

FINGRID
ANNUAL REPORT 2020

Report of the board of directors



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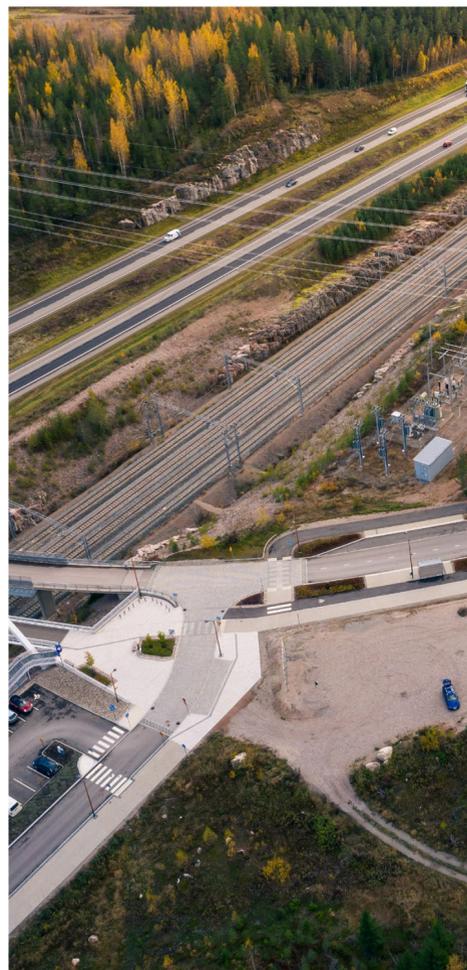
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Best-ever transmission reliability rate of the main grid.

OPERATIONS, P. 6



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1. FINANCIAL RESULT AND FINANCING

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Fingrid's consolidated financial statements have been drawn up in accordance with the International Financial Reporting Standards (IFRS). Unless otherwise indicated, the figures in parentheses refer to the same period of the previous year.

Fingrid's consolidated financial statements have been drawn up in accordance with the same accounting principles as in 2019.

The Group's turnover was EUR 682.5 (789.4) million. Grid service income decreased to EUR 373.6 (385.0) million, due to the low energy consumption during the unseasonably warm winter months. Electricity consumption in Finland totalled 80.9 (86.1) terawatt hours during the year. Imbalance power sales also decreased year-on-year, to EUR 260.8 (346.7) million, due to the low electricity prices. Cross-border transmission income from the connection between Finland and Russia decreased, to EUR 6.9 (11.6) million, due to a lower transmission volume, affected by the low area price compared with north-western Russia. As a result of the transmission situation in the Baltic Sea region, ITC income increased to EUR 17.1 (14.4) million. Other operating income declined to EUR 2.4 (4.2) million.

The Group's total costs amounted to EUR 569.3 (651.6) million. Imbalance power costs decreased, due to low electricity prices, and totalled EUR 234.4 (323.5) million. Loss power costs amounted to EUR 52.6 (53.9) million. The volume of loss power grew slightly, while the price of loss power procurement decreased. The realised average price of loss power procurement was EUR 38.03 (39.57) per megawatt hour. The cost of reserves to safeguard the transmission system security increased to EUR 63.5 (55.9) million, mainly due to the increased hours procured for frequency restoration reserves (FRR). Depreciation amounted to EUR 98.5 (97.8) million and grid maintenance costs to EUR 23.6 (21.6) million. Personnel costs increased to EUR 31.2 (26.4) million because of the higher headcount in response to a growing workload, both domestically and in international cooperation.

The Group's operating profit was EUR 118.4 (115.5) million. To recognise changes in the fair value of electricity derivatives and the currency derivatives related to capital expenditure and other operating expenses, EUR 3.0 (-26.6) million was recorded in operating profit. The Group's profit before taxes was EUR 113.3 (105.8)

Turnover and other operating income, € million

	Jan-Dec/20	Jan-Dec/19	July-Dec/20	July-Dec/19
Grid service revenue	373.6	385.0	173.7	175.7
Sales of imbalance power	260.8	346.7	139.9	171.6
Cross-border transmission income	6.9	11.6	5.4	6.2
Peak load capacity income*	12.9	14.1	3.6	4.8
ITC income	17.1	14.4	9.0	7.6
Other turnover	11.1	17.4	7.5	8.3
Other operating income	2.4	4.2	1.9	3.6
Turnover and other income total	684.8	793.6	341.0	377.7

Costs, € million

	Jan-Dec/20	Jan-Dec/19	July-Dec/20	July-Dec/19
Purchase of imbalance power	234.4	323.5	128.2	160.9
Loss power costs	52.6	53.9	28.1	28.2
Depreciation	98.5	97.8	49.4	49.1
Cost of reserves	63.5	55.9	30.1	29.3
Personnel costs	31.2	26.4	14.9	10.4
Grid maintenance costs	23.6	21.6	12.9	13.8
Cost of peak load capacity*	12.6	13.7	3.5	4.4
ITC charges	10.8	15.0	6.1	7.3
Other costs	42.1	43.8	23.2	21.4
Costs total	569.3	651.6	296.3	324.7
Operating profit excluding the change in the fair value of commodity derivatives	115.4	142.1	44.5	53.1
Operating profit of Group, IFRS	118.4	115.5	63.2	48.7

* Peak load capacity income and costs are related to the securing of sufficient electricity supply during peak consumption hours in compliance with the Finnish Peak Load Capacity Act.

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million. Profit for the financial year was EUR 94.0 (84.6) million. The equity ratio was 27.4 (32.0) per cent at the end of the year.

Fingrid's total capital expenditure in 2020 amounted to EUR169.7 (126.9) million. This included a total of EUR 137.3 (103.4) million invested in the transmission grid and EUR 9.6 (5.5) million for reserve power. ICT investments amounted to EUR 21.1 (17.0) million. The costliest single ICT investment was the centralised information exchange system for electricity retail markets, datahub, which the company is currently building. A total of EUR 4.5 (3.4) million was used for R&D projects during the year under review.

The parent company's turnover was EUR 679.8 (786.2) million, profit for the financial year EUR 136.0 (148.1) million and distributable funds EUR 186.8 million.

Based on the company's own calculations, the return according to the regulatory model that governs grid operations amounts to a deficit of around EUR 30 million for 2020. The size of the deficit was also positively affected by cost efficiency and quality incentives. The Energy Authority has confirmed a cumulative deficit of EUR 28.4 million for the previ-

ous regulatory period, 2016–2019.

Fingrid's credit rating remained high, reflecting the company's strong overall financial situation and debt service capacity. The Group's net financial costs were EUR 4.0 (10.1) million, including EUR 0.7 million in interest expenses on the lease liabilities booked into the balance sheet. The Group's net interest expenses on loans during the year totalled EUR 13.3 (14.7) million. The change in the fair value of financial derivatives was EUR 3.8 million positive (EUR 8.1 million positive). The Group's finance income was increased during the review period by an EUR 8.4 million dividend attributable to the sale of the Nord Pool shares.

Interest-bearing borrowings totalled EUR 1,174.9 (1,120.0) million, of which non-current borrowings accounted for EUR 1,032.8 (884.7) million and current borrowings for EUR 142.1 (235.3) million. At the end of the year, the company's interest-bearing borrowings included a total of EUR 31.2 million in lease liabilities, consisting of EUR 2.3 million in short-term liabilities, to be paid within a year.

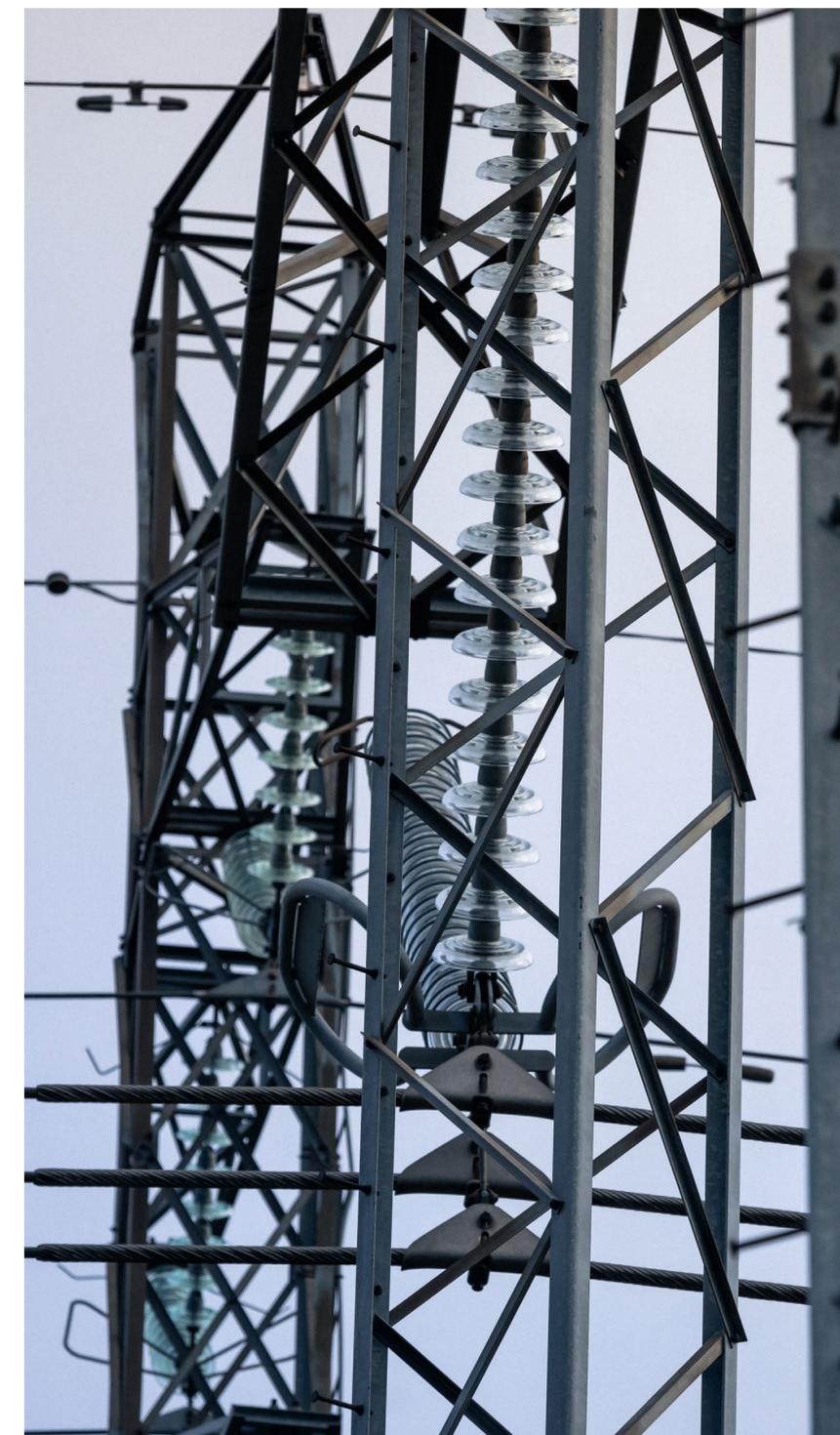
The company's liquidity remained good. Cash and cash equivalents and other financial assets totalled EUR 125.9 (82.8) million. The company additionally has

an undrawn committed revolving credit facility of EUR 300 million to secure liquidity (until 11 December 2022) and a total of EUR 225 million in committed and uncommitted bilateral facility arrangements with banks.

The counterparty risk arising from derivative contracts relating to financing was EUR 26.2 (22.4) million. Fingrid's foreign exchange and commodity price risks were hedged.

Fingrid has credit rating service agreements with S&P Global Ratings (S&P) and Fitch Ratings (Fitch). The credit ratings valid on 31 December 2020 remained high and were as follows:

- S&P's rating for Fingrid's unsecured senior debt and long-term company rating at 'AA-' and the short-term company rating at 'A-1+', with a stable outlook.
- Fitch's rating for Fingrid's unsecured senior debt at 'A+', the long-term company rating at 'A', and 'F1' for the short-term company rating, with a stable outlook.



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2. OPERATIONS

STRATEGY

Fingrid Oyj is Finland's transmission system operator, owned by the State of Finland and Finnish pension and insurance companies. Fingrid's mission is to secure a reliable supply of electricity for our customers and entire society cost effectively in all circumstances, and to help shape the clean, market-oriented power system of the future.

Fingrid's operations are based on Finnish and EU legislation. The Finnish Electricity Market Act requires us to develop the main grid, maintain a balance between electricity consumption and generation, and improve the preconditions for a well-functioning electricity market. The EU Electricity Regulation obligates cooperation within ENTSO-E, the European Network of Transmission System Operators of Electricity, and also regionally within the Baltic Sea region, to promote the functioning of the internal market in electricity. Fingrid participates in the drawing up and implementation of the market, operating and connection codes and the proposals prescribed in them. Fingrid's operations are supervised and regulated by the Energy Authority, which has granted the company a licence for transmission grid operations.

The business model describes the most important material and immaterial re-

sources at the company's disposal that are necessary for operational processes. The impact of Fingrid's operations and the significant added value they generate show in various ways throughout Finnish society. The operational model is described in the business review and on Fingrid website.

Vision:

Fingrid's vision is to be an exemplary transmission system operator and a highly esteemed energy influencer.

Values:

Our values guide the work of our professional community and lay a solid foundation for our corporate culture. Fingrid is open, fair, efficient and responsible in all our operations.

Way of working:

Fingrid's corporate culture is open, collaborative and renewing, and complies with good governance practices. The company is well known for expertise. Operations are developed for the long term and in cooperation with our customers and other stakeholders. Everyone is treated impartially and with respect. Fingrid achieves the bold and ambitious goals set for our operations. High quality and efficiency are achieved by combining our core expertise with that of the best players in the world. Fingrid operates re-

sponsibly, effectively and openly, and in this way earns the trust of customers and stakeholders.

Fingrid's strategy is implemented through four perspectives: Customers & Society, Finance, Internal Processes, and Personnel & Expertise. According to the approach chosen by Fingrid for implementing its strategy, all four perspectives are equal and are implemented and developed in a mutually balanced way. The strategic perspectives play a key role in the day-to-day management of the company.

Fingrid is a specialist organisation in which the objective of the Personnel & Expertise perspective is to maintain and develop an open, social, renewing and high-performing work community.

- > Our mission: to ensure reliable supply of electricity in all circumstances and to shape a clean power system.



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The perspective of Internal Processes consists of the company's three operational processes:

- Ensuring transmission capacity: investments and maintenance tasks are carried out safely and efficiently at the right time.
- System security management: the main grid is operated proactively and reliably such that the power system maintains its balance at all times.
- Promoting the electricity market: the electricity market is maintained and developed actively.

The objective of the Finance perspective is to operate cost-effectively, to enable affordable service pricing, and create value for shareholders.

In terms of customers and society, the company aims to provide a secure supply of electricity and a well-functioning electricity market from society's point of view, and meets the customers' needs with adequate services and affordable prices.

Fingrid has made the following strategic choices:

Focusing on the core mission

- Fingrid excels in accomplishing its core mission in a changing operating environment. The company does not aim to

expand into new businesses or to participate in competitive business.

Customer focus

- Fingrid develops its business operations and operating models actively, focusing on customers, and mindful of society's interests as a whole.

World-class efficiency

- Fingrid innovatively utilises the best technologies and opportunities enabled by digitalisation. The necessary core competencies are maintained in-house. Fingrid cooperates with the best partners.

Market focus

- Fingrid applies a market-oriented approach in all areas because we believe that well-functioning markets will produce the best and most innovative solutions.

Openness to integration

- Fingrid actively fosters the integration of the electricity markets in Europe and the Baltic Sea region, while always being mindful of Finland's national interests.

Security and responsibility

- Fingrid secures the existing good level of system security in a power system under transformation. Corporate responsibility and safety are highlighted in all activities.

CUSTOMERS

Fingrid provides grid services and electricity market services to its customers: utility companies, electricity-consuming industry and electricity market operators. Fingrid's operations are largely based on fulfilling statutory duties, and they are conducted with a maximum customer focus, impartially and on equal terms.

Grid services secure reliable transmission of electricity in the main grid in accordance with the needs of utility companies and energy intensive industry. The transmission reliability rate broke the all-time record in 2020. Significant quantities of wind power capacity are currently under planning and construction. We received around 160 enquiries about connecting to the main grid, totalling tens of thousands of megawatts in capacity. The connection agreements signed during the year enable the grid connection of roughly 1,800 MW of new wind power capacity. We also received inquiries about the grid connection of new types of consumption.

Fingrid's electricity market services provide the electricity market operators with a unified price area for wholesale electricity trading in Finland as well as the benefits of the open European electricity markets. In 2020, the full cross-border transmission capacity was utilised for Finland's electricity imports from Sweden. The transmis-

sion capacity did not meet the needs of the market, but our cross-border connections functioned very well.

According to a study carried out by the European Network of Transmission System Operators for Electricity (ENTSO-E) in 2019, the transmission tariffs for electricity in the Finnish transmission system are the third lowest in Europe, when compared with transmission grids of a similar size. The comparison included 36 countries. In 2021, the grid service fees will be maintained at the previous year's level.

According to the customer satisfaction survey conducted in autumn 2020, the customers' trust in Fingrid remains strong and our work for the benefit of society at large is considered a particular strength. More than half of the customers felt that the company's operations had improved during the past year. According to the survey, customers perceive Fingrid as an open and cooperative player who works for the benefit of the whole of society and treats its customers impartially. Our customers gave us a Net Promoter Score (NPS) of 45, a good result for a natural monopoly in a business-to-business industry.

Work on the online service portal, "My Fingrid", continued as a part of overall customer service development. In the

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portal, customers can view various metrics such as transmission metering, invoicing, reactive power, and disturbance and unavailability data.

Two major Fingrid Current customer events and several info sessions and webinars targeted at smaller audiences were arranged in 2020.

MAIN GRID

In this decade, Fingrid will invest two billion euros in Finnish grid networks and substations. The main grid must be reinforced because achieving the goal of a climate neutral Finland by 2035 requires a significant increase in emission-free electricity production and consumption. Wind power connections have in particular increased the need for investments.

We are working on a grid vision, aimed to create an understanding of the development needs in the main transmission grid (400 kV and 220 kV) and proposed solutions for the long term.

Roughly 10 kilometres of new transmission lines were completed and 570 kilometres were under construction. 250 kilometres of transmission lines were under general planning. Fingrid's ongoing major electricity transmission projects included the construction of a transmission line from Oulu to Petäjävesi, the so-called 'Forest Line'.

The construction of a third AC connection to Sweden is under preparation to boost the functioning of international electricity markets. Another project currently in the planning phase is the upgrading of the Oulu–Lappeenranta connection, or 'Lake Line'.

Twelve new or expanded substations were completed and 22 were under construction:

- New wind power generation with a total capacity of roughly 4,000 megawatts are planned in the area between Kristinestad, Vaasa and Seinäjoki. Haapajärvi and the neighbouring municipalities, in central Finland, are planning new wind power projects totalling more than 1,000 megawatts. Fingrid made investment decisions to build a substation at Pysäysperä in the municipality of Haapajärvi and another substation at Kärppiö in the municipality of Teuva. The total capital expenditure will be roughly EUR 55 million. The planned commissioning dates for the substations are in the summer of 2022.
- A 400/110-kilovolt substation will be modernised at Tammisto in Vantaa. The investment will improve the system security of electricity supply in the Helsinki region. The Tammisto substation is one of the stations supplying electricity to the capital region and a key node of the main grid. The new substa-



- tion will be commissioned in late 2022.
- The 110-kilovolt Luukkala substation in Lappeenranta, which plays an important role for electricity transmission in the South Karelia and Lappeenranta area, will be modernised. The station is the starting point of several grid ring connections and also supplies the city of Lappeenranta as well as local industries with electricity. The project will be completed in the autumn of 2023.
- The Jylkkä substation, located in Kalajoki, will be expanded and fitted out with a third transformer, making the substation Finland's most important connection point for wind energy. The project will be completed during 2022.

- During the period under review, investment decisions were made concerning the refurbishments of the substation located in Kangasala and the Isohaara substation located in Keminmaa.
- A 400/110-kilovolt substation system will be expanded and modernised in Alajärvi. New wind power projects amounting to roughly 2000 megawatts is currently under construction or planning in the vicinity of Alajärvi. The interconnections for the new capacity require upgrades in the main grid. The project is due for completion in 2023.
- The 220/110-kilovolt Kellarijänkä substation is under construction in Kemi-järvi to prepare for future wind power

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interconnections. The new substation will also promote the development of distribution networks and improve system security in the area. It will also enable the interconnection of a new biorefinery project under planning in the area. The project will be completed during 2023.

Fingrid owns ten reserve power plants with a constant start-up readiness of 15 minutes. In 2020, we completed a refurbishment project at the Vanaja reserve power plant, which included replacing components such as the fuel oil and extinguishing systems. The main objective of the upgrade was improving environmental and fire safety.

Fingrid carried out aerial photography of all the transmission lines during the summer of 2020. This means approximately 12,000 kilometres of power lines, making it the most extensive imaging project of Finland's grid system ever completed. The aerial photography will bring the documentation of the grid up to date, while also helping to assess the condition of the grid and enable planning of future maintenance work.

Despite the coronavirus pandemic, Fingrid's investments and maintenance work proceeded according to planned schedules and budgets.

Fingrid scored top results in ITOMS (The International Transmission Operations & Maintenance Study) and was the only TSO to achieve a Top Performer nomination both in the transmission line and substation maintenance categories. ITOMS looks into the effectiveness of maintenance based on criteria such as maintenance costs and disturbance statistics.

POWER SYSTEM

Electricity consumption in Finland amounted to 80.9 (86.1) terawatt hours in 2020. Fingrid transmitted a total of 68.4 (68.7) terawatt hours of electricity in its grid, representing 77.9 (76.0) per cent of the total electricity transmission in Finland (consumption and inter-TSO).

The imported and domestic production capacity was sufficient to meet the peak demand of the year. The electricity consumption peaked at 12,388 (14,542) MWh/h on Friday 28 February between 8 and 9 a.m., with Finland's electricity production contributing 9,849 MWh/h and the remaining 2,539 MWh/h being imported. The area price of electricity on the day-ahead market in Finland was €46.98/MWh during the peak consumption hour.

The water resources in the Nordic countries were at a good level, which led to lower year-on-year wholesale electrici-

ty prices. The electricity transmitted between Finland and Sweden mostly consisted of large imports from Sweden to Finland. In 2020, 18.8 (16.3) terawatt hours of electricity was imported from Sweden to Finland, and 0.3 (0.5) terawatt hours was exported from Finland to Sweden. The electricity transmissions between Finland and Estonia were dominated by exports from Finland to Estonia, totalling 6.6 (3.8) terawatt hours. Electricity transmission from Russia to Finland amounted to 3.0 (7.6) terawatt hours. In contrast to the previous year, electricity was also exported from Finland to Russia on a few occasions. In 2020, 0.3 (0.2) terawatt hours of electricity was imported from Norway to Finland.

The transmission reliability rate of the main grid was the best ever in 2020, at 99.99995% (99.9998%). An outage in a connection point in the grid caused by a disturbance in Fingrid's electricity network lasted an average of 0.5 (4.3) minutes. The calculated cost of the disturbances (regulatory outage costs) to consumer cus-

tomers was EUR 0.9 (2.7) million. If rapid reclosures are included, the cost of disturbances amounts to EUR 3.2 million.

The availability and reliability of Fingrid's HVDC transmission links remained very high. Disturbance-clearing and fault elimination measures were highly successful, and the connections were quickly restored and made available to the market.

The volume of transmission losses in the main grid increased somewhat from the level of the previous year, amounting to 1.5 (1.3) terawatt hours. This was 1.8 (1.5) per cent of the total volume of transmitted electricity. The annual variation of losses is affected by the Nordic electricity production situation, such as the volume of hydropower. Losses have been minimised by keeping the voltage of the transmission grid as high as possible and by making grid investments and equipment procurements that promote energy efficiency.

Counter trade	Jan-Dec/20	Jan-Dec/19	July-Dec/20	July-Dec/19
Counter-trade between Finland and Sweden, €M	0.1	0.1	0.0	0.0
Counter-trade between Finland and Estonia, €M	0.2	0.5	0.1	0.1
Counter-trade between Finland's internal connections, €M	0.4	0.3	0.3	0.2
Total counter-trade, €M	0.7	0.9	0.4	0.4

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Power system operation	Jan-Dec/20	Jan-Dec/19	July-Dec/20	July-Dec/19
Electricity consumption in Finland TWh	80.9	86.1	39.2	41.5
Inter TSO transmission in Finland, TWh	7.0	4.4	3.5	2.3
Transmission within Finland, TWh	87.8	90.5	42.7	43.7
Fingrid's transmission volume TWh	68.4	68.7	34.2	34.0
Fingrid's electricity transmission to customers, TWh	61.3	64.2	30.6	31.7
Fingrid's loss power volume TWh	1.5	1.3	0.8	0.7
Electricity transmission Finland - Sweden				
Exports to Sweden TWh	0.3	0.5	0.2	0.1
Imports from Sweden TWh	18.8	16.3	9.5	9.2
Electricity transmission Finland - Estonia				
Exports to Estonia TWh	6.6	3.8	3.3	2.1
Imports from Estonia TWh	0.0	0.3	0.0	0.1
Electricity transmission Finland-Norway				
Exports to Norway TWh	0.0	0.1	0.0	0.0
Imports from Norway TWh	0.3	0.2	0.2	0.2
Electricity transmission Finland - Russia				
Imports from Russia TWh	3.0	7.6	1.8	3.4

ELECTRICITY MARKET

The average market price of spot electricity on the power exchange (Nordic system price) was EUR10.93 (38.94) per megawatt hour. The wholesale area prices on the Nordic and European electricity markets were the lowest in market history. The price differences between price areas were significant, both among the Nordic price areas and on the Central European markets. The price decrease in the Nordic market area was primarily caused by extremely high hydropower production volumes and warm weather. The day-ahead market prices fell to negative figures several times in the Nordic countries. The impact of the coronavirus pandemic on the production and con-

sumption of electricity and on the electricity market was fairly insignificant in the Nordic market area.

Large quantities of electricity were imported to Finland, based on market incentives, throughout the year under review. Finland has been dependent on imported electricity, as the domestic production capacity does not meet the demand. The area prices in Finland and Sweden diverged in situations where the transmission capacity between the countries was insufficient to meet the demand. Our cross-border connections functioned very well, however, and we succeeded in making all the existing capacity available to the markets.

Electricity market	Jan-Dec/20	Jan-Dec/19	July-Dec/20	July-Dec/19
Nordic system price, average €/MWh	10.93	38.94	11.32	36.70
Area price Finland, average €/MWh	28.02	44.04	32.76	45.63
Congestion income between Finland and Sweden, € million*	245.4	131.0	141.4	101.0
Congestion hours between Finland and Sweden %**	62.8	40.1	63.8	54.4
Congestion income between Finland and Estonia, € million*	48.1	15.0	27.4	4.0
Congestion hours between Finland and Estonia %	32.9	11.8	32.0	10.4

* The congestion income between Finland and Sweden and between Finland and Estonia is divided equally between the relevant TSOs. The income and costs of the transmission connections are presented in the tables under 'Financial result'. Congestion income is used for investments aimed at eliminating the cause of congestion.

** The calculation of a congestion hour between Finland and Sweden refers to an hour during which Finland's day-ahead area price differs from Sweden's SE1 or SE3 area price.

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Fingrid's congestion income from cross-border transmission lines totalled EUR 146.7 (73.0) million, of which the cross-border transmission lines between Finland and Sweden accounted for EUR 122.7 (65.5) million. The links between Finland and Estonia generated EUR 24.0 (7.5) million in congestion income. A total of EUR 219.1 million in congestion income remained unused at the end of 2020 and will be used, in accordance with the regulatory guidance, for the Forest Line connection currently under construction and other grid investments that will improve the functioning of the electricity market.

To increase the cross-border transmission capacity between Finland and Sweden, a third AC connection to Sweden is currently being prepared, in cooperation with the Swedish TSO. The increased transmission capacity will help to decrease the price disparities between the countries. The transmission link is due for completion in 2025. The Forest Line connection currently under construction will substantially increase the North–South transmission capacity necessary for the Finnish power system and help to keep Finland as a single price area in electricity trading. The project is due for completion in 2022.

Competitive trading between the Nordic power exchanges started in June 2020. The competition between power exchanges will increase the number of alternative trading services available to electricity market operators. The competition makes it possible for more than one Nominated Electricity Market Operator to connect with the European market coupling on the day-ahead market in the Nordic price areas.

Fingrid has several ongoing projects for developing the electricity market:

- The Nordic Balancing Model and the related project to implement a 15-minute imbalance settlement period (ISP) will revamp the Nordic balancing power and reserve power marketplaces, modify the balancing model and adopt the 15-min ISP.
- A new methodology of transmission capacity calculation will be adopted in the Nordic countries to improve the capacity allocation for the market. RSC, the Nordic TSOs' joint operational planning office in Copenhagen, will procure the necessary new calculation software.
- A centralised information exchange platform for the retail market of elec-

tricity, datahub, is scheduled to go live in February 2022. The datahub will contain data from about 3.7 million accounting points in Finland. Close cooperation with the entire sector continued in 2020, and the datahub was gradually made available to the entire sector for testing in June 2020.

- Fingrid's development of flexibility market solutions has progressed within the INTERRFACE and OneNet projects funded from the EU's Horizon2020 research programme. Fingrid participated in the preparations for a follow-up INTERRFACE project, and the work resulted in the OneNet project, which started in the autumn, also under Horizon2020 funding. In the next few years, the OneNet partners and Fingrid will jointly develop methodologies related to the utilisation of flexibilities, in order to better account for the flexibility needs of the power system also in the longer term.



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3. CORPORATE RESPONSIBILITY

Fingrid Oyj employed 408 (380) persons, including temporary employees, at the end of the year. The number of permanent personnel was 363 (338).

At the end of the year, 23 (24) per cent of the personnel were women and 77 (76) per cent were men. The average age of the personnel was 44 (44).

Fingrid is an expert organisation where the most important resource is the knowledge and skills of the personnel. In an expert organisation, work can be organised autonomously and independently, while also supporting the team and common goals. This concept of specialists focusing on their area of expertise was also successful in 2020, in the exceptional circumstances, when most of the experts were forced to transfer to remote work almost full-time due to the COVID-19 pandemic.

The necessary know-how was secured in 'Fingrid Academy', which offered coaching for supervisors, project management coaching, the Loikka training programme for increasing specialists' communication and engagement skills, language training and unit-specific coaching mainly related to change, work community and emotional skills.

Fingrid is charged with a mission of high responsibility and great societal significance: to ensure the entire population of Finland has electricity available to them and to carry out the grid investments necessary for a clean power system. We support particularly the UN's global Sustainable Development Goals (SDGs) related to climate actions, energy and infrastructure. Fingrid's corporate responsibility performance is reported according to the Global Reporting Initiative framework and the data is verified by an independent external party. In 2020, the topics important to Fingrid's business activities and corporate responsibility, in addition to successfully fulfilling the company's core mission, included areas such as safety and security, procurement practices, stakeholder trust, financial result, Code of Conduct, and taking care of the work community. The implementation of corporate responsibility was steered by goals focused on these essential topics, which was also reflected in the President & CEO's and senior management's remuneration. The importance of Fingrid executives' corporate responsibility goals was particularly highlighted. Compliance and corporate responsibility management is integrated with Fingrid's management system and risk management practices, using the corporate strategy as a starting point. Fingrid's Board of Directors updat-

ed and approved the company's Code of Conduct, monitored the responsibility of operations, and ensured that corporate responsibility management is properly organised and integrated into business operations. The President & CEO and the heads of functions were each responsible for compliance management and corporate responsibility issues within their areas of responsibility.

Fingrid is committed to the United Nations' Global Compact initiative, and its Code of Conduct is in line with the initiative's principles on human rights, labour, the environment and anti-corruption. The Code of Conduct was updated in 2020 to match with the company's updated values, and the requirement to promote diversity was included in the Code of Conduct. Fingrid guarantees equal opportunities, rights and treatment to all employees and complies with the principles of non-discrimination, equality and diversity in its personnel policy. Despite the coronavirus pandemic, the personnel's well-being was good and work proceeded as planned. A coronavirus group consisting of personnel representatives kept track of official coronavirus guidelines and instructed the work community on safe work. The company scored an eNPS of 71 and overall satisfaction of 87/100 in the Siqni employee survey.

The grade for responsible operations in the personnel survey was 4.6 out of 5. The company's customers gave us a net promoter score (cNPS) of 45. Fingrid has made a pledge to support human rights and included it in the Code of Conduct. To ensure that we correctly understand our human rights impacts, Fingrid has carried out an overall assessment in compliance with the due diligence process recommended in the UN's Guiding Principles on Business and Human Rights. Human rights are included in the corporate responsibility commitment Fingrid expects from its suppliers and their realisation is monitored using a risk-based approach. Contract terms are additionally applied to the use of subcontractors and workforce, and to occupational safety and environmental matters. In 2020, ten Fingrid worksites were audited to verify compliance with contractor obligations, occupational safety and environmental management. In international goods sourcing, third-party supplier audits were carried out at 15 production plants, and six follow-up audits were carried out in order to rectify any non-compliances observed during these or earlier audits.

Fingrid seeks to improve its occupational safety culture and achieve its zero accidents goal. In 2020, the Executive Management Group approved Fingrid's

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policy and goals for occupational safety and health management. The scope of the OHS management system based on the ISO 45001 standard consists of the functions and units working with grid construction and maintenance. Fingrid's own personnel had 2 (0) lost-time accidents and suppliers' personnel 14 (7). 5 (2) of the lost-time accidents resulted in an absence from work of more than 30 days or in a permanent handicap/bodily injury and were classified as serious. The suppliers' and Fingrid's combined lost time injury frequency (LTIF) increased from the previous year to 11.1 (5.3) per million worked hours.

The transmission grid under Fingrid's responsibility must have sufficient geographical coverage and transmission capacity to enable Finland to reach its climate goals. The other significant environmental impacts caused by the company's operations are related to landscape changes and land use restrictions, impacts on natural habitats, the climate impact of power losses during electricity transmission, possible contingencies at substations and reserve power plants, and the consumption of natural resources and the climate impact during grid construction and maintenance. From a climate risk viewpoint, Fingrid prepares for the physical risks of extreme weather phenomena, which are becoming more

common and more powerful, in the construction and use of the grid. The transition risk, i.e. the transfer to a clean power system, is being prepared for by building the main grid rapidly enough to achieve the climate targets, which means proactive environmental impact assessment, successful stakeholder engagement, fast project permit processes and effective project management. Fingrid's carbon dioxide emissions in 2020 totalled approximately 118,000 carbon dioxide equivalent tonnes. In 2020, the total wind power capacity connected to Fingrid's main grid amounted to roughly 296 megawatts, which will indirectly cut emissions worth around 72,000 carbon dioxide equivalent tonnes in the coming years. In addition, Fingrid concluded during the year agreements on connecting a total of approximately 1,800 megawatts of wind power production to the electricity grid. Once realised, this will lead to a substantial positive climate impact, indirectly avoiding emissions worth around 450,000 million carbon dioxide equivalent tonnes. A real-time factor for electricity consumed (year 2020 average: 72 g CO₂/kWh) was adopted in the emissions reporting; the data is published on Fingrid's website as a part of the open electricity market data.

Landowners and other stakeholders were taken into account when building and maintaining the grid, and environmental

impacts were mitigated at all life-cycle stages in accordance with Fingrid's land use and environmental policy. Similarly to occupational safety standards, outsourced contractors and service providers were required to commit to environmentally responsible operating practices through contract terms, training and audits. The environmental impact assessment (EIA) procedure was applied to the transmission line projects with the most significant impacts, with on-going assessments in four projects during 2020. Fingrid received an expropriation permit decision for one transmission line construction project. The service providers who carry out maintenance work and trim vegetation along power line right-of-ways were also instructed to take landowners and natural sites into account and to take proper care of waste and chemicals. Safe utilisation of transmission line right-of-ways was promoted by offering landowners information and initial funding for managing right-of-way areas as heritage environments with high biodiversity value. Materials from work sites were recycled as efficiently as possible when building new grid sections and substations or dismantling old structures. No significant environmental deviations occurred in grid building and maintenance in 2020. The total volume of waste was approximately 10,800 (13,920) tonnes, of which 95 (98) per cent was repurposed and 62 (89) per cent was recycled.

The ISO 14001 environmental management systems of Fingrid's reserve power plants were recertified in 2020. The reserve power plants are necessary in serious power system disturbances, subject to an environmental permit and covered by the EU's emissions trading scheme. A total of 5,020 (5,142) units (tCO₂) of emission allowances were returned, 100 per cent of which consisted of purchased emission right units. Fingrid has not been granted free-of-charge emission rights for the emissions trade period 2013–2020. A total of 4,000 units of emission allowances were purchased in 2020. Emissions trading had minor financial significance for Fingrid.

> The main grid must have sufficient transmission capacity to enable Finland to achieve its climate goals.

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Fingrid reports on its tax footprint and refrains from any special arrangements to minimise taxes. Fingrid does not provide any direct or indirect support to political activities. Fingrid's Code of Conduct includes a prohibition on money laundering and corruption, such as blackmail and bribery. In addition, Fingrid has several operating models in place to prevent corruption, bribery and other financial irregularities, related to, among other things, the use of funds, accepting gifts and hospitality, verification of commitments, counterparty verification and sanctions screening. In 2020, the personnel and external stakeholders had a confidential and independent whistle-blower channel available to them, and two reports of suspected misconduct were received through it. One of these did not lead to follow-up measures and in the other case, corrective actions were decided on. No breaches of anti-competition laws, complaints related to the privacy of private individuals, incidents of bribery or other corruption, human rights violations or discrimination incidents occurred in Fingrid's operations.

More information on corporate responsibility work is available in the corporate responsibility and sustainable development report to be published on 31 March 2021.



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4. INTERNAL CONTROL AND RISK MANAGEMENT

ORGANISATION OF INTERNAL CONTROL

Fingrid's internal control is an integral part of the company's operations and addresses all those operating methods and procedures whose objective it is to ensure:

- effective and profitable operations in line with the company's strategy,
- the reliability and integrity of the company's financial and management information,
- protection of the company's assets,
- compliance with the applicable legislation, guidelines, regulations, agreements and the company's own governance and operating guidelines, and
- a high standard of risk management.

Risk management is planned holistically, with the objective of comprehensively identifying, assessing, monitoring and safeguarding the company's operations, the environment, personnel and assets from various threats and risks.

Continuity management is a part of risk management. Its objective is to improve the organisation's capacity to prepare and to react in the best possible way should risks occur, and to ensure the continuity of operations in such situations.

Further information on internal control, risk management and the foremost risks

and factors of uncertainty is available on the company's website.

Board of Directors

The company's Board of Directors is responsible for organising internal control and risk management, and it approves the principles of internal control and risk management every two years or more often, if required. The Board defines the company's strategic risks and related management procedures as part of the company's strategy and action plan and monitors their implementation. The Board decides on the operating model for the company's internal audit. The Board regularly receives internal audit and financial audit reports as well as a status update at least once a year on the strategic risks, major business risks and continuity threats relating to the company's operations, and their management and realisation.

Line management and other organisation

Assisted by the Executive Management Group, the President & CEO is responsible for implementing and steering the company's governance, decision-making procedures, control and risk management, and for the assessment of strategic risks, major business risks and continuity threats at the company level, and their related risk management.

The heads of functions are responsible for the practical implementation of the governance, decision-making procedures, controls and risk management for their areas of responsibility, as well as for the reporting of deviations, and the sufficiency of detailed guidelines. The directors appointed to be in charge of threats to continuity management are responsible for drawing up and maintaining continuity management plans and guidelines, and for arranging sufficient training and practice.

The Chief Financial Officer is responsible for arranging procedures, controls and monitoring at the company level as required by the harmonised operating methods of internal control and risk management. The company's General Counsel is responsible at the company level for assuring the legality and regulation compliance of essential contracts and internal guidelines, taking into account the company's interests, as well as for the procedures these require. Each Fingrid employee is obligated to identify and report any risks or control deficiencies she or he observes and to carry out the agreed risk management procedures.

Financial audit

An authorised public accounting company selected by the Annual General Meeting acts as auditor for the company. The

company's financial auditor inspects the accounting, financial statements and financial administration for each financial period and provides the AGM with reports required by accounting legislation or otherwise stipulated in legislation. The financial auditor reports on his or her work, observations and recommendations for the Board of Directors and may also carry out other verification-related tasks commissioned by the Board or management.

Internal audit

The Board of Directors decides on the operating model for the company's internal audit. The internal audit acts on the basis of plans processed by the Audit Committee and approved by the Board. Audit results are reported to the object of inspection, the President & CEO, the Audit Committee and the Board. Upon decision of the Board, an internal audit outsourced to an authorised public accounting company acts within the company. From an administrative perspective, the internal audit is subordinate to the President & CEO. The internal audit provides a systematic approach to the assessment and development of the efficacy of the company's risk management, monitoring, management and administrative processes, and ensures their sufficiency and functionality as an independent party. The internal audit has

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the authority to carry out reviews and to access all information that is essential to the audit. Fingrid's internal audit carries out risk-based auditing on the company's various processes.

SIGNIFICANT RISKS

Since Fingrid plays a significant role in Finnish society, the impact of risks is assessed from both the company's and society's perspective. Strategic risks are considered to be events that may lead to a material deterioration in the company's ability to operate or in its corporate image or, in the worst-case scenario, events that may lead to the company's operations being called into question by society.

The most significant of the company's three identified strategic risks is a severe disturbance related to the functioning of the power system, leading to a regional or nationwide blackout. Extensive disturbances to the power system can be caused by a technical malfunction, an extreme weather event, human error, an accident or vandalism. A major disturbance can paralyse society's functions and cause major damage to Finnish business and industry.

Financial regulation directly impacts shareholder value, financing and credit ratings. A significant negative change in

regulation constitutes a material strategic risk for the company's operations.

The third strategic risk for the company's operations is the possibility of a distortion in the corporate culture under the monopoly's protection, which can surface in the form of disregard for sustainability requirements or other unprofessional behaviour.

In addition to strategic risks, business risks identified as substantial, such as accident, asset, information security, procurement, regulatory interest rate and counterparty and refinancing risks, are reported to the company's Board of Directors.

Fingrid's risk management and foremost risks are explored in greater detail in the company's annual report and on its website. Fingrid's financing risks are described in more detail in sections 6.2 and 6.3 of the consolidated financial statements. No substantial risks were realised in 2020.

5. BOARD OF DIRECTORS AND CORPORATE MANAGEMENT

Fingrid Oyj's Annual General Meeting was held in Helsinki on 20 March 2020. The members of the Board of Directors in 2020 were Juhani Järvi (Chair), Päivi Nerg (Deputy Chair), Anu Hämäläinen (until 20 March 2020), Sanna Syri, Esko Torsti, and Hannu Linna as a new member (as of 20 March 2020).

PricewaterhouseCoopers Oy was elected as the auditor of the company, with Heikki Lassila, APA, serving as the responsible auditor.

The Board of Directors has two committees: the Audit Committee and the Remuneration Committee.

The Audit Committee consisted of Sanna Syri (Chair as of 20 March 2020), Anu Hämäläinen (Chair until 20 March 2020), Juhani Järvi and Päivi Nerg (as of 20 March 2020).

The Remuneration Committee consisted of Juhani Järvi (Chair), Päivi Nerg (until 20 March 2020), Hannu Linna (as of 20 March 2020) and Esko Torsti.

Jukka Ruusunen serves as President & CEO of the company. Fingrid has an Executive Management Group which supports the President & CEO in the company's management and decision-making.

Fingrid was well prepared for the exceptional circumstances during the coronavirus pandemic. The company's management and decision-making was not endangered, and the core operations were successfully continued in a nearly normal manner, despite the exceptional circumstances, by resorting heavily to remote work.

A corporate governance statement, required by the Finnish Corporate Governance Code, has been provided separately. The statement and other information required by the Code are also available on the company's website at www.fingrid.fi.

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6. SHARE CAPITAL

The company's share capital is EUR 55,922,485.55. Fingrid shares are divided into Series A shares and Series B shares. The number of Series A shares is 2,078 and the number of Series B shares is

1,247. The voting and dividend rights related to the shares are described in more detail in the notes to the financial statements and in the articles of association available on the company's website.

7. OTHER EVENTS DURING THE FINANCIAL YEAR

Fingrid Oyj carried out, together with the other shareholders, a share trade transaction in which 66% of the shares in Nord Pool Holding AS were sold to Euronext Nordics Holding AS, a Norwegian company wholly owned by Euronext N.V. Fingrid's indirect ownership in Nord Pool is

now 6.4%, which is managed through TSO Holding AS, a holding company jointly owned by the transmission system operators and of which Fingrid owns 18.8%. Fingrid Oyj's holding in TSO Holding AS is accounted for in the 'Other long-term investments' section in the balance sheet.



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8. LEGAL PROCEEDINGS AND PROCEEDINGS BY AUTHORITIES

An accident took place on a worksite in Laukaa, Finland, on 25 August 2017, where an employee of Revilla y Garcia S.L. died after having fallen from a transmission line tower. A civil court case, as well as proceedings concerning social-security-based damages, have been initiated in Spain for damages against Fingrid (the client linked with the accident), the main contractor, Technolines S.R.L. filial i Finland, and its subcontractor, Revilla y Garcia S.L. Fingrid does not believe the claim against it is likely to succeed and, in Fingrid's view, the legal proceedings or their

outcome are not likely to have a substantial impact on the company's earnings or financial position.

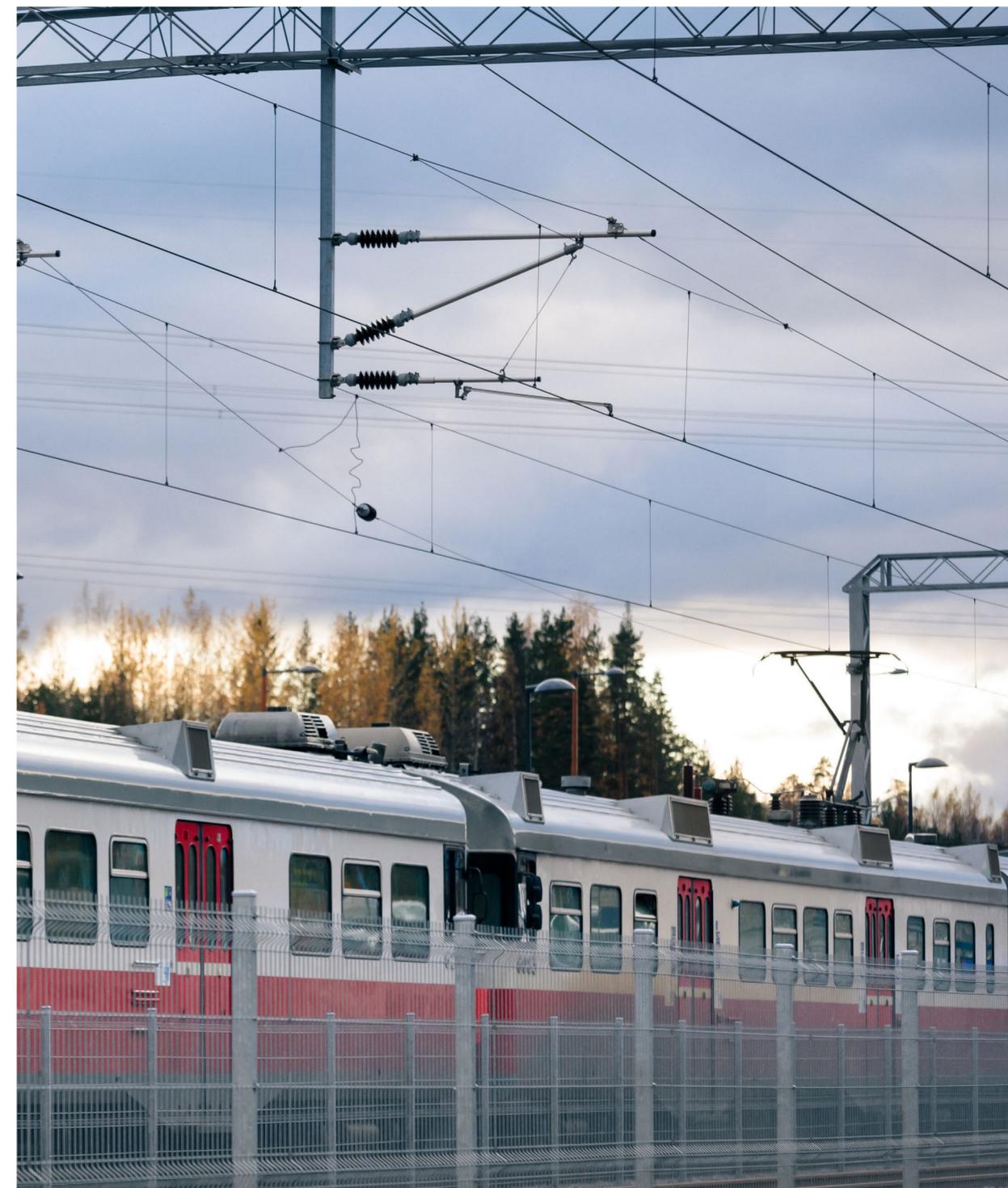
On 30 June 2020, the Market Court received an appeal on the company's decision to exclude a bidder from a competitive tender for 400-MVA transformers to be acquired in 2022–2025. The company decided to discontinue the tendering process on 14 July 2020. After the decision to discontinue the tendering process, the appeal to the Market Court was withdrawn on 28 July 2020.

9. EVENTS AFTER THE REVIEW PERIOD AND ESTIMATE OF FUTURE OUTLOOK

Fingrid Group's profit for the 2021 financial period, excluding changes in the fair value of derivatives and before taxes, is expected to improve somewhat compared to 2020.

Results forecasts for the financial year are complicated especially by the uncertainty related to grid service revenue, ITC income and cross-border transmission

income, and to reserve and loss power costs. These are dependent on the variations in outside temperature, precipitation, windiness, and hydrological conditions in the Nordic countries, which affect electricity consumption and electricity prices in Finland and neighbouring areas and thus also grid transmission volumes. The company's debt service capacity is expected to remain stable.



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10. BOARD OF DIRECTORS' PROPOSAL FOR THE DISTRIBUTION OF PROFIT

The guiding principle for Fingrid's dividend policy is to distribute substantially all of the parent company profit as dividends. When making the decision, however, the economic conditions, the company's near-term capital expenditure and development needs as well as any prevailing financial targets of the company are always taken into account.

Fingrid Oyj's parent company's profit for the financial year was EUR 136,014,363.58 and distributable funds in the financial statements total EUR 186,751,302.32. Since the close of the financial year, there have been no material changes in the company's financial position and, in the Board of Directors' view, the proposed dividend distribution does not compromise the company's solvency.

Since the closing date, the Board of Directors has proposed to the Annual General Meeting of shareholders that, on the basis of the balance sheet adopted for the financial period that ended on 31 December 2020, a dividend of EUR 53,500.00 at maximum per share be paid for Series A shares and EUR 19,600.00 at

maximum for Series B shares, for a total of EUR 135,614,200.00 at maximum. The dividends shall be paid in two instalments. The first instalment of EUR 35,500.00 for each Series A share and EUR 13,000.00 for each Series B share, totalling EUR 89,980,000.00, shall be paid on 12 April 2021. The second instalment of EUR 18,000.00 at maximum per share for each Series A share and EUR 6,600.00 at maximum per share for each Series B share, totalling EUR 45,634,200.00 at maximum in dividends, shall be paid subject to the Board's decision after the half-year report has been confirmed, based on the authorisation given to the Board in the Annual General Meeting. The Board has the right to decide, based on the authorisation granted to it, on the payment of the second dividend instalment after the half-year report has been confirmed and it has assessed the company's solvency, financial position and financial development. The dividends that have been decided on with the authorisation given to the Board shall be paid on the third banking day after the decision. It will be proposed that the authorisation remain valid until the next Annual General Meeting.

11. ANNUAL GENERAL MEETING 2021

Fingrid Oyj's Annual General Meeting is scheduled to be held on 7 April 2021 in Helsinki.

In Helsinki, on 5 March 2021
Fingrid Oyj
Board of Directors

- > Fingrid's owners are the State of Finland, and Finnish pension and insurance companies.

Fingrid delivers. Responsibly.

For more detailed information on Fingrid and the contact persons for various functions, see the company's website at www.fingrid.fi

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