

**MEMORANDUM**

**DOCUMENT OF THE EUROPEAN BANK  
FOR RECONSTRUCTION AND DEVELOPMENT**

Approved by the Board of Directors on 28 May 2020<sup>1</sup>

**LATVIA**

**VISP - PROJECT AMIGOS**

*[Redacted in line with the EBRD's Access to Information Policy]*

*[Information considered confidential has been removed from this document in accordance with the EBRD's Access to Information Policy (AIP). Such removed information is considered confidential because it falls under one of the provisions of Section III, paragraph 2 of the AIP]*

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<sup>1</sup> As per section 1.4.8 of EBRD's Directive on Access to Information (2019), the Bank shall disclose Board reports for State Sector Projects within 30 calendar days of approval of the relevant Project by the Board of Directors. Confidential information has been removed from the Board report.

As permitted by paragraph 2.6 of Section III of the Access to Information Policy, disclosure of this Board Report was deferred.

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**ABBREVIATIONS / CURRENCY CONVERSIONS**

AST	Augstsprieguma Tikls AS
BEMIP	Baltic Energy Market Interconnection Plan
CFADS	Cash Flow Available for Debt Service
CHP	Combined Heat and Power
CICERO	Centre for International Climate and Environmental Research Oslo
COVID	Coronavirus Disease
CSR	Corporate Social Responsibility
D/E	Debt to Equity
DCM	Debt Capital Markets
DFI	Development Finance Institutions
DSO	Distribution System Operator
E&S	Environmental and Social
EBIT	Earnings Before Interest and Tax
EBITDA	Earnings Before Interest Tax and Depreciation
EC	European Commission
EHS	Environmental Health and Safety
EIB	European Investment Bank
EPG	Economics, Policy & Governance
ESAP	Employment and Social Affairs Platform
ESDD	Environmental and Social Due Diligence
ESG	Environmental, Social and Governance
EU	European Union
EUR	Euro
GDP	Gross Domestic Product
GET	Green Economy Transition
HPP	Hydro Power Plant
IFI	International Financial Institution
IFRS	International Financial Reporting Standard
INPP	Ignalina Nuclear Power Plant
ISO	Independent System Operator
ITO	Independent Transmission Operator
kV	kilovolt
kWh	Kilowatt hour
LNG	Liquefied Natural Gas
MDB	Multilateral Development Bank
MoU	Memorandum of Understanding
MW	Megawatt
MWh	Megawatt hour
NIB	Nordic Investment Bank
PCI	Project of Common Interest
PPR	Procurement Policies and Rules
PUC	Public Utilities Commission
RAROC	Risk-adjusted Return on Capital
SAIDI	System Average Interruption Duration Index
SAIFI	System Average Interruption Frequency Index

SRSS Structural Reform Support Service  
TSO Transmission System Operator

## PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of Latvenergo AS (the “Company”), a corporation incorporated in Latvia, are submitted for consideration by the Board of Directors.

The facility will consist of an investment in the amount of up to EUR 60 million in green bonds issued by the Company (the “Project”). The Bank’s investment will represent no more than 30% of the issue.

The Company expects to issue up to EUR 200 million bonds, which will be independently certified as compliant with the Green Bond Principles established by the International Capital Markets Association. It will be categorised as a "dark green" bond, the most stringent rating. It is expected that [REDACTED]the proceeds will be applied to (i) finance new investments in electricity distribution networks, leading to significant losses reduction and increased renewable energy absorption capacity ...[and (ii)][REDACTED... towards the rehabilitation of three existing hydro power plants. The proceeds from the Bank’s investments will be applied specifically to the investments in the distribution network. The bond will be listed on the Riga Nasdaq stock exchange.

The operation will be the Company’s second green bond issuance, building on its first issue in 2015. The expected transition impact of the Project stems from the *Green* and *Resilient* qualities. This issuance will enable the Company to further diversify its funding base and to utilise green funding sources to fund its transition to a highly efficient and low carbon asset base (*Green*). The operation will also contribute to local debt capital market development which has suffered from a lack of investable securities and poor secondary market liquidity (*Resilient*).

The Bank's support for this issuance is particularly important given the stress imposed on the capital markets by the COVID-19 crisis. It will allow the Company to continue the momentum of its green transition despite this disruption and thus forms part of the Bank's Vital Infrastructure Support Programme adopted as part of the Bank's COVID-19 Solidarity Package.

I am satisfied that the operation is consistent with the Bank’s Strategy for Latvia, the Energy Sector Strategy, the Green Economy Transition approach, and the Local Currency and Capital Markets Development Initiative, and with the Agreement Establishing the Bank.

I recommend that the Board approve the proposed investment substantially on the terms of the attached Report.

**Suma Chakrabarti**

## BOARD DECISION SHEET

<b>LATVIA – VISP - Project Amigos - DTM 51879</b>	
<b>Transaction / Board Decision</b>	Board approval <sup>2</sup> is sought for a green bond investment of up to EUR 60 million in favour of Latvenergo AS, a corporation incorporated in Latvia (the “Company” or the “Issuer”). The Bank’s investment will not exceed 30% of the bond issue. The bond will be listed on Nasdaq Riga stock exchange. The proceeds from the Bank’s subscription will be used to finance the Company’s investments in Latvia’s electricity distribution network.
<b>Client</b>	Latvenergo AS is the Latvian state-owned energy utility company, 100% owned by the Republic of Latvia, with EUR 841.6m revenues and EUR 243.5m EBITDA in FY2019. The Company’s total assets stood at EUR 3.8 billion as of FY2019. The Company operates in (i) electricity distribution, (ii) electricity and heat generation and trade, and (iii) the lease of transmission system assets.
<b>Main Elements of the Proposal</b>	<p><u>Transition impact:</u></p> <ul style="list-style-type: none"> <li>- <i>Green:</i> the Project will be 100% GET compliant, delivering climate mitigation benefits through energy efficiency and the upgrade of low-carbon energy generation. The investment will reduce the network losses [REDACTED] and accordingly will result in [REDACTED] tonnes of CO2 emission savings annually.</li> <li>- <i>Resilient:</i> the Project will contribute to the local debt capital market development which suffers from a lack of investable securities and poor secondary market liquidity. The Bank’s participation will be limited to up to 30% of the issue to allow the balance to be allocated to commercial investors.</li> </ul> <p><u>Additionality:</u></p> <ul style="list-style-type: none"> <li>- <i>Financing structure:</i> The Bank’s financing is expected to provide a valuable signal to the market, close the funding gap and facilitate a successful placement in the current distressed debt capital market given the COVID-19 outbreak. [REDACTED]</li> <li>- <i>Risk mitigation:</i> The Bank’s involvement in the Project provides comfort to other investors and encourages market participation amid the COVID-19 crisis. [REDACTED]</li> </ul>
<b>Key Risks</b>	<p><u>COVID-19 impact:</u> The pandemic may have negative impact on the issuance itself. The Company may execute the green bond programme over [REDACTED]tranches [REDACTED]in order to partly mitigate that risk. The Bank’s participation will deliver a positive signal to the market for the success of the issuance.</p> <p><u>Issuer credit risk:</u> moderate leverage, strong financial standing and stable cash generation capacity provide sufficient comfort that the Company would honour its debt obligations. Moody’s rated the Company at Baa2 with a stable outlook re-confirmed in March 2020.</p> <p><u>Electricity price risk:</u> While the electricity market is deregulated in Latvia and therefore the Company is exposed to electricity price risk, the regulated distribution business complements the Company’s risk profile with a stable revenue stream.</p> <p><u>Exit risk:</u> [REDACTED]</p>
<b>Strategic Fit Summary</b>	The Project is consistent with the Bank’s Strategy for Latvia, especially in the context of strengthening energy security and improving energy efficiency; the Energy Sector Strategy, the Green Economy Transition approach, the Local Currency and Capital Markets Development Initiative, and with the Agreement Establishing the Bank.

<sup>2</sup> Article 27 of the AEB provides the basis for this decision.

## ADDITIONAL SUMMARY TERMS FACTSHEET

<b>EBRD Transaction</b>	Subscription of up to EUR 60 million in green senior unsecured fixed coupon corporate bond issued by Latvenergo AS (the “Issuer” or the “Company”). The Company is expected to place a green bond of up to EUR 200 million [REDACTED]. The bond is expected to be issued in [REDACTED]tranches, [REDACTED] depending on market conditions. The green bond will be listed on the Nasdaq Riga exchange, an EU regulated platform that is part of the Sustainable Stock Exchanges Initiative. The Bank’s participation will be limited to 30% of the issuance to support the successful placement of the bond amid the Covid-19 crisis. The Bank’s participation will be subject to scaling back depending on the level of investors’ interest.
<b>Existing Exposure</b>	Total amount debt: EUR 43.9m (Latvenergo Riga CHP-2, Opid 40471, signed in 2010. PTI – 40 / ETI – 40).
<b>Maturity / Exit / Repayment</b>	REDACTED
<b>Potential AMI eligible financing</b>	None
<b>Use of Proceeds</b>	<ul style="list-style-type: none"> <li>• The bond proceeds will be used to finance (i) investments in the electricity distribution network [REDACTED], and (ii) the rehabilitation and upgrade of three existing hydro power plants. [REDACTED]</li> <li>• The Center for International Climate and Environmental Research (“CICERO”) certified compliance of the bonds with the Green Bond Principles. CICERO is one of the most respected of such certifying agencies and certifies the Bank's own green bonds.</li> <li>• Pursuant to the Green Bond Principles the Issuer will report annually. [REDACTED]</li> </ul>
<b>Investment Plan</b>	[REDACTED]
<b>Financing Plan</b>	[REDACTED]
<b>Key Parties Involved</b>	<ul style="list-style-type: none"> <li>• Issuer: Latvenergo SA</li> <li>• Lead arrangers: Luminor and Swedbank</li> <li>• Green bond framework second opinion provider: CICERO</li> <li>• Rating agency: Moody’s</li> </ul>
<b>Conditions to subscription / disbursement</b>	<ul style="list-style-type: none"> <li>• Signed Framework Agreement;</li> <li>• Allocation confirmation; and</li> <li>• The Bank’s confirmation of acceptance of offer.</li> </ul>
<b>Key Covenants</b>	[REDACTED]
<b>Security / Guarantees</b>	Unsecured
<b>Other material agreements</b>	Framework Agreement between the Issuer and the Bank
<b>Associated Donor Funded TC and co-investment grants/concessional finance</b>	None

[REDACTED]

## INVESTMENT PROPOSAL SUMMARY

### 1. STRATEGIC FIT AND KEY ISSUES

#### 1.1 STRATEGIC CONTEXT

Latvia has high shares of renewable energy in its energy supply owing largely to the country's sizable hydropower resources. Approximately 40% of final energy consumption in 2019 was from renewable sources, above the EU 27 average of 18.88% and close to the country's 2020 target of 40.95% under the EU 20/20/20 targets. However, Latvia has committed to a more ambitious target under its National Energy and Climate Plan to produce 45% of its final energy consumption from renewable sources by 2030.

In its national energy strategy, Latvia has another important target for energy security by targeting to reduce the share of imports in gross national energy consumption to 44.1% in 2020 and 30.5% in 2030 from 47.2% in 2016. One of the main energy challenges is that Latvia remains dependent on gas imports. While the Klaipeda LNG Terminal in Lithuania (operating since 2014) and gas inter-connectors to Lithuania are major improvements to diversify its energy supplies, more is needed to strengthen energy supply security and efficiency.

In achieving the goals of both increased renewables and enhanced energy security, a more efficient network is a critical element. Improving the efficiency and flexibility of its network as well as installing smart grid components will result in lower electricity losses, increased absorption of renewable capacity and more resilience to disruption and shifting supply sources.

In the context described above, Latvenergo AS, the vertically integrated state-owned utility in Latvia, has decided to focus on the green bond market to raise the capital required to make the investments needed to renovate its network and expand its hydro power capacity. The Company has prepared a EUR 200 million green bond programme and is expecting to tap the market in May/June 2020 depending on market conditions.

The bond proceeds will be applied to finance the completion of the Company's 2017-2022 investment programme for the modernisation and expansion of the distribution network. This programme will reduce [the network] losses [REDACTED]. Furthermore, the investment programme will improve significantly the efficient integration of renewable sources into the network, especially small and medium size PVs and wind projects, as well as the reliability of energy supply by improving unscheduled SAIFI (a number of outages per customer) [REDACTED] and unscheduled SAIDI (a measure of quality of supply, minutes of outage duration per customer) [REDACTED].

The Bank's participation into the Company's green bond issue is expected to facilitate the successful issuance given the current distressed debt capital markets. The COVID-19 crisis has led several corporates to withhold their capital raising activities in the market. However, in spite of the market situation, the Company remains keen to access the market and continue its green investment programme. A successful issue will therefore send a strong signal about continued investor appetite to fund the long-term green transition. Accordingly the Project forms part of the Vital Infrastructure Support Programme, a key part of the Bank's COVID-19 Solidarity Package.

Furthermore, by participating in the issuance, the Bank confirms its support for capital market development. Importantly, the scale of the bond, and its "green" rating under the Green Bond Principles certified by an independent certification agency, will entrench the highest standards in this key green funding mechanism. This is further evidenced by the policy dialogue of the EBRD via various technical cooperation projects funded by the European Commission (formerly the Structural Reform Support Service (SRSS)) and aimed at mobilising the investor base, expanding investment products and stimulating investor interest in the Baltic region: i) SOE Policy Review implemented with the Latvian Government entity, CSCC; and ii) Green Capital Markets with the Lithuanian MoF and with a pan-Baltic coverage. The Project complements the Memorandum of Understanding (MoU) signed in November 2017 among the three Baltic States to jointly work on the capital markets development, an initiative strongly supported by the EC and the EBRD.

The Transaction is consistent with the Bank's Strategy for Latvia, especially in the context of strengthening energy security and improving energy efficiency; the Energy Sector Strategy, the Green Economy Transition approach, the Local Currency and Capital Markets Development Initiative, and with the Agreement Establishing the Bank.

## 1.2 TRANSITION IMPACT

The table below set out the TI objectives and details of the Project. The relevant Monitoring Indicators and timing for delivery are shown in section 2.

### Primary Quality: Green

Obj. No.	Objective	Details
1.1	<i>The percentage of EBRD use of proceeds allocated to the project that qualifies as GET is 50% or higher.</i>	<p>The Project is in line with the Bank's GET methodology, contributing to climate mitigation through improving energy efficiency and upgrading low-carbon energy generation.</p> <p>Use of proceeds of the bond issue will be for:</p> <ul style="list-style-type: none"> <li>- Efficiency and reliability improvements in the electricity distribution grid, and</li> <li>- The upgrade and refurbishment of three existing hydro power plants.</li> </ul> <p>Use of proceeds of the Bank's participation in the bond issue will be used specifically for efficiency and reliability improvements in the electricity distribution grid. [REDACTED]</p> <p>The bond will be compliant with the Green Bond Principles, which impose an obligation on the Issuer to comply with the highest standards of corporate governance in particular in respect of (i) highest standards of environmental aspects considerations during investment implementation and (ii) transparent reporting on the investment progress and potential environmental issues. Such level of governance, which requires robust frameworks and processes remains rare in the Bank's COOs therefore a large state own company</p>

		applying such standards is valuable. The Framework was also reviewed by CICERO, a sound second party opinion provider, for validation of the green assets that the proceeds will fund as well as its issuance framework for such bonds. This marks a step-change in transparency and conforms to best market practice.
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### Secondary Quality: Resilient

Obj. No.	Objective	Details
2.1	<i>The transaction contributes moderately to capital market development (not a new product, market expansion is very modest) and has a similar or shorter maturity compared to previous issuances in the market in the past year (debt instrument).</i>	Currently the Latvian bond market suffers from a lack in investable securities, short maturities and poor secondary market liquidity [REDACTED]. The success will serve as template for other peer pan-Baltic SOEs.
2.2	<i>The issuance will be publicly offered and listed on a national exchange and have at least one credit rating from "Big Three" international credit rating agencies (S&amp;P, Moody's and Fitch).</i>	The issuance will be listed on the Nasdaq Riga stock exchange. The Issuer is rated Baa2 by Moody's.
2.3	<i>At least 60% of the issuance is expected to be placed with private non-IFI investors.</i>	The Bank is expected to be the only IFI that will subscribe to this issuance. The Bank's participation will be capped at up to 30%. The remaining stake of 70% will be placed with institutional investors such as Pillar II pension funds – that would benefit from further securities being available on the pan-Baltic market.

### Delivery risks:

External Risk Factor	Low	Medium	High
Legislative and regulatory regime	X		
Country economic or political conditions		X	
Country financial, exchange rate, interest rate conditions		X	
Liquidity / functionality of local credit and capital markets			X
Competitive response from market	X		
Sector conditions (transparency, cyclicalities, commodity prices, change of technology)		X	

[REDACTED] Capital markets in general are suffering from the COVID-19 pandemic crisis. The success of the issuance will depend on the market participants' appetite amid the crisis. In addition, physical implementation of the project may be delayed as well due to the logistical challenges associated with the COVID-19 crisis.

### 1.3 ADDITIONALITY

Identified triggers	Description
No triggers identified	n/a
Additionality sources	Description of additionality sources
<b>Financing structure:</b> EBRD offers a <b>large volume</b> instrument that fills a market funding gap and is required to structure the project.	Average issuance size in the local bond market (Riga) of approx. EUR 80 million in the last two years is below Latvenergo's targeted issue size [REDACTED], which is an ambitious target for the local market matching the Company's expansion plans. This contemplated bond [programme] will be one of the largest bonds launched by a Latvian company.
<b>Financing structure:</b> Capital market: EBRD financing is expected to effectively ' <b>close the funding gap</b> ' and allows carrying out a <b>successful book-building process</b> .	The Bank's participation is necessary for the success of the issuance given the effect of the COVID-19 crisis on capital markets and investors' appetite. [REDACTED]
<b>Risk Mitigation:</b> EBRD's <b>long-term relationship</b> with a client provides comfort to the client to be willing to <b>take on more risk and/or finance</b> , enabling outcomes such as innovation or expansion into new markets.	The Company is the Bank's existing client via Latvenergo Riga CHP-2 signed in May 2010. [REDACTED]
<b>Risk Mitigation:</b> EBRD's involvement in a <b>debt capital market transaction</b> provides comfort to other investors and further widens market participation.	The Bank's participation as a significant investor in the proposed transaction should be positively viewed by the market given the Bank's strong credentials as a green investor. This is expected to send a strong signal to institutional investors with regard to the quality of the issue and the credibility of the Issuer.

### 1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
<b>Project specific risks</b>		
COVID-19 impact	Medium / Low	<p>The ongoing Covid-19 pandemic and any possible future outbreaks of viruses may have a significant adverse effect on the Company. Firstly, a spread of such virus amongst the employees of the Company and any quarantines affecting the employees of the Company or its facilities, may reduce the ability of the personnel to carry out their work and thereby affect the Company's operations. Secondly, any quarantines or spread of viruses may affect the ability of the customers of the Company to carry out their operations, which may adversely affect the volume of energy consumption and credit risk exposure, thus create adverse effect on the Company's business and financial position.</p> <p><i>Mitigation:</i> While COVID-19 is still spreading and the final implications of the pandemic are difficult to estimate at this stage, the</p>

		status of the Company as public service provider provides comfort that the Company will be supported by the State if necessary. Furthermore, the nature of the Company's investment programme is focused on local suppliers for the distribution investments and upgrade of existing assets and thereby is not expected to be associated with significant cross-border implementation risk.
Issuer credit risk	Medium / High	Worse than expected financial results could negatively impact the Company's ability to repay or refinance the debt. <i>Mitigation:</i> relatively moderate leverage [REDACTED], strong financial standing and stable cash generation capacity give sufficient comfort that the Company would honour its debt obligations. The credit rating of the Company has been assigned from Moody's at Baa2 with a stable outlook.
Use of proceeds risk	Low / Medium	The green bond proceeds are expected to be earmarked for completing the distribution network's investment programme [REDACTED], and for the HPPs refurbishment programme. <i>Mitigation:</i> As part of the transaction monitoring, the Bank will be provided with an annual Sustainability Report (available publicly) including an update of projects financed by the bond and allocation of the green bond proceeds. [REDACTED]
Structural subordination risk	Medium / Medium	The green bond will be issued on the level of Latvenergo AS (the Company as the parent company) while some of the Company's indebtedness is at the Company's subsidiaries level. There might be certain issues with structural subordination. <i>Mitigation:</i> The magnitude of the subordination risk is minimal as [REDACTED] (99%) out of [REDACTED] total borrowings are at the Company level. Only [REDACTED] (1%) are made at the subsidiary level. Cross default with material subsidiaries provides further comfort.
Exit risk	Medium / Low	The green bond will be listed on the Nasdaq Riga exchange. Early exit could however be affected by the relatively low liquidity (especially given Bank's stake out of the issue size). [REDACTED]
Energy price risk	High / Medium	Latvia's wholesale generation market was liberalised with the opening of Nord Pool spot market in 2012. The generation and trading business is exposed to price risks. <i>Mitigation:</i> The Company's DSO business provides a natural hedge against the electricity market risk as the business has stable revenues and profits based on the regulated tariff set by the regulator. [REDACTED]
Hydrological risk	Medium / Medium	The Company's generation business is influenced by weather conditions because its HPPs' generation volume is dependent on the water inflow in the Daugava River. [REDACTED] <i>Mitigation:</i> The Company's diversified portfolio including the regulated distribution business provides a buffer against that risk. [REDACTED]
<b>External risks</b>		
Macro-economic risk	Medium / Medium	The major risk faced by the principal business activity of the Company includes the country's macroeconomic indicators that determine the level of consumption of electricity and gas. An

		<p>economic slowdown in Latvia may affect the electricity and gas demand of the country.</p> <p><i>Mitigation:</i> the Latvian economy continues to benefit from strong fundamentals: low, stable public debt, a fairly solid fiscal position and a reasonably stable financial system, which is reflected in high country rating (A+ with stable by S&amp;P). [REDACTED]</p>
Regulatory risk	Low / Medium	<p>The Company is subject to regulation in Latvia and other countries in which it operates (Lithuania and Estonia). [REDACTED]</p> <p><i>Mitigation:</i> the sector is regulated by the Public Utilities Commission (PUC), an independent national regulatory authority in compliance with the EU's standard. Additionally, the Latvian government's good history of implementing the EU acquis provides a clear picture for government's consistency.</p>

## 2. MEASURING / MONITORING SUCCESS

<i>Overall objectives of project</i>	<i>Monitoring benchmarks</i>	<i>Implementation timing</i>
<ul style="list-style-type: none"> <li>- Successful bond issue</li> <li>- Good financial and operational performance</li> </ul>	<ul style="list-style-type: none"> <li>- Successful bond listing</li> <li>- Stable profitability and cash flows</li> <li>- Increase grid efficiency</li> </ul>	[REDACTED]

### Primary Quality: Green

<b>Obj. No.</b>	<b>Monitoring indicator</b>	<b>Details</b>	<b>Baseline</b>	<b>Target</b>	<b>Duration</b>
1.1	CO2 Emissions reduced (tonnes/yr)	[REDACTED] tonnes annual CO2 savings from distribution loss reduction	[REDACTED]	[REDACTED]	[REDACTED]
1.2	New or updated GET technology or product leading to energy efficiency introduced	Reduce network losses [REDACTED] and improve unscheduled SAIDI [REDACTED] and unscheduled SAIFI [REDACTED].	[REDACTED]	[REDACTED]	[REDACTED]

### Secondary Quality: Resilient

<b>Obj. No.</b>	<b>Monitoring indicator</b>	<b>Details</b>	<b>Baseline</b>	<b>Target</b>	<b>Duration</b>
2.1	Share of non-IFI/non-DFI institutional investors in capital market instrument or equity fund at the issuance	Percentage of non-IFI/DFI investors more than at least 70%	[REDACTED]	[REDACTED]	[REDACTED]
2.2	Issuance listed on a national or/and international exchange	To be listed in Nasdaq Riga	[REDACTED]	[REDACTED]	[REDACTED]
2.3	Volume of new capital market activity raised	Issuance of EUR 200 million successfully subscribed	[REDACTED]	[REDACTED]	[REDACTED]

### 3. KEY PARTIES

#### 3.1 ISSUER

Latvenergo AS (the “Company” or the “Issuer”) is the Latvian state-owned energy group 100% owned by the Republic of Latvia via the Ministry of Economy, and is one of the largest regional energy utility companies in the Baltics. The Company had EUR 841.6m revenues and EUR 243.5m EBITDA with EUR 3.8 billion total assets in FY2019. The Company operates in (i) electricity distribution services, (ii) electricity and thermal energy generation and trade and (iii) the lease of transmission system assets. The Company’s shareholding chart is presented in Annex 2.

Distribution - The electricity distribution services contributed 36% of the Company’s revenues and 45% of EBITDA in FY2019. The distribution business is run by its subsidiary Sadales tīkls AS, the biggest distribution system operator (DSO) in Latvia. The DSO has 92,958 km of distribution networks and distributes 6.8 TWh of electricity annually to more than 815 thousand customers. The DSO has been investing approx. EUR 100m per year to modernise its network, and reduce the frequency and duration of power supply disruptions caused by planned and unplanned maintenance. The distribution tariff is regulated by the Latvian regulator Public Utilities Commission (PUC).

Generation and trade - The Company’s largest revenue contributor is the generation and trade business accounting for 59% of its total revenue and 36% of EBITDA in FY2019. The Company has 1,558 MW capacity of HPPs, 1,025 MWe/1,617 MWt of CHPs, and 8 MWe/221MWt of other small plants. In the generation segment, most of electricity (99%) and thermal energy (88%) is generated by the three Daugava HPPs and two CHPs. In FY 2019, the Company’s electricity generation volume amounted to 4,880 GWh. The Company’s trading subsidiary, Elektrum, procures electricity and natural gas and sell to retails or for public purposes. In 2019, the Company supplied 6,505 GWh of electricity in the Baltic region. The overall amount of retail electricity trade outside Latvia accounted for 33% of the total. In 2019, the Company's natural gas consumption in the Baltics amounted to 7.1 TWh, 3% more than 2018. Currently, Latvenergo Group is the second largest natural gas consumer in the Baltics.

Lease of Transmission - [REDACTED] comes from the lease of transmission system assets (330 kV and 110 kV electricity transmission lines, substations and distribution points) to the Latvian transmission system operator Augstsprieguma Tīkls AS (AST). This business is also regulated by PUC. The ownership of the transmission network will be transferred to AST by July 2020.

The Company has 4 outstanding bonds as set out below. In February 2015 Moody’s upgraded the Company’s credit rating to Baa2 with a stable outlook, which has been sustained since then and was recently reconfirmed in March 2020.

Year issued	May 2013	Oct 2013	June 2015	Apr 2016	Proposed
Size (EUR m)	20	15	75	25	200
Type	Conventional	Conventional	Green	Green	Green
Programme	EUR 35m bond programme		EUR 100m bond programme		EUR 200m
Maturity (yers)	7		7		7 - 10
Maturity date	May 2020		May 2022		-

#### 4. MARKET CONTEXT

The Latvian power market has been officially liberalised since July 2007 under the EU Third Energy Package, with no restrictions for new entrants in electricity generation and supply or for electricity consumers who can freely change their suppliers. Further in 2012, transmission system operator AST was unbundled from the Latvian electricity system centralised by Latvenergo. Latvenergo still owns and operates the main generation assets (such as hydro and CHPP) and distribution network assets through its subsidiaries. The transmission network is owned and maintained by Latvenergo but leased and operated by AST. However, the ownership of the transmission network will be transferred from Latvenergo to AST by July 2020.

The electricity is freely traded in the wholesale market Nord Pool. Its retail market is competitive with approximately 30 retailers active on the Latvian market including other big regional players like Ignitis, the Lithuanian state-owned utility company (previously Lietuvos Energija), and Eesti Energia, the Estonian state-owned utility company. The energy sector is regulated by the independent regulator PUC.

Latvia's main source of electricity generation is through hydro power plants. Installed hydropower capacity is accounting for 50% of total installed capacity in Latvia. However, due to dry weather, electricity generation from CHPs has been higher than the generation from hydro power plants since 2018. As a result, its annual generation is significantly dependent on rainfalls. For example, in 2018 when it was unusually dry year, the electricity generation from hydro amounted to 2,432 GWh decreasing by 75% from 4,246 GWh in 2017. Consequently, Latvia turned to a net electricity importer in 2018 from being a net exporter in 2017. The country usually imports from Estonia in the time of shortfall and exports to Lithuania in the time of surplus. Detailed generation volume and energy balance are presented in Annex 4.

The Latvian energy system is well connected to Estonia (two 330 kV lines & two 110 kV lines, with third 330 kV in plan) and Lithuania (four 330 kV lines & three 110 kV lines), as well as to Russia (one 330 kV line). These cross-border interconnections help liberalize the market and increase liquidity. It is noted that, despite existing connections with Poland, Sweden and Finland, the Baltics still operate in synchronous mode with Russia and Belarus. A roadmap has been agreed with the EU Commission to synchronize the Baltic grid with the Continental European Network by 2025-26, and the required grid reinforcements have been designated a Project of Common Interest ("PCI") by the European Union.

## **5. FINANCIAL / ECONOMIC ANALYSIS**

### **5.1 FINANCIAL ANALYSIS**

[REDACTED]

### **5.2 FINANCIAL PROJECTIONS**

[REDACTED]

### **5.3 PROJECTED PROFITABILITY FOR THE BANK**

[REDACTED]

## **6. OTHER KEY CONSIDERATIONS**

### **6.1 ENVIRONMENT**

Categorised B (2019 ESP). The Project is a capital market transaction and the Bank's due diligence has been limited to a review of publicly available documents, questionnaires and discussion with the Company's EHS management by the ESD specialists which allowed the ESD to undertake an adequate assessment of environmental and social risks and impacts of this Project in accordance with the Bank's 2019 ESP. The Bank has previously provided financing to the Company (Riga CHP-2 CCGT Project) and has undertaken a high level due diligence of the Company in the past. The Company publishes its annual non-financial information reporting in line with EU requirements. The Green Bond characteristics of the issuance have been reviewed by Treasury and ESD experts who found it meeting the Bank's criteria for Green Bond investments, allowing the Bank to publicly recognise the issuance as a Green Bond.

The Bank's use of proceeds will be allocated through conditions in the Framework Agreement to the strengthening of the electricity distribution network, needed for the development of renewable energy projects and energy efficiency. The Company will also upgrade existing three hydropower plants to increase efficiency as part of the bond programme. The Bank reviewed these investments as well as corporate EHS management as part of the ESDD. Latvenergo has a dedicated EHS management team, which is developing corporate EHS management systems and has the institutional capacity to implement the Bank's Performance Requirements. It develops sustainability reports for the group and individually for some subsidiaries. Those reports show that, overall, Latvenergo has a good compliance record and no material non-compliance issues have been identified. Latvenergo has focused on renewable energy generation and upgrade of existing CHPs and does not operate any coal-fired assets. The ESDD

has also confirmed that the Company has good HR Policies in line with best practice and is implementing COVID-19 response measures.

The EBRD proceeds will not be used for any Category A projects and the Company will not invest in any coal fired units in the future.

An ESAP has been developed based of the findings of the ESDD and in addition to the above, it will include requirements relating to, among others, strengthening of non-financial reporting in line with best practices and EU law and associated guidance on climate related information. The ESAP further requires that if the Company was to develop projects in sensitive areas or of sensitive nature, those would need a full ESIA in line with Bank requirements. The ESAP will be agreed with the Company prior to Board consideration and will be included in the Framework Agreement to be signed shortly before subscription.

The Bank will monitor the Company's performance through reviewing annual reports prepared by the Company and site visits as deemed necessary.

## **6.2 INTEGRITY**

In conjunction with OCCO, integrity due diligence was undertaken on Latvenergo, which is 100% state-owned, its subsidiaries and senior management. The [REDACTED] project does not pose an unacceptable integrity or reputational risk to the Bank. Latvenergo is an existing client of the Bank via a loan in 2010 and the experience to date has been positive. Latvenergo is also a client of EIB. [REDACTED]

All actions required by applicable EBRD procedures relevant to the prevention of money laundering, terrorist financing and other integrity issues have been taken with respect to the project, and the project files contain the integrity checklists and other required documentation which have been properly and accurately completed to proceed with the Transaction.

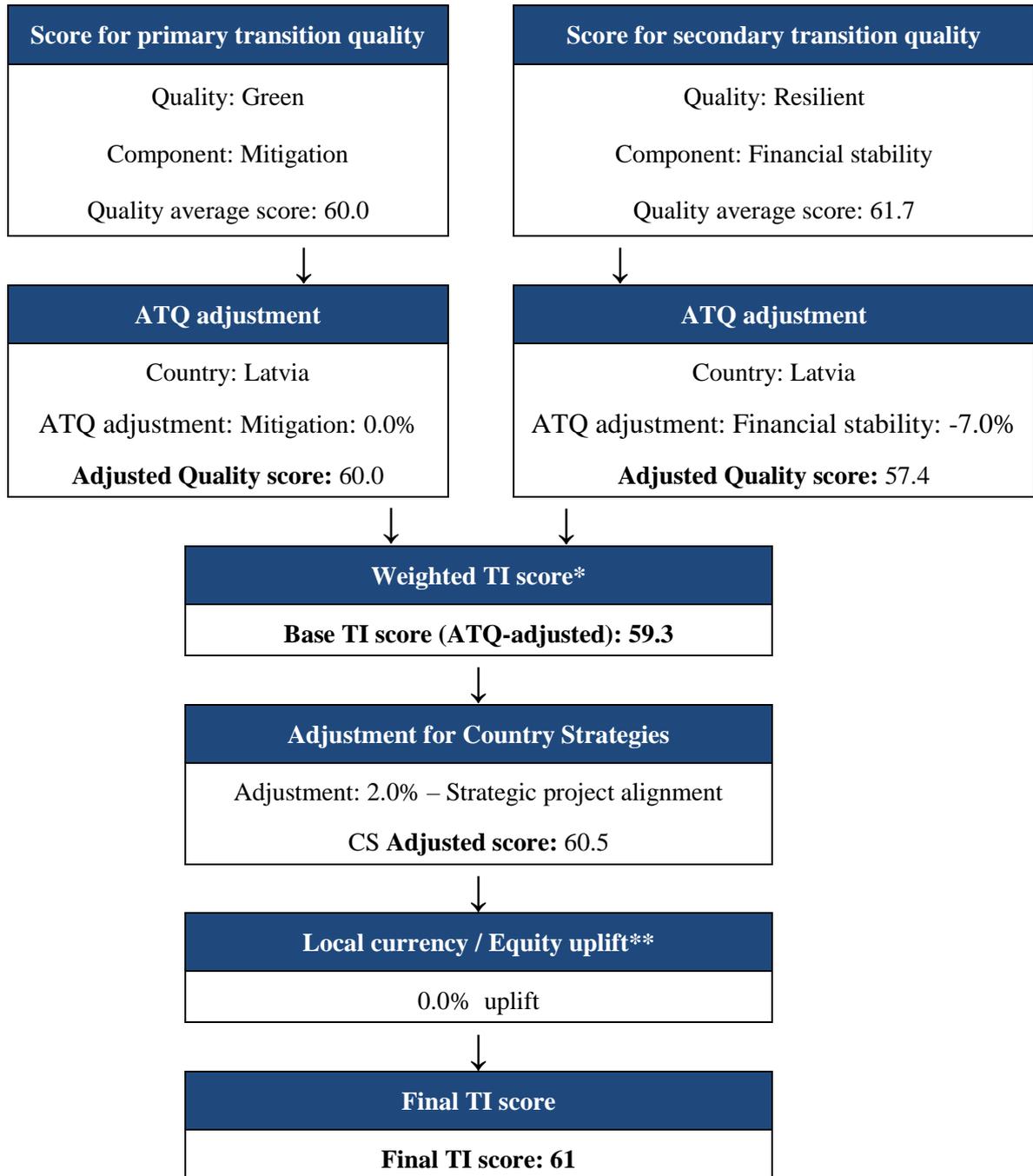
## **6.3 OTHER ISSUES: PROCUREMENT**

The contracts to be financed from the proceeds of the Bank operation will be below EUR 250,000 for goods and services and EUR 7.5 million for works and supply and installation contracts. The Issuer may procure these contracts in accordance with national public procurement rules and regulations applicable to Latvenergo AS that are conducted through the national e-procurement system. This is in line with the requirements of para 3.10 of the Bank's PPR that deal with the circumstances for using alternative procurement procedures in accordance with national law. For more details please see Annex 6.

## ANNEXES TO OPERATION REPORT

ANNEX 1	Transition Impact Scoring Chart
ANNEX 2	Shareholding Structure
ANNEX 3	Historical Financials
ANNEX 4	Market Overview
ANNEX 5	Company Overview
ANNEX 6	Project Implementation

## ANNEX 1 – TRANSITION IMPACT SCORING CHART

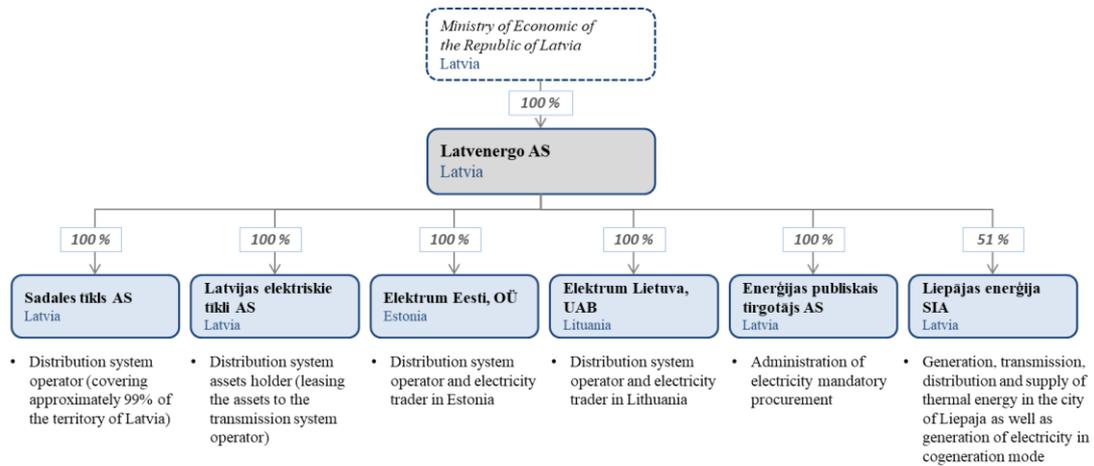


\*The Primary Quality score is weighted 75% for the calculation of the Base TI Score. The Secondary Quality is weighted 25%.

## ANNEX 2 – SHAREHOLDING STRUCTURE

The Company is 100% owned by the Government of Latvia. There is no domiciliation annex as the Company is a state-owned enterprise without offshore intermediary company.

The Company structure is illustrated below:



## ANNEX 3 – HISTORICAL FINANCIALS

[REDACTED]

## ANNEX 4 – MARKET OVERVIEW

### 4.1. Energy Market in Latvia

#### Regulatory Framework

The Latvian power market has been officially liberalised since July 2007 under the EU Third Energy Package, with no restrictions for new entrants in electricity generation and supply or for electricity consumers who can freely change their suppliers. Since 1 November 2012 all commercial energy consumers (representing 75% of electricity consumption) could choose their own supplier. Households, representing the remaining 25% of electricity consumers, were given this option as of 1 January 2015. As of December 2018, 111 merchants engaging in electricity trade and production have been authorized by the Regulator to provide public services, of which 106 merchants or 95% are active.

Latvia is an integral part of the European Union's internal electricity market, which operates in accordance with the principles of EU policy and norms of law acts. The integration of the Latvian electricity market into the EU market began in 2009 when the Baltic Energy Market Interconnection Plan (BEMIP) was approved. In 2018, the Regulator continued to implement the EU Network Code and Guidelines to create a single, coordinated and compliant internal electricity market. The network code defines the requirements for market operation, system operation and network connection. In 2018, several regulatory acts were adopted to ensure the integration of the electricity market, including single day-ahead and intraday EU-wide market coupling.

The Latvian electricity market at the wholesale level is directly integrated with the Baltic States and the Nordic countries, whereas the retail market is organized at the national level. Wholesale transactions are carried out between electricity traders and producers. All trading transactions take place mainly on the Nordpool electricity exchange or, in rare cases, in the form of fixed deliveries. In the retail market, the transactions by the market participants include sales of electricity between the electricity user and trader according to a mutual electricity trading agreement. Transactions carried out in the retail market provide electricity both to legal entities and households. By concluding an agreement, the electricity user purchases electricity from the trader whose proposed price and offered services are the most favourable.

#### Related Stakeholder

- The Ministry of Economics of the Republic of Latvia is the competent authority with regards to the implementation and drafting energy supply related laws, implementation of the investment policy in the energy sector and developing a renewable energy sector in Latvia.
- The Public Utilities Commission (PUC) is the Latvian national regulator (the “Regulator”). The Regulator was established and operates according to the Law on Regulators of Public Utilities. The Regulator regulates the provision of public utilities as a commercial activity in the following sectors: energy (electricity, natural gas and thermal energy), electronic communications, postal services, municipal waste management and water management.
- The state-owned company Latvenergo dominates in the field of electricity supply in Latvia, controlling more than 87% of installed capacity for the generation of electricity

in Latvia. In February 2014, Latvenergo established a subsidiary company Enerģijas publiskais tirgotājs and from April 1, 2014, the subsidiary company provides functions of the public trader. In accordance with the amendments to the Electricity Market Law, the public trader has the obligation to buy electricity from cogeneration power plants, renewable power plants and pay a guaranteed fee for the installed capacity to plants that have obtained the right to sell the produced electricity within the mandatory procurement.

- The functions of the electricity transmission system operator (TSO) are carried out by the independent system operator Augstsprieguma tīkls (AST). In 2012, AST was unbundled from Latvenergo and from January 30, 2013 Augstsprieguma tīkls rents the network assets from Latvijas elektriskie tīkli – the subsidiary company of Latvenergo which was established as the transmission system owner. It is noted that the transmission network is owned and maintained by Latvenergo but leased to AST for operation. However, the ownership of the transmission network will be transferred from Latvenergo to AST by July 2020 according to the Latvian government's decision.
- The dominant electricity DSO Sadales tīkls launched its operations as a separate entity within the holding company Latvenergo on July 1, 2007. Sadales tīkls is unbundled from the vertically integrated undertaking's production and supply affiliates. On October 1, 2011, Latvenergo invested all distribution network assets previously owned by Latvenergo in Sadales tīkls. The Electricity Market Law obliges the TSO and DSOs to publish separate balance sheets. Regarding the setting of rules on the compilation of unbundled accounts, the Regulator approves cost allocation methodologies and implements the right to ensure a compliance audit that is conducted by an independent auditor.

Since 18 June 2012, wholesale trading on the Latvian Electricity Exchange has been administered by Nord Pool, an operator of the Nordic and Baltic electricity exchanges. Nord Pool is Europe's leading power market and offers trading, clearing, settlement and associated services in both day-ahead and intraday markets across nine European countries. Nord Pool is owned by the Nordic transmission system operators Statnett SF, Svenska kraftnät, Fingrid Oy, Energinet.dk and the Baltic transmission system operators Elering, Litgrid and Augstsprieguma tīkls. Its retail market is competitive with approximately 30 retailers including other big regional players like Ignitis, the Lithuanian state-owned utility company (previously Lietuvos Energija), and Eesti Energia, the Estonian state-owned utility company.

### Electricity Demand and Supply Balance

Latvia's annual generation is significantly volatile to rainfalls as it relies on a hydro as a major source of electricity generation. For example, in 2018 when it was unusually dry year, the electricity generation from hydro amounted to 2,432 GWh decreased by 75% from 4,246 GWh in 2017. Consequently, Latvia turned to a net importer in 2018 from a net exporter in 2017 and this trend continued in 2019. The country usually imports from Estonia in the time of shortfall and exports to Lithuania in the time of surplus. In another side, thermal power generates more when hydro generates less and vice versa.

Unit: TWh	2017	2018	2019
Electricity production (net)	7.35	6.50	6.18
Trading balance of the system (-Imports / + Exports)	0.06	- 0.90	- 1.1
Total demand for electricity in Latvia	7.29	7.40	7.28
Percentage of import out of total demand	n/a (net exporter)	12%	15%

Source: AST

### Electricity Generation Volume

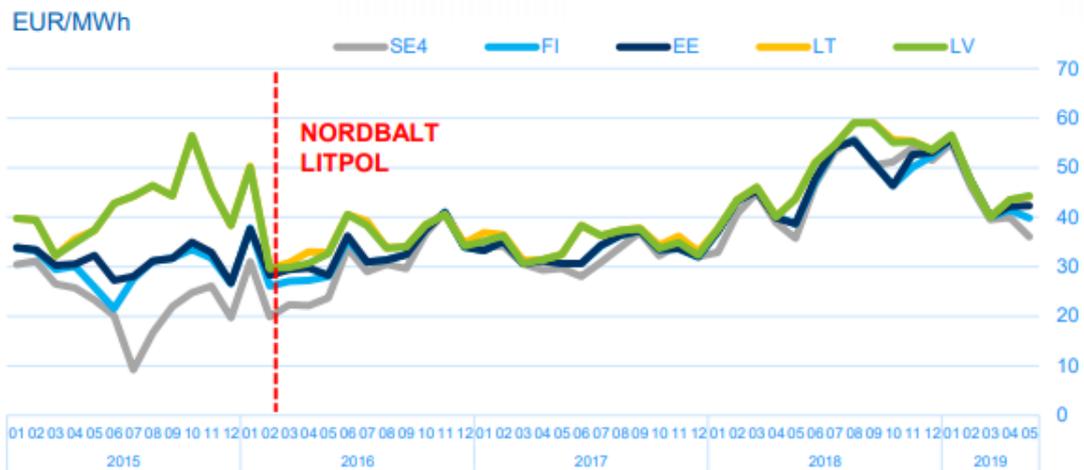
Generation type	Electricity generation [MWh, 2019]	Share %	Electricity Capacity [MW]	Share %
Daugava Hydro	2,036,063	33%	1,536	50%
Thermal	2,822,835	46%	1,239	40%
Wind	152,489	2%	78	3%
Cogeneration	383,821	6%	61	2%
Biomass	399,627	6%	97	3%
Biogas	322,780	5%	61	2%
Small Hydro	59,829	1%	29	1%
Solar	1,534	0%	2	0%
<b>Total</b>	<b>6,178,978</b>		<b>3,103</b>	

Source: AS Augstsprieguma tīkls (AST), Central Statistical Bureau of Latvia

### Competition

State-owned Latvenergo still has the largest electricity generation capacity in the Latvia contributing around 89% of the total capacity in Latvia. Besides Latvenergo, there are 32 suppliers of electricity in Latvia and with some offering natural gas as well. The retail market share of other traders besides Latvenergo has increased from 3.05% in 2018. Latvenergo is still the dominant electricity trader in both the household and the corporate user sector, but its market share continues to decline, which suggests that the electricity market has been liberalized.

Since 2016, prices in Baltics are mainly determined by the Nordic market after the commissioning of NordBalt and LitPol. Restriction on interconnection capacity between Estonia and Latvia, and Lithuania is the major obstacle to a fully unified Baltic price area.



Graph: Nord Pool Spot Price in Baltics

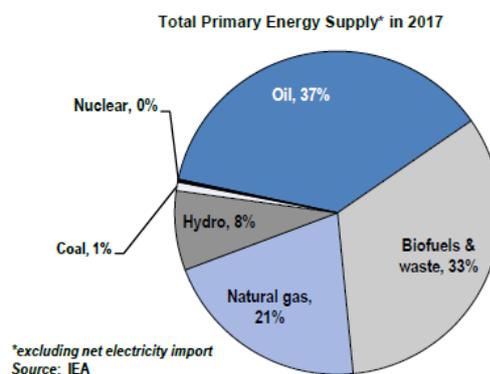
### Primary Energy Resources

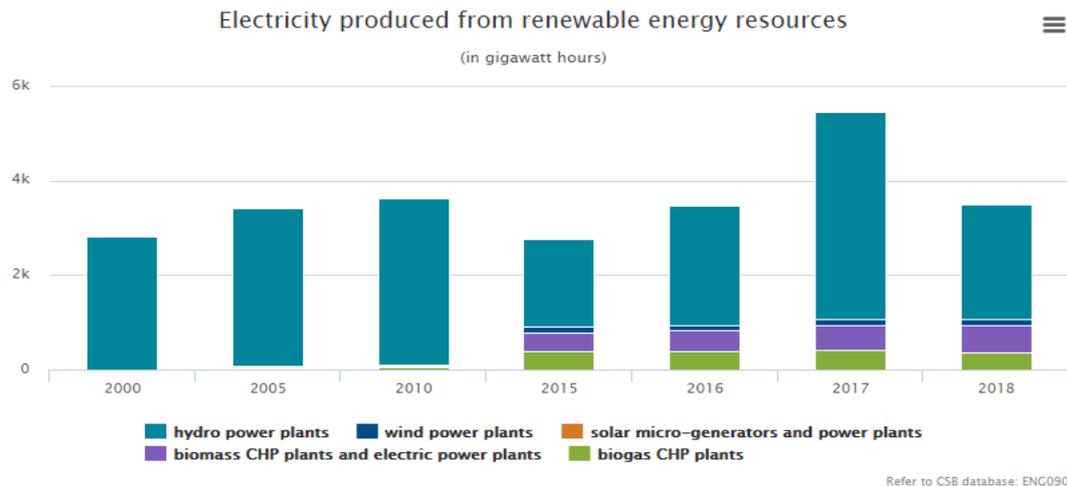
Although Latvia has a large stock of non-fossil energy resources, the country's energy balance still relies heavily on imported fossil energy resources. The total consumption of primary energy resources in Latvia in 2017 was 4.73 million tonnes of oil equivalent (Mtoe) and self-sufficiency standing at 55%. All of the country's oil, gas and coal needs are imported. In the total consumption of primary energy sources, consumption of different local fuel woods accounted for 1.57 Mtoe, second only to oil while the electricity generated in hydropower stations and wind power stations constituted 0.39 mtoe.

Natural gas was the main resource for generating heat energy and electricity. The largest consumers of natural gas are CHPs owned by Latvenergo (Riga CHP1 and Riga CHP2) and district heating companies, industries, and other consumers. The natural gas market became fully liberalized as of April 2017, with transition measures in place up until 2019. Nevertheless, the natural gas market is dominated by Latvijas Gāze AS, which owns and provides gas transmission, distribution, storage and sales of natural gas. The next major change in the gas supply market is the development of a united gas market for Baltic countries – Latvia, Lithuania, Estonia and also Finland—slated for 2020.

### Renewable and Tariff

In 2018, 3,499GWh of electricity in Latvia were produced from RES accounting for 25% of total generation, but compared to 2017, the volume has dropped by 35.9%. Major source of renewable energy is hydro while the small amount of electricity generated in hydro power plants in 2018, which may be explained by unusually dry and long summer leading to low water level and small water inflow in river Daugava, had the greatest downward effect on the amount of electricity produced.





Latvia has set a target to reach 40% of the energy produced from RER in the gross final energy consumption until 2020. In 2017, Latvia had the third highest share of RER in the energy consumption in the European Union and closed to its target. The government has set the next target of RE share in final energy consumption of at least 45% by 2030.

In Latvia, renewable electricity generation is stimulated through a complex support system based on a feed-in tariff, which was on hold until 01.01.2020. According to Latvian Government, new RES-E support scheme should be elaborated shortly. The Ministry of Economy proposed a set of solutions for abolishing the mandatory procurement component as of January 2022. The Ministry has also proposed necessary amendments to the Electricity Market Law to ensure greater control mechanisms of the existing scheme. On 1 January 2014, net-metering was introduced.

#### 4.2. Energy Market in the other Baltic regions

Historically, during the creation of a unified energy system within the Soviet Union, base load power plants were constructed in Estonia (shale power plants) and Lithuania (the Ignalina nuclear power plant (“INPP”) and the Elektrenai power plant). In Latvia, the Daugava hydropower plants were designed for peak, half-peak and emergency modes. The Baltic States have undertaken significant reforms in the energy sector since becoming members of the EU in 2004. The countries have liberalised the power sector by unbundling generation, transmission, distribution and retail. The electricity is traded over the wholesale market while Feed-in Tariff or Feed-in Premium schemes are available for the renewable generation operators.

##### *Inter-regional and Cross-regional integration*

As a consequence of the closure of the INPP and the implied pressure to reform the power market in the Baltics, the three Baltic states joined their efforts to set-up a common Baltic electricity market. They have also made progress towards the development of additional interconnections between the Baltic and Nordic market areas. The latest was the subsea 650MW Estlink2 cable connecting Finland and Estonia and was officially inaugurated in March 2014. Other links include a subsea cable connecting Sweden and Lithuania (700MW NordBalt Link) and an interconnection between Lithuania and Poland (500MW LitPol Link). The LitPol capacity will be increased to 1 GW by 2020. Such interconnections will practically integrate the Baltic power sector into the Nordpool market area (i) evening out the price differences between Baltics and NordPool, (ii) increasing the efficiency and depth of the two market areas and (iii) increasing the security of supply notably in the Baltic states. The European Commission has begun working with the three Baltic states to link the bloc to the EU, most likely through Poland.

### ***Estonia***

**Market structure:** The Estonian electricity system was built up as a part of the north-western common power system of the former Soviet Union. The state-owned Pohivork was unbundled in 2009 as a part of the EU 3rd energy package into generation operator Eesti Energia, transmission operator Elering and distributor Elektrilevi. The sector is regulated by an independent Competition Authority. All consumers may freely choose their distribution supplier.

Estonia is part of the common synchronised system together with Russia, Belarus, Latvia, and Lithuania. Estonia currently has connections with Russia, Latvia, and Finland (via 350MW Estlink and 650MW Estlink 2). In 2017, the Country has started a new project for the third interconnection programme to Latvia (Harku-Sindi) to be completed by 2020. In terms of the balance, the Country is a net electricity exporter, especially to Latvia via the existing two transmission lines. The percentage of net export volume out of the domestic generation was 24% in 2017.

**Generation:** The Country has significant oil-shale reserves. As a result, oil comprises about 70% of a total installed generating capacity in the country. In terms of generation volume, the conventional power took part of 86% of the domestic generation in 2017. Renewable generated 1,620 GWh of electricity which was 14% of the domestic generation (total 11,234 GWh). By producers, the state-owned Eesti Energia contributed 88% of the country's generation in 2017 as the entity owns and operates the oil share power plants.

**Renewable:** Estonia has a legally binding target of 25% share of renewable energy in final energy consumption by 2020 under the EU Directive. In 2017, renewable contributed 19% of the domestic consumption (8,500 GWh). By technology, biomass, biogas and waste-to-energy were the leading renewable energy sources in 2017, producing 908 MWh. This represents 56% of the total renewable energy generation in 2017. Wind accounted for 42% with generation of 670 GWh. Meanwhile, hydro generated only 29 GWh, which is significantly lower compared to other Baltic states which heavily depends on hydro. The renewable assets sell the electricity produced on the free market and receive a bonus on top of the market price. The transmission network operator (Elering) pays a premium of EUR 32/MWh for biomass and of EUR 53.7/MWh for all other renewable energy sources.

### ***Lithuania***

**Market structure:** Since Lithuania's accession to the EU on 1 May 2004, the EU rules and regulations have been adopted in the Lithuania. By the EU Third Energy Package and related regulations for the liberalisation of the electricity and gas markets, Member States were to choose between the following three options; full ownership unbundling, independent system operator (ISO), and independent transmission operator (ITO).

Lithuania has chosen to implement the full ownership unbundling model in the electricity and gas sectors with regards to Transmission System Operator (TSO). Distribution system operators remain under the same shareholders. The provisions of the Third Energy Package were transposed into the Law on Electricity of the Republic of Lithuania, the Law on Natural Gas of the Republic of Lithuania and the Law on LNG Terminal of the Republic of Lithuania in 2011-2012.

**Generation:** In the last few years Lithuania has stepped up efforts to diversify its energy supply and integrate its power market with the rest of Europe. In terms of technology, renewables including hydro accounted for 78% of domestic generation (24% of consumption) while the thermal only took part of the rest 22% in 2017. Out of renewables, wind was the major source of the domestic generation (35%) followed by hydro (30%) and biomass, biogas and waste (10%). Solar's generation was less than 2% of the domestic generation.

**Renewable:** Its primary renewables incentive for small-scale projects is a set of technology-specific feed-in tariffs limited to plants below 10kW. Projects over 10kW participate in tenders run by the National Control Commission for Prices and Energy. The bid ceilings are adjusted on a quarterly basis for each technology. The government intends to create a new model of support which will likely be based on a feed-in premium for large-scale projects, as per EU state-aid rules.

## ANNEX 5 – COMPANY OVERVIEW

Latvenergo Group is one of the largest power suppliers in the Baltics. It operates in electricity and thermal energy generation and trade, electricity distribution services and the lease of transmission system assets. The Group comprises the parent company Latvenergo AS with decisive influence 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, distribution, and lease of transmission system assets.

- **Generation and Trade:** Generation of electricity and thermal energy, electricity and natural gas trade in the Baltic states, and administration of the mandatory electricity procurement process.
- **Distribution:** The distribution service ensures the flow of electricity from the transmission network to consumers. Sadales tīkls AS is the country's largest distribution system operator and covers approximately 99% of the territory of Latvia. Distribution system service tariffs are approved by the Public Utilities Commission (PUC).
- **Lease of Transmission:** Leasing transmission system assets (330 kV and 110 kV electricity transmission lines, substations and distribution points) to the transmission system operator. The lease payment for the transmission assets is calculated in compliance with the methodology approved by the PUC.

### Operational outcome

Unit: GWh	2016	2017	2018	2019
Electricity generation	4,707	5,734	5,076	4,880
Thermal generation	2,675	2,612	2,274	1,842
Electricity supply	10,140	10,371	9,984	9,259
- retail	7,665	6,923	6,954	6,505
- wholesale	2,474	3,448	3,030	2,754

### Financials by segment

[REDACTED]

## ANNEX 6 – PROJECT IMPLEMENTATION

### Procurement classification – *Public sub-sovereign*

#### Project risk assessment:

[REDACTED] Latvenergo group procurement process complies with the legislation of the EU and the Republic of Latvia. The key principles of the group's procurement are based on the requirements of Directives 2014/24/EU and 2014/25/EU of the European Parliament and the Council and those of the Law on Procurement of Public Service Providers of the Republic of Latvia. The group is committed to the most efficient use of funds and, in selecting suppliers, ensures competition and fair and equal treatment and follows the principle of transparency of procurement. For more efficient procurement, the group has established a qualification system for suppliers of construction work and services, aimed at selecting and maintaining a register of qualified suppliers. The company has a register with more than 200 qualified companies able to carry out construction works according to the technical and commercial requirements.

Procurement activities of the distribution investments are managed by Latvenergo's subsidiary, Sadales tīkls AS which is responsible for the group's distribution business. The distribution investments are separated into broad categories of materials (e.g. cables, transformers..etc), and construction works. In regards to construction works, the company prepares its own technical design, tender, and contract for implementation.

By applying PPAD's Procurement Capacity toolkit, the client's risk on procurement has been assessed as Low. All categories i.e. legal framework, organisation of procurement function, support/control systems, staffing, record keeping, procurement planning, procurement cycle, general assessment of the client, and project risk have been assessed.

Contracts risk assessment "Low"

Three (3) categories of low- valued supply and installation contracts are envisaged; (1) Conversion of Overhead Power Lines to Underground Cables, (2) Automation of medium-voltage power supply network, and (3) Reconstruction of Low- and Medium Voltage Overhead Power Lines.

#### Project implementation arrangements:

Latvenergo's subsidiary, Sadales tīkls AS will coordinate all procurement activities under the project. In addition, the Company has their own well-experienced supervisors who will monitor the contracts implementation phase.

#### Procurement arrangements:

The contracts to be financed from the proceeds of the Bank operation will be below EUR 250,000 for goods and services and EUR 7.5 million for works and supply and installation contracts. The contracts allocated for finance meet the requirements of para 3.10 of the Bank's PPR which states that alternative procurement procedures in accordance with national law may be the most economic and efficient method in the case of small contracts value; geographically scattered works; goods and works available locally at prices less than the international market; or when the nature and scope of contracts are unlikely to attract foreign competition; provided that the procedures applied are acceptable to the Bank. The Company will procure the contracts by using the national e-procurement system, which is based on the national public procurement rules and regulations applicable to Latvenergo.

#### Procurement Plan

[REDACTED]