



Moody's Investors Service

Rating Action: **Moody's downgrades Fingrid's rating to A1; negative outlook**

Global Credit Research - 09 Oct 2009

Approximately USD860 million of rated debt affected

London, 09 October 2009 -- Moody's Investors Service has today downgraded the long-term senior unsecured debt rating of Fingrid Oyj ("Fingrid") to A1 from Aa3. Moody's also downgraded the company's subordinate debt rating to A2 from A1. The outlook for the ratings is negative. At the same time, Moody's has affirmed the company's short-term Prime-1 rating. The downgrade reflects Moody's view that the implementation of the company's sizeable investment plan will result in additional leverage and a projected credit profile inconsistent with the previous ratings.

Moody's notes that, as part of its ongoing capex programme, Fingrid has identified investments totalling more than EUR1.6 billion for 2009-19 (ie on average approximately EUR150 million per annum), mainly related to grid reinforcements, international interconnections and increased reserve capacity. The plan represents a material increase compared with the recent history of the company, with capex over 2005-08 amounting to approximately EUR70 million on average per annum. Whilst the committed tariff increases of 4.5% annually until 2011 would somewhat mitigate the negative impact on Fingrid's financial profile, the debt requirements associated with the company's investment plan are expected to weigh on the company's debt protection measures. Therefore, Moody's decision to downgrade the company's ratings.

Going forward, to support the current ratings, Moody's expects Fingrid to exhibit ratios of FFO Interest Coverage of at least 3x, FFO/Net Debt at least in the low double digits and RCF/Net Debt of at least 9-10%. This ratio guidance recognises the company's low business risk profile, underpinned by the flexibility embedded in the Finnish regulatory system, as well as Fingrid's position as a natural monopoly, with virtually all of its operating profit derived from stable regulated electricity transmission activities.

Whilst acknowledging the projected boost to Fingrid's earnings from the planned ambitious investments over the longer term, Moody's notes that the associated cash generation will be relatively limited in the medium-term. This could result in a weak positioning of the company's credit metrics within the current A1 rating category, unless the company used its ability to further increase tariffs. Moody's notes that Fingrid has historically pursued a policy of keeping its charges to customers well below the levels allowed under its regulatory regime. Hence, Moody's has maintained a negative outlook on Fingrid's rating.

In light of Fingrid's ownership by the government of Finland, the company falls under Moody's methodology for Government Related Issuers ("GRIs") and its rating incorporates a one-notch uplift for potential government support. As a reflection of the considerations discussed above, Moody's has revised downward one of Fingrid's GRI rating inputs -- the Baseline Credit Assessment ("BCA"), which represents the company's standalone credit quality -- to 6 from 5, which, on a scale of 1-21, is equivalent to the A2 rating category. The other GRI inputs for Fingrid remain unchanged, namely: (1) the Aaa/stable outlook rating of the government of Finland; (2) Moody's assessment of medium default dependence between the government of Finland and Fingrid; and (3) the agency's assessment of low probability of support.

The previous rating action on Fingrid was implemented on 23 June 2005, when Moody's affirmed the company's long-term senior unsecured and subordinate debt ratings in conjunction with the implementation of its GRI methodology.

The principal methodologies used in rating Fingrid were "Regulated Electric and Gas Networks", published in August 2009, and "The Application of Joint Default Analysis to Government Related Issuers", published in April 2005, and available on www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory.

Fingrid is the transmission system operator and owner of Finland's high voltage electricity assets and interconnectors. It also owns a 20% stake in Nord Pool Spot AS, the Nordic electricity exchange. In the six months ended 30 June 2009, Fingrid recorded a turnover of approximately EUR184 million.

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