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Research Update:

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

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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+	

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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.