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Summary:
Fingrid Oyj

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Summary:

Fingrid Oyj

Credit Rating: A+/Stable/A-1

Rationale

The ratings on Fingrid Oyj are based on the utility's strong business position as the monopoly electrical transmission grid company and system operator in the politically and economically stable Republic of Finland (AAA/Stable/A-1+). The ratings also reflect Fingrid's strong track record of network efficiency, a favorable cost-plus regulatory regime, and a clear strategic focus on national electricity transmission networks and integration of the Nordic electricity market. The ratings are constrained by a weak financial profile attributable to high leverage and weak debt-service coverage ratios.

Compared with its peers, Fingrid's track record on network efficiency is excellent: The company has highly efficient operations, with virtually no bottlenecks or disturbances. Fingrid also 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.

Fingrid's investment plans, which include enhancement of the transmission grid and strengthening of cross-border connections, will lead to annual capital expenditures of €100 million–€200 million over the next three years compared with €84 million in 2007. This will result in negative free operating cash flow over the near to medium term. Fingrid has prefunded part of the investments and has additional financial flexibility within the regulatory framework. Nevertheless, funds from operations (FFO) interest coverage and FFO to debt were 4.0x and 11.5% in 2006, but declined to 3.3x and 10.0% in 2007. Over the next three years, Standard & Poor's Ratings Services expects Fingrid's credit metrics to weaken further, with FFO to interest and FFO to debt declining to about 3x and 8%, respectively, before recovering in 2011.

Fingrid's debt leverage remains high, amounting to about 69%, including capital loans of €30 million at the end of 2007. We expect debt leverage to remain at about 70% through 2011.

Liquidity

Fingrid's liquidity position is strong. At March 31, 2008, the company had €212 million in cash and marketable short-term securities, compared with €220 million in short-term debt, and an undrawn €250 million revolving credit facility. The existing credit agreements do not have material financial covenants or material adverse change clauses. Long-term debt, including derivative liabilities, totaled €732 million at March 31, 2008.

Outlook

The stable outlook reflects Fingrid's stable monopoly position and its flexible regulatory regime, both of which should remain unchanged over the near term. We could raise the ratings if Fingrid's financial risk profile strengthens, the company's credit ratios show a sustainable recovery trend, and free operating cash flow turns positive over the next few years. Although unlikely, we could lower the ratings if Fingrid increases capital

expenditure further and invests in operations or assets in such a way that its business risk profile is negatively affected.

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