

Announcement: Moody's assigns Green Bond Assessment (GBA) of GB1 to Latvenergo AS second programme for the issuance of green notes in the combined amount of EUR 100 million

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Highest GB1 grade applicable to green notes funding generation projects, transmission-oriented projects and distribution projects; first time GBA assigned to East European green transactions

New York, October 12, 2016 -- Moody's Investors Service assigned a green bond assessment of GB1 (Excellent) to the Latvenergo AS second programme for the issuance of notes, in the combined amount of EUR 100 million. The issuance consists of two tranches: one that came to market on 10 June 2015 in the amount of EUR 75 million (1.9% senior unsecured fixed rate notes due 2022), and a second that came to market on 14 April 2016 in the amount of EUR 25 million (1.9% senior unsecured fixed rate notes due 2022).

The entire proceeds, pursuant to Latvenergo's Green Bond Framework, have been or are intended to finance and refinance, in whole or in part, qualifying environmentally eligible projects that target (a) mitigation of climate change, including investments in low-carbon and clean technologies, such as renewable energy and energy efficiency projects; (b) environmental preservation, including flood protection projects; and (c) projects related to a sustainable environment, which will account for up to 10% of the issued amount. Latvenergo's well-defined organization and decision-making process, transparent management of proceeds, and effective reporting and disclosure practices, that are evaluated to reflect, in particular, commitments to expand impact disclosures in future reporting, serve as additional factors supporting the assignment of the GB1 assessment.

ASSESSMENT RATIONALE

The assessment applies to prior period 2015 and 2016 issuances where Latvenergo AS has committed to expand on its carbon emissions disclosures and conduct an independent internal audit of the special account maintained to fund environmental projects; these factors elevate the transaction's average weighted score from "very good." Latvenergo has also committed to publishing annual green bond reports and to continue publishing such disclosures as long as the notes are outstanding.

The company has already published its first comprehensive report detailing the allocation of proceeds applicable to the first EUR 75 million tranche. About 55% of the proceeds were allocated to generation projects, 33% to transmission-oriented projects and around 12% to distribution projects, according to the report in Latvenergo's Sustainability and Annual Report 2015. The report notes that the major eligible projects involved the Kurzeme Ring and Daugava HPP hydropower reconstruction project, including three existing hydro-power plants on the River Daugava: Plavinas HPP, Riga HPP and Kegums HPP (listed in terms of electricity outputs). Also, the report details project types, operating segment, project name, project objectives and benefits as well as the financial allocation in Euro terms.

Ahead of its green bond launch in June 2015, Latvenergo adopted a Green Bond Framework that sets forth a process for evaluating and selecting environmental projects. The framework defines and enumerates eligible project categories, as well as procedures for earmarking proceeds derived from the bond offerings and reporting practices. The firm has implemented a well-defined organizational structure and decision-making process for considering, evaluating and approving eligible projects. The process is largely organized around Latvenergo's continuing efforts to gradually reconstruct the hydropower units at the three plants, with the main purpose to reconstruct outdated hydro turbines and increase the installed capacity, efficiency rate and annual electricity output to ensure reliable, efficient, sustainable and competitive operation of the Daugava HPPs, which will ensure a more efficient use of water. Latvenergo is also focused on investments in transmission system assets, including the Kurzeme Ring project.

As detailed in Latvenergo's Green Bond Framework, an amount equal to the net proceeds derived from the issuances of the notes is credited to a special account that will support the firm's financing of its eligible green projects. Until it is disbursed, the special account balance will be held on deposit at a highly rated financial institution in the form of liquidity reserves. Furthermore, an independent internal audit unit within Latvenergo AS will conduct a reconciliation of the application and disbursements from the special account.

Latvenergo Group, headquartered in Riga, Latvia, is the largest power supply utility in the Baltics, operating along three business segments. These include generation and supply, distribution, and lease of transmission system assets. Latvenergo Group is comprised of its parent company, Latvenergo AS (Baa2 stable), a public limited company incorporated pursuant to the laws of the Republic of Latvia, and seven subsidiaries. All shares of Latvenergo AS are owned by the Republic of Latvia and held by the Ministry of Economics of the Republic of Latvia.

The issuance of green bonds is aligned with Latvenergo Group's active engagement in promoting a responsible business environment in the Baltic region as reflected in the company's integration of responsible business conduct principles in its strategic goals and development targets, policies and everyday work, including the publication of an integrated annual report that complies with the Global Reporting Initiative G4.

The principal methodology used in this analysis was the Green Bonds Assessment (GBA) published in March 2016. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

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