RISK MANAGEMENT

MARKET RISK

Market risk is the risk of the value of open positions changing as a result of fluctuating market conditions.

Danske Commodities' market risk arises in both commodity and financial markets with fluctuating energy prices, production and consumption balancing and foreign exchange rates constituting key risk factors. Due to the potential impact on the Company's earnings, Danske Commodities continuously monitors and stress tests volatility and commodity price developments.

Market risk is managed as set out in the Market Risk Policy and the Market Risk Manual. The Market Risk Policy defines the allowable products, regions and commodities whereas the Market Risk Manual provides the specific mandates within the overall market risk appetite. The market risk appetite of Danske Commodities sets out the overall risk limits defined as the allocated risk capital, and the aggregation of the different mandates is kept within those limits, ensuring that the Company monitors its risk profile at all times. Open positions are only accepted if mandates have been established. All open trading positions are monitored by a second line of defence by the Risk Management team.

All mandates across the business are reviewed regularly and updated to ensure that they continue to comply with the overall risk appetite and are in sync with changing market conditions. As part of the monitoring process, Danske Commodities operates several warning levels and stop-loss limits to ensure timely action if a mandate is violated. Structured product control, model validations and additional stress tests and risk measures, such as Value-at-Risk, are used as an integral part of risk management for relevant products and activities.

Foreign exchange risk, to which the daily commercial business is exposed, is mitigated and hedged on a daily basis. As foreign exchange risk is not a core business for Danske Commodities, a hedging strategy anchored in the Treasury team is pursued to mitigate the foreign exchange risk. Hence, currency risk is an insignificant component of the overall risk appetite at Danske Commodities.

CREDIT RISK

Credit risk is the risk of financial loss resulting from a counterparty failing to meet contractual obligations.

Danske Commodities manages credit risk through a clearly defined framework of policies and procedures approved by the Board of Directors and defined by the Risk Management team.

The financial strength and creditworthiness of a potential counterparty is assessed before the Company enters any contract and subsequently the allowed credit line is monitored daily. If required, security is requested before or during the contract lifespan.

Thorough Know Your Customer (KYC) and sanctions screening processes are performed according to the agreed policy. The KYC process is reviewed regularly, and sanctions screening is done on a continual basis.

OPERATIONAL AND IT RISK

Danske Commodities is exposed to operational and IT risks with possible impact on license to operate, financial losses or near misses. Operational and IT risks can broadly be defined as risks of inadequate or failed internal processes, human errors, system failures or from external events.

Danske Commodities continues to mature and improve operational and IT risk management to make it an integral part of the Company's efforts to reduce the overall risk exposure.

Cybersecurity training is mandatory for all employees and IT risk controls are further strengthened as part of SOX compliance. The Danish Energy Agency has audited Danske Commodities' crisis management business continuity planning and obligations as a balancing responsible party in the energy market.

Crisis management and business continuity processes, procedures and tooling are updated and exercised on a monthly and biannual basis.

LIQUIDITY RISK

Liquidity risk is the risk of Danske Commodities not being able to meet its liabilities towards counterparties.

Danske Commodities is considered to have low liquidity risk, being under the ownership of Equinor and given its solid capital structure. Cash flows from operations, cash reserves and credit facilities are key aspects that for several years have ensured stable and adequate liquidity. Add to that the bolstering of equity through two capital injections by Equinor in 2019 and 2022 alongside access to internal credit facilities, also provided by Equinor.

Danske Commodities measures its overall liquidity, consisting of free liquidity, including cash collateral, other deposits and forecasted cash flows, on a daily basis. In addition, different liquidity outcomes are simulated through various stress tests. The stress testing process analyses daily and monthly forecasted liquidity against a minimum liquidity level, enabling the Company to better manage liquidity reserves and withstand market movements at all times.

STATEMENT OF COMPREHENSIVE INCOME

1 JANUARY – 31 DECEMBER

INCOME STATEMENT

		Group		Parent	
EUR '000	Note	2022	2021	2022	2021
Trading income and revenue	2.1	6,441,796	2,451,083	6,362,909	2,437,891
Cost of sales	2.1	-4,376,845	-1,975,417	-4,376,825	-1,975,416
Gross profit		**2,064,951**	**475,666**	**1,986,084**	**462,475**
Other operating income		1,468	10	1,468	10
Other external expenses	4.1	-23,058	-13,410	-23,344	-14,061
Staff costs	4.1	-74,483	-51,594	-72,020	-49,729
Amortisation, depreciation and impairment losses of intangible assets and property, plant and equipment	6.1, 6.2	-13,498	-16,545	-13,490	-16,537
Operating profit/loss (EBIT)		**1,955,380**	**394,127**	**1,878,698**	**382,158**
Share of profit in subsidiaries after tax	6.4	0	0	62,484	9,353
Financial income	4.3	9,733	6,161	9,550	6,709
Financial expenses	4.3	-87,508	-13,083	-87,455	-13,121
Profit before tax (EBT)		**1,877,605**	**387,205**	**1,863,277**	**385,099**
Tax on profit/loss for the year	7.1	-410,399	-84,296	-396,071	-82,190
Profit for the year		**1,467,206**	**302,909**	**1,467,206**	**302,909**

STATEMENT OF OTHER COMPREHENSIVE INCOME

	Group		Parent	
EUR '000	2022	2021	2022	2021
Profit for the year	**1,467,206**	**302,909**	**1,467,206**	**302,909**
Items that may subsequently be reclassified to the income statement:				
Exchange rate adjustment on translation of foreign operations	-1,820	-804	-1,820	-804
Other comprehensive income (net of tax)	**-1,820**	**-804**	**-1,820**	**-804**
Total comprehensive income (net of tax)	**1,465,386**	**302,105**	**1,465,386**	**302,105**

BALANCE SHEET

AT 31 DECEMBER

EUR '000	Note	Group 2022	Group 2021	Parent 2022	Parent 2021
Contractual rights		66,597	74,940	66,597	74,940
Software		8,358	8,579	8,358	8,579
Intangible assets	6.1	**74,955**	**83,519**	**74,955**	**83,519**
Land and buildings		2,690	3,766	2,690	3,766
Other fixtures and fittings, tools and equipment		3,825	1,438	3,800	1,438
Leashold improvements		71	120	50	97
Property, plant and equipment	6.2	**6,586**	**5,324**	**6,540**	**5,301**
Investment in subsidiaries	6.4	0	0	81,889	15,734
Deferred tax	7.2	39,922	640	38,912	0
Deposits		421	348	417	348
Other non-current assets		**40,343**	**988**	**121,218**	**16,082**
Non-current assets		**121,884**	**89,831**	**202,713**	**104,902**
Inventories	5.1	1,914,475	1,124,902	1,914,475	1,124,902
Trade receivables	5.2	1,369,480	829,750	1,360,478	818,303
Other receivables	5.3	76,502	58,153	62,232	45,922
Deposits related to trading	5.3	460,853	1,005,859	458,317	1,005,168
Receivables from group enterprises	4.2	4,093,498	50,363	4,137,218	82,585
Corporation tax receivables	7.1	26,991	178	26,832	0
Prepayments		30,607	14,258	25,607	13,258
Derivative financial instruments	3.5	5,366,751	2,930,272	5,363,786	2,926,914
Cash and cash equivalents		1,424,501	1,384,665	1,386,648	1,374,282
Current assets		**14,763,658**	**7,398,400**	**14,735,593**	**7,391,334**
Assets		**14,885,542**	**7,488,231**	**14,938,306**	**7,496,236**

STATEMENT OF CHANGES IN EQUITY

2022 — **Group**

EUR '000	Share capital	Reserve for currency translation	Retained earnings	**Total**
Equity at 1 January	179,065	-1,545	456,978	634,498
Net profit for the year	0	0	1,467,206	1,467,206
Other comprehensive income for the year	0	-1,820	0	-1,820
Total comprehensive income for the year	**0**	**-1,820**	**1,467,206**	**1,465,386**
Capital decrease	-179,762	0	0	-179,762
Capital increase	3,679,762	0	0	3,679,762
Other adjustments	697	0	-697	0
Equity at 31 December	**3,679,762**	**-3,365**	**1,923,487**	**5,599,884**

2021 — **Group**

EUR '000	Share capital	Reserve for currency translation	Retained earnings	**Total**
Equity at 1 January	179,065	-741	154,069	332,393
Net profit for the year	0	0	302,909	302,909
Other comprehensive income for the year	0	-804	0	-804
Total comprehensive income for the year	**0**	**-804**	**302,909**	**302,105**
Equity at 31 December	**179,065**	**-1,545**	**456,978**	**634,498**

2022 — Parent

EUR '000	Share capital	Reserve for net revaluation under the equity method	Reserve for development costs	Retained earnings	**Total**
Equity at 1 January	179,065	11,910	5,494	438,029	634,498
Net profit for the year	0	62,484	0	1,404,722	1,467,206
Development costs for the year	0	0	881	-881	0
Other adjustments	0	34	0	-34	0
Other comprehensive income for the year	0	-1,820	0	0	-1,820
Total comprehensive income for the year	**0**	**60,698**	**881**	**1,403,807**	**1,465,386**
Capital decrease	-179,762	0	0	0	-179,762
Capital increase	3,679,762	0	0	0	3,679,762
Other adjustments	697	0	0	-697	0
Equity at 31 December	**3,679,762**	**72,608**	**6,375**	**1,841,139**	**5,599,884**

2021 — Parent

EUR '000	Share capital	Reserve for net revaluation under the equity method	Reserve for development costs	Retained earnings	**Total**
Equity at 1 January	179,065	3,370	4,405	145,553	332,393
Net profit for the year	0	9,353	0	293,556	302,909
Development costs for the year	0	0	1,089	-1,089	0
Other adjustments	0	-9	0	9	0
Other comprehensive income for the year	0	-804	0	0	-804
Total comprehensive income for the year	**0**	**8,540**	**1,089**	**292,476**	**302,105**
Equity at 31 December	**179,065**	**11,910**	**5,494**	**438,029**	**634,498**

The share capital consists of 3,679,761,954 shares of a nominal value of EUR 1 per share. All shares rank equally.

1.2 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of Danske Commodities' consolidated and parent financial statements requires management to make estimates and assumptions that can have a significant effect on the application of policies and reported amounts of assets, liabilities, income, expenses and related disclosures. The estimates and underlying assumptions are based on historical experience and various other factors. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Changes in estimates may be necessary if there are changes in the circumstances on which the estimate was based or more detailed information becomes available. Such changes are recognised in the period in which the estimate is revised.

The application of the Group's accounting policies may require management to make judgments that can have a significant effect on the amounts recognised in the consolidated and parent financial statements and related disclosures. Management judgment is required in particular when assessing the substance of transactions that have a complicated structure or legal form.

The significant accounting estimates and judgments can potentially significantly impact the consolidated financial statements.

The table below shows the significant accounting estimates and judgments and their level of potential impact on the consolidated and parent financial statements.

SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS	Estimate/ judgment	Impact from estimates and judgments	Notes
Presentation of net and gross income	Judgment	Large	2.1
Valuation of derivative financial instruments	Estimate	Moderate	3.6
Gas trading inventories at fair value	Estimate	Low	5.1

EARNINGS

2.1 TRADING INCOME AND REVENUE

	Group		Parent	
EUR '000	2022	2021	2022	2021
Trading income				
Net trading income	1,642,459	469,356	1,408,015	455,447
Net change in fair value of commodity derivatives held for trading	1,518,169	44,624	1,515,927	45,341
Net change in fair value of inventory held for trading	-1,183,437	-61,834	-1,025,638	-61,834
Revenue from contracts with customers				
Sales of climate certificates	648,562	540,066	648,562	540,066
Sales of power and energy related services	3,816,043	1,458,871	3,816,043	1,458,871
Total trading income and revenue	**6,441,796**	**2,451,083**	**6,362,909**	**2,437,891**

SIGNIFICANT ACCOUNTING JUDGMENTS

Management uses significant judgments when determining presentation of income from complex contracts that contain certain sales of goods or services that are not clearly defined within the IFRS framework. In this assessment, management takes into consideration both the individual characteristics of the goods and services and the nature of the promise within the context of the contract, evaluating all the facts and circumstances relating to the specific contract under the relevant legal and regulatory framework as well as assessing whether the Group acts as principal or agent to determine the appropriate presentation of income.

ACCOUNTING POLICIES

Trading income

Trading income comprises realised and unrealised fair value changes as well as realised gains and losses on commodity derivatives and inventory held for trading.

Net trading income comprises net realised fair value changes, gains and losses arising from trading within energy commodity derivatives. The energy commodity derivatives make up Danske Commodities' trading portfolio which includes futures, options, swaps, transport capacities and certain forward sales and forward purchases commodity contracts that are either financially or physically settled. As the physically settled contracts are managed on a portfolio basis, a practice of net settlement is present, and the contracts are considered in scope of IFRS 9 and treated as derivatives.

Net changes in fair value of commodity derivatives and net changes in fair value of inventory held for trading represents unrealised changes in the fair value of commodity derivatives held for trading and inventory held for trading at the balance sheet date.

3.1 MARKET RISK – CONTINUED

INTEREST RATE RISK

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of change in market interest rates. Danske Commodities' exposure to the risk of changes in market interest rates relates primarily to interest-bearing floating rate liabilities and assets.

INSTRUMENTS USED BY THE GROUP

Forwards and futures are the primary instruments traded for gas and power with physical delivery, while financially settled instruments other than forwards and futures also include options and swaps.

SENSITIVITY		Group		Parent	
		2022	2021	2022	2021
EUR '000	+/- in %	Effect on profit/ loss before tax	Effect on profit/ loss before tax	Effect on profit/ loss before tax	Effect on profit/ loss before tax
	30%	-560,572	-289,104	-560,572	-289,104
Gas price risk (financial instruments)	-30%	613,167	349,512	613,167	349,512
	30%	560,931	329,533	560,931	329,533
Gas price risk (inventory)	-30%	-560,931	-329,533	-560,931	-329,533
	30%	3,761	67,081	-1,922	67,081
Power price risk	-30%	64,740	33,345	70,252	33,345
	30%	7,284	6,864	7,284	6,864
Certificate price risk	-30%	-5,053	9,341	-5,053	9,341
	8%	26,043	-572	20,394	-1,711
EUR/GBP currency risk	-8%	-26,043	572	-20,394	1,711
	1%	27,789	-14,400	27,789	-14,400
Interest rate risk	-1%	-27,789	14,400	-27,789	14,400

The table is calculated on an 'all else being equal' basis. The sensitivity calculation does not account for the correlation between products. For some products, the value is affected by multiple commodities.

3.2 CREDIT RISK MANAGEMENT

Exposure to credit risk may arise in Danske Commodities' trading and treasury operations. Trading is generally performed under standard agreements such as EFET and ISDA, which features netting provisions. The Group manages credit risk through a clear framework of policies and procedures defined by the Board of Directors, Senior Leadership and the Risk Management function. Responsibilities are divided between different business teams, Risk Management, Senior Leadership and the Board of Directors. A thorough Know Your Customer (KYC) process is carried out for all counterparties with whom the Group engages in transactions.

As commodity exchanges generally settle fair values daily, the Group considers its credit exposure to commodity exchanges to be insignificant.

The credit risk affecting the derivative financial instruments measured at fair value is considered limited based on the individual counterparty's ratings with public rating agencies.

Historically, Danske Commodities suffered no realised losses from any single major counterparty.

Credit risk from the Company's financial assets primarily concerns derivatives, trade receivables and receivables from group enterprises. For more information of credit risk related to receivables, refer to note 5.2.

CREDIT QUALITY OF THE GROUP'S COUNTERPARTIES

	Group		Parent	
EUR '000	2022	2021	2022	2021
AA Rating	8,522,961	439,737	8,488,635	439,294
A Rating	1,662,247	3,580,084	1,661,886	3,573,207
BBB Rating	1,624,782	1,770,747	1,621,822	1,769,687
BB Rating and lower	845,798	209,559	845,798	208,543
Not rated	90,323	201,130	114,330	216,869
Total at 31 December	**12,746,111**	**6,201,257**	**12,732,471**	**6,207,600**

3.6 FAIR VALUE MEASUREMENTS – CONTINUED

SIGNIFICANT ACCOUNTING ESTIMATES

In some cases, the fair values of derivatives are estimated using internal models due to the absence of quoted prices or other observable, market-corroborated data. This primarily applies to the Group's longer-term, structured derivative contracts or contracts in illiquid markets. Most of these contracts are valued using models with inputs that include price curves for each of the different products. These price curves are built up from available active market pricing data, including volatility and correlation, and modelled using the maximum available market-derived information. Additionally, when limited data exist for certain products or market areas, prices are determined using historical and long-term pricing relationships. The use of alternative estimates or valuation methodologies may result in significantly different values for these derivatives.

2022		Group			
		Quoted prices in active markets	Significant observable inputs	Unobservable inputs	
EUR '000	Note	Level 1	Level 2	Level 3	Total
Financial assets					
Gas trading derivatives		73	4,715,630	60,799	**4,776,502**
Power trading derivatives		1,348	485,426	84,477	**571,251**
Foreign exchange derivatives		0	18,998	0	**18,998**
Non-financial assets					
Gas trading inventories	5.1	0	1,869,772	0	**1,869,772**
Total financial and non-financial assets		**1,421**	**7,089,826**	**145,276**	**7,236,523**
Liabilities					
Gas trading derivatives		44,481	2,375,525	23,890	**2,443,896**
Power trading derivatives		150	686,527	64,556	**751,233**
Foreign exchange derivatives		0	56,153	0	**56,153**
Total financial liabilities		**44,631**	**3,118,205**	**88,446**	**3,251,282**

2021		Group			
		Quoted prices in active markets	Significant observable inputs	Unobservable inputs	
EUR '000	Note	Level 1	Level 2	Level 3	Total
Financial assets					
Gas trading derivatives		414,786	782,419	0	**1,197,205**
Exchange-traded certificates		21,403	0	0	**21,403**
Power trading derivatives		401,474	1,292,112	18,078	**1,711,664**
Foreign exchange derivatives		0	2,612	0	**2,612**
Non-financial assets					
Gas trading inventories	5.1	0	1,098,444	0	**1,098,444**
Total financial and non-financial assets		**837,663**	**3,175,587**	**18,078**	**4,031,328**
Liabilities					
Gas trading derivatives *		19,461	1,018,031	0	**1,037,492**
Power trading derivatives		387	1,929,553	0	**1,929,940**
Foreign exchange derivatives		0	335	0	**335**
Total financial liabilities		**19,848**	**2,947,919**	**0**	**2,967,767**

CAPITAL EMPLOYED

6.1 INTANGIBLE ASSETS

2022

EUR '000	Group and Parent Contractual rights	Software	Software development projects in progress
Cost at 1 January	94,618	25,881	962
Additions - internally developed	0	0	821
Additions	0	2,219	38
Transfers	0	654	-654
Cost at 31 December	**94,618**	**28,754**	**1,167**
Amortisation and impairment losses at 1 January	19,678	18,264	0
Amortisation for the year	8,343	3,299	0
Amortisation and impairment losses at 31 December	**28,021**	**21,563**	**0**
Carrying amount at 31 December	**66,597**	**7,191**	**1,167**

2021

EUR '000	Group and Parent Contractual rights	Software	Software development projects in progress
Cost at 1 January	109,759	23,918	1,299
Additions - internally developed	0	0	904
Additions	0	1,559	50
Disposals	-15,141	-887	0
Transfers	0	1,291	-1,291
Cost at 31 December	**94,618**	**25,881**	**962**
Amortisation and impairment losses at 1 January	22,981	16,258	0
Amortisation for the year	11,838	2,893	0
Reversal of amortisation of disposals for the year	-15,141	-887	0
Amortisation and impairment losses at 31 December	**19,678**	**18,264**	**0**
Carrying amount at 31 December	**74,940**	**7,617**	**962**

Contractual rights consist of power purchase agreements (PPAs) and gas storage contracts which were acquired in 2019 and 2020 from the ultimate Parent Company Equinor ASA. All the contracts were in operation at the time of purchase by Danske Commodities. All contracts have been acquired at a price reflecting fair value in the market at the date of acquisition.

ACCOUNTING POLICIES

Intangible assets are measured at cost less accumulated amortisation and less any accumulated impairment losses.

Cost comprises the cost of acquisition and expenses directly related to the acquisition up until the time when the asset is ready for use.

Software projects containing significant development aspects are identified as intangible assets when they are clearly defined, identifiable, provide a development opportunity for the Group and future use is intended. Costs related to projects that do not meet the criteria for recognition in the balance sheet are recognised as expenses in the income statement as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Development costs that are directly attributable to the design and testing of identifiable and unique projects, including software products controlled by the Group, are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software and it will be available for use
- Management intends to complete the software and use or sell it
- There is an ability to use or sell the software
- It can be demonstrated how the software will generate probable future economic benefits
- Adequate technical, financial and other resources needed to complete the development and to use or sell the software are available
- The expenditure attributable to the software during its development can be reliably measured

Costs associated with maintaining the assets are recognised as an expense as and when incurred. Directly attributable costs that are capitalised as part of the assets include employee costs.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use.

Amortisation based on cost reduced by any residual value is calculated on a straight-line basis over the expected useful lives of the assets, which are:
Contractual rights: 4-18 years
Software: 3-5 years