FINGRID

FINGRID OYJ
www.fingrid.fi

28.7.2020, at 11:30 a.m
EET

FINGRID GROUP'S HALF-YEAR REPORT 1 JANUARY - 30 JUNE 2020

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 financial statements for 2019. 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.

- Turnover fell due to the decline in electricity consumption caused by the warm winter, which directly impacts grid service income, and due to the lower price of imbalance power resulting from the lower electricity price. The latter can be seen also in the lower imbalance power costs.
- Consolidated operating profit excluding the change in the fair value of derivatives decreased due to falling grid service income and to the increased cost of reserves. Profit for the period was also affected by the negative change in the fair value of electricity derivatives hedging the loss power procurement as well as the positive impact on financing items attributable to the sale of the Nord Pool shares.
- The impacts of the corona pandemic on business have so far been very limited.
- Finland's electricity consumption during the period amounted to 41.4 (44.6) terawatt hours.
- A total of 34.3 (34.8) terawatt hours of electricity was transmitted in Fingrid's grid, representing 76.3 (74.3) per cent of the total transmission volume in Finland (consumption and inter-TSO).

KEY FIGURES		1-6/20	1-6/19	change %	1-12/19
Turnover	MEUR	343.4	415.2	-17.3	789.4
Capital expenditure, gross	MEUR	70.3	59.0	19.1	126.9
- of turnover	%	20.5	14.2		16.1
Personnel costs	MEUR	16.3	16.0	1.8	26.4
Operating profit excluding the change in the fair value of derivatives	MEUR	70.9	89.0	-20.3	142.1
- of turnover	%	20.6	21.4		18.0
Operating profit	MEUR	55.2	66.8	-17.3	115.5
- of turnover	%	16.1	16.1		14.6
Profit before taxes	MEUR	58.5	69.0	-15.2	105.8
- of turnover	%	17.0	16.6		13.4
Profit for the period	MEUR	48.2	55.9	-13.7	84.6
Comprehensive income for the period	MEUR	49.3	55.9	-11.9	84.7
Net cash flow from operations, after capital expenditure	MEUR	101.7	94.4	7.8	263.1
Equity ratio at the end of the review period	%	28.0	33.9		32.0
Interest-bearing net borrowings at the end of the review period	MEUR	1,035.8	1,036.1	0.0	1,037.2
Net gearing at end of period		1.6	1.5		1.5
Earnings per share	€	14,500.57	16,808.26	-13.7	25,452.50
Dividend, Series A shares	€				58,500.00
Dividend, Series B shares	€				21,400.00
Equity per share	€	190,921.32	212,874.71	-10.3	206,213.21
Dividend payout ratio, A shares	%				234.9
Dividend payout ratio, B shares	%				86.0
Number of shares					
– Series A shares	qty	2,078	2,078		2,078
– Series B shares	qty	1,247	1,247		1,247
Total	qty	3,325	3,325		3,325

FINGRID OYJ
www.fingrid.fi

28.7.2020, at 11:30 a.m
EET

President and CEO Jukka Ruusunen: Weather conditions played the main role in the Nordic electricity markets

Conventionally, the electricity system and electricity markets are heavily dependent on weather conditions. The weather played the main role in the Nordic electricity markets in the first half of this year: an exceptionally mild winter and the resulting substantial decrease in electricity consumption, heavy rains and the consequent good availability of hydropower, hard winds and high production of wind power as well as, specifically for Finland, scarcity of balancing power due to spring floods in the north of the country. The winter's peak consumption in Finland did not exceed 12,400 MWh/h, which is the lowest peak demand this millennium.

The exceptional weather conditions have resulted in very low electricity market prices and large area price differences in the Nordics. Finland has imported electricity from Sweden, using the full transmission capacity between the countries, but the existing transmission capacity has failed to meet the actual market needs. We have put substantial effort into ensuring the reliability of cross-border connections and Fingrid's cross-border links worked extremely well throughout the first six months of the year. Our goal is to make the entire transmission capacity allowable in terms of the system security of the electricity system available to the electricity markets each day and we have successfully achieved this goal.

Fingrid's financial development during the first half of the year was weaker than in the previous year. Due to the decrease in electricity consumption, the grid service income fell year-on-year. The market conditions also resulted in a decrease of the cross-border transmission income for the Russian transmission. The exceptionally intensive spring floods increased the prices for the reserves required for balancing consumption and production for several weeks, resulting in increased costs for the company.

The corona pandemic has not had a major impact on electricity consumption in Finland, and Finland's electricity system has functioned normally. During the pandemic, our focus has been on the continuity of operations while we have simultaneously strived to maintain the stability of our business in other respects as well. Our transmission reliability has been very high. Our capex projects have proceeded according to the planned schedules despite the exceptional circumstances. As regards major transmission projects, the Forest Line and the third AC connection to Sweden constitute a part of the electricity network infrastructure that Finland needs to become carbon-neutral. Connecting wind power to the main grid means a lot of work for us and more wind power projects are underway than ever before in Fingrid's history.

Today and tomorrow, our success relies on competent people and on our unique corporate culture. As testimony of this, Fingrid came in 7th in the mid-sized companies category of the Great Place to Work Finland survey—an excellent achievement. Fingrid's top score in ITOMS (The International Transmission Operations & Maintenance Study) bears witness to our world-class quality and cost-effectiveness. We were the only TSO to achieve a Top Performer nomination both in the transmission line and substation maintenance categories.

Financial result

The Group's turnover in January–June was EUR 343.4 (415.2) million. Grid service income declined to EUR 199.8 (209.3) million during the first half of the year due to unseasonably warm weather, which resulted in decreased electricity consumption. Electricity consumption in Finland totalled 41.4 (44.6) terawatt hours in January–June. Imbalance power sales revenue decreased to EUR 120.9 (175.2) million, as a result of the lower imbalance power prices.

Cross-border transmission income from the connection between Finland and Russia decreased from the previous year's level, to EUR 1.5 (5.4) million, due to the reduced transmission volume. Other operating income totalled EUR 0.4 (0.6) million.

Costs during January–June totalled EUR 273.0 (326.9) million. Due to the lower imbalance power price, imbalance power costs decreased from the previous year's level, to EUR 106.2 (162.5) million. Loss power costs amounted to EUR 24.5 (25.7) million. At the end of June, approximately 98 (96) per cent of Fingrid's projected loss power procurement for the remainder of 2020 was, in terms of system price, hedged at an average price of EUR 25.4 (27.2) per megawatt hour. In terms of the Finnish area price difference, roughly 100 (100) per cent of loss power procurement was hedged at an average price of EUR 4.6 (5.3) per megawatt hour. The cost of reserves to safeguard the grid's system security increased to EUR 33.4 (26.6) million, as a result of the high prices during the flood season.

Depreciation for the review period totalled EUR 49.0 (48.7) million. Grid maintenance costs grew to EUR 10.6 (7.9) million as a result of increased maintenance expenditure in DC connections and voltage compensation equipment. Personnel costs amounted to EUR 16.3 (16.0) million.

The Group's operating profit for the first six months of the year was EUR 55.2 (66.8) million. Profit before taxes was EUR 58.5 (69.0) million. The differences from the corresponding period of the previous year are mainly explained by the decrease in grid service income and cross-border transmission income (EUR -13.4 million). Profit for the review period amounted to EUR 48.2 (55.9) million and comprehensive income to EUR 49.3 (55.9) million.

Financing

The Group's net cash flow from operating activities, with net capital expenditure deducted, was EUR 101.7 (94.4) million for the review period. The equity ratio was 28.0 (33.9) per cent at the end of the review period. The impact of the IFRS 16 standard reduced the share of equity by 0.4 percentage points.

The consolidated net financial costs between January and June were EUR 4.3 (1.7) million positive, including the positive change of EUR 4.7 million (EUR 9.7 million positive) in the fair value of derivatives. The change in the fair value of financial assets was EUR 0.4 million negative (EUR 0.3 million positive). The Group's finance income increased during the review period, including an EUR 8.4 million dividend attributable to the sale of the Nord Pool shares. The net financial costs included EUR 0.3 million (0.3) in interest expenses on the lease liabilities entered into the balance sheet, due to the introduction of the IFRS 16 standard in 2019.

Interest-bearing borrowings totalled EUR 1,261.3 (1,133.3) million, of which non-current borrowings accounted for EUR 1,044.1 (898.6) million and current borrowings for EUR 217.2 (234.6) million. On the reporting date, the liabilities included a total of EUR 31.7 million (34.0) in lease borrowings in accordance with IFRS 16, consisting of EUR 2.4 million (3.0) in short-term liabilities, with a maturity date within one year, and EUR 29.3 million (31.0) in long-term liabilities, with a maturity date after more than a year.

The Group's liquidity remained good. Cash assets and financial assets at the end of the review period amounted to EUR 225.5 (96.6) million. The increase was due to the significant growth of the congestion income, included in the cash flow, and new long-term financing arrangements implemented to minimise refinancing risks resulting from the crisis on the

money markets during the first half of the year. The Group's liquidity is additionally bolstered by an undrawn revolving credit facility of EUR 300 million and a total of EUR 225 million in uncommitted overdraft facilities consisting of binding and non-binding bilateral arrangements with banks.

Ensuring transmission capacity

As regards major electricity transmission projects, the Forest Line and the third AC connection to Sweden constitute a part of the electricity network infrastructure that Finland needs to become carbon-neutral.

The Forest Line will substantially increase the North–South transmission capacity necessary for the Finnish electricity system. The roughly 300 kilometres long, 400-kilovolt transmission link is being built in place of or next to the current power lines, running from Petäjävesi through Haapavesi and to Muhos. The work has progressed well, with roughly half of all the transmission line foundations completed. The related modifications to the Petäjävesi and Toivila substations are also underway.

Fingrid is preparing, in co-operation with the Swedish TSO Svenska kraftnät, a new transmission connection from Pyhänselkä at Muhos via Keminmaa to Messaure in Sweden. Due for completion in 2025, the transmission line will even out the price differences between the countries and improve the availability of electricity in Finland. Fingrid's and Svenska kraftnät's joint project has been included in the European Commission's list of Projects of Common Interest (PCI). In March, the Finnish and Swedish energy authorities decided on the cost-sharing principles to be applied to this capex project. The estimated capital expenditure is EUR 250 to 300 million, with Connecting Europe Facility funding to be applied for half of this total investment cost. The funding will be decided on by the EU's Innovation and Networks Executive Agency (INEA).

The transmission line being built in the municipality of Kontiolahti and the city of Joensuu to reinforce the grid in North Karelia is proceeding as planned. Work on the transmission line is currently underway and the project will be completed in the spring of 2022.

A total of 29 substation projects is currently in the implementation stage. Nine out of these will be completed in 2020, 11 in 2021 and the remaining nine substations in 2022. While the new substation projects are located evenly throughout Finland, the focus is on the Forest Line and Coastal Line connections.

Fingrid decided on several new capital expenditure projects during the review period. Connecting up wind power to the grid has particularly increased the capex needs.

- New wind power plants with a total capacity of roughly 4,000 megawatts are planned in the area between Kristinestad, Vaasa and Seinäjoki. Haapajärvi and the neighbouring municipalities, in central Finland, are planning new wind power projects totalling more than 1,000 megawatts. Fingrid has made investment decisions to build a substation at Pysäysperä in the municipality of Haapajärvi and another substation at Kärppiö in the municipality of Teuva. The total capital expenditure will be roughly EUR 55 million. The investments encompass substations as well as modifications to the surrounding transmission lines necessary for linking the transmission lines with the new substations. The planned commissioning dates for the substations are in the summer of 2022.

- A 400/110-kilovolt substation will be modernised at Tammisto in Vantaa. The investment will improve the system security of electricity supply in the Helsinki region. The Tammisto substation is one of the stations supplying electricity to the capital region and a key node of the grid. The construction work on this project will start in June 2021. The new substation will be commissioned in late 2022.

- The 110-kilovolt Luukkala substation will be modernised in Lappeenranta. The Luukkala substation plays an important role for electricity transmission in the South Karelia and Lappeenranta area: it is the starting point of several grid ring connections and also supplies the city of Lappeenranta as well as local industries with electricity. The project will be completed in the autumn of 2023.

- The Jylkkä substation, located in Kalajoki, will be expanded and fitted out with a third transformer, making the substation Finland's most important connection point for wind power. The project will be completed during 2022.

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 transmission line and substation maintenance categories in March. ITOMS looks into the effectiveness of maintenance based on criteria such as maintenance costs and disturbance statistics.

Fingrid will carry out aerial photography of all the transmission lines included in the grid during the summer of 2020. This means approximately 12,000 kilometres of power lines, making it the most extensive imaging project of Finland's grid system ever completed. The previously created images cover 2,000 kilometres of grid transmission lines. The aerial photography will bring the documentation of the grid up to date, while also helping to assess the condition of the grid and enable planning of future maintenance work.

Management of system security

In January–June, Finland's electricity consumption amounted to 41.4 (44.6) terawatt hours. Inter-TSO transmission in the same period amounted to 3.5 (2.2) terawatt hours. The total electricity transmission in Finland was 44.9 (46.8) terawatt hours. Fingrid transmitted a total of 34.3 (34.8) terawatt hours in its grid, representing 76.3 (74.3) per cent of the total electricity transmission in Finland. During this period, the electricity Fingrid transmitted to its customers amounted to 30.7 (32.5) terawatt hours, which represented 74.1 (72.9) per cent of Finland's total consumption.

The electricity consumption in Finland peaked this year on 28 February, rising close to 12,400 megawatts. The peak consumption figure is the lowest this century, a result of the exceptionally mild weather as well as various industrial conflicts and the consequent plant closures.The peak consumption was met with 9,849 megawatts of domestic production and 2,539 megawatts of net imports. The electricity supply was not in jeopardy in the winter of 2019–2020.

Through January to June, the system security of Fingrid's grid system was at a very good level and there were no significant grid disturbances. Finland's electricity system retained its normal functionality in its entirety during the review period, despite the corona pandemic. The exceptionally intensive spring floods increased the prices for the reserves required for balancing consumption and production for several weeks.

From January through June, 9.3 (7.2) terawatt hours of electricity were imported from Sweden to Finland, and 0.1 (0.4) terawatt hours were exported from Finland to Sweden. The transmission capacity between Sweden and Finland was fully available during the review period, expect for short maintenance breaks.

In January–June, 3.3 (1.7) terawatt hours of electricity were exported to Estonia. Only very small amounts of electricity were imported from Estonia to Finland during the review period. The transmission capacity between the two countries functioned reliably, even if EstLink1 was subjected to some planned restrictions during a period of automation testing in March and during annual maintenance in June.

Electricity imports from Russia to Finland between January and June amounted to 1.2 (4.2) terawatt hours of electricity. The reason for the decreased imports was the low price of electricity in the Nordics. Transmission capacity from Russia to Finland was fully available during the review period. The electricity imports from Russia were clearly lower in the first half of 2020 than in the previous review period in 2019. Electricity was exported from Finland to Russia several times over February through June. However, the volumes of electricity transmitted to Russia remained very low. The reason for these exports was the low price of electricity in the Nordics. Major intraday variations in import volumes still persist.

Electricity market

In January–June, the average Nordic price on the day-ahead market was EUR 10.53 (41.22) per megawatt hour, and the area price for Finland was EUR 23.23 (42.42) per megawatt hour.

Due to constraints on the transmission connections between the countries, total congestion income increased compared to the corresponding period last year. Congestion income between Finland and Sweden in January–June increased to EUR 104.0 (30.0) million. The increase in congestion income resulted from the increased disparity between Finnish and Swedish area prices, due to weather conditions. The mild winter and high water levels resulted in a major decrease in wholesale price of electricity and in Sweden, the price of electricity decreased more than in Finland, as a result of the larger share of hydropower in the Swedish and Norwegian electricity systems. Congestion income between Finland and Estonia grew in January–June to EUR 20.7 (11.0) million. Even in Estonia, the area price decreased due to the mild weather and the lower Nordic prices, but the Estonian prices still persisted higher than the Finnish rates. In accordance with the regulation on congestion income, Fingrid will use the congestion income received for capital expenditure to improve the functioning of the electricity markets.

The availability and reliability of Fingrid's DC connections have been high, expect for some short-term disturbances. At the turn of the year, the Estlink 2 connection had a technically challenging malfunction, as a result of which the connection was down for several days in early January. Generally, troubleshooting and fault elimination measures were highly successful, and the connections were quickly made available to the markets again. The countertrade costs resulting from the disturbances that occurred over the review period were low in comparison to the previous year.

Fingrid is currently implementing electricity market development projects to increase the flexibility of the electricity markets and to enable the participation of consumers and the producers of weather-dependent renewables.

The Nordic Balancing Model and the related project to implement a 15-minute imbalance settlement period (ISP) will revamp the Nordic balancing power and reserve power marketplaces, modify the balancing model and adopt the 15-min ISP. Once the ISP is contracted to 15 minutes, the market time unit (MTU) in the electricity markets can be 15 minutes as well, instead of the current one hour. The 15-min ISP and 15-min MTU will have a major impact on the electricity system's imbalance settlement procedures and also on the operations of the market operators. Finland will switch to the 15-min ISP at the same time as the other Nordic countries. One aspect of the new imbalance settlement model is the adoption of a single balance model, where the production, consumption and trade of electricity are all processed in a single balance.

In May, the Steering Group for the Nordic Balancing Model confirmed the Nordic TSOs' joint position on the timing of the implementation of the 15-min ISP in Q2 2023. A derogation period extending to 22 May 2023 has been applied for the adoption of the 15-min ISP in all the Nordic countries. Fingrid sent a request for derogation to the Finnish regulation authority in early June.

In June, the Nordic TSOs communicated their estimation that the timeline for implementing the single balance model ('Single Price Single Position') may be delayed by roughly six months, which would mean a go-live date in Q4-2021.

Competitive trading between the Nordic electricity exchanges started in early June. Once competitive trading has gone live, several electricity market operators approved by the authorities can operate in the day-ahead markets of the 12 Nordic bidding zones. The start of competitive trading will increase the options available to the market operators in acquiring trading services, deepen the integration of European electricity markets and also benefit the Nordic markets. The Nordic countries are the second area in Europe to implement competition between the electricity exchanges.

Fingrid is building a centralised information exchange system for electricity retail markets, Datahub, which is the company's biggest investment in ICT systems. The Datahub will contain data from about 3.7 million electricity metering points. The implementation of the system will proceed in stages, according to specific milestones, in co-operation with the industry players. Some of the distribution system operators (DSOs) and retail sellers still face challenges in implementing the necessary changes in their own customer management and metering data management systems according to the target schedule. The Datahub will go live in February 2022.

Personnel

The total number of personnel employed by the Group averaged 390 (383) with an average of 344 (331) in a permanent employment relationship. Personnel costs amounted to EUR 16.3 (16.0) million. Wages and salaries amounted to EUR 14.0 (13.3) million, which equals 4.1 (3.2) per cent of the turnover.

Fingrid is well prepared for exceptional circumstances. The company was able to continue its business operations in a nearly normal manner, despite the exceptional circumstances resulting from the corona pandemic, by resorting heavily to remote work.

Fingrid came in 7th in the mid-sized companies category of the Great Place to Work Finland survey in February. The Great Place to Work Finland award annually recognises organisations with excellent workplace cultures, based on both employees' opinions and an

HR assessment. This was already the fifth time Fingrid participated in this survey, coming in tenth place in the previous survey in 2018.

Fingrid continued its traditional participation in the annual Responsible Summer Job competition, the aim of which is to challenge employers to offer young people more high-quality summer jobs and positive experiences. Despite the corona pandemic, our company employs around forty people in various summer jobs throughout Finland.

Other matters

On 20 March 2020, Fingrid Oyj's Annual General Meeting approved the financial statements for 2019 and decided on the dividend payment. The first instalment of the dividend, totalling EUR 100,100,150.00, was paid on 25 March 2020. In compliance with the AGM's decision, Juhani Järvi continues as Chair of the Board of Directors and Päivi Nerg continues as Vice Chair of the Board. The other Board members are Sanna Syri and Esko Torsti and, as a new Board member, Hannu Linna.

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. The transaction was finalised on 15 January 2020.

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, as well as proceedings concerning social-security-based damages, have been initiated 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.

On 30 June 2020, the Market Court received an appeal on the company's decision to exclude a bidder from a competitive tender for 400-MVA transformers in 2022–2025. The company decided to discontinue the tendering process on 14 July 2020. According to the company's view, the discontinued tendering process does not have a substantial impact on the company's financial result or financial position.

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

On 28 July 2020, the Board of Directors decided, in compliance with the authorisation granted by the AGM, that the second instalment of dividends shall be paid after the Board has approved the half-year report and assessed the company's solvency, financial position and financial performance. Based on the Board's authorisation from the AGM, the second instalment of EUR 19,000.00 for each Series A share and EUR 6,950.00 for each Series B share, totalling EUR 48,148,650.00 in dividends, will be paid on 31 July 2020.

In accordance with the earlier earnings guidance, 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 from the previous year. The company's own estimates indicate the result

according to the regulatory model that governs grid operations to show a deficit for 2020. The company's debt service capacity is expected to remain stable.
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. The income and costs are dependent on the outside temperatures, wind conditions, rainfall and changes in the hydrological conditions in the Nordic countries. These have an impact on the electricity production and consumption and consequently on the transmission and prices of electricity in Finland and in the surrounding areas.

Further information: Jukka Ruusunen, President & CEO, tel. +358 30 395 5140 or +358 40 593 8428
Jan Montell, Chief Financial Officer, tel. +358 30 395 5213 or +358 40 592 4419