FITCH AFFIRMS FINGRID OYJ AT 'A'; OUTLOOK STABLE

Fitch Ratings-London-06 November 2014: Fitch Ratings has affirmed Finland-based utility Fingrid Oyj's Long-term Issuer Default Rating (IDR) at 'A,' with a Stable Outlook, senior unsecured rating at 'A+' and Short-term IDR at 'F1'.

The affirmation reflects the stabilisation of Fingrid's credit metrics due to the end of tariff increases and lower capital expenditure. Fingrid's credit profile benefits from low business risk reflecting its monopoly position, and a highly supportive regulatory framework.

Fitch expects that funds from operations (FFO) net adjusted leverage will remain slightly over current rating guidance, especially following the revised dividend policy, which seeks to distribute substantially all of the parent company net profit as dividend. However, this is offset by a supportive regulatory regime, strong FFO interest cover, as well as a net debt to regulatory asset base (RAB) of around 40%.

KEY RATING DRIVERS

Tariffs Stabilising

Fingrid will earn its allowed regulatory profit for the first time in 2014, which Fitch expects to result in forecast FFO net adjusted leverage of around 5.75x, FFO interest cover of over 6x and net debt to RAB of under 40% for the full year. Going forward, Fitch expects FFO net adjusted leverage to be about 6x, reflecting the announced 2% tariff decrease for 2015, capex of around EUR140m per year from 2015 and higher dividends reflecting Fingrid's policy to distribute substantially all of the parent company net profit as dividend.

Whilst FFO net adjusted leverage is in breach of the 5.5x negative guideline, this is compensated by strong fixed charge coverage and net debt to RAB, Fingrid's flexibility over its tariff setting and its ability to vary dividends according to capex and earnings reflecting majority ownership by the Finnish government.

Fingrid's net debt to RAB is well within guidelines for an 'A' rated Transmission System Operator (TSO) helped by recent investments increasing the RAB. However, FFO net adjusted leverage is outside guidelines due to earnings being impacted by the low allowed weighted average cost of capital (WACC) of 2.97% in 2014, long depreciation lives, and historical tariffs not reflecting fully allowed profit.

High Capex and Dividends

Fitch expects capex to be lower than previous years, averaging EUR140m from 2015 onwards. Capex peaked in 2013 at EUR229m due to the completion of the Estlink 2 interconnector and reserve power capacity. Fingrid's ongoing investment programme is focused on the reinforcement of the Finnish high-voltage transmission grid.

A substantially higher dividend of EUR82m was paid in June 2014, reflecting a higher distribution policy, high declared profits following tariff increases and the deferral of dividends in 2013 to absorb higher capex. Declared dividends have historically been much smaller due to low tariffs and resulting low net income.

Highly Supportive Regulatory Framework

Fingrid benefits from a stable and highly supportive regulatory framework. The Finnish regulator, Energiavirasto (EV), establishes a regulatory-allowed profit using a building block rate of return methodology under which Fingrid sets its own tariff, which is unique for a European TSO. In addition, the change of ownership in 2011 allowed Fingrid to raise tariffs by over 60% since 2012. The company announced a 2% reduction in tariffs for 2015 due to Fingrid over-recovering its allowed profit.

A new regulatory period will commence from 2016, which Fitch expects to remain in line with the parameters for the existing regulatory period. Further information is expected at the end of 2014.

No State Support Included
In accordance with Fitch's parent and subsidiary rating linkage methodology, the rating does not incorporate any uplift, despite the Finnish government (AAA/Stable/F1+) holding a 53% stake in Fingrid (70.9% voting rights). The company operates on an entirely commercial basis, with no tangible financial support from its majority owner.

RATING SENSITIVITIES
Positive: Future developments that may individually or collectively lead to positive rating action include:
-FFO net leverage falling below 4.5x, net debt/RAB falling below 45%, FFO gross interest rising above 6.5x on a sustained basis.
-Evidence of stronger links with the parent (e.g. tangible government support).

Negative: Future developments that may, individually or collectively, lead to negative action include:
- FFO net leverage consistently above 5.5x, net debt/RAB above 60%, FFO interest coverage falling below 4.0x on a sustained basis.

This could result from tariff decreases to below the allowed return, and/or an increase in capex commitments, resulting in continuing negative free cash flow. Negative rating action could also be driven by an increase in leverage due to higher than expected dividend payments, a less supportive regulatory system resulting in a loss of flexibility with regard to tariff setting, and cost overruns in the capex programme not being included in RAB.

LIQUIDITY AND DEBT STRUCTURE
Fingrid's liquidity is adequate as it covers funding needs over the next 12 months. The company's liquidity policy stipulates that cash and available credit lines must cover a minimum of 100% of debt due in the following 12 months. At 30 September 2014, the company had EUR180m of cash and cash equivalents and a EUR250m undrawn committed revolving credit facility, maturing in April 2018, against short-term debt maturities of EUR235m and expected negative free cash flow of around EUR50m over the next 12 months.

Contact:
Principal Analyst
Amee Shokur
Director
+44 20 3530 1617

Supervisory Analyst
Paul Lund
Senior Director
+44 20 3530 1244
Fitch Ratings Limited
30 North Colonnade
London E14 5GN

Committee Chairperson
Josef Pospisil

Senior Director
+44 20 3530 1287

Media Relations: Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: peter.fitzpatrick@fitchratings.com.

Additional information is available on www.fitchratings.com. For regulatory purposes in various jurisdictions, the supervisory analyst named above is deemed to be the primary analyst for this issuer; the principal analyst is deemed to be the secondary.

Applicable criteria, 'Corporate Rating Methodology', dated 28 May 2014, are available at www.fitchratings.com.

Applicable Criteria and Related Research:
Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=749393