

FITCH DOWNGRADES FINGRID TO 'A', STABLE OUTLOOK

Fitch Ratings-Paris/Milan-20 October 2011: Fitch Ratings has downgraded Fingrid Oyj's (Fingrid) Long-term Issuer Default Rating (IDR) to 'A' from 'A+' and the senior unsecured rating to 'A+' from 'AA-' and affirmed the Short-term IDR at 'F1'. The Outlook is Stable.

The downgrade reflects Fitch's view that the stabilisation of Fingrid's financial profile over the next regulatory period 2012-15, will not be sufficient to warrant a Long-term IDR of 'A+'. Despite Fitch's expectation that Fingrid will implement gradual tariff increases in 2012-15, to reach the maximum allowable return in 2014 and 2015, its large capex programme of EUR100m-EUR200m per year and the new majority shareholders' aggressive dividend pay-out policy, will constrain the ratings, resulting in limited headroom at the current 'A' rating. Further downward pressure on the ratings could occur if average FFO net leverage over the next four year regulatory period exceeded 5.25x. The ratings could also come under pressure if the company failed to implement tariff increases to reach the maximum allowable return by 2014 and 2015, while maintaining its capex and dividend policy unchanged.

The Stable Outlook reflects Fitch's expectation of a gradual improvement in Fingrid's financial profile in the next regulatory period against a backdrop of a continued, highly favourable regulatory environment. The Finnish regulator is due to publish a formal decision later this autumn, but Fitch does not expect any significant changes to the draft decision published in June. In accordance with Fitch's parent and subsidiary rating linkage methodology, the rating does not incorporate any formal state support, despite the government now holding a 53% stake (70.9% voting rights), as the company operates on an entirely commercial basis.

Fingrid's ratings are supported by its low business risk due to its monopoly position, excellent efficiency track record and almost wholly regulated earnings. Fingrid benefits from a benign and stable regulatory system, with the flexibility to set tariffs in the current and next regulatory period. Fingrid is 53% owned by the Republic of Finland ('AAA'/Stable/'F1+'), following the purchase by the government of Fortum Corporation's ('A-'/'Stable) and Pohjolan Voima Oy's stakes in Fingrid in April 2011.

The ratings factor in Fingrid's good liquidity, with EUR200m of cash and cash equivalents and an EUR250m undrawn revolving credit facility. This adequately covers at least one year of debt maturities and the majority of annual capex requirements.

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

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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 12 August 2011, 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=647229

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