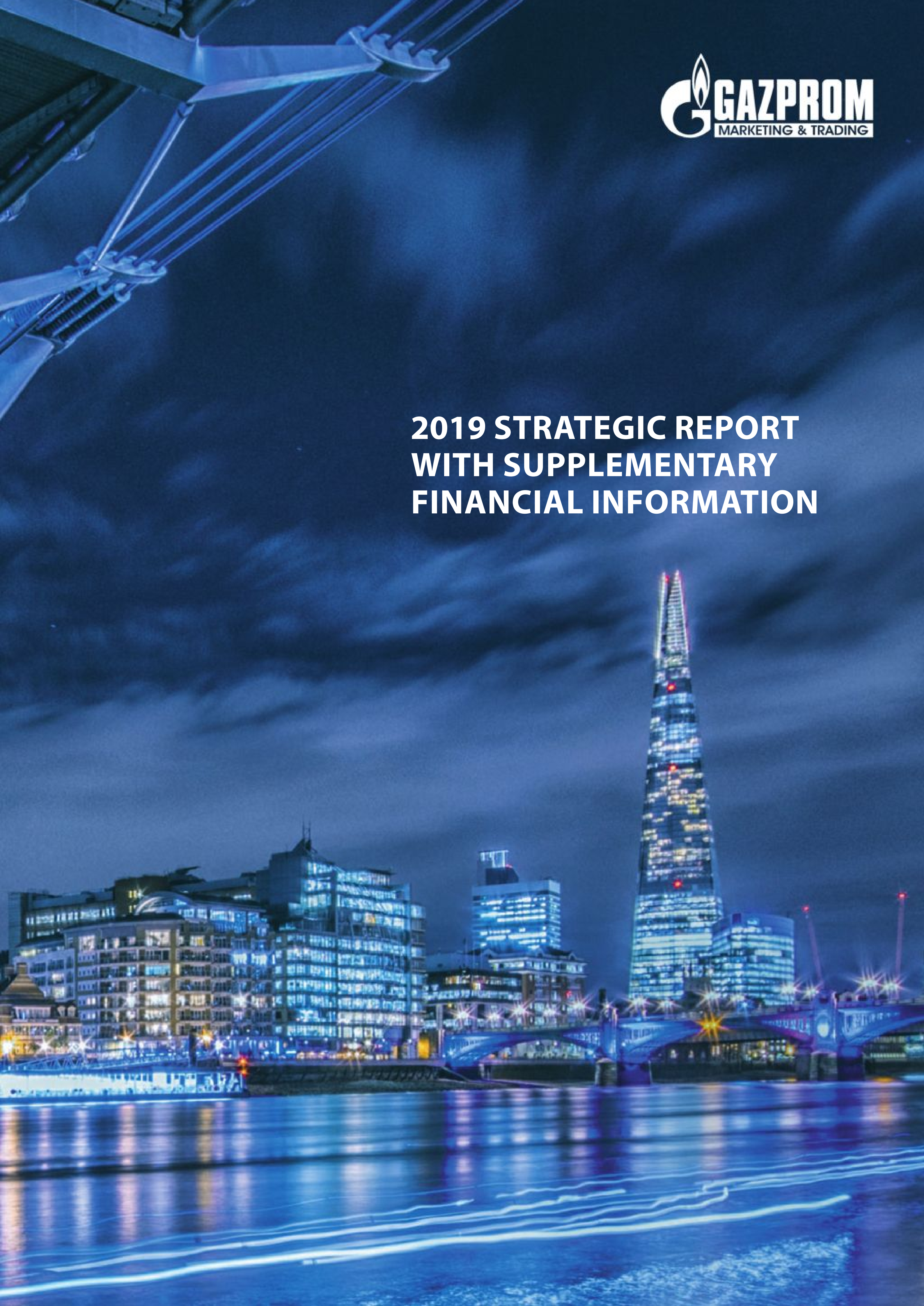

GAZPROM
MARKETING & TRADING

2019 STRATEGIC REPORT WITH SUPPLEMENTARY FINANCIAL INFORMATION

Contents

STRATEGIC REPORT

The Directors present the Annual Report and the audited consolidated Financial Statements of Gazprom Marketing & Trading Limited ("GM&T" or the "Company") and its subsidiary undertakings (collectively referred to as the "Group") for the year ended 31 December 2019.

Principal activities
The principal activities of the Group and Company are the marketing and trading of energy products including natural gas, power, liquefied natural gas ("LNG"), liquefied petroleum gas ("LPG") and oil products. The Group is active across global energy market hub locations but is primarily focused in the European and Asian energy markets. Alongside trading of energy products, the Group is also engaged in the retail energy market, and in the charter and sub charter of vessels as part of the Group's shipping and logistics activities supporting the LNG business. There have been no significant changes in the Group's or Company's principal activities in the year.

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

Financial results
During the year, the Group has continued to focus on its core global trading and marketing activities. The international reach of the Group is reflected in the consolidated Financial Statements of the Group, which comprise the consolidated results of nine (2018: nine) individual legal entities covering the UK, continental Europe, North America and Asia (see note 7).

GM&T Group's gas and power trading businesses benefited from favourable European gas and power market trading conditions during 2019. Milder weather experienced throughout the year resulted in lower withdrawals of underground gas storage which, combined with an influx of LNG imports, led to oversupply of natural gas in the European market. This created downward price pressure on wholesale gas which ultimately resulted in a strong bearish sentiment amongst market participants for the most part of the year. A continued trend of falling gas prices in cohesion with increased price volatility led to an increased number of trading opportunities from which the Group has been able to generate margin.

Historically the Asian LNG price premium and spread to other global benchmarks have impacted the Group's LNG business. Following a prolonged period of Asian LNG demand growth, excess supply growth exerted pressure on Asian LNG prices during the final quarter of 2018 and throughout 2019. This shift in LNG fundamentals has had a significant impact on global gas market hub prices resulting in increased price convergence across global markets. The Group's LNG business has successfully managed market risk to mitigate this effect on the 2019 performance through hedging activity.

The consolidated Statement of comprehensive income for the year is set out on page 05. The Group's profit for the financial year was £312.1m (2018: £299.9m), an increase of 4% from the prior year. The Group's total equity as at 31 December 2019 was £783.3m (2018: £503.8m), representing an increase of 55% when compared to 31 December 2018.

During 2019 the Company paid £100.0m of dividends to its immediate parent company Gazprom Germania GmbH ("GPG") which were declared during 2018. No further dividends were declared during 2019; as such there was no equity impact attributable to dividends during 2019. No dividend has been declared or paid since year-end.

The performance of specific business units is discussed in further detail over the following pages.

Business activities and environment
The Group's strategic business units and reporting lines are aligned with its commercial activities and global scope. These strategic business units were: a) Global Gas, Power & Derivatives ("GGPD"); b) Global LNG, Oil & Shipping; and c) Global Retail ("Retail").

Following the initiatives and review undertaken in the year the previously planned divestment of Retail is no longer underway. This business continues to operate as usual providing income diversification to the Group's core marketing and trading activities.

Global Gas, Power & Derivatives ("GGPD")
GGPD has reported a decrease of 17% in net income compared to 2018. The strategic business unit is responsible for the trading activity of the Group with focus on hedging and optimisation of gas supplied by OOO Gazprom Export and its affiliates as well as optimisation of the Group's assets across Western Europe. Furthermore, GGPD provides risk management services to the Gazprom Group and third parties as well as sourcing commercial opportunities directly from the market to generate additional value for the Group.

The Gas business has underperformed versus 2018 overall due to compressed margin from marketing OOO Gazprom Export gas volumes owing to a shift in requirements from Gazprom Export with regard to the products and services provided by GM&T. Net Income from directional and structured trading strategies increased year-on-year as the business took advantage of strong trading and optimisation opportunities that have arisen from price volatility across the UK and continental Europe throughout 2019. Effective monetisation of optionality embedded in the Group European Gas Portfolio as well as Gas storage, transportation and derivatives strategies contributed significantly to the performance of the business in the year, providing further opportunity for the business to take advantage of time and location spreads coupled with price volatility. The Gas business also further developed its structured trading offering and deal flow business with a broad range of customers during the period.

The Power trading business had another year of performance growth in 2019, again largely due to capturing trading and optimisation opportunities arising from continental transmission spread volatility and intraday trading. Power has continued to develop an integrated business, consolidating its power origination business with strategic partnerships with new independent suppliers and generators.

As the Gas and Power markets strive to become more competitive and sophisticated the business will invest in and develop more flexible and innovative products to meet these challenges. During 2019 the Group continued to develop its capabilities in digital trading to maintain a leading position in the European Gas and Power markets and take advantage of new technologies to monetise market opportunities and also to reduce risk in the portfolio.

Global LNG, Oil & Shipping
Income from Global LNG, Oil & Shipping significantly increased during 2019, emphasising its strategic importance for the Group. The business accounted for 46% of the Group's net income in 2019 (2018: 31%) with an increase of 71% compared to 2018. The LNG market was adversely impacted by a surge in global gas supply and slowing LNG demand from Asia during 2019. Despite the convergence of gas hub prices, the business benefited from optimisation and effective price hedging decisions taken during the prior period and the use of hedge accounting to align recognition of hedged value with physical margin. The number of LNG cargoes traded within the year decreased marginally compared to 2018 (2019: 55 cargoes, 2018: 61 cargoes), despite an increase in volumes attributable to the Group's long-term purchase agreements with Perenco Cameroon S.A. and Yamal LNG, owing to lower LNG trading activity in the spot market.

The LNG business maintained its focus on securing mid-term sales agreements in order to maximise portfolio value. During 2019, the Group continued to successfully manage 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. Additional value is created from the physical LNG portfolio through optimisation strategies utilising location and time swaps as well as volume and transportation optimisation.

Shipping operated nine vessels during 2019 (2018: 11) due to reduced internal requirements from the LNG trading desk, short/mid-term internal charters and external time charters in 2019.

Global Retail
Global Retail has maintained its position as the largest gas supplier to UK industrial and commercial customers despite its market share decreasing slightly year-on-year to 21% at 31 December 2019 (2018: 21.8%). Global Retail delivered 51,958 GWh of gas to end users in the UK and Ireland during 2019 (2018: 53,913 GWh).

In terms of segmental performance, the UK power business maintained market share at 0.5% (2018: 0.5%), after supplying 1,212 GWh of power to end users (2018: 1,170 GWh).

In France, the business supplied 16,706 GWh of gas (2018: 11,156 GWh).

In the Netherlands, the business supplied 3,651 GWh of gas to end users (2018: 1,991 GWh) and has increased the number of live gas sites to 22,254 (2018: 15,901 sites). The business also supplied 418 GWh of power to end users (2018: 335 GWh) and has increased the number of live power sites to 13,858 (2018: 11,281 sites).

Global Retail traded 983 k/tonnes of carbon emission allowances (2018: 1,115 k/tonnes).

The Retail Optimisation Desk ("ROD"), which serves as the interface between the retail sales business and the GGPD trading business, manages the Retail portfolio price and volume risk by enabling value to be locked in through a back-to-back hedging strategy for forecast Retail sales. ROD's access to competitive commodity prices through GM&T's trading desks enables value to be realised either on Retail's fixed price business through a mark-up on the ROD commodity price or on Retail's flexible price business through clipping margin on each customer trade. Commodity price risk is passed to, and managed by, ROD in exchange for a risk fee. ROD trade this exposure, within closely monitored risk mandates, to create additional value. During 2019 ROD income growth was a significant factor in year-on-year Retail income growth, due primarily to successful directional trading strategies.

Infrastructure
The Group is committed to continually review, monitor and improve systems that support its maturing and complex business and will invest further in systems that will improve the controls around data, risk management and both the provision and quality of information available to external stakeholders.

Strategy
The Group recognises the importance of its physical trading operations of the Group to the upstream production companies and continues to market and optimise all contracted gas purchase volumes from OOO Gazprom Export safely.

As global gas market pricing and structure evolves rapidly, the Group actively develops new marketing and trading strategies to maintain market share and to continue to offer Gazprom Export more flexible and tailored derivative solutions to complement its asset portfolio and requirements. Leveraging its expertise, the Group will continue to be a crucial interface to the traditional European and growing Asian markets.

The Yamal LNG project, as part of GM&T Singapore's long-term purchase agreement with Yamal Trade, significantly grows the Group's physical LNG portfolio volume under management from 2018. The commercial, operational and logistical management of this increase in volumes continues to be a significant strategic priority for the Group. The LNG business faces significant challenges ahead given the growth in the portfolio coinciding with the recent bearish short- to mid-term price outlook and hub price convergence.

S172(1) statement
The Directors, in executing the strategy and complying with their duties in the year, have considered how their actions would promote the success of the Group for the benefit of its members as a whole.

The Group is both a significant procurer and provider of energy, playing an active role in the European and Asian markets in ensuring security of energy supply for their customers. As such, the Directors consider strong and professional relationships with the Group's counterparties, including suppliers and customers, and uninterrupted operations in its markets as fundamental to meeting this objective. During the year, there were no incidents which resulted in material disruption of the Group's operations, customer supplies, or which had an adverse impact on the wider community.

The Directors believe that the Group's success is aligned with the interests and well-being of its employees. They have been active in balancing the need for the business to remain competitive, and the need to continue to provide their employees with a stable work environment and development opportunities.

Likely future developments
In addition to supporting the Gazprom Group in its integration of its gas export activities, the Group will continue to focus on the efficiency and control of its operations. This focus will allow the Group to risk manage its current level of business, while providing a robust platform for managing future growth. The Group expects its future prospects to develop significantly based on the following:

- Maximising contribution to the financial performance of the Gazprom Group;
- Focusing on the Group's core energy commodities;
- Investment in people, systems and processes; and
- Continued operational efficiency.

The Directors do not anticipate any change in the principal activities of the Group.

Principal risks and uncertainties facing the Group
The Directors of the Group are committed to embedding a culture of enterprise-wide risk management throughout the organisation. The risk management process is the coordinated set of activities that are implemented to manage the risks that may affect the ability of the organisation to achieve its objectives. The risk management process, together with the documented policies, procedures and specific methodologies for the identification, assessment and management of risk, comprise the Risk Management System.

Implementation and oversight of all elements of the Risk Management System, in addition to its responsibility for ensuring the Group meets its strategic, financial and operational objectives, is under the stewardship of the Managing Director of GPG Group. The GM&T Directors are in turn responsible for ensuring that GM&T follows the risk strategy, principles, policies and risk limits as defined by the Managing Director of GPG Group.

The "Global Risk Management Policy" defines the scope, objectives, policy and strategies for the management of risks within the GPG Group, including GM&T Group. GPG's Risk Oversight Committee ("ROC") provides recommendations and support to the Managing Director of GPG Group on risk-related matters. The Risk function of GPG Group, which has a significant physical presence within GM&T, provides advice, control and oversight independent from the commercial and other support functions.

Risk is defined as the potential events, circumstances, internal and/or external factors that could affect the achievement of defined goals. In pursuit of its strategic, financial and operational objectives GM&T seeks to retain exposure to some risks, and avoid, minimise or eliminate others where possible and cost effective.

The principal risks can be aggregated under the following broad categories:

- **Strategic Risk:** The risk that the Group is unable to achieve its strategic objectives as a result of actions by governments, regulators and competitors as well as risks associated with strategic long-term decision making within the Group.
- **Market Risk:** The risk of negative financial impacts due to changes in market factors. Market factors include (but are not limited to) commodity and derivative prices, interest rates, foreign exchange rates and volumes.
- **Credit Risk:** The risk of negative financial impact due to a counterparty's failure to meet its contractual obligations in accordance with agreed terms. This includes failure to make payment(s), or general non-performance of the full contract terms.
- **Liquidity Risk:** The risk that the Group cannot satisfy the financial obligations that arise during the course of business due to insufficient funding lines or available cash reserves.
- **Operational Risk:** The risk of negative impact due to inadequate controls or failed internal processes, people and systems, or from external events.

Brexit – the withdrawal of the United Kingdom ("UK") from the European Union ("EU")
With the UK leaving the EU with a transition period scheduled to end on 31 December 2020, the Group has been closely monitoring and working on mitigation of the associated risks.

The following key risks for the Group were identified:

- **Risk to continuity of access to the European energy markets:** The realisation of this risk would mean that the Group's UK-based marketing and trading entities may not be able to nominate delivery of commodities in some of the EU markets, and therefore would not be able to fulfil their obligations under the existing transactions beyond the end of the transition period. Measures have been taken by the Group to ensure continuity of access to the EU markets by adopting an agency model using a Swiss entity with relevant licences and branches where applicable. We estimate the residual risk as medium.
- **Risk of non-compliance with the European regulatory framework such as financial service regulations:** The realisation of this risk would mean potentially losing the benefits of the Markets in Financial Instruments Directive ("MiFID") ancillary exemption or breaching the relevant European Market Infrastructure Regulation ("EMIR") thresholds. Based on an internal assessment and the information published by the EU regulators clarifying the treatment of various products in the case of a "hard" Brexit, we assess this risk as relatively low.
- **Increased exchange rate volatility:** The Company has several foreign subsidiaries for which the functional currencies are non-GBP. Sudden changes in Euro or Dollar to Sterling exchange rates as a result of a "hard" Brexit will lead to earnings volatility when local results are translated into the Group's functional currency. The Group has identified specific actions to minimise translation risk as it deems appropriate. These risks are further discussed in note 13.

The Group has established a cross-department team to work on the development of a contingency plan to mitigate identified risks. The team is undertaking mitigation plans in close cooperation with transport system operators, energy ministries, exchanges and national regulators. The process is sponsored and monitored by the senior management of the Group, who make decisions on efficient actions for risk mitigation.

Key performance indicators
The Group, along with its parent company, have identified a series of key performance indicators ("KPIs") which it believes are useful in assessing the Group's performance against its strategic aims. These are set out below.

Indicator type	Key performance indicator	2019	2018	Change
Profitability	**Net income (£m)**	**630.3**	549.7	**15%**
Profitability	**EBITDA (£m)**	**425.1**	359.4	**18%**
	EBITDA is defined as Earnings before Interest, Tax, Depreciation and Amortisation.			
Profitability	**Net profit after tax (£m)**	**312.1**	299.9	**4%**
Efficiency	**Net profit after tax/Net income**	**50%**	55%	**(9%)**

Approved by, and signed on behalf of, the Board of Directors, in accordance with Section 414 of the Companies Act 2006.

A V Mikhalev
12 March 2020

W Skribot
12 March 2020

INDEPENDENT AUDITORS' STATEMENT TO THE MEMBERS OF GAZPROM MARKETING AND TRADING LIMITED

We have examined the supplementary financial information included within the Strategic Report with Supplementary Financial Information for the year ended 31 December 2019, which comprises the Summary group and parent company statement of financial position as at 31 December 2019; the Summary group and parent company statements of comprehensive income; the Summary group and parent company statement of cash flows; the Summary group and parent company statement of changes in equity for the year then ended; and the summary notes to the supplementary financial information.

Respective responsibilities of the Directors and the auditors
The Directors are responsible for preparing the Strategic Report with Supplementary Financial Information, in accordance with the Companies Act 2006, which includes information extracted from the full Annual Report and Consolidated Financial Statements of Gazprom Marketing & Trading Ltd for the year ended 31 December 2019.

Our responsibility is to report to you our opinion on the consistency of the summary financial information, included within the Strategic Report with Supplementary Financial Information, with the Consolidated Financial Statements.

This statement, including the opinion, has been prepared for and only for the Gazprom Marketing and Trading Ltd's shareholders as a body and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this statement is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Basis of opinion
Our examination involved agreeing the balances disclosed in the summary financial information to the Consolidated Financial Statements. Our audit report on the Group and Company's Annual Report and Consolidated Financial Statements describes the basis of our opinion on those financial statements.

Opinion
In our opinion the supplementary financial information is consistent with the Consolidated Financial Statements of Gazprom Marketing & Trading Ltd for the year ended 31 December 2019.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
1 Embankment Place
London
WC2N 6RH
12 March 2020

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

		Group		Company	
	Note	**2019 £'000s**	2018 £'000s	**2019 £'000s**	2018 £'000s
Revenue		**3,071,564**	3,262,720	**131**	878
Cost of sales		**(2,990,993)**	(2,995,527)	**–**	–
Gross profit		**80,571**	267,193	**131**	878
Trading activities:					
Net trading income		**549,727**	282,546	**271,673**	294,412
Net income		**630,298**	549,739	**271,804**	295,290
Administrative expenses	5	**(257,614)**	(215,948)	**(161,041)**	(151,514)
Net impairment losses on financial and contract assets	13	**(11,377)**	(9,363)	**(3,391)**	(9)
Other impairment expense		**(11,241)**	–	**–**	–
Operating profit		**350,066**	324,428	**107,372**	143,767
Interest income		**13,017**	3,864	**4,689**	4,159
Interest expense		**(30,982)**	(9,152)	**(15,687)**	(11,538)
Income from subsidiaries		**–**	–	**12,473**	459,931
Other income		**11,353**	10,909	**11,353**	10,909
Gain on disposal of non-current assets		**336**	1,147	**–**	1,137
Profit before tax		**343,790**	331,196	**120,200**	608,365
Tax		**(31,678)**	(31,330)	**(20,822)**	(25,204)
Profit for the financial year		**312,112**	299,866	**99,378**	583,161
Cash flow hedges:					
Hedging gains recognised during the year		**208,483**	7,938	**1,954**	–
Cost of hedging		**(3,479)**	–	**–**	–
Tax on items taken directly to equity		**12,145**	(11,625)	**(332)**	–
Hedging gains reclassified to profit or loss		**(230,932)**	(47,746)	**–**	–
Cost of hedging reclassified to profit or loss		**–**	–	**–**	
Tax on items transferred from equity		**21,781**	9,935	**–**	–
Loss on foreign currency translation		**(17,234)**	(1,913)	**–**	–
Total other comprehensive (expense)/income*		**(9,236)**	(43,411)	**1,622**	–
Total comprehensive income		**302,876**	256,455	**101,000**	583,161
Total comprehensive income attributable to:					
Equity owners of the parent		**302,876**	256,455	**101,000**	583,161

* All amounts are subsequently reclassified to profit and loss when specific conditions are met.

All operations were continuing in the current and prior year.

The notes on pages 09 to 39 form an integral part of the Supplementary Financial Information.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

	Note	Group 2019 £'000s	Group 2018 £'000s	Company 2019 £'000s	Company 2018 £'000s
Assets					
Non-current assets					
Intangible assets		**53,506**	56,038	**32,503**	34,974
Property, plant and equipment		**14,756**	17,887	**10,622**	12,086
Right-of-use assets		**308,484**	–	**26,951**	–
Financial assets measured at fair value	14	**323,890**	445,306	**416,199**	589,448
Investments in subsidiaries	7	**–**	–	**4,117**	428
Deferred tax assets		**52,019**	31,743	**2,238**	2,474
Trade and other receivables	12	**17,173**	2,653	**–**	1,920
Lease receivables		**169,248**	–	**4,484**	–
		939,076	553,627	**497,114**	641,330
Current assets					
Inventories	8	**390,896**	344,601	**368,320**	293,636
Trade and other receivables	12	**1,671,127**	2,865,927	**1,371,434**	2,397,494
Lease receivables		**19,585**	–	**569**	–
Financial assets measured at fair value	14	**1,778,646**	1,436,785	**2,074,443**	1,503,791
Current tax assets		**1,677**	268	**–**	–
Cash equivalents receivable with related parties	12	**208,487**	–	**300,730**	111,256
Cash at bank and in hand	12	**34,014**	94,680	**4,638**	75,270
		4,104,432	4,742,261	**4,120,134**	4,381,447
Total assets		**5,043,508**	5,295,888	**4,617,248**	5,022,777
Liabilities					
Current liabilities					
Trade and other payables	12	**1,857,792**	2,817,735	**1,586,654**	2,460,690
Financial liabilities measured at fair value	14	**1,559,667**	1,439,893	**1,868,239**	1,568,149
Provisions	10	**12,092**	1,241	**10,876**	1,301
Current tax liabilities		**24,189**	24,839	**11,212**	16,848
Loans and overdrafts	12	**–**	67,277	**470,767**	297,464
Lease liabilities		**55,496**	–	**6,299**	–
		3,509,236	4,350,985	**3,954,047**	4,344,452
Non-current liabilities					
Trade and other payables	12	**1,040**	1,525	**190**	315
Lease liabilities		**468,984**	–	**29,503**	–
Financial liabilities measured at fair value	14	**266,333**	419,118	**371,392**	519,176
Provisions	10	**9,586**	1,808	**9,249**	1,500
Deferred tax liabilities		**5,065**	18,639	**–**	–
		751,008	441,090	**410,334**	520,991
Total liabilities		**4,260,244**	4,792,075	**4,364,381**	4,865,443
Net assets		**783,264**	503,813	**252,867**	157,334
Equity					
Ordinary share capital		**20,000**	20,000	**20,000**	20,000
Cash flow hedge reserve		**29,192**	22,734	**1,622**	–
Foreign currency translation reserve		**54,235**	71,469	**–**	–
Retained earnings		**679,837**	389,610	**231,245**	137,334
Equity attributable to:					
Owners of the parent		**783,264**	503,813	**252,867**	157,334
Total equity		**783,264**	503,813	**252,867**	157,334

The notes on pages 09 to 39 form an integral part of the Supplementary Financial Information.

The full Consolidated Financial Statements of Gazprom Marketing & Trading Limited (registered number 3768267) and of the Company were approved by the Board of Directors and authorised for issue on 12 March 2020 and signed by the Directors as a consistent extract thereof as a part of the Strategic Report with Supplementary Financial Information on 12 March 2020.

Signed on behalf of the Board

A V Mikhalev
12 March 2020

W Skribot
12 March 2020

STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

Group	Note	Ordinary share capital £'000s	Cash flow hedge reserve £'000s	Foreign currency translation reserve £'000s	Retained earnings £'000s	Total equity £'000s
Balance at 1 January 2018		**20,000**	**67,594**	**73,382**	**714,087**	**875,063**
Profit for the year		–	–	–	299,866	299,866
Other comprehensive expense:		–	(41,498)	(1,913)	–	(43,411)
Total comprehensive (expense)/income		**–**	**(41,498)**	**(1,913)**	**299,866**	**256,455**
Less: Amount included in the initial cost of inventory		–	(3,362)	–	–	(3,362)
Transactions with owners:						
Dividends provided for or paid		–	–	–	(624,343)	(624,343)
Balance at 31 December 2018		**20,000**	**22,734**	**71,469**	**389,610**	**503,813**
Adjustment on adoption of IFRS 16		–	–	–	(21,885)	(21,885)
Balance at 1 January 2019		**20,000**	**22,734**	**71,469**	**367,725**	**481,928**
Profit for the year		–	–	–	312,112	312,112
Other comprehensive (expense)/income:		–	7,998	(17,234)	–	(9,236)
Total comprehensive income		**–**	**7,998**	**(17,234)**	**312,112**	**302,876**
Less: Currency translation difference		–	(1,540)	–	–	(1,540)
Transactions with owners:		**–**	**–**	**–**	**–**	**–**
Dividends provided for or paid		–	–	–	–	–
Balance at 31 December 2019		**20,000**	**29,192**	**54,235**	**679,837**	**783,264**

Company	Note	Ordinary share capital £'000s	Cash flow hedge reserve £'000s	Retained earnings £'000s	Total equity £'000s
Balance at 1 January 2018		**20,000**	**–**	**178,516**	**198,516**
Profit for the year and total comprehensive income		–	–	583,161	583,161
Dividends provided for or paid		–	–	(624,343)	(624,343)
Balance at 31 December 2018		**20,000**	**–**	**137,334**	**157,334**
Adjustment on adoption of IFRS 16		–	–	(5,467)	(5,467)
Balance at 1 January 2019		**20,000**	**–**	**131,867**	**151,867**
Profit for the year and total comprehensive income		–	–	99,378	99,378
Other comprehensive (expense)/income:		**–**	**1,622**	**–**	**1,622**
Dividends provided for or paid		–	–	–	–
Balance at 31 December 2019		**20,000**	**1,622**	**231,245**	**252,867**

The notes on pages 09 to 39 form an integral part of the Supplementary Financial Information.

STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

		Group		Company	
	Note	**2019 £'000s**	2018 £'000s	**2019 £'000s**	2018 £'000s
Operating activities					
Operating profit		**350,066**	324,428	**107,372**	143,767
Depreciation of property, plant and equipment and right-of-use assets		**41,389**	4,717	**7,989**	3,588
Amortisation of intangible assets		**21,965**	18,189	**17,012**	16,205
Unrealised fair value movements on trading contracts at fair value		**(176,681)**	(169,605)	**(122,934)**	(129,570)
Other unrealised movements		**(31,913)**	(47,878)	**(13,433)**	(6,817)
Increase/(decrease) in provisions	10	**18,629**	(8,013)	**17,324**	1,301
Other income		**11,353**	10,898	**11,353**	10,909
Management income from subsidiaries		**–**	–	**12,454**	9,931
Operating cash flows before movements in working capital		**234,808**	132,736	**37,137**	49,314
(Increase)/decrease in inventories		**(46,295)**	(148,703)	**(74,684)**	(144,377)
Decrease/(increase) in receivables		**1,155,759**	(993,374)	**1,011,885**	(925,759)
(Decrease)/increase in payables		**(830,253)**	1,217,842	**(751,975)**	1,188,507
Increase/(decrease) in financial contracts measured at fair value through profit or loss		**(104,338)**	202,926	**(119,213)**	144,628
Cash generated from operations		**409,681**	411,427	**103,150**	312,313
Interest and banking charges paid		**(7,229)**	(9,144)	**(13,716)**	(11,237)
Interest income received*		**3,922**	4,067	**4,450**	4,257
Income taxes paid		**(30,944)**	(4,936)	**(27,174)**	–
Net cash generated from operating activities		**375,430**	401,414	**66,710**	305,333
Investing activities					
Interest received on lease receivables		**8,915**	–	**73**	–
Investment income received		**–**	–	**–**	450,000
Purchases of property, plant and equipment		**(2,403)**	(6,906)	**(2,173)**	(4,801)
Proceeds from disposal of property		**958**	158	**–**	–
Purchases of intangible assets		**(14,581)**	(14,776)	**(14,541)**	(9,883)
Proceeds from lease agreements		**20,756**	–	**2,034**	–
Proceeds from sale of subsidiary	7	**–**	1,158	**–**	1,158
Capital contribution to subsidiary		**–**	–	**(3,690)**	–
Net cash generated from/(used in) investing activities		**13,645**	(20,366)	**(18,297)**	436,474
Financing activities					
Drawdown/(repayment) of loan from the Group	12	**–**	–	**244,383**	(315,086)
Repayment of obligations under lease agreements		**(50,560)**	–	**(6,198)**	–
Interest paid on lease payables		**(23,343)**	–	**(479)**	–
(Repayment)/drawdown of loan from parent undertakings	12	**(67,277)**	66,683	**(67,277)**	66,683
Dividends paid		**(100,000)**	(524,343)	**(100,000)**	(524,342)
Net cash (used in)/generated from financing activities		**(241,180)**	(457,660)	**70,429**	(772,745)
Net increase/(decrease) in cash and cash equivalents		**147,895**	(76,612)	**118,842**	(30,938)
Exchange gain on cash and cash equivalents		**(74)**	7	**–**	–
Cash and cash equivalents at the beginning of the year		**94,680**	171,285	**186,526**	217,464
Cash and cash equivalents at the end of the year		**242,501**	94,680	**305,368**	186,526

* During the year, interest income received on short-term deposits was reclassified to cash generated from operations as a review of such balances concluded that this is a more faithful representation of their underlying nature.

The notes on pages 09 to 39 form an integral part of the Supplementary Financial Information.

NOTES TO THE SUPPLEMENTARY FINANCIAL INFORMATION

YEAR ENDED 31 DECEMBER 2019

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 Strategic Report on page 01.

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 (IFRS IC) 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'.

The Strategic Report with Supplementary financial information does not constitute statutory accounts within the meaning of section 434(3) of the Companies Act 2006. Audited statutory accounts for the year ended 31 December 2019 are delivered to the Registrar of Companies in England and Wales in accordance with section 441 of the UK Companies Act 2006. The Auditors' Report on those accounts was unqualified, did not include a reference to any matters to which the auditors drew attention by the way of emphasis without qualifying the report and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

Basis of measurement

The Financial Statements have been prepared using the historical cost basis, modified by certain financial instruments and inventories measured at fair value, and using the going concern basis.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These policies have been consistently applied to all the years presented with the exception of the application of IFRS 16, as described below, where the Company took advantage of the exemption from restating comparative information.

Consolidation

The consolidated Financial Statements incorporate the Financial Statements of the Company and its subsidiaries made up to 31 December each year. Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group (i) has power over the entity, (ii) is exposed to, or has rights to, variable returns from its involvement with the entity and (iii) has the ability to affect those returns through its power over the entity.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated Statement 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 Great British Pounds ("Sterling") as described in note 3 in the Foreign currency accounting policy.

Investment in subsidiaries

Investments in subsidiaries are carried in the Company Financial Statements at cost less provision for impairment.

Revenue recognition

Revenues consist of amounts recognised in relation to the Group's Retail gas and electricity supply contracts, and physical LNG and LPG activities. Revenue is recognised on an accruals basis as performance obligations are satisfied, either at a point in time or over time.

Revenue 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. Given the straightforward nature of the contractual terms within the respective revenue streams, the Group does not expect significant uncertainty over the timing or amount of revenue.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Revenue recognition continued

Retail

Performance obligations for Retail gas and electricity supply contracts, and gas storage and transportation contracts are satisfied over time, as the goods or services are supplied over the term of the contract and control is transferred. Progress is measured using either the input method or the invoiced amount when applicable, when it reflects the value to the customer of the Group's performance completed to date.

For Retail gas and electricity supply contracts, the performance obligation is to deliver the respective products over the life of the contract. The transaction price allocated to the performance obligation is the contractually agreed price per unit. This is the amount of consideration the Group expects to receive, net of discounts, rebates, VAT and other sales taxes or duty. There is no variable price element in the performance obligations.

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 (as most meters will not be read on the year-end date, this value must be estimated). This estimate for unread gas and electricity meters is based upon historical consumption patterns. Such amounts are recognised within contract assets (accrued income) until they are invoiced, at which point they become trade receivables (being an unconditional right to receive consideration).

Contract assets also arise when contract modifications on "blend and extend" contracts are treated as a separate contract, when a customer extends the term of an existing supply contract at a lower rate to the original contract and is charged at a blended rate of the original and new contract.

This treatment results in revenue being recognised at the contractual rate on the original contract for the remaining original contractual period, with the customer being invoiced at the new, comparatively lower blended rate. When the original contract expires and the extension contract begins, revenue will be recognised at the lower contractual rate of the extension contract, whilst the customer is invoiced at the comparatively higher blended rate, realising the contract assets.

Contract liabilities (deferred income) arise when customers prepay for gas and power. Revenue is subsequently recognised when the performance obligations are satisfied when the products are delivered.

LNG and LPG

Performance obligations for physical LNG and LPG activities are satisfied at a point in time, when control of the goods is transferred to the customer, per the contractual Incoterms. The transaction price is allocated to this performance obligation.

There are no significant financing components in the Group's contracts with customers, as payment is usually due within 20 days.

Cost of sales

Cost of sales includes the cost of LNG, LPG, Retail gas and Retail electricity purchased during the period and related transportation, distribution costs, balancing charges, bought-in materials and services. It also includes the net cost of chartering and sub-chartering of vessels.

Net trading income recognition

The Group undertakes significant activities which, for the purposes of disclosure in the Financial Statements, have been classified as "trading". The Group uses the net gains and losses generated from non-financial and financial instruments, classified as held for trading per IFRS 9, as the basis for this categorisation.

Net income from trading activities is recognised on transactions that optimise the performance of the Group's energy portfolio. The Group routinely enters into sale and purchase transactions for commodities. These contracts, which are non-financial instruments, include pricing terms that are based on a variety of commodities and indices. Where required by IFRS 9, these contracts are recognised in the Statement of financial position at fair value with movements in fair value recognised in the Statement of comprehensive income within 'Net trading income'.

'Net trading income' is attributable to the Group's principal activities, those are marketing and trading of energy products, except in relation to Retail gas and electricity contracts, gas storage and transportation contracts, and physical LNG and LPG activities.

In addition to net gains and losses from items classified as held for trading within the scope of IFRS 9, gas and other energy product storage and gas transportation capacity revenues and costs related to underlying trading activities are recognised on an accrual basis within 'Net trading income'. Revenue in respect of gas storage and transportation is subject to the Revenue recognition accounting policy set out above. Energy purchase and sale transactions entered to optimise the performance of the storage facilities are also presented within 'Net trading income'.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Right-of-use assets
Right-of-use assets are measured at cost comprising of:

- The amount of initial measurement of lease liability
- Any lease payments made at or before the commencement date less any lease incentives received
- Any initial direct costs
- Restoration costs

Right-of-use assets are depreciated over the lease term on a straight-line basis, as each asset's useful life is considered equal to or greater than the lease term.

Where the lease liability has been reassessed to reflect changes in the lease payments due to the exercise of extension or termination options, or lease modifications not accounted for as a separate lease, the amount of the remeasurement of the lease liability is recorded as an adjustment to the right-of-use asset.

Inventory
The valuation approach for the 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-trader's margin are held at fair value less costs to sell. These commodities include physical gas, oil products and emission allowances. Movements in the fair value of inventory between reporting dates are recognised directly in the Statement of comprehensive income. The fair value is measured at the price for the soonest available delivery of gas, oil and emission allowances (respectively) at the reporting date.

LNG, LPG and certain gas positions which are managed outside of the trading books 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.

Bunker fuel and LNG heel for chartered vessels are recorded at the lower of cost and net realisable value.

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 are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Trade receivables are initially recognised at the amount of consideration that is unconditional, less expected credit losses, unless they contain a significant financing component in which case they are recognised at fair value.

Impairment of financial assets and expected credit loss model
The Group adopted IFRS 9 in 2018 and applied an expected loss model for the impairment of financial assets which are not measured at fair value through profit and loss. The Group has the following types of financial instruments that are subject to the expected credit loss model:

- Trade and other receivables
- Finance lease receivables from affiliated companies
- Contract assets
- Financial guarantee contracts
- Cash and cash equivalents

The Group applies the simplified approach, as described by IFRS 9, to measure expected credit losses for trade and other receivables, contract assets and finance lease receivables. The simplified approach permits the use of a lifetime expected loss allowance.

Loss allowances on financial guarantees are based on expectations of credit losses over a 12-month horizon, unless there has been a significant increase in credit risk of the reference entity in the contract since initial recognition. Where there has been a significant increase in credit risk on the contract since initial recognition, the lifetime expected loss model is applied.

The measurement of expected credit losses on financial assets and financial guarantee contracts is based on assumptions about the future risk of default and expected loss rates. The Group uses judgement in making these assumptions; selecting the inputs to the impairment calculation based on the Group's past credit loss experience, existing market conditions, and forward looking estimates at the end of each reporting period.

For details of the key assumptions and inputs used, see note 13 on credit risk.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Impairment of financial assets and expected credit loss model continued

Expected credit losses, and any subsequent reversals, are recognised in the Statement of comprehensive income and are reflected in the carrying amount of the impaired asset on the Statement of financial position.

Reversals of expected credit losses occur when the expected credit loss decreases as a result of changes in inputs regarding risk of default and expected loss rates. These reversals are limited such that the value of the asset cannot exceed the amortised cost value that would have been recorded at the reporting date had the impairment not been recognised.

Where recoveries of actual credit losses are achieved from independent credit enhancements (e.g. guarantees), those inflows are accounted for independently from the original exposure.

Leases

The Group adopted IFRS 16 on 1 January 2019 – refer to note 4 for a full description of the impact of adoption.

The Group leases various offices, ships, equipment and vehicles for fixed periods of up to 15 years. The ships are used for the purpose of transporting LNG in the Group's Global LNG, Oil and Shipping businesses.

Extension options in some contracts provide the lessee with the right to extend the lease past the initial term of the contract. Termination options in some contracts provide the lessee with the right to terminate the lease before the end of the lease term.

For ships, the Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. For all other classes of right-of-use assets, the Group has elected not to separate non-lease components from lease components, and instead accounts for these as a single lease component.

Lessee

Following the adoption of IFRS 16 on 1 January 2019, leases now require the recognition of a right-of-use asset and a corresponding lease liability in the Statement of financial position on the date that the leased asset is made available for use to the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. The Group's lease payments consist only of fixed payments during the lease term, and as such the lease liability is the net present value of the fixed payments. The accounting policy for right-of-use assets can be found above on page 11.

Where the lease contains extension or termination options, the lease term is determined to be the non-cancellable period of the lease plus any additional period where the Group is reasonably certain to exercise an extension option or not to exercise a termination option.

The Group makes use of the exemption under IFRS 16 for short-term leases, under which payments for leases with a term shorter than 12 months are recognised on a straight-line basis through the Statement of comprehensive income. No right-of-use asset is recognised in these instances. Where possible, lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for the Group's leases, the lessee's incremental borrowing rate is used. This is the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- Uses a bottom-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, and
- Makes adjustments specific to the lease, e.g. term, country, currency and security.

Lessor

The adoption of IFRS 16 did not result in significant changes to the lessor accounting model, and the lessor accounting requirements of IAS 17 have been substantially carried forward. Under this model, a lease is classified as a finance lease if it transfers substantially all the risks and rewards of ownership of the related asset to the lessee, otherwise it is classified as an operating lease.

a) Finance leases

Assets held under finance lease are presented as receivables in the Statement of financial position at an amount equal to the net investment in the lease. Finance income recognition is based on a pattern reflecting a constant periodic return on the net investment in the finance lease.

b) Operating leases

Payments received under operating leases, net of lease incentives or premiums, are recognised in the Statement of comprehensive income on a straight-line basis over the period of the lease.

Intermediate Lessor

The Group acts as an intermediate lessor by subleasing ships to external counterparties and subleasing office space to both related and unrelated counterparties. These subleases are treated in line with normal lessor activity, except that the assessment of the transfer of risks and rewards is now with reference to the term of the head lease, rather than the useful economic life of the underlying asset.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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 for which it is probable that economic resources will be required from the Group to settle that obligation. The amount recognised as a provision is the best estimate of the expenditure required to settle the obligation at the reporting date discounted to its 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 Statement 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.

Foreign currency

a) Functional and presentation currency

The Financial Statements of the Group and Company are presented in Sterling, which is also the functional currency of the Company.

All currency amounts in the Financial Statements are rounded to the nearest thousand Sterling unless stated otherwise.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are reported at the rates of exchange prevailing at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of comprehensive income.

c) Translation of subsidiaries results

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

Financial and non-financial instruments within the scope of IFRS 9

Trading assets and liabilities are recognised in the Statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the contractual rights to the cash flows from the asset expire or when the Group transfers the financial asset and substantially all the risk and rewards of ownership to another party.

Financial liabilities are derecognised when the obligation under the liability is discharged, cancelled or expires.

Financial assets within the scope of IFRS 9 are classified at amortised cost, fair value through profit or loss or fair value through other comprehensive income, on the basis of the business model within which they are held, and on their contractual cash flow characteristics. Financial liabilities within the scope of IFRS 9 are classified as held at amortised cost or fair value through profit or loss.

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 in line with business model assessments.

Trading contracts at fair value through profit and loss

Trading assets and liabilities are carried in the Statement of financial position at fair value with gains or losses recognised in the Statement of comprehensive income within 'Net trading income', except for certain financial instruments designated as hedging instruments. Financial assets or financial liabilities classified as held for trading 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 Statement of comprehensive income. The determination of fair value and the treatment of financial instruments designated as hedging instruments are described below.

The Group enters into contracts to buy or sell commodities for trading purposes and not for the purpose of receipt or delivery of the underlying commodity in order to meet the Group's expected own-use requirements. Even though the majority of these contracts are physically delivered, where such contracts are deemed to be capable of net settlement, for example where the commodity is deemed to be readily convertible to cash, they are treated as financial assets or liabilities within the scope of IFRS 9 and measured at fair value with associated gains or losses recognised directly in the Statement of comprehensive income within 'Net trading income'.

Financial assets and liabilities at amortised cost

Financial assets held within a business model where the objective is to collect contractual cash flows, and where such contractual cash flows are solely payments of principal and interest, are classified as assets held at amortised cost. They are initially recognised on settlement date at fair value, plus any directly attributable transaction costs. They are subsequently measured at amortised cost, using the effective interest rate method, less an allowance for expected credit losses. Financial liabilities which are not measured at fair value through profit and loss are classified as liabilities held at amortised cost. They are initially recognised on settlement date at fair value, less any directly attributable transaction costs, and subsequently measured at amortised cost, using the effective interest rate method.

Trade and other receivables, and short-term payables, for which the effect of discounting would be immaterial, are initially recognised at the transaction price and subsequently measured at amortised cost using the effective interest rate method.

Interest is recognised in the Statement of comprehensive income within Interest income or Interest expense as appropriate. The fair value on initial recognition includes directly attributable transaction costs.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Financial and non-financial instruments within the scope of IFRS 9 continued

Fair value

The Group uses various methods to determine the fair value of items for both initial recognition and subsequent measurement.

At the close of business on the reporting date, the fair value of assets traded in an active market is determined by reference to the bid price for net open asset positions; the ask price for net open liability positions; and mid-market prices where there are assets and liabilities with offsetting risks.

Where the 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 similar, discounted cash flow analysis and option pricing models.

The Group endeavours to utilise valuation techniques that maximise dependence on market observable inputs and minimise the use of unobservable inputs. Refer to note 14 for further details on the Group's use of fair value measurement.

Treatment of "day-one" gains and losses

In the normal course of its business, the Group will acquire non-financial and financial instruments where the fair value on initial recognition is the transaction price. For certain transactions the fair value on initial recognition is 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 from observable market data that the fair value is different to the transaction price, the Group recognises a "day-one" gain or loss at inception within 'Net trading income'.

When significant unobservable data is used to determine the fair value at inception of the transaction, the difference between the transaction price and the calculated fair value 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 systematic basis as observable market data becomes available.

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 income. The nature of embedded derivatives is reassessed when there is a change in the terms of the contract which significantly modifies its future cash flows. 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'.

Offsetting of balances

Financial and non-financial assets and liabilities are reported on a net basis only where there is a currently enforceable legal right of offset and there is an intention to settle on a net basis.

Hedge accounting

IFRS 9 sets out the criteria for the application of hedge accounting. A key requirement is that the hedging relationship must be documented in detail and an economic relationship between the hedged item and hedging instrument be demonstrated.

The Group uses certain financial and non-financial instruments to hedge exposures to financial risks, such as commodity price risks and foreign exchange risks which arise in the normal course of business. All such hedging instruments are measured at fair value upon initial recognition and are re-measured to fair value at each subsequent reporting date.

For those instruments designated as hedges, the hedging relationship is documented at its inception. This documentation identifies the Group's risk management strategy and objective for undertaking the hedge. It also includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements, including an analysis of sources of hedge ineffectiveness and how the hedge ratio is determined.

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

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

The treatment of gains and losses arising from the revaluation of hedging instruments depends on the nature of the hedging relationship. The Group does not currently utilise fair value hedges.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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 Statement of financial position or a highly probable forecast transaction.

The effective portion of changes in the fair value of instruments that are designated and qualify as cash flow hedges are deferred in Equity. The gain or loss relating to the ineffective portion is recognised immediately in 'Net trading income'.

Amounts deferred in Equity are recycled to the Statement of comprehensive income in the periods during which the hedged item is recognised in the Statement of comprehensive income. When the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred are transferred from Equity and included in the initial measurement of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the risk management objective for the hedge relationship has changed, the hedging instrument expires, is sold, terminated, exercised or the hedge relationship 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 the Statement of comprehensive income. 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.

Gas storage
Physical gas storage contracts are treated as executory contracts and carried at amortised cost. Inventory stored in this manner is accounted for separately from the storage contract.

Virtual gas storage contracts are treated as financial instruments held at fair value with gains and losses reported through Net income. Any inventory placed within virtual storage arrangements is de-recognised from the Statement of financial position, and a corresponding financial asset receivable is recorded.

Where virtual gas storage capacity has been sold and the Group receives gas inventory under the arrangement, a financial liability measured at the fair value of the gas to be returned to the counterparty is recorded.

4 IMPACT OF CHANGES IN ACCOUNTING POLICY

New standards and interpretations not yet adopted
Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods, nor on foreseeable future transactions.

Transition impact of IFRS 16
IFRS 16 Leases (IFRS 16) was issued by the IASB in January 2016 and endorsed by the European Union on 31 October 2017. It replaces the previous leases Standard, IAS 17 Leases. IFRS 16 sets out the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer/tenant (lessee) and the supplier/landlord (lessor). The Group adopted IFRS 16 as at 1 January 2019 on a retrospective basis.

As permitted by the transition provisions of IFRS 16, comparatives for 2018 have not been restated, with the cumulative effect of retrospective application of the standard recognised in the opening Statement of financial position on 1 January 2019.

For lessees, IFRS 16 eliminated the classification of leases as either finance or operating leases and instead introduces a single lessee accounting model.

Lessees are required to recognise a financial liability at the present value of the minimum contractual payments under the lease, and a corresponding right-of-use asset. The right-of-use asset is depreciated through the Statement of comprehensive income with depreciation presented separately from the interest expense on the lease liability. Although the depreciation charge is typically taken on a straight-line basis, the interest expense reduces over the life of the lease as payments are made.

Furthermore, the Group is affected by the changed classification criteria of sub-lessors contracts which prescribes that subleases have to be classified with reference to the head lease.

On 1 January 2019, the Group has reassessed the classification of the subleases based on the remaining contractual terms and conditions of the head leases. Based on this assessment, some subleases of vessels were reassessed and £209.3m of net investment in subleases was recognised on 1 January 2019 in 'Lease receivables'.

4 IMPACT OF CHANGES IN ACCOUNTING POLICY continued

Transition impact of IFRS 16 continued

a) Practical expedients applied

The following practical expedients permitted by the Standard were applied on adoption of IFRS 16:

- Accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- Taking the exemption from the requirements of IFRS 16 for certain leases of low value assets
- Excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease

b) Measurement of lease liabilities

	Group £'000	Company £'000
Operating lease commitments disclosed as at 31 December 2018	1,262,944	10,747
Add: extension options which are reasonably certain to be exercised	19,249	19,249
Less: short-term leases not recognised as an IFRS 16 liability	(13,408)	–
Less: commitments not recognised as leases	(361,326)	–
Less: operating expenses separated from vessels recognised as an IFRS 16 liability	(204,210)	–
	703,249	**29,996**
Less: effect of discounting at the lessee's weighted average incremental borrowing rate as at 1 January 2019	(125,247)	(1,151)
	578,002	**28,845**
Lease liability recognised as at 1 January 2019		
Of which:		
Current lease liabilities	**52,577**	**6,088**
Non-current lease liabilities	**525,425**	**22,757**

For the Group, the weighted average incremental borrowing rate used as at 1 January 2019 was 4%. For the Company, the weighted average incremental borrowing rate used as at 1 January 2019 was 1%.

c) Measurement of right-of-use assets

Right-of-use assets existing as at 1 January 2019 were measured on a retrospective basis as if the new rules have always applied.

d) Statement of financial position adjustments on adoption of IFRS 16

The change in accounting policy affected the following items in the Statement of financial position on 1 January 2019:

	Group £'000	Company £'000
Right-of-use assets	345,416	22,007
Trade and other receivables	(5,223)	(1,691)
Deferred tax assets	4,390	1,146
Trade and other payables	2,214	623
Lease receivables	209,320	1,293
Lease liabilities	(578,002)	(28,845)
Net impact on Retained earnings on 1 January 2019	(21,885)	(5,467)

5 ADMINISTRATIVE EXPENSES

	Group		Company	
	2019 £'000s	2018 £'000s	**2019 £'000s**	2018 £'000s
Administrative expenses				
Staff costs	**137,352**	133,155	**93,652**	88,640
Other employee costs	**14,921**	11,745	**11,143**	8,809
Office costs	**33,703**	29,763	**25,768**	21,688
Rentals under operating leases	**281**	8,969	**268**	6,056
Travel expenses	**4,499**	4,640	**3,048**	2,932
Consultancy (excl. Auditors' remuneration)	**2,410**	3,561	**1,503**	2,762
Auditors' remuneration	**1,093**	1,209	**658**	834
Depreciation	**41,390**	4,717	**7,989**	3,588
Amortisation	**21,965**	18,189	**17,012**	16,205
	257,614	215,948	**161,041**	151,514

6 RIGHT-OF-USE ASSETS

Group	Note	**Leasehold properties £'000s**	**Vessels £'000s**	**Vehicles £'000s**	**Total £'000s**
Cost					
At 31 December 2018		–	–	–	–
Adjustment for change in accounting policy	4	35,112	310,304	–	345,416
At 1 January 2019		**35,112**	**310,304**	**–**	**345,416**
Additions and remeasurement		13,623	–	49	13,672
Disposals		(49)	(1,709)	–	(1,758)
Derecognition due to sublease		(3,859)	–	–	(3,859)
Currency translation		(292)	(9,092)	–	(9,384)
At 31 December 2019		**44,535**	**299,503**	**49**	**344,087**
Accumulated depreciation					
At 1 January 2019		–	–	–	–
Charge for the year		6,745	29,806	21	36,572
Currency translation		(63)	(906)	–	(969)
At 31 December 2019		**6,682**	**28,900**	**21**	**35,603**
Net book value					
At 31 December 2019		**37,853**	**270,603**	**28**	**308,484**
At 31 December 2018		–	–	–	–

6 RIGHT-OF-USE ASSETS continued

Company	Note	Leasehold properties £'000s	Vessels £'000s	Vehicles £'000s	Total £'000s
Cost					
At 31 December 2018		–	–	–	–
Adjustment for change in accounting policy	4	22,007	–	–	22,007
At 1 January 2019		**22,007**	**–**	**–**	**22,007**
Additions and remeasurement		13,146	–	49	13,195
Disposals		(40)	–	–	(40)
Derecognition due to sublease		(3,859)	–	–	(3,859)
Currency translation		–	–	–	–
At 31 December 2019		**31,254**	**–**	**49**	**31,303**
Accumulated depreciation					
At 1 January 2019		–	–	–	–
Charge for the year		4,331	–	21	4,352
Currency translation		–	–	–	–
At 31 December 2019		**4,331**	**–**	**21**	**4,352**
Net book value					
At 31 December 2019		**26,923**	**–**	**28**	**26,951**
At 31 December 2018		–	–	–	–

7 INVESTMENTS IN SUBSIDIARIES

Details of the Company's subsidiaries at 31 December 2019 are as follows:

Name of subsidiary	Registered address	Place of incorporation and operation	Business activity	Ordinary shares owned	Proportion of voting power
Gazprom Global LNG Ltd ("GGLNG")	20 Triton Street, London, NW1 3BF	United Kingdom	Energy trading	100%	100%
Gazprom Marketing & Trading Retail Ltd ("GM&T Retail")	20 Triton Street, London, NW1 3BF	United Kingdom	Energy supply	100%	100%
Gazprom Mex (UK) 1 Ltd	20 Triton Street, London, NW1 3BF	United Kingdom	Holding company	100%	100%
Gazprom Mex (UK) 2 Ltd	20 Triton Street, London, NW1 3BF	United Kingdom	Holding company	100%	100%
Gazprom Marketing & Trading France SAS ("GM&T France")	68 Avenue des Champs Elysées 75008, Paris, France	France	Energy supply	100%	100%
Gazprom Marketing & Trading USA, Inc. ("GM&T USA")	1675 S State St, Ste B, Dover, Kent County, State of Delaware, 19901 USA	USA	Energy trading	100%	100%
Gazprom Marketing & Trading Singapore Pte Ltd ("GM&T Singapore")	10 Collyer Quay, #10-01 Ocean Financial Centre, Singapore 049315	Singapore	Energy trading	100%	100%
Gazprom Marketing & Trading Mexico S.de R.L.de C.V.	Bosque de Ciruelos 180 PP 101, Bosques de las Lomas, Del. Miguel Hidalgo, Distrito Federal, 11700, Mexico	Mexico	Energy trading	100%	100%
Gazprom Marketing & Trading Switzerland AG ("GM&T Switzerland")	Poststrasse 2 Zug, 6300, Switzerland	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%. In addition, Gazprom Mex (UK) 1 Ltd holds 100% of the equity of Gazprom Mex (UK) 2 Ltd.

Dividend income of £nil was received by the Company from its subsidiaries in 2019 (2018: £450.0m).

8 INVENTORIES

	Group		Company	
	2019 **£'000s**	2018 £'000s	**2019** **£'000s**	2018 £'000s
Gas in storage	**251,054**	225,018	**247,149**	221,778
Emission allowances	**122,272**	75,918	**121,171**	71,858
LNG inventories	**17,099**	40,048	**–**	–
Other inventories	**471**	3,617	**–**	–
	390,896	344,601	**368,320**	293,636

£1,154.0m of Group inventory was derecognised from the Statement of financial position and subsequently recognised as an expense in the year (2018: £1,285.1m). £68.1m of Company inventory was derecognised from the Statement of financial position and subsequently recognised as an expense in the year (2018: £44.1m).

£75.0m (2018: £nil) of gas in storage was accounted for at the lower of cost or net realisable value at year end as the Group does not hold active withdrawal or injection rights.

9 LEASES

The Group leases various offices, ships, office equipment and vehicles for fixed periods up to 15 years. The ships are used for transporting LNG in the Group's Global LNG, Oil and Shipping business.

Disclosure of the carrying value, additions and depreciation of right-of-use assets can be found in note 6, right-of-use assets.

The Group also acts as an intermediate lessor by subleasing ships and office space to both related and unrelated counterparties.

The Company subleases office space to both related and unrelated counterparties.

a) Amounts recognised in the Statement of comprehensive income

The Statement of comprehensive income includes the following amounts relating to leases:

	Group 2019 £'000s	**Company 2019 £'000s**
Depreciation of right-of-use assets, included within administrative expenses	**36,572**	**4,352**
Lease interest expense, included within interest expense	**23,343**	**479**
Expense relating to short-term leases, included within cost of sales	**22,623**	**255**
Income relating to short-term leases for right-of-use assets, included within cost of sales	**40,719**	**–**
Income relating to short-term leases for non right-of-use assets, included within cost of sales	**3,250**	**–**
Finance income on the net investment in leases	**8,915**	**73**

b) Extension and termination options

Some of the Group's office leases contain termination options, and some of the Group's shipping leases contain extension options. These options provide flexibility for the Group to respond to the dynamic and constantly evolving nature of the commodity marketplace by managing its assets and infrastructure.

Certain of the Group's shipping contracts contain flexibility around redelivery dates at the end of the lease term, between 30- and 90-day extensions. These provisions allow the Group to avoid penalties for late delivery where ships are delayed due to poor weather, congestion at ports, or other operational difficulties.

The majority of extension and termination options held can be exercised only at the Group's discretion. The Group takes the view that there is no reasonable certainty that the Group will exercise such options unless there are existing approved business plans to do so at the reporting date.

As of 31 December 2019, potential future cash flows of £495.4m (undiscounted) have not been included in the lease liability, because it is not reasonably certain that the leases will be extended or not terminated.

c) Committed leases not yet commenced

During the year, the Group signed three shipping leases, two with a seven-year lease term, commencing in 2021 and the other with a 60-day lease term, commencing in 2020. The total future payments (relating to the base term) under these leasing contracts are £278.5m. The two seven-year shipping contracts each contain 10-year extension options.

9 LEASES continued

d) Lease commitments

The Group has entered into long-term contracts that are under IFRS 16. These contracts include LNG tankers chartered by the Group and property leases. The maturities of the undiscounted lease liabilities under IFRS 16 are as follows:

	Group 31 Dec 2019 £'000s	Company 31 Dec 2019 £'000s
Not later than one year	**75,804**	**6,880**
Later than one year and not later than five years	**302,321**	**27,405**
Later than five years	**247,254**	**3,842**
	625,379	**38,127**

e) Intermediate lessor

In managing the Group's right-of-use assets, the Group and the Company may sublease certain assets to external or related counterparties, with the purpose of maximising the economic value accruing to the Group from utilising the assets.

Subleases – classified as operating leases

The Group acts as an intermediate lessor under arrangement in which it subleases out office spaces and vessels to third parties for monthly lease payments. The sub-lease periods do not form a major part of the remaining lease terms under the head leases and accordingly, the sub-leases are classified as operating leases.

Income from subleasing these above assets recognised during the financial year 2019 was £40.7m (2018: £75.7m).

Undiscounted lease payments from operating leases to be received on an annual basis are shown below:

	Group		Company	
Operating leases	**31 Dec 2019 £'000s**	1 Jan 2019 £'000s	**31 Dec 2019 £'000s**	1 Jan 2019 £'000s
Within 1 year	**21,248**	31,280	**–**	–
More than 2 years	**–**	–	**–**	–
Total undiscounted lease payments	**21,248**	31,280	**–**	–

Subleases – classified as finance leases

The Group's sub-leases of two LNG vessels and certain property leases are classified as finance leases because these sub-leases comprise the majority of the remaining term of the related head leases. Corresponding right-of-use assets are derecognised and the net investment in the sublease is recognised under 'Lease receivables'.

Finance income on the net investment in sub-leases during the financial year was £8.9m.

The following table shows a maturity analysis of the undiscounted lease payments to be received:

	Group		Company	
	31 Dec 2019 £'000s	1 Jan 2019 £'000s	**31 Dec 2019 £'000s**	1 Jan 2019 £'000s
Within 1 year	**27,594**	29,624	**831**	2,106
Between 1 and 2 years	**28,530**	28,998	**1,957**	1,416
Between 2 and 3 years	**28,064**	28,169	**1,577**	790
Between 3 and 4 years	**27,317**	27,333	**831**	43
Between 4 and 5 years	**27,266**	27,333	**831**	43
Later than 5 years	**87,603**	117,303	**266**	81
Total: undiscounted lease payments	**226,374**	258,760	**6,293**	4,479
Less: unearned future finance income	**(36,233)**	(46,049)	**(227)**	(149)
Less: Loss allowance for leases (note 13)	**(1,308)**	(372)	**(1,013)**	(18)
Net investment in finance lease	**188,833**	212,339	**5,053**	4,312
Current	**19,585**	20,725	**569**	2,041
Non-current	**169,248**	191,614	**4,484**	2,271
Total	**188,833**	212,339	**5,053**	4,312

9 LEASES continued

f) Net investment in leases as an intermediate lessor

Changes in the carrying amount of the net investment in leases are shown below:

	Group		Company	
	2019 £'000s	2018 £'000s	**2019 £'000s**	2018 £'000s
Opening net investment in leases	**3,019**	6,902	**3,019**	6,902
Remeasurement of existing and recognition of new finance leases on transition	**209,320**	–	**1,293**	–
Remeasurement of existing leases and recognition of new finance leases during the year	**2,775**	–	**2,775**	–
Lease payments received	**(29,671)**	(4,183)	**(2,107)**	(4,183)
Finance income earned in the year	**8,915**	300	**73**	300
Translation differences	**(5,525)**	–	**–**	–
Closing net investment in leases	**188,833**	3,019	**5,053**	3,019

10 PROVISIONS

Group	**Property £'000s**	**Onerous contracts £'000s**	**Other £'000s**	**Total £'000s**
At 1 January 2019	2,403	551	95	3,049
Additional provisions	–	16,255	3,152	19,407
Provisions utilised	–	(778)	–	(778)
At 31 December 2019	**2,403**	**16,028**	**3,247**	**21,678**

Company	**Property £'000s**	**Onerous contracts £'000s**	**Other £'000s**	**Total £'000s**
At 1 January 2019	1,500	–	1,301	2,801
Additional provisions	–	15,466	1,858	17,324
Provisions utilised	–	–	–	–
At 31 December 2019	**1,500**	**15,466**	**3,159**	**20,125**

Property provisions 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 as part of the initial measurement of right-of-use assets, see note 6.

Onerous contract provisions relate to a long-term contract for capacity on a gas transportation pipeline which has been treated as an onerous contract during the period. Judgement has been exercised to determine the expected amount of onerous payments which exceed expected future benefits, particularly for future periods where market prices are not readily available.

The Group also incurs industry charges for various commodity and non-commodity costs. Certain industry charges are reconciled for historic supply periods over a 12-36 month horizon. Where currently incurred costs are below the industry published long-term averages, the Group has recognised a provision to increase cost of sales. This method of recognising costs in line with industry published assumptions and historical averages represents a significant accounting judgement.

Other provisions may include legal provisions. In the ordinary course of business, from time to time the Group becomes engaged in contractual disputes with trading counterparties which may result in litigation for which a provision is required. The provision at 31 December 2019 represents the best estimate of the amount required to settle such obligations.

11 NET DEBT RECONCILIATION

The table below sets out an analysis of the movement in net debt during the year.

Group

31 December 2019	Cash £'000s	Loan from parent entity £'000s	Finance lease liabilities £'000s	Total £'000s
Net cash as at 1 January 2019	**94,680**	**(67,277)**	**–**	**27,403**
Adoption of IFRS 16	–	–	(578,002)	(578,002)
Acquisitions and remeasurement of leases	–	–	(11,914)	(11,914)
Cash flow	147,895	67,277	50,560	265,732
Currency translation	(74)	–	14,876	14,802
Net debt as at 31 December 2019	**242,501**	**–**	**(524,480)**	**(281,979)**

Group

31 December 2018	Cash £'000s	Loan from parent entity £'000s	Finance lease liabilities £'000s	Total £'000s
Net cash as at 1 January 2018	171,285	–	–	171,285
Cash flow	(76,611)	(66,683)	–	(143,294)
Currency translation	6	(594)	–	(588)
Net cash as at 31 December 2018	94,680	(67,277)	–	27,403

Company

31 December 2019	Cash £'000s	Loan from parent entity £'000s	Finance lease liabilities £'000s	Total £'000s
Net debt as at 1 January 2019	**186,526**	**(297,464)**	**–**	**(110,938)**
Adoption of IFRS 16	–	–	(28,845)	(28,845)
Acquisitions and remeasurement of leases	–	–	(13,155)	(13,155)
Cash flow	118,842	(177,106)	6,198	(52,066)
Currency translation	–	3,803	–	3,803
Net debt as at 31 December 2019	**305,368**	**(470,767)**	**(35,802)**	**(201,201)**

Company

31 December 2018	Cash £'000s	Loan from parent entity £'000s	Finance lease liabilities £'000s	Total £'000s
Net debt as at 1 January 2018	217,464	(545,095)	–	(327,631)
Cash flow	(30,938)	248,463	–	217,465
Currency translation	–	(772)	–	(772)
Net debt as at 31 December 2018	186,526	(297,464)	–	(110,938)

12 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

This note provides information about the Group's financial instruments, including:

- an overview of all the financial instruments held by the Group, including trading contracts to deliver non-financial items which are within the scope of IFRS 9;
- specific information about each type of financial instrument.

For information about determining the fair value of the instruments, including judgements and estimation uncertainty involved, refer to note 14, financial and non-financial instruments within the scope of IFRS 9.

The Group holds the following financial instruments:

		Group		Company	
	Note	**2019 £'000s**	2018 £'000s	**2019 £'000s**	2018 £'000s
Financial assets					
Financial assets at amortised cost:					
Trade and other receivables	12a	**1,688,300**	2,868,580	**1,371,434**	2,399,414
Lease receivables		**188,833**	–	**5,053**	–
Cash equivalents receivable from related parties	12b	**208,487**	–	**300,730**	111,256
Cash and cash equivalents	12b	**34,014**	94,680	**4,638**	75,270
Financial assets measured at fair value through profit or loss:	14				
Trading contracts		**2,019,713**	1,705,242	**2,407,819**	1,916,390
Virtual gas storage contracts		**82,823**	176,849	**82,823**	176,849
		4,222,170	4,845,351	**4,172,497**	4,679,179
Financial liabilities					
Financial liabilities at amortised cost:					
Trade and other payables	12c	**1,858,832**	2,819,260	**1,586,844**	2,461,005
Lease liabilities		**524,480**	–	**35,802**	–
Loans and overdrafts	12d		67,277	**470,767**	297,464
Financial liabilities measured at fair value through profit or loss:	14				
Trading contracts		**1,784,706**	1,633,852	**2,198,337**	1,862,166
Virtual gas storage contracts		**41,294**	225,159	**41,294**	225,159
		4,209,312	4,745,548	**4,333,044**	4,845,794

For financial assets and financial liabilities measured at fair value through profit or loss, changes in fair value are immediately recognised in profit or loss, except for effective amounts in hedging relationships.

The Group's exposure to various risks associated with financial instruments, the maximum exposure to credit risk at the end of the reporting period, and the carrying amount of each class of financial assets is discussed in note 13.

12 FINANCIAL ASSETS AND FINANCIAL LIABILITIES continued

a) Trade and other receivables

	Group		Company	
	2019 £'000s	2018 £'000s	**2019 £'000s**	2018 £'000s
Due within one year				
Amounts receivable from sale of commodities:	**1,478,653**	2,573,271	**1,315,225**	2,341,092
from third parties	**1,439,475**	2,462,261	**1,145,562**	2,038,431
from subsidiary companies	**–**	–	**130,562**	230,039
from affiliated companies	**39,178**	111,010	**39,101**	72,622
Contract assets	**162,982**	204,498	**–**	–
Amounts receivable under finance lease	**–**	1,081	**–**	1,081
Prepayments	**22,148**	55,517	**11,097**	15,063
Other debtors	**7,344**	31,560	**45,112**	40,258
	1,671,127	2,865,927	**1,371,434**	2,397,494
Due after one year				
Amounts receivable from affiliated companies under finance leases	**–**	1,920	**–**	1,920
Other long-term receivables	**17,173**	733	**–**	–
	17,173	2,653	**–**	1,920
Relating to:				
Financial assets (see note 14)	**1,503,170**	2,605,564	**1,360,337**	2,381,350
Non-financial assets	**185,130**	263,016	**11,097**	18,064
	1,688,300	2,868,580	**1,371,434**	2,399,414

Included within trade and other receivables are contract assets and prepayments, which are non-financial assets. These items have been aggregated within trade and other receivables as they represent a material class of similar items. Trade and other receivables disclosed in the maturity analysis in note 13 only include financial assets.

The Group holds these financial assets with the objective to collect the contractual cash flows and therefore measures them at amortised cost using the effective interest rate method. Details about the Group's impairment policies and the calculation of the loss allowance are provided in note 13.

During the year, prepayments related to Retail customer contracts' broker commission were reclassified to other receivables and intangible assets as a review of such balances concluded that this is a more faithful representation of their underlying nature. Adjustments of £28.5m have not been reclassified in the comparative period.

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.

b) Cash and cash equivalents

	Group		Company	
	2019 £'000s	2018 £'000s	**2019 £'000s**	2018 £'000s
Cash at bank and in hand	**34,014**	94,680	**4,638**	75,270
Cash equivalents with parent companies	**208,487**	–	**208,487**	111,256
Cash equivalents with subsidiary companies	**–**	–	**92,243**	–
Total cash and cash equivalents	**242,501**	94,680	**305,368**	186,526

Cash equivalents with subsidiaries comprise balances held with subsidiaries under cash pooling arrangements.

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.

12 FINANCIAL ASSETS AND FINANCIAL LIABILITIES continued

c) Trade and other payables

	Group		Company	
	2019 £'000s	2018 £'000s	**2019 £'000s**	2018 £'000s
Due within one year				
Amounts owed for purchase of commodities:	**1,672,892**	2,544,066	**1,502,002**	2,291,378
to third parties	**1,203,563**	1,679,107	**977,355**	1,404,269
to subsidiaries	**–**	–	**68,863**	85,044
to affiliated companies	**469,329**	864,959	**455,784**	802,065
Contract liabilities	**7,908**	10,497	**–**	–
Accruals	**78,153**	71,105	**58,701**	51,866
Deferred income	**13,166**	–	**8,032**	–
Other payables	**85,673**	192,067	**17,919**	117,446
	1,857,792	2,817,735	**1,586,654**	2,460,690
Due after more than one year				
Other long-term payables	**1,040**	1,525	**190**	315
Relating to:				
Financial liabilities	**1,837,758**	2,808,763	**1,578,812**	2,461,005
Non-financial liabilities	**21,074**	10,497	**8,032**	–
	1,858,832	2,819,260	**1,586,844**	2,461,005

Included within trade and other payables are contract liabilities, which are non-financial in nature. Trade and other payables disclosed in the maturity analysis in note 13 include only financial liabilities.

During the year, accruals and deferred income were reclassified from non-financial liabilities to financial liabilities, as a review of such balances concluded that this is a more faithful representation of their underlying nature. Adjustments of £71.1m have not been reclassified in the comparative period.

Included within the Group's trade and other payables to third parties is an amount of £135.8m (2018: £110.3m) relating to gas commodity prepayments.

d) Loans and overdrafts

	Group		Company	
	2019 £'000s	2018 £'000s	**2019 £'000s**	2018 £'000s
Amounts owed:				
to parents	**–**	67,277	**–**	67,277
to subsidiaries	**–**	–	**470,767**	230,187
	–	67,277	**470,767**	297,464

As at 31 December 2019, the Group had access to various uncommitted and committed rolling credit facilities. Details of the facilities of the Group are discussed in the Liquidity risk section of note 13.

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

13 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Risk Management System is an integral component of the business processes and activities of the Group. GPG's Managing Director has overall responsibility for the GPG Group-wide Risk Management System. The GM&T Directors are in turn responsible for ensuring that GM&T follows the risk strategy, principles, policies and risk limits as defined by the GPG Managing Director. This process is run on the principle of three lines of defence, with the Risk Owners (principally the Commercial Department) operating as the first line of defence; the Risk Co-ordinators (the independent Group Risk Department) operating as the second line of defence; and the Audit function (Controls Review Department) operating as the third line of defence.

The Gazprom Marketing & Trading Commercial Department, as Risk Owners, are primarily responsible for managing the Group's risks. They are supported by the Group Risk Department that provides an advisory, control and oversight function, independent of the Commercial and other Support Functions. The GPG Managing Director is further supported in his risk management responsibilities by the GPG Risk Oversight Committee ("ROC"). The ROC provides recommendations and advice to the GPG Managing Director on risk-related matters and consists of members from the PAO Gazprom Risk and Legal functions, as well as Gazprom Export Risk.

The Risk Management System defines enterprise risk management throughout the GPG Group, setting out a unified framework of risk management throughout the GPG group companies, including the Group. This policy is further supported by specific risk policies for Credit, Market and Liquidity risk, as well as other risk management policies, frameworks and methodologies. GM&T follows the GPG risk policies and related documentation and as the main trading entity for the GPG Group plays a key role in establishing the application of effective risk management throughout the GPG Group.

Capital management

The Group's objectives in managing its capital are to safeguard its ability to continue as a going concern and to generate long-term profitability. It achieves this through maintaining adequate reserves and loans from related parties. Share capital and reserves at 31 December 2019 were £783.3m (2018: £503.8m). The Group has no outstanding loan with its parent company, GPG (2018: £67.3m). 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 is managed by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and financial liabilities.

Market risk

Market risk is the risk of loss that results from changes in market factors (e.g. commodity prices, foreign currency exchange rates, interest rates, volumes, etc). 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 contracts whereby the commercial terms are broadly matched. The Group, however, does hold some unhedged positions, subject to certain limits approved by the GPG's Managing Director, 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 a Value-at-Risk ("VaR") measure to monitor and review its exposure to market risk. VaR is an estimate of the potential loss on a given position or portfolio over a specific holding period, based on normal market conditions and within a given statistical confidence interval. The Group uses a Monte Carlo simulation methodology for computing VaR, with a confidence interval of 97.5% and an assumed holding period of one day.

Executive management has approved VaR limits for all trading activities, 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 as such, additional market risk monitoring techniques are employed such as stress testing and sensitivity analysis.

Based upon VaR and 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:

	2019		2018	
Group	**Average £'000s**	**Year end £'000s**	Average £'000s	Year end £'000s
Trading VaR	**2,790**	**3,270**	2,228	2,464

These VaR values are within the limits set by the GPG Group's Managing Director.

13 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Market risk 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, LPG and oil (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, LPG 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 as the cost of procurement varies with wholesale commodity prices.

The risk 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. These contracts are carried at fair value with changes in fair value recorded in the Statement of comprehensive income unless they are designated as hedging instruments in an effective hedge relationship. Retail energy supply contracts and physical LNG/LPG contracts are not accounted for under the scope of IFRS 9 and are treated as executory contracts. Changes in fair value of these contracts do not immediately impact Operating 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 commodity contracts at 31 December 2019 is disclosed in note 14.

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 manage 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, GM&T USA, GM&T Singapore and GM&T Switzerland. Transactional risk is the risk that the functional currency value of cash flows will vary as a result of movements in exchange rates.

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

Material transactional exposures are managed 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 restrictions by currency on the level of open positions allowed. A formal policy is in place for the management of non-trading related transactional foreign currency risks such as inter-company loans and non-functional currency overheads.

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 budgeted exposures are assessed against the costs to hedge and management decides whether any action is required. The table below details the Group's foreign currency exposure, by currency, and calculates the impact on total comprehensive income of a reasonably possible parallel shift of the foreign currency against Sterling.

	2019 Sensitivity analysis			2018 Sensitivity analysis		
	Net Assets £000s	**Percentage change applied**	**Total comprehensive income £'000s**	Net Assets £000s	Percentage change applied	Total comprehensive income £'000s
Euro	**2,070**	**5.52%**	**114**	2,734	(3.27)%	(89)
US dollar	**696,060**	**(5.49)%**	**(38,314)**	238,905	9.81%	23,436
	698,130		**(38,200)**	241,639		23,347

The percentage change applied for the foreign currency rate against Sterling has been calculated based on the greatest absolute annual percentage change over a two-year period from 1 January 2018 to 31 December 2019, and is therefore not necessarily the same percentage change in each foreign currency exchange rate in the current year.

13 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Market risk continued

iii. Interest rate risk

The Group is not exposed to interest rate risk to the extent that borrowings are executed at floating rates. 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 on drawn loan balances extant at year end would result in an income or expense of £nil as at 31 December 2019 (2018: £nil).

Credit risk

The Group's exposure to credit risk takes the form of any potential loss associated with a counterparty's failure to meet their payment or performance obligations. These risks may arise in all forms of commercial agreements, which include those 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 GPG Group's Managing Director and by certain individuals to whom authority has been delegated. All counterparties are assigned a grading based on external ratings where available and an internal assessment methodology in other cases, with this used to set the maximum exposure that would be accepted against any particular counterparty. The internal assessment methodology is reviewed by the ROC. The credit exposure to each counterparty is then monitored on a daily basis to ensure those limits are not exceeded.

The majority of significant exposures arising through trading activities are with investment grade counterparties. The Group incorporates counterparty credit risk in determining the fair value of financial instruments. The impact of the Group's own credit risk has been reflected in the fair value of derivative financial instruments.

The Group trades under credit enhancement 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 obtains credit support such as letters of credit, bank guarantees and parent company guarantees against exposures where appropriate.

The Group's credit position is impacted by cash pledged or received under margin and collateral agreements. The terms and conditions of these agreements depend upon the counterparty and the specific details of the transaction. In the Group, credit risk is managed by determining and monitoring a customer's creditworthiness and financial strength before commencing trading, with regular reviews thereafter. Creditworthiness is ascertained 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 defines default as having occurred where receivables are more than 90 days past due or where irrecoverability is certain.

The Group's maximum exposure to credit risk on financial assets held at fair value through profit or loss is £2,102.5m (2018: £1,882.0m) and on financial assets held at amortised cost is £1,934.5m (2018: £2,703.2m). 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 £2,490.6m (2018: £2,093.2m), of which £431.3m (2018: £219.6m) was related to transactions within the Group, and £1,670.8m (2018: £2,570.9m) on financial assets held at amortised cost.

For financial assets and financial guarantee contracts subject to the impairment requirements of IFRS 9, the exposure to credit risk of the Group as at 31 December 2019 is disclosed in the expected credit loss section below, based on the carrying amounts of the financial assets the Group believes are subject to credit risk.

Expected credit losses

The Group has the following types of financial assets which are not measured at fair value through profit and loss and which are subject to the expected credit loss ("ECL") model:

- Trade and other receivables, including contract assets
- Lease receivables
- Cash and cash equivalents
- Financial guarantee contracts

For trade and other receivables, including contract assets, the Group applies the simplified approach to measure loss allowance using the lifetime expected credit loss model.

For lease receivables, cash and cash equivalents and financial guarantee contracts, the Group measures the loss allowance at the 12-month expected credit loss amount unless there has been a significant increase in credit risk since initial recognition. Where there has been a significant increase in credit risk since initial recognition, the lifetime expected loss model is applied.

13 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Expected credit losses continued

ECL methodology

For trade receivables in the Retail business, for which the counterparties tend to be of lower credit quality, where the balance is considered to be at an increased risk of default, specific loss allowance provisions are applied using assumptions based on past history, existing market conditions and forward-looking estimates.

For all other balances, the loss allowance is based on the counterparty's probability of default ("PD"), multiplied by the loss given default rate ("LGD"), multiplied by the credit exposure. The approach uses both historical and forward-looking data such as credit ratings, audited annual financial statements, credit default swaps pricing and industry and company specific analysis of the counterparty's future prospects.

Exposure to credit risk

In order to assess the Group's exposure to credit risk, the gross carrying amount of financial instruments subject to the ECL model, or for financial guarantee contracts, their gross notional amount, are grouped by credit risk ratings in the table below. The exposure in the comparative disclosure in 2018 was grouped by days past due. The Group considers the change in the grouping of credit risk exposure better reflects how this risk is managed by the Group.

The available credit ratings range from AAA (highest credit quality) to D (lowest credit quality), with the latter representing exposure to counterparties already in default:

Group

	Credit rating			
31 December 2019	**AAA to BBB- £'000s**	**BB+ to B- £'000s**	**CCC+ to C £'000s**	**D £'000s**
Lifetime ECL				
Gross carrying amount – trade and other receivables	**1,190,833**	**420,332**	**69,461**	**2,224**
12-month ECL				
Gross carrying amount – cash and cash equivalents	**240,563**	**–**	**1,999**	**–**
Gross carrying amount – lease receivables	**186,414**	**–**	**3,726**	**–**
Exposure to credit risk – financial guarantee contracts	**–**	**–**	**–**	**–**

Company

	Credit rating			
31 December 2019	**AAA to BBB- £'000s**	**BB+ to B- £'000s**	**CCC+ to C £'000s**	**D £'000s**
Lifetime ECL				
Gross carrying amount – trade and other receivables	**946,306**	**409,883**	**6,615**	**–**
12-month ECL				
Gross carrying amount – cash and cash equivalents	**212,352**	**92,243**	**861**	**–**
Gross carrying amount – lease receivables	**2,341**	**–**	**3,726**	**–**
Exposure to credit risk – financial guarantee contracts	**–**	**145,498**	**–**	**–**

Collateral and other credit enhancements

The Group receives cash collateral from certain counterparties as a method of mitigating credit risk on trade receivables. Where the carrying value of the trade receivables is supported by cash collateral, no expected credit loss has been recognised on these amounts. The carrying value of trade receivables where no expected credit loss has been recognised amounts to £21.6m.

13 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Expected credit losses continued

Write-off policy

The Group's write-off policy on trade receivables in the Retail business requires derecognition of amounts where irrecoverability is certain on amounts greater than six months overdue. Examples where irrecoverability is certain may include:

- The counterparty is in insolvency or bankruptcy proceedings, or undergoing financial reorganisation;
- The debt is overdue and considered uneconomical to pursue; or
- The debt has been passed to collection agencies and is more than one year overdue.

For all other balances, due to the higher credit quality of the counterparties involved, and the low rate of expected credit loss, the write-off policy only requires derecognition of amounts on an individual basis where irrecoverability is certain.

Amounts recognised in profit or loss

During the year, the following gains/(losses) were recognised in the Statement of comprehensive income in Administrative expenses in relation to expected credit loss.

	Group		Company	
	2019 £'000s	2018 £'000s	**2019 £'000s**	2018 £'000s
Individual receivables written off directly	**6,219**	2,876	**–**	319
Movement in loss allowance for trade and other receivables	**4,175**	6,513	**960**	(48)
Movement in loss allowance for lease receivables	**936**	–	**995**	–
Movement in loss allowance for cash and cash equivalents	**47**	(26)	**(112)**	42
Movement in loss allowance for financial guarantee contracts	**–**	–	**1,548**	(304)
Net impairment losses on financial assets and financial guarantee contracts	**11,377**	9,363	**3,391**	9

Liquidity risk

Liquidity risk represents the risk that the Group is unable to satisfy the financial obligations that arise during the course of business due to insufficient funding lines or available cash reserves.

Liquidity risk is monitored on a daily basis with cash flow forecasts amended as appropriate and adjustments made to the funding plan or business plan if required. Working capital requirements are actively managed to ensure the Group's financing facilities are sufficient even in stress case scenarios.

The Group protects itself against this risk by ensuring that it either has sufficient available cash reserves to hand or access to committed financing that will enable it to meet all anticipated needs as well as to cover stressed market conditions or extreme or unplanned events.

The Group has access to committed facilities of €500m and a cash pool facility of €100m with its parent company GPG and significant bilateral trade finance lines.

Cash balances are managed centrally by the GPG Group's Treasury function. Interest is received based on market interest rates.

The following tables detail the Group's liquidity analysis for its financial and certain non-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 undiscounted gross cash inflows to be received on an annual basis related to lease receivables have been separately disclosed in note 9.

13 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Liquidity risk continued

The table below presents contractual undiscounted cash flows within relevant maturity groupings based on the contractual tenor remaining at the date of the Statement of financial position.

Group

31 December 2019	Within 1 month £'000	2-12 months £'000	1-2 years £'000	2-5 years £'000	Over 5 years £'000	Total £'000
Due for receipt						
Commodity trading contracts	**4,933,503**	**23,982,490**	**7,696,615**	**2,317,280**	**332**	**38,930,220**
Derivative instruments	**30,750**	**170,954**	**55,638**	**13,903**	**5**	**271,250**
Virtual gas storage contracts	**–**	**82,823**	**–**	**–**	**–**	**82,823**
Cash and cash equivalents	**242,501**	**–**	**–**	**–**	**–**	**242,501**
Trade and other receivables	**1,600,094**	**71,033**	**17,173**	**–**	**–**	**1,688,300**
Total	**6,806,848**	**24,307,300**	**7,769,426**	**2,331,183**	**337**	**41,215,094**
Due for payment						
Commodity trading contracts	**4,913,158**	**23,281,733**	**7,265,011**	**2,134,524**	**–**	**37,594,426**
Derivative instruments	**24,298**	**157,947**	**53,663**	**16,102**	**4**	**252,014**
Virtual gas storage contracts	**–**	**41,294**	**–**	**–**	**–**	**41,294**
Trade and other payables	**1,844,166**	**13,626**	**929**	**111**	**–**	**1,858,832**
Loans and overdrafts	**–**	**–**	**–**	**–**	**–**	**–**
Total	**6,781,622**	**23,494,600**	**7,319,603**	**2,150,737**	**4**	**39,746,566**

Group

31 December 2018	Within 1 month £'000	2-12 months £'000	1-2 years £'000	2-5 years £'000	Total £'000
Due for receipt					
Commodity trading contracts	6,558,796	27,181,510	7,584,084	2,528,581	43,852,971
Derivative instruments	20,682	134,385	108,134	39,201	302,402
Virtual gas storage contracts	–	176,849	–	–	176,849
Cash and cash equivalents	94,680	–	–	–	94,680
Trade and other receivables	2,470,599	132,312	3,734	1,920	2,608,565
Total	9,144,757	27,625,056	7,695,952	2,569,702	47,035,467
Due for payment					
Commodity trading contracts	6,723,814	26,376,005	6,583,043	1,685,923	41,368,785
Derivative instruments	32,498	234,301	111,757	44,624	423,180
Virtual gas storage contracts	–	225,159	–	–	225,159
Trade and other payables	2,578,680	157,453	1,525	–	2,737,658
Loans and overdrafts	67,277	–	–	–	67,277
Total	9,402,269	26,992,918	6,696,325	1,730,547	44,822,059

13 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Liquidity risk continued

Company

31 December 2019	Within 1 month £'000	2-12 months £'000	1-2 years £'000	2-5 years £'000	Total £'000
Due for receipt					
Commodity trading contracts	**5,079,328**	**24,889,686**	**8,302,188**	**2,684,834**	**40,956,036**
Derivative instruments	**30,640**	**258,978**	**88,093**	**13,923**	**391,634**
Virtual gas storage contracts	**–**	**82,823**	**–**	**–**	**82,823**
Cash and cash equivalents	**305,368**	**–**	**–**	**–**	**305,368**
Trade and other receivables	**1,299,671**	**71,763**	**–**	**–**	**1,371,434**
Total	**6,715,007**	**25,303,250**	**8,390,281**	**2,698,757**	**43,107,295**
Due for payment					
Commodity trading contracts	**4,943,761**	**23,429,778**	**7,330,217**	**2,160,887**	**37,864,643**
Derivative instruments	**32,357**	**450,351**	**135,447**	**35,699**	**653,854**
Virtual gas storage contracts	**–**	**41,294**	**–**	**–**	**41,294**
Trade and other payables	**1,576,913**	**9,931**	**–**	**–**	**1,586,844**
Loans and overdrafts	**198,236**	**272,531**	**–**	**–**	**470,767**
Financial guarantee contracts	**–**	**–**	**–**	**–**	**–**
Total	**6,751,267**	**24,203,885**	**7,465,664**	**2,196,586**	**40,617,402**

Company

31 December 2018	Within 1 month £'000	2-12 months £'000	1-2 years £'000	2-5 years £'000	Total £'000
Due for receipt					
Commodity trading contracts	12,177,776	25,552,345	10,106,483	331,529	48,168,133
Derivative instruments	27,786	200,316	207,127	75,573	510,802
Virtual gas storage contracts	–	176,849	–	–	176,849
Cash and cash equivalents	186,526	–	–	–	186,526
Trade and other receivables	2,261,755	120,676	–	1,920	2,384,351
Total	14,653,843	26,050,186	10,313,610	409,022	51,426,661
Due for payment					
Commodity trading contracts	12,141,576	23,808,695	7,479,966	230,305	43,660,542
Derivative instruments	39,364	299,959	132,277	88,328	559,928
Virtual gas storage contracts	–	225,159	–	–	225,159
Trade and other payables	2,259,125	150,014	–	–	2,409,139
Loans and overdrafts	191,739	105,725	–	–	297,464
Total	14,631,804	24,589,552	7,612,243	318,633	47,152,232

Economic capital

The Group employs an economic capital framework to ensure that sufficient capital is retained for the Group to withstand unexpected financial losses.

The capital requirement for holding an asset or group of assets is assessed by applying a statistical approach to measure the risk of potential value loss. The total economic capital requirement cannot exceed the tangible net worth of the Group, thereby setting a limit on the aggregate amount of risk that can be taken.

14 FINANCIAL AND NON-FINANCIAL INSTRUMENTS WITHIN THE SCOPE OF IFRS 9

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.

The Group enters into contracts to buy or sell commodities for trading purposes and not for the purpose of receipt or delivery of the underlying commodity to meet the Group's expected own-use requirements. Even though the majority of these contracts are physically delivered, where such contracts are deemed to be capable of net settlement, for example where the commodity is deemed to be readily convertible to cash, they are treated as financial assets or liabilities and measured at fair value through profit and loss. These contracts are within the scope of IFRS 9 and associated gains or losses are recognised directly in the Statement of comprehensive income within 'Net trading 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 certain instruments 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 Statement of comprehensive income when the underlying hedged transaction affects profit or loss. All instruments that are not part of a hedging relationship are recognised in the Statement of financial position at fair value with movements in fair value recognised in the Statement of comprehensive income.

For the Group and the Company, all derivatives not subject to hedge accounting 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 IFRS 9 (2018: £nil).

The following tables show further information on the fair value of held-for-trading assets and liabilities:

	Group		Company	
	2019 £'000s	2018 £'000s	**2019 £'000s**	2018 £'000s
Non-current assets				
Commodity trading contracts	**282,994**	408,505	**375,214**	552,269
Emission allowances	**8,888**	15,672	**8,888**	15,672
Foreign exchange contracts	**32,008**	21,129	**32,097**	21,507
	323,890	445,306	**416,199**	589,448
Current assets				
Commodity trading contracts	**1,604,433**	1,234,905	**1,895,891**	1,300,347
Emission allowances	**14,648**	5,952	**14,648**	5,952
Foreign exchange contracts	**76,742**	19,079	**81,081**	20,643
Virtual gas storage contracts	**82,823**	176,849	**82,823**	176,849
	1,778,646	1,436,785	**2,074,443**	1,503,791
Current liabilities				
Commodity trading contracts	**1,486,066**	1,151,990	**1,759,332**	1,267,623
Emission allowances	**12,462**	47,676	**16,789**	53,138
Foreign exchange contracts	**19,845**	15,068	**50,824**	22,229
Virtual gas storage contracts	**41,294**	225,159	**41,294**	225,159
	1,559,667	1,439,893	**1,868,239**	1,568,149
Non-current liabilities				
Commodity trading contracts	**262,176**	414,914	**328,986**	487,163
Emission allowances	**3,661**	2,648	**6,585**	11,061
Foreign exchange contracts	**496**	1,556	**35,821**	20,952
	266,333	419,118	**371,392**	519,176

14 FINANCIAL AND NON-FINANCIAL INSTRUMENTS WITHIN THE SCOPE OF IFRS 9 continued

Fair value measurement

In determining the fair value of assets and 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 maximise the use of observable inputs and minimise the use of unobservable inputs.

Fair value hierarchy

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

Level 1 – Quoted prices are available in active markets for identical assets and liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur with 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, implied volatility factors, spot 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 are 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 those whose fair value is derived using significant unobservable inputs.

The following tables show the Group's assets and liabilities that were accounted for at fair value at the reporting date according to their level within the fair value hierarchy. 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 assets and liabilities and their placement within the fair value hierarchy.

	Group			
2019	**Level 1 £'000s**	**Level 2 £'000s**	**Level 3 £'000s**	**Total £'000s**
Held for trading assets				
Commodity trading contracts	**119,268**	**1,766,078**	**2,082**	**1,887,428**
Emission allowances	**16,069**	**7,467**	**–**	**23,536**
Forward foreign exchange contracts	**–**	**108,749**	**–**	**108,749**
Virtual gas storage contracts	**–**	**82,823**	**–**	**82,823**
	135,337	**1,965,117**	**2,082**	**2,102,536**
Inventories	**57,229**	**176,088**	**–**	**233,317**
Held for trading liabilities				
Commodity trading contracts	**178,232**	**1,563,672**	**6,338**	**1,748,242**
Emission allowances	**7,078**	**9,045**	**–**	**16,123**
Forward foreign exchange contracts	**–**	**20,341**	**–**	**20,341**
Virtual gas storage contracts	**–**	**41,294**	**–**	**41,294**
	185,310	**1,634,352**	**6,338**	**1,826,000**

14 FINANCIAL AND NON-FINANCIAL INSTRUMENTS WITHIN THE SCOPE OF IFRS 9 continued

Fair value hierarchy continued

	Group			
2018	**Level 1 £'000s**	**Level 2 £'000s**	**Level 3 £'000s**	**Total £'000s**
Held for trading assets				
Commodity trading contracts	198,868	1,419,099	25,443	1,643,410
Emission allowances	21,164	460	–	21,624
Forward foreign exchange contracts	–	40,208	–	40,208
Virtual gas storage contracts	–	176,849	–	176,849
	220,032	1,636,616	25,443	1,882,091
Inventories	31,152	225,019	–	256,171
Held for trading liabilities				
Commodity trading contracts	248,728	1,241,095	77,082	1,566,905
Emission allowances	14,670	35,653	–	50,323
Forward foreign exchange contracts	–	16,625	–	16,625
Virtual gas storage contracts	–	225,159	–	225,159
	263,398	1,518,532	77,082	1,859,012

	Company			
2019	**Level 1 £'000s**	**Level 2 £'000s**	**Level 3 £'000s**	**Total £'000s**
Held for trading assets				
Commodity trading contracts	**119,224**	**2,149,798**	**2,082**	**2,271,104**
Emission allowances	**16,069**	**7,468**	**–**	**23,537**
Forward foreign exchange contracts	**–**	**113,178**	**–**	**113,178**
Virtual gas storage contracts	**–**	**82,823**	**–**	**82,823**
	135,293	**2,353,267**	**2,082**	**2,490,642**
Inventories	**57,229**	**172,184**	**–**	**229,413**
Held for trading liabilities				
Commodity trading contracts	**178,222**	**1,903,757**	**6,338**	**2,088,317**
Emission allowances	**7,078**	**16,297**	**–**	**23,375**
Forward foreign exchange contracts	**–**	**86,645**	**–**	**86,645**
Virtual gas storage contracts	**–**	**41,294**	**–**	**41,294**
	185,300	**2,047,993**	**6,338**	**2,239,631**

14 FINANCIAL AND NON-FINANCIAL INSTRUMENTS WITHIN THE SCOPE OF IFRS 9 continued

Fair value hierarchy continued

	Company			
2018	**Level 1 £'000s**	**Level 2 £'000s**	**Level 3 £'000s**	**Total £'000s**
Held for trading assets				
Commodity trading contracts	198,842	1,628,331	25,443	1,852,616
Emission allowances	21,164	460	–	21,624
Forward foreign exchange contracts	–	42,150	–	42,150
Virtual gas storage contracts	–	176,849	–	176,849
	220,006	1,847,790	25,443	2,093,239
Inventories	31,152	221,779	–	252,931
Held for trading liabilities				
Commodity trading contracts	248,482	1,429,222	77,082	1,754,786
Emission allowances	14,670	49,529	–	64,199
Forward foreign exchange contracts	–	43,180	–	43,180
Virtual gas storage contracts	–	225,159		225,159
	263,152	1,747,090	77,082	2,087,324

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

	Group £'000s	**Company £'000s**
Fair value at 1 January 2018	839	839
Net gains and losses recognised in the Statement of comprehensive income	(41,360)	(41,360)
Purchases	(4,317)	(4,317)
Sales	581	581
Settlements	(7,382)	(7,382)
Fair value at 31 December 2018 & 1 January 2019	**(51,639)**	**(51,639)**
Transfer to Level 2	**27,459**	**27,459**
Net gains and losses recognised in the Statement of comprehensive income	**–**	**–**
Purchases	**(4,256)**	**(4,256)**
Sales	**–**	**–**
Settlements	**24,180**	**24,180**
Fair value at 31 December 2019	**(4,256)**	**(4,256)**

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.

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 (2018: £nil).

In the current year, natural gas contracts with volume flexibility previously classified as Level 3 assets and liabilities have been transferred to Level 2 of the fair value hierarchy.

The Group uses a proprietary model to forecast offtake volumes, which determines the contracts' extrinsic value. This methodology has not change from the prior year.

During the year, further investigations into this methodology and its inputs concluded that there were no significant unobservable inputs in deriving their fair value. All inputs into the model are observable, although the model itself is internally developed and includes certain volumetric assumptions. As such, it was concluded that the transfer of such contracts from Level 3 to Level 2 of the fair value hierarchy was appropriate.

It is the Group's policy to treat all transfers between levels of the fair value hierarchy as if they occurred at the start of the reporting period.

14 FINANCIAL AND NON-FINANCIAL INSTRUMENTS WITHIN THE SCOPE OF IFRS 9 continued

Fair value hierarchy continued

Sensitivity of fair values to changing significant assumptions to reasonably possible alternatives:
All instruments are valued in accordance with the techniques outlined in the fair value hierarchy disclosure above. The majority of level 3 assets and liabilities comprise of power interconnector contracts. The Group uses a proprietary model with unobservable inputs, for which the valuation differs on day one to the transaction price. The model price is then calibrated to ensure that it reflects the transaction price. The impact of varying the unobservable parameters as at 31 December 2019 and at 31 December 2018 is immaterial.

If, at inception of a contract, the fair value cannot be supported substantially by observable market data, any gain or loss determined by the valuation methodology is not recognised in the Statement 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 Statement 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 Statement of comprehensive income.

Changes in the fair value of held-for-trading assets and liabilities after initial recognition are included in the Statement 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	
	2019 £'000s	2018 £'000s
Day-one gains and losses		
Fair value of contracts not recognised through the Statement of comprehensive income at 1 January	**19,218**	6,874
Initial fair value of new contracts not recognised in the Statement of comprehensive income	**9,309**	22,726
Fair value recognised in the Statement of comprehensive income during the year	**(19,218)**	(10,382)
Fair value of contracts not recognised through the Statement of comprehensive income at 31 December	**9,309**	19,218

	Company	
	2019 £'000s	2018 £'000s
Day-one gains and losses		
Fair value of contracts not recognised through the Statement of comprehensive income at 1 January	**19,218**	6,874
Initial fair value of new contracts not recognised in the Statement of comprehensive income	**9,309**	22,726
Fair value recognised in the Statement of comprehensive income during the year	**(19,218)**	(10,382)
Fair value of contracts not recognised through the Statement of comprehensive income at 31 December	**9,309**	19,218

15 CONTINGENCIES

Contingent liabilities
In the normal course of business, the Company incurs certain contingent liabilities arising from guarantees provided to third parties on behalf of subsidiary entities. No material losses are anticipated as a result of these guarantees.

The following contingent liabilities have not been provided for by the Group or the Company, as it is not anticipated that any material liabilities will arise from these contingencies.

	Group		Company	
	2019 £'000s	2018 £'000s	**2019 £'000s**	2018 £'000s
Parent company guarantees	**–**	–	**40,692**	57,086
	–	–	**40,692**	57,086

The table above shows the exposure to the Company on its issued guarantees as at 31 December 2019.

16 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 commodity trading contracts 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				
2019	**4,275**	**7,674**	**238,314**	**101,523**
2018	42,515	39,874	1,974	168,364
Other entities with indirect control over the Group				
2019	**109,141**	**5,036,728**	**1,523**	**343,950**
2018	279,390	5,392,504	60,497	745,346
Other related parties				
2019	**8,002,523**	**8,893,399**	**642,522**	**153,387**
2018	4,329,514	5,786,844	202,918	422,142

Included within the total 31 December 2019 lease receivables balance is £186.3m relating to lease contracts with related parties (2018: £3.0m).

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				
2019	**4,275**	**7,674**	**240,818**	**101,422**
2018	42,515	39,874	4,493	168,364
Other entities with indirect control over the Group				
2019	**108,883**	**4,973,454**	**1,500**	**342,378**
2018	240,749	5,115,982	22,097	732,686
Subsidiaries				
2019	**1,883,610**	**962,210**	**644,917**	**968,315**
2018	1,962,669	615,528	590,233	549,605
Other related parties				
2019	**7,992,639**	**8,667,728**	**622,804**	**141,100**
2018	4,289,389	5,470,554	202,912	370,389

The master account holder is GPG, the Group's immediate controlling entity. The Group also has no outstanding borrowing from GPG at 31 December 2019 of £nil (2018: £67.3m). Interest is payable based on market interest rates.

Included within the total 31 December 2019 lease receivables balance is £2.5m relating to lease contracts with related parties (2018: £3.0m).

Commitments

The Group and Company have the following commitments with related parties

	Group		Company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Parent company purchases	**2**	1	**2**	1
Other entities sales	**56**	–	**–**	–
Other entities purchases	**563**	697	**–**	–
Other subsidiaries purchases	**–**	–	**33**	–

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.

At 31 December 2019 the Company had provided £370.3m of parental guarantees on behalf of its subsidiaries (2018: £353.2m).

17 ULTIMATE PARENT AND CONTROLLING PARTY

The ultimate parent company and controlling party is PAO 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 PAO Gazprom are available from Nametkina str., 16 V-420, GSP-7, 117997, Moscow, Russia.

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Details correct at time of going to print

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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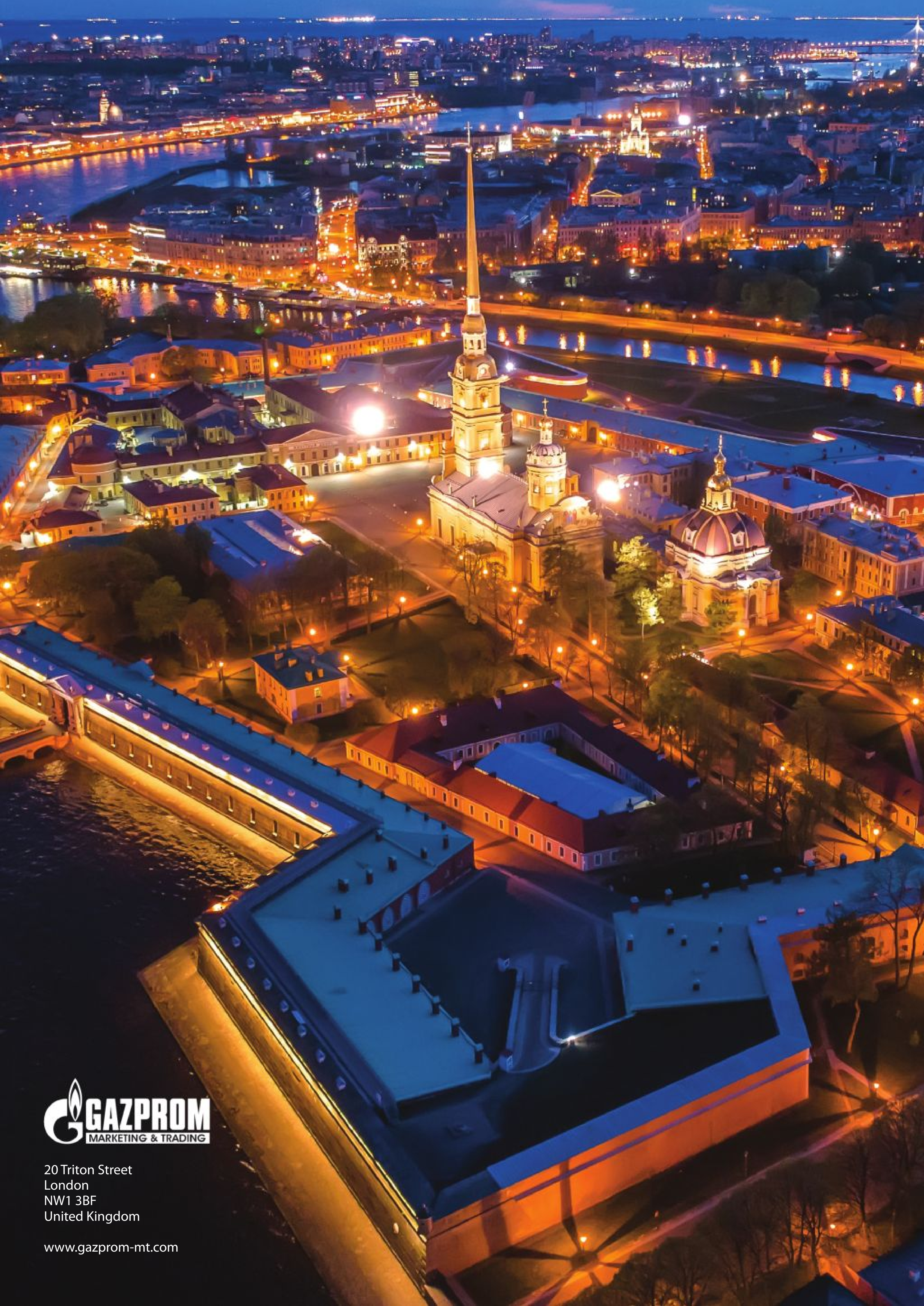

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