Securing Energy for Europe, now and for the future

SEFE MARKETING & TRADING

2022
Strategic Report with Supplementary Financial Information

Contents

STRATEGIC REPORT

The Directors present the Annual Report and the Consolidated Financial Statements of SEFE Marketing & Trading Limited ("SM&T" or the "Company") and its subsidiary undertakings (collectively referred to as the "Group") for the year ended 31 December 2022. The Company is 100% owned by SEFE Securing Energy for Europe GmbH ("SEFE"). The Company's business is closely integrated into the business of other subsidiary undertakings of SEFE (collectively referred to as the "SEFE Group").

Principal activities

The principal activities of the Group and Company are the supply, transportation, storage, marketing and trading of energy products including natural gas, power, liquefied natural gas ("LNG") and environmental products. The Group is active across global energy market hub locations but is primarily focused in the European and Asian energy markets.

The Group trades in both physical and financial energy markets. For clarity, the Group does not trade in physical oil, oil products and liquids ("LPG"). The Group's only activity in oil products is the procurement of bunker fuels for its LNG fleet under charter.

The operations of the Group include:

- supply of gas and power and balancing services provided to the Company's retail subsidiaries, SEFE Energy Limited and SEFE Energy SAS (collectively "SEFE Energy"). These entities supply gas and power to end user customers in the UK, France and the Netherlands;
- supply of natural gas and balancing services provided to Wingas GmbH (an affiliate company engaged in marketing of natural gas to end consumers in Germany);
- managing an LNG portfolio of physical LNG supplies (including for deliveries into Europe and European regasification/import terminals) and related financial positions);
- managing other physical assets, including storage and transportation;
- risk management, hedging and optimisation of the overall portfolio of contracts and assets.

The Group thus fulfils key functions that are essential for the security of energy supplies in Europe.

The global reach of the Group is reflected in the Consolidated Financial Statements of the Group, which comprise the consolidated results of 9 (2021: 9) individual legal entities covering the UK, continental Europe, North America and Asia (see note 10).

SEFE Group key developments in 2022

During 2022 the business model of the SEFE Group has undergone changes with all ties to Public Joint Stock Company Gazprom removed.

After the invasion of Ukraine by the Russian Federation, Gazprom announced its divestment of the Group's parent company SEFE (previously called Gazprom Germania GmbH, and currently renamed SEFE Securing Energy for Europe GmbH), in April 2022. Recognising the importance of the business of SEFE Group and trying to ensure stability of the European energy market, the German Government intervened to take over the control of the SEFE Group operations through a Trusteeship arrangement. The German Government appointed a representative to manage the SEFE Group, and this representative later became CEO of SEFE.

SEFE Group companies were renamed to remove the link to the Gazprom brand and (through the brand name of Securing Energy for Europe) to re-emphasize the SEFE Group vision. This was followed by the German Government assuming full ownership of the SEFE Group on 14 November 2022.

Following the invasion of Ukraine by the Russian Federation, a range of international sanctions were imposed against many Russian companies and individuals (in particular, by the EU, UK and USA) in February and March 2022. Though no Western sanctions were imposed on the SEFE Group directly and did not prohibit its activities, the SEFE Group experienced adverse indirect consequences as well as a direct impact on its ability to attract financing. This included delays in payments due to additional compliance screening time taken by banks when processing payments, lack of access to trade finance facilities, some contract terminations based on perceived reputational issues or due to the change in control. These challenges decreased substantially after the intervention of the German Government in April 2022 and even more so after it assumed ownership of the SEFE Group.

In addition, the SEFE Group has been impacted by Russian counter-sanctions since May 2022, which has meant that Russian suppliers were no longer able to deliver energy products or services to the SEFE Group. The effects of these Russian counter-sanctions on the structure of the Group's portfolio have had a significant negative impact on the financial results of SEFE Group mainly due to losses incurred to replace the missing Russian gas volumes and re-hedging the shrinking LNG portfolio in a high price environment. However, during 2022 the open exposures resulting from the fallout of Russian volumes and termination of contracts were successfully closed, providing the SEFE Group with a stable and confident positioning for future development. The current portfolio of SEFE Group no longer contains any gas or LNG supplies of Russian origin. The de-risking activities and closing of open exposures required substantial financial support from the Government.

Originally, the German Government provided financial support to SEFE Group, in the form of a loan from Kreditanstalt für Wiederaufbau (KfW) amounting to €9.8bn, which was later increased to €13.8bn by December 2022. However, following the European Commission approval on 20 December 2022, €6.3bn of the KFW loan was converted into equity via a debt-to-equity swap on the level of SEFE with a €7.5bn loan facility remaining available as of 31 December 2022. The debt-to-equity swap provided further strength to the balance sheet of the SEFE Group and enables the SEFE Group's future development.

SM&T Group developments and financial results in 2022

Impact of the war in Ukraine on SM&T Group financial results in 2022

The Group Statement of comprehensive income for the year is set out on page 9. Recognising the exceptional circumstances of 2022 caused by the Russian invasion of Ukraine, the subsequent Russian sanctions on SEFE Group and a halt of any gas and LNG flows from Russia, the Group and Company reports the impact of these events separately from the underlying business performance. The total loss before tax associated with the impact of the war in the Ukraine for the Group is reported as an Exceptional item in the Financial Statements and amounts to £(2,951.2)m.

These losses primarily stemmed from the need to re-hedge the Group's LNG portfolio given it was no longer expected that Russian-based suppliers would deliver under long-term sale and purchase agreements as a result of Russian counter-sanctions. Further losses were incurred, arising out of the same set of circumstances and the intervening actions of the German Government, due to certain counterparties ceasing deliveries of physical gas and power in response thereto.

All the open exposures resulting from the withdrawal of Russian volumes and termination of contracts were successfully closed in 2022, providing the Group with a stable and confident positioning for future development.

Additional impacts on the Group's Financial Statements as a direct result of Russian counter-sanctions include: the recognition of a provision for an onerous contract relating to a series of long-term contracts which provide access to regasification capacity for LNG in Mexico; and Western sanctions led to the termination of certain LNG vessels which the Group held under long-term time charter from Russian owners.

Underlying operational and financial results of SM&T Group in 2022

Despite the negative impact of Western and Russian counter-sanctions on the Group's results, the underlying performance excluding Exceptional items has been very strong, with record business unit results being achieved. Optimal structure of the Company's balanced and diversified portfolio, sound risk management practices and prudent utilisation of financial resources have enabled significant value to be captured through trading across a variety of products and strategies.

Under the new ownership structure, the Company supported the security of supply by bringing LNG to Europe with 48 cargoes (3.4 Mt) (2021: 45 cargoes, 3.2 Mt) delivered to Europe out of 80 total cargoes (5.4 Mt) (2021: 81 cargoes, 5.3 Mt) sold in 2022. In addition, the Company operated 20.0 TWh of storage capacities in Europe keeping them 86% filled by the end of 2022.

SEFE Energy Limited securely delivered 38.2 TWh (2021: 42.6 TWh) of gas and 1.0 TWh (2021: 1.1 TWh) of power to its customers in the UK and 10.9 TWh (2021: 16.1 TWh) of gas in continental Europe. SM&T continues to provide energy procurement and balancing services to SEFE Energy and to its sister company, WINGAS. SM&T delivered a net 169.2 TWh of gas in 2022 (2021: 29.1 TWh) to WINGAS for further supply to WINGAS's German customers.

The Group's strategic business units and reporting lines are aligned with its commercial activities and global scope. These strategic business units are: a) Global Commodity & Derivative Trading ("GCDT"); b) Global LNG & Shipping ("LNG"); and c) SEFE Energy.

Global Commodity & Derivative Trading ("GCDT")

GCDT net underlying income in 2022 was £1,265.9m (2021: £540.1m) which was a 134% year-on-year increase. The business accounted for 53% of the Group's net underlying income in 2022 (2021: 54%). The business continued its structured trading offering and bilateral dealings with a broad range of customers during the year, whilst also continuing to provide hedging, optimisation and risk management services to other Group companies, including the balancing of the SEFE Group marketing portfolio, specifically, hedging the volumes sold by Wingas GmbH into the German wholesale market for the horizon of three to five years. Record profits have been generated in 2022 through the optimisation of storage and transportation capacity portfolios for both gas and power.

As European gas and power markets become more competitive and sophisticated, the business continued to invest in and develop more flexible and innovative products to meet the associated challenges. During 2022 the Group continued to take advantage of new technologies, such as digital trading, to monetise market opportunities and reduce the level of risk in the portfolio.

Global LNG & Shipping ("LNG")

LNG net underlying income in 2022 was £977.8m (2021: £337.9m) which was a 189% year-on-year increase. The business accounted for 41% of the Group's net underlying income in 2022 (2021: 34%). Price volatility and heightened prices have significantly impacted the Group's LNG business, with a period of tight supply following demand increases as a result of COVID recovery contributing to higher prices, which was further exacerbated through 2022 as a result of the Ukraine invasion and the subsequent curtailment of Russian pipeline gas supplies to Europe.

The Group's LNG business achieved strong underlying financial results through physical and financial trading and portfolio management, despite an operating environment in which the physical, financial, credit, contractual and performance risks were heightened by unprecedented market prices and geo-political effects. Strong underlying results for 2022 were generated through managing our supply and demand positions, monetising contractual optionality (including volume, schedule, destination/location flexibility and regasification), securing short-term spot deals and procuring LNG to fill contracted European regasification capacity, and through financial trading and position management. Through our shipping desk we managed various vessel delivery/re-deliveries, and overall maintained a fleet of five LNG carriers under various time-charters to deliver our remaining portfolio supply and extract value from both LNG and freight price volatility. The fleet has continued to serve both internal shipping requirements (from the physical portfolio) and also capitalised on rates by sub-chartering to the market.

SEFE Energy

SEFE Energy has continued to focus on the supply of gas to the UK business gas market. The activities within the UK business gas market are complemented by a presence in the UK business power market and markets outside of the UK, which comprise the French business gas market and the Netherlands business gas and power markets.

In 2022, SEFE Energy Limited's revenue increased by 46.0% to £2,910.3m (2021: £1,992,9m). The increase was mainly driven by the large increases in wholesale gas prices seen across the UK, French and Dutch energy markets. In addition to the increase in revenues, SEFE Energy has maintained robust and efficient debt collection processes which allowed it to mitigate potential impacts from credit losses. These strong results were achieved during a period of extreme market volatility; this period saw market risk increase dramatically and SEFE Energy had to adapt its pricing and risk strategies to overcome the difficult environment. This included an uncertain and changing regulatory landscape, which culminated in the UK EBRS (Energy Bill Relief Scheme) and CEK 22 in the Netherlands. These regulatory changes led to swift and agile changes in systems, resources and processes in order to satisfy the new requirements.

The UK business gas market share decreased to 18.8% in the year (2021: 20.8%). SEFE Energy Limited still holds the second highest share in the UK business gas market (2021: 2nd) by supplying 38.2 TWh of gas to end users (2021: 42.7 TWh). The UK business power market share also remained stable at 0.5% in the year (2021: 0.5%), after supplying 1.0 TWh of power to end users (2021: 1.0 TWh). In France, 6.8 TWh of gas was supplied during 2022 (2021: 11.3 TWh). In the Netherlands, 4.1 TWh of gas was supplied to end users (2021: 4.8 TWh) and the number of live gas sites has decreased to 26,570 (2021: 27,831 sites). In the Netherlands also, 0.3 TWh of power was supplied to end users (2021: 0.4 TWh) and there was a decrease in the number of live power sites to 13,815 (2021: 14,208 sites). As in previous years, SEFE Energy does not retail gas or power directly to domestic customers and does not intend to expand in that market segment.

SM&T Group financing

Given the need to cover the losses from the replacement of missing gas volumes and re-hedging of LNG portfolio activities driven by the Ukrainian crisis, the Group received substantial financing from SEFE, which was enabled through the German Government loan and later the equity injection into SEFE. Treasury is a centrally managed function within the SEFE Group and SM&T is provided with appropriate levels of liquidity from its parent company for the Group. SM&T currently benefits from a €4.8bn liquidity line from SEFE and it is expected that the sizing of this line will be reviewed on an ongoing basis taking into account SM&T's potential requirements (including risks).

SM&T carefully manages liquidity, including through optimisation of its positions on OTC and exchanges. As a result, SM&T's net borrowing* as of 31 December 2022 amounted to £0.3bn with substantial remaining financing headroom from SEFE Group available to the Company.

To strengthen SM&T's Balance Sheet and to emphasise the importance of SM&T's role as a face to traded markets, in SEFE Group on 7 March 2023 SM&T received an equity injection of £880.0m through issuance of preference shares to SEFE. Following the equity injection, SM&T repaid its outstanding debt to SEFE, and as of 8 March 2023 held a resulting net cash positive position in the amount of £0.3bn, with €4.8bn remaining unutilised loan facility remains available to SM&T.

Key performance indicators

The underlying Group's EBITDA for the financial year 2022 was £2,069.0m (2021: £751.8m), representing a record historical performance. This very positive underlying performance is offset by losses from exceptional items amounting to £(2,951.2)m on EBIDTA level in 2022 (2021: £nil). The Group, along with its parent company, have identified a series of key performance indicators ("KPIs") which it believes are useful in assessing the Group's performance. These are set out below.

Indicator type	Key performance indicator	£m 2022	£m 2021	Change
Profitability	Net (loss)/income	**(337.4)**	995.0	**(133.9%)**
	Underlying net Income**	**2,414.6**	995.0	**142.7%**
Profitability	EBITDA	**(882.2)**	751.8	**(217.3%)**
	Underlying EBITDA**	**2,069.0**	751.8	**175.2%**
Profitability	(Loss)/profit for the financial year	**(926.1)**	560.5	**(265.2%)**
	Underlying net profit for the financial year**	**1,707.0**	560.5	**204.5%**
Efficiency	Profit for the financial year/net income	**N/A**	56%	**N/A**
	Underlying profit for the financial year/net income**	**71%**	56%	**26.8%**

EBITDA is defined as Earnings (Profit for the financial year) before Interest, Tax, Depreciation, Amortisation and Lease rebates.

* net borrowing is the result of interest-bearing loans less the aggregate amount of cash and cash equivalents.

** excludes impact of exceptional items as detailed in Note 5. They are calculated in a manner similar to the standard KPIs, but the inputs are sourced from the 'Business performance' column of the Financial Statements on page 9 and do not include the effect of exceptional items.

Future strategy of the business

Mission critical to the Group, in conjunction with SEFE, will be to ensure energy supply security in Europe and to enable the green energy transition, while at the same time, focus will be on delivering consistent value to our shareholders from a sustainable and profitable business model. This business model assumes creating value and developing synergies as a focused midstream company from an integrated operation in the supply optimisation & trading business area and leveraging our solid capabilities.

Key focuses of the business will be: global structural supply – sourcing gas and LNG volumes for import to Europe; market access and trading – sourcing and trading gas and LNG on main European exchanges; sales channel growth – growing retail sales portfolio within the provided guidelines and securing new sales channels for LNG; portfolio optimisation – optimising risk-return exposures across gas and LNG, power & carbon portfolios; new commodity solutions – providing low carbon and digitally enhanced risk management, optimisation and trading solutions.

In the short- and mid-term, our focus will be on re-establishing our commercial business, rebuilding gas and LNG portfolios, enhancing the effectiveness and scope of trading and marketing activities, and optimising our organisational structure in order to improve internal efficiency. These measures should allow the Group to continuously increase its profitability and enable the strategic targets for security of supply and energy transition.

The Group will also focus on strengthening long-term sustainability of the gas and LNG business operations and increasing long-term competitiveness and resilience by further scaling and diversification of supply contracts portfolio, broadening customer offering and unlocking synergies from deeper integration of our business units and from group-wide digitalisation, with solid improvements in our IT systems and infrastructure.

Principal risks and uncertainties facing the Group

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

Implementation and oversight of all elements of the Risk Management System, in addition to its responsibility for ensuring the Group meets its strategic, financial and operational objectives, is under the ultimate control of SEFE and its stakeholders. The SM&T Directors are in turn responsible for ensuring that SM&T follows the risk strategy, principles and policies as defined by its shareholder.

SEFE's management is supported in its risk management responsibilities by the SEFE Group Risk Committee ("RC"). The RC consists of members from SEFE Group's Risk Management and Finance units and takes decisions on risk-related matters.

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

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

- **Strategic Risk:** The risk that the Group is unable to achieve its strategic objectives as a result of actions by governments, regulators and competitors as well as risks associated with strategic long-term decision making within the Group.
- **Market Risk:** The risk of negative financial impacts due to changes in market factors. Market factors include (but are not limited to) commodity and derivative prices, interest rates, foreign exchange rates and volumes.

  The potential impact of the realisation of market risks has increased in the current high price, high volatility market environment. These risks have been mitigated by SM&T's robust system of market risk management, principally relying on position limits, MVaR limits and stress tests, among other controls. During 2022 there was an increase in market risk from the need to replace large volumes of Russian gas and LNG, coupled with high market prices creating significant open exposures; these have now been successfully closed out to bring the Group within its approved risk appetite and limits.
- **Credit Risk:** The risk of negative financial impact due to a counterparty's failure to meet its contractual obligations in accordance with agreed terms. This includes failure to make payment(s), or general non-performance of the full contract terms.

  These risks are normally mitigated by SM&T's robust system of credit risk management, relying on credit limits, counterparty analysis, trading restrictions, collateral and other mitigation measures as necessary. However, credit risks increased materially during 2022 as the Group had limited ability to re-balance credit risks during the year because of restrictions on trading activity forced upon the Group following the invasion of Ukraine. However, by the end of the year, credit exposures were reduced materially due to a combination of reducing prices and the Group's ability to rebalance credit exposures as market access conditions improved.
- **Operational Risk:** The risk of negative impact due to inadequate controls or failed internal processes, people and systems, or from external events. As with other risks, the potential impact of the realisation of operational risks has increased in the current market environment. These risks have been mitigated by SM&T's robust system of operational risk management, processes and controls. No material process risks were realised during the year due to any failure in internal controls. Most assets which the Group has interest in are operated by third parties with a high degree of sophistication and expertise. However, the Group saw a large number of payments in 2022 being held for prolonged sanctions checks by various banks that substantially complicated the operations. This has been mainly resolved since the German Government's full takeover of ownership.
- **Liquidity Risk:** The risk that the Group cannot satisfy the financial obligations that arise during the course of business due to insufficient funding lines or available cash reserves.
- **Human capital:** The risk that the Group cannot retain critical staff employees that generate significant value and maintain operational continuity for the Group.
- **IT risks:** The business model of the Group has a large reliance on the integrity and resilience of systems and infrastructure in order to operate nimbly and efficiently. Outage or failure of IT systems and infrastructure puts value generation and operations at risk.

The combination of all types of risks (Strategic, Market, Credit and Operational risks) may create pressure on the Group's liquidity and its ability to meet its financial obligations when they fall due. Liquidity risk and the management thereof continued to remain the key focus of the Group in 2022, particularly due to the shift of trading from OTC to exchanges, with an associated increase in margining requirements. The robust liquidity risk reserve process, implementation of new processes and models for managing and forecasting the need for additional collateral to support trading, active management of exchange exposures, and diversification of trusted clearing service providers, allowed the Group to successfully balance business needs with the available financial means provided by the German Government ensuring that a sufficient financial buffer was present at all times to absorb any liquidity shocks.

S172(1) statement

The Directors, in executing the strategy and complying with their duties in the year, have considered how their actions would promote the success of the Group for the benefit of its members as a whole. The Directors take a long-term view in the decision making process, allocating resources and investment to business areas which are expected to bring the most benefit to the Group in the coming years. This is evidenced through continued investment in IT infrastructure to support the future development of the business.

Customers, strategic partners and suppliers' standards of business conduct

The Group is both a significant procurer and provider of energy, playing an active role in the European and Asian markets as a trading counterparty and in ensuring security of energy supply for customers. As such, the Directors consider high standards of business conduct to be critical. Substantial focus is placed on strong and professional relationships with the Group's counterparties, suppliers and customers; uninterrupted operations in its markets are fundamental to meeting this objective. Throughout the year the Group was in contact with trading counterparties, suppliers and customers to ensure that commercial commitments were mutually honoured. Particular attention was given to informing and reassuring them of the largely immaterial impact of Western sanctions on the SEFE Group, and also regarding its financial security and ability to maintain operations.

The Group is committed to conducting business ethically, with honesty and integrity, and in compliance with all relevant laws and regulations. We do not tolerate any form of bribery, corruption or other unethical business conduct.

Our Code of Conduct outlines our core values and business principles which guide how we do business. It helps all employees to act in line with the standards, behaviours and principles required to do business to a high standard of professional and ethical conduct. Our policies and supporting documents provide further guidance and instruction, in line with best industry practice. These include our Competition Compliance, Financial Crime Compliance, Data Protection, and Information Security policies. Specific training is provided to relevant employees on these topics.

Corporate Social Responsibility (CSR)

As a responsible business, the Group is committed to offering support to our local communities. During 2022, the Group globally donated over £68,000 to not-for-profit organisations:

- **Euston Foodbank** – Purpose of the donation: to combat poverty and hunger across the UK, providing three days' nutritionally balanced emergency food and support to local people who are referred to the organisation in crisis.
- **Lifeafterhummus Community Benefit Society for London** – Purpose of the donation: to help the organisation operate a surplus foodbank and re-use centre for local residents and redistribute surplus food to 11 local hostels and 1 local after-school club.
- **Singapore Association for Mental Health for Singapore** – Purpose of the donation: to supplement the developmental cost of setting up a new wellness centre to provide emotional and practical support, caregivers, and timely access to programmes that bring forth recovery and empowerment using recreation, therapeutic intervention, mental health education and life-skills training.
- **FC Marylebone** – Purpose of the donation: to provide an opportunity for vulnerable children to play in the afterschool sports clubs and to also subsidise 45 children to join the organisation's after-school club and be active and healthy during this difficult financial climate.
- **Magic Breakfast** – Purpose of the donation: to ensure that no child in Magic Breakfast's partner schools is too hungry to learn by providing healthy breakfast food and expert support to pupils at risk of hunger. Our donation will help the charity organisation to continue to work with over 1,000 primary, secondary and ASL/special education needs schools, plus pupil referral units, offering breakfast to over 200,000 children each school day.
- **University College London Hospitals Charity's (UCLH) Foundation Trust** – Purpose of the donation: to support the "Gift of Giving Appeal" project, giving unwell patients (kids and adults) staying at UCLH over Christmas a little something on Christmas morning and staff a meal during their Christmas shift.
- **National Association for the education of assistance dogs for the disabled – HANDI CHIENS** – Purpose of the donation: to help train and donate Assistance Dogs to people with physical/mobility disabilities and accompany them on a daily basis.
- **The Lancashire Wildlife Trust** – Purpose of the donation: to further key conservation projects led by the Lancashire Wildlife Trust, a local nature conservation charity working to protect wild places, keep nature reserves special and bring wildlife back across Northwest England, including Greater Manchester.
- **Manchester Youth Zone** – Purpose of the donation: to contribute to the Manchester Youth Zone's Moving Up programme, which focuses on supporting members with special needs – many with autism spectrum conditions – to prepare for adulthood.
- **Hulphond Nederland** – Purpose of the donation: to provide a therapy dog for a person or people with physical or mental care needs.
- **Voedselbanken Nederland** – Purpose of the donation: to support Food Banks Netherlands, an organisation that supports food aid and the prevention of food waste, to provide food delivery to people in need.

Employees

The Directors believe that the Group's success is aligned with the interests and wellbeing of its employees. They have been active in balancing the need for the business to remain competitive, and the need to continue to provide the Group's employees with a stable work environment and development opportunities. Employee wellbeing continues to be a key priority for the Directors, and the Group has 25 qualified Mental Health First Aiders on hand to offer support and advice for employees who need it.

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

F Barnaud
17 March 2023

DIRECTORS' REPORT

Directors and their interests

The Directors who served during the year, and up to the date of the signing of the audited Consolidated Financial Statements, were as follows:

A V Mikhalev (resigned on 22 March 2022)
W Skribot (resigned on 17 November 2022)
E Laege (appointed on 13 July 2022)
F Barnaud (appointed on 26 September 2022)

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

Likely future developments

The likely future developments of the Group's business have been disclosed in the Strategic Report.

Overseas branches

The Group has branch activities across Europe covering the Czech Republic, Romania, Slovak Republic, the Netherlands and France.

Financial instruments

The Group's normal operating and financing activities expose it to a variety of financial risks. The primary financial risks are market risk (including risks from commodity and derivative prices, interest rates and foreign exchange rates), credit risk and liquidity risk. The Group's overall risk management process is designed to identify, manage and mitigate such risk. Information on the Group's exposure to financial risks and its risk management objectives and policies can be found in note 16. The use of financial instruments in the Group is further outlined in the Strategic Report.

Employees

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

Details of how the Directors have considered employees' interests in executing the Group's strategy in the year can be found in the Strategic Report, under the S172(1) statement section.

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

Other stakeholders

Details of how the Directors have considered the Group's other stakeholders' interests in executing its strategy during the year can be found in the Strategic Report, under the S172(1) statement section.

Corporate governance

The Company has not applied a specific corporate governance code during the year, as it seeks to align itself to the extent applicable with the corporate governance principles of the SEFE Group. This is reflective of the Company's status as a wholly owned subsidiary within the SEFE Group.

Directors' liability insurance

Directors' and Officers' Liability Insurance is in place for the benefit of the Directors and Officers of the Company.

Qualifying third-party indemnity provisions

Qualifying third-party indemnity provisions, as defined in the Companies Act 2006, were in force during the year and up to the date of the Directors' Report for the benefit of all Directors of the Company.

Political contributions

The Group and the Company made no political donations during the year (2021: £nil).

Statement of going concern

In the opinion of the Directors there are no reasonably plausible circumstances in which the going concern basis might not be appropriate, and as a result, these Financial Statements have been prepared on a going concern basis. Please see Note 2 Basis of preparation for the Group's Statement of going concern.

Dividends

For Group and Company there were no dividends declared or paid during the year. Dividend income of £172.7m was received by the Company from its subsidiaries in 2022 (2021: £nil). Since the reporting date, no further dividends were paid or proposed.

Significant events after the balance sheet date

On 7 March 2023 the Company received an equity injection of £880m through issuing preference shares to SEFE. Following the equity injection, SM&T repaid its outstanding debt to SEFE.

Streamlined Energy and Carbon Report (Company)

The statement of carbon emissions in compliance with Streamlined Energy and Carbon Reporting ("SECR") covers energy use and associated greenhouse gas emissions relating to gas, electricity and transport, intensity ratios and information relating to energy efficiency actions.

	2022	2021*	
Emissions from Scope 1 (Direct)	**477**	818	$kgCO_2e$
Emissions from Scope 2 (Energy Indirect)	**317,758**	347,467	$kgCO_2e$
Emissions from Scope 3 (Other Indirect)	**2,282**	1,282	$kgCO_2e$
Company's chosen intensity metric: Emissions reported per employee	**749**	731	$kgCO_2e$ per employee

* The 2022 SECR figures for SEFE Marketing & Trading Limited records a different split in the Scope 1 vs Scope 2 emissions when compared to the 2021 submission. This is due to the change in method for allocating "gas energy", which is in the form of heat and is now allocated as Scope 2. To ensure consistent reporting between the current year and prior years, the same methodology has been applied to 2021 figures.

Energy efficiency actions

We are committed to responsible energy management and will practice energy efficiency throughout our organisation, wherever it is cost effective. We recognise that climate change is one of the most serious environmental challenges currently threatening the global community and we understand we have a role to play in reducing greenhouse gas emissions. Recently we launched a Group-wide project with a focus on greenhouse gas emissions reduction that will aim to reach significant reduction targets linked to our operations, as well as Scope 3 emissions linked to our trading activities.

Actions already taken and planned for the immediate future include:

- Minimise the use of energy intensive equipment during periods of low occupancy (HVAC, fridges, lighting, and instant hot water devices);
- Upgrade of the UPS system in our main office to a more energy efficient system;
- Upgrade of all office lighting to LED;
- Optimisation of office space to reduce overall footprint;
- Reduce use of gas-fired equipment in our offices where this is within our control;
- Improved BMS analytics to inform further efficiency initiatives linked to building and equipment management;
- Employee carbon footprint awareness campaign;
- Social programmes where we contribute to tree planting and garden improvements in the local community; and
- Review our datacentre strategy to actively reduce datacentre-related energy consumption.

Methodology used in the calculation of disclosures

- The SEFE Marketing and Trading group of companies comply with the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 and the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. Our approach to reporting is based on the Environmental Reporting Guidelines: Including streamlined energy and carbon reporting guidance (2019) and the GHG Protocol: Corporate Accounting and Reporting Standard Revised Edition (2004).
- Energy consumption has been converted to carbon (kgCO_2e) using UK government conversion factors for company reporting of greenhouse gas emissions.
- Our reporting period is 1 January 2022 to 31 December 2022, reporting all material GHG emissions using "kilograms of CO_2 equivalent" (kgCO_2e) as the unit of measurement and reporting energy use in kWh.

  We have included the energy and emissions for the following scopes and categories:

  Scope 1 – Business Travel using company owned or leased cars. Emissions are based on actual fuel consumption.

  Scope 2 – Buildings owned and operated (i.e. those within the financial control boundary) of the company. Emissions are based on actual meter readings to calculate gas and power consumption.

  Scope 3, Category 6 – Business Travel related to the use of employee cars. Emissions are based on actual mileage and fuel claims.
- The methodology used to calculate total energy consumption and carbon emissions utilises invoice data, submetering data, business transport mileage and fuel records, and UK government conversion factors for company reporting of greenhouse gas emissions. Where data was not available, estimates have been calculated using historical profiles.
- All figures have been presented as Location based emissions as no Market-based emissions data was available for the report. Location-based emissions reflect the average emissions intensity of grid supplies (using grid average emissions factors) and Market-based emissions reflects emissions from electricity where companies have opted to procure green energy or invested in renewable generation.

Directors' disclosure to the auditors

Each Director in accordance with Section 418 of the Companies Act 2006 has confirmed the following statement, that in respect of the audit of the Group and Company Financial Statements of SEFE Marketing & Trading Limited for the year ended 31 December 2022:

- so far as the Directors are aware there is no relevant audit information of which the Group's and Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Group's and Company's auditors are aware of that information.

Independent auditors

Pursuant to Section 485 of the Companies Act 2006, PricewaterhouseCoopers LLP were appointed auditors of the Group for the year ended 31 December 2022.

The full Consolidated Financial Statements of SEFE Marketing & Trading Limited (registered number 3768267) and of the Company were approved by the Board of Directors and authorised for issue on 17 March 2023 and signed by the Directors as a consistent extract thereof as a part of the Strategic Report with Supplementary Financial Information on 17 March 2023.

F Barnaud
17 March 2023

INDEPENDENT AUDITORS' STATEMENT TO THE MEMBERS OF SEFE MARKETING & TRADING LIMITED

We have examined the supplementary financial information included within the Strategic Report with Supplementary Financial Information for the year ended 31 December 2022, which comprises the Group and Company Statements of financial position as at 31 December 2022; the Group and Company Statements of comprehensive income, the Group and Company Statements of cash flows and the Group and Company statements of changes in equity for the year then ended; and the notes to the financial statements.

Respective responsibilities of the directors and the auditors

The directors are responsible for preparing the Strategic Report with Supplementary Financial Information, in accordance with the Companies Act 2006, which includes information extracted from the full Annual Report and Consolidated Financial Statements of SEFE Marketing & Trading Limited for the year ended 31 December 2022.

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

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

Basis of opinion

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

Opinion

In our opinion the supplementary financial information is consistent with the full Annual Report and Consolidated Financial Statements of SEFE Marketing & Trading Limited for the year ended 31 December 2022.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
1 Embankment Place
London
WC2N 6RH
19 March 2023

GROUP STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	Business performance 2022 £'000s	Exceptional items 2022 £'000s	Results for the year 2022 £'000s	Results for the year 2021 £'000s
Revenue	6	**9,152,988**	**–**	**9,152,988**	6,291,535
Cost of sales	5	**(6,394,586)**	**(177,161)**	**(6,571,747)**	(4,942,124)
Gross profit		**2,758,402**	**(177,161)**	**2,581,241**	1,349,411
Trading and hedging activities:					
Net loss from trading and hedging activities	5,7	**(343,843)**	**(2,574,828)**	**(2,918,671)**	(354,455)
Net income/(loss)		**2,414,559**	**(2,751,989)**	**(337,430)**	994,956
Administrative expenses	8	**(376,805)**	**–**	**(376,805)**	(314,019)
Net impairment loss on financial and contract assets	5	**(57,109)**	**(209,311)**	**(266,420)**	(5,906)
Operating profit/(loss)		**1,980,645**	**(2,961,300)**	**(980,655)**	675,031
Interest income	15	**32,815**	**–**	**32,815**	6,953
Interest expense	15	**(164,065)**	**–**	**(164,065)**	(29,529)
Other income		**5,320**	**–**	**5,320**	6,135
Loss on disposal of non-current assets		**(483)**	**–**	**(483)**	–
Gain on derecognition of non-current assets and liabilities	5	**–**	**10,100**	**10,100**	–
Profit/(loss) before tax		**1,854,232**	**(2,951,200)**	**(1,096,968)**	658,590
Tax		**(147,226)**	**318,124**	**170,898**	(98,063)
Profit/(loss) for the financial year		**1,707,006**	**(2,633,076)**	**(926,070)**	560,527
Hedge reserves:					
Hedging losses recognised during the year		**(3,286,571)**	**–**	**(3,286,571)**	(837,044)
Cost of hedging		**–**	**–**	**–**	1,122
Tax on items taken directly to equity		**31,803**	**–**	**31,803**	(115,592)
Hedging losses reclassified to profit or loss		**1,888,332**	**1,564,363**	**3,452,695**	838,207
Tax on items transferred from equity		**17,150**	**(66,322)**	**(49,172)**	(33,509)
Gain/(loss) on foreign currency translation		**138,150**	**–**	**138,150**	(595)
Total other comprehensive (expense)/income		**(1,211,136)**	**1,498,041**	**286,905**	(147,411)
Total comprehensive income/(loss)[(1)]		**495,870**	**(1,135,035)**	**(639,165)**	413,116
Total comprehensive income/(loss) attributable to:					
Equity owners of the parent		**495,870**	**(1,135,035)**	**(639,165)**	413,116

(1) 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 14 to 47 form an integral part of the Supplementary Financial Information.

COMPANY STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	Business performance 2022 £'000s	Exceptional items 2022 £'000s	Results for the year 2022 £'000s	Results for the year 2021 £'000s
Trading and hedging activities:					
Net income from trading and hedging activities	5,7	**1,221,454**	**(1,010,465)**	**210,989**	550,203
Net income		**1,221,454**	**(1,010,465)**	**210,989**	550,203
Administrative expenses	8	**(237,694)**	**–**	**(237,694)**	(197,671)
Net impairment (loss)/reversals on financial and contract assets	5	**(3,431)**	**(129,285)**	**(132,716)**	8,986
Income from subsidiaries		**12,026**	**–**	**12,026**	14,431
Operating profit/(loss)		**992,355**	**(1,139,750)**	**(147,395)**	375,949
Interest income	15	**49,910**	**–**	**49,910**	2,866
Interest expense	15	**(171,977)**	**–**	**(171,977)**	(12,414)
Other income		**5,400**	**–**	**5,400**	5,771
Dividend income from subsidiaries		**172,717**	**–**	**172,717**	–
Loss on disposal of non-current assets		**(477)**	**–**	**(477)**	–
Profit/(loss) before tax		**1,047,928**	**(1,139,750)**	**(91,822)**	372,172
Tax		**(185,126)**	**216,553**	**31,427**	(69,317)
Profit/(loss) for the financial year		**862,802**	**(923,197)**	**(60,395)**	302,855
Hedge reserves:					
Hedging gains reclassified to profit or loss		**–**	**–**	**–**	(17)
Tax on items transferred from equity		**–**	**–**	**–**	3
Total other comprehensive expense		**–**	**–**	**–**	(14)
Total comprehensive income/(loss)[(1)]		**862,802**	**(923,197)**	**(60,395)**	302,841
Total comprehensive income/(loss) attributable to:					
Equity owners of the parent		**862,802**	**(923,197)**	**(60,395)**	302,841

(1) 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 14 to 47 form an integral part of the Supplementary Financial Information.

STATEMENTS OF FINANCIAL POSITION

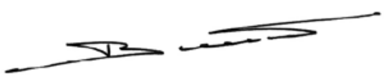
AS AT 31 DECEMBER 2022

		Group		Company	
	Note	**2022 £'000s**	2021 £'000s	**2022 £'000s**	2021 £'000s
Assets					
Non-current assets					
Intangible assets		**52,129**	50,406	**30,448**	30,259
Property, plant and equipment		**8,847**	11,583	**6,634**	8,999
Right-of-use assets	9	**332,872**	411,099	**9,672**	15,365
Financial assets measured at fair value	17	**4,150,785**	2,773,561	**4,626,213**	3,058,969
Investments in subsidiaries	10	**–**	–	**7,958**	7,958
Deferred tax assets		**208,113**	111,889	**1,318**	2,261
Trade and other receivables	15	**–**	21,882	**–**	–
Lease receivables	12	**1,133**	124,352	**1,133**	1,989
		4,753,879	3,504,772	**4,683,376**	3,125,800
Current assets					
Inventories	11	**1,197,400**	1,084,704	**1,075,579**	1,058,665
Trade and other receivables	15	**3,499,938**	4,152,217	**3,218,844**	3,807,833
Lease receivables	12	**1,202**	20,593	**1,202**	555
Financial assets measured at fair value	17	**6,589,152**	8,656,558	**8,502,174**	10,222,924
Current tax assets		**47,050**	154	**42,105**	–
Cash equivalents receivable from related parties	15	**2,833,279**	906,965	**4,929,624**	1,076,675
Cash at bank and in hand	15	**658,434**	35,876	**583,085**	6,500
		14,826,455	14,857,067	**18,352,613**	16,173,152
Total assets		**19,580,334**	18,361,839	**23,035,989**	19,298,952
Liabilities					
Current liabilities					
Trade and other payables	15	**3,134,042**	5,674,266	**2,750,402**	5,174,872
Financial liabilities measured at fair value	17	**7,750,876**	8,155,515	**9,114,408**	9,698,357
Provisions	13	**119,135**	19,283	**64,777**	11,061
Current tax liabilities		**15,143**	72,162	**–**	47,597
Loans and overdrafts	15	**3,776,347**	–	**6,245,324**	793,578
Lease liabilities	12	**69,681**	85,425	**4,916**	5,028
		14,865,224	14,006,651	**18,179,827**	15,730,493
Non-current liabilities					
Trade and other payables	15	**190**	47,599	**190**	47,599
Lease liabilities	12	**288,914**	501,616	**9,424**	16,007
Financial liabilities measured at fair value	17	**3,966,841**	2,641,698	**4,521,577**	3,111,966
Provisions	13	**144,545**	10,212	**1,500**	9,021
Deferred tax liabilities		**224,367**	255,480	**–**	–
		4,624,857	3,456,605	**4,532,691**	3,184,593
Total liabilities		**19,490,081**	17,463,256	**22,712,518**	18,915,086
Net assets		**90,253**	898,583	**323,471**	383,866
Equity					
Ordinary share capital		**20,000**	20,000	**20,000**	20,000
Other reserves		**(357,535)**	(337,125)	**–**	–
Foreign currency translation reserve		**168,515**	30,365	**–**	–
Retained earnings		**259,273**	1,185,343	**303,471**	363,866
Equity attributable to:					
Owners of the parent		**90,253**	898,583	**323,471**	383,866
Total equity		**90,253**	898,583	**323,471**	383,866

The notes on pages 14 to 47 form an integral part of the Supplementary Financial Information.

The full Consolidated Financial Statements of SEFE Marketing & Trading Limited (registered number 3768267) and of the Company were approved by the Board of Directors and authorised for issue on 17 March 2023 and signed by the Directors as a consistent extract thereof as a part of the Strategic Report with Supplementary Financial Information on 17 March 2023.

Signed on behalf of the Board



F Barnaud
17 March 2023

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2022

Group	Ordinary share capital £'000s	Other reserves £'000s	Foreign currency translation reserve £'000s	Retained earnings £'000s	Total equity £'000s
Balance at 1 January 2021	**20,000**	**(159,280)**	**30,960**	**736,858**	**628,538**
Profit for the year	–	–	–	560,527	560,527
Other comprehensive expense:	–	(146,816)	(595)	–	(147,411)
Total comprehensive (expense)/income	**–**	**(146,816)**	**(595)**	**560,527**	**413,116**
Less: Currency translation difference	–	(31,029)	–	–	(31,029)
Transactions with owners:					
Dividends declared or paid	–	–	–	(112,042)	(112,042)
Balance at 31 December 2021	**20,000**	**(337,125)**	**30,365**	**1,185,343**	**898,583**
Loss for the year	**–**	**–**	**–**	**(926,070)**	**(926,070)**
Other comprehensive income:	**–**	**148,755**	**138,150**	**–**	**286,905**
Total comprehensive income/(expense)	**–**	**148,755**	**138,150**	**(926,070)**	**(639,165)**
Less: Currency translation difference	**–**	**(169,165)**	**–**	**–**	**(169,165)**
Transactions with owners:					
Dividends declared or paid	**–**	**–**	**–**	**–**	**–**
Balance at 31 December 2022	**20,000**	**(357,535)**	**168,515**	**259,273**	**90,253**

Company	Ordinary share capital £'00 0s	Other reserves £'000s	Retained earnings £'000s	Total equity £'000s
Balance at 1 January 2021	**20,000**	**14**	**173,053**	**193,067**
Profit for the year	–	–	302,855	302,855
Other comprehensive expense:	–	(14)	–	(14)
Total comprehensive (expense)/income	**–**	**(14)**	**302,855**	**302,841**
Transactions with owners:				
Dividends declared or paid	**–**	**–**	**(112,042)**	**(112,042)**
Balance at 31 December 2021	**20,000**	**–**	**363,866**	**383,866**
Loss for the year	**–**	**–**	**(60,395)**	**(60,395)**
Other comprehensive expense:	**–**	**–**	**–**	**–**
Total comprehensive expense	**–**	**–**	**(60,395)**	**(60,395)**
Transactions with owners:				
Dividends declared or paid	**–**	**–**	**–**	**–**
Balance at 31 December 2022	**20,000**	**–**	**303,471**	**323,471**

The notes on pages 14 to 47 form an integral part of the Supplementary Financial Information.

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2022

		Group		Company	
	Note	**2022 £'000s**	2021 £'000s	**2022 £'000s**	2021 £'000s
Operating activities					
Operating (loss)/profit		**(980,655)**	675,031	**(147,395)**	375,949
Depreciation of property, plant and equipment and right-of-use assets		**64,171**	56,478	**6,173**	6,214
Amortisation of intangible assets		**19,337**	18,199	**10,507**	10,617
Unrealised fair value movements on trading contracts at fair value		**1,541,862**	(960,285)	**939,057**	(769,759)
Other unrealised movements		**178,870**	(5,698)	**32,368**	(3,994)
Increase in provisions	13	**234,185**	9,873	**46,195**	1,623
Other income		**5,320**	6,135	**5,400**	5,771
Impairment losses/(reversal) on financial, contract and other assets		**266,420**	5,906	**132,716**	(8,986)
Operating cash flows before movements in working capital		**1,329,510**	(194,361)	**1,025,021**	(382,565)
Increase in inventories		**(112,696)**	(329,962)	**(16,914)**	(332,764)
Decrease/(increase) in receivables		**428,355**	(2,223,056)	**489,186**	(2,063,938)
(Decrease)/increase in payables		**(2,706,003)**	4,050,774	**(2,607,611)**	3,874,851
Decrease in financial contracts measured at fair value through profit or loss		**59,809**	281,180	**40,110**	286,909
Cash (used in)/generated from operations		**(1,001,025)**	1,584,575	**(1,070,208)**	1,382,493
Interest income received		**30,015**	312	**34,474**	1,626
Income taxes paid		**(70,976)**	(30,687)	**(47,001)**	(28,300)
Net cash generated (used in)/generated from operating activities		**(1,041,986)**	1,554,200	**(1,082,735)**	1,355,819
Investing activities					
Dividend income received		**–**	–	**172,717**	–
Interest received on lease receivables	12	**2,800**	6,641	**31**	42
Purchases of property, plant and equipment		**(1,122)**	(2,889)	**(1,072)**	(2,705)
Purchases of intangible assets		**(21,611)**	(18,413)	**(10,702)**	(11,384)
Proceeds from lease agreements	12	**7,600**	21,143	**104**	1,695
Net cash (used in)/generated from investing activities		**(12,333)**	6,482	**161,078**	(12,352)
Financing activities					
Drawdown of loan from the Group	15	**–**	–	**1,674,779**	278,965
Interest and banking charges paid(1)		**(105,328)**	(9,415)	**(107,734)**	(11,756)
Repayment of obligations under lease agreements		**(69,790)**	(73,289)	**(4,857)**	(5,182)
Interest paid on lease payables	12	**(14,659)**	(20,030)	**(281)**	(433)
Drawdown/(repayment) of loan from parent undertakings	15	**3,776,347**	(464,335)	**3,776,347**	(464,335)
Dividends paid		**–**	(112,042)	**–**	(112,042)
Net cash generated from/(used in) financing activities		**3,586,570**	(679,111)	**5,338,254**	(314,783)
Net increase in cash and cash equivalents		**2,532,251**	881,571	**4,416,597**	1,028,684
Exchange gain/(loss) on cash and cash equivalents		**20,055**	(487)	**19,958**	(170)
Movement in loss allowance for cash and cash equivalents		**(3,434)**	(519)	**(7,021)**	(608)
Cash and cash equivalents at the beginning of the year	15	**942,841**	62,276	**1,083,175**	55,269
Cash and cash equivalents at the end of the year	15	**3,491,713**	942,841	**5,512,709**	1,083,175

(1) During the year, the Interest and banking charges paid were reclassified from Net cash generated (used in)/generated from operating activities to Financing activities in the Statement of cash flows as a review of these balances concluded that this is a more faithful representation of its underlying nature. The comparative balances were also reclassified.

The notes on pages 14 to 47 form an integral part of the Supplementary Financial Information.

NOTES TO THE SUPPLEMENTARY FINANCIAL INFORMATION

YEAR ENDED 31 DECEMBER 2022

1 CORPORATE INFORMATION

SEFE Marketing & Trading Limited is a private company limited by shares incorporated and domiciled in England and Wales at 20 Triton Street, London NW1 3BF. The principal activities of the Group and Company are referred to in the Strategic Report on page 1. The Company was formerly known as Gazprom Marketing & Trading Limited until 1 August 2022. The new company name will be used for the remainder of this document.

2 BASIS OF PREPARATION

Statement of compliance

The Group's Annual Financial Statements have been prepared in accordance with UK-adopted international accounting standards and the requirements of the Companies Act 2006. The primary statements in this Annual Report and Financial Statements are presented in accordance with International Accounting Standards (IAS) 1 'Presentation of financial statements'.

The Strategic report with Supplementary Financial Information is made up of the Strategic report and Summary Financial Information extracted from the full Annual Financial Statements and has been prepared in accordance with the requirements of the Companies Act 2006 section 426A. It does not constitute statutory accounts within the meaning of section 434(3) of the Companies Act 2006. Audited statutory accounts for the year ended 31 December 2022 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 and the auditors' statement under section 496 of the Companies Act 2006 was unqualified.

Basis of measurement

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

Presentation of the statement of comprehensive income

Due to the exceptional circumstances affecting the Group during the period (as described in the Strategic report and the Statement of going concern), the Directors believe that separating the underlying results of the ongoing business from the impacts of external factors specifically related to the war in Ukraine provides useful information about commercial performance and underlying trends. These are presented within the Statements of comprehensive income as 'Business performance' and 'Exceptional items' respectively. Further detail on those balances noted within 'Exceptional items' is included in note 5. The final column, 'Results for the year' represents the summation of the 'Business performance' and 'Exceptional items' columns, and includes numbers which meet the Statement of compliance noted above.

Statement of going concern

In preparing these Financial Statements on a going concern basis, the Group has prepared a base case liquidity forecast which takes into account current trading positions, forecast market prices and current cash and available facilities.

In addition, the Group has modelled cash flows under severe but plausible downside scenarios by calculating a Liquidity Risk Reserve ("LRR") projection and overlaying this to the base case liquidity forecast. The LRR calculation is undertaken in order to determine the level of funding facilities the Group is required to have in place in order to cover certain potential downside scenarios and be able to continue trading.

The LRR is determined by a Monte Carlo simulation set at a 95% confidence level using scenarios covering market, credit and operational risks. Under the LRR calculation methodology, market risk scenarios are based on market value at risk ("MVaR") limits and include stresses against the Group's material energy commodity market exposures. Operational risks are focused on scenarios of delays in receivables, increases in initial margin requirements for exchange trading, as well as additional negative credit events based on credit value at risk ("CVaR") metrics.

Through intercompany agreements with its parent company SEFE, the Group and Company have access to committed facilities of €3.7bn until June 2028 and a cash pool facility of €1.1bn.

These intercompany agreements are supported by the German Federal Government loan provided to SEFE via KfW, along with substantial levels of reserves in order to ensure the ability of SEFE to continue as a going concern. The KfW loan takes the form of a committed facility, with a nominal value of €7.5bn and a maximum tenor of 5 years. In addition to the loan the parent company, SEFE, had an equity injection in the amount of €6.3bn in December 2022. On 7 March 2023 SM&T received an equity injection of £880.0m through issuing preference shares to SEFE. Following the equity injection, SM&T repaid its outstanding debt to SEFE. As of 8 March 2023 the Group held a resulting net cash positive position in the amount of £0.3bn, with €4.8bn remaining unutilised loan facility remains available to SM&T.

As of the date of approval of these Financial Statements, the Group and the Company have sufficient cash and access to funding from SEFE, as described above, to meet the needs of both the base case cash flow profile and the LRR overlay scenario. As a result, they have prepared the Financial Statements on a going concern basis.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These policies have been consistently applied to all the years presented.

Consolidation

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated Statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the Financial Statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

The Financial Statements of overseas subsidiaries are translated into Great British Pounds ("Sterling") as described below in the Foreign currency accounting policy.

Investment in subsidiaries

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

Revenue recognition

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

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Given the straightforward nature of the contractual terms within the respective revenue streams, the Group does not expect significant uncertainty over the timing or amount of revenue.

SEFE Energy

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

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

Revenue for energy supply activities in SEFE Energy's contracts includes an assessment of energy supplied to customers between the date of the last meter reading and the year end (this value must be estimated as most meters will not be read on the year end date). This estimate for unread gas and electricity meters is based upon historical consumption patterns. Such amounts are recognised within contract assets (accrued income) until they are invoiced, at which point they become trade receivables (being an unconditional right to receive consideration).

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

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

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

LNG

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

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

Cost of sales

Cost of sales includes the cost of LNG, SEFE Energy's gas and electricity purchased during the period and related transportation, distribution costs, balancing charges, bought-in materials, costs of emissions certificates to satisfy regulatory requirements and other services. It also includes the net costs of chartering and sub-chartering of vessels which are not captured within the scope of IFRS 16: Leases (refer to the accounting policy on leases overleaf).

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Net income/(loss) from trading and hedging activities recognition

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

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

Net income/(loss) from trading and hedging activities includes amounts released from cash flow hedge reserves. The timing of these releases is matched to the impact of the hedged cargoes on the Statement of comprehensive income.

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

In addition to net gains and losses from items classified as held for trading within the scope of IFRS 9, revenues and costs of complementary contracts are also disclosed within Net income from trading and hedging activities. These include products which are considered to be part of the Group's trading activities: certain emission certificates, held at the lower of cost or net realisable value; and gas and other energy storage and transportation capacities against which revenue is recognised on an accrual basis. Revenue in respect of gas storage and transportation is subject to the Revenue recognition accounting policy set out above. Energy purchase and sale transactions entered to optimise the performance of the storage facilities are also presented within 'Net income from trading and hedging activities'.

Right-of-use assets

Right-of-use assets are recognised to represent those assets to which the Group has access under lease contracts. They are measured at cost comprising of:

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

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

In instances where the timing of cash flows under the lease has changed or the total expected cash flows have changed due to the exercise of extension or termination options, or other lease modifications which have not been accounted for as separate leases; the right-of-use asset is adjusted in an amount corresponding to the amount of change in the lease liability (see below).

Inventory

The valuation approach for the Group's inventory is based on the Group's specific activities in relation to each product. Physical commodities principally acquired for the purpose of selling in the near future and generating a profit from fluctuations in price or broker-trader's margin are held at fair value less costs to sell. These commodities include physical gas, oil products, LNG which is held in on-shore tanks at regasification facilities and certain emission allowances. Movements in the fair value of inventory between reporting dates are recognised directly in the Statement of comprehensive income. The fair value is measured at the price for the soonest available delivery of gas, oil and emission allowances (respectively) at the reporting date.

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

Gas storage

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

Virtual gas storage contracts are treated as financial instruments held at fair value with gains and losses reported through Net income/(loss) from trading and hedging activities. Any inventory placed within virtual storage arrangements is derecognised from the Statement of financial position, and a corresponding financial asset receivable is recorded.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Cash and cash equivalents
Cash comprises cash in hand and demand deposits, excluding cash required as margin held with brokers. Cash equivalents comprise short-term investments which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in fair value and have an original maturity of three months or less.

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

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

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

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

Lessee
Where the Group is the lessee, it recognises a right-of-use asset and a corresponding lease liability in the Statement of financial position on the date that the leased asset is made available for use to the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. The Group's lease payments consist only of fixed payments during the lease term, and as such the lease liability is the net present value of the fixed payments. The accounting policy for right-of-use assets can be found on page 16.

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

The Group makes use of the exemption under IFRS 16 for short-term leases, under which payments for leases with a term shorter than 12 months are recognised on a straight-line basis through the Statement of comprehensive income. No right-of-use asset is recognised in these instances.

Where possible, lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for the Group's leases, the lessee's incremental borrowing rate is used. This is the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

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

Lessor
A lease is classified as a finance lease if it transfers substantially all the risks and rewards of ownership of the related asset to the lessee; otherwise it is classified as an operating lease.

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Provisions and impairment

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

Assets which are not measured at fair value through profit or loss are assessed for impairment on an ongoing basis. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

Impairment losses are recognised to the extent that the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value-in-use. Intangible assets (other than goodwill) for which an impairment loss has been recognised are reviewed for possible reversal of the impairment at each reporting date. A reversal is recognised only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Onerous contract provisions are recognised for those contracts which do not form part of cash-generating units and for which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Foreign currency

a) Functional and presentation currency

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

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

b) Transactions and balances

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

c) Translation of subsidiaries results

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

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

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

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

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

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

Trading contracts at fair value through profit and loss

Trading assets and liabilities are carried in the Statements of financial position at fair value with gains or losses recognised in the Statements of comprehensive income within 'Net income from trading and hedging activities', except for certain financial instruments designated as hedging instruments. Financial assets or financial liabilities classified as held for trading are recognised on trade date at fair value (as described in more detail below), usually being the transaction price excluding transaction costs. These transaction costs are included within 'Net income from trading and hedging activities' in the Statement of comprehensive income. The determination of fair value and the treatment of financial instruments designated as hedging instruments are described below.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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

Financial assets and liabilities at amortised cost

Financial assets held within a business model where the objective is to collect contractual cash flows, and where such contractual cash flows are solely payments of principal and interest, are classified as assets held at amortised cost. They are initially recognised on settlement date at fair value, plus any directly attributable transaction costs. They are subsequently measured at amortised cost, using the effective interest rate method, less an allowance for expected credit losses.

Financial liabilities which are not measured at fair value through profit and loss are classified as liabilities held at amortised cost. They are initially recognised on settlement date at fair value, less any directly attributable transaction costs, and subsequently measured at amortised cost, using the effective interest rate method.

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

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

Fair value

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

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

Where the instrument is not traded in an active market, fair value is determined using valuation techniques. These include using recent arm's length market transactions, reference to the current market value of another instrument which is substantially similar, discounted cash flow analysis and option pricing models.

The Group endeavours to utilise valuation techniques that maximise dependence on market observable inputs and minimise the use of unobservable inputs.

Treatment of "day-one" gains and losses

In the normal course of its business, the Group will acquire non-financial and financial instruments where the fair value on initial recognition is the transaction price. For certain transactions the fair value on initial recognition is based on other observable market data for the same instrument or calculated using a valuation technique where all input variables are based on observable market data. When evidence from observable market data suggests that the fair value is different to the transaction price, the Group recognises a "day-one" gain or loss at inception within 'Net income from trading and hedging activities'.

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

Embedded derivatives

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value, with gains or losses reported in Net income.

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

Offsetting of balances

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Impairment of financial assets and expected credit loss model

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

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

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

For details of the key assumptions and inputs used, see note 16 on credit risk.

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

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

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

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

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

Hedge accounting

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

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

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Fair value hedges

Fair value hedges are used to hedge the risk of changes in fair value of unrecognised firm commitments. The Group applies fair value hedge accounting when hedging commodity price risks of natural gas storage contracts.

The change in fair value of derivatives designated within effective fair value hedges continues to be recognised in the Statement of comprehensive income.

During the life of the hedge, the change in fair value of the designated firm commitments attributable to the risk being hedged is recognised on both the Statement of financial position and in the Statement of comprehensive income as a financial instrument at fair value through profit and loss.

Fair value hedge accounting is discontinued only when the hedging relationship or a part thereof ceases to meet the qualifying criteria. This includes instances where the risk management objective changes or when the hedging instrument is sold, terminated or exercised. The accumulated adjustment to the carrying amount of the hedged item at the point of discontinuation is then amortised prospectively to profit or loss over the hedged item's remaining period to maturity.

Cash flow hedges

Cash flow hedges are used to hedge the risk of variability in cash flows related to an asset or liability carried on the Statement of financial position or a highly probable forecast transaction. The effective portions 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 income from trading and hedging activities'.

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

Hedge accounting is discontinued when the risk management objective for the hedge relationship has changed, the hedging instrument expires, is sold, terminated, exercised or the hedge relationship no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in Equity at that time remains in Equity and is recognised when the forecast transaction is ultimately recognised in the Statement of comprehensive income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in Equity is recognised immediately as described above.

Exceptional items

The Group and Company reflect their underlying financial results in the Business performance column of the Group and Company Statements of comprehensive income. To be able to provide users with this clear and consistent presentation, the effects of 'exceptional items' are reported in a different column in the Group and Company Statements of comprehensive Income. The final column in these statements in as aggregation of the Business performance and Exceptional items columns, and provides numbers compliant with the presentation requirements of UK-adopted International Accounting Standards.

Exceptional items are those items that, in the judgement of the Directors, need to be disclosed separately by virtue of their nature, size or incidence in order to provide an understanding of the performance of the underlying business of the Group. Items which may be considered exceptional in nature include one-off items directly related to sanctions imposed against the Group and Company following the invasion of Ukraine.

4 IMPACT OF CHANGES IN ACCOUNTING POLICY

Certain new accounting standards, amendments and interpretations have been published during the period; these have been fully adopted where the requirements of these publications are mandatory for this reporting period. These standards did not have a material impact on the Group in the current reporting period.

The Group continues to adopt the guidance included within 'Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12 (the Amendments)' which was issued in May 2021. This amendment provides clarity around the application of IAS 12 and the timing of recognition of deferred tax balances when a company enters lease agreements. The adoption of this amendment supports deferred tax balances of £4.2m.

The Group has not early adopted the requirements of any other standard, amendment or interpretation which is not mandatory for the reporting period. These standards are not currently expected to have a material impact on the Group in the current or future reporting periods, nor on foreseeable future transactions.

5 EXCEPTIONAL ITEMS

As noted in the Strategic report, certain events have occurred during the period which had an effect on the Group and Company performance, which are considered unlikely to recur, and which were outside of the Group's control. These events were caused by the war in Ukraine, the sanctions applied by Western governments and in particular the counter-sanctions put in place by the Russian Government. The Directors consider that the underlying performance of the business is better reflected if the effect of these 'exceptional items' is reported separately in the Financial Statements.

	Group		Company	
	2022 £'000s	2021 £'000s	**2022 £'000s**	2021 £'000s
Onerous contract provision(1)	**(177,161)**	–	**–**	–
Exceptional items included within Gross profit	**(177,161)**	–	**–**	–
Cash Flow Hedge release(2)	**(1,564,363)**	–	**–**	–
Losses on existing agreements incurred due to sanctions(3)	**(1,010,465)**	–	**(1,010,465)**	–
Exceptional items included within Trading and hedging activities	**(2,574,828)**	–	**(1,010,465)**	–
Net exceptional items included within Net income/(loss)	**(2,751,989)**	–	**(1,010,465)**	–
Losses on existing agreements incurred due to sanctions(3)	**(209,311)**	–	**(129,285)**	–
Net exceptional items included within Operating profit/(loss)	**(2,961,300)**	–	**(1,139,750)**	–
Derecognition of vessels(4)	**10,100**	–	**–**	–
Exceptional items included within Profit/(loss) before tax	**(2,951,200)**	–	**(1,139,750)**	–
Net taxation arising from exceptional items(5)	**318,124**	–	**216,553**	–
Net exceptional items included within Profit/(loss) for the financial year	**(2,633,076)**	–	**(923,197)**	–

(1) The Group holds a series of long-term contracts which provide access to regasification capacity for LNG in Mexico and onward transport of the associated natural gas. These contracts were initially entered to provide a sales point for LNG purchased under a long-term Sales and Purchase Agreement ("SPA") with a Russian supplier (see 2 below). Following the imposition of counter-sanctions by the Russian Government and the cessation of supplies under that LNG SPA, the Group has assessed the value of these contracts in Mexico and determined that they represent onerous contracts. As such, a full charge for the remaining costs of the contracts has been recorded in the Statement of comprehensive income during the year.

(2) Due to counter-sanctions imposed by the Russian Government directly against the Group, certain Russian-based suppliers of LNG determined they would no longer be able to deliver under long-term sale and purchase agreements. Proportions of these volumes, on both the purchase and highly probable forecast sales, were subject to hedge accounting under IFRS 9. The Group was forced to de-designate these hedges as soon as it became apparent that it was no longer highly probable that the LNG would be received.

(3) Further losses were incurred, arising out of the same set of circumstances and the intervening actions of the German Government, due to certain counterparties ceasing deliveries of physical commodities in response thereto.

(4) Due to sanctions imposed by Western Governments which prevented the Group from trading with Russian counterparties, certain LNG vessels which the Group held under long-term time charter from Russian owners were terminated during the period. Two vessels which were originally due to be operated by the Group until 2029 were returned to their owner. In addition, a further two vessels which were originally due to be operated by Russian counterparties until 2028, were returned to Group.

The time charters were accounted for under IFRS 16. Upon returning the vessels and terminating the underlying contracts, both the right-of-use asset and the corresponding lease liability were de-recognised. Any net difference between these balances results in a £34.8m gain to the Statement of comprehensive income.

In addition, where vessels were returned to the Group the net investment in the sublease was de-recognised. At the point of de-recognition of the sublease assets, a 'Right-of-use' asset was recognised on the Statement of financial position under the head lease. Net difference between these balances results in a direct impact of £24.7m loss to the Statement of comprehensive income.

(5) The exceptional items affect different entities across the Group, are subject to tax at differing rates and were incurred in entities with varying levels of taxable profits. As such, an individual tax effect for each exceptional item would not provide useful information and this impact is presented in aggregate.

6 REVENUE

a) Disaggregation of revenue

The Group derives revenue from the transfer of goods and services over time and predominantly at a point in time in respect of the following:

	Group		Company	
	2022 £'000s	2021 £'000s	**2022 £'000s**	2021 £'000s
SEFE Energy	**2,910,350**	1,992,913	**–**	–
LNG	**6,241,455**	4,296,513	**–**	–
Other	**1,183**	2,109	**–**	–
	9,152,988	6,291,535	**–**	–

Included within SEFE Energy revenue is £101.9m (2021: £nil) relating to Government grant income, which relates to two Government price reduction schemes – The Energy Bill Relief Scheme in the UK (EBRS) and CEK 22 in the Netherlands. The net impact to revenue is nil, as all revenue received from both schemes has been passed on to applicable customers in full.

b) Assets and liabilities related to contracts with customers

The Group has recognised the following contract assets and contract liabilities related to contracts with customers:

		Group		Company	
	Note	**2022 £'000s**	2021 £'000s	**2022 £'000s**	2021 £'000s
Total contract assets	15	**371,523**	262,477	**–**	–

		Group		Company	
	Note	**2022 £'000s**	2021 £'000s	**2022 £'000s**	2021 £'000s
Total contract liabilities	15	**22,926**	10,575	**–**	–

In the current and the prior year, revenue recognised included the release of the total opening balance of contract liabilities, as the Group satisfied its performance obligations of supplying gas and power to customers who had previously prepaid.

Contract liabilities arise when customers prepay for supply, or when the amount invoiced exceeds the revenue recognised in line with contract progress based on the input method.

The nature of contract assets and contract liabilities are described in the revenue recognition section of note 3.

c) Remaining performance obligations

The Group has taken advantage of the practical expedient in IFRS 15 and as such does not disclose its remaining performance obligations where they fulfil either of the following conditions:

- It is part of a contract which has an expected duration of one year or less; or
- Revenue from the satisfaction of the performance obligation is recognised based on the invoiced amount.

7 NET INCOME FROM TRADING AND HEDGING ACTIVITIES

Included within Group Net loss from trading and hedging activities is a net loss of £(4,406.7)m (2021: loss of £(928.1)m) representing releases of cash flow hedge reserves from Other reserves; this loss is partially offset by the results in Gross profit from the underlying hedged portfolio to which these hedges apply. The remaining gain of £1,488.0m (2021: gain of £573.6m) represents the trading results of gas, power and derivatives businesses including contracts mandatorily measured at fair value through profit or loss of £1,463.5m (2021: £532.4m), and Group revenue from gas storage and transportation of £24.5m (2021: £41.2m).

Company Net income from trading and hedging activities is a net gain of £181.9m (2021: £504.9m gain) relating to trading contracts mandatorily measured at fair value through profit or loss, and Company revenue from gas storage and transportation of £29.1m (2021: £45.3m).

8 ADMINISTRATIVE EXPENSES

	Group		Company	
	2022 £'000s	2021 £'000s	**2022 £'000s**	2021 £'000s
Administrative expenses				
Staff costs	**240,934**	195,859	**182,605**	145,319
Other employee costs	**14,478**	13,060	**11,438**	10,923
Office costs	**31,046**	26,396	**21,896**	22,420
Rentals under short-term leases	**65**	104	**56**	109
Travel expenses	**1,158**	627	**575**	302
Consultancy (excluding Auditors' remuneration)	**3,851**	1,973	**3,181**	881
Auditors' remuneration	**1,765**	1,323	**1,263**	886
Depreciation	**64,171**	56,478	**6,173**	6,214
Amortisation	**19,337**	18,199	**10,507**	10,617
	376,805	314,019	**237,694**	197,671

Within prior year Administrative expenses is a rebate received against long-term leases. The Group claimed amounts against the lessor under the contractual terms of certain vessel time charters. There were no claims recognised during the current year (2021: £4.0m).

9 RIGHT-OF-USE ASSETS

Group	Leasehold Property £'000s	Vessels £'000s	Office Equipment £'000s	Vehicles £'000s	Total £'000s
Cost					
At 1 January 2021	44,898	289,868	49	49	334,864
Additions	427	193,080	–	26	193,533
Retirement of assets	(223)	–	–	–	(223)
Remeasurement	373	–	–	–	373
Currency translation	(172)	7,712	1	1	7,542
At 1 January 2022	**45,303**	**490,660**	**50**	**76**	**536,089**
Additions	147	127,591	–	27	127,765
Disposals	(2,856)	(269,329)	–	(28)	(272,213)
Retirement of assets	(2,058)	–	–	(49)	(2,107)
Remeasurement	14	(3,595)	–	–	(3,581)
Currency translation	1,167	58,539	6	2	59,714
At 31 December 2022	**41,717**	**403,866**	**56**	**28**	**445,667**
Accumulated depreciation					
At 1 January 2021	11,703	58,311	4	46	70,064
Charge for the year	6,308	47,209	10	6	53,533
Retirement of assets	(223)	–	–	–	(223)
Currency translation	(41)	1,657	–	–	1,616
At 1 January 2022	**17,747**	**107,177**	**14**	**52**	**124,990**
Charge for the year	6,274	54,895	11	10	61,190
Disposals	(830)	(85,217)	–	(5)	(86,052)
Retirement of assets	(2,058)	–	–	(49)	(2,107)
Currency translation	561	14,211	2	–	14,774
At 31 December 2022	**21,694**	**91,066**	**27**	**8**	**112,795**
Net book value					
At 31 December 2022	**20,023**	**312,800**	**29**	**20**	**332,872**
At 31 December 2021	27,556	383,483	36	24	411,099

During the period, certain subleases held by subsidiary companies of the Group were terminated before their contractual end date due to sanctions which restricted the Group's ability to transact with Russian incorporated companies. This led to the re-instatement of corresponding 'Right-of-use' assets.

The assets were re-instated at a value equivalent to that which would have been present if the subleases had never occurred. An amount of £127.6m is included as 'Additions' in the table above to reflect this re-instatement.

9 RIGHT-OF-USE ASSETS continued

Company	Leasehold Properties £'000s	Vehicles £'000s	Total £'000s
Cost			
At 1 January 2021	25,654	49	25,703
Additions	–	–	–
Remeasurement	373	–	373
At 1 January 2022	**26,027**	**49**	**26,076**
Additions	–	27	27
Disposals	(2,638)	–	(2,638)
Retirement of assets	–	(49)	(49)
Remeasurement	14	–	14
At 31 December 2022	**23,403**	**27**	**23,430**
Accumulated depreciation			
At 1 January 2021	6,802	47	6,849
Charge for the year	3,860	2	3,862
At 1 January 2022	**10,662**	**49**	**10,711**
Charge for the year	3,710	9	3,719
Disposals	(623)	–	(623)
Retirement of assets	–	(49)	(49)
At 31 December 2022	**13,749**	**9**	**13,758**
Net book value			
At 31 December 2022	**9,654**	**18**	**9,672**
At 31 December 2021	15,365	–	15,365

10 INVESTMENTS IN SUBSIDIARIES

Details of the Company's subsidiaries at 31 December 2022 are as follows:

Name of subsidiary	Registered address	Place of incorporation and operation	Business activity	Ordinary shares owned	Proportion of voting power
SEFE LNG Limited	20 Triton Street, London, NW1 3BF	United Kingdom	Energy trading	100%	100%
SEFE Energy Limited	20 Triton Street, London, NW1 3BF	United Kingdom	Energy supply	100%	100%
SEFE Marketing & Trading Mex (UK) 1 Limited	20 Triton Street, London, NW1 3BF	United Kingdom	Holding company	100%	100%
SEFE Marketing & Trading Mex (UK) 2 Limited	20 Triton Street, London, NW1 3BF	United Kingdom	Holding company	100%	100%
SEFE Energy SAS	68 Avenue des Champs Elysées 75008, Paris, France	France	Energy supply	100%	100%
SEFE Marketing & Trading USA, Inc. ("SM&T USA")	8 The Green Ste A, Dover, Kent County, State of Delaware, 19901 USA	USA	Energy trading	100%	100%
SEFE Marketing & Trading Singapore Pte Limited ("SM&T Singapore")	10 Collyer Quay, #10-01 Ocean Financial Centre, Singapore 049315	Singapore	Energy trading	100%	100%
SEFE M&T Mexico S.de R.L.de C.V. ("SM&T Mexico")	Bosque de Ciruelos 180 PP 101, Bosques de las Lomas, Del. Miguel Hidalgo, Distrito Federal, 11700, Mexico	Mexico	Energy trading	100%	100%
SEFE Marketing & Trading Switzerland AG ("SM&T Switzerland")	Poststrasse 2 Zug, 6300, Switzerland	Switzerland	Energy trading	100%	100%

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

Dividend income of £172.7m was received by the Company from its subsidiaries in 2022 (2021: £nil).

10 INVESTMENTS IN SUBSIDIARIES continued

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

	Company	
	2022 £'000s	2021 £'000s
At 1 January	**7,958**	7,958
Capital contribution to subsidiaries	**–**	–
At 31 December	**7,958**	7,958

11 INVENTORIES

	Group		Company	
	2022 £'000s	2021 £'000s	**2022 £'000s**	2021 £'000s
Gas in storage	**1,011,911**	949,062	**1,011,911**	949,062
Emissions, green energy and other compliance certificates	**40,352**	129,333	**32,875**	109,603
LNG inventories	**105,111**	183	**–**	–
LNG in tank	**30,793**	–	**30,793**	–
Other inventories	**9,233**	6,126	**–**	–
	1,197,400	1,084,704	**1,075,579**	1,058,665

£3,449.0m of Group inventory was recognised as an expense in the year (2021: £3,110.0m). £139.0m of Company inventory was recognised as an expense in the year (2021: £161.0m).

KfW has a charge over certain gas in storage which is used as security to support the SEFE Group's borrowing from KfW. At year end this gas in store had a value of £236.9m (2021: £nil).

12 LEASES

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

Disclosure of the carrying value, additions and depreciation of right-of-use assets can be found in note 9, Right-of-use assets.

The Group also acts as an intermediate lessor by subleasing vessels and office space to both related and unrelated counterparties. Per note 5 above, during the period, certain subleases held by subsidiary companies of the Group were terminated before their contractual end date due to sanctions which restricted the Group's ability to deal with Russian counterparties. This led to the de-recognition of 'net investment in sublease' assets affecting two vessels, and the re-instatement of 'Right-of-use' assets under the corresponding head leases.

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

a) Amounts recognised in the Statement of comprehensive income

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

		Group		Company	
	Note	**2022 £'000s**	2021 £'000s	**2022 £'000s**	2021 £'000s
Depreciation of right-of-use assets, included within administrative expenses	9	**61,190**	53,533	**3,719**	3,862
Lease interest expense, included within interest expense		**14,659**	20,030	**281**	433
Expense relating to short-term leases, included within cost of sales		**23,457**	13,941	**66**	115
Income relating to short-term leases for right-of-use assets, included within cost of sales		**32,353**	22,506	**122**	328
Finance income on the net investment in leases		**2,800**	6,641	**31**	42
Net gain on the derecognition of vessel leases		**10,100**	–	**–**	–

12 LEASES continued

b) Extension and termination options

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

Some of the Group's shipping contracts contain flexibility around redelivery dates at the end of the lease term, typically up to 30 days extensions. These provisions allow the Group to avoid penalties for late delivery where vessels are delayed due to poor weather, congestion at ports, or other operational difficulties.

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

As of 31 December 2022, potential future cash flows of £333.2m (undiscounted) (2021: £783.2m (undiscounted)) have not been included in the lease liability, because it is not reasonably certain that the leases will be extended or not terminated.

c) Committed leases not yet commenced

The Group has no committed leases that have not yet commenced (in 2021 the group signed a vehicle lease with a three-year lease term, commencing in 2022). The total future payments (relating to the base term) under such contracts is £nil (2021: £0.02m).

d) Lease commitments

The Group has entered into long-term contracts that are within the scope of IFRS 16. These contracts include LNG vessels chartered by the Group and property leases.

The maturities of the undiscounted lease liabilities under IFRS 16 are as follows:

	Group		Company	
	2022 £'000s	2021 £'000s	**2022 £'000s**	2021 £'000s
Not later than one year	**79,109**	116,853	**5,049**	4,839
Later than one year and not later than five years	**282,425**	400,375	**9,524**	15,981
Later than five years	**26,199**	154,286	**–**	772
	387,733	671,514	**14,573**	21,592

e) Intermediate lessor

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

Subleases – classified as operating leases

The Group acts as an intermediate lessor under arrangements in which it subleases office spaces and vessels to third parties in return for monthly lease payments. The sublease periods do not represent a significant proportion of the remaining lease terms of the head leases and accordingly are classified as operating leases.

Income from subleasing these assets recognised during the financial year 2022 was £32.4m (2021: £22.5m) for the Group.

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

	Group		Company	
	2022 £'000s	2021 £'000s	**2022 £'000s**	2021 £'000s
Operating leases				
Within 1 year	**7,796**	4,491	**–**	298
More than 2 years	**–**	21	**–**	–
Total undiscounted lease payments	**7,796**	4,512	**–**	298

12 LEASES continued

e) Intermediate lessor continued

Subleases – classified as finance leases
The Group's subleases of two LNG vessels and certain property leases are classified as finance leases because these subleases comprised the majority of the remaining term of the related head leases. The corresponding right-of-use assets were derecognised and a net investment in the sublease is recognised under "Lease receivables".

During the period, the subleases related to these two vessels were terminated before their contractual end date due to sanctions which restricted the Group's ability to deal with Russian counterparties. This led to the de-recognition of the associated 'net investment in sublease' assets.

The Group incurred losses of £24.7m on de-recognition of the sublease assets and re-instatement of the corresponding head lease 'Right-of-use' assets.

Finance income related to net investments in subleases during the financial year was £2.8m (2021: £6.6m) for the Group.

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

	Group		Company	
	2022 £'000s	2021 £'000s	**2022 £'000s**	2021 £'000s
Within 1 year	**1,491**	26,827	**1,491**	865
Between 1 and 2 years	**877**	26,827	**877**	865
Between 2 and 3 years	**258**	26,777	**258**	865
Between 3 and 4 years	**–**	26,039	**–**	283
Between 4 and 5 years	**–**	25,756	**–**	–
Later than 5 years	**–**	34,092	**–**	–
Total: undiscounted lease payments	**2,626**	166,318	**2,626**	2,878
Less: unearned future finance income	**(31)**	(21,051)	**(31)**	(64)
Less: Loss allowance for leases	**(260)**	(322)	**(260)**	(270)
Net investment in finance lease	**2,335**	144,945	**2,335**	2,544
Current	**1,202**	20,593	**1,202**	555
Non-current	**1,133**	124,352	**1,133**	1,989
Total	**2,335**	144,945	**2,335**	2,544

f) Net investment in leases as an intermediate lessor

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

	Group		Company	
	2022 £'000s	2021 £'000s	**2022 £'000s**	2021 £'000s
Opening net investment in leases	**144,945**	163,959	**2,544**	4,290
Remeasurement of existing finance leases	**(105)**	(53)	**(105)**	(51)
Lease payments received	**(10,400)**	(27,784)	**(135)**	(1,737)
Finance income earned in the year	**2,800**	6,641	**31**	42
Derecognition of vessel leases	**(152,165)**	–	**–**	–
Translation differences	**17,260**	2,182	**–**	–
Closing net investment in leases	**2,335**	144,945	**2,335**	2,544

13 PROVISIONS

Group	**Property £'000s**	**Onerous Contracts £'000s**	**Other £'000s**	**Total £'000s**
At 1 January 2021	2,422	16,350	850	19,622
Additional provisions	–	16,467	4,571	21,038
Provisions utilised/released	–	(10,922)	(191)	(11,113)
Currency translation	(2)	–	(50)	(52)
At 1 January 2022	**2,420**	**21,895**	**5,180**	**29,495**
Additional provisions	–	179,108	68,468	247,576
Provisions utilised/released	–	(12,625)	(949)	(13,574)
Currency translation	53	117	13	183
At 31 December 2022	**2,473**	**188,495**	**72,712**	**263,680**

Company	**Property £'000s**	**Onerous Contracts £'000s**	**Other £'000s**	**Total £'000s**
At 1 January 2021	1,500	16,350	609	18,459
Additional provisions	–	12,019	526	12,545
Provisions utilised/released	–	(10,922)	–	(10,922)
At 1 January 2022	**1,500**	**17,447**	**1,135**	**20,082**
Additional provisions	–	–	56,781	56,781
Provisions utilised/released	–	(9,506)	(1,080)	(10,586)
At 31 December 2022	**1,500**	**7,941**	**56,836**	**66,277**

Property provisions represent the expected net present value of the future costs of reinstating leasehold improvements at the end of the lease term. These provisions will be released when the reinstatement obligations have been fulfilled. These provisions give rise to related assets which are included as part of the initial measurement of right-of-use assets, see note 9.

Onerous contract provisions include amounts relating to a series of long-term contracts which provide access to regassification capacity for LNG in Mexico and onward transport of the associated natural gas. These contracts were initially entered to provide a sales point for LNG purchased under a long-term Sales and Purchase Agreement ("SPA") with a Russian supplier. Following the imposition of counter-sanctions by the Russian Government and the cessation of supplies under that LNG SPA, the Group has assessed these contracts in Mexico and determined that they represent onerous contracts. As such, a full charge for the remaining costs of the contracts has been recorded in the Statement of Comprehensive Income during the year. The provision is expected to be fully utilised by year end 2028.

Onerous contract provisions also include amounts relating to a long-term contract for capacity on a gas transportation pipeline which has been treated as an onerous contract during both the current and prior period. Judgement has been exercised to determine the expected amount of onerous payments which exceed expected future benefits, particularly for future periods where market prices are not readily available. The provision is expected to be fully utilised by year end 2023. Further balances relate to long-term energy supply contracts in the Retail business from which the Group expects the future cost of energy to exceed the fees charged to the customers. The provision will be utilised during 2023.

Other provisions also include customer contract provisions relating to the Dutch Government sanctions package 5k.

Other provisions may include legal provisions. In the ordinary course of business, from time to time the Group becomes engaged in contractual disputes with trading counterparties which may result in litigation for which a provision is required. The provision at 31 December 2022 represents the best estimate of the amount required to settle such obligations.

14 NET DEBT RECONCILIATION

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

Group

31 December 2022	**Cash and cash equivalents £'000s**	**Loan from parent entity £'000s**	**Finance lease liabilities £'000s**	**Total £'000s**
Net debt as at 1 January 2022	**942,841**	**–**	**(587,041)**	**355,800**
Acquisitions, terminations and remeasurement of leases	**–**	**–**	**225,368**	**225,368**
Cash flow	**2,532,251**	**(3,776,347)**	**69,790**	**(1,174,306)**
Currency translation and other non-cash movements	**16,621**	**–**	**(66,712)**	**(50,091)**
Net debt as at 31 December 2022	**3,491,713**	**(3,776,347)**	**(358,595)**	**(643,229)**

Group

31 December 2021	**Cash and cash equivalents £'000s**	**Loan from parent entity £'000s**	**Finance lease liabilities £'000s**	**Total £'000s**
Net debt as at 1 January 2021	62,276	(464,335)	(459,166)	(861,225)
Acquisitions and remeasurement of leases	–	–	(193,798)	(193,798)
Cash flow	881,571	464,335	73,289	1,419,195
Currency translation and other non-cash movements	(1,006)	–	(7,366)	(8,372)
Net debt as at 31 December 2021	**942,841**	**–**	**(587,041)**	**355,800**

Company

31 December 2022	**Cash and cash equivalents £'000s**	**Loan from parent and subsidiary entities £'000s**	**Finance lease liabilities £'000s**	**Total £'000s**
Net debt as at 1 January 2022	**1,083,175**	**(793,578)**	**(21,035)**	**268,562**
Acquisitions and remeasurement of leases	**–**	**–**	**2,312**	**2,312**
Cash flow	**4,416,597**	**(5,451,126)**	**4,857**	**(1,029,672)**
Currency translation and other non-cash movements	**12,937**	**(620)**	**(474)**	**11,843**
Net debt as at 31 December 2022	**5,512,709**	**(6,245,324)**	**(14,340)**	**(746,955)**

Company

31 December 2021	**Cash and cash equivalents £'000s**	**Loan from parent and subsidiary entities £'000s**	**Finance lease liabilities £'000s**	**Total £'000s**
Net debt as at 1 January 2021	55,269	(979,568)	(26,243)	(950,542)
Acquisitions and remeasurement of leases	–	–	–	–
Cash flow	1,028,684	185,370	5,182	1,219,236
Currency translation and other non-cash movements	(778)	620	26	(132)
Net debt as at 31 December 2021	**1,083,175**	**(793,578)**	**(21,035)**	**268,562**

15 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

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

For information about determining the fair value of the instruments, including judgements and estimation uncertainty involved, refer to notes 17 and 18, financial and non-financial instruments within the scope of IFRS 9.

The Group holds the following financial instruments:

		Group		Company	
	Note	**2022 £'000s**	2021 £'000s	**2022 £'000s**	2021 £'000s
Financial assets					
Financial assets at amortised cost:					
Trade and other receivables	15a	**3,499,938**	4,174,099	**3,218,844**	3,807,833
Lease receivables		**2,335**	144,945	**2,335**	2,544
Cash equivalents receivable from related parties	15b	**2,833,279**	906,965	**4,929,624**	1,076,675
Cash and cash equivalents	15b	**658,434**	35,876	**583,085**	6,500
Financial assets measured at fair value through profit or loss:					
Trading contracts	17	**10,603,466**	11,302,445	**12,991,916**	13,154,219
Fair value storage contracts	17	**136,471**	127,674	**136,471**	127,674
		17,733,923	16,692,004	**21,862,275**	18,175,445
Financial liabilities					
Financial liabilities at amortised cost:					
Trade and other payables	15c	**3,134,232**	5,721,865	**2,750,592**	5,222,471
Lease liabilities		**358,595**	587,041	**14,340**	21,035
Loans and overdrafts	15d	**3,776,347**	–	**6,245,324**	793,578
Financial liabilities measured at fair value through profit or loss:					
Trading contracts	17	**11,710,297**	10,794,020	**13,628,565**	12,807,130
Fair value storage contracts	17	**7,420**	3,193	**7,420**	3,193
		18,986,891	17,106,119	**22,646,241**	18,847,407

For financial assets and financial liabilities measured at fair value through profit or loss, changes in fair value are immediately recognised in the Statement of comprehensive income, except for effective amounts in hedging relationships. The Group's exposure to various risks associated with financial instruments, the maximum exposure to credit risk at the end of the reporting period, and the carrying amount of each class of financial assets is discussed in note 16.

15 FINANCIAL ASSETS AND FINANCIAL LIABILITIES continued

a) Trade and other receivables

	Group		Company	
	2022 £'000s	2021 £'000s	**2022 £'000s**	2021 £'000s
Due within one year				
Amounts receivable from sale of commodities:	**2,949,640**	3,784,716	**2,977,611**	3,750,024
from third parties	**2,709,823**	2,942,220	**2,141,229**	2,180,955
from subsidiary companies	**–**	–	**596,565**	726,677
from affiliated companies	**239,817**	842,496	**239,817**	842,392
Contract assets	**371,523**	262,477	**–**	–
Prepayments	**174,212**	98,896	**107,408**	15,902
Other debtors	**4,563**	6,128	**133,825**	41,907
	3,499,938	4,152,217	**3,218,844**	3,807,833
Due after one year				
Other long-term receivables	**–**	21,882	**–**	–
	–	21,882	**–**	–
Relating to:				
Financial assets	**2,954,203**	3,812,726	**3,111,436**	3,791,931
Non-financial assets	**545,735**	361,373	**107,408**	15,902
	3,499,938	4,174,099	**3,218,844**	3,807,833

Included within trade and other receivables are contract assets and prepayments, which are non-financial assets. These items have been aggregated within trade and other receivables as they represent a material class of similar items.

The Group holds these financial assets with the objective to collect the contractual cash flows and therefore measures them at amortised cost using the effective interest rate method. Details about the Group's impairment policies and the calculation of the loss allowance are provided in note 16.

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.

KfW has a charge over certain trade debtors (excluding prepayments and margin accounts) which are used as security to support the SEFE Group's borrowing from KfW. At year end these debtors had a carrying amount of £840.9m (2021: £nil).

b) Cash and cash equivalents

	Group		Company	
	2022 £'000s	2021 £'000s	**2022 £'000s**	2021 £'000s
Cash at bank and in hand	**658,434**	35,876	**583,085**	6,500
Cash equivalents with parent companies	**2,833,279**	906,965	**2,833,279**	906,965
Cash equivalents with subsidiary companies	**–**	–	**2,096,345**	169,710
Total cash and cash equivalents	**3,491,713**	942,841	**5,512,709**	1,083,175

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

The estimated fair value of all classes of cash and cash equivalents is the same as their carrying amounts. The maximum exposure to credit risk at the reporting date is the fair value of cash and cash equivalents mentioned above.

Interest income in the year relates to cash pool interest and interest on cash deposits.

15 FINANCIAL ASSETS AND FINANCIAL LIABILITIES continued

c) Trade and other payables

	Group		Company	
	2022 £'000s	2021 £'000s	**2022 £'000s**	2021 £'000s
Due within one year				
Amounts owed for purchase of commodities:	**2,850,584**	5,406,056	**2,559,527**	5,051,952
to third parties	**2,819,605**	5,365,075	**2,276,268**	4,945,008
to subsidiaries	**–**	–	**252,280**	95,283
to affiliated companies	**30,979**	40,981	**30,979**	11,661
Contract liabilities	**22,926**	10,575	**–**	–
Accruals	**111,994**	129,765	**112,658**	103,769
Deferred income	**39,393**	6,331	**34,758**	4,315
Other payables	**109,145**	121,539	**43,459**	14,836
	3,134,042	5,674,266	**2,750,402**	5,174,872
Due after more than one year				
Other long-term payables	**190**	47,599	**190**	47,599
Relating to:				
Financial liabilities	**3,071,913**	5,704,959	**2,715,834**	5,218,156
Non-financial liabilities	**62,319**	16,906	**34,758**	4,315
	3,134,232	5,721,865	**2,750,592**	5,222,471

Included within trade and other payables are contract liabilities and deferred income, which are non-financial in nature.

Included within the Group's trade and other payables to third parties is an amount of £nil (2021: £232.5m) relating to gas commodity prepayments.

d) Loans and overdrafts

	Group		Company	
	2022 £'000s	2021 £'000s	**2022 £'000s**	2021 £'000s
Amounts owed:				
to parent	**3,776,331**	–	**3,776,331**	–
to subsidiaries	**–**	–	**2,468,977**	793,578
to third parties	**16**	–	**16**	–
	3,776,347	–	**6,245,324**	793,578

As at 31 December 2022, the Group had access to various uncommitted and committed rolling credit facilities. Details of the facilities of the Group are discussed in the Liquidity risk section of note 16.

Interest expense in the year relates to the loans commitment fee, loan interest rate charges as well as cash pool interest.

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

16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Risk Management System is an integral component of the business processes and activities of the Group; it comprises the Group's risk management processes, together with the documented policies, procedures and specific methodologies for the identification, assessment and management of risk. Implementation and oversight of all elements of the Risk Management System, in addition to its responsibility for ensuring the Group meets its strategic, financial and operational objectives, is under the stewardship of the Managing Director of SEFE Group. The Company CEO is in turn responsible for ensuring that Company follows the risk strategy, principles and policies as defined by the Managing Director of SEFE Group. The system is run on the principle of three lines of defence, with the Risk Owners (principally the Commercial Department) operating as the first-line of defence; the Risk Co-ordinators (the independent Group Risk Department) operating as the second-line of defence; and the parent company's internal control function operating as the third-line of defence.

The Company's commercial department, as Risk Owners, are primarily responsible for managing the Group's risks. They are supported by the Group Risk Department that provides an advisory, control and oversight function, independent of the Commercial and other Support Functions. The SEFE Managing Director is further supported in his risk management responsibilities by the SEFE Risk Committee ("RC"). The RC provides recommendations and advice to the SEFE Managing Director on risk-related matters.

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

Capital management

The Group's objectives in managing its capital are to safeguard its ability to continue as a going concern and to generate long-term profitability. It achieves this through maintaining adequate reserves and loans from related parties. Share capital and reserves at 31 December 2022 were £90.3m (2021: £898.6m). The Group has £3,776.3m borrowings from its parent company, SEFE (2021: £nil). It should be noted that the Group also had £3,491.7m of cash and cash equivalents at year-end. To strengthen SM&T's balance sheet and to emphasise the importance of SM&T's role as a face to traded markets in SEFE Group, on 7 March 2023 SM&T received an equity injection of £880.0m through issuance of preference shares to SEFE. The Group manages its liquidity to ensure that sufficient cash is available to meet all contractual commitments as they fall due and also to ensure that there is sufficient funding to withstand stressed market conditions or extreme or unplanned events. Liquidity is managed by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and financial liabilities.

Market risk

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

For a period of time during 2022, the Group ran higher than normal market risks. This was initially due to limitations to the Group's ability to access traded markets following the outbreak of war in the Ukraine, and subsequently driven by the impact of counter-sanctions imposed on the Group by Russia. This led to the Group being exposed to higher than normal MVaR at certain periods during the year. However, the interventions of the German Government enabled the Group to regain market access and rapidly re-hedge its revised portfolio exposures.

The Group uses a Value-at-Risk ("VaR") measure to monitor and review its exposure to market risk. VaR is an estimate of the potential loss on a given position or portfolio over a specific holding period, based on normal market conditions and within a given statistical confidence interval. The Group uses a Monte Carlo simulation methodology for computing VaR, with a confidence interval of 97.5% and an assumed holding period of one day.

Executive management has approved VaR limits for all trading activities, regularly reviews the limits and monitors performance against these limits. It is recognised that VaR cannot be relied upon solely to predict the size of potential losses, and as such, additional market risk monitoring techniques are employed such as stress testing and sensitivity analysis.

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

	2022		2021	
Group	**Average £'000s**	**Year End £'000s**	Average £'000s	Year End £'000s
Trading VaR	**25,964**	**12,988**	10,280	16,510

These VaR values are within the limits set by the Company's Managing Director and increased during 2022 to reflect the impact of higher prices and volatilities on the VaR calculation.

16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Market risk continued

i. Commodity price risk

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

The Group is also exposed to volumetric risk in sales contracts agreed in the Retail business in the form of an uncertain consumption profile arising from a range of factors, including weather, and in the trading business where there is uncertain demand from counterparties when volumetric optionality exists within the contracts.

Forward contracts, swaps, options and futures are used to mitigate price risk specific to each commodity. These contracts are carried at fair value with changes in fair value recorded in the Statement of comprehensive income unless they are designated as hedging instruments in an effective hedge relationship. Retail energy supply contracts and physical LNG contracts are not accounted for under the scope of IFRS 9 and are treated as executory contracts. Changes in fair value of these contracts do not immediately impact Operating profit or Equity and, as such, the contracts are not exposed to commodity price risk as defined by IFRS 7: *Financial Instruments – Disclosure*. The carrying value of commodity contracts at 31 December 2022 is disclosed in note 17.

ii. Foreign currency risk

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

a. Transactional currency risk

The Group is exposed to transactional currency risk on transactions denominated in currencies other than the underlying functional currency of the transacting entity. The Group's primary functional currencies are Sterling in SM&T Limited and SEFE Energy Limited, Euro in SEFE Energy SAS and US Dollars in SEFE LNG Limited, SM&T USA, SM&T Singapore and SM&T Switzerland. Transactional risk is the risk that the functional currency value of cash flows will vary as a result of movements in exchange rates.

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

Material transactional exposures are managed using derivative contracts to fix the functional currency value of non-functional currency cash flows. Currency risk is monitored and managed as part of the Group's VaR analysis. The RC sets restrictions by currency on the level of open positions allowed. A formal policy is in place for the management of non-trading related transactional foreign currency risks such as inter-company loans and non-functional currency overheads.

b. Translational currency risk

The Group has foreign currency exposure arising from its foreign operations. The Group does not have a formal hedging policy to protect the Sterling asset value of its net investments in foreign operations; however, budgeted exchange rates are set and Group performance against budgeted exchange rates is monitored by management. The budgeted exposures are assessed against the costs to hedge and management decides whether any action is required. The table below details the Group's foreign currency exposure, by currency, and calculates the impact on total comprehensive income of a reasonably possible parallel shift of the foreign currency against Sterling.

	2022 Sensitivity analysis			2021 Sensitivity analysis		
	Net assets £000s	**Percentage change applied**	**Total comprehensive income £000s**	Net assets £000s	Percentage change applied	Total comprehensive income £000s
Euro	**(1,271)**	**7.08%**	**(90)**	(3,252)	7.08%	(230)
US Dollar	**(1,049,438)**	**(10.66)%**	**111,860**	(594,081)	3.32%	(19,743)
	(1,050,709)		**111,770**	(597,333)		(19,973)

The percentage change applied for the foreign currency rate against Sterling has been calculated based on the greatest absolute annual percentage change over a two-year period from 1 January 2021 to 31 December 2022 and is therefore not necessarily the same percentage change in each foreign currency exchange rate in the current year.

16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Market risk continued

iii. Interest rate risk
The Group is exposed to interest rate risk to the extent that borrowings are executed at floating rates. Cash flows associated with floating rate borrowings will fluctuate with changes in interest rates. The Group has £3,776.3m (2021: £nil) borrowings and £2,833.3m (2021: £907.0m) cash pool receivable from its parent company, SEFE, as well as £0.7m (2021: £nil) cash at bank. Therefore the application of a parallel shift in the interest rate curve of 50 basis points on drawn loan balances extant at year-end would result in a net additional expense of £1.4m per annum as at 31 December 2022 (2021: £Nil).

Credit risk

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

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

As with market risks, credit exposures increased materially during 2022 as the Group had limited ability to re-balance credit risks during the year because of restrictions on trading activity caused by the war. However, by the end of the year, credit exposures were reduced materially due to a combination of reducing prices and the Group's ability to rebalance credit exposures as market access conditions improved.

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

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

The Group's credit position is impacted by cash pledged or received under margin and collateral agreements. The terms and conditions of these agreements depend upon the counterparty and the specific details of the transaction. In the Group, credit risk is managed by determining and monitoring a customer's creditworthiness and financial strength before commencing trading, with regular reviews thereafter. Creditworthiness is ascertained by reviewing an appropriate mix of internal and external information to determine limits, contract types and payment mechanisms required to reduce credit risk to an acceptable level.

The Group defines default as having occurred where receivables are more than 90 days past due or where irrecoverability is certain.

The Group's maximum exposure to credit risk on financial assets held at fair value through profit or loss is £10,739.9m (2021: £11,430.1m) and on financial assets held at amortised cost is £6,448.3m (2021: £4,900.5m). The Group also actively manages its portfolio to avoid concentrations of credit.

The Company's maximum exposure to credit risk on financial assets held at fair value through profit or loss is £13,128.4m (2021: £13,281.9m) and on financial assets held at amortised cost is £8,626.5m (2021: £4,877.7m), of which £2,788.8m (2021: £1,803.4m) related to transactions within the Group.

For financial assets and financial guarantee contracts subject to the impairment requirements of IFRS 9, the exposure to credit risk of the Group as at 31 December 2022 is disclosed in the expected credit loss section below, based on the carrying amounts of the financial assets the Group believes are subject to credit risk. These carrying amounts include the impact of offsetting but do not include the impact of other credit enhancements discussed above.

16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Credit risk continued

Expected credit losses

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

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

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

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

ECL methodology

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

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

Exposure to credit risk

In order to assess the Group's exposure to credit risk, the gross carrying amount of financial instruments subject to the ECL model, or for financial guarantee contracts, their gross notional amount, are grouped by credit risk ratings in the table below.

The available credit ratings range from AAA (highest credit quality) to D (lowest credit quality), with the latter representing exposure to counterparties already in default. Where the Group is unable to obtain a credit rating for a counterparty at the reporting date, the exposure is included in the 'Unrated' category. Expected credit losses for these entities are calculated in line with C rated counterparties. Contract assets represent receivables for gas supplied to the customer portfolio of the Retail business which has not yet been allocated to specific customer accounts or invoiced. Expected credit losses for these balances are calculated using the weighted average credit rating of the Retail portfolio. It should be noted that collateral is held against some of the lower rated counterparties in the portfolio (refer to the "Collateral and other credit enhancements" section below).

Group

	Credit rating					
31 December 2022	**AAA to BBB- £'000s**	**BB+ to B- £'000s**	**CCC+ to C £'000s**	**D £'000s**	**Unrated £'000s**	**Contract asset £'000s**
Lifetime ECL						
Gross carrying amount – trade and other receivables	**2,533,479**	**316,783**	**102,026**	**4,702**	**50,328**	**361,953**
12-month ECL						
Gross carrying amount – cash and cash equivalents	**3,492,964**	–	**2,757**	–	–	–
Gross carrying amount – lease receivables	**106**	–	**2,489**	–	–	–
Exposure to credit risk – financial guarantee contracts	–	–	–	–	–	–

Company

	Credit rating					
31 December 2022	**AAA to BBB- £'000s**	**BB+ to B- £'000s**	**CCC+ to C £'000s**	**D £'000s**	**Unrated £'000s**	**Contract asset £'000s**
Lifetime ECL						
Gross carrying amount – trade and other receivables	**2,182,759**	**903,991**	**41,715**	**1,540**	**987**	–
12-month ECL						
Gross carrying amount – cash and cash equivalents	**3,421,815**	**2,096,345**	**2,209**	–	–	–
Gross carrying amount – lease receivables	**106**	–	**2,489**	–	–	–
Exposure to credit risk – financial guarantee contracts	–	**633**	–	–	–	–

16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Credit risk continued
Expected credit losses continued
Exposure to credit risk continued

The loss allowance as at 31 December 2021 was determined as follows:

Group

	Credit rating					
31 December 2021	**AAA to BBB- £'000s**	**BB+ to B- £'000s**	**CCC+ to C £'000s**	**D £'000s**	**Unrated £'000s**	**Contract asset £'000s**
Lifetime ECL						
Gross carrying amount – trade and other receivables	3,173,999	612,120	42,833	3,537	50,759	219,899
12-month ECL						
Gross carrying amount – cash and cash equivalents	942,102	465	282	–	542	–
Gross carrying amount – lease receivables	142,453	149	2,665	–	–	–
Exposure to credit risk – financial guarantee contracts	–	–	–	–	–	–

Company

	Credit rating					
31 December 2021	**AAA to BBB- £'000s**	**BB+ to B- £'000s**	**CCC+ to C £'000s**	**D £'000s**	**Unrated £'000s**	**Contract asset £'000s**
Lifetime ECL						
Gross carrying amount – trade and other receivables	2,743,242	1,056,084	2,213	–	3,165	–
12-month ECL						
Gross carrying amount – cash and cash equivalents	913,358	170,175	282	–	–	–
Gross carrying amount – lease receivables	–	149	2,665	–	–	–
Exposure to credit risk – financial guarantee contracts	–	224,013	–	–	–	–

Collateral and other credit enhancements

The Group receives cash collateral from certain counterparties as a method of mitigating credit risk on trade receivables. Where the carrying value of the trade receivables is supported by cash collateral, no expected credit loss has been recognised on these amounts. The carrying value of trade receivables where no expected credit loss has been recognised amounts to £56.2m (2021: £34.8m).

Write-off policy

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

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

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

Amounts recognised in profit or loss

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

	Group		Company	
	2022 £'000s	2021 £'000s	**2022 £'000s**	2021 £'000s
Individual receivables written off directly	**247,934**	3,484	**129,285**	–
Movement in loss allowance for trade and other receivables	**15,114**	1,850	**(2,500)**	(10,172)
Movement in loss allowance for lease receivables	**(62)**	53	**(10)**	51
Movement in loss allowance for cash and cash equivalents	**3,434**	519	**7,021**	608
Movement in loss allowance for financial guarantee contracts	**–**	–	**(1,080)**	527
Net impairment losses/(reversals) on financial and contract assets	**266,420**	5,906	**132,716**	(8,986)

Certain individual receivables written off directly in the period are in relation to sanctioned counterparties. Refer to note 5 for further details.

16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Liquidity risk

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

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

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

The Group's funding, available from SEFE, totals €4.8bn and is comprised of €3.7bn committed funding line until June 2028 matched to SEFE's external funding, and €1.1bn cash pooling limit with SEFE.

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

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

The undiscounted gross cash inflows to be received on an annual basis related to lease receivables have been separately disclosed in note 12.

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

Group

31 December 2022	Within 1 month £'000	Within 2-12 months £'000	1-2 years £'000	2-5 years £'000	Over 5 years £'000	Total £'000
Due for receipt						
Commodity trading contracts	**5,605,315**	**18,854,783**	**5,561,564**	**2,376,683**	**276,195**	**32,674,540**
Derivative instruments	**106,233**	**1,910,546**	**686,669**	**178,376**	**1,487**	**2,883,311**
Fair value storage contracts	**136,471**	**–**	**–**	**–**	**–**	**136,471**
Cash and cash equivalents	**3,491,713**	**–**	**–**	**–**	**–**	**3,491,713**
Trade and other receivables	**3,348,849**	**151,089**	**–**	**–**	**–**	**3,499,938**
Total	**12,688,581**	**20,916,418**	**6,248,233**	**2,555,059**	**277,682**	**42,685,973**
Due for payment						
Commodity trading contracts	**5,983,997**	**21,430,202**	**7,030,659**	**4,264,692**	**270,977**	**38,980,527**
Derivative instruments	**194,638**	**925,967**	**569,744**	**18,082**	**–**	**1,708,431**
Fair value storage contracts	**7,420**	**–**	**–**	**–**	**–**	**7,420**
Trade and other payables	**3,009,210**	**124,832**	**–**	**190**	**–**	**3,134,232**
Loans and overdrafts	**3,776,347**	**–**	**–**	**–**	**–**	**3,776,347**
Total	**12,971,612**	**22,481,001**	**7,600,403**	**4,282,964**	**270,977**	**47,606,957**

16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Liquidity risk continued

Group

31 December 2021	Within 1 month £'000	Within 2-12 months £'000	1-2 years £'000	2-5 years £'000	Over 5 years £'000	Total £'000
Due for receipt						
Commodity trading contracts	10,026,660	24,250,133	6,872,648	3,083,894	44,236	44,277,571
Derivative instruments	114,611	1,555,500	568,358	196,084	1,598	2,436,151
Fair value storage contracts	127,674	–	–	–	–	127,674
Cash and cash equivalents	942,841	–	–	–	–	942,841
Trade and other receivables	3,958,860	193,357	21,882	–	–	4,174,099
Total	15,170,646	25,998,990	7,462,888	3,279,978	45,834	51,958,336
Due for payment						
Commodity trading contracts	10,010,592	24,115,107	5,989,941	2,170,532	–	42,286,172
Derivative instruments	74,902	652,284	79,001	2,172	205	808,564
Fair value storage contracts	–	3,193	–	–	–	3,193
Trade and other payables	5,194,947	479,319	47,409	190	–	5,721,865
Loans and overdrafts	–	–	–	–	–	–
Total	15,280,441	25,249,903	6,116,351	2,172,894	205	48,819,794

Company

31 December 2022	Within 1 month £'000	Within 2-12 months £'000	1-2 years £'000	2-5 years £'000	Over 5 years £'000	Total £'000
Due for receipt						
Commodity trading contracts	**5,879,057**	**20,253,054**	**6,131,422**	**2,568,573**	**276,195**	**35,108,301**
Derivative instruments	**142,550**	**3,775,145**	**1,158,456**	**178,376**	**1,487**	**5,256,014**
Fair value storage contracts	**136,471**	**–**	**–**	**–**	**–**	**136,471**
Cash and cash equivalents	**5,512,709**	**–**	**–**	**–**	**–**	**5,512,709**
Trade and other receivables	**3,166,598**	**52,246**	**–**	**–**	**–**	**3,218,844**
Total	**14,837,385**	**24,080,445**	**7,289,878**	**2,746,949**	**277,682**	**49,232,339**
Due for payment						
Commodity trading contracts	**6,055,877**	**21,704,551**	**7,122,945**	**4,286,801**	**270,977**	**39,441,151**
Derivative instruments	**382,917**	**1,597,522**	**677,508**	**18,076**	**–**	**2,676,023**
Fair value storage contracts	**7,420**	**–**	**–**	**–**	**–**	**7,420**
Trade and other payables	**2,641,864**	**108,538**	**–**	**190**	**–**	**2,750,592**
Loans and overdrafts	**6,245,324**	**–**	**–**	**–**	**–**	**6,245,324**
Total	**15,333,402**	**23,410,611**	**7,800,453**	**4,305,067**	**270,977**	**51,120,510**

16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Liquidity risk continued

Company

31 December 2021	Within 1 month £'000	Within 2-12 months £'000	1-2 years £'000	2-5 years £'000	Over 5 years £'000	Total £'000
Due for receipt						
Commodity trading contracts	10,231,631	25,185,711	7,350,029	3,372,044	44,384	46,183,799
Derivative instruments	116,376	3,064,905	840,599	196,419	1,598	4,219,897
Fair value storage contracts	127,674	–	–	–	–	127,674
Cash and cash equivalents	1,083,175	–	–	–	–	1,083,175
Trade and other receivables	3,654,544	153,289	–	–	–	3,807,833
Total	15,213,400	28,403,905	8,190,628	3,568,463	45,982	55,422,378
Due for payment						
Commodity trading contracts	10,060,963	24,315,663	6,070,626	2,198,535	33	42,645,820
Derivative instruments	105,934	1,150,257	144,688	3,365	205	1,404,449
Fair value storage contracts	–	3,193	–	–	–	3,193
Trade and other payables	4,714,511	460,361	47,409	190	–	5,222,471
Loans and overdrafts	663,723	129,855	–	–	–	793,578
Total	15,545,131	26,059,329	6,262,723	2,202,090	238	50,069,511

Economic capital

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

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

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

As part of its business operations, the Group uses derivative financial instruments ("derivatives") in order to manage exposure to fluctuations in commodity prices and foreign exchange rates. Trading activities are undertaken sometimes using a range of contract types in combination to create incremental gains by arbitraging prices between markets, locations and time periods. The Group enters into currency derivatives to hedge certain foreign currency cash flows and to adjust the currency composition of its assets and liabilities. The Group's policy is to enter into currency derivatives only where these are matched by an underlying asset, liability or forecast transaction.

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

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

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

For the Group and the Company, all derivatives not subject to hedge accounting are classified as held-for-trading instruments and no financial instruments have been designated at fair value through profit or loss in accordance with the fair value option available within IFRS 9 (2021: £nil).

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

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

	Group		Company	
	2022 £'000s	2021 £'000s	**2022 £'000s**	2021 £'000s
Non-current assets				
Commodity trading contracts	**4,130,776**	2,721,950	**4,606,204**	3,007,358
Emission allowance contracts	**1,520**	34,834	**1,520**	34,834
Foreign exchange contracts	**18,489**	16,777	**18,489**	16,777
	4,150,785	2,773,561	**4,626,213**	3,058,969
Current assets				
Commodity trading contracts	**6,278,754**	8,407,854	**8,146,937**	9,970,885
Emission allowance contracts	**94,825**	37,263	**94,825**	37,263
Foreign exchange contracts	**79,102**	83,767	**123,941**	87,102
Fair value storage contracts	**136,471**	127,674	**136,471**	127,674
	6,589,152	8,656,558	**8,502,174**	10,222,924
Current liabilities				
Commodity trading contracts	**7,618,292**	8,073,379	**8,845,591**	9,562,999
Emission allowance contracts	**102,317**	41,250	**102,317**	41,250
Foreign exchange contracts	**22,847**	37,693	**159,080**	90,915
Fair value storage contracts	**7,420**	3,193	**7,420**	3,193
	7,750,876	8,155,515	**9,114,408**	9,698,357
Non-current liabilities				
Commodity trading contracts	**3,962,745**	2,596,351	**4,503,207**	3,052,412
Emission allowance contracts	**3,981**	44,532	**3,981**	44,532
Foreign exchange contracts	**115**	815	**14,389**	15,022
Fair value storage contracts	**–**	–	**–**	–
	3,966,841	2,641,698	**4,521,577**	3,111,966

18 FAIR VALUE MEASUREMENT

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

Fair value hierarchy

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

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

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

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

18 FAIR VALUE MEASUREMENT continued

Fair value hierarchy continued

The following tables show the Group's assets and liabilities that were accounted for at fair value at the reporting date according to their level within the fair value hierarchy. Assets and liabilities are classified in their entirety based on the lowest level input that is significant to the fair value measurement as a whole. The Group's assessment of the significance of a particular input to the fair value measurement requires judgement, and may affect the valuation of assets and liabilities and their placement within the fair value hierarchy.

	Group			
2022	**Level 1 £'000s**	**Level 2 £'000s**	**Level 3 £'000s**	**Total £'000s**
Held for trading assets				
Commodity trading contracts	**2,607,897**	**7,787,017**	**14,616**	**10,409,530**
Emission allowance contracts	**42,858**	**53,487**	**–**	**96,345**
Forward foreign exchange contracts	**–**	**97,591**	**–**	**97,591**
Fair value storage contracts	**–**	**136,471**	**–**	**136,471**
	2,650,755	**8,074,566**	**14,616**	**10,739,937**
Inventories held at Fair value	**3,246**	**1,042,704**	**–**	**1,045,950**
Held for trading liabilities				
Commodity trading contracts	**1,266,549**	**10,072,757**	**241,731**	**11,581,037**
Emission allowance contracts	**95,369**	**10,929**	**–**	**106,298**
Forward foreign exchange contracts	**–**	**22,962**	**–**	**22,962**
Fair value storage contracts	**–**	**7,420**	**–**	**7,420**
	1,361,918	**10,114,068**	**241,731**	**11,717,717**

	Group			
2021	**Level 1 £'000s**	**Level 2 £'000s**	**Level 3 £'000s**	**Total £'000s**
Held for trading assets				
Commodity trading contracts	2,059,100	8,966,451	104,253	11,129,804
Emission allowance contracts	72,045	52	–	72,097
Forward foreign exchange contracts	–	100,544	–	100,544
Fair value storage contracts	–	127,674	–	127,674
	2,131,145	9,194,721	104,253	11,430,119
Inventories held at Fair value	74,870	949,062	–	1,023,932
Held for trading liabilities				
Commodity trading contracts	426,276	10,233,749	9,705	10,669,730
Emission allowance contracts	56,219	29,563	–	85,782
Forward foreign exchange contracts	–	38,508	–	38,508
Fair value storage contracts	–	3,193	–	3,193
	482,495	10,305,013	9,705	10,797,213

18 FAIR VALUE MEASUREMENT continued

Fair value hierarchy continued

2022	Company Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Held for trading assets				
Commodity trading contracts	**2,607,897**	**10,130,628**	**14,616**	**12,753,141**
Emission allowances contracts	**42,858**	**53,487**	**–**	**96,345**
Forward foreign exchange contracts	**–**	**142,430**	**–**	**142,430**
Fair value storage contracts	**–**	**136,471**	**–**	**136,471**
	2,650,755	**10,463,016**	**14,616**	**13,128,387**
Inventories held at Fair value	**3,246**	**1,042,704**	**–**	**1,045,950**
Held for trading liabilities				
Commodity trading contracts	**1,266,549**	**11,840,518**	**241,731**	**13,348,798**
Emission allowances contracts	**95,369**	**10,929**	**–**	**106,298**
Forward foreign exchange contracts	**–**	**173,469**	**–**	**173,469**
Fair value storage contracts	**–**	**7,420**	**–**	**7,420**
	1,361,918	**12,032,336**	**241,731**	**13,635,985**

2021	Company Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Held for trading assets				
Commodity trading contracts	2,059,100	10,814,890	104,253	12,978,243
Emission allowances contracts	72,045	52	–	72,097
Forward foreign exchange contracts	–	103,879	–	103,879
Fair value storage contracts	–	127,674	–	127,674
	2,131,145	11,046,495	104,253	13,281,893
Inventories held at Fair value	74,870	949,062	–	1,023,932
Held for trading liabilities				
Commodity trading contracts	426,276	12,179,430	9,705	12,615,411
Emission allowances contracts	56,219	29,563	–	85,782
Forward foreign exchange contracts	–	105,937	–	105,937
Fair value storage contracts	–	3,193	–	3,193
	482,495	12,318,123	9,705	12,810,323

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

	Group £'000s	Company £'000s
Fair value at 1 January 2021	(1,769)	(1,769)
Sales	94,547	94,547
Settlements	1,769	1,769
Fair value at 1 January 2022	**94,547**	**94,547**
Purchases	**(227,115)**	**(227,115)**
Settlements	**(94,547)**	**(94,547)**
Fair value at 31 December 2022	**(227,115)**	**(227,115)**

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.

18 FAIR VALUE MEASUREMENT continued

Fair value hierarchy continued

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

Significant transfers between Level 1, Level 2 and Level 3 of the fair value hierarchy:
There were no significant transfers between Level 1 and Level 2, nor Level 2 and Level 3 (2021: £nil).

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

Sensitivity of fair values to changing significant assumptions to reasonably possible alternatives:
All instruments are valued in accordance with the techniques outlined in the fair value hierarchy disclosure above. The majority of Level 3 assets and liabilities comprise power interconnector contracts. The Group uses a proprietary model with unobservable inputs, for which the valuation differs on day one to the transaction price. The model price is then calibrated to ensure that it reflects the transaction price. The impact of varying the unobservable parameters as at 31 December 2022 and at 31 December 2021 was immaterial.

Day-one P&L
If, at inception of a contract, the fair value cannot be supported entirely by observable market data, any gain or loss determined by the valuation methodology is not recognised in the Statement of comprehensive income but is deferred. These amounts are commonly known as "day-one" gains and losses. This deferred gain or loss is recognised in the Statement of comprehensive income over the life of the contract on a straight-line, or otherwise appropriate, basis until substantially all of the remaining contract term can be valued using observable market data. At this point, any remaining deferred gain or loss is recognised in the Statement of comprehensive income. Changes in the fair value of held-for-trading assets and liabilities after initial recognition are included in the Statement of comprehensive income in the period in which they occur. The following table shows the changes in the day-one gains and losses deferred:

	Group	
	2022 £'000s	2021 £'000s
Day-one gains and losses		
Fair value of contracts not recognised through the Statement of comprehensive income at 1 January	**13,353**	7,337
Initial fair value of new contracts not recognised in the Statement of comprehensive income	**(54,512)**	13,353
Fair value recognised in the Statement of comprehensive income during the year	**(13,353)**	(7,337)
Fair value of contracts not recognised through the Statement of comprehensive income at 31 December	**(54,512)**	13,353

	Company	
	2022 £'000s	2021 £'000s
Day-one gains and losses		
Fair value of contracts not recognised through the Statement of comprehensive income at 1 January	**13,353**	7,337
Initial fair value of new contracts not recognised in the Statement of comprehensive income	**(54,512)**	13,353
Fair value recognised in the Statement of comprehensive income during the year	**(13,353)**	(7,337)
Fair value of contracts not recognised through the Statement of comprehensive income at 31 December	**(54,512)**	13,353

19. CONTINGENCIES

Contingent liabilities

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

The following contingent liabilities have not been provided for by the Group or the Company, as it is anticipated that no material liabilities will arise from these contingencies.

	Group		Company	
	2022 £'000s	2021 £'000s	**2022 £'000s**	2021 £'000s
Letters of credit and bank guarantees	**–**	–	**–**	2,407
Parent company guarantees	**–**	–	**10,806**	139,414
	–	–	**10,806**	141,821

The table above shows the exposure to the Company on its issued guarantees as at 31 December 2022.

20 RELATED PARTY TRANSACTIONS

a) Transactions

During the year, the Group entered into various transactions with related parties as shown in the table below.

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				
2022	**10,883**	**37,140**	**2,970,238**	**3,861,029**
2021	95,323	30,503	1,034,995	6,593
Other entities with indirect control over the Group				
2022	**163,413**	**376,552**	**–**	**–**
2021	41,869	647,870	291,678	23,429
Other related parties				
2022	**30,719,107**	**23,276,762**	**666,526**	**6,627,402**
2021	11,024,979	13,397,476	1,115,179	4,612,267

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				
2022	**10,883**	**37,140**	**2,970,238**	**3,860,990**
2021	95,323	30,503	1,034,995	6,361
Other entities with indirect control over the Group				
2022	**1,990**	**375,260**	**–**	**–**
2021	20,947	630,874	291,534	19,864
Subsidiaries				
2022	**6,647,237**	**2,404,887**	**5,228,357**	**4,860,130**
2021	4,354,911	2,130,329	2,799,580	2,905,483
Other related parties				
2022	**30,713,046**	**23,082,666**	**666,526**	**6,626,376**
2021	11,016,222	13,026,386	972,726	4,583,344

b) Commitments

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

	Group		Company	
	2022 £m	2021 £m	**2022 £m**	2021 £m
Parent company purchases	**–**	6	**–**	6
Parent company sales	**26**	–	**26**	–
Other entities sales	**–**	–	**–**	–
Other entities purchases	**1**	671	**1**	40
Subsidiaries sales	**–**	–	**288**	–
Subsidiaries purchases	**–**	–	**1,502**	–

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 2022 the Company had provided £454.0m of parental guarantees on behalf of its subsidiaries (2021: £518.0m).

21 ULTIMATE PARENT AND CONTROLLING PARTY

The ultimate parent and controlling party until 4 April 2022 was Public Joint Stock Company Gazprom, a company incorporated in Russia. From the 4 April 2022 the immediate parent of the Group, the Group and the Company were under the trusteeship of the Federal Network Agency and the Federal Ministry of Economics and Climate Protection of Germany. As of 14 November 2022 the ultimate parent company and controlling party is SEEHG Securing Energy for Europe Holding Group GmbH, a company incorporated in Germany. The ultimate parent company remains under the control of the German Federal Government.

The parent undertaking of the smallest group which includes the Group and for which consolidated Financial Statements are prepared, is SEFE Securing Energy for Europe GmbH (previously known as Gazprom Germania GmbH), a company incorporated in Germany.

Copies of the consolidated Financial Statements of SEFE Securing Energy for Europe GmbH are available from SEFE Securing Energy for Europe GmbH, Markgrafenstraße 23, D-10117 Berlin Germany. Copies of the consolidated Financial Statements of PJSC Gazprom are available from Nametkina str., 16 V-420, GSP-7, 117997, Moscow, Russia.

22 SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

On 7 March 2023 the Company received an equity injection of £880m through issuing preference shares to SEFE. Following the equity injection, SM&T repaid its outstanding debt to SEFE.

OFFICERS AND PROFESSIONAL ADVISERS

Directors
A V Mikhalev (resigned on 22 March 2022)
W Skribot (resigned on 17 November 2022)
E Laege (appointed on 13 July 2022)
F Barnaud (appointed on 26 September 2022)

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Floyd Zadkovich LLP
Deloitte Mexico
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Details correct at time of publication

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