

## FINGRID GROUP'S HALF-YEAR REPORT 1 JANUARY - 30 JUNE 2018

Fingrid's consolidated financial statements have been drawn up in accordance with the International Financial Reporting Standards (IFRS). This half-year report has been drawn up in accordance with the IAS 34 Interim Financial Reporting standard and complies with the same accounting principles as those presented in the Group's 2017 financial statements. In accordance with the accounting principles, the IFRS 9 and IFRS 15 standards are applied in Fingrid's financial reporting as of 1 January 2018. This half-year report is unaudited. Unless otherwise indicated, the figures in parentheses refer to the same period of the previous year.

The graphs and clarifying texts of the half-year report are available in the attached PDF file.

- Fingrid's operating profit between January–June excluding the change in the fair value of derivatives improved somewhat over the corresponding period last year.
- Fingrid's turnover increased due to growth in grid transmission income and cross-border transmission income from the link between Finland and Russia. Another cause behind the significantly increased turnover was the growth in imbalance power sales. Imbalance settlement, now reported entirely as external turnover, is handled by eSett Oy. A corresponding change can also be seen in the imbalance power costs.
- Finland's electricity consumption during the period amounted to 45.1 (43.6) terawatt hours.
- A total of 34.7 (32.8) terawatt hours of electricity was transmitted in Fingrid's grid, representing 74.5 (73.7) per cent of the total transmission volume in Finland (consumption and inter-TSO).

KEY FIGURES		1-6/18	1-6/17	change %	1-12/17
Turnover	MEUR	436.9	326.1	34.0	672.0
Capital expenditure, gross	MEUR	42.5	58.3	-27.1	111.1
- of turnover	%	9.7	17.9		16.5
Personnel costs	MEUR	16.6	14.7	12.7	29.4
Operating profit excluding the change in the fair value of derivatives	MEUR	120.8	107.2	12.7	175.9
- of turnover	%	27.7	32.9		26.2
Operating profit	MEUR	150.4	103.7	45.0	184.8
- of turnover	%	34.4	31.8		27.5
Profit before taxes	MEUR	143.7	92.5	55.4	163.7
- of turnover	%	32.9	28.4		24.4
Profit for the period	MEUR	114.5	73.9	55.0	130.8
Comprehensive income for the period	MEUR	114.7	74.1	54.8	130.3
Net cash flow from operations, after capital expenditure	MEUR	143.4	85.8	67.1	125.8
Equity ratio	%	36.1	35.7		37.8
Interest-bearing net borrowings	MEUR	974.2	1,039.7	-6.3	998.9
Net gearing		1.3	1.4		1.3
Earnings per share	€	34,449.46	22,229.41	55.0	39,350.79
Dividend, Series A shares	€				68,470.00
Dividend, Series B shares	€				25,050.00
Equity per share	€	226,833.57	223,112.96	1.7	240,017.18
Dividend payout ratio, A shares	%				174.0
Dividend payout ratio, B shares	%				63.7
Number of shares					
– Series A shares	qty	2,078	2,078		2,078

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- Series B shares	qty	1,247	1,247	1,247
Total	qty	3,325	3,325	3,325

## Jukka Ruusunen, President & CEO: Fingrid's finances are in balance – the grid and electricity markets to be developed to meet the needs of a clean power system

Fingrid's financial result for the first six months of the year was good. Cold weather early in the year increased the consumption of electricity and grid income compared with last year. Cross-border transmission income also increased. Our grid transmission prices are at the previous year's level and among the most inexpensive in Europe. At the same time, the reliability of electricity transmission is world class.

Finland's main grid operated reliably during the first six months of the year. The consumption peaked at around 14,000 megawatts on 28 February, without jeopardizing sufficient supply of electricity. Flexible production capacity was scarce during the spring flooding period, which made itself felt in high balancing power prices.

After the review period, a 400-kilovolt current transformer at Fingrid's Olkiluoto substation was damaged in a fire on 18 July 2018. The fire and the resulting repairs at the substation prevented the nuclear power plant units at Olkiluoto from supplying the grid with electricity. Due to this, Fingrid warned of a possible nation-wide electricity shortage. The producers and consumers of electricity participated actively in balancing the situation, and electricity imports from the neighbouring countries were increased. This prevented the impending electricity shortage.

The focus of our investment programme is on replacing Finland's oldest transmission line, the 'Iron Lady', and a new connection on this line, between Lieto and Forssa, was commissioned in March. The upgraded transmission line will be completed next year, just in time to celebrate the 90th anniversary of Finland's grid system. The new AC link to be completed between Finland and Sweden in 2025 has proceeded to environmental impact assessment and engineering design. The general planning for the 'Forest Line' from Oulu to Petäjävesi, to be completed in 2022, has proceeded as planned.

The Climate Bonds Initiative, an operator on the international financing markets, awarded Fingrid a certificate to recognise the fact that we were the first Finnish company to issue Green Bonds. We will use the assets procured by the Green Bonds to finance investments which are expected to yield positive long-term environmental impacts.

We are constantly seeking new cost-effective operational procedures, as testified by our success in the international ITOMS benchmark study on the efficiency of TSO operations. In 2017, we were the only company to achieve a Top Performer nomination both in the substation and transmission line maintenance categories. By digitalising our substations, we will decrease our capex and operational costs and gain more information on the actual status of the substation components.

In March, we concluded a co-operation agreement with the other Nordic transmission system operators (TSOs) on developing a new Nordic balancing concept and on the principles of joint Nordic markets for reserve and regulating power. The implementation of the network codes is proceeding as scheduled, in close co-operation with our stakeholders. The network codes concern three different groups: connections, network operations and markets. It is the duty of

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the member states to adopt the network codes and to ensure convergence between them and the national legislation.

On the electricity markets, our goal is to transition from the current one-hour imbalance settlement period to a period of fifteen minutes. A system supplier was selected for the Datahub project, aimed at improving the efficiency of the consumer markets, in June.

Fingrid is evolving into an even better and more productive place to work. This year, for the second time, we came in 10th in the mid-sized companies category of the Great Place to Work Finland survey. We also achieved recognition in Finland's Most Inspiring Workplaces survey.

## Financial result

The Group's turnover in January–June was EUR 436.9 (326.1) million. Grid service income increased to EUR 229.3 (220.2) million over the first half of the year due to increased consumption of electricity. Between January and June, electricity consumption totalled 45.1 (43.6) terawatt hours. Imbalance power sales amounted to EUR 164.9 (85.0) million. The increase in imbalance power sales resulted from the transfer of imbalance settlement to eSett Oy, following which the imbalance power sold to cross-border imbalance responsible parties is reported as external turnover. The cross-border transmission income for the connection between Finland and Russia increased from last year's level due to a higher realised dynamic transmission tariff and increased cross-border transmission, amounting to EUR 20.2 (10.8) million.

Other operating income totalled EUR 1.0 (1.1) million. Costs during January–June amounted to EUR 317.1 (219.9) million.

Imbalance power costs grew from the previous year's level, to EUR 149.4 (69.7) million due to the above-mentioned transfer of imbalance settlement to eSett Oy. Loss power costs amounted to EUR 25.4 (21.2) million. The higher loss power costs were mainly caused by an increased volume of loss power. At the end of June, approximately 95 (105) per cent of Fingrid's projected loss power procurement for the remainder of 2018, in terms of the system price, was hedged at an average price of EUR 27.3 (31.1) per megawatt hour. In terms of the Finnish area price difference, roughly 100 per cent of loss power procurement was hedged at an average price of EUR 6.8 per megawatt hour.

The cost of reserves to safeguard the grid's system security increased to EUR 29.6 (24.9) million. The increase in reserve costs was affected by the planned increases in the procurement of automatic frequency control reserves and the addition of the Kyröskoski power plant to the rapid disturbance reserve. Depreciation amounted to EUR 49.2 (48.4) million. Grid maintenance management costs decreased to EUR 8.0 (9.6) million due to the postponed implementation of some planned projects to the latter half of the year. Personnel costs amounted to EUR 16.6 (14.7) million.

The Group's operating profit in the first half of the year was EUR 150.4 (103.7) million. Profit before taxes was EUR 143.7 (92.5) million. The differences from the corresponding period of the previous year are mainly explained by changes in the market value of electricity derivatives (EUR +32.9 million), and the growth in grid service income and cross-border transmission income (EUR +20.3 million). Profit for the period was EUR 114.5 (73.9) million and comprehensive income was EUR 114.7 (74.1) million. The Group's net cash flow from

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operating activities, with net capital expenditure deducted, was EUR 143.4 (85.8) million during the review period. The equity to total assets ratio was 36.1 (35.7) per cent at the end of the review period.

## Financing

Fingrid Oyj's credit rating remained high, reflecting the Group's strong overall financial situation and debt service capacity. Between January and June the Group's net financial costs amounted to EUR 7.9 (12.1) million, including the change in the fair value of derivatives of EUR 3.9 million negative (EUR 5.6 million negative).

Interest-bearing borrowings totalled EUR 1,075.9 (1,123.4) million, of which non-current borrowings accounted for EUR 808.3 (834.0) million and current borrowings for EUR 267.6 (289.3) million. The Group did not issue new long-term debt during the reporting period.

The Group's liquidity remained good. Cash and cash equivalents, and financial assets at fair value through profit or loss on 30 June 2018 were EUR 101.6 (83.7) million. The Group additionally has an undrawn revolving credit facility of EUR 300 million to secure liquidity and a total of EUR 50 million in uncommitted overdraft facilities.

## Ensuring transmission capacity

The focus of the company's investment programme has been on rebuilding the first transmission line in Finland, originally built in the 1920s and dubbed the 'Iron Lady'. The 400-kilovolt section between Lieto and Forssa was commissioned in March. The new transmission line replaces a part of the line built in the 1920s and reinforces the grid in Southwest Finland. The old 110-kilovolt transmission line was replaced with a 400+110-kilovolt dual-voltage power line with a higher transmission capacity, while also expanding and upgrading the Lieto substation. The total costs for the project amounted to approximately EUR 26 million.

The 110-kilovolt Vihtavuori–Koivisto transmission line was commissioned in January. The line extends roughly 26 kilometres and was built parallel to the existing Koivisto–Vihtavuori transmission line to serve Metsä Group's new Äänekoski bioproduct mill. The project also included the necessary changes in the substations. The total cost of the investment is roughly EUR 7 million.

Fingrid started the engineering design process for the first digital substation pilot in its history. The project aims at new innovative solutions for the Pernoonkoski substation close to Kotka. The aim is to create a digitalised substation that is safe, environmentally sustainable, remote controlled and provides excellent cost effectiveness both in terms of capex and operational costs.

The Nurmijärvi substation, built in the 1970s to secure the supply electricity in the central Uusimaa region, will be rebuilt by the end of 2019. The modernisation of this substation will ensure reliable transmission of electricity to the consumers in central Uusimaa. The project cost is at around EUR 7 million. The construction will be completed by the end of 2019.

The new AC link to be completed between Finland and Sweden in 2025, from Pyhänselkä at Muhos via Keminmaa to Messaure in Sweden, has proceeded to environmental impact assessment and engineering design. The project is due for completion in 2025. The general

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planning of the 400-kilovolt 'Forest Line' from Oulu to Petäjävesi, to be completed in 2022, has proceeded as planned.

Fingrid again scored excellent results in the International Transmission Operations & Maintenance Study (ITOMS), being 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. A total of 28 TSOs from all around the world participate in the benchmarking study. Fingrid achieved especially good results in the inspections and maintenance of transmission lines and in the maintenance of switchgear and substation areas.

Fingrid has outlined a grid vision for the long-term planning of the power system. The vision studies various scenarios and looks for ways to reinforce the grid in order to meet future challenges. The geographical focus of electricity production is shifting northwards as the production of wind power increases, while at the same time the adjustable thermal power plant capacity in the south of Finland is decreasing. Thus, energy produced in northern Finland will increasingly be transferred to consumption in southern Finland. During the next decade, Fingrid will invest significantly in the transmission capacity between the north and south, as well as reinforce the cross-border connections between Finland and Sweden.

## Management of system security

In January–June, electricity consumption in Finland amounted to 45.1 (43.6) terawatt hours. Inter-TSO transmission in the same period amounted to 1.5 (0.8) terawatt hours. The total electricity transmission in Finland was 46.5 (44.5) terawatt hours. Fingrid transmitted a total of 34.7 (32.8) terawatt hours in its grid, representing 74.5 (73.7) per cent of the total electricity transmission in Finland. During this period, the electricity Fingrid transmitted to its customers amounted to 33.1 (31.9) terawatt hours, which represents 73.5 (73.1) per cent of Finland's total consumption.

Between January and June, 7.5 (7.5) terawatt hours of electricity were imported from Sweden to Finland, and 0.4 (0.2) terawatt hours were exported from Finland to Sweden. Transmission capacity between the countries was partly limited for brief periods during the review period, due to grid maintenance work.

In January–June, 1.0 (0.6) terawatt hours of electricity were exported to Estonia. Transmission capacity between the countries was partly limited between 23 and 27 April, during the EstLink2 connection's annual maintenance, and between 4 and 8 June, during EstLink1's annual maintenance.

Between January and June, 3.4 (3.0) terawatt hours of electricity were imported from Russia to Finland. Transmission capacity from Russia to Finland was fully available during the reporting period. Electricity imports from Russia were slightly higher compared with the same period last year. Major intraday variations in import volumes still persist. No electricity transmission from Finland to Russia took place during the period.

The high electricity production rates due to spring flooding and strong winds resulted in a rare situation of excessive production on 9 May, during a time of low consumption. This overproduction situation necessitated down-regulation, and the price of balancing power bottomed in Finland at EUR –1000/MWh. As the situation continued, Fingrid asked balancing

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power market parties to provide more down-regulation bids on 10 May. The balancing power market parties reacted actively to Fingrid's request and the volume of down-regulation bids doubled compared with a normal night. The prices remained close to the spot-prices and overproduction in the power system was effectively avoided.

Two major disturbances occurred in the grid during the period. The Kaltimo voltage transformer was damaged on 26 March. The disturbance resulted in a 15-minute blackout for roughly 2,000 people in the Eno area. A voltage disturbance occurred in the grid during the commissioning of the Fenno-Skan 2 DC link on 8 May. The Olkiluoto 2 nuclear power station was not able to supply the grid with electricity during the disturbance.

In terms of transmission operations, the DC links between the Nordic countries and Estonia had a highly successful first six months of the year. However, in terms of disturbances and maintenance downtime, the period was clearly more challenging than the very successful 2017. The disturbances did not however cause any extensive harm to the electricity markets or management of transmission operations.

## Developing the electricity market

In January–June the average day-ahead market price for the Nordics was EUR 38.82 (29.28) per megawatt hour and Finland's area price was EUR 41.97 (31.92) per megawatt hour.

Congestion income increased compared with the corresponding period last year. Between January and June, congestion income between Finland and Sweden totalled EUR 37.8 (20.9) million. The increase was due to the differences in the area prices between Finland and Sweden. The disparity was influenced by exceptional weather: cold spells during the winter weeks raised the prices in Finland, while the short but fierce spring floods dropped the prices in Sweden for a few weeks. The lower than normal amounts of congestion income in the reference year, 2017, was influenced by the low area price disparity between Finland and Sweden and the hydrological conditions throughout the Nordics.

An agreement between the transmission system operators on the future balance management model in the Nordic countries was reached in March. The TSOs have concluded a co-operation agreement on developing the new Nordic balancing concept. The co-operation agreement defined the roles and responsibilities of the TSOs needed to achieve the joint balance management concept and balancing markets.

Fingrid has participated in the introduction of the market rules included in the European network codes. The goal of the market rules is to promote the convergence of European electricity markets and to create common operational procedures for the cross-border trade of electricity products and reserves and for the principles of imbalance settlement.

The European intraday markets started up in June. The intraday markets create more extensive European electricity markets for continuous trading. The Cross-Border Intraday (XBID) project created a European intraday marketplace for continuous trading.

Fingrid is currently carrying out several projects to increase flexibility of the electricity markets and to enable the participation of consumers and the producers of intermittently available renewables. One of the projects aims at a shorter, 15-minute period for imbalance settlement

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instead of the current one-hour settlement period. Finland plans to transfer to the 15-minute settlement period in 2020, at the same time as the rest of the Nordic countries.

Fingrid Datahub Oy selected the supplier for the Datahub system in June. According to the contract concluded in July, the Datahub system will be launched in April 2021. The Datahub is a centralised information exchange system for retail markets that stores data from all of Finland's 3.5 million places of electricity consumption.

## Personnel

The total number of personnel employed by the Group averaged 367 (347), of which 316 (296) were in a permanent employment relationship. Personnel costs amounted to EUR 16.6 (14.7) million. Wages and salaries amounted to EUR 13.3 (12.1) million i.e. 3.1 (3.7) per cent of the turnover.

For the second time, Fingrid came in 10th in the mid-sized companies category of the Great Place to Work Finland survey. The Great Place to Work Finland award recognises organisations with excellent workplace cultures based on both an employee survey and an HR assessment. A total of 156 organisations participated in the Great Place to Work Finland survey 2018.

Fingrid was included in the list of Finland's Most Inspiring Workplaces in February 2018. This recognition is awarded to organisations that have achieved excellent results in the PeoplePower® employee survey. The award indicates a highly committed workforce. Finland's Most Inspiring Workplaces also typically have a strong long-term focus on developing their operations jointly with the personnel.

## Other matters

Fingrid Oyj's Annual General Meeting was held in Helsinki on 28 March 2018. The Annual General Meeting approved the financial statements for 2017 and discharged the members of the Board of Directors and the CEO from liability.

The Annual General Meeting elected Fingrid Oyj's Board of Directors for the term that ends at the close of the next Annual General Meeting. Juhani Järvi continues as Chair of the Board of Directors. The other Board members are Anu Hämäläinen, Sanna Syri, and Esko Torsti; Päivi Nerg was elected as a new member of the Board.

The Annual General Meeting decided to pay dividends in accordance with the Board's proposal and established a shareholders' nomination board.

PricewaterhouseCoopers Oy, which appointed Heikki Lassila as the principal auditor, was elected as the auditor of the company.

## Legal proceedings and proceedings by authorities

Fingrid has cancelled its appeal to the decision issued by the Energy Authority on 2 January 2017 where the Energy Authority required, on the basis of Act on the Control of the Electricity and Natural Gas Market, Fingrid to submit the terms and conditions concerning the balancing power agreements and the grounds for the determination of fees for approval by the Energy

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Authority. Fingrid cancelled its appeal after receiving a notification from the Energy Authority stating that the Energy Authority will not require specific implementation of the obligations; instead, the matter will be processed as part of the approval process on the terms and conditions related to balancing in compliance with the Electricity Balancing Guideline (EB GL), Article 18.

## Events after the review period and outlook for the rest of the year

Fingrid Datahub Oy and CGI Suomi Oy signed a contract on the procurement of the Datahub system on 12 July 2018. According to the contract, the Datahub system will be launched in April 2021. The procurement is valued at EUR 41.9 million.

A 400-kilovolt current transformer at Fingrid's Olkiluoto substation was damaged in a fire on 18 July 2018. During the fire and the repairs at the substation, both nuclear power plant units no. 1 and 2 at Olkiluoto were unable to feed electricity into the grid. Fingrid issued a warning on 19 July 2018 that the domestic production and imports of electricity will possibly be insufficient to meet consumption, resulting in a risk of electricity shortage. The electricity shortage was avoided however.

Fingrid's Annual General Meeting held on 28 March 2018 decided that a dividend of max. EUR 68,470.00 for each Series A share and max. EUR 25,050.00 for each Series B share, totalling EUR 173,518,010.00, be distributed based on the approved balance sheet for the financial period ending 31 December 2017. The AGM decided that the dividends shall be paid in two instalments. The first instalment of dividends, totalling EUR 123,420,140.00, was paid on 4 Apr 2018 as per the AGM's decision. On 14 August 2018, the Board of Directors decided, in compliance with its authorisation from the AGM, that the second instalment be paid after the half-year report has been confirmed and it has assessed the company's solvency, financial position and financial performance. According to the Board of Directors' authorisation, the second instalment of EUR 19,770.00 for each Series A share and EUR 7,230.00 for each Series B share, totalling EUR 50,097,870.00 in dividends, be paid on 17 Aug 2018.

Fingrid Group's profit for the financial period 2018, excluding changes in the fair value of derivatives and before taxes, is expected to improve somewhat on the previous year. Grid service pricing for 2018 is set in such a way as to achieve a regulatory-allowed financial result in 2018. According to the current estimate, it seems likely that the financial year will produce somewhat of a surplus, which will be taken into account in the grid pricing negotiations for upcoming years. Results forecasts for the full 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. In the Nordic countries, these are dependent on temperature variations as well as changes in precipitation and the hydrological situation, which affect electricity consumption and electricity prices in Finland and its nearby areas, and thereby also the volume of electricity transmission in the grid. The company's debt service capacity is expected to remain stable.

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