FITCH AFFIRMS FINGRID AT 'A'; STABLE OUTLOOK

Fitch Ratings-Milan/Paris/London-16 October 2012: Fitch Ratings has affirmed Fingrid Oyj's (Fingrid) Long-term Issuer Default Rating (IDR) at 'A', senior unsecured rating at 'A+' and Short-term IDR at 'F1'. The Outlook on the Long-term IDR is Stable.

The affirmation and Stable Outlook reflect Fingrid's low business risk due to its monopoly position, strong efficiency track record and almost wholly regulated earnings. Fingrid benefits from a stable and highly supportive regulatory framework, with the ability to set its own tariffs subject to a high upper limit and a test for "reasonableness".

Fitch expects the combined effect of peaking capex spend and higher dividend pay-out over the next two years to stretch FFO net leverage ratios above the level commensurate with a 'A' rating. However, the agency predicts an improvement in the company's financial profile by 2014, as the company implements tariff increases to reach the maximum allowable return in 2014, in conjunction with a decrease in capex to an average of around EUR100m per year. This should contribute to a reduction in FFO net leverage of below 5.5x towards the end of the current regulatory period 2012-15.

Fitch expects Fingrid's dividend pay-out policy to materially increase from 2013, as it is assumed that the new majority shareholders will seek a reasonable return on their investment. Slower de-leveraging than anticipated by Fitch, caused for example by a more aggressive dividend pay-out policy, and/or a failure to implement tariff increases to reach the maximum allowable return by 2014, while maintaining its capex (EUR100m-200m per year) would put pressure on ratings. Failure to achieve positive FCF by 2014 would also be negative for the rating.

In accordance with Fitch's parent and subsidiary rating linkage methodology, the rating does not incorporate any formal state support, despite the Finnish government holding a 53% stake in Fingrid (70.9% voting rights), as the company operates on an entirely commercial basis, with no tangible financial support from its majority owner. Fingrid is 53% owned by the Republic of Finland ('AAA'/Stable/'F1+') and 19.9% by Ilmarinen Mutual Pension Insurance following the sale of Fortum Corporation's ('A-'/Stable) 25% stake and Pohjolan Voima Oy's 25% stake in Fingrid in April 2011.

The senior unsecured rating of 'A+' benefits from a generic, one-notch uplift from the Long-Term IDR to account for what Fitch views as above-average recovery prospects in case of default in accordance with Fitch's Utilities Sector Notching and Recovery Ratings criteria.

The ratings factor in Fingrid's adequate liquidity, with EUR256m of cash and cash equivalents at H112 and a EUR250m undrawn revolving credit facility, maturing in April 2017 (including the exercising of one of two extension options to 2018). The company has a minimum EUR200m cash policy. Fingrid's debt maturity is not onerous, with EUR159m maturing in 2012 (as of 1H12) and less than EUR200m of debt maturing each year through to 2015. Fingrid issued an EUR300m 12-year bond in April 2012 under its EMTN programme.

WHAT COULD LEAD TO A RATING ACTION
Positive: future developments that may, individually or collectively lead to a positive rating action include:
- FFO net leverage below 4.5x on a sustained basis
- Net debt/RAV below 45% on a sustained basis
- FFO gross interest above 6.5x on a sustained basis
- A more conservative capital structure policy through, for example, a reduction in the dividend pay-out policy
- Evidence of tangible government support, in accordance with Fitch's Parent Subsidiary Rating

Linkage policy

Negative: future developments that may, individually or collectively lead to a negative action include:
- Failure to implement tariff increases to reach maximum allowable return by 2014 and 2015, while for example maintaining the capex plan and dividend policy, resulting in continuing negative FCF in 2014
- A more aggressive dividend pay-out policy, leading to slower de-leverage than anticipated by Fitch in the current regulatory period 2012-15
- FFO Net leverage above 5.5x on a sustained basis
- Net debt/RAV above 60% on a sustained basis
- FFO gross interest cover below 4.0x on a sustained basis
- Adverse changes in the Finnish regulatory system, resulting in a loss of flexibility with regards to tariff setting, and cost overruns in capex programme not being included in RAB;
- Reduced liquidity reserves

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Additional information is available at www.fitchratings.com. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable criteria, 'Corporate Rating Methodology', dated 8 August 2012, are available at www.fitchratings.com.

Applicable Criteria and Related Research:
Corporate Rating Methodology
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=684460

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