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Research Update:

Finland's Electricity Grid Operator Fingrid Outlook To Negative On Sovereign Rating Action; 'AA-/A-1+' Ratings Affirmed

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Overview

- On Jan. 13, 2012, we revised the outlook on our 'AAA/A-1+' ratings on the Republic of Finland to negative.
- In accordance with our criteria for government-related entities, we are revising the outlook on our 'AA-/A-1+' ratings on Finnish electricity transmission system operator Fingrid Oyj to negative.
- At the same time, we are affirming the ratings on Fingrid and removing them from CreditWatch negative.
- The negative outlook reflects that a downgrade of the sovereign would likely result in a similar rating action on Fingrid.

Rating Action

On Jan. 17, 2012, Standard & Poor's Ratings Services revised its outlook on Finnish electricity transmission system operator (TSO) Fingrid Oyj to negative. At the same time, the 'AA-' long-term and 'A-1+' short-term corporate credit ratings were affirmed and removed from CreditWatch, where they were placed with negative implications on Dec. 8, 2011.

Rationale

The outlook revision follows that on the Republic of Finland (AAA/Negative/A-1+) on Jan. 13, 2012. The ratings on Fingrid continue to reflect the company's stand-alone credit profile (SACP), which we assess at 'a', as well as our opinion that there is a "high" likelihood that the Finnish government would provide timely and sufficient extraordinary support to Fingrid in the event of financial distress.

Our opinion of a "high" likelihood of government support is based on our assessment of Fingrid's:

- "Very important" role as Finland's monopoly TSO. We see Fingrid as strategically important to the government because of its role in ensuring the stability of electricity transmission, developing the transmission grid, and enhancing the Nordic electricity market; and
- "Strong" link to Finland's government, which has a 53% shareholding in Fingrid that we understand it does not intend to sell in the medium to long term.

Outlook

The negative outlook on Fingrid reflects that on Finland, indicating that we could lower the ratings on Fingrid by one notch if the ratings on Finland were lowered by one notch. These potential actions are in accordance with our rating methodology for government-related entities and our criteria for nonsovereign ratings that exceed our ratings on sovereigns in the European Economic and Monetary Union. A revision of the outlook on Finland to stable would likely lead to a similar action on Fingrid.

We anticipate that Fingrid will remain strategically important to the Finnish government as Finland's monopoly TSO and that there will be no material changes in ownership in the near to medium term. For the current SACP, we anticipate the ratio of funds from operations to debt remaining higher than 10% in the near term and likely gradually moving toward 13%-15% in the medium term.

We could raise the ratings if we saw a higher likelihood of government support for Fingrid, for example if the link between Fingrid and the Finnish government were to strengthen. Conversely, we could lower the ratings if we perceived a weakening of the likelihood of extraordinary state support, for example, in the event of an unexpected dilution of the government's ownership stake.

In line with our methodology for government-related entities, we could take a negative rating action if Fingrid's SACP weakened to 'bbb+' or lower. Although unlikely at this stage, this could result from a major regulatory overhaul, a change in the group's financial policies, an unexpected shortfall in liquidity, or a significant negative impact on its credit measures and financial risk profile. Similarly, ratings upside could stem from an improvement of Fingrid's SACP to 'aa-'. However, we consider such a scenario unlikely in the medium term, owing to the group's significant investment program and relatively high financial leverage.

Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal, unless otherwise stated.

Related criteria

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And Assumptions, June 14, 2011
- Principles Of Credit Ratings, Feb. 16, 2011
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9,

2010

- Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, May 27, 2009
- Corporate Criteria--Parent/Subsidiary Links; General Principles; Subsidiaries/Joint Ventures/Nonrecourse Projects; Finance Subsidiaries; Rating Link To Parent, Oct. 28, 2004

Related research

- Finland's 'AAA/A-1+' Ratings Affirmed; Off Watch Neg, Outlook Negative, Jan. 13, 2012
- Credit FAQ: How S&P Derives Its Ratings On Government-Related Entities, April 4, 2011

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Fingrid Oyj		
Corporate Credit Rating	AA-/Negative/A-1+	AA-/Watch Neg/A-1+
Nordic National Scale	K-1	K-1
Senior Unsecured	AA-	AA-/Watch Neg
Commercial Paper	A-1+	A-1+/Watch Neg

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Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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