

Research Update:

Fingrid Ratings On CreditWatch Positive On Potential Increase In Government Ownership

Primary Credit Analyst:

Gustav Liedgren, Stockholm +46 (0) 8 440 5916;gustav_liedgren@standardandpoors.com

Secondary Contact:

Andreas Kindahl, Stockholm (46) 8-440-5907;andreas_kindahl@standardandpoors.com

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Overview

- Fortum Oyj and Pohjolan Voima Oyj have announced their intention to sell their stakes in Fingrid Oyj to the Finnish state and pension fund Ilmarinen.
- This could lead to a reassessment of our view of the link between Fingrid and the Finnish state in accordance with our criteria for government-related entities.
- We are placing the 'A+/A-1' corporate credit ratings on Fingrid on CreditWatch with positive implications.

Rating Action

On Jan. 28, 2011 Standard & Poor's Rating Services placed its 'A+/A-1' long- and short-term corporate credit ratings on Fingrid Oyj on CreditWatch with positive implications.

Rationale

The CreditWatch placement follows an announcement by Fortum Oyj (A/Stable/A-1) and Pohjolan Voima Oyj (PVO; not rated) that they intend to sell their stakes in Fingrid to the Finnish state (the Republic of Finland; AAA/Stable/A-1+) and Finnish pension fund Ilmarinen (not rated). Fortum and PVO each own 25% of the shares in Fingrid which correspond to 33.4% of the votes. According to the potential sellers, if the transaction goes ahead, the Finnish state will buy about 81% and Ilmarinen about 19% of the shares currently owned by Fortum and PVO. Although subject to a final agreement between the parties and a parliamentary decision, we believe that there is a strong likelihood that the transactions will be completed in the near term. The sale has been triggered by the EU's third energy market package that calls for transmission system operators (TSOs) to be unbundled from power generation companies by early 2012. Following the transaction, we understand the Finnish government would hold a majority stake in Fingrid with about 53% of the shares (71% of the votes), with the balance held by institutional investors, including Ilmarinen.

Fingrid is the national electricity TSO in Finland. It manages and develops the national grid and is responsible for system balance management. We classify Fingrid as a government-related entity (GRE), due to its part-ownership by the Finnish state. In accordance with our criteria for GREs, we consider it to be a "moderately high" likelihood that the government of Finland would provide timely and sufficient extraordinary support to Fingrid in the event of financial distress. This is based on the company's "very

important" role for Finland and "limited" link to the Republic of Finland. If the planned sale takes place, we would have to reassess our view on the link between Fingrid and the Republic of Finland. In our view, an increased proportion of state ownership with the intention of long-term ownership could lead to a positive rating action.

The ratings on Fingrid reflect its monopoly position, which results in low-risk stable earnings and cash flows. They are supported by a long-standing, transparent, and supportive regulatory regime. These strengths are offset by weak financial ratios and a significant investment program which has been undertaken to reinforce and expand the grid over the next 10 years.

Liquidity

We view Fingrid's liquidity position as adequate. As of Sept. 30, 2010, the company had €202 million in cash and marketable short-term securities, compared with €344 million in short-term debt (including commercial paper), and access to a fully undrawn €250 million revolving credit facility maturing in November 2012. To our knowledge, the existing credit agreements do not contain financial covenants or material adverse change clauses.

We expect Fingrid to continue to generate solid cash flows from operations. At the same time, increased investments will likely lead to negative prefinancing cash flow over the near to medium term. Consequently, we expect the company's debt to increase in the next few years.

CreditWatch

We aim to resolve the CreditWatch placement within the next three months pending receipt of more information on the Finnish state's intention to increase its ownership in Fingrid. We will need to understand the new majority owner's objectives and financial strategy for Fingrid, and how this could affect the company's stand-alone credit profile. We may raise the ratings by one notch if we perceive the increase in the government's stake to be long-term, that it has no intention to privatize in the medium term, and provided we see no material weakening of the company's stand-alone credit 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

Ratings Affirmed; CreditWatch Action

| | To | From |
|--|------------------|---------------|
| Fingrid Oyj Corporate Credit Rating | A+/Watch Pos/A-1 | A+/Stable/A-1 |

NB: This list does not include all ratings affected.

Additional Contact:

Infrastructure Finance Ratings Europe;InfrastructureEurope@standardandpoors.com

Complete ratings information is available to RatingsDirect subscribers on the Global Credit Portal at www.globalcreditportal.com and RatingsDirect subscribers at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow (7) 495-783-4011.

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