Centrica Energy Trading A/S

Skelagervej 1
9000 Aalborg

CVR-No.
20293195

Annual Report 2019

The Annual Report has been adopted and approved on the Annual General Meeting on 15 May, 2020.

Chairman of the General Meeting
Ole Ibsen

ANNUAL REPORT

2019

centrica
Energy Trading

Contents

PREFACE AND AT A GLANCE

Executive Review

Centrica Energy Trading delivered a good annual result in 2019, generating profit for the year of 214 mDKK. This is an increase of 43% compared to 2018 and the strongest financial result to date.

We delivered a strong performance in both our trading and our customer-centric businesses. A satisfying result given the significant internal changes carried out and relatively stable market conditions.

A year of consolidation

During 2019 our integration within Centrica Energy Marketing & Trading (EM&T) continued, and in February 2019 we changed our company name from Neas Energy A/S to Centrica Energy Trading A/S. The most significant integration activities included:

- consolidating all EM&T's short-term power and gas trading activities in Centrica Energy Trading in Aalborg and Singapore
- centralising EM&T's customer-centric business in Centrica Energy Trading
- continued integration of system architecture including ETRM systems

A continued focus on cost efficiency meant that OPEX was stable compared to 2018. Staff costs rose only slightly as did the average number of employees as Centrica's wholesale short-term power and gas trading activities was consolidated in Aalborg and Singapore.

Strong power and gas trading in a challenging market

Relative to 2018, our power and gas trading business experienced less favourable market conditions, in particular mild weather conditions, reduced price volatility and increased market coupling across Europe. Good performance in this environment can be attributed to strong trading and effective use of analytics and automated trading.

We saw significant benefits from algorithmic trading, which we are developing further.

At the heart of Europe's green transition

Our customer-centric business continued to grow the portfolio of power purchase agreements (PPAs) with owners of renewable energy projects and corporate off-takers. We grew our renewables PPA portfolio to more than 10GW while also finding significant traction in the corporate PPA market.

At the end of 2019 we separated our power asset management activities from our proprietary trading activities. This ensures we will continue to meet regulatory compliance obligations and focus deployment of increasingly automated trading strategies.

In 2020 we will continue to play a central part in Europe's green transition and be at the forefront of bankable PPA offerings. We experience an increased level of investments in the southern part of Europe which fit our expansion plans.

The 2019 financial result exceeded our expectations.

The directors expect the general level of activities and scope of business in 2020 to be similar to 2019.

We have acted promptly to implement precautions to safeguard our employees and secure business continuity during the Covid-19 break-out. As a result, we haven't yet experienced and do not expect material impact to our 2020 financial results due to Covid-19 break-out.

Our Business Model

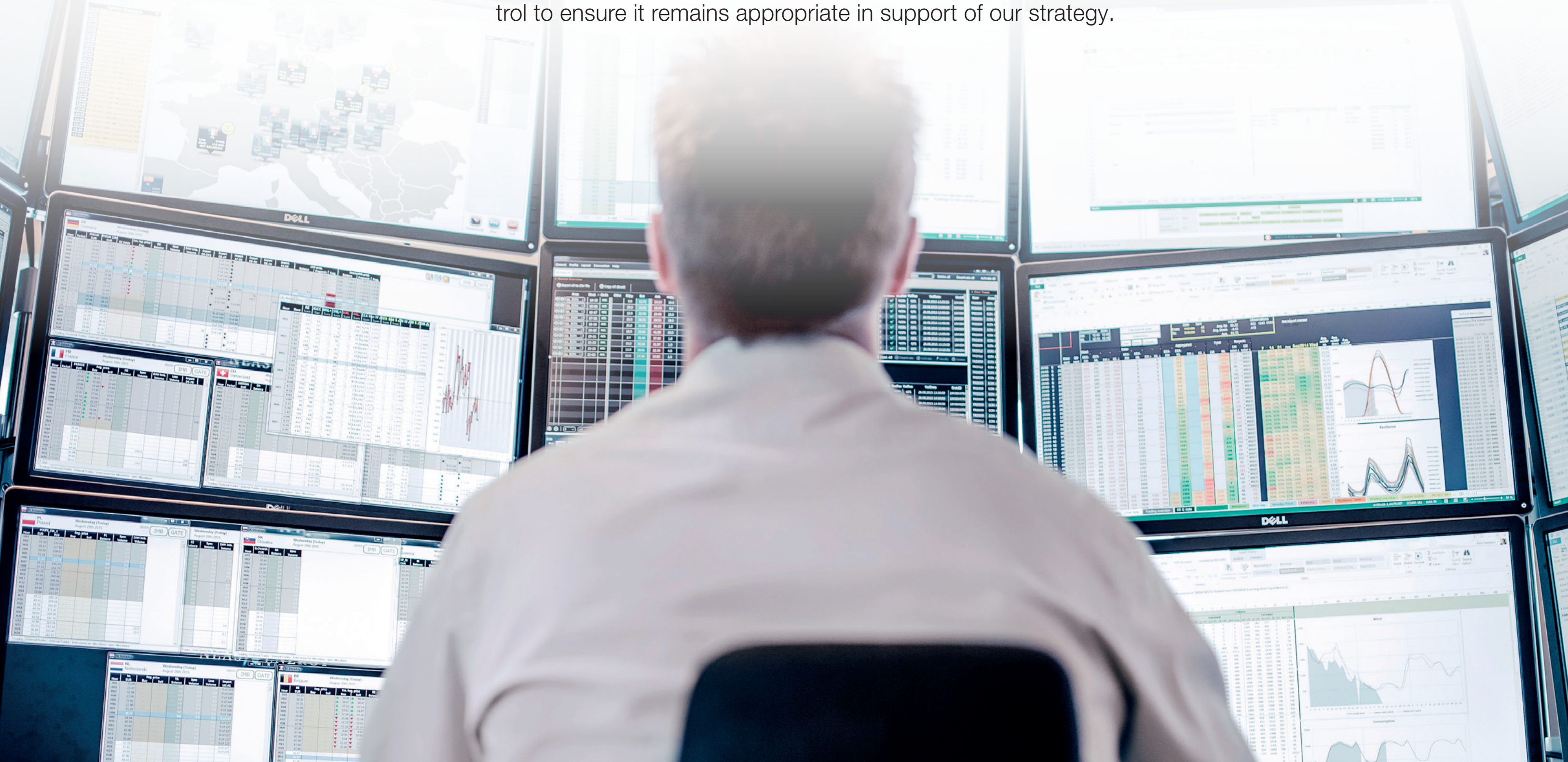
Centrica Energy Trading has built a successful business on trading power and gas across the European borders based on an extensive legacy expertise from the Nordic and UK energy markets. We connect producers, suppliers and off takers in the wholesale energy markets, providing best in class route-to-market services through integrating sophisticated software, structuring and optimising exposures from long term risk management down to physical trading seconds before delivery.

Risk Management

As part of our business model Centrica Energy Trading is exposed to a variety of different risks.

We work with the following main risk categories: market risk, liquidity risk, credit risk, operational risk and compliance risk.

Risks are actively managed by our risk teams in accordance with Centrica EM&T' policies which is designed to enable us to identify, evaluate and mitigate our risks appropriately. On an annual basis we evaluate our System of Risk Management and Internal Control learning from any control incidents that have arisen to ensure we are mitigating risks in line with our risk appetite. We are evolving our System of Risk Management and Internal Control to ensure it remains appropriate in support of our strategy.



Financial Highlights

Amounts in million DKK	2019	2018	Change in %
Revenue	77,826.1	69,259.3	12%
EBITDA *	197.2	213.6	-8%
EBIT **	168.4	190.6	-12%
Profit before tax	257.2	196.2	31%
Profit for the year	214.4	150.4	43%
Equity	1,081.2	865.4	25%
Equity ratio	24.7%	20.5%	21%
Average number of employees	334.0	328.0	2%

* Profit before amortisation and depreciation ** Operating profit

Financial Highlights

Amounts in TDKK

Financial highlights	2019	2018	2017	2016	2015
Income statement					
Revenue	77,826,081	69,259,259	37,370,674	19,778,697	20,658,580
Index	377	335	181	96	100
Profit before amortisation and depreciation	197,202	213,597	236,608	197,531	202,365
Index	97	106	117	98	100
Operating profit	168,390	190,640	219,161	177,127	165,610
Index	102	115	132	107	100
Results from net financials	88,855	5,521	29,841	-69,333	-27,223
Index	426	120	210	-155	100
Profit before tax	257,245	196,161	249,002	107,794	138,387
Index	186	142	180	78	100
Profit for the year	214,361	150,376	198,597	81,298	98,764
Index	217	152	201	82	100
Balance sheet					
Assets	4,379,284	4,226,932	2,642,662	2,111,621	1,948,275
Index	225	217	136	108	100
Investment in software	34,314	31,636	26,852	19,818	16,534
Index	208	191	162	120	100
Investment in property, plant and equipment	25,852	93,137	22,789	3,590	1,219
Index	2,121	7,640	1,869	295	100
Cash less bank loans	275,467	310,046	124,042	205,347	679,770
Index	41	46	18	30	100
Share capital	123,507	123,507	123,507	123,507	123,507
Index	100	100	100	100	100
Equity	1,081,164	865,352	714,763	516,124	434,986
Index	249	199	164	119	100
Equity and subordinated loan capital	1,081,164	865,352	714,763	516,124	784,986
Index	138	110	91	66	100
Current liabilities excluding bank loans	3,146,798	3,137,089	1,681,577	1,536,342	1,153,924
Index	273	272	146	133	100
Cash flow					
Net cash flow from:					
Operating activities	15,035	310,757	-45,033	-93,844	287,884
Investment activities	-49,614	-124,753	-36,272	-18,207	-17,285
Financing activities	0	0	0	-362,372	257,947
Cash flow for the year	-34,579	186,004	-81,305	-474,423	528,546

Financial ratios	2019	2018	2017	2016	2015
Profitability					
Return on equity	22.0%	19.0%	32.3%	17.1%	22.8%
Profit margin	0.2%	0.3%	0.6%	0.9%	0.8%
Equity ratio	24.7%	20.5%	27.0%	24.4%	22.3%
Equity incl. subordinated loan ratio	24.7%	20.5%	27.0%	24.4%	40.3%
Other: Average number of employees	334	328	286	252	222

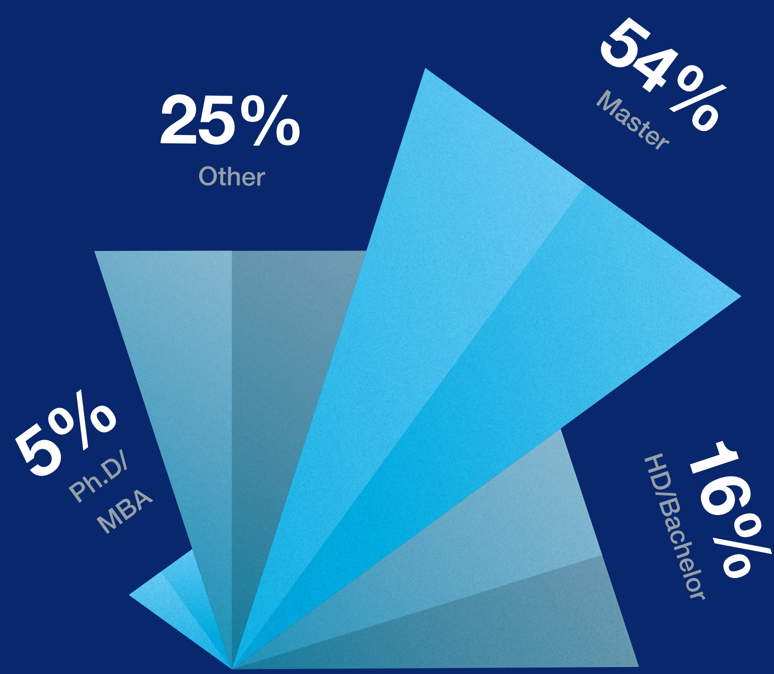
Employee Facts

FEMALE EMPLOYEES
25%

MALE EMPLOYEES
75%

AVERAGE AGE
37 Years old

Level of Education



Nationalities

Centrica Energy Trading has 25 different nationalities employed.

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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 2019 annual report is available here:

www.centrica.com/investors/annual-report-2019

Reporting on Corporate Responsibility

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

www.centrica.com/investors/annual-report-2019

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:

www.centrica.com/investors/annual-report-2019

The 2019 update on Centrica's general Corporate Responsibility and principle is available here:

www.centrica.com/investors/annual-report-2019

Corporate Governance

BOARD OF DIRECTORS

Cassim Mangerah (Chairman)

Stefka Gerova

Jonathan Westby

Ailsa Harding

Susanne Majbritt Lindbjerg Christensen
(employee representative)

Johannes Leipold
(employee representative)

EXECUTIVES

Anders Bauditz
CEO

Bjørn Skovhus
Director Short term & X-Border Trading

Naja Lyngholm Skovlyk
COO

Ole Ibsen
CFO

Our diversity

31.12.2019	Female	Male
Board of directors	50%	50%
Executives	25%	75%
Other management levels	16%	84%
All employees	25%	75%

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

INCOME STATEMENT

2019 revenue amounted to 77,826.1 mDKK. Gross profit was 506.1 mDKK equivalent to a gross profit margin of 0.65%.

Gross profit is equal to contribution margins from the buying, selling and trading of energy, portfolio management and administrative and technical services for electricity producers, gas companies and energy off-takers.

Revenue was up 12.4% compared to 2018. As expected, both power and gas traded volumes grew significantly, but the impact on revenue was comparatively counterbalanced by lower prices per MWh, most noteworthy in the gas market.

Gross profit of the Parent Company reduced compared to 2018. 2018 was an unusual year with extraordinary weather conditions, specifically when the cold spell hit Europe during Q1. This caused increased market volatility and beneficial trading opportunities. 2019 had less market volatility and as such unfavourable market conditions.

There was a small increase in staff cost partly associated to a slight rose in average number of employees due to consolidation of Centrica's short-term wholesale trading activities in Centrica Energy Trading in Aalborg and Singapore.

Compared to 2018, there was a substantial larger share of Gross Profit in the subsidiaries in UK, Germany and Singapore.

Operating profit was 168.4 mDKK compared to 190.6 mDKK in 2018. Profit margin was realised at 0.22 %.

Other financial income and expenses delivered a net income of 21.1 mDKK. Financial income was equal to interest earnings from deposits at Centrica group, whilst financial expenses primarily consisted of warranty provisions and interest payable.

Income from investments in group enterprises and associates amounted to 67.5 mDKK in 2019 compared to -9.9 mDKK in 2018. In Germany, we successfully dedicated our customer-centric activities and competencies towards Renewable PPAs to build further on our strong portfolio and as a consequence closed a sales office focused on less profitable activities.

The Singapore office has gradually taken a larger share of the Parent Company's trading activities to effectively cover and extent 24/7 trading activities across Europe.

Profit before tax was 257.2 mDKK and tax on profit for the year was 42.9 mDKK.

Profit for the year amounted to 214.4 mDKK, which was up 42.6% compared to 2018 profit for the year of 150.4 mDKK.

BALANCE SHEET

Total assets as of 31 December 2019 was 4,379.3 mDKK of which 3,969.3 were current assets. Working capital consisted especially of receivables from the buying and selling of energy, plus the value of open positions and holdings on the balance sheet date. Cash amounted to 275.5 mDKK compared to 310.0 mDKK in 2018.

Equity comprised 1,081.2 mDKK and was up with 215.8 mDKK or 24.9% compared to 2018. The increase was mainly driven by the result of the year. Equity ratio increased from 20.5% last year to 24.7% this year.

CASH FLOW STATEMENT

Net cash flow for the year amounted to -34,6 mDKK in 2019 compared to 186,0 mDKK in 2018.

Changes in net working capital amounted to -161.3 mDKK in 2019 and corporation tax paid during 2019 amounted to -42.2 mDKK. This was compensated by profit before tax which amounted to 257.2 mDKK leading to a net cash flow from operating activities of 15.0 mDKK in 2019.

Net cash flow from investing activities amounted to -49.6 mDKK in 2019 and net cash flow from financing activities was 0 mDKK in 2019.

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 01.01.2019 - 31.12.2019.

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 31.12.2019 and of the results of its operations and cash flows for the financial year 01.01.2019 - 31.12.2019.

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, 15.05.2020

CEO

Anders Bauditz

The Supervisory Board of Directors

Cassim Mangerah	Stefka Gerova	Jonathan Westby
Ailsa Harding	Susanne Majbritt Lindbjerg Christensen	Johannes Leipold

Chairman

The annual report was presented and approved at the company's ordinary annual general meeting held on 15 May, 2020.

Ole Ibsen

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 01.01.2019 - 31.12.2019, 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 31.12.2019 and of the results of its operations and cash flows for the financial year 01.01.2019 - 31.12.2019 in accordance with the Danish Financial Statements Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and addi-tional requirements applicable in Denmark. Our responsibilities under those standards and re-quirements 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 au-di-tor'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, 15.05.2020

Deloitte
Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56

Lars Birner Sørensen	Peter Mølkjær
State-Authorised	State-Authorised
Public Accountant	Public Accountant
MNE no mne11671	MNE no mne24821

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FINANCIAL STATEMENTS

Accounting Policies

General

This Annual Report has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C. This include the use of International Financial Reporting Standards for recognition, measurement and presentation and disclosure of financial instruments in accordance with IFRS9.

According to the exemption in §112 of the Danish Finacial Statements Act, no consolidated financial statements have been prepared. The financial statements of Centrica Energy Trading A/S and subsidiaries are included in the consolidated financial statements of CENTRICA Plc. (Millstream, Maidenhead Road, Windsor, Berkshire, SL4 5GD, No.: 3033654).

The accounting policies applied remain unchanged from the previous years.

Foreign currency

The Annual Report is presented in Danish kroner (DKK).

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Gains and losses arising due to differences between rates at the transaction date and the rates at the dates of payment are recognised in financial income or financial expenses in the income statement.

Receivables, payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the transaction date rates are recognised in financial income or financial expenses in the income statement.

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 and 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.

Financial instruments

Profits/losses from financial trading activities are recognised as ascertained 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.

Other operating income

Other operating income includes items of a secondary nature in relation to the company's activities.

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 tax for the year, which consists of the current tax for the year and the change in deferred tax, is recognised in the income statement 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 company is included in the joint taxation with Danish affiliated companies. The current Danish corporation tax is distributed among the jointly taxed companies in proportion to their taxable income (Full distribution with reimbursement of tax losses).

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 comprise goods for resale. In general inventories are measured at the lower of cost or net realisable value.

Gas inventories, ROCs Certificates and other inventories are measured at weighted-average cost.

Other certificates are measured at cost based on the FIFO principle.

The net realisable value of inventories is calculated at the amount expected to be generated by sales during normal operations less selling expenses. The net realisable value is determined allowing for marketability, obsolescence and development in expected sales.

When inventories are effectively hedged, inventories are measured at the fair value.

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

Current tax payables and receivables are recognised in the balance sheet as calculated tax on the taxable income, adjusted for tax on taxable incomes for prior years and 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

Note		2019	2018
1	**Revenue**	**77,826,081**	**69,259,259**
	Cost of sales	-77,319,977	-68,739,246
	Gross profit	**506,104**	**520,013**
	Own work capitalised	30,748	25,166
	Other operating income	27,910	32,735
	Other external expenses	-74,845	-76,981
2	Staff costs	-292,715	-287,336
	Profit before amortisation and depreciation	**197,202**	**213,597**
	Depreciation, amortisation and impairment losses	-28,812	-22,957
	Operating profit	**168,390**	**190,640**
3	Income from investments in group enterprises	66,135	-8,811
4	Income from investments in associates	1,406	-1,138
5	Other financial income	32,088	26,690
6	Other financial expenses	-10,774	-11,220
	Profit before tax	**257,245**	**196,161**
7	Tax on profit	-42,884	-45,785
	Profit for the year	**214,361**	**150,376**

Distribution of Profit for The Year

Amounts in TDKK

	2019	2018
Proposed distribution of profit:		
Retained earnings	214,361	150,376
Total	**214,361**	**150,376**

Balance Sheet

Amounts in TDKK

Note	Assets	2019	2018
	Development projects	66,934	59,053
	Development projects in progress	17,410	11,829
8	**Intangible assets**	**84,344**	**70,882**
	Land and buildings	119,857	96,024
	Plant and equipment	12,866	11,856
	Plant and equipment in progress	906	7,857
9	**Property, plant and equipment**	**133,629**	**115,737**
	Investments in group enterprises	81,268	24,229
	Investments in associates	6,666	5,259
10	**Fixed asset investments**	**87,934**	**29,488**
	Non-current assets	**305,907**	**216,107**
11	**Inventories**	**441,907**	**818,455**
	Trade receivables	1,827,699	1,341,016
	Receivables from group enterprises	75,647	141,375
	Receivables from associates	8,297	7,747
12	Other receivables	1,417,524	1,284,813
	Prepayments	26,836	107,373
	Receivables	**3,356,003**	**2,882,324**
	Cash	**275,467**	**310,046**
	Current assets	**4,073,377**	**4,010,825**
	Assets	**4,379,284**	**4,226,932**

Balance Sheet

Amounts in TDKK

Note	Equity and liabilities	2019	2018
13	Share capital	123,507	123,507
	Reserve for net revaluation according to the equity method	69,343	0
	Reserves for development costs	66,777	48,263
	Retained earnings	821,537	693,582
	Equity	**1,081,164**	**865,352**
7	Provision for deferred tax	10,151	4,940
	Provisions	**10,151**	**4,940**
	Other payables	141,171	219,551
14	**Non-current liabilities other than provisions**	**141,171**	**219,551**
14	Current portion of long-term liabilities other than provisions	654,512	898,256
15	Other provisions	32,878	47,325
	Debt to group enterprises	272,706	571,781
	Trade payables	1,936,049	1,479,854
	Income tax payable	16,933	21,460
	Other payables	221,348	114,497
	Deferred income	12,372	3,916
	Current liabilities other than provisions	**3,146,798**	**3,137,089**
	Liabilities other than provisions	**3,287,969**	**3,356,640**
	Equity and liabilities	**4,379,284**	**4,226,932**

16 Guarantees
17 Contingent liabilities
18 Contractual obligations
19 Fees paid to auditors appointed at the annual general meeting
20 Related parties

Statement of Changes in Equity

Amounts in TDKK

	Share capital	Reserve for net revaluation according to the equity method	Reserve for development costs	Retained earnings	Total
Balance as of 01.01.2019	123,507	0	48,263	693,582	865,352
Capitalized development costs	0	0	18,514	-18,514	0
Other adjustments	0	0	0	1,451	1,451
Transfer to reserves	0	69,343	0	-69,343	0
Profit/loss for the year	0	0	0	214,361	214,361
Balance as of 31.12.2019	**123,507**	**69,343**	**66,777**	**821,537**	**1,081,164**

Cash Flow Statement

Amounts in TDKK

	2019	2018
Profit before tax	**257,245**	**196,161**
Adjustment of non-cash items	-38,735	32,898
Operating profit adjusted for non-liquid items	**218,510**	**229,059**
Corporation tax paid	-42,200	-67,352
Changes in net working capital:		
Receivables	-473,679	-821,973
Inventories	376,548	-576,206
Payables	-64,144	1,547,229
Net cash flow from operating activities	**15,035**	**310,757**
Investment in non-current assets:		
Purchase of intangible assets	-34,314	-31,636
Sale of plant and equipment	0	20
Purchase of property, plant and equipment	-25,852	-93,137
Disposal of financial assets	10,552	0
Net cash flow from investing activities	**-49,614**	**-124,753**
Net cash flow from financial activities	**0**	**0**
Total net cash flow for the year	**-34,579**	**186,004**
Cash at the beginning of the year	310,046	124,042
Cash at the end of the year	**275,467**	**310,046**
Cash at end of year specified as follows:		
Cash	275,467	310,046
Total	**275,467**	**310,046**

Notes

Amounts in TDKK

1. Revenue	2019	2018
Power	31,307,118	27,762,840
Gas	46,518,963	41,496,419
Total	**77,826,081**	**69,259,259**
Profit from fair value instruments	**427,704**	**288,873**

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	2019	2018
Wages and salaries	265,586	260,263
Pension costs	15,349	14,717
Other social security costs	3,395	3,318
Other staff costs	8,385	9,038
Total	**292,715**	**287,336**
Average number of employees	**334**	**328**
Remuneration to CEO and Board of Directors	4,488	16,183
Total remuneration to CEO and Board of Directors	4,488	**16,183**

The Executive Board and other senior executives are covered by bonus schemes that depends on profit for the year and personal performance.

3. Income from investments in group enterprises	2019	2018
Share of profit/loss for the year	66,135	-8,811
Total	**66,135**	**-8,811**

Notes

Amounts in TDKK

4. Income from investments in associates	2019	2018
Share of profit/loss for the year	1,406	-1,138
Total	**1,406**	**-1,138**

5. Other financial income	2019	2018
Financial income arising from group enterprises	31,084	24,439
Financial income from associates	548	0
Exchange rate adjustments	0	1,929
Interest income	456	322
Total	**32,088**	**26,690**

6. Other financial expenses	2019	2018
Financial expenses from group enterprises	346	221
Guarantee provision	2,897	3,528
Exchange rate adjustments	444	0
Interest expenses	7,087	6,918
Other financial expenses	0	553
Total	**10,774**	**11,220**

Notes

Amounts in TDKK

7. Tax on profit from ordinary activities	2019	2018
Tax on current year taxable income	37,578	39,522
Change in deferred tax for the year	4,748	-8,195
Correction to current tax, previous years	95	-393
Correction to deferred tax, previous years	463	14,851
Total	**42,884**	**45,785**
Deferred tax is computed at 22% and is broken down as follows:		
Intangible assets	18,555	15,594
Plant and equipment	-1,171	-242
Current assets	-7,233	-10,412
Total provision for deferred tax, closing balance	**10,151**	**4,940**
Total provision for deferred tax, opening balance	4,940	-1,715
Provision for deferred tax for the year	**5,211**	**6,655**

Notes

Amounts in TDKK

8. Intangible assets	2019	2018
Development projects		
Cost price as of 01.01.2019	168,206	142,024
Transfers during the year	28,733	31,542
Disposals during the year	-624	-5,360
Cost price as of 31.12.2019	**196,315**	**168,206**
Amortisations as of 01.01.2019	109,153	95,779
Amortisations during the year	20,557	16,937
Reversal of amortisations on disposals in the year	-329	-3,563
Amortisations as of 31.12.2019	**129,381**	**109,153**
Book value as of 31.12.2019	**66,934**	**59,053**
Development projects in progress		
Cost price as of 01.01.2019	11,829	11,735
Additions during the year	34,314	31,636
Transfers during the year	-28,733	-31,542
Cost price as of 31.12.2019	**17,410**	**11,829**
Book value as of 31.12.2019	**17,410**	**11,829**
Booked value intangible assets as of 31.12.2019	**84,344**	**70,882**

Development projects contains own developed software supporting all business areas.

Notes

Amounts in TDKK

9. Land and buildings	2019	2018
Cost price as of 01.01.2019	98,855	0
Additions during the year	0	82,596
Disposals during the year	0	-13
Transfers during the year	28,035	16,272
Cost price as of 31.12.2019	**126,890**	**98,855**
Depreciation as of 01.01.2019	2,831	0
Depreciation during the year	4,202	409
Transfers during the year	0	2,422
Depreciation as of 31.12.2019	**7,033**	**2,831**
Book value as of 31.12.2019	**119,857**	**96,024**
Plant and equipment		
Cost price as of 01.01.2019	23,206	12,871
Transfers during the year	4,768	10,335
Cost price as of 31.12.2019	**27,974**	**23,206**
Depreciation as of 01.01.2019	11,350	9,096
Depreciation during the year	3,758	2,254
Depreciation as of 31.12.2019	**15,108**	**11,350**
Book value as of 31.12.2019	**12,866**	**11,856**

Notes

Amounts in TDKK

	2019	2018
Leasehold improvements		
Cost price as of 01.01.2019	0	15,069
Transfers during the year	0	-15,069
Cost price as of 31.12.2019	**0**	**0**
Depreciation as of 01.01.2019	0	856
Depreciation during the year	0	1,566
Transfers during the year	0	-2,422
Depreciation as of 31.12.2019	**0**	**0**
Book value as of 31.12.2019	**0**	**0**
Plant and equipment in progress		
Cost price as of 01.01.2019	7,857	8,854
Additions during the year	25,852	10,541
Transfers during the year	-32,803	-11,538
Cost price as of 31.12.2019	**906**	**7,857**
Book value as of 31.12.2019	**906**	**7,857**
The carrying amount of assets held under finance leases amounts to	**0**	**28**
Booked value property, plant and equipment as of 31.12.2019	**133,629**	**115,737**

Notes

Amounts in TDKK

10. Fixed asset investments	2019	2018
Investment in group enterprises		
Cost price as of 01.01.2019	21,751	21,751
Disposals during the year	-14,338	0
Cost price as of 31.12.2019	**7,413**	**21,751**
Revaluation and depreciation as of 01.01.2019	2,478	11,085
Share of profit/loss for the year	66,135	-8,811
Reversal of revaluations and depreciations on disposals in the year	3,786	0
Fair value adjustments in the year	1,456	204
Revaluation and depreciation as of 31.12.2019	**73,855**	**2,478**
Book value as of 31.12.2019	**81,268**	**24,229**
Investment in associates		
Cost price as of 01.01.2019	11,178	11,178
Cost price as of 31.12.2019	**11,178**	**11,178**
Revaluation and depreciation as of 01.01.2019	-5,919	-4,797
Share of profit/loss for the year	1,406	-1,138
Fair value adjustments in the year	1	16
Revaluation and depreciation as of 31.12.2019	**-4,512**	**-5,919**
Book value as of 31.12.2019	**6,666**	**5,259**

Notes

Amounts in TDKK

10. Fixed asset investments

Group enterprises	Domicile	Equity	Profit for the year	Percentage owned
Neas Invest A/S	Aalborg, Denmark	1,342	-37	100%
NEAS Fondsmæglerselskab A/S (solvent liquidation in 2019)	Aalborg, Denmark	0	-73	100%
Neas Energy Ltd.	London, United Kingdom	29,593	15,035	100%
Centrica Energy Trading Gmbh.	Hamburg, Germany	-3,808	18,018	100%
Centrica Energy Trading Pte. Ltd.	Singapore	54,162	33,192	100%
Associates				
Danish Carbon Fund	Copenhagen, Denmark	4,159	-2,000	7%
Vindpark Keblowo ApS	Hobro, Denmark	12,759	3,089	50%

Notes

Amounts in TDKK

11. Inventories	2019	2018
Gas	341,661	547,194
Certificates	100,211	271,208
Other	35	53
Total	**441,907**	**818,455**

Certificates of 58,097 TDKK has been deposited as collateral security.

12. Other receivables	2019	2018
Fair value of physical and financial instruments	1,174,824	831,682
Deposits	206,861	424,647
Others	35,839	28,484
Total	**1,417,524**	**1,284,813**
Receivables related to fair value of physical and financial instruments above 1 year amouts to	**104,067**	**197,650**

13. 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 01.01.2015	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 31.12.2019	**123,507**

Notes

Amounts in TDKK

14. Non-current liabilities other than provisions	2019	2018
Nominal value of long-term debt	795,683	1,117,807
Within 1 year	654,512	898,256
2-5 years	137,981	219,551
After 5 years	3,190	0
Total	**795,683**	**1,117,807**

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

15. Other provisions

Centrica Energy Trading A/S is part in legal disputes which are expected to be settled this year. Management has made provisions of 32,878 TDKK which are considered to be sufficient to cover potential losses.

Notes

Amounts in TDKK

16. Guarantees

	2019	2018
The Company's banks have provided guarantees for contractual obligations guarantees at the balance sheet date amounted to	532,890	438,438

17. Contingent liabilities

The Groups Danish Companies participates in a Danish joint taxation arrangement in which Spirit Energy Danmark Aps 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 also for obligations, if any, relating to the withholding of tax on interest, royalties and dividend for the jointly taxed companies.

18. Contractual obligations

	2019	2018
Non-financial rent and leasing payments:		
Within 1 year	2,480	5,422
2 -5 years	465	3,645
After 5 years	0	0
Total	**2,945**	**9,067**

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

	2019	2018
Mandatory audit of the annual accounts	382	610
Other services	0	27
Total	**382**	**637**

Notes

Amounts in TDKK

20. Related parties

Controlling influence:	**Basis of influence:**
Centrica Overseas Holding Limited, United Kingdom	Parent company

Significant influence:		**Basis of influence:**
Cassim Mangerah	*Windsor, United Kingdom*	Chairman of the supervisory board of directors
Stefka Gerova	*Maidenhead, United Kingdom*	Member of the supervisory board of directors
Jonathan Westby	*Ascot, United Kingdom*	Member of the supervisory board of directors
Ailsa Harding	*Balham, United Kingdom*	Member of the supervisory board of directors
Susanne Majbritt Lindbjerg Christensen	*Aalborg, Denmark*	Member of the supervisory board of directors - Employee Representative
Johannes Leipold	*Lemvig, Denmark*	Member of the supervisory board of directors - Employee Representative

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 2019."

Ownership structure:

The following shareholders are registered in the company's Register of Shareholders with a shareholding of more than 5%: Centrica Overseas Holding Limited, United Kingdom.

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 subsidary.

The Group Structure is as follows:
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

21. 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 risk exposure across business areas using a standard Value-at-Risk metric (VaR) (1-day 95%) approach complimented by internally developed models to compensate for some of the known limitations of the VaR approach. The VaR utilization during 2019 ranged between 4 and 16m 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 2018 and 2019 respectively are 8,4 mDKK and 10,1 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

22. Liquidity Risk

During 2019 Centrica Energy Trading has had a negative cash flow but has solid liquidity reserve to support our business limiting the liquidity risk concerning obligations to customers and counterparts. 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 2019	2020	2021	2022	After 2023
Trade payables	1,936,049	1,936,049	0	0	0
Other payables - Accrued trading counterparties	0	0	0	0	0
Fair value of physical and financial instruments	787,483	650,335	87,192	41,862	8,095
Total	**2,723,532**	**2,586,384**	**87,192**	**41,862**	**8,095**

	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	1,117,807	1,029,269	-6,790	59,424	35,904
Total	**2,597,661**	**2,509,123**	**-6,790**	**59,424**	**35,904**

Notes Regarding Financial Instruments

Amounts in TDKK

22. Liquidity Risk (continued)

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.

	2019	2018
Fair value of physical and financial instruments - assets	1,174,826	1,000,697
Fair value of physical and financial instruments - liabilities	998,413	1,117,807
Fair value of physical and financial instruments - net values	**176,413**	**-117,110**

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

23. Credit Risk

According to Centrica Energy Trading's Risk Policy, all counterparts are required to be credit-rated and an internal limit 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. 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.

2019	Trade Receivables	Fair value of physical and financial instruments	Total
The credit quality of the group's counterparties			
Clearing centres	848,215	42,604	890,819
Minimal risk (Rated A)	147,666	170,972	318,638
Low risk (Rated B)	810,343	955,485	1,765,828
High risk (Rated C)	21,475	4,183	25,658
Not rated	0	1,581	1,581
Total	**1,827,699**	**1,174,825**	**3,002,524**

2018	Trade Receivables	Fair value of physical and financial instruments	Total
The credit quality of the group's counterparties			
Clearing centres	208,965	2,082	211,047
Minimal risk (Rated A)	230,598	94,021	324,619
Low risk (Rated B)	1,087,625	729,291	1,816,916
High risk (Rated C)	2,439	0	2,439
Not rated	148	6,289	6,437
Total	**1,529,775**	**831,682**	**2,361,457**

Notes Regarding Financial Instruments

Amounts in TDKK

23. 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.

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

23. 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 also apply 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.

Offsetting of receivables

	2019			2018		
	Gross	**Netting**	**Net**	**Gross**	**Netting**	**Net**
Trade receivables	10,259,765	8,432,066	1,827,699	6,986,945	5,645,929	1,341,016
Other receivables	0	0	0	0	0	0
Receivable from group enterprises, current portion	75,647	0	75,647	141,375	0	141,375
Fair value of physical and financial instruments						
Other Receivables: Fair value of physical and financial instruments	7,504,925	6,330,099	1,174,826	3,652,914	2,821,232	831,682
Paid/Received cash on futures	0	0	0	169,015	0	169,015
Total	7,504,925	6,330,099	1,174,826	3,821,929	2,821,232	1,000,697
Total	**17,840,337**	**14,762,165**	**3,078,172**	**10,950,249**	**8,467,161**	**2,483,088**

Offsetting of payables

	2019			2018		
	Gross	**Netting**	**Net**	**Gross**	**Netting**	**Net**
Trade payables	10,368,115	8,432,066	1,936,049	7,125,783	5,645,929	1,479,854
Fair value of physical and financial instruments	7,117,582	6,330,099	787,483	3,939,039	2,821,232	1,117,807
Paid/Received cash on futures	210,930	0	210,930	0	0	0
Total	7,328,512	6,330,099	998,413	3,939,039	2,821,232	1,117,807
Total	**17,696,627**	**14,762,165**	**2,934,462**	**11,064,822**	**8,467,161**	**2,597,661**

The company's banks have provided guarantees for contractual obligations guarantees at the balance sheet date amounted to TDKK 632,473.
The counterparties banks have provided guarantees for contractual obligations guarantees at the balance sheet date amounted to TDKK 76,938.

Notes Regarding Financial Instruments

Amounts in TDKK

24. 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.

	2019		2018	
	P/L effect	Reasonably possible change in variable %	P/L effect	Reasonably possible change in variable %
Nordic Power	17,405	+/- 4%	9,478	+/- 4%
Continental Power	22,985	+/- 4%	4,192	+/- 4%
UK Power	700	+/- 5%	4,012	+/- 5%
Europe Gas	1,747	+/- 5%	4,576	+/- 5%

Notes Regarding Financial Instruments

25. Fair value hierarchy

Fair value hierachy

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

25. Fair value hierachy (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.

2019

	Level 1	Level 2	Level 3	Total
ASSETS				
Power	-8,625	248,462	256,129	495,966
Gas	706	85,127	616,084	701,916
Other	0	-23,056	0	-23,056
Total	-7,919	310,533	872,213	1,174,826
LIABILITIES				
Power	-132,721	-165,341	-36,208	-334,270
Gas	-78,472	-555,463	22,299	-611,635
Other	0	-52,508	0	-52,508
Total	-211,193	-773,312	-13,908	-998,413
Total	**-219,112**	**-462,779**	**858,304**	**176,413**

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.

Notes Regarding Financial Instruments

Amounts in TDKK

25. Fair value hierachy (continued)

2018

	Level 1	Level 2	Level 3	Total
ASSETS				
Power	0	801,073	6,939	808,012
Gas	0	24,028	9,792	33,820
Other	0	158,865	0	158,865
Total	0	983,966	16,731	1,000,697
LIABILITIES				
Power	-57,797	-282,257	-3,420	-343,514
Gas	0	-275,053	-14,131	-289,184
Other	0	-485,109	0	-485,109
Total	-57,797	-1,042,459	-17,551	-1,117,807
Total	**-57,797**	**-58,493**	**-820**	**-117,110**

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

Level 3 financial instruments	2019	2018
1st January	-820	-14,725
Transfers between level 2 and 3	333,217	0
Total realized and unrealized (losses)/Gains	525,907	13,905
31th December	**858,304**	**-820**
Total (losses)/gains for the year for level 3 instruments	**-68,328**	**-23,558**

Transfers between levels are deemed to occur at the beginning of the reporting period. During the year level of certain markets have been reassessed, based on the activity in the markets, and availability of observable inputs.

Notes Regarding Financial Instruments

Amounts in TDKK

26. Not recognized gain/loss in the fair value of financial instruments

The company does not recognize day one gain or losses on the initial recognition of financial instriments, because the gain or loss is not directly observable on an active market. The company calculates the gain/loss based on observable and unobservable data by using internally developed methodologies that result in management's best estimate of fair value.

Not recognized gain/loss as of 31.12.2018	112,650
Not recognized gain/loss as of 31.12.2019	191,261
Change in not recognized gain/loss during the year	**78,611**

centrica
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