

Fingrid Oyj

Update

Ratings

Foreign Currency

Long-Term IDR	A
Short-Term IDR	F1
Senior unsecured	A+

Outlooks

Foreign-Currency Long-Term IDR	Stable
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Financial Data

Fingrid Oyj

	31 Dec 14	31 Dec 13
Revenue (EURm)	567	543
Operating EBITDA (EURm)	234	197
Operating EBITDA margin (%)	41	36
Funds from operations (EURm)	187	159
FFO gross interest coverage (x)	9.1	7.8
FFO net adjusted leverage (x)	5.0	6.0

Key Rating Drivers

Favourable Regulatory Settlement: Fitch Ratings expects Fingrid Oyj's revenues to increase substantially over the new eight-year regulatory period, which commenced on 1 January 2016. The improving financial profile should position the company more strongly within the 'A' rating. The new regulatory settlement allows a higher return on capital and does not capture congestion charging in the annual profit target. These aspects are offset in the new settlement by no inflation allowance for the cost of materials.

Tariffs Increasing: We expect the regulatory settlement to result in Fingrid introducing higher tariffs for its customers, gradually bringing regulatory profits in line with the new allowance. We expect funds from operations (FFO) adjusted net leverage to improve to close to 4.5x by 2017, which is strong for the rating. Fitch-calculated EBITDA and FFO exclude income for congestion charges, which we treat as being held for congestion-related projects.

Improving Free Cash Flow: Fitch expects capex to be lower than in previous years, averaging EUR110m over 2015-2025. The positive cash flow impact from lower capex is partially offset by a higher assumption on dividend payments reflecting the increase in allowed profits and the company's policy to distribute substantially all of the parent company profit as dividend.

No State Support Included: In accordance with Fitch's parent and subsidiary rating linkage methodology, the rating does not incorporate any uplift, despite the Finnish government (AAA/Negative/F1+) holding a 53% stake in Fingrid (70.9% voting rights). The company operates on an entirely commercial basis, with no tangible financial support from its majority owner.

Rating Sensitivities

Improving Leverage, Strong Coverage: Future developments that may, individually or collectively lead to positive rating action include FFO adjusted net leverage falling below 4.5x, net debt/RAV staying below 45%, FFO gross interest coverage staying above 6.5x on a sustained basis. Evidence of stronger links with the parent (eg, tangible financial support) may also lead to positive rating action.

Comfortable Headroom in Financial Ratios: The forecast financial metrics over the regulatory period 2016-2023 are strong for 'A' rating and headroom below the existing negative rating guidelines is comfortable. We may consider negative rating action if FFO adjusted net leverage increases above 5.5x, net debt/RAV above 60% or FFO adjusted interest coverage falls below 4.0x on a sustained basis.

Liquidity and Debt Structure

Adequate Liquidity: Liquidity is sufficient to cover negative free cash flow and short-term debt maturities. Fingrid has a stated financial policy to hold cash and undrawn credit facilities to cover a minimum of 110% short-term debt. The company's liquidity profile is further supported by predictable operating cash flow and a well-diversified debt maturity profile (less than 30% of total debt maturing in any given year). In December 2015 Fingrid signed a new five-year EUR300m revolving credit facility containing two one-year extension options.

Related Research

[Fitch Affirms Fingrid Oyj at 'A': Outlook Stable \(January 2016\)](#)

[2016 Outlook: EMEA Utilities \(December 2015\)](#)

[Nordic Power Producers Under Cash-Flow Pressure \(December 2015\)](#)

[Fingrid Oyj – Ratings Navigator \(August 2015\)](#)

Analysts

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Peer Group

Issuer	Country
A-	
National Grid Electricity Transmission plc (NGET)	United Kingdom
Red Electrica Corporacion S.A.	Spain
BBB+	
Terna S.p.A.	Italy

Issuer Rating History

Date	LT IDR (FC)	Outlook/ Watch
15 Jan 16	A	Stable
17 Jun 15	A	Stable
6 Nov 14	A	Stable
7 Nov 13	A	Stable
13 Mar 13	A	Stable
1 Nov 12	A	Stable
16 Oct 12	A	Stable
20 Oct 11	A	Stable
13 Jul 11	A+	Negative
9 Aug 10	A+	Negative
15 Apr 09	AA-	Negative
23 Oct 07	AA-	Stable

Snapshot Profile: Major Issuer-Specific Rating Factors and Trends

Rating factor	Status ^a	Trend
Operations	Strong	Neutral
Market position	Strong	Neutral
Finances	Average	Improving
Governance	Strong	Neutral
Geography	Average	Neutral

^a Relative to peer group
Source: Fitch

Related Criteria

[Corporate Rating Methodology – Including Short-Term Ratings and Parent and Subsidiary Linkage \(August 2015\)](#)

Immediate Peer Group – Comparative Analysis

Sector Characteristics

Operating Risks

Fingrid is the sole electricity transmission system operator (TSO) in Finland. Fingrid and the Finnish distribution system operators (DSOs) benefit from a stable and supportive regulatory framework. The Finnish regulator, Energiavirasto, establishes allowed profit using a building-block rate of return methodology under which the TSO and DSOs set their own tariffs. This methodology is unique for European electricity network operators.

The current regulatory period allows the Finnish TSO and DSOs to earn higher allowed profit than most of their peers in other Western European countries. Higher earnings are partially offset by substantial capex needs for the Finnish DSOs due to stricter reliability requirements resulting from several storm-related outages in the early 2010s. However, Fingrid is not exposed to increasing capex needs as its high-voltage network is not as vulnerable to storms.

Financial Risks

Network utilities are capital-intensive businesses that can be significantly free cash-flow (FCF) negative during investment cycles. Given long-term assets, comparatively stable earnings and high financing requirements, network utilities tend to have long-term debt-maturity profiles. Generally, utilities have good access to funding via the capital markets.

Peer Group

(EURm)	Fingrid A/Stable	Red Electrica A-/Positive	NGET A-/Stable	Terna BBB+/Stable
Fitch forecasts for 2015-17				
FFO adjusted net leverage (x)	Below 5.0	Below 4.5	Below 6.5	Below 6.75
Net debt to regulatory asset value (RAV) (%)	Below 40	n.a	Below 65	Below 65
Selected rating guidelines:				
FFO interest coverage (x)	Pos: Above 6.5x Neg: Below 4.0x	Neg: Below 3.5x	n.a. ^a	Neg: Below 4.0x
FFO adjusted net leverage (x)	Pos: Below 4.5x Neg: Above 5.5x	Pos: Below 4.5x Neg: Above 5.5x	n.a. ^b	Pos: Below 6.0x Neg: Above 6.75x
Regulatory framework	Mature and transparent	Recently reviewed, less transparent	Mature and transparent	Mature and transparent

^a Post maintenance interest coverage ratio (PMICR) guidelines: Positive: 2.3x, Negative 1.7x

^b Net debt/RAV guidelines: Positive: 55%, Negative 67.5%

Source: Fitch, companies

Overview of Companies

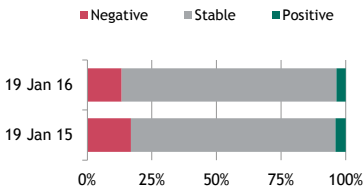
Red Electrica Corporacion S.A. (A-/Positive) – is the Spanish electricity transmission system operator. The company’s credit profile benefits from low business risk and predictable regulated earnings on a six-year period, with minimal exposure to volume and price risks.

National Grid Electricity Transmission plc (NGET, A-/Stable) – is the electricity transmission system operator in England and Wales. The company benefits from a long track record of stability and predictability of regulated cash flows, with minimal exposure to volume and price risk.

Terna S.p.A (BBB+/Stable) – is the transmission system operator in Italy. It benefits from minimal price and volume risk and satisfactory regulatory performance. Fitch expects that the negative impact of the recent regulatory review (starting in 2016) will be partially offset by substantially reduced capex needs and lower taxes.

Distribution of Sector Outlooks

Directional Outlooks and Rating Watches



Fitch's expectations are based on the agency's internally produced, conservative rating case forecasts. They do not represent the forecasts of rated issuers individually or in aggregate. Key Fitch forecast assumptions include:

- gradually declining EBITDA from 2018 reflecting the impact of low interest rates on regulatory WACC (10-year average sovereign bond yield declining);
- congestion income not included in EBITDA or FFO as Fitch does not regard it as cash available for debt service;
- average capex of EUR165m for 2015-17 and EUR110m over 2015-25;
- dividend payments to increase reflecting higher earnings and the company's dividend policy to pay substantially all of parent company's profit as dividend;
- higher cash interest charge in the forecast.

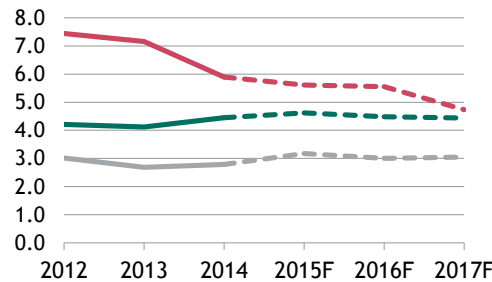
Definitions

- Leverage:** Gross debt plus lease adjustment minus equity credit for hybrid instruments plus preferred stock divided by FFO plus gross interest paid minus interest received plus preferred dividends plus rental expense.
- Interest cover:** FFO plus gross interest paid minus interest received plus preferred dividends divided by gross interest paid plus preferred dividends.
- FFO profitability:** FFO divided by revenue.
- For further discussion of the interpretation of the tables and graphs in this report see Fitch's "Interpreting the New EMEA and Asia-Pacific Corporates Credit Update Format" Special Report, dated 25 November 2009 and available at www.fitchratings.com.

Fingrid Oyj — Utilities Median — A Median — Source: Company data; Fitch

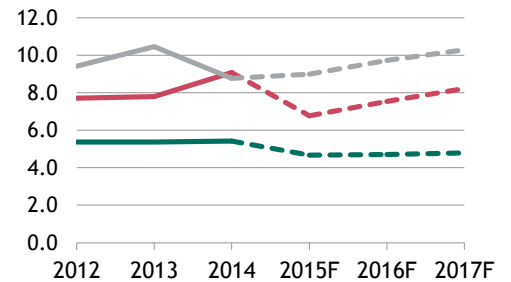
Leverage

including Fitch expectations



Interest Cover

including Fitch expectations



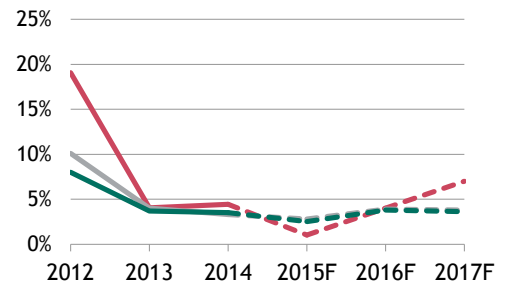
Debt Maturities and Liquidity at 31 Sep 15

Debt maturities	(EURm)
2016	194
2017	143
2018	22
After 2018	637
Cash and equivalents	102
Undrawn committed facilities (December 2020)^a	300

^a The facility was signed in December 2015
Source: Fitch

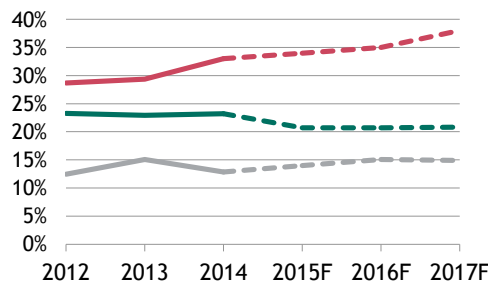
Revenue Growth

including Fitch expectations

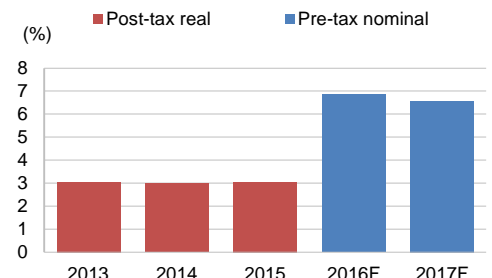


FFO Profitability

including Fitch expectations



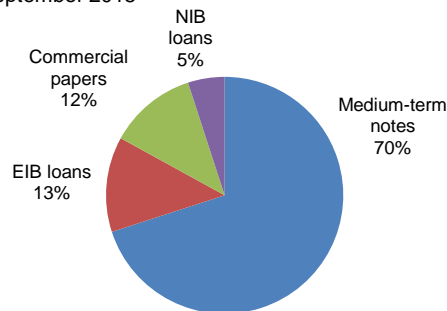
Fingrid's Regulatory WACC^a



^a The so called 'risk-free rate' component is based on Fitch's calculations
Source: Fitch based on the parameters published by Energiavirasto

Total Debt by Source

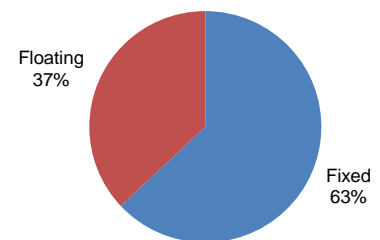
September 2015



Source: Fingrid Oyj

Interest Rate Structure

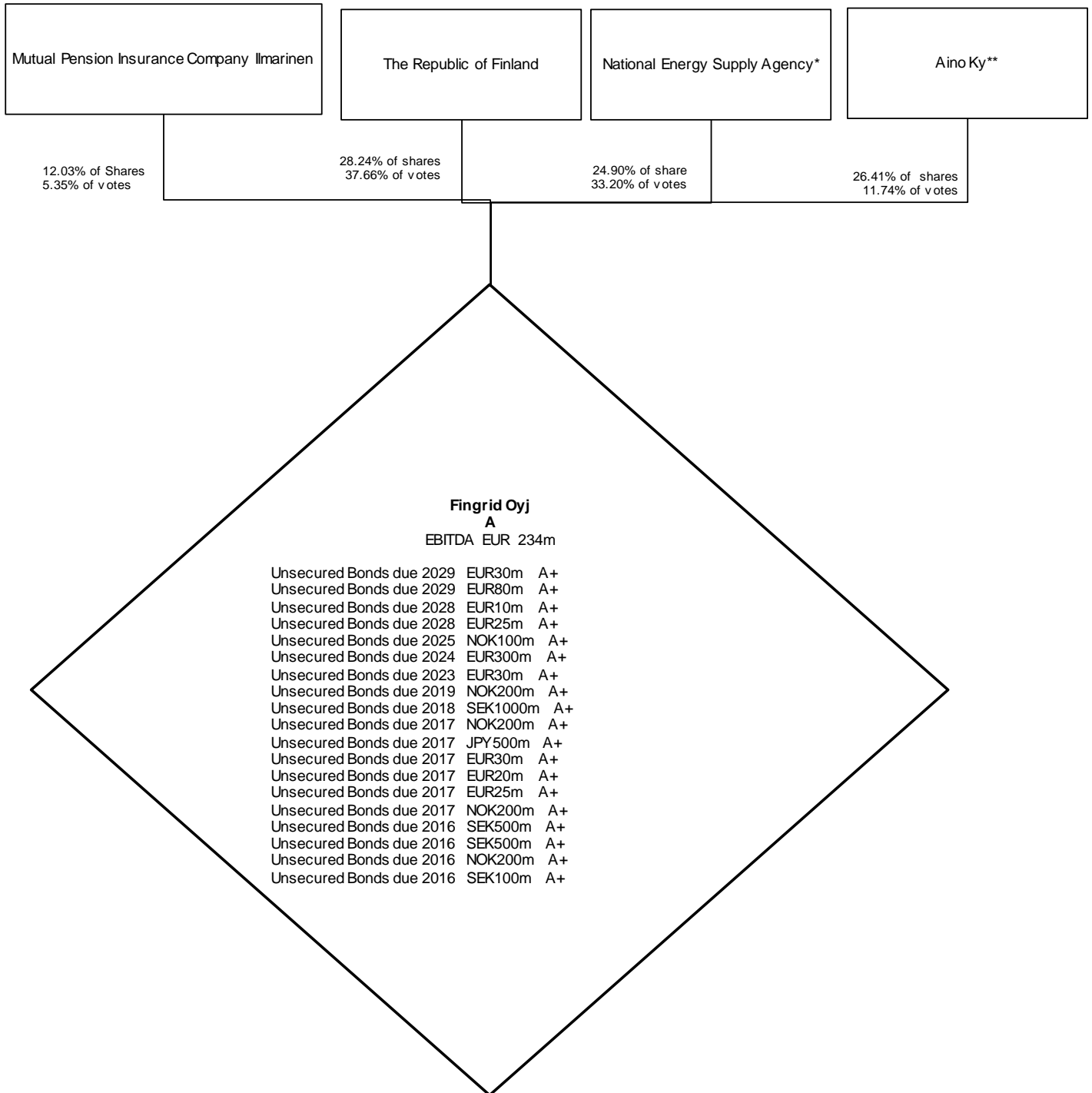
June 2015



Source: Fingrid Oyj

Figure 1

Simplified Group & Debt Structure Diagram



*State owned organisation controlling strategically owned assets on behalf of the state

**Holding company established solely for administrating shares in Fingrid Oyj. Owned by several Finnish financial institutions

Source: Fitch, Company, As at February 2016

Fingrid Oyj

FINANCIAL SUMMARY

	31 Dec 2014	31 Dec 2013	31 Dec 2012	31 Dec 2011
	EURth	EURth	EURth	EURth
	Year End	Year End	Year End	Year End
Profitability				
Revenue	567,155	543,088	522,064	438,456
Revenue Growth (%)	4.43	4.03	19.07	(3.92)
Operating EBIT	142,817	115,280	94,620	56,563
Operating EBITDA	234,328	196,984	170,285	124,442
Operating EBITDA Margin (%)	41.32	36.27	32.62	28.38
FFO Return on Adjusted Capital (%)	11.12	9.52	9.57	7.81
Free Cash Flow Margin (%)	(0.98)	(15.28)	(1.82)	(35.43)
Coverages (x)				
FFO Gross Interest Coverage	9.08	7.80	7.71	5.61
Operating EBITDA/Gross Interest Expense	10.18	8.46	7.82	5.45
FFO Fixed Charge Coverage (inc. Rents)	8.26	6.38	5.79	4.06
FCF Debt-Service Coverage	0.06	(0.18)	0.05	(0.33)
Cash Flow from Operations/Capital Expenditures	1.59	0.70	1.01	0.39
Debt Leverage of Cash Flow (x)				
Total Debt with Equity Credit/Operating EBITDA	5.23	6.57	7.31	9.84
Total Debt Less Unrestricted Cash/Operating EBITDA	4.46	5.47	6.05	8.20
Debt Leverage Including Rentals (x)				
Annual hire lease rent costs for long-term assets (reported and/or estimate)	2,598	6,173	8,716	11,538
Gross Lease Adjusted Debt/Operating EBITDAR	5.26	6.61	7.34	9.68
Gross Lease Adjusted Debt /FFO+Int+Rentals	5.89	7.15	7.44	9.43
FFO Adjusted Net Leverage	5.04	6.00	6.23	7.97
FCF/Lease Adjusted Debt (%)	(0.45)	(6.18)	(0.72)	(11.80)
Debt Leverage Including Leases and Pension Adjustment (x)				
Pension and Lease Adjusted Debt /EBITDAR + Pension Cost	5.26	6.61	7.34	9.68
Balance Sheet Summary				
Readily Available Cash	179,260	217,312	213,837	203,841
Restricted/Not Readily Available Cash	n.a.	n.a.	n.a.	n.a.
Short-Term Debt	263,033	318,696	211,932	378,841
Long-Term Senior Debt	962,325	975,295	1,032,199	845,154
Subordinated debt	n.a.	n.a.	n.a.	n.a.
Equity Credit	n.a.	n.a.	n.a.	n.a.
Total Debt with Equity Credit	1,225,358	1,293,991	1,244,131	1,223,995
Off-Balance-Sheet Debt	20,784	49,384	69,728	92,304
Lease-Adjusted Debt	1,246,142	1,343,375	1,313,859	1,316,299
Fitch- identified Pension Deficit	n.a.	n.a.	n.a.	n.a.
Pension Adjusted Debt	1,246,142	1,343,375	1,313,859	1,316,299
Cash Flow Summary				
Operating EBITDA	234,328	196,984	170,285	124,442
Gross Cash Interest Expense	(23,013)	(23,278)	(21,787)	(22,815)
Cash Tax	(19,677)	(22,071)	(14,586)	(2,344)
Associate Dividends	346	306	1,335	211
Other Items before FFO (incl. interest receivable)	(4,852)	7,613	14,427	8,618
Funds from Operations	187,132	159,554	149,674	108,112
Change in Working Capital	19,133	(410)	(3,706)	(12,349)
Cash Flow from Operations	206,265	159,144	145,968	95,763
Total Non-Operating/Non-Recurring Cash Flow	n.a.	n.a.	n.a.	n.a.
Capital Expenditures	(129,913)	(228,972)	(144,717)	(244,377)
Dividends Paid	(81,900)	(13,148)	(10,751)	(6,711)
Free Cash Flow	(5,548)	(82,976)	(9,500)	(155,325)
Net (Acquisitions)/Divestitures	1,389	3,980	612	50
Net Equity Proceeds/(Buyback)	n.a.	n.a.	n.a.	n.a.
Other Cash Flow Items	34,740	32,611	(1,252)	(9,705)
Total Change in Net Debt	30,581	(46,385)	(10,140)	(164,980)
Working Capital				
Accounts Receivable Days	43	55	53	51
Inventory Days	15	14	11	9
Accounts Payable Days	89	95	92	95

Figure 2
Fingrid Oyj — Forecast Financial Information

(EUR 000)	Historical			Fitch forecast		
	31 Dec 12	31 Dec 13	31 Dec 14	31 Dec 15	31 Dec 16	31 Dec 17
Summary income statement						
Gross revenue	522,064	543,088	567,155	571,800	594,700	633,650
Revenue growth (%)	19.1	4.0	4.4	0.8	4.0	6.5
Operating EBITDA	170,285	196,984	234,328	256,000	269,300	306,000
Operating EBITDA margin (%)	32.6	36.3	41.3	44.8	45.3	48.3
Operating EBITDAR	179,001	203,157	236,926	258,619	272,024	308,903
Operating EBITDAR margin (%)	34.3	37.4	41.8	45.2	45.7	48.8
Operating EBIT	94,620	115,280	142,817	163,600	165,100	200,800
Operating EBIT margin (%)	18.1	21.2	25.2	28.6	27.8	31.7
Gross interest expense	-10,293	-29,986	-11,910	-33,904	-32,252	-34,200
Pretax income	88,298	87,252	132,933	129,696	132,848	166,600
Summary balance sheet						
Readily available cash	213,837	217,312	179,260	198,974	182,709	141,502
Total debt with equity credit	1,244,131	1,293,991	1,225,358	1,282,325	1,343,154	1,320,473
Total adjusted debt with equity credit	1,313,859	1,343,375	1,246,142	1,303,279	1,364,947	1,343,694
Net debt	1,030,294	1,076,679	1,046,098	1,083,351	1,160,445	1,178,971
Summary cash flow statement						
Operating EBITDA	170,285	196,984	234,328	256,000	269,300	306,000
Cash interest	-21,787	-23,278	-23,013	-33,904	-32,252	-34,200
Implied interest cost (%)	1.8	1.8	1.8	2.7	2.5	2.6
Cash tax	-14,586	-22,071	-19,677	-26,500	-26,000	-35,000
Associate dividends less distributions to NCI	1,335	306	346	0	0	0
Other items before FFO	14,427	7,613	-4,852	-0	0	0
Funds flow from operations	149,674	159,554	187,132	195,596	211,048	236,800
FFO margin (%)	28.7	29.4	33.0	34.2	35.5	37.4
Change in working capital	-3,706	-410	19,133	-848	-2,143	-6,325
Cash flow from operations (Fitch defined)	145,968	159,144	206,265	194,748	208,905	230,474
Total non-operating/non-recurring cash flow						
Capital expenditure	-144,717	-228,972	-129,913			
Capital intensity (capex/revenue) (%)	27.7	42.2	22.9			
Common dividends	-10,751	-13,148	-81,900			
Net acquisitions & divestitures	612	3,980	1,389			
Capex, dividends, acquisitions & oth. items before FCF	-154,856	-238,140	-210,424	-232,000	-286,000	-249,000
Free cash flow after acquisitions & divestitures	-8,888	-78,996	-4,159	-37,252	-77,095	-18,526
Free cash flow margin (after net acquisitions) margin (%)	-1.7	-14.5	-0.7	-6.5	-13.0	-2.9
Other investing and financing cash flow items	-1,252	32,611	34,740	0	0	0
Net debt proceeds	20,136	49,860	-68,633	56,966	60,829	-22,681
Net equity proceeds				0	0	0
Total change in cash	9,996	3,475	-38,052	19,714	-16,266	-41,207
Coverage ratios (x)						
FFO interest coverage	7.7	7.8	9.1	6.8	7.5	7.9
FFO fixed charge coverage	5.8	6.4	8.3	6.4	7.0	7.4
Operating EBITDAR/gross interest expense + rents	5.9	6.9	9.3	7.1	7.8	8.3
Operating EBITDA/gross interest expense	7.8	8.5	10.2	7.6	8.4	8.9
Leverage ratios (x)						
Total adjusted debt/operating EBITDAR	7.3	6.6	5.3	5.0	5.0	4.4
Total adjusted net debt/operating EBITDAR	6.1	5.5	4.5	4.3	4.3	3.9
Total debt with equity credit/operating EBITDA	7.3	6.6	5.2	5.0	5.0	4.3
FFO adjusted leverage	7.4	7.2	5.9	5.6	5.5	4.9
FFO adjusted net leverage	6.2	6.0	5.0	4.8	4.8	4.4

How to interpret the forecast presented

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Source: Fitch

Figure 3

Reconciliation of Key Financial Metrics for Fingrid Oyj

(EUR 000)	31 Dec 14	31 Dec 13
Interest bearing loans and borrowings	1,225,358	1,293,991
+ Subordinated debt	0	0
- Equity credit	0	0
= Total debt with equity credit	1,225,358	1,293,991
+ Total off-balance sheet debt (8 x long-term leases)	20,784	49,384
= Total lease-adjusted debt (a)	1,246,142	1,343,375
- Cash and equivalents (unrestricted)	179,260	217,312
= Net lease-adjusted debt (b)	1,066,882	1,126,063
Cash generated by operations	228,251	203,379
+ Change in working capital	19,133	-410
- Gross interest paid (c)	-23,013	-23,278
+ Interest received (d)	1,225	1,218
- Taxation paid	-19,677	-22,071
+ Dividend received from associates (recurring)	346	306
- Dividends paid to minorities	0	0
Cash From Operations (CFO)	206,265	159,144
- Change in working capital	19,133	-410
= Funds From Operations (FFO)	187,132	159,554
Long-term (LT) lease multiple applied	8	8
LT rental expense (f)	2,598	6,173
Preferred dividends paid (g)	0	0
FFO adjusted net leverage (x)		
Net lease-adjusted debt/(FFO + net finance charge + LT leases) (b/(e+(-c-d)+f-g))	5.04	6.00
FFO adjusted gross leverage (x)		
Lease-adjusted debt/(FFO + net finance charge + LT leases) (a/(e+(-c-d)+f-g))	5.89	7.15
FFO fixed charge cover (x)		
(FFO + net interest paid + LT leases)/(gross interest paid + LT leases) ((e+(-c-d)+f)/(-c+f))	8.26	6.38
FFO gross interest coverage (x)		
(FFO + net interest)/gross interest ((e+(-c-d))/c)	9.08	7.80

Source: Fitch based on company reports

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