Fingrid Oyj

Update

Ratings

Foreign Currency

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

Outlooks

Foreign-Currency Long-Term Rating	Stable

Financial Data

Fingrid Oyj

	31 Dec 13	31 Dec 12
Revenue (EURm)	543	522
Operating EBITDA (EURm)	197	170
Operating EBITDA margin (%)	36	33
Funds from operations (EURm)	156	150
FFO gross interest coverage (x)	7.2	7.7
FFO net adjusted leverage (x)	6.1	6.2

Related Research

2015 Outlook: European Utilities (December 2014)

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Key Rating Drivers

Tariffs and Leverage Stabilising: Fingrid Oyj will earn its allowed regulatory profit for the first time in 2014, which Fitch Ratings expects to result in FFO net adjusted leverage of around 5.75x, FFO interest cover of over 6x and net debt to regulatory asset base (RAB) of under 40% at end-2014. The change of ownership in 2011 allowed Fingrid to raise tariffs by over 60% from 2012. A new regulatory period commences in 2016, which Fitch expects to remain in line with the parameters for the existing regulatory period.

High Capex and Dividends: In future, Fitch expects FFO net adjusted leverage to be about 6x, reflecting the announced 2% tariff decrease for 2015, lower capex of around EUR140m per year from 2015 and higher dividends. A substantially higher dividend of EUR82m was paid in June 2014, reflecting a higher distribution policy, high declared profits following tariff increases, and the deferral of dividends in 2013 to absorb higher capex.

Healthy Coverage: FFO net adjusted leverage is in breach of the 5.5x negative guideline, due to earnings being impacted by the low allowed weighted average cost of capital (WACC) of 2.97% in 2014, long depreciation lives, and historical tariffs not reflecting fully allowed profit. This is compensated by strong fixed charge coverage of about 6x and net debt to RAB, and flexibility around tariff setting and dividends.

Highly Supportive Regulatory Framework: Fingrid benefits from a stable and supportive regulatory framework. The Finnish regulator, Energiavirasto, establishes allowed profit using a building-block rate of return methodology under which Fingrid sets its own tariff, which is unique for a European transmission system operator.

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+) increasing their holding to a 68% stake in Fingrid. The company operates on an entirely commercial basis, with no tangible financial support from its majority owner.

Rating Sensitivities

Enhanced Parent Support and Ratios: FFO net leverage below 4.5x, net debt/RAB below 45% and FFO gross interest above 6.5x on a sustained basis, or evidence of stronger links with the parent could lead to positive rating action.

Ratios Below Guidelines: FFO net leverage above 5.5x, net debt/RAB above 60% and FFO interest coverage below 4.0x on a sustained basis could lead to negative rating action. This could be as a result of tariff decreases to below the allowed return and/or an increase in capex resulting in continuing negative free cash flow, an increase in leverage due to higher than expected dividend payments, a less supportive regulatory system resulting in a loss of flexibility with regard to tariff setting, and capex overruns not being included in the RAB.

Liquidity and Debt Structure

Adequate Liquidity: Fingrid's liquidity covers funding needs over the next 12 months. At 30 September 2014, the company had EUR180m of available cash and a EUR250m undrawn committed revolving credit facility, maturing in April 2018, against short-term debt maturities of EUR235m and expected negative free cash flow of around EUR50m over the next 12 months.

Peer Group

Issuer	Country
A	
Fingrid Oyj	Finland
A−	
National Grid Electricity Transmission plc	United Kingdom
Red Electrica Corporacion S.A.	Spain
BBB+	
Terna Spa	Italy

Issuer Rating History

Date	LT IDR (FC)	Outlook/ Watch
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

Immediate Peer Group – Comparative Analysis

Sector Characteristics

Operating Risks

Network utilities typically have very stable operations through the business cycle, due to their monopoly status and regulated earnings. These businesses are generally not sensitive to volume and pricing movements, thanks to regulatory provision that neutralises volatility. The stability of the regulatory framework improves predictability and transparency of revenues.

Financial Risks

Network utilities are capital-intensive businesses that can be significantly FCF negative during investment cycles, using fresh debt to fund capex expansion. 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 Comparison

2013 (EURm)	Fingrid A/Stable	NGET[a] A−/Stable	Red Electrica A−/Positive	Terna BBB+/Stable
EBITDA	197	1,776	1302	1,466
FFO interest coverage (x)	7.2	5.8	6.6	5.9
FFO net adjusted leverage (x)	6.1	5.5	4.1	6.6
Forecast Capex (2014-16)	430	7,790[b]	1,650	2,490

[a] As 31 March 2014. Translated at GBP/EUR1.25
[b] Mar 2015-17
Source: Fitch, companies

Key Credit Characteristics

Factors used by Fitch to differentiate ratings within the sector include the proportion of income from regulated assets, analysis of the regulatory environment, including the degree of regulatory risk and stability, the efficiency record of the network's business, and overall operational performance, including with respect to regulatory benchmarks.

Overview of Companies

Terna Spa (BBB+/Stable) – an Italian TSO, with a low business-risk profile, stable and visible revenue and supportive regulation. In March 2014 Fitch downgraded Terna as a result of the deterioration of its FFO adjusted net leverage metric above the rating guidance at the end of the current tariff cycle in 2015. This was caused by lower than previously expected revenues following the interim redetermination of the WACC, applicable over the last two years of the tariff cycle (2014-2015) and lower inflation rates that in turn result in lower remuneration of the RAB and depreciation revenues at a time of protracted peak investment spending.

Red Electrica Corporacion S.A. (A−/Positive) – its credit profile benefits from low business risk as the natural monopoly electricity transmission owner/operator in Spain and from predictable regulated earnings with minimal exposure to volume and price risks. The Positive Outlook reflects the likelihood of an upgrade to 'A' pending the remaining details of the regulatory determination and the company's updated business plan. Expected funds from operations (FFO) net adjusted leverage below 4.5x would support a single-notch upgrade.

National Grid Electricity Transmission plc (NGET, A−/Stable) – a monopoly power transmission owner in England and Wales. The transparent regulatory regime, relative stability and predictability of regulated cash flows, current capital structure, and average regulatory performance support the ratings.

Snapshot Profile: Major Issuer-Specific Rating Factors and Trends

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

Source: Fitch

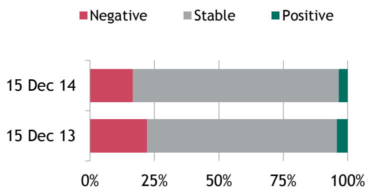
Related Criteria

Corporate Rating Methodology (May 2014)

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

Distribution of Sector Outlooks

Directional Outlooks and Rating Watches

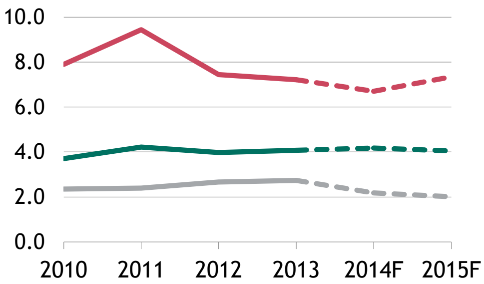


Fitch's expectations are based on the agency's internally produced, conservative rating case forecasts. They do not represent the forecasts of rated issuers individually or in aggregate. Key Fitch forecast assumptions include:

- minor tariff changes to bring achieved returns in line with expected returns;
- capex of EUR140m in 2015-2018;
- dividend payout in line with net profit.

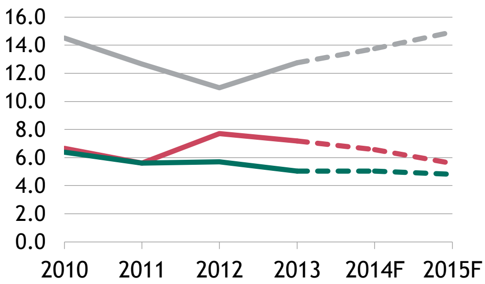
Leverage

including Fitch expectations



Interest Cover

including Fitch expectations



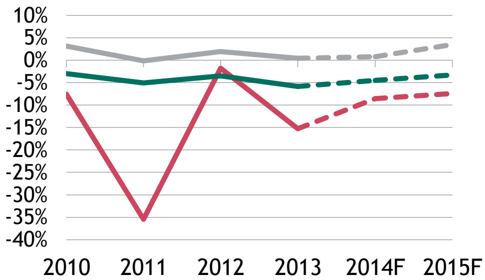
Debt Maturities and Liquidity at 30 September 2014

Debt maturities	(EURm)
2014	112
2015	160
2016	166
2017	149
After 2017	662
Cash and equivalents	180
Undrawn committed facilities	
Facility due April 2018	250

Source: Fitch

FCF/Revenues

including Fitch expectations

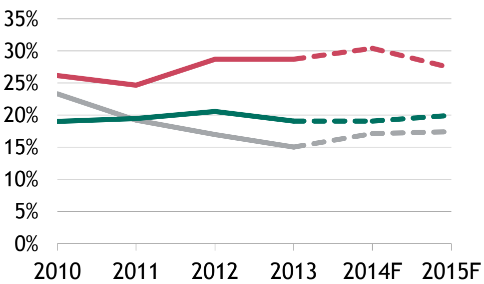


Definitions

- 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.
- FCF/revenue: FCF after dividends divided by revenue.
- 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.

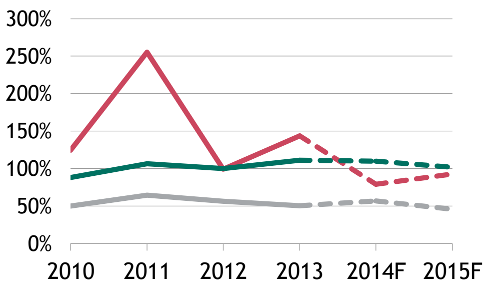
FFO Profitability

including Fitch expectations

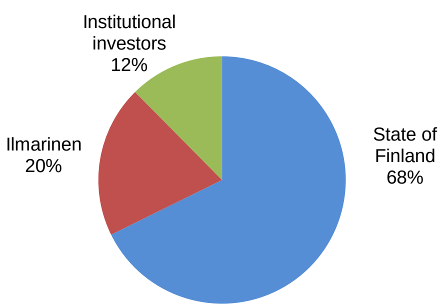


Capex/CFO

including Fitch expectations

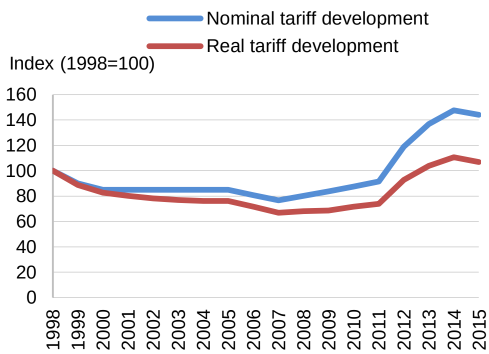


Fingrid Ownership



Source: Fingrid

Tarriff Development of Fingrid



Source: Fingrid

FINANCIAL SUMMARY

	31 Dec 2013 EURth Year End	31 Dec 2012 EURth Year End	31 Dec 2011 EURth Year End	31 Dec 2010 EURth Year End
Profitability				
Revenue	543,088	522,064	438,456	456,326
Revenue Growth (%)	4.03	19.07	(3.92)	27.13
Operating EBIT	115,280	94,620	56,563	74,417
Operating EBITDA	196,984	170,285	124,442	141,230
Operating EBITDA Margin (%)	36.27	32.62	28.38	30.95
FFO Return on Adjusted Capital (%)	9.43	9.57	7.81	8.99
Free Cash Flow Margin (%)	(15.28)	(1.82)	(35.43)	(7.60)
Coverages (x)				
FFO Gross Interest Coverage	7.18	7.71	5.61	6.66
Operating EBITDA/Gross Interest Expense	7.86	7.82	5.45	6.89
FFO Fixed Charge Coverage (inc. Rents)	5.96	5.79	4.06	4.62
FCF Debt-Service Coverage	(0.17)	0.05	(0.33)	(0.07)
Cash Flow from Operations/Capital Expenditures	0.70	1.01	0.39	0.80
Debt Leverage of Cash Flow (x)				
Total Debt with Equity Credit/Operating EBITDA	6.57	7.31	9.84	7.63
Total Debt Less Unrestricted Cash/Operating EBITDA	5.47	6.05	8.20	6.06
Debt Leverage Including Rentals (x)				
Annual hire lease rent costs for long-term assets (reported and/or estimate)	6,173	8,716	11,538	11,543
Gross Lease Adjusted Debt/Operating EBITDAR	6.61	7.34	9.68	7.65
Gross Lease Adjusted Debt /FFO+Int+Rentals	7.22	7.44	9.43	7.89
FFO Adjusted Net Leverage	6.05	6.23	7.97	6.40
FCF/Lease Adjusted Debt (%)	(6.18)	(0.72)	(11.80)	(2.97)
Debt Leverage Including Leases and Pension Adjustment (x)				
Pension and Lease Adjusted Debt /EBITDAR + Pension Cost	6.61	7.34	9.68	7.65
Balance Sheet Summary				
Readily Available Cash	217,312	213,837	203,841	221,683
Restricted/Not Readily Available Cash	n.a.	n.a.	n.a.	n.a.
Short-Term Debt	318,695	211,932	378,841	199,327
Long-Term Senior Debt	975,295	1,032,199	845,154	877,530
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	1,293,990	1,244,131	1,223,995	1,076,857
Off-Balance-Sheet Debt	49,384	69,728	92,304	92,344
Lease-Adjusted Debt	1,343,374	1,313,859	1,316,299	1,169,201
Fitch- identified Pension Deficit	n.a.	n.a.	n.a.	n.a.
Pension Adjusted Debt	1,343,374	1,313,859	1,316,299	1,169,201
Cash Flow Summary				
Operating EBITDA	196,984	170,285	124,442	141,230
Gross Cash Interest Expense	(25,078)	(21,787)	(22,815)	(20,508)
Cash Tax	(22,071)	(14,586)	(2,344)	(1,760)
Associate Dividends	306	1,335	211	4
Other Items before FFO (incl. interest receivable)	5,932	14,427	8,618	317
Funds from Operations	**156,073**	**149,674**	**108,112**	**119,283**
Change in Working Capital	3,071	(3,706)	(12,349)	(4,452)
Cash Flow from Operations	**159,144**	**145,968**	**95,763**	**114,831**
Total Non-Operating/Non-Recurring Cash Flow	n.a.	n.a.	n.a.	n.a.
Capital Expenditures	(228,972)	(144,717)	(244,377)	(142,796)
Dividends Paid	(13,148)	(10,751)	(6,711)	(6,724)
Free Cash Flow	**(82,976)**	**(9,500)**	**(155,325)**	**(34,689)**
Net (Acquisitions)/Divestitures	3,980	612	50	907
Net Equity Proceeds/(Buyback)	n.a.	n.a.	n.a.	n.a.
Other Cash Flow Items	32,612	(1,252)	(9,705)	(23,910)
Total Change in Net Debt	(46,384)	(10,140)	(164,980)	(57,692)
Working Capital				
Accounts Receivable Days	55	53	51	39
Inventory Days	14	11	9	8
Accounts Payable Days	95	92	95	67

Reconciliation of Key Financial Metrics

(EURm)	31 Dec 13	31 Dec 12
Total debt	1,294	1,244
- Equity credit	0	0
= Total debt with equity credit	1,294	1,244
+ Total off-balance sheet debt (8 x long-term leases)	49	70
= Total lease-adjusted debt (a)	**1,343**	**1,314**
- Cash and equivalents (unrestricted)	217	214
= Net lease-adjusted debt (b)	1,126	1,100
Cash flows from operating activities (as reported)	159	145
+ Reversal finance charge	24	18
- Dividend received (recurring)	0	0
+ Reversal taxation paid	22	15
= Net cash from operating activities (adjusted by Fitch)	**205**	**177**
- Net finance charges (c)	24	18
- Taxation paid	22	15
+ Dividend received (recurring)	0	0
= Cash flow from operations	**159**	**145**
- Change in working capital	3	-4
= Funds from operations (FFO) (d)	**156**	**150**
Gross interest paid (e)	25	22
Long-term (LT) leases (f)	6	9
FFO adjusted net leverage (x)		
Net lease-adjusted debt/(FFO + net finance charge + LT leases) (b/(d+c+f))	6.05	6.23
FFO fixed charge cover (x)		
(FFO + net finance charge + LT leases)/(gross interest paid + LT leases) ((d+c+f)/(e+f))	5.96	5.79
FFO gross interest coverage (x)		
(FFO + net finance charge)/gross interest ((d+c)/e))	7.18	7.71

Source: Fitch based on company reports

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.