

**Credit Opinion: [Fingrid Oyj](#)**

**Fingrid Oyj**

*Helsinki, Finland*

**Ratings**

Category	Moody's Rating
Outlook	Stable
Senior Unsecured	Aa3
Subordinate -Dom Curr	A1
Commercial Paper	P-1
Other Short Term	P-1

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**Key Indicators**

**Fingrid Oyj**

	2001	2002	2003	2004
EBIT Margin (b.fore Gwill amortisation) [1]	35.1%	33.3%	30.3%	32.8%
Adjusted RCF / Net Adjusted Debt [2]	6.8%	7.6%	8.8%	12.4%
Adjusted FFO Interest Coverage [3]	2.3x	2.5x	2.7x	3.3x
Adjusted RCF / Capex+ Investments (net of disposals) [4]	136.6%	144.0%	191.4%	242.4%
EBIT Gross Interest Coverage [5]	1.6x	1.7x	1.7x	2.3x
Adjusted FFO / Net Adjusted Debt [6]	7.6%	8.4%	9.5%	13.3%

"Moody's Basic Definitions for Credit Statistics, User's Guide, June 4, 2003"

[1] (Revenues - Op.Expenses +/- One-time non-recurring items + Goodwill amortisation)/Turnover [2] (RCF postWC+2/3 OpLease Expense)/((Total Debt+ 8\*OpLease Expense+G'tees+Hybrids+Off-balance sheet debt+Pension liabilities)-(Cash+Marketable Securities)) [3] (FFO postWC + Cash Interest Expense) / Interest Expense [4] RCF postWC /(Capex - Sale of TFA + Acquisitions - Divestments) [5] (EBIT + Interest Income) / (Interest Expense) [6] (FFO postWC+2/3 OpLease Expense)/((Total Debt+ 8\*OpLease Expense+G'tees+Hybrids+Off-balance sheet debt+Pension liabilities)-(Cash+Marketable Securities))

*Note: For definitions of Moody's most common ratio terms please see the accompanying [User's Guide](#).*

**Opinion**

**Recent Developments**

The Aa3 ratings of Fingrid Oyj reflect the application of Moody's new rating methodology for government-related issuers ("GRIs"). Please refer to Moody's Rating Methodology entitled "The Application of Joint Default Analysis to Government-Related Issuers", published in April 2005, and its accompanying press release.

Please also refer to Moody's Special Comment entitled "Rating Government-Related Issuers in European Corporate Finance" for a detailed discussion of the application of the GRI rating methodology to corporate issuers in Europe.

**Credit Strengths**

Fingrid's credit strengths are:

- Low risk given monopoly transmission business
- Flexible regulatory framework
- Predictable steady operating cash flows and capex requirements
- Ability to raise tariffs if need be.

### **Credit Challenges**

Fingrid's credit challenges are:

- High leverage expected to reduce only gradually
- Low retained cash flow to debt measures, although the company has strong liquidity.

### **Rating Rationale**

In accordance with Moody's GRI rating methodology, the Aa3 ratings of Fingrid reflect the combination of the following inputs:

- Baseline credit assessment of 3 (on a scale of 1 to 6, where 1 represents lowest credit risk);
- Aaa local currency rating of the Finnish government;
- Medium dependence;
- Low support.

The baseline credit assessment of 3 is underpinned by the low business risk of Fingrid as the national electricity transmission monopoly, together with a supportive regulatory framework which confers flexibility of earnings despite a highly leveraged financial profile.

Fingrid was established in 1997 out of transmission assets of electric utilities IVO (now Fortum) and PVO, who are now Fingrid's main shareholders together with the State and institutional investors. Fingrid was incorporated with high leverage in order to reduce its cost of capital and hence offer the lowest possible tariffs to its customers, which include Fortum and PVO. Accordingly, FFO/net interest coverage is low, but is mitigated by the flexibility of the regulatory framework. Fingrid agrees tariffs directly with the customers, under the supervision of the Regulator, to reflect costs plus a "reasonable profit". This is designed to allow the company to pass cost increases (decreases) through to customers as required. Over time excess cash flow should allow some gradual debt reduction.

Fingrid has cut tariffs overall by 15% since its inception, and the company has operated with unchanged price levels since 2000, as efficiencies and good turnover growth have allowed for tariffs to be held at current levels. Changes in the regulatory framework were introduced in December 2004, with a new ex-ante regulatory pricing model for an initial 3-year period until 2007. This will be followed by a further 4-year period. Moody's believes that the new model enhances revenue predictability, and allow operators a higher degree of certainty when planning for investment and operations. Considering Fingrid's efficiency and low tariffs, we expect the company to be able to continue to operate comfortably within the new regulatory parameters.

Dependence is medium given the fact that Fingrid's revenues are derived primarily from domestic sources; it also reflects the high degree of energy intensive industry in Finland.

Support is low. This reflects the fact that the State directly holds and indirectly holds 33% of voting rights and through its ownership is involved in the supervision of Fingrid. Nonetheless the Finnish State is strongly non-interventionist. Moody's believes that it would hesitate to support state-owned companies except in the most extreme circumstances unless they were strategically important, as is the case with Fingrid, controlling key infrastructure. The government would expect Fingrid in the first instance to raise user tariffs to meet emergency requirements.

### **Rating Outlook**

Stable. The company maintains a strong commitment to a conservative strategy and stability of cash flow to service its debt commitments and maintains healthy liquidity. Fingrid does however have high leverage and

relatively low debt protection measures and the current rating factors in a steady development in retained cash flow and maintenance of the gradual debt reduction trend, as adjusted leverage (including preference shares) should continue to improve. Additionally, Fingrid always has an option in contracts with its customers to raise tariffs in case of extreme need; a flexibility which it should retain even under the new regulatory framework.

#### **What Could Change the Rating - UP**

As the current ratios are somewhat tightly positioned for the current rating category, positive rating pressure is not imminent; in any event we would expect to see significant improvement on current debt protection measures in order for this to occur.

#### **What Could Change the Rating - DOWN**

Failure to improve financial profile as noted. Prolonged downturn (not currently anticipated) in the Finnish economy which could weaken Fingrid's earnings and customer creditworthiness.

In addition to the factors listed above affecting the baseline credit assessment, the ratings may also be impacted by changes in the ratings of the supporting government, or by changes in Moody's assessments of default dependence and support described in the rating rationale.

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