,
please visit:**
www.gazprom-mt.com