

Fingrid Group's Financial Statements Bulletin January–December 2021: Strong financial result – biggest ever investment portfolio

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 2021, published in connection with this bulletin.

- For the first time ever, Fingrid Group's turnover rose to more than a billion euros, which resulted primarily from the high price of imbalance power. The high price of electricity in the Nordic countries increased Russian imports significantly. The financial result for 2021 was better than planned. The major contributing factors were the increased consumption of electricity due to cold weather and keeping rising costs in check.
- Operatively, the year went according to plan, despite the Covid-19 pandemic. Grid transmission tariffs were kept unchanged in 2021.
- Finland's electricity consumption in 2021 amounted to 86.7 (81.7) terawatt hours.
- Fingrid transmitted 72.9 (68.4) terawatt hours of electricity in its grid, representing 77.3 (77.2) per cent of the total transmission volume in Finland (consumption and inter-TSO).
- The grid transmission reliability rate was 99.99992 (99.99995) per cent.

KEY FIGURES		1-12/21	1-12/20	change %	7-12/21	7-12/20	change %
Turnover	€M	1,090.9	682.5	59.9	625.2	339.1	84.4
Capital expenditure, gross	€M	199.2	169.7	17.4	113.2	99.4	14.0
- of turnover	%	18.3	24.9		18.1	29.3	
Research and development expenses	€M	3.0	4.5	-34.1	1.1	1.9	-45.2
- of turnover	%	0.3	0.7		0.2	0.6	
Average number of employees		440	400	10.0	446	402	10.9
Number of employees at end of period		451	408	10.5	451	408	10.5
Salaries and bonuses, total	€M	28.2	26.7	5.9	13.9	12.7	9.2
Operating profit	€M	210.8	118.4	78.1	105.9	63.2	67.6
- of turnover	%	19.3	17.3		16.9	18.6	
Profit before taxes	€M	187.6	113.3	65.6	94.7	54.8	72.8
- of turnover	%	17.2	16.6		15.1	16.2	
Profit for the period	€M	150.1	94.0	59.7	76.0	45.8	66.0
Comprehensive income for the period	€M	150.1	95.0	58.0	76.0	45.8	66.0
Cashflow after capital expenditure	€M	251.4	139.9	79.7	38.2	38.2	0.0
Return on investments (ROI)	%	11.7	7.0				
Return on equity (ROE)	%	23.5	14.3				
Equity ratio	%	25.3	27.4		25.3	27.4	
Interest-bearing net borrowings	€M	938.5	1,049.0	-10.5	938.5	1,049.0	
Net gearing		1.5	1.7		1.5	1.7	
Dividend, Series A shares	€	52,500.00 *	53,500.00				
Dividend, Series B shares	€	19,200.00 *	19,600.00				
Equity per share	€	194,573	190,210	2.3			
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

Review by the President & CEO: Strong financial result in an exceptional market situation

When it comes to electricity, 2021 will be remembered for its exceptionally high electricity prices. The prices were primarily increased by the dramatic upsurge in the price of gas, but other contributors were emissions rights prices and the hydrological situation in the Nordic countries. The high electricity price level was reflected in Fingrid's higher imbalance power prices. As a result, the company's turnover rose to a record-high level. The higher imbalance power price level correspondingly caused imbalance power costs to rise. Loss power procurement costs also rose. Electricity imports from Russia to Finland increased as a consequence of the increase in electricity prices, which increased the cross-border transmission income. Despite accelerating inflation, the company succeeded in keeping rising costs in check. All in all, the company's turnover and result improved clearly compared to the previous year.

In 2021, Finland's electricity consumption rose by roughly six per cent compared to the previous year. Underlying the rise in consumption is a colder winter than in the previous year, and the normalisation of industrial consumption compared to the previous year's uncertain situation resulting from the Covid-19 pandemic. The increase in electricity consumption increased grid transmission income compared to the previous year. Fingrid raised the electricity transmission fees in the main grid by an average of two per cent for 2022. This increase is based especially on the surge in market-based reserve costs. Reserves ensure the power system's balance of electricity production and consumption. The company's objective is to remain among the most affordable transmission system operators in Europe, and thus also do our part in offering a competitive advantage to Finnish companies.

Fingrid's investment portfolio was larger than ever. The company had more than 50 substation projects and numerous transmission line projects underway. These investments enable up to 4,500 megawatts of wind power connections. Several major investment decisions were also made during the period under review. The transmission reliability of the main grid was excellent once again, although it was not possible to avoid all disturbances to customers.

Financial result

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.

Fingrid's consolidated financial statements have been drawn up in accordance with the same accounting principles as in 2020, taking into account more detailed instructions on the application of the IAS38 Intangible Assets standard.

The Group's turnover was EUR 1,090.9 (682.5) million. Grid service revenue grew to EUR 394.3 (373.6) million, which was due to the higher energy consumption resulting from the colder winter months compared to the previous year. Electricity consumption in Finland totalled 86.7 (81.7) terawatt hours during the year. Imbalance power sales increased year-on-year, to EUR 600.5 (260.8) million, due to the exceptionally high electricity prices. The cross-border transmission income for the connection between Finland and Russia increased to EUR 34.4 (6.9) million. This was due to the increase in transmission volume arising as a consequence of Finland's larger area price compared to the prices in northwest Russia. As a result of the transmission situation in the Baltic Sea region, ITC income increased to EUR

22.6 (17.1) million. Other operating income rose to EUR 64.9 (5.2) million, with the growth attributed to the rise in the fair value of derivatives related to business operations.

The Group's total costs amounted to EUR 945.0 (569.5) million. Imbalance power costs rose, due to high electricity prices, and totalled EUR 569.5 (234.4) million. Loss power costs amounted to EUR 65.6 (52.6) million. The volume of loss power stayed at the previous year's level. The high price of electricity raised the price of loss power procurement. The realised average price of loss power procurement was EUR 41.34 (33.23) per megawatt hour. The cost of reserves to safeguard the transmission system security increased to EUR 83.7 (63.5) million, mainly due to the increased hours procured for frequency restoration reserves (FRR). Depreciation amounted to EUR 99.9 (98.5) million and grid maintenance costs to EUR 19.9 (22.9) million. Personnel costs increased to EUR 33.6 (31.2) million because of the higher headcount in response to a growing workload, both domestically and in international cooperation.

The Group's operating profit was EUR 210.8 (118.4) million. To recognise changes in the fair value of electricity derivatives and the currency derivatives related to capital expenditure and other operating expenses, EUR 62.2 (3.0) million was recorded in operating profit. The Group's profit before taxes was EUR 187.6 (113.3) million. Profit for the financial year was EUR 150.1 (94.0) million. The equity ratio was 25.3 (27.4) per cent at the end of the year.

Fingrid's total capital expenditure in 2021 amounted to EUR 199.2 (169.7) million. This included a total of EUR 166.1 (137.3) million invested in the transmission grid and EUR 2.4 (9.6) million for reserve power. ICT investments amounted to EUR 28.5 (21.1) million. Of the individual ICT investments, the largest was the Datahub system, a centralised information exchange system for the retail market, which went live in February 2022. A total of EUR 3.0 (4.5) million was used for R&D projects during the year under review.

The parent company's turnover was EUR 1,091.1 (679.8) million, profit for the financial year EUR 133.5 (136.0) million and distributable funds EUR 184.6 million.

Based on the company's own calculations, the result according to the regulatory model that governs grid operations amounts to a surplus of around EUR 15 million for 2021.

Financing

Fingrid's credit rating remained high, reflecting the company's strong overall financial situation and debt service capacity. The Group's net financial costs were EUR 23.2 (4.0) million, including EUR 0.7 million in interest expenses on the lease liabilities booked into the balance sheet. The Group's net interest expenses on loans during the year totalled EUR 12.6 (13.3) million. The change in the fair value of financial derivatives was EUR 9.4 million negative (EUR 3.8 million positive).

Interest-bearing borrowings totalled EUR 1,158.1 (1,174.9) million, of which non-current borrowings accounted for EUR 1,022.6 (1,032.8) million and current borrowings for EUR 135.5 (142.1) million. At the end of the year, the company's interest-bearing borrowings included a total of EUR 31.1 million in lease liabilities, consisting of EUR 2.6 million in short-term liabilities, to be paid within a year.

The company's liquidity remained good. Cash and cash equivalents and other financial assets totalled EUR 219.6 (125.9) million on 31.12.2021. On 30 November 2021, Fingrid signed a

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revolving credit facility agreement of EUR 300 million tied to the company's sustainability goals, to secure liquidity. The loan period for the revolving credit facility is five years, in addition to which Fingrid has two one-year extension options. In addition, the company has a total of EUR 90 million in overdraft limits with banks to secure liquidity.

The counterparty risk arising from derivative contracts relating to financing was EUR 16.7 (26.2) 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 2021 remained high and were as follows:

- S&P's rating for Fingrid's unsecured senior debt and long-term company credit rating at 'AA-' and the short-term company credit rating at 'A-1+', with a stable outlook.
- Fitch's rating for Fingrid's unsecured senior debt at 'A+', the long-term company credit rating at 'A', and 'F1' for the short-term company credit rating, with a stable outlook.

Customers

Fingrid's operations are largely based on performing statutory duties. We perform this duty with a maximum customer focus, on impartial and equal terms. Fingrid provides grid services and electricity market services to its customers: network operators, electricity-consuming industry and other electricity market operators. The goal is to continuously develop Finland's competitiveness by improving Fingrid's services for the different needs of customers. The customer base has expanded in recent years, and the sector has also seen the emergence of entirely new types of customers.

Grid services secure reliable transmission of electricity in the main grid in accordance with the needs of utility companies and energy intensive industry. Significant quantities of wind power capacity were under planning and construction in 2021. We received some 300 new enquiries concerning connecting to the grid, which corresponds to more than 50,000 megawatts. Altogether, we have received close to a thousand connection enquiries, mostly to do with wind power, and their total power comes to 140,000 megawatts. We saw an acceleration in the number of enquiries from customers looking to connect new types of electricity consumption sites, such as data centres, hydrogen production and battery storage, directly to the grid.

Fingrid's electricity market services provide the electricity market operators with a unified price area for wholesale electricity trading in Finland as well as the benefits of the open European electricity markets. In 2021, large quantities of electricity were imported to Finland, based on market incentives, throughout the year under review. Finland has been dependent on imported electricity, as the domestic production capacity does not meet the demand. The price differences between the Nordic countries, which were large at times, resulted above all from a different production mix and limitations of the transmission capacity.

Based on the latest European comparison, Fingrid's transmission fees are the second most affordable in a peer group of some 20 countries. Fingrid's objective is to remain among the most affordable transmission system operators, and thus also do our part in offering a competitive advantage to companies operating in Finland. We will raise the electricity transmission fees in the main grid by an average of two per cent in 2022. This increase is

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based especially on the surge in market-based reserve costs. Reserves ensure the power system's balance of electricity production and consumption.

According to the 2021 customer satisfaction survey, our customers' trust in Fingrid remains good. Our customers gave us a Net Promoter Score (NPS) of 41, a good result for a natural monopoly in a business-to-business industry.

Main grid

Investments in Finland's main grid will come to more than two billion euros this decade. The goal of a climate neutral Finland by 2035 means a significant increase in emission-free electricity production and consumption. The foundation for grid investments is laid by long-term planning, cost-effectiveness, and by meeting the needs of society and the customers. Investments will be required especially due to the stronger growth of wind power production.

Altogether 600 kilometres of transmission line projects were underway in 2021, and 710 kilometres were under general planning. The total length of the alternative transmission line routes considered in Fingrid's EIA procedures was almost 1,100 kilometres, a new record.

The increasing of the north-south transmission capacity continued during the year under review. As regards major transmission projects, the Forest Line and Lake Line II, as well as the Aurora Line connection to Sweden, constitute a significant part of the electricity network infrastructure that Finland needs to become carbon neutral. In 2021, around 50 substation and transmission line projects were underway. Of the substation projects ten were completed in 2021. In 2022, 20 substations were completed.

In May 2021, Fingrid ranked second in an international asset management survey that assesses the tactical level of TSOs' asset management. The International Transmission Asset Management Study (ITAMS) has now been carried out six times, and Fingrid has received a top ranking each time.

Power system

In 2021, Finland's electricity consumption rose by roughly seven per cent compared to the previous year. Underlying the rise in consumption is a colder winter than in the previous year, and the normalisation of industrial consumption compared to the previous year's uncertain situation resulting from the Covid-19 pandemic. Electricity consumption in Finland amounted to 86.7 (81.7) terawatt hours in 2021. Fingrid transmitted a total of 72.9 (68.4) terawatt hours of electricity in its grid, representing 77.3 (77.2) per cent of the total transmission volume in Finland (consumption and inter-TSO).

The electricity consumption peaked at 14,267 (12,388) MWh/h on 18 February between 9 and 10 a.m., with Finland's electricity production contributing 11,191 MWh/h and the remaining 3,076 MWh/h being imported. The area price of electricity on the day-ahead market in Finland was €86.75/MWh during the peak consumption hour. The electricity supply was not in jeopardy during the peak consumption hour.

The electricity transmitted between Finland and Sweden mostly consisted of large imports from Sweden to Finland. In 2021, 15.9 (18.8) terawatt hours of electricity was imported from Sweden to Finland, and 0.9 (0.3) terawatt hours was exported from Finland to Sweden. The electricity transmissions between Finland and Estonia were dominated by exports from

Finland to Estonia, totalling 6.7 (6.6) terawatt hours. Electricity transmission from Russia to Finland amounted to 9.2 (3.0) terawatt hours. The increase in transmission was due to the significantly higher price of Nordic electricity compared to the previous year. In 2021, 0.3 (0.3) terawatt hours of electricity was imported from Norway to Finland.

The transmission reliability rate during the review period was 99.99992 (99.99995) per cent. Disturbances in connection with capex projects caused by human error increased from the previous year. An outage in a connection point in the main grid caused by a disturbance in Fingrid's transmission system lasted an average of 0.9 (0.5) minutes. The cost of the disturbances (regulatory outage costs) was EUR 2.3 (0.9) million, and including the quick reclosures, EUR 5.8 (3.2) million.

The usability and reliability of Fingrid's DC connections have been at a good level, but there were more short-term disturbances than in the previous year. The total duration of the disturbances was increased in particular by the challenging and long-lasting fault in the Fenno-Skan 1 connection.

The volume of transmission losses in the main grid remained at the level of the previous year, 1.5 (1.5) terawatt hours. This was two per cent of Fingrid's transmission volume, which was 72.9 terawatt hours. The losses are affected by the quantity of the electricity consumed and transferred.

Electricity market

As economic recovery continued, growth in demand and elevated fuel and emissions trading prices raised the price of electricity during the year under review. Record-high electricity prices were seen in the second half of the review period throughout Europe. The scarcity of hydropower caused electricity prices to rise to a new all-time high throughout the Nordics. The average market price of spot electricity on the power exchange (Nordic system price) was EUR 62.31 (10.93) per megawatt hour. The area price of electricity on the day-ahead market in Finland peaked on 7 December 2021 at EUR 1,000 per megawatt hour, which was the highest price seen on the markets in over a decade. On the balancing power market, on 26 November 2021, the highest prices ever were seen in Finland, Sweden and northern Norway, when balancing power cost EUR 5,000 per megawatt hour.

Large quantities of electricity were imported to Finland, based on market incentives, throughout the year under review. Finland has been dependent on imported electricity, as the domestic production capacity does not meet the demand. The cross-border transmission capacity limitations caused by the Swedish transmission grid's congestion impacted several surrounding bidding areas. The most significant in terms of Finland was the limitation of electricity exports from Finland to Sweden using the Fenno-Skan link. Technically, our cross-border transmission connections functioned extremely reliably.

Fingrid's congestion income from cross-border transmission lines totalled EUR 283.8 (146.7) million, of which the cross-border transmission lines between Finland and Sweden accounted for EUR 221.0 (122.7) million. The links between Finland and Estonia generated EUR 62.7 (24.0) million in congestion revenue. A total of EUR 488.7 million in congestion income remained unused at the end of 2021. The congestion income is used, in line with EU regulation, mostly for grid investments to eliminate transmission congestion.

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To increase the cross-border transmission capacity between Finland and Sweden, a third AC connection, the Aurora Line, to Sweden is currently being prepared, in cooperation with the Swedish TSO. The increased transmission capacity will help to decrease the price disparities between the countries. The transmission link is due for completion in 2025. The Forest Line connection currently under construction will substantially increase the north–south transmission capacity necessary for the Finnish power system and help to keep Finland as a single price area in electricity trading. The project is due for completion in 2022.

Fingrid's mission is to develop the electricity market. In order for the power system to operate as much on market terms as possible, it is important that the electricity market and the technical system characteristics are optimally in synch. The company has several ongoing projects for developing the electricity market. Key projects include the Nordic Balancing Model, the centralised information exchange system, i.e. Datahub, flexibility market solutions for the transmission grid, and transmission capacity calculation development. The above-mentioned projects moved forward during 2021, but much remains to be done in the coming years.

The Nordic countries will adopt a single balance model and a 15-minute imbalance settlement period (ISP). The single balance model was adopted in November 2021, and, as a result, separate balances for production and consumption were phased out. The 15-minute imbalance settlement period go-live has been confirmed, based on a decision by the Energy Authority, to take place in May 2023.

A centralised information exchange platform for the retail market of electricity, Datahub, went live in February 2022. Datahub will contain data from about 3.8 million accounting points in Finland.

As the energy transformation accelerates, new solutions are needed on market terms to maintain the power system. The flexibility markets are approaching the pilot stage. Flexible response is necessary both for balancing the consumption and production and to support efficient use of the grid infrastructure. Yet another driver of demand response solutions is EU legislation, in relation to which an amendment was proposed for the Finnish Electricity Market Act in the second half of 2021.

The changing needs of the power system require new kinds of properties from the reserves supporting the use of the system. In January 2021, the Nordic TSOs published a proposal on the renewal of the technical requirements for frequency-controlled reserves for comment by stakeholders. In June, we launched a pilot project to look into the success of the new technical requirements together with market parties. Towards the end of 2021, we started up the procurement of an entirely new reserve product for 2022 – a frequency-controlled disturbance reserve down-regulation product acquired for overfrequency disturbances.

Finland's and Estonia's transmission system operators initiated a collaboration for trade in automatic Frequency Restoration Reserve (aFRR) from Estonia to Finland. The first offers came from Estonia in August of 2021.

A flow based capacity calculation methodology will be adopted in the Nordic countries to improve the allocation of transmission capacity available to the markets. The development of the method entered a new phase during the review period when the calculation system required by the new method was trialled in May 2021.

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In 2021, Fingrid participated in a working group directed by the Ministry of Economic Affairs and Employment, tasked to promote sector integration in Finland and to produce insights for the national energy and climate strategy to be completed at a later date. Fingrid additionally led strategy work to create a joint vision for the Nordic TSOs and a roadmap on the development of sector integration on the Nordic level. Sector integration can help to achieve a clean energy system both resource- and cost-effectively through the capability to process energy in the most optimal form in each stage of production, transfers and consumption, such as electricity, heat, gas or liquid.

Personnel

The grid's sizable investment programme and the continuing international cooperation have contributed to a significant increase in the number of personnel in recent years. The company needs more and more people, for example, substation project managers, ICT specialists, grid developers and electricity market project specialists.

Fingrid Oyj employed 451 (408) persons, including temporary employees, at the end of the year. The number of permanent personnel was 400 (363) and the average age was 44 (44). At the end of the year, 26 (23) per cent of the personnel were women and 74 (77) per cent were men.

Events after the review period and future outlook

Fingrid Group's profit for the 2022 financial period, excluding changes in the fair value of derivatives and before taxes, is expected to decrease somewhat compared to 2021. Results forecasts for the financial year are complicated especially by the uncertainty related to grid service revenue, ITC income and cross-border transmission income, and to reserve and loss power costs. These are dependent on the variations in outside temperature, precipitation, windiness, and hydrological conditions 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. The company has analysed the risks linked to the Ukraine conflict from the perspective of the company and Finland's power system. Based on the analysis, the direct risks to Fingrid are minimal, and Finland is not dependent on electricity imported from Russia.

Jukka Metsälä, M.Sc. (Tech.), MBA, was appointed on 7 February 2022 as Fingrid's new CFO and member of the executive management group as of 5 May 2022, and his area of responsibility is the company's finances and treasury, and business development and strategy. Tuomas Rauhala, D.Sc. (Tech.) was appointed on 24 February 2022 as Senior Vice President of Power System Operations and as a member of the executive management group as of 1 June 2022. Metsälä and Rauhala will report to the company's President & CEO Jukka Ruusunen.

A new company, Nordic RCC A/S was established on 18 January 2022 for the incorporation of the operational planning office (Regional Security Coordinator, RSC) of the four Nordic transmission system operators, located in Copenhagen. Nordic RCC A/S will start up its operations on 1 July 2022, when the RSC will terminate its activities.

On 26 January 2022, the European Union granted funding of EUR 127 million for the Aurora Line transmission link between Finland and Sweden. Fingrid's share will be approximately EUR 110 million. The granted funding is part of the Connecting Europe Facility funding instrument. The new AC connection between Finland and Sweden, to be completed in 2025, is the decade's most important grid investment, which had already previously been selected as an EU Project of Common Interest (PCI). The connection is considered to be of common interest for the whole of Europe.

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 capital expenditure 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 133,493,880.81 and distributable funds in the financial statements total EUR 184,630,983.13. 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.

After the closing date, the Board of Directors has proposed 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 2021, a dividend of EUR 52,500.00 at maximum per share be paid for Series A shares and EUR 19,200.00 at maximum for Series B shares, for a total of EUR 133,037,400.00 at maximum. The dividends shall be paid in two instalments. The first instalment of EUR 35,000.00 for each Series A share and EUR 12,800.00 for each Series B share, totalling EUR 88,691,600.00, shall be paid on 4 April 2022. The second instalment of EUR 17,500.00 at maximum per share for each Series A share and EUR 6,400.00 at maximum per share for each Series B share, totalling EUR 44,345,800.00 at maximum in dividends, shall be paid according to the Board's decision after the half-year report has been confirmed, based on the authorisation given to the Board in the Annual General Meeting. The Board has the right to decide, based on the authorisation granted to it, on the payment of the second dividend instalment after the half-year report has been confirmed and it has assessed the company's solvency, financial position and financial development. The dividends that have been 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 2022

Fingrid Oyj's Annual General Meeting is scheduled to be held on 30 March 2022 in Helsinki.

In Helsinki, on 1 March 2022
Fingrid Oyj
Board of Directors

Attachments:

Financial Statements Bulletin
Corporate Governance Statement 2021
Annual Review and Financial Statements 2021
Remuneration Report 2021
ESEF report 2021