

Centrica Energy Trading A/S

Skelagervej 1
9000 Aalborg

CVR-No.
20293195

Annual Report 2018

The Annual Report has been adopted and approved on the Annual General Meeting on 28 May 2019.

Chairman of the General Meeting
Anne Sveistrup Boysen

ANNUAL REPORT

2018

centrica

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**PREFACE
AND AT
A GLANCE**

Executive Review

Throughout 2018 we saw the level of activity in Centrica Energy Trading grow in our two main business areas trading and origination resulting in an 85% increase in revenue totaling 69.3 bDKK driven by both higher level of business activities and increasing commodity prices.

The rising level of activity, however, didn't materialise proportionally into growing profits as we in 2018 saw a decrease in EBITDA of 10% to 213,6 mDKK and company profits before tax of 150.4 mDKK which is a decrease from 2017. 2018 actual performance was below plan.

An Eventful Year

Throughout 2018 significant resources have been put into integrating activities with Centrica EM&T London to ensure the collaboration across activities and leverage the collective capabilities and effectiveness of our trading, origination and support functions. The efforts on integration has absorbed a significant amount of resources and have also adversely impacted focus on growth, both of which, have had a negative impact on performance in 2018.

Also, a number of individual events during 2018 had a negative impact on company performance. The summer was characterized by low volatility, collateral damage from the default of a Norwegian power trader Einar Aas and new (interim/proposed) legislation in Germany, Spain and the Nordic elcertificat market.

A remarkably strong and eventful Q1 in trading set the company of on a good start, whereas Q2 to Q4 was cauterised by unusually stable warm weather during summer and absence of cold spells during autumn and early winter which limited the volatility in power and gas markets leaving fewer significant market movements for trading.

In 2018 our Origination and route-to-market business continued to grow our portfolio of purchase agreements (PPAs) and balance responsible party agreements with investors and developers of renewable energy projects and corporate offtakers.

The directors expect the general level of activities and scope of business to be similar to 2018 in the coming year.

Financial Highlights

Amounts in million DKK	2018	2017	Change in %
Revenue	69,259.3	37,370.7	85%
EBITDA *	213.6	236.6	-10%
EBIT **	190.6	219.2	-13%
Profit before tax	196.2	249.0	-21%
Profit for the year	150.4	198.6	-24%
Equity	865.4	714.8	21%
Equity ratio	20.5%	27.0%	-24%
Average number of employees	328.0	286.0	15%

* Profit before amortisation and depreciation ** Operating profit

Change in accounting principle

In order to align to the CENTRICA Plc. reporting a methodology for credit value adjustment and bid/offer reserves has been applied to the accounting treatment of the fair value instruments. The effect is shown in the following table:

	2018		2017	
	New principle	Former principle	New principle	Former principle
Revenue	69,259.3	69,246.5	37,370.7	32,172.7*
Operating profit (EBIT)	190.6	177.8	219.2	232.0
Profit for the year	150.3	140.3	198.6	208.6
Assets, total	4,226.9	4,267.8	2,640.9	2,708.9
Equity	865.4	906.3	714.8	766.0

* includes an adjustment on revenue presentation for 2017 (5,211 mDKK)

Financial Highlights

Amounts in TDKK

Financial highlights	2018	2017	2016	2015	2014
Income statement					
Revenue	69,259,259	37,370,674	19,778,697	20,658,580	11,162,227
Index	620	335	177	185	100
Profit before amortisation and depreciation	213,597	236,608	197,531	202,365	129,146
Index	165	183	153	157	100
Operating profit	190,640	219,161	177,127	165,610	113,002
Index	169	194	157	147	100
Results from net financials	5,521	29,841	-69,333	-27,223	-5,991
Index	192	598	-1,057	-354	100
Profit before tax	196,161	249,002	107,794	138,387	107,011
Index	183	233	101	129	100
Profit for the year	150,376	198,597	81,298	98,764	83,808
Index	179	237	97	118	100
Balance sheet					
Assets	4,226,932	2,642,662	2,111,621	1,948,275	1,428,407
Index	296	185	148	136	100
Investment in software	31,636	26,852	19,818	16,534	18,467
Index	171	145	107	90	100
Investment in property, plant and equipment	93,137	22,789	3,590	1,219	479
Index	19,444	4,758	749	254	100
Cash less bank loans	310,046	124,042	205,347	679,770	159,450
Index	194	78	129	426	100
Share capital	123,507	123,507	123,507	123,507	125,038
Index	99	99	99	99	100
Equity	865,352	714,763	516,124	434,986	432,621
Index	200	165	119	101	100
Equity and subordinated loan capital	865,352	714,763	516,124	784,986	432,621
Index	200	165	119	181	100
Current liabilities excluding bank loans	3,137,089	1,681,577	1,536,342	1,153,924	982,835
Index	319	171	156	117	100
Cash flow					
Net cash flow from:					
Operating activities	310,757	-45,033	-93,844	287,884	138,339
Investment activities	-124,753	-36,272	-18,207	-17,285	-17,013
Financing activities	0	0	-362,372	257,947	-1,440
Cash flow for the year	186,004	-81,305	-474,423	528,546	119,886

Financial ratios	2018	2017	2016	2015	2014
Profitability					
Return on equity	19.0%	32.3%	17.1%	22.8%	21.7%
Profit margin	0.3%	0.6%	0.9%	0.8%	1.0%
Equity ratio	20.5%	27.0%	24.4%	22.3%	30.3%
Equity incl. subordinated loan ratio	20.5%	27.0%	24.4%	40.3%	30.3%
Other: Average number of employees	328	286	252	222	176

Employee Facts

FEMALE EMPLOYEES

26%

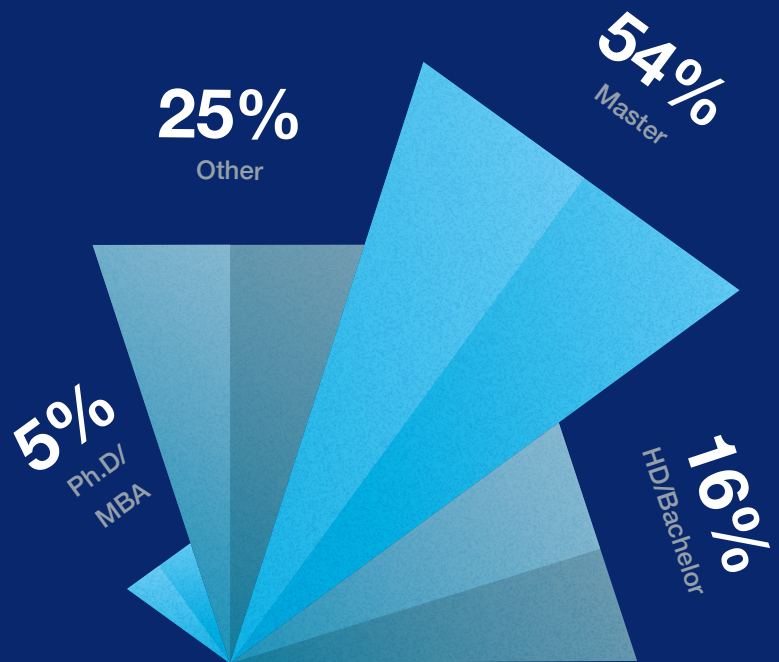
MALE EMPLOYEES

74%

AVERAGE AGE

35 Years old

Level of Education



Nationalities

Centrica Energy Trading has 25 different nationalities employed and an international atmosphere at the office in Denmark.



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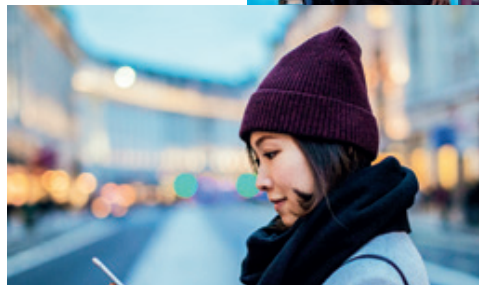
CORPORATE REVIEW

Centrica Group Corporate Responsibility

As a company in the Centrica Group, Centrica Energy Trading's reporting on corporate policies and annual review of progress are covered by Centrica Plc. Centrica reviews a number of corporate functions and Corporate Citizenship in the group's annual report and a number of reports/updates on "Responsible Business" measures.

The 2018 annual report is available here:

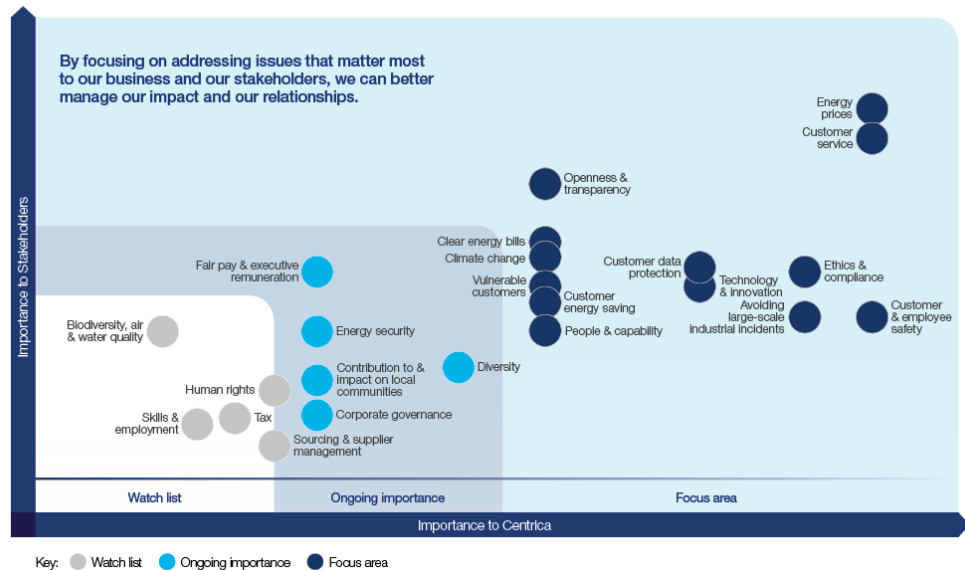
<https://annual-report.centrica.com>



Well-Established Policy And Principles for Responsible Business

Centrica’s Corporate Responsibility policy is centred on policy and principles for “Responsible Business” in which issues are prioritised by assessing their ‘materiality’ – the extent to which issues are important to our external stakeholders as well as our business. Centrica aims to fully understand the risks and opportunities facing the business by engaging with key external stakeholders such as customers, politicians and NGOs, alongside internal experts from across the business. By prioritising issues through this process, Centrica effectively manage the impacts and stakeholder relationships by focusing resource, engagement and reporting activities on addressing the issues that matter most.

Centrica’s material issues matrix



Reporting on Corporate Responsibility

Information and data on Centrica's performance within Corporate Responsibility is available on the group website here:

<https://annual-report.centrica.com>

The latest version of the Communication on Progress for the UNGC along reports on the CR Basis of Reporting, Performance Review and a number of other CR related reports/updates can be found here:

<https://annual-report.centrica.com>

The 2018 update on Centrica's general Corporate Responsibility and principle is available here:

<https://annual-report.centrica.com>

Corporate Governance

BOARD OF DIRECTORS

Cassim Mangerah (Chairman)

Peter Worby

Jonathan Westby

Peter Holm (employee representative)

Kenneth Skou (employee representative)

EXECUTIVES

Anders Bauditz
Director of Power & Gas Origination & Country Head – DK

Bjørn Skovhus
Director Short term & X-Border Trading

Naja Lyngholm Skovlyk
Chief Information Officer, CIO

Ole Ibsen
CFO & COO

Rikke Alkert
HR Director, Denmark

Our diversity

31.12.2018	Female	Male
Board of directors	0%	100%
Executives	40%	60%
Other management levels	20%	80%
All employees	26%	74%

It is our ambition that the female share on all management levels are in line with or above the female share for all employees in the company before end 2022.

Financial Review

Internal Controls and Risk Management for The Process of Financial Reporting

The company's risk management and internal controls for financial reporting are designed for provision of internal accounts, which allow measurement and follow-up of company performance, and publication of external accounts in accordance with the Danish Financial Statements Act for large enterprises in accounting class C, and which give an accurate picture free from material errors.

The supervisory and executive boards in the company are thus created to ensure the presence of relevant competencies concerning risk management and evaluation of internal controls in relation to financial reporting. Responsibility for setting up effective internal controls and a risk management system for financial reporting rests with the executive management board.

The supervisory and executive boards regularly review the risks which affect the company, including those who affect financial reporting in particular.

Control activities have been put into place designed to detect and eliminate any error or deficiency in the data used for financial reporting. There are also mechanisms in place to ensure that the company observes relevant legislation and other regulations for financial reporting. Reporting is checked regularly, and any error or deficiency in data reported is communicated and corrected by the companies. The supervisory and executive boards are regularly informed of major changes in legislation and on other relevant compliance matters.

Additional analyses and control activities are performed during compilation of the annual report to ensure that financial reporting complies with the accounting practice in use. The supervisory board ensures that any weakness detected and reported in internal controls by the auditor elected by the annual general meeting is corrected, along with any error or deficiency, and that controls and procedures are implemented to prevent such errors and deficiencies.

INCOME STATEMENT

Revenues amounted to 69,269,3 mDKK and a gross profit of 520.0 mDKK equivalent to a gross profit margin of 0,75%.

Gross profit consists of a contribution margins from the buying, selling and trading of energy, portfolio management and administrative and technical services for electricity producers and other electricity and gas companies.

Net turnover increased by 85.3% compared to last year.

Operating profit was 190.6 mDKK compared to 219.2 mDKK last year. Profit margin is realized at 0.28 % in the current year, which is lower compared to last mainly due to the increase in revenue.

Financial items comprised a net income of 5.5 mDKK. Financial revenues consist primarily of interest earnings from interest earned from deposits at CENTRICA group Treasury, whilst financial expenses primarily consist of warranty provisions and interest payable and exchange rate adjustments related to British Pounds.

Profit before tax was therefore 196.2 mDKK. Tax on profit for the year was 45.8 mDKK, of which 39.5 mDKK was current tax for the year.

Profit for the year was thereafter 150.4 mDKK. Last year, the company made a profit of 198.6 mDKK.

BALANCE SHEET

Total assets as of 31 December 2018 comprised 4,226.9 mDKK, of which 82.9 % are placed in working capital of 3,503.1 mDKK excluding cash, cash equivalents and debt to banks. Net working capital comprises especially of receivables from the buying and selling of energy, plus the value of open positions and holdings on the balance sheet date.

Given an equity ratio of 20.5 %, equity comprise 865.4 mDKK, an increase of 21.1% compared to last year. The increase is mainly driven by the result of the year

CASH FLOW STATEMENT

Cash flow for the year comprised a net capital income of 186.0 mDKK

Operations made a positive contribution of 310.8 mDKK before tax, compared to -45.0 mDKK last year.

Net cash flow from investing activities was in 2018 negative and amounted to -124.8 mDKK which comprised mainly of buying the buildings, whilst the cash outflow from financial activities was 0 mDKK.

Statement by The Management on The Annual Report

The Board of Directors and the Executive Board have today considered and approved the annual report of Centrica Energy Trading A/S for the financial year 01.01.2018 - 31.12.2018.

The annual report is presented in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2018 and of the results of its operations and cash flows for the financial year 01.01.2018 - 31.12.2018.

We believe that the management commentary contains a fair review of the affairs and conditions referred to therein.

We recommend the annual report for adoption at the Annual General Meeting.

Aalborg, 28.05.2019

The Executive Board

Anders Bauditz

The Supervisory Board of Directors

Cassim Mangerah

Jonathan Westby

Peter John Worby

Peter Lohmann Holm

Kenneth Brian Skou

Chairman

The annual report was presented and approved at the company's ordinary annual general meeting held on 28 May 2019.

Anne Sveistrup Boysen

Independent Auditor's Report

To the shareholders of Centrica Energy Trading A/S

Opinion

We have audited the financial statements of Centrica Energy Trading A/S for the financial year 01.01.2018 - 31.12.2018, which comprise the income statement, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2018 and of the results of its operations and cash flows for the financial year 01.01.2018 - 31.12.2018 in accordance with the Danish Financial Statements Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's responsibilities for the audit of the financial statements section of this auditor's report. We are independent of the Entity in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's Responsibilities for The Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the

preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Entity's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for The Audit of The Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism through-out the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on The Management Commentary

Management is responsible for the management commentary.

Our opinion on the financial statements does not cover the management commentary, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the management commentary and, in doing so, consider whether the management commentary is materially inconsistent with the financial statements or our

knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the management commentary is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the management commentary.

Aalborg, 28.05.2019

Deloitte Statsautoriseret Revisionspartnerselskab Business Registration No 33 96 35 56

Lars Birner Sørensen
State-Authorised
Public Accountant
MNE no mne11671

Peter Mølkjær
State-Authorised
Public Accountant
MNE no mne24821

FINANCIAL STATEMENTS

Accounting Policies

General

This Annual Report has been prepared in accordance with the provisions of the Danish Financial Statements Act for large class C companies. This include the use of International Financial Reporting Standards for recognition, measurement and presentation and disclosure of financial instruments in accordance with IFRS9, which is a transition from IAS 39. The transition to IFRS9 has not resulted in additional provisions for loss on debtors as there historically has been none or only insignificant losses related to debtors.

In order to align to the CENTRICA Plc. reporting a methodology for credit value adjustment and bid/offer reserves has been applied to the accounting treatment of the fair value instruments resulting in a lower valuation price for both bids and offers respectively. The effect is shown in the following table:

	2018		2017	
	New principle	Former principle	New principle	Former principle
Revenue	69,259.3	69,246.5	37,370.7	32,172.7*
Operating profit (EBIT)	190.6	177.8	219.2	232.0
Profit for the year	150.3	140.3	198.6	208.6
Assets, total	4,226.9	4,267.8	2,640.9	2,708.9
Equity	865.4	906.3	714.8	766.0

* includes an adjustment on revenue presentation for 2017 (5,211 mDKK)

Other than that the accounting principles are unchanged compared to prior years.

Financial Statements

The Centrica Energy Trading A/S companies in general, including the current parent company, are members of the CENTRICA Plc. (Millstream, Maidenhead Road, Windsor, Berkshire, SL4 5GD, No.: 3033654) and is also reported in the CENTRICA Group financial statement. Formerly the Centrica Energy Trading group has been reported as a consolidated entity, but since the Centrica Energy Trading entities are now reported as part of the CENTRICA plc. Group we use the §112 exemption to not report a consolidated Group result.

Foreign currency

The Annual Report is presented in Danish kroner (DKK). Foreign-currency transactions are translated into Danish kroner throughout the year at the rates of exchange ruling on the transaction date.

Receivables and liabilities denominated in foreign currencies are translated into Danish kroner at the rates of exchange ruling on the balance sheet date. Exchange gains and losses are recognised in the income statement under financial items.

Basis of Recognition and Measurement

Income is recognised in the income statement as earned, including value adjustments of financial assets and liabilities.

All expenses including depreciation, amortization and impairment losses, are also recognised in the income statement.

Assets are recognised in the balance sheet when future financial benefits are likely to accrue to the company and the value of such assets can be reliably measured. Liabilities are recognised in the balance sheet when they are probable and can be measured reliably. Upon initial recognition, assets and liabilities are measured at cost. Subsequently, assets and liabilities are measured as described below for each item.

Predictable losses and risks arising before the date of presentation of the financial statements and the facts that confirm or rebut circumstances and conditions existing at the reporting date are taken into consideration upon recognition and measurement.

Income Statement Revenues

Physical Production

Income from the sale of energy incl. certificates, also including trading activities connected to physical energy, is recognised in accordance with the delivery principle such that income is recognised as and when delivery takes place.

Income from the sale of services is recognised linearly as and when the services are delivered also according to the delivery principle. Profits and loss is included in the income statement as revenue.

Other operating income

Other operating income consist of sale of software development activities related to the management of energy producing assets.

Financial instruments

Profits/losses from financial trading activities are recognised as ascer-

tained and open positions are adjusted to the fair value on the reporting date and the adjustment effect is thus recognised in the income statement as revenue. As an addition reserves are applied as part of the fair value to adjust for the risk of over estimation effectively resulting in a lower valuation price for both bids and offers respectively.

Open positions on financial contracts are adjusted to fair value at the reporting date and the adjustment effect is thus recognised in the income statement as revenue.→

Derivative financial instruments

Derivative financial instruments regarding sales and purchases of energy are recognised at fair value. Positive and negative adjustments in fair values of derivative financial instruments are included in receivables or liabilities, respectively. The effect of value adjustments in fair value of derivative financial instruments is recognised in the income statement as revenue. As an addition reserves are applied as part of the fair value to adjust for the risk of over estimation effectively resulting in a lower valuation price for both bids and offers respectively.

Centrica Energy Trading enters into financial energy contracts on a regular basis for which no quoted fair value exists. The fair value of these instruments is determined using accepted valuation models and current market data.

Cost

Cost is recognised in the income statement upon delivery of the acquired service or physical item. Provisions are made for deliveries referring to the reporting period. Cost referring to future periods is accrued as prepayments.

Depreciation and Amortisation

Amortisation of intangible assets and depreciation of property, plant and equipment aim to ensure linear amortisation and depreciation over the expected useful life of the asset in question. The following useful lives and residual values apply:

	Useful life	Residual value
Land and Buildings	50 years	0%
Software	3-5 years	0%
Contractual rights	7 years	0%
Plant and equipment	5 years	0%

Net Financials

Net financials comprise of interest income, interest expenses and foreign currency adjustments.

Taxes

The current and deferred taxes for the year are recognised in the income statement as taxes for the year with the portion attributable to the net profit or loss for the year, and directly in equity with the portion attributable to amounts recognised directly in equity.

The parent company is included in the joint taxation with Danish affiliated companies. The ultimate parent company of the group is the administration company for the joint taxation and therefore makes all corporation tax payments to the taxation authorities. The levied Danish corporation tax is distributed by calculating joint taxation contributions among the jointly taxed companies in proportion to their taxable incomes. Similarly, companies with a negative taxable income receive joint taxation contributions from companies able to apply this loss to reduce their own taxable profit.

Balance Sheet Intangible Assets

Intangible assets are measured in the balance sheet at the lower of cost less accumulated amortisation and the recoverable amount. The recoverable amount is the value of the asset in continued use or from sale. Directly and indirectly incurred costs are included in cost.

IT-development projects are recognised at cost, including costs of, for example, wages directly or indirectly attributable to the development projects. Development projects are recognised in the balance sheet where these aim to develop a particular product or system that the company intends to produce with the intention to sell or use in own production. Other development costs are recognised in the income statement in the year they are incurred.

Capitalised development costs are amortised from the time of completion the product or system linearly over the period where they are expected to generate economic benefits. However, the amortisation period cannot exceed five years.

In the balance sheet intangible assets are shown as software

and all assets within this category are own developed assets.

Equipment

Property, plant and equipment is measured in the balance sheet at at lower of cost less the accumulated depreciation and the recoverable amount. The recoverable amount is the value of the asset in continued use or from sale.

The recoverable amount of the asset is calculated as the higher of the net selling price and the capital value. The capital value is calculated as the present value of the expected net cash flows from application of the asset or asset group and expected net cash flows from sale of the asset or asset group after the end of useful life.

Equity Investments in Group Enterprises Or Associated Companies

Equity investments in group enterprises and associated companies are recognised and measured according to the 'Equity Method'. Accordingly, investments are measured at the pro rata share of the companies' equity value with addition or subtraction of unamortized positive or negative goodwill respectively and with subtraction or addition of unrealised intercompany profits and losses.

In the income statement the parent company's share of the company's profits is recognised for the year after elimination of intercompany profits and losses and with subtraction or addition of amortization of positive or negative goodwill respectively.

Group enterprises and associated companies with a negative equity value are measured at nil and any receivables from such companies are reduced by the parent company's share of the negative equity value to the extent that it is regarded irrecoverable. If the negative equity value exceeds the receivable the exceeding amount is recognised as a provision only to the extent that the parent company has a legal or de facto obligation to indemnify the liabilities of the company in question.

Inventories

Inventories are in general measured at lowest prices of either cost prices or net realization value. The value is tested given the two principles and the lower is applied in the balance sheet.

Gas Inventories

Gas inventory is measured at fair value.

Other Inventory

Other equipment purchased in order to set up technical solutions at customers is put in stock until delivery and recognised at cost price.

Receivables

Receivables consist primarily of settled and realised gains from counterparties related to physical trading.

Receivables are measured at the nominal value less estimated risks of losses according to both group wise and individual assessments.

Receivables from physical trading is measured at nominal value.

Other Receivables

Other receivables consist primarily of unrealised gains from financial trading activities and deposits.

Unrealised gains from financial trading activities are recognised at fair value. Deposits are measured at nominal value.

Prepayments

Prepayments contains prepaid cost for delivery in periods after status date. The prepayments mainly consist of prepaid cost for trading capacities and external suppliers cost.

Equity

Net revaluation of equity investments in subsidiaries is recognised under equity in reserve for net revaluation according to the equity method, to the extent the carrying amount exceeds the acquisition value.

The acquisition and sale of own equity investments and dividend from these are recognised directly in equity under retained earnings.

A reserve for development cost is recognised in the equity.

Current and Deferred Taxes

Centrica Energy Trading A/S is an administrative company and is liable for the full tax payment of the jointly taxed companies of the Centrica Energy Trading Group.

Current tax payable and receivable is recognised in the balance sheet as calculated tax on the taxable income, adjusted for tax paid on account.

Joint taxation contributions payable and receivable are recognised in the balance sheet as corporation tax under receivables or liabilities.

Deferred tax liabilities and deferred tax assets are calculated on the basis of all temporary differences arising between the carrying amount of assets and liabilities and their respective tax assets, and are recognised in the balance sheet at the prevailing tax rate. However, deferred tax of temporary differences regarding non-amortisable goodwill and other items is not recognised where temporary differences, except for company acquisitions, have arisen at the time of acquisition without any impact on the profit or loss or taxable income.

Deferred tax assets are recognised at their assessed expected realisable value by offsetting against deferred tax liabilities or against tax on future earnings.

Liabilities Other Than Provisions

Liabilities other than provisions are measured at cost at the time when the liability is incurred. Liabilities other than provisions are subsequently measured at amortised cost, with capital losses and loan costs being distributed over the term of the liability on the basis of the calculated, effective rate of interest at the time at which the liability is incurred.

Payables

Payables consist primarily of settled and realised gains from counterparties related to physical trading.

Payables are measured at nominal value.

Other payables

Other receivables consist primarily of liabilities towards public institutions and employees.

Other receivables are measured at nominal value.

Deferred Income

Deferred income contains prepayments received for delivery after status date related to the handling of energy assets.

Cash Flow Statement

The cash flow statement is prepared according to the indirect method, showing cash flows from operating, investing and financing activities, as well as changes in cash flows for the year

and cash equivalents at the beginning and end of the year. Cash flows from operating activities are calculated as the net profit or loss for the year, adjusted for non-cash operating items, corporate income tax paid and changes in working capital.

Cash flows from investing activities consist of the additions to and disposals of intangible assets, property, plant and equipment and investments, appropriately adjusted for changes in the amount of receivables and payables for such items.

Cash flows from financing activities consist of cash flows provided by, and dividend paid to shareholders, as well as the securing of and repayment of non-current liabilities other than provisions. Cash flows at the beginning and end of the year comprise cash and short-term bank debt.

Calculation of Financial Ratios

Financial ratios have been calculated in accordance with the recommendations of the Danish Society of Financial Analysts:

Return on equity

$$\frac{\text{Profit for the year}}{\text{Average equity}}$$

Return on capital employed

$$\frac{\text{Operating profit}}{\text{Total assets}}$$

Profit margin

$$\frac{\text{Operating profit}}{\text{Revenue}}$$

Equity ratio

$$\frac{\text{Equity at year-end}}{\text{Total assets}}$$

Income Statement

Amounts in TDKK

		2018	2017
Note			
1	Revenue	69,259,259	37,370,674
	Cost of sales	-68,739,246	-36,882,675
	Gross profit	520,013	487,999
	Own work capitalised	25,166	19,386
	Other operating income	32,735	40,405
	Other external expenses	-76,981	-74,056
2	Staff costs	-287,336	-237,126
	Profit before amortisation and depreciation	213,597	236,608
	Depreciation, amortisation and impairment losses	-22,957	-17,447
	Operating profit	190,640	219,161
3	Income from investments in group enterprises	-8,811	21,557
4	Income from investments in associates	-1,138	206
5	Other financial income	26,690	21,045
6	Other financial expenses	-11,220	-12,967
	Profit before tax	196,161	249,002
7	Tax on profit	-45,785	-50,405
	Profit for the year	150,376	198,597

Distribution of Profit for The Year

Amounts in TDKK

	2018	2017
Proposed distribution of profit:		
Retained earnings	150,376	198,597
Total	150,376	198,597

Balance Sheet

Amounts in TDKK

Assets		2018	2017
Note			
	Software	59,053	46,245
	Development projects in progress	11,829	11,735
8	Intangible assets	70,882	57,980
	Land and buildings	96,024	0
	Plant and equipment	11,856	3,775
	Leasehold improvements	0	14,213
	Plant and equipment in progress	7,857	8,854
9	Property, plant and equipment	115,737	26,842
10	Investments in group enterprises	24,229	32,836
10	Investments in associates	5,259	6,381
11	Other receivables	197,650	73,940
7	Deferred tax	0	1,715
	Fixed asset investments	227,138	114,872
	Non-current assets	413,757	199,694
12	Inventories	818,455	242,249
	Trade receivables	1,341,016	808,904
	Receivables from group enterprises	141,375	593,059
	Receivables from associates	7,747	7,723
13	Other receivables	1,087,163	553,889
	Prepayments	107,373	22,836
	Receivables	2,684,674	1,986,411
	Cash	310,046	214,308
	Current assets	3,813,175	2,442,968
	Assets	4,226,932	2,642,662

Balance Sheet

Amounts in TDKK

		2018	2017
Equity and liabilities			
Note			
14	Share capital	123,507	123,507
	Reserves for development costs	48,263	31,812
	Retained earnings	693,582	559,444
	Equity	865,352	714,763
7	Provision for deferred tax	4,940	0
	Provisions	4,940	0
	Other payables	219,551	156,056
15	Non-current liabilities other than provisions	219,551	156,056
15	Current portion of long-term liabilities other than provisions	898,256	309,481
16	Other provisions	47,325	1,507
	Bank loans	0	90,266
	Debt to group enterprises	571,781	12,816
	Trade payables	1,479,854	947,648
	Income tax payable	21,460	49,682
17	Other payables	114,497	360,443
	Deferred income	3,916	0
	Current liabilities other than provisions	3,137,089	1,771,843
	Liabilities other than provisions	3,356,640	1,927,899
	Equity and liabilities	4,226,932	2,642,662
18	Guarantees		
19	Contingent liabilities		
20	Contractual obligations		
21	Fees paid to auditors appointed at the annual general meeting		
22	Related parties		

Statement of Changes in Equity

Amounts in TDKK

	Share capital	Reserve for development costs	Retained earnings	Total
Balance as of 01.01.2018	123,507	31,812	610,703	766,022
Effect of changes in accounting principles	0	0	-51,259	-51,259
Adjusted balance as of 01.01.2018	123,507	31,812	559,444	714,763
Capitalized development costs	0	16,451	-16,451	0
Other adjustments	0	0	213	213
Profit/loss for the year	0	0	150,376	150,376
Balance as of 31.12.2018	123,507	48,263	693,582	865,352

Cash Flow Statement

Amounts in TDKK

	2018	2017
Profit before tax	196,161	249,002
Adjustment of non-cash items	32,898	-57,174
Operating profit adjusted for non-liquid items	229,059	191,828
Corporation tax paid	-67,352	-34,076
Changes in net working capital:		
Receivables	-821,973	-297,252
Inventories	-576,206	-131,832
Payables	1,547,229	226,299
Net cash flow from operating activities	310,757	-45,033
Investment in non-current assets:		
Purchase of intangible assets	-31,636	-26,852
Sale of plant and equipment	20	178
Purchase of property, plant and equipment	-93,137	-22,789
Disposal of financial assets	0	13,191
Net cash flow from investing activities	-124,753	-36,272
Net cash flow from financial activities	0	0
Total net cash flow for the year	186,004	-81,305
Cash at the beginning of the year	124,042	205,347
Cash at the end of the year	310,046	124,042
Cash at end of year specified as follows:		
Cash	310,046	214,308
Debt to banks	0	-90,266
Total	310,046	124,042

Notes

Amounts in TDKK

1. Revenue	2018	2017
Power	27,762,840	19,016,962
Gas	41,496,419	18,353,712
Total	69,259,259	37,370,674
Profit from fair value instruments	288,873	364,460

Centrica Energy Trading A/S carries out almost all activities from Denmark as all handling of physical production and trading is done from the main office in Aalborg thus a split of the activity is not relevant. Furthermore Centrica Energy Trading A/S see the European market as an integrated pan-European market with more and more synergies across countries.

2. Staff costs	2018	2017
Wages and salaries	260,263	215,169
Pension costs	14,717	12,563
Other social security costs	3,318	2,608
Other staff costs	9,038	6,786
Total	287,336	237,126
Average number of employees	328	283
Remuneration to board of directors	150	
Remuneration to executive board	16,033	
Total remuneration to Executive Board and Board of Directors	16,183	

The amount for current year contains provisions for pay out related to future periods.

The comparative figures for 2017 are not shown according to Financial Statements Act §98b, 3.

3. Income from investments in group enterprises	2018	2017
Share of profit/loss for the year	-8,811	21,557
Total	-8,811	21,557

Notes

Amounts in TDKK

4. Income from investments in associates

	2018	2017
Share of profit/loss for the year	-1,138	206
Total	-1,138	206

5. Other financial income

	2018	2017
Financial income arising from group enterprises	24,439	20,724
Financial income from associates	0	150
Exchange rate adjustments	1,929	0
Interest income	322	171
Total	26,690	21,045

6. Other financial expenses

	2018	2017
Financial expenses from group enterprises	221	68
Guarantee provision	3,528	4,526
Exchange rate adjustments	0	2,529
Interest expenses	6,918	5,227
Other financial expenses	553	617
Total	11,220	12,967

Notes

Amounts in TDKK

7. Tax on profit from ordinary activities	2018	2017
Tax on current year taxable income	39,522	49,784
Change in deferred tax for the year	-8,195	3,447
Correction to current tax, previous years	-393	0
Correction to deferred tax, previous years	14,851	-2,826
Total	45,785	50,405
Deferred tax is computed at 22% and is broken down as follows:		
Intangible assets	15,594	12,100
Plant and equipment	-242	642
Current assets	-10,412	-14,457
Total provision for deferred tax, closing balance	4,940	-1,715
Total provision for deferred tax, opening balance	-1,715	-2,336
Provision for deferred tax for the year	6,655	621

Notes

Amounts in TDKK

8. Intangible assets	2018	2017
Software		
Cost price as of 01.01.2018	142,024	123,528
Transfers during the year	31,542	21,724
Disposals during the year	-5,360	-3,228
Cost price as of 31.12.2018	168,206	142,024
Amortisations as of 01.01.2018	95,779	84,024
Amortisations during the year	16,937	14,787
Reversal of amortisations on disposals in the year	-3,563	-3,032
Amortisations as of 31.12.2018	109,153	95,779
Book value as of 31.12.2018	59,053	46,245
Development projects in progress		
Cost price as of 01.01.2018	11,735	6,607
Additions during the year	31,636	26,852
Transfers during the year	-31,542	-21,724
Cost price as of 31.12.2018	11,829	11,735
Book value as of 31.12.2018	11,829	11,735
Booked value intangible assets as of 31.12.2018	70,882	57,980

Development projects mostly contain various projects in relation to Trading systems, that's upgrading existing systems as well as taken a new ETRM system in use.

Notes

Amounts in TDKK

	2018	2017
9. Land and buildings		
Cost price as of 01.01.2018	0	0
Additions during the year	82,596	0
Disposals during the year	-13	0
Transfers during the year	16,272	0
Cost price as of 31.12.2018	98,855	0
Depreciation as of 01.01.2018	0	0
Depreciation during the year	409	0
Transfers during the year	2,422	0
Depreciation as of 31.12.2018	2,831	0
Book value as of 31.12.2018	96,024	0
Plant and equipment		
Cost price as of 01.01.2018	12,871	12,220
Transfers during the year	10,335	1,497
Disposals during the year	0	-846
Cost price as of 31.12.2018	23,206	12,871
Depreciation as of 01.01.2018	9,096	8,156
Depreciation during the year	2,254	1,705
Reversal of depreciations on disposals in the year	0	-765
Depreciation as of 31.12.2018	11,350	9,096
Book value as of 31.12.2018	11,856	3,775

Notes

Amounts in TDKK

	2018	2017
Leasehold improvements		
Cost price as of 01.01.2018	15,069	0
Transfers during the year	-15,069	15,069
Cost price as of 31.12.2018	0	15,069
Depreciation as of 01.01.2018	856	0
Depreciation during the year	1,566	856
Transfers during the year	-2,422	0
Depreciation as of 31.12.2018	0	856
Book value as of 31.12.2018	0	14,213
Plant and equipment in progress		
Cost price as of 01.01.2018	8,854	2,631
Additions during the year	10,541	22,789
Transfers during the year	-11,538	-16,566
Cost price as of 31.12.2018	7,857	8,854
Book value as of 31.12.2018	7,857	8,854
The carrying amount of assets held under finance leases amounts to	28	379
Booked value property, plant and equipment as of 31.12.2018	115,737	26,842

Notes

Amounts in TDKK

	2018	2017
10. Fixed asset investments		
Investment in group enterprises		
Cost price as of 01.01.2018	21,751	35,551
Correction opening balance	0	-2,625
Disposals during the year	0	-11,175
Cost price as of 31.12.2018	21,751	21,751
Revaluation and depreciation as of 01.01.2018	11,085	-11,104
Correction opening balance	0	2,625
Share of profit/loss for the year	-8,811	21,557
Reversal of revaluations and depreciations on disposals in the year	0	-2,016
Fair value adjustments in the year	204	23
Revaluation and depreciation as of 31.12.2018	2,478	11,085
Book value as of 31.12.2018	24,229	32,836
Investment in associates		
Cost price as of 01.01.2018	11,178	11,178
Cost price as of 31.12.2018	11,178	11,178
Revaluation and depreciation as of 01.01.2018	-4,797	-5,011
Share of profit/loss for the year	-1,138	206
Fair value adjustments in the year	16	8
Revaluation and depreciation as of 31.12.2018	-5,919	-4,797
Book value as of 31.12.2018	5,259	6,381

Notes

Amounts in TDKK

10. Fixed asset investments

Group enterprises	Domicile	Equity	Profit for the year	Percentage owned
Neas Invest A/S	Aalborg, Denmark	1,379	-57	100%
NEAS Fondsmæglerselskab A/S (Under solvent liquidation)	Aalborg, Denmark	10,624	-1,215	100%
Neas Energy Ltd.	London, United Kingdom	13,458	6,022	100%
Centrica Energy Trading GmbH.	Hamburg, Germany	-21,808	-22,121	100%
Centrica Energy Trading Pte. Ltd.	Singapore	20,298	8,560	100%
Associates				
Danish Carbon Fund	Copenhagen, Denmark	6,159	0	7%
Vindpark Keblowo ApS	Hobro, Denmark	9,668	-2,277	50%

11. Other receivables (non-current)

	2018	2017
Cost price as of 01.01.2018	0	0
Cost price as of 31.12.2018	0	0
Revaluation and depreciation as of 01.01.2018	93,746	113,452
Fair value adjustments in the year	103,904	-39,512
Revaluation and depreciation as of 31.12.2018	197,650	73,940
Book value as of 31.12.2018	197,650	73,940

Notes

Amounts in TDKK

12. Inventories

	2018	2017
Gas	547,194	158,186
Certificates	271,208	83,840
Other	53	223
Total	818,455	242,249

Certificates of 157,451 TDKK has been deposited as collateral security.

13. Other receivables (current)

	2018	2017
Fair value of physical and financial instruments	634,032	249,231
Deposits	424,647	292,541
Others	28,484	12,117
Total	1,087,163	553,889

14. Share capital

Share capital comprises 123,507,152 shares at a nominal value of DKK 1 each - 84,998,992 A-shares and 38,508,160 B-shares.

Changes in share capital

Balance as of 01.01.2014	125,038
Disposal of treasury shares, 12.03.2015	-3,083
Cash capital increase, 25.06.2015	38,508
Cash capital decrease, 25.06.2015	-36,956
Balance as of 31.12.2018	123,507

Notes

Amounts in TDKK

15. Non-current liabilities other than provisions	2018	2017
Nominal value of long-term debt	1,117,807	465,537
Within 1 year	898,256	309,481
2-5 years	219,551	156,056
After 5 years	0	0
Total	1,117,807	465,537

Non-current liabilities other than provisions consists of fair value of physical and financial instruments.

16. Other provisions

Centrica Energy Trading A/S is part in disputes and provisions of 47,325 TDKK have been made to cover potential losses.

17. Other payables	2018	2017
Danish export VAT scheme	0	288,133
Others	114,497	72,310
Total	114,497	360,443

Notes

Amounts in TDKK

18. Guarantees

The Company's banks have provided guarantees for contractual obligations guarantees at the balance sheet date amounted to

	2018	2017
	438,438	375,856

19. Contingent liabilities

The Groups Danish Companies participates in a Danish joint taxation arrangement in which Centrica Energy Trading A/S serves as the administration company. According to the joint taxation provisions of the Danish Corporation Tax Act, the Company is therefore liable from the financial year 2018 for income taxes etc for the jointly taxed companies and from 1 July 2012 also for obligations, if any, relating to the withholding of tax on interest, royalties and dividend for the jointly taxed companies.

20. Contractual obligations

Non-financial rent and leasing payments:

Within 1 year

5,422 9,718

2 -5 years

3,645 3,914

After 5 years

0 0

Total

9,067 13,632

21. Fees paid to auditors appointed at the annual general meeting

Mandatory audit of the annual accounts

610 1,197

Other services

27 0

Total

637 1,197

Notes

Amounts in TDKK

22. Related parties

Controlling influence:

Centrica Nederland B.V., Holland

Basis of influence:

Parent company

Significant influence:

Significant influence:			Basis of influence:
Cassim Mangerah	<i>Windsor</i>	<i>United Kingdom</i>	Chairman of the supervisory board of directors
Peter John Worby	<i>Wexbridge</i>	<i>United Kingdom</i>	Member of the supervisory board of directors
Jonathan Westby	<i>Ascot</i>	<i>United Kingdom</i>	Member of the supervisory board of directors
Kenneth Brian Skou	<i>Hørning</i>	<i>Denmark</i>	Member of the supervisory board of directors
Peter Lohmann Holm	<i>Svenstrup J</i>	<i>Denmark</i>	Member of the supervisory board of directors

Transactions:

Fees to the executive and supervisory boards, re. note 2.

Transactions with related parties, is only metioned in case the transactions are not performed at arm's length. There is no such transaction in the financial year 2018.

Ownership structure:

The following shareholders are registered in the company's Register of Shareholders with a shareholding of more than 5%: Centrica Nederland B.V., Hoofddorp Holland.

Centrica Energy Trading A/S, the parent company, appears as a subsidiary in the consolidated accounts for Centrica Plc (Millstream, Maidenhead Road, Windsor, Berkshire, SL4 5GD, No.: 3033654) which includes the biggest and smallest group in which the parent company is a subsidiary.

The Group Structure is as follows:

Centrica Nederland B.V., NL
 Centrica Overseas Holdings Ltd, UK
 GB Gas Holdings Ltd, UK
 Centrica Holdings Ltd, UK
 Centrica PLC, UK

The consolidated accounts of Centrica Plc are available at Centrica's website: www.centrica.com

Notes Regarding Financial Instruments

Amounts in TDKK

The notes in the following section is an addition related to the IFRS 9 requirements to specify Risk and Fair Value in the balance sheet.

Risk note

23. Market risk

Managing energy assets operating on liberal market terms with significant price volatility and constantly changing exposure imposes significant requirements to the organization. The ownership, control, assurance of risks are segregated between front, middle and back office, respectively. Risk Management constantly monitors exposure across business areas using a standard value-at-risk metric (VaR) (1-day 95%) approach complimented with an internally developed model to compensate for some of the known limitations of the VaR approach. The VaR utilization during 2018 ranged between 4 and 25m DKK. The associated risk limits are set in the Risk Policy on the Group level and in the Risk Guidelines for the respective business areas. As an energy trading company Centrica Energy Trading is active in most power and gas markets throughout Europa, as well as the related markets for e.g. green certificates.

The total day-to-day risk, as defined in the Risk Policy reported ultimo 2017 and 2018 respectively are 6,8 mDKK and 8,4 mDKK. The majority of market risk exposure reflected in these numbers is related to price spread among price areas or as time spreads within price area as oppose to an outright exposure against the general price level of power or gas.

The framework for open currency positions is based on the risk assessment of the foreign currency market. Each currency is associated with a risk weight reflecting the risk related to the respective currencies. The commercial currency exposure is accumulated in a portfolio managed by Centrica Energy Trading's Treasury department and subsequently hedged in the market.

Renewable production volumes and the associated volumetric risk are regularly reassessed. Our meteorologists, traders and quantitative analysts carry out this evaluation. Based on their evaluation the hedge might be adjusted within the limits set in the Risk Policy.

Trading energy throughout Europa in different currencies naturally entails currency risk, which is handled by our Treasury Department with the purpose removing all material financial risk. As with other financial risk, this is monitored by Risk Management.

Notes Regarding Financial Instruments

Amounts in TDKK

24. Liquidity Risk

During 2018 Centrica Energy Trading has had a positive cash flow and has solid liquidity reserve to support our business limiting the liquidity risk concerning obligations to customers and counterparties. The continuous focus on daily monitoring and reporting on liquidity to ensure optimal placement of cash relative to earnings has been maintained. This includes the continuous focus has been on procedures for monitoring and reporting on cash flow management.

Liquidity risk is the risk that the Group is unable to meet its financial obligations as they fall due. The Group experiences significant movements in its liquidity position primarily due to the seasonal nature of its business and margin cash arrangements. To mitigate this risk the Group maintains significant committed facilities. Maturities of derivative financial instruments, borrowings, and trade and other payables are provided in the following tables:

	Ultimo 2018	2019	2020	2021	After 2022
Trade payables	1,479,854	1,479,854	0	0	0
Other payables - Accrued trading counterparties	0	0	0	0	0
Fair value of physical and financial instruments					
Nordic Power	31,617	49,526	-22,197	-24,215	28,503
Continental power	-48,308	-65,447	17,139	0	0
UK Power	-7,352	-7,318	-34	0	0
Europe Gas	-261,746	-251,819	-4,160	-3,167	-2,600
Total	-285,789	-275,058	-9,252	-27,382	25,903
Total	1,194,065	1,204,798	-9,252	-27,383	25,902

	Ultimo 2017	2018	2019	2020	After 2021
Trade payables	947,648	947,648	0	0	0
Other payables - Accrued trading counterparties	0	0	0	0	0
Fair value of physical and financial instruments	-88,124	-9,696	-9,691	-16,804	-51,933
Total	859,524	937,952	-9,691	-16,804	-51,933

Below is a tabel that shows how the net value of the fair value of physical and financial instruments are booked in the balance sheet.

	2018	2017
Fair value of physical and financial instruments - assets	1,113,538	377,413
Fair value of physical and financial instruments - liabilities	1,399,327	465,537
Fair value of physical and financial instruments - net values	-285,789	-88,124

For further specification see note 27 regarding Offsetting.

Centrica Energy Trading A/S has credit facilities in form of guaranties at Euler Hermes 350 mDKK. At Sydbank the credit facility in form of guaranties is 305 mDKK, where 100 mDKK can be used as a cash overdraft.

Notes Regarding Financial Instruments

Amounts in TDKK

25. Credit Risk

According to Centrica Energy Trading's Risk Policy, all counterparts are required to be credit-rated and an internal cap imposed defining the maximum exposure allowed. Credit evaluating each counterpart specifically is creating this foundation by setting the basic boundaries for the trading activities. During and after onboarding, the credit team monitors the customer's or counterparty's credit worthiness and decides what should be done in order to enter a contract or a cooperation including the issues regarding bank guarantees, parent company guarantee, CSA etc. A new structure has been applied to the approval hierarchy from Credit Team Lead upwards to the CFO, CEO and The Board of Directors. Centrica Energy Trading's credit risk monitoring covers a daily report of the overall credit lines and exposure to trading counterparts. The credit rating used in this analysis has been taken from external credit rating bureau's. If the counterpart has no official rating it appear as not rated.

2018	Trade Receivables	Fair value of physical and financial instruments	Total
The credit quality of the group's counterparties			
Clearing centres	208,965	2,352	211,317
Minimal risk (Rated A)	230,598	106,213	336,811
Low risk (Rated B)	1,087,625	867,362	1,954,987
High risk (Rated C)	2,439	0	2,439
Not rated	148	7,104	7,252
Total	1,529,775	983,031	2,512,806

2017	Trade Receivables	Fair value of physical and financial instruments	Total
The credit quality of the group's counterparties			
Clearing centres	116,970	66,395	183,365
Minimal risk (Rated A)	88,817	40,855	129,672
Low risk (Rated B)	601,113	281,637	882,750
High risk (Rated C)	1,855	0	1,855
Not rated	149	0	149
Total	808,904	388,887	1,197,791

Notes Regarding Financial Instruments

Amounts in TDKK

25. Credit risk (continued)

A considerable part of Centrica Energy Trading's counterparts are covered by the standard EFET agreement. This agreement also contain regulation on credit, payment and offsetting. This mean thatCentrica Energy Trading is less exposed to credit risk as opposed to a setup with less or no standardised terms. In general Centrica Energy Trading has had no claims against counterparts without the ability to pay.

Minimal and low risk covers TSO's, Power Plants and A-rated counterparts. It is the assessment of the Group that these counterparts carries no or only little credit risk as they are part of partly public security of supply or have high credit ratings. The category "Not rated" covers counterparts with smaller claims that has not been formally classified in the year end process or counterparts without any formal rating. However Centrica Energy Trading always carries out an internal evaluation of the credit risk towards any counterpart before trading is allowed.

Notes Regarding Financial Instruments

Amounts in TDKK

25. Credit risk (continued)

Centrica Energy Trading enters in to offsetting agreements with counterparts also covering financial contracts. Both long and short positions are traded with these counterparts and the gross value of these contracts can be significant. However the possibility to offset individual contracts with these counterparts mean that the actual cash settlement of the contracts is significantly lower. Offsetting is mainly done on specific counterparts on the specific product, but Centrica Energy Trading has a few master netting agreements with the possibility to do cross commodity netting. The netting is carried out also in the actual settlement in cash. The table below shows the financial assets and liabilities that are subject to offsetting.

	2018			2017		
	Gross	Netting	Net	Gross	Netting	Net
Trade receivables	6,986,945	5,645,929	1,341,016	3,001,038	2,192,134	808,904
Other receivables	0	0	0	0	0	0
Receivable from group enterprises, current portion	141,375	0	141,375	593,059	0	593,059
Fair value of physical and financial instruments						
Other Receivables: Fair value of physical and financial instruments	1,060,113	115,590	944,523	509,042	120,155	388,887
Paid/Received cash on futures	169,015	0	169,015	-11,474	0	-11,474
Total	1,229,128	115,590	1,113,538	497,568	120,155	377,413
Total	8,357,448	5,761,518	2,595,929	4,091,665	2,312,289	1,779,376

	2018			2017		
	Gross	Netting	Net	Gross	Netting	Net
Trade payables	7,125,783	5,645,929	1,479,854	3,139,782	2,192,134	947,648
Other payables - Accrued trading counterparties	0	0	0	0	0	0
Fair value of physical and financial instruments	1,514,917	115,590	1,399,327	585,692	120,155	465,537
Total	8,640,699	5,761,518	2,879,181	3,725,474	2,312,289	1,413,185

The company's banks have provided guarantees for contractual obligations guarantees at the balance sheet date amounted to TDKK 438,438.

The counterparties banks have provided guarantees for contractual obligations guarantees at the balance sheet date amounted to TDKK 17,175.

Notes Regarding Financial Instruments

Amounts in TDKK

26. Sensitivity analysis of financial instruments

The sensitivity analysis in the table shows the effect of market value changes assuming a relative price change at 31 December. Effect on profit (loss) before tax comprises financial instruments that remained open at the balance sheet date and have an effect on profit (loss) in the financial year in question.

	2018		2017	
	P/L effect	Reasonably possible change in variable %	P/L effect	Reasonably possible change in variable %
Nordic Power	9,478	+/- 4%	9,613	+/- 4%
Continental Power	4,192	+/- 4%	25,045	+/- 4%
UK Power	4,012	+/- 5%	1,704	+/- 5%
Europe Gas	4,576	+/- 5%	2,043	+/- 5%

Notes Regarding Financial Instruments

27. Fair value hierarchy

Fair value hierarchy

Financial assets and financial liabilities measured and held at fair value are classified into one of the three categories, known as hierarchy levels, which are defined according to the inputs used to measure fair value as follows:

- Level 1: Fair value is determined using observable inputs that reflect unadjusted quoted market prices for identical assets and liabilities;
- Level 2: Fair value is determined using significant inputs that may be directly observable inputs or unobservable inputs that are corroborated by market data; and
- Level 3: Fair value is determined using significant unobservable inputs that are not corroborated by market data and may be used with internally developed methodologies that result in management's best estimate of fair value.

Valuation techniques used to derive Level 2 and Level 3 fair values and Group valuation process

Level 2 energy derivatives are fair valued by comparing the difference between the expected contractual cash flow for the relevant commodities and the quoted prices or prices derived from quoted prices. Renewable energy contracts with volume flexibility enters the valuation with their expected production profile.

Level 2 foreign exchange contracts are fair valued using forward exchange rates that are quoted in an active market.

For Level 3 energy derivatives, the main input used by the Group pertains to deriving expected future commodity prices in markets with no quoted prices at all. This applies for some OTC gas and power contracts traded in very illiquid markets.

Gas storage and cross border capacities (gas and power) enter the valuation (Level 3) using the intrinsic value as an estimate of the fair value. On the transaction date, the extrinsic value (time value) is computed as the difference between the book value and the intrinsic value. This time value is deferred until delivery of the underlying assets, equivalent to deferred day-1 values.

The notes in the following section is an addition related to the IAS 39 requirements to specify risk and fair value in the balance sheet

Level 1

- Exchange traded derivatives and identical energy contracts

Level 2

- Power derivatives (not in Level 1 or 3)
- Gas derivatives (not in Level 1 or 3)
- Currency derivatives

Level 3

- Asian options
- Cross border capacities
- Power and gas derivatives traded in markets with no access to market data

It should be noted that the fair values disclosed here only concern those contracts entered into which are within the scope of IAS 39. The Group has a few other commodity contracts which are outside the scope of IFRS 9 and are not fair valued.

The Group's valuation process includes specific team of individuals (Risk Management) that perform valuation of the Group's derivatives for financial reporting purposes, including Level 3 valuations. It is also Risk Management that derives future commodity price curves based on available external data and these prices feed in to the energy derivatives valuations.

Notes Regarding Financial Instruments

Amounts in TDKK

27. Fair value hierarchy (continued)

Sensitivity analysis of Level 3 contracts

The market risk exposure associated with the Level 3 contracts can be divided into three groups of similar risk profile. The first is the price risk on the unobservable unquoted outright gas and power derivatives. The second is a small portfolio of Asian options with an insignificant market risk. The third group is a portfolio of bought real options – cross border capacities and gas storages. The downside risk is limited by the fact Centrica Energy Trading has the right, but not the obligation to utilise these real options.

The market risk for all Level 3 contracts is included in the risk limits set in the Risk Policy and consequently hedged in the underlying markets or through proxy hedged in correlated markets (Level 1 and 2 contracts). These contracts have no significant exposure against the general price level of gas or power.

2018

	Level 1	Level 2	Level 3	Total
ASSETS				
Power	0	852,146	6,939	859,085
Gas	0	28,436	9,792	38,228
Other	0	539,710	0	539,710
Total	0	1,420,292	16,731	1,437,023
LIABILITIES				
Power	-57,797	-501,155	-3,420	-562,372
Gas	0	-301,696	-14,131	-315,827
Other	0	-844,613	0	-844,613
Total	-57,797	-1,647,464	-17,551	-1,722,812
Total	-57,797	-227,172	-820	-285,789

Other financial instruments

Due to their nature and/or short-term maturity, the fair values of trade and other receivables, cash and cash equivalents, trade and other payables and provisions are estimated to approximate their carrying values.

Loans and other borrowings

The fair value of short-term loans and commercial paper are assumed to equal their book values due to the short-term nature of these amounts.

2017

	Level 1	Level 2	Level 3	Total
Power	-42,428	-25,317	1,945	-65,800
Gas	-2,909	3,060	-16,670	-16,519
Other	0	-5,805	0	-5,805
Total	-45,337	-28,062	-14,725	-88,124

Notes Regarding Financial Instruments

Amounts in TDKK

27. Fair value hierarchy (continued)

The reconciliation of the Level 3 fair value measurements during the year is as follows.

Level 3 financial instruments	2018	2017
1 January	-14,725	-3,099
Total realised and unrealised (losses)/gains	13,905	-11,626
31 December	-820	-14,725
Total (losses)/gains for the year for level 3 instruments	-23,558	65,348

centrica

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