

Research Update:

Fingrid Oyj Upgraded To 'AA-' On Increase In Government Ownership; Outlook Stable

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Overview

- The Finnish state has increased its ownership in Finnish transmission system operator Fingrid Oyj and now holds a majority stake.
- As a result, we have reassessed our view of the link between Fingrid and the Finnish state in accordance with our criteria for government-related entities.
- We are raising our long- and short-term corporate credit ratings on Fingrid to 'AA-/A-1+' from 'A+/A-1'.
- The stable outlook reflects our expectation that Fingrid will continue to have a strategic importance to the Finnish government as Finland's monopoly transmission system operator, and that there will be no material changes in government ownership in the near to medium term.

Rating Action

On April 20, 2011 Standard & Poor's Rating Services raised its long- and short-term corporate credit ratings on Finnish transmission system operator Fingrid Oyj to 'AA-/A-1+' from 'A+/A-1'. The outlook is stable.

Rationale

The rating action reflects a revision of the likelihood that the Finnish state (The Republic of Finland; AAA/Stable/A-1+) would provide timely and extraordinary support to Fingrid in an event of financial distress to "high" from "moderately high".

On April 19, 2011 the transfer of ownership in Fingrid was completed, with the Finnish state and the Finnish mutual insurance company Ilmarinen (not rated) acquiring the shares of Fortum Oyj (A/Stable/A-1) and Pohjolan Voima Oyj (not rated) in Fingrid. Following the transaction, we understand that the Finnish state holds a majority stake in Fingrid with about 53% of the shares (71% of the votes), with the balance being held by Ilmarinen and other institutional domestic investors. As a result of the increase in government ownership, we have reassessed our view of the link between Fingrid and the Finnish state in accordance with our criteria for government-owned entities. Following the revision, we now consider the link between Fingrid and the Finnish state to be "strong", whereas we previously considered it to be "limited". Our understanding is that the government has the intention of holding its stake over the long term and that a privatization or a partial sell-off is unlikely in the medium term.

Our assessment of Fingrid's role for Finland remains unchanged at "very important", reflecting its clear strategic importance to the government as the monopoly transmission system operator (TSO). Fingrid has a clear strategic objective for the government in its focus on ensuring electricity transmission stability, developing the transmission grid, and enhancing the Nordic electricity market.

We continue to assess Fingrid's stand-alone credit profile (SACP) at 'a'. This reflects the group's strategic monopoly position as the electrical TSO in Finland. It further reflects Fingrid's strong record of network efficiency, a favorable cost-plus regulatory regime, and the group's clear strategic focus on the national electricity transmission network and enhancement of the Nordic electricity market. The SACP and the ratings are constrained by what we regard as Fingrid's "significant" financial risk profile in light of our expectations of weakening credit ratios, due to rising gearing resulting from an extensive ongoing investment program and some volume risk.

Liquidity

The short-term rating is 'A-1+' and we view Fingrid's liquidity position as adequate. As of Dec. 31, 2010, the group had €219 million in cash and marketable short-term securities and access to a fully undrawn €250 million revolving credit facility, maturing in November 2012. We understand that this facility has recently been replaced by a new facility expiring in April 2016 of the same amount. This compares with €200 million in short-term debt (including commercial paper). The existing credit agreements do not contain financial covenants or material adverse change clauses, to our knowledge.

Fingrid generated negative free operating cash flows of €44 million in 2010 and we expect it to remain negative over the near to medium term. This is primarily due to the extensive investment program in combination with only moderate tariff increases. The deficit will be covered with additional debt. We will continue to monitor Fingrid's plans regarding its liquidity policies and funding closely in light of the increased investment program. At the current rating level, we assume Fingrid will maintain a prudent approach to liquidity management and pre-funding of capital expenditures. We expect Fingrid's moderate dividend policy of about €7 million per annum to continue over the medium term.

Outlook

The stable outlook reflects our expectation that Fingrid will remain strategically important to the Finnish government as Finland's monopoly TSO, and that there will be no material changes in government ownership in the near to medium term. It also reflects our expectations that there will be no significant changes to the group's SACP, including its financial policies and risk profile. We expect, for example, that adjusted funds from operations to debt will remain above 10% over the near to medium term. In accordance with our criteria on government-related entities, the ratings on Fingrid would

remain unchanged even if we were to change our assessment of the group's SACP by one notch.

We could raise the ratings if the likelihood of government support were to further increase, for example if the link between Fingrid and the Finnish state were to further strengthen. Conversely, we could lower the ratings if we perceived a weakening of the likelihood of extraordinary state support, for example, in the event of an unexpected dilution of the government ownership stake. In addition, we could lower the ratings if Fingrid's SACP were to weaken by more than one notch. This could result from a change in the group's financial policies and a significant negative impact on its credit measures and financial risk profile.

Related Criteria And Research

- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- Methodology And Assumptions: Standard & Poor's Standardizes Liquidity Descriptors For Global Corporate Issuers, July 2, 2010

Ratings List

Upgraded; CreditWatch/Outlook Action

	To	From
Fingrid Oyj		
Corporate Credit Rating	AA-/Stable/A-1+	A+/Watch Pos/A-1
Senior Unsecured	AA-	A+/Watch Pos
Commercial Paper	A-1+	A-1/Watch Pos

Ratings Affirmed

Fingrid Oyj	
Nordic National Scale Rating	K-1

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