



Unified registration number 40003286750

ANNUAL REPORT

**for the year 1 October 2022
through 30 September 2023**

**prepared in accordance with the Law of the Republic of Latvia on Annual Reports and Consolidated
Annual Reports
(28th financial year)**

together with independent auditors' report*

* This version of financial statements is a translation from the original, which was prepared in the Latvian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of financial statements takes precedence over this translation.

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General information

Name of the company	RĪGAS SILTUMS
Legal status of the company	Joint stock company
Unified registration number, place and date of registration	Registered with the Republic of Latvia Enterprise Register on 14 March 1996, re-registered with the Commercial Register on 8 May 2004 Reg. No 40003286750
Registered office and postal address	Cēsu iela 3A Rīga, LV-1012, Latvia
Shareholders	Rīga Municipality (49%) Reg. No 90000064250 Rātslaukums 1 Rīga, LV-1050, Latvia Republic of Latvia Ministry of the Economy (holder of the shares) (48.995%) Reg. No 90000086008 Brīvības iela 55 Rīga, LV-1519, Latvia SIA Enerģijas Risinājumi.RIX (2%) Reg. No 40003718848 Vietalvas 5 Rīga, LV-1009, Latvia AS Latvenergo (0.005%) Reg. No 40003032949 Pulkveža Brieža iela 12 Rīga, LV-1230, Latvia
Subsidiary	SIA Rīgas BioEnerģija Reg. No 40103857024 Address: Meirānu iela 10, Rīga, LV-1073, Latvia Equity interest: 100%

Board Members		
From the beginning of the financial year	Ilvars Pētersons Raivis Elliņš Uģis Osis	Chairman of the Board Board Member Board Member
From 3 October 2022	Ilvars Pētersons Raivis Elliņš Uģis Osis Mārcis Kauliņš Vineta Kutkēviča	Chairman of the Board Board Member Board Member Board Member Board Member
Council Members		
From the beginning of the financial year	Jevgenijs Belezjaks Raivis Kronbergs Matīss Paegle Gatis Sniedziņš	Deputy Chairman of the Council Council Member Council Member Council Member
From 25 November 2022	Jevgenijs Belezjaks Gatis Sniedziņš Matīss Paegle Raivis Kronbergs	Chairman of the Council Deputy Chairman of the Council Council Member Council Member
From 11 December 2023	Jevgenijs Belezjaks Gatis Sniedziņš Matīss Paegle Mārtiņš Lazdovskis Artūrs Veics	Council Member Council Member Council Member Council Member Council Member
From 15 December 2023	Jevgenijs Belezjaks Gatis Sniedziņš Matīss Paegle Mārtiņš Lazdovskis Artūrs Veics	Chairman of the Council Deputy Chairman of the Council Council Member Council Member Council Member
Financial year	1 October 2022 – 30 September 2023	
Previous financial year	1 October 2021 – 30 September 2022	
Independent auditors and responsible certified auditor	SIA ERNST & YOUNG BALTIC License No 17 Responsible Certified Auditor: Diāna Krišjāne Latvian Certified Auditor Certificate No 124	

Management report

The joint stock company RĪGAS SILTUMS (hereinafter - the Company or RS) was established in 1996. The Company is the largest district heating company in Latvia and the Baltic countries, which is engaged in the generation, transmission, distribution and sale of heat energy, the generation of electricity, the maintenance of heating networks and internal utilities systems of buildings.

RS operations in the reporting year

RS operations in the year ended 30 September 2023 were significantly affected by the sharp increase in energy prices in 2022, triggered by Russia's full-scale invasion of Ukraine and the related sanctions. This led to a multi-fold increase in fuel and purchased heat prices, energy savings and more economical use of heat. In total, in the year under review ended 30 September 2023, the amount of heat put to beneficial use amounted to 2 705 thousand MWh. This was by 12% less than in the previous reporting year and the lowest heat consumption in the last 9 years.

RS turnover for the year ended 30 September 2023 was EUR 442 million (2021/2022: EUR 216 million), an increase of 104% compared to the previous year which was due to the increase in the tariff for the heat supply service.

In the reporting year, RS used the authorization granted by the Public Utilities Commission (hereinafter the PUC) to adjust the tariff for heat supply services in case of price changes in fuel, purchased heat and sold electricity. In the reporting year, the following tariffs for heat supply were in force: on 1 October 2022 – 85.45 EUR/MWh, from 2 October 2022 to 27 November 2022 – 170.59 EUR/MWh, from 28 November 2022 to 31 March – 183.86 EUR/MWh, from 1 April 2023 to 14 May 2023 – 165.32 EUR/MWh, from 15 May 2023 to 14 August 2023 – 91.26 EUR/MWh and from 15 August 2023 to 30 September 2023 – 90.75 EUR/MWh. The average heat supply tariff for the reporting year was 170.34 EUR/MWh (2021/2022: 68.58 EUR/MWh).

The major costs in RS heat tariff are fuel and purchased heat prices, so the tariff mainly depends on the fuel - natural gas and biofuels (wood chips and pellets) - as well as the purchased heat price. In the summer of 2022, when there was a risk of natural gas shortage, RS purchased natural gas for the whole season. The average price of natural gas for RS in the reporting year 2022/2023 was by 490% higher than in the previous year, the average price of wood chips increased by 49% and the average price of purchased heat by 148%.

In the reporting year 2022/2023, RS operated 44 heat sources: 5 heating plants and 39 medium and small boiler houses with installed heat capacities from 0.042 to 445.1 MW. The share of fuels used by RS in the financial year 2022/2023 was as follows: 584 596 MWh of heat energy (59%) were generated using wood chips (2021/2022: 570 153 MWh (52%)), 401 471 MWh (41%) - using gas (2021/2022: 532 836 MWh (48%)). RS provides 32% of the total amount of heat delivered to the district heating network of Riga, while the remaining 68% of the required heat was purchased from other producers (44% of the purchased heat was generated using natural gas, 24% - using wood chips). Based on contracts signed with heat producers, RS made purchases on a weekly basis, following the economic gradualism defined in the Energy Law.

Heating networks represent a key element of district heating. Safety of district heating and continuity of heat supply as well as the proportion of transmission heat losses are directly dependent on the technical condition of heating networks and their elements. In the reporting year 2022/2023, RS's heating networks constituted 764 km, of which 490 km or 64% had been reconstructed or newly constructed and 274 km or 36% still to be reconstructed.

In the reporting year 2022/2023, 13.13 km of heating networks were replaced and constructed (2021/2022: 12.64 km), including 2.9 km of new heating networks (2021/2022: 3.4 km) constructed for acquiring new customers.

The number of heat consumers increases every year. During the reporting year 2022/2023, 56 new buildings (2021/2022: 69) started using heat energy, with a total expected heat load of 23 MW (2021/2022: 27.1 MW). RS continues to develop a 4th generation, i.e. low-temperature, district heating system, where technically feasible.

It is important to note that after commissioning of two new biofuel boiler houses at the Imanta and the Daugavgrīva heating plants in the reporting year 2021/2022 and commissioning of two biofuel boiler houses at Bauskas iela 207A and Nautrēnu iela 24 in the reporting year 2022/2023, the share of wood chips in the company's fuel mix for 2022/2023 increased from 33% to 59%.

The Company generated electricity in cogeneration at six heat sources. In the financial year 2022/2023, 26 thousand MWh of electricity were generated in cogeneration, down 11 thousand MWh compared to the previous financial year. The sale of electricity brought EUR 2.8 million in revenue, which formed 0.6% of total revenue earned by RS.

Management report (cont'd)

As at 30 September 2023, RS assets were EUR 258 million, including non-current assets of EUR 232 million (90%) and current assets of EUR 26 million (10%). The most significant changes in assets compared to a year ago related to investments in property, plant and equipment, including the start of construction work on the development of heating networks for EUR 15.4 million and the development of production facilities for EUR 9.9 million. The current assets, on the other hand, were significantly lower as natural gas was purchased at the end of the previous reporting year on a prepayment basis for the entire heating season, with a balance of EUR 81 million as at 30 September 2022 and EUR 10 million at the end of the reporting year 2022/2023. In the summer of 2023, a new contract was concluded for the purchase of natural gas for the heating season 2023/2024 at a fixed price and a payment based on actual consumption. The purchase of natural gas with prepayment in the summer of 2022 necessitated an additional short-term borrowing, so that borrowings from credit institutions as at 30 September 2023 were EUR 55 million or by 46% lower than in the previous year.

Due to the need to purchase fuel reserves before the 2022/2023 heating season RS did not meet certain financial covenants provided in the loan agreements already agreed on with the banks to be deferred during the reporting year 2022/2023. As at 30 September 2023 and at the time of signing this report, all the said financial covenants were met.

In summer 2023, RS signed a ten-year loan agreement for EUR 20 million with the Nordic Investment Bank for the financing of investment in property, plant and equipment. The respective amount was received after the end of the reporting year.

Given the significant fluctuations in fuel and purchased heat prices compared to those in the tariff, at the end of the reporting year RS recognized deferred income from unexpected revenues (future tariff adjustments) of EUR 22.4 million, reducing the heat supply service tariff by EUR 3.18/MWh for two years starting from 1 October 2023, when the tariff approved by the PUC was EUR 87.57/MWh.

The result for the reporting year 2022/2023 was a profit of EUR 1.8 million, up 15% from the previous year. In the year ended 30 September 2023, the average number of RS employees was 675 (2021/2022: 678).

In the reporting year, RS focused on assessing and improving the efficiency of its internal processes that is to continue in the reporting year 2023/2024 as well.

In the reporting year 2022/2023, RS again participated in the "Sustainability Index" survey organized by the Institute for Corporate Sustainability and Responsibility and repeatedly received a Platinum award thus demonstrating its commitment to a long-term operational policy. The award is the highest recognition of the Company sustainability in line with the requirements in all areas of corporate social responsibility.

RS with a value of EUR 180.99 million was ranked 35th in Latvia's top 101 most valuable enterprises 2023 as recognized by Nasdaq Rīga stock exchange and investment company AS Prudentia.

Taking into account the importance of environmental protection worldwide and contributing to the achievement of Latvia's national energy and climate policy goals, as well as supporting the European Green Deal, RS continues investing in environmentally friendly projects. In order to promote energy literacy in society and active implementation of energy efficiency measures, RS carried out several information campaigns, embracing a wide audience. In view of the role of awareness-growing concerning sustainability, a separate sustainability function was established in RS structure at the beginning of the reporting year 2023/2024.

RS subsidiary

RS is the sole shareholder of SIA Rīgas BioEnergija, engaged in the generation and sale of heat energy to the operator of the district heating system of Riga, i.d. the parent company. As at 30 September 2023, the subscribed and fully paid share capital of SIA Rīgas BioEnergija was EUR 12.998 million and consisted on 129 980 ordinary shares, each having the par value of EUR 100. As at 30 September 2023, the assets of SIA Rīgas BioEnergija were EUR 32.1 million, including non-current assets of EUR 26.5 million (82%) and current assets of EUR 5.7 million (18%). The turnover for the reporting year 2022/2023 was EUR 21.6 million. The result of SIA Rīgas BioEnergija for the reporting year 2022/2023 was a profit of EUR 7 million.

Research and development

In order to contribute to the sustainability of RS and to successfully continue progress towards climate neutrality, the use of fossil fuels for heat and hot water production needs to be reduced or completely replaced. RS develops a project concept for the implementation of green energy generation, producing green hydrogen (H₂) and other chemical compounds such as e-

Management report (cont'd)

Methane. This would open up a wide range of possibilities for RS to use residual heat from generation, capture CO₂ emissions from biofuel boilers and replace fossil natural gas with green methane produced from renewable energy sources.

Another area of development is participation in the electricity market, offering capacity reservation, balancing and regulation services. RS has concluded an Ancillary Service Agreement with AS "Augstsprieguma tīkls" to offer regulation services within the balancing market. Several research projects on the use of heat energy storage batteries will also be carried out.

In the reporting year 2023/2024, the updating and study of the project for the connection of the right and left banks of the Daugava River in Riga will be started, along with evaluating other alternative solutions and resulting in an assessment of the investment volumes and potential benefits of the connection. The planned projects will contribute to the main objective of RS - further optimization of the heat supply system by maximizing the utilization of the key cogeneration heat sources in Riga that operate at the highest efficiency, thus lowering the overall heat supply costs and ultimately minimizing the heat tariffs for end consumers.

Financial risk management

RS principal financial instruments are loans from credit institutions, cash, trade and other receivables, trade and other payables, which arise directly from its operations. The main financial risks arising from RS financial instruments are interest rate risk, credit risk, liquidity risk and price risk.

Borrowings bearing interest at a floating rate cause a risk of considerable growth of finance costs in situations when interest rates increase. RS is exposed to the risk of changes in market interest rates on its non-current liabilities bearing a floating rate. All RS borrowings are at floating interest rates. The risk of changes in interest rates is managed by regularly assessing the market interest rates available on borrowings as well as considering possibilities of using interest rate risk hedging instruments.

RS is exposed to credit risk through its non-current financial assets, trade and other receivables, and cash. RS manages its credit risk by continuously monitoring receivable balances to ensure that its exposure to bad debts is minimized. RS has a significant concentration of credit risk with a single customer having similar characteristics - SIA Rīgas namu pārvaldnieks, which accounted for 58% of balances due for heat energy as at 30 September 2023 (30 September 2022: 55%). Trade receivables are stated at their recoverable amount. The RS counterparties in cash transactions are local financial institutions with an adequate credit history.

RS manages its liquidity risk by maintaining an adequate level of cash or by arranging an adequate amount of committed credit facilities with banks. As at 30 September 2023, RS current liabilities exceeded its current assets by EUR 43 142 thousand (30 September 2022: EUR 25 756 thousand). RS intends to settle these liabilities from operating cash flows and by using bank loans granted during the reporting period but unused at the end of the reporting year as well as those granted after the balance sheet date.

Price risk is the risk that the fair values and future cash flows of financial instruments will fluctuate for reasons other than changes associated with interest rate risk or currency risk. Most significant price risk is related to the purchase of heat and fuel. As a result of Russia's war in Ukraine and the related sanctions, in 2022 Europe experienced severe energy crisis, with rising prices and fuel shortages. To hedge price risk, RS has a fixed-price contract for natural gas for the entire 2023/2024 winter season as well as executed contracts for purchasing wood chips.

Further development

The main operational objectives of RS for the reporting year 2023/2024 include the introduction of innovative technologies and modernization of heat generation facilities using the best available technical solutions, ensuring competitiveness of the heat tariff, expanding the share of the heat market in the administrative territory of Riga, continuing customer education and promoting the availability of energy efficiency services. At the same time, RS will further develop green energy generation.

In order to realize the set objectives, RS main tasks are to ensure the heat supply to the existing consumers, new heat load capacities based on the issued technical regulations as well as the planned heat load capacities of the prospective development areas, to ensure the utilization of the existing heat sources, to guarantee the security of heat supply and to ensure economically viable costs of heat supply. In the reporting year 2023/2024, RS will continue to invest in development, focusing on the development/implementation of zero-emission projects, including the development of heat pumps, electric boilers and biofuel boiler houses. In parallel, RS will research a project on hydrogen and synthesized methane as well as a district heating project and the development of a cooling project. In the reporting year 2023/2024, RS plans to start participating in the electricity market by offering capacity reservation, balancing and regulation services.

Management report (cont'd)

RS considers options for using residual heat, received from both producers and consumers. The residual heat market will start operating in a pilot mode in January 2024, which will allow CHPP-2, the generating facility of Latvenergo AS, to transfer unused heat into RS heat supply network, in contrast to releasing heat into the atmosphere, as has been the case so far.

During the reporting year 2022/2023, RS worked on the development of its medium-term strategy, which is expected to be approved in Q1 2024.

Events after balance sheet date

In November 2023, RS received a EUR 20 million loan from the Nordic Investment Bank under the loan agreement signed on 5 July 2023.

On 29 November 2023, RS entered into a long-term loan agreement with Swedbank AS for EUR 9 million for a period of 5 years and on 20 December 2023 RS entered into a short-term credit line agreement with Swedbank AS for EUR 14 million for a period of 12 months.

As of the last day of the reporting year until the date of signing these financial statements there have been no other events requiring adjustment of or disclosure in the financial statements or notes thereto.

Statement of management responsibility

RS financial statements for the year ended 30 September 2023 have been prepared in accordance with the existing statutory requirements and give a true and fair view of its financial performance, financial position and cash flows. The information provided in the management report is true.

Suggestions regarding profit distribution

In accordance with RS dividend policy, dividends are payable up to 50% of the profit for the year. The use of profits and the number of dividends are decided by the RS shareholders' meeting.

*signature _____ Ilvars Pētersons Chairman of the Board	* signature _____ Uģis Osis Board Member	* signature _____ Vineta Kutkēviča Board Member
* signature _____ Raivis Elliņš Board Member	* signature _____ Mārcis Kauliņš Board Member	

19 January 2024

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Statement of profit or loss

	Notes	01/10/2022- 30/09/2023 EUR	01/10/2021- 30/09/2022 EUR
Net turnover	3	441 999 994	216 309 106
Cost of sales	4	(433 359 144)	(215 455 113)
Gross profit		8 640 850	853 993
Administrative expense	5	(5 873 439)	(4 777 246)
Other operating income	6	3 018 768	6 439 152
Other operating expense	7	(547 972)	(415 552)
Interest and similar income		14 185	21 170
Interest and similar expense	15	(3 258 647)	(551 586)
Profit before tax		1 993 745	1 569 931
Income tax expense	8	(154 017)	-
Net profit for the reporting year		1 839 728	1 569 931

The accompanying notes on pages 14 to 34 form an integral part of these financial statements.

* signature	* signature	* signature
Ilvars Pētersons Chairman of the Board	Uģis Osis Board Member	Vineta Kutkēviča Board Member
* signature	* signature	* signature
Raivis Elliņš Board Member	Mārcis Kauliņš Board Member	Ilze Caune Chief Accountant

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Balance sheet

		ASSETS		
		Notes	30/09/2023	30/09/2022
			EUR	EUR
NON-CURRENT ASSETS				
Intangible assets				
	Licenses, trademarks and similar rights	10	50 883	82 665
	TOTAL		50 883	82 665
Property, plant and equipment				
	Land plots, buildings and engineering constructions	10	159 106 374	150 003 298
	Equipment and machinery	10	27 889 545	30 758 080
	Other fixtures and fittings, tools and equipment	10	5 977 672	6 431 717
	Construction in progress	10	25 318 505	17 133 533
	TOTAL		218 292 096	204 326 628
Non-current financial assets				
	Investments in related companies	11	13 852 000	13 852 000
	TOTAL		13 852 000	13 852 000
TOTAL NON-CURRENT ASSETS			232 194 979	218 261 293
CURRENT ASSETS				
Inventories				
	Raw materials and consumables	12	13 189 570	84 562 824
	Prepayments for inventories		9 760	141 079
	TOTAL		13 199 330	84 703 903
Receivables				
	Trade receivables	13	11 129 144	9 827 771
	Other receivables	14	116 770	4 234 829
	Prepaid expense		272 588	493 431
	TOTAL		11 518 502	14 556 031
Cash			979 423	1 414 620
TOTAL CURRENT ASSETS			25 697 255	100 674 554
TOTAL ASSETS			257 892 234	318 935 847

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Balance sheet

EQUITY AND LIABILITIES

	Notes	30/09/2023 EUR	30/09/2022 EUR
EQUITY			
Share capital	1	66 968 300	66 968 300
Reserves:			
Reserves assigned for development		67 524 042	66 739 076
Retained earnings:			
Profit for the reporting year		1 839 728	1 569 931
	TOTAL EQUITY	136 332 070	135 277 307
LIABILITIES			
Non-current liabilities			
Loans from credit institutions	15	29 500 000	43 833 333
Deferred income	19	23 220 053	13 394 696
	TOTAL	52 720 053	57 228 029
Current liabilities			
Loans from credit institutions	15	34 771 945	75 590 360
Prepayments received from customers		966 820	868 670
Trade payables	16	9 441 952	36 936 324
Payables to related companies	24	1 139 116	112 598
Taxes payable	18	1 228 781	1 112 231
Accrued liabilities	17	8 658 722	10 247 006
Deferred income	19	12 632 775	1 563 322
	TOTAL	68 840 111	126 430 511
	TOTAL LIABILITIES	121 560 164	183 658 540
TOTAL EQUITY AND LIABILITIES		257 892 234	318 935 847

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Statement of cash flows

	Notes	01/10/2022- 30/09/2023 EUR	01/10/2021- 30/09/2022 EUR
Cash flows to/from operating activities			
Profit before corporate income tax		1 993 745	1 569 931
Adjustments for:			
Depreciation of property, plant and equipment	4, 10	15 168 794	14 920 909
Amortization of intangible assets	4, 10	51 724	80 008
Other interest and similar income		(14 185)	(21 170)
Interest and similar expense		3 258 647	551 586
European Union grants received		(1 085 595)	(1 240 607)
Disposal of assets		(131 870)	(182 334)
Profit before adjustments for the effect of changes in current assets and current liabilities		19 241 260	15 678 323
Adjustments for:			
Decrease/(increase) in inventories		71 504 573	(82 159 679)
Decrease/(increase) in receivables		3 037 529	(6 956 062)
Decrease/(increase) in trade and other payables		(5 608 014)	27 523 549
Cash generated from operations		88 175 348	(45 913 869)
Interest paid		(3 016 329)	(588 647)
Corporate income tax paid		(154 017)	-
Net cash flows to/from operating activities		85 005 002	(46 502 516)
Cash flows to/from investing activities			
Purchase of property, plant and equipment and intangible assets		(29 174 869)	(20 511 530)
Proceeds from sale of property, plant and equipment and intangible assets		152 535	286 619
Interest received		14 185	21 170
Net cash flows to/from investing activities		(29 008 149)	(20 203 741)
Cash flows to/from financing activities			
Dividends paid		(784 965)	-
Proceeds from borrowings	15	20 438 612	76 590 360
Subsidies, grants, gifts or donations received	19	(495 337)	-
Repayment of borrowings	15	(75 590 360)	(16 000 000)
Net cash flows to/from financing activities		(56 432 050)	60 590 360
Net cash flow for the year		(435 197)	(6 115 897)
Cash and cash equivalents at the beginning of the reporting year		1 414 620	7 530 517
Cash and cash equivalents at the end of the reporting year		979 423	1 414 620

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Statement of changes in equity

	Share capital	Reserves assigned for development	Profit for the reporting year	Total
As at 30 September 2021	66 968 300	61 364 507	5 374 569	133 707 376
Transferred to reserves from retained earnings	-	5 374 569	(5 374 569)	-
Profit for the reporting year	-	-	1 569 931	1 569 931
As at 30 September 2022	66 968 300	66 739 076	1 569 931	135 277 307
Transferred to reserves from retained earnings	-	784 966	(784 966)	-
Dividends paid	-	-	(784 965)	(784 965)
Profit for the reporting year	-	-	1 839 728	1 839 728
As at 30 September 2023	66 968 300	67 524 042	1 839 728	136 332 070

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Notes to the financial statements

1. Corporate information

AS RĪGAS SILTUMS (hereinafter – the Company or RS) was established on 25 September 1995 as a joint stock company incorporated in the Republic of Latvia. RS was registered with the Republic of Latvia Enterprise Register on 14 March 1996 and re-registered with the Commercial Register on 8 May 2004.

As at 30 September 2023 and 2022, the 669 683 shares of RS (par value EUR 100 each) were allocated as follows:

	%	Number of shares	Par value
Rīga Municipality	49.000	328 144	32 814 400
Republic of Latvia	48.995	328 110	32 811 000
SIA Enerģijas Risinājumi.RIX	2.000	13 395	1 339 500
AS Latvenergo	0.005	34	3 400
Total	100	669 683	66 968 300

The RS Board Members are Ilvars Pētersons (Chairman of the Board), Raivis Elliņš (Board Member), Uģis Osis (Board Member), Mārcis Kauliņš (Board Member since 3 October 2022) and Vineta Kutkēviča (Board Member since 3 October 2022). The RS Council Members are Jevgenijs Belezjaks (Chairman of the Council; Deputy Chairman of the Council until 25 November 2022), Gatis Sniedziņš (Deputy Chairman of the Council; Council Member until 25 November 2022), Raivis Kronbergs (Council Member), Matīss Paegle (Council Member).

The Company auditor is the commercial firm of certified auditors SIA ERNST & YOUNG BALTIC Ltd and the responsible certified auditor is Diāna Krišjāne.

RS is the largest district heating company in Latvia and the Baltic countries and the main supplier of heat energy in Rīga, which is engaged in the generation, transmission, distribution and sale of heat energy, the cogeneration of heat and electricity at combined heat and power plants, and the maintenance of heating networks and internal utilities systems of buildings. Heat tariffs are calculated pursuant to Resolution No 1/7 on the Methodology for Calculating Tariffs of Heat Supply Services published by the Public Utilities Commission on 14 April 2010. Tariffs are set in a way that RS receiving payments from heat consumers generates economically justifiable revenue to cover energy production costs, wages and salaries, operating and administrative expense and to ensure the maintenance of non-current assets.

2. Summary of significant accounting policies

Form and content of financial statements

The financial statements of RS have been prepared in accordance with the Law of the Republic of Latvia on Annual Reports and Consolidated Annual Reports and the Accounting Law. These are the separate financial statements of RS, while the consolidated financial statements, including those of RS and its subsidiary SIA Rīgas BioEnerģija, are prepared separately.

The monetary unit used in the financial statements is the euro, the monetary unit of the European Union (hereinafter – EUR), which is the functional and presentation currency of RS.

The statement of profit or loss has been prepared according to the function of expense method. The statement of cash flows has been prepared under the indirect method. The Company qualifies as a large enterprise.

2. Summary of significant accounting policies (cont'd)

Accounting principles

The financial statements are prepared in accordance with the following principles:

- a) The going concern assumption that RS will continue as a going concern (see Note 25).
- b) Consistent valuation principles with those used in the prior year.
- c) Items are valued in accordance with the principle of prudence:
 - the financial statements reflect only the profit generated to the balance sheet date;
 - all expected risk amounts and current or prior year losses are taken into consideration, even if discovered within the period from the last day of the reporting year to the date of preparing these financial statements;
 - all amounts of impairment and depreciation are calculated and taken into consideration irrespective of whether the financial result was a profit or loss.
- d) Revenues and expenses for the reporting year are taken into consideration irrespective of the payment date or the date when the invoice was received or issued. Costs are matched with revenues for the reporting period.
- e) Assets and liabilities are valued separately.
- f) The opening balance agrees with the prior year closing balance.
- g) All items having a material impact on the evaluation or decision making by the users of the financial statements are presented, immaterial items are aggregated and their details are disclosed in the notes.
- h) Business transactions are recorded according to their substance and economic reality and not merely their legal form.

The accounting and measurement policies applied by RS are consistent with those of the previous reporting year.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at the balance sheet date, applying the currency rate set by the European Central Bank.

Gains or losses arising on these transactions and the translation of monetary assets and liabilities denominated in foreign currencies into EUR are recognized in the statement of profit or loss.

Property, plant and equipment

Property, plant and equipment acquired are stated at cost less accumulated depreciation and any impairment in value, and are depreciated on a straight-line basis over their entire useful life. Land is not depreciated.

Each part of an item of property, plant and equipment with a different useful life is depreciated separately. Depreciation is calculated starting with the following month after the asset is put into operation or engaged in commercial activity.

Depreciation is calculated using the following useful lives of property, plant and equipment as determined by the management:

	<u>Useful life of acquired assets (years)</u>
Buildings and engineering constructions	20
Heating networks	20 - 30
Equipment and machinery	5 - 20
Other fixtures and fittings, tools and equipment	5 - 20
Computers and office equipment	4

Property, plant and equipment with a value exceeding EUR 150 and an estimated useful life of more than one year are capitalized. Assets acquired below EUR 150 are expensed and/or recorded as low-value inventories.

Current repair and maintenance costs are charged directly to the statement of profit or loss in the period when incurred. Renewals and improvements extending the useful life of property, plant and equipment significantly are capitalized.

2. Summary of significant accounting policies (cont'd)

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the higher of an asset's net selling price and its value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the statement of profit or loss in the operating expense caption.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of profit or loss in the year the item is derecognized.

Construction in progress is stated at cost. This includes the cost of construction and other direct expense. Construction in progress is not depreciated as long as the respective assets are not completed and put into operation.

Intangible assets

Intangible assets are stated at cost, less accumulated amortization and any impairment in value. The cost includes expenditure that is directly attributable to the acquisition of intangible assets. The cost of software licenses includes the cost of acquiring and implementing each license.

Intangible assets are amortized over their estimated useful lives on a straight-line basis:

Licenses, trademarks and similar rights - over 4 years

The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Losses from impairment are recognized where the carrying value of intangible non-current assets exceeds their recoverable amount. The recoverable amount is the higher of an asset's net realizable value and its value in use.

Investments in related companies

A related company is a subsidiary of RS, i.e., with equity interest of more than 50%, another parent company's subsidiary, or a subsidiary's subsidiary. Investments in related companies are carried at cost less impairment losses.

Income from the investment is recognized only to the extent that RS receives distributions from accumulated profits of the investee arising after the date of acquisition.

If there is objective evidence that the carrying amount of investments in subsidiaries has decreased, the amount of the impairment loss is measured as the difference between the investment's carrying amount and its recoverable amount. The recoverable amount is the higher of an investment's fair value less costs to sell and its value in use. An impairment loss is reversed only if there has been a change in the estimates used to determine the impairment since the last impairment loss was recognized.

Losses from impairment are recognized in the statement of profit or loss.

2. Summary of significant accounting policies (cont'd)

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined on a weighted average cost basis. The cost of inventories includes all acquisition, processing and other costs incurred in bringing the asset to the respective location and condition. The net realizable value of inventories is determined on the basis of information about expected selling prices and selling costs and the physical condition of the inventories. When the net realizable value of inventories is lower than cost, allowances are made to reduce the value of inventories to their net realizable value.

Raw materials and consumables mainly comprise fuel and maintenance materials for heat sources and heating networks.

To account for raw materials and consumables the perpetual inventory method is used. This method requires the inventory accounts to record all movements of materials - receipts and usage - ensuring that at any point in the reporting period inventory balances can be identified according to their nomenclature.

Trade and other receivables

Trade and other receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. An allowance for impairment of receivables is established when there is objective evidence that RS will not be able to collect all amounts due according to the original terms of the receivables. The amount of the allowance is the difference between the carrying amount of the receivables and their recoverable amount. Allowances are charged to the statement of profit or loss.

Prepaid expense

Expense incurred before the balance sheet date, but relating to the next reporting periods, is recognized as prepaid expense and disclosed in the balance sheet under receivables. Expense recognized as prepaid expense is included in operating expense on an accrual basis, with the expense recognized in the period to which it relates.

Prepayments for goods to be delivered in future periods are recognized by RS as the advance paid.

Cash

Cash represents cash at bank in EUR.

Trade payables

Trade payables comprise liabilities to pay for goods or services received or supplied in accordance with supporting documents received.

Borrowings

Borrowings are recognized in the amount of funds received. Borrowing costs are taken to the statement of profit or loss when incurred.

Operating lease - RS as a lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments and advances made under operating leases (net of any incentives received from the lessor) are charged to the statement of profit or loss on a straight-line basis over the lease term.

Operating lease - RS as a lessor

Assets that are leased out under operating lease terms are recognized as property, plant and equipment at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis to write down each asset over its estimated useful life to its estimated residual value using rates set for similar assets of the Company. Income from operating leases including prepayments received from customers is recognized in the statement of profit or loss on a straight-line basis over the lease term.

2. Summary of significant accounting policies (cont'd)

Reserves

RS reserves represent retained earnings transferred to reserves.

Prepayments received from customers

Prepayments received from customers include payments received for services to be provided by RS in the future (periods subsequent to the financial statements).

Accrued liabilities

Accrued liabilities refer to vacation pay reserve and other expense which is attributable to the reporting year but billed after the year end.

The vacation pay reserve is computed by multiplying the average daily remuneration expense, for the last six months of the reporting year by the total number of vacation days earned but not taken as at the year end. The calculation of the average remuneration includes all forms of remuneration from which the employee vacation pay is computed.

Provisions

Provisions are recognized when RS has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Changes in provisions are recognized in the statement of profit or loss.

Environmental risks and related provisions

RS operates in an industry where there are business-related environmental risks, whose prevention may require financial investments. One such risk is the pollution of natural resources that may have occurred as a result of technologies used for RS past operations. In this context, RS identifies and assesses potential sources of contamination as a basis for determining the extent of contaminated soil. Provisions for remediation are recognized when it is known when remediation works are required, and the amount is based on the volume of contaminated soil and the market price of the related service.

Contingencies

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of RS.

The contingent asset is measured at the best estimate of the value of the resources to be received and is recorded as an off-balance sheet item the balance sheet.

A contingent liability is:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of RS;
- a present obligation that arises from past events but it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the amount of the obligation cannot be measured with sufficient reliability.

Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to RS and the revenue can be reliably measured, less value added tax. The following specific recognition criteria must also be met before revenue is recognized:

Sale of heat

Revenue from the sale of heat energy comprises revenue generated by RS from the supply of heat to heat consumers in Riga. Revenue is recognized for the supply of services based on existing contracts for a certain period. Revenue from the sale of heat energy is calculated by multiplying the quantity of supplied heat by the heat tariff set by the Public Utilities Commission (hereinafter – the PUC).

2. Summary of significant accounting policies (cont'd)

Sale of electricity

Electricity is generated in cogeneration simultaneously with heat. Revenue from the sale of electricity is calculated by multiplying the supplied electricity quantity by the price set per unit.

Sale of goods

Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

Rendering of services

The value of services rendered basically comprises revenue from the maintenance of internal systems of buildings. Revenue is recognized in the period when the services are rendered. Revenue from the maintenance of internal systems of buildings and the respective expense are recognized based on the amount of the respective services rendered.

Penalties and default interest

Penalties and default interest are recognized as revenue and taken to the statement of profit or loss when received.

Deferred income

Deferred income represents income transferred to the next reporting periods in respect of payments made by customers for the connection to heating networks upon their request. Income is recognized in the current reporting period over the agreed connection period.

Deferred income from unexpected revenues and accrued income from unexpected expenditure (tariff adjustments)

RS is authorized by the Board of the PUC to determine its own tariffs for heat supply services in case of changes in the prices of fuel, purchased heat and sold electricity, in accordance with the Methodology for Calculating Tariffs of Heat Supply Services. RS is obliged to include unexpected revenues in the calculation of the draft tariff and has the right to include unexpected expenditures that are spread over the period specified in the tariff methodology when calculating the tariff for heat supply services for the following period. In the event that unexpected revenue arises, it is recognized as deferred income reducing the net turnover (revenue from the sale of heat energy) for the reporting year in the period in which it arises. Deferred income is included in net turnover in the period in which the heat energy is invoiced according to the amount of heat supplied at the tariff reduced for the unexpected revenue.

If unexpected expenditures are incurred, they are recognized as accrued income, increasing the net turnover (revenue from the sale of heat energy) for the reporting year only if it is reasonably expected that the unexpected expenditures will be recovered through an approved tariff increase.

Sale of CO₂ allowances

See the revenue recognition principles in the section "Accounting for CO₂ emission allowances".

EU grants

Income from EU grants is recognized in the statement of profit or loss in the period to which the grants are attributable. Grants attributable to assets (property, plant and equipment) are accounted for as deferred income and taken to income on a systematic basis over the useful life of the relevant assets.

Grants attributable to revenue are included in the statement of profit or loss as other operating income in the same period as the related expenditure, provided all the conditions relating to entitlement to financial assistance are fulfilled.

2. Summary of significant accounting policies (cont'd)

Related parties

Related parties are legal entities and individuals which are related to the Company in accordance with the rules set out below.

- a) A person or a close member of that person's family is related to a reporting entity if that person:
 - i. has control or joint control over the reporting entity;
 - ii. has significant influence over the reporting entity; or
 - iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b) An entity is related to a reporting entity if any of the following conditions applies:
 - i. the entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
 - ii. one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
 - iii. both entities are joint ventures of the same third party;
 - iv. one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - v. the entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity;
 - vi. the entity is controlled or jointly controlled by a person identified in (a);
 - vii. a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity);
 - viii. the entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingencies at the balance sheet date and income and expense for the reporting period. Actual results may differ from these estimates. The effect of estimates is reflected when changes occur.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

Allowances for doubtful and bad receivables

RS management reviews the carrying amounts of receivables for their recoverability and, whenever necessary, establishes allowances for doubtful and bad receivables. Specific allowances for doubtful receivables are made in the reporting years ended 30 September 2023 and 2022 by evaluating each receivable separately.

Net realizable value of inventories

RS management reviews the net realizable value of inventories based on information available about expected selling prices and distribution costs, as well as assessing the physical condition of inventories during annual stock counts. Allowances for inventories are established when their net realizable value is lower than cost.

Useful lives of property, plant and equipment and intangible assets

Useful lives of property, plant and equipment are reviewed annually and changed, if necessary, to reflect the management's current view on their remaining lives in the light of technological change, prospective economic utilization and physical condition of the assets concerned.

Recoverable amount of property, plant and equipment

RS management reviews the carrying amounts of property, plant and equipment and assesses whether indications exist that the assets' recoverable amounts are lower than their carrying amounts. RS management calculates and recognizes impairment losses on assets based on estimates of their future utilization, alienation or sale. Taking into consideration the planned level of activities and the estimated market value of assets, the management believes that no significant adjustments to the values of property, plant and equipment were necessary as at 30 September 2023.

2. Summary of significant accounting policies (cont'd)

Corporate income tax

Current corporate income tax is recognized in the financial statements based on the management's calculations made in accordance with Latvian tax legislation.

Corporate income tax is calculated on distributed profits (20/80 of the net amount payable to shareholders). Corporate income tax on distributed profits is recognized at the time when the Company's shareholders make a decision on profit distribution.

The Company calculates and pays corporate income tax also on deemed profit distributions (20/80 of the taxable base), which include taxable items defined in the law, such as non-operating expense, accumulated doubtful receivables and loans to related parties meeting criteria specified in the Corporate Income Tax Law as well as other expense exceeding statutory deduction thresholds. Corporate income tax on deemed profit distributions is recognized in the statement of profit or loss in the year when it arises. Corporate income tax on distributed profits and deemed profit distributions is presented in the statement of profit or loss as income tax expense, specifying the reported tax amount in the notes to the financial statements.

Accounting for CO₂ emission allowances

RS receives emission allowances free of charge and transfers them to the Latvian Environment, Geology and Meteorology Agency following the procedure set out in the Pollution Law. Meanwhile, if the RS carries out actions involving emission allowances which give rise to assets, liabilities, income or expense, respective records will be made in monetary terms based on each particular transaction's value stated in supporting documents and its substance and economic reality.

RS accounts for CO₂ emission allowances using the net liability method, i.e., in the event that allowances are used over the allotted amount and RS has to buy additional allowances, respective liabilities are recorded as expense and liabilities. If allowances are sold, income is recognized in the respective reporting period.

Subsequent events

Events after reporting year that provide additional information about RS position at the balance sheet date (adjusting events) are reflected in the financial statements. Events after reporting year that are not adjusting events are disclosed in the notes when material.

3. Net turnover

	01/10/2022- 30/09/2023	01/10/2021- 30/09/2022
Sale of heat energy *	459 711 367	210 266 394
Unexpected revenue (due to changes in prices of purchased heat and electricity sold)**	(22 368 008)	-
Sale of electricity	2 840 036	5 199 177
Maintenance of internal systems of buildings	579 946	581 293
Other income	1 236 653	262 242
TOTAL:	441 999 994	216 309 106

All income is generated in Latvia.

* In the second half of 2022, the world faced an extraordinarily rapid increase in energy prices and, consequently, RS increased heat tariff several times and income from the sale of heat energy grew substantially.

** In accordance with the accounting policy *Deferred income from unexpected revenues and accrued income from unexpected expenditure* (tariff adjustments), as 30 September 2023, RS recognized deferred income from unexpected revenues of EUR 22 368 thousand (30 September 2022: EUR 0), reducing the income from the sale of heat energy for the reporting year. On 1 October 2023, the heat tariff was reduced by EUR 3.18/MWh for unexpected revenue due to fluctuations in purchased heat and fuel prices compared to the prices used in the tariff calculation, which will be included in revenue over a 24-month period according to the heat supplied in each month.

4. Cost of sales

	01/10/2022- 30/09/2023	01/10/2021- 30/09/2022
Purchase of heat energy *	281 832 692	132 121 346
Fuel *	104 114 992	38 568 045
Staff costs	18 724 730	16 361 478
Amortization and depreciation	15 220 518	15 000 917
Costs of maintenance materials and repairs	9 323 077	8 493 648
Electricity	3 002 466	3 804 043
Other costs	1 140 669	1 105 636
TOTAL:	433 359 144	215 455 113

* The energy crisis due to Russia's war in Ukraine and related sanctions has led to significant price increases for fuel and purchased heat.

5. Administrative expense

	01/10/2022- 30/09/2023	01/10/2021- 30/09/2022
Staff costs	4 895 059	3 916 395
Computer maintenance, accessories, software maintenance	276 891	252 153
Electronic communications expense	67 930	82 625
Credit institution fees	191 056	84 693
Other administrative expense	442 503	441 380
TOTAL:	5 873 439	4 777 246

6. Other operating income

	01/10/2022- 30/09/2023	01/10/2021- 30/09/2022
Construction of heat pipelines and related income	1 171 325	2 388 077
Sale of allowances (see Note 22)	-	1 898 200
EU grants (see Note 19)	1 085 595	1 240 607
Gain on disposal of property, plant and equipment, net	152 535	284 368
Gain on disposal of current assets	242 543	117 711
Penalties and fines received	261 503	168 876
Gain on lease of property, plant and equipment	22 469	29 265
Other income	82 798	312 048
TOTAL:	3 018 768	6 439 152

7. Other operating expense

	01/10/2022- 30/09/2023	01/10/2021- 30/09/2022
Benefits under the Collective Agreement	321 641	323 782
Net carrying amount of disposals	21 121	65 417
Change in allowances for doubtful receivables (see Note 13)	58 198	(22 945)
Other expense	147 012	49 298
TOTAL:	547 972	415 552

8. Corporate income tax

In the reporting year ended 30 September 2023, RS paid corporate income tax on the dividend of EUR 154 017 (in the reporting year ended 30 September 2022, RS was not subject to corporate income tax).

9. Staff costs

Total staff costs for the financial year ended 30 September 2023 are included in the following captions of the statement of profit or loss:

	01/10/2022- 30/09/2023	01/10/2021- 30/09/2022
Cost of sales	18 724 730	16 361 478
Administrative expense	4 895 059	3 916 395
TOTAL:	23 619 789	20 277 873

	01/10/2022- 30/09/2023	01/10/2021- 30/09/2022
Wages and salaries	19 663 177	16 914 147
Statutory social insurance contributions	3 956 612	3 363 726
TOTAL:	23 619 789	20 277 873

<i>Board and Council remuneration</i>	01/10/2022- 30/09/2023	01/10/2021- 30/09/2022
Remuneration to the Board	429 652	370 099
Remuneration to the Council	145 470	181 190
Statutory social insurance contributions for Board Members	101 355	87 306
Statutory social insurance contributions for Council Members	34 316	42 743
TOTAL:	710 793	681 338

<i>Average number of employees</i>	01/10/2022- 30/09/2023	01/10/2021- 30/09/2022
Board	5	5
Council	4	5
Other employees	666	668
TOTAL:	675	678

10. Intangible assets and property, plant and equipment

	Licenses, trademarks and similar rights	Land plots, buildings and engineering constructions	Equipment and machinery	Other fixtures and fittings, tools and equipment	Construction in progress	TOTAL
Cost as at 30/09/2021	2 117 345	277 318 866	100 288 836	21 515 756	12 015 508	413 256 311
Additions	26 395	-	162 931	1 348 927	18 973 277	20 511 530
Reclassification	-	11 856 857	1 445 199	553 196	(13 855 252)	-
Disposals	(27 047)	(285 905)	(507 475)	(708 557)	-	(1 528 984)
Cost as at 30/09/2022	2 116 693	288 889 818	101 389 491	22 709 322	17 133 533	432 238 857
Additions	23 588	62 700	322 955	991 012	27 774 614	29 174 869
Reclassification	-	17 604 580	1 726 744	258 318	(19 589 642)	-
Disposals	(27 210)	(191 636)	(448 930)	(1 110 876)	-	(1 778 652)
Cost as at 30/09/2023	2 113 071	306 365 462	102 990 260	22 847 776	25 318 505	459 635 074
Accumulated depreciation/ amortization as at 30/09/2021	(1 981 067)	(131 016 466)	(65 933 691)	(15 322 122)	-	(214 253 346)
Depreciation/amortization charge	(80 008)	(8 132 181)	(5 140 435)	(1 648 293)	-	(15 000 917)
Depreciation/amortization of disposals	27 047	262 127	442 715	692 810	-	1 424 699
Accumulated depreciation/ amortization as at 30/09/2022	(2 034 028)	(138 886 520)	(70 631 411)	(16 277 605)	-	(227 829 564)
Depreciation/amortization charge	(51 724)	(8 556 361)	(4 912 159)	(1 700 274)	-	(15 220 518)
Depreciation/amortization of disposals	23 564	183 793	442 855	1 107 775	-	1 757 987
Accumulated depreciation/ amortization as at 30/09/2023	(2 062 188)	(147 259 088)	(75 100 715)	(16 870 104)	-	(241 292 095)
Net carrying amount as at 30/09/2022	82 665	150 003 298	30 758 080	6 431 717	17 133 533	204 409 293
Net carrying amount as at 30/09/2023	50 883	159 106 374	27 889 545	5 977 672	25 318 505	218 342 979

As at 30 September 2023, construction in progress comprised capitalized design costs and the launched development of heating networks amounting to EUR 15 393 thousand (30 September 2022: EUR 14 391 thousand) and investments in the development of production facilities of EUR 9 926 thousand (30 September 2022: EUR 2 743 thousand).

RS had leased out several buildings, previously hosting central heat distribution stations or boiler houses. As at 30 September 2023, the net carrying amount of the leased buildings was EUR 43,6 thousand (30 September 2022: EUR 106 thousand).

Amortization and depreciation costs as included in the statement of profit or loss as the cost of sales.

Pledges and other restrictions on title

RS has not pledged its assets to secure borrowings.

According to the signed loan agreements, RS obtains from credit institutions approval for, or notifies of, any alienation of assets whose total carrying amount or selling price (whichever is the highest) exceeds EUR 500 000 within a financial year and any alienation or lease of properties whose total carrying amount within a year exceeds 5% (five per cent) of the total assets of RS, except when properties are alienated or leased out in the ordinary course of business.

10. Intangible assets and property, plant and equipment (cont'd)

Fully depreciated assets

A number of assets that have been fully depreciated are still in active use. As at 30 September 2023, the total original cost value of these assets was EUR 101 953 thousand (30 September 2022: EUR : 90 016 thousand). Each year, in line with the established priorities, investment is made in the repair and renewal of assets.

11. Investments in related companies

	% of equity interest		Carrying amount	
	30.09.2023	30.09.2022	30.09.2023	30.09.2022
	%	%	EUR	EUR
SIA Rīgas BioEnergija	100	100	13 852 000	13 852 000

Financial information about subsidiaries:

Subsidiary	Equity		Profit for the year	
	30/09/2023	30/09/2022	01/10/2022-	01/10/2021-
	EUR	EUR	30/09/2023	30/09/2022
			EUR	EUR
SIA Rīgas BioEnergija	27 475 017	20 448 361	7 026 656	5 003 183

The core business of SIA Rīgas BioEnergija is steam supply and air conditioning; the aim is the construction of heat generating facilities, production and sale of heat energy to RS.

12. Raw materials and consumables

	30/09/2023	30/09/2022
Gas*	10 213 344	81 162 909
Chips (including firewood, bark)*	297 989	900 015
Metal products	761 270	779 353
Liquid fuel	736 009	702 430
Building materials	488 831	425 748
Measuring instruments	286 147	147 451
Equipment	97 593	76 958
Office-related materials	44 794	42 934
Other inventories	332 175	373 580
(Less) allowances for obsolete items	(68 582)	(48 554)
TOTAL:	13 189 570	84 562 824

* In the reporting year ending 30 September 2023, RS entered into an agreement on purchasing natural gas for the 2023/2024 heating season at a fixed price and a payment based on actual consumption, while in the summer of 2022 large purchases of natural gas were made to ensure that heat can be supplied to heat consumers during the entire heating season.

12. Raw materials and consumables (cont'd)

Changes in allowances for obsolete items can be specified as follows:

	01/10/2022- 30/09/2023	01/10/2021- 30/09/2022
At the beginning of the reporting period	48 554	77 600
Change in allowances	20 028	(29 046)
At the end of the reporting period	68 582	48 554

13. Trade receivables

	30/09/2023	30/09/2022
Due for heat energy (see Note 4)	11 951 031	9 725 370
Due for electricity sold (see Note 4)	498 549	1 380 837
Due for the maintenance of internal systems of buildings	7 825	13 834
(Less) allowances for doubtful receivables	(1 328 261)	(1 292 270)
TOTAL:	11 129 144	9 827 771

Changes in allowances for doubtful receivables can be specified as follows:

	01/10/2022- 30/09/2023	01/10/2021- 30/09/2022
At the beginning of the reporting period	1 292 270	1 622 723
Additionally established/(reversed) allowances (see Note 7)	58 198	(22 945)
Recovery of previously impaired balances	(624)	(11 548)
Write-off of previously impaired balances	(21 583)	(295 960)
At the end of the reporting period	1 328 261	1 292 270

14. Other receivables

	30/09/2023	30/09/2022
Overpayment of value added tax (see Note 18)	-	4 091 580
Due for real estate sold	-	5 951
Other receivables	116 770	137 298
TOTAL:	116 770	4 234 829

15. Loans from credit institutions

Non-current:	Original amount, EUR	Effective interest rate (%)	Maturity	30/09/2023	30/09/2022
Loan from Luminor bank AS Latvia branch	18 000 000	3M EURIBOR + 0,77%	31.07.2024.	-	6 000 000
Loan from OP Corporate Bank plc Latvia branch	10 000 000	6M EURIBOR + 1,19%	25.08.2025.	2 500 000	5 833 333
Loan from Swedbank AS	15 000 000	6M EURIBOR + 0,29%	17.08.2026.	10 000 000	15 000 000
Loan from AS SEB banka	17 000 000	3M EURIBOR + 1,30%	25.08.2027.	17 000 000	17 000 000
TOTAL non-current loans				29 500 000	43 833 333
Current:	Original amount, EUR	Effective interest rate (%)	Maturity	30/09/2023	30/09/2022
Current portion of non-current loans					
Loan from OP Corporate Bank plc Latvia branch	10 000 000	0,69%	28.05.2022	-	-
Loan from OP Corporate Bank plc Latvia branch	10 000 000	6m EURIBOR + 0,87%	28.07.2023	-	3 333 333
Loan from AS SEB banka	10 000 000	0,99%	22.08.2023	-	3 333 333
Loan from Luminor Bank AS	18 000 000	3m EURIBOR + 0,77%	31.07.2024	6 000 000	6 000 000
Loan from OP Corporate Bank plc Latvia branch	10 000 000	6m EURIBOR + 1,19%	25.08.2025	3 333 334	3 333 334
Loan from Swedbank AS	15 000 000	6m EURIBOR + 0,29%	17.08.2026	4 999 999	-
TOTAL:				14 333 333	16 000 000
Current credit lines (overdrafts)					
Luminor Bank AS	20 000 000	3m EURIBOR + 0,7%	27.11.2023	1 092 892	-
Swedbank AS	20 000 000	3m EURIBOR + 0,44%	08.08.2024	19 345 720	-
OP Corporate Bank plc Latvia branch	25 000 000	1m EURIBOR + 0,77%	13.01.2023	-	20 677 152
Swedbank AS	25 000 000	3m EURIBOR + 0,36%	18.01.2023	-	25 000 000
OP Corporate Bank plc Latvia branch	7 000 000	3m EURIBOR + 0,47%	14.06.2023	-	6 970 099
AS SEB banka	7 000 000	6m EURIBOR + 0,45%	28.06.2023	-	6 943 109
TOTAL:				20 438 612	59 590 360
TOTAL current loans:				34 771 945	75 590 360
TOTAL loans from credit institutions:				64 271 945	119 423 693

15. Loans from credit institutions (cont'd)

Changes in borrowings:

	30/09/2023	30/09/2022
Balance at the beginning of the reporting year	119 423 693	58 833 333
Loans received	20 438 612	76 590 360
Loans repaid	(75 590 360)	(16 000 000)
Balance at the end of the reporting year	64 271 945	119 423 693

During the reporting year, interest amounting to EUR 3 258 647 (year ended 30 September 2022: EUR 551 586) was charged on loans from credit institutions.

On 28 November 2022, a credit line agreement was signed with Luminor Bank AS Latvia branch for a period of twelve months, with the maximum credit line limit of EUR 20 000 000. As at the end of the reporting year, the unused credit line amounted to EUR 18 907 108.

On 5 July 2023, a ten-year loan agreement for EUR 20 000 000 was signed with the Nordic Investment Bank for the financing and refinancing of investment projects for the financial year 2022/2023. The respective amount was received in the RS bank account after the end of the reporting year.

On 8 August 2023, a credit line agreement was signed with Swedbank AS for a period of twelve months, with the maximum credit line limit of EUR 20 000 000. As at the end of the reporting year, the unused credit line amounted to EUR 645 280.

As at 30 September 2023, the amount of the loans contracted but not used by RS was EUR 39 561 388 (30 September 2022: EUR 4 409 640).

During the reporting year, RS repaid the current portions of the non-current loans amounting to EUR 16 000 000 according to the payment schedule and the credit lines amounting to EUR 59 590 360.

As at 30 September 2022, RS did not meet the financial covenants of several loan agreements with credit institutions, resulting in unilateral rights for credit institutions to terminate the agreements and demand early loan repayments. RS classified these loans totaling EUR 38 000 000 as non-current on the basis that subsequent to the year-end an agreement was reached with the credit institutions to defer monitoring of the financial covenants. As at 30 September 2023, RS met all the financial covenants set out in the loan agreements.

Information on pledges and other encumbrances under loan agreements is disclosed in Note 10.

16. Trade payables

	30/09/2023	30/09/2022
Due to suppliers *	798 102	27 020 627
Due to contractors	8 234 156	9 635 276
Due for other services	409 694	280 421
TOTAL:	9 441 952	36 936 324

* As at 30 September 2022, the largest trade payable of EUR 23 778 thousand was to the suppliers for the purchase of natural gas for the heating season 2022/2023.

17. Accrued liabilities

	30/09/2023	30/09/2022
Vacation pay reserve and provisions for employee incentives	3 888 725	3 572 259
Other current payables	2 605 990	3 271 073
Current payables for heat energy supplied	466 809	2 053 976
Wages and salaries	1 377 726	1 272 544
Accrued interest payments	319 472	77 154
TOTAL:	8 658 722	10 247 006

18. Taxes payable

	30/09/2023	30/09/2022
Value added tax	19 213	(4 091 580)
Statutory social insurance contributions	772 852	703 103
Personal income tax	413 326	372 641
Unemployment risk duty	243	239
Natural resource tax	22 984	35 979
Electricity tax	163	269
TOTAL:	1 228 781	(2 979 349)

Of which:

Taxes receivable (see Note 14)	-	(4 091 580)
Taxes payable	1 228 781	1 112 231

19. Deferred income

	01/10/2022- 30/09/2023	01/10/2021- 30/09/2022
At the beginning of the reporting year	14 958 018	15 891 436
Increase for the year from payments relating to the connection to heating networks upon customers' request	547 169	707 261
Increase from unexpected revenues (see Note 3)	22 368 008	-
Inseparable leasehold improvements taken to the statement of profit or loss in the reporting year	(40 954)	(40 954)
Recognized in the statement of profit or loss in the reporting year over the useful lives of respective assets (property, plant and equipment) from EU grants received in previous years (see Note 6)	(1 085 595)	(1 240 607)
Recognized in the statement of profit or loss in the reporting year over the useful lives of respective assets (property, plant and equipment) from payments received from new customers for the connection to heating networks over the mandatory heat purchase period in years	(398 481)	(359 118)
Adjustment for inappropriate EU financing, reimbursement	(495 337)	-
At the end of the reporting year	35 852 828	14 958 018
	Non-current: 23 220 053	13 394 696
	Current: 12 632 775	1 563 322
	30.09.2023.	30.09.2022.
Non-current:		
Unexpected revenues (heat tariff adjustments)	11 184 004	-
EU grants received in previous years	9 439 778	10 832 441
Customer payments for connection to heating networks	2 596 271	2 562 255
TOTAL:	23 220 053	13 394 696
Current:		
Unexpected revenues (heat tariff adjustments)	11 184 004	-
EU grants received in previous years	935 160	1 123 430
Customer payments for connection to heating networks	513 611	439 892
TOTAL:	12 632 775	1 563 322

20. Financial risk management

RS principal financial instruments are loans from credit institutions and cash. The main purpose of these financial instruments is to ensure financing for RS operations. RS has various other financial instruments, such as trade and other receivables and trade and other payables, which arise directly from its operations. The main financial risks arising from RS financial instruments are interest rate risk, credit risk, liquidity risk and price risk.

Interest rate risk

Borrowings bearing interest at a floating rate cause a risk of considerable growth of finance costs in situations when interest rates increase. RS is exposed to the risk of changes in market interest rates on its non-current liabilities bearing a floating rate. All RS borrowings are at floating interest rates. The risk of changes in interest rates is managed by regularly assessing the market interest rates available on borrowings.

20. Financial risk management (cont'd)

Credit risk

RS is exposed to credit risk through its non-current financial assets, trade and other receivables, and cash. RS manages its credit risk by continuously monitoring receivable balances to ensure that its exposure to bad debts is minimized. RS has a significant concentration of credit risk with a single customer having similar characteristics - SIA Rīgas namu pārvaldnieks, which accounted for 58% of balances due for heat energy as at 30 September 2023 (30 September 2022: 55%). Trade receivables are stated at their recoverable amount. The RS counterparties in cash transactions are local financial institutions with an adequate credit history.

Liquidity risk

RS manages its liquidity risk by maintaining an adequate level of cash or by arranging an adequate amount of committed credit facilities with banks. As at 30 September 2023, RS current liabilities exceeded its current assets by EUR 43 142 thousand (30 September 2022: EUR 25 756 thousand). RS intends to settle these liabilities from operating cash flows and by using bank loans granted during the reporting period but unused at the end of the reporting year as well as those granted after the balance sheet date (see Notes 15 and 26).

Price risk

Price risk is the risk that the fair values and future cash flows of financial instruments will fluctuate for reasons other than changes associated with interest rate risk or currency risk. Most significant price risk is related to the purchase of heat and fuel. As a result of Russia's war in Ukraine and the related sanctions, in 2022 Europe experienced severe energy crisis, with rising prices and fuel shortages. To hedge price risk, RS has a fixed-price contract for natural gas for the entire 2023/2024 winter season as well as executed contracts for purchasing wood chips.

21. Fee paid to certified auditors

	01/10/2022- 30/09/2023	01/10/2021- 30/09/2022
Annual audit fee	28 000	28 000
Tax advice	4 080	-
TOTAL:	32 080	28 000

22. CO₂ allowances

According to Directive 2003/87/EC of the European Parliament and of the Council and the Pollution Law of the Republic of Latvia, combustion installations with a rated thermal input exceeding 20 MW must participate in the Emissions Trading Scheme (ETS). RS has six heat sources that meet this criterion.

The fourth period of the European Union Emissions Trading Scheme began on 1 January 2021. This period runs from 2021 to 2030 and is divided into two separate periods: 2021–2025 and 2026–2030. Allowances are allocated for a calendar year different from the RS financial year.

The shortage of allowances for each individual year is offset by allowances saved in the third period of the Emissions Trading Scheme. In 2021, at the beginning of the fourth period of the Emissions Trading Scheme, 294 730 allowances from the previous period were on RS accounts.

	2021	2022	2023
At the beginning of the year	294 730	184 614	135 603
Allowances allocated	41 458	40 693	39 786
Allowances used	(126 574)	(69 704)	(73 227)*
Allowances sold	(25 000)	(20 000)	-
At the end of the year	184 614	135 603	102 162

*Estimate of allowances usage

23. Commitments and contingencies

As at 30 September 2023, RS had future commitments for repairs and construction contracts with pending commitments for a total amount of EUR 4 700 thousand (30 September 2022: EUR 2 501 thousand).

RS operates in an industry exposed to business-related environmental risks, whose prevention may require financial investments. One such risk is the pollution of natural resources that may have occurred as a result of technologies (fuel oil as reserve fuel storage) used for RS past operations. In this context, RS identifies and assesses potential sources of contamination; therefore, in 2017, SIA Vides Konsultāciju Birojs examined soil contamination at the Vecmīlgrāvis and Ziepniekkalns heating plants. No contamination was identified at the Ziepniekkalns heating plant. The Vecmīlgrāvis heating plant had soil contamination established, but contamination is not migrating with groundwater and is not causing any environmental risk, therefore regular monitoring of ground and groundwater contamination is required at the remediation site. Remediation of contaminated soil at the Vecmīlgrāvis heating plant may be necessary only if construction is planned in the contaminated area, but it is not foreseeable in the near future. Groundwater monitoring is carried out at all heating plants in accordance with the permits for polluting activities. The monitoring data show that pollution does not exceed the regulatory thresholds. Provisions have not been created as it is not expected that remediation works will be carried out in the future.

24. Related party disclosures

Ordinary trade transactions with Riga Municipality and the Latvian Government, including ministries and state agencies, as well as transactions with Riga Municipality and state-controlled capital companies and public service providers are not considered related party transactions and are not reported in related party disclosures. RS transacts business with many of these institutions in accordance with the heat tariffs approved by the PUC. Transactions with related parties of Riga Municipality and state-controlled related parties include sale of heat energy and related services, but do not include individual material transactions; quantitative disclosure of transactions with these related parties is not possible due to the large number of RS customers, except for transactions with SIA Rīgas namu pārvaldnieks and AS Latveņero which are disclosed below as transactions with other related parties.

Dividends paid to each shareholder commensurate with the number of the shares held are not disclosed in the table below (see the statement of changes in equity); and, based on Article 7 of the Law on Measures to Reduce the Extraordinary Growth of Energy Prices, RS received district heating price compensation amounting to EUR 2 920 thousand from the Ministry of Economics of the Republic of Latvia in the financial year ended 30 September 2022 (in the reporting year: EUR 0).

Transactions with RS management consist solely of remuneration for their functions in the Board (see Note 9).

	01/10/2022-30/09/2023		01/10/2021-30/09/2022	
	SIA Rīgas BioEnergija	Other related parties	SIA Rīgas BioEnergija	Other related parties
Sale of goods and services				
Heat energy supplied	-	124 966 066	-	85 846 790
Services provided	20 279	1 021 971	13 294	11 835
TOTAL:	20 279	125 988 037	13 294	85 858 625
Purchase of goods and services				
Heat energy	21 543 132	226 861 056	15 113 693	91 957 166
Natural gas	-	-	-	24 700 000
Services received	1 098	6 680	1 454	4 135
TOTAL:	21 544 230	226 867 736	15 115 147	116 661 301

24. Related party disclosures (cont'd)

	30/09/2023		30/09/2022	
	SIA Rīgas BioEnergija	Other related parties	SIA Rīgas BioEnergija	Other related parties
Trade receivables	-	6 881 436	-	5 376 027
Other receivables	4 399	13	-	3 048
TOTAL:	4 399	6 881 449	-	5 379 075
Trade payables	-	566 990	-	2 485 810
Payables to related companies	1 139 116	-	112 598	-
Prepayments received from customers	-	-	-	11 810
TOTAL:	1 139 116	566 990	112 598	2 497 620

25. Going concern

The financial statements are prepared on the basis that the Company will continue to be a going concern. The Company earned a profit of EUR 1 840 thousand for the reporting year. At the year end, RS current liabilities exceeded its current assets by EUR 43 113 thousand (30 September 2022: EUR 25 756 thousand). RS management considers that RS liquidity is not at risk, as at the end of the reporting year RS had available unused credit facilities of EUR 39 561 thousand and deferred income of EUR 12 633 thousand is included in current liabilities which therefore will not require any cash outflow. RS is planning to close reporting year 2023/2024 with a profit, as well as a positive cash flow from economic activity will ensure stable operation for the Company.

26. Events after balance sheet date

In November 2023, RS received a EUR 20 million loan from the Nordic Investment Bank under the loan agreement signed on 5 July 2023.

On 29 November 2023, RS entered into a long-term loan agreement with Swedbank AS for EUR 9 million for a period of 5 years and on 20 December 2023 RS entered into a short-term credit line agreement with Swedbank AS for EUR 14 million for a period of 12 months.

As of the last day of the reporting year until the date of signing these financial statements there have been no other events requiring adjustment of or disclosure in the financial statements or notes thereto.

* signature	* signature	* signature
Ilvars Pētersons Chairman of the Board	Uģis Osis Board Member	Vineta Kutkēviča Board Member
* signature	* signature	* signature
Raivis Elliņš Board Member	Mārcis Kauliņš Board Member	Ilze Caune Chief Accountant

* THIS DOCUMENT IS SIGNED WITH A SAFE ELECTRONIC SIGNATURE AND CONTAINS A TIME STAMP
