

A POWERFUL PARTNER

Annual Report 2014

A series of thin white lines radiate from the left side of the page, creating a fan-like effect that extends across the middle and right sections of the cover. The lines vary in length and angle, creating a sense of movement and energy.

nordpool
spot

CONTENTS



“We will always go the extra mile to exceed the expectations of our customers.”

Mikael Lundin, CEO

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Highlights 2014

4 February

NWE and PCR launched

After a great deal of hard work and preparation by Europe's power exchanges and TSOs, in which Nord Pool Spot took a lead role, the North-Western Europe (NWE) day-ahead price coupling project goes live. This is the first implementation of the Price Coupling of Regions (PCR) solution.

UK Virtual Hub launched

The UK Virtual Hub, developed and delivered by Nord Pool Spot to allow shared UK day-ahead liquidity, goes live.

12 March

Memorandum of Understanding signed between Nord Pool Spot and all Nordic and Baltic national regulatory authorities to ensure the efficient discharge of new obligations coming into force under REMIT.

13 May

Successful launch of full coupling of the South-Western Europe (SWE) day-ahead market, joining together the NWE and SWE markets.

1 October

Sole ownership of N2EX

Nord Pool Spot takes sole ownership of the UK market N2EX. In pursuit of its long term ambition to provide consolidated intraday and day-ahead trading opportunities across multiple markets, Nord Pool Spot assumes responsibility for N2EX clearing from Nasdaq OMX to ensure UK customers reap the benefits of a more closely-coupled European market.

New website

New responsive Nord Pool Spot website launched, offering visitors a more flexible and user-friendly experience.

27 October

Nord Pool Spot introduces simplified signature requirements for our customers, to ease their documentation burden.

3 November

Nord Pool Consulting is launched as a new business under the Nord Pool Spot umbrella, offering specialist consulting services around market design, rulebook

development, market regulation, power market systems and capacity building and offering seminars based on its unrivalled knowledge of European power markets.

27 November

Launch of Aggregated Collateral Arrangements, a new service for Nord Pool Spot customers trading in the Nordic/Baltic and UK markets, allowing them to provide a single aggregated pool of collateral as security for all their exposures to Nord Pool Spot. In addition, the settlement cycle and collateral parameter are reduced for N2EX customers.

25 November

Elbas 4, Nord Pool Spot's new European cross-border intraday system, is successfully launched in 10 countries – providing superb functionality, simplicity and speed.

16 December

The Urgent Market Message (UMM) system is updated, allowing customers more simply to comply with the European Union Transparency Regulation.

Where we operate

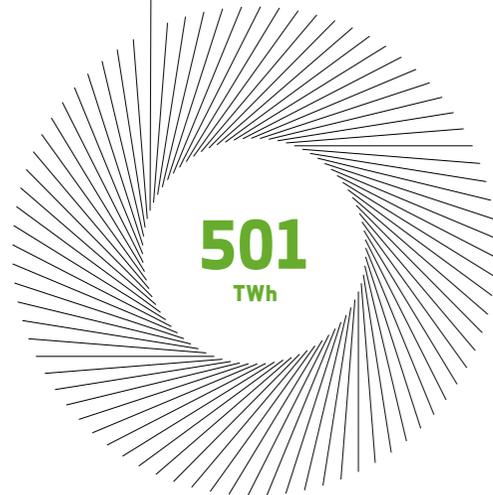
The Nord Pool Spot markets with major interconnectors indicated

- Nordic and Baltic market: day-ahead and intraday
- UK market N2EX: day-ahead and intraday
- System provider (day-ahead or intraday)
- German market: intraday
- Nord Pool Spot offices



Key facts and figures

Total traded volume

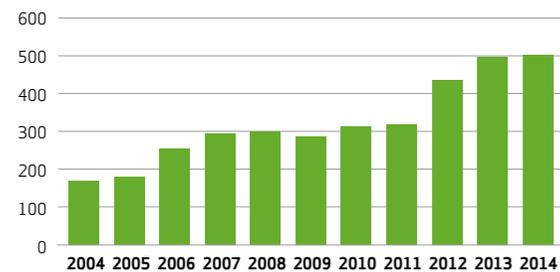


Number of customers



Traded volume growth (in TWh)

A total of 501TWh traded in 2014. Day-ahead market Nordic/Baltic 361TWh. Day-ahead market UK 135.5TWh. Intraday market Nordic/Baltic/Germany 4.9TWh.

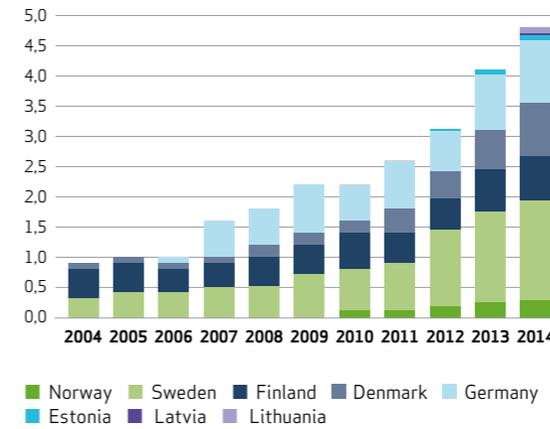


System price (average price in EUR/MWh)

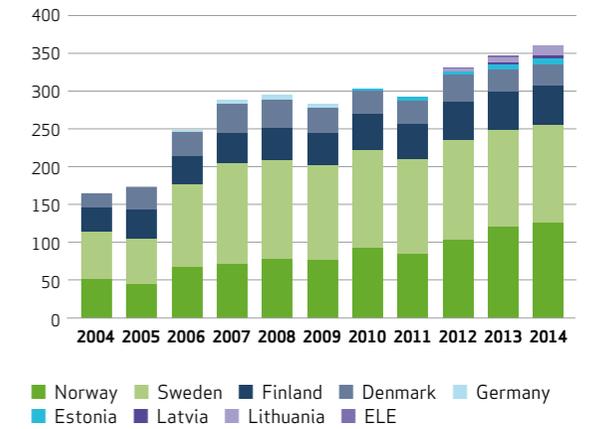
The hourly system price is determined at the point where all supply and demand for the entire Nordic region within each hour meet, not taking the trading capacities between the bidding areas into account.



Intraday turnover (per country in TWh)

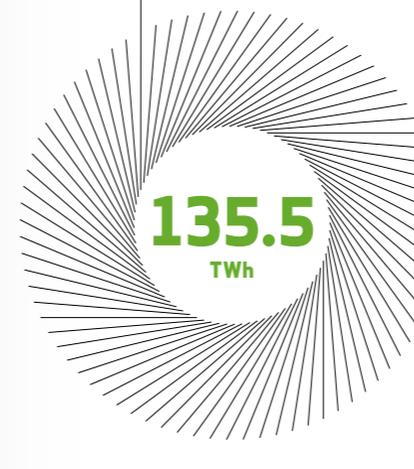


Nordic and Baltic day-ahead volume turnover (per country in TWh)



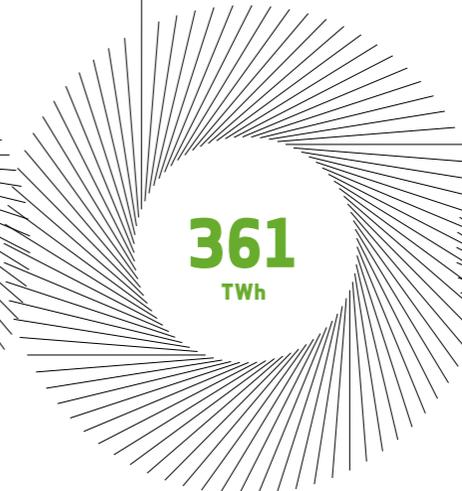
UK N2EX day-ahead volume

143TWh in 2013



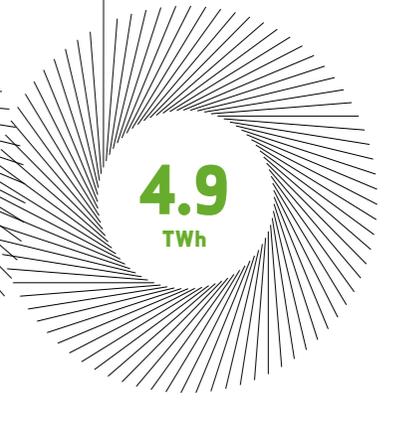
Nordic and Baltic day-ahead volume

349TWh in 2013



Intraday volume

4.2TWh in 2013



Leading the way in a **new** landscape

The European energy sector is fast-paced and always changing. It is rare that we get a chance to take stock and gauge our achievements.

We tend instead to be very focused on trying to ‘stay ahead of the curve’ in terms of market and product development to meet, and exceed, the needs of our customers. The foreword to the 2014 Nord Pool Spot annual report gives me a welcome opportunity to assess what we as a business, and the sector more widely, achieved over the past year. And believe me – we achieved a lot.

Clear progress

Perhaps our clearest sign of progress is expressed in a simple number – 500TWh, a volume traded figure which we passed for the first time in 2014. Our markets developed well during the course of the year, with trade volumes rising in line with expectations, including in our UK market, N2EX. But our business goes far beyond mere numbers, as developments in market coupling showed.

Looking back I would have to say that market coupling under the North-Western Europe (NWE) day-ahead initiative, using a common day-ahead power price calculation with the Price Coupling of Regions (PCR) solution, went extremely well. That has been great news for the wider goal of European market integration. At Nord Pool Spot we were very proud to play our part in making this a reality and have been delighted at what a success it has proved to be.

Real challenges

But in acknowledging that success I am forced to confront the very real challenges that we faced during 2014, and continue to face, with the launch of a new cross-border intraday platform (known as ‘XBID’). If only everything could go as smoothly as the day-ahead market coupling with PCR!

Nord Pool Spot continues to be a committed partner in the XBID process, but we cannot hide our disappointment at the distractions and delays which seem to characterise development of cross-border intraday. Let us hope for smoother sailing and sunnier skies ahead!

“Our business goes far beyond mere numbers”

For our part, at Nord Pool Spot we ‘showed how it can be done’ in the intraday sphere with the successful launch of our own brand new intraday trading system, Elbas 4, across 10 countries in November. I take my hat off to the Nord Pool Spot team who worked very closely with our customers to deliver a system that more than meets their needs and which, regardless of what XBID delivers, is –

Mikael Lundin
CEO



and this is key – designed to be future-proof. The success of Elbas 4 proves that our customers know where they stand with us. We work tirelessly to ensure that that is the case.

Breaking new ground

Looking ahead we face something of a brave new world with the European Commission framework for Power Exchanges, embodied in the Capacity Allocation and Congestion Management (CACM) network guidelines. The CACM is European legislation that will govern the cross-border trading of electricity from the second half of 2015, and opens up competition among power exchanges across Europe.

There are complex issues to thrash out around what is, in effect, a virtual deregulation of the power exchange system as we have known it for many years, paving

the way for a different structure and manner of doing business. At the end of 2014 the European Commission decided to press ahead with the adoption of the CACM guidelines during 2015. This is breaking new ground for us and will inevitably bring challenges. At Nord Pool Spot we are embarked upon an intensive period of work around CACM, as are our fellow power exchanges across Europe, I am sure, in order to understand and properly implement the Commission guidelines. Once CACM is fully implemented the European power exchange landscape is going to look very different.

That said, our experience in the UK with N2EX will stand us in good stead here, since the UK is, in essence, a microcosm of how a post-CACM, more competitive, world may appear. It is going to be interesting to see what this new landscape will look like.

Pan-European

The year saw challenges for our customers too, not the least of them involving the juggling of fuel price variations and the increase of renewables in the production mix. Decisions about a potential capacity market in Germany during 2015 will mark a key crossroads for many of our European customers and, as with any crossroads, it will certainly help to have a clear direction.

“We are breaking new ground and that will bring challenges”

Many of Nord Pool Spot's customers already have a very pan-European outlook and it seems, given regulatory and market developments, that both power exchanges and the vast majority of their customers will have to move in that direction too. Make no mistake – at Nord Pool Spot our ambition is both European and pioneering. We want to deliver innovative solutions for European power trading and to be at the very heart of developing future power markets. I believe our history proves that that is what we do best.

Positive markets

In October we were delighted to take full control of the value chain in our UK market N2EX, a transition from joint ownership with our former partner there, Nasdaq Commodities, which I was glad to see go very smoothly.

Our markets in the Baltic region saw a positive growth in volumes, with wide uptake of gross bidding and a high market share. It is a simple fact that Nord Pool Spot is now well accepted here as the market solution, with all key parties happy to trade through us. I am delighted that Nord Pool Spot is seen as the professional power market partner in the Baltics.

I predict continued integration between the Nordic and Baltic regions ahead, embodied by the commissioning of the new Sweden-Baltic region cable (NordBalt) scheduled for the end of 2015. It is important that infrastructure keeps pace with the full integration of the Nordic-Baltic power markets which we have established. We look forward to that happening in 2015.

A challenge we relish

Our success in the future surely lies in going the extra mile in terms of ensuring customer satisfaction and in exceeding the expectations of the European power trading community.

2015 will see us firmly focused on delivering the multi-market offering that multinational businesses demand, while not neglecting our more locally-focused customers. It will be a challenge to meet the expectations of our diverse customer base – but it is a challenge which Nord Pool Spot relishes!

Management team

Erling Thiis

Chief Financial Officer
Erling is responsible for finance, HR and administration at Nord Pool Spot.

Camilla Berg

General Counsel
Camilla is responsible for all legal matters, regulatory compliance and oversees the Market Surveillance and Member Services departments.

Hans Randen

Director Business Development
Hans leads the department responsible for expansion into new markets, new business affairs and innovation.

Marianne W. Jenssen

Director Markets and Operations
Marianne heads up our department for market operations, customer satisfaction, new sales and product development.

Mikael Lundin

CEO of Nord Pool Spot.

Stina Johansen

Head of Communication
Stina leads the department responsible for corporate communications.

Chris Whellams

Director IT
Chris is head of the IT department and responsible for all IT services and software development within Nord Pool Spot.



The powerhouse of Europe

Regulatory manoeuvres to lay the ground for competition, interconnection, market coupling and multi-market exchanges are transforming the European power landscape. It already bears little resemblance to the terrain of only five years ago.

Nord Pool Spot too is in a state of constant change and development. It now has a traded volume of some 500 TWh annually, providing access to intraday and day-ahead trading. And Director of Markets and Operations, Marianne Wergeland Jensen, describes the business as “an excellent example of what, on a wider stage, Europe is trying to achieve.”

She elaborates: “We have 20 years of experience with market coupling and development of transparency. Over the years Nord Pool Spot has coupled Norway, Sweden, Denmark, and Finland, as well as three Baltic countries. We have established UK day-ahead and intraday trading and we also have intraday trading in Germany.”



Marianne Wergeland Jensen
Director of Markets and
Operations

Marianne says Nord Pool Spot’s customers see this reflected in the development of markets that offer easy access and a low threshold for entry to any company wishing to trade physical power.

“Essential to our success is the close cooperation we have with our customers and relevant stakeholders in every country. We have worked together in the developments we’ve made, with the aim of creating a devolved, well-functioning market.”

Well versed

Marianne believes Nord Pool Spot is well versed in the need to work within a heavily regulated regime. And that experience has, she adds, equipped the organisation to operate with growing pan-European regulation and to take advantage of the opportunities it brings: “I say we are experts in balancing regulation with business. We have had many, many years of having to do that.”

This is not to say that she and Nord Pool Spot view the prospect of working within the emerging European regulatory regime as easy.

“The challenge of balancing regulation with growth and profitability increases when power exchanges are expected both to cooperate on platform development and at the same time compete for customers and volume.”

Among the most significant changes in the development of the European power markets is, says Marianne, the attendant sharing of liquidity with other power exchanges. It is, however, essential that shared liquidity is implemented, with the security of equal treatment among competing power exchanges. “Regulation gives us the opportunity to grow in markets where we have not been able to have a presence earlier and to give our customers a more comprehensive offering.”

Agile steps

For the future, Nord Pool Spot is embracing innovation in various forms. “We are developing our offering through technology and new products and services to make trading, clearing and settlement easier,” says Marianne.

“Technology is a key to efficiency both for our customers and for Nord Pool Spot. The speed of technological development in society is high, and our customers expect us to follow that trend.”

Agility, in terms of the ability to adapt, is crucial: “The business-to-business environment is becoming increasingly demanding. It is important that we fully understand our clients’ business so we can streamline and personalise their experience with us.”

Growing the customer base not just in number but also in variety is a chief concern, says Marianne: “It’s important for us to welcome all types of customer, not just big ones, and that requires a low threshold to entry.”

Maintaining diversity

“Significant changes in regulation complicate the markets to the extent that some companies may consider a move back to bilateral trading rather than contributing to price formation in an open and transparent market, as they do when they trade on Nord Pool Spot’s platform,” she explains.

“We have a challenge if the small players disappear. We strive to welcome them in our market because different needs and different trading characteristics make the market tick. We will do everything we can to make sure that we are able to maintain a diversity of both buyers and sellers, small and large.”

The architects of the European Union trading regulations and environment need to be alert, says Marianne. “It is important to ensure that a diversity of market players can both afford, and are able, to trade in an open market in a way that creates and enhances transparency. This includes potential changes to well established ways of posting collateral.”

A step ahead

So with a pervading ambition to keep in step with a changing environment and one step ahead of its customers, Nord Pool Spot is channeling much of its energy into upping its services and seeking new opportunities: “We are looking for opportunities for growth and will of course make sure we service our customers in every need they may have.”

Marianne says many of Nord Pool Spot’s customers are multimarket entities. Nord Pool Spot has an opportunity to ease their load with measures “to make multimarket trading, clearing, settlement and reporting a ‘straight through’ process.”

In conclusion, she acknowledges that perception ranks close to actual delivery in a competitive market, so helping customers through difficult regulatory terrain and improving their trading experience have lasting value to Nord Pool Spot’s reputation: “We are well equipped to give customers competitive offers in trading, clearing and in our service offering.

“Our ambition is always to make sure we are a step ahead of our competitors and that our customers recognise and benefit from that.”

Pioneering a pivotal role

Nord Pool Spot is playing a pivotal role in the development of European power market regulation as is fitting for an organisation that has been a pioneering force in the development of European market coupling and physical trading.

Nord Pool Spot’s Public Affairs Manager, Michela Beltracchi, highlights the company’s groundbreaking contributions to the European power market which are now features of the bloc’s Target Model for a unified market: “Nord Pool Spot has laid down the blueprint for developing market design regulation,” she says.

Influencing outcomes

Michela is ensuring that Nord Pool Spot not only keeps abreast of developments in legislation and regulation, but influences them, to ensure the outcome is fair, transparent and workable for power exchanges and market players.

Europe is in the midst of a complex process of harmonising regulation as a core element of European power market integration.

This pan-Europe review of regulation includes the establishment of rules – network codes – that will govern the operation of a single European power market. The rules are crucial to Nord Pool Spot’s business in that they are potentially the key to opportunities for

growth in an open and competitive power exchange sector. They are also a potential source of risk.

Of the network codes in train, Capacity Allocation and Congestion Management (CACM) is the furthest progressed, as the piece of regulation that will govern the operation of day-ahead and intraday markets.

Fostering competition

Key provisions in CACM aim to foster competition among power exchanges across Europe. Under CACM, each member state must designate at least one power exchange to operate market coupling in each of its bidding zones. Each designated entity will be known as a Nominated Electricity Market Operator (Nemo).

A Nemo designated by one member state should be able, almost automatically, to perform market coupling in any other member state.

“From a regulatory standpoint, and from a short-to-medium term perspective, CACM is at the forefront of our minds, as it mandates competition among power exchanges. We welcome competition and are ready for it. But we strongly believe that the key pre-condition for it to be full and fair, is simultaneous sharing of day-ahead and intraday liquidity among power exchanges competing in the same bidding zone,” says Michela.

This access to liquidity in both timeframes, however, is not currently available. While day-ahead liquidity sharing is mandatory, the European IT infrastructure that will enable the single intraday market coupling will not be operational for a few years.

Michela explains that without intraday liquidity sharing, incumbents will maintain the upper hand against any competing power exchange seeking opportunities on their turf.

“For power exchanges to be able to compete on an equal footing in the same bidding zone today, they need to be granted access to intraday liquidity for that bidding zone before the single European coupling infrastructure goes live,” she explains.

Strong opportunities

While the current state of play is not entirely satisfactory, looked at from a competition perspective there remain strong opportunities for Nord Pool Spot arising from the regulatory changes that are defining the European power market’s future.

“We believe that there will be many opportunities for us once a level playing field is established. In our view, we are on a very strong footing to compete with other power exchanges on the basis of

the quality of the services we offer and the level of our expertise,” says Michela.

Being heard

CACM is nearing its second quarter 2015 date for adoption. But the European Network of Transmission System Operators for Electricity (ENTSO-E) points out that the “highly complex” elements of CACM and scant operational experience mean there will be more to negotiate in the months to come.

“CACM requires additional work and a series of methodologies to be jointly developed and approved by regulators after the code enters into force,” warns ENTSO-E.

Michela is confident that Nord Pool Spot’s voice is being heard in the negotiations that will fashion CACM into its final form: “We and other power exchanges made substantial input during the negotiations on CACM, and were happy to see that many of our proposed changes were included in the final text.

“We believe that despite its limitations, CACM is now a better, more workable text,” she says.

How the markets **work**

This graphic shows how power is traded in the Nord Pool Spot day-ahead and intraday markets.

DAY-AHEAD MARKET



08:00-12:00

Buyers and sellers enter their bids and offers into the trading system.



Until 10:00

Before 10:00 power transmission capacities are given by the transmission system operators to each bidding area in the market.

07:00 08:00 09:00 10:00 12:00 13:00 14:00 15:00

INTRADAY MARKET



In the intraday market - trading takes place every day around the clock until one hour before delivery. Elbas 4 gives traders a fast, real time, continuous cross-border trading system.

24 hrs



Capacities available for intraday trading all 24 hours of the following day are published.

14:00



Trades are invoiced between buyers and sellers.

14:00-15:00

Until 12:00

Buyers plan how much power they will need and sellers, how much they can provide.



12:00

Auction closes.



12:00-13:00

Based on orders and transmission capacity, prices for the Multi Regional Coupling are calculated simultaneously using the common European algorithm. Prices are calculated for each hour of the day.



12:42

Prices are announced to the market.



14:00-15:00

Trades are invoiced between buyers and sellers.

Taking **tech** forward

For Nord Pool Spot's IT team the past year has been one in which the dominant thread – guiding their development of technology, honing of products and delivering to deadlines – has been a major renewal and modernisation programme.

The year saw the completion of some huge tasks – with centre stage taken by Multi-Regional Coupling using a common day-ahead power price calculation with the Price Coupling of Regions (PCR) project, and all its subsequent challenges.

The IT group has been given a task by the wider business: to refocus its attention on Nord Pool Spot's customers. Director of IT Chris Whellams, says there has been a drive to get “back to our roots”.

“With less to divert our attention, we have shifted back to a customer-driven and more holistic approach,” he says.

Driving integration

Why had the focus shifted? Nord Pool Spot's concentration over the past few years has been largely on EU integration work, handling, and to some extent leading, projects helping to drive through European integration.

In particular, working to support the Price Coupling of Regions – aiming to couple the whole of Europe with one algorithm to calculate prices to help market integration – was a huge undertaking.

“We were working to achieve closer European power integration, which undoubtedly brought great benefits to Nord Pool Spot customers. We are proud to have played our part,” says Chris.

“But our customers don't see all the work behind the scenes. They just see a reliable daily price being produced. For our customers that's really nothing new – we've always worked to give them a trustworthy price.”

Better functioning

“PCR led us to focus on better market functioning – which is good for the whole market and for Europe. But when you're fully involved in delivering that, you have to commit all your resources,” comments Eveliina Ishii, Nord Pool Spot's Day-ahead IT Team Leader.

Nevertheless, PCR did play a significant role in the work of the IT team in 2014: “We worked with other specialists in Nord Pool Spot to implement the routines and maintain the whole product – that is ongoing,” she continues.

But last year saw the beginning of a solid push to give customers new or refreshed products: “Now our focus is directed back to pioneering innovation for our customers,” comments Chris.

An important part of that redirection has been to upgrade trading systems: “Our systems had been well maintained and seen some enhancements, but it was time for some serious innovation.”

Pioneering power markets

“For example, the user interface had been the same for too long. So last year we launched a new pro-



Chris Whellams
Director IT

gramme as part of a renewal effort for Nord Pool Spot's IT systems – a revisiting of what we offer, top to bottom – all done holistically.”

This ‘holistic’ approach meant unifying the entire IT landscape. “This was a new way of working. Previously we had simply developed products and services as and when needed,” Chris explains. Though effective, it had its downsides.

“We want our systems to talk to each other so that we don't have ‘islands’ that look and feel very different. We don't want there to be six different ways to deal with us. In a modern world that just doesn't feel right.”

This year however, the IT team has worked hard to put in place the foundations for building a new IT platform. A number of new systems will be launched as part of the larger plan. Chris likens the approach to that of Bloomberg or a modern Single Dealer Platform, with a single portal to a range of different

business offerings: “There is one experience – and it is customer-centric.”

The revamped IT is still in a developmental stage. “We are looking to reinvigorate the system around customers and their requirements. For example, we are working to implement a single sign-on solution for all systems and services that we offer, with an Extranet portal to tie it all together,” Chris explains.

Out of sight

Chris and his team embarked on this in 2014 and some of the work has already been realised.

The Nord Pool Spot website was updated in October and the IT team launched an all new intraday platform – Elbas 4 – in November.

“There were some deliveries last year. There will be more in 2015,” Chris says. “This year we will have a new HTML5-based user interface for our day-ahead

auction system. We will offer a tailored REMIT transactions reporting service. And our Extranet will be launching.”

“Also we have more involved customers,” adds Eveliina Ishii. “As a result, with the new day-ahead web application, the workflows are easier for them – more intuitive.”

In 2014 the IT team set up focus groups from 20 different companies involved as part of the innova-



Eveliina Ishii
IT Team Leader

tion drive. “They explained their problems with the current system and we have shown them new ideas.

“We are about to start member testing among our Nordic and Baltic markets. So we’ll hear from even more members. That input is incredibly valuable.”

Another important step comes with Nord Pool Spot’s IT team channelling significant effort into the introduction of new order types. In the day-ahead market these were introduced in the UK early in 2014. This is now moving into the Nordic and Baltic markets. “We are implementing a new front end that will enable the possibility of introducing new order types more easily in the future,” explains Eveliina.

Fundamental renewal

“This is a fundamental renewal of our IT systems. It’s not eye candy. It is something we don’t have today, bringing it all together under one portal. But we are not going for a big bang – we are splitting the whole thing into manageable chunks,” Chris adds.

He explains that the step-by-step plan towards unification under a single portal will prevail, but as new systems become available the team will not keep customers waiting. Elbas 4 is a perfect example.

“Elbas 4 was ready so we launched it even though we’ve not fully delivered yet against our vision. As soon as we’ve got something of the right quality we will get it to our customers.” (see box, right).

Similarly the day-ahead web application will be launched in June 2015, before the launch of the Extranet or single sign-on: “Later this year we will start bringing these platforms together.”

The overarching theme for this consolidation drive at Nord Pool Spot is one of making the operation easier to use. “Customers care not only about the service

they get, but about their overall experience. We are working towards giving them a seamless experience while at the same time improving the already excellent service we strive to provide. A one-stop shop for power trading, settlement and clearing, REMIT tasks, regulatory compliance and more – that’s the pioneering part of our vision,” Chris says.

“Expectations,” he adds, “have shifted, but we’re still asking customers to do some things the ‘old-fashioned’ way. Now we want to bring it together with one login.”

Chris accepts that customers are intolerant of poor performance, but he is emphatic that they are equally unwilling to suffer shortfalls in ‘look and feel’: “We have had criticism that we haven’t changed, that we still have the same interface we had 10 years ago and that it’s hard to work with.”

A simpler system

From its beginnings in 2014 the programme of IT renewal has reached a point where it can easily enter implementation to bring in measures that have been in development. “The fruits of our work will be seen in 2015,” promises Chris.

Alongside the changes in products and technology Eveliina, Chris and their colleagues have created a simpler system that is more centred on customers. Chris says the business is on a course to add to its offerings with REMIT reporting, API’s and value-added services all “on the roadmap”.

“It is going to take time to realise our vision - out into 2017 and beyond. But bringing what we have together will eventually make it clear that Nord Pool Spot is more than the sum of its already highly effective parts.”

A new offering

Elbas 4 is an intraday, real-time, continuous cross-border power-trading platform launched by Nord Pool Spot in November 2014.

This new offering was a “ground up rewrite” of Elbas 3 says Chris Whellams. “Its trade matcher performance is fantastic – it’s very, very fast. There have been huge improvements over Elbas 3, which hadn’t changed since the mid 2000s.” Elbas 4 has 11 countries coupled including the UK, with Elbas also provided as a service to another exchange covering the Benelux markets.

Important ambitions

The reinvention of the Elbas platform has addressed two of Nord Pool Spot’s important ambitions. The platform is now modular and can be enhanced and expanded more easily, with less downtime – which makes it a key element of Nord Pool Spot’s customer-centric shift.

Furthermore, scalability and performance feature highly among its added attributes. “All the work we have done is designed to make it easier to go to new markets,” says Chris Whellams.

Beyond Nordic

And this plays to a drive by Nord Pool Spot to end the common perception that it is principally a Nordic exchange. It aims to be recognised for the pan-European operation it already is. “Our web-based platform means we can expand relatively easily into new areas,” Chris says.

Meanwhile, new order types, says Eveliina Ishii, give members greater possibilities to offer their production and consumption to the market in a more efficient way.

DIRECTORS' & FINANCIAL REPORTS



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Directors' report 2014

Nord Pool Spot organises physical trading of power, offering day-ahead and intraday markets to its customers in all Nordic countries, the Baltic countries the UK and Germany.

Nord Pool Spot is an active contributor to the coupling of the European electricity markets and participates in the European day-ahead market coupling cooperation. Nord Pool Spot is fully committed to the fulfilment of the EU 2020/2050 strategy, including the integrated day-ahead and intraday markets.

Furthermore Nord Pool Spot offers compliance services for its customers and transmission system operators (TSOs) to adhere to European regulatory requirements such as the Regulation on Energy Market Integrity and Transparency (REMIT) and other transparency regulations. In addition Nord Pool Spot operates the market coupling of the SwePol link and is also the system provider to the intraday market in the Netherlands and Belgium.

Nord Pool Spot AS is licensed by the Norwegian Water Resources and Energy Directorate (NVE) to organise and operate a marketplace for trade in power and by the Norwegian Ministry of Petroleum and Energy to facilitate the exchange of energy between Norway and other countries.

The Nord Pool Spot Group comprises Nord Pool Spot AS, the 100% owned subsidiaries Nord Pool Spot AB, Nord Pool Finland Oy, Nord Pool Consulting AS and GB Day-Ahead Pooling Company AS.

Nord Pool Spot AS has its main office in Lysaker, subsidiaries in Helsinki and Stockholm and branch offices in London, Copenhagen and Tallinn. Nord

Pool Spot is owned by the TSOs Energinet.dk, Fingrid Oy, Statnett SF, Svenska Kraftnät, Elering, Augstsprieguma Tikls and Litgrid.

Operational highlights

2014 was another record year for Nord Pool Spot in terms of volumes traded, revenue growth and general activity levels. Underlying profit margin continues to improve. The strong numbers follow a year where Nord Pool Spot played a leading role in the launch of the North-West Europe (NWE) day-ahead price coupling. This was launched on 4 February 2014 meaning that for the first time, the NWE region, stretching from France to Finland, operates under a common day-ahead power price calculation using the Price Coupling of Regions (PCR) solution. Nord Pool Spot has been heavily involved in both projects. The cooperation between the TSOs and power exchanges – a landmark in the integration of the European power market – has proven to be a robust and well-functioning structure for European market coupling. The aim has been to increase the efficient allocation of interconnection capacities of the countries involved while optimising overall social welfare. Today the market coupling comprises 17 European countries.

In October Nord Pool Spot successfully took full control over the UK market N2EX, enabling customers to have trading, clearing and settlement with one counterparty. Full integration of the N2EX market enables Nord Pool Spot to introduce new



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Chairman
Consultant



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Member of the Board
Vice President Electricity
Market, Energinet.dk



Juha Kekkonen
Member of the Board
Executive Vice President,
Fingrid Oyj



Christina Simón
Member of the Board
Senior Advisor Commercial
Department, Svenska Kraftnät



Astrid Skjønberg Brunt
Member of the Board
General Counsel,
Statnett SF



Peep Soone
Member of the Board
Financial Manager, Elering AS



Christian Giswold
Member of the Board
Employee representative,
Nord Pool Spot



Kay From
Member of the Board
Employee representative,
Nord Pool Spot

multimarket services such as aggregation of collateral for customers trading both in our Nordic/Baltic and UK markets.

Another milestone was reached in November when Nord Pool Spot launched its new European intraday trading platform, Elbas 4, in 10 countries.

Customer Advisory Board and market surveillance

For advisory purposes, Nord Pool Spot has a Customer Advisory Board which contributes feedback and advice on the company's strategic and operational activities. The Customer Advisory Board is chaired by the CEO of Nord Pool Spot. Three meetings were held in 2014.

There is also a Regulatory Council, established in 2011, consisting of representatives from the regulators in the Nordic and Baltic countries. The council is a forum for discussing market developments and assists the national regulatory authorities in their work with transparency, integrity and governance of the market. Three meetings were held in 2014.

Nord Pool Spot's Market Surveillance team plays an important role in establishing and maintaining market confidence and integrity by having a strong and visible presence in the market. Market Surveillance continuously monitors trading activity and price formation in Nord Pool Spot's markets and conducts investigations of possible breaches of relevant regulations and our market conduct rules.

Annual accounts 2014

Group revenues in 2014 were NOK 310.1m (2013: NOK 232.6m).

Operating profit was NOK 61.9m (2013: NOK 42.1m) for the Group and NOK 64.4m for Nord Pool Spot AS (2013: NOK 38.9).

Net income amounted to NOK 45.3m (2013: NOK 33.4m) for the Group and NOK 49.3m (2013: NOK 29.5) for Nord Pool Spot AS.

By the end of 2014, total equity and liabilities for the Group was NOK 3,309m (2013: NOK 2,100m). The equity of Nord Pool Spot AS was NOK 237m as at 31 December 2014 (2013: NOK 212.4m).

The Board of Directors considers the equity to be adequate with regards to the company's exposure and collateral posted by the participants.

The annual accounts are prepared on the going concern assumption, and the Board of Directors confirms the basis for this.

No events of material significance [for the 2014 annual accounts] have occurred up to and including the signatory date of this report.

Liquidity

Group cash and cash equivalents increased from NOK 1,213m at the end of 2013 to NOK 2,789m at the end of 2014. The main reason for the change in funds is the effect on the settlement schedule of non-working days over year-end 2014 compared to 2013.

Financial risks

Market risk

Nord Pool Spot is exposed to currency risk as physical power trades are settled in multiple currencies.

The exposure is hedged using spot contracts where

settlement and VAT is hedged on a daily basis while revenues are locked in once a week.

In the UK market Nord Pool Spot also faces imbalance risk due to being a nomination agent and thus requires members to post collateral reflecting the replacement cost in the case of non-delivery or rejection of notified volumes.

Credit risk

All Nord Pool Spot trades are settled on the day of trading or following business day with invoices and credit notes being dispatched in the afternoon. Financial settlement is due one banking day after trading for net buyers and two banking days after trading for net sellers. The credit risk related to financial settlement is mitigated by holding collateral as a payment guarantee for unpaid invoices. For participants in the Nordic, Baltic and German markets the requirement is a minimum of 30 000 EUR or the equivalent to one week's worth of trading including VAT. In the UK market members have to post a minimum requirement based on their maximum expected net position or the daily collateral call reflecting delivery and settlement risk. Collateral can be posted either in the form of cash on a pledged account or as an on-demand-guarantee or letter of credit. Year-end accounts receivables amounted to NOK 359.7m (2013: NOK 778.1m) while posted collateral was in total NOK 2,362,5m (2013: NOK 1,050m). The increase in collateral is due to Nord Pool Spot becoming the central counterparty in the UK day-ahead market N2EX.

Liquidity risk

Nord Pool Spot has a solid liquidity position as invoices from physical power sold are due one banking day prior to self-billing invoices for purchased volumes.

Counterparty risk

Counterparty risk for Nord Pool Spot is regarded as low and is mitigated through members and financial counterparties being subject to an internal risk assessment prior to trading and financial exposure as well as monthly monitoring and reporting using both internal and external sources. Members have to comply with and fulfil daily security requirements while the solidity of financial intermediates is monitored using external credit ratings. There was no debt or loss registered for Nord Pool Spot in 2014, and in the case of a member default Nord Pool Spot is expected to recover all outstanding claims by calling on the member's collateral.

Risk operations

The clearing, settlement and risk management operations of the UK day-ahead market N2EX were successfully migrated from Nasdaq OMX making Nord Pool Spot owner of the complete trade life cycle from 1 October 2014.

Risk capital

The concession granted to Nord Pool Spot from the Norwegian Water and Energy Directorate (NVE), requires that the company holds a risk capital and that the size of this is reviewed regularly. The company complies with this and continuously monitors that sufficient equity is held.

Organisation and working environment

Nord Pool Spot had 96 employees based in Norway, Sweden, Finland, Denmark, the UK and Lithuania as per 31 December 2014 (of which 57 were in Nord Pool Spot AS).

Nord Pool Spot AS had 27 female employees and 30 male employees at 31 December. There are female employees at all Nord Pool Spot offices.

Nord Pool Spot's Board of Directors consists of four women and four men. The Chairman of the Board

is male. The corporate management team consists of three women and four men.

Health related absence during the year was 1.18%. No lost-time accidents or personal injuries were suffered in 2014.

Nord Pool Spot's human resources policy is based on equality, meaning that there shall be no differences between male and female salary when the expertise and experience are comparable.

The wage level in Nord Pool Spot AS for 2014 shows that the annual pay of male employees was on average 3% higher than that of the company's female staff.

The company encourages employees of both genders to establish solutions which make it easier to combine work and family life. There was one employee on maternity/paternity leave on 31 December 2014, and the company had no employees working part time at the end of the year.

Allocation of profit

Out of Nord Pool Spot AS's net profit of NOK 49.3m for the year, the Board proposes a dividend of NOK 24.6m and recommends transferring NOK 24.6m to other equity.

Outlook for 2015

In line with the emergence of a new landscape for European cross-border intraday trading, Nord Pool Spot launched its new intraday platform in the autumn of 2014 in order to meet the market requirements of tomorrow. In a world with shorter products, increased renewables production and round-the-clock-trading, Nord Pool Spot is delighted to offer its members state-of-the-art technology and functionality.

Nord Pool Spot is actively preparing for the introduction of the new Capacity Allocation and

Congestion Management framework (CACM), which is expected to come into force in 2015. It is expected that industry dynamics will be profoundly impacted by this, opening up for opportunities and challenges Nord Pool Spot is well prepared to take on.

As the power exchange business is becoming increasingly IT-based, Nord Pool Spot has been preparing for new challenges and business opportunities by building a solid IT hub in Helsinki, Finland. The department is organised and staffed both to secure

robust and reliable day-to-day operations, as well as to develop future industry-leading systems and functionality.

Nord Pool Spot is committed to the continued pioneering of European power markets, and to driving innovation for the benefit of all customers and stakeholders.

The positive developments from last year continue into 2014 and the year is expected to give a reasonable return on invested capital.

Lysaker, 24 March, 2015

Nils Nygren
Chairman

Søren Dupont Kristensen
Member of the Board

Juha Kekkonen
Member of the Board

Christina Simón
Member of the Board

Astrid S. Brunt
Member of the Board

Peep Soone
Member of the Board

Christian Giswold
Member of the Board

Kay From
Member of the Board

Mikael Lundin
CEO

Profit and loss account

	NORD POOL SPOT AS		NORD POOL SPOT GROUP	
Amounts in NOK 1000	2014	2013	2014	2013
Fixed fee revenues	34 068	23 415	34 069	23 415
Volume dependent fees	179 624	157 939	179 624	157 939
Other operating income	87 825	48 892	96 398	51 215
Total operating income	301 517	230 246	310 091	232 569
Depreciation	12 556	9 727	16 857	11 640
Payroll expenses	60 714	53 468	87 452	76 932
Other operating expenses	163 824	128 130	143 898	101 868
Total operating expenses	237 094	191 325	248 207	190 440
Operating profit	64 423	38 921	61 884	42 129
Net financial items	3 464	5 972	2 263	7 476
Profit before taxes	67 887	44 893	64 147	49 605
Taxes	18 611	15 433	18 791	16 227
Net income	49 276	29 460	45 356	33 378
Allocated to:				
Dividend	24 638	14 730		
Allocated to/from other equity	24 638	14 730		

Balance sheet

Amounts in NOK 1000	NORD POOL SPOT AS		NORD POOL SPOT GROUP	
	31 12 2014	31 12 2013	31 12 2014	31 12 2013
ASSETS				
FIXED ASSETS				
Intangibles				
Intangible assets	12 720	21 944	20 680	32 013
Deferred tax benefit	1 564	1 376	1 564	1 376
Total intangible	14 284	23 320	22 244	33 389
Tangible fixed assets	1 849	3 268	3 145	4 228
Financial assets				
Investment in subsidiaries	28 827	17 857	0	0
Investment in associated companies and joint ventures	924	924	2 521	2 413
Loan to associated company	0	838	0	838
Total financial assets	29 751	19 619	2 521	3 251
Total fixed assets	45 884	46 207	27 910	40 868
CURRENT ASSETS				
Receivables				
Accounts receivables	351 977	777 950	359 166	778 106
Other receivables	127 418	64 955	131 527	66 825
Group receivables	1 111	733	0	0
Derivatives	987	684	987	684
Total receivables	481 493	844 322	491 680	845 615
Bank deposits	2 767 986	1 204 074	2 788 841	1 213 543
Total current assets	3 249 479	2 048 396	3 280 521	2 059 158
Total assets	3 295 363	2 094 603	3 308 431	2 100 026

Balance

Amounts in NOK 1000	NORD POOL SPOT AS		NORD POOL SPOT GROUP	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
EQUITY AND LIABILITIES				
EQUITY				
Paid-in-equity				
Share capital	53 613	53 613	53 613	53 613
Share premium	51 300	51 300	51 300	51 300
Total paid-in-equity	104 913	104 913	104 913	104 913
Retained earnings				
Other equity	132 166	107 528	124 945	104 724
Total retained earnings	132 166	107 528	124 945	104 724
Total equity	237 079	212 441	229 858	209 637
LIABILITIES				
Provisions for liabilities				
Pension liabilities	5 151	4 954	5 151	4 954
Total provisions for liabilities	5 151	4 954	5 151	4 954
Current liabilities				
Accounts payable	2 942 437	1 806 813	2 950 075	1 807 440
Taxes payable	18 799	15 446	18 987	16 115
Public duties	3 401	3 110	5 033	4 256
Dividend	24 638	14 730	24 638	14 730
Other current liabilities	63 858	37 109	74 689	42 894
Total current liabilities	3 053 133	1 877 208	3 073 422	1 885 435
Total liabilities	3 058 284	1 882 162	3 078 573	1 890 389
Total equity and liabilities	3 295 363	2 094 603	3 308 431	2 100 026

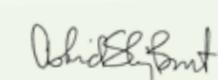
Lysaker 24 March 2015


Nils Nygren
Chairman


Søren Dupont Kristensen
Member of the Board


Juha Kekkonen
Member of the Board


Christina Simón
Member of the Board


Astrid S. Brunt
Member of the Board


Peep Soone
Member of the Board


Christian Giswold
Member of the Board


Kay From
Member of the Board


Mikael Lundin
CEO

Accounting principles

The annual accounts have been prepared in accordance with the Norwegian Accounting Act of 1998 and generally accepted accounting principles.

Consolidation principles

The Group accounts include the parent company, Nord Pool Spot AS, and the subsidiaries Nord Pool Finland Oy, Nord Pool Spot AB, Nord Pool Consulting AS and GB Day-Ahead Pooling Company AS.

The Group accounts have been prepared as if the Group were a single financial entity. Intercompany transactions and balances have been eliminated. The Group accounts have been prepared on the basis of similar principles, the subsidiary applying the same accounting principles as the parent company.

A purchased subsidiary is recorded in the Group accounts based on the parent company's acquisition cost. The acquisition cost is based on identifiable assets and liabilities of the subsidiary, which are recorded in the Group accounts at market value at the time of purchase. If the acquisition price exceeds (or is less than) amounts attributable to identifiable assets and liabilities, the excess is recorded in the balance sheet as goodwill (or negative goodwill) and amortized on a straight-line basis over the expected useful lives of the purchased assets.

Associated companies are valued in the Group accounts in accordance with the equity method. The allocated proportion of the profit of the associated company is based on the after tax results of the associated company, after deducting any internal gains and any depreciation on any excess value caused by a higher acquisition price of the

shares than the acquired part of equity recorded in the balance sheet. The allocated proportion of the profits is recorded in the profit and loss accounts as "Income from associated companies".

The exchange rate of 31 December has been applied for consolidation of branch accounts in local currencies.

Subsidiary

The company's subsidiary is valued according to the cost method in the company accounts. Investments are valued at acquisition cost for the shares unless a write-down has been necessary. Investments are written down to market value if the decline in value is viewed as non-transitory in nature and it is deemed necessary according to generally accepted accounting principles. Write-downs are reversed if the conditions for the write-down are no longer present.

Joint Venture

With a Joint Venture enterprise the definition is that this is a Group company who together with one or more companies, together controls the enterprise.

A part of assets, liabilities, revenues and expenses in the Joint Venture are consolidated based on the gross method according to the preliminary Norwegian standard on participating in a Joint Venture enterprise.

Power turnover

Purchases and sales of electrical power and gas are settled at the same price. Consequently, the monetary value of trading has no effect on the profit level of the Nord Pool Spot Group.

Income from fees

The income base of the Nord Pool Spot Group consists of:

- annual fees
- volume-dependent fees
- FX fees

Volumes fees in the physical market relate to power traded (MWh) and are invoiced together with the power following delivery. FX fees were introduced in 2011 and apply for customers buying or selling electricity in other currencies than EUR. It is calculated as a % of invoice value.

Classification and valuation of balance sheet items

Current assets and short-term liabilities include items that fall due within one year of the acquisition date. Other items are classified as fixed assets/long-term liabilities.

Current assets are valued at the lower of acquisition cost and market value. Short-term liabilities are recorded in the balance sheet at face value at the time of recording.

Fixed assets are recorded at acquisition cost, but are written down to market value in the event of a decline in value, which cannot be expected to be transitory in nature. Long-term liabilities are recorded in the balance sheet at face value at the time of assuming such liabilities.

Receivables

Accounts receivable and other receivables are recorded in the balance sheet at face value after provision

for bad debts. Provisions for bad debts are based on an assessment of individual accounts. In addition, a general provision for bad debts is made covering assumed losses for other accounts receivable.

Foreign currency

Accounts receivable and accounts payable in foreign currencies are valued at the year-end exchange rate on 31 December 2014.

Financial instruments

Nord Pool Spot uses financial instruments to manage foreign exchange exposure. Spot exchange contracts are used solely to hedge currency exposures incurred in connection with the settlement of physical trading. Gains and losses on spot exchange contracts are reported and evaluated in tandem with the hedged item. Gains and losses on hedging instruments rolled over prior to their expiry are recognised in the balance sheet and income statement over time along with the hedged item. Financial derivatives are booked at market value.

Tangible fixed assets

Tangible fixed assets are recorded in the balance sheet and linearly depreciated over the expected useful lives of the assets. Direct maintenance costs related to tangible fixed assets are currently expensed as operating expenses, whereas upgrades and improvements are added to the cost base of the operating assets and depreciated at the same rate as the assets to which they refer.

Intangible assets

Intangible assets are recorded in the balance sheet to the extent a future financial benefit relating to the

intangible asset can be identified. If such benefits cannot be identified, the expenses are recorded as costs on a current basis.

Pension costs and liabilities

The Group has a contribution-based pension plan for all employees, where the current year's pension costs correspond to the current year's premium payment.

Net pension costs for the year are included as a salary expense in the profit and loss account. Premiums paid are treated as investments in pension funds.

Nord Pool Spot AS has in addition a defined benefit pension plans which provide the employees with the right to defined future pension benefits (defined benefit plans). Benefits are based on the number of years of employment and salary at retirement age. This plan covers two former employees.

Contributions to the pension fund are made in accordance with the actuarial method of calculation. Pension assets in the pension fund are primarily invested in securities. Pension liabilities are calculated in accordance with the Norwegian accounting standard (NRS) for pension costs.

Pension obligations are valued at the present value of future pension liabilities earned as at the balance sheet date, which are to be paid through the company's own pension fund or financed by operations.

Taxes

Tax expenses in the profit and loss account consist of tax payable for the period and changes in deferred tax. Deferred tax is calculated on the basis of the temporary differences between accounting and tax values, as well as the tax deficit at the end of the year to be carried forward. Tax-increasing and tax-decreasing temporary differences, which are reversed or reversible in the same period, have been eliminated. Any net

deferred tax benefits are recorded in the balance sheet to the extent they are expected to be utilized.

As of 31 December 2014, net negative temporary differences between accounting and tax values have been recorded by the Group. The associated deferred tax benefit is recorded in the balance sheet under assets.



Together
With integrity
Towards excellence

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