Lietuvos Energija – Green Bonds Framework

15 June 2017

1. Background

Lietuvos Energija group is a state-controlled company group which is one of the largest in the Baltic States. The main activities of the Group include power generation, supply and distribution, natural gas trade and distribution as well as construction and maintenance of energy infrastructure (power plants, power grids and etc.). The rights and obligations of the shareholder of Lietuvos Energija group are implemented by the Ministry of Finance of the Republic of Lithuania.

With its almost 5000 employees, Lietuvos Energija group controls and operates key Lithuanian power plants ensuring the security of energy supply, nation-wide distribution power network, and services more than 1.6 million consumers across Lithuania, offers services of electricity supply to customers, supplies of natural gas to more than 570 thousand customers, develops and implements energy projects of national strategic importance.

Following its vision, mission, values and strategic goals, Lietuvos Energija group devotes special attention to the corporate responsibility and seeks to ensure that operations of the Group are based on principles of responsible activities enshrined in the Global Compact, initiated by the United Nations.1

In its activities Lietuvos Energija encourages and applies advanced measures, technologies and processes compliant with environmental standards and contributing to reduction of environmental impact of its activities. The Group endeavour to make the smallest possible impact on the environment is enshrined in the environmental protection goals set on an annual basis in our main operating Companies. Besides, requirements prescribed in the Integrated Pollution Prevention and Control Permits for the monitoring of air, surface water, underground water, soil pollution, as well as protection measures are implemented. In line with sustainable development and pollution prevention principles Lietuvos Energija implements cost reduction activities, focuses on waste sorting and encourages efficient management and use of resources. Lietuvos Energija encourages and is actively engaged in environmental initiatives ensuring environmental protection. On the basis of this Green Bonds Framework, Lietuvos Energija intends to provide institutional investors with the opportunity to invest in Lietuvos Energija’s Green Bonds to finance parts of the environmental investments made by the company. This Green Bonds Framework is developed in alignment with the Green Bond Principles 20172. It is Lietuvos Energija’s intention to follow best practices in the market as the standards develop.

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2. Use of Proceeds

“Eligible Projects” means a selected pool of projects funded, in whole or in part, by Lietuvos Energija that promote the transition to low carbon and climate resilient growth and a sustainable economy as determined by Lietuvos Energija.

Eligible Projects:

- **Renewable energy** including wind, hydro\(^3\), biogas, solar and geothermal power and related infrastructure.
- **Pollution prevention and control** including waste-to-energy\(^4\).
- **Energy efficiency** including construction and reconstruction of electricity distribution networks to decrease network losses and/or provide possibilities to connect renewable energy, smart grid projects and ESCO projects.
- **Clean transportation** solutions for maintenance vehicles based on non-fossil fuel and supporting infrastructure.

Lietuvos Energija Green Bonds will not finance nuclear or fossil energy generation projects.

Lietuvos Energija Green Bonds can be used to finance the acquisition and development of new projects and to refinance existing Eligible Projects. The division of the allocation of Green Bond proceeds between new projects and refinancing will be included in the annual Green Bond Investor Letter (see section 5 below).

3. Process for Project Evaluation and Selection

All investment projects are approved by the Lietuvos Energija Board of Directors. Approved projects will be evaluated by the Lietuvos Energija Green Bond Committee and selected for financing from the Green Bond proceeds if they meet the criteria for Eligible Projects specified under section 2 above\(^5\) and there is a high likelihood that the net, long-term environmental effects are positive.

The Green Bond Committee consists of representatives from the following functions: environmental, energy efficiency (technology), energy distribution, corporate social responsibility and finance. The members of the Committee will be approved by the Board of Directors. The Green Bond Committee will select Eligible Projects in consensus, i.e. all participating departments have a veto.

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\(^3\) Hydro power is defined as a) new investments, refurbishment and maintenance of small scale hydro power plants (up to 10 megawatts (MW) of generating capacity and b) refurbishment and maintenance of large scale hydro without any increase in the size of its impoundment.

\(^4\) Waste-to-energy is defined as local municipal waste (which cannot be recycled or reused, harmless industrial waste and sludge accumulating in the water treatment plant (which cannot be used as fertilizer) and/or forest biomass from areas that have, or meet the requirements for, FSC or PEFC certification and that comply with the EU FLEGT Regulation, if applicable.

\(^5\) Selected Eligible Projects will not be re-approved by the Board of Directors since the decision to invest was made in the first step and the Green Bond Committee has evaluated and approved compliance with the criteria for Eligible Projects.
4. Management of Proceeds

An amount equal to the net proceeds of the issue of the Green Bonds will be credited to a special account that will support Lietuvos Energija’s funding of Eligible Projects. As long as the Green Bonds are outstanding and the special account has a positive balance, at the end of every fiscal quarter, funds will be deducted from the special account and added to Lietuvos Energija’s Green Project Portfolio in an amount equal to all disbursements made during such quarter in respect of financing and/or refinancing of Eligible Projects. Until disbursement to Eligible Projects, the special account balance will be placed in liquidity reserves and managed accordingly. If, for any reason, a financed Eligible Project no longer meets the eligibility criteria, it will be removed from the Green Project Portfolio.

5. Reporting

To enable investors to follow the development and provide insight to prioritized areas, Lietuvos Energija will provide an annual Green Bond Investor Letter to investors including:

  a) a list of the projects financed including a brief description and expected impact;
  b) information about the division of the allocation of Green Bond proceeds between new projects and refinancing;
  c) a summary of Lietuvos Energija’s Green Bond development.

Lietuvos Energija recognizes the importance of transparency and will include expected and actual impact reporting on financed projects in the Investor Letter when feasible.

The internal tracking method, the allocation of funds from the Green Bond proceeds and the Investor Letter will be verified by Lietuvos Energija’s external auditor. The Investor Letter and the opinion of the external auditor will be made publically available on Lietuvos Energija’s website.

Lietuvos Energija will have its Green Bonds Framework reviewed by the Centre for International Climate and Environmental Research – Oslo (CICERO) who will issue a Second Opinion. The Second Opinion as well as the Green Bonds Framework will be made publically available on Lietuvos Energija’s web site.
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