

Fingrid Group's Financial Statements Bulletin January - December 2019: reduced electricity transmission prices decreased the result as expected

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 2019, published in connection with this bulletin.

- For Fingrid, 2019 turned out as expected. Grid service prices were reduced on average by eight per cent in the beginning of the year.
- In 2019, Finland's electricity consumption amounted to 86.1 (87.5) terawatt hours.
- Fingrid transmitted a total of 68.7 (68.6) terawatt hours of electricity in its grid, representing 76.0 (75.4) per cent of the total transmission volume in Finland (consumption and inter-TSO).
- The transmission reliability rate remained at an excellent level and was 99.9998 (99.9999) per cent.

KEY FIGURES		1-12/19	1-12/18	change %	7-12/19	7-12/18	change %
Turnover	€M	789.4	852.8	-7.4	374.1	415.9	-10.0
Capital expenditure, gross	€M	135.6	92.7	46.3	76.6	50.2	52.6
- of turnover	%	17.2	10.9		20.5	12.1	
Research and development expenses	€M	3.4	3.6	-3.6	1.8	1.8	-4.0
- of turnover	%	0.4	0.4		0.5	0.4	
Average number of employees		384	376	2.1	385	382	0.8
Number of employees at end of period		380	380	0.0	380	380	0.0
Salaries and bonuses, total	€M	22.3	26.5	-15.9	9.0	13.2	-31.7
Operating profit	€M	115.5	241.6	-52.2	48.7	91.2	-46.6
- of turnover	%	14.6	28.3		13.0	21.9	
Profit before taxes	€M	105.8	229.0	-53.8	36.8	85.3	-56.9
- of turnover	%	13.4	26.9		9.8	20.5	
Profit for the period	€M	84.6	183.2	-53.8	28.7	68.7	-58.2
Comprehensive income for the period	€M	84.7	183.0	-53.7	28.8	68.3	-57.9
Cashflow after capital expenditure	€M	126.5	158.1	-20.0	32.2	14.7	119.0
Return on investments (ROI)	%	6.4	13.2				
Return on equity (ROE)	%	11.6	23.3				
Equity ratio	%	32.0	36.6		32.0	36.6	
Interest-bearing net borrowings	€M	1,037.2	974.3	6.5	1,037.2	974.3	
Net gearing		1.5	1.3		1.5	1.3	
Earnings per share	€	25,452.50	55,106.29	-53.8	8,644.75	20,656.83	-58.2
Dividend, Series A shares	€	58,500.00 *	67,650.00				
Dividend, Series B shares	€	21,400.00 *	24,750.00				
Equity per share	€	206,213	232,310	-11.2			
Dividend payout ratio, A shares	%	229.8	122.8				
Dividend payout ratio, B shares	%	84.1	44.9				
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

FINGRID OYJ
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Jukka Ruusunen, President & CEO of Fingrid: "Reliable electricity transmission with reduced transmission prices"

"Fingrid's financial result turned out as expected. We reduced grid transmission and cross-border transmission prices in the beginning of the year, due to which the company's financial result was significantly weaker than in the previous year. The transmission reliability rate remained at an excellent level. The company's financial position continues to be strong and the company's credit rating remained high. Fingrid's performance continues to be world-class, which enables continued maintenance and development of the main grid with reasonable costs for customers, also in the face of future challenges.

Part of Finland's national heritage, the electricity transmission main grid turned 90 during the year under review. Fingrid develops the main grid in the long term so that the increasing clean electricity production can be connected to the grid and passed on to consumers and industry. In the next few years, we will be busy especially connecting wind power to the main grid and to the electricity market. The pace of wind power construction is so fast that, despite all our efforts, we may not be able to connect all of the projects to the main grid in a manner hoped for by wind power constructors.

Electricity production will have less flexibility to adapt to consumption, which means that the required flexibility must be provided by demand-side management and a well-functioning electricity trade in European electricity markets. We developed the electricity market to enable the most efficient balance possible between production and consumption.

Change is picking up speed, but at the same time we must take care not to make any compromises on quality and occupational safety. We renewed the asset management quality certification and maintained a good level of occupational safety. For us, sustainability means real, concrete actions when it comes to managing people, the environmental impacts of our operations and good governance. We recognise our key role in Finnish society now and in future: society's best interest is inherent in all of our operations. Fingrid's employees, who work at one of Finland's greatest workplaces, are motivated by our important societal task and role in mitigating climate change – also in the new decade."

Financial result

Fingrid's consolidated financial statements have been drawn up in accordance with the same accounting principles as in 2018, taking into account the changes brought about by IFRS 16 and the more detailed application of IAS16.

The Group's turnover was EUR 789.4 (852.8) million. Grid service income declined to EUR 385.0 (423.2) million, due to the reduced grid service prices. Electricity consumption in Finland totalled 86.1 (87.5) terawatt hours during the year. Imbalance power sales amounted to EUR 346.7 (348.8) million, on a par with the previous year. Cross-border transmission income from the connection between Finland and Russia decreased to EUR 11.6 (35.5) million, as a result of the lower 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 declined to EUR 4.2 (10.8) million. The decline resulted from a decrease in capital gains from the sale of fixed assets.

The Group's total costs amounted to EUR 651.6 (659.0) million. Imbalance power costs remained on the previous year's level and totalled EUR 323.5 (320.0) million. Loss power costs grew to EUR 53.9 (47.7) million. The volume of loss power grew slightly, and the price of loss power procurement increased somewhat. The realised average price of loss power procurement was EUR 39.57 (37.88) per megawatt hour. The cost of reserves to safeguard the main grid's system security remained on the previous year's level and amounted to EUR 55.9 (56.7) million. Depreciation totalled EUR 97.8 (99.7) million. Grid maintenance costs amounted to EUR 21.6 (21.2) million.

Personnel costs declined to EUR 26.4 (32.2) million, mainly as a result of the capitalisation of personnel costs related to investment projects EUR 4.7 million. A total of EUR 3.4 (3.6) million was used for R&D projects.

The Group's operating profit was EUR 115.5 (241.6) million. To recognise changes in the fair value of electricity derivatives and the currency derivatives related to capital expenditure and other operating expenses, EUR -26.6 (37.1) million was recorded in operating profit. The Group's profit before taxes was EUR 105.8 (229.0) million. The biggest differences year-on-year are explained by changes in the market value of electricity derivatives (EUR -63.5 million) and lower grid service income and cross-border transmission income (change totalling EUR -62.0 million). Profit for the financial year was EUR 84.6 (183.2) million. The equity ratio was 32.0 (36.6) per cent at the end of the year.

The parent company's turnover was EUR 786.2 (844.6) million, profit for the financial year EUR 148.1 (194.6) million and distributable funds were EUR 199.0 million.

Based on the company's own calculations, the result according to the regulatory model that governs grid operations amounts to a deficit of around EUR 15 million for 2019 and to a deficit of some EUR 30 million for the entire regulatory period 2016–2019.

Financing

The company's credit rating remained high, reflecting its strong overall financial situation and debt service capacity. The Group's net financial costs were EUR 10.1 (15.2) million, including EUR 0.7 million in interest expenses on the lease liabilities entered into the balance sheet following the introduction of the IFRS 16 standard in 2019. The Group's net interest expenses on loans

during the year totalled EUR 14.7 (16.3) million. The change in the fair value of financial derivatives was EUR 8.1 million positive (EUR 6.7 million positive).

Interest-bearing borrowings totalled EUR 1 120.0 (1 059.6) million, of which non-current borrowings accounted for EUR 884.7 (771.5) million and current borrowings for EUR 235.3 (288.1) million. At the end of the year, the company's interest-bearing borrowings included a total of EUR 32.9 million in lease liabilities, consisting of EUR 2.4 million.

The company's liquidity remained good. Cash and financial assets totalled EUR 82.8 (85.3) million on 31 December 2019. The company additionally has an undrawn committed 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 relating to financing was EUR 22.4 (14.3) 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 2019 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.

Customers

Fingrid provides transmission grid and electricity market services to its customers: power companies, electricity-consuming industry and electricity market participants. The company's operations are largely based on fulfilling statutory duties, and they are conducted with the customers in mind, fairly and on equal terms.

According to the customer survey conducted in autumn 2019, customers' satisfaction with Fingrid has remained at the previous year's good level. 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 co-operative player who works for the benefit of the whole of society and treats its customers equally. The company received a Net Promoter Score (NPS) of 36, which is a good result for a natural monopoly.

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 2020, the grid service fees will be maintained at the previous year's level.

Capital expenditure and maintenance

The company's total capital expenditure in 2019 amounted to EUR 135.6 (92.7) million. This included a total of EUR 103.4 (85.1) million invested in the transmission grid and EUR 5.5 (2.9) million for reserve power. ICT investments amounted to EUR 25.6 (4.0) million. A total of EUR 3.4 (3.6) million was used for R&D projects during the year under review. The most significant construction projects during the year were the Iron Lady II (Hikiä-Orimattila), the grid reinforcing measures in North Karelia and the construction work at the Olkiluoto, Nurmijärvi, Jyväskylä, Inkoo and Korja substations. The costliest of all ICT investments was the centralised information exchange system for electricity retail markets, Datahub, which the company is currently building.

Finland's main grid turned 90 in 2019. The electricity transmission grid is constructed and maintained with the needs of a clean power system in mind. Investments and maintenance are carried out safely, efficiently and in a timely manner. The proportion of wind power will be substantially increased in Finland going forward. It is Fingrid's duty to ensure that the planned production capacity can be connected to the power system and the electricity market.

The main grid is being reinforced both between Finland and Sweden and in Finland along the north-south axis. The Coastal Line from North Ostrobothnia to Pori has been completed, the Forest Line from Oulu to Petäjävesi is under construction and the reinforcement of the Lake Line from North Ostrobothnia to Kuopio is at the planning stage.

Transmission lines and substations were built extensively throughout Finland in 2019. A total of approximately 150 kilometres of new transmission lines were built. Transmission lines and substations were built extensively throughout Finland in 2019. A total of approximately 150 kilometres of new transmission lines were built, and 12 new or expanded substations were completed. The most significant on-going construction projects are related to the Forest Line, the third AC connection between Finland and Sweden and the construction work around the Oulujoki river.

By international standards, grid asset management at Fingrid is world-class. In spring 2019, the company once again placed at the top in the International Transmission Asset Management Study (ITAMS).

Fingrid's asset management has been certified according to ISO 55001:2014. The certification was granted to Fingrid for the first time in 2016, and again by Lloyd's Register Verification Limited in autumn 2019.

One of Fingrid's long-term goals is to improve the occupational safety culture and in this way achieve its zero accident objective. In 2019, Fingrid's own personnel had no lost-time workplace accidents 0 (0). A total of 7 (4) lost-time workplace accidents were recorded among Fingrid's service providers. Among the lost-time accidents, one led to an absence from work of more than 30 days and was classified as serious. In addition, one workplace accident was classified as serious, because it caused a permanent impairment to the service provider's employee. The suppliers' and Fingrid's combined accident frequency rate increased from the previous year to 5.5 (3.2)/million worked hours.

Power system

Electricity consumption in Finland totalled 86.1 (87.5) terawatt hours in 2019. Fingrid transmitted a total of 68.7 (68.6) terawatt hours of electricity in its grid, representing 76.0 (75.4) 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. In 2019, 16.3 (14.5) terawatt hours of electricity was imported from Sweden to Finland, and 0.5 (1.0) terawatt hours was exported from Finland to Sweden. In the electricity transmission between Finland and Estonia, exports to Estonia amounted to 3.8 (2.4) terawatt hours. Imports from Estonia amounted to 0.3 (0.9) terawatt hours. Electricity transmission from Russia to Finland amounted to 7.5 (7.9) terawatt hours. In 2019, 0.2 (0.2) terawatt hours of electricity was imported from Norway to Finland, and 0.1 (0.1) terawatt hours was exported from Finland to Norway. Nearly the full transmission capacity was available in all cross-border connections during the review period.

In 2019, there was no need to raise Fingrid's preparedness for disturbance clearing. The transmission reliability rate remained at an excellent level and system security was 99.9998 (99.9999) per cent. An outage in a connection point in the grid caused by a disturbance in Fingrid's electricity network lasted an average of 4.3 (12.0) minutes, which is equal to the ten-year average. The calculated cost of the disturbances (regulatory outage costs) to consumer customers was only EUR 2.7 (1.5) million. If quick reconnections are included, the cost of disturbances amounts to EUR 5.2 million.

The reliability and usability of DC connections were at a good level in 2019. There was one long-lasting disturbance on the EstLink 2 connection, which began in late December and ended in early January 2020. The number of disturbances and the total duration of disturbances were on the same level as in 2018 for DC connections.

The volume of transmission losses in the grid increased somewhat from the level of the previous year, amounting to 1.3 (1.2) terawatt hours. This was 1.5 (1.3) per cent of the total volume of transmitted electricity.

Electricity market

The average market price of spot electricity on the electricity exchange (Nordic system price) was EUR 38.94 (43.99) per megawatt hour. The wholesale prices of electricity were slightly lower than in the previous year in both Finland and the other Nordic countries. The decline in the prices was impacted by the improved precipitation in the Nordics compared to 2018. At times, the availability of wind power had a clear impact on the area price of electricity in Finland. The prices of emissions rights remained on a par with the level they had attained in 2018.

Fingrid's congestion income from cross-border transmission lines totalled EUR 73.0 (29.6) million, of which the cross-border transmission lines between Finland and Sweden accounted for EUR 65.5 (28.2) million. EUR 15.0 (18.9) million of this was accrued during the first half of the year and EUR 50.5 (9.3) million during the second half of the year. The links between Finland and Estonia generated EUR 7.5 (1.4) million in congestion income. Fingrid's congestion income has been used, in accordance with regulations, for the Forest Line connection's network investment and for the Alapitkä capacitor investment. EUR 72.4 million in accrued congestion income was left unused and will be used for future investments to improve the functioning of the electricity market.

Through Fingrid's transmission grid and the cross-border transmission lines, market participants gain access to and can reap the benefits of an open European electricity market. The market is provided with the highest possible transmission capacity, which enables effective trading for the market participants. In 2019, the reliability of Estonia's DC connections, in particular, was weaker than in previous peak years, but despite the challenging situations, the connections were efficiently restored for use by the markets. The usability and reliability of Sweden's DC connections were at an excellent level.

Personnel

Fingrid employed 380 (380) persons, including temporary employees, at the end of the year. The number of permanent personnel was 338 (327).

At the end of the year, 24 (23) per cent of the personnel were women and 76 (77) 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. The action raised in the case concerning social security based compensation has lapsed.

Events after the review period and estimate of future outlook

On 5 December 2019, Fingrid Oyj announced that it had, together with the other owners of Nord Pool Holding AS, entered into a binding agreement to sell 66% of the company's shares to Euronext. On 15 January 2020, Fingrid Oyj announced that the transaction has received the necessary authority approvals and that the other preconditions for its completion have been fulfilled. The sale will have a small positive impact on Fingrid's result and cash flow in the first quarter. Fingrid's indirect ownership in Nord Pool is 6.4%, which is managed through a holding company jointly owned by the Nordic Transmission System Operators.

Fingrid Group's profit for the 2020 financial period, excluding changes in the fair value of derivatives and before taxes, is expected to slightly decline compared to the previous year. Fingrid announced on 2 October 2019 that it will maintain the electricity transmission prices in the main grid at their 2019 level in 2020.

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 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 148,060,722.84 and distributable funds in the financial statements total EUR 198,985,738.74. 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 that ended on 31 December 2019, a dividend of EUR 58,500.00 at maximum per share will be paid for Series A shares and EUR 21,400.00 at maximum for Series B shares, for a total of EUR 148,248,800.00 at maximum. The first dividend instalment of EUR 39,500.00 for each Series A share and EUR 14,450.00 for each Series B share, totalling EUR 100,100,150.00, shall be paid on 25 March 2020. The second dividend instalment, a maximum of EUR 19,100.00 for each Series A share and a maximum of EUR 6,950.00 for each Series B share, totalling EUR 48,148,650.00, shall be paid based on the authorisation hereby 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 remain valid until the next Annual General Meeting.

Annual General Meeting 2020

Fingrid Oyj's Annual General Meeting is scheduled to be held on 20 March 2020 in Helsinki.

In Helsinki, on 27th February 2020
Fingrid Oyj
Board of Directors

Notes:

Financial Statements Bulletin
Corporate Governance Statement 2019
Annual review and Financial statements 2019