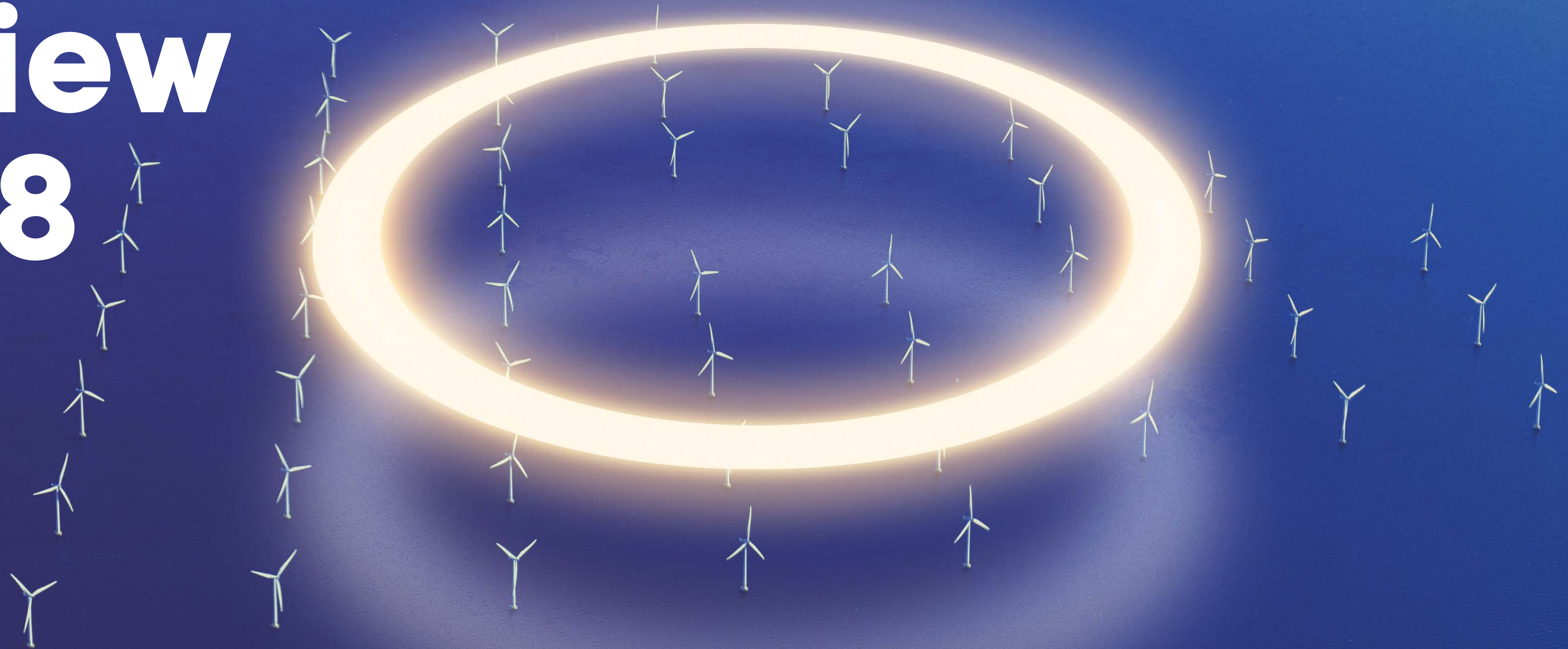


Annual review 2018



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eSett in brief

eSett IS RESPONSIBLE for imbalance settlement and invoicing the Balance Responsible Parties in Finland, Sweden and Norway.

eSett carries out imbalance settlement based on the HARMONIZED NORDIC IMBALANCE Settlement (NBS) model and provides equal operational preconditions for Balance Responsible Parties within the NBS area.

eSett Oy WAS FOUNDED IN 2013; its imbalance settlement operations started in May 2017.

eSett SERVES MORE THAN 1,000 electricity market participants.

Turnover for 2018 was EUR 10.1 MILLION.

eSett is headquartered IN HELSINKI, FINLAND.

Settled amount for 2018 was EUR 1 370 MILLION.

NUMBER OF FULL-TIME EMPLOYEES at year-end 2018 was 15.

eSett is jointly owned by the three Nordic TRANSMISSION SYSTEM OPERATORS, Fingrid (Finland), Statnett (Norway), and Svenska kraftnät (Sweden), with equal shares.

CEO's review



The first full year of Nordic Imbalance Settlement is now successfully settled in line with our strategy 'stabilize'.

Stabilize as strategy sounds simple, but in practice it has required many different kinds of actions from a young company. We were committed to making sure that the settlement, organization, and even our new premises are stabilized in order to provide a solid foundation for the future. As early as in 2017, we knew that the start of the operations in May 2017 was just a beginning; after one year of operations, we need to be ready to plan and take the next steps in the market's development.

I am very proud of what we achieved in 2018. Today, the daily settlement and weekly invoicing run smoothly. The customers have also been more satisfied with our service than previous year: the overall score climbed close to four out of five in the latest survey. We also put a lot of effort to responding to our customers' wishes and developing and improving the NBS model as well as the settlement system's on-line

portal according to their wishes. I trust that these developments have helped our customers.

We also carried out several internal projects. One of them was COSO Enterprise Risk Management project where we benchmarked our risk management practices against the COSO framework. This exercise was a good investment as it gave us evidence that we are on the right track and provided us practical advice on how to improve.

As a part of our stabilization efforts, we have also grown our headcount from 12 to 15, as we have now left the transition period during which the Transmission System Operators supported our settlement operations. Due to the absence of this support, our customer service was strengthened. From my perspective, this was a positive change, which clarified people's roles and so improved the spirit among our staff.

In addition, we also moved from Fingrid's premises to our own office; this was one of the important steps

towards an independent and stabilized settlement operator.

All these steps together with our new strategy 'ready for the future' make us a strong and capable settlement operator that is ready to move on and face tomorrow's challenges. We are ready and eager to welcome Denmark as our new customer. With our passion and commitment, we are ready and able to develop the future settlement model, one balance model with 15-minute resolution, and take it into use within two years.

The New Year is a fresh start and makes one feel anything is possible. It is a chance to improve ourselves and the world around us. At eSett, we strive to give our customers every opportunity for success in the electricity market changes that will renew the operating environment and provide the market with new opportunities. In the years to come, all of us can become change-makers.

We settle together,
Minnakaisa Ahonen

STEPS TAKEN
MAKE US
A STRONG
OPERATOR,
READY FOR
TOMORROW'S
CHALLENGES.

Year 2018 highlights

JANUARY
Balance Responsible Parties with unique market code (including TSO BRPs and NEMOs)

- 1st January 185

Settlement system upgrade introduced features such as

- MEC Data extraction tool available in Online Service
- Structure data flows for Production Unit, Consumption MEC and MGA Imbalance Retailer structures

APRIL
Customer Committee meeting

- Customer Satisfaction Survey results for year 2017, presentation of market reports, introduction to the Nordic HTR project

NBS Handbook updated

- The new version includes the extension of the acceptance time of bilateral trade counterparty values, adjustment of the KPI chapter, forced encryption of messaging in Sweden (TLS certificate)

MAY
The lowest consumption imbalance price of the year

- 9th May Finland and Sweden
- 6th May Norway

The highest consumption imbalance price of the year

- 8th May Finland

JUNE
eSett started to support Multiple NEMO imbalance settlement on intraday markets

- 13th June XBID go-live

Towards truly Nordic imbalance settlement on 27th June

- Together with its owners, eSett and Denmark's TSO Energinet started to investigate the possibilities of Energinet to joining common imbalance settlement. The four Nordic TSOs have signed a Letter of Intent confirming that it is their joint desire that Energinet joins the existing cooperation which will facilitate market harmonization and common imbalance settlement practices across Nordic countries. All parties are committed and are proceeding with the approval process in their organizations.

NOVEMBER
Customer Committee meeting

- Introduction to the future one balance model and 15-minute settlement

The highest consumption imbalance price of the year

- 23rd November Sweden and Norway

NBS Handbook updated

- Important highlights of the new version are update to the gate closures for structure changes and update to the collateral formula. New information regarding market behaviour reports.

DECEMBER
Settlement system upgrade, introduced features such as

- KPI reports available in Online Service for BRPs
- Several user interface improvements in Online Service

Vision and values



eSett provides timely and reliable settlement services to its customers. Over 1,000 market participants in Finland, Norway, and Sweden participate in the settlement.

To achieve this, we need to understand the process of how balances are created every moment across the electricity market. We offer our customers simplicity, effectiveness, and reliability by covering the task of imbalance settlement with high professionalism. Our strategy guides us towards our vision of being a forerunner and meeting our customers' various needs even in the future.

We also recognize that cross-country settlement requires a lot of knowledge of different market areas and cooperation with various parties.

Our values – accountability, equality, openness and readiness – drive us to

- settle energy imbalances transparently and
- serve our customers with precision and expertise.

Together with our stakeholders, we enable the integrated market development.

SIMPLICITY,
EFFECTIVENESS,
AND RELIABILITY
WITH HIGH
PROFESSIONALISM.

Strategy

eSett is a newly established company whose operations are based on the harmonized NBS model. eSett's strategy has strongly focused on efforts to stabilize and fine-tune our business processes in 2018. As the main steps planned in the 'stabilize' strategy have been taken during the year 2018, it has given us a strong foundation for our new 'ready for the future' strategy. This strategy will help us meet the future challenges which will bring about significant changes to our core operations. Our readiness can be summarized:

- We are ready for 2020
- We are ready for Denmark
- We believe in fair work
- We are ready to serve the changing electricity market
- We create our inspiring culture together

We are committed to delivering our settlement services in a transparent and trustworthy way. For us this means:

- providing state-of-the-art imbalance settlement services to our customers
- supporting our employees in achieving their full potential in an interesting work environment; and
- delivering value to all our stakeholders

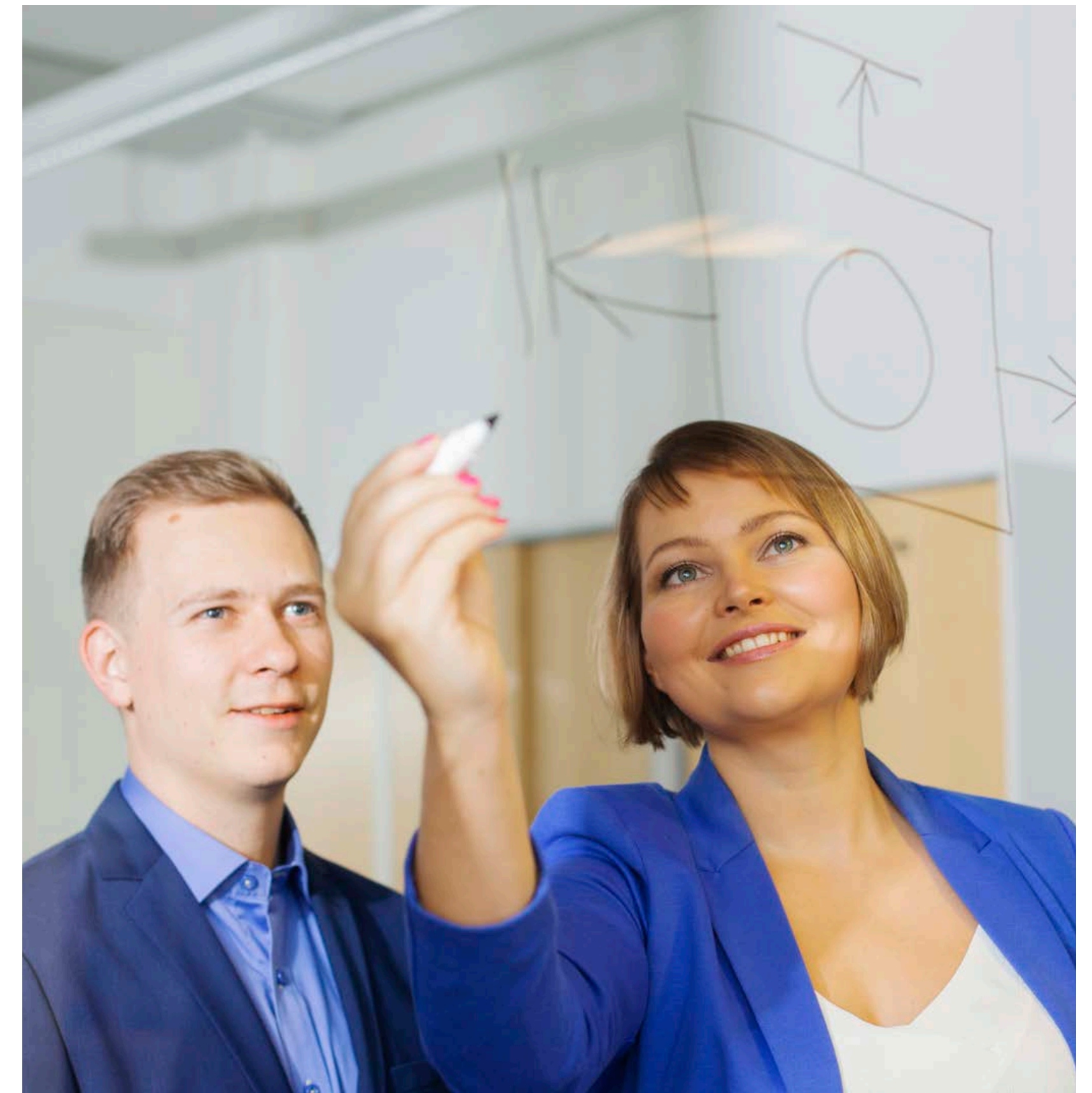
Our key success factors are customer orientation, skilled personnel, and efficiency.

- **Customer orientation:** We focus on reliable and timely imbalance settlement. We have continuous dialogue with customers. We develop our services for the electricity markets.
- **Skilled personnel:** We respect and take care of our personnel. We ensure that we have the right

number of skilled personnel to offer high-quality services. We strengthen our expertise with external resources but keep the understanding of core processes in-house.

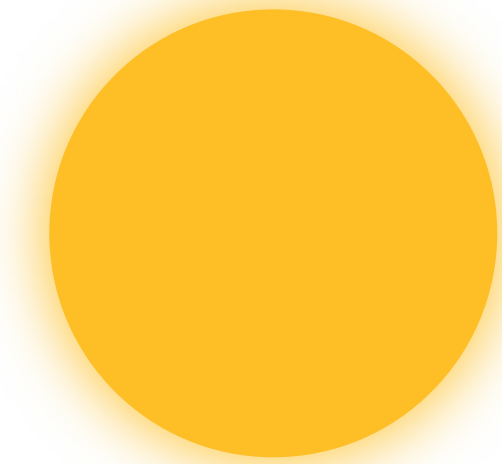
- **Efficiency:** We enhance the efficiency of our operations by using appropriate information systems and modern communication tools. We facilitate the efficiency of market operations by making data easily and clearly accessible to the market.

WE ARE READY
TO SERVE THE
CHANGING
ELECTRICITY
MARKET.



We settle, together

We provide timely and reliable settlement services. Over 1,000 market participants in Finland, Norway and Sweden participate in the settlement. We understand the process of how balances are created every moment across the energy market. We deliver our customers ease, effectiveness, and reliability by covering the task of imbalance settlement with high professionalism.



VISION

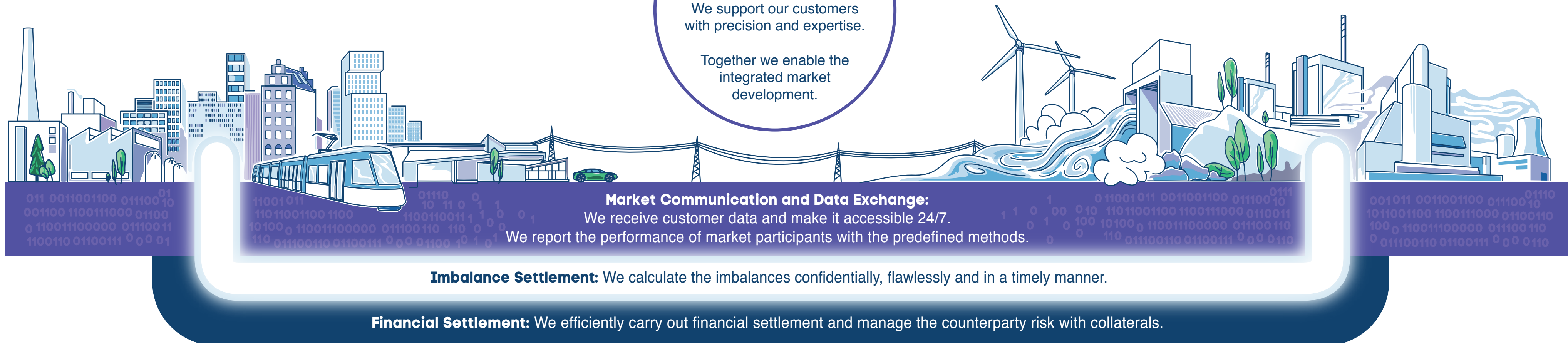
We are a forerunner in providing advanced services for energy market across borders.

MISSION

We settle energy imbalances transparently.

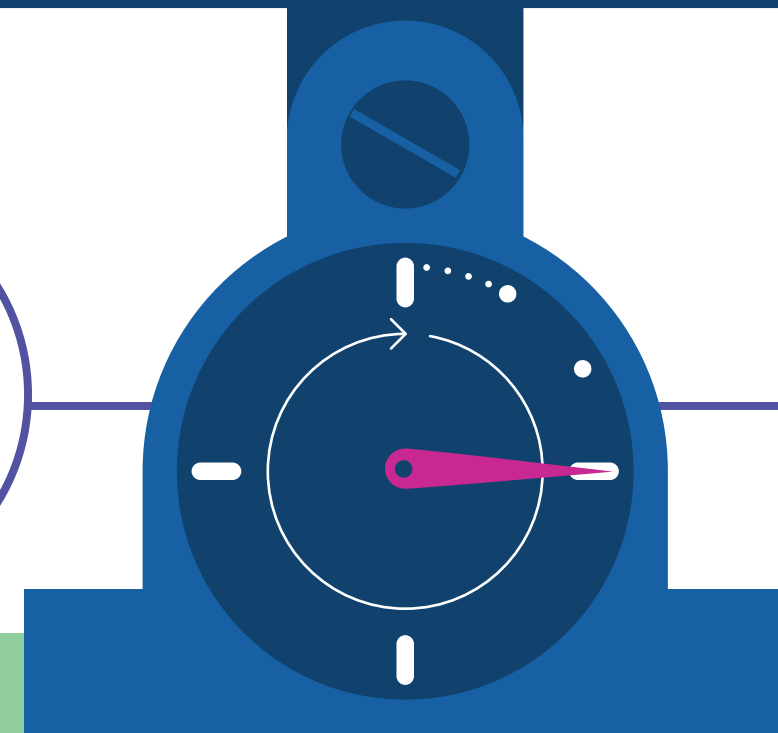
We support our customers with precision and expertise.

Together we enable the integrated market development.



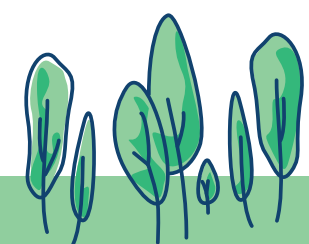
WE DELIVER
our services in a transparent and trusted way.

FIND US IN
• Finland
• Norway
• Sweden



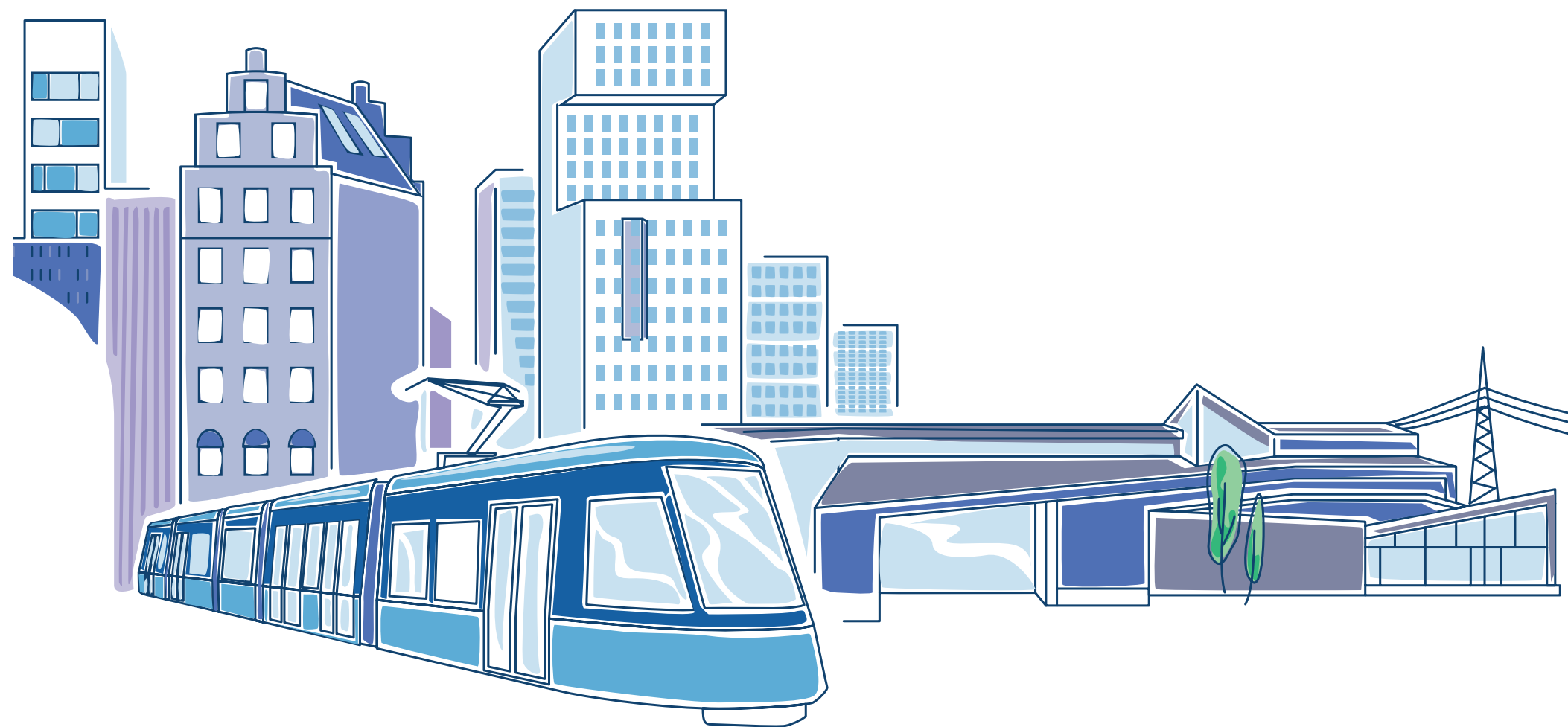
SUCCESS FACTORS
• Customer orientation
• Skilled personnel
• Efficiency

VALUES
• Accountability
• Equality
• Openness
• Readiness



Operating environment

WE MUST
MAINTAIN THE
CAPABILITY
AND FORESIGHT
TO ADAPT TO
THE CHANGES.



Lately, the operating environment has been, and still is, going through major changes. The changes in EU codes will shape the energy sector and especially imbalance settlement in the years to come. In the near future, there will be the introduction of higher time resolution settlement and one balance settlement instead of two balance settlement.

In addition, there will be new market roles such as datahubs that will introduce changes in the settlement operations or change the way of communicating within the market. We are already working closely with the Norwegian market to introduce their datahub, Elhub, which will change the role of Norwegian distribution system operators (DSO) in the settlement. These DSOs will no longer send the aggregated meter values to eSett but to Elhub. It will be the responsibility of Elhub to provide eSett with the Norwegian aggregated meter values for settlement purposes. The same change will happen in Finland in 2021

and right after that in Sweden.

During the summer of 2018, eSett's owners (Fingrid, Statnett, and Svenska kraftnät) together with Denmark's TSO Energinet started to investigate the possibilities of Energinet joining the common imbalance settlement. The four Nordic TSOs signed a Letter of Intent confirming that it is their joint desire that Energinet joins the existing cooperation which will facilitate market harmonization and common imbalance settlement practices across Nordic countries.

The first year of operation has been a success, and the company is excited about the new possibility of offering services to Denmark, too. The negotiations have progressed well, and we expect to have the decision about Denmark joining in early 2019. eSett looks forward to truly Nordic imbalance settlement.

As we go on in this rapidly changing operating environment, it is imperative that we maintain the capability and foresight to adapt to changes while

always remaining focused on our harmonization goals.

Similarly, continuous efforts to digitalize our business and stricter requirements for securing our operations will play an important role in our strategy in the years to come.

Our business

Customer Committee

In 2018, eSett's Customer Committee successfully continued to build on the foundation established during the first operational year. The purpose of eSett's Customer Committee is to provide a possibility for dialogue between eSett and its stakeholders. The Committee also provides a forum for bringing up customers' viewpoints on developing and improving the Nordic Imbalance Settlement model, eSett's services, and other imbalance settlement related topics.

The Committee Members are appointed for a two-year term to represent their market roles of distribution system operators, transmission system operators and balance service parties/retailers. In addition, regulators are invited to participate in the meetings.

The Committee meets regularly, twice a year. This year the dates for the meetings were agreed to be the 10th of April and 6th of November.

In the Committee, both eSett and

the market participants can address relevant issues in relation to the market roles they represent. Topics discussed regularly in the meetings were operational news from eSett, customer satisfaction survey results, and market or model related developments. Moreover, there has been increasing emphasis on the upcoming national and pan-market changes, such as the electricity market hub projects, 15-minute settlement period and one balance model, concerning all actors in the field. These have been widely recognized as the most important individual topics to address, so the discussion will continue.

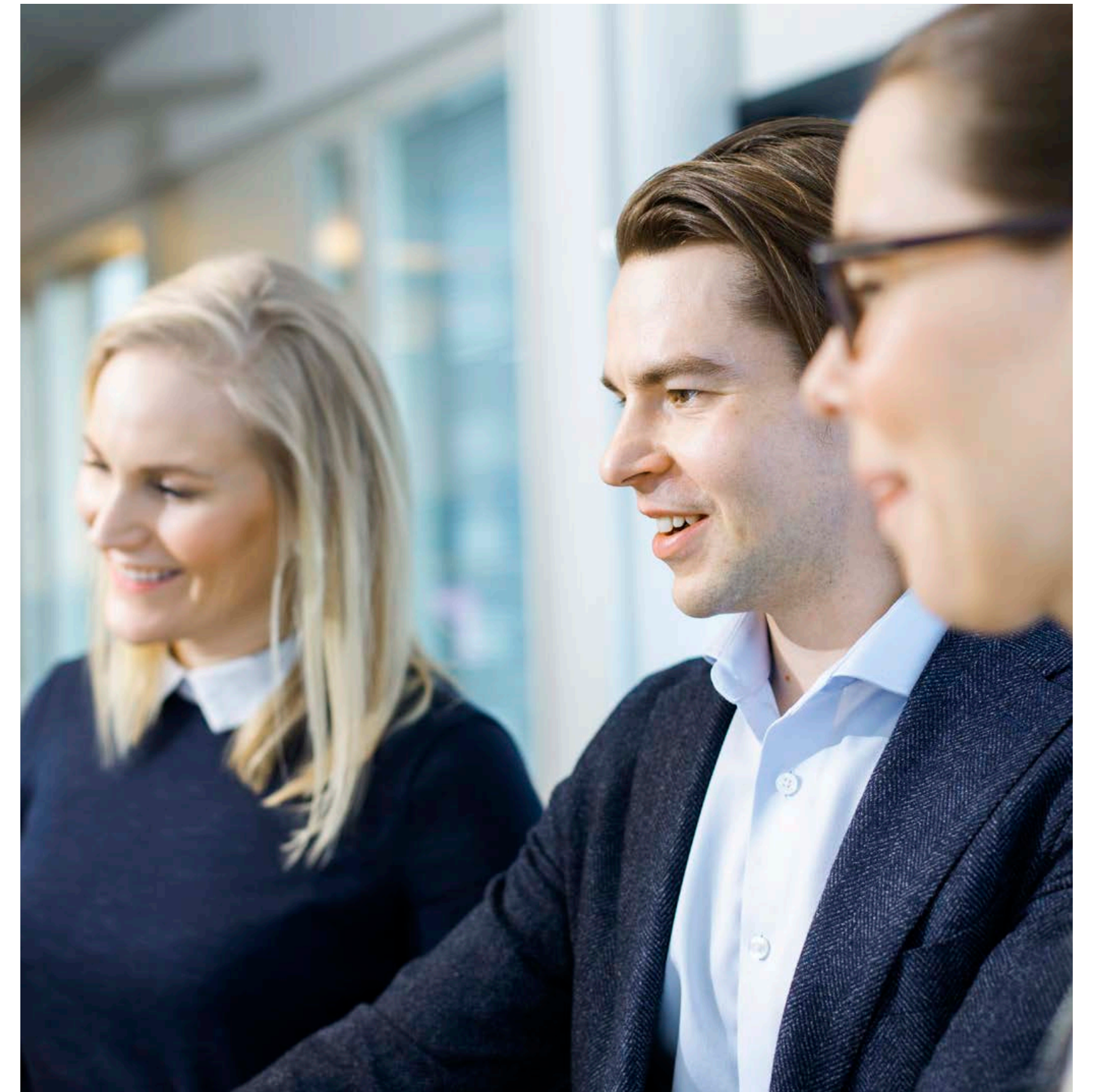
The Committee's Rules and Procedures, outlining its roles, responsibilities, and functions along with other Committee materials, are available on www.esett.com/customer-committee/.

Customer satisfaction

eSett conducted its customer satisfaction survey in December 2018. The questionnaire was shared via Online Service portal, eSett's website, and eSett's newsletter.

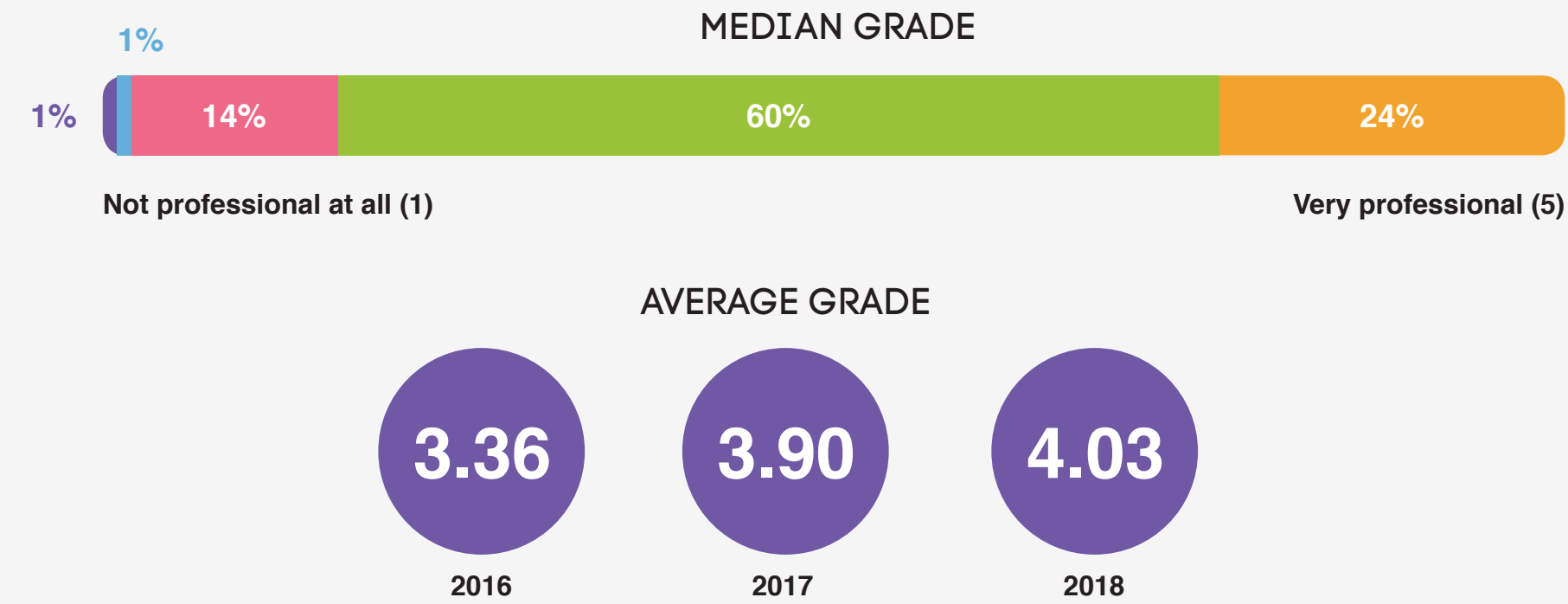
The survey contained questions about eSett's customer service and how market participants have experienced it, and it included a possibility to write direct feedback. The number of questions was cut down from previous year to make the questionnaire easier to complete while maintaining the key questions to retain comparability.

Participation to the survey remained at the same level as the previous year with Swedish customers being again the most active to reply. It was satisfying to see that a growing number of respondents had operations in multiple countries.



Level of professionalism

One important criterium to evaluate was eSett's professionalism. On a scale of 1–5 (1 = not professional at all, 5 = very professional), it was clear that eSett is considered a professional company and able to serve its customers with high quality. The vast majority of questionnaire participants (98%) evaluated eSett's competence with grade 3 or higher.



Service requests

eSett received a total of 2,540 service requests from market participants in 2018. Compared to the previous year, the number of requests has dropped remarkably, mostly due to stabilized operations and customers being more acquainted with the new imbalance settlement system and practices.

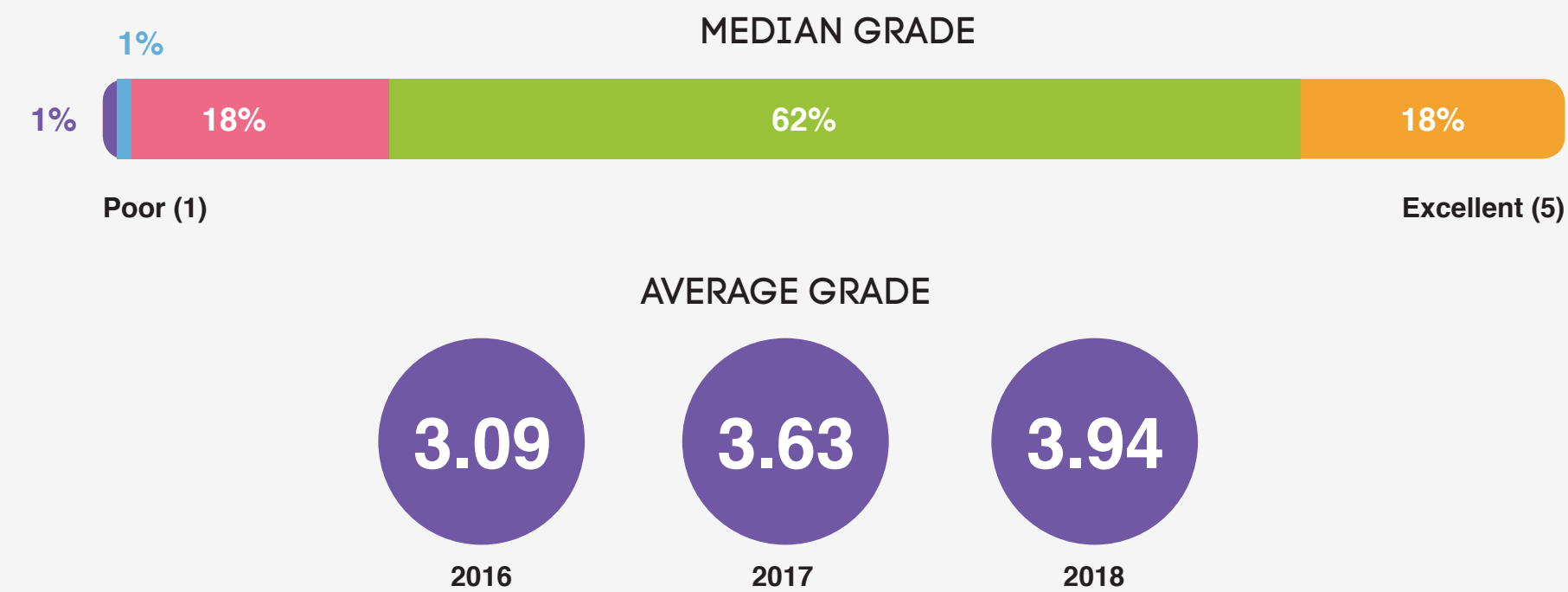
Service request resolution times have improved slightly during the year, with approximately half of the service requests being resolved during the same day. The nature of the requests has also clearly shifted from simple questions related to system usage to more varied enquiries, such as market access support or supporting of mergers between companies.

Overall customer service experience

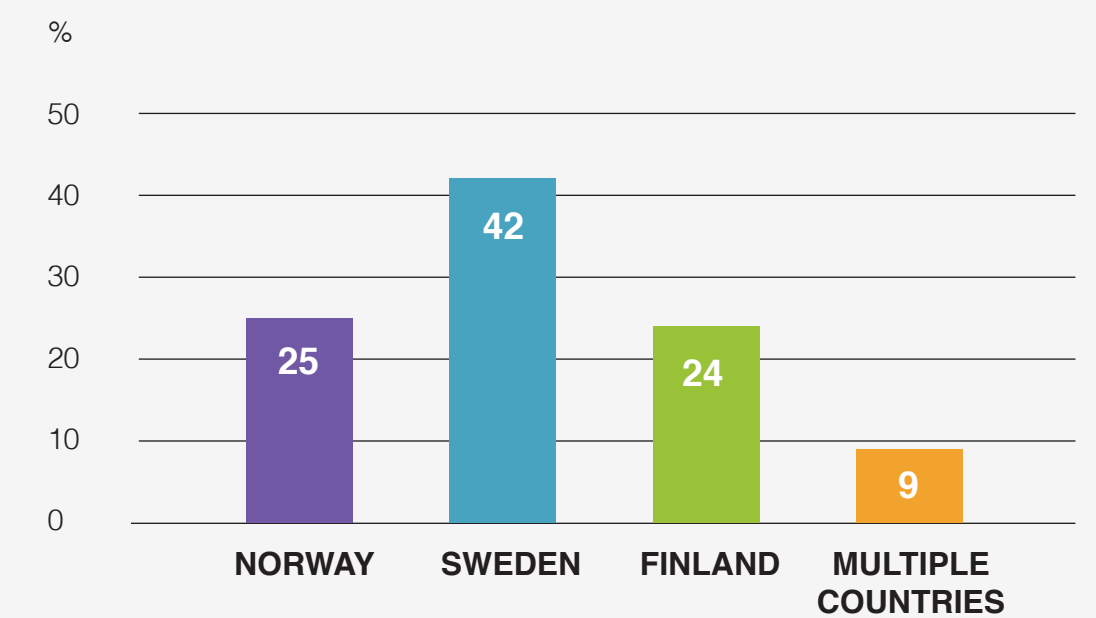
The overall grade given to eSett's customer service also showed the progress is being made in the right direction with the average grade being very close to four (4).

As a summary, it can be concluded that the results were very good, proving eSett has been able to improve its services during the year. The main strengths were professionalism and service with the preferred language. Service request resolution times were identified as an improvement area.

All in all, the results give us confidence to continue the development work and raise the bar once more a bit higher for next year.



Participation by countries



Our employees

Key to eSett's success are its people. We want our employees to have the capabilities and competences to succeed in their work in the best possible way. As stated in our strategy, 'we aim at being the best imbalance settlers in the world'. To support striving for this goal, we have taken steps to develop our operations and provided training to our personnel in 2018.

The vision of eSett is to be the fore-runner of international energy settlement. In terms of our employees and competence, this means that the company needs to maintain high quality in its operations. High demands are made on our employees but, on the other hand, we provide an opportunity to take responsibility and participate in and influence the development and reforming of imbalance settlement practices and this way support the efficient operation of the Nordic electricity market.

Developing through training and learning in the workplace

In 2018, our employees' capabilities and competencies were actively developed with different types of training programmes, such as language courses and self-management training. Additionally, some people completed additional qualifications and participated in training to maintain and improve their expertise in the energy sector.

Similarly, daily work in developing eSett's operations and administration offered an excellent opportunity for the employees to improve their skills in various new areas. Interesting new developments and projects on the energy markets challenge us to develop our know-how further as well as offer our personnel new responsibilities and ways to grow through diverse work activities.

All new esettlers were offered induction training covering all eSett's functions. All esettlers participated in a two-day action planning session where e.g. the strategy for 2019 was finalized and continuity management issues were planned.

An eSett career path was launched in 2018. It gives the personnel clear criteria for moving forward and motivation for developing themselves. The career path is complemented with 'eSett support pillars', including the likes of education, mentoring, and job-rotation which support individual development.

Employee engagement and well-being

eSett aims at offering an inspiring working environment and maintaining high-level of employee satisfaction. In 2018, the move to new premises was a success and improved the

EMPLOYEE SURVEY 2018



AVERAGE AGE

35

GENDER BREAKDOWN

47 %

53 %

possibilities for efficient working. The premises were tailored to serve multiple purposes from virtual team working to individual concentration.

An effort was made at optimizing the ergonomics at work for all employees with electric adjustable tables as well as ergonomic chairs, and screen solutions. Special attention was paid to safety, with audits and investments made to ensure safety in cases of emergency.

eSett personnel has access to comprehensive occupational healthcare services, and employees are encouraged to take care of their well-being by voluntary efforts some of which are supported by eSett.

Employee satisfaction and well-being survey was conducted by eSett's health care service provider in the autumn of 2018. The results showed us, that our employees appreciate eSett's team spirit, management, new office space, and working ergonomics. Based on the survey, we will focus on following individual workloads closely through daily discussions. The new recruitments are expected to improve the situation going forward.

We respect and take care of our personnel. Through very low level of hierarchy and an open culture, we provide a possibility to participate in

decision-making. All employees are welcome to suggest their own innovations and ideas; some of them were also rewarded in 2018. "Tell about your colleague's achievements" campaign was launched to facilitate the discovery and celebration of everyday success stories.

In accordance with eSett's human resources policy, employees are treated with respect and fairness, based on the company's values and in compliance with the principles of equality and non-discrimination.

As a responsible employer, eSett also offers summer jobs for students and young people. In the summer of 2018, eSett offered summer jobs to two university students and one minor.

ESETT AIMS
AT OFFERING
AN INSPIRING
WORKING
ENVIRONMENT



DIANA WELANDER:
"Our team gets things done"

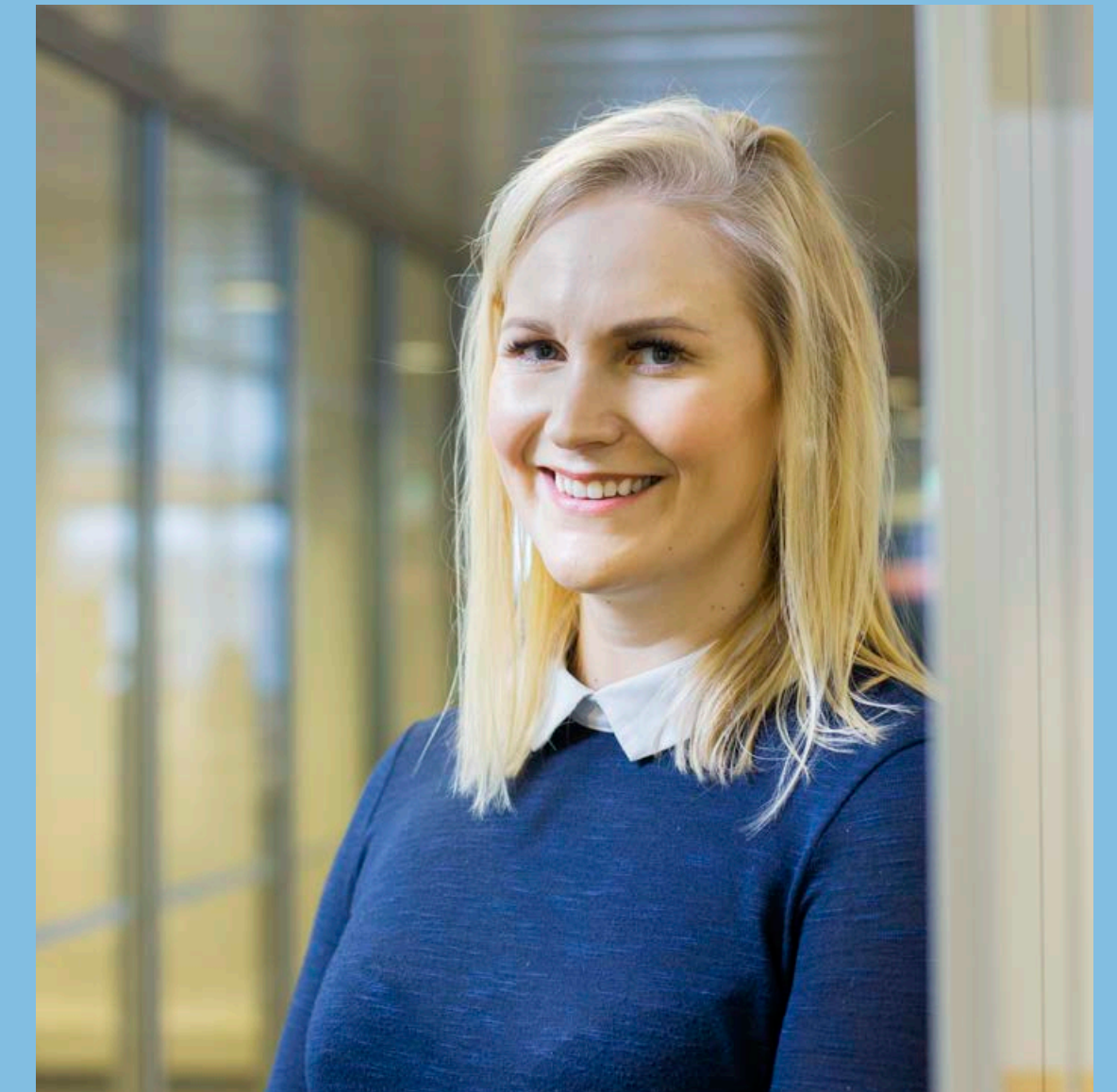
I joined eSett in August 2018. I'm a specialist in charge of customer service for Swedish and Norwegian energy companies.

Every day, I monitor energy imbalance levels and data flows as well as settlement results in Sweden and Norway. I assist customers in creating electricity market structures related to production and consumption and create new electricity market parties. I'm also involved in different projects and help improve our IT system and service.

My job requires a good service attitude, ability to see the other person's point of view, problem-solving skills, and the ability to communicate in Swedish and Norwegian. It helps that Swedish is my mother tongue. I've learnt Norwegian on my own by reading books and watching Norwegian TV shows.

eSett is a great place to work where teamwork is emphasized. If one has a problem, everyone will pitch in. It's fun to come to work each morning, and the absolute best about my job are my colleagues! I enjoy spending time with them even after hours.

At eSett, we work in a very transparent and engaging way. Everybody in the company knows what our goals are and how are we going to meet them. The working culture is very flexible and understanding. We can plan and structure our work, and everyone is encouraged to



have a good work-life balance.

In my spare time I do CrossFit, Thai boxing, and yoga. I'm also working towards a master's degree in Media Management. I already have a bachelor's degree in Business Administration and a master's degree in Supply Chain Management and Corporate Responsibility.

The future looks interesting. There's still plenty for me to learn, and it will be interesting to see how the one balance model and 15-minute imbalance settlement period will impact our operations.

Governance

The operation of eSett is based on its Articles of Association, the Limited Liability Companies Act, and shareholder agreements as well as corporate values, strategy, and principles of responsible operation.

The eSett management system is based on policies approved by the Board of Directors, providing guidelines for corporate operations. The time horizon of the policies is long-term and strategic. Normally, they are updated every two years, but can be updated more often, if required. All policies are approved by the Board.

The following management policies form eSett's management system:

- Customer policy
- Financial Policy
- Governance Policy
- Human Resource Policy
- ICT Policy
- Imbalance Settlement Policy

Board of Directors

eSett's Annual General Meeting elects a Board of Directors for a two-year term. In accordance with the Articles of Association, the Board comprises three members. Each Board Member has an appointed deputy member.

The general meeting elects one Board member to serve as the Chair of the Board. The Chairmanship circulates every two years among eSett's owners.

As a general principle, the Board shall strive to reach unanimity in all important matters. If voting is needed, a qualified majority of 2/3 of the votes will be required to reach the decision. Each Board Member has one vote.

However, a unanimous decision must be reached in the following issues:

- proposals to offer new services to existing and new customers, TSOs, or authorities;

- proposals to discontinue services offered to existing customers, TSOs, or authorities; and
- when appointing a Managing Director for the Company.

Duties of the Board

The tasks and responsibilities of eSett's Board are set out by the Limited Liability Companies Act and other applicable legislation, as well as the Articles of Association. The Board of Directors is responsible for the administration and appropriate organization of the operations of the company.

The Board of Directors ensures the company adheres to relevant rules and regulations set out in law and Articles of Association of the company, and guidelines provided by the annual general meeting.

Board of Directors 2018

The shareholders meeting on 19th April 2018 elected the following persons for a two-year term as Members and Deputy Members of the Board of Directors: Magnus Stephansson (Deputy Member: Anna Jäderström), Ole Jacob Høyland (Deputy Member: Kristian Bernseter) and Asta Sihvonen-Punkka (Deputy Member: Kari Suominen).

The shareholders meeting on 3rd December 2018 elected Lowina Lundström as new member of the Board of Directors to replace the current member of Board of Directors, Magnus Stephansson, with effect from 1st January 2019.

Asta Sihvonen-Punkka was elected to serve as the Chair of the Board.

Raisa Mölkänen serves as the Secretary to the Board of Directors.

PricewaterhouseCoopers Oy was re-elected as the auditor for eSett.

Minnakaisa Ahonen serves as CEO of the company.

Board of Directors 2019



Ole Jacob
Høyland

“It was a wise decision to delay the startup of eSett till May 2017. I hope all market participants, even skeptical ones, are now impressed with the very high reliability and service eSett is providing to the Nordic Market.”



Asta Sihvonen-
Punkka

“Climate change is transforming the electricity sector, and we are implementing European legislation. eSett’s role amid these changes is important. The 15-minute imbalance settlement period and one balance model will help grow the share of variable renewables and increase harmonization on the European electricity market.”



Lowina
Lundström

“What I expect from eSett’s future is that the company will further improve its organization and management of clients and be the forerunner in international energy settlement. This way eSett can pave the way for others on the electricity market.”

Ole Jacob Høyland

M.Sc. Science and Technology
Born 1966
Norwegian citizen
Member of the Board since 2013

Primary working experience:

Statnett, Director Market Operations 2014–
Statnett, Director Market Settlement,
Customer Relations and Tariff Strategy
2010–2014
Statnett, different leading positions
1995–2010
Norwegian Water Resources and Energy
Directorate 1994–1995
Helgeland Kraft (DSO Company), Project
Leader 1991–1994

Other positions of trust:

Member of Board, Elhub AS, 2015–
TSO Chair Joint Steering Committee
Multi Regional Market Coupling, 2017–
Statnett GA representative Joint
Allocation Office, Luxemburg, 2016–

Lowina Lundström

M.Sc.BA
Born 1967
Swedish citizen
Member of the Board since 2019

Primary working experience:

Affärsverket Svenska Kraftnät,
Executive Vice President, Electricity
System Operator 2018–
Ellevio Ab (Dso) (former Fortum
Distribution Ab), Senior Vice
President, Customers 2011–2018
Ellevio Ab, Head of Process and
Business Efficiency 2009–2011
Capgemini Sverige Ab (Consulting),
Staffing and Resource Manager
1999–2009

Asta Sihvonen-Punkka

Lic.Sc. (Econ.) and M.Sc. (Forestry)
Born 1962
Finnish citizen
Member of the Board since 2016

Primary working experience:

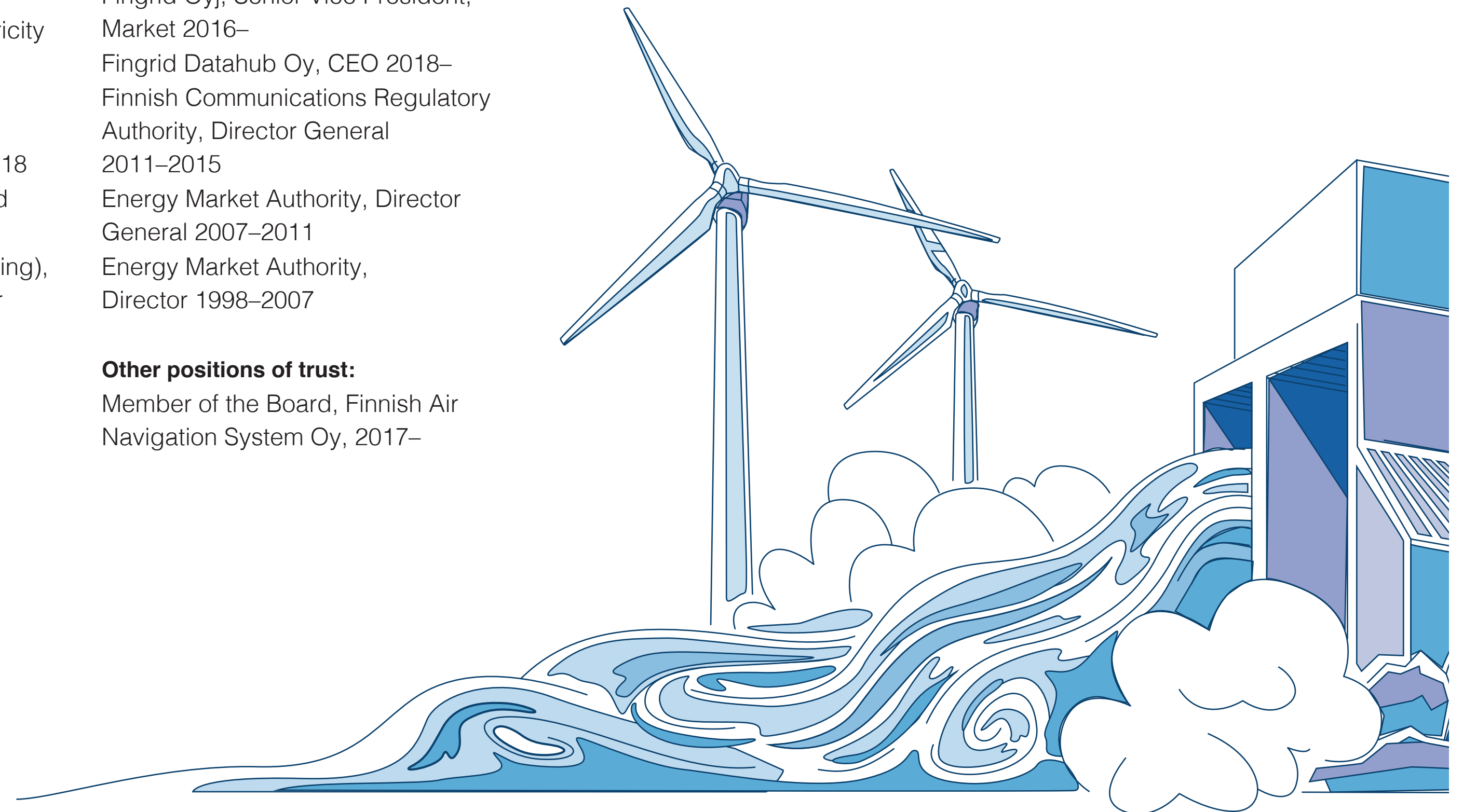
Fingrid Oyj, Senior Vice President,
Market 2016–
Fingrid Datahub Oy, CEO 2018–
Finnish Communications Regulatory
Authority, Director General
2011–2015
Energy Market Authority, Director
General 2007–2011
Energy Market Authority,
Director 1998–2007

Other positions of trust:

Member of the Board, Finnish Air
Navigation System Oy, 2017–

Raisa Molkänen

LL.M. trained on the bench
Born 1974
Finnish citizen
Secretary of the Board since 2018
Fingrid Oyj, Legal Counsel 2014–



Management Team



Minnakaisa
Ahonen

Chief Executive Officer



Suvi
Lokkinen

Executive Vice President,
HR, Communications and Corporate Development



Jonni
Laine

Executive Vice President, Market Development

Report on operations 2018

The fiscal year 1st January–31st December 2018 was eSett’s fifth fiscal year. The profit for the fiscal year was EUR 3.65 million. The company’s Board of Directors will propose to the Annual General Meeting of Shareholders that the profit be carried over as unrestricted equity. No dividends will be paid.

The income for the fiscal year, EUR 10.08 million, consisted of TSO service fees.

The biggest expenses during the fiscal year comprised personnel, depreciation of capitalized NBS project costs and other investments and imbalance settlement.

EXPENSES	EUR million
• Personnel and other staff related	1.27
• Depreciation	2.17
• IT expenses	0.62
• Customer service	0.08
• Imbalance settlement and Administration	1.72

• Other operating expenses	0.01
• Finance expenses	0.30
• Taxes	0.26
Total	6.43

CAPITAL EXPENDITURES

During its fifth fiscal year, eSett continued to invest into the Imbalance Settlement Model, related ICT infrastructure, and new premises.

eSett’s total non-current assets were EUR 7.01 million as per 31st of December 2018.

NON-CURRENT ASSETS	EUR million	Notes
Intangible assets, total	6.50	
Intangible rights	0.37	Licenses and use rights
Other intangible assets	6.13	Software
Tangible assets	0.51	ICT infrastructure
Total	7.01	

FINANCING

Utilized shareholder and capital loan

The shareholders have granted two loans, a shareholder and capital loan, with equal terms to eSett.

The shareholders were committed to grant eSett a shareholder loan of EUR 7.5 million. The shareholder loan was utilized by the end of 2015. The loan will be paid back in 10 instalments, divided in two instalments each year (to be transacted on the 15th of March and 15th of September). The first repayment date was on the 15th of September 2018.

During the fiscal year 2016, a capital loan of EUR 4.5 million was granted by the shareholders. It was utilized by the end of 2016. The loan was paid back in total on the 15th of September 2018.

Share capital

eSett Oy is owned by TSOs Fingrid Oyj in Finland, Affärsverket Svenska kraftnät in Sweden, and Statnett SF

in Norway. The share capital is EUR 3,750, and each of the three shareholders has equal shareholdings. Each shareholder has 1,250 shares; all shares have equal rights.

The invested unrestricted equity fund of eSett Oy is EUR 5,998,950. Each owner has invested an equal amount.

Service fee

eSett’s income consists of imbalance settlement service fees collected from the TSOs on a regular basis. The fee covers the costs of the daily operations, i.e. customer support, imbalance settlement, collecting payments, and performing other services on behalf of the TSOs. The fee ensures the future operational capability of the company. eSett’s basic service fee is set on a stable level to cover eSett’s long-term operational costs, possible future investments, and fair profit. The service fee level is approved by the Board.

eSett sends Service Fee invoices to the TSOs every quarter. Additional

services provided to one or more TSOs are invoiced as separate fees.

RISK MANAGEMENT

At eSett, overall enterprise risk management is comprehensive, aiming to identify, assess, monitor, and protect against or mitigate the wide range of threat factors and risks relating to the company’s operation, environment, personnel, and property. Due to the nature of the company’s primary purpose, the risks are also examined from the perspective of society or electricity market.

Continuity management is an element of comprehensive risk management. The purpose of the activity is to improve the organization’s capabilities to be prepared and respond in an optimal way to the realization of various risks, and to ensure operational continuity in these situations. In addition, the preparedness planning for emergency conditions is prerequisite for a company.

The whole personnel are obliged

but also motivated to take care of risk and continuity management at all times. An extensive risk and continuity management register is kept up-to-date and reviewed regularly. Internal policies guide the work with reporting and controlling principles.

Agreements

Before starting the operations, the Imbalance settlement agreement and Pledged cash account agreement were signed by each Balance Responsible Party (BRP). Also, eSett had arranged the signing of Balance agreements with the BRPs on behalf of the TSOs.

eSett has signed Banking Service Agreements and a Settlement Bank Agreement with the settlement banks.

In addition, eSett has numerous agreements with its service providers.

Collaterals

eSett is the financial counterparty in the imbalance settlement towards all BRPs. In practice, this means significant counterparty risk for eSett. Each BRP must therefore provide collateral to eSett as a security against the risk that the BRP is unable to fulfil its obligations to eSett. The collateral helps ensure that eSett can complete imbalance settlement in an orderly manner

at all times. Collateral can be provided in the form of a cash deposit into a pledged bank account or by bank guarantee. The required collateral must be in place before a BRP can start the operations.

The Nordic Imbalance Settlement Model has a dynamic collateral model. The collateral requirements are recalculated daily based on the latest available settlement and pricing data, and BRPs are obligated to keep their collateral on the demanded level at all times.

Hedging

Currency risk in imbalance settlement is hedged with foreign exchange transactions. The weekly settlement result is calculated in euros but the BRPs can choose to be invoiced either in euros or in local currency (NOK or SEK). These foreign currency items are hedged weekly with foreign exchange forward contracts. These derivative contracts are hedging financial instruments.

IMBALANCE SETTLEMENT

Nordic Imbalance Settlement

The harmonized Nordic Imbalance Settlement model was successfully launched to go live on the 1st of May 2017 in Finland, Norway, and Sweden.

Now, after the first full calendar year of stable operations behind, eSett has undeniably taken its position as a trusted key player in the Nordic electricity market.

During the past year, eSett has helped several new market participants to enter the market or to expand their operations. It has been evident that the market participants are eagerly seeking synergies and taking advantage of the lowered barrier for market entry.

eSett manages the invoicing and money transfers in the imbalance settlement. The amounts to be settled include the BRPs' imbalances, fees charged from the BRPs as well as payments for activated reserves between the TSO and the BRP.

The TSOs are legally responsible for the imbalance settlement, but eSett carries out the settlement and invoicing on their behalf. Nevertheless, all transfers pass through eSett which guarantees the financial settlement. The net proceeds from the imbalance settlement in each country will be transferred to the respective TSO.

The core operations of eSett have been carried out reliably and successfully, as only twice during the year eSett had to delay the weekly invoicing process to the following day.

This admittedly leaves room for improvement, but most importantly, the imbalance settlement was every time calculated correctly with no need for correcting the invoicing afterwards.

During the year, eSett has improved its market monitoring against market misbehaviour, and for the first time eSett was unfortunately forced to terminate one BRP contract last summer due to an agreement violation. By monitoring the market efficiently, eSett is safeguarding well-functioning market for all market participants.

In 2018, eSett's imbalance settlement system had two major version updates adding stability and new functionalities as well as improving usability of the services. eSett's two main service channels – Online Service and Messaging Service – both had exceptional availability during the year, 99.65% and 99.97% respectively.

Nordic Imbalance Settlement Handbook

The Handbook provides market participants with a comprehensive overview of the Nordic Imbalance Settlement Model from the market participant's perspective. The Handbook is updated twice a year or on a per need basis.

The official version of the Handbook is published in English. Some

market participants have requested the Handbook be published in local languages, so eSett also maintains unofficial local language versions in Finnish, Norwegian, and Swedish.

In 2018, several changes were introduced to the model, including the addition of Key Performance Indicator reports for BRPs, change to collateral formula to consider intraday trade sales when calculating the requirement, and increasing the flexibility of market information structuring in the imbalance settlement system allowing retrospective changes. All these major changes in the Nordic Imbalance Settlement Model are introduced and discussed in the Customer Committee before taking into use.

Settlement Statistics

Key figures of the Nordic Imbalance Settlement at year end 2018:

- Balance Responsible Parties 175
- Distribution System Operators 479
- Retailers 808
- Service Providers 45
- 400,000 market messages received on weekly basis
- EUR 440 million of managed collaterals

- Total debited amount from BRPs (1st January–31st December 2018)
 - EUR 245 million
 - NOK 976 million
 - SEK 1051 million
- Total credited amount to BRPs (1st January–31st December 2018)
 - EUR 231 million
 - NOK 658 million
 - SEK 195 million

MARKET DEVELOPMENT INITIATIVES IMPACTING IMBALANCE SETTLEMENT

Support for several nominated electricity market operators (NEMOs) in the intraday trading (the XBID project) was launched successfully in June 2018. As the next phase of the project, eSett designed the settlement model for the day ahead trading with the TSOs and NEMOs. The aim is to carry out its implementation and testing at the beginning of 2019 to achieve smooth go-live.

In December 2017, the EU commission established a guideline on electricity balancing in order to develop and harmonize European electricity markets. It includes many new requirements and harmonizable subjects for Nordic imbalance settlement model.

The biggest changes concern the imbalance settlement period, calculation of imbalance, and pricing of imbalance. The imbalance settlement period will change from the hour to 15 minutes. It will affect all messages and views which include time series as well as the calculation of imbalances which will be made for every 15-minute period in the future. The imbalance calculation, going forward, will not have production and consumption imbalances calculated separately, as they are replaced by a single imbalance.

eSett started designing the model with TSOs at the beginning of 2018. Its basic principles have been agreed on, even though there are still some issues open. The detailed design and implementation of the system changes is scheduled to start at the beginning of 2019.

Another important development is settlement support for Nordic data-hubs. Imbalance settlement interface towards Norwegian Elhub was implemented and tested in 2018, and eSett is ready to support Elhub for go-live in February 2019.

Together with its owners, eSett and Denmark's TSO Energinet have started to investigate the possibilities of Energinet joining the common imbalance settlement. The four Nordic TSOs

have signed a Letter of Intent confirming that they all want Energinet to join the existing cooperation, as it would facilitate market harmonization and common imbalance settlement practices across the Nordic countries.

ICT

At eSett, ICT is considered a support process that enables eSett to provide international energy settlement services with the desired operational quality and level of security that is crucial for eSett's vision and strategy.

In 2018, we successfully upgraded our corporate ICT by implementing security improvements and standardizing ICT services provided by eSett ICT. Secure and stable infrastructure has a key role in eSett's ability to offer the market a stable Imbalance settlement system. During the year, there were not any major incidents in our infrastructure. eSett ICT is ready to support eSett fulfilling its responsibilities in 2019. ICT's major project for 2019 will be data centre 2.0.

Major ICT projects are carried out professionally and with high quality. eSett has strengthened our project capabilities by hiring new personnel. One major project in 2018 was the upgrading of the billing and accounting system.



Financial statements

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Income statement

EUR	Notes	1 Jan – 31 Dec 2018	1 Jan – 31 Dec 2017
TURNOVER	13	10,080,000.00	7,560,000.00
Employee benefits expenses	1	-1,170,397.22	-711,122.10
Depreciation and write-off	2	-2,171,370.33	-1,355,627.62
Other operating expenses	3, 13	-2,533,101.07	-2,525,316.26
OPERATING PROFIT		4,205,131.38	2,967,934.02
Finance income and costs	4, 13	-297,724.26	-292,994.47
PROFIT BEFORE PROVISIONS AND TAXES		3,907,407.12	2,674,939.55
Income taxes	5	-255,921.27	
PROFIT FOR THE FINANCIAL YEAR		3,651,485.85	2,674,939.55

Balance sheet

ASSETS, EUR	Notes	31 Dec 2018	31 Dec 2017	EQUITY AND LIABILITIES, EUR	Notes	31 Dec 2018	31 Dec 2017
NON-CURRENT ASSETS				EQUITY	11		
Intangible assets				Share capital		3,750.00	3,750.00
Intangible rights	6	369,902.02	456,050.68	Invested unrestricted equity fund		5,998,950.00	5,998,950.00
Other intangible assets		6,130,126.74	7,283,567.38	Retained earnings		-2,729,306.64	-5,404,246.19
		6,500,028.76	7,739,618.06	Profit for the year		3,651,485.85	2,674,939.55
Tangible assets				TOTAL EQUITY		6,924,879.21	3,273,393.36
Machinery and equipment	7	508,241.82	491,915.71	LIABILITIES			
		508,241.82	491,915.71	Non-current liabilities			
TOTAL NON-CURRENT ASSETS		7,008,270.58	8,231,533.77	Capital loan	12, 13		4,500,000.00
CURRENT ASSETS				Shareholder loans	12, 13	5,250,000.00	6,750,000.00
Short term						5,250,000.00	11,250,000.00
Other receivables	8	39,775,033.25	24,675,732.20	Current liabilities			
Accrued income	9	185,314.88	238,790.81	Trade payables		138,254.38	211,925.72
		39,960,348.13	24,914,523.01	Other liabilities	14	40,941,523.96	32,787,655.82
Cash and cash equivalents	10	7,076,949.61	14,631,604.45	Accrued liabilities	5, 15	790,910.77	254,686.33
TOTAL CURRENT ASSETS		47,037,297.74	39,546,127.46			41,870,689.11	33,254,267.87
TOTAL ASSETS		54,045,568.32	47,777,661.23	TOTAL LIABILITIES		47,120,689.11	44,504,267.87
				TOTAL EQUITY AND LIABILITIES		54,045,568.32	47,777,661.23

Accounting principles

There must always be a balance between supply and consumption of electricity. To achieve this, the TSOs use balancing power procured in the balancing power market. Imbalances arise from uncertainties in plans and failures in generation, consumption and grid. Imbalance settlement is therefore a necessary function in a commercial electricity market.

Historically, TSOs Fingrid, Svenska kraftnät and Statnett each have been operating their own imbalance settlement. Since May 2017, eSett Oy, owned jointly by the TSOs, has been responsible for imbalance settlement and invoicing the balance responsible parties. A harmonized model which offers common business processes for reporting, performing settlement, invoicing, and collateral management was introduced in May 2017. eSett invoices the balance responsible parties in its own name on behalf of the TSOs. These invoices are not part of eSett's turnover according to the accounting rules. eSett's turnover consists of service fees invoiced to the TSOs.

eSett's financial statements are prepared according to Finnish Accounting Standards, FAS. Balance sheet items are valued to the original purchase price. Financial statements are prepared according to the small business legislation (PMA chapters 2 and 3) in current and previous fiscal year.

Foreign currency transactions

Transactions and financial items denominated in foreign currency are recognised at the foreign exchange mid-rate quoted by the European Central Bank (ECB) at the transaction date. The exception are the receivables and debts hedged by forward contracts which

are valued at forward contract rate.

Foreign exchange gains and losses from business are included in exchange gains and losses in Other operating expenses.

Currency derivatives

eSett protects the foreign currency items by hedging them weekly with foreign exchange forward contracts. The company uses derivatives to protect against currency risk of foreign currency transactions in imbalance settlement. These derivative contracts are hedging financial instruments.

The currency risk is fully hedged.

Intangible and tangible assets

Intangible and tangible assets generating revenue during several financial years are valued at the original acquisition cost.

Depreciation according to plan is calculated over the useful life of the item using straight-line method.

Depreciation on intangible and tangible assets taken into use during the financial year is calculated on an item by item basis from the month of introduction.

The depreciation periods are as follows:

Other intangible assets

Other intangible rights according to useful life,
at the maximum 5 years
Software 5 years

Machinery and equipment

Computers and servers 3 years
Equipment 5 years

Cash and cash equivalents

Cash and equivalents include the company's bank accounts having positive balance at the end of the financial year.

Income tax

Taxes include the accrued taxes for the profit of the financial year.

Deferred taxes

Deferred tax receivables and liabilities were not posted in income statement or balance sheet.

The corresponding data is presented in the Notes.

Notes to financial statements

1. PERSONNEL COSTS, EUR	2018	2017
Salaries and bonuses	-978,744	-590,488
Pension expenses	-169,792	-106,348
Other personnel expenses	-21,861	-14,286
Total	-1,170,397	-711,122
Number of salaried employees in the company during the financial year		
Personnel, average	13	10
Personnel, 31 Dec	15	11

2. DEPRECIATION ACCORDING TO PLAN, EUR	2018	2017
Intangible rights	-113,893	-64,331
Other intangible assets	-1,797,144	-1,151,953
Tangible assets	-260,333	-139,343
Total	-2,171,370	-1,355,628

3. OTHER OPERATING EXPENSES, EUR	2018	2017
Other staff related expenses	-98,668	-81,245
IT and telecommunications	-622,676	-581,769
Customer service	-78,387	-52,882
Imbalance settlement and administration	-1,718,602	-1,797,904
Other operating expenses	-13,881	-11,399
Exchange rate differences	-888	-118
Total	-2,533,101	-2,525,316

4. FINANCE INCOME AND EXPENSES, EUR	2018	2017
Interest and other financial income from others	2,839	884
Interest and other financial expenses to others	-300,564	-293,878
Total	-297,724	-292,994

5. INCOME TAXES, EUR	2018	2017
Income taxes for the financial year	-255,921	
Total	-255,921	

Notes to financial statements

6. INTANGIBLE ASSETS, EUR		2018	2017	7. TANGIBLE ASSETS, EUR		2018	2017
Intangible rights				Cost at 1 Jan	662,937	52,713	
Cost at 1 Jan	561,017	97,525	Increases 1 Jan - 31 Dec	276,659	610,224		
Increases 1 Jan - 31 Dec	27,745	463,492	Decreases 1 Jan - 31 Dec				
Decreases 1 Jan - 31 Dec			Cost at 31 Dec	939,596	662,937		
Cost at 31 Dec	588,762	561,017	Accumulated depreciation according to plan at 1 Jan	-171,021	-31,678		
Accumulated depreciation according to plan at 1 Jan	-104,966	-40,635	Depreciation according to plan 1 Jan - 31 Dec	-260,333	-139,343		
Depreciation according to plan 1 Jan - 31 Dec	-113,893	-64,331	Carrying amount 31 Dec	508,242	491,916		
Carrying amount 31 Dec	369,902	456,051	8. OTHER RECEIVABLES, EUR		2018	2017	
Other intangible assets				Imbalance settlement receivables	39,440,524	24,321,263	
Cost at 1 Jan	8,612,735	425,315	VAT receivables	334,509	354,469		
Increases 1 Jan - 31 Dec	643,703	8,187,421	Total	39,775,033	24,675,732		
Decreases 1 Jan - 31 Dec			9. ACCRUALS, EUR		2018	2017	
Cost at 31 Dec	9,256,438	8,612,735	Accruals of purchases	185,315	238,791		
Accumulated depreciation according to plan at 1 Jan	-1,329,168	-177,214	Total	185,315	238,791		
Depreciation according to plan 1 Jan - 31 Dec	-1,797,144	-1,151,953	10. CASH AND CASH EQUIVALENTS, EUR		2018	2017	
Carrying amount 31 Dec	6,130,127	7,283,567	Cash and bank receivables	7,076,950	14,631,604		
			Total	7,076,950	14,631,604		

Notes to financial statements

11. EQUITY, EUR	2018	2017
Share capital at 1 Jan	3,750	3,750
Share capital at 31 Dec	3,750	3,750
Invested unrestricted equity fund at 1 Jan	5,998,950	5,998,950
Invested unrestricted equity fund at 31 Dec	5,998,950	5,998,950
Loss from previous financial years	-2,729,306	-5,404,246
Profit for the financial year	3,651,486	2,674,940
Retained earnings 31 Dec	922,179	-2,729,306
Equity 31 Dec	6,924,879	3,273,394
Amount of shares		
1 Jan 2018	3,750	
31 Dec 2018	3,750	

12. LOANS MATURING AFTER 5 YEARS OR MORE, EUR	2018	2017
Loans		
Shareholder loans		750,000
Total		750,000

13. RELATED PARTIES, EUR	2018	2017
Fingrid Oyj		
Affärsverket Svenska Kraftnät		
Statnett SF		
Loans from shareholders	6,750,000	12,000,000
Total	6,750,000	12,000,000
Service fees from shareholders (turnover)	10,080,000	7,560,000
Total	10,080,000	7,560,000
Service fees to shareholders (expenses)	253,008	598,974
Loan interest to shareholders	198,706	240,953
Service fees to shareholders related to fixed assets	3,900	292,935
Total	455,614	1,132,861

Notes to financial statements

14. OTHER LIABILITIES, EUR	2018	2017
Short term		
Imbalance settlement debt	39,382,833	32,023,089
Withholding tax debt	19,998	14,074
Social security debt	678	494
Bank account with credit balance	38,015	
Loan installments in the coming financial year	1,500,000	750,000
Total	40,941,524	32,787,656

15. ACCRUED LIABILITIES, EUR	2018	2017
Short term		
Accrued vendor invoices	264,412	
Interest and financing accruals	26,224	135,909
Payroll accruals	244,354	118,778
Accrued income tax liabilities	255,921	
Total	790,911	254,686

16. GUARANTEES AND LIABILITY COMMITMENTS, EUR	2018	2017
Commitments according to service agreements		
Payments in the coming year	504,989	271,311
Payments later	361,002	
Total	865,992	271,311

Derivative contracts

Forward contracts

Market value, positive		44
Market value, negative	-22,510	-14,185
Value of the asset	2,886,576	1,881,200

Company has open forward contracts at the closing date. The company uses derivatives to protect against currency risk of foreign currency transactions in imbalance settlement. The balance responsible parties can choose to be invoiced even in Swedish or Norwegian crown. Therefore the company can have receivables and debts in foreign currency at the closing date.

Currency risk is fully hedged. Imbalance settlement invoicing takes place weekly, and according to this cycle, the foreign currency transactions are hedged weekly with foreign exchange forward contracts. These derivative contracts are hedging financial instruments.

The hedging relationships of forward exchange contracts in force at the closing date have been found to be effective.

All forward contracts in force at the closing date mature in January 2019.

Notes to financial statements

17. ANNUAL REPORT INFORMATION REQUIRED BY LIMITED LIABILITY COMPANIES ACT

eSett Oy is owned by Fingrid Oyj, Affärsverket Svenska Kraftnät and Statnett SF. It was founded to manage imbalance settlement on behalf of these three Nordic transmission system operators (TSOs).

Each shareholder has 1,250 shares and they all have equal power.

Each owner is committed to grant a loan of 2,500,000 euros (7,500,000 euros in total). The whole loan was utilized by the end of 2015. The loan is subordinated to eSett's loans from other institutions.

The loan is not secured. Interest according to market rate will be paid on the loan twice a year.

The loan is paid back in 10 equal installments, 2 installments per year. The first repayment date shall be the payment date (15th March or 15th September) following the date falling one year after eSett has commenced to carry out the imbalance settlement services.

The first repayment date was 15 September 2018.

Capital loan

Each owner is committed to grant a loan of 1,500,000 euros (4,500,000 euros in total). The whole loan was utilized by the end of 2016.

The repayment is subordinated to eSett's all other loans and terms of capital loans in Companies Act.

The fixed yearly interest rate is 3.0 percent. No unposted interest was accrued.

The repayment will be in 3 equal yearly

installments and starting from the first payment date (15th March) following the date falling one year after eSett has commenced to carry out the imbalance settlement services.

The first repayment date was initially the 15 March 2019 but eSett paid back the capital loan in total on the 15 September 2018.

The Board of Directors will propose to the Annual General Meeting of Shareholders that no dividend is paid and that the profit 3,651,485.85 euros be carried over as unrestricted equity.

Company's distributable funds

Invested unrestricted equity fund	5,998,950.00
Loss from previous financial years	-2,729,306.64
Profit for the period	3,651,485.85
Total	6,921,129.21

The board of directors' proposal for distribution of profit

The profit for the period is 3,651,485.85 euros.

The Board of Directors will propose to the Annual General Meeting of Shareholders that the profit be carried over as unrestricted equity.

Helsinki, 18th of March 2019

Asta Sihvonen-Punkka

Chairman

Ole Jacob Høyland

Board member

Lowina Lundström

Board member

Minnakaisa Ahonen

Chief Executive Officer

AUDITOR'S NOTATION

The Auditor's Report was issued today on an audit conducted.

Helsinki, 18th of March 2019

PricewaterhouseCoopers Oy
Authorized Public Accountants

Heikki Lassila

Authorized Public Accountant, APA



WE SETTLE, TOGETHER!



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