2016 SUMMARY ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

Contents

STRATEGIC REPORT

The Directors present the Summary Annual Report and the Consolidated Financial Statements of Gazprom Marketing & Trading Limited ("GM&T" or the "Company") and its subsidiary undertakings (collectively referred to as the "Group") for the year ended 31 December 2016.

Principal activities

The principal activity of the Group and Company is the marketing and trading of energy products including natural gas, electricity, liquefied natural gas ("LNG"), liquefied petroleum gas ("LPG"), helium and oil products. The Group is active in the UK, Continental Europe, North and South America, Asia and other world 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. There have been no significant changes in the Group's or Company's principal activities in the year and no significant change in the Group's or Company's principal business is expected.

The ultimate parent undertaking and controlling entity 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 10 (2015: 11) individual legal entities covering the UK, Continental Europe, North America and Asia (see Note 5).

Financial results

The Group has experienced significant growth during the past decade although results in 2016 have been depressed by challenging conditions for the Global LNG, Oil & Shipping business. The consolidated Statements of comprehensive income for the year are set out on page 7. The Group's profit for the financial year was £115.4m (2015: £251.2m), a decrease of 54% from the prior year. The Group's total equity as at 31 December 2016 was £914.5m (2015: £691.9m), representing an increase of 32% when compared to 31 December 2015.

In August and December 2016 the Company declared and paid a final dividend of £251.2m and a further dividend of £7.5m (2015: £263.2m) to its immediate parent company Gazprom Germania GmbH ("GPG"), representing 103% (2015: 87%) of the net profit after tax for the year ended 31 December 2015. Since the reporting date, no further dividends were paid or declared.

The Group's profit for the financial year has been achieved despite difficult market conditions and the unstable geopolitical environment in which the Group operates. However, the Group's core European gas business reported a strong performance in what has been a volatile market. In 2016, GM&T effectively traded and optimised increased volumes of gas from OOO Gazprom Export into Western Europe compared to the prior year. The performance of specific business units is discussed in further detail below.

The Group continues to operate on a stable financial platform through profitable trading and strong liquidity and risk management. As a result of the Group's financial position and its ongoing business enhancement activities, the Group believes it can continue to take advantage of future opportunities and deliver strong profitability in 2017 and beyond.

Business activities and environment

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

Global Gas, Power & Derivatives ("GGPD")

GGPD has reported an increase of 8% in net income compared to 2015 and accounts for approximately 87% of the Group's total net income in the year. 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.

During 2016 trading conditions in European gas markets were volatile although the underlying market demand remained low due to a continuing weak economic climate within the European Union. Depressed gas prices during Q1 recovered significantly in Q2 and Q3 due to a very short market and the announcement by Centrica Storage that gas in the Rough facility may not be able to be withdrawn during winter. The business continued to grow through the marketing of additional OOO Gazprom Export gas volumes into North West European markets and as a result of effective optimisation of optionality within the portfolio. 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 volatility. The Gas business also continued to develop its structured trading offering and downstream market presence.

In 2016 the Power business had a strong year despite challenging conditions. At the start of the year European power price curves were pushed downwards due to strong renewable production, good availability of thermal and nuclear units and weak power demand. However, this trend was reversed on the back of changing weather conditions, rising fuel prices and fears over French nuclear power availability. Despite the difficult market conditions, the business has continued to develop a diversified power portfolio with thermal and renewable power generators and long-term power purchase agreements.

The Group employed a minimal risk strategy on the Group's North American gas business and marketing and trading activities have been significantly reduced in this region.

Global LNG, Oil & Shipping

Global LNG, Oil & Shipping continues to be strategically important for the Group despite revenues only accounting for 4% of the Group's net income in 2016 (2015: 42%). The business had another challenging year, with a decrease in net income of 94% compared to 2015, due to the continued convergence of global gas prices, the Force Majeure claimed by Sakhalin Energy Investment Company ("SEIC") in Q1 and an oversupplied LNG freight market. Despite the difficult conditions and lower margins, the number of LNG cargoes marketed within the year compared favourably with 2015 (2016: 55 cargoes, 2015: 51 cargoes), reflecting the Group's strong standing within the global market. However, the performance has benefitted from a strengthening GBP/USD exchange rate.

The Group has continued to focus on securing mid-term and long term strategies for Global LNG, through the execution of multiple sale and purchase agreements and has continued to demonstrate its commitment to developing beneficial strategic partnerships in the LNG market. During 2016, the Group has further diversified its robust global portfolio, with significant third-party LNG volumes. This is in addition to the continued successful management of the existing long term LNG purchases from SEIC in Eastern Russia, which is located in close proximity to the Group's key strategic markets in Asia.

Shipping operated 7 vessels during 2016 (2015: 6). The business continued to operate within suppressed market conditions during the year, as charter rates have decreased due to delays in the construction of LNG export terminals and an oversupply of new build vessels into the global market. This has also resulted in an under-utilisation of the LNG fleet as spot freight market conditions have remained stagnant.

Oil has had a challenging year due to supply restrictions and adverse price differentials in the Far East market. LPG has also experienced a difficult market environment with fewer physical cargos due to supply restrictions and adverse market price movements.

Global Retail

Gazprom Energy has maintained its position as the second largest gas supplier to UK industrial and commercial customers ("I&C"), with its market share increasing year on year to 14% at 31 December 2016 (2015: 13%). The Group maintained its market share in the UK I&C power market year on year at 1% (2015: 1%). In France, the Group supplied 9,626 GWh of gas to end users (2015: 7,866 GWh). The entry into the French SME market has seen the number of live gas sites in France increase to 8,436 (2015: 5,315). In the Netherlands, the Group supplied 694 GWh of gas to end users (2015: 491 GWh).

On 6 May 2016, the Company sold 100% of the share capital of Gazprom Marketing & Trading Retail Germania (GMTRG) to a third party under a Sale and Purchase Agreement for €1 realizing a loss of £1m.

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

The Group's strategy is aligned with its vision of being a leading Integrated Supply, Trading and Marketing business. The Group recognises the importance of its physical trading operations to the upstream production companies and the Group continues to position itself as a crucial interface to the traditional European and growing Asian markets for the wider Gazprom Group. It remains closely aligned with the strategic goals of the Gazprom Group, which in turn fully supports the Group in its own ambitions. In 2016, GM&T marketed and optimised increased volumes of gas from OOO Gazprom Export into Western Europe compared to the prior year and OOO Gazprom Export safely delivered, without interruption of supply, all contracted volumes to GM&T.

Part of the Group's strategy involves integration with the Gazprom Group to develop innovative ideas to optimise the portfolio and build demand for Gazprom gas, be it delivered into Western Europe by pipeline or globally as LNG.

The Group will continue to integrate and work closely with entities across the Gazprom Group during 2017 in identifying new mutual opportunities for growth and efficiencies.

Likely future developments

The Group will strengthen its focus on 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 around the following key elements:

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

Principal risks and uncertainties facing the Group

The Directors 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").

The Board has ultimate responsibility for the implementation and oversight of all elements of the Risk Programme, mirroring its responsibility for ensuring GM&T Ltd meets its strategic, financial and operational objectives.

The Group maintains and operates the "Governing Policy for Energy Risk Management" that defines the scope, objectives, policy and strategies for the management of financial and operational risks within the Group. GM&T's Risk Oversight Committee ("ROC") supervises the development, implementation and operation of the risk management framework and has a direct reporting line to the Board of Directors.

Risk is defined as the effect of uncertainty on objectives. In pursuit of its strategic, financial and operational objectives the Company 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 of loss from poor strategic decision making or from external events that have an impact at a strategic level of the organisation.

Market Risk: the risk of financial loss due to changes in market factors. Market factors include (but are not limited to) commodity and derivative prices, interest rates and foreign exchange rates.

Credit Risk: the risk of financial loss 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 contractual terms.

Liquidity Risk: the risk that the Company is not able to meet its cash and collateral payment obligations as they fall due or that it is unable to fund actual or proposed commitments on an ongoing basis.

Operational Risk: the risk of financial loss due to inadequate or failed internal processes, people and systems, or from external events.

Key performance indicators

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

Indicator type	Key performance indicator	2016	2015	Change
Profitability	**Net Income (£m)**	**342.7**	538.7	**(36%)**
Profitability	**EBITDA (£m)**	**152.5**	313.2	**(51%)**
	EBITDA is defined as Earnings before Interest, Tax, Depreciation and Amortisation.			
Profitability	**Net profit after tax (£m)**	**115.4**	251.2	**(54%)**
Profitability	**Return on Equity**	**14%**	34%	**(58%)**
	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**	**34%**	47%	**(28%)**
Liquidity	**Dividends paid (£m)**	**258.7**	263.2	**(2%)**
Liquidity	**Current ratio**	**1.29**	1.28	**(0%)**

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

I I Lipskii
Director
12 April 2017

INDEPENDENT AUDITORS' REPORT ON THE SUMMARY FINANCIAL STATEMENTS TO THE MEMBERS OF GAZPROM MARKETING & TRADING LIMITED

The accompanying summary financial statements, which comprises the Group and Parent Statements of financial position as at 31 December 2016, Statements of comprehensive income, Statements of changes in equity, Statements of cash flows and the related notes, which include a summary of the significant accounting policies and other explanatory information for the year then ended. We expressed an unmodified audit opinion on those financial statements in our auditors' report dated 12 April 2017.

The summary financial statements do not contain all the disclosures required by International Financial Reporting Standards (IFRS) as adopted by the European Union in the preparation of the audited financial statements of Gazprom Marketing & Trading Limited. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of Gazprom Marketing & Trading Limited.

Management's responsibility for the summary financial statements
Management is responsible for the preparation of a summary of the audited financial statements on the basis described in Note 2.

Auditors' responsibility
Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810, "Engagements to Report on Summary Financial Statements."

Opinion
In our opinion, the summary financial statements derived from the audited financial statements of Gazprom Marketing & Trading Limited for the year ended 31 December 2016 are consistent, in all material respects, with (or a fair summary of) those financial statements, on the basis described in Note 2.

Ernst & Young LLP

Andrew Woosey (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP
Statutory Auditor
London
12 April 2017

STATEMENTS OF COMPREHENSIVE INCOME YEAR ENDED 31 DECEMBER 2016

		Group		Company	
	Notes	**2016 £'000s**	2015 £'000s	**2016 £'000s**	2015 £'000s
Revenue		**1,995,224**	2,481,199	**1,835**	–
Cost of sales		**(1,895,652)**	(2,258,293)	**(932)**	(286)
Gross profit/(loss):		**99,572**	222,906	**903**	(286)
Trading activities:					
Net trading income		**243,091**	315,817	**239,982**	238,361
Net Income		**342,663**	538,723	**240,885**	238,075
Administrative expenses	4	**(218,657)**	(260,885)	**(208,464)**	(223,822)
Operating profit		**124,006**	277,838	**32,421**	14,253
Interest income		**1,783**	4,923	**1,760**	5,015
Interest expense		**(8,323)**	(7,710)	**(11,167)**	(8,168)
Income from subsidiaries		**–**	–	**34,012**	251,036
Other income		**4,419**	–	**4,419**	–
Loss on disposal of non-current assets		**(708)**	(264)	**(709)**	(259)
Loss on disposal of subsidiary	16	**(954)**	–	**(6,646)**	–
Profit before tax		**120,223**	274,787	**54,090**	261,877
Tax		**(4,790)**	(23,581)	**(17,939)**	(17,491)
Profit for the financial year		**115,433**	251,206	**36,151**	244,386
Cash flow hedges*:					
Fair value gains/(losses) recognised during the year		**185,523**	(190,772)	**–**	–
Tax on items taken directly to equity		**(33,359)**	34,409	**–**	–
Transferred to profit or loss on cash flow hedges		**140,858**	74,676	**–**	–
Tax on items transferred from equity		**(26,577)**	(17,074)	**–**	–
Profit on foreign currency translation		**99,386**	24,690	**–**	–
Total other comprehensive income/(expense)		**365,831**	(74,071)	**–**	–
Total comprehensive income		**481,264**	177,135	**36,151**	244,386
Total comprehensive income attributable to:					
Equity owners of the parent		**481,264**	177,135	**36,151**	244,386

*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 29 form an integral part of the Summary Financial Statements.

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

		Group		Company	
	Notes	**2016 £'000s**	2015 £'000s	**2016 £'000s**	2015 £'000s
Assets					
Non-current assets					
Intangible assets		**66,593**	65,928	**51,078**	59,329
Property, plant and equipment		**21,714**	22,230	**16,452**	16,970
Trading contracts at fair value	13	**395,610**	321,774	**396,178**	396,283
Investments in subsidiaries	5	**–**	–	**428**	11,961
Deferred tax assets		**18,204**	44,548	**1,396**	210
Trade and other receivables	7	**5,909**	1,663	**5,180**	553
		508,030	456,143	**470,712**	485,306
Current assets					
Inventories	6	**396,614**	230,677	**354,558**	211,073
Trade and other receivables	7	**1,644,086**	1,365,474	**1,337,426**	1,268,699
Trading contracts at fair value	13	**1,236,360**	1,026,349	**1,266,243**	1,169,589
Current tax assets		**2,617**	67	**2,614**	–
Cash equivalents receivable with related parties		**275**	2,434	**68,744**	6,699
Cash at bank and in hand		**80,398**	204,422	**38,580**	203,082
		3,360,350	2,829,423	**3,068,165**	2,859,142
Assets classified as held for sale	8	**–**	3,165	**–**	–
		3,360,350	2,832,588	**3,068,165**	2,859,142
Total assets		**3,868,380**	3,288,731	**3,538,877**	3,344,448
Liabilities					
Current liabilities					
Trade and other payables	9	**1,347,878**	1,168,245	**1,103,734**	1,020,135
Trading contracts at fair value	13	**1,248,938**	1,018,345	**1,343,102**	1,020,851
Provisions	11	**2,412**	1,756	**1,500**	1,000
Current tax liabilities		**12,654**	15,440	**3,831**	8,124
Loans and overdrafts	10	**–**	–	**584,068**	553,593
		2,611,882	2,203,786	**3,036,235**	2,603,703
Liabilities directly associated with assets classified as held for sale	8	**–**	4,589	**–**	–
		2,611,882	2,208,375	**3,036,235**	2,603,703
Non-current liabilities					
Trade and other payables	9	**1,660**	1,621	**1,122**	1,621
Trading contracts at fair value	13	**320,677**	386,269	**371,909**	386,964
Deferred tax liabilities		**19,710**	579	**–**	–
		342,047	388,469	**373,031**	388,585
Total liabilities		**2,953,929**	2,596,844	**3,409,266**	2,992,288
Net assets		**914,451**	691,887	**129,611**	352,160
Equity					
Ordinary share capital		**20,000**	20,000	**20,000**	20,000
Cash flow hedge reserve		**91,738**	(174,707)	**–**	–
Foreign currency translation reserve		**130,876**	31,490	**–**	–
Retained earnings		**671,837**	815,104	**109,611**	332,160
Equity attributable to:					
Owners of the parent		**914,451**	691,887	**129,611**	352,160
Total equity		**914,451**	691,887	**129,611**	352,160

The notes on pages 09 to 29 form an integral part of the Summary Financial Statements.

The full Consolidated Financial Statements of Gazprom Marketing & Trading Limited (registered number 3768267) and of the Company were approved by the Board of Directors and authorised for issue on 12 April 2017 and signed by the Directors as a consistent extract thereof as part of the Summary Annual Report and Consolidated Financial Statements on 12 April 2017.

Signed on behalf of the Board

I I Lipskii
Director

STATEMENTS OF CHANGES IN EQUITY YEAR ENDED 31 DECEMBER 2016

Group	Ordinary share capital £'000s	Cash flow hedge reserve £'000s	Foreign currency translation reserve £'000s	Retained earnings £'000s	Total equity £'000s
Balance at 1 January 2015	20,000	(75,946)	6,800	827,098	777,952
Profit for the year	–	–	–	251,206	251,206
Other comprehensive income/(expense):					
Fair value loss on hedging contracts	–	(190,772)	–	–	(190,772)
Deferred tax related to fair value loss on hedging contracts recognised in equity	–	34,409	–	–	34,409
Loss on fair value hedging contracts transferred to income	–	74,676	–	–	74,676
Deferred tax related to loss on fair value hedging contracts transferred to income	–	(17,074)	–	–	(17,074)
Gain on foreign currency translation	–	–	24,690	–	24,690
Total comprehensive income/(expense)	–	(98,761)	24,690	251,206	177,135
Transactions with owners:					
Dividends paid	–	–	–	(263,200)	(263,200)
Balance at 31 December 2015 and 1 January 2016	**20,000**	**(174,707)**	**31,490**	**815,104**	**691,887**
Profit for the year	–	–	–	115,433	115,433
Other comprehensive income/(expense):					
Fair value gain on hedging contracts	–	185,523	–	–	185,523
Deferred tax related to fair value loss on hedging contracts recognised in equity	–	(33,359)	–	–	(33,359)
Loss on fair value hedging contracts transferred to income	–	140,858	–	–	140,858
Deferred tax related to loss on fair value hedging contracts transferred to income	–	(26,577)	–	–	(26,577)
Gain on foreign currency translation	–	–	99,386	–	99,386
Total comprehensive income/(expense)	–	266,445	99,386	115,433	481,264
Transactions with owners:					
Dividends paid	–	–	–	(258,700)	(258,700)
Balance at 31 December 2016	**20,000**	**91,738**	**130,876**	**671,837**	**914,451**

Company	Ordinary share capital £'000s	Retained earnings £'000s	Total equity £'000s
Balance at 1 January 2015	20,000	350,974	370,974
Profit for the year and total comprehensive income	–	244,386	244,386
Dividends paid	–	(263,200)	(263,200)
Balance at 31 December 2015 and 1 January 2016	**20,000**	**332,160**	**352,160**
Profit for the year and total comprehensive income	–	36,151	36,151
Dividends paid	–	(258,700)	(258,700)
Balance at 31 December 2016	**20,000**	**109,611**	**129,611**

The notes on pages 09 to 29 form an integral part of the Summary Financial Statements.

STATEMENTS OF CASH FLOWS YEAR ENDED 31 DECEMBER 2016

		Group		Company	
	Notes	**2016 £'000s**	2015 £'000s	**2016 £'000s**	2015 £'000s
Operating activities					
Operating profit		**124,006**	277,838	**32,421**	14,253
Depreciation of property, plant & equipment		**5,500**	4,324	**3,664**	2,922
Amortisation of intangible assets		**19,993**	24,599	**19,487**	19,357
Impairment of intangible assets		**270**	6,624	**–**	–
Impairment of loans and investments in subsidiaries		**–**	–	**49,696**	48,363
Unrealised fair value movements on trading contracts at fair value		**161,842**	(85,456)	**170,546**	(36,401)
Other unrealised movements		**111,589**	25,753	**12,962**	1,799
Increase/(decrease) in provisions	11	**656**	(293)	**500**	–
Other income		**4,419**	–	**4,419**	–
Income from subsidiaries		**–**	–	**34,012**	37,451
Operating cash flows before movements in working capital		**428,275**	253,389	**327,707**	87,744
(Increase)/decrease in inventories		**(165,937)**	21,770	**(143,485)**	(25,400)
(Increase)/decrease in receivables		**(292,776)**	148,222	**(131,346)**	68,802
Increase/(decrease) in payables		**174,949**	(122,256)	**84,103**	(139,825)
Increase in trading contract positions		**45,693**	80,143	**40,099**	57,381
Cash generated from operations		**190,204**	381,268	**177,078**	48,702
Interest and banking charges paid		**(8,321)**	(7,710)	**(11,977)**	(8,291)
Income taxes paid		**(24,592)**	(28,880)	**(26,032)**	(11,800)
Net cash inflow/(outflow) from operating activities		**157,291**	344,678	**139,069**	28,611
Investing activities					
Investment income received		**–**	–	**–**	213,595
Interest received		**1,783**	4,923	**1,718**	5,066
Purchases of property, plant and equipment		**(2,923)**	(4,712)	**(1,086)**	(2,852)
Purchases of intangible assets		**(23,698)**	(21,252)	**(14,005)**	(17,514)
Proceeds on sale of subsidiary	16	**–**	–	**–**	–
Net cash (outflow)/inflow from investing activities		**(24,838)**	(21,041)	**(13,373)**	198,295
Financing activities					
Drawdown of loan from third parties		**747,300**	–	**747,300**	–
Repayment of loan from third parties		**(747,300)**	–	**(747,300)**	–
Drawdown of loan from subsidiaries		**–**	–	**30,475**	44,000
Dividends paid		**(258,700)**	(263,200)	**(258,700)**	(263,200)
Net cash outflow from financing activities		**(258,700)**	(263,200)	**(228,225)**	(219,200)
Net increase in cash and cash equivalents		**(126,247)**	60,437	**(102,529)**	7,706
Exchange gain/(loss) on cash and cash equivalents		**64**	143	**72**	33
Cash and cash equivalents at the beginning of the year		**206,856**	146,276	**209,781**	202,042
Cash and cash equivalents at the end of the year		**80,673**	206,856	**107,324**	209,781

The notes on pages 09 to 29 form an integral part of the Summary Financial Statements.

NOTES TO THE SUMMARY FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2016

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.

2 BASIS OF PREPARATION

Statement of compliance

The Group's Summary Annual Report and Consolidated 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 except for certain disclosures which have been excluded. Disclosures relating to Intangible assets, Property plant and equipment, Current and Deferred tax and certain Companies Act 2006 requirements have not been included as the Directors do not believe these to be the most relevant for users of the Summary Annual Report and Consolidated Financial Statements. The primary statements in this Summary Annual Report and Consolidated Financial Statements are presented in accordance with International Accounting Standards (IAS) 1 'Presentation of financial statements'.

The Summary Annual Report and Consolidated Financial Statements do 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 2016 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 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 measured at fair value, and on the going concern basis.

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 which is the Group and Company Reporting currency.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

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

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

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

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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 IAS 39, 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 IAS 39, 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 IAS 39, gas and other energy product storage and transportation capacity revenues and costs related to underlying trading activities are recognised on an accruals basis within 'Net trading income'. Energy purchase and sale transactions entered into to optimise the performance of the storage facilities are also presented within 'Net trading income'.

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 IAS 39

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

The Group determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

Trading contracts at fair value

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 IAS 39 and associated gains or losses are recognised directly in the Statement of comprehensive income within 'Net trading income'.

Financial assets and financial liabilities 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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

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

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 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 hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how effectiveness will be measured throughout its duration. Such hedges are expected at inception to be highly effective.

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

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

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

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

Note 13 sets out details of the fair values of the instruments used for hedging purposes. Movements in the hedging reserve in equity are detailed in the Group Statements of changes in equity.

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

The effective portion of changes in the fair value of 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 when 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 Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately as described above.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES 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

Operating profit is stated after charging:

	Group		Company	
	2016 £'000s	2015 £'000s	**2016 £'000s**	2015 £'000s
Administrative expenses				
Staff costs	**118,311**	150,806	**79,624**	103,329
Other employee costs	**12,860**	10,010	**11,776**	6,820
Office costs	**33,603**	32,443	**26,017**	22,567
Rentals under operating leases	**9,009**	7,991	**5,974**	4,864
Travel expenses	**7,607**	8,670	**4,282**	4,722
Consultancy (excluding auditor's remuneration)	**5,191**	5,357	**4,049**	4,375
Auditor's remuneration	**1,126**	1,205	**565**	760
Depreciation	**5,500**	4,324	**3,664**	2,922
Amortisation	**19,993**	24,599	**19,487**	19,357
Intangible asset impairment	**270**	6,624	**–**	–
Impairment losses	**5,187**	8,856	**53,026**	54,106
	218,657	260,885	**208,464**	223,822

5 INVESTMENTS IN SUBSIDIARIES

Details of the Company's subsidiaries at 31 December 2016 are as follows:

Name of subsidiary	Place of incorporation and operation	Business activity	Ordinary shares owned	Proportion of voting power
Gazprom Global LNG Ltd ("GGLNG")	United Kingdom	Energy trading	100%	100%
Gazprom Marketing & Trading Retail Ltd ("GM&T Retail")	United Kingdom	Energy supply	100%	100%
Gazprom Mex (UK) 1 Ltd	United Kingdom	Holding company	100%	100%
Gazprom Mex (UK) 2 Ltd	United Kingdom	Holding company	100%	100%
Gazprom Marketing & Trading France SAS	France	Energy supply	100%	100%
Gazprom Marketing & Trading USA, Inc. ("GMTUSA")	USA	Energy trading	100%	100%
Gazprom Marketing & Trading Singapore Pte Ltd ("GMTS")	Singapore	Energy trading	100%	100%
Gazprom Marketing & Trading Mexico S.de R.L.de C.V.	Mexico	Energy trading	100%	100%
Gazprom Marketing & Trading Switzerland AG ("GMTCH")	Switzerland	Energy trading	100%	100%

All investments were held directly by the Company, except for the investment in Gazprom Marketing & Trading Mexico S.de R.L.de C.V. of whose equity Gazprom Mex (UK) 1 Ltd holds 99.99% and Gazprom Mex (UK) 2 Ltd holds 0.01%. In addition, Gazprom Mex (UK) 1 Ltd holds 100% of the equity of Gazprom Mex (UK) 2 Ltd.

No dividend income was received by the Company in 2016; 2015 dividend income represented distributions from GMTS of £213.0m.

The Company made a capital contribution to subsidiaries during the period of £45.8m. This related to the purchase of tax losses from GM&T Retail for consideration in excess of the value of the tax losses, and to the recapitalisation of GM&TRG in preparation for its disposal. The Company recognised impairment losses of £57.3m which relates to the impairment of its investments in GM&T Retail, GM&T USA and GMTRG.

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

	Company	
	2016 £'000s	2015 £'000s
Balance at 1 January	**11,961**	16,120
Capital contribution to subsidiaries	**45,814**	15,729
Impairment of investments	**(57,347)**	(19,780)
Disposals during the year	**–**	(108)
Balance at 31 December	**428**	11,961

6 INVENTORIES

	Group		Company	
	2016 £'000s	2015 £'000s	**2016 £'000s**	2015 £'000s
Gas in storage	**316,366**	184,951	**316,357**	183,604
Emission allowances	**44,168**	35,595	**38,201**	27,469
LNG inventories	**289**	81	**–**	–
Crude oil and refined oil inventories	**34,563**	8,607	**–**	–
Other inventories	**1,228**	1,443	**–**	–
	396,614	230,677	**354,558**	211,073

7 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2016 £'000s	2015 £'000s	**2016 £'000s**	2015 £'000s
Due within one year				
Amounts receivable from sale of commodities:				
from third parties	**1,446,365**	1,234,697	**1,121,650**	1,011,481
from subsidiary companies	**–**	–	**108,524**	154,469
from affiliated companies	**49,344**	26,610	**49,268**	26,323
Amounts receivable under finance lease from affiliated companies	**2,113**	–	**2,113**	–
Prepayments and other debtors	**146,264**	104,167	**55,871**	76,426
	1,644,086	1,365,474	**1,337,426**	1,268,699
Due after one year				
Amounts receivable under finance lease from affiliated companies	**5,141**	–	**5,141**	–
Other long-term receivables	**768**	1,663	**39**	553
	5,909	1,663	**5,180**	553

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.

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.

8 ASSETS CLASSIFIED AS HELD FOR SALE

On 26 January 2016, the Group signed an agreement with a third party, subject to normal terms and conditions, to sell the equity of Gazprom Marketing & Trading Retail Germania GmbH ("GMTRG"). The subsidiary was sold on 6th May 2016 for a consideration of €1 and in the opinion of the Directors it did not meet the definition of a Discontinued Operation. The following assets and liabilities were reclassified as held for sale as at 31 December 2016:

	2016 £'000s	2015 £'000s
Commissions	**–**	1,634
Other non-current assets	**–**	271
Trade debtors	**–**	471
Other assets	**–**	50
Cash at bank	**–**	739
Assets classified as held for sale	**–**	3,165
Trade creditors and accruals	**–**	3,941
Other liabilities	**–**	648
Liabilities associated with assets classified as held for sale	**–**	4,589
Net liabilities classified as held for sale	**–**	1,424

9 TRADE AND OTHER PAYABLES

	Group		Company	
	2016 £'000s	2015 £'000s	**2016 £'000s**	2015 £'000s
Due within one year				
Amounts owed for purchase of commodities:				
to third parties	**903,527**	822,696	**727,654**	703,781
to subsidiaries	**–**	–	**36,544**	43,992
to affiliated companies	**314,987**	211,700	**266,264**	194,168
Accruals and other payables	**129,364**	133,849	**73,272**	78,194
	1,347,878	1,168,245	**1,103,734**	1,020,135
Due after more than one year				
Other long-term payables	**1,660**	1,621	**1,122**	1,621

10 LOANS AND OVERDRAFTS

	Group		Company	
	2016 £'000s	2015 £'000s	**2016 £'000s**	2015 £'000s
Amounts owed:				
to subsidiaries	**–**	–	**584,068**	553,593
	–	–	**584,068**	553,593

As at 31 December 2016 the Group had access to various uncommitted and committed credit facilities. Details of the facilities of the Group are discussed in the liquidity risk section of note 12.

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

11 PROVISIONS

Group	Property £'000s	Onerous contracts £'000s	Other £'000s	Total £'000s
At 1 January 2016	1,385	–	371	1,756
Additional provisions	864	221	125	1,210
Provisions utilised	(197)	–	(357)	(554)
At 31 December 2016	**2,052**	**221**	**139**	**2,412**

Company	Property £'000s	Onerous contracts £'000s	Other £'000s	Total £'000s
At 1 January 2016	1,000	–	–	1,000
Additional provisions	500	–	–	500
Provisions utilised	–	–	–	–
At 31 December 2016	**1,500**	**–**	**–**	**1,500**

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'.

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 2016 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 these obligations.

12 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

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 loans. It achieves this through maintaining adequate reserves and utilising committed banking facilities and loans from related parties. The Group manages its liquidity to ensure that sufficient cash is available to meet all contractual commitments as they fall due and also to ensure that there is sufficient funding to withstand stressed market conditions or extreme or unplanned events. Liquidity 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 prices (e.g. commodity prices, foreign currency exchange rates, interest rates) or changes in other market factors (e.g. volumetric changes). The Group's exposure to market risk is variable and is dependent on current market conditions, expectations of future prices or volatility and the current composition of the Group's assets and liabilities.

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

The Group uses 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 1 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, 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:

	2016		2015	
Group	**Average £'000s**	**Year End £'000s**	Average £'000s	Year End £'000s
Trading VaR	**2,907**	**3,094**	2,310	3,557

These VaR values are within the limits set by the Group's Board of Directors.

(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 because the cost of portfolio gas and electricity varies with wholesale commodity prices.

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

Forward contracts, swaps, options and futures are used to mitigate price risk specific to each commodity. 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 IAS 39 and are accounted for as executory contracts. Changes in fair value of these contracts do not immediately impact profit or equity and, as such, the contracts are not exposed to commodity price risk as defined by IFRS 7: Financial Instruments – Disclosure. The carrying value of commodity contracts at 31 December 2016 is disclosed in Note 13.

12 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Market risk continued

(ii) Foreign currency risk

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

(a) Transactional currency risk

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

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

The Group has no formal hedging policy for transactional foreign currency risk, however material transactional exposures are hedged using derivative contracts to fix the functional currency value of non-functional currency cash flows. Currency risk is monitored and managed as part of the Group's VaR analysis. The ROC sets currency restrictions on the level of open positions allowed. 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. FX Options have historically been used to protect the budget rate for the translation of USD profits. At the beginning of the year and quarterly through the year 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.

	2016 Sensitivity analysis			2015 Sensitivity analysis		
	Net assets £'000s	**Percentage change applied**	**Total comprehensive income £'000s**	Net assets £'000s	Percentage change applied	Total comprehensive income £'000s
Euro	**4,209**	**14.37%**	**605**	(27,994)	6.98%	(1,954)
US dollar	**645,073**	**16.98%**	**109,521**	512,714	5.55%	28,456
	649,282		**110,126**	484,720		26,502

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 2015 to 31 December 2016, and is therefore not necessarily the same percentage change in each foreign currency exchange rate in the current year.

(iii) Interest rate risk

The Group is exposed to 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 the reporting period would result in an income or expense of £nil as at 31 December 2016 (2015: £nil).

12 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Credit risk

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

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

The majority of significant exposures through trading activities are with investment grade counterparties. The Group incorporates counterparty credit risk in determining the fair value of financial instruments. 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 trade. 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 maximum exposure to credit risk of the Group as at 31 December 2016 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 payment netting, but none of the 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 £1,632m (2015: £1,348.1m) and on financial assets held at amortised cost is £1,551.2m (2015: £1,444.4m). The Group also actively manages its portfolio to avoid concentrations of credit risk. The Group has received guarantees and letters of credit in respect of financial assets held at fair value through profit or loss of £404m (2015: £347.6m) and in respect of financial assets held at amortised cost of £562.7m (2015: £378.8m).

The Company's maximum exposure to credit risk on financial assets held at fair value through profit or loss is £1,662.4m (2015: £1,565.9m), of which £40.2m was related to transactions within the Group, and on financial assets held at amortised cost is £1,440.4m (2015: £1,466.8m). The Company has received guarantees and letters of credit in respect of financial assets held at fair value through profit or loss of £404m (2015: £347.2m) and in respect of financial assets held at amortised cost of £447m (2015: £361.4m).

Guarantees and letters of credit not recognised on the Statements of financial position are £688.7m (2015: £631.3m) for the Group and Company. This exposure is measured at the maximum amount the Group or Company could have to pay under these instruments, which may be greater than the amount that would be recognised as a liability. All guarantees and letters of credit are issued on behalf of the Company or its subsidiaries.

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	
	2016	2015	**2016**	2015
Investment Grade	**68%**	80%	**67%**	69%
Sub-Investment Grade	**31%**	15%	**30%**	27%
Unrated	**1%**	5%	**3%**	4%
	100%	100%	**100%**	100%

66% (2015: 31%) of the Sub-Investment Grade category for the Group relates to balances with affiliated counterparties. 66% (2015: 67%) of Sub-Investment Grade category for the Company relates to balances with affiliated counterparties.

12 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Credit risk continued

Financial assets held at amortised cost:

	Group		Company	
	2016	2015	**2016**	2015
Investment Grade	**83%**	71%	**82%**	72%
Sub-Investment Grade	**15%**	23%	**18%**	21%
Unrated	**2%**	6%	**0%**	6%
	100%	100%	**100%**	100%

Financial assets past due but not impaired

The Group's gross amount of financial assets past due but not impaired was £33.3m (Company: £3.5m) classified as trade and other receivables (2015: £37.3m (Company: £82.4m)).

The aging analysis of these receivables is as follows:

	Group		Company	
	2016 £'000s	2015 £'000s	**2016 £'000s**	2015 £'000s
<30 days	**31,632**	25,852	**3,428**	79,136
31-60 days	**171**	4,670	**112**	2,042
61-90 days	**396**	1,964	**–**	4
>90 days	**1,093**	4,844	**–**	1,185
	33,292	37,330	**3,540**	82,367

Financial assets impaired

At the reporting date the Group had gross trade receivables to which impairment had been applied of £2.6m (2015: £8.3m), which primarily relates to doubtful debts. The Group recorded specific provisions against these receivables of £2.2m (2015: £2.0m). The Company had gross trade receivables to which impairment had been applied of £nil (2015: £0.9m). The Company recorded specific provisions against these receivables of £nil (2015: £nil).

Liquidity risk

Liquidity risk represents the risk that the Group is unable to meet all of its contractual commitments as they fall due.

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 €400m with its parent company Gazprom Germania GmbH, a US$400m 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.

12 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Liquidity risk continued
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.

Group

31 December 2016	Within 1 month £'000s	2-12 months £'000s	1-2 years £'000s	2-5 years £'000s	Over 5 years £'000s	Total £'000s
Due for receipt						
Commodity trading contracts	4,604,645	20,760,076	6,357,303	3,591,411	–	35,313,435
Derivative instruments	48,351	181,514	53,261	52,414	34	335,574
Cash and cash equivalents	80,673	–	–	–	–	80,673
Trade & other receivables	1,511,991	132,095	5,909	–	–	1,649,995
Total	**6,245,660**	**21,073,685**	**6,416,473**	**3,643,825**	**34**	**37,379,677**
Due for payment						
Commodity trading contracts	4,358,044	20,281,618	5,150,105	1,430,576	79,371	31,299,714
Derivative instruments	20,468	271,083	21,127	2,342	–	315,020
Trade and other payables	1,279,994	67,884	1,037	623	–	1,349,538
Total	**5,658,506**	**20,620,585**	**5,172,269**	**1,433,541**	**79,371**	**32,964,272**

31 December 2015	Within 1 month £'000s	2-12 months £'000s	1-2 years £'000s	2-5 years £'000s	Over 5 years £'000s	Total £'000s
Due for receipt						
Commodity trading contracts	3,413,810	14,924,942	4,033,599	2,574,539	266,535	25,213,425
Derivative instruments	7,289	101,565	10,132	1,755	5	120,746
Cash and cash equivalents	206,856	–	–	–	–	206,856
Trade & other receivables	1,338,243	27,231	807	856	–	1,367,137
Total	**4,966,198**	**15,053,738**	**4,044,538**	**2,577,150**	**266,540**	**26,908,164**
Due for payment						
Commodity trading contracts	3,433,746	14,538,471	3,669,222	940,230	20,346	22,602,015
Derivative instruments	8,106	190,260	37,560	24,603	–	260,529
Trade and other payables	939,879	228,366	556	1,065	–	1,169,866
Total	**4,381,731**	**14,957,097**	**3,707,338**	**965,898**	**20,346**	**24,032,410**

12 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Liquidity risk continued

Company

31 December 2016	Within 1 month £'000s	2-12 months £'000s	1-2 years £'000s	2-5 years £'000s	Over 5 years £'000s	Total £'000s
Due for receipt						
Commodity trading contracts	4,707,509	21,368,835	6,750,971	3,848,328	235	36,675,878
Derivative instruments	46,449	210,539	53,466	52,414	34	362,902
Cash and cash equivalents	107,324	–	–	–	–	107,324
Trade & other receivables	1,290,381	47,045	5,180	–	–	1,342,606
Total	**6,151,663**	**21,626,419**	**6,809,617**	**3,900,742**	**269**	**38,488,710**
Due for payment						
Commodity trading contracts	4,371,874	20,343,813	5,172,811	1,442,100	79,412	31,410,010
Derivative instruments	23,013	297,261	24,567	2,418	–	347,259
Trade and other payables	1,069,531	34,203	499	623	–	1,104,856
Loans & overdrafts	299,584	284,484	–	–	–	584,068
Total	**5,764,002**	**20,959,761**	**5,197,877**	**1,445,141**	**79,412**	**33,446,193**

31 December 2015	Within 1 month £'000s	2-12 months £'000s	1-2 years £'000s	2-5 years £'000s	Over 5 years £'000s	Total £'000s
Due for receipt						
Commodity trading contracts	3,420,820	15,470,931	4,366,736	2,749,716	266,658	26,274,861
Derivative instruments	7,290	103,013	10,133	1,755	5	122,196
Cash and cash equivalents	209,781	–	–	–	–	209,781
Trade & other receivables	1,214,064	54,635	513	40	–	1,269,252
Total	**4,851,955**	**15,628,579**	**4,377,382**	**2,751,511**	**266,663**	**27,876,090**
Due for payment						
Commodity trading contracts	3,374,506	14,571,867	3,683,712	944,940	20,362	22,595,387
Derivative instruments	8,628	194,672	37,560	24,603	–	265,463
Trade and other payables	841,697	178,439	556	1,065	–	1,021,757
Loans & overdrafts	317,409	236,184	–	–	–	553,593
Total	**4,542,240**	**15,181,162**	**3,721,828**	**970,608**	**20,362**	**24,436,200**

Economic capital

The Group employs an economic capital framework to ensure that sufficient capital is retained for the Company 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.

13 FINANCIAL AND NON-FINANCIAL INSTRUMENTS WITHIN THE SCOPE OF IAS 39

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 IAS 39 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 IAS 39 (2015: £nil).

Trading contracts at fair value

Certain financial and non-financial instruments may be entered into for proprietary trading, risk management purposes or to satisfy supply requirements. Such contracts are classified as held for trading, regardless of their original business objective, and are recognised at fair value with changes in fair value recognised in the Statements of comprehensive income. The net of these exposures is monitored using VaR techniques as described in Note 12.

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

	Group		Company	
	2016 £'000s	2015 £'000s	**2016 £'000s**	2015 £'000s
Non-current assets				
Commodity trading contracts	**390,361**	316,812	**390,923**	391,321
Emission allowances	**1,061**	45	**1,068**	45
Foreign exchange contracts	**4,188**	4,917	**4,187**	4,917
	395,610	321,774	**396,178**	396,283
Current assets				
Commodity trading contracts	**1,213,603**	991,413	**1,240,350**	1,133,834
Emission allowances	**3,849**	660	**3,913**	660
Foreign exchange contracts	**18,908**	34,276	**21,980**	35,095
	1,236,360	1,026,349	**1,266,243**	1,169,589
Current liabilities				
Commodity trading contracts	**1,158,067**	963,345	**1,249,137**	965,159
Emission allowances	**7,407**	1,131	**8,902**	1,331
Foreign exchange contracts	**83,464**	53,869	**85,063**	54,361
	1,248,938	1,018,345	**1,343,102**	1,020,851
Non-current liabilities				
Commodity trading contracts	**306,946**	380,455	**357,729**	381,031
Emission allowances	**180**	159	**629**	278
Foreign exchange contracts	**13,551**	5,655	**13,551**	5,655
	320,677	386,269	**371,909**	386,964

13 FINANCIAL AND NON-FINANCIAL INSTRUMENTS WITHIN THE SCOPE OF IAS 39 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	
	2016 £'000s	2015 £'000s
Day-one gains and losses		
Fair value of contracts not recognised through the Statements of comprehensive income at 1 January	**4,385**	(781)
Initial fair value of new contracts not recognised in the Statements of comprehensive income	**4,439**	4,385
Fair value recognised in the Statements of comprehensive income during the year	**(1,893)**	781
Fair value of contracts not recognised through the Statements of comprehensive income at 31 December	**6,931**	4,385

	Company	
	2016 £'000s	2015 £'000s
Day-one gains and losses		
Fair value of contracts not recognised through the Statements of comprehensive income at 1 January	**4,385**	(1,874)
Initial fair value of new contracts not recognised in the Statements of comprehensive income	**4,439**	4,385
Fair value recognised in the Statements of comprehensive income during the year	**(1,893)**	1,874
Fair value of contracts not recognised through the Statements of comprehensive income at 31 December	**6,931**	4,385

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.

13 FINANCIAL AND NON-FINANCIAL INSTRUMENTS WITHIN THE SCOPE OF IAS 39 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			
2016	**Level 1 £'000s**	**Level 2 £'000s**	**Level 3 £'000s**	**Total £'000s**
Held for trading assets				
Commodity trading contracts	**219,197**	**1,330,631**	**54,137**	**1,603,965**
Emission allowances	**4,678**	**231**	**–**	**4,909**
Forward foreign exchange contracts	**–**	**23,096**	**–**	**23,096**
	223,875	**1,353,958**	**54,137**	**1,631,970**
Inventories	**25,266**	**351,892**	**–**	**377,158**
Held for trading liabilities				
Commodity trading contracts	**154,541**	**1,285,276**	**25,196**	**1,465,013**
Emission allowances	**2,227**	**5,360**	**–**	**7,587**
Forward foreign exchange contracts	**–**	**97,015**	**–**	**97,015**
	156,768	**1,387,651**	**25,196**	**1,569,615**

	Group			
2015	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Held for trading assets				
Commodity trading contracts	65,040	1,197,778	45,407	1,308,225
Emission allowances	150	555	–	705
Forward foreign exchange contracts	–	39,193	–	39,193
	65,190	1,237,526	45,407	1,348,123
Inventories	27,469	193,602	–	221,071
Held for trading liabilities				
Commodity trading contracts	147,949	1,160,688	35,163	1,343,800
Emission allowances	545	745	–	1,290
Forward foreign exchange contracts	–	59,524	–	59,524
	148,494	1,220,957	35,163	1,404,614

13 FINANCIAL AND NON-FINANCIAL INSTRUMENTS WITHIN THE SCOPE OF IAS 39 continued

	Company			
2016	**Level 1 £'000s**	**Level 2 £'000s**	**Level 3 £'000s**	**Total £'000s**
Held for trading assets				
Commodity trading contracts	**209,626**	**1,367,529**	**54,137**	**1,631,292**
Emission allowances	**4,678**	**283**	**–**	**4,961**
Forward foreign exchange contracts	**–**	**26,168**	**–**	**26,168**
	214,304	**1,393,980**	**54,137**	**1,662,421**
Inventories	**25,266**	**316,357**	**–**	**341,623**
Held for trading liabilities				
Commodity trading contracts	**141,986**	**1,439,684**	**25,196**	**1,606,866**
Emission allowances	**2,227**	**7,304**	**–**	**9,531**
Forward foreign exchange contracts	**–**	**98,614**	**–**	**98,614**
	144,213	**1,545,602**	**25,196**	**1,715,011**

	Company			
2015	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Held for trading assets				
Commodity trading contracts	64,629	1,415,119	45,407	1,525,155
Emission allowances	150	555	–	705
Forward foreign exchange contracts	–	40,012	–	40,012
	64,779	1,455,686	45,407	1,565,872
Inventories	27,469	183,604	–	211,073
Held for trading liabilities				
Commodity trading contracts	147,740	1,163,287	35,163	1,346,190
Emission allowances	545	1,064	–	1,609
Forward foreign exchange contracts	–	60,016	–	60,016
	148,285	1,224,367	35,163	1,407,815

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

	Group £'000	Company £'000
Fair value at 1 January 2015	(446)	(545)
Net gains and losses recognised in the Statements of comprehensive income	–	–
Purchases	(34,934)	(34,934)
Sales	45,178	45,178
Settlements	446	545
Fair value at 31 December 2015 & 1 January 2016	**10,244**	**10,244**
Net gains and losses recognised in the Statements of comprehensive income	(27,344)	(27,344)
Purchases	(25,210)	(25,210)
Sales	62,252	62,252
Settlements	8,999	8,999
Fair value at 31 December 2016	**28,941**	**28,941**

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.

13 FINANCIAL AND NON-FINANCIAL INSTRUMENTS WITHIN THE SCOPE OF IAS 39 continued

Significant transfers between Level 1, Level 2 and Level 3 of the fair value hierarchy:
There were no significant transfers between Level 1 and Level 2 (2015: £nil) or between Level 2 and Level 3 (2015: £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 used by another market participant. The impact of varying the unobservable parameters as at 31 December 2016 and at 31 December 2015 is immaterial.

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

Cash flow hedges
The Group's cash flow hedges are in place to protect against volatility in the Group's retail, LNG and LPG businesses. These hedges consist of instruments that are used to protect against the variability in future cash flows associated with the highly probable supply of gas and electricity to retail customers and the unrecognised firm commitments for the purchase and sale of LNG and LPG due to movements in market commodity prices. Gains and losses are initially recognised in the cash flow hedging reserve to the extent that the hedges are effective, and are transferred to the Statements of comprehensive income when the forecast cash flows affect the Statements of comprehensive income.

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

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

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

	Group		Company	
	2016 £'000s	2015 £'000s	**2016 £'000s**	2015 £'000s
Cash flow hedges	**111,832**	(214,548)	**–**	–

The ineffective portion of gains and losses on instruments designated in cash flow hedges that was recognised in the Statements of comprehensive income was a gain of £5.5m (2015 loss: £0.1m). The Group monitors the ineffective portion of gains and losses on a monthly basis.

The maturity of the cash flow hedges are as follows:

	Group		Company	
	2016 £'000s	2015 £'000s	**2016 £'000s**	2015 £'000s
Not later than one year	**47,181**	(140,735)	**–**	–
Later than one year and not later than five years	**64,725**	(73,813)	**–**	–
Later than five years	**(74)**	–	**–**	–
	111,832	(214,548)	**–**	–

14 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	
	2016 £'000s	2015 £'000s	**2016 £'000s**	2015 £'000s
Not later than one year	**185,555**	154,972	**6,448**	5,194
Later than one year and not later than five years	**566,247**	449,808	**14,504**	16,467
Later than five years	**841,784**	650,759	**–**	–
	1,593,586	1,255,539	**20,952**	21,661
Sub-lease receipts				
Future minimum lease payments expected to be received in relation to non-cancellable sub-leases of operating leases	**461,860**	274,957	**–**	–

Operating lease expense

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

	Group		Company	
	2016 £'000s	2015 £'000s	**2016 £'000s**	2015 £'000s
Minimum lease payments	**140,951**	114,508	**5,974**	4,864
Sublease payments received	**(56,720)**	(36,955)	**–**	–
	84,231	77,553	**5,974**	4,864

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 in the Financial Statements, as it is not anticipated that any material liabilities will arise from these contingencies.

	2016 £'000s	2015 £'000s
Letters of credit and bank guarantees	**122,454**	101,462
Parent company guarantees	**299,674**	325,228
	422,128	426,690

15 RELATED PARTY TRANSACTIONS

Trading transactions

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

Group	Sales to related party £'000s	Purchases from related party £'000s	Amounts owed by related party £'000s	Amounts owed to related party £'000s
Related party				
Parent				
2016	**3,967**	**8,270**	**3,232**	**918**
2015	1,666	5,615	4,103	1,993
Other entities with indirect control over the Group				
2016	**941**	**1,982,409**	**331,552**	**257,667**
2015	399	2,287,442	1,924	283,243
Other related parties				
2016	**1,388,820**	**1,521,282**	**29,283**	**112,142**
2015	1,203,795	1,766,659	90,858	83,392

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				
2016	**3,967**	**8,270**	**3,230**	**918**
2015	1,666	5,615	4,103	1,993
Other entities with indirect control over the Group				
2016	**934**	**1,788,870**	**329,588**	**243,963**
2015	399	2,032,293	462	269,786
Subsidiaries				
2016	**985,450**	**540,540**	**248,769**	**801,937**
2015	1,704,981	398,730	448,517	624,305
Other related parties				
2016	**1,388,707**	**1,246,707**	**29,241**	**72,570**
2015	1,180,159	1,489,046	90,769	73,877

The Group has entered into an agreement to participate in a central cash management system, the balance receivable at 31 December 2016 being £0.3m (2015: £2.4m). The master account holder is Gazprom Germania GmbH, the Group's immediate controlling entity. Interest is payable or receivable based on market interest rates.

Commitments

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

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Parent company	**4**	8	**4**	8
Other related parties	**965**	1,061	**22**	52
	969	1,069	**26**	60

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 2016 the Company had provided £299.7m of parental guarantees on behalf of its subsidiaries (2015: £325.2m). During the year ended 31 December 2016, the Group has not made any provision for doubtful debts relating to amounts owed by related parties (2015: £nil).

16 DISPOSAL

On 26 January 2016, the Group signed an agreement with a third party, subject to normal terms and conditions, to sell the shares of Gazprom Marketing & Trading Retail Germania GmbH ("GMTRG"). The shares were sold on 6 May 2016 for a consideration of €1 and the Group was also required to make a cash payment of €900k to the third party. The net assets of GMTRG on disposal were £943k and the Group recognised a loss on disposal of £954k

17 ULTIMATE PARENT GROUP AND CONTROLLING PARTY

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

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Details correct at time of going to print

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

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

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