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Research Update:

Fingrid Oyj Ratings Affirmed Despite Lower Stand-Alone Credit Profile; Outlook Stable

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Overview

- We have revised our assessment of Fingrid Oyj's stand-alone credit profile to "A" from "A+" due to a weakening in the company's financial profile.
- We view the likelihood of extraordinary government support as "moderately high", resulting in a one-notch uplift to the company's stand-alone credit profile.
- We are affirming all ratings on Fingrid, Finland's monopoly electrical transmission grid company and system operator.
- The outlook is stable, reflecting the likelihood that the ratings on Fingrid would be affirmed, even if we were to lower our assessment of the company's stand-alone credit profile by a further notch.

Rating Action

On July 16, 2009, Standard & Poor's Ratings Services affirmed all ratings, including the "A+" long-term corporate credit rating and "A-1" short-term corporate credit rating, on Finland's monopoly electrical transmission grid company and system operator Fingrid Oyj following a review of the company's stand-alone credit profile (SACP) and the likelihood of extraordinary government support. The outlook is stable.

Rationale

The rating affirmation follows a revision of Fingrid's SACP which has been lowered to "A" from "A+". This primarily reflects our expectations of weak credit measures over the near to medium term compared with the requirements for the previous SACP.

A key reason for the weakening of Fingrid's financial risk profile is the company's extensive investment plan, which includes enhancement of the transmission grid, strengthening of cross-border connections, and investments in reserve power, totaling about €1.6 billion over the next 10 years. In our opinion, this is likely to lead to negative free operating cash flow generation and increased debt levels, although Fingrid has prefunded part of the investments and has additional financial flexibility within the regulatory framework.

We currently expect funds from operations to adjusted debt to deteriorate to levels of 8%-9% over the near term compared with 14.3% in 2008 and 13.4% in the twelve months ended March 31, 2009. We consider this as weak even after the lowering of the SACP, and there is little room, in our view, for further deterioration without a negative impact on the SACP. We currently expect the

ratios to strengthen somewhat over the medium term. However, they are unlikely to return to historical levels due to significant capital spending.

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 as the monopoly transmission system operator in the politically and economically stable Republic of Finland (AAA/Stable/A-1+), with a clear strategic importance to the government in its focus on ensuring electricity transmission stability, developing the transmission grid and enhancing the Nordic electricity market.
- "Limited" link to the Republic of Finland, primarily reflecting a relatively low direct ownership stake of 12.3%.

The government recently announced its intention to acquire a majority stake in Fingrid over the long term. If executed, such a transaction could have positive implications for our view on the link between Fingrid and the Republic of Finland. The current ratings, however, reflect the present ownership structure.

Short-term credit factors

We view Fingrid's liquidity position as adequate. As at March 31, 2009, Fingrid had €194 million in cash and marketable short-term securities, compared with €295 million in short-term debt, and access to a fully undrawn €250 million revolving credit facility, maturing in November 2012. The existing credit agreements do not contain financial covenants of material adverse change clauses.

We expect Fingrid to continue to generate solid cash flows from operations, although lower than in the past few years. At the same time, capital expenditures will increase. We expect this to result in negative free operating cash flow and discretionary cash flow over the near to medium term, which the company aims to finance with debt.

Outlook

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

We could raise the ratings if Fingrid's SACP were to improve, for example if the financial risk profile significantly strengthens. We could also raise the ratings if the likelihood of government support were to increase, for example by an increased ownership stake by the Finnish government.

Although currently unlikely, the ratings could be lowered if our assessment of the level of state support weakens.

Related Research

See "Enhanced Methodology And Assumptions For Rating Government-Related Entities", published June 29, 2009 on RatingsDirect.

Ratings List

Ratings Affirmed

Fingrid Oyj

Corporate Credit Rating	A+/Stable/A-1
Senior Unsecured	A+
Preferred Stock	A-
Commercial Paper	A-1

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