

FINGRID OYJ
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26.2.2019, at 10:00 a.m
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Fingrid Group's Financial Statements Bulletin January - December 2018: Excellent results in all areas

Stable finances enable controlled transition towards clean power system

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. The information published in this report is based on Fingrid's audited financial statements for 2018, published in connection with this bulletin.

- Fingrid's 2018 results were excellent and exceeded expectations.
- Finland's electricity consumption in 2018 amounted to 87.4 (85.5) terawatt hours.
- Fingrid transmitted a total of 68.6 (66.2) terawatt hours of electricity in its grid, representing 75.5 (75.5) per cent of the total transmission volume in Finland (consumption and inter-TSO).
- The transmission reliability rate remained at an excellent level and was 99.9999 (99.9997) per cent.

KEY FIGURES		1-12/18	1-12/17	change %	7-12/18	7-12/17	change %
Turnover	€M	852.8	672.0	26.9	415.9	345.9	20.2
Capital expenditure, gross	€M	92.7	111.1	-16.6	50.2	52.8	-5.0
- of turnover	%	10.9	16.5		12.1	15.3	
Research and development expenses	€M	3.6	2.6	34.8	1.8	1.5	18.4
- of turnover	%	0.4	0.4		0.4	0.4	
Average number of employees		376	352	6.8	382	355	7.6
Number of employees at end of period		380	355	7.0	380	355	7.0
Salaries and bonuses, total	€M	26.5	24.2	9.6	13.2	12.1	8.6
Operating profit	€M	241.6	184.8	30.8	91.2	81.0	12.6
- of turnover	%	28.3	27.5		21.9	23.4	
Profit before taxes	€M	229.0	163.7	39.9	85.3	71.3	19.7
- of turnover	%	26.9	24.4		20.5	20.6	
Profit for the period	€M	183.2	130.8	40.0	68.7	56.9	20.6
Comprehensive income for the period	€M	183.0	130.3	40.5	68.3	56.2	21.5
Cashflow after capital expenditure	€M	203.9	125.8	62.0	60.5	40.0	51.1
Return on investments (ROI)	%	13.2	10.0				
Return on equity (ROE)	%	23.3	16.7				
Equity ratio	%	36.6	37.8		36.6	37.8	
Interest-bearing net borrowings	€M	974.3	998.9	-2.5	974.3	998.9	
Net gearing		1.3	1.3		1.3	1.3	
Earnings per share	€	55,106.29	39,350.79	40.0	20,656.83	17,121.38	20.6
Dividend, Series A shares	€	67,650.00 *	68,470.00				
Dividend, Series B shares	€	24,750.00 *	25,050.00				
Equity per share	€	232,310	240,017	-3.2			
Dividend payout ratio, A shares	%	122.8	174.0				
Dividend payout ratio, B shares	%	44.9	63.7				
Number of shares							
- Series A shares	qty	2,078	2,078		2,078	2,078	
- Series B shares	qty	1,247	1,247		1,247	1,247	
Total	qty	3,325	3,325		3,325	3,325	

* The Board of Directors' proposal to the Annual General Meeting on the maximum dividend to be distributed

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Review by Jukka Ruusunen, President & CEO of Fingrid of the the financial statements: “High customer confidence – strong finances – excellent operative results – committed personnel”

The company’s finances are on a stable footing. The factors contributing to the stable finances include predictable long-term regulation and a well-planned 10-year investment programme. Fingrid is one of the most cost-effective transmission system operators (TSOs) in the world, thanks to which our grid service fees are among the lowest in Europe. Our transmission prices have remained the same since the beginning of 2017, and we reduced our prices by eight per cent as of 1 January 2019.

Combatting climate change will call for concrete actions from us in the coming years. Transitioning to a cleaner power system and the electrification of society are important elements of the transformation. Taking this immense task forward requires that the ‘platforms’ of the power system, in other words the transmission and distribution networks, are in good repair and ready to reliably transmit electricity also in the new operating environment.

Fingrid’s role as a platform builder and maintainer of the clean power system includes taking care of the main grid and developing it to meet future needs. The main grid is currently in good repair. However, we need to keep our eyes open and be able to anticipate future power transmission needs. One of the world’s largest nuclear power plants will be connected to Finland’s power system, and wind power has evolved from its role as a challenger into a financially competitive way means of producing clean electricity.

The electrification of society will further increase the significance of the reliability of electricity supply. Fingrid’s duties include uninterrupted monitoring and operating of the power system such that society can trust in a reliable supply of electricity. The transmission reliability on the grid during 2018 was excellent: 99.9999 per cent. One of Fingrid’s long-term goals is to improve the safety culture at work sites and in this way achieve its zero accident objective. The combined accident frequency rate of suppliers’ and Fingrid’s personnel decreased significantly from the previous year, to 3.2 (8.5).

Our operations must evolve constantly as the power system becomes increasingly complex and dynamic. Data utilisation and digitalisation will be more and more important tools for us. The ‘operating system’ of the power system, i.e. the electricity market, requires a ‘version update’ of immense proportions to be capable of balancing power production and consumption also going forward. Extensive changes are under way and will be implemented in the early 2020s. Electricity trading will then take place in 15-minute periods, the balancing power and reserve markets will function more effectively under the steering of Europe-wide trading platforms and, in Finland, the datahub implemented by Fingrid will digitalise the electricity retail markets and boost their efficiency as well as open the door for regular consumers to become active operators on the marketplace.

Well-functioning stakeholder engagement is a vital key to the success of a TSO. We received global attention for our customer focus and transparency, which are exceptionally strong for a monopoly company, as we were chosen as the world’s best transmission system operator in the CHARGE Awards 2018, an international energy sector brand competition. The message is corroborated by our customer survey: 87 per cent of our customers are willing to endorse Fingrid’s approach to customer engagement.

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Fingrid has an essential mission in Finnish society. The power system is in the midst of a major transformation, making the role of the TSO even more important. Here at Fingrid, we are ready to face the challenges that the future will bring us. We work for Finland with our hearts and minds.

Financial result

Fingrid's consolidated financial statements have been drawn up in accordance with the same accounting principles as in 2017, taking into account the changes related to IFRS 9 and IFRS 15.

The Group's turnover was EUR 852.8 (672.0) million. Grid service income increased to EUR 423.2 (412.1) million, as a result of the growth in electricity consumption. The electricity consumption during the year totalled 87.4 (85.5) terawatt hours. The increase in imbalance power sales was partly the result of increased balance power prices and partly the result of the transfer of imbalance settlement to eSett Oy¹, following which the imbalance power sold to cross-border imbalance responsible parties is now reported as external turnover. Cross-border transmission income from the connection between Finland and Russia increased to EUR 35.5 (20.7) million, as a result of increased cross-border transmissions and the higher cross-border transmission tariff. The transmission tariff used in imports from Russia is based on the difference between Finland's and north-western Russia's area prices. Other operating income totalled EUR 10.8 (2.9) million. The increase in other operating income resulted from an EUR 8.0 million increase in the capital gains from the sale of fixed assets.

The Group's total costs amounted to EUR 659.0 (499.0) million. Imbalance power costs grew from the previous year's level, to EUR 320.0 (185.7) million, due to the increase in balance power prices and the above-mentioned transfer of imbalance settlement to eSett Oy. Loss power costs amounted to EUR 47.7 (47.5) million. The realised average price of loss power procurement was EUR 37.88 (37.62) per megawatt hour. The cost of reserves to safeguard the grid's system security increased to EUR 56.7 (51.5) million due to an increase in procurements for the frequency regulating reserve. Depreciation amounted to EUR 99.7 (96.9) million. Grid maintenance costs decreased to EUR 21.2 (24.5) million due to access control system updates carried out in 2017. Personnel costs amounted to EUR 32.2 (29.4) million, and EUR 3.6 (2.6) million was used for R&D projects.

The Group's operating profit was EUR 241.6 (184.8) million. EUR 37.1 (8.9) of changes in the fair value of electricity derivatives and the currency derivatives related to capital expenditure and other operating expenses was recorded in operating profit. The Group's profit before taxes was EUR 229.0 (163.7) million. The biggest differences from the previous year are explained by changes in the market value of derivatives (EUR +34.9 million), the increase in grid transmission income and in cross-border transmission income (EUR +25.9 million in total), and the growth in other operating income (EUR +7.9 million). The profit for the year was EUR 183.2 (130.8) million. The equity ratio was 36.6 (37.8) per cent at the end of the year.

The parent company's turnover was EUR 844.6 (665.4) million, profit for the financial year EUR 194.6 (123.4) million and distributable funds EUR 222.4 million.

¹ eSett Oy is a company owned jointly by the Finnish, Swedish and Norwegian transmission system operators, responsible for imbalance settlement in Finland, Sweden and Norway. Imbalance settlement transferred to eSett Oy on 1 May 2017.

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By the company's own calculations, the result according to the regulatory model that governs grid operations amounts to a surplus of around EUR 40 million for 2018

Financing

The company's credit rating remained high, reflecting its strong overall financial situation and debt service capacity. The Group's net interest expenses on borrowings in 2018 were EUR 16.3 (17.1) million. The Group's net financial costs were EUR 15.2 (22.8) million. Change in the fair value of financial derivatives was EUR 6.7 million (–8.2).

Interest-bearing borrowings totalled EUR 1,059.6 (1,082.7) million, of which non-current borrowings accounted for EUR 771.5 (813.4) million and current borrowings for EUR 288.1 (269.3) million.

The company's liquidity remained good. Cash and financial assets on 31 December 2018 totalled EUR 85.3 (83.8) million. The company additionally has an undrawn revolving credit facility of EUR 300 million to secure liquidity (until 11 December 2022) and EUR 50 million in uncommitted overdraft facilities.

The counterparty risk arising from derivative contracts related to financing was EUR 14.3 (7.6) 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 2018 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 'AA-', the long-term company rating at 'A+', and 'F1' for the short-term company rating, with a stable outlook.

Capital expenditure and maintenance

The company's total capital expenditure in 2018 amounted to EUR 92.7 (111.1) million. This included a total of EUR 85.1 (91.1) million invested in the transmission grid and EUR 2.9 (14.2) million for reserve power. ICT investments amounted to EUR 4.0 (5.7) million. A total of EUR 3.6 (2.6) million was used for R&D projects during the year under review. Capital expenditure will remain at the current order of magnitude over the next few years.

Main grid planning always has a holistic and forward-looking approach. Fingrid's current grid vision extends to 2040. The grid vision is insight into the long-term development needs of the main transmission grid, including plans following the current projects. The objective of the vision is to carry out the investments in the transmission grid effectively and timely, both in terms of the macro economy and grid maintenance.

Power lines and substations were built extensively throughout Finland in 2018. The total kilometres of new power lines amounted to around 250. Seven substation projects were completed. The biggest ongoing projects are related to the modernisation of the aging 'Iron Lady' transmission line, connecting industry and power plants to the grid, and reinforcing the link with Sweden.

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By international standards, grid maintenance at Fingrid is world-class. 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 substation and transmission line maintenance categories. ITOMS looks into the effectiveness of maintenance based on criteria such as maintenance costs and disturbance statistics.

One of Fingrid's long-term goals has been to improve the safety culture at work sites and in this way achieve its zero accident objective. In 2018, Fingrid's own personnel had no accidents resulting in absence from work (2). A total of 4 (9) lost-time accidents were recorded among Fingrid's service providers. None of the lost-time accidents resulted in an absence of more than 30 days. The suppliers' and Fingrid's combined accident frequency rate decreased significantly from the previous year, to 3.2 (8.5).

Power system

In 2018, electricity consumption in Finland amounted to 87.4 (85.5) terawatt hours. Fingrid transmitted a total of 68.6 (66.2) terawatt hours of electricity in its grid, representing 75.5 (75.5) per cent of the total transmission volume in Finland (consumption and inter-TSO).

Electricity transmissions between Finland and Sweden consisted mostly of large imports to Finland. During 2018, 14.5 (15.6) terawatt hours of electricity was imported from Sweden to Finland, and 1.0 (0.4) terawatt hours were exported from Finland to Sweden. The electricity transmissions between Finland and Estonia were mainly exports to Estonia, amounting to 2.4 (1.7) terawatt hours. Imports from Estonia amounted to 0.9 (0.9) terawatt hours. Electricity imports from Russia was 7.9 (5.8) terawatt hours. In 2018, 0.2 (0.3) terawatt hours of electricity was imported from Norway to Finland, and 0.1 (0.0) terawatt hours was exported from Finland to Norway. Nearly the full transmission capacity was available in all cross-border connections during the review period.

The transmission reliability rate overall remained at an excellent level and was 99.9999 (99.9997) per cent of the transmitted energy volume. An outage in a connection point in the grid caused by a disturbance in Fingrid's electricity network lasted an average of 12.0 (2.2) minutes, which exceeds the ten-year average. The computational cost of the disturbances (regulatory outage costs) to consumer customers was only EUR 1.5 (2.8) million. If quick reconnections are included, the cost of disturbances amounts to EUR 3.6 million, the lowest value in ten years.

The most significant event that contributed to the increased outages in connection points was a fire at Fingrid's Olkiluoto substations on 18 July 2018, resulting in damage to a 400-kilovolt current transformer. Due to the fire and resulting repairs at the substation, Olkiluoto nuclear power plant units 1 and 2 were not able to supply the grid with electricity. Fingrid issued a warning on 19 July 2018 that the domestic production and imports of electricity may possibly be insufficient to meet consumption. The electricity shortage was avoided, however.

The volume of transmission losses in the Finnish grid remained at the level of the previous year, 1.2 (1.2) terawatt hours. This is 1.3 (1.4) per cent of the total volume of transmitted electricity.

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Electricity market

The average market price of spot electricity on the electricity exchange (Nordic system price) was EUR 43.99 (29.41) per megawatt hour. The wholesale prices of electricity were clearly on a higher level in 2018 compared with previous years in the Nordic countries. The annual average price was at its highest level since 2011 for both the Nordic system price and the Finnish area price. The drivers behind the higher prices include, above all, the increased prices of emission rights and fuels, as well as the lower than normal precipitation affecting hydropower production in the Nordic production areas.

Fingrid accrued EUR 28.2 (25.5) million in congestion income from the cross-border power lines between Finland and Sweden. EUR 18.9 (10.4) million of this was accrued during the first half of the year and EUR 9.3 (15.0) million during the second half of the year. The links between Finland and Estonia generated EUR 1.4 (0.3) million in congestion income. In accordance with the regulation on congestion income, Fingrid has used the congestion income from the connections between Finland and Sweden for the Hirvisuo–Pyhänselkä grid investment. EUR 1.3 million in congestion income was left unused and will be used for future investments to increase cross-border transmission capacity.

Personnel

Fingrid Oyj employed 380 (355) persons, including temporary employees, at the end of the year. The number of permanent personnel was 327 (308). 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).

Legal proceedings and proceedings by authorities

An accident took place on a work site in Laukaa, Finland, on 25 August 2017, where an employee of Revilla y Garcia S.L. died after having fallen from a power line tower. A civil court case has been raised in Spain for damages against Fingrid (the client linked with the accident), the main contractor, Technolines S.R.L. filial i Finland, and its sub-contractor, 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.

Events after the review period and estimate of future outlook

Fingrid's international EUR 1.5 billion Medium Term Note Programme and debt issues are listed on the London Stock Exchange. On 9 January 2019, Fingrid listed the Medium Term Note Programme and debt issues on the Irish Stock Exchange (Euronext Dublin) in addition to the London Stock exchange. Dual listing enables the trading of debt issues and new debt issue listings on these two stock exchanges.

Fingrid Oyj's Shareholders' Nomination Board proposed to the Annual General Meeting to be held on 21 March 2019 that the number of members of the Board of Directors shall be five. The Nomination Board proposed the re-election of Juhani Järvi, Päivi Nerg, Anu Hämäläinen, Sanna Syri and Esko Torsti. The Shareholders' Nomination Board proposed that the remuneration paid to the members of the Board of Directors remain unchanged.

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Fitch Ratings downgraded Fingrid Oyj's Long-Term Issuer Default Rating (IDR) to 'A' from 'A+' and senior unsecured rating to 'A+' from 'AA-' on 28 January 2019. Fitch also affirmed a Short-Term IDR of 'F1'. The outlook for the ratings is stable. The rating remains the highest assigned by Fitch to any regulated TSO in Europe.

Timo Kiiveri (M.Sc., MBA) was appointed director of the executive management group of Fingrid Oyj on 31 January 2019, effective 1 July 2019. His area of responsibility will be the company's asset management.

Fingrid Group's profit for the 2019 financial period, excluding changes in the fair value of derivatives and before taxes, is expected to decrease significantly from the previous year's level. Fingrid announced on 3 October 2018 that it will decrease grid prices for 2019 by eight per cent on average.

Results forecasts for the financial year are complicated especially by the uncertainty related to grid income, ITC income and cross-border transmission income, and to reserve and loss power costs. These are particularly dependent on the variations in outside temperature and precipitation and changes in the hydrological situation 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.

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 investment 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 194,570,313.15 and distributable funds in the financial statements total EUR 222,364,965.90. 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.

The company's Board of Directors will propose to the Annual General Meeting of Shareholders that, on the basis of the balance sheet adopted for the financial period ended 31 December 2018, a dividend of EUR 67,650.00 at maximum per share will be paid for Series A shares and EUR 24,750.00 at maximum for Series B shares, for a total of EUR 171,439,950.00 at maximum. The first dividend instalment of EUR 47,550.00 for each Series A share and EUR 17,400.00 for each Series B share, totalling EUR 120,506,700.00, shall be paid on 26 March 2019. The second dividend instalment, a maximum of EUR 20,100.00 for each Series A share and a maximum of EUR 7,350.00 for each Series B share, totalling EUR 50,933,250.00 at maximum, shall be paid based on the authorisation to be given to the Board. The Board of Directors has the right to decide on the payment of the second dividend instalment after the half-year report has been confirmed and after having assessed the company's solvency, financial position and financial development. The second dividend instalment 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 remains valid until the next Annual General Meeting.

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Annual General Meeting 2019

Fingrid Oyj's Annual General Meeting is scheduled to be held on 21 March 2019 in Helsinki.

In Helsinki, on 26th February 2019
Fingrid Oyj
Board of Directors

Notes:

Financial Statements Bulletin

Corporate Governance Statement 2018

Annual review and Financial statements 2018