Electric – Corporate
Finland
Credit Analysis

Fingrid Oyj

Ratings

Security Class	Current Ratings
Foreign Currency	
Long-Term IDR	AA-
Senior Unsecured	AA
Short-Term IDR	F1+

Outlook

Foreign Long-Term IDR	Stable

Financial Data

Fingrid Oyj

	Dec 06	Dec 05
Revenue (EURm)	351	317
Operating EBITDAR (EURm)	152	147
Op. EBITDAR Margin (%)	43	46
Total Adjusted Debt (EURm)	985	1,001
Net Adjusted Debt (EURm)	795	814
Operating EBITDAR/Fixed Charges (x)	4.5	4.2
Total Adjusted Debt/Operating EBITDAR (x)	6.5	6.8

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Related Research

- *Credit Rating Guidelines for Regulated Utility Companies*
- *Credit Analysis on Red Electrica de Espana*
- *Credit Analysis on Terna SpA*
- *Credit Analysis on National Grid Electricity Transmission plc*

Rating Rationale

- The ratings reflect Fingrid's low business risk which derives from its monopoly position, flexibility to set tariffs, targeted geographical focus and good operational track record. These are further supported by stable macroeconomic trends in Finland (characterised by 1%-2% per annum electricity demand growth) and a flexible domestic regulatory regime. The ratings are constrained by weak financial credit metrics compared with its peers, which are not expected to improve materially until 2012 — by which time, increased operating costs and capital expenditure associated with the 2007-2011 investment programme are expected to have subsided. The ratings are based on the assumption that Fingrid continues to derive revenues primarily from regulated activities in Finland.

Key Rating Drivers

- An upgrade is currently unlikely given the company's current financial profile and investment plans
- Adverse regulatory changes
- An alteration in management strategy from one of maintaining low tariffs to one of maximising tariff increases and revenue recovery under the regulatory regime
- Debt-funded expansion outside of the benign Finnish regulatory regime
- Significantly reduced liquidity reserves

Recent Events

In October 2007, the Finnish Ministry of Trade and Industry approved a cross-border line permit for the extension of the submarine cable link between Finland and Sweden, increasing transmission capacity between the two countries by approximately 40%, thereby improving the functioning of the Nordic electricity market. Fitch Ratings views this development as positive, as it will strengthen Fingrid's position as a key player in the wider Nordic electricity market.

Liquidity and Debt Structure

Fingrid's liquidity is currently good. The company plans to maintain this position by keeping approximately EUR200m of on-balance sheet cash and a EUR250m undrawn revolving credit facility available. In June 2007, cash and liquid financial assets totalled EUR200m and a revolving credit facility remained undrawn. Total debt at end-June 2007 was EUR966m.

The total debt/EBITDA ratio was therefore 7.2x (6.5x at end-December 2006) and the net debt/EBITDA ratio 5.7x (5.1x at end-December 2006). This compares with an average of around 3x total debt/EBITDA for its international peers, reflecting Fingrid's aim of keeping tariffs low rather than maximisation of shareholder equity value, and a focus on optimising its capital structure.

Business Overview

Fingrid Oyj (Fingrid) was established in 1997 and is the monopoly electricity transmission system operator and owner of Finland's high-voltage electricity assets and interconnectors. Fingrid also owns a 20% stake in Nord Pool Spot AS (Nord Pool), the Nordic electricity exchange. The company has 13,950km of transmission lines and 106 substations, together comprising the Finnish main grid and all significant cross-border connections. FY06 revenue was EUR351m, of which 73% (EUR256m) related to the grid business and 27% (EUR95m) to power balance management.

Shareholders

Fingrid is 12%-owned by the Republic of Finland, 25% by Fortum Corporation (Fortum, 'A'/Negative), 25% by Pohjolan Voima Oy (Pohjolan), with the remaining 38% held by institutional investors. There have been virtually no shareholder changes since inception. All key decisions require a three-quarters majority, which means that no single-interest group can override the other shareholders. Fingrid's shares are not listed, and Fitch understands that institutional investors have made their investments in Fingrid with the aim of a safe and stable dividend.

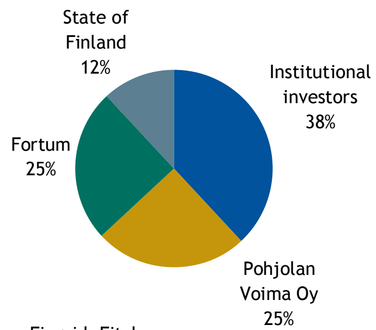
It is important to note that Fingrid's primary objective is to provide security of supply and low tariffs for its customers, rather than to maximise equity value for shareholders. Fingrid's two largest customers also own 50% of the share capital, and control 66% of the voting rights (which together with the state provides a required quorum for all voting decisions), and have so far sought to maximise value by maintaining high gearing. Management has reiterated that the business is not run purely to optimise revenue and return for the shareholders, and this is clearly evidenced by the historically low and stable tariffs despite legislation allowing for higher increases. The shareholders, as customers, benefit from these low tariffs.

This factor, together with institutional investors being motivated by the possibility of receiving a stable dividend stream, indicates to Fitch that the focus of management is likely to continue to be on maintaining a low business risk in core operations rather than undertaking the higher risk associated with an expansionary strategy.

At inception, Fingrid was thinly capitalised with 10% equity. As of June 2007, 29% of Fingrid's capital structure was equity. Management believes this to be the ideal debt/equity capitalisation. In Fitch's view, this internal target provides comfort that the company will adhere to a prudent capital structure policy. In 2006, the dividend payout ratio was 18%, which is relatively low compared with its peers. In the future, the dividend payout is expected to increase to around 30%.

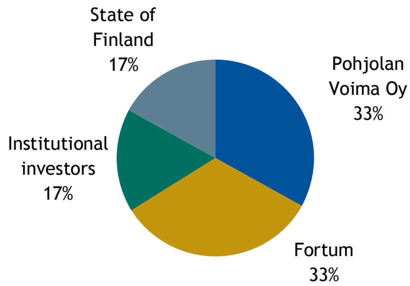
The amount of annual dividend is calculated every calendar year, and set at 1.5% over the 30-year German government bond rate. The minimum dividend is 6% of the subscription price of the shares. In theory, dividends are not compulsory, but in practice, institutional investors will expect an annual dividend.

Share Ownership



Source: Fingrid, Fitch

Voting Rights



Source: Fingrid, Fitch

Primary Activities

Fingrid is the Finnish Transmission System Operator (TSO), and as such is responsible for the bulk transmission of electricity on the country's main high-voltage electricity network. Fingrid provides grid access to electricity market participants (ie generating companies, traders, suppliers, distributors and directly connected customers) according to non-discriminatory and transparent rules. In order to ensure the security of supply, it also guarantees the safe operation and maintenance of the system. This core role is broken down into the following specific activites:

Grid Services

Provides customers with access to — and the right to transmit electricity to and from — the national transmission grid via a connection point.

Cross-Border Services

Through transmission services on the Nordic cross-border connections electricity market, customers have the ability to participate on the Nordic Elspot and Elbas exchanges. Fingrid also offers transmission services on its Russian connections, which are available to all electricity market parties.

Balance Services

Allows Fingrid's customers to balance the difference between their electricity supply and delivery, to obtain services relating to balance settlement, and have the opportunity to participate in the Nordic power balancing market. Fingrid benefits from positive macro trends related to Finnish electricity demand (characterised by 1%-2% per annum demand growth) and considerable flexibility to set tariffs (see *Regulation* below). As such, and in line with the regulated utility sector in general, Fingrid's activities are characterised by stable underlying earnings. Notwithstanding this, an ETSO benchmarking study carried out on 2005 European electricity transmission tariffs showed that Fingrid had the lowest network tariff in Europe: at EUR3/MWh compared with the UK on EUR8/MWh, Italy EUR8.5/MWh, Spain EUR5/MWh, Sweden EUR4.5/MWh, Norway EUR5/MWh and Denmark EUR10/MWh. This predominantly reflects Fingrid's strategy and its operational aim of low tariffs.

Fingrid possesses significant headroom to raise tariffs within the current regulatory framework, which it has not exercised to date. The company will raise tariffs over the period 2008 to 2011 in order to contribute to the funding of a significant investment programme over that period (effectively resulting in costs being passed through to customers).

The company has 101 customers comprising 17 power producers, 22 power intensive industrial companies and 62 electricity distributors. In view of Fingrid's monopoly position, customer influence (with the exception of Fortum and Pohjolan) is relatively low.

Operational Reliability

Fingrid's transmission reliability (measured as 1-annual energy not transmitted/annual transmitted energy) has been above 99.999% in the past 12 years, with seven years exceeding 99.9998%, making the company one of the world's most reliable operators. Penalties for non-functioning of the transmission system are limited to a total of EUR5m to all affected customers per incident. Overall, Fitch views the credit risk for Fingrid associated with transmission outages as very limited.

The Electricity Market

Finland, Sweden, Norway and Denmark together make up a single electricity market. In the Nordic electricity market, the price of electricity is established by free trading of electricity on the electricity exchange. As the transmission system operator in Finland, Fingrid has the role of developer of market-focused rules for the physical electricity market.

As a part of this role, Fingrid owns 20% of Nord Pool, the Nordic electricity exchange for physical electricity trading. Nord Pool quotes the day-ahead market price for each hour, on the basis of purchase and sale bids. About 60% of electricity is traded through the spot market in the Nordic area, while the rest is based on bilateral transactions.

Finland's electricity consumption per capita is high, caused by the cold climate, high standard of living and the energy-intensive nature of Finland's domestic industry. Electricity consumption was 90 terrawatt hours (TWh) in 2006, up from 70TWh 10 years earlier. Finland's energy regulator is projecting electricity consumption of 94.3TWh by 2011. Overall, the trend is one of steady long-term growth averaging around 2% per year. This underpins Fitch's expectations of modest volume growth for Fingrid.

There are a total of 120 companies producing electricity in Finland, via 550 generation plants. Domestic production accounts for around 87% of Finnish electricity consumption, with imports accounting for about 13%. Diversification of electricity supply being fed into Fingrid's transmission network is good, and is likely to prove reliable (whilst Fitch notes that there was some restriction in Russian exports to Finland in 2006 due to exceptional demand levels within Russia).

Regulation

Fingrid's operations are subject to possession of a licence granted by the regulator. The electricity and gas networks are regulated by the Energy Market Authority (EMA). This is a 30-employee independent body funded 25% from the state budget and 75% from levies. Finland has moved from an ex-post system before 2004 to a combined ex-ante/ex-post system from 2004. The initial network regulation period was three years, and in the future each regulatory period is set to cover four years.

The next period will be 2008-2011, and will introduce an efficiency element consisting of interruption costs (penalty capped at EUR2m per licence holder) and reduction of controllable opex. Network companies have the right to appeal EMA's decision to the Market Court (first instance) and to the Supreme Administrative Court (final instance). An appeal process usually lasts between 18 months and two years. While a dispute is ongoing, the EMA's decisions are binding. The EMA's broad objectives are prescribed in the Finnish Electricity Market Act and the Bill to the Act. The EMA issues licences to operators eligible to operate networks (high-, medium- and low-voltage), and the authority has the right to revoke such licences at any time. Fitch regards this as an extremely low risk in Fingrid's case, owing to its historically reliable operations and low tariffs.

Fingrid is Finland's sole transmission company. By law, it must supply non-discriminatory access and the tariffs should be reasonable.

The regulation focuses on the assessment of pricing for "reasonableness". Put simplistically, the model calculates the sum of post-tax return deemed reasonable, on a particular regulatory asset base (RAB), in the various years of the regulatory period. It then subtracts the sum of actual adjusted post-tax profits in the various years of the regulatory period. The result equals the amount to be reimbursed to customers, or, alternatively (as is the case with Fingrid), the amount by which the tariffs can be raised.

In practice, Fingrid has significantly cut overall tariffs since its inception. In 2006, tariffs were reduced by 5% and, prior to this, the company had operated with unchanged prices since 2000, as efficiencies and solid volume levels have allowed tariffs to be held constant. For the period 2008 to 2011, Fingrid has opted to increase tariffs in order to contribute to increased expenditure associated with its investment programme.

Fingrid's actual versus allowed return for the period 2005-2007 is illustrated in the table *Actual versus Allowed Return:*

Actual versus Allowed Return

Year	Actual (%)	Allowed (%)
2005	3.74	4.21
2006	4.01	4.22
2007	2.94	4.83[a]

[a] Expected
Source: Fingrid

The EMA calculates the windfall loss or profit annually. Fitch notes that under-charged allowed return on RAB can only be carried forward during one period, to avoid any potential new owner being able to back-date tariffs over an indefinite period. Unlike the UK, the efficiency mechanism does not include customer satisfaction criteria. Fitch believes the EMA has excluded this parameter because Fingrid's key customers are also its shareholders.

The company has discretion to decide upon its investment programme. As long as investments promote adequacy of the transmission system, system operation and promotion of market functioning, capex can be included in the RAB. So far, 99.9% of Fingrid's undertaken capex has been included in the RAB.

Fitch notes that if Fingrid did incur cost overruns on its investment programme, the capex incurred would still be allowable for inclusion in the RAB — and hence a regulatory return can be earned on this element. This part of the regulatory regime is obviously positive for Fingrid as it mitigates the key risk associated with capex in a regulated utility — the potential creation of 'stranded assets' through such items as cost overruns (ie assets where a regulated return is not allowed).

Overall, Fitch believes that the regulatory regime in Finland is benign and that co-operation between Fingrid and EMA works well for both customers and shareholders. Network regulation is relatively new in Finland, and Fingrid took the EMA to court to question certain aspects of the network regulation relating to the calculation of allowed returns. The process ended with the court agreeing with Fingrid in about half of the points raised, and with the EMA in the others. Fingrid was satisfied with the outcome and there was no appeal process.

In Fitch's view, regulatory risk is relatively low, especially when compared with that of other European regulatory regimes.

Financial Analysis

Despite a 5% tariff reduction carried out at the beginning of 2006, grid revenue grew by 11% as a result of underlying increased electricity consumption and higher sales of balance power. However, the cost of raw materials used (electricity) as a percentage of sales increased yoy from 31% to 40%, reflecting an increase in energy loss purchases. This was somewhat offset by a reduction in other operating costs (excluding fair-value adjustments related to electricity derivatives), which declined from 11% of sales in 2005 to 8% of sales in 2006.

Earnings (Full Year)

(EURm)	2006	2005	2004
Revenue	351	317	302
Operating EBITDAR	152	147	155
Operating EBITDAR margin (%)	43	46	51
EBIT	81	111	102
EBIT margin (%)	23	35	34
Net income	38	56	49

Source: Fingrid, Fitch

Fingrid's policy is to outsource as much work as possible, thus it only employs 233 staff and externally tenders maintenance, equipment and project services. The fact that Fingrid has outsourced most of its activities means that controllable costs are relatively small (Fingrid estimates this at 10% of the total cost base). Fitch believes this is significant as it is only controllable costs that are likely to be assessed for reasonableness by the regulator in making assessments of future operating efficiency. Therefore, Fingrid's exposure to future aggressive regulatory changes is very limited.

The overall result of the dynamics in the cost base was a small reduction in operating EBITDAR margin, from 46% to 43% yoy. This represents a lower EBITDA margin than its Fitch-rated peers with the exception of NGET (Red Electrica 69%, Terna 70%, NGET 45%) which derives from Fingrid's stated strategy of maintaining low tariffs. When including adjustments associated with the fair value of electricity derivatives (EUR13m gain in 2005 versus a EUR18m loss 2006), the reported EBIT margin declined from 35% in 2005 to 23% in 2006.

In terms of coverage, operating EBITDAR/fixed charges (ie net interest expense plus operating lease expense associated with long-term assets) improved to 4.5x in 2006 (4.2x in 2005, 3.6x in 2004). This was largely due to very small increases in fixed charges yoy (up EUR1.4m to EUR43.6m). This represents a weaker coverage than its Fitch-rated peers with the exception of NGET(Red Electrica 6.4x, Terna 7.7x, NGET 4.4x). However, a comparative weakness in coverage is somewhat mitigated by the good headroom that Fingrid possesses for tariff increases within the current regulatory framework. Should this coverage metric experience a sustained deterioration, then the rating may come under pressure.

For the first half of 2007, revenue was down 11% to EUR162m (EUR181m in H106), as a result of lower sales in balance power (lower price achieved), a decrease in grid revenues due to further tariff reductions from January 2007, and lower volumes (down 0.9% on H106). Reversing the historical trend, Fitch notes that for the next regulatory period 2008 to 2011, Fingrid has stated its intention to raise tariffs.

Earnings (Half Year)

(EURm)	H107	H106
Revenue	162	181
Operating EBITDA	67	84
Operating EBITDA margin (%)	41	46
EBIT	53	68
EBIT margin (%)	33	38
Net income	25	40

Source: Fingrid, Fitch

Operating EBITDA (note: no rental expense was detailed in the H107 report, hence EBITDA rather than EBITDAR) was EUR67m (H106: EUR84m). The reduction was mainly due to tariff reductions, but also increased repair costs (anticipated by management and relating to the sea cable) and a rise in the purchase cost of electricity. As a result, there was an erosion of EBITDA margin from 46% to 41% yoy.

EBIT was EUR53m (EUR68m in H106). This includes gains of EUR12m related to fair-value adjustments of electricity derivatives (versus a gain of EUR10m in H106).

Fitch notes that management has stated, "… the group's income flow is characterised by seasonal fluctuations, which is why the financial result for the entire year cannot be directly estimated on the basis of the six-month result …" However, overall, management expects income to decrease by FY07.

Cash Flow Analysis

(EURm)	2006	2005	2004
Funds from operations	**112**	**106**	**104**
Working capital	-7	1	-3
Cash flow from operations	**105**	**107**	**101**
Capital expenditure	68	54	41
Dividends paid	6	6	7
Free cash flow	**31**	**47**	**53**

Source: Fingrid, Fitch

FFO/fixed charge cover has improved marginally to 3.8x in 2006 (2005: 3.6x). This was driven by operating EBITDAR improvements flowing through the cash flow, and slight reductions in interest and tax paid yoy. This level of cash flow cover is weaker than Fingrid's Fitch-rated peers with the exception of NGET (NGET 3.2x, Red Electrica 5.6x, Terna 6.0x).

After debt amortisation (EUR15m net 2006), net cash flow was again positive at EUR16m.

Capital Expenditure Metrics

	2006	2005	2004
Capital expenditure/depreciation (x)	1.3	1.1	1.0
CFO/ capital expenditure (x)	1.5	2.0	2.5

Source: Fingrid, Fitch

In the years 2000 to 2004, Fingrid's investments were around EUR40m per year in grid assets. In 2005 and 2006, these increased to an average of approximately EUR60m per year (hence a deterioration in the CFO/capex ratio). A large increase in capital expenditure is now expected. For the period 2007 to 2012, capex is projected by management to average EUR117m per year. Grid investments will consist of maintenance investments in the existing grid, investment in more back-up power (combined cycle gas turbine power plant) and cross-border investments.

Cross-border investments are the largest items, and consist primarily of a joint investment with Swedish TSO Svenska Kraftnät to build a new cable connection between Sweden and Finland in support of the existing cable.

It is worth noting that, because of increased capital expenditure, Fingrid expects free cash flow (FCF) to be negative for the next five years (total negative FCF 2007 to 2011 of approximately EUR145m). This shortfall is likely to be financed by increased tariffs, existing cash on balance sheet and debt drawdowns.

Fitch understands that both shareholders and customers have been extensively consulted and are supportive of Fingrid's investment plans.

Debt and Liquidity

The table *Debt Structure* illustrates Fingrid's debt structure and key leverage metrics:

Debt Structure

(EURm)	2006	2005
Bonds	513	432
Capital loans	168	168
Commericial Paper	119	131
Bank loans	43	75
Other interest bearing liabilities[a]	127	179
Total debt	**970**	**985**
Off-balance sheet debt (operating leases 8x)	15	16
Total adjusted debt	**985**	**1,001**
Unrestricted cash & cash equivalents	190	187
Net adjusted debt	**795**	**814**
Total adjusted debt/op. EBITDAR (x)	6.5	6.8
Total adjusted debt net of cash/op. EBITDAR	5.2	5.5
Free cash flow/adjusted liabilities (%)	3	5

[a] Includes derivative liabilities and (non-specified) portion of long-term liabilities maturing within 1 year
Source: Fingrid, Fitch

In May 2007, Fingrid repaid EUR138m of its capital loans, and further issued under its Debt Issuance Programme. This is reflected in the fact that total (unadjusted debt) was EUR966m in June 2007 against EUR970m in December 2006.

Adjusted net leverage has declined from 5.5x in 2005 to 5.2x in 2006, which, whilst a reduction, still represents materially higher levels than its Fitch-rated peers (Terna 2.1x, Red Electrica 4.0x, NGET 3.4x). Although adjusted leverage has been reduced, FCF/adjusted liabilities has deteriorated from 5% in 2005 to 3% in 2006, ultimately implying a reduction in cash flow available for principal debt service. This mainly reflects the impact of additional capital expenditure, which reduces FCF from EUR47m to EUR31m over the same period.

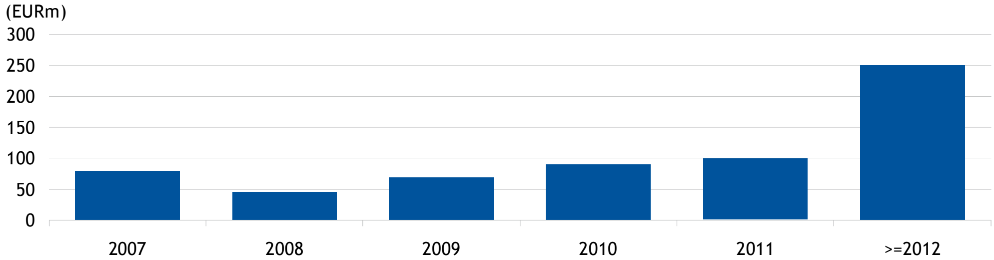
On an unadjusted basis (H107 financials do not disclose operating lease expense for the first six months of 2007), total debt/EBITDA increased to 7.2x at June 2007 (December 2006: 6.5x). Whilst total debt remained virtually constant, EBITDA, calculated on a last 12 months (LTM) basis, was negatively impacted over the period (for reasons detailed in *Earnings* above) — and hence resulted in an increase in leverage metrics.

Funding Sources and Maturity Profile

Short-term funding is provided by a Euro Commercial Paper Programme, and long-term funding by a EUR1bn international Debt Issuance Programme.

Maturity of non-current interest-bearing liabilities (excluding capital loans, which are subordinated in repayment) is detailed in the chart *Maturity of Non-Current Interest-Bearing Liabilities*:

Maturity of Non-Current Interest-Bearing Liabilities



Source: Fingrid, Fitch

Current debt as a proportion of total debt declined from 30% in 2005 to 22% in 2006, representing a reduction in short-term refinancing risk. Fitch notes annual maturities are relatively flat over the next five years (averaging around EUR75m per year from 2007 to 2011). No concentration of refinancing risk is evident.

No financial covenants are included in any of Fingrid's debt documentation.

Liquidity

Fingrid's liquidity is good. The company plans to maintain this position by keeping approximately EUR200m of on-balance sheet cash and a EUR250m undrawn revolving credit facility available, therefore its interest bearing debt will increase during the capex programme. In June 2007, cash and liquid financial assets totalled EUR200m, and the revolving credit facility remained undrawn.

Pensions and Other Liabilities

Fingrid has both defined benefit and defined contribution pension schemes in operation. However, at December 2006, the pension deficit related to defined benefit schemes was not considered material, at EUR177,000 (December 2005: EUR158,000).

With the exception of operating leases ('debt equivalent' of EUR15m for 2006, using an 8x multiple), Fitch is not aware of any other material contingent or off-balance sheet liabilities.

Summary of Key Credit Risks

Fitch perceives the main credit risks to which Fingrid is exposed are:

1. **Non-Functioning of the Transmission System** — However, the company's operational track record is exceptional, and if there were to be a fundamental system failure, Fingrid's liability would be limited to a total EUR5m payout to the group of affected customers. However, reputational risks are more difficult to mitigate. An operational failure could also bring closer scrutiny from the regulator.

2. **Regulatory Risk** — Harsher regulation could reduce Fingrid's financial flexibility further, possibly by restricting its ability to raise tariff levels or imposing harsher efficiency requirements. However, as Fingrid has built a good track record of sound operational efficiency and low tariffs, Fitch views this as low risk, and its outsourcing strategy results in few areas where the EMA could impose efficiency requirements.

3. **Electricity Price Risk** — Although Fingrid hedges its short-term positions for balancing power against high electricity prices with derivative instruments, a period of sustained high prices could negatively impact Fingrid's trading performance.

4. **Financial Risk —** Fingrid is more highly leveraged than its international peers. Any combination of further tariff reductions, generally weaker profitability (derived from volume decreases or increased costs) and capex overspend could put further pressure on leverage metrics. However, Fitch notes that management anticipates modest leverage reductions and interest cover improvements from 2008, and cost overruns are treated as a pass-through.

5. **Change in Shareholder Base** — The current shareholder dynamics involve the major shareholders also being key Fingrid customers. This leads Fitch to believe that the current strategic focus will be on maintaining a low business risk in the domestic market. Should the shareholder base change significantly — with this resulting in a change to a more aggressive strategic approach (eg debt-funded international expansion or increasing tariffs to the maximum level allowed under the regulatory framework) — then increased business risk could result.

Peer Summary

National Grid Electricity Transmission plc (NGET, 'A-'/Stable) — a National Grid Plc ('BBB'/Stable) subsidiary, it owns and operates the high-voltage electricity transmission network in England and Wales. It also operates the electricity transmission network in Scotland (although this is still owned by Scottish and Southern and Southern Energy).

Red Electrica de Espana ('A+'/Stable) — maintains and operates most of Spain's power transmission network. This encompasses the high-voltage grid and 1,700 substation circuit bays. Red Electrica also operates a fibre optic network, and offers internet connectivity and website-hosting solutions to internet service providers.

Terna Spa ('AA-'/Negative) — transmits electricity over the high- and extra-voltage grid in Italy. Through subsidiaries, the company owns a substantial share of National Grid Electricity Transmission plc. Terna also owns electricity transmission companies in Brazil.

Energinet.dk — owns the gas transmission grid, the 400kV electricity transmission grid and is the co-owner of the interconnections between Denmark, Nordic countries and Germany. Furthermore, the company has 132kV and 150kV electricity grids at its disposal and has access to natural gas storage facilities.

Statnett SF — owns and operates the Norwegian electricity transmission grid; coordinating and managing the entire system. The company also operates a service for the transportation of heavy equipment in the Norwegian electricity market through a subsidiary.

Peer Analysis

Issuer Name	IDR	Country	Revenue	Op. EBITDAR/ Revenue (%)	Adj. Debt Net of Cash/Op. EBITDAR (x)	FFO Fixed Charges	Op. EBITDAR/ Fixed Charges	CFO/Capital Expenditures	Cash Flow from Operations	Free Cash Flow	Capital Expenditures
NGET plc	A-	UK	2815.2	45.2	3.4	3.2	4.4	1.0	695.3	50.5	681.4
Red Electrica de Espana	A+	Spain	949.3	68.7	4.0	5.6	6.4	1.7	617.4	153.3	365.5
Terna Spa	AA-	Italy	1307.8	69.7	2.1	6	7.7	2.3	769.0	164.1	338.9
Energinet.dk		Denmark	482.8	17.6	6.1	4	6.3	0.6	37.0	-5.3	60.4
Statnett		Norway	927.0	23.8	4.4	3.3	3.1	1.2	147.0	54.2	120.0

Source: Fitch

FINGRID OYJ

	31 Dec 2006 EURth Original	31 Dec 2005 EURth Original	31 Dec 2004 EURth Original
Summary Balance Sheet			
ASSETS			
Cash and Marketable Securities	190,079.0	187,550.0	142,023.0
Accounts Receivable/Trade Debtors	43,008.0	41,602.0	37,768.0
Inventory	3,820.0	2,864.0	4,238.0
Other Current Assets	22,168.0	6,194.0	6,491.0
Property, Plant & Equipment	1,065,782.0	1,048,439.0	1,039,661.0
Intangible Assets	168,370.0	168,279.0	168,788.0
Other Non-current Assets	20,578.0	27,227.0	11,620.0
TOTAL ASSETS	**1,513,805.0**	**1,482,155.0**	**1,410,589.0**
LIABILITIES			
Short-term Debt (inc. CPLTD)	212,813.0	291,991.0	275,898.0
Accounts Payable/Trade Creditors	24,835.0	23,427.0	13,333.0
Provisions	94,031.0	83,105.4	65,712.0
Other Short-term Liabilities	36,030.0	35,726.2	35,520.0
Other Long-term Liabilities	3,009.0	150.0	350.0
Long-term Secured Debt	0.0	0.0	0.0
Long-term Unsecured Debt	757,547.0	693,847.0	715,074.0
TOTAL LIABILITIES	**1,128,265.0**	**1,128,246.6**	**1,105,887.0**
EQUITY			
Minority Interest/Minorities	0.0	0.0	0.0
Equity Capital & Reserves	385,540.0	353,908.4	304,702.0
TOTAL LIABILITIES & EQUITY	**1,513,805.0**	**1,482,155.0**	**1,410,589.0**
Adjusted Gross Debt	**985,014.5**	**1,002,025.0**	**1,006,416.0**
Debt Schedule			
DEBT PRIORITY			
Lease Liabilities	0.0	0.0	0.0
Secured	0.0	0.0	0.0
Unsecured	970,360.0	985,838.0	990,972.0
Convertible	0.0	0.0	0.0
Subordinated	0.0	0.0	0.0
Total Debt	**970,360.0**	**985,838.0**	**990,972.0**
Off-Balance Sheet Debt	14,654.5	16,187.0	15,444.0
Total Adjusted Debt	**985,014.5**	**1,002,025.0**	**1,006,416.0**
Non-recourse + Equity Hybrid Component	0.0	0.0	0.0
Total Adjusted Debt with Equity Credit	**985,014.5**	**1,002,025.0**	**1,006,416.0**
Adjusted Liabilities~~	**985,014.5**	**1,002,025.0**	**1,006,416.0**
DEBT SOURCE			
Bank	291,433.0	396,454.0	401,669.0
Capital Markets	513,170.0	432,165.0	410,002.0
Other	165,757.0	157,219.0	179,301.0
TOTAL DEBT	**970,360.0**	**985,838.0**	**990,972.0**
DEBT MATURITY			
Less than 1 Year	212,813.0	291,991.0	260,263.0
1 To 2 Years	43,076.0	92,106.0	0.0
2 To 5 Years	258,156.0	206,151.0	541,855.0
More than 5 Years	456,315.0	395,590.0	188,854.0
TOTAL DEBT	**970,360.0**	**985,838.0**	**990,972.0**
Unrestricted Cash & Deposits	190,079.0	187,550.0	142,023.0
CURRENT DEBT NET OF CASH	**22,734.0**	**104,441.0**	**133,875.0**
TOTAL DEBT NET OF CASH	**780,281.0**	**798,288.0**	**848,949.0**
TOTAL ADJUSTED DEBT NET OF CASH	**794,935.5**	**814,475.0**	**864,393.0**
Adjusted Liabilities Net of Cash	**794,935.5**	**814,475.0**	**864,393.0**
Restricted Cash & Deposits	14,007.0	372.0	1,333.0

~ includes Restricted Cash
~~ Total Adjusted Debt with Equity Credit plus Debt-like Pref. Stock

FINGRID OYJ

Summary Income Statement

	31 Dec 2006 EURth Original	31 Dec 2005 EURth Original	31 Dec 2004 EURth Original
SUMMARY INCOME STATEMENT			
Revenue*	351,326.0	316,700.0	301,824.0
Cost of Goods Sold	172,867.0	137,795.0	116,810.0
GROSS PROFIT	**178,459.0**	**178,905.0**	**185,014.0**
Selling, Distribution & Administrative Expenses	0.0	0.0	0.0
Other Operating Expenditure**	28,540.0	33,508.0	31,561.0
Presentational only: L-T Rentals (incl. in SG&A above)	1,831.8	2,023.4	1,930.5
Operating EBITDAR	**151,750.8**	**147,420.4**	**155,383.5**
Depreciation & Amortisation	52,254.0	48,589.0	44,399.0
Non-recurring, non-operational and non-recourse income***	-18,117.0	13,218.0	-7,578.0
Associate Income/Loss	1,190.0	709.0	618.0
Other Income/Expense	-1,831.8	-2,023.4	-1,930.5
EBIT	**80,738.0**	**110,735.0**	**102,094.0**
Interest Income	5,881.0	4,426.0	2,604.0
Interest Expense	37,663.0	37,835.0	44,436.0
Non-interest Financial Income/Charges	2,529.0	-2,262.4	-1,119.0
PBT	**51,485.0**	**75,063.6**	**59,143.0**
Taxation	13,143.0	19,334.4	9,654.5
Minorities	0.0	0.0	0.0
NET INCOME	**38,342.0**	**55,729.2**	**49,488.5**
Extraordinary Items/Accounting Changes	0.0	0.0	0.0
NET INCOME AFTER EXTRAORDINARY ITEMS (before dividends)	38,342.0	55,729.2	49,488.5

Summary Cash Flow

	31 Dec 2006 EURth Original	31 Dec 2005 EURth Original	31 Dec 2004 EURth Original
SUMMARY CASH FLOW			
Operating EBITDAR	**151,750.8**	**147,420.4**	**155,383.5**
Cash Interest Paid, Net of Interest Income	36,174.0	39,635.0	46,149.0
Cash Tax Paid	2,299.0	2,514.0	3,039.0
Associate Dividends	634.0	722.0	3.0
Other Changes before Funds From Operations****	-1,826.8	-415.4	-1,953.5
FUNDS FROM OPERATIONS	**112,085.0**	**105,578.0**	**104,245.0**
Working Capital	-6,776.0	1,384.0	-3,062.0
CASH FLOW FROM OPERATIONS	**105,309.0**	**106,962.0**	**101,183.0**
Non-Operational Cash Flow***	3.0	2.0	0.0
Capital Expenditure	67,986.0	53,812.0	41,281.0
Dividends Paid	6,632.0	6,632.0	6,632.0
FREE CASH FLOW	**30,694.0**	**46,520.0**	**53,270.0**
Receipts from Asset Disposals	0.0	4,237.0	1,464.0
Business Acquisitions	0.0	0.0	0.0
Business Divestments	0.0	0.0	0.0
Exceptional & Other Cash Flow Items	85.0	84.0	84.0
NET CASH IN/OUTFLOW	**30,779.0**	**50,841.0**	**54,818.0**
Equity Issuance/(Buyback)	0.0	0.0	0.0
FX movement	0.0	0.0	0.0
Other Items Affecting Cash Flow****	863.0	-1,141.0	-27,910.0
NET CASH FLOW AVAILABLE FOR FINANCING	**31,642.0**	**49,700.0**	**26,908.0**
CLOSING TOTAL DEBT NET OF CASH	**766,274.0**	**797,916.0**	**847,616.0**

* Net of Sales, Royalty & Other Operational Taxes
** Excludes Depreciation & Amortisation
*** Analyst Estimate
**** Balancing Item

FINGRID OYJ
Ratio Analysis

	31 Dec 2006 EURth Original	31 Dec 2005 EURth Original	31 Dec 2004 EURth Original
EARNINGS/PROFITABILITY			
Revenue Growth (%)	10.9	4.9	1.4
Gross Profit/Revenues (%)	50.8	56.5	61.3
Op. EBITDAR/Revenues (%)	43.2	46.6	51.5
EBIT/Revenues (%)	23.0	35.0	33.8
Pre-Tax Profit/Revenues (%)	14.7	23.7	19.6
Profit after tax/Revenues (%)	10.9	17.6	16.4
Effective Tax Rate (%)	25.5	25.8	16.3
Profit after tax/Average Equity (%)	13.9	22.8	19.4
Return on Average Assets (%)	5.1	6.5	6.7
FFO Return on Adjusted Capital (%)	11.1	10.7	11.5
Free Cash Flow Margin (%)	8.7	14.7	17.7
COVERAGES			
FFO/Gross Interest Expense and Preferred Dividends (x)	4.0	3.8	3.4
FFO Fixed Charge Cover (x)	3.8	3.7	3.3
(Op. EBITDAR-Capex)/Gross Fixed Charges(x)	3.1	3.3	3.4
Op. EBITDAR/Net Fixed Charges (x)	4.5	4.2	3.6
FFO/Interest Expense Net of Interest Income (x)	4.5	4.2	3.5
Free Cash Flow Debt Service Coverage (x)	0.3	0.3	0.3
Net Fixed Charges Cover (x)	2.9	2.7	2.6
LEVERAGE			
Total Adjusted Debt/Op. EBITDAR (x)	6.5	6.8	6.5
Total Adjusted Debt Net of Cash/Op. EBITDAR(x)	5.2	5.5	5.6
Adjusted Liabilities Net of Cash/Op. EBITDAR (x)	5.2	5.5	5.6
Adjusted Net Leverage/FFO (x)	5.5	5.8	5.8
Adjusted Leverage/FFO (x)	6.5	6.9	6.7
Free Cash Flow/ Adjusted Liabilities (%)	3.1	4.6	5.3
CFO/Total Debt Net of Cash (%)	13.5	13.4	11.9
CFO/Adjusted Liabilities Net of Cash (%)	13.3	13.1	11.7
Total Adjusted Debt/Total Adjusted Capitalisation (%)	71.9	73.9	76.8
FINANCIAL STRUCTURE			
Secured and Lease Debt/Total Debt (%)	0.0	0.0	0.0
Current Debt/Total Debt (%)	21.9	29.6	26.3
Off-Balance Sheet Debt/Total Adjusted Debt (%)	1.5	1.6	1.5
Total Debt Net of Cash/Tangible Equity (%)	359.3	430.0	624.6
PENSION ADJUSTED RATIOS			
Mixed Scheme Pension Liability	0.0	0.0	0.0
Pension Adjusted Net Leverage	5.2	5.5	5.6
Pension Adjusted Net Coverage	n.a.	n.a.	n.a.
Pension Adjusted Net Coverage (Implied)	n.a.	n.a.	n.a.
Implied Interest Cost	n.a.	n.a.	n.a.
Pension Adjusted Gross Coverage	n.a.	n.a.	n.a.
Pension Adjusted Gross Coverage (Implied)	n.a.	n.a.	n.a.
WORKING CAPITAL CYCLE			
Average Inventory Processing Period (days)	7.1	9.4	13.2
Average Receivables Collection Period (days)	44.0	45.7	45.7
Gross Cash Cycle (days)	51.0	55.1	58.9
Average Payables Payment Period (days)	51.0	48.7	41.7
Cash Conversion Cycle (days)	0.1	6.5	17.3
ADDITIONAL INFORMATION			
Depreciation	50,787.0	46,986.0	42,634.0
Amortisation	1,467.0	1,603.0	1,765.0
Capital Expenditure/Depreciation (x)	1.3	1.2	1.0
CFO/Capital Expenditure (x)	1.6	2.0	2.5
Interest Capitalised	0.0	0.0	0.0
Hire/Lease/Rent Costs for Current Assets	375.2	474.6	544.5
Hire/Lease/Rent Costs for Long-term Assets	1,831.8	2,023.4	1,930.5
Contingent Liabilities	1,688.0	2,542.0	4,153.0
Operating Exceptionals in Operating Costs	0.0	0.0	0.0
Staff cost/Revenues (%)	4.7	5.0	4.8
R&D (net)/Revenues (%)	0.0	0.0	0.0