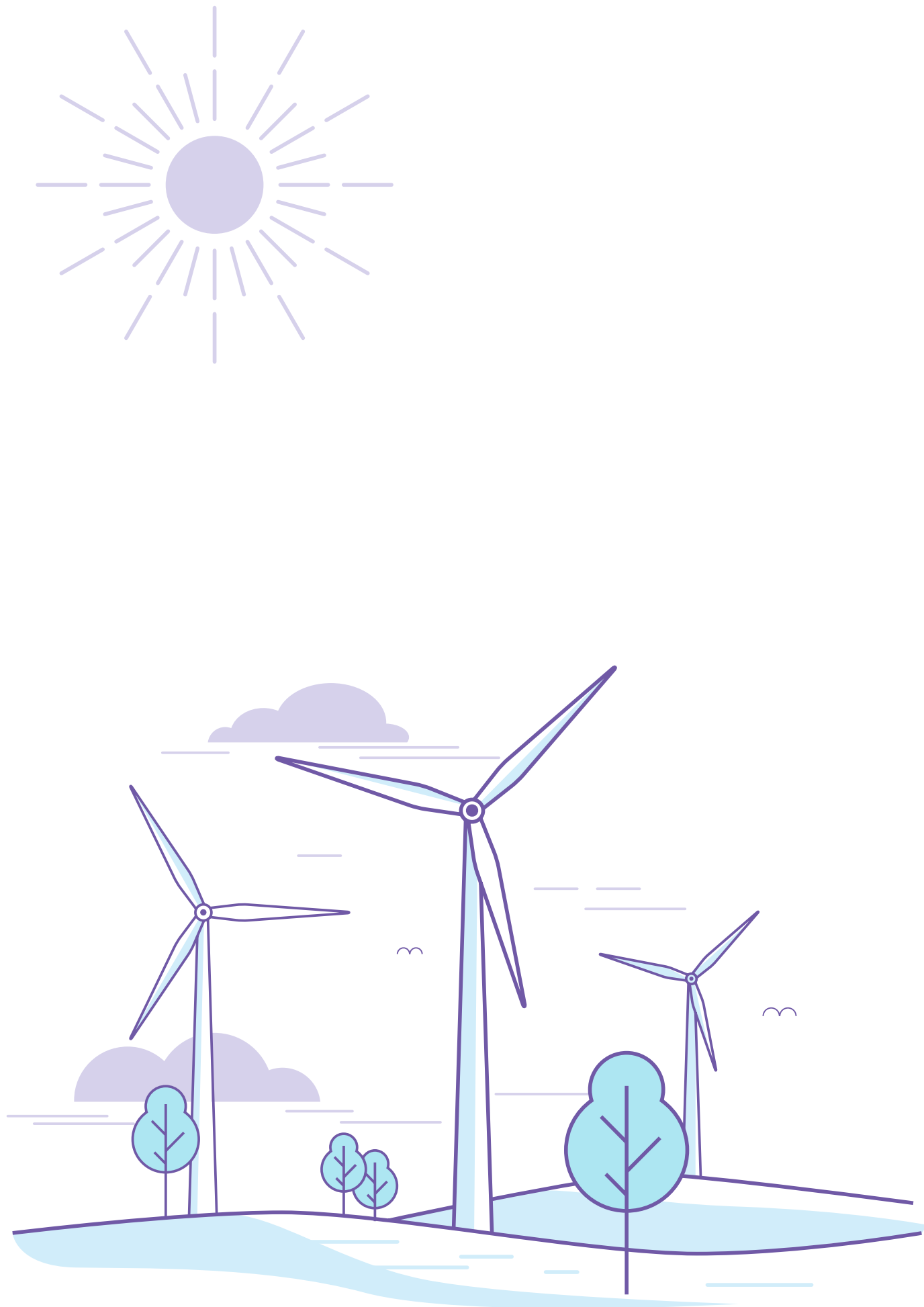


# Annual review 2017



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2

# In Brief





## 2.1 Review of the CEO

A new page in Nordic electricity market history was written in May 2017 when the Transmission System Operators of Finland, Norway and Sweden commissioned the Nordic Imbalance Settlement model and the operative imbalance settlement process was successfully taken over by their jointly owned and established company eSett.

The complexity and the variety of the implemented changes were so large that the time reserved for implementation was under estimated. There were several postponements to the go-live date, however this was the only responsible way of acting. It was important to verify the readiness of all parties to the change before it took place. It required significant will, patience and effort from everyone involved.

The authorities and regulators worked in close co-operation to harmonize the settlement rules in the market. The focus for the coming years should be on maintaining the harmonized principles and removing the rest of unharmonized areas to lower the market entry barriers and improve the efficiency of the market.

The joint settlement with new model was a remarkable achievement by market participants. They adopted the new way of sending market messages, a new way of carrying out imbalance settlement processes and renewed manners to operate in the market. All the market participants, over one thousand, were able to make the necessary adjustments of aggregating the data and were able to report reliable data with new ways of aggregating the data within the timeframes set.

When it was time for closing the first settlement period, the imbalances were on a good level and the settlement week was closed with invoicing successfully carried out. I can proudly say that our new Nordic Imbalance Settlement demonstrates to the world the power of well working market and successful mutual co-operation.

I also want to emphasize the importance of the commitment of Transmission System Operators' and eSett's personnel in ensuring that the big changes were successfully implemented. There was the common goal of harmonization that all wanted to achieve and the spirit were high.

As said one important milestone was carved to the electricity market history and even without a crystal ball, I can assure that this was just a starting point. There are already new initiatives on the way to improve the market operations which will have an influence on carrying out the settlement processes in the future. We are ready to improve and move on.

We settle together,  
Minnakaisa Ahonen



## 2.2 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 harmonised Nordic Imbalance Settlement model and provides equal operational preconditions for Balance Responsible Parties within the NBS area.
- eSett serves more than 1000 electricity market participants.
- eSett is headquartered in Helsinki, Finland.
- eSett is jointly owned by the three Nordic Transmission System Operators Fingrid (Finland), Statnett (Norway) and Svenska kraftnät (Sweden) with equal shares.
- eSett Oy was founded in 2013 and its imbalance settlement operations started in 2017.
- Turnover for 2017 was EUR 7.56 million.
- Balance sheet total was EUR 47.78 million at year-end 2017.
- Number of full-time employees at year-end 2017 was 9.



3

# Strategy and Management System





## 3.1 Operative environment

Lately, the operative environment has been, and still is, undertaking comprehensive changes.

The changes in EU codes will shape the energy sector especially imbalance settlement in coming years. In the near future, there will be the introduction of higher time resolution settlement and one balance settlement instead of a two-balance settlement.

In addition, there will be new market roles such as datahubs, multiple Nominated Electricity Market Operators, Balance Service Providers and Aggregators that will introduce changes in the settlement operations or change the way of communicating within the market.

As we proceed within this rapidly changing operational environment, it is imperative that we maintain the capability and foresight to adapt to changes while always remaining focused on our harmonisation goals.

Similarly, continuous efforts to digitalise businesses and increased requirements for securing the way of operating will play an important role in our strategy in the years to come.

## 3.2 eSett vision and values

eSett provides transparent and precise imbalance settlement to its customers. We also recognise that cross-country settlement requires a lot of knowledge from different market areas and co-operation with various parties.

Our values - accountability, getting things done, rediness for the future and openness in communication - encourage us to:

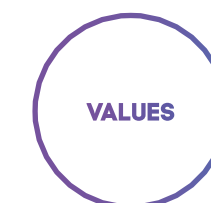
- be a reliable partner to stakeholders
- carry out the settlement and serve customers in a timely manner; and
- be ready for the future and continuously seek improved methods to serve electricity market
- development to fulfill our vision to be a forerunner in the international energy settlement.



A forerunner in the international energy settlement



To settle energy transparently  
To support customers with precise execution and expertise  
To enable the integrated market development, together and in sound cooperation



Accountability  
Getting things done  
Ready for future  
Openness in communication



### 3.3 Strategy

eSett is a newly established company and its operations are based on the new harmonised NBS model. Therefore, its current strategy strongly leans on efforts to stabilise and fine tune its business processes during the years 2018-2019. A strategy to stabilise also prepares eSett to be ready for the future as the coming years will bring major changes in the operative environment as well as settlement model as described above.

The focus has been to finalise the delivery of the imbalance settlement system as the core functionalities were taken into use when the operations started in May 2017. Also, eSett has paid close attention to the documentation.

### 3.4 eSett approach to the business

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

- providing state of the art imbalance settlement services to our customers
- supporting our employees to achieve 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.

- We focus on reliable and timely imbalance settlement. We have continuous dialogue with customers. We develop our services for the electricity markets.
- We respect our personnel. We ensure that we have the right amount of skilled personnel to make good decisions and offer high-quality services. We strengthen our expertise with external resources but keep the understanding of core processes in house.
- We enhance the efficiency of our operations by using appropriate information systems and modern communication tools and the efficiency of market operations by making the data easily and clearly accessible for the market.



## 3.5 Management documents

The company maintains policy documents describing the main principles that steer the company operations. The time horizon of the policies is long-term and strategic. The normal update cycle is every second year, however, policies can be updated more often if required. All policies are approved by the Board.

The following management documents have been approved by eSett's Board:

- **eSett's Code of Conduct**
- **Imbalance Settlement Policy**
- **Financial Policy**
- **Customer policy**
- **Human Resource Policy**
- **ICT Policy**



## 3.6 Personnel

The vision of eSett is to be the forerunner for international energy settlement. In terms of our employees and competence, this means that the company is required to maintain a high quality level in its operations. Stringent demands are made upon our employees but, on the other hand, we provide an opportunity to take responsibility and participate in the development and reformation of imbalance settlement practices and hence supporting the efficient operation of Nordic electricity market.

All of our operations are based on the Code of Conduct, which is followed by our employees in their day-to-day work, safeguarding the positive image of the company.

The leadership and management aim at undertaking diverse tasks, maintain inherent cooperation with staff and stakeholders, as well as keeping motivation and well-being on a high level. As a result, employees work in a productive way, share information and competence, develop and reform the company and its practices in a continued fashion while enabling personal growth and development.

The guiding principles of eSett's communications are openness, activeness and timeliness. During the year 2017, efforts were made to improve the open communication by renewing the internal communication practices. Also, common sessions to improve information sharing were arranged.

Employees were offered training at the company level such as language courses and self-management

training. Also, some people completed additional qualifications and had trainings to keep up and improve their expertise in the energy sector. Also work in developing eSett's operations and administration offered an excellent opportunity for the personnel to improve their skills in various areas.

eSett personnel has access to comprehensive occupational healthcare services and absences due to illness are very low. They are encouraged to take care of their well-being by voluntary efforts some of which are supported by eSett.

As a responsible employer, eSett also offers summer jobs for students and young people. During the summer of 2017, eSett offered two students and two minors summer jobs.



4

# Business Operations



## 4.1 Customers

### 4.1.1 Customer Committee established

eSett's Customer Committee was established in March 2017. The purpose of eSett's Customer Committee is to provide a 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 role: distribution system operators, transmission system operators and balance service parties/retailers. In addition, regulators are invited to participate in the meetings.

The Committee meets on a regular basis. During the year 2017, there were two customer committee meetings, the first on 21 June 2017 and the second on 14 November 2017.

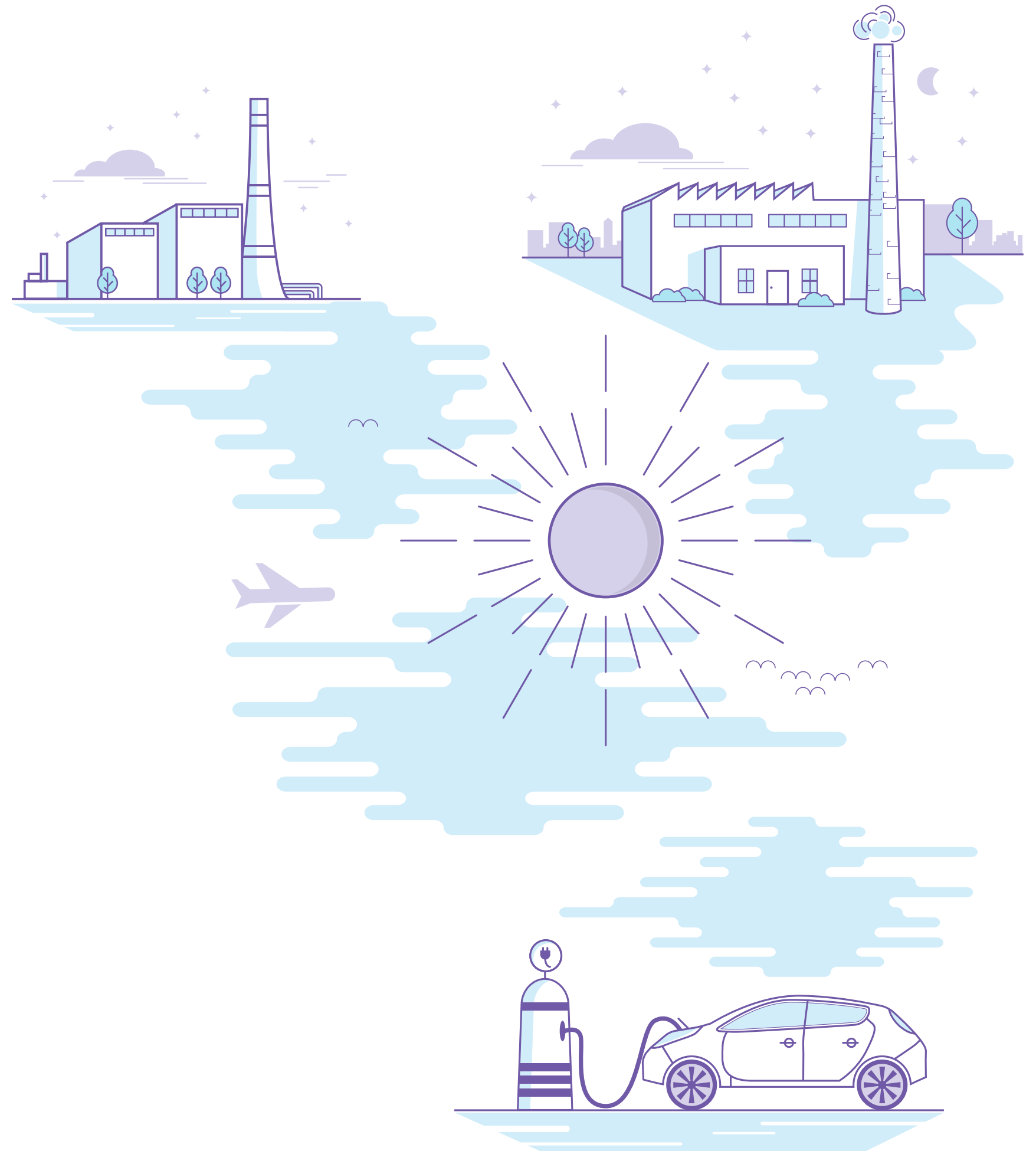
In the Committee both eSett and the market participants can address relevant issues in relation to the market roles they represent.

The Committee's Rules and Procedures outlining its roles, responsibilities and functions along with other Committee material are available on the eSett's website <https://www.esett.com/customer-committee/>.

### 4.1.2 External customer trainings and public presentations

In order to help customers to adapt to the new Nordic Imbalance Settlement model and to openly communicate about market developments that will influence the imbalance settlement model, eSett has organised training clinics and participated in the conferences in the Nordics. The events included:

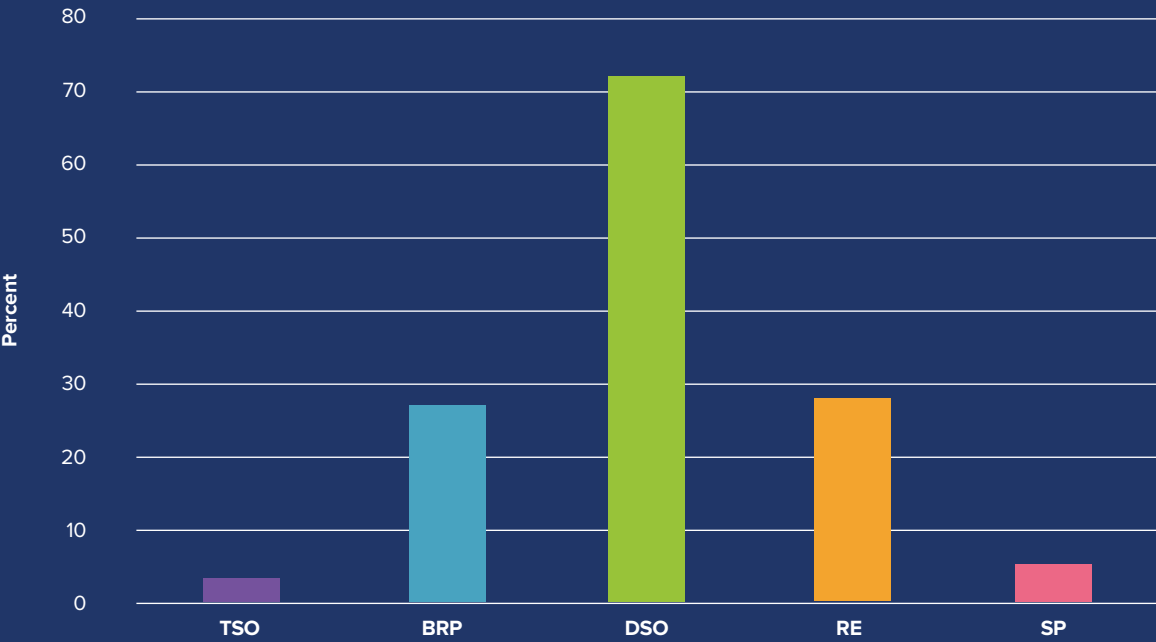
- Parallel Settlement clinics were organised before go-live on a weekly basis before the go-live from March until April 2017. Training materials are published on eSett's Slideshare website
- Imbalance Settlement training sessions for the Market Participants were arranged during October 2017 in local languages
- eSett participated in Svk's and Statnett's settlement conferences during September and October 2017



4.1.3 Customer Satisfaction Survey 2017

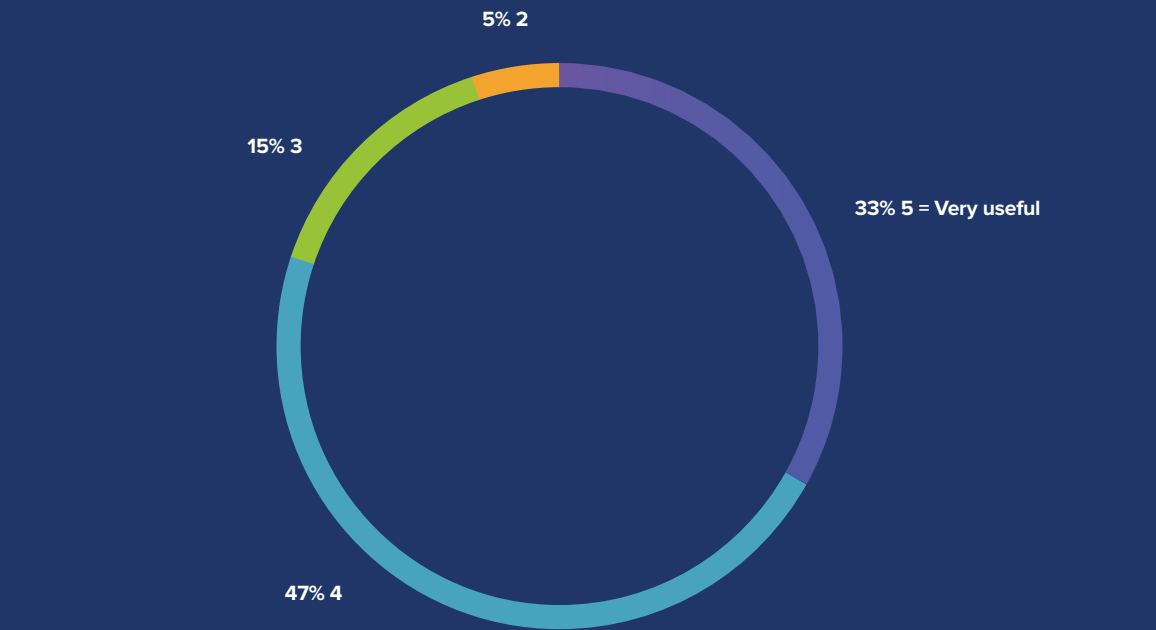
eSett carried out a customer satisfaction survey during January 2018. The questionnaire was sent to all Online Service end users. The survey contained questions about eSett’s customer service and how market participants have experienced it.

Activeness was rather low and focus must be paid to the fact to improve the activity. The participants were divided quite equally between Finland (28.3 %), Norway (35.8 %) and Sweden (40.6 %). It was also possible to select multiple market balance areas which was chosen by 2.8 % of the received responses. The roles of the participants providing their answers and feedback were as follows:



On a scale of 1-5 (1 = Not important or useful at all, 5 = Extremely important or useful)  
The majority of questionnaire participants (95.3 %) found eSett’s service support useful to them rating it 3 or higher.

Have you found service support useful?



Value		Percent
5 = Very useful	<div><div></div></div>	33.0%
4	<div><div></div></div>	47.2%
3	<div><div></div></div>	15.1%
2	<div><div></div></div>	4.7%

Based on the survey, our strengths are friendly service and professionalism. The customers wished to have more services in in local languages though.

4.1.4 Service requests during year 2017

eSett received 4853 service requests from market participants during the year 2017. The majority of requests (3147) were actually handled before the go-live took place on 1 May 2017. However since the go-live in May, the number of service requests reduced remarkably by totalling only 1951 from 1 May 2017 to 31 December 2017.

The service request times have improved during the year 2017 and currently most replys to service requests occur on the same day.



# 4.2 Finances, financing and risk management

## 4.2.1 Finances

### 4.2.1.1 Financial result 2017

The fiscal year 1 January – 31 December 2017 was eSett’s fourth fiscal year. The profit for the fiscal year was EUR 2.67 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 7.56 million, consisted of TSO service fees.

The biggest expenses during the fiscal year comprised Imbalance settlement, personnel and depreciation of capitalised NBS project costs. The depreciations started at go-live 1 May 2017.

	Expenses EUR million
Depreciation	1.35
Personnel	0.82
imbalance settlement	1.45
IT expenses	0.58
Communication	0.05
Finance and Administration	0.32
Other operating expenses	0.01
Finance expenses	0.29
TOTAL EXPENSES	4.89

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4.2.1.2 Capital expenditures

During its fourth fiscal year, eSett continued to invest into the Imbalance Settlement Model and ERP systems. As the go-live was on 1 May 2017, the NBS investment was finalised and transferred from purchases in progress to other intangible assets while also depreciation commenced.

eSett’s total non-current assets were EUR 8.23 million as per 31 December, 2017. The breakdown of non-current assets is shown below.

EUR million		
Intangible assets, total	7.74	
Intangible rights	0.46	Licenses and use rights
Other intangible assets	7.28	Software Damas and MS AX
Tangible assets	0.49	ICT Infrastructure
NON-CURRENT ASSETS TOTAL	8.23	

4.2.2 Financing

4.2.2.1 Utilised 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 utilised by the end of 2015. The loan will be paid back in 10 instalments, divided in two instalments each year (to be transacted on 15 March and 15 September). The first repayment date will be on 15 September, 2018.

During the fiscal year 2016, a capital loan of EUR 4.5 million was granted by the shareholders. It was utilised by the end of 2016. The loan will be paid back in 3 instalments, one per year. The first repayment date shall be on 15 March, 2019.

4.2.2.2 Share capital and Invested unrestricted equity fund

eSett Oy is owned by TSO’s Fingrid Oyj in Finland, Affärsverket Svenska Kraftnät in Sweden and Statnett SF in Norway. The share capital is EUR 3750, and each of the three shareholders, Fingrid Oyj, Affärsverket Svenska kraftnät and Statnett SF, has equal ownership. Each shareholder has 1250 shares and all shares have equal power.

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

4.2.2.3 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. Setting the service fee amount is based on the following principles: 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 for performing services and collecting payments on behalf of the TSOs. These invoices are sent to the TSO’s quarterly. Additional services provided to one or more TSOs are invoiced as separate fees.

4.2.3 Risk management

4.2.3.1 Agreements

Before starting the operations, the Imbalance settlement agreement and Pledged cash account agreement have been signed by each Balance Responsible Party (BRP). Also eSett has 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 holds numerous agreements with its service providers.

4.2.3.2 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 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.

4.2.3.3 Hedging

Currency risk in imbalance settlement is hedged with FX 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.



# 4.3 Imbalance Settlement

## 4.3.1 Nordic Imbalance Settlement go-live 1 May 2017

The harmonised Nordic Imbalance Settlement model was successfully launched to go-live on 1 May 2017 in all NBS-countries Finland, Norway and Sweden.

After the go-live, eSett has been able to carry out the imbalance settlement processes reliably and without any major problems. Imbalance settlement was finalised on time in all the market balance areas and balance responsible parties invoicing was carried out within the timeframe agreed in the Nordic Imbalance Settlement model.

## 4.3.2 The Parallel Settlement

The parallel settlement period was arranged before the NBS go-live and in close cooperation with market participants (balance responsible parties, distribution system operators and retailers). This effort was seen as one of the key success factor for the smooth and successful go-live.

The parallel settlement period started on 6 February 2017. Both the Online Service (the portal for customers) and Messaging Service portals in eSett’s imbalance settlement system “Basse” were opened to market participants, giving them the capability to connect to the Basse system and finalise their market structures for imbalance settlement.

The Parallel Settlement Guide was prepared and established for the market participants in order to assist them with the process. All important steps such as connectivity, structure verification, message verification, reporting and imbalance settlement procedures were defined and described in the Guide as well as the final steps for the contractual and collateral finalisation.

In order to provide support during the parallel settlement period, a series of parallel settlement clinics were arranged for market participants concerning different topics. The topics presented included Connectivity, Service Provider Concept, Structures, Settlement and Invoicing for BRPs, Settlement for DSOs. There were about 100-200 companies joining each clinic depending on the topic.

## 4.3.3 Nordic Imbalance Settlement -Handbook (NBS-Handbook)

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

The official version of the NBS Handbook is published in English. Some market participants have wished to have the Handbook be published in local languages and therefore eSett also maintains unofficial local language versions in Finnish, Norwegian and Swedish.

All major changes in the Nordic Imbalance Settlement Model are introduced and discussed in the Customer Committee.



4.3.4 Settlement Statistics

Key figures of the Nordic Imbalance Settlement at year end 2017:

- Balance Responsible Parties 185
- Distribution System Operators 480
- Retailers 823
- Service Providers 44
- 400 000 market messages received on weekly basis
- EUR 280 million of managed collaterals
- Consumption imbalance purchase 13 000 MWh
- Production imbalance purchase 3 100 MWh
- Total debited amount (1.5.2017 – 31.12.2017)
  - EUR 136 million
  - NOK 528 million
  - SEK 480 million

4.4 Invoicing

eSett manages the invoicing and money transfers in the imbalance settlement. The amounts to be settled include the BRPs’ imbalances, the 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 however eSett carries out the settlement and invoicing on their behalf. Nevertheless, all transfers pass through eSett who guarantees the financial settlement.

The net proceeds from the imbalance settlement in each country will be transferred to the respective TSO. eSett has been responsible of Nordic Imbalance Settlement invoicing since 1 May 2017 and invoicing has been carried out without any major problems. Since the go-live on 1 May 2017 until 31 December 2017, eSett has sent 6 160 invoices to Market Participants.

4.5 Market Development Initiatives Impacting Imbalance Settlement

There are several market development initiatives that will impact on imbalance settlement in the near future.

Support for several nominated electricity market operators (NEMOs) in the intraday trading (the XBID-project) and imbalance settlement was designed and implemented with the TSOs and NEMOs during the year 2017 and eSett is ready to support XBID for go-live in June 2018.

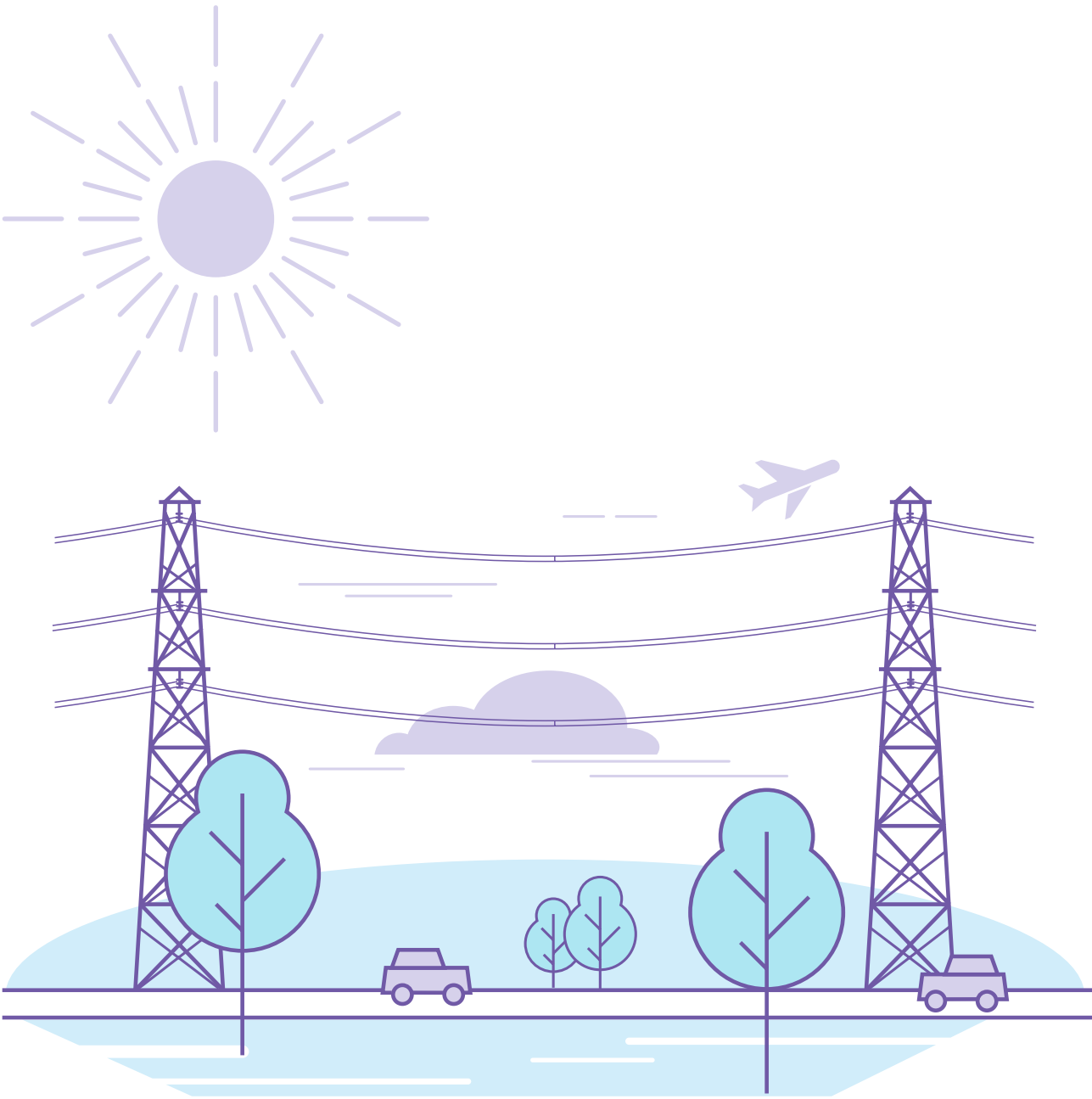
The settlement model design for several nominated electricity market operators in day ahead market was started at the end of the year 2017 with the TSOs and NEMOs. The aim is to carry out the detailed design, implementation and testing phases during the year 2018 to achieve smooth go-live at the end of 2018.

Based on the EU Commission Regulation, a guideline on electricity balancing, eSett has started several rather comprehensive market development initiatives in cooperation with the Nordic TSOs. These initiatives include higher time resolution (15

minutes settlement) and one balance imbalance settlement model.

Another important development is settlement support for Nordic datahubs. The basic concept has been implemented but some model issues are still open and need to be finalised before the go-live of the hubs.

The TSO Expert Group is a body established to steer market development initiatives. Chairmanship of the TSO Expert Group has been allocated to the TSOs with eSett acting as secretary to organise practicalities and preparations.

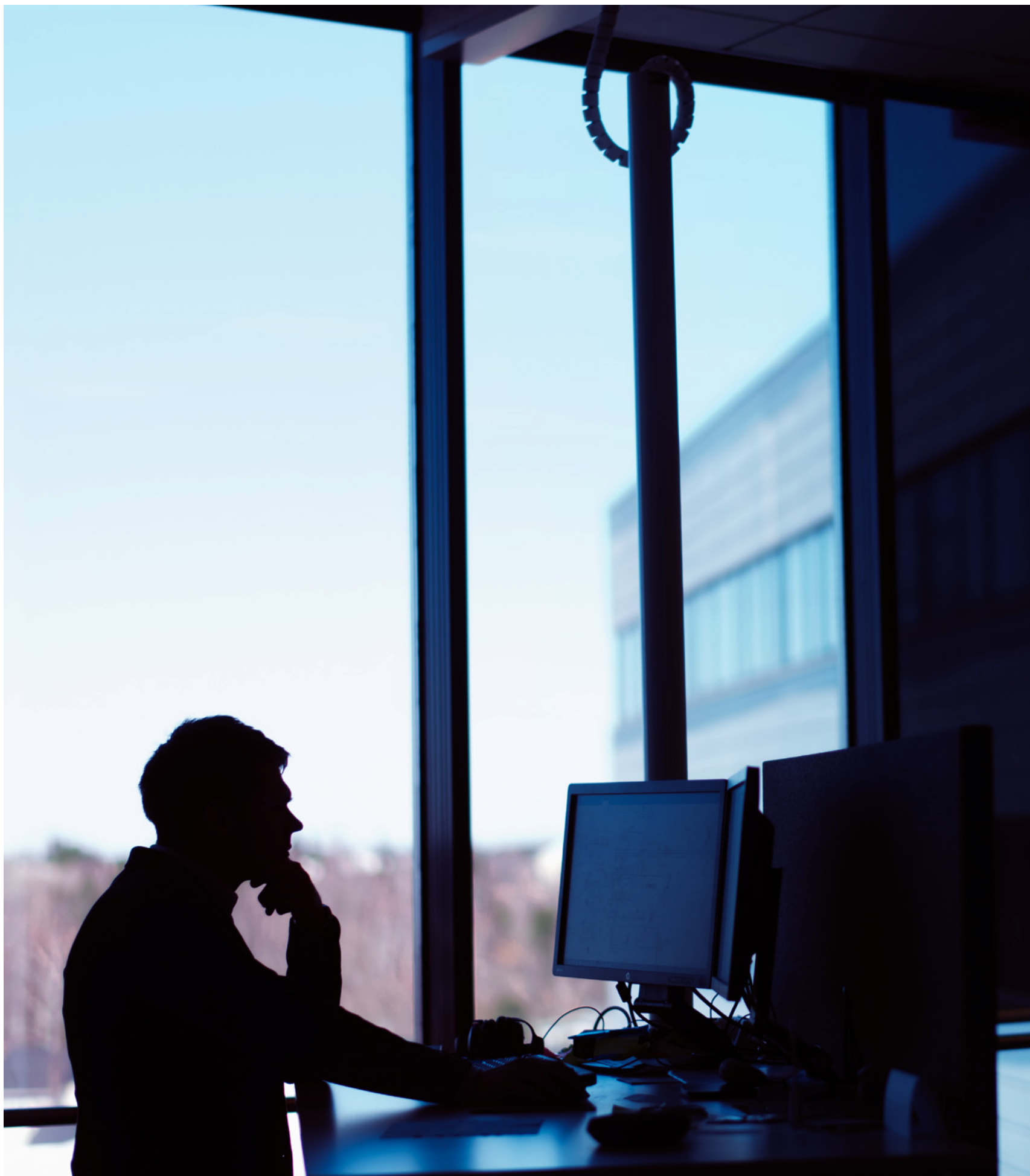




5

# Governance





## 5.1 Board of Directors

eSett's annual general meeting elects a Board of Directors for a two years term. In accordance with the Articles of Association, the Board comprises three (3) members. Each Board Member has an appointed substitute member.

The general meeting elects one Board member to serve as the Chair of the Board. The Chairmanship circulates every two (2) years among eSett's owners.

As a general principle, for all important matters the Board shall strive to reach unanimity. 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 (1) vote.

However an unanimous decision must be reached for the following issues:

- proposals to offer new services to existing and new customers, TSO's or authorities;
- proposals to exclude services offered to existing customers, TSO's or authorities; and
- when appointing a Managing Director for the Company.

### 5.1.1 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 organisation of the operations of the company.

The Board of Directors ensure 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.

### 5.1.2 Board of Directors 2017

The shareholders meeting 2016 elected the following persons for a two year term as Members and Deputy Members of the Board of Directors: Magnus Stephansson (Deputy Member: Maria Bergqvist), Ole Jacob Høyland (Deputy Member: Kristian Bernseter) and Asta Sihvonen-Punkka (Deputy Member: Kari Suominen).

Magnus Stephansson was elected to serve as the Chair of the Board.

PricewaterhouseCoopers was elected as the auditor for eSett.

Minnakaisa Ahonen serves as CEO of the company.



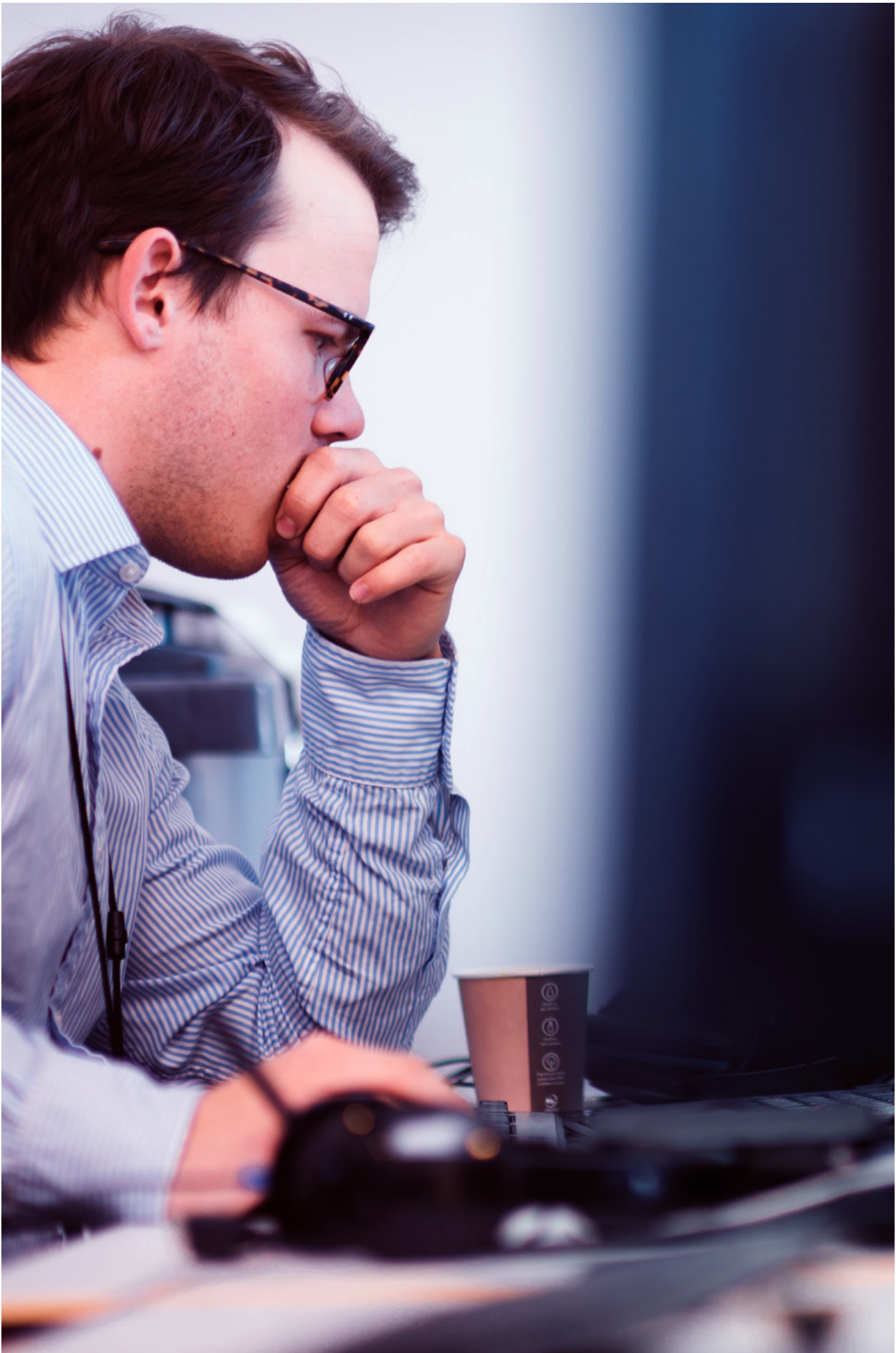
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# Financial Statement



Income statement

	Notes	01.01.2017-31.12.2017 / €	01.01.2016-31.12.2016 / €
<b>TURNOVER</b>	13	<b>7 560 000,00</b>	
Employee benefits expenses	1	-711 122,10	-655 997,99
Depreciation and write off	2	-1 355 627,62	-122 138,52
Other operating expenses	3, 13	-2 525 316,26	-1 467 666, 38
<b>OPERATING PROFIT</b>		<b>2 967 934,02</b>	<b>-2 245 802, 89</b>
Finance income and costs	4, 13	-292 994 47	-146 205 06
<b>PROFIT BEFORE PROVISIONS AND TAXES</b>		<b>2 674 939,55</b>	<b>-2 392 007, 95</b>
<b>PROFIT FOR THE FINANCIAL YEAR</b>		<b>2 674 939,55</b>	<b>-2 392 007,95</b>





# Balance sheet

ASSETS	Notes	31/12/2017 / €	31/12/2016 / €
Non-current assets			
Intangible assets			
Intangible rights	6	456 050,68	56 889,70
Other intangible assets		7 283 567,38	248 100,30
		7 739 618,06	304 990,00
Tangible assets			
Machinery and equipment	7	491 915,71	21 034,80
Prepayments and purchases in progress			7 180 708,27
		491 915,71	7 201 743,07
TOTAL NON-CURRENT ASSETS		8 231 533,77	7 506 733,07
Current assets			
Short term			
Other receivables	8	24 675 732,20	130 693,80
Accrued income	9	238 790,81	137 175,28
		24 914 523,01	267 869,08
Cash and cash equivalents	10	14 631 604,45	5 427 842,26
TOTAL CURRENT ASSETS		39 546 127,46	5 695 711,34
TOTAL ASSETS		47 777 661,23	13 202 444,41

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EQUITY AND LIABILITIES	Notes	31.12.2017 / €	31.12.2016 / €
Equity			
Share capital	11	3 750,00	3 750,00
Invested unrestricted equity fund		5 998 950,00	5 998 950,00
Retained earnings		-5 404 246,19	-3 012 238,24
Profit for the year		2 674 939,55	-2 392 007,95
TOTAL EQUITY		3 273 393,36	598 453,81
Liabilities			
Non-current liabilities			
Capital loan	12, 13	4 500 000,00	4 500 000,00
Shareholder loans	12, 13	6 750 000,00	7 500 000,00
		11 250 000,00	12 000 000,00
Current liabilities			
Trade payables		211 925,72	406 332,18
Other liabilities	14	32 787 655,82	12 431,04
Accrued liabilities	15	254 686,33	185 227,38
		33 254 267,87	603 990,60
TOTAL NON-CURRENT ASSETS		44 504 267,87	12 603 990,60
TOTAL EQUITY AND LIABILITIES		47 777 661,23	13 202 444,41

# 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 based 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, is 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 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

## Cash and cash equivalents

Cash and equivalents include the company’s bank accounts.

## Income tax

Taxes include the accrued taxes for the profit of the financial year and tax adjustments from previous financial years.

## 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

eSett Oy's fiscal year is the calendar year.

1. PERSONNEL COSTS	2017	2016
Salaries and bonuses	-590 488	-529 586
Pension expenses	-106 348	-98 709
Other personnel expenses	-14 286	-27 702
<b>Total</b>	<b>-711 122</b>	<b>-655 998</b>

Number of salaried employees in the company during the financial year:

Personnel, average	10	9
Personnel, 31 Dec.	11	10

2. DEPRECIATION ACCORDING TO PLAN	2017	2016
Intangible assets	-1 216 284	-104 568
Machinery and equipment	-139 343	-17 571
<b>Total</b>	<b>-1 355 628</b>	<b>-122 139</b>

3. OTHER OPERATING EXPENSES	2017	2016
Other staff related expenses	-81 245	-32 462
IT and telecommunications	-581 769	-538 601
Marketing and advertising	-52 882	-69 102
Project management and administration costs	-1 797 904	-823 152
Other operating expenses	-11 399	-3 963
Exchange rate differences	-118	-387
<b>Total</b>	<b>-2 525 316</b>	<b>-1 467 666</b>

4. FINANCE INCOME AND -EXPENSES	2017	2016
Interest- and other financial income from others	884	333
Interest- and other financial expenses to others	-293 878	-146 538
<b>Total</b>	<b>-292 994</b>	<b>-146 205</b>

5. INCOME TAX	2017	2016
Advance tax has not been assessed for financial year 1.1.2017 - 31.12.2017. Deferred tax receivable from the loss was not posted in the balance sheet.		
<b>Deferred tax receivables and liabilities</b>		
<b>Deferred tax receivables</b>		
Deferred tax receivable for unused losses (2.718.153,26 euros) is 543.630,6	543 631	1 080 849
<b>Total</b>	<b>543 631</b>	<b>1 080 849</b>

6. INTANGIBLE ASSETS	2017	2016
Cost at 1 Jan	522 840	522 840
Increases 1 Jan - 31 Dec	8 650 912	
Decreases 1 Jan - 31 Dec		
<b>Cost at 31 Dec</b>	<b>9 173 752</b>	<b>522 840</b>
Accumulated depreciation according to plan at 1 Jan	-217 850	-113 282
Depreciation according to plan 1 Jan - 31 Dec	-1 216 284	-104 568
<b>Carrying amount 31 Dec</b>	<b>7 739 618</b>	<b>304 990</b>

**7. TANGIBLE ASSETS**

2017

2016

**Machinery and equipment**

Cost at 1 Jan	52 713	52 713
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Increases 1 Jan - 31 Dec	610 224	
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Decreases 1 Jan - 31 Dec		
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Cost at 31 Dec	662 937	52 713
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Accumulated depreciation according to plan at 1 Jan	-31 678	-14 107
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Depreciation according to plan 1 Jan - 31 Dec	-139 343	-17 571
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Carrying amount 31 Dec	491 916	21 035
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**8. OTHER RECEIVABLES**

2017

2016

Imbalance settlement receivables	24 321 263	
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Other receivables include the VAT receivable	354 469	130 694
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Total	24 675 732	130 694
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**9. ACCRUALS**

2017

2016

Accruals of purchases	238 791	137 175
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Total	238 791	137 175
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**10. CASH AND CASH EQUIVALENTS**

2017

2016

Cash and bank receivables	14 631 604	5 427 842
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Total	14 631 604	5 427 842
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**11. EQUITY**

2017

2016

Share capital at 1 Jan	3 750	3 750
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Change		
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Share capital at 31 Dec	3 750	3 750
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Invested unrestricted equity fund at 1 Jan	5 998 950	5 998 950
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Change		
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Invested unrestricted equity fund at 31 Dec	5 998 950	5 998 950
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Loss from previous financial years	-5 404 246	-3 012 238
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Profit for the financial year	2 674 940	-2 392 008
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Retained earnings 31 Dec	-2 729 307	-5 404 246
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EQUITY 31 DEC	3 273 393	598 454
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**Amount of shares**

1.1.2017	3 750
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31.12.2017	3 750
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**12. LOANS MATURING AFTER 5 YEARS OR MORE**

2017

2016

**Loans****Capital loan from shareholders**

Shareholder loans	750 000	2 250 000
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Total	750 000	2 250 000
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13. RELATED PARTIES	2017	2016
Loans from shareholders	12 000 000	12 000 000
Total	12 000 000	12 000 000
Fingrid Oyj		
Affärsverket Svenska kraftnät		
Statnett SF		
Service fees from shareholders (turnover)	7 560 000	
Service fees to shareholders (expenses)	598 974	747 886
Loan interest to shareholders	240 953	144 495
Service fees to shareholders related to the IT systems (fixed assets)	292 935	574 405
Total	1 132 861	1 466 786

14. OTHER LIABILITIES	2017	2016
Short term:		
Imbalance settlement debt	32 023 089	
Withholding tax debt	14 074	11 600
Social security debt	494	831
Loan installment paid back in year 2018	750 000	
Total	32 787 656	12 431

15. ACCRUED LIABILITIES	2017	2016
Short term:		
Accrued vendor invoices		24 516
Interest and financing accruals	135 909	55 086
Payroll accruals	118 778	105 625
Total	254 686	185 227

16. GUARANTEES AND LIABILITY COMMITMENTS	2017	2016
Commitments according to Main host agreement		
Payments in the coming year (2018)	79 380	79 380
Payments later		
Total	79 380	79 380
Derivative contracts		
Forward contracts		
Market value, positive	44	
Market value, negative	-14 185	
Value of the asset	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 also 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 closingdate have been found to be effective. All forward contracts in force at the closing date mature in January 2018.

### 17. ANNUAL REPORT INFORMATION REQUIRED BY 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 1250 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 (15 March or 15 September) following the date falling one year after eSett has commenced to carry out the imbalance settlement services. The first repayment date will be 15.9.2018.

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 (15 March) following the date falling one year after eSett has commenced to carry out the imbalance settlement services. The first repayment date is 15.3.2019.

The Board of Directors will propose to the Annual General Meeting of Shareholders that the profit 2 674 939,55 euros be carried over as unrestricted equity.

Company's distributable funds are:	
Invested unrestricted equity fund	5 998 950,00
Loss from previous financial years	-5 404 246,19
Profit for the period	2 674 939,55
Total	3 269 643,36

No dividend is paid.



# The board of directors’ proposal for distribution of profit

The profit for the period is 2 674 939,55 euros.  
The Board of Directors will propose to the Annual General Meeting of Shareholders that the profit be carried over as unrestricted equity.

In Helsinki, the 23rd of March 2018

- Magnus Stephansson**  
Chairman
- Ole Jacob Høyland**  
Board member
- Asta Sihvonen-Punkka**  
Board member
- Minnakaisa Ahonen**  
Chief Executive Officer

eSett Annual review 2017

## AUDITOR’S NOTATION

The Auditor’s Report was issued today on an audit conducted.  
Helsinki, the 23rd of March, 2018  
  
PricewaterhouseCoopers Oy  
Authorized Public Accountants  
  
Heikki Lassila, Authorized Public Accountant, APA





