


CREDIT OPINION

24 January 2022

Update

 Rate this Research

RATINGS

Latvenergo AS

Domicile	Riga, Latvia
Long Term Rating	Baa2
Type	LT Issuer Rating - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Latvenergo AS

Update to credit analysis

Summary

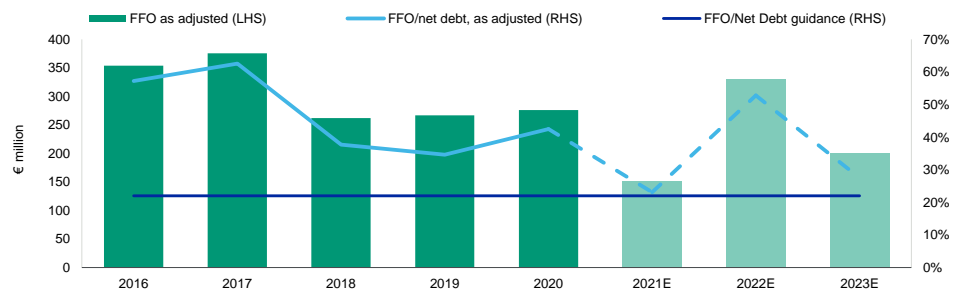
[Latvenergo AS](#)' credit profile is underpinned by the group's leading position as an integrated utility in its domestic market; its fairly low-cost and environmentally clean hydro generation asset base; the strong contribution of regulated distribution activities to its earnings; and its solid financial profile (see exhibit 1).

However, Latvenergo's credit strength is constrained by its small size; the group's substantial short generation position versus its supply requirements; volatile hydro generation and variable profitability of its gas-fuelled heat and power plants, given their exposure to commodity prices; and the evolving nature of the electricity markets in which Latvenergo operates.

Latvenergo's Baa2 rating incorporates two notches of uplift for the potential extraordinary support from its 100% owner, the [Government of Latvia](#) (A3 stable), in case of financial distress. At the same time, the company remains exposed to political interference.

Exhibit 1

Latvenergo will likely report weaker leverage metrics for 2021, resulting from high energy prices, but retail price adjustments should lead to a rebound in 2022



Sources: Company and Moody's Investors Service

Credit strengths

- » Dominant position in Latvia and status as a leading electricity supplier in the Baltics
- » Relatively stable cash flow from regulated distribution grid activities
- » Solid financial profile
- » Government support, which provides two notches of rating uplift

Credit challenges

- » Relatively small size, which leaves the company vulnerable to changes in the regional electricity markets
- » Earnings from generation exposed to variable hydrology and volatile commodity prices
- » Short position of own generation vs. retail supply with a strong seasonal component, which leaves the company exposed to price volatility
- » Pressure on supply volumes from competitive retail markets in the Baltics, mitigated by a large market share in Latvia's household segment

Rating outlook

The outlook on Latvenergo's rating is stable. The outlook reflects our expectation that, in the context of the risks and opportunities characterising the evolving Latvian market, the company should nonetheless be able to sustain a financial profile in line with the current rating guidance of funds from operations (FFO)/net debt in the low 20s in percentage terms.

Factors that could lead to an upgrade

Upward pressure on Latvenergo's rating is unlikely to materialise in the near term but could develop in the medium to long term because of the following:

- » Increased visibility into the effect of the ongoing market integration of Latvia with its neighbours and the Nordic countries on the company's business position and financial performance; and
- » Maintenance of good liquidity and a financial profile comfortably and sustainably in excess of the current guidance

Upward rating pressure could also develop if the credit quality of the Latvian government were to significantly strengthen.

Factors that could lead to a downgrade

Latvenergo's rating could come under downward pressure if the company is not able to maintain a financial profile commensurate with the current guidance, that is, if its FFO/net debt were to remain below the low 20s in percentage terms on a sustained basis; the company's liquidity were to deteriorate; there were significant adverse changes in the regulatory or legal frameworks in Latvia; or the credit quality of the Latvian government or the support assumptions currently incorporated into our assessment were to weaken.

Key indicators

Exhibit 2

Latvenergo's credit metrics are robust but display some volatility, driven by hydrology conditions and exposure to wholesale electricity prices

	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	LTM Sep-21	12-18 month forward view
FFO / Net Debt	57.2%	62.6%	37.7%	34.6%	42.6%	30.6%	25% - 35%
RCF / Net Debt	44.5%	47.3%	14.9%	17.2%	22.8%	16.4%	15% - 25%
FCF / Net Debt	12.4%	2.2%	-13.6%	-9.8%	-3.6%	-18.5%	-20% - -5%
(CFO Pre-W/C + Interest) / Interest Expense	24.1x	30.5x	28.6x	28.5x	26.6x	23.8x	20x - 30x

Ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. For definitions of Moody's most common ratio terms, please see the accompanying [User's Guide](#).

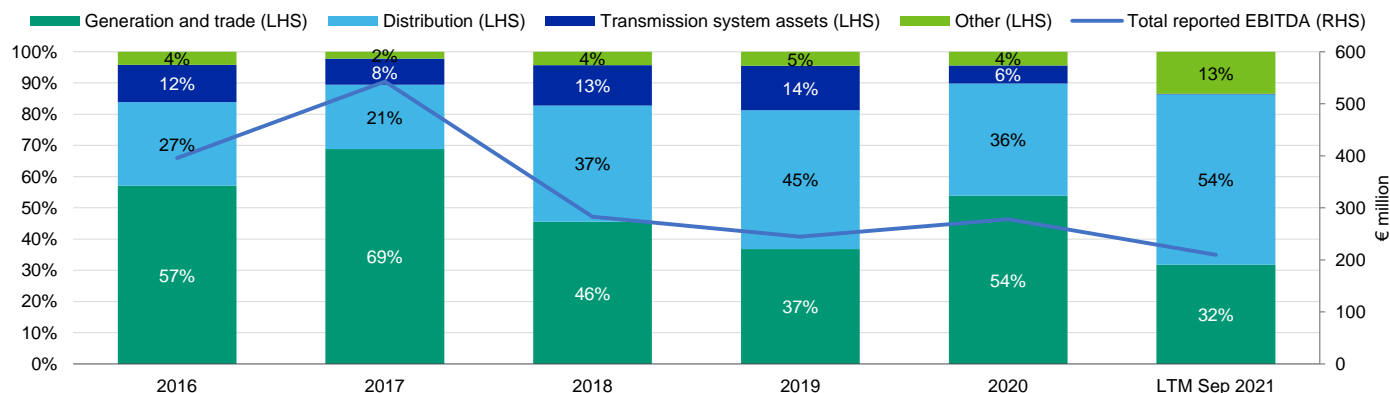
Source: Moody's Financial Metrics™

Profile

Latvenergo AS is the dominant vertically integrated utility in Latvia, with a total installed capacity of around 2.6 gigawatts (GW), representing around 90% of the total Latvian electricity generation capacity. Latvenergo's main power plants comprise three hydropower plants (HPPs, 1.6 GW) on River Daugava, and two gas-fuelled combined heat and power plants (CHPPs, 1.0 GW) in Riga. The group also owns and operates the Latvian electricity distribution network. Until June 2020, Latvenergo also owned the Latvian electricity transmission grid assets, which were then transferred to Augstsprieguma tīkls AS (AST) as the state-owned transmission system operator (TSO). Latvenergo is 100% owned by the Latvian government.

Exhibit 3

Latvenergo's earnings are driven by the volatile contribution from its generation business
EBITDA (RHS) and segmental share (LHS)



Sources: Company and Moody's Investors Service

Detailed credit considerations

Small size leaves Latvenergo exposed to changes in the Nordic and Baltic electricity markets

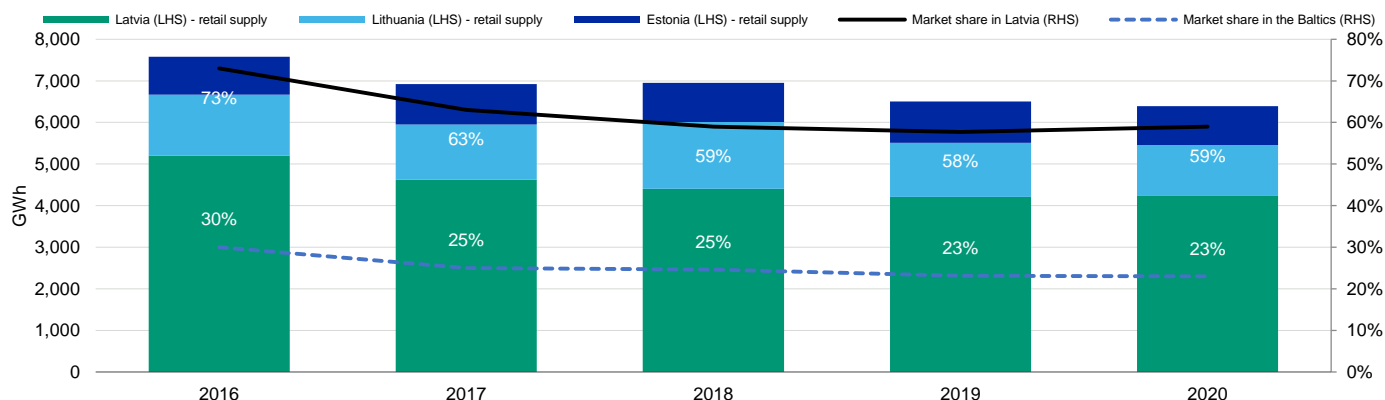
Latvenergo is the dominant utility in Latvia and one of the leading electricity end-suppliers across the three Baltic countries, with aggregate sales of around 6.4 terawatt hours (TWh) and an overall market share of around 23% in 2020. Despite its strong position in the domestic market, Latvenergo's scale remains relatively small in the pan-European context, which leaves the company exposed to changes in the relevant Nordic and Baltic electricity markets.

Leading retail supplier in Latvia and the Baltics, but intense competition has reduced the domestic market share

The group's domestic market share and volumes sold have steadily decreased since 2015, when electricity supply to households in Latvia was liberalised. However, the decline is mitigated by Latvenergo's relatively stable market shares in Estonia and Lithuania of around 12% each, and a retention level well above 80% in the less volatile Latvian household segment, observed over the past few

years. The company seeks to defend its competitive position at home and grow abroad by expanding its service offer through the retail supply of gas, solar micro-installations and digital "smart home" services.

Exhibit 4

Latvenergo's sales are declining**Retail sales and retail market shares in Latvia and the Baltics**

Sources: Company and Moody's Investors Service

The retail operations form part of the company's Generation and Trade (G&T) segment. Its profitability is a function of the share of end-supply volumes being covered by the company's own power generation from HPPs and CHPPs, which has a strong seasonal component; and of the scope and price levels of electricity procured in the wholesale market, given that on an annual basis, the company's sales volumes exceed its electricity production.

Variable output of HPPs is a key driver of the G&T segment's significant earnings volatility

Latvenergo partly meets its end-supply obligations with generation from its own HPPs and CHPPs, whose total output varies considerably, with levels ranging from 3.8 TWh to 5.7 TWh between 2015 and 2020 (see Exhibit 5), because of the high reliance on hydropower and the variable utilisation of CHPPs with high seasonal correlation.

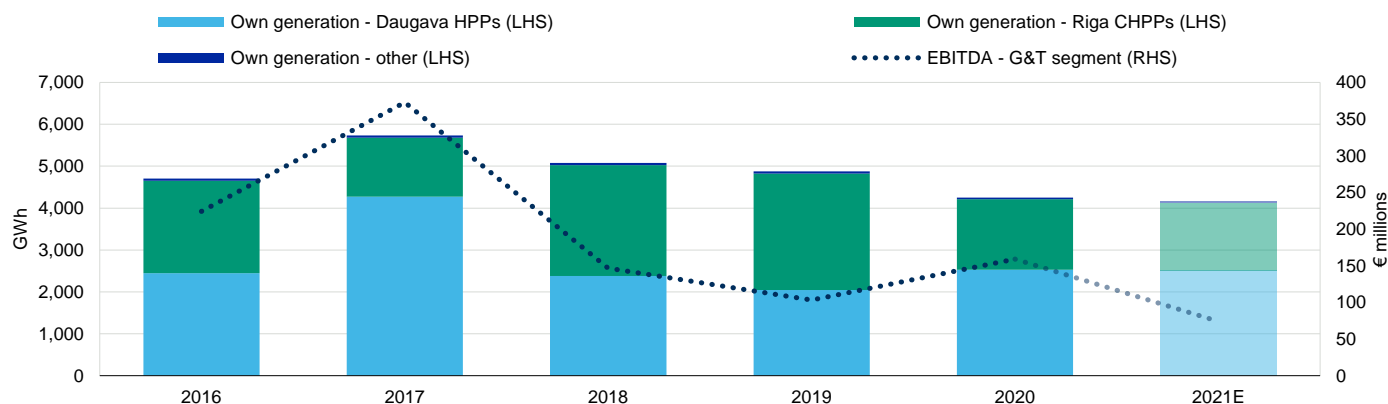
The annual production of Latvenergo's HPPs ranges between 1.8 TWh and 4.3 TWh, depending on the hydrological conditions. During the spring flood period, which typically lasts two to three months, the generation output exceeds the domestic demand, thus supporting electricity exports. In the first nine months of 2021, the HPP output of 2.1 TWh was on par with that in the year-earlier period, which suggests another strong hydro year in 2021 after 2020, when the full-year HPP output was more than 2.5 TWh.

The variability of the hydro generation output across years, combined with a strong seasonal component, exposes Latvenergo to significant volatility in earnings, given the HPPs' low fixed-cost nature.

Exhibit 5

Latvenergo's G&T earnings show a close correlation to hydro production

Generation output by technology versus earnings from G&T



Sources: Company and Moody's Investors Service

The steep increase in day-ahead power prices in the Latvian price bidding area in 2021 is earnings-accretive for the company's HPP operations. The average Latvian day-ahead price rose by almost 120% to around €69 per megawatt hour (MWh) in the first nine months of 2021 from that in the year-earlier period, driven by economic recovery from the period in 2020, which included lockdowns because of the coronavirus pandemic; a significant rise in gas and carbon prices as key determinants for wholesale power prices; and a cold spell in the beginning of 2021. However, because the period of steeply rising power prices (see Exhibit 6) coincided with the trough of the Latvian hydrology cycle between June and October 2021, Latvenergo's hydro activities did not reap the maximum benefit of higher electricity prices. Throughout Q4 2021, Latvian power prices on most days remained well above €100/MWh, with average prices in December exceeding €200/MWh.

Price volatility of relevant commodities leads to low visibility into CHPPs' earnings contribution

Latvenergo's CHPPs run mainly in the cogeneration mode during the heating season from October through March. In 2020, the Riga CHPPs, with an installed thermal capacity of 1.6 GW, provided more than 50% of the heat supplied to the district heating system of the city, generating regulated income.

In addition, Latvenergo receives capacity payments, which amount to €21 million annually for 2021-28 and offset the plants' fixed costs. The amounts were substantially reduced as a result of the restructuring of the capacity scheme in August 2017 (for details, see [Latvenergo AS - Capacity payment restructuring mitigated by significant financial flexibility](#), published on 7 September 2017, and [Latvenergo AS - Update to credit analysis](#), published on 19 March 2019).

The CHPPs' earnings are exposed to seasonal weather conditions, as well as volatile gas and elevated carbon prices. The effects on operating costs are mitigated by Latvenergo's policy to hedge its gas and carbon requirements to a large degree; and by the fact that the regulator, albeit with a time lag, will approve district heating tariffs adjusted for commodity price movements.

Earnings from the heat plants operations are further underpinned by income from power sales, which particularly benefitted from the rise in power prices in 2021; the capacity support covering fixed operating costs; and the technical flexibility of the plants, which allows load adaptation to market conditions on short notice. However, since Latvenergo does not report isolated figures of the CHPPs' contribution to G&T earnings, there is low visibility whether on balance the plants support the segment's profitability.

High power prices in 2021 strain retail supply business, but end-user price increases should support earnings in 2022

Latvenergo covers its supply shortfall with imports from the NordPool (NP) electricity exchange, where the company also sells any excess output from its HPPs during the spring flood period. Given its volatile own generation, in combination with fixed-price tariff offers, and the increased interconnection capacities since 2015 between the Baltic and the much larger Nordic countries (and Poland), Latvenergo is exposed to Nordic power generation volatility, reflected in converging power prices that are significantly driven by Nordic hydrology.

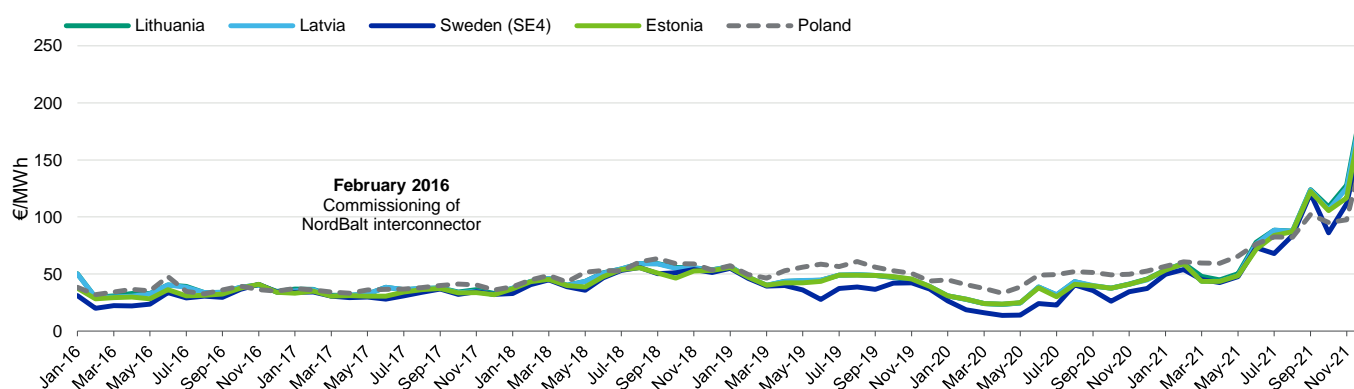
Generally, Baltic power prices tend to be positioned between the lower Nordic and the higher Polish prices in the day-ahead market. The ensuing risk of price volatility is mitigated by a positive correlation between rising electricity prices (often influenced by a low hydro output) and higher CHPP production; the use of derivative financial instruments; and the complementary hydrology seasons in Latvia and Southern Sweden, the last factor defining the lower end of the NP price range.

In 2021, a combination of high gas and carbon allowance prices; quicker-than-expected recovery from the pandemic-related downturn in 2020; and low Nordic hydrology ratcheted up wholesale electricity prices in the Baltics, precisely at a time of low seasonal hydrology and heating demand in Latvia, that is, when Latvenergo's own production was at its annual lowest levels. This implies that the company's largest market procurement needs for electricity to fulfill its retail supply obligations occurred when electricity prices started to rise.

Because the Baltic retail markets are largely liberalised, Latvenergo in H2 2021 was able to make several end-user price adjustments to mitigate the energy price rises. However, the positive effect of such adjustments on G&T earnings is subject to time lags because of notice periods and negotiations with customers, especially in relation to fixed-price tariffs; customer churn as end-users seek cheaper offers; and the magnitude of the price increases compared with the cost increases. We assume that the full benefit from these measures will largely add to Latvenergo's earnings in 2022.

Exhibit 6

Prices in the Baltics and NP reflect close links, with Southern Sweden's hydro capacity acting as a price floor
Day-ahead electricity prices expressed in €/MWh



Lithuanian and Latvian prices are nearly identical for most of the time; therefore, the Lithuanian graph is barely visible.

Sources: NordPool, Polish Power Exchange and Moody's Investors Service

Regulated distribution network activities provide relatively stable cash flows

Latvenergo also owns and operates the country's electricity distribution network through its 100% subsidiary Sadales tīkls AS (ST), which is regulated by the Public Utilities Commission (PUC). The segment was the group's largest EBITDA contributor for the first nine months of 2021, generating around €83 million or 65% of total EBITDA.

Since the beginning of 2020, ST has been operating under a new regulatory framework, which is based on a revenue cap approach with an efficiency factor and a regulatory account mechanism, and has a five-year regulatory period. ST's exposure to volume risk is limited by in-period adjustments for revenue deviations of up to 3%, whereas larger differences would be booked to the regulatory account and could be recovered in the next regulatory period.

The current regulatory period commenced on 1 January 2020, with PUC decreeing an average 5.5% tariff decrease, which is to be compensated for over time by an efficiency programme and higher distributed volumes. The efficiency programme aims to achieve €26 million in cost savings at ST by 2022, and mostly consists of controllable staff and overhead cost reductions, and the rollout of smart meters. As of 30 September 2021, the programme was on track, given that more than 95% of the targeted reduction in headcount and an 85% share of installed meters being smart meters had been achieved.

As for the regulatory asset base (RAB) and the weighted average cost of capital (WACC), both will remain constant throughout the current regulatory period, which will ensure stable returns on RAB through 2024. Following a revaluation of the RAB as of year-end 2020, its value now amounts to around €1.6 billion, while the WACC was determined at 3.3% (pretax, real, or 4.6% nominal).

The introduction of a new principles-based regulatory framework provides greater transparency over methodological details, although it lacks the sophistication of regulatory frameworks prevalent in Western Europe. We expect 2021 earnings for the segment to be on par with those in 2020, supported by a slight increase in distributed volumes and cost efficiency gains, but offset by higher expenses for grid losses as a result of high wholesale power prices, which will only be compensated for with a two-year time lag.

Early repayment of transmission-asset-related debt by TSO AST to Latvenergo supports leverage and liquidity

On 8 October 2019, the Latvian government decided to support the introduction of a full electricity transmission ownership unbundling model in Latvia by 1 July 2020 (for details of the transaction structure, see [Latvenergo - Update following rating affirmation at Baa2 with a stable outlook](#), published on 25 October 2019).

The transaction, which included a transfer of the shares of Latvenergo's grid-owning subsidiary Latvijas elektriskie tīkli AS (LET) to AST as an integrated TSO, was completed on 10 June 2020. AST also assumed debt of €225 million owed by LET to Latvenergo under intercompany loans that financed transmission grid investments.

The loans were scheduled to be repaid to Latvenergo in three instalments, €139 million in June 2020, and around €43 million each in 2022 and 2023. However, AST decided on an early refinancing of the outstanding balance of €87 million and fully repaid the amount by July 2021. While the payments received from AST match Latvenergo's outstanding legacy debt balance for the transmission segment at the parent company level, the latter follows a long-term maturity schedule with due dates after 2023. Consequently, the early repayment supported Latvenergo's net debt levels.

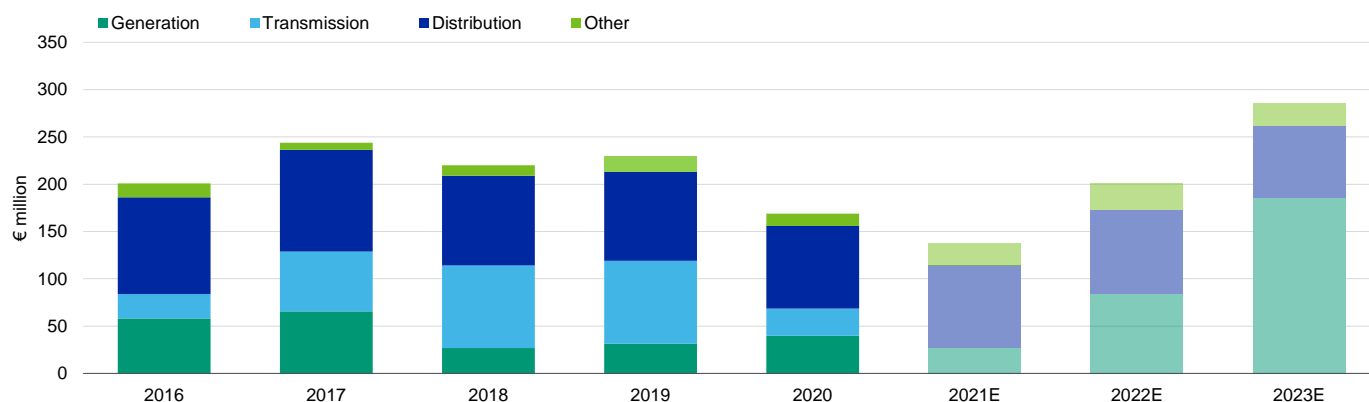
Latvenergo's investments under the new medium-term strategy may require dividend restraint from the shareholder

In its report for the first nine months of 2021, Latvenergo alluded to a new medium-term strategy 2022-26 and hinted at reinforced investments into renewables, underpinning Latvia's goal to become climate-neutral by 2050. We assume that more concrete announcements will follow over the next few months, given that 2022 is the first year of the new strategy, and Latvenergo will likely follow a path similar to other regional utilities, such as its Baltic peer [Eesti Energia AS](#) (Baa3 stable), investing mainly in onshore wind and solar installations to increase capacities.

Other generation-related capital spending is dedicated to the upgrade of Latvenergo's Daugava HPPs (total project spending of around €250 million, of which nearly €195 million had been spent as of 30 September 2021), which should allow for a further 40 years of operations of the HPPs upon the completion of the project by year-end 2023. Investments in the distribution segment will remain focused on the modernisation of grid assets, including connections of new customers. We expect annual expenditure of €80 million-€90 million through 2025.

Exhibit 7

Latvenergo's capital investments will likely increase considerably, mainly into renewables capacity



Source: Company and Moody's Investors Service; amounts 2021-23 represent Moody's expectations, not the view of the issuer.

The government has a track record of extracting a high share of net profit as dividends; a failure by the state to adjust its payout demands or to incorporate some flexibility in the investment spending programme, if required because of the volatile operating environment, would be credit negative for Latvenergo.

Latvenergo's financial metrics will be volatile over the next years but are expected to remain within guidance

Given strong hydrology levels in 2021, but also taking into account the countervailing effects of high energy and commodity prices on the G&T segment, we expect FFO for 2021 to be below that in 2020, although the magnitude is uncertain because of high energy price volatility in the final calendar quarter. In 2022, FFO should greatly benefit from adjusted end-user electricity prices, incorporating current commodity price levels to a large extent; consistently high electricity prices leading to very profitable sales of the excess HPP output in the spring flood season, provided hydrology levels remain at least on par with those recorded in 2021; and no adverse tariff decisions in the distribution network segment.

Against the backdrop of our investment expectations (exhibit 7), we expect leverage metrics, measured as FFO/net debt, to remain above our guidance for the current Baa2 rating of low 20s in percentage terms, but also anticipate some volatility in its metrics over the next two to three years (exhibit 1).

The company's financial policy includes a maximum leverage target of net debt/EBITDA of 3.0x. As of Q3 2021, net debt/reported EBITDA was 3.3x; however, this is still in line with the covenant levels set within Latvenergo's debt documentation, and the company's high dividend payout target of more than 80% of net profit is strictly conditional upon meeting the internal leverage hurdle.

ESG considerations

Latvenergo's ESG Credit Impact Score is neutral-to-low CIS-2

Exhibit 8

ESG Credit Impact Score

CIS-2

Neutral-to-Low



For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.

Source: Moody's Investors Service

Latvenergo's ESG Credit Impact Score is neutral/low (**CIS-2**), indicating that its ESG attributes have no discernible impact on its rating. Its score reflects moderate environmental, social and governance risks. The effect of ESG risks on the rating is mitigated by our expectation that Latvenergo's government shareholder would support the company, if this were to become necessary.

Exhibit 9

ESG Issuer Profile Scores

ENVIRONMENTAL

E-3

Moderately Negative



SOCIAL

S-3

Moderately Negative



GOVERNANCE

G-3

Moderately Negative



Source: Moody's Investors Service

Environmental

Latvenergo's moderately negative environmental risk (**E-3** issuer profile score) reflects the company's generation mix consisting of hydro and gas-fuelled cogeneration plants, which are exposed to risks arising from volatile hydrology and stricter carbon emission policies, respectively. Latvenergo's hydro plants are exposed to resource volatility related to changing climate patterns, but the company's flexible cogeneration plants mitigate the impact of low hydrology on earnings. Climate-related incidents, such as storms, may also have a negative impact on the group's electricity distribution grid assets, but since this is a regulated business, we expect any damage to be reflected in tariff determinations over time.

Social

Latvenergo's moderately negative social risk (**S-3** issuer profile score) reflects risks related to demographic and social trends, which include adverse regulatory decisions or government intervention in regulatory affairs. While the infrastructure regulation of the distribution grid operations has allowed the company to recover its costs in a timely manner, the current framework was only introduced in 2020 and is yet to build a track record of predictability and reliability.

Governance

Latvenergo's moderate governance risk (**G-3** issuer profile score) reflects the Latvian government's (the sole owner of Latvenergo) track record of implementing measures that limit the company's profitability and reduce its equity base, such as regularly determining large dividend payouts; the restructuring of capacity payments, including capital release; the unbundling of transmission assets, again accompanied by a decrease in equity; and the reduction in distribution tariffs. While the reduction in tariffs was requested by the company from the PUC, it is notable that the Minister of Economics in June 2019 cited the failure to reduce distribution tariffs as one of the reasons for his dismissal of the supervisory board at the time. All measures are driven by the government's aim to keep end-user prices of electricity low. We view the reduction in the capital buffer and high extraction of dividends as credit negative, but we understand that the government's actions are strictly subject to preserving Latvenergo's solid credit profile.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on www.moody's.com. To view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Government support considerations

Latvenergo's Baa2 rating incorporates two notches of uplift for potential government support from its standalone credit quality, or Baseline Credit Assessment (BCA), of ba1. The uplift reflects the credit quality of the Latvian government, which owns 100% of Latvenergo's shares, as well as our assessment of a strong probability of government support for the group in the event of financial distress, and a high level of default dependence (that is, the degree of exposure to common drivers of credit quality). The Latvian government currently has no plans to divest its stake in Latvenergo in the near term, which underpins the support assumption incorporated into the final rating.

Liquidity analysis

As of 30 September 2021, the company reported €47 million of unrestricted cash and cash equivalents. In January 2022, the company concluded two committed bilateral bank facilities in the amount of €90 million, available until January 2024. Furthermore, a €35-million undrawn portion under a €100-million long-term investment loan from the [Nordic Investment Bank](#) (Aaa stable) remains available for capital spending of the group.

Together with operating cash flows, measured as FFO, which we estimate at well above €250 million in 2022 and more than €200 million in 2023, the company has sufficient liquidity to cover capital spending, dividends and debt service over the next 12-18 months.

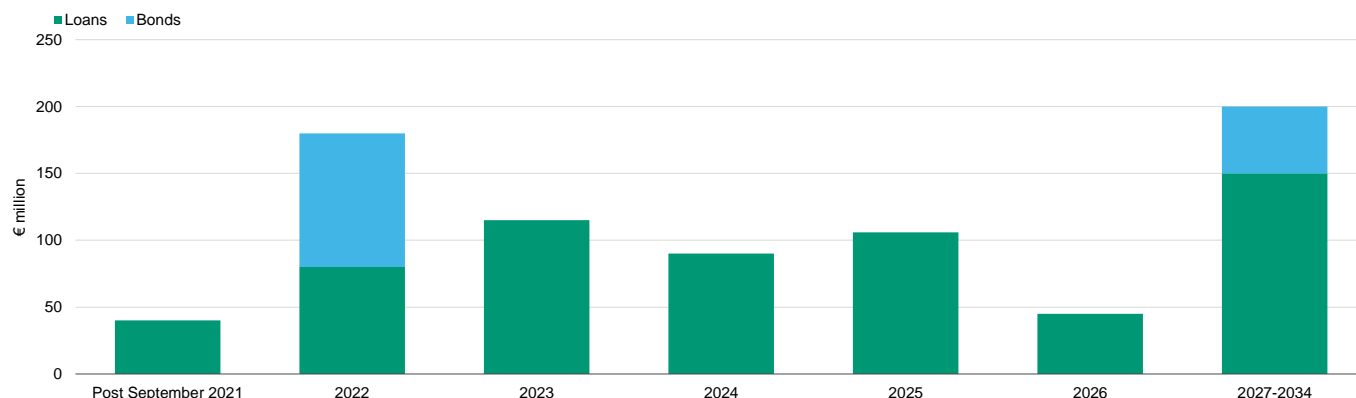
In May 2021, Latvenergo issued a €50-million, seven-year green bond under its certified €200-million green bonds programme established in 2020, increasing the volume of outstanding green bonds to €150 million, of which €100 million will come due in June 2022.

Latvenergo also has a fairly diversified banking group, with a sizeable share of lending provided by supranational institutions, such as the [European Investment Bank](#) (Aaa stable) and the [European Bank for Reconstruction and Development](#) (Aaa stable).

Exhibit 10

Latvenergo has a well-spread debt maturity profile and sufficient liquidity

Debt repayment schedule (as of 30 September 2021)



Sources: Company and Moody's Investors Service

Structural considerations

The Baa2 senior unsecured rating of Latvenergo's outstanding green bonds reflects the absence of structural and contractual subordination of the green bond creditors to the claims of other Latvenergo group lenders.

Methodology and scorecard

The principal methodologies used in rating Latvenergo are [Unregulated Utilities and Unregulated Power Companies](#), published in May 2017, and [Government-Related Issuers](#), published in February 2020.

Based on the company's forecast financial results, the scorecard-indicated outcome is Baa3, which is above the assigned BCA of ba1. The BCA also incorporates the exposure to market developments in the wider Nordic/Baltic electricity market; uncertainties related to the market transition in Latvia; and volatility in the company's hydro generation, limiting the visibility into its cash flow generation.

Exhibit 11

Rating factors

Latvenergo AS

Unregulated Utilities and Unregulated Power Companies Industry [1][2]			Current LTM 9/30/2021		Moody's 12-18 Month Forward View As of 01/07/2022 [3]	
Factor 1 : Scale (10%)	Measure	Score	Measure	Score	Measure	Score
a) Scale (USD Billion)	B	B	B	B	B	B
Factor 2 : Business Profile (40%)						
a) Market Diversification	Ba	Ba	Ba	Ba	Ba	Ba
b) Hedging and Integration Impact on Cash Flow Predictability	Ba	Ba	Ba	Ba	Ba	Ba
c) Market Framework & Positioning	Ba	Ba	Ba	Ba	Ba	Ba
d) Capital Requirements and Operational Performance	A	A	A	A	A	A
e) Business Mix Impact on Cash Flow Predictability	Baa	Baa	Baa	Baa	Baa	Baa
Factor 3 : Financial Policy (10%)						
a) Financial Policy	Baa	Baa	Baa	Baa	Baa	Baa
Factor 4 : Leverage and Coverage (40%)						
a) (CFO Pre-W/C + Interest) / Interest (3 Year Avg)	25.5x	Aaa	20x - 30x	Aaa	20x - 30x	Aaa
b) (CFO Pre-W/C) / Net Debt (3 Year Avg)	34.0%	Baa	25% - 35%	Baa	25% - 35%	Baa
c) RCF / Net Debt (3 Year Avg)	17.0%	Baa	15% - 25%	Baa	15% - 25%	Baa
Rating:						
a) Scorecard-Indicated Outcome		Baa2				Baa3
b) Actual Rating Assigned						Baa2
Government-Related Issuer	Factor					
a) Baseline Credit Assessment	ba1					
b) Government Local Currency Rating	A3					
c) Default Dependence	High					
d) Support	Strong					
e) Actual Rating Assigned	Baa2					

[1] All ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

[2] As of 9/30/2021.

[3] This represents Moody's forward view, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions and divestitures.

Source: Moody's Investors Service

Ratings

Exhibit 12

Category	Moody's Rating
LATVENERGO AS	
Outlook	Stable
Issuer Rating	Baa2
Senior Unsecured -Dom Curr	Baa2

Source: Moody's Investors Service

Appendix

Exhibit 13

Peer comparison

Latvenergo AS

	Latvenergo AS Baa2 Stable			Eesti Energia AS Baa3 Stable			CEZ, a.s. Baa1 Stable			EnBW Energie Baden-Wuerttemb (P)Baa1 Stable			PGE Polska Grupa Energetyczn Baa1 Stable		
(in USD millions)	FYE Dec-19	FYE Dec-20	LTM Sep-21	FYE Dec-19	FYE Dec-20	LTM Sep-21	FYE Dec-19	FYE Dec-20	LTM Sep-21	FYE Dec-19	FYE Dec-20	LTM Sep-21	FYE Dec-19	FYE Dec-20	LTM Sep-21
Revenue	\$942	\$883	\$1,038	\$1,036	\$952	\$1,287	\$9,132	\$9,309	\$9,672	\$21,758	\$22,478	\$29,563	\$9,806	\$11,760	\$11,998
EBITDA	\$250	\$292	\$190	\$283	\$242	\$288	\$2,510	\$2,829	\$2,960	\$2,813	\$2,979	\$3,548	\$1,817	\$1,452	\$2,370
Total Debt	\$996	\$920	\$879	\$1,275	\$1,241	\$1,063	\$8,886	\$8,573	\$7,931	\$22,549	\$25,998	\$25,640	\$3,424	\$3,240	\$2,852
Net Debt	\$865	\$796	\$824	\$1,236	\$1,037	\$875	\$8,343	\$8,291	\$7,564	\$14,456	\$17,388	\$13,534	\$3,136	\$2,139	\$835
(CFO Pre-W/C + Interest) / Inte	28.5x	26.6x	23.8x	7.7x	7.2x	11.8x	8.7x	10.4x	11.0x	4.6x	5.7x	6.5x	26.1x	27.7x	29.1x
FFO / Net Debt	34.8%	42.6%	30.6%	21.0%	24.0%	36.3%	27.0%	32.4%	32.1%	16.4%	17.0%	20.4%	72.6%	102.8%	257.7%
RCF / Net Debt	17.2%	22.8%	16.4%	15.8%	24.0%	36.3%	20.1%	22.2%	15.3%	13.7%	13.9%	15.3%	72.6%	102.8%	257.6%
Net Debt / EBITDA	3.5x	2.5x	4.5x	4.4x	4.0x	3.1x	3.3x	2.7x	2.6x	5.1x	5.4x	3.9x	1.7x	1.4x	0.4x

All figures and ratios are calculated using Moody's estimates and standard adjustments for the consolidated group. FYE = Financial year end.

Source: Moody's Financial Metrics™

Exhibit 14

Select historical adjusted financial data

Latvenergo AS

EUR millions	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	LTM Sep-21
INCOME STATEMENT						
Revenue	932	926	839	842	773	869
EBITDA	396	404	202	223	256	159
EBIT	209	214	34	60	98	13
Interest Expense	15	13	10	10	11	10
Net Income	167	300	33	59	94	4
BALANCE SHEET						
Total Debt	802	834	820	887	752	759
Cash & Cash Equivalents	184	234	125	116	101	47
Net Debt	618	601	695	771	651	711
Net PP&E	3,368	3,317	3,304	2,758	2,835	2,830
Total Assets	3,913	4,424	3,806	3,865	3,358	3,313
CASH FLOW						
Funds from Operations (FFO)	354	376	262	268	278	218
Cash Flow from Operations (CFO)	341	338	303	315	291	151
Cash Dividends - Common	-79	-92	-159	-135	-129	-101
Retained Cash Flow (RCF)	275	284	103	133	149	117
Capital Expenditure	-186	-234	-239	-255	-185	-182
Free Cash Flow (FCF)	77	13	-94	-76	-23	-132
FFO / Debt	44.1%	45.0%	32.0%	30.2%	36.9%	28.7%
FFO / Net Debt	57.2%	62.6%	37.7%	34.8%	42.6%	30.6%
RCF / Net Debt	44.5%	47.3%	14.9%	17.2%	22.8%	16.4%
FCF / Net Debt	12.4%	2.2%	-13.6%	-9.8%	-3.6%	-18.5%
PROFITABILITY						
EBIT Margin %	22%	23%	4%	7%	13%	2%
EBITDA Margin %	43%	44%	24%	27%	33%	18%
INTEREST COVERAGE						
FFO Interest Coverage	24.1x	30.5x	28.6x	28.5x	26.6x	23.8x
LEVERAGE						
Debt / EBITDA	2.0x	2.1x	4.1x	4.0x	2.9x	4.8x
Net Debt / EBITDA	1.6x	1.5x	3.4x	3.5x	2.5x	4.5x
Net Debt / Fixed Assets	18%	18%	21%	28%	23%	25%
Debt / Book Capitalization	23%	23%	26%	28%	26%	27%

All figures are calculated using Moody's estimates and standard adjustments for the consolidated group.

Source: Moody's Financial Metrics™

Exhibit 15

Moody's-adjusted debt breakdown

Latvenergo AS

	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-19	FYE Dec-20	LTM Ending Sep-21
(in EUR millions)						
As Reported Debt	791.6	826.8	814.3	888.2	751.5	758.6
Operating Leases	12.7	9.5	7.7	0.0	0.0	0.0
Non-Standard Adjustments	-2.4	-2.2	-2.2	-1.3	0.0	0.0
Moody's-Adjusted Debt	801.9	834.2	819.8	886.9	751.5	758.6

All figures are calculated using Moody's estimates and standard adjustments for the consolidated group.

Source: Moody's Financial Metrics™

Exhibit 16

Moody's-adjusted EBITDA breakdown

Latvenergo AS

	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-19	FYE Dec-20	LTM Ending Sep-21
(in EUR millions)						
As Reported EBITDA	395.6	542.8	283.0	244.6	279.6	183.3
Operating Leases	1.3	1.6	1.2	0.0	0.0	0.0
Unusual	-0.6	-140.3	-82.6	-21.3	-24.0	-24.0
Moody's-Adjusted EBITDA	396.2	404.1	201.6	223.2	255.6	159.3

All figures are calculated using Moody's estimates and standard adjustments for the consolidated group.

Source: Moody's Financial Metrics™

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