

FITCH DOWNGRADES FINGRID TO 'A+'; OUTLOOK NEGATIVE

Fitch Ratings-Paris/Barcelona-09 August 2010: Fitch Ratings has downgraded Finland-based Fingrid Oyj's (Fingrid) Long-term Issuer Default Rating (IDR) to 'A+' from 'AA-', its senior unsecured debt rating to 'AA-' from 'AA', and Short-term IDR to 'F1' from 'F1+'. The Outlook on the Long-term IDR is Negative. The rating of the senior unsecured debt is one notch above the IDR, reflecting the above-average recovery prospects for the regulated utility sector.

The downgrade reflects an expected weakening of leverage and coverage ratios in 2010 and 2011, due to continued modest tariff increases and high capex related to Fingrid's substantial investment programme. The Negative Outlook reflects the likelihood that leverage, measured as net adjusted debt/EBITDAR and funds from operations (FFO) net leverage, will exceed 7x in 2010 and 2011, which is inconsistent with an 'A+' rating. However, Fitch notes that the probable increase in tariffs in 2012 will help improve leverage and FFO net leverage to levels commensurate with an 'A+' rating. Fitch also notes that the company has significant headroom to raise tariffs further within the current regulatory period (2008-2011), as well as in the next regulatory period, which if implemented, could stabilise the company's financial profile. The ratings could, however, come under pressure should the probable tariff increase in 2012 fail to be implemented or if capex increases further from current projected levels in 2010-12.

Two of Fingrid's major shareholders Fortum ('A-/Stable') and PVO, who together hold 50% of the share capital and 66% of voting rights, have announced the divestment of their stakes before 2012. This is to comply with EU "unbundling" legislation, whereby vertically integrated utilities are required to split transmission businesses from generation and supply. The credit impact of the disposals may be positive should new shareholders allow the company greater latitude to increase tariffs, but this will also depend on capital structure policies. Fingrid has historically maintained low and stable tariffs despite legislation allowing for much higher increases as its major shareholders have benefited from the low tariffs.

Fingrid's ratings are supported by its low business risk due to its monopoly position, solid efficiency track record and almost wholly regulated earnings. Fingrid benefits from a benign and stable regulatory system, with the flexibility to set tariffs. While the company's financial profile is weak compared with European peers, Fingrid operates within a more favourable regulatory framework than its peers.

The ratings factor in Fingrid's good liquidity, with EUR200m of cash and cash equivalents and a EUR250m undrawn revolving credit facility. This adequately covers at least one year of debt maturities and the majority of annual capex requirements.

Fingrid is the monopoly electricity transmission system operator and owner of Finland's high voltage electricity assets and interconnectors. The company also owns a 20% stake in Nord Pool Spot AS, the Nordic electricity exchange. Fingrid's FYE09 revenue was EUR358m. The company is 12%-owned by the Finnish state, 25% by Fortum Power and Heat Oy, 25% by Pohjolan Voima Oy and 38% by institutional investors.

Applicable criteria, 'Rating EMEA Regulated Network Utilities', dated 13 July 2010, and 'Corporate Rating Methodology', dated 24 November 2009 are available on www.fitchratings.com.

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Additional information is available on www.fitchratings.com.

Related Research:

Rating EMEA Regulated Network Utilities - Sector Credit Factors - AMENDMENT

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=541427

Corporate Rating Methodology

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=489018

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