FITCH AFFIRMS FINLAND'S FINGRID OYJ AT 'A', STABLE OUTLOOK

Fitch Ratings-Milan/London-07 November 2013: Fitch Ratings has affirmed Finland-based utility Fingrid Oyj's Long-term Issuer Default Rating (IDR) at 'A,' its senior unsecured rating at 'A+' and its Short-term IDR at 'F1'. The Outlook is Stable.

The affirmation is driven by Fingrid's improving credit metrics, in particular funds from operations (FFO) leverage, as a result of the implementation of tariff increases as well as of decreasing investment spending. Fingrid's credit profile benefits from its monopoly position, low business risk and a highly supportive regulatory framework.

The Stable Outlook reflects Fitch's expectation that, after the peak of investment spending in 2013, leverage will decline to within the guidance for an 'A' rating. Furthermore Fingrid benefits from ample liquidity to meet immediate funding needs.

KEY RATING DRIVERS

Gradually Improving Leverage
2012 FFO net adjusted leverage improved to 6.2x (2011: 7.9x) due to increased cash flows from operations as a result of high congestion income and reduced capex, but remains weaker than the guideline ratios for an 'A'-rated transmission system operator (TSO). However, Fitch predicts an on-going improvement in the company's leverage over the current regulatory period, as the company implements tariff increases to reach the maximum allowable return in 2014, in conjunction with a decrease in capex to an average of around EUR130m per year from 2014 onwards. This should contribute to a reduction in FFO net adjusted leverage to below 5.5x towards the end of the current regulatory period 2012-2015. FFO interest coverage was strong at 7.8x at FYE12 and net debt to regulatory asset base (RAB) also remains strong at around 40%.

High Capex and Dividends
Fingrid's 10-year investment programme includes investments in cross border interconnection, investments in the transmission grid and reserve power and in the replacement of ageing parts of the grid. Capex dipped in 2012 to around EUR150m but is forecast to increase again in 2013 due to the completion of the Estlink 2 connection. From 2014 capex projections are forecast to remain at a lower level of EUR130m on average over the remainder of the regulatory period. The fall in annual capex from 2014 onwards represents the end of larger project investments and a focus on investments in grid reinforcements and the replacement of the existing grid. Over the current regulatory period Fingrid's dividend pay-out has been on average at around 20%. Actual dividends paid are within the company's headroom available for dividend payments.

Highly Supportive Regulatory Framework
Fingrid benefits from a stable and highly supportive regulatory framework. EMV (Energiamarkkinavirasto), the Finnish regulator, establishes tariff remuneration parameters including a reasonable rate of return under which Fingrid sets its own transmission tariff. This mechanism is unique for a European TSO. This approach, together with a change of ownership in 2011, has granted Fingrid extensive flexibility, with the company raising tariffs by around 30% at the beginning of 2012, by 15% in 2013 and 8% scheduled for January 2014.

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/Stable/F1+) holding a 53% stake in Fingrid (70.9% voting rights), as the company operates on an entirely commercial basis, with no tangible financial support from its majority owner. The current ownership structure reflects the sale of Fortum Corporation's (A-/Negative) 25% stake and Pohjolan Voima Oy's 25% stake in Fingrid in April 2011 to the Finnish Government.

RATING SENSITIVITIES

Positive: future developments that may, individually or collectively lead to a positive rating action include:
-FFO net leverage falling below 4.5x, Net debt/RAB falling below 45%, FFO gross interest rising above 6.5x on a sustained basis.
-Evidence of stronger links with the parent (eg tangible government support).

Negative: future developments that may, individually or collectively, lead to a negative action include:
- FFO net leverage rising above 5.5x, net debt/RAV above 60%, FFO interest coverage falling below 4.0x on a sustained basis. This could be a result of failure to continue to implement tariff increases to reach the maximum allowable return by 2014 and 2015, while facing a higher capex plan, resulting in continuing negative free cash flow (FCF); a more aggressive dividend pay-out policy, leading to slower de-leverage than expected by Fitch in the current regulatory period 2012-15, or adverse changes to the Finnish regulatory system, resulting in a loss of flexibility with regard to tariff setting, and cost overruns in the capex programme not being included in RAB.

LIQUIDITY AND DEBT STRUCTURE

Fingrid's liquidity is adequate as it covers funding needs over the next 12 months. At 30 September 2013 it had EUR222m of cash and cash equivalents and a EUR250m undrawn revolving credit facility, maturing in April 2018, against debt maturities of EUR208m and an expected negative free cash flow of around EUR50m over the next 12 months. The company's liquidity policy stipulates that cash and available credit lines must cover a minimum of 100% of debt due in the following 12 months.

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Additional information is available on www.fitchratings.com. For regulatory purposes in various jurisdictions, the supervisory analyst named above is deemed to be the primary analyst for this issuer; the principal analyst is deemed to be the secondary.

Applicable criteria, 'Corporate Rating Methodology', dated 05 August 2013, are available at www.fitchratings.com.

Applicable Criteria and Related Research:
Corporate Rating Methodology: Including Short-Term Ratings and Parent and Subsidiary Linkage
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=715139