# 2018 STRATEGIC REPORT WITH SUPPLEMENTARY FINANCIAL INFORMATION

## Contents

# STRATEGIC REPORT

The Directors present the Strategic report with consolidated Supplementary financial information 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 2018.

**Principal activities**
The principal activity of the Group and Company is the marketing and trading of energy products including natural gas, power, liquefied natural gas ("LNG"), liquefied petroleum gas ("LPG"), helium and oil products. The Group is active across global energy market hub locations; however it is primarily focussed in the Continental 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. As part of the ongoing restructure of the GPG Group, during 2018 the Group increased its activity in providing market access and risk management services to other entities in the GPG Group. 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".

**Introduction**
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 (2017: nine) individual legal entities covering the UK, Continental Europe, North America and Asia (see note 5).

**Financial results**
The Group results in 2018 reflect a general improvement in market conditions, particularly for the Global LNG, Oil & Shipping business. After a prolonged period of oversupply, oil prices have continued to increase during the year due to increased demand driven by a resurgent global economy and reduced supply caused by OPEC production restrictions and other geopolitical factors. The consolidated Statements of comprehensive income for the year are set out on page 05. The Group's profit for the financial year was £299.9m (2017: £158.9m), an increase of 89% from the prior year. The Group's total equity as at 31 December 2018 was £503.8m (2017: £876.3m), representing a decrease of 43% when compared to 31 December 2017.

During 2018 the Company declared dividends totalling £624.3m to its immediate parent company Gazprom Germania GmbH ("GPG"), representing 393% (2017: 100%) of the Group net profit after tax for the year ended 31 December 2017.

The Group's core European gas business, which accounted for 60% (2017: 79%) of the Group's net income, reported improved year-on-year performance. The performance of specific business units is discussed in further detail over the following pages.

**Business activities and environment**
During 2018, the Group's strategic business units and reporting lines were structured in alignment with its commercial activities and global scope. These strategic business units were 1) Global Gas, Power & Derivatives, 2) Global LNG, Oil & Shipping, and 3) Global Retail.

As part of a strategic review undertaken in the year, the Group has decided to explore opportunities to dispose of its Global Retail business in order to focus on its core trading and marketing activities and has been engaged in talks with potential buyers regarding a sale of the business. As at 31 December 2018, no deal has been concluded and commercial discussions are ongoing with potential buyers.

Global Gas, Power & Derivatives ("GGPD")
GGPD has reported an increase of 8% in net income compared to 2017. The strategic business unit is responsible for the trading and optimisation of gas supplied by OOO Gazprom Export and its affiliates, as well as providing risk management services to the Gazprom Group and third parties. This is achieved through creation and optimisation of supply and geographical optionality within the European gas portfolio, and utilising integrated assets across Western Europe to take advantage of available seasonal time spreads and market volatility.

As the gas and power markets continue to become more competitive and sophisticated the business will continue to invest in and develop more flexible and innovative products to meet these challenges. In 2018 the Group has undertaken a project to develop and expand its capabilities in digital and algorithmic trading in an attempt to take advantage of fast-moving market conditions and also to reduce risk in the portfolio.

The gas business has outperformed 2017 with the marketing of OOO Gazprom Export gas into North West European markets and as a result of effective optimisation of optionality within the gas portfolio. The business has taken advantage of strong trading and optimisation opportunities that have arisen from price spread volatility across the UK and continental Europe throughout 2018, but particularly the market volatility on "Balance of the Month" positions in Q1 2018. Gas storage and associated transport capacity strategies continued to contribute to the performance of the business in the year, taking advantage of time spreads and price volatility. The Gas business also continued to develop its structured trading offering and market presence.

The power business had another strong performance in 2018, again largely due to strong trading and optimisation opportunities arising from continental transmission spread volatility and intraday trading. The business has continued to develop an integrated power business and consolidate its power origination business with strategic partnerships with new independent suppliers.

Global LNG, Oil & Shipping
Global LNG, Oil & Shipping performance significantly improved in 2018, emphasising its continued strategic importance for the Group. The business accounted for 31% of the Group's gross margin in 2018 (2017: 9%) with an increase in net income of 393% compared to 2017. The performance was largely driven by higher margins on physical cargoes due to global gas hub price divergence. The LNG market saw a continued recovery of prices in Asia largely driven by growing demand from China. The number of LNG cargoes traded within the year increased compared to 2017 (2018: 61 cargoes, 2017: 48 cargoes). Despite a delay to the scheduled start of the commissioning period on a significant long-term purchase contract, the Group started taking delivery of cargoes during the year.

The LNG business continues to focus on securing mid-term and long-term sale and purchase agreements in order to maximise the portfolio value and to secure markets for Gazprom's new LNG projects. During 2018, the Group has 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. The growth of the physical portfolio also creates additional optimisation opportunities through location and time swaps as well as volume optimisation. During May and June 2018, GM&T delivered the first LNG cargoes of the Yamal and Perenco purchase agreements respectively.

Shipping operated 11 vessels during 2018 (2017: 7) both in support of increased internal requirements from the LNG trading desk and short/mid-third-party charters continuing from the previous year.

### Global Retail

Global Retail has maintained its position as the largest gas supplier to UK industrial and commercial customers ("I&C"), with its market share increasing year on year to 21.8% at 31 December 2018 (2017: 21.3%). The Company's UK I&C power market share decreased to 0.5% (2017: 0.6%), after supplying 1,170 GWh of power to end users (2017: 1,396 GWh).

In France, the Group supplied 11,156 GWh of gas to end users (2017: 10,435 GWh) across 12,195 live sites (2017: 12,988). Despite a reduced portfolio the volume delivered increased primarily due to colder weather in Q1.

In the Netherlands, the Group supplied 1,991 GWh of gas to end users (2017: 1,202 GWh) and has increased the number of live gas sites to 15,901 (2017: 11,916 sites). The Group also supplied 335 GWh of power to end users (2017: 233 GWh) and has increased the number of live power sites to 11,281 (2017: 8,936 sites).

As mentioned previously, the Group has taken the decision to explore opportunities to dispose of its Global Retail business in order to focus on its core trading and marketing activities. Commercial discussions with potential buyers to sell the business are currently ongoing.

### 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 the provision and quality of information available to external stakeholders.

## Strategy

In February 2018, Gazprom Group announced its decision to transform the operational structure of its gas export activities including marketing and trading. Consequently, the Group is undergoing the integration with its immediate parent, GPG, along with other fellow Group companies within the GPG Group, notably Wingas GmbH ("Wingas"). The Group will be the main instrument to deliver the trading component of the integrated business. In recognition of the more integrated approach to operations within the GPG Group, the principal risks facing the Group are now managed centrally at the GPG Group level, utilising common tools and expertise with those employed within the GMT Group historically.

The Group recognises the importance of its physical trading operations to the upstream production companies and continues to market and optimise all contracted gas purchase volumes from OOO Gazprom Export safely, without interruption of supply.

The Gazprom Group is actively seeking to develop international trading capability within the Russian Federation. The Group, being the single source of the relevant expertise in the Gazprom Group, plays a key role in this process. In 2018 the Company established its branch in St. Petersburg that will serve as a platform to develop the local talent pool, establish best practices of international trading within the Russian Federation and explore solutions to the potential problems on this route. Leveraging its expertise, the Group will continue to be a crucial interface with the traditional European and growing Asian markets.

## 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:

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

Except for the planned sale of the Group's Retail activities, the Directors do not anticipate the principal activities of the Group will change.

## Principal risks and uncertainties facing the Group

The Directors of GM&T 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 Programme (the "Risk Programme").

Implementation and oversight of all elements of the Risk Programme, in addition to its responsibility for ensuring the Group meets its strategic, financial and operational objectives, is stewarded by the Executive Committee of GPG Group which includes Director representation from GM&T.

The "Global Risk Management Policy" defines the scope, objectives, policy and strategies for the management of risks within the GPG Group Companies. GPG's Risk Oversight Committee ("ROC") provides recommendations and support to the Executive Committee 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 Company 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 Company.

**Market Risk:** The risk of negative financial impact 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 a company of the GPG 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 or failed internal processes, people and systems, or from external events.

**Brexit – the withdrawal of the United Kingdom ("UK") from the European Union ("EU")**

Due to the high level of uncertainty on the outcome of Brexit negotiations and the issue of whether the UK will leave the EU on 29 March 2019 as the result of a "hard" Brexit, GPG Group has been closely monitoring and working on mitigation of the associated risks. The following key risks for the Group were identified:

- Access to European energy markets and ability to fulfil its obligations under existing transactions beyond 29 March 2019;
- Risk of non-compliance with the European regulatory framework, such as financial service regulations; and
- Other notable risks include the impact of GBP currency volatility on operations and tax impact resulting from Brexit and associated mitigation steps.

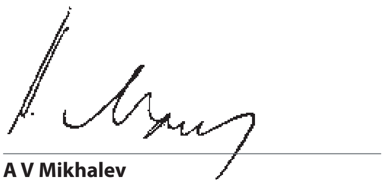
GPG Group established a cross-functional group including GM&T management to develop contingency plans and mitigate the identified risks. We are undertaking our mitigation plans in close cooperation with Transmission System Operators ("TSOs"), energy ministries, exchanges and national regulators. The process is sponsored and monitored by Excom who provide decisions on the most efficient actions for risk mitigations.

**Key performance indicators**

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

| Indicator type | Key performance indicator | 2018 | 2017 | Change |
|---|---|---|---|---|
| Profitability | **Net Income (£m)** | **549.7** | 383.6 | **43%** |
| Profitability | **EBITDA (£m)** | **359.4** | 197.7 | **82%** |
| | EBITDA is defined as Earnings before Interest, Tax, Depreciation and Amortisation | | | |
| Profitability | **Net profit after tax (£m)** | **299.9** | 158.9 | **89%** |
| Profitability | **Return on Equity** | **43%** | 18% | **25%** |
| | Return On Equity is calculated as annual net profit after tax divided by average equity expressed as a percentage. | | | |
| Efficiency | **Net profit after tax/Net income** | **55%** | 41% | **14%** |
| Liquidity | **Dividends declared (£m)** | **624.4** | 115.4 | **441%** |
| Liquidity | **Current ratio** | **1.09** | 1.34 | **-19%** |

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



**A V Mikhalev**
14 March 2019

# INDEPENDENT AUDITORS' STATEMENT TO THE SHAREHOLDERS OF GAZPROM MARKETING AND TRADING LTD

We have examined the supplementary financial information included within the Strategic Report with Supplementary Financial Information for the year ended 31 December 2018, which comprises the Summary group and parent company statement of financial position as at 31 December 2018; 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 2018.

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 2018.

PricewaterhouseCoopers LLP

**PricewaterhouseCoopers LLP**
Chartered Accountants and Statutory Auditors
1 Embankment Place
London
WC2N 6RH
14 March 2019

# STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

| | Note | Group | | Company | |
|---|---|---|---|---|---|
| | | **2018 £'000s** | 2017 £'000s | **2018 £'000s** | 2017 £'000s |
| Revenue | | **3,262,720** | 2,346,684 | **878** | 1,559 |
| Cost of sales | | **(2,995,527)** | (2,251,422) | **–** | – |
| **Gross profit:** | | **267,193** | 95,262 | **878** | 1,559 |
| **Trading activities:** | | | | | |
| Net trading income | | **282,546** | 288,314 | **294,412** | 252,438 |
| **Net income** | | **549,739** | 383,576 | **295,290** | 253,997 |
| Administrative expenses | 4 | **(215,948)** | (218,662) | **(151,514)** | (151,306) |
| Net impairment losses on financial and contract assets | | **(9,363)** | – | **(9)** | – |
| **Operating profit** | | **324,428** | 164,914 | **143,767** | 102,691 |
| Interest income | | **3,864** | 1,856 | **4,159** | 2,163 |
| Interest expense | | **(9,152)** | (9,424) | **(11,538)** | (18,637) |
| Income from subsidiaries | | **–** | – | **459,931** | 109,415 |
| Other income | | **10,909** | 4,290 | **10,909** | 4,290 |
| Gain on disposal of non-current assets | | **1,147** | 2,834 | **1,137** | 2,936 |
| **Profit before tax** | | **331,196** | 164,470 | **608,365** | 202,858 |
| Tax | | **(31,330)** | (5,564) | **(25,204)** | (15,928) |
| **Profit for the financial year** | | **299,866** | 158,906 | **583,161** | 186,930 |
| **Cash flow hedges:** | | | | | |
| Fair value gains recognised during the year | | **7,938** | 16,001 | **–** | – |
| Tax on items taken directly to equity | | **(11,625)** | (4,127) | **–** | – |
| Transferred to profit or loss on cash flow hedges | | **(47,746)** | (47,181) | **–** | – |
| Tax on items transferred from equity | | **9,935** | 11,163 | **–** | – |
| Loss on foreign currency translation | | **(1,913)** | (57,494) | **–** | – |
| **Total other comprehensive expense*** | | **(43,411)** | (81,638) | **–** | – |
| **Total comprehensive income** | | **256,455** | 77,268 | **583,161** | 186,930 |
| **Total comprehensive income attributable to:** | | | | | |
| Equity owners of the parent | | **256,455** | 77,268 | **583,161** | 186,930 |

* 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 33 form an integral part of the Supplementary Financial Information.

# STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | **2018 £'000s** | 2017 £'000s | **2018 £'000s** | 2017 £'000s |
| **Assets** | | | | | |
| **Non-current assets** | | | | | |
| Intangible assets | | **56,038** | 59,451 | **34,974** | 41,318 |
| Property, plant and equipment | | **17,887** | 15,857 | **12,086** | 10,873 |
| Financial assets measured at fair value through profit or loss | 11 | **445,306** | 219,622 | **589,448** | 227,095 |
| Investments in subsidiaries | 5 | **–** | – | **428** | 428 |
| Deferred tax assets | | **31,743** | 28,553 | **2,474** | 1,023 |
| Trade and other receivables | 7 | **2,653** | 4,790 | **1,920** | 3,967 |
| | | **553,627** | 328,273 | **641,330** | 284,704 |
| **Current assets** | | | | | |
| Inventories | 6 | **344,601** | 152,531 | **293,636** | 143,977 |
| Trade and other receivables | 7 | **2,605,912** | 1,820,480 | **2,382,431** | 1,463,680 |
| Contract assets | | **204,498** | – | **–** | – |
| Prepayments | | **55,517** | 49,238 | **15,063** | 10,402 |
| Financial assets measured at fair value through profit or loss | 11 | **1,436,785** | 861,775 | **1,503,791** | 902,780 |
| Current tax assets | | **268** | 2,925 | **–** | 4,397 |
| Cash equivalents receivable with related parties | 7 | **–** | – | **111,256** | 72,486 |
| Cash at bank and in hand | 7 | **94,680** | 171,285 | **75,270** | 144,978 |
| | | **4,742,261** | 3,058,234 | **4,381,447** | 2,742,700 |
| **Total assets** | | **5,295,888** | 3,386,507 | **5,022,777** | 3,027,404 |
| **Liabilities** | | | | | |
| **Current liabilities** | | | | | |
| Trade and other payables | 7 | **2,736,133** | 1,448,085 | **2,408,824** | 1,137,403 |
| Contract liabilities | | **10,497** | – | **–** | – |
| Accruals | | **71,105** | 48,157 | **51,866** | 32,578 |
| Financial liabilities measured at fair value through profit or loss | 11 | **1,439,893** | 809,243 | **1,568,149** | 901,583 |
| Provisions | 8 | **1,241** | 9,562 | **1,301** | – |
| Current tax liabilities | | **24,839** | 5,298 | **16,848** | – |
| Loans and overdrafts | 7 | **67,277** | – | **297,464** | 545,095 |
| | | **4,350,985** | 2,320,345 | **4,344,452** | 2,616,659 |
| **Non-current liabilities** | | | | | |
| Trade and other payables | 7 | **1,525** | 813 | **315** | 813 |
| Financial liabilities measured at fair value through profit or loss | 11 | **419,118** | 172,694 | **519,176** | 207,319 |
| Provisions | 8 | **1,808** | 1,500 | **1,500** | 1,500 |
| Deferred tax liabilities | | **18,639** | 14,864 | **–** | – |
| | | **441,090** | 189,871 | **520,991** | 209,632 |
| **Total liabilities** | | **4,792,075** | 2,510,216 | **4,865,443** | 2,826,291 |
| **Net assets** | | **503,813** | 876,291 | **157,334** | 201,113 |
| **Equity** | | | | | |
| Ordinary share capital | | **20,000** | 20,000 | **20,000** | 20,000 |
| Cash flow hedge reserve | | **22,734** | 67,594 | **–** | – |
| Foreign currency translation reserve | | **71,469** | 73,382 | **–** | – |
| Retained earnings | | **389,610** | 715,315 | **137,334** | 181,113 |
| **Equity attributable to:** | | | | | |
| Owners of the parent | | **503,813** | 876,291 | **157,334** | 201,113 |
| **Total equity** | | **503,813** | 876,291 | **157,334** | 201,113 |

The notes on pages 09 to 33 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 14 March 2019 and signed by the Directors as a consistent extract thereof as part of the Strategic report with Supplementary Financial Information on 14 March 2019.

Signed on behalf of the Board

**A V Mikhalev**

# STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

| 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 2017** | | **20,000** | **91,738** | **130,876** | **671,837** | **914,451** |
| **Profit for the year** | | – | – | – | 158,906 | 158,906 |
| **Other comprehensive expense:** | | – | (24,144) | (57,494) | – | (81,638) |
| **Total comprehensive (expense)/income** | | **–** | **(24,144)** | **(57,494)** | **158,906** | **77,268** |
| **Transactions with owners:** | | | | | | |
| Dividends paid | | – | – | – | (115,428) | (115,428) |
| **Balance at 31 December 2017** | | **20,000** | **67,594** | **73,382** | **715,315** | **876,291** |
| Adjustment on adoption of IFRS9 | | – | – | – | (1,228) | (1,228) |
| **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)/income:** | | | | | | |
| Fair value gain on hedging contracts | | – | 7,938 | – | – | 7,938 |
| Deferred tax related to fair value loss on hedging contracts recognised in equity | | – | (11,625) | – | – | (11,625) |
| Loss on fair value hedging contracts transferred to income | | – | (47,746) | – | – | (47,746) |
| Deferred tax related to loss on fair value hedging contracts transferred to income | | – | 9,935 | – | – | 9,935 |
| Loss on foreign currency translation | | – | – | (1,913) | – | (1,913) |
| **Total comprehensive 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** |

| Company | Note | Ordinary share capital £'000s | Retained earnings £'000s | Total equity £'000s |
|---|---|---|---|---|
| **Balance at 1 January 2017** | | **20,000** | **109,611** | **129,611** |
| Profit for the year and total comprehensive income | | – | 186,930 | 186,930 |
| Dividends paid | | – | (115,428) | (115,428) |
| **Balance at 31 December 2017** | | **20,000** | **181,113** | **201,113** |
| Adjustment on adoption of IFRS9 | | – | (2,597) | (2,597) |
| **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** |

The notes on pages 09 to 33 form an integral part of the Supplementary Financial Information.

# STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | **2018 £'000s** | 2017 £'000s | **2018 £'000s** | 2017 £'000s |
| **Operating activities** | | | | | |
| Operating profit | | **324,428** | 164,914 | **143,767** | 102,691 |
| Depreciation of property, plant & equipment | | **4,717** | 6,832 | **3,588** | 3,965 |
| Amortisation of intangible assets | | **18,189** | 18,949 | **16,205** | 18,350 |
| Unrealised fair value movements on trading contracts at fair value | | **(169,605)** | 203,279 | **(129,570)** | (67,496) |
| Other unrealised movements | | **(47,878)** | (53,438) | **(6,817)** | 912 |
| (Decrease)/increase in provisions | 8 | **(8,013)** | 8,651 | **1,301** | – |
| Other income | | **10,898** | 4,290 | **10,909** | 4,290 |
| Management income from subsidiaries | | **–** | – | **9,931** | 22,516 |
| **Operating cash flows before movements in working capital** | | **132,736** | 353,477 | **49,314** | 85,228 |
| (Increase)/decrease in inventories | | **(148,703)** | 244,082 | **(144,377)** | 210,581 |
| Increase in receivables | | **(993,374)** | (228,157) | **(925,759)** | (135,662) |
| Increase in payables | | **1,217,842** | 147,446 | **1,188,507** | 65,491 |
| Increase/(decrease) in financial contracts measured at fair value through profit or loss | | **202,926** | (271,672) | **144,628** | (6,154) |
| **Cash generated from operations** | | **411,427** | 245,176 | **312,313** | 219,484 |
| Interest and banking charges paid | | **(9,144)** | (9,424) | **(11,237)** | (18,670) |
| Income taxes paid | | **(4,936)** | (21,412) | **–** | (21,168) |
| **Net cash generated from operating activities** | | **397,347** | 214,340 | **301,076** | 179,646 |
| **Investing activities** | | | | | |
| Investment income received | | **–** | – | **450,000** | 86,899 |
| Interest received | | **4,067** | 1,833 | **4,257** | 2,140 |
| Purchases of property, plant and equipment | | **(6,906)** | (4,737) | **(4,801)** | (2,141) |
| Proceeds from disposal of property | | **158** | 6,586 | **–** | 6,586 |
| Purchases of intangible assets | | **(14,776)** | (11,982) | **(9,883)** | (8,590) |
| Proceeds from sale of subsidiary | 5 | **1,158** | – | **1,158** | – |
| **Net cash (used in)/generated from investing activities** | | **(16,299)** | (8,300) | **440,731** | 84,894 |
| **Financing activities** | | | | | |
| Repayment of loan from subsidiaries | 9 | **–** | – | **(248,403)** | (38,972) |
| Drawdown of loan from Group | 9 | **66,683** | – | **–** | – |
| Dividends paid | | **(524,343)** | (115,428) | **(524,342)** | (115,428) |
| **Net cash used in financing activities** | | **(457,660)** | (115,428) | **(772,745)** | (154,400) |
| **Net (decrease)/increase in cash and cash equivalents** | | **(76,612)** | 90,612 | **(30,938)** | 110,140 |
| Exchange gain on cash and cash equivalents | | **7** | – | **–** | – |
| **Cash and cash equivalents at the beginning of the year** | | **171,285** | 80,673 | **217,464** | 107,324 |
| **Cash and cash equivalents at the end of the year** | | **94,680** | 171,285 | **186,526** | 217,464 |

The notes on pages 09 to 33 form an integral part of the Supplementary Financial Information.

# NOTES TO THE SUPPLEMENTARY FINANCIAL INFORMATION

YEAR ENDED 31 DECEMBER 2018

## 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 2018 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 on the historical cost basis, modified by certain financial instruments and inventories measured at fair value, and on the going concern basis as disclosed in the Directors' statement of going concern as set out in the Directors' Report.

**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 Statements of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the Financial Statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation. The Financial Statements of overseas subsidiaries are translated into Sterling as described in note 3 in the foreign currency accounting policy.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These policies have been consistently applied to all the years presented with the exception of the application of IFRS9 and IFRS15, as described above, where the Company took advantage of the exemption from restating comparative information.

**Revenue recognition**
Revenues consist of amounts recognised in relation to the Group's retail gas and electricity supply contracts, gas storage contracts, as well as 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.

The transaction price is the contractually agreed price for the satisfaction of their respective performance obligations. There is no variable price element in the performance obligations. This is the amount of consideration the Group expects to receive, net of discounts, rebates, VAT and other sales taxes or duty.

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 contractually agreed unit price is the transaction price allocated to the performance obligation.

Contract assets arise when customers are invoiced in arrears, or when contract modifications are treated as a separate contract, where a customer extends the term of an existing supply contract at a lower market rate to the original contract and is charged at a blended rate of the original and new contract. This results in revenue being recognised at the contractual rate on the original contract for the original term period but invoiced at the comparatively lower blended rate. When the original contract expires, and the extension contract begins, revenue will be recognised at the new lower contractual rate, realising the contract assets as the customer is invoiced at the comparatively higher blended rate.

Contract liabilities arise when customers prepay for gas and power. Revenue is subsequently recognised when the performance obligations are satisfied when the products are supplied.

For gas storage contracts, the performance obligations are the provision of the storage facility, and injection and withdrawal of gas over the term of the contract. The transaction price allocated to each performance obligation is the relative stand-alone selling price stated of each service.

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

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, helium, 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 of the Group, 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 IFRS9, 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 IFRS9, 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 activity.

In addition to net gains and losses from items classified as held for trading within the scope of IFRS9, 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 into to optimise the performance of the storage facilities are also presented within 'Net trading income'.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

**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-traders' 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 Statements of comprehensive income. The fair value is measured at the price for the soonest available delivery of gas, oil and emission allowances at the reporting date.

LNG, LPG and helium 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.

**Financial and non-financial instruments within the scope of IFRS9**

Trading contract assets and liabilities are recognised in the Statements of financial position when the Group becomes a party to the contractual provisions of the instrument. Financial assets are 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 IFRS9 are classified as 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 IFRS9 are classified as 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.

**Trading contracts at fair value through profit and loss**

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

The Group enters into contracts to buy or sell commodities for trading purposes and not for the purpose of receipt or delivery 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 in the scope of IFRS9 and associated gains or losses are recognised directly in the Statement of comprehensive income within 'Net trading income'.

Financial assets and financial liabilities measured at fair value through profit or loss include financial assets and financial liabilities held for trading. 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 Statements of comprehensive 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 initially recognised on settlement date at fair value, plus any directly attributable transaction costs. Subsequent measurement is 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 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.

However, 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 Statements of comprehensive income within Interest Income or Interest Expense as appropriate. The fair value on initial recognition includes directly attributable transaction costs.

**Investment in subsidiaries**

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

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

**Financial and non-financial instruments within the scope of IFRS9** continued

### Fair value

Movements in the fair value of assets and liabilities measured at fair value through profit or loss are recognised within 'Net trading income' unless the instrument is designated in an effective hedge relationship. At the close of business on the reporting date, the fair value of assets traded in an active market is determined by reference to the mid-market prices where there are liabilities with offsetting risks; the bid price is applied to any net open asset positions and the ask price is applied to any net open liability positions. 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 the same, discounted cash flow analysis and option pricing models. Where one or more significant inputs into a valuation technique are based on inputs that are not observable, no gain or loss is recognised on initial recognition in respect of that instrument. Gains and losses are recognised after initial recognition to the extent that it arises from a change in a factor (including time) that market participants would consider in setting a price.

The Group endeavours to use the best available information by utilising valuation techniques that maximise the use of observable inputs and minimise the use of unobservable inputs.

### Hedge accounting

The Group uses certain financial and non-financial instruments to hedge exposures to financial risks, such as commodity price risks and foreign exchange risks arising in the normal course of business. All such hedging instruments are measured at fair value upon initial recognition and 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 objective and strategy 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 the exposure to changes in the fair value of a recognised asset or liability; or
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

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

IFRS9 sets out the criteria for the application of hedge accounting. Among other things, the hedging relationship must be documented in detail and an economic relationship between the hedged item and hedging instrument be demonstrated.

Movements in the hedging reserve in equity are detailed in the Group Statements of changes in equity.

### Cash flow hedges

Cash flow hedges are used to hedge the risk of variability in cash flows related to an asset or liability carried on the Statements of financial position or 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 income in the periods during which the hedged item is recognised in the Statements of comprehensive income. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the risk management objective for the hedge relationship has changed, the hedging instrument expires or is sold, terminated, or 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 profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately as described above.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

**Financial and non-financial instruments within the scope of IFRS9** continued

**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, being the fair value of the consideration given or received. However, for certain transactions the fair value on initial recognition will be based on other observable market data for the same instrument or calculated using a valuation technique, where all input variables are based on observable market data. When evidence from observable data exists, the Group recognises a "day-one" gain or loss at inception of the transaction within 'Net trading income' where the fair value is greater or less than the transaction price.

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

**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 closely-related nature of embedded derivatives is reassessed when there is a change in the terms of the contract which significantly modifies the future cash flows under the contract. Where a contract contains one or more embedded derivatives, and providing that the embedded derivative significantly modifies the cash flows under the contract, the option to fair value the entire contract may be taken and the contract will be recognised at fair value with changes in fair value recognised in 'Net trading income'.

**Offsetting of balances**

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

## 4 ADMINISTRATIVE EXPENSES

| | Group | | Company | |
|---|---|---|---|---|
| | **2018 £'000s** | 2017 £'000s | **2018 £'000s** | 2017 £'000s |
| **Administrative expenses** | | | | |
| Staff costs | **133,155** | 122,913 | **88,640** | 80,118 |
| Other employee costs | **11,745** | 14,446 | **8,809** | 11,294 |
| Office costs | **29,763** | 30,509 | **21,688** | 22,626 |
| Rentals under operating leases | **8,969** | 8,598 | **6,056** | 5,916 |
| Travel expenses | **4,640** | 6,322 | **2,932** | 3,387 |
| Consultancy (excluding Auditors' remuneration) | **3,561** | 4,997 | **2,762** | 4,114 |
| Auditors' remuneration | **1,209** | 1,704 | **834** | 1,229 |
| Depreciation | **4,717** | 5,893 | **3,588** | 3,965 |
| Amortisation | **18,189** | 18,949 | **16,205** | 18,350 |
| Tangible asset impairment | **–** | 939 | **–** | – |
| Impairment losses | **–** | 3,392 | **–** | 307 |
| | **215,948** | 218,662 | **151,514** | 151,306 |

As a result of the adoption of IFRS9 and the expected credit loss model, impairment losses are now disclosed as a separate line in the Statement of comprehensive income, as net impairment losses on financial and contract assets.

## 5 INVESTMENTS IN SUBSIDIARIES

Details of the Company's subsidiaries at 31 December 2018 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 Street, 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. £450.0m dividend income was received by the Company in 2018 (2017: £86.9m).

Gain on disposal of non-current assets of £1.1m relates to successful legal claims in relation to a subsidiary disposed in 2016.

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

| | **2018 £'000s** | 2017 £'000s |
|---|---|---|
| **Balance at 1 January** | **428** | 428 |
| Capital contribution to subsidiaries | **–** | – |
| Impairment of investments | **–** | – |
| Disposals during the year | **–** | – |
| **Balance at 31 December** | **428** | 428 |

## 6 INVENTORIES

| | Group | | Company | |
|---|---|---|---|---|
| | **2018 £'000s** | 2017 £'000s | **2018 £'000s** | 2017 £'000s |
| Gas in storage | **225,018** | 102,645 | **221,778** | 100,130 |
| Emission allowances | **75,918** | 49,886 | **71,858** | 43,847 |
| LNG inventories | **40,048** | – | **–** | – |
| Other inventories | **3,617** | – | **–** | – |
| | **344,601** | 152,531 | **293,636** | 143,977 |

£1,285.1m of Group inventory was recognised as an expense in the year (2017: £893.5m). £44.1m of Company inventory was recognised as an expense in the year (2017: £9.3m).

The gas in storage balance for 2017 increased by £94.0m (Company: £94.0m) from the prior year's financial statements as a result of virtual gas storage contracts being reclassified into financial assets and financial liabilities measured at fair value through profit or loss.

## 7 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 IFRS9;
- specific information about each type of financial instrument; and
- information about determining the fair value of the instruments, including judgements and estimation of uncertainty involved.

The Group holds the following financial instruments:

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | **2018 £'000s** | 2017 £'000s | **2018 £'000s** | 2017 £'000s |
| **Financial assets** | | | | | |
| Financial assets at amortised cost: | | | | | |
| Trade and other receivables | 7a | **2,608,565** | 1,874,508 | **2,384,351** | 1,478,049 |
| Cash equivalents receivable with related parties | 7b | **–** | – | **111,256** | 72,486 |
| Cash and cash equivalents | 7b | **94,680** | 171,285 | **75,270** | 144,978 |
| Financial assets measured at fair value through profit or loss: | 11 | | | | |
| Trading contracts at fair value | | **1,705,242** | 1,029,118 | **1,916,390** | 1,077,596 |
| Virtual gas storage contracts at fair value | | **176,849** | 52,279 | **176,849** | 52,279 |
| | | **4,585,336** | 3,127,190 | **4,664,116** | 2,825,388 |
| **Financial liabilities** | | | | | |
| Financial liabilities at amortised cost: | | | | | |
| Trade and other payables | 7c | **2,737,658** | 1,497,055 | **2,409,139** | 1,170,794 |
| Loans and overdrafts | 7d | **67,277** | – | **297,464** | 545,095 |
| Financial liabilities measured at fair value through profit or loss: | 11 | | | | |
| Trading contracts at fair value | | **1,633,852** | 835,673 | **1,862,166** | 962,638 |
| Virtual gas storage contracts at fair value | | **225,159** | 146,264 | **225,159** | 146,264 |
| | | **4,663,946** | 2,478,992 | **4,793,928** | 2,824,791 |

The Group's exposure to various risks associated with financial instruments and 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 10.

As per note 6, virtual gas storage contracts have been reclassified from inventory to financial assets and financial liabilities. This resulted in an increase of £52.3m (Company: £52.3m) in financial assets and an increase of £146.3m (Company: £146.3m) in financial liabilities from the prior year's financial statements.

### a) Trade and other receivables

| | Group | | Company | |
|---|---|---|---|---|
| | **2018 £'000s** | 2017 £'000s | **2018 £'000s** | 2017 £'000s |
| **Due within one year** | | | | |
| Amounts receivable from sale of commodities: | | | | |
| from third parties | **2,462,261** | 1,571,534 | **2,038,431** | 1,200,724 |
| from subsidiary companies | **–** | – | **230,039** | 151,275 |
| from affiliated companies | **111,010** | 79,764 | **72,622** | 79,668 |
| Amounts receivable under finance lease from affiliated companies | **1,081** | 2,935 | **1,081** | 2,935 |
| Other debtors | **31,560** | 215,485 | **40,258** | 39,480 |
| | **2,605,912** | 1,869,718 | **2,382,431** | 1,474,082 |
| **Due after one year** | | | | |
| Amounts receivable under finance lease from affiliated companies | **1,920** | 3,967 | **1,920** | 3,967 |
| Other long-term receivables | **733** | 823 | **–** | – |
| | **2,653** | 4,790 | **1,920** | 3,967 |

The Company provides IT services and related assets to an affiliated company. The arrangement in respect of the IT assets constitutes a finance lease as the affiliated company has use of the assets for the majority of their useful economic life and the present value of the minimum lease payments approximates the fair value of the leased assets. The difference between the gross investment in the lease and the present value of minimum lease payments receivable at the end of the reporting period is not material. All amounts are due under the finance lease arrangements are due within five years.

## 7 FINANCIAL ASSETS AND FINANCIAL LIABILITIES continued

### a) Trade and other receivables continued

Unguaranteed residual values accruing to the benefit of the Group are immaterial and there is no allowance for uncollectible lease payments. No contingent rents have been recognised as income in this or prior years.

The Group holds trade and other receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. Details about the Group's impairment policies and the calculation of the loss allowance are provided in note 10.

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.

The below table shows the gross investment in the lease, which is the same as the present value of minimum lease payments receivable, at the end of the reporting period, for each of the following periods:

| Group | Not later than 1 year | More than 1 year and not later than 5 years | Later than 5 years | Total |
|---|---|---|---|---|
| **31 December 2018** | | | | |
| Amounts receivable under finance lease from affiliated companies | **1,081** | **1,920** | **–** | **3,001** |
| **31 December 2017** | | | | |
| Amounts receivable under finance lease from affiliated companies | 2,935 | 3,967 | – | 6,902 |

| Company | Not later than 1 year | More than 1 year and not later than 5 years | Later than 5 years | Total |
|---|---|---|---|---|
| **31 December 2018** | | | | |
| Amounts receivable under finance lease from affiliated companies | **1,081** | **1,920** | **–** | **3,001** |
| **31 December 2017** | | | | |
| Amounts receivable under finance lease from affiliated companies | 2,935 | 3,967 | – | 6,902 |

### b) Cash and cash equivalents

| | Group | | Company | |
|---|---|---|---|---|
| | **2018 £'000s** | 2017 £'000s | **2018 £'000s** | 2017 £'000s |
| Cash at bank and in hand | **94,680** | 171,285 | **75,270** | 144,978 |
| Cash equivalents with subsidiary companies | **–** | – | **111,256** | 72,486 |
| **Total cash and cash equivalents** | **94,680** | 171,285 | **186,526** | 217,464 |

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.

## 7 FINANCIAL ASSETS AND FINANCIAL LIABILITIES continued

### c) Trade and other payables

| | Group | | Company | |
|---|---|---|---|---|
| | **2018 £'000s** | 2017 £'000s | **2018 £'000s** | 2017 £'000s |
| **Due within one year** | | | | |
| Amounts owed for purchase of commodities: | | | | |
| to third parties | **1,679,107** | 875,088 | **1,404,269** | 690,323 |
| to subsidiaries | **–** | – | **85,044** | 47,499 |
| to affiliated companies | **864,959** | 452,042 | **802,065** | 367,199 |
| Other payables | **192,067** | 169,112 | **117,446** | 64,960 |
| | **2,736,133** | 1,496,242 | **2,408,824** | 1,169,981 |
| **Due after more than one year** | | | | |
| Other long-term payables | **1,525** | 813 | **315** | 813 |

Included within the Group's trade and other payables to third parties is an amount of £110.3m (2017: £nil) relating to gas commodity prepayments.

### d) Loans and overdrafts

| | Group | | Company | |
|---|---|---|---|---|
| | **2018 £'000s** | 2017 £'000s | **2018 £'000s** | 2017 £'000s |
| Amounts owed: | | | | |
| to parents | **67,277** | – | **67,277** | – |
| to subsidiaries | **–** | – | **230,187** | 545,095 |
| | **67,277** | – | **297,464** | 545,095 |

As at 31 December 2018 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 10.

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

## 8 PROVISIONS

| **Group** | **Property £'000s** | **Onerous contracts £'000s** | **Other £'000s** | **Total £'000s** |
|---|---|---|---|---|
| At 1 January 2018 | 1,910 | 8,858 | 294 | 11,062 |
| Additional provisions | 683 | – | 220 | 903 |
| Provisions utilised | (190) | (8,307) | (419) | (8,916) |
| **At 31 December 2018** | **2,403** | **551** | **95** | **3,049** |

| **Company** | **Property £'000s** | **Onerous contracts £'000s** | **Other £'000s** | **Total £'000s** |
|---|---|---|---|---|
| At 1 January 2018 | 1,500 | – | – | 1,500 |
| Additional provisions | – | – | 1,301 | 1,301 |
| Provisions utilised | – | – | – | – |
| **At 31 December 2018** | **1,500** | **–** | **1,301** | **2,801** |

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 in 'Leasehold improvements' within 'Property plant and equipment'.

## 8 PROVISIONS continued

Onerous contract provisions relate to vacated leasehold property and shipping contracts where the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The Group had certain shipping contracts under which it had an obligation to make specified charter payments that management considered to be in excess of any sub-charter income or LNG cargo margin expected to be generated from utilising the ships.

Other provisions 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 2018 represents the best estimate of the amount required to settle such obligations.

There are no material uncertainties with regard to the amount or timing of the cash flows required to settle any of these obligations.

## 9 NET DEBT RECONCILIATION

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

**Group**

| 31 December 2018 | Cash £'000s | Loan from parent entity £'000s | Total £'000s |
|---|---|---|---|
| **Net cash as at 1 January 2018** | **171,285** | **–** | **171,285** |
| Cash flow | (76,611) | (66,683) | (143,294) |
| Foreign exchange adjustments | 6 | (594) | (588) |
| **Net cash as at 31 December 2018** | **94,680** | **(67,277)** | **27,403** |

**Company**

| 31 December 2018 | Cash £'000s | Loan from subsidiary entities £'000s | Total £'000s |
|---|---|---|---|
| **Net debt as at 1 January 2018** | **217,464** | **(545,095)** | **(327,631)** |
| Cash flow | (30,938) | 248,403 | 217,465 |
| Foreign exchange adjustments | – | (772) | (772) |
| **Net debt as at 31 December 2018** | **186,526** | **(297,464)** | **(110,938)** |

**Company**

| 31 December 2017 | Cash £'000s | Loan from subsidiary entities £'000s | Total £'000s |
|---|---|---|---|
| **Net debt as at 1 January 2017** | 107,324 | (584,068) | (476,744) |
| Cash flow | 110,140 | (12,923) | 97,217 |
| Foreign exchange adjustments | – | 51,896 | 51,896 |
| **Net debt as at 31 December 2017** | 217,464 | (545,095) | (327,631) |

Group net debt disclosures have not been provided for 2017 as the Group had no external debt.

## 10 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The GPG Group's risk management system is an integral component of its business processes and activities. GPG's Executive Committee has overall responsibility for the Group-wide risk management system. 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 teams, as risk owners, are primarily responsible for managing the Group's risks. They are supported by Group Risk Management that provides an advisory, control and oversight function, independent of the Commercial and other Support functions. Group Risk Management is led by the GPG Director of Risk who is part of the GPG Executive Committee. The GPG Executive Committee is ultimately responsible for the implementation of an effective risk management strategy throughout the GPG Group. The GPG Executive Committee is further supported in its risk management responsibilities by the GPG Risk Oversight Committee ("ROC"). The ROC provides recommendations and advice to the Executive Committee on risk-related matters and consists of members from the PAO Gazprom Risk and Legal functions, as well as Gazprom Export Risk.

GPG's Global Risk Management Policy defines enterprise risk management throughout the GPG Group, setting out a unified framework of risk management throughout the Group companies. 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's 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, to generate long-term profitability and to meet the financial covenants attached to interest-bearing banking facilities. It achieves this through maintaining adequate reserves and utilising committed banking facilities and loans from related parties. Share capital and reserves at 31 December 2018 were £503.8m (2017: £876.3m). In addition the Group has an outstanding loan with parent company GPG of £67.3m (2017: none). 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 Executive Committee, 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 of positions 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 and regularly reviews the limits and monitors performance against these limits. It is recognised that VaR cannot be relied upon solely to predict the size of potential losses and additional techniques are employed to monitor market risk such as stress testing and sensitivity analysis.

Based upon VaR 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:

| | **2018** | | 2017 | |
|---|---|---|---|---|
| **Group** | **Average £'000s** | **Year End £'000s** | Average £'000s | Year End £'000s |
| Trading VaR | **2,228** | **2,464** | 2,474 | 1,399 |

These VaR values are within the limits set by the GPG Group's Executive Committee.

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

Forward contracts, swaps, options and futures are used to mitigate price risk specific to each commodity. These contracts are carried at fair value with changes in fair value recorded in the Statements of comprehensive income unless designated as hedging instruments in an effective hedge relationship. Retail energy supply contracts and physical LNG/LPG contracts are not financial instruments under IAS39 and are accounted for as executory contracts. Changes in fair value of these contracts do not immediately impact profit or equity and, as such, the contracts are not exposed to commodity price risk as defined by IFRS7: Financial Instruments – Disclosure. The carrying value of commodity contracts at 31 December 2018 is disclosed in note 11.

### ii. Foreign currency risk

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

#### a. Transactional currency risk

The Group is exposed to transactional currency risk on transactions denominated in currencies other than the underlying functional currency of the transacting entity. The Group's primary functional currencies are Sterling in GM&T Limited and GM&T Retail and US Dollars in GGLNG, 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 hedged using derivative contracts to fix the functional currency value of non-functional currency cash flows. Currency risk is monitored and managed as part of the Group's VaR analysis. The ROC sets currency restrictions on the level of open positions allowed. A formal policy is in place for the management of non-trading related transactional foreign currency risks such as inter-company loans and non-base 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 as to whether any action is required. The table below details the Group's foreign currency exposure, by foreign currency, and calculates the impact on total comprehensive income of a reasonably possible parallel shift of the foreign currency against Sterling.

| | **2018 Sensitivity analysis** | | | 2017 Sensitivity analysis | | |
|---|---|---|---|---|---|---|
| | **Net assets £000s** | **Percentage change applied %** | **Total comprehensive income £000s** | Net assets £'000s | Percentage change applied % | Total comprehensive income £'000s |
| Euro | **2,734** | **(3.27)** | **(89)** | 2,271 | (14.37) | (326) |
| US dollar | **238,905** | **9.81** | **23,436** | 559,505 | 16.98 | 94,993 |
| | **241,639** | | **23,347** | 561,776 | | 94,667 |

The percentage change applied for the foreign currency rate against Sterling has been calculated based on the greatest annual percentage change over a two year period from 1 January 2017 to 31 December 2018, and is therefore not necessarily the same percentage change in each foreign currency exchange rate in the current year.

## 10 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

**Market risk** continued

### iii. Interest rate risk

The Group is exposed to interest rate risk as the cash flows associated with floating rate borrowings will fluctuate with changes in interest rates. The application of a parallel shift in interest rates of 50 basis points on drawn loan balances extant at year end would result in an income or expense of £nil as at 31 December 2018 (2017: £nil).

### iv. 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 and in certain agreements relating to amounts owed for physical product sales, the use of derivative instruments and the investment of surplus cash balances.

Credit risk management practices

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's Executive Committee and by certain individuals to whom authority has been delegated by the GPG Director of Risk. 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 considered against any particular counterparty. The internal assessment methodology is reviewed by the ROC and approved by the GPG Director of Risk. 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 write-off policy on retail trade receivables is to derecognise amounts where irrecoverability is certain such as where:

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

For non-retail trade receivables, due to the higher credit quality of the counterparties involved, and the low rate of expected credit loss, the write-off policy is to only derecognise amounts on an individual basis where irrecoverability is certain.

The maximum exposure to credit risk of the Group as at 31 December 2018 is disclosed below, based on the carrying amounts of the financial assets the Group believes are subject to credit risk. These carrying amounts include the impact of offsetting, as disclosed in note 3, but do not include the impact other credit enhancements discussed above.

The Group's maximum exposure to credit risk on financial assets held at fair value through profit or loss is £1,882.0m (2017: £1,081.4m) and on financial assets held at amortised cost is £2,703.2m (2017: £1,833.0m). 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 £2,093.2m (2017: £1,129.9m), of which £219.6m (2017: £49.7m) was related to transactions within the Group, and £2,570.9m (2017: £1,685.0m) on financial assets held at amortised cost.

## 10 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

**Market risk** continued

**iv. Credit risk** continued

Expected credit losses

*Trade and other receivables, lease receivables and contract assets*

As prescribed by IFRS9, for trade receivables, lease receivables and contract assets that do not contain a significant financing component, the Group applies the simplified approach of providing for lifetime expected credit losses.

*Financial guarantee contracts*

The Group measures the loss allowance on financial guarantee contracts 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.

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

To measure the expected credit losses, these items have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rate is calculated based on the counterparty's probability of default ("PD") multiplied by the loss given default rate ("LGD"). 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.

*Cash and cash equivalents*

The Group applies the simplified approach of providing for lifetime expected credit losses.

The closing loss allowance as at 31 December 2018 reconciles to the opening loss allowances as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2018 £'000s** | 2017 £'000s | **2018 £'000s** | 2017 £'000s |
| **31 December – calculated under IAS39** | **4,602** | – | **–** | – |
| Amounts restated through opening retained earnings | **1,467** | – | **3,116** | – |
| Opening loss allowance as at 1 January 2018 – calculated under IFRS9 | **6,069** | – | **3,116** | – |
| Increase in 12-month expected loss allowance on financial guarantee contracts | **–** | – | **(65)** | – |
| Increase in 12-month expected loss allowance on cash and cash equivalents | **(7)** | – | **59** | – |
| Increase in 12-month expected loss allowance on contract assets | **240** | – | **–** | – |
| Increase in lifetime expected loss allowance on trade receivables | **6,806** | – | **363** | – |
| Write-offs | **–** | – | **–** | – |
| Unused amount reversed | **(552)** | – | **(667)** | – |
| **At 31 December** | **12,556** | – | **2,806** | – |

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.

## 10 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

**Market risk** continued

**iv. Credit risk** continued

### Credit quality of financial assets neither past due nor impaired

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings or by internal models intended to approximate credit rating determinations.

Financial assets held at fair value through profit or loss:

| | Group | | Company | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Investment Grade | **81%** | 71% | **72%** | 68% |
| Sub-Investment Grade | **19%** | 29% | **28%** | 32% |
| Unrated | **0%** | 0% | **0%** | 0% |
| | **100%** | 100% | **100%** | 100% |

40% (2017: 60%) of the Sub-Investment Grade category for the Group relates to balances with affiliated counterparties. 63% (2017: 65%) of the Sub-Investment Grade category for the Company relates to balances with affiliated counterparties.

Financial and contract assets held at amortised cost:

| | Group | | Company | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Investment Grade | **75%** | 78% | **66%** | 69% |
| Sub-Investment Grade | **24%** | 18% | **34%** | 30% |
| Unrated | **1%** | 4% | **0%** | 1% |
| | **100%** | 100% | **100%** | 100% |

### Credit quality of obligors

Financial guarantee contracts (gross notional amount):

| | Group 2018 | Company 2018 |
|---|---|---|
| Investment Grade | **0%** | **0%** |
| Sub-Investment Grade | **0%** | **100%** |
| Unrated | **0%** | **0%** |
| | **0%** | **100%** |

**v. 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.

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 expects to meet its other obligations from operating cash flows and proceeds from the settlement of financial assets. The Group also has access to committed facilities of €300m and a cash pool facility of €100m with its parent company GPG, a US$250m committed revolving credit facility from a syndicate of banks and significant bilateral trade finance lines.

Cash balances are managed centrally by the Group's treasury function as part of Group funds and investments and monitored at a Group level. 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 table below analyses the contractual undiscounted cash flows arising from the Group's financial assets and financial liabilities into relevant maturity groupings based on the remaining period at the Statements of financial position date to the contractual maturity date.

## 10 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

**Market risk** continued

v. **Liquidity risk** continued

**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** |
| Commodity derivative instruments | **20,682** | **134,385** | **108,134** | **39,201** | **302,402** |
| Virtual gas storage contracts at fair value | **–** | **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** |
| Commodity derivative instruments | **32,498** | **234,301** | **111,757** | **44,624** | **423,180** |
| Virtual gas storage contracts at fair value | **–** | **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** |

| 31 December 2017 | Within 1 month £'000 | 2-12 months £'000 | 1-2 years £'000 | 2-5 years £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Due for receipt** | | | | | |
| Commodity trading contracts | 5,279,292 | 22,062,589 | 5,532,515 | 2,852,533 | 35,726,929 |
| Commodity derivative instruments | 38,058 | 307,830 | 77,140 | 51,671 | 474,699 |
| Virtual gas storage contracts at fair value | – | 52,279 | – | – | 52,279 |
| Cash and cash equivalents | 171,285 | – | – | – | 171,285 |
| Trade and other receivables | 1,806,673 | 63,045 | 1,881 | 2,909 | 1,874,508 |
| **Total** | 7,295,308 | 22,485,743 | 5,611,536 | 2,907,113 | 38,299,700 |
| **Due for payment** | | | | | |
| Commodity trading contracts | 5,379,785 | 22,340,182 | 4,682,613 | 1,495,005 | 33,897,585 |
| Commodity derivative instruments | 9,141 | 332,162 | 12,097 | 2,282 | 355,682 |
| Virtual gas storage contracts at fair value | – | 146,264 | – | – | 146,264 |
| Trade and other payables | 1,358,542 | 137,700 | 813 | – | 1,497,055 |
| **Total** | 6,747,468 | 22,956,308 | 4,695,523 | 1,497,287 | 35,896,586 |

## 10 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

**Market risk** continued

v. **Liquidity risk** continued

**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 |
| Commodity derivative instruments | 27,786 | 200,316 | 207,127 | 75,573 | 510,802 |
| Virtual gas storage contracts at fair value | – | 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 |
| Commodity derivative instruments | 39,364 | 299,959 | 132,277 | 88,328 | 599,928 |
| Virtual gas storage contracts at fair value | – | 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** |

**Company**

| 31 December 2017 | Within 1 month £'000 | 2-12 months £'000 | 1-2 years £'000 | 2-5 years £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Due for receipt** | | | | | |
| Commodity trading contracts | 5,436,173 | 22,908,742 | 5,992,236 | 3,111,115 | 37,448,266 |
| Commodity derivative instruments | 32,913 | 189,635 | 41,592 | 25,836 | 289,976 |
| Virtual gas storage contracts at fair value | – | 52,279 | – | – | 52,279 |
| Cash and cash equivalents | 217,464 | – | – | – | 217,464 |
| Trade and other receivables | 1,408,652 | 65,430 | 1,058 | 2,909 | 1,478,049 |
| **Total** | 7,095,202 | 23,216,086 | 6,034,886 | 3,139,860 | 39,486,034 |
| **Due for payment** | | | | | |
| Commodity trading contracts | 5,402,848 | 22,430,488 | 4,715,468 | 1,506,451 | 34,055,255 |
| Commodity derivative instruments | 17,059 | 190,094 | 12,595 | 1,141 | 220,889 |
| Virtual gas storage contracts at fair value | – | 146,264 | – | – | 146,264 |
| Trade and other payables | 1,044,020 | 125,961 | 813 | – | 1,170,794 |
| Loans and overdrafts | – | 545,095 | – | – | 545,095 |
| **Total** | 6,463,927 | 23,437,902 | 4,728,876 | 1,507,592 | 36,138,297 |

### Economical 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.

## 11 FINANCIAL AND NON-FINANCIAL INSTRUMENTS WITHIN THE SCOPE OF IFRS9

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 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 in the scope of IFRS9 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 Statements 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 Statements of financial position at fair value with movements in fair value recognised in the Statements of comprehensive income.

For the Group and the Company, all derivatives are classified as held-for-trading instruments and no financial instruments have been designated at fair value through profit or loss in accordance with the fair value option available within IFRS9 (2017: £nil).

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2018 £'000s** | 2017 £'000s | **2018 £'000s** | 2017 £'000s |
| **Non-current assets** | | | | |
| Commodity trading contracts | **408,505** | 218,242 | **552,269** | 224,374 |
| Emission allowances | **15,672** | 19 | **15,672** | 19 |
| Foreign exchange contracts | **21,129** | 1,361 | **21,507** | 2,702 |
| | **445,306** | 219,622 | **589,448** | 227,095 |
| **Current assets** | | | | |
| Commodity trading contracts | **1,411,754** | 844,890 | **1,477,196** | 876,406 |
| Emission allowances | **5,952** | 14 | **5,952** | 14 |
| Foreign exchange contracts | **19,079** | 16,871 | **20,643** | 26,360 |
| | **1,436,785** | 861,775 | **1,503,791** | 902,780 |
| **Current liabilities** | | | | |
| Commodity trading contracts | **1,377,149** | 766,002 | **1,492,782** | 848,522 |
| Emission allowances | **47,676** | 7,549 | **53,138** | 9,709 |
| Foreign exchange contracts | **15,068** | 35,692 | **22,229** | 43,352 |
| | **1,439,893** | 809,243 | **1,568,149** | 901,583 |
| **Non-current liabilities** | | | | |
| Commodity trading contracts | **414,914** | 171,865 | **487,163** | 205,624 |
| Emission allowances | **2,648** | 80 | **11,061** | 800 |
| Foreign exchange contracts | **1,556** | 749 | **20,952** | 895 |
| | **419,118** | 172,694 | **519,176** | 207,319 |

## 11 FINANCIAL AND NON-FINANCIAL INSTRUMENTS WITHIN THE SCOPE OF IFRS9 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 use the best available information by utilising valuation techniques that maximise the use of observable inputs and minimise the use of unobservable inputs.

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

Changes in the fair value of held-for-trading assets and liabilities from this initial fair value are recognised in the Statements of comprehensive income in the period in which they occur. The following table shows the changes in the day-one gains and losses deferred:

| | Group | |
|---|---|---|
| | **2018** **£'000s** | 2017 £'000s |
| **Day-one gains and losses** | | |
| Fair value of contracts not recognised through the Statements of comprehensive income at 1 January | **6,874** | 6,931 |
| Initial fair value of new contracts not recognised in the Statements of comprehensive income | **22,726** | 6,704 |
| Fair value recognised in the Statements of comprehensive income during the year | **(10,382)** | (6,761) |
| **Fair value of contracts not recognised through the Statements of comprehensive income at 31 December** | **19,218** | 6,874 |

| | Company | |
|---|---|---|
| | **2018** **£'000s** | 2017 £'000s |
| **Day-one gains and losses** | | |
| Fair value of contracts not recognised through the Statements of comprehensive income at 1 January | **6,874** | 6,931 |
| Initial fair value of new contracts not recognised in the Statements of comprehensive income | **22,726** | 6,704 |
| Fair value recognised in the Statements of comprehensive income during the year | **(10,382)** | (6,761) |
| **Fair value of contracts not recognised through the Statements of comprehensive income at 31 December** | **19,218** | 6,874 |

**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. The determination of the classification gives the highest priority to unadjusted quoted prices in active exchange markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to those fair values determined with reference to significant unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy are as follows:

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

Level 2 – Quoted prices are not available, however, pricing inputs are either directly or indirectly observable at the reporting date. Level 2 instruments include those valued using industry standard models and valuation techniques. These inputs include quoted forward prices for commodities, 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 may be more structured or individually tailored. At each reporting date, the Group performs an analysis of all assets and liabilities at fair value and includes in level 3 those whose fair value is derived using significant unobservable inputs.

## 11 FINANCIAL AND NON-FINANCIAL INSTRUMENTS WITHIN THE SCOPE OF IFRS9 continued

**Fair value hierarchy** continued

The following tables show, according to their level within the fair value hierarchy, the Group's assets and liabilities that were accounted for at fair value at the reporting date. 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 | | | |
|---|---|---|---|---|
| **2018** | **Level 1 £'000s** | **Level 2 £'000s** | **Level 3 £'000s** | **Total £'000s** |
| **Held for trading assets** | | | | |
| Commodity trading contracts | 198,868 | 1,595,948 | 25,443 | 1,820,259 |
| Emission allowances | 21,164 | 460 | – | 21,624 |
| Forward foreign exchange contracts | – | 40,208 | – | 40,208 |
| | **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 | 1,466,254 | 77,082 | 1,792,064 |
| Emission allowances | 14,670 | 35,653 | – | 50,323 |
| Forward foreign exchange contracts | – | 16,625 | – | 16,625 |
| | **263,398** | **1,518,532** | **77,082** | **1,859,012** |

| | Group | | | |
|---|---|---|---|---|
| **2017** | **Level 1 £'000s** | **Level 2 £'000s** | **Level 3 £'000s** | **Total £'000s** |
| **Held for trading assets** | | | | |
| Commodity trading contracts | 149,494 | 885,648 | 27,991 | 1,063,133 |
| Emission allowances | 19 | 14 | – | 33 |
| Forward foreign exchange contracts | – | 18,231 | – | 18,231 |
| | 149,513 | 903,893 | 27,991 | 1,081,397 |
| **Inventories** | 25,870 | 100,130 | – | 126,000 |
| **Held for trading liabilities** | | | | |
| Commodity trading contracts | 89,946 | 820,758 | 27,152 | 937,856 |
| Emission allowances | 2,197 | 5,432 | – | 7,629 |
| Forward foreign exchange contracts | – | 35,894 | – | 35,894 |
| | 92,143 | 862,084 | 27,152 | 981,379 |

## 11 FINANCIAL AND NON-FINANCIAL INSTRUMENTS WITHIN THE SCOPE OF IFRS9 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 | 1,805,180 | 25,443 | 2,029,465 |
| Emission allowances | 21,164 | 460 | – | 21,624 |
| Forward foreign exchange contracts | – | 42,150 | – | 42,150 |
| | **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 | 1,654,381 | 77,082 | 1,979,945 |
| Emission allowances | 14,670 | 49,529 | – | 64,199 |
| Forward foreign exchange contracts | – | 43,180 | – | 43,180 |
| | **263,152** | **1,747,090** | **77,082** | **2,087,324** |

| | Company | | | |
|---|---|---|---|---|
| **2017** | **Level 1 £'000s** | **Level 2 £'000s** | **Level 3 £'000s** | **Total £'000s** |
| **Held for trading assets** | | | | |
| Commodity trading contracts | 142,365 | 930,425 | 27,991 | 1,100,781 |
| Emission allowances | 18 | 14 | – | 32 |
| Forward foreign exchange contracts | – | 29,062 | – | 29,062 |
| | 142,383 | 959,501 | 27,991 | 1,129,875 |
| **Inventories** | 25,870 | 100,130 | – | 126,000 |
| **Held for trading liabilities** | | | | |
| Commodity trading contracts | 86,898 | 940,095 | 27,152 | 1,054,145 |
| Emission allowances | 2,198 | 8,312 | – | 10,510 |
| Forward foreign exchange contracts | – | 44,247 | – | 44,247 |
| | 89,096 | 992,654 | 27,152 | 1,108,902 |

## 11 FINANCIAL AND NON-FINANCIAL INSTRUMENTS WITHIN THE SCOPE OF IFRS9 continued

**Fair value hierarchy** continued

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 2017** | 28,941 | 28,941 |
| Net gains and losses recognised in the statement of comprehensive income | (31,420) | (31,420) |
| Purchases | (37,154) | (37,154) |
| Sales | 31,726 | 31,726 |
| Settlements | 8,746 | 8,746 |
| **Fair value at 31 December 2017 and 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** | **(51,639)** | **(51,639)** |

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 (2017: £nil) or between Level 2 and Level 3 (2017: £nil) of the fair value hierarchy in the current year.

**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 comprises natural gas contracts with volume flexibility. The Group uses a proprietary model to forecast offtake volumes which determines the contracts' extrinsic value. Whilst all inputs into the model are observable, the model itself is internally developed and includes certain volumetric assumptions that may be different from those that would be used by another market participant. The impact of varying the unobservable parameters as at 31 December 2018 and at 31 December 2017 is immaterial.

## 12 COMMITMENTS AND CONTINGENCIES

**Lease commitments**

The Group has entered into non-cancellable operating leases relating to long-term lease contracts for regasification and pipeline capacity of Gazprom Marketing & Trading Mexico S. de R.L. de C.V., and LNG tankers chartered by the Group, including two custom-built tankers, under 15 year charter terms, which were delivered in 2014.

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2018 £'000s** | 2017 £'000s | **2018 £'000s** | 2017 £'000s |
| Not later than one year | **152,575** | 149,963 | **6,538** | 6,448 |
| Later than one year and not later than five years | **530,650** | 489,439 | **4,209** | 10,617 |
| Later than five years | **579,719** | 655,673 | **–** | – |
| | **1,262,944** | 1,295,075 | **10,747** | 17,065 |

**Operating lease expense**

Operating lease and sub-lease payments recognised as expense in the year were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2018 £'000s** | 2017 £'000s | **2018 £'000s** | 2017 £'000s |
| Minimum lease payments | **125,041** | 143,850 | **6,055** | 5,916 |
| Sublease payments received | **(76,053)** | (78,860) | **(683)** | (206) |
| | **48,988** | 64,990 | **5,372** | 5,710 |

**Sub-lease receipts**

| | Group | | Company | |
|---|---|---|---|---|
| | **2018 £'000s** | 2017 £'000s | **2018 £'000s** | 2017 £'000s |
| Future minimum lease payments expected to be received in relation to non-cancellable sub-leases of operating leases: | | | | |
| Not later than one year | **60,026** | 54,880 | **806** | 633 |
| Later than one year and not later than five years | **147,931** | 140,598 | **1,097** | 1,043 |
| Later than five years | **160,839** | 187,130 | **270** | – |
| | **368,796** | 382,608 | **2,173** | 1,676 |

Sub-lease receipts relate primarily to the sub-charter of two LNG tankers to a related party under a non-cancellable operating lease. There are no contingent rents recognised in income in this or prior years.

**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 | |
|---|---|---|---|---|
| | **2018 £'000s** | 2017 £'000s | **2018 £'000s** | 2017 £'000s |
| Letters of credit and bank guarantees | **–** | – | **–** | – |
| Parent company guarantees | **–** | – | **57,086** | 15,539 |
| | **–** | – | **57,086** | 15,539 |

The table above shows the exposure to the Company on its issued guarantees. This presentation is different to the prior year's financial statements which showed the gross notional amount of the issued guarantees.

## 12 COMMITMENTS AND CONTINGENCIES continued

**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 | | | | |
| **2018** | **42,515** | **39,874** | **1,974** | **168,364** |
| 2017 | 37,572 | 34,788 | 494 | 9,672 |
| Other entities with indirect control over the Group | | | | |
| **2018** | **279,390** | **5,392,504** | **60,497** | **745,346** |
| 2017 | 1,200 | 3,554,576 | 162,830 | 333,399 |
| Other related parties | | | | |
| **2018** | **4,329,514** | **5,786,844** | **202,918** | **422,142** |
| 2017 | 2,260,816 | 3,260,289 | 117,069 | 188,729 |

| 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 | | | | |
| **2018** | **42,515** | **39,874** | **4,493** | **168,364** |
| 2017 | 37,572 | 34,788 | 3,001 | 9,672 |
| Other entities with indirect control over the Group | | | | |
| **2018** | **240,749** | **5,115,982** | **22,097** | **732,686** |
| 2017 | 1,168 | 3,270,327 | 161,957 | 318,026 |
| Subsidiaries | | | | |
| **2018** | **1,962,669** | **615,528** | **590,233** | **549,605** |
| 2017 | 1,259,100 | 339,008 | 304,110 | 736,994 |
| Other related parties | | | | |
| **2018** | **4,289,389** | **5,470,554** | **202,912** | **370,389** |
| 2017 | 2,208,473 | 2,827,016 | 112,915 | 113,834 |

The master account holder is GPG, the Group's immediate controlling entity. The Group also has an outstanding borrowing from GPG at 31 December 2018 of £67.3m (2017: £nil). Interest is payable based on market interest rates.

## 12 COMMITMENTS AND CONTINGENCIES continued

**Commitments**

The Group and Company have the following purchase commitments with related parties

| | Group | | Company | |
|---|---|---|---|---|
| | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m |
| Parent company | **1** | 1 | **1** | 1 |
| Other related parties | **697** | 748 | **–** | – |
| | **698** | 749 | **1** | 1 |

**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 2018 the Company had provided £353.2m of parental guarantees on behalf of its subsidiaries (2017: £255.4m). During the year ended 31 December 2018, the Group has not made any provision for doubtful debts relating to amounts owed by related parties (2017: £nil).

## 13 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.

# OFFICERS AND PROFESSIONAL ADVISORS

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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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