

### Summary:

## Fingrid Oyj

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## Summary:

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**Credit Rating:** A+/Stable/A-1

## Rationale

The "A+" rating on Finnish transmission grid company and system operator Fingrid Oyj is based on the company's stand-alone credit profile (SACP), which Standard & Poor's Ratings Services assesses at 'A', as well as on Standard & Poor's opinion that there is a "moderately high" likelihood that the Republic of Finland (AAA/Stable/A-1+) would provide timely and sufficient extraordinary support to Fingrid in the event of financial distress.

Fingrid's SACP reflects its strong business position as the monopoly electrical transmission grid company and system operator in Finland. The SACP further reflects Fingrid's strong record of network efficiency, a favorable cost-plus regulatory regime, and Fingrid's clear strategic focus on the national electricity transmission network and enhancement of the Nordic electricity market. The SACP and the ratings are constrained by what we regard as Fingrid's "significant" financial risk profile in light of weakening credit ratios, due to an extensive ongoing investment program, and some volume risk.

In accordance with our criteria for government-related entities, our view of a "moderately high" likelihood of extraordinary government support is based on our assessment of Fingrid's:

- "Very important" role in maintaining the country's electricity supply; and
- "Limited" link with the Finnish government because of the state's relatively low direct shareholding in Fingrid (about 12%).

### Key business and profitability developments

Fingrid's operating profit and margins fell sharply in 2009, despite a 4.5% tariff increase at the beginning of the year. This was owing to lower revenues as demand for electricity declined in line with the economic downturn. However, in the first half of 2010, Fingrid's revenues and operating profit recovered as industrial demand in Finland increased, although operating margins were lower than before the financial turmoil. For the 12 months ended June 30, 2010, the company's adjusted operating margin stood at 31.9%, compared with 35.0% and 39.6% for the corresponding periods of 2009 and 2008, respectively.

Compared with its peers, Fingrid's record of network efficiency is excellent, in our view. The company has highly efficient operations, with virtually no bottlenecks or serious disturbances. Fingrid benefits from Finland's cost-of-service electricity grid regulation, which allows costs to be covered, a reasonable return on equity, and a high degree of flexibility in tariff-setting and capital expenditures.

Two of Fingrid's owners, Pohjolan Voima Oy (not rated) and Fortum Oyj (A/Stable/A-1; 50.5% owned by the Finnish government), each holding 25% of the shares and 33% of the votes, have announced that they are considering options to divest their holdings in accordance with the EU's unbundling directive, which has to be completed by March 2012. However, it is still unclear how and when this transaction will take place.

## Key cash flow and capital-structure developments

In our view, the recent weakening of Fingrid's financial risk profile is a result of the company's extensive investment plan, which includes enhancement of the transmission grid, strengthening of cross-border connections, and investments in reserve power. We understand that the planned investments will total about €1.7 billion over the next 10 years. We believe this is likely to lead to continuing negative free operating cash flow and higher debt levels. Fingrid has, however, prefunded part of the investments and has additional financial flexibility to raise tariffs within the regulatory framework.

We currently expect the ratio of funds from operations to adjusted debt to remain at 10%-11% over the near to medium term, compared with 8.6% in 2009 and 11.6% in the 12 months ended June 30, 2010. We consider this to be in line with the ratings.

## Liquidity

We view Fingrid's liquidity position as adequate. As of June 30, 2010, the company had €202 million in cash and marketable short-term securities, compared with €352 million in short-term debt (including commercial paper), and access to a fully undrawn €250 million revolving credit facility maturing in November 2012. To our knowledge, the existing credit agreements do not contain financial covenants or material adverse change clauses.

We expect Fingrid to continue to generate solid cash flows from operations, which are likely to increase this year to the levels seen in 2008. At the same time, increased investments will likely lead to negative prefinancing cash flow over the near to medium term. Consequently, we expect the company's debt to increase in the coming years.

## Outlook

The stable outlook reflects the likelihood that we would affirm the ratings on Fingrid, in accordance with our criteria on government-related entities, even if we were to lower our assessment of the company's SACP by a notch.

We could raise the ratings if Fingrid's SACP were to improve, for example, if the company's financial risk profile significantly strengthened. We could also raise the ratings if the likelihood of government support were to increase, for example if the Finnish government increased its direct stake in Fingrid.

Although currently unlikely, the ratings could be lowered if we were to perceive a weakening of the likelihood of extraordinary state support.

## Related Criteria And Research

Enhanced Methodology And Assumptions For Rating Government-Related Entities, June 29, 2009

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