

Rating Action: Moody's assigns Baa2 rating to Latvenergo's EUR75 million Green Bonds, stable outlook

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EUR75 million of debt affected

London, 03 August 2015 -- Moody's Investors Service has today assigned a Baa2 rating to Latvenergo AS's 1.9% senior unsecured fixed rate notes due 2022. Concurrently, Moody's has affirmed the company's Baa2 issuer rating. The rating outlook is stable.

RATINGS RATIONALE

Today's action follows the issuance by Latvenergo of EUR75 million of green bonds on 10 June 2015, under the second issuance programme (aggregate amount of up to EUR100 million -- not rated). The notes carry a fixed coupon rate of 1.90%, and have a maturity date of June 2022. The bond proceeds are for general corporate purposes, and aim at financing and/or refinancing projects eligible under the Issuer's Green Bond Framework.

Latvenergo's Baa2 rating is underpinned by (1) the group's strong competitive position in its Latvian domestic market as a vertically integrated utility; (2) the high proportion of its cost competitive and environmentally clean hydro generation base; and (3) the contribution from regulated transmission and distribution activities, which support the stability of the company's cash flow.

However, Latvenergo's rating is constrained by (1) its small size; (2) the group's substantial short generation position vs. its supply requirements; (3) the low competitiveness of its gas-fuelled combined heat and power plants and their current reliance on a guaranteed support scheme which has decreased over time; (4) the evolving nature of the electricity markets in which Latvenergo operates, which could exert downward pressure on the group's profitability and negatively impact its competitive position; and (5) the lack of consistent application of regulation and the political interference related to tariffs applied with respect to its regulated network activities.

Latvenergo's rating of Baa2 incorporates two notches of uplift for potential extraordinary support from the Government of Latvia (A3 stable), the 100% owner of Latvenergo.

The outlook on Latvenergo's rating is stable, reflecting our expectation that, in the context of the risks and opportunities characterising the evolving Latvian market, the company will be able to maintain a financial profile generally in line with the current guidance.

Upward rating pressure could develop if (1) Latvenergo's credit metrics were materially stronger than currently anticipated; (2) the ongoing market transition and regulatory developments in Latvia settle in Latvenergo's favour and/or (3) the credit quality of the Government of Latvia were to materially strengthen. However, in light of the ongoing developments characterising the Latvian electricity market and the stable positioning of the Latvian Government rating, positive rating pressure is not expected to materialise over the short term.

Latvenergo's rating could come under downward pressure if (1) the company were not able to maintain a financial profile commensurate with the current guidance (i.e. Funds From Operations (FFO) / debt ratio declining below 20% and FFO interest coverage ratio falling below 5.0x on a sustained basis); (2) the liquidity profile of the company were to deteriorate; (3) there were material adverse changes in the regulatory or legal frameworks in Latvia; and/or (4) the credit quality of the Government of Latvia and/or the support assumptions currently incorporated into our assessment were to weaken.

PRINCIPAL METHODOLOGIES

The methodologies used in these ratings were Unregulated Utilities and Unregulated Power Companies published in October 2014, and Government-Related Issuers published in October 2014. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

Headquartered in Riga, Latvenergo AS is the dominant vertically integrated utility in Latvia. The group owns approximately 90% of the country's generation capacity, owns and operates the electricity distribution network and

maintains ownership of the electricity transmission grid assets (leased out to Latvian Transmission System Operator - Augstsprieguma tīkls AS). Latvenergo is 100% owned by the Government of Latvia. For the three months ended 31 March 2015, Latvenergo reported revenues of EUR259.5 million and EBITDA of EUR94.8 million.

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