



AKCIJU SABIEDRĪBA

RĪGAS SILTUMS

ANNUAL REPORT 2022



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MANAGEMENT REPORT

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

JOINT STOCK COMPANY'S KEY FINANCIAL INDICATORS

As at 30 September 2022, the Joint Stock Company's assets were EUR 319 million, including non-current assets of EUR 218 million (68%) and current assets of EUR 101 million (32%). The turnover for the financial year 2021/2022 was EUR 216 million, up EUR 70 million (48%) year-on-year. The result for the financial year 2021/2022 is a profit of EUR 1.6 million, down EUR 3.8 million from the prior year. The Joint Stock Company had 655 employees as at 30 September 2022.

The Joint Stock Company's revenue from the sale of heat for the financial year 2021/2022 was EUR 210.3 million, which accounted for 97% of total revenue earned by the Joint Stock Company. During the heating season of the financial year 2021/2022, 3.1 million MWh of heat were delivered to customers, down 1.6%, or 51 thousand MWh, against the previous year. Although the heating season was 11 days longer than before, the amount of useful heat delivered was lower due to the mean outdoor temperature rising by 0.5°C.

The financial year 2021/2022 saw a global energy crisis. Prices were on the rise already in 2021, but following Russia's invasion of Ukraine, which began at the end of February 2022, energy prices grew drastically.

As a result of targeted efforts to reduce the use of fossil fuel, biofuel consumption exceeded the target set for the financial year 2021/2022 by 17 thousand MWh.

TTF natural gas prices grew 450% during the financial year 2021/2022. Thanks to purchasing natural gas before the price increase, the average price of natural gas and chips grew 17% and 62% respectively against the budgeted figures, with the result that total fuel expense increased 38%, or EUR 10.6 million, in the financial year 2021/2022.

The Joint Stock Company was forced to revise its heat tariff upwards four times during the financial year 2021/2022. The heat tariff was 57.31 EUR/MWh at the beginning of the financial year, then 66.76 EUR/MWh from November 2021 to February 2022 (inclusive), 69.36 EUR/MWh from 1 March

2022 to 11 March 2022, 74.08 EUR/MWh from 11 March 2022, and 85.45 EUR/MWh from 15 August 2022. The average heat tariff for the financial year 2021/2022 was 68.58 EUR/MWh, up 56% from the financial year 2020/2021, when the tariff was 43.83 EUR/MWh. The Joint Stock Company's heat tariff chiefly comprises the costs of fuel and purchased heat energy, which is why it is mainly dependent on the prices of fuel – natural gas and biofuel – and purchased heat.

The Joint Stock Company generated heat at 44 heat sources, which accounted for 32% of the total amount of heat delivered to the district heating network of Riga. The remaining amount of required heat was purchased from other independent producers. The Joint Stock Company purchased heat from six independent producers in the financial year 2021/2022. Based on contracts signed with heat producers, the Joint Stock Company made purchases on a weekly basis, following the economic gradual approach defined in the Energy Law.

It is important to note that, in the financial year 2021/2022, the share of chips in the Company's fuel mix increased from 30% to 50% after two new biofuel boiler houses at the Imanta and Daugavgrīva heating plants had been put into service.

The Company generated electricity in cogeneration at six heat sources. In the financial year 2021/2022, 37 thousand MWh of electricity were generated in cogeneration, down 48 thousand MWh from the previous financial year. The sale of electricity brought EUR 5.2 million in revenue, which formed 2% of total revenue earned by the Joint Stock Company.

JOINT STOCK COMPANY'S SUBSIDIARY

The Joint Stock Company is the sole shareholder of LLC "Rīgas BioEnergija". At the date of preparing the financial statements for the financial year 2021/2022, the subscribed and fully paid share capital of LLC "Rīgas BioEnergija" was EUR 12.998 million and consisted on 129 980 ordinary shares, each having the par value of EUR 100. As at 30 September 2022, the assets of LLC "Rīgas BioEnergija" were EUR 24.6 million, including non-current assets of EUR 15.3 million (62%) and current assets

of EUR 9.3 million (38%). The turnover for the financial year 2021/2022 was EUR 15.1 million. The result of LLC "Rīgas BioEnergija" for the financial year 2021/2022 is a profit of EUR 5 million.

Heating networks represent a key element of district heating. Safety of district heating and continuity of heat supply, as well as the proportion of transmission heat losses, are directly dependent on the technical condition of heating networks and their elements. 10 heating network optimization projects were carried out in the financial year 2021/2022. The estimated loss reduction after the network optimization is 5 327 MWh per annum.

12.64 km of heating networks were replaced and constructed (by 33% more than in the previous financial year), including 3.4 km of new heating networks constructed for acquiring new customers.

The number of heat consumers is increasing every year. During the financial year 2021/2022, 69 new buildings started consuming heat energy, with a total expected heat load of 27.1 MW. The Joint Stock Company continues its movement towards the development of a 4th generation, i.e. low-temperature, district heating system.

JOINT STOCK COMPANY'S FINANCIAL RISK MANAGEMENT

In the ordinary course of business, the Joint Stock Company is exposed to financial risks, such as credit risk, liquidity risk and interest rate risk. Financial assets that are exposed to credit risk mainly consist of trade receivables. The Joint Stock Company is exposed to considerable credit risk concentration because a substantial share of net turnover refers to a single customer, who accounts for up to 40.5% of sales. The Joint Stock Company's management has minimized negative impacts that can be produced by financial risks on the Joint Stock Company's financial position by implementing a set of control and analysis measures. The Joint Stock Company pursues a prudent policy of liquidity risk management, ensuring the availability of adequate and sufficient credit resources, using credit facilities granted by banks for settling liabilities by due dates, and offsetting cash flow fluctuations. The Joint Stock Company regularly obtains financing for investment projects. Borrowings bearing interest at a floating rate cause a risk of considerable growth of finance costs in situations when interest rates increase. For the purpose of mitigating the risk and ensuring financial stability, funds are borrowed at both fixed and floating interest rates. Since the gas market opening, the Joint Stock Company has been exposed to a risk of changes in natural gas prices, which is successfully controlled and managed both

by signing short-term natural gas supply contracts and by purchasing and storing natural gas reserves at Inčukalns natural gas storage facility.

On 11 March 2020, the World Health Organization declared the coronavirus outbreak a pandemic, while the government of the Republic of Latvia announced the state of emergency in the country for the third time from 11 October 2021 to 28 February 2022. In order to prevent the spread of the infection among the Company's employees and provide continuous heat supply in case of employee sickness, the Joint Stock Company's management designed and introduced a set of measures for minimizing the risks. The Joint Stock Company promptly provided the option to work remotely to office staff and ensured safe working conditions for those who had to work on site in production and at heat pipelines and oversee overall heat supply management and safety. Services were provided subject to all requirements introduced in the country for containing the infection, including remote communication with customers by using electronic means. Employees were taught to follow strict safety standards, including social distancing. Additional employees were trained for replacing production staff. Thanks to encouraging employees to be vaccinated and follow all safety principles responsibly, the Covid-19 outbreak had no significant impact on the Joint Stock Company's operations.

As a result of Russia's invasion of Ukraine and related sanctions, Europe is experiencing a severe energy crisis, with rising prices and fuel shortages, which has also affected the Joint Stock Company's cash flow and certain financial indicators. In view of the uncertain outlook for energy availability, the Joint Stock Company made large fuel purchases in the summer and autumn of 2022 to ensure heat supply for the entire heating season. Natural gas purchases were financed by means of current loans because payments for the purchased natural gas had to be made immediately, which led to a substantial growth of debt, up to EUR 119 million (previously: EUR 59 million). The growth was fueled by an increase in inventories (chiefly natural gas) by EUR 82 million. As a result, financial adequacy indicators assessed by counterparties in financial transactions deteriorated and were not met. As the situation on global energy markets normalizes, and based on estimates of revenue from heat supplies during the financial year, the borrowings of the Joint Stock Company will decrease and financial indicators will return to the planned level. Financial counterparties understood reasons for non-performance and confirmed that they would not exercise their right to demand early loan repayment. According to recent financial projections for the financial year 2022/2023, the Joint Stock Company will reach its expected financial indicators.

In the financial year 2021/2022, the Joint Stock Company again participated in the "Sustainability Index" survey organized by the Institute of Corporate Sustainability and Responsibility and was once again awarded in the Platinum category, thus demonstrating its commitment to a long-term operational policy. The award is the highest recognition of the Company's sustainability in line with the requirements in all areas of corporate social responsibility.

The Joint Stock Company is a participant of and is included in the Gold level of the In-Depth Cooperation Program of the Ministry of Finance, or the White List, which attests that the Joint Stock Company is implementing fair and responsible business practices and provides the opportunity of benefiting from advantages and incentives granted to the program participants. The Joint Stock Company with a value of EUR 161.52 million was ranked 33rd in Latvia's top 101 most valuable enterprises 2022 by Nasdaq Rīga stock exchange and investment company LLC "Prudentia".

Taking into account the importance of environmental protection worldwide and contributing to the achievement of Latvia's national energy and climate policy goals, as well as supporting the European green deal, the Joint Stock Company continues investing in environmentally friendly projects. In order to promote energy literacy in society and the active implementation of energy efficiency measures, the Joint Stock Company carried out several information campaigns, reaching a wide range of stakeholders, measured in tens of thousands.

FURTHER DEVELOPMENT AND RESEARCH ACTIVITIES

In the future, the Joint Stock Company will continue investing in its development, focusing on the implementation of zero emission projects and planning the installation of heat pumps in the district heating system and the construction of biofuel boiler houses.

To enhance efficiency of the district heating system, the Joint Stock Company has started implementation of 4th generation district heating system projects, providing lower temperature parameters of heating networks, which is a new technical challenge for the Joint Stock Company. Until now, heat transfer fluid temperature schedules have been used, with design temperatures ranging from 105°C to 118°C. In the 4th generation concept, heat is fed into heating networks with a lower heat transfer fluid temperature and delivered heat is used by energy-efficient buildings through a low-temperature heat supply system.

Main advantages of lower-temperature district heating:

- reducing heat losses in heating networks, thereby decreasing also fuel consumption;
- reducing CO₂ emissions through lower fuel consumption.

In line with the global trends of green energy production using hydrogen, the Joint Stock Company has started activities to implement projects with the construction of new biofuel cogeneration plants and hydrogen production facilities for Imanta and Ziepniekkalns heating plants. The share of biofuel energy generated at the Joint Stock Company's heat sources is expected to reach 90% by the financial year 2025/2026.

The Joint Stock Company is considering options for using residual heat, which is received from both producers and consumers.

EVENTS AFTER BALANCE SHEET DATE

Subsequent to the year end, on 18 October 2022, a credit line agreement was signed with "Swedbank" JSC for a period of seven months, with the maximum credit line limit of EUR 25 million. On 28 November 2022, a credit line agreement was signed with Luminor bank AS Latvia branch for a period of twelve months, with the maximum credit line limit of EUR 20 million.

As of the last day of the reporting year there have been no other significant events that could produce a material impact on the Joint Stock Company's financial statements for the financial year 2021/2022.

On 2 November 2022, the Cabinet adopted Regulation No 686 on Sustainability and Greenhouse Gas Saving Criteria, Criteria for Electricity Produced from Biomass Fuels, and the Procedure for Proving, Certifying and Monitoring Compliance with These Criteria (Cabinet Regulation No 686), which sets forth that combusted biomass fuels must meet sustainability and greenhouse gas saving criteria, requiring EU ETS installations to prove from 1 January 2023 that bioliquids and biomass fuels (including biogas) they use meet sustainability and greenhouse gas saving criteria and therefore do not qualify as fossil fuels.

The Joint Stock Company's financial statements for the year ended 30 September 2022 have been drawn up in accordance with the existing statutory requirements and give a true and fair view of the Joint Stock Company's financial performance and cash flows.

The Joint Stock Company's operations are based on the core principles of efficient management, thus the Company plans to continue implementing its investment policy for the development and improvement of efficiency of the district heating system of Riga, ensuring sustainable and steady heat supply to its customers.



GENERAL INFORMATION

JSC "RĪGAS SILTUMS" was registered with the Register of Enterprises of the Republic of Latvia on 14.03.1996 and re-registered with the Commercial Register on 08.05.2004. JSC "RĪGAS SILTUMS" is a private capital company controlled by public entities.

The governance process of JSC "RĪGAS SILTUMS" is defined by its Articles, the Foundation Agreement and also laws governing the relevant form of business activities. Organisation of the business of JSC "RĪGAS SILTUMS" conforms to the vertically integrated governance structure.

The governance institutions of the Joint Stock Company are the General Meeting of Shareholders, the Council and the Board.

	NUMBER OF SHARES	%
Riga City Local Government (Reg. No. 90000064250)	328 144	49,00
State of Latvia (The Ministry of Economics is appointed as the holder of the shares of stock owned by the state based on Cabinet Ordinance of 12.03.2008)	328 110	48,995
LLC "Energijas risinājumi. RIX" (Unified Reg. No.40003718848)	13 395	2,00
LATVENERGO JSC (Unified Reg. No.40003032949)	34	0,005
Total	669 683	100

COMPOSITION OF THE COUNCIL AND THE MANAGEMENT BOARD

COUNCIL

As from the beginning of the fiscal year

Ilze Beināre	Council Chairperson
Jevgenijs Belezjaks	Deputy Council Chairperson
Zaiga Liepiņa	Council Member
Matīss Paegle	Council Member
Raivis Kronbergs	Council Member

From 12.07.2022

Matīss Paegle	Council Member
Raivis Kronbergs	Council Member
Jevgenijs Belezjaks	Council Member
Gatis Sniedziņš	Council Member
Ilze Beināre	Council Member

From 15.07.2022

Ilze Beināre	Council Chairperson
Jevgenijs Belezjaks	Deputy Council Chairperson
Raivis Kronbergs	Council Member
Matīss Paegle	Council Member

From 27.08.2022

Jevgenijs Belezjaks	Deputy Council Chairperson
Gatis Sniedziņš	Council Member
Matīss Paegle	Council Member
Raivis Kronbergs	Council Member

From 25.11.2022

Jevgenijs Belezjaks	Council Chairperson
Gatis Sniedziņš	Deputy Council Chairperson
Raivis Kronbergs	Council Member
Matīss Paegle	Council Member

MANAGEMENT BOARD

As from the beginning of the fiscal year:

Normunds Talcis	Chairman of the Board
Uģis Osis	Board Member
Birute Krūze	Board Member
Raivis Elliņš	Board Member

From 26.04.2022

Normunds Talcis	Chairman of the Board
Uģis Osis	Board Member
Birute Krūze	Board Member
Raivis Elliņš	Board Member
Ilvars Pētersons	Board Member

From 15.08.2022

Ilvars Pētersons	Chairman of the Board
Uģis Osis	Board Member
Raivis Elliņš	Board Member

From 03.10.2022

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



STRUCTURE

MEETING OF SHAREHOLDERS

COUNCIL

MANAGEMENT BOARD

R.Elliņš

Director of Heat Sources

Deputy Director
Heat Production Development
Department
HP "Imanta"
HP "Vecmīlgrāvis"
Production Department

Power Service

**Measurements and
Adjustment Service**

I.Pētersons

Internal audit*

Executive Director

Real Estate Department
Supply Department
Transportation Service
Chancellery
Procurement Department
Construction Supervision
Department

Finance Director

Economics Department
Accounting

Legal Department

Public Relations Department

Heat Inspectorate

**Information Systems
Security Manager**

Energy Efficiency Department

Corporate Compliance Department

Business Development Department

Personnel Department

Information Technologies Service

Training Centre

Project Manager

SAP Projects Manager

U.Osis

Commercial Director

Deputy Commercial Director
Contracts Department
Estimations Department
Customer Service Department

Heat Networks Director

Heat Supply Development
and Investment Department
1st Network District
2nd Network District
Repair Service

Technical Department

Dispatcher service

Labour Protection Service

* Functional subordination to the
Council

BUSINESS PERFORMANCE OF THE JOINT STOCK COMPANY

HEAT DEMAND

Business performance of the Joint Stock Company depends mainly on climate conditions and heat demand. The average statistic estimated outdoor temperature of a heating season according to the amendments of 01.05.2021 to Cabinet Regulation No. 432 "Regulations on the Latvian Building Standard LBN 003-19 "Building climatology"" equals 1.1°C and the duration of a heating season in Riga is 192 days.

The average daily outdoor temperature of the heating season of the financial year 2021/2022 was 3.1 °C and the season duration was 219 days. Due to the early start of autumn and low outdoor temperature in autumn 2021, the heating season was started earlier than usual – on 27 September. The heating season was ended on 3 May (Figure 1).

FIGURE 1

The duration of heating seasons, average ambient temperature and heat delivered to consumers per fiscal years

Fiscal year	Heat delivered to customers (thous. MWh)	Average outdoor temperature of the heating season, °C	Duration of the heating season, days
17/18	3 107	2.0	204
18/19	3 040	2.9	202
19/20	2 803	5.4	225
20/21	3 124	2.6	208
21/22	3 073	3.1	219

During the fiscal year 2021/ 2022 3.1 mill. MWh of heat were delivered to customers which is slightly less than in fiscal year 2020/2021. This can be explained by both warmer weather during the active heating season and a decrease of the economic activity due to Covid-19 pandemic.

By targeted and long-term investments in the heat networks of the Joint Stock Company, the proportion of losses has been reduced from 20% to below 12%. JSC "RĪGAS SILTUMS" will continue to gradually increase the annual scope of reconstruction of the heat networks which will provide substantial effect on the indices of heat losses in heat networks (Figure 2).

HEAT PRODUCTION

In fiscal year 2021/2022 JSC "RĪGAS SILTUMS" produced heat in 5 heat plants and 39 automated gas fired boiler houses.(Figure 3). The Joint Stock Company produced 32% of the heat delivered to the joint network and purchased 68% from other heat producers.

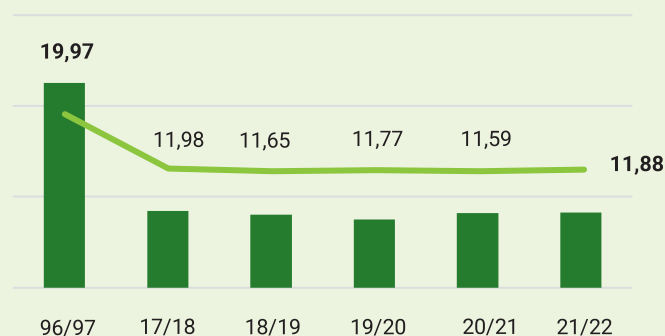
Fiscal year 2021/2022 was characterised by a global crisis of energy resources. Prices started rising already back in 2021, however, as the Russian invasion in Ukraine started at the end of February 2022, the prices of oil and natural gas increased multiple times.

By targeted reduction of the use of fossil fuel, the consumption of bio-fuel exceeded the plan of fiscal year 2021/2022 by 17 thous. MWh.

In comparison to the plan, the average price of natural gas in fiscal year 2021/2022 increased by 17% and the price of wood-chips increased by 17%, thus the total fuel costs increased by 38% or 10,6 mill. EUR.

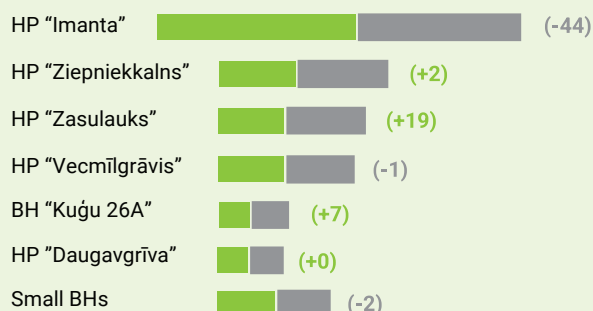
FIGURE 2

Heat loss and proportion of heat loss of the heat delivered to the DH network (thous. MWh)



The comparatively small increase in the price of natural gas in fiscal year 2021/2022 is driven by the fact that gas used during winter months were purchased before the material price increase. Gas bought at a higher price was used in spring and summer months when heat production volume decreases, therefore its proportional share was small. It is important to note that in fiscal year 2021/2022, following commissioning of two new bio-fuel fired boiler houses at HP "Imanta" and HP "Daugavgrīva", the proportional share of use of woodchips in the utility balance of fuel increased from 30% to 50%.

FIGURE 3 2020/2021 2021/2022
Difference of own produced heat in heat plants and boiler houses (thous. MWh)

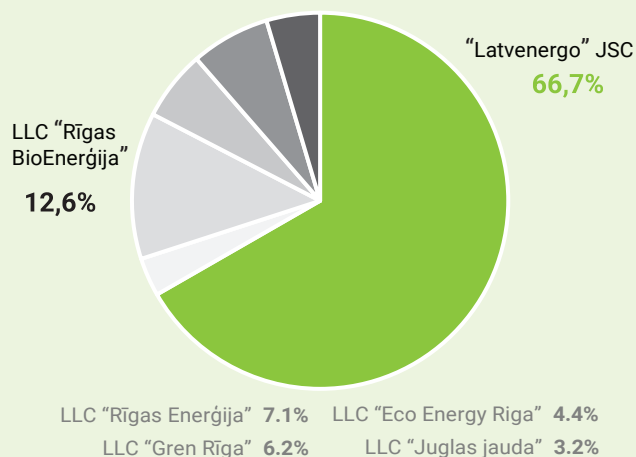


The Joint Stock Company was procuring heat from six independent producers in fiscal year 2021/2022. JSC "RĪGAS SILTUMS" performed procurement on weekly basis by following the principle of economic gradual approach stipulated by the law. Totally 2.4 mill. MWh of heat were purchased for 132 mill. EUR.

67% of the purchased heat were delivered from the plants of JSC "Latvenergo" CHPP-1 and CHPP-2 and 33% were delivered by other independent heat producers: LLC "Juglas jauda", LLC "Rīgas BioEnergija", LLC "Rīgas Energija", LLC "Eco Energy Riga" and LLC "Gren Rīga", which sold heat at a lower price than CHPP-1 and CHPP-2 (Figure 4).

In comparison to the preceding fiscal year, in fiscal year 2021/2022 the volume of purchased heat decreased by 28 thous. MWh, however, as the average price (excluding the capacity fee) increased by 96% or 25.92 EUR/MWh, the total costs of purchased heat increased by 61 mill. EUR or 86%.

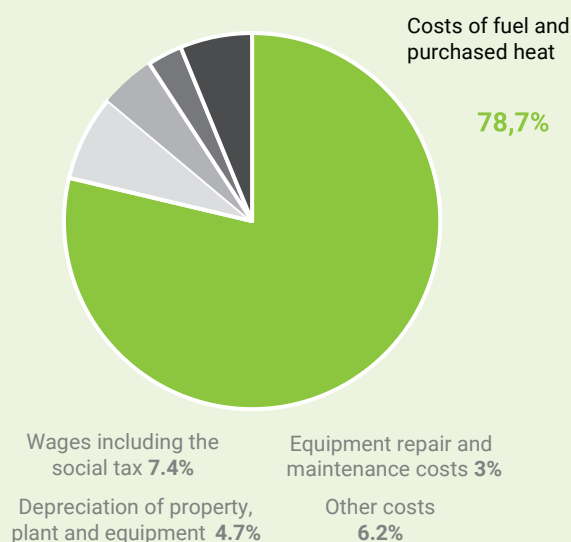
FIGURE 4
Distribution of purchased heat (2021/2022)



HEAT TARIFF

The prices of fuel and purchased heat account for the biggest costs in the heat tariff of JSC "RĪGAS SILTUMS", therefore the tariff mainly depends on the price of fuel, i.e. natural gas and biofuel, as well as as the price of purchased heat (Figure 5).

FIGURE 5
Structure of the heat tariff (85.45 EUR/MWh)



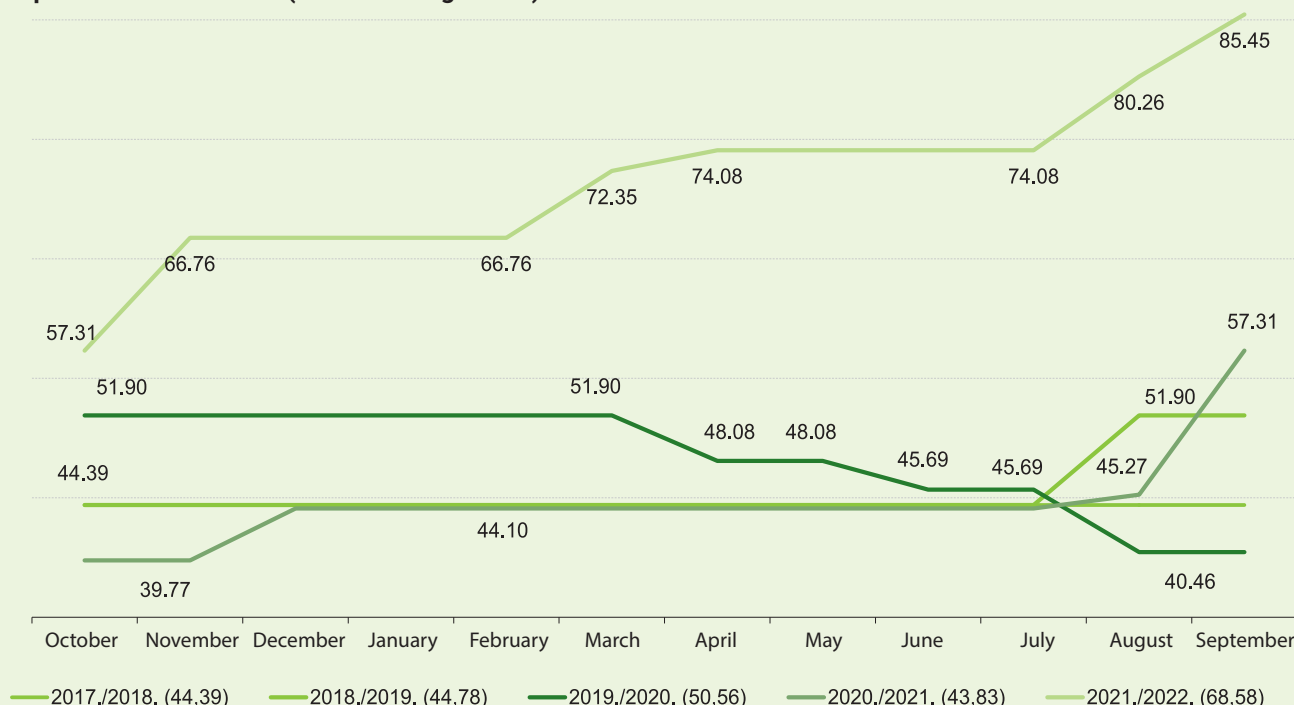
In fiscal year 2021/2022, when the world experienced an unusually fast increase of prices of energy resources, the Joint Stock Company was forced to increase the heat tariff 4 times. At the start of the fiscal year the heat tariff was 57.31 EUR/ MWh, from November 2021 to February 2022 (inclusive) it was 66.76 EUR/MWh, from 1 March to 11 March 2022 it was 69.36 EUR/ MWh, from 11 March 2022 it was 74.08 EUR/MWh and from 15 August 2022 it was 85.45 EUR/MWh. Average

heat tariff in fiscal year 2021/2022 was 68.58 EUR/MWh, which is 56% above the tariff in fiscal year 2020/2021 when it was 43.83 EUR/MWh. As the heat tariff increased, the value of issued invoices increased by 84.13 mill. EUR or 54% reaching 240 mill. EUR (Figure 6).

In June 2022 the Joint Stock Company started power generation by solar panels and generated 35 thous. kWh.

FIGURE 6

Comparison of heat tariffs (annual average tariff) – EUR/MWh



ELECTRICITY GENERATION IN COGENERATION

In fiscal year 2021/2022 electricity in cogeneration for own needs and sale was generated by the HP "Imanta", HP "Ziepniekkalns", BH "Keramikas 2A", HP "Vecmīlgrāvis", HP "Zasulauks" and by the boiler house "Viestura 20B" only for own needs.

37 thous. MWh electricity were generated in the cogeneration process. In comparison to fiscal year 2020/2021 power generation decreased by 57% or 48 thous. MWh. Of the aggregate generated power, 7.8 thous. were consumed for their own needs and 28.7 thous. MWh were sold. The volume of sold electricity decreased by 60% or 43 thous. MWh.

The revenues of JSC "RĪGAS SILTUMS" for electricity amounted to 5.2 mill. EUR in fiscal year 2021/2022, which is below the level of fiscal year 2020/2021 by 3.9 mill. EUR.

CUSTOMER RELATIONS

JSC "RĪGAS SILTUMS" has signed 6.9 thous. contracts for supply of heat to more than 8.2 thous. sites, including 5.7 thous. residential houses. 393 contracts were signed in fiscal year 2021/2022.

The outstanding debt of heat service customers amounted to 3.19 mill. EUR as of 30.09.2022 (excluding the September bills).

At the end of financial year, the payment ratio for heat supplied in fiscal year 2021/2022 (excluding the sales of the current month) amounted to 98.66%, which is by 0.30 percentage points below the result of corresponding time period of the preceding year (98.96%). (Figure 7)

More than 13 thousand letters were sent in fiscal year 2021/2022 to administrators/owners of buildings and

apartment owners in apartment houses, accounting for slightly more than 5% of the end consumers, containing reminders about outstanding liabilities.

In relation to the virus Covid-19 pandemic, in order to provide aid to people and to reduce their financial burden, as well as by following the good governance principles, the Management Board of JSC "RĪGAS SILTUMS" suspended application of the contractual penalty/late payment interest to delayed payments by its decision No. 52 of 25 March 2020. This practice was also continued during the active heating season of fiscal year 2021/2022.

Further discipline of payments by heat consumers may be affected by several factors. The amendments of Cabinet Regulations No. 876 of 21.10.2008 "Regulations of supply and consumption of heat" are among the above factors providing that the supplier is obliged to restore heat supply to apartment houses if more than 80% of the amount of payment for the preceding 12 months has been paid (at present the average settlement rate is above 98%).

The above amendments will create substantial additional burden for the company, moreover, because the amendments also provide for a possibility for users and the supplier to agree on extension of the final settlement term until the end of the month.

The rapid increase of prices of energy resources and the resulting increase of the heat tariff is another important factor which may affect the payment discipline of consumers and the increase of the late debts.

In order to draw the heat consumers' attention to economic use of energy resources and to encourage them to think about improving heat insulation of buildings, JSC "RĪGAS SILTUMS" has been publishing the monthly heat consumption of all sites compared to the relevant period of the preceding year taking into account the average outdoor temperature changes in the website section "For residents" since 2015.

JSC "RĪGAS SILTUMS" is subject to the accounts receivable risk, and despite the fact that the company is controlling all its risks by monitoring the outstanding debt, there is the concentration of the credit risk in relation to a single transaction – with LLC "Rīgas namu pārvaldnieks" which is the biggest heat consumer (accounting for almost 41% of the total amount of issued invoices) (Figure 7).

SOCIAL CORPORATE RESPONSIBILITY AND ENVIRONMENT INITIATIVES

The district heating utility pays a lot of attention to the principles of sustainable corporate governance and corporate social responsibility in the course of implementing of activities promoting good governance practice, favourable work environment, overall welfare, education and reducing the impact of the company operations upon the environment.

Within the TOP 101 of the most valuable companies of Latvia, which is an initiative organised by "Nasdaq Riga" and "Prudentia", the corporate governance coefficient of JSC "RĪGAS SILTUMS" is 66 points ranking the company 17th in the top.

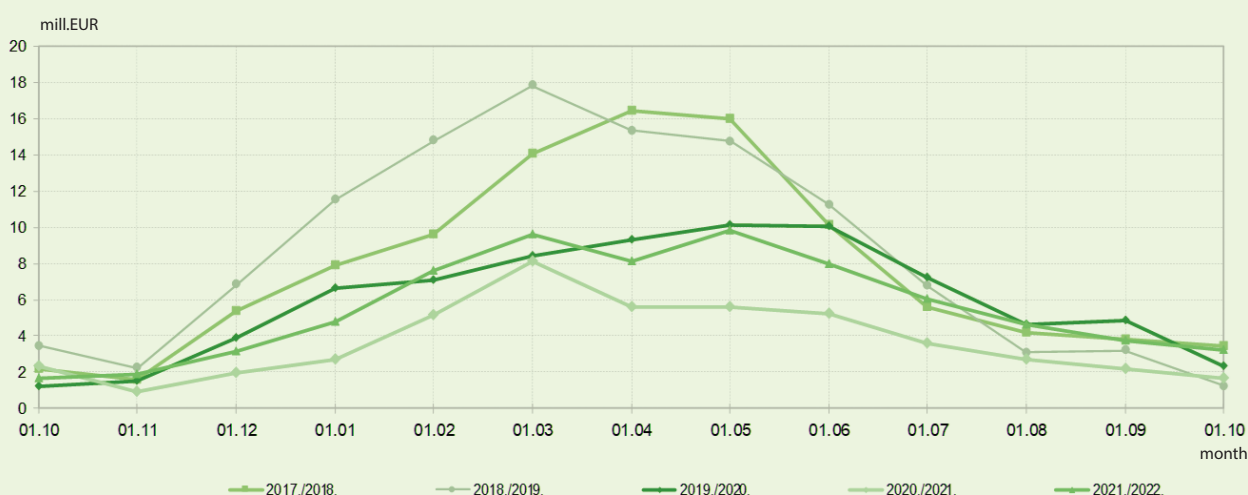
Since 2010 JSC "RĪGAS SILTUMS" has been participating in the Sustainability Index assessing the sustainability (ESG) performance, where the Platinum level was achieved.

The Gold Award was received within the in-depth cooperation program "White List" attesting implementation of transparent and honest business practice.

Care for the traffic safety of its employees is attested by the received nomination for the Diamond Award in the category "Lowest risk state and local government car fleets" in the competition "Safest company car fleet" and the recognition for outstanding, sustainable and socially responsible management of the car fleet.

FIGURE 7

Dynamics of the debts of heat consumers per heating seasons (mill. EUR)



Every year JSC "RĪGAS SILTUMS" shares experience regarding measures improving the work environment in the event "Golden Helmet" where recognition was received.

The care taken by the Joint Stock Company for its employees is attested by the long-term participation in the initiative "Family Friendly Work Place" by introducing empathic work culture and support measures for employees.

In 2022 JSC "RĪGAS SILTUMS" joined the initiative "Mission Zero" by undertaking to follow the business principles focused on a human, health and safety.

This year the Joint Stock Company joined the Sustainability Code with the aim to encourage responsibility of businesses and to minimise the risks of deceit, thus protecting the consumer interests and promoting fair competition.

In order to minimise the spread of Covid – 19 virus, remote communication with all the target groups and remote work was arranged, as well as a business practice supporting customers was introduced.

Supporting the Ukrainian people, JSC "RĪGAS SILTUMS" has posted Ukrainian flags at its buildings and organised a range of charity campaigns.

The trade union of JSC "RĪGAS SILTUMS" jointly with employees participated in the food program "Feed Latvia" organised by the Samaritan Association of Latvia where donated products provided support to 124 poor families.

30 employees of the Joint Stock Company participated in the Day of Blood Donors this year and cooperate with the Latvian Association of SOS Children Villages.

200 employee of JSC "RĪGAS SILTUMS" planted 20,000 pine trees in Ropaži district on the Earth Day by supporting the corporate environment policy.

More than 220 company employees participated in the European Mobility Week. In 2022 and came to work in an environmentally friendly way, i.e. on foot or by bicycle.



Planting the forest in 2022



Day of Blood Donors in 2022



Support to Ukraine by JSC "RĪGAS SILTUMS"

OPEN COMMUNICATION

The employees of JSC "RĪGAS SILTUMS", being experts of the heat supply industry, work in work groups and organisations founded by the state, local government and engineering companies.

Communication is aimed at improving the public awareness of the operation of a heat utility, energy literacy by providing timely and accurate information on topicalities, by using the website www.rs.lv, the contact form, the daily free phone line 80000090, e-mail siltums@rs.lv, social networks, media relations, as well as by periodically publishing the electronic and printed newspaper.

JSC "RĪGAS SILTUMS" provides electronic exchange of documents for communication with customers covering both electronic signing of contracts and electronic submission of invoices.

At the beginning of heating season, a platform of individual consultations is provided for administrators and residents regarding individual solutions for improvement of energy efficiency.

EDUCATING ON MATTERS OF HEAT SUPPLY, ENERGY LITERACY AND ENERGY EFFICIENCY

In order to familiarise oneself with energy efficiency solutions and possibilities to reduce heat consumption at one's houses, educating campaigns were organised by covering a range of interested persons of tens of thousands.

Energy unity - by reducing the dependence of Latvia on natural gas, the Institute of Environmental Protection and Heat Systems of Riga Technical University jointly with Riga City Council and JSC "RĪGAS SILTUMS" encouraged to reduce energy consumption.

The series of workshops jointly with LLC "Rīgas namu pārvaldnieks" and the financial institution ALTUM about ways to reduce heating bills in apartment houses.

Practical workshop on the digital platform Delfi "How to reduce heating bills in apartment houses in a smart way?".

Conversation festival "Lampa" - discussion "We don't live in Africa" - about what heat supply utilities do and what they are responsible for, how heat is delivered to radiators? What does a bill consist of and what should be done to enjoy warmth by paying as little as possible? How to prepare for winter?

What is energy literacy and how knowledge can help to pay less for heat?

The company invests in education processes - in cooperation with RTU and Riga Secondary School of Construction, 9 interns participated in the study internship program. More than 100 school students joined the virtual excursion during the "Open Door Week" and 14 students visited the company on the Shadow Day.

The interactive stand of the utility is exhibited in Elektrum Energy Efficiency Centre and presents the advantages of the automated meter reading system and the complex service of engineering systems of buildings.



The generators donated by JSC "RĪGAS SILTUMS" on the way to Ukraine to help to restore power supply.

CONDITIONS THAT MAY IMPACT THE ECONOMIC POSITION OF THE JOINT STOCK COMPANY

REPAIRS AND RECONSTRUCTION

The maintenance and reconstruction repairs of the property, plant and equipment of JSC "RĪGAS SILTUMS" and production development works were performed for the total amount of 24.90 mill. EUR (Figure.8).

FIGURE 8

Split of funds used for the maintenance, renovation of property, plant and equipment and production development.

Maintenance repairs of property, plant and equipment	5 794 320
in heat sources	1 919 556
in heating networks	2 172 515
for performing emergency work in heating networks	1 503 752
in buildings and production areas	69 606
for the development of target programs and business plans	128 890
Reconstruction of property, plant and equipment and production development works	19 104 406
in heat sources	3 621 499
in heating networks	12 453 306
for connecting the new objects	1 964 466
for creating heat meter automatic reading networks	139 206
for moving heat networks	925 929
Total	24 898 726

REPAIRS AND RECONSTRUCTION OF HEAT NETWORKS

Main and distribution district heating networks are among the most important elements of district heating. Security of district heating and amount of heat losses both via insulation and due to leakages of the heat carrier are dependent mostly on the technical condition of district heating networks and their elements.

Heat network optimisation works were performed on 10 sections of heat networks in fiscal year 2021/2022. The assessed reduction of loss following optimisation of district heating networks is 5.3 thous. MWh/year.

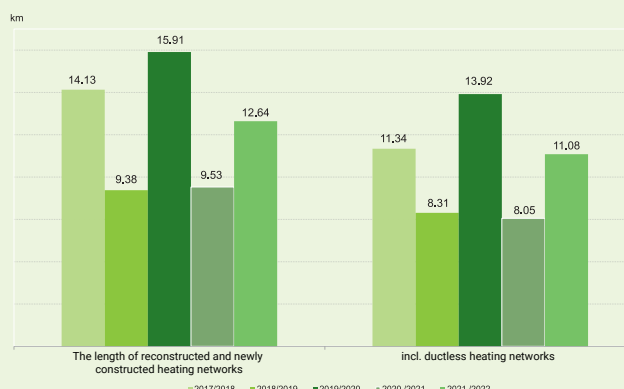
In the course of reconstruction of district heating networks modern heat insulation materials and pre-insulated pipelines of series 2, whose operation is not impacted by high level of ground water are used. Also double pre-insulated pipelines with considerably lower heat losses than those of pre-insulated pipelines of series 2 were used for reconstruction of district heating networks in fiscal year 2021/2022.

The length of district heating networks, which have been either reconstructed or constructed anew by the utility during fiscal year 2021/2022 amounts to 12.64 km, and 11.08 km of them were built by using pre-insulated pipes, of which 1.97 km were built by installing double pre-insulated pipelines (Figure 9).

3.4 km of heat networks were constructed for attracting new customers involving the costs of 1.96 mill. EUR,

FIGURE 9

Reconstructed and newly constructed DH networks



of which JSC "RĪGAS SILTUMS" has invested 1.25 mill. EUR and the customers have invested 0.71 mill. EUR.

In order to achieve reduction of the heat loss in above the ground heat networks and to improve the security of the heat supply system, measures of replacement and protection of heat insulation and the protective cover were performed in fiscal year 2021/2022. Replacement of the protective cover of heat insulation and protection measures were performed for totally 692 m of the above the ground heat networks.

In order to provide normal operation of the drainage of district heating networks and to protect district heating networks against the impact of the ground water, flushing of 34 km of drainage networks and cleaning of 997 pits was carried out in fiscal year 2021/2022.

The funds allocated for emergency repairs of district heating networks were used as follows:

- elimination of leaks in main and distribution district heating networks;
- renovation of the alarm system of the non-channel district heating networks;
- elimination of cavings;
- restoration of asphalt cover following elimination of leaks in district heating networks;
- replacement of damaged shut-off fittings in the district heating network chambers and basements of houses.

In fiscal year 2021/2022 there were 149 cases of leaks in the main and distribution heat networks, which is 2 cases more in comparison to fiscal year 2020/2021 (147 cases of leaks). Out of the total number of leaks 74 cases of leaks were found during operation which is 12 cases more in comparison to fiscal year 2020/2021 (62 cases of

leaks) and 75 case of leaks were found during hydraulic tests of DH networks, which is 10 cases less (85 cases of leaks).

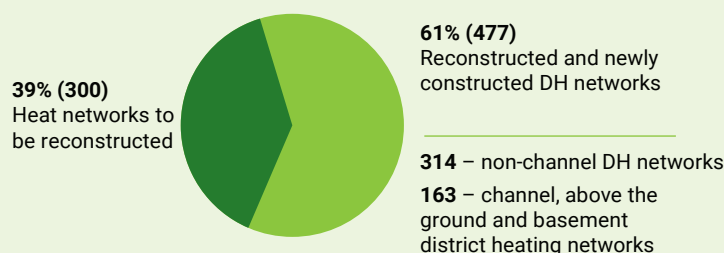
In order to secure heat supply to consumers, in the course of performing reconstruction of district heating networks, the possibilities of construction of temporary district heating networks and installation of seal rings were considered. By constructing temporary district heating networks and installing sealing rings, totally 166 houses were not disconnected for the repair period and hot water supply was provided to more than 5.7 thousand apartments. In this way the quality of the service offered by us was improved, a higher customer satisfaction was achieved and the heat sales increased by 1.23 thous. MWh.

In fiscal year 2021/2022 the length of district heating networks in the possession of JSC "RĪGAS SILTUMS" amounted to 777 km, of which 476 km or 61% have been reconstructed or constructed anew and 301 km or 39% still need to be reconstructed.

During the last five years a considerable increase in the proportion of pre-insulated has been achieved. The total length of pre-insulated DH networks equalled 313 km in fiscal year 2021/2022 and this accounts for 40% of the total length of the district heating networks owned by JSC "RĪGAS SILTUMS" (Figure 10).

FIGURE 10

Changes in the structure of DH networks



MAINTENANCE REPAIRS AND RECONSTRUCTION OF HEAT SOURCES

In fiscal year 2021/2022 emergency repair works, plant maintenance works based on concluded contracts and other maintenance works were performed at heat sources, of which the repairs of network pump No. 4 at the HP "Imanta" and the reinforced concrete stack (H=120 m) of the HP "Imanta" are most important.

Reconstruction repairs of property, plant and equipment and production development works

HP "Imanta"

- Construction of a radiation detection system.
- Installation of a compression type heat pump for condensate cooling.

- Reconstruction of air ventilators and electric motors with frequency converters of the water re-circulation pump of water heating boiler No. 5

HP "Daugavgrīva"

- Completed Stage 2 of modernisation of the heat plant "Daugavgrīva" and the site has been commissioned. A new 8 MW water heating boiler No. 3 has been delivered and installed, a new system of natural gas pipelines has been constructed, the burner of the existing water heating boiler No. 2 has been replaced.

BH Keramikas street 2A

- Modernisation of the water treatment system, repair of the existing vacuum pump, as well as service of the deaerated water pump, fittings, level switches has been performed.

BH Gobas street 33A

- Temperature sensors have been replaced and integrated in the automated control system.

HP "Ziepniekkalns"

- Reconstruction of the system of discharge of waste water from the cogeneration unit (CU) and water heating boilers.
- Replacement of frequency converters of CU.
- Construction of the temperature monitoring system of 10 kV and 0.4 kV busbars of the cogeneration unit.

Automated gas fired boiler houses

- For the purpose of ensuring uninterrupted operation of automated boiler houses to prevent direct effect of short-term power supply failures, uninterrupted power supply devices (UPS) have been installed at boiler houses at Briežu street 7A, Ezera street 9, Ezera street 11, Ludzas street 42A, Krustpils street 62A, Žiguru street 21, Ernestīnes 30 and Viestura prospekts 20B.

ATTRACTION OF NEW CUSTOMERS

The Joint Stock Company "RĪGAS SILTUMS" is continuously working to expand its customer base by connecting new development projects and buildings in Riga and Surround Riga area to the district heating. During the recent years several shopping centres and apartment houses have been connected to the district heating system of Riga in Stopiņi of Ropaži district.

In fiscal year 2021/2022 the Joint Stock Company "RĪGAS SILTUMS" continued implementation of the heat supply systems of low temperature quarters. Connection of a low temperature quarter of buildings in Stopiņi at Ropaži district has been almost completed. Use of heat with lowered parameters has been started in 13 buildings out of 16 included in the plan at Robežu street and Mazā Robežu street in Stopiņi at Ropaži district.

In the centre of Riga implementation of a project has been started where the quarter at Krišjāņa Barona street 112, Tallinas street 48 and Aleksandra Čaka street 123 will be connected to the district heating system with a low temperature schedule. According to the plan, the first buildings should start using heat with a low temperature schedule in 2023 and totally 6 buildings will be connected.

Developers of new projects who connect their new sites to the district heating system intend to cooperate with JSC "RĪGAS SILTUMS" also in future. Biggest of them are LLC "MERKS", LLC "YIT Latvija", LLC "Bonava Latvija", LLC "Vastint Latvia", LLC "Kaamos". Construction of new sites and connections to the district heating system are planned at Augšsila 1 where an inflatable football hall and a heated football field is being constructed, at the shopping centre MOLS, the sports centre at Maskavas street, apartment buildings at Ķīšezera street, Laimdotas street, Kaivas street.

A positive result has been achieved in fiscal year 2021/2022 by signing 59 contracts for 71 buildings with the total heat load 35.2 MW. Use of heat was started in 69 buildings with the total envisaged heat load of 27.1 MW and the scheduled annual heat consumption 20.8 thous. MWh.

As the number of transactions on the real estate market continued increasing, new buildings were constructed in Riga, as well as gas prices increased considerably affecting the choice of residents and owners in favour of district heating, 488 technical terms of reference for connecting to the district heating system were issued in fiscal year 2021/2022. It is a substantial increase compared to the preceding year when 283 technical terms of reference were issued. Thus, it can be forecasted that the number of new connections to the district heating system of JSC "RĪGAS SILTUMS" will increase considerably during the next years.

REAL ESTATE MANAGEMENT

At the end of fiscal year 2021/ 2022 JSC "RĪGAS SILTUMS" owned or possessed 71 real estates (35 buildings and 36 land plots). The total area of the land plots owned by JSC "RĪGAS SILTUMS" is 238 thous. m². (Figure 11)

FIGURE 11

Number of real estates (buildings) (fiscal year 2021/2022)

Type of use	Quantity
Administrative and service buildings	3
Heat plants	5
Boiler houses	9
Workshops	18
	35

In fiscal year 2021/2022 the Joint Stock Company sold the real estate at Etnas street 5 and 7 which consisted of a building and a land plot for the total amount of 235 thous. EUR.

During the last five fiscal years the number of buildings and land plots held by JSC "RĪGAS SILTUMS" has decreased due to selling of buildings and land plots not used for core production as united real estate units (Figure 12).

FIGURE 12

Summary of the number of real estates during the last three fiscal years

	2019./2020.	2020./2021.	2021./2022.
Buildings	39	36	35
Land	37	37	36
Total	76	73	71

Sale of real estates in open auctions and tenders on the right of purchase (lease) and lease tenders have been organised for the purpose of rational use of the real estates of the Joint Stock Company since 2001. During this period 160 real estates have been registered on the buyer's name with the Land Register.

ENVIRONMENT PROTECTION

JSC "RĪGAS SILTUMS" has made targeted investments in improvement of energy efficiency since its foundation in order to reduce losses and to develop heat production and power generation by using renewable energy resources. The Joint Stock Company develops its environment protection policy on the basis of both the requirements of regulatory enactments developed by state institutions, and the strategic documents of the joint stock company, at the same time following the EU guidelines and implementing the requirements stipulated by the EU regulatory enactments developed for contributing to the prevention of the global climate change.

JSC "RĪGAS SILTUMS" has set priorities for minimising the negative environmental impact:

- Introduction of new technologies and upgrading of existing heat production equipment by using the best available technical means;
- Reduction of heat losses by reconstructing DH networks;
- Use of renewable energy resources for minimising greenhouse gas emissions from the use of fossil fuel;
- Waste handling in as environmentally friendly manner as possible by expanding waste sorting and utilisation.
- Provision of free and open access to the information regarding environmental protection measures implemented by JSC "RĪGAS SILTUMS" for all stakeholders;
- Improvement of knowledge in the area of environmental protection and creation of positive attitude by all employees towards the implementation of these ideas;
- Reduction of the environmental impact caused by the company vehicles (purchase of electric vehicles).

Attention is paid to every action not to cause any harm to the environment. For example, during construction or reconstruction of DH networks JSC "RĪGAS SILTUMS" very carefully follows up not to cause any harm to nearby trees and greenery as far as possible. In 2022, based on a construction project it was planned to cut 44 trees, still the Joint Stock Company found a solution allowing to save the trees.

Thinking about the use of more environmentally friendly local energy resources and reducing the negative impact upon the environment caused by carbon dioxide (CO₂), by attracting the EU Cohesion Fund co-financing, heat sources are being upgraded by increasing the proportional share of wood chips. By following this direction, the wood-chips fired boiler houses at HP "Daugavgrīva" and HP "Imanta" were modernised allowing to increase the share of wood-chips in the fuel balance up to 50% in fiscal year 2021/2022.

At boiler houses measures for improving their operational efficiency and reducing their environmental impact are implemented by applying the best available technical means, including improvement of energy efficiency by optimising combustion to minimum, reducing the content of unburnt substances in flue gas by computerised automated system combustion efficiency control operated from the control desk of the heat plant; equipping machinery with condensing economisers (flue gas condensers) providing up to 20% additional heat production.

In order for the company to become more environmentally friendly, to improve operational efficiency and the coefficient of use of effective energy, besides "greener" heat production, the Joint Stock Company also has a task to improve the efficiency of operating plants by applying various technological solutions, for example, high capacity industrial heat pumps.

The volume of emissions presented in the below Table "Total emissions during a period of 5 years" (Figure 13) does not include the CO₂ emissions from the heat sources which participate in the Emission Trading Scheme of the European Union and to which GHG emission allowances have been allocated.

FIGURE 13

Total emissions during a period of five years

Financial years	Solid particles, t	CO, t	SO ₂ , t	NO _x , t	CO ₂ , t	Total, t
2017./2018.	22.222	480.932	0.058	432.002	26 128.550	27 063.764
2018./2019.	28.186	487.607	0.829	425.563	20 770.779	21 712.965
2019./2020.	24.138	452.304	0.008	395.791	26 894.129	27 766.370
2020./2021.	28.160	475.435	0.037	413.727	25 288.198	26 205.557
2021./2022.	26.675	569.821	57.086	364.952	26 151.412	27 169.946

For heat sources where the heat capacity exceeds 20 MW, the natural resources tax for CO₂ emissions is not assessed, however, they must participate in the European Union greenhouse gas emissions trading system (ETS) on mandatory basis and allowances are granted for each heat source (Figure 14).

FIGURE 14

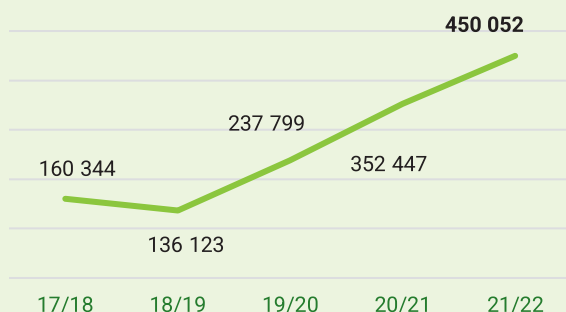
Volume of harmful emissions in fiscal year 2021/2022

Heat source	Solid particles, t	CO, t	SO ₂ , t	NO _x , t	CO ₂ , t	Total, t
HP "Imanta"	3,515	127,049	55,656	92,364	kvotas	278,584
HP "Zasulauks"	7,387	111,792	0,000	43,128	kvotas	162,307
HP "Ziepniekkalns"	4,093	180,197	0,000	121,613	kvotas	305,903
HP "Daugavgrīva"	10,277	77,809	0,000	33,070	kvotas	121,156
HP "Vecmīlgrāvis"	1,403	32,797	1,430	12,671	kvotas	48,301
Automatizētās gāzes katlu mājas	0,000	40,177	0,000	62,106	26 151,412	26 253,695
Total	26.675	569.821	57.086	364.952	26 151.412	27 169.946

During fiscal year 2021/2022 JSC "RĪGAS SILTUMS" has paid the natural resources tax in the amount of 450 thous. EUR. Payment of the natural resources tax during the last five fiscal years is presented in the sixth graph. Increase of the natural resources tax is related to increase of the tax rate.

FIGURE 15

Natural resources tax paid to the state during the last five years, EUR



Considering that CO₂ emissions account for the highest proportion (tons), the increase of the tax rate during 5 years from 2.85 EUR to 15.00 EUR per ton account for the biggest increase of the costs of the natural resources tax during the last 5 years.

The amendments to the Law on Natural Resources Tax (NRT) adopted on 23 November 2020 and in force as from 1 January 2021 stipulate as follows:

- starting from 2023 the NRT rate for pollution of solid particles (PM¹⁰) increases to 135 EUR per ton;
- the NRT rate for air pollution of sulphur dioxide (SO₂), nitrogen oxide (NO_x) is 160 EUR per ton;
- the NRT rate for air pollution of ammonia (NH₃), hydrogen sulphide (H₂S) and the other non-organic compounds is 90 EUR per ton.

The Directive of the European Parliament and Council 2003/87/EC, as well as the Law of the Republic of Latvia "On Pollution" provides that combustion equipment with the nominal input capacity above 20 MW are obliged to participate in the Emission Allowances Trading System (ETS). JSC "RĪGAS SILTUMS" has 6 heat sources compliant with the above criterion. The quantity of allocated emission allowances is calculated based on the emissions produced by the plants in 2005 (the 3rd ETS period) and the plant operational reports of 2019 and 2020 regarding emissions produced by the plants. Taking into account that JSC "RĪGAS SILTUMS" has implemented both fuel diversification and several efficiency improvements at its heat sources, a surplus of allowances has emerged and the company used it as a financial instrument for the purpose of improving the financial situation of the utility.

The fourth period of the EU Emission Allowance Trading System started on 1 January 2021. This period is intended for until year 2030.

For the purpose of improving the financial situation of the utility, 25 thous. EUA were sold on 29 September 2021 and 20 thous. EUA were sold in 2022.

According to the forecast for year 2022, 85 thous. allowances will be used, and the shortage compared to the granted amount is 45 thous. allowances.

On 2 November 2022 the Cabinet of Ministers adopted Regulations No.686 "Regulations on sustainability and greenhouse gas emission savings criteria, criteria of electricity generated from bio-mass fuel and the procedure of substantiation, attestation and supervision of compliance with the above criteria", providing that the incinerated bio-mass fuel should conform with the sustainability criteria by imposing the obligation to justify as from 1 January 2023 that the biological liquid fuel and biomass fuel (including biogas) used conform with the sustainability criteria and therefore should not be considered fossil fuel.

PERSONNEL

As on 30 September 2022 the Joint Stock Company employed 655 people. During the last five fiscal years the number of employees in the Joint Stock Company has decreased by 42 persons or 6%.

The changes of the number of employees during the last five years affected also the average age of the personnel of the Joint Stock Company. In fiscal year 2017/2018 the average age of employees was 48 years, and in fiscal year 2021/2022 it was 50 years. In comparison to fiscal year 2020/2021, the number of employees within the age group 55 and above increased by 1%.

The proportion of employees with higher education has increased by 1.5% and the proportion of employees with secondary vocational or vocational education has increased by 1%, the proportion of employees with secondary education has decreased by 2% and the proportion of employees with elementary education has decreased by 1% at JSC "RĪGAS SILTUMS" during the last five fiscal years.

48% of the company personnel have higher education and 30% of the personnel have secondary vocational or vocational education at the end of fiscal year 2021/2022. The proportion of employees with secondary and elementary education was 19% and 3% accordingly.

40 out of 67 employees who have obtained the qualification necessary for work with the company's financial support during preceding years continue working at the Joint Stock Company.

12% of all the company employees hold managerial positions, 41% are specialists, 3% are white collars and 44% are blue collars.

In order to motivate and prepare employees for high quality performance of their official duties, the Training Centre of JSC "RĪGAS SILTUMS" organises professional improvement trainings for employees of all levels and qualifications. Employees use various training methods for acquiring knowledge and skills by both attending classes in the company and external training events. Also remote learning methods are used for improvement of professional knowledge. The possibilities provided by the information technology network of the company are used for arranging necessary trainings and knowledge tests.

In fiscal year 2021/2022 employees participated in training events 917 times, which means that every employee has participated on training events 1.3 times during the fiscal year.

During this fiscal year the Training Centre participated in the project "Open Doors Week" organised by the NGO "Youth Consultations" and held from 4 to 8 April, 2022. The project is aimed at professional orientation of students of general education and vocational schools. Within the project an opportunity was organised for students to see the utility and the profession of a heat engineer in order to select a suitable future profession. Approximately 100 students of general education schools participated in the project.

DEVELOPMENT PERSPECTIVES OF THE PRODUCTION DIRECTION

Modernisation of the heat sources of JSC "RĪGAS SILTUMS" will be continued for the purpose of improving heat supply security and efficiency. The main focus is on implementation of zero emission projects. Implementation of the projects of biofuel fired boiler houses has started:

- at Bauskas street 207A with the capacity 2 MW;
- at Nautrēnu street 24 with the capacity 2 MW;
- at HP "Vecmīlgrāvis" with the capacity 8.0 MW;
- a pellet fired boiler house at Berģu street 7A with the capacity 0.3 MW.

Two biofuel fired boiler houses are planned to be built at Bolderāja, Finiera street 6 with the capacity 12 MW. Several projects involving installation of heat pumps have been started and are planned, including the following:

- In fiscal year 2022/2023 installation of a heat pump with the total capacity ~ 4.7 MW and reconstruction of the existing flue gas condenser at the heat plant "Zasulauks";
- In fiscal year 2023/2024 installation of a heat pump with the total capacity ~ 5.0 MW and reconstruction of the existing flue gas condenser at the heat plant "Ziepniekkalns";
- In fiscal year 2028/2029 modernisation of the biofuel fired boiler house at the HP "Imanta" including installation of a heat pump.



EVALUATION OF THE BALANCE SHEET INDICATORS AND ECONOMIC PERFORMANCE

Considering the Russian war in Ukraine and the sanctions related to the war, Europe is experiencing a serious crisis of energy resources, including the price increase and fuel deficit, which has also affected the financial flow of the Joint Stock Company.

The revenues of the JSC "RĪGAS SILTUMS" amounted to 216.3 mill. EUR in fiscal year 2021/2022, which exceeds the level of the preceding fiscal year by 48%. The profit of the Joint Stock Company amounted to 1.6 mill. EUR, which is below the preceding year by 3.8 mill. EUR. The Company EBITDA in fiscal year 2021/2022 was 17.1 mill. EUR (21.2 mill. EUR before).

The solvency of the Joint Stock Company is characterized by the amount of its equity. Its proportional share on the balance sheet has decreased from 58% to 42%, and as on the date of the report period it amounts to 135.3 mill. EUR (133.7 mill. EUR before).

Due to the necessity of funds for purchasing fuel (gas, wood chips), the amount of current assets has increased considerably and reached 101 mill. EUR (18 mill. EUR before). The increase was affected by the increase of balance of inventories (mainly natural gas) by 82 mill. EUR. Thus, the turnover of stock has become by 67 days slower.

The Liquidity ratio (current assets/ current liabilities) which reveals the amount of current assets theoretically required for covering current liabilities is 0.80 (0.44 before).

As on 30.09.2022 the total liabilities of the Joint Stock Company amounted to 184 mill. EUR (97 mill. EUR before). In comparison to the preceding fiscal year, the use of borrowed capital has increased considerably by the Joint Stock Company.

Considering the unclear forecast regarding availability of resources, the Joint Stock Company performed major purchases of fuel in summer and autumn of 2022 to ensure that heat consumers will receive heat during the entire heating season. Procurement of natural gas was performed by attracting short-term loans because payments for purchased natural gas had to be performed immediately. Therefore, the level of use of the borrowed capital increased considerably. As the situation on global markets of energy resources starts returning to normal, as well as in accordance with estimated revenue for supplied heat during the fiscal year, the amount of borrowings of the Joint Stock Company will decrease and the liquidity indicators will return to the previous levels.

The profitability of the Joint Stock Company has decreased in fiscal year 2021/2022. The Return on Assets (ROA) was 0.57% (2.30% before). The Return on Equity (ROE) is used for describing the financial profitability (ROE) - in fiscal year 2021/2022 ROE was 1.17% (3.92% before) and it indicates that the shareholders have gained 0.01 EUR per EUR invested in the company. The biggest decrease relates to the profitability of the turnover from 6.78% to 0.39%, which was directly affected by the rapid increase of the prices of energy resources.

FIGURE 16

Summary of the performance indicators of JSC "RĪGAS SILTUMS" (thous. EUR)

INDICATOR	30.09.2021.	30.09.2022.	%
Net turnover	146 451	216 309	148%
Production costs of sold products	136 520	215 455	158%
Gross profit	9 931	854	9%
Net profit	5 375	1 570	29%
Assets	230 530	318 936	138%
Equity	133 707	135 277	101%
Non-current and current liabilities	96 822	183 659	190%
incl. current liabilities	39 733	126 431	318%
Current assets	17 675	100 675	570%
incl. inventories	2 544	84 704	3 329%
incl. receivables	7 600	14 556	192%
incl. cash	7 531	1 415	19%
EBITDA	21 196	17 122	81%

OPERATION OF THE JOINT STOCK COMPANY IN THE NEXT REPORTING PERIOD

The economic and financial operations to be performed during the next reporting period are reflected in the budget of fiscal year 2022/2023.

It is planned that in fiscal year 2022/2023 the sale of heat could amount to 3.05 mill. MWh and the revenues from the sale of heat are envisaged to amount to 534 mill. EUR. From cogeneration plants it is planned to sell 17 thous. MWh of electricity securing revenues in the amount of 3.6 mill. EUR.

Fiscal year 2022/2023 was started with the heat tariff 170.59 EUR/MWh, however, starting from 28.11.2022, the heat tariff was increased to 183.86 EUR/MWh. As the state provides aid to its residents, residents pay 112.39 EUR/MWh for consumed heat. The budget of fiscal year 2021/2022 was prepared with the average heat tariff of 175.89 EUR/MWh, which is by 158% or 107.31 EUR/ MWh higher in comparison to the average tariff of fiscal year 2021/2022.

Development and introduction of zero emission heat sources is among the major development trends. In fiscal year 2022/2023 JSC "RĪGAS SILTUMS" will continue implementation of the projects of biofuel fired boiler houses at Bauskas street 207A with the capacity 2 MW, Nautrēnu street 24 with the capacity 2 MW, at the heat plant "Vecmīlgrāvis" with the capacity 8.0 MW, in Bolderāja with the capacity 12MW and a pellet fired boiler house at Berģu street 7A with the capacity 0.3 MW.

In addition to the above, it is planned to construct a biofuel fired cogeneration plant with the heat capacity 50 MW in the operation area of the heat plant "Imanta" and a biofuel fired cogeneration plant with the heat capacity 20 MW at the heat plant "Ziepniekkalns" (with hydrogen production equipment) in the near future.

JSC "RĪGAS SILTUMS" has implemented and continues developing several heat pump projects. An industrial absorption heat pump with the total heat capacity 5 MW has been operating at the heat plant "Imanta" since 2010. For providing the technological process of the heat pump, 3 MW of high potential heat are supplied from the steam boiler and the water of the cooling circuit of auxiliary systems of the cogeneration unit with low potential heat of 2 MW is utilised and will no longer be discharged to the atmosphere by cooling towers. In order to use the existing heat pump with higher efficiency, i.e. to considerably increase the number of its operating hours, a unique project was implemented in 2019 for provision of the technological process with an alternative low potential heat source by using the existing natural gas

the condensing economiser of the gas heating boiler KVGM 100 by constructing an additional circuit of pipelines for cooling outgoing flue gas, which was connected with the heat pump. In the result, the temperature of outgoing flue gas decreases from ~56°C to ~25°C. By continuing modernisation, in January 2023 an absorption type heat pump of similar capacity was commissioned at the heat plant "Zasulauks" and for its operation hot water from the 20 MW biofuel fired water heating boiler will be used and the low potential heat from the flue gas condenser will be utilised. It is planned to implement a similar project at the HP "Ziepniekkalns" in the end of 2023. The possibilities of introducing heat pump technologies by using the heat of the Daugava river water and waste water in future are being studied.

In order improve the security of heat supply, to reduce heat losses in transmission, to provide comfort level compliant with modern requirements to heat consumers and to be able to connect potential customers to the district heating system in due time, in fiscal year 2022/2023 JSC "RĪGAS SILTUMS" will continue the planned reconstruction of both distribution and main heat networks.

Metering of heat delivered to consumers is one of the components of provision of the heat service. As on 01.10.2022 the total number of heat meters at JSC "RĪGAS SILTUMS" was 8,235, of which 8,023 meters were connected to the automated reading network. JSC "RĪGAS SILTUMS" plans to connect approximately 140 sites to the heat networks during the next two years and also their heat meters will have to be equipped with automated reading devices. A market research related to modernisation of the heat meter reading systems and their introduction within next years was started in 2022 and will be continued.

Active work is also performed for centralised digitalisation of the heat supply transmission systems. Technological parameters from all the heat sources in Riga delivering heat to the heat networks are collected and used in the Technological data systems used by the Dispatcher service of JSC "RĪGAS SILTUMS" for providing heat supply transmission.

Besides production, transmission and sale of heat, JSC "RĪGAS SILTUMS" has also been providing the technical service of the internal DH systems of buildings of heat consumers for more than 25 years. In fiscal year 2021/2022 the Joint Stock Company continued the development of these services and now also offers the maintenance works of cold water supply

and sewage and power supply systems in addition to the internal heat supply systems. 406 contracts on servicing internal engineering systems of buildings (BIESS) were signed by the end of fiscal year 2021/2022.

At present the work is carried out for identifying and assessing possible projects for introduction of the district cooling service in Riga. A research is being performed to identify the market demand for this service, sites in Riga with a district cooling system in operation are being studied, and authors of their technical designs are contacted for discussing technical solutions and major issues.

Thinking about further development opportunities of the Joint Stock Company, JSC "RĪGAS SILTUMS" has expressed its willingness to cooperate with Riga Technical University on several directions of research:

- introduction of district cooling systems;
- use of renewable electricity in district heating - the possibilities of integration of large scale heat pumps;
- identification of various types of surplus heat and the possibilities for integrating it in the district heating; use of biomass in energy or bioeconomics - future perspectives;
- use of solar energy and accumulation systems;
- simulation of energy communities;
- simulation of the long-term vision of heat supply system. In order to arise interest among young people and to attract them for employment, JSC "RĪGAS SILTUMS" has started cooperation with the Children and Youth Science Centre of Riga Technical University.



SUMMARY FINANCIAL STATEMENTS

BALANCE SHEET

ASSETS		30/09/2022 EUR	30/09/2021 EUR
NON-CURRENT ASSETS			
Intangible assets			
Licenses, trademarks and similar rights		82 665	136 278
TOTAL		82 665	136 278
Property, plant and equipment			
Land plots, buildings and engineering constructions		150 003 298	146 302 400
Equipment and machinery		30 758 080	34 355 145
Other fixtures and fittings, tools and equipment		6 431 717	6 193 634
Construction in progress		17 133 533	12 015 508
TOTAL		204 326 628	198 866 687
Non-current financial assets			
Investments in related companies		13 852 000	13 852 000
TOTAL		13 852 000	13 852 000
TOTAL NON-CURRENT ASSETS		218 261 293	212 854 965
CURRENT ASSETS			
Inventories			
Raw materials and consumables		84 562 824	2 542 215
Prepayments for inventories		141 079	2 009
TOTAL		84 703 903	2 544 224
Receivables			
Trade receivables		9 827 771	7 298 348
Other receivables		4 234 829	76 677
Prepaid expense		493 431	224 944
TOTAL		14 556 031	7 599 969
Cash		1 414 620	7 530 517
TOTAL CURRENT ASSETS		100 674 554	17 674 710
TOTAL ASSETS		318 935 847	230 529 675
EQUITY AND LIABILITIES			
		30/09/2022 EUR	30/09/2021 EUR
EQUITY			
Share capital		66 968 300	66 968 300
Reserves:			
Reserves assigned for development		66 739 076	61 364 507
Retained earnings:			
Profit or loss for the reporting year		1 569 931	5 374 569
TOTAL EQUITY		135 277 307	133 707 376
LIABILITIES			
Non-current liabilities			
Loans from credit institutions		43 833 333	42 833 333
Deferred income		13 394 696	14 255 507
TOTAL		57 228 029	57 088 840
Current liabilities			
Loans from credit institutions		75 590 360	16 000 000
Prepayments received from customers		868 670	2 179 872
Trade payables		36 936 324	9 207 646
Payables to related companies		112 598	1 213 355
Taxes payable		1 112 231	1 153 734
Accrued liabilities		10 247 006	8 342 923
Deferred income		1 563 322	1 635 929
TOTAL		126 430 511	39 733 459
TOTAL LIABILITIES		183 658 540	96 822 299
TOTAL EQUITY AND LIABILITIES		318 935 847	230 529 675

STATEMENT OF PROFIT OR LOSS

	01/10/2021- 30/09/2022	01/10/2020- 30/09/2021
	EUR	EUR
Net turnover	216 309 106	146 451 126
Cost of sales	(215 455 113)	(136 520 010)
Gross profit/(loss)	853 993	9 931 116
Administrative expense	(4 777 246)	(4 472 403)
Other operating income	6 439 152	3 885 065
Other operating expense	(415 552)	(2 282 647)
Interest and similar income	21 170	9 297
- other parties	21 170	9 297
Interest and similar expense	(551 586)	(833 318)
- other parties	(551 586)	(833 318)
Profit before tax	1 569 931	6 237 110
Income tax expense	0	(862 541)
Net profit for the reporting year	1 569 931	5 374 569

Note 1 - Basis of preparation of summary financial statements

These summary financial statements for the period from 1 October 2021 to 30 September 2022 were prepared according to the decision made by the management of JSC "RIGAS SILTUMS" to be submitted to various authorities and other users. These summary financial statements include the balance sheet as at 30 September 2022 and the profit and loss statement for the period from 1 October 2021 to 30 September 2022.

The full set of financial statements for the period from 1 October 2021 to 30 September 2022 was prepared in accordance with the Annual Reports and Consolidated Annual Reports Law of the Republic of Latvia and is available at JSC "RIGAS SILTUMS", Cesu street 3a, Riga, Latvia.

Management believes that the content of the summary financial statements is consistent with the objective of the summary financial statements.



INDEPENDENT AUDITORS' REPORT ON SUMMARY FINANCIAL STATEMENTS

To the Shareholders of JSC "RĪGAS SILTUMS" Report on Summary Financial Statements

OPINION

The accompanying summary financial statements presented on page 25 to 26, which comprise the summary balance sheet as at 30 September 2022, the summary profit and loss statement for the year then ended, and related notes to the summary financial statements, are derived from the audited financial statements of JSC "RĪGAS SILTUMS" for the year ended 30 September 2022.

In our opinion, the summary financial statements derived from the audited financial statements of JSC "RĪGAS SILTUMS" for the year ended 30 September 2022 are consistent, in all material respects, with those financial statements on the basis described in Note 1 to the summary financial statements. However, the summary financial statements are misstated to the equivalent extent as the audited financial statements of the Company for the year ended 30 September 2022.

SUMMARY FINANCIAL STATEMENTS

The summary financial statements do not contain all the disclosures required by the Law on Annual Statements and Consolidated Annual Statements of the Republic of Latvia. Therefore, reading the summary financial statements and our report thereon is not a substitute for reading the audited financial statements of JSC "RĪGAS SILTUMS" and our report thereon.

AUDITED FINANCIAL STATEMENTS AND OUR REPORT THEREON

We expressed a qualified audit opinion on the audited financial statements of JSC "RĪGAS SILTUMS" in our auditors' report dated 1 March 2023. The basis for our qualified audit opinion was that the Company's balance sheet position "Loans from credit institutions" as at 30 September 2022 includes non-current loans from credit institutions for an amount of EUR 43 833 333. As stated in Note 15 to the financial statements, the Company did not meet several covenants of the loan agreements concluded with credit institutions as at 30 September

2022. In case of a covenant breach, credit institutions may withdraw from the agreements unilaterally before the maturity date and demand early loan repayment. The Company has classified these loans from credit institutions amounting to EUR 38 000 000 as non-current liabilities based on a covenants waiver obtained from the credit institutions subsequent to the year end. In our opinion, the non-current loan of EUR 38 000 000 should be classified as a current liability based on the requirements of the Law on Annual Reports and Consolidated Annual Reports. Had the Company classified the loans from credit institutions correctly, non-current liabilities would decrease, while current liabilities would increase, by EUR 38 000 000.

The summary financial statements and audited financial statements do not reflect the effects of events that occurred subsequent to the date of the auditors' report on the audited financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE SUMMARY FINANCIAL STATEMENTS

Management is responsible for the preparation of a summary of the audited financial statements on the basis described in Note 1 to the summary financial statements.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on whether the summary financial statements derived from the audited financial statements are consistent, in all material respects, with the audited financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810, "Engagements to Report on Summary Financial Statements".

ERNST & YOUNG BALTIC SIA
Licence No. 17
Dāna Krišjāne
Chairperson of the Board
Latvian Certified Auditor
Certificate No. 124
Riga, 23 May 2023



AKCIJU SABIEDRĪBA

RĪGAS SILTUMS

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