



Green Bond Framework

April 2020

 **Latvenergo**
for future energy

1. Latvenergo's Operations and Sustainability

1.1 About Latvenergo

Business concept and strategy

Latvenergo Group ("the Group") considers the year 1939 when the Kegums hydropower plant was launched as its foundation date. Nowadays, the Group is one of the largest power supply providers in the Baltics operating in electricity and thermal energy generation, trade including natural gas trade, electricity distribution services and lease of transmission system assets. The Group serves all segment customers. The mission is to ensure high-quality and environmentally friendly energy generation and supply to customers, thus promoting an increase in the long-term value of the Group.

The Group comprises of the parent company **Latvenergo AS ("Latvenergo" or the "company")** and six subsidiaries. All shares of Latvenergo AS are owned by the Republic of Latvia, and they are held by the Ministry of Economics of the Republic of Latvia.

The Group divides its operations into three operating segments:

- **Generation and trade.** Generation and trade operations include generation of electricity and thermal energy, electricity and natural gas trade in the Baltic states, and administration of the mandatory electricity procurement process in Latvia;
- **Distribution.** The distribution service ensures the flow of the electricity from the transmission network to consumers. Latvenergo's subsidiary Sadales tīkls AS is the country's largest distribution system operator and covers approximately 99% of the territory of Latvia;
- **Lease of transmission system assets.** Operation of the lease of transmission system assets segment includes the lease of transmission system assets (330 kV and

110 kV transmission lines, substations and distribution points) to the transmission system operator. In 2019, the Cabinet of Ministers of the Republic of Latvia passed a decision to support full unbundling of ownership of the electricity transmission system operator until 1 July 2020, providing that transmission assets will be taken over from Latvenergo by the transmission system operator Augstsprieguma tīkls AS.

As of 31 December 2019, Latvenergo has a 23% electricity market share in the Baltics. Latvenergo power plants provide around 80% of all electricity generated in Latvia. The company's vision is to be one of the leading and primary customer-chosen providers of sustainable and high-quality power supply services in the Baltic markets.



1.2 Latvenergo Sustainability Contribution

Sustainability is central part of Latvenergo's business and strategy, and thus prioritised in all areas of operation. The company also takes responsibility for the long-term economic, environmental and social impact of its everyday business and is constantly working to reduce its environmental footprint.

Latvenergo's operations linked to UN's Sustainable Development Goals

The Group is committed to processes, products and services that contribute to the **UN's Sustainable Development Goals ("SDG")**. In assessing the potential to contribute to the achievement of SDGs, the Group prioritizes the following goals:



Goal 7:
Affordable
and clean
energy



Goal 9:
Industry,
innovation and
infrastructure



Goal 13:
Climate
action

Sustainability recognition

In 2019, for the seventh year in a row Latvenergo AS received the Platinum or highest category award in the Sustainability Index, which assesses company sustainability according to international requirements in all areas of corporate social responsibility. Such an evaluation was achieved through well-considered investment in modernisation of generation plants; care for the environment, employees and customers; good governance; and sustainable solutions in energy production and trade. The Group subsidiary Sadales tīkls AS was awarded the Platinum category for the first time.

Developing a low-Green House Gas ('GHG') production portfolio

Ensuring environmentally friendly energy production and supply processes is one of the priorities of Latvenergo's operations. The company has a balanced and environmentally friendly energy generation portfolio, consisting mostly of hydropower plants and highly efficient combined heat and power plants. The Group generates a substantial proportion of electricity and thermal energy using three types of renewable energy sources: water, biomass and wind. In 2019, renewables accounted for 42% of the total electricity output.

Protection and restoration of biodiversity and ecosystems

Preservation of biodiversity and mitigation of the environmental impact of its operations are among the key principles of the Environmental Policy of the Group. In its operations, the Group plans and implements measures that are aimed at preserving biodiversity. The main initiatives in this field are replenishment of fish resources and flood protection measures.

Social commitment and responsibility

The Group not only complies with statutory requirements, but also performs voluntary activities aimed at improving the public welfare and the environment.

Since 2018, the company has been donating funds for cultural and social projects, such as the foundation Ziedot.lv which provides support for raising the quality of life of society and for people with special needs.

In addition, the Group also supports science and education projects with a view to promote young people's interest in science-related subjects, support researchers' and teachers' scientific work in the field of energy that promotes the education of youth and raising public awareness of energy efficiency.



2. Updated Green Bond Framework

2.1 Previous Green Bond Issue

The first Latvenergo Green Bond Framework was approved by Latvenergo in April 2015 and following Green bond was launched in June 2015, thus becoming the first state-owned and investment grade Green bond issuer in Eastern Europe. In 2016, Latvenergo issued additional Green bonds, completing the bond programme of EUR 100 million. The latest Green bond report containing the information of issue and allocation of proceeds is published as part of Sustainability and Annual Report 2019 and available on Latvenergo's website.

2.2 Updated Green Bond Framework

Previous Green Bond Framework has been subject for an update. Hence, the establishment of the **updated Green Bond Framework ("the Framework")** will enable Latvenergo to further focus on achieving positive environmental impact in its business operations.

This Framework has been developed in alignment with **the Green Bond Principles 2018 ("GBP")**¹. The Framework is applicable for issuance of Green bonds and is aligned with the four recommended components of the GBP:

- **Use of Proceeds (Section 2.3)**
- **Process for Project Evaluation and Selection (Section 2.4)**
- **Management of Proceeds (Section 2.5) and**
- **Reporting (Section 2.6)**

¹ Green Bond Principles published in June 2018 are Voluntary Process Guidelines for Issuing Green Bonds established by International Capital Markets Association (ICMA), <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/> Green Bond Principles

2.3 Use of Proceeds

An amount equivalent to the net proceeds from Latvenergo's Green bonds will be used to finance or re-finance, in part or in full, Eligible Green Projects providing distinct environmental benefits in accordance with the below defined main categories.



Renewable energy and related infrastructure:

Hydro power - reconstruction of the existing capacities

Biomass energy (non-food) and wind energy - developing new capacities and reconstruction of the existing capacities



Energy efficiency:

Construction and reconstruction of distribution networks, including smart-grid projects

Sustainable infrastructure for low carbon transportation such as electric charging stations for vehicles



Environmentally sustainable management of living natural resources and land use:

Environmental R&D within nature conservation and biodiversity programs

Protect, restore and enhance ecosystems and biodiversity (aquatic as well on land)



Exclusion

The net proceeds of Latvenergo's Green bond issuances will not be used to finance fossil fuel energy generation and nuclear energy generation.

2.4 Process for Project Evaluation and Selection

Selection of Eligible Green Projects

The evaluation and selection process for Eligible Green Projects is a key process in ensuring that an amount equivalent to the net proceeds from Green bonds is allocated to assets and activities which meet the criteria in the Framework.

All expenditures and capital investments are approved in accordance with the general policies of the Group. Until full allocation of proceeds from Green bonds, in accordance with the internal procedure on implementation of the Framework, the Environmental and Occupational Health and Safety department together with the Treasury department once a quarter will analyse the projects of the Group and recommend projects that comply with Eligible Green Projects criteria and thus shall be financed from proceeds of the Green bond. The quarterly list of the Eligible Green Projects will be approved by Latvenergo's Chief Financial Officer.

A list of allocated Eligible Green Projects is kept by the Treasury Department and Latvenergo's Treasurer is responsible for keeping this list up to date. The list of Eligible Green Projects is monitored on a regular basis during the term of the Green bond to ensure that the proceeds are fully being allocated to Eligible Green Projects.

2.5 Management of Proceeds

All Green bonds issued by Latvenergo will be managed on a portfolio level. This means that a Green bond will not be linked directly to any pre-determined Eligible Green Projects. The company will keep track and ensure there are sufficient Eligible Green Projects in the portfolio. Projects can, whenever needed, be removed or added to/from the Eligible Green Projects portfolio.

Net proceeds from Latvenergo's Green bonds will be credited to a designated sub-account in order to be tracked in an appropriate manner.

Any unallocated proceeds temporary held by Latvenergo will be placed in liquidity reserves.

2.6 Reporting

To be fully transparent towards the Green investors and other stakeholders, Latvenergo commits to report on allocation of proceeds from Green bonds and associated impact metrics on an annual basis until no Green bonds are outstanding.

Green bond report will be published as part of Sustainability and Annual Report and will be made available on the company's website. The Green bond report will include:

- Total amount of Green bonds issued
- Share of proceeds used for financing/re-financing
- Share of proceeds used for categories described in Section 2.3
- Share of allocated proceeds
- Examples of the relevant Eligible Green Projects

Where feasible, Latvenergo will intend to report environmental metrics associated with the Eligible Green Projects. Examples of criteria that may be used:

Renewable energy and related infrastructure:

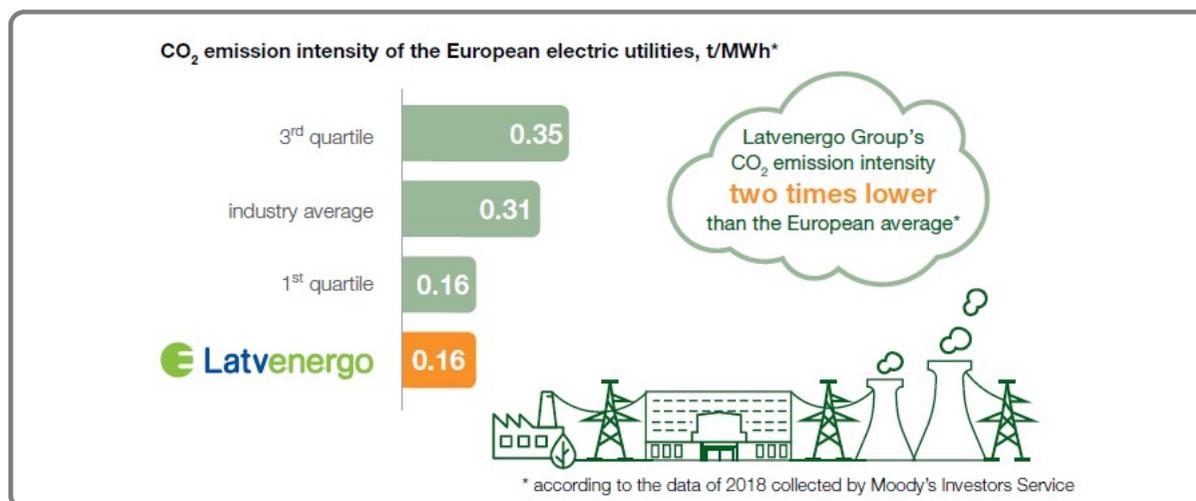
- Capacity of energy generation of plant (MW) and /or
- Annual renewable energy generation (kWh) and/or
- Estimated annual greenhouse gas emissions reduced or avoided (tCO₂e)

Energy efficiency:

- Annual energy savings (kWh) and/or
- Estimated annual greenhouse gas emissions reduced or avoided (tCO₂e)

Environmentally sustainable management of living natural resources and land use:

- Type of programs, quantified where feasible measuring improvements biodiversity and ecosystems



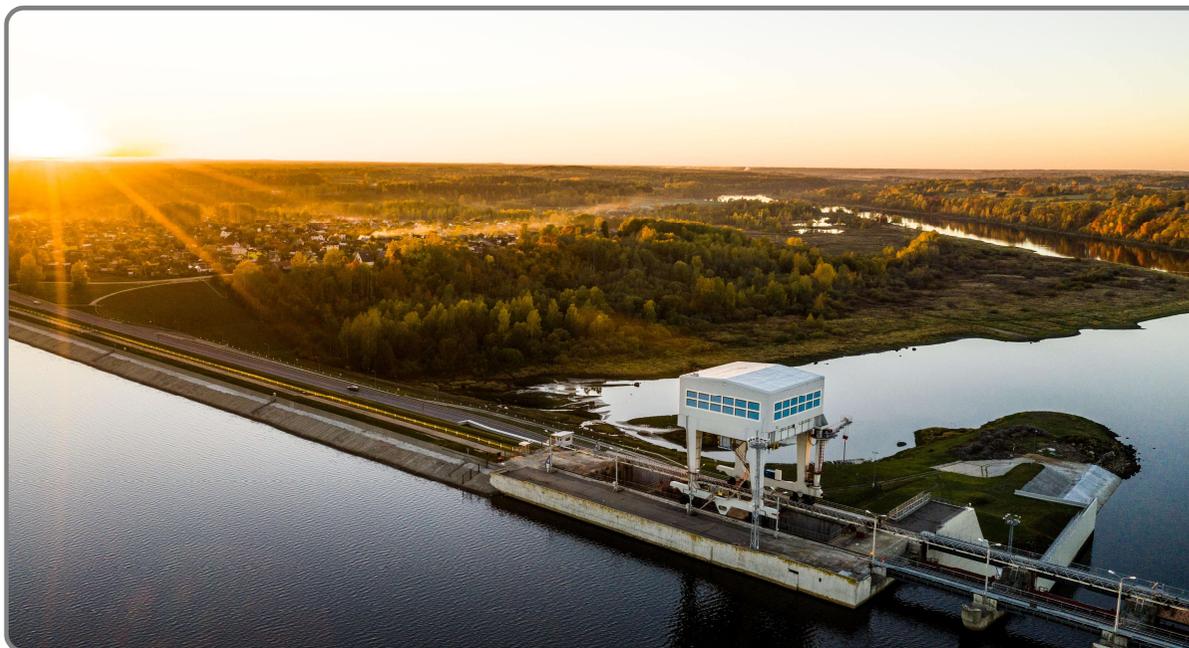
3. Review

Pre-Issuance

To confirm the transparency and robustness of the Framework, it is verified by an external second opinion provider CICERO². The second opinion by CICERO is available on the Latvenergo's website, together with this Framework.

Post-Issuance

The management of proceeds from the Green bond issue and the compliance of the selection of Eligible Green Projects with the Framework will be reviewed by Latvenergo's internal audit. A verification report provided by the internal audit will be published on the company's website.



² Center for International Climate and Environmental Research – Oslo

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