

RatingsDirect®

Research Update:

Finnish Electricity Operator Fingrid Outlook Revised To Stable After Same Action On Finland; 'AA-/A-1+' Ratings Affirmed

Primary Credit Analyst:

Alf Stenqvist, Stockholm (46) 8-440-5925; alf_stenqvist@standardandpoors.com

Secondary Contact:

John D Lindstrom, Stockholm (46) 8-440-5922; john_lindstrom@standardandpoors.com

Table Of Contents

Overview

Rating Action

Rationale

Outlook

Related Criteria And Research

Ratings List

Research Update:

Finnish Electricity Operator Fingrid Outlook Revised To Stable After Same Action On Finland; 'AA-/A-1+' Ratings Affirmed

Overview

- On Jan. 14, 2013, Standard & Poor's revised its outlook on Finland to stable from negative and affirmed its 'AAA/A-1+' ratings.
- In accordance with our criteria for government-related entities, we are revising our outlook on Finnish electricity transmission system operator Fingrid Oyj to stable from negative and affirming our 'AA-/A-1+' ratings.
- The stable outlook reflects that on Finland, and our expectation that Fingrid's stand-alone credit profile will not significantly change in the near term.

Rating Action

On Jan. 16, 2013, Standard & Poor's Ratings Services revised its outlook on Finnish transmission system operator Fingrid Oyj to stable from negative and affirmed its 'AA-/A-1+' long- and short-term corporate credit ratings and 'AA-' senior unsecured debt ratings.

Rationale

The outlook revision mirrors that on the Republic of Finland (AAA/Stable/A-1+); see "Finland Outlook Revised To Stable; 'AAA/A-1+' Ratings Affirmed", published Jan. 14, 2013, on RatingsDirect on the Global Credit Portal.

The ratings on Fingrid continue to reflect the company's stand-alone credit profile (SACP), which we assess at 'a'. Our view of Fingrid's SACP is based on its excellent business risk profile and significant financial risk profile. The ratings also reflect our opinion that there is a "high" likelihood that Finland would provide timely and sufficient extraordinary support to Fingrid in the event of financial distress.

Fingrid's business risk profile is underpinned by its strategic position as the electricity transmission system operator (TSO) in Finland. It further reflects Fingrid's strong record of network efficiency, Finland's favorable cost-plus regulatory regime, and the company's clear strategic focus on the national electricity transmission network and enhancement of the Nordic electricity market. Relative weaknesses, in our view, are modest exposure to short-term volume risk and low returns on capital across the industry.

Fingrid's financial risk profile is constrained by fairly high leverage and low debt-service coverage ratios. These weaknesses are partly mitigated by the company's access to a diverse funding base and an extensive hedging policy.

Under our base-case operating scenario, we predict that the current regulatory framework, in place since 2005, will not undergo major changes. This should add stability and predictability to the company's underlying earnings, in our view. We believe that Fingrid's funds from operations (FFO) will increase in 2012 and beyond as a result of tariff increases. This should mitigate the cost of the company's sizable investment program and likely increasing dividends, in light of the ownership change in 2011. We therefore estimate that discretionary cash flows--cash flows after investments and dividends--will be slightly negative in the coming years. We anticipate that Fingrid will fund part of its investments with additional debt, which will likely add slightly to the €1.25 billion in debt the company had outstanding at the end of September 2012. However, as a result of increasing FFO, but only slightly increasing debt, we expect the FFO-to-adjusted debt ratio to improve gradually to 13%-15% over the next few years, a level we consider commensurate with the current SACP. This compares with about 10% in 2011.

The long-term ratings include two notches of uplift, in accordance with our criteria for government-related entities (GREs). This reflects our view that there is a "high" likelihood of extraordinary government support, based on our assessment of Fingrid's "very important" role for and "strong" link with the Finnish government, Fingrid's majority shareholder.

Liquidity

The short-term rating is 'A-1+'. We view Fingrid's liquidity position as "adequate" under our criteria and calculate that liquidity sources will comfortably exceed liquidity uses by more than 1.2x over the next 12 months.

As of Sept. 30, 2012, we estimated Fingrid's liquidity sources at above €600 million including:

- Cash and marketable securities of €245 million;
- Access to an undrawn committed revolving credit facility of €250 million expiring in April 2017; and
- FFO in 2012 likely in excess of the €108 million in 2011.

We estimate Fingrid's liquidity needs over the next 12 months to be above €400 million, comprising:

- Debt maturities of €194 million as of Sept. 30, 2012;
- Investments in excess of €200 million; and
- Dividends in excess of the €11 million for 2011, paid out in 2012.

The existing credit agreements do not contain financial covenants or material adverse-change clauses, to our knowledge.

We will continue to closely monitor Fingrid's liquidity policies and funding plans in light of its large investment program. At the current rating level,

we assume Fingrid will maintain a prudent approach to liquidity management and prefunding of capital expenditures. We expect that Fingrid will continue to enjoy good access to the capital markets and fund most of its investments with longer-dated bonds.

Outlook

The stable outlook reflects the stable outlook on Finland, and our assumption that Fingrid's SACP will not change significantly in the near term.

We anticipate that Fingrid will remain strategically important to the Finnish government as Finland's monopoly TSO, and that there will be no significant changes in ownership in the near to medium term. For the current SACP, we anticipate the ratio of FFO to debt remaining higher than 10% in the near term, improving toward 12% in 2013, and to 13%-15% from 2014.

We could raise the ratings if we saw a higher likelihood of government support for Fingrid, for example if the link between Fingrid and the Finnish government were to strengthen. 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's ownership stake.

In line with our methodology for GREs, we could take a negative rating action if Fingrid's SACP weakened to 'bbb+' or lower. Although unlikely at this stage, this could result from a major regulatory overhaul, a change in the group's financial policies, an unexpected shortfall in liquidity, or a significant deterioration of Fingrid's credit measures and financial risk profile.

We believe that ratings upside is very limited over the medium term, as an upgrade would require an improvement of Fingrid's SACP to 'aa-', all else being equal. We consider such a scenario unlikely, owing to the group's significant investment program and fairly high financial leverage.

Related Criteria And Research

- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008
- Methodology: Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- 2008 Corporate Criteria: Ratios And Adjustments, April 15, 2008
- Principles Of Credit Ratings, Feb. 16, 2011
- Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- Methodology: Short-Term/Long-Term Ratings Linkage Criteria For Corporate And Sovereign Issuers, May 15, 2012

- Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Ratings Affirmed

	To	From
Fingrid Oyj		
Corporate Credit Rating	AA-/Stable/A-1+	AA-/Negative/A-1+
Nordic Rating Scale	--/--/K-1	
Senior Unsecured	AA-	
Commercial Paper	A-1+	

Additional Contact:

Infrastructure Finance Ratings Europe; InfrastructureEurope@standardandpoors.com

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.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) 783-4009.

Copyright © 2013 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgement as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.