Moody's Investors Service

Global Credit Research
Credit Opinion
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Credit Opinion: Fingrid Oyj

Fingrid Oyj

Helsinki, Finland

Ratings

Category	Moody's Rating
Outlook	Stable
Senior Unsecured	Aa3
Subordinate -Dom Curr	A1
Commercial Paper	P-1
Other Short Term	P-1

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Key Indicators

Fingrid Oyj

	2003	2002	2001	2000
EBIT Margin [1]	**30.3%**	**33.3%**	**35.1%**	**37.3%**
Adjusted RCF/Net Adjusted Debt [2]	**8.7%**	**7.6%**	**6.8%**	**8.3%**
Adjusted FFO Interest Coverage [3]	**2.7**	**2.5**	**2.3**	**2.6**
Adjusted RCF/Capex+ Investments (net of disposals) [4]	**1.9**	**1.4**	**1.4**	**2.3**
EBIT Gross Interest Coverage [5]	**1.7**	**1.7**	**1.6**	**1.6**
Adjusted FFO/Net Adjusted Debt [6]	**9.5%**	**8.4%**	**7.6%**	**9.0%**

[1] (Revenues - Op.Expenses +/- One-time non-recurring items + Goodwill amortisation)/Turnover [2] (RCF postWC+2/3 OpLease Expense)/((Total Debt+ 8*OpLease Expense+G'tees+Hybrids+Off-balance sheet debt+Pension liabilities)-(Cash+Marketable Securities)) [3] (FFO postWC + Cash Interest Expense) / Interest Expense [4] RCF postWC /(Capex - Sale of TFA + Acquisitions - Divestments) [5] (EBIT + Interest Income) / (Interest Expense) [6] (FFO postWC+2/3 OpLease Expense)/((Total Debt+ 8*OpLease Expense+G'tees+Hybrids+Off-balance sheet debt+Pension liabilities)-(Cash+Marketable Securities))

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Credit Strengths

Fingrid's credit strengths are:

- Low risk given monopoly transmission business

- Flexible regulatory framework

- Predictable steady operating cash flows and capex requirements

- Ability to raise tariffs if need be

Credit Challenges

Fingrid's credit challenges are:

- High leverage expected to reduce only gradually

- Low retained cash flow to debt measures, although the company has strong liquidity

Rating Rationale

The Aa3 rating reflects low business risk of Fingrid as the national electricity transmission monopoly, together with a supportive regulatory framework which confers flexibility of earnings despite a highly leveraged financial profile.

Fingrid was established in 1997 out of transmission assets of electric utilities IVO (now Fortum) and PVO, who are now Fingrid's main shareholders together with the State and institutional investors. Fingrid was incorporated with high leverage in order to reduce its cost of capital and hence offer the lowest possible tariffs to its customers, which include Fortum and PVO. Accordingly, FFO/net interest coverage is low, but is mitigated by the flexibility of the regulatory framework. Fingrid agrees tariffs directly with the customers, under the supervision of the Regulator, to reflect costs plus a "reasonable profit". This is designed to allow the company to pass cost increases (decreases) through to customers as required. Over time excess cash flow should allow some gradual debt reduction.

Fingrid has cut tariffs overall by 15% since its inception. Although the grid pricing agreement for 2002-2004 allows for a nominal 2% p.a. increase in tariffs, efficiencies and good turnover growth have allowed for tariffs to be held at current levels. Despite some proposed changes in the regulatory framework, we expect Fingrid to continue to maintain low and flexible tariffs, although no further cuts are expected and there may be some tariff increases in the next regulatory period to cover new investments.

The State has 17% voting rights and whilst implicit support was factored into the first time rating, Moody's believe it could be difficult for the State to demonstrate direct support given the EU stance on such matters. The State is however closely involved in the company supervision.

Rating Outlook

Stable. The company maintains a strong commitment to a conservative strategy and stability of cash flow to service its debt commitments and maintains healthy liquidity. Fingrid does however have high leverage and relatively low debt protection measures and the current rating factors in a steady development in retained cash flow and maintenance of the gradual debt reduction trend, as adjusted leverage (including preference shares) should continue to improve from the current 80%. Additionally, Fingrid always has an option in contracts with its customers to raise tariffs in case of extreme need in addition to its flexible "cost plus" regulatory framework.

What Could Change the Rating - UP

As the current ratios are somewhat tightly positioned for the current rating category, positive rating pressure is not imminent; in any event we would expect to see significant improvement on current debt protection measures (e.g. from RCF/Adjusted debt of 8.7% on audited 2003 figures) in order for this to occur.

What Could Change the Rating - DOWN

Failure to improve financial profile as noted. Prolonged downturn (not currently anticipated) in the Finnish economy which could weaken Fingrid's earnings and customer creditworthiness.

Recent Developments

The Finnish regulator (Energy Market Authority) has developed draft guidelines for some changes to the regulatory framework, with legislation expected before the end of 2004. The proposal envisages that the regulator will set the absolute level of allowed returns for Fingrid before the beginning of each regulatory period (the next being 1 January 2005 to 31 December 2007) although will not directly get involved with tariff negotiations; the principle of costs plus a reasonable profit is maintained. The Regulator also concluded in 2004 after an investigation that Fingrid's tariffs had complied with the EMA requirements over the last period. Given Fingrid's high efficiency and low tariffs, we expect the company to be able to continue to operate comfortably within the slight modifications to the regulatory parameters.