

**Announcement: Moody's affirms Fingrid Oyj's A1/P-1 ratings; changes outlook to stable**

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**Global Credit Research - 13 Dec 2011**

London, 13 December 2011 -- Moody's Investors Service has today affirmed the A1 long-term senior unsecured debt rating and the Prime-1 (P-1) short-term rating of Fingrid Oyj ("Fingrid"), the Finnish electricity owner and operator. Concurrently, Moody's has changed the outlook on the rating to stable from negative.

**RATINGS RATIONALE**

"Today's announcement reflects the change in Fingrid's strategy whereby the company will now raise tariffs in order that its net profit gradually rises to its allowed regulatory return by the end of the new regulatory period in December 2015," says Paul Lund, a Moody's Vice President -- Senior Credit Officer and lead analyst for Fingrid Oyj.

Fingrid's ratings reflects the very supportive regulatory regime in Finland, which provides a return on regulatorily allowed assets, as well as an allowance for operating costs, outage costs and balancing costs. Tariffs can be altered on an yearly basis in order to meet the regulator's allowed return for the period in the case of under- or over-recovery. The regulatorily allowed return is reset every four years, at which time the regulator may also revise efficiency targets for the following period.

The Government of Finland (Aaa stable) acquired ownership stakes in Fingrid Oyj from both PVO and Fortum in April 2011. This resulted in a change in strategy from the owners, whereby Fingrid will now claim the full regulatory allowed return towards the end of the 2012-2015 regulatory period. Moody's anticipates that Fingrid will generate higher levels of cash flow going forward, and therefore expects that the company will have greater financial flexibility. However, the rating agency expects that this increased cash flow will be offset by higher levels of dividend payment.

Fingrid's financial profile became increasingly stretched for its rating category in 2010 and 2011. This reflected Fingrid's previous strategy of not collecting the full regulatory allowed return in order to keep tariffs low for the two main shareholders, as well as the company's very high levels of capital expenditure (capex) in those years.

Moody's anticipates an improvement in Fingrid's financial profile, such that (i) funds from operations (FFO)/interest coverage is above 5.0x on a consistent basis; and (ii) FFO/debt increases gradually to around 14% over the next three years, from the relatively low level of 10% in 2010. The rating agency expects that Fingrid's retained cash flow (RCF)/capex ratio will remain very low, at around 0.5x, reflecting the company's high levels of capex. However, Moody's also expects that Fingrid's leverage will decrease over the coming regulatory period as capex is likely to be funded largely from cash flow, with an expected relatively modest increase in notional levels of debt over the same period.

Moody's provides one notch of uplift to Fingrid's Baseline Credit Assessment of 6, which is equivalent to A2, based on the application of the rating agency's rating methodology for government-related issuers ("GRIs"). Moody's continues to view the probability of extraordinary support by the Government of Finland as moderate, notwithstanding the increase in ownership to 53% direct ownership in April 2011, from 33% direct and indirect ownership, given the governments non-interventionist approach.

The stable outlook reflects Moody's expectation that Fingrid's financial profile will improve from its current level, helped by increased levels of cash flow resulting from higher tariffs and returns that the company will claim.

**WHAT COULD CHANGE THE RATING UP/DOWN**

In view of the significant ongoing investment programme and progressive increase in return, Moody's does not expect any positive pressure on Fingrid's rating in the near term.

Moody's could downgrade the rating in the event that Fingrid's FFO/interest coverage and FFO/debt ratios were to fail to meet the rating agency's expectations, falling below 4.0x and not reaching the mid-teens in percentage terms, respectively, during the upcoming regulatory period. Moody's notes that the single notch of uplift to the BCA under its GRI methodology would be unlikely to be reduced in the event of a limited fall in the ratings of the government of Finland.

Fingrid Oyj ("Fingrid", A1/P-1, stable) 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.

Fingrid was established in 1997 out of the transmission assets of the electric utilities IVO, now the 50% state-owned Fortum (A2 stable), Finland's largest utility, and PVO. Following a change in shareholdings on 19 April 2011, the state of Finland is now the majority owner of Fingrid, owning 53% of shares, with the balance held by institutional investors, including Finnish pension fund Ilmarinen (19.9%). The change of ownership reflects the EU requirement that the ownership of transmission assets is unbundled from generation and supply companies by March 2012.

**PRINCIPAL METHODOLOGIES**

The methodologies used in this rating were Regulated Electric and Gas Networks published in August 2009, and Government-Related Issuers: Methodology Update published in July 2010. Please see the Credit Policy page on [www.moody's.com](http://www.moody's.com) for a copy of these methodologies.

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