



GREEN BOND  
INVESTOR  
LETTER  
**2017**

# ABOUT THE REPORT

In July 2017, Lietuvos energija issued its inaugural green bond. This report is our first investor letter to report on the green bond funds allocation to the eligible projects and their assumed positive environmental effect as of 31 March 2018.

## Lietuvos energija approach to sustainability and environment

As one of the major companies in Lithuania and the Baltic states we recognize our strong role towards sustainable development of the country and the region. Lietuvos energija has been a signatory to the UN Global Compact agreement since 2015, and has adopted its principles into the group's daily activities. At the same time the development of the green generation and efficient use of energy took a center piece in our strategy. The importance of green generation is growing not only in our business portfolio, but also serves as a big part of Lithuania's long-term National Energy Strategy (NES). To get better insights into sustainable development efforts of Lietuvos energija please read our Corporate Social Responsibility report [HERE](#)



## CEO word



*It is very exciting to not only report to our investors on the green investments Lietuvos energija has already made, but also to communicate our new strategy for the years 2018 – 2030, where green generation and other green initiatives play a significant role. The new strategy of the company marks a new era for us and stresses our strong promise of a greener tomorrow. We hope to bring sustainable solutions that will create value not only to our shareholders and investors, but also to the society. To speak numbers, we are going to invest over 2.5 billion EUR to renewable generation, focusing on wind and solar power. More than 1 billion EUR will be invested to climate-resilient and efficient network and ESCO innovations will also receive investments of over 350 million EUR. We strongly believe that one of the best tools to fund these investments are green bonds and that we will continue to be a part of green financing ecosystem. We appreciate our investors support in our journey to become GREEN SMART GLOBAL energy company of the future.*



# MAIN INFORMATION ABOUT GREEN BONDS

Our inaugural Green Bonds were issued on 7 July 2017 following meetings between Lietuvos energija management and investors that took place between 29 June to 5 July 2017. The Bonds issued are dual-listed on the Nasdaq Vilnius and the Luxembourg Green Exchange.



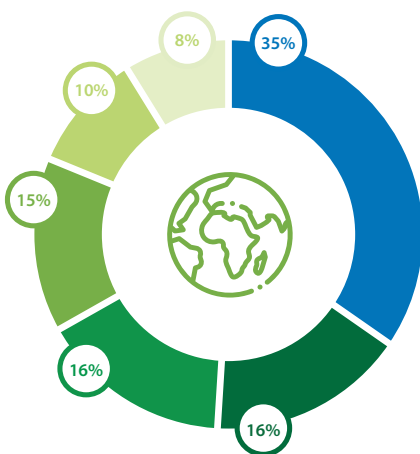
<b>Bond</b>	Lietuvos energija EUR 300 million, 2,000% Green Bond due 2027
<b>Issuer</b>	Lietuvos energija UAB
<b>Ranking</b>	Senior Unsecured
<b>ISIN Code</b>	XS1646530565
<b>Denominations</b>	EUR 100,000/ EUR 1,000
<b>Issue Size</b>	EUR 300,000,000
<b>Listing</b>	Luxembourg Stock Exchange, NASDAQ Vilnius Stock Exchange
<b>Maturity</b>	10 years
<b>Payment Date</b>	14 July 2017
<b>Redemption Date</b>	14 July 2027
<b>Coupon (%)</b>	2.000
<b>Yield At Issue (%)</b>	2.193
<b>Rating</b>	S&P: BBB+, stable

## INVESTOR ALLOCATIONS - TYPE AS OF 07 07 2017



- Banks/Private Banks
- Insurance/Pension Funds/Ols
- Fund Managers

## INVESTOR ALLOCATIONS - REGION AS OF 07 07 2017



- France
- UK
- Rest of Europe/RoW
- Baltics
- Nordics
- Germany/Austria

The successfully placed EUR 300 million and 10-year maturity bond of Lietuvos energija became the largest and the longest maturity bond ever offered by Lithuanian companies, and the largest and longest maturity green corporate Eurobond among the issuers from Central and Eastern Europe (CEE). In the past four years no company from the CEE region managed to raise funds in the capital markets at a lower interest rate for a ten-year period than Lietuvos energija.

The use of green bond proceeds at issuance was stated to be primarily to finance the company's investments in wind energy, enhancement of efficiency of the electricity distribution grid, as well as energy production from waste and biomass. Lietuvos energija undertook to use the green bond proceeds to fund only the investments related to green energy projects in accordance with the Green Bonds Framework. As a result, a contribution toward implementation of sustainable energy development and the United Nations Sustainable Development Goals is being made.

### Green Bond Framework and its certification



Lietuvos energija has prepared a **Green Bond Framework** which ensure that funds received will be used exclusively to finance the following type of green energy projects:

- Renewable energy including wind, hydro, biogas, solar and geothermal production capacities and related infrastructure;
- Pollution prevention and control projects, including energy production using waste;
- Energy efficiency solutions comprising distribution network development and renewal projects aimed at reduction of the network's losses and/or creation of conditions for connection of renewable energy sources, as well as smart network and ESCO projects;
- Clean transportation solutions for maintenance vehicles based on non-fossil fuel and supporting infrastructure.

The Green Bond Framework prepared by Lietuvos energija enjoys a Second Party Opinion certification from CICERO (Center for International Climate Research) and SEI (Stockholm Environment Institute (SEI)). The Green Bond Framework has been awarded a Dark Green shading, which is the highest green category possible. Read the full report: **'Second Opinion' on Lietuvos energija's Green Bond Framework.**



## Assessment and selection of eligible projects

The approval for all investment projects financed using funds raised by green bonds is first given by the Board of Directors of Lietuvos energija. The projects are then evaluated by the Green Bond Committee, which consists of representatives from different company's departments and subsidiaries to assess the compliance of the projects with the Framework's requirements and main criteria are then evaluated by the Green Bond Committee to ensure a positive long-term impact on the environment and the climate change effect. The Committee's composition and it's Rules of Procedure have been approved by the Board of Directors of Lietuvos energija.

**“Overall, Lietuvos energija’s Green Bond Framework together with its Corporate Social Responsibility policy, commitments to achieving climate change targets in line with the national Lithuanian Climate Change Management Plan, as well as its management systems provide a sound base for climate-friendly investments. Based on the overall assessment of the project types that will be financed by the green bonds and governance and transparency considerations, Lietuvos Energija’s Green Bond Framework receives a Dark Green shading.”**

**CICERO/SEI 2017**

**Project assement is based on two level evaluation:**

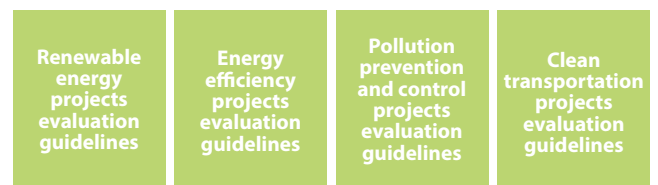
### 1<sup>st</sup> LEVEL EVALUATION

General evaluation to asses projects eligibility. All eligible projects should be in line with the requirements of the below documents.



### 2<sup>nd</sup> LEVEL EVALUATION

Technical evaluation to asses actual expected results from the investment project.



# PROJECTS FINANCED AND THEIR IMPACT ON ENVIRON- MENT

In 2017 and the beginning of 2018, the Board of Directors of Lietuvos energija and the Green Bond Committee approved the allocation of financing to these projects using funds raised by green bonds.

All projects that received financing were selected in view of the principles and criteria established in the Green Bond Framework prepared by Lietuvos energija. In total, EUR 300 million were allocated to finance the projects out of EUR 300 million raised by green bonds. CO<sub>2</sub> emissions are calculated based on the European Investment Bank methodology **(Methodologies for the Assessment of Project GHG Emissions and Emission Variations Version 10.1)**. Project allocation reporting is done as of 31 March 2018 and is applicable at the date of issuance of this report.



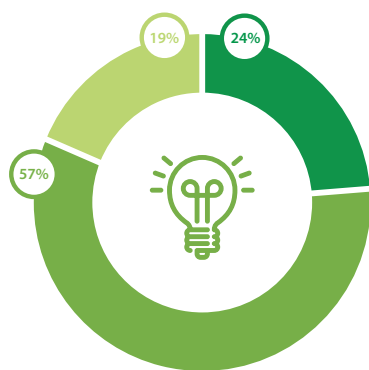
Projected and actual results of the projects are reported as a full 2017 year results for the future comparison reasons. Environmental benefits relate to the entire project where green financing is only part of the total project cost.

The share of allocated funds, that have not yet been utilized, is expected to be fully utilized by the end of 2018.

Project name	Project category	Project description	Project value, in mEUR	Green Bond funds allocated, in mEUR	Green Bond funds utilized, in mEUR	Projected reduction of CO <sub>2</sub> emissions (tons per year)	Actual reduction of CO <sub>2</sub> emissions (tons per year)
Renewal of ESO's electricity distribution network	Energy efficiency projects	Energijos Skirstymo Operatorius (ESO) plans to implement various projects related to the repair, replacement and optimisation of the electricity network. The electricity network renewal plan includes more than 1,700 projects that are going to be implemented in five regions of Lithuania. The projected operational period of individual projects is between 30 and 50 years. Annual energy savings are expected to reach more than 39,600 MWh (more than 1,357,000 MWh over the projected operational period of the projects; 0.008 MWh per EUR 1 of investments over the projected operational period of the projects). The implementation of the mentioned projects are expected to reduce the network's losses from 6.14% to 6.04% in 2018. The reduction of losses by 0.1% is equal to slightly more than 1 million kWh.	250,0	166,3	166,3	7 811	4 193* (actual result for 2017 is allocated to first tranche of 100 million EUR investment. The second tranche of 66 million EUR was approved in 2018)
Refinancing of wind power parks in Estonia and Lithuania	Renewable energy projects	At the beginning of 2016, Lietuvos energija acquired the wind power parks in Estonia and Lithuania with the overall capacity of 42 MW. The acquisition of the wind power parks was financed using borrowings from commercial banks. To optimise the financing structure of projects the company wishes to refinance borrowings using funds raised by green bonds. The wind power parks operating in Estonia and Lithuania produce around 136 GWh of electricity per year.	66,6	66,6	66,6	82 617	79 554
Vilnius Cogeneration Power Plant	Pollution prevention and control projects	The cogeneration power plant in Vilnius that will be put into operation at the end of 2019 will produce about 40% of heat energy supplied to the district heating sector in Vilnius city. Up to 160,000 tons of non-recyclable municipal waste that remain after sorting and around 400,000 tons of biofuel per year would be used for energy production. The power plant is expected to produce around 0.4 TWh of electricity, which is a sufficient volume of electricity to meet the demand of 230 thousand households. It will also contribute to solving waste management problems in the country and implementation of the EU Circular Economy objectives.	375,0	36,6	24,9	430 000	Project not yet completed. Planned to be operational by the end of 2020

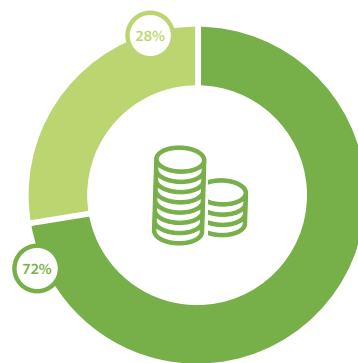
Project name	Project category	Project description	Project value, in mEUR	Green Bond funds allocated, in mEUR	Green Bond funds utilized, in mEUR	Projected reduction of CO2 emissions (tons per year)	Actual reduction of CO2 emissions (tons per year)
Kaunas Cogeneration Power Plant	Pollution prevention and control projects	The Lietuvos energija group in cooperation with the selected partner Fortum Heat Lietuva is implementing the project on the construction of a modern waste and biofuel-fired high-efficiency cogeneration power plant in Kaunas. The power plant will ensure lower heat production prices for consumers in Kaunas city as well as additional production of local electricity at a competitive price and will solve waste management problems. The cogeneration power plant in Kaunas that will be put into operation at the end of 2020 will produce about 40% of heat energy supplied to the district heating sector in Kaunas. Heat and electricity will be produced using not only municipal waste remaining after sorting, but also non-hazardous industrial waste and sewage sludge accumulating at waste water treatment plants. These capacities will enable to more rationally use around 200 thousand tons of waste accumulating in the region and produce around 500 GWh of heat and around 170 GWh of electricity.	150,0	20,0	2,0	114 986	Project not yet completed. Planned to be operational by the end of 2020
Acquisition of a 25% shareholding in the wind power park in Jurbarkas	Renewable energy projects	Seeking to implement its strategy, which focuses on energy production using renewable energy sources, Lietuvos energija made a decision to acquire a 25% minority shareholding in the wind power park in Jurbarkas operated by Eurakras UAB. A 100% shareholding held in the wind power park will allow managing the park more efficiently. The wind power park in Rotuliai, Jurbarkas region, operated by Eurakras UAB was launched in August 2016 and it consists of wind turbines with the capacity of 3 MW each. One euro invested over the course of the project's useful lifecycle reduces CO2 emissions by 0.02 kgCO2/EUR. 106.05 Kwh/EUR of electricity will be produced over the useful lifecycle. The annual volume of electricity generated by the wind power park will reach 19.75 Gwh.	4,3	4,3	4,3	3 752	Actual reduction is allocated to wind parks refinancing project
<b>TOTAL:</b>			<b>845,9</b>	<b>293,9</b>	<b>264,2</b>	<b>638 986</b>	<b>83 747</b>

## ALLOCATION TO DIFFERENT ELIGIBLE CATEGORIES AS OF 31 03 2018



- Energy efficiency
- Renewable energy
- Pollution prevention and control

## ALLOCATION TO DIFFERENT PROJECTS BY FINANCING TYPE AS OF 31 03 2018



- New projects financing
- Refinancing

# AWARDS AND RECOGNITION

International leadership in green finance has been recognized at the 3rd Annual Green Bond Pioneer Awards (GBPA), announced before an international audience as one of the highlights of the Climate Bonds 2018 Annual Conference, in London.

The Awards are in recognition of organizations, financial institutions and government bodies and individuals who have led the development of green finance and green bond markets in the past year and through their pioneering initiatives and issuance have provided positive examples of climate resilient and low carbon investment.



**Lietuvos energija was awarded with Green Bond Pioneer Award in the New Countries Taking Green Bonds Global category.**

**Green Bond Pioneer Award winners**



*"This year's award-winning pioneers reflect the international diversity and depth of green bond markets. Awarded organizations and individuals today can be called the new leaders of the financial world, creating new markets by attracting investments through green bonds. Such investments are highly needed to combat climate change and finance low-carbon infrastructure,"*

**SEAN KIDNEY, CLIMATE BONDS INITIATIVE'S CEO AND CO-FOUNDER**

## About Climate Bonds Initiative

Climate Bonds Initiative is an investor-focused non-profit international organization working solely to mobilize the largest capital market of all, the \$100 trillion bond market, for climate change solutions.

The organization promotes investment in projects and assets necessary for a rapid transition to a low-carbon and climate resilient economy. Organization's strategy is to develop a large and liquid Green and Climate Bonds Market that will help drive down the cost of capital for climate projects in developed and emerging markets; to grow aggregation mechanisms for fragmented sectors; and to support governments seeking to tap debt capital markets.