KreditGuide

CreditNews

from Standard & Poor's

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Ratings on Finnish Electric Utility Fingrid Oyj Affirmed; Outlook Stable

Standard & Poor's today affirmed its double-'A'-minus long-term corporate credit and senior unsecured ratings, its 'A-1'-plus short-term ratings, and its single-'A'-minus preferred stock rating on Fingrid Oyj, the Finnish transmission grid operator. The 'K-1' domestic rating on Fingrid was also affirmed. The outlook is stable.

The ratings reflect Fingrid's strong business position as the monopoly electricity transmission grid company and system operator in Finland (AA+/Positive/A-1+), its stable revenue base, Finland's favorable cost-plus regulatory regime, and a focused and prudent strategy. These factors balance a weak financial profile, which is attributable to high leverage and weak debt service ratios.

Fingrid began operations on Sept. 1, 1997, following the merger of the transmission grid operations of state-owned electric utility Imatran Voima Oy (now known as Fortum Power and Heat Oy; Fortum) and Pohjolan Voima Oy (PVO), a private-sector electric consortium. The Finnish state owns a 12.3% share of Fingrid's equity (representing 16.4% of votes); Fortum and PVO each hold 25% (representing 33.4% of votes). The remainder is owned by Finnish institutional investors.

Fingrid's cash flow and net income for 2000 were €96 million ($90 million) and €33 million, respectively, both of which were stable from 1999. All the utility's revenues are generated through its monopoly operations.

Fingrid benefits from Finland's cost-of-service electricity grid regulation, which allows for cost cover, a reasonable return on equity, and a high degree of flexibility in tariff setting and capital expenditures. Tariffs are mainly charged to consumption, enhancing revenue stability. The company has fulfilled its voluntary commitment to cut tariffs by 15% over the 1999-2001 period. No significant changes to the tariff levels or structures are expected for the next voluntary tariff period of 2002-2004.

Fingrid's weak financial profile is a negative rating factor. The company's leverage and reliance on preferred capital notes are high. Total debt to capital was 82% at year-end 2000 (treating Fingrid's deeply subordinated capital notes of €168 million as debt, but interest on these notes as dividend), while funds from operations (FFO) interest coverage was 3.2 times (x). Improved cost efficiency in operations, maintenance, and investments is expected to improve cash flow to enable some debt reduction to about 77% debt leverage over the next few years, and FFO interest coverage is expected to average about 3x. Fingrid's internal funding ability is very strong. The company retains the right to raise tariffs, if absolutely necessary, in the event of major difficulties.

OUTLOOK: STABLE

Fingrid's stable monopoly position and revenue base, and its flexible regulatory regime are expected to remain unchanged in the foreseeable future. This should enable the company to avoid financial difficulties, despite its highly leveraged balance sheet. No further tariff reductions or leverage increases are expected.

Credit Profile

ISSUER CREDIT RATINGS

Fingrid Oyj

Corp. credit rtg	AA-/Stable/A-1+

AFFIRMED RATINGS

Sr unsecd debt	AA-
CP	A-1+
Pfd stk	A-
Swedish short term rtg	K-1

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