

FINGRID OYJ
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FINGRID GROUP – MANAGEMENT’S REVIEW 1 JANUARY - 30 SEPTEMBER: PROFIT DOWN AS EXPECTED DUE TO LOWER TRANSMISSION GRID FEES

Fingrid follows a six-month reporting period as referred to in the Securities Markets Act and publishes management’s reviews for the first three and nine months of the year; the Management’s Reviews contain key information illustrating the company’s financial and other development.

The information presented in the Management’s Review relates to the Fingrid Group’s performance in January-September 2019 and the corresponding period of 2018, unless otherwise indicated. The figures presented here have been drawn up in accordance with International Financial Reporting Standards (IFRS). The Management’s Review is not an interim report in accordance with the IAS 34 standard. The figures are unaudited.

- Fingrid’s January-September proceeded according to plans.
- Turnover during the period under review amounted to EUR 575.9 (624.6) million and operating profit, excluding the change in the fair value of derivatives, amounted to EUR 95.1 (147.7) million.
- The company’s profitability and liquidity remained at a good level.

CEO Jukka Ruusunen: “Finland’s main grid operates reliably – price differences in the Nordic electricity market raises discussion”

Fingrid’s financial development during the reporting period has proceeded according to plan. Grid service income and cross-border transmission income were clearly lower compared to the previous year, due to the lowering of grid service fees at the beginning of the year. In accordance with the previous earnings guidance, 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. The company’s excellent cost-effectiveness and moderate investment rate also give us the opportunity to keep grid transmission fees at the current level also next year.

The main grid has operated reliably during the year, with no major disturbances. Major differences in area prices between Finland and other Nordic countries generated plenty of discussion during the summer. In some weeks, the wholesale price of electricity was twice as high in Finland as in Sweden. Fingrid’s cross-border connections have been reliable, but their capacity has not been sufficient to meet market needs and balance price differences. The price differences are mainly due to different generation mix between the Nordic countries. Maintenance work on cross-border connections carried out in September also resulted in major price differences between Finland and Sweden.

Fingrid’s largest ongoing investment project within Finland is the transmission line between Petäjavesi and Oulu, called the Forest Line. The project increases transmission capacity between northern and southern Finland and helps maintain Finland as a single electricity market bidding area. Power line work on the Forest Line will start in autumn 2019, and the entire power line will be completed by autumn 2022. A third AC connection between Finland and Sweden which is important for the Nordic electricity market is proceeding as planned, in co-operation with Sweden’s TSO. The cross-border transmission connection is due for completion in 2025.

Since 2018, Fingrid Datahub Oy has been building a centralised information exchange system for electricity retail markets which was expected to be commissioned in April 2021. In September, Fingrid Datahub Oy, Finland's Ministry of Economic Affairs and Employment and the Energy Authority announced that the introduction of datahub will be postponed to early 2022. The go-live date had to be postponed after it became evident that some retailers and distribution system operators would not be able to meet the original deadline for datahub's commissioning. Datahub requires a simultaneous go-live from all market operators.

According to a Pan-European benchmark study by European regulatory authorities, Fingrid is still one of the most cost-efficient transmission system operators (TSO) in Europe. The study included 17 TSOs, and it took into account the scale of operations and operating environment. Fingrid will continue to target more effective and smoother solutions in order to secure high productivity and moderate grid fees also in the future.

Key figures

€M	1-9/19	1-9/18	change %	1-12/18
Turnover	575.9	624.6	-7.8	852.8
Operating profit*	95.1	147.7	-35.6	204.6
Profit before taxes	76.6	160.2	-52.2	229.0
Profit for the period	61.2	127.5	-52.0	183.2
Capital expenditure, gross	90.0	64.1	40.5	92.7
Net cash flow from operations**	82.8	160.9	-48.6	203.9
Interest-bearing net debt	1,058.9	1,008.3	5.0	974.3
Balance sheet total	2,118.2	2,064.2	2.6	2,109.9
Equity ratio %	31.3	34.8		36.6

* Operating profit excluding the change in the fair value of derivatives

** Net cash flow from operations, after capital expenditure

- Operating profit, excluding the change in the fair value of derivatives, decreased due to the lower grid service fees and cross-border transmission fees.
- Profit before taxes declined considerably as a result of the lower grid service fees and a change in the market value of electricity derivatives. The impact of the change in the market value of electricity derivatives totalled EUR –8.9 (23.1) million.
- The introduction of the IFRS 16 standard at the beginning of the year increased the Group's interest-bearing net debt by EUR 33.5 million and decreased the profit for the reporting period by EUR 0.2 million. As a result of IFRS 16, the capital repayment component of lease liabilities is now classified as cash flow from financing activities instead of cash flow from operating activities. The introduction of the standard increased cash flow from operating activities by EUR 1.7 million.

Main business events

- Between January through September, electricity consumption in Finland totalled 63,1 (64,1) terawatt hours. In the same period, Fingrid transmitted a total of 51,1 (50,5) terawatt hours in its grid, representing 76,9 (76,2) per cent of the total electricity transmission in Finland. During this period, the electricity Fingrid transmitted to its customers amounted to 47,7 (48,2) terawatt hours, which represents 75,5 (75,2) per cent of Finland's total consumption.

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- There were no major disturbances with extensive consequences in the grid during January–September.
- Construction of the transmission line between Oulu and Petäjävesi, named ‘Forest Line’, has begun. The construction project is divided into six sub-projects, and four contracts were signed in July–September. The construction of this 400-kilovolt transmission line, which spans a distance of more than 300 kilometres and costs around EUR 117 million, has started with tree fellings. The transmission line will be constructed in 2019–2022.
- Fingrid ranked among the best companies in a Pan-European cost-efficiency benchmark study. The study was commissioned by the Council of European Energy Regulators. It included 17 transmission system operators and took into account the scale of operations and operating environment.
- Fingrid Datahub Oy announced in September that the commissioning of the centralised information exchange system for electricity retail markets will be postponed to early 2022. The go-live date had to be postponed after it became evident that some retailers and distribution system operators would be unable to meet the original deadline for datahub’s introduction, which was April 2021.

Events after the review period

On 2 October, 2019, Fingrid Oyj announced that it would keep grid service fees for 2020 at the current, 2019, level. Fingrid’s operations have a solid foundation and thus grid service fees are expected to remain very moderate also in the future.

On 17 October 2019, Fingrid and the Nordic Investment Bank (NIB) signed a EUR 100 million loan agreement concerning the reinforcing and development of Finland’s transmission grid.

The company has not changed its earnings guidance from what is stated in the January–June interim report of 23 July 2019.

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Fingrid is Finland’s transmission system operator. We secure reliable electricity for our customers and society and we shape the clean, market-oriented electricity system of the future.

Fingrid delivers. Responsibly.
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