AKCIJU SABIEDRĪBA
RĪGAS SILTUMS

**Unified registration No. 40003286750**

# CONSOLIDATED ANNUAL REPORT

## for the period 1 October 2018 to 30 September 2019

## includes the Independent Auditor's Report

**prepared in accordance with the Annual Reports and Consolidated Annual Reports Law of the Republic of Latvia**

KPMG Baltics AS
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# Independent Auditors' Report

## To shareholders of AS RĪGAS SILTUMS

*Our opinion on the consolidated financial statements*

We have audited the accompanying consolidated financial statements of AS RĪGAS SILTUMS (the Company) and its subsidiary (the Group) as set out on pages 10 to 33 of the accompanying Consolidated Annual Report. The accompanying financial statements include:

- the consolidated balance sheet as at 30 September 2019,
- the consolidated profit and loss statement for the year ended 30 September 2019,
- the consolidated statement of changes to shareholders' equity for the year ended 30 September 2019,
- the statement of cash flows for the year ended 30 September 2019, and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of AS RĪGAS SILTUMS and its subsidiary as at 30 September 2019 and the consolidated results of their operations and cash flows for the year then ended in accordance with the 'Annual Reports and Consolidated Annual Reports Law' of the Republic of Latvia.

*Basis for Opinion*

In accordance with the 'Law on Audit Services' of the Republic of Latvia we conducted our audit in accordance with International Standards on Auditing (hereinafter – ISAs) adopted in the Republic of Latvia. Our responsibilities under those standards are further described in the *Auditors' Responsibility for the Audit of the Consolidated Financial Statements* section of our report.

We are independent of the Group in accordance with the requirements of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and independence requirements included in the "Law on Audit Services" of the Republic of Latvia that are relevant to our audit of consolidated financial statements in the Republic of Latvia. We have also fulfilled our other professional ethics responsibilities and objectivity requirements in accordance with the IESBA Code and the 'Law on Audit Services' of the Republic of Latvia.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Reporting on Other Information*

The Company's management is responsible for the other information. The other information comprises:

- Information about the Group, as set out on pages 6 to 7 of the accompanying Consolidated Annual Report,
- Management Report, as set out pages 8 to 9 of the accompanying Consolidated Annual Report.

Our opinion on the consolidated financial statements does not cover the other information included in the Consolidated Annual Report, and we do not express any form of assurance conclusion thereon, except as described in the *Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia* section of our report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed and in light of the knowledge and understanding of the Group and its environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

*Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia Related to Other Information*

In addition, in accordance with the 'Law on Audit Services' of the Republic of Latvia with respect to the Management Report, our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the 'Annual Reports and Consolidated Annual Reports Law' of the Republic of Latvia.

Based solely on the work required to be undertaken in the course of our audit, in our opinion:

- the information presented in the Management Report for the financial year for which the consolidated financial statements are prepared is consistent with the consolidated financial statements; and
- the Management Report has been prepared in accordance with the requirements of the 'Annual Reports and Consolidated Annual Reports Law' of the Republic of Latvia.

*Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements*

Management is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with the 'Annual Reports and Consolidated Annual Reports Law' of the Republic of Latvia and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

*Auditor's Responsibility for the Audit of the Consolidated Financial Statements*

Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the Group companies or operating units in order to express an opinion about the consolidated financial statements. We are responsible for the management, oversight and performance of the audit of the Group. We remain fully responsible for the audit opinion we issue.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG Baltics SIA
Licence No. 55

Armine Movsisjana
Chairperson of the Board
Certified Auditor
Certificate No. 178
Riga, Latvia
22 January 2020

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# General

| | |
|---|---|
| Name of the Group parent company | RĪGAS SILTUMS |
| Legal status | Joint stock company |
| Unified registration number, place and date of registration | Registered with the Enterprise Register of the Republic of Latvia on 14 March 1996, re-registered with the Commercial Register on 8 May 2004. Reg. no. 40003286750. |
| Legal and postal address | Cēsu iela 3a<br>Riga, LV-1012, Latvia |
| NACE codes: | 35.30; 35.11; 32.99; 35.13; 35.14; 49.50; 43.21; 42.22; 43.22; 43.29; 33.12; 33.19; 42.99; 41.10; 74.10; 71.11; 71.12; 43.11; 41.20; 43.99; 71.20; 68.10; 68.20; 85.59; 82.99 |
| Shareholders | Riga Municipality<br>Riga City Council (49%)<br>Reg. no.90000064250<br>Ratslaukums 1<br>Riga, LV-1050, Latvia<br><br>Latvian State<br>Ministry of Economics (48.995%)<br>Reg. no.90000086008<br>Brivibas iela 55<br>Riga, LV-1519, Latvia<br><br>SIA Enerģijas Risinājumi.RIX (2%)<br>Reg. no.40003718848<br>Vietalvas 5<br>Riga, LV-1009, Latvia<br><br>AS Latvenergo (0.005%)<br>Reg. no.40003032949<br>Pulkveza Brieza iela 12<br>Riga, LV-1230, Latvia |
| Information on the subsidiary | SIA Rīgas BioEnerģija<br>Address: Sporta iela 10, Riga, LV-1073, Latvia<br>Holding: 100% (from 22 December 2017) |

Members of the Board

| | | |
|---|---|---|
| From the beginning of the financial year: | Normunds Talcis | Chairman of the Board |
| | Birute Krūze | Member of the Board |
| | Raivis Elliņš | Member of the Board |
| | Jevgeņijs Korols | Member of the Board |
| | Uģis Osis | Member of the Board |

Members of the Council

From the beginning of the financial year:

| | | |
|---|---|---|
| | Vjačeslavs Stepaņenko | Chairman of the Council |
| | Kaspars Lore | Deputy Chairman of the Council |
| | Jānis Ločmelis | Member of the Council |
| | Juris Radzevičs | Member of the Council |
| from 14 August 2019 | | |
| | Vjačeslavs Stepaņenko | Chairman of the Council |
| | Kaspars Lore | Deputy Chairman of the Council |
| | Jānis Ločmelis | Member of the Council |
| | Juris Radzevičs | Member of the Council |
| | Dzintars Kauliņš | Member of the Council |
| from 2 January 2020 | | |
| | Vjačeslavs Stepaņenko | Chairman of the Council |
| | Kaspars Lore | Deputy Chairman of the Council |
| | Jānis Ločmelis | Member of the Council |
| | Dzintars Kauliņš | Member of the Council |

| | | |
|---|---|---|
| Financial Year | 1 October 2018 – 30 September 2019 | |
| Previous financial year | 01 October 2017 – 30 September 2018 | |
| Independent auditors and address | Armine Movsisjana<br>Latvian Certified Auditor<br>Certificate No. 178 | KPMG Baltics AS<br>Licence No. 55<br>Vesetas iela 7,<br>Riga, LV-1013<br>Latvia |

# Management Report

Joint Stock Company RĪGAS SILTUMS (hereinafter also referred to as Group Parent Company) was founded in 1996 and is the largest centralised heat supply company in Latvia and the Baltic states that produces, transmits, distributes and sells heat energy, produces heat and electricity concomitantly in cogeneration stations, and maintains heating networks and internal communication systems of buildings. In addition, the Group Parent Company offers apartment blocks to install heating system charge distributors, automatic data reading from heating system charge distributors, as well as from water and electricity meters.

Seeking to use more environment friendly local energy resources and reduce reliance on imported energy resources such as natural gas, and also to improve the Group Parent Company's competitive capacity, in December 2014 AS Rigas Siltums and SIA Enerģijas Risinājumi established a heat energy joint venture SIA Rīgas BioEnerģija with each founding entity holding 50% of its share capital. In response to the suggestion voiced by the shareholders that AS RĪGAS SILTUMS would benefit from implementing this project by own means only, as the proposal was received to exercise the pre-emptive right and purchase the remaining shares, AS RĪGAS SILTUMS seized the opportunity of becoming the sole shareholder of SIA Rīgas BioEnerģija only when the boiler house had been put into operation and production of heat energy had been started. From 22 December 2017 SIA Rīgas BioEnerģija and AS RĪGAS SILTUMS comprise a group (hereinafter also referred to as the Group).

The aim of establishing SIA Rīgas BioEnerģija (hereinafter referred to as the Subsidiary) was to build two bio-fuel boiler houses on the right bank of the river Daugava in Riga with the total power output of up to 100 MW and after these have been put into operation to sell heat energy to the operator of the Riga centralised heat supply system, the Group Parent Company. The boiler house at 10 Meiranu iela began generating heat energy in November 2017; however, as the cost to build external communications on the intended site for the other boiler house to be built under the project increased notably as the building design was developed the initial building site was changed and a land plot was purchased at 30 Rencenu iela. At the moment, the building design is being revised to meet the specifics of the new building site.

As at the date of the financial statements for 2018/2019, 30 September 2019, the registered and fully paid share capital of the subsidiary amounts to EUR 12,998 million and consists of 129,980 ordinary shares with nominal value of EUR 100.

In the reporting period, 3.44 million MWh or 31% of the required heat energy was produced by the Group Parent Company in its own 45 heat sources, and the remaining heat energy was purchased from other independent producers via tender procedures. Based on contracts with heat energy producers, heat energy is purchased weekly by the Group Parent Company according to the principle of economic benefit.

Under the Energy Law, the Subsidiary is an independent or autonomous producer that generates heat energy but does not distribute or transmit it and as such the price at which heat energy is sold to the Group Parent Company is determined by the market rather than the Public Utilities Commission.

Given that the liberalisation of the gas market has failed to reduce gas prices and instead it has caused prices to grow substantially, the Public Utilities Commission approved a new heat energy tariff for the Group Parent Company effective from 1 August 2019.

In the financial year 2018/2019 consumers received 3 million MWh of heat energy, which is in line with the demand. Revenue from the sales of heat energy amounted to EUR 136 million, which is 91% of consolidated turnover. The average heat energy tariff in the reporting period was 44.78 EUR/MWh and in the previous financial year it was 44.39 EUR/MWh.

Heat energy was produced by the Group by way of cogeneration in four heat sources. In the financial year 2018/2019 cogeneration produced 95 thousand MWh of electricity, which is by 11 thousand MWh less than in the financial year 2017/2018. Revenue from the sales of electricity amounted to EUR 12 million, which is 8% of consolidated turnover.

In the financial year 2018/2019 the Group Parent Company generated revenue of 8.7 million EUR from the sale of surplus emission allowances.

The Group Parent Company is engaged also in the maintenance of internal heat supply systems of buildings in Riga. Revenue from the maintenance of internal heat supply systems of buildings under contracts signed with building managers is matched to expenses. Income from the maintenance of internal communication systems in the financial year 2018/2019 amounted to EUR 0.5 million which constitutes 0.3% of consolidated turnover.

The Group's assets as at 30 September 2019 amounted to EUR 221 million, including long-term investments of EUR 196 million (89%) and current assets of EUR 24.9 million (11%). Net sales in the financial year 2018/2019 amounted to EUR 148.7 million. The financial result for the financial year 2018/2019 is profit of EUR 2.3 million. The consolidated equity ratio of 57% testifies to the fact that creditor interests are properly balanced. At the year end, receivables amounted to EUR 8.1 million or 4% of assets. The debt ratio is 42% of total assets or EUR 93.2 million, of which short term liabilities amount to EUR 27 million.

As at 30 September 2019 the Group had 703 employees.

The Group is exposed to financial risks such as credit risk, liquidity risk and interest rate risk. The financial assets exposed to credit risk are mostly trade receivables. The Group Parent Company is exposed to a significant degree of credit risk concentration as a significant part of net sales relates to a single client which accounts for up to 43% of the sales. The impact of potential financial risks on the Group's financial position is reduced by the management by implementing a set of control and analysis measures. As all heat energy transferred by the Subsidiary to the network is sold to the Group Parent Company the Subsidiary is not exposed to any significant credit risk. At the end of the reporting period, the Group's short term liabilities exceed its current assets by EUR 2 126 thousand. Liquidity risk is managed by the Group prudently by maintaining availability of appropriate and sufficient credit resources using bank credit line facilities to meet liabilities as they fall due and to compensate any fluctuations in cash flows. Funding is attracted to investment projects on a regular basis. Loans carried at floating interest rates pose the risk that financial costs will increase significantly as interest rates increase. As a measure to reduce risks and ensure financial stability whenever loans are taken both fixed and floating interest rates are used. Following the liberalisation of the gas market, the Group Parent Company is exposed to the risk of changes in the price of natural gas, which is managed both by concluding short-term natural gas supply contracts and purchasing and storing natural gas reserves in the Incukalns storage.

As the importance of environment protection can hardly be overestimated globally and in order to promote the goals of Latvian national energy and climate policy, the Group Parent Company continues to invest in environmentally friendly projects. Supporting the European Green Course, attracting EU co-financing, two projects have been launched for the use of biofuel: the construction of a boiler house with a capacity of up to 50 MW SC Imanta and the installation of biofuel water boilers with a capacity of 2X4 MW in heat supply Daugavgriva. Both projects are planned to be finalized in 2020.

The long-term targeted efforts at modernising the heat transmission system contributed to keeping the environment clean and safe as well as enabled the Group Parent Company to achieve higher economic efficiency, which is beneficial both to the general public and the clients. One of the key elements of centralised heating supply is the heating network. It is the heating network and the technical condition of its elements that determine how safe the centralised heating supply is and what amount of loss is present in the transmission of heat energy. In total, 9.38 km of the heating network were replaced and built anew during the finacial year 2018/2019, including 8.31 km where industrially insulated pipelines were laid using the trenchless technology. In line with the goals set by the Company, 2.9 km of heating networks were built to attract new clients.

The number of heat energy consumers of the Group Parent Company is increasing every year. During 2018/2019, heat energy was connected to 48 new sites with the total planned heating load of 32.6 MW. As the interest in connecting new objects to the district heating system of Riga rises, during 2018/2019 the Group Parent Company built heat networks and connected a client in Stopiņi district, thus expanding the district heating supply outside of Riga for the first time in its history.

The preparation of the consolidated financial statements of the Group Parent Company and its subsidiary is the responsibility of the Group's management. The consolidated financial statements have been prepared and give a true view on the Group's assets, liabilities and financial position as at 30 September 2019, and the results of its operations and cash flows in the reporting period.

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| Normunds Talcis<br>Chairman of the Board | Uģis Osis<br>Member of the Board | Birute Krūze<br>Member of the Board |
| /personal signature/ | /personal signature/ | |
| Raivis Elliņš<br>Member of the Board | Jevgeņijs Korols<br>Member of the Board | |

22 January 2020

## Consolidated Profit and Loss Statement

| | Note | **01.10.2018-30.09.2019** | **01.10.2017-30.09.2018** |
|---|---|---|---|
| | | **EUR** | **EUR** |
| Net sales | 4 | 148 691 380 | 151 696 181 |
| Cost of goods sold | 5 | (152 107 800) | (145 073 657) |
| **Gross profit/(loss)** | | **(3 416 420)** | **6 622 524** |
| Administrative expenses | 6 | (4 400 843) | (4 170 083) |
| Other operating income | 7 | 11 896 244 | 3 072 286 |
| Other operating expenses | 8 | (921 492) | (2 033 844) |
| Interest and similar income | | 11 740 | 6 567 |
| Income from investments in associated companies | 3 | - | 1 130 197 |
| Interest expenses and similar expenses | | (899 505) | (458 164) |
| **Profit before tax** | | **2 269 724** | **4 169 483** |
| Corporate income tax for the reporting year | 9 | - | (296 490) |
| **Profit for the reporting year** | | **2 269 724** | **3 872 993** |

The accompanying notes on pages 15 to 33 form an integral part of these financial statements.

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Normunds Talcis
Chairman of the Board

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Uģis Osis
Member of the Board

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Raivis Elliņš
Member of the Board

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Jevgeņijs Korols
Member of the Board

/personal signature/
Ilze Caune
Chief Accountant

22 January 2020

# Consolidated Balance Sheet

## ASSETS

| LONG TERM INVESTMENTS | Note | 30.09.2019 EUR | 30.09.2018 EUR |
|---|---|---|---|
| **Intangible assets** | | | |
| Licenses, trademarks and similar rights | 12 | 140 946 | 188 796 |
| Goodwill | 13 | 1 764 640 | 1 978 536 |
| TOTAL | | **1 905 586** | **2 167 332** |
| **Fixed assets** | | | |
| Land, buildings and engineering structures | 12 | 126 909 356 | 118 266 332 |
| Equipment and devices | 12 | 39 916 075 | 43 677 780 |
| Other fixed assets | 12 | 4 610 752 | 5 049 517 |
| Construction in progress | 12 | 22 724 244 | 14 886 539 |
| Prepayments for fixed assets | 12 | 4 138 | - |
| TOTAL | | **194 164 565** | **181 880 168** |
| **TOTAL LONG TERM INVESTMENTS** | | **196 070 151** | **184 047 500** |
| **CURRENT ASSETS** | | | |
| **Stock** | | | |
| Raw materials | 14 | 2 528 341 | 3 260 300 |
| Prepayments for stock | | 3 282 142 | 1 903 |
| TOTAL | | **5 810 483** | **3 262 203** |
| **Receivables** | | | |
| Trade receivables | 15 | 7 644 670 | 7 429 041 |
| Other receivables | 16 | 277 982 | 211 820 |
| Prepaid expenses | | 211 994 | 476 031 |
| Accrued income | | - | 926 |
| TOTAL | | **8 134 646** | **8 117 818** |
| **Cash** | | 10 952 602 | 9 183 323 |
| **TOTAL CURRENT ASSETS** | | **24 897 731** | **20 563 344** |
| **TOTAL ASSETS** | | **220 967 882** | **204 610 844** |

The accompanying notes on pages 15 to 33 form an integral part of these financial statements.

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|---|---|---|
| Normunds Talcis<br>Chairman of the Board | Uģis Osis<br>Member of the Board | Birute Krūze<br>Member of the Board |
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| Raivis Elliņš<br>Member of the Board | Jevgeņijs Korols<br>Member of the Board | Ilze Caune<br>Chief Accountant |

22 January 2020

## Consolidated Balance Sheet

## EQUITY AND LIABILITIES

| | Note | 30.09.2019 EUR | 30.09.2018 EUR |
|---|---|---|---|
| **SHAREHOLDER'S EQUITY** | | | |
| Share capital | 1 | 66 968 300 | 66 968 300 |
| Reserves: | | | |
| Reserves re-directed for development | | 57 551 944 | 55 327 251 |
| TOTAL | | **57 551 944** | **55 327 251** |
| Retained earnings: | | | |
| Profit for the reporting year | | 2 269 724 | 3 872 993 |
| **TOTAL SHAREHOLDERS' EQUITY** | | **126 789 968** | **126 168 544** |
| **PROVISIONS** | | | |
| Other provisions | 25b | 1 007 490 | 1 007 490 |
| **TOTAL PROVISIONS** | | **1 007 490** | **1 007 490** |
| **LIABILITIES** | | | |
| **Long-term liabilities** | | | |
| Loans from credit institutions | 17 | 51 954 561 | 40 296 207 |
| Deferred income | 21 | 14 192 469 | 10 642 070 |
| TOTAL | | **66 147 030** | **50 938 277** |
| **Short-term liabilities** | | | |
| Loans from credit institutions | 17 | 6 396 336 | 5 777 288 |
| Customer advances | | 601 872 | 962 115 |
| Accounts payable to suppliers and contractors | 18 | 11 376 189 | 11 763 059 |
| Other liabilities | | 14 162 | 13 239 |
| Taxes and compulsory state social security contributions | 20 | 1 163 108 | 923 504 |
| Accrued liabilities | 19 | 6 296 863 | 5 879 731 |
| Deferred income | 21 | 1 174 864 | 1 177 597 |
| TOTAL | | **27 023 394** | **26 496 533** |
| **TOTAL LIABILITIES** | | **93 170 424** | **77 434 810** |
| **TOTAL LIABILITIES** | | **220 967 882** | **204 610 844** |

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| /personal signature/ | /personal signature/ | /personal signature/ |
| Raivis Elliņš<br>Member of the Board | Jevgeņijs Korols<br>Member of the Board | Ilze Caune<br>Chief Accountant |

22 January 2020

## Consolidated Statement of Cash Flows

| | 01.10.2018 - 30.09.2019 EUR | 01.10.2017 - 30.09.2018 EUR |
|---|---|---|
| **Cash flows from operating activities** | | |
| ***Profit before corporate income tax*** | ***2 269 724*** | ***4 169 483*** |
| Adjustments for: | | |
| Impairment of fixed and intangible assets | 14 758 389 | 13 643 683 |
| Other interest income and similar income | (11 740) | (6 567) |
| Interest expenses and similar expenses | 727 354 | 458 164 |
| Change in provisions (except allowances for doubtful debts) | - | (1 348 638) |
| Financial support from the European Community | (872 779) | (894 818) |
| Write-off and repricing of non-liquid stock | - | (2 791) |
| Impairment of long term financial investments | - | (1 130 197) |
| Income from disposal of fixed assets, net | (599 856) | (118 411) |
| ***Profit before adjustments for the effect of changes to current assets and short term liabilities*** | ***16 271 092*** | ***14 769 908*** |
| Adjustments for: | | |
| Increase in stock | (2 548 280) | (1 221 508) |
| (Increase)/decrease of receivables | (16 829) | 450 459 |
| Increase/(decrease) of accounts payable to suppliers, contractors and other creditors | (203 868) | (2 128 557) |
| ***Gross cash flows from operating activities*** | ***13 502 115*** | ***11 870 302*** |
| Interest paid | (603 976) | (458 164) |
| Refunded corporate income tax | - | (300 337) |
| **Net cash flows from operating activities** | **12 898 139** | **11 111 801** |
| **Cash flows from investing activities** | | |
| Acquisition of fixed and intangible assets | (26 981 444) | (21 485 344) |
| Income from disposal of fixed and intangible assets | 800 261 | 480 473 |
| Income from repayment of loans | - | 2 418 |
| Interest received | 11 740 | 6 567 |
| Investment in related/associated companies, net of cash received | - | (3 536 475) |
| **Net cash flows from investing activities** | **(26 169 443)** | **(24 532 361)** |
| **Cash flow from financing activities** | | |
| Dividends paid | (1 648 300) | (4 000 000) |
| Subsidies, grants, donations or gifts received | 4 411 481 | - |
| Loans received | 18 000 000 | 21 880 952 |
| Repayment of loans | (5 722 598) | (2 656 807) |
| **Net financing cash flows** | **15 040 583** | **15 224 145** |
| **Net cash flows for the reporting year** | **1 769 279** | **1 803 585** |
| **Cash and cash equivalents at the beginning of the year** | **9 183 323** | **7 379 738** |
| **Cash and cash equivalents at the end of the year** | **10 952 602** | **9 183 323** |

The accompanying notes on pages 15 to 33 form an integral part of these financial statements.

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|---|---|---|
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|---|---|---|
| Raivis Elliņš<br>Member of the Board | Jevgeņijs Korols<br>Member of the Board | Ilze Caune<br>Chief Accountant |

22 January 2020

# Consolidated Statement of Changes to the Shareholders' Equity

| | Share capital | Reserves re-directed for development | Profit for the reporting year | **Total** |
|---|---|---|---|---|
| **30 September 2017 (unaudited)** | **66 968 300** | **51 800 434** | **7 526 817** | **126 295 551** |
| Transfers into reserves from profit of previous years | - | 3 526 817 | (3 526 817) | - |
| Dividends paid | - | - | (4 000 000) | (4 000 000) |
| Profit for the period | - | - | 3 872 993 | 3 872 993 |
| **30 September 2018** | **66 968 300** | **55 327 251** | **3 872 993** | **126 168 544** |
| Transfers into reserves from profit of previous years | - | 2 224 693 | (2 224 693) | **-** |
| Dividends paid | - | - | (1 648 300) | (1 648 300) |
| Profit for the period | - | - | 2 269 724 | 2 369 724 |
| **30 September 2019** | **66 968 300** | **57 551 944** | **2 269 724** | **126 789 968** |

The accompanying notes on pages 15 to 33 form an integral part of these financial statements.

| | | |
|---|---|---|
| /personal signature/ | /personal signature/ | /personal signature/ |
| Normunds Talcis<br>Chairman of the Board | Uģis Osis<br>Member of the Board | Birute Krūze<br>Member of the Board |
| /personal signature/ | /personal signature/ | /personal signature/ |
| Raivis Elliņš<br>Member of the Board | Jevgeņijs Korols<br>Member of the Board | Ilze Caune<br>Chief Accountant |

22 January 2020

# Notes to the Financial Statements

## 1. General information about the Group Parent Company

The Group parent company AS RIGAS SILTUMS (hereinafter referred to as the Group Parent Company) was established on 25 September 1995 as a joint stock company registered in the Republic of Latvia. The Group Parent Company was registered with the Latvian Enterprise Register on 14 March 1996 and began its commercial activities on 1 May 1996. It was re-registered with the Commercial Register on 8 May 2004

The shareholding structure as at 30 September 2019 and 30 September 2018 is the following:

| | % | Number of shares | Nominal value |
|---|---|---|---|
| Riga City Council | 49,000 | 328 144 | 32 814 400 |
| Latvian State via the Ministry of Economics of the 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 Group Parent Company is the key supplier of heat energy in Riga. Heat energy tariffs were calculated according to Decision No. 1/7 'Methodology for calculating tariffs of heat energy supply services' issued by the Public Utilities Commission (PUC) on 14 April 2010 according to the law 'On regulators for public services'. Tariffs are set in a fashion that enables the Group Parent Company that receives consumer payments for heat to gain economically justified revenues to cover the cost of producing energy, remuneration, business and administrative costs and to support maintenance of long-term investments.

The legal address of the Group Parent Company is Cēsu iela 3a, Riga, LV-1012, Latvia.

As at the reporting date, AS RIGAS SILTUMS Group (the Group) comprised the following:

| | Holding | | |
|---|---|---|---|
| **Subsidiary*** | **30.09.2019** | **30.09.2018** | **Legal address** |
| SIA Rīgas BioEnerģija | 100% | 100% | Meirānu iela 10, Riga, LV-1073, Latvija |

**Financial indicators of SIA Rīgas BioEnerģija:**

| | Shareholder funds | | Current year profit/ (loss) | |
|---|---|---|---|---|
| **Related party** | **30.09.2019 EUR** | **30.09.2018 (unaudited) In EUR** | **01.01.2019-30.09.2019 EUR** | **01.01.2018-30.09.2018 (unaudited) In EUR** |
| SIA Rīgas BioEnerģija | 13 363 thousand | 11 174 thousand | 470 thousand | (393 thousand) |

## 2. Summary of significant accounting policies

### *Form and content of the financial statements*

The consolidated financial statements of AS RĪGAS SILTUMS were prepared in accordance with the 'Annual Reports and Consolidated Annual Reports Law' and the law 'On Accounting' of the Republic of Latvia.

The currency unit used in the consolidated financial statements is Euro, the currency unit of the European Union (hereinafter – EUR), which is the functional and presentation currency of the Group.

These consolidated financial statements cover the period from 1 October 2018 to 30 September 2019. The Group financial statements for the year ended 30 September 2019 were approved by a decision of the Board made on 22 January 2020. The shareholders of the Group have the right to request that amendments be made to these consolidated financial statements after the issue.

The consolidated profit and loss statement was prepared according to the function cost. The consolidated cash flows statement was prepared according to the indirect method.

The Group Parent Company meets the definition of a large company. The Group Parent Company and its consolidated subsidiary SIA Rīgas BioEnerģija (the Group) meet the definition of a large group.

## 2. Summary of significant accounting policies (continued)

***Basis of consolidation***

*Consolidation*

The consolidated financial statements incorporate the financial statements of AS RIGAS SILTUMS and its subsidiary.

A subsidiary is consolidated from the date of acquisition, namely, the date on which the Group gains control over the subsidiary, and is consolidated until the date when the Group ceases to control the subsidiary. The financial statements of the Subsidiary cover a different reporting period, i.e. 1 January to 30 September (as the reporting period was changed in 2019); however they were prepared based on the same accounting policies as those used by the Group Parent Company. The consolidated financial statements for the year ended 30 September 2019 represent subsidiary data for a full reporting year from 1 October 2018 to 30 September 2019. The financial data of the Subsidiary are consolidated from the date control was obtained to 30 September 2019. Intercompany balances, income and expenses, unrealized profit and loss and dividends arising from transactions between Group companies are eliminated in the preparation of the Group consolidated financial statements. Investments in associated companies are disclosed in the consolidated financial statements using the equity method.

*Subsidiary*

A subsidiary is an entity controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from is involvement with the entity and has the ability to affect those returns.

Goodwill at the date control was obtained was calculated as the difference between the consideration paid by the Group Parent Company for the additional 50% holding in the subsidiary and the fair value of the pre-existing 50% holding in SIA Rīgas BioEnerģija, and the fair value of net assets of SIA Rīgas BioEnerģija at the acquisition date. Under Latvian legislation, the useful life of goodwill is 10 years.

### *Accounting principles*

The financial statements were prepared in accordance with the following policies:

a) Going concern assumption that the Group will continue as a going concern;
b) Consistent valuation principles with those used in the prior year;
c) Items were valued in accordance with the principle of prudence, i.e.:
    - the financial statements reflect only the profit generated to the balance sheet date;
    - all incurred liabilities and current or prior year losses have been taken into consideration even if discovered within the period after the date of the balance sheet and preparation of the financial statements; and,
    - all amounts of impairment and depreciation have been taken into consideration irrespective of whether the financial result was a loss or profit.
d) Income and expenses incurred during the reporting year have been taken into consideration irrespective of the payment date or date when the invoice was issued or received; Expenses were matched with revenue for the reporting period.
e) Assets and liabilities have been valued separately.
f) These are the second consolidated financial statements. Comparatives represent the consolidated financial information of the Group which includes data of the subsidiary from the date control was acquired. .
g) All material items, which would influence the decision-making process of users of the financial statements, have been recognised and insignificant items have been combined and their details disclosed in the notes.
h) Business transactions are recorded taking into account their economic contents and substance, not the legal form.

The management believes that the accounting policies used in the preparation of these financial statements are largely consistent with those used last year.

### *Foreign currency transactions*

At the balance sheet date, all monetary assets and liabilities denominated in foreign currencies are revalued according to the exchange rate of the European Central Bank set on 30 September.

Any profit or loss arising from these transactions, and from revaluation of monetary assets and liabilities denominated in foreign currencies into euros is charged to profit or loss.

## 2. Summary of significant accounting policies (continued)

### *Fixed assets*

Acquired fixed assets are carried at cost less accumulated depreciation and impairment and depreciation is calculated on a straight line basis over the useful life of the asset. Depreciation should be calculated separately for each fixed asset component the cost of which is material in comparison with the total cost of respective fixed asset. If certain components of a fixed asset item are depreciated on an individual basis, other components of that same fixed asset item are also depreciated on an individual basis. Depreciation is calculated from the month following the month of putting the asset into use or involvement of it in operating activities. Maintenance and repair costs, and the replacement of non-material spare parts of fixed assets is treated like maintenance costs. The cost of restoration and improvement of fixed assets that significantly prolongs the useful life of the asset is capitalized.

In line with the functional application, fixed assets have the following useful lives:

| | Useful life (years) of acquired fixed assets |
|---|---|
| Buildings and engineering structures | 20 |
| Heat networks | 20-30 |
| Equipment and devices | 5-25 |
| Other fixed assets and inventory | 5 - 20 |
| Computers and office equipment | 4-5 |

Fixed assets valued at over EUR 150 with useful lives exceeding one year are capitalized. Acquired assets valued at below EUR 150 are included in the profit and loss statement and/or treated as low value articles.

Land is not depreciated.

Should any events or changes in circumstances indicate that the carrying amount of fixed assets is no longer recoverable the respective fixed assets are reviewed for impairment. In the presence of non-recoverability indications and when the book value of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. The recoverable amount of fixed assets is the greater of net sales value or value in use. The value in use is estimated by discounting estimated future cash flows at present value using a pre-tax discount rate which reflects the present market forecasts with respect to the changes in the value of the asset and risks associated with it. The recoverable amounts of assets that do not generate independent cash flows are determined for the cash generating unit to which the asset belongs. Impairment loss is recognised in the profit and loss statement as cost of goods sold.

Fixed assets are derecognized in the case of disposal or when future benefits are no longer expected from the use of the respective fixed asset. Any profit or loss arising on derecognition of a fixed asset (calculated as the difference between net income from disposal and book value) is recognized in the profit and loss statement of the period of de-recognition.

Construction in progress reflects the costs of building fixed assets and objects under construction and is disclosed at cost. The cost includes the cost of construction and other direct expenses. Construction in progress is not subject to depreciation until the respective assets are completed and put into operation.

### *Intangible assets*

Intangible assets are carried at historical cost amortized over the useful life of the asset on a straight line basis.

| | |
|---|---|
| Licenses | - in 4 years; |
| Goodwill | - in 10 years. |

Should any events or changes in circumstances indicate that the book value of intangible assets is no longer recoverable the respective intangible assets are reviewed for impairment. An impairment loss is recognized when the book value of an intangible asset exceeds its recoverable amount.

## 2. Summary of significant accounting policies (continued)

### *Stock*

Stock is stated at the lower of cost or net realizable value. Raw materials comprise primarily fuel and maintenance materials for heat sources and heat networks. Damaged or slow-moving stock is either written off or sold. The price of raw materials is recognised according to their acquisition cost using the weighted average cost method.

### *Trade and other receivables*

Trade receivables and other receivables are disclosed on the balance sheet at the initial amounts invoiced less doubtful debt allowances.

### *Cash*

Cash represents cash at bank in EUR.

### *Accounts payable to suppliers and contractors*

Accounts payable to suppliers and contractors are initially carried at fair value. In subsequent periods, accounts payable are carried at amortized cost calculated in accordance with the effective interest rate method. Accounts payable are classified as short-term liabilities if the payment term is one year or less. If it is not the case, accounts payable are disclosed under long-term liabilities.

### *Loans*

Loans are disclosed at cost. Borrowing costs are disclosed in the profit and loss statement when incurred.

### *Finance lease claims*

Finance lease is the lease under which the lessee assumes substantially all the risks and rewards of ownership of the lease object.

Claims arising from lease contracts at inception are disclosed as assets carried at historical cost. Finance lease claims are disclosed on the balance sheet as long term and short term.

Income from finance leases is recognised over the entire lease term to ensure consistent and periodic return on outstanding investments, and is disclosed as part of interest income for the reporting year.

### *Reserves*

Reserves represent retained earnings brought forward from previous years.

### *Revenue recognition*

Revenue is recognized based on the likelihood of gaining economic benefit and to the extent it is reasonably measurable, less value added tax. Revenue is recognized based on the following conditions:

*Sales of heat energy*

Revenue from the sales of heat energy includes revenue generated by the Group Parent Company from the supply of heat energy to consumers in Riga. Revenue is recognised for provision of services on the basis of contracts signed over a specified period of time. Revenue is calculated by multiplying the amount of supplied heat energy with the tariff set by the PUC.

*Sales of electricity*

Electricity is generated in the cogeneration process of heat. Electricity is sold to AS Enerģijas publiskais tirgotājs, SIA AJ Power. Revenue is calculated by multiplying the amount of electricity supplied with a set unit price.

*Sales of merchandise goods*

Revenue is recognized when the Group has transferred all significant risks and rewards of ownership and the amount of revenue may be reasonably estimated.

*Provision of services*

Services include primarily revenue from maintenance of internal systems of buildings. Revenue from services is recognized in the period when the services are provided. Revenue from the maintenance of internal systems of buildings and the related costs are recognised based on the stage of completion of the services.

## 2. Summary of significant accounting policies (continued)

### *Revenue recognition (continued)*

*Interest, contractual penalty, overdue interest recognition*

Interest income is recognized proportionately over time using the effective interest rate method. The accrual of interest income is discontinued if the likelihood of receipt becomes low. Contractual penalty, overdue interests are recognized as income and included in profit or loss when they are received.

*Rental income*

Rental income from real estate properties is recognized for all effective rent agreements over the entire period of rent on a straight line basis.

*Deferred income*

Deferred income represents revenue transferred to the next reporting period related to payments received from clients for connection to heat networks at the clients' request. Revenue is recognised in the current reporting period in proportion to the term of the connection to the heat supply network.

*Financial support from the European Community authorities*

Revenue from the financial support provided by the European Community authorities is recognised in the profit and loss statement as incurred. Financial support attributable to assets (fixed assets) is initially recognized in the statement of financial position under deferred income and recognized in the profit and loss statement on a periodic basis in proportion to the useful life of the relevant asset (fixed asset). Financial support attributable to revenue is disclosed in the profit and loss statement as revenue under other operating income. The share of the financial support intended for covering costs is disclosed in the appropriate period to meet the principle of matching income and expenses.

### *Related parties*

Related parties represent both legal entities and private individuals related to the Group in accordance with the following rules.

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 a 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 the group to which the entity belongs provides management personnel services to the entity or the parent of company of the entity.

Related party transaction – 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 rely on certain estimates and assumptions that impact certain assets and liabilities and contingent liabilities as at the reporting date, and costs incurred during the reporting year as reflected in the financial statements. Actual results could differ from these estimates. The impact of such estimates is reflected at the time they change.

Below are the key assumptions and estimates regarding the future, and the key sources of estimation uncertainty at the reporting date which present a significant risk that material adjustments might be required to net carrying amounts of assets and liabilities in the next reporting period:

## 2. Summary of significant accounting policies (continued)

*Allowances for doubtful and bad receivables*

Receivables are assessed for recoverability by the management of the Group Parent Company and, where required, doubtful and bad debt allowances are recognised. Until the previous financial year inclusive, it was determined by the management that the Group Parent Company recognised allowances for potentially lost receivables by making an individual assessment of receivables to recognise special allowances for individual receivables and by taking account of the age of receivables to recognise general allowances. General allowances were recognised as follows - if receivables were overdue for up to three months the allowance rate was 20%, if payments were overdue for four to twelve months the allowance rate was 70%, and the allowance rate for the receivables overdue for more than twelve months was 100% of the amount overdue. The economic situation in the country has stabilized in recent years, as a result of which the payment discipline of heat users has stabilized, and the management of the Group Parent Company has determined that there is no need to make general provisions for trade receivables. For the financial year ended 30 September 2019, only special provisions for doubtful receivables will be made in the future using the individual method of valuation of receivables.

*Net realisable value of stock*

Net realisable value of stock is assessed by the management of the Group based on information on expected sales prices and selling expenses, and the physical condition of stock is assessed during the annual stock take. Provisions are recognised where the net realisable value of stock is lower than cost. The management of the Group has assessed the net realisable value of stock and believes that no significant additional provisions are required as at 30 September 2019.

*Useful lives of fixed assets, intangible assets and goodwill*

The useful lives of fixed and intangible assets are reviewed at each reporting date and, where necessary, changed to reflect the current views of the management of the Group on the remaining useful lives of assets in view of changes in technology, the remaining economic useful life of assets and their physical condition.

Goodwill is disclosed under intangible assets and according to the Annual Reports and Consolidated Annual Reports Law is carried at cost less accumulated amortisation and impairment losses. As the management believes that it is not possible to reliably estimate the useful life of goodwill its cost is amortized linearly over 10 years, which is the maximum period allowed by the Law.

*Recoverable amounts of fixed assets*

The carrying amounts of fixed assets are assessed by the management of the Group for indications that the recoverable amount of the assets is lower than the carrying amount. An impairment loss on fixed assets is calculated and recognised by the management based on the estimated future use, repossession or disposal. Given the planned volumes of business activities and the likely market value of assets the Group's management believes that as at 30 September 2019 material adjustments to fixed assets are not required.

### ***Provisions***

Provisions are recognized when the Group has a present (legal or constructive) obligation as a result of a past event and it is probable that an outflow of economic benefits will be required from the Group to settle the obligation, and the amount of the obligation can be measured reasonably.

- *Environmental risks and related provisions*

The Group operates in an industry where environmental risks exist in relation to economic activities and an outflow of economic resources may be required to mitigate such risks. One of such risks is pollution of natural resources which may result from the technologies used by the Group in the previous operating periods. In this area, the Group keeps track of, and evaluates, potential sources of pollution, which is the basis for determining the volume of polluted soil. Any provisions for site restoration are recognised when the timing of restoration work is known and the amount of such work is determined based on the amount of polluted soil and the market price for the relevant service.

### *Corporate income tax*

Starting from 2018, profit generated by tax payers is not taxed with CIT until distributed. A CIT of 20% is payable from distributed profits (calculated dividends, payments equalised to dividends and conditional dividends) and conditionally distributed profits (non-operating expenses etc.)

The 20% rate of CIT is applied to the gross amount or 20/80 of net payments i.e. the CIT taxable base is divided by coefficient 0.8.

## 2. Summary of significant accounting policies (continued)

### *CO2 emission allowances*

As the international accounting practice does not propose a consistent treatment and accounting regulations do not contain specific guidance as to the treatment of emission allowances or related activities the Group Parent Company relied on the law On Accounting, Annual Reports And Consolidated Annual Reports Law of the Republic of Latvia, Cabinet of Ministers Regulation No. 585 'Regulation on the accounting procedure and organisation', Latvian Accounting Standards and guidance by the Ministry of Finance and developed its own accounting policy for the treatment of emission allowances. According to the policy, the Group Parent Company obtains emission allowances free of charge and transfers them to the Latvian Environment, Geology and Meteorology Agency according to the procedure laid down in the law On Pollution. Should the Group Parent Company carry out any activities with emission allowances that give rise to assets, liabilities, revenue or expenses such will be booked in their cash value based on the monetary valuation of the relevant transaction disclosed in supporting documents and the economic content and substance of the transaction.

The accounting treatment of $CO_2$ emission allowances is based on the net liability method i.e. if the Group exceeds the number of allowances allocated to it and it is under obligation to purchase additional allowances the commitment is reflected as part of expenses and liabilities. When allowances are sold revenue is recognised in the respective reporting period.

### *Subsequent events*

The financial statements reflect events that occurred subsequent to the year-end and that provide additional information on the Group's financial position at the balance sheet date (adjusting events). If the nature of subsequent events is other than adjusting, they are disclosed in the notes to the financial statements only if they are significant.

## 3. Related party transactions

### *AS Latvenergo*

One of the shareholders of the Group Parent Company, AS Latvenergo, is the largest supplier of heat energy. In the financial years ended 30 September 2019 and 2018 AS Latvenergo supplied heat energy of EUR 64 336 thousand and EUR 63 579 thousand, respectively, (without VAT), and electricity of EUR 1 492 thousand and EUR 1 618 thousand, respectively, (without VAT), and other services of EUR 2 thousand and EUR 2 thousand, respectively (without VAT). As at 30 September 2019, the amount outstanding to AS Latvenergo for heat supplies is EUR 1 664 thousand (30 September 2018: EUR 1 308 thousand), without VAT, and as at 30 September 2019 the amount outstanding to AS Latvenergo for supplied electricity and other services is EUR 111 thousand (30 September 2018: EUR 97 thousand), without VAT.

Effective from 1 April 2014, the functions of the public trader of electricity were overtaken from AS Latvenergo by its subsidiary AS Enerģijas publiskais tirgotājs. In the financial years ended on 30 September 2019 and 2018 the Group Parent Company sold electricity to AS Enerģijas publiskais tirgotājs for EUR 9 300 thousand and EUR 8 834 thousand, respectively, (without VAT). As at 30 September 2019, the amount due from AS Enerģijas publiskais tirgotājs for electricity was EUR 757 thousand (30 September 2018: EUR 1028 thousand).

### *Riga City Council/Ministry of Economics*

As at 30 September 2019 and 2018 the Group has no outstanding payables to Riga City Council/Ministry of Economics and no transactions were made with Riga City Council/Ministry of Economics during the year.

### *Group management*

Transactions with members of the management are comprised only of remuneration (refer to Note 10). No outstanding balances in transactions with the management exist as at 30 September 2019.

## 4. Net sales

| All income is generated in Latvia. | 01.10.2018-30.09.2019 | 01.10.2017-30.09.2018 |
|---|---|---|
| Income from sale of heat energy | 135 817 829 | 137 594 624 |
| Income from sales of electricity | 12 036 843 | 11 620 464 |
| Income from maintenance of internal systems of buildings | 509 100 | 2 204 665 |
| Other income | 327 608 | 276 428 |
| **TOTAL:** | **148 691 380** | **151 696 181** |

## 5. Cost of goods sold

| | 01.10.2018-30.09.2019 | 01.10.2017-30.09.2018 |
|---|---|---|
| Purchased electricity | 76 934 484 | 70 103 207 |
| Fuel | 37 729 380 | 32 801 098 |
| Personnel costs | 14 136 701 | 16 291 402 |
| Amortisation and depreciation | 14 285 451 | 13 483 753 |
| Cost of maintenance materials and repairs | 6 351 837 | 8 767 929 |
| Power | 2 102 667 | 1 910 602 |
| Subsidised electricity tax* | - | 253 093 |
| Other expenses | 1 080 080 | 1 079 163 |
| Doubtful debt allowance | (512 800) | 383 410 |
| **TOTAL:** | **152 107 800** | **145 073 657** |

***Subsidised Electricity Law was in effect from 1 January 2014 to 31 December 2017. Subsidised electricity tax was determined based on the type of energy resources used at the plant. The tax rate for the cogeneration stations with the installed capacity of up to 4 MW (SC Ziepniekkalns, SC Daugavgrīva, KM Keramikas 2a and KM Viestura 2b) was 5% and that for the cogeneration station Imanta which qualified for the group of energy producers from 4 MW to 20 MW was 15%.

## 6. Administrative expenses

| | 01.10.2018-30.09.2019 | 01.10.2017-30.09.2018 |
|---|---|---|
| Personnel costs | 3 374 694 | 3 397 881 |
| Computer maintenance, accessories and software support | 222 263 | 205 987 |
| Communication expenses | 71 926 | 83 403 |
| Other administrative expenses | 731 960 | 482 812 |
| **TOTAL:** | **4 400 843** | **4 170 083** |

## 7. Other operating income

| | 01.10.2018-30.09.2019 | 01.10.2017-30.09.2018 |
|---|---|---|
| Income from the sales of emission rights (refer to Note 24) | 8 705 900 | - |
| Income from building of heating networks and related income | 1 108 430 | 1 357 081 |
| Income from EU financial support (refer to Note 21) | 872 779 | 894 818 |
| Income from disposal of current assets | 97 168 | 302 904 |
| Income from disposal of fixed assets, net | 680 870 | 380 474 |
| Income from lease of fixed assets | 38 386 | 70 708 |
| Fines and contractual penalties received | 195 166 | 24 158 |
| Other income | 197 545 | 42 143 |
| **TOTAL:** | **11 896 244** | **3 072 286** |

## 8. Other operating expenses

| | 01.10.2018-30.09.2019 | 01.10.2017-30.09.2018 |
|---|---|---|
| Provision for site restoration (refer to Note 25(b)) | - | 1 007 490 |
| Net carrying amount of written-off assets | 81 014 | 254 224 |
| Impairment losses* | 256 598 | - |
| Other | 583 880 | 772 130 |
| **TOTAL:** | **921 492** | **2 033 844** |

*In 2019, the Subsidiary wrote off impairment of EUR 256 598 arising from construction in progress following the feasibility analysis of the building design.

## 9. Corporate income tax

| | 01.10.2018-30.09.2019 | 01.10.2017-30.09.2018 |
|---|---|---|
| Corporate income tax for the reporting year | - | (296 490) |
| **TOTAL:** | **-** | **(296 490)** |

## 10. Personnel costs

Total personnel costs for the financial year ended on 30 September 2019 were disclosed under the following items of the profit and loss statement:

| | 01.10.2018-30.09.2019 | 01.10.2017-30.09.2018 |
|---|---|---|
| Cost of goods sold | 14 136 701 | 16 291 402 |
| Administrative expenses | 3 374 694 | 3 397 881 |
| **TOTAL:** | **17 511 395** | **19 689 283** |

***Remuneration of the members of the Board and Council***

| | 01.10.2018-30.09.2019 | 01.10.2017-30.09.2018 |
|---|---|---|
| Remuneration to the Board | 479 304 | 442 479 |
| Remuneration to the Council | 128 997 | 117 176 |
| Social contributions on behalf of the Board members | 126 463 | 98 970 |
| Social contributions on behalf of the Council members | 30 292 | 27 365 |
| **TOTAL:** | **765 056** | **685 990** |

| *Average number of employees* | 01.10.2018-30.09.2019 | 01.10.2017-30.09.2018 |
|---|---|---|
| Board of Directors | 7 | 7 |
| Supervisory Board | 4 | 4 |
| Other personnel | 704 | 794 |
| **TOTAL:** | **715** | **805** |

The number of employees decreased as a result of the Group Parent Company terminating its contract with SIA Rīgas namu pārvaldnieks in early 2018 for maintenance of building systems.

## 11. Profit distribution

Distribution of the profit of the Group Parent Company for the financial year ended on 30 September 2018 will be decided by the Shareholders' Meeting.

## 12. Intangible assets and fixed assets

| | Licenses | Land, buildings and engineering structures | Equipment and devices | Other fixed assets and inventory | Construction in progress | Prepayments for fixed assets | **TOTAL** |
|---|---|---|---|---|---|---|---|
| **Cost as at 30.09.2017** | **2 020 920** | **212 986 708** | **84 531 707** | **17 573 047** | **14 476 923** | **-** | **331 589 305** |
| Acquisition after obtaining control over the subsidiary* | - | 3 570 235 | 13 016 284 | 9 657 | 553 006 | - | 17 149 182 |
| Acquisitions | 12 006 | 242 312 | 253 659 | 837 861 | 20 139 506 | - | 21 485 344 |
| Reclassification | - | 18 180 583 | 1 882 775 | 219 538 | (20 282 896) | - | - |
| Disposals | (2 454) | (3 266 504) | (613 307) | (706 684) | - | - | (4 588 949) |
| **Cost as at 30.09.2018** | **2 030 472** | **231 713 334** | **99 071 118** | **17 933 419** | **14 886 539** | **-** | **365 634 882** |
| Acquisitions | 18 637 | 170 000 | 217 172 | 958 606 | 25 612 891 | 4 138 | 26 981 444 |
| Reclassification | - | 15 438 289 | 1 907 826 | 172 473 | (17 518 588) | - | - |
| Disposals | (32 957) | (1 591 512) | (342 272) | (887 688) | - | - | (2 854 429) |
| **Cost as at 30.09.2019** | **2 016 152** | **245 730 111** | **100 853 844** | **18 176 810** | **22 980 842** | **4 138** | **389 761 897** |
| **Accumulated depreciation/ amortisation as at 30.09.2017** | **(1 771 157)** | **(110 160 490)** | **(50 322 287)** | **(12 055 609)** | **-** | **-** | **(174 309 543)** |
| Depreciation/ amortization | (72 861) | (6 212 096) | (5 673 623) | (1 524 681) | - | - | (13 483 261) |
| Depreciation of disposed fixed assets | 2 342 | 2 925 584 | 602 572 | 696 388 | - | - | 4 226 886 |
| **Accumulated depreciation/ amortisation as at 30.09.2018** | **(1 841 676)** | **(113 447 002)** | **(55 393 338)** | **(12 883 902)** | **-** | **-** | **(183 565 918)** |
| Depreciation/ amortization | (66 466) | (6 816 741) | (5 850 207) | (1 554 480) | (256 598) | - | (14 544 492) |
| Depreciation of disposed fixed assets | 32 936 | 1 442 988 | 305 776 | 872 324 | - | - | 2 654 024 |
| **Accumulated depreciation/ amortisation as at 30.09.2018** | **(1 875 206)** | **(118 820 755)** | **(60 937 769)** | **(13 566 058)** | **(256 598)** | **-** | **(195 456 386)** |
| **Balance as at 30.09.2018** | **188 796** | **118 266 332** | **43 677 780** | **5 049 517** | **14 886 539** | **-** | **182 068 964** |
| **Balance as at 30.09.2019** | **140 946** | **126 909 356** | **39 916 075** | **4 610 752** | **22 724 244** | **4 138** | **194 305 511** |

*Carrying amount of overtaken intangible and fixed assets as at the date of obtaining control over the subsidiary (see Note 13).

As at 30 September 2019 the Group Parent Company leased out a number of buildings that used to house central heating points or boiler houses with the carrying amount of EUR 272 thousand (30 September 2018: EUR 328 thousand).

Amortisation and depreciation is charged to the profit and loss statement under cost of goods sold.

Under loan agreements, the Group Parent Company is required to agree with credit institutions on disposal of assets with the larger of the total carrying amount or sales price up to EUR 500 000 within the financial year and the disposal or lease of property with the carrying amount during the year exceeding 5% of the Group Parent Company's balance sheet, except when property is disposed or leased as part of ordinary commercial activities (refer to Note 17). Under the Group Parent Company's accounting policies with regard to interest payments relating to investments interest on loans is not capitalised. All fixed assets of the Subsidiary are pledged as security for a loan issued under a syndicated loan agreement signed by the Subsidiary.

In 2019, impairment of EUR 256 598 was written off arising from construction in progress by the Subsidiary following the feasibility analysis of the building design.

### *Fully depreciated fixed assets*

A number of fully depreciated fixed assets are still being used for the Group's primary activities. The aggregate historical cost of such fixed assets at the end of the reporting year was EUR 77 681 thousand (30 September 2018: EUR 73 271 thousand).

## 13. Goodwill

On 22 December 2017 the Group Parent Company acquired 50% of the shares of SIA Rīgas BioEnerģija.

As a result of the transaction, the investment of the Group Parent Company in SIA Rīgas BioEnerģija increased from 50% to 100% and effective from 22 December 2017 the Group Parent Company exercises control over SIA Rīgas BioEnerģija. Below is a summary of the consideration paid, acquired net assets and the resultant goodwill. The carrying amount of acquired net assets is considered to be its fair value. This approach was taken despite the fact that the fair value of the 50% holding in SIA Rīgas BioEnerģija was appraised by an independent valuer to approximate EUR 5 000 000 as the valuation incorporated existing synergies with the Group Parent Company.

| | **EUR** |
|---|---|
| Fixed assets | 17 149 182 |
| Stock | 2 087 |
| Other assets | 384 473 |
| Cash | 1 216 524 |
| Liabilities | (12 160 502) |
| **Acquired net assets** | **6 591 764** |
| | |
| **Holding as at the date of obtaining control** | |
| Goodwill | 2 138 958 |
| Acquired net assets, including intercompany balances at the acquisition date | 7 367 042 |
| Fair value of the initial investment (50%) prior to additional acquisition | (4 753 000) |
| **Cost** | **4 753 000** |
| Acquired cash | 1 216 524 |
| **Net cost** | **3 536 476** |

| | 01.10.2018-30.09.2019 | 01.10.2017-30.09.2018 |
|---|---|---|
| **Initial cost at the beginning of the period** | 2 138 958 | **-** |
| Acquisitions | - | 2 138 958 |
| **Initial cost at the end of the period** | **2 138 958** | **2 138 958** |
| | | |
| **Accumulated amortization at the beginning of the period** | (160 422) | **-** |
| Amortisation | (213 896) | (160 422) |
| **Accumulated amortization at the end of the period** | **(374 318)** | **(160 422)** |
| **Carrying amount at the beginning of the period** | **1 978 536** | **-** |
| **Carrying amount at the end of the period** | **1 764 640** | **1 978 536** |

## 14. Raw materials

| | 30.09.2019 | 30.09.2018 |
|---|---|---|
| Gas* | 430 534 | 1 084 732 |
| Woodchips | 116 219 | 121 861 |
| Liquid fuel | 708 456 | 804 610 |
| Metalware | 613 346 | 588 147 |
| Equipment | 110 176 | 146 111 |
| Measuring instruments | 92 465 | 142 268 |
| Building materials | 301 897 | 141 573 |
| Chemical materials | 11 619 | 14 331 |
| Electric materials | 10 749 | 12 033 |
| Consumables and protective materials | 19 511 | 11 813 |
| Other | 145 610 | 264 423 |
| (Net of) provisions for obsolete materials | (32 241) | (71 602) |
| **TOTAL:** | **2 528 341** | **3 260 300** |

* Since 2017, when the gas market was liberated the trader has been supplying a certain amount, while another organization is balancing on the basis of variable consumption, taking into account that the actual consumption differs from that requested. In order to perform balancing works, stock of gas is necessary which is purchased from the supplier and stored in Inčukalna gas tanks.

Movements in the provision for obsolete materials:

| | 01.10.2018-30.09.2019 | 01.10.2017-30.09.2018 |
|---|---|---|
| Beginning of the reporting period | 71 602 | 74 393 |
| Changes in provisions | (39 361) | (2 791) |
| **End of the reporting period** | **32 241** | **71 602** |

## 15. Trade receivables

| | 30.09.2019. | 30.09.2018 |
|---|---|---|
| Due for heat energy | 6 715 392 | 7 024 413 |
| Due for sold electricity | 1 022 026 | 1 027 540 |
| Due for maintenance of internal systems of buildings | 2 530 | 10 608 |
| (Less) doubtful debt allowance | (95 278) | (633 520) |
| **TOTAL:** | **7 644 670** | **7 429 041** |

Movements in doubtful debt allowances:

| | 01.10.2018-30.09.2019 | 01.10.2017-30.09.2018 |
|---|---|---|
| Beginning of the reporting period | 633 520 | 285 657 |
| Reversed allowances (refer to Notes 2 and 5) | (526 000) | - |
| Recoveries of previously provided for debts | (798) | (3 620) |
| Written off previously provided for debts | (24 644) | (31 927) |
| Additional allowances created (refer to Note 5) | 13 200 | 383 410 |
| **End of the reporting period** | **95 278** | **633 520** |

## 16. Other receivables

| | | 30.09.2019. | 30.09.2018 |
|---|---|---|---|
| Overpaid value added tax (refer to Note 20) | | - | 98 060 |
| Receivables for disposed real estate | | 145 207 | 51 644 |
| Short-term claims under lease of individual heating units | | - | 3 692 |
| Overpaid corporate income tax (refer to Note 20) | | 3 847 | 3 847 |
| Overpaid property tax (refer to Note 20) | | 526 | - |
| Other receivables | | 133 216 | 59 391 |
| (Less) doubtful debt allowance | | (4 814) | (4 814) |
| | **TOTAL:** | **277 982** | **211 820** |

| Movements in other doubtful debt allowances: | 01.10.2018-30.09.2019 | 01.10.2017-30.09.2018 |
|---|---|---|
| Beginning of the reporting period | 4 814 | 6 040 |
| Written off previously provided for debts | - | (1 226) |
| **End of the reporting period** | **4 814** | **4 814** |

## 17. Loans from credit institutions

Loans of the Group Parent Company

On 23 September 2016 the Group Parent Company signed a loan agreement with OP Corporate Bank plc filiāle Latvijā for EUR 5 000 000 to finance and refinance investment projects of the financial year 2015/2016. Without the bank's prior written consent the Group Parent Company is not authorised to enter into any separate transactions or a series of transactions to sell, lease, transfer or dispose of in another manner any assets, except in an arm's length transaction: with regard to assets (other than shares, property of the company and real estate) in exchange for other assets equal or superior by type, value and quality; with regard to obsolete or unnecessary vehicles, mechanisms or equipment in exchange for money; and the disposal of assets with the larger of the total carrying amount or sales price not exceeding EUR 500 000 within a financial year. During the term of this agreement, as at 30 September of each financial year, the Group Parent Company is required to maintain an equity ratio of at least 50%, a debt-to-equity ratio of not more than 2.5 and a DSCR ratio of at least 1.2. As at 30 September 2018 these financial covenants were complied with. As at 30 September 2019 the Company is not in compliance with the covenant on the debt-to-equity ratio. This non-compliance has no effect on the provisions or terms of the contract.

On 19 July 2017 the Group Parent Company signed a loan agreement with OP Corporate Bank plc filiāle Latvijā for EUR 10 000 000 to finance and refinance investment projects of the financial year 2016/2017. Without the bank's prior written consent the Group Parent Company is not authorised to enter into any separate transactions or a series of transactions to sell, lease, transfer or dispose of in another manner any assets, except in an arm's length transaction: with regard to assets (other than shares, property of the company and real estate) in exchange for other assets equal or superior by type, value and quality; with regard to obsolete or unnecessary vehicles, mechanisms or equipment in exchange for money; and the disposal of assets with the larger of the total carrying amount or sales price not exceeding EUR 500 000 within a financial year. During the term of this agreement, as at 30 September of each financial year, the Group Parent Company is required to maintain an equity ratio of at least 50%, a debt-to-equity ratio of not more than 2.5 and a DSCR ratio of at least 1.2. As at 30 September 2018 these financial covenants were complied with. As at 30 September 2019 the Company is not in compliance with the covenant on the debt-to-equity ratio. This non-compliance has no effect on the provisions or terms of the contract.

On 23 August 2018 the Group Parent Company signed a loan agreement with AS SEB bank for EUR 10 000 000 to finance and refinance project 'Installation of a bio-fuel boiler with capacity of up to 50MW in heating plant Imanta'. Without the bank's prior written consent the Group Parent Company is not authorised to pledge its property on behalf of other legal or natural persons or encumber its property in another manner on behalf of other legal or natural persons if the total value of each separate transaction or all such transactions within a year exceeds EUR 500 000; dispose of or lease own property if the total carrying amount of such property within a year exceeds 5% of the Group Parent Company's balance sheet except when the property is disposed of or leased in the course of ordinary business of the Group Parent Company. The Group Parent Company undertakes to maintain the following financial indicators at the end of each six months: adjusted equity ratio of at least 50% and as of 31 March 2020 net liabilities to adjusted profit (EBITDA) of not more than 5. As at 30 September 2018 and 30 September 2019 the Group Parent Company was in compliance with loan covenants.

## 17. Loans from credit institutions (continued)

Loans of the Group Parent Company (continued)

On 4 September 2018 the Group Parent Company signed a loan agreement with OP Corporate Bank plc filiāle Latvijā for EUR 10 000 000 to finance and refinance investments projects of the financial year 2017/2018. Without the bank's prior written consent the Group Parent Company is not authorised to enter into any separate transactions or a series of transactions to sell, lease, transfer or dispose of in another manner any assets, except in an arm's length transaction: with regard to assets (other than shares, property of the company and real estate) in exchange for other assets equal or superior by type, value and quality; with regard to obsolete or unnecessary vehicles, mechanisms or equipment in exchange for money; and the disposal of assets with the larger of the total carrying amount or sales price not exceeding EUR 500 000 within a financial year. During the term of this agreement, as at 30 September of each financial year, the Group Parent Company is required to maintain an equity ratio of at least 50%, a debt-to-equity ratio of not more than 2.5 and a DSCR ratio of at least 1.2. As at 30 September 2018 these financial covenants were complied with. As at 30 September 2019 the covenant on the debt-to-equity ratio is not complied with. This non-compliance has no effect on the provisions or terms of the contract.

On 15 July 2019 the Group Parent Company signed a loan agreement with Luminor Bank AS Latvian branch for EUR 18 000 00 to finance and refinance investments projects of the financial year 2018/2019. Without the bank's prior written consent the Group Parent Company is not authorised to invest money or other property in another company (except when money or property is invested in a 100% shareholding company), alienate, lease, assign or otherwise transfer to a third party all property or any significant part thereof, unless the total or individual amount is less than or equal to EUR 200 000 for the duration of the contract, or to assume liabilities with the total or individual amount of less than or equal to EUR 200 000 whether by way of a finance lease (purchase), operating lease (lease) or factoring contract, or property is sold or leased within the normal and ordinary course of business, and it is not authorised to issue guarantees or other deeds of commitment that oblige it to respond to creditors in relation to third party liabilities. For the duration of the contract, the Group Parent Company is required to maintain an equity ratio of at least 40% and from September 2020 the ratio of financial debt to adjusted profit (EBITDA) for 3, 6, 9 and 12 months period must not exceed 3. As at 30 September 2019 the Group Parent Company was in compliance with loan covenants.

On 6 November 2017 the Company signed an overdraft agreement with OP Corporate Bank plc filiāle Latvijā with the maximum amount of credit line of EUR 20 000 000 valid for one year. The annual interest rate is 6 months EURIBOR + 0.41%. As at 30 September 2018 the Group Parent Company had used EUR 1 880 952 of the credit line. The agreement expired before 30 September 2019.

On 12 August 2018 a credit line agreement with the maximum limit of EUR 5 000 000 was signed with Swedbank AS in effect until 29 April 2020. The annual interest rate is 3 months EURIBOR + 0.79%. As at 30 September 2019 the Group Parent Company had used none of the credit line.

Loans of the subsidiary

On 21 April 2017 SIA Rīgas BioEnerģija signed a syndicated loan agreement of EUR 24 500 000 with AS Citadele banka and AS ABLV Bank concerning building of two bio-fuel boiler houses on the right river bank of Riga. The performance is secured and enhanced by a commercial pledge on all property of SIA Rīgas BioEnerģija collectively, a finance pledge on cash on all current accounts of SIA Rīgas BioEnerģija, and a priority one mortgage on real estate property of SIA Rīgas BioEnerģija. Under the loan agreement, the entity is required to maintain certain financial ratios as DSCR, EBITDA and equity to assets. All these financial ratios were maintained in 2019.

The Group's loans from credit institutions are comprised of the following short and long term portions:

| **Short term:** | Initial contract amount | | Effective interest rate (%) | Repayment term | 30.09.2019 | 30.09.2018 |
|---|---|---|---|---|---|---|
| OP Corporate Bank plc filiāle Latvijā | 5 000 000 | EUR | 0,69% | 28.07.2021 | 1 666 667 | 1 666 667 |
| OP Corporate Bank plc filiāle Latvijā | 10 000 000 | EUR | 0,69% | 28.05.2022 | 3 333 333 | 833 333 |
| Overdraft from OP Corporate Bank plc filiāle Latvijā | 20 000 000 | EUR | 6m EURIBOR + 0.41% | 09.08.2019 | - | 1 880 952 |
| AS Citadele banka and AS ABLV Bank | 24 500 000 | EUR | 3m EURIBOR + 4.5% | 20.04.2022 | 1 396 336 | 1 396 336 |
| | | | | **TOTAL:** | **6 396 336** | **5 777 288** |

| ***Long-term:*** | Initial contract amount | | Effective interest rate (%) | Repayment term | 30.09.2018 | 30.09.2017 |
|---|---|---|---|---|---|---|
| OP Corporate Bank plc filiāle Latvijā | 5 000 000 | EUR | 0.69% | 28.07.2021 | 1 666 667 | 3 333 333 |
| OP Corporate Bank plc filiāle Latvijā | 10 000 000 | EUR | 0.69% | 28.05.2022 | 5 833 333 | 9 166 667 |
| OP Corporate Bank plc filiāle Latvijā | 10 000 000 | EUR | 6M EURIBOR + 0.87% | 28.07.2023 | 10 000 000 | 10 000 000 |
| AS SEB banka | 10 000 000 | EUR | 0,99% | 22.08.2023 | 10 000 000 | 10 000 000 |
| Luminor Bank AS Latvian branch | 18 000 000 | EUR | 3M EURIBOR + 3.5% | 31.07.2024 | 18 000 000 | - |
| AS Citadele banka and AS ABLV Bank | 24 500 000 | EUR | 3m EURIBOR + 4.5% | 20.04.2022 | 6 454 561 | 7 796 207 |
| | | | | **TOTAL:** | **51 954 561** | **40 296 207** |

## 18. Accounts payable to suppliers and contractors

| | 30.09.2019 | 30.09.2018 |
|---|---|---|
| Payables to contractors | 10 142 142 | 8 130 332 |
| Accounts payable to suppliers | 1 030 427 | 3 348 432 |
| Other payables for services | 203 620 | 284 295 |
| **TOTAL:** | **11 376 189** | **11 763 059** |

## 19. Accrued liabilities

| | 30.09.2019 | 30.09.2018 |
|---|---|---|
| Provisions for vacations and staff incentives | 2 059 459 | 2 727 031 |
| Accrued liabilities for heat energy supplied by AS Latvenergo | 1 664 023 | 1 307 698 |
| Remuneration | 826 866 | 968 369 |
| Provision for technical staff engaged in maintenance of internal heat supply systems of buildings* | - | 46 822 |
| Accrued liabilities for other short-term payables | 1 623 137 | 829 811 |
| Accrued liabilities for interest payments | 123 378 | - |
| **TOTAL:** | **6 296 863** | **5 879 731** |

* Provision for collective termination of technical staff engaged in maintenance of internal heat supply systems of buildings due to termination of the maintenance contract with SIA Rīgas namu pārvaldnieks.

## 20. Taxes and compulsory state social security contributions

| | 30.09.2019 | 30.09.2018 |
|---|---|---|
| Value added tax | (345 905) | 98 060 |
| Compulsory state social security contributions | (554 128) | (622 799) |
| Personal income tax | (240 494) | (284 840) |
| Business risk state duty | (253) | (247) |
| Natural resources tax | (22 328) | (15 618) |
| Corporate income tax | 3 847 | 3 847 |
| Real estate tax | 526 | - |
| **TOTAL:** | **(1 158 735)** | **(821 597)** |
| Of which: | | |
| Overpaid taxes (refer to Note 16) | 4 373 | 101 907 |
| Payable taxes | (1 163 108) | (923 504) |

## 21. Deferred income

| | 01.10.2018-30.09.2019 | 01.10.2017-30.09.2018 |
|---|---|---|
| Beginning of the reporting period | 11 819 667 | 12 110 758 |
| Increase during the year from payments related to connections to the heating network at client request | 313 783 | 613 354 |
| Increase during the year EU funding heating plant Imanta (TREASURY) | 3 475 481 | - |
| Increase during the year EU funding heating plant Daugavgrīva (TREASURY) | 936 000 | - |
| Leasehold improvements | - | 242 311 |
| Lessee's investment in leasehold improvements recognized in profit or loss statement during the reporting year | (40 954) | - |
| Recognised in the reporting year in the profit and loss statement in proportion to the useful lives of relevant (fixed) assets from the amounts of EU financing received in previous financial years (refer to Note 7) | (872 779) | (894 818) |
| Recognised in the reporting year in the profit and loss statement payments received from new clients for connections to the heating network in proportion to the term of obligatory procurement of heat energy or the useful life of assets (fixed assets) | (258 264) | (246 337) |
| Recognised in the reporting year in the profit and loss statement in proportion to the useful lives of relevant (fixed) assets from the amounts of payments received for the completed CPFI project to purchase electric cars | (5 601) | (5 601) |
| **End of the reporting period** | **15 367 333** | **11 819 667** |
| **Long-term:** | **14 192 469** | **10 642 070** |
| **Short-term:** | **1 174 864** | **1 177 597** |

## 22. Financial risk management

The key financial instruments of the Group are loans from credit institutions, finance lease assets and cash. These financial instruments are held primarily for the purposes of financing the business activities. The Group is a party to a number of other financial instruments such as trade receivables and other receivables, amounts payable to suppliers and contracts and other liabilities arising directly from its business activities. The key financial risks related to the Group's financial instruments is interest rate risk, credit risk, liquidity risk and price risk.

### *Interest rate risk*

Loans carried at floating interest rates pose the risk that financial costs will increase significantly as interest rates increase. As a measure to reduce risks and ensure financial stability whenever loans are taken both fixed and floating interest rates are used

### *Credit risk*

The Group is exposed to credit risk in relation to its trade receivables, other receivables and cash. Credit risk is controlled by the Group by consistent monitoring of receivables seeking to reduce the likelihood of doubtful debts. The Group is not exposed to a significant credit risk concentration with regard to a single counterparty or a group of counterparties with similar characteristics, except SIA Rīgas namu pārvaldnieks, which as at 30 September 2019 accounts for 52% (30 September 2018: 69%) of trade receivables of the Group Parent Company for heat energy.

### *Liquidity risk*

Liquidity risk is managed by the Group via maintaining appropriate amounts of cash or access to funding in the form of bank loans. As at 30 September 2019 the Group's short-term liabilities exceeded its current assets by EUR 2 126 thousand. The Group plans to bridge this gap from operating cash flows and by means of the credit lines granted in the reporting period and after the reporting date (refer to Notes 17 and 27).

### *Price risk*

Following liberalisation of the gas market the Group Parent Company is exposed to price risk, which is controlled and managed successfully by both signing short term gas supply agreements and purchasing and storing natural gas reserves in Incukalns storage facility, and also by engaging experts who conduct studies of natural gas supply and trading opportunities.

## 23. Remuneration to certified auditors

| | 01.10.2018-30.09.2019 | 01.10.2017-30.09.2018 |
|---|---|---|
| Fee for the audit of financial statements | 23 100 | 24 700 |
| Other expert engagements and consultations | 5 500 | 4 800 |
| **TOTAL:** | **28 600** | **29 500** |

## 24. Pollution allowances

1 January 2013 marks the beginning of the third period, 2013-2020, of the EU's greenhouse gas emissions trading scheme. According to EC Decision 2011/278/EC determining transitional Union-wide rules for harmonised free allocation of emission allowances pursuant to Article 10a of Directive 2003/87/EC, in this period free GHG emission allowances are handed out only to heat producers. The number of allowances is gradually reduced.

The heat sources of the Group that take part in the GHG trading scheme for 2013 were handed out 223 488 allowances, for 2014 - 187 684 allowances, for 2015 – 155 348 allowances, for 2016 – 127 340 allowances, for 2017 – 109 743 allowances, and for 2018 – 92 717 allowances. In 2013 164 181 allowances were used and 59 307 allowances remained, in 2014 129 858 allowances were used and 57 826 remained, and in 2015 126 338 allowances were used and 29 010 remained. In 2016 144 697 allowances were used and the deficit from those allocated for 2016 was 17 357 allowances. In 2017 144 764 allowances were used and the deficit from those allocated for 2017 was 35 021 allowances. In 2018 177 111 allowances were used and the deficit from those allocated for 2018 was 84 394 allowances. In 2019 143 433 allowances were used and the deficit from those allocated for 2019 was 67 191 allowances.

## 24. Pollution allowances (continued)

Given the number of allowances handed out previously and the measures taken by the Group to reduce the consumption of allowances the Group holds a significant number of excess allowances from the trading period 2008-2012, namely 567 272 allowances. The unused allowances are transferred to the 2013-2020 trading period and may be used to meet obligations in this period.

Directive 2003/37/EC of the European Parliament, as well the law On Pollution states emission trading scheme (ETS) requires the participation of combustion plants with a rated input of more than 20 MW. In the Group Parent Company, 6 heat sources meet this criterion. The amount of allowances to be allocated is calculated on the basis of emissions from installations in 2005 with the aim of reducing them. Consequently, fewer allowances are allocated each year. As the Group has made both fuel diversification and several efficiency improvements in its heat sources, the Group Parent Company accumulated excess allowances, which were used in this financial year as a financial instrument to improve the financial situation. During the period 29 August 2019 to 27 September 2019 335 thousand quotas were sold for EUR 8.7 million in a series of transactions.

## 25. Financial and contingent liabilities

**(a) Commitments in relation to servicing of equipment at heating plant Imanta**

On 12 January 2015, a contract was signed under which maintenance of the gas turbine installed at heating plant Imanta was undertaken by Industrial Turbine Company (UK) Limited United Kingdom. On 15 May 219 a comprehensive service agreement was signed with Industrial Turbine Company (UK) Limited (UK) for maintenance of a gas turbine plant installed on the heating plant Imanta in the amount of EUR 38 thousand per month. The term of the contract is 31 December 2019 or reaching 50 thousand working hours of power turbine.

On 6 September 2017, a long-term contract was signed with De Pretto Industrie S.r.l. (Italy) for the maintenance of the steam turbine, gas compressor and auxiliary equipment of the heating plant Imanta for EUR 42 thousand per year. The term of the contract is 20 June 2021.

On 8 September 2017, a long-term contract was signed with Emerson Process Management Sp.z. o.o. (Poland) for the maintenance and repair of the automated control system of the heating plant Imanta in the part of the cogeneration unit EUR 40 thousand per year. The term of the contract is 20 June 2021.

**(b) Other contingent liability of the Group Parent Company**

As at 30 September 2019, the Group Parent Company had effective agreements on repair and construction work for a total of EUR 13,049 thousand (30 September 2018, the Group Parent Company had effective agreements on repair and construction work for a total of EUR 6,619 thousand). Including contracts with the support of EU funding: installation of biofuel boilers with capacity up to 50 MW in SC Imanta in the amount of EUR 9 257 thousand and installation of biofuel water boilers with capacity up to 2x4 MW in SC Daugavgriva in amount of EUR 2 110 thousand.

The Group Parent Company operates in an industry where environmental risks exist in relation to economic activities and an outflow of economic resources may be required to mitigate such risks. One of such risks is pollution of natural resources which may result from the technologies used by the Group Parent Company in the previous operating periods. In this area, the Group Parent Company keeps track of, and evaluates, potential sources of contamination.

In support of the modernisation project of heating plant Daugavgriva, as part of which a new bio-fuel warehouse and bio-fuel boiler of 2 x 4 MW will be constructed and a diesel system will be installed in the next stage of the project, in 2016 and 2017 SIA Vides Konsultāciju Birojs carried out a study of soil and ground water contamination. The study showed that by reference to the ground water quality criteria set in laws and regulations concerning contamination with oil products it was established that in certain wells there were oil product concentrations that exceeded the thresholds at which a territory should be considered contaminated and the potential extent of contamination was determined. Based on research data, mazout tanks of 2x1000m$^3$ were dismantled at heating plant Daugavgriva and soil contaminated with mazout was utilised under the dismantled reservoirs and in the close vicinity of the boiler house. On 30 September 2017 the Group Parent Company recognised a provision of EUR 648 000. The site restoration work was carried out according to the restoration work programme agreed with the Greater Riga Regional Environmental Department (RED) of the State Environmental Service in the period from December 2017 to June 2018. As early as during the initial studies (2016) soil contamination was identified in the section of the heating plant located near the mazout draining platform and alongside the building of the mazout technical pump station, which did not have a direct impact on the modernisation of heating plant Daugavgriva. After the above restoration work was completed the RED reviewed the report and case files and concluded that additional studies should be conducted in the area and the restoration process should be continued. In order to establish contamination accurately in November 2018 SIA Vides Konsultāciju Birojs conducted additional studies and based on the results calculated the volume of contaminated soil. On the basis of the expert opinion of SIA Vides Konsultāciju Birojs concerning contamination identified as a result of detailed soil studies in the territory of heating plant Daugavgriva as at 30 September 2018 the Group Parent Company recognised a provision of EUR 1 007 490 for preparing measures for soil and environment restoration. Management estimations for 30 September 2019 have not changed compared to 30 September 2018 and no adjustments to provisions are required.

## 25. Financial and contingent liabilities (continued)

### (a) Commitments in relation to servicing of equipment at heating plant Imanta (continued)

The entire mazout system of heating plant Imanta was dismantled to free the territory for construction of a bio-fuel boiler house using EU co-financing. If co-financing is granted the project will need to follow strict deadlines to minimize the risk of financial corrections. In 2017, SIA Vides Konsultāciju Birojs conducted a pre-restoration study of soil and ground water contamination under the mazout tanks in heating plant Imanta. The studies revealed soil contamination. As at 30 September 2017 the Group Parent Company recognised a provision of EUR 1 708 128 for preparing measures for soil and environment restoration. The site restoration work was carried out according to the restoration work programme agreed with the Greater Riga Regional Environmental Department of the State Environmental Service in the period from February to July 2018. After the restoration work was completed the Greater Riga Regional Environmental Department of the State Environmental Service issued a decision concerning change of the contaminated area category from Category 2 (potentially contaminated area) to Category 3 (not potentially contaminated area).

In 2017 SIA Vides Konsultāciju Birojs conducted soil contamination studies also in heating plants Vecmilgravis and Ziepniekkalns. No pollution was identified in heating plant Ziepniekkalns. Soil contamination was identified in heating plant Vecmilgravis but the contamination does not migrate to ground water and does not endanger the environment, which permits to exercise regular monitoring of soil and ground water contamination instead of site restoration. No provision was recognised as it was not expected to perform any site restoration work.

## 26. Going concern

At the end of the reporting period, the Group's short term liabilities exceed its current assets by EUR 2 126 thousand. The management believes that positive cash flows from operating activities coupled with the ability to have access to financial resources in the form of short-term loans and credit lines from credit institutions (refer to Note 17 and 27) will enable the management to secure the financing it requires to meet the Group's liabilities in due term.

## 27. Subsequent events

### (a) Subsequent events related to the Group Parent Company

On 1 November 2019 a credit line agreement was signed with AS Swedbank with the maximum amount of the credit line of EUR 20 000 000 available for nine months.

No other significant subsequent events have occurred in the period from the year-end to the date of these financial statements that would require adjustments to be made to these financial statements and disclosures added to the notes thereto.

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|---|---|---|
| Normunds Talcis<br>Chairman of the Board | Uģis Osis<br>Member of the Board | Birute Krūze<br>Member of the Board |
| /personal signature/ | /personal signature/ | /personal signature/ |
| Raivis Elliņš<br>Member of the Board | Jevgeņijs Korols<br>Member of the Board | Ilze Caune<br>Chief Accountant |

22 January 2020

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