Utilities - Non US
Finland
Update

Fingrid Oyj

Ratings

Long-Term Foreign-Currency IDR	A+
Senior Unsecured	AA-
Short-Term Foreign-Currency IDR	F1

Outlooks

Long-Term Foreign-Currency IDR	Negative

Financial Data

Fingrid Oyj

	31 Dec 10	31 Dec 09
Revenue (EURm)	456	359
Operating EBITDAR (EURm)	153	116
Op. EBITDAR/revenues (%)	33.5	32.3
Funds Flow from Operations (EURm)	119	72
FFO/interest expense net of interest income (x)	7.5	4.5
Net adjusted debt/op. EBITDAR (x)	6.2	7.0
Adjusted net leverage/FFO	6.4	8.6
Total assets (EURm)	1,815	1,649

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Related Research

Applicable Criteria

- *Corporate Rating Methodology (August 2010)*
- *Rating EMEA Regulated Network Utilities - Sector Credit Factors (July 2010)*
- *Recovery Ratings and Notching Criteria for Utilities (May 2011)*

Other Research

- *2011 Outlook: Nordic Utilities (January 2011)*

Rating Rationale

Weakened Financial Profile: The Long-Term IDR downgrade to 'A+' from 'AA–' in August 2010 reflected a continued weakening of credit ratios through to the end of the current regulatory period in 2011. This was due to expected modest tariff increases and continued high capex in 2011. Fingrid Oyj (Fingrid) has historically maintained low and stable tariffs, despite legislation allowing for much higher increases (as its former shareholders benefited from the low tariffs).

Negative Outlook: This reflects Fitch Ratings' view that credit ratios, in particular leverage, could deteriorate to levels inconsistent with an 'A+' rating. Probable increases in tariffs in the next regulatory period (2012-15) could stabilise the company's financial profile, but this will be contingent on the new shareholders' capital structure strategy, specifically its dividend policy.

Strong Business Profile: Fingrid's ratings reflect: its monopoly position in Finnish electricity transmission; an unrivalled efficiency track record relative to its peers; and an ability to be flexible in setting tariffs in the current regulatory period (2008-11). The group benefits from a benign regulatory environment and a stable macroeconomic environment.

No State Support in Ratings: Fingrid is 53% owned by the Republic of Finland ('AAA'/Stable/'F1+'), following the purchase by the government of Fortum Corporation's ('A–'/Stable) and PVO's stakes in Fingrid in April 2011. Fingrid is currently rated on a standalone basis, as the company operates on an entirely commercial basis.

Rating for Unsecured Debt: The senior unsecured rating of 'AA–' benefits from a generic, one-notch uplift from the Long-Term IDR to account for the above-average recovery prospects in accordance with Fitch's report, *"Utilities Sector Notching and Recovery Ratings"*, (May 2011).

Recent Events

On 19 April 2011, the Finnish State and Illmarinen Mutual Pension Insurance agreed to purchase 81% and 19% respectively of Fortum's 25% stake and PVO's 25% stake in Fingrid.

What Could Trigger a Rating Action

Positive Action: A willingness by the new shareholders to implement tariff increases to the maximum allowable amount, in combination with a conservative capital structure policy, would be positive for the ratings.

Negative Action: A substantial negative change in the regulatory environment would be a credit negative. A further increase in leverage through debt financed acquisitions and/or investments, or through increased shareholder distributions, could lead to a downgrade. A large reduction in liquidity reserves would also be a negative ratings factor.

Liquidity and Debt Structure

The ratings factor in Fingrid's good liquidity, with EUR220m of cash and cash equivalents at FYE10 and an EUR250m undrawn revolving credit facility at FYE10 and also as of June 2011.

Peer Group

Issuer	Country
A+	
Fingrid Oyj	Finland
A	
Red Electrica Corporacion S.A.	Spain
Terna Spa	Italy
A-	
National Grid Electricity Transmission plc (NGET)	United Kingdom
TenneT Holdings B.V.	Netherlands

Issuer Rating History

Date	LT IDR (FC)	Outlook/ Watch
09 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	Weak	Weakening
Governance	Average	Neutral
Geography	Average	Neutral

[a] Relative to peer group
Source: Fitch

Immediate Peer Group – Comparative Analysis

Sector Characteristics

Operating Risks

Transmission systems operators (TSOs) generally demonstrate very stable operations through the business cycle, due to their natural monopoly status and regulated earnings.

Financial Risks

TSOs have stable and regulated revenues, earnings and cash flows, determined by the regulatory framework in which they operate. Their capital-intensive businesses mean that during investment cycles, they can be significantly free cash flow (FCF) negative, using fresh debt to fund capex expansion. The combination of long-term assets, very stable earnings and high financing requirements means that TSOs can extend long-term debt maturity profiles, especially when they enjoy generally good access to capital market funding.

Peer Group

	Fingrid A+/Neg	Red Electrica A/Stable	Terna A/Stable	NGET A-/Stable	TenneT A-/RWN
Revenue (EURm)	456	1,200	1,385	2,792	7,326
Op. EBITDAR (EURm)	153	800	1,010	1,186	340
Net adjusted debt/EBITDAR (x)	6.2	3.9	4.3	4.2	8.5
FFO gross interest coverage (x)	6.8	7.7	7.4	3.9	6.5

Source: Fitch, companies

Key Credit Characteristics

Factors used by Fitch to differentiate ratings within the sector include: the extent of income from regulated assets; an analysis of the regulatory environment, including the degree of regulatory risk, stability and favourability; the efficiency record of the TSO; and the overall operational performance.

Overview of Companies

- **Red Electrica Corporacion S.A.** (‘A’/Stable) — Spanish TSO with a demonstrated ability to generate solid cash flow on an enlarged asset base. Stable and favourable regulatory framework, with a transparent remuneration mechanism.

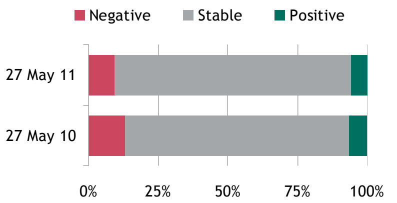
- **Terna Spa** (‘A’/Stable) — Italian TSO; the Long-Term IDR downgrade (to ‘A’ from ‘A+’) in April 2009 was due to a weakening of the financial profile on the back of the EUR1.1bn debt-funded acquisition of ELAT and a larger investment plan. Forecasts show an increase in leverage above 4.5x during the forecast period, which was considered too elevated for an ‘A+’ rating.

- **National Grid Electricity Transmission plc** (NGET, ‘A–’/Stable) — UK TSO and part of the UK’s National Grid Group. NGET operates within a mature and stable — but demanding — regulatory regime.

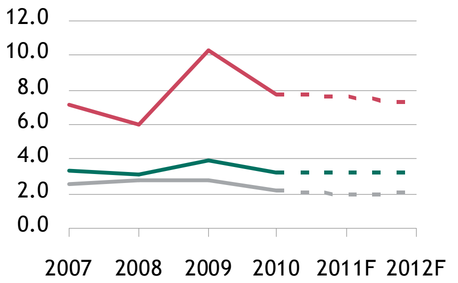
- **TenneT Holdings B.V.** (TenneT, ‘A–’/RWN) — 100% state-owned Dutch TSO with a strong efficiency track record. Weakened financial profile following acquisition of Transpower — one of the four German TSOs in 2010 — and due to large capex programme. The ratings have been placed on RWN, pending confirmation of an equity injection — currently under discussion between TenneT and the government — before the end of 2011, as well as the size of the equity injection. The rating incorporates a one-notch uplift for state support.

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

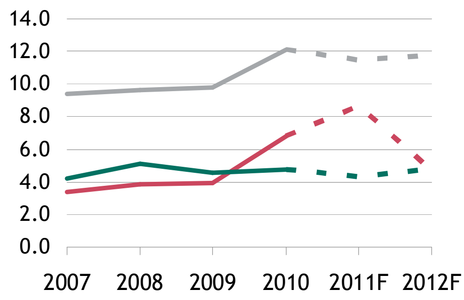
Distribution of Sector Outlooks
Directional Outlooks and Rating Watches



Leverage
including Fitch expectations



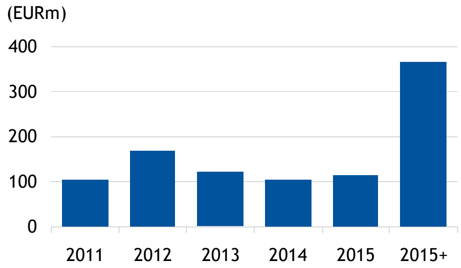
Interest Cover
including Fitch expectations



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:

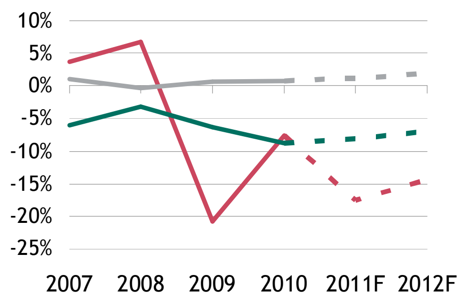
- tariff increases of 4.5% in 2011;
- strong and stable cash flow from operations;
- capex programme of EUR500m-EUR600m in 2011-13; and
- liquidity maintained at EUR200m, consistent with company policy.

Maturity of Non-Current Interest-Bearing Liabilities (FYE10)

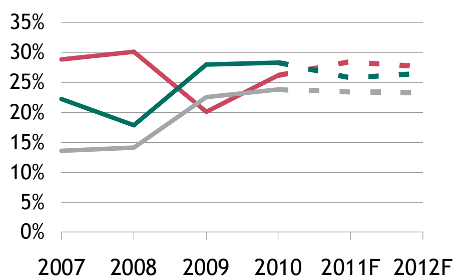


Source: Fingrid, Fitch

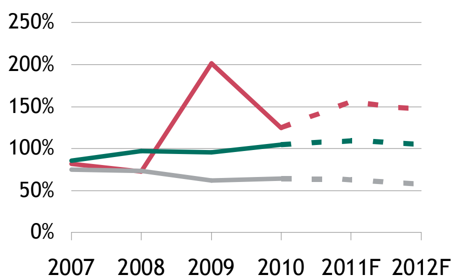
FCF/Revenues
including Fitch expectations



FFO Profitability
including Fitch expectations



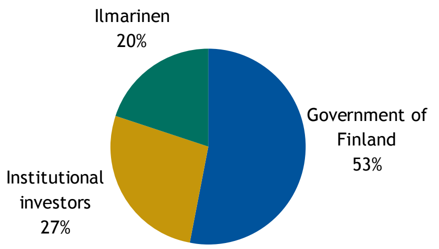
Capex/CFO
including Fitch expectations



Definitions

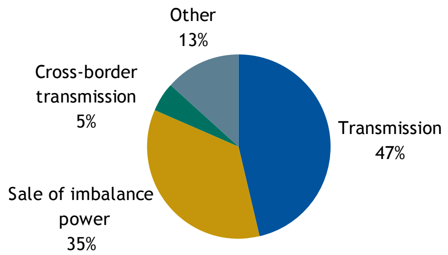
- Leverage: Gross debt plus lease adjustment minus equity credit for hybrid instruments plus preferred stock divided by FFO plus gross interest paid plus preferred dividends plus rental expense.
- Interest cover: FFO plus gross interest paid plus preferred dividends divided by gross interest paid plus 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 Special Report "*Interpreting the New EMEA and Asia-Pacific Corporates Credit Update Format*", dated 25 November 2009 and available at www.fitchratings.com.

Fingrid Ownership
As at May 2011



Source: Fingrid

Fingrid Revenue Breakdown
As at FYE10



Source: Fitch

Fingrid Oyj
FINANCIAL SUMMARY

	31 Dec 2010 EURth Original	31 Dec 2009 EURth Original
Profitability		
Revenue	456,326	358,938
Revenue Growth (%)	-	-
Operating EBIT	74,417	49,098
Operating EBITDA	141,230	113,710
Operating EBITDA Margin (%)	30.95	31.68
FFO Return on Adjusted Capital (%)	8.99	6.75
Free Cash Flow Margin (%)	(7.60)	(20.73)
Coverages (x)		
FFO Gross Interest Coverage	7.13	2.65
Operating EBITDA/Gross Interest Expense	6.89	4.63
FFO Fixed Charge Coverage (inc. Rents)	4.85	2.57
FCF Debt-Service Coverage	(0.07)	(0.09)
Cash Flow from Operations/Capital Expenditures	0.80	0.50
Debt Leverage of Cash Flow (x)		
Total Debt with Equity Credit/Operating EBITDA	7.62	8.81
Total Debt Less Unrestricted Cash/Operating EBITDA	6.06	7.01
Debt Leverage Including Rentals (x)		
Rental Expense	11,543	2,199
Gross Lease Adjusted Debt/Operating EBITDAR	7.65	8.79
Gross Lease Adjusted Debt/FFO+Int+Rentals	7.78	8.62
FCF/Lease Adjusted Debt (%)	(2.97)	(7.30)
Debt Leverage Including Leases and Pension Adjustment (x)		
Pension and Lease Adjusted Debt /EBITDAR + Pension Cost	7.65	8.79
Liquidity		
(Free Cash Flow+Available Cash+Committed Facils)/(ST Debt + Interest) (%)	85.47	36.00
Balance Sheet Summary		
Cash and Equivalents (Unrestricted)	221,683	203,871
Restricted Cash and Equivalents	0	0
Short-Term Debt	199,327	315,975
Long-Term Senior Debt	877,530	685,379
Subordinated Debt	0	0
Equity Credit	0	0
Total Debt with Equity Credit	1,076,857	1,001,354
Off-Balance-Sheet Debt	92,344	17,592
Lease-Adjusted Debt	1,169,201	1,018,946
Fitch- identified Pension Deficit	0	0
Pension Adjusted Debt	1,169,201	1,018,946
Cash Flow Summary		
Operating EBITDA	141,230	113,710
Gross Cash Interest Expense	(19,450)	(43,703)
Cash Tax	(1,760)	(1,956)
Associate Dividends	4	4
Other Items before FFO (incl. interest receivable)	(741)	4,208
Funds from Operations	**119,283**	**72,263**
Change in Working Capital	(4,452)	(5,426)
Cash Flow from Operations	**114,831**	**66,837**
Total Non-Operating/Non-Recurring Cash Flow	0	0
Capital Expenditures	(142,796)	(134,523)

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