

Announcement: Moody's affirms Fingrid Oyj's A1/P-1 ratings; changes outlook to stable

Global Credit Research - 13 Dec 2011

London, 13 December 2011 -- Moody's Investors Service has today affirmed the A1 long-term senior unsecured debt rating and the Prime-1 (P-1) short-term rating of Fingrid Oyj ("Fingrid"), the Finnish electricity owner and operator. Concurrently, Moody's has changed the outlook on the rating to stable from negative.

RATINGS RATIONALE

"Today's announcement reflects the change in Fingrid's strategy whereby the company will now raise tariffs in order that its net profit gradually rises to its allowed regulatory return by the end of the new regulatory period in December 2015," says Paul Lund, a Moody's Vice President -- Senior Credit Officer and lead analyst for Fingrid Oyj.

Fingrid's ratings reflects the very supportive regulatory regime in Finland, which provides a return on regulatorily allowed assets, as well as an allowance for operating costs, outage costs and balancing costs. Tariffs can be altered on a yearly basis in order to meet the regulator's allowed return for the period in the case of under- or over-recovery. The regulatorily allowed return is reset every four years, at which time the regulator may also revise efficiency targets for the following period.

The Government of Finland (Aaa stable) acquired ownership stakes in Fingrid Oyj from both PVO and Fortum in April 2011. This resulted in a change in strategy from the owners, whereby Fingrid will now claim the full regulatory allowed return towards the end of the 2012-2015 regulatory period. Moody's anticipates that Fingrid will generate higher levels of cash flow going forward, and therefore expects that the company will have greater financial flexibility. However, the rating agency expects that this increased cash flow will be offset by higher levels of dividend payment.

Fingrid's financial profile became increasingly stretched for its rating category in 2010 and 2011. This reflected Fingrid's previous strategy of not collecting the full regulatory allowed return in order to keep tariffs low for the two main shareholders, as well as the company's very high levels of capital expenditure (capex) in those years.

Moody's anticipates an improvement in Fingrid's financial profile, such that (i) funds from operations (FFO)/interest coverage is above 5.0x on a consistent basis; and (ii) FFO/debt increases gradually to around 14% over the next three years, from the relatively low level of 10% in 2010. The rating agency expects that Fingrid's retained cash flow (RCF)/capex ratio will remain very low, at around 0.5x, reflecting the company's high levels of capex. However, Moody's also expects that Fingrid's leverage will decrease over the coming regulatory period as capex is likely to be funded largely from cash flow, with an expected relatively modest increase in notional levels of debt over the same period.

Moody's provides one notch of uplift to Fingrid's Baseline Credit Assessment of 6, which is equivalent to A2, based on the application of the rating agency's rating methodology for government-related issuers ("GRIs"). Moody's continues to view the probability of extraordinary support by the Government of Finland as moderate, notwithstanding the increase in ownership to 53% direct ownership in April 2011, from 33% direct and indirect ownership, given the governments non-interventionist approach.

The stable outlook reflects Moody's expectation that Fingrid's financial profile will improve from its current level, helped by increased levels of cash flow resulting from higher tariffs and returns that the company will claim.

WHAT COULD CHANGE THE RATING UP/DOWN

In view of the significant ongoing investment programme and progressive increase in return, Moody's does not expect any positive pressure on Fingrid's rating in the near term.

Moody's could downgrade the rating in the event that Fingrid's FFO/interest coverage and FFO/debt ratios were to fail to meet the rating agency's expectations, falling below 4.0x and not reaching the mid-teens in percentage terms, respectively, during the upcoming regulatory period. Moody's notes that the single notch of uplift to the BCA under its GRI methodology would be unlikely to be reduced in the event of a limited fall in the ratings of the government of Finland.

Fingrid Oyj ("Fingrid", A1/P-1, stable) is the transmission system operator and owner of Finland's high-voltage electricity assets and interconnectors. It also owns a 20% stake in Nord Pool Spot AS, the Nordic electricity exchange.

Fingrid was established in 1997 out of the transmission assets of the electric utilities IVO, now the 50% state-owned Fortum (A2 stable), Finland's largest utility, and PVO. Following a change in shareholdings on 19 April 2011, the state of Finland is now the majority owner of Fingrid, owning 53% of shares, with the balance held by institutional investors, including Finnish pension fund Ilmarinen (19.9%). The change of ownership reflects the EU requirement that the ownership of transmission assets is unbundled from generation and supply companies by March 2012.

PRINCIPAL METHODOLOGIES

The methodologies used in this rating were Regulated Electric and Gas Networks published in August 2009, and Government-Related Issuers: Methodology Update published in July 2010. Please see the Credit Policy page on www.moody's.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides relevant regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides relevant regulatory disclosures in relation to the rating action on the support provider and in relation to each particular

rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides relevant regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moody's.com.

The rating has been disclosed to the rated entity or its designated agent(s) and issued with/with no amendment resulting from that disclosure.

Information sources used to prepare the rating are the following : parties involved in the ratings, parties not involved in the ratings, public information, confidential and proprietary Moody's Investors Service information, and confidential and proprietary Moody's Analytics information.

Moody's considers the quality of information available on the rated entity, obligation or credit satisfactory for the purposes of issuing a rating.

Moody's adopts all necessary measures so that the information it uses in assigning a rating is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources. However, Moody's is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

Moody's Investors Service may have provided Ancillary or Other Permissible Service(s) to the rated entity or its related third parties within the two years preceding the credit rating action. Please see the special report "Ancillary or other permissible services provided to entities rated by MIS's EU credit rating agencies" on the ratings disclosure page on our website www.moody's.com for further information.

Please see the ratings disclosure page on www.moody's.com for general disclosure on potential conflicts of interests.

Please see the ratings disclosure page on www.moody's.com for information on (A) MCO's major shareholders (above 5%) and for (B) further information regarding certain affiliations that may exist between directors of MCO and rated entities as well as (C) the names of entities that hold ratings from MIS that have also publicly reported to the SEC an ownership interest in MCO of more than 5%. A member of the board of directors of this rated entity may also be a member of the board of directors of a shareholder of Moody's Corporation; however, Moody's has not independently verified this matter.

Please see Moody's Rating Symbols and Definitions on the Rating Process page on www.moody's.com for further information on the meaning of each rating category and the definition of default and recovery.

Please see ratings tab on the issuer/entity page on www.moody's.com for the last rating action and the rating history. The date on which some ratings were first released goes back to a time before Moody's ratings were fully digitized and accurate data may not be available. Consequently, Moody's provides a date that it believes is the most reliable and accurate based on the information that is available to it. Please see the ratings disclosure page on our website www.moody's.com for further information.

Please see www.moody's.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Paul Lund
VP - Senior Credit Officer
Infrastructure Finance
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Monica Merli
MD - Infrastructure Finance
Infrastructure Finance
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Releasing Office:
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454



© 2011 Moody's Investors Service, Inc. and/or its licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. ("MIS") AND ITS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATIONS") MAY INCLUDE MOODY'S CURRENT

OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources Moody's considers to be reliable, including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained herein must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody's.com under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Any publication into Australia of this document is by MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657, which holds Australian Financial Services License no. 336969. This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001.

Notwithstanding the foregoing, credit ratings assigned on and after October 1, 2010 by Moody's Japan K.K. ("MJKK") are MJKK's current opinions of the relative future credit risk of entities, credit commitments, or debt or debt-like securities. In such a case, "MIS" in the foregoing statements shall be deemed to be replaced with "MJKK". MJKK is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO.

This credit rating is an opinion as to the creditworthiness or a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be dangerous for retail investors to make

any investment decision based on this credit rating. If in doubt you should contact your financial or other professional adviser.