



Auditor's Report (Translation of the Finnish Original)

To the Annual General Meeting of Fingrid Oyj

Report on the Audit of the Financial Statements

Opinion

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position and financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report to the Audit Committee.

What we have audited

We have audited the financial statements of Fingrid Oyj (business identity code 1072894-3) for the year ended 31 December 2017. The financial statements comprise:

- the consolidated balance sheet, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies
- the parent company's balance sheet, income statement, statement of cash flows and notes.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, the non-audit services that we have provided to the parent company and to the group companies are in accordance with the applicable law and regulations in Finland and we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014. The non-audit services that we have provided are disclosed in note 6 to the Financial Statements.

Our Audit Approach

Overview



- Overall group materiality: € 12 million.
 - Group audit scope includes, in addition to the parent company Fingrid Oyj, all the Group's subsidiaries that are Finnish entities.
 - Turnover
 - Property, plant and equipment, and depreciation
 - Financial items and derivatives
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As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole.



Overall group materiality	€ 12 million
How we determined it	Profit before tax and balance sheet total combined
Rationale for the materiality benchmark applied	We chose the combination described above as the basis for determining materiality because, in our view, these are the benchmarks against which the group’s financial position and financial performance are commonly measured by users. In our view, neither figure alone is sufficient for determination of materiality due to the specific characteristics of the company’s operations, such as operating in a regulated market. Certain weights have been determined for these benchmarks, based on which the group materiality has been determined.

How we tailored our group audit scope

We tailored the scope of our audit, taking into account the structure of the group, the accounting processes and controls, and the industry in which the group operates.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key audit matter in the audit of the group	How our audit addressed the key audit matter
<p>Turnover</p> <p><i>Note 1 “Turnover” and the accounting principle “Revenue recognition” as well as the note pertaining to judgement and estimates “Estimate of the purchase and sale of imbalance power”</i></p> <p>The most significant revenue streams are grid service revenue and sale of imbalance power, which generally are invoiced on a monthly basis.</p> <p>The income of imbalance power is ascertained through a nationwide imbalance settlement procedure and final imbalance settlement is completed 13 days after the delivery at the latest. Due to this, the revenue recognized for sale of imbalance power in the financial statements involves partial judgement. Company management determines the</p>	<p>The audit of turnover as a whole was a combination of audit of controls and substantive audit procedures. The substantive audit procedures included both analytical and detailed audit procedures.</p> <p>In our audit of grid service revenue and other revenue streams we have focused that invoicing is based on appropriate decisions and invoicing inputs. In addition, we have audited recognition of income in correct financial period by comparing invoiced amounts of transfers to reporting of actual amounts of transfers during financial period.</p> <p>In auditing the periodization of imbalance power revenue, we have been able to use the actual information available at the time of the audit and</p>



revenue periodization based on preliminary information derived from imbalance settlement.

compare this in assessing the accuracy of the periodization. In addition we have tested the accuracy of the earlier forecasts.

Property, plant and equipment, and depreciation

Note 11 “Property, plant and equipment” as well as the accounting principle “Property, plant and equipment”

We defined these items as key audit matters based on their quantitative significance for the company financial statements and due to significance of estimates related to assets economic life. The transmission grid owned by the company is also the basis for calculation of carrying amount of grid assets in the regulatory balance sheet of the grid operations, when calculating the adjusted value of the grid assets for purposes of determining reasonable return as defined by the Energy Authority. Property, plant and equipment per 31 December 2017 were valued at € 1 676 million which is 79 % of total assets. Accumulated depreciation for the period totalled € -97 million.

Transmission grid investments comprise of both power lines and construction of connecting and transforming substations. The projects are completed usually as 2-3 subassemblies, due to which it is possible to utilise some subassembly financially or take it into use prior to completion of the entire project. We determined as key audit matters the assessment of costs allocated to the investment projects to meet the criteria for capitalization, the completed investment or a part of it economic life is correctly defined using consistent principles, and that depreciation calculation initiated in a timely manner. As to replacement investments completed, it is essential to assess their effect on the economic lifetimes of the assets replaced.

As part of our audit of transmission grid investments, we performed a review of consistency of capitalization principles compared with previous accounting periods and conformity with the accounting principles for the consolidated financial statements. For the basis of our audit, we obtained understanding of the group investment process and related controls.

Substantive audit included e.g. assessment of investments recorded on the balance sheet for eligibility for capitalization. The testing methods we used were a combination of control testing and detailed substantive testing. Regarding investments, we tested whether completed investments were classified to correct balance sheet items, depreciation initiated in a timely manner and the economic lives defined were consistent to economic lives used by the company and presented in the accounting principles.

In addition to the procedures described above, we discussed with the management the depreciation times used in reasonable return calculation and related regulatory reporting. Regarding replacement investments, we tested through substantive audit procedures whether the economic lives of assets to be replaced had been adjusted in accordance with company practice where the remaining carrying value is depreciated when the replacement investment is taken into use.

Financial items and derivatives

Note 14 “Borrowings”, 19 “Cash and cash equivalents”, 20 “Financial assets recognised in the financial statements at fair value” and 23 “Derivative instruments” as well as the related accounting principles and notes concerning the income statement items 6 “Other operating expenses” and 17 “Interest income and expenses from loans and other receivables”

Audit of financing instruments as a whole was a combination of different audit procedures. In our audit, we assessed the key controls the company utilizes to ensure recording of transactions in the company’s accounting system, as well as practices related to valuation. Our substantive audit procedures included both analytical procedures and detailed audit procedures.



We defined financial liabilities and derivative instruments as key audit matters based on their quantitative significance in the company financial statements as well as the effect of changes in derivatives fair value on the company profit.

Financial items in the financial statements comprise mainly of bonds issued by the company. Carrying value of financial liabilities per 31 December 2017 totalled € 1 083 million, i.e. 51 % of balance sheet total.

Financing derivatives

The company has derivative instruments to hedge against interest rate and exchange rate risks according to Corporate Finance and Financing Principles approved by the Board of Directors. Company's derivative transactions consists of interest and currency derivatives as well as cap options to hedge against debt portfolio for sudden changes of interest rates. Valuations of the interest rate and currency derivatives used by the company are not always available directly from publicly traded markets, but input data needed on valuations is based on observable market information directly or indirectly.

Electricity derivatives

Transmission of electricity incurs losses, which the company is obliged to compensate. The company purchases loss power at an electricity exchange. The company uses electricity derivatives to hedge against market price volatility. Price hedging is implemented over a four years horizon such that by the end of September in the year preceding the delivery, the price risk for the next year is fully hedged. The company mainly uses exchange quoted products for price hedging, but can also use equivalent OTC products.

Focus of our audit of financial liabilities was on reconciling them with external confirmations, correctness of measurement and periodization of cost and presentation of short and long-term liabilities. As concerns the income statement, we verified bookings of financing income and expenses through analytical and detailed substantive audit procedures.

We verified derivatives recorded to company's systems and presented in the financial statements for existence, completeness and accuracy by reconciling them against external confirmations obtained from third parties.

As concerns, valuation of derivatives, we assessed both consistency of valuation methods applied and whether they were based on generally applied valuation methods. Our audit included testing of the valuations reported by the company treasury system by reconciling them against the valuations we obtained independently using market price information from generally known pricing sources. Valuations of electricity derivatives were reconciled with the price information available in the quoted exchanges. We verified accuracy of fair value bookings in the income statement by reconciling them with fair value changes derived from the balance sheet.

We have no key audit matters to report with respect to our audit of the parent company financial statements.

There are no significant risks of material misstatement referred to in Article 10(2c) of Regulation (EU) No 537/2014 with respect to the consolidated financial statements or the parent company financial statements.



Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or to cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Appointment

We were first appointed as auditors by the incorporation meeting on 29 November 1996. Our appointment represents a total period of uninterrupted engagement of 21 years.

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report and the Annual Report is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.



In our opinion

- the information in the report of the Board of Directors is consistent with the information in the financial statements
- the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other Opinions

We support that the financial statements should be adopted. The proposal by the Board of Directors regarding the use of the profit shown in the balance sheet is in compliance with the Limited Liability Companies Act. We support that the Members of the Board of Directors and the Managing Director of the parent company should be discharged from liability for the financial period audited by us.

Helsinki 1 March 2018

PricewaterhouseCoopers Oy
Authorised Public Accountants

Heikki Lassila
Authorised Public Accountant (KHT)